

**CENTRAL BANK OF
BOSNIA AND HERZEGOVINA**

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2018

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

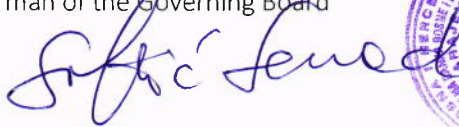
The Management is required to prepare financial statements for each financial year which give a true and fair view of the financial position of the Central Bank of Bosnia and Herzegovina (the "Bank") and of the results of its operations and cash flows, in accordance with International Financial Reporting Standards ("IFRS"), as published by the International Accounting Standards Board ("IASB"). The Management is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. The Management has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

The Governing Board is responsible for selecting suitable accounting policies to conform to applicable legal requirements and the Management is responsible for their consistent application, making judgements and estimates that are reasonable and prudent and preparing the financial statements on a going concern basis.

The Management is responsible for the submission to the Governing Board of its annual financial statements, following which the Governing Board is required to approve the annual financial statements for submission to the Parliamentary Assembly of Bosnia and Herzegovina.

The accompanying financial statements set out on pages 5 to 80 were authorised by the Governing Board on 27 March 2019 and are signed, on its behalf by:

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



Edis Kovačević, M.Sc.

Head of Accounting and Finance Department



Independent Auditor's Report

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To the Governing Board of the Central Bank of Bosnia and Herzegovina

Opinion

We have audited the accompanying financial statements of the Central Bank of Bosnia and Herzegovina (hereinafter: the "Bank"), which comprise the Statement of financial position as at 31 December 2018 and the Statement of profit or loss, Statement of comprehensive income, Statement of changes in equity and Statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Central Bank of Bosnia and Herzegovina as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (hereinafter: "ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements of the Bank in the Bosnia and Herzegovina, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Management and the Governing Board of the Bank for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as the Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

The Governing Board of the Bank is responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from a fraud is higher, than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Governing Board of the Bank regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Aleksandar Džombić, PhD

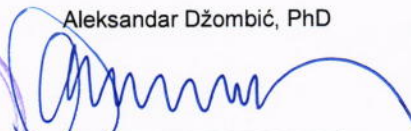


Director
Grant Thornton d.o.o.

Banja Luka, 27 March 2019



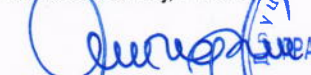
Aleksandar Džombić, PhD



Certified Auditor
Grant Thornton d.o.o.

Banja Luka, 27 March 2019

Suzana Stavrikj, Partner



Grant Thornton d.o.o.

Skopje, 27 March 2019



Kledian Kodra, Partner



Grant Thornton sh.p.k.

Tirana, 27 March 2019

STATEMENT OF PROFIT OR LOSS

In thousands of KM	Note	For the year ended 31 December	
		2018	2017
Interest income		48,186	42,996
Interest expense		(24,393)	(21,022)
NET INTEREST INCOME	4	23,793	21,974
Fee and commission income		17,209	15,834
Fee and commission expenses		(636)	(562)
NET FEE AND COMMISSION INCOME	5	16,573	15,272
Net realised gains from sale of financial assets at fair value through other comprehensive income	6	4,277	-
Net realized gains from sale of available-for-sale financial assets	7	-	2,587
Net foreign exchange gains / (losses)	8	151	(560)
Other income	9	1,522	1,549
OPERATING INCOME		46,316	40,822
Personnel expenses	10	(19,034)	(19,019)
Administrative and other operating expenses	11	(8,250)	(7,583)
Depreciation and amortisation	20	(2,426)	(2,035)
OPERATING EXPENSES		(29,710)	(28,637)
FINANCIAL RESULT BEFORE PROVISIONS FOR EXPECTED CREDIT LOSSES		16,606	12,185
Provisions for expected credit losses, net	12	(8,175)	-
NET PROFIT FOR THE YEAR		8,431	12,185

The accompanying notes on pages 12 to 80 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

In thousands of KM	Note	For the year ended 31 December	
		2018	2017
NET PROFIT FOR THE YEAR		8,431	12,185
Other comprehensive income			
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Available-for-sale financial assets			
Net change in fair value during the year	15	-	(15,890)
Reclassification to profit or loss	7	-	(2,587)
		-	(18,477)
Debt instruments at fair value through other comprehensive income			
Net change in fair value during the year	16	(6,390)	-
Net change in provisions for expected credit losses	12, 32.1.1	7,301	-
Reclassification to profit or loss	6	(4,277)	-
		(3,366)	-
Monetary gold			
Net change in fair value during the year	17	6,138	(1,194)
		6,138	(1,194)
Total other comprehensive income / (loss)		2,772	(19,671)
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR		11,203	(7,486)

The accompanying notes on pages 12 to 80 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

In thousands of KM	Note	31 December 2018	As at 31 December 2017
ASSETS			
Foreign currency in cash	13	274,099	236,402
Deposits with foreign banks	14	2,911,448	2,698,650
Available-for-sale financial assets	15	-	6,202,071
Debt instruments at fair value through other comprehensive income	16	8,225,439	-
Monetary gold	17	209,996	203,908
Special Drawing Rights with the IMF	29, 34	2,236	1,531
Held-to-maturity investments	18	-	1,214,062
Other assets	19	10,554	11,656
Property and equipment	20	44,677	45,465
Intangible assets	20	1,342	1,072
Other investments	21	27,813	27,813
TOTAL ASSETS		11,707,604	10,642,630
LIABILITIES AND EQUITY			
LIABILITIES			
Currency in circulation	22	4,750,614	4,319,360
Deposits from banks	23	5,523,290	5,033,065
Deposits from the Government and other depositors	24	709,367	624,708
Provisions for liabilities and charges	25	1,259	1,650
Other liabilities	26	3,227	11,212
Total liabilities		10,987,757	9,989,995
EQUITY			
Initial capital		25,000	25,000
Reserves		694,847	627,635
Total equity	27	719,847	652,635
TOTAL LIABILITIES AND EQUITY		11,707,604	10,642,630

