THE REPUBLIC OF SRPSKA
an entity of Bosnia and Herzegovina
€300,000,000 4.75 per cent. Notes due 2026
Issue Price: 98.918 per cent.

The issue price of the €300,000,000 4.75 per cent. Notes due 2026 (the "**Notes**") of the Republic of Srpska represented by the Government of the Republic of Srpska (the "**Issuer**" or the "**Republic**") is 98.918 per cent. of their principal amount.

Unless previously redeemed or cancelled, the Notes will be redeemed at their principal amount on 27 April 2026 (the "**Maturity Date**"). The Notes will bear interest from, and including, 27 April 2021 at the rate of 4.75 per cent. *per annum* payable annually in arrear on 27 April in each year, commencing on 27 April 2022. Payments on the Notes will be made in Euros without deduction for, or on account of, taxes imposed or levied by the Republic and/or to the extent applicable, Bosnia and Herzegovina, as described under "*Terms and Conditions of the Notes – 8. Taxation*".

Application has been made to the United Kingdom Financial Conduct Authority (the "**FCA**") for the Notes to be admitted to the official list of the FCA (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for the Notes to be admitted to trading on the London Stock Exchange's main market. For the purposes of such application, the Issuer is an exempt issuer pursuant to Article 1(2) of Regulation (EU) 2017/1129 as it forms part of United Kingdom ("**UK**") domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**EUWA**") (as amended, the "**UK Prospectus Regulation**"). Accordingly, this Offering Circular has not been reviewed or approved by the FCA and has not been approved as a prospectus by any other competent authority under the UK Prospectus Regulation. The Notes will not be subject to the prospectus requirements of the UK Prospectus Regulation but will be listed in accordance with the listing rules of the London Stock Exchange.

References in this Offering Circular to the Notes being "**listed**" (and all related references) shall mean that the Notes have been admitted to trading on the London Stock Exchange's main market and have been admitted to the Official List. The London Stock Exchange's main market is a UK regulated market for the purposes of Regulation (EU) No 600/2014 on markets in financial instruments as it forms part of UK domestic law by virtue of the EUWA ("**UK MiFIR**").

The Notes are expected to be assigned a rating of B by S&P Global Ratings Europe Limited ("**S&P**") and B3 by Moody's Deutschland GmbH ("**Moody's**"). S&P and Moody's are established in the European Union and registered under Regulation (EC) No. 1060/2009, as amended (the "**CRA Regulation**"). As such, S&P and Moody's are included in the list of credit rating agencies published by the European Securities and Markets Authority on its website (at https://www.esma.europa.eu/supervision/credit-rating-agencies/risk) in accordance with the CRA Regulation. The ratings issued by S&P have been endorsed by S&P Global Ratings UK Limited ("**S&P UK**") and the ratings issued by Moody's have been endorsed by Moody's Investors Service Ltd. ("**Moody's UK**"), each in accordance with Regulation (EC) No. 1060/2009 as it forms part of UK domestic law by virtue of the EUWA (the "**UK CRA Regulation**") and have not been withdrawn. S&P UK and Moody's UK are established in the UK and registered in accordance with the UK CRA Regulation. As such, the ratings issued by S&P and Moody's may be used for regulatory purposes in the UK in accordance with the UK CRA Regulation. Any change in the rating of the Notes may adversely affect the price that a purchaser may be willing to pay for the Notes. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension, reduction or withdrawal at any time by the assigning rating agency.

An investment in the Notes involves certain risks. See "*Risk Factors*".

he Notes have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") or with any securities regulatory authority of any state or other jurisdiction and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Notes are being offered (i) in offshore transactions in reliance on, and as defined in, Regulation S (the "**Regulation S Notes**") under the Securities Act, and (ii) in the United States only to persons reasonably believed to be qualified institutional buyers ("**QIBs**"), as defined in Rule 144A under the Securities Act ("**Rule 144A**") in reliance on Rule 144A (the "**Rule 144A Notes**"). Prospective purchasers that are QIBs are hereby notified that the seller of the Notes may be relying on the exemption from the registration requirements of Section 5 of the Securities Act provided by Rule 144A.

The Notes will be offered and sold in registered form and in denominations of €100,000 and integral multiples of €1,000 in excess thereof. The Notes will, on issue, be represented by beneficial interests in two global certificates (the "**Global Certificates**"), one of which (the "**Unrestricted Global Certificate**") will be issued in respect of the Regulation S Notes and the other of which (the "**Restricted Global Certificate**") will be issued in respect of the Rule 144A Notes, and each of which will be registered in the name of a nominee of, and delivered to, a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, S.A. ("**Clearstream, Luxembourg**"). Beneficial interests in the Restricted Global Certificate will be subject to certain restrictions on transfer; see "*Transfer Restrictions*". Beneficial interests in the Global Certificates will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg and their participants. It is expected that delivery of the Global Certificates will be made on 27 April 2021 (*i.e.*, the fifth business day following the date of pricing of the Notes, and such settlement cycle being herein referred to as "T+5") or such later date as may be agreed (such date being referred to herein as the "**Issue Date**") by the Issuer and the Joint Lead Managers. Except in the limited circumstances set out herein, certificates in definitive form will not be issued for beneficial interests in the Global Certificates. See "*The Global Certificates*".

Joint Lead Managers

IMI - Intesa Sanpaolo	**Société Générale Corporate & Investment Banking**	**UniCredit**

This Offering Circular is dated 23 April 2021

The Republic accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge of the Republic, the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

None of the Joint Lead Managers nor any of their respective affiliates have authorised the whole or any part of this Offering Circular, and none of them makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Offering Circular. None of the Joint Lead Managers or any of their directors, affiliates, advisers and agents has made any independent verification of the information contained in this Offering Circular in connection with the issue or offering of the Notes, and no representation or warranty, express or implied, is made by any of the Joint Lead Managers or their directors, affiliates, advisers or agents with respect to the accuracy or completeness of such information. Nothing contained in this Offering Circular is, is to be construed as, or shall be relied upon as, a representation or warranty, whether to the past or the future, by any of the Joint Lead Managers or their respective directors, affiliates, advisers or agents in any respect.

The Republic has not authorised the making or provision of any representation or information regarding the Republic or the Notes other than as contained in this Offering Circular. Any other representation or information should not be relied upon as having been authorised by the Republic or the Joint Lead Managers. The contents of this Offering Circular are not, are not to be construed as, and should not be relied on as, legal, business or tax advice, and each person contemplating making an investment in the Notes must make its own investigation and analysis of the creditworthiness of the Republic and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience and any other factors, which may be relevant to it in connection with such investment.

Prospective purchasers of the Notes should consult their tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of the Republic of Srpska of acquiring, holding and disposing of the Notes and receiving payments of principal, interest and/or other amounts under the Notes.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Republic since the date of this Offering Circular.

This Offering Circular does not constitute an offer of, or an invitation to subscribe for or purchase, any Notes.

The distribution of this Offering Circular and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Republic and the Joint Lead Managers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of the Notes and on the distribution of this Offering Circular and other offering material relating to the Notes, see "*Subscription and Sale*" and "*Transfer Restrictions*".

This Offering Circular has been prepared by the Republic for use in connection with the offer and sale of the Notes and the admission of the Notes to the Official List and to trading on the London Stock Exchange's main market. The Republic and the Joint Lead Managers reserve the right to reject any offer to purchase Notes, in whole or in part, for any reason. This Offering Circular does not constitute an offer to any person in the United States other than any QIB to whom an offer has been made directly by one of the Joint Lead Managers or its U.S. broker-dealer affiliate. Distribution of this Offering Circular to any person within the United States, other than any QIB and those persons, if any, retained to advise such QIB with respect thereto, is unauthorised, and any disclosure without the prior written consent of the Issuer of any of its contents to any person within the United States, other than any QIB and those persons, if any, retained to advise such QIB, is prohibited.

MiFID II product governance / Professional investors and ECPs only target market – Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU ("**MiFID II**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

UK MiFIR product governance / Professional investors and ECPs only target market – Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook ("**COBS**"), and professional clients, as defined in UK MiFIR; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. A distributor should take into consideration the manufacturers' target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the "**UK MiFIR Product Governance Rules**") is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

STABILISATION

In connection with the issue of the Notes, Société Générale (the "**Stabilisation Manager**") (or any person acting on behalf of the Stabilisation Manager) may over allot Notes or effect transactions with a view to supporting the market price of the Notes at a higher level than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Stabilisation Manager (or any person acting on behalf of the Stabilisation Manager) in accordance with all applicable laws and rules.

PRODUCT CLASSIFICATION PURSUANT TO SECTION 309B OF THE SECURITIES AND FUTURES ACT (CHAPTER 289 OF SINGAPORE)

In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (as amended or modified from time to time, the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined and hereby notifies all relevant persons (as defined in section 309A(1) of the SFA) that the Notes are prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in the Monetary Authority of Singapore (the "**MAS**") Notice SFA 04-N12: Notice on the Sale of Investment Products and in the MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED STATES

THE NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES REVIEWED OR PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF THE NOTES OR APPROVED THIS OFFERING CIRCULAR OR CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THE INFORMATION CONTAINED IN THIS OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

SUITABILITY OF INVESTMENT

Each potential investor in the Notes must determine the suitability of its investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

- has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Offering Circular or any applicable supplement;

- has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

- has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;

- understands thoroughly the terms of the Notes and is familiar with the behaviour of financial markets; and

- is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) the Notes are legal investments for it, (ii) the Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

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SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

The terms and conditions of the Notes (the "**Conditions**"), the Notes, the Deed of Covenant and the Agency Agreement (each as defined in the Conditions) are governed by English law. Any dispute arising out of or in connection with the Notes, the Deed of Covenant and the Agency Agreement shall be referred to and finally resolved by arbitration under the Rules of Arbitration of the International Chamber of Commerce (the "**ICC**"). The Conditions provide that at any time before any Noteholder has nominated an arbitrator to resolve any dispute, that Noteholder or any other Noteholder, at its sole option, may elect by notice in writing to the Issuer that such dispute(s) shall instead be heard by the courts of England or by any other court of competent jurisdiction.

The conditions for the recognition of a foreign court judgment are set out under the Law on the Conflict of Laws (*Official Gazette of SFRY, Nos. 43/82 and 72/82; Official Gazette of BiH, Nos. 2/92 and 13/94*) as follows:

(a) The party against which the recognition and enforcement has been applied for must have participated in the original court procedure or it must have been duly notified of the procedure; such a party must have been allowed to present its case and use its right to defend itself in the original court procedure (this is determined based on an objection made by that party);

(b) There must be no exclusive jurisdiction of a court in Bosnia and Herzegovina ("**BiH**") in connection with the subject matter of the judgment;

(c) The recognition and enforcement of the judgment must not violate the BiH Constitution and/or the RS Constitution or public policy rules;

(d) There is no final decision already issued by a BiH court or other competent authority in BiH (or a foreign decision recognised in BiH) which addresses the same subject matter (*res iudicata*). In case there is a proceeding on the same subject- matter pending before courts in BiH, the court faced with a motion for recognition of a foreign judgment will suspend the recognition proceedings until the final judgment in the pending proceedings before a court in BiH is rendered;

(e) There must be reciprocity in existence; and

(f) The decision must be final and conclusive (no further appeals, revocation procedures or similar actions have commenced or are allowed).

One of the requirements for recognition of foreign court judgements and consequently enforcement is the existence of reciprocity **-** i.e. in the present situation, that judgments handed down by Bosnian courts can be recognized in a country of the court that issued the foreign judgment.

There is a rebuttable legal presumption that such reciprocity exists. In case there is doubt as to the existence of reciprocity, the court will request an explanation from the Ministry of Justice of BiH. According to the written information received by the BiH Ministry of Justice dated 11 August 2020, such reciprocity does not exist with the United Kingdom (the "**UK**") and there is no evidence that there is reciprocity with the United States of America (the "**US**") in the matter of recognition and enforcement of judgments in commercial matters. Thus, there is a possibility that the BiH courts may reject a request for recognition of an English judgment if given in respect of the Notes, due to the non-existence of reciprocity, whereas the situation with recognition of US judgments in BiH is not clear.

Furthermore, courts in BiH may refuse to recognize and enforce a foreign judgment rendered under a foreign law if the judgment, including as a result of the application of the foreign law to the dispute, is contrary to public policy of BiH or the Republic. Public policy is defined as "foundations of social and political order as determined in the Constitution." This is an evolving concept and the precise list or criteria for the determination of such public policy rules does not exist.

On the other hand, BiH is a party to the New York Convention on Recognition and Enforcement of Foreign Arbitral Awards 1958 (the "**New York Convention**"). Therefore, recognition and enforcement of a New York Convention award is available subject to the terms of the New York Convention.

BiH lodged reservations to the original text of the New York Convention so that it will apply such convention only: (i) if there is reciprocity, i.e. for the recognition and enforcement of awards made in the territory of another contracting state; (ii) to differences arising out of legal relationships, whether contractual or not, that are considered commercial under the national law applicable in BiH; and (iii) to those arbitral awards which were adopted after the New York Convention came into effect.

The recognition of foreign arbitral awards under the Law on the Conflict of Laws shall be generally refused in the following cases:

(a) where the subject matter of the dispute is not capable of being submitted to arbitration (i.e. subject matter of the dispute concerns rights that a party may not freely dispose) under BiH law;

(b) where there is exclusive jurisdiction of BiH courts or other competent authority in connection with the subject matter;

(c) where recognition and enforcement of the arbitral award would violate the BiH Constitution and/or the RS Constitution or public policy rules;

(d) where there is a lack of reciprocity (which in case of arbitral awards originating from the countries signatories of the New York Convention exists as a diplomatic reciprocity);

(e) where an arbitration agreement is not concluded in written form;

(f) where the arbitration agreement is not valid;

(g) where the party against whom the award was invoked was not given proper notice of the appointment of the arbitrator or of the arbitration proceedings or was otherwise unable to present its case;

(h) where the composition of the arbitration tribunal or arbitration procedure was not in accordance with the provisions of the arbitration agreement;

(i) where the arbitration tribunal exceeded its powers determined in the arbitration agreement;

(j) where the award has not yet become binding on the parties, or has been set aside or suspended by the competent authority of the country in which, or under the laws of which, that award was made; or

(k) where the dispositive part of the arbitral award is unintelligible or inconsistent.

The New York Convention only refers to the limited list of reasons for the refusal to recognise a foreign arbitral award, which mirror paragraphs (a), (c), (f), (g), (h), (i), (j) above, including that the general rule is still to assure that the arbitration agreement is concluded in the written form. The exclusive competence of the courts in BiH is not provided as a refusal basis in the New York Convention, however this can be raised under arbitrability or public policy protection rules. Although modern arbitration legal systems interpret the requirement for the existence of reciprocity such as that the existence of diplomatic reciprocity would suffice, due to the lack of consistent practice in this area in BiH, there is a risk that courts in BiH may also require factual reciprocity between BiH and the country of the origin of the arbitral award, instead of diplomatic reciprocity.

The BiH and the Republic's laws do not explicitly regulate the recognition and enforcement of interim orders granted by foreign courts/arbitral tribunals. Thus, it is highly likely that the competent courts would not equate a foreign interim order with foreign court judgment/ arbitral award and, consequently, would not apply the rules for the recognition and enforcement of foreign court judgments/ arbitral awards to foreign interim orders.

PRESENTATION OF ECONOMIC AND OTHER INFORMATION

In this Offering Circular, unless otherwise specified, references to "**Euro**", "**EUR**" or "**€**" are to the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended; references to "**U.S.$**", "**USD**" and "**U.S. Dollars**" are to United States Dollars and references to "**Convertible Mark**" or "**BAM**" are to the currency of BiH.

Statistical data appearing in this Offering Circular have, unless otherwise stated, been obtained from the Institute of Statistics of the Republic, the Ministry of Finance of the Republic, the Government of the Republic (the "**RS Government**") and the Central Bank of Bosnia and Herzegovina (the "**Central Bank**"). Similar statistics may be obtained from other sources, although the underlying assumptions and methodology, and consequently the resulting data, may vary from source to source. In addition, statistics and data published by one ministry or agency may differ from similar statistics and data produced by other agencies or ministries due to differing underlying assumptions, methodology or timing of when such data is produced. Although every effort has been made to include in this Offering Circular the most reliable and the most consistently presented data, no assurance can be given that such data was compiled or prepared on a basis consistent with international standards. However, as far as the RS Government is aware and is able to ascertain from the information published by these entities, the information has been accurately reproduced and no facts have been omitted which would render the reproduced information inaccurate or misleading in any material respect.

Certain other statistical data appearing in this Offering Circular has been extracted or compiled from the records, statistics and other official public sources of information in the Republic and/or BiH, and has not been independently checked or verified. The Republic has accurately reproduced such information, and as far as the Republic is aware and able to ascertain, no facts have been omitted which would render the reproduced information inaccurate or misleading. In recent years there have been significant steps taken in the Republic and BiH to improve the accuracy and reliability of official statistics and to conform statistical methodology to international standards. However, in a transition economy in which there is a substantial amount of unofficial or unreported grey market economic activity, such as the economy of the Republic, such statistical data may not accurately reflect current or historic levels of, and trends in, economic activity.

While every effort has been made to include in this Offering Circular all information and/or data relating to the Republic, certain information and/or data is only available in respect of BiH. For example, the information and data relating to the balance of payments is only prepared by the Central Bank at the BiH level and no such information and data is individually collected in respect of the Republic, other than certain components such as the imports and export of goods and foreign direct investment ("**FDI**") as discussed in "*External Sector*". In the absence of any information and/or data relating to the Republic, the equivalent information and/or data has been presented in respect of BiH in this Offering Circular.

References to laws, including the Budget (as defined in "*Public Finance*"), refer to such laws (and the Budget), as amended or supplemented from time to time. The Agreement on Regional Representation and Cooperation (as defined below) provides for the use of an asterisk in respect of Kosovo* in line with UN Resolution 1244 (as defined below) and the ICJ Opinion (as defined below), which states that the designation of "Kosovo*" is without prejudice to the Republic's position on Kosovo's status of independence. Accordingly, the term "Kosovo" should be construed on this basis, and it is used throughout this Offering Circular in the context of regional initiatives and programmes carried out under the auspices of the European Union.

Unless otherwise stated, all annual information, including budgetary information for the Republic, is based on calendar years. **All statistical information, including budgetary information, as at and for year-end or interim periods is subject to future revision and amendment for comparative purposes in the event that the methodology used to compile such information is changed in the future, following an introduction of new data sources, improvements to the existing ones, changes to classifications, or establishment of new principles, regulations and international recommendations that represent a basic methodological framework.** Certain figures included in this Offering Circular have been subject to rounding adjustments; accordingly figures shown for the same item of information may vary reflecting such rounding and figures that are show as totals (including those presented in tables) may not be an arithmetic aggregation of their components. In addition, all percentages presented in this Offering Circular are subject to rounding and represent approximate figures.

Certain statistical information contained herein is provisional or otherwise based on estimates that the Republic and/or its agencies believe to be based on reasonable assumptions. Specifically, the relevant interim period in 2020 for which, and/or the relevant date in 2020 as at which, data is presented may differ depending on the most recent information available from the Republic. All such data is provided as at and in respect of the period most recently available. Similarly, GDP and GVA data (see "*Economy of the Republic*") for 2020 are presented based on three quarterly estimates of the Institute of Statistics using the ESA 2010 methodology, which may be subject to revisions when the annual estimates are published in July 2021. Accordingly, such financial and economic information for periods of 2020 set out in this Offering Circular may be subsequently adjusted or revised and may differ from previously published financial and economic information. While the Republic does not expect such revisions to be material, no assurance can be given that material changes will not be made. See "*Risk Factors – Risks Associated with the Republic's Economy – Official economic data may be subject to some degree of uncertainty and could be revised which may adversely affect the economy and the Republic's ability to repay principal and make payments of interest on the Notes*".

Information included herein that is identified as being derived from information published by the Republic or one of its agencies or instrumentalities is included herein on the authority of such publication as a public official document of the Republic. All other information herein with respect to the Republic is included herein as a public official statement made on the authority of the Ministry of Finance of the Republic.

In this Offering Circular, unless the contrary intention appears, a reference to a law or a provision of a law is a reference to that law or provision as extended, amended or re-enacted.

Data Dissemination

BiH is a subscriber to the International Monetary Fund (the "**IMF**") Enhanced General Data Dissemination System (the "**e-GDDS**"), which is designed to support transparency, encourage statistical development and help create strong synergies between data dissemination and surveillance. The e-GDDs requires subscribing member countries to: (i) commit to using the e-GDDS as a framework for statistical development; (ii) designate a country coordinator; and (iii) prepare metadata that describes (a) current practices in the production and dissemination of official statistics and (b) plans for short- and longer-term improvements in these practices.

Summary methodologies of all metadata to enhance transparency of statistical compilation are also provided on the Internet under the IMF's Dissemination Standards Bulletin Board. This website and any information on it are not part of, or incorporated by reference into, this Offering Circular.

In addition, the Institute of Statistics of the Republic cooperates with the statistical office of the European Union (the "**EU**"), Eurostat, delivering certain national data to Eurostat on a periodic basis. The methodology used by the Republic to produce its GDP and other statistics has been harmonised with concepts and definitions used by EU countries, including the System of National Accounts, 2008 (the "**SNA**") and the European System of Accounts, 2010 (the "**ESA**").

Review and Adjustment of Statistics

The Republic's official financial and economic statistics are subject to review as part of a regular confirmation process. Accordingly, financial and economic information may differ from previously published figures and may be subsequently adjusted or revised. In addition, the statistical data appearing in this Offering Circular have been obtained from public sources and documents, which may not have been prepared in accordance with the standards of, or to the same degree of accuracy as, equivalent statistics produced by the relevant bodies in other countries. Investors may be able to obtain similar statistics from other sources, but the underlying assumptions, methodologies and, consequently, the resulting data may vary from source to source, and there can be no assurance that the statistical data appearing in this Offering Circular are as accurate or as reliable as those published by more developed countries.

FORWARD-LOOKING STATEMENTS

Some of the statements contained in this Offering Circular constitute forward-looking statements. Statements that are not historical facts, including statements about the Republic's beliefs and expectations, are forward-looking statements. These statements are based on current plans, objectives, assumptions, estimates and projections. Therefore, undue reliance should not be placed on them. Forward-looking statements speak only as of the date that they are made, and the Republic undertakes no obligation to update publicly any of them in light of new information or future events. Forward-looking statements involve inherent risks and uncertainties. The Republic cautions that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. Forward-looking statements include, but are not limited to, plans with respect to the implementation of economic policies and the pace of economic and legal reforms, expectations about the behaviour of the economy if certain economic and fiscal policies are implemented, the potential impact of the COVID-19 pandemic, the outlook for inflation, exchange rates, interest rates, foreign investment, trade and fiscal accounts and estimates of debt repayment and debt service.

In addition to the factors described in this Offering Circular, including, but not limited to, those discussed in the section entitled "*Risk Factors*", the following factors, among others, could cause future outcomes to differ materially from those expressed in any forward-looking statements made herein:

- adverse external factors, such as changes in the credit rating of BiH or the Republic, higher international interest rates, low commodities prices, increases in world commodities prices or recession or low growth in BiH and the Republic's trading partners, which could each decrease fiscal and foreign exchange revenues and negatively affect BiH's current account, balance of payments and/or cause or contribute to recession or low growth in BiH and/or the Republic;

- adverse domestic factors, such as recession, decline in FDI and portfolio investment, adverse changes to domestic inflation or interest rates, difficulties in borrowing in the domestic and foreign markets, changes in tariff and tax requirements (including tax rate changes, new tax laws and revised tax law interpretations) and trade and political consensus;

- relations between the governmental institutions at the BiH and Entity level, as well as political and social factors within BiH, the Republic and the Federation of Bosnia and Herzegovina (the "**Federation**") which may affect the timing and structure of economic and other reforms and the climate for foreign direct investment;

- relations with creditors;

- expectations about EU accession;

- the occurrence of any contagious disease (such as Avian Flu, Ebola Virus Disease, SARS, Zika Virus Disease or COVID-19); and

- decisions of international financial institutions such as the IMF, the World Bank, the European Bank for Reconstruction and Development and the European Investment Bank regarding the provision of funding for new or existing projects over the life of the Notes.

The Republic is not obliged to, and does not intend to, update or revise any forward-looking statements made in this Offering Circular whether as a result of new information, future events or otherwise. All subsequent written or oral forward-looking statements attributable to the Republic, or persons acting on its behalf, are expressly qualified in their entirety by the cautionary statements contained through this Offering Circular. As a result of these risks, uncertainties and assumptions, a prospective purchaser of the Notes should not place undue reliance on these forward-looking statements.

EXCHANGE RATE HISTORY

The monetary policy of BiH is solely based on the principles of the Currency Board, whereby the full convertibility of the domestic currency, the Convertible Mark, is fixed against the anchor currency, the Euro, at a rate of BAM 1 to EUR 0.511292, which is equal to a rate of EUR 1.00 to BAM 1.955830.

The following table set forth, for the periods indicated, the period end, average, high and low official mid-point rates published by the Central Bank, expressed in BAM per U.S.$1.00:

BAM Per U.S. Dollars

	High	**Low**	**Average**	**Period End**
		(*BAM Per USD*)		
Year				
2016	1.887138	1.690578	1.768011	1.855450
2017	1.883322	1.621750	1.735482	1.630810
2018	1.736817	1.565541	1.657498	1.707552
2019	1.796152	1.695561	1.747204	1.747994
2020	1.826683	1.592566	1.716607	1.592566
For the month of				
January 2021	1.621212	1.585208	1.605321	1.611594
February 2021	1.632171	1.599861	1.617026	1.613588
March 2021	1.665812	1.613588	1.642472	1.665812
April 2021 (through 13 April 2021)	1.668085	1.643002	1.655469	1.643002

Source: The Central Bank

Notes:
(1) Latest reference rates of the ECB, published by the ECB on Refinitiv around 16:00 at the relevant date, are used as a basis of establishing rate of other currencies on the exchange rate of the Central Bank in relation to the BAM.

OVERVIEW OF THE REPUBLIC

The following is an overview of certain information contained in this Offering Circular. It does not purport to be complete and is qualified in its entirety by the more detailed information appearing elsewhere in this Offering Circular. Prospective investors should also carefully consider the information set out in the section entitled "*Risk Factors*" in this Offering Circular prior to making an investment decision. See "*Description of the Republic of Srpska*", "*The Economy of the Republic*", "*External Sector*", "*Total and Public Debt*", "*Monetary System*" and "*Public Finances*" for a more detailed description of the Republic.

Overview of the Republic

General

The Republic is located in the western Balkan Peninsula and occupies an area of approximately 24,641 square kilometres divided by the Brčko District, a 493 square kilometres self-governing administrative unit in the north-eastern region of BiH. By virtue of its geographic position, the Republic connects the Pannonian Basin and the Adriatic Basin. The Drina and Sava rivers help connect the Republic to the European Rhine–Main–Danube Canal. The Republic is bordered by the Federation and three neighbouring states: to the East by Serbia, to the South East by Montenegro and to the North and South West by Croatia.

The Republic consists of nine cities: Banja Luka, East Sarajevo, Prijedor, Doboj, Bijeljina, Trebinje, Zvornik, Gradiška and Derventa, as well as 55 municipalities. The city of Banja Luka is the largest city and the administrative, economic and cultural centre of the Republic. As of the date of the last census in 2013, the Republic had a total population of approximately 1.2 million (excluding the Brčko District).

The Republic has a unique structure, as it is one of the two entities of BiH formed under the Dayton Agreement in December 1995. BiH has a complex legal framework due to the combination of different government systems. In addition to BiH, the two entities, the Republic and the Federation (together, the "**Entities**") have their own legal systems and the Brčko District also has a separate legal framework. Only a small number of laws are adopted at BiH level. As the Entities have wide legislative competences, each of them may adopt completely different laws.

The executive branch of BiH government is headed by a three-member joint presidency (the "**Joint Presidency**"), which is elected by popular vote, and consists of representatives of BiH's three constituent groups: Bosniaks, Croats and Serbs. Two members of the Joint Presidency (one Bosniak and one Croat) are directly elected in the Federation. The third member, a Serb, is directly elected in the territory of the Republic. BiH has a bi-cameral legislature consisting of the House of Peoples and the House of Representatives. Together, these chambers form the Parliamentary Assembly of BiH. The Constitution of BiH (the "**BiH Constitution**") also establishes the BiH Constitutional Court, which has exclusive jurisdiction to determine all disputes arising under the BiH Constitution between: the Entities and/or BiH or the institutions of BiH. The BiH Constitutional Court has jurisdiction to decide whether any provision of the constitution or law of an Entity complies with the provisions of BiH Constitution, as well as the constitutionality of the laws of BiH. The BiH Constitutional Court also has jurisdiction to examine an Entity's decision to establish relations with a neighbouring state in accordance with the BiH Constitution, including provisions relating to the sovereignty and territorial integrity of BiH. At the Entity level, the Republic has its President, who represents the Entity and has its own constitution (the "**RS Constitution**"). The Republic exercises its legislative function through its parliament, the National Assembly of the Republic (the "**RS National Assembly**") and the Council of Peoples, the executive functions through the government of the Republic (the "**RS Government**") comprising of the Prime Minister, vice-presidents and the ministries and judicial functions through the Supreme Court of the Republic, district courts, basic courts, special commercial courts (district commercial courts and high commercial court) and the prosecutor's office.

Economy

The economy of the Republic had stabilised and recorded positive growth rates from 2015 to 2020, when the negative effects of the crisis caused by COVID-19 negatively impacted the economy. Trends during the years 2015 to 2019 indicate that a favourable business environment and stable business conditions have stimulated the growth of economic activity. All production areas in this period show a positive contribution to GDP growth, with the exception of agriculture, which has an oscillating character depending on weather conditions. In 2017, there was a decline in agricultural production due to a drought in 2017. The decline in the physical volume of production in the area of production and supply of electricity, gas, steam and air conditioning has impacted the slightly lower GDP growth rate in 2019 compared to the previous years. The manufacturing industry is one of the most important areas of the economy of the Republic, in terms of its contribution to the total gross share of value added in exports and the number of employees.

In 2019, the Republic recorded a nominal GDP of BAM 11,251.3 million as compared to BAM 10,679.6 million, BAM 10,077 million and BAM 9,630.6 million in 2018, 2017 and 2016, respectively. During the nine months ended 30 September 2020, the Republic recorded a nominal GDP of BAM 8,115.4 million as compared to BAM 8,181.3 million for the same period of 2019.

After a relatively stable performance in the first quarter of 2020, the Republic recorded a contraction in the second quarter of 2020 during which the economic effects of COVID-19 primarily manifested, with the economic activity showing signs of gradual recovery thereafter. According to the data published by the Institute of Statistics, the Republic's real GDP registered a growth of 1.4 per cent. year-on-year in the first quarter of 2020. This modest growth was followed by a sharp decline of 6.8 per cent. year-on-year, as a result of the significant disruption caused by the impact of COVID-19 and the "state of emergency" and other preventative measures which were implemented in the months of March to May 2020. Following this decline, economic activity within the Republic experienced signs of recovery in the third quarter when it registered a decline of 3.4 per cent., which was primarily a result of the gradual reopening of non-essential economic activity and the introduction by the RS Government of relief measures such as loan moratoria and increased unemployment support. The Republic's real GDP contracted by 3.0 per cent. in the nine months ended 30 September 2020 as compared to a growth of 2.5 per cent. for the corresponding period of 2019, and a growth of 2.5 per cent., 3.9 per cent. and 3.1 per cent. for the years ended 31 December 2019, 2018 and 2017, respectively.

Going forward, the main policy goals of the RS Government are focused on fulfilling requirements for EU membership, and they are given through seven priorities: (i) increasing the competitiveness and productivity of the economy of the Republic with the aim of increasing salaries; (ii) sustainable health system; (iii) efficient overall public sector; (iv) education system and labour market adjusted to the needs of the economy; (v) improving the demographic position of the Republic; (vi) research, development, innovation and digital economy; and (vii) European integration, regional and international cooperation.

The reform plans are more specifically set out in the Economic Reform Program of the Republic for period 2021 to 2023 (the "**ERP**"), which is the three-year reform plan that is prepared by the RS Government on a rolling basis for submission to the European Commission in connection with BiH's candidacy for EU membership. The programme sets out the RS Government's economic growth strategies and contains a mid-term framework for its macroeconomic and fiscal policies as well as structural reform plans, which are designed to be implemented using a series of more detailed measures.

Recent Developments

COVID-19

The COVID-19 pandemic first identified in Wuhan, Hubei Province, China in late 2019 has continued to spread in many countries (including BiH) around the world, leading the World Health Organisation to declare the outbreak of this communicable disease as a global pandemic on 11 March 2020. Several governments have since implemented various restrictions, including restricting travel, closing borders, restricting public gatherings, quarantining people who may have been exposed to the virus, imposing lockdowns or extended shutdowns and placing limitations on business operations. Such measures have impacted the macroeconomic environment and are creating significant volatility, uncertainty and disruption in global financial markets, the severity and duration of which will depend on future developments, which are highly uncertain and cannot be accurately predicted.

On 16 March 2020, the RS Government adopted a Decision on declaration of an extraordinary situation for the Republic (*Official Gazette of the Republic, No. 25/*20), which is still in force. On 2 April 2020, in order to prevent the spread of COVID-19, the RS National Assembly declared a "state of emergency" in the Republic. The RS Government implemented restrictions similar to those taken in many other countries, such as self-quarantining, instituting curfews, suspending or otherwise limiting the operation of non-essential businesses, banning public gatherings and closing down schools and universities. As the outbreak of COVID-19 slowed in a number of countries that were affected early on in the spread of the disease, some of the related precautionary and preventative measures implemented in March 2020 have since been partially lifted and/or relaxed, resulting in a gradual reopening of businesses and workplaces. However, it remains unclear how long and the manner in which any such preventive measures (including any potential re-introduction of restrictive measures or implementation of more far-reaching restrictions or measures than those already announced) will remain in place and what their ultimate impact will be on global and local economies. Like other countries, the emergence of COVID-19 poses a new risk to the financial health of the Republic. Whilst the "state of emergency" was lifted in the Republic on 22 May 2020, due to increase in the number of cases, on 11 March 2021, the Republic re-introduced social distancing measures and various restrictions on certain business activities (including, for example, the closure of sports and leisure facilities in the Republic). At present, the extent of the impact posed by the third wave of COVID-19 is unclear, since neither the severity nor the magnitude of the ensuing economic consequences is known.

Fiscal and Economic Response to COVID-19

Various measures were taken by the Republic to provide support to the economy due to COVID-19, which included:

- in May 2020, the RS Government formed the Compensation Fund of the Republic of Srpska (the "**Compensation Fund**") with the goal of mitigating the impact of the COVID-19 pandemic on the economy of the Republic. The Compensation Fund provides direct financial support for entrepreneurs and businesses in the Republic that have suffered or are currently suffering from the impact of the COVID-19 pandemic;

- the enactment of the Decree on Tax Measures for Mitigating the Economic Impact of COVID-19, which allowed for, important tax relief measures, such as extension of deadline for submitting annual returns, payment of real estate tax and interest free moratorium for a certain period;

- targeted economic relief to specific industries and sectors. In respect of the healthcare sector, for example, in 2020 and 2021, BAM 124.3 million was allocated to support the health sector for the purchase of medical supplies, disinfectants, containers, test kits, vaccines and support to health workers in the form of one-off allowance. See "*Public Finance – COVID-19 measures adopted by the Republic – Relief to sectors of the economy*";

- the enactment of the Decree on Tax Measures for Mitigating the Economic Impact of COVID-19 allowed the RS Government's support the economy with the aim of preserving jobs in 2020, to the total amount of BAM 66.5 million, which includes payment of taxes and contributions pertaining to wages as well as payment of the minimum gross wage;

- among other measures adopted in respect of the banking and non-banking sector (see "*Public Finance – COVID-19 measures adopted by the Republic – Relief to the banking and non-banking sector*", in March 2020, the adoption by the Management Board of the Banking Agency of the Republic (the "**BARS**") of the Decision on Interim Measures of Banks for Mitigation of Negative Economic Consequences Caused by COVID-19 Viral Disease and the Decision on Interim Measures to Microcredit Organizations for Mitigation of Negative Economic Consequences Caused by COVID-19 Viral Disease (the "**Decisions**"). The Decisions permits banks and microcredit organisations ("**MCOs**") to approve: temporary moratoria until the end of the state of emergency; moratoria, i.e. delay in repayment of principal and interest on loans for a maximum period of six months; grace period for repayment of the principal of credit obligations for a maximum period of six months; and additional amount of exposure for the purpose of overcoming its current liquidity difficulties, and other measures aimed at facilitating the settlement of the client's credit obligations and maintaining the client's business; and

- the establishment of the COVID Guarantee Program in 2020 under the Decision on the Guarantee Fund to Support the Economy and Mitigate the Impact of COVID-19 (*Official Gazette of the Republic, Nos. 64/20 and 122/20*) to facilitate access by micro, small and medium enterprises ("**MSMEs**") and entrepreneurs (including agricultural farms) to loans extended by commercial banks and MCOs and is implemented through a guarantee portfolio to partially secure receivables on a loan approved by a financial intermediary. The COVID Guarantee Programme is valued at BAM 50 million.

Representatives from the EBRD, IMF and the World Bank were consulted during the development of the COVID Guarantee Programme, and technical assistance was provided by the EBRD. The COVID Guarantee Programme is managed by the Republika Srpska Guarantee Fund and provides for unconditional guarantees of eligible financings.

The RS Government is continually engaging with BiH, bilateral foreign partners and multilateral corporations and organisations in order to procure sufficient doses of the COVID-19 vaccine. The Republic is a participant in the COVID-19 Vaccines Global Access Facility Programme ("**COVAX**") established by the EU, which is designed to provide participants with access to COVID-19 vaccine doses. The RS Government paid BAM 7 million for 400,000 doses of vaccines under the COVAX initiative (for a population of 200,000), but only received its first shipment of the COVID-19 vaccines on 25 March 2021 which consisted of 7,020 doses of the Pfizer-BioNTech COVID-19 vaccine and 8,600 doses of the AstraZeneca COVID-19 vaccine. On 12 February 2021, the health professionals working in the Republic were vaccinated with the Sputnik V COVID-19 vaccine and by 30 March 2021, the RS Government had independently procured 42,000 doses of the Sputnik V COVID-19 vaccine. The Government of the Republic of Serbia, together with the RS Government, organised the inoculation of 2,940 health professionals and persons working in nursing homes in the Republic. The Republic has also received an additional 11,020 doses of the Sinovac COVID-19 vaccine as part of 30,000 doses that were donated by Turkey to BiH.

For further information about COVID-19 related measures, see "*Public Finance – COVID-19 measures adopted by the Republic*" and "*Monetary System – The Banking Sector – Overview – COVID-19 Measures*".

Statistical Data

The following is an overview of certain updates in statistical and economic information since 30 September 2020, based on the provisional data published by the Republic.

- Based on the short-term indicators of volume, the industrial sector recorded a decline production of 9.2 per cent. in the nine months preceding 30 September 2020, compared to the corresponding period of 2019. This decline was driven by decline in mining and quarrying sector, in which production decreased by 2.6 per cent., as well as by a decline in the electricity, gas, steam and air conditioning supply, in which production decreased by 4.9 per cent., and a decline in the manufacturing sector, where production decreased by 13.5 per cent. In this period, the highest positive contribution was from the industrial sector, particularly mining of coal and lignite (black coal), to the total amount of 15.3 per cent., followed by manufacture of rubber and plastic products with 19.6 per cent. Manufacture of other non-metallic mineral products (4.7 per cent.), other mining and quarrying (18.0 per cent.) and manufacture of computer, electronic and optical products (61.2 per cent.) also contributed positively, while the production of electricity, gas, steam and air conditioning supply had the largest negative impact on the decline in production in the industrial sector (by 4.9 per cent.). The overall, industrial production in the nine months ended 30 September 2020, compared to the same of in 2019, was characterised by a decline in industrial production. In the first quarter of 2020, a decline of 3.4 per cent. was recorded, followed by a larger decline in the second quarter by 8.2 per cent., which continued in the third quarter, amounting to 9.2 per cent.

- In the first nine months of 2020, a fiscal deficit of BAM 330.8 million was realised at the general RS Government level with a central RS Government budget deficit of BAM 364.4 million. Total revenues (including grants) amounted to BAM 3,107.1 at the general RS Government level, representing 70.4 per cent. of projected total revenues and grants set forth in the Budget for 2020.

- In 2020, BiH recorded a current account deficit in the amount of EUR 557 million (or 3.1 per cent. of GDP) representing an increase of 0.4 per cent. compared to 2019. Further, in 2020, the Republic exported goods with a value equal to BAM 3,387 million, representing a 6.2 per cent. decrease as compared to 2019, and the Republic imported goods with a value equal to BAM 4,473 million, representing a 6.5 per cent. decrease as compared to 2019, which in each case was primarily attributable to the effects of the COVID-19 pandemic. Inflow regarding FDI in 2020 was in the amount of EUR 330 million.

- In 2020, average deflation was recorded at 1.2 per cent, the same level of inflation in 2016. As in other countries, COVID-19 had a deflationary impact on the Republic. In the global market, there was an increase in oil supply. However due to the significant drop in demand for oil, oil prices reduced.

- In the nine months ended 30 September 2020, there was no significant change in the sectoral structure of loans of banks in the Republic. Loans to households and loans to private companies still comprise the largest share at BAM 2,544.5 million and BAM 1,917.4 million respectively. However, loans to private companies decreased by BAM 64.7 million or 3 per cent., while loans to public and state-owned companies decreased by BAM 16.9 million or 7 per cent. and loans to citizens increased by BAM 42.4 million or 2 per cent. at the end of 2019. Quasi money in BiH decreased by 0.4 per cent. and broad money increased by 4.1 per cent. Data of the Central Bank, presented for banks in BiH, show that the convertible mark deposits rose by BAM 478.3 million and FX deposits increased by BAM 3.7 million due to an increase in EUR deposits. As at 30 September 2020, foreign currency loans and convertible mark loans stood at BAM 10,523.7 million and BAM 9,845.7 million, respectively.

- In 2019, the BAM depreciated in nominal terms against US dollar by 2.4 per cent, against Swiss franc by 3.2 per cent., against British pound by 5.6 per cent. and Russian rouble by 8.9 per cent. The NEER in the third quarter of 2020 appreciated by 2.1 per cent. relative to the third quarter of 2019. The real effective exchange rate of BAM in the second quarter on an annual basis slightly appreciated by 0.2 per cent.

- At the end of third quarter of 2020, the Central Bank foreign currency reserves exceeded the Central Bank's liabilities by BAM 900.3 million. Overall, the monetary liabilities to foreign exchange reserves ratio was significantly above the statutory threshold at 107.2 per cent, a slight increase relative to second quarter of 2020.

- For the nine months ended 30 September 2020, liquid assets (being cash and trading securities) comprised a significant share of 32.6 per cent. of total net assets of the Republic's banking sector. During that same period, all commercial banks operating in the Republic satisfied the liquidity requirements set by the BARS, namely maintaining a minimum daily position of 5 per cent. and ten-day position of 10 per cent. with regard to short-term liquidity sources.

- As at 30 September 2020, NPLs accounted for BAM 289.9 million following a period decline since 2016, primarily as a result of the asset and risk management measures introduced by the Law on Banks and regulations adopted by the BARS. While both corporate and retail NPLs declined steadily during the period under review, the corporate NPLs recorded a swifter decline due to the adoption by the BARS of its Decision on Credit Risk Management and Loan Loss Identification (*Official Gazette of the Republic No. 89/17 and 109/19*) and the Instruction concerning Financial Asset Classification and Valuation, which introduced significant changes to the asset classification, whereby the existing five-category classification and loan loss provisioning for each of the categories were replaced by a new three-stage credit risk classification and loan loss provisioning for individual risk levels.

- In the first nine months of 2020, the overall payment operations conducted in banks with the headquarters in the Republic amounted to BAM 51.7 billion, and included cash transactions (BAM 9.1 billion), non-cash transactions (BAM 37.3 billion, where intrabank payment transactions amounted to BAM 20.2 billion and interbank payment transactions amounted to BAM 17.1 billion) and FOREX transactions (BAM 5.3 billion).

- The overall number of intrabank payments transactions in the nine months ended 30 September 2020 totalled 17.3 million transactions with a total value of BAM 20.2 billion, as compared to a total value of BAM 30.9 billion during the corresponding period of 2019. In the nine months ended 30 September 2020, the overall number of executed interbank cashless payment transactions amounted to 10.5 million with a value of BAM 17.1 billion, as compared to a total value of BAM 19.9 billion during the corresponding period of 2019.

- Total value of performed transaction (outflow) toward abroad in the first nine months of 2020 was BAM 2.6 billion (BAM equivalent), while total value of performed transaction (inflow) from abroad was BAM 2.7 billion – inflow and outflow of foreign exchange transactions was balanced.

- As at 30 September 2020, the MCOs primary source of financing was generated from loans which accounted for BAM 239 million, or 60 per cent. of the sector's total liabilities. The primary source of such funding is disbursed by IFIs, which provided BAM 150.6 million in funding to the MCO sector as at 30 September 2020. The total loan loss provisioning and for other items accounted for BAM 8.6 million or 2.2 per cent. of the total liabilities. As at 30 September 2020, the MCO sector's overdue accounts receivable amounted to BAM 4 million or 1.2 per cent. of total loans, mainly accounting for retail loans, as compared to BAM 2.9 million in 2019, BAM 1.3 million in 2018, BAM 0.8 million in 2017 and BAM 0.6 million in 2016.

- In 2020, there was a decline in exports of 6.2 per cent. as compared to 2019. The largest contribution to the decline in exports according to the standard international trade classification was in chemical products, crude materials, inedible, except fuels and mineral fuels, lubricants and related products with growth rates negative 25.3 per cent., negative 10.2 per cent. and negative 14.3 per cent. In 2020, exports for chemical products, machinery and means of transport and miscellaneous manufactured goods by 27.2 per cent., 59.9 per cent. and 21.6 per cent, respectively, in comparison to 2016.

- In 2020, products classified manufactured goods classified chiefly by material, machinery and transport equipment, food and live animals contributed to the largest share in imports. In 2020, these products accounted for about 58.9 per cent. of total imports, while in 2016 they amounted to 54.4 per cent. of total imports.

- According to the data from the Labour Force Survey 2020, the average unemployment rate for the three quarters of 2020 is 13.1 per cent. (15.1 per cent. in the first quarter, 14.2 per cent. in the second quarter and 10.0 per cent. in the third quarter). The unemployment rate among persons aged 15-24 decreased by 5.7 percentage points in the third quarter compared to the second quarter and amounted to 24.8 per cent. When it comes to the Employment Survey rate it ranges from 43.2 per cent. in the first quarter to 48.5 per cent. in the third quarter. The average employment rate for the three quarters is 45.1 per cent.

- According to the financial reports of the Health Insurance Fund of the Republic, in 2020, its revenues amounted to BAM 846.6 million and expenditures amounted to BAM 798.6 million (a surplus of BAM 48 million). The Health Insurance Fund's revenues amounted to BAM 718.8 million in 2019, BAM 663.2 million in 2018 and BAM 658.1 million in 2017. Its total expenditures amounted to BAM 694.4 million in 2019 (a surplus of BAM 24.4 million), compared to BAM 674.9 million in 2018 (a deficit of BAM 11.7 million) and BAM 667.2 million in 2017 (a deficit of 9.1 million).

The above overview does not purport to be complete and is qualified in its entirety by the more detailed information appearing elsewhere in this Offering Circular. The above statistical data is provisional or otherwise based on estimates that the Republic and/or its agencies believe to be based on reasonable assumptions. All such data is provided as at and in respect of the period most recently available. In addition, data presented as a percentage of GDP has been calculated using the Institute of Statistics of the Republic estimates of nominal GDP for year-end 2020. Whilst this information contains an element of estimated economic performance for the first quarter of 2020, which provides a reasonable basis for estimating key economic indicators, these figures may differ materially from the final GDP data or actual numbers once published as an element of this data is estimated and may change or continually be revised based on future developments. Accordingly, the financial and economic information for periods of 2020 set out in this Offering Circular may be subsequently adjusted or revised and may differ materially from previously published financial and economic information depending on the most recent information available to the Republic and/or its agencies.

Overview of Risk Factors relating to the Issuer, the Market and the Notes

Risk Associated with Emerging Markets

- Investing in securities of emerging markets, including the Republic, involves a higher degree of risk than investing in more developed market economies and mature political and legal systems.

Risks Associated with the Republic's Economy

- The Republic may not succeed in implementing its proposed economic, financial and other reforms and policies, which may adversely affect the economy and the Republic's ability to repay principal and make payments of interest on the Notes.

- The economic effects of the outbreak of COVID-19 could continue to adversely affect the Republic's economy.

- BiH and, in turn, the Republic have a high level of remittances from abroad, which have been detrimentally affected due to various factors.

- The Republic's economy is vulnerable to external shocks that may have a negative effect on the economic growth of the Republic and its ability to service its debt obligations.

- BiH and the Republic have a complex management and governance structure which also contribute to increased political uncertainty.

- Political or social instability or a change in government could affect the implementation of its proposed economic reforms and have a negative effect on the Republic and its economy.

- BiH may not become a member of the EU in the near future or at all.

- The Republic has a high dependence on foreign lending and any deterioration in its relationship with international finance community may impact its high debt levels and increase liquidity risk.

- The BiH current account deficit and worsening trade balance may undermine regular servicing of external debt.

- The Republic's economy is small and thus largely dependant on external trade, particularly imports.

- The fixed exchange rate may limit the ability of the Central Bank to accommodate monetary policy.

- The Republic's economy is reliant on a small number of industrial sectors and exports to a limited number of trading partners, and adverse market conditions affecting one or more of these sectors or economic developments in these trading partners could have a material and adverse effect on overall economic conditions in the Republic.

- Reduced revenues, together with higher expenses, and fiscal risks arising from the Republic's social security system may adversely affect the Republic's ability to repay principal and make payments of interest on the Notes.

- If the Republic's debt levels continue to grow to finance its budget deficit, it may have a material adverse effect on its economy.

- The Republic is subject to natural disasters, including droughts and floods, which has negatively affected it in the past and may negatively affect it in the future.

- The Republic is subject to natural disasters, including droughts and floods, which has negatively affected it in the past and may negatively affect it in the future.

- Sanctions imposed on certain persons could have an indirect adverse impact on the Republic's economy.

- A significant portion of the Republic's economy is not recorded.

- Any negative change in the Republic's credit rating could adversely affect the market price of the Notes or the Republic's ability to repay principal and make payments of interest on the Notes.

- Official economic data may be subject to some degree of uncertainty and could be revised which may adversely affect the economy and the Republic's ability to repay principal and make payments of interest on the Notes.

- Corruption and money laundering may adversely affect economic and social conditions in the Republic and have a material adverse effect on the Republic's economy.

Risks Associated with the Republic's Public Debt

- The Republic's inability to refinance existing indebtedness in the short or medium term may have a material adverse effect on the Republic's ability to service its debt, including the Notes.
- Any significant changes in levels of Total Debt and/or interest costs could have a material adverse effect on the Republic's economy and its ability to service its debt, including the Notes.
- Depreciation of the BAM, if it occurs, may adversely affect the Republic's Public Debt and, in turn, impact its economy and public finances.

Risks Associated with the Republic's Banking Sector

- The Central Bank of Bosnia and Herzegovina is not a lender of last resort.
- The Republic's banking sector remains vulnerable to external shocks.
- Foreign-owned banks may diminish or discontinue their support to their subsidiaries operating in the Republic.

Risks Associated with the Republic's Judicial and Legal System

- The legal system of the Republic is not fully developed and therefore involves greater risk and uncertainty than in other more developed legal systems.
- A claimant may not be able to effect service of process against the Republic or enforce a court judgment against certain assets of the Republic in certain jurisdictions.
- The Republic's court system has a developing judicial system, some of which may not happen in the time period planned or may take longer than expected, which could impact economic and other reforms.

Risks relating to an investment in the Notes

- The terms of the Notes may be modified or waived without the consent of all the holders of the Notes.
- The Conditions restrict the ability of an individual holder to declare an Event of Default, and permit a majority of holders to rescind a declaration of such an Event of Default.
- The Issuer is not required to effect equal or rateable payment(s) with respect to its other debt obligations pursuant to the Conditions, and is not required to pay other debt obligations at the same time or as a condition of paying sums on the Notes and vice versa.
- The Notes have minimum denominations, which may affect an investor's ability to receive definitive Certificates.
- Credit ratings may not reflect all risks.
- The Conditions are based on current provisions of English law.
- A secondary market for the Notes may not develop.
- Investors in the Notes must rely on the procedures of Euroclear and Clearstream, Luxembourg.
- There are risks relating to exchange rate risks and exchange controls.
- Notes where denominations involve integral multiples: definitive Notes.
- Change of law.
- Modification.

- Noteholders must rely on the procedures of Euroclear and Clearstream, Luxembourg.
- Legal investment considerations may restrict certain investments.

OVERVIEW OF THE TERMS AND CONDITIONS OF THE OFFERING

Capitalised terms not otherwise defined in this overview have the same meaning as in the Conditions. See "Terms and Conditions of the Notes".

Issuer	The Republic of Srpska (represented by the Government of the Republic of Srpska).
Joint Lead Managers..........................	Intesa Sanpaolo S.p.A., London Branch, Société Générale and UniCredit Bank AG.
Issue Price	98.918 per cent. of the principal amount of the Notes.
Notes	EUR 300,000,000 4.75 per cent. Notes due 2026.
Issue Date	27 April 2021.
Maturity Date	27 April 2026.
Interest on the Notes..........................	4.75 per cent. *per annum*.
Interest Payment Dates	The Notes bear interest on their outstanding principal amount from and including 27 April 2021 at the rate of 4.75 per cent. *per annum*, payable annually in arrear on 27 April in each year (each an "**Interest Payment Date**"). The first payment (for the period from and including the Issue Date to but excluding 27 April 2022 and amounting to EUR 47.5 per EUR1,000 principal amount of Notes) shall be made on 27 April 2022. See "*Terms and Conditions of the Notes – 5. Interest*".
Yield..	As at the Issue Date and on the basis of the issue price, the interest rate of the Notes, the redemption amount of the Notes and the tenor of the Notes, as calculated on the pricing date, the yield to maturity of the Notes is 5.00 per cent. *per annum*.
Status	The Notes will constitute direct, general, unconditional and (subject to the provisions of the Negative Pledge) unsecured obligations of the Issuer and the full faith and credit of the Issuer is pledged for the due and punctual payment of principal and interest on the Notes and for the performance of all obligations of the Issuer in respect of the Notes. The Notes will at all times rank *pari passu* without preference among themselves and at least *pari passu* in right of payment with all other present and future unsecured obligations of the Issuer, save only for such obligations as may be preferred by mandatory provisions of applicable law, *provided*, *further*, that the Issuer shall have no obligation to effect equal or rateable payment(s) at any time with respect to any such other unsecured obligations of the Issuer and, in particular, the Issuer shall have no obligation to pay other unsecured obligations at the same time or as a condition of paying sums due on the Notes and vice versa. See "*Terms and Conditions of the Notes – 3. Status*".
Redemption..	Unless previously redeemed or purchased and cancelled, the Issuer will redeem each Note at its principal amount on the Maturity Date.

See "*Terms and Conditions of the Notes – 7. Redemption and Purchase*".

Negative Pledge.................................. The Conditions will provide that, so long as any of the Notes remains outstanding (as defined in the Agency Agreement), the Issuer will not create or permit to subsist any Security Interest upon the whole or any part of its present or future property, assets or revenues to secure any of its Public External Indebtedness or any Guarantee of any Public External Indebtedness of any other person, unless the Issuer shall, in the case of the creation of any Security Interest, at the same time or prior thereto, and in any other case, promptly, procure that all amounts payable in respect of the Notes are secured equally and rateably therewith or provide such other security or arrangement for the Notes as may be approved by an Extraordinary Resolution or a Written Resolution or an Electronic Consent (each as defined in the Conditions), in each case in accordance with Condition 13.

See "*Terms and Conditions of the Notes – 4. Negative Pledge*".

Events of Default .... The Conditions will permit the acceleration of the Notes following the occurrence of certain Events of Default.

Upon the occurrence of an Event of Default, holders of not less than 25 per cent. in aggregate principal amount of the outstanding Notes may, by notice in writing to the Issuer (with a copy to the Fiscal Agent), declare all of the Notes to be immediately due and repayable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality.

If the Issuer receives notice in writing from holders of at least 50 per cent. in aggregate principal amount of the outstanding Notes to the effect that the Event of Default or Events of Default giving rise to such declaration of acceleration is or are cured following any such declaration and that such holders wish the declaration to be withdrawn, the Issuer shall give notice thereof to the Noteholders (with a copy to the Fiscal Agent at its specified office), whereupon the declaration shall be withdrawn and shall have no further effect but without prejudice to any rights or obligations which may have arisen before the Issuer gives such notice (whether pursuant to the Conditions or otherwise). No such withdrawal shall affect any other or any subsequent Event of Default or any right of any relevant Noteholder in relation thereto.

See "*Terms and Conditions of the Notes – 10. Events of Default*".

Denominations................................... The Notes will be offered and sold, and may only be transferred, in minimum principal amounts of EUR100,000 and integral multiples of EUR1,000 in excess thereof.

Form of Notes..................................... The Notes will be in registered form, without interest coupons attached.

Notes offered and sold in reliance upon Regulation S will be represented by beneficial interests in the Unrestricted Global Certificate, and Notes offered and sold in reliance upon Rule 144A will be represented, upon issue, by beneficial interests in the Restricted Global Certificate, each of which will be registered in the name of a nominee of a common depositary for Euroclear and Clearstream, Luxembourg.

Except in limited circumstances, certificates for the Notes in definitive form will not be issued to investors in exchange for beneficial interests in the Global Certificates. See "*The Global Certificates*".

Taxation and Additional Amounts ... All payments in respect of the Notes by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by or on behalf of the Republic of Srpska and/or, to the extent applicable, Bosnia and Herzegovina or any political subdivision or any authority thereof or therein having power to tax (collectively, "**Taxes**"), unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes in the absence of the withholding or deduction, subject to certain exceptions set out in "*Terms and Conditions of the Notes – 8. Taxation*".

Meetings of Noteholders .... The Conditions contain provisions for calling meetings of Noteholders and, in certain circumstances, holders of other debt securities of the Issuer, to consider matters affecting their interests generally. These provisions permit defined majorities (which may, in certain circumstances, be formed of holders of debt securities of the Issuer other than the Notes) to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority. See "*Terms and Conditions of the Notes – 13 Meetings of Noteholders; Electronic Consents; Written Resolutions*".

Modification and Amendment .... The Conditions contain a provision permitting the Notes, the Conditions, the Agency Agreement or the Deed of Covenant to be amended without the consent of the Noteholders to correct a manifest error or to make any modification which is of a formal, minor or technical nature or which is not, in the sole opinion of the Issuer, materially prejudicial to the interests of the Noteholders. See "*Terms and Conditions of the Notes – 13.8. Manifest error, etc.*".

Use of Proceeds.................................. The net proceeds of the issue of the Notes will be used by the Republic to finance its Budget deficit, which will include the allocation of funds to the Compensation Fund (as defined and described in "*Public Finance - The Compensation Fund of the Republic*") in order to implement measures to mitigate the effects of COVID-19 on the Republic's economy and population and for discharge of expenses related to debt repayments. See "*Use of Proceeds*".

Ratings.. The Notes are expected to be assigned a rating of B by S&P and B3 by Moody's. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension,

	reduction or withdrawal at any time by the assigning rating organisation.
Listing and Admission to Trading	Application has been made to the FCA for the Notes to be admitted to the Official List and to the London Stock Exchange for the Notes to be admitted to trading on the London Stock Exchange's main market.
Governing Law	The Notes, the Agency Agreement and the Deed of Covenant (each as defined in the Conditions), and any non-contractual obligations arising out of or in connection with the Notes, the Agency Agreement and the Deed of Covenant, will be governed by, and construed in accordance with, English law.
Transfer Restrictions	The Notes have not been and will not be registered under the Securities Act or any U.S. state securities laws. Consequently, the Notes may not be offered, sold or resold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable U.S. state securities laws. See "*Transfer Restrictions*".
Fiscal Agent, Paying Agent and Transfer Agent................................	The Bank of New York Mellon, London Branch.
Registrar...	The Bank of New York Mellon SA/NV, Dublin Branch.
Security Codes for the Regulation S Notes...	ISIN: XS2332900682 Common Code: 233290068 CFI: DBFNFR FISN: MINISTRY OF FIN/4.75EUR NT 20260427
Security Codes for the Rule 144A Notes...	ISIN: XS2332900922 Common Code: 233290092 CFI: DBFNFR FISN: MINISTRY OF FIN/4.75EUR NT 20260427

RISK FACTORS

Investment in the Notes involves a high degree of risk. Potential investors should carefully review this entire Offering Circular and, in particular, should consider all the risks inherent in making such an investment. The Issuer believes that the following factors may, individually or in aggregate, affect its ability to repay the principal of, and make payments of interest and other amounts due on, the Notes or otherwise fulfil its obligations under the Notes. The value of the Notes could decline due to any of these risks and prospective investors may lose some or all of their investment. Most of these factors are contingencies which may or may not occur.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the Issuer may be unable to pay interest, principal or other amounts on or in connection with the Notes for other reasons and the Issuer does not represent that the statements below regarding the risks of holding the Notes are exhaustive. Additional risks and uncertainties not currently known to the Issuer or that the Issuer currently deems to be immaterial may also materially affect the Issuer's economy and its ability to fulfil its obligations under the Notes. Prospective investors should also read the detailed information set out elsewhere in this Offering Circular and make any other enquiries they think appropriate in order to reach their own views prior to making any investment decision.

Risks Associated with Emerging Markets

Investing in securities of emerging markets, including the Republic, involves a higher degree of risk than investing in more developed market economies and mature political and legal systems

Investing in securities of emerging market countries, including the Republic, involves a higher degree of risk than investments in securities of corporate or sovereign issuers from more developed nations, and carries in some cases significant legal, economic and political risks. Different factors may cause the instability in the Republic, such as adverse external economic factors, inconsistent fiscal and monetary policies, dependence on external financing, changes in governmental economic or tax policies, high levels of inflation, abrupt changes in currency values, high interest rates, political and social tensions, fluctuations in central bank reserves and trade barriers.

Although progress has been made in reforming the Republic's political and economic systems, its legislative and judicial framework is still not in material respects in line with the standards adopted, for example, by the EU. For example, the Constitution of the Republic remains in breach of the European Convention on Human Rights as it contains ethnic and residence-based provisions, which are not in compliance with such convention and recent rulings made by the European Court of Human Rights. Moreover, the increasing dependence on borrowing foreign currency-denominated debt including from multilateral sources and international financial institutions ("**IFIs**") (such as the IMF or the EU) to satisfy its financing needs makes the Republic acutely susceptible to disruptions in other emerging markets and international capital markets, such as an increased cost of funding. Such borrowings, which have increased in recent years, continue to remain crucial to secure sustainable growth in the coming periods and fully finance the Republic's current account deficit, and such increasing reliance on foreign currency funding may result in a further increase to the Republic's exposure to, and dependence on, the global financial markets in the event it is unable to secured sufficient domestic funding. The Republic's ability to attract international funding is, in some part, based on international perceptions of emerging markets as a whole and, as such, any factors that affect investor confidence, such as a decrease in credit ratings or state or central bank intervention in a particular emerging market (including the Federation of Bosnia and Herzegovina), could affect the availability of foreign investments or other international funding in the Republic. Investors' reactions to events occurring in one emerging market or region could have a "contagion" effect, in which an entire region or class of investment is disfavoured. Consequently, any increase in the perceived risks associated with investing in emerging economies may decrease foreign investments in, and the availability of international funding to, the Republic.

Moreover, financial unrest or instability experienced in global financial markets and/or one or more countries located in an emerging market, could potentially have a negative impact on the Republic's economy.

The Republic's economy could also be adversely affected by negative economic or financial developments in neighbouring countries or European countries more broadly, in addition to those of emerging markets more generally. For example, the Republic's economy is associated with, and subject to similar risks as, the other economies of the Balkan region (including, in particular, the Federation of Bosnia and Herzegovina). Economic and financial difficulties (including as a result of the outbreak of COVID-19) affecting such countries may negatively affect the Republic's economy. Foreign investors may associate the difficulties experienced by these economies with the Republic's economy, which may adversely affect investments in the Republic. Additionally, risks related to economic development in Europe have had and, despite recent periods of moderate stabilisation, may continue to have, a negative impact on global economic activity and financial markets.

Prospective investors should also note that emerging economies, such as the Republic's, are subject to rapid change and that the information set out in this Offering Circular may become outdated relatively quickly. Accordingly, prospective investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in the light of those risks, their investment is appropriate. Generally, investment in emerging countries is suitable only for sophisticated investors who fully appreciate the significance of the risks involved. Prospective investors are urged to consult their own legal and financial advisers before making an investment in the Notes.

Risks Associated with the Republic's Economy

The Republic may not succeed in implementing its proposed economic, financial and other reforms and policies, which may adversely affect the economy and the Republic's ability to repay principal and make payments of interest on the Notes

Since the Republic was formed under the Dayton Peace Agreement signed on 14 December 1995 (the "**Dayton Agreement**"), it has undergone substantial political, financial and economic transformation. In conjunction with this transformation, the Republic has been pursuing a programme of economic structural reform with the objective of increasing competitiveness and productivity of the economy, as well as building a sustainable health system, an efficient public sector and an education and labour market adjusted to the needs of the economy, while implementing policies for European integration, regional and international cooperation. See "*The Economy of the Republic*". While the Republic has made substantial progress in developing a functioning market-based economy, the establishment of economic and institutional infrastructure that is consistent with EU standard requires further investment and may take years to complete.

The implementation of these reforms, including programmes to support further economic growth, development, and diversification, depends on significant and sustained political commitment and social consensus in favour of reforms. Notwithstanding significant progress in recent years and the Government of the Republic's (the "**RS Government**") stated policies of implementing further reforms and supporting diversification of the economy, there can be no assurance that these and other economic and financial initiatives and the reforms described in this Offering Circular will continue, will not be reversed or will achieve their intended aims in a timely manner or at all, which could result in the Republic's inability to use EU development funds. In addition, from time to time, the Republic has experienced political and/or ethnic tensions, resulting in challenges to the political process, such as several attempts at organising referenda by the Republic, tensions between the BiH Constitutional Court and the RS Constitutional Court and/or difficulties in reaching consensus with BiH due to the complex legal framework owing to the combination of different government systems of BiH and the Republic. See "*– Political or social instability or a change in government could affect the implementation of its proposed economic reforms and have a negative effect on the Republic and its economy*." Failure by the RS Government to implement its proposed economic, financial and other reforms and policies, a change in the political or social consensus relating to these policies, or a failure to fulfil conditions associated with the EU or other funding for such reform programs, may adversely affect the growth and development of the Republic's economy and, as a result, have a material adverse effect on the Republic, its economy and its ability to perform its obligations under the Notes.

