

CENTRALNA BANKA
BOSNE I HERCEGOVINE



ЦЕНТРАЛНА БАНКА
БОСНЕ И ХЕРЦЕГОВИНЕ

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СВБИХ

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OPERATIONAL RISKS

Financial risks management in the CBBH

The Central Bank of Bosnia and Herzegovina (CBBH) is exposed to various types of risks that may have adverse effects on the bank's operations. The CBBH's task is not to avoid risks, but to manage the risks professionally. The risk management process involves identifying, measuring and assessing risks in order to minimize their negative effects on the bank's financial result and capital. In the CBBH, the Risk Management Department is a specific organizational form within the Sector for Monetary Operations, Cash and Foreign Currency Reserves Management, and it is responsible for the risk management process. Most

of the activities of this organizational form are related to the process of managing foreign currency reserves. In the process of managing foreign currency reserves, the CBBH is exposed to various financial risks: credit risk, liquidity risk, market risk and other risks (settlement risk, custodian risk, operational risk and legal risk). Credit risk is the risk of default or failure of the other party to fulfill contractual obligations. The CBBH is exposed to credit risk through investments in deposits with foreign commercial banks, the Bank for International Settlements (BIS) and national central banks and investments in fixed income securities. The CBBH's monetary liabilities must always be covered by foreign currency assets, so it applies very cautious approach when assuming credit risk. Credit risk restriction is possible through the selection of counterparties or financial instruments with high credit rating, or by setting limits on the amounts that can be invested with an individual counterparty or in certain types of financial instruments. Credit risk management in the CBBH is accomplished by limiting the volume of financial instruments or limiting counterparties and issuers to those with acceptable credit ratings; defining limits on the concentration of investment in each individual counterparty, limiting the maximum amount of investment in each type of financial instrument, the size of the issue of an individual security and the maturity of the investment. Liquidity risk refers to possible difficulties in the rapid liquidation of a part of assets due to adverse market conditions or undesirable price movements in the financial market. Liquidity risk management involves providing cash on a foreign currency basis for a short period of time and at an acceptable cost. In countries that apply the currency board arrangement, foreign currency reserves are particularly exposed to liquidity risk because of the need for the full convertibility of the domestic currency to foreign and vice versa. In the structure of foreign currency reserves of numerous central banks, there is a liquid portfolio



consisting of the most liquid financial instruments. Due to the need to guarantee KM convertibility, the CBBH provides day-to-day liquidity by maturity adjustment of foreign currency reserves while constantly monitoring current and projected future cash flows. The amount invested in financial instruments that provide daily liquidity, the amount that can be invested in a single fixed income security, the maximum remaining maturity are strictly defined. The liquidity needs are continuously monitored and analyzed for the purpose of adequate management and verification that the level of liquidity needs is well

assessed in respective period. Market risk is the risk that changes in market prices, such as interest rates, prices of financial assets and foreign exchange rates, will affect the bank's income or the value of investments in financial instruments. The objective of market risk management is to control and manage risks within acceptable parameters in order to optimize earnings. The CBBH is exposed to foreign currency and interest rate risk as the most important components of market risk. Interest rate risk is the risk of a change in the net market value of fixed income portfolios due to adverse interest rate movements. The CBBH is exposed to interest rate risk by investing foreign currencies reserves in deposits and debt instruments, which, depending on the investment period, carry different interest rates. This risk is managed by determining the acceptable duration of deposits and the maturity of the securities to be invested in. The longer the maturity of financial instruments in which foreign currency reserves are invested, the greater risk of their market value changing. Foreign currency risk is the risk of changes in the value of foreign currency assets and liabilities due to changes in the exchange rate. The CBBH is exposed to foreign exchange risk through transactions in foreign currencies. Changes in the exchange rate of the local currency to currencies in the portfolio of foreign reserves have the effect of reducing the value of foreign reserves denominated in domestic currency relative to foreign currency liabilities in the domestic currency. Foreign currency risk management is done by adjusting the currency structure of assets and liabilities. Given that the CBBH foreign currency assets are predominantly in euro and the maximum amount that can be held in other convertible currencies subject to exchange rate fluctuations must not exceed 50% of the total CBBH's unimpaired capital and reserves, foreign currency risk exposure is strictly limited.

ORGANIZED BY THE APRMBH

Expert seminar on recovery plans

On 7 June 2019, the Association of Professional Risk Managers in Bosnia and Herzegovina (APRMBH), in cooperation with Ernst & Young Belgrade, held in Sarajevo a one-day expert seminar on topic „Recovery Plans“ in accordance with the latest requirements and regulations of the European Union (EU), with the participation of 55 representatives of the banking and financial sector in Bosnia and Herzegovina. In his introductory speech, Denis Hasanić, the Member of the Governing Board addressed the participants on behalf of the APRMBH, while the representatives of the Ernst & Young Belgrade with many years of experience in the banking and financial sector were the lecturers. In accordance with the latest requirements and regulations of the EU, during 2017, the local regulator the Banking Agency of the Federation BiH adopted the regulatory framework for recovery plans in the form of the Decision on bank and bank group recovery plans and the Guidelines for the evaluation of recovery plans. In September 2018, the banks started to make their first recovery plans, and since 2019 the Banking Agency of the Federation BiH began the evaluation of recovery plans.

Establishing recovery plans

The recovery plan should ensure the maintaining or restoring financial stability and sustainability in problem situations, when lack of capital, or liquidity problems pose key threats to business continuity, ie business sustainability. The institution is expected to have consistency and coherence between the internal capital adequacy assessments (ICAAP), i.e. liquidity adequacy (ILAAP) and recovery plans, including the early warning signals and recovery indicators, escalation procedures and potential management action. The potential management actions within the ICAAP and ILAAP should be reflected without delay in the recovery plan and vice versa. The recovery plan must be consistent with the overall risk management of the bank and contain a detailed description of the indicators and description of decision-making procedures for implementing the specific response measure.

