

**CENTRAL BANK OF
BOSNIA AND HERZEGOVINA**

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

CENTRAL BANK OF BOSNIA AND HERZEGOVINA
Financial statements for the year ended 31 December 2017

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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



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 Herzegovina, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

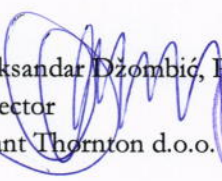
Auditor's Responsibilities for the Audit of the Financial Statements

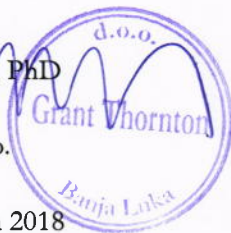
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee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

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

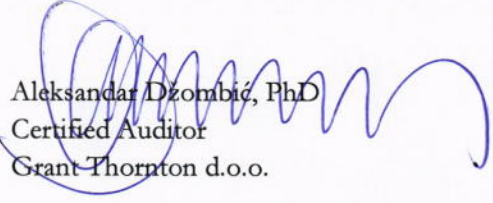
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting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

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

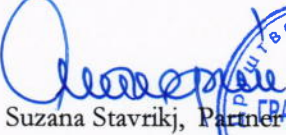

Aleksandar Dzombić, PhD
Director
Grant Thornton d.o.o.



Banja Luka, 28 March 2018


Aleksandar Dzombić, 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	<i>For the year ended 31 December</i>	
		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	<i>For the year ended 31 December</i>	
		2017	2016
NET PROFIT FOR THE YEAR		12,185	14,062
Other comprehensive income			
<i>Items that may be reclassified subsequently to the statement of profit or loss:</i>			
Monetary gold			
Net changes in fair value of monetary gold	13	(1,194)	22,788
		<u>(1,194)</u>	<u>22,788</u>
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)
		<u>(18,477)</u>	<u>45,290</u>
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	31 December 2017	<i>As at</i> 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
<i>Fair value reserves – financial assets available-for-sale</i>		93,120	111,597
<i>Fair value reserves – monetary gold</i>		(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

	Note	<i>For the year ended 31 December</i>	
		2017	2016
In thousands of KM			
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)