Izvozno-kreditna agencija
Bosne i Hercegovine - IGA

Financial statements for the year ended
31 December 2012 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 in 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

Hamdije Čemerlića 39A

71000 Sarajevo

Bosnia and Herzegovina

29 March 2013

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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 Izvozno-kreditna agencija Bosne i Hercegovine - IGA (the "Agency"), set out on pages 3 to 32, which comprise the statement of financial position as of 31 December 2012, and statement of comprehensive income and expenses, 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 the International Financial Reporting standards and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 2012 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 licenced auditor

Deloitte d.o.o. Jadranska bb 71000 Sarajevo ID: 4200047380000

Mirza Bihorac, licenced auditor

Sarajevo, Bosnia and Herzegovina
29 March 2013

Statement of comprehensive income and expenses for the year ended 31 December 2012

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

	Notes	2012	2011
Interest and similar income	6	3,068	3,236
Net income from insurance activities	7	319	379
Other operating income	8	3,638	1,875
Personnel costs	10	(892)	(894)
Depreciation and amortization	18	(42)	(42)
Other administrative expenses	9	(679)	(577)
Net foreign exchange differences		(28)	39
Surplus of income over expenses before impairment losses and provisions		**5,384**	**4,016**
Impairment losses and provisions	11	(4,928)	(3,597)
Recoveries		-	4
Net surplus of income over expenses for the year		**456**	**423**
Other comprehensive income and expenses		-	-
Total surplus of income over expenses for the year		**456**	**423**

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

Statement of financial position
as of 31 December 2012

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

	Note	31 December 2012	31 December 2011
ASSETS			
Cash and cash equivalents	12	3,175	10,447
Placements with banks	13	13,926	8,285
Loans and factoring receivables, net	14	43,755	41,057
Financial assets at FVTPL	15	507	-
Insurance assets	20	242	15
Insurance premium receivable	16	17	55
Other receivables, net	17	2,643	1,396
Tangible and intangible assets	18	58	71
TOTAL ASSETS		**64,323**	**61,326**
EQUITY AND LIABILITIES			
Liabilities			
Due to the State of Bosnia and Herzegovina	19	5,089	5,089
Insurance liabilities	20	372	87
Reinsurance premium payable	21	124	151
Other payables	22	749	710
Provisions	23	5,184	2,940
		11,518	**8,977**
Capital and reserves			
State-owned capital	24	51,351	51,351
Reserves for insurance activities		2,430	2,430
Special reserves		607	607
Accumulated net financial results		(1,583)	(2,039)
		52,805	**52,349**
TOTAL EQUITY AND LIABILITIES		**64,323**	**61,326**

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

Signed on behalf of the Agency on 29 March 2013:

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

Statement of changes in equity
for the year ended 31 December 2012

(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 2010	**51,351**	**2,430**	**607**	**(2,462)**	**51,926**
Net surplus of income over expenses for the year	-	-	-	423	423
Other comprehensive income and expenses	-	-	-	-	-
Total comprehensive income and expenses	*-*	*-*	*-*	*423*	*423*
Balance at 31 December 2011	**51,351**	**2.430**	**607**	**(2,039)**	**52,349**
Net surplus of income over expenses for the year	-	-	-	456	456
Other comprehensive income and expenses	-	-	-	-	-
Total comprehensive income and expenses	*-*	*-*	*-*	*456*	*456*
Balance at 31 December 2012	**51,351**	**2,430**	**607**	**(1,583)**	**52,805**

