

**CENTRAL BANK OF BOSNIA AND HERZEGOVINA**

**CONDENSED INTERIM FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 SEPTEMBER 2019**

**(unaudited)**

**in accordance with the requirements of International Accounting Standard 34**

Sarajevo, 31 October 2019

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**CENTRAL BANK OF BOSNIA AND HERZEGOVINA**  
*Condensed Interim Financial Statements for the period ended 30 September 2019*

**STATEMENT OF PROFIT OR LOSS**

In thousands of KM (unaudited)	Note	For the period			
		01/07-30/09 2019	01/07-30/09 2018	01/01-30/09 2019	01/01/-30/09 2018
Interest income		13,199	12,279	37,429	35,834
Interest expense		(6,795)	(6,360)	(19,040)	(18,118)
<b>NET INTEREST INCOME</b>	3	<b>6,404</b>	<b>5,919</b>	<b>18,389</b>	<b>17,716</b>
Fee and commission income		4,510	4,308	13,016	12,724
Fee and commission expenses		(164)	(159)	(478)	(473)
<b>NET FEE AND COMMISSION INCOME</b>	4	<b>4,346</b>	<b>4,149</b>	<b>12,538</b>	<b>12,251</b>
Net realised gains from sale of financial assets at fair value through other comprehensive income	5	-	123	143	356
Net foreign exchange gains	6	176	128	269	91
Other income	7	101	74	856	1,207
<b>OPERATING INCOME</b>		<b>11,027</b>	<b>10,393</b>	<b>32,195</b>	<b>31,621</b>
Personnel expenses	8	(4,798)	(4,722)	(13,973)	(13,877)
Administrative and other operating expenses	9	(1,843)	(1,847)	(5,616)	(5,834)
Depreciation and amortisation		(624)	(789)	(1,814)	(1,844)
<b>OPERATING EXPENSES</b>		<b>(7,265)</b>	<b>(7,358)</b>	<b>(21,403)</b>	<b>(21,555)</b>
<b>FINANCIAL RESULT BEFORE PROVISIONS FOR EXPECTED CREDIT LOSSES</b>		<b>3,762</b>	<b>3,035</b>	<b>10,792</b>	<b>10,066</b>
Provisions for expected credit losses, net	10	(51)	1,415	9,587	(9,049)
<b>NET PROFIT FOR THE PERIOD</b>	11	<b>3,711</b>	<b>4,450</b>	<b>20,379</b>	<b>1,017</b>

The selected notes on pages 8 to 31 are an integral part of these condensed interim financial statements.

## STATEMENT OF COMPREHENSIVE INCOME

In thousands of KM (unaudited)	Note	01/07-30/09 2019	01/07-30/09 2018	01/01-30/09 2019	For the period 01/01/-30/09 2018
<b>NET PROFIT FOR THE PERIOD</b>		<b>3,711</b>	<b>4,450</b>	<b>20,379</b>	<b>1,017</b>
<b>Other comprehensive income</b>					
<i>Items that are or may be reclassified subsequently to profit or loss:</i>					
<b>Debt instruments at fair value through other comprehensive income</b>					
Net change in fair value during the period	13	44,471	(59,394)	190,732	(57,624)
Net change in provisions for expected credit losses during the period recognized in profit or loss	24.1.1.	47	(701)	(7,640)	8,666
Transfer to profit or loss from sale	5	-	(123)	(143)	(356)
		<b>44,518</b>	<b>(60,218)</b>	<b>182,949</b>	<b>(49,314)</b>
<b>Monetary gold</b>					
Net change in fair value during the period	14	20,875	(8,496)	43,613	(11,102)
		<b>20,875</b>	<b>(8,496)</b>	<b>43,613</b>	<b>(11,102)</b>
<b>Total other comprehensive income / (loss)</b>		<b>65,393</b>	<b>(68,714)</b>	<b>226,562</b>	<b>(60,416)</b>
<b>TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE PERIOD</b>		<b>69,104</b>	<b>(64,264)</b>	<b>246,941</b>	<b>(59,399)</b>

The selected notes on pages 8 to 31 are an integral part of these condensed interim financial statements.

**CENTRAL BANK OF BOSNIA AND HERZEGOVINA**  
*Condensed Interim Financial Statements for the period ended 30 September 2019*

**STATEMENT OF FINANCIAL POSITION**

In thousands of KM (unaudited)	Note	30 September 2019	As at 31 December 2018
<b>ASSETS</b>			
Foreign currency in cash		304,222	274,099
Deposits with foreign banks	12	2,981,054	2,911,448
Debt instruments at fair value through other comprehensive income	13	8,913,859	8,225,439
Monetary gold	14	253,609	209,996
Special Drawing Rights with the IMF		146	2,236
Other assets	15	11,739	10,554
Property and equipment		43,386	44,677
Intangible assets		1,325	1,342
Other investments		27,813	27,813
<b>TOTAL ASSETS</b>		<b>12,537,153</b>	<b>11,707,604</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Currency in circulation	16	5,114,206	4,750,614
Deposits from banks	17	5,683,756	5,523,290
Deposits from the Government and other depositors	18	764,763	709,367
Provisions for liabilities and charges		1,168	1,259
Other liabilities	19	6,472	3,227
<b>Total liabilities</b>		<b>11,570,365</b>	<b>10,987,757</b>
<b>EQUITY</b>			
Initial capital		25,000	25,000
Reserves		921,409	694,847
Net profit for the period		20,379	-
<b>Total equity</b>	20	<b>966,788</b>	<b>719,847</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>12,537,153</b>	<b>11,707,604</b>

The selected notes on pages 8 to 31 are an integral part of these condensed interim financial statements.

## STATEMENT OF CHANGES IN EQUITY

In thousands of KM (unaudited)

	Initial capital	General reserves (Retained earnings)	Other reserves	Fair value reserves – financial assets at fair value through other comprehensive income	Provisions for expected credit losses	Fair value reserves – monetary gold	Total reserves	Profit for the period	Total equity
As at 1 January 2019	25,000	514,720	31,300	133,696	8,993	6,138	694,847	-	719,847
Total comprehensive income for the period	-	-	-	190,635	(7,686)	43,613	226,562	20,379	246,941
Net profit for the period	-	-	-	-	-	-	-	20,379	20,379
Other comprehensive income	-	-	-	190,635	(7,686)	43,613	226,562	-	226,562
<i>Net unrealised positive changes in fair value of debt instruments</i>	-	-	-	190,732	-	-	190,732	-	190,732
<i>Net realised positive changes in fair value of debt instruments transferred to profit or loss</i>	-	-	-	(97)	-	-	(97)	-	(97)
<i>Net unrealised positive changes in provisions for expected credit losses for debt instruments recognised in profit or loss</i>	-	-	-	-	(7,640)	-	(7,640)	-	(7,640)
<i>Net realised positive changes in provisions for expected credit losses for debt instruments transferred to profit or loss</i>	-	-	-	-	(46)	-	(46)	-	(46)
<i>Net unrealised positive changes in fair value of monetary gold</i>	-	-	-	-	-	43,613	43,613	-	43,613
As at 30 September 2019	25,000	514,720	31,300	324,331	1,307	49,751	921,409	20,379	966,788

The selected notes on pages 8 to 31 are an integral part of these condensed interim financial statements.



