

**Izvozno-kreditna agencija
Bosne i Hercegovine - IGA**

Financial statements for the year ended
31 December 2008 prepared in accordance with
International Financial Reporting Standards
and Independent auditors' report

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Responsibility for the financial statements

The Management is responsible for ensuring that financial statements are prepared for each financial period 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 Izvozno-kreditna agencija Bosne i Hercegovine - IGA ('the Agency') 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

Izvozno-kreditna agencija Bosne i Hercegovine - IGA

Paromlinska 56

71000 Sarajevo

Bosnia and Herzegovina

18 March 2009

Independent Auditor's Report

To the Owners of Izvozno-kreditna agencija Bosne i Hercegovine - IGA

We have audited the accompanying financial statements of Izvozno-kreditna agencija Bosne i Hercegovine - IGA ('the Agency' or 'IGA'), set out on pages 3 to 35, which comprise the balance sheet as of 31 December 2008, and the statement on income and expenses, statement of changes in equity and cash flow statement for the year ended 31 December 2008, 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. 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 2008 and of its financial performance and its cash flows for the year ended 31 December 2008, in accordance with International Financial Reporting Standards.

Deloitte d.o.o.

Sarajevo, 18 March 2009

Statement on income and expenses
for the year ended 31 December 2008

(All amounts are expressed in thousand of KM)

	Notes	2008	Period from 5 June to 31 December 2007
Interest and similar income	7	3,366	1,704
Interest expenses and similar charges	8	(143)	(85)
Net interest income		3,223	1,619
Income from insurance activities	9	514	293
Loss adjustment expenses (IBNR)		(4)	(5)
Net income from insurance activities		510	288
Other operating income	10	512	265
Net FX gains	11	145	-
Income from operating activities		4,390	2,172
Net FX losses	11	-	(324)
Personnel costs	12	(921)	(515)
Depreciation and amortization	21	(38)	(23)
Other administrative expenses	13	(534)	(348)
Operating expenses		(1,493)	(1,210)
Surplus of income over expenses before impairment losses		2,897	962
Impairment losses	14	(1,270)	(400)
Recoveries	15	174	277
		(1,096)	(123)
Net surplus of income over expenses for the year		1,801	839

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

Balance sheet
as of 31 December 2008

(All amounts are expressed in thousand of KM)

	Note	31 December 2008	31 December 2007
ASSETS			
Cash and cash equivalents	16	6,019	3,388
Placements with banks	17	8,977	14,665
Loans and advances to customers, net	18	44,923	39,865
Insurance assets	23	9	251
Insurance premium receivable	19	117	200
Other assets, net	20	410	306
Tangible and intangible assets	21	154	58
TOTAL ASSETS		60,609	58,733
EQUITY AND LIABILITIES			
Liabilities			
Due to the State of Bosnia and Herzegovina	22	5,089	5,089
Insurance liabilities	23	14	383
Reinsurance premium payable	24	71	85
Other payables	25	973	535
Provisions	26	74	54
		6,221	6,146
Capital and reserves			
State-owned capital	27	51,351	51,351
Reserves		3,037	1,236
		54,388	52,587
TOTAL EQUITY AND LIABILITIES		60,609	58,733

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

Signed on behalf of the Agency on 18 March 2009:

_____ Lamija Kozarić-Rahman	_____ Mirko Dejanović	_____ Ljiljana Bevanda
Director	Deputy Director	Deputy Director

Statement of changes in equity
for the year ended 31 December 2008

(All amounts are expressed in thousand of KM)

	State-owned capital	Reserves	Total
Opening balance at 5 June 2007	-	-	-
Brought forward into the founding of the Agency	51,351	397	51,748
Net surplus of income over expenses for the period	-	839	839
Balance at 31 December 2007	51,351	1,236	52,587
Net surplus of income over expenses for the year	-	1,801	1,801
Balance at 31 December 2008	51,351	3,037	54,388

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

Cash flow statement
for the year ended 31 December 2008

(All amounts are expressed in thousand of KM)

	2008	Period from 5 June to 31 December 2007
Operating activities		
Net surplus of income over expenses for the year	1,801	839
<i>Adjustments for:</i>		
Depreciation and amortization	38	23
Impairment losses, loss adjustments and provisions	1,286	459
Adjustment for cash flow from investing and financing activities	(2,685)	(1,619)
<i>Operating cash flows before movements in working capital</i>	1,805	(298)
Net decrease in placements with banks	5,688	6,363
Net increase in loans and advances to customers, before impairment losses	(6,325)	(13,316)
Net increase in insurance premium receivable	(40)	(88)
Net (increase) / decrease in other assets, before impairment losses	(107)	25
Net (decrease) / increase in reinsurance premium payable	(14)	100
Decrease in other payables	438	(731)
<i>Cash flow from / (used in) operations</i>	80	(7,945)
Interest paid	(143)	(85)
Net cash flow used in operating activities	(63)	(8,030)
Investing activities		
Purchase of property, plant and equipment	(134)	(2)
Interest received	2,828	1,704
Net cash flow from investing activities	2,694	1,702
Net increase in cash and cash equivalents	2,631	6,328
Cash and cash equivalents at the beginning of the year	3,388	9,716
Cash and cash equivalents at the end of the year	6,019	3,388

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

Notes to the financial statements for the year ended December 2008

(All amounts are expressed in thousand of KM)

1. GENERAL

Izvozno-kreditna agencija Bosne i Hercegovine - IGA ('the Agency' or 'IGA') is the official export credit agency of Bosnia and Herzegovina established by the decision of Ministry of Justice of Bosnia and Herzegovina No. 08-08-9-01/07 from 10 April 2007 and is registered as non-for-profit and tax exempted legal entity.

