

CENTRAL BANK OF BOSNIA AND HERZEGOVINA

**CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2020**

(unaudited)

in accordance with the requirements of International Accounting Standard 34

Sarajevo, 28 October 2020

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Responsibility of the Management and the Governing Board for the preparation and approval of the condensed interim financial statements

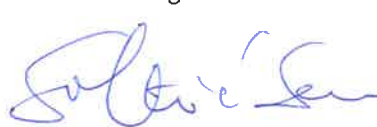
The Management of the Central Bank of Bosnia and Herzegovina is responsible for the preparation and fair presentation of the condensed interim financial statements in accordance with International Accounting Standard 34: "Interim Financial Reporting". The Management has a general responsibility for taking such steps as are reasonably available and for implementation of such internal controls to safeguard the assets of the Central bank of Bosnia and Herzegovina and to prevent and detect fraud and other irregularities.


The Governing Board is responsible for overseeing the Central Bank of Bosnia and Herzegovina financial reporting process whose implementation involves the Audit Committee of the Central Bank of Bosnia and Herzegovina.


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

The Management is obliged to submit the condensed interim financial statements to the Governing Board for approval, following which the Governing Board approves the condensed interim financial statements and submits them to the Presidency of Bosnia and Herzegovina.

The accompanying condensed interim financial statements set out on pages 2 to 38 were approved by the Governing Board on 28 October 2020.


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



for: 
Edis Kovačević, M.Sc.
Head of Accounting and Finance Department

STATEMENT OF PROFIT OR LOSS (UNAUDITED)

In thousands of KM	Note	01/07 – 30/09	01/07 – 30/09	01/01-30/09	For the period
		2020	2019	2020	01/01 – 30/09 2019
Interest income		12,903	13,199	39,142	37,429
Interest expense		(8,357)	(6,795)	(23,028)	(19,040)
NET INTEREST INCOME	3	4,546	6,404	16,114	18,389
Fee and commission income		4,570	4,510	13,500	13,016
Fee and commission expense		(176)	(164)	(517)	(478)
NET FEE AND COMMISSION INCOME	4	4,394	4,346	12,983	12,538
Net realised gains from sale of debt instruments at fair value through other comprehensive income	5	-	-	1,578	143
Net foreign exchange (losses) / gains	6	(176)	176	(254)	269
Other income	7	93	101	251	856
OPERATING INCOME		8,857	11,027	30,672	32,195
Personnel expenses	8	(4,819)	(4,798)	(14,036)	(13,973)
Administrative and other operating expenses	9	(2,204)	(1,843)	(6,413)	(5,616)
Depreciation and amortisation charge		(641)	(624)	(1,914)	(1,814)
OPERATING EXPENSES		(7,664)	(7,265)	(22,363)	(21,403)
FINANCIAL RESULT BEFORE PROVISIONS FOR EXPECTED CREDIT LOSSES		1,193	3,762	8,309	10,792
Provisions for expected credit losses, net (increase) / decrease	10	(151)	(51)	(418)	9,587
NET PROFIT FOR THE PERIOD	11	1,042	3,711	7,891	20,379

The selected notes on pages 9 to 38 are an integral part of these condensed interim financial statements.

STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

In thousands of KM	Note	For the period			
		01/07 – 30/09 2020	01/07 – 30/09 2019	01/01-30/09 2020	01/01 – 30/09 2019
NET PROFIT FOR THE PERIOD		1,042	3,711	7,891	20,379
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	14	18,882	44,471	74,637	190,732
Net change in provisions for expected credit losses recognized in profit or loss during the period	26.1.1.	48	47	289	(7,640)
Reclassification to profit or loss from sale of debt instruments	5	-	-	(1,578)	(143)
		18,930	44,518	73,348	182,949
Monetary gold					
Net change in fair value during the period	15	4,416	20,875	48,019	43,613
		4,416	20,875	48,019	43,613
Total other comprehensive income		23,346	65,393	121,367	226,562
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		24,388	69,104	129,258	246,941

The selected notes on pages 9 to 38 are an integral part of these condensed interim financial statements.

STATEMENT OF FINANCIAL POSITION (UNAUDITED)

In thousands of KM	Note	30 September 2020	As at 31 December 2019
ASSETS			
Foreign currency in cash	12	137,770	322,599
Deposits with foreign banks	13	3,523,964	3,102,765
Debt instruments	14	9,379,598	8,917,413
Monetary gold	15	302,107	254,088
Special Drawing Rights with the IMF		461	230
Other assets	16	13,331	11,457
Property and equipment	17	48,299	48,314
Intangible assets	17	1,319	1,563
Other investments		27,813	27,813
TOTAL ASSETS		13,434,662	12,686,242
LIABILITIES AND EQUITY			
LIABILITIES			
Currency in circulation	18	6,032,991	5,199,916
Deposits from banks	19	5,314,790	5,743,619
Deposits from the Government and other public depositors	20	1,095,862	880,675
Provisions for liabilities and charges		1,320	1,394
Other liabilities	21	3,900	4,097
Total liabilities		12,448,863	11,829,701
EQUITY			
Initial capital		25,000	25,000
Reserves		952,908	831,541
Net profit for the period		7,891	-
Total equity	22	985,799	856,541
TOTAL LIABILITIES AND EQUITY		13,434,662	12,686,242

The selected notes on pages 9 to 38 are an integral part of these condensed interim financial statements.

STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

In thousands of KM

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

The selected notes on pages 9 to 38 are an integral part of these condensed interim financial statements.

STATEMENT OF CHANGES IN EQUITY (UNAUDITED) (CONTINUED)

In thousands of KM

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

The selected notes on pages 9 to 38 are an integral part of these condensed interim financial statements.