## STATEMENT OF CHANGES IN EQUITY (CONTINUED)

In thousands of KM (unaudited)

	Initial capital	General reserves (Retained earnings)	Other reserves	Fair value reserves – financial assets at fair value through other comprehensive income	Provisions for expected credit losses	Fair value reserves – monetary gold	Total reserves	Profit for the period	Total equity
As at 1 January 2018	25,000	506,289	31,300	141,765	4,290	-	683,644	-	708,644
Total comprehensive (loss) for the period	-	-	-	(57,702)	8,388	(11,102)	(60,416)	1,017	(59,399)
Net profit for the period	-	-	-	-	-	-	-	1,017	1,017
Other comprehensive income	-	-	-	(57,702)	8,388	(11,102)	(60,416)	-	(60,416)
<i>Net unrealised negative changes in fair value of debt instruments</i>	-	-	-	(57,624)	-	-	(57,624)	-	(57,624)
<i>Net realised positive changes in fair value of debt instruments transferred to profit or loss</i>	-	-	-	(78)	-	-	(78)	-	(78)
<i>Net unrealised negative changes in provisions for expected credit losses for debt instruments recognised in profit or loss</i>	-	-	-	-	8,666	-	8,666	-	8,666
<i>Net realised positive changes in provisions for expected credit losses for debt instruments transferred to profit or loss</i>	-	-	-	-	(278)	-	(278)	-	(278)
<i>Net unrealised negative changes in fair value of monetary gold</i>	-	-	-	-	-	(11,102)	(11,102)	-	(11,102)
As at 30 September 2018	25,000	506,289	31,300	84,063	12,678	(11,102)	623,228	1,017	649,245

The selected notes on pages 8 to 31 are an integral part of these condensed interim financial statements.

## STATEMENT OF CASH FLOWS

	Note	For the period	
		01/01-30/09 2019	01/01-30/09 2018
<b>In thousands of KM (unaudited)</b>			
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Net profit for the period</b>		<b>20,379</b>	<b>1,017</b>
Adjusted for:			
Interest income	3	(37,429)	(35,834)
Interest expense	3	19,040	18,118
Provisions for expected credit losses, net	10	(9,587)	9,049
Net realised (gains) from sale of debt instruments at fair value through other comprehensive income	5	(143)	(356)
Net foreign exchange (gains)	6	(269)	(91)
Income from grants		(80)	(102)
Provisions for liabilities and charges		17	(74)
(Gains) from disposal of property and equipment		-	(5)
Dividend income recognised in profit or loss	7	(623)	(589)
Depreciation and amortisation		1,814	1,844
<b>Net cash flows from operating activities before changes in operating assets and liabilities</b>		<b>(6,881)</b>	<b>(7,024)</b>
<b>Changes in operating assets and liabilities</b>			
Decrease / (increase) in deposits with foreign banks		759,708	(174,686)
(Increase) in debt instruments at fair value through other comprehensive income		(477,342)	(1,055,183)
(Increase) / decrease in other assets		(1,180)	1,250
Increase in currency in circulation		363,592	397,886
Increase in deposits		223,082	621,589
Increase / (decrease) in other liabilities		3,275	(826)
Payments from provisions for liabilities and charges		(108)	(143)
Interest received		32	41
Interest paid		(8,260)	(7,154)
<b>Net cash from operating activities</b>		<b>855,918</b>	<b>(224,250)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of property and equipment		-	5
Purchases of property, equipment and intangible assets		(506)	(1,537)
Dividend received		623	589
<b>Net cash used in investing activities</b>		<b>117</b>	<b>(943)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Distribution of profit to the state budget		-	(7,311)
<b>Net cash used in financing activities</b>		<b>-</b>	<b>(7,311)</b>

The selected notes on pages 8 to 31 are an integral part of these condensed interim financial statements.



**STATEMENT OF CASH FLOWS (CONTINUED)**

In thousands of KM (unaudited)	Note	01/01-30/09 2019	For the period 01/01-30/09 2018
Effects from changes in impairment for expected credit losses on cash and cash equivalents		(1,114)	281
Effects of exchange rate fluctuations on cash and cash equivalents held		320	115
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>855,241</b>	<b>(232,108)</b>
Cash and cash equivalents at the beginning of the period		1,676,360	2,061,284
Cash and cash equivalents at the end of the period	21	<b>2,531,601</b>	<b>1,829,176</b>

The selected notes on pages 8 to 31 are an integral part of these condensed interim financial statements.

## SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2019

### 1. GENERAL INFORMATION

The Central Bank of Bosnia and Herzegovina (the "Bank") was established in accordance with the Law on the Central Bank of Bosnia and Herzegovina (the "Law"), which was adopted by the Parliamentary Assembly of Bosnia and Herzegovina on 20 June 1997, according to the General Framework Peace Agreement in Bosnia and Herzegovina ("BH").

The Bank started its operations on 11 August 1997.

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

The objective of the Bank is to achieve and maintain the stability of the domestic currency (Convertible Mark) by issuing it according to the rule known as a "Currency Board".

According to the article 64 paragraph 2 of the Law, the Bank is obliged to prepare and submit preliminary (unaudited) financial statements for each quarter to the BH Presidency.

Governing Board of the Bank approves these condensed interim financial statements, while the Management of the Bank is responsible for its preparation. As at the date of approval of these condensed interim financial statements, members of the Governing Board and Management are:

#### Governing Board

Senad Softić Ph.D.	Chairman
Ankica Kolobarčić M.Sc.	Member
Šerif Isović M.Sc.	Member

#### Management

Senad Softić Ph.D.	Governor
Ernadina Bajrović M.Sc.	Vice Governor
Milica Lakić Ph.D.	Vice Governor
Želimir Raspudić	Vice Governor

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

These condensed interim financial statements are prepared in accordance with International Accounting Standard 34 ("IAS 34"): "Interim financial reporting". Condensed interim financial statements do not include all the information required in the complete set of financial statements prepared in accordance with the International Financial Reporting Standards ("IFRSs") and should be read in conjunction with the latest audited financial statements of the Bank for the year ended on 31 December 2018 („annual statements“).

The selected notes of these condensed interim financial statements clarify events and transactions that are important for understanding the changes in the Bank's financial position and performance compared to the latest audited annual statements.

**2.2. Basis of measurement**

These condensed interim financial statements have been prepared on a historical cost, 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

Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Fair value is the price that would be received to sell 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 a liability, the 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.

