

**CENTRALNA BANKA
BOSNE I HERCEGOVINE**



**ЦЕНТРАЛНА БАНКА
БОСНЕ И ХЕРЦЕГОВИНЕ**

**CENTRAL BANK OF
BOSNIA AND HERZEGOVINA**

**CONDENSED FINANCIAL STATEMENTS
IN ACCORDANCE WITH THE REQUIREMENTS OF IAS 34
as of 30 September 2017**

Sarajevo, 19 October 2017

Contents

	Page
Financial statements	
Income statement	1
Statement of comprehensive income	2
Statement of financial position	3
Statement of changes in equity	4
Statement of cash flows	5
Notes to the condensed financial statements	6 - 15

INCOME STATEMENT

for the period

In thousands of KM	01/01 – 30/09/2017	01/07 – 30/09/2017	01/01 – 30/09/2016	01/07 – 30/09/2016
Interest income	22,195	7,328	21,827	7,095
Effects of negative interest rates from interest-bearing financial assets	(8,672)	(2,804)	(5,393)	(2,695)
Effects of negative deposit interest rates on deposits from local commercial banks	3,124	1,112	1,058	1,058
NET INTEREST INCOME	16,647	5,636	17,492	5,458
Fee and commission income	11,509	4,238	7,468	2,607
Fee and commission expense	(409)	(147)	(411)	(117)
NET FEE AND COMMISSION INCOME	11,100	4,091	7,057	2,490
Net realised gains from sale of financial assets available-for-sale	2,587	2,392	8,377	-
Net foreign exchange (losses)	(448)	(200)	(203)	(87)
Other income	1,462	558	1,572	668
OPERATING INCOME	31,348	12,477	34,295	8,529
Personnel expenses	(13,610)	(4,710)	(13,838)	(4,591)
Administrative and other operating expenses	(5,190)	(1,909)	(4,755)	(1,497)
Depreciation and amortisation	(1,504)	(520)	(1,599)	(522)
OPERATING EXPENSES	(20,304)	(7,139)	(20,192)	(6,610)
NET PROFIT FOR THE PERIOD	11,044	5,338	14,103	1,919

The accompanying notes on pages 6 to 15 are an integral part of these condensed financial statements.

STATEMENT OF COMPREHENSIVE INCOME

for the period

In thousands of KM	01/01 – 30/09/2017	01/07 – 30/09/2017	01/01 – 30/09/2016	01/07 – 30/09/2016
NET PROFIT FOR THE PERIOD	11,044	5,338	14,103	1,919
Other comprehensive income				
<i>Items that may be reclassified subsequently to the income statement</i>				
Monetary gold				
Net changes in fair value of monetary gold	(1,677)	(770)	37,858	(3,613)
	(1,677)	(770)	37,858	(3,613)
Financial assets available-for-sale				
Net change in fair value of financial assets available-for-sale	(14,807)	12,913	81,321	1,880
Realized fair value gains from financial assets available-for sale reclassified to the income statement	(2,587)	(2,392)	(8,377)	-
	(17,394)	10,521	72,944	1,880
Total other comprehensive (loss) / income	(19,071)	9,751	110,802	(1,733)
TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE PERIOD	(8,027)	15,089	124,905	186

The accompanying notes on pages 6 to 15 are an integral part of these condensed financial statements.

STATEMENT OF FINANCIAL POSITION

as at

In thousands of KM	30 September 2017	31 December 2016
ASSETS		
Foreign currency in cash	218,860	194,846
Deposits with foreign banks	2,568,872	2,970,397
Special Drawing Rights with the International Monetary Fund	1,343	2,642
Financial assets available-for-sale	5,991,222	5,025,829
Monetary gold	203,425	205,102
Held-to-maturity investments	1,216,429	1,132,328
Other assets	12,008	4,626
Property, equipment and intangible assets	45,819	45,475
Other investments	27,813	27,813
TOTAL ASSETS	10,285,791	9,609,058
LIABILITIES, EQUITY AND RESERVES		
Currency in circulation	4,333,973	4,066,804
Deposits from banks	4,543,625	4,269,143
Deposits from the Government and other depositors	742,775	590,392
Provisions for liabilities and charges	1,455	1,611
Other liabilities	4,558	13,676
Total liabilities	9,626,386	8,941,626
Initial capital	25,000	25,000
General reserves (Retained earnings)	537,892	537,892
Other reserves	31,300	31,300
Fair value reserves – monetary gold	(40,034)	(38,357)
Fair value reserves – financial assets available-for-sale	94,203	111,597
Profit for the period	11,044	-
Total equity and reserves	659,405	667,432
TOTAL LIABILITIES, EQUITY AND RESERVES	10,285,791	9,609,058

The accompanying notes on pages 6 to 15 are an integral part of these condensed financial statements.

