

**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 2015

Sarajevo, 19 October 2015

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INCOME STATEMENT

for the period

In thousands of KM	01/01 - 30/09/2015	01/07 - 30/09/2015	01/01 - 30/09/2014	01/07 - 30/09/2014
Interest income	20,895	7,361	24,376	7,556
Interest expense	-	-	(2,086)	(121)
Effects of negative interest rates from interest-bearing financial assets	(739)	(339)	-	-
NET INTEREST INCOME	20,156	7,022	22,290	7,435
Fee and commission income	6,738	2,348	6,776	2,349
Fee and commission expense	(464)	(146)	(738)	(486)
NET FEE AND COMMISSION INCOME	6,274	2,202	6,038	1,863
Net realised gains from sale of financial assets available-for-sale	24,205	766	28,725	4,052
Net foreign exchange gains	774	48	340	466
Other income	758	(19)	867	79
OPERATING INCOME	52,167	10,019	58,260	13,895
Personnel expenses	(14,339)	(5,015)	(13,976)	(4,838)
Administrative and other operating expenses	(5,805)	(1,467)	(7,664)	(2,506)
Depreciation and amortisation	(1,712)	(554)	(1,647)	(527)
OPERATING EXPENSES	(21,856)	(7,036)	(23,287)	(7,871)
NET PROFIT FOR THE PERIOD	30,311	2,983	34,973	6,024

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- 30/09/2015	01/07- 30/09/2015	01/01- 30/09/2014	01/07- 30/09/2014
NET PROFIT FOR THE PERIOD	30,311	2,983	34,973	6,024
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	4,039	(10,906)	14,546	(4,273)
	<u>4,039</u>	<u>(10,906)</u>	<u>14,546</u>	<u>(4,273)</u>
Financial assets available-for-sale				
Net change in fair value of financial assets available-for-sale	9,571	32,723	101,857	23,990
Realized fair value gains from financial assets available-for sale reclassified to the income statement	(24,205)	(766)	(28,725)	(4,052)
	<u>(14,634)</u>	<u>31,957</u>	<u>73,132</u>	<u>19,938</u>
Total other comprehensive (loss) / income	(10,595)	21,051	87,678	15,665
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>19,716</u>	<u>24,034</u>	<u>122,651</u>	<u>21,689</u>

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

BALANCE SHEET

as at

In thousands of KM	30 September 2015	31 December 2014
ASSETS		
Foreign currency in cash	94,515	71,811
Deposits with foreign banks	627,983	2,181,732
Special Drawing Rights with the International Monetary Fund	3,593	5,203
Financial assets available-for-sale	6,317,134	4,955,537
Monetary gold	186,788	182,750
Held-to-maturity investments	1,046,001	428,560
Other assets	4,135	5,517
Property, equipment and intangible assets	45,135	46,190
Other investments	27,813	27,813
TOTAL ASSETS	8,353,097	7,905,113
LIABILITIES, CAPITAL AND RESERVES		
Currency in circulation	3,496,357	3,210,508
Deposits from banks	3,737,832	3,751,149
Deposits from the Government and other depositors	508,356	331,436
Provisions for liabilities and charges	1,190	1,294
Other liabilities	4,604	25,684
TOTAL LIABILITIES	7,748,339	7,320,071
Initial capital	25,000	25,000
General reserves (Retained earnings)	519,716	519,716
Other reserves	31,300	31,300
Fair value reserves – monetary gold	(56,671)	(60,710)
Fair value reserves – financial assets available-for-sale	55,102	69,736
Profit for the period	30,311	-
Total capital and reserves	604,758	585,042
TOTAL LIABILITIES, CAPITAL AND RESERVES	8,353,097	7,905,113

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 2015	25,000	519,716	31,300	(60,710)	69,736	-	585,042
Total comprehensive income for the period							
Profit for the period	-	-	-	-	-	30,311	30,311
Other comprehensive income	-	-	-	4,039	(14,634)	-	(10,595)
	-	-	-	4,039	(14,634)	30,311	19,716
Balance as of 30 September 2015	25,000	519,716	31,300	(56,671)	55,102	30,311	604,758
Balance as of 1 January 2014	25,000	505,552	31,300	(79,316)	(16,191)	-	466,345
Total comprehensive income for the period							
Profit for the period	-	-	-	-	-	34,973	34,973
Other comprehensive income	-	-	-	14,546	73,132	-	87,678
	-	-	-	14,546	73,132	34,973	122,651
Balance as of 30 September 2014	25,000	505,552	31,300	(64,770)	56,941	34,973	588,996

