

**CENTRAL BANK OF BOSNIA AND HERZEGOVINA**

**CONDENSED INTERIM FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 31 MARCH 2019**

**(unaudited)**

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

**Sarajevo, 25 April 2019**

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## STATEMENT OF PROFIT OR LOSS

In thousands of KM (unaudited)	Note	1.1. - 31.3. 2019	For the period 1.1. - 31.3. 2018
Interest income		11,904	11,619
Interest expense		(5,996)	(5,670)
<b>NET INTEREST INCOME</b>	<b>3</b>	<b>5,908</b>	<b>5,949</b>
Fee and commission income		4,048	4,053
Fee and commission expenses		(155)	(162)
<b>NET FEE AND COMMISSION INCOME</b>	<b>4</b>	<b>3,893</b>	<b>3,891</b>
Net realised gains from sale of financial assets at fair value through other comprehensive income	5	143	233
Net foreign exchange gains / (losses)	6	42	(216)
Other income		54	460
<b>OPERATING INCOME</b>		<b>10,040</b>	<b>10,317</b>
Personnel expenses	7	(4,217)	(4,210)
Administrative and other operating expenses	8	(1,773)	(2,059)
Depreciation and amortisation		(600)	(523)
<b>OPERATING EXPENSES</b>		<b>(6,590)</b>	<b>(6,792)</b>
<b>FINANCIAL RESULT BEFORE PROVISIONS FOR EXPECTED CREDIT LOSSES</b>		<b>3,450</b>	<b>3,525</b>
Provisions for expected credit losses, net	9	9,696	(670)
<b>NET PROFIT FOR THE PERIOD</b>		<b>13,146</b>	<b>2,855</b>

The accompanying notes on pages 7 to 28 are an integral part of these condensed interim financial statements.

## STATEMENT OF COMPREHENSIVE INCOME

In thousands of KM (unaudited)	Note	For the period 1.1. - 31.3. 2019	1.1. - 31.3. 2018
NET PROFIT FOR THE PERIOD		13,146	2,855
Other comprehensive income			
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Debt instruments at fair value through other comprehensive income			
Net change in fair value during the period	11	80,625	(5,167)
Net change in provisions for expected credit losses	19.1.1.	(7,661)	80
Reclassification to profit or loss	5	(143)	(233)
		<u>72,821</u>	<u>(5,320)</u>
Monetary gold			
Net change in fair value during the period	12	6,252	(1,765)
		<u>6,252</u>	<u>(1,765)</u>
Total other comprehensive income / (loss)		79,073	(7,085)
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE PERIOD		<u>92,219</u>	<u>(4,230)</u>

The accompanying notes on pages 7 to 28 are an integral part of these condensed interim financial statements.

## STATEMENT OF FINANCIAL POSITION

In thousands of KM (unaudited)	Note	31 March 2019	As at 31 December 2018
<b>ASSETS</b>			
Foreign currency in cash		286,166	274,099
Deposits with foreign banks	10	2,672,546	2,911,448
Debt instruments at fair value through other comprehensive income	11	8,298,348	8,225,439
Monetary gold	12	216,248	209,996
Special Drawing Rights with the IMF		30	2,236
Other assets		9,782	10,554
Property and equipment		44,210	44,677
Intangible assets	-	1,465	1,342
Other investments		27,813	27,813
<b>TOTAL ASSETS</b>		<b>11,556,608</b>	<b>11,707,604</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Currency in circulation		4,782,678	4,750,614
Deposits from banks	13	5,214,383	5,523,290
Deposits from the Government and other depositors	14	743,751	709,367
Provisions for liabilities and charges		1,237	1,259
Other liabilities		2,493	3,227
<b>Total liabilities</b>		<b>10,744,542</b>	<b>10,987,757</b>
<b>EQUITY</b>			
Initial capital		25,000	25,000
Reserves		773,920	694,847
Net profit for the period		13,146	-
<b>Total equity</b>	15	<b>812,066</b>	<b>719,847</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>11,556,608</b>	<b>11,707,604</b>