Based on the Law on export credit agency of Bosnia and Herzegovina - IGA (Official Gazete of Bosnia and Herzegovina 62/04), the newly introduced Board of Directors has made decision that the following assets and liabilities of "Agencija za izdavanje garancija od političkog i ratnog rizika inostranim investitorima i trgovcima IGA d.o.o. Sarajevo" (Limited liability company), which has been liquidated and deleted from the Municipality court register in Sarajevo by decision No. UF/I-2105/00 dated 4 June 2007, will take over by and brought forward into the founding of the Agency:

Description	KM '000
Cash and cash equivalents	9,716
Placements with banks	21,030
Loans and advances to customers	26,945
Other assets	333
Tangible and intangible assets	79
Due to the State of Bosnia and Herzegovina	5,090
Liabilities from insurance and guarantee activities	171
Other liabilities	1,094

The Agency's operating activities have started as of 5 June 2007.

Activities

Working Capital Facilities (Export Financing Facility)

IGA provides funds to B&H banks (participating loan) for the purpose of on lending to B&H 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 B&H 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 working capital loan below KM 600 thousand might be financed 100% by IGA also.

In addition to providing funding for a working capital loan, IGA provides the respective B&H 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 B&H bank for capital adequacy purposes thereby allowing the bank to do more for an exporter than would otherwise be the case.

Notes to the financial statements for the year ended December 2008

(All amounts are expressed in thousand of KM)

1. GENERAL (CONTINUED)

Activities (continued)

Guarantees

IGA is authorized to provide support to B&H 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 B&H 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 B&H 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.

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 B&H 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 companies - Atradius, Belgium and Nationale Borg, Netherlands.

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 B&H exporters, including defined credit limit, through the combination of financing and servicing for manufacturers who are selling with payment terms up to 120 days. Financing is very significant component since IGA is buying invoices and providing the liquidity to the exporters through the advancing of 80-90% of value of invoices. 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 B&H exporting enterprises. The facility is carried out in partnership with local banks.

Notes to the financial statements for the year ended December 2008

(All amounts are expressed in thousand of KM)

1. GENERAL (CONTINUED)

Management bodies of the Agency

Management Board

Lamija Kozarić-Rahman	Director
Mirko Dejanović	Deputy Director
Ljiljana Bevanda	Deputy Director (from 7 July 2008)

Board of Directors

Milomir Draganić	Chairman	Representative of Republika Srpska
Mira Bradara	Deputy Chairman	Representative of the State of Bosnia and Herzegovina
Gordana Praštalo	Member	Representative of Republika Srpska
Belma Izmirlija	Member	Representative of the Federation of Bosnia and Herzegovina
Marko Bagarić	Member (from 18 August 2008)	Representative of the Federation of Bosnia and Herzegovina
Vera Letica	Member (up to 18 August 2008)	Representative of the Federation of Bosnia and Herzegovina

The Agency had 14 employees as of 31 December 2008 (2007: 13).

2. ADOPTION OF THE NEW AND REVISED STANDARDS

2.1 Standards and Interpretations effective in the current period

The eight interpretations issued by the International Accounting Standards Board (the IASB) are effective for the current period and they are as follows: IFRIC 7: "Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies"; IFRIC 8: "Scope of IFRS 2"; IFRIC 9: "Reassessment of Embedded Derivatives"; IFRIC 10: "Interim Financial Reporting and Impairment"; IFRIC 11: "IFRS 2: Group and Treasury Share Transactions"; IFRIC 12 "Service Concession Arrangements"; IFRIC 13: "Customer Loyalty Programs" and IFRIC 14: "IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction". Adoption of those interpretations did not cause changes in the accounting policies of the Agency.

2.2 Standards and Interpretations effective at the date of authorization of these financial statements but not yet adopted

At the date of authorization of these financial statements, the following new Standards and Interpretations were effective but not yet adopted:

IFRS 2	Share-based Payment — Amendment relating to vesting conditions and cancellations	Annual periods beginning on or after 1 January 2009
IFRS 8	Operating Segments	Annual periods beginning on or after 1 January 2009
IAS 1	Presentation of Financial Statements — Comprehensive revision including requiring a statement of comprehensive income	Annual periods beginning on or after 1 January 2009
IAS 1	Presentation of Financial Statements — Amendments relating to disclosure of puttable instruments and obligations arising on liquidation	Annual periods beginning on or after 1 January 2009

Notes to the financial statements
for the year ended December 2008

(All amounts are expressed in thousand of KM)

2. ADOPTION OF THE NEW AND REVISED STANDARDS (CONTINUED)

2.2 Standards and Interpretations effective at the date of authorization of these financial statements but not yet adopted (continued)

IAS 1	Presentation of Financial Statements — Amendments resulting from May 2008 Annual Improvements to IFRSs	Annual periods beginning on or after 1 January 2009
IAS 16	Property, Plant and Equipment — Amendments resulting from May 2008 Annual Improvements to IFRSs	Annual periods beginning on or after 1 January 2009
IAS 19	Employee Benefits — Amendments resulting from May 2008 Annual Improvements to IFRSs	Annual periods beginning on or after 1 January 2009
IAS 20	Government Grants and Disclosure of Government Assistance — Amendments resulting from May 2008 Annual Improvements to IFRSs	Annual periods beginning on or after 1 January 2009
IAS 23	Borrowing Costs — Comprehensive revision to prohibit immediate expensing	Borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009
IAS 23	Borrowing Costs — Amendments resulting from May 2008 Annual Improvements to IFRSs	Annual periods beginning on or after 1 January 2009
IAS 27	Consolidated and Separate Financial Statements — Amendment relating to cost of an investment on first-time adoption	Annual periods beginning on or after 1 January 2009.
IAS 27	Consolidated and Separate Financial Statements — Amendments resulting from May 2008 Annual Improvements to IFRSs	Annual periods beginning on or after 1 January 2009
IAS 28	Investments in Associates — Amendments resulting from May 2008 Annual Improvements to IFRSs	Annual periods beginning on or after 1 January 2009
IAS 29	Financial Reporting in Hyperinflationary Economies — Amendments resulting from May 2008 Annual Improvements to IFRSs	Annual periods beginning on or after 1 January 2009
IAS 31	Interests in Joint Ventures — Amendments resulting from May 2008 Annual Improvements to IFRSs	Annual periods beginning on or after 1 January 2009
IAS 32	Financial Instruments: Presentation — Amendments relating to puttable instruments and obligations arising on liquidation	Annual periods beginning on or after 1 January 2009
IAS 36	Impairment of Assets — Amendments resulting from May 2008 Annual Improvements to IFRSs	Annual periods beginning on or after 1 January 2009

