Izvozno-kreditna agencija
Bosne i Hercegovine - IGA

Financial statements for the year ended
31 December 2009 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 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

8 March 2010

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 33, which comprise the statement of financial position as of 31 December 2009, and statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. 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 2009 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Deloitte d.o.o.

Sead Bahtanović, director and certified auditor

Sarajevo, Bosnia and Herzegovina
8 March 2010

Statement of comprehensive income
for the year ended 31 December 2009

(All amounts are expressed in thousand of KM, unless otherwise stated)

	Notes	2009	2008
Interest and similar income	7	3,848	3,366
Interest expenses and similar charges	8	(31)	(143)
Net interest income		**3,817**	**3,223**
Net income from insurance activities	9	355	510
Net income from insurance activities		**355**	**510**
Guarantee claims	10	(6,454)	-
Expense from guarantee activities		**(6,454)**	**-**
Other operating income	11	1,053	512
Personnel costs	12	(947)	(921)
Depreciation and amortization	20	(44)	(38)
Other administrative expenses	13	(527)	(534)
Net FX (losses) / gains		(39)	145
Surplus of (expenses over income) / income over expenses before impairment losses		**(2,786)**	**2,897**
Impairment losses	14	(107)	(1,096)
Net surplus of (expenses over income) / income over expenses for the year		**(2,893)**	**1,801**
Other comprehensive income:			
		-	-
Total comprehensive (loss) / income for the year		**(2,893)**	**1,801**

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

Statement of financial position
as of 31 December 2009

(All amounts are expressed in thousand of KM, unless otherwise stated)

	Note	31 December 2009	31 December 2008
ASSETS			
Cash and cash equivalents	15	5,283	6,019
Placements with banks	16	8,092	8,977
Loans and advances to customers, net	17	42,860	44,923
Insurance assets	22	104	9
Insurance premium receivable	18	55	117
Other assets, net	19	933	410
Tangible and intangible assets	20	134	154
TOTAL ASSETS		**57,461**	**60,609**
EQUITY AND LIABILITIES			
Liabilities			
Due to the State of Bosnia and Herzegovina	21	5,089	5,089
Insurance liabilities	22	160	14
Reinsurance premium payable	23	121	71
Other payables	24	487	973
Provisions	25	109	74
		5,966	**6,221**
Capital and reserves			
State-owned capital	26	51,351	51,351
Reserves for insurance activities		2,430	-
Special reserves		607	-
Accumulated net financial results		(2,893)	3,037
		51,495	**54,388**
TOTAL EQUITY AND LIABILITIES		**57,461**	**60,609**

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

Signed on behalf of the Agency on 8 March 2010:

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

(All amounts are expressed in thousand of KM, unless otherwise stated)

	State-owned capital	Reserves for insurance activities	Special reserves	Accumulated net financial results	Total
Balance at 31 December 2007	**51,351**			**1,236**	**52,587**
Net surplus of income over expenses for the year	-	-	-	1,801	1,801
Other comprehensive income	-	-	-	-	-
Total comprehensive income	***-***	***-***	***-***	***1,801***	***1,801***
Balance at 31 December 2008	**51,351**			**3,037**	**54,388**
Transfer based on the decision of the Board of Directors	-	2,430	607	(3,037)	-
Net surplus of expenses over income for the year	-	-	-	(2,893)	(2,893)
Other comprehensive income	-	-	-	-	-
Total comprehensive loss	***-***	***-***	***-***	***(2,893)***	***(2,893)***
Balance at 31 December 2009	**51,351**	**2,430**	**607**	**(2,893)**	**51,495**

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

Statement of cash flows
for the year ended 31 December 2009

(All amounts are expressed in thousand of KM, unless otherwise stated)