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 - 30/09/2015	01/01 - 30/09/2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the period	30,311	34,973
Adjustments for:		
Depreciation and amortisation	1,712	1,647
Net realised gains from sale of financial assets available-for-sale	(24,205)	(28,725)
Income from grants	(80)	(50)
Provisions for liabilities and charges	(25)	(5)
Loss on disposal of property and equipment	-	44
Dividend income recognized in the income statement	(586)	(504)
Interest income from held-to-maturity investments and financial assets available-for-sale recognized in the income statement	(20,762)	(22,750)
Interest expense recognized in the income statement	-	2,086
Net cash flows from operating activities before changes in operating assets and liabilities	(13,635)	(13,284)
Changes in operating assets and liabilities		
(Increase) in deposits with foreign banks	-	(156,468)
Decrease in other assets	1,295	1,863
Increase of currency in circulation	285,849	248,303
Increase in deposits	163,603	316,381
Increase in other liabilities	246	143
Pay-out of severance payments	(79)	(11)
Interest paid	-	(2,416)
Net cash from operating activities	437,279	394,511
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, equipment and intangible assets	(657)	(4,072)
Proceeds from sale of financial assets available-for-sale	2,694,201	5,552,228
Increase in financial assets available-for-sale	(4,030,411)	(5,821,640)
Collected principal and interest from held-to-maturity investments	10,069	2,709
Purchases of held-to-maturity investments	(622,562)	-
Dividend received	586	504
Net cash used in investing activities	(1,948,774)	(270,271)
CASH FLOWS FROM FINANCING ACTIVITIES		
Transfer of the profit to the state budget	(21,247)	(18,052)
Net cash from financing activities	(21,247)	(18,052)
Net (decrease) / increase in cash and cash equivalents	(1,532,742)	106,188
Cash and cash equivalents at the beginning of the year	2,258,928	2,312,069
Cash and cash equivalents at the end of the period	726,186	2,418,257

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, capital 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.

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 2015	31 December 2014
Demand deposits	627,983	254,916
Up to 1 month	-	674,882
From 1 to 2 months	-	606,387
From 2 to 3 months	-	645,547
Total term deposits	-	1,926,816
TOTAL	627,983	2,181,732

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 directly in the fair value reserve account in equity and reported as other comprehensive income. 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 2015	31 December 2014
Debt securities	6,274,365	4,900,653
Accrued interest	42,769	54,884
TOTAL	6,317,134	4,955,537

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 the bank in Switzerland with credit rating of AAA (Fitch), which is physically held in a vault at the Bank of England. The value of the monetary gold as of 30 September 2015 amounts to KM 186,788 thousand representing 96,000.000 ounces of gold at KM 1,946 per ounce (31 December 2014: KM 182,750 thousand representing 96,000.000 ounces of gold at KM 1,904 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 2015	31 December 2014
Debt securities	1,039,114	424,794
Accrued interest	6,887	3,766
TOTAL	1,046,001	428,560

OTHER LIABILITIES

Other liabilities as of 31 December 2014 included also liabilities based on the allocation of the part of the profit for 2014 in the amount of KM 21,247 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 9 April 2015, so it has affected the net foreign assets of the Bank.

CAPITAL AND RESERVES

Capital 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 - 30/09/2015	01/07 - 30/09/2015	01/01 - 30/09/2014	01/07 - 30/09/2014
Interest income arising from:				
- financial assets available-for-sale	15,817	5,166	21,830	6,892
- held-to-maturity investments	4,947	2,183	921	312
- deposits with foreign banks	128	11	1,620	350
- other	3	1	5	2
	20,895	7,361	24,376	7,556
Interest expense arising from:				
- deposits from local commercial banks	-	-	(2,086)	(121)
	-	-	(2,086)	(121)
Effects of negative interest rates from interest-bearing financial assets	(739)	(339)	-	-
Net interest income	20,156	7,022	22,290	7,435

The average effective yield rate on deposits invested in foreign banks in the period 01/01 – 30/09/2015 amounted to -0.06% (in the period 01/01- 30/09/2014 amounted to 0.11%).

The average effective yield rate on invested securities available-for-sale in the period 01/01 – 30/09/2015 amounted to 0.93% (in the period 01/01 – 30/09/2014 amounted to 1.37%).

The average effective yield rate on held-to-maturity investments in the period 01/01 – 30/09/2015 amounted to 0.95% (in the period 01/01 – 30/09/2014 amounted to 1.17%).

