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

Financial statements for the period ended 4 June 2007 prepared in accordance with International Financial Reporting Standards and Independent auditors' report

Contents

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

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Bosnia and Herzegovina

3 October 2007

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Independent Auditor's Report

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

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 30, which comprise the balance sheet as of 4 June 2007, and the income statement, statement of changes in equity and cash flow statement for the period then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. 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.

Disagreement on Accounting Policies – Inadequate Disclosure - Qualified Opinion

As discussed in Note 1 paragraph a), these financial statements have been prepared for the regulatory purpose of change in legal status of the Agency as of 4 June 2007. The comparative income statement, statement of changes in equity and cash flow statement as included in the accompanying interim financial statements are prepared for the year ended 31 December 2006. This represents departure from International Accounting Standard (IAS) 34 – "Interim Financial Reporting" which requires that interim reports should include income statement, statement of changes in equity and cash flow statement for the comparable interim period of the immediately preceding financial year.

Opinion

In our opinion, except for the departure from IAS 34 as disclosed in previous paragraph, the financial statements present fairly, in all material respects, the financial position of the Agency as of 4 June 2007 and of its financial performance and its cash flows for the period then ended, in accordance with International Financial Reporting Standards.

Deloitte

Deloitte d.o.o.
Sarajevo, 3 October 2007

Income statement
for the period ended 4 June 2007

(All amounts are expressed in KM '000)

	Notes	Period ended 4 June 2007	Year ended 31 December 2006
Interest and similar income	3	1,160	2,070
Interest and similar charge	4	(70)	(370)
Net interest income		**1,090**	**1,700**
Income from insurance activities	5	162	425
Expenses from insurance and guarantee activities	20	(171)	(92)
Other operating income	6	206	549
Income from operating activities		**1,287**	**2,582**
Net FX losses	7	(102)	(629)
Personnel costs	8	(350)	(857)
Depreciation and amortization	17	(21)	(50)
Other administrative expenses	9	(199)	(383)
Operating expenses		**(672)**	**(1,919)**
Profit before impairment losses and income tax		**615**	**663**
Impairment losses	10	(230)	(801)
Income from collected written-off receivables	11	12	-
		(218)	**(801)**
Profit /(loss) before tax		**397**	**(138)**
Income tax expense	12	(155)	(6)
Net profit/(loss) for the period		**242**	**(144)**

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

Balance sheet
as of 4 June 2007

(All amounts are expressed in KM '000)

	Note	4 June 2007	31 December 2006
ASSETS			
Cash and cash equivalents	13	9,716	8,606
Placements with banks	14	21,030	23,165
Loans and advances to customers	15	26,945	26,560
Other assets	16	333	460
Tangible and intangible assets	17	79	74
TOTAL ASSETS		**58,103**	**58,865**
EQUITY AND LIABILITIES			
Liabilities			
Due to the State of Bosnia and Herzegovina	18	56,430	56,431
Short-term borrowings	19	-	1,467
Liabilities from insurance and guarantee activities	20	171	92
Other liabilities	21	1,095	710
		57,696	**58,700**
Capital and reserves			
State capital	22	10	10
Accumulated profit		397	155
		407	**165**
TOTAL EQUITY AND LIABILITIES		**58,103**	**58,865**

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

Signed on behalf of the Agency on 3 October 2007:

Lamija Kozarić-Rahman — Director

Vlatko Tvrtković — Deputy Director

Mirko Dejanović — Deputy Director

Statement of changes in equity
for the period ended 4 June 2007

(All amounts are expressed in KM '000)

	State capital	Accumulated profit	Total
Balance at 1 January 2006	**10**	**299**	**309**
Net loss for the year	-	(144)	(144)
Balance at 31 December 2006	**10**	**155**	**165**
Net profit for the period	-	242	242
Balance at 4 June 2007	**10**	**397**	**407**

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

Cash flow statement
for the period ended 4 June 2007

(All amounts are expressed in KM '000)

