

**Report on the Republika Srpska part of the Project Financial Statements of the
BANKING SECTOR STRENGTHENING PROJECT
of the Ministry of Finance and Treasury of Bosnia and Herzegovina**

**Financed by:
- Loan No. 8741-BA**

For the period from 1 January 2021 to 31 October 2021

**REPUBLICA SRPSKA RAILWAY RESTRUCTURING PROJECT
of the Ministry of Finance and Treasury of Bosnia and Herzegovina**

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1. Introduction

1.1 Background

The State of Bosnia and Herzegovina, through its Ministry of Treasury has obtained a Credit from the International Bank for reconstruction and Development.

The objective of the Project is to improve the soundness of the banking sector by enhancing bank regulation, supervision and resolution capacity and by enhancing the development finance framework for COVID-19 affected enterprises.

1.1.1 Description of the Project

The project has the following parts:

Part B.1 Strengthening Banking Sector Regulation and Supervision Aligned with Basel III Regime, Tailored to the Level of Development of the Banking Sector

Providing financing for an RS Eligible Expenditure Program to support the BARS to: (i) strengthen capital and liquidity requirements for banks to withstand solvency and liquidity shocks; (ii) introduce a risk appetite framework and an internal capital adequacy assessment process; and (iii) introduce a revised supervisory risk-based methodology aligned with SREP.

Part B.2 Addressing Weaknesses in the Banking Sector

Providing financing for an RS Eligible Expenditure Program to support the BARS to: (i) enhance the terms of reference for AQRs; (ii) carry out outstanding AQRs; and (iii) enforce the results of AQRs that have been carried out.

Part B.3 Support BARS in the Implementation of the Bank Resolution Framework set forth in the RS Law on Banks

Providing financing for an RS Eligible Expenditure Program to support the BARS to: (i) prepare and adopt bylaws and decisions on bank recovery and resolution; (ii) establish and operationalize a dedicated bank resolution unit; and (iii) adopt an internal assessment methodology for recovery plans and subsequent assessment of recovery plans to be submitted by all banks to BARS.

Part B.4 Promote access to finance COVID-19 affected enterprises through regulatory and liquidity measures while maintaining financial stability as well as improving the governance and business model of RS development bank.

"Providing financing for an RS Eligible Expenditure Program to support: (i) the RS definition and approval of the strategic vision for IRBRS; and (ii) expanding the existing development finance framework in RS by enabling one of their development finance institutions (RS Guarantee Fund) to launch a temporary credit guarantee scheme providing financing to COVID-19 affected enterprises through adoption of a Government Decree and implementing Decision."

Part B.5 Technical Assistance

Providing technical assistance to support RS' achievement of DLRs.

REPUBLICA SRPSKA BANKING SECTOR STRENGTHENING PROJECT
of the Ministry of Finance and Treasury of Bosnia and Herzegovina

1. Introduction (continued)

1.2 Financing of the Project

The State of Bosnia and Herzegovina ("B&H") is the borrower of the International Bank for Reconstruction and Development Loan No. 8741-BA amounting to the equivalent of EUR 56,600,000.

Under the terms of a subsidiary finance agreement between B&H and RS, funds of the equivalent of EUR 28,300,000 have been lent to RS.

Categories of cost items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each category and the percentage of expenditure for cost items so to be financed in each category are as follows:

Item	Amount of the Credit allocated (in EUR)	% of expenditure to be financed
(3) RS Eligible Expenditure Program	27,279,250	100%
(4) Goods, non-consulting services, consultants' services, Training and incremental operating costs for Part B.5 of the Project	950,000	100%
(3) Front-end fee	70,750	
Subtotal		28,300,000

In accordance with Amendment No.1 to the Loan Agreement signed on 2 July 2020, categories of cost items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each category and the percentage of expenditure for cost items so to be financed in each category can be presented as follows:

Item	Amount of the Credit allocated (in EUR)	% of expenditure to be financed
(3) RS Eligible Expenditure Program	28,229,250	100%
(4) Goods, non-consulting services, consultants' services, Training and incremental operating costs for Part B.5 of the Project	-	-
(3) Front-end fee	70,750	
Subtotal		28,300,000

Also, toward Amendment No. 1 the closing date of the Project is 30 June 2021.

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2. Independent Auditor's Report

To the State of Bosnia and Herzegovina,
Ministry of Finance and Treasury
Attn. of Minister of Finance and Treasury H.E. Mr. Vjekoslav Bevanda

Report on the Project Financial Statements

Opinion

We have audited the accompanying project financial statements of the Republika Srpska part of the Banking Sector Strengthening Project (the "Project"), which comprise of Summary of sources and uses of funds, Balance sheet, Designated account statement, Statement of loan withdrawals as of and for the period ended 31 October 2021, and a summary of significant accounting policies and other explanatory notes for the year then ended, financed under IDA Credit No. 8741- BA.