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

Statement of cash flows
for the year ended 31 December 2012

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

	2012	2011
Operating activities		
Net surplus of income over expenses for the year	456	423
Adjustments for:		
Depreciation and amortization	42	42
Impairment losses and provisions	4,920	3,610
Accrued expenses	(6)	34
Fair value adjustment on financial assets at FVTPL	(7)	-
Change in provision for incurred but not reported claims, net	(4)	17
Change in provision for reported but not settled claims, net	52	--
Change in provision for unearned premiums	10	-
Interest income recognized in the statement of comprehensive income and expenses	(3,068)	(3,236)
Operating cash flows before movements in working capital	*2,395*	*890*
Net increase in placements with banks	(5,641)	(370)
Net increase in loan and factoring receivables, before allowance	(4,814)	(2,506)
Net decrease in insurance premium receivable	38	3
Net increase in other receivables, before allowance	(1,257)	(570)
Net (decrease) / increase in reinsurance premium payable	(27)	54
Net increase in other payables	45	303
Cash flow from operations	*(9,261)*	*(2,196)*
Interest paid	-	-
Net cash used in operating activities	**(9,261)**	**(2,196)**
Investing activities		
Purchase of tangible assets	(29)	(16)
Interest received	2,518	4,172
Purchase of financial assets at FVTPL	(500)	-
Net cash from investing activities	**1,989**	**4,156**
Financing activities	**-**	**-**
Net (decrease) / increase in cash and cash equivalents	**(7,272)**	**1,960**
Cash and cash equivalents at the beginning of the year	**10,447**	**8,487**
Cash and cash equivalents at the end of the year	**3,175**	**10,447**

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

1. GENERAL

Izvozno-kreditna agencija Bosne i Hercegovine – IGA / Export-credit agency of Bosnia and Herzegovina (the "Agency" or "IGA") is 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 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

Guarantees

IGA is authorized to provide support to B&H enterprises that need to provide contract guarantees such as bid guarantees, advance payment guarantees and performance guarantees 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 guarantees. In most cases this has meant that B&H companies have been obliged to cover the obligation assumed by the guarantee-giving bank by lodging the equivalent amount with the guarantee-giving bank in cash. IGA provides support either by providing a guarantee direct to the guarantee-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 guarantee giving bank against loss arising from a call if the B&H exporter fails to reimburse the guarantee 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.

Lately, there is an increasing demand on IGA's guarantees, either directly or through the banks, as a collateral for the payments in abroad for raw materials. Additionally, new opportunity has risen in the form of performance guarantees for the exporters that are providing raw material processing services to the companies from abroad, which are, also, suppliers of raw materials.

Export Credit Insurance - assurance of collection of receivables

Export credit insurance is a core business of export-credit agencies. Through the export-credit agency, the state is using this financial product in order to increase the export by lowering the risk of collection of receivables from abroad, leaving the companies to be more focused on improvement of production and entrance on new markets. Additionally, this financial product provides improvement of business relationship between the exporter and its operating through the possible transfer of insurance policy in the favor of the bank. This insurance policy may also be used as collateral for the production preparation loan or working capital loan.

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.

1. GENERAL (CONTINUED)

Activities (continued)

Export Credit Insurance - assurance of collection of receivables (continued)

Premiums range from 0.32% per annum to more than 2.5% 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

Factoring facility provided by IGA is so called Recourse Factoring that anticipates the exporter's responsibility for the invoice up to the moment of collection. The factoring activity is a means whereby IGA provides funding to B&H exporters in the period after performed delivery of goods, 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 financing up to 80% of invoices and providing the liquidity to the exporters. Receivables from abroad that are result of factoring activities are insured for the case of non-payment by the customer. Factoring is used in the situation when the exporters has no adequate collateral for the loan facility from the bank or wants to use that collateral for the financing of long-term investments. This type of facility transforms the working capital position and speeds up the turnover of factoring beneficiaries i.e. B&H exporting companies. As a part of factoring activities, IGA is providing "supply-chain factoring". This facitility represents the financing of suppliers that will be repaid from the future factoring reserves.

Management bodies of the Agency

IGA is organized as follows:

- Headquarters in Sarajevo, with divisions for products (factoring, guarantees and insurance) and division for support (legal, accounting, marketing),
- Branch office Mostar (with Deputy Director) that is responsible for the southern part of B&H,
- Branch office Banja Luka (with Deputy Director and Legal advisor) that is responsible for the northern part of B&H (primarily, for Republika Srpska).