More detailed disclosures on fair value measurement of financial assets and financial liabilities are presented in Note 25.

**2.3. Functional and presentation currency**

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

The official exchange rate of KM to the Euro (EUR) has been defined by the Law as KM 1.95583 = EUR 1. As required by the Law, the Bank is obliged to purchase and sell KM for EUR on demand, without any restrictions, within the BH territory, at the defined exchange rate.

**2. BASIS OF PREPARATION (CONTINUED)****2.4. Use of judgements and estimates**

The preparation of financial statements in conformity with IFRS requires Management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, as well as to disclose contingent assets and liabilities in these condensed interim financial statements and corresponding reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Changes in accounting estimates are recognized in the period in which the estimate is changed if the change affects only that period or in the period of change and future periods if the change affects both current and future periods.

Estimates and underlying assumptions are reviewed on an ongoing basis, and are based on the latest available reliable information and more experience in their implementation. Accordingly, the Bank has revised and changed the methodology for impairment of financial assets during the 2018 year in accordance with IFRS 9 and its compliance with practices in other central banks that apply IFRSs.

Starting from 1 January 2019, the Bank applies the new methodology for Probability of Default (PD) calculation which is one of three parameters for the expected credit loss calculation. From 1 January 2019, change in PD calculation is based on transitional matrices of rating agencies compared to 2018 when it was based on market indicators of credit risk i.e. Credit Default Swaps (CDS).

- More information about PD calculation method in 2019 and the effects of calculation change is disclosed in Note 24.1 and 24.1.1.

**2.5. Accounting policies**

Condensed interim financial statements have been prepared in accordance with the same accounting policies used in preparation of the latest annual statements.

In the reporting period there were neither cyclic nor periodical operational activities in the Bank's operations, all activities were done according to the subject and time of realisation on a going concern basis.

The significant assumptions made by the Management that are used in applying the Bank's accounting policies and the key sources of estimation uncertainty are the same as those described in the annual statements, except for the change in accounting estimate described in Note 2.4.

**2.6. Standards and Interpretations in issue not yet adopted**

There were no significant amendments of existing standards and interpretations published by the International Accounting Standards Board that are not yet effective compared to those disclosed in the latest annual statements.



## 3. NET INTEREST INCOME

In thousands of KM	For the period			
	01/07-30/09 2019	01/07-30/09 2018	01/01-30/09 2019	01/01-30/09 2018
Interest income arising from:				
Debt instruments at fair value through other comprehensive income (Note 13)	9,978	10,810	30,174	31,517
Effects of negative deposit interest rates on deposits from local commercial banks	3,210	1,451	7,220	4,270
Deposits with foreign banks	7	11	23	24
Other financial assets at amortised cost	4	7	12	23
<b>Total interest income</b>	<b>13,199</b>	<b>12,279</b>	<b>37,429</b>	<b>35,834</b>
Interest expense arising from:				
Effects of negative interest rates - Debt instruments at fair value through other comprehensive income (Note 13)	(3,354)	(3,616)	(9,828)	(10,144)
Effects of negative interest rates - Deposits with foreign banks	(3,441)	(2,744)	(9,212)	(7,974)
<b>Total interest expense</b>	<b>(6,795)</b>	<b>(6,360)</b>	<b>(19,040)</b>	<b>(18,118)</b>
<b>Net interest income</b>	<b>6,404</b>	<b>5,919</b>	<b>18,389</b>	<b>17,716</b>

The average effective yield on debt instruments at fair value through other comprehensive income amounted to 0.32% in the period 01/01 - 30/09/2019 (In the period 01/01 - 30/09/2018 amounted to 0.36%).

The average negative effective interest rate on deposits with foreign banks amounted to 0.41% in the period 01/01 - 30/09/2019 (In the period 01/01 - 30/09/2018 amounted to 0.42%).

Effects of negative interest rates from interest-bearing financial assets are the result of the negative interest rates calculated on deposits with foreign banks and debt instruments that could not be avoided according to current market circumstances.

Effects of negative interest rates from deposits with foreign banks include the amount of KM 7,272 thousand on term deposits and the amount of KM 1,940 thousand on demand deposits in the period 01/01 - 30/09/2019 (In the period 01/01 - 30/09/2018 included the amount of KM 6,282 thousand on term deposits and the amount of KM 1,692 thousand on demand deposits).

The base for calculation of interest on deposits from local commercial banks includes the total deposits of commercial banks on reserve accounts during the settlement period, which consists of required reserve amounts and excess above the required reserves.

The base for the required reserve calculation for commercial banks consists of deposits and borrowings regardless of fund currency expressed. Also, the unique required reserve rate of 10% is established to be applied by the Bank on the base for the required reserve calculation.



**3. NET INTEREST INCOME (CONTINUED)**

The Governing Board Decision as at 27 March 2019 amended the Decision on defining and maintaining the required reserves and defining the required reserves fee changing the amount of fee calculated at the exceed required reserves of banks. Starting from 1 May 2019, the fee on the amount exceeding required reserves is calculated by the rate that is applied on bank deposits by the European Central Bank. The Bank does not calculate fee on the required reserve amount.

Effects of negative interest rates on deposits from local commercial banks represent the result of negative interest rate on the amount exceeding the required reserve which amounted to 0.20% up to 30 April 2019. From 1 May 2019, the rate amounted to 0.40% and is additionally reduced to 0.50% after the Governing Board of the European Central Bank made decision of decreasing the deposit facility rate from -0.40% to -0.50% on 12 September 2019.

**4. NET FEE AND COMMISSION INCOME**

In thousands of KM	01/07-30/09	01/07-30/09	01/01-30/09	For the period
	2019	2018	2019	01/01/-30/09 2018
Fee and commission income:				
from local commercial banks	4,185	4,036	12,102	11,866
from services for the Government and other non-banking clients	325	272	914	858
	<b>4,510</b>	<b>4,308</b>	<b>13,016</b>	<b>12,724</b>
Fee and commission expenses:				
transactions with foreign banks	(164)	(159)	(478)	(473)
	<b>(164)</b>	<b>(159)</b>	<b>(478)</b>	<b>(473)</b>
<b>Net fee and commission income</b>	<b>4,346</b>	<b>4,149</b>	<b>12,538</b>	<b>12,251</b>

**5. NET REALISED GAINS FROM SALE OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**

In thousands of KM	01/07-30/09	01/07-30/09	01/01-30/09	For the period
	2019	2018	2019	01/01/-30/09 2018
Realised gains	-	123	143	356
Realised losses	-	-	-	-
<b>Net realised gains from sale of financial assets at fair value through other comprehensive income</b>	<b>-</b>	<b>123</b>	<b>143</b>	<b>356</b>

As at 30 September 2019, net realised gains from sale of financial assets at fair value through other comprehensive income include net amount comprising from closing balance in fair value reserves in the amount of KM 97 thousand and in provisions for expected credit losses in the amount of KM 46 thousand for debt instruments at fair value through other comprehensive income (As at 30 September 2018 it included net amount comprising from closing balance in fair value reserves in the amount of KM 78 thousand and in provisions for expected credit losses in the amount of KM 278 thousand).