	Period ended 4 June 2007	Year ended 31 December 2006
Operating activities		
Profit/(loss) for the period/year	**242**	**(144)**
Adjustments for:		
Depreciation and amortization	21	50
Impairment losses	230	801
Grant income recognized	-	(1)
Adjustment for cash flow from investing and financing activities	(1,174)	(1,954)
Operating cash flows before movements in working capital	*(681)*	*(1,248)*
Net decrease/(increase) in placements with banks	2,046	(5,212)
Net increase in loans and advances to customers, before impairment losses	(522)	(2,269)
Net decrease/(increase) in other assets, before impairment losses	123	(41)
Net increase in liabilities from insurance and guarantee activities	79	49
Net increase in other payables	385	16
Cash flow from operations	*1,430*	*(8,705)*
Interest paid	(70)	(370)
Net cash flow from operating activities	**1,360**	**(9,075)**
Investing activities		
Purchase of property, plant and equipment	(26)	(10)
Interest received	1,244	2,324
Net cash flow from investing activities	**1,218**	**2,314**
Financing activities		
(Repayment of)/proceeds from long-term borrowings	(1)	5,088
Repayment of short-term borrowings	(1,467)	-
Net cash flow from financing activities	**(1,468)**	**5,088**
Net increase/(decrease) in cash and cash equivalents	**1,110**	**(1,673)**
Cash and cash equivalents at the beginning of the period/year	**8,606**	**10,279**
Cash and cash equivalents at the end of the period/year	**9,716**	**8,606**

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

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. It is establish 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 anticipated the transformation of IGA d.o.o into the official export credit agency of Bosnia and Herzegovina. The Law precisely determines principles, organization, capital and scope of IGA business.

As of 10 April 2007 the Agency has been registered in the Register of legal entities founded by the State of Bosnia and Herzegovina within Ministry of Justice of Bosnia and Herzegovina under title "Izvozno-kreditna agencija Bosne i Hercegovine - IGA". After this registration the Agency has submitted the request for deletion of status of limited liability company from Municipal Court Register in Sarajevo. On 4 June 2007, Municipal Court in Sarajevo deleted the Agency from the Register and as of that date the Agency officially changed its legal status. These interim financial statements as of 4 June 2007 and for the period then ended have been prepared for the regulatory purposes as a part of status change process. New legal status anticipates the Agency as non-for-profit and tax exempted legal entity.

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.

1. GENERAL (CONTINUED)

b) Activity (continued)

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).

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 BH 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 BH enterprises engaged in export activity on credit terms up to five years and a facility in partnership with BH or foreign banks. BEEF facilities are as follows:

Working Capital Facilities (Export Financing Facility)

IGA provides funds to BH banks (Participating Loan) for the purpose of on lending to BH 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 BH enterprises to perform defined export contracts.

A Participating Loan is for 50% of a Working Capital Loan above KM 600 thousand with the BH 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 BH 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 BH bank for capital adequacy purposes thereby allowing the bank to do more for an exporter than would otherwise be the case.

1. GENERAL (CONTINUED)

b) Activity (continued)

Guarantees

IGA is authorized to provide support to BH 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 BH companies to obtain this support because of the insistence of buyers that only first class banks located outside BH are eligible to provide the bonds. In most cases this has meant that BH 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 BH 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 BH 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 BH 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 Bosnia's exporting enterprises. The facility is carried out in partnership with local banks.

1. GENERAL (CONTINUED)

c) Directors and management

Management Board

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

Members of Management Board have been reappointed for new Izvozno-kreditna agencija Bosne i Hercegovine - IGA (see Note 27).

Board of Directors

During the transition period (until change of IGA's legal status and deletion from Court register), Board of Directors of Izvozno-kreditna agencija Bosne i Hercegovine - IGA has been introduced. The members of Board of Directors are as follows:

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
Vera Letica	Member	Representative of the Federation of Bosnia and Herzegovina

The Agency had 13 employees as of 4 June 2007 and 31 December 2006.

1.1 Adoption of new and revised standards

In the current period, 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 2007. The adoption of these new and revised Standards and Interpretations has not resulted in changes to the Agency's accounting policies and accordingly has not materially affected the amounts reported for the current or prior periods.

The Agency has adopted IFRS 7 Financial Instruments: Disclosures as of 1 January 2007. The impact of the new Standard has been to expand the disclosures provided in these financial statements regarding Agency's financial instruments.