The accompanying notes on pages 7 to 28 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	-	-	-	80,528	(7,707)	6,252	79,073	13,146	92,219
Net profit for the period	-	-	-	-	-	-	-	13,146	13,146
Other comprehensive income	-	-	-	80,528	(7,707)	6,252	79,073	-	79,073
<i>Net unrealised positive changes in fair value of debt securities</i>	-	-	-	80,625	-	-	80,625	-	80,625
<i>Net realised positive changes in fair value of debt securities transferred to profit or loss</i>	-	-	-	(97)	-	-	(97)	-	(97)
<i>Net unrealised negative changes in provisions for expected credit losses for debt securities</i>	-	-	-	-	(7,661)	-	(7,661)	-	(7,661)
<i>Net realised positive changes in provisions for expected credit losses transferred to profit or loss for debt securities</i>	-	-	-	-	(46)	-	(46)	-	(46)
<i>Net unrealised positive changes in fair value for monetary gold</i>	-	-	-	-	-	6,252	6,252	-	6,252
As at 31 March 2019	25,000	514,720	31,300	214,224	1,286	12,390	773,920	13,146	812,066

The accompanying notes on pages 7 to 28 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	-	-	-	(5,238)	(82)	(1,765)	(7,085)	2,855	(4,230)
Net profit for the period	-	-	-	-	-	-	-	2,855	2,855
Other comprehensive (loss)	-	-	-	(5,238)	(82)	(1,765)	(7,085)	-	(7,085)
<i>Net unrealised negative changes in fair value of debt securities</i>	-	-	-	(5,167)	-	-	(5,167)	-	(5,167)
<i>Net realised positive changes in fair value of debt securities transferred to profit or loss</i>	-	-	-	(71)	-	-	(71)	-	(71)
<i>Net unrealised positive changes in provisions for expected credit losses for debt securities</i>	-	-	-	-	80	-	80	-	80
<i>Net realised positive changes in provisions for expected credit losses transferred to profit or loss</i>	-	-	-	-	(162)	-	(162)	-	(162)
<i>Net unrealised negative changes in fair value of monetary gold</i>	-	-	-	-	-	(1,765)	(1,765)	-	(1,765)
As at 31 March 2018	25,000	506,289	31,300	136,527	4,208	(1,765)	676,559	2,855	704,414

The accompanying notes on pages 7 to 28 are an integral part of these condensed interim financial statements.

## STATEMENT OF CASH FLOWS

		For the period	
	Note	1.1. - 31.3. 2019	1.1. - 31.3. 2018
In thousands of KM (unaudited)			
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit for the period		13,146	2,855
Adjusted for:			
Interest income	3	(11,904)	(11,619)
Interest expense	3	5,996	5,670
Provisions for expected credit losses, net	9	(9,696)	670
Net realised (gains) from sale of debt instruments at fair value through other comprehensive income	5	(143)	(233)
Net foreign exchange (gains) / losses	6	(42)	216
Income from grants		(34)	(33)
Provisions for liabilities and charges		1	(74)
Depreciation and amortisation		600	523
Net cash flows from operating activities before changes in operating assets and liabilities		(2,076)	(2,024)
Changes in operating assets and liabilities			
Decrease / (increase) in deposits with foreign banks		2,712	(196,427)
Decrease / (increase) in debt instruments at fair value through other comprehensive income		14,881	(446,395)
Decrease in other assets		759	588
Increase in currency in circulation		32,064	23,388
(Decrease) / increase in deposits		(273,027)	253,281
(Decrease) / increase in other liabilities		(726)	1,497
Payments from provisions for liabilities and charges		(23)	(117)
Interest received		12	13
Interest paid		(1,327)	(1,352)
Net cash from operating activities		(226,751)	(367,548)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, equipment and intangible assets		(256)	(727)
Net cash used in investing activities		(256)	(727)
Effect from changes in impairment for expected credit losses on cash and cash equivalents			
		(1,253)	274
Effects of exchange rate fluctuations on cash and cash equivalents held		70	(226)
Net (decrease) in cash and cash equivalents		(228,190)	(368,227)
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	16	1,448,170	1,693,057

The accompanying notes on pages 7 to 28 are an integral part of these condensed interim financial statements.



## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 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, 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.

The Bank started its operations on 11 August 1997.

