CENTRAL BANK OF BOSNIA AND HERZEGOVINA

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2017

Contents

Responsibility of the Management and 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 51 were authorised by the Governing Board on 28 March 2018 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

Grant Thornton

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 2017, 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 2017, 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 Hercegovina, 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, 28 March 2018

Aleksandar Džombić, PhD
Certified Auditor
Grant Thornton d.o.o.

Banja Luka, 28 March 2018

Suzana Stavrikj, Partner

Grant Thornton d.o.o.

Skopje, 28 March 2018

Kledian Kodra, Partner

Grant Thornton sh.p.k.

Tirana, 28 March 2018

STATEMENT OF PROFIT OR LOSS

In thousands of KM	Note	*For the year ended 31 December* 2017	2016
Interest income	4	29,008	28,740
Effects of negative interest rates from interest-bearing financial assets	4	(11,470)	(8,565)
Effects of negative deposit interest rate on deposits from local commercial banks	4	4,425	2,169
NET INTEREST INCOME		**21,963**	**22,344**
Fee and commission income	5	15,834	10,072
Fee and commission expenses	5	(562)	(533)
NET FEE AND COMMISSION INCOME		**15,272**	**9,539**
Net realized gains from sale of financial assets available-for-sale	12	2,587	8,383
Net foreign exchange (losses) / gains	6	(560)	60
Other income	7	1,560	1,571
OPERATING INCOME		**40,822**	**41,897**
Personnel expenses	8	(19,019)	(18,929)
Administrative and other operating expenses	9	(7,583)	(6,793)
Depreciation and amortisation	16	(2,035)	(2,113)
OPERATING EXPENSES		**(28,637)**	**(27,835)**
NET PROFIT FOR THE YEAR		**12,185**	**14,062**

The accompanying notes on pages 11 to 51 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

In thousands of KM	Note	*For the year ended 31 December* 2017	2016
NET PROFIT FOR THE YEAR		**12,185**	**14,062**
Other comprehensive income			
Items that may be reclassified subsequently to the statement of profit or loss:			
Monetary gold			
Net changes in fair value of monetary gold	13	(1,194)	22,788
		(1,194)	*22,788*
Financial assets available-for-sale			
Net changes in fair value of financial assets available-for-sale	12	(15,890)	53,673
Realized fair value gains from financial assets available-for-sale reclassified to the statement of profit or loss	12	(2,587)	(8,383)
		(18,477)	*45,290*
Total other comprehensive (loss) / income		***(19,671)***	***68,078***
TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR		**(7,486)**	**82,140**

The accompanying notes on pages 11 to 51 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

In thousands of KM	Note	*As at* 31 December 2017	31 December 2016
ASSETS			
Foreign currency in cash	10	236,402	194,846
Deposits with foreign banks	11	2,698,650	2,970,397
Special Drawing Rights with the International Monetary Fund	25, 30	1,531	2,642
Financial assets available-for-sale	12	6,202,071	5,025,829
Monetary gold	13	203,908	205,102
Held-to-maturity investments	14	1,214,062	1,132,328
Other assets	15	11,656	4,626
Property and equipment	16	45,465	44,681
Intangible assets	16	1,072	794
Other investments	17	27,813	27,813
TOTAL ASSETS		**10,642,630**	**9,609,058**
LIABILITIES, EQUITY AND RESERVES			
Currency in circulation	18	4,319,360	4,066,804
Deposits from banks	19	5,033,065	4,269,143
Deposits from the Government and other depositors	20	624,708	590,392
Provisions for liabilities and charges	21	1,650	1,611
Other liabilities	22	11,212	13,676
Total liabilities		**9,989,995**	**8,941,626**
Initial capital		25,000	25,000
General reserves (Retained earnings)		542,766	537,892
Other reserves		31,300	31,300
Fair value reserves		53,569	73,240
Fair value reserves – financial assets available-for-sale		93,120	111,597
Fair value reserves – monetary gold		(39,551)	(38,357)
Total equity and reserves	23	**652,635**	**667,432**
TOTAL LIABILITIES, EQUITY AND RESERVES		**10,642,630**	**9,609,058**

The accompanying notes on pages 11 to 51 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 available-for-sale	Fair value reserves – monetary gold	Total
Balance as at 1 January 2017	**25,000**	**537,892**	**31,300**	**111,597**	**(38,357)**	**667,432**
Total comprehensive income for the year						
Profit for the year	-	12,185	-	-	-	12,185
Other comprehensive income	-	-	-	(18,477)	(1,194)	(19,671)
	-	**12,185**	**-**	**(18,477)**	**(1,194)**	**(7,486)**
Distribution of profit						
Distribution of profit to the state budget (Note 24)	-	(7,311)	-	-	-	(7,311)
Balance as at 31 December 2017	**25,000**	**542,766**	**31,300**	**93,120**	**(39,551)**	**652,635**

The accompanying notes on pages 11 to 51 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 – financial assets available-for-sale	Fair value reserves – monetary gold	Total
Balance as at 1 January 2016	**25,000**	**532,267**	**31,300**	**66,307**	**(61,145)**	**593,729**
Total comprehensive income for the year						
Profit for the year	-	14,062	-	-	-	14,062
Other comprehensive income	-	-	-	45,290	22,788	68,078
	-	**14,062**	**-**	**45,290**	**22,788**	**82,140**
Distribution of profit						
Distribution of profit to the state budget (Note 24)	-	(8,437)	-	-	-	(8,437)
Balance as at 31 December 2016	**25,000**	**537,892**	**31,300**	**111,597**	**(38,357)**	**667,432**

The accompanying notes on pages 11 to 51 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

In thousands of KM	Note	For the year ended 31 December 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		**12,185**	**14,062**
Adjustments for:			
Depreciation and amortisation	16	2,035	2,113
Net realized gains from sale of financial assets available-for-sale		(2,587)	(8,383)
Income from grants	7	(132)	(218)
Provisions for liabilities and charges	8	226	219
(Gain) / Loss on disposal of property and equipment		(43)	4
Dividend income recognized in the statement of profit or loss	7	(763)	(562)
Interest income from held-to-maturity investments and financial assets available-for-sale recognized in the statement of profit or loss	4	(28,979)	(28,726)
Net cash flows from operating activities before changes in operating assets and liabilities		**(18,058)**	**(21,491)**
Changes in operating assets and liabilities			
(Increase) in deposits with foreign banks		(680,291)	(195,444)
(Increase) in other assets		(7,234)	(283)
Increase of currency in circulation		252,556	567,336
Increase in deposits		798,238	294,404
(Decrease) / Increase in other liabilities		(1,206)	1,157
Severance payments		(187)	(60)
Net cash from operating activities		**343,818**	**645,619**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property and equipment		46	-
Purchases of property, equipment and intangible assets		(3,100)	(2,764)
Proceeds from coupon maturity and securities maturity of available-for-sale financial assets		2,242,037	5,203,667
Purchases of available-for-sale financial assets		(3,887,900)	(4,342,772)
Sales of available-for-sale financial assets		470,089	330,016
Collected principal and interest from held-to-maturity investments		21,607	21,395
Purchases of held-to-maturity investments		(90,720)	-
Dividends received		763	562
Net cash used in investing activities		**(1,247,178)**	**1,210,104**
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		**(911,797)**	**1,836,896**
Cash and cash equivalents at 1 January		**2,973,081**	**1,136,185**
Cash and cash equivalents at 31 December	25	**2,061,284**	**2,973,081**

The accompanying notes on pages 11 to 51 are an integral part of these financial statements.

1. GENERAL INFORMATION

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 ("BH") on 20 June 1997, according to the General Framework Peace Agreement in Bosnia and Herzegovina.

The Bank started its operations on 11 August 1997.

The main objectives and tasks of the Bank are:

- to define, adopt and control the implementation of monetary policy of BH through the issuance of local currency (Convertible Mark or "KM") with full coverage in free, convertible foreign exchange assets;
- to keep and manage the official foreign exchange reserves of the Bank in a safe and profitable manner;
- to implement monetary policy in accordance with the Law on the Central Bank of Bosnia and Herzegovina;
- to establish and maintain adequate payment and settlement systems;
- to coordinate the activities of the banking agencies, who are in charge of issuing banking licences and supervising banks;
- to accept deposits from the state and public institutions of BH and deposits from commercial banks;
- to issue provisions and guidelines for the performance of the Bank's operations, in accordance with the Law on the Central Bank of BH;
- to take part in the operations of international organisations working on strengthening the financial and economic stability of the country;
- to represent BH in international organisations regarding monetary policy issues.

The highest body of the Bank is the Governing Board, which is in charge of defining monetary policy and the control of its implementation, and the organisation and the strategy of the Bank in accordance with the Law on the Central Bank of Bosnia and Herzegovina.

The Management of the Bank consists of the Governor and Vice-Governors, appointed by the Governor with the approval of the Governing Board. The Management operationally manages the Bank's activities.

According to the Law on the Central Bank of Bosnia and Herzegovina, the Governor, with the approval of the Governing Board, appoints the Chief Audit Executive and three Deputies.

The Bank operates through its Head Office, three main units located in Sarajevo, Mostar, and Banja Luka, and two branches, one in Brčko District and other in Pale, the latter of which operates under the authorisation of the Main Bank of Republika Srpska of the Central Bank of Bosnia and Herzegovina in Banja Luka.

During the course of 2016 and 2017 and up to the date of this report, the Governing Board, Management, Office of the Chief Audit Executive and Audit Committee members are:

Governing Board

Senad Softić Ph.D.	Chairman (from 11 August 2015)
Ankica Kolobarić M.Sc.	Member (from 11 August 2015)
Šerif Isović M.Sc.	Member (from 1 November 2017)
Kemal Kozarić Ph.D.	Member (until 31 October 2017)
Trivo Marinković M.Sc.	Member (from 11 August 2015)
Ljubiša Vladušić Ph.D.	Member (from 11 August 2015)

1. GENERAL INFORMATION (CONTINUED)

Management

Senad Softić Ph.D.	Governor (from 11 August 2015)
Ernadina Bajrović M.Sc.	Vice-Governor (from 1 January 2013)
Milica Lakić Ph.D.	Vice-Governor (from 1 June 2016 until 15 June 2017 and from 11 august 2017)
Radomir Božić Ph.D.	Vice-Governor (until 16 February 2016 and from 16 June 2017 until 10 August 2017)
Želimira Raspudić M.Sc.	Vice-Governor (from 1 July 2017)
Ankica Kolobarić M.Sc.	Vice-Governor (until 30 June 2017)

Office of the Chief Audit Executive

Anita Dujmović	Chief Audit Executive (from 24 October 2017)
Edis Kovačević M.Sc.	Chief Audit Executive (until 30 September 2017)
Marica Bulić	Deputy of the Chief Audit Executive (from 8 December 2017)
Angela Medić	Deputy of the Chief Audit Executive (until 30 November 2017)
Stojanka Šarović	Deputy of the Chief Audit Executive (from 4 September 2017)
KrstinjaTošović	Deputy of the Chief Audit Executive (until 21 August 2017)

Audit Committee

Mila Gadžić Ph.D.	Member (from 1 September 2015)
Sead Kreso Ph.D.	Member (from 1 September 2015)
Radomir Repija	Member (from 1 September 2015)

2. BASIS FOR PREPARATION

2.1. Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS") as published by the International Accounting Standards Board.

