

CENTRAL BANK OF BOSNIA AND HERZEGOVINA

**CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2021**

(unaudited)

in accordance with the requirements of International Accounting Standard 34

Sarajevo, 27 October 2021

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FINANCIAL REPORTING RESPONSIBILITY

The Management of the Central Bank of Bosnia and Herzegovina is responsible for these condensed interim financial statements, which are prepared in accordance with the Law on the Central Bank of Bosnia and Herzegovina and International Accounting Standard 34: "Interim Financial Reporting".

The Management is responsible for the consistent application of selected accounting policies, making judgements and estimates that are reasonable and prudent and for maintaining proper accounting records to enable the preparation of financial statements at any time. The Management has a general responsibility for taking such steps as are reasonably available and for implementation of such internal controls to safeguard the assets of the Central Bank of Bosnia and Herzegovina and to prevent and detect fraud and other irregularities.

The Governing Board is responsible for overseeing the Central Bank of Bosnia and Herzegovina financial reporting process whose implementation is also performed through the Audit Committee, formed as a supporting body to the Governing Board. After approval of the condensed interim financial statements by the Governing Board the same are submitted to the Presidency of Bosnia and Herzegovina.

These unaudited condensed interim financial statements present fairly, in all material respects, the financial position, financial performance and cash flows of the Central Bank of Bosnia and Herzegovina, as at the date of and for the periods presented in these condensed interim financial statements.

The accompanying condensed interim financial statements set out on pages 2 to 44 are approved by the Governing Board on 27 October 2021.


Senad Softić, Ph.D.
Chairman of the Governing Board
Governor




Vesna Pačuka, MA
Head of Accounting and Finance Department

STATEMENT OF PROFIT OR LOSS (UNAUDITED)

In thousands of KM	Note	01/07 - 30/09 2021	01/07 - 30/09 2020	01/01 - 30/09 2021	For the period 01/01 - 30/09 2020
Interest income		14,762	12,902	40,627	39,142
Interest expense		(11,497)	(8,357)	(31,116)	(23,028)
NET INTEREST INCOME	6	3,265	4,545	9,511	16,114
Fee and commission income		5,498	4,570	15,258	13,500
Fee and commission expense		(203)	(176)	(586)	(517)
NET FEE AND COMMISSION INCOME	7	5,295	4,394	14,672	12,983
Net realised gains from sale of debt instruments at fair value through other comprehensive income	8	529	-	2,552	1,578
Net foreign exchange (losses)	9	(1,204)	(174)	(624)	(230)
Other expenses / income	10	(32)	92	1,292	228
OPERATING INCOME		7,853	8,857	27,403	30,673
Personnel expenses	11	(4,869)	(4,819)	(14,323)	(14,036)
Administrative and other operating expenses	12	(2,726)	(2,204)	(7,556)	(6,414)
Depreciation and amortisation charge	21	(619)	(641)	(1,863)	(1,914)
OPERATING EXPENSES		(8,214)	(7,664)	(23,742)	(22,364)
FINANCIAL RESULT BEFORE PROVISIONS FOR EXPECTED CREDIT LOSSES		(361)	1,193	3,661	8,309
Provisions for expected credit losses, net (increase)	13	(217)	(151)	(187)	(418)
NET (LOSS) / PROFIT FOR THE PERIOD	14	(578)	1,042	3,474	7,891

The selected notes on pages 9 to 44 are an integral part of these condensed interim financial statements.

STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

In thousands of KM	Note	01/07 - 30/09 2021	01/07 - 30/09 2020	01/01 - 30/09 2021	For the period 01/01 - 30/09 2020
NET (LOSS) / PROFIT FOR THE PERIOD		(578)	1,042	3,474	7,891
Other comprehensive (loss) / income					
<i>Items that are or may be reclassified subsequently to profit or loss:</i>					
Debt instruments at fair value through other comprehensive income					
Net change in fair value during the period	17	(8,553)	18,882	(101,556)	74,637
Net change in provisions for expected credit losses recognized in profit or loss during the period	5.1.1.	65	48	203	289
Reclassification to profit or loss from sale of debt instruments	8	(529)	-	(2,552)	(1,578)
		(9,017)	18,930	(103,905)	73,348
Monetary gold					
Net change in fair value during the period	18	4,502	4,416	(6,758)	48,019
		4,502	4,416	(6,758)	48,019
Total other comprehensive (loss) / income		(4,515)	23,346	(110,663)	121,367
TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE PERIOD		(5,093)	24,388	(107,189)	129,258

The selected notes on pages 9 to 44 are an integral part of these condensed interim financial statements.

STATEMENT OF FINANCIAL POSITION (UNAUDITED)

In thousands of KM	Note	30 September 2021	As at 31 December 2020
ASSETS			
Cash in foreign currencies	15	443,640	142,202
Deposits with foreign banks	16	3,617,064	3,832,072
Debt instruments	17	11,065,243	9,601,315
Monetary gold	18	284,803	291,561
Special Drawing Rights with the IMF	19, 32	4,355	879
Other assets	20	17,469	12,671
Property and equipment	21	47,351	48,560
Intangible assets	21	996	1,234
Other investments		27,813	27,813
TOTAL ASSETS		15,508,734	13,958,307
LIABILITIES AND EQUITY			
LIABILITIES			
Banknotes and coins in circulation	22	6,814,866	6,172,457
Deposits from banks	23	6,346,903	5,901,142
Deposits from the Government and other public institutions	24	1,466,113	897,044
Provisions	25	1,321	1,414
Other liabilities	27	4,389	3,919
Total liabilities		14,633,592	12,975,976
EQUITY			
Initial capital		25,000	25,000
Reserves		846,668	957,331
Net profit for the period		3,474	-
Total equity	28	875,142	982,331
TOTAL LIABILITIES AND EQUITY		15,508,734	13,958,307

The selected notes on pages 9 to 44 are an integral part of these condensed interim financial statements.

STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

In thousands of KM

	Initial capital	General reserves (Retained earnings)	Other reserves	Fair value reserves for debt and equity instruments at fair value through other comprehensive income	Provisions for expected credit losses	Fair value reserves for monetary gold	Total reserves	Net profit for the period	Total equity
Balance at 1 January 2021	25,000	545,203	31,300	291,527	1,598	87,703	957,331	-	982,331
Total comprehensive loss for the period	-	-	-	(104,039)	134	(6,758)	(110,663)	3,474	(107,189)
Net profit for the period	-	-	-	-	-	-	-	3,474	3,474
Other comprehensive loss	-	-	-	(104,039)	134	(6,758)	(110,663)	-	(110,663)
Net unrealised negative changes in fair value for debt instruments	-	-	-	(101,556)	-	-	(101,556)	-	(101,556)
Net realised positive changes in fair value for debt instruments transferred to profit or loss	-	-	-	(2,483)	-	-	(2,483)	-	(2,483)
Net increase in provisions for expected credit losses for debt instruments recognised in profit or loss	-	-	-	-	203	-	203	-	203
Net release of provisions for expected credit losses transferred to profit or loss for debt instruments sold	-	-	-	-	(69)	-	(69)	-	(69)
Net unrealised negative changes in fair value for monetary gold	-	-	-	-	-	(6,758)	(6,758)	-	(6,758)
Balance at 30 September 2021	25,000	545,203	31,300	187,488	1,732	80,945	846,668	3,474	875,142

The selected notes on pages 9 to 44 are an integral part of these condensed interim financial statements.

STATEMENT OF CHANGES IN EQUITY (UNAUDITED) (CONTINUED)

In thousands of KM

	Initial capital	General reserves (Retained earnings)	Other reserves	Fair value reserves for debt and equity instruments at fair value through other comprehensive income	Provisions for expected credit losses	Fair value reserves for monetary gold	Total reserves	Net profit for the period	Total equity
Balance at 1 January 2020	25,000	537,295	31,300	211,373	1,343	50,230	831,541	-	856,541
Total comprehensive income for the period	-	-	-	73,118	230	48,019	121,367	7,891	129,258
Net profit for the period	-	-	-	-	-	-	-	7,891	7,891
Other comprehensive income	-	-	-	73,118	230	48,019	121,367	-	121,367
Net unrealised positive changes in fair value for debt instruments	-	-	-	74,637	-	-	74,637	-	74,637
Net realised positive changes in fair value for debt instruments transferred to profit or loss	-	-	-	(1,519)	-	-	(1,519)	-	(1,519)
Net increase in provisions for expected credit losses for debt instruments recognised in profit or loss	-	-	-	-	289	-	289	-	289
Net release of provisions for expected credit losses transferred to profit or loss for debt instruments sold	-	-	-	-	(59)	-	(59)	-	(59)
Net unrealised positive changes in fair value for monetary gold	-	-	-	-	-	48,019	48,019	-	48,019
Balance at 30 September 2020	25,000	537,295	31,300	284,491	1,573	98,249	952,908	7,891	985,799

The selected notes on pages 9 to 44 are an integral part of these condensed interim financial statements.