The indicators in the recovery plan and their role

The indicators in the recovery plan reveal possible vulnerabilities, weaknesses or threats for various fields of business. These are quantitative and qualitative financial data on a banks financial position, which determine when an appropriate recovery plan measure can be taken. If the indicators reach a certain threshold, then appropriate recovery options should be taken in order to maintain or restore sustainable business and satisfactory financial position. The indicators should be easy to follow, clearly defined, subject to regular review, by nature and number in accordance with the banks proportion, established by risk management system and business model of the bank. There are four mandatory indicators in the recovery plan: the capital indicators (regulatory capital adequacy rate, regular Tier 1 capital rate,

financial leverage rate); the liquidity indicators (maturity match of financial assets and liabilities up to 30 days; maturity match of financial assets and liabilities up to 90 days; maturity match of financial assets and liabilities up to 180 days; liquidity coverage ratio (LCR); net stable financing ratio (NSFR)); the profitability indicators (return on assets (ROA); return on equity (ROE); significant operational risk losses); the asset quality indicators (share of non-performing loans in total loans; growth rate of non-performing loans; coverage of non-performing loans with value adjustments); and there are two optional categories of indicators: macroeconomic indicators –changes of GDP, sector trends etc.; market indicators - exchange rate changes, real estate market, credit rating changes, stock price, P/B ratio, CDS for the bank etc.

Options and recovery measures

The recovery measures are a set of one or more management activities or strategies the bank should take and are defined by a recovery plan and are designed to maintain or restore financial stability in case of financial disruption situation. The recovery options represent one or more activities, agreements, measures or strategies of a bank or banking group covered by the recovery plan and are used to restore sustainable business operations of the bank or banking group in the situations of serious financial disruption, and their main goal is to ensure sustainability of key functions and core business lines. A wide range of recovery options should respond to situations of significant disruption of the bank's financial position, and their use should allow the restoration of sustainable operations and adequate financial position. The European Central Bank (ECB) recommends not to limit recovery options to the ones that are easy to implement and not to exclude recovery options that involve change in business. Certain recovery options can affect the bank's key business activities and business model. Key business activities include business activities and related services that represent a material source of income, profit or franchise value for the bank or the group that the bank belongs to. In recovery plan, the planned business activities contain a review of projected values of the balance sheet positions and the basic business indicators and enable establishing the connection with the identified key business activities and key/critical functions. The most frequently identified critical functions of the banks are: current account of households; loans to households – housing loans and loans secured by mortgage, payment transactions, corporate loans, corporate deposits, and to a lesser extent, car loans and agricultural loans.

Stress scenario

The bank carries out a stress test, in order to evaluate the impact and feasibility of the recovery options and suitability of indicators used in the recovery plan. There is a number of scenarios of serious financial disruption in different hypothetical situations, where systemically significant banks and those with net balance sheet assets higher than KM 500 million must use at least three scenarios, while other banks may use only one scenario. The scenario can be systematic, specific and combined. The bank should explain in details if any of the scenarios is not applicable. The stress test is conducted at least once a year, and the scenario must be based on



events that are most relevant to the bank or banking group, ie. exceptional but possible. Reverse stress testing is the starting point for developing „near-default“ situations, that is, situations where a bank or banking group’s business model would become unsustainable if recovery measures were not successfully implemented. Some of the events that would represent a systematic scenario are: termination of counterparty’s operations that would affect the country’s financial stability, decrease in available liquidity, increased sovereign risk and capital outflow from a country where a significant portion of the bank’s exposure is located, adverse real estate price changes. Specific scenario events could be: termination of the operations of a counterparty significant to the bank, significant outflow of the bank’s liquid assets, significant losses due to the bank’s placement and / or operational risk, reputation of the bank or banking group being disturbed.

Communication plan

The plan of reporting inside the bank on the implementation of the recovery plan includes reporting to: members of the bank’s management board, the bank’s governing board, heads of organizational units of the bank, employee representatives and other internal reporting. The plan of reporting to third parties on the implementation of the recovery plan includes reporting to: shareholders and other investors, depositors, relevant institutions, other contracting parties and the public. The main objectives of the communication plan are to provide timely and accurate information to all relevant participants in the process in order to minimize the potential reputation risk and to avoid negative implications, both internally and externally. In addition, the communication plan should allow compliance with the legal regulations governing the area.

Deficiencies and material disadvantages

Identification of deficiencies and materiality is an expert judgement of the regulatory body. The regulator seeks to determine whether there are deficiencies, and then assesses materiality, with the material deficiency being a disadvantage that is giving rise to serious doubts about the effectiveness of the recovery plan. If there are no deficiencies, the grade will be “completely satisfactory” or “satisfactory - with minor improvement”. If there are deficiencies, the grade is “unsatisfactory - with significant improvements” or “completely unsatisfactory - with significant improvements”.



REGULATIONS

Banking system and Basel III

Sound and resilient banking system is the basis for sustainable economic development. After the financial crisis in the first decade of this century, it has been noticed that the banking systems were not capable to adequately absorb shocks which caused the spillover effect from the financial to the real sector. One of the main reasons for the economic and financial crisis which started in 2007, is that the banking systems of many countries had created excessive off-balance sheet exposure. All this was followed by the gradual decrease in the level and quality of the capital base. At the same time, the banks did not have adequate liquidity reserves to absorb losses. Problems in the banking system soon spread to the rest of the financial system, resulting in a strong decrease in liquidity and availability of funding sources. Thus, the crisis prompted a detailed revision of banking regulations at national, European and global level. At the global level, the existing Basel II was revised and Basel III was introduced. The Basel III is an international set of measures developed by the The Basel Committee on Banking Supervision, as a response to the financial crisis 2007-2009. The framework for banking operation was tightened, the regulations became extremely demanding and has been continually improving. Basic goals of the new reform were to increase the ability of banking system to absorb shocks, maintain continuous lending to the real economy, improve banking supervision, improve the process of risk management and improve the banking management system. The Basel III will reduce the bank’s ability to assume too much risk, or limit systemic risk. To implement the Basel III, the transitional period was required from 2011 to the end of 2018, and its full implementation started on 1 January 2019. The Basel III regulations contain several important changes related to the structure of the bank’s capital. The essence of these capital requirements is not only that banks need to have more capital, but to have a better quality capital. In the near future, these requirements could lead to the decline in the banking system’s profitability. In order to comply with the EU regulations, the process of reforms to improve the regulatory framework in Bosnia and Herzegovina was started. New regulations cover a period of over ten years since they have been in effect in the EU. In April 2017, New Law on Banks was announced in the FBH, and in the end of 2017, decisions and instructions of the FBH Banking Agency in the risk management area were announced. During 2018, the reform process was continued in BH, so supplements were made in the existing regulatory requirements related to internal assessments of the banks’ liquidity adequacy. The transition process is extremely demanding, both for commercial banks and the regulators. To adequately respond to all regulatory requirements, the banks will need to invest significantly in the development of new tools, processes, specialist training for employees.