(All amounts are expressed in KM '000)

1. GENERAL (CONTINUED)

1.1 Adoption of new and revised standards (continued)

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

a) IFRS 8 *Operating Segments*	Effective for annual periods beginning on or after 1 January 2009
b) IFRS 23 *Borrowing costs (revised)*	Effective for borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009
c) IFRIC 11 *IFRS 2: Group and Treasury Share Transactions*	Effective for annual periods beginning on or after 1 March 2007
d) IFRIC 12 *Service Concession Arrangements*	Effective for annual periods beginning on or after 1 January 2008
e) IFRIC 13 *Customer Loyalty Programmes*	Effective for annual periods beginning on or after 1 July 2008
f) IFRIC 14 *IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*	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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted are set out below:

Revenue recognition

Interest income and expense are recognized 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.

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 converted at the official rate of the Central Bank of Bosnia and Herzegovina prevailing on the balance sheet date. Profits and losses arising on conversion are included in income statement for the period.

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:

4 June 2007	EUR 1= KM 1.955830	USD 1= KM 1.455664
31 December 2006	EUR 1= KM 1.955830	USD 1= KM 1.485065

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 calculated. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The Agency records jubilee awards payments when they become due.

Loans originated by the Agency and provisions for loan impairment

Loans originated by the Agency by providing money directly to a borrower are categorized as loans originated by the Agency and are carried at amortized 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 recognized 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.

Factoring receivables and provisions

The factoring activity relates to funding provided to exporters by discounting debts for goods sold and delivered by BH 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation

As of 31 December 2004 the Law on IGA was adopted. The law prescribed registration of IGA in Register of legal entities founded by the State of Bosnia and Herzegovina and exemption of IGA from income tax and value added tax liability payment. Even IGA did complete the process of registration in Register of legal entities founded by the State of Bosnia and Herzegovina before 4 June 2007, the Management has decided to consider IGA as regular income tax payer as of that date.

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 recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

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 realized. 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.

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%

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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.

(All amounts are expressed in KM '000)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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.

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 AND SIMILAR INCOME

	Period ended 4 June 2007	Year ended 31 December 2006
Interest on loans to companies	643	1,001
Interest on placement with banks	413	857
Factoring income	104	206
Penalty interest	-	6
Total	**1,160**	**2,070**

4. INTEREST AND SIMILAR CHARGE

	Period ended 4 June 2007	Year ended 31 December 2006
LIFT & BEEF facilities debt servicing fee (Note 18)	63	296
Interest on short-term borrowing from Raiffeisen Zentralbank AG, Austria	7	74
Total	**70**	**370**

(All amounts are expressed in KM '000)

5. INCOME FROM INSURANCE ACTIVITIES

	Period ended 4 June 2007	Year ended 31 December 2006
Risk premiums	140	393
Other income	22	32
Total	**162**	**425**

6. OTHER INCOME

	Period ended 4 June 2007	Year ended 31 December 2006
Fees from guarantees	169	421
Fees from factoring	26	76
Grant income	-	1
Other income	11	51
Total	**206**	**549**

7. NET FOREIGN EXCHANGE LOSSES

	Period ended 4 June 2007	Year ended 31 December 2006
FX gains	3	55
FX losses	(105)	(684)
Total, net	**(102)**	**(629)**

8. PERSONNEL COSTS

	Period ended 4 June 2007	Year ended 31 December 2006
Net salaries	151	374
Salary taxes and contributions	103	252
Fees to Board of Directors	26	12
Other employee benefits	70	219
Total	**350**	**857**

(All amounts are expressed in KM '000)

9. OTHER ADMINISTRATIVE EXPENSES

	Period ended 4 June 2007	Year ended 31 December 2006
Other services	68	46
Rent	51	115
Travel expenses	14	31
Material	12	27
Communication cost	11	26
Bank fees	10	38
Advertising	6	8
Maintenance cost	5	11
Insurance costs	3	7
Entertainment	2	9
Donations	1	8
Other expenses	16	57
Total	**199**	**383**

10. IMPAIRMENT LOSSES

	Period ended 4 June 2007	Year ended 31 December 2006
Allowance for loan losses (Note 15)	221	674
Allowance for factoring losses (Note 15)	-	105
Allowance for interest losses (Note 15)	7	9
Allowance for other assets losses (Note 16)	2	13
Total	**230**	**801**