In our opinion, the accompanying project financial statements present fairly, in all material aspects, the financial position of the Project as of 31 October 2021, and of the funds received and disbursed during the year then ended, in accordance with the cash basis of accounting based on International Public Sector Accounting Standard ("IPSAS"), as described in Note 4.1.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). In conducting audit we were also guided by the Bank's financial reporting and auditing requirements, Disbursement Guidelines for Investment Project Financing, the Loan Handbook for World Bank Borrowers and the World Bank's Procurement Framework. We are independent of the Ministry of Finance and Treasury in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Project Financial Statements

The management of project coordination unit is responsible for the preparation of these project financial statements in accordance with the cash basis of accounting based on IPSAS, as described in Note 4.1., and for such internal control as management determines is necessary to enable the preparation of project financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Project's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Project or to cease operations or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the financial reporting process.

Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance about whether the project financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the project financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Project's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Project's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Project to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the project financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other requirements

In addition, with respect to the Statement of Expenditure, adequate documentation supporting Disbursement Linked indicators or Performance Based Conditions and underlying expenditures have been maintained to support claims for reimbursements of expenditure occurred, and such expenditures were eligible and incurred for the purpose intended under IDA Credit No. 8741- BA. Also, respective reports issued during the period were in agreement with the underlying books of account.

Signed on behalf of Baker Tilly Re Opinion d.o.o. Sarajevo

Nihad Fejzić, Director and Certified Auditor

Sarajevo, Bosnia and Herzegovina
16 December 2021



Ezita Imamović, Certified Auditor

REPUBLICA SRPSKA BANKING SECTOR STRENGTHENING PROJECT
of the Ministry of Finance and Treasury of Bosnia and Herzegovina
 Project financial statements for the period ended 31 October 2021

(all amounts in EUR, unless otherwise stated)

3. Project financial statements for the period ended 31 October 2021

3.1 Summary of sources and uses of funds under Loan No. 8741- BA

	Actual I-X/2021	Cumulative 2021	Cumulative 2020	Cumulative budget	Cumulative variance
FINANCING					
Loan – 8741 - BA	530,000	28,229,250	27,699,250	28,229,250	-
Front – end fee (from direct payments)	-	70,750	70,750	70,750	-
TOTAL FINANCING	530,000	28,300,000	27,770,000	28,300,000	-
PROJECT EXPENDITURE					
<i>By Category</i>					
Eligible Expenditure Program Goods, non-consulting services, consultants' services, Training and incremental operating costs for Part B.5 of the Project	530,000	28,229,250	27,699,250	28,229,250	-
Front – end fee	-	70,750	70,750	70,750	-
TOTAL EXPENDITURE	530,000	28,300,000	27,770,000	28,300,000	-
PROJECT EXPENDITURE					
<i>By Component (DLR)</i>					
DLR 1.1	-	1,319,250	1,319,250	1,319,250	-
DLR 1.2	-	2,360,000	2,360,000	2,360,000	-
DLR 1.3	-	2,360,000	2,360,000	2,360,000	-
DLR 1.4	-	2,500,000	2,500,000	2,500,000	-
DLR 2.1	-	2,360,000	2,360,000	2,360,000	-
DLR 2.2	-	2,360,000	2,360,000	2,360,000	-
DLR 2.3	-	2,360,000	2,360,000	2,360,000	-
DLR 3.1	-	2,360,000	2,360,000	2,360,000	-
DLR 3.2	-	2,360,000	2,360,000	2,360,000	-
DLR 3.3	-	2,360,000	2,360,000	2,360,000	-
DLR 4.1	-	2,000,000	2,000,000	2,000,000	-
DLR 4.2	-	3,000,000	3,000,000	3,000,000	-
DLR 4.3	530,000	530,000	-	530,000	-
Goods, non-consulting services, consultants' services, Training and incremental operating costs for Part B.5 of the Project	-	-	-	-	-
Front – end fee	-	70,750	70,750	70,750	-
TOTAL EXPENDITURE	530,000	28,300,000	27,770,000	28,300,000	-

* The all funds were paid into a single treasury account of the Republika Srpska.