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

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

Governing Board of the Bank, consisting of five members, approves these condensed interim financial statements, while the Management of the Bank, consisting of four members, is responsible for the preparation of condensed interim financial statements. Members of the Governing Board and Management are:

#### Governing Board

Senad Softić Ph.D.	Chairman
Ankica Kolobarić M.Sc.	Member
Šerif Isović M.Sc.	Member
Trivo Marinković M.Sc.	Member
Ljubiša Vladušić Ph.D.	Member

#### Management

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

## 2. BASIS OF PREPARATION

### 2.1. Statement of compliance

The financial statements of the Bank have been prepared in accordance with the Law on the Central Bank of Bosnia and Herzegovina and International Financial Reporting Standards ("IFRS") as published by the International Accounting Standards Board ("IASB").

These condensed interim financial statements are prepared in accordance with International Accounting Standard 34: "Interim financial reporting", 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 accompanying 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. Accounting policies

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

In the reporting period there were neither cyclic nor periodical operational activities in the operations of the Bank, 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 2.6.

### 2.3. 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.

## 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 and disclosure contingent assets and liabilities at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. 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.

### 2.5. Functional and presentation currency

The Bank's condensed interim financial statements are stated in the official national currency of Bosnia and Herzegovina 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 on the Central Bank of Bosnia and Herzegovina as  $\text{KM } 1.95583 = \text{EUR } 1$ . As required by the Law, the Bank is obliged to purchase and sell KM for EUR on demand, without any restrictions, within the territory of Bosnia and Herzegovina, at the defined exchange rate.

### 2.6. Changes in accounting estimates

Starting from 1 January 2019, the Bank has changed the methodology for Probability of Default (PD) calculation which is one of three parameters for the expected credit loss calculation. The Bank used the approach based on market indicators of credit risk i.e. Credit Default Swaps (CDS) in 2018 for the expected credit loss calculation. As a result of new information and more experience in IFRS 9 application, especially in central banking area, PD calculation has been changed using transitional matrices of rating agencies. PD calculation is explained in Note 19.1.

As at 31 December 2018, provisions for expected credit losses in total amounted to KM 12,133 thousand. Change in accounting estimate resulted in recognition of decrease in provisions for expected credit losses in total amount of KM 9,821 thousand in profit or loss in January 2019. More information about decreasing effects in provisions for expected credit losses is provided in Note 19.1.1.



### 3. NET INTEREST INCOME

In thousands of KM	For the period	
	1.1. - 31.3. 2019	1.1. - 31.3. 2018
Interest income arising from:		
Debt instrument at fair value through other comprehensive income (Note 11)	10,395	10,206
Effects of negative deposit interest rates on deposits from local commercial banks	1,496	1,398
Deposits with foreign banks	9	6
Other financial assets at amortised cost	4	9
<b>Total interest income</b>	<b>11,904</b>	<b>11,619</b>
Interest expense arising from:		
Effects of negative interest rates - Debt instrument at fair value through other comprehensive income (Note 11)	(3,230)	(3,074)
Effects of negative interest rates - Deposits with foreign banks	(2,766)	(2,596)
<b>Total interest expense</b>	<b>(5,996)</b>	<b>(5,670)</b>
<b>Net interest income</b>	<b>5,908</b>	<b>5,949</b>

Effects of negative interest rates from deposits with foreign banks include the amount of KM 2,192 thousand on term deposits and the amount of KM 574 thousand on demand deposits in the period 1.1. - 31.3.2019 (In the period 1.1. - 31.3.2018 included the amount of KM 2,077 thousand on term deposits and the amount of KM 519 thousand on demand deposits).

The average negative effective interest rate on deposits with foreign banks amounted to 0.39% in the period 1.1. - 31.3.2019 (In the period 1.1. - 31.3.2018 amounted to 0.42%).

The average effective yield on debt instruments at fair value through other comprehensive income amounted to 0.36% in the period 1.1. - 31.3.2019 (In the period 1.1. - 31.3.2018 amounted to 0.39%).

The base for calculation of interest on deposits from 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.

The Bank does not calculate fee on the required reserve amount while the fee on the amount exceeding the required reserve is calculated at the rate equal to 50% of the European Central Bank rate applied on commercial bank deposits.

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

3. NET INTEREST INCOME (CONTINUED)

Effects of negative interest rates on deposits from local commercial banks are result of the negative interest rate on the amount exceeding the required reserve which amounted 0.20% in the reporting periods.