The economic effects of the outbreak of COVID-19 could continue to adversely affect the Republic's economy

In December 2019, the emergence of a new strain of a coronavirus (named COVID-19) was reported in Wuhan, Hubei Province, China. This new strain has subsequently spread throughout the world, including in the Republic. On 11 March 2020, the World Health Organization declared the spread of COVID-19 a global pandemic. Several governments have since implemented various restrictions, including restricting travel, closing borders, restricting public gatherings, quarantining people who may have been exposed to the virus, imposing lockdowns or extended shutdowns and placing limitations on business operations. Such measures have impacted the macroeconomic environment and are creating significant volatility, uncertainty and disruption in global financial markets, the severity and duration of which will depend on future developments, which are highly uncertain and cannot be accurately predicted.

On 16 March 2020, the RS Government adopted a Decision on Declaration of an Extraordinary Situation for the Republic (*Official Gazette of the Republic*, *No. 25/20*), which is still in force. On 2 April 2020, in order to prevent the spread of COVID-19, the RS National Assembly declared a "state of emergency" in the Republic. The RS Government implemented restrictions similar to those taken in many other countries, such as self-quarantining, instituting curfews, suspending or otherwise limiting the operation of non-essential businesses, banning public gatherings and closing down schools and universities. As the outbreak of COVID-19 slowed in a number of countries that were affected early on in the spread of the disease, some of the related precautionary and preventative measures implemented in March 2020 have since been partially lifted and/or relaxed, resulting in a gradual reopening of businesses and workplaces. However, it remains unclear how long and the manner in which any such preventive measures (including any potential re-introduction of restrictive measures or implementation of more far-reaching restrictions or measures than those already announced) will remain in place and what their ultimate impact will be on global and local economies. Like other countries, the emergence of COVID-19 poses a new risk to the financial health of the Republic. Whilst the "state of emergency" was lifted in the Republic on 22 May 2020, due to increase in the number of cases, the Republic on 11 March 2021 re-introduced social distancing measures and various restrictions on certain business activities (including, for example, the closure of sports and leisure facilities in the Republic). The economic impact of COVID-19 has had, and will continue to have, a significant effect on the Republic's economy, reducing foreign trade activity, straining public finances and crippling domestic economic activity.

After a relatively stable performance in the first quarter of 2020, the Republic recorded a contraction in the second quarter of 2020 during which the economic effects of COVID-19 primarily manifested, with the economic activity showing signs of gradual recovery thereafter. According to the data published by the Institute of Statistics, the Republic's real GDP registered a growth of 1.4 per cent. year-on-year in the first quarter of 2020. This modest growth was followed by a sharp decline of 6.8 per cent. year-on-year, as a result of the significant disruption caused by the impact of COVID-19 and the "state of emergency" and other preventative measures which were implemented in the months of March to May 2020. Following this decline, economic activity within the Republic experienced signs of recovery in the third quarter when it registered a decline of 3.4 per cent., which was primarily a result of the gradual reopening of non-essential economic activity and the introduction by the RS Government of relief measures such as loan moratoria and increased unemployment support. The Republic's real GDP contracted by 3.0 per cent. in the nine months ended 30 September 2020 as compared to a growth of 2.5 per cent. for the corresponding period of 2019, and a growth of 2.5 per cent., 3.9 per cent. and 3.1 per cent. for the years ended 31 December 2019, 2018 and 2017, respectively. See "*Public Finance – COVID-19 measures adopted by the Republic*" for further information.

While the Republic registered a decline in its real GDP during the first three quarters of 2020, its economic growth and recovery in the coming years will depend on a variety of factors including, among other things, external demand for the Republic's exports and services, confidence among domestic consumers and foreign or domestic investors and their rates of investment in the Republic, the willingness and ability of businesses to engage in new capital spending and the rate of inflation.

The RS Government adopted a broad-based economic response plan to support its economy and mitigate the economic impact of COVID-19. This policy response included: (i) loan moratoria granted by the BARS (banking supervisor) to the banking and non-banking sector to ease liquidity constrains; (ii) a credit guarantee programme to help reduce borrowing costs and ensure continued flow of bank and non-bank microcredit organization credit to SMEs and entrepreneurs; (iii) the allocation of a one-off allowance of BAM 118.5 million in 2020 and 2021 to the public health sector in order to facilitate the purchase of medical equipment to support their operations; (iv) the payment of taxes and contributions pertaining to wages for March to May 2020 on behalf of employers, legal entities and small business; (v) the payment of minimum wage and contributions in April 2020; (vi) the extension of certain tax deadlines and suspension of deferred tax payment obligations; (vii) providing fiscal relief to other sectors of the Republic's economy, together with the expected prolonged weakening of economic conditions, will contribute to a substantial worsening of the budgetary position, although it is difficult to evaluate the financial impact of these measures with precision. See "*Public Finance – COVID-19 measures adopted by the Republic*" for further information on the various measures employed by the RS Government in light of the impacts of the pandemic.

The RS Government is continually engaging with BiH, bilateral foreign partners and multilateral corporations and organisations in order to procure sufficient doses of the COVID-19 vaccine. The Republic is a participant in COVAX which was established by the EU, which is designed to provide participants with access to COVID-19 vaccine doses. The RS Government paid BAM 7 million for 400,000 doses of vaccines under the COVAX initiative (for a population of 200,000), but only received its first shipment of the COVID-19 vaccines on 25 March 2021 which consisted of 7,020 doses of the Pfizer-BioNTech COVID-19 vaccine and 8,600 doses of the AstraZeneca COVID-19 vaccine. On 12 February 2021, the health professionals working in the Republic were vaccinated with the Sputnik V COVID-19 vaccine and by 30 March 2021, the RS Government had independently procured 42,000 doses of the Sputnik V COVID-19 vaccine. The Government of the Republic of Serbia, together with the RS Government, organised the inoculation of 2,940 health professionals and persons working in nursing homes in the Republic. The Republic has also received an additional 11,020 doses of the Sinovac COVID-19 vaccine as part of 30,000 doses that were donated by Turkey to BiH.

While the RS Government expects that a mass inoculation programme to facilitate its economic recovery in time, there can be no assurance that the Republic will receive sufficient COVID-19 vaccine doses in the short to medium-term in order to effectively mitigate the risk of any future outbreaks of COVID-19 or to permit an easing of social and economic restrictions, particularly in light of continued delays to the effective global production and supply of COVID-19 vaccines to countries across the world.

Some of these factors adversely affecting the Republic's economy are outside the control of the Republic as most of these elements, to a large extent, will depend on the duration and spread of COVID-19, its severity, actions taken to contain the virus or treat its impact (including the effective and timely distribution of vaccines), the extent and effectiveness of economic stimulus taken to mitigate its impact or treat its eventual aftermath and how quickly and to what extent normal economic and business activity can resume. Therefore, in spite of the economic activity having gradually recovered following a sharp contraction in the second quarter of 2020, the economic outlook of the Republic remains highly uncertain, reflecting the unpredictable course of the pandemic and the related economic disruptions it may cause in the Republic and its trading partners. Any material changes as a result of such events or developments may materially and adversely affect the availability of foreign investments in, and international funding to, the Republic and possibly exert adverse effects on the Republic's ability to grow its economy sustainably based on investments in fixed capital and net exports, including certain long-term infrastructure projects which are partially funded by foreign currency-denominated borrowings and FDI. With the trajectory of the virus, and therefore its economic impact, still subject to significant uncertainty, there can be no assurance that the recently gained economic momentum of the Republic will not be adversely affected over the coming year.

Moreover, as the COVID-19 pandemic is ongoing, its dynamic nature, and the related uncertainties, makes it difficult to predict or estimate reliably the degree of the risk posed by the virus, particularly against the backdrop of the Republic's mass inoculation programme. A further worsening of the outbreak due to renewed surge in the virus could lead to a further contraction of economic growth or otherwise weaken recovery in 2021, and result in the imposition of additional protective measures (or economic incentive measures). In light of such uncertainty, it is reasonable to assume that any rapid or sharp increase in the number of infections in the future will have a negative and possibly prolonged impact on the Republic. The impact of COVID-19 on the Republic's economy cannot be accurately predicted as the RS Government is unable to quantify in any meaningful way the likely scale of such impact due to the unpredictable course of the pandemic, but such impact could be significant, particularly in the short to medium-term, in the event of further sudden spikes in the virus which are severe, as it could adversely affect the economies and financial markets of the Republic and of many other countries. As a result, the economic and fiscal projections of many countries are expected to be continually revised, causing key fiscal and economic indicators to be subject to some degree of uncertainty, including in the Republic. As of the date of this Offering Circular, the trajectory of the COVID-19 outbreak remains highly uncertain but, if the spread of the virus is severe or prolonged, in the Republic or elsewhere, there is a risk that more far-reaching restrictions or measures than those already announced, will be taken to contain its spread or mitigate its impact, including instituting lockdowns that have previously resulted in businesses slowing or shuttering operations. The implementation of such measures could have could have adverse effects on the Republic's economy and financial markets, which could be severe and, as a result, have a material adverse effect on the Republic, its economy and its ability to perform its obligations under the Notes.

BiH and, in turn, the Republic have a high level of remittances from abroad, which have been detrimentally affected due to various factors

Workforce remittances represent a major component of private sector transfers and the overall secondary income account in the State. During the years 2016 to 2020, workforce remittances in BiH had an average share of around 67.2 per cent. of private sector transfers and around 66.5 per cent. of overall secondary income (net) account. See "*External Sector – Savings and Investment Balance*." According to the Central Bank, in 2019, pensions remittance in BiH amounted to BAM 1.2 billion indicating an increase of 3.8 per cent. in comparison to 2018. However, the total remittances fell by 8.8 per cent. in 2020 in comparison to 2019 primarily as a result of the widespread regional and global restrictions on movement, suspension of businesses and loss of employment, as well as the rise of political anti-migrant sentiment. The World Bank has forecasted that BiH's overall remittances are expected to decline by 14 per cent. in 2021 as compared to 2019 largely due to the impact of COVID-19. With decline in remittances and reliance on such inflows due to the relatively small size of the Republic's economy, the further impact of such reduction on the current account deficit of BiH is unknown and may be further worsened by any additional restrictions or suspensions in business or increase in unemployment due to COVID-19 or decreased overseas employment opportunities due to the rise of regional political anti-migrant sentiment, which may in turn adversely affect the Republic, its economy and its ability to perform its obligations under the Notes.

The Republic's economy is vulnerable to external shocks that may have a negative effect on the economic growth of the Republic and its ability to service its debt obligations

The Republic's economy is vulnerable to external shocks and remains potentially exposed to deterioration in global economic conditions, including, but not limited to, as a result of the ongoing outbreak of COVID-19. For instance, any significant decline in the economic growth of the Republic's main trading partners as a result of the ongoing outbreak of COVID-19 or otherwise, including the EU member states, or any other deterioration in the Republic's relationships with such trading partners, could have an adverse effect on its balance of trade and adversely affect the Republic's economic growth. The Republic's manufacturing and services sectors, which are historically significant contributors to the Republic's GDP, were impacted considerably in 2020 as a result of COVID-19, with companies and businesses suspending production capacities or otherwise reducing their business activities significantly due to a sharp contraction in external demand caused by the lockdown of the Republic's and other economies. The Republic's exports are largely directed towards certain EU member states and other countries of the region, and are reliant on demands in those countries, which are currently lacking or experiencing slowdown due to reduced overall economic activity. In 2020, the Republic observed a year-on-year decreased of 6.3 per cent. in respect of the volume of external trade.

Whilst the direct and indirect economic impact of the COVID-19 outbreak is uncertain, concerns remain as to whether the stimulus and other economic actions taken by a number of countries to mitigate its impact, will counter the anticipated macro-economic risks. Equally, it is unclear as to when the restrictive measures imposed in many countries in an attempt to contain the virus will be deemed successful and therefore lifted or reduced. A prolongation or resurgence of the COVID-19 outbreak could significantly and adversely affect economic growth and impact business operations across the globe generally, including within the Republic and its trading partners. To the extent that member states of the EU, or other major trading partners of the Republic and BiH, experience a weakening of their economies, it could cause sharp declines in FDI inflows to BiH and exports of goods by the Republic. Net FDI inflows to the Republic amounted to EUR 43.2 million, EUR 145.2 million, EUR 208.3 million and EUR 195.7 million in 2016, 2017, 2018 and 2019, respectively. Any fluctuations or decreases in the flow of investments into the Republic's economy could lead to lower growth or result in a more severe contraction, which may impair the Republic's ability to sustain or limit the negative impact on its GDP growth or finance its current account deficit, which is largely covered by external debt. See "*– Investing in securities of emerging markets, including the Republic, involves a higher degree of risk than investing in more developed market economies and mature political and legal systems*".

The Republic's economy could be significantly adversely affected by a decline in the economic performance of the countries which it has bilateral infrastructural relations, such as the Republic of Serbia. In addition to the Republic of Serbia, China is an important bilateral infrastructure partner of the Republic and it participates or has concluded various energy and infrastructure projects in the Republic in recent years. See "*Description of the Republic of Srpska – Energy Sector of the Republic*" and "*Description of the Republic of Srpska – Other key bilateral relations – People's Republic of China*". In the beginning of 2020, the COVID-19 outbreak significantly disrupted China's manufacturing output, which caused global ripple effects. It resulted in weak aggregate demand, supply chain disruptions and a lack of raw materials and led to increasing uncertainty, all of which caused a slowdown of global economy activity. Business activities in China, including industrial activities, were significantly reduced or completely suspended for most of 2020. Whilst the economy of China has shown improvement in the last quarter of 2020, any significant disruption to economic stability or growth in China, or any rupture in economic or political relations between the BiH and the Republic and China, could have an adverse effect on the Republic and its economy.

There can be no assurance that weaknesses in the global economy as a result of COVID-19, or any other future external economic crisis, will not have a negative effect on the Republic's economy or on investors' confidence in the Republic's markets. This could affect the Republic's ability to raise capital in the international debt markets and may have a material adverse effect on the trading price of the Notes or otherwise likely affect the Republic, its economy and its ability to perform its obligations under the Notes.

BiH and the Republic have a complex management and governance structure which also contribute to increased political uncertainty

The Republic has a unique structure, as it is one of the two entities formed under the Dayton Agreement in December 1995. BiH has a complex legal framework due to the combination of different government systems. The Entities have their own legal systems and the Brčko District also has a separate legal framework. Only a small number of laws are adopted at BiH level. As the Entities have wide legislative competences, each of them may adopt completely different laws.

Relations between the Republic and BiH are defined by the General Framework Agreement for Peace in Bosnia and Herzegovina (the "**General Framework Agreement**") and the BiH Constitution, where the competencies of BiH are stated explicitly, while other competencies belong to the Entities, the Republic and the Federation. The authorities of the Republic are fully committed to preserving and respecting the BiH Constitution and the Dayton structure of BiH.

The executive branch of BiH is headed by a three-member joint presidency (the "**Joint Presidency**"), which is elected by popular vote, and consists of representatives of BiH's three constituent groups: Bosniaks, Croats and Serbs. Two members of the Joint Presidency (one Bosniak and one Croat) are directly elected in the Federation. The third member, a Serb, is directly elected in the territory of the Republic. Bosnia and Herzegovina has a bi-cameral legislature consisting of the House of Peoples and the House of Representatives. Together, these chambers form the Parliamentary Assembly of BiH. The Constitution of BiH (the "**BiH Constitution**") also establishes the BiH Constitutional Court, which has exclusive jurisdiction to determine all disputes arising under the BiH Constitution between: the Entities and/or BiH or the institutions of BiH. The BiH Constitutional Court has jurisdiction to decide whether any provision of the constitution or law of an Entity complies with the provisions of the BiH Constitution, as well as the constitutionality of the laws of BiH. The BiH Constitutional Court also has jurisdiction to examine an Entity's decision to establish relations with a neighbouring state in accordance with the BiH Constitution, including provisions relating to the sovereignty and territorial integrity of BiH. At the Entity level, the Republic has its President, who represents the Entity and has its own constitution (the "**RS Constitution**"). The Republic exercises its legislative function through its parliament, the RS National Assembly and the Council of Peoples, the executive functions through the RS Government comprising of the Prime Minister, vice-presidents and the ministries and judicial functions through the Supreme Court of the Republic, district courts, basic courts, special commercial courts (district commercial courts and high commercial court) and the prosecutor's office. See "*Description of the Republic of Srpska – The Constitution and Government Structure of BiH*" and "*Description of the Republic of Srpska – The Constitution and Government Structure of the Republic*".

BiH and the Republic have a complex structure that is designed to preserve the ethnic identities prevalent in Bosnia and Herzegovina. While BiH has been peaceful years since the Dayton Agreement was signed, there have been instances showing a lack of consensus between the various ethnic groups that may increase political instability. Since 2011, there have been several attempts of referendums by the Republic, which have met repeated resistance from BiH and the Federation as well as international stakeholders. While recent referendums have not set a secessionist proposal, there can be no assurance that the political climate does not result in the proposal and implementation of such referendums in the future as a result of continued tensions between the Republic and BiH, which are in part influenced by ethnic complexities. Most recently, in 2015, the President of the Republic proposed a referendum on the authority of BiH's highest ordinary court and State prosecutor's office following a period of tensions between the Republic and BiH's judicial authorities. The referendum was proposed on the basis that BiH's highest ordinary court did not act in the interests of the Republic despite its financial contribution. The referendum was scheduled for 15 November 2015 following the Republic's RS National Assembly adopting a decision to hold a referendum in the Republic. The 2015 referendum was met with opposition from domestic and international parties alike on the basis that it was in violation of the Dayton Agreement and, following such political pressure, the referendum was postponed indefinitely.

Notwithstanding such events, the complex governance structure in BiH remains a source of political tension between BiH and the Republic. For example, on 12 November 2019, the RS National Assembly adopted its Conclusions in regard to the Information on the Unconstitutional Transformation of the Dayton Structure of BiH and the Impact on the Position and Rights of the Republic. These conclusions were centred around the preservation of the territorial and constitutional integrity of BiH, the Republic and the Federation against the backdrop of the Dayton Agreement and the General Framework Agreement. Among other things, the RS National Assembly stated its intention to reject all acts that are unconstitutional or contrary to the General Framework Agreement, its opposition to any attempts by BiH to modify or otherwise alter the Dayton structure of governance, and that it will react to any unconstitutional attempts to reorganise the governance structure by authorizing referenda for a new constitution. While the RS National Assembly's conclusion were noted by the RS Government and international partners, any actual or perceived threat to the delicate governance structure and relationship between the institutions at the BiH and Republic levels may significantly contribute to increasing political instability in the Republic and BiH.

More recently, on 7 February 2020, following the ruling of the BiH Constitutional Court (*Official Gazette of BiH, No. 16/20*), which declared the Republic's Law on Agricultural Land (*Official Gazette of the Republic, Nos. 93/06, 86/07, 14/10, 5/12 and 58/19*) unconstitutional, the representatives of the Republic stated that they would suspend their participation in any matter within the jurisdiction of BiH until a new law on the BiH Constitutional Court is adopted that would exclude foreign judges from the BiH Constitutional Court, as they believed the current law breaches the territorial integrity of the Republic. However, the representatives of the Republic continued to participate in the work of the BiH institutions.

As a result of the political tensions between the Republic and BiH, there continue to be calls for future referenda and challenges to the legal and political positions of the Republic and its judiciary, including its sovereignty and secession from BiH, which have also been publicly reiterated by the Serb member and the chairman of the Joint Presidency, Milorad Dodik. Future changes in the RS Government, major policy shifts, increased ethnic tensions or an increased lack of consensus among members of the Joint Presidency could contribute to a rise in political and social instability in BiH, the Federation and the Republic, which could have a material adverse effect on the Republic, its economy and its ability to perform its obligations under the Notes.

Political or social instability or a change in government could affect the implementation of its proposed economic reforms and have a negative effect on the Republic and its economy

Bosnia and Herzegovina, and the wider region, have experienced periods of instability which were particularly characterized by the Bosnian War in the early 1990s and the various atrocities carried out during the conflict. This culminated in the execution of a peace accord pursuant to the General Framework Agreement on 14 December 1995. BiH continues to experience a certain degree of political tension, particularly in light of the composition of BiH's complex governance structure, which is largely divided along ethnic lines as a result of the Dayton Agreement. See " *– BiH and the Republic have a complex management and governance structure*" above and "*Description of the Republic of Srpska – The Constitution and Government Structure of BiH*" and "*Description of the Republic of Srpska – The Constitution and Government Structure of the Republic*". The opinion published by the European Commission on 29 May 2019 recommends improvement of the constitutional framework of BiH and the Entities, to allow effective implementation of the EU Acquis (as defined below) as well as an efficient and de-politicized public administration. See "*– Economy of the Republic – Foreign Relations – EU – EU accession process*". The complex structure of multiple tiers of governance and division of responsibility between BiH and the Entities can cause delays in consensus between the authorities, sometimes impeding market access.

In the most recent parliamentary elections, which took place on 7 October 2018, the Alliance of Independent Social Democrats (the "**SNSD**") received the largest number of votes, winning 28 seats in the RS National Assembly, and therefore continued to retain a majority. Particularly in recent years, the SNSD has changed its position to pursue a more nationalist agenda that is in favour of secession of the Republic from BiH. The next parliamentary elections in the Republic are scheduled to be held in 2022 at the latest, alongside the presidential elections, although a member of the Joint Presidency of Bosnia and Herzegovina, Milorad Dodik, has publicly stated an intention to work towards preventing such elections taking place, primarily in response to attempts made by the Central Election Committee of BiH to annul the election results in Doboj and Srebrenica. The elections in Doboj and Srebrenica were repeated in February 2021 and the SNSD again received the largest number of votes. Any actual or perceived political instability or significant changes in the political climate in the Republic (and, more broadly, BiH), including changes affecting the stability of the RS Government or BiH or otherwise involving a reversal or blocking of reform policies (such as the RS National Assembly's conclusions in relation to the unconstitutional transformation of the Dayton structure of BiH and the impact on the position and rights of the Republic (*Official Gazette of the Republic, No. 3/20*), may have a negative effect on the Republic, it's economy and its ability to perform its obligations under the Notes.

Further, there can be no assurance that the Republic will complete the implementation of proposed strategies and reforms within the allotted time periods. For example, the RS National Assembly, in July 2017, passed a decision to adopt the Strategy for the Development of Local Self-Government in the Republic for 2017-2021 (*Official Gazette of the Republic, No. 73/17*), which took effect in August 2017. Among other things, the strategy envisages improved stability of financing of local self-government units and enhanced efficiency and responsibility of such units in managing local developments.

Although BiH has remained relatively peaceful since the end of the Bosnian War in 1995, there can be no assurance that it will not experience political instability as a result of political or public unrest. For example, in 2014, BiH and the Entities (mainly the Federation) experienced a series of nationwide peaceful demonstrations, protests and rioting that were sparked by, among other things, public grievances towards corruption, employment opportunities and perceived political inertia, which resulted in the movement being dubbed the "Bosnian Spring". While the unrest took place in the Federation and was relatively short-lived, it represented the most violent scenes that the country had experienced since the end of the Bosnian War in 1995. Although BiH's security situation has stabilised since then, there can be no assurance that further protests or unrest will not occur in the future. In the event that political unrest should take place, such a development could have an adverse material impact on foreign direct investment in BiH and the Republic or their reputation in the region and internationally. An unsettled political environment may also have negative implications on BiH and the Republic's fiscal accounts and future growth trajectory. The lack of a broad political consensus that encompasses BiH's and the Republic's various political and ethnic groups may undermine the RS Government's ability to implement the full extent of its economic and other reform programmes, and BiH's progress towards EU membership, which could detrimentally impact the Republic's economy. More recently, the Republic also experienced domestic unrest in March 2018, when David Dragicevic, a 21 year-old man, went missing in Banja Luka which resulted in significant public uproar and protests demanding transparency into police investigations following the police's conclusion that the death was an accident. Despite the movement generally subsiding in October 2018, the social and political instability caused by the investigation resulted in the establishment of a political organization named "Movement of the Justice", which participated in the 2020 local elections in Banja Luka but was not elected as they did not pass the census.

In addition, should the existing or future RS Government, as well as BiH, fail or be unable to implement meaningful structural, judicial, legislative, economic and/or other reforms (particularly as required by BiH's application for EU membership), as reforms of this nature may be politically unpopular, then the Republic's economy may not achieve sustainable growth over the medium-term. The extent to which the Republic will be able to attract broad scale investment in the absence of such reforms is uncertain, and its ability to perform its obligations under the Notes, its economy (including its ability to raise capital in the external debt markets in the future) may be affected.

BiH may not become a member of the EU in the near future or at all

BiH has sought admission to the EU as part of its strategic goals and in order to benefit its future economic development. The EU has recognised BiH as a "potential candidate country". On 15 February 2016, BiH presented its application for membership of the EU. On 6 October 2020, the European Commission published its Bosnia and Herzegovina 2020 Report (within the framework of its 2020 Enlargement Package), which provides a comprehensive assessment of BiH's fulfilment of key priorities outline in the European Commission's publication of its opinion paper on 29 May 2019 in respect of BiH's application for membership of the EU. See "*Description of the Republic of Srpska – Foreign Relations – EU*" for further information about BiH's accession to the EU.

The timing of BiH attaining full membership of the EU will depend on a number of economic and political factors relating to BiH (including the complex internal governance structure and dynamics between the institutions at the BiH level, the Federation and the Republic) and the EU. On 6 February 2018, the EU adopted its EU-Western Balkans strategy, which sets out certain indicative steps that BiH will need to complete in order to potentially be ready for membership. This EU strategy states that accession will ultimately depend on strong political will from BiH and its entities and the delivery of real and sustained reforms would be required in order to align with the EU's minimum standards for membership. Despite the EU's commitment to enlargement and BiH's continuing efforts, there can be no assurance that BiH will be able to implement the necessary wide-reaching reforms and become a full member of the EU within any given timescale or at all. If there are delays or other adverse developments in BiH's accession to the EU, or BiH does not become a member of the EU, this may have an adverse impact on the Republic, its economy and its ability to perform its obligations under the Notes.

Furthermore, the accession process has become more complicated in the past years, as the EU has become more cautious, particularly following the accession of a greater number of Eastern European countries. There can be no assurance that the BiH will be able to proceed with accession in light of any increase in caution on the EU's part relative to accession candidates.

The Republic has a high dependence on foreign lending and any deterioration in its relationship with the international finance community may impact its high debt levels and increase liquidity risk

The support of the international community is a key factor for the credit stability of the Republic. Since 2010, the RS Government has concluded bilateral and multilateral loans with the EU, the IMF, the World Bank, the Council of Europe Development Bank, the Republic of Serbia, the European Investment Bank, the Republic of Korea, the International Fund for Agricultural Development ("**IFAD**"), the OPEC Fund for International Development and the Republic of Austria. As at 31 December 2020, the Republic's foreign debt among others, includes approved funding from the EU (for EUR 30 million), the IMF (with an aggregate value of SDR 341.0 million), the World Bank (with an aggregate value of SDR 96.0 million and EUR 230.9 million) and the European Investment Bank ("**EIB**") (with an aggregate value of EUR 429.0 million). The total funds of approved loans from such countries and IFIs amounted to BAM 4.1 billion as at 31 December 2020, representing a 9.8 per cent. increase as compared to BAM 3.7 billion in 2019, which was primarily the result of increased financing requirements for new projects and budget expenditures.

In April 2020, the EU Commission adopted a EUR 3 billion macro-financial assistance programme for the benefit of several nations with the objective of providing financial assistance to mitigate the effects of COVID-19. In February 2021, the Republic became a participant in the EU's project to support the preparations in connection with vaccinations and inoculation programmes and the improvement of the health system in the Western Balkans in the total value of EUR 7 million.

In addition, the RS Government has undertaken a number of major infrastructure projects that will be implemented over the medium term and which the RS Government expects to create upward pressure on its expenditures, for which it relies heavily on international borrowing. The Republic's financing needs for 2021 and 2022 remain elevated. No assurance can, however, be given that the Republic's current bilateral and multilateral cooperation and relationship with such countries, organisations and IFIs will continue. Any deterioration in the political climate of the Republic and its relation with BiH, causing delay in consensus as well as restricting market access, could negatively impact continued support from such creditors in the future and could increase pressure on RS Government expenditures and, in turn, have an impact on the wider economy of the Republic.

There can be no assurances that a tightening of liquidity conditions in the future because of, for example, further deterioration of public finances of certain European countries due to the outbreak of COVID-19, will not lead to new funding uncertainty or result in increased volatility and widening of credit spreads. If these conditions continue to persist, or should there be any further turbulence in these or other markets, this could have a material adverse effect on the Republic's ability to access foreign investment (including from IFIs and multilateral sources) or meet its economic growth targets pursuant to the Republic's Economic Reform Program 2021 – 2023. See "*Economy of the Republic – Economic Reform Program of the Republic (2021 to 2023)*".

Accordingly, the Republic, its economy and its ability to perform its obligations under the Notes may be adversely affected by financial and/or economic crises that are existing or may occur in the future, including, but not limited to, as a result of issues arising from the ongoing COVID-19 pandemic or linked to an economic slowdown in the Eurozone or owing to a prolonged recession or depression in the global economy.

The BiH current account deficit and worsening trade balance may undermine regular servicing of external debt

According to the IMF, BiH's current account deficit is estimated to increase to EUR 590 million, or 3.5 per cent of GDP in 2020, as compared to a current account deficit of EUR 557 million, or 3.1 per cent. of GDP, in 2019 which is largely due to the countervailing effects of the COVID-19 pandemic, such as a decline in the trade of goods. Further, the IMF projects that the current account deficit of the BiH will further deteriorate to EUR 878 million, or 4.9 per cent of GDP, in 2021 on the basis of an expected reduction in foreign direct investments and other capital inflows. See "*External Sector – Balance of Payments*".

Taken as a whole, BiH's current account balance is significantly affected by its trade balance (including at the Republic level) and any future negative changes in the trade balance and the current account balance could have an adverse effect on the Republic, its economy and its ability to perform its obligations under the Notes.

The Republic's economy is small and thus largely dependent on external trade, particularly imports

The Republic's economy remains small, narrow and undiversified, due mainly to a lack of price competitiveness and poor infrastructure.

At the level of the Republic, the trade deficit of goods decreased by 11.2 per cent. in 2016 and decreased by 8.7 per cent., in 2017, however, it increased by 4.0 per cent. in 2018 and subsequently decreased by 20.8 per cent. in 2019 and 7.4 per cent. in 2020. In 2020, the trade deficit of goods amounted to EUR 554.9 million. This was largely attributable to a decline in external demand for the Republic's exports and a decreased domestic consumption which reduced imports, and in each case resulted in the decrease of exports by 6.2 per cent. and imports by 6.5 per cent. in 2020. There can be no assurance that slower growth in exports compared to imports of goods will not adversely affect the capacity of the Republic's economy to generate foreign currency assets sufficient to cover liabilities arising from External Public Debt (as defined below), which may in turn have an adverse effect on the Republic, its economy and its ability to perform its obligations under the Notes.

The fixed exchange rate may limit the ability of the Central Bank to accommodate monetary policy

The Central Bank has maintained a fixed exchange rate since 1997. It issues domestic currency according to the currency board arrangement (the "**Currency Board**") with full coverage in freely convertible foreign exchange funds under a fixed exchange rate of BAM 1 to EUR 0.511292. Meanwhile, the Republic is converting its own reserves to freely usable currencies in order to services its external debt. If the Euro exchange rate declines, the fixed rate is likely to prevent the exchange rate from falling. This may, in turn, make the relative value of imports even more expensive and reduce the value of exports. Creditors may respond by increasing interest rates and shortening maturities, or simply by lending less until reserves are depleted.

The Republic's economy is reliant on a small number of industrial sectors and exports to a limited number of trading partners, and adverse market conditions affecting one or more of these sectors or economic developments in these trading partners could have a material and adverse effect on overall economic conditions in the Republic

While in recent years the Republic has sought to diversity its economy, certain of its economic sectors remain reliant on a limited product and trading partners. For example, the industry sector remains heavily reliant on electricity, gas, steam and air conditioning supply, which in 2018 accounted for 19.8 per cent. of the sector's real gross value added ("**GVA**") growth rate. See "*The Economy of the Republic – Gross Value Added*". There has been a drop in activity in the GVA growth rate of the industry sector (including its sub-sectors) due to the events arising from COVID-19, which has resulted in drop in real GVA growth rate in the industry sector to negative 6.7 per cent. during the nine months ended 30 September 2020. In addition, the Republic's principal export markets are concentrated, with exports to EU countries accounting for approximately 74.3 per cent. of the Republic's total exports in 2020 and member states of CEFTA accounting for 17.5 per cent. See "*External Sector – Geographic diversification of trade in goods*" for further information. As a result, economic conditions in the Republic are significantly affected by changes in EU and global demand for such products, the costs of extraction, processing or production of such material and the prices for such products on the regional and global markets. In addition, adverse economic developments in EU countries, or other countries that are significant consumers of products produced in the Republic, could adversely affect the markets for the Republic's exports. See "*– The Republic's economy is vulnerable to external shocks that may have a negative effect on the economic growth of the Republic's and its ability to service its debt obligations*." Any or all of these developments may materially and adversely affect the Republic, its economy and its ability to perform its obligations under the Notes.

Reduced revenues, together with higher expenses, and fiscal risks arising from the Republic's social security system may adversely affect the Republic's ability to repay principal and make payments of interest on the Notes

The net fiscal deficit in the consolidated general Government Budget, accordingly to preliminary execution figures, for the nine months ended 30 September 2020 amounted to BAM 330.8 million (representing 4.1 per cent. of GDP), against the expected fiscal deficit of BAM 629.5 million (being 5.8 per cent. of expected GDP). For the corresponding period of 2019, the consolidated general Government Budget recorded a surplus of BAM 45.4 million. See "*Public Finance – Budget Execution*".

The 2021 consolidated general Government Budget contemplates a total fiscal deficit of BAM 335.5, or 3.0 per cent. of GDP. However, various factors could affect the RS Government's spending and result in widening of the fiscal deficit with resulting negative implications in the future periods. Such factors include, but are not limited to, increased RS Government subsidies (specifically subsidies to the agricultural sector as a result of severe weather conditions) and the inability of the economy to utilise more labour force from the labour market. Social pressures, such as public support for increases in public sector wages, a stagnant population growth and an ageing population due to low birth rate, could also restrict the RS Government's ability to assign the same level of priority to maintain the public finances at stable levels.

Fiscal risks also exist due to the Republic's social security system, pursuant to which state benefits are paid out of contributions from the current work force. The budget for the general RS Government sector includes the consolidated budgets of various sub-sectors, being the central RS Government, the local self-government units and social security funds. Social security funds include the Health Insurance Fund, the Public Institution Fund for Child Protection, the Employment Bureau and the Pension and Disability Insurance Fund, with the Pension and Disability Insurance Fund gaining the status of a budget user from 1 January 2016 and operating through the treasury business system. The Budget expenditures relating to social security benefits from compulsory social security funds represents the largest expenditure in the consolidated general Government Budget. See "*Public Finance – Budget Execution – Consolidated General Government Budget*". In the nine months ended 30 September 2020, 43.4 per cent., or approximately BAM 1,363.2 million, of the total expenditure related to mandatory social security contributions was financed by allocations from the Budget, as compared to 44.7 per cent., or BAM 1,296.0 million, during the corresponding period of 2019. The level of compensation to RS Government employees remains high and amounted to EUR 491.3 million, or 10.0 per cent. of GDP in 2016, EUR 484.3 million, or 9.4 per cent. of GDP in 2017, EUR 496.0 million, or 9.1 per cent. of GDP in 2018, EUR 521.9 million, or 9.1 per cent. of GDP in 2019 and EUR 426.3 million, or 10.1 per cent. of GDP for nine months ended 30 September 2020 (preliminary data). Expenditure on the compensation of employees currently represents the largest category of expenditure in the Budget and this may continue in the future, driven by worsening demographics (such as an increasingly ageing population and reduced birth rate) or increased financial assistance by the RS Government in an effort to limit or mitigate the economic impact of COVID-19. See "*Public Finance – COVID-19 measures adopted by the Republic*", "*Public Finance – Budget Execution – Consolidated General Government Budget*" and "*Public Finance – Recent Developments*".

Also, while the privatisation process in the Republic is ongoing, some large public enterprises are still in the process of being restructured and continue to receive substantial funding for their operations from the Budget. If the RS Government is unable to privatise these enterprises or if these entities are adversely affected by the economic impact of COVID-19, they may require funding for their operations from the Budget, which may lead to deterioration of the Republic's public finances. Moreover, the RS Government's ability to make such future payments may be affected by economic cyclical trends, including the risk of stagnation in key economic sectors as a result of COVID-19 or otherwise. In addition, a weaker than expected economic performance or prolonged contraction in economic growth resulting from adverse consequences of COVID-19 would likely have a negative impact on RS Government revenues and would lead to fiscal deficits with resulting negative implications. Taken as a whole, reduced revenues, together with significant expenses arising from or related to COVID-19, public wages, social benefits (including pensions and healthcare), infrastructure projects and subsidies, would likely affect the Republic, its economy and its ability to perform its obligations under the Notes.

If the Republic's debt levels continue to grow to finance its budget deficit, it may have a material adverse effect on its economy

The Republic has a high level of debt, from both IFIs and various bilateral and multilateral partner countries. The total funds of approved loans from such countries and IFIs amounted to BAM 4.1 billion as at 31 December 2020, representing a 9.8 per cent. increase as compared to BAM 3.7 billion in 2019, which was primarily the result of increased financing requirements for new projects and budget expenditures. The Republic has also received financial assistance to mitigate the effects of COVID-19. See "*– The Republic has a high dependence on foreign lending and any deterioration in its relationship with the international finance community may impact its high debt levels and increase liquidity risk*".

In 2019, the Republic's Public Debt (*as defined in "Total and Public Debt"*) amounted to BAM 4.2 billion, which was equal to about 107.5 per cent. of its tax revenues. The Republic's Public Debt decreased from 45.1 per cent. of GDP in 2016 to 38.3 per cent. of GDP in 2017, 37.9 per cent. of GDP in 2018, 37.5 per cent. of GDP in 2019 and subsequently increased to 43.4 per cent. of GDP in 2020. This was primarily the result of increased borrowings required in order to mitigate the macroeconomic and public health impacts of the COVID-19 pandemic. The level of general RS Government revenue continues to be impacted by the difficult macroeconomic environment. On the expenditure side, despite reduction efforts, the Republic faces substantial expenses relating to public wages, social benefits (including pensions and healthcare) and interest payments, which in the aggregate represented 37.4 per cent. of the Republic's GDP in 2016, 35.5 per cent. of the Republic's GDP in 2017, 36.8 per cent. of the Republic's GDP in 2018, 35.9 per cent. of the Republic's GDP in 2019 and 37.0 per cent. (preliminary data) of the Republic's GDP in 2020.

In the absence of adequate reform, the risk of increases in expenses relating to pensions and healthcare over then long-term is compounded by the fact that the old-age dependency ratio (the proportion of the working age population (people aged 15 to 64) to people aged 65 or older) remains high (1:0 as at 31 December 2020).

In addition, the RS Government has undertaken a number of major infrastructure projects that are expected to be carried out over the medium term and are expected to create upward pressure on RS Government expenditure, for which it relies heavily on international borrowing. In particular, large investment projects, such as the 5c corridor highway, is expected to keep financing needs at high levels in the foreseeable future. The Republic has issued one international bond with a nominal value of EUR 168.0 million, which will be maturing in 2023. Between 2010 and 2020, the Republic's foreign debt, among others, includes approved funding from the EU (EUR 30.0 million), the IMF (with an aggregate value of SDR 341.0 million), the World Bank (with an aggregate value of SDR 96.0 million and EUR 230.9 million) and the EIB (with an aggregate value of EUR 429.0 million).

In April 2020, the EU Commission adopted a EUR 3 billion macro-financial assistance programme for the benefit of several nations with the objective of providing financial assistance to mitigate the effects of the COVID-19 pandemic. BiH was granted a two-tranche loan in an aggregate principal amount of EUR 250.0 million. The RS Government expects 37.5 per cent., or EUR 93.8 million, of such financing to be allocated to support its budgetary requirements, which it intends to utilise.

Any significant future borrowings, including the issuance of internal debt to finance the Republic's fiscal deficit and the issuance of external debt on local and foreign capital markets, could increase the risk of external debt distress. Relatively high levels of debt through continued borrowing or decreasing GDP may negatively impact the Republic's sovereign credit rating or may impair the Republic's ability to perform its obligations under the Notes.

The Republic is subject to natural disasters, including droughts and floods, which has negatively affected it in the past and may negatively affect it in the future

Natural disasters, including floods, are a threat to the Republic's economy. The Republic may also be increasingly threatened by climate change. A global increase in the mean temperature is likely to lead to changed precipitation patterns and more frequent extreme weather events, such as prolonged droughts and flooding. The Republic's economy is dependent on a number of climate sensitive sectors, such as agriculture and tourism. A change in climate may have several consequences, including lower agricultural and manufacturing productivity, fragile ecosystems, adverse impact on health and biodiversity, financial market disruption, lower GDP and altered migration patterns.

In 2014, BiH experienced severe floods which were the largest natural disaster in the country in recent years. The floods were primarily caused by heavy rainfall, which resulted in the flooding of the Bosna river all the way to Sava river. Over 26 municipalities of the Republic, including 46,621 residential and other facilities, were flooded, schools were damaged or destroyed in 5 municipalities, and 28,941 persons evacuated. The 2014 floods resulted in the Republic incurring damage to property in a total amount of BAM 1,893.8 million. Increased spending by the Republic to repair flood damage led to a consolidated deficit of 3.2 per cent. of GDP in 2014.

Expenditures associated with natural disaster relief efforts may adversely affect the Republic's budgetary position and, as a result, may impair the Republic's ability to service payments on the Notes. In addition, as agriculture, forestry and fisheries account for a significant portion of the Republic's total revenue (producing BAM 749.2 million of revenue and representing 11.1 per cent. of total GVA in nine months ended 30 September 2020), any natural disasters or other effects associated with climate change could have a material adverse effect on the Republic, its economy and its ability to perform its obligations under the Notes.

Sanctions imposed on certain persons could have an indirect adverse impact on the Republic's economy

On 1 January 2017, the U.S. Department of the Treasury's Office of Foreign Assets Control ("**OFAC**") imposed sanctions on Milorad Dodik, the Serb member and chairman of the Joint Presidency (but not a current representative of the RS Government) due to his role in defying the BiH Constitutional Court. In the future, should Mr. Dodik become an elected member of the RS Government while he continues to be subject to sanctions, this could have an adverse effect on the Republic. On 10 September 2018, OFAC also imposed sanctions on Nikola Spiric, the second deputy speaker of the House of Peoples of BiH in connection with his alleged involvement in significant corruption activities.

While BiH maintains independent diplomatic relationships with the US, the Republic's economic and political relations with the US and other countries may be affected by any further sanctions or sanctions imposed by other countries, which could also impact the ability of the Republic to attract foreign investment to facilitate its economic development, and those factors could in turn have a material adverse effect on the Republic, its economy and its ability to perform its obligations under the Notes.

A significant portion of the Republic's economy is not recorded

A significant portion of the Republic's economy is comprised of the informal economy. The informal economy is not recorded and is only partially taxed, resulting in less revenue for the RS Government, unreliable statistical information (including the understatement of GDP and the contribution to GDP of various sectors) and an inability to monitor or otherwise regulate a portion of the economy. In 2019, the IMF reported that BiH's informal economy totalled 34.3 per cent. of GDP. In 2019, the RS Government introduced subsidy schemes and incentives in the agriculture sector and in relation to the payment of wages with a view to formalising the informal economy, including providing incentives to employers for salary increases. See "*Public Finance – Fiscal Policy and Reform*." Although the RS Government continues to attempt to address the informal economy, there can be no assurances that such measures will adequately address the issues and bring the informal economy into the formal sector. Whilst growing the tax base is a key priority for the RS Government, the reduction of potential tax and other revenue as a consequence of the informal sector may have negative effects on the economy and, as a result, in turn have a material adverse effect on the Republic, its economy and its ability to perform its obligations under the Notes.

Any negative change in the Republic's credit rating could adversely affect the market price of the Notes or the Republic's ability to repay principal and make payments of interest on the Notes

Moody's has reaffirmed the Republic's credit rating of "B3" (with a stable outlook) on 26 February 2021 and on 13 April 2021, the long-term debt rating of the Republic provided by S&P was "B" (with a stable outlook).There can be no guarantee that the Entity will not experience credit downgrades or further negative revisions to the outlook. Deterioration in key economic indicators or the materialisation of any of the risks discussed herein may contribute to credit rating downgrades and, in particular, the uncertainties related to COVID-19 indicate that the ratings assigned by the independent rating agencies may be subject to changes based on future developments. Any adverse changes in an applicable credit rating or credit rating outlook could adversely affect the trading price of the Notes.

In addition, any adverse change in the credit ratings of the Republic could adversely affect the RS Government's ability to refinance existing indebtedness, liquidity available on the Republic's financial markets and the ability of the RS Government to raise additional financing from sovereign or private creditors or IFIs (such as the IMF and the World Bank), any of which in turn may have a negative effect on the Republic's economy and its ability to perform its obligations under the Notes.

Any future downgrade or withdrawal at any time of a credit rating assigned to the Republic by any rating agency could have a material adverse effect on its cost of borrowing and could limit its access to debt capital markets. A downgrade may also adversely affect the market price of the Notes and cause trading in the Notes to be volatile. Furthermore, unsolicited ratings may not benefit from government input but could also negatively impact the Republic's cost of borrowing. In addition, any downgrade of the sovereign credit rating of BiH may lead to a similar action in the Republic.

A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Ratings may not reflect the potential impact of all risks related to structure, market, the risk factors discussed in this section and other that may affect the value of the Notes.

Official economic data may be subject to some degree of uncertainty and could be revised which may adversely affect the economy and the Republic's ability to repay principal and make payments of interest on the Notes

A number of government ministries including the Ministry of Finance, along with the Central Bank and the Institute of Statistics, have prepared statistical data, which appear in this Offering Circular. Certain of these statistics, particularly preliminary or estimated data, may be more limited in scope, less accurate, reliable and/or consistent in terms of basis of compilation between various ministries and institutions, and published less frequently compared to existing members of the EU. In addition, standards of accuracy of some statistical data may vary from ministry to ministry or from period to period. Moreover, the existence of an unofficial or "grey" economy may affect the accuracy and reliability of the Republic's statistical information. The statistical data appearing in this Offering Circular has, unless otherwise stated, been obtained from public sources and documents. The statistical information presented herein is based on the latest official information currently available from the stated source. However, the development of statistical information relating to the Republic is an on-going process, and revised figures are produced on a continuous basis.

Moreover, certain statistical information contained in this Offering Circular are provisional or otherwise based on estimates that the Republic and/or its agencies believe to be based on reasonable assumptions. However, there may be differences between preliminary or estimated statistical data set forth in the Offering Circular and actual results. Similarly, certain of these statistics contain projections based on the Republic's current view with respect to future events and financial results. Whilst these statistics (although provisional or projections) contains an element of estimated economic performance of the Republic, which provides a reasonable basis for estimating key economic indicators, these figures may differ from the actual numbers once published as an element of this data is estimated and may change or continually be revised based on future developments. Accordingly, the financial and economic information set out in this Offering Circular may be subsequently adjusted or revised and may differ from previously published financial and economic information depending on the most recent information available to the Republic and/or its agencies. Similarly, the targets and assumptions in the Budget of 2021 are based on the most recently available information and may be further adjusted, amended or revised, whether as part of regular review or otherwise, to take into account the prevalent economic and fiscal indicators, which are evolving based on numerous factors that are highly uncertain, rapidly changing and cannot be accurately predicted as a consequence of COVID-19. No assurance can be given that such adjustment, amendment or revision may not be material. Consequently, prospective investors in the Notes should be aware that figures relating to the Republic's GDP and many other figures cited in this Offering Circular may be subject to some degree of uncertainty. Furthermore, these limitations on statistical information may make adequate monitoring of key fiscal and economic indicators more difficult. In this Offering Circular, data is presented as provided by the relevant ministry to which the data is attributed, and no attempt has been made to ascertain or reconcile such data to the data compiled by other ministries or by other organisations, such as the IMF and World Bank. Accordingly, prospective investors should be aware that none of the statistical information in this Offering Circular has been independently verified. As a result, investors may face difficulty in assessing the risks of investing in the Notes, which may adversely affect the liquidity and price of the Notes.

Corruption and money laundering may adversely affect economic and social conditions in the Republic and have a material adverse effect on the Republic's economy

As in many other emerging market jurisdictions, concerns relating to the level of corruption and money laundering remain a significant issue in the Republic. Fighting corruption and money laundering are key priorities for the Republic, and over the years, the RS Government has made steady progress in improving accountability, governance standards and the legislative framework in the Republic. However, in Transparency International's 2020 Corruption Perceptions Index survey of 180 countries, BiH was ranked 111, down from 101 in 2019, indicating that a perception of public sector corruption within the country remains widespread.

Any such perception, allegations or evidence of corruption or money laundering involving the RS Government and/or members thereof, irrespective of whether such allegations prove to be factual or unfounded and whether honestly made or politically motivated, may create tensions between political parties, including parties within the governing coalition, otherwise destabilise the governing coalition and/or lead to early elections. In addition, any increase in perceived risk associated with corruption may have a negative impact on the Republic's economy and its reputation abroad, especially on its ability to attract foreign investment. Also, while the RS Government has implemented several reforms with the aim of the increasing the efficiency of its domestic measures, there can be no certainty that the ongoing reforms will produce the desired result or that the new strategies will prove successful. A combination of all or some of these factors may have negative effects on economic and social conditions in the Republic. See "*Economy of the Republic – Money Laundering, Organised Crime and Corruption*".

Risks Associated with the Republic's Debt

The Republic's inability to refinance existing indebtedness in the short or medium term may have a material adverse effect on the Republic's ability to service its debt, including the Notes

In line with its fiscal accountability and economic reforms set out in the Economic Reform Program of the Republic for period 2021 to 2023 ("**ERP**"), the RS Government is undertaking measures which are intended to produce sustainable increase of Total Debt and Public Debt to 57.2 per cent. and 47.1 per cent. of GDP (both as defined in "*Total Debt and Public Debt*") by 2023, respectively. The RS Government's debt management is enshrined in the Debt Management Strategy of the Republic for 2020 to 2023 ("**MTDS**"). The main debt management goal is to ensure the realisation of funds to finance approved investment projects, refinance existing indebtedness and finance the execution of the Budget, in each case at minimum cost and risk to the Republic. In order to achieve this, the MTDS sets various portfolio limits on the Republic's debt (each as further described in "*Total and Public Debt*") in order to reduce exposure to risks, as well as their targeted values. See "*Total and Public Debt – Overview*" and "*Total and Public Debt – Debt Management*". There can be no assurance that the objectives outlined by the ERP will be achieved and that the Republic's Total Debt and Public Debt (each as defined in "*Total and Public Debt*") will reach the targeted value, particularly in light of the impact of COVID-19 on the Republic's economy. Achieving targets settled with MTDS depends on a number of variables both inside and outside of the RS Government's control and there can be no assurances that the RS Government will reach these targets.

Whilst the financing structure, on the one hand, contributes to the decrease of costs, on the other hand, it may lead to the increase of refinancing and re-fixing risk. The Republic relies heavily on refinancing from concessional funds available from IFIs and its multilateral partners, which decreases the refinancing risks and costs. As at 31 December 2020, 22.8 per cent. of the Republic's Total Debt was denominated in a currency other than the BAM or Euros. Through BiH (and in accordance with applicable law in the Republic and BiH), the Republic is generally able to attract financing from the IFIs on favourable long-term terms for the purposes of facilitating a broad range of projects, including the IMF and the World Bank.

Given the relatively short maturity structure of the domestic financing market as well as its lack of sufficient size, any deterioration in financing conditions as a result of market, economic or political factors including any increase in prevalent interest rates that affect the cost of borrowing, which may be outside the Republic's control, as well as other factors such as the effects of COVID-19, is likely to make it more difficult for the Republic to refinance its indebtedness on favourable terms or at all and may have negative effects on the economy, as well as the RS Government's debt levels and borrowing costs and, as a result, have a material adverse effect on the Republic, its economy and its ability to perform its obligations under the Notes.

Any significant changes in levels of Total Debt and/or interest costs could have a material adverse effect on the Republic's economy and its ability to service its debt, including the Notes

Consistent with its past trends, the Republic's Total Debt (as defined in "*Total and Public Debt*") declined from 56.5 per cent. of GDP in 2016, to 49.3 per cent., 48.5 per cent., and 47.9 per cent. in 2017, 2018, and 2019, respectively, before increasing to 53.5 per cent. in 2020. The increase in 2020 was primarily driven by higher financing needs and lower economic growth as a result of the impact of COVID-19 and, more specifically, due to the economic measures implemented by the RS Government to mitigate the negative effects of COVID-19. Although the RS Government expects Total Debt to increase in 2021, any significant increase in future domestic or external borrowings beyond sustainable thresholds to finance the Budget deficit, or provide financial support to the economy as a consequence of COVID-19 or otherwise, including the issuance of further debt in the international capital markets could elevate its debt burden and put significant strain on fiscal and debt sustainability in the coming years. Furthermore, the need to service such potentially elevated levels of Total Debt may impact the Republic's ability to use available funds to make other capital investments needed for economic growth.

Moreover, an increase in the fiscal imbalances as a result of the stagnated growth, weak labour market and high public spending, including that arising from or as a consequence of COVID-19, could potentially contribute to a rapid build-up of Total Debt and result in compounding the future possibility of debt distress. Accordingly, if the RS Government does not carefully manage its debt in the coming periods, debt levels and interest costs may rise to an unsustainable level, which may negatively impact the Republic, its sovereign credit rating, its economy and its ability to perform its obligations under the Notes.

Depreciation of the BAM, if it occurs, may adversely affect the Republic's Public Debt and, in turn, impact its economy and public finances

A substantial share of the Republic's Total Debt (as defined under "*Total and Public Debt*") is denominated in foreign currencies, particularly the Euro. As the BAM is pegged to the Euro on a fixed rate, the exchange rate risk is measured by external debt as a share of total and external non-Euros debt as a share of total. As at 31 December 2016, 2017, 2018 and 2019, the Republic's share of debt that is denominated in a foreign currency (other than Euros) was 26.7 per cent., 24.5 per cent., 23.5 per cent., 22.0 per cent. of Total Debt, respectively, whereas the remainder is denominated in Euros and the BAM. As at 31 December 2020, 22.8 per cent. (preliminary data) of the Republic's Total Debt was denominated in a foreign currency (other than Euros), whereas the remainder was denominated in Euros and BAM. In order to manage currency risk, the MTDS prescribes that the Republic's external debt and indirect debt denominated in a foreign currency (other than Euros) should not exceed 35 per cent. of concerned debt by 2023 (see "*Total and Public Debt – Debt Management*" for further information). The Republic's largest exposure to foreign currency denominated debt (other than Euros) is to special drawing rights ("**SDR**"). As at 31 December 2020, the portion of Total Debt denominated in SDR was 15.9 per cent. (preliminary data), as compared to 14.0 per cent., 15.4 per cent., 17.4 per cent. and 19.6 per cent. in 2019, 2018, 2017 and 2016, respectively. SDRs are particularly vulnerable to any fluctuations in the U.S. Dollar and so any strengthening of the currency could in turn increase the Republic's share of Total Debt that is denominated in SDR and require more than anticipated domestic currency to service such debt.

Whilst the Republic has improved the currency structure of its Total Debt in recent years, the Republic's debt-to-GDP ratio remains moderately sensitive to exchange rate fluctuations. Any fluctuations in exchange rates may in the future result in an increase in the Republic's cost of borrowing and ability to refinance its debt obligations that are denominated or payable in foreign currencies (other than Euros) could reduce the amount of public funds available to fund public investment projects and service social benefits and other Budget expenditures, and could negatively impact the Republic, its economy, its credit rating and/or its ability to perform its obligations under the Notes. See "*Total and Public Debt – Public Debt Currency Structure*".

Risks Associated with the Republic's Banking Sector

The Central Bank of Bosnia and Herzegovina is not a lender of last resort

The governance of the monetary and financial system of BiH and financial system of the Republic is highly de-centralized, with the Central Bank responsible for implementing the monetary policy of the Entities, but the governance and supervision of the banking system falls entirely within the jurisdiction of each Entity. Within the Republic, various special supervisory and regulatory bodies are responsible for each financial sub-sector. For further information, see "*Monetary System – The division of responsibilities between the Central Bank of Bosnia and Herzegovina, the Republic and BiH*". The Central Bank is prohibited from engaging in monetary operations (except currency board arrangement and prescribing required reserve of banks), or interventions in the banking system and is not a lender of last resort to banks in the Entities or the Brčko District. For commercial or other banks that become insolvent, their only recourse is through a bank resolution procedure where the Banking Agency of the Republic ("**BARS**") determines whether the condition of a bank is such that it cannot, or it is probable that it will not, be able to continue operating (largely in line with the European approach under Directive 2014/59/EU on establishing a framework for the recovery and resolution of credit institutions and investment firms). Since the banks operating in the Republic do not have an option to receive liquidity from the Central Bank, they lack support from a central bank that could help support the economy in times of crisis, such as the floods in 2014 or during COVID-19, where no monetary support or stimulus was provided by the Central Bank. Any turmoil in the global banking sector and the wider economy, could have a negative effect on Republic's banking sector, which may cause future bankruptcies in the banking sector of the Republic, and in turn could have a material adverse effect on the Republic, its economy and its ability to perform its obligations under the Notes.

The Republic's banking sector remains vulnerable to external shocks

The Republic's banking sector continues to be relatively concentrated and vulnerable to macroeconomic shocks. As at 30 September 2020, the banking sector of the Republic consisted of eight banks, of which five are majority owned by foreign shareholders and three are owned by domestic private shareholders. As of 30 September 2020, there was a high level of concentration of foreign ownership in the banking sector, with foreign-owned banks (from five different countries) holding 64.2 per cent. of the banking sector's total assets, 63.0 per cent. of total loans and 64.7 per cent. of total deposits.

As at 30 September 2020, and according to the BARS, the banking sector in the Republic also had a high level of loans and deposits denominated in Euros and other foreign currencies, giving rise to risks relating to currency fluctuations. As of 30 September 2020, foreign currency denominated loans (which include loans approved in a foreign currency and loans approved with a currency clause pegged to Euros) constituted approximately 59.7 per cent. of total loans in the banking sector and foreign currency denominated deposits (which includes deposits paid in foreign currency and deposits paid in BAM but subject to a currency clause pegged to Euros) amounted to approximately 66.1 per cent. of the total deposit portfolio of the banking sector. These factors in the Republic's banking sector may result in the banking sector being more susceptible to worldwide credit market downturns and economic slowdowns, including, but not limited to, arising from or as a result of the ongoing outbreak of COVID-19. The economic consequences of the COVID-19 outbreak may have significant effects on the Republic's banking sector in the event of a prolonged negative economic climate. Although the financial stability of the banking sector was maintained in the first nine months of 2020 due to economic measures implemented by the RS Government, a weakening of asset quality in the banking sector is likely, as support measures of the RS Government fall away. This risk is more likely to be heightened amid the resurgence of coronavirus cases in the future (in the Republic and/or other countries), since this could significantly affect the recently regained economic momentum in the Republic. Accordingly, the economic consequences of the COVID-19 outbreak may have significant effects on the Republic's banking sector in the event of a prolonged negative climate or more protracted economic growth. Although the strong capitalisation of the banking sector would provide a certain element of protection against the risk of an economic downturn, banks may see an increase in non-performing loans in 2021/2022 in case the economy further contracts and household and business income suffers. As a consequence, the Republic's banking sector remains vulnerable and there can be no assurance that a prolonged negative economic climate arising from or linked to the ongoing outbreak of COVID-19, or any other future turmoil in the global banking sector and the wider economy, will not have a negative effect on Republic's banking sector, which could have a material adverse effect on the Republic, its economy and its ability to perform its obligations under the Notes.

Foreign-owned banks may diminish or discontinue their support to their subsidiaries operating in the Republic

As at 30 September 2020, foreign-owned banks accounted for approximately 64.2 per cent. of the banking sector's total assets, 63.0 per cent. of total loans and 64.7 per cent. of total deposits in the Republic's banking system. A significant share of the sector's asset portfolio is euro-indexed, which underlines the importance of a stable exchange rate under the currency board arrangement. The sector consists mainly large foreign owned banks, accounting for some two thirds of the sector, and a limited number of smaller local banks. There is also a state-owned IDB that operates as a wholesale bank and fund manager, but does not provide deposits nor credits on its own account. In particular, the banking sector is exposed to the banking systems of other European countries, particularly Austria (with two banks owning 21.1 per cent. of the total assets of the Republic's banking system as at 30 September 2020). Such foreign banks may seek to rebalance their global loan portfolios in a manner adversely affecting the Republic as a result of events related or unrelated to the Republic, including, but not limited to, adverse economic developments in Europe and negative factors impacting the sovereign debt markets owing to the impact of COVID-19 or otherwise. In addition, foreign banks may decrease funding to their subsidiaries operating in the Republic due to actual or perceived deterioration in asset quality, particularly in a weaker than expected economic performance. As a result of these or other factors or other potential shocks, foreign banks may revise their business strategies in, or relating to, BiH and the Republic and, in particular, their decision to continue to provide existing levels of funding to their subsidiaries in the Republic. This may exert negative effects on the local currency. Resulting balance sheet mismatches may negatively affect the Republic, its economy and its ability to perform its obligations under the Notes.

Risks Associated with the Republic's Judicial and Legal System

The legal system of the Republic is not fully developed and therefore involves greater risk and uncertainty than in other more developed legal systems

The Republic remains at an early stage in respect of taking the necessary steps aimed at developing a more mature legal system, comparable to the legal systems of member states of the EU. The European Commission's report on Bosnia and Herzegovina dated 6 October 2020 concludes that BiH, including the Republic, has only preliminary level of preparation in terms of judicial independence, efficiency, transparency, independence and accountability. The countrywide 2014-2018 justice sector reform strategy and its action plan are deemed outdated according to the report. The independence, accountability and efficiency of the High Judicial and Prosecutorial Council ("**HJPC**"), the body responsible for the functioning of the judiciary has been questioned. Following intense pressure from the public and international community, and due to a series of allegations of his involvement in corruption scandals, the former president of the HJPC, Milan Tegeltija, resigned on 16 December 2020. However, no official corruption charges have been filed against him although the scandals have deteriorated public trust in the judiciary. The judicial integrity reforms proposed by the RS Government have been met with domestic resistance which has stalled their implementation. Obstructions to judicial reforms from political actors and from within the judiciary and the poor functioning of the judiciary may undermine citizens' enjoyment of their legal rights as well as the Republic's fight against corruption and organised crime. See "*Description of the Republic of Srpska —The Judiciary*".

In accordance with the general rule prescribed by the Obligations Act of the Republic (*Official Gazette of SFRY, Nos. 29/78, 39/85, 45/89, and 57/89, Official Gazette of the Republic, Nos. 17/93, 3/96, 37/, 39/2003, and 74/04*), creditors of due claims have the right to refute any legal act (or failure to act) of the debtor which makes their claims difficult or impossible to settle using a general remedy called *actio pauliana*. Creditors have the right to initiate legal proceedings using *actio pauliana* within one to three years as of the date when the legal act of the debtor was taken (or should have been taken, in the case of a failure to act). An *actio pauliana* claim is directed against the person who has benefited from the action of the debtor (respondent). A successful creditor's challenge results in the annulment of the challenged action, to the extent necessary for the settlement of the claim of the claimant (followed by the obligation of the respondent to transfer an appropriate portion of the benefit received to the claimant). A respondent who had to transfer to the claimant the benefit received from a successful *actio pauliana* challenge may claim the successfully challenged portion of the benefit from the debtor again.

Enforcement of claims against the Republic in relation to debts raised in a manner comparable to the issuance of the Notes has not been tested before the Republic's courts.

There are no regulations in force in BiH or the Republic which prescribe a clear and transparent procedure for which property belongs to BiH and which to the Entities. The Law on Temporary Ban of Disposal with the State Assets (*Official Gazette of BiH, Nos. 18/05, 29/06, 85/06, 32/07, 41/07, 74/07, 99/07*) provides for a temporary ban on the disposition of state property which shall remain in force pending the enactment of a law governing the implementation of the applicable criteria for the determination of property owned by BiH, the Federation, the Republic and the Brčko District. As at the date of this Offering Circular, no such law has been adopted and there is no consensus between the use, administration and disposal of such assets. As such, there is no clarity on which assets fall under the ownership of BiH as a whole, and which type of assets fall within the exclusive ownership of an Entity.

Further, the Republic's legal framework is not based on precedent and so any earlier relevant court decision do not have a binding effect on future cases (although they may be persuasive) and so there can be no assurance that a previous judgment would be considered and applied in respect of any similar future claims. In addition, there are number of laws which have been adopted in recent period which remain untested in courts and do not have long history of interpretation and, consequently, may be subject to contradictory, ambiguous or changing interpretations by the Republic's regulatory authorities and judiciary. In some circumstances, therefore, it may not be possible predict the outcome of legal proceedings subject to these new laws.

All of these factors make judicial decisions in the Republic difficult to predict and effective redress is uncertain. Such uncertainties relating to the judicial system could therefore have a negative effect on the Republic, its economy and the Notes.

A claimant may not be able to effect service of process against the Republic or enforce a court judgment against certain assets of the Republic in certain jurisdictions

It may not be possible to effect service of process against the Republic in courts outside the Republic or in a jurisdiction to which the Republic has not explicitly submitted.

It may also not be possible to enforce foreign court judgments against the Republic in the courts of the Republic, including English court judgments, that are predicated upon the laws of foreign jurisdictions, such as English law, without a re-examination of the merits of such judgments in the Republic's courts, although a re-examination of the merits of a judgment will generally not be conducted according to the applicable law.

When considering foreign law, the courts of the Republic may: (i) give effect to the mandatory rules of the law of another jurisdiction, including the jurisdiction of the Republic and BiH if and to the extent that under the law of that jurisdiction those rules must be applied irrespective of the law chosen by the parties, (ii) refuse to apply the foreign law if such application had the aim of avoiding the application of domestic laws and (iii) refuse to apply the foreign law if the effect of such application was incompatible with the constitution and public policy of BiH and the Republic. The application of the foreign law before the domestic courts could encounter numerous practical difficulties, mainly due to differences in concepts of legal systems, such as (i) the procedure for obtaining the content of the foreign law being complex and time consuming, and (ii) the understanding of the foreign law by a domestic court can significantly differ from the interpretation by the relevant foreign court.

The conditions for the recognition of a foreign court judgment or arbitral awards are described in "*Service of Process and Enforcement of Civil Liabilities*".

