

**CENTRAL BANK OF
BOSNIA AND HERZEGOVINA**

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2014

Contents

	Page
Responsibility of the Management and Governing Board for the preparation and approval of the annual financial statements	1
Independent Auditor's Report	2
Financial statements	
Income statement	3
Statement of comprehensive income	4
Balance sheet	5
Statement of changes in equity	6
Statement of cash flows	8
Notes to the financial statements	9 - 49

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. 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 financial statements set out on pages 3 to 49 were authorised by the Governing Board on 31 March 2015 and are signed below to signify this, on behalf of the Bank, by:



Kemal Kozarić, Ph.D.
Governor

Independent Auditor's Report

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

We have audited the accompanying financial statements of the Central Bank of Bosnia and Herzegovina ("the Bank"), which comprise of balance sheet as at 31 December 2014, and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the financial statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

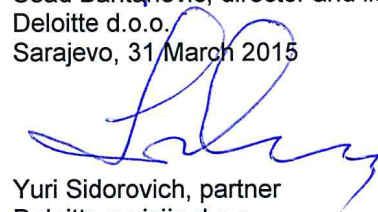
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respect the financial position of the Central Bank of Bosnia and Herzegovina as of 31 December 2014, and its financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards.



Sead Bahtanović, director and licensed auditor
Deloitte d.o.o.
Sarajevo, 31 March 2015



Yuri Sidorovich, partner
Deloitte revizija d.o.o.
Ljubljana, 31 March 2015



Sabina Softić, partner and licensed auditor
Deloitte d.o.o.
Sarajevo, 31 March 2015

INCOME STATEMENT

for the year ended 31 December

In thousands of KM	Note	2014	2013
Interest income	18	32,386	31,334
Interest expenses	18	(2,086)	(1,060)
Effects of negative interest rates from interest-bearing financial assets	18	(5)	-
NET INTEREST INCOME		30,295	30,274
Fee and commission income	19	9,160	7,777
Fee and commission expenses	19	(848)	(708)
NET FEE AND COMMISSION INCOME		8,312	7,069
Net realized gains from sale of financial assets available-for-sale	6	28,732	22,294
Net foreign exchange gains / (losses)	20	534	(54)
Other income	21	959	1,745
OPERATING INCOME		68,832	61,328
Personnel expenses	22	(19,975)	(18,385)
Administrative and other operating expenses	23	(11,259)	(10,230)
Depreciation and amortisation	10	(2,187)	(2,627)
OPERATING EXPENSES		(33,421)	(31,242)
NET PROFIT FOR THE YEAR		35,411	30,086

The accompanying notes on pages 9 to 49 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December

In thousands of KM	Note	2014	2013
NET PROFIT FOR THE YEAR		35,411	30,086
Other comprehensive income			
<i>Items that may be reclassified subsequently to the income statement:</i>			
Monetary gold			
Net changes in fair value of monetary gold	3.6., 7	18,606	(72,744)
		<u>18,606</u>	<u>(72,744)</u>
Financial assets available-for-sale			
Net changes in fair value of financial assets available-for-sale	6	114,659	(26,397)
Realized fair value gains from financial assets available-for-sale reclassified to the income statement	6	(28,732)	(22,294)
		<u>85,927</u>	<u>(48,691)</u>
Total other comprehensive income / (loss)		104,533	(121,435)
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR		139,944	(91,349)

The accompanying notes on pages 9 to 49 are an integral part of these financial statements.

BALANCE SHEET

as at 31 December 2014

In thousands of KM	Note	31 December 2014	31 December 2013
ASSETS			
Foreign currency in cash	4	71,811	91,609
Deposits with foreign banks	5	2,181,732	2,217,598
Special Drawing Rights with the International Monetary Fund	25	5,203	2,728
Financial assets available-for-sale	6	4,955,537	4,486,402
Monetary gold	7	182,750	164,144
Held-to-maturity investments	8	428,560	105,858
Other assets	9	5,517	8,571
Property, equipment and intangible assets	10	46,190	43,538
Other investments	11	27,813	27,813
TOTAL ASSETS		7,905,113	7,148,261
LIABILITIES, CAPITAL AND RESERVES			
Currency in circulation	12	3,210,508	2,909,858
Deposits from banks	13	3,751,149	3,475,258
Deposits from the Government and other depositors	14	331,436	274,083
Provisions for liabilities and charges	15	1,294	991
Other liabilities	16	25,684	21,726
Total liabilities		7,320,071	6,681,916
Initial capital		25,000	25,000
General reserves (Retained earnings)		519,716	505,552
Other reserves		31,300	31,300
Fair value reserves – monetary gold		(60,710)	(79,316)
Fair value reserves – financial assets available-for-sale		69,736	(16,191)
Total capital and reserves	17	585,042	466,345
TOTAL LIABILITIES, CAPITAL AND RESERVES		7,905,113	7,148,261

The accompanying notes on pages 9 to 49 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2014

In thousands of KM	Initial capital	General reserves (Retained earnings)	Other reserves	Fair value reserves – monetary gold	Fair value reserves – financial assets available-for-sale	Total
Balance as of 1 January 2014	25,000	505,552	31,300	(79,316)	(16,191)	466,345
Total comprehensive income for the year						
Profit for the year	-	35,411	-	-	-	35,411
Other comprehensive income	-	-	-	18,606	85,927	104,533
	-	35,411	-	18,606	85,927	139,944
Distribution of profit						
Distribution of profit to the state budget (Note 24)	-	(21,247)	-	-	-	(21,247)
Balance as of 31 December 2014	25,000	519,716	31,300	(60,710)	69,736	585,042

The accompanying notes on pages 9 to 49 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY (CONTINUED)

for the year ended 31 December 2013

In thousands of KM	Initial capital	General reserves (Retained earnings)	Other reserves	Fair value reserves – monetary gold	Fair value reserves – financial assets available-for-sale	Total
Balance as of 1 January 2013	25,000	493,518	31,300	(6,572)	32,500	575,746
Total comprehensive income for the year						
Profit for the year	-	30,086	-	-	-	30,086
Other comprehensive income	-	-	-	(72,744)	(48,691)	(121,435)
	-	30,086	-	(72,744)	(48,691)	(91,349)
Distribution of profit						
Distribution of profit to the state budget (Note 24)	-	(18,052)	-	-	-	(18,052)
Balance as of 31 December 2013	25,000	505,552	31,300	(79,316)	(16,191)	466,345

The accompanying notes on pages 9 to 49 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

for the year ended 31 December

In thousands of KM	Note	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		35,411	30,086
Adjustments for:			
Depreciation and amortisation		2,187	2,627
Net realized gains from sale of financial assets available-for-sale		(28,732)	(22,294)
Income from grants		(76)	(41)
Provisions for liabilities and charges		314	212
Loss / (gain) on disposal of property and equipment		20	(22)
Deficit currency expenses		600	-
Effects of change of accounting policy		-	(714)
Dividend income recognized in the income statement		(504)	(755)
Interest income from held-to-maturity investments and financial assets available-for-sale recognized in the income statement		(29,954)	(30,568)
Interest expense recognized in the income statement		2,086	1,060
Net cash flows from operating activities before changes in operating assets and liabilities		(18,648)	(20,409)
Changes in operating assets and liabilities			
Decrease in deposits with foreign banks		-	39,117
Decrease in other assets		2,502	2,271
Increase of currency in circulation		300,650	162,346
Increase in deposits		333,583	509,525
Increase in other liabilities		839	1,069
Pay-out of severance payments		(11)	(90)
Interest paid		(2,425)	(736)
Net cash from operating activities		616,490	693,093
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property and equipment		-	30
Purchases of property, equipment and intangible assets		(4,859)	(6,730)
Proceeds from sale of assets available-for-sale financial assets		6,697,122	3,744,321
Increase in available-for-sale financial assets		(7,023,196)	(4,457,716)
Increase of monetary gold		-	(77,195)
Collected principal and interest from held-to-maturity investments		2,709	2,662
Purchases of held-to-maturity investments		(323,859)	-
Dividends received		504	755
Net cash used in investing activities		(651,579)	(793,873)
CASH FLOWS FROM FINANCING ACTIVITIES			
Distribution of profit to the state budget		(18,052)	(20,480)
Net cash used in financing activities		(18,052)	(20,480)
Net decrease in cash and cash equivalents		(53,141)	(121,260)
Cash and cash equivalents at 1 January		2,312,069	2,433,329
Cash and cash equivalents at 31 December	28	2,258,928	2,312,069

The accompanying notes on pages 9 to 49 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 ("BiH") on 20 June 1997, according to the General Framework Peace Agreement in Bosnia and Herzegovina.