2.2. Basis of measurement

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments and monetary gold, which are stated at fair value.

Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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.

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 observable 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 them easurement date;
- Level 2 inputs are inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

More detailed disclosures on fair value measurements of financial assets and liabilities are presented in Note 29.

2. *BASIS FOR PREPARATION (CONTINUED)*

2.3. *Use of estimates and judgements*

The preparation of financial statements in conformity with IFRS requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Information on amounts where significant uncertainty exists in their estimate and critical judgments in applying accounting policies that have the most impact on the amounts disclosed in these financial statements are disclosed in Note 3.17.

2.4. *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 stated).

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 = EUR 1. 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 for a "*currency board*" to be used for issuing KM, according to which KM is issued only with the purchase of convertible foreign exchange currency with full coverage in net foreign assets.

2.5. *Standards, interpretations and amendments to published standards that are effective in the current period*

The following standards, amendments to the existing standards and interpretations issued by the International Accounting Standards Board are effective for the current period:

- Amendments to IAS 7: "Statement of Cash Flows" – Disclosure initiative (effective for annual periods beginning on or after 1 January 2017),
- Amendments to IAS 12: "Income Taxes" – Recognition of deferred tax assets for unrealised losses (effective for annual periods beginning on or after 1 January 2017),
- Amendments to IFRS 12: "Disclosure of interest in other entities" included in the 2014 - 2016 Annual Improvements Cycle – various standards (effective for annual periods beginning on or after 1 January 2017).

The application of these standards, amendments and interpretations has no significant impact on the financial statements of the Bank in the current period.

2.6. *Standards and Interpretations in issue not yet adopted*

As at the date of authorization of these financial statements the following standards, revisions and interpretations have been published by the IASB, but are not yet effective and have not been adopted early by the Bank:

- IFRS 9: "Financial Instruments" (effective for annual periods beginning on or after 1 January 2018),
- IFRS 15: "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018),
- IFRS 16: "Leases" (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IFRS 2: „ Share – based Payment" - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 4: „Insurance Contracts" - Applying IFRS 9: „Financial Instruments" with IFRS 4 „Insurance Contracts" (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9:„ Financial Instruments" is first applied),

2. BASIS FOR PREPARATION (CONTINUED)

2.6. Standards and Interpretations in issue not yet adopted (continued)

- Amendments to IAS 40: "Investment Property"- Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),
- Annual improvements to IFRSs 2014 – 2016 cycle – Amendments to IFRS 1 and IAS 28 (effective for annual periods beginning on or after 1 January 2018),
- IFRIC 22 „Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after 1 January 2018),
- IFRIC 23 "Uncertainty over tax treatments (effective for annual periods beginning on or after 1 January 2019),
- IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2021),
- Amendments to IFRS 10: "Consolidated Financial Statements" and IAS 28: "Investments in Associates and Joint Ventures" – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after a date to be determined).

The Bank has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Bank anticipates that the adoption of these standards, revisions and interpretations will not have a significant impact on the financial statements of the Bank, except for IFRS 9.

IFRS 9 "Financial instruments" replaces IAS 39 "Financial instruments: Recognition and measurement" and is effective for annual periods beginning on or after 1 January 2018. IFRS 9 has introduced a new concept of classification and measurement of financial assets and a new "expected credit loss" (ECL) model for the impairment of financial assets. The Bank has adopted new accounting policies, implementing the requirements of IFRS 9, effective as at 1 January 2018. The Bank also assessed the impact of IFRS 9 on its financial assets and upgraded and customized existing business applications and adopted new regulations to include IFRS 9 requirements.

The Bank assessed the impact of IFRS 9, in the following areas:

Classification and measurement of financial instruments on or after 1 January 2018 is based on new criteria that take into account the contractual cash flows of financial instruments and the business model in which they are managed. IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost (AC), measured at fair value through other comprehensive income (FVOCI) and measured at fair value through profit and loss (FVPL). IFRS 9 eliminates the existing IAS 39 categories "at fair value through profit or loss" (FVTPL), "available-for-sale" (AFS), "held-to-maturity investments", and "loans and receivables".
Based on selected business models, the Bank has decided to classify its financial assets into following categories as at 1 January 2018:

SDR with the IMF that were classified as loans and receivables and measured at amortised cost under IAS 39 are measured at amortised cost under IFRS 9.

Demand and term deposits with foreign banks that were classified as loans and receivables and measured at amortised cost under IAS 39 are measured at amortised cost under IFRS 9.

Loans to employees that were classified as loans and receivables and measured at amortised cost under IAS 39 are measured at amortised cost under IFRS 9.

Debt securities that were classified as financial assets available-for sale and measured at fair value under IAS 39 are measured at fair value through other comprehensive income (FVOCI) under IFRS 9.

Debt securities that were classified as held-to maturity investments and measured at amortised cost under IAS 39 are measured at fair value through other comprehensive income (FVOCI) under IFRS 9.

For equity instruments that were classified as financial assets available-for-sale under IAS 39 and were not held for trading, the Bank irrevocably elected to present subsequent changes in fair value in other comprehensive income under IFRS 9.

Monetary gold is part of foreign exchange reserves of the Bank and is classified as a financial asset. The Bank has revised the current accounting policy for monetary gold and changed the accounting treatment of monetary gold, effective from 1 January 2018, as follows:

2. *BASIS FOR PREPARATION (CONTINUED)*

2.6. *Standards and Interpretations in issue not yet adopted (continued)*

Monetary gold will be initially recognized at fair value, plus transaction cost directly attributable to the acquisition of the gold. After initial recognition, the gold will be re-measured at fair value.

Unrealized gains and losses arising from changes in fair value, referring to the price changes of gold, will be recognized in the revaluation reserve account within other comprehensive income. In the event that unrealised losses exceed the balance in the revaluation reserve, the Bank shall charge the excess against the period's profit available for distribution.

On the sale of gold, the Bank shall recycle existing unrealized gains and losses through profit and loss.

The fair value of monetary gold will be expressed in EUR, converted at the fixed rate of KM at the reporting date, and will be measured at the last bid price for one ounce of gold (Oz) at the reporting date quoted on Reuters.

The effects of the adoption of the accounting policy for monetary gold will be recorded within the general reserves (retained earnings) of the Bank as at 1 January 2018.

Impairment based on expected credit losses shall be recognized for the Bank's financial assets that are currently recognized as deposits with foreign banks, available-for-sale financial assets, held-to-maturity investments. Impairment for SDR in the IMF, loans to employees and other financial receivables is calculated using simplified approach.

Implementation of IFRS 9 and change of accounting policy for monetary gold shall impact the opening balance of the Bank's assets and equity on 1 January 2018.

IMPACT ON FINANCIAL ASSETS

In thousands of KM

	31 December 2017	**Restatement of opening balance**		**1 January 2018**
Foreign currency in cash	236,402	-	Foreign currency in cash	236,402
Deposits with foreign banks	2,698,650	(1,635)	Deposits with foreign banks	2,697,015
Special drawing rights with the IMF	1,531	-	Special drawing rights with the IMF	1,531
Financial assets available-for-sale	6,202,071	-	Financial assets at FVOCI	7,473,857
Held-to-maturity investments	1,214,062	57,724	-	-
Monetary gold	203,908	(50)	Monetary gold	203,858
Other investments	27,813	-	Other investments	27,813
Other financial assets	2,746	(30)	Other financial assets	2,716
TOTAL	**10,587,183**	**56,009**	**TOTAL**	**10,643,192**

2. *BASIS FOR PREPARATION (CONTINUED)*

2.6. *Standards and Interpretations in issue not yet adopted (continued)*

IMPACT ON EQUITY AND RESERVES

In thousands of KM

	31 December 2017	Restatement of opening balance		1 January 2018
Initial capital	25,000	-	Initial capital	25,000
General reserves (Retained earnings)	542,766	(36,477)	General reserves (Retained earnings)	506,289
Other reserves	31,300	-	Other reserves	31,300
Fair value reserves	53,569		Fair value reserves	146,055
Fair value reserves – financial assets available-for-sale	93,120	52,935	*Fair value reserves – financial assets at FVOCI*	141,765
-	-	-	*Provisions for ECL - financial assets at FVOCI*	4,290
Fair value reserve – monetary gold	(39,551)	39,551	*Revaluation reserve - monetary gold*	-
TOTAL	**652,635**	**56,009**	**TOTAL**	**708,644**

Based on assessments undertaken to date, the total estimated adjustment of the adoption of IFRS 9 and adoption of the accounting policy for monetary gold on the opening balance of the Bank's assets and equity at 1 January 2018 are as follows:

Bank' assets:
- A decrease of deposits with foreign banks in the amount of KM 1,635 thousand related to ECL.
- An increase of financial assets at FVOCI in the amount of KM 57,724 thousand related to classification of held-to maturity investments under IAS 39 to financial assets at FVOCI due to fair value measurement calculation of these investments.
- A decrease of monetary gold in the amount of KM 50 thousand related to the translation from USD to EUR currency.
- A decrease of other financial assets in the amount of KM 30 thousand related to the ECL.

Bank's equity:
- A decrease of general reserves in the total amount of KM 36,477 thousand related to:
  - A decrease for impairment requirements with corresponding opening balances for financial assets measured at amortised cost and FVOCI for ECL in the amount of KM 5,955 thousand
  - An increase for the new method of the effective interest rate in the amount of KM 9,079 thousand
  - A decrease for adoption of the accounting policy for monetary gold in the total amount of KM 39,601 thousand (KM 39,551 thousand revaluation reserve and KM 50 thousand foreign exchange difference)
- An increase of fair value reserves in the total amount of KM 52,935 related to:
  - An increase of fair value reserves for financial assets at FVOCI in the amount of KM 57,724 thousand related to classification of held-to maturity investments under IAS 39 to financial assets at FVOCI due to fair value measurement calculation of these investments.
  - A decrease for the new method of the effective interest rate in the amount of KM 9,079 thousand
  - An increase of provisions for ECL for financial assets at FVOCI in the amount of KM 4,290 thousand.

