

**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 June 2017**

Sarajevo, 20 July 2017

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INCOME STATEMENT

for the period

| In thousands of KM | 01/01 – 30/06/2017 | 01/04 – 30/06/2017 | 01/01 – 30/06/2016 | 01/04 – 30/06/2016 |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| Interest income | 14,867 | 7,445 | 14,732 | 7,456 |
| Effects of negative interest rates from interest-bearing financial assets | (5,868) | (2,921) | (2,698) | (1,999) |
| Effects of negative deposit interest rates on deposits from local commercial banks | 2,012 | 971 | - | - |
| NET INTEREST INCOME | 11,011 | 5,495 | 12,034 | 5,457 |
| Fee and commission income | 7,271 | 4,246 | 4,861 | 2,534 |
| Fee and commission expense | (261) | (134) | (294) | (125) |
| NET FEE AND COMMISSION INCOME | 7,010 | 4,112 | 4,567 | 2,409 |
| Net realised gains from sale of financial assets available-for-sale | 195 | 195 | 8,377 | - |
| Net foreign exchange (losses) / gains | (248) | (200) | (116) | 86 |
| Other income | 902 | 767 | 904 | 762 |
| OPERATING INCOME | 18,870 | 10,369 | 25,766 | 8,714 |
| Personnel expenses | (8,907) | (4,813) | (9,247) | (4,920) |
| Administrative and other operating expenses | (3,187) | (1,695) | (3,258) | (1,645) |
| Depreciation and amortisation | (984) | (500) | (1,077) | (537) |
| OPERATING EXPENSES | (13,078) | (7,008) | (13,582) | (7,102) |
| NET PROFIT FOR THE PERIOD | 5,792 | 3,361 | 12,184 | 1,612 |

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 – 30/06/2017 | 01/04 – 30/06/2017 | 01/01 – 30/06/2016 | 01/04 – 30/06/2016 |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| NET PROFIT FOR THE PERIOD | 5,792 | 3,361 | 12,184 | 1,612 |
| 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 | (907) | (14,156) | 41,471 | 19,518 |
| | <u>(907)</u> | <u>(14,156)</u> | <u>41,471</u> | <u>19,518</u> |
| Financial assets available-for-sale | | | | |
| Net change in fair value of financial assets available-for-sale | (27,720) | 352 | 79,441 | 27,109 |
| Realized fair value gains from financial assets available-for sale reclassified to the income statement | (195) | (195) | (8,377) | - |
| | <u>(27,915)</u> | <u>157</u> | <u>71,064</u> | <u>27,109</u> |
| Total other comprehensive (loss) / income | (28,822) | (13,999) | 112,535 | 46,627 |
| TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE PERIOD | (23,030) | (10,638) | 124,719 | 48,239 |

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 June 2017 | 31 December 2016 |
|---|------------------|---------------------|
| ASSETS | | |
| Foreign currency in cash | 215,344 | 194,846 |
| Deposits with foreign banks | 2,497,890 | 2,970,397 |
| Special Drawing Rights with the International Monetary Fund | 2,507 | 2,642 |
| Financial assets available-for-sale | 5,327,637 | 5,025,829 |
| Monetary gold | 204,195 | 205,102 |
| Held-to-maturity investments | 1,218,091 | 1,132,328 |
| Other assets | 11,411 | 4,626 |
| Property, equipment and intangible assets | 46,149 | 45,475 |
| Other investments | 27,813 | 27,813 |
| TOTAL ASSETS | 9,551,037 | 9,609,058 |
| LIABILITIES, EQUITY AND RESERVES | | |
| Currency in circulation | 4,180,154 | 4,066,804 |
| Deposits from banks | 4,077,406 | 4,269,143 |
| Deposits from the Government and other depositors | 642,868 | 590,392 |
| Provisions for liabilities and charges | 1,545 | 1,611 |
| Other liabilities | 4,662 | 13,676 |
| Total liabilities | 8,906,635 | 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 | (39,264) | (38,357) |
| Fair value reserves – financial assets available-for-sale | 83,682 | 111,597 |
| Profit for the period | 5,792 | - |
| Total equity and reserves | 644,402 | 667,432 |
| TOTAL LIABILITIES, EQUITY AND RESERVES | 9,551,037 | 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 | - | - | - | - | - | 5,792 | 5,792 |
| Other comprehensive income | - | - | - | (907) | (27,915) | - | (28,822) |
| | - | - | - | (907) | (27,915) | 5,792 | (23,030) |
| Balance as of 30 June 2017 | 25,000 | 537,892 | 31,300 | (39,264) | 83,682 | 5,792 | 644,402 |
| 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 | - | - | - | - | - | 12,184 | 12,184 |
| Other comprehensive income | - | - | - | 41,471 | 71,064 | - | 112,535 |
| | - | - | - | 41,471 | 71,064 | 12,184 | 124,719 |
| Balance as of 30 June 2016 | 25,000 | 532,267 | 31,300 | (19,674) | 137,371 | 12,184 | 718,448 |