11. INCOME FROM COLLECTED WRITTEN-OFF RECEIVABLES

	Period ended 4 June 2007	Year ended 31 December 2006
Income from collection of written-off loan principle amounts	10	-
Income from collection of written-off factoring receivable	2	-
Total	**12**	**-**

(All amounts are expressed in KM '000)

12. INCOME TAX EXPENSE

	Period ended 4 June 2007	Year ended 31 December 2006
Profit/(loss) before tax	**397**	**(138)**
Other tax disallowable items	120	371
Taxable profit	517	233
Calculated income tax at the rate of 30%	155	70
Tax relief due to accumulated tax losses from previous periods	-	(64)
Income tax expense for the current period/year	**155**	**6**
Effective income tax rate (%)	**30%**	**2.6%**

13. CASH AND CASH EQUIVALENTS

	4 June 2007	31 December 2006
Current bank accounts, foreign currencies	8,151	6,527
Current bank accounts, KM	1,565	2,077
Cash in hand	-	2
Total	**9,716**	**8,606**

14. PLACEMENTS WITH BANKS

	4 June 2007	31 December 2006
Current deposits:		
ING Bank, London, UK	11,007	11,007
Raiffeisen Zentralbank AG, Vienna, Austria	5,126	5,518
	16,133	***16,525***
Term deposits:		
Raiffeisen Bank BiH d.d. Sarajevo	2,844	4,549
ProCredit Bank d.d. Sarajevo	2,000	2,000
	4,844	***6,549***
Accrued interest	53	91
Total	**21,030**	**23,165**

(All amounts are expressed in KM '000)

15. LOANS AND ADVANCES TO CUSTOMERS, NET

	4 June 2007	31 December 2006
Long-term loans:		
Long-term loans to companies	2,571	3,220
	2,571	***3,220***
Short-term loans:		
Short-term loans to companies	23,486	22,800
Allowance for impairment	(1,955)	(1,745)
	21,531	***21,055***
Advances:		
Receivables from factoring	2,581	2,217
Allowance for impairment	(102)	(104)
	2,479	***2,113***
Interest receivables:		
Accrued interest on loans	339	149
Accrued interest on receivables from factoring	54	45
Allowance for impairment	(29)	(22)
	364	***172***
Total	**26,945**	**26,560**

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

	4 June 2007	31 December 2006
Metal industry	10,038	12,874
Wooden	8,113	6,550
Food industry	2,409	1,607
Trade	2,038	733
Construction	1,444	1,816
Textile & leather	792	903
Chemical industry	788	983
Services	307	313
Other	128	241
Total	**26,057**	**26,020**

(All amounts are expressed in KM '000)

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

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

	4 June 2007	31 December 2006
Trade	1,505	1,320
Wooden	649	373
Textile & leather	304	250
Food industry	82	73
Services	41	83
Other	-	118
Total	**2,581**	**2,217**

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

	4 June 2007	31 December 2006
Metal industry	167	32
Wooden	86	85
Construction	52	7
Trade	47	24
Food industry	17	23
Textile & leather	12	4
Chemical	7	18
Services	5	-
Other	-	1
Total	**393**	**194**

Movements in impairment allowance were as follows:

	Period ended 4 June 2007	Year ended 31 December 2006
Short-term loans:		
Balance as of 1 January	1,745	1,071
Impairment losses	221	674
Write-offs	(11)	-
Balance at the end of period/year	**1,955**	**1,745**
Factoring:		
Balance as of 1 January	104	22
Impairment losses	-	105
Write-offs	(2)	(23)
Balance at the end of period/year	**102**	**104**
Interest receivables:		
Balance as of 1 January	22	13
Impairment losses	7	9
Write-offs	-	-
Balance at the end of period/year	**29**	**22**

(All amounts are expressed in KM '000)

16. OTHER ASSETS

	4 June 2007	31 December 2006
Fees for issued guarantees	216	129
Receivables from loan insurance activities	45	120
Risk premiums	19	49
Prepaid expenses	16	8
Prepaid income tax	-	66
Other receivables	51	101
Allowance for impairment	(14)	(13)
Total	**333**	**460**

Movements in impairment allowance were as follows:

	Period ended 4 June 2007	Year ended 31 December 2006
Balance as of 1 January	13	11
Impairment losses	2	13
Write-offs	(1)	(11)
Balance at the end of period/year	**14**	**13**