The accompanying notes on pages 12 to 80 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

In thousands of KM

	Initial capital	General reserves (Retained earnings)	Other reserves	Fair value reserves – financial assets at fair value through other comprehensive income	Provisions for expected credit losses	Fair value reserves – Available-for-sale financial assets	Fair value reserves – monetary gold	Total reserves	Total equity
As at 31 December 2017 - as stated	25,000	542,766	31,300	-	-	93,120	(39,551)	627,635	652,635
Impact of adopting IFRS 9 (Note 2.6. (c))	-	(36,477)	-	141,765	4,290	(93,120)	39,551	56,009	56,009
As at 1 January 2018 - restated	25,000	506,289	31,300	141,765	4,290	-	-	683,644	708,644
Total comprehensive income for the year	-	8,431	-	(8,069)	4,703	-	6,138	11,203	11,203
Net profit for the year (Note 28)	-	8,431	-	-	-	-	-	8,431	8,431
Other comprehensive income	-	-	-	(8,069)	4,703	-	6,138	2,772	2,772
<i>Net unrealised negative changes in fair value for debt securities</i>	-	-	-	(6,390)	-	-	-	(6,390)	(6,390)
<i>Net realised positive changes in fair value for debt securities transferred to profit or loss</i>	-	-	-	(1,679)	-	-	-	(1,679)	(1,679)
<i>Net unrealised positive changes in provisions for expected credit losses for debt securities</i>	-	-	-	-	7,301	-	-	7,301	7,301
<i>Net realised positive changes in provisions for expected credit losses transferred to profit or loss for debt securities</i>	-	-	-	-	(2,598)	-	-	(2,598)	(2,598)
<i>Net unrealised positive changes in fair value for monetary gold</i>	-	-	-	-	-	-	6,138	6,138	6,138
Balance as at 31 December 2018	25,000	514,720	31,300	133,696	8,993	-	6,138	694,847	719,847

The accompanying notes on pages 12 to 80 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY (CONTINUED)

In thousands of KM

	Initial capital	General reserves (Retained earnings)	Other reserves	Fair value reserves – Available-for-sale financial assets	Fair value reserves – monetary gold	Total reserves	Total equity
As at 1 January 2017	25,000	537,892	31,300	111,597	(38,357)	642,432	667,432
Total comprehensive (loss) for the year	-	12,185	-	(18,477)	(1,194)	(7,486)	(7,486)
Net profit for the year	-	12,185	-	-	-	12,185	12,185
Other comprehensive (loss)	-	-	-	(18,477)	(1,194)	(19,671)	(19,671)
<i>Net unrealised negative changes in fair value for debt securities</i>	-	-	-	(15,890)	-	(15,890)	(15,890)
<i>Net realised positive changes in fair value for debt securities transferred to profit or loss</i>	-	-	-	(2,587)	-	(2,587)	(2,587)
<i>Net unrealised negative changes in fair value for monetary gold</i>	-	-	-	-	(1,194)	(1,194)	(1,194)
Distribution of profit							
Distribution of profit to the state budget (Note 28)	-	(7,311)	-	-	-	(7,311)	(7,311)
Balance as at 31 December 2017	25,000	542,766	31,300	93,120	(39,551)	627,635	652,635

The accompanying notes on pages 12 to 80 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

		For the year ended 31 December	
	Note	2018	2017
In thousands of KM			
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit for the year		8,431	12,185
Adjusted for:			
Interest income	4	(48,186)	(42,996)
Interest expense	4	24,393	21,022
Provisions for expected credit losses, net	12	8,175	-
Net realised (gains) from sale of available-for-sale financial assets		-	(2,587)
Net realised (gains) from sale of debt instruments at fair value through other comprehensive income		(4,277)	-
Net foreign exchange (gains) / losses		(151)	560
Income from grants	9	(144)	(132)
Provisions for liabilities and charges	25	(222)	226
Net (gain) on disposal of property and equipment		(3)	(43)
Dividend income recognized in profit or loss	9	(589)	(763)
Depreciation and amortisation	20	2,426	2,035
Net cash flows from operating activities before changes in operating assets and liabilities		(10,147)	(10,493)
Changes in operating assets and liabilities			
(Increase) in term deposits with foreign banks over 3 months		(641,253)	(681,284)
(Increase) in debt instruments at fair value through other comprehensive income		(729,251)	-
(Increase) in available-for-sale financial assets		-	(1,175,774)
(Increase) in held-to-maturity investments		-	(69,113)
Decrease / (increase) in other assets		1,221	(7,222)
Increase in currency in circulation		431,254	252,556
Increase in deposits		580,668	802,663
(Decrease) in other liabilities		(566)	(1,088)
Payments from provisions for liabilities and charges		(169)	(187)
Interest received		60	29
Interest paid		(8,637)	(10,477)
Net cash from operating activities		(376,820)	(900,390)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property and equipment		5	46
Purchases of property, equipment and intangible assets		(1,910)	(3,100)
Dividends received		589	763
Net cash used in investing activities		(1,316)	(2,291)