STATEMENT OF CASH FLOWS (UNAUDITED)

		For the period	
		01/01 - 30/09	01/01 - 30/09
	Note	2021	2020
In thousands of KM			
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit for the period		3,474	7,891
Adjusted for:			
Interest income	6	(40,627)	(39,142)
Interest expense	6	31,116	23,028
Provisions for expected credit losses, net increase	13	187	418
Net realised (gains) from sale of debt instruments at fair value through other comprehensive income	8	(2,552)	(1,578)
Net foreign exchange losses	9	624	230
Income from grants	10	(2)	(50)
Provisions, net increase		5	4
(Gain) on disposal of property and equipment		(8)	-
Dividend income recognised in profit or loss		(1,297)	-
Depreciation and amortisation charge		1,863	1,914
Net cash flows used in operating activities before changes in operating assets and liabilities		(7,217)	(7,285)
Changes in operating assets and liabilities			
Decrease in term deposits with foreign banks		538,448	211,404
(Increase) in debt instruments		(1,565,484)	(387,548)
(Increase) in other assets		(4,436)	(1,605)
Increase in banknotes and coins in circulation	22	642,409	833,075
Increase / (decrease) in deposits from banks		447,934	(427,684)
Increase in deposits from the Government and other public institutions		569,069	215,187
Increase / (decrease) in other liabilities		435	(103)
Payments from provisions		(98)	(78)
Interest received		38,454	37,997
Interest paid		(30,235)	(22,271)
Net cash from operating activities		629,279	451,089
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property and equipment		8	-
Purchases of property, equipment and intangible assets		(416)	(1,655)
Dividend received		1,297	-
Net cash used in investing activities		889	(1,655)

The selected notes on pages 9 to 44 are an integral part of these condensed interim financial statements.

STATEMENT OF CASH FLOWS (UNAUDITED) (CONTINUED)

In thousands of KM		01/01 - 30/09 2021	For the period 01/01 - 30/09 2020
	Note		
Effects from changes in impairment for expected credit losses on cash and cash equivalents		(60)	(132)
Effects of exchange rate fluctuations on cash and cash equivalents held		(587)	(275)
Net increase in cash and cash equivalents		629,521	449,027
Cash and cash equivalents at the beginning of the period		2,909,688	2,498,972
Cash and cash equivalents at the end of the period	29	3,539,209	2,947,999

The selected notes on pages 9 to 44 are an integral part of these condensed interim financial statements.

SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2021 (UNAUDITED)**1. GENERAL INFORMATION**

The Central Bank of Bosnia and Herzegovina (the "Central Bank") is the supreme monetary authority of Bosnia and Herzegovina state ("BH"). Its status has been defined by the Law on the Central Bank of Bosnia and Herzegovina (the "Law on the Central Bank"), adopted by the Parliamentary Assembly of Bosnia and Herzegovina on 20 June 1997, according to the General Framework Peace Agreement in Bosnia and Herzegovina.

The Central Bank started its operations on 11 August 1997.

Head Office of the Central Bank is located in Sarajevo, Maršala Tita Street, No. 25.

The main objective of the Central Bank is to achieve and maintain the stability of the domestic currency by issuing it to the rule known as a Currency Board. The Currency Board rule, defined by the Law on the Central Bank, implies that the domestic currency may be issued only with full coverage in convertible foreign currency reserves. Nevertheless, the Central Bank has an obligation to purchase and sell Convertible Mark (KM) for Euro (EUR) on demand, without any restrictions, at the official exchange rate of KM to EUR as $\text{KM } 1.95583 = \text{EUR } 1$, prescribed by the Law on the Central Bank.

Guaranteed convertibility of domestic currency and full coverage of domestic currency with convertible foreign currency reserves according to the Currency Board rule are the primary objectives of the Central Bank. Ensuring the achievement of these objectives means that the Central Bank is not a profit institution by its function.

Therefore, the Central Bank's profit for a certain period is not used as a measure of the Central Bank's performance. All activities and operations of the Central Bank are undertaken in order to achieve the legally set goals and objectives with reference to preserve the stability of domestic currency in accordance with the Currency Board rule. The performance of achieving the objectives above is expressed through the amount of net foreign assets as an indicator of the domestic currency stability.

Within the limits of its authority prescribed by the Law on the Central Bank, the Central Bank is entirely independent from the entities, public agencies and any other authority in the pursuit of its objectives and tasks.

Key management of the Central Bank consists of two bodies: The Governing Board and the Management.

The members of the key management of the Central Bank are:

Governing Board

Senad Softić Ph.D.	Chairman
Radomir Božić Ph.D.	Member
Šerif Isović M.Sc.	Member
Dragan Kulina Ph.D.	Member
Danijela Martinović Ph.D.	Member

1. GENERAL INFORMATION (CONTINUED)

The Presidency of Bosnia and Herzegovina did not appoint a new Governing Board members until 10 August 2021. Uninterrupted and continuous implementation of the legal role, main objectives and functions of the Central Bank in accordance with the Law on the Central Bank and its valid regulations is the unique attitude of the existing Governing Board until the Presidency of Bosnia and Herzegovina appoints a new Governing Board members.

Management

Senad Softić Ph.D.	Governor
Ernadina Bajrović M.Sc.	Vice Governor
Željko Marić Ph.D.	Vice Governor (from 16 August 2021)
Milica Lakić Ph.D.	Vice Governor (until 10 August 2021)

Up to 31 August 2021, members of the Central Bank's Audit Committee were:

Audit Committee

Mila Gadžić Ph.D.	Chairman
Elvir Čizmić Ph.D.	Member
Radomir Repija	Member

2. BASIS OF PREPARATION**2.1. Statement of compliance**

These condensed interim financial statements have been prepared in accordance with International Accounting Standard 34 ("IAS 34"): "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB"). The condensed interim financial statements do not include all the information required for the complete set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") and should be read in conjunction with the latest audited financial statements of the Central Bank for the year ended 31 December 2020 ("annual financial statements").

The selected notes of these condensed interim financial statements clarify events and transactions that are significant to an understanding of the changes in the financial position and performance of the Central Bank in relation to the latest annual financial statements.

These condensed interim financial statements have been prepared using the going concern assumption. Extending of difficult circumstances in the Central Banks' operations, caused by the global pandemic of COVID-19, did not affect the adequacy of the assumption. More information on the circumstances under which the Central Bank operations were performed in the reporting period is disclosed in Note 2.7.

The results of the Central Bank's business and operations for the reporting period and as at the reporting date presented in these condensed interim financial statements are not necessarily indicative of results of business and operations of the Central Bank expected for the year 2021.

2. BASIS OF PREPARATION (CONTINUED)**2.2. Basis of measurement**

These condensed interim financial statements have been prepared under the accrual base of accounting and using the historical cost as a measurement base, except for the following material items:

Item	Basis of measurement
Financial assets at fair value through other comprehensive income	Fair value
Monetary gold	Fair value

2.3. Functional and presentation currency

The condensed interim financial statements of the Central Bank are stated in the BH national currency which is the KM. All financial information has been rounded to the nearest thousand (unless otherwise stated).

2.4. Changes to IFRS

At the date of approval of these condensed interim financial statements, certain changes and interpretations of the existing standards are effective from 1 January 2021. Their implementation has no significant impact on condensed interim financial statements of the Central Bank.

2.5. Accounting policies

The Central Bank's condensed interim financial statements have been prepared in accordance with the same accounting policies used in preparation of the latest annual financial statements.

2.6. Significant accounting judgements and estimates

The preparation of financial statements in conformity with IFRS requires Management to make judgments, estimates and assumptions that affect the implementation of accounting policies and reported amounts of assets, liabilities, income, expenses and other disclosed information in these condensed interim financial statements. Actual amounts may differ from these estimates.

The estimates and related assumptions used by the Management in the preparation of these condensed interim financial statements are based on the latest available and reliable information and are reviewed on an ongoing basis.

These condensed interim financial statements have been prepared based upon conditions existing at 30 September 2021. Future conditions may be different from those that resulted in the financial information disclosed in these condensed interim financial statements.