CENTRAL BANK OF BOSNIA AND HERZEGOVINA

*Selected notes to the Condensed interim financial statements for the period ended 30 September 2019*

**6. NET FOREIGN EXCHANGE GAINS**

In thousands of KM	01/07-30/09	01/07-30/09	01/01-30/09	For the period
	2019	2018	2019	01/01/-30/09 2018
Gains from foreign exchange differences	218	180	537	570
Losses from foreign exchange differences	(42)	(52)	(268)	(479)
<b>Net gains</b>	<b>176</b>	<b>128</b>	<b>269</b>	<b>91</b>

**7. OTHER INCOME**

In thousands of KM	01/07-30/09	01/07-30/09	01/01-30/09	For the period
	2019	2018	2019	01/01/-30/09 2018
Dividend income	-	-	623	589
Income from grants	21	33	80	102
Other income	80	41	153	516
<b>TOTAL</b>	<b>101</b>	<b>74</b>	<b>856</b>	<b>1,207</b>

**8. PERSONNEL EXPENSES**

In thousands of KM	01/07-30/09	01/07-30/09	01/01-30/09	For the period
	2019	2018	2019	01/01/-30/09 2018
Salaries	2,772	2,739	7,527	7,465
Taxes and contributions	1,577	1,557	4,280	4,241
Other employee benefits	439	426	2,149	2,175
Net provisions for severance payments	10	-	17	(4)
<b>TOTAL</b>	<b>4,798</b>	<b>4,722</b>	<b>13,973</b>	<b>13,877</b>

**9. ADMINISTRATIVE AND OTHER OPERATING EXPENSES**

In thousands of KM	01/07-30/09	01/07-30/09	01/01-30/09	For the period
	2019	2018	2019	01/01/-30/09 2018
Maintenance costs	482	593	1,749	1,924
Expenses for production and design of banknotes and coins	490	438	1,366	1,313
Other administrative and operating expenses	871	816	2,501	2,597
<b>TOTAL</b>	<b>1,843</b>	<b>1,847</b>	<b>5,616</b>	<b>5,834</b>

**10. PROVISIONS FOR EXPECTED CREDIT LOSSES, NET**

In thousands of KM	01/07-30/09	01/07-30/09	01/01-30/09	For the period
	2019	2018	2019	01/01/-30/09 2018
Gains from expected credit losses:				
from financial assets subsequently measured at fair value through other comprehensive income	51	4,319	7,928	10,014
from deposits with foreign banks	960	3,136	4,269	6,347
from other financial assets	1	34	6	54
from Special drawing rights with the IMF	-	1	1	2
	<b>1,012</b>	<b>7,490</b>	<b>12,204</b>	<b>16,417</b>
Losses from expected credit losses:				
from financial assets subsequently measured at fair value through other comprehensive income	(99)	(3,619)	(289)	(18,681)
from deposits with foreign banks	(964)	(2,446)	(2,322)	(6,755)
from other financial assets	(1)	(10)	(6)	(29)
from Special drawing rights with the IMF	1	-	-	(1)
	<b>(1,063)</b>	<b>(6,075)</b>	<b>(2,617)</b>	<b>(25,466)</b>
<b>Net decrease / (increase) in provisions for expected credit losses</b>	<b>(51)</b>	<b>1,415</b>	<b>9,587</b>	<b>(9,049)</b>

**11. NET PROFIT FOR THE PERIOD**

In thousands of KM	01/07-30/09	01/07-30/09	01/01-30/09	For the period
	2019	2018	2019	01/01/-30/09 2018
<b>FINANCIAL RESULT BEFORE PROVISIONS FOR EXPECTED CREDIT LOSSES</b>	<b>3,762</b>	<b>3,035</b>	<b>10,792</b>	<b>10,066</b>
Provisions for expected credit losses, net:				
<i>Change in PD calculation</i>	-	-	9,821	-
<i>Additional net provisions during the period</i>	(51)	1,415	(234)	(9,049)
	<b>(51)</b>	<b>1,415</b>	<b>9,587</b>	<b>(9,049)</b>
<b>NET PROFIT FOR THE PERIOD</b>	<b>3,711</b>	<b>4,450</b>	<b>20,379</b>	<b>1,017</b>

The significant deviation of the quarterly and cumulative net profit in the comparative reporting periods is a consequence of the application of different PD calculations in measuring the expected credit losses. The change in PD calculation resulted in a one-time recognition of gains from expected credit losses in the amount of KM 9,821 thousand in profit or loss and reductions in provisions for expected credit losses for the respective classes of financial assets on 1 January 2019. More information about the effects of this change is disclosed in Note 24.1.1.

Except for this change, the Bank's financial result before provisions for expected credit losses is mainly unchanged compared to the same period last year.



**12. DEPOSITS WITH FOREIGN BANKS**

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

In thousands of KM	30 September 2019	31 December 2018
Term deposits:		
- EUR	2,307,092	2,118,444
Less impairment for expected credit losses	(460)	(2,064)
	<b>2,306,632</b>	<b>2,116,380</b>
Demand deposits:		
- EUR	666,751	788,997
- CHF	5,876	3,741
- USD	1,900	2,765
- GBP	24	36
Less impairment for expected credit losses	(129)	(471)
	<b>674,422</b>	<b>795,068</b>
<b>TOTAL</b>	<b>2,981,054</b>	<b>2,911,448</b>

Deposits with foreign banks, analysed by remaining maturity, are as follows:

In thousands of KM	30 September 2019	31 December 2018
Up to 1 month	853,142	777,266
From 1 to 2 months	369,301	349,106
From 2 to 3 months	988,133	583,230
From 3 to 4 months	96,516	155,532
From 4 to 12 months	-	253,310
<b>Total</b>	<b>2,307,092</b>	<b>2,118,444</b>
Impairment for expected credit losses	(460)	(2,064)
<b>TOTAL</b>	<b>2,306,632</b>	<b>2,116,380</b>

**13. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**

Debt instruments at fair value through other comprehensive income are quality debt securities with a high degree of marketability and liquidity, with a credit rating from AAA to BBB. The portfolio includes short-term and long-term debt securities with a fixed interest rate, which are issued by the governments of foreign countries. Debt instruments at fair value through other comprehensive income are denominated in EUR currency.

