

CENTRAL BANK OF BOSNIA AND HERZEGOVINA

CONDENSED FINANCIAL STATEMENTS

IN ACCORDANCE WITH THE REQUIREMENTS OF IAS 34

as of June 30, 2008

Sarajevo July 18, 2008

Contents

Page

Condensed Financial Statements

Income Statement	3
Balance Sheet	4
Statement of Cash Flows	5
Statement of Changes in Equity	6
Notes to the Condensed Financial Statements	7 - 14

Income Statement

	01/01 - 30/06/2008 KM'000	01/04 - 30/06/2008 KM'000	01/01 - 30/06/2007 KM'000	01/04 - 30/06/2007 KM'000
INTEREST INCOME				
Interest Income from Bank Deposits and Similar Income	137,452	67,875	105,012	55,682
INTEREST EXPENSE				
Interest on Deposits	(28,712)	(13,404)	(29,962)	(15,955)
NET INTEREST INCOME	108,740	54,471	75,050	39,727
Net Realized Gains / Losses – AFS Securities	732	(1,574)	(941)	(453)
Commission Income	3,105	1,703	2,674	1,423
Dividends	568	568	593	593
Net Gains / Losses from Foreign Exchange Differences	103	(70)	(101)	(54)
Income from Grants	243	93	452	228
Other Income	105	29	59	20
OPERATING INCOME	113,596	55,220	77,786	41,484
OPERATING EXPENSE				
Net Salaries, Taxes and Contributions	(7,143)	(3,593)	(6,101)	(3,054)
Administrative and Overhead Expenses	(5,284)	(2,989)	(5,883)	(3,344)
Depreciation and amortization	(1,710)	(829)	(1,822)	(917)
Other Operating Expenses	(843)	(489)	(3,382)	(2,659)
Total Operating Expenses	(14,980)	(7,900)	(17,188)	(9,974)
NET PROFIT	<u>98,616</u>	<u>47,320</u>	<u>60,598</u>	<u>31,510</u>

The accompanying notes are an integral part of these Condensed Financial Statements.

Balance Sheet

ASSETS	30/06/2008 KM'000	31/12/2007 KM'000
Foreign Assets	6,530,631	6,698,505
Foreign Currency in Cash	56,702	40,147
Short-term Deposits with Foreign Banks	4,986,269	6,051,821
Special Drawing Rights in the IMF	943	360
Available for Sale Securities	1,486,149	606,177
Dividends	568	0
Domestic Assets	274	284
Giro accounts	274	284
Other Assets	5,867	3,324
Tangible and Intangible Assets	23,396	24,776
Other investments	27,813	27,813
TOTAL ASSETS	6,587,981	6,754,702
LIABILITIES		
Currency in Circulation	2,335,314	2,439,709
Domestic Deposits	3,787,599	3,864,144
From Banks	3,697,034	3,777,071
From the Government and other Residents	90,565	87,073
Deferred Income	1,099	1,230
Other Liabilities	2,753	63,264
Capital and Reserves	461,216	386,355
Subscribed Capital	25,000	25,000
General Reserves	330,137	330,137
Reserves from Grants	3,497	3,546
Capital in Shares	27,803	27,803
Valuation Reserve Account	(23,837)	(131)
Profit for the period	98,616	
TOTAL LIABILITIES AND CAPITAL	6,587,981	6,754,702
OFF-BALANCE SHEET ITEMS		
Third Party Securities, Financial Derivatives and Funds held with Foreign Banks	579,654	502,328
Total Gross Position of Government with the IMF	383,568	400,896

The accompanying notes are an integral part of these Condensed Financial Statements.

