

**Agencija za izdavanje garancija  
od političkog i ratnog rizika inostranim  
investitorima i trgovcima  
“IGA” d.o.o. Sarajevo**

Financial statements and  
independent auditors' report  
for the year ended 31 December 2006

# Contents

	<i>Page</i>
Responsibility for the financial statements	1
Independent auditors' report	2-3
Income statement	4
Balance sheet	5
Statement of changes in equity	6
Cash flow statement	7
Notes to financial statements	8-27

## Responsibility for the financial statements

The Management is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB), which give a true and fair view of the state of affairs and results of Agencija za izdavanje garancija od političkog i ratnog rizika inostranim investitorima i trgovcima "IGA" d.o.o. Sarajevo for that period.

After making enquiries, the Management has a reasonable expectation that the Agency has adequate resources to continue in operational existence for the foreseeable future. For this reason, Management continues to adopt the going concern basis in preparing the financial statements.

In preparing those financial statements, the responsibilities of Management include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgments and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Agency will continue in business.

The Management is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Agency. The Management must also ensure that the financial statements comply with the Accounting and Auditing Law of the Federation of Bosnia and Herzegovina. The Management is also responsible for safeguarding the assets of the Agency and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the Agency

Lamija Kozarić-Rahman, Director

Agencija za izdavanje garancija od političkog i ratnog rizika inostranim investitorima i trgovcima "IGA" d.o.o. Sarajevo

Fra Anđela Zvizdovića 1, tower B, 2<sup>nd</sup> floor

71000 Sarajevo

Bosnia and Herzegovina

22 June 2007

## Independent Auditor's Report

### **To the Owners of Agencija za izdavanje garancija od političkog i ratnog rizika inostranim investitorima i trgovcima "IGA" d.o.o. Sarajevo**

We have audited the accompanying financial statements of Agencija za izdavanje garancija od političkog i ratnog rizika inostranim investitorima i trgovcima "IGA" d.o.o. Sarajevo ('the Agency' or 'IGA'), set out on pages 4 to 27, which comprise the balance sheet as of 31 December 2006, and the income statement, 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. The financial statements of the Agency for the year ended 31 December 2005 were audited by another auditor whose report issued on 19 June 2006 expressed disclaimed opinion. Disclaimer of the Auditor's opinion was related to:

- Non-existence of legal documents relating financial transactions between the Agency and the State of Bosnia and Herzegovina, where terms of transfer due to the state in the amount of KM 51,344 thousand as of 31 December 2005 should be defined as well as decrease of liabilities related to depreciation in terms of income from donations in the amount of KM 7 thousand.
- The Agency did not estimate loan portfolio as required by IAS 39. The auditor could not provide assurance that loan portfolio as of 31 December 2005 in the amount of KM 23,048 thousand was correctly stated. Auditor was also unable to provide assurance that provisions for impairment were appropriate to enable reducing these receivables to recoverable amount.
- The Agency did not estimate factoring portfolio as required by IAS 39. The auditor was unable to verify that factoring portfolio as of 31 December 2005 amounted to KM 1,879 thousand was correctly stated. Auditor was also unable to provide assurance that provisions for impairment were appropriate to enable reducing these receivables to recoverable amount.

#### *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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*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 Agency'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 Agency'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 respects, the financial position of the Agency as of 31 December 2006 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

*Emphasis of the matter*

Addressing issues disclosed in the introductory paragraph, raised by previous year auditor, we found no reasons that would require us to express a modified opinion on financial statements of the Agency for the period ended 31 December 2006.



**Deloitte d.o.o.**

Sarajevo, 22 June 2007

Agencija za izdavanje garancija od političkog i ratnog rizika inostranim investitorima i  
trgovcima "IGA" d.o.o. Sarajevo

Income statement

for the year ended 31 December 2006

(All amounts are expressed in KM '000)

	Note	2006	2005
Interest income	3	2,324	1,788
Interest expense	4	<u>(370)</u>	<u>(156)</u>
<b>Net interest income</b>		<b>1,954</b>	<b>1,632</b>
Impairment losses	5	<u>(801)</u>	<u>(1,567)</u>
<b>Net interest income after impairment losses</b>		<b>1,153</b>	<b>65</b>
Income from insurance activities	6	153	159
Insurance claims		-	(16)
Reserves for insurance business	19	<u>(92)</u>	<u>(43)</u>
<b>Net income from insurance activities</b>		<b>61</b>	<b>100</b>
<b>Other income</b>	7	<b>567</b>	<b>514</b>
Net (FX losses)/FX gains	8	(629)	795
Personnel costs	9	(857)	(805)
Depreciation and amortisation	16	(50)	(54)
Other administrative expenses	10	<u>(383)</u>	<u>(387)</u>
<b>Operating expenses</b>		<b><u>(1,919)</u></b>	<b><u>(451)</u></b>
<b>(Loss)/profit before tax</b>		<b>(138)</b>	<b>228</b>
Income tax expense		<u>(6)</u>	<u>-</u>
<b>Net (loss)/profit for the year</b>		<b><u>(144)</u></b>	<b><u>228</u></b>

The accompanying notes form an integral part of these financial statements.