**13. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)**

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

In thousands of KM	30 September 2019	31 December 2018
Debt instruments	8,839,751	8,153,320
Accrued interest	74,108	72,119
<b>TOTAL</b>	<b>8,913,859</b>	<b>8,225,439</b>

Analysis of fair value changes of debt instruments at fair value through other comprehensive income during the reporting periods is provided in the following table:

In thousands of KM	01/07-30/09 2019	01/07-30/09 2018	01/01-30/09 2019	01/01/-30/09 2018
<b>Opening balance</b>	<b>8,547,188</b>	<b>8,179,345</b>	<b>8,225,439</b>	<b>7,473,857</b>
Purchases during the period	801,407	840,364	2,401,450	3,119,681
Sales during the period	-	(60,921)	(209,178)	(237,504)
Interest income recognized during the period (Note 3)	9,978	10,810	30,174	31,517
Effects of negative interest rates recognized during the period (Note 3)	(3,354)	(3,616)	(9,828)	(10,144)
Maturities of instruments	(462,970)	(381,388)	(1,638,707)	(1,744,498)
Maturities of coupon	(22,861)	(32,413)	(76,223)	(82,498)
Net change in fair value during the period	44,471	(59,394)	190,732	(57,624)
<b>Closing balance</b>	<b>8,913,859</b>	<b>8,492,787</b>	<b>8,913,859</b>	<b>8,492,787</b>

**14. MONETARY GOLD**

The Bank holds monetary gold with the bank in Switzerland which is physically held in a vault of the Bank of England. The fair value of monetary gold is expressed in EUR, converted at the fixed rate of KM at the reporting date, and it is measured at the last bid price for one ounce of gold (Oz) at the reporting date quoted on Reuters.

Fair value of the monetary gold as at 30 September 2019 amounts to KM 253,609 thousand, representing 96,000 ounces of gold at KM 2,642 per ounce (31 December 2018: KM 209,996 thousand representing 96,000 ounces of gold at KM 2,187 per ounce).

Analysis of fair value changes of monetary gold is provided in the following table:

In thousands of KM	01/07-30/09 2019	01/07-30/09 2018	01/01-30/09 2019	01/01/-30/09 2018
<b>Opening balance</b>	<b>232,734</b>	<b>201,252</b>	<b>209,996</b>	<b>203,858</b>
Net change in fair value during the period	20,875	(8,496)	43,613	(11,102)
<b>Closing balance</b>	<b>253,609</b>	<b>192,756</b>	<b>253,609</b>	<b>192,756</b>



**15. OTHER ASSETS**

In thousands of KM	30 September 2019	31 December 2018
Prepaid expenses	8,094	6,811
Receivables from domestic banks	1,603	1,735
Numismatic collections	835	741
Other miscellaneous assets	590	596
Giro accounts	554	553
Loans to employees	66	122
Advances	2	1
Receivables from employee based on domestic currency deficit	600	600
Less impairment of other receivables	(600)	(600)
Less impairment for expected credit losses	(5)	(5)
<b>TOTAL</b>	<b>11,739</b>	<b>10,554</b>

As at 30 September 2019, prepaid expenses include expenditure of KM 7,567 thousand incurred on the production of banknotes and coins (31 December 2018: KM 5,816 thousand incurred on the production of banknotes and coins).

**16. CURRENCY IN CIRCULATION**

In thousands of KM	30 September 2019	31 December 2018
<b>Opening balance</b>	<b>4,750,614</b>	<b>4,319,360</b>
Increase in currency in circulation during the period	363,592	431,254
<b>Closing balance</b>	<b>5,114,206</b>	<b>4,750,614</b>

**17. DEPOSITS FROM BANKS**

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

In thousands of KM	30 September 2019	31 December 2018
Deposits of local commercial banks	5,683,166	5,522,701
Reserve accounts of organizational units of the Bank	554	553
Special deposit of local commercial banks – blocked funds	36	36
<b>TOTAL</b>	<b>5,683,756</b>	<b>5,523,290</b>

**18. DEPOSITS FROM THE GOVERNMENT AND OTHER DEPOSITORS**

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

In thousands of KM	30 September 2019	31 December 2018
Deposits for the budget of BH Institutions	490,153	494,575
Deposits of other governments and government institutions	162,022	89,286
Deposits of public institutions	112,584	125,501
Deposit account under the IMF transactions	4	5
<b>TOTAL</b>	<b>764,763</b>	<b>709,367</b>

**19. OTHER LIABILITIES**

In thousands of KM	30 September 2019	31 December 2018
Supplies	3,266	1,036
IMF Accounts No. 1 and 2	1,679	1,628
World Bank deposits	832	184
Accrued expenses and other liabilities	604	177
Deferred income	87	167
Liabilities to employees	4	35
<b>TOTAL</b>	<b>6,472</b>	<b>3,227</b>

**20. EQUITY**

The structure of equity and reserves is presented in the following table:

In thousands of KM	30 September 2019	31 December 2018
Initial capital	25,000	25,000
General reserves (Retained earnings)	514,720	514,720
Other reserves	31,300	31,300
Fair value reserves – debt and equity instruments at fair value through other comprehensive income	324,331	133,696
Provisions for expected credit losses (Note 24.1.1)	1,307	8,993
Fair value reserves - monetary gold	49,751	6,138
Net profit for the period	20,379	-
<b>TOTAL</b>	<b>966,788</b>	<b>719,847</b>

**20. EQUITY (CONTINUED)**

Increase in the fair value of the Bank's financial assets (debt instruments and monetary gold) in the reporting period is the result of an increase in the market prices of financial assets held by the Bank in its portfolio.

Increase in market prices for debt instruments is a consequence of the negative change in expectations in the Eurozone and US financial markets related to economic growth and reference interest rates of leading central banks.

Increase in the market price of monetary gold is a consequence of increased uncertainty in global financial markets and increased geopolitical risks.

**21. CASH AND CASH EQUIVALENTS**

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

In thousands of KM	30 September 2019	30 September 2018
Foreign currency deposits with maturity up to three months or less from the date of acquisition	1,552,633	982,035
Foreign currency demand deposits	674,551	597,798
Foreign currency in cash	304,222	249,139
Giro accounts	554	276
Special Drawing Rights with the IMF	146	1,492
<b>Total</b>	<b>2,532,106</b>	<b>1,830,740</b>
Impairment for expected credit losses	(505)	(1,564)
<b>TOTAL</b>	<b>2,531,601</b>	<b>1,829,176</b>

**22. CURRENCY BOARD ARRANGEMENT**

The Law defines the operational rule "Currency Board" to be used for issuing KM, according to which KM is issued only with the purchase of convertible foreign exchange currency with full coverage in net foreign currency reserves.