One of the requirements for recognition of court judgements and consequently enforcement is the existence of reciprocity, i.e. in the present situation, that judgments handed down by Bosnian courts can be recognized in a country of the court that issued the foreign judgment. There is a legal rebuttable presumption that such reciprocity exists. In case there is doubt as to the existence of reciprocity, the court will request an explanation from the Ministry of Justice of BiH. According to the written information received by the BiH Ministry of Justice dated 11 August 2020, such reciprocity does not exist with the UK and there is no evidence that there is reciprocity with the US in the matter of recognition and enforcement of judgments in commercial matters. Thus, there is a possibility that the Bosnian courts may reject a request for recognition of an English judgment if given in respect of the Notes, due to the non-existence of reciprocity, whereas the situation with recognition of US judgments in BiH is not clear. Furthermore, the courts in BiH may refuse to recognize and enforce a foreign judgment rendered under a foreign law if the judgment, including as a result of the application of the foreign law to the dispute, is contrary to local public policy, which is defined as the constitutional foundations of social and political order. This is an evolving concept and the precise list or criteria for the determination of such public policy rules does not exist. Furthermore, the courts in BiH may refuse to recognise and enforce a foreign judgment rendered under a foreign law if the judgment, including as a result of the application of the foreign law to the dispute, is contrary to local public policy.

On the other hand, BiH is a party to the New York Convention. Therefore, recognition and enforcement of a New York Convention award is available subject to the terms of the New York Convention. See "*Service of Process and Enforcement of Civil Liabilities*".

There is also a risk that the choice of English law as the governing law of the Notes or contractual documents might not be applied by the courts of the Republic in certain circumstances. Such circumstances may include the Republics' courts finding that the effect of application of English law would be incompatible with public policy.

There is a risk that, notwithstanding the limited waiver of sovereign immunity by the Republic pursuant to the Conditions of the Notes, a claimant will not be able to enforce a court judgment against certain assets of the Republic (including the imposition of any arrest order or attachment or seizure of such assets and their subsequent sale) in certain jurisdictions (including the Republic) without the Republic having specifically consented to such enforcement at the time when the enforcement is sought. Furthermore, the Republic reserves the right to plead sovereign immunity under the U.S. Foreign Sovereign Immunities Act of 1976 with respect to actions brought against it under any United States federal or state securities law. In the absence of a waiver of immunity by the Republic with respect to such actions, it may not be possible to obtain a judgment in such an action brought in a court located in the US against the Republic unless such court were to determine that the Republic is not entitled under the U.S. Foreign Sovereign Immunities Act of 1976 to sovereign immunity with respect to such actions. See "*Terms and Conditions of the Notes –Governing Law and Jurisdiction*".

In addition, certain state-owned assets are statutorily exempt from enforcement procedures within the Republic. This includes the following assets: (i) assets that are non-tradable (*stvari van prometa*), (ii) facilities, weapons and equipment for the needs of the armed forces and the police, as well as funds provided for those purposes, (iii) ore deposits and other natural resources (iv) real estate, movables and rights of the Republic, cities, municipalities and public enterprises that are necessary for the performance of activities of general interest (*poslovi od opšteg interesa*). Since there is no exhaustive list of the activities of public interest such general definition creates uncertainty with respect to enforcement.

In addition, the current regulations of BiH and the Republic do not contain specific procedures for waiving sovereign immunity. A so-called doctrine on restrictive immunity is the widely accepted approach to "jurisdictional immunity" (being immunity from litigating against the sovereign) which would apply in the current circumstances. The general rules on representation of the Republic (through the RS Government and, where applicable, the Public Attorney's Office of the Republic) would be relevant for undertaking an obligation to waive the immunity.

The Republic's court system has a developing judicial system, some of which may not happen in the time period planned or may take longer than expected, which could impact economic and other reforms

BiH's and the Republic's judicial system reforms of 2014-2018 have not been properly implemented and have been deemed insufficient by the European Commission in their report on Bosnia and Herzegovina released on 6 October 2020. BiH and the Republic's judicial system needs reforms aimed at: (i) improving transparency and efficiency in the judicial process; (ii) improving efficiency of the investigation and prosecution of high level corruption; (iii) implementing a broad anti-corruption framework within the Republic's justice system; (iv) improving accountability of the judges, prosecutors and members of the HJPC; and (v) independence and impartiality of the judiciary, including implementation of additional constitutional and legal safeguards.

There can be no certainty that the reforms adopted in the future or efforts by the Republic will produce the desired results or that the new strategies will prove successful. If the Republic is unable to effectively and successfully design and implement its reform efforts, this would likely depress confidence in the Republic's judicial system, which may have a materially adverse effect on the the Republic, its economy and the Notes.

Risks relating to an investment in the Notes

The terms of the Notes may be modified or waived without the consent of all the holders of the Notes

The conditions of the Notes contain provisions for calling meetings (including by way of conference call or by use of a videoconference platform) of Noteholders to consider matters affecting their interests generally and for the passing of written resolutions of Noteholders without the need for a meeting. Such provisions are commonly referred to as "collective action clauses". These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting or sign the relevant written resolution and Noteholders who voted in a manner contrary to the majority.

In the future, the Issuer may issue debt securities which contain collective action clauses in the same form as the collective action clauses in the conditions of the Notes. If this occurs, the Notes could be capable of aggregation with any such future debt securities, meaning that a defined majority of the holders of such debt securities (when taken in the aggregate) would be able to bind all holders of all the relevant aggregated series of debt securities, including the Notes.

Any modification or actions relating to any Reserved Matter (as defined in the Conditions), including in respect of payments and other important terms, may be made (a) to the Notes with the consent of the holders of 75 per cent. of the aggregate principal amount of the outstanding Notes, and (b) to multiple series of debt securities which may be issued by the Issuer (including the Notes) with the consent of both (i) the holders of at least two thirds of the aggregate principal amount of all outstanding debt securities being aggregated and (ii) the holders of at least 50 per cent. in aggregate principal amount of the outstanding debt securities of each series being aggregated. In addition, under certain circumstances, including the satisfaction of the Uniformly Applicable condition (as more particularly described in the Conditions), any such modification or action relating to any Reserved Matter may be made to multiple series of the Issuer's debt securities (including the Notes) with the consent of 75 per cent. of the aggregate principal amount of the outstanding debt securities of all affected series, without requiring a particular percentage of the holders of any individual affected debt securities to vote in favour of or approve any proposed modification or action. Any modification or action proposed by the Issuer may, as the option of the Issuer, be made in respect of certain series of the Issuer's debt securities only and, for the avoidance of doubt, the collective action provisions may be used for different groups of two or more debt securities simultaneously. At the time of any proposed modification or action, the Issuer will be obliged, *inter alia*, to specify which method or methods of aggregation will be used by the Issuer.

There is, therefore, a risk that the conditions of the Notes may be amended, modified or waived in circumstances whereby the holders of debt securities voting in favour of or signing a written resolution in respect of an amendment, modification or waiver may be holders of different series of debt securities and, as such, the majority of Noteholders would not necessarily have voted in favour of or signed a written resolution in respect of such amendment, modification or waiver. In addition, there is a risk that the provisions allowing for aggregation across multiple series of debt securities may make the Notes less attractive to purchasers in the secondary market on the occurrence of an Event of Default or in a distress situation.

The Conditions also contain a provision permitting the Notes and the Conditions to be amended without the consent of the Noteholders to correct a manifest error, or where the modification is of a formal, minor or technical nature or is not materially prejudicial to the interests of the Noteholders.

Any such amendment, modification or waiver in relation to the Notes may adversely affect their trading price.

The Conditions restrict the ability of an individual holder to declare an Event of Default, and permit a majority of holders to rescind a declaration of such an Event of Default

The Conditions contain a provision which, if an Event of Default occurs, allows the holders of not less than 25 per cent. in aggregate principal amount of the outstanding Notes to declare all of the Notes to be immediately due and payable by providing notice in writing to the Issuer, whereupon the principal, interest and all additional amounts payable on the Notes will become immediately due and payable on the date on which the Issuer receives written notice of the declaration as aforesaid.

The Conditions also contain a provision permitting the holders of at least 50 per cent. in aggregate principal amount of the outstanding Notes to notify the Issuer to the effect that the Event of Default or Events of Default giving rise to any above mentioned declaration is or are cured following any such declaration and that such holders wish the relevant declaration to be withdrawn. The Issuer shall give notice thereof to the Noteholders, whereupon the relevant declaration shall be withdrawn and shall have no further effect.

The Issuer is not required to effect equal or rateable payment(s) with respect to its other debt obligations pursuant to the Conditions, and is not required to pay other debt obligations at the same time or as a condition of paying sums on the Notes and vice versa

In accordance with Condition 3 (*Status*), the Notes will at all times rank *pari passu* with all other present and future unsecured obligations of the Issuer. However, the Republic shall have no obligation to effect equal or rateable payment(s) at any time with respect to any such other unsecured obligations of the Issuer and, in particular, shall have no obligation to pay other unsecured obligations at the same time or as a condition of paying sums due on the Notes and vice versa. Accordingly, the Republic may choose to grant preferential treatment to, and therefore prioritise payment obligations to, other unsecured creditors of the Republic as payments fall due.

The Notes have minimum denominations, which may affect an investor's ability to receive definitive Certificates

The Notes have denominations consisting of a minimum denomination of €100,000 plus one or more higher integral multiples of €1,000, and it is possible that Notes may be traded in amounts in excess of €100,000 that are not integral multiples of €100,000. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than €100,000 in his account with the relevant clearing system would not be able to sell the remainder of such holding without first purchasing a principal amount of Notes at or in excess of €100,000 such that its holding amounts to such a specified denomination. Further, a holder who, as a result of trading such amounts, holds an amount which is less than €100,000 in his account with the relevant clearing system at the relevant time may not receive a definitive certificate in respect of such holding (should certificates in definitive form be printed) and would need to purchase a principal amount of Notes such that its holding amounts to at least €100,000.

Credit ratings may not reflect all risks

The Notes are expected to be assigned a rating of B by S&P and B3 by Moody's. These ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. A credit rating is generally dependent on a number of factors, including public debt levels, past and projected future budget deficits and other considerations. Any adverse change in the credit ratings of the Notes, or of the Republic, could adversely affect the trading price of the Notes.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes in the EEA, unless such ratings are issued by a credit rating agency established in the EEA and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances. Such general restriction will also apply in the case of credit ratings issued by third country non-EEA credit rating agencies, unless the relevant credit ratings are endorsed by an EEA-registered credit rating agency or the relevant third country rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances). The list of registered and certified rating agencies published by ESMA on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list.

Investors regulated in the UK are subject to similar restrictions under the UK CRA Regulation. As such, UK regulated investors are required to use for UK regulatory purposes ratings issued by a credit rating agency established in the UK and registered under the UK CRA Regulation. In the case of ratings issued by third country non-UK credit rating agencies, third country credit ratings can either be: (a) endorsed by a UK registered credit rating agency; or (b) issued by a third country credit rating agency that is certified in accordance with the UK CRA Regulation. Note this is subject, in each case, to (a) the relevant UK registration, certification or endorsement, as the case may be, not having been withdrawn or suspended, and (b) transitional provisions that apply in certain circumstances. In the case of third country ratings, for a certain limited period of time, transitional relief accommodates continued use for regulatory purposes in the UK, of existing pre-2021 ratings, provided the relevant conditions are satisfied.

If the status of the rating agency rating the Notes changes for the purposes of the CRA Regulation or the UK CRA Regulation, relevant regulated investors may no longer be able to use the rating for regulatory purposes in the EEA or the UK, as applicable, and the Notes may have a different regulatory treatment, which may impact the value of the Notes and their liquidity in the secondary market. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Offering Circular.

The Conditions are based on current provisions of English law

The conditions of the Notes are based on English law in effect as at the date of this Offering Circular. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Offering Circular and any such change could materially adversely impact the value of the Notes.

A secondary market for the Notes may not develop

The Notes are new securities, which may not be widely distributed and for which there is currently no active trading market. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Republic. Although application has been made to the FCA for the Notes to be admitted to the Official List and to the London Stock Exchange for the Notes to be admitted to trading on the London Stock Exchange's main market, there is no assurance that such application will be accepted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for the Notes. Investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a material adverse effect on the market value of the Notes.

Furthermore, the Notes have not been, and will not be, registered under the Securities Act or any other applicable securities laws and are being offered pursuant to an exemption from the registration requirements of the Securities Act. Accordingly, the Notes are subject to certain transfer restrictions and will bear a legend regarding those restrictions. See "*Subscription and Sale*" and "*Transfer Restrictions*". These restrictions may limit the ability of investors to resell the Notes.

Investors in the Notes must rely on the procedures of Euroclear and Clearstream, Luxembourg

The Notes will be represented on issue by the Global Certificates, each of which will be registered in the name of a nominee of, and delivered to, a common depositary for Euroclear and Clearstream, Luxembourg. Except in certain limited circumstances described in the Global Certificates, investors will not be entitled to receive individual certificates in definitive form in respect of the Notes.

Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Certificates. While the Notes are represented by the Global Certificates, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Issuer will discharge its payment obligations under the Notes by making payments to or to the order of the common depositary for Euroclear and Clearstream, Luxembourg for distribution to their accountholders. A holder of a beneficial interest in a Global Certificate must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Certificates.

Holders of beneficial interests in the Global Certificates will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies.

There are risks relating to exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in Euros. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the

"**Investor's Currency**") other than Euros. These include the risk that exchange rates may significantly change (including changes due to a devaluation of the Euro or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to Euros would decrease (i) the Investor's Currency equivalent yield on the Notes, (ii) the Investor's Currency equivalent value of the principal payable on the Notes and (iii) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Investors may experience difficulty in enforcing foreign judgments in the Republic. See "*– A claimant may not be able to enforce a court judgment against certain assets of the Republic in certain jurisdictions*."

Notes where denominations involve integral multiples: definitive Notes

The Notes have denominations consisting of a minimum denomination of €100,000 plus one or more higher integral multiples of €1,000, and it is possible that Notes may be traded in amounts that are not integral multiples of €100,000. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than €100,000 in his account with the relevant clearing system at the relevant time may not receive a definitive certificate in respect of such holding (should certificates be printed) and would need to purchase a principal amount of Notes such that its holding amounts to at least €100,000.

Change of law

The conditions of the Notes are based on English law in effect as at the date of this Offering Circular. No assurances can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Offering Circular.

Modification

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

Noteholders must rely on the procedures of Euroclear and Clearstream, Luxembourg

The Global Notes are held by or on behalf of Euroclear and Clearstream, Luxembourg and investors will have to rely on their procedures for transfer, payment and communication with the Republic.

The Notes will be represented by the Global Notes except in certain limited circumstances described in the Global Notes. The Global Notes will be registered in the name of a nominee for, and deposited with a common depositary for, and in respect of interests held through, Euroclear and Clearstream, Luxembourg. Individual Note Certificates evidencing holdings of Notes will only be available in certain limited circumstances. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Notes. While the Notes are represented by the Global Notes, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Republic will discharge its payment obligations under the Notes by making payments to or to the order of the common depositary for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in the Global Notes must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Notes. The Republic has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes.

Holders of beneficial interests in the Global Notes will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Notes are legal investments for it, (2) the Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any the Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

USE OF PROCEEDS

In accordance with the Decision on Budget Adopting of the Republic for 2021 (*Official Gazette of the Republic, No. 131/20*) by which the RS National Assembly adopted the Budget and the Law on Budget Execution of the Republic for 2021 (*Official Gazette of the Republic*, *No. 131/20*) and the Decision on long-term borrowing of the Republic for 2021 (*Official Gazette of the Republic, No. 131/20*), the net proceeds from the issuance of the Notes will be used to finance the Budget deficit, which will include the allocation of funds to the Compensation Fund (as defined and described in "*Public Finance — The Compensation Fund of the Republic*") in order to implement measures to mitigate the effects of COVID-19 on the Republic's economy and population and for discharge of expenses related to debt repayments.

DESCRIPTION OF THE REPUBLIC OF SRPSKA

Introduction

BiH consists of the Republic of Srpska, the Federation of Bosnia and Herzegovina and the Brčko District of Bosnia and Herzegovina. The Republic was legally established on 28 February 1992, with the delivery of its constitution to the RS National Assembly. The borders generally reflect the territory held by the Serbian Army during the Bosnian War as negotiated in the Dayton Agreement signed on 14 December 1995. The Republic's administrative centre is Banja Luka, while the capital of BiH is Sarajevo.

Source: European Parliamentary Research Service

Geography and Population

The Republic borders the Federation and three neighbouring states: Serbia to the East, Montenegro to the South East and Croatia to the North and South West. The Republic consists of nine cities: Banja Luka, East Sarajevo, Prijedor, Doboj, Bijeljina, Trebinje, Zvornik, Gradiška and Derventa, as well as 55 municipalities. The city of Banja Luka is the largest city and the administrative, economic and cultural centre of the Republic.

The Republic is located in the northern and eastern parts of BiH and occupies an area of approximately 24,641 square kilometres divided by the Brčko District, a 493-square kilometre self-governing administrative unit in the north-eastern region of BiH. The Republic is situated in a landlocked area and has no access to the sea. It is connected with Europe and Asia by the Pan-European Corridor X – E70 motorway, railways, and the Banja Luka International Airport.

The Republic's rivers are of particular importance to its geography. The meridional (north-south) river flows connect Central Europe with the Mediterranean macro-region. The zonal (east-west) river flows connect the Republic with the Central Balkans and Western European region. The longest rivers in the Republic are Drina (308 kilometres), Sava (205 kilometres), and Vrbas (131 kilometres), and these flow into the Black Sea drainage basin. The smaller rivers in the Republic, excluding those in Eastern regions of BiH, flow into either the Drina river basin or Sava river basin, by means of which the Republic is connected to the European Rhine–Main–Danube Canal.

The Republic is located at the meeting point of two large natural geographic and socio-economic regional units and is a link between the Pannonian Basin and the Adriatic Basin. In the northern area of the Republic, referred to as the Peri-Pannonian region, the hilly terrain composed of cenozoic rock deposits gradually descends to flatlands with alluvial plateaus and fluvial terraces, which is also the most fertile area in the Republic. There are six mountains in this area. Towards the south, the flat land gradually turns first into a hilly terrain and then into a mountainous region which covers the largest portion of the territory of the Republic.

According to the most recent census conducted in 2013, the Republic had a total population of approximately 1.2 million (excluding the Brčko District). The highest concentration is in the cities of Banja Luka, Bijeljina and Prijedor with approximately 180,000, 104,000 and 81,000 people, respectively, representing approximately 15.4 per cent., 8.9 per cent. and 6.9 per cent. of the total population of the Republic.

The majority (approximately 83 per cent.) of the population were ethnic Serbs, whereas ethnic Bosniaks and Croats, the other two constituent groups, comprised 12.7 per cent. and 2.3 per cent. of the population, respectively.

There are also a significant number of other nationalities and ethnic groups within the Republic, including Slovenians, Montenegrins, Macedonians, Ukrainians and Romani peoples.

The official languages of the Republic correspond to the three constituent ethnic groups in the country: Serbian, Bosniak and Croatian, with the Serbian language being the most widely spoken. Approximately 83.9 per cent. of the population speaks the Serbian language, whereas 12.8 per cent. and 1.5 per cent. speak the Bosniak and Croatian languages, respectively. As of the 2013 census, 82.8 per cent. of the population of the Republic, comprising mainly of Serbians, are aligned to the Serbian Orthodox Church. The Serbian Orthodox Church was formed around 1219 when St. Sava (Rastko Nemanjić) was consecrated as an autocephalous bishop within Byzantium and it has played a large role historically in the evolution of the national Serbian identity. The Bosniak and Croat population, comprising 12.7 per cent. and 2.3 per cent. of the population, are largely aligned to the Islamic and Catholic faiths, respectively, although other religious communities exist in the Republic, including non-religious (atheist) and agnostic communities.

Historical Background

The history of BiH was characterized by long periods of external control: Ottoman rule from 1463 to 1878, Austro-Hungarian rule from 1878 to 1918 and, as part of Yugoslavia, first under a Yugoslavian monarchy from 1918 to 1941, then as the Socialist Republic of Bosnia and Herzegovina within communist Yugoslavia from 1945 to 1992, which shaped the country's social, economic and cultural structure.

During World War I, BiH was occupied by Austro-Hungarian forces. After the war, the collapse of the Austro-Hungarian Empire led to the formation of the Kingdom of Serbs, Croats and Slovenians on 1 December 1918 (renamed Yugoslavia in 1929) with the Karadjordjević as the ruling dynasty and consisting of Serbia, Montenegro and the former South Slavic provinces of the Austro-Hungarian Empire. During World War II, various parts of Yugoslavia were occupied by Germany, Italy, Hungary and Bulgaria. Following the end of the war, Bosnia and Herzegovina, North Macedonia and Montenegro were given separate and equal republican status within the new socialist federation of Yugoslavia. In its present borders, BiH was created on 25 November 1943 at a session of Marshall Tito's Communist Party, the winning party after the Second World War. After the Socialist Federal Republic of Yugoslavia was created in 1945, BiH existed as one of its six republics for nearly 50 years.

The 1980s coincided with the growing separatist and nationalist tensions emerging in Yugoslavia. In the early 1990s, the events in former Yugoslavia and consequently in BiH started to multiply at a dramatic speed. Between 1991 and 1992, Slovenia, Croatia, BiH, and North Macedonia seceded from Yugoslavia. In March 1992, the Parliament of the Socialist Republic of Bosnia and Herzegovina held a referendum. After the referendum, which was boycotted by majority of the Serbs and endorsed by Bosniaks and the Croats, BiH declared independence on 1 March 1992. However, the existence of the newly proclaimed state was short as an international armed conflict took place in BiH between 1992 and 1995 (the "**Bosnian War**").

The beginning of the Bosnian War saw two sides at war with each other: on one side were Croats and Bosniaks and on the other Serbs. However, throughout 1993, Croats and Bosniaks fought heavily with each other. Following U.S. intervention, fighting between Bosniaks and Croats ended in March 1994, with the signing of an agreement to establish an alliance on the territory they collectively controlled (the "**Washington Agreement**"). The alliance then joined forces against the Bosnian Serbs who lost ground to the offensive and endured NATO strikes in August 1995.

U.S. intervention ultimately led to the Dayton Agreement, negotiated in November 1995 in Dayton, Ohio and signed on 14 December 1995, in Paris. Under the Dayton Agreement, BiH retained its internationally-recognised borders, but was internally reorganised into two Entities – the Federation (51 per cent. of the territory) and the Republic (49 per cent. of the territory). The Brčko District, which was the only territorial issue left unresolved in Dayton, was subsequently included into the BiH structure as an administrative unit under the jurisdiction of the central state and ruled by an international governor.

BiH, since the end of the Bosnian War in 1995, had been peaceful until 2014, when a series of demonstrations and riots started in the northern town of Tuzla (in the Federation) on 4 February 2014, against corruption and inequities in the labor market. The unrest quickly spread to multiple cities in BiH, including Sarajevo, Zenica, Mostar, Jajce (all located in the Federation) and the Brčko District. Many protestors also gathered in Banja Luka, though the Republic did not experience the same level of political unrest. The political unrest in 2014 was the largest display of violent unrest since the Bosnian War and resulted in several arrests and damage to public property, but the protests largely faded away in April 2014. See "*Risk Factors – Risks Associated with the Republic's Economy – Political or social instability or a change in government could affect the implementation of its proposed economic reforms and have a negative effect on the Republic and its economy*". Since the Dayton Agreement was signed, BiH has applied for accession with the EU, by signing the SAA (defined below) in 2008, which entered into force in June 2015. BiH submitted its formal application for EU membership on 15 February 2016 and has been developing its foreign relations and improving its economic, political, judicial and social policies for its accession with the EU. See "*– Foreign Relations – EU – EU Accession Process*."

The Constitution and Government Structure of BiH

BiH has a complex legal framework due to the combination of different government systems. In addition to BiH, the Entities have their own legal systems and the Brčko District also has a separate legal framework. Only a small number of laws are adopted at BiH level. As the Entities have wide legislative competences, each of them may adopt completely different laws.

Articles 4 to 7 of the BiH Constitution stipulate that the institutions of BiH include the following:

- the Parliamentary Assembly, which has two houses: the House of Peoples and the House of Representatives;
- the Presidency, which consists of three members who rotate every eight months (the "**Joint Presidency**"). The Joint Presidency nominates the chair of the Council of Ministers, who takes office upon the approval of the House of Representatives (the "**Chair**"). The Chair nominates a Foreign Minister, a Minister for Foreign Trade and Economic Relations, the Minister of Finance and Treasury, the Minister of Communications and Transport, the Minister of Civil Affairs, the Minister of Human Rights and Refugees, the Minister of Justice, the Minister of Security, and the Minister of Defence (the "**Ministers**") who take office upon approval of the House of Representatives. The Chair and the Minsters together form the council of ministers (the "**Council of Ministers**");
- the Constitutional Court of BiH (the "**BiH Constitutional Court**"), which upholds the BiH Constitution; and
- the Central Bank of BiH, which is the sole authority for issuing currency and for monetary policy throughout BiH.

BiH has a tripartite, democratically elected Presidency. Representation at BiH level is generally split on a 2:1 basis between the Entities. The Joint Presidency consists of three elected individuals, one from the Republic and two from the Federation. The chair of the Joint Presidency rotates every eight months. The Council of Ministers of BiH is responsible for policies and decisions in accordance with the BiH Constitution. The Joint Presidency nominates the chair of the Council of Ministers, which is confirmed by the Parliament for a four-year term. At least one-third of its members have to be Serbs. The Council of Ministers consists of Ministry of Foreign Affairs, Ministry of Security, Ministry of Defence, Ministry of Finance and Treasury, Ministry of Justice, Ministry of Foreign Trade and Economic Relations, Ministry of Communication and Transport, Ministry of Human Rights and Refugees and Ministry of Civil Affairs.

The BiH Constitutional Court has nine members (4 selected by the Federation's House of Representative, two by the RS National Assembly, and three by the President of the European Court of Human Rights). The BiH Constitutional Court has appellate jurisdiction for cases arising in BiH courts, as well as jurisdiction over cases between Entities regarding the Constitutionality of relations between an Entity and a neighbouring state or whether an Entity's Constitution conflicts with BiH's Constitution. On 8 September 1995, the Entities signed the Agreed Basic Principles which establishes that disputes between the Entities are resolved through arbitration. See "*Risk Factors – BiH and the Republic have a complex management and governance structure*."

BiH's Parliamentary Assembly consists of the House of Peoples (15 Delegates, 10 from the Federation, 5 from the Republic) and the House of Representatives (42 Members, two-thirds from the Federation, one-third from the Republic). All decisions require majority approval by both chambers. The Parliamentary Assembly enacts legislation to implement decisions of the President or to carry out its own responsibilities. Those responsibilities are to decide on the sources and amounts of revenue for BiH institutions, international obligations of BiH, approving a budget for BiH, consenting to treaties, and other matters necessary to carry out its duties or as assigned by mutual agreement of the Entities.

Each Entity has a responsibility to provide assistance necessary to enable the BiH to honor international obligations. Financial obligations entered into by one Entity without the consent of the other prior to the election of BiH's Parliamentary Assembly are the obligations of the Entity. Each Entity has the right to enter into agreements with states and international organizations, and each Entity has a responsibility to provide a safe and secure environment for all persons within their respective jurisdictions. The Parliamentary Assembly approves international agreements entered into by the Entities only when the Entity incurs debt under an international treaty entered into with another State or an international organisation, including IFIs.

There is freedom of movement of goods, capital, and people throughout Bosnia and Herzegovina. At BiH level, the Parliamentary Assembly regulates Bosnian citizenship and each Entity regulates citizenship of each Entity. Each Entity and the BiH issue passports to its citizens.

The following table lists the Council of Ministers as of the October 2018 elections:

Name	**Position**
Zoran Tegeltija	Chairman of the Council of Ministers
Bisera Turković	Minister of Foreign Affairs
Vjekoslav Bevanda	Minister of Finance and Treasury
Staša Košarac	Minister of Foreign Trade and Economic Relations
Sifet Podžić	Minister of Defence
Selmo Cikotić	Minister of Security
Josip Grubeša	Minister of Justice
Ankica Gudeljević	Minister of Civil Affairs
Vojin Mitrović	Minister of Communication and Traffic
Miloš Lučić	Minister of Human Rights and Refugees

As at the date of this Offering Circular, Miloš Lučić was dismissed from the position of Minister of Human Rights and Refugees as part of a cabinet reshuffle, and such dismissal will take effect upon ratification by the House of Peoples. A replacement has not yet been appointed.

BiH has a bicameral Parliamentary Assembly consisting of the House of Peoples and the House of Representatives. The House of Peoples is composed of 15 delegates (5 from each constituent group) appointed directly by the parliamentary assemblies of the Federation (five Bosniaks and five Croats) and the Republic (five Serbs). The House of Representatives has 42 delegates, two-thirds of whom are elected in the Federation and one-third in the Republic.

The following table shows the delegates in the House of Peoples from the October 2018 elections:

Name	**Political Party**
Bosniak Delegates	
Bakir Izetbegović	The Party of Democratic Action
Asim Sarajlić	The Party of Democratic Action
Amir Fazlić	The Party of Democratic Action
Munib Jusufović	Union for a Better Future of BiH
Denis Bećirović	The Social Democratic Party of Bosnia and Herzegovina
Croat Delegates	
Zlatko Miletić	Independent

Name	Political Party
Dragan Čović	The Croatian Democratic Union of Bosnia and Herzegovina
Marina Pendeš	The Croatian Democratic Union of Bosnia and Herzegovina
Lidija Bradara	The Croatian Democratic Union of Bosnia and Herzegovina
Bariša Čolak	The Croatian Democratic Union of Bosnia and Herzegovina
Serb Delegates	
Nikola Špirić	The Alliance of Independent Social Democrats
Lazar Prodanović	The Alliance of Independent Social Democrats
Sredoje Nović	The Alliance of Independent Social Democrats
Dušanka Majkić	The Alliance of Independent Social Democrats
Mladen Bosić	The Serbian Democratic Party

The following table shows the number and percentage of seats in the House of Representatives held by each political party as at the date of this Offering Circular:

Name of Party	No. of seats	Share of total seats *(%)*
Party of Democratic Action	9	21.2
Alliance of Independent Social Democrats	6	14.3
Croatian Democratic Union of Bosnia and Herzegovina (as part of a coalition with the Croatian Peasant Party of Bosnia and Herzegovina, the Croatian Party of Rights of Bosnia and Herzegovina and the Croatian Christian Democratic Union of Bosnia and Herzegovina)	5	12.0
Social Democratic Party	4	9.5
Democratic Front	4	9.5
Our Party	3	7.1
The Serb Democratic Party	2	4.8
The Party of Democratic Progress	2	4.8
Independent Bloc	1	2.4
The Movement of Democratic Action	1	2.4
Union for a Better Future of Bosnia and Herzegovina	1	2.4
A-SDA for European Bosnia and Herzegovina – Together	1	2.4
The Socialist Party	1	2.4
United Srpska	1	2.4
DNS – Democratic People's Alliance	1	2.4
Total	**42**	**100**

Source: Parliamentary Assembly of BiH.

The following matters are the responsibility of the institutions of BiH: foreign policy; foreign trade policy; custom policy; monetary policy; finances of the institutions and for the international obligations of BiH; immigration, refugee and asylum policy and regulation; international and inter-Entity criminal lax enforcement (including relations with Interpol); establishment and operation of common and international communications facilities; regulation of inter-Entity transportation; air traffic control and defence. BiH assumes responsibility for such other matters as are agreed by the Entities. Additional institutions may be established as necessary to carry out such responsibilities, and if the Entities agree. The distribution of fiscal policy and public expenditure is complex and highly decentralised between BiH, the Entities and the Brčko District. See "*Economy of the Republic — Legal framework for fiscal policy and public expenditure between BiH and the entities*".

The BiH Constitution also establishes the BiH Constitutional Court, which was inaugurated in June 2002. It consists of nine judges, of whom four are selected by the Federation's House of Representatives, two by the RS National Assembly and three by the president of the European Court of Human Rights ("**ECHR**"). The BiH Constitutional Court has exclusive jurisdiction to determine all disputes arising under the BiH Constitution between: the Entities and/or BiH or the institutions of BiH. The BiH Constitutional Court has jurisdiction to decide whether any provision of the constitution or law of an Entity complies with the provisions of the BiH Constitution, as well as the constitutionality of the laws of BiH. The BiH Constitutional Court also has jurisdiction to examine an Entity's decision to establish relations with a neighbouring state in accordance with the BiH Constitution, including provisions relating to the sovereignty and territorial integrity of BiH. Disputes may be referred only by a member of the Joint Presidency, chairman of the Council of Ministers, chairman or speaker or deputy speakers of either Houses of Parliament of BiH, one-fourth of delegates in either Houses of Parliament of BiH, or by one-fourth of either Houses of Parliament of the Entities. The appellate jurisdiction of the BiH Constitutional Court is established by a constitutional provision according to which the court has jurisdiction over constitutional matters pertaining to the judgment of any court in BiH. This means that the BiH Constitutional Court represents the highest judicial instance in relation to other lower instance courts, which confirms its role in terms of representing a special institutional protector of rights and freedoms as established by the BiH Constitution. The rules of the BiH Constitutional Court permit it to act as a court of full jurisdiction (namely, to decide the case on the merits or quash a judgment and require a retrial). The court whose judgment has been quashed is obliged to issue another judgment as part of an urgent procedure, and is bound by the legal understanding of the BiH Constitutional Court on the violation of the constitutionally guaranteed rights and fundamental freedoms of the appellant. Appellants (being individuals who claim that their constitutional rights have been violated by a judgment or other decision of any court) have the right to file an appeal after exhausting all Entity remedies, whereby the BiH Constitutional Court also takes into account the effectiveness of possible remedies. The BiH Constitutional Court also has jurisdiction over issues referred to it by other courts, as well as the unblocking of the Parliamentary Assembly of BiH.

The Constitution and Government Structure of the Republic

Article 1 of the RS Constitution defines the Republic as a territorially integral and indivisible constitutional and legal entity. The Republic exercises its legislative function through its parliament, the RS National Assembly, the executive functions through the RS Government (as defined below) comprising the Prime Minister and the ministries within the control of the Republic, and judicial functions through the Supreme Court of the Republic, high courts, lower courts and the Prosecutor's Office. The Constitutional Court of the Republic (the "**RS Constitutional Court**") determines matters of relating to the constitutionality and legality of acts and judgments of lower instance courts. Under Article 69 of the RS Constitution, the powers of the RS Government rest on the principle of separation of powers. The Republic has a centralised structure and is headed by directly elected President and Vice Presidents.

The Executive Branch

The President

The President represents the Republic and its unity and is responsible for: (i) nominating the Prime Minister for appointment by the RS National Assembly; (ii) nominating president and judges of the RS Constitutional Court on the proposal of the HJPC; and (iii) for promulgating laws and granting pardons. The President awards decorations and recognitions determined by the law. By decree and upon the proposal of the RS Government, the President appoints and recalls the heads of missions of the Republic in foreign countries, and proposes ambassadors and other international representatives of BiH from the Republic. The President is elected in direct general elections and his/her mandate lasts for four years. The people of the Republic can impeach the President and Vice-President by the same procedure through which they were elected. The President has two vice-presidents, each elected from a different constituent group. The President may decide which of the two vice-presidents shall replace them in case they are temporarily incapacitated or prevented from performing their presidential duties. Željka Cvijanović is the current President of the Republic.

The RS Government

The RS Government consists of the Prime Minister and 16 ministers. The President of the RS Government presents the RS Government programme to the RS National Assembly and proposes its composition. The RS Government is elected by a majority vote of all members of the RS National Assembly and its members report to the RS National Assembly for a four-year term.

The functions of the RS Government are as follows: (i) to propose statutes, other regulations and general acts; (ii) to propose development plans (strategic, long-term territorial development documents which define the basic goals and principles for spatial development of the Republic based on overall economic, social and cultural-historical development, sector strategies and other development documents), and budget and final accounts; (iii) to ensure the implementation of laws; (iv) to pass decrees, decisions and other acts required for the implementation of laws; (v) to give its opinion on proposals for laws and other regulations and general legal acts submitted to the RS National Assembly by other parties; (vi) to establish the principles for internal organisation of the ministries and other administrative bodies and organisations of the Republic, and to appoint and recall officials to and from the ministries and other bodies and administrative organisations of the Republic; (vii) to manage and co-ordinate the work of the ministries and other bodies and administrative organisations of the Republic; (viii) to supervise the work of the ministries and other bodies and administrative organisations of the Republic, and recall or cancel their acts if they are not in line with laws or other legal acts passed by the RS Government; and (ix) to perform other activities in accordance with the RS Constitution and applicable law.

The SNSD is a Serbian political party in BiH as well as the current governing party in the Republic, with its leader Milorad Dodik currently serving as the Serb member of the Presidency of BiH, the collective head of BiH and is also its chairman. In the most recent elections held in October 2018, Radovan Viskovic was appointed by National assembly as the Prime Minister. The other parties in the Republic include The Serbian Democratic Party, Democratic National Alliance, the Party of Democratic Progress, The Socialist Party, Democratic People's Alliance, Together for BiH and United Srpska.

The following table lists the current principal officials of the RS Government from SNSD as of the 2018 elections:

Name	Position
Radovan Višković	Prime Minister
Zlatan Klokić	Minister for European Integration and International Cooperation
Natalija Trivić	Minister of Education and Culture
Zora Vidović	Minister of Finance
Dragan Lukač	Minister of the Interior
Anton Kasipović	Minister of Justice
Senka Jujić	Minister of Administration and Local Self-Government
Duško Milunović	Minister of Labour, War Veterans and Disabled People's Protection
Suzana Gašić	Minister of Trade and Tourism
Petar Đokić	Minister of Energy and Mining
Nedeljko Ćorić	Minister of Transport and Communications
Boris Pašalić	Minister of Agriculture, Forestry and Water Management
Srebrenka Golić	Minister of Spatial Planning, Construction and Ecology
Vjekoslav Petričević	Minister of Economy and Entrepreneurship
Alen Šeranić	Minister of Health and Social Welfare
Srđan Rajčević	Minister for Scientific and Technological Development, Higher Education and Information Society
Sonja Davidović	Minister of Family, Youth and Sports

The Legislative Branch

Legislative authority in the Republic is exercised by the RS National Assembly and the Council of Peoples.

The RS National Assembly

The RS National Assembly is a single-chamber parliament and is the holder of constitutional and legislative power in the Republic. The RS National Assembly has the power to: (i) amend the RS Constitution, pass laws and other general acts; (ii) adopt the budget, final accounts, development plan and spatial plan; (iii) determine the territorial organisation, (iv) calls referenda; (v) decide on public borrowing; (vi) call for the elections of members to the RS National Assembly and the Presidency of the Republic; (vii) elect, appoint and dismiss officials; (viii) control the work of the RS Government; (ix) grant amnesty, and (x) perform other functions in accordance with the RS Constitution and applicable law.

The RS National Assembly elects delegates to the House of Peoples of the Parliamentary Assembly of BiH. It ratifies agreements concluded with states and international organisations with the consent of the Parliamentary Assembly of BiH. The RS National Assembly has 83 members who are elected by constituencies determined by law for four years. The right to propose laws, other regulations and general acts resides with the President, the RS Government, each member of the RS National Assembly or at least 3,000 voters.

The last parliamentary elections were held on 7 October 2018. The next parliamentary elections are scheduled for October 2022 in accordance with the Election Law of BiH (*Official Gazette of Bosnia and Herzegovina, Nos. 23/01, 7/02, 9/02, 20/02, 25/02, 4/04, 20/04, 25/05, 77/05, 11/06, 24/06, 33/08, 37/08, 32/10, 48/11, 63/11 18/13, 7/14, 31/16, 54/17 and 41/2020*).

The following table shows the number and percentage of seats in the RS National Assembly held by each political party as at the date of this Offering Circular.

Name of Party	**No. of seats**	**Share of total seats** *(%)*
SNSD	28	33.8
Serbian Democratic Party	16	19.3
Democratic National Alliance	12	14.5
PDP RS – Mladen Ivanić	9	10.8
Socijalist Party	7	8.4
Together for BiH	4	4.8
NDP Dragan Cavić	4	4.8
United Srpska.	3	3.6
Total	**83**	**100**

Source: The RS National Assembly

The Council of Peoples

Laws and other regulations passed by the RS National Assembly that pertain to issues of vital national interest of any of the constituent groups shall only become effective following their approval and adoption by the Council of Peoples. If more than one leader or member-leader of a caucus in the Council of Peoples considers a certain law or regulation to concern a vital national interest, that law or regulation must be submitted to the Council of Peoples for deliberation. The leader or member-leader must reach their decision within one week of such submission. If the majority of each caucus represented in the Council of Peoples votes in favour of such a law or regulation, it shall subsequently become effective. If the Council of Peoples votes in favour of amending a law or regulation, such piece of legislation or regulation must be re-submitted to the RS National Assembly to be considered and re-approved. If the RS National Assembly does not reach an agreement regarding a law or regulation, or amendments to a law or regulation, a joint committee must be established consisting of representatives from the Council of Peoples and the RS National Assembly. This joint committee shall be based on parity and shall make decisions by consensus. The joint committee shall ensure that the wording of the relevant law or regulation reflects the adopted amendments. Once the wording of the law or regulation has been finalised and agreed, such law or regulation shall be considered to have been passed. If no consensus is reached, such law or regulation shall not be passed but shall be returned to the proponent for the procedure to be renewed. In such a case, the proponent is not allowed to re-submit the same text of a law or regulation. If the joint committee cannot reach a consensus, the matter shall be referred to the RS Constitutional Court, which must make a final judgment on whether a law concerns vital national interests of a constituent people. The Committee for Protection of Vital National Interests, which operates within the RS Constitutional Court, must decide within one week whether to admit a case for adjudication (which requires a two-third majority vote in favour of such proposal), and shall decide on those cases that are admitted within one month of adjudication.

The Judiciary

Under Articles 1 and 69 of the RS Constitution, judicial independence is secured by the division of power between the legislative, executive, constitutional and judicial branches of the government. Article 121 of the RS Constitution also guarantees the independence of the courts and their responsibility to protect human rights and freedoms, rights and interests of legal entities established by law and legality.

Judicial power in the Republic is exercised by courts of general and special jurisdiction. The courts of general jurisdiction are the Basic Courts, the District Courts and the Supreme Court, whereas the courts of special jurisdiction are the District Commercial Courts and the Higher Commercial Court.

The Basic Courts and the District Commercial Courts are the courts of first instance (in respect of the District Commercial Court, for matters of a commercial nature). The District Courts and the Higher Commercial Court serve, in principle, as appellate courts for decisions at municipal level but the District Courts have original jurisdiction for serious criminal offences. The Supreme Court is the highest court of law. It hears both civil, commercial and criminal cases and has a special chamber for administrative cases. The RS Constitutional Court decides among others on the constitutionality of laws, regulations and decrees, on the legality of regulations and decrees and on jurisdictional conflicts between the three branches of government or between state and municipal institutions.

The RS Constitutional Court is an autonomous and independent state body responsible for protecting the RS Constitution and laws as well as human rights and minority rights. It comprises of nine judges. Decisions of the RS Constitutional Court are final, enforceable and universally binding. It determines whether laws, regulations and other general acts are in conformity with the RS Constitution and can decide on matters of immunity of the President, its judges and RS National Assembly members. The RS Constitutional Court has the right to decide on the matters of jurisdictional conflict among bodies exercising legislative, executive and judicial power, as well as jurisdictional conflict among the Republic, its cities and municipalities. The RS Constitutional Court has the right to decide on the matters of jurisdictional conflict among bodies exercising legislative, executive and judicial power, as well as jurisdictional conflict among the Republic, its cities and municipalities. The RS Constitutional Court shall decide also on the conformity of programmes, statutes and other general acts of political organisations with the RS Constitution and the law. Any person may initiate proceedings to review matters of constitutionality and legality. Proceedings before the RS Constitutional Court may be initiated by: the President of the Republic, the RS National Assembly, the Council of Peoples on issues within the framework of constitutionally determined competencies, the RS Government, the other Courts (if the issue of constitutionality and legality is raised in such forum), the Republic's Prosecutor that is appointed to the Public Prosecutor's Office, and municipality, city, enterprise, political organisation (being associations of citizens and other organisations), in each case if their right determined by the RS Constitution or law has been violated and a body authorised by the RS Constitution and law to suspend execution of regulations and other general acts inconsistently with the RS Constitution and the law. The RS Constitutional Court may itself initiate proceedings to review matters of constitutionality and legality.

The Republic's Public Prosecutor's Office is an independent state body which prosecutes criminal offences and other legally punishable offences and applies legal measures in order to safeguard constitutionality and legality. The establishment, organisation and jurisdiction of a Public Prosecutor's Office is regulated by the Law on Prosecutors' Offices of the Republic (*Official Gazette of the Republic, No. 69/16*). The Chief Public Prosecutors and the Deputy Chief Prosecutors are appointed for a term of six years with the possibility of reappointment and Public Prosecutors are appointed for an unlimited mandate, unless they resign, retire or are removed by the HJPC due to prescribed circumstances and in accordance with the law. The Republic's Public Prosecutor's Office consists of the General Department, which includes: the War Crimes Department, the General Crime Department, the Economic Crime Department and the Juvenile Department, and the Special Department for the Suppression of Corruption, Organized and Serious Forms of Economic Crime established by several laws and bylaws, organised and the most serious forms of economic crime. The Republic's Public Prosecutors of the General Department advocates before the Supreme Court of the Republic to represent on matters relating to appeals of first instance verdicts of district courts, and represent indictments in cases in which the Supreme Court revoked a first instance verdict and ordered a retrial. In addition to this function, the General Department of the Public Prosecutor's Office may perform its role before the basic and district courts, as well as before the RS Constitutional Court. Public Prosecutors assigned to the Special Department of the Prosecutor's Office conduct investigative actions and criminal prosecution of perpetrators of criminal acts pursuant to the Law on Amendments to the Law on Suppression of Corruption, Organized and Serious Forms of Economic Crime (*Official Gazette of the Republic, Nos. 39/16 and 91/17*). In addition to the Republic Prosecutor's Office, the organisational structure consists of six district public prosecutor's offices whose headquarters are in Banja Luka, Prijedor, Doboj, Bijeljina, East Sarajevo and Trebinje.

It is the responsibility of the HJPC to ensure the autonomy, independence, impartiality, competence and efficiency of the judiciary and the prosecutorial offices in the Republic. The responsibilities of the HJPC include the appointment, disciplinary action and dismissal of judges, except for the judges presiding over the RS Constitutional Court, and includes public prosecutors and member public prosecutors in the Republic.

As at the date of this Offering Circular, there are 28 Basic Courts, 7 District Courts, 7 Commercial District Courts, one High Commercial Court and one Supreme Court of the Republic. Basic Courts serve as first instance courts. District Courts serve as second instance courts, but also have jurisdiction to act as courts of first instance for cases in which their jurisdiction is provided. In the first instance, the District Courts have jurisdiction: (i) for criminal offenses punishable by more than ten years' imprisonment or long-term imprisonment, unless the law provides for the jurisdiction of another court, (ii) to act during the investigation and after indictment in accordance with the law, (iii) to judge for criminal offenses for which the Court of Bosnia and Herzegovina has transferred jurisdiction to the district courts, (iv) to decide in all administrative disputes according to the seat of the first instance administrative body, as well as requests for protection of freedoms and rights determined by the constitution, if such freedoms and rights are violated by a final individual act or action of an official in administrative bodies, or a responsible person in an enterprise, institution or other legal entity, when no other judicial protection is provided for the protection of those rights. Any conflict between courts of the same instance is resolved by a court of a higher instance. The conflict of jurisdiction of the Supreme Court of the Republic and the basic or district court shall be resolved by the Supreme Court of the Republic in a general session.

The right to appeal is regulated as a right by the constitution itself. The Law on Civil Procedure (*Official Gazette of the Republic, Nos. 58/03, 85/03, 74/05, 63/07, 105/08, 45/09, 49/09 and 61/13*) regulates regular legal remedies against judgments that are not final and extraordinary remedies against final judgments. Remedies are decided by a higher court.

There are no specialised panels or war crimes courts established in the Republic. War crimes are within the jurisdiction of the Court of Bosnia and Herzegovina and the Prosecutor's Office of Bosnia and Herzegovina. However, the conduct of proceedings that are considered less complex may be transferred to the competent courts in the Entities by a decision of the Court of Bosnia and Herzegovina, in accordance with the provisions of the Criminal Procedure Code of Bosnia and Herzegovina. The criteria for assessing complexity are, for example, the rank of the accused, the size of the crime itself. In the Republic, the District Courts have jurisdiction over war crimes as first instance. However, these courts do not have special panels for war crimes, but they are resolved within criminal department.

There are no special administrative courts in the Republic. Administrative proceedings are conducted before administrative bodies, and administrative disputes are resolved by the district court according to the seat of the first instance body.

Regional Administration

According to the RS Constitution, local self-government units are a fundamental part of the constitutional organisation of the Republic. The governance structure of the Republic is split across two levels: the RS Government, and the local self-government units. A municipality is a fundamental territorial organisational unit of local self-government, formed to cover one or more populated areas in the Republic. A city is a territorial organisational unit that is a coherent geographical, historic, administrative, social and economic unit which boasts an adequate standard of development. In accordance with the Law on Territorial Organization of the Republic (*Official Gazette of the Republic, Nos. 69/09, 70/12, 83/14, 106/15, 26/19 and 15.21*), the Republic has 55 municipalities and nine cities. A city, which has no municipalities in its organisational structure, has the characteristics and fundamental features of local self-government units. The cities in the Republic comprise of Banja Luka, Istočno Sarajevo, Bijeljina, Doboj, Derventa, Gradiška, Prijedor, Trebinje and Zvornik. The area of the city of Istočno Sarajevo covers areas of the following municipalities: Istočna Ilidža, Istočno Novo Sarajevo, Pale, Sokolac, Istočni Stari Grad and Trnovo.

The Law on Public Administration (*Official Gazette of the Republic, No. 115/18*) prescribes that ministries, republic administrations and republic administrative organisations shall perform activities of the administration. The Ministry of Administration and Local Self-RS Government performs administrative and other specialist activities relating to local self-government. Local self-government units have the authorities prescribed by the Law on Local Self-Government (*Official Gazette of the Republic, Nos. 97/2016 and 36/2019*), as well as other authorities conferred by other laws. Local self-government units must exercise their authority in accordance with the RS Constitution, the law and the statute. The activities of a republic administration can be transferred to local self-government units by a law, in order to improve efficiency and to have more rational exercising of rights and obligations of citizens and to fulfil their needs for the interest of better living and working conditions, based on specific conditions prescribed by the law. The RS Constitution prescribes rights of all citizens, including ethnic and other minority groups, to be included in the execution of power in the Republic without discrimination. Further, the constitutional organisation of the Republic is based upon, among other things, the guarantee of ethnic equality and the protection of rights of ethnic minority groups and other minorities, the preservation and official use of spoken languages and scripts in regions populated by such communities, the freedom of express of national or cultural affiliation by all citizens, and the protection of national minorities' rights in the Republic. On its Ninth Regular Session held on 3 March 2020, the RS National Assembly adopted the Strategy for Improvement and Protection of National Minorities' Rights in the Republic for 2020 - 2024, which is the priority strategy in the field in BiH.

Brčko District

After the Dayton Agreement was signed in December 1995, there was disagreement over the ownership of Inter-Entity Boundary Line in Brčko Area. In the Final Award of the Arbitration Tribunal for the Dispute over the Inter-Entity Boundary Line in Brčko Area, the Statute of the Brčko District of Bosnia and Herzegovina was passed. Brčko District is a single administrative unit of local self-government existing under the sovereignty of BiH. It has a local self-government and the Entities exercise functions and powers assigned to them by this statute. The BiH Constitution, as well as relevant laws and decisions of the institutions of BiH, are directly applicable throughout the territory of Brčko District. The laws and decisions of all Brčko District authorities must be in conformity with the relevant laws and decisions of the institutions of BiH.

Armed Forces

The joint armed forces of BiH (the "**Armed Forces**") were established on 1 January 2006, following the completion of the defence system reform and the transfer of the competencies in the field of defence from the Entities to BiH. With the adoption and implementation of the Law on Defence (*Official Gazette of the Republic, No. 88/05*), BiH became responsible for ensuring transparent, democratic and civilian control over the Armed Forces. The Joint Presidency makes decisions over the Armed Forces by consensus. Chain of command and control continues to the Minister of Defence, to the Chief of Joint Staff of the Armed Forces, the Commander of the Operational Command and Commander of support to subordinate commanders, commands and units of the Armed Forces.

The Armed Forces participate in collective security operations, peace support operations and self-defence, including the fight against terrorism. It provides military defence to BiH in case of attack. The Armed Forces are also responsible for assisting civil authorities in responding to natural disaster and accidents as well as mine action and fulfilment of international obligations of BiH.

The Armed Forces in Sarajevo command the military units. The two major commands of the Armed Forces are the operational command and the support command. For the operational command control, there are three infantry brigades, the 4th Infantry Brigade in Čapljina (in the Federation), the Fifth Infantry Brigade in Tuzla (in the Federation) and the 6th Infantry Brigade in Banja Luka (in the Republic). Each of the infantry brigades have three regiments that are each formed by soldiers from the three ethnic groups of BiH: Bosniaks, Croats and Serbs and trace their roots to the armies that were created during the Bosnian War. The Tactical Support Brigade in Sarajevo and Air Force and Air Defence Brigade at Banja Luka Airport also fall under operational command control. The support command control has a Personnel Command and Logistics Command located at Banja Luka and Travnik Doboj, respectively.

The Commander of the Operational Command of the Armed Forces is under the supreme command and control of the Presidency. The Commander is responsible for (i) issuing orders to subordinate commands and forces, necessary for the execution of assigned missions, (ii) implementing the policies of the Joint Staff, (iii) preparing operational plans based on the orders of the Chief of the Joint Staff, (iv) determining tactical command and control solutions for commands and forces within the Operational Command of the Armed Forces, (v) organising commands and forces within the authority of the Operational Command, (vi) deploying forces within the Operational Command to execute assigned missions, (vii) appointing temporary mission commanders, (viii) coordinating and approving those aspects of management and support including control of resources and equipment, (ix) the internal organisation and training and discipline necessary to carry out missions assigned to Operational Command, (x) reporting to the Chief of the Joint Staff on operational needs, and (xi) proposing initiatives to improve the interoperability of the Armed Forces with the armed forces of NATO member states.

The Commander of the Armed Forces Support Command is under the supreme command, instructions and control of the Presidency. The Commander is responsible for (i) issuing orders and instructions to subordinate administrations and forces necessary to carry out assigned missions, including orders and instructions on all aspects of individual military training and logistics, (ii) implementing policies, regulations and orders of the Ministry of Defence and the Joint Staff related to personnel, logistics and training, (iii) preparing plans to support the operations on the orders of the Chief of the Joint Staff, (iv) providing support to the Armed Forces Operational Command on the orders of the Chief of the Joint Staff, (v) organising commands and forces in such manner as it deems necessary for the execution of assigned missions, (vi) providing support to the deployment or redeployment of the Armed Forces, (vii) coordinating and approving those aspects of management and support including the control of resources and equipment, internal organization and training, and discipline necessary for Commands, (viii) proposing to the Chief of the Joint Staff logistical needs, and standards for training of personnel, equipping and supply of the Armed Forces, (ix) determining the training needs of the Armed Forces, (x) drafting training doctrines, (xi) organising individual training, the maintenance of the Armed Force's real estate, (xii) developing and implementing plans for the management of ammunition storage sites and weapons storage sites in accordance with international obligations, relevant laws and regulations issued by the Ministry of Defence and the Joint Staff, (xiii) issuing recommendations for the procurement of goods and services for the Armed Forces in accordance with applicable legislation, (xiv) proposing initiatives to improve interoperability of the Armed Forces with the armed forces of NATO member states, and (xv) managing personnel records in accordance with the regulation issued by the Minister of Defence.

The Armed Forces have carried out several peacekeeping missions as part of their participation in the United Nations, namely "Determined Support" in Afghanistan, Operation "MONUSCO" in the Democratic Republic of Congo and operation "MINUSMA" in the Republic of Mali.

Under the 2021 Budget, the budget for the Ministry of Defence has been set at BAM 289.3 million.

Foreign Relations

Under the BiH Constitution, foreign policy is under the jurisdiction of BiH. Under the Law on Procedure for Concluding and Executing International Agreements (*Official Gazette of BiH, Nos. 29/00 and 32/13*), the initiative to start the procedure to conclude the international agreements can be given by the institutions of BiH, Entities, cantons and other regional and local communities, as well as companies, institutions, non-governmental organisations and other legal entities. The Republic actively cooperates with a large number of multilateral and bilateral partners, including the German Company for International Cooperation, the Swedish International Development Cooperation Agency, the World Bank - International Development Association, the European Bank for Reconstruction and Development, the Secretariat of the Energy Community, the United States Agency for International Development, the Global Environment Fund, the Green Climate Fund, the United Nations Development Programme, the Swedish Environmental Protection Agency, the Catholic Relief Services, the Japan International Cooperation Agency, the International Finance Corporation, the International Fund for Agricultural Development, the Norwegian Mapping and Cadastre Authority (Statens Kartverk), the Center of Excellence in Finance from Slovenia, the Swiss Agency for Development and Cooperation, and the Saudi Fund for Development.

European Union

EU accession process

One of BiH's foreign policy objectives is to become a member of the EU. BiH is currently a potential candidate for membership to the EU. The main policy goals of the RS Government are focused on fulfilling the requirements for EU membership through seven priorities: (i) increasing the competitiveness and productivity of the economy of the Republic with the aim of increasing salaries; (ii) sustainable health system; (iii) efficient overall public sector; (iv) education system and labour market adjusted to the needs of the economy; (v) improving the demographic position of the Republic; (vi) research, development, innovation and digital economy; and (vii) European integration, regional and international cooperation.

The EU accession process follows a series of formal steps, from a pre-accession agreement to the ratification of the final accession treaty. These steps are primarily presided over by the European Commission, but the actual negotiations are conducted between the EU member states and BiH. BiH has been recognised by the EU as a "potential candidate country" for accession since 2003 and is on the current agenda for future enlargement of the EU.

On 16 June 2008, BiH successfully completed the first stage in the EU accession process by signing the Stabilisation and Association Agreement (the "**SAA**"), along with an interim agreement, which as of 1 July 2008 regulates trade and trade-related matters. By formalising these agreements, BiH made a commitment to harmonise legislation at all levels in BiH with the EU Acquis (as defined below) and to apply it consistently. While ratified by all EU Member States by February 2011, the SAA could not enter in force, since BiH had not fulfilled the condition that was set on the compliance with the 2009 decision of the ECHR in the *Sejdić-Finci* case. Such ruling requires the country to amend the BiH Constitution to remove discriminatory provisions from the electoral rules for the Joint Presidency and BiH's House of Peoples.

In December 2014, the Council of the EU agreed on a renewed approach to BiH, without changing the EU accession conditions, including the implementation of the decision of the ECHR in the *Sejdić-Finci* case, and invited members of the European Commission to engage with the political leaders to secure their irrevocable commitment to undertake reforms towards EU accession. Following the agreement upon a written commitment by the Joint Presidency of BiH in January 2015, its signature by the leaders of the 14 parliamentary parties and its endorsement by the Parliamentary Assembly, in March 2015 the Council of the EU agreed to the entry into the SAA. The SAA was ratified and entered into force on 1 June 2015. With the entry into force of the SAA, BiH opened a new chapter in its relations with the EU and confirmed its commitment to pursue EU accession. By establishing contractual relations among the parties, the SAA provides a framework of mutual commitments on a wide range of political, trade and economic issues as well as the legal basis for formalised policy dialogue.

On 15 February 2016, BiH presented its application for membership of the EU. Subsequently, on 20 September 2016, the Council of the EU invited the European Commission to submit its opinion on this application. On 9 December 2016, BiH received the accession questionnaire from the European Commission (the "**Questionnaire**") and the responses to the Questionnaire were submitted in February 2018. On 20 June 2018, the European Commission sent 655 follow-up questions to the Questionnaire. The Joint Presidency chair of BiH at the time, Milorad Dodik, provided answers to the additional questions on 5 March 2019. The European Commission subsequently published an opinion on BiH's application on 29 May 2019 (the "**Opinion**"). The Opinion identifies 14 key priorities for BiH to fulfil in order to be recommended for commencing EU accession negotiations; and it provides a comprehensive roadmap for incremental reforms.

The process of harmonisation of legislations at all levels in BiH with the acquis communautaire (the "**EU Acquis**", being the legislation and court decisions which constitute the body of EU law) is required to be completed prior to accession to the EU. The EU Acquis is divided into 35 chapters for the purposes of negotiations between the EU and the candidate member states. In order to meet the EU accession criteria, each chapter is screened by the European Commission, following which negotiations with respect to each chapter are opened and continue until resolved, at which point the chapter is considered to be provisionally closed.

The Opinion recognised the improvements made by BiH in regional cooperation and maintaining friendly neighbourly relations. The key findings in the Opinion are as follows:

- *Political criteria*: BiH and the Entities should improve their constitutional framework to allow for the effective implementation of the EU Acquis. BiH also needs to improve its electoral framework in line with European standards for transparency of political party financing. It needs to step up the protection of fundamental rights of all citizens, including by ensuring an enabling environment for civil society, reconciliation and the protection and inclusion of vulnerable groups. BiH is recommended to complete essential steps in public administration reform. BiH's application of the SAA needs to be improved, particularly establishing the Parliamentary Committee and the development of a national plan for the adoption of the EU Acquis.

- *Rule of Law*: BiH and the Entities should improve the functioning of the judiciary by adopting new legislation on the HJPC and of the Courts of BiH in line with European standards. BiH should enhance the functioning of the judiciary, strengthen the prevention and fight against corruption and organised crime, including money laundering and terrorism, as well as ensure effective functioning of border management, migration and asylum systems.

- *Economic criteria*: The Opinion recognises that BiH has achieved a certain degree of macroeconomic stability. To move to a functioning economy, BiH needs to improve its business environment and accelerate its decision making process, particularly in relation to public enterprises. BiH is recommended to address quality of education and its insufficient orientation towards labour market needs, the quality of the physical capital, such as the insufficient development of transport and energy infrastructure and the slow adjustment of BiH's economic structure.

- *EU legislation*: BiH is recommended to align with the EU Acquis to implement and enforce related legislation. Particular attention should be paid to the areas of: free movement of goods; right of establishment and freedom to provide services, information society and media; agriculture and rural development, fisheries; transport policy; energy; economic and monetary policy; statistics, social policy and employment; enterprise and industrial policy; regional policy and coordination of structural instruments; education and culture; consumer and health protection; and financial control.

- *Fundamental rights*: The Opinion recognises that BiH has a legislative and institutional framework in place and the BiH Constitutional Court has taken steps, for example, by repealing the provision on death penalty in the RS Constitution, but challenges remain on certain fundamental freedoms, particularly threats and violence against journalists and media workers and adopting preventative mechanism against torture and ill-treatment.

- *Public Administration*: The Opinion recommends public administration reform towards improving the overall functioning of public administration by ensuring a professional and de-politicised civil service and a coordinated approach to policy making.

On 28 April 2020, the Presidency of BiH adopted the Conclusion of the 11th Regular Session of the Presidency of Bosnia and Herzegovina (*No. 01-50-1-1301-2*), which determined that the Presidency of BiH would initiate and lead the reform in order to achieve the required degree of compliance with the membership criteria based on the implementation of 14 key priorities from the Opinion.

There can be no assurance that BiH will be able to satisfy the necessary requirements and successfully accede to the EU nor on what exact date such accession may take effect, if at all. See "*Risk Factors— Risks Associated with the Republic's Economy — BiH may not become a member of the EU in the near future or at all*".

Alignment of the Republic's Legislation with the EU

The alignment of the Republic's legislation with regulations of the EU is an obligation under Article 70 of the SAA, and this process has been, and continues to be, ongoing in the Republic since mid-2007. The Republic undertakes all necessary activities to perform this process in a systematic and coherent way, in order to transpose regulations of the EU into domestic legislation in accordance with regular annual action plans prepared by the relevant ministries and adopted by the RS Government. The legal framework that governs and prescribes the Republic's efforts in this regard include: the Law on Public Administration (*Official Gazette of the Republic, No. 115/18*), Rules of Procedure of the RS National Assembly (*Official Gazette of the Republic, No. 66/20*), the Decision on Alignment of the Republic's legislation with regulations of the EU and Practices and Standards of the Council of Europe (*Official Gazette of the Republic, No. 119/18*), the Rules of Procedure of the RS Government (*Official Gazette of the Republic, No. 123/18*), the Instruction on the Preparation of the Forms of Concordance of Draft and Proposals of Regulations with the EU Acquis and Legal Acts of the Council of Europe (*Official Gazette of the Republic, No. 102/14*), the Instruction on Preparation of the Tables of Concordance of Draft and Proposals of Regulations with the Regulations of the EU and Legal Acts of the Council of Europe (*Official Gazette of the Republic, No. 102/14*), and the Decision on Appointment of Persons Responsible for Alignment of the Republic's Legislation with Regulations of the EU (*Official Gazette of the Republic, No. 64/20*).

The priorities of alignment are determined in accordance with the obligations and deadlines as stipulated in the SAA, and in accordance with the content of the Report on Bosnia and Herzegovina through which the European Commission regularly reports to the Council of the EU and the European Parliament on, among other things, developments in BiH in the field of legislative and policy alignment. The foregoing priorities are also determined based on the recommendations made by the sub-committees of the Stabilization and Association Committee between BiH and the EU, and also based on recommendations of expert mission assessments and the determination of alignment in different fields as assessed by the relevant directorates of the European Commission.

*Economic and Investment Plan ("**EIP**")*

On 6 February 2018, the EU adopted its EU-Western Balkans strategy, which indicated that with sustained effort and engagement, BiH could become a candidate for accession. On 25 March 2020, the Council of the EU reaffirmed its commitment to enlargement by endorsing the communication of the European Commission on "Enhancing the accession process – A credible EU perspective for the Western Balkans" of 5 February 2020, aiming to reinvigorate the accession process by making it more predictable, more credible, more dynamic and subject to stronger political steering. On 6 October 2020, the European Commission adopted a comprehensive EIP for the Western Balkans in order to spur the long-term economic recovery of the region, support a green and digital transition, and foster regional integration and convergence with the EU. The EIP is aimed towards ensuring sustainable and stable development of the region during the crisis resulting from COVID-19 in order to support its economic and social development. The EIP consists of: (i) a significant investment package of

EUR 9 billion in grants; and (ii) guarantee instruments for the Western Balkans which has the potential to mobilise up to EUR 20 billion in investments. The investment package is intended to primarily support sustainable connectivity and infrastructure, human capital, competitiveness and inclusive growth, as well as the dual green and digital transition. The European Commission reiterated its commitment to enlargement by adopting the EIP, which envisages a substantial financial package to strengthen long-term socio-economic recovery of the Western Balkans after the COVID-19 pandemic and to accelerate economic convergence with the EU.

