

CENTRAL BANK OF BOSNIA AND HERZEGOVINA

**CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2018**

(unaudited)

In accordance with the requirements of IAS 34

Sarajevo, 30 October 2018

Contents

	Page
Introduction	1
Financial statements	
Statement of profit or loss	2
Statement of comprehensive income	3
Statement of financial position	4
Statement of changes in equity	5
Statement of cash flows	6
Notes to the condensed interim financial statements	8 - 29

INTRODUCTION

The Central Bank of Bosnia and Herzegovina, operating as the supreme monetary institution in Bosnia and Herzegovina, continues to consistently comply with the objectives and tasks stipulated by the Law on the Central Bank of Bosnia and Herzegovina. As stated in Note 12 of Condensed Interim Financial Statements for the period ended 30 September 2018, the Currency Board principle has been fully complied, which is a guarantee of the monetary stability and the best indicator of successful performance of the Central Bank of Bosnia and Herzegovina.

The extremely unfavorable market conditions that our institution has been exposed to, for many years, coming from the international environment are continued in 2018. Extremely unfavorable conditions of the euro area market in the terms of negative interest rates on deposits and securities in which, in accordance with the Law on the Central Bank of Bosnia and Herzegovina, foreign exchange reserves of the Central Bank of Bosnia and Herzegovina are invested, have a particularly negative pressures on the operations of the Central Bank of Bosnia and Herzegovina. Other central banks are faced too with these problems that inevitably reflect their financial performance. Our institution remains fully committed to protecting the monetary stability of Bosnia and Herzegovina through the Currency Board arrangement.

In accordance with the Law on the Central Bank, the Central Bank of Bosnia and Herzegovina is obliged to apply International Financial Reporting Standards (IFRSs) in the presentation of its financial position and financial performance. From 1 January 2018, the Central Bank of Bosnia and Herzegovina has applied IFRS 9, which introduced novelties in the classification and measurement of financial assets, as well as, a new concept and mandatory calculation of provisions for expected credit losses on financial assets. IFRS 9 requires continuous recognition of expected credit losses by "forward looking view" approach and its updating on each reporting date in order to reflect the change in the credit risk exposure on financial assets of the Central Bank of Bosnia and Herzegovina. This is also one of the fundamental changes compared to IAS 39, which applied the concept of "incurred" losses that the Central Bank of Bosnia and Herzegovina has never had. The requirements of IFRS 9 have been fully embedded in our business processes and we continue with active work and improvements on this and all other issues. IFRS 9 applies to all financial and non-financial entities that have financial assets. The global expectation is that IFRS 9 will contribute to improving the stability of financial systems.

In Condensed Interim Financial Statements for the period ended 30 September 2018, we have transparently provided the IFRSs required information on our business and financial positions in terms of periodic financial reporting. However, we emphasize that the Central Bank of Bosnia and Herzegovina, as well as, other central banks in the world, is not a profit-oriented financial institution and its performance cannot be measured by its financial result, but by the achievement of the monetary stability objectives set by the Law. All Bank's activities and operations are undertaken in order to maintain monetary stability, not for the purpose of generating revenue or profits. In that respect, we will continue with the transparent disclosures on the Central Bank of Bosnia and Herzegovina policies, activities and operations.

CENTRAL BANK OF BOSNIA AND HERZEGOVINA
Condensed interim financial statements for the period ended 30 September 2018

STATEMENT OF PROFIT OR LOSS

(unaudited) (in thousands of KM)	Note	<i>For the period</i>			
		01/01- 30/09/2018 ⁽¹⁾	01/07- 30/09/2018	01/01- 30/09/2017	01/07- 30/09/2017
Interest income		21,414	7,209	22,195	7,328
Effects of negative interest rates from interest-bearing financial assets		(7,974)	(2,744)	(8,672)	(2,804)
Effects of negative deposit interest rates on deposits from local commercial banks		4,270	1,451	3,124	1,112
NET INTEREST INCOME	5	17,710	5,916	16,647	5,636
Fee and commission income		12,724	4,308	11,509	4,238
Fee and commission expense		(473)	(159)	(413)	(150)
NET FEE AND COMMISSION INCOME	6	12,251	4,149	11,096	4,088
Net realized gains from sale of financial assets available-for-sale		-	-	2,587	2,392
Net realized gains from sale of financial assets measured at fair value through other comprehensive income (FVOCI)		356	123	-	-
Net foreign exchange gains / (losses)		91	128	(448)	(200)
Other income		1,217	77	1,488	573
OPERATING INCOME		31,625	10,393	31,370	12,489
Personnel expenses		(13,881)	(4,722)	(13,623)	(4,709)
Administrative and other operating expenses		(5,834)	(1,847)	(5,308)	(2,015)
Depreciation and amortisation		(1,844)	(789)	(1,504)	(520)
OPERATING EXPENSES		(21,559)	(7,358)	(20,435)	(7,244)
NET PROFIT BEFORE PROVISIONS		10,066	3,035	10,935	5,245
Net impairment (losses)	7	(9,049)	1,415	-	-
NET PROFIT FOR THE PERIOD		1,017	4,450	10,935	5,245