	2009	2008
Operating activities		
Net surplus of (expense over income) / income over expenses for the year	(2,893)	1,801
Adjustments for:		
Depreciation and amortization	44	38
Impairment losses, loss adjustments and provisions	142	1,120
Loss on disposal of tangible assets	7	-
Interest income recognized in the statement of comprehensive income	(3,848)	(3,366)
Interest expense recognized in the statement of comprehensive income	31	143
Operating cash flows before movements in working capital	*(6,517)*	*(264)*
Net decrease in placements with banks	885	5,688
Net decrease / (increase) in loans and advances to customers, before impairment losses	2,599	(5,571)
Net decrease / (increase) in insurance premium receivable	113	(48)
Net (increase) / decrease in other assets, before impairment losses	(568)	(149)
Net increase / (decrease) increase in reinsurance premium payable	50	(14)
(Decrease) / increase in other payables	(486)	438
Cash flow from operations	*(3,924)*	*80*
Interest paid	(31)	(143)
Net cash flow used in operating activities	**(3,955)**	**(63)**
Investing activities		
Purchase of tangible assets	(31)	(134)
Interest received	3,250	2,828
Net cash flow from investing activities	**3,219**	**2,694**
Financing activities		
Net cash flow from investing activities	**-**	**-**
Net (decrease) / increase in cash and cash equivalents	**(736)**	**2,631**
Cash and cash equivalents at the beginning of the year	**6,019**	**3,388**
Cash and cash equivalents at the end of the year	**5,283**	**6,019**

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

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 (Offical 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.

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 statement of financial position 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.

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 if 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.

(All amounts are expressed in thousand of KM, unless otherwise stated)

1. GENERAL (CONTINUED)

Activities (continued)

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.

Management bodies of the Agency

Management Board

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

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	Representative of the Federation of Bosnia and Herzegovina

The Agency had 14 employees as of 31 December 2009 (2008: 14).

2. ADOPTION OF THE NEW AND REVISED STANDARDS

2.1 Standards and Interpretations effective in the current period

The following amendments to the existing standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period:

- IFRS 8 “Operating Segments” (effective for annual periods beginning on or after 1 January 2009);
- Amendments to IFRS 4 “Insurance contracts” and IFRS 7 “Financial Instruments: Disclosures” - Improving disclosures about financial instruments (effective for annual periods beginning on or after 1 January 2009);
- Amendments to IFRS 1 “First-time Adoption of IFRS” and IAS 27 “Consolidated and Separate Financial Statements” – Cost of investment in a subsidiary, jointly-controlled entity or associate (effective for annual periods beginning on or after 1 January 2009);
- Amendments to various standards and interpretations resulting from the Annual quality improvement project of IFRS published on 22 May 2008 (IAS 1, IFRS 5, IAS 8, IAS 10, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40, IAS 41) primarily with a view to removing inconsistencies and clarifying wording (most amendments are to be applied for annual periods beginning on or after 1 January 2009);
- Amendments to IAS 32 “Financial Instruments: Presentation” and IAS 1 “Presentation of Financial Statements” – Puttable financial instruments and obligations arising on liquidation (effective for annual periods beginning on or after 1 January 2009);
- IAS 1 (revised) “Presentation of Financial Statements” – A revised presentation (effective for annual periods beginning on or after 1 January 2009);
- IAS 23 (revised) “Borrowing Costs” (effective for annual periods beginning on or after 1 January 2009);
- Amendments to IFRS 2 “Share-based Payment” – Vesting conditions and cancellations (effective for annual periods beginning on or after 1 January 2009);
- Amendments to IFRIC 9 “Reassessment of Embedded Derivatives” and IAS 39 “Financial Instruments: Recognition and Measurement” -Embedded Derivatives (effective for annual periods ending on or after 30 June 2009);
- IFRIC 13 “Customer Loyalty Programmes” (effective for annual periods beginning on or after 1 July 2008);
- IFRIC 15 “Agreements for the Construction of Real Estate” (effective for annual periods beginning on or after 1 January 2009);
- IFRIC 16 “Hedges of a Net Investment in a Foreign Operation” (effective for annual periods beginning on or after 1 October 2008).

The adoption of these amendments to the existing standards and interpretations has not led to any changes in the Agency’s accounting policies.