The Central Bank of Bosnia and Herzegovina started its operations on 11 August 1997.

The main objectives and tasks of the Central Bank of Bosnia and Herzegovina are:

- to define, adopt and control the implementation of monetary policy of BiH 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 BiH 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 BiH;
- to take part in the operations of international organisations working on strengthening the financial and economic stability of the country;
- to represent BiH 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 2013 and 2014 and up to the date of this report, the Governing Board, Management, Office of the Chief Audit Executive and Audit Committee members were:

Governing Board

Kemal Kozarić Ph.D.	Chairman
Fikret Čaušević Ph.D.	Member
Milenko Krajišnik Ph.D.	Member
Željko Šain Ph.D.	Member
Vasilj Žarković Ph.D.	Member

Management

Kemal Kozarić Ph.D.	Governor
Radomir Božić Ph.D.	Vice-Governor
Ernadina Bajrović M.Sc.	Vice-Governor
Ankica Kolobarić M.Sc.	Vice-Governor (from 1 July 2013)

Office of the Chief Audit Executive

Edis Kovačević M.Sc.	Chief Audit Executive (from 1 October 2013)
Dragan Kulina Ph.D.	Chief Audit Executive (until 10 August 2013)
Jasmina Novalija	Deputy to Chief Audit Executive
Angela Medić	Deputy to Chief Audit Executive
Kristinja Tošović	Deputy to Chief Audit Executive

Audit Committee

Mila Gadžić Ph.D.	Member
Gordana Ković	Member
Sead Kreso Ph.D.	Member

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 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.

Fair value for measurement and/or disclosure purposes in these financial statements is determined on such basis, except for measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

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 the measurement 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.

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. BASIS FOR PREPARATION (CONTINUED)

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 indicated).

The official exchange rate of KM to the Euro (EUR) has been defined by the Law on the Central Bank of Bosnia and Herzegovina as KM 1.95583 = 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 Standard Board are effective for the current period:

- Amendments to IFRS 10: "Consolidated Financial Statements", IFRS 12: "Disclosures of Interests in Other Entities" and IAS 27: "Separate Financial Statements" - Investment Entities (effective for annual periods beginning on or after 1 January 2014);
- Amendments to IAS 32: "Financial instruments: presentation" - Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014);
- Amendments to IAS 36: "Impairment of assets" - Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after 1 January 2014);
- Amendments to IAS 39: "Financial Instruments: Recognition and Measurement" - Novation of Derivatives and Continuation of Hedge Accounting (effective for annual periods beginning on or after 1 January 2014);
- IFRIC 21: "Levies" (effective for annual periods beginning on or after 1 January 2014).

The adoption of these standards, amendments and interpretations has not led to any changes in the Bank's accounting policies.

2.6 Standards and Interpretations in issue not yet adopted

At the date of authorization of these financial statements the following standards, amendments to existing standards and interpretations were in issue, but not yet effective: the date of authorization of these financial statements the following standards, revisions and interpretations were in issue but not yet effective:

- IFRS 9: "Financial Instruments" (effective for annual periods beginning on or after 1 January 2018),
- IFRS 14: "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016),
- IFRS 15: "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2017),
- 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 1 January 2016),
- Amendments to IFRS 10: "Consolidated Financial Statements", IFRS 12: "Disclosure of Interests in Other Entities" and IAS 28: "Investments in Associates and Joint Ventures" - Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IFRS 11: "Joint Arrangements" - Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 1: "Presentation of Financial Statements" - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16: "Property, Plant and Equipment" and IAS 38: "Intangible Assets" - Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016),

2. BASIS FOR PREPARATION (CONTINUED)

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

- Amendments to IAS 16: "Property, Plant and Equipment" and IAS 41: "Agriculture" - Agriculture: Bearer Plants (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 19: "Employee Benefits" - Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 July 2014),
- Amendments to IAS 27: "Separate Financial Statements" - Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016),
- Amendments to various standards "Improvements to IFRSs (cycle 2010-2013)" resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014),
- Amendments to various standards "Improvements to IFRSs (cycle 2011-2014)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014),
- Amendments to various standards "Improvements to IFRSs (cycle 2013-2014)" resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2016).

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 have no material impact on the financial statements of the Bank in the period of initial application, except for IFRS 9. Management is currently analysing the impact of IFRS 9 on the Bank's financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

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

3.1. Interest income and expenses

Interest income and expenses are recognized in the income statement 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 income statement 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 for financial instruments issued and received by the Bank, respectively and are recognized in the income statement upon performance of the relevant service.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 income statement.

3.4. Dividend income

Dividend income from equity securities is recognized in the income statement 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.

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 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. Currently, the Bank has no financial assets at FVTPL.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5. Financial instruments (continued)

3.5.1 Financial assets (continued)

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, except for short-term receivables when the recognition of interest would be immaterial.

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 28. Gains and losses arising from changes in fair value of debt and equity securities are recognized directly in equity 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 equity is included in profit or loss for the period.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5. Financial instruments (continued)

3.5.1 Financial assets (continued)

Impairment of financial assets (continued)

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 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 directly in equity.

Derecognition 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”. Currently, the Bank has no financial liabilities at FVTPL.

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, plus 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.

Derecognition 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 directly in the fair value reserve in equity and reported as other comprehensive income, until the asset is sold, when they are recognized as realized gains or losses in the income statement.

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 directly in the fair value reserve in equity.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7. Cash and cash equivalents

For the purpose of reporting cash flows, cash and cash equivalents comprise the following balance sheet categories: giro accounts, foreign currency in cash, foreign currency demand deposits, and deposits with remaining maturity up to three months 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 and any recognized accumulated impairment losses. The purchase 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.

Property, equipment and intangible assets are periodically reviewed for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

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 is provided on all assets except 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 rates during 2013 and 2014 were as follows:

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 income statement.

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 income statement.

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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 income statement 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 is not subject to any taxes and duties on its assets, property and income, and on its operations and transactions. Payroll taxes and other taxes and duties on salaries are not covered by this exemption.

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 balance sheet.

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 a deferred cost and subsequently amortized through other operating expenses over a period of three 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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 local legislation. These expenses are recognized in the income statement 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 balance sheet 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 29).

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.

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 balance sheet 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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. FOREIGN CURRENCY IN CASH

Foreign currency in cash relates to:

In thousands of KM	31 December 2014	31 December 2013
Cash in vaults per currency:		
- EUR	71,737	91,538
- CHF	36	35
- USD	19	18
- GBP	19	18
TOTAL	71,811	91,609

5. 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 2014	31 December 2013
Term deposits:		
- EUR	1,926,816	2,056,166
	1,926,816	2,056,166
Demand deposits:		
- EUR	252,607	160,599
- USD	709	826
- Other currencies	1,600	7
	254,916	161,432
TOTAL	2,181,732	2,217,598

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

In thousands of KM	31 December 2014	31 December 2013
Up to 1 month	674,882	1,633,903
From 1 to 2 months	606,387	342,902
From 2 to 3 months	645,547	79,361
TOTAL	1,926,816	2,056,166

5. DEPOSITS WITH FOREIGN BANKS (CONTINUED)

During 2014 the interest rates on demand deposits ranged from (0.13%) p.a. to 0.16% p.a. (2013: from 0.02% p.a. to 0.09% p.a.) and on term deposits from 0.01% p.a. to 0.23% p.a. (2013: from 0.01% p.a. to 0.21% p.a.).