Agencija za izdavanje garancija od političkog i ratnog rizika inostranim investitorima i  
trgovcima "IGA" d.o.o. Sarajevo

Balance sheet

as of 31 December 2006

(All amounts are expressed in KM '000)

	Note	2006	2005
<b>ASSETS</b>			
Cash and cash equivalents	12	8,606	10,279
Placements with banks	13	23,074	17,862
Loans and advances to customers	14	26,651	25,170
Other assets	15	460	432
Tangible and intangible assets	16	74	114
		<u>58,865</u>	<u>53,857</u>
<b>TOTAL ASSETS</b>			
<b>EQUITY AND LIABILITIES</b>			
<b>Liabilities</b>			
Due to the State of Bosnia and Herzegovina	17	56,431	51,344
Short-term borrowings	18	1,467	1,467
Reserves for insurance policies	19	92	43
Other payables	20	710	694
		<u>58,700</u>	<u>53,548</u>
<b>Capital and reserves</b>			
State capital		10	10
Accumulated earnings		155	299
	21	<u>165</u>	<u>309</u>
<b>TOTAL EQUITY AND LIABILITIES</b>			
		<u>58,865</u>	<u>53,857</u>

The accompanying notes form an integral part of these financial statements.

Signed on behalf of the Agency on 22 June 2007:

Lamija Kozarić-Rahman

Director

Vlatko Tvrtković

Deputy Director

Mirko Dejanović

Deputy Director

Agencija za izdavanje garancija od političkog i ratnog rizika inostranim investitorima i  
trgovcima "IGA" d.o.o. Sarajevo  
Statement of changes in equity  
for the year ended 31 December 2006

*(All amounts are expressed in KM '000)*

	State capital	Accumulated earnings	Total
<b>Balance at 1 January 2005</b>	<u>10</u>	<u>71</u>	<u>81</u>
Net profit for 2005	<u>-</u>	<u>228</u>	<u>228</u>
<b>Balance at 31 December 2005</b>	<u>10</u>	<u>299</u>	<u>309</u>
Net loss for 2006	<u>-</u>	<u>(144)</u>	<u>(144)</u>
<b>Balance at 31 December 2006</b>	<u>10</u>	<u>155</u>	<u>165</u>

The accompanying notes form an integral part of these financial statements.

Agencija za izdavanje garancija od političkog i ratnog rizika inostranim investitorima i  
trgovcima "IGA" d.o.o. Sarajevo  
Cash flow statement  
for the year ended 31 December 2006

(All amounts are expressed in KM '000)

	2006	2005
<b>Operating activities</b>		
(Loss)/profit for the year	<b>(144)</b>	<b>228</b>
<i>Adjustments for:</i>		
Depreciation and amortization	50	54
Impairment losses	893	1,610
Loss on disposal of tangible assets	-	3
Release of reserves for insurance policies	(43)	-
Receivables written-off	(34)	(711)
Grant income recognized	(1)	(7)
Adjustment for cash flow from investing and financing activities	<u>(1,954)</u>	<u>(1,632)</u>
<i>Operating cash flows before movements in working capital</i>	<i>(1,233)</i>	<i>(455)</i>
Net (increase)/decrease in placements with other banks, before impairment losses	(5,212)	8,468
Net increase in loans and advances to customers, before impairment losses	(2,246)	(11,486)
Net increase in other assets, before impairment losses	(30)	(217)
Increase in other payables	<u>16</u>	<u>208</u>
Cash flow from operations	<u>(8,705)</u>	<u>(3,482)</u>
Interest paid	<u>(370)</u>	<u>(156)</u>
<b>Net cash flow from operating activities</b>	<b><u>(9,075)</u></b>	<b><u>(3,638)</u></b>
<b>Investing activities</b>		
Purchase of property, plant and equipment	(10)	(39)
Interest received	<u>2,324</u>	<u>1,788</u>
<b>Net cash flow from investing activities</b>	<b><u>2,314</u></b>	<b><u>1,749</u></b>
<b>Financing activities</b>		
Proceeds from long-term borrowings	5,088	-
Proceeds from short-term borrowings	<u>-</u>	<u>1,467</u>
<b>Net cash flow from financing activities</b>	<b><u>5,088</u></b>	<b><u>1,467</u></b>
<b>Net increase in cash and cash equivalents</b>	<b><u>(1,673)</u></b>	<b><u>(422)</u></b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b><u>10,279</u></b>	<b><u>10,701</u></b>
<b>Cash and cash equivalents at the end of the year</b>	<b><u>8,606</u></b>	<b><u>10,279</u></b>

The accompanying notes form an integral part of these financial statements.

Agencija za izdavanje garancija od političkog i ratnog rizika inostranim investitorima i trgovcima "IGA" d.o.o. Sarajevo  
Notes to the financial statements  
for the year ended 31 December 2006

*(All amounts are expressed in KM '000)*

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**1. GENERAL**

**a) History and incorporation**

Agencija za izdavanje garancija od političkog i ratnog rizika inostranim investitorima i trgovcima "IGA" d.o.o. Sarajevo (the 'Agency' or 'IGA') was established in 1996 by the Government of Republic of Bosnia and Herzegovina as an independent corporation to operate as Agency for guarantee issue against political risk known as IGA. It is established with purpose to implement the project of World Bank for urgent industry propulsion including guarantees against political and war risk, using loans from World Bank NOO1-BOS as 100% coverage of guarantees. The aim of the Project was to decrease risks (political and war) to foreign suppliers while selling equipment and goods intended to be productively used by BH firms.

On 23 December 2004 the State Parliament adopted the Law on Bosnia and Herzegovina Export Credit IGA establishment, which transformed IGA d.o.o into the official export credit agency of Bosnia and Herzegovina. The Law precisely determines principles, organisation, capital and scope of IGA business.