STATEMENT OF CASH FLOWS (UNAUDITED)

		For the period
	01/01 – 30/09	01/01 – 30/09
Note	2020	2019
In thousands of KM		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit for the period	7,891	20,379
Adjusted for:		
Interest income	3 (39,142)	(37,429)
Interest expense	3 23,028	19,040
Provisions for expected credit losses, net increase / (decrease)	10 418	(9,587)
Net realised (gains) from sale of debt instruments at fair value through other comprehensive income	5 (1,578)	(143)
Net foreign exchange losses / (gains)	6 254	(269)
Income from grants	7 (50)	(80)
Provisions for liabilities and charges, net increase	4	17
Dividend income recognized in profit or loss	7 -	(623)
Depreciation and amortisation charge	1,914	1,814
Net cash flows from operating activities before changes in operating assets and liabilities	(7,261)	(6,881)
Changes in operating assets and liabilities		
Decrease in term deposits with foreign banks	211,404	757,480
(Increase) in debt instruments	(387,548)	(497,687)
(Increase) in other assets	(1,605)	(1,184)
Increase in currency in circulation	833,075	363,592
(Decrease) / increase in deposits from banks, Government and other public depositors	(212,497)	217,006
(Decrease) / increase in other liabilities	(103)	3,275
Payments from provisions for liabilities and charges	(78)	(108)
Interest received	37,997	36,285
Interest paid	(22,271)	(18,088)
Net cash from operating activities	451,113	853,690
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, equipment and intangible assets	(1,655)	(506)
Dividends received	-	623
Net cash used in investing activities	(1,655)	117

The selected notes on pages 9 to 38 are an integral part of these condensed interim financial statements.

STATEMENT OF CASH FLOWS (UNAUDITED) (CONTINUED)

In thousands of KM		01/01 – 30/09 2020	For the period 01/01 – 30/09 2019
	Note		
Effects from changes in impairment for expected credit losses on cash and cash equivalents		(132)	1,114
Effects of exchange rate fluctuations on cash and cash equivalents held		(299)	320
Net increase in cash and cash equivalents		449,027	855,241
Cash and cash equivalents at the beginning of the period		2,498,972	1,676,360
Cash and cash equivalents at the end of the period	23	2,947,999	2,531,601

The selected notes on pages 9 to 38 are an integral part of these condensed interim financial statements.

SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2020 (UNAUDITED)**1. GENERAL INFORMATION**

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

The Central Bank started its operations on 11 August 1997.

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

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

By its function, the Central Bank is not a profit institution but an institution that must ensure the achievement of the goals set by the Law on the Central Bank. The Central Bank’s realised profit for a certain period is not used as a measure of the Central Bank’s performance. All activities and operations of the Central Bank are undertaken in order to achieve the legally set goals and objectives, and not with the aim to generate income or profit.

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

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

Up to date of approval of these condensed interim financial statements, the members of the Governing Board, the Management and the Audit Committee are:

Governing Board

Senad Softić Ph.D.	Chairman
Radomir Božić Ph.D.	Member (from 30 April 2020)
Šerif Isović M.Sc.	Member
Ankica Kolobarić M.Sc.	Member (until 30 April 2020)
Dragan Kulina Ph.D.	Member (from 30 April 2020)
Danijela Martinović Ph.D.	Member (from 30 April 2020)

1. GENERAL INFORMATION (CONTINUED)**Management**

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

Audit Committee

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

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

These condensed interim financial statements have been prepared in accordance with International Accounting Standard 34 ("IAS 34"): "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB"). The condensed interim financial statements do not include all the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") and should be read in conjunction with the latest audited financial statements of the Central Bank for the year ended 31 December 2019 ("annual financial statements").

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

The Central Bank's business and operations results for the reporting period and as at the reporting date presented in these condensed interim financial statements are not necessarily indicative of the business and operations results of the Central Bank expected for the 2020 year.

2.2. Basis of measurement

These condensed interim financial statements have been prepared on a historical cost basis, except for the following material items:

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

2.3. Functional and presentation currency

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

2. BASIS OF PREPARATIONS (CONTINUED)**2.4. Changes to IFRS**

At the date of approval of these condensed interim financial statements, certain changes and interpretations of the existing standards are effective from 1 January 2020. Their implementation has no significant impact on condensed interim financial statements of the Central Bank.

2.5. Seasonality

In the reporting period, all activities of the Central Bank were performed according to the subject and time of realization under the going concern principle.

2.6. Accounting policies

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

Use of judgments and estimates

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

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

The key sources of estimation uncertainty differ from those that have been applied in the preparation of the latest annual financial statements, especially given the uncertainty caused by the global pandemic of Coronavirus COVID-19. Therefore, the existing circumstances and assumptions about future actions of the Central Bank's operations may change, in response to fluctuations in the Eurozone's financial markets and circumstances beyond the control of the Central Bank.

Foreign currency transactions and exchange differences

Middle exchange rates of the most relevant currencies are provided below:

Middle exchange rate:	30 September 2020	31 December 2019	30 September 2019
	KM	KM	KM
CHF	1.811792	1.799126	1.800948
GBP	2.150138	2.29536	2.203057
USD	1.671364	1.747994	1.788596
SDR	2.351358	2.417171	2.448699

3. NET INTEREST INCOME

In thousands of KM

	01/07 – 30/09 2020	01/07 – 30/09 2019	01/01-30/09 2020	For the period 01/01 – 30/09 2019
Interest income arising from:				
Debt instruments (Note 14)	9,443	9,978	28,951	30,174
Effects of negative deposit interest rates on deposits from domestic commercial banks	3,459	3,210	10,182	7,220
Deposits with foreign banks	-	7	2	23
Other financial assets at amortised cost	1	4	7	12
Total	12,903	13,199	39,142	37,429
Interest expense arising from:				
Effects of negative interest rates from debt instruments (Note 14)	(3,739)	(3,354)	(10,485)	(9,828)
Effects of negative interest rates from deposits with foreign banks	(4,618)	(3,441)	(12,543)	(9,212)
Total	(8,357)	(6,795)	(23,028)	(19,040)
Net interest income	4,546	6,404	16,114	18,389

The base for calculation of interest on deposits from domestic commercial banks includes the total deposits of commercial banks on reserve accounts during the ten day settlement period, which consists of required reserve amounts and amounts exceeding 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 ratio of 10% is established to be applied by the Central Bank on the required reserve base.