The Condensed Financial Statements have been approved by the Governing Board and signed on its behalf by:

M.A. Kemal Kozarić
Governor

Sarajevo July 25, 2008

Statement of Cash Flows

	01/01 - 30/06/2008	01/01 - 30/06/2007
	KM'000	KM'000
NET CASH FLOWS FROM OPERATING ACTIVITIES:		
Net profit	98,616	60,598
Fair value adjustments – AFS Securities	(23,706)	(3,432)
Depreciation and amortization	1,710	1,822
Income from grants – non-pecuniary	(33)	(69)
Income from grants – pecuniary	(210)	(383)
Net cash flows from operating activities before changes in operating assets and liabilities	76,377	58,536
Changes in operating assets and liabilities:		
Decrease / (increase) in short-term deposits	609,370	(55,251)
(Increase) / decrease in other assets	(2,543)	946
(Decrease) / increase of Currency in circulation	(104,395)	53,331
(Decrease) / increase in domestic deposits	(76,545)	357,519
New grants received	112	396
(Decrease) in other liabilities	(594)	(542)
Net cash flows from operating activities	501,782	414,935
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase of tangible and intangible assets, net	(330)	(2,632)
Increase in AFS Securities	(879,972)	(5,657)
Increase in Receivables from Dividends	(568)	(594)
Net cash flows from investing activities	(880,870)	(8,883)
CASH FLOWS FROM FINANCING ACTIVITIES		
Transfer of profit to the state budget	(59,917)	(19,986)
(Decrease) in Reserves from grants	(49)	(54)
Net cash flows from financing activities	(59,966)	(20,040)
Net (decrease) / increase in cash and cash equivalents	(439,054)	386,012
Cash and cash equivalents at the beginning of the year	4,074,497	2,294,803
Cash and cash equivalents at the end of the period	3,635,443	2,680,815
ADDITIONAL INFORMATION TO STATEMENT OF CASH FLOWS:		
Received interest	171,949	94,275
Paid interest	30,214	29,149

The accompanying notes are an integral part of these Condensed Financial Statements.

Statement of Changes in Equity

	Subscribed Capital	General Reserves	Reserves from Grants	Capital in Shares	Valuation Reserve Account	Profit for the period	Total
	KM'000	KM'000	KM'000	KM'000	KM'000	KM'000	KM'000
As of January 1, 2007	25,000	247,456	3,600	27,803	(2,845)	0	301,014
Changes in Reserves from Grants	0	0	(54)	0	0	0	(54)
Changes in Valuation Reserve Account	0	0	0	0	(3,432)	0	(3,432)
Profit for the period	0	0	0	0	0	60,598	60,598
As of June 30, 2007	25,000	247,456	3,546	27,803	(6,277)	60,598	358,126
As of January 1, 2008	25,000	330,137	3,546	27,803	(131)	0	386,355
Changes in Reserves from Grants	0	0	(49)	0	0	0	(49)
Changes in Valuation Reserve Account	0	0	0	0	(23,706)	0	(23,706)
Profit for the period	0	0	0	0	0	98,616	98,616
As of June 30, 2008	25,000	330,137	3,497	27,803	(23,837)	98,616	461,216

The accompanying notes are an integral part of these Condensed Financial Statements.

Basis for Preparation of Condensed Financial Statements

The Condensed Financial Statements have been prepared in accordance with the Law on the Central Bank of Bosnia and Herzegovina and the Law on Internal Payment Operations, and in accordance with the International Accounting Standard 34, Interim Financial Reporting.

The Condensed Financial Statements have been prepared in accordance with the same accounting policies, principles of balancing and methods of the valuation of assets, liabilities, capital and reserves, income, expenditures and the financial results, applied in the preparation of the latest annual Financial Statements of the Central Bank of Bosnia and Herzegovina.

In the operations of Central Bank of Bosnia and Herzegovina, in the reporting period, there were neither cyclic nor periodical operational activities, all the activities were done according to the subject and time of realization under the principle of continuity for indefinite time period.

Reporting Currency

The financial statements are stated in the official national currency of Bosnia and Herzegovina - Convertible Marka (KM), **in the equivalents of a thousand Convertible Marka.**

The official exchange rate to the Euro (EUR) has been defined by the Law on the Central Bank of Bosnia and Herzegovina as 1.955830 KM = 1 EUR. As required by the Law, the Bank is obliged to purchase and sell KM for EUR on demand, without any restrictions, within the territory of Bosnia and Herzegovina, at the defined exchange rate.