**b) Activity**

Initially, during the implementation of Project of urgent industry propulsion, IGA employed a foreign Agent Bank to issue standby letters of credit (guarantees) simultaneously with the issuance of each guarantee contract by IGA. Payment of claims by the Agent Bank would be based on events specified in the contract documents. Guarantee holders can purchase protection from IGA against losses that occur as a direct result of the following risks:

- Inconvertibility or inability to transfer local currency into foreign exchange;
- Cancellation of licenses, restrictions on import and export;
- Imposition or increase of import or export taxes;
- Expropriation of local enterprises involved in a transaction;
- Seizure of goods, prevention of sale, or prevention of export;
- Interference with the carriage or storage of goods;
- Imposition of a UN embargo or sanctions;
- War or civil disturbance.

Later, IGA entered into an arrangement with Lloyd's of London insurers whereby the insurers would issue a policy and be partially secured by cash lodged in an escrow account over which the insurers had access in the event of a claim.

IGA sold guarantees and insurance policies against a fee of up-to 250 basis points per annum on the covered amount, for a maximum guarantee period of 5 years. Regarding the maximum amounts of guarantee, IGA's General Manager has delegation to approve applications of up to KM 6 million. Larger applications will be considered and require prior approval of IGA's Board and the Insurer. Eligible transactions are those that involve goods sold to enterprises in Bosnia and Herzegovina, which are used for a productive purpose and conform to environmental standards.

In 1999, IGA was selected to implement another World Bank supported project known as BEEF (Project Bosnian Enterprise Export Facility).

Agencija za izdavanje garancija od političkog i ratnog rizika inostranim investitorima i  
trgovcima "IGA" d.o.o. Sarajevo  
Notes to the financial statements  
for the year ended 31 December 2006

*(All amounts are expressed in KM '000)*

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**1. GENERAL (CONTINUED)**

**b) Activity (continued)**

***Implementation of BEEF***

On 13 October 1999 the Bosnian Enterprise Export Facility project which was supported by credit from World Bank (3257-BOS) became effective. The primary objective of the project is to support sustainable economic growth by facilitating and expanding viable export activity. The main objective of the project is to contribute to an increase in the level of exports, which is urgently needed to reduce the economy's dependence on aid.

In 2002, the World Bank has approved to BiH State to use free funds Project for urgent industry propulsion (LIFT) for the purpose of project BEEF. Project of urgent industry propulsion is closed in 2001 after successful implementation.

In 2002, the World Bank gave no objection to the use of funds under LIFT as well for authorized purposes under BEEF.

***Description of BEEF Facilities***

The Enterprise Export Facility comprises a Working Capital Facility, Exporter Performance Insurance Facility and Credit Insurance Facility. In addition, IGA has introduced a facility to support the import of machinery by BiH enterprises engaged in export activity on credit terms up to five years and a facility in partnership with BiH or foreign banks. BEEF facilities are as follows:

***Working Capital Facilities (Export Financing Facility)***

IGA provides funds to BiH banks (Participating Loan) for the purpose of on lending to BiH enterprises engaged in exporting activity (Working Capital Loan). The Participating Loans are for a maximum of one year and are for working capital to allow BiH enterprises to perform defined export contracts.

A Participating Loan is for 50% of a Working Capital Loan above KM 600 thousand with the BiH bank making up the difference. A Participating Loan can be for 100% of a Working Capital Loan below KM 600 thousand.

In addition to providing funding for a Working Capital Loan, IGA provides the BiH bank with a guarantee against default by the borrower for a maximum of 50% of a Working Capital Loan. Funds guaranteed by IGA are zero risk weighted on the balance sheet of the BiH bank for capital adequacy purposes thereby allowing the bank to do more for an exporter than would otherwise be the case.

***Guarantees***

IGA is authorized to provide support to BiH enterprises that need to provide contract bonds such as bid bonds, advance payment bonds and performance bonds in support of their export contracts. In the past it has been difficult for BiH companies to obtain this support because of the insistence of buyers that only first class banks located outside BiH are eligible to provide the bonds. In most cases this has meant that BiH companies have been obliged to cover the obligation assumed by the bond-giving bank by lodging the equivalent amount with the bond-giving bank in cash. IGA provides support either by providing a guarantee direct to the bond-giving bank, or more usually through a partnership arrangement with the Lloyd's of London insurance market. In both cases IGA obtains the undertaking of the BiH exporter to reimburse it if there is a call and where appropriate takes security over the assets of the exporter supporting this obligation to reimburse if there is a call.

Agencija za izdavanje garancija od političkog i ratnog rizika inostranim investitorima i  
trgovcima "IGA" d.o.o. Sarajevo  
Notes to the financial statements  
for the year ended 31 December 2006

*(All amounts are expressed in KM '000)*

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**1. GENERAL (CONTINUED)**

**b) Activity (continued)**

***Guarantees (continued)***

Where the Lloyd's of London market is involved, the Lloyd's of London insurance syndicate or syndicates insure the bond giving bank against loss arising from a call and the BiH exporter fails to reimburse the bond giving bank. In that event, the Lloyd's of London insurer also has recourse to the security taken by IGA over the assets of the exporter.

**Export Credit Insurance (assurance of collection of receivables)**

IGA issues an exporter with an insurance policy and reinsures most of the liability it assumes under issued policies of insurance with a major European reinsurance company, "Atradius", Belgium.

Before accepting an obligation to insure a particular buyer, IGA obtains credit information about the buyer and must be satisfied that the buyer is creditworthy. IGA then issues a credit limit on the buyer which means that IGA accepts liability for that buyer up to the insured percentage of that credit limit. The insured percentage and therefore the amount of a claim payment is usually 90% of the debt.

