

Report on the Consolidated Project Financial
Statements of the

**BANKING SECTOR STRENGTHENING
PROJECT**

of the Ministry of Finance and Treasury of Bosnia and Herzegovina

Financed by:
- IBRD 8741- BA

For the year ended 31 December 2020

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

CONTENTS

1	Introduction	1
2	Independent Auditor's Report	4
3	Consolidated Project Financial Statements for the year 2020	7
4	Notes to the Consolidated Project Financial Statements	9

APPENDICES

A.1	Designated account statement – IBRD 8741-BA (FB&H)	10
A.2	Designated sub-account statement – IBRD 8741-BA (FB&H)	11
B	SoE Withdrawal Schedule of IBRD 8741 for the year ended 31 December 2020	12
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	13

BANKING SECTOR STRENGTHENING PROJECT

of the Ministry of Finance and Treasury of Bosnia and Herzegovina

1. Introduction

The World Bank - International Bank for Reconstruction and Development (IBRD) will provide a credit to the Bosnia and Herzegovina Banking Sector Strengthening (BSSP). The Credit proceeds will be passed into Federation of Bosnia and Herzegovina (FB&H) and Republic Srpska (RS) under Subsidiary Credit Agreements, with terms and conditions satisfactory to IBRD.

1.1 Objectives of the Project

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.

1.2 Components and activities of the Project

Project components shall be the following:

1. Strengthening, regulation and supervision aligned with the Basel III regime, tailored to the level of development of the banking sector (hereinafter referred to as: *Component 1* of the Project),
2. Addressing weaknesses in the banking sector (hereinafter referred to as: *Component 2* of the Project),
3. Operationalizing the new bank resolution framework (hereinafter referred to as: *Component 3* of the Project),
4. Improving governance and business model of entity development banks (hereinafter referred to as: *Component 4* of the Project), and
5. Provision of additional technical assistance in the achievement of the objective of the Project (hereinafter referred to as: *Component 5* of the Project).

Component 1 of the Project has as its objective the provision of support to the FBA and BARS in the following:

- 1) Further strengthening of capital and liquidity requirements to enhance banks' ability to withstand solvency and liquidity shocks,
- 2) Introduction of a risk appetite framework and internal capital adequacy assessment process (hereinafter referred to as: ICAAP), through the implementation of Pillar 2 of Basel III, which aims to enhance the link between an institution's risk profile, its risk management and its capital planning,
- 3) Develop new revised supervisory risk-based methodologies for supervisory risk review and evaluation process (hereinafter referred to as: SREP methodology) aligned with the European Union standards, aimed at enhancing transparency and harmonization of supervisory review processes.

Component 2 of the Project has as its objective the provision of support to the FBA and BARS in the following:

- 1) Improvement and performance of asset reviews in banks (hereinafter referred to as: AQR) and the launch of the 2017 AQRs of in the remaining banks in FB&H and RS, and
- 2) Adoption of adequate programmes for resolving problems in banks, on the basis of results of asset quality reviews, either by mandatory time bound corrective action programs or resolution/liquidation programs for all under-capitalized banks.

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

1.2 Components and activities of the Project (continued)

Component 3 of the Project has as its objective the provision of support to the FBA and BARS in the implementation of the legal framework that regulates bank resolution, specifically in the following:

- 1) Preparation and adoption of a key set of bylaws and decisions that regulate bank recovery and resolution,
- 2) Establishment and operationalization of the Bank Resolution Unit within the FBA and BARS and
- 3) Adoption of an internal assessment methodology for recovery plans and subsequent assessment of recovery plans to be submitted by all banks to the FBA and BARS.