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 – 30/06/2017 | 01/01 – 30/06/2016 |
|--|--------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Profit for the period | 5,792 | 12,184 |
| Adjustments for: | | |
| Depreciation and amortisation | 984 | 1,077 |
| Net realised gains from sale of financial assets available-for-sale | (195) | (8,377) |
| Income from grants | (66) | (90) |
| Provisions for liabilities and charges | (12) | (16) |
| 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 | (14,854) | (14,728) |
| Net cash flows from operating activities before changes in operating assets and liabilities | (9,114) | (10,512) |
| Changes in operating assets and liabilities | | |
| (Increase) in deposits with foreign banks | (564,746) | (664,477) |
| (Increase) in other assets | (7,200) | (351) |
| Increase of currency in circulation | 113,350 | 122,705 |
| (Decrease) in deposits | (139,261) | (61,650) |
| (Decrease) in other liabilities | (511) | (374) |
| Pay-out of severance payments | (54) | (32) |
| Net cash from operating activities | (607,536) | (614,691) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of property, equipment and intangible assets | (1,658) | (233) |
| Collected principal and interest from financial assets available-for-sale | 1,637,136 | 3,616,912 |
| Purchases of financial assets available-for sale | (2,232,424) | (2,546,175) |
| Sales of financial assets available-for sale | 274,428 | 241,944 |
| Collected principal and interest from held-to-maturity investments | 11,143 | 11,143 |
| Purchases of held-to-maturity investments | (90,720) | - |
| Dividend received | 763 | 562 |
| Net cash used in investing activities | (401,332) | 1,324,153 |
| 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 | (1,017,305) | 690,635 |
| 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 | 1,955,776 | 1,826,820 |

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 June 2017 | 31 December 2016 |
|----------------------------|-------------------------|-----------------------------|
| Demand deposits | 723,756 | 705,065 |
| Up to 1 month | 721,201 | 742,008 |
| From 1 to 2 months | 233,915 | 644,529 |
| From 2 to 3 months | 585,040 | 683,351 |
| From 3 to 4 months | 136,363 | - |
| From 4 to 12 months | 97,615 | 195,444 |
| Total term deposits | 1,774,134 | 2,265,332 |
| TOTAL | 2,497,890 | 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 June 2017 | 31 December 2016 |
|---------------------------|-------------------------|-----------------------------|
| Debt securities | 5,283,265 | 4,986,018 |
| Accrued interest | 44,372 | 39,811 |
| TOTAL | 5,327,637 | 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 June 2017 amounts to KM 204,195 thousand representing 96,000.000 ounces of gold at KM 2,127 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 June 2017 | 31 December 2016 |
|---------------------------|-------------------------|-----------------------------|
| Debt securities | 1,210,768 | 1,124,596 |
| Accrued interest | 7,323 | 7,732 |
| TOTAL | 1,218,091 | 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 – 30/06/2017 | 01/04 – 30/06/2017 | 01/01 – 30/06/2016 | 01/04 – 30/06/2016 |
| Interest income arising from: | | | | |
| - financial assets available-for-sale | 8,668 | 4,288 | 9,038 | 4,605 |
| - held-to-maturity investments | 6,186 | 3,150 | 5,690 | 2,849 |
| - deposits with foreign banks | 7 | 3 | 3 | 2 |
| - other | 6 | 4 | 1 | - |
| | 14,867 | 7,445 | 14,732 | 7,456 |
| Effects of negative interest rates from interest-bearing financial assets from: | | | | |
| - term deposits held with foreign banks | (4,619) | (2,217) | (1,519) | (1,359) |
| - demand deposits held with foreign banks | (1,249) | (704) | (1,179) | (640) |
| | (5,868) | (2,921) | (2,698) | (1,999) |
| Effects of negative deposit interest rates on deposits from local commercial banks | 2,012 | 971 | - | - |
| Net interest income | 11,011 | 5,495 | 12,034 | 5,457 |