2. BASIS OF PREPARATION (CONTINUED)**2.7. The impact of the coronavirus COVID-19 global pandemic on the financial position and performance of the Central Bank**

Extremely unfavorable conditions to which the Central Bank's operations were exposed in 2020 due to the global pandemic of coronavirus COVID-19 continued to complicate the performing of business operations that consequently affected the reported amounts of assets, liabilities, income and expenses of the Central Bank at the reporting date and during the reporting period respectively.

The conditions on the Eurozone international financial market, where the Central Bank invests foreign currency reserves, are still under the dominant impact of the European Central Bank expansive monetary policy. The European Central Bank's key interest rates remained unchanged in the reporting period with expectations to remain at the same or even lower levels in the future. The Governing Council of the European Central Bank also confirmed its other measures to maintain price stability.

On the other hand, although the Eurozone economy has gradually begun to open up due to improved pandemic situation and substantial progress in the vaccination process, the continuation of the pandemic, the spread of new variants of virus and its consequences on economic and financial conditions still remain a source of risk, uncertainty and high volatility in the surrounding environment.

In the reporting period the IMF allocated funds in the amount of KM 602,540 thousand on the basis of the Special Drawing Rights (SDR) allocation. These funds were transferred to Bosnia and Herzegovina on the basis of a decision of the IMF Board of Governors as a measure to mitigate the effects of the crisis caused by the coronavirus COVID-19 pandemic. The Central Bank has properly performed its legal role as the depository, the banker and the fiscal agent of Bosnia and Herzegovina. However, the allocated funds have further negatively impacted the Central Bank's financial performance as a result of extremely unfavourable and volatile conditions on the Eurozone international financial market regarding the investing and reinvesting opportunities of allocated funds.

The environment of negative interest rates and yields on Eurozone countries' debt instruments, fluctuations in market prices in the reporting period and SDR allocation to Bosnia and Herzegovina reflected the amount of generated interest expenses on invested foreign exchange reserves and the fair value of the Central Bank's financial assets. For more information, see Notes 6, 14, 17, 18 and 19.

In addition, the trend of high levels of excess liquidity in banking system of Bosnia and Herzegovina has continued in the reporting period as well as during 2020. The Central Bank has continued with implementation of a project regarding required reserve policy framework innovation as the only monetary policy instrument available under the Law on the Central Bank. During the reporting period, a negative required reserve remuneration was introduced regarding the foreign currency base and domestic currency with currency clause base. This measure aims to encourage the holding of deposits in domestic currency in commercial banks, i.e. to discourage the holding of deposits in EUR currency. This measure is aimed at strengthening the domestic currency, thereby strengthening its stability. However, a significant accumulation of the amounts exceeding the required reserve on the accounts of commercial banks with the Central Bank is indicative, which are at the approximate levels of the required reserves themselves. For more information, see Notes 6 and 23.

The practice of holding funds on the Central Bank's accounts instead of withdrawing these funds for the intended purpose also continued by the depositors of the Central Bank. This additionally increased the monetary liabilities of the Central Bank and negatively affected its financial performance.

2. BASIS OF PREPARATION (CONTINUED)**2.7. The impact of the coronavirus COVID-19 global pandemic on the financial position and performance of the Central Bank**

Such circumstances, both on the side of monetary liabilities and on the foreign currency reserves investing opportunities, had a synergistic negative effect on the financial performance of the Central Bank, but the coverage of monetary liabilities by net foreign currency reserves at any moment is the primary goal of the Central Bank which is fully complied. For more information see Note 3.

The Management takes into account the current uncertainty regarding the impact of global pandemic of coronavirus COVID-19 with its potential material impact on Central Bank's overall financial position and performance.

3. CURRENCY BOARD ARRANGEMENT

The Law on the Central Bank defines the operational rule "Currency Board" to be used for issuing KM, according to which KM is issued only with a full coverage in net foreign currency reserves.

Article 31 of the Law on the Central Bank requires that the aggregate amount of its monetary liabilities shall at no time exceed its net foreign currency reserves.

Details of compliance with this rule are as follows:

In thousands of KM	30 September 2021	31 December 2020
Gross foreign currency reserves	15,415,105	13,868,029
Cash in foreign currencies	443,640	142,202
Deposits with foreign banks	3,617,064	3,832,072
Debt instruments	11,065,243	9,601,315
Monetary gold	284,803	291,561
Special drawing rights with the IMF	4,355	879
Liabilities to non-residents	2,193	1,688
Net foreign currency reserves (Gross foreign currency reserves less liabilities to non-residents)	15,412,912	13,866,341
Monetary liabilities	14,627,882	12,970,643
Banknotes and coins in circulation	6,814,866	6,172,457
Deposits from banks	6,346,903	5,901,142
Deposits from the Government and other public institutions	1,466,113	897,044
NET FOREIGN ASSETS (Net foreign currency reserves less monetary liabilities)	785,030	895,698

3. CURRENCY BOARD ARRANGEMENT (CONTINUED)

Net foreign assets are the Central Bank's main financial indicator of achieving and maintaining the stability of domestic currency in BH and its main financial performance measure. Being the part of gross foreign currency reserves, the amount of net foreign assets cannot be assumed as the amount available for fiscal purposes, but the amount that guarantees the stability of domestic currency and absorbs the potential financial risks arising from gross foreign currency reserves management. As at 30 September 2021, net foreign currency reserves exceed monetary liabilities by KM 785,030 thousand which ensures an adequate level of foreign exchange reserves and the stability of domestic currency (31 December 2020: KM 895,698 thousand). As at reporting dates, the level of capitalization of the Central Bank ensured the execution of its functions prescribed by the Law on the Central Bank. For more information see Note 28.

Fluctuations in market prices of debt instruments and monetary gold dominantly affect the amount of net foreign assets. More information about changes in debt instruments and monetary gold is disclosed in Notes 17 and 18.

4. CLASSIFICATION AND FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Central Bank takes into account the characteristics of the asset or liability which market participants would take into account when pricing the asset or liability at the measurement date.

The estimated fair values of the Central Bank's financial assets and financial liabilities have been determined using available market information, where it exists, and appropriate valuation methodologies.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Central Bank can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

4.1. Financial assets measured at fair value

In thousands of KM

	30 September 2021			
	Level 1	Level 2	Level 3	Total
Financial assets				
<i>Financial assets measured at fair value through other comprehensive income</i>				
Debt instruments	11,065,243	-	-	11,065,243
Monetary gold	284,803	-	-	284,803
TOTAL	11,350,046	-	-	11,350,046

4. CLASSIFICATION AND FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

4.1. Financial assets measured at fair value (continued)

In thousands of KM

31 December 2020

	Level 1	Level 2	Level 3	Total
Financial assets				
<i>Financial assets measured at fair value through other comprehensive income</i>				
Debt instruments	9,601,315	-	-	9,601,315
Monetary gold	291,561	-	-	291,561
TOTAL	9,892,876	-	-	9,892,876

4.2. Financial assets and financial liabilities not measured at fair value

In thousands of KM

30 September 2021

	Carrying amount	Fair value
Financial assets		
<i>Financial assets measured at amortised cost:</i>		
Cash in foreign currencies	443,640	443,640
Deposits with foreign banks	3,617,064	3,609,003
Special drawing rights with the IMF	4,355	4,355
Other financial assets	3,290	3,290
	4,068,349	4,060,288
<i>Financial assets measured at fair value through other comprehensive income:</i>		
Other investments	27,813	27,813
	27,813	27,813
Total	4,096,162	4,088,101
Financial liabilities		
<i>Financial liabilities measured at amortised cost:</i>		
Banknotes and coins in circulation	6,814,866	6,814,866
Deposits from banks	6,346,903	6,333,026
Deposits from the Government and other public institutions	1,466,113	1,462,907
Other financial liabilities	4,267	4,267
Total	14,632,149	14,615,066

4. FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

4.2. Financial assets and financial liabilities not measured at fair value (continued)

In thousands of KM

31 December 2020

	Carrying amount	Fair value
Financial assets		
<i>Financial assets measured at amortised cost:</i>		
Cash in foreign currencies	142,202	142,202
Deposits with foreign banks	3,832,072	3,823,212
Special drawing rights with the IMF	879	879
Other financial assets	2,496	2,496
	<u>3,977,649</u>	<u>3,968,789</u>
<i>Financial assets measured at fair value through other comprehensive income:</i>		
Other investments	27,813	27,813
	<u>27,813</u>	<u>27,813</u>
Total	4,005,462	3,996,602
Financial liabilities		
<i>Financial liabilities measured at amortised cost:</i>		
Banknotes and coins in circulation	6,172,457	6,172,457
Deposits from banks	5,901,142	5,887,547
Deposits from the Government and other public institutions	897,044	894,977
Other financial liabilities	3,759	3,759
Total	12,974,402	12,958,740

5. FINANCIAL RISK MANAGEMENT

The main financial risks to which the Central Bank is exposed in its daily operations are:

- Credit risk,
- Market risk (interest rate risk, gold price risk and foreign exchange risk) and
- Liquidity risk.