The Central Bank does not calculate fee on the required reserve amount while the calculation of fee on the amount exceeding the required reserve is linked to the European Central Bank deposit facility rate.

In the period 01/01 – 30/09/2020, the fee on the amount exceeding required reserves is calculated by the rate equal the European Central Bank deposit facility rate.

In the period 01/01 – 30/04/2019, the fee on the amount exceeding required reserves was calculated by the rate equal to 50% of the European Central Bank deposit facility rate, and from 01/05 – 30/09/2019 by the rate equal the European Central Bank deposit facility rate.

3. NET INTEREST INCOME (CONTINUED)

Effects of negative interest rates on deposits from domestic commercial banks are the result of the negative interest rate on the amount exceeding the required reserve. The following table presents interest rates for domestic commercial banks on the amount exceeding the required reserves in the reporting periods:

Period	Interest rate	European Central Bank deposit facility rate
2020		
From 1 January to 30 September	(0.50)%	(0.50)%
2019		
From 1 January to 30 April	(0.20)%	(0.40)%
From 1 May to 11 September	(0.40)%	(0.40)%
From 12 September to 30 September	(0.50)%	(0.50)%

Effects of negative interest rates from deposits with foreign banks include the amount of KM 9,108 thousand on term deposits and the amount of KM 3,435 thousand on demand deposits in the period 01/01 – 30/09/2020 (in the period 01/01 – 30/09/2019 it included the amount of KM 7,272 thousand on term deposits and the amount of KM 1,940 thousand on demand deposits).

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

The average effective yield on debt instruments amounts to 0.29% in the period 01/01 – 30/09/2020 (in the period 01/01 – 30/09/2019 amounted to 0.32%).

The average negative effective interest rate on deposits with foreign banks amounts to 0.49% in the period 01/01 – 30/09/2020 (in the period 01/01 – 30/09/2019 amounted to 0.41%).

4. NET FEE AND COMMISSION INCOME

In thousands KM	01/07 – 30/09 2020	01/07 – 30/09 2019	01/01-30/09 2020	For the period 01/01 – 30/09 2019
Fee and commission income arising from:				
Services for domestic commercial banks	4,246	4,185	12,554	12,102
Services for the Government and other non-banking clients	324	325	946	914
Total	4,570	4,510	13,500	13,016
Fee and commission expenses arising from:				
Custodian and other expenses for debt instruments	(167)	(154)	(487)	(448)
Transactions with foreign banks	(8)	(8)	(25)	(25)
Other fee and commission expenses	(1)	(2)	(5)	(5)
Total	(176)	(164)	(517)	(478)
Net fee and commission income	4,394	4,346	12,983	12,538

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

In thousands of KM	01/07 – 30/09 2020	01/07 – 30/09 2019	01/01-30/09 2020	For the period 01/01 – 30/09 2019
Realised gains	-	-	1,578	143
Realised losses	-	-	-	-
Net realized gains from sale of debt instruments at fair value through other comprehensive income	-	-	1,578	143

The corresponding amounts of realised gains from released provisions for expected credit losses for debt instruments sold are presented in Note 26.1.1.

6. NET FOREIGN EXCHANGE (LOSSES) / GAINS

In thousands of KM	01/07 – 30/09 2020	01/07 – 30/09 2019	01/01-30/09 2020	For the period 01/01 – 30/09 2019
Gains from foreign exchange differences	121	218	539	537
Losses from foreign exchange differences	(297)	(42)	(793)	(268)
Net foreign exchange (losses) / gains	(176)	176	(254)	269

CENTRAL BANK OF BOSNIA AND HERZEGOVINA

Selected notes to the Condensed interim financial statements for the period ended 30 September 2020

7. OTHER INCOME

	01/07 – 30/09 2020	01/07 – 30/09 2019	01/01-30/09 2020	For the period 01/01 – 30/09 2019
In thousands of KM				
Dividend income	-	-	-	623
Income from grants	16	21	50	80
Other income	77	80	201	153
TOTAL	93	101	251	856

The annual profit of BIS Bank was transferred in total to the appropriate positions of BIS Bank's reserves due to which the Central Bank did not receive a dividend from BIS shares in the period 01/01 – 30/09/2020 (In the period 01/01-30/09/2019 the Central Bank received the dividend in the amount of KM 623 thousand).

8. PERSONNEL EXPENSES

	01/07 – 30/09 2020	01/07 – 30/09 2019	01/01-30/09 2020	For the period 01/01 – 30/09 2019
In thousands of KM				
Salaries	2,771	2,772	7,529	7,527
Contributions and other fees on salaries	1,575	1,577	4,280	4,280
Other employee benefits	371	340	1,670	1,603
Contributions and other fees on other employees benefits	101	99	553	546
Provisions for severance payments, net increase	1	10	4	17
TOTAL	4,819	4,798	14,036	13,973

Personnel expenses include KM 2,699 thousand of defined pension contributions paid to the public pension funds in BH (01/01 – 30/09/2019: KM 2,690 thousand).

As at 30 September 2020 the Central Bank has 366 employees (30 September 2019: 371 employees).

9. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

In thousands of KM	01/07 – 30/09 2020	01/07 – 30/09 2019	01/01-30/09 2020	For the period 01/01 – 30/09 2019
Maintenance costs	587	410	1,797	1,561
Expenses for production and design of banknotes and coins	780	490	2,074	1,366
Other administrative and operating expenses	837	943	2,542	2,689
TOTAL	2,204	1,843	6,413	5,616

Maintenance costs mainly include expenses related to fixed tangible assets of the Central Bank as well as information and payment systems expenses.

Other administrative and operating expenses mainly include overhead costs, costs related to access to necessary services and telecommunication lines and other current expenses for performing Central Bank's business activities.