STATEMENT OF CHANGES IN EQUITY

for the period

In thousands of KM	Initial capital	General reserves (Retained earnings)	Other reserves	Fair value reserves – monetary gold	Fair value reserves – financial assets available-for-sale	Profit for the period	Total
Balance as of 1 January 2017	25,000	537,892	31,300	(38,357)	111,597	-	667,432
Total comprehensive income for the period							
Profit for the period	-	-	-	-	-	11,044	11,044
Other comprehensive income	-	-	-	(1,677)	(17,394)	-	(19,071)
	-	-	-	(1,677)	(17,394)	11,044	(8,027)
Balance as of 30 September 2017	25,000	537,892	31,300	(40,034)	94,203	11,044	659,405
Balance as of 1 January 2016	25,000	532,267	31,300	(61,145)	66,307	-	593,729
Total comprehensive income for the period							
Profit for the period	-	-	-	-	-	14,103	14,103
Other comprehensive income	-	-	-	37,858	72,944	-	110,802
	-	-	-	37,858	72,944	14,103	124,905
Balance as of 30 September 2016	25,000	532,267	31,300	(23,287)	139,251	14,103	718,634

The accompanying notes on pages 6 to 15 are an integral part of these condensed financial statements.

STATEMENT OF CASH FLOWS

for the period

In thousands of KM	01/01 – 30/09/2017	01/01 – 30/09/2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the period	11,044	14,103
Adjustments for:		
Depreciation and amortisation	1,504	1,599
Net realised (gains) from sale of financial assets available-for-sale	(2,587)	(8,377)
Income from grants	(99)	(145)
Provisions for liabilities and charges	(12)	(16)
(Gain) on disposal of property and equipment	(41)	-
Dividend income recognized in the income statement	(763)	(562)
Interest income from held-to-maturity investments and financial assets available-for-sale recognized in the income statement	(22,174)	(21,819)
Net cash flows from operating activities before changes in operating assets and liabilities	(13,128)	(15,217)
Changes in operating assets and liabilities		
(Increase) in deposits with foreign banks	(758,517)	(430,018)
(Increase) / decrease in other assets	(7,739)	312
Increase of currency in circulation	267,169	485,981
Increase in deposits	426,865	246,887
(Decrease) in other liabilities	(582)	(1,109)
Pay-out of severance payments	(144)	(60)
Net cash from operating activities	(86,076)	286,776
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	41	-
Purchases of property, equipment and intangible assets	(1,848)	(537)
Collected principal and interest from financial assets available-for-sale	2,114,373	4,556,366
Purchases of financial assets available-for sale	(3,551,877)	(3,545,714)
Sales of financial assets available-for sale	470,089	241,944
Collected principal and interest from held-to-maturity investments	16,008	16,041
Purchases of held-to-maturity investments	(90,720)	-
Dividend received	763	562
Net cash used in investing activities	(1,043,171)	1,268,662
CASH FLOWS FROM FINANCING ACTIVITIES		
Distribution of profit to the state budget	(8,437)	(18,827)
Net cash used in financing activities	(8,437)	(18,827)
Net (decrease) / increase in cash and cash equivalents	(1,137,684)	1,536,611
Cash and cash equivalents at the beginning of the year	2,973,081	1,136,185
Cash and cash equivalents at the end of the period	1,835,397	2,672,796

The accompanying notes on pages 6 to 15 are an integral part of these condensed financial statements.

BASIS FOR PREPARATION OF CONDENSED FINANCIAL STATEMENTS

The condensed financial statements have been prepared in accordance with the Law on the Central Bank of Bosnia and Herzegovina and in accordance with the International Accounting Standard 34, Interim Financial Reporting.

The condensed financial statements have been prepared in accordance with the same accounting policies, principles of balancing and methods of the valuation of assets, liabilities, equity and reserves, income, expenditures and the financial results, applied in the preparation of the latest annual Financial statements of the Central Bank of Bosnia and Herzegovina, except for the expenses relating to the production and design of banknotes and coins initially recognized as deferred expenses which are subsequently amortised through other operating expenses during the five year period from February 2017 (before that: during the three year period).

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

FUNCTIONAL AND PRESENTATION CURRENCY

The Bank's 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 indicated).

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 KM 1.95583 = 1 EUR. 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.

The Law on the Central Bank of Bosnia and Herzegovina defines the operational rules "currency board" to be used for issuing KM, according to which KM is issued only with the purchase of convertible foreign exchange currency with the full coverage in net foreign assets.