3. *SIGNIFICANT ACCOUNTING POLICIES*

The accounting policies set out below have been applied in the preparation and presentation of these financial statements.

3.1. Interest income and expenses

Interest income and expenses are recognized in the statement of profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expenses presented in the statement of profit or loss include interest on financial assets and financial liabilities measured at amortized cost calculated on an effective interest basis.

3.2. Fee and commission income and expenses

Fee and commission income and expenses that are integral part to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fee and commission income and expenses mainly comprise fees earned and spent on domestic and foreign payment transactions and are recognized in the statement of profit or loss upon performance of the relevant service.

3.3. Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency at the exchange rate prevailing on the settlement date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate applicable at that date. Non-monetary assets and liabilities that are measured based on historical cost in a foreign currency are translated using the exchange rate at the date of the transaction and are not retranslated at the reporting date.

Foreign exchange differences arising on retranslation of transactions and the assets and liabilities denominated in foreign currencies are recognized in the statement of profit or loss.

Middle exchange rate:	**31 December 2017**	**31 December 2016**
	KM	KM
USD	1.63081	1.85545
SDR	2.322489	2.494348

3.4. Dividend income

Dividend income from equity securities is recognized in the statement of profit or loss when the Bank's right to receive income is established.

3.5. Financial instruments

Financial assets and financial liabilities are recognized when the Bank becomes a party to the contractual provisions of the financial instruments.

3. *SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*

3.5. Financial instruments (continued)

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities, except those classified at fair value through profit and loss, are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized directly in profit or loss.

Method of effective interest rate

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instruments, or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

3.5.1 Financial assets

Financial assets are recognized and derecognized on the settlement date on which the purchase or sale of an instrument is delivered to or by the Bank, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: "at fair value through profit or loss" (FVTPL), "available-for-sale" (AFS), "held-to-maturity investments", and "loans and receivables".

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. As at 31 December 2017 and 2016, the Bank has no financial assets at FVTPL.

Loans and receivables

Receivables (including deposits with foreign banks) that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

Loans and receivables are initially recognized at fair value plus transaction costs.

After initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment. Interest income is recognized by applying the effective interest rate.

Held-to-maturity investments

Government debt securities with fixed or determinable payments and fixed maturity dates that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. 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.

Financial assets available-for-sale ("AFS")

Debt and equity securities held by the Bank are classified as being AFS and are stated at fair value. Fair value is determined in the manner described in the Note 29. Unquoted equity instruments whose fair value cannot be reliably determined are carried at cost, less impairment. Gains and losses arising from changes in fair value of debt and equity securities are recognized in other comprehensive income in the fair value reserve account with the exception of impairment losses, interest calculated using the effective interest rate method and foreign exchange gains and losses on financial assets, which are recognized directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the fair value reserve account in other comprehensive income is included in profit or loss for the period.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5. Financial instruments (continued)

3.5.1 Financial assets (continued)

Dividends on AFS equity instruments are recognized in profit or loss when the Bank's right to receive payments is established.

The fair value of AFS financial assets denominated in a foreign currency is determined in that foreign currency and translated at the middle exchange rate at the reporting period date. The change in fair value attributable to translation differences that result from a change in amortized cost of the asset is recognized in profit or loss and other changes are recognized in equity.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of the counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganisation.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively. Those individually significant assets which are not identified as impaired are subsequently included in the basis for collective impairment assessment. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced through the use of an allowance account. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss for debt securities classified as AFS decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity securities, any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

De-recognition of financial assets

The Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity

3.5.2 Financial liabilities

Financial liabilities are classified as either financial liabilities "at FVTPL" or "other financial liabilities". As at 31 December 2017 and 2016, the Bank has no financial liabilities at FVTPL.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5. Financial instruments (continued)

3.5.2 Financial liabilities (continued)

Other financial liabilities

Other financial liabilities, including currency in circulation, deposits from the local banks and deposits from the Government and other depositors, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

De-recognition of financial liabilities

The Bank derecognizes financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire.

3.6. 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. Gains and losses arising from changes in fair value, referring to price changes and foreign exchange differences from conversion from USD to Convertible Mark are recognized in the fair value reserve within other comprehensive income, until the gold is sold, when they are recognized as realized gains or losses in the statement of profit or loss.

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 measured at the last bid price for one ounce of gold (Oz) at the reporting date quoted on Reuters.

Foreign exchange gains and losses from conversion of prices of gold from USD to Convertible Mark are recognized as a part of fair value adjustments in the fair value reserve in other comprehensive income.

3.7. 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 up to three months or less from the date of acquisition and Special Drawing Rights in the International Monetary Fund.

3.8. Property, equipment and intangible assets

Properties, equipment and intangible assets consist of assets obtained from the Bank's own funds and cash and non-cash grants.

Properties, equipment and intangible assets are stated at cost, less accumulated depreciation/amortization and any recognized accumulated impairment losses. Cost includes the purchase price and all costs directly related to bringing the asset into operating condition for its intended use. Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred. Significant improvements and replacement of assets are capitalized.

Assets in course of construction are reported at their cost of construction including costs charged by third parties. Upon completion, all accumulated costs of the asset are transferred to the relevant property and equipment category and subsequently subject to the applicable depreciation rates.

Depreciation and amortization is provided on all assets, except land and assets in the course of construction, on a straight-line basis at prescribed rate designed to write off the cost of the assets over their estimated useful lives. The estimated depreciation and amortization rates during 2016 and 2017 were as follows:

3. *SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*

3.8. *Property, equipment and intangible assets (continued)*

Software	20.0%
Other intangible assets	20.0%
Buildings	1.3% to 4.0%
Equipment	11.0% to 20.0%
Furniture	10.0% to 12.5%
Vehicles	15.5%

Gains and losses on disposal of property and equipment are recognized in the statement of profit or loss.

The useful life of the property, equipment and intangible assets is reviewed and adjusted on an annual basis at minimum, if necessary, and it is applied prospectively.

3.9. *Impairment of non-financial assets*

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of profit or loss.

The recoverable amount of other assets is the greater of their value in use and fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, as if no impairment loss had been recognized.

3.10. *Provisions for liabilities and charges*

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provisions for liabilities and charges are maintained at the level that the Bank's management considers sufficient for absorption of incurred losses. The management determines the sufficiency of provisions on the basis of insight into specific items, current economic circumstances, risk characteristics of certain transaction categories, as well as other relevant factors.

Provisions are released only for such expenditure in respect of which provisions are recognized at inception. If the outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

3.11. *Grants*

Grants related to assets, including non-cash grants, are initially recognized as deferred income at fair value and are then recognized as income from grants on a systematic basis over the useful life of the assets. Grants that compensate the Bank for expenses incurred are recognized in the statement of profit or loss as income from grants on a systematic basis in the same periods in which the expenses are recognized.

3.12. *Taxes*

According to Article 69 of the Law on the Central Bank of Bosnia and Herzegovina, the Bank, its assets, property and income, and its operations and transactions are exempt from all taxes and duties.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13. Currency in circulation

The Bank administers the issue and withdrawal of domestic bank notes and coins. The corresponding liability from the issued currency in circulation is recorded in the statement of financial position.

When currency is withdrawn from circulation, it is recognized as a liability as part of currency in circulation, until the formal date of withdrawal. Any outstanding amount not withdrawn, after the formal due date, is recognized as income.

Costs related to the production and design of banknotes and coins are initially recognized as deferred costs which are subsequently amortised through other operating expenses. From February 2017 the Bank has increased the period for amortisation of these costs from three to five years.

3.14. Managed funds for and on behalf of third parties

The Bank maintains certain accounts in foreign currencies related to agreements concluded between the governments of Bosnia and Herzegovina and its constituent entities and foreign governments and financial organisations, as well as foreign currency accounts of state institutions and agencies, and of commercial banks, for which the Bank acts as an agent.

3.15. Employee benefits

Short-term employee benefits

In accordance with local regulations, on behalf of its employees, the Bank pays personal income tax and contributions for pension, disability, health and unemployment insurance, on and from salaries, which are calculated as per the set legal rates during the course of the year on the gross salary. The Bank pays those tax and contributions in the favour of the institutions of the Federation of Bosnia and Herzegovina (on federal and cantonal levels), Republika Srpska and Brčko District.

In addition, meal allowances, transport allowances and vacation bonuses are paid in accordance with the domestic legislation requirements. These expenses are recognized in the statement of profit or loss in the period in which the expense is incurred.

Long-term employee benefits

According to local legal requirements, employees of the Bank are entitled to receive a one-time benefit on retirement, provided legal conditions are met, such as the age or years of service, which in accordance with the Bank's internal Acts is based on six regular monthly salaries paid to the respective employee in the last six months.

Such payments are treated as long-term employee benefits which are calculated annually by independent actuaries using the projected unit credit method. The discount rate used in the calculation of the liability is based on interest rates of domestic corporate bonds and government bonds which exist on the market.

3.16. Financial arrangements of Bosnia and Herzegovina with the International Monetary Fund

According to the financial arrangements made at the end of 2002 between Bosnia and Herzegovina and the International Monetary Fund ("IMF"), the statement of financial position of the Bank includes the following items related to Bosnia and Herzegovina's membership of the IMF: holdings of Special Drawing Rights ("SDRs"), accrued interest on such SDR holdings and the IMF No. 1 account and IMF No. 2 account.

Other assets and liabilities related to the IMF, belonging to or being the responsibility of Bosnia and Herzegovina, are recorded in a special Trust Fund within off-balance-sheet records (see also Note 30).

3.17. Critical accounting judgements and key source of estimation uncertainty

In the application of the Bank's accounting policies, which are described in Note 3, the Management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17. Critical accounting judgements and key source of estimation uncertainty (continued)

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key assumptions and estimates relating to material statement of financial position items are presented below.

Fair value of assets

The Bank's policy is to disclose fair value information on those financial assets and financial liabilities for which public market information is readily available or such value may be calculated by applying some alternative valuation techniques, and whose fair value is materially different from their recorded amounts. According to the Bank's management, amounts presented in the financial statements reflect the most reliable and useful estimate of fair value for financial reporting purposes, in accordance with IFRS.

Depreciation and amortisation charge and rates applied

The calculation of depreciation and amortisation, as well as depreciation and amortisation rates are based on the assessed economic useful life of property, equipment and intangible assets. Once a year, the Bank assesses economic useful life based on current assumptions.