European Commission's Report on BiH

Along with the EIP, the European Commission adopted the 2020 Enlargement Package, its annual assessment of the implementation of fundamental reforms in the Western Balkans partners and Turkey. These assessments are presented together with clear and more precise recommendations on the reform priorities, which remain a prerequisite to the EU accession process, by specifically highlighting the future steps that need to be implemented by the Western Balkans partners in order to accelerate their EU accession process and achieve long-lasting results. As part of this assessment, the European Commission published the Bosnia and Herzegovina 2020 Report on 6 October 2020 (the "**2020 Report**"). The 2020 Report shows that BiH continues to implement the SAA and attended meetings of the joint bodies under the SAA regularly, but further progress is needed in a number of areas prior to accession. The 2020 Report identifies that BiH is generally at an early stage of preparedness in terms of readiness to take on the obligations arising from EU membership and it should significantly accelerate the process of harmonisation with the EU Acquis and implement appropriate legislation. In the 2020 Report's reporting period, limited or no progress has been made in various chapters of the EU acquis.

The 2020 Report identifies areas of development by BiH: free movement of goods; right of establishment and freedom to provide services; information society and media; agriculture and rural development; fisheries, transport policy; energy; economic and monetary policy; statistics; social policy and employment; entrepreneurship and industrial policy; regional policy and coordination of structural instruments; education and culture; consumer and health protection; and financial control. In the 2020 Report, the European Commission set out 116 concrete and binding recommendations, and pointed out the requests for the adoption of specific regulations or strategic documents at BiH and Entity level. In that sense, the competent institutions in Republic in the coming period can expect the intensification of requests from the European Commission and other EU bodies for the adoption of these laws, strategies and policies for BiH.

The 2020 Report also recognises the work done at the BiH and Entity level for improvements in multiple sectors, particularly in light of COVID-19. The Republic has adopted the strategic framework on public administration reform 2018 – 2022 and has taken steps to simplify the procedures on the regulatory impact for law making. The Rules of Procedure of the RS Government (*Official Gazette of the Republic No. 123/18*) and the Decision on Implementation of the Procedure of Impact Assessment of Regulations during Regulation Drafting (*Official Gazette of the Republic No. 21/19*) prescribes the obligation of performing impact assessments on regulations in the Republic. The impact assessment in respect of all drafts and proposals of laws in the drafting procedure is conducted by, *ex ante*, applying unique methodology and impact assessment procedure. Within the Ministry of Economy and Entrepreneurship, a Department for Impact Assessment of Regulations was established, which provides short-form opinions on the impact of draft laws and proposals.

BiH and the Republic have established special Prosecution Offices. A significant part of the assessments given in the 2020 Report is assessments for BiH. Many reforms have been implemented by the Republic, which are yet to be actioned at BiH level and by the Federation, such as the adoption of a 2017 – 2021 strategy for developing local self-government, an action plan for the financial and operational restructuring of RS Railways and adoption of law on inland navigation.

*Instrument for Pre-Accession Assistance ("**IPA**")*

The IPA is the means by which the EU provides financial and technical support and assistance to countries going through the process of accession to EU. By providing this support, the EU seeks to encourage the implementation of the necessary reforms that are a prerequisite for accession to the EU, including the necessary political, economic, legal and institutional reforms. The initial IPA came into force in 2007. The successor to the IPA is the IPA 2014 – 2020 ("**IPA II**"), which came into force on 16 March 2014 and was applicable retroactively from 1 January 2014. The IPA II introduced a new framework for providing pre-accession assistance for the period from 2014 until 2020, which was adopted on 31 May 2018.

In accordance with the Indicative Strategy Paper for BiH (2014 to 2020), EUR 552.1 billion has been indicatively designated under the IPA II to support BiH through various annual action programs, of which a total of EUR 75.7 million, EUR 39.7 million, EUR 47.0 million, EUR 74.8 million, EUR 102.5 million, EUR 104.8 and EUR 107.6 million has been allocated in 2014, 2015, 2016, 2017, 2018, 2019 and 2020, respectively. The priority sectors for funding under the IPA II for BiH are democracy and governance (which includes national allocations to the Civil Society Facility: EUR 2.1. million in 2014, EUR 2.5 million in 2015, EUR 4.5 million in 2017, EUR 2 million in 2018, EUR 6 million in 2019 and EUR 2 million in 2020); rule of law and fundamental rights; environmental and climate action; transport; energy; competitiveness, innovation; agriculture and rural development; and education, employment and social policies (which includes allocations for the Regional Housing Programme – EUR 10 million in 2017 and EUR 14 million in 2018). In January 2021, the European Commission announced an additional EUR 3.5 million in humanitarian aid to help vulnerable refugees and migrants in BiH.

*Co-operation with the International Criminal Tribunal for the former Yugoslavia ("**ICTY**")*

In 1993, the UN established the ICTY, a court of law dealing with war crimes committed during the Bosnian War. The National War Crime Processing Strategy was adopted by the Council of Ministers of BiH on 24 September 2020, and resulted in the prosecution of war crimes.

BiH has co-operated with ICTY and its successor institution the International Residual Mechanism for Criminal Tribunals ("**IRMCT**") through the Prosecutor's Office of BiH, which closely collaborates with the Office of the Prosecutor of the Mechanism, processing an increasing number of requests for assistance from all prosecutors' offices in BiH to the ICTY's Office of the Prosecutor. The Republic's Centre of Investigation of War, War Crimes and Missing Persons and the Ministry of Internal Affairs are the competent authorities for coordinating and cooperating with the ICTY and IRMCT in the Republic.

The revised National War Crime Processing Strategy was adopted by the Council of Ministers on 24 September 2020. The strategy provides the necessary framework for the judicial institutions at the level of BiH, the Entities and the Brčko District to process the backlog of war crimes cases more efficiently, by providing a clear criteria for distribution of cases to courts and prosecutors' offices in the Entities and the Brčko District and thus allowing BiH's Prosecutors Office to focus on the most complex cases. More work needs to be done for effective regional judicial cooperation in processing war crime cases.

Between the date of the establishment of the Republic's Centre of Investigation of War, War Crimes and Missing Persons on 1 January 2013 and 31 December 2019, the centre received 109 applications from the ICTY and IRMCT for action on various grounds.

According to the 2020 Report, out of the 214 yet unresolved cases, 89 proceedings for war crimes are pending before courts in BiH due to the unavailability of the indicted persons. As of 1 March 2021, 90 individuals have been sentenced to imprisonment by final verdicts issued by the ICTY and three individuals are engaged in ongoing proceedings before the IRMCT. According to the ICTY, the total number of individuals sentenced for war crimes committed on the former territory of Yugoslavia amounted to 161.

United Nations ("UN")

BiH became a member of the UN on 22 May 1992. As a member, BiH contributes to the work of the organisation through the activities of different bodies and a number of UN specialised agencies. BiH also actively participates in the work of the UN through the Permanent Missions to the UN in New York, Geneva, and Vienna, as well as through the Embassy of Bosnia and Herzegovina in Paris and Embassy of Bosnia and Herzegovina in Rome. BiH takes active participation in the Eastern European Group. If necessary, BiH participates in other regional groups of countries within the UN. BiH is gradually moving towards the role of an active participant in international problems. BiH is a member of many UN bodies, including the Peacebuilding Commission and the Executive Board of UN Women. BiH's officers are engaged in peacekeeping operations in Cyprus, Liberia, South Sudan, Afghanistan and Somalia. BiH has successfully been a Non-Permanent Member of the Security Council during the 2010 – 2011 term and was a member of the Human Rights Council from 2007 to 2009. BiH is also active in the organisation of conferences and other multilateral activities. The cooperation between the

Republic's institutions with the UN through its programme in BiH was founded on the basis of the UN Development Assistance Framework in Bosnia and Herzegovina 2015 – 2020 and through a joint steering committee between the UN and BiH.

World Trade Organisation ("WTO")

BiH applied for accession to the WTO in May 1999, and submitted its Memorandum on the Foreign Trade Regime in September 2002 to the WTO Secretariat as a basis for opening accession negotiations. The General Council of the WTO established a working party to examine BiH's application (the "**Working Party**") and the first Working Party meeting was held in November 2003. The Working Party held its 13th meeting in respect of BiH's application on 7 February 2018. According to the Working Party, the accession had reached its technical maturity. BiH will work towards signing bilateral market access agreements on goods and services and concluding multilateral negotiations and process. Because of the advanced stages of these negotiations, BiH expects to become a member of the WTO in the near future.

The World Bank

BiH maintains working relations with the World Bank and the Republic does the same through BiH. In October 2019, the World Bank published the Doing Business 2019 report, which ranked BiH 89 out of 190 countries for ease of doing business over the past 12 months.

The data from Doing Business report is based on the biggest city in a country, which in BiH is the city of Sarajevo. This eliminates visibility on significant reforms and developments in the Republic, such as the one-stop system for registration of business entities established in 2013, which significantly cut costs and procedures for establishing business entities. In the World Bank's 2011 Subnational Doing Business report for 21 cities of southeast Europe, it honoured Banja Luka (along with Skopje in North Macedonia) for most improved business regulation in the past three years for four regulatory areas: starting a business, dealing with construction permits, registering property and enforcing contracts.

The Council of Europe

BiH has been a member of the Council of Europe since 24 April 2002. The Council of Europe, which consists of 47 member states across Europe, seeks to protect human rights, democracy and the rule of law. Numerous reforms have been implemented in BiH, in cooperation with the Council of Europe, in the domains of legal and institutional organisation as well as in the fields of justice and others in which the Council of Europe is active. The Republic has also implemented, or is in the process of implementing, certain reforms relating to the protection of human rights, the creation of local self-government units for citizens, the judiciary, education and electoral legislation in cooperation with the Council of Europe and in all other areas in which the Council of Europe acts independently or in cooperation with the European Commission or the Organization for Security and Cooperation in Europe. As BiH is a member of the Council of Europe, and in accordance with its rules and regulations, representatives of the Republic are included as part of BiH's delegation when attending sessions between BiH's Parliamentary Assembly and the Congress of Local and Regional Authorities of the Council of Europe, as well as other related working bodies.

NATO Partnership for Peace Program

BiH has been a member of the Partnership for Peace Program ("**PfP**") since 2006 through which it benefits from the partnership cooperation with NATO and its PfP partners in areas of common interest, primarily, political-security, military and defence issues, emerging security challenges, advanced technology, disaster response, explosives detection and cyber defence. NATO retains a military headquarters in Sarajevo with the primary mission of assisting the authorities of BiH with reforms and commitments related to the PfP and closer integration with NATO, and the secondary mission of providing logistic and other support to the EU Force in BiH. Since 2009, BiH has contributed officers to the NATO-led International Security Assistance Force in Afghanistan as part of the Danish and German contingents, and now contributes to NATO's Resolute Support Mission in Afghanistan. BiH was invited to join the Membership Action Plan ("**MAP**") in 2010. Since 2014, under the Partnership Interoperability Initiative, BiH has participated in the Interoperability Platform that brings allies together with 24 selected partners that are active contributors to NATO's operations. Whilst becoming a member of NATO is not one of BiH's priorities, BiH is open to political dialogue and practical cooperation with the alliance in all areas of common interest.

Organisation for Security and Co-operation in Europe ("OSCE")

BiH has been a member of the OSCE since 10 November 2000. As a country on the path towards EU membership, BiH remains committed to cooperation with the OSCE, particularly for achieving high standards in regional, political, economic and social integration. BiH contributes to these efforts through partnership and cooperation, primarily with the OSCE Mission to Bosnia and Herzegovina (the "**OSCE Mission**") which was set up in September 2017 in its territory. The OSCE Mission is based in the city of Sarajevo and relies on its network of nine field offices, six of which are located in the Republic's territory – namely, Banja Luka, Bijeljina, Doboj, Trebinje, Foča and Srebrenica.

Other regional relations

One of the most important priorities of BiH's foreign policy is to maintain good relations with neighbouring countries as such cooperation safeguards and strengthens stability in the region and is likely to enhance BiH's progress towards EU integration. BiH participates, and will continue to participate, in several important regional initiatives and organisations discussed below.

*Central European Free Trade Agreement ("**CEFTA**")*

On 19 December 2006, BiH signed the Agreement on the Amendments and Accession to the CEFTA, which came into force on 22 November 2007. The CEFTA is a regional free trade agreement that provides the legal basis for policy formulation and implementation of trade and investment in the CEFTA region. The current parties to the CEFTA are Albania, Bosnia and Herzegovina, North Macedonia, Moldova, Montenegro, Serbia and UNMIK on behalf of Kosovo∗ in accordance with UN Resolution 1244. Following its accession to the EU in July 2013, Croatia withdrew from the CEFTA. The CEFTA provides for complete liberalisation of industrial and agricultural products. It also provides for diagonal cumulation of origin for goods, gradual liberalisation of trade in services, equal treatment of investors, opening of the public procurement markets, an IP protection mechanism and a dispute settlement system, all of which are consistent with the WTO rules.

The CEFTA activities were integrated within the Multi-annual Action Plan for a Regional Economic Area (the "**MAP REA**"), which was endorsed by the leaders of the countries comprising the Western Balkans Six, these being Albania, Bosnia and Herzegovina, Kosovo*, North Macedonia, Montenegro and Serbia ("**WB6**") at the Berlin-process summit in Trieste, in 2017. The MAP REA aims to enable unobstructed flow of goods, services, capital and highly skilled labour within the Western Balkan Region, with particular focus on four specific targets: the promotion of further trade integration; the introduction of a dynamic regional investment space; the facilitation of regional mobility; and the creation of a digital integration agenda.

The first component in respect of trade relates to the implementation of CEFTA's Additional Protocol 5 on trade facilitation and Additional Protocol 6 on the liberalisation of trade in services. The second component of MAP REA relates to investments and aims to increase FDI flows to the WB6 region through greater harmonisation of investment policies, providing foreign investors equal treatment with domestic and joint participation in the third market, and strengthening the potential growth and job creation in the WB6 region. The third component relating to mobility is expected to provide greater mobility for highly skilled labour and educated young people in the WB6 region through the mutual recognition of professional qualifications in sectors of common interest (medicine, dentistry, architecture and civil engineering). The fourth component relating to the digital agenda provides for efficient electronic trade of goods and services in the WB6 region by removing barriers to e-commerce and increasing consumer confidence in e-commerce and digital literacy. The digital agenda aims to integrate the region into the pan-European digital market through the harmonisation of the digitisation strategy, the development of digital infrastructure and the enhancement of regional connectivity. Amongst other things, this will involve the complete abolishment of roaming charges in the WB6 region from 1 July 2021 and improving cyber security.

The CEFTA region is the Republic's second most important foreign trade partner, after the EU, having a share of 19.5 per cent. of overall international trade (17.5 per cent. of exports and 20.9 per cent. of imports) in 2020, with the Republic's total external trade with CEFTA parties amounting to EUR 780 million.

*Regional Co-operation Council ("**RCC**")*

The RCC was established on 27 February 2008 as the successor to the Stability Pact for South Eastern Europe. The RCC works under the political guidance of SEECP (as defined below). The main objectives of the RCC are: the development of regional cooperation through six priority areas (economic and social development, energy and infrastructure, justice and home affairs, security, building human capital and parliamentary cooperation) and identifying projects of common interest for the countries of the region and its connection with the programmes of the European Commission. Among other regional initiatives, the RCC has actively contributed to the adoption of the Regional Roaming Agreement, which was signed at the 2nd Western Balkans Digital Summit in Belgrade in April 2019. The headquarters of the RCC Secretariat is in Sarajevo, with an office in Brussels. The institutions of the Republic regularly participate in the activities carried out within the Council for Regional Cooperation.

*South-East European Co-operation Process ("**SEECP**")*

The SEECP was established in 1996 in order to promote stability, safety and cooperation in South-East Europe, and its consists of 13 "participants" from the region who also make up the board of the Regional Co-operation Council: Serbia, Romania, Bulgaria, Greece, Turkey, Montenegro, Albania, BiH, North Macedonia, Croatia, Slovenia, Moldova and Kosovo*.

*Adriatic Ionian Initiative ("**AII**")*

The AII was established in 2000. Its member states are Albania, BiH, Croatia, Greece, Italy, Montenegro, North Macedonia, San Marino, Slovenia and Serbia. Its activities focus on tourism, culture and inter- university cooperation, transport and maritime cooperation, environmental protection and cooperation between small and medium-sized enterprises. Activities within this initiative are mainly related to the implementation of the EU Strategy for the Adriatic-Ionian Region (EUSAIR). EUSAIR priorities include strengthening cooperation in the areas of the blue economy, transport and energy network, environmental protection and sustainable tourism. Representatives of the Republic regularly participate in the activities carried out within this initiative.

Membership of the Republic in Regional Associations

The Republic has been a member of the Federation of European Regional Actors since 2016. The Republic has been a member of the Assembly of European Regions (AER) since 2007, the largest independent network of regions in the wider Europe, with members from 35 countries. The Assembly of European Regions has been the voice of regional authorities since its inception in 1985, and is aimed at promoting regional interests in Europe and beyond, encouraging interregional cooperation through the exchange of experiences and good practices aimed at developing and improving regional policies. Representatives of the Republic participate in regular sessions of AER's governing bodies, as well as in sessions of thematic committees and various conferences and gatherings organised by AER on topics of interest to member regions.

The Federation of Regional Growth Actors in Europe (FEDRA) is an organization that aims to network business, academic and other actors from European regions. FEDRA primarily provides support to the economic activities of regional actors, related to development and competitiveness, as well as access to the international market, European regional and interregional programs and projects. Membership in this organization enables and facilitates the connection of businessmen and opens opportunities for the promotion of the Republic within various initiatives.

*Southeast European Law Enforcement Centre ("**SELEC**")*

The SELEC was established in 1999. Signatory states to the SELEC convention are Albania, BiH, Bulgaria, Croatia, Greece, Hungary, North Macedonia, Moldova, Montenegro, Romania, Serbia and Turkey. Following its accession to the EU in July 2013, Croatia withdrew from the SELEC. The objective of SELEC, within the framework of cooperation among competent authorities, is to provide support for member states and enhance coordination in preventing and combating crime, including organised crime, terrorism and trafficking, where such crime involves or appears to involve an element of trans-border activity. Representatives of the Republic regularly participate in the activities carried out within the said initiative.

SELEC also provides assistance to the member states in order to align their respective law enforcement legislation with EU standards and requirements. SELEC ensures prompt and continued exchange of information among the member states relating to criminal investigation. It also supports their requests for operational assistance, as appropriate.

*EU Strategy for the Danube Region ("**EUSDR**")*

EUSDR is a macro-regional strategy adopted by the European Commission in December 2010 and endorsed by the European Council in 2011. The strategy was jointly developed by the European Commission with the Danube Region countries and stakeholders, in order to address common challenges. The strategy represents a platform for cooperation and acceptance of the EU Acquis by candidate countries and aims to create synergies and coordination between existing policies and initiatives in the Danube region. The strategy is based on three basic thematic pillars:

- connectivity and communications – transport, navigation, related infrastructure and energy;
- environmental protection, risk prevention (protection against floods) and sustainable use of natural resources; and
- social, economic and institutional development and strengthening regional cooperation.

Through the Coordinating mechanism for EU integration process in BiH, the Republic participates in EUSDR-related initiatives with other levels of government in BiH.

*EU Strategy for the Adriatic-Ionian Region ("**EUSAIR**")*

EUSAIR was adopted and launched at the international conference in Brussels, on 18 November 2014. The EUSAIR member states are Albania, BiH, Croatia, Greece, Italy, North Macedonia, Montenegro, Serbia and Slovenia. The EUSAIR priorities include strengthening cooperation in the fields of blue economy, transportation and energy networks, environmental protection and sustainable tourism. Membership in the EUSAIR is based on geographical principle (access to the Adriatic or Ionian Sea) as well as on the basis of international law. The Republic supports and actively contributes to the implementation of EUSAIR through the Coordinating mechanism for EU integration process in BiH. Participation in EUSAIR contributes towards its EU accession process. EUSAIR benefits from the long experience of intergovernmental cooperation within the Adriatic-Ionian Initiative, which created strong links between the participating countries, and generated regional cooperation between cities, chambers of commerce, universities and national parliaments. Accordingly, EUSAIR ensures further integration of the internal market, fosters cooperation between EU and non-EU participating countries and assists non-EU participating countries in their EU accession process.

Berlin Process

A high-level summit was held in Berlin on 28 August 2014, at the initiative of the Chancellor of Germany, Angela Merkel. The summit included participation by the prime ministers, the foreign ministers and the ministers of the economy of Albania, BiH, Croatia, Kosovo*, North Macedonia, Montenegro, Serbia, Slovenia, Austria, France, and representatives of the European Commission and resulted in the launch of the so- called "The Berlin Process".

The aim of the summit was to reach a common agreement on strengthening regional cooperation in the Western Balkans and establish a four-year framework (for 2014 to 2018) to resolve the remaining outstanding issues in the region. The first practical result, in terms of adopting the joint regional projects within the "Berlin Process", was achieved at the second summit held in Vienna on 27 August 2015. The third summit on the Western Balkans was held in Paris (4 July 2016) and represented the continuation of the Western Balkans Summits held in Berlin and Vienna within the "Berlin Process". The fourth summit on the Western Balkans within the Berlin Process was held in Trieste. This summit adopted the MAP REA, which deals with the areas of trade, investment, mobility and digital economy. At the summit, the Transport Community Treaty between the EU and the six participants from the Western Balkans was signed. The main role of the treaty is to connect the Western Balkans to the EU, by creating an integrated transport network between the Western Balkans participants, as well as other countries in the region, with the EU. The fifth summit on the Western Balkans within the "Berlin Process" was held in London.

During the London summit, both economic reforms and political and security matters were considered unlike previous summits. The EU presented its decision for the allocation of funds to the Western Balkans in order to enhance collective security and the economic stability of the region. In particular, the decision was intended to support West Balkan countries with facing developmental threats such as severe and organised crime, drug trafficking and terrorism. The package of measures included an increase of the UK's financing in the region by

95 per cent., from GBP 41 million from the Fund for Conflict Prevention, Security and Stability in 2018/2019, to GBP 80 million for 2020/2021, under which the Republic has indirect benefits. A pans-Balkans Strategic Reserve Force is also stationed in the UK for rapid deployment to the Western Balkans in case of a deteriorated security situation or general instability in the region. The participants at the London summit adopted several decisions pertaining to war crimes, missing persons, regional cooperation and anti-corruption.

The sixth summit on the Western Balkans within the Berlin Process, was held in Poznan, Poland, on 5 July 2019. During the Poznan summit, the EU reconfirmed its commitment to strengthen its cooperation in the region with a set of measures covering the following key areas: (i) transport and energy, (ii) digital economy, (iii) security, and (iv) positive neighbourly relations. The EU also granted the financing of transport projects to BiH. The EU's grant in respect of all such projects totalled EUR 216.8 million, which were allocated in respect of 13 specific transport projects, out of which EUR 206.8 million was allocated to projects relating to the Corridor Vc highway. The participants are the Poznan summit adopted several decisions pertaining to the recognition of academic qualifications in the Western Balkans, Romani integration within the EU enlargement process, the establishment of a south-east European International Institute for Sustainable Technologies, and the reduction of roaming prices. The Poznan summit also saw the announcement of the European Commission's intention to strengthen its Investment Framework for the Western Balkans, focusing on environment and sustainable energy.

The seventh summit on the Western Balkans was held on 10 November 2020 in Sofia, Bulgaria, at which the European Commission accepted the region's positive response to the EIP as well as commitment to better connectivity and support for key initiatives such as establishing a common regional market. The European Commission launched a Green Plan for the Western Balkans. The EIP adopted by the European Commission on 6 October 2020 aims to provide up to EUR 9 billion of non-refundable funds from the EU, in order to accelerate the socio-economic recovery from COVID-19, and to accelerate the economic convergence of the Western Balkans with the EU. A new Guarantee Instrument for the Western Balkans is also envisaged, with the potential to attract investments worth up to EUR 20 billion.

At the summit in Sofia, the following were adopted: the Declaration on the Common Regional Market, the Action Plan for the Development of the Common Regional Market 2021 – 2024. Declaration of the Western Balkans Partners on the Green Agenda, Conclusions of the Berlin Process in the Field of Security, Conclusions of the Berlin Process in the Field of Health Response to the COVID-19 Pandemic and Conclusions of Roma Integration.

Among the most significant results of the Berlin Process to date have been: establishment of the Regional Youth Cooperation Office in Tirana based on the German-French model; the establishment of the Western Balkans Chamber of Commerce; signing of the "Agreement on the headquarters of Transport Community Treaty Permanent Secretariat" in Belgrade; the establishment of the Western Balkans Chamber Investment Forum (representing the voice of over 350,000 companies from the region, mostly small and medium-sized enterprises) and the signing of the "Agreement on Lower Roaming Prices in the Western Balkans Region" by the representatives of the WB6 economies.

"Brdo-Brioni" Process

The Republic of Slovenia and the Republic of Croatia together launched the idea of the "Brdo Process" during an informal meeting between the then Prime Ministers of the two countries, Borut Pahor and Jadranka Kosor, in Kranjska Gora, in January 2010. The aim of establishing this regional initiative was to strengthen the ties in the Western Balkans region, so that the strengthened cooperation in the region would accelerate the European integration progress. The Brdo Process was formally initiated by the meeting of the Western Balkan leaders in Brdo near Kranj, on 20 March 2010.

As an informal regional initiative, the process was initially called the "Brdo Process" and soon was renamed as the "Brdo-Briuni process". This initiative emphasised the common intention to connect the region, primarily in the areas of transport, infrastructure and energy, as well as mutual cooperation and mutual assistance on the path of Euro-Atlantic integration. To date, several meetings at the highest level under the "Brdo-Brioni" Process have been convened at the: Summit in Dubrovnik (15 July 2014); MFA meeting on Brdo near Kranj (23 April 2015); Summit in Budva (7 to 8 June 2015); Extraordinary Summit in Zagreb (25 November 2015); Summit in Sarajevo (28 to 29 May 2016); Summit and meeting of MFAs at Brdo near Kranj (3 June 2016);Summit in Skopje (27 April 2018) and Summit in Tirana (8 – 9 May 2019). BiH and the Republic have been actively participating in this initiative since its establishment.

*"Western Balkan Six-WB6" ("**WB6**")*

After the Western Balkans Summit in Berlin on 28 September 2014, where the Berlin Process was launched, participants from the Western Balkans (Albania, BiH, Montenegro, North Macedonia, Serbia and Kosovo*) have started utilising the WB6 format with the assistance of the European Council more frequently in respect of the projects and programs which resulted from the first summit of the "Berlin Process".

A wide range of topics discussed at all high-level meetings has shown that WB6, as an informal format (although it has not been institutionalised), has added value for the region in both political and economic terms. So far, more than 20 meetings have been held within the WB6 at the MFA level, or at presidential and governmental level.

In November 2019, at a meeting in Ohrid, Serbia, Montenegro, North Macedonia and Albania agreed on common measures to advance the implementation of the four key EU freedoms (free movement of goods, capital, services and people) as between their countries in order to further strengthen regional cooperation. This was followed by a further meeting in Tirana in December 2019. However, due to the outbreak of COVID-19, the meeting was postponed. The countries have stressed that this initiative is open to all of the participants in the WB6.

*Investment Framework for the Western Balkans ("**WBIF**")*

The WBIF is a European Commission's financial instrument to support the development and improvement of infrastructure, as well as overall socio-economic development in Albania, BiH, Kosovo*, Montenegro, North Macedonia and Serbia. The WBIF was established in 2009 as a joint initiative of the European Commission, the Council of Europe Development Bank, the EBRD, the EIB, and several bilateral donors. The World Bank Group, the KfW (defined below) and Agence Française de Développement subsequently joined the WBIF. The projects are divided into projects for co-financing technical assistance and projects for co-financing the execution of works and procurement of equipment for the implementation of an investment project. Accordingly, calls for grant applications for technical support and calls for co-financing of investments are issued.

In 2020, the 23rd, 24th and 25th calls for proposals for grant applications for technical assistance were conducted, as well as the sixth call for proposals for investment support. The results of the Fifth Call for Proposals for Investment Projects have been published. Also, in the reporting year, the activities of BiH's accession to the European Commission's Joint Assistance to Support Projects in European Regions instrument were initiated, which provides technical support to experts from international financial institutions to institutions applying for support projects from the WBIF instrument.

Other key bilateral relations

Republic of Serbia

BiH and the Republic have strong relations with Serbia. As neighbours, the two maintain relations on a wide range of political, security, economic, environmental and migration issues.

Serbia is the largest trade partner of BiH. The trade in goods between Serbia and BiH decreased from EUR 1.8 billion in 2019 (of which exports were EUR 669.2 million and imports were EUR 1.1 billion) to EUR 1.6 million in 2020 (of which exports were EUR 589.0 million and imports were EUR 969.3 million). Trade in goods between Serbia and the Republic slightly decreased from EUR 707.0 million in 2019 (of which exports were EUR 252.7 million and imports were EUR 454.3 million) to EUR 669.1 million in 2020 (of which exports were EUR 236.4 million and imports were EUR 432.7 million).

Cooperation between the Republic and the Republic of Serbia is intensive and takes place in accordance with the Agreement on the Establishment of Special Parallel Relations between the Republic of Serbia and the Republic. Based on this agreement, the institutions of the Republic and the Republic of Serbia have signed a number of individual agreements, which aim to further strengthen cooperation in various fields - transport and infrastructure, agriculture, environmental protection, tourism, education, internal affairs, health and many other areas. According to the data from the Register of Agreements, Protocols and Memoranda on Cooperation of the Republic with Entities Abroad, out of the total number of valid agreements, as of December 2020, 97 were concluded with institutions and other entities from the Republic of Serbia.

An important aspect of cooperation is the joint sessions of the RS Government and the RS Government of Serbia, which are held with the aim of discussing issues of mutual interest, monitoring the implementation of existing activities and projects, and agreeing on new ones. Also, the Representative Office of the Republic in the Republic of Serbia, based in Belgrade, has a particularly important role in strengthening institutional, economic, cultural and all other types of cooperation with the Republic of Serbia. In accordance with the bilateral agreement on economic cooperation concluded by BiH and the Republic of Serbia, a joint working body was formed in which a representative of the Republic (Joint Commission for Economic Cooperation between BiH and the Republic of Serbia) was appointed.

Russia

The Republic has a strategic political and economic relationship with Russia based on strong political ties between the two sides and successful cooperation in international and regional organisations such as the UN and OSCE. Russia is also one of the Republic's key trade partners (foreign trade in both directions cumulatively amounted to EUR 49.9 million in 2019 and EUR 35.4 million in 2020 at the Republic level). The trade in goods between Russia and BiH decreased from EUR 298.2 million in 2019 (of which exports were EUR 67.5 million and imports were EUR 230.7 million) to EUR 239.5 million in 2020 (of which exports were EUR 55.9 million and imports were EUR 183.6 million).

The Republic is achieving good cooperation with the Russian Federation, based on good political ties between the two sides, with meetings of top officials. Eight agreements on cooperation with entities in the Russian Federation have been entered in the Register of Agreements and Protocols on Cooperation of the Republic with Entities Abroad. In addition, the Republic has a particularly intensive cooperation with St. Petersburg and Nizhny Novgorod, in accordance with the signed agreements on regional cooperation, and in the previous period, activities were conducted in order to establish cooperation with the Vladimir, Orenburg and Ural regions. An important role is played by the Representation of the Republic in the Russian Federation, based in Moscow, which implements numerous activities in various fields, together with the institutions of the Republic and Russian partners, which significantly contributes to the improvement of mutual cooperation. It is important to point out that the Russian Federation regularly supports the Republic in presenting its reports to the United Nations Security Council.

In accordance with the bilateral agreements on economic and trade cooperation concluded by BiH and the Russian Federation, joint working bodies were formed, in which representatives of the Republic (Joint Committee / Commission for Economic and Trade Cooperation between BiH and the Russian Federation and the Working Group) were appointed for trade and economic cooperation between BiH and the Russian Federation). BiH also has strong relations with Russia in the energy sector.

Germany

The relations between BiH and Germany were established in 1992 through the Regional Cooperation Council. Germany has played an important role in BiH's economic development. The political dialogue between the two countries is regular and constructive, focused on bilateral cooperation, further EU-integration and economic issues. Germany is one of BiH's principal donors in the field of economic cooperation. The 2015 – 2018 reform agenda that Germany helped initiate has played a part in reviving BiH's economic and social reform process and in moving the country closer to the EU.

Germany remains an important foreign trade and economic partner of BiH and the Republic. Trade exchange of goods at BiH level in 2020 amounted to EUR 1.9 billion (of which exports amounted to EUR 833.7 million and imports amounted to EUR 1 billion). Germany is also a major bilateral donor to BiH (loans, donations and grants have reached EUR 320 million as at 31 December 2020). For the Republic, trade exchange of goods amounted to EUR 400.5 million (of which exports amounted to EUR 179.4 million and imports amounted to EUR 221 million). Germany is one of the principal investors in BiH. At present, the German Development Bank, Kreditanstalt für Wiederaufbau ("**KfW**") and German development agency, Deutsche Gesellschaft für Internationale Zusammenarbeit are promoting and funding sustainable economic development, infrastructure measures, renewable energy and energy efficiency as well as supporting democracy and civil society.

Republic of Austria

The Representative Office of the Republic in the Republic of Austria, based in Vienna, has a particularly important role in strengthening institutional, economic, cultural and all other types of cooperation with the Republic of Austria. The Republic of Austria is an important foreign trade partner of the Republic. The total foreign trade turnover of the Republic with Austria in 2020 amounted to EUR 223.5 million, which is 5.6 per cent. of the total foreign trade turnover. In 2020, the total export of the Republic to Austria amounted to EUR 137.5 million, while the total import from Austria amounted to EUR 86.0 million.

Italy

Italy is one of the most important economic and foreign trade partners of BiH. Italy has strong economic relations with the Republic. Trade exchange of goods at BiH level amounted to EUR 1.5 billion in 2020 (of which exports amounted to almost EUR 519 million) and EUR 1.9 billion in 2019 (of which exports amounted to EUR 665 million). Between the Republic and Italy, trade exchange of goods amounted to EUR 563.3 million in 2020 (of which exports amounted to almost EUR 239.9 million) and EUR 656 million in 2019 (of which exports amounted to EUR 290.6 million). The presence of major Italian banks such as UniCredit and IntesaSanpaolo that have direct investments or control of subsidiaries is significant for the support of further Italian investments in BiH. Economic ties with BiH are also enhanced by strong cultural attraction, as well as by specific language programs for the promotion of Italian language carried out by the Italian Government, funding both on-site language courses and scholarships. Italy also maintains a strong military presence in the Republic, through EUFOR Althea, which currently includes 900 units in BiH.

People's Republic of China

BiH and the Republic enjoy amicable relations with China. BiH has an embassy in Beijing, while China has an embassy in Sarajevo. China is BiH's second most important trading partner in Asia, after Russia.

A strategic partnership agreement between BiH and China has been in place since April 1995. Recently, along with good bilateral political relations, the two countries have increased their economic cooperation, in particular in the areas of investments and infrastructure and energy projects. The trade volume between the two countries in 2020 reached EUR 706.6 million. The trade between the Republic and China amounted to EUR 198.6 million (with exports at EUR 4.5 million and imports at EUR 194.1 million). Over the past few years, the overall relations between the two countries have been further enhanced not only through bilateral channels, but through the mechanisms of cooperation between China and the Central and Eastern European Countries. Despite the difficulties due to COVID-19, China and BiH do plan to continue to develop cooperation within the China+17 framework and the One Belt One Road initiative. While China has engaged in various projects in the Republic, the 300 MW Stanari Thermal Power Plant, situated near Banja Luka, represents the flagship project of cooperation between China and the Republic and was completed in 2016. New projects have also been recently concluded. The design and construction of the new PHI Hospital "Sveti apostol Luka" Doboj with the contractors "China Sinopharm International Corporation" and "Shanxi Construction Investment Group Co. LTD " from China has been concluded by the Ministry of Health and Social Welfare of the Republic. The total contracted value is BAM 88.6 million without VAT, or BAM 103.6 million with VAT and fund for the implementation of this project are provided from the budget of the Republic. The deadline for the completion of works is the end of December 2023. Construction of the highway Banja Luka – Prijedor – Novi Grad is also in progress, with the company "SDHS-CSI BH" d.o.o. Banja Luka. The contract provides for a period of five years for the design and construction of the said highway. The concession is granted for 30 years from the construction of the highway. The value of the construction of the highway is EUR 297 million. The length of the highway is 42 kilometers.

United States

Within the framework of cooperation with the United States Agency for International Development ("**USAID**") and the US Embassy in BiH, various projects have been implemented in BiH and the Republic in the previous period. The Republic's Representative Office in the US conducts various activities aimed at strengthening institutional, economic, scientific, cultural, energy efficiency (including renewable energy), agriculture, security and other cooperation between the Republic and the US. Trade in goods at BiH level has decreased from EUR 371.3 million in 2019 (of which exports were EUR 26.7 million and imports were EUR 344.6 million) to EUR 240.7 million in 2020 (of which exports were 34.5 million and imports were EUR 206.2 million). At the

Republic's level, the trade in goods has also decreased from EUR 38.3 million in 2019 (of which exports were EUR 5.7 million and imports were 32.6 million) to EUR 24.3 million in 2020 (of which exports were EUR 6.4 million and imports were EUR 17.9 million).

The Republic has its Representation Office in the US, which conducts different activities focused on strengthening the institutional, economic, scientific, cultural and other forms of cooperation between entities in the Republic of Srpska and USA, where cooperation with the diaspora is an important aspect of cooperation.

United Kingdom

The UK and BiH have a strategic political relationship and their economic cooperation is improving with the Republic's increased efforts to attract foreign investments from the UK. The two countries are developing and maintaining relations on a wide range of political, commercial, security, economic and international issues of interest to both countries. The UK and BiH have also maintained continued cooperation in the fight against organised crime and combating international terrorism, as well as in the field of security policy.

Considering the potential for cooperation between the two economies, trade in goods is relatively low, although the past few years have witnessed a growing trend in this regard. In 2020, trade between the two countries at BiH level totalled EUR 124 million (of which exports amounted to EUR 56.3 million and imports amounted to EUR 67.7 million). Between the Republic and UK, trade in 2020 totalled EUR 42 million (of which exports amounted to EUR 28.7 million and imports amounted to EUR 13.3 million).

The UK Government lends its support to the Republic by encouraging the implementation of necessary reforms, particularly in: fighting corruption, enhancing the business environment, judicial reform, the banking and energy sectors, strengthening the rule of law and supporting media independence.

Following the UK's referendum on leaving the EU, the UK has increasingly focused on bilateral cooperation. Defence and security, in particular, are viewed as key cooperation areas. The UK has submitted a proposal to BiH for a comprehensive partnership agreement, based on the modified provisions of the SAA, which BiH has with the EU. Consultation on this process between the countries had begun before the COVID-19 pandemic intensified in Europe. Negotiations are expected to continue with the UK, with a particular focus on increasing trade and investment between the countries.

Turkey

Turkey is a prominent international supporter of BiH and has played an active role in developing its EU integration. Turkey contributes directly to stability in BiH through the Turkey-Bosnia and Herzegovina-Serbia and Turkey-Bosnia and Herzegovina-Croatia trilateral consultation mechanisms. In addition, Turkey has development projects in BiH, such as the construction of Sarajevo-Belgrade highway.

Turkey is an important trading partner of BiH and the Republic. The trade in goods at BiH level decreased from EUR 642.8 million in 2019 (of which exports were EUR 149.6 million and imports were EUR 493.2 million) to EUR 619.2 million in 2020 (of which exports were EUR 160.7 million and imports were EUR 458.5 million). The trade in goods has also decreased from EUR 78.2 million in 2019 (of which exports were EUR 17.7 million and imports were EUR 60.6 million) to EUR 77.9 million in 2020 (of which exports were EUR 15.3 million and imports were EUR 62.6 million).

Croatia

BiH and the Republic have good relations with Croatia overall, but BiH has experienced political instability with respect to these bilateral relations. As neighbours, the two countries maintain relations on a wide range of security, economic, environmental and migration issues. In terms of trade, Croatia is an important external trade partner of the Republic. The trade in goods between Croatia and BiH decreased from EUR 1.8 billion in 2019 (of which exports were EUR 715.8 million and imports were EUR 1 billion) to EUR 1.5 billion in 2020 (of which exports were EUR 696.8 million and imports were EUR 778.9 million). Between Croatia and the Republic, the trade in goods has increased from EUR 326.6 million in 2019 (of which exports were EUR 212.6 million and imports were EUR 114.0 million) to EUR 374.6 million in 2020 (of which exports were EUR 246.5 million and imports were EUR 128.1 million).

Others

BiH and the Republic have strong political and economic relations with other countries such as Slovenia, Montenegro, Albania and North Macedonia, which are important bilateral partnerships for both foreign trade and infrastructure cooperation.

Legal Proceedings

The RS Government is involved in the following ongoing proceedings:

- a potential arbitration against BiH at the International Centre for Settlement of Investment Disputes (the "**ICSID**") following a request for such proceedings that was submitted by certain plaintiffs on 1 June 2016. The issue was whether BiH violated the Agreement between BiH and the Republic of Slovenia for the reciprocal promotion and protection of investments (the "**BIT claim**"), international rights principles, energy treaty and BiH regulations regarding the plaintiff company's investments from a concession agreement that was concluded on 25 November 2004 for the construction of hydropower system on river Vrbas. BiH's defence is that for the duration of the concession agreement, which was terminated on 29 September 2015, the plaintiffs did not undertake the necessary activities to construct the hydropower plant, but only shifted onto BiH their contracted responsibilities and their lack of capacities regarding funding, expertise and experience for realisation of this type of project. After the exchange of written briefs and virtual hearings, held between 7 and 11 December 2020, both parties exchanged final briefs on 26 February 2021, and the final decision is expected by the end of 2021 or the beginning of 2022. As at the date of this Offering Circular, the value of the claim is approximately EUR 143 million; and

- a dispute that has been submitted to ICSID by a plaintiff company against BiH, where the plaintiff company is requesting ownership over one-third of a coal power plant in the Republic, which is indirectly state-owned by the Republic, based on joint investments before the Bosnian War. If the claim is accepted, the value of the arbitration proceedings is expected to be approximately EUR 100 million.

ECONOMY OF THE REPUBLIC

Macroeconomic Climate

The economy of Republic had stabilised and recorded positive growth rates from 2015 to 2020, when the negative effects of the crisis caused by COVID-19 negatively impacted the economy. Trends during the years 2015 to 2019 indicate that a favourable business environment and stable business conditions have stimulated the growth of economic activity. All production areas in this period show a positive contribution to GDP growth, with the exception of agriculture, which has an oscillating character depending on weather conditions. In 2017, there was a decline in agricultural production due to a drought in 2017. The decline in the physical volume of production in the area of production and supply of electricity, gas, steam and air conditioning has affected the slightly lower GDP growth rate in 2019 compared to the previous years. The manufacturing industry is one of the most important areas of the economy of the Republic, in terms of its contribution to the total gross share of value added in exports and the number of employees.

Economic Reform Program of the Republic (2021 to 2023)

The reform plans are more specifically set out in the Economic Reform Program of the Republic for period 2021 to 2023, which is the three-year reform plan that is prepared by the RS Government on a rolling basis for submission to the European Commission in connection with BiH's candidacy for EU membership. The programme sets out the RS Government's economic growth strategies and contains a mid-term framework for its macroeconomic and fiscal policies as well as structural reform plans, which are designed to be implemented using a series of more detailed measures.

The ERP, which was published in December 2020, contains the Republic's medium-term plans, as well as short-term initiatives. The ERP was drafted based on European Commission's Guidance for the Economic Reform Programme 2021-2023 of the Western Balkans and Turkey, and framework for its drafting was: Work Program of the RS Government for mandate 2018 to 2022, Joint Socio-Economic Reforms for 2019 to 2022, Opinion on BiH's EU membership application, as well as European Commission ERP BiH assessment 2020 to 2022. During the development of analysis and reform defining consultations were performed and suggestions for social partners were requested (Union of Employers' Associations of Republic, Chamber of Commerce and industry of Republic and Association of Unions of the Republic).

Structural reforms included in the ERP are selected based on performed analysis of the situation per sector, identification of key obstacles to competitiveness and inclusive growth, as well as new obstacles caused by COVID-19. The main long-term goals of the policy of the RS Government are focused on fulfilling requirements for |EU membership, and they are as follows: 1) Increase the competitiveness and productivity of the economy in order to increase salaries; 2) Sustainable health system; 3) Effective overall public sector; 4) Education system and labor market aligned with the economy needs; 5) Improvement of the demographic position of the RS; 6) Research, development, innovation and digital economy; and 7) European integrations, regional and international cooperation. To achieve these long-term goals, the ERP contemplates various initiatives and reforms and identifies eight structural areas as follows:

- Reform of energy and transport market: This includes reforms of the electrical energy market and restructuring of Railways of Republic of Srpska a. d. Doboj.
- Agriculture, industry and services: This includes measures which would enhance competitiveness of agriculture, forestry and water management, provide support to manufacturing and mitigate COVID-19 impact on tourism.
- Business, environment and curbing informal economy: This includes reforms relating to health care reform, Republic's inspectorate, reduction in current spending in public administration, measure to strengthen support to post-pandemic recovery of entrepreneurship, curb shadow practices of sales reporting using the new system of electronic sales registers, develop a legal and planning framework pertaining to free movement of goods, improve free service delivery and ensure safer business environment.
- Research, development, innovation and digital transformation: This includes reforms setting up a more efficient management system for science, research and innovation potential in the Republic, E-

Government of the RS – a road to digital society and optimisation of administrative procedures at the Republic's level.

- Economic integration reforms: This includes reforms relating to regulation of real estate brokerage.
- Knowledge and skills: This includes reforms that would improve the link between education and the labor market and strengthen access to and quality of education.
- Employment and labor market: This includes reforms that would increase labour market efficiency and ensure the institutional strengthening of the public employment service by improving user services.
- Social welfare and inclusion: This includes reforms that would improve the social welfare system.

During the 2021 to 2023 period, initiatives and reform processes initiated before the COVID-19 pandemic will be continued, considering that those are complex and comprehensive long-term reform processes, whose implementation will contribute to the realisation of the main goals of the RS Government's policies.

Impact of Drought and Floods on the Economy

In the second quarter of 2014, the Republic was hit by major floods, which negatively affected the economy. Remediation of the damage caused by the flood caused an increase in private and government spending, as well as an increase in investment, imports and exports. The floods occurred due to heavy rainfall, followed by flooding of Bosna river all the way to Sava river. Over 26 municipalities of the Republic, and 46,621 residential and other facilities were flooded, schools damaged or destroyed in 5 municipalities, 28,941 persons evacuated, causing total damage of BAM 1,893.8 million to the Republic. Significant growth in imports offset the effect of increased consumption, investment and exports, so that GDP in 2014 was 0.3 per cent. Increased spending by the Republic to repair flood damage has led to a consolidated deficit of 3.2 per cent. of the GDP in 2014.

After the abovementioned period of instability in economic growth caused by the financial crisis and floods, and the accompanying fiscal balance, the RS Government decided to implement fiscal consolidation. This was done in order to stabilize public finances and reduce illiquidity of the economy by strengthening tax discipline, restrictive public spending policy at all levels and creating additional savings on unproductive budget spending, stabilizing the share of debt in GDP and introducing a treasury system of operations in the health sector. Fiscal consolidation has ensured, among other things, the application of the principles of fiscal responsibility, the introduction of greater transparency and accountability in spending public funds, with the aim of further fiscal strengthening of the overall budget system of the Republic.

Trends Prior to COVID-19

The economy of the Republic had stabilised and recorded positive growth rates from 2015 to 2020, when the negative effects of the crisis caused by COVID-19 negatively impacted the economy.

The following table shows key indicators of economic development in the Republic for the years 2016 to 2019 and the nine months ended 30 September 2019 and 2020:

	Year ended 31 December				Nine months ended 30 September	
	2016	2017	2018	2019	2019[(3)]	2020[(3)]
Nominal GDP (EUR million) [(3)]	4,924.1	5,152.4	5,460.5	5,752.8	4,183.0	4,149.4
Real GDP growth (%)	3.5	3.1	3.9	2.5	2.5	(3.0)
On average period, price (CPI) (%)	(1.2)	0.5	1.2	0.5	0.6	(1.2)
External balance of goods and services (% of GDP)[(5)]	(13.8)	(10.6)	(10.7)	(7.7)	-[(7)]	-[(7)]
Net FDI (EUR million) [(1) (6)]	43.2	145.2	208.3	195.7	106.9	-
Net FDI (% of GDP)[(6)]	0.9	2.8	3.8	3.4	2.6	-
Real growth in average net wages after tax (%)	1.8	(1.1)	1.9	5.3	5.7	6.6
LFS Unemployment rate (%)[(2)]	24.8	21.0	17.2	11.7	-	13.1
LFS Employment rate (%)[(2)]	35.5	37.3	38.7	42.2	-	45.1
General government fiscal balance (% of GDP)	(0.5)	1.8	0.0	0.4	2.0	(4.1)
Foreign debt (EUR million) [(1) (4)]	1,619.8	1,516.2	1,719.5	1,746.3	1,758.0	1,817.9
Foreign debt (% of GDP)	32.9	29.4	31.5	30.4	-	-
Foreign debt/goods & services exports (%)[(5)]	71.5	56.7	57.6	57.1	-	-

Source: Institute of Statistics of the Republic; Ministry of Finance of the Republic

Notes:
(1) This is a fixed rate and the BAM data is recalculated by the Ministry of Finance of the Republic based on the BAM/EUR exchange rate, for the relevant period.
(2) According to the International Labor Organization Methodology (ILO). Data for 2020 is presented for three quarterly. In 2019, there is no data on a quarterly basis, annual data only. LFS stands for Labour Force Survey.
(3) The GDP data for 2019 and 2020 is presented based on quarterly estimates of the Office of Statistics. The GDP data for 2020 is presented three quarterly. Debt balance data ended on September 30 is not adequately observed in relation to GDP data for three quarters.
(4) Debt data for 2020 is presented for three quarters (ended 30 September 2020).
(5) Announcements for the GDP expenditure approach are published only on an annual basis, in November of the current year for the previous year.
(6) FDI data published by the Central Bank of BiH. Data for 2020 is not yet available.
(7) The Republic's data for the nine months ended 30 September 2020 is not available as the Republic's Institute of Statistics does not make quarterly reports on expenditure approach.

According to the Institute of Statistics, the Republic's real GDP registered a growth of 1.4 per cent. year-on-year in the first quarter of 2020. This modest growth was followed by a sharp decline of 6.8 per cent. year-on-year, as a result of the significant disruption caused by the impact of COVID-19 and the "state of emergency" and other preventative measures which were implemented in the months of March to May 2020. Following this decline, economic activity within the Republic experienced signs of recovery in the third quarter when it registered a decline of 3.4 per cent., which was primarily a result of the gradual reopening of non-essential economic activity and the introduction by the RS Government of relief measures such as loan moratoria and increased unemployment support. The Republic's real GDP contracted by 3.0 per cent. in the nine months ended 30 September 2020 as compared to a growth of 2.5 per cent. for the corresponding period of 2019, and a growth of 2.5 per cent., 3.9 per cent. and 3.1 per cent. for the years ended 31 December 2019, 2018 and 2017, respectively. See "*Public Finance – COVID-19 measures adopted by the Republic*" for further information.

Gross Domestic Product

The GDP for the Republic is based on the methodology the SNA and the ESA. According to the SNA and ESA methodologies, GDP is the result of production of goods and services of residents on the territory of the Republic. Macroeconomic aggregates for the period 2010 to 2019 are presented by section of the Classification of Economic Activities of State 2010, which in its content and structure is completely harmonised with the Statistical Classification of Economic Activities in the European Community. The Institute of Statistics of the Republic published final annual estimates of the GDP for 2018 and 2019. For the year 2020, GDP has been provided based on three quarterly estimates of the Institute of Statistics using the ESA 2010 methodology, which may be subject to revisions when the annual estimates are published in July 2021.

The Republic's external trade statistics covers all goods that are imported and exported and are categorised in homogenous type of products, country of origin, destination, mode of payment and time of border crossing.

The following table shows the Republic's real and nominal GDP, as well as BAM/EUR exchange rate, for the years 2016 to 2019, and the nine month periods ended 30 September 2019 and 2020:

	Year ended 31 December				**Nine months ended 30 September**	
	2016	**2017**	**2018**	**2019**	**2019**	**2020**
Gross domestic product (*BAM millions*)	9,630.6	10,077.0	10,679.6	11,251.3	8,181.3	8,115.4
Gross domestic product per capita, BAM	8,320	8,740	9,304	9,848	-	-
Population – mid-year estimate(1)	1,157,516	1,153,017	1,147,902	1,142,495	-	-
Real GDP growth (%)........................	**3.5**	**3.1**	**3.9**	**2.5**	**2.5**	**(3.0)**
Gross domestic product (*EUR millions*)	4,924.1	5,152.4	5,460.5	5,752.8	4,183.0	4,149.4
Gross domestic product per capita, EUR	4,254	4,469	5,613	5,035	-	-
Average annual exchange rate BAM/EUR..	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558

Source: Institute of Statistics of the Republic, Ministry of Finance of the Republic

(1) Population estimate based on the results of the Census of Population 2013.

The following table shows the contribution to real GDP growth (expenditure approach) in percentage points for the years 2016 to 2019:

	Year ended 31 December			
	2016	**2017**	**2018**	**2019**
Private final consumption expenditure..	1.8	1.8	1.7	1.8
Government final consumption expenditure	0.5	(0.2)	0.4	0.3
Gross fixed capital formation in fixed assets...	0.9	(0.2)	2.5	(0.4)
Change in inventories..	0.6	(2.9)	0.1	(1.5)
Export of goods and services	8.6	7.6	4.0	0.8
Import of goods and services	(8.9)	(3.0)	(4.8)	1.5
External balance of goods and services...	(0.3)	4.6	(0.8)	2.3
Gross domestic product	**3.5**	**3.1**	**3.9**	**2.5**

Source: Institute of Statistics of the Republic

(1) Data for 2020 is not available as GDP expenditure is only published on an annual basis, which is expected to occur in November 2021. The table above represents contribution to GDP growth from the expenditure approach, and the text following the table represents analysis from both the production and expenditure approach.

GDP, shown in current prices, during the years 2016 to 2019 showed a trend of continuous growth with BAM 9.6 billion in 2016 in comparison to more than BAM 11.3 billion in 2019. GDP per capita is an indicator showing level of citizens' well-being in an economy, and in 2016 GDP per capita was BAM 8,320 while in 2019 it reached BAM 9,848, which is an increase by 18.4 per cent. compared to 2016.

In 2016, the GDP in real terms increased by 3.5 per cent. as a result of positive contribution from the industry sector, mainly production and supply of electricity, gas, steam and air conditioning, which contributed 19.5 percentage points to GDP. As indicated below, the construction and manufacturing sectors also contributed with 6.8 percentage points and 3.8 percentage points, respectively, and their collective participation in GDP being 20.5 per cent. The agriculture, forestry and fishing sector contributed 5.8 percentage points, with total participation of 9.3 per cent. Concerning service activities, biggest contribution to growth was in the area of professional, scientific and technical activities with 11.7 percentage points, accommodation and food services activities with 4.5 percentage points and other servicing activities with 5.9 percentage points. Concerning expenditures, the biggest contribution to GDP growth was from domestic consumption with 2.4 per cent. (in both private and state), while significant growth of export (18.8 per cent.) was compensated by equally significant growth of imports (14.9 per cent.).

In 2017, the GDP in real terms increased by 3.1 per cent. as a result of positive contribution from the manufacturing sector was 7.9 percentage points, construction sector with 7.9 percentage points. In the services sector, the biggest contribution was from accommodation services with 12.4 percentage points, wholesale and trade with 8.4 percentage points and financial activities with 7.2 percentage points. In contrast, the weather conditions resulted in decline in the agriculture, forestry and fishing sectors with negative 5.0 percentage points. The industry sectors, particularly, electricity, gas, steam and air-conditioning also experienced decline with negative 5 percentage points. Concerning expenditures, the biggest contribution to GDP growth came from exports that increased by 14.7 per cent. in real terms. Significant contribution to GDP growth was from private consumption that increased by 1.7 per cent.

In 2018, the GDP in real terms increased by 3.9 per cent. as a result of positive contribution from the electricity, gas, steam and air conditioning sector was 19.8 percentage points, construction sector with 4.2 percentage points and agriculture, forestry and fishing with 5.4 percentage points, collectively contributing towards one-fifth of the total GDP in 2018. In the services sector, the biggest contribution to GDP growth was from administrative and support services with 20.8 percentage points, accommodation and food services with 5.1 percentage points and financial services with 4.9 percentage points. In contract, there was a decline in the manufacturing sector with negative 1.1 percentage points. Concerning expenditures, the biggest contribution to GDP growth came from gross investments in fixed asset with 14.2 per cent., while significant growth of export of 7.4 per cent. was offset by growth in imports by 7.4 per cent.

In 2019, the GDP in real terms increased by 2.5 per cent. as a result of positive contribution from mainly the construction sector with 6.8 percentage points, but the agriculture, forestry and fishing sector grew by only 0.4 percentage points. In the services sector, the biggest contribution to GDP growth was from professional, scientific and technical activities with 12.1 percentage points, administrative and support services with 9.3 percentage points, arts, entertainment and recreation with 11.5 percentage points, financial services with 6.2 percentage points and the wholesale and retail trade with 5.3 percentage points, which has a significant share in GDP in the amount of 11.8 per cent. In contrast, there was a decline in the electricity, gas, steam and air conditioning sector with negative 10.7 percentage points. Concerning expenditures, the biggest contribution to growth came from private consumption growth to the amount of 2.8 per cent., 1.5 per cent increase in exports and 2.4 per cent. decline in imports.

In the nine months ended 30 September 2020, the Republic had positive GDP growth in each quarter. The slowdown in economic growth is evident during 2019 as a consequence of the weakening economic activities of major trading partners. The Republic of Serbia recorded an average real decline of 0.8 per cent. in the first three quarters of 2020, Italy achieved an average real decline of 9.6 per cent. in the first three quarters of 2020 and Germany achieved an average real decline of 5.8 per cent. in the first three quarters of 2020. The beginning of 2020 was characterised by the global outbreak of COVID-19, which was reflected in the low rate of GDP growth of 1.4 per cent. in the first quarter. Complete lockdown of economy and measures implemented in order to protect the population from the pandemic during April of 2020 led to severe decline of real GDP of 6.8 per cent. in the Republic in its second quarter. Mitigation of measures and the RS Government assistance to business entities in May of 2020 cushioned bigger decline of the GDP. In third quarter of 2020, real GDP declined by 3.4 per cent. in comparison to the same quarter of 2019. By observing average of three quarters of 2020, real GDP declined in the Republic by 3.0 per cent.

Gross Value Added

The Republic measures the value of goods and services produced in a sector of the economy using the measure of GVA. As an aggregate measure of production, the sum of GVA of all economic sectors or institutional units plus taxes on products and services and less subsidies is equal to GDP. GVA is used to measure the growth in the output of each sector, as the information relating to taxes and subsidies on products and services is not available for individual sectors.

The following table shows GVA in current prices of the sectors in the economy of the Republic for the years 2016 to 2019, and the nine month ended 30 September 2019 and 2020:

	Year ended 31 December				Nine months ended 30 September	
	2016	**2017**	**2018**	**2019**	**2019**	**2020(1)(2)**
			(*BAM millions*)			
Agriculture, forestry and fishing	897,523	843,726	941,754	966,370	716,566	749,200
Industry	1,777,937	1,944,116	2,172,820	2,217,403	1,621,927	1,527,805
Mining and quarrying	192,020	197,096	195,565	179,065	-	-
Manufacturing	1,032,544	1,135,585	1,248,961	1,328,546	958,836	860,606
Electricity, gas, steam and air-conditioning supply	453,919	494,607	611,152	579,337	-	-
Water supply, sewerage, waste management and remediation activities	99,454	116,828	117,142	130,455	-	-
Construction	496,909	559,683	590,936	643,664	425,369	443,739
Trade, transport and tourism	1,515,257	1,665,035	1,758,163	1,876,694	1,395,525	1,303,631
Wholesale and retail trade, repair of motor vehicles and motorcycles	1,075,600	1,174,008	1,233,792	1,324,630	-	-
Transportation and storage	298,908	325,280	346,047	365,581	-	-
Accommodation and food services activities	140,749	165,747	178,324	186,483	-	-
Information and communication	457,948	461,353	474,733	494,448	371,257	382,412
Financial and insurance activities.	289,088	332,148	358,279	378,120	282,222	297,053
Real estate activities	409,419	429,596	426,753	452,016	336,608	337,988
Professional, scientific and technical activities; Administrative and support service activities	298,263	308,557	326,858	380,914	279,32	269,544
Professional, scientific and technical activities	254,383	263,322	270,341	314,108	-	-
Administrative and support service activities	43,880	45,235	56,517	66,806	-	-
Public administration and defense, compulsory social security; Education; Human health and social work activities	1,736,049	1,710,910	1,750,966	1,829,493	1,362,734	1,461,623
Public administration and defense; compulsory social security	890,852	877,566	898,712	916,431	-	-
Education	390,881	374,981	374,713	395,891	-	-
Human health and social work activities	454,316	458,363	477,541	517,171	-	-
Arts, entertainment and recreation; Other service activities	219,309	254,089	238,824	275,915	199,825	174,000
Arts, entertainment and recreation	129,997	162,126	141,762	169,899	-	-
Other service activities	89,312	91,963	97,062	106,016	-	-
FISIM (minus)	197,559	206,018	221,475	224,843	170,309	176,002
Gross value added	**7,900,143**	**8,303,194**	**8,818,611**	**9,290,195**	**6,821,047**	**6,770,993**
Taxes on products minus subsidies on products	1,730,426	1,773,823	1,861,001	1,961,129	1,463,464	1,344,445
Gross domestic product	**9,630,569**	**10,077,017**	**10,679,612**	**11,251,324**	**8,284,510**	**8,115,437**

Source: Institute of Statistics of the Republic

Notes:

(1) The GDP data for 2020 is presented based on quarterly estimates of Institute of Statistics of the Republic. The GDP data for 2020 is presented for three quarters.

(2) The GVA information for 2020 is not yet available in respect of certain individual sectors.

The following table shows nominal GVA growth rates of the sectors in the economy of the Republic for the years 2016 to 2019, and the nine month periods ended 30 September 2019 and 2020:

	Year ended 31 December				Nine months ended 30 September	
	2016	**2017**	**2018**	**2019**	**2019**	**2020(1)(2)**
			(%)			
Agriculture, forestry and fishing	4.7	(6.0)	11.6	2.6	3.3	4.6
Industry	11.2	9.3	11.8	2.1	1.3	(5.8)
Mining and quarrying	(11.0)	2.6	(0.8)	(8.4)		
Manufacturing	15.7	10.0	10.0	6.4	4.8	(10.2)
Electricity, gas, steam and air-conditioning supply	15.6	9.0	23.6	(5.2)	-	-
Water supply, sewerage, waste management and remediation activities	1.8	17.5	0.3	11.4	-	-
Construction	7.9	12.6	5.6	8.9	8.5	4.3
Trade, transport and tourism	3.2	9.9	5.6	6.7	7.1	(6.6)
Wholesale and retail trade, repair of motor vehicles and motorcycles	2.9	9.1	5.1	7.4	-	-
Transportation and storage	3.2	8.8	6.4	5.6	-	-
Accommodation and food services activities	5.9	17.8	7.6	4.6	-	-
Information and communication	(3.3)	0.7	2.9	4.2	3.6	3.0
Financial and insurance activities	1.4	14.9	7.9	5.5	5.7	5.3
Real estate activities	(0.2)	4.9	(0.7)	5.9	6.0	0.4
Professional, scientific and technical activities; Administrative and support service activities	13.4	3.5	5.9	16.5	16.6	(3.5)
Professional, scientific and technical activities	16.6	3.5	2.7	16.2	-	-
Administrative and support service activities	(2.3)	3.1	24.9	18.2	-	-
Public administration and defense, compulsory social security; Education; Human health and social work activities	0.6	(1.4)	2.3	4.5	4.0	7.3
Public administration and defense; compulsory social security	1.0	(1.5)	2.4	2.0	-	-
Education	0.2	(4.1)	(0.1)	5.7	-	-
Human health and social work activities	0.2	0.9	4.2	8.3	-	-
Arts, entertainment and recreation; Other service activities	3.9	15.9	(6.0)	15.5	13.6	(12.9)
Arts, entertainment and recreation	0.3	24.7	(12.6)	19.8	-	-
Other service activities	9.6	3.0	5.5	9.2	-	-
FISIM (minus)	6.8	4.3	7.5	1.5	2.1	3.3
Gross value added	**4.4**	**5.1**	**6.2**	**5.3**	**5.1**	**(0.7)**
Taxes on products minus subsidies on products	5.7	2.5	4.9	5.4	6.1	(8.1)
Gross domestic product	**4.6**	**4.6**	**6.0**	**5.4**	**5.2**	**(2.0)**

Source: Institute of Statistics of the Republic

Notes:

(1) The GDP data for 2020 is presented based on quarterly estimates of the Institute of Statistics of the Republic. The GDP data for 2020 is presented for three quarters.

(2) The GVA information for 2020 is not yet available in respect of certain individual sectors.

The following table shows real GVA growth rates measured in current prices of the sectors in the economy of the Republic for the years 2016 to 2019, and the nine month periods ended 30 September 2019 and 2020:

	Year ended 31 December				Nine months ended 30 September	
	2016	2017	2018	2019	2019	2020(1)(2)
			(%)			
Agriculture, forestry and fishing	5.8	(5.0)	5.4	0.4	0.4	3.1
Industry	6.9	3.3	4.7	(4.1)	(4.2)	(6.7)
Mining and quarrying	(0.5)	(2.1)	2.1	(0.6)		
Manufacturing	3.8	7.9	(1.1)	(2.0)	(2.0)	(11.1)
Electricity, gas, steam and air-conditioning supply	19.5	(5.0)	19.8	(10.7)	-	-
Water supply, sewerage, waste management and remediation activities	0.8	3.5	2.1	2.3	-	-
Construction	6.8	7.9	4.2	6.8	7.1	1.8
Trade, transport and tourism	2.0	8.4	4.8	5.3	5.4	(5.0)
Wholesale and retail trade, repair of motor vehicles and motorcycles	1.7	8.4	4.8	5.3	-	-
Transportation and storage	2.1	6.6	4.7	5.3	-	-
Accommodation and food services activities	4.5	12.4	5.1	5.0	-	-
Information and communication	(2.6)	0.1	2.4	4.3	3.5	2.3
Financial and insurance activities	0.5	7.2	4.9	6.2	6.2	2.2
Real estate activities	0.1	3.0	(0.9)	2.4	2.4	0.1
Professional, scientific and technical activities; Administrative and support service activities	9.2	2.2	4.4	11.6	11.7	(3.4)
Professional, scientific and technical activities	11.7	2.1	1.6	12.1	-	-
Administrative and support service activities	(3.2)	2.5	20.8	9.3	-	-
Public administration and defence, compulsory social security; Education; Human health and social work activities	0.8	1.0	1.7	3.1	3.0	1.2
Public administration and defence; compulsory social security	0.3	1.3	1.6	2.1	-	-
Education	1.7	(1.0)	0.3)	2.0	-	-
Human health and social work activities	1.0	1.9	2.9	5.7	-	-
Arts, entertainment and recreation; Other service activities	4.6	7.0	6.4	8.0	7.7	(14.6)
Arts, entertainment and recreation	3.8	8.6	8.0	11.5	-	-
Other service activities	5.9	4.7	3.5	2.9	-	-
FISIM (minus)	1.8	5.1	2.6	5.1	5.2	1.5
Gross value added	**3.4**	**3.1**	**3.8**	**2.3**	**2.2**	**(2.3)**
Taxes on products minus subsidies on products	4.3	3.2	4.1	3.3	3.4	(6.5)
Gross domestic product	**3.5**	**3.1**	**3.9**	**2.5**	**2.4**	**(3.1)**

Source: Institute of Statistics of the Republic.