Notes to the financial statements
for the year ended December 2008

(All amounts are expressed in thousand of KM)

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.2 Standards and Interpretations effective at the date of authorization of these financial statements but not yet adopted (continued)

IAS 38	Intangible Assets — Amendments resulting from May 2008 Annual Improvements to IFRSs	Annual periods beginning on or after 1 January 2009
IAS 39	Financial Instruments: Recognition and Measurement — Amendments resulting from May 2008 Annual Improvements to IFRSs	Annual periods beginning on or after 1 January 2009
IAS 40	Investment Property — Amendments resulting from May 2008 Annual Improvements to IFRSs	Annual periods beginning on or after 1 January 2009
IAS 41	Agriculture — Amendments resulting from May 2008 Annual Improvements to IFRSs	Annual periods beginning on or after 1 January 2009
IFRIC 15	Agreements for the Construction of Real Estate	Annual periods beginning on or after 1 January 2009
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	Annual periods beginning on or after 1 October 2008

The Management anticipates that all of the above Standards and Interpretations will be adopted in the Agency's financial statements for the period commencing 1 January 2009 and that the adoption of those Standards and Interpretations will have no material impact on the financial statements of the Agency in the future periods.

2.3 Standards and Interpretations in issue but not yet effective

At the date of authorization of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

IFRS 3	Business Combinations — Comprehensive revision on applying the acquisition method	Annual periods beginning on or after 1 July 2009
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations — Amendments resulting from May 2008 Annual Improvements to IFRSs	Annual periods beginning on or after 1 July 2009
IAS 27	Consolidated and Separate Financial Statements — Consequential amendments arising from amendments to IFRS 3	Annual periods beginning on or after 1 July 2009
IAS 28	Investments in Associates — Consequential amendments arising from amendments to IFRS 3	Annual periods beginning on or after 1 July 2009
IAS 31	Interests in Joint Ventures — Consequential amendments arising from amendments to IFRS 3	Annual periods beginning on or after 1 July 2009
IAS 39	Financial Instruments: Recognition and Measurement — Amendments for eligible hedged items	Annual periods beginning on or after 1 July 2009

Notes to the financial statements for the year ended December 2008

(All amounts are expressed in thousand of KM)

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.3 Standards and Interpretations in issue but not yet effective

IFRIC 17	Distribution of Non-cash Assets to Owners	Annual periods beginning on or after 1 July 2009
IFRIC 18	Transfer of Assets from Customers	Annual periods beginning on or after 1 July 2009

The Management anticipates that adoption of these Standards and Interpretations for the future periods will not lead to any changes in the Agency's accounting policies.

3. BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

Basis of presentation

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain property, plant and equipment and financial instruments.

These financial statements are presented in convertible marks (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 principal accounting policies adopted are set out below:

Revenue recognition

Interest income and expense for all interest-bearing financial instruments are recognized within 'interest and similar income' and 'interest expenses and similar charges' in the income statement using the effective interest rate method.

Insurance fees are generally recognized on an accrual basis. Insurance fees are recognized as income during the term of insurance contracts.

Foreign currencies

Transactions in currencies other than the Convertible Mark (KM) are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are charged to the income statement in the period incurred.

The Agency values its monetary assets and liabilities by middle rate of Central Bank of Bosnia and Herzegovina valid at the date of balance sheet. The principal rates of exchange set forth by the Central Bank and used in the preparation of the Agency's balance sheet at the reporting dates were as follows:

31 December 2007	EUR 1 = KM 1.955830	USD 1 = KM 1.331221
31 December 2008	EUR 1 = KM 1.955830	USD 1 = KM 1.387310

Notes to the financial statements for the year ended December 2008

(All amounts are expressed in thousand of KM)

3. BASIS FOR PRESENTATION AND 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.

Jubilee awards

The Agency makes jubilee awards payments in accordance with local regulations, based on average salary in FB&H for preceding three months, in the following percentage:

- a) for 5 years working for the Agency - 50%;
- b) for 10 years working for the Agency - 100%;
- c) for 15 years working for the Agency - 125%;
- d) for 20 years working for the Agency - 150%;
- e) for 25 years working for the Agency - 175%;
- f) for 30 years working for the Agency - 200%;
- g) for 35 years working for the Agency - 250%.

Taxation

The Agency is not subject to income tax because it is defined as a non-profit agency in accordance with the article 8 of Law on Izvožno-kreditna agencija Bosne i Hercegovine - IGA ("Official Gazette of Bosnia and Herzegovina" 62/04).

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%

Notes to the financial statements for the year ended December 2008

(All amounts are expressed in thousand of KM)

3. BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets

Financial assets are recognized and derecognized on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the instrument within the timeframe established by the market concerned, and are initially measured at fair value, net of 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: financial assets as '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. For current operations, the Agency uses one category of financial assets, for which basis of accounting is disclosed below.