The accompanying notes on pages 8 to 29 are the integral parts of these condensed interim financial statements.

(1) Statement of profit or loss for the period ended on 30 September 2018 reflects adoption of IFRS 9 from 1 January 2018. For additional information on IFRS 9 adoption see Notes 2 and 4 of these unaudited condensed interim financial statements. Comparative financial information has not been restated.

STATEMENT OF COMPREHENSIVE INCOME

For the period

(unaudited) (in thousands of KM)

	01/01 - 30/09/2018 ⁽¹⁾	01/07 - 30/09/2018	01/01 - 30/09/2017	01/07 - 30/09/2017
NET PROFIT FOR THE PERIOD	1,017	4,450	10,935	5,245
Other comprehensive income				
<i>Items that may be reclassified subsequently to the statement of profit or loss:</i>				
Financial assets available-for-sale				
Net changes in fair value during the period	-	-	(14,806)	12,914
Reclassification to the statement of profit or loss	-	-	(2,587)	(2,392)
	-	-	(17,393)	10,522
Debt instruments at fair value through OCI				
Net changes in fair value during the period	(57,624)	(59,394)	-	-
Net changes in expected credit losses	8,666	(701)	-	-
Reclassification to the statement of profit or loss	(356)	(123)	-	-
	(49,314)	(60,218)	-	-
Monetary gold				
Net changes in fair value	(11,102)	(8,496)	(1,676)	(768)
	(11,102)	(8,496)	(1,676)	(768)
Total other comprehensive (loss) / income	(60,416)	(68,714)	(19,069)	9,754
TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE PERIOD	(59,399)	(64,264)	(8,134)	14,999

The accompanying notes on pages 8 to 29 are an integral part of these condensed interim financial statements.

(1) Statement of comprehensive income for the period ended on 30 September 2018 reflects adoption of IFRS 9 from 1 January 2018. For additional information on IFRS 9 adoption see Notes 2 and 4 of these unaudited condensed interim financial statements. Comparative financial information has not been restated.

STATEMENT OF FINANCIAL POSITION

As of

(unaudited) (in thousands of KM)	Note	30 September 2018 ⁽¹⁾	1 January 2018 ⁽¹⁾	31 December 2017
ASSETS				
Foreign currency in cash		249,139	236,402	236,402
Deposits with foreign banks	8	2,625,545	2,697,015	2,698,650
Financial assets available-for-sale		-	-	6,202,071
Debt instruments at fair value through OCI	9	8,492,787	7,473,857	-
Monetary gold		192,756	203,858	203,908
Held-to-maturity investments		-	-	1,214,062
Special Drawing Rights with the IMF		1,492	1,531	1,531
Other assets		10,247	11,626	11,656
Property and equipment		44,815	45,465	45,465
Intangible assets		1,419	1,072	1,072
Equity securities at fair value through OCI		27,813	27,813	27,813
TOTAL ASSETS		11,646,013	10,698,639	10,642,630
LIABILITIES, EQUITY AND RESERVES				
Currency in circulation		4,717,246	4,319,360	4,319,360
Deposits from banks		5,437,769	5,033,065	5,033,065
Deposits from the Government and other depositors		837,323	624,708	624,708
Provisions for liabilities and charges		1,433	1,650	1,650
Other liabilities		2,997	11,212	11,212
Total liabilities		10,996,768	9,989,995	9,989,995
Initial capital		25,000	25,000	25,000
General reserves (Retained earnings)		506,289	506,289	542,766
Special reserves		31,300	31,300	31,300
Fair value reserves	10	85,639	146,055	53,569
Net profit for the period		1,017	-	-
Total equity and reserves		649,245	708,644	652,635
TOTAL LIABILITIES, EQUITY AND RESERVES		11,646,013	10,698,639	10,642,630

The accompanying notes on pages 8 to 29 are an integral part of these condensed interim financial statements.