4. NET FEE AND COMMISSION INCOME

In thousands of KM	1.1. - 31.3. 2019	For the period 1.1. - 31.3. 2018
Fee and commission income:		
from local commercial banks	3,766	3,763
from services for the Government and other non-banking clients	282	290
	<u>4,048</u>	<u>4,053</u>
Fee and commission expenses:		
transactions with foreign banks	(155)	(162)
	<u>(155)</u>	<u>(162)</u>
Net fee and commission income	<u>3,893</u>	<u>3,891</u>

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

In thousands of KM	1.1. - 31.3. 2019	For the period 1.1. - 31.3. 2018
Realised gains	143	233
Realised losses	-	-
Net realised gains from sale of financial assets at fair value through other comprehensive income	<u>143</u>	<u>233</u>

As at 31 March 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 31 March 2018 they included net amount comprising from closing balance in fair value reserves in the amount of KM 71 thousand and in provisions for expected credit losses in the amount of KM 162 thousand).

6. NET FOREIGN EXCHANGE GAINS / (LOSSES)

In thousands of KM	1.1. - 31.3. 2019	For the period 1.1. - 31.3. 2018
Gains from foreign exchange differences	134	86
Losses from foreign exchange differences	(92)	(302)
Net gains / (losses)	<u>42</u>	<u>(216)</u>



**7. PERSONNEL EXPENSES**

In thousands of KM	1.1. - 31.3. 2019	For the period 1.1. - 31.3. 2018
Salaries	2,372	2,367
Taxes and contributions	1,348	1,344
Other employee benefits	496	503
Net provisions for severance payments	1	(4)
<b>TOTAL</b>	<b>4,217</b>	<b>4,210</b>

**8. ADMINISTRATIVE AND OTHER OPERATING EXPENSES**

In thousands of KM	1.1. - 31.3. 2019	For the period 1.1. - 31.3. 2018
Maintenance costs	573	674
Expenses for production and design of banknotes and coins	438	438
Other administrative and operating expenses	762	947
<b>TOTAL</b>	<b>1,773</b>	<b>2,059</b>

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

In thousands of KM	1.1. - 31.3. 2019	For the period 1.1. - 31.3. 2018
Gains from expected credit losses:		
from financial assets subsequently measured at fair value through other comprehensive income	7,772	987
from deposits with foreign banks	2,638	1,553
from other financial assets	5	10
from Special drawing rights with the IMF	1	-
	<b>10,416</b>	<b>2,550</b>
Losses from expected credit losses:		
from financial assets subsequently measured at fair value through other comprehensive income	(111)	(1,067)
from deposits with foreign banks	(605)	(2,145)
from other financial assets	(4)	(9)
from Special drawing rights with the IMF	-	1
	<b>(720)</b>	<b>(3,220)</b>
<b>Net decrease / (increase) in provisions for expected credit losses</b>	<b>9,696</b>	<b>(670)</b>

Gains from expected credit losses in the amount of KM 10,416 thousand are result of change in accounting estimate in the amount of KM 9,821 thousand described in Notes 2.6 and 19.1.1. and decrease in provisions for expected credit losses in the amount of KM 595 thousand under new PD calculation methodology.

## 10. DEPOSITS WITH FOREIGN BANKS

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

In thousands of KM	31 March 2019	31 December 2018
Term deposits:		
- EUR	2,058,957	2,118,444
Less impairment for expected credit losses	(366)	(2,064)
	<u>2,058,591</u>	<u>2,116,380</u>
Demand deposits:		
- EUR	608,161	788,997
- CHF	4,032	3,741
- USD	1,874	2,765
- GBP	23	36
Less impairment for expected credit losses	(135)	(471)
	<u>613,955</u>	<u>795,068</u>
<b>TOTAL</b>	<u><b>2,672,546</b></u>	<u><b>2,911,448</b></u>

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

In thousands of KM	31 March 2019	31 December 2018
Up to 1 month	410,584	777,266
From 1 to 2 months	214,288	349,106
From 2 to 3 months	331,234	583,230
From 3 to 4 months	581,076	155,532
From 4 to 12 months	521,775	253,310
<b>Total</b>	<u><b>2,058,957</b></u>	<u><b>2,118,444</b></u>
Impairment for expected credit losses	(366)	(2,064)
<b>TOTAL</b>	<u><b>2,058,591</b></u>	<u><b>2,116,380</b></u>

## 11. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Debt instruments at fair value through other comprehensive income are quality instruments 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 other foreign countries. Debt instruments at fair value through other comprehensive income are denominated in EUR currency.