4. INTEREST INCOME AND EXPENSES

	For the year ended 31 December	
In thousands of KM	**2017**	**2016**
Interest income arising from:		
- financial assets available-for-sale (Note 12)	16,358	17,194
- held-to-maturity investments (Note 14)	12,621	11,532
- deposit with foreign banks	18	11
- other	11	3
	29,008	***28,740***
Effects of negative interest rates from interest bearing financial assets from:		
- term deposits held with foreign banks	(8,887)	(6,138)
- demand deposits held with foreign banks	(2,583)	(2,427)
	(11,470)	***(8,565)***
Effects of negative deposit interest rates on deposits from local commercial banks	***4,425***	***2,169***
Net interest income	**21,963**	**22,344**

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 01/01/2016-30/06/2016 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 01/01/2016-30/06/2016 were as follows:

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

4. INTEREST INCOME AND EXPENSES (CONTINUED)

In the period 01/01/2016-30/06/2016 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 (Euro Over Night Index Average) 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.

In the period 01/07/2016-31/12/2017, 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 01/07/2016-31/12/2017.

5. FEE AND COMMISSION INCOME AND EXPENSES

	For the year ended 31 December	
In thousands of KM	**2017**	**2016**
Fee and commission income:		
- from local commercial banks	14,720	9,592
- from services for the Government and other non-banking clients	1,114	480
	15,834	**10,072**
Fee and commission expenses:		
- transactions with foreign banks	(562)	(533)
	(562)	**(533)**
Net fee and commission income	**15,272**	**9,539**

At the beginning of 2017, the Bank increased fee tariff for services provided to commercial banks and other non-banking clients.

6. NET FOREIGN EXCHANGE (LOSSES) / GAINS

	For the year ended 31 December	
In thousands of KM	**2017**	**2016**
Income from foreign exchange differences	577	1,078
Expenses from foreign exchange differences	(1,137)	(1,018)
Net (losses) /gains	**(560)**	**60**

7. *OTHER INCOME*

	For the year ended 31 December	
In thousands of KM	**2017**	**2016**
Dividend income (Note 17)	763	562
Income from grants	132	218
Other income	665	791
TOTAL	**1,560**	**1,571**

8. *PERSONNEL EXPENSES*

	For the year ended 31 December	
In thousands of KM	**2017**	**2016**
Salaries	10,280	10,543
Taxes and contributions	5,846	6,013
Other employee benefits	2,667	2,304
Provisions for severance payments (Note 21)	226	69
TOTAL	**19,019**	**18,929**

Personnel costs include KM 3,540 thousand (2016: KM 3,541 thousand) of defined pension contributions paid into the public pension funds in Bosnia and Herzegovina. Contributions are calculated as percentage of the gross salary. As at 31 December 2017 the Bank had 367 employees (2016: 361 employees).

9. *ADMINISTRATIVE AND OTHER OPERATING EXPENSES*

	For the year ended 31 December	
In thousands of KM	**2017**	**2016**
Maintenance costs	2,494	2,587
Expenses for production and design of banknotes and coins	1,429	599
Other administrative and operating expenses	3,660	3,607
TOTAL	**7,583**	**6,793**

During 2017, the Bank determined that the needs for KM currency were projected for the five year period and were successively placed into circulation, therefor, as at February 2017, the Bank has changed the number of years to which expenses for production and design of banknotes and coins are deferred from three to five years. As a result of the revised estimate, the expenses for production and design of banknotes and coins during the reporting period were lower by KM 793 thousand than the expenses that would be recognized if the Bank applied three year period for amortisation.

If the Bank had applied three year period for amortisation, expenses for production and design of banknotes and coins would have been be higher in total by KM 2,329 thousand in the period of next two years.

10. FOREIGN CURRENCY IN CASH

Foreign currency in cash relates to:

In thousands of KM	31 December 2017	31 December 2016
Cash in vaults per currency:		
- EUR	236,330	194,768
- CHF	36	40
- USD	19	21
- GBP	17	17
TOTAL	**236,402**	**194,846**

11. DEPOSITS WITH FOREIGN BANKS

Term and demand deposits with foreign banks, analysed by type of currency, are as follows:

In thousands of KM	31 December 2017	31 December 2016
Term deposits:		
- EUR	2,027,067	2,265,332
	2,027,067	**2,265,332**
Demand deposits:		
- EUR	666,153	699,285
- USD	2,921	4,286
- Other currencies	2,509	1,494
	671,583	**705,065**
TOTAL	**2,698,650**	**2,970,397**

Term deposits with foreign banks, analysed by remaining contractual maturity, are as follows:

In thousands of KM	31 December 2017	31 December 2016
Up to 1 month	993,768	742,008
From 1 to 2 months	136,200	644,529
From 2 to 3 months	449,303	683,351
From 3 to 4 months	117,154	-
From 4 to 12 months	330,642	195,444
TOTAL	**2,027,067**	**2,265,332**

During 2017 the negative interest rates on demand deposits ranged from 0.74% p.a. to 0.30% p.a. (2016: negative interest rates from 0.68% p.a. to 0.20% p.a.) and on term deposits negative interest rates ranged from 0.65% p.a. to 0.36% p.a. (2016: from 0.54% p.a. to 0.34% p.a.).

Deposits with foreign banks include negative accrued interest in the amount KM 1,580 thousand as at 31 December 2017 (2016: included negative accrued interest in the amount KM 1,679 thousand).

The average negative effective yield rate on deposits amounted to 0.43% (2016: negative effective yield rate 0.39%).

11. DEPOSITS WITH FOREIGN BANKS (CONTINUED)

Deposits with foreign banks analysed by the type of the bank invested in, are as follows:

In thousands of KM	**31 December 2017**	**31 December 2016**
Commercial banks	1,430,350	1,114,751
Central banks	1,268,300	1,855,646
TOTAL	**2,698,650**	**2,970,397**

Deposits with foreign banks can be analysed on a geographical basis as follows:

In thousands of KM		**31 December 2017**	**31 December 2016**
Luxembourg			
	Term deposits	837,201	624,880
	Demand deposits	156,307	293,192
		993,508	**918,072**
France			
	Term deposits	469,182	-
	Demand deposits	78,137	78,073
		547,319	**78,073**
Switzerland			
	Term deposits	525,373	586,048
	Demand deposits	1,538	4,180
		526,911	**590,228**
Germany			
	Term deposits	-	664,357
	Demand deposits	434,215	329,620
		434,215	**993,977**
Netherlands			
	Term deposits	97,662	390,047
	Demand deposits	-	-
		97,662	**390,047**
Great Britain			
	Term deposits	97,649	-
	Demand deposits	-	-
		97,649	**-**
USA			
	Term deposits	-	-
	Demand deposits	1,386	-
		1,386	**-**
Total term deposits		**2,027,067**	**2,265,332**
Total demand deposits		**671,583**	**705,065**
TOTAL		**2,698,650**	**2,970,397**

12. *FINANCIAL ASSETS AVAILABLE-FOR-SALE*

Financial assets available-for-sale are quality instruments 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 financial assets available-for-sale is as follows:

In thousands of KM	**31 December 2017**	**31 December 2016**
Debt securities	6,143,154	4,986,018
Accrued interest	58,917	39,811
TOTAL	**6,202,071**	**5,025,829**

The average effective yield rate on financial assets available-for-sale amounted to 0.35% (2016: 0.48%).

Financial assets available-for-sale can be analysed on a geographical basis as follows:

	31 December 2017		**31 December 2016**	
	In thousands of KM	**%**	**In thousands of KM**	**%**
France	1,654,622	26.67	1,136,535	22.61
Belgium	976,652	15.75	1,011,011	20.12
Germany	732,285	11.81	541,175	10.77
Spain	728,413	11.74	900,412	17.92
Austria	644,753	10.40	438,424	8.72
Netherlands	565,017	9.11	177,704	3.54
Italy	552,722	8.91	585,423	11.64
Finland	341,643	5.51	229,082	4.56
Slovakia	5,964	0.10	6,063	0.12
TOTAL	**6,202,071**	**100.00**	**5,025,829**	**100.00**

Movements in fair value of financial assets available-for-sale can be analysed as follows:

In thousands of KM	**2017**	**2016**
Opening balance as at 1 January	**5,025,829**	**6,145,872**
Purchases during the year	3,887,900	4,342,772
Sales during the year	(470,089)	(330,016)
Interest income recognized during the year (Note 4)	16,358	17,194
Collected principal and interest	(2,242,037)	(5,203,667)
Fair value adjustment	(15,890)	53,674
Closing balance as at 31 December	**6,202,071**	**5,025,829**

Net realized gains from the sale of financial assets available-for-sale in 2017 amounted to KM 2,587 thousand (2016: KM 8,383 thousand).

13. MONETARY GOLD

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 at 31 December 2017 amounts to KM 203,908 thousand, representing 96,000 ounces of gold at KM 2,124 per ounce (2016: KM 205,102 thousand representing 96,000 ounces of gold at KM 2,136 per ounce).

Movements in fair value of monetary gold can be analysed as follows:

In thousands of KM

	2017	**2016**
Opening balance as at 1 January	**205,102**	**182,315**
Purchases during the year	-	-
Fair value reserves - monetary gold		
- Changes in prices of gold	*25,387*	*14,307*
- Foreign exchange (losses) / gains from conversion USD / KM	*(26,581)*	*8,480*
Closing balance as at 31 December	**203,908**	**205,102**

14. HELD-TO-MATURITY INVESTMENTS

All 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	**31 December 2017**	**31 December 2016**
Debt securities	1,206,306	1,124,596
Accrued interest	7,756	7,732
TOTAL	**1,214,062**	**1,132,328**

The average effective yield rate on held-to-maturity investments amounted to 1.04% (2016: 1.01%).

Held-to-maturity investments can be analysed on a geographical basis as follows:

	31 December 2017		**31 December 2016**	
	In thousands of KM	**%**	**In thousands of KM**	**%**
France	411,431	33.90	321,083	28.36
Italy	216,636	17.84	221,688	19.57
Belgium	203,629	16.77	204,721	18.08
Finland	180,686	14.88	181,263	16.01
Austria	161,278	13.28	162,106	14.32
Netherlands	40,402	3.33	41,467	3.66
TOTAL	**1,214,062**	**100.00**	**1,132,328**	**100.00**

Movements in held-to-maturity investments can be analysed as follows:

In thousands of KM

	2017	**2016**
Opening balance as at 1 January	**1,132,328**	**1,142,191**
Purchases during the year	90,720	-
Interest income recognized during the year (Note 4)	12,621	11,532
Collected principal and interest	(21,607)	(21,395)
Closing balance as at 31 December	**1,214,062**	**1,132,328**

15. OTHER ASSETS

In thousands of KM	**31 December 2017**	**31 December 2016**
Prepaid expenses	7,931	1,306
Receivables from domestic banks	1,690	1,036
Numismatic collections	764	885
Other miscellaneous assets	236	378
Giro accounts	598	376
Loans to employees	436	640
Advances	1	5
Receivables from employee based on domestic currency deficit	600	600
Less: Impairment of other receivables	(600)	(600)
TOTAL	**11,656**	**4,626**

As at 31 December 2017, prepaid expenses include expenditure of KM 7,564 thousand incurred on the production of banknotes and coins (31 December 2016: KM 141 thousand incurred on the production of coins). As explained in Note 3.13, starting from February 2017, such costs are initially deferred and subsequently amortized over a period of five years (2016: three years).

16. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

In thousands of KM	Land and buildings	Equipment and furniture	Vehicles	Other	Assets under construction	Property and equipment total	Software and other intangible assets	Intangible assets under construction	Intangible assets total	TOTAL
Cost										
As at 1 January 2016	**42,992**	**23,816**	**1,827**	**945**	**114**	**69,694**	**14,219**	**-**	**14,219**	**83,913**
Additions	-	800	-	9	1,763	2,572	147	45	192	2,764
Write offs	-	(2,040)	-	(34)	-	(2,074)	(103)	-	(103)	(2,177)
Transfers	-	48	-	-	(48)	-	-	-	-	-
As at 31 December 2016	**42,992**	**22,624**	**1,827**	**920**	**1,829**	**70,192**	**14,263**	**45**	**14,308**	**84,500**
Additions	162	1,257	425	45	661	2,550	313	237	550	3,100
Write offs	-	(396)	(327)	(9)	-	(732)	(121)	-	(121)	(853)
Transfers	1,214	553	-	41	(1,808)	-	46	(46)	-	-
As at 31 December 2017	**44,368**	**24,038**	**1,925**	**997**	**682**	**72,010**	**14,501**	**236**	**14,737**	**86,747**
Accumulated depreciation and amortization										
As at 1 January 2016	3,616	19,830	1,681	648	-	25,775	13,310	-	13,310	39,085
Charge for the year	506	1,189	57	54	-	1,806	307	-	307	2,113
Write offs	-	(2,037)	-	(33)	-	(2,070)	(103)	-	(103)	(2,173)
As at 31 December 2016	**4,122**	**18,982**	**1,738**	**669**	**-**	**25,511**	**13,514**	**-**	**13,514**	**39,025**
Charge for the year	518	1,111	80	54	-	1,763	272	-	272	2,035
Write offs	-	(393)	(327)	(9)	-	(729)	(121)	-	(121)	(850)
As at 31 December 2017	**4,640**	**19,700**	**1,491**	**714**	**-**	**26,545**	**13,665**	**-**	**13,665**	**40,210**
Net book value										
As at 1 January 2017	**38,870**	**3,642**	**89**	**251**	**1,829**	**44,681**	**749**	**45**	**794**	**45,475**
As at 31 December 2017	**39,728**	**4,338**	**434**	**283**	**682**	**45,465**	**836**	**236**	**1,072**	**46,537**

As at 31 of December 2017 and 2016, the Bank has no encumbrances over its property, equipment and intangible assets.

17. OTHER INVESTMENTS

The structure of other investments is as follows:

In thousands of KM	**31 December 2017**	**31 December 2016**
Equity securities:		
Shares in Bank for International Settlements (BIS), Basel (Note 23)	27,803	27,803
Shares in SWIFT	10	10
TOTAL	**27,813**	**27,813**

Equity securities are composed of ordinary Bank for International Settlements (hereinafter: BIS) shares with a nominal value of SDR 5,000 per share (paid up at 25% of their nominal value). BIS and SWIFT shares represent unquoted equity instruments whose fair value cannot be reliably determined and therefore are carried at cost.

SWIFT shares are composed of two ordinary shares and their total value is KM 10 thousand.

During the year the Bank received dividend income from BIS in the amount of KM 763 thousand (2016: KM 562 thousand) (Note 7).

18. CURRENCY IN CIRCULATION

Currency in circulation can be analysed as follows:

In thousands of KM	**2017**	**2016**
Currency placed into circulation - opening balance as at 1 January	**4,066,804**	**3,499,468**
Increase in currency in circulation during the year	252,556	567,336
Currency placed into circulation - balance as at 31 December	**4,319,360**	**4,066,804**

Of the total currency placed into circulation of KM 4,319,360 thousand as at 31 December 2017, KM 605 thousand was placed into circulation outside of Bosnia and Herzegovina (2016: KM 605 thousand out of KM 4,066,804 thousand).

		31 December 2017		**31 December 2016**	
	Nominal value	**Pieces**	**Value in thousands of KM**	**Pieces**	**Value in thousands of KM**
Coins	0.05	64,264,227	3,213	58,005,994	2,900
Coins	0.10	96,699,045	9,670	90,219,478	9,022
Coins	0.20	70,032,596	14,007	65,465,345	13,093
Coins	0.50	33,609,811	16,805	31,728,243	15,864
Coins	1	47,884,620	47,885	44,751,826	44,752
Coins	2	13,585,230	27,170	12,654,299	25,309
Coins	5	10,020,723	50,104	9,212,158	46,061
Banknotes	10	11,150,353	111,504	10,635,610	106,356
Banknotes	20	8,718,265	174,365	8,483,902	169,678
Banknotes	50	18,379,804	918,990	18,230,190	911,510
Banknotes	100	21,225,491	2,122,549	19,475,164	1,947,515
Banknotes	200	4,115,492	823,098	3,873,719	774,744
TOTAL		**399,685,657**	**4,319,360**	**372,735,928**	**4,066,804**

19. DEPOSITS FROM BANKS

The structure of deposits from banks is provided in the following table:

In thousands of KM	**31 December 2017**	**31 December 2016**
Deposits of local commercial banks	5,032,593	4,268,467
Reserve accounts of organizational units of the Bank	436	640
Special deposit of local commercial banks – blocked funds	36	36
TOTAL	**5,033,065**	**4,269,143**

Deposits of local domestic commercial banks are placed in accordance with obligatory reserve requirements for those banks to meet obligations for settling debts and for the transactions between commercial banks and the Bank. On 31 December 2017 the total amount of KM 5,032,593 thousand represents deposits of 24 banks (2016: KM 4,268,467 thousand represented deposits of 24 banks).

Interest on deposits from local commercial banks is calculated according to the Law on the Central Bank of Bosnia and Herzegovina which was not calculated in the period 01/01/2016-30/06/2016 and in the period 01/07/2016-31/12/2017 was calculated on the amount exceeding the required reserve. Calculation policy changes on interest rates on deposits placed by local commercial banks during the reporting periods are provided in Note 4.

Deposits from banks include negative accrued interest in the amount KM 449 thousand as at 31 December 2017 (31 December 2016: included negative accrued interest in the amount KM 376 thousand).

20. DEPOSITS FROM THE GOVERNMENT AND OTHER DEPOSITORS

The structure of deposits from the Government and other depositors is provided in the following table:

In thousands of KM	**31 December 2017**	**31 December 2016**
Deposits for the budget of BH Institutions	448,079	460,478
Deposits of other governments and government institutions	100,503	77,940
Deposits of public institutions	76,120	51,968
Deposit account under International Monetary Fund transactions	6	6
TOTAL	**624,708**	**590,392**

21. PROVISIONS FOR LIABILITIES AND CHARGES

Provisions for liabilities and charges relate to provisions for employees' severance payments and provisions for potential liabilities on litigations.

Litigations
The Bank is a defendant in several legal proceedings arising from its operations. The Bank contests these claims and based on legal advice considers that no other material liabilities will be incurred, except for the amount of KM 150 thousands already provided for in 2016.

Movement in provisions for liabilities and charges is presented below:

In thousands of KM	**2017**	**2016**
Opening balance as at 1 January	**1,611**	**1,452**
Compensations paid	(187)	(60)
Net charge to the statement of profit or loss (Note 8)	226	69
Provisions for employees' payments	**1,650**	1,461
Provisions for litigations	-	150
Closing balance as at 31 December	**1,650**	**1,611**

22. *OTHER LIABILITIES*

The structure of other liabilities is presented in the following table:

In thousands of KM	**31 December 2017**	**31 December 2016**
Liabilities based on allocation of profit to the state budget (Note 24)	7,311	8,437
IMF Accounts No. 1 and 2 (Note 30)	1,593	1,711
Suppliers	1,533	1,493
Accrued expenses and other liabilities	419	229
Deferred income	300	416
World Bank deposits	56	447
Liabilities to employees	-	943
TOTAL	**11,212**	**13,676**

23. *EQUITY AND RESERVES*

The structure of equity and reserves is presented in the following table:

In thousands of KM	**31 December 2017**	**31 December 2016**
Initial capital	25,000	25,000
General reserves (Retained earnings)	542,766	537,892
Other reserves	31,300	31,300
Fair value reserves	53,569	73,240
Fair value reserves – financial assets available-for-sale	93,120	111,597
Fair value reserves – monetary gold	(39,551)	(38,357)
TOTAL	**652,635**	**667,432**

Initial capital

Initial capital represents nominal capital paid in on 12 June 1998 in accordance with the Law on Central Bank of Bosnia and Herzegovina.

General reserves (Retained earnings)

General reserves (Retained earnings) comprise accumulated undistributed profits of the Bank since the beginning of its operations on 11 August 1997.

Other reserves

Other reserves relate to following:

- reserves from grants in the amount of KM 3,497 thousand, which relate to grants received in cash from the Council of Ministers of Bosnia and Herzegovina on 12 June 1998. The status of these reserves is regulated by the Decision of the Governing Board of the Bank with the approval of the Presidency of Bosnia and Herzegovina. The right to utilise the reserves from grants fall within the competence of the Governing Board of the Bank.
- amounts received in accordance with the Succession Agreement of the former Yugoslavia in the amount of KM 27,803 thousand and relates to shares in Bank for International Settlements Brussels (BIS), Basel (see also Note 17).

Fair value reserves

Fair value reserves represent unrealized gains or losses incurred as a result of measurement of the financial assets available-for-sale and monetary gold.

24. PROFIT ALLOCATION

The allocation of the net profit is carried out in accordance with the Law on the Central Bank of Bosnia and Herzegovina.

The provisions of the above mentioned Law define the criteria of the net profit allocation, according to which the Bank allocates 60% of the current profit to the account of the institution responsible for the Budget of Bosnia and Herzegovina, provided that the amount of the initial capital and general reserves (retained earnings) is equal to 5.00% of the total monetary liabilities.

This ratio, before the profit allocation in 2017 amounted to 5.64% (2016: 6.24%). According to the Decision of the Governing Board 60% of the net profit for the financial year of 2017 in the amount of KM 7,311 thousand (2016: KM 8,437 thousand) was allocated to the state budget, and 40%, i.e. the amount of KM 4,874 thousand was allocated to the general reserves (retained earnings) of the Bank (2016: KM 5,625 thousand).