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 obligatory reserve amounts and excess amounts above the obligatory reserve requirement. The base for calculation of the obligatory reserve of commercial banks consists of deposits and borrowings, except the borrowings received from non-residents and all funds placed by governments of entities into development projects.

The rate of eligible deposits and borrowings required to be held in obligatory reserve accounts in the reporting periods was as follows:

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

During the reporting periods, until 30 April 2015, the interest rate calculated on the obligatory 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 obligatory 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. From 1 September 2014, the policy of calculating fees on the obligatory reserves and on the amount exceeding the obligatory 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 obligatory reserves is 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 is calculated on the amount exceeding the obligatory reserve.

Effects of negative interest rates from interest-bearing financial assets are the result of negative interest rates calculated on current accounts, which are necessary for liquidity maintenance that could not be avoided according to current market circumstances.

FEE AND COMMISSION INCOME AND EXPENSE

In thousands of KM	For the period			
	01/01 - 30/09/2015	01/07 - 30/09/2015	01/01 - 30/09/2014	01/07 - 30/09/2014
Fee and commission income:				
- from local commercial banks	6,379	2,215	6,388	2,223
- from services for the Government and other non-banking clients	359	133	388	126
	6,738	2,348	6,776	2,349
Fee and commission expense:				
- transactions with foreign banks	(464)	(146)	(738)	(486)
	(464)	(146)	(738)	(486)
Net fee and commission income	6,274	2,202	6,038	1,863

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

In thousands of KM	For the period			
	01/01 - 30/09/2015	01/07 - 30/09/2015	01/01 - 30/09/2014	01/07 - 30/09/2014
Realised gains	24,205	766	28,725	4,052
Realised losses	-	-	-	-
Net realised gains	24,205	766	28,725	4,052

NET FOREIGN EXCHANGE GAINS

In thousands of KM	For the period			
	01/01 - 30/09/2015	01/07 - 30/09/2015	01/01 - 30/09/2014	01/07 - 30/09/2014
Income from foreign exchange differences	1,581	211	679	506
Expenses from foreign exchange differences	(807)	(163)	(339)	(40)
Net gains	774	48	340	466

OTHER INCOME

Other income in the period 1 January - 30 September 2015 includes dividend income from shares in The Bank for International Settlements (BIS) in the amount of KM 586 thousand (1 January - 30 September 2014: KM 504 thousand).

ADMINISTRATIVE AND OTHER OPERATING EXPENSES

Administrative and other operating expenses in the period 1 January – 30 September 2015 include also deferred costs of the production of banknotes and coins in the amount of KM 1,409 thousand (1 January – 30 September 2014 these expenses included deferred costs of the production of banknotes and coins in the amount of KM 2,685 thousand).

CASH AND CASH EQUIVALENTS

For the purpose of reporting cash flows, cash and cash equivalents comprise the following balance sheet categories: giro accounts, foreign currency in cash, foreign currency demand deposits, foreign currency deposits with remaining maturity up to three months and Special Drawing Rights in the International Monetary Fund.

In thousands of KM	30 September 2015	30 September 2014
Foreign currency demand deposits	627,983	378,819
Foreign currency in cash	94,515	40,456
Special Drawing Rights in the International Monetary Fund	3,593	3,527
Giro accounts	95	246
Foreign currency deposits with remaining maturity under three months	-	1,995,209
TOTAL	726,186	2,418,257

RISK MANAGEMENT

The major financial risks the Bank is exposed to are as follows:

- Liquidity risk
- Market risk and
- Credit risk

Given that the primary purpose of the Bank is to preserve monetary stability in the Bosnia and Herzegovina, its financial risks framework is different from the commercial banks framework. The majority of financial risks that occur in the Bank is related to the management of foreign currency reserves and to operations on financial market.

The Bank seeks to ensure that strong and effective risk management and control system are in place for identifying, assessing, monitoring and managing risk exposures. Risk management and estimation of the level of acceptable risk is a continuous process and the integral element of the Bank's business strategy. By business policy instruments and control mechanisms through the level of the Governing Board of the Bank, the Management, Audit Committee and Investment Committee of the Bank, completeness in risk management is provided. Holding foreign exchange reserves in convertible currency at fixed exchange rate arrangement, investing in short term deposits with fixed interest rate in foreign banks with high credit ratings and investing in quality securities are the basic principles of managing liquidity risk, foreign exchange, interest rate and credit risks.