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

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

- IFRS 9 “Financial Instruments” (effective for annual periods beginning on or after 1 January 2013);
- IFRS 3 (revised) “Business Combinations” (effective for annual periods beginning on or after 1 July 2009);
- IFRS 1 (revised) “First-time Adoption of IFRS” (effective for annual periods beginning on or after 1 July 2009);
- Amendments to IFRS 1 “First-time Adoption of IFRS”- Additional Exemptions for First-time Adopters (effective for annual periods beginning on or after 1 January 2010);
- Amendments to IFRS 2 “Share-based Payment” - Group cash-settled share-based payment transactions (effective for annual periods beginning on or after 1 January 2010);
- Amendments to IAS 24 “Related Party Disclosures” - Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after 1 January 2011);
- Amendments to IAS 27 “Consolidated and Separate Financial Statements” (effective for annual periods beginning on or after 1 July 2009);
- Amendments to IAS 32 “Financial Instruments: Presentation” – Accounting for rights issues (effective for annual periods beginning on or after 1 February 2010);
- Amendments to IAS 39 “Financial Instruments: Recognition and Measurement” – Eligible hedged items (effective for annual periods beginning on or after 1 July 2009);
- Amendments to various standards and interpretations resulting from the Annual quality improvement project of IFRS published on 16 April 2009 (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9, IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, (most amendments are to be applied for annual periods beginning on or after 1 January 2010);
- Amendments to IFRIC 14 “IAS 19 — The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction” - Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after 1 January 2011);
- IFRIC 17 “Distributions of Non-Cash Assets to Owners” (effective for annual periods beginning on or after 1 July 2009);
- IFRIC 18 “Transfers of Assets from Customers” (effective for transfer of assets from customers received on or after 1 July 2009);
- IFRIC 19 “Extinguishing Liabilities with Equity Instruments” (effective for annual periods beginning on or after 1 July 2010).

The Agency has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Agency anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Agency in the period of initial application.

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.

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 statement of comprehensive income 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 reporting period date. Profits and losses arising on exchange are charged to the statement of comprehensive income 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 reporting period date. The principal rates of exchange set forth by the Central Bank and used in the preparation of the Agency's statement of financial position at the reporting dates were as follows:

31 December 2009	EUR 1= KM 1.955830	USD 1= KM 1.364088
31 December 2008	EUR 1= KM 1.955830	USD 1= KM 1.387310

(All amounts are expressed in thousand of KM, unless otherwise stated)

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 pension and health insurance funds, 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 statement of comprehensive income 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 Izvozno-kreditna agencija Bosne i Hercegovine - IGA ("Official Gazette of Bosnia and Herzegovina" 62/04).

Property and equipment

Property 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%

As of reporting period date, according to the Management's assessment, there are no indicators of impairment of property and equipment.

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 reporting period 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.

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.

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 statement of financial position.

Provision for reported but not settled claims (RBNS)

Provisions for reported but not settled claims relate to claims that inccurred 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 affect 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.

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

Insurance contracts (continued)

Insurance assets and liabilties

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 statement of comprehensive income. Reinsurance premiums are recorded in their gross non-discounted amounts.

On every reporting period 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 statement of comprehensive income.

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 as liability in the Agency's statement of financial position 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 3, 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 reporting period date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

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

Key sources of estimation uncertainty (continued)

Useful lives of property and equipment

As described at Note 3 above, in paragraph with heading Property and equipment, the Agency reviews the estimated useful lives of property 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.

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 2010, 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 2010 and other areas that require estimates to be made by management. The 2009 financial statements contain significant estimates with respect to impairment losses. Actual results may differ from these estimates. The key priorities of the Agency in 2010 will be attention to the management of the financial portfolio adjusting to the changing economic environment.

(All amounts are expressed in thousand of KM, unless otherwise stated)

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.

The accounting policies of the reportable segments are the same as the accounting policies at the Company level as described in Note 4. Segment net result represents the net financial result achieved by each segment. This is the measure reported to the Board of Directors for the purposes of resource allocation and assessment of segment performance.