2017

Before profit allocation

	(in thousands of KM)
Monetary liabilities (Currency in circulation and domestic deposits)	**9,977,133**
Initial capital and general reserves (retained earnings)	562,892
Ratio - initial capital and general reserves (retained earnings) / monetary liabilities	**5.64%**

Profit allocation

	(in thousands of KM)
Net profit before allocation	**12,185**
Allocation of profit to the state budget	7,311
Allocation of profit to general reserves (retained earnings)	4,874

After profit allocation

	(in thousands of KM)
Initial capital and general reserves(retained earnings)	567,766
Ratio - Initial capital and general reserves (retained earnings)/ monetary liabilities	**5.69%**

2016

Before profit allocation

	(in thousands of KM)
Monetary liabilities (Currency in circulation and domestic deposits)	**8,926,339**
Initial capital and general reserves(retained earnings)	557,267
Ratio - initial capital and general reserves (retained earnings) / monetary liabilities	**6.24%**

Profit allocation

	(in thousands of KM)
Net profit before allocation	**14,062**
Allocation of profit to the state budget	8,437
Allocation of profit to general reserves (retained earnings)	5,625

After profit allocation

	(in thousands of KM)
Initial capital and general reserves (retained earnings)	562,892
Ratio - Initial capital and general reserves (retained earnings) / monetary liabilities	**6.31%**

25. *CASH AND CASH EQUIVALENTS*

For the purposes of the cash flow statement, cash and cash equivalents comprise of:

In thousands of KM	**31 December 2017**	**31 December 2016**
Foreign currency deposits with maturity up to three months or less from the date of acquisition	1,151,332	2,069,888
Foreign currency demand deposits	671,583	705,065
Foreign currency in cash	236,402	194,846
Special Drawing Rights in the International Monetary Fund	1,531	2,642
Giro accounts	436	640
TOTAL	**2,061,284**	**2,973,081**

26. *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	**31 December 2017**	**31 December 2016**
Foreign assets	**10,556,624**	**9,531,144**
Liabilities to non-residents	1,649	2,158
Net foreign exchange reserves (foreign assets minus liabilities to non-residents)	**10,554,975**	**9,528,986**
Monetary liabilities	**9,977,133**	**8,926,339**
Net foreign assets (net foreign exchange reserves minus monetary liabilities)	**577,842**	**602,647**

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.

27. *RELATED PARTY TRANSACTIONS*

In the normal course of its operations, the Bank enters into transactions with related parties. Having in mind that the Bank has been established by a Legal Act passed by Parliamentary Assembly of Bosnia and Herzegovina and that the initial capital has been paid up by the Council of Ministers of Bosnia and Herzegovina, transactions performed as part of regular operations of the Bank with the state and state institutions represent related party transactions. In addition, the Bank considers that it has an immediate related party relationship with its key management personnel, close family members of key management personnel, and entities controlled, jointly controlled or significantly influenced by key management personnel and their close family members.

Transactions with the state and state institutions are disclosed in the following table:

27. *RELATED PARTY TRANSACTIONS (CONTINUED)*

In thousands of KM

2017	**Exposure**	**Liabilities**	**Income**	**Expenses**
State	-	492,837	-	-
State institutions				
Indirect taxation authority of Bosnia and Herzegovina	-	10,146	-	-
Deposit Insurance Agency of Bosnia and Herzegovina	-	45,879	-	-
TOTAL	**-**	**548,862**	**-**	**-**

In thousands of KM

2016	**Exposure**	**Liabilities**	**Income**	**Expenses**
State	-	502,124	-	-
State institutions				
Indirect taxation authority of Bosnia and Herzegovina	-	22,839	-	-
Deposit Insurance Agency of Bosnia and Herzegovina	-	23,288	-	-
TOTAL	**-**	**548,251**	**-**	**-**

Remuneration of key management members

The total remuneration of the members of the key personnel (members of Management and Governing Board) in 2017 amounted to KM 991 thousand, out of which KM 626 thousand was related to salaries and other remuneration and KM 365 thousand to taxes and contributions (in 2016 out of total amount of KM 898 thousand the amount of KM 562 thousand was related to salaries and other remuneration and KM 336 thousand was related to taxes and contributions).

28. FINANCIAL RISK MANAGEMENT

The Bank's statement of financial position is largely comprised of financial instruments. These instruments expose the Bank to a number of financial risks, including credit risk, market risks and liquidity risk.

28.1. Credit risk

Credit risk is the risk of financial loss to the Bank if counterparty to a financial instrument fails to meet its contractual obligation and rises principally from the Bank's deposits with other banks and investments into securities (foreign currency reserves). The management of this risk is performed through the selection of counterparties with sound credit ratings assigned by internationally recognized rating agencies, by limiting the maturity, and by controlling the volume and the dynamics of investment. The credit ratings monitored on a daily basis.

For the funds recorded in off-balance sheet records, the Bank is not exposed to credit risk, as all the risk, which may result from the investments of these funds, is to be borne contractually by the owners of these funds (see also Note 30).

28.1.1. Credit risk concentration

The Bank is exposed to credit risk through the financial statement items that meet the definition of its financial assets.

Maximum exposure to credit risk before collateral held or other credit enhancements

The following table shows the maximum exposure to credit risk by type of financial assets:

In thousands of KM	Maximum exposure 31 December 2017	31 December 2016
Carrying amounts		
Foreign currency in cash	236,402	194,846
Deposits with foreign banks	2,698,650	2,970,397
Special Drawing Rights with the International Monetary Fund	1,531	2,642
Financial assets available-for-sale	6,202,071	5,025,829
Monetary gold	203,908	205,102
Held-to-maturity investments	1,214,062	1,132,328
Other investments	27,813	27,813
Other financial assets	2,746	2,217
TOTAL	**10,587,183**	**9,561,174**

The Bank does not hold any collateral or other credit enhancements to cover this credit risk. As at 31 December 2017 the Bank has a claim amounted to KM 25 thousand which is past due (31 December 2016: the Bank does not have any assets that are either past due or impaired).

Concentration of credit risk

The deposits placed with foreign banks in total amounted to KM 2,698,650 thousand as at 31 December 2017 (2016: KM 2,970,397 thousand). The largest portion of these funds is invested in one foreign bank with individual exposure exceeding total equity and reserves of the Bank (2016: two foreign banks had individual exposures exceeding total equity and reserves of the Bank).

Individual credit risk concentration exceeding total capital and reserves of the Bank:

	31 December 2017			31 December 2016	
Bank rating	**In thousands of KM**	**% of total**	**Bank rating**	**In thousands of KM**	**% of total**
AAA	993,508	36.81%	AAA	918,072	30.91
-	-	-	AAA	859,501	28.94

28. RISK MANAGEMENT (CONTINUED)

28.1. Credit risk (continued)

28.1.1. Credit risk concentration (continued)

Concentration per credit rating

The table below presents an analysis of the Bank's concentration per credit rating for its financial assets as at 31 December 2017 (in thousands of KM).

Credit rating	Foreign currency in cash	Deposits with foreign banks	Special Drawing Rights with the IMF	Financial assets available-for-sale	Monetary gold	Held-to-maturity investments	Other investments	Other financial assets	TOTAL
AAA	-	1,715,536	-	1,297,302	-	40,402	-	-	**3,053,240**
AA+	-	-	-	986,396	-	341,964	-	-	**1,328,360**
AA	-	78,137	-	1,654,622	-	411,431	-	-	**2,241,839**
AA-	-	97,662	-	976,652	-	203,629	-	-	**1,277,943**
A+	-	-	-	5,964	-	-	-	-	**5,964**
A	-	566,831	-	-	-	-	-	-	**469,182**
A-	-	238,946	-	-	-	-	-	-	**238,946**
II[1]	-	1,538	1,531	-	203,908	-	27,813	-	**234,790**
BBB+	-	-	-	728,413	-	-	-	-	**728,413**
BBB	-	-	-	552,722	-	216,636	-	-	**769,358**
Unrated	236,402	-	-	-	-	-	-	2,746	**239,148**
TOTAL	**236,402**	**2,698,650**	**1,531**	**6,202,071**	**203,908**	**1,214,062**	**27,813**	**2,746**	**10,587,183**

The table below presents an analysis of the Bank's concentration per credit rating for its financial assets as at 31 December 2016 (in thousands of KM).

[1] International institutions

28. *RISK MANAGEMENT (CONTINUED)*

28.1. *Credit risk (continued)*

28.1.1. *Credit risk concentration (continued)*

Credit rating	Foreign currency in cash	Deposits with foreign banks	Special Drawing Rights with the IMF	Financial assets available-for-sale	Monetary gold	Held-to-maturity investments	Other investments	Other financial assets	TOTAL
AAA	-	2,363,620	-	718,879	-	41,467	-	-	**3,123,966**
AA+	-	-	-	667,506	-	343,369	-	-	**1,010,875**
AA	-	78,073	-	1,136,535	-	321,083	-	-	**1,535,691**
AA-	-	390,047	-	1,011,011	-	204,721	-	-	**1,605,779**
A+	-	-	-	6,063	-	-	-	-	**6,063**
A	-	-	-	-	-	-	-	-	**-**
A-	-	134,477	-	-	-	-	-	-	**134,477**
II[2]	-	4,180	2,642	-	205,102	-	27,813	-	**239,737**
BBB+	-	-	-	900,412	-	-	-	-	**900,412**
BBB	-	-	-	585,423	-	221,688	-	-	**807,111**
Unrated	194,846	-	-	-	-	-	-	2,217	**197,063**
TOTAL	**194,846**	**2,970,397**	**2,642**	**5,025,829**	**205,102**	**1,132,328**	**27,813**	**2,217**	**9,561,174**

Geographical concentration of risks of financial assets with credit risk exposure

The following table breaks down the Bank's main credit risk exposure at their carrying amounts, as categorized by geographical region as at 31 December 2017 and 2016. For the purposes of this disclosure, the Bank has allocated exposures to regions based on the country of domicile of its counterparties:

In thousands of KM	EU countries	Non-EU member countries	Bosnia and Herzegovina	Total
Foreign currency in cash	-	-	236,402	**236,402**
Deposits with foreign banks	2,170,353	528,297	-	**2,698,650**
SDR with the IMF	-	1,531	-	**1,531**
Available-for-sale financial assets	6,202,071	-	-	**6,202,071**
Monetary gold	-	203,908	-	**203,908**
Held-to-maturity investments	1,214,062	-	-	**1,214,062**
Other investments	10	27,803	-	**27,813**
Other financial assets	-	-	2,746	**2,746**
31 December 2017	**9,586,496**	**761,539**	**239,148**	**10,587,183**
31 December 2016	**8,538,336**	**825,775**	**197,063**	**9,561,174**

[2] International institutions

28. RISK MANAGEMENT (CONTINUED)

28.2. Market risk

The Bank monitors and manages both currency and interest rate risks as the basic market risk factors. Currency risk is a risk arising from decline of the value of the financial instrument denominated in foreign currency due to changes in exchange rates. The interest rate risk denotes a risk from reducing the market value of the financial instruments due to unfavourable movements of interest rates. The market risk management is performed by setting quantitative limits for foreign assets risk exposure acceptable for the Bank and they are monitored on a daily basis. The objective of market risk management is to manage and control market risk exposures with acceptable parameters, while optimising the return on risk.