Management Board

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

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

1. GENERAL (CONTINUED)

Management bodies of the Agency (continued)

Board of Directors

Mira Bradara	Chairman – since 17 December 2012 Deputy Chairman – until 16 December 2012	Representative of the Federation of Bosnia and Herzegovina
Milomir Draganić	Chairman – until 16 December 2012	Representative of Republika Srpska
Dragana Lažetić	Deputy Chairman – as of 17 December 2012	Representative of the State of Bosnia and Herzegovina
Gordana Praštalo	Member	Representative of Republika Srpska
Haris Abaspahić	Member – since 17 December 2012	Representative of the Federation of Bosnia and Herzegovina
Adisa Banović	Member – since 17 December 2012	Representative of Republika Srpska
Marko Bagarić	Member - until 16 December 2012	Representative of the Federation of Bosnia and Herzegovina

The Agency had 13 employees as of 31 December 2012 (2011: 13).

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:

- Amendments to IFRS 1 "First-time Adoption of IFRS" - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011),
- Amendments to IFRS 7 "Financial Instruments: Disclosures" - Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011),
- Amendments to IAS 12 "Income Taxes" - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012).

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

2.2 Standards and Interpretations in issue 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 10 "Consolidated Financial Statements" (effective for annual periods beginning on or after 1 January 2013),
- IFRS 11 "Joint Arrangements" (effective for annual periods beginning on or after 1 January 2013),
- IFRS 12 "Disclosures of Involvement with Other Entities" (effective for annual periods beginning on or after 1 January 2013),
- IFRS 13 "Fair Value Measurement" (effective for annual periods beginning on or after 1 January 2013),
- IAS 27 (revised in 2011) "Separate Financial Statements" (effective for annual periods beginning on or after 1 January 2013),
- IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures" (effective for annual periods beginning on or after 1 January 2013),

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

2.2 Standards and Interpretations in issue not yet adopted (continued)

- Amendments to IFRS 1 "First-time Adoption of IFRS" - Government Loans (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IFRS 7 "Financial Instruments: Disclosures" - Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IFRS 9 "Financial Instruments" and IFRS 7 "Financial Instruments: Disclosures" – Mandatory Effective Date and Transition Disclosures,
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosures of Interests in Other Entities" - Transition Guidance (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosures of Interests in Other Entities" and IAS 27 "Separate Financial Statements" - Investment Entities (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IAS 1 "Presentation of financial statements" - Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012),
- Amendments to IAS 19 "Employee Benefits" - Improvements to the Accounting for Post-employment Benefits (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IAS 32 "Financial instruments: presentation" - Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014),
- Amendments to various standards "Improvements to IFRSs (2012)" resulting from the annual improvement project of IFRS published on 17 May 2012 (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2013),
- IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine" (effective for annual periods beginning on or after 1 January 2013).

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, except for the revaluation of certain fixed assets and financial instruments.

These financial statements are presented in convertible marks (KM) since that is the currency in which the majority of the Agency's transactions are denominated. The KM is officially tied to the Euro (EUR 1 = KM 1.95583).

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

The principal accounting policies adopted are set out below:

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

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

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 and expenses 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 and expenses 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 2012	EUR 1 = KM 1.955830	USD 1 = KM 1.483600
31 December 2011	EUR 1 = KM 1.955830	USD 1 = KM 1.511577

Employee benefits

On behalf of its employees, the Agency pays personal income tax and contributions for pension, disability, health and unemployment insurance, on and from salaries, which are calculated as per the set legal rates during the course of the year on the gross salary. The Agency pays those tax and contributions in the favour of the institutions of the Federation of Bosnia and Herzegovina (on federal and cantonal level) and Republika Srpska. 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 and expenses 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).

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

Tangible assets

Equipment is 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. Gains or losses on the retirement or disposal of equipment are included in the statement of comprehensive income and expenses in the period they occur.

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%

Intangible assets

Intangible assets are valued at purchase costs and depreciated over their useful lives using the straight-line method.

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.

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

Financial assets (continued)

Financial assets at FVTPL

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Agency manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of the Agency of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Agency 's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any resulting gain or loss recognised in statement of total comprehensive income and expense. The net gain or loss recognised in recognised in statement of total comprehensive income and expense incorporates any dividend or interest earned on the financial asset.