5.1. Credit risk

Credit risk is the risk of default on the contractual obligations of other counterparty or the issuer of fixed income debt securities, where the counterparty is an entity where, in accordance with the Central Bank's regulations, foreign currency reserves are held or invested.

For the funds recorded in off-balance sheet records, the Central Bank is not exposed to credit risk, as all the risk, which may result from the investments of these funds, is to be borne contractually by the owners of these funds (see Notes 31 and 32).

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1. Credit risk (continued)

5.1.1. Credit risk exposure

The following table presents the reconciliation between opening and closing balance of the loss allowance for financial assets in the reporting periods:

In thousands of KM

	2021				2020			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
1. Debt instruments								
As at 1 January	1,598	-	-	1,598	1,343	-	-	1,343
Increases in expected credit losses	681	-	-	681	575	-	-	575
Releases of expected credit losses	(62)	-	-	(62)	(51)	-	-	(51)
Releases due to debt instruments matured	(416)	-	-	(416)	(235)	-	-	(235)
<i>Net increase during the period</i>	<i>203</i>	-	-	<i>203</i>	<i>289</i>	-	-	<i>289</i>
Releases due to debt instruments sold	(69)	-	-	(69)	(59)	-	-	(59)
As at 30 September	1,732	-	-	1,732	1,573	-	-	1,573
2. Deposits with foreign banks								
As at 1 January	807	-	-	807	724	-	-	724
Increases in expected credit losses	3,207	-	-	3,207	3,326	-	-	3,326
Releases of expected credit losses	(126)	-	-	(126)	(168)	-	-	(168)
Releases due to derecognition of term deposits	(3,086)	-	-	(3,086)	(3,028)	-	-	(3,028)
As at 30 September	802	-	-	802	854	-	-	854

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1. Credit risk (continued)

5.1.1. Credit risk exposure (continued)

	2021				2020			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
3. Special drawing rights with the IMF								
As at 1 January	-	-	-	-	-	-	-	-
Increases in expected credit losses	-	-	-	-	-	-	-	-
Releases of expected credit losses	-	-	-	-	-	-	-	-
As at 30 September	-	-	-	-	-	-	-	-
4. Other financial assets								
As at 1 January	5	-	613	618	5	-	600	605
Increases in expected credit losses	6	-	1	7	5	-	-	5
Releases of expected credit losses	(5)	-	(13)	(18)	(6)	-	-	(6)
As at 30 September	6	-	601	607	4	-	600	604
Total opening balance at 1 January	2,410	-	613	3,023	2,072	-	600	2,672
Total net increase / (release) in expected credit losses	130	-	(12)	118	359	-	-	359
Total closing balance at 30 September	2,540	-	601	3,141	2,431	-	600	3,031

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1. Credit risk (continued)

5.1.2. Credit risk concentration

a) Maximum exposure to credit risk – Financial assets subject to impairment

The following table shows the maximum exposure to credit risk for the Central Bank's financial assets, analysed by the classes of financial instruments for which the expected credit losses are calculated and recognized:

In thousands of KM

Classes of financial instruments	30 September 2021				31 December 2020			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Cash in foreign currencies								
Gross carrying amount	443,640	-	-	443,640	142,202	-	-	142,202
Loss allowance	-	-	-	-	-	-	-	-
Carrying amount	443,640	-	-	443,640	142,202	-	-	142,202
Deposits with foreign banks								
Gross carrying amount	3,617,866	-	-	3,617,866	3,832,879	-	-	3,832,879
Loss allowance	(802)	-	-	(802)	(807)	-	-	(807)
Carrying amount	3,617,064	-	-	3,617,064	3,832,072	-	-	3,832,072
Debt instruments								
Gross carrying amount	11,065,243	-	-	11,065,243	9,601,315	-	-	9,601,315
Provisions for expected credit losses (recognized in other comprehensive income)	(1,732)	-	-	(1,732)	(1,598)	-	-	(1,598)
Carrying amount	11,065,243	-	-	11,065,243	9,601,315	-	-	9,601,315
Special drawing rights with the IMF								
Gross carrying amount	4,355	-	-	4,355	879	-	-	879
Loss allowance	-	-	-	-	-	-	-	-
Carrying amount	4,355	-	-	4,355	879	-	-	879
Other financial assets								
Gross carrying amount	3,296	-	601	3,897	2,501	-	613	3,114
Loss allowance	(6)	-	(601)	(607)	(5)	-	(613)	(618)
Carrying amount	3,290	-	-	3,290	2,496	-	-	2,496

5. FINANCIAL RISK MANAGEMENT (CONTINUED)**5.1. Credit risk (continued)****5.1.2. Credit risk concentration (continued)****b) Maximum exposure to credit risk – Financial assets not subject to impairment**

In thousands of KM	30 September 2021	31 December 2020
Carrying amount		
Monetary gold	284,803	291,561
Other investments	27,813	27,813
TOTAL	312,616	319,374

Concentration per credit rating

Tables below present an analysis of the Central Bank's concentration per credit rating for deposits with foreign banks and debt instruments of the Central Bank as at reporting dates:

Deposits with foreign banks		In thousands of KM
Credit rating	30 September 2021	31 December 2020
AAA	1,718,778	1,743,280
AA+	-	-
AA	78,191	722,841
AA-	-	-
A+	473,127	391,013
A	1,244,238	875,542
A-	101,177	-
II ¹	1,553	410
BBB+	-	98,986
TOTAL	3,617,064	3,832,072

¹ International institutions

5. FINANCIAL RISK MANAGEMENT (CONTINUED)**5.1. Credit risk (continued)****5.1.2. Credit risk concentration (continued)**

Credit rating	Debt instruments	
	30 September 2021	In thousands of KM 31 December 2020
AAA	2,292,410	2,164,263
AA+	1,369,717	1,283,772
AA	4,090,108	3,170,119
AA-	1,480,238	1,269,603
A+	-	-
A	-	-
A-	1,318,605	1,095,368
BBB+	-	-
BBB	-	-
BBB-	514,165	618,190
TOTAL	11,065,243	9,601,315

5.2. Market risk

Market risk is the risk of change in the market value of financial assets and instruments due to the changes in the financial markets conditions.

For the purpose of quantifying the market risks effects on the currency reserves value, the Central Bank applies the Value at Risk (VaR) concept. VaR value for market risk is calculated by analytical (parametric) method, based on the mean value of gain/loss or yield rate of observed portfolio and standard deviation of observed data. The Central Bank, when calculating VaR, applies a level of confidence of 99% and a 10-day horizon.

As at 30 September 2021, the exposure of the Central Bank's foreign currency reserves, including fluctuations of the prices of financial instruments and foreign exchange rates against the KM, equals to KM 62,944 thousand (31 December 2020: KM 61,117 thousand), which represents 0.41% of the total financial assets (31 December 2020: 0.44% of the total financial assets).

VaR values as at the reporting dates are shown in the following table:

In thousands of KM	30 September 2021	31 December 2020
Interest rate risk	43,762	44,722
Risk of change in EUR price of monetary gold	18,803	16,097
Foreign exchange risk	379	298
Total VaR	62,944	61,117

5. FINANCIAL RISK MANAGEMENT (CONTINUED)**5.2. Market risk (continued)****5.2.1. Foreign exchange risk**

Foreign exchange risk is the risk of changes in foreign exchange assets and liabilities due to the changes in foreign exchange rates. The Central Bank is exposed to foreign exchange risk through transactions in foreign currencies. Foreign exchange risk is primarily managed through reconciling currency structure of assets and liabilities of the Central Bank, as well as through setting the quantitative limits for exposure to foreign exchange risk.

The control and management of the foreign exchange risk is based on the strict adherence to the provisions of the Law on the Central Bank and the Central Bank's internal regulations.

The largest part of gross foreign currency reserves is held in EUR, and the maximum amount that can be held in convertible currencies other than EUR, must not exceed the equivalent of 50% of the total amount of the unimpaired capital and reserves of the Central Bank.