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

**22. CURRENCY BOARD ARRANGEMENT (CONTINUED)**

Details of compliance with the rule are as follows:

In thousands of KM	30 September 2019	31 December 2018
<b>Gross foreign currency reserves</b>	<b>12,452,890</b>	<b>11,623,218</b>
Foreign currency in cash	304,222	274,099
Deposits with foreign banks	2,981,054	2,911,448
Debt instruments at fair value through other comprehensive income	8,913,859	8,225,439
Monetary gold	253,609	209,996
Special Drawing Rights with the IMF	146	2,236
Liabilities to non-residents	2,511	1,812
<b>Net foreign currency reserves</b> (Gross foreign currency reserves less liabilities to non-residents)	<b>12,450,379</b>	<b>11,621,406</b>
<b>Monetary liabilities</b>	<b>11,562,725</b>	<b>10,983,271</b>
Currency in circulation	5,114,206	4,750,614
Deposits from banks	5,683,756	5,523,290
Deposits from the Government and other depositors	764,763	709,367
<b>NET FOREIGN ASSETS</b> (Net foreign currency reserves less monetary liabilities)	<b>887,654</b>	<b>638,135</b>

**23. RELATED PARTY TRANSACTIONS**

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



**23. RELATED PARTY TRANSACTIONS (CONTINUED)**

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

In thousands of KM

30 September 2019

	<u>Exposure</u>	<u>Liabilities</u>
State	-	483,234
<i>State institutions:</i>		
BH Indirect Taxation Authority	-	75,480
BH Deposit Insurance Agency	-	151,704
<b>TOTAL</b>	<b>-</b>	<b>710,418</b>

In thousands of KM

31 December 2018

	<u>Exposure</u>	<u>Liabilities</u>
State	-	505,897
<i>State institutions:</i>		
BH Indirect Taxation Authority	-	45,635
BH Deposit Insurance Agency	-	90,975
<b>TOTAL</b>	<b>-</b>	<b>642,507</b>

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

*Remuneration of key management members*

The total remuneration of the members of the key personnel (members of Management and Governing Board) in the period 01/01 - 30/09/2019 amounted to KM 682 thousand, out of which KM 419 thousand was related to salaries and other remuneration and KM 263 thousand to taxes and contributions (In the period 01/01/ - 30/09/2018 out of total amount of KM 693 thousand the amount of KM 428 thousand was related to salaries and other remuneration and KM 265 thousand was related to taxes and contributions).



**24. FINANCIAL RISK MANAGEMENT**

Financial instruments which represent the Bank's exposure to financial risks (credit risk, market risks and liquidity risk) are:

- Foreign currency in cash,
- Deposits with foreign banks (central banks, commercial banks and BIS Bank Basel),
- Special drawing rights with the IMF,
- Debt instruments,
- Monetary gold,
- Equity instruments and
- Other financial assets (domestic banks' receivables, employees' loans and other receivables).

**24.1. Credit risk**

Credit risk is the risk of financial loss for the Bank if counterparty to a financial instrument fails to meet its contractual obligation and arises principally from the Bank's deposits with other banks and investments into debt instruments (foreign currency reserves). The management of this risk is performed through the selection of counterparties with sound credit ratings assigned by internationally recognized rating agencies, by limiting the maturity, and by controlling the volume and the dynamics of investment.

Composite credit rating is the average of current ratings assigned to a certain entity by at least two out of three rating agencies (Fitch, Standard and Poor's and Moody's). The credit ratings are monitored on a daily basis.

From 1 January 2019, the Bank applies a new PD calculation methodology based on transition matrices. PD represents an assessment of the probability that an issuer will not be able to meet its debt obligations. PD amounts are calculated on the 12-month and lifetime basis. Starting from 1 January 2019, PD estimates are based on historical default rate data according to transition matrices. Estimates are made in accordance with Regulation 575/2013 of the European Parliament and of the Council from 26 June 2013 (CRR), based on historical default rate data contained in corporate transition matrices. Certain adjustments to PD estimates, if necessary, are made for exposures to foreign countries (foreign central banks and governments). For foreign country exposure, the need and degree of estimated PD modification are determined by the relationship between the historical default rate (composite credit rating levels of BB+, BB, and BB-) and the estimated default probabilities for the corresponding equivalent composite credit ratings of countries. PD estimates by composite credit rating levels are additionally adjusted in accordance with the composite credit outlook, taking into account IFRS 9 requirements to include all reasonable and substantiated information, including those related to the forward-looking information. In the case of a positive outlook, estimated PD is reduced by a certain percentage, and in the case of a negative outlook, the estimated PD is increased by a certain percentage.

## 24. FINANCIAL RISK MANAGEMENT (CONTINUED)

## 24.1. Credit risk (continued)

## 24.1.1. Credit risk exposure

The following table shows the reconciliation from the opening to the closing balance of the loss allowance for financial assets in the reporting periods:

In thousands of KM

	2019				2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
<b>1. Debt instruments at fair value through other comprehensive income</b>								
As at 1 January	8,993	-	-	8,993	4,290	-	-	4,290
Change in PD calculation (Note 2.4)	(7,704)	-	-	(7,704)	-	-	-	-
Increases due to change in credit risk	288	-	-	288	18,681	-	-	18,681
Decreases due to change in credit risk	(78)	-	-	(78)	(9,510)	-	-	(9,510)
Decreases due to debt instruments matured	(146)	-	-	(146)	(505)	-	-	(505)
<i>Net (decrease) / increase during the period</i>	<i>(7,640)</i>	<i>-</i>	<i>-</i>	<i>(7,640)</i>	<i>8,666</i>	<i>-</i>	<i>-</i>	<i>8,666</i>
Decreases due to debt instruments sold	(46)	-	-	(46)	(278)	-	-	(278)
<b>As at 30 September</b>	<b>1,307</b>	<b>-</b>	<b>-</b>	<b>1,307</b>	<b>12,678</b>	<b>-</b>	<b>-</b>	<b>12,678</b>
<b>2. Deposits with foreign banks</b>								
As at 1 January	2,535	-	-	2,535	1,635	-	-	1,635
Change in PD calculation (Note 2.4)	(2,117)	-	-	(2,117)	-	-	-	-
Increases due to change in credit risk	2,323	-	-	2,323	6,755	-	-	6,755
Decreases due to change in credit risk	(153)	-	-	(153)	(1,755)	-	-	(1,755)
Decreases due to derecognition of term deposits	(1,999)	-	-	(1,999)	(4,592)	-	-	(4,592)
<b>As at 30 September</b>	<b>589</b>	<b>-</b>	<b>-</b>	<b>589</b>	<b>2,043</b>	<b>-</b>	<b>-</b>	<b>2,043</b>