## 11. 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	31 March 2019	31 December 2018
Debt securities	8,225,154	8,153,320
Accrued interest	73,194	72,119
<b>TOTAL</b>	<b>8,298,348</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	2019	2018
As at 1 January	8,225,439	7,473,857
Purchases during the period	914,200	1,309,725
Sales during the period	(209,178)	(176,583)
Interest income recognized during the period (Note 3)	10,395	10,206
Effects of negative interest rates recognized during the period (Note 3)	(3,230)	(3,074)
Maturities of securities	(698,720)	(667,667)
Maturities of coupon	(21,183)	(19,080)
Net change in fair value during the period	80,625	(5,167)
<b>As at 31 March</b>	<b>8,298,348</b>	<b>7,922,217</b>

Increase in fair value reserves for debt instruments at fair value through other comprehensive income in the reporting period is the result of increase in market prices for debt securities that the Bank has in its portfolio.

## 12. MONETARY GOLD

The Bank holds monetary gold with the bank in Switzerland which is physically held in a vault at the Bank of England. Fair value of the monetary gold as at 31 March 2019 amounts to KM 216,248 thousand, representing 96,000 ounces of gold at KM 2,253 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	2019	2018
As at 1 January	209,996	203,858
Net change in fair value during the period	6,252	(1,765)
<b>As at 31 March</b>	<b>216,248</b>	<b>202,093</b>

### 13. DEPOSITS FROM BANKS

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

In thousands of KM	31 March 2019	31 December 2018
Deposits of local commercial banks	5,209,897	5,522,701
Other liabilities to local commercial banks	3,912	-
Reserve accounts of organizational units of the Bank	538	553
Special deposit of local commercial banks – blocked funds	36	36
<b>TOTAL</b>	<b>5,214,383</b>	<b>5,523,290</b>

### 14. 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	31 March 2019	31 December 2018
Deposits for the budget of BH Institutions	432,316	494,575
Deposits of public institutions	122,745	125,501
Deposits of other governments and government institutions	135,837	89,286
Deposit account under International Monetary Fund transactions	52,853	5
<b>TOTAL</b>	<b>743,751</b>	<b>709,367</b>

### 15. EQUITY

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

In thousands of KM	31 March 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	214,224	133,696
Provisions for expected credit losses (Note 19.1.1)	1,286	8,993
Fair value reserves - monetary gold	12,390	6,138
Net profit for the period	13,146	-
<b>TOTAL</b>	<b>812,066</b>	<b>719,847</b>



## 16. CASH AND CASH EQUIVALENTS

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

In thousands of KM	31 March 2019	31 March 2018
Foreign currency deposits with maturity up to three months or less from the date of acquisition	614,090	603,278
Foreign currency demand deposits	547,712	843,004
Foreign currency in cash	286,166	245,504
Special Drawing Rights with the International Monetary Fund	30	1,746
Giro accounts	538	1,082
<b>Total</b>	<b>1,448,536</b>	<b>1,694,614</b>
Impairment for expected credit losses	(366)	(1,557)
<b>TOTAL</b>	<b>1,448,170</b>	<b>1,693,057</b>

## 17. CURRENCY BOARD ARRANGEMENT

The Law on the Central Bank of Bosnia and Herzegovina 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 on the Central Bank of Bosnia and Herzegovina requires that the aggregate amount of its monetary liabilities shall at no time exceed its net foreign currency reserves.