Method of effective interest rate

The effective interest method is a method of calculating the amortised cost of a financial asset. The effective interest rate is the rate that exactly discounts estimated future cash 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 asset, or, where appropriate, a shorter period.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

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 exporters from Bosnia and Herzegovina, with a factoring agreement. All factoring advances are recognized, when cash is advanced to the borrowers.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet 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 debtor will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as loans and factoring receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Agency's past experience of collecting payments, delays in collecting payments after maturity period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

Notes to the financial statements
for the year ended December 2008

(All amounts are expressed in thousand of KM)

**3. BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Financial assets (continued)

Impairment of financial assets (continued)

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of other receivables, where the carrying amount is reduced through the use of an allowance account. When a other 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 recognised in profit or loss.

Derecognition of financial assets

The Agency derecognises 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. If the Agency neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Agency recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'. The Agency creates one category of financial liabilities, for which basis of accounting is disclosed below.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

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

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

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

Notes to the financial statements
for the year ended December 2008

(All amounts are expressed in thousand of KM)

**3. BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Insurance contracts

The Agency issues insurance contracts on export credit trade insurance, domestic credit trade insurance and import insurance. Export credit insurance insures both political and commercial pre- and post-export risks. Domestic credit trade insurance is analogous to export credit trade insurance. By import insurance contracts, the Agency serves as reinsurer for the export credit agencies from abroad.

Written premiums

Gross written premiums include all policies written during the accounting period, irrespective of whether these amounts relate wholly or partially to subsequent accounting periods.

Unearned premium

Unearned premiums are calculated for insurances in which insurance coverage lasts after accounting period, since accounting and insurance periods are not the same. Unearned premium for insurance is calculated using “*pro rata temporis method*”. Basis for calculation is gross written premium. Calculation of unearned premium is done based on technical premium.

Net unearned premium is gross premium decreased by portion recoverable from re-insurers. Participation of reinsurer in unearned premiums is determined through existing reinsurance contracts. Provision for unearned premium is presented separate from reinsures portion of unearned premium in the balance sheet.

Provision for reported but not settled claims (RBNS)

Provisions for reported but not settled claims relate to claims that incurred and were reported by the end of the financial statement period for which the claim request has not been settled. The level of provisions is determined by assessing each potential claim individually. In determining the level of provisions, the following is adhered to: conditions from the insurance contracts; documentation available in the file; available standards and the experience of the evaluators; current court practices in determining claim compensations. All this is considered having in mind potential changes that can be expected to occur in the forthcoming period and that might effect increases or decreases of these provisions.

Provision for incurred but not reported claims (IBNR)

Provisions for claims that have incurred but are yet to be reported are calculated on the basis of the Agency’s own statistical data on subsequently reported damages in past years. These calculations use methods that rely on “run-off triangles”. The provision for reactivated claims is also formed on the basis of statistical trends in the movement of these claims. The provision is calculated on the basis of the expected number of reactivated claims in the forthcoming year and the average level of reactivated claims for each insurance category.

These provisions are based on estimates and final liabilities may be lower or higher than available resources for as long as the Management considers the estimate to be appropriate. In accordance with economic practice, adaptations of these estimates and the difference between the estimate and the amounts actually paid out are recorded in the period in which they occur.

Notes to the financial statements
for the year ended December 2008

(All amounts are expressed in thousand of KM)

**3. BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Insurance contracts (continued)

Insurance assets and liabilities

Assets and liabilities from insurance contracts are recognised when they become due. These amounts include insurers' assets and liabilities, compensations paid to and collected from brokers and insurance policy holders.

The Agency signs reinsurance contracts with reinsuring companies on the basis of which the Agency receives compensation for losses arising from individual or group contracts. Reinsurance premiums and reinsuring parties' participation in claims are presented on appropriate accounts of the income statement. Reinsurance premiums are recorded in their gross non-discounted amounts.

On every balance sheet date the Agency re-evaluates the recorded amounts of its receivables on the basis of insurance contracts in order to determine whether a loss has arisen from a decrease in value of the mentioned financial asset. If there are indications that this is indeed the case, the value of this loss is estimated and recognised in the income statement.

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 recognizes 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.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Agency's accounting policies, which are described in Note 2, the directors are required to make judgements, 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 ongoing basis. Revisions to accounting estimates are recognised 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 sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Notes to the financial statements
for the year ended December 2008

(All amounts are expressed in thousand of KM)

**4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY
(CONTINUED)**

Key sources of estimation uncertainty (continued)

Useful lives of property, plant and equipment

As described at Note 3 above, in paragraph with heading Property, plant and equipment, the Agency reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period.

Fair value of financial instruments

The directors use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. Financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. The estimation of fair value of unlisted shares includes some assumptions not supported by observable market prices or rates.

Provisions for claims reported but not settled (RBNS)

The nature of business makes it difficult to predict with certainty the outcome of every particular claim and the ultimate cost of every reported claim. Each reported claim is assessed on a separate, case by case basis, with due regard to the claim circumstances, information available and historical evidence of the size of similar claims. Case estimates are reviewed regularly and are updated as and when new information arises. The provisions are based on information currently available. However, the ultimate liabilities may vary as a result of subsequent developments. The provision estimation difficulties also differ by class of business due to differences in the underlying insurance contract, claim complexity, the volume of claims and the individual severity of claims. The risk associated with estimate of provisions for claims reported but not settled is mitigated through reinsurance arrangements.

Provision for claims incurred but not reported (IBNR)

Provision for claims incurred but not reported are estimated using actuarial methods. The source of data used as inputs for the assumptions are internal, using detailed analysis carried out by the Agency. There is more emphasis on current trends, and when in early years there is insufficient information to make reliable best estimate of claims development, prudent assumptions are used.

Provision for claims incurred but not reported is based on calculations performed for insurance activities, using the following methods:

- Average amount reported claims method
- Average amount of expected claims methods

Based on quality and quantity of data, relevant method is applied.