The average interest rate on deposits invested in foreign banks in the period 01/01-30/06/2017 amounted to -0.43% (in the period 01/01-30/06/2016 amounted to -0.35%).

The average effective yield rate on invested securities available-for-sale in the period 01/01-30/06/2017 amounted to 0.35% (in the period 01/01-30/06/2016 amounted to 0.61%).

The average effective yield rate on held-to-maturity investments in the period 01/01-30/06/2017 amounted to 1.03% (in the period 01/01-30/06/2016 amounted to 1.00%).

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 June 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 01/07/2016-30/06/2017.

FEE AND COMMISSION INCOME AND EXPENSE

| In thousands of KM | For the period | | | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| | 01/01 – 30/06/2017 | 01/04 – 30/06/2017 | 01/01 – 30/06/2016 | 01/04 – 30/06/2016 |
| Fee and commission income: | | | | |
| - from local commercial banks | 6,789 | 3,953 | 4,622 | 2,413 |
| - from services for the Government and other non-banking clients | 482 | 293 | 239 | 121 |
| | 7,271 | 4,246 | 4,861 | 2,534 |
| Fee and commission expense: | | | | |
| - transactions with foreign banks | (261) | (134) | (294) | (125) |
| | (261) | (134) | (294) | (125) |
| Net fee and commission income | 7,010 | 4,112 | 4,567 | 2,409 |

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

| In thousands of KM | For the period | | | |
|---------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | 01/01 – 30/06/2017 | 01/04 – 30/06/2017 | 01/01 – 30/06/2016 | 01/04 – 30/06/2016 |
| Realised gains | 195 | 195 | 8,377 | - |
| Realised losses | - | - | - | - |
| Net realised gains | 195 | 195 | 8,377 | - |

NET FOREIGN EXCHANGE (LOSSES) / GAINS

| In thousands of KM | For the period | | | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| | 01/01 – 30/06/2017 | 01/04 – 30/06/2017 | 01/01 – 30/06/2016 | 01/04 – 30/06/2016 |
| Income from foreign exchange differences | 309 | 131 | 426 | 235 |
| Expenses from foreign exchange differences | (557) | (331) | (542) | (149) |
| Net (losses) / gains | (248) | (200) | (116) | 86 |

OTHER INCOME

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

ADMINISTRATIVE AND OTHER OPERATING EXPENSES

Administrative and other operating expenses in the period 1 January – 30 June 2017 include also deferred costs of the production of banknotes and coins in the amount of KM 578 thousand (1 January – 30 June 2016 these expenses included deferred costs of the production of coins in the amount of KM 308 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 June 2017 | 30 June 2016 |
|--|------------------|------------------|
| Foreign currency deposits with maturity of three months or less from the date of acquisition | 1,013,944 | 1,113,917 |
| Foreign currency demand deposits | 723,756 | 579,075 |
| Foreign currency in cash | 215,344 | 129,104 |
| Special Drawing Rights in the International Monetary Fund | 2,507 | 3,933 |
| Giro accounts | 225 | 791 |
| TOTAL | 1,955,776 | 1,826,820 |