Notes:

(1) The GDP data for 2020 is presented based on quarterly estimates of the Institute of Statistics of the Republic. The GDP data for 2020 is presented for three quarters.

(2) The GVA information for 2020 is not yet available in respect of certain individual sectors.

Agriculture, forestry and fishing

Of the total area of the Republic, agricultural land occupies 1,004,000 hectares or 41 per cent. arable land amounts to 812,000 hectares, of which 575,000 hectares are under arable land and gardens, 51,000 hectares in orchards, 562 hectares in vineyards and 185,000 hectares in meadows. Pastures occupy 191,000 hectares, and fishponds, ponds, and reeds occupancy 616 hectares.

In 2016, the GVA of agricultural, forestry and fishing of the total GVA of the Republic was 11.4 per cent., amounting to BAM 897,523 million. The share of agricultural GVA was 9.5 per cent., which represented an increase by 0.1 percentage points compared to the share realised in 2015. The total value of agricultural production in 2016 amounted to approximately BAM 1.9 billion, which represented an increase by 5.8 per cent. in comparison to 2015. During the same period, the value of total intermediate consumption amounted to BAM 1.1 billion, which represented an increase by 6.4 per cent. in comparison with the previous year. According to statistical data, in 2016, farmers in the Republic produced significantly larger amounts of cereals and potatoes than in the previous year, as a result of larger sown areas and good yields per hectare. According to the data obtained through the EU Labour Force Survey in 2016, 89,000 persons were employed in agriculture, which represented a decrease by 2.2 per cent. compared to the previous year. The number of persons employed in agriculture accounts for 29.0 per cent. of the total number of employed persons, or 10.3 per cent. of the total working-age population. In 2016, the share of forestry GVA was 1.9 per cent, while the share of fishing was not significant.

In 2017, the GVA of agricultural, forestry and fishing of the total GVA of the Republic was 10.2 per cent., amounting to BAM 843,726 million, which represented a decrease of 1.2 percentage points as compared to 2016. The share of agricultural GVA was 8.4 per cent., which represented a decrease by 1.1 percentage points compared to the share realised in 2016. The total value of agricultural production in 2017 amounted to approximately BAM 1.8 billion, which represented a decrease by 6.4 per cent. in comparison with the previous year. During the same period, the value of total intermediate consumption amounted to approximately BAM 1.1 billion, which represented a decrease by 6.1 per cent. in comparison to 2016. Agricultural production in the Republic in 2017 took place in difficult circumstances, primarily caused by extreme drought, frost at the beginning of vegetation, the risks of new infectious diseases in animal production, but also the risks associated with the open market, marginal porosity and the lack of appropriate measures to protect domestic production. According to the data obtained through the EU Labour Force Survey in 2017, 94,000 persons were employed in agriculture, which represented an increase by 5.6 per cent. in comparison to the previous year. The number of persons employed in agriculture accounts for 30.0 per cent. of the total number of employed persons, or 10.2 per cent. of the total working-age population. In 2017, the share of forestry GVA was 1.8 per cent, while the share of fishing was not significant.

In 2018, the GVA of agricultural, forestry and fishing of the total GVA of the Republic was 10.7 per cent., amounting to BAM 941,754 million, which represented an increase of 0.5 percentage points as compared to 2017. The share of agricultural GVA of the Republic was 8.9 per cent., which represented an increase by 0.5 percentage points compared to the share realised in the previous year. The total value of agricultural production in 2018 amounted to approximately BAM 2.0 billion, which represented an increase by 12 per cent. compared to the previous year. During the same period, the value of total intermediate consumption amounted to approximately BAM 1.1 billion, which represented an increase by 11.7 per cent. in comparison with the previous year. According to the data obtained through the EU Labour Force Survey in 2018, there were 88,000 persons employed in agriculture, which represented a decrease by 6.4 per cent. compared to the previous year. The number of persons employed in agriculture accounts for 26.2 per cent. of the total number of employed persons, or 10.2 per cent. of the total working-age population. In 2018, the share of forestry GVA was 1.8 per cent, while the share of fishing was not significant.

In 2019, the GVA of agricultural, forestry and fishing of the total GVA of the Republic was 10.4 per cent., amounting to BAM 966,370 million, which represented a decrease of 0.3 percentage points as compared to 2018. The share of agricultural GVA of the Republic was 8.6 per cent., which represented a decrease by 0.3 percentage points compared to the share realised in the previous year. The value of total agricultural production in 2019 amounted to BAM 2.0 billion, which represented an increase by 1.9 per cent. compared to the previous year. During the same period, the total value of intermediate consumption amounted to approximately BAM 1.2 billion, which also represented an increase by 1.6 per cent. Intermediate consumption in agriculture in 2019 accounted for 61.2 per cent. of the value of agricultural production. According to the data obtained through the EU Labour Force Survey in 2019, there were 104,000 persons employed in agriculture, which represented an increase by 8.2 per cent. compared to the previous year. The number of persons employed in agriculture accounts for 29.8 per cent. of the total number of employed persons, or 12.6 per cent. of the total working-age population. In 2019, the share of forestry GVA was 1.8 per cent, while the share of fishing was not significant.

In the nine-months ended 30 September 2020, the GVA of agricultural, forestry and fishing of the total GVA of the Republic was 11.1 per cent., which represented an increase by 0.6 percentage points compared to the share realised in the same period of 2019. The value of total agricultural, forestry and fishing production in the nine months ended 30 September 2020 amounted to BAM 749.2 million, which represented an increase by 4.6 per cent. compared to the corresponding period in 2019.

As one of the main sources of economic growth, agriculture continues to be highly ranked on the economic reform agenda of the Republic. According to the Republic's ERP (2021-2023), improving the competitiveness of agriculture, forestry and water management is one of the strategic goals. The priorities for the next three years are to: (i) increase the volume of domestic agricultural produce; (ii) incentivise the sector with the aim of efficient channelling of funds; (iii) raise investment levels within the sector by providing additional sources of financing; and (iv) improve the foreign trade balance by introducing measures to protect domestic production. In addition, the Republic intends to achieve harmonisation of the legislative and legal framework and strategic programs in terms of their approximation to the EU frameworks and the common agricultural policy is one of the ways to improve the competitiveness of the sector. The measure is implemented on an ongoing basis and represents a continuous activity towards reaching the EU average measured by indicators such as productivity in the sector, level of investment and employment in the sector.

Important steps the Republic intends to follow to achieve structural reform is designing a new information technology systems in forestry, the water information system, improvement of information systems for efficient use of resources, improving the capacity of institutions for quality control of imported and exported goods, export capacities of entities in the territory of the Republic, introducing policy measures harmonised with the EU Instrument for Pre-Accession Assistance for Rural Development and setting up water management, land lot and animal identification systems.

To support such initiatives, the RS Government has allocated BAM 75 million under the 2021 Budget, which are expected to strengthen production and accelerate the development of agricultural activities.

Industry

The industrial output of the Republic has increased overall in recent years through the growth of the manufacturing industry all of which exhibited a stable trend in 2019 and saw a decline in 2020 due to low economic activity for the duration of COVID-19. Industrial production increased from 2017 to 2018, while in 2019 and 2020 it recorded a decline of 11.4 per cent. and 6.7 per cent., respectively. The manufacturing industry saw positive growth in 2013 to 2017 and has been declining since 2018. In 2019, industrial companies realized exports of BAM 2.2 billion, of which 88.4 per cent. were realised in the manufacturing industry.

The principal components of the industrial sector are manufacturing, mining and electricity supply. Based on recent macroeconomic indicators, the RS Government remains committed to pursue growth and development of the industry sector.

See "*-The Energy Sector of the Republic*" for further information on the energy sector. For the mining sector, the RS Government continues to pursue foreign investors to invest primarily in the field of geological exploration of mineral resources, and if successful, its exploitation for mineral resources. Such efforts have resulted in positive results of exploration of metallic mineral resources in the eastern part of the Republic, in the Foča region, where activities are underway to open a new mine. Another concession agreement for the exploitation of lead and zinc and accompanying metals copper and silver at the "Čelebići" deposit in the municipality of Foča was signed by the Republic and the company "Western mining" d.o.o. Banja Luka, on 18 January 2019. These projects are expected to support the RS Government's long-term goal, which envisions a significant increase in the mining industry's share of total GDP. Achieving the above goal depends on a number of significant factors beyond the RS Government's control, so there can be no guarantee that steps will yield positive results.

The following table shows the growth rate of industrial production (physical volume), mining, manufacturing and electricity, gas and steam for the years 2016 to 2019, and the nine month periods ended 30 September 2019 and 2020:

	Year ended 31 December				**Nine months ended 30 September**	
	2016	**2017**	**2018**	**2019**	**2019**	**2020**
			(*BAM Millions*)			
Industrial production, physical volume	8.1	1.2	3.6	(11.4)	(11.6)	(9.2)
Mining and quarrying	0.7	(2.6)	4.1	(4.4)	(1.8)	(2.6)
Manufacturing	3.5	6.2	(2.8)	(12.4)	(11.0)	(13.5)
Electricity and gas, steam and air-conditioning supply	25.3	(7.5)	19.8	(12.8)	(16.6)	(4.9)

Source: Institute of Statistics of the Republic

In 2016, the industry sector represented 22.5 per cent. of total GVA when measured in current prices, correlating to an increase in GVA of 11.2 per cent. (the total GVA in this sector amounted to approximately BAM 1.8 billion) in current terms, or 6.9 per cent. in real terms as compared to 2015.

In 2017, the industry sector represented 23.4 per cent. of total GVA measured in current prices. The growth of this sector's GVA measured in current terms was 9.3 per cent. (the total GVA in this sector amounted to approximately BAM 1.9 billion), or 3.3 per cent. (the total GVA in this sector amounted to approximately BAM 1.8 billion) in real terms compared to 2016. This increase was largely influenced by positive trends in manufacturing activities, being the largest contributor (accounting for 13.7 per cent. in current terms) from the industry sector to total GVA. Compared to 2016, the growth in the GVA of the manufacturing sub-sector measured in current terms was 10 per cent. (the total GVA in this sector amounted to approximately BAM 1.1 billion), or 7.9 per cent in real terms.

In 2018, the industry sector represented 24.6 per cent. of total GVA measured in current prices. Despite seasonal fluctuations and slowdowns in mining and electricity production, GVA of the industry sector in the total GVA recorded an increase of 11.8 per cent. (BAM 2.2 billion) in current terms, or 4.7 per cent. (the total GVA in this sector amounted to approximately BAM 2.0 billion) in real terms. The share of the manufacturing sub-sector in the total GVA accounted for 14.2 per cent. in current terms in 2018. Similarly, the GVA of this sub-sector recorded a growth of 10 per cent. (the total GVA in this sector amounted to approximately BAM 1.2 billion) when measured in current prices, or decline of 1.1 per cent. in real terms compared to 2017.

In 2019, the industry sector represented 23.9 per cent. of total GVA measured in current prices. This sector's GVA grew by 2.1 per cent. in current terms, corresponding to an increase from approximately BAM 2.1 billion in 2018 to approximately BAM 2.2 billion in 2019, or a decline of 4.1 per cent. in real terms compared to 2018. Except for mining and electricity, all industry sub-sectors recorded growth in 2019. The manufacturing sub-sector, with increase of 6.4 per cent. contributed to the overall growth, accounting for 14.3 per cent. of total GVA in current prices.

In the nine months ended 30 September 2020, the industry sector represented 22.6 per cent. of total GVA measured in current prices. This sector's GVA in nominal terms recorded a decline of 5.8 per cent (the total GVA in this sector amounted to approximately BAM 1.5 billion), while it also recorded a decline of 6.7 per cent. (the total GVA in this sector amounted to approximately BAM 1.5 billion) in real terms, compared to the corresponding period in 2019.

Based on the short-term indicators of volume, the industry sector recorded a decline production of 9.2 per cent. in the nine months preceding 30 September 2020, compared to the corresponding period of 2019. This decline was driven by decline in mining and quarrying sector, in which production decreased by 2.6 per cent., as well as by a decline in the electricity, gas, steam and air conditioning supply, in which production decreased by 4.9 per cent., and a decline in the manufacturing sector, where production decreased by 13.5 per cent. In this period, the highest positive contribution was from the industry sector, particularly mining of coal and lignite (black coal), to the total amount of 15.3 per cent., followed by manufacture of rubber and plastic products with 19.6 per cent. Manufacture of other non-metallic mineral products (4.7 per cent.), other mining and quarrying (18.0 per cent.) and manufacture of computer, electronic and optical products (61.2 per cent.) also contributed positively, while the production of electricity, gas, steam and air conditioning supply had the largest negative impact on the decline in production in the industrial sector (by 4.9 per cent.). The overall, industrial production in the nine months ended 30 September 2020, compared to the same of in 2019, was characterised by a decline in industrial production. In the first quarter of 2020, a decline of 3.4 per cent. was recorded, followed by a larger decline in the second quarter by 8.2 per cent., which continued in the third quarter, amounting to 9.2 per cent.

Construction

During the period from 2016 to 2020, the Republic has introduced reforms to achieve greater transparency and reduce costs and bureaucratic barriers in the construction sector. In 2019, the Law on Spatial Planning and Construction of the Republic was introduced, under which the Integrated System for Electronic Licensing in Construction was established in the Republic. An ePermit process is being introduced for construction services in the Republic, which is based on software solutions of the World Bank Group, which were localized, adjusted and donated to the Republic through the Project for Improving the Business Environment and Attracting Investments at the Local Level ("**LIFE**") and technical assistance and support from the International Finance Corporation and funded by the Government of the UK through UKaid. For now, ePermit for the construction area covers only the cities of Banja Luka and Gradiška, where the implementation of this pilot project is being carried out. The Republic cannot guarantee successful implementation of the ePermit for construction services as local self-government units are responsible for carrying out the process, until it becomes a legal obligation.

The construction sector has experienced positive growth in 2016, 2017, 2018 and 2019, which witnessed an increase of 7.9 per cent, 12.6 per cent., 5.6 per cent. and 8.9 per cent., respectively, in current terms. Growth in this sector is dependent on international financial institutions in order to support national and regional infrastructure projects.

In 2016, the construction sector witnessed a notable growth as it accounted for 6.3 per cent. of total GVA measured in current prices. GVA of this sector increased by 7.9 per cent. in current terms, to BAM 497 million from BAM 460.5 million and by 6.8 per cent. in real terms compared to 2015.

In 2017, the construction sector represented 6.7 per cent. of total GVA measured in current prices. This sector's GVA grew by 12.6 per cent. (the total GVA in this sector amounted to BAM 559.7 million) in current terms, and by 7.9 per cent. (the total GVA in this sector amounted to BAM 535.9 million) in real terms compared to 2016.

In 2018, the construction sector represented 6.7 per cent. of total GVA measured in current prices. This sector's GVA accelerated by 5.6 per cent. (the total GVA in this sector amounted to BAM 590.9 million) in current terms, and by 4.2 per cent. (the total GVA in this sector amounted to BAM 582.3 million) in real terms compared to 2017.

In 2019, this sector's GVA increased by 8.9 per cent. (the total GVA in this sector amounted to BAM 643.7 million) in current terms, or 6.8 per cent (the total GVA in this sector amounted to BAM 630.8 million in real terms compared to 2018.

In the nine months ended 30 September 2020, the construction sector recorded positive growth, which contributed to growth rate in 2020. The sector's GVA grew by 4.1 per cent (the total GVA in this sector amounted to. BAM 443.7 million in current terms, or by 1.8 per cent. (the total GVA in this sector amounted to BAM 445.8 million) in real terms compared to the corresponding period in 2019. The construction sector is an important sector for the Republic's economic growth, with its share of total GVA decreasing to 4.3 per cent. in nine months ended 30 September 2020) from 7.9 per cent. in the corresponding period of 2019.

Wholesale and retail trade, repair of motor vehicles and motorcycles

The trade sector in the Republic declined slightly in 2020 by 0.9 per cent or BAM 77.3 million compared to 2019, when it amounted to BAM 8.2 million and has since then continued to remain a dominant growth driver. As at the date of this Offering Circular, the trade sector comprises of wholesale accounts, retail accounts and motor vehicle accounts, representing 7.8 per cent., 44.2 per cent. and 48.0 per cent., respectively, of total GVA of the sector measured in current prices.

In 2017, the RS Government reaffirmed its commitment to the development of the trade sector by adopting the Trade Development Strategy of the Republic until 2022. This strategy aims to:

- Create an efficient institutional and legislative framework for trade development in the Republic;
- Improve and stimulate the competitiveness of domestic companies and their products;
- Improve consumer protection;
- Define price policy as an important factor in trade development;
- Balance regional development of trade and representation of the trade network.

In 2016, the share of GVA of this sector is accounted for 13.6 per cent. of total GVA measured in current prices. The GVA of this sector grew by 2.9 per cent. in current terms (the total GVA in this sector amounted to approximately BAM 1 billion) or 1.7 per cent compared to 2015. Positive growth was in the motor vehicles accounts (16.2 per cent), and in the wholesale accounts (3.1 per cent.). In retail trade decline of 1.6 per cent. was recorded for 2016 in comparison to 2015.

In 2017, this sector continued to grow, accounting for 14.1 per cent. of total GVA measured in current prices. The GVA of this sector grew by 9.1 per cent. in current terms, or by 8.4 per cent. in real terms as compared to 2016. All three segments contributed to this growth, with real growth of 21.9 per cent. for motor vehicles and real growth of 5.2 per cent. and 9.2 per cent. for wholesale and retail trading, respectively.

In 2018, the share of GVA of this sector was 14.0 per cent. of total GVA measured in current prices. Compared to 2017, the GVA of this sector grew by 5.1 per cent (the total GVA in this sector amounted to BAM 1.2 billion) in current terms, and by 4.8 per cent. in real terms. This growth primarily resulted from an increase in wholesale (6.7 per cent.) and retail trade (4.7 per cent). Trade of motor vehicles declined by 5.9 per cent.

In 2019, this sector continued to show a gradual increase. The share of GVA of this sector is represented 14.3 per cent. of total GVA measured in current prices. Compared to 2018, the GVA of this sector grew by 7.4 per cent. The total GVA in this sector amounted to BAM 1.3 billion in current terms and by 5.3 per cent. in real terms. The wholesale trade recorded growth of 5.6 per cent. in current terms. The retail recorded a growth of 18.6 per cent, or 6.9 per cent. when expressed in real terms.

In the nine-months ended 30 September 2020, the GVA of wholesale and retail trade, repair of motor vehicles and motorcycles, transportation and storage and accommodation & food services declined, with decrease of 6.6 per cent. (the total GVA in this sector amounted to BAM 1.3 billion) and real decline of 5.0 per cent. (the total GVA in this sector amounted to BAM 1.3 billion) compared to the corresponding period in 2019. The share of these sectors in total GVA was 19.3 per cent., measured in current prices.

Information and communication

The information and communications ("**ICT**") sector consists of information technologies, construction, maintenance, use and lease of public communication networks and equipment as well as electronic communication services. The information and communications sector represented 5.8 per cent., 5.6 per cent., 5.4 per cent, 5.3 per cent., and 5.6 per cent of total GVA in, 2016, 2017, 2018, 2019 and 2020 respectively, when measured in current prices.

Given that the communication infrastructure has a multiplier effect, the RS Government continues to remain committed to the development and liberalisation of electronic communication services in an effort to achieve wider usage. According to data from the Institute of Statistics of the Republic, the number of households with computer and broadband internet access amounted 59.1 per cent in 2016, 63.0 per cent. in 2017, 68.5 per cent. in 2018, 71.6 per cent in 2019 and 71.8 per cent. in 2020 of the total number of households. The number of companies using computers and internet amounted to 98.7 per cent. in 2016, 98.4 per cent. in 2017, 98.7 per cent. in 2018, 99.0 per cent. in 2019 and 99.5 per cent. in 2020, of which 62.6 per cent. in 2016, 65.6 per cent. in 2017, 64.6 per cent in 2018, 64.0 per cent. in 2019 and 60.6 per cent. in 2020 continue to use websites for their business operations. These indicators reflect that access to computers and the internet in companies and households is widespread.

This sector is a strategic priority of the RS Government. The Scientific and Technological Development, Higher Education and Information Society was formed by the RS Government in 2018. The Republic has favourable business conditions for companies in this sector, which are recognised by some large international companies, such as the American company National Cash Register, which have started their activities in the Republic and are constantly expanding them.

The RS Government adopted the legislation regulating the information and communications sector, such as:

- Law on General Administrative Procedure of the Republic (*Official Gazette of the Republic, No. 13/02, 87/07, 50/10, 66/18*), which governs electronic communication between Republic's administrative bodies and its citizens.
- Law on Electronic Signature of the Republic (*Official Gazette of the Republic, No. 106/15, 83/19*), which regulates the use of electronic signatures in legal documents, as well as rights, obligations and responsibilities related to electronic certificates. In addition to the law, several bylaws regulating:
    - electronic certification by the Republic's administrative bodies;
    - technical-technological procedures for creating a qualified electronic signature and other trust services;
    - records of certification bodies;
    - special conditions that must be met by certification bodies;
    - procedure for issuing a permit for entry in the Register of Certification Bodies for the issuance of electronic qualification certificates; and
    - the issuance of time stamps.
- Law on Electronic Document of the Republic (*Official Gazette of the Republic, No. 106/15*) which regulates the right of natural and legal persons to use electronic documents in all business activities, as well as in proceedings before the Republic's administrative bodies to allow use of electronic equipment and programs for creation, transmission, storage and storing information in electronic form, as well as the use and circulation of electronic documents.
- Law on Electronic Business of the Republic (*Official Gazette of the Republic, No. 59/09, 33/16*), which regulates the use of data, documents and messages in electronic form. This law enables the automation of business processes by applying information and communication technologies, i.e. performing all activities undertaken by legal and natural persons for the exchange of goods and services, using computers and modern communication technologies. The law enables, among other things, the conclusion of contracts in electronic form.
- Law on Freedom of Access to Information (*Official Gazette of the Republic, No. 20/01*), which facilitates and promotes the publication of information under the control of a public authority.
- Law on Information Security (*Official Gazette of the Republic, No. 70/11*), which defines information security, i.e. protection and validity of data in electronic form. A special Department for Information Security has been established within the Ministry of Scientific and Technological Development, Higher Education and the Information Society. The department coordinates the prevention and protection against computer security incidents on the internet and other security risks of information systems. Also two bylaws are issued concerning this law:
    - Decree on information security measures; and
    - Rulebook on information security standards.
- Law on Archival Activity (*Official Gazette of the Republic, No. 119/08*), which defines the collection, recording, arranging, storage and protection of public archival and documentary material, both in paper and digital form. The Rulebook on General Conditions for Preservation of Documentary Material in Digital Form and Special Conditions for Preservation of Specific Documentary Material, adopted on

the basis of this law, determine the conditions under which documentary material is archived in electronic form. The Decree on Office Operations, as well as the Instruction on the Conduct of Office Operations of the Republic Bodies, recognize the exchange of electronic documents, electronic office operations and electronic protocol, to avoid legal obstacles for electronic office operations.

- The Law on Accounting and Auditing of the Republic (*Official Gazette of the Republic, No. 94/15, 78/20*), which recognizes electronic invoices and allows the exchange of electronic invoices. According to this law, every accounting document, including invoices, can also be in electronic form. The law enables creating and exchanging electronic invoices.

The notable ongoing projects within ICT sector in the Republic include:

- "E-baby" – to allow for electronic registration of a new-born child in the Republic. The aim is to establish a system of secure electronic data exchange between health institutions, the Ministry of Health and Social Welfare, the Ministry of Administration and Local Self-Government, the Ministry of Interior and the Health Insurance Fund with the aim of automating the process.

- "The system of unified billing SUB" – to enable efficient processing and unified billing of utility products and services (utility fee, water consumption, city cleanliness and sewerage, among others).

- "Online registration of business entities" – a one-stop shop system of electronic services for registration of business entities.

- "E-building permit" – electronic issuance of building permits within the Republic. As at the date of this Offering Circular, the project is implemented as a pilot in Banja Luka and Gradiška.

The GVA of this sector in 2017 grew by 0.7 per cent. in current terms, to BAM 461.4 million from BAM 458 million, or by 0.1 per cent. in real terms compared to 2016. In 2018, the GVA of this sector increased by 2.9 per cent. (the total GVA in this sector amounted to BAM 474.7 million) in current terms, or 2.4 per cent. (the total GVA in this sector amounted to BAM 472.3 million) in real terms compared to 2017.

In 2019, this sector's GVA grew by 4.2 per cent.(the total GVA in this sector amounted to BAM 494.4 million) in current terms, or 4.3 per cent. (the total GVA in this sector amounted to BAM 495.3 million) in real terms compared to 2018.

In the nine-months ended 30 September 2020, this sector's GVA continued to grow by 3.0 per cent. (the total GVA in this sector amounted to BAM 382.4 million) in current terms, or 2.3 per cent. (the total GVA in this sector amounted to BAM 379.4 million) in real terms compared to the corresponding 2019. The share of this sector in the total GVA measured in current prices was 5.6 per cent.

Transportation and Storage

The geographical location of the Republic (i.e. being positioned at intersections of important European transport routes and connecting Central Europe with the Mediterranean macro-region) supports the development of its transportation sector. The Republic aims to increase the scope, quality and efficiency of its transport services by developing and modernising its transportation infrastructure and increasing its transportation capacities to support the development of its transportation sector, which is one of the key sectors of the Republic. To implement the reforms, the Republic launched restructuring of Railways of Republic of Srpska a. d. Doboj ("**RS Railways**") in 2017, a joint stock company whose main activity is the provision of passenger and goods transport services. The project was originally set to be completed by end of 2021. The project aims to provide ownership, organisational and financial restructuring. Due to COVID-19, a request was submitted through the Ministry of Transport and Communication by the Railways of the Republic to the World Bank for approval regarding the extension of the deadline for procurement and application of IT for financial and asset management, which has not been obtained. Other obligations, such as reduction of the number of workers and conversion of debt into capital will be completed in 2021. The financial and organisational restructuring will be financed from a loan from the World Bank of EUR 51.3 million in 2018, of which EUR 42.7 million is borrowed by the RS Government and EUR 8.5 million by the Railways of the Republic. The loan was approved for a period of 32 years, with a grace period of 7 years.

The organisational restructuring will be implemented through a conversion of RS Railways' debt to equity provided by the RS Government to service the foreign loans of the company. The RS Government will acquire over 99 per cent. shares of RS Railways, following which it will buy the equity shares held by minority shareholders. Under the financial restructuring component, RS Railways are required to clear debt to the Republic's tax authority for taxes and social security contributions as at 31 July 2018, and all travel expenses, hot meal allowance and vacation allowance due for the period 2011-2016, which will constitute a basis for the ownership restructuring and financing of the company's digitalisation. The organisational restructuring will be implemented through a redundancy scheme and by separating infrastructure maintenance and operations into separate accounting units and formation of profit centres from individual organisational units of RS Railways.

As of 31 July 2020, the RS Railways had 2,184 employees. Labour costs account for the largest share in the total costs of the RS Railways. In addition to the headcount, the higher costs were caused by certain statutory requirements. Pursuant to the amended Law on the Railways, the headcount was reduced by 500 in 2018, 200 in 2019 and 214 in 2020 workers through the voluntary severance package and termination of employment. RS Railways plans to clear the stock of debt to employees and extra budgetary funds for the period 2011-2018, which as at 31 July 2018 was to the amount of BAM 42.7 million. As of 31 December 2020, obligations towards 86 workers are yet to be settled. While the RS Government intends to implement organisational restructuring project and the ownership restructuring is not part of the loan agreement / project for the organisational restructuring, a successful implementation of this phase is necessary for the success of the project. The ownership restructuring will be carried out under the Republic's law on insolvency.

Separately, the implementation of several projects concerning the Republic's inland waterways is in progress, for example the program of integrated development of the Sava and Drina river corridors. The RS Government participates with project documentation for the construction of the pier in Gradiška, for the arrangement of the waterway on the Sava river, Račinovci – Vršani (about 2 resistance per kilometre) as well as for the procurement of equipment for tourism development in Gradiška, Višegrad and Brod.

In 2016, the GVA of this sector grew by 3.2 per cent. (the total GVA in this sector amounted to BAM 298.9 million) in current terms, and by 2.1 per cent (the total GVA in this sector amounted to BAM 295.7 million) in real terms compared to 2015.

This sector continued to grow in 2017 and represented 3.9 per cent. of total GVA measured in current prices. The GVA of this sector increased by 8.8 per cent. in current terms, to BAM 325.3 million from BAM 298.9 million, or 6.6 per cent (the total GVA in this sector amounted to BAM 318.6 million) in real terms compared to 2016.

In 2018, the transportation and storage sector represented 3.9 per cent. of total GVA measured in current prices. The GVA of this sector accelerated by 6.4 per cent. (the total GVA in this sector amounted to BAM 346 million) in current terms, and by 4.7 per cent.(the total GVA in this sector amounted to BAM 340.6 million) in real terms compared to 2017.

In 2019, the transportation and storage sector represented 3.9 per cent. of total GVA measured in current prices. The GVA of this sector accelerated by 5.6 per cent. (the total GVA in this sector amounted to BAM 365.6 million) in current terms, and by 5.3 per cent. (the total GVA in this sector amounted to BAM 364.5 million) in real terms compared to 2018.

Accommodation and food services

As one of the important industries, tourism sector in the Republic has generally continued to grow year-on-year, with annual increases in the number of tourist arrivals and overnight stays. The number of tourist arrivals increased gradually from 323,908 in 2016, to 400,268 in 2019. In this period, domestic arrivals increased by 9.2 per cent., while foreign arrivals increased by 38.7 per cent. In 2020, the total number of tourist arrivals in the Republic amounted to 190,271 (a decrease of 52.5 per cent. compared to 2019), of which domestic tourists made up 123,966 (a decrease of 31.7 per cent. compared to 2019), accounting for 65.2 per cent. of total tourist arrivals. The number of arrivals of foreign tourists was 66,305 (a decrease of 69.7 per cent. compared to 2019), which represents a share of 34.8 per cent. in total tourist arrivals.

Between 2016 and 2019, the number of total overnight stays increased by 31.4 per cent., from 740,601 to 972,855. During the period 2016 to 2019, domestic overnight stays increased by 23.1 per cent., while foreign overnight stays increased by 40.0 per cent. During 2020, 531,447 tourist overnights were recorded (a decrease of 45.4 per cent. compared to 2019), of which domestic tourists realised 335,624 overnight stays (a decrease of 28.1 per cent. compared to 2019, and accounted for 63.2 per cent. of the total number of overnight stays), while foreign tourists realised 195,823 overnight stays (a decrease of 61.3 per cent. compared to 2019, and accounted for 36.8 per cent. of the total number of overnights stays).

During the first nine months of 2020, there was a significant decline in tourist activity due to closure of borders and mobility restrictions as a result of COVID-19. In this period, the Republic recorded 146,474 tourist arrivals (a decrease of 52.0 per cent. compared to the same period of 2019), of which domestic tourists realised 89,795 tourist arrivals (a decrease of 32.8 per cent. compared to the same period of 2019), while foreign tourists realised 56,679 tourist arrivals (a decrease of 66.9 per cent. compared to the same period of 2019).

During the first nine months of 2020, 422,337 overnight stays were recorded (a decrease of 43.0 per cent. compared to the same period of 2019), of which domestic tourists realised 248,528 overnight stays (a decrease of 29.4 per cent. compared to the same period of 2019), while foreign tourists realised 173,809 overnight stays (a decrease of 55.3 per cent. compared to the same period of 2019).

In 2016, the tourism sector represented 1.8 per cent. of total GVA measured in current prices, and the GVA of this sector increased in both nominal and real terms by 5.9 per cent. and 4.5 per cent., respectively. In 2017, this sector grew by 17.8 per cent in current prices, and by 12.4 per cent. in constant prices. The tourism sector's GVA continued to grow in 2018, with nominal and real increase of 7.6 per cent. and 5.1 per cent., respectively. In 2019, the tourism sector represented 2.0 per cent of total GVA in current terms and increased by 4.6 per cent. in nominal terms, and by 5.0 per cent. in real terms.

Financial and insurance activities

As at 30 September 2020, the total assets in the banking sector amounted to BAM 9.5 billion, whereas total assets held by insurance companies amounted to BAM 555 billion.

As at 30 September 2020, eight banks were operating in the Republic, of which five banks were majority owned by foreign entities and three banks were under domestic private ownership. As at 30 September 2020, the total assets and capital in the banking sector amounted to BAM 9.5 billion (EUR 4.9 billion) and BAM 1 billion (EUR 531.7 million) respectively.

The various reforms introduced by the RS Government since 2016, along with continuous improvement of the legal framework of the financial sector in line with international standards and EU regulations, has provided for stable and consistent growth in the financial sector. In particular, the new Law on Banks of the Republic and the Law on Amendments to the Law on the Banking Agency of the Republic adopted in late 2016, along with the decisions of the Banking Agency of the Republic (adopted in 2017 to 2020), as the supervisory and regulatory body of the banking system, which, among other things, regulates new standards of bank capital, assessment and management of credit and other risks and purchase and sale of bank placements on the basis of loans, have contributed to the reduction of the volume of NPLs in the banking sector.

The application of the Decision on Credit Risk Management and the Establishment of Expected Credit Losses (*Official Gazette of the Republic, Nos. 48/19 and 109/19*), together with the application of IFRS 9, the harmonisation of capital standards with Basel III and EU standards and other regulations adopted by the BARS, improved credit risk assessment and NPL reporting and has helped banks to improve their balance sheet positions. See "*Monetary System – The Banking Sector*".

In 2016, this sector's GVA grew by 1.4 per cent. in current terms, to BAM 289.1 million from BAM 285.2 million, and by 0.5 per cent. in real terms compared to 2015.

In 2017, the finance and insurance sector represented 4.0 per cent. of total GVA measured in current prices. This sector's GVA grew by 14.9 per cent. (the total GVA in this sector amounted to BAM 332.1 million in current terms, and by 7.2 per cent. (the total GVA in this sector amounted to BAM 309.9 million) in real terms compared to 2016.

In 2018, the finance and insurance sector represented 4.1 per cent. of total GVA when measured in current prices. This sector's GVA recorded a moderate growth of 7.9 per cent. (the total GVA in this sector amounted to BAM 358.3 million) in current terms, or 4.9 per cent. (the total GVA in this sector amounted to BAM 348.5 million) in real terms compared to 2017.

In 2019, the finance and insurance sector continued to represent 4.1 per cent. of total GVA when measured in current prices. Although, this sector's GVA grew by 5.5 per cent. (the total GVA in this sector amounted to BAM 378.1 million in current terms, it grew by 6.2 per cent. (the total GVA in this sector amounted to BAM 380.4 million) in real terms compared to 2018.

In the nine months ended 30 September 2020, the finance and insurance sector's GVA grew by 5.3 per cent. (the total GVA in this sector amounted to BAM 297.1 million) in current terms, or 2.2 per cent.(the total GVA in this sector amounted to BAM 288.7 million) in real terms compared to the corresponding period in 2019. This sector represented 4.4 per cent of total GVA when measured in current prices.

Other sectors

The sectors comprising the "other" category are real estate activities, professional, scientific and technical activities, administrative and support service activities, human health and social work activities, education and public administration and defence, arts, entertainment and recreation and other service activities.

In 2016, the share of the other sectors in the total GVA slightly declined to 33.7 per cent. when measured in current prices. The GVA of the other sectors in current terms increased by 2 per cent (the total GVA in this sector amounted to approximately BAM 2,663 million), or 1.8 per cent. in real terms compared to 2015.

In 2017, the other sectors represented 32.6 per cent. of total GVA measured in current prices. The GVA of these sectors grew by 1.5 per cent. (the total GVA in this sector amounted to approximately BAM 2,703.2 million) in current terms, or by 1.9 per cent. (the total GVA in this sector amounted to approximately BAM 2,714 million) in real terms compared to 2016.

In 2018, the other sectors accounted for 31.1 per cent. of total GVA measured in current prices. The GVA of these sectors continued to grow by 1.5 per cent. (the total GVA in this sector amounted to approximately BAM 2,703.4 million) in current terms, and 2 per cent. in real terms (the total GVA in this sector amounted to approximately BAM 2,757.5 million) compared to 2017.

In 2019, the other sectors represented 31.6 per cent. of total GVA when measured in current prices. The GVA of these sectors increased by 7.1 per cent. (the total GVA in this sector amounted to approximately BAM 2,938.3 million) in current terms, or 4.4 per cent. (the total GVA in this sector amounted to approximately BAM 2,864.8 million) in real terms compared to 2018. As a result, these sectors contributed 26.1 percentage points to total GDP in 2019.

In the nine-months ended 30 September 2020, the other sectors' GVA continued to grow, with nominal growth of 3 per cent. (the total GVA in this sector amounted to approximately BAM 2,243.2 million), or decrease of 1.1 per cent. (the total GVA in this sector amounted to approximately BAM 2,164.2 million), compared to the corresponding period in 2019. Measured in current prices, the share represented by the other sectors in total GVA was 33.1 per cent., which represented an increase by 1.5 percentage points compared to the corresponding period of 2019.

Energy Sector of the Republic

Energy Policy

The energy sector is undergoing liberalization to harmonise the regulations with the EU directives from the third energy package. A new Law on Electricity (*Official Gazette of the Republic, No. 68/20*) was adopted in January 2021, which provides for a separate and robust mechanism for the distribution and supply of electricity. The framework aims to: improve regulatory mechanisms that encourage efficiency and quality, as well as relations with market participants; reduce network losses and increase of supply quality; and adopt flexible and technologically advanced departments as a basis for modernizing the energy sector. The Republic has significant untapped hydropower potential, which enables it to increase electricity production through the construction of new hydropower plants and, in order to diversify its electricity sources, the Republic intends to construct wind and solar power plants with higher installed capacity, as well as biomass power plants.

Since 2012, the RS Government has implemented a system of incentives to encourage the transition to the use of renewable energy sources which is regulated under the Law on Renewable Energy Sources and Efficient Cogeneration and the Action Plan for the Use of Renewable Energy Sources (*Official Gazette of the Republic, Nos. 39/13, 108/13, 79/15 and 26/2019*).

While the existing system has not had the desired effects as compared to the frameworks employed by members of the EU, the RS Government intends to introduce a new law on renewable resources with suitable incentive schemes, in light of the Republic's EU accession strategy to be implemented in the beginning of January 2022 The new incentive scheme is intended to enable greater use of renewable sources, and lower consumer fees for utilising such renewable sources. Under the proposed incentive schemes, only producers of electricity in small plants using renewable energy sources, installed power up to 250 kW, or up to 500 kW biomass plants, will have a guaranteed purchase price, while producers in large plants will sell electricity on the market with the possibility of obtaining a premium which will be determined pursuant to an auction procedure.

With the adoption of the 2035 Energy Development Strategy (*Official Gazette of the Republic, No. 60/18*) (the "**2035 Energy Development Strategy**"), the RS Government has outlined a set of goals and measures for the implementation of the policy in the Republic's energy sector. The RS Government's policy is expressed by strategic goals for the energy sector as well as specific goals for individual parts of the sector and legal, organizational and institutional issues that are important for successful and development of energy sector up to 2035. The Republic's development strategy includes a gradual opening of the market, introduction of competition and setting energy prices to an economically sustainable level, while observing environmental protection allowing for sustainable development.

The 2035 Energy Development Strategy is a continuation of strategies on the creation and preservation of a modern and sustainable energy sector as one of the most important economic sectors that will play a key role in improving the overall economy of the Republic, and such activities are already defined in the Law on Energy. The RS Government has adopted the Electricity Balance for 2021, according to which the Electricity Production Plan for 2021 is 3 per cent. less than the plan production for 2020, due to the planned overhaul of TPP "Stanari", which will lower production by 11 per cent.

Electricity Supply

Coal

Reserves of brown coal and lignite are distributed in seven important coal basins. There are other sites with smaller reserves that are not economical and/or that have been abandoned due to unfavourable exploitation conditions. According to the Republic's 2035 Energy Development Strategy, the Republic holds a total reserve balance of coal in an amount equal to 684 million tons, of which 390 million tons of lignite and 294 million tons of brown coal. The total reserves of coal that are capable of exploitation are equal to 578 million tons, of which 353 million is lignite and 225 million tons is brown coal. Coal is mainly used for the production of electricity in thermal power plants (over 90 per cent. as at the date of this Offering Circular) while the remainder is used for other commercial purposes.

Hydropower energy

The Republic's watercourse energy has significant unused hydro potential. According to the Republic's 2035 Energy Development Strategy, approximately 30 per cent. of the Republic's potential capacity for hydroelectric power has been exploited. The most significant unused hydroelectric power is available from rivers in the Republic, including the Drina, Bosna, Vrbas, Neretva, Ugra rivers. For example, on the upper course of the river Drina, three hydropower plants (HPP Buk Bijela, HPP Foča and HPP Paunci), with a total expected installed capacity of approximately 200 megawatts, are under construction. In addition, the Dabar hydropower plant, which will have an installed capacity of 160 megawatts, is under construction. On the Bosna river, there is potential to build hydroelectric power plants with a total installed capacity of approximately 100 megawatts, on the Neretva river with approximately 50 megawatts and on the Vrbas river with approximately 40 megawatts.

Solar and wind energy

The Republic has significant potential for the construction of solar and wind power plants. The highest irradiation of the sun is in the municipalities of Trebinje, Bileća, Ljubinje and Nevesinje, which average 1,570 kilowatts per square metre. The most promising locations for the construction of wind farms are also in the municipalities of Nevesinje, Kalinovik, Berkovići, where the average wind speed at a height of 50 metres is 7.7 metres per second.

The Republic cannot fully exploit the potential of such solar and wind energy sources as a result of certain restrictions on such activities. The State Electricity Regulatory Commission of BiH determined, in September 2020, that the maximum amount of electricity that may be generated from wind power plants in BiH is 840 megawatts, whereas the maximum amount of electricity that may be generated from solar power plants 825 megawatts.

Biomass energy

Under the 2035 Energy Development Strategy, the total potential of biomass in the Republic is estimated at 31.08-46.24 PJ. The largest part (59 per cent.) is biomass suitable for combustion (being waste from the wood industry, firewood, forest waste, residues from pruning perennial crops) and the remaining 39 per cent. represents biomass suitable for the production of biogas from municipal waste, livestock and energy crops. The current consumption of biomass for combustion is 16.9 PJ or about 92 per cent. of the potential of this type of biomass recorded from sources in the territory of the Republic. Further increasing the utilization of wood biomass for energy needs requires increasing the efficiency of wood stoves and boilers and/or switching to more efficient forms of modern biomass (for example pellets).

Geothermal energy

The northern part of the Republic has significant geothermal potential, while the southern and south-eastern parts of the Republic have significantly smaller potentials. As at the date of this Offering Circular, thermal water is used primarily for balneological purposes, while the energy use of geothermal energy for space heating is limited. The 2035 Energy Development Strategy estimates that the Republic has a total geothermal potential of 40-45 MGWTh.

Electricity Transmission

The electricity transmission company, Elektroprenos BiH, Banja Luka is the owner of the transmission network in BiH and it is owned by the Federation (58.9 per cent.) and by the Republic (41.1 per cent.). The transmission network in the territory of the Republic consists of lines of 400 kilovolts, 220 kilovolts and 110 kilovolts. The total length of transmission lines within the Republic's power system is 2,395 kilometres, which is about 38 per cent. of the total length of transmission lines within BiH. BiH's transmission network supports market transactions inside, outside and through BiH's power system.

According to estimates prepared in the Long-Term Transmission Network Development Plan 2018-2027, it is expected that the following investments will be required for the enhancement of the Republic and the Federation's electricity transmission network during such period: (i) BAM 193.2 million for the construction of new facilities and interconnections (of which BAM 86.4 million would be allocated to the Republic's share of the network), (ii) BAM 472.0 million for the reconstruction, sanitation and extension of substations and transmission lines (of which BAM 186.2 million would be allocated to the Republic's share of the network), and (iii) BAM 13.7 million for the installation of reactors (of which BAM 6.5 million would be allocated to the Republic's share of the network).

According to the MH ERS business plan for the years 2021 to 2023, the planned investments by the electricity distribution companies is expected to amount to BAM 171.6 million. Of this amount, funds in the amount of BAM 74.3 million are intended to be allocated to the construction of new distribution facilities, and the remaining funds allocated to the rehabilitation of the existing network and facilities. The total funds are expected to be sourced from the companies' own funds (in an amount equal to approximately BAM 114.4 million), from foreign loans (in an amount equal to approximately BAM 51.1 million) and the remainder from donations and participation by other entities.

The following tables provides an overview of the existing distribution lines in the Republic as at the date of this Offering Circular:

Voltage (kV)	Type of line	Length (km)
35	Overhead	844.1
	Underground	64.0
20/10	Overhead	10,764.9
	Underground	1,746.7
0.4	Overhead	31,915.3
	Underground	1,534.4

Source: MH ERS Business Plan for 2021 to 2023

The following table provides an overview of the number and installed power of distribution substations in the Republic as at the date of this Offering Circular:

Voltage (kV)	Number of Substations	Installed Power of Substations (MVA)
35/10	68	533
20/0.4	3,319	929.7

Source: MH ERS Business Plan for 2021 to 2023

Overview of the Energy Sector

The Republic mainly relies on coal-fired thermal power plants for electricity production and consumption, which is influenced by hydrological conditions in the Republic. There are three hydropower plants: HPP Višegrad, HPP Trebinje 1 and HPP Bočac; three coal-fired power plants: RiTE Gacko, RiTE Ugljevik and TPP Stanari; and approximately 50 small hydropower plants. HPP Dubrovnik is located on the territory of the Republic of Croatia and uses the waters of the Trebišnjica basin. The production of this power plant is equally divided between Elektroprivreda RS ("**MH ERS**") and Hrvatska elektroprivreda. The total installed capacity of power generation facilities across the Republic is 1,780.1 megawatts, taking into account the G2 unit in HPP "Dubrovnik" with a capacity of 126 megawatts. The total available capacity of hydropower plants in the Republic (including small hydro power plants within the MH ERS) is 759, with an expected annual production of 2500 gigawatt per hour. The installed capacity of small power plants in the Republic outside the MH ERS is 99.5 megawatts and industrial power plants 25 megawatts. The total installed capacity of thermal power plants in the Republic is 900 megawatts. The available power on the threshold of the thermal power plant is 765 megawatts with an expected annual production of about 4,700 gigawatts per hour.

Electricity production in the Republic is based on domestic coal-fired thermal power plants, which account for 60 per cent. of total electricity production in 2021, and on hydropower plants (excluding small power plants), which produce 40 per cent. Electricity production is higher than consumption and the RS Government expects the balance surplus for 2021 to amount to 46 per cent. of total electricity produced for the year. The surplus electricity is intended to be sold and export to regional countries.

The following tables provides an overview of the Republic's total installed energy capacity as at the date of this Offering Circular and average annual production over the last three years:

	Installed Generator Power (MW)	Average Annual Production (GWh)[(1)]
Thermal Power Plants		
Ugljevik	300.0	1,560.0
Gacko	300.0	1,630.0
Stanari	300.0	2,010.0
Hydroelectric Power Plants		
Visegrad	315.0	925.0
Trebinje I	171.0	427.4
Trebinje II	8.0	5.0
Bocac	110.0	278.4
Bocac II	9.6	41.2

Dubrovnik	126.0	675.6
Small Power Plants		
Owned by Elektroprivreda Republike Srpska	19.0	76.2
OSP[(2)]	96.5	409.1
Other[(3)]	25	60

Source: Reports on the realization of the electricity balance of each of the companies that are submitted to the Ministry of Energy and Mining pursuant to the Law on Electricity (Official Gazette of the Republic, No. 68/20).

Notes:

(1) Average annual production is calculated on the basis of the years 2018, 2019 and 2020.
(2) OSP is the production of electricity through small power plants that are subsidised by feed-in tariffs.
(3) Other includes production generated from the Republic's industrial power plants.

The RS Government is equally committed to the development of the Republic's electric power system to increase energy efficiency and production capacities, maintain environmental sustainability and diversify supply sources. The RS Government intends to achieve this by improving the regulatory electrical framework, reducing subsidies for renewable energy resources and restructuring and reorganisation of electrical energy producers operating within MH Elektroprivreda RS, a state-owned integrated power company with headquarters in Trebinje in the Republic. In July 2020, the Republic adopted a new law on electricity (the "**Law on Electricity**") for the liberalisation of the electricity market and the ownership separation of market and regulated activities. The Law on Electricity introduces rules for the supply, generation and distribution of electrical energy in the Republic's market in line with the commitments from the Treaty establishing the Energy Community and the provisions of the EU's Third Energy Package.

In the coming years, the RS Government has identified the following projects as its priority energy projects:

- three hydropower plants on the upper river of the Drina river, municipality of Foča, with an installed capacity of approximately 200 megawatts (HPP Buka Bijela, HPP Foča and HPP Paunci);
- hydropower plants from the upper horizon system in the municipality of Nevesinje, Bileca and Berkovići, with an installed capacity of approxiately 250 megawatts (HPP Dabar, HPP Bileća and HPP Nevesinje, respectively);
- hydropower plants on the Neretva rivers, installed power of 35 megawatts;
- solar power plants in the municipality of Trebinje and Bileća, with an installed capacity of approximately 73 megawatts and 60 megawatts, respectively; and
- wind power plants in Hrgud, in the municipality of Berkovići and Nevesinje, with an installed capacity of approximately 50 megawatts and 66 megawatts, respectively.

Given the Republic's reliance on electricity generated from coal, the RS Government is also actively seeking to reduce greenhouse gas emissions and gradually achieve the transformation towards a low-carbon economy. Investments in this sector intend to reduce the detrimental impact of these technologies through the Desulphurization Project at TE Ugljevik, the implementation of improvements to the energy infrastructure, the construction of hydropower plants and other energy facilities that will be based on renewable energy sources. The Republic utilises 50 small hydropower plants that have an installed capacity of 104 megawatts, and 107 small solar power plants with an installed capacity of 13 megawatts and two biogas power plants with an installed capacity of 2 megawatts. The production of electricity from capacity installed in the Republic, including its share of HPP Dubrovnik, satisfies the Republic's power needs, with any surplus being sold and exported. There have been no shortages in electricity supply for the economy and the citizens in general over the past five years.

The distribution of energy in the Republic is performed by five corporate entities:

- MH "ERS" - MP a.d. Trebinje - ZP "Elektrokrajina" Banja Luka;
- MH "ERS" - MP a.d. Trebinje - ZEDP "Elektro-Bijeljina" Bijeljina;
- MH "ERS" - MP a.d. Trebinje - ZP "Elektrodistribucija Pale" Pale;
- MH "ERS" - MP a.d. Trebinje, ZP "Elektro Doboj" Doboj; and

- MH “ERS” - MP a.d. Trebinje - ZP “Elektro-Hercegovina” Trebinje.

The following table shows the number of end users and distribution area at the end of 2020:

	Number of end users	**Distribution area (km2)**
Elektrokrajina	256,214	8,629
Elektro Doboj	96,966	2,836
Elektro-Bijeljina	110,706	3,967
Elektrodistribucija Pale	62,323	5,064
Elektro-Hercegovina	30,924	3,781

Source: MH ERS business plan for 2021 to 2023.

During the years 2015 to 2020, the electricity needs of the Republic were met from domestic sources, with surplus amounting to approximately 45 per cent. of total annual production. The largest producers of electricity are MH “Elektroprivreda Republike Srpske” and “EFT” TPP Stanari. Individually, the largest purchasers are “RS Silikon” Mrkonjić Grad and “Alumina” Zvornik. Excess electricity is sold on the domestic and foreign markets and on the SEEPEX stock exchange at Belgrade. The largest exporter of electricity is “EFT” TPP Stanari to Austria, Slovenia and Croatia.

Between 2010 to 2019, the maximum rate of production of hydropower was recorded in 2010 at 3,246 gigawatts per hour, while the minimum rate was observed in 2017 at 1,575 gigawatts per hour. These values of production are directly related to hydrological conditions in a particular year. The average annual production of hydropower in the observed 10-year period is 2,458.6 gigawatts per hour. The electric power industry of the Republic has a significant accumulation, with a useful capacity of one billion cubic meters of water, total capacity of this accumulation is 1.2 billion cubic meters.

The following table shows the production rate in hydro power plants for years 2010 to 2020:

	GWh
2010	3,246.91
2011	2,276.89
2012	1,836.22
2013	2,974.07
2014	2,559.94
2015	2,166.12
2016	2,930.82
2017	1,575.45
2018	2,722.09
2019	2,297.49
2020	2,132.00

Source: Reports on the realization of the electricity balance of each of the companies that are submitted to the Ministry of Energy and Mining. Reports are submitted on the basis of the Law on Electricity (Official Gazette of the Republic, No. 68/20).

The construction of the following hydro power plants are ongoing in the Republic:

- a contract for the construction of three hydropower plants: B1, B-2a and B-3 on the river Bistrica signed on 4 December 2019 with AVIC, with a total value of EUR 102.8 million. The procurement of necessary funds would be secured through two lots: lot 1 of EUR 67.8 million and lot 2 of EUR 38 million. The loans are intended to be secured with the benefit of guarantees of the Republic of approximately EUR 82.2 million (or BAM 160.9 million), which is about 80 per cent. of the total value of the two lots.

- a contract for financing, design, construction, production of equipment, delivery, installation, testing and commissioning of Hydro Power Plant Dabar signed on 4 May 2020 with the Chinese company, China Gezhouba Group Company Limited for EUR 222.8 million. 15 per cent. of the total project value (BAM 33.4 million) will be financed by HPP Dabar (as debtor) using its own resources. The debtor is also responsible for the cost of insurance premium pursuant to a policy obtained from Sinosure that covers 85 per cent. of the total amount of project value. The loan collateral will be guaranteed by the Republic in an amount equal to 80 per cent. of the total loan indebtedness. HPP Dabar will also obtain a loan from the Export-Import Bank of China in amount equivalent to the remaining total value of the project.

The following table shows the liabilities in the energy sector in the years 2018 to 2020:

	As of 31 December								
	2018			2019			2020		
	Overall liabilities	Liabilities towards affiliated legal entities	Other liabilities	Overall liabilities	Liabilities towards affiliated legal entities	Other liabilities	Overall liabilities	Liabilities towards affiliated legal entities	Other liabilities
					(BAM thousands)				
SC "HPP on Vrbas" JSC Mrkonjić Grad	23,989,431	134,922	23,854,509	21,064,812	38,312	21,026,500	20,064,435	107,102	19,957,333
SC "HPP on Drina" JSC Višegrad	22,708,643	132,041	22,576,602	29,138,297	5,008,540	24,129,757	24,029,858	146,941	23,882,917
SC "HPP on Trebišnjica" JSC Trebinje	35,187,028	629,104	34,557,924	30,254,845	467,597	29,787,248	39,549,494	1,761,925	37,787,569
SC "MTPP Gacko" JSC Gacko	81,461,958	20,888,305	60,573,653	93,278,189	26,056,580	67,221,609	94,935,039	29,964,274	64,970,765
SC "MTPP Ugljevik" JSC Ugljevik	161,229,595	7,919,045	153,310,550	191,639,165	1,053,026	190,586,139	204,859,231	2,302,153	202,557,078
"ELEKTROKRAJINA'' JSC Banja Luka	221,465,249	149,174,967	72,290,282	215,644,096	107,557,278	108,086,818	237,296,252	125,264,154	112,032,098
"Elektro Doboj" JSC Doboj	4,782,371	117,485	4,664,886	4,220,452	279,484	3,940,968	7,253,726	2,560,435	4,693,291
"Elektro Bijeljina" JSC Bijeljina	56,521,024	28,309,478	28,211,546	56,185,310	6,544,111	49,641,199	78,754,626	8,479,052	70,275,574
"Elektordistribucija" JSC Pale	51,038,450	19,468,338	31,570,112	49,142,746	17,016,187	32,126,559	48,900,319	19,300,673	29,599,646
"Elektro Hercegovina" JSC Trebinje	9,200,160	3,738,483	5,461,677	9,335,664	1,639,809	7,695,855	11,360,268	2,436,624	8,923,644
Parent company JSC Trebinje	258,018,278	184,337,387	73,680,891	270,924,062	175,359,480	95,564,582	312,791,032	202,475,783	110,315,249

Source: Reports on the realization of the electricity balance of each of the companies that are submitted to the Ministry of Energy and Mining. Reports are submitted on the basis of the Law on Electricity (Official Gazette of the Republic, No. 68/20).

The Republic lacks infrastructure for the production of natural gas and oil due to lack of reserves and relies on independent contracts from suppliers. The Republic signed a contract on 25 February 2015 with Gazprom Export LLC for the supply of natural gas. The initial term of the contract expires on 1 October 2021 and will renew annually in October of each year (subject to renegotiation). Separately, the construction of a gas pipeline, the New East Interconnection, is underway and is of significant importance to the Republic as it connects BiH and the Republic of Serbia. Since there are no domestic sources of natural gas, the Republic has measures in place in case of a general shortage of natural gas for 2021 under the Regulation on Security of Supply and Supply of Natural Gas (*Official Gazette of the Republic, No. 17/11*). This law regulates restrictive measures taken in the event of a general shortage of natural gas, obligations to supply and deliver natural gas to special categories of customers and priorities in the supply and delivery of natural gas in case of interruptions or suspensions of natural gas.

The supply of crude oil is fully realized from imports. The oil refinery in the Municipality of Brod ("**Brod Oil Refinery**") is supplied with crude oil through the JANAF oil transport system, a part of the Adriatic oil pipeline (and such crude oil was of Russian origin) which enabled its operation. The Brod Oil Refinery consists of two separate production lines (and "old line" and a "new line") with a total installed processing capacity of about 4.2 million tons of crude oil per year. The processing capacity of the "old line" is 1.2 million tonnes of crude oil per year, and the "new line" has a processing capacity of approximately 3 million tonnes of crude oil per year, which is currently in the re-construction phase. The Brod Oil Refinery has not produced oil derivatives since an explosion in October 2018. The incident occurred at the hydrocracking plant, and the repair of the damaged facility is in progress as at the date of this Offering Circular, and has not yet been completed. Currently, the imports of oil derivatives to the Republic are fully realised from imports from Croatia and Serbia. Separately, the Modriča oil refinery has two basic production lines for processing base oil stock, and it produces hydrocracked base oils, with a capacity of 78,000 tonnes and includes motor oils and lubricant production lines.

Labour Market and Social Policy

Wages

The following table shows the average gross wage and the average net wage in BAM and EUR for the years 2016 to 2020:

	Year ended 31 December				
	2016	**2017**	**2018**	**2019**	**2020**
Average net wages (*BAM*)..	836	831	857	906	956
Average gross wages (BAM)	1,344	1,331	1,358	1,407	1,485
Average net wages (*EUR*)..	427	425	438	463	489
Average gross wages (*EUR*)	687	681	694	719	759
Nominal growth of average net wages (%)	0.6	(0.6)	3.1	5.8	5.5
Real growth of average net wages (%).............................	1.8	(1.1)	1.9	5.3	6.8

Source: Institute of Statistics of the Republic

In 2016, the average net wage amounted to EUR 427 (BAM 836) increased by EUR 2.5 (BAM 5), which represented a nominal increase by 0.6 per cent. compared to the previous year. According to the Institute of Statistics of the Republic, the highest nominal increase in net wage was recorded in the agriculture, forestry and fishing sector by 4.1 per cent. and the construction sector by 3.3 per cent. On the other hand, the highest nominal decrease in net wage was recorded in the following sectors: accommodation and food service activities by 3.4 per cent. and wholesale and retail trade, repair of motor vehicles and motorcycles 2.9 per cent. Thus, compared to 2015, the real growth of average net wage amounted to 1.8 per cent. in 2016 in the Republic. The highest wage was still for the employees in the financial and insurance sector. They account for 2.6 per cent. of the total number of employed persons and receive on the average EUR 649 (BAM 1,269) per month. In 2016, the lowest net monthly wage, EUR 265 (BAM 518), was earned by those employed in the administrative and support sector, which employs 1.3 per cent. of the total number of employed persons.

After three consecutive years of growth, the average net wage in 2017 decreased by EUR 2.5 (BAM 5) compared with the previous year. The average net wage in 2017 amounted to EUR 425 (BAM 831). Nominally, the average net wage decreased by 0.6 per cent. The highest nominal increase in net wage was recorded in other service sectors by 18.8 per cent. and professional, scientific and technical sector by 12.9 per cent. The highest nominal decrease was recorded in the following sectors: real estate activities by 8.4 per cent. and education 2.6 per cent. Compared to 2016, the average net wage in 2017 in the Republic decreased in real terms by 1.1 per cent. The highest wage was still for the employees in the financial and insurance sector. They account for 2.5 per cent. of the total number of employed persons and receive on the average EUR 675 (BAM 1,321) per month. In 2017, those employed in the construction sector, which employs 4.8 per cent, earned the lowest net monthly wage EUR 280 (BAM 548). of the total number of employed persons.

The average net wage in 2018 amounted to EUR 438 (BAM 857), which is EUR 13.3 (BAM 26) higher than in 2017. Nominally, the average after-tax (net) wage increased by 3.1 per cent. The highest nominal increase in net wage was recorded in the water supply, sewerage, waste management and remediation activities by 9.1 per cent. and wholesale and retail trade, repair of motor vehicles and motorcycles by 6.6 per cent. The highest nominal decrease in net wage was recorded in the following sectors: other service sectors by 2.0 per cent. compared to 2017, the average net wage in 2018 in the Republic increased in real terms by 1.9 per cent. The highest wage was still for the employees in the financial and insurance sector. They accounted for 2.1 per cent. of the total number of employed persons in 2018 and they received on average EUR 700 (BAM 1,369) per month. In 2018, the lowest monthly net wage EUR 294 (BAM 575) was earned by those employed in the accommodation and food service sector, which employs 5.0 per cent. of the total number of employed persons.

The average net wage in 2019 amounted to EUR 463 (BAM 906), namely EUR 25 (BAM 49) more than in 2018. Nominally, the average net wage increased by 5.8 per cent. An increase was recorded in all 19 sections, with the highest increase being recorded in the following sectors: real estate sectors with 18.9 per cent. and administrative and support service sector with 17.1 per cent. Compared to 2018, the average net wage in 2019 in the Republic increased in real terms by 5.3 per cent. The highest wage was still for the employees in the financial and insurance sector. They accounted for 2.1 per cent. of the total number of employed persons in 2019 and they received on average EUR 720 (BAM 1,409) per month. In 2019, those employed in the construction sector, which employs 4.6 per cent, earned the lowest monthly net wage EUR 322 (BAM 630). of the total number of employed persons.

The average net wage in 2020 amounted to EUR 489 (BAM 956), namely EUR 26 (BAM 50) more than in 2019. Nominally, the average net wage increased by 5.5 per cent. An increase was recorded in all sections, with the highest increase being recorded in the sections Accommodation and food service activities with 11.6 per cent. and administrative and support service activities with 11.5 per cent. Compared to 2019, the average net wage in 2020 in the Republic increased in real terms by 6.8 per cent. The highest wage was still for the employees in the financial and insurance sector. They accounted for 2.1 per cent. of the total number of employed persons in 2020 and they received on average EUR 741 (BAM 1,449) per month. In 2020, those employed in the construction sector, which employs 4.9 per cent, earned the lowest monthly net wage EUR 338 (BAM 661) of the total number of employed persons.

Employment

Positive labour market trends in the Republic have persisted since 2016 and continued to improve in 2020. As a result of implementation of the Law on Incentives in the Economy of Republic (*Official Gazette of the Republic, Nos. 52/19 and 78/20*), salary increases in public administration from early 2020, and measures of the RS Government to preserve jobs and wages of workers during the pandemic, average net wages have increased and the number of unemployed have decreased.

The following table shows key employment statistics for the years 2016 to 2020:

	Year ended 31 December				
	2016	**2017**	**2018**	**2019**	**2020**
Employed persons	253,305	260,608	266,309	272,366	274,227
Unemployed persons	131,659	120,056	105,793	89,896	86,695
Persons deleted from the register for employment(2)	37,263	38,697	42,353	42,902	29,090
Employment rate (%)	35.5	37.3	38.7	42.2	45.1(1)
Unemployment rate (%)	24.8	21.0	17.2	11.7	13.1 (1)

Source: Institute of Statistics of the Republic; Employment Service of the Republic

Note:
(1) The employment and unemployment rate in 2020 represents an average of the first three quarters of 2020.
(2) The significant change in numbers from 2019 to 2020 was because many persons were deleted from the register for employment due to the implementation of the Employment Program of the Employment Service of the Republic.

According to the EU Labour Force Survey conducted in 2016, the overall unemployment rate declined by 0.4 percentage points to 24.8 per cent., while the unemployment rate among young people aged 15-24 declined by 4.2 percentage points and amounted to 52.3 per cent. At the same period, the rate of employment was 35.5 per cent., representing an increase of 0.3 percentage points compared to 2015. The structure of employed persons by group of sections of economic activity in 2016 was as follows: agricultural 29.0 per cent., industrial (non-agricultural) 27.2 per cent. and services 43.8 per cent. By type of employment, the structure was: employed persons working for a wage (employees) 66.0 per cent., self-employed 28.1 per cent. and unpaid supporting family members 6.0 per cent. Every second employed person works in business entities in private ownership, while every sixth is an entrepreneur or works for an entrepreneur. Half of all employed persons in the Republic work in the manufacturing or trade sectors and in public administration.

In 2017, the labour market in the Republic kept recovering from negative effects of the global economic crisis. The decreasing unemployment rate is one of the main indicators of the recovering labour market. The unemployment rate has been decreasing since 2013, while in 2017 it decreased significantly by 3.8 percentage points to 21.0 per cent., in comparison with the previous year. While the unemployment rate among people with the age of 15-24 reduced by 6.1 percentage points to 46.2 per cent. At the same time, the number of employed persons increased by approximately 7,303 and the rate of employment was 37.3 per cent., representing an increase of 1.8 percentage points compared to 2016. The structure of employed persons by group of sections of economic activity in 2017 was as follows: agricultural 30.0 per cent., industrial (non-agricultural) 24.8 per cent. and services 45.3 per cent. By type of employment, the structure was: employed persons working for a wage (employees) 66.7 per cent., self-employed 26.4 per cent. and unpaid supporting family members 6.9 per cent. Private sector has the highest number of employed persons. Every second employed person works in business entities in private ownership, while every sixth is an entrepreneur or works for an entrepreneur. Half of all employed persons in the Republic work in the manufacturing or trade sectors and in public administration.