Notes to the financial statements for the year ended December 2008

(All amounts are expressed in thousand of KM)

5. GLOBAL MARKET CRISIS

The Agency has been impacted by the recent financial crisis and deteriorating economic conditions. Due to the current global crisis in the market and its effects on the local market in Bosnia and Herzegovina, the Agency will probably operate in more difficult and uncertain economic environment in 2009, and possibly beyond. The impact of this crisis on the Agency's business operations is currently not possible to fully predict and therefore there is an element of general uncertainty.

So far, the ongoing financial crisis has had a limited impact on the financial position and performance of the Agency, mainly due to the internal risk management policies and regulatory restrictions. The Agency monitors closely the credit and liquidity risks on a regular basis. Liquidity is also expected to be satisfactory without requiring new financial sources.

The deteriorating economic situation in the country will probably impact the position of certain industries and the abilities of some clients to meet their obligations. This may consequently influence the amount of the Agency's calculation of impairment losses in 2009 and other areas that require estimates to be made by management. The 2008 financial statements contain significant estimates with respect to impairment losses. Actual results may differ from these estimates. The key priorities of the Agency in 2009 will be attention to the management of the financial portfolio adjusting to the changing economic environment.

Notes to the financial statements
for the year ended December 2008

(All amounts are expressed in thousand of KM)

6. BUSINESS SEGMENTS

The Agency deals with several operating activities, which can be presented into two business segments:

- segment of the credit activities (loans, factoring and guarantees); and
- segment of the insurance activities.

Segment information about these businesses is presented below:

<i>Statement on income and expenses</i>	2008			Period from 5 June to 31 December 2007		
	Credit activities	Insurance activities	Total	Credit activities	Insurance activities	Total
Interest and similar income	3,366	-	3,366	1,704	-	1,704
Interest expenses and similar charges	(143)	-	(143)	(85)	-	(85)
Net interest income	3,223	-	3,223	1,619	-	1,619
Insurance premiums	-	514	514	-	272	272
Loss adjustment expenses (IBNR)	-	(4)	(4)	-	(5)	(5)
Net income from insurance activities	-	510	510	-	267	267
Other operating income	512	-	512	286	-	286
Net FX gains	145	-	145	-	-	-
Income from operating activities	3,880	510	4,390	1,905	267	2,172
Net FX losses	-	-	-	(324)	-	(324)
Personnel costs	(737)	(184)	(921)	(412)	(103)	(515)
Depreciation and amortization	(35)	(3)	(38)	(21)	(2)	(23)
Other administrative expenses	(432)	(102)	(534)	(282)	(66)	(348)
Operating expenses	(1,204)	(289)	(1,493)	(1,039)	(171)	(1,210)
Surplus of income over expenses before impairment losses	2,676	221	2,897	866	96	962
Impairment losses	(1,270)	-	(1,270)	(400)	-	(400)
Recoveries	174	-	174	277	-	277
	(1,096)	-	(1,096)	(123)	-	(123)
Net surplus of income over expenses for the year	1,580	221	1,801	742	96	839

Notes to the financial statements
for the year ended December 2008

(All amounts are expressed in thousand of KM)

6. BUSINESS SEGMENTS (CONTINUED)

Balance sheet	31 December 2008			31 December 2007		
	Credit activities	Insurance activities	Total	Credit activities	Insurance activities	Total
ASSETS						
Cash and cash equivalents	5,670	349	6,019	3,004	384	3,388
Placements with banks	8,713	264	8,977	14,324	341	14,665
Loans and advances to customers, net	44,923	-	44,923	39,865	-	39,865
Insurance assets	-	9	9	-	251	251
Receivables for insurance premium	-	117	117	-	200	200
Other assets, net	410	-	410	306	-	306
Tangible and intangible assets	154	-	154	58	-	58
TOTAL ASSETS	59,870	739	60,609	57,557	1,176	58,733
EQUITY AND LIABILITIES						
Liabilities						
Due to the State of Bosnia and Herzegovina	5,089	-	5,089	5,089	-	5,089
Insurance liabilities	-	14	14	-	383	383
Reinsurance premium payable	-	71	71	-	85	85
Other payables	973	-	973	535	-	535
Provisions for employee benefits	59	15	74	43	11	54
	6,121	100	6,221	5,667	479	6,146
Capital and reserves						
State capital	51,351	-	51,351	51,351	-	51,351
Reserves	2,720	317	3,037	1,140	96	1,236
	54,071	317	54,388	52,491	96	52,587
TOTAL EQUITY AND LIABILITIES	60,192	417	60,609	58,158	575	58,733

7. INTEREST AND SIMILAR INCOME

	2008	Period from 5 June to 31 December 2007
Interest on loans to companies	2,154	1,051
Factoring income	787	212
Interest on placements with banks	424	441
Penalty interest	1	-
Total	3,366	1,704

8. INTEREST EXPENSES AND SIMILAR CHARGES

Amount of KM 143 thousand is related to debt servicing fee for BEEF loan facility (2007: KM 85 thousand, Note 20).