Segment information about these businesses is presented below:

	2009			**2008**		
Statement of comprehensive income	**Credit activities**	**Insurance activities**	**Total**	**Credit activities**	**Insurance activities**	**Total**
Interest and similar income	3,848	-	3,848	3,366	-	3,366
Interest expenses and similar charges	(31)	-	(31)	(143)	-	(143)
Net interest income	**3,817**	**-**	**3,817**	**3,223**	**-**	**3,223**
Net income from insurance activities	-	355	355	-	510	510
Net income from insurance activities	**-**	**355**	**355**	**-**	**510**	**510**
Guarantee claims	-	(6,454)	(6,454)	-	-	-
Expense from guarantee activities	**-**	**(6,454)**	**(6,454)**	**-**	**-**	**-**
Other operating income	1,045	8	1,053	502	10	512
Personnel costs	(758)	(189)	(947)	(737)	(184)	(921)
Depreciation and amortization	(40)	(4)	(44)	(35)	(3)	(38)
Other administrative expenses	(421)	(106)	(527)	(432)	(102)	(534)
Net FX (losses) / gains	(39)	-	(39)	145	-	145
Surplus of (expenses over income) / income over expenses before impairment losses	**3,604**	**(6,390)**	**(2,786)**	**2,666**	**231**	**2,897**
Impairment losses	(107)	-	(107)	(1,096)	-	(1,096)
Net surplus of (expenses over income) / income over expenses for the year	**3,497**	**(6,390)**	**(2,893)**	**1,570**	**231**	**1,801**
Other comprehensive income:	**-**	**-**	**-**	**-**	**-**	**-**
Total comprehensive (loss) / income for the year	**3,497**	**(6,390)**	**(2,893)**	**1,570**	**231**	**1,801**

(All amounts are expressed in thousand of KM, unless otherwise stated)

6. BUSINESS SEGMENTS (CONTINUED)

Statement of financial position	31 December 2009 Credit activities	31 December 2009 Insurance activities	31 December 2009 Total	31 December 2008 Credit activities	31 December 2008 Insurance activities	31 December 2008 Total
ASSETS						
Cash and cash equivalents	4,625	658	5,283	5,670	349	6,019
Placements with banks	7,878	214	8,092	8,713	264	8,977
Loans and advances to customers, net	42,860	-	42,860	44,923	-	44,923
Insurance assets	-	104	104	-	9	9
Receivables for insurance premium	-	55	55	-	117	117
Other assets, net	933	-	933	410	-	410
Tangible and intangible assets	134	-	134	154	-	154
TOTAL ASSETS	**56,430**	**1,031**	**57,461**	**59,870**	**739**	**60,609**
EQUITY AND LIABILITIES						
Liabilities						
Due to the State of Bosnia and Herzegovina	5,089	-	5,089	5,089	-	5,089
Insurance liabilities	-	160	160	-	14	14
Reinsurance premium payable	-	121	121	-	71	71
Other payables	487	-	487	973	-	973
Provisions	88	21	109	59	15	74
	5,664	**302**	**5,966**	**6,121**	**100**	**6,221**
Capital and reserves						
State capital	51,351	-	51,351	51,351	-	51,351
Reserves for insurance activities	-	2,430	2,430	-	-	-
Special reserves	607	-	607	-	-	-
Accumulated net financial results	(2,893)	-	(2,893)	2,720	317	3,037
	49,065	**2,430**	**51,495**	**54,071**	**317**	**54,388**
TOTAL EQUITY AND LIABILITIES	**54,729**	**2,732**	**57,461**	**60,192**	**417**	**60,609**

7. INTEREST AND SIMILAR INCOME

	2009	**2008**
Interest on loans to companies	2,384	2,154
Factoring income	1,280	787
Interest on placements with banks	158	424
Penalty interest	26	1
	3,848	**3,366**

8. INTEREST EXPENSES AND SIMILAR CHARGES

Amount of KM 31 thousand is related to debt servicing fee for BEEF loan facility (2008: KM 143 thousand, Note 20).

(All amounts are expressed in thousand of KM, unless otherwise stated)

9. INCOME FROM INSURANCE ACTIVITIES

	2009	2008
Insurance premiums – domestic	214	350
Insurance premiums – from abroad	44	44
Less: provision for claims reported but not settled	(51)	-
Less: provision for claims incurred but not reported	-	(4)
	207	*390*
Fees for investigation on companies' credibility (for insurance clients)	83	55
Other	65	65
	355	**510**

10. GUARANTEE CLAIMS

Due to the fact that the Agency's customer – Panefin d.o.o. Srbac did not settle its liability toward FACTOR BANKA d.d. Ljubljana, Slovenia for the revolving loan provided to, the Agency has received the claim from this bank in total amount of EUR 3,300,000 with regard to the guarantee issued as a collateral for the customer. The mentioned amount was paid on 21 December 2009.