Deposits with foreign banks include accrued interest in the amount of KM 94 thousand as at 31 December 2014 (2013: KM 190 thousand).

The average effective yield rate on deposits amounted to 0.09% (2013: 0.05%).

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

In thousands of KM	31 December 2014	31 December 2013
Commercial banks	1,655,304	653,882
Central banks	526,428	1,563,716
TOTAL	2,181,732	2,217,598

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

In thousands of KM	31 December 2014	31 December 2013
Great Britain		
Term deposits	577,080	-
Demand deposits	-	-
	577,080	-
Luxembourg		
Term deposits	332,495	1,391,116
Demand deposits	122,066	4,244
	454,561	1,395,360
Netherlands		
Term deposits	391,279	-
Demand deposits	-	-
	391,279	-
France		
Term deposits	371,645	312,961
Demand deposits	-	1,955
	371,645	314,916
Switzerland		
Term deposits	254,317	273,855
Demand deposits	264	10,326
	254,581	284,181
Germany		
Term deposits	-	78,234
Demand deposits	132,586	144,907
	132,586	223,141
Total term deposits	1,926,816	2,056,166
Total demand deposits	254,916	161,432
TOTAL	2,181,732	2,217,598

6. 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 2014	31 December 2013
Debt securities	4,900,653	4,440,784
Accrued interest	54,884	45,618
TOTAL	4,955,537	4,486,402

The average effective yield rate on financial assets available-for-sale amounted to 1.15% (2013: 1.21%).

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

	31 December 2014		31 December 2013	
	In thousands of KM	%	In thousands of KM	%
<i>Italy</i>	1,150,425	23.21	1,292,208	28.80
<i>Spain</i>	1,095,926	22.12	-	-
<i>Belgium</i>	795,832	16.06	930,586	20.74
<i>Netherlands</i>	472,726	9.54	603,143	13.44
<i>Austria</i>	440,070	8.88	263,947	5.88
<i>France</i>	387,507	7.82	984,864	21.95
<i>Germany</i>	377,192	7.61	260,198	5.80
<i>Finland</i>	235,859	4.76	151,456	3.39
TOTAL	4,955,537	100.00	4,486,402	100.00

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

In thousands of KM	2014	2013
Opening balance as of 1 January	4,486,402	3,770,039
Purchases during the year	9,474,894	6,688,429
Sales during the year	(2,451,698)	(2,230,713)
Interest income recognized during the year (Note 18)	28,402	29,365
Collected principal and interest	(6,697,122)	(3,744,321)
Fair value adjustment	114,659	(26,397)
Closing balance as of 31 December	4,955,537	4,486,402

Net realized gains from the sale of financial assets available-for-sale in 2014 amounted to KM 28,732 thousand (2013: KM 22,294 thousand).

7. MONETARY GOLD

The Bank holds monetary gold in a bank in Switzerland with a credit rating of AAA (Fitch), which is physically held in a vault at the Bank of England. The value of the monetary gold as of 31 December 2014 amounts to KM 182,750 thousand, representing 96,000,000 ounces of gold at KM 1,904 per ounce (2013: KM 164,144 thousand representing 96,000,000 ounces of gold at KM 1,710 per ounce).

7. MONETARY GOLD (CONTINUED)

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

In thousands of KM

	2014	2013
Opening balance as of 1 January	164,144	158,979
Purchases during the year	-	77,195
Fair value adjustments through other comprehensive income	18,606	(72,030)
- <i>Changes in prices of gold</i>	(4,119)	(65,425)
- <i>Foreign exchange gains / (losses) from conversion USD / KM</i>	22,725	(6,605)
Closing balance as of 31 December	182,750	164,144

8. HELD-TO-MATURITY INVESTMENTS

All held-to-maturity investments are with credit rating from AAA to AA (Fitch) and are denominated in EUR.

The structure of the held-to-maturity investments is presented as follows:

In thousands of KM

	31 December 2014	31 December 2013
Debt securities	424,794	104,519
Accrued interest	3,766	1,339
TOTAL	428,560	105,858

The average effective yield rate on held-to-maturity investments amounted to 1.11% (2013: 1.13%).

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

	31 December 2014		31 December 2013	
	In thousands of KM	%	In thousands of KM	%
<i>France</i>	170,568	39.80	-	-
<i>Belgium</i>	112,078	26.15	-	-
<i>Austria</i>	102,227	23.86	61,017	57.64
<i>Netherlands</i>	43,687	10.19	44,841	42.36
TOTAL	428,560	100.00	105,858	100.00

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

In thousands of KM

	2014	2013
Opening balance as of 1 January	105,858	107,317
Purchases during the year	323,859	-
Interest income recognized during the year (Note 18)	1,552	1,203
Collected principal and interest	(2,709)	(2,662)
Closing balance as of 31 December	428,560	105,858

9. OTHER ASSETS

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

In thousands of KM	31 December 2014	31 December 2013
Prepaid expenses	2,499	4,535
Receivables from domestic banks	894	742
Numismatic collections	783	802
Loans to employees	683	827
Giro accounts	182	134
Advances	1	1,040
Other miscellaneous assets	475	491
Receivables from employee based on domestic currency deficit	600	-
Less: Impairment of other receivables (Note 23)	(600)	-
TOTAL	5,517	8,571

Other assets include receivable from employee in the amount of KM 600 thousand related to domestic currency deficit. This receivable is fully impaired (see Note 23 Other administrative and operating expenses). This receivable is associated with the fraud executed by the employee in the vault of the Central Bank of Bosnia and Herzegovina, Sarajevo – Main Unit. The fraud was revealed on 8 December 2014.

As of 31 December 2014, prepaid expenses include expenditure of KM 2,303 thousand incurred on the production of banknotes and coins (31 December 2013: KM 4,294 incurred on the production of banknotes and coins). As explained in Note 3.13 such costs are initially deferred and subsequently amortized over a period of three years.

10. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

In thousands of KM	Software and other intangible assets	Land and buildings	Equipment and furniture	Vehicles	Other	Assets under construction	TOTAL
Cost							
As at 1 January 2013	13,564	25,457	22,809	1,855	776	9,596	74,057
Additions	29	-	310	128	7	6,256	6,730
Write offs	(90)	-	(845)	(119)	(7)	-	(1,061)
Transfers	-	-	91	-	-	(91)	-
As at 31 December 2013	13,503	25,457	22,365	1,864	776	15,761	79,726
Additions	405	2,452	1,626	-	96	280	4,859
Write offs	(208)	-	(429)	(38)	(37)	(18)	(730)
Transfers	-	15,078	527	-	95	(15,700)	-
As at 31 December 2014	13,700	42,987	24,089	1,826	930	323	83,855
Accumulated depreciation and amortization							
As at 1 January 2013	12,694	2,355	17,609	1,413	543	-	34,614
Charge for the year	383	368	1,620	196	60	-	2,627
Write offs	(90)	-	(842)	(114)	(7)	-	(1,053)
As at 31 December 2013	12,987	2,723	18,387	1,495	596	-	36,188
Charge for the year	266	387	1,353	134	47	-	2,187
Write offs	(208)	-	(413)	(38)	(51)	-	(710)
As at 31 December 2014	13,045	3,110	19,327	1,591	592	-	37,665
Net book value							
As at 1 January 2014	516	22,734	3,978	369	180	15,761	43,538
As at 31 December 2014	655	39,877	4,762	235	338	323	46,190

11. OTHER INVESTMENTS

The structure of other investments is as follows:

In thousands of KM	31 December 2014	31 December 2013
<i>Equity securities:</i>		
Shares in Bank for International Settlements (BIS), Basel (Note 17)	27,803	27,803
Shares in SWIFT	10	10
TOTAL	27,813	27,813

During the year the Bank received dividend income from BIS in the amount of KM 504 thousand (2013: KM 755 thousand) (Note 21).