Component 4 of the Project has as its objective the provision of support to the FBIHDB and IRBRS in the following:

- 1) Definition and adoption of the FB&H Government's statement on future development of the FBIHDB,
- 2) Adoption of the FB&HDB business plan,
- 3) Alignment of the FB&HDB's risk management organization, reporting lines, and policies and procedures with those required for FBA-regulated banks,
- 4) the RS definition and approval of the strategic vision for IRBRS,
- 5) the transfer of identified Funds' assets aligned with IRBRS' strategy to IRBRS,
- 6) IRBRS' full compliance with BARS bylaw governing the application of banking regulations to IRBRS.

Component 5 of the Project is provision of additional technical assistance in the achievement of the objective of the Project.

1.3 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 agreements between State of Bosnia and Herzegovina and the Federation of Bosnia and Herzegovina ("FB&H") and Republic Srpska ("RS"), funds of the equivalent of EUR 28,300,000 have been lent to FB&H and 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 expenditures to be financed (inclusive of taxes)
(1) FB&H and RS Eligible Expenditure Program Goods, non-consulting services, consultants'	54,558,500	100%
(2) services, Training, and Incremental Operating Costs for Part A.5 and Part B.5 of the Project	1,900,000	100%
(3) Front-end Fee	141,500	-
Subtotal	56,600,000	

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

1.3 Financing of the Project (continued)

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 expenditures to be financed (inclusive of taxes)
(1) FBiH and RS Eligible Expenditure Program Goods, non-consulting services, consultants'	55,508,500	100%
(2) services, Training, and Incremental Operating Costs for Part A.5 and Part B.5 of the Project	950,000	100%
(3) Front-end Fee	141,500	-
Subtotal	56,600,000	

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

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 Consolidated Project Financial Statements**Opinion**

We have audited the accompanying consolidated project financial statements of the Banking Sector Strengthening Project (the "Project"), which comprise of Summary of sources and uses of funds, Balance sheet, Designated account statement, Statements of loan withdrawals as of and for the year ended 31 December 2020, and a summary of significant accounting policies and other explanatory notes for the year then ended, financed under IBRD Credit 8741-BA.

In our opinion, the accompanying consolidated project financial statements present fairly, in all material aspects, the financial position of the Project as of 31 December 2020, 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. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. 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 Consolidated Project Financial Statements

The management of project implementation unit in FBiH and project coordination unit in RS are responsible for the preparation of separate project financial statements in accordance with the cash basis of accounting based on IPSAS, as described in Note 4.1., Guidelines: Annual Financial Reporting and Auditing for World Bank-Financed Activities, 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 separate 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. These consolidated financial statements are sum of separate project financial statements.

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Responsibilities for the Audit of Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated project financial statements, including the disclosures, and whether the consolidated 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 has been maintained to support claims for reimbursements of expenditures occurred and such expenditure were eligible and incurred for the purpose intended under IBRD Credit 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



Ezita Imamović, Certified Auditor

Sarajevo, 31 May 2021

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

Consolidated project financial statements for the year ended 31 December 2020

(all amounts in EUR, unless otherwise stated)

3. Consolidated project financial statements for the year 2020

3.1 Summary of Sources and Uses of Funds under the IBRD 8741-BA

	Ref.	Actual 2020	Cumulative 2020	Cumula- tive 2019	Cumulative budget	Cumulative variance
FINANCING						
IBRD 8741-BA		30,200,000	48,039,250	17,839,250	56,529,250	8,490,000
Front-end fee (from direct payments)		-	70,750	70,750	70,750	-
TOTAL FINANCING	3.1	30,200,000	48,110,000	17,910,000	56,600,000	8,490,000

PROJECT EXPENDITURE
By Category

1. Eligible Expenditure Program		30,059,250	47,898,500	17,839,250	55,508,500	7,610,000
2. Goods, non-consulting services, consultants' services, Training, and Incremental Operating Costs for Part A.5 and Part B.5 of the Project		39,484	39,484	-	950,000	910,516
3. Front End Fee		70,750	141,500	70,750	141,500	-
TOTAL EXPENDITURE	3.2.	30,169,484	48,079,484	17,910,000	56,600,000	8,520,516