10. PROVISIONS FOR EXPECTED CREDIT LOSSES, NET (INCREASE) / DECREASE

In thousands of KM	01/07 – 30/09 2020	01/07 – 30/09 2019	01/01-30/09 2020	For the period 01/01 – 30/09 2019
Gains from expected credit losses arising from:				
Debt instruments:	107	52	286	7,929
Change in PD calculation	-	-	-	7,704
Change in credit risk	107	52	286	225
Deposits with foreign banks:	1,260	960	3,196	4,269
Change in PD calculation	-	-	-	2,117
Change in credit risk	1,260	960	3,196	2,152
Other financial assets:	1	1	6	6
Change in credit risk	1	1	6	6
Special drawing rights with the IMF:	-	1	-	1
Change in credit risk	-	1	-	1
	1,368	1,014	3,488	12,205
Allowance for expected credit losses arising from:				
Debt instruments	(155)	(99)	(575)	(289)
Deposits with foreign banks	(1,363)	(965)	(3,326)	(2,323)
Other financial assets	(1)	(1)	(5)	(6)
Special drawing rights with the IMF	-	-	-	-
	(1,519)	(1,065)	(3,906)	(2,618)
Provisions for expected credit losses, net (increase) / decrease	(151)	(51)	(418)	9,587

11. NET PROFIT FOR THE PERIOD

In thousands of KM	01/07 – 30/09 2020	01/07 – 30/09 2019	01/01-30/09 2020	For the period 01/01 – 30/09 2019
FINANCIAL RESULT BEFORE PROVISIONS FOR EXPECTED CREDIT LOSSES	1,193	3,762	8,309	10,792
Provisions for expected credit losses, net (increase) / decrease:				
<i>Change in PD calculation at 1 January</i>	-	-	-	9,821
<i>Additional net provisions during the period</i>	(151)	(51)	(418)	(234)
	(151)	(51)	(418)	9,587
NET PROFIT FOR THE PERIOD	1,042	3,711	7,891	20,379

The significant deviation of the cumulative net profit for the period in regard to the comparable reporting period is a consequence of the application different PD calculations in measuring the expected credit losses. The change in PD calculation resulted in a one-time recognition of gains from expected credit losses in the amount of KM 9,821 thousand in profit or loss and reductions in provisions for expected credit losses for the respective classes of financial assets as at 1 January 2019. For more information on the effects of this change see Note 26.1.1.

12. FOREIGN CURRENCY IN CASH

Foreign currency in cash relates to:

In thousands of KM	30 September 2020	31 December 2019
Cash in vaults per currency:		
- EUR	137,695	322,523
- CHF	39	39
- USD	19	20
- GBP	17	17
TOTAL	137,770	322,599

The decrease in EUR cash in the Central Bank's vaults is a consequence of a temporary increased demand for EUR currency by domestic commercial banks due to pandemic of Coronavirus COVID-19.

13. DEPOSITS WITH FOREIGN BANKS

Deposits with foreign banks are invested foreign currency reserves held by the Central Bank on the accounts of foreign central and commercial banks. They include demand deposits and term deposits, with a maximum investment period of 12 months.

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

In thousands of KM	30 September 2020	31 December 2019
Term deposits:		
- EUR	2,579,422	2,308,476
Less impairment for expected credit losses	(702)	(495)
	2,578,720	2,307,981
Demand deposits:		
- EUR	935,202	784,914
- CHF	7,265	5,999
- GBP	2,059	2,220
- USD	870	1,880
Less impairment for expected credit losses	(152)	(229)
	945,244	794,784
TOTAL	3,523,964	3,102,765

Deposits with foreign banks include negative accrued interest in the amount of KM 1,680 thousand as at 30 September 2020 (31 December 2019: included negative accrued interest in the amount of KM 1,423 thousand).

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

In thousands of KM	30 September 2020	31 December 2019
Up to 1 month	1,219,548	1,184,603
From 1 to 2 months	390,803	155,675
From 2 to three months	638,466	272,789
From three to four months	96,009	192,865
From 4 to 12 months	234,596	502,544
Total	2,579,422	2,308,476
Less impairment for expected credit losses	(702)	(495)
TOTAL	2,578,720	2,307,981

More information about the credit rating range and credit risk concentration for deposits with foreign banks as at reporting dates is disclosed in Note 26.1.2.

14. DEBT INSTRUMENTS

Debt instruments are classified at fair value through other comprehensive income, representing the foreign currency reserve funds invested in sovereign government bonds of Eurozone countries with a high degree of marketability and liquidity. The portfolio includes short-term and long-term government bonds with a fixed interest rate at a maximum investment period of 10 years. Debt instruments at fair value through other comprehensive income are denominated in EUR.

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

In thousands of KM	30 September 2020	31 December 2019
Coupon bonds	8,896,776	8,848,981
Discount bonds	412,438	-
Accrued interest on coupon bonds	70,384	68,432
TOTAL	9,379,598	8,917,413

Provisions for expected credit losses for debt instruments at fair value through other comprehensive income amount to KM 1,573 thousand as at 30 September 2020 (31 December 2019: KM 1,343 thousand).

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

In thousands of KM	01/07 - 30/09 2020	01/07 - 30/09 2019	01/01 - 30/09 2020	For the period 01/01 - 30/09 2019
Opening balance	9,316,087	8,547,188	8,917,413	8,225,439
Purchases during the period	690,635	801,407	2,350,286	2,401,450
Sales during the period	-	-	(316,129)	(209,178)
Interest income recognized during the period (Note 3)	9,443	9,978	28,951	30,174
Effects of negative interest rates recognized during the period (Note 3)	(3,739)	(3,354)	(10,485)	(9,828)
Maturities of debt instruments	(619,465)	(462,970)	(1,574,976)	(1,638,707)
Maturities of coupons	(32,245)	(22,861)	(90,099)	(76,223)
Net change in fair value during the period	18,882	44,471	74,637	190,732
Closing balance	9,379,598	8,913,859	9,379,598	8,913,859

Significant deviations of net changes in fair value during the period for debt instruments are a consequence of the deteriorating conditions and movements in market prices respecting yields to which the Central Bank was exposed in comparative reporting periods. These changes are the dominant reason for the deviation of the total comprehensive income of the Central Bank in the reporting periods.