PROJECTS

CBBH: Harmonization of payment systems with the EU standards

On June 3, 2019, the Central Bank of Bosnia and Herzegovina (CBBH) commenced the operation of a new gyro clearing payment system. The new gyro clearing system is aligned with the SEPA (Single Euro Payment Area) rules used in the European Union (EU) and with ISO 20022. This represents a significant step in the modernization of the CBBH payment systems, replacing the old gyro clearing system that operated eighteen years and five months without interruption. The messages and formats used in this payment system are fully aligned with the messages and formats used in the SEPA area, thus making a step forward and a precondition for integration of the CBBH payment systems into the EU payment systems. This advanced payment system processes credit transfers, i.e. interbank transactions with a value of up to KM 10,000.00. The gyro clearing upgrade project involved several phases, where commercial banks showed a high level of responsibility and competence, which resulted in participants' readiness and system functionality in the very beginning of the system operation. The CBBH will continue to follow up with trends in the future and modernize payment systems of Bosnia and Herzegovina, with the aim of aligning them to European standards and integrating them into European trends.

CONFERENCES AND MEETINGS

Economic and financial dialogue between the European Union and the countries of the Western Balkans and Turkey

On 17 May 2019, the regular annual Economic and Financial Dialogue between the European Union (EU) and the countries of the Western Balkans and Turkey was held in Brussels, the Kingdom of Belgium. The meeting was dedicated to the dialogue on economic policies and the progress of the implementation of the Economic Reform Program (ERP). Through this process, candidate countries and potential candidates from the Western Balkans and Turkey have been enabled to have a dialogue and common conclusions on economic, fiscal and structural measures with EU institutions in a very similar way as the EU member states. In his speech, the Governor of the Central Bank of Bosnia and Herzegovina (CBBH) Senad Softić, Ph.D., emphasized the importance of this process and the fact that progress is being made in implementing the ERP, despite the fact that the process involves simultaneous implementing of multiple reforms the results of which must be in line with EU regulations. The Governor said that during this period, the CBBH actually has made several steps to implement recommendations from previous joint conclusions, including the development of new statistical categories and analytical tools, and the improvement of the analytical framework for forecasting. „Results are generally in line with previous estimates, where we expect steady, but moderate growth with some acceleration of over 3% in the next three years. These growth rates are encouraging, but also our economic performance significantly depends on external developments. Private consumption remains the main growth driver, but we also have gradual increase in investment rate”, Governor said and added: “Stable monetary policy and stable financial system should be supportive for better economic performance, and we are very committed to work in this direction. The existing monetary arrangement works very well, and our financial system is getting stronger.” The Governor explained that the monetary and fiscal policy are

not sufficient by themselves, but in order to increase citizens' standards it is necessary to continue with the implementation of structural reforms. One of the topics at the meeting was stimulating the inflow of foreign direct investments, where Governor Softić emphasized that the potentials of Bosnia and Herzegovina were also recognized during the EBRD's Annual Meeting and Business Forum, held recently in Sarajevo, which was very successful, among other things, in terms of promoting and attracting future investments in Bosnia and Herzegovina. Also, current practices show that most foreign investors remain in Bosnia and Herzegovina and reinvest the profits from previous investments, which is a sign of improvement of business environment. At the end of his presentation, the Governor thanked to the EU institutions, the European Central Bank (ECB) and the European System of Central Banks (ESCB) for generous professional and financial assistance, without which it would be very difficult to implement the process of necessary reforms. Representatives of the countries of the EU, the Western Balkans and Turkey, as well as, representatives of the European Commission (EC) and the ECB participated in the dialogue.

The Summit of the Governors, Finance Ministers and Directors of Tax Authorities of the countries in the region

On 14 June 2019, the Governor of the Central Bank of Bosnia and Herzegovina (CBBH), Senad Softić, Ph.D. participated in the Summit of Governors, Finance Ministers and Directors of Tax Authorities of the countries from the region, which was held in Bečići, Montenegro. This year's theme of the Summit was „The Financial and Monetary Stability of the Region under Slow Economic Growth in the Euro Zone“. During his presentation, in the session entitled „Monetary Policy and the Stability of the Banking Systems in Terms of Low Inflation and Interest Rates,“ the Governor placed a special emphasis on the need for coordination between monetary and fiscal policy, and on the importance of permanent structural reforms with a special focus on the reform of labor market and educational system. Speaking about the impact of the monetary policies of the FED and the



European Central Bank (ECB) on the countries of the region, Governor Softić pointed out that the ECB has a particularly high impact on the region. The CBBH has recently made a decision to change the negative interest rate on excess liquidity of commercial banks in order to bring them in line with those of the ECB. Analyzing the current policies of the ECB and the FED, all panelists agreed that it is very difficult to predict when the low interest rates' era could end. Accordingly, the Governor emphasized, central banks must act proactively in addressing potential risks together with other participants in the financial stability network. One of the topics of the discussion was the role of international financial institutions, especially the International Monetary Fund (IMF). Governor Softić said that this institution is ally to central banks in preserving the stability of the financial system, and as part of the cooperation, the central banks receive significant technical assistance, and he pointed out that, regardless of the program and cooperation with the IMF, all responsibility for the implementation of programme measures is on local institutions. Speaking about the challenges that central banks would face in the medium and long term future, the Governor stressed that the key challenge central banks would face is preservation of the independence, as well as the confidence of the public, which implies confidence in a stable currency and a stable financial system. In addition, the pressure on the central bank's capital should be mentioned, which is a consequence of poor conditions for financing in international markets, lasting for several years now. Also, monetary authorities are facing potentially huge changes brought by the digitization of finances. However, it is necessary to keep the focus on the core functions of central banks, Mr. Softić, Ph.D., concluded.