(1) Statement of financial position as of 30 September 2018 reflects adoption of IFRS 9 from 1 January 2018. For additional information on IFRS 9 adoption see Notes 2 and 4 of these unaudited condensed interim financial statements. Comparative financial information has not been restated.

STATEMENT OF CHANGES IN EQUITY

(unaudited) (in thousands of KM)	<i>For the period</i>								
	Initial capital	General reserves (Retained earnings)	Special reserves	Fair value reserves – financial assets available-for-sale	Fair value reserves – debt instruments at fair value through OCI	Fair value reserves – equity securities at fair value through OCI	Revaluation reserves/ Fair value reserves-monetary gold	Net profit for the period	Total
Balance as of 31 December 2017	25,000	542,766	31,300	93,120	-	-	(39,551)	-	652,635
Adjustment on initial adoption of IFRS 9 (Note 4)	-	(36,477)	-	(93,120)	146,053	2	39,551	-	56,009
Opening balance as of 1 January 2018	25,000	506,289	31,300	-	146,053	2	-	-	708,644
Total comprehensive income for the period									
Net profit for the period	-	-	-	-	-	-	-	1,017	1,017
Other comprehensive (loss)	-	-	-	-	(49,314)	-	(11,102)	-	(60,416)
	-	-	-	-	(49,314)	-	(11,102)	1,017	(59,399)
Balance as of 30 September 2018 ⁽¹⁾	25,000	506,289	31,300	-	96,739	2	(11,102)	1,017	649,245
Balance as of 1 January 2017	25,000	537,892	31,300	111,597	-	-	(38,357)	-	667,432
Total comprehensive income for the period									
Net profit for the period	-	-	-	-	-	-	-	10,935	10,935
Other comprehensive (loss)	-	-	-	(17,393)	-	-	(1,676)	-	(19,069)
	-	-	-	(17,393)	-	-	(1,676)	10,935	(8,134)
Balance as of 30 September 2017	25,000	537,892	31,300	94,204	-	-	(40,033)	10,935	659,298

The accompanying notes on pages 8 to 29 are an integral part of these condensed interim financial statements.

(1) Statement of changes in equity for the period ended on 30 September 2018 reflects adoption of IFRS 9 from 1 January 2018. For additional information on IFRS 9 adoption see Notes 2 and 4 of these unaudited condensed interim financial statements. Comparative financial information has not been restated.

STATEMENT OF CASH FLOWS

For the period

(unaudited) (in thousands of KM)	Note	<u>01/01 – 30/09/2018 ⁽¹⁾</u>	<u>01/01 – 30/09/2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit for the period		1,017	10,935
Adjustments for:			
Depreciation and amortisation		1,844	1,504
Net losses from ECL on debt instruments at fair value through OCI		8,666	-
Net realized (gains) from sale of financial assets available-for-sale		-	(2,587)
Net realized (gains) from sale of debt instruments at fair value through OCI		(356)	-
Income from grants		(102)	(99)
Provisions for liabilities and charges		(154)	(12)
(Gains) from disposal of property and equipment		-	(41)
Dividend income recognized in the statement of profit or loss		(589)	(763)
Interest income from debt instruments at fair value through OCI		(21,373)	-
Interest income from financial assets available-for-sale and held-to-maturity investments recognized in the statement of profit or loss		-	(22,174)
Net cash flows from operating activities before changes in operating assets and liabilities		(11,047)	(13,237)
Changes in operating assets and liabilities			
(Increase) in deposits with foreign banks		(365,479)	(758,517)
Decrease / (increase) in other assets		1,219	(7,735)
Increase of currency in circulation		397,886	267,169
Increase in deposits		617,319	426,866
(Decrease) in other liabilities		(802)	(452)
Pay-out of severance payments		(63)	(144)
Net cash from operating activities		639,033	(86,050)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property and equipment		-	41
Purchases of property, equipment and intangible assets		(1,541)	(1,874)
Collected principal and interest from debt instruments at fair value through OCI		1,826,996	-
Purchases of debt instruments at fair value through OCI		(3,119,681)	-
Sales of debt instruments at fair value through OCI		237,504	-
Collected principal and interest from available-for sale financial assets		-	2,114,374
Purchases of available-for sale financial assets		-	(3,551,877)
Sales of available-for sale financial assets		-	470,088
Collected principal and interest from held-to-maturity investments		-	16,008
Purchases of held-to-maturity investments		-	(90,720)
Dividend received		589	763
Net cash used in investing activities		(1,056,133)	(1,043,197)