Details of compliance with the rule are as follows:

In thousands of KM	31 March 2019	31 December 2018
<b>Gross foreign currency reserves</b>	<b>11,473,338</b>	<b>11,623,218</b>
Foreign currency in cash	286,166	274,099
Deposits with foreign banks	2,672,546	2,911,448
Debt instruments at fair value through other comprehensive income	8,298,348	8,225,439
Monetary gold	216,248	209,996
Special Drawing Rights with the International Monetary Fund	30	2,236
Liabilities to non-residents	1,720	1,812
<b>Net foreign currency reserves</b> (Gross foreign currency reserves less liabilities to non-residents)	<b>11,471,618</b>	<b>11,621,406</b>
<b>Monetary liabilities</b>	<b>10,740,812</b>	<b>10,983,271</b>
Currency in circulation	4,782,678	4,750,614
Deposits from banks	5,214,383	5,523,290
Deposits from the Government and other depositors	743,751	709,367
<b>NET FOREIGN ASSETS</b> (Net foreign currency reserves less monetary liabilities)	<b>730,806</b>	<b>638,135</b>



## 18. 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 Parliamentary Assembly of Bosnia and Herzegovina and that the initial capital has been paid up by the Council of Ministers of Bosnia and Herzegovina, transactions performed as part of regular operations of the Bank with the state and state institutions represent related party transactions.

According to the Law on the Central Bank of Bosnia and Herzegovina, the Bank acts as an agent for the state Bosnia and Herzegovina and for the other state institutions. The Bank receives deposits from the state of Bosnia and Herzegovina and other state institutions and acts strictly on depositors behalf.

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

In thousands of KM

31 March 2019	Exposure	Liabilities
State	-	
<i>State institutions:</i>		515,100
Indirect taxation authority of Bosnia and Herzegovina	-	54,337
Deposit Insurance Agency of Bosnia and Herzegovina	-	127,724
<b>TOTAL</b>	<b>-</b>	<b>697,161</b>

In thousands of KM

31 December 2018	Exposure	Liabilities
State	-	505,897
<i>State institutions:</i>		
Indirect taxation authority of Bosnia and Herzegovina	-	45,635
Deposit Insurance Agency of Bosnia and Herzegovina	-	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 1.1. - 31.3.2019 amounted to KM 220 thousand, out of which KM 136 thousand was related to salaries and other remuneration and KM 84 thousand to taxes and contributions (in the period 1.1. – 31.3.2018 out of total amount of KM 215 thousand the amount of KM 134 thousand was related to salaries and other remuneration and KM 81 thousand was related to taxes and contributions).

## 19. 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),
- Special drawing rights with the IMF,
- Debt securities,
- Monetary gold,
- Equity securities and
- Other financial assets (domestic banks' receivables, employees' loans and other receivables).

### 19.1. Credit risk

Credit risk is the risk of financial loss to 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 securities (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 new PD calculation methodology based on transitional matrices. The Bank uses corporate transitional matrices to estimate the probability of default of foreign commercial banks, while for the exposures to foreign sovereigns (foreign central banks and governments), the Bank uses sovereign transitional matrices. Transitional matrices contains historical indicators of state and banks defaulting.

PD is calculated using PD data from transitional matrices of rating agencies that are corrected to include forward-looking information. In accordance with the above, incorporation of forward-looking information in expected credit losses calculation is done by adjusting PD. Given that the Bank has in its portfolio financial instruments of issuers that are different by structure (e.g. governments and commercial banks), as well as by geographical distribution, the Bank relies on predicting changes in rating (outlook) for individual instruments (issuers) in its portfolio, in a way which incorporates the prediction of rating movement direction: positive, stable, negative.

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

19.1. Credit risk (continued)

19.1.1. 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 2.6)	(7,704)	-	-	(7,704)	-	-	-	-
Increases due to change in credit risk	111	-	-	111	1,067	-	-	1,067
Decreases due to change in credit risk	(7)	-	-	(7)	(824)	-	-	(824)
Decreases due to debt instruments matured	(61)	-	-	(61)	(163)	-	-	(163)
<i>Net (decrease) / increase during the period</i>	<i>(7,661)</i>	<i>-</i>	<i>-</i>	<i>(7,661)</i>	<i>80</i>	<i>-</i>	<i>-</i>	<i>80</i>
Decreases due to debt instruments sold	(46)	-	-	(46)	(162)	-	-	(162)
<b>As at 31 March</b>	<b>1,286</b>	<b>-</b>	<b>-</b>	<b>1,286</b>	<b>4,208</b>	<b>-</b>	<b>-</b>	<b>4,208</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 2.6)	(2,117)	-	-	(2,117)	-	-	-	-
Increases due to change in credit risk	605	-	-	605	2,144	-	-	2,144
Decreases due to change in credit risk	(19)	-	-	(19)	(787)	-	-	(787)
Decreases due to derecognition of term deposits	(503)	-	-	(503)	(767)	-	-	(767)
<b>As at 31 March</b>	<b>501</b>	<b>-</b>	<b>-</b>	<b>501</b>	<b>2,225</b>	<b>-</b>	<b>-</b>	<b>2,225</b>