CBBH Governor at the „Trade Facilitation Program“ held within the EBRD Annual Meeting



On 7 May 2019, the Governor of the Central Bank of Bosnia and Herzegovina (CBBH) Senad Softić, Ph.D., held the introductory speech at the Trade Facilitation Program (TFP) held within the Annual Meeting of the Board of Governors of the European Bank for Reconstruction and Development (EBRD), hosted by Bosnia and Herzegovina, this year. Speaking about the TFP itself, the Governor of the CBBH pointed out that during its 20 years of existence the program recorded many achievements, and that its concept met the positive feedback of financial industry representatives and end users. The exceptional results have

been achieved in fields of education, policy dialogue, networking opportunities and in the field of trade transactions supported by the program - specifically, over 23,000 transactions in the total value of EUR 19 billion. The TFP supports trade in 28 countries where the EBRD operates, and has supported almost 800 transactions in Bosnia & Herzegovina in total value of over EUR 71 million. There are currently three active partner banks in Bosnia & Herzegovina under the program. The Governor stressed that there is large space for improvement in trade between Bosnia and Herzegovina and the regions being in the TFP focus, and that it is especially important to pay attention to closer trade integration of the Central and Eastern European region, especially in the light of global trade disputes. Presenting data on the financial market in Bosnia and Herzegovina, Governor Softić pointed out that the financial system in Bosnia and Herzegovina, bank centric, in the past decade continually evolved with positive indicators related to its stability and profitability. Although most indicators and trends related to the financial sector are positive, the CBBH and other relevant institutions in Bosnia and Herzegovina must constantly monitor developments and trends, in order to have prepared responses to possible challenges brought by financial innovations, such as fintech, growing cyber risks, use of artificial intelligence in financial intermediation, and the appearance of crypto currencies. “The biggest challenge ahead will be to achieve the balance between the risks brought by financial innovations on one hand, and the provision of adequate space for the potentials of these innovations to develop, on the other hand, in order to achieve the general welfare of society“, stressed Governor Softić, emphasizing that continuous activities on the harmonization of regulations and practices with those implemented in the European Union (EU) should not be left out, which is one of the commitments of Bosnia and Herzegovina on the path towards the full EU membership. This year's gathering, which represents the largest trade finance event held in Bosnia and Herzegovina so far, focused on the latest global trends and the development in trade finance, bringing together over 200 representatives of financial institutions and organizations, 150 of them from 51 countries.

The IMF/WB Dutch –Belgian Constituency Meeting MMF/SB

The Governor of the Central Bank of Bosnia and Herzegovina (CBBH) Senad Softić, Ph.D., attended a meeting of the International Monetary Fund/World Bank Dutch-Belgian Constituency Meeting held from 21 to 23 June 2019 in Skopje, Northern Macedonia. The meeting consisted of panels and discussions on relevant economic issues.



FINANCIAL EDUCATION

Through regulated channels to faster and safer money transfer: remittances from abroad

In recent years, the Central Bank of Bosnia and Herzegovina (CBBH) has launched, both independently and in cooperation with partner organizations, a series of activities to raise financial education and inclusion of the population of Bosnia and Herzegovina. The reason why the CBBH insists on putting this topic into focus, is because the CBBH chairs the Standing Committee on Financial Stability and coordinates the activities of the Entity Banking Agencies, and thus plays a significant role in maintaining financial stability in the country. All the above mentioned bodies, with the addition of the Deposit Insurance Agency of Bosnia and Herzegovina, make the financial stability network in the country, and within their mandate are obliged to do everything to maintain that stability. One of the increasingly significant segments of these activities is financial education and inclusion, as a precondition for the population to make rational financial decisions. These activities result in providing additional stability to the whole system. The activities on improving cooperation with the media, which the CBBH considers the most important intermediary in the process of informing and raising awareness of the public, are the integral part of this process. The financial education is related to many segments of money management and use of financial services, and this time the focus will be on remittances from abroad, as a current issue for the citizens and the economic perception of Bosnia and Herzegovina. Speaking about remittances, the presentation of the results of survey conducted by the World Bank, supported by the Swiss Government, on topic of financial habits of the senders and recipients of remittances, was held in Gradačac in the end of April. Although the survey was conducted on a limited sample, it showed that the remittances are regular and very significant source of income for their users. However, many citizens of Bosnia and Herzegovina are not enough financially included, and thus receive remittances from abroad from family and friends only in cash, although all banks in Bosnia and Herzegovina offer international payment services through opened accounts. Also, the use of a mobile or internet banking is nowadays increasingly necessary, assuming that person has an account with a bank and without this it is more and more difficult to imagine the life of a modern

man. The survey found that the price, speed, safety and affordability of the money transfer services are the key factors that influence the decision on how money will be sent, through regulated or unregulated channels. Although 70 % of respondents said that regulated channels have more advantages than unregulated ones, nevertheless 50 % said they are not using regulated channels regularly. In order to change this ratio in favor of regulated channels, commercial banks can have a major role as expanding of their offers can help streamline sending money through regulated channels. By opening the account with the bank, the client gets the possibility of the international money transfers, enabled by the IBAN, which is used for the unique identification of an account. By introducing the IBAN, or the international standard for account numbering, banks in Bosnia and Herzegovina are enabled to join the system of automatic processing of foreign currency payment orders within the European Union. The benefits are obvious. However, reluctance to abandon habits, fear of new technologies, financial illiteracy and insufficient transparency of information on ways of providing services are common reasons for senders and recipients to select cash. Also, a large number of citizens who participated in survey did not understand the other basic financial terms, possibilities and benefits of using accounts, the way the payment system functions, which opens the possibility for financial services providers to better, more transparently and affordably promote the service of money transfer through an account. This brief overview on only one isolated segment points out how important it is to know and understand the basic terms on financial services available on the market, and how much financial literacy is necessary condition for safe, economical and smart disposal of one's own money.

In addition to the planned activities on financial education of remittance users, in cooperation with the World Bank project for remittances and payments, the CBBH is currently implementing the activities on financial education and inclusion in cooperation and with the support of the European Fund for Southeast Europe – Development Facilities (EFSE DF).