Premiums range from 0.3 % per annum to more than 1.5% per annum per insurance transaction depending upon the length of the credit offered to the buyer and the grading or ranking of the country to which the goods are exported. Premiums are paid monthly in arrears on the declared value of exports in a particular month.

Credit insurance is new in BiH and in line with the experience of other start up credit insurance operations; it takes several years to develop a sizeable portfolio. There are now distinct signs that the business community is appreciating the value of export credit insurance and the rate of new inquiries and new policies has picked considerably in recent months.

***Factoring Facility***

The factoring activity is a means whereby IGA provides funding to exporters by discounting debts for goods sold and delivered by BiH enterprises to overseas buyers on credit terms. Factoring can be used as an alternative or in conjunction with the current working loan facility. Debts that are factored would be credit insured against buyer default. It can be used in circumstances where an exporter does not have adequate fixed assets available to provide security to its bank or to IGA. This type of facility transforms the working capital position of many Bosnia's exporting enterprises. The facility is carried out in partnership with local banks.

Agencija za izdavanje garancija od političkog i ratnog rizika inostranim investitorima i  
trgovcima "IGA" d.o.o. Sarajevo  
Notes to the financial statements  
for the year ended 31 December 2006

*(All amounts are expressed in KM '000)*

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**1. GENERAL (CONTINUED)**

**c) Directors and management**

*Management*

Lamija Kozarić-Rahman	Director
Vlatko Tvrtković	Deputy Director
Mirko Dejanović	Deputy Director

The Agency had 13 employees as of 31 December 2006 and 2005.

**1.1 Adoption of new and revised standards**

In the current year, the Agency has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (the IFRIC) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2006. The adoption of these new and revised Standards and Interpretations has not resulted in changes to the Agency's accounting policies. At the date of authorisation of these financial statements, the following Standard was in issue, not yet effective but relevant for the Agency' financial statements:

- IFRS 7 Financial Instruments: Disclosures and complementary amendments to IAS 1 Presentation of Financial Statements - *Effective for annual periods beginning on or after 1 January 2007.*

At the date of authorisation of these financial statements, the following Standard and Interpretations were in issue but not yet effective and not relevant for the Agency' financial statements:

- IFRS 8 Operating Segments - *Effective for annual periods beginning on or after 1 January 2009.*
- IFRIC 7 Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies - *Effective for annual periods beginning on or after 1 March 2006.*
- IFRIC 8 Scope of IFRS 2 - *Effective for annual periods beginning on or after 1 May 2006.*
- IFRIC 9 Reassessment of Embedded Derivatives - *Effective for annual periods beginning on or after 1 June 2006.*
- IFRIC 10 Interim Financial Reporting and Impairment - *Effective for annual periods beginning on or after 1 November 2006.*
- IFRIC 11 IFRS 2 Group and Treasury Share Transaction - *Effective for annual periods beginning on or after 1 March 2007.*
- IFRIC 12 Service Concession Arrangements - *Effective for annual periods beginning on or after 1 January 2008.*

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the Agency.

Agencija za izdavanje garancija od političkog i ratnog rizika inostranim investitorima i  
trgovcima "IGA" d.o.o. Sarajevo  
Notes to the financial statements  
for the year ended 31 December 2006

*(All amounts are expressed in KM '000)*

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## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS'), as published by the International Accounting Standards Board. The financial statements have been prepared on the historical cost basis. These financial statements are presented in convertible mark (KM) since that is the currency in which the majority of the Agency's transactions are denominated. The KM is officially tied to the Euro (EUR 1 = KM 1.95583).

The financial statements are prepared on an accrual basis of accounting, under the going concern assumption.

The preparation of financial statements in conformity with International Financial Reporting Standards (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. These estimates are based on information available as of the date of the financial statements and actual results could differ from those estimates.

The principal accounting policies adopted are set out below:

### **Revenue recognition**

Interest income and expense are recognised in the income statement for all interest bearing instruments on an accrual basis using the effective yield method. Penalty interest is accounted for on a cash basis.

Interest is calculated in accordance with the law or the contract between creditor and debtor. Interest is capitalized if stipulated in the contract. Interest is suspended if interest income is not certain. Suspended interest is recognized as interest income when actually collected.

Insurance fees are generally recognized on an accrual basis. Insurance fees regarding political risks and export insurance fee are recognized as income during the term of insurance contracts.

Loan origination fees are amortised through the duration of the loan using the effective interest rate method. When considered immaterial, loan origination fees for loans, which are probable of being drawn down, are recognized on drawdown date.

### **Foreign currencies**

Transactions other than in KM are initially recorded at the rates of exchange prevailing on the date of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the official rate of the Central Bank of Bosnia and Herzegovina prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the period.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **Employee benefits**

On behalf of its employees, the Agency is paying pension and health insurance on and from salaries, which are calculated on the gross salary paid, as well as taxes, which are calculated on the net salary paid. The Agency is paying the above contributions into the Federal Pension and Health Fund, as per the set legal rates during the course of the year on the gross salary paid. In addition, meal allowances, transport allowances and vacation bonuses are paid in accordance with the local legislation. These expenses are recorded in the income statement in the period in which the salary expense is incurred.

### **Retirement severance payments**

According to the local legislation, the Agency makes retirement severance payments of minimum three average monthly salaries of the employee in question or three average salaries of the Agency paid in the period of the last three months, depending on what is more favorable to the employee.

The Agency accounts retirement severance payments when they become due. Management believes that implementation of such policy does not have significant effect on the accompanying financial statements.