## 19. FINANCIAL RISK MANAGEMENT (CONTINUED)

## 19.1. Credit risk (continued)

## 19.1.1. 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	-	-	-	-	-	-	-	-
Decreases due to change in credit risk	-	-	-	-	-	-	-	-
As at 31 March	-	-	-	-	-	-	-	-
<b>4. Other financial assets</b>								
As at 1 January	5	-	600	605	30	-	600	630
Increases due to change in credit risk	5	-	-	5	9	-	-	9
Decreases due to change in credit risk	(5)	-	-	(5)	(9)	-	-	(9)
As at 31 March	5	-	600	605	30	-	600	630
<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>
<b>Total closing balance as at 31 March</b>	<b>1,792</b>	<b>-</b>	<b>600</b>	<b>2,392</b>	<b>6,463</b>	<b>-</b>	<b>600</b>	<b>7,063</b>



## 19. FINANCIAL RISK MANAGEMENT (CONTINUED)

## 19.1. Credit risk (continued)

## 19.1.2. Credit risk concentratiton

## 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	31 March 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	286,166	-	-	286,166	274,099	-	-	274,099
Loss allowance	-	-	-	-	-	-	-	-
Carrying amount	286,166	-	-	286,166	274,099	-	-	274,099
<b>Deposits with foreign banks</b>								
Gross carrying amount	2,673,047	-	-	2,673,047	2,913,983	-	-	2,913,983
Loss allowance	(501)	-	-	(501)	(2,535)	-	-	(2,535)
Carrying amount	2,672,546	-	-	2,672,546	2,911,448	-	-	2,911,448
<b>Debt instruments at fair value through other comprehensive income</b>								
Gross carrying amount	8,298,348	-	-	8,298,348	8,225,439	-	-	8,225,439
Provisions for expected credit losses (recognized in other comprehensive income)	(1,286)	-	-	(1,286)	(8,993)	-	-	(8,993)
Carrying amount	8,298,348	-	-	8,298,348	8,225,439	-	-	8,225,439
<b>Special drawing rights with the IMF</b>								
Gross carrying amount	30	-	-	30	2,236	-	-	2,236
Loss allowance	-	-	-	-	-	-	-	-
Carrying amount	30	-	-	30	2,236	-	-	2,236
<b>Other financial assets</b>								
Gross carrying amount	2,496	-	600	3,096	2,693	-	600	3,293
Loss allowance	(5)	-	(600)	(605)	(5)	-	(600)	(605)
Carrying amount	2,491	-	-	2,491	2,688	-	-	2,688



## 19. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 19.1. Credit risk (continued)

#### 19.1.2. Credit risk concentratiton (continued)

##### b) Maximum exposure to credit risk - financial instruments not subject to impairment

In thousands of KM	31 March 2019	31 December 2018
Carrying amount		
Monetary gold	216,248	209,996
Other investments	27,813	27,813
<b>TOTAL</b>	<b>244,061</b>	<b>237,809</b>

### 19.2. Market risk

The Bank monitors and manages both currency and interest rate risks as the basic market risk factors. Currency risk is a risk arising from decline of the value of the financial instrument 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.

#### 19.2.1. Foreign exchange risk

The Bank is exposed to currency 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 currency exposure arises from deposits and investment activities.

The control and management of the foreign exchange risk is based on the strict adherence to the provisions of the Law on the Central Bank of Bosnia and Herzegovina and the Guidelines of the Bank on investment of the foreign exchange reserves.

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 capital and the reserves of the Bank.

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.

#### 19.2.2. 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.

## 19. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 19.2.2. Interest rate risk (continued)

The Bank is exposed to interest rate risk through investment of foreign currency reserves. The Bank manages its investment portfolio 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 securities.

### 19.3. 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 exchange 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.