OFF-BALANCE SHEET ITEMS

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

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

Off-balance sheet items consist of:

In thousands of KM	30 September 2015	31 December 2014
Third party securities and funds held with foreign banks	307,669	371,680
Deposits of USAID	2,180	1,947
Deposits of non-residents	2,180	1,947
Deposits of the Council of Ministers of BiH	19,268	73,364
<i>Deposits of the Council of Ministers of BiH on the basis of succession</i>	391	389
<i>Deposits of the Council of Ministers of BiH regarding the servicing of foreign debt</i>	9,851	6,080
<i>Deposits of the Council of Ministers of BiH regarding the Budget of BiH Institutions</i>	3,269	37,289
<i>Other deposits of the Council of Ministers of BiH</i>	5,757	29,606
Deposits of other residents	4,337	3,295
<i>Deposits - Retirement allowance from Germany</i>	345	1
<i>Deposit accounts of banks</i>	3,992	3,294
Deposits of residents	23,605	76,659
Investments related to securities – Deposit Insurance Agency	281,884	293,074
Investments of residents related to securities	281,884	293,074
Liability for third party securities and funds	307,669	371,680

BOSNIA AND HERZEGOVINA MEMBERSHIP IN THE IMF

As depository for BiH membership in the IMF, the Central Bank of Bosnia and Herzegovina maintains the IMF No. 1 and 2 accounts and provides a custodian service for the BiH Promissory Notes issued to support IMF membership and repurchase obligations. The Bank holds SDRs as part of its foreign exchange reserve management function. As fiscal agent, the Bank acts on behalf of the BiH in dealing with the IMF but does not have any responsibility for assets and liabilities related to the membership.

The following consolidated position provides a summary of the BiH position with the IMF:

Consolidated position of BiH membership in the IMF as at 30 September 2015

In thousands of KM

Assets		
Quota	414,406	
SDR holdings	3,593	
Total assets	417,999	
Liabilities		
IMF No. 1 account		1,042
IMF No. 2 account		36
Securities		1,459,628
Accounts of payable charges		1,836
SDR allocation		394,276
Accrued interest on SDR allocation		33
Total liabilities		1,856,851
Net member position with the IMF		
BiH obligations to the IMF arising principally from repurchase and currency valuation adjustments	1,438,852	
Net member position	1,438,852	
	1,856,851	1,856,851
Total consolidated position - assets and liabilities	1,856,851	1,856,851
IMF No. 1 account	(1,042)	(1,042)
IMF No. 2 account	(36)	(36)
Total gross position of BiH with the IMF - assets and liabilities	1,855,773	1,855,773

The SDR holdings, accrued interest on SDR holdings, IMF No. 1 account and IMF No. 2 account reflect accounts held on the balance sheet of the Bank.

For the consolidated position of Bosnia and Herzegovina with the IMF, the gross position of the BiH is increased for the IMF No. 1 and 2 accounts.

Consolidated position of BiH membership in the IMF as at 31 December 2014

In thousands of KM

Assets		
Quota		394,668
SDR holdings		5,203
Total assets		399,871
Liabilities		
IMF No. 1 account		992
IMF No. 2 account		35
Securities		1,455,226
Accounts of payable charges		1,917
SDR allocation		375,497
Accrued interest on SDR allocation		31
Total liabilities		1,833,698
Net member position with the IMF		
BiH obligations to the IMF arising principally from repurchase and currency valuation adjustments		1,433,827
Net member position		1,433,827
		1,833,698
		1,833,698
Total consolidated position - assets and liabilities		
		1,833,698
		1,833,698
IMF No. 1 account	(992)	(992)
IMF No. 2 account	(35)	(35)
Total gross position of BiH with the IMF - assets and liabilities	1,832,671	1,832,671

CURRENCY BOARD ARRANGEMENT

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

Details of compliance with the rule are as follows:

In thousands of KM	30 September 2015	31 December 2014
Foreign assets	8,276,014	7,825,593
Liabilities to non-residents	1,790	1,088
Net foreign exchange reserves (foreign assets minus liabilities to non-residents)	8,274,224	7,824,505
Monetary liabilities	7,742,545	7,293,093
Net foreign assets (net foreign exchange reserves minus monetary liabilities)	531,679	531,412

The Monetary liabilities of the Bank, according to the Law on the Central Bank of Bosnia and Herzegovina, consist of currency in circulation and the domestic deposits from banks and other residents.

APPROVAL OF THE CONDENSED FINANCIAL STATEMENTS

These condensed financial statements have been approved by the Governing Board on 26 October 2015.

Signed on behalf of the Governing Board:



Ph.D. Senad Softić
Governor