PROJECT EXPENDITURE
By Component

1. Support to the FBA (component 1-3) DLI FBA		20,199,250	20,199,250	-	27,279,250	7,080,000
DLR 1.1 (RS)		-	1,319,250	1,319,250	1,319,250	-
DLR 1.2 (RS)		-	2,360,000	2,360,000	2,360,000	-
DLR 1.3 (RS)		-	2,360,000	2,360,000	2,360,000	-
DLR 1.4 (RS)		2,500,000	2,500,000	-	2,500,000	-
DLR 2.1 (RS)		-	2,360,000	2,360,000	2,360,000	-
DLR 2.2 (RS)		-	2,360,000	2,360,000	2,360,000	-
DLR 2.3 (RS)		2,360,000	2,360,000	-	2,360,000	-
DLR 3.1 (RS)		-	2,360,000	2,360,000	2,360,000	-
DLR 3.2 (RS)		-	2,360,000	2,360,000	2,360,000	-
DLR 3.3 (RS)		-	2,360,000	2,360,000	2,360,000	-
DLR 4.1 (RS)		2,000,000	2,000,000	-	2,000,000	-
DLR 4.2 (RS)		3,000,000	3,000,000	-	3,000,000	-
DLR 4.3 (RS)		-	-	-	530,000	530,000
2. Consultants services and operating costs		39,484	39,484		950,000	910,516
3. Front and Fee		70,750	141,500	70,750	141,500	-
TOTAL EXPENDITURE	3.2.	30,169,484	48,079,484	17,910,000	56,600,000	8,520,516

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

Consolidated project financial statements for the year ended 31 December 2020

(all amounts in EUR, unless otherwise stated)

3. Consolidated project financial statements for the year 2020 (continued)

3.2 Balance sheet as of 31 December 2020 showing accumulated funds of the Project and bank balances concerning IBRD financing

	Ref.	31 December 2020	31 December 2019
ASSETS			
Project Expenditures 8741-BA	3.1.	48,079,484	17,910,000
		48,079,484	17,910,000
Designated Account Statement – IBRD 8741-BA (FB&H)	A.1	30,516	-
Designated Sub-account Statement – IBRD 8741-BA (FB&H)	A.2	-	-
		30,516	-
Total assets		48,110,000	17,910,000
LIABILITIES			
IBRD 8741-BA	3.1.	48,110,100	17,910,000
Total liabilities		48,110,000	17,910,000

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

Consolidated project financial statements for the year ended 31 December 2020

(all amounts in EUR, unless otherwise stated)

4. Notes to the consolidated project financial statements

4.1 Basis of preparation and accounting records

These consolidated project financial statements have been prepared on the cash basis of accounting based on International Public Sector Accounting Standards 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 year is 1 January to 31 December for the recording of all transactions.

Cash basis of accounting

All receipts and expenses under IBRD Loan are recorded on actual receipt and payment basis of accounting as per approved categories.

Project expenditure is stated at original cost on the Balance sheet.

Direct payments

Direct payments concern the amounts paid directly from the IBRD Loan account.

Statement of Expenditure (SoE)

Statements of Expenditure are used to state the expenditure under IBRD Loan during a certain period. These statements are sent to the IBRD disbursement specialist who authorizes the payment of the expenditure through the Designated account.

Currency conversions

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

Bank balances, recorded on the Balance sheet at year-end, have been converted at year-end rate.

Designated account

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

Interest on Designated accounts

Interest earned on the Designated accounts belongs to the Borrower.

Interest on Credit account

Interest earned on the Credit account belongs to the Borrower.