STATISTICS

The statistics of the other financial institutions sector in BH

Within its regular statistics, the Central Bank of Bosnia and Herzegovina (CBBH) has published statistical data for the end of 2018, on the size and structure of the balance sheets of financial institutions which are part of the Sector of Other Financial (Non-banking) Institutions (OFI). The OFI statistics in BH at the end of 2018 includes the data for 26 insurance companies with a reinsurance company, 35 investment funds, 7 leasing companies, 25 microcredit organizations, 8 brokerage houses and 2 stock exchanges. The total assets of the OFI sector in BH, on December 31,



2018, amounted to KM 4.15 billion and increased by KM 283.6 million or 7.3 % compared to the end of 2017. The largest share in the assets of the OFI sector is taken by insurance companies – the assets of KM 1.92 billion (the share of 46.2 % of this sector), followed by microcredit organizations with the assets of KM 951.1 million (22.9 %), investments funds with the assets of KM 894.6 million (21.5 %), leasing companies with the assets of KM 369.2 million (8.9 %), and the remaining KM 19.1 million (0.5 %) is related to brokerage companies and stock exchanges. At the annual level, the increase of the assets of the OFI sector was under the strongest impact of the increase of the assets of the microcredit organizations by KM 101.45 million and that of insurance companies by KM 100.9 million, while leasing companies and investment funds recorded lower increases – KM 43.6 million and KM 36.3 million. In the structure of the assets of the OFI sector, loans (with the share of 25.8 %) and deposits (23.8 %) have the largest shares, and they are followed by the investments in stocks (15.1 %), investments in securities (13.4 %), non-financial assets (12.8 %), and the remaining 9.1 % refers to other claims. In the structure of the liabilities of the OFI sector, the capital accounts (with the share of 42.1 %) are dominating, followed by the technical reserves of insurance (31.3 %), loans (17.3 %), and the remaining 9.5 % are the accounts of other claims. Nearly the same structure of the balance sheet of the OFI sector was recorded at the end of 2017, only loans recorded growth in total in the balance sheet at the end of 2018 by about 1.5 %, both in the assets and liabilities, due to increase in lending to the household sector by the microcredit organizations. During the previous five years, the OFI sector has been recording positive annual growth rates, ranging from 1 % to 7.3 %, which means that the growth accelerated in 2018. Despite this growth of non-banking institutions, the banks remained dominant because they accounted for 88.7 % of the total financial sector assets. This statistics is available on a semi-annual basis until 2018, and from 2019 the statistics of the OFI sector will be collected on quarterly basis. The statistics of the OFI sector has been adjusted to the international methodology defined by the IMF. By applying this methodology, it is possible to calculate all segments of the financial sector in a unique manner, since a unique method of valuation and classification is applied for all the financial institutions.

RESPONSE

The CBBH operates according to the constitutional and legal authorities

With purpose of correct information for the public, related to the statements on the competences of the Central Bank of Bosnia and Herzegovina (CBBH) with regard to payment systems, the CBBH informed the public on the facts related to this issue. The CBBH operates according to the constitutional and legal competences and none of its activities is aimed at taking over the competences of other institutions or bodies. On 05 January 2001, the CBBH has established the platform for the settlement of interbank payment transactions for giro clearing (GC) and real time gross settlement (RTGS), according to the Law on the Central Bank of Bosnia and Herzegovina (the Law) – Article 2 paragraph 3 and Article 7 paragraph 1 under b). Only the settlements of interbank payment orders are carried out through payment systems, and the legal regulations which fall within the competences of the Entities regulate the payment transactions carried out only in commercial banks. According to the Law, the CBBH maintains the payment system platforms and regulates the way of their use through the operative rules for GC and RTGS. With regard to this, the Governing Board of the CBBH has made a decision, the purpose of which is the full adjustment of the payment system platform to the European Union (EU) standards, i.e. the adjustment of the GC system in BH to the GC system in the EU (SEPA – the Single Euro Payment Area). The operative rules regulate the way of communication, equipment, formats in which messages are delivered in the system. The CBBH monitors the actions of the participants (commercial banks) in these systems only according to the defined rules, so that the system could function. The CBBH has not performed and does not perform the control or supervision of commercial banks in the internal payment system, and it is not its intention to do so in the future.

COMBATING CORRUPTION

Continuous training of the CBBH officials in preventing corruption

Within the 2018 – 2019 Anti-Corruption Plan of the Central Bank of Bosnia and Herzegovina (CBBH), one of the planned activities is the continuous training of employees regarding corruption prevention issues. In this regard, a manual “Combating Corruption and Creating Integrity Plans in Public Enterprises” (previously downloaded from the web page of the Agency for the Prevention of Corruption and Coordination of the Fight against Corruption) was submitted to the CBBH employees. The manual points to generally applicable basic principles and standards in combating corruption.



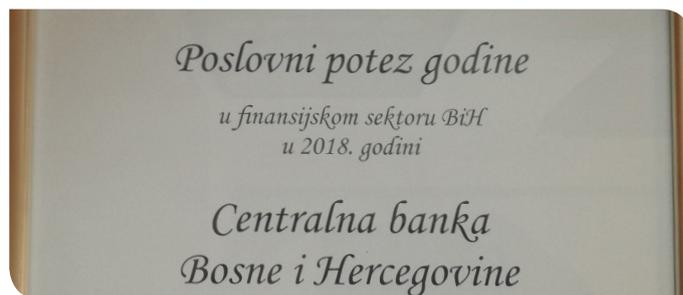
AWARDS

The CBBH awarded for financial sector business action of 2018



On 26 June 2019, the award ceremony for „The Business Action of the Year 2018” was held, when the Central Bank of Bosnia and Herzegovina (CBBH) was awarded for the financial sector business action of the year for the upgrade of the Single Registry of Business Entities’ Accounts in Bosnia and Herzegovina. During the ceremony, organized by the portal Indikator.ba and the Chamber of Economy of the Federation of Bosnia and Herzegovina, which was held in the premises of the Foreign Trade Chamber of BiH, the awards were presented in several business areas. On the occasion of this award receiving, the CBBH Governor Senad Softić, Ph.D., in his speech thanked for the award and recognition of the CBBH contribution. „The CBBH is doing a lot of things that are of general interest, and all the improvements, which, at first glance, are not completely evident to the average citizen, contribute to the stability of the financial system. One of these areas is the maintenance of payment systems, which are the important parts of the financial infrastructure. Therefore,