Compared to 2017, employment increased by 2.2 per cent. and amounted to 266,309 thousands in 2018. At the same time, the employment rate increased by 1.4 percentage points and was 38.7 per cent. The structure of employed persons by group of sections of economic activity in 2018 was as follows: agricultural 26.2%, industrial (non-agricultural) 27.7 per cent. and services 46.1 per cent. By type of employment, the structure was as follows: employed persons working for a wage (employees) 70.3 per cent., self-employed persons 22.0 per cent. and unpaid supporting family members 7.7 per cent. Private sector has the highest number of employed persons. Every second employed person works in business entities in private ownership, while every sixth is an entrepreneur or works for an entrepreneur. Half of all employed persons in the Republic work in the manufacturing or trade sectors and in public administration. During this period, the unemployment rate declined by 3.8 percentage points and amounted to 17.2 per cent. The unemployment rate among persons aged 15-24 declined by 11.0 percentage points and amounted to 35.2 per cent.

According to the Labour Force Survey conducted in 2019, the employment rate increased by 3.5 percentage points and was 42.2 per cent. Compared to 2018, employment increased by 2.3 per cent. and amounted to 272,366 thousands in 2019. The structure of employed persons by group of sections of economic activity in 2019 was as follows: agricultural 29.8 per cent., industrial (non-agricultural) 27.1 per cent. and services 43.1 per cent. By type of employment, the structure was as follows: employed persons working for a wage (employees) 65.1 per cent., self-employed persons 29.6 per cent. and unpaid supporting family members 5.3 per cent. Private sector has the highest number of employed persons. Half of all employed persons in Republic work in the manufacturing or trade sectors and in public administration. The unemployment rate reduced by 5.5 percentage points compared to 2018, and reached a level of 11.7 per cent. The unemployment rate in the category of young people 15-24 decreased to 23.8 per cent., which is 11.4 percentage points lower compared to 2018.

According to the data from the Survey 2020, the average unemployment rate for the three quarters of 2020 is 13.1 per cent. (15.1 per cent. in the first quarter, 14.2 per cent. in the second quarter and 10.0 per cent. in the third quarter). The unemployment rate among persons aged 15-24 decreased by 5.7 percentage points in the third quarter compared to the second quarter and amounted to 24.8 per cent. When it comes to the Employment Survey rate it ranges from 43.2 per cent. in the first quarter to 48.5 per cent. in the third quarter. The average employment rate for the three quarters is 45.1 per cent.

Employment policies in the Republic

Employment policies in the Republic are realised through strategic and program documents. Currently two strategic documents in the field of labour were adopted (Employment strategy in the Republic for 2011 to 2015 and Employment strategy in the Republic for 2016 to 2020). Drafting and adopting of the third strategic document in the field of employment is being prepared and will be adopted in the second quarter of 2021.

Employment strategy in the Republic for 2016 to 2020 (*Official Gazette of the Republic, No. 96/16*), adopted in October 2016, is one of the key documents defining basic activities and measures of employment policies implemented by the Minister of Labour, War Veterans and Disabled People's Protection and Employment Bureau of the Republic (the "**Bureau**").

Employment strategy defines basic strategic goals in a four-year period, based on which operational goals and tasks are defined in order to realize strategic goals. The RS Government's key tasks defined in the strategy requires an action plan for employment in each year, after which the Bureau, along with the approval of line ministry, issues an employment program in the Republic (operational plan), which defines in detail particular tasks within the policy measures, projects, amount of funds, expected results as well as timeframe of the realisation. In that context, all activities of the Ministry of Labour and the Bureau were focused on encouraging employment and implementation of measures aimed at cutting the time of unemployment, and continuous increase of competitiveness and employment of persons in the Bureau's unemployment register.

Determining employment projects, measures and target groups were performed in accordance and in order to realise key strategic goals, being the increase of employment and economic activities of the Republic's population; and the maintenance of existing and the creation of new jobs in the Republic.

In 2016, five employment programs were realised. Based on those programs, subsidies in the amount of approximately BAM 12.9 million were granted for the purpose of securing private sector employment of 2,694 persons.

In 2017, five employment programs were realised. Based on those programs, subsidies in the amount of approximately BAM 8.6 million were granted for the purpose of securing private sector employment of 1,633 persons.

In 2018, six employment programs were realised. Based on those programs, subsidies in the amount of approximately BAM 16.3 were granted for the purpose of securing private sector employment of 5,135 persons.

In 2019, eight employment programs were realised. Based on those programs, subsidies in the amount of approximately BAM 26.8 were granted for the purpose of securing private sector employment of 5,900 persons.

In 2020, six employment programs were realised. Based on those programs, subsidies in the amount of approximately BAM 10.5 million were granted for the purpose of securing private sector employment of 2,033 persons.

The Bureau has given special attention to monitoring and analysis of realised effects of employment programs. Information on realisation of main goals and tasks determined in the program was drafted for each program, including as well as achieved effects of the program.

Along with realisation of employment programs, other measures of active policies, where the goal of the RS Government is to activate and integrate as many persons as possible on the labour market were realised. Those policies mainly related to the following activities:

- improvement of the intermediation function, employer needs more effectively fulfilled, as well as increase of employers using intermediation services;
- consulting and activation of unemployed persons for the purpose of faster inclusion in labour process. Consulting included interviews, profiling and drafting of individual employment plans, motivational seminars and other active employment measures;
- improvement and realisation of measures in the area of career selection, information on occupations, career planning and lifelong education development with the goal of competency increase regarding decision making when selecting occupation/education path of all interested individuals and groups, encouragement of successful professional adaptation and career development of individuals;
- collection of data on labour market, monitoring of basic indicators on status and labour market needs, employment trends monitoring, total employment and unemployment in order to undertake relevant measures in accordance with changes on labour market and in order to achieve better effects of applied measures; and
- activities on establishment and development of local councils and partnerships for education and employment in order to encourage good practices and coordination of local policies.

It is important to point out that simultaneously with these activities, reform tasks within institutional enhancement of the Bureau was realised in order to create all prerequisites for successful realization of active measures and commitment to key beneficiaries, mainly employers and unemployed persons.

Public Private Partnerships

The legal framework that stipulates public-private partnership ("**PPP**") in the Republic is as follows:

- The Law on Public-Private Partnership in the Republic (*Official Gazette of the Republic, No. 59/09, 63/11 and 68/20*);
- Regulation on Initiating the Procedure for the Realization of Public-Private Partnership in the Republic (*Official Gazette of the Republic, No. 111/20*);
- Regulation on the Selection Procedure of a private partner (*Official Gazette of the Republic, No. 111/20*);
- Regulation on the Procedure for Contracting Public-Private Partnership in the Republic (*Official Gazette of the Republic, No. 111/20*); and

- Rulebook on the Content and Manner of Keeping a Register of Public-Private Partnership Projects in the Republic (*Official Gazette of the Republic, No. 32/10*).

A basic legal framework that stipulates an institute of PPP is established under the Law on Public-Private Partnership in the Republic on 11 June 2009. After the adoption of the Law on Public-Private Partnership, the RS Government approved nine project proposals (related to the health, transport and energy sectors). As of the date of this Offering Circular, none of the projects have been completed. The Law on Amendments to the Law on Public-Private Partnership adopted in 2011 eliminated administrative and technical barriers and created a better business environment in attracting foreign and domestic investors in the implementation of capital projects for fulfilling the public needs. These amendments (including first one adopted in 2011 and second one in 2020) simplified the procedure for project realisation through a PPP model, namely the project approval procedure and contract signing. Various regulations were adopted in line with the amendments in the second half of 2020, which are yet to be fully implemented. The legal framework in the Republic obliges a public partner to develop a feasibility study for the proposed project, which requires around 3 months, followed by submission of project proposals at least 6 months after the finalization of the by-law framework. Considering this timeline, the activities regarding PPP can be expected to start in the second quarter of 2021.

As of the date of this Offering Circular, besides local communities that are interested in applying for PPP in infrastructure projects, the RS Government is not aware of any initiatives for infrastructure projects that would be implemented based on the PPP model. In 2021, the Ministry of Finance of the Republic, within the promotion of PPP, intends to develop guidelines for the application of PPP, which will be available to all interested parties and particularly to local communities that are expected to have a significant participation in PPP projects in overall capital investments, following the implementation of Law on Amendments to the Law on Public-Private Partnership which transferred the responsibility for the approval of such projects from the Republic to local level of authority.

The health sector has benefitted from the PPP model. Various dialysis centres in Prijedor, Banja Luka, Laktaši, Gradiška, Šamac, Doboj, Bijeljina, Zvornik and East Sarajevo were constructed through PPP model, prior to implementation of the Law on Amendments to the Law on Public-Private Partnership. Contracts were signed between the Ministry of Health and Social Welfare, the Health Insurance Fund, International Dialysis Centres BV (Netherlands) and Fresenius Medical Care Deutschland GmbH. The PPP model was also used for establishing the Radiotherapy Centre at the University Clinical Centre in Banja Luka.

Social Insurance System

Under the Law on Social Protection (*Official Gazette of the Republic, Nos. 37/12, 90/16 and 94/19*), rights stemming from this Law are financed from the Republic's Budget and from municipality budgets. Remittances paid from the Republic's Budget include: cash aid, allowance for aid and care of other person (in ratio, 50 per cent. the Republic and 50 per cent. local self-government unit), training of children and youth and other remittances to protégés – personal disability allowance (100 per cent. remittances from the Republic's Budget). Remittances paid from the local self-governments budgets are: cash aid, allowance for aid and care of other person, training of children and youth, one-off cash aids, other current aids to protégés of social protection establishments, as well as accommodation in establishments and foster families, training of children and youth.

In 2016, the Law on Amendments to the Law on Social Protection (*Official Gazette of the Republic, No. 90/16*) defines more precisely who is entitled social protection under the law. The law provides protection for children and adults with disabilities and defines conditions of exercising their rights, as well as rights of professionals in the field of social protection, improved conditions for taking professional exams, governing bodies in this sector under the RS Government and local self-government units. The law also provides deadlines for obtaining decisions of the Minister of Social Welfare and other legal entities performing social security activities.

In 2017, the Strategy for improvement of social inclusion of disabled persons in the Republic for 2017 to 2026 was adopted. Vision of the strategy was to create equal social opportunity and implementation of activities with equal inclusion of disabled persons in civil, political, economic, social and cultural areas. Disabled persons in the Republic have equal opportunities as the rest of the citizens and exercise their civil rights fully. There is a high awareness of local self-government units and disabled persons are completely informed on their rights.

With the new Law on Child Protection (*Official Gazette of the Republic, No. 114/17*) enacted in December 2017, the RS Government aims at improving the child protection system in the Republic, mainly its characteristics, birth rate stimulation, aligning rights of employed and unemployed mothers with children and one-off payments for birth of third and fourth child in the family. The rights under this Law are financed from the budget of Public establishment Public Fund for Child Protection of the Republic, collected contributions for social protection (child protection contributions) and transfers from Republic's Budget.

In 2018, Law on Amendments to the Law on Child Protection (*Official Gazette of the Republic, No. 122/18*) was adopted in order to decrease the burden on employers. Proposed provisions define that in 2019 refunds will be paid to employers (refund beneficiaries) for salaries to employees using maternity leave in the amount of 80 per cent. of their gross salaries, which is a return of paid salary increased by 50 per cent. of total taxes and contributions. Proposed solution simultaneously decreases costs for employers and increases scope of birthrate measures within funds from the public fund for child protection in the Republic. By the Law on Amendments to the Law on Child Protection, the scope of children beneficiaries for child allowance is increased in such a way that this right will be exercised by each child, irrelevant of birth order and material situation in the family, if the expert commission, in accordance with the law regulating the field of social protection, determines that the child has a disability or a disease relating to vision, hearing, speak-voice communication, physical disability or chronic disease, with intellectual disability, with mental disability, i.e. disease or other disability or disease leading to difficulties in psychomotor and sensorimotor development. The deadline for submitting the request for exercising the right to maternity allowance has been increased from 30 to 90 days, and the request is submitted to the centre for social work, if the applicant has a residence or residence permit for foreigners in its territory. This is due to objective circumstances which could occur after the childbirth and which could lead to inability to submit the request within 30 days.

The RS Government improved social protection for children without parent foster care in accordance with the Strategy for social protection for children without parent foster care for 2015 to 2020. Significant improvement was seen in the area of fosterage in the Republic and in the process of transformation of PI Foster home for children without parental care, "Rada Vranješevic" Banja Luka, in order to increase the number of foster families, decrease the number of children in institutions and increase the number of services for benefit of the society and improvement of the child protection system. The Ministry of Health and Social Welfare along with the support of UNICEF organised a training for expert workers and directors of centres for social protection in the field of foster care.

Various programs were drafted, such as a program for application of alternative measures while treating children in contact with the law, the guidelines for drafting social history, programs for training, application and execution of correctional measures such as "personal apology to offended" and "indemnification of damage to offended", and a program for management of correctional measure execution along with enhanced supervision of the foster entity were drafted. Training of experts and directors of centres for social protection was performed in cooperation with the Ministry of Justice of the Republic, along with other manuals.

In 2019, the Law on Amendments to the Law on Social Protection (*Official Gazette of the Republic, No. 94/19*) was adopted. It introduced new rights for disabled persons, such as the right to personal disability allowance as well as improvement in social protection for disabled children and persons.

Strategy for improving social position of elderly in the Republic for 2019 to 2028 was adopted in October 2019. Vision of this strategy is to provide respect to the elderly and use them as a resource in the community with various capacities and qualities along with sustainable system of integrated services supporting healthy and active ageing as well as improvement of quality of life of the elderly.

In the Law on Amendments to the Law on Child Protection (*Official Gazette of the Republic, No. 107/19*) the condition that a mother has to be unemployed for six months was deleted, and now it is only necessary that the mother is unemployed, even a day or two before the birth of a child, making the new conditions more suitable. The mothers receive 100 per cent. of the gross salary for 11 months on maternity leave. These amendments relaxed the condition regarding residence in the Republic because there were individual cases where a mother could not exercise her right to maternity leave due to the fact that she did not have residence in the Republic for longer than one year. On the initiative of postpartum women, through amendments to the law, the Republic defined the maternity allowance such that a mother, who has a residence in the Republic less than a year, could exercise the right if the father of the child has residence in the Republic for more than a year before the child was born. This created better conditions for unemployed mothers in the Republic. Residency in the Republic is a pre-requisite to receiving maternity allowance. Mothers still have to have residence in the Republic because maternity allowance is still support for mothers in the Republic.

In 2019, there was a reorganization of the Child Protection Fund such that the centres for social protection were freed from activities regarding child protection rights and the Child Protection Fund took all those activities in the recognition and payment of child protection rights for better financial and legal supervision.

Certain categories of unemployed persons, parents-fosters or fosters, who take care of disabled children or persons are not able enter employment and are unable to support themselves and their family. Therefore, the Strategy for improvement of social status of disabled persons in the Republic for 2017 to 2026 has new provisions in the area of child protection such as “compensation for parent-foster or foster” exercised by one of the parents of the disabled child, until 30 years of age of the child. Prescribing this right as a legal obligation will indirectly improve minimal social safety of disabled children, which is one of the goal and activity defined in the strategic document. New right in the area of child protection would be exercised as a monetary compensation to parents-fosters or fosters taking care of a disabled child all day and night. Compensation to the parent-foster or foster will, together with income from the right to social protection for disabled children and persons, improve the family well-being. This is to prevent the trend of putting disabled children into social protection centres.

In 2020, the Decree-Law on Amendments to the Law on Social Protection (*Official Gazette of the Republic, No. 42/20*) was adopted, making it easier to exercise rights to social protection of disabled children during the state of emergency.

Health Insurance Fund and allocations from the RS Government to the Health Insurance Fund

The Law on Health Insurance in the Republic regulates the policy of compulsory health insurance and voluntary health insurance, rights and obligations of patients and activities of participants and institutions that provide healthcare services. Health care activities in the Republic are performed at the primary, secondary and tertiary levels. Health care activities are performed by public and private health institutions in accordance with the medical doctrine and by using medical technology.

- Health care activities at the primary level is basic and represents the first level at which citizens can access health care or are included in the process to access health care on other levels. The Primary level of health care is provided by the following health care institutions: clinics for treatment, health care and rehabilitation, specialist family medicine clinics, dental clinics, health centres, specialist centres, health care homes and pharmacies.

- Health care activities at the secondary level are organised in such a way to complement and provide organised and continuous care and support to primary level of health care. The secondary level of health care is provided through specialist clinics, specialist centres, hospitals and public health institutes.

- Health care activities at the tertiary level are organised to complement and provide organised and continuous assistance and support to the secondary level services. Tertiary level of health care is provided through specialist clinics, specialist centres, special hospitals, public health institutes, hospitals and clinical centres.

The Republic has 55 health centres, 12 hospitals, 6 institutes, 1 institute of public health and 1 university clinical centre. Separately, there are 591 private health care centres in the Republic and there are 515 pharmacies and 54 pharmacy stations, of which 472 are private pharmacies and 51 are private pharmacy stations. There is also a fund (namely, the Solidarity Fund) for the diagnosis and treatment of diseases, conditions and impairments of children abroad.

The following are the liabilities of public health institutions for the years 2018 to 2020:

	As of 31 December			Index	
	2018	2019	2020	2019/2018	2020/2019
		(BAM thousands)		*(%)*	
Tertiary level	240,961,532	236,340,717	235,974,086	98.08	99.84
Secondary level	243,887,188	266,829,887	283,329,805	109.41	106.18
Public health institute	1,680,151	3,323,412	5,710,888	197.80	171.84
Institute	30,817,701	34,468,233	35,265,361	111.85	102.31
Specialist institution	10,279,472	12,686,443	15,877,328	123.42	125.15
Primary level	124,170,869	133,104,537	136,003,820	107.19	102.18
Total	**651,796,913**	**686,753,229**	**712,161,288**	**105.36**	**103.70**

Source: Financial reports of public health institutions compiled by the Ministry of Health and Social Welfare of the Republic

The following table shows the total investment in the health sector during the years 2017 to 2020:

Investment type	Amount
	(BAM millions)
Projects being realized	298.7
Projects requiring additional financing	4.6
Projects being prepared	281.6
Projects in the preparatory stage	143.5
Projects of energy efficiency (implementation through the Ministry of Spatial Planning, Construction and Ecology)	3.4
Other projects	31.6
Total	**763.3**

Source: The Ministry of Health and Social Welfare of the Republic

The following table shows the National Health Account and spending in total healthcare for the years 2017 to 2019:

	As of 31 December			Index[(1)]	
Healthcare spending	**2017**	**2018**	**2019**	**2018/2017**	**2019/2018**
Total spending in healthcare *(in BAM thousand)*	1,072,453	1,193,873	1,274,518	111.3	106.8
Public sector *(in BAM thousand)*	759,925	848,011	903,417	111.6	106.5
Private sector *(in BAM thousand)*	312,528	345,862	371,101	110.7	107.3
Healthcare spending per capita (*BAM*)	903	961	1,009	106.4	105.0
Gross domestic product *(in BAM thousand)*	10,077,017	10,679,612	11,251,324	106.0	105.4
Total spending in healthcare (*% in GDP*)	10.6	11.2	11.3	—	—

Source: Institute of Statistics of the Republic

Notes:

(1) Index values are expressed in percentages.

The following table shows the total expenditures for health insurance of the Republic's Health Insurance Fund for the years 2017 to 2019:

	As of 31 December		
	2017	**2018**	**2019**
		(in BAM million)	
Primary healthcare	228.3	235.9	234.5
Secondary and tertiary healthcare	341.0	360.9	362.6
Drugs	109.5	106.1	124.5
Orthopaedic devices and aids	8.1	7.8	8.4
Transportation to hospitals	3.0	3.8	3.6
Other forms of healthcare	4.6	4.5	5.3
Resources for improving working conditions in the health sector, implementation of reform	2.6	0.4	0.6
Sick pay over 30 days	12.2	13.3	16.3
Costs of implementing health insurance	27.9	27.5	25.9
Other expenses	51.6	37.5	38.4
Total	**788.9**	**797.9**	**820.1**
% in relation to the previous year	**102.9**	**101.1**	**102.8**

Source: The Ministry of Health and Social Welfare of the Republic

According to the financial reports of the Health Insurance Fund of the Republic, in 2020, its revenues amounted to BAM 846.6 million and expenditures amounted to BAM 798.6 million (a surplus of BAM 48 million). The Health Insurance Fund's revenues amounted to BAM 718.8 million in 2019, BAM 663.2 million in 2018 and BAM 658.1 million in 2017. Its total expenditures amounted to BAM 694.4 million in 2019 (a surplus of BAM 24.4 million), compared to BAM 674.9 million in 2018 (a deficit of BAM 11.7 million) and BAM 667.2 million in 2017 (a deficit of 9.1 million).

According to the financial reports of the Health Insurance Fund, the revenues of the Health Insurance Fund include social security contributions, non-tax revenues and transfers. The RS Government allocated BAM 80.3 million (approximately 0.71 per cent. of nominal GDP) to the Health Insurance Fund in 2019, as compared to BAM 178.5 million (approximately 1.59 per cent. of nominal GDP) allocated in 2020. The 2021 Budget allocates 124 million (approximately 1.1 per cent. of nominal GDP) to the Health Insurance Fund.

Privatisation Process

The implementation of privatisation in the Republic started in 1998 when a set of laws regulating this area was adopted in July of the same year. These laws included the Law on Privatization of State Capital in Enterprises, as a base document of the privatisation project. This law was applied until June 2006 when a new Law on Privatization of State Capital was adopted in the Republic, which introduced provisions aimed at efficient and faster implementation of the process relating to sale of state capital in enterprises. The Republic's Share Fund was established with a portfolio comprising non-privatised state capital in enterprises, and since 2007 its management was entrusted to the IDB, which became the authorised seller of the state capital. The RS Government is usually a minority shareholder in public companies and the IDB appoints RS Government representatives on the board of such companies. The process of privatisation is in its final phases, with over 20 enterprises remaining in the Republic that were left to be privatised as at the end of 2020.

The property of the Republic is included in the Share Fund, and its portfolio contains non-privatised state capital in enterprises, while its management is entrusted to the IDB. Restructuring of public companies is one of the reforms undertaken by the RS Government and at this moment the RS Railways is in the restructuring process.

In 2016, although there were activities performed in relation to organising sale of state capital shares, there were no successfully completed privatisations. In 2017, the public company "Nova Borja" a.d. Teslić, a medium sized wood industry company, was privatised in the Republic through a tender. The achieved sale price for a block of state capital shares amounted to BAM 350,000, and the buyer committed to investments in the amount of BAM 4.7 million and additional employment of new workers. This resulted in increase in the number of employees in the company to 250 workers in the three year period. In 2018, two enterprises were privatised, "Čajavec mega" a.d. Banja Luka and "Mikroelektronika" a.d. Banja Luka through the stock exchange sale, while the remaining state capital of "Glas Srpske" a.d. Banja Luka, where earlier most of BiH capital that had been privatised through a tender, was also sold. The privatised enterprises were a part of the former Čajavec Banja Luka business, which was previously dealing with manufacturing in electric industry. The achieved sale price for about 24 per cent. of state capital of "Čajavec mega" a.d. Banja Luka, a medium size company which, in the meantime, changed its business to real estate, was BAM 1.5 million. The sale price for about 26 per cent. of BiH capital in the company "Mikroelektronika" a.d. Banja Luka, which continued its tradition of producing electric devices, was BAM 461,063. In 2019, an enterprise in the wood industry, "Razvitak" a.d. Dvorovi, Bijeljina was privatised through a sale of shares at the stock exchange, and the achieved price for 30 per cent. of BiH capital was BAM 35,880. In 2020, there were no privatisations of enterprises.

The privatisation plan for 2021 involves 10 enterprises, three of which are closed joint stock companies with privatisation planned to be conducted through tenders. It concerns enterprises where 100 per cent. of the share capital is owned by the state and which have already been offered for sale in the past years, but there have been no buyers interested. Of the remaining seven companies whose capital will be offered for sale through the Banja Luka Stock Exchange ("**Banja Luka Stock Exchange**"), six are enterprises where the state owns minority blocks of shares (less than 50 per cent. share capital) and there is only one company where a controlling block of shares owned by the state will be offered for sale through the stock-exchange. The above involve all non-privatized enterprises that meet basic privatisation requirements.

Government Shareholding

The IDB has been founded as a joint stock company pursuant to the Law on the Republic of Srpska Investment-Development Bank (*Official Gazette of the Republic, No. 56/06, 28/13*) for the purpose of efficient management of the Republic's assets placed in six funds, with the aim to provide support to the implementation of projects contributing to the economic growth and development of the Republic. The funds managed by IDB have also been formed as joint stock companies, but they are diverse in their nature in terms of their establishment goals as well as portfolio structure. Namely, three funds deal with placement of loans as their main activity, one fund manages real estate and claims owned by the Republic and two funds have portfolios which are comprised of securities. Of the two latter funds, the Republic's Share Fund holds shares and ownership interests of the state-owned capital in all non-privatized companies in the Republic, including the state-owned capital of all strategic enterprises which are listed below. IDB manages the state-owned capital in those companies in accordance with the RS Government's decisions, in such manner that it analyses the assembly materials for the convened shareholders' meetings of the stated companies (except those which are 100 per cent. state-owned) and prepares voting recommendations for representatives of the state-owned capital appointed by the RS Government, and collects feedback information on the assembly meetings held in order to monitor activities of those companies.

In accordance with the Decision on Determination of enterprises of strategic importance (*Official Gazette of the Republic, Nos. 110/17, 2/18, 91/18, 49/19, 62/19 and 15/21*) of the RS Government, the following state-owned enterprises have been designated as companies of strategic importance for the Republic and their state capital will not be subject to privatization until further notice:

No.	Name of enterprise	% of state-owned capital(1)	Activity
1	MH ERS MP a.d. Trebinje	100.00	Electricity supply and trade
2	JP Šume Republike Srpske a.d. Sokolac	100.00	Forest cultivation and protection
3	JP Putevi Republike Srpske d.o.o. Banja Luka	100.00	Management of main and regional roads
4	JP Autoputevi Republike Srpske a.d. Banja Luka	100.00	Management of RS motorways and high speed roads
5	JP Srna a.d. Bijeljina	100.00	RS news agency
6	JP Protivgradna preventiva Republike Srpske a.d. Gradiška	100.00	Anti-hail protection
7	Željeznice Republike Srpske a.d. Doboj	64.98814817	Transport of passengers and goods by railroad
8	Aerodromi Republike Srpske a.d. Banja Luka	64.69084436	Air traffic services
9	Pošte Srpske a.d. Banja Luka	65.00081165	Activity of providing universal postal services
10	Lutrija Republike Srpske a.d. Banja Luka	85.93856	Gambling and betting activities
11	Industrijske plantaže a.d. Banja Luka	65.000011	Logging
12	MH ERS ZP Elektro-Bijeljina a.d. Bijeljina	MH ERS	Electricity distribution
13	MH ERS ZP Elektro-Hercegovina a.d. Trebinje	MH ERS	Electricity distribution
14	MH ERS ZP Hidroelektrane na Vrbasu a.d. M. Grad	MH ERS	Electricity production
15	MH ERS ZP Hidroelektrane na Drini a.d. Višegrad	MH ERS	Electricity production
16	MH ERS ZP Elektrodistribucuja a.d. Pale	MH ERS	Electricity distribution
17	MH ERS ZP RiTE Ugljevik a.d. Ugljevik	MH ERS	Electricity production
18	MH ERS ZP RiTE Gacko a.d. Gacko	MH ERS	Electricity production
19	MH ERS ZP Elektro-Doboj a.d. Doboj	MH ERS	Electricity distribution
20	MH ERS ZP Hidroelektrane na Trebišnjici a.d. Trebinje	MH ERS	Electricity production
21	MH ERS ZP Elektrokrajina a.d. Banja Luka	MH ERS	Electricity distribution
22	MH ERC ZP IRCE a.d. Istočno Sarajevo	MH ERS + 13.49976656	Technical testing and analysis

Source: The Central Registry of Securities, Republic of Srpska

Notes:

(1) The RS Government is an ordinary shareholder and does not have any preferential rights over the shares of each of these companies.

State-owned capital in enterprises under ordinal numbers 12-22, which makes up 65 per cent. of their total share capital of these enterprises, was entered as founding capital in MH ERS-Matično preduzeće a.d. Trebinje, founded as a holding company and their manager.

Money Laundering, Organised Crime and Corruption

Money Laundering

The Law on Prevention of Money Laundering and Financing of Terrorist Activities (*Official Gazette of BiH, Nos. 47/14 and 46/16*) (the "**Law on AML/FTA**") prescribes measures, activities and actions in financial and non-financial sector for the purpose of preventing and discovering money laundering and financing of terrorist activities. The Law on AML/FTA outlines persons obliged to conduct the measures, activities and actions as well as supervision of obliged persons conducting the measures, activities and actions in financial and non-financial operations, which are taken in order to prevent money laundering and financing terrorist activities. The law provides a framework for: tasks and competences of the Financial Intelligence Department of BiH Investigation and Protection Agency; institutional cooperation of competent authorities of BiH, the Federation, the Republic and Brčko District and other levels of government; international cooperation; the tasks, competences and activities of other authorities and legal persons with public competences in respect of anti-money laundering and prevention of financing of terrorist activities in BiH; and other tasks important for the development of the system under the AML/FTA.

The Law on AML/FTA prescribes that the supervision over the work of obliged persons, in relation to the implementation of this Law and other laws which regulate obligations of implementing measures for prevention of money laundering and financing of terrorist activities ("**AML/FTA**")) is performed by authorised agencies and bodies in accordance with the provisions of the Law on AML/FTA and other special laws which regulate such obliged persons and the authorised agencies and bodies. See "*– Monetary System – Banking Sector – Prevention of Money Laundering and Financing of Terrorism*".

The RS Government has shown commitment to harmonisation with international standards and practices, EU Acquis and practices and standards of the Council of Europe in respect of the prevention of AML/FTA. For example, in January 2016, the RS Government appointed a working group for reporting and implementing international obligations in respect of the prevention of money laundering and combating terrorism (the "**Inter-Sectoral Working Group**"), with the task to monitor, coordinate and report on activities relating to the implementation of international obligations in in respect of the prevention of AML/FTA, mainly through membership in the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism ("**MONEYVAL**") and implementing special procedures within FATF and Council of Europe's Convention on Laundering, Search and Confiscation of the Proceeds from Crime acquired through crime and financing of terrorism.

In 2016, BiH prepared the Assessment of the Threat of Money Laundering and Terrorist Financing, as a comprehensive process of gathering as well as analysis of relevant data in order to assess the level of exposure of individual sectors to money laundering and financing of terrorism. Starting the process in June 2016, the RS Government adopted the Assessment of the Risk of Money Laundering and Financing of Terrorism in BiH for the period of 2018 to 2022 and the Action Plan for the fight against money laundering and financing terrorism in BiH for the same period in June 2018, for removal of flaws identified in the AML/FTA system. The Republic's authorities that participated in developing the assessment, along with the Inter-Sectoral Working Group are tasked with monitoring the implementation of the Action Plan for the period 2018 to 2020.

The assessment for harmonization is done through MONEYVAL. Within round four of MONEYVAL evaluation, the Republic conducted activities on amendments of financial sector regulations by adopting the following regulations in accordance with FATF and MONEYVAL recommendations in the time 2015-2018:

- Law on Amendments to the Law on Investment Funds (*Official Gazette of the Republic, No. 82/15*);
- Law on Representation in Insurance and Mediation in Insurance and Reinsurance (*Official Gazette of the Republic, No. 47/17*);
- Law on Amendments to the Law on Insurance Companies (*Official Gazette of the Republic, No. 47/17*);
- Regulation on amendments to the Regulation on importing and exporting effective foreign currencies, convertible marks, cheques and securities (*Official Gazette of the Republic, No. 46/17*);
- Law on Amendments to the Law on Foreign Exchange Operations (*Official Gazette of the Republic, No. 20/18*).

In February 2018, during a FATF plenary meeting a unanimous decision was made to “delist” BiH, i.e. to remove it from the FATF “grey list”. On assessment, it was concluded in the plenary meeting that BiH removed various flaws in its fight against money laundering and financing terrorism in accordance with FATF recommendations, which allowed removal of BiH to be placed in the regular reporting regime.

In May 2020, the European Commission adopted a Delegated Commission Regulation (EU) 2020/855 of 7 May 2020 under which it removed BiH from the list of EU List of High Risked Countries.

A plenary session of MONEYVAL, held in September 2020, unanimously adopted the request by BiH to exit the monitoring process after round four of the evaluation. MONEYVAL’s analysis of BiH concluded that all necessary laws and by-laws had been adopted in BiH, and the country was awarded higher grade for all key recommendations compared to the previous assessment held in 2015.

In order to continue harmonization with international standards and practices, EU Aquis and practices and standards of the Council of Europe in the AML/FTA area, the Council of Ministers of BiH in July 2018 reached the decision on forming the working group for development of the Draft Law on Prevention of Money Laundering and Financing of Terrorist Activities, which was adopted in November 2018 by the Council of Ministers of BiH based on proposals by institutions in BiH. The working group has not finished all its tasks. In the following period there are planned activities on harmonisation of the parts of this law, particularly those parts requiring previous interventions in the Republic’s and the Federation’s legislations.

Organised Crime and Corruption

The Republic has a legal and institutional framework to combat organised crime and corruption, which is one of the key priorities of the Republic.

The strategy against corruption and organised crime in the Republic was first adopted for the period 2008 to 2012. The second strategy document adopted was the Anti-corruption Strategy in the Republic for the period 2013 to 2017. This document had new methodological approach realised through different ways of creating strategic goals, wider scope (except public strategy included private sector and non-governmental sector), introduction of new methods for fight against corruption within institutions through drafting of integrity plans and preparation of centralised action plan, which was to be used as a basis for the establishment of a single mechanism for monitoring implementation of the strategy.

The third strategy, the Anti-corruption Strategy and Action plan, which is currently in force in the Republic relates to the period 2018 to 2022. The Ministry of Justice is appointed as the manager and coordinator of all anti-corruption activities in the Republic. The RS Government formed a commission for implementation of the strategy in the Republic for the period 2018 to 2022, including 17 equal members, as follows:

- • Minister of Justice – president of the Commission;
- Minister of Interior – vice-president of the Commission;
- Minister of Finance;
- Minister of Administration and Local Self-Government;
- Minister of Economy and Entrepreneurship;
- Minister of Scientific and Technological Development, Higher Education and Information Society;
- Minister of Health and Social Welfare;
- Minister of Education and Culture;
- Minister of Labour, War Veterans and Disabled People’s Protection;
- President of the Committee for security of the RS National Assembly;
- President of the Supreme Court of the Republic;
- Chief Prosecutor of the Republic;

- President of the Commission for conflict of interest in government bodies of the Republic;
- Attorney General of the Republic;
- Director of the Republic's administration for geodetic and property affairs;
- President of the Concession Commission of the Republic;
- Chief Auditor of the Supreme Office for the RS Public Sector Auditing.

The commission has six member, which are observers:

- Representative of NGOs;
- Representative of news and media;
- Representative of academic union, from among professors;
- President of the Students' Union of the Republic;
- President of the Association of Unions of the Republic; and
- President of the Union of Employers' Associations of the Republic.

The commission is responsible for managing activities and coordination of entities competent for implementation of the current strategy as well as collecting reports from those responsible for measures and activities from the strategy and its analytical processing for the purpose of preparation of the report. It is also the commission's responsibility to report to the RS Government, semi-annually, on realisation of measures from the action plan, along with providing initiatives and proposing measures for better implementation of the strategy, semi-annually audit of the action plan and implementation of the strategy. The commission co-ordinates activities and establishes cooperation with competent institutions in BiH and international organisations in the field of anti-corruption.

In 2017, the Republic adopted the Law on Protection of Persons Reporting Corruption (*Official Gazette of the Republic, No. 62/17*), which includes the dual system of protection, i.e. administrative and court protection to persons suffering consequences after reporting corruption, applying to both the public and private sector.

The framework of criminal legislation in the Republic are harmonized to track the corresponding legislation under EU law, both in terms of tightening sanctions and the scope of criminal acts. The Criminal Code in the Republic significantly tightens the penalties for organised crimes and corruption. The legislative framework is enshrined in the Law on Amendments to the Criminal Code of the Republic (*Official Gazette of the Republic, No. 15/21*). The Republic is also preparing a new Law on Inspecting Property Origin. Further, the Law on Protection of Rights on Trials within a Reasonable Time (*Official Gazette of the Republic, No. 99/20*) defines the timeframes for relevant proceedings in order to further the independence, transparency and accountability of judicial institutions, particularly in the fight against organised crime and corruption.

EXTERNAL SECTOR

Provision of Information on the External Sector

Information on the balance for payments is only prepared by the Central Bank at the BiH level and no such statistics are individually collected in respect of the Republic, other than certain components such as the import and export of goods and FDI, which are discussed below. The recording and publication of information on the import and export of goods is within the competence of the Institute of Statistics of the Republic, whereas the Central Bank records and publishes data relating to FDI in the Republic.

Balance of Payments

The following table presents the BiH balance of payments for the years 2016 to 2020:

	Year ended 31 December				
	2016	**2017**	**2018**	**2019**	**2020**
			(EUR millions)		
Current account balance	**(728)**	**(772)**	**(572)**	**(555)**	**(557)**
Goods and services (net)	**(2,524)**	**(2,601)**	**(2,520)**	**(2,656)**	**(2,542)**
Goods (net)	(3,625)	(3,792)	(3,846)	(4,073)	(3,236)
Services (net)	1,083	1,191	1,325	1,416	694
Primary income (net)	**20**	**(135)**	**(102)**	**(11)**	**58**
Equity related income, net	475	495	525	579	357
Debt related income, net	(455)	(630)	(627)	(590)	(300)
Secondary income (net)	**1,793**	**1,959**	**2,050**	**2,112**	**1,927**
Capital account balance	**153**	**175**	**159**	**152**	**159**
Financial account balance	**(418)**	**(459)**	**(454)**	**(302)**	**(297)**
Direct investments (net)	(281)	(367)	(507)	(354)	(330)
Portfolio investments (net)[(2)]	85	80	131	110	20
Other investments (net)	(698)	(753)	(647)	(536)	(623)
Reserves assets (net) (negative sign indicates increase)	476	581	569	478	636
Errors and omissions (net)	**156**	**144**	**(44)**	**101**	**101**

Source: Central Bank, Annual Reports

The following table represents BiH balance of payments as a percentage of nominal GDP for the years 2016 to 2020:

	Year ended 31 December				
	2016	**2017**	**2018**	**2019**	**2020**
			(% of GDP)		
Current account balance	**(4.76)**	**(4.85)**	**(3.34)**	**(3.07)**	**(3.08)**
Goods and services (net)	**(16.62)**	**(16.21)**	**(14.74)**	**(14.72)**	**(14.06)**
Goods (net)	(23.71)	(23.64)	(22.49)	(22.57)	(17.90)
Services (net)	7.08	7.42	7.75	7.85	3.84
Primary income (net)	**0.13**	**0.84**	**0.60**	**0.06**	**0.32**
Equity related income, net	3.11	3.09	3.07	3.21	1.98
Debt related income, net	(2.97)	(3.93)	(3.67)	(3.27)	(1.66)
Secondary income (net)	**11.73**	**12.21**	**11.99**	**11.70**	**10.66**
Capital account balance	**1.00**	**1.09**	**0.93**	**0.84**	**0.88**
Financial account balance	**(2.73)**	**(2.86)**	**(2.66)**	**(1.68)**	**(1.65)**
Direct investments (net)	(1.84)	(2.29)	(2.97)	(1.96)	(1.83)
Portfolio investments (net)[(2)]	0.56	0.50	0.76	0.61	0.11
Other investments (net)	(4.56)	(4.70)	(3.78)	(2.97)	(3.45)
Reserves assets (net) (negative sign indicates increase)	3.11	3.62	3.33	2.65	3.52
Errors and omissions (net)	**1.02**	**0.90**	**0.26**	**0.56**	**0.56**

Source: Central Bank, Annual Reports

During 2016 to 2020, deficit of current account was between 4.7 per cent. and 3.1 per cent. of GDP. In 2016, slower growth of the balance of payments position continued in comparison to 2015. Deficit of current account continued to decrease to EUR 728 million, i.e. 4.8 per cent. of GDP, or by 2.3 per cent. in comparison to EUR 745 million in 2015. Export of goods and services increased by 4.8 per cent. in 2016 in comparison to 2015, and it was EUR 4.8 billion, while import of goods and services increased by 1.8 percent, and was EUR 8.2 billion. Increase of export was mainly caused by increase of export of mineral fuels and lubricants due to the price of oil increase on global market. Trend of high export rates of textile, wood and wood produce, and products from the chemical industry continued. Most significant increase of import was in the import of vehicles, pharmaceutical products, etheric oils and cosmetics.

In 2016, surplus of primary income was 0.1 per cent. of GDP, which is an increase by 18.9 per cent. in comparison to 2015, as a result of declined expenses on investing. Decrease by 1.2 per cent. in surplus of secondary income in the same period was partly caused by decrease of inflow from abroad in 2016 compared to 2015. Inflow from financial account in 2016, regarding FDI was EUR 247 million and it increased compared to 2015 by 11.6 per cent., but EUR 74.8 million relates to reinvested profit.

In 2017, the BiH current account deficit was EUR 772 million, which was 4.9 per cent. of its GDP. This was an increase of 6 per cent. in comparison to 2016. The current account deficit can be attributed to a deficit on the account of goods, while the exchange of services and income, both primary and secondary with abroad, had a positive balance. The increase of current transactions with abroad, especially on the account of goods is driven by an increase of economic activity in the country, i.e. increase of the GDP, which can be seen through an increase of imports, while the recovery of economies in the Eurozone and in the surrounding countries stimulated growth of domestic production and consequently the GDP of BiH. Account of transaction of goods had a deficit in the amount of EUR 3.6 billion. In comparison to the previous year, trade deficit increased by EUR 183 million or 5.3 per cent. The most significant annual increase of deficit was in products of mineral origin, EUR 194.9 million, which was mainly caused by an increase of oil prices on the global market and in transportation means (EUR 42.5 million), as a result of an increase of demand. On the other hand, the increase of surplus in the group of furniture had a positive effect on the trade deficit, while the positive balance in the trade of base metals was due to an increase of prices of base metals and an increase of demand. On the account of services surplus amounted to EUR 1.2 billion, and net inflow on the account of services increase by 9.0 per cent. In 2017, remittances from abroad were in the amount of EUR 1.3 billion, and in comparison to previous year they increased by 7.2 per cent. Recovery of economies from which we have biggest inflow of workers' remittances was the cause of this increase. Pensions and other most significant inflow in secondary income were EUR 0.6 billion, and this inflow increased by 7.2 per cent. Even though we have significant trade deficit, surplus on the account of secondary income and services covers almost 80 per cent. of goods deficit.

In 2018, deficit of current account of BiH was EUR 572 million, which is 26 per cent. less in comparison to 2017, when it was EUR 772 million. As in previous years, main cause of deficit of current account was the deficit on the account of goods, while exchange of services, and secondary income with abroad had positive balance. Increase of current transaction with abroad on the account of goods is the reflection of increase of economic activities in the country, i.e. increase of GDP, which is seen through increase of import, while increase of export is also seen. Alongside that, price changes of energy products on global market also affected value of export and import. Account of goods transactions had deficit and in comparison to the previous year trade deficit increased. Import and export in 2018 had modest rate of growth, 6.0 per cent. and 7.6 per cent., respectively. BiH is a net importer of processed food, oil and oil products, i.e. products of mineral origin, pharmaceutical products, textile products, as well as in trade of machines, devices and electrical devices, for which the balance was negative. BiH is net exporter of base materials, wood, wood products and furniture, for which the balance was positive. Most significant increase of deficit was in the category of vehicles, and in net import of products of mineral origin. On the other hand, trade of machines, devices and electrical devices and base metals had positive effects on trade deficit. Primary income was negative, i.e. there was outflow of funds. Inflow regarding income of employees in foreign organisations slightly decreased. Outflow regarding interest rate from borrowed funds of all sectors and dividend payments for companies owned by foreigners caused slight increase of annual outflow. In 2018 total inflow regarding remittances from abroad was EUR 1.4 billion, and in comparison to previous year, increase of inflow was registered (2.0 per cent.). Stable inflow of remittances was caused by recovery of economies from which we have biggest inflow or workers' remittances. Pensions and other significant inflow on the account of secondary income were EUR 0.6 billion, and inflow regarding that increased by 3.2 per cent. Even though we have significant trade deficit, surplus on the account of secondary income and services covers almost 80 per cent. of goods deficit.

In 2019, deficit of the current account of BiH was in the amount of EUR 555 million, and it decreased by 3.1 per cent. of GDP (decrease of 2.9 per cent. in comparison to 2018). As all previous years, main cause of the deficit on current account was the deficit on the account of goods, while exchange of services and secondary income with abroad had positive balance. In the first half of 2019, import and export had positive rate of growth, but very low, while in the second half of the year import and export significantly decreased which was mainly caused by decline of global economic activities. Account of goods transactions had the deficit in the amount of EUR 4.1 billion. In comparison to the previous year, trade deficit increased by EUR 325.4 million or 8.6 per cent. Export in 2019 had negative rate of growth, 3.4 per cent., while import had positive and very low rate of growth, 1.2 per cent. The most significant annual increase of deficit was in the category of vehicles, where deficit increased by EUR 52.4 million and in net import of base metal, where deficit increase by EUR 71.2 million and in products of mineral origin with EUR 69.8 million. On the other hand, trade of machines, devices and electrical devices had positive effects on trade deficit. Surplus in the amount of EUR 1.3 billion was on the account of services, and net inflow on the account of services increased by EUR 77.4 million or by 6.1 per cent. Negative balance was recorded on the account of primary income. In 2019 remittances from abroad were in the amount of EUR 1.2 billion, and in comparison to the previous year it is an increase of inflow by EUR 128.0 million (9.7 per cent.). Pensions and other significant inflow on the account of secondary income were in the amount of EUR 0.6 billion, and inflow regrading that increased by 3.8 per cent. Even though BiH have significant trade deficit, surplus on the account of secondary income and services covers almost 85 per cent. of goods deficit.

In 2020 deficit of the current account of BiH was in the amount of EUR 557 million, i.e. 3.1 per cent. of GDP (increase by 0.2 per cent. in comparison to 2019). In eleven months of 2020, annual decrease of export is 10.3 per cent. The most significant decline in export goods was seen in mineral products and base metals, by 19.0 per cent. and 19.9 per cent., respectively. Smallest decrease of export was in furniture, by 0.9 per cent., annually. Growth was recorded during the period when most of countries which are our trade partners again closed their economies due to the second wave of the pandemic, which reflects to low base, because even during mid-2019, economic activities in Europe slowed down. In the eleven months of 2020, rate of decrease of import is 14.4 per cent. annually. Import of products of mineral origin is lesser by 40.0 per cent., where also imported amounts also decreased, while the price of oil during the year decreased. Furthermore, categories which had significant decrease of value of import were transportation means, machines and devices, electrical devices and base metals. Even though our economy did not close down, there are no signs of domestic demand recovery. Accounts of primary income and secondary income had a positive balance. According to the Central Bank, FDI inflow in 2020 amounted to EUR 330 million.

Financial Account

During the period 2016 to 2020, the BiH financial account deficit, which comprises net FDI, portfolio, other investments and reserve assets, was between 1.65 to 2.73 per cent. of GDP.

Inflows to the financial account in 2016 amounted to EUR 418 million and decreased by more than a quarter on an annual basis. Accordingly to the Central Bank annual report for 2016, FDI inflows amounted to EUR 258 million, with EUR 74.9 million related to reinvested earnings. Compared to 2015, the inflow of foreign direct investment increased by 11.6 per cent. Foreign assets decreased by EUR 202.5 million, with the banking sector increasing its placements abroad, while the main reason for the decrease in the use of foreign currency funds by households and companies. Net financial liabilities amount to EUR 0.5 billion, which refers to borrowing by all sectors. The banking sector reduced its liabilities abroad by EUR 54.1 million. On the other hand, the government sector (for the level of BiH) in 2016 borrowed in the amount of EUR 89.5 million (total withdrawals and repayment of principal). The corporate sector increased its borrowing abroad by EUR 217.2 million last year. The growth of reserve assets amounts to EUR 475.6 million and is higher by 5.6 per cent. compared to the previous year.

In 2017, an inflow of foreign direct investment was recorded. Foreign investments in 2017 amounted to EUR 387.8 million, half of which relates to reinvested earnings, which is a significant increase in capital in this form compared to the previous year, and is in line with the increased volume of trade and the need to finance it. EUR 159.7 million was invested in the form of equity securities. Although foreign direct investment doubled on an annual basis, foreign direct investment in the observed year represents only a third of the inflows realized during the period before the crisis. The increased volume of trade and transactions with foreign countries led to a decrease in the financial assets of companies, but also of the population by EUR 389.7 million. In the form of trade credits as a form of indebtedness of import companies, the inflow amounted to EUR 292.6 million, where the annual inflow increased in line with the increase in imports in 2017. Furthermore, other forms of corporate borrowing, i.e. long-term loans amount to EUR 227.9 million, where there was a slight decrease in annual inflows, due to the maturity of loans. The government sector repaid more debts in the observed year than the new borrowing. If we take into account the inflow based on Russian debt, the government sector almost neutralized the negative foreign balance at the level of the previous year. In terms of current account financing, the contribution of the banking sector is quite neutral, because in the past year, the indebtedness of the banking sector amounted to BAM 33.7 million. All of this resulted in an increase in foreign exchange inflows into the country, which contributed to the increase in reserve assets by more than EUR 0.5 billion.

The missing funds to cover the current account deficit in 2018 can be attributed to an inflow of foreign direct investment, which increased by 15.4 per cent. annually, and additional borrowing by government and other sectors. Foreign direct investment in 2018 amounted to EUR 408.9 million. In 2018, there was evidently a significant inflow of funds based on ownership shares (EUR 288.9 million). Reinvested earnings last year amounted to EUR 200.5 million, while foreign-owned companies repaid more on the basis of borrowing than the new borrowing amounted to EUR 60.7 million. Although foreign direct investment increased on an annual basis, foreign direct investment in the observed year represents only a third of the inflows realized during the period before the crisis. The increased volume of transactions with foreign countries led to a decrease in the financial assets of companies and individuals by EUR 496.1 million, while the banking sector increased financial assets by EUR 313.1 million. In the form of trade credits as a form of indebtedness of import companies, the inflow amounted to EUR 309.8 million, where the annual inflow increased slightly. Furthermore, other forms of corporate borrowing, i.e. long-term loans amount to EUR 235.5 million, and the corporate sector has doubled its borrowings abroad compared to the previous year. The government sector at the BiH level repaid more debts in the observed year than the new borrowing. Liabilities of the banking sector increased by EUR 205.6 million due to an increase in foreign currency deposits. The total inflow of funds was higher than the current account deficit, and there was an increase in reserve assets in the amount of BAM 0.6 billion.

The missing funds to cover the current account deficit were recorded through the financial account. In 2019, the current account deficit was financed by the inflow of foreign direct investment and additional borrowing by the private sector in the form of loans and trade credits. The inflow on the basis of foreign direct investment in 2019 amounts to EUR 480.3 million, and there was an increase in inflow by 12.1 per cent. annually. Of this amount, over half of the amount refers to reinvested earnings, which in 2020 amounted to EUR 245.3 million. Although foreign direct investment increased on an annual basis, foreign direct investment in 2019 is far below the level of inflows recorded before the financial crisis. In 2019, the volume of foreign transactions was such that it led to a decrease in financial assets of enterprises and households by only EUR 129.2 million, while the banking sector increased financial assets by EUR 214.3 million. In the form of trade credits as one of the forms of corporate borrowing, the inflow amounted to EUR 321.3 million, where the annual inflow increased slightly. Other forms of corporate borrowing, long-term loans, amount to EUR 176.5 million, which is a decrease in inflows on this basis compared to the previous year. The government sector (BiH level) repaid more debts in the observed year than the new borrowing in the amount of EUR 17.3 million. The financial liabilities of the banking sector increased slightly by EUR 37.9 million. The total inflow of funds was higher than the current account deficit, and there was an increase in reserve assets in the amount of EUR 478.1 million.

International trade in services

In recent years, BiH has witnessed an increase in trade in services, with exports of services generally increasing at a faster pace than imports. As a result, surplus from trade in services increased from 10.2 per cent. of GDP in 2016 to 11.4 per cent. of GDP in 2019. Key factors for such growth include the improvement of the business environment, the liberalisation of capital flows, visa liberalisation with many countries and higher investments by BiH and the private sector in the field of tourism. In addition, the growth of the manufacturing industry and the inclusion of domestic production in the global value chain has supported the growth of processing services, while investments in infrastructure and digitisation have propelled the growth of other business services.

In 2016, the surplus from trade in services amounted to EUR 1,082.7 million, representing annual growth of 8.6 per cent., as a result of the growth in exports of services by 7.0 per cent. In 2017, the surplus in services, recorded a modest growth of 10.0 per cent. and amounted to EUR 1,191 million. This was mainly due to the growth in exports of services by 10.0 per cent. In 2018, the surplus from trade in services continued to increase by 11.3 per cent. and amounted to EUR 1,325.4 million, as a result of the growth in exports of services by 9.1 per cent. Consistent with the trends of previous years, the surplus from trade in services in 2019 increased by 6.9 per cent. in comparison to the previous year, was mainly a result of growth in the export of services by 8.0 per cent.

The following table presents the international trade in services of BiH for the years 2016 to 2019:

	Year ended 31 December			
	2016	2017	2018	2019
	(EUR millions)			
Services balance	1,082.7	1,191.0	1,325.4	1,416.2
Export of services	619.9	1,781.1	1,943.7	2,099.7
Import of services	537.2	590.1	618.3	683.5

Source: Agency for Statistics of BiH

Savings and Investment Balance

In 2016, BiH achieved modest economic growth of 3.4 per cent. The main drivers of this growth were exports and final consumption with modest growth in investment and fixed assets. The increase in domestic demand and exports led to real growth in imports, which, despite export growth, led to a real increase in the foreign trade deficit. The strong growth of budget expenditures on public works of approximately 30 per cent. was a major factor in the overall increase in investment, as private investment was slightly reduced.

During 2017, BiH maintained macroeconomic and fiscal stability. Indicators for 2017 indicate that (according to the Agency for Statistics of BiH) a real rate of 3.4 per cent. was achieved. The main driver of growth was strong real growth in merchandise exports of over 10 per cent. in the first half of the year, which was accompanied by modest growth in private consumption and investment. The primary role in increasing domestic demand should be played by the private sector through real consumption growth of 1.3 per cent., and investment in fixed assets of 5.8 per cent. Also, fiscal policy occupies a significant place in attracting new investors and investments through influence in the regulation of the business environment. The tax burden on the private sector and the population (employees), with the present reduction of the share of public expenditures in GDP (both current and total), clearly indicates a stagnation of public spending, which certainly has a stimulating effect on development and growth in the private sector. This modest growth of total public revenues, along with the reduction of their share in GDP, disincentivises overall growth of economic activity.

During 2018, BiH also maintained macroeconomic and fiscal stability. According to available data from the Agency for Statistics of BiH, BiH has achieved economic growth of about 3.7 per cent. This rate of economic growth is a continuation of the trend from the previous year and is in the range of the regional average. If the structure of economic growth in BiH is observed more carefully during 2018, increases are visible within all categories except public spending. Thus, the most significant contribution to economic growth was made within private consumption, which increased by 3.1 per cent. during 2018. Given the high representation of this category in the structure of GDP, it can be stated that it was a key generator of economic growth in the first half of 2018. The double-digit growth rate was also recorded within total investments, however, having in mind the low level of their representation in the structure of GDP, it can be stated that the contribution of investments was somewhat more modest. During the period January to September 2018 in BiH, the trend of growth of industrial production, employment, foreign trade with the world, as well as the collection of public revenues continued. These, as well as most other short-term indicators, implicitly indicate the continuation of the growth of private consumption and investment, which, together with the neutral contribution of the trade balance, represent the key carriers of economic growth in 2018. Also, fiscal policy occupies a significant place in attracting new investors and investments through influence in the regulation of the business environment. The tax burden on the private sector and the population (employees), with the present reduction of the share of public expenditures in GDP (both current and total), clearly indicates the stagnation of public spending, which certainly has a stimulating effect on development and growth in the private sector.

The trend of slowing economic activity both in the world and in BiH was visible even before the outbreak of the COVID-19 pandemic. Namely, according to the official data of the Agency for Statistics of BiH for 2019, real GDP growth of 2.4 per cent. was registered in BiH, which is a slightly lower rate of economic growth compared to the previous few years when the average rate of economic growth was about 3.3 per cent. annually. If we look more closely at the structure of GDP growth over the previous year, it can be seen that it was achieved due to strengthening domestic demand (in the ratio of consumption 2/3 and investment 1/3), while on the other hand the external sector has a negative contribution to economic growth in BiH due to stagnation of exports and growth of imports.

Despite the extraordinary circumstances caused by the COVID-19 pandemic, BiH maintained macroeconomic and fiscal stability in 2020. The fiscal goal of BiH remains the realization of the primary surplus, i.e. in 2021 the reduction of the primary deficit, with the control of public spending so that consolidated public spending at the level of Bosnia and Herzegovina would not exceed 40 per cent. of GDP.

	Year ended 31 December				
	2016	**2017**	**2018**	**2019**	**2020p**
			(% of GDP)		
GDP (*BAM millions*)	31,034	32,299	34,264	35,753	34,553
Final consumption	101.1	95.8	94.1	94.0	97.0
Private consumption	82.1	75.5	74.4	74.0	75.4
Government final consumption	19.7	20.3	19.6	20.0	21.5
Gross national savings	10.9	16.1	17.2	17.8	12.0
Private gross national savings	5.9	9.6	11.3	10.4	11.8
Government gross national savings	5.0	6.5	5.9	7.4	0.2
Gross domestic investment	16.0	20.4	20.9	21.4	19.5
Private investments	12.2	16.7	17.1	17.2	16.3
Government investments	3.8	3.7	3.8	4.2	3.2
Total savings – investment balance	**(5.1)**	**(4.3)**	**(3.7)**	**(3.6)**	**(7.5)**
Private savings – investment balance	(6.3)	(7.1)	(5.8)	(6.8)	(4.5)
Government savings – investment balance	1.2	2.8	2.1	3.2	(3.0)

Source: International Monetary Fund

International Trade Agreements

Foreign trade policy, international economic relations and foreign investment policy are governed by the joint institutions of BiH. Laws regulating this area are: Law on Foreign Direct Investment Policy in BiH ("*Official Gazette of Bosnia and Herzegovina", nos. 4/98, 17/98, 13/03, 48/10, and 22/15*), Law on Foreign Trade Policy of BiH ("*Official Gazette of Bosnia and Herzegovina", nos.7/98 and 35/04),* Law on Customs Policy of BiH ("*Official Gazette of Bosnia and Herzegovina", no. 58/15),* Law on Customs Tariff ("*Official Gazette of Bosnia and Herzegovina", no. 58/12),* Law on Free Zones in BiH ("*Official Gazette of Bosnia and Herzegovina", no. 99/09).* BiH is committed to building a liberal economy based on market principles and freedom of movement of people, capital, goods and services. In the field of international trade relations, BiH is committed to integration into the international multilateral trade system, established within the World Trade Organization and to build trade legislation, based on the rules and principles on which this organisation is based.

BiH is involved in regional integration processes in Europe. BiH signed the SAA with the EU in 2008. The Interim Trade Agreement, as a part of the SAA, came into effect in 2008, while the overall SAA entered into force in June 2015. The SAA provides for the establishment of a free trade area between the EU and BiH. In the long run, this process implies full transposition of the acquis communautaire into domestic legislation and full membership of BiH in the EU. In the meantime, until the completion of the EU accession process, BiH is included in the CEFTA Agreement in the free trade zone with other Western Balkan countries, which are also part of the stabilization and association process with the EU. In addition, all members of the CEFTA Agreement, including BiH, have signed free trade agreements with the EFTA. BiH has free trade agreements with its main trade partners, including the EU (Stabilization and Association Agreement) (*Official Gazette of BiH – International Agreements, No. 10/08*), CEFTA, the European Free Trade Association ("**EFTA**"), Free Trade Agreement between BiH and the Republic of Turkey (*Official Gazette of BiH – International Agreements, Nos. 6/03 and 3/11*) and Regional Convention on Pan-Ero-Mediterranean Preferential Rules of Origin (*Official Gazette of BiH – International Agreements, No. 15/14*). Of the total foreign trade, the EU is still the main foreign trade partner of BiH, which participates in the total volume of foreign trade with 65.3 per cent., while the most important partner in terms of the volume of trade from the EU is Croatia. It is followed by CEFTA member countries, as the second most important partner in trade, which participate in the total volume of foreign trade with 14 per cent., while the most important partner is Serbia. EFTA member countries, where the most important partner is Switzerland, and the so-called "Third countries" where Turkey is the most important partner participate, with 20.7 per cent. When it comes to exports, BiH participates in trade with the EU to the amount of 71.8 per cent., CEFTA with 16.8 per cent., EFTA with 11.4 per cent. and with Turkey 4.4 per cent. of exports. In addition, BiH is in negotiations to join the World Trade Organization and continues to be a party to bilateral market access negotiations with some of the WTO member states, including the US in the area of "Trading Rights", Use GMO and Intellectual Property Rights.

In addition to the aforementioned integration processes, in the field of trade, BiH is developing trade relations bilaterally, which includes strengthening trade with countries around the world, deepening economic trade cooperation, mutual promotion and protection of investments, and further market liberalization through preferential agreements with countries, which are not included in the EU integration processes. Agreements on investment promotion and protection, which BiH has concluded with other countries in the world, define standards for foreign investment protection, and 42 bilateral agreements on investment promotion and protection are in force. Agreements on trade and / or economic cooperation are concluded for the purpose of contractual regulation, and encouragement, promotion, intensification and strengthening of bilateral trade relations and economic cooperation between Bosnia and Herzegovina and other countries, 25 agreements on trade and / or economic cooperation are in force.

Foreign Trade in Goods

The following table presents the Republic's trade balance in goods for the years 2016 to 2020:

	Year ended 31 December				
	2016	**2017**	**2018**	**2019**	**2020**
Balance of goods (BAM million)	**(1,558)**	**(1,423)**	**(1,480)**	**(1,172)**	**(1,085)**
Exports of goods *(BAM million)*	2,869	3,476	3,742	3,610	3,387
Imports of goods *(BAM million)*	4,427	4,899	5,222	4,782	4,473
Coverage of imports by exports *(%)*	64.8	71.0	71.7	75.5	75.7

Source: Single Customs Declaration on Exports and Imports of Goods – Institute of Statistics of the Republic

The following table presents the Republic's trade balance in goods as a percentage of GDP for the years 2016 to 2019:

	Year ended 31 December			
	2016	**2017**	**2018**	**2019**
	(% of GDP)			
Balance of goods	**(16.2)**	**(14.1)**	**(13.9)**	**(10.4)**
Exports of goods	29.8	34.5	35.0	32.1
Imports of goods	46.0	48.6	48.9	42.5

Source: Institute of Statistics of the Republic (calculation by the Ministry of Finance of the Republic)

Notes:

(1) Export values are calculated according to the F.O.B. parity (Franco on Board). If it is agreed that the delivery of goods is performed in the country, the invoice value is increased by the costs incurred from the place of delivery of the border of BiH. Import values are calculated according to C.I.F. parity (Cost, Insurance and Freight). If it is agreed that the goods are delivered in the country, the invoice value is reduced by the costs incurred from the border of BiH to the place of delivery in the country.

The following table shows nominal growth rates of exports, imports and coverage of imports by exports from 2016 to 2020:

	Export	**Import**	**Scope**	**Balance**	**Coverage of imports by exports**
		(BAM thousands)			*(%)*
Year					
2016	2,869,101	4,426,945	7,296,046	(1,557,844)	64.8%
2017	3,476,093	4,899,081	8,375,174	(1,422,988)	71.0%
2018	3,741,823	5,222,270	8,964,093	(1,480,447)	71.7%
2019	3,610,386	4,782,190	8,392,577	(1,171,804)	75.5%
2020	3,387,398	4,472,660	7,860,058	(1,085,263)	75.7%

Source: Institute of Statistics of the Republic

In 2016, exports amounted to BAM 2.9 billion, an increase of 9.8 per cent. and imports amounted to BAM 4.4 billion, an increase of 1.3 per cent. compared to 2015. The largest share in exports was mainly in processed wood and participates with 6.0 per cent., while the largest share in imports was mainly in oil and oils obtained from bituminous minerals (crude) and participates with 11.7 per cent. in total. In 2016, the trade deficit in goods decreased by 11.2 per cent. annually and amounted to BAM 1.6 billion, which represents 16.2 per cent. of nominal GDP.

In 2017, exports amounted to BAM 3.5 billion, an increase of 21.2 per cent. in comparison to 2016. Imports in the same period amounted to BAM 4.9 billion, an increase of 10.7 per cent. in comparison to 2016. The percentage of coverage of imports by exports in 2017 was 71 per cent., an increase of 6.2 per cent in comparison to 2016. The largest share in exports in 2017 was in electricity with 7.1 per cent. of total exports, while the largest share in imports was in oil and oils obtained from bituminous minerals (crude) with 11.8 per cent. of total imports.

In 2018, the export growth rate is higher by 7.7 per cent. compared to the previous year. On the other hand, imports are higher by 6.6 per cent. compared to the same period last year. Observed by product groups, in 2018, the largest share in exports is realized by electricity with about 8.0 per cent. of total exports, while the largest share in imports is realized by oil and oils obtained from bituminous minerals (crude), with about 11.0 per cent. of the total imports.

In contrast, negative growth of exports and imports of goods was recorded in 2019 and 2020. In 2019, exports decreased by 3.5 per cent., while imports decreased by 8.4 per cent. The volume of foreign trade of the Republic in 2019 amounted to BAM 8.4 billion, of which exports was BAM 3.6 billion and imports was BAM 4.8 billion. The foreign trade deficit of the Republic in the same year amounted to BAM 1.2 billion, or 10.4 per cent. of GDP. The coverage of imports by exports in 2019 amounted to 75.5 per cent., which is 3.8 percentage points more than in 2018. The largest share in exports in 2019 was in electricity with BAM 264 million, which amounts to 7.3 per cent. of total exports, while the largest share in imports was in petroleum oils and oils obtained from bituminous minerals, with a total value of BAM 185 million, which is 3.9 per cent. of total imports.