DEPOSITS WITH FOREIGN BANKS

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

In thousands of KM	30 September 2017	31 December 2016
Demand deposits	598,748	705,065
Up to 1 month	487,733	742,008
From 1 to 2 months	155,741	644,529
From 2 to 3 months	898,267	683,351
From 3 to 4 months	292,030	-
From 4 to 12 months	136,353	195,444
Total term deposits	1,970,124	2,265,332
TOTAL	2,568,872	2,970,397

FINANCIAL ASSETS AVAILABLE-FOR-SALE

Financial assets available-for-sale include debt securities held by the Bank and are initially recognized at their fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequent to initial recognition, the Bank measures financial assets available-for-sale at their fair value, which is their quoted market price at the reporting date.

Gains and losses arising from changes in the fair value of financial assets available-for-sale are recognized in other comprehensive income in the fair value reserve account. Impairment losses, foreign exchange gains and losses, interest income and amortisation of premium or discount using the effective interest method on financial assets available-for-sale are recognised in income statement. Upon sale or other de-recognition of financial assets available-for-sale, all cumulative gains or losses are transferred from other comprehensive income to income statement.

Financial assets available-for-sale are quality debt securities with a high degree of marketability and liquidity, with a credit rating from AAA to BBB (Fitch). 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. Financial assets available-for-sale are denominated in EUR.

The structure of the securities available-for-sale is as follows:

In thousands of KM	30 September 2017	31 December 2016
Debt securities	5,937,020	4,986,018
Accrued interest	54,202	39,811
TOTAL	5,991,222	5,025,829

MONETARY GOLD

Gold is initially recognized at cost, being the fair value of the consideration given including acquisition charges associated with the investment. After initial recognition, the gold is re-measured at fair value.

The fair value of monetary gold is expressed in American dollars (USD), converted at the middle exchange rate as published by the Bank at the reporting date, and is valued at the last bid price for one ounce of gold (Oz) at the reporting date quoted on Reuters.

The Bank holds monetary gold in a bank in Switzerland which is physically held in a vault at the Bank of England. The value of the monetary gold as of 30 September 2017 amounts to KM 203,425 thousand representing 96,000.000 ounces of gold at KM 2,119 per ounce (31 December 2016: KM 205,102 thousand representing 96,000.000 ounces of gold at KM 2,136 per ounce).

HELD-TO-MATURITY-INVESTMENTS

Held-to-maturity investments include debt securities with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity. Held-to-maturity investments are recorded at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

Gains and losses that may arise when a financial instrument is derecognised or when its value is impaired are recognised in income statement.

Held-to-maturity investments are with credit rating from AAA to BBB (Fitch) and are denominated in EUR.

The structure of the held-to-maturity investments is presented as follows:

In thousands of KM	30 September 2017	31 December 2016
Debt securities	1,208,530	1,124,596
Accrued interest	7,899	7,732
TOTAL	1,216,429	1,132,328

OTHER LIABILITIES

Other liabilities as of 31 December 2016 included also liabilities based on the allocation of the part of the profit for 2016 in the amount of KM 8,437 thousand to the state budget which was, in accordance to the relevant legal solutions, transferred to the account of the institution in charge for the budget of Bosnia and Herzegovina on 7 April 2017, so it has affected the net foreign assets of the Bank.

EQUITY AND RESERVES

Equity and reserves reflect initial capital, reserves, shares, and retained earnings of the Bank since the beginning of its operations on 11 August 1997.

INTEREST INCOME AND EXPENSE

	For the period			
In thousands of KM	01/01 – 30/09/2017	01/07 – 30/09/2017	01/01 – 30/09/2016	01/07 – 30/09/2016
Interest income arising from:				
- financial assets available-for-sale	12,785	4,117	13,223	4,185
- held-to-maturity investments	9,389	3,203	8,596	2,906
- deposits with foreign banks	12	5	7	4
- other	9	3	1	-
	22,195	7,328	21,827	7,095
Effects of negative interest rates from interest-bearing financial assets from:				
- term deposits held with foreign banks	(6,648)	(2,029)	(3,565)	(2,046)
- demand deposits held with foreign banks	(2,024)	(775)	(1,828)	(649)
	(8,672)	(2,804)	(5,393)	(2,695)
Effects of negative deposit interest rates on deposits from local commercial banks	3,124	1,112	1,058	1,058
Net interest income	16,647	5,636	17,492	5,458

The average interest rate on deposits invested in foreign banks in the period 01/01-30/09/2017 amounted to -0.43% (in the period 01/01-30/09/2016 amounted to -0.36%).

The average effective yield rate on invested securities available-for-sale in the period 01/01-30/09/2017 amounted to 0.39% (in the period 01/01-30/09/2016 amounted to 0.53%).