### **Loans originated by the Agency and provisions for loan impairment**

Loans originated by the Agency by providing money directly to a borrower are categorised as loans originated by the Agency and are carried at amortised cost. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction. All loans and advances are recognised when cash is advanced to borrowers.

Loans to customers and financial institutions are stated net of provisions for loan impairment. A provision for loan impairment is established, if there is objective evidence that the Agency will not be able to collect amounts due in accordance with the contractual terms of the loan. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans. When a loan is uncollectible, it is written off against the related provision for impairment; subsequent recoveries are credited to the income statement.

The Agency stops accruing interest on loans that are classified as a loss due to default of the borrower. The carrying amount of non-accruing loans represents the amount of the receivable decreased by the provision for expected losses. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted based on the interest rate at inception. The Agency charges penalty interest to borrowers when a portion of the loan falls overdue.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### ***Factoring receivables and provisions***

The factoring activity relates to funding provided to exporters by discounting debts for goods sold and delivered by BiH enterprises to overseas buyers on credit terms. The factoring method that Agency uses is called recourse factoring, implying that the actual accounts receivable stays on balance with the exporter. Agency enhances advance payments up to 80% of invoice amounts to the Bosnian exporters, with a factoring agreement. All factoring advances are recognized, when cash is advanced to the borrowers. A credit risk provision for factoring impairment is established if there is objective evidence that Agency will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted based on the interest rate at inception.

### **Taxation**

As of 31 December 2004 the Law on IGA was adopted. The law prescribed registration of IGA in Register of state institutions and exemption IGA from income tax and value added tax liability payment. Up to 31 December 2006 still did not complete the process of registration in Register of state institutions. According to the fact previously mentioned, IGA is considered as regular income tax payer of Bosnia and Herzegovina.

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Agency's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Agencija za izdavanje garancija od političkog i ratnog rizika inostranim investitorima i  
trgovcima "IGA" d.o.o. Sarajevo  
Notes to the financial statements  
for the year ended 31 December 2006

*(All amounts are expressed in KM '000)*

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**Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes the purchase price and directly associated cost of bringing the asset to a working 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. Gains or losses on the retirement or disposal of property, plant and equipment are included in the statement of income in the period they occur.

Properties in the course of construction are carried at cost, less impairment loss, if any. Depreciation commences when the assets are ready for their intended use.

Depreciation is calculated based on the estimated based on the estimated useful lives of the applicable assets, which are as follows:

Office equipment and furniture	20%
Computer equipment	33%
Vehicles	20%
Software	20%

**Impairment**

At each balance sheet date, the Agency reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Agency estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the greater of net selling price and value in use. 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.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is land or buildings other than investment property carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **Grant income**

Grants are assistance by the Government to other parties in the form of transfer of resources to Agency. These grants are recognized as income, whenever there is reasonable assurance that Agency will comply with conditions attaching to them (if any) and the grants will be received.

Grant income relates to the release during the year of the liability towards the State of Bosnia and Herzegovina. The release of the liability equals the amounts expensed during the year in respect of the Bosnia Enterprise Export Facility as part of depreciation expenses. Grant income is deducted from operating expenses (see Note 8).

### **Trade and other receivables**

Trade and other receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

### **Bank and other borrowings**

Loans are measured at initial recognition at fair value, and are subsequently measured at amortized cost using effective interest method, less any allowance for impairment. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction.

### **Trade payables**

Trade payables are stated at their nominal value. According to the Management, book value of payables to suppliers is equal to their fair value.

### **Off-balance-sheet commitments**

In the ordinary course of business, the Agency enters into credit related commitments, which are recorded in off-balance-sheet accounts and primarily include guarantees, letters of credit and unused parts of granted loans. Such financial commitments are recorded in the Agency's balance sheet if and when they become payable.

The provision for commitments and contingent liabilities are maintained at a level Agency's management believes is adequate to absorb probable future losses. The Management Board of the Agency determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

The Agency recognises a provision when it has a present obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate of the obligation can be made.

Agencija za izdavanje garancija od političkog i ratnog rizika inostranim investitorima i  
trgovcima "IGA" d.o.o. Sarajevo  
Notes to the financial statements  
for the year ended 31 December 2006

(All amounts are expressed in KM '000)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Comparatives**

Where necessary comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures. Net profit and total assets and liabilities were not impacted by these changes.

**3. INTEREST INCOME**

	<b>2006</b>	<b>2005</b>
Interest on loans to companies	1,236	951
Interest on placement with banks	857	604
Factoring income	225	158
Penalty interest	6	75
	<u>2,324</u>	<u>1,788</u>

**4. INTEREST EXPENSE**

	<b>2006</b>	<b>2005</b>
Interest on short-term borrowing from Raiffeisen Zentralbank AG, Austria	74	-
LIFT & BEEF facilities debt servicing fee (Note 17)	296	156
	<u>370</u>	<u>156</u>

Interest expense has been calculated on short-term borrowing from Raiffeisen Zentralbank AG, Austria (see Note 18). Loan agreement has been signed on 19 December 2005, but the loan funds have been withdrawn in 30 December 2005.