Notes to the financial statements
for the year ended December 2008

(All amounts are expressed in thousand of KM)

9. INCOME FROM INSURANCE	2008	Period from 5 June to 31 December 2007
Insurance premiums – domestic	350	246
Insurance premiums – from abroad	44	5
Fees for investigation on companies' credibility (for insurance clients)	55	21
Other	65	21
Total	514	293
10. OTHER OPERATING INCOME	2008	Period from 5 June to 31 December 2007
Fees from guarantees	343	186
Fees from factoring	87	44
Other income	82	30
Total	512	265
11. NET FOREIGN EXCHANGE GAINS / (LOSSES)	2008	Period from 5 June to 31 December 2007
FX gains	146	24
FX losses	(1)	(348)
Total	145	(324)
12. PERSONNEL COSTS	2008	Period from 5 June to 31 December 2007
Net salaries	474	238
Salary taxes and contributions	324	161
Other employee benefits	123	116
Total	921	515

Notes to the financial statements
for the year ended December 2008

(All amounts are expressed in thousand of KM)

13. OTHER ADMINISTRATIVE EXPENSES

	2008	Period from 5 June to 31 December 2007
Other services	120	90
Rent	97	69
Fees to members of Board of Directors	86	41
Travel expense	41	15
Bank fees	39	27
Material	33	16
Telecommunication costs	24	14
Maintenance cost	24	9
Advertising	15	12
Donations	13	4
Entertainment	12	7
Insurance costs	6	3
Other expenses	24	41
Total	534	348

14. IMPAIRMENT LOSSES

	2008	Period from 5 June to 31 December 2007
Allowance for loan losses (Note 18)	951	236
Allowance for factoring losses (Note 18)	304	152
Allowance for interest losses (Note 18)	12	8
Allowance for other assets losses (Note 20)	3	4
Total	1,270	400

15. RECOVERIES

	2008	Period from 5 June to 31 December 2007
Collected written-off loan principle amounts	117	274
Collected written-off factoring receivable	55	-
Collected written-off interest receivables	2	3
Total	174	277

16. CASH AND CASH EQUIVALENTS

	31 December 2008	31 December 2007
Current bank accounts, KM	4,218	906
Current bank accounts, foreign currencies	1,799	2,480
Cash in hand	2	2
Total	6,019	3,388

Notes to the financial statements
for the year ended December 2008

(All amounts are expressed in thousand of KM)

17. PLACEMENTS WITH BANKS

	31 December 2008	31 December 2007
<i>Demand deposits:</i>		
ING Bank, London, UK	3,683	5,999
Raiffeisen Zentralbank AG, Vienna, Austria	3,783	4,042
	7,466	10,041
<i>Term deposits:</i>		
Raiffeisen Bank BiH d.d. Sarajevo	1,501	2,579
ProCredit Bank d.d. Sarajevo	-	2,000
	1,501	4,579
Accrued interest	10	45
Total	8,977	14,665

The interest rate for demand deposits was 2.567% - 3.17% and for term deposits 3.15% - 5.45%.

18. LOANS AND ADVANCES TO CUSTOMERS, NET

	31 December 2008	31 December 2007
<i>Long-term loans:</i>		
Long-term loans to companies	382	2,049
	382	2,049
<i>Short-term loans:</i>		
Short-term loans to companies	35,921	32,668
Allowance for impairment	(2,680)	(1,846)
	33,241	30,822
<i>Advances:</i>		
Receivables from factoring	10,835	6,808
Allowance for impairment	(504)	(255)
	10,331	6,553
<i>Interest receivables:</i>		
Accrued interest on loans	705	353
Accrued interest on receivables from factoring	296	110
Allowance for impairment	(32)	(22)
	969	441
Total	44,923	39,865

The interest rate on loans and advances approved was fixed and within the range from 3.971% to 10.448%, depending on credit product.

Notes to the financial statements
for the year ended December 2008

(All amounts are expressed in thousand of KM)

18. LOANS AND ADVANCES TO CUSTOMERS, NET (CONTINUED)

Loans (before impairment) per industry are summarized as follows:

	31 December 2008	31 December 2007
Metal industry	20,411	19,007
Food industry	5,660	4,139
Wooden	5,790	7,233
Trade	1,797	1,677
Construction	1,529	1,467
Textile & leather	346	530
Electrical industry	300	-
Services	275	299
Chemical industry	195	365
Total	36,303	34,717

Factoring receivables (before impairment) per industry are summarized as follows:

	31 December 2008	31 December 2007
Trade	7,577	3,651
Metal industry	1,520	-
Food industry	624	579
Textile & leather	616	354
Wooden	341	1,985
Services	157	118
Other	-	121
Total	10,835	6,808

Movements in impairment allowance were as follows:

	2008	Period from 5 June to 31 December 2007
Short-term loans:		
Balance at the beginning of year	1,846	1,955
Impairment losses (Note 14)	951	236
Collected written-off receivables (Note 15)	(117)	-
Write-offs	-	(345)
Balance at the end of year	2,680	1,846
Factoring:		
Balance at the beginning of year	255	103
Impairment losses (Note 14)	304	152
Collected written-off receivables (Note 15)	(55)	-
Balance at the end of year	504	255
Interest receivables:		
Balance at the beginning of year	22	28
Impairment losses (Note 14)	12	8
Collected written-off receivables (Note 15)	(2)	-
Write-offs	-	(14)
Balance at the end of year	32	22

Notes to the financial statements
for the year ended December 2008

(All amounts are expressed in thousand of KM)

19. RECEIVABLES FOR INSURANCE PREMIUM

	31 December 2008	31 December 2007
Insurance premium receivables (due)	117	88
Unearned insurance premiums	-	112
Total	117	200

20. OTHER ASSETS

	31 December 2008	31 December 2007
Fee receivables from guarantees activities	319	274
Prepaid expenses	31	8
Other receivables	81	42
	<u>431</u>	<u>324</u>
Allowance for impairment	(21)	(18)
Total	410	306

Movements in impairment allowance were as follows:

	2008	Period from 5 June to 31 December 2007
Balance at the beginning of the year	18	14
Impairment losses (Note 14)	3	4
Write-offs	-	-
Balance at the end of year	21	18

Notes to the financial statements
for the year ended December 2008

(All amounts are expressed in thousand of KM)