11. OTHER OPERATING INCOME

	2009	2008
Fees from guarantees	915	343
Fees from factoring	110	87
Other income	28	82
	1,053	**512**

12. PERSONNEL COSTS

	2009	2008
Net salaries	476	474
Salary taxes and contributions	353	324
Other employee benefits	118	123
	947	**921**

(All amounts are expressed in thousand of KM, unless otherwise stated)

13. OTHER ADMINISTRATIVE EXPENSES

	2009	2008
Other services	113	120
Fees to members of Board of Directors	89	86
Rent	86	97
Travel expense	47	41
Bank fees	40	39
Material	31	33
Telecommunication costs	27	24
Maintenance cost	22	24
Entertainment	15	12
Insurance costs	7	6
Advertising	5	15
Donations	4	13
Other expenses	41	24
	527	**534**

14. IMPAIRMENT LOSSES

	2009	2008
(Release of) / additional allowance for loan losses (Note 17)	(17)	834
Allowance for factoring losses (Note 17)	79	249
Allowance for interest losses (Note 17)	-	10
Allowance for other assets losses (Note 19)	45	3
	107	**1,096**

15. CASH AND CASH EQUIVALENTS

	31 December 2009	31 December 2008
Current bank accounts, KM	3,620	4,218
Current bank accounts, foreign currencies	1,660	1,799
Cash in hand	3	2
	5,283	**6,019**

16. PLACEMENTS WITH BANKS

	31 December 2009	31 December 2008
ING Bank, London, UK	3,683	3,683
Raiffeisen Zentralbank AG, Vienna, Austria	2,730	3,783
Raiffeisen Bank BiH d.d. Sarajevo	1,670	1,501
Accrued interest	9	10
	8,092	**8,977**

(All amounts are expressed in thousand of KM, unless otherwise stated)

17. LOANS AND ADVANCES TO CUSTOMERS, NET

	31 December 2009	31 December 2008
Long-term loans:		
Long-term loans to companies	1,076	382
	1,076	***382***
Short-term loans:		
Short-term loans to companies	31,724	35,921
Allowance for impairment	(2,946)	(2,680)
	28,778	***33,241***
Advances:		
Receivables from factoring	11,580	10,835
Allowance for impairment	(141)	(504)
	11,439	***10,331***
Interest receivables:		
Accrued interest on loans	1,017	705
Accrued interest on receivables from factoring	582	296
Allowance for impairment	(32)	(32)
	1,567	***969***
	42,860	**44,923**

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

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

	31 December 2009	31 December 2008
Metal industry	19,450	20,411
Food industry	5,527	5,660
Wooden	3,985	5,790
Construction	1,737	1,529
Textile & leather	926	346
Trade	720	1,797
Services	260	275
Chemical industry	195	195
	32,800	**36,303**

(All amounts are expressed in thousand of KM, unless otherwise stated)

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

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

	31 December 2009	31 December 2008
Trade	9,833	7,577
Food industry	1,323	624
Metal industry	214	1,520
Wooden	197	341
Services	13	157
Textile & leather	-	616
	11,580	**10,835**

Movements in impairment allowance were as follows:

	2009	2008
Short-term loans:		
Balance at the beginning of year	2,680	1,846
(Release of) / additional allowance for impairment losses (Note 14)	(17)	834
Transfer from factoring	368	-
Write-offs	(85)	-
Balance at the end of year	***2,946***	***2,680***
Factoring:		
Balance at the beginning of year	504	255
Impairment losses (Note 14)	79	249
Transfer to loans	(368)	-
Write-offs	(74)	-
Balance at the end of year	***141***	***504***
Interest receivables:		
Balance at the beginning of year	32	22
Impairment losses (Note 14)	-	10
Write-offs	-	-
Balance at the end of year	***32***	***32***

18. RECEIVABLES FOR INSURANCE PREMIUM

	31 December 2009	31 December 2008
Insurance premium receivables (due)	55	117
Unearned insurance premiums	-	-
	55	**117**

(All amounts are expressed in thousand of KM, unless otherwise stated)