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 assets, 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.

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.

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

Financial assets (continued)

Impairment of financial assets (continued)

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.

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.

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

Insurance contracts (continued)

Unearned premium (continued)

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.

Insurance assets and liabilities

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

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

Liability adequacy test

On each reporting period date, the Agency performs a liability adequacy test in order to determine whether the insurance liabilities, less related assets, are sufficient to cover claims from insurance contracts. When performing this test, the best estimates of future cash flows related to contractual assets and liabilities, as well as estimates of claims and processing and administrative costs and income from investments related to the contracts, are taken into consideration. Should the recognised liability turn out to be insufficient, its value is increased by reducing the financial result for the period either by reducing the value of financial assets (receivables from re-insurers) or by increasing provisions arising from reinsurance contracts.

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

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.

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.

Useful lives of equipment

As described at Note 3 above, the Agency reviews the estimated useful lives of 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.

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.

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

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

Key sources of estimation uncertainty (continued)

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. 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 Agency level as described in Note 3. 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:

	2012			2011		
Statement of comprehensive income and expenses	**Credit activities**	**Insurance activities**	**Total**	**Credit activities**	**Insurance activities**	**Total**
Interest and similar income	3,068	-	3,068	3,236	-	3,236
Net income from insurance activities	-	319	319	-	379	379
Other operating income	3,627	11	3,638	1,865	10	1,875
Personnel costs	(714)	(178)	(892)	(716)	(178)	(894)
Depreciation and amortization	(40)	(2)	(42)	(40)	(2)	(42)
Other administrative expenses	(543)	(136)	(679)	(461)	(116)	(577)
Net FX gains	(28)	-	(28)	39	-	39
Surplus of income over expenses before impairment losses and provisions	**5,370**	**14**	**5,384**	**3,923**	**93**	**4,016**
Impairment losses and provisions	4,928	-	4,928	(3,597)	-	(3,597)
Recoveries	-	-	-	4	-	4
Net surplus of income over expenses for the year	**442**	**14**	**456**	**330**	**93**	**423**
Other comprehensive income and expenses	-	-	-	-	-	-
Total comprehensive income and expenses for the year	**442**	**14**	**442**	**330**	**93**	**423**

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

5. BUSINESS SEGMENTS (CONTINUED)

Statement of financial position	31 December 2012			31 December 2011		
	Credit activities	Insurance activities	Total	Credit activities	Insurance activities	Total
ASSETS						
Cash and cash equivalents	2,667	508	3,175	9,909	538	10,447
Placements with banks	13,426	500	13,926	8,285	-	8,285
Loans and advances to customers, net	43,755	-	43,755	41,057	-	41,057
Insurance assets	-	242	242	-	15	15
Receivables for insurance premium	-	17	17	-	55	55
Financial assets at fair value through profit or loss	507	-	507	-	-	-
Other receivables, net	2,600	43	2,643	1,396	-	1,396
Tangible and intangible assets	55	3	58	71	-	71
TOTAL ASSETS	**63,010**	**1,313**	**64,323**	**60,718**	**608**	**61,326**
EQUITY AND LIABILITIES						
Liabilities						
Due to the State of Bosnia and Herzegovina	5,089	-	5,089	5,089	-	5,089
Insurance liabilities	-	372	372	-	87	87
Reinsurance premium payable	-	124	124	-	151	151
Other payables	743	6	749	710	-	710
Provisions	97	5,087	5,184	104	2,836	2,940
	5,929	**5,589**	**11,518**	**5,903**	**3,074**	**8,977**
Capital and reserves						
State capital	51,351	-	51,351	51,351	-	51,351
Reserves for insurance activities	-	2,430	2,430	-	2,430	2,430
Special reserves	607	-	607	607	-	607
Accumulated net financial results	4,304	(5,887)	(1,583)	3,862	(5,901)	(2,039)
	56,262	**(3,457)**	**52,805**	**55,820**	**(3,471)**	**52,349**
TOTAL EQUITY AND LIABILITIES	**62,191**	**2,132**	**64,323**	**61,723**	**(397)**	**61,326**