**5. IMPAIRMENT LOSSES**

	<b>2006</b>	<b>2005</b>
Allowance for loan losses	674	1,521
Allowance for factoring losses	105	22
Allowance for interest losses	9	13
Allowance for other assets losses	13	11
	<u>801</u>	<u>1,567</u>

Agencija za izdavanje garancija od političkog i ratnog rizika inostranim investitorima i  
trgovcima "IGA" d.o.o. Sarajevo  
Notes to the financial statements  
for the year ended 31 December 2006

*(All amounts are expressed in KM '000)*

**6. NET INCOME FROM INSURANCE ACTIVITIES**

	<b>2006</b>	<b>2005</b>
Risk premiums	139	144
Other income	14	15
	<u>153</u>	<u>159</u>

**7. OTHER INCOME**

	<b>2006</b>	<b>2005</b>
Fees from guarantees	421	413
Fees from factoring	76	71
Grant income (Note 17)	1	7
Other income	69	23
	<u>567</u>	<u>514</u>

**8. FOREIGN EXCHANGE (FX) DIFFERENCES**

	<b>2006</b>	<b>2005</b>
FX gains	55	797
FX losses	(684)	(2)
	<u>(629)</u>	<u>795</u>

**9. PERSONNEL COSTS**

	<b>2006</b>	<b>2005</b>
Net salaries	374	370
Salary taxes and contributions	252	248
Fees to Board of Directors	12	-
Other employee benefits	219	187
	<u>857</u>	<u>805</u>

**10. OTHER ADMINISTRATIVE EXPENSES**

Agencija za izdavanje garancija od političkog i ratnog rizika inostranim investitorima i  
trgovcima "IGA" d.o.o. Sarajevo  
Notes to the financial statements  
for the year ended 31 December 2006

(All amounts are expressed in KM '000)

	2006	2005
Rent	115	105
Other services	46	54
Bank fees	38	58
Travel expenses	31	37
Material	27	27
Communication cost	26	32
Maintenance cost	11	16
Entertainment	9	8
Donations	8	4
Advertising	8	8
Insurance costs	7	8
Other expenses	57	30
	<b>383</b>	<b>387</b>

**11. INCOME TAX EXPENSE**

	2006	2005
<b>(Loss)/profit before tax</b>	<b>(138)</b>	<b>228</b>
Other tax disallowable items	371	6
Taxable profit	233	234
Income tax at the rate of 30%	70	70
Tax relief due to accumulated tax losses from previous periods	(64)	(70)
<b>Income tax expense and effective income tax rate (%)</b>	<b>6</b>	<b>-</b>
<b>Effective income tax rate (%)</b>	<b>2.6%</b>	<b>-</b>

**12. CASH AND CASH EQUIVALENTS**

	2006	2005
Current bank accounts, foreign currencies	6,527	9,351
Current bank accounts, KM	2,077	927
Cash in hand	2	1
	<b>8,606</b>	<b>10,279</b>

**13. PLACEMENTS WITH BANKS**

**2006**                      **2005**

19

Agencija za izdavanje garancija od političkog i ratnog rizika inostranim investitorima i  
trgovcima "IGA" d.o.o. Sarajevo  
Notes to the financial statements  
for the year ended 31 December 2006

(All amounts are expressed in KM '000)

*Current deposits:*

ING Bank, London, UK	11,007	10,450
Raiffeisen Zentralbank AG, Vienna, Austria	5,518	4,558

*Term deposits:*

Raiffeisen Bank BiH d.d. Sarajevo	4,549	1,300
ProCredit Bank d.d. Sarajevo	2,000	1,154
UPI Banka d.d. Sarajevo	-	400

<b>23,074</b>	<b>17,862</b>
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**14. LOANS AND ADVANCES TO CUSTOMERS**

<b>2006</b>	<b>2005</b>
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*Long-term loans:*

Long-term loans to companies	3,220	3,516
	<b>3,220</b>	<b>3,516</b>

*Short-term loans:*

Short-term loans to companies	22,800	20,603
Allowance for impairment	(1,745)	(1,071)
	<b>21,055</b>	<b>19,532</b>

*Advances:*

Receivables from factoring	2,217	1,901
Allowance for impairment	(104)	(22)
	<b>2,113</b>	<b>1,879</b>

*Interest receivables:*

Accrued interest on loans	149	117
Accrued interest on deposits	91	112
Accrued interest on receivables from factoring	45	27
Allowance for impairment	(22)	(13)
	<b>263</b>	<b>243</b>

<b>26,651</b>	<b>25,170</b>
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**14. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)**

Loans per industry are summarized as follows:

Agencija za izdavanje garancija od političkog i ratnog rizika inostranim investitorima i  
trgovcima "IGA" d.o.o. Sarajevo  
Notes to the financial statements  
for the year ended 31 December 2006

(All amounts are expressed in KM '000)

	<b>2006</b>	<b>2005</b>
Wooden	6,550	5,782
Metal	12,874	7,074
Construction	1,816	1,923
Alimentary	1,607	3,200
Textile & leather	903	1,333
Trade	733	1,000
Chemical	983	640
Services	313	572
Other	241	2,595
	<b>26,020</b>	<b>24,119</b>

Advances per industry are summarized as follows:

	<b>2006</b>	<b>2005</b>
Wooden	373	794
Alimentary	73	180
Textile & leather	250	-
Trade	1,320	467
Chemical	-	234
Services	83	108
Other	118	118
	<b>2,217</b>	<b>1,901</b>

Interest receivables per industry are summarized as follows:

	<b>2006</b>	<b>2005</b>
Wooden	85	45
Metal	32	5
Construction	7	3
Alimentary	23	22
Textile & leather	4	28
Trade	24	8
Chemical	18	6
Services	-	4
Finance	91	112
Other	1	23
	<b>285</b>	<b>256</b>

**14. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)**

Movements in impairment allowance were as follows:

<b>2006</b>	<b>2005</b>
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Agencija za izdavanje garancija od političkog i ratnog rizika inostranim investitorima i  
trgovcima "IGA" d.o.o. Sarajevo  
Notes to the financial statements  
for the year ended 31 December 2006