In 2020, exports amounted to BAM 3.4 billion, a decrease of 6.2 per cent. in comparison to 2019 and imports amounted to BAM 4.5 billion, a decrease of 6.5 per cent. in comparison to 2019. The percentage of coverage of imports by exports in 2020 was 75.7 per cent. Negative trends of industry manufacturing focused on export in 2020, especially manufacturing industry in the Republic, started last year, due to decreased of export demand from the EU and CEFTA, as well as from our most important foreign trade partners (especially Germany and Italy, which had slowdown of economic activities and decline at the end of 2018, and even negative rate of industry manufacturing). Global pandemic and related issues with chains of supply increased those negative trends. Slowdown of economic activities of main foreign trade partners directly affected decline of foreign trade. Countries whose foreign trade is based on industry goods, base metals, car industry and manufacturing of car parts, tourism and accommodation will be severally hit by the pandemic. Decline of economic activities and slowdown of domestic demand will result in decline of goods export.

The cumulative value of the Republic's exports and imports has seen a decline since March 2020, which corresponds to the depreciation of the Euro and crisis caused by COVID-19. Compared to the value of exports in 2019, exports had a negative trend in the first eight months of 2020 followed by a growing trend until the end of December 2020, when export sector growth was 13.6 per cent. higher than in the same month last year. Imports to the Republic were positive in the first two months of 2020, followed by a downward trend, which continued until December, when it recorded growth of 4.9 per cent. compared to 2019.

Composition of trade in goods

Exports

The following table shows export by the most significant products in the Republic for the years 2016 to 2020:

	2016	2017	2018	2019	2020
			(BAM millions)		
Electricity	75.5	247	285.8	263.9	250.3
Hydrogen, precious, gases and other non-metals	36.5	56.4	75.5	91.5	65.5
Artificial corundum, alumina; aluminium hydroxide	145.5	180.5	224.8	238.9	171.4
Firewood in the form of logs, logs, twigs, sheaves or similar forms	83.1	93	100	86.9	70.7
Wood treated lengthwise	172.6	190.1	187.6	165.3	169.3
Footwear with outer soles of rubber, plastics, leather or composition leather and uppers of leather	81.3	75.4	73.1	77.5	65.5
Footwear parts	150.2	172.7	202	216.9	205.4
Iron or steel structures and parts of structures	69.4	93.4	121.4	132.5	134.9
Seats, including those that can be converted into beds and parts thereof	91.6	102.9	109.5	119.7	113.6
Other furniture and parts thereof	112.9	119	124.4	101.2	113.5

Source: Institute of Statistics of the Republic

The following table shows exports by the most significant products in the Republic for the years 2016 to 2020 in percentages of total exports:

	2016	2017	2018	2019	2020
			(%)		
Electricity	2.6	7.1	7.6	7.3	7.4
Hydrogen, precious, gases and other non-metals	1.3	1.6	2.0	2.5	1.9
Artificial corundum, alumina; aluminium hydroxide	5.1	5.2	6.0	6.6	5.1
Firewood in the form of logs, logs, twigs, sheaves or similar forms	2.9	2.7	2.7	2.4	2.1
Wood treated lengthwise	6.0	5.5	5.0	4.6	5.0
Footwear with outer soles of rubber, plastics, leather or composition leather and uppers of leather	2.8	2.2	2.0	2.1	1.9
Footwear parts	5.2	5.0	5.4	6.0	6.1
Iron or steel structures and parts of structures	2.4	2.7	3.2	3.7	4.0
Seats, including those that can be converted into beds and parts thereof	3.2	3.0	2.9	3.3	3.4
Other furniture and parts thereof	3.9	3.4	3.3	2.8	3.4

Source: Institute of Statistics of the Republic

The main sectors driving export growth in 2020 were electricity, artificial corundum, aluminium oxide, aluminium hydroxide and footwear parts. In 2020, the largest share in exports was in electricity with BAM 250 million, which amounts to 7.4 per cent. of total exports. The share in total exports in 2020 compared to 2016 increased for electricity by 4.8 percentage points, for artificial alumina corundum, aluminium hydroxide remained at the same level as compared to 2016, while the share of footwear parts increased by 0.9 percentage points. The table above shows the historical data of the products that were most exported in 2020. The share of these products in total exports increased from 35.4 per cent. in 2016 to 40.3 per cent. in 2020, or by 4.9 percentage points. From 2016 to 2020, the largest share exports were in electricity, which recorded a significant jump in 2017, to the total amount of 7.1 per cent from 2.6 per cent. in 2016 due to the operation of thermal power plants Stanari (which was in trial phase from January to May 2016) and increase in electricity production in small power plants that are included in the system of incentives for renewable energy sources.

The following table presents the value of the Republic's exports according to the Standard international trade classification ("**SITC**") for the years 2016 to 2020:

	Year ended 31 December				
	2016	2017	2018	2019	2020
			(BAM millions)		
Exports					
Groups of products[(1)]					
Food and live animals	280	296	251	244	233
Beverages and tobacco	33	32	24	19	14
Crude materials, inedible, except fuels	528	632	652	547	491
Mineral fuels, lubricants and related products	208	401	460	315	270
Animal and vegetable oils, fats and waxes	3	8	1	1	1
Chemical products	216	292	340	368	275
Manufactured goods classified chiefly by material	529	611	683	695	689
Machinery and transport equipment	292	362	415	476	466
Miscellaneous manufactured goods	779	841	916	943	947
Commodities and transaction not classified elsewhere in the SITC	0.9	0.7	0.4	0.9	1.0
Total	**2,869**	**3,476**	**3,742**	**3,610**	**3,387**

Source: Institute of Statistics of the Republic

Notes:
(1) Export of products in accordance with SITC – Standard International Trade Classification.

In 2020, there was a decline in exports of 6.2 per cent. as compared to 2019. The largest contribution to the decline in exports according to the standard international trade classification was in chemical products, crude materials, inedible, except fuels and mineral fuels, lubricants and related products with growth rates negative 25.3 per cent., negative 10.2 per cent. and negative 14.3 per cent. In 2020, exports for chemical products, machinery and transport equipment and miscellaneous manufactured goods grew by 27.2 per cent., 59.9 per cent. and 21.6 per cent, respectively, in comparison to 2016.

The following table presents the percentage of the Republic's exports according to the SITC for the years 2016 to 2020:

	Year ended 31 December				
	2016	2017	2018	2019	2020
			(%)		
Exports					
Groups of products[(1)]					
Food and live animals	9.8	8.5	6.7	6.7	6.9
Beverages and tobacco	1.2	0.9	0.7	0.5	0.4
Crude materials, inedible, except fuels	18.4	18.2	17.4	15.1	14.5
Mineral fuels, lubricants and related products	7.2	11.5	12.3	8.7	8
Animal and vegetable oils, fats and waxes	0.1	0.2	0	0	0
Chemical products	7.5	8.4	9.1	10.2	8.1
Manufactured goods classified chiefly by material	18.4	17.6	18.3	19.3	20.3
Machinery and transport equipment	10.2	10.4	11.1	13.2	13.8
Miscellaneous manufactured goods	27.1	24.2	24.5	26.1	28
Commodities and transaction not classified elsewhere in the SITC	0.03	0.02	0.01	0.03	0.03
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Institute of Statistics of the Republic

Notes:
(1) Sectors and divisions of SITC – Standard International Trade Classification.

Imports

In 2018, total imports exceeded the value of BAM 5.2 billion for the first time. In 2019, there was a decrease in imports compared to 2018 by 8.4 per cent., and this continued in 2020. Compared to 2018, when imports were the largest, in 2020 there was a decrease in imports by 14.4 per cent., or BAM 750 million.

The following table presents the value of the Republic's imports by product category for the years 2016 to 2020:

	Year ended 31 December				
	2016	2017	2018	2019	2020
			(BAM millions)		
Imports..					
Groups of products[(1)]					
Food and live animals	704	731	740	748	738
Beverages and tobacco................................	58	60	59	65	55
Crude materials, inedible, except fuels.........	151	173	194	184	143
Mineral fuels, lubricants and related products	683	802	823	353	303
Animal and vegetable oils, fats and waxes...	34	68	62	39	7
Chemical products.......................................	648	671	719	714	723
Manufactured goods classified chiefly by material..	936	1,027	1,088	1,073	992
Machinery and transport equipment............	769	917	1,040	1,018	904
Miscellaneous manufactured goods	445	449	496	590	608
Commodities and transaction not classified elsewhere in the SITC..............................	-	-	0.002	0.01	0.03
Total	**4,428**	**4,899**	**5,222**	**4,782**	**4,473**

Source: Institute of Statistics of the Republic

Notes:
(1) Sectors and divisions of SITC – Standard International Trade Classification.

The following table shows the value of the Republic's imports by product category as a percentage of total imports for the years 2016 to 2020:

	Year ended 31 December				
	2016	2017	2018	2019	2020
			(Share of total imports, %)		
Imports[(1)]..					
Groups of products[(1)]					
Food and live animals	15.9	14.9	14.2	15.6	16.5
Beverages and tobacco...................................	1.3	1.2	1.1	1.4	1.2
Crude materials, inedible, except fuels...........	3.4	3.5	3.7	3.8	3.2
Mineral fuels, lubricants and related products	15.4	16.4	15.8	7.4	6.8
Animal and vegetable oils, fats and waxes......	0.8	1.4	1.2	0.8	0.2
Chemical products..	14.6	13.7	13.8	14.9	16.2
Manufactured goods classified chiefly by material	21.1	21.0	20.8	22.4	22.2
Machinery and transport equipment................	17.4	18.7	19.9	21.3	20.2
Miscellaneous manufactured goods	10.1	9.2	9.5	12.3	13.6
Commodities and transaction not classified elsewhere in the SITC	-	-	0	0	0
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Institute of Statistics of the Republic

Notes:
(1) The data is presented in accordance with the foreign trade statistics methodology of the EU, according to which valuation of exports is done by F.O.B. parity and imports by C.I.F. parity at the Republic's border (rather than a F.O.B. basis used under the IMF Balance of Payments Manual, 6th edition).
(2) Sectors and divisions of SITC – Standard International Trade Classification.

In 2020, products classified manufactured goods classified chiefly by material, machinery and transport equipment, food and live animals contributed to the largest share in imports. In 2020, these products accounted for about 58.9 per cent. of total imports, while in 2016 they amounted to 54.4 per cent. of total imports.

The following table shows the important products that were imported by the Republic from 2016 to 2020:

	2016	2017	2018	2019	2020
			(BAM millions)		
Imports					
Chocolate and other food products containing cocoa	43.0	45	53	57	64
Bread, pastry, cakes, biscuits and other bakers' wares, whether or not containing cocoa	55	59	61	65	66
Supplements used for animal nutrition	49	49	56	60	67
Petroleum oils and oils obtained from bituminous minerals, other than crude	68	60	75	185	178
Medications	181	176	186	185	204
Beef skins and equine skins	68	64	67	67	57
Stockings	3	3	6	23	55
Footwear parts	83	76	82	93	77
Insulated wire, cables	0	0	0	0	61
Passenger cars and other motor vehicles mainly intended for the transport of persons	66	93	115	121	99

Source: Institute of Statistics of the Republic

A significant contribution for the decline in imports in 2020 in comparison to 2019 was by the following products: passenger cars and other motor vehicles mainly intended for the transport of persons and footwear parts, which each declined at the nominal rate by 18.7 per cent. and 17.5 per cent. In contrast, the products that significantly contributed positively in 2020 were stockings, medications, chocolate and other food products containing cocoa and supplements used for animal nutrition, which had nominal growth rate of 10.4 per cent. (share in the total structure of import is 4.6 per cent.), 12.4 per cent. (share in the total structure of import is 1.4 per cent.) and 11.5 per cent. (share in the total structure of import is 1.5 per cent.). Largest share in imports was in medicines, with a total value of BAM 204 million, which is 4.6 per cent. of total imports.

Geographic diversification of trade in goods

The EU is the Republic's key trading partner, collectively accounting for around 73 per cent. of the Republic's total trade in goods during the period 2016 to 2020. The most important foreign trade partners of the Republic in 2020 are member states of the EU (65 per cent.) and member states of CEFTA (19.4 per cent.). In 2020, there was a decline in exports of the Republic to EU countries. The Republic's exports to EU countries in 2020 amounted to EUR 1.29 billion and were lower by EUR 69.4 million (or 4.8 per cent.) than in 2019, when they amounted to EUR 1.36 billion. The main importers in the Republic from EU countries in 2020 are: Croatia (19.2 per cent.), Italy (18.7 per cent.), Slovenia (15.1 per cent.), Germany (14.0 per cent.), Austria (10.9 per cent.) and France (3.8 per cent.). The above countries account for 81.3 per cent. of total exports of the Republic to EU countries. In 2020, there was a decline in imports of the Republic from EU countries.

The Republic's imports from EU countries in 2020 amounted to EUR 1.33 billion and were lower by EUR 84.8 million (or 5.7 per cent.) than in 2019, when they amounted to EUR 1.41 billion. The main exporters to the Republic from EU countries are: Italy (24.4 per cent.), Germany (16.7 per cent.), Slovenia (11.5 per cent.), Croatia (9.7 per cent.), Austria (6.5 per cent.) and Hungary (5.3 per cent.). The above countries account for 74.0 per cent. of total imports of the Republic from EU countries. The coverage of imports by exports of the Republic in relation to the EU in 2020 was 97 per cent., increasing by 1 per cent. in comparison to 2019. In 2020, the Republic had a deficit with EU countries that amounted to EUR 40 million. In 2019, the Republic had a slightly larger deficit with the EU countries and it amounted to EUR 55.8 million.

The total foreign trade of the Republic with CEFTA countries in 2020 amounted to EUR 782.6 million and was lower by EUR 70.5 million (8.3 per cent.) than in 2019 when it amounted to EUR 853.1 million. The main foreign trade partners of the Republic among CEFTA countries are: Serbia (85.6 per cent.), North Macedonia (6.2 per cent.), Montenegro (5.9 per cent.), which account for 97.7 per cent. of the total foreign trade with CEFTA countries. The total exports of the Republic to CEFTA countries in 2020 amounted to EUR 303.6 million and were lower by EUR 43.5 million (12.7 per cent.) than in 2019 when they amounted to EUR 347.1 million. The total imports of the Republic from CEFTA countries in 2020 amounted to EUR 479 million and were lower by EUR 27 million (5.3 per cent.) than in 2019 when they amounted to EUR 506 million. The main foreign trade partners of the Republic among countries outside the European Union and CEFTA are: China, Turkey, Russia and the United States.

The total foreign trade turnover of the Republic with the European Free Trade Association ("**EFTA**") countries in 2020 amounted to EUR 87.7 million, which is higher by EUR 3.9 million compared to 2019 when it amounted to EUR 83.8 million. The main foreign trade partners of the Republic in 2020 from the EFTA countries are Switzerland with 94.9 per cent. and Norway with 4.7 per cent. The main foreign trade partners of the Republic, from countries outside the EU, CEFTA and EFTA are: China, Turkey, Russia and the United States, which make up 8.4 per cent. of the total turnover of the Republic with the world. Until recently, Russia was one of the most important foreign trade partners of the Republic due to the import of crude oil, which was suspended in 2019 due to repair works being carried out from a fire at the Brod oil refinery on 9 October 2018, resulting in no exports of crude oil.

In 2020, the total foreign trade of the Republic with Russia in 2020 amounted to EUR 35.4 million and was lower by EUR 14.5 million (29.2 per cent.) than in 2019, when it amounted to EUR 50 million. The total exports of the Republic to Russia in 2020 amounted to EUR 13.3 million, which is EUR 2.9 million (17.9 per cent.) less than in 2019, when they amounted to EUR 16.2 million. The total imports of the Republic from Russia in 2020 amounted to EUR 22.1 million and were lower by EUR 11.6 million (34.5 per cent.) than in 2019 when they amounted to EUR 33.7 million.

The Republic's foreign trade with the US in 2020 was also lower than in 2019. The total foreign trade of the Republic with the US in 2020 amounted to EUR 24.3 million and was lower by EUR 13.8 million (37.8 per cent.) than in 2019, when it amounted to EUR 38.3 million. The total exports of the Republic to the US in 2020 amounted to EUR 6.4 million and were higher by EUR 0.7 million (13.6 per cent.) than in 2019 when they amounted to EUR 5.7 million. The total imports of the Republic from the US in 2020 amounted to EUR 17.9 million and were lower by EUR 14.7 million (45.2 per cent.) than in 2019 when they amounted to EUR 32.6 million.

The following table presents the value of Republic's exports of goods by destination and economic group for the years 2016 to 2020:

	Year ended 31 December				
	2016	2017	2018	2019	2020
			(EUR millions)		
Exports(1)					
Economic zones and countries(2)					
EU – 28	**1,070.80**	**1,289.90**	**1,399.10**	**1,355.50**	**1,286.10**
Germany	154.1	153	171.9	169.6	179.4
Italy	255.2	271.1	293	290.9	239.9
Romania	17	17.7	18.9	10.5	10
Hungary	36	41.7	48.4	51.8	35.1
Slovenia	143.1	176	206.5	201.2	193.8
Poland	14.3	18.1	26.9	36.3	36.7
Other	451.1	612.3	633.5	595.2	591.2
CEFTA(3)	**266.6**	**330**	**372.8**	**347.1**	**303.6**
Serbia	183.5	220.4	247.9	252.7	236.4
Montenegro	36	62.1	81.8	68.2	35.6
North Macedonia	19.2	19.9	18.6	22.1	19.6
Other	27.9	27.6	24.5	4.1	12.0
CIS(3)	**14.7**	**26.1**	**17**	**20.8**	**15.3**
Russia	13.7	23.8	14.6	16.2	13.3
Other	1	2.3	2.4	4.6	2
Other Countries					
China	5	8	7.2	6	4.5
USA	6.5	6.2	6.5	5.7	6.4
Turkey	33.1	38.8	16.7	17.7	15.3
Other	70.3	78.3	93.9	93.2	100.8
Total	**1,467.00**	**1,777.30**	**1,913.20**	**1,846.00**	**1,716.70**

Source: Institute of Statistics of the Republic

(1) The data is presented in accordance with the foreign trade statistics methodology of the EU, according to which valuation of exports is done by F.O.B. parity and imports by C.I.F. parity at the Republic's border (rather than a F.O.B. basis used under the IMF Balance of Payments Manual, 6th edition).

(2) According to EUROSTAT classification.

(3) Moldova is a member of CIS and CEFTA groups and has been included in CEFTA for the purpose of this table.

The following table presents the value of the Republic's exports by destination and economic group as a percentage of total exports for the years 2016 to 2020:

	Year ended 31 December				
	2016	**2017**	**2018**	**2019**	**2020**
	(Share of total export, %)				
Exports(1)					
Economic zones and countries(2)					
EU – 28	**73**	**72.6**	**73.1**	**73.4**	**74.3**
Germany	10.5	8.6	9	9.2	10.4
Italy	17.4	15.3	15.3	15.8	13.9
Romania	1.2	1	1	0.6	0.6
Hungary	2.5	2.3	2.5	2.8	2
Slovenia	9.8	9.9	10.8	10.9	11.2
Poland	1	1	1.4	2	2.1
Other	30.7	34.5	33.1	32.2	34.1
CEFTA(3)	**18.2**	**18.6**	**19.5**	**18.8**	**17.5**
Serbia	12.5	12.4	13.0	13.7	13.6
Montenegro	2.5	3.5	4.3	3.7	2.1
North Macedonia	1.3	1.1	1	1.2	1.1
Other	1.9	1.6	1.2	0.2	0.7
CIS(3)	**1**	**1.5**	**0.9**	**1.1**	**0.9**
Russia	0.9	1.3	0.8	0.9	0.8
Other	0.1	0.2	0.1	0.2	0.1
Other Countries					
China	0.3	0.4	0.4	0.3	0.3
USA	0.4	0.3	0.3	0.3	0.4
Turkey	2.3	2.2	0.9	1	0.9
Other	4.8	4.4	4.9	5.0	5.8
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Institute of Statistics of the Republic

(1) The data is presented in accordance with the foreign trade statistics methodology of the EU, according to which valuation of exports is done by F.O.B. parity and imports by C.I.F. parity at the Republic's border (rather than a F.O.B. basis used under the IMF Balance of Payments Manual, 6th edition).

(2) According to EUROSTAT classification.

(3) Moldova is a member of CIS and CEFTA groups and has been included in CEFTA for the purpose of this table.

The following table presents the value of the Republic's imports by country of origin and economic group for the years 2016 to 2020:

	Year ended 31 December				
	2016	**2017**	**2018**	**2019**	**2020**
			(EUR millions)		
Imports[1]					
Economic zones and countries[2]					
EU – 28	**1,143.90**	**1,248.00**	**1,353.60**	**1,411.00**	**1,326.20**
Germany	180.3	201.8	227.9	230.7	221
Italy	278.8	287.3	300.1	365.1	323.4
Romania	20.4	24.7	27.5	28.1	19.8
Hungary	58	67.9	82.1	76.3	70.5
Slovenia	123.1	141.7	145.7	149.3	151.9
Poland	44	51.9	59.1	60.9	53
Other	439.3	472.7	511.2	500.6	486.6
CEFTA[3]	**454.2**	**481.1**	**501.1**	**506**	**479**
Serbia	411.1	432.0	447.7	454.3	432.7
Montenegro	9.4	15.6	17	13.8	10.6
North Macedonia	29.4	29.8	29.3	30.3	29
Other	4.3	3.7	7.1	7.6	6.7
CIS[3]	**299.6**	**358.2**	**284.9**	**40.5**	**33**
Russia	295.2	347.8	276	33.7	22.1
Other	4.4	10.4	8.9	6.8	10.9
Other Countries					
China	138	153.3	174	192.2	194.1
USA	28.9	42.5	42.1	32.6	17.9
Turkey	43.4	52.5	52.2	60.5	62.6
Other	155.5	169.3	262.2	202.3	174.1
Total	**2,263.50**	**2,504.90**	**2,670.10**	**2,445.10**	**2,286.90**

Source: Institute of Statistics of the Republic

(1) The data is presented in accordance with the foreign trade statistics methodology of the EU, according to which valuation of exports is done by F.O.B. parity and imports by C.I.F. parity at the Republic's border (rather than a F.O.B. basis used under the IMF Balance of Payments Manual, 6th edition).
(2) According to EUROSTAT classification.
(3) Moldova is a member of CIS and CEFTA groups and has been included in CEFTA for the purpose of this table.

The following table shows the value of the Republic's imports by country of origin and economic group as a percentage of total imports for the years 2016 to 2020:

	Year ended 31 December				
	2016	**2017**	**2018**	**2019**	**2020**
	(Share of total export, %)				
Imports(1)					
Economic zones and countries(2)					
EU – 28	**50.5**	**49.8**	**50.7**	**57.7**	**58**
Germany	8	8.1	8.5	9.4	9.7
Italy	12.3	11.5	11.2	14.9	14.1
Romania	0.9	1	1	1.1	0.9
Hungary	2.6	2.7	3.1	3.1	3.1
Slovenia	5.4	5.7	5.5	6.1	6.6
Poland	1.9	2.1	2.2	2.5	2.3
Other	19.4	18.9	19.1	20.5	21.3
CEFTA(3)	**20.1**	**19.2**	**18.8**	**20.7**	**20.9**
Serbia	18.2	17.2	16.8	18.6	18.9
Montenegro	0.4	0.6	0.6	0.6	0.5
North Macedonia	1.3	1.2	1.1	1.2	1.3
Other	0.2	0.2	0.3	0.3	0.2
CIS(3)	**13.2**	**14.3**	**10.7**	**1.7**	**1.4**
Russia	13	13.9	10.3	1.4	1
Other	-	-	-	-	-
Other Countries					
China	6.1	6.1	6.5	7.9	8.5
USA	1.3	1.7	1.6	1.3	0.8
Turkey	1.9	2.1	2	2.5	2.7
Other	6.9	6.8	9.8	8.3	7.6
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Institute of Statistics of the Republic

(1) The data is presented in accordance with the foreign trade statistics methodology of the Office of Statistics, according to which valuation of exports is done by F.O.B. parity and imports by CIF parity at the Republic's border (rather than a F.O.B. basis used under the IMF Balance of Payments Manual, 6th edition).
(2) According to EUROSTAT classification.
(3) Moldova is a member of CIS and CEFTA groups and has been included in CEFTA for the purpose of this table.

Trade Policy

The Republic's economic growth model focuses on the development of export-oriented and competitive industries. Over the last few years, with a view to attracting foreign investments, the RS Government has introduced new and more liberal legislative reforms for foreign investments, and domestic and foreign investors, increased subsidies for introducing new technologies, increased salaries and employment of certain categories of population, decreased certain non-tax levies, implemented few projects in order to digitalize public services and increased investment in construction and improvement of roads and infrastructure. The RS Government has also introduced several programs for attracting foreign investments (outreach companies, aftercare program, new modern and branded promotional material) and increased activities of representing the Republic abroad in order to attract investments. Pursuant to the ERP, the RS Government expects its recent measures aimed at reducing the fiscal deficit (see "*Public Finance – Fiscal Policy and Reform*") to lead to 1.0 per cent. of GDP in 2023.

The growth of 2.5 per cent. in the Republic's real GDP in 2019 stemmed from the increase of real growth of final consumption by 2.5 per cent., where final consumption of the state and final consumption of households increased by real rates of 2.8 per cent. and 1.5 per cent., respectively, as well as from the recovery of the labour market. One of main indicators for the market recovery is the decrease of unemployment rate based on survey. Unemployment rate gradually decrease from 2015, and in 2019 it significantly decreased by 5.5 percentage points in relation to the previous year. In 2019 there was an increase of employment rate based on survey by 3.5 percentage points in relation to 2018 and the rate was 42.2 per cent.

Exports of goods as a percentage of the Republic's nominal GDP increased from 29.8 per cent. in 2016 to 32.1 per cent. in 2019. The export/import coverage ratio amounted to 75.5 per cent. in 2019. Compared to 2008, the share of the trade deficit of good as a percentage of nominal GDP declined from negative 26.1 per cent. in 2008 to negative 10.4 per cent. in 2019, mainly as a result of higher increase of export than the import of goods. Average rates of growth of export and import of goods during the period 2008 to 2019 were 7.3 per cent. and 3.6 per cent., respectively.

Compared to 2018, the export of goods decreased by negative 3.5 per cent. in 2019, with decrease in negative 2.5 per cent. in the area of the export manufacturing industry. Share of manufacturing industry in total export in 2019 was 85.9 per cent. In 2019, Republic had 73.4 per cent. of exports to EU countries, even though EU countries in 2019 had slowdown of economic activities. Value of exported goods to EU countries was in the amount of BAM 2.7 billion, which is 3.1 per cent. less than it was in 2018.

In 2020 value of export was BAM 3.4 billion, which is by 6.2 per cent. less than the previous year. Import of goods was BAM 4.5 billion, which is by 6.5 per cent. less than the previous year. Coverage of import with export is 75.7 per cent., the highest ever recorded. That continuous the trend of record import-export coverage for six years in a row.

Whilst no significant changes are expected in the Republic's main import and export destinations, the Republic aims to strengthen economic relations with EU as part of its trade policy, as well as increase its business and trade relations with the EU countries and CEFTA region. With a view to strengthening the share of exports of goods and services in GDP, the Republic remains committed to its macro-economic objectives, including: EU integration, intensification of economic cooperation with the CEFTA region, implementation of MAP REA, increasing exports to Serbia and EU countries, attracting increased FDI, while developing and enhancing its business environment by enabling foreign trade as well as educating local producers about potential export markets.

Foreign Direct Investment in the Republic

According to the data of the Central Bank of BiH, the total foreign investments in the Republic by the end of 2019 had a balance of BAM 5.5 billion. Considering the calendar of publishing statistical data of the Central Bank, data on stocks and flows of foreign investments are published three quarters after the end of the previous year. The first official data on the state of foreign investments in the Republic for 2020 will be published by the Central Bank at the end of the third quarter of 2021.

According to the data of the Central Bank, in 2019, the Republic recorded net foreign investments inflows for BAM 382.8 million, which is more than half of the total investments in BiH, which according to the Central Bank amounted to BAM 699 million in the same year. As at the date of this Offering Circular, the main projects in the Republic that are financed by FDI are:

- the Calzedonia Finanziaria, a textile plant located in Gradiška and operated by Ella Textile Calzedonia;
- an information technology centre in Banja Luka and operated by NCR Dutch Holding;
- an automobile parts manufacturing plant in Pass Bijeljina and operated by Pass-Automotive East GmbH; and
- the PMP Jelšingrad Gradiška manufacturing plant for machinery used for mining, quarrying and construction and operated by PMP industries S.p.A.

According to the data of the commercial courts of the Republic, 178 and 166 new companies were registered in 2016 and 2017, respectively. During 2019, 242 new companies were registered, which is an increase by 2.5 per cent. compared to 2018, when 232 new companies were recorded. During 2020, the number of newly established companies decreased by 38 per cent. in comparison to those established in 2019, as only 151 newly established companies were registered due to slowdown in economic activity owing to COVID-19.

The following table presents FDI inflows to the Republic for the years 2016 to 2019:

Year	Amount of Investment
	(BAM millions)
2016	84.5
2017	284.0
2018	407.3
2019	382.8

Source: The Central Bank.

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Notes:

(1) According to the methodology of the Central Bank, the Republic's FDI data for 2020 will be available at the end of the third quarter of 2021.

MONETARY SYSTEM

The division of responsibilities between the Central Bank, the Republic and BiH.

Pursuant to the constitutional and legal order of BiH, the monetary policy of the Republic is the responsibility of the Central Bank, while the governing and supervision of the financial system (including the banking, insurance and capital markets) are the responsibilities of the Republic and the Federation.

The Dayton Accords grant authority to the Central Bank of BiH, which is managed by a five person board appointed by the Presidency of BiH for a term of six years. The Central Bank maintains monetary stability by issuing domestic currency according to the Currency Board arrangement with full coverage in freely convertible foreign exchange funds under fixed exchange rate 1 BAM: EUR 0.511292. The Central Bank defines and controls the implementation of monetary policy of Bosnia and Herzegovina. The Central Bank supports and maintains appropriate payment and settlement systems. It also co-ordinates the activities of BiH Entity Banking Agencies which are in charge of bank licensing and supervision.

The BARS is governed by a five person board appointed by the RS National Assembly. It acts as a prudential regulator that safeguards the banking system through licensing, supervision, and regulating banking operations.

Within the Republic, there are special supervisory and regulatory bodies that were established to regulate the financial system. The following bodies regulate the respective segments of the system:

- the banking system is governed by the BARS. The BARS is solely engaged in regulation and supervision and does not undertake any banking activities, including the holding of required reserves, which is reserved to the Central Bank. The BARS entered a cooperation agreement with the Federation's banking agency ("**Federation's Banking Agency**") to arrange supervisory cooperation and information exchange, since by the law banks in one Entity may operate their branch offices in another Entity;
- the insurance sector is governed by the RS Insurance Agency (the "**RS Insurance Agency**");
- the capital market is governed by the Republic's Securities Commission (the "**Securities Commission**");
- the internal payment operations and foreign exchange operations are governed by the regulations of the Republic and the BARS;
- the currency exchange operations are supervised by the Republic's Foreign Exchange Inspectorate and BARS; and
- the laws governing the financial system and bylaws governing payment operations and foreign exchange operations are drafted by the Republic's Ministry of Finance.

Additionally, the Financial Sector Supervision Coordination Committee was established under the 2009 Law on the Committee for Coordination of Supervision of the Financial Sector of the Republic (*Official Gazette of the Republic, No. 49/09*) to protect the rights of financial service users and maintain the stability and efficiency of the financial sector. The members of the Committee include the Minister of Finance, the director of the BARS, the Director of the RS Insurance Agency and the Chair of the Securities Commission. In 2020, the role of the committee was focused on ensuring the cooperation and exchange of information between the supervisory authorities in order to maintain financial stability in the context of COVID-19.

The financial system supervisors cooperate also with the Federation's financial system supervisors and other bodies and institutions. The banks based in one Entity may operate their branch offices in another Entity. For the purposes of efficient supervision and implementation of the principles of the single economic space, the BARS has concluded a cooperation agreement with the Federation's Banking Agency. Coordination of activities of the Entity-level banking agencies is performed by the Central Bank, based on the Law on the Central Bank of BiH (*Official Gazette of BiH, Nos. 1/97, 29/02, 08/03, 13/03, 14/03, 09/05, 76/06 and 32/07*) and the Memorandum on the Principles of Coordination of Banking Supervision and Cooperation and Exchange of Data and Information, concluded with the banking agencies of the entities. The deposit insurance system has been entrusted to the Deposit Insurance Agency of BiH (the "**State DIA**") since 2002, with the main task to insure all eligible deposits of natural and legal persons in member banks in line with the law that governs bank deposit insurance (*Official Gazette of BiH, No. 32/20*). The decision of State DIA's Governing Board established the maximum amount of the insured deposits to be BAM 50,000. Pursuant to the Republic's banking law, a bank licensed by the BARS may not accept deposits if it is not a member of the deposit insurance scheme in accordance with the law governing deposit insurance banks in BiH and ensuing regulations (*Official Gazette of the Republic, Nos. 4/17, 19/18 and 54/19*). Also, the Entity banking agencies signed a letter of agreement concerning cooperation with the State DIA, and the memorandum of understanding with the BiH Association of Banks. Cooperation also takes place through the Standing Financial Stability Committee (the "**SFSC**"), that services as a platform for information exchange established in 2009 on the basis of a memorandum of understanding, concluded between BiH Fiscal Council, the Central Bank, Federation's Banking Agency, the BARS and the State DIA. The SFSC was established to exchange information and assessments on matters pertaining to the financial system, and has no other responsibilities regarding financial stability.

The Central Bank

The Central Bank is responsible for the monetary policy of BiH. The status, organisation, mandate and functions of the Central Bank, and the relationship between the Central Bank, the governmental bodies of the entities and international institutions, are regulated by the Law on the Central Bank of BiH (*Official Gazette of BiH, Nos. 1/97, 29/02, 08/03, 13/03, 14/03, 09/05, 76/06 and 32/07*) (the "**Law on the Central Bank**").

The Central Bank is independent and autonomous in fulfilling its functions. Its primary objective is to achieve and maintain the stability of the domestic currency by issuing it in accordance with the Currency Board. See "*– Monetary Policy – Overview of Monetary Policy*". Without prejudice to the primary objective, the Central Bank contributes to coordinating the activities of the banking agencies within the entities, and mainly coordinates the exchange of information.

The governing bodies of the Central Bank comprises of the Governing Board and the Management, which consists of a Governor and three Vice Governors. According to the Law on the Central Bank and by-laws, the Central Bank is based in Sarajevo with its main units in the Republic and Federation (Main Bank of the Republic, Main Unit Mostar and Main Unit Sarajevo) and branches. The main units do not have a legal status or authority independent of the Central Bank, rather its goals and tasks are pursued through the head office, main units and its branch offices.

The Central Bank is prohibited from engaging in monetary operations or interventions in the banking system. The Central Bank is not a lender of last resort to banks in the Entities or the Brčko District.

Central Bank Procedure and Functions

Pursuant to the Law on the Central Bank, and in accordance with the Dayton Accords, the Central Bank's responsibilities include the following functions:

- formulating, adopting and controlling the monetary policy of BiH by issuing the domestic currency (BAM) at the exchange rate defined by the Law on the Central Bank and with full backing in freely convertible foreign exchange and through other functions defined under this law;
- holding and managing the official foreign exchange reserves of the Central Bank in a safe and profitable manner;
- establishing and maintaining or support establishment of appropriate payment and settlement systems;
- implementing regulations concerning its activities, in line with the Law on the Central Bank;
- coordinating the activities of the BARS and Federation's Banking Agency, which responsible for bank licensing and supervision in their respective Entities;
- receiving deposits from BiH and commercial banks to meet the reserve requirements;
- representing BiH in international organisations in matters concerning monetary policy;
- participating in the work of international organisations relating to the strengthening of the financial and economic stability of BiH;

- issuing banknotes and coins; and
- managing the circulation of the domestic currency while adhering to the Currency Board.

The Governing Board is the highest body of the Central Bank. The Governing Board enacts the monetary policy and controls its implementation, decides on the organisation of the Central Bank and enacts the financial plan of the Central Bank. The Governing Board also makes decisions on the Central Bank's involvement with international organisations, regulates the adoption of all generally applicable regulations, guidelines and instructions and approves all reports and recommendations, which are submitted to the Parliamentary Assembly and the Presidency of BiH.

The Management consists of the Governor and Vice-Governors, appointed by the Governor with the approval of the Governing Board. The Governor acts as the Chief Executive Officer of the Central Bank and is in charge of its daily operations. All powers that are not specifically assigned to the Governing Board are assigned to the Governor.

On the recommendation of the Governing Board, the Presidency of BiH appoints an external auditor who audits the accounts and records of the Central Bank. The Central Bank must submit the audited financial reports, annual activity report and economic soundness reports to the Parliamentary Assembly of BiH no later than three months after the end of each financial year. The Central Bank must also submit a preliminary (unaudited) financial report to the Presidency of BiH each quarter and in each case, no later than one month after the end of the respective quarter. Additionally, the Presidency of BiH approves the design of the banknotes and coins, and the establishment of the special reserves by the Central Bank. Pursuant to Articles 8, 11, 12 and 13 of the Law on the Central Bank, the Presidency of BiH appoints and dismisses members of the Management.

Monetary Policy

Overview of Monetary Policy

The monetary policy of BiH is solely based on the principles of the Currency Board, whereby the full convertibility of the domestic currency, the BAM is fixed against the anchor currency, the Euro at the following rate: BAM 1 equals EUR 0.511292. The BAM is the monetary unit and legal tender in BiH, issued by the Central Bank and placed on the market through its head office and main units.

Given that the monetary policy of BiH is based on principles of the Currency Board, the compulsory reserve requirement is the only instrument of monetary policy implemented by the Central Bank. The law does not permit other instruments of monetary control. Under the Law on the Central Bank, the Central Bank must not:

- grant any credit;
- maintain a deposit denominated or payable in the currency of BiH or with a residence of BiH or make any monetary of financial gift;
- engage in commerce, purchase of shares of any corporation or company, including the shares of any financial institution or otherwise have an ownership interest in any financial, commercial, agricultural, industrial or other undertaking;
- acquire by purchase, lease or otherwise any real rights in or to immovable property, except as it deems necessary or expedient for the provision of premises for the conduct of its administration and operations or for the housing of its employees, or similar requirements incidental to the performance of its function under the Law on the Central Bank; and
- must not be involved in capital market operations including securities of any kind.

The following table shows the temporary Currency Board Arrangement as of 28 February 2021:

	Total in BAM million	EUR expressed in BAM million	Other currencies expressed in BAM million
Gross foreign currencv reserves	**13,673.0**	**13,661.7**	**11.2**
Cash in foreign currencies	143.5	143.4	0.074
Deposits with foreign banks	3,104.1	3,093.8	10.3
Debt instruments	10,154.9	10,154.9	-
Monetary gold	269.6	269.6	-
Special drawing rights with the IMF	0.848	-	0.848

Source: The Central Bank Monthly Report On Currency Board Arrangement as of February 28, 2021 (temporary). Data provided in that report are in thousands of BAM, but data provided in this table are subject to rounding in millions of BAM.

	Total
	(*BAM millions*)
Monetary liabilities	**12,875.3**
Banknotes and coins in circulation	6,188.9
Deposits from banks	5,797.1
Deposits from the Government and other public institutions	889.4
Liabilities to non-residents	**1.7**
Net Foreign assets	**795.9**

Source: The Central Bank Monthly Report On Currency Board Arrangement as of February 28, 2021 (temporary). Data provided in that report are in thousands of BAM, but data provided in this table are subject to rounding in millions of BAM.

As of 28 February 2021, reserves of the Central Bank, calculated as a difference between gross foreign currency reserves and liabilities to non-residents, amount to BAM 13.7 billion and exceed monetary liabilities by BAM 795.9 million. This is presented as net foreign assets in the above table. The gross foreign currency reserves of the Central Bank, presented with the breakdown of Euro and other currencies, are invested mainly in debt instruments and deposits with foreign banks. The monetary liabilities consist of the Central Bank's liabilities for banknotes and coins in circulation (BAM 6.2 billion), deposits from banks (BAM 5.8 billion) and deposits from the Government and other public depositors (BAM 889.4 million). Liabilities to non-residents represent, to the largest extent, the IMF accounts No. 1 and No. 2, held by the Central Bank, being a depositary for BiH's membership with the IMF.

Implementation of Monetary Policy

The reserve requirement is an important macro-prudential tool and the primary method of regulating BiH's monetary policy. The reserve requirements apply equally to all banks. Pursuant to the decision of the Governing Board of the Central Bank, the required reserve that is applied by the Central Bank is 10 per cent. as at the date of this Offering Circular. The required reserve calculation base consists of deposits and borrowings, irrespective of their currency. Moreover, based on the same decision, on the Central Bank's reserve account for the accounting period, it: (i) does not calculate the reserve levy on the amount of required reserves and (ii) on the amount of funds above the required reserves, calculates the reserve levy against the rate applied by the European Central Bank on commercial banks' deposits (the "**Deposit Facility Rate**"). If during the given period, there is a change in the value of the Deposit Facility Rate, the rate that was valid on the first day of the period during which the Deposit Facility Rate change occurred shall be applied.

At the date of this Offering Circular, the applicable reserve levy is zero per cent. The reserve levy on excess reserves remains equal to the Deposit Facility Rate which was negative 50 basis points on 30 September 2020.

The following table presents data related to the required reserves of banks operating in BiH from 2016 to 2019 and the nine months ended 30 September 2020:

	Year ended 31 December				Nine months ended 30 September
	2016	**2017**	**2018**	**2019**	**2020**
			(BAM millions)		
Base for required reserve calculation	18,494.2	21,224.9	23,537.1	25,753.0	26,909.2
Average reserve requirements	1,734.1	2,122.5	2,353.7	2,575.3	2,690.9
Average balance on the Required Reserve Accounts with the CBBH................................	4,057.6	4,303.3	5,205.2	5,589.0	5,438.6
Balance (3-2)..	2,323.5	2,180.9	2,851.5	3,013.7	2,747.7

Source: The Central Bank

As at 30 September 2020, the excess above the required reserve amounted to BAM 2.75 billion, which is BAM 151 million more compared to the end of June of 2020.

The following table shows the funds of the banks (based in the Republic) placed on the required reserve account with the Central Bank:

	Year ended 31 December				Nine months ended 30 September
	2016	**2017**	**2018**	**2019**	**2020**
			(BAM millions)		
Excess Funds in Reserve Accounts	301.5	545.6	770.8	645.8	450.1
Required Reserve	596.0	580.9	642.8	673.2	692.5
Reserve Account Balance...................................	897.5	1,126.5	1,413.6	1,319.0	1,142.6

Source: BARS

Main economic indicators

The following table shows the economic indicators for BiH for the years 2016 to 2019:

	2016	2017	2018	2019
Nominal GDP of BiH (*in million BAM, current prices*)	29,904	31,376	33,444	35,229
Real GDP (*growth rate in %*)	3.2	3.2	3.7	2.7
		(%)		
Consumer prices growth rate in BiH				
Average annual growth rate of CPI	(1.1)	1.2	1.4	0.6
Annual growth rate of CPI for December	(0.3)	1.3	1.6	(0.1)
		(% of GDP)		
General Government budget				
Revenue	42.7	43.1	43.1	42.9
Expenditure	41.5	40.5	40.8	40.9
Balance	1.2	2.6	2.3	1.9
		(% of GDP)		
Money and Credit				
Broad money (M2)	67.5	70.5	72.3	75.2
Loans to non-government sector	54.3	55.6	55.1	56.2
Balance of Payments				
Gross Foreign Reserves				
In BAM million	9,531	10,557	11,623	12,597
In USD million	5,391	6,083	7,012	7,210
In months of imports of goods and services	7.2	7.1	7.3	7.8
Current Account Balance				
In BAM million	(1,424)	(1,520)	(1,118)	(1,087)
In USD million	(805)	(876)	(675)	(622)
As a percentage of GDP	(4.8)	(4.8)	(3.3)	(3.1)
Trade Balance				
In BAM million	(7,089)	(7,417)	(7,521)	(7,965)
In USD million	(4,010)	(4,274)	(4,538)	(4,559)
As a percentage of GDP	(23.7)	(23.6)	(22.5)	(22.7)
External Debt of Government Sector				
In BAM million	8,872	8,147	8,179	8,099
In USD million	4,782	4,996	4,790	4,633
As a percentage of GDP	29.7	26.0	24.5	23.1
External Debt Servicing				
In BAM million	723	983	955	794
In USD million	409	567	557	449
As a percentage of exports of goods and services	6.8	7.8	7.0	5.6

Source: The Central Bank

Notes:

(1) Data in this table is subject to rounding and represents approximate figures in BAM millions. The main economic indicators for BiH are stated because the Central Bank data on monetary aggregates is presented only for BiH in total and not provided at the Entity level. The Central Bank, in accordance with the Law on the Central Bank, is obliged to submit the Annual Report for the previous year to the Parliamentary Assembly of BiH by 31 March every year. The full 2020 data is not available as the annual report is published after consideration at the session of the Parliamentary Assembly of BiH.

Financial indicators

The following table shows the financial indicators of commercial banks in BiH for the years 2016 to 2019:

	2016	2017	2018	2019
Number of banks	23	23	23	23
			(%)	
Capital				
Tier I capital to the total risk exposure	15.03	14.77	16.49	17.47
Regulatory capital to the total risk exposure	15.82	15.68	17.53	18.02
Capital to the total assets	14.35	14.01	13.18	12.84
Asset quality				
Non-performing assets to the total assets	8.43	7.16	6.27	5.25
Non-performing loans reduced by the provisions to Tier I	18.48	14.35	12.15	9.91
Non-performing loans to the total loans	11.78	10.05	8.77	7.41
Profitability				
Return on average assets	1.08	1.46	1.31	1.37
Return on average equity	7.30	10.17	9.65	10.44
Net interest income to the total income	60.40	58.31	58.83	56.79
Non-interest expenses to the total income	80.75	73.34	74.00	71.04
Liquidity				
Liquid assets to the total assets	27.21	28.37	29.74	29.64
Liquid assets to short-term financial liabilities	44.09	44.31	44.66	45.53
Deposits to loans	101.73	105.06	109.59	112.71
Short-term financial liabilities to the total financial liabilities	72.82	75.17	77.34	75.33
Foreign Exchange Risk				
Indexed and foreign currency loans to the total loans	62.57	60.06	56.66	53.87
Liabilities in foreign currencies to the total financial liabilities	57.43	55.15	53.28	50.67
Net open position	1.67	(0.23)	2.24	3.53

Source: The Central Bank

Notes:
(1) Data are provided from Central Bank's Financial Stability Report for 2019. The financial stability report for the previous year is published at the end of August, so the report for 2020 has not yet been published.

Monetary Aggregates

The following table shows certain statistics relating to monetary aggregates for BiH as at 31 December for the years 2016 to 2019 and nine months ended 30 September 2020:

	Year ended 31 December				Nine months ended 30 September
	2016	2017	2018	2019	2020
			(BAM millions)		
M1[(2)]	9,301.0	10,572.5	12,145.1	13,251.2	14,376.5
QM	10,896.6	11,543.8	12,046.0	13,081.5	13,025.2
Broad Money (M2)	20,197.6	22,116.3	24,191.1	26,332.7	27,401.7
Reserve money	8,387.9	9,428.5	10,399.4	11,120.2	11,567.2
Transferrable deposits in domestic currency	5,899.8	6,924.4	8,166.4	8,921.1	9,479.6
Other deposits in domestic currency	3,883.0	4,091.6	4,302.2	2,998.0	2,984.8
Transferrable deposits in foreign currency	1,535.6	1,816.2	1,961.4	2,490.3	2,766.2
Other deposits in foreign currency	5,478.0	5,636.1	5,782.4	7,593.2	7,274.2

Source: The Central Bank

Notes:
(1) The main financial indicators for BiH are stated because the Central Bank data on monetary aggregates are presented only for BiH in total, and not at the Entity level. Data on banking sectors in BiH are based on data for the Republic's banking sector and the Federation's banking sector, respectively. For more information on the Republic's banking sector, see "-*The Banking Sector*".
(2) M1 money consists of cash outside banks and transferable deposits in domestic currency of all domestic sectors (except general government deposits). Quasi-money, QM, includes other deposits in domestic currency, transferable deposits and other deposits in foreign currency of all domestic sectors (except general government deposits). The broad money M2 consists of monetary aggregates, M1 money and quasi-money QM.

The following table shows the currency structure of deposits and loans of commercial banks in BiH from 2016 to 2019 and nine months ended 30 September 2020:

Description	Year ended 31 December				Nine months ended 30 September
	2016	2017	2018	2019	2020
			(BAM millions)		
Deposits BAM	10,607.5	12,022.8	13,807.3	13,306.9	13,785.2
Deposits EUR	6,458.1	6,949.5	7,222.2	9,547.3	9,741.7
Deposits other foreign currencies	686.4	696.7	720.3	984.0	793.3
Total deposits in BAM	**17,752.0**	**19,669.1**	**21,749.8**	**23,838.2**	**24,320.2**
Loans BAM	16,990.4	18,285.4	19,386.2	9,896.0	9,845.7
Loans EUR	205.6	132.6	98.2	10,833.1	10,500.5
Loans other foreign currencies	5.1	4.4	1.4	29.0	23.2
Total loans in BAM	**17,201.1**	**18,422.4**	**19,485.8**	**20,758.1**	**20,369.4**

Source: The Central Bank

In 2017, narrow money (M1) increased by 13.7 per cent. to BAM 10,572.5 million, while quasi money supply (QM) increased by 5.9 per cent. to BAM 11,543.8 million and the broad money supply (M2) increased by 9.5 per cent. to BAM 22,116.3 million.

The money supply increased in 2018. Narrow money (M1) increased by 14.9 per cent. to BAM 12,145.1 million, quasi money (QM) rose by 4.4 per cent. to BAM 12,046 million and broad money supply (M2) increased by 9.4 per cent. to BAM 24,191.1 million. As at 31 December 2018, foreign currency loans and convertible mark loans stood at BAM 99.6 million and BAM 19,386.2 million, respectively. Total foreign currency deposits increased by BAM 296.3 million, primarily due to increase in EUR deposits.

In early 2019, there was a significant change in the currency structure of deposits due to a methodological change in the statistics of the monetary and financial sector was introduced in the Central Bank. The currency structure of financial instruments (loans, securities, deposits) originally denominated in BAM was reclassified with a currency clause, shifting them from domestic currency positions to foreign currency positions. This resulted in higher foreign currency deposits and in change to the currency structure of the banks' assets, balancing the foreign currency receivables and liabilities of BiH's residents. Narrow money (M1) increased by 9.1 per cent., while quasi money (QM) increased by 8.6 per cent., and broad money (M2) increased by 8.9 per cent. As at 31 December 2019, foreign currency loans and convertible mark loans stood at BAM 10,862.1 million and BAM 9,896.0 million, respectively.

By September 2020, narrow money (M1), which includes the most liquid component, increased by 8.5 per cent. Quasi money (QM) decreased by 0.4 per cent. and broad money (M2) increased by 4.1 per cent. The convertible mark deposits rose by BAM 478.3 million and FX deposits increased by BAM 3.7 million due to an increase in EUR deposits. As at 30 September 2020, foreign currency loans and convertible mark loans stood at BAM 10,523.7 million and BAM 9,845.7 million, respectively.

Loan Aggregates

The following table shows the loan aggregates of the banking sectors in BiH for the years 2016 to 2019 and the nine months ended 30 September 2020:

Description	Year ended 31 December								Nine months ended 30 September	
	2016		2017		2018		2019		2020	
	(BAM millions)									
	Short-term loans	Long-term loans	Short-term loans	Long-term loans	Short-term loans	Long-term loans	Short-term loans	Long-term loans	Short-term loans	Long-term loans
Loans to BiH Institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans to Entity Governments	48.0	295.5	44.3	333.7	60.2	328.5	17.3	399.2	17.1	370.6
Loans to Cantonal Governments	1.6	231.5	1.4	207.8	1.1	185.7	0.1	168.6	0.6	141.2
Loans to Municipal Governments	19.8	262.0	15.7	276.3	12.8	279.4	12.5	301.0	13.3	346.5
Loans to Social Security Funds	8.5	95.7	7.8	79.5	4.3	169.9	2.0	197.5	6.0	213.8
Loans to other Financial Institutions	27.2	25.2	33.8	49.6	40.6	85.0	49.3	95.3	34.4	110.5
Loans to Non-financial Public Enterprises	90.4	281.8	73.2	328.4	89.6	331.7	103.9	393.5	100.0	426.9
Loans to Non-financial Private Enterprises	3,035.0	4,668.0	3,163.2	5,156.5	3,151.5	5,471.5	3,523.3	5,496.3	3,412.5	5,227.2
Loans to Non-profit Organisations	7.2	11.9	10.2	11.6	6.2	14.1	6.8	13.8	12.1	9.9
Loans to Households	904.9	7,171.4	896.4	7,717.3	911.3	8,330.0	919.8	9,055.8	844.4	9,080.5
Other loans	14.9	0.5	15.4	0.2	12.1	0.4	1.7	0.5	1.1	0.7
Total:	**4,157.6**	**13,043.5**	**4,261.5**	**14,160.9**	**4,289.8**	**15,196.1**	**4,636.6**	**16,121.5**	**4,441.6**	**15,927.8**

Source: The Central Bank

The following table shows the money supply and loans of eight banks based in the Republic from 2016 to 2019 and the nine months ended 30 September 2020:

Description	Year ended 31 December				Nine months ended 30 September
	2016	2017	2018	2019	2020
			(BAM millions)		
Total money supply	**1,532.7**	**1,567.8**	**2,023.8**	**1,886.5**	**1,743.6**
Total loans,	**4,559.3**	**4,869.9**	**5,005.9**	**5,463.3**	**5,463.5**
of which:					
Government institutions	576.2	575.3	540.5	653.9	689.1
Public and state-owned enterprises	191.1	240.5	268.5	254.1	237.2
Private enterprises and companies	1,730.7	1,830.0	1,831.3	1,982.1	1,917.4
Non-profit organisations	10.2	7.8	6.9	6.8	7.0
Banks and banking institutions	-	-	-	-	-
Non-banking financial institutions	12.7	28.2	44.5	53.3	58.0
Citizens	2,031.7	2,182.6	2,302.0	2,502.1	2,544.5
Other	6.7	5.4	12.1	11.0	10.2

Source: BARS

Overall, from 2016 to 2019, credit activity amongst the eight banks in the Republic grew.

Due to the state of emergency caused by COVID-19, the BARS issued the Decision on Interim Actions to Mitigate the Adverse Economic Consequences of COVID-19 Crisis (*Official Gazette of the Republic, No. 27/*20) which allowed banks to offer a temporary moratorium on repayment of incurred liabilities and other special measures to customers affected by COVID-19. In September of 2020 BARS adopted a new Decision on temporary measures to banks for mitigating negative economic effects caused by COVID-19 pandemic (*Official Gazette of the Republic, No. 89/20*). Considering the adverse epidemiological situation, in March of 2021 BARS adopted a Decision on amendments to the Decision on temporary measures for banks for mitigating negative economic effects caused by COVID-19 pandemic (*Official Gazette of the Republic, No. 22/21*), which allowed clients, facing negative economic effects, to submit a request for specific measures during 2021 as well.

Reports submitted to the BARS on 30 September 2020 indicate that temporary moratoria worth BAM 60.5 million have been approved and special measures worth BAM 274.8 million were implemented to address the impact of COVID-19. These interim measures covered 6.1 per cent or BAM 335.3 million of aggregate loans. The above data refers to active temporary measures, since the reporting of BARS changed on 30 September 2020. According to the reports which banks delivered to BARS on 30 September 2020, temporary measures included 18.5 per cent. of total gross loans or BAM 1 billion. Temporary measures expired for BAM 672.7 million, but BAM 335.3 million is still active or 6.1 per cent. of total gross loans.

On 30 June 2020, the amount of total loans was BAM 5,430.7 million, which was 1 per cent. or BAM 32.6 million lower than total loans at the end of 2019. The reduction in the loan sum was due to the adoption of the Decision on Credit Risk Management and the Establishment of Expected Credit Losses (*Official Gazette of the Republic, Nos. 48/19 and 109/19*) which led to a write-off of BAM 102.2 million from the accounts of the Republic. On 30 September 2020, the amount of total loans was BAM 5,463.5 million, which was almost the same as the total loans at the end of 2019. In the nine months ended 30 September 2020, there was no significant change in the sectoral structure of loans. Loans to households and loans to private companies still comprise the largest share at BAM 2,544.5 million and BAM 1,917.4 million respectively. However, loans to private companies decreased by BAM 64.7 million or 3 per cent., while loans to public and state-owned companies decreased by BAM 16.9 million or 7 per cent. and loans to citizens increased by BAM 42.4 million or 2 per cent. at the end of 2019.

Inflation and Interest Rates

Inflation policy and trends

The following table shows the average percentage change in consumer prices in the Republic by type of product or service for the years 2016 to 2020:

	Average annual inflation rate for the years				
Description	**2016**	**2017**	**2018**	**2019**	**2020**
			(%)		
Bread and cereals	(0.8)	(1.5)	1.2	2.8	2.9
Fruit and vegetables	(7.8)	(1.3)	6.8	0.3	3.0
Meat	(2.3)	(0.3)	0.3	1.4	(0.3)
Oils and fats	1.8	(2.4)	0.9	(3.7)	4.5
Tobacco	9.1	6.7	8.3	6.4	5.4
Fuels and lubricants	(10.8)	8.4	16.1	2.2	(15.5)
Alcoholic beverages	0.1	1.2	(0.5)	0.0	0.8
Communications	0.0	0.1	(0.1)	0.1	0.5
Medications	2.4	4.2	4.5	2.4	0.9
Transportation	(6.1)	4.1	9.2	0.9	(9.0)
Electricity	2.6	1.3	0.0	0.0	0.0
Utilities	4.6	1.8	1.6	9.1	5.1
Clothes and shoes	(10.7)	(11.2)	(12.6)	(12.0)	(10.0)
Core inflation	(0.6)	(0.1)	(0.2)	(0.1)	0.0
Total inflation (CPI)	**(1.2)**	**0.5**	**1.2**	**0.5**	**(1.2)**

Source: Institute for Statistics of the Republic; Ministry of Finance of the Republic

Notes:
(1) Core inflation is an indicator for measuring market-determined prices which do not display high volatility. It is calculated by staff of the Ministry of Finance of the Republic by excluding the prices of the five products that have the greatest impact on prices (fuels and lubricants, bread and cereals, oils and fats, meat and tobacco).

In 2016, the Republic recorded average deflation of 1.2 per cent.The largest drop in prices was recorded in transportation, food and non-alcoholic beverages, clothing and footwear. The average food prices on the international markets, according to the IMF estimates from July 2017 rose by 2.1 per cent. Prices in the clothing and footwear sectors were lower due to higher seasonal discounts. The average global prices of cereals, which accounted for 5.6 per cent of the Republic's total inflation fell by 11.8 per cent in 2016, and the average global prices of meat, accounting for 6.3 per cent, fell by 7.9 per cent, which contributed to the reduction of food prices in the Republic.

In 2017, average inflation increased to 0.5 per cent due to rising prices in oil and tobacco. In the same period, the prices of clothing and footwear continued to decrease.

In 2018, average inflation increased to 1.2 per cent mostly due to the increase in prices in the transportation sector, which was affected by the rise in crude oil prices on the global market. The average price of crude oil in the global market was about 30 per cent higher than the price in 2017. Additionally, due to the excise duties on tobacco and tobacco products, the price of alcohol and tobacco increased, thereby contributing significantly to the inflation in 2018. On the other hand, the price of clothing and footwear continued to fall.

In 2019, average inflation increased by 0.5 per cent. due to the rise in the price of alcohol and tobacco. As in 2018, the price increase was as a result of the increase in excise duties on tobacco and tobacco products.

Continuing the trend from previous years, the clothing and footwear sector remained the sector with the largest price decrease.

In 2020, average deflation was recorded at 1.2 per cent, the same level of inflation in 2016. As in other countries, COVID-19 had a deflationary impact on the Republic. In the global market, there was an increase in oil supply. However due to the significant drop in demand for oil, oil prices reduced. Prices in 2020 mostly also decreased due to the various decrees adopted by the RS Government prescribing measures for direct control of prices in the Republic (*Official Gazette of the Republic, No. 25/20; No 30/20; No 36/20*). The RS Government adopted this Decree as a temporary measure in order to prevent market disruption regarding supply of goods, caused by the spread of COVID-19 in the Republic. This Decree prescribes limits to profit margins of all participants in supply chain or goods and products, so the profit margin for those goods or products stay below the level they were on 5 March 2020. The reason for this measure was to prevent and suppress unrealistic prices and potential unfair behaviour of individual traders, to protect economic interest of citizens and to allow for regular market supply.

Interest Rates

The following tables show the average weighted effective interest rates on loans extended by banks in the Republic for the years 2016 to 2019 and the first nine months ended 30 September 2020:

	Year ended 31 December				Nine months ended 30 September
Description	**2016**	**2017**	**2018**	**2019**	**2020**
			(%)		
Weighted interest rates on short-term loans	5.45	4.85	4.43	5.89	4.13
Weighted interest rates on long-term loans	7.81	6.72	6.49	5.65	6.24
Weighted interest rates on aggregate loans	6.80	6.04	5.66	5.73	5.60

Source: BARS

The following tables show the average weighted effective interest rates on deposits held in banks in the Republic in percentages for the years 2016 to 2019 and the nine months ended 30 September 2020:

	Year ended 31 December				Nine months ended 30 September
	2016	**2017**	**2018**	**2019**	**2020**
			(%)		
Weighted interest rates on short-term deposits.	0.40	0.13	(0.04)	0.01	0.38
Weighted interest rates on long-term deposits..	2.52	1.92	1.60	1.40	1.37
Weighted interest rates on aggregate deposits..	1.20	0.89	0.63	0.64	0.93

Source: BARS

The average loan interest rates from 2016 to the nine months ended 30 September 2020 decreased due to the declining deposit interest rates, particularly short-term deposits (the share of deposits in total source of financing in the same period was about 75 per cent. to 78 per cent.), high liquidity of banks and competition on the supply side, but also the stabilisation of economic conditions during that time. Also, credit lines of the Republic's Investment and Development Bank, which were placed through commercial banks, had an impact on the reduction of interest rates in the early years of the same period.

Exchange Rates and Exchange Rate Policy

BiH and the Republic have a fixed exchange rate system, administered in accordance with the Currency Board. The Central Bank establishes the official exchange rate in accordance with the Law on the Central Bank and the Decision on the Exchange Rate of the Central Bank (*Official Gazette of BiH, No. 83/20*). Therefore, the official exchange rate is fixed at BAM 1: EUR 0.511292.

The exchange rate and the conditions laid down by the Law on the Central Bank apply to the purchase and sale of the BAM for the Euro. The Central Bank establishes the official exchange rate in accordance with the Law on the Central Bank and the Decision on the Exchange Rate of the Central Bank (*Official Gazette of BiH, No.*

83/20). The banks are required to publicly display and publish the exchange rates at which they buy and sell foreign currency.

The table below shows an overview of the annual average exchange rate of the BAM against the US Dollar from the years 2016 to 2019 and average for the third quarter of 2020:

	Year ended 31 December				Average for the third quarter
Description	**2016**	**2017**	**2018**	**2019**	**2020**
			(period average)		
Exchange rate BAM/USD................................	1.768011	1.735482	1.657498	1.747204	1.674902

Source: The Central Bank

The nominal effective exchange rate of the BAM (the "**NEER**") appreciated from 2016 to 2018, but this trend reversed in 2019. In the first half of 2019, the NEER saw a slight increase relative to end of 2018, but depreciated in the second half of the year. Both the real effective exchange rate and the NEER of the BAM depreciated by 2.0 per cent. and 0.2 per cent., respectively, against the currencies of the main trading partners in comparison to 2018. The NEER depreciation was caused by nominal depreciation of the BAM against the currencies of developing countries, resulting from the trend of EUR (being the peg currency of BiH) against US dollar, i.e. the strengthening of the US dollar, which was more intensive in the second half of 2019, due to the slowdown of growth of leading European economies. The BAM depreciated in nominal terms against US dollar by 2.4 per cent, against Swiss franc by 3.2 per cent., against British pound by 5.6 per cent. and Russian rouble by 8.9 per cent. The NEER in the third quarter of 2020 appreciated by 2.1 per cent. relative to the third quarter of 2019. The real effective exchange rate of BAM in the second quarter on an annual basis slightly appreciated by 0.2 per cent.

Local Currency Strategy

The Central Bank's approach has been to adhere to the Currency Board principle. The existing monetary policy framework has so far proved to be reliable and appropriate for the economy of the Republic and BiH and is one of the fundamental pillars for establishing and maintaining macroeconomic stability, both in BiH and in the Republic.

BiH applies fixed exchange rate system. The monetary policy is based Currency Board principles, along with the guarantee of full convertibility of domestic currency into anchor currency, i.e. Euro. The official rate of the BAM is established by the law and 1 BAM = 0.511292 Euro. The Central Bank establishes the official exchange rate in accordance with the Law on the Central Bank and the Decision on the Exchange Rate of the Central Bank (*Official Gazette of BiH, No. 83/20*). This Decision prescribes that exchange rate should include most important global currencies, currencies of trade partners of BiH and SDR values.

Latest reference rates of the ECB, published by the ECB on Refinitiv around 16:00, are used as a basis for establishing rate of other currencies on the exchange rate of the Central Bank in relation to the BAM. The latest available rates of national central banks in relation to the Euro, available on Refinitiv are used for other currencies which are not on the ECB list. Those rates are adjusted by -/+ 2.5 per mille in relation to medium rate, which forms bid and ask rate of a currency. The SDR rate is established according to the rate of IMF in relation to Euro. At the end of each day, the Central Bank establishes exchange rate, which is applicable on the following day until the beginning of application of the new exchange rate. Exchange rate is published on the Central Bank website.

Foreign Exchange Reserves of the Central Bank

Foreign exchange reserves are managed by the Central Bank in accordance with the Law on Central Bank and its internal regulations (investment guidelines, strategic asset allocation and risk rules and parameters), where the main management goals are security and liquidity and profitability, while respecting the principle of adequacy of foreign exchange reserves. The internal regulation stipulate necessary quantitative and qualitative requirements and limitations for the investments of the FXR. The decisions on the foreign exchange reserves management and investment are made at three levels within the Central Bank organisation: strategic level – the Governing Board, tactical level – the Investment Committee and operative level – competent departments of the sector for monetary operations, management of foreign exchange reserves and cash.

Foreign exchange reserves consist of: foreign currency in the Central Bank vault, deposits with non-resident banks, investments in securities, gold, special drawing rights and others. The Central Bank is required to ensure that the total amount of its monetary liabilities never exceeds the equivalent amount (expressed in BAM) of its net foreign exchange reserves.