The average effective yield rate on held-to-maturity investments in the period 01/01-30/09/2017 amounted to 1.04% (in the period 01/01-30/09/2016 amounted to 1.01%).

The base for calculation of interest on commercial banks' deposits 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.

In the period 01/01/2015-30/06/2016 the base for calculation of the required reserve of commercial banks consisted of deposits and borrowings, except the borrowings received from non-residents and all funds placed by governments of entities into development projects.

Rates of deposits and borrowed funds which constituted the base for required reserve calculation in the period 01/01/2015-30/06/2016 were as follows:

	(in %)
Short-term deposits and borrowings	10.00
Long-term deposits and borrowings	7.00

Until 30 April 2015 the interest rate calculated on the required reserves is 70% of the rate based on weighted average of interest rates achieved by the Bank in the same period on deposits invested up to one month while the interest rate calculated on the amount exceeding the required reserves is 90% of the rate based on weighted average of interest rates achieved by the Bank in the same period on deposits invested up to one month. In the period 01/01/2015-30/06/2016 the policy of calculating fees on the required reserves and on the amount exceeding the required reserves to commercial banks has been amended in a way that the Bank will not calculate interest on those items if the Bank did not invest in deposits up to one month due to lack of opportunities to achieve positive interest rate on the market, or if, for any reason, the Bank achieved an average negative interest rate on deposits invested up to one month.

From 1 May 2015 the fee on required reserves was calculated as the average of EONIA recorded on the market less 10 basis points for the same period, or minimum zero, if the average of EONIA reduced by 10 basis points has a negative value, while the zero rate fee was calculated on the amount exceeding the required reserve.

CENTRAL BANK OF BOSNIA AND HERZEGOVINA
Notes to the condensed financial statements as of 30 September 2017

From 1 July 2016 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 the 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 the result of negative interest rates calculated on term deposits and current accounts that could not be avoided according to current market circumstances.

Effects of negative deposit interest rates on deposits from local commercial banks are the result of the negative interest rate on the amount exceeding the required reserve which amounted to -0.20% in the period 01/07/2016-30/09/2017.

FEE AND COMMISSION INCOME AND EXPENSE

In thousands of KM	For the period			
	01/01 – 30/09/2017	01/07 – 30/09/2017	01/01 – 30/09/2016	01/07 – 30/09/2016
Fee and commission income:				
- from local commercial banks	10,706	3,917	7,122	2,500
- from services for the Government and other non-banking clients	803	321	346	107
	11,509	4,238	7,468	2,607
Fee and commission expense:				
- transactions with foreign banks	(409)	(147)	(411)	(117)
	(409)	(147)	(411)	(117)
Net fee and commission income	11,100	4,091	7,057	2,490

NET REALISED GAINS FROM SALE OF FINANCIAL ASSETS AVAILABLE-FOR-SALE

In thousands of KM	For the period			
	01/01 – 30/09/2017	01/07 – 30/09/2017	01/01 – 30/09/2016	01/07 – 30/09/2016
Realised gains	2,587	2,392	8,377	-
Realised losses	-	-	-	-
Net realised gains	2,587	2,392	8,377	-

NET FOREIGN EXCHANGE (LOSSES)

In thousands of KM	For the period			
	01/01 – 30/09/2017	01/07 – 30/09/2017	01/01 – 30/09/2016	01/07 – 30/09/2016
Income from foreign exchange differences	436	127	625	199
Expenses from foreign exchange differences	(884)	(327)	(828)	(286)
Net (losses)	(448)	(200)	(203)	(87)

OTHER INCOME

Other income in the period 1 January - 30 September 2017 includes dividend income from shares in The Bank for International Settlements (BIS) in the amount of KM 763 thousand (1 January - 30 September 2016: KM 562 thousand).

ADMINISTRATIVE AND OTHER OPERATING EXPENSES

Administrative and other operating expenses in the period 1 January – 30 September 2017 include also deferred costs of the production of banknotes and coins in the amount of KM 991 thousand (1 January – 30 September 2016 these expenses included deferred costs of the production of coins in the amount of KM 463 thousand).

CASH AND CASH EQUIVALENTS

For the purpose of reporting cash flows, cash and cash equivalents comprise the following categories: giro accounts, foreign currency in cash, foreign currency demand deposits, and deposits with maturity of three months or less from the date of acquisition and Special Drawing Rights in the International Monetary Fund.

In thousands of KM	30 September 2017	30 September 2016
Foreign currency deposits with maturity of three months or less from the date of acquisition	1,016,163	1,895,467
Foreign currency demand deposits	598,748	617,698
Foreign currency in cash	218,860	156,671
Special Drawing Rights in the International Monetary Fund	1,343	2,718
Giro accounts	283	242
TOTAL	1,835,397	2,672,796