## 24. FINANCIAL RISK MANAGEMENT (CONTINUED)

## 24.1. Credit risk (continued)

## 24.1.1. Credit risk exposure (continued)

	2019				2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
<b>3. Special drawing rights with the IMF</b>								
As at 1 January	-	-	-	-	-	-	-	-
Change in PD calculation	-	-	-	-	-	-	-	-
Increases due to change in credit risk	-	-	-	-	2	-	-	2
Decreases due to change in credit risk	-	-	-	-	(2)	-	-	(2)
As at 30 September	-	-	-	-	-	-	-	-
<b>4. Other financial assets</b>								
As at 1 January	5	-	600	605	30	-	600	630
Increases due to change in credit risk	6	-	-	6	29	-	-	29
Decreases due to change in credit risk	(6)	-	-	(6)	(54)	-	-	(54)
As at 30 September	5	-	600	605	5	-	600	605
<b>Total opening balance as at 1 January</b>	<b>11,533</b>	<b>-</b>	<b>600</b>	<b>12,133</b>	<b>5,955</b>	<b>-</b>	<b>600</b>	<b>6,555</b>
Total change in PD calculation	(9,821)	-	-	(9,821)	-	-	-	-
Total net increases due to change in credit risk	189	-	-	189	8,771	-	-	8,771
<b>Total closing balance as at 30 September</b>	<b>1,901</b>	<b>-</b>	<b>600</b>	<b>2,501</b>	<b>14,726</b>	<b>-</b>	<b>600</b>	<b>15,326</b>

## 24. FINANCIAL RISK MANAGEMENT (CONTINUED)

## 24.1. Credit risk (continued)

## 24.1.2. Credit risk concentration

## a) Maximum exposure to credit risk - financial instruments subject to impairment

The following table shows the maximum exposure to credit risk for the 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 2019				31 December 2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
<b>Foreign currency in cash</b>								
Gross carrying amount	304,222	-	-	304,222	274,099	-	-	274,099
Loss allowance	-	-	-	-	-	-	-	-
<b>Carrying amount</b>	<b>304,222</b>	<b>-</b>	<b>-</b>	<b>304,222</b>	<b>274,099</b>	<b>-</b>	<b>-</b>	<b>274,099</b>
<b>Deposits with foreign banks</b>								
Gross carrying amount	2,981,643	-	-	2,981,643	2,913,983	-	-	2,913,983
Loss allowance	(589)	-	-	(589)	(2,535)	-	-	(2,535)
<b>Carrying amount</b>	<b>2,981,054</b>	<b>-</b>	<b>-</b>	<b>2,981,054</b>	<b>2,911,448</b>	<b>-</b>	<b>-</b>	<b>2,911,448</b>
<b>Debt instruments at fair value through other comprehensive income</b>								
Gross carrying amount	8,913,859	-	-	8,913,859	8,225,439	-	-	8,225,439
Provisions for expected credit losses (recognized in other comprehensive income)	(1,307)	-	-	(1,307)	(8,993)	-	-	(8,993)
<b>Carrying amount</b>	<b>8,913,859</b>	<b>-</b>	<b>-</b>	<b>8,913,859</b>	<b>8,225,439</b>	<b>-</b>	<b>-</b>	<b>8,225,439</b>
<b>Special drawing rights with the IMF</b>								
Gross carrying amount	146	-	-	146	2,236	-	-	2,236
Loss allowance	-	-	-	-	-	-	-	-
<b>Carrying amount</b>	<b>146</b>	<b>-</b>	<b>-</b>	<b>146</b>	<b>2,236</b>	<b>-</b>	<b>-</b>	<b>2,236</b>
<b>Other financial assets</b>								
Gross carrying amount	2,529	-	600	3,129	2,693	-	600	3,293
Loss allowance	(5)	-	(600)	(605)	(5)	-	(600)	(605)
<b>Carrying amount</b>	<b>2,524</b>	<b>-</b>	<b>-</b>	<b>2,524</b>	<b>2,688</b>	<b>-</b>	<b>-</b>	<b>2,688</b>



**24. FINANCIAL RISK MANAGEMENT (CONTINUED)****24.1. Credit risk (continued)****24.1.2. Credit risk concentration (continued)****b) Maximum exposure to credit risk - financial instruments not subject to impairment**

In thousands of KM	30 September 2019	31 December 2018
<b>Carrying amount</b>		
Monetary gold	253,609	209,996
Other investments	27,813	27,813
<b>TOTAL</b>	<b>281,422</b>	<b>237,809</b>

**24.2. Market risk**

The Bank monitors and manages both currency and interest rate risk as the basic market risks. Currency risk is a risk arising from decline of the value of the financial instruments denominated in foreign currency due to changes in exchange rates. The interest rate risk denotes a risk from reducing the market value of the financial instruments due to unfavourable movements of interest rates. The market risk management is performed by setting quantitative limits for foreign assets risk exposure acceptable for the Bank and they are monitored on a daily basis. The objective of market risk management is to manage and control market risk exposures with acceptable parameters, while optimising the return.

For the purpose of quantifying the market risk effects on the foreign currency reserves value, the Bank applies the Value at Risk (VaR) concept. VaR represents a statistical methodology for assessing the maximum change in the foreign currency reserves value arising from differences in the financial instruments prices and the foreign exchange rates given a certain level of confidence and a particular time horizon. The Bank, when calculating VaR, applies a level of confidence of 99% and a 10-day horizon, as recommended in the Basel II Standard.

The fluctuation of the prices of the instruments and the foreign exchange rates are determined according to the historical changes in the prices and the foreign exchange rates for instruments and currencies comprising the foreign currency reserves at the end of the month.

As at 30 September 2019, the exposure of the foreign currency reserves managed by the Bank (VaR at a level of confidence of 99% for a 10-day horizon), in terms of fluctuations of the prices of instruments and foreign exchange rates against the KM equals to KM 25,894 thousands (2018: KM 37,739 thousand), or 0.22% of the total financial assets (2018: 0.32% of the total financial assets). VaR originates from the change in the prices of instruments in which the foreign currency reserves are invested, including change in the EUR price of monetary gold. There were no term deposits with foreign banks neither debt investments denominated in non-EUR currencies as at 30 September 2019, hence the Bank has no exposure to currency risk.



**24. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**24.2. Market risk (continued)**

**24.2.1. Foreign exchange risk**

The Bank is exposed to foreign exchange risk through transactions in foreign currencies. This is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign exchange exposure arises from activities related to deposits and debt instruments.

The control and management of the foreign exchange risk is based on the strict adherence to the provisions of the Law and the Foreign Currency Reserves Investment Guidelines of the Bank.

The above framework defines the limits for holding assets and liabilities in each foreign currency. The biggest part of monetary assets is held in EUR, and the maximum amount that can be held in other convertible currencies, subject to the changes in the market rate, must not exceed 50% of the total amount of the Bank's equity.

Taking into account the very low exposure to the foreign exchange risk due to holdings of major monetary assets in EUR currency, foreign exchange risk is not considered to be significant risk for the Bank.

**24.2.2. Interest rate risk**

The Bank's exposure to market risk for changes in interest rates is concentrated in its investment portfolio. The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest earning assets and interest bearing liabilities mature or re-price at different time or in different amounts.

The Bank is exposed to interest rate risk through investment of foreign currency reserves. The Bank manages its foreign currency reserves with the aim to minimize interest rate risk. The investments bear different interest rates, depending on the time period of the investment, with the maximum term of investment being one year for deposits and ten years for debt instruments.