Pursuant to the Law on the Central Bank, the total monetary liabilities of the Central Bank must not exceed the equivalent amount of its net foreign exchange reserves (expressed in BAM). The total monetary liabilities of the Central Bank include all banknotes and coins in circulation and receivables of all its accounts. Additionally according to the Law on the Central Bank, the Central Bank may not invest more than 50 per cent of the total capital and reserves in currencies other than EUR. Therefore the Central Bank invests more than 95 per cent of its foreign exchange reserves in financial instruments denominated in EUR. The Central Bank restricts the exposure to credit risk by investing primarily in the bonds of the selected countries of the Euro area and by placing deposits with the selected central banks in the Euro area and the Bank for International Settlements ("**BIS**"), and the selected foreign commercial banks, which need to meet the suitable counterparty standards.

The following table shows the weighted average net interest rates on the Central Bank foreign exchange reserves placed abroad for the years 2016 to 2019:

	Year ended 31 December			
Description	**2016**	**2017**	**2018**	**2019**
		(%)		
AWIR...	0.22	0.18	0.16	0.11

Source: The Central Bank

Notes:
(1) Data are published in the Central Bank Annual Reports.

The following table shows the foreign assets of the Central Bank as at 31 December for the years 2016 to 2019 and nine months ended 30 September 2020:

	Year ended 31 December				Nine months ended 30 September
Description	**2016**	**2017**	**2018**	**2019**	**2020**
			(in million BAM)		
Net foreign exchange reserves	9,529.0	10,555.0	11,621.4	12,595.4	13,341.7
Gross foreign exchange reserves....................	9,531.1	10,556.6	11,623.2	12,597.1	13,343.9
Investments into securities	6,158.2	7,416.1	8,225.4	8,917.4	9,379.6
Gold	205.1	203.9	210.0	254.1	302.1
Gross foreign exchange reserves in the months of imports of goods and services	7.2	7.1	7.3	7.8	-

Source: Central Bank of BiH

Notes:
(1) Data on gross foreign exchange reserves in the months for imports of goods and services are provided in the table, which shows the economic indicators for BiH for the years 2016 to 2019.

At the end of 2019, net foreign exchange reserves was BAM 12.6 billion, which was BAM 974.0 million or 8.4 per cent higher than previous year. The foreign exchange reserve structure in the end of 2019 included: term deposits with banks (without overnight deposits) with the share of 15.2 per cent.; liquid portfolio with the share of 28.4 per cent.; the portfolio of securities with more than one year to maturity with the share of 54.4 per cent. and gold with the share of 2.0 per cent. In the end of 2019, liquid portfolio included: current accounts with banks (6.3 per cent. of the total foreign exchange reserves); overnight deposits (3.1 per cent. of the total foreign exchange reserves); cash in the vaults of the Central Bank (2.6 per cent. of the total foreign exchange reserves); the IMF special drawing rights (below 0.1 per cent. of the total foreign exchange reserves) and securities with one year or less to maturity (16.4 per cent. of the total foreign exchange reserves). The securities with one year and less to maturity, as the largest item of liquid portfolio, amounted to BAM 2.1 billion in the end of 2019. Current accounts with banks, as the second largest item of liquid portfolio, in the end of 2019, amounted to BAM 795 million. Fixed income securities, presented at market value, in the end of 2019, accounted for 70.8 per cent. of the total foreign exchange reserves.

In the first quarter of 2020, there was a decrease in the foreign exchange reserves due to the decrease in the foreign liabilities of banks. However by the third quarter of 2020, there was an increase in the foreign exchange reserves of BAM 312.2 million relative to the previous quarter, leaving the net foreign exchange reserves at BAM 13.3 billion at the end of September 2020. Compared to September 2019, the foreign exchange reserves at the end of September 2020 increased by BAM 891.0 million or 7.15 per cent.

At the end of third quarter of 2020, the Central Bank foreign currency reserves exceeded the Central Bank's liabilities by BAM 900.3 million. Overall, the monetary liabilities to foreign exchange reserves ratio was significantly above the statutory threshold at 107.2 per cent, a slight increase relative to second quarter of 2020.

The Banking Sector

Overview

According to the Law on the Banking Agency of the Republic (*Official Gazette of the Republic, Nos. 59/13 and 4/17*), the Republic's banking system consists of banking institutions, MCOs, saving-credit organisations and other financial organisations whose founding and operations are regulated by separate laws which stipulate that the BARS shall issue operating licences and approvals, supervise operations and perform other activities related to such organisations.

The following table shows the breakdown of the Republic's financial sector assets over the period of 2016 to 2019:

Segments of the financial services sector (financial institutions)	Year ended 31 December							
	2016		2017		2018		2019	
	Net Assets	Share	Net Assets	Share	Net Assets	Share	Net Assets	Share
	(BAM thousands)	*(%)*	*(BAM thousands)*	*(%)*	*(BAM thousands)*	*(%)*	*(BAM thousands)*	*(%)*
Banks.............................	6,675,815	88.5	7,088,053	88.3	8,229,470	89.1	8,744,132	89.2
Insurance companies	396,360	5.3	432,730	5.4	473,540	5.1	506,968	5.2
Investment funds	243,752	3.2	240,397	3.0	219,602	2.4	183,487	1.9
Microcredit organisations	225,039	3.0	264,592	3.3	310,460	3.4	365,073	3.7
Voluntary pension funds	-	-	3	0.0	302	0.0	1,622	0.0
Leasing companies	1,201	0.0	-	-	-	-	-	-
Total	**7,542,167**	**100**	**8,025,775**	**100**	**9,233,374**	**100**	**9,801,282**	**100**

Source: 2020 Statistical Yearbook, Republic Statistics Institute

Notes:

(1) 2020 data is not available as at the date of this Offering Circular.

Commercial banks are dominant market participants in the Republic, with a market share of approximately 90 per cent. As at 30 September 2020, the banking sector of the Republic consisted of eight banking institutions operated in the Republic, of which five were majority owned by foreign private shareholders whereas three banks were owned by domestic private shareholders. The following table illustrates the composition of equity held by foreign and domestic shareholders in the Republic's banking sector for the years 2016 to 2019 and the nine months ended 30 September 2020:

	Year ended 31 December				Nine months ended 30 September
	2016	2017	2018	2019	2020
			(%)		
Austria...	34.5	33.9	33.5	33.4	33.4
Italy	15.3	15.1	14.9	15.0	15.0
Slovenia	10.2	10.0	9.8	9.8	9.8
Serbia	11.1	11.2	9.6	10.6	12.2
Other countries..	4.7	4.4	4.2	2.2	1.2
Domestic capital	24.3	25.4	28.1	29.1	28.5

Source: BARS

The banking industry continues to progress towards modernising operations and expanding the existing banking network and infrastructure with a view to providing modern e-banking services. The banking sector has remained relatively stable over recent year, with sufficient liquidity levels and adequate capitalisation. The following table illustrates the overall balance sheet position of the Republic's banking sector for the years 2016 to 2019 and the nine months ended 30 September 2020:

	Year ended 31 December				Nine months ended 30 September
	2016	**2017**	**2018**	**2019**	**2020**
Gross assets ***(BAM millions)***	7,099.5	7,497.8	8,229.5	8,744.1	8,638.8
Capital ***(BAM millions)***	882.5	952.4	965.5	1,043.5	1,041.9
Credits ***(BAM millions)***	4,559.3	4,869.9	5,005.9	5,463.3	5,463.5
Deposits ***(BAM millions)***	5,011.4	5,381.3	6,050.0	6,405.8	6,352.4
Headcount	2,974.0	2,917.0	2,965.0	3,000.0	2,980.0

Source: BARS

In the first six months of 2020, the banking sector continued to remain resilient, well capitalized and liquid amidst the disruption caused by the COVID-19 pandemic. As at 30 September 2020, the Republic's banking sector recorded gross assets of BAM 8,638.8 million and its capital amounted to BAM 1,041.9 million. The banking sector recorded a sufficient regulatory capital ratio which stood at 18.7 per cent. as at 30 September 2020 (as compared to a minimum statutory threshold of 12 per cent.), as well as a stable leverage ratio which stood at 10.4 per cent. as at 30 September 2020 (as compared to a minimum statutory threshold of 6 per cent.).

The following table illustrates the average weighted effective interest rates for deposits during the years 2016 to 2019 and the nine months ended 30 September 2020:

	Year ended 31 December				Nine months ended 30 September
	2016	**2017**	**2018**	**2019**	**2020**
			(%)		
Weighted interest rate: short-term deposits	0.4	0.1	(0.0)	0.0	0.4
Weighted interest rate: long-term deposits	2.5	1.9	1.6	1.4	1.4
Weighted interest rate: total deposits	1.2	0.9	0.6	0.6	0.9

Source: BARS

Despite continued growth since 2016, total deposits amounted to BAM 6,352.4 million as at 30 September 2020, representing a modest 0.2 per cent. increase during the period under review as a result of the impact of COVID-19. The sector employed 2,980 people within the entire banking network, which comprised of 287 business units. Further, the continued decline in deposit interest rates was mainly due to the general trends in the global financial markets, significantly changed liquidity of the domestic banking sector, the underdeveloped market for alternative savings and investment options, as well as changes to the Central Bank's required reserve policies which introduced negative interest rates on funds above the required reserve thresholds.

Loans and receivables represented the dominant share of 63.2 per cent. of the banking sector's gross assets as at 30 September 2020. The following table details the sectoral composition of total loans issued by the banking sector for the years 2016 to 2019 and the nine months ended 30 September 2020:

	Year ended 31 December				Nine months ended 30 September
	2016	**2017**	**2018**	**2019**	**2020**
			(BAM millions)		
Governmental institutions	576.2	575.3	540.5	653.9	689.1
Public enterprises and SOEs	191.1	240.5	268.5	254.1	237.2
Private enterprises	1,730.7	1,830.0	1,831.3	1,982.1	1,917.4
Non-profit organisations	10.2	7.8	6.9	6.8	7.0
Bank and banking institutions	-	-	-	-	-
Non-banking financial institutions	12.7	28.2	44.5	53.3	58.0
Households	2,031.7	2,182.6	2,302.0	2,502.1	2,544.5
Other	6.7	5.4	12.1	11.0	10.2
Total	**4,559.3**	**4,869.9**	**5,005.9**	**5.463.3**	**5,463.5**

Source: BARS

The following table illustrates the average weighted effective interest rates for loans during the years 2016 to 2019 and the nine months ended 30 September 2020:

	Year ended 31 December				Nine months ended 30 September
	2016	**2017**	**2018**	**2019**	**2020**
			(%)		
Weighted interest rate: short-term loans	5.5	4.9	4.4	5.9	4.1
Weighted interest rate: long-term loans	7.8	6.7	6.5	5.7	6.2
Weighted interest rate: total loans	6.8	6.0	5.7	5.7	5.6

Source: BARS

The overall decreasing trend in loan interest rates of total loans was primarily a consequence of global trends in the global financial markets, but also the decline in interest rates on deposits, which accounted for up to 80 per cent. of the sources of financings for the banking sector during the period under review. The observation of stable economic conditions prior to 2020, as well as increased competition on credit supply, resulted in a general decrease of loan interest rates. Following the onset of the COVID-19 pandemic, however, commercial banks provided financial relief to their banking clients (primarily in the forms of moratoria and refinancing options) and, coupled with the relief measures implemented by the RS Government, this resulted in a slightly decrease on short-term loan interest rates, but increase rates on long-term loans as a result of the uncertainty surrounding the duration and intensity of the pandemic.

Despite the relatively small number of commercial banks operating in the Republic, as at 30 September 2020, the top three banks in the Republic (being Nova Banka, UniCredit Bank and NLB Banka) had a market share of 64.9 per cent. of assets, 65.7 per cent. of deposits and 62.1 per cent. of loans.

As at 31 December 2019, the banking sector's profit-before-tax amounted to BAM 107.3 million, with a return-on-assets and return-on-equity of 1.2 per cent. and 9.7 per cent., respectively, and all eight commercial banks in the Republic reported a positive financial result with an overall net profit of BAM 96.6 million.

For the nine months ended 30 September 2020, liquid assets (being cash and trading securities) comprised a significant share of 32.6 per cent. of total net assets of the Republic's banking sector. During that same period, all commercial banks operating in the Republic satisfied the BAR's liquidity requirements, namely maintaining a minimum daily position of 5 per cent. and ten-day position of 10 per cent. with regard to short-term liquidity sources.

COVID-19 Measures

In 2020, the Decision on the Guarantee Fund to Support the Economy and Mitigate the Impact of COVID-19 (*Official Gazette of the Republic, No. 64/20 and 122/20*) was adopted, which resulted in the establishment of a guarantee programme to support the RS Government to mitigate the impact of the COVID-19 pandemic (the "**COVID Guarantee Programme**"). The purpose of the COVID Guarantee Programme is to facilitate access by MSMEs and entrepreneurs (including agricultural farms) to loans extended by commercial banks and MCOs and is implemented through a guarantee portfolio to partially secure receivables on a loan approved by a financial intermediary. The COVID Guarantee Programme is valued at BAM 50 million. Representatives from the EBRD, IMF and the World Bank were consulted during the development of the COVID Guarantee Programme, and technical assistance was provided by the EBRD (in the form of EUR 9.5 million standby credit line which was provided in October 2020 in favour of BiH to be on-lent to the Republic). The COVID Guarantee Programme is managed by the Republic's Guarantee Fund and provides for unconditional guarantees of eligible financings. See "*Public Finance – COVID-19 Measures adopted by the Republic – Guarantee Programme for COVID-19*" for further information.

In addition to the above, the Republic's financial sector supervisors (the BARS, RS Insurance Agency of Republika Srpska and RS Securities Commission), within their prerogatives, are ready to respond to extraordinary circumstances, and their further action is expected to reduce the impact on the functioning of the financial market and the economy as a whole. The exchange of information through the sessions of the RS Committee for Coordination of Supervision of the Financial Sector and the meetings of the RS Commission for Cooperation of Supervisory Bodies of the Financial Sector played an important role in such extraordinary circumstances.

The BARS adopted certain interim measures to mitigate the adverse impact of the COVID-19 and preserve the stability of the banking sector, which included: (i) granting benefits to clients of commercial banks that were directly or indirectly affected by the pandemic, (ii) implementing special rules for credit risk management that commercial banks are permitted to apply in case of implementing special measures for their clients, and (iii) measures to preserve capital.

At the beginning of September 2020, the BARS adopted a Decision on Temporary Measures to Banks for Mitigating Negative Economic Effects of COVID-19 Pandemic (*Official Gazette of the Republic, Nos. 89/20 and 22/21*), which specifically prescribes temporary measures for mitigating negative economic effects caused by the coronavirus outbreak and to preserve stability of the Republic's banking sector. According to this Decision, bank can approve to the client (natural person or legal entity), whose creditworthiness deteriorated due to COVID-19 (i.e. the clients' sources for repayment decreased and such client is having difficulties or is unable, or will be unable to settle its obligations towards the bank), the following measures:

- moratorium, i.e. delay of credit repayment until 30 June 2021, at the longest;
- introduction of grace period for credit principle repayment for credits repaid in annuities until 31 December 2021, at the longest;
- prolongation of the deadline for credits repaid in annuities;
- prolongation of maturity of credits with bullet repayment, including revolving credits and overdraft on transaction accounts until 31 December 2021 at the longest, where clients could use, during that period, a part of exposure untapped on the day of modification;
- approval of additional amount of exposure in order to overcome its current liquidity difficulties;
- adjustment of repayment plan in accordance with the decrease of income or other relevant parameter determined by the bank;
- other measures in order to facilitate settlement of credit obligations for clients and to keep the clients' operations alive.

Stated specific measures can include other modalities of adjusting manner and dynamics of credit repayment, appropriate reliefs and other forms of bank support to clients. Within specific measures, banks are obliged to undertake all necessary activities to ensure adequate management of credit risk and to adjust to the current and temporary circumstances in business activities in order to create conditions for subsequent recovery and mitigation of adverse economic consequences caused by COVID-19 to sustainability of the clients' operations.

The abovementioned Decision determines that the bank cannot approve specific measures to clients with late payments regarding obligations toward the bank, for a period longer than 90 days for a materially significant amount, i.e. approval of specific measures is allowed only for those clients whose exposure is placed in credit risk level 3, based on conditions under which it is highly likely that the debtor will not fully settle its obligations towards the bank. Notwithstanding, the bank can approve specific measures to clients from the credit risk level 3 which are in the process of recovery and which have regular repayment in the last three months.

The Decision also prescribes that the bank is obliged to monitor changes in own business model, liquidity and risk profile with due care, and in accordance with that, to undertake activities in order to sustain adequate levels and structure of capital for covering of all risk to which the bank is exposed or could be exposed in current circumstances of business activities. To be in accordance with this, banks have to delay and/or cancel dividend payments during the period this Decision in force.

In accordance with the Decision on Temporary Measures to Microcredit Organisations to Mitigate the Impact of COVID-19 (*Official Gazette of the Republic, Nos. 30/20 and 56/20*), adopted by the BARS, MCOs (as defined below), beginning from 1 April 2020, started to approve temporary or specific measures to their clients in order to facilitate settlement of their credit liabilities, which resulted in significant decrease of credits with late repayment during the period from 1 to 15 days, by 64.1 per cent. and credits with late repayments during the period from 16 to 30 days, by 29.1 per cent. in comparison to the situation of mentioned loans before and including 31 March 2020. Despite such pre-emptive measures, MCOs have reported an increase of defaults as a result of the impact of the pandemic. As at 30 September 2020, loans disbursed by MCOs that are in default (for 1 to 15 days) amounted to BAM 4.9 million or 1.5 per cent. of total loans (representing a 80 per cent. increase as compared to the same period of 2019), while MCO loans in default (for 16-30 days) amounted to BAM 5.7 million, or 1.7 per cent. of total loans (representing a 86 per cent. increase as compared to the same period of 2019).

At the beginning of September 2020, BARS adopted a new Decision on Temporary Measures to Microcredit Organisations for Mitigating Negative Economic Effects of COVID-19 (*Official Gazette of the Republic, No. 89/20 and 22/21*) which prescribes temporary measures in order to mitigate negative economic effects caused by COVID-19 outbreak and to preserve stability of microcredit sector in the Republic, and it includes:

- approval of reliefs to clients of MCOs directly or indirectly affected by negative effects;
- specific rules for credit risk management applied by MCOs in case they approve specific measures to the client; and
- measures to preserve capital/share in MCOs.

Temporary measures, specific rules for credit risk management, approval of specific measures, preserving of capital or share in MCOs and similar measures are specifically prescribed in stated Decision.

Ownership and Licensing

During the period under review, the ownership structure of the banking sector was characterised by majority private ownership of all banks. In 2016, 2017 and 2018, two commercial banks were majority owned by domestic shareholders, whereas six commercial banks were majority owned by foreign investors. In 2019 and the first nine months of 2020, three banks were majority owned by domestic shareholders, whereas five commercial banks were majority owned by foreign investors.

In 2014 and 2016, two banks (Bobar Bank ad Bijeljina and Banka Srpske a.d. Banja Luka) lost their operating licenses and terminated their banking services as a result of non-compliance with applicable legal and regulatory requirements. The failed banks were small-sized banks (one publicly owned and one privately owned) and, in 2013, had a market share of 7.3 per cent. and 7.7 per cent. of capital. Their market share and their liquidation and bankruptcy did not affect the stability of the broader financial sector in the Republic.

Non-performing loans

The quality of the total assets of the banking sector depends on the quality of the loan portfolio, given the increased risk exposure of such assets and their volume and structure. In accordance with the regulations adopted by the BARS, the Republic classifies non-performing loans ("**NPL**") as loans that are valued at a fair value against a borrower's profit/loss statement, and meets one or both of the following requirements: (i) the borrower has defaulted for more than 90 days and the debt due is significant; and/or (ii) the bank is assured that the borrower will not be able to repay the loan, without considering collection from collateral.

The Law on Banks (*Official Gazette of the Republic, Nos. 4/17, 19/18 and 54/19*) (the "**Law on Banks**") and the regulations adopted by the BARS have strengthened the risk management system employed by banks operating in the Republic by introducing functions pertaining to asset management. The Law on Banks regulates the resolution and restructuring of systemic banks through the use of asset separation mechanisms (whereby the relevant assets are transferred to an asset management vehicle) when such action is in the interests of the public. This option is consistent with the EU directives on bank resolution and recovery although it remains untested in practice since there have been no eligible circumstances since the law came into effect. In connection with asset management, the Law on Banks prescribes general and specific requirements for asset management, the obligations of a selling bank, the protection of borrowers and financing of asset management. According to the Law on Banks, an asset management vehicle is a legal entity established by the Republic or one or more other entities that are partially or fully owned by the Republic. The objective of such vehicle is to take control over all or part of any assets, rights or liabilities of one or more banks that are subject to a resolution and recovery procedure. The asset management vehicle manages the transferred assets in order to realise the highest possible value of those assets through its sale or other measures. The BARS is responsible for providing consent to the establishment of such vehicle, approving the appointment of the members of the asset management vehicle's management body, approving the fees for such members and defining their duties, rights and obligations, and approving the vehicles strategy and risk profile.

The BARS further regulates asset management by virtue of the Decision on the Management of Bank Assets (*Official Gazette of the Republic, No. 89/17*) and the Decision on Credit Risk Management and Loan Loss Identification (*Official Gazette of the Republic, No. 48/19 and 109/19*), which further contributed to the decrease of total NPLs since 2016.The BARS, by virtue of the Decision on Credit Risk Management and Loan Loss Identification (which took effect on 1 January 2020), prescribes various requirements relating to NPLs that include, among other things:

- the treatment of NPLs by banks, including the obligation to develop a NPL management strategy and operational annual plans (which must be submitted to the BARS if the NPL rate exceeds 5 per cent.) and the obligation to establish a permanent and efficient function responsible for monitoring and dealing with NPL exposures;
- the obligation to perform write-offs of balance sheet exposures two years after a bank has recognised the expected credit loss equalling 100 per cent. of the gross book value of that exposure and declared it fully mature;
- criteria for allocating exposures to three credit risk levels in accordance with definitions applied in the EU (see below for further information); and
- minimum coverage rates for NPL impairment exposures (both exposures secured by acceptable collateral and unsecured exposures).

In accordance with the Decision on Credit Risk Management and Loan Loss Identification, a bank is required to classify each exposures into one of the following three categories:

- credit risk level 1: this includes low level credit risk exposures where a borrower fails to repay an amount due on their loan that is below the relevant material thresholds (being BAM 200 or 1 per cent. of the borrower's total exposure for retail clients; and BAM 1,000 or 1 per cent. of the borrower's total exposure for corporate clients) for less than 30 days following the relevant repayment date;
- credit risk level 2: this includes moderate level credit risk exposures where a borrower fails to repay a material amount (in accordance with the abovementioned thresholds) due on their loan for more than 30 days following the relevant repayment date; and
- credit risk level 3: this includes NPL exposures where a borrower fails to repay a material amount due on their loan for more than 90 days following the relevant repayment date.

The expected loan loss is the impairment allowance for the balance sheet exposure and provisions to cover the expected loan loss for the off-balance sheet exposures that a bank must recognise in their income statements, and is determined in accordance with the provisions of the Decision on Credit Risk Management and Loan Loss Identification. Banks must determine their expected loan loss for financial assets that are valued at depreciated cost and fair value through other comprehensive income, depending on the choice of the accounting measurement model. The relevant bank calculates the expected loan loss for exposures classified as credit risk level 3 for a twelve-month period, and for exposures classified as credit risk levels 2 and 3 until the maturity of such indebtedness. Banks determine the expected loan loss on an individual basis for individual significant exposures classified as credit risk level 3 as follows: (i) BAM 30,000 where its net assets amount to BAM 500 million, (ii) BAM 50,000 where its net assets amount to BAM 500 million to BAM 1 billion, and (iii) BAM 100,000 where its net assets exceed BAM 1 billion.

The following table provides an overview of the change in NPLs in the Republic's banking sector in the years 2016 to 2019 and the nine months ended 30 September 2020:

	Year ended 31 December				Nine months ended 30 September
	2016	**2017**	**2018**	**2019**	**2020**
			(%)		
Corporate NPLs	13.8	13.4	11.4	7.2	5.5
Retail NPLs	9.7	9.7	8.3	6.6	5.1
Total NPLs	12.0	11.1	9.5	6.9	5.3
			(BAM millions)		
Total NPLs	546.1	539.3	477.6	377.0	289.9

Source: BARS

As at 30 September 2020, NPLs accounted for BAM 289.9 million following a period decline since 2016, primarily as a result of the asset and risk management measures introduced by the Law on Banks and regulations adopted by the BARS. While both corporate and retail NPLs declined steadily during the period under review, the corporate NPLs recorded a swifter decline due to the adoption by the BARS of its Decision on Credit Risk Management and Loan Loss Identification (*Official Gazette of the Republic, No. 89/17 and 109/19*) and the Instruction concerning Financial Asset Classification and Valuation, which introduced significant changes to the asset classification, whereby the existing five-category classification and loan loss provisioning for each of the categories were replaced by a new three-stage credit risk classification and loan loss provisioning for individual risk levels.

The following table represents NPLs by branch structure in percentage for the years 2016 to 2019 and in the nine months ended 30 September 2020:

	Year ended 31 December				Nine months ended 30 September
	2016	**2017**	**2018**	**2019**	**2020**
			(%)		
Agriculture	30.5	16.4	16.9	15.0	12.0
Manufacturing	14.1	17.5	18.5	9.6	9.5
Construction	10.5	6.4	6.5	4.8	4.9
Trade	20.9	22.7	17.6	12.9	11.3
Hospitality	10.0	2.9	3.0	1.3	3.6
Transport, storage and communications	16.8	13.2	5.2	2.4	9.5
Financial intermediation	19.4	11.6	4.1	4.3	0.6
Business activities regarding real estate, rent and business services	13.2	9.7	2.6	1.7	1.2
Government - public administration and defence, mandatory social insurance	3.7	1.9	1.5	0.9	0.3

Source: BARS

The following table provides an overview of the total loans to reserves coverage rate as at 31 December for the years 2016 to 2019 and for the nine months ended 30 September 2020:

	Year ended 31 December				Nine months ended 30 September
	2016	**2017**	**2018**	**2019**	**2020**
			(%)		
Asset quality					
NPLs to total loans	12.0	11.1	9.5	6.9	5.3
Total loan loss provision coverage ratio per regulatory requirements	10.4	9.4	8.7	7.4	6.1
Total loan loss provision coverage ratio per IFRS	9.3	8.4	8.2	6.9	6.1

Source: BARS

The following table shows selected banking sector performance indicators as at 31 December for the years 2016 to 2019 and for the nine months ended 30 September 2020:

	Year ended 31 December				Nine months ended 30 September
	2016	2017	2018	2019	2020
			(%)		
Capital adequacy ratio					
Regulatory capital requirement (min. 12%)	16.3	16.2	17.7	18.3	18.7
Tier 1 capital (min. 9%)	-	14.7	16.2	16.9	17.0
CET 1 (min. 6.75%)	-	14.7	16.2	16.8	16.8
Financial leverage (min 6%).........................	9.4	9.6	10.0	10.4	10.4
Asset quality					
NPLs to total loans	12.0	11.1	9.5	6.9	5.3
Total loan loss provision coverage ratio per IFRS	10.4	9.4	8.7	7.4	6.1
Total loan loss provisioning under IFRS	9.3	8.4	8.2	6.9	6.1
Profitability					
Profit before tax (*BAM millions*)	80.1	107.2	95.2	107.3	66.2
ROAA	0.7	1.4	1.0	1.2	0.9
ROAE...	5.3	10.4	7.8	9.7	7.1
Net income from interest / average net assets..	3.4	3.4	3.2	3.0	2.9
Operating income / average net assets............	2.3	2.6	2.1	2.2	1.9
Total operating expenditures / total income netted by other business and direct costs.....	71.1	59.2	63.1	61.7	64.4
Liquidity					
Liquidity coverage ratio - LCR *(min. ≥100)*....	-	-	215	174	188
Average short-term assets / average short-term liabilities...	90.1	90.7	90.0	89.2	-
Average short-term assets / average net asset..	39.4	41.3	45.4	44.3	-
Average net loans / average deposits..............	86.5	82.5	77.8	77.3	77.2
Money and trading securities / total net assets	31.6	31.0	35.9	33.8	-
Money / total net assets	23.1	22.3	26.1	22.7	21.2
Market risk					
Impairment / regulatory capital requirements *(in %)*..	-	10.7	8.9	7.9	8.3

Source: BARS

The total NPLs for the nine months ended 30 September 2020 accounts for 5.3 per cent. of the total loan portfolio, a decrease of 30.2 per cent. from 2019. As of the nine months ended 30 September 2020, the cash above mandatory reserve amounts to BAM 450.1 million. In the same period, deposits decreased by 0.8 per cent. compared to the end of 2019. The liquidity coverage ratio ("**LCR**") is above 70 per cent. in accordance with the applicable law, and saw an increase of 8.0 per cent. since 2019. There was a reduction in profit before tax by 38.3 per cent, from BAM 107.3 million in 2019 to BAM 66.2 million in the nine months ended 30 September 2020 due to increase in expenditures. The Ministry of Finance of the Republic keeps its deposits in eight commercial banks in the territory of the Republic Srpska. Banks must comply with certain conditions agreed in the tender for public procurement of banking services. Payments are performed from the Single Treasury Account (through which Ministry of Finance of the Republic manages its Budget funds). The Republic does not have deposits in the Central Bank, only sub-accounts for repayment of foreign liabilities.

Law on Bankruptcy

The Bankruptcy Law of the Republic (*Official Gazette of the Republic, No. 16/16*) (the "**Bankruptcy Law**") regulates the restructuring procedure and bankruptcy procedure, legal consequences of opening and conducting restructuring and bankruptcy proceedings, reorganisation of a bankruptcy debtor incapable of payment based on a bankruptcy plan and international bankruptcy. According to this law, the restructuring procedure is carried out in order to regulate the legal position of the debtor and his relationship with creditors, in order to continue performing his activities. Bankruptcy proceedings are conducted for the purpose of group settlement of creditors of the bankruptcy debtor, liquidation of his property and distribution of collected funds of creditors. During the bankruptcy proceedings, the reorganisation of the bankruptcy debtor may be carried out in accordance with the provisions of this Law in order to maintain its business activities and preserve jobs.

The Law on Liquidation Procedure (*Official Gazette of the Republic, No. 82/19*) regulates the liquidation procedure that is conducted over a business entity before the competent court in the Republic. According to this law, the liquidation procedure ensures full settlement of all creditors of the business entity. After the liquidation procedure, and the settlement of the costs of the procedure and all creditors, the remaining assets of the business entity are distributed to the founders, partners, members or shareholders of the business entity in proportion to the share in ownership. The liquidation procedure is conducted by the court which, according to the Bankruptcy Law, is actually and locally competent for conducting the bankruptcy procedure.

The Law on Agreed Out-of-Court Financial Restructuring (*Official Gazette of the Republic, No. 99/20*) regulates the conditions for initiating and proceeding with an agreed out-of-court financial restructuring of companies and entrepreneurs in the Republic. The goal of the agreed out-of-court financial restructuring of companies and entrepreneurs is the timely recognition and elimination of financial difficulties and the creation of conditions for the continuation of the debtor's business. According to this law, the financial restructuring procedure is based on the following principles:

- voluntarism, which implies that the debtor and creditors have complete freedom of will in making a decision on participation in the procedure;
- urgency, which means that the participants in the procedure perform their obligations as soon as possible;
- sustainability of operations, which implies that the debtor's continuation of operations is economically justified and sustainable on the basis of its previous operations and business prospects;
- acting in good faith, which means that the participants in the proceedings are honest in their statements, that they take actions with special care, with an understanding of the legitimate interests of the other party;
- cooperation, which implies that the participants in the procedure exchange data with each other with the aim of preparing appropriate proposals for restructuring measures;
- equality of position of creditors, which means that all creditors are provided with equal treatment, in proportion to the amount of their claims, unless the creditors regulate their mutual relations by contract.

The financial restructuring process may result in a debt standstill agreement or a financial restructuring agreement. The procedure of out-of-court financial restructuring is carried out by the Chamber of Commerce of the Republic through licensed intermediaries. The creation of preconditions for the selection of the mentioned mediators and the determination of the necessary technical procedures for the application of the law is in progress.

Banking Supervision and Enforcement

In accordance with the constitutional and legal order of BiH and the Republic, the Republic maintains the prerogative in respect of the regulation and stability of its banking sector. Consequently, the BARS was established by the Law on the Banking Agency of the Republic (*Official Gazette of the Republic, Nos. 59/13 and 4/17*) to act as the supervisory and regulatory body that oversees the banking sector in the Republic. The BARS acts as an independent and autonomous institution which reports directly to the RS National Assembly.

The responsibilities of the BARS include (without limitation):

- regulating activities and implementing measures to preserve and strengthen the banking system in accordance with applicable law;
- issuing licenses for the establishment and operation of banks as well as in respect of a change in a bank's organisational structure and nature of operation it may undertake;
- issuing and revoking licenses and other relevant regulations in accordance with its powers, maintaining supervision and imposing related supervisory measures over banks and micro-credit organisations in accordance with applicable law;

- issuing and revoking credit-saving licences and other relevant regulations in accordance with its powers, maintaining supervision and imposing related supervisory measures over credit-saving organisations in accordance with applicable law;

- issuing and revoking leasing licenses and other relevant regulations in accordance with its powers, maintaining supervision and imposing related supervisory measures over banks and leasing organisations in accordance with applicable law;

- when authorised by special laws, issuing and revoking licences to other financial organisations operating in the banking system and maintaining supervisory operations over such organisations in accordance with applicable law;

- supervising the abovementioned entities by exercising off-site and on-site controls;

- issuing regulations, supervising and taking the necessary measures related to the prevention of money laundering and terrorist financing related to banks, MCOs, savings and loan organisations, leasing organisations and other financial organisations operating in the banking system, in cooperation with the competent anti-money laundering and anti-terrorist authorities and institutions in accordance with the regulations governing the prevention of money laundering and financing of terrorist activities;

- monitoring and taking the necessary measures in accordance with the regulations governing the introduction and application of certain interim measures for the effective implementation of international restrictive measures;

- issuing regulations and performing activities to protect the rights and interests of users of financial services in the banking system, supervising the application of regulations in this area and implementing appropriate measures within its powers;

The Law on Banks of Republic (*Official Gazette of the Republic, Nos. 4/17, 19/18 and 54/19*), which is in accordance with Directive 2013/36/EU, stipulates that the BARS performing supervision monitors evaluates:

- financial condition of the bank, including solvency, asset quality, liquidity and financial result;

- quality of management in the bank, risk management system and internal control system;

- loans, advances, letters of credit, guarantees, as well as issued securities in terms of compliance with applicable regulations;

- security and guarantee instruments received on the basis of granted loans and timeliness of fulfilment of the debtor’s obligations;

- compliance with exposure limits and the process of identifying, monitoring and controlling exposure limits, including large exposures;

- application of standards regarding permitted risks prescribed by the Agency, risk management in the performance of banking operations, including adjustment of the risk identification and monitoring process, as well as risk reporting;

- assessment, maintenance and analysis of the bank’s capital; and

- other important indicators that affect the bank’s operations, as well as the application of laws and regulations of the BARS.

The Decision on the manner of conducting banking supervision and undertaking supervision measures (*Official Gazette of the Republic, No. 116/17*) specifies the conditions and manner of conducting banking supervision, the content of the supervision plan, the actions of authorized persons of the BARS during supervision and taking measures supervision, and the obligations of the bank during and after supervision.

- determining the eligibility for a bank resolution procedure, conduct such resolution procedure, deciding on the instruments and measures to be taken in a bank resolution process and performing other activities related to a bank resolution, in accordance with the Law on Banks and applicable law (which is largely in line with the European approach under Directive 2014/59/EU on establishing a framework for the recovery and resolution of credit institutions and investment firms);

- issuing and revoking approvals for opening a representative office, supervising operations of representative offices, ordering supervision measures and other competencies in accordance with applicable law;
- imposing a fine and issuing misdemeanour warrants; and
- implementing any other responsibilities or taking such actions as required by the Law on Banks, the Law on the Banking Agency of the Republic (*Official Gazette of the Republic, Nos. 59/13 and 4/17*) or any other applicable law from time to time.

The Law on Banks regulates the supervision of commercial banks operating in the Republic. The BARS is authorised to supervise all activities performed by any bank operating within the territory of the Republic, as well as banks that are established in the Republic but operating outside of its territory (for example, through representative offices), in accordance with the Law on Banks, the Law on the Banking Agency of the Republic (*Official Gazette of the Republic, Nos. 59/13 and 4/17*) and other laws and regulations adopted pursuant to applicable laws, risk management rules, as well as standards and rules of the profession. The BARS supervises the operations of organisational units of banks operating in the Republic that are based in the Federation and the Brčko District as well as foreign representative offices of banks established in the Republic. Additionally the Law on Banks stipulates that the BARS is responsible for supervising each banking group on a consolidated basis and may control any member of the banking group in accordance with the law. When supervising banks, the BARS is authorised to inspect all of a bank's documented records, as well as request such other information as it may require to assist an investigation from persons who are related to the bank (by ownership interest or by virtue of their management position) or persons to whom a bank has transferred a significant part of its business activities.

The primary objective of the BARS' supervision is to preserve confidence in the banking system of the Republic, and to ensure its stability, security and protection of depositors. The BARS mainly performs its supervisory functions through (i) off-site controls, (ii) on-site controls, (iii) issuing relevant regulations within its competence, and (iv) ordering supervisory measures. The BARS checks the legality of each bank's operations, including their organisation, strategies, policies, procedures in order to harmonise its operations with applicable regulations, as well as assess the financial and risk position through considering: (i) the risks to which a bank is exposed or could be exposed, (ii) the impact of such bank's risk on the broader banking system, and (iii) implementing stress-testing measures to test a bank's resilience, taking into account the nature, scope and complexity of such bank's operations.

As necessary, the BARS conducts enhanced supervision of the bank where it (i) increases the frequency of direct supervision of a bank, (ii) appoints an advisor in accordance with applicable law, (iii) requires additional or more frequent reporting by such bank to the BARS, (iv) performs targeted supervision of certain segments of a bank's operations that it deems to be exposed or could be exposed to significant risks, and (v) performs additional reviews of operational, strategic and business plans of a bank.

The BARS determines the frequency and scope of bank supervision taking into account its size, financial condition, systemic importance of the bank for the financial sector, scope and complexity of operations, risk profile and persons with significant participation in the bank, while applying the principle of proportionality. According to the Law on Banks and the regulations adopted by the BARS, for the purposes of indirect control, each bank is obliged to prepare and promptly submit to the BARS reports and data on its financial condition and operations, including risk exposure, large exposures, asset quality, loan loss provisioning, business with persons in special relationship with such bank, liquidity, solvency and profitability, as well as the planned business activities of such bank and its subsidiaries. At the request of the BARS, a bank may also become obliged to submit additional information pertaining to (i) data on the financial condition, operations and risk exposure on a consolidated basis, and (ii) data for the members of the banking group that are needed to assess the condition and risk of such bank or banking group.

The BARS performs on-site supervision by reviewing a bank's operations at its headquarters or outside its headquarters, where a bank engages in banking activities that are subject to supervision under applicable law and regulations. The Law on Banks prescribes that banks are required to provide the BARS with access to all organisational aspects of a bank, to make available all operational and commercial documentation, and to provide access to the database system used by a bank.

The BARS is responsible for devising a supervision plan at least once a year and, in order to facilitate its supervisory functions, the BARS also regularly stress tests banks. In 2019, the BARS conducted its first cycle of supervisory stress-testing on the three largest banks in the Republic (Nova Banka, UniCredit Bank and NLB Banka). The supervisory testing framework is largely based on the European Banking Authority's methodology and the appropriate benchmarks and macroeconomic scenarios were developed in collaboration with consultants from the USAID FINRA project. The BARS intends to conduct stress-testing on an annual basis. The implementation of the stress-testing for 2020 was postponed to 2021 as a result of the impact of the COVID-19 pandemic (and in line with the European Banking Authority's approach), but the 2021 cycle will cover all banks operating in the Republic's banking sector. The results of the stress-testing, which are not published, are used in accordance with the Law on Banks as an auxiliary tool for the BARS to monitor the operations of individual banks, perform appropriate risk assessment and implement supervisory measures as required.

If the BARS determines that a bank has acted contrary to the provisions of the Law on Banks, regulations adopted by BARS, or other applicable regulations or prudent banking standards, or in any other way that endangers a bank's operations, the BARS is empowered and authorised to implement one or more of the following supervisory measures against that bank if it assesses that there have been serious violations of regulations and business principles that jeopardize or may jeopardize the financial condition or liquidity of a bank and the interests of its depositors' measure:

- the issuance of a formal written warning;
- requiring the elimination or correction of the irregularities and illegalities that are prevalent in a bank's business;
- restricting the exercise of the rights of shareholders under their shareholding;
- imposing early intervention measures where a bank's condition significantly deteriorates (such as a decrease of its liquidity position, an increase of its NPL and/or leverage ratio, or an increased concentration exposure) in order to pre-emptively facilitate a bank's recovery and the restoration of its operations as a going concern;
- revoking the operating licence of a bank or otherwise initiating a statutory liquidation procedure or submitting a proposal for the commencement of bankruptcy proceedings in respect of such bank; and
- implementing a procedure for assessing the eligibility of a bank resolution procedure where it determines that the condition of a bank is such that it cannot, or it is probable that it will not, be able to continue operating (which is largely in line with the European approach under Directive 2014/59/EU on establishing a framework for the recovery and resolution of credit institutions and investment firms). In this scenario, the Law on Banks permits the BARS to assess the fulfilment of conditions for conducting resolution or bankruptcy proceedings against a bank, taking into account the performance of their critical functions, long-term viability, the overall stability of the financial system, ring-fencing the Budget and other public funds, as well as protecting the interests of depositors. The BARS is entitled to use its discretion when considering the appropriate procedure and measures in such circumstances.

The BARS has signed memoranda of cooperation with different regulatory or supervisory banking authorities in Serbia, Croatia, Slovenia, Montenegro, Austria, Germany, Russia and Turkey in relation to parent banks of banking groups that are domiciled but have branches in the Republic. The BARS is a member of the memorandum of cooperation and high-level principles of cooperation and coordination of banking supervision in the countries of Southeast Europe, and memoranda of cooperation with the European Banking Authority. The BARS also cooperates with international and EU institutions and organisations (including the IMF, the World Bank and the European Central Bank) by responding to inquiries, requests for data, information and/or completing questionnaires and reports and convening meetings with such international and EU institutions.

Capital adequacy

The Law on Banks prescribes that a bank's regulatory capital is a sum of core and supplementary capital, after regulatory adjustments. Under this Law, the bank's core capital is a sum of the items of regular core capital after regulatory adjustments and the items of additional core capital after regulatory adjustments. The supplementary capital is a sum of capital instruments, subordinated debt, general loan loss provisions and other items of supplementary capital after regulatory adjustments, which may not exceed one third of the core capital. These definitions are compatible with corresponding EU regulations.

Banks are required to maintain a statutory level and composition of capital, with thresholds set at BAM 15 million for subscribed founding capital and BAM 15 million for regulatory capital. The bank regulatory capital, as a sum of core and supplementary capital, after regulatory adjustments, may not be lower than BAM 15 million. Depending on the risk profile and systemic importance of a bank, banks are required to ensure at any time adequate levels of capital depending on the type, volume, and complexity of its operations and risks it is or could be exposed to in its operations.

In 2017, the BARS issued a Decision on the Methodology of Calculating Bank Capital (*Official Gazette of the Republic, Nos. 74/17, 114/17, 48/19 and 114/20*) which introduced new capital standards aimed at improving the quality of capital, taking into account the characteristics, types and scope of each individual item included in the calculation of regulatory capital and its individual items, appropriate methodologies for calculating capital requirements for credit, market and operational risk, and new methodologies for maintaining capital buffers and calculating leverage. Pursuant to this decision and the Decision on Reporting on Capital Adequacy of Banks (*Official Gazette of the Republic, Nos. 74/17, 114/17 and 114/20*), as of 31 December 2017, banks are required to report to the BARS the rates and levels of regulatory capital, core capital and equity, capital requirements and financial leverage. The basic requirements of the Decision on the Methodology of Calculating Bank Capital in the context of capital adequacy are: (i) 6.75 per cent. for equity; (ii) 9 per cent. for core capital; and (iii) 12 per cent. for regulatory capital. The Decision on the Methodology of Calculating Bank Capital also requires banks to ensure and maintain a financial leverage rate of 6 per cent. (see also "*-Application of Basel III standards*" below).

According to the BARS, the regulatory capital ratio in the banking system in the Republic was 18.3 per cent. in 2019, as compared to 17.7 per cent., 16.2 per cent. and 16.3 per cent. in 2018, 2017 and 2016, respectively, which is well above the prescribed regulatory minimum in the Republic of 12 per cent. As at 30 September 2020, the regulatory capital ratio was 18.7 per cent., while the Tier 1 ratio was 17.0 per cent.

The BARS may set a higher regulatory capital adequacy ratio for an individual bank if, based on the type and degree of risk exposure, systemic importance and business activities of such bank, it is determined that this is necessary for maintaining the safety and soundness of a bank's operations or the fulfilment of a bank's obligations towards its creditors.

Application of Basel III standards

The BARS adopted the Strategy for the Application of Basel III which foresees a cautious and gradual transition to a new regulatory framework in the Republic in order to ensure that banks gradually develop their capacities and possibilities in anticipation for the application of Basel III standards, and that the BARS develops its supervisory capabilities for establishing and implementing a new regulatory framework in cooperation and coordination with the relevant domestic and foreign institutions.

Given one of BiH's primary strategies is to become a member state of the EU, the main commitment of the BARS is to direct its activities into harmonizing regulations with the EU regulatory framework while amending its regulatory framework.

In line with its Strategy for the Application of Basel III and the Law on Banks, the BARS continues to implement measures to facilitate the harmonisation of its regulatory framework with those prescribed by EU requirements (in particular, the requirements prescribed under the Capital Requirements Directive (Directive 2013/36/EU) and the Capital Requirements Regulation (Regulation (EU) No. 575/2013), including any associated implementing and technical standards and guidelines enacted based on the foregoing legislative frameworks). As part of its strategy, the BARS regularly cooperates with foreign institutions and organisations such as the World Bank to facilitate the implementation of its harmonised regulatory framework.

In order to harmonize with Basel III requirements, the BARS adopted various regulations to govern the operations of banks in the Republic in line with the following requirements:

- **regulatory capital structure and capital adequacy**: The minimum rates of regular core, core and regulatory capital are set at a level higher than prescribed by Basel III standards (the regulatory capital rate is 12 per cent., the core capital rate is 9 per cent. and the regular core capital rate is 6.75 per cent.), and banks are required to maintain a capital buffer of 2.5 per cent. of total weighted risk;

- **financial leverage**: The minimum leverage rate is 6 per cent., which is higher than prescribed by Basel III standards; and

- **liquidity requirements**: With effect from 31 December 2022, banks are required to maintain a minimum liquidity coverage ratio at 100 per cent., and a minimum net stable funding ratio at 100 per cent.. Prior to such requirements, banks are required to comply with applicable regulatory requirements regarding the maturity matching of assets and liabilities.

- **regulatory requirements regarding the management system**: Banks are required to establish and maintain, among other things, a transparent organisational structure, efficient and reliable risk management system, adequate system of internal controls, remuneration policies and practices, adequate internal capital adequacy and liquidity assessment procedures and adequate recovery plans; and

- **market discipline**: Public disclosure of data and information relating to banks are largely in line with the requirements of Basel III.

In accordance with the Decision on bank capital calculation (Official Gazette of RS, 74/17, 114/17, 48/19 and 114/20), banks are allowed to use:

- Standardized approach for measurement of capital requirements for credit risk,

- Standardized approach for measurement of capital requirements for market risk,

- Basic Indicator Approach (BIA) and Standardized approach for operational risk.

In addition, in the first half of 2019, the European Banking Authority commenced the process of assessing the equivalence of the regulatory framework and supervisory approach applied in the Republic and the Federation with those applied in the EU. The evaluation process was completed in the second half of 2020 when the European Banking Authority's proposal for a final decision on equivalence was sent to the European Commission for its final assessment.

IFRS 9

Banks in the Republic started applying IFRS 9 from 1 January 2018. The application of IFRS 9 change in the classification, valuation and calculation of the impairment of financial instruments as it introduced the concept of expected credit losses (in place of incurred credit losses).

In order to regulate the application of IFRS 9 by banks, the BARS enacted its Decision on Managing Credit Risk and Defining Expected Credit Losses and related guidelines, which took effect from 1 January 2020. This Decision obliges banks to continuously develop their internal methodologies and models for evaluating financial assets and to respect the minimum defined exposure rates when amounts of expected credit losses (defined in line with internal methodologies for certain exposure) are lower than defined minimum.

Protection of Users of Financial Services

In line with the BiH Constitution and the RS Constitution, the Republic is responsible for the security and stability of its banking system and other segments of the financial system, which includes the protection of its consumers (being users of banking and other financial services). Consumers' rights for the usage of financial services that include banking and credit services, insurance services, retirement insurance services, services related to voluntary retirement funds, investments and payment services are stipulated by special laws that regulate financial system, as well as by-law of supervisory bodies of the financial system. Further, the Law on Consumer Protection in the Republic (*Official Gazette of the Republic, No. 6/12, 63/14 and 18/17*) prescribes general rules for the consumers' protection. The protection of such consumers in the banking sector is regulated by the Law on Banks, the Law on the Banking Agency of the Republic (*Official Gazette of the Republic, Nos. 59/13 and 4/17*), the Law on Microcredit Organisations (*Official Gazette of the Republic, Nos. 64/08 and 116/11*), the Law on Leasing Operations (*Official Gazette of the Republic, Nos. 70/07 and 116/11*), in addition to regulations adopted by the BARS. The foregoing laws authorise the BARS to issue regulations and implement necessary measures to ensure the protection of natural persons using financial services in the banking system, as well as to supervise the application of consumer protection regulations. The standards prescribed by EU law under Directive 2008/48/EC, Directive 2006/114/EC, Directive 2005/29/EC and Directive 93/13/EEC have been to a great extent incorporated into such consumer protection laws and adapted to the domestic financial market.

In the Republic, an Ombudsman for the banking system and an Obmudsman for the insurance markets was established to oversee consumer protection in the financial system and provide an avenue of recourse for consumers. Moreover, the supervisors of the financial system (being the BARS, the RS Insurance Agency and the Securities Commission) also conduct supervisory and regulatory activities in connection with enhancing consumer protection.

In 2009, the Committee for Coordination of Supervisions of the Financial Sector of the Republic (the "**Supervision Committee**") was established in 2009 through the Law on Committee for Coordination of Supervisions of the Financial Sector of the Republic of Srpska (*Official Gazette of the Republic, No. 49/09*). The Supervision Committee is responsible for coordinating the work of supervisory bodies operating across the financial sectors of the Republic, as well as developing guidelines for the development of such supervision and ensuring the protection of the rights of consumers of financial products in the Republic. The Supervision Committee cooperates with the Ministry of Finance given its competent legal authority over the financial system in the Republic.

The Ministry of Finance of the Republic continuously monitors new EU standards and requirements regarding the protection of the users of financial services. All sources of EU law as to the protection of consumers of financial services are transposed by the Republic's applicable regulations that govern and oversee the financial system. Moreover, the representatives of the various supervisory authorities of the Republic and the Ministry of Finance of the Republic routinely coordinate together to develop programmes for consumer protection in the Republic, and also cooperate with other international institutions in order to further develop this matter and raise awareness amongst consumer groups.

Payment System

The general provisions for payments in the BAM currency in the Republic are prescribed by the Law on the Central Bank of BiH (*Official Gazette of BiH, Nos. 1/97, 29/02, 8/03, 13/03, 14/03, 9/05, 76/06 and 32/07*), the Law on Internal Payment Operations (*Official Gazette of the Republic, Nos. 52/12, 92/12 and 58/19*), the Law on Payment Transactions (*Official Gazette of the Republic, No. 12/01*) and the Law on Foreign Exchange Operations (*Official Gazette of the Republic, Nos. 96/03, 123/06, 92/09, 20/14 and 20/18*).

According to the Law on the Central Bank, the Central Bank established a 'RTGS' system (Real Team Gross Settlement and Giro Clearing System) which is utilised for interbanking payments in the BAM currency throughout BiH. The Central Bank enacted operational rules for RTGS and the Giro Clearing System which define certain mandatory conditions pursuant to which the Central Bank and commercial banks may access the RTGS system and the Giro Clearing System.

The Central Bank charges banks for the costs of using RTGS and Giro Clearing System according to the Decision on Defining Tariffs for Reimbursements of the Central Bank, which was published by the Central Bank. With respect to internal payment operations, any payment transactions conducted in the BAM currency must be performed between commercial banks using the RTGS system and the Giro Clearing System of the Central Bank. Any transactions that are performed through the RTGS system are executed immediately (if there is security on the clearance of accounts). Transactions that are performed through the Giro Clearing system are executed on the same day when received in the relevant clearing cycle for which they were transmitted. The clearing of net debt and claims of the users in the Giro Clearing System is entirely conducted through the RTGS system.

The abovementioned Law on Internal Payment Operations regulates activities regarding internal payment operations, participants and organisations empowered to perform payment operations, types of accounts, method and manner of payments, execution of payments and debt enforcement from the account, rights and obligations of participants in the internal payment operations in the Republic.

The execution on payment transactions in the BAM currency and manner of participating in payment transactions are regulated by the abovementioned Law on Payment Transactions. Associated regulations stipulate a form and content of the payment orders, procedures for executing payment transactions and a manner in which a bank is obliged to inform its clients.

In line with the abovementioned Law on Foreign Exchange Operations, any transfers and payments in the Republic between residents and non-residents are conducted in the BAM currency. Payment operations with foreign countries are completed in the relevant foreign currency and the BAM currency through an authorised bank, whereas state bodies and organisations perform payment operations with foreign countries through the Central Bank. Payments, charging and transfers on current and capital affairs between residents and non-residents are conducted freely and through an authorised bank in line with these laws. The information about the manner and conditions for dealing with payment operations is available in the regulations published in the Official Gazette of the Republic, and also made available through other means of communication by the Ministry and the BARS.

The payment operations of the Republic include all banks with headquarters in the Republic and banks with headquarters in the Federation which through their organisational structure operate in the Republic. As at 30 September 2020, and according to the BARS, these banks registered 110,775 opened BAM currency accounts and 28,510 foreign currency accounts held by legal entities and entrepreneurs. Moreover, on 30 September 2020, such banks registered 1,049,396 BAM currency accounts and 264,364 foreign currency accounts that are held in the name of natural persons.

In the first nine months of 2020, the overall payment operations conducted in banks with the headquarters in the Republic amounted to BAM 51.7 billion, and included cash transactions (BAM 9.1 billion), non-cash transactions (BAM 37.3 billion, where intrabank payment transactions amounted to BAM 20.2 billion and interbank payment transactions amounted to BAM 17.1 billion) and FOREX transactions (BAM 5.3 billion). In comparison to the same period in 2019, number of conducted intrabank payment transactions decreased by 19.8 per cent., while the value of transactions decreased by 34.6 per cent., and the number of interbank payment transactions increased by 5.2 per cent., while the value of transactions decreased by 14 per cent.

The overall number of intrabank payments transactions in the nine months ended 30 September 2020 totalled 17.3 million transactions with a total value of BAM 20.2 billion, as compared to a total value of BAM 30.9 billion during the corresponding period of 2019. In the nine months ended 30 September 2020, the overall number of executed interbank cashless payment transactions amounted to 10.5 million with a value of BAM 17.1 billion, as compared to a total value of BAM 19.9 billion during the corresponding period of 2019.

Total value of performed transaction (outflow) toward abroad in the first nine months of 2020 was BAM 2.6 billion (BAM equivalent), while total value of performed transaction (inflow) from abroad was BAM 2.7 billion – inflow and outflow of foreign exchange transactions was balanced.

The following table provides an overview of the volume and value of intrabank and interbank payment transactions conducted in the years 2016 to 2019 and the nine month periods ended 30 September 2019 and 2020:

	Intrabank payment transactions		**Interbank payment transactions**	
	Number of transactions	**Amount of transactions**	**Number of transactions**	**Amount of transactions**
		(BAM billions)		*(BAM billions)*
Period				
2016	26,714,285	36.1	13,148,803	22.5
2017	27,162,603	38.2	13,464,428	24.5
2018	27,420,062	40.9	13,584,970	26.6
2019	28,974,737	42.1	13,518,052	27.7
As at 30 September 2019	21,538,508	30.9	10,000,425	19.9
As at 30 September 2020	17,268,959	20.2	10,524,150	17.1

Source: BARS

Prevention of Money Laundering and Financing of Terrorism

Measures, activities and procedures in the financial and non-financial sector that are undertaken in order to prevent and detect money laundering and terrorist financing activities are regulated by BiH's the Law on Preventing Money Laundering and Financing Terrorist Activities (*Official Gazette of BiH, Nos. 47/14 and 46/16*), which considered to be within the competence of BiH as opposed to the Entities. The Entities do not have a separate legal framework governing the prevention of money laundering and financing terrorist activities. In accordance with this Law and the applicable special laws of the Republic that regulate the work of certain payers and competent agencies and bodies, the BARS, RS Insurance Agency and Securities Commission are responsible for directly and indirectly supervising payments to ensure the prevention and detection of money laundering and terrorist financing activities in relation to any transaction that are within the scope of their authority and competence. The BARS and the Foreign Exchange Inspectorate perform similar supervisory functions over foreign exchange operations in the Republic. In accordance with the Law on Central Bank, the Central Bank assists other institutions in the fight against money laundering and financing of terrorist activities.

The BARS, as a supervisory body for the banking system of the Republic and in accordance with the Law on Banking Agency, is competent for enacting, supervising and implementing the necessary measures for preventing and detecting money laundering and terrorist financing activities related to banks, MCOs, savings and credit organisations, financial leasing organisations and other financial institutions operating in the Republic's banking system, in cooperation with the competent bodies and institutions responsible for facilitating the prevention of money laundering and terrorist financing activities.

In line with its responsibilities as prescribed by law, the BARS has implemented minimum standards for activities or transactions carried out by banks regarding the prevention of money laundering and terrorist financing activities. Banks are required to adopt appropriate risk management or control procedures in respect of anti-money laundering and terrorist financing activities to ensure that such programmes, policies and procedures are fully implemented in practice and provide sufficient safeguards against such activities. Such policies and procedures must be implemented at each bank's headquarters, all branches and other organisational units domestically and internationally. In particular, banks are required to implement a minimum standard of policies pertaining to client eligibility, client identification, ongoing monitoring of accounts and transactions, anti-money laundering and terrorist financing risk management, in each case based on a risk and "know-your-client" assessment of banking users.

The supervisory boards of banks operating in the Republic are responsible for adopting sufficient policies and procedures and their implementation. Each bank's policies and procedures must clearly assign responsibilities to the appropriate organisational units, functions, management, executive officers or employees of the bank. Banks are required to adopt internal procedures for reporting the relevant information and data to the competent authorities to ensure comply with their reporting obligations under applicable law and regulations.

The Law on the Banking Agency provides the BARS with authority to issue regulations, supervise and take the necessary measures related to the prevention of money laundering and terrorist financing activities in relation to banks, MCOs, savings and loan organisations, leasing organisations and other financial organisations operating in the banking sector, in cooperation with other competent authorities. The BARS may issue fines in the event of a failure to comply with the applicable reporting obligations, and in the event of a serious violation of the law and regulations governing money laundering and terrorist financing, the BARS may revoke a bank's licence.

The BARS has concluded various memoranda of cooperation with foreign supervisory authorities governing the exchange of information pertaining to anti-money laundering and terrorist financing activities (such as with the authorities in Serbia, Croatia, Slovenia, Montenegro, Germany, Russia and Turkey). The BARS indirectly cooperates with the Egmont Group through the Financial Intelligence Unit (which is a branch of BiH Investigation and Protection Agency). The Financial Intelligence Unit has been a member of the Egmont Group since 2005 and has an established system of international data exchange with foreign financial intelligence units.

The Microcredit Sector

The Law on Microcredit Organisations (*Official Gazette of the Republic, Nos. 64/06 and 116/11*) regulates the establishment, business activity, legal forms and registration, operations, management, supervision and termination of MCOs. Under this law, an MCO is a non-deposit financial organisation whose main business activity is microcredit operations. Pursuant to the Law on Microcredit Organisations, a microcredit is a loan that does not exceed BAM 50,000 if extended by a MCO or BAM 10,000 if extended by a microcredit foundation. A microcredit company is established and operates in the form of a capital company, a limited liability company or a joint-stock company for the purpose of making a profit. A microcredit foundation operates in a similar function, but any surplus income over expenditures must be invested in its microcredit operations. MCO activities may be performed exclusively by MCOs that are licensed by the BARS and registered in a court register. MCOs may not accept cash deposits and savings deposits from individuals and legal entities. According to the BARS, as at 30 September 2020, there were 14 MCOs with over 148 branches within 12 microcredit enterprises and 2 microcredit foundations in the Republic.

The following tables provides an overview of the capital and asset structure of the microcredit sector in the Republic for the years 2016 to 2019 and the nine months ended 30 September 2020:

	Year ended 31 December				**Nine months ended 30 September**
	2016	**2017**	**2018**	**2019**	**2020**
Number of MCOs	9	13	13	13	14
Headcount	334	381	439	538	555
			(BAM millions)		
Balance sheet assets	225.0	264.6	310.5	365.4	407.1
Capital	85.5	97.8	110.4	125.1	136.4
Undistributed profit	36.4	43.8	53.6	65.5	74.4
Total lending	183.0	212.8	253.2	296.2	329.8
Corporate loans	2.8	3.5	4.1	4.6	5.5
Retail loans	180.1	209.3	249.1	291.6	324.3

Source: BARS

As at 30 September 2020, MCO sector's balance sheet amounted to BAM 407.1 million. Since 2016, the MCO sector's gross assets increased by BAM 182.1 million, or 80.9 per cent., which was primarily a result of a continued increase in the number of MCOs and the simplified borrowing procedures for MCO disbursed loans. The total stock of loans disbursed by the MCO sector amounted to BAM 329.8 million, or 81.2 per cent. of the sector's total assets, which represented an average annual rate of increase of 16.0 per cent. since 2016, and was largely a result of an increase of loans to individuals that would not ordinarily have access to traditional sources of financing due to their risk profile or lack of adequate collateral.

The total capital of the MCO sector as at 30 September 2020 amounted to BAM 136.4 million, or 41.4 per cent. of the sector's total liabilities. This represents an increase of BAM 50.9 million since 2016, or an annual average rate of increase of 11.9 per cent., which was primarily the result of an increase of retained profits by MCOs and the founding of new MCOs during the period under review. A significant share in the MCO sector's total capital is comprised of undistributed profit which, as at 30 September 2020, stood at BAM 74.4 million, or 54.5 per cent. of total capital, which represents an average annual rate of increase of 20.8 per cent. since 2016. The significant increase was largely due to the MCOs prudent policies on the use of profits in order to attract international and domestic financing and, in the case of 2020, the impact of the Decision on Interim Measures for Microcredit Organisations to Mitigate the Impact of the COVID-19 (*Official Gazette of the Republic, Nos. 30/20 and 56/20*) that requires MCOs to maintain an adequate capital structure to cover all risks and to postpone and/or cancel dividend payments while this Decision is in effect. In the first half of 2020, undistributed profit generated by MCOs included undistributed audited profit generated from previous years' activities which totalled BAM 64.9 million. As at 30 September 2020, declared profit stood at BAM 9.5 million.

As at 30 September 2020, the MCO's primary source of financing was generated from loans which accounted for BAM 239 million, or 60 per cent. of the sector's total liabilities. The primary source of such funding is disbursed by IFIs, which provided BAM 150.6 million in funding to the MCO sector as at 30 September 2020. The total loan loss provisioning and for other items accounted for BAM 8.6 million or 2.2 per cent. of the total liabilities. As at 30 September 2020, the MCO sector's overdue accounts receivable amounted to BAM 4 million or 1.2 per cent. of total loans, mainly accounting for retail loans, as compared to BAM 2.9 million in 2019, BAM 1.3 million in 2018, BAM 0.8 million in 2017 and BAM 0.6 million in 2016.

The average weighted effective interest rate on long-term loans disbursed by the MCO sector was 20.2 per cent. as at 30 September 2020. The average weighted effective interest rate on short-term loans disbursed by the

MCO sector was 31.9 per cent. The following table provides an overview of the average weighted effective loan interest rates in the microcredit sectors for the years 2016 to 2019 and until 30 September 2020:

	Year ended 31 December				Six months ended 30 September
	2016	2017	2018	2019	2020
			(%)		
Weighted interest rate: short-term loans	24.4	27.2	31.2	23.7	31.9
Weighted interest rate: long-term loans	22.2	22.3	22.0	22.1	20.2
Weighted interest rate: total loans	23.0	23.9	24.6	22.6	22.8

Source: BARS

As at 30 September 2020, the MCO sector in the Republic generated a net profit of BAM 9.4 million as compared to BAM 12.6 million during the corresponding period of 2019. As at 31 December 2019, the MCO sector in the Republic generated net profit of BAM 14.5 million, as compared to BAM 11.2 million, BAM 8.3 million and BAM 9.4 million in 2018, 2017 and 2016, respectively.

Financial Leasing Organisations

According to the BARS, as at 30 September 2020, there were three business units that operated within three financial leasing organisations domiciled in the Federation and no leasing organisations domiciled in the Republic.

Total receivables generated from financial and operating leasing amounted to BAM 119.2 million as at 30 September 2020 as compared to BAM 108.6 million as at 31 December 2019, representing a 9.8 per cent. increase. As at 30 September 2020, receivables from financial leasing accounted for BAM 104.7 million, or 87.8 per cent. of total leasing debt, whereas operating lease amounted to BAM 14.5 million, or 12.2 per cent. of total leasing debt.

In terms of lease assets, the financing of passenger vehicles accounted for the largest share (46.1 per cent.) as at 30 September 2020, followed by commercial vehicles (43.5 per cent.) and machinery and equipment (29.6 per cent.). Other lease assets had a share of less than 1 per cent of total leasing debt.

The average weighted effective leasing rate of financial leasing organisations domiciled in the Federation was 9.2 per cent. as at 30 September 2020, which represented an increase of 0.5 percentage points as compared to the year ended 31 December 2019.

The following table provides an overview of the composition of leasing debt in the Federation for the years 2016 to 2019 and the nine months ended 30 September 2020:

	Year ended 31 December				Nine months ended 30 September
	2016	2017	2018	2019	2020
Asset					
Passenger vehicles (*BAM millions*)	20.2	22.5	24.2	39.9	46.1
Commercial vehicles (*BAM millions*)	29.3	32.7	46.3	42.3	43.5
Machinery and equipment (*BAM millions*)	33.4	27.4	26.7	26.4	29.6
Immovable property (*BAM millions*)	0.2	0.