5.2.2. Interest rate risk

Interest rate risk is the risk of changes in market value of the financial assets due to the unfavourable movements of interest rates. Interest rate risk is managed by determining the acceptable term duration and maturity of financial instruments in which Central Bank invests. Maximum term for investing deposits with foreign banks is one year, while maximum term of investing debt instruments with fixed income is ten years.

5.3. Liquidity risk

Liquidity risk refers to the possible difficulties in liquidating a portion of assets quickly, what is possible when market conditions are unfavorable and also when there is an unfavorable price movement.

Considering the need of guaranteeing the KM convertibility, the daily liquidity should be provided by the maturity adjustment of the Central Bank foreign currency reserves.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)**5.3. Liquidity risk (continued)**

Tables below present the maturity of the financial liabilities of the Central Bank based on the remaining period from the reporting date to the contractual maturity date:

30 September 2021						
In thousands of KM	Up to 3 months	From 3 to 12 months	From 1 to 3 years	Over 3 years	Without specified maturity	Total
Banknotes and coins in circulation	6,814,866	-	-	-	-	6,814,866
Deposits from banks	6,346,903	-	-	-	-	6,346,903
Deposits from the Government and other public institutions	1,466,113	-	-	-	-	1,466,113
Other financial liabilities	4,267	-	-	-	-	4,267
TOTAL FINANCIAL LIABILITIES	14,632,149	-	-	-	-	14,632,149

31 December 2020						
In thousands of KM	Up to 3 months	From 3 to 12 months	From 1 to 3 years	Over 3 years	Without specified maturity	Total
Banknotes and coins in circulation	6,172,457	-	-	-	-	6,172,457
Deposits from banks	5,901,142	-	-	-	-	5,901,142
Deposits from the Government and other public institutions	897,044	-	-	-	-	897,044
Other financial liabilities	3,759	-	-	-	-	3,759
TOTAL FINANCIAL LIABILITIES	12,974,402	-	-	-	-	12,974,402

6. NET INTEREST INCOME

In thousands of KM	01/07 - 30/09 2021	01/07 - 30/09 2020	01/01 - 30/09 2021	For the period 01/01 - 30/09 2020
Interest income arising from:				
Debt instruments (Note 17)	8,396	9,443	25,576	28,951
Effects of negative deposit interest rates on deposits from domestic commercial banks	6,362	3,459	15,047	10,182
Financial assets at amortised cost	4	-	4	9
Total	14,762	12,902	40,627	39,142
Interest expense arising from:				
Effects of negative interest rates from debt instruments (Note 17)	(6,612)	(3,739)	(17,173)	(10,485)
Effects of negative interest rates from deposits with foreign banks	(4,885)	(4,618)	(13,943)	(12,543)
Total	(11,497)	(8,357)	(31,116)	(23,028)
Net interest income	3,265	4,545	9,511	16,114

The calculation base of interest on deposits from commercial banks is generated from the total deposits of domestic commercial banks on reserve accounts during the ten day calculation period, which consists of required reserve amounts and amounts exceeding the required reserves.

The reserve requirement ratio applied by the Central Bank on the required reserve base is equally for all domestic commercial banks and amounts to 10 percentage points.

From 1 June 2021, as a part of the project of introducing a new reserve requirement framework, the Central Bank started to calculate the remuneration on the amount of required reserve funds generated from the foreign currency base and the domestic currency with currency clause base. The remuneration is also calculated on the amounts exceeding the required reserve funds. The Central Bank does not calculate a remuneration on the amounts of required reserve funds generated from domestic currency base.

The remuneration rate applied by the Central Bank on the required reserves amounts and the amounts exceeding the required reserves is linked to the European Central Bank deposit facility rate, additionally decreased by 10 basis points when applying remuneration rate on the required reserve amounts.

The effects of negative interest rates on domestic commercial banks deposits are the result of the negative interest rate on the required reserves amounts generated from foreign currency base, domestic currency with currency clause base and the amounts exceeding the required reserves. The European Central Bank deposit facility rate amounted to (0.50) % in the reporting periods. During the reporting periods, the Central Bank remuneration rates amounted to:

6. NET INTEREST INCOME (CONTINUED)

The base for calculation of remuneration	Period	The Central Bank remuneration rate
2021		
Required reserve amounts		
Domestic currency base	01/01 - 30/09	0.00%
Foreign currency base	01/01 - 31/05	0.00%
Domestic currency with currency clause base	01/01 - 31/05	0.00%
Foreign currency base	01/06 - 30/09	(0.60)%
Domestic currency with currency clause base	01/06 - 30/09	(0.60)%
Amounts exceeding the required reserves	01/01 - 30/09	(0.50)%
2020		
Required reserve amounts		
Domestic currency base	01/01 - 30/09	0.00%
Foreign currency base	01/01 - 30/09	0.00%
Domestic currency with currency clause base	01/01 - 30/09	0.00%
Amounts exceeding the required reserves	01/01 - 30/09	(0.50)%

The remuneration rates applied by the Central Bank arising from the reserve requirement instrument are determined solely to cover its opportunity costs arising from the holding of deposits of domestic commercial banks and for the purpose of strengthening the domestic currency.

The effects of negative interest rates from deposits with domestic commercial banks amount to KM 2,733 thousand on the basis of the foreign currency base and the domestic currency with currency clause base and KM 12,314 thousand on the basis of amounts exceeding the required reserve funds in the period 01/01 – 30/09/2021 (in the period 01/01 – 30/09/2020 amounted to KM 10,182 thousand on the basis of amounts exceeding the required reserve funds).

The effects of negative interest rates from interest-bearing financial assets are the result of the negative interest rates and yields calculated on deposits with foreign banks and debt instruments that could not be avoided according to current market circumstances and allowed legal requirements for investing the Central Bank's foreign currency reserves.

The effects of negative interest rates from deposits with foreign banks include the amount of KM 11,116 thousand on term deposits and the amount of KM 2,827 thousand on demand deposits in the period 01/01 – 30/09/2021 (in the period 01/01 – 30/09/2020 included the amount of KM 9,108 thousand on term deposits and the amount of KM 3,435 thousand on demand deposits).

The average effective yield on debt instruments amounts to 0.14% in the period 01/01 – 30/09/2021 (in the period 01/01 – 30/09/2020 amounted to 0.29%).

The average negative effective interest rate on deposits with foreign banks amounts to 0.54 % in the period 01/01 – 30/09/2021 (in the period 01/01 – 30/09/2020 amounted to 0.49%).

7. NET FEE AND COMMISSION INCOME

In thousands KM	01/07 - 30/09 2021	01/07 - 30/09 2020	01/01 - 30/09 2021	For the period 01/01 - 30/09 2020
Fee and commission income arising from:				
Services for domestic banks	4,910	4,246	13,849	12,554
Services for the Government and other non-banking clients	588	324	1,409	946
Total	5,498	4,570	15,258	13,500
Fee and commission expenses arising from:				
Custody and other expenses for debt instruments	(194)	(167)	(558)	(487)
Transactions with foreign banks	(7)	(8)	(23)	(25)
Other fee and commission expenses	(2)	(1)	(5)	(5)
Total	(203)	(176)	(586)	(517)
Net fee and commission income	5,295	4,394	14,672	12,983

During the reporting period, the Central Bank revised and determined new fee tariffs for the services providing to domestic banks, depositors and other non-banking clients. The application of the new fee tariffs for these services started from 1 May 2021.

8. NET REALISED GAINS FROM SALE OF DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

In thousands of KM	01/07 - 30/09 2021	01/07 - 30/09 2020	01/01 - 30/09 2021	For the period 01/01 - 30/09 2020
Realised gains	529	-	2,552	1,578
Realised losses	-	-	-	-
Net realised gains from sale of debt instruments at fair value through other comprehensive income	529	-	2,552	1,578

The corresponding amounts of realised gains from released provisions for expected credit losses for debt instruments sold are presented in Note 5.1.1.

9. NET FOREIGN EXCHANGE (LOSSES)

	01/07 - 30/09 2021	01/07 - 30/09 2020	01/01 - 30/09 2021	For the period 01/01 - 30/09 2020
In thousands of KM				
Net unrealised foreign exchange (losses)	(1,210)	(176)	(797)	(254)
Net realised foreign exchange gains	6	2	173	24
Net foreign exchange (losses)	(1,204)	(174)	(624)	(230)

10. OTHER EXPENSES / INCOME

	01/07 - 30/09 2021	01/07 - 30/09 2020	01/01 - 30/09 2021	For the period 01/01 - 30/09 2020
In thousands of KM				
Dividend income	-	-	1,297	-
Other income	11	3	44	39
Income from grants	-	16	2	50
Net effects of numismatic collections	(43)	73	(51)	139
TOTAL	(32)	92	1,292	228

During the reporting period, the Central Bank acquired the right to a dividend based on share ownership with BIS. The amount of the determined dividend consists of a normal dividend and a supplement to the dividend per share.