21. PROPERTY AND EQUIPMENT

	Vehicles	Computer equipment	Furniture and office equipment	Software	Total
COST					
At 5 June 2007	-	-	-	-	-
Brought into founding of the Agency	144	83	47	41	315
Additions	-	2	-	-	2
Disposals	-	(6)	(4)	-	(10)
At 31 December 2007	144	79	43	41	307
Additions	88	11	35	-	134
Disposals	-	(11)	(12)	-	(23)
At 31 December 2008	232	79	66	41	418
ACCUMULATED DEPRECIATION					
At 5 June 2007	-	-	-	-	-
Brought into founding of the Agency	112	69	35	20	236
Charge for the period	12	5	3	3	23
Disposals	-	(6)	(4)	-	(10)
At 31 December 2007	124	68	34	23	249
Charge for the year	16	8	10	4	38
Disposals	-	(11)	(12)	-	(23)
At 31 December 2008	140	65	32	27	264
CARRYING AMOUNT					
At 31 December 2008	92	14	34	14	154
At 31 December 2007	20	11	9	18	58

22. DUE TO THE STATE OF BOSNIA AND HERZEGOVINA

	31 December 2008	31 December 2007
BEEF loan facility	5,089	5,089
Total	5,089	5,089

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 Bosnian Enterprise Export Facility (BEEF) - loan facility signed between the State and World Bank. Also, Subsidiary loan agreements were signed between the State of Bosnia and Herzegovina and the entities from Bosnia and Herzegovina, where those entities support and accept loan liability repayment according to their participation in loan portfolio. Outstanding amount of KM 5,089 thousand should be recognized into the capital upon to approval from State's Council of Ministers.

Notes to the financial statements
for the year ended December 2008

(All amounts are expressed in thousand of KM)

22. DUE TO THE STATE OF BOSNIA AND HERZEGOVINA (CONTINUED)

The Agency also 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 loan facility. It is agreed on the payment of service charges in the amount of 0.75% p.a. applicable on outstanding balance amount of BEEF loan facility in grace period while interest are to be paid by the State of Bosnia and Herzegovina. Grace period for BEEF loan facility is due in October 2009. For the year ended 31 December 2008, Agency recognized service charges as expense in the amount of KM 143 thousand (2007: KM 85 thousand, Note 8).

23. INSURANCE ASSETS AND LIABILITIES

	31 December 2008	31 December 2007
Gross		
Provision for unearned premium	-	363
Provision for claims reported but not settled	-	-
Provision for claims incurred but not reported	14	20
Total insurance liabilities, gross	14	383
Recoverable from re-insurers		
Provision for unearned premium	-	(236)
Provision for claims reported but not settled	-	-
Provision for claims incurred but not reported	(9)	(15)
Total insurance assets, gross	(9)	(251)
Provision for unearned premium	-	127
Provision for claims reported but not settled	-	-
Provision for claims incurred but not reported	5	5
Total insurance liabilities, net	5	132

24. REINSURANCE PREMIUM PAYABLE

Amount of KM 71 thousand relates to insurance premium payable toward IGA's reinsurers – Atradius, Belgium and Nationale Borg, Netherlands (2007: KM 85 thousand).

Notes to the financial statements
for the year ended December 2008

(All amounts are expressed in thousand of KM)

25. OTHER PAYABLES

	31 December 2008	31 December 2007
Liabilities from factoring	451	62
Deferred income	171	35
Liability for collected letters of credit	170	303
Accrued expenses	56	70
Employee payables	49	34
Liabilities for taxes and contributions	35	21
Trade payables	32	-
Other current liabilities	9	10
Total	973	535

26. PROVISIONS

At 31 December 2008, provisions in the amount of KM 74 thousand relate to other employee benefits - retirement severance payments, jubilee awards and unused vacation days (2007: KM 54 thousand).

27. STATE CAPITAL

	KM '000	share
State of Bosnia and Herzegovina	51,351	100%
Total	51,351	100%

28. FINANCIAL COMMITMENTS AND CONTINGENCIES

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

	31 December 2008	31 December 2007
Payments bonds	28,974	10,221
Performance bonds	4,606	10,758
Advance payment bonds	3,687	10,323
Retention bonds	606	316
Bid bonds	21	84
Total	37,894	31,702

Notes to the financial statements
for the year ended December 2008

(All amounts are expressed in thousand of KM)

29. RELATED PARTY TRANSACTIONS

Management and Board of Directors remuneration

The remuneration of Management and Board of Directors during the year was as follows:

	2008	2007
Net salaries	141	71
Salary tax and contributions	92	45
Fees to Board of Directors	86	41
Other employee benefits (gross)	29	35
Total	348	192

30. FINANCIAL INSTRUMENTS

30.1 Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized, in respect of each class of financial assets, financial liabilities and equity instruments are disclosed in Note 3 to the financial statements.

30.2 Categories of financial instruments

	2008	2007
Financial assets		
Loans and receivables (including cash and cash equivalents)	60,238	58,195
	60,238	58,195
Financial liabilities		
Amortised cost	873	585
	873	585

30.3 Financial risk management objectives

The Agency monitors and manages the financial risks relating to the its operations through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk and interest rate risk), credit risk, liquidity risk and cash flow interest rate risk.

30.4 Market risk

The Agency's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates (see below).

Market risk exposures are supplemented by sensitivity analysis. There has been no change to the Agency's exposure to market risks or the manner in which it manages and measures the risk.

Notes to the financial statements
for the year ended December 2008

(All amounts are expressed in thousand of KM)

30. FINANCIAL INSTRUMENTS (CONTINUED)

30.5 Foreign currency risk

The Agency undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

The carrying amounts of the Agency's monetary assets and monetary liabilities denominated in foreign currency at the reporting date are as follows:

	Assets	Liabilities	Assets	Liabilities
	31 December	31 December	31 December	31 December
	2008	2008	2007	2007
EUR	11,927	-	14,470	-
USD	2,600	-	2,605	-

Foreign currency sensitivity analysis

The Agency is exposed to EUR and USD. Since Convertible Mark (KM) is pegged to EUR, the Agency is not exposed to risk of change of EUR exchange rate.