6. INTEREST AND SIMILAR INCOME

	2012	2011
Interest on loans to companies	1,935	2,142
Factoring income	840	928
Interest on placements with banks	293	166
	3,068	**3,236**

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

7. INCOME FROM INSURANCE ACTIVITIES

	2012	2011
Insurance premiums	169	197
Change in provision for incurred but not reported claims	4	(17)
Change in provision for reported but not settled claims	(52)	-
Change in provision for unearned premiums	(10)	-
	111	*180*
Fees for investigation on companies' credibility (for insurance clients)	107	128
Other	101	71
	319	**379**

8. OTHER OPERATING INCOME

	2012	2011
Fees from guarantees	3,564	1,785
Fees from factoring	40	79
Release of provisions for other employee benefits (Note 23)	8	-
Gain from financial assets at FVTPL (Note 15)	7	-
Other income	19	11
	3,638	**1,875**

9. OTHER ADMINISTRATIVE EXPENSES

	2012	2011
Services	103	95
Fees to members of Board of Directors	88	89
Rent	90	85
Material	29	30
Telecommunication costs	26	28
Travel expense	36	62
Bank fees	16	34
Maintenance cost	29	26
Entertainment	18	10
Donations	6	5
Insurance costs	6	4
Other expenses	232	109
	679	**577**

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

10. PERSONNEL COSTS

	2012	2011
Net salaries	462	452
Salary taxes and contributions	351	344
Other employee benefits	79	98
	892	**894**

11. IMPAIRMENT LOSSES AND PROVISIONS

	2012	2011
Allowance for guarantees (Note 23)	2,252	1,681
Impairment losses on long-term loan losses (Note 14)	1,800	110
Impairment losses on short-term loan losses (Note 14)	782	140
Impairment losses on interest receivables (Note 14)	84	18
Impairment losses on other receivables (Note 17)	10	-
Impairment losses on factoring receivables (Note 14)	-	1,648
	4,928	**3,597**

12. CASH AND CASH EQUIVALENTS

	31 December 2012	31 December 2011
Cahs at bank accounts, KM	2,723	2,115
Cash at bank accounts, foreign currencies	451	8,331
Cash at hand	1	1
	3,175	**10,447**

13. PLACEMENTS WITH BANKS

	31 December 2012	31 December 2011
ING Bank, London, UK	2,675	2,577
Bosnia Bank International d.d. Sarajevo	2,500	-
Raiffeisen Zentralbank AG, Vienna, Austria	2,072	1,988
ProCredit Bank d.d. Sarajevo	2,000	-
Intesa Sanpaolo Banka d.d. Bosna i Hercegovina	2,000	-
Balkan Investment Bank a.d. Banja Luka	1,500	3,500
MF banka a.d. Banja Luka	1,000	
Union de Banques Arabes et Francaises, France	172	172
Raiffeisen Bank dd Bosna i Hercegovina	7	7
Bobar Banka a.d. Bijeljina	-	41
	13,926	**8,285**

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

14. LOANS AND ADVANCES TO CUSTOMERS, NET

	31 December 2012	31 December 2011
Long-term loans:		
Long-term loans to companies	19,179	10,227
Allowance for impairment losses	(1,910)	(110)
	17,269	***10,117***
Short-term loans:		
Short-term loans to companies	20,274	23,310
Allowance for impairment losses	(5,533)	(4,751)
	14,741	***18,559***
Advances:		
Receivables from factoring	11,685	12,796
Allowance for impairment losses	(1,786)	(1,795)
	9,899	***11,001***
Interest receivables:		
Accrued interest on loans	1,171	989
Accrued interest on receivables from factoring	796	428
Allowance for impairment losses	(121)	(37)
	1,846	***1,380***
	43,755	**41,057**

The interest rate on loans and advances approved was fixed and within the range from 1% to 10%, depending on particular client.