12. CURRENCY IN CIRCULATION

Currency in circulation can be analysed as follows:

In thousands of KM

	2014	2013
Currency placed into circulation - opening balance as of 1 January	2,909,858	2,747,512
Increase in currency in circulation during the year	300,650	162,346
Currency placed into circulation - balance as of 31 December	3,210,508	2,909,858

Of the total currency placed into circulation of KM 3,210,508 thousand as at 31 December 2014, KM 605 thousand was placed into circulation outside of Bosnia and Herzegovina (2013: KM 605 thousand out of KM 2,909,858 thousand).

		31 December 2014		31 December 2013	
		Pieces	Value in thousands of KM	Pieces	Value in thousands of KM
Coins	0.05	47,171,008	2,359	41,504,424	2,075
Coins	0.10	78,327,610	7,833	71,943,083	7,194
Coins	0.20	56,700,122	11,340	51,793,579	10,359
Coins	0.50	27,975,084	13,988	26,693,522	13,347
Coins	1	39,434,542	39,434	36,808,777	36,809
Coins	2	10,603,352	21,207	9,964,625	19,929
Coins	5	7,885,767	39,429	7,441,447	37,207
Banknotes	10	9,460,442	94,604	8,914,375	89,144
Banknotes	20	7,834,425	156,688	7,003,336	140,067
Banknotes	50	16,307,726	815,386	15,862,875	793,144
Banknotes	100	15,009,750	1,500,975	12,732,714	1,273,271
Banknotes	200	2,536,326	507,265	2,436,561	487,312
TOTAL		319,246,154	3,210,508	293,099,318	2,909,858

13. DEPOSITS FROM BANKS

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

In thousands of KM

	31 December 2014	31 December 2013
Deposits of local commercial banks	3,747,104	3,470,626
Special deposit of local commercial banks – blocked funds	3,863	3,863
Reserve accounts of organizational units of the Bank	182	134
Other liabilities towards local commercial banks	-	635
TOTAL	3,751,149	3,475,258

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 Central Bank of Bosnia and Herzegovina. On 31 December 2014 the total amount of KM 3,747,104 thousand represented deposits of 27 banks and one bank in the liquidation status (2013: 28 banks).

Interest on deposits from local commercial banks is calculated according to the Law on the Central Bank of Bosnia and Herzegovina, and the interest rate during the year ranged from 0.00% p.a. to 0.17% p.a. (2013: from 0.00% p.a. to 0.17% p.a.). Interest rates on deposits placed by local commercial banks during the year are given in Note 18.

Deposits from banks do not include accrued interest as at 31 December 2014 (2013: included KM 339 thousand of accrued interest).

14. DEPOSITS FROM THE GOVERNMENT AND OTHER DEPOSITORS

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

In thousands of KM	31 December 2014	31 December 2013
Deposits for the budget of BiH Institutions	283,402	196,283
Deposits of public institutions	38,280	15,878
Deposits of other governments and government institutions	9,750	7,429
Deposit account under International Monetary Fund transactions	4	54,493
TOTAL	331,436	274,083

Deposits from the Government and other depositors are non-interest bearing, except for the deposit account under IMF transactions.

15. PROVISIONS FOR LIABILITIES AND CHARGES

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

Movement in provisions for liabilities and charges is presented below:

In thousands of KM	2014	2013
Opening balance as of 1 January	991	869
Compensations paid	(11)	(90)
Net charge to the income statement (Note 22)	314	212
Closing balance as of 31 December	1,294	991

16. OTHER LIABILITIES

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

In thousands of KM	31 December 2014	31 December 2013
Liabilities based on allocation of profit to the state budget (Note 24)	21,247	18,052
Suppliers	1,402	2,295
Liabilities to employees	1,369	36
IMF Accounts No. 1 and 2	1,026	961
Deferred income	394	152
Accrued expenses and other liabilities	184	162
World Bank deposits	53	68
Monetary liabilities – non resident	9	-
TOTAL	25,684	21,726

17. CAPITAL

The structure of capital is presented in the following table:

In thousands of KM	31 December 2014	31 December 2013
Initial capital	25,000	25,000
General reserves (Retained earnings)	519,716	505,552
Other reserves	31,300	31,300
Fair value reserves – monetary gold	(60,710)	(79,316)
Fair value reserves – financial assets available-for-sale	69,736	(16,191)
TOTAL	585,042	466,345

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 Central Bank of Bosnia and Herzegovina 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 Central Bank of Bosnia and Herzegovina.
- 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 11).

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.

18. INTEREST INCOME AND EXPENSES

In thousands of KM	For the year ended 31 December	
	2014	2013
Interest income arising from:		
- financial assets available-for-sale (Note 6)	28,402	29,365
- deposit with foreign banks	1,843	762
- held-to-maturity investments (Note 8)	1,552	1,203
- penalty interest from domestic commercial banks	584	-
- other	5	4
	32,386	31,334
Interest expenses arising from:		
- deposits from local commercial banks	(2,086)	(1,060)
	(2,086)	(1,060)
Effects of negative interest rates from interest bearing financial assets	(5)	-
Net interest income	30,295	30,274

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

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

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

During reporting periods the interest rate calculated on the obligatory reserves is 70% of the rate based on the weighted average of interest rates achieved by the Bank in the same period on deposits invested up to one month. During reporting periods the interest rate calculated on the amount exceeding the obligatory reserves is 90% of the rate based on the weighted average of interest rates achieved by the Bank in the same period on deposits invested up to one month.

From 1 September 2014, the policy of calculating fees on the obligatory reserves and on the amount exceeding the obligatory reserves to commercial banks has been amended in a way that the Bank will not calculate interest on those items if the Bank did not invest in deposits up to one month due to lack of opportunities to achieve positive interest rate on the market, or if, for any reason, the Bank achieved an average negative interest rate on deposits invested up to one month.

Effects of negative interest rates on interest-bearing financial assets relate to changed business circumstances according to which some foreign banks charged negative interest rates on demand deposits held by the Bank with those banks.

19. FEE AND COMMISSION INCOME AND EXPENSES

In thousands of KM	For the year ended 31 December	
	2014	2013
Fee and commission income:		
- from local commercial banks	8,647	7,208
- from services for the Government and other non-banking clients	513	569
	9,160	7,777
Fee and commission expenses:		
- transactions with foreign banks	(848)	(708)
	(848)	(708)
Net fee and commission income	8,312	7,069

20. NET FOREIGN EXCHANGE GAINS / (LOSSES)

In thousands of KM	For the year ended 31 December	
	2014	2013
Income from foreign exchange differences	1,024	841
Expenses from foreign exchange differences	(490)	(895)
Net gains / (losses)	534	(54)

21. OTHER INCOME

In thousands of KM	For the year ended 31 December	
	2014	2013
Dividend income (Note 11)	504	755
Income from grants	76	41
Other income	379	949
TOTAL	959	1,745

22. PERSONNEL EXPENSES

In thousands of KM	For the year ended 31 December	
	2014	2013
Salaries	11,103	10,160
Taxes and contributions	6,352	5,790
Other employee benefits	2,206	2,223
Provisions for severance payments (Note 15)	314	212
TOTAL	19,975	18,385

Personnel costs include KM 3,690 thousand (2013: KM 3,412 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 2014 the Bank had 356 employees (2013: 347 employees).

23. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

In thousands of KM	For the year ended 31 December	
	2014	2013
Expenses for production and design of banknotes and coins	3,626	3,254
Maintenance costs	2,773	2,278
Other administrative and operating expenses	4,260	4,698
Deficit currency expenses (Note 9)	600	-
TOTAL	11,259	10,230

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 or higher than 5.00% of the total monetary liabilities.

This ratio, before the profit allocation in 2014 amounted to 7.27% (2013: 7.79%). According to the Decision of the Governing Board 60% of the net profit for the financial year of 2014 in the amount of KM 21,247 thousand (2013: KM 18,052 thousand) was allocated to the state budget, and 40%, i.e. the amount of KM 14,164 thousand was allocated to the general reserves (retained earnings) of the Bank (2013: KM 12,034 thousand).

2014

Before profit allocation

	(in thousands of KM)
Monetary liabilities (Currency in circulation and domestic deposits)	7,293,093
Initial capital and general reserves (retained earnings)	530,552
Ratio - initial capital and general reserves (retained earnings) / monetary liabilities	7.27%

Profit allocation

	(in thousands of KM)
Net profit before allocation	35,411
Allocation of profit to the state budget	21,247
Allocation of profit to general reserves (retained earnings)	14,164

After profit allocation

	(in thousands of KM)
Initial capital and general reserves (retained earnings)	544,716
Ratio - Initial capital and general reserves (retained earnings)/ monetary liabilities	7.47%

2013

Before profit allocation

	(in thousands of KM)
Monetary liabilities (Currency in circulation and domestic deposits)	6,659,199
Initial capital and general reserves (retained earnings)	518,518
Ratio - initial capital and general reserves (retained earnings) / monetary liabilities	7.79%

Profit allocation

	(in thousands of KM)
Net profit before allocation	30,086
Allocation of profit to the state budget	18,052
Allocation of profit to general reserves (retained earnings)	12,034

After profit allocation

	(in thousands of KM)
Initial capital and general reserves (retained earnings)	530,552
Ratio - Initial capital and general reserves (retained earnings) / monetary liabilities	7.97%

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 2014	31 December 2013
Foreign currency deposits with remaining maturity under three months	1,926,816	2,056,166
Foreign currency demand deposits	254,916	161,432
Foreign currency in cash	71,811	91,609
Special Drawing Rights in the International Monetary Fund	5,203	2,728
Giro accounts	182	134
TOTAL	2,258,928	2,312,069

26. 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:

In thousands of KM

2014	Exposure	Liabilities	Income	Expenses
State	-	292,293	-	-
<i>State institutions</i>				
Indirect taxation authority of Bosnia and Herzegovina	-	17,949	-	-
Deposit Insurance Agency	-	400	-	-
TOTAL	-	310,642	-	-

In thousands of KM

2013	Exposure	Liabilities	Income	Expenses
State	-	268,438	-	-
<i>State institutions</i>				
Indirect taxation authority of Bosnia and Herzegovina	-	6,206	-	-
Deposit Insurance Agency	-	36	-	-
TOTAL	-	274,680	-	-

Remuneration of key management members

The total remuneration of the members of the key personnel (members of Management and Governing Board) in 2014 amounted to KM 1,047 thousand, out of which KM 675 thousand was related to salaries and other remuneration and KM 372 thousand to taxes and contributions (in 2013 out of total amount of KM 940 thousand the amount of KM 614 thousand was related to salaries and other remuneration and KM 326 thousand was related to taxes and contributions).

27. RISK MANAGEMENT

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

- Liquidity risk
- Market risk
- Credit risk.

This note presents information about the Bank's exposure to each of the above risks, the Bank's objective, policies and procedures for measuring and managing risks.

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

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

27.1. Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulties in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The ultimate responsibility for liquidity risk management lies with the Management, which has created an adequate framework for the management of liquidity risk. The Bank manages this type of risk by investing mainly in short-term deposits with foreign banks and in securities with maturities within ten years and by constantly monitoring the projected and actual cash flows.

The following tables present the Bank's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Bank can be required to pay. The table includes both interest and principal cash flows.

In thousands of KM	Up to 3 months	From 3 to 12 months	From 1 year to 3 years	Over 3 years	Total
31 December 2014					
Non-interest bearing	3,549,953	22,037	-	-	3,571,990
Variable interest rate instruments	3,747,108	-	-	-	3,747,108
Fixed interest rate instruments	-	-	-	-	-
TOTAL	7,297,061	22,037	-	-	7,319,098
31 December 2013					
Non-interest bearing	3,138,503	20,995	-	-	3,159,498
Variable interest rate instruments	3,525,119	-	-	-	3,525,119
Fixed interest rate instruments	-	-	-	-	-
TOTAL	6,663,622	20,995	-	-	6,684,617

27. RISK MANAGEMENT (CONTINUED)

27.1. Liquidity risk (continued)

The following tables present the Bank's remaining contractual maturity for its non-derivative financial assets. The tables have been drawn up based on the undiscounted cash flows of the financial assets including interest that will be earned on those assets except where the Bank anticipates that the cash flow will occur in a different period. This excludes the treatment of derivatives, since the Bank is not exposed to derivative financial instruments as of 31 December 2014 and 2013 respectively.

In thousands of KM	Up to 3 months	From 3 to 12 months	From 1 year to 3 years	Over 3 years	Total
31 December 2014					
Non-interest bearing	257,538	-	-	-	257,538
Variable interest rate instruments	260,123	504	-	-	260,627
Fixed interest rate instruments	6,919,048	80,204	133,970	597,040	7,730,262
TOTAL	7,436,709	80,708	133,970	597,040	8,248,427
31 December 2013					
Non-interest bearing	258,271	3	1	-	258,275
Variable interest rate instruments	164,159	755	-	-	164,914
Fixed interest rate instruments	6,560,822	78,233	156,828	239,804	7,035,687
TOTAL	6,983,252	78,991	156,829	239,804	7,458,876

Maturity analysis

Tables below present the assets and liabilities of the Bank as at 31 December 2014 and 2013 classified into relevant maturity groupings based on the remaining period from the reporting date to the contractual maturity date, except for debt securities available for sale which have been classified in accordance with their secondary liquidity characteristics as maturing within three months and whose corresponding coupon inflows have been classified in the defined maturity categories based on expected cash flows. Currency in circulation has been classified in the maturity period within three months. Equity securities, that are part of assets and liabilities which do not have contractual maturity, are classified as without specified maturity.

27. RISK MANAGEMENT (CONTINUED)

27.1. Liquidity risk (continued)

31 December 2014	Up to 3 months	From 3 to 12 months	From 1 to 3 years	Over 3 years	Without specified maturity	Total
In thousands of KM						
Foreign currency in cash	71,811	-	-	-	-	71,811
Deposits with foreign banks	2,181,806	-	-	-	-	2,181,806
Special Drawing Rights with the International Monetary Fund	5,203	-	-	-	-	5,203
Financial assets available-for-sale	4,992,120	71,151	115,790	158,222	-	5,337,283
Monetary gold	182,750	-	-	-	-	182,750
Held-to-maturity investments	-	8,928	17,857	438,556	-	465,341
Other assets	3,407	820	1,041	249	-	5,517
Property, equipment and intangible assets	-	-	-	-	46,190	46,190
Other investments	-	-	-	-	27,813	27,813
TOTAL ASSETS	7,437,097	80,899	134,688	597,027	74,003	8,323,714
Currency in circulation	3,210,508	-	-	-	-	3,210,508
Deposits from banks	3,751,149	790	-	-	-	3,751,939
Deposits from the Government and other depositors	331,436	-	-	-	-	331,436
Provisions for liabilities and charges	38	74	219	963	-	1,294
Other liabilities	4,040	21,250	-	-	394	25,684
Initial capital	-	-	-	-	25,000	25,000
General reserves (Retained earnings)	-	-	-	-	519,716	519,716
Other reserves	-	-	-	-	31,300	31,300
Fair value reserves – monetary gold	(60,710)	-	-	-	-	(60,710)
Fair value reserves - financial assets AFS	69,734	-	-	-	2	69,736
Total capital and reserves	9,024	-	-	-	576,018	585,042
Total liabilities, capital and reserves	7,306,195	22,114	219	963	576,412	7,905,903
LIQUIDITY GAP	130,902	58,785	134,469	596,064	(502,409)	417,811