**24.3. Liquidity risk**

Liquidity risk refers to the possible difficulties in liquidating a portion of assets quickly, possibly in a situation where market conditions are unfavorable and also with adverse price movement.

Liquid assets are defined as those assets whose conversion into cash causes minimal transaction costs and whose value is the closest to market value.

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

The liquidity framework should match the forecasted potential liquidity needs with identified liquid instruments. The liquidity of each financial instrument eligible for investment must be duly considered before the investment in the instrument is made.

**25. FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES****25.1. Financial assets measured at fair value**

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

The following table analyses financial assets measured at fair value at reporting dates, by the level in the fair value hierarchy. These amounts are based on the values recognised in the statement of financial position using the quoted prices on active markets that correspond to hierarchy level 1 at the reporting dates.

In thousands of KM

30 September 2019

	Level 1	Level 2	Level 3	Total
<b>Financial assets measured at fair value</b>				
Debt instruments	8,913,859	-	-	8,913,859
Monetary gold	253,609	-	-	253,609
<b>TOTAL</b>	<b>9,167,468</b>	<b>-</b>	<b>-</b>	<b>9,167,468</b>

In thousands of KM

31 December 2018

	Level 1	Level 2	Level 3	Total
<b>Financial assets measured at fair value</b>				
Debt instruments	8,225,439	-	-	8,225,439
Monetary gold	209,996	-	-	209,996
<b>TOTAL</b>	<b>8,435,435</b>	<b>-</b>	<b>-</b>	<b>8,435,435</b>

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

## 25.2. Financial assets and financial liabilities not measured at fair value

In thousands of KM

	30 September 2019	
	Carrying amount	Fair value
<b>Financial assets</b>		
<i>Financial assets measured at amortized cost:</i>		
Foreign currency in cash	304,222	304,222
Deposits with foreign banks	2,981,054	2,974,312
Special Drawing Rights with the IMF	146	146
Other financial assets	2,524	2,524
<i>Other investments</i>	27,813	27,813
<b>Total</b>	<b>3,315,759</b>	<b>3,309,017</b>
<b>Financial liabilities</b>		
<i>Financial liabilities measured at amortized cost:</i>		
Currency in circulation	5,114,206	5,114,206
Deposits from banks	5,683,756	5,672,096
Deposits from the Government and other depositors	764,763	763,194
Other financial liabilities	5,784	5,784
<b>Total</b>	<b>11,568,509</b>	<b>11,555,280</b>

In thousands of KM

	31 December 2018	
	Carrying amount	Fair value
<b>Financial assets</b>		
<i>Financial assets measured at amortized cost:</i>		
Foreign currency in cash	274,099	274,099
Deposits with foreign banks	2,911,448	2,904,460
Special Drawing Rights with the IMF	2,236	2,236
Other financial assets	2,688	2,688
<i>Other investments</i>	27,813	27,813
<b>Total</b>	<b>3,218,284</b>	<b>3,211,296</b>
<b>Financial liabilities</b>		
<i>Financial liabilities measured at amortized cost:</i>		
Currency in circulation	4,750,614	4,750,614
Deposits from banks	5,523,290	5,512,943
Deposits from the Government and other depositors	709,367	708,038
Other financial liabilities	2,893	2,893
<b>Total</b>	<b>10,986,164</b>	<b>10,974,488</b>

**26. BOSNIA AND HERZEGOVINA MEMBERSHIP WITH THE INTERNATIONAL MONETARY FOND**

According to arrangements concluded between BH and the IMF signed in December 2002, the Bank is designated as a fiscal agent and depository for the BH membership with the IMF. The Bank's role as a fiscal agent is specific due to Currency board arrangement. The Bank acts on behalf of BH in dealing with the IMF but does not have any responsibility for assets and liabilities related to the membership.

The 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 Bank also provides a custody service for BH promissory notes issued to support IMF membership and repurchase obligations that are recorded off-balance.

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

In thousands of KM

	30 September 2019	31 December 2018
Quota	649,395	629,809
Special drawing rights with the IMF	146	2,236
<b>TOTAL ASSETS</b>	<b>649,541</b>	<b>632,045</b>
IMF account No.1	1,623	1,575
IMF account No.2	55	53
Securities	958,116	1,042,166
SDR allocation	393,962	382,080
Accrued interest on SDR allocation	612	685
Accounts of payable charges	1,003	1,601
<b>TOTAL LIABILITIES</b>	<b>1,355,371</b>	<b>1,428,160</b>
<b>BH NET POSITION WITH THE IMF</b>	<b>705,830</b>	<b>796,115</b>

Promissory notes account, 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 holding are revalued based on the prevailing SDR exchange rate. These valuation adjustments are included in corresponded account balances.



**27. OFF-BALANCE SHEET ITEMS**

The Bank maintains certain accounts in foreign currencies related to agreements concluded between the governments of Bosnia and Herzegovina and foreign governments and financial organizations. As these accounts do not represent either assets or liabilities of the Bank, they have not been included within the 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 Bank acts as an agent.

Off-balance sheet items consist of:

In thousands of KM	30 September 2019	31 December 2018
Deposits of USAID	2,497	3,042
<b>Deposits of non-residents</b>	<b>2,497</b>	<b>3,042</b>
Deposits of the Council of Ministers of BH:	16,373	30,964
<i>Deposits of the Council of Ministers of BH on the basis of succession</i>	188	44
<i>Deposits of the Council of Ministers of BH regarding the servicing of foreign debt</i>	15,119	9,227
<i>Deposits of the Council of Ministers of BH regarding the Budget of BH institutions</i>	1,037	1,543
<i>Other deposits of the Council of Ministers of BH</i>	29	20,150
Deposits of other residents:	5,621	4,048
<i>Deposits - Retirement allowance from Germany</i>	238	12
<i>Deposit accounts of banks</i>	5,383	4,036
<b>Deposits of residents</b>	<b>21,994</b>	<b>35,012</b>
Investments related to securities – Deposit Insurance Agency of BH	66,229	37,499
<b>Investments of residents related to securities</b>	<b>66,229</b>	<b>37,499</b>
<b>TOTAL</b>	<b>90,720</b>	<b>75,553</b>

**28. POST-REPORTING DATE EVENTS**

Presidency of Bosnia and Herzegovina decisions on dismissal of the Bank's Governing Board members Trivo Marinković M.sc. and Ljubiša Vladošić Ph.D. have been enforceable from 4 October 2019, pending the final completion of judicial proceeding by the Court of Bosnia and Herzegovina.

**29. APPROVAL OF THE CONDENSED INTERIM FINANCIAL STATEMENTS**

These condensed interim financial statements have been approved by the Governing Board of the Bank on 31 October 2019.

Head of Accounting and Finance Department



Edis Kovačević M.Sc.

Chairman of the Governing Board



Senad Softić Ph.D.