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

	31 December 2012	31 December 2011
Metal industry	17,912	19,847
Wooden	7,268	4,218
Food industry	5,194	5,178
Electricity industry	4,990	1,000
Construction	2,578	1,967
Textile & leather	926	926
Services	370	170
Trade	215	231
	39,453	**33,537**

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

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

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

	31 December 2012	31 December 2011
Trade	9,756	9,493
Food industry	1,650	1,687
Wooden	227	421
Chemical industry	52	32
Metal industry	-	869
Plastics Industry	-	210
Services	-	84
	11,685	**12,796**

Movements in allowance for impairment losses were as follows:

	2012	2011
Long-term loans:		
Balance at the beginning of year	110	413
Increase (Note 11)	1,800	110
Transfer to short-term loans	-	(413)
Balance at the end of year	***1,910***	***110***
Short-term loans:		
Balance at the beginning of year	4,751	4,198
Increase (Note 11)	782	140
Transfer from long-term loans	-	413
Balance at the end of year	***5,533***	***4,751***
Factoring:		
Balance at the beginning of year	1,795	147
Increase (Note 11)	-	1,648
Write-offs	(9)	-
Balance at the end of year	***1,786***	***1,795***
Interest receivables:		
Balance at the beginning of year	37	37
Increase (Note 11)	84	18
Write-offs	-	(18)
Balance at the end of year	***121***	***37***

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

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

Financial asstes at fair value through profit or loss relate to investments in investment fund Raiffeisen CASH.
Movements in financial assets at fair value through the income statement were as follows:

	31 December 2012	31 December 2011
Balance at the beginning of the year	-	-
Purchase	500	-
Fer value gain (Note 8)	7	-
Balance at the end of the year	**507**	**-**

16. RECEIVABLES FOR INSURANCE PREMIUM

	31 December 2012	31 December 2011
Insurance premium receivables (due)	17	55
	17	**55**

17. OTHER RECEIVABLES, NETO

	31 December 2012	31 December 2011
Fee receivables from guarantees activities	2,484	1,243
Receivables from re-insurance companies for paid claims	43	97
Prepaid expenses	11	14
Other receivables	194	121
	2,372	*1,475*
Allowance for impairment losses	(89)	(79)
	2,643	**1,396**

Movements in allowance for impairment were as follows:

	2012	2011
Balance at the beginning of the year	79	79
Increase (Note 11)	10	-
Balance at the end of year	**89**	**79**

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

18. TANGIBLE AND INTANGIBLE ASSETS

	Vehicles	Computer equipment	Furniture and office equipment	Software	Total
COST					
At 31 December 2010	**203**	**75**	**66**	**41**	**385**
Additions	-	11	5	-	16
At 31 December 2011	**203**	**86**	**71**	**41**	**401**
Additions	-	20	3	6	29
Writte offs	(31)	(17)	(8)	-	(56)
At 31 December 2012	**172**	**89**	**66**	**47**	**374**
ACCUMULATED DEPRECIATION					
At 31 December 2010	**138**	**69**	**46**	**35**	**288**
Charge for the year	23	6	9	4	42
At 31 December 2011	**161**	**75**	**55**	**39**	**330**
Charge for the year	23	7	10	2	42
Writte offs	(31)	(17)	(8)	-	(56)
At 31 December 2012	**153**	**65**	**57**	**41**	**316**
NET BOOK VALUE					
At 31 December 2012	**19**	**24**	**9**	**6**	**58**
At 31 December 2011	**42**	**11**	**16**	**2**	**71**

19. DUE TO THE STATE OF BOSNIA AND HERZEGOVINA

The Agency signed Agreements with World Bank and with the State of Bosnia and Herzegovina, which define its legal obligations, based on the funds received and in accordance with projects LIFT and BEEF. Also, Subsidiary loan Agreement was signed between State of Bosnia and Herzegovina and Entities (Federation of Bosnia and Herzegovina and Republika Srpska), where Entities assume the obligation of loan repayments in accordance with their share in loan portfolio. Liability in the amount of KM 5,089 thousands will be included in equity after it is approved by Council of Ministers of Bosnia and Herzegovina.