The following table details the Agency's sensitivity to a 10% increase and decrease in KM against USD. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in USD. The sensitivity analysis includes external loans where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number below indicates an increase in profit where KM strengthens 10% against USD. For a 10% weakening of KM against USD, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	USD Impact	
	2008	2007
Profit / (loss)	360	347

30.6 Interest rate risk

The Agency is not exposed to interest rate risk since there are neither placed loans nor borrowed funds at floating rates.

30.7 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 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.

Notes to the financial statements
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(All amounts are expressed in thousand of KM)

30. FINANCIAL INSTRUMENTS (CONTINUED)

30.7 Credit risk (continued)

Commitments to extend credit

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, factoring or insurance policies. Commitments to extend credit issued by the Agency represent issued loan commitments, guarantees or insurance policies, and factoring advances paid to customers. Commitments to extend credit 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.

Loans and advances to customers

	<u>Total gross carrying amount</u>	<u>Unimpaired assets</u>	<u>Individually impaired assets</u>	<u>Impairment losses</u>	<u>Total net carrying amount</u>
As of 31 December 2007					
Loans to the companies	36,303	15,612	20,691	2,680	33,623
Factoring	10,835	10,156	679	504	10,331
Total	47,138	25,768	21,370	3,184	43,954
As of 31 December 2008					
Loans to the companies	34,717	30,813	3,904	1,846	32,871
Factoring	6,808	6,037	771	255	6,553
Total	41,525	36,850	4,675	2,101	39,424

Credit exposure and collateral

	<u>Credit risk exposure</u>			<u>Fair value of collateral</u>
	<u>Loans and advances to customers</u>	<u>Guarantees issued</u>	<u>Insurance policies issued</u>	
As of 31 December 2008				
Loans to the companies	33,623	-	-	72,693
Factoring	10,331	-	-	451
Guarantees	-	37,894	-	76,499
Insurance policies	-	-	-	-
Total	43,954	37,984	-	149,643
As of 31 December 2007				
Loans to the companies	32,871	-	-	78,381
Factoring	6,553	-	-	62
Guarantees	-	31,702	-	75,127
Insurance policies	-	-	12,194	-
Total	39,424	31,702	12,194	153,570

Notes to the financial statements
for the year ended December 2008

(All amounts are expressed in thousand of KM)

30. FINANCIAL INSTRUMENTS (CONTINUED)

30.7 Credit risk (Continued)

Fair value of collaterals

	31 December 2007	31 December 2007
Real estate and other property	143,908	147,641
Guarantees	5,284	5,867
Cash deposits	451	62
Total	149,643	153,570

Past due

	Gross	Undue	Up to 30 days	31 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	Over 365 days
As of 31 December 2008								
Loans to the companies	36,303	22,363	443	3,545	6,316	743	317	2,576
Factoring	10,835	6,878	625	216	354	881	1,154	727
Total	47,138	29,241	1,068	3,761	6,670	1,624	1,471	3,303
As of 31 December 2007								
Loans to the companies	34,717	22,100	7,897	154	153	896	1,687	1,830
Factoring	6,808	4,650	509	322	330	600	99	298
Total	41,525	26,750	8,406	476	483	1,496	1,786	2,128

30.8 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 bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

Liquidity and interest risk tables

The following tables detail the Agency's remaining contractual maturity for its non-derivative financial assets. The tables have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Agency anticipates that the cash flow will occur in a different period.

Notes to the financial statements
for the year ended December 2008

(All amounts are expressed in thousand of KM)

30. FINANCIAL INSTRUMENTS (CONTINUED)

30.8 Liquidity risk (continued)

Liquidity and interest risk tables (continued)

Maturity for financial assets

	Weighted average effective interest rate %	Less than 1 month	2 - 3 months	4 months to 1 year	1 - 5 years	5+ years	Total
31 December 2007							
Non-interest bearing	-	6,051	59	221	7	-	6,338
Variable interest rate instruments	6.2	2,842	5,225	35,126	12,568	-	55,761
Fixed interest rate instruments	3.2	-	-	-	3,325	-	3,325
		8,893	5,284	35,347	15,900	-	65,424
31 December 2007							
Non-interest bearing	-	3,456	80	123	7	-	3,656
Variable interest rate instruments	6.2	21,398	6,187	12,041	12,366	-	51,992
Fixed interest rate instruments	4.3	-	2,012	2,660	-	-	4,672
		24,854	8,279	14,824	12,373	-	60,320

The following tables detail the Agency'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 Agency can be required to pay.

Maturity for financial liabilities

	Weighted average effective interest rate %	Less than 1 month	2 - 3 months	4 months to 1 year	1 - 5 years	5+ years	Total
31 December 2008							
Non-interest bearing	-	130	502	241	-	-	873
Variable interest rate instruments	-	-	-	-	-	-	-
Fixed interest rate instruments	-	-	-	-	-	-	-
		130	502	241	-	-	873
31 December 2007							
Non-interest bearing	-	125	196	264	-	-	585
Variable interest rate instruments	-	-	-	-	-	-	-
Fixed interest rate instruments	-	-	-	-	-	-	-
		125	196	264	-	-	585

Notes to the financial statements
for the year ended December 2008

(All amounts are expressed in thousand of KM)

30. FINANCIAL INSTRUMENTS (CONTINUED)

30.9 Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices; and
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

The Management believes that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the financial statements is approximate to their fair values.

31. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Management Board and authorized for issue on 18 March 2009.

Lamija Kozarić-Rahman

Director

Mirko Dejanović

Deputy Director

Ljiljana Bevanda

Deputy Director