STATEMENT OF CASH FLOWS (CONTINUED)

	Note	01/01 – 30/09/2018 ⁽¹⁾	01/01 – 30/09/2017
CASH FLOWS FROM FINANCING ACTIVITIES			
Distribution of profit to the state budget		(7,311)	(8,437)
Net cash used in financing activities		(7,311)	(8,437)
Net (decrease) in cash and cash equivalents		(424,411)	(1,137,684)
Cash and cash equivalents at the beginning of the year		2,060,001	2,973,081
Cash and cash equivalents at the end of the period	11	1,635,590	1,835,397

The accompanying notes on pages 8 to 29 are an integral part of these condensed interim financial statements.

(1) Statement of cash flows for the period ended on 30 September 2018 reflects adoption of IFRS 9 from 1 January 2018. For additional information on IFRS 9 adoption see Notes 2 and 4 of these unaudited condensed interim financial statements. Comparative financial information has not been restated.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2018

Note 1	Basis for preparation	8	Note 10	Fair value reserves	20
Note 2	Accounting policy changes	10	Note 11	Cash and cash equivalents	21
Note 3	Future accounting policy changes	14	Note 12	Currency board arrangement	21
Note 4	Impact of accounting policy changes	14	Note 13	Financial risk management	21
Note 5	Net interest income	18	Note 14	Fair value measurement	24
Note 6	Net fee and commission income	19	Note 15	Off-balance sheet items	26
Note 7	Net impairment (losses)	19	Note 16	Related party transactions	28
Note 8	Deposits with foreign banks	20	Note 17	Approval of the condensed interim financial statements	29
Note 9	Debt instruments at fair value through OCI	20			

1. BASIS FOR PREPARATION

1.1. Reporting entity

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 main objective of the Bank is maintaining the monetary stability of Bosnia and Herzegovina.

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 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.A	Vice Governor
Milica Lakić, Ph.D.	Vice Governor
Želimira Raspudić	Vice Governor

1. BASIS FOR PREPARATION (CONTINUED)**1.2. Basis of accounting**

The condensed interim financial statements are prepared in accordance with the Law on the Central Bank of Bosnia and Herzegovina and in accordance with the 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 2017 („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.

The condensed interim financial statements have been prepared in accordance with the same accounting policies applied in the preparation of the annual statements, except for policy changes described in Note 2 of these condensed interim financial statements. Accounting policy changes, applicable from 1 January 2018, are result of the implementation of IFRS 9: "Financial instruments" and change of accounting policy for monetary gold in accordance with IAS 8: "Accounting Policies, Changes in Accounting Estimates and Errors".

As stated in Note 2, the Bank applied the accounting policies changes without restating comparative financial information for the year 2017. Note 4 of these condensed interim financial statements gives summary of accounting policy changes impact on statement of financial position of the Bank as of 1 January 2018.

As of 1 January 2018 the Bank has changed the certain positions in financial statements and made reclassifications of certain amounts.

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 realization on a going concern basis.

The significant judgements made by Management in applying the Bank's accounting policies and the key sources of estimation uncertainty were the same as those described in the annual statements, except for new significant judgements and estimates related to the application of IFRS 9, which are described in Note 2.

1.3. 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 have 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.

As of 30 September 2018 middle exchange rates of the Bank's most important currencies amounted to:

Middle exchange rate:	30 September 2018	31 December 2017	30 September 2017
	KM	KM	KM
USD	1.689556	1.63081	1.656641
SDR	2.357362	2.322489	2.341324

As stated in Note 2.2., the fair value of monetary gold is expressed in EUR, converted at the fixed rate of KM at the reporting date, and it is measured at the last bid price for one ounce of gold (Oz) at the reporting date quoted on Reuters. The value of the ounce of monetary gold amounts to 2,008 KM per ounce as of 30 September 2018.

1.4. Fair value measurement

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.

1. BASIS FOR PREPARATION (CONTINUED)

1.4. Fair value measurement (continued)

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 available 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 Bank can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included in Level 1, that are available for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unavailable inputs for the asset or liability.