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Project financial statements for the year ended 31 October 2021

(all amounts in EUR, unless otherwise stated)

3. Project financial statements for the period ended 31 October 2021 (continued)

3.2. Balance sheet as of 31 October 2021 showing accumulated funds of the Project and bank balances concerning World Bank funding

	31 October 2021	31 December 2020
ASSETS		
Project expenditure under Loan	28,300,000	27,770,000
Designated account	-	-
Total assets	28,300,000	27,770,000
LIABILITIES		
Loan No. 8741-BA	28,300,000	27,770,000
Total liabilities	28,300,000	27,770,000

Person for the tasks of financial management

Duško Glušić
Duško Glušić



Banja Luka, 16 December 2021

**REPUBLICA SRPSKA BANKING SECTOR STRENGTHENING PROJECT
of the Ministry of Finance and Treasury of Bosnia and Herzegovina
Project financial statements for the period ended 31 October 2021**

(all amounts in EUR, unless otherwise stated)

4. Notes to the project financial statements

4.1 Basis of preparation and accounting records

These project financial statements have been prepared in accordance with the International Public Sector Accounting Standard: "Financial Reporting under the Cash Basis of Accounting" issued by the Public Sector Committee of the International Federation of Accountants, and incorporate the accounting policies below, which have been consistently followed in all material respects and comply with the "Guidelines: Annual Financial Reporting and Auditing for World Bank – Financed Activities", issued by the Financial Management Sector Board.

4.2 Accounting policies

The Project's fiscal period is 1 January to 31 October for the recording of all transactions.

Cash basis of accounting

All receipts and expenses under Loan No.8741-BA are recorded on actual receipt and payment basis of accounting as per approved categories.

Direct payments

Direct payments concern the amounts paid directly from the Credit account of the World Bank.

Statement of Expenditure (SoE)

Statements of Expenditure are used by the PCU to state the expenditure under the Loan during a certain period. These statements are sent to the World Bank's disbursement department who authorises the payment of the expenditure through the Special account.

Currency conversions

The reporting currency is Euro (EUR). Sources and use of funds (payments to suppliers and contractors) in currencies other than EUR have been converted to EUR using the currency rate at the moment of the disbursement or transaction.

Bank balances, recorded on the balance sheet at reporting date, have been converted at reporting date rate.

Designated account

This is the total amount of the withdrawals from the Credit account for the Project. Loan account is in EUR.

**REPUBLICA SRPSKA BANKING SECTOR STRENGTHENING PROJECT
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Project financial statements for the period ended 31 October 2021**

(all amounts in EUR, unless otherwise stated)

4. Notes to the project financial statements (continued)

4.2 Accounting policies (continued)

Interest on Designated account

Interest earned on the Designated account belongs to the Borrower.

Interest on Credit account

Interest earned on the Credit account belongs to the Borrower.

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(all amounts in EUR, unless otherwise stated)

APPENDIX B **SoE Withdrawal Schedule of Loan No. 8741-BA for the period ended 31 October 2021**

	Initial deposit	Goods, non-consulting services, consultants' services, Training and incremental operating costs for Part B.5 of the Project	Eligible expenditure program	Front – end fee	Total application	Total replenished
Previous period	-	-	17,839,250	70,750	17,910,000	17,910,000
Front – end fee	-	-	-	-	-	-
Application 5	-	-	2,360,000	-	2,360,000	2,360,000
Application 6	-	-	7,500,000	-	7,500,000	7,500,000
Total 2020	-	-	9,860,000	-	9,860,000	9,860,000
Cumulative 2020	-	-	27,699,250	70,750	27,770,000	27,770,000
Application 7	-	-	530,000	-	530,000	530,000
Cumulative 31 October 2021	-	-	28,229,250	70,750	28,300,000	28,300,000

REPUBLICA SRPSKA BANKING SECTOR STRENGTHENING PROJECT**of the Ministry of Finance and Treasury of Bosnia and Herzegovina**

Project financial statements for the period ended 31 October 2021

*(all amounts in EUR, unless otherwise stated)***APPENDIX C****Reconciliation between World Bank's disbursement statements in EUR and
Loan account in EUR according to the balance sheet; SoE Withdrawal Schedule
of Loan No. 8741-BA**

	Changes in Loan (in EUR)
Original amount	28,300,000
Front end-fee	70,750
Withdrawal 1	4,139,250
Withdrawal 2	8,980,000
Withdrawal 3	2,360,000
Withdrawal 4	2,360,000
Total disbursed in 2019	17,839,250
Total disbursed as of 31 December 2019	17,910,000
Withdrawal 5	2,360,000
Withdrawal 6	7,500,000
Total disbursed in 2020	9,860,000
Total disbursed as of 31 December 2020	27,770,000
Withdrawal 7	530,000
Total disbursed in 2021	530,000
Total disbursed as of 31 October 2021	28,300,000
Calculated undisbursed balance as of 31 October 2021	-
Undisbursed balance as per World Bank Summary	-