Short-term Deposits with Foreign Banks

Deposits with foreign banks, analyzed by maturity date, are as follows:

Maturity	(KM'000)	
	30/06/2008	31/12/2007
Demand deposits	20,328	11,150
Term deposits - up to one month	1,354,566	1,855,531
Term deposits - from one to two months	1,186,357	1,137,139
Term deposits - from two to three months	1,016,273	1,029,886
Term deposits - from three to four months	280,942	804,916
Term deposits - from four to twelve months	1,127,803	1,213,199
Total term deposits	4,965,941	6,040,671
TOTAL	4,986,269	6,051,821

Available for Sale Securities

On July 17, 2006, the Bank has started investing in securities denominated in EUR. Those are high quality instruments with a high degree of tradability and liquidity, with the minimum rating of AA- (S&P and Fitch) or Aa3 (Moody's). The portfolio may include short-term and long-term securities with a fixed interest rate, which are issued by governments of foreign countries (as of Balance sheet dates the invested amount applied only to long-term securities).

According to IAS 39 and the Bank's Accounting Policies, the mentioned securities are classified as available for sale and are initially recognized at acquisition cost, which represents the fair value of the given remuneration including also the transaction costs, and they are subsequently re-measured at fair value. Effects of the changes in fair value are presented in Valuation Reserve Account in the Capital, until the asset is sold, after that, they are recognized as realized gain or loss in the Income Statement in the period of sale.

The associated interest is recognized in the Income Statement on accrual basis.

The structure of the AFS Securities is the following:

	(KM'000)	
	30/06/2008	31/12/2007
Securities	1,450,273	594,521
Accrued interest on securities	35,876	11,656
TOTAL	1,486,149	606,177

Other Liabilities

Other liabilities as of December 31, 2007 included also the liabilities based on the allocation of part of the net profit for 2007 in the amount of KM 59,917 thousand to the state budget, which was, according to the legal solutions, paid in the account of the institution in charge of the budget of Bosnia and Herzegovina on April 2, 2008, which influenced the net foreign assets of the Bank.

Capital and Reserves

Capital and reserves reflect initial capital, reserves, shares, and accumulated profit of the Bank since the beginning of its operation on August 11, 1997.

Interest Income from Bank Deposits and Similar Income

Interest Income from Bank Deposits and Similar Income consists of:

	(KM'000)			
	01/01 - 30/06/2008	01/04 - 30/06/2008	01/01 - 30/06/2007	01/04 - 30/06/2007
Interest on deposits of the Central Bank of Bosnia and Herzegovina	115,230	54,355	96,294	51,204
Interest on Available for Sale Securities	22,211	13,512	8,703	4,467
Interest on SDR in the IMF	11	8	7	3
Penalty interest from domestic commercial banks	0	0	8	8
TOTAL	137,452	67,875	105,012	55,682

Interest Expense on Deposits

By the Bank's monetary policy measures, the Required Reserve rate was changing and it was the following:

	(in %)
In the period January 1 - June 30, 2007	15.00
In the period January 1 - June 30, 2008	18.00

The interest is calculated on the total deposits of commercial banks according to the Bank's decisions.

The interest on the Required Reserves is calculated at the interest rate of 1.00%, and on the amount exceeding the Required Reserve it is calculated according to the interest rate that corresponds to the average of interest rates achieved by the Bank on the "overnight" deposits.

Other Operating Expenses

In the period January 1 - June 30, 2007 other operating expenses related mainly to the expenses for production of banknotes and coins, while in the period January 1 - June 30, 2008 related to the expenses for transactions with foreign banks.

Cash and Cash Equivalents

Cash and cash equivalents for the purposes of the Statement of Cash Flows are defined as cash in KM and foreign currencies, foreign currency demand deposits, Special Drawing Rights in the IMF and foreign currency deposits with residual maturities of less than three months.

	(KM'000)	
	30/06/2008	30/06/2007
KM cash held at organizational units of the Bank	274	218
Foreign currency in cash	56,702	32,839
Foreign currency demand deposits	20,328	3,702
Special Drawing Rights in the IMF	943	276
Foreign currency deposits with maturity under three months	3,557,196	2,643,780
TOTAL	3,635,443	2,680,815

Clearing and Distribution of Convertible Marka

Since January 5, 2001 the clearing operation in KM for local commercial banks has been carried out through the RTGS (Real Time Gross Settlement) and (Bulk) Gyro Clearing systems within the Bank, through reserve accounts of commercial banks opened with the Bank. Also, since January 5, 2001, the distribution of Convertible Marka for the whole country has been performed through the field vaults of the Bank.