More information about the range of credit ratings and credit risk concentration for debt instruments at the reporting dates is disclosed in the Note 26.1.2.

15. MONETARY GOLD

As at 30 September 2020, fair value of monetary gold amounts to KM 302,107 thousand, representing 96,000 ounces of gold at KM 3,147 per ounce (31 December 2019: KM 254,088 thousand, representing 96,000 ounces of gold at KM 2,647 per ounce). Monetary gold is denominated in EUR.

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

In thousands of KM	01/07 - 30/09		For the period	
	2020	2019	01/01 - 30/09 2020	01/01 - 30/09 2019
Opening balance	297,691	232,734	254,088	209,996
Net change in fair value during the period	4,416	20,875	48,019	43,613
Closing balance	302,107	253,609	302,107	253,609

Growth in the market price of monetary gold in the reporting period has led to the growth of other comprehensive income of the Central Bank from monetary gold holdings in relation to the comparative reporting period.

16. OTHER ASSETS

In thousands KM	30 September 2020	31 December 2019
Prepaid expenses	9,189	7,539
Receivables from domestic banks	1,751	1,833
Numismatics collection	978	840
Giro accounts	841	575
Other miscellaneous assets	551	620
Loans to employees	25	55
Receivables from employee based on domestic currency deficit	600	600
Less impairment of other receivables	(600)	(600)
Less impairment for expected credit losses	(4)	(5)
TOTAL	13,331	11,457

As at 30 September 2020, prepaid expenses include expenditures of KM 8,641 thousand incurred on the production of banknotes and coins (31 December 2019: KM 6,973 thousand incurred on the production of banknotes and coins).

17. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

In thousands KM	Land and buildings	Equipment and furniture	Vehicles	Other	Assets under construction	Property and equipment total	Software and other intangible assets	Intangible assets under construction	Intangible assets total
Cost									
As at 1 January 2020	44,368	24,976	1,863	1,069	4,815	77,091	15,461	359	15,820
Additions	-	-	-	-	1,548	1,548	-	107	107
Brought into use	-	1,018	5	10	(1,082)	(49)	192	(143)	49
Write offs and disposals	-	-	(183)	-	-	(183)	-	-	-
As at 30 September 2020	44,368	25,994	1,685	1,079	5,281	78,407	15,653	323	15,976
Accumulated depreciation and amortization									
As at 1 January 2020	5,974	20,399	1,576	828	-	28,777	14,257	-	14,257
Charge for the year	435	993	59	27	-	1,514	400	-	400
Write offs and disposals	-	-	(183)	-	-	(183)	-	-	-
As at 30 September 2020	6,409	21,392	1,452	855	-	30,108	14,657	-	14,657
Net book value									
As at 1 January 2020	38,394	4,577	287	241	4,815	48,314	1,204	359	1,563
As at 30 September 2020	37,959	4,602	233	224	5,281	48,299	996	323	1,319

As at 30 September 2020, the Central Bank has no encumbrances over its property, equipment and intangible assets.

18. CURRENCY IN CIRCULATION

In thousands of KM	30 September 2020	31 December 2019
Opening balance	5,199,916	4,750,614
Increase in currency in circulation during the period	833,075	449,302
Closing balance	6,032,991	5,199,916

Significant increase in currency in circulation is caused by a temporary increase in cash demand due to the COVID-19 Coronavirus pandemic, which caused commercial banks to withdraw cash from the Central Bank's vaults.

19. DEPOSITS FROM BANKS

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

In thousands of KM	30 September 2020	31 December 2019
Deposits of domestic commercial banks	5,313,916	5,743,011
Reserve accounts of organizational units of the Central Bank	841	575
Special deposits of domestic commercial banks - blocked funds	33	33
TOTAL	5,314,790	5,743,619

The decrease in deposits from banks is predominantly a consequence of the decrease in the reserve account of commercial banks based on the withdrawal of KM currency from the Central Bank's vault.

The average balance of the reserve accounts of domestic commercial banks, calculated for the last ten day settlement period in September 2020, amounts to KM 5,408,169 thousand out of which KM 2,694,774 thousand is related to required reserves of commercial banks and KM 2,713,395 thousand is related to amount exceeding the required reserves (The average balance of the reserve accounts of domestic commercial banks, calculated for the last ten day settlement period in December 2019, amounted to KM 5,670,600 thousand out of which KM 2,693,462 thousand was related to required reserves of commercial banks and KM 2,977,138 thousand was related to amount exceeding the required reserves).

Deposits from banks include negative accrued interest in the amount of KM 1,145 thousand as at 30 September 2020 (31 December 2019: included negative accrued interest in the amount of KM 1,304 thousand).

20. DEPOSITS FROM THE GOVERNMENT AND OTHER PUBLIC DEPOSITORS

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

In thousands of KM	30 September 2020	31 December 2019
Deposits for the budget of BH institutions	571,077	553,745
Deposits of other public institutions	219,444	176,640
Deposit account under the IMF transactions	198,676	5
Deposits of other governments and government institutions	105,856	150,285
Deposits – BH external debt	809	-
TOTAL	1,095,862	880,675

Analytical structure of deposits by the state level depositors is disclosed in Note 25.