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

20. INSURANCE ASSETS AND LIABILITIES

	31 December 2012	31 December 2011
Gross		
Provision for unearned premium	31	-
Provision for claims reported but not settled	147	-
Provision for claims incurred but not reported	194	87
Total insurance liabilities, gross	***372***	***87***
Recoverable from re-insurers		
Provision for unearned premium	(21)	-
Provision for claims reported but not settled	(95)	-
Provision for claims incurred but not reported	(126)	(15)
Total insurance assets, gross	***(242)***	***(15)***
Net		
Provision for unearned premium	10	-
Provision for claims reported but not settled	52	-
Provision for claims incurred but not reported	68	72
Total insurance liabilities, net	**130**	**72**

21. REINSURANCE PREMIUM PAYABLE

Amount of KM 124 thousand relates to insurance premium payable toward IGA's reinsurers – Atradius, Belgium and Nationale Borg, Netherlands (2011: KM 151 thousand).

22. OTHER PAYABLES

	31 December 2012	31 December 2011
Deferred income	513	580
Liabilities from factoring	180	84
Accrued expenses	28	34
Trade payables	22	12
Other	6	-
	749	**710**

23. PROVISIONS

	31 December 2012	31 December 2011
Provision for payment guarantees issued	5,063	2,811
Provision for other employee benefits	121	129
	5,184	**2,940**

23. PROVISIONS (CONTINUED)

Commitments and contingencies

The financial commitments and contingencies the Agency had at the end of year:

	31 December 2012	31 December 2011
Payments guarantees	101,240	80,296
Advance payment guarantees	30,979	3,272
Performance bond	8,920	17,267
Bid guarantees	296	63
	141,435	**100,898**

During 2012, based on experience from previous periods, the Management Board has made decision on recognition of provisions for payment guarantees to the companies at the level of 5% (2011: 3.5%) of total value of guarantees issued. Consequently, as of 31 December 2012, the Agency recognized an amount of KM 2,252 thousand (2011; KM 1,681 thousand) as additional provison (Note 11).

Provision for other employee benefits

	Retirement severance payments	Jubilee awards	Unused vacation days	Total
Balance as of 31 December 2010	**26**	**23**	**69**	**118**
Additional provisions, net (Note 10)	(3)	3	13	13
Reduction due to payments	-	(2)	-	(2)
Balance as of 31 December 2011	**23**	**24**	**82**	**129**
Release of provisions, net (Note 8)	2	2	(12)	(8)
Balance as of 31 December 2012	**25**	**26**	**70**	**121**

24. STATE-OWNED CAPITAL

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

25. RELATED PARTY TRANSACTIONS

Management and Board of Directors remuneration

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

	2012	2011
Net salaries	164	160
Salary tax and contributions	105	117
Fees to Board of Directors	87	89
Other employee benefits (gross)	19	26
	375	**392**

26. FINANCIAL INSTRUMENTS

26.1 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.

26.2 Categories of financial instruments

	31 December 2012	31 December 2011
Financial assets		
Cash and cash equivalents	3,175	10,447
Placements with banks	13,926	8,285
Loans and advances to customers, net	43,755	41,057
Financial assets at fair value through profit or loss	507	-
Other assets	2,527	1.340
	63,890	**61,129**
Financial liabilities		
At amortised cost	354	281
	354	**281**

26.3 Financial risk management objectives

The Agency monitors and manages the financial risks relating to 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.

26.4 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.

26.5 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 amounts of the Agency's monetary assets and monetary liabilities at the reporting date, denominated in foreign currencies, were as follows:

(in thousand of currencies)	Assets 31 December 2012	Liabilities 31 December 2012	Assets 31 December 2011	Liabilities 31 December 2011
EUR	1,936	-	5,907	-
USD	1,001	-	1,001	-

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

26. FINANCIAL INSTRUMENTS (CONTINUED)

26.5 Foreign currency risk (continued)

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	
	2012	**2011**
Profit / (loss)	148	151

26.6 Interest rate risk

The Agency is exposed to interest rate risk as the Agency is placing funds at fixed interest rates. The Agency's exposures to interest rates on financial assets are detailed in the liquidity risk management section of this note (see Note 26.8).