27. RISK MANAGEMENT (CONTINUED)

27.1. Liquidity risk (continued)

31 December 2013	Up to 3 months	From 3 to 12 months	From 1 to 3 years	Over 3 years	Without specified maturity	Total
In thousands of KM						
Foreign currency in cash	91,609	-	-	-	-	91,609
Deposits with foreign banks	2,217,751	-	-	-	-	2,217,751
Special Drawing Rights with the International Monetary Fund	2,728	-	-	-	-	2,728
Financial assets available-for-sale	4,504,459	75,397	151,068	135,040	-	4,865,964
Monetary gold	164,144	-	-	-	-	164,144
Held-to-maturity investments	-	2,709	5,418	104,353	-	112,480
Other assets	3,279	3,500	1,394	398	-	8,571
Property, equipment and intangible assets	-	-	-	-	43,538	43,538
Other investments	-	-	-	-	27,813	27,813
TOTAL ASSETS	6,983,970	81,606	157,880	239,791	71,351	7,534,598
Currency in circulation	2,909,858	-	-	-	-	2,909,858
Deposits from banks	3,476,239	2,943	-	-	-	3,479,182
Deposits from the Government and other depositors	274,083	-	-	-	-	274,083
Provisions for liabilities and charges	11	5	153	822	-	991
Other liabilities	3,521	18,053	-	-	152	21,726
Initial capital	-	-	-	-	25,000	25,000
General reserves (Retained earnings)	-	-	-	-	505,552	505,552
Other reserves	-	-	-	-	31,300	31,300
Fair value reserves – monetary gold	(79,316)	-	-	-	-	(79,316)
Fair value reserves – financial assets AFS	(16,193)	-	-	-	2	(16,191)
Total capital and reserves	(95,509)	-	-	-	561,854	466,345
Total liabilities, capital and reserves	6,568,203	21,001	153	822	562,006	7,152,185
LIQUIDITY GAP	415,767	60,605	157,727	238,969	(490,655)	382,413

27. RISK MANAGEMENT (CONTINUED)

27.2. Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices and foreign exchange rates will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures with acceptable parameters, while optimising the return on risk.

27.2.1. 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 deposit 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 Central 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 2014 and 31 December 2013.

31 December 2014

In thousands of KM	EUR	USD	Other foreign currencies	KM	Total
Foreign currency in cash	71,737	19	55	-	71,811
Deposits with foreign banks	2,179,423	709	1,600	-	2,181,732
Special Drawing Rights with the International Monetary Fund	-	-	5,203	-	5,203
Financial assets available-for-sale	4,955,537	-	-	-	4,955,537
Monetary gold	-	182,750	-	-	182,750
Held-to-maturity investments	428,560	-	-	-	428,560
Other assets	15	-	-	5,502	5,517
Property, equipment and intangible assets	-	-	-	46,190	46,190
Other investments	10	-	-	27,803	27,813
Total assets	7,635,282	183,478	6,858	79,495	7,905,113
Currency in circulation	-	-	-	3,210,508	3,210,508
Deposits from banks	-	-	-	3,751,149	3,751,149
Deposits from the Government and other depositors	-	-	-	331,436	331,436
Provisions for liabilities and charges	-	-	-	1,294	1,294
Other liabilities	457	3	82	25,142	25,684
Initial capital	25,000	-	-	-	25,000
General reserves (Retained earnings)	-	-	-	519,716	519,716
Other reserves	3,497	-	-	27,803	31,300
Fair value reserves – monetary gold	-	-	-	(60,710)	(60,710)
Fair value reserves – financial assets available-for-sale	69,736	-	-	-	69,736
Total capital and reserves	98,233	-	-	486,809	585,042
Total liabilities, capital and reserves	98,690	3	82	7,806,338	7,905,113
NET FOREIGN EXCHANGE POSITION	7,536,592	183,475	6,776	(7,726,843)	-

27. RISK MANAGEMENT (CONTINUED)

27.2. Market risk (continued)

27.2.1. Foreign exchange risk (continued)

31 December 2013

In thousands of KM	EUR	USD	Other foreign currencies	KM	Total
Foreign currency in cash	91,539	18	52	-	91,609
Deposits with foreign banks	2,216,765	826	7	-	2,217,598
Special Drawing Rights with the International Monetary Fund	-	-	2,728	-	2,728
Financial assets available-for-sale	4,486,402	-	-	-	4,486,402
Monetary gold	-	164,144	-	-	164,144
Held-to-maturity investments	105,858	-	-	-	105,858
Other assets	173	-	-	8,398	8,571
Property, equipment and intangible assets	-	-	-	43,538	43,538
Other investments	10	-	-	27,803	27,813
Total assets	6,900,747	164,988	2,787	79,739	7,148,261
Currency in circulation	-	-	-	2,909,858	2,909,858
Deposits from banks	635	-	-	3,474,623	3,475,258
Deposits from the Government and other depositors	-	-	-	274,083	274,083
Provisions for liabilities and charges	-	-	-	991	991
Other liabilities	385	2	73	21,266	21,726
Initial capital	25,000	-	-	-	25,000
General reserves (Retained earnings)	-	-	-	505,552	505,552
Other reserves	3,497	-	-	27,803	31,300
Fair value reserves – monetary gold	-	-	-	(79,316)	(79,316)
Fair value reserves – financial assets available-for-sale	(16,191)	-	-	-	(16,191)
Total capital and reserves	12,306	-	-	454,039	466,345
Total liabilities, capital and reserves	13,326	2	73	7,134,860	7,148,261
NET FOREIGN EXCHANGE POSITION	6,887,421	164,986	2,714	(7,055,121)	-

27. RISK MANAGEMENT (CONTINUED)

27.2. Market risk (continued)

27.2.1.1. Foreign exchange risk - Sensitivity analysis

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.

The sensitivity analysis includes outstanding foreign currency denominated monetary items at the balance sheet date and indicates the effects of the assumed changes in foreign currency rates on the reported profit and equity. The table below provides an analysis of the Bank's main currency exposures. A positive number indicates an increase in income statement and increase in equity where the KM weakens i.e. strengthens against the relevant currency.

2014	USD	CHF	GBP	SDR	Other
In thousands of KM	+/- 4%	+/- 1%	+/- 2%	+/- 2%	+/- 1%
Foreign exchange rate risk (on P&L)	29/(29)	16/(16)	0/(0)	104/(104)	0/(0)
2013	USD	CHF	GBP	SDR	Other
In thousands of KM	+/- 2%	+/- 1%	+/- 2%	+/- 1%	+/- 1%
Foreign exchange rate risk (on P&L)	17/(17)	0/(0)	(1)/1	27/(27)	0/(0)
2014	USD	CHF	GBP	SDR	Other
In thousands of KM	+/- 4%	+/- 1%	+/- 2%	+/- 2%	+/- 1%
Foreign exchange rate risk (on Equity)	7,310/(7,310)	0/(0)	0/(0)	0/(0)	0/(0)
2013	USD	CHF	GBP	SDR	Other
In thousands of KM	+/- 2%	+/- 1%	+/- 2%	+/- 1%	+/- 1%
Foreign exchange rate risk (on Equity)	3,283/(3,283)	0/(0)	0/(0)	0/(0)	0/(0)