For the purpose of quantifying the market risks effect on the foreign reserves value, starting from 2017, the Bank applies the Value at Risk (VaR) concept. VaR represents a statistical methodology for assessing the maximum change in the foreign reserves value arising from differences in the financial instruments prices and the foreign exchange rates given a certain level of confidence and a particular time horizon. The Bank, when calculating VaR, applies a level of confidence of 99% and a 10-day horizon, as recommended in the Basel II Standard.

The fluctuation of the prices of the instruments and the foreign exchange rates are determined according to the historical changes in the prices and the foreign exchange rates for instruments and currencies comprising the foreign reserves at the end of the month.

As at 31 December 2017, the exposure of the foreign reserves managed by the Bank (Value at Risk at a level of confidence of 99% for a 10-day horizon), in terms of fluctuations of the prices of instruments and foreign exchange rates against the KM equals KM 28,045 thousands (2016: KM 33,606 thousand), or 0.26% of the foreign reserves (2016: 0.35% of the foreign reserves). VaR originates from the change in the foreign exchange rate for the same horizon, on a diversified basis and included change in the price of gold, as well as from the change in the prices of instruments in which the foreign reserves are invested.

In thousands of KM	**31 December 2017**	**31 December 2016**
Currency risk	911	13,922
Interest rate risk	27,134	19,684
Total VaR	**28,045**	**33,606**

28.2. Market risk

28.2.1. Foreign exchange risk

The Bank is exposed to currency risk through transactions in foreign currencies. This is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign currency exposure arises from deposits and investment activities.

The control and management of the foreign exchange risk is based on the strict adherence to the provisions of the Law on the Central Bank of Bosnia and Herzegovina and the Guidelines of the Bank on investment of the foreign exchange reserves.

The above framework defines the limits for holding assets and liabilities in each foreign currency. The biggest part of monetary assets is held in EUR, and the maximum amount that can be held in other convertible currencies, subject to the changes in the market rate, must not exceed 50% of the total amount of the capital and the reserves of the Bank.

The Bank had the following foreign currency position as at 31 December 2017 and 31 December 2016.

28. RISK MANAGEMENT (CONTINUED)

28.2. Market risk (continued)

28.2.1. Foreign exchange risk (continued)

31 December 2017

In thousands of KM	EUR	USD	Other foreign currencies	KM	Total
Foreign currency in cash	236,330	19	53	-	236,402
Deposits with foreign banks	2,693,220	2,921	2,509	-	2,698,650
Special Drawing Rights with the International Monetary Fund	-	-	1,531	-	1,531
Financial assets available-for-sale	6,202,071	-	-	-	6,202,071
Monetary gold	-	203,908	-	-	203,908
Held-to-maturity investments	1,214,062		-	-	1,214,062
Other investments	10	-	-	27,803	27,813
Other financial assets	81	-	-	2,665	2,746
Total financial assets	**10,345,774**	**206,848**	**4,093**	**30,468**	**10,587,183**
Currency in circulation	-	-	-	4,319,360	4,319,360
Deposits from banks	-	-	-	5,033,065	5,033,065
Deposits from the Government and other depositors	-	-	-	624,708	624,708
Other financial liabilities	902	3	-	9,605	10,510
Total financial liabilities	**902**	**3**	**-**	**9,986,738**	**9,987,643**
NET FOREIGN EXCHANGE POSITION	**10,344,872**	**206,845**	**4,093**	**(9,956,270)**	**599,540**

31 December 2016

In thousands of KM	EUR	USD	Other foreign currencies	KM	Total
Foreign currency in cash	194,768	21	57	-	194,846
Deposits with foreign banks	2,964,617	4,286	1,494	-	2,970,397
Special Drawing Rights with the International Monetary Fund	-	-	2,642	-	2,642
Financial assets available-for-sale	5,025,829	-	-	-	5,025,829
Monetary gold	-	205,102	-	-	205,102
Held-to-maturity investments	1,132,328		-	-	1,132,328
Other investments	10	-	-	27,803	27,813
Other financial assets	-	-	-	2,217	2,217
Total financial assets	**9,317,552**	**209,409**	**4,193**	**30,020**	**9,561,174**
Currency in circulation	-	-	-	4,066,804	4,066,804
Deposits from banks	-	-	-	4,269,143	4,269,143
Deposits from the Government and other depositors	-	-	-	590,392	590,392
Other financial liabilities	483	3	39	12,518	13,043
Total financial liabilities	**483**	**3**	**39**	**8,938,857**	**8,939,382**
NET FOREIGN EXCHANGE POSITION	**9,317,069**	**209,406**	**4,154**	**(8,908,837)**	**621,792**

The Bank is not exposed to EUR foreign currency risk due to currency board arrangement aligning KM to EUR at fixed exchange rate of EUR 1: KM 1.95583.

28. RISK MANAGEMENT (CONTINUED)

28.2. Market risk (continued)

28.2.2. Interest rate risk

The Bank's exposure to market risk for changes in interest rates is concentrated in its investment portfolio. The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest earning assets and interest bearing liabilities mature or re-price at different time or in different amounts.

The Bank is exposed to interest rate risk through investment of foreign currency reserves. The Bank manages its investment portfolio with the aim to minimize interest rate risk. The investments bear different interest rates, depending on the time period of the investment, with the maximum term of investment being one year for deposits and ten years for securities.

The tables below summarize the Bank's exposure to interest rate risk at year-end.

31 December 2017 **In thousands of KM**	**Up to 3 months**	**From 3 to12 months**	**From 1 to 3 years**	**Over 3 Years**	**Non-interest bearing**	**Total**
Foreign currency in cash	-	-	-	-	236,402	236,402
Deposits with foreign banks	1,824,495	875,735	-	-	(1,580)	2,698,650
Special Drawing Rights with the International Monetary Fund	1,531	-	-	-	-	1,531
Available for sale financial assets	1,593,488	4,549,666	-	-	58,917	6,202,071
Monetary gold	-	-	-	-	203,908	203,908
Held-to-maturity investments	112,767	1,093,539	-	-	7,756	1,214,062
Other investments	-	-	-	-	27,813	27,813
Other financial assets	35	84	114	16	2,497	2,746
Total financial assets	**3,532,316**	**6,519,024**	**114**	**16**	**535,713**	**10,587,183**
Currency in circulation	-	-	-	-	4,319,360	4,319,360
Deposits from banks	2,550,518	-	-	-	2,482,547	5,033,065
Deposits from the Government and other depositors	-	-	-	-	624,708	624,708
Other liabilities	-	-	-	-	10,510	10,510
Total financial liabilities	**2,550,518**	**-**	**-**	**-**	**7,437,125**	**9,987,643**
INTEREST RATE GAP	**981,798**	**6,519,024**	**114**	**16**	**(6,901,412)**	**599,540**

28. *RISK MANAGEMENT (CONTINUED)*

28.2. *Market risk (continued)*

28.2.2. *Interest rate risk (continued)*

31 December 2016 **In thousands of KM**	**Up to 3 months**	**From 3 to12 months**	**From 1 to 3 years**	**Over 3 Years**	**Non-interest bearing**	**Total**
Foreign currency in cash	-	-	-	-	194,846	194,846
Deposits with foreign banks	2,776,632	195,444	-	-	(1,679)	2,970,397
Special Drawing Rights with the International Monetary Fund	2,642	-	-	-	-	2,642
Available for sale financial assets	2,097,594	2,888,424	-	-	39,811	5,025,829
Monetary gold	-	-	-	-	205,102	205,102
Held-to-maturity investments	116,689	1,007,907	-	-	7,732	1,132,328
Other investments	-	-	-	-	27,813	27,813
Other financial assets	37	111	195	61	1,813	2,217
Total financial assets	**4,993,594**	**4,091,886**	**195**	**61**	**475,438**	**9,561,174**
Currency in circulation	-	-	-	-	4,066,804	4,066,804
Deposits from banks	2,039,880	-	-	-	2,229,263	4,269,143
Deposits from the Government and other depositors	-	-	-	-	590,392	590,392
Other liabilities	-	-	-	-	13,043	13,043
Total financial liabilities	**2,039,880**	**-**	**-**	**-**	**6,899,502**	**8,939,382**
INTEREST RATE GAP	**2,953,714**	**4,091,886**	**195**	**61**	**(6,424,064)**	**621,792**

28.3. *Liquidity risk*

Liquidity risk refers to the possible difficulties in liquidating a portion of assets quickly, possibly in a situation where market conditions are unfavorable and also with adverse price movement.
Liquid assets are defined as those assets whose conversion into cash causes minimal transaction costs and whose value is the closest to market value.

Considering the need of guaranteeing the KM convertibility, the daily liquidity should be provided by the maturity adjustment of the Bank foreign exchange reserves.

The liquidity framework should match the forecasted potential liquidity needs with identified liquid instruments. The liquidity of each financial instrument eligible for investment must be duly considered before the investment in the instrument is made.

Maturity analysis

Tables below present the financial liabilities of the Bank as at 31 December 2017 and 2016 classified into relevant maturity groupings based on the remaining period from the reporting date to the contractual maturity date.

Currency in circulation has been classified in the maturity period within three months.