11. PERSONNEL EXPENSES

	01/07 - 30/09 2021	01/07 - 30/09 2020	01/01 - 30/09 2021	For the period 01/01 - 30/09 2020
In thousands of KM				
Salaries	2,809	2,771	7,703	7,529
Contributions and other fees on salaries	1,604	1,575	4,392	4,280
Other employee benefits	365	371	1,683	1,670
Contributions and other fees on other employees benefits	90	101	540	553
Provisions for severance payments, net increase	1	1	5	4
TOTAL	4,869	4,819	14,323	14,036

Personnel expenses include KM 2,749 thousand of defined pension contributions paid to the public pension funds in BH (01/01 – 30/09/2020: KM 2,699 thousand).

The average number of employees in the reporting period amounts to 370 (01/01 – 30/09/2020: 366 employees).

12. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	01/07 - 30/09 2021	01/07 - 30/09 2020	01/01 - 30/09 2021	For the period 01/01 - 30/09 2020
In thousands of KM				
Expenses for production and design of banknotes and coins	1,196	780	2,992	2,074
Payment systems maintenance expenses	439	425	1,269	1,193
IT infrastructure expenses	235	199	642	570
Maintenance expenses	120	106	315	447
Other administrative and operating expenses	736	694	2,338	2,130
TOTAL	2,726	2,204	7,556	6,414

13. PROVISIONS FOR EXPECTED CREDIT LOSSES, NET (INCREASE)

	01/07 - 30/09 2021	01/07 - 30/09 2020	01/01 - 30/09 2021	For the period 01/01 - 30/09 2020
In thousands of KM				
Gains from release of provisions for expected credit losses:				
Deposits with foreign banks	1,179	1,260	3,212	3,196
Debt instruments	280	107	478	286
Other financial assets	1	1	18	6
Special drawing rights with IMF	-	-	-	-
	1,460	1,368	3,708	3,488
Losses from increase in provisions for expected credit losses:				
Deposits with foreign banks	(1,330)	(1,363)	(3,207)	(3,326)
Debt instruments	(345)	(155)	(681)	(575)
Other financial assets	(2)	(1)	(7)	(5)
Special drawing rights with IMF	-	-	-	-
	(1,677)	(1,519)	(3,895)	(3,906)
Provisions for expected credit losses, net (increase)	(217)	(151)	(187)	(418)

14. NET (LOSS) / PROFIT FOR THE PERIOD

In thousands of KM	01/07 - 30/09 2021	01/07 - 30/09 2020	01/01 - 30/09 2021	For the period 01/01 - 30/09 2020
Operating income	7,853	8,857	27,403	30,673
Operating expenses	(8,214)	(7,664)	(23,742)	(22,364)
FINANCIAL RESULT BEFORE PROVISIONS FOR EXPECTED CREDIT LOSSES	(361)	1,193	3,661	8,309
Provisions for expected credit losses, net (increase)	(217)	(151)	(187)	(418)
NET (LOSS) / PROFIT FOR THE PERIOD	(578)	1,042	3,474	7,891

As disclosed in Note 2.7, investing of foreign currency reserves continues in extremely unfavorable and deteriorating conditions of negative interest rates and yields on the Eurozone financial markets. The European Central Bank deposit facility rate has been negative for many years, being the key determinant of the level of market interest rates and yields on the Eurozone financial markets.

The composition of invested foreign currency reserves, on the other hand, must ensure guaranteed convertibility of domestic currency and the implementation of monetary operations of the Central Bank at any time. In doing so, the Central Bank must strictly take into account the legal requirements regarding the high liquidity of foreign currency reserves and adequate investment safety, i.e. exposure to financial risks.

The increase of monetary liabilities arising from depositing the significant funds to the Central Bank and the entirely fulfillment of the Central Bank's legal obligations towards commercial banks and depositors continues to generate increased amounts of interest expenses from the foreign currency reserves and expose it to the higher financial risks.

These unfavorable circumstances together with the allowed legal framework for investing foreign currency reserves are the main reason for the decline of operating income in the reporting period to the comparable one.

This note is presented for the purpose of understanding the decline of presented amounts for financial disclosure purposes, and not for the purpose of measuring the financial performance of the Central Bank for a particular period. The Central Bank is not a profit-oriented institution but the supreme monetary authority in BH. The financial measure of the successful performance of the Central Bank is the compliance with the Currency Board arrangement (Note 3).

15. CASH IN FOREIGN CURRENCIES

Cash in foreign currencies is held in the Central Bank's vaults. Cash in foreign currencies, analysed by type of currency, is as follows:

In thousands of KM	30 September 2021	31 December 2020
Cash in foreign currencies in vaults		
- EUR	443,564	142,128
- USD	19	18
- GBP	18	17
- CHF	-	39
	443,601	142,202
Cash in foreign currencies in transit		
- CHF	39	-
	39	-
TOTAL	443,640	142,202

During the reporting period, the Central Bank purchased EUR cash from foreign bank in the amount of KM 293,375 thousand.

16. DEPOSITS WITH FOREIGN BANKS

Deposits with foreign banks are invested foreign currency reserves held by the Central Bank on the accounts of foreign central and commercial banks.

Term and demand deposits with foreign banks, analysed by the type of currency, are as follows:

In thousands of KM	30 September 2021	31 December 2020
Term deposits:		
- EUR	2,957,200	2,391,656
Less impairment for expected credit losses	(700)	(628)
	2,956,500	2,391,028
Demand deposits:		
- EUR	656,422	1,430,953
- GBP	2,142	2,080
- USD	2,082	1,101
- CHF	20	7,089
	660,666	1,441,223
Less impairment for expected credit losses	(102)	(179)
	660,564	1,441,044
TOTAL	3,617,064	3,832,072

16. DEPOSITS WITH FOREIGN BANKS (CONTINUED)

Deposits with foreign banks include negative accrued interest in the amount of KM 1,974 thousand as at 30 September 2021 (31 December 2020: included negative accrued interest in the amount of KM 1,939 thousand).

Term deposits with foreign banks, analysed by remaining contractual maturity, are as follows:

In thousands of KM	30 September 2021	31 December 2020
Up to one month	1,223,075	1,032,703
From one to two months	428,564	253,800
From two to three months	1,305,561	525,637
From three to four months	-	96,154
From four to twelve months	-	483,362
Total	2,957,200	2,391,656
Less impairment for expected credit losses	(700)	(628)
TOTAL	2,956,500	2,391,028

In thousands of KM	30 September 2021	31 December 2020
Foreign central banks	2,175,986	2,375,955
Foreign commercial banks	1,441,880	1,456,924
Less impairment for expected credit losses (Note 5.1.1)	(802)	(807)
TOTAL	3,617,064	3,832,072

More information about the composite credit rating range and credit risk concentration for deposits with foreign banks as at reporting dates is disclosed in Note 5.1.2.

17. DEBT INSTRUMENTS

Debt instruments are classified at fair value through other comprehensive income, representing the foreign currency reserve funds invested in liquid sovereign government bonds of Eurozone countries. The portfolio includes short-term and long-term government bonds with a fixed interest rate. Debt instruments at fair value through other comprehensive income are denominated in EUR.

Analytical structure of debt instruments at fair value through other comprehensive income is as follows:

In thousands of KM	30 September 2021	31 December 2020
Coupon debt instruments	7,925,756	8,589,935
Discount debt instruments	3,139,487	1,011,380
TOTAL	11,065,243	9,601,315

As at 30 September 2021, provisions for expected credit losses for debt instruments, recognized in other comprehensive income amount to KM 1,732 thousand (31 December 2020: KM 1,598 thousand).