we are happy and proud when the professional community and the expert public recognize our contributions”, said Governor Softić. In 2004, the CBBH established the Registry of Transactions Accounts of Legal Entities. Since 1 November 2018, it was upgraded to the Single Registry of Business Entities’ Accounts in Bosnia and Herzegovina, on a new platform and with new functionalities. The upgraded Registry has brought new technology solutions, more data and new functionalities. The innovation is that all accounts of legal entities are now in the Registry, whereas previously it only contained transaction accounts. Furthermore, the Registry is based on a real-time operation, which implies that the data are collected continuously during working hours and are processed as such. This implies that they are more up-to-date than in the previous Registry, and this is very important, bearing in mind that the data from the Registry are essential for banks, tax authorities, administration bodies, law enforcement agencies and other levels of government when disclosing financial structures and transactions that companies and individuals can use in illegal manner. The Registry also provides information to all legal and physical entities who have to ask for forced debt collection through authorized institutions. Also, a very important news is that institutions and authorities of all levels of government have the possibility of direct access to the Registry via the Internet.



VISITS

Students of the French International School CIFS of Sarajevo and the university from Austria visited the CBBH

On 12 June 2019, students from the French International School CIFS of Sarajevo visited the Central Bank of Bosnia and Herzegovina (CBBH). Within the activities on financial education and inclusion implemented by the CBBH in cooperation with and supported by the European Fund for Southeast Europe - Development Facility (EFSE DF), an adequate presentation was made for the students. Head of the Office of Governor Almir Salihović, M.Sc., informed the pupils on the role and importance of the CBBH, while Hata Begić, from the Association for Responsible Personal Financial Management “U plusu”, gave the presentation that was a basis for the pupils to acquire additional knowledge and skills on managing their money, savings and basic characteristics of commonly used financial products in Bosnia and Herzegovina. Students from the University of Applied Sciences in Eisenstadt (Austria) also visited the CBBH on 20 June 2019, and were hosted by Vice Governor Milica Lakić, Ph.D. The CBBH is extremely pleased with the fact that, besides students and pupils from Bosnia and Herzegovina, students from universities abroad show interest in the work of this institution.



COMPETITIONS

16th Bankers sports gathering held

On 13-16 June 2019, 36 employees of the the Central Bank of Bosnia and Herzegovina (CBBH) participated in the 16th Bankers sport gathering organized by the Banks Association of Bosnia and Herzegovina (BABH) in Teslić. This year, the same as in earlier years, the employees of the CBBH achieved remarkable results, the second place in men volleyball and third place in men table tennis, while the futsal, basketball and bowling teams ended their competing in quarterfinals. Berislav Kutle, the President of the BABH, announced the closing of the 16th Bankers sport gathering, with results as it follows:

WINNERS OF VIP COMPETITIONS:

VIP TENNIS DOUBLES:

VLADO POŠTIĆ, Deposit Insurance Agency of Bosnia and Herzegovina and ŽELIMIR DURSUN, Banking Agency of Republika Srpska

VIP TENNIS SINGLES:

DRAGOSLAV ĐUROVIĆ, MF Banka Banja Luka

VIP BOWLING:

1. HERIBERT FERNAU, Raiffeisen bank, member of the managment
2. IGOR JOVIČIĆ, Nova banka, member of the managment
3. UGUR OZYIGIT, Ziraat bank, member of the managment

COMPETITIONS

BASKETBALL

Women:

1. NOVA BANKA AD BANJA LUKA
2. RAIFFEISEN BANK DD BH
3. UNICREDIT BANK AD BANJA LUKA

Men:

1. UNICREDIT BANK AD BANJA LUKA
2. NOVA BANKA AD BANJALUKA
3. RAIFFEISEN BANK DD BH

BOWLING

Women:

1. BANKING AGENCY OF RS
2. SPARKASSE BANK DD BiH
3. BANKING AGENCY OF FEDERATION BiH

Men:

1. SPARKASSE BANK DD BiH
2. RAIFFEISEN BANK DD BH
3. UNICREDIT BANK DD MOSTAR

VOLEYBALL

Women:

1. UNICREDIT BANK AD BANJALUKA
2. SPARKASSE BANK DD BiH
3. THE REPUBLIC OF SRPSKA INVESTMENT-DEVELOPMENT BANK

Men:

1. INTESA SANPAOLO BANKA DD BiH
2. CENTRAL BANK OF BOSNIA AND HERZEGOVINA
3. UNICREDIT BANK AD BANJALUKA

TABLE TENNIS

Women:

1. ZIRAAT BANK DD BiH
2. UNICREDIT BANKA DD MOSTAR
3. ADDIKO BANKA

Men:

1. SPARKASSE BANK DD BiH
2. NOVA BANKA AD BANJA LUKA
3. CENTRAL BANK OF BOSNIA AND HERZEGOVINA

CHESS

Women:

1. BOSNA BANK INTERNATIONAL DD SARAJEVO
2. UNICREDIT BANK DD MOSTAR
3. RAIFFEISEN BANK DD BiH

Men:

1. ADDIKO BANK
2. BOSNA BANK INTERNATIONAL DD SARAJEVO
3. RAIFFEISEN BANK DD BiH

FUTSAL:

1. UNICREDIT BANK DD MOSTAR
2. NOVA BANKA AD BANJA LUKA
3. MF BANKA AD BANJA LUKA

FAIR PLAY TROPHY

PRIVREDNA BANKA DD SARAJEVO

OVERALL WINNER:

1. NOVA BANKA AD BANJA LUKA
2. RAIFFEISEN BANK DD BiH
UNICREDIT BANK DD MOSTAR
3. UNICREDIT BANK AD BANJA LUKA
4. SPARKASSE BANK DD BiH



CBBH and European integrations

As it is known, on 29 May 2019, the European Commission (EC) published the Opinion on Bosnia and Herzegovina's application for membership of the European Union (EU), with accompanying analytical report in which the EC has analyzed the current situation and, among other things, stated priorities that Bosnia and Herzegovina must work on, on its path to the EU accession.