19. OTHER ASSETS

	31 December 2009	**31 December 2008**
Fee receivables from guarantees activities	883	319
Prepaid expenses	30	31
Other receivables	98	81
	1,011	*431*
Allowance for impairment	(78)	(21)
	933	**410**

Movements in impairment allowance were as follows:

	2009	**2008**
Balance at the beginning of the year	21	18
Impairment losses (Note 14)	45	3
Transfer from Accrued expenses	12	-
Balance at the end of *year*	**78**	**21**

20. TANGIBLE AND INTANGIBLE ASSETS

	Vehicles	**Computer equipment**	**Furniture and office equipment**	**Software**	**Total**
COST					
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**
Additions	26	3	2	-	31
Disposals	(55)	(3)	(3)	-	(61)
At 31 December 2009	**203**	**79**	**65**	**41**	**388**
ACCUMULATED DEPRECIATION					
At 31 December 2007	**124**	**68**	**34**	**23**	**249**
Charge for the period	16	8	10	4	38
Disposals	-	(11)	(12)	-	(23)
At 31 December 2008	**140**	**65**	**32**	**27**	**264**
Charge for the period	23	8	9	4	44
Disposals	(48)	(3)	(3)	-	(54)
At 31 December 2009	**115**	**70**	**38**	**31**	**254**
CARRYING AMOUNT					
At 31 December 2009	**88**	**9**	**27**	**10**	**134**
At 31 December 2008	**92**	**14**	**34**	**14**	**154**

(All amounts are expressed in thousand of KM, unless otherwise stated)

21. DUE TO THE STATE OF BOSNIA AND HERZEGOVINA

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.

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 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 2009, Agency recognized service charges as expense in the amount of KM 31 thousand (2008: KM 143 thousand, Note 8).

22. INSURANCE ASSETS AND LIABILITIES

	31 December 2009	31 December 2008
Gross		
Provision for unearned premium	-	-
Provision for claims reported but not settled	145	-
Provision for claims incurred but not reported	15	14
Total insurance liabilities, gross	***160***	***14***
Recoverable from re-insurers		
Provision for unearned premium	-	-
Provision for claims reported but not settled	(94)	-
Provision for claims incurred but not reported	(10)	(9)
Total insurance assets, gross	***(104)***	***(9)***
Provision for unearned premium	-	-
Provision for claims reported but not settled	51	-
Provision for claims incurred but not reported	5	5
Total insurance liabilities, net	**56**	**5**

23. REINSURANCE PREMIUM PAYABLE

Amount of KM 121 thousand relates to insurance premium payable toward IGA's reinsurers – Atradius, Belgium and Nationale Borg, Netherlands (2008: KM 71 thousand).

24. OTHER PAYABLES

	31 December 2009	31 December 2008
Liabilities from factoring	228	451
Deferred income	217	171
Accrued expenses	28	56
Trade payables	14	32
Liability for collected letters of credit	-	170
Employee payables	-	49
Liabilities for taxes and contributions	-	35
Other current liabilities	-	9
	487	**973**

25. PROVISIONS

	Retirement severance payments	Jubilee awards	Unused vacation days	Total
Balance as of 1 January 2008	**10**	**5**	**29**	**44**
Additional provisions recognized	4	6	20	30
Balance as of 31 December 2008	**14**	**11**	**49**	**74**
Additional provisions recognized	9	11	15	35
Balance as of 31 December 2009	**23**	**22**	**64**	**109**

26. STATE CAPITAL

	KM ‘000	share
State of Bosnia and Herzegovina	51,351	100%
	51,351	**100%**

27. FINANCIAL COMMITMENTS AND CONTINGENCIES

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

	31 December 2009	31 December 2008
Payments bonds	35,591	28,974
Advance payment bonds	11,339	3,687
Performance bonds	5,207	4,606
Bid bonds	1,732	21
Retention bonds	62	606
	53,931	**37,894**

(All amounts are expressed in thousand of KM, unless otherwise stated)

28. RELATED PARTY TRANSACTIONS

Management and Board of Directors remuneration

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

	2009	2008
Net salaries	163	141
Salary tax and contributions	99	92
Fees to Board of Directors	89	86
Other employee benefits (gross)	19	29
	370	**348**

29. FINANCIAL INSTRUMENTS

29.1 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.