21. OTHER LIABILITIES

In thousands of KM	30 September 2020	31 December 2019
IMF accounts No. 1 and 2	1,612	1,657
Suppliers	1,045	2,095
Accrued expenses and other liabilities	685	224
World Bank deposits	538	52
Deferred income	20	69
TOTAL	3,900	4,097

22. EQUITY

The structure of equity is presented in the following table:

In thousands of KM	30 September 2020	31 December 2019
Initial capital	25,000	25,000
Reserves	952,908	831,541
<i>General reserves (Retained earnings)</i>	<i>537,295</i>	<i>537,295</i>
<i>Other reserves</i>	<i>31,300</i>	<i>31,300</i>
<i>Fair value reserves for debt and equity instruments at fair value through other comprehensive income</i>	<i>284,491</i>	<i>211,373</i>
<i>Provisions for expected credit losses (Note 26.1.1)</i>	<i>1,573</i>	<i>1,343</i>
<i>Fair value reserves for monetary gold</i>	<i>98,249</i>	<i>50,230</i>
Net profit for the period	7,891	-
TOTAL	985,799	856,541

23. CASH AND CASH EQUIVALENTS

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

In thousands of KM	30 September 2020	30 September 2019
Foreign currency deposits with maturity up to three months or less from the date of acquisition	1,864,292	1,552,633
Foreign currency demand deposits	945,396	674,551
Foreign currency in cash	137,770	304,222
Giro accounts	841	554
Special drawing rights with the IMF	461	146
Total	2,948,760	2,532,106
Less impairment for expected credit losses	(761)	(505)
TOTAL	2,947,999	2,531,601

24. CURRENCY BOARD ARRANGEMENT

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

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

Details of compliance with this rule are as follows:

In thousands of KM	30 September 2020	31 December 2019
Gross foreign currency reserves	13,343,900	12,597,095
Foreign currency in cash	137,770	322,599
Deposits with foreign banks	3,523,964	3,102,765
Debt instruments	9,379,598	8,917,413
Monetary gold	302,107	254,088
Special drawing rights with the IMF	461	230
Liabilities to non-residents	2,150	1,709
Net foreign currency reserves (Gross foreign currency reserves less liabilities to non-residents)	13,341,750	12,595,386
Monetary liabilities	12,443,643	11,824,210
Currency in circulation	6,032,991	5,199,916
Deposits from banks	5,314,790	5,743,619
Deposits from the Government and other public depositors	1,095,862	880,675
NET FOREIGN ASSETS (Net foreign currency reserves less monetary liabilities)	898,107	771,176

25. RELATED PARTIES TRANSACTIONS

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

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

In thousands of KM

30 September 2020	Liabilities
State	735,545
<i>State institutions:</i>	
BH Indirect Taxations Authority	113,069
BH Deposit Insurance Agency	202,662
TOTAL	1,051,276

In thousands of KM

31 December 2019	Liabilities
State	546,735
<i>State institutions:</i>	
BH Indirect Taxations Authority	85,844
BH Deposit Insurance Agency	165,033
TOTAL	797,612

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

Remuneration of the key management members

The total remuneration of the key management members (members of the Management and the Governing Board), in the period 01/01 – 30/09/2020, amounts to KM 649 thousand, out of which KM 401 thousand is related to salaries and other remuneration and KM 248 thousand is related to taxes and contributions (In the period 01/01 – 30/09/2019, out of the total amount of KM 682 thousand, the amount of KM 419 thousand was related to salaries and other remunerations and KM 263 thousand was related to taxes and contributions).

26. FINANCIAL RISK MANAGEMENT

Financial assets which represent the Central 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),
- Debt instruments,
- Monetary gold,
- Special drawing rights with the IMF,
- Other financial assets (domestic banks' receivables, employees' loans and other receivables) and
- Other investments.

26.1. Credit risk

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

- limiting the scope of financial instruments,
- limiting counterparties and issuers to those with acceptable composite credit rating,
- defining concentration limits for investments with an individual counterparty,
- limiting the maximum amount to be invested into individual types of financial instruments,
- limiting the size of the issue of individual securities and
- limiting maturities.

For the funds recorded in off-balance sheet records, the Central Bank is not exposed to credit risk, as all the risk, which may result from the investments of these funds, is to be borne contractually by the owners of these funds (see Notes 28 i 29).

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.1. Credit risk (continued)

26.1.1. Credit risk exposure

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

In thousands of KM

	2020				2019			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
1. Debt instruments								
As at 1 January - stated	1,343	-	-	1,343	8,993	-	-	8,993
Change in PD calculation at 1 January (Note 10)	-	-	-	-	(7,704)	-	-	(7,704)
As at 1 January - restated	1,343	-	-	1,343	1,289	-	-	1,289
Increases due to change in credit risk	575	-	-	575	289	-	-	289
Decreases due to change in credit risk	(51)	-	-	(51)	(78)	-	-	(78)
Decreases due to debt instruments matured	(235)	-	-	(235)	(147)	-	-	(147)
<i>Net increase / decrease during the period</i>	<i>289</i>	<i>-</i>	<i>-</i>	<i>289</i>	<i>(7,640)</i>	<i>-</i>	<i>-</i>	<i>(7,640)</i>
Decreases due to debt instruments sold	(59)	-	-	(59)	(46)	-	-	(46)
As at 30 September	1,573	-	-	1,573	1,307	-	-	1,307
2. Deposits with foreign banks								
As at 1 January - stated	724	-	-	724	2,535	-	-	2,535
Change in PD calculation at 1 January (Note 10)	-	-	-	-	(2,117)	-	-	(2,117)
As at 1 January - restated	724	-	-	724	418	-	-	418
Increases due to change in credit risk	3,326	-	-	3,326	2,323	-	-	2,323
Decreases due to change in credit risk	(168)	-	-	(168)	(153)	-	-	(153)
Decreases due to derecognition of term deposits	(3,028)	-	-	(3,028)	(1,999)	-	-	(1,999)
As at 30 September	854	-	-	854	589	-	-	589