Domestic payments are executed by the licensed commercial banks that are participants of the interbank clearing system.

Risk Management

Risk management and estimation of the level of acceptable risk is a continuous process and the integral element of the Bank's business strategy. In performing its operational function, the Bank is exposed to financial and business risks. 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 regime, investing in short-term deposits and securities with the maturity up to three years, with fixed interest rate and high credit ratings are the basic principles of managing liquidity risk, foreign exchange, interest rate and credit risk.

Off-balance Sheet Items

The Central Bank of Bosnia and Herzegovina 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 for which the Bank acts as an agent.

Off-balance sheet items consist of:

	(KM'000)	
	30/06/2008	31/12/2007
Third Party Securities, Financial Derivatives and Funds held with Foreign Banks	579,654	502,328
Liability for third party securities, financial derivatives and funds	579,654	502,328
Deposits of Non-residents	17,555	15,577
Deposits of USAID	17,555	15,577
Deposits of Residents	444,837	381,735
Deposits of the Central Government of BH	438,829	376,439
Deposits of the Central Government of BH on the basis of succession	119,729	120,732
Deposits of the Central Government of BH regarding the servicing of foreign debt	1,988	2,130
Deposits of the Central Government of BH regarding the budget of Government institutions	299,425	238,395
Other Deposits of the Central Government of BH	17,687	15,182
Deposits of other governments in BH	1,195	1,184
Deposits - Government of the Federation of BH	1,195	1,184
Deposits of other Residents	4,813	4,112
Deposits - Deposit Insurance Agency	861	750
Deposits - Retirement allowance from Germany	3,066	3,162
Deposit accounts of banks	886	200
Investments of Residents related to securities and financial derivatives	117,262	105,016
Investments related to securities and financial derivatives - Deposit Insurance Agency	117,262	105,016

Bosnia and Herzegovina (BH) Membership in the IMF

As depository for BH 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 Government's 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 Government 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 BH position with the IMF:

Consolidated Position of BH IMF Membership as at June 30, 2008

(KM'000)

Assets

Quota	342,736
SDR Holdings	938
Accrued Interest on SDR Holdings	5
Total Assets	343,679

Liabilities

IMF No. 1 account	884
IMF No. 2 account	10
Securities	341,852
Accounts of Payable Charges	0
Accrued Interest on SDR Allocation	204
Total Liabilities	342,950

Net Member Position with the IMF

Government Obligations to the IMF arising principally from Repurchase and Currency Valuation Adjustments	40,783	
SDR Allocation	(41,512)	
Net Member Position	(729)	
	342,950	342,950

Total Consolidated Position - Assets and Liabilities	342,950	342,950
SDR Allocation	41,512	41,512
IMF No. 1 account	(884)	(884)
IMF No. 2 account	(10)	(10)
Total Gross Position of Government with the IMF - Assets and Liabilities	383,568	383,568

The SDR Holdings, Accrued Interest on SDR Holdings, IMF No. 1 account and IMF No. 2 account reflect accounts held on the Balance Sheet of the Bank.

For the Consolidated Position of Bosnia and Herzegovina with the IMF, the gross position of Government is decreased by the SDR Allocation and increased for the IMF No. 1 and 2 accounts.

Consolidated Position of BH IMF Membership as at December 31, 2007

(KM'000)

Assets

Quota	355,331
SDR Holdings	358
Accrued Interest on SDR Holdings	2
Total Assets	355,691

Liabilities

IMF No. 1 account		917
IMF No. 2 account		10
Securities		357,566
Accounts of Payable Charges		37
Accrued Interest on SDR Allocation		256
Total Liabilities		358,786

Net Member Position with the IMF

Government Obligations to the IMF arising principally from Repurchase and Currency Valuation Adjustments	46,132	
SDR Allocation	(43,037)	
Net Member Position	3,095	
	358,786	358,786

Total Consolidated Position - Assets and Liabilities	358,786	358,786
SDR Allocation	43,037	43,037
IMF No. 1 account	(917)	(917)
IMF No. 2 account	(10)	(10)
Total Gross Position of Government with the IMF - Assets and Liabilities	400,896	400,896