27. RISK MANAGEMENT (CONTINUED)

27.2. Market risk (continued)

27.2.2. 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 reprice 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 2014

In thousands of KM	Up to 3 months	From 3 to 12 months	From 1 to 3 years	Over 3 Years	Non- interest bearing	Total
Foreign currency in cash	-	-	-	-	71,811	71,811
Deposits with foreign banks	2,181,638	-	-	-	94	2,181,732
Special Drawing Rights with the International Monetary Fund	5,203	-	-	-	-	5,203
Available for sale financial assets	1,722,461	3,139,060	39,132	-	54,884	4,955,537
Monetary gold	-	-	-	-	182,750	182,750
Held-to-maturity investments	-	424,794	-	-	3,766	428,560
Other assets	35	107	291	249	4,835	5,517
Property, equipment and intangible assets	-	-	-	-	46,190	46,190
Other investments	-	-	-	-	27,813	27,813
Total assets	3,909,337	3,563,961	39,423	249	392,143	7,905,113
Currency in circulation	-	-	-	-	3,210,508	3,210,508
Deposits from banks	3,751,149	-	-	-	-	3,751,149
Deposits from the Government and other depositors	4	-	-	-	331,432	331,436
Provisions for liabilities and charges	-	-	-	-	1,294	1,294
Other liabilities	-	-	-	-	25,684	25,684
Initial capital	-	-	-	-	25,000	25,000
General reserves (Retained earnings)	-	-	-	-	519,716	519,716
Other reserves	-	-	-	-	31,300	31,300
Fair value reserves – monetary gold	-	-	-	-	(60,710)	(60,710)
Fair value reserves – financial assets available-for-sale	-	-	-	-	69,736	69,736
Total capital and reserves	-	-	-	-	585,042	585,042
Total liabilities, capital and reserves	3,751,153	-	-	-	4,153,960	7,905,113
INTEREST RATE GAP	158,184	3,563,961	39,423	249	(3,761,817)	-

27. RISK MANAGEMENT (CONTINUED)

27.2. Market risk (continued)

27.2.2. Interest rate risk (continued)

31 December 2013

In thousands of KM	Up to 3 months	From 3 to 12 months	From 1 to 3 years	Over 3 years	Non- interest bearing	Total
Foreign currency in cash	-	-	-	-	91,609	91,609
Deposits with foreign banks	2,217,408	-	-	-	190	2,217,598
Special Drawing Rights with the International Monetary Fund	2,727	-	-	-	1	2,728
Financial assets available-for-sale	1,549,673	2,852,319	38,792	-	45,618	4,486,402
Monetary gold	-	-	-	-	164,144	164,144
Held-to-maturity investments	-	104,519	-	-	1,339	105,858
Other assets	35	105	284	398	7,749	8,571
Property, equipment and intangible assets	-	-	-	-	43,538	43,538
Other investments	-	-	-	-	27,813	27,813
Total assets	3,769,843	2,956,943	39,076	398	382,001	7,148,261
Currency in circulation	-	-	-	-	2,909,858	2,909,858
Deposits from banks	3,470,287	-	-	-	4,971	3,475,258
Deposits from the Government and other depositors	54,493	-	-	-	219,590	274,083
Provisions for liabilities and charges	-	-	-	-	991	991
Other liabilities	-	-	-	-	21,726	21,726
Initial capital	-	-	-	-	25,000	25,000
General reserves (Retained earnings)	-	-	-	-	505,552	505,552
Other reserves	-	-	-	-	31,300	31,300
Fair value reserves – monetary gold	-	-	-	-	(79,316)	(79,316)
Fair value reserves – financial assets available-for-sale	-	-	-	-	(16,191)	(16,191)
Total capital and reserves	-	-	-	-	466,345	466,345
Total liabilities, capital and reserves	3,524,780	-	-	-	3,623,481	7,148,261
INTEREST RATE GAP	245,063	2,956,943	39,076	398	(3,241,480)	-

27. RISK MANAGEMENT (CONTINUED)

27.2. Market risk (continued)

27.2.2.1 Interest rate risk - Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for financial assets and financial liabilities at the balance sheet date and the assumed change of interest rate taking place at the beginning of the financial year and held constant throughout the reporting period.

The table below provides an sensitivity analysis of the Bank's interest rate exposures in main currencies based on the sensitivity range of +10/-10bp (2013: +30/-5bp) depending on the currency (which reflects Bank's assessment of the possible change in interest rates). A positive number indicates an increase in income statement and increase in equity where the rates according to new scenario are higher, i.e. lower then as of reporting dates.

2014	KM	EUR	SDR
In thousands of KM	+10/-0bp	+10/-10bp	+5/-5bp
Interest rate risk (on P&L)	(3,747)/0	(11,584)/11,652	3/(3)

2013	KM	EUR	SDR
In thousands of KM	+30/-5bp	+30/-5 bp	+20/-5bp
Interest rate risk (on P&L)	(10,411)/1,735	(34,270)/5,765	5/(1)

2014	KM	EUR	SDR
In thousands of KM	+10/-0bp	+10/-10bp	+5/-5bp
Interest rate risk (on equity)	0/0	(434)/438	0/(0)

2013	KM	EUR	SDR
In thousands of KM	+30/-5bp	+30/-5 bp	+20/-5bp
Interest rate risk (on equity)	0/0	339/(57)	0/0

27. RISK MANAGEMENT (CONTINUED)

27.3. 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, by limiting the maturity, and by controlling the volume and the dynamics of investment. The credit ratings are continuously 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 29).

27.3.1. Credit risk concentration

The Bank is exposed to credit risk through the deposits with foreign banks, available-for-sale financial assets and held to maturity investments.

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

The following table shows the maximum exposure of the Bank to the credit risk:

In thousands of KM	Maximum exposure	
	31 December 2014	31 December 2013
Balance sheet exposure		
Deposits with foreign banks	2,181,732	2,217,598
Financial assets available-for-sale	4,955,537	4,486,402
Held-to-maturity investments	428,560	105,858
TOTAL	7,565,829	6,809,858

The Bank does not hold any collateral or other credit enhancements to cover this credit risk as the Bank invests its assets with the counterparties that have the highest credit ratings.

As of 31 December 2014 the Bank does not have any assets that are neither past due or impaired.

Concentration of credit risk

The deposits placed with foreign banks in total amounted to KM 2,181,732 thousand as at 31 December 2014 (2013: KM 2,217,598 thousand). The largest portion of these funds is invested in one foreign bank (2013: one foreign banks), with individual exposures exceeding total Capital and Reserves of the Bank. There are no foreign banks with individual exposure exceeding total Capital and Reserves of the Bank (in 2013 was one foreign bank with individual exposure exceeding total Capital and Reserves of the Bank).

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

Bank rating	31 December 2014		Bank rating	31 December 2013	
	Deposits in thousands of KM	% of total deposits		Deposits in thousands of KM	% of total deposits
-	-	-	AAA	1,395,360	62.92

The largest individual risk exposure as at 31 December 2014 amounted to KM 454,561 thousand (2013: KM 1,395,360 thousand).