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the reporting period date. The analysis is prepared assuming the amount of financial assets outstanding at the reporting period date was outstanding for the whole year. A 50 basis point increase or decrease (0.5%) is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (0.5%) higher / lower and all other variables were held constant, the net result for the year ended 31 December 2012 of the Agency would increase / decrease by KM 256 thousand (2011: KM 232 thousand).

26.7 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.

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 thousand of KM, unless otherwise stated)

26. FINANCIAL INSTRUMENTS (CONTINUED)

26.7 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 31 December 2012					
Loans to the companies	39,453	29,016	10,437	7,443	32,010
Factoring	11,685	9,947	1,738	1,786	9,899
	51,138	**38,963**	**12,175**	**9,229**	**41,909**
As of 31 December 2011					
Loans to the companies	33,537	27,863	5,674	4,861	28,676
Factoring	12,796	10,962	1,834	1,795	11,001
	46,333	**38,825**	**7,508**	**6,656**	**39,677**

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 2012				
Loans to the companies	32,010	-	-	67,771
Factoring	9,899	-	-	-
Guarantees	-	141,435	-	170,733
	41,909	**141,435**		**238,504**
As of 31 December 2011				
Loans to the companies	28,676	-	-	66,916
Factoring	11,001	-	-	-
Guarantees	-	100,898	-	90,946
	39,677	**100,898**	**-**	**157,862**

Fair value of collaterals

	31 December 2012	31 December 2011
Real estate and other property	78,419	108,209
Guarantees	160,085	49,653
	238,504	**157,862**

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

26. FINANCIAL INSTRUMENTS (CONTINUED)

26.7 Credit risk (continued)

Past due

	Gross	Undue	Up to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 365 days	Over 365 days
As of 31 December 2012								
Loans to the companies	39,453	27,203	801	14	14	439	9,756	1,226
Factoring	11,685	1,604	79	-	699	1,456	4,030	3,807
Total	**51,138**	**28,807**	**880**	**14**	**713**	**1,905**	**13,786**	**5,033**
As of 31 December 2011								
Loans to the companies	33,537	23,806	38	37	33	104	5,142	4,377
Factoring	12,796	5,555	515	222	1,158	1,691	3,347	308
Total	**46,333**	**29,361**	**553**	**259**	**1,191**	**1,795**	**8,489**	**4,685**

26.8 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.

Maturity for financial assets

	Weighted average effective interest rate	Less than 1 month	2 - 3 months	4 months to 1 year	2 to 5 years	Over 5 years	Total
31 December 2012							
Non-interest bearing	-	3,193	4,648	864	2,251	-	10,956
Fixed interest rate instruments	5.24%	21,196	3,332	9,523	20,518	4,582	59,151
		24,389	**7,980**	**10,387**	**22,769**	**4,582**	**70,107**
31 December 2011							
Non-interest bearing	-	10,969	97	617	7	-	11,690
Fixed interest rate instruments	4.00%	11,195	11,874	9,310	20,376	2,324	55,079
		22,164	**11,971**	**9,927**	**20,383**	**2,324**	**66,769**

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

26. FINANCIAL INSTRUMENTS (CONTINUED)

26.8 Liquidity risk (continued)

Liquidity and interest risk tables (continued)

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 to 5 years	Over 5 years	Total
31 December 2012							
Non-interest bearing	-	57	267	30	-	-	354
		57	**267**	**30**	**-**	**-**	**354**
31 December 2011							
Non-interest bearing	-	65	163	53	-	-	281
		65	**163**	**53**	**-**	**-**	**281**

26.9 Fair value of financial instruments

Fair value of financial instruments carried at amortized cost

The Management believes that the carrying amounts of the Agency'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 following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As of 31 December 2012 and 2011, financial instruments of the Agency related to Level 1 amounted to:

	31 December 2012.	31 December 2011
Financial assets at fair value through profit or loss	507	-
	507	**-**

The Agency has no financial instruments grouped in levels 2 and 3 as of 31 December 2012 and 2011.

27. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Management Board and authorized for issue on 29 March 2013.

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