Movements in debt instruments at fair value through other comprehensive income in the reporting periods are provided in the following table:

In thousands of KM	01/07 - 30/09 2021	01/07 - 30/09 2020	01/01 - 30/09 2021	For the period 01/01 - 30/09 2020
As at	10,534,450	9,316,087	9,601,315	8,917,413
Purchases during the period	2,206,038	690,635	4,755,729	2,350,286
Sales during the period	(330,961)	-	(615,902)	(316,129)
Interest income recognised during the period (Note 6)	8,396	9,443	25,576	28,951
Effects of negative interest rates recognised during the period (Note 6)	(6,612)	(3,739)	(17,173)	(10,485)
Maturities of debt instruments	(1,317,679)	(619,465)	(2,506,829)	(1,574,976)
Maturities of coupons	(19,836)	(32,245)	(75,917)	(90,099)
Net unrealised change in fair value during the period	(8,553)	18,882	(101,556)	74,637
As at 30 September	11,065,243	9,379,598	11,065,243	9,379,598

17. DEBT INSTRUMENTS (CONTINUED)

Price fluctuations of debt instruments in the reporting period in relation to the comparable one resulted in a temporary decline of their fair value. This decline was absorbed by the existence of an adequate level of fair value reserves for debt instruments in the Central Bank's equity. The effects of fair value temporary oscillations, as a result of market conditions that the Central Bank cannot affect, do not withdraw any realized losses for the Central Bank but represent a quantification of market conditions in the international financial environment for a certain period of time.

More information about the composite credit rating range and credit risk concentration for debt instruments at the reporting dates is disclosed in the Note 5.1.2.

Debt instruments, analysed by their remaining contractual maturity, are as follows:

In thousands of KM	30 September 2021	31 December 2020
Up to 3 months	1,218,885	422,511
From 3 to 12 months	3,202,627	2,382,176
From 1 to 5 years	4,376,323	3,930,547
From 5 to 10 years	2,267,408	2,866,081
TOTAL	11,065,243	9,601,315

18. MONETARY GOLD

As at 30 September 2021, fair value of monetary gold amounts to KM 284,803 thousand, representing 96,000 ounces of gold at KM 2,967 per ounce (31 December 2020: KM 291,561 thousand, representing 96,000 ounces of gold at KM 3,037 per ounce; 30 September 2020: KM 302,107 thousand, representing 96,000 ounces of gold at KM 3,147 ounce). Monetary gold is denominated in EUR.

Effects of fair value changes in monetary gold in the reporting periods are provided in the following table:

In thousands of KM	01/07 - 30/09 2021	01/07 - 30/09 2020	01/01 - 30/09 2021	For the period 01/01 - 30/09 2020
Opening balance	280,301	297,691	291,561	254,088
Net unrealized change in fair value during the period	4,502	4,416	(6,758)	48,019
Closing balance	284,803	302,107	284,803	302,107

19. SPECIAL DRAWING RIGHTS WITH THE IMF

In thousands of KM	30 September 2021	31 December 2020
Special Drawing Rights with the IMF	4,352	879
Accrued interest	3	-
	4,355	879
Less impairment for expected credit losses	-	-
TOTAL	4,355	879

Changes in Special Drawing Rights with the IMF in the reporting periods are provided in the following table:

In thousands of KM	For the period			
	01/07 - 30/09 2021	01/07 - 30/09 2020	01/01 - 30/09 2021	01/01 - 30/09 2020
As at	4,175	3,075	879	230
Proceeds based on SDR allocation	602,540	-	602,540	-
Proceeds based on SDR purchase	2,598	-	7,946	4,857
Other proceeds in favor of the Government	-	-	2,909	4,907
Outflows based on SDR sales	(601,198)	-	(601,198)	-
Outflows based on payments to the IMF	(2,453)	(2,528)	(7,450)	(9,435)
Interest income on SDR account	3	1	3	6
Net foreign exchange (losses)	(1,310)	(87)	(1,274)	(104)
Net effects of expected credit losses	-	-	-	-
As at 30 September	4,355	461	4,355	461

During August 2021, the IMF allocated funds on the basis of SDR allocation. The Central Bank, in accordance with the provided instructions for the fund allocation, transferred the corresponding amounts to the sub-accounts of the entities.

20. OTHER ASSETS

In thousands of KM	30 September 2021	31 December 2020
Receivables from domestic banks	2,055	1,756
Giro accounts	761	411
Receivables from employee based on cash deficit	600	600
Other miscellaneous financial assets	481	347
Total	3,897	3,114
Less impairment for expected credit losses	(607)	(618)
Total other financial assets	3,290	2,496
 Prepaid expenses	 12,980	 8,933
Numismatic collections	931	986
Other miscellaneous nonfinancial assets	268	256
Total other nonfinancial assets	14,179	10,175
 TOTAL	 17,469	 12,671

As at 30 September 2021, prepaid expenses include expenditures of KM 12,311 thousand incurred on the production of banknotes and coins (31 December 2020: KM 7,860 thousand incurred on the production of banknotes and coins).

21. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

In thousands of KM	Property and equipment	Intangible assets
Cost		
As at 1 January 2021	78,380	15,979
Additions	349	67
Write offs and disposals	(272)	-
As at 30 September 2021	78,457	16,046
Accumulated amortization		
As at 1 January 2021	29,820	14,745
Charge for the period	1,558	305
Write offs and disposals	(272)	-
As at 30 September 2021	31,106	15,050
Net book value		
As at 1 January 2021	48,560	1,234
As at 30 September 2021	47,351	996

As at reporting dates, the Central Bank has no encumbrances over its property, equipment and intangible assets.

Land is presented within property and equipment in the amount of KM 5,270 thousand, acquired for the purpose of new office building construction for Main Unit Sarajevo of the Central Bank. The Central Bank is the legal owner of the land and there are no outstanding contractual liabilities to the land seller. Construction of the Central Bank's office building has been temporarily suspended due to delays in the delivery of the required permit by the land seller. As at reporting dates, the land seller did not deliver necessary permits. For more information see Note 33.

22. BANKNOTES AND COINS IN CIRCULATION

In thousands of KM	01/07 - 30/09 2021	01/07 - 30/09 2020	01/01 - 30/09 2021	01/01 - 30/09 2020
Banknotes and coins in circulation as at	6,441,286	5,834,763	6,172,457	5,199,916
Net increase during the period	373,580	198,228	642,409	833,075
Banknotes and coins in circulation	6,814,866	6,032,991	6,814,866	6,032,991

23. DEPOSITS FROM BANKS

The structure of deposits from banks is provided in the following table:

In thousands of KM	30 September 2021	31 December 2020
Deposits of domestic commercial banks	6,346,109	5,900,698
Reserve accounts of organizational units of the Central Bank	761	411
Special deposits of domestic commercial banks - blocked funds	33	33
TOTAL	6,346,903	5,901,142

Deposits from domestic commercial banks include negative accrued interest in the amount of KM 2,173 thousand as at 30 September 2021 (31 December 2020: KM 1,302 thousand).

The following table presents the average balance of the reserve account of domestic commercial banks, calculated for the last ten-day period at the reporting dates:

In thousands of KM	30 September 2021	31 December 2020
Required reserve	2,943,416	2,727,364
Amounts exceeding the required reserve	3,563,732	3,038,133
TOTAL	6,507,148	5,765,497

24. DEPOSITS FROM THE GOVERNMENT AND OTHER PUBLIC INSTITUTIONS

The structure of deposits from the Government and other public institutions is provided in the following table:

In thousands of KM	30 September 2021	31 December 2020
Budgetary deposits of BH institutions	664,659	579,869
Deposit account under the IMF transactions	404,619	323
Other deposits of public institutions and agencies in BH	292,450	231,805
Other deposits of domestic governments and government institutions	104,385	85,047
TOTAL	1,466,113	897,044

As at reporting date, BH Federation did not withdraw its funds from SDR allocation.

25. PROVISIONS

Provisions relate to provisions for employees' severance payments and provisions for potential liabilities on litigations.

As at 30 September 2021 total provisions of KM 1,321 thousand relate to provisions for employees' severance payments (31 December 2020 : KM 1,414 thousand).

26. COMMITMENTS AND CONTINGENCIES*Litigations*

As at reporting dates the Central Bank is a defendant in few legal proceedings arising from its operations. The Central Bank contests this claims and considers that no material liabilities will be incurred at the current stage of the proceedings.

Commitments

As at reporting dates the Central Bank has no unrecognised contractual commitments.