Chapter 17: Economic and Monetary Policy: The acquis in the area of economic and monetary policy require the independence of central banks, prohibiting them to directly finance the public sector. Member States are expected to coordinate their economic policies and are subject to fiscal and broader economic and financial surveillance.

„The monetary policy has contributed to maintaining stability, based on the currency board arrangement as a key factor in stability. At the same time, the currency board arrangement implies that the burden of adapting to external shocks must be allocated to other strategic areas, in particular to fiscal policy. Central Bank independence must be safeguarded and maintained. Although monetary policy has so far supported economic stability, significant additional efforts and intensifying preparatory activities need to be made for Bosnia and Herzegovina to participate in the third phase of economic and monetary union as an exempt Member State”.

Opinion on Bosnia and Herzegovina's application for membership of the European union (EU) and Analytical report

After completing the activity of drafting the response to the EC Questionnaire, largely contributed by the Central Bank of Bosnia and Herzegovina (CBBH), the CBBH's further task in the EU accession process is to continue to align and converge with EU standards in all segments of central banking. The obligation to adjust and meet a range of interrelated legal and economic criteria is a major challenge all central banks are facing in the EU accession process. In this process, the CBBH has strong support of the EC and the European System of Central Banks (ESCB), which through technical cooperation and the transfer of expertise, help the CBBH in preparing for accession to the ESCB when Bosnia and Herzegovina enters the EU.

The regional programme „Strengthening the Central banks Capacities in the Western Balkans with a View to the Integration to the European System of Central Banks“ within the macro programme „Improving the economic governance and competitiveness“ funded by the EU IPA II

On 26 March 2019, the German federal bank (Deutsche Bundesbank), together with 17 national central banks from the ESCB and the European Central bank (ECB), started the programme funded by the EU, and in favor of the central banks and supervisory bodies from Albania, Bosnia and Herzegovina, Montenegro, North Macedonia, Serbia and

Kosovo in accordance with the United Nations Security Council Resolution 1244. The final beneficiaries of the programme are the Bank of Albania, CBBH, the Banking Agency of the Federation BiH (FBA), the Banking Agency of Republika Srpska (ABRS), the Central Bank of the Republic of Kosovo, the Central Bank of Montenegro, the National bank of the Republic of North Macedonia and the National Bank of Serbia. The EU allocated two million euros from its Instrument of Pre-Accession Assistance (IPA II) for the implementation of the activities in programme during 24 months. The programme is implemented by the ESCB through coordinated approach and the presidency of the Deutsche Bundesbank. The national banks partners in the programme are: the National Bank of Belgium, the National Bank of Bulgaria, the Czech National Bank, The Bank of Greece, the Bank of Spain, the Bank of France, the Croatian National Bank, the Bank of Italy, the Bank of Lithuania, the Hungarian National Bank, the Bank of the Netherlands, the National Bank of Austria, the National Bank of Poland, the Bank of Portugal, the National Bank of Romania, the Bank of Slovenia and the National Bank of Slovakia, and also the Central Bank of Ireland and the Central Bank of Luxembourg which were subsequently included in the programme with the unanimous decision of all members of the Programme Steering Committee (PSC)

The programme management structure

The PSC, including the Deutsche Bundesbank, the national central banks partners on this programme, eight institution of end users and the EC, monitor progress, provide guidance and make decisions. The PSC plays a decisive role in the programme management, as well as in further development of the content of the activities. The PSC is chaired by the programme manager from the Deutsche Bundesbank. The meetings of the PSC are held quarterly. The programme is a continuation of earlier successful programmes of the ESCB and is designated for candidate and potential candidate countries from the Western Balkans covered by the IPA Regulation. The aim of the programme is to additionally strengthen the institutional capacities of the central banks in the Western Balkans and the two Banking Agencies in Bosnia and Herzegovina in charge of bank supervision, the FBA and the ABRS, notably by further enhancing their analytical and policy tools and by transferring the best international and European standards into national practices. The programme represents the continuation of the tradition of technical cooperation programmes funded by the EU for the central banks in the Western Balkans, including the first programme the CBBH realized back in 2007. On 4 April 2019, the European Integrations Department held the presentation of the programme aiming to raise awareness of the importance of EU programmes, inform the management and the employees of the CBBH on key topics, activities, obligations and administrative-financial procedures in the programme.

The programme is structured in two components.

The modalities of the component 1 are related to:

✓ Seminars and education (20 seminars during the implementation period). The trainings are focused on banking supervision, financial stability, protection of users of financial services and financial inclusion, recovery and resolution, monetary policy, payment systems,



statistics, compliance and the EUthe EU integrations, governing policies, accounting and internal audit.

✓ High-level workshops designed for decision makers will cover: non-performing loans and the methods of their resolution, as well as the issues of governance (i.e. the central bank independence, communication between the government and the central bank).

✓ Since the beginning of the implementation until the mid-September 2019, eleven employees of the CBBH participated in seminars, in the following areas: a) Financial inclusion and consumer protection; b) Statistics; c) Accounting; d) Financial stability. In the forthcoming period (September-October 2019), the seminars for seven employees of the CBBH are planned, in the areas of: a) Payment systems; b) EU integrations. In accordance with the indicative training plan, a Monetary Policy area seminar is planned to be held by the end of the year.

Considering that the programme is based on the Conclusions and Recommendations of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey, adopted on 17 May 2019 by the ECOFIN: *Preserve the integrity of the currency board arrangement and the independence of the central bank in order to maintain the monetary stability. Strengthen the analytical and forecasting capacities of the central bank and develop a set of instruments through the establishment of a survey on bank's lending activities and inflation expectations*, the component 2 of the programme is related to the direct bilateral support to the CBBH from the Austrian National Bank in realization of the „Survey on bank's lending activities“.