17. PROPERTY, PLANT AND EQUIPMENT

	Vehicles	Computer equipment	Furniture and office equipment	Software	Total
COST					
At 31 December 2006	**144**	**80**	**45**	**20**	**289**
Additions	-	3	2	21	26
Disposals	-	-	-	-	-
At 4 June 2007	**144**	**83**	**47**	**41**	**315**
ACCUMULATED DEPRECIATION					
At 31 December 2006	**102**	**62**	**33**	**18**	**215**
Charge for the period	10	7	2	2	21
Disposals	-	-	-	-	-
At 4 June 2007	**112**	**69**	**35**	**20**	**236**
CARRYING AMOUNT					
At 4 June 2007	**32**	**14**	**12**	**21**	**79**
At 31 December 2006	**42**	**18**	**12**	**2**	**74**

(All amounts are expressed in KM '000)

18. DUE TO THE STATE OF BOSNIA AND HERZEGOVINA

	4 June 2007	31 December 2006
LIFT loan facility	35,087	35,087
BEEF loan facility	21,343	21,344
Total	**56,430**	**56,431**

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 facilities signed between the State and World Bank. Also, Subsidiary loan agreements were signed between the State of Bosnia and Herzegovina and BH 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. As of 4 June 2007 and 31 December 2006 Agency recorded service charges as expense in the amount of KM 63 thousand (BEEF) and KM 296 thousand (BEEF – 150, LIFT – 146), respectively (see Note 4).

19. SHORT-TERM BORROWINGS

	4 June 2007	31 December 2006
Raiffeisen Zentralbank AG, Vienna, Austria	-	1,467
Total	**-**	**1,467**

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 milion (KM 1,956 thousand) for refinancing and purchasing of equipment of the Agency's clients. The Agency has withdrawn amount of EUR 750 thousand (KM 1,467 thousand). Interest rate on this loan was EURIBOR + 2%. Loan maturity was 12 months from date of withdrawal, with possibility of prolongation of repayment through the five annual installments. Loan is repaid on 31 January 2007.

(All amounts are expressed in KM '000)

20. LIABILITIES FROM INSURANCE AND GUARANTEE ACTIVITIES

	4 June 2007	31 December 2006
Liability for guarantees issued	132	-
Liability for insurance policies issued	39	92
Total	**171**	**92**

IGA has issued the counter guarantee No. G126 in a favor of Raiffeisen Zentralbank AG, Vienna, Austria ('*Bank Guarantor*') as a collateral for the payment guarantee No. G731.504 issued by Bank Guarantor in a favor of Borealis A/S, Kongens Lyngby, Denmark ('*Creditor*') for the goods sold to IGA's client 'TIPO' d.o.o. Odžak ('*Debtor*'). Since Debtor has failed to settle its outstanding liability toward Creditor in amount of EUR 67,650 (KM 132,312), Bank Guarantor had to cover (i.e. to pay) mentioned amount, and then, based on the counter guarantee, submitted the claim to IGA.. IGA made payment to Bank Guarantor on 26 June 2007.

Based on decision of Cantonal Court in Sarajevo dated 8 February 2007, which has confirmed primary decision of Municipal Court in Sarajevo dated 13 October 2005, IGA was obliged to pay compensation of damage to its client 'INTERMERKUR' d.o.o. Zavidovići ('*Client*') in amount of KM 25,315, raised from insurance policy issued in favor of Client, and belonging penalty interest and litigation charges (total amount – KM 38,476). On 10 September 2007, payment in amount of KM 37,719 has been made to the Client.

Claim raised from insurance policy issued in favor of 'STOLARIJA KARIĆ' d.o.o. Odžak in amount of KM 92,413, for the goods sold to 'SERTEK' s.r.l., Novara, Italy, has been settled down in April 2007.