(All amounts are expressed in KM '000)

*Short-term loans:*

Balance as of 1 January	1,071	250
Impairment losses	674	1,521
Write-offs	-	(700)
<b>Balance as of 31 December</b>	<b>1,745</b>	<b>1,071</b>

*Factoring:*

Balance as of 1 January	22	-
Impairment losses	105	22
Write-offs	(23)	-
<b>Balance as of 31 December</b>	<b>104</b>	<b>22</b>

*Interest receivables:*

Balance as of 1 January	13	11
Impairment losses	9	13
Write-offs	-	(11)
<b>Balance as of 31 December</b>	<b>22</b>	<b>13</b>

**15. OTHER ASSETS**

	2006	2005
Fees for issued guarantees	128	155
Receivables from loan insurance activities	126	106
Prepaid income tax	66	91
Risk premiums	40	36
Prepaid expenses	8	11
Advances paid	-	2
Other receivables	105	42
Allowance for impairment	(13)	(11)
	<b>460</b>	<b>432</b>

Movements in impairment allowance were as follows:

	2006	2005
Balance as of 1 January	11	-
Impairment losses	13	11
Write-offs	(11)	-
<b>Balance as of 31 December</b>	<b>13</b>	<b>11</b>

**16. PROPERTY, PLANT AND EQUIPMENT**

Vehicles	Computer equipment	Furniture and office equipment	Software	Total
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Agencija za izdavanje garancija od političkog i ratnog rizika inostranim investitorima i  
trgovcima "IGA" d.o.o. Sarajevo  
Notes to the financial statements  
for the year ended 31 December 2006

(All amounts are expressed in KM '000)

**COST**

<b>At 31 December 2005</b>	<b>144</b>	<b>78</b>	<b>44</b>	<b>20</b>	<b>286</b>
Additions	-	7	3	-	10
Disposals	-	(4)	(3)	-	(7)
<b>At 31 December 2006</b>	<b>144</b>	<b>81</b>	<b>44</b>	<b>20</b>	<b>289</b>

**ACCUMULATED DEPRECIATION**

<b>At 31 December 2005</b>	<b>79</b>	<b>50</b>	<b>29</b>	<b>14</b>	<b>172</b>
Charge for the year	23	5	18	4	50
Disposals	-	(4)	(3)	-	(7)
<b>At 31 December 2006</b>	<b>102</b>	<b>51</b>	<b>44</b>	<b>18</b>	<b>215</b>

**CARRYING AMOUNT**

<b>At 31 December 2006</b>	<b>42</b>	<b>30</b>	<b>-</b>	<b>2</b>	<b>74</b>
<b>At 31 December 2005</b>	<b>65</b>	<b>28</b>	<b>15</b>	<b>6</b>	<b>114</b>

**17. DUE TO THE STATE OF BOSNIA AND HERZEGOVINA**

	<b>2006</b>	<b>2005</b>
LIFT Loan facility	35,088	30,001

Agencija za izdavanje garancija od političkog i ratnog rizika inostranim investitorima i  
trgovcima "IGA" d.o.o. Sarajevo  
Notes to the financial statements  
for the year ended 31 December 2006

(All amounts are expressed in KM '000)

BEEF Loan facility	<u>21,343</u>	<u>21,343</u>
	<b><u>56,431</u></b>	<b><u>51,344</u></b>

Due to State of Bosnia and Herzegovina represents the legal obligation toward the State based on funds received from the State in accordance with the BEEF and LIFT Loan Facility signed between the State and World Bank. Also, Subsidiary loan agreements were signed between the State of Bosnia and Herzegovina and BiH Entities, where Entities support and accept loan liability repayment according to their participation in loan portfolio.

The Agency signed Agreements with World Bank (International Development Agency - IDA) and with the State of Bosnia and Herzegovina which define agent and supporting role of the Agency in the BEEF and the LIFT Loan facilities. It is agreed on the payment of service charges in the amount of 0.75% p.a. applicable on outstanding balance amount of BEEF and LIFT loan facilities in grace period while interest are to be paid by the State of Bosnia and Herzegovina. Grace periods for LIFT and BEEF loan facilities are due in April 2007 and October 2009 respectively.

Increase in due to State of Bosnia and Herzegovina comparing to the year 2005 in the amount of KM 5,088 relates to transfer of funds from Additional Escrow Accounts held by the Ministry of Finance and Treasury with ING Bank Amsterdam. Funds were transferred in accordance with request of Ministry of Finance and Treasury of Bosnia and Herzegovina for use by IGA for existing projects.

As of 31 December 2006 and 2005 Agency recorded service charges as expense in the amount of KM 296 thousand (BEEF – 150, LIFT – 146) and KM 146 thousand, respectively (see Note 11).

As of 31 December 2006 and 2005 the Agency recorded release of liability toward state in amount of KM 1 thousand and KM 7 thousand retrospectively (see Note 7).

#### 18. SHORT-TERM BORROWINGS

	<b>2006</b>	<b>2005</b>
Raiffeisen Zentralbank AG, Vienna, Austria	<u>1,467</u>	<u>1,467</u>
	<b><u>1,467</u></b>	<b><u>1,467</u></b>

On 19 December 2005, the Agency and Raiffeisen Zentralbank AG, Vienna, Austria signed the credit agreement that provided loan facility in the maximum amount of EUR 1,000 thousand (KM 1,956 thousand) and the Agency has withdrawn amount of EUR 750 thousand (KM 1,467 thousand). Interest rate on this loan is EURIBOR + 2%. Loan maturity is 12 months from date of withdrawal, with possibility of prolongation of repayment through the five annual instalments. The loan is granted for refinancing and purchasing of equipment of Agency's clients.