29.2 Categories of financial instruments

	2009	2008
Financial assets		
Cash and cash equivalents	5,283	6,019
Placements with banks	8,092	8,977
Loans and advances to customers, net	42,860	44,923
Other assets	883	319
	57,118	**60,238**
Financial liabilities		
Amortised cost	391	873
	391	**873**

29.3 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.

29.4 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.

29. FINANCIAL INSTRUMENTS (CONTINUED)

29.5 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:

(in thousand of currencies)	**Assets 31 December 2009**	**Liabilities 31 December 2008**	**Assets 31 December 2008**	**Liabilities 31 December 2008**
EUR	11,292	-	11,927	-
USD	1,002	-	2,600	-

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. 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	
	2009	**2008**
Profit / (loss)	137	361

29.6 Interest rate risk

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

29.7 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.

(All amounts are expressed in thousand of KM, unless otherwise stated)

29. FINANCIAL INSTRUMENTS (CONTINUED)

29.7 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

	Total gross carrying amount	Unimpaired assets	Individually impaired assets	Impairment losses	Total net carrying amount
As of 31 December 2009					
Loans to the companies	32,800	27,817	4,983	2,946	29,854
Factoring	11,580	11,418	162	141	11,439
	44,380	**39,235**	**5,145**	**3,087**	**41,293**
As of 31 December 2008					
Loans to the companies	36,303	15,612	20,691	2,680	33,623
Factoring	10,835	10,156	679	504	10,331
	47,138	**25,768**	**21,370**	**3,184**	**43,954**

Credit exposure and collateral

	Credit risk exposure			
	Loans and advances to customers	**Guarantees issued**	**Insurance policies issued**	**Fair value of collateral**
As of 31 December 2009				
Loans to the companies	29,854	-	-	50,578
Factoring	11,439	-	-	-
Guarantees	-	53,931	-	61,848
	41,293	**53,931**	**-**	**112,426**
As of 31 December 2008				
Loans to the companies	33,623	-	-	72,693
Factoring	10,331	-	-	451
Guarantees	-	37,894	-	76,499
	43,954	**37,984**	**-**	**149,643**

(All amounts are expressed in thousand of KM, unless otherwise stated)

29. FINANCIAL INSTRUMENTS (CONTINUED)

29.7 Credit risk (continued)

Fair value of collaterals

	31 December 2009	31 December 2008
Real estate and other property	110,411	143,908
Guarantees	2,015	5,284
Cash deposits	-	451
Total	**112,426**	**149,643**

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 2009								
Loans to the companies	32,800	26,197	724	596	23	570	2,100	2,590
Factoring	11,580	5,723	826	721	706	1,696	1,676	232
Total	**44,380**	**31,920**	**1,550**	**1,317**	**729**	**2,266**	**3,776**	**2,822**
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**

29.8 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.

(All amounts are expressed in thousand of KM, unless otherwise stated)

29. FINANCIAL INSTRUMENTS (CONTINUED)

29.8 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	2 - 5 years	Total
31 December 2009						
Non-interest bearing	-	5,809	82	53	7	5,951
Fixed interest rate instruments	7.0	17,797	17,633	9,682	9,198	54,310
		23,606	**17,715**	**9,735**	**9,205**	**60,261**
31 December 2008						
Non-interest bearing	-	6,051	59	221	7	6,338
Fixed interest rate instruments	6.9	2,842	5,225	35,126	15,893	59,086
		8,893	**5,284**	**35,347**	**15,900**	**65,424**

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	2 - 5 years	Total
31 December 2009						
Non-interest bearing	-	93	281	17	-	391
		93	**281**	**17**	**-**	**391**
31 December 2008						
Non-interest bearing	-	130	502	241	-	873
		130	**502**	**241**	**-**	**873**

29. FINANCIAL INSTRUMENTS (CONTINUED)

29.9 Fair value of financial instruments

Fair value of financial instruments carried at amortized cost

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

Fair value measurements recognized in the statement of financial position

The Agency has no financial instruments subsequently recognized in the statement of financial position at their fair value.

30. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Management Board and authorized for issue on 8 March 2010.

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