27. RISK MANAGEMENT (CONTINUED)

27.3. Credit risk (continued)

27.3.1. Credit risk concentration (continued)

Concentration per credit rating

Deposits with foreign banks:

Bank rating	31 December 2014		31 December 2013	
	In thousands of KM	% of total	In thousands of KM	% of total
AAA	781,010	35.80	1,847,897	83.33
AA-	391,279	17.93	-	-
A+	-	-	56,740	2.56
A	999,664	45.82	312,961	14.11
A-	9,779	0.45	-	-
TOTAL	2,181,732	100.00	2,217,598	100.00

Financial assets available-for-sale:

Bank rating	31 December 2014		31 December 2013	
	In thousands of KM	% of total	In thousands of KM	% of total
AAA	1,525,847	30.79	1,278,744	28.50
AA+	-	-	984,864	21.95
AA	1,183,339	23.88	930,586	20.74
BBB+	-	-	1,292,208	28.81
BBB	2,246,351	45.33	-	-
TOTAL	4,955,537	100.00	4,486,402	100.00

Held-to-maturity investments:

Bank rating	31 December 2014		31 December 2013	
	In thousands of KM	% of total	In thousands of KM	% of total
AAA	145,915	34.05	105,858	100.00
AA+	282,645	65.95	-	-
TOTAL	428,560	100.00	105,858	100.00

Geographical concentration

	31 December 2014		31 December 2013	
	In thousands of KM	%	In thousands of KM	%
Italy	1,150,425	15.21	1,292,208	18.98
Spain	1,095,926	14.48	-	-
France	929,719	12.29	1,299,780	19.09
Belgium	907,910	12.00	930,586	13.67
Netherlands	907,693	12.00	647,984	9.52
Great Britain	577,080	7.63	-	-
Austria	542,297	7.17	324,964	4.77
Germany	509,778	6.74	483,339	7.10
Luxembourg	454,561	6.01	1,395,360	20.49
Switzerland	254,581	3.35	284,181	4.16
Finland	235,859	3.12	151,456	2.22
TOTAL	7,565,829	100.00	6,809,858	100.00

Geographical concentration per individual financial asset is disclosed in Note 5, 6 and 8 of these financial statements.

28. FAIR VALUE MEASUREMENT

28.1 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 and financial liabilities 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 and financial liabilities 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 2014	31 December 2013		
1) Financial assets available for sale (see Note 6)	Listed debt securities on stock exchanges in other countries: Italy – KM 1,150,425 thousand Spain – KM 1,095,926 thousand Belgium – KM 795,832 thousand Netherlands – KM 472,726 thousand Austria – KM 440,070 thousand France – KM 387,507 thousand Germany – KM 377,192 thousand Finland – KM 235,859 thousand	Listed debt securities on stock exchanges in other countries: Italy – KM 1,292,208 thousand Belgium – KM 930,586 thousand Netherlands – KM 603,143 thousand Austria – KM 263,947 thousand France – KM 984,864 thousand Germany – KM 260,198 thousand Finland – KM 151,456 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 7)	Listed precious metals on stock exchanges in other countries: • Switzerland – KM 182,750 thousand	Listed precious metals on stock exchanges in other countries: • Switzerland – KM 164,144 thousand	Level 1	Quoted bid prices in an active market.

28. FAIR VALUE MEASUREMENT (CONTINUED)

28.2 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)

Except as detailed in the following table, the Management consider that the carrying amounts of financial assets and financial liabilities recognized in the financial statements approximate their fair values.

In thousands of KM	31 December 2014		31 December 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
<i>Loans and receivables</i>				
- deposits with foreign banks	2,181,732	2,172,716	2,217,598	2,207,627
- held-to-maturity investments	428,560	436,576	105,858	104,919
Financial liabilities				
<i>Financial liabilities held at amortized cost:</i>				
- deposits from banks	3,751,149	3,736,368	3,475,258	3,460,684
- deposits from the Government and other depositors	331,436	330,130	274,083	272,934

In thousands of KM	Fair value hierarchy as at 31 December 2014			
	Level 1	Level 2	Level 3	Total
Financial assets				
<i>Loans and receivables:</i>				
- deposits with foreign banks	-	2,172,716	-	2,172,716
- held-to-maturity investments	-	436,576	-	436,576
	-	2,609,292	-	2,609,292
Financial liabilities				
<i>Financial liabilities held at amortized cost:</i>				
- deposits from banks	-	3,736,368	-	3,736,368
- deposits from the Government and other depositors	-	330,130	-	330,130
	-	4,066,498	-	4,066,498

In thousands of KM	Fair value hierarchy as at 31 December 2013			
	Level 1	Level 2	Level 3	Total
Financial assets				
<i>Loans and receivables:</i>				
- deposits with foreign banks	-	2,207,627	-	2,207,627
- held-to-maturity investments	-	104,919	-	104,919
	-	2,312,546	-	2,312,546
Financial liabilities				
<i>Financial liabilities held at amortized cost:</i>				
- deposits from banks	-	3,460,684	-	3,460,684
- deposits from the Government and other	-	272,934	-	272,934
	-	3,733,618	-	3,733,618

28. FAIR VALUE MEASUREMENT (CONTINUED)

28.2 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) (continued)

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 BiH.

29. OFF-BALANCE SHEET ITEMS

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

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

Off-balance sheet items consist of:

In thousands of KM	31 December 2014	31 December 2013
Third party securities and funds held with foreign banks	371,680	433,436
Deposits of USAID	1,947	20,196
Deposits of non-residents	1,947	20,196
Deposits of the Council of Ministers of BiH	73,364	121,314
<i>Deposits of the Council of Ministers of BiH on the basis of succession</i>	389	360
<i>Deposits of the Council of Ministers of BiH regarding the servicing of foreign debt</i>	6,080	5,453
<i>Deposits of the Council of Ministers of BiH regarding the Budget of BiH Institutions</i>	37,289	105,822
<i>Other deposits of the Council of Ministers of BiH</i>	29,606	9,679
Deposits of other residents	3,295	7,713
<i>Deposits - Deposit Insurance Agency</i>	-	828
<i>Deposits - Banking Agency of Federation BiH</i>	-	4,080
<i>Deposits - Retirement allowance from Germany</i>	1	431
<i>Deposit accounts of banks</i>	3,294	2,374
Deposits of residents	76,659	129,027
Investments related to securities – Deposit Insurance Agency	293,074	284,213
Investments of residents related to securities	293,074	284,213
Liability for third party securities and funds	371,680	433,436

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 with the Bank of America. The Bank does not charge and does not collect any interest or fees on these accounts.

29. OFF-BALANCE SHEET ITEMS (CONTINUED)

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 or fees on such accounts.

Bosnia and Herzegovina membership in the IMF

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

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

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

(In thousands of KM)

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

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

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

29. OFF-BALANCE SHEET ITEMS (CONTINUED)

Consolidated position of BiH membership in the IMF as at 31 December 2013

(In thousands of KM)

Assets		
Quota	369,532	
SDR holdings	2,727	
Accrued interest on SDR holdings	1	
Total assets	372,260	
Liabilities		
IMF No. 1 account		929
IMF No. 2 account		32
Securities		1,220,275
Accounts of payable charges		1,624
SDR allocation		351,583
Accrued interest on SDR allocation		61
Total liabilities		1,574,504
Net member position with the IMF		
BiH obligations to the IMF arising principally from repurchase and currency valuation adjustments	1,202,244	
Net member position	1,202,244	
	1,574,504	1,574,504
Total consolidated position - assets and liabilities		
	1,574,504	1,574,504
IMF No. 1 account	(929)	(929)
IMF No. 2 account	(32)	(32)
Total gross position of BH with the IMF - assets and liabilities	1,573,543	1,573,543

30. 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 2014	31 December 2013
Foreign assets	7,825,593	7,068,339
Liabilities to non-residents	1,088	1,029
Net foreign exchange reserves (foreign assets minus liabilities to non-residents)	7,824,505	7,067,310
Monetary liabilities	7,293,093	6,659,199
Net foreign assets (net foreign exchange reserves minus monetary liabilities)	531,412	408,111

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.

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) payments by crediting and debiting settlement accounts held with the Central 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 credit 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 locations:** the Bank has set up primary and backup location, as well as DR (Disaster Recovery) location located in Main Bank of Republika Srpska of the Central Bank of Bosnia and Herzegovina in Banja Luka. All locations are capable of operating under contingency measures, whose appropriateness and effectiveness has been regularly tested.

Management of the Bank believes that the system has sufficient capacity to maintain operational reliability, which has never been jeopardised since the implementation of the system.