## 20. FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### 20.1. 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

	31 March 2019			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Debt instruments	8,298,348	-	-	8,298,348
Monetary gold	216,248	-	-	216,248
<b>TOTAL</b>	<b>8,514,596</b>	<b>-</b>	<b>-</b>	<b>8,514,596</b>

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

20.1. Financial assets measured at fair value (continued)

In thousands of KM

31 December 2018

	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
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>

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

In thousands of KM

31 March 2019

	Carrying amount	Fair value
<b>Financial assets</b>		
<i>Financial assets measured at amortized cost:</i>		
Foreign currency in cash	286,166	286,166
Deposits with foreign banks	2,672,546	2,663,622
Special Drawing Rights with the International Monetary Fund	30	30
Other financial assets	2,491	2,491
<i>Other investments</i>	27,813	27,813
<b>Total</b>	<b>2,989,046</b>	<b>2,980,122</b>
<b>Financial liabilities</b>		
<i>Financial liabilities measured at amortized cost:</i>		
Currency in circulation	4,782,678	4,782,678
Deposits from banks	5,214,383	5,204,614
Deposits from the Government and other depositors	743,751	742,358
Other financial liabilities	2,035	2,035
<b>Total</b>	<b>10,742,847</b>	<b>10,731,685</b>



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

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

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 International Monetary Fund	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>

21. 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.

## 21. OFF-BALANCE SHEET ITEMS (CONTINUED)

Off-balance sheet items consist of:

In thousands of KM	31 March 2019	31 December 2018
Deposits of USAID	3,042	3,042
<b>Deposits of non-residents</b>	<b>3,042</b>	<b>3,042</b>
Deposits of the Council of Ministers of BH:	16,585	30,964
<i>Deposits of the Council of Ministers of BH on the basis of succession</i>	45	44
<i>Deposits of the Council of Ministers of BH regarding the servicing of foreign debt</i>	15,067	9,227
<i>Deposits of the Council of Ministers of BH regarding the Budget of BH institution</i>	1,448	1,543
<i>Other deposits of the Council of Ministers of BH</i>	25	20,150
Deposits of other residents:	5,634	4,048
<i>Deposits - Retirement allowance from Germany</i>	282	12
<i>Deposit accounts of banks</i>	5,352	4,036
<b>Deposits of residents</b>	<b>22,219</b>	<b>35,012</b>
Investments related to securities – Deposit Insurance Agency of BH	53,136	37,499
<b>Investments of residents related to securities</b>	<b>53,136</b>	<b>37,499</b>
<b>TOTAL</b>	<b>78,397</b>	<b>75,553</b>

### Bosnia and Herzegovina membership with the IMF

According to arrangements concluded between Bosnia and Herzegovina and the IMF signed in December 2002, the Bank is designated as a fiscal agent and depository for Bosnia and Herzegovina 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 the Bosnia and Herzegovina 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 Bosnia and Herzegovina promissory notes issued to support IMF membership and repurchase obligations that are recorded off-balance.



21. OFF-BALANCE SHEET ITEMS (CONTINUED)

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

In thousands of KM

	31 March 2019	31 December 2018
Quota	640,914	629,809
Special drawing rights with the IMF	30	2,236
<b>TOTAL ASSETS</b>	<b>640,944</b>	<b>632,045</b>
IMF account No.1	1,602	1,575
IMF account No.2	54	53
Securities	1,047,771	1,042,166
SDR allocation	388,817	382,080
Accrued interest on SDR allocation	714	685
Accounts of payable charges	1,414	1,601
<b>TOTAL LIABILITIES</b>	<b>1,440,372</b>	<b>1,428,160</b>
<b>BH NET POSITION WITH THE IMF</b>	<b>799,428</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 Bosnia and Herzegovina. 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.

22. POST-REPORTING DATE EVENTS

The Governing Board Decision as of 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 commercial banks. Starting from 1 May 2019, the fee on the amount exceeding required reserves will be calculated by the rate that is applied on commercial bank deposits by the European Central Bank.

23. APPROVAL OF THE CONDENSED INTERIM FINANCIAL STATEMENTS

These condensed interim financial statements have been approved by the Governing Board of the Bank on 25 April 2019.

Head of Accounting and Finance Department

  
Edis Kovačević M.Sc.



Chairman of the Governing Board

  
Senad Softić Ph.D.