21. OTHER PAYABLES

	4 June 2007	31 December 2006
Liability for collected letters of credit	524	135
Liabilities from factoring	179	125
Liabilities toward State's institutions	105	9
Liabilities toward suppliers	96	45
Accrued expenses	85	128
Deferred income	58	89
Liabilities toward employees	42	-
Liability for deposits received	-	176
Other current liabilities	6	3
Total	**1,095**	**710**

22. STATE CAPITAL

	4 June 2007		31 December 2006	
	KM '000	**share**	**KM '000**	**share**
State of Bosnia and Herzegovina	10	100%	10	100%
Total	**10**	**100%**	**10**	**100%**

23. FINANCIAL COMMITMENTS AND CONTINGENCIES

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

	4 June 2007	**31 December 2006**
Advance payment bonds	15,209	18,138
Performance bonds	9,752	11,648
Payments bonds	3,200	4,230
Retention bonds	345	-
Total	**28,506**	**34,016**

24. RELATED PARTY TRANSACTIONS

Management and Board of Directors remuneration

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

	Period ended 4 June 2007	**Year ended 31 December 2006**
Net salaries	52	121
Salary tax and contributions	33	78
Fees to Board of Directors	26	12
Other employee benefits (gross)	18	39
Total	**129**	**250**

25. 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 summarized 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 period 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.

25. FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

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

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.

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.

(All amounts are expressed in KM '000)

25. FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Credit risk (continued)

Loans and advances to customers

	Total gross carrying amount	Unimpaired assets	Individually impaired assets	Impairment losses	Total net carrying amount
As of 4 June 2007					
Loans to the companies	26,396	23,812	2,584	1,984	24,412
Factoring	2,635	2,519	116	102	2,533
Total	**29,031**	**26,331**	**2,700**	**2,086**	**26,945**
As of 31 December 2006					
Loans to the companies	26,169	23,817	2,352	1,767	24,402
Factoring	2,262	2,144	118	104	2,158
Total	**28,431**	**25,961**	**2,470**	**1,871**	**26,560**

Credit exposure and collateral

	Credit risk exposure			
	Loans and advances to customers	Guarantees issued	Insurance policies issued	Fair value of collateral
As of 4 June 2007				
Loans to the companies	26,396	-	-	96,031
Factoring	2,635	-	509	-
Guarantees	-	17,987	-	49,206
Insurance policies	-	-	1,723	-
Total	**29,031**	**17,987**	**2,232**	**145,237**
As of 31 December 2006				
Loans to the companies	26,169	-	-	133,300
Factoring	2,262	-	434	-
Guarantees	-	20,331	-	49,206
Insurance policies	-	-	2,118	-
Total	**28,431**	**20,331**	**2,552**	**182,506**

(All amounts are expressed in KM '000)

25. FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Credit risk (continued)

Fair value of collaterals

	4 June 2007	31 December 2006
Real estate and other property	139,525	175,168
Guarantees	5,712	7,162
Deposits	-	176
Total	**145,237**	**182,506**

Past due

	Total	Undue	Up to 30 days	31 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	Over 365 days
As of 4 June 2007								
Loans to the companies	26,396	22,198	731	349	486	618	290	1,724
Factoring	2,635	1,683	231	281	45	120	234	41
Total	**29,031**	**23,881**	**962**	**630**	**531**	**738**	**524**	**1,765**
As of 31 December 2006								
Loans to the companies	26,169	22,006	1,487	166	137	372	464	1,537
Factoring	2,262	1,488	211	200	165	82	86	30
Total	**28,431**	**23,494**	**1,698**	**366**	**302**	**454**	**550**	**1,567**

26. EVENTS AFTER THE BALANCE SHEET DATE

Based on the Law on Izvozno-kreditna agencija Bosne i Hercegovine - IGA (Offical Gazete of Bosnia and Herzegovina 62/04) and decision made by the Board of Directors of Izvozno-kreditna agencija Bosne i Hercegovine - IGA , due the State of Bosnia and Herzegovina (Note 18) in the amount of KM 51,351 thousand was recognized as capital owned by the State of Bosnia and Herzegovina and accordingly recorded in opening Balance sheet of Izvozno-kreditna agencija Bosne i Hercegovine - IGA on 5 June 2007. Outstanding amount of KM 5,079 thousand should be transferred to capital in the near future.

On 25 July 2007, the Board of Directors of Izvozno-kreditna agencija Bosne i Hercegovine - IGA reappointed Mrs. Lamija Kozarić-Rahman, Mr. Vlatko Tvrtković and Mr. Mirko Dejanović as members of Management Board.

27. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Management Board and authorized for issue on 3 October 2007.

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