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

Consolidated project financial statements for the year ended 31 December 2020

(all amounts in EUR, unless otherwise stated)

APPENDIX A.1

DESIGNATED ACCOUNT STATEMENT (FB&H)

Account owned by: Ministry of Finance and Treasury of Bosnia and Herzegovina

Account No.: BA391611000003777917

Depository Bank: Raiffeisen Bank BiH d.d. Sarajevo

Address: Zmaja od Bosne bb

Related Credit: IBRD 8741-BA

Currency: EUR

	Ref.	EUR
Opening balance 1 January 2020	3.2	-
Add:		
IBRD Replenishments	3.1.1.	70,000
		70,000
Deduct:		
Payments of expenditures during the period		234
Transfer to Designated sub-account IBRD 8741-BA	A.2	39,250
		39,484
Ending balance 31 December 2020	3.2	30,516

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

Consolidated project financial statements for the year ended 31 December 2020

(all amounts in EUR, unless otherwise stated)

APPENDIX A.2

DESIGNATED SUB-ACCOUNT STATEMENT (FB&H)

Account owned by: Ministry of Finance and Treasury of Bosnia and Herzegovina

Account No.: BA391611000003777917

Depository Bank: Raiffeisen Bank BiH d.d. Sarajevo

Address: Zmaja od Bosne bb

Related Credit: IBRD 8741-BA

Currency: BAM

	Ref.	BAM	EUR
Opening balance 1 January 2020	3.2	-	-
Add:			
Transfer from Designated account IBRD 8741-BA	A.1	76,765	39,250
		76,765	39,250
Deduct:			
Payments of expenditures during the period		76,765	39,250
		76,765	39,250
Ending balance 31 December 2020	3.2	-	-

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

Consolidated project financial statements for the year ended 31 December 2020

(all amounts in EUR, unless otherwise stated)

APPENDIX B SoE Withdrawal Schedule of IBRD 8741-BA for the year ended 31 December 2020

	Initial deposit	Goods, CW, CS and oper- ating costs for Part A.5 of the Project	Goods, CW, CS and op- erating costs for Part B.5 of the Project	Eligible expenditure program (RS)	Front – end fee	Total application	Total replenished
Previous years	-	-	-	17,839,250	70,750	17,910,000	17,910,000
Application No. 1 (FB&H)	70,000	-	-	-	-	-	70,000
Total initial deposit	70,000	-	-	-	-	-	70,000
Application No. 2 (FB&H)	-	6,039,250	-	-	-	6,039,250	6,039,250
Application No. 3 (FB&H)	-	14,160,000	-	-	-	14,160,000	14,160,000
Total Reimbursements 2020	-	20,199,250	-	-	-	20,199,250	20,199,250
Application No. 4 (FB&H)	(32,454)	32,454	-	-	-	32,454	-
Application No. 5 (RS)	-	-	-	2,360,000	-	2,360,000	2,360,000
Application No. 6* (FB&H)	(7,030)	7,030	-	-	-	7,030	-
Application No. 6 (RS)	-	-	-	7,500,000	-	7,500,000	7,500,000
Total SoE application 2020	(39,484)	39,484	-	9,860,000	-	9,899,484	9,860,000
Cumulative 2020	30,516	20,238,734	-	9,860,000	-	30,098,734	30,059,250
Front-end fee	-	-	-	-	70,750	70,750	70,750
Cumulative 31 December 2020	30,516	20,238,734	-	27,699,250	141,500	48,079,484	48,110,000

* Expenses made in the year 2020 and will be replenished from the initial deposit in the upcoming period.

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

Consolidated project financial statements for the year ended 31 December 2020

(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 IBRD Loan (in EUR)
Original amount	56,600,000
Disbursed in previous period	17,910,000
Front and fee (FB&H)	70,750
Withdrawal 1 (FB&H)	70,000
Withdrawal 2 (FB&H)	6,039,250
Withdrawal 3 (FB&H)	14,160,000
Withdrawal 5 (RS)	2,360,000
Withdrawal 6 (RS)	7,500,000
Total disbursed in 2020	30,200,000
Cumulative disbursements	48,110,000
Calculated undisbursed balance as of 31 December 2020	8,490,000
Undisbursed balance as per World Bank Summary for December 2020	8,490,000