A fair value measurement of financial assets and liabilities of the Bank is presented in Note 14.

2. ACCOUNTING POLICY CHANGES

The below-described accounting policies have been applied from 1 January 2018 following the implementation of IFRS 9 "Financial instruments" and change of accounting policy for monetary gold in accordance with IAS 8: "Accounting Policies, Changes in Accounting Estimates and Errors". As permitted by these standards, the Bank has not restated comparative financial information in financial statements. Note 4 gives an overview of the impact of accounting policy changes on amounts in statement of financial position as of 1 January 2018.

2.1. Summary of accounting policy changes for financial assets according to IFRS 9

Business model

The business model reflects how the Bank manages its financial assets in order to generate contractual cash flows. By selecting the business model the Bank determines to generate cash flows by collecting the contractual cash flows, by selling financial assets, or by both.

A financial asset that generates contractual cash flows during its lifetime is classified within a "hold to collect contractual cash flows" model.

A financial asset that generates contractual cash flows during its lifetime and by selling is classified within a "hold to collect contractual cash flows and sell" model.

A financial asset that is kept for generating cash flows by selling that asset is classified within other business models.

Contractual cash flow characteristics

For the purpose of classifying a financial asset, the Bank must determine whether the contractual cash flows associated with the financial asset are solely payments of principal and interest on the principal amount outstanding. The principal is generally the fair value of the financial asset at initial recognition. The interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time, and for other basic lending risks and costs related to the holding the financial asset.

Recognition, classification and measurement of financial assets

All financial assets are initially measured at fair value. Transaction costs that are directly attributable to the acquisition of financial assets are added to the fair value of the financial assets, as appropriate, on initial recognition.

After initial recognition, financial asset is classified as financial asset subsequently measured at amortised cost or as financial asset subsequently measured at fair value through other comprehensive income (FVOCI).

Classification of financial assets depends on the business model determined by the Bank to manage certain categories of financial assets and on the contractual cash flows characteristics of the asset.

2. ACCOUNTING POLICY CHANGES (CONTINUED)

2.1. Summary of accounting policy changes for financial assets according to IFRS 9 (continued)

The Bank has made an irrevocable election for subsequent measurement of fair value for equity securities in other comprehensive income and they are initially recognized at cost for which the Bank considers to be their fair value.

Method of effective interest rate

The effective interest rate is the rate that exactly discounts future cash payments or receipts through the expected life of the financial assets or financial liabilities to the gross carrying amount of the financial asset or to the amortised cost of financial liability.

When calculating effective interest rate, the Bank estimates expected cash flows, considering all contractual conditions of financial asset, but excluding expected credit losses. The calculation includes all fees and all amounts paid or received between the Bank and counterparties that form an integral part of the effective interest rate, transaction costs and other premiums or discounts.

The effective interest method is a method used by Bank in calculation of the amortised cost of a financial asset or a financial liability and in allocation and recognition of the interest income or interest expense in profit or loss over the relevant period.

Financial asset at amortised cost

Financial asset is subsequently measured at amortised cost using the effective interest rate method to the gross carrying amount of financial assets during the holding of the financial asset until maturity.

Effects of subsequent measurement are recognized as interest income or interest expense in profit or loss in the period in which they occur.

Financial assets at fair value through other comprehensive income (FVOCI)

Financial asset is subsequently measured at fair value through other comprehensive income using the effective interest rate method for interest income and expense to the gross carrying amount and is adjusted with the fair value of financial asset on reporting dates during the holding of the financial asset.

Effects of subsequent measurements are recognized as interest income or interest expense in profit or loss in the period when they occur.

Effects of fair value adjustment of financial asset subsequently measured at fair value through other comprehensive income are recognized within other comprehensive income in the period when they occur.

Fair value is measured by quoted prices in active markets taken from official services.

Equity securities

Equity securities held by the Bank are not subject of trade on active markets due to its specific characteristics. Calculation of impairment for expected credit losses is not made for equity securities. Equity securities are initially recognized at acquisition cost. Dividend income is recognized in profit or loss in the period when occur.

Impairment of financial assets

Scope

The Bank applies a three stage model for impairment based of credit losses using the expected credit losses approach, as required by IFRS 9. It is applied for the following categories of financial instruments not measured at fair value through profit or loss:

- financial asset at amortized cost and
- debt securities through other comprehensive income.

Financial asset is being moved within three phases based on change of credit risk from the initial recognition date.