#### 19. RESERVES FOR INSURANCE POLICIES

Movements in reserves for insurance policies issued were as follows:

	<b>2006</b>	<b>2005</b>
Balance as of 1 January	43	-

Agencija za izdavanje garancija od političkog i ratnog rizika inostranim investitorima i  
trgovcima "IGA" d.o.o. Sarajevo  
Notes to the financial statements  
for the year ended 31 December 2006

(All amounts are expressed in KM '000)

Reserves made during the year	92	43
Release of reserves	(43)	-
<b>Balance as of 31 December</b>	<b>92</b>	<b>43</b>

**20. OTHER PAYABLES**

	2006	2005
Liability for deposits received	176	176
Liability for collected letters of credit	135	-
Accrued expenses	128	87
Liabilities from factoring	125	229
Deferred income	89	109
Liabilities toward suppliers	45	77
Liabilities toward State's institutions	9	8
Other current liabilities	3	8
	<b>710</b>	<b>694</b>

**21. STATE CAPITAL**

	2006		2005	
	KM '000	share	KM '000	share
State of Bosnia and Herzegovina	10	100%	10	100%
	<b>10</b>	<b>100%</b>	<b>10</b>	<b>100%</b>

**22. COMMITMENTS AND CONTINGENCIES**

Following table indicates the commitments and contingencies the Agency had at the end of year:

	2006	2005
Advance payment bonds	18,138	7,336
Performance bonds	11,648	4,787
Payments bonds	4,230	1,760
	<b>34,016</b>	<b>13,883</b>

**23. RELATED PARTY TRANSACTIONS**

**Management remuneration**

The remuneration of management during the year was as follows:

2006	2005
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Agencija za izdavanje garancija od političkog i ratnog rizika inostranim investitorima i  
trgovcima "IGA" d.o.o. Sarajevo  
Notes to the financial statements  
for the year ended 31 December 2006

*(All amounts are expressed in KM '000)*

Net salaries	121	121
Salary tax and contributions	84	84
Other employee benefits	32	25
	<u>237</u>	<u>230</u>

**24. FINANCIAL ASSETS AND LIABILITIES**

The Agency does not use derivative financial instruments. Risk management policies that relate to investments, cash management and payables can be summarised as follows:

**Foreign currency risk**

The Agency takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Also, during the year Agency provides an analysis of the main currency exposures. The Agency seeks to match assets and liabilities denominated in foreign currencies to avoid foreign currency exposures.

**Interest rate risk**

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument, therefore, indicates to what extent it is exposed to interest rate risk. It is the policy of the Agency to manage the exposure to fluctuations in net interest income arising from changes in interest rates by the degree of reprising mismatch in the balance sheet.

**Liquidity risk**

Liquidity risk is a measure of the extent to which the Agency may be required to raise funds to meet its commitments associated with financial instruments. The Agency is exposed to daily calls on its available cash resources from loan drawdown, guarantees and other calls on cash-settled derivatives. The Agency does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Agency sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

**24. FINANCIAL ASSETS AND LIABILITIES (CONTINUED)**

**Credit risk**

The Agency takes on exposure to credit risk which is the risk upon credit approval and when counterparty will be unable to pay amounts in full when due. The Agency structures the levels of credit risk it undertakes by placing limits

Agencija za izdavanje garancija od političkog i ratnog rizika inostranim investitorima i  
trgovcima "IGA" d.o.o. Sarajevo  
Notes to the financial statements  
for the year ended 31 December 2006

*(All amounts are expressed in KM '000)*

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on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Commitments to extend credit, unused loan commitments, and approved overdraft loans

The primary purpose of commitments to extend credit is to ensure that funds are available to a customer as required. Commitments to extend credit represent unused portions of authorizations to extend credits in the form of loans, guarantees or factoring. Commitments to extend credit issued by the Agency represent issued loan commitments or guarantees, unused portions of and approved overdrafts loans. Commitments to extend credit or guarantees issued by the Agency, that are contingent upon customers maintaining specific credit standards (including the condition that a customer's solvency does not deteriorate) are revocable commitments. Irrevocable commitments represent unused portions of authorized loans and approved overdraft facilities because they result from contractual terms and conditions in the credit agreements.

**25. EVENTS AFTER THE BALANCE SHEET DATE**

In January 2007 the borrowing from Raiffeisen Zentralbank AG, Vienna, Austria in the amount of KM 1,467 thousand has been repaid.

As of 7 March 2007 amount due to the state of Bosnia and Herzegovina (Note 17) in the amount of KM 51,351 thousand was recognized as capital owned by the State of Bosnia and Herzegovina and accordingly transferred to State capital.

As of 10 April 2007 the Agency has been registered in the Register of legal entities of Bosnia and Herzegovina within Ministry of Justice of Bosnia and Herzegovina. After this registration was performed the Agency has been deleted from Municipal Court Register in Sarajevo. Since this moment the Agency operates under the name "Izvozno-kreditna agencija Bosne i Hercegovine - IGA". According to registration documents new registered legal entity is legatee of the Agencija za izdavanje garancija od političkog i ratnog rizika stranim investitorima i trgovcima IGA d.o.o. Sarajevo.

**26. APPROVAL OF FINANCIAL STATEMENTS**

The financial statements were approved by the Management Board and authorised for issue on 22 June 2007.

Lamija Kozarić-Rahman  
Director

Vlatko Tvrtković  
Deputy Director

Mirko Dejanović  
Deputy Director