27. OTHER LIABILITIES

In thousands of KM	30 September 2021	31 December 2020
IMF Accounts No. 1 and 2 (Note 32)	1,625	1,587
Suppliers	1,401	1,932
Accrued liabilities for current period costs	661	135
World Bank deposits	568	101
Other financial liabilities	12	4
Total other financial liabilities	4,267	3,759
Non-financial liabilities on various bases	91	106
Collected and deferred income	31	54
Total other nonfinancial liabilities	122	160
TOTAL	4,389	3,919

28. EQUITY

The structure of equity is presented in the following table:

In thousands of KM	30 September 2021	31 December 2020
Initial capital	25,000	25,000
Reserves	846,668	957,331
<i>General reserves (Retained earnings)</i>	545,203	545,203
<i>Other reserves</i>	31,300	31,300
<i>Fair value reserves for debt and equity instruments at fair value through other comprehensive income</i>	187,488	291,527
<i>Provisions for expected credit losses</i>	1,732	1,598
<i>Fair value reserves for monetary gold</i>	80,945	87,703
Net profit for the period	3,474	-
TOTAL	875,142	982,331

29. CASH AND CASH EQUIVALENTS

For the purposes of cash flow statement, cash and cash equivalents comprise of:

In thousands of KM	30 September 2021	30 September 2020
Foreign currency deposits with maturity up to three months or less from the date of acquisition	2,430,521	1,864,292
Foreign currency demand deposits	660,666	945,396
Cash in foreign currencies	443,640	137,770
Special drawing rights with the IMF	4,355	461
Giro accounts	761	841
Total	3,539,943	2,948,760
Less impairment for expected credit losses	(734)	(761)
TOTAL	3,539,209	2,947,999

30. RELATED PARTIES TRANSACTIONS

In the normal course of its operations, the Central Bank enters into transactions with related parties. Having in mind that the Central Bank has been established by a Legal Act passed by the Parliamentary Assembly of Bosnia and Herzegovina and that the initial capital has been paid up by the Council of Ministers of Bosnia and Herzegovina, transactions performed as part of regular operations of the Central Bank with the state and state institutions represent related parties transactions. In accordance with the Law on the Central Bank, the Central Bank acts as an agent for the BH state and for other state institutions. The Central Bank receives deposits from BH state and other state institutions and acts strictly on depositor's behalf and order.

Transactions with the state and state institutions are presented in the following tables:

In thousands of KM

	BH Ministry of Finance and Treasury	BH Deposit Insurance Agency	BH Indirect Taxation Authority	Total
30 September 2021				
ASSETS				
Other assets	56	24	72	152
TOTAL	56	24	72	152
LIABILITIES				
Deposits from depositors	965,728	272,843	152,539	1,391,110
TOTAL	965,728	272,843	152,539	1,391,110
INCOME				
Fee and commission income	120	92	76	288
TOTAL	120	92	76	288

30. RELATED PARTIES TRANSACTIONS (CONTINUED)

In thousands of KM

	BH Ministry of Finance and Treasury	BH Deposit Insurance Agency	BH Indirect Taxation Authority	Total
31 December 2020				
ASSETS				
Other assets	25	1	1	27
TOTAL	25	1	1	27
LIABILITIES				
Deposits from depositors	527,159	214,696	122,622	864,477
TOTAL	527,159	214,696	122,622	864,477
INCOME				
Fee and commission income	35	12	4	51
TOTAL	35	12	4	51

In executing its functions of the banker, the depository and the fiscal agent prescribed by the Law on the Central Bank, the Central Bank also maintains certain bookkeeping and executes transactions for the State and state institutions that are recorded off-balance. More information about these off-balance records is disclosed in Notes 31 and 32.

The Central Bank considers that it has an immediate related party relationship with its key management personnel, close family members of the key management personnel and entities controlled, jointly controlled or significantly influenced by the key management personnel and their close family members.

Remuneration of the key management members

The total remuneration of the key management members, in the period 01/01 – 30/09/2021, amounts to KM 687 thousand, out of which KM 430 thousand is related to salaries and other remuneration and KM 257 thousand is related to taxes and contributions (In the period 01/01 – 30/09/2020, out of the total amount of KM 667 thousand, the amount of KM 419 thousand was related to salaries and other remunerations and KM 248 thousand was related to taxes and contributions).

31. OFF-BALANCE SHEET ITEMS

The Central Bank maintains certain accounts in foreign currencies related to agreements concluded between the governments in BH and foreign governments and financial organizations. As these accounts do not represent either assets or liabilities of the Central Bank, they have not been included within the Central Bank's statement of financial position.

Off-balance sheet items also include foreign currency accounts of the state institutions and agencies, as well as at commercial banks, for which the Central Bank acts as an agent.

31. OFF-BALANCE SHEET ITEMS (CONTINUED)

Analytical structure of the off-balance sheet items is presented in the following table:

In thousands of KM	30 September 2021	31 December 2020
Deposits of USAID	2,495	2,497
Deposits of non-residents	2,495	2,497
Deposits of the Council of Ministers of BH:	14,226	8,556
<i>Deposits of the Council of Ministers of BH on the basis of succession</i>	43	41
<i>Deposits of the Council of Ministers of BH regarding the servicing of external debt</i>	12,298	6,738
<i>Deposits of the Council of Ministers of BH regarding the Budget of BH institutions</i>	1,623	1,528
<i>Other deposits of the Council of Ministers of BH</i>	262	250
Deposits of other residents:	8,954	13,459
<i>Deposits - Retirement allowances from Germany</i>	201	-
<i>Deposit accounts of banks</i>	8,753	13,459
Deposits of residents	23,180	22,015
Cash account – Deposit Insurance Agency of BH	42,233	73,684
Total – State institutions	42,233	73,684
TOTAL	67,908	98,196

BH Ministry of Finance and Treasury is the institution that acts on behalf of Council of Ministers of BH and state in deposit management and coordination. As at 30 September 2021 the total of these funds amount to KM 16,721 thousand (31 December 2020: KM 11,053 thousand).

32. BOSNIA AND HERZEGOVINA MEMBERSHIP WITH THE INTERNATIONAL MONETARY FUND

According to arrangements concluded between BH and the IMF the Central Bank is designated as a fiscal agent and depository for BH membership with the IMF. The Central Bank's role as a fiscal agent is specific due to "Currency Board" arrangement. The Central Bank acts on behalf of the BH in dealing with the IMF but does not have any responsibility for assets and liabilities related to the membership.

The Central Bank maintains special drawing rights with the IMF account, IMF account No.1 and IMF account No.2 in the statement of financial position. The Central Bank also provides a custody service for the BH Promissory notes issued to support IMF membership and repurchase obligations that are recorded off-balance.

32. BOSNIA AND HERZEGOVINA MEMBERSHIP WITH THE INTERNATIONAL MONETARY FUND (CONTINUED)

The Central Bank uses net method in presentation of BH financial position with the IMF which is provided below:

In thousands of KM

	30 September 2021	31 December 2020
Quota	628,632	614,046
Special drawing rights with the IMF	4,355	879
TOTAL ASSETS	632,987	614,925
IMF account No.1	1,572	1,535
IMF account No.2	53	52
Securities	1,531,062	1,520,009
SDR allocation	983,881	372,517
Accrued interest on SDR allocation	64	65
Accounts of payable charges	1,601	1,670
TOTAL LIABILITIES	2,518,233	1,895,848
BH NET POSITION WITH THE IMF	1,885,246	1,280,923

Securities, IMF account No.1 and IMF account No. 2 are subject of valuation adjustments whenever the currency is used in financial transactions between the IMF and BH. At least once each year, at the end of the IMF's financial year (30 April), all IMF currency holdings are revalued based on the prevailing SDR exchange rate. These valuation adjustments are included in account balances stated.

BH net position with the IMF is increased due to allocated funds in the amount of KM 602,540 thousand from the SDR allocation. SDR allocation is not a classic credit arrangement of Bosnia and Herzegovina with the IMF.

33. EVENTS AFTER THE REPORTING PERIOD

On 7 October 2021, the European Commission transferred funds for Bosnia and Herzegovina in the amount of KM 243,112 thousand (EUR 124,301 thousand) on the basis of the Credit Line Agreement between the European Union and Bosnia and Herzegovina. This is the first tranche of macro-financial assistance funds based on the Credit Line Agreement between the European Union and Bosnia and Herzegovina. The Central Bank transferred the remitted funds to the sub-accounts of the Federation of Bosnia and Herzegovina, the Republika Srpska and the Brcko District according to the percentages determined in the Memorandum of Understanding between the European Union and Bosnia and Herzegovina on 8 October 2021. Up to date of approval of these condensed interim financial statements, the funds have not been withdrawn.

The Central Bank received a rejecting decision on the request for issuing an urban permit for the purchased land for the construction of a new office building for Main Unit Sarajevo of the Central Bank on 6 October 2021. The Central Bank is currently in the process of negotiating the possibility of replacing construction plots with the seller of the land, with full protection of its interests and the legally acquired right over the purchased plot.

The Presidency of Bosnia and Herzegovina has not appointed a new Governing Board members up to date of approval of these condensed interim financial statements.

Except for the above events, no adjusting events or events that are material but do not require adjustment have occurred in the period between 30 September 2021 and the date of approval of these condensed interim financial statements.