28. RISK MANAGEMENT (CONTINUED)

28.3. Liquidity risk (continued)

31 December 2017 **In thousands of KM**	**Up to 3 months**	**From 3 to 12 months**	**From 1 to 3 years**	**Over 3 years**	**Without specified maturity**	**Total**
Currency in circulation	4,319,360	-	-	-	-	4,319,360
Deposits from banks	5,033,065		-	-	-	5,033,065
Deposits from the Government and other depositors	624,708	-	-	-	-	624,708
Other financial liabilities	3,199	7,311	-	-	-	10,510
TOTAL FINANCIAL LIABILITIES	**9,980,332**	**7,311**	**-**	**-**	**-**	**9,987,643**

31 December 2016 **In thousands of KM**	**Up to 3 months**	**From 3 to 12 months**	**From 1 to 3 years**	**Over 3 years**	**Without specified maturity**	**Total**
Currency in circulation	4,066,804	-	-	-	-	4,066,804
Deposits from banks	4,269,143		-	-	-	4,269,143
Deposits from the Government and other depositors	590,392	-	-	-	-	590,392
Other financial liabilities	4,606	8,437	-	-	-	13,043
TOTAL FINANCIAL LIABILITIES	**8,930,945**	**8,437**	**-**	**-**	**-**	**8,939,382**

29. FAIR VALUE MEASUREMENT

29.1 *Fair value of the Bank's financial assets and financial liabilities that are measured at fair value on a recurring basis*

Some of the Bank's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

Financial assets / financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	31 December 2017	**31 December 2016**		
1) Financial assets available for sale (see Note12)	Listed debt securities on stock exchanges in other countries: • France – KM 1,654,622 thousand • Belgium – KM 976,652 thousand • Germany – KM 732,285 thousand • Spain – 728,413 thousand • Austria – KM 644,753 thousand • Netherlands – KM 565,017 thousand • Italy – KM 552,722 thousand • Finland – KM 341,643 thousand • Slovakia – KM 5,964 thousand	Listed debt securities on stock exchanges in other countries: • France – KM 1,136,535 thousand • Belgium – KM 1,011,011 thousand • Germany – KM 541,175 thousand • Spain – KM 900,412 thousand • Austria – KM 438,424 thousand • Netherlands – KM 177,704 thousand • Italy – KM 585,423 thousand • Finland – KM 229,082 thousand • Slovakia – KM 6,063 thousand	Level 2	Consensus prices - the (weighted) average of quotes from multiple subscribers who each submit quotes to the pricing service
2) Monetary gold (see Note 13)	Listed precious metals on stock exchanges in other countries: • Switzerland – KM 203,908 thousand	Listed precious metals on stock exchanges in other countries: • Switzerland – KM 205,102 thousand	Level 1	Quoted bid prices in an active market.

29. FAIR VALUE MEASUREMENT (CONTINUED)

29.2 Fair value of the Bank's financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

In thousands of KM	31 December 2017		31 December 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans and receivables				
- Foreign currency in cash	236,402	236,402	194,846	194,846
- Deposits with foreign banks	2,698,650	2,690,797	2,970,397	2,963,885
- Special Drawing Rights with the International Monetary Fund	1,531	1,531	2,642	2,642
Held-to-maturity investments				
- Held-to-maturity investments	1,214,062	1,264,030	1,132,328	1,185,052
- Other investments	27,813	27,813	27,813	27,813
- Other financial assets	2,746	2,746	2,217	2,217
Financial liabilities				
Financial liabilities held at amortized cost:				
- Currency in circulation	4,319,360	4,319,360	4,066,804	4,066,804
- Deposits from banks	5,033,065	5,021,274	4,269,143	4,261,731
- Deposits from the Government and other depositors	624,708	623,244	590,392	589,367
- Other financial liabilities	10,510	10,510	13,043	13,043

The Management consider that the carrying amounts of foreign currency in cash, Special Drawing Rights with the International Monetary Fund, other financial assets, currency in circulation and other financial liabilities recognized in the financial statements approximate their fair values.

As at 31 December 2017 and 2016, available-for-sale securities include Bank for International Settlement (BIS) shares with a value of KM 27,803 thousand and SWIFT shares with a value of KM 10 thousand for which fair value cannot be reliably determined and therefore they are carried at cost.

The fair values of the financial assets and financial liabilities included in Level 2 category above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties. As discount rate, the Bank has used weighted average interest rate on corporate deposits for whole banking market in BH.

30. 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 Bank, they have not been included within the Bank's statement of financial position.

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

30. OFF-BALANCE SHEET ITEMS (CONTINUED)

Off-balance sheet items consist of:

In thousands of KM	**31 December 2017**	**31 December 2016**
Third party securities and funds held with foreign banks	**43,566**	**356,294**
Deposits of USAID	2,825	2,539
Deposits of non-residents	**2,825**	**2,539**
Deposits of the Council of Ministers of BH	28,785	20,941
Deposits of the Council of Ministers of BH on the basis of succession	*41*	*39*
Deposits of the Council of Ministers of BH regarding the servicing of foreign debt	*12,977*	*7,943*
Deposits of the Council of Ministers of BH regarding the Budget of BH institutions	*758*	*874*
Other deposits of the Council of Ministers of BH	*15,009*	*12,085*
Deposits of other residents	9,922	7,131
Deposits - Retirement allowance from Germany	*247*	*375*
Deposit accounts of banks	*9,675*	*6,756*
Deposits of residents	**38,707**	**28,072**
Investments related to securities – Deposit Insurance Agency of BH	2,034	325,683
Investments of residents related to securities	**2,034**	**325,683**
Liability for third party securities and funds	**43,566**	**356,294**

USAID Deposits

On the basis of the Agreement regarding financial assistance between Bosnia and Herzegovina and the United States of America for the financing of the reconstruction, special interest bearing accounts have been opened. The Bank does not charge and does not collect any interest or fees on these accounts.

Residents' investments related to securities

The Bank enabled the Deposit Insurance Agency of the Bosnia and Herzegovina to invest in securities by opening cash and custodian accounts in the name of the Bank and the Deposit Insurance Agency of the Bosnia and Herzegovina. All transactions on the accounts are performed between the Deposit Insurance Agency of the Bosnia and Herzegovina and the Asset Manager. The Bank does not charge any interest on such accounts.

Bosnia and Herzegovina membership in the IMF

As depositary for BH membership in the IMF, the Bank maintains the IMF No. 1 and 2 accounts and provides a custodian service for the BH 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 BH in dealing with the IMF but does not have any responsibility for assets and liabilities related to the membership.

30. OFF-BALANCE SHEET ITEMS (CONTINUED)

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

Consolidated position of BH membership in the IMF as at 31 December 2017

(In thousands of KM)

Assets		
Quota	615,924	
SDR holdings	1,529	
Accrued interest on SDR holdings	2	
Total assets	**617,455**	
Liabilities		
IMF No. 1 account (Note 22)		1,540
IMF No. 2 account (Note 22)		53
Securities		1,205,738
Accounts of payable charges		1,898
SDR allocation		373,656
Accrued interest on SDR allocation		447
Total liabilities		**1,583,332**
Net member position with the IMF		
BH obligations to the IMF arising principally from repurchase and currency valuation adjustments	965,877	
Net member position	**965,877**	
	1,583,332	**1,583,332**
Total consolidated position - assets and liabilities	**1,583,332**	**1,583,332**
IMF No. 1 account	(1,540)	(1,540)
IMF No. 2 account	(53)	(53)
Total gross position of BH with the IMF - assets and liabilities	**1,581,739**	**1,581,739**

SDR holdings, accrued interest on SDR holdings, IMF No. 1 account and IMF No. 2 account reflect accounts held on the statement of financial position of the Bank.

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

31. OFF-BALANCE SHEET ITEMS (CONTINUED)

Consolidated position of BH membership in the IMF as at 31 December 2016

(In thousands of KM)

Assets		
Quota	661,501	
SDR holdings	2,641	
Accrued interest on SDR holdings	1	
Total assets	**664,143**	

Liabilities		
IMF No. 1 account (Note 22)		1,654
IMF No. 2 account (Note 22)		57
Securities		1,687,755
Accounts of payable charges		2,157
SDR allocation		401,306
Accrued interest on SDR allocation		144
Total liabilities		**2,093,073**

Net member position with the IMF		
BH obligations to the IMF arising principally from repurchase and currency valuation adjustments	1,428,930	
Net member position	1,428,930	
	2,093,073	**2,093,073**

Total consolidated position - assets and liabilities	**2,093,073**	**2,093,073**
IMF No. 1 account	(1,654)	(1,654)
IMF No. 2 account	(57)	(57)
Total gross position of BH with the IMF - assets and liabilities	**2,091,362**	**2,091,362**

31. DOMESTIC PAYMENT AND SETTLEMENT SYSTEM

Pursuant to the law on the Central Bank of Bosnia and Herzegovina the Bank is responsible for the establishment and maintenance of domestic payment and settlement systems. The Bank has established two settlement systems from January 2001 in order to facilitate efficient settlement of domestic interbank payment transactions: Real Time Gross Settlement System („RTGS") and Giro Clearing System („GCS").

Credit risk

RTGS enables participants, i.e. the Bank and licensed commercial banks, to effect individual and prompt settlement of one by one (gross) payment by crediting and debiting settlement accounts held with the Bank in domestic currency. Through GCS the Bank provides clearing services arising from transmitted payment orders in accordance with the principle of multilateral clearing.
Each participant in the payment systems is obliged to cover its settlement account held with the Bank prior to settlement of payment orders and must meet certain technical requirements.

Pursuant to the role of the Bank as defined by the Law on the Central Bank of Bosnia and Herzegovina, the Bank does not provide any credits to RTGS and GCS participants which would provide liquidity to the system in any form.

Operational risk

With the aim of minimising operational risk within the domestic payment and settlement system, operating rules for RTGS and GCS have been issued, which define minimum security standards for operation of the systems.

Relevant security objectives, policies and procedures aim to ensure security measures and features. The computer systems and the networks are operated according to established objectives and policies. The security objectives and policies are reviewed periodically. Each direct participant is also required to have appropriate security measures and controls for processing payments.

The Bank has defined the following Contingency Settlement Procedures:

- **Contingency plans and measures**: the Bank has defined contingency measures in order to ensure continuity of reliable, correct and lawful operation of the payment and settlement systems in the event of disruption to the regular payment and settlement system, or other contingency events;
- **Backup location**: To support the primary location for the payment systems (RTGS, GCS and SWIFT) with redundant systems (if case of system falling, switching to another one on the primary location is done), the Bank has also established functional DR (Disaster Recovery) system located in Main Bank of Republika Srpska of the Central Bank of Bosnia and Herzegovina in Banja Luka.

Management of the Bank believes that the system has sufficient capacity to maintain operational reliability.

32. POST-REPORTING DATE EVENTS

On 14 February 2018 the second tranche under the Extended Fund Facility (EFF) with the International Monetary Fund (IMF) was transferred to the account of the Bank, in the amount of KM 145,829 thousand (equivalent to SDR 63,413 thousand).

After increasing the above amount by the amount of the reimbursement of the IMF's commitment fee and reducing it by the IMF service charges, the total amount for the allocation of funds is KM 145,822 thousand.

The distribution has been performed according to the usual ratio: 1/3 for the account of the Ministry of Finance of the Republic of Srpska, i.e. KM 48,607 thousand and 2/3 for the account of the Federal Ministry of Finance, i.e. KM 97,215 thousand.

The total amount of the overall Extended Fund Facility for BH is SDR 443.042 million.

Except as disclosed above, no adjusting or other significant non-adjusting events have occurred between the 31 December 2017 and the date of authorization of these financial statements.