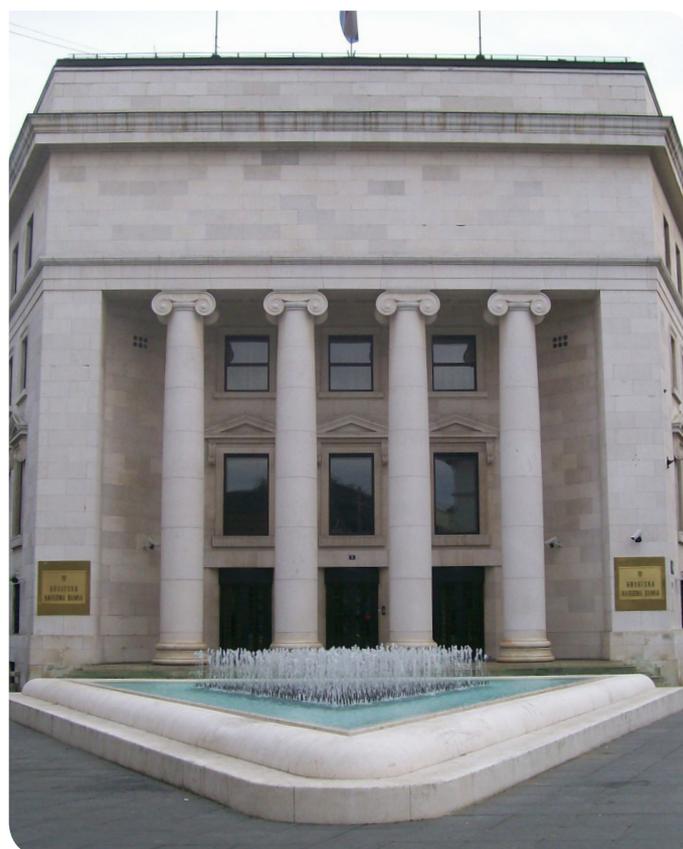
The seminars and education within the EU regional programme „Strengthening the Central banks Capacities in the Western Balkans with a View to the Integration to the ESCB“

- ✓ Excellent perception by end users – seminar participants
- ✓ Adequate combination of lectures and interactive assignments
- ✓ Exchange of knowledge and experience
- ✓ Strengthening the network of contacts

The education „Statistics I“

Within the regional EU programme, on 7-9 May 2019, the education „Statistics I“, organized by the Deutsche Bundesbank and Centre for International Central Bank Dialogue Programm, was held in the Croatian National Bank (CNB). Nevena Ćosić, Emina Milišić and Milica Krajišnik from the Department for Statistics and Publications of the Central Bank of Bosnia and Herzegovina (CBBH) attended the education. The priority topics were based on the ECB methodology: financial accounts statistics, monetary statistics, interest rates statistics, government finance statistics and securities statistics, based on experiences from practice of Bulgarian, Austrian, Croatian and Czech National Banks. Following topics were covered:

getting to know the CNB's unique, highly structured reporting system for monetary statistics and supervision, the Austrian integrated data model, the production of multidimensional data sources in primary statistics and delineation of responsibility for development of the bottom-up FA production approach, production of the financial accounts in Austria, registry of institutions (RIAD), Bulgarian experience, multiple use of the registry of institution and reporting to ECB RIAD, realignment of micro data with existing statistics – the case of the securities statistics (issuing and holding of securities) of the CNB, review of the financial sector in Bulgaria. Also, the compilation of the insurance companies statistics was covered: integrated approach, monetary statistics, interest rates statistics and LTIR – methodology, compilation and dissemination, the MFI interest rates statistics based on the data gathering system of the CNB, improvement of quality of government finance statistics data with the optimization of production system within the national statistics institutions, practical impact of rescheduled loans in the MIR statistics of Czech Republic. The presentations were professional and helpful with the active discussion of all participants, the experts were available for questions, and the CNB proved to be a good host and organizer. The seminar is useful in terms of learning on the experiences and practices in specific areas of statistics (financial accounts statistics, monetary statistics, interest rates statistics, government finance statistics and securities statistics) of the regional central banks that are already members of the ESCB. Considering the status of our country, as well as plans for future activities on the development of the CBBH's statistics in terms of functioning in relation to the ECB, the seminar provided basic guidelines for continued work on the development of mentioned statistics. 



The seminar in accounting

On 11-13 June 2019, a seminar on accounting regulations applied in the central banks following the ECB Accounting Guideline, was held at the National Bank of Romania in Bucharest. The seminar was organized by the Deutsche Bundesbank within the programme „Strengthening the Central banks Capacities in the Western Balkans with a View to the Integration to the ESCB“. On behalf of the CBBH the seminar was attended by Tamara Gavrić, Expert – Financial Analyst and Controller, and Maja Vuković, Senior Specialist for Salaries, Taxes and Contributions, both from the Accounting and Finance Department in the Head Office of the CBBH, and Azra Bajraktarević, Senior Specialist for General and Administrative Operations from the Section for Accounting, General and Administration Affairs in the CBBH Sarajevo Main Unit. The representatives of the central banks of Romania, Slovenia and Poland, who are also heads of the accounting-financial sectors, were the lecturers at this three-day seminar. The seminar was divided in two sections, theoretical and practical, and was attended by the representatives of the central banks still applying the International Financial Reporting Standards (IFRS). The lecturers informed the participants about accounting regulations in accordance with the ECB accounting guidelines, and compared it with the IFRS. The accounting treatments of business transactions specific for the central banks only (monetary gold, IMF transactions) were analyzed. The organization of the accounting function and the IT system as a support to this function were presented, and different modes of operation in regional central banks were compared. On the third day, the structure of financial statements and the method of financial reporting under the ECB accounting guidelines were introduced to the participants. The preparation of financial statements on a daily basis on prescribed forms and its submission to the ECB so that the liquidity status of the euro system could be determined at any time, was particularly important. In accordance with the Law on the CBBH, the CBBH is obliged to apply the ISFR and the asymmetric approach in treating the unrealized losses and profits as well as the central banks of the ESCB. During the seminar, the experiences were exchanged with other participants and lecturers, and challenges and areas for improving the business processes of the accounting function, especially in the segment of automating the operational activities through a highly developed IT support system were identified. New knowledge and contacts acquired with other central banks representatives will contribute to further strengthening of capacities in this area and the improvement of business processes. These findings served as a solid base for understanding the many necessary steps that the CBBH will need to take on this issue when Bosnia and Herzegovina actively begins to take steps towards joining the EU community.



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CBBIH INFO

May-June