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

26.1. Credit risk (continued)

26.1.1. Credit risk exposure (continued)

	2020				2019			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
3. Special drawing rights with the IMF								
As at 1 January	-	-	-	-	1	-	-	1
Increases due to change in credit risk	-	-	-	-	-	-	-	-
Decreases due to change in credit risk	-	-	-	-	(1)	-	-	(1)
As at 30 September	-	-	-	-	-	-	-	-
4. Other financial assets								
As at 1 January	5	-	600	605	5	-	600	605
Increases due to change in credit risk	5	-	-	5	6	-	-	6
Decreases due to change in credit risk	(6)	-	-	(6)	(6)	-	-	(6)
As at 30 September	4	-	600	604	5	-	600	605
Total opening balance at 1 January	2,072	-	600	2,672	11,534	-	600	12,134
Total change in PD calculation	-	-	-	-	(9,821)	-	-	(9,821)
Total net increase in credit risk	359	-	-	359	188	-	-	188
Total closing balance at 30 September	2,431	-	600	3,031	1,901	-	600	2,501

26. FINANCIAL RISK MANAGEMENT (CONTINUED)**26.1. Credit risk (continued)****26.1.2. Credit risk concentration****a) Maximum exposure to credit risk – Financial instruments subject to impairment**

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

In thousands of KM

Classes of financial instruments	30 September 2020				31 December 2019			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Foreign currency in cash								
Gross carrying amount	137,770	-	-	137,770	322,599	-	-	322,599
Loss allowance	-	-	-	-	-	-	-	-
Carrying amount	137,770	-	-	137,770	322,599	-	-	322,599
Deposits with foreign banks								
Gross carrying amount	3,524,818	-	-	3,524,818	3,103,489	-	-	3,103,489
Loss allowance	(854)	-	-	(854)	(724)	-	-	(724)
Carrying amount	3,523,964	-	-	3,523,964	3,102,765	-	-	3,102,765
Debt instruments								
Gross carrying amount	9,379,598	-	-	9,379,598	8,917,413	-	-	8,917,413
Provisions for expected credit losses (recognized in other comprehensive income)	(1,573)	-	-	(1,573)	(1,343)	-	-	(1,343)
Carrying amount	9,379,598	-	-	9,379,598	8,917,413	-	-	8,917,413
Special drawing rights with the IMF								
Gross carrying amount	461	-	-	461	230	-	-	230
Loss allowance	-	-	-	-	-	-	-	-
Carrying amount	461	-	-	461	230	-	-	230
Other financial assets								
Gross carrying amount	2,926	-	600	3,526	2,827	-	600	3,427
Loss allowance	(4)	-	(600)	(604)	(5)	-	(600)	(605)
Carrying amount	2,922	-	-	2,922	2,822	-	-	2,822

26. FINANCIAL RISK MANAGEMENT (CONTUNUED)**26.1. Credit risk (continued)****26.1.2. Credit risk concentration (continued)****b) Maximum exposure to credit risk – Financial instruments not subject to impairment**

In thousands of KM	30 September 2020	31 December 2019
Carrying amount		
Monetary gold	302,107	254,088
Other investments	27,813	27,813
TOTAL	329,920	281,901

Individual credit risk concentration

Deposits with foreign banks in total amount to KM 3,523,964 thousand as at 30 September 2020 (31 December 2019: KM 3,102,765 thousand). The largest portion of these funds is invested in one foreign bank with individual exposure not exceeding total equity and reserves of the Central Bank (As at 31 December 2019 the largest portion of these funds was invested in one foreign bank with individual exposure exceeding total equity and reserves of the Central Bank).

Individual credit risk concentration for deposits with foreign banks

30 September 2020			31 December 2019		
Bank rating	In thousands of KM	% of total deposits	Bank rating	In thousands of KM	% of total deposits
AA	723,230	20.52%	AAA	1,104,271	35.59%

26. FINANCIAL RISK MANAGEMENT (CONTUNUED)**26.1. Credit risk (continued)****26.1.2. Credit risk concentration (continued)****Concentration per credit rating**

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

Deposits with foreign banks		In thousands of KM
Credit rating	30 September 2020	31 December 2019
AAA	1,238,917	1,842,449
AA+	-	-
AA	723,230	78,191
AA-	-	-
A+	576,744	547,273
A	876,469	408,740
A-	1,271	-
II ¹	361	101
BBB+	106,972	226,011
BBB	-	-
TOTAL	3,523,964	3,102,765

As at 30 September 2020, credit risk exposure for deposits with foreign banks at their carrying amounts, categorized by geographical region, amounts to KM 2,556,035 thousand for EU countries and KM 967,929 thousand for non-EU member countries (31 December 2019: KM 2,618,598 thousand for EU countries and KM 484,167 thousand for non-EU member countries). Increase in exposure of deposits to non-EU member countries is the consequence of Great Britain official exit from EU.

Debt instruments		In thousands of KM
Credit rating	30 September 2020	31 December 2019
AAA	2,093,674	2,190,752
AA+	1,285,061	1,273,212
AA	3,157,407	2,977,360
AA-	1,219,389	1,010,563
A+	-	-
A	-	-
A-	1,004,999	840,621
BBB+	-	-
BBB	-	624,905
BBB-	619,068	-
TOTAL	9,379,598	8,917,413

¹ International institutions

26. FINANCIAL RISK MANAGEMENT (CONTUNUED)**26.2. Market risk**

Market risk is the risk of changes in the financial assets and instruments market value due to the changes in the financial markets conditions. The market risks that the Central Bank faces in its operations are: interest rate risk, foreign exchange risk and gold price risk. The objective of market risk management is to manage and control market risk exposures with acceptable parameters, while optimising the return.

For the purpose of quantifying the market risks effects on the currency reserves value, the Central Bank applies the Value at Risk (VaR) concept. VaR represents a statistical measure which shows the maximum loss that can occur in foreign currency reserves portfolio due to the changes in the financial instruments prices and the foreign exchange rates, given a certain level of confidence and a particular time horizon. VaR value for market risk is calculated by analytical (parametric) method, based on the mean value of gain/loss or yield rate of observed portfolio and standard deviation of observed data. The Central Bank, when calculating VaR, applies a level of confidence of 99% and a 10-day horizon.

For calculating VaR value of foreign currency reserves portfolio of the Central Bank, all positions which are exposed to market risks in foreign currency reserves portfolio are taken into account, respectively foreign exchange risk, interest rate risk and price risk. As at 30 September 2020, the exposure of the Central Bank's foreign currency reserves (Value at Risk at a level of confidence of 99% for a 10-day horizon), including fluctuations of the prices of financial instruments and foreign exchange rates against the KM, equals to KM 71,172 thousand (31 December 2019: KM 76,418 thousand), which represents 0.53% of the total financial assets (31 December 2019: 0.61% of the total financial assets).

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

In thousands of KM	30 September 2020	31 December 2019
Currency risk	271	277
Interest rate risk	50,881	67,443
Risk of change in EUR price of the monetary gold	20,020	8,698
Total VaR	71,172	76,418

26.2.1. Foreign exchange risk

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

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

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

26. FINANCIAL RISK MANAGEMENT (CONTINUED)**26.2. Market risk (continued)****26.2.2. Interest rate risk**

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

25.2. Liquidity risk

Liquidity risk refers to the possible difficulties in liquidating a portion of assets quickly, when it is necessary, mostly when market conditions are unfavorable or when there is no opportunity to obtain the appropriate price of the financial asset on financial market.

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 Central Bank foreign currency reserves.

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

27. FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

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

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

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

27.1. Financial assets measured at fair value

In thousands of KM

30 September 2020

	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Debt instruments	9,379,598	-	-	9,379,598
Monetary gold	302,107	-	-	302,107
TOTAL	9,681,705	-	-	9,681,705

In thousands of KM

31 December 2019

	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Debt instruments	8,917,413	-	-	8,917,413
Monetary gold	254,088	-	-	254,088
TOTAL	9,171,501	-	-	9,171,501

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

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

In thousands of KM

		30 September 2020
	Carrying amount	Fair value
Financial assets		
<i>Financial assets measured at amortised cost:</i>		
Foreign currency in cash	137,770	137,770
Deposits with foreign banks	3,523,964	3,515,417
Special drawing rights with the IMF	461	461
Other financial assets	2,922	2,922
	<u>3,665,117</u>	<u>3,656,570</u>
<i>Financial assets at fair value through other comprehensive income:</i>		
Other investments	27,813	27,813
	<u>27,813</u>	<u>27,813</u>
Total	3,692,930	3,684,383
 Financial liabilities		
<i>Financial liabilities measured at amortised cost:</i>		
Currency in circulation	6,032,991	6,032,991
Deposits from banks	5,314,790	5,301,791
Deposits from the Governments and other public depositors	1,095,862	1,093,182
Other financial liabilities	3,197	3,197
Total	12,446,840	12,431,161

26. FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)**26.2. Financial assets and financial liabilities not measured at fair value (continued)**

In thousands of KM

31 December 2019

	Carrying amount	Fair value
Financial assets		
<i>Financial assets measured at amortised cost:</i>		
Foreign currency in cash	322,599	322,599
Deposits with foreign banks	3,102,765	3,094,695
Special drawing rights with the IMF	230	230
Other financial assets	2,822	2,822
	<u>3,428,416</u>	<u>3,420,346</u>
<i>Financial assets at fair value through other comprehensive income:</i>		
Other investments	27,813	27,813
	<u>27,813</u>	<u>27,813</u>
Total	3,456,229	3,448,159
Financial liabilities		
<i>Financial liabilities measured at amortised cost:</i>		
Currency in circulation	5,199,916	5,199,916
Deposits from banks	5,743,619	5,729,302
Deposits from the Governments and other public depositors	880,675	878,480
Other financial liabilities	3,816	3,816
Total	11,828,026	11,811,514

28. BH MEMBERSHIP WITH THE INTERNATIONAL MONETARY FUND

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

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

28. BH MEMBERSHIP WITH THE INTERNATIONAL MONETARY FUND (CONTINUED)

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

In thousands of KM

	30 September 2020	31 December 2019
Quota	623,580	641,034
Special drawing rights with the IMF	461	230
TOTAL ASSETS	624,041	641,264
IMF account No.1	1,559	1,603
IMF account No.2	53	54
Securities	1,543,609	945,780
SDR allocation	378,301	388,890
Accrued interest on SDR allocation	53	506
Accounts of payable charges	1,666	912
TOTAL LIABILITIES	1,925,241	1,337,745
BH NET POSITION WITH THE IMF	1,301,200	696,481

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

BH net position with the IMF is increased due to remittances under the Rapid Financing Instrument of BH with the IMF. Based on the remitted funds, a security (Promissory Note) was issued by the BH Ministry of Finance and Treasury as a guarantee for the assumed obligations of BH to the IMF and delivered to the Central Bank for the custody.

29. OFF-BALANCE SHEET ITEMS

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

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

29. OFF-BALANCE SHEET ITEMS (CONTINUED)

Off-balance sheet items consist of:

In thousands of KM	30 September 2020	31 December 2019
Deposits of USAID	2,497	2,497
Deposits of non-residents	2,497	2,497
Deposits of the Council of Ministers of BH:	15,566	10,582
<i>Deposits of the Council of Ministers of BH on the basis of succession</i>	42	46
<i>Deposits of the Council of Ministers of BH regarding the servicing of external debt</i>	13,730	8,641
<i>Deposits of the Council of Ministers of BH regarding the Budget of BH institutions</i>	1,531	1,622
<i>Other deposits of the Council of Ministers of BH</i>	263	273
Deposits of other residents:	20,330	15,305
<i>Deposits - Retirement allowances from Germany</i>	191	5
<i>Deposit accounts of banks</i>	20,139	15,300
Deposits of residents	35,896	25,887
Cash account – Deposit Insurance Agency of BH	73,870	70,356
Total – Deposit Insurance Agency of BH	73,870	70,356
TOTAL	112,263	98,740

30. POST-REPORTING DATE EVENTS

There were no events in the period between 30 September 2020 and the date of approval of these condensed interim financial statements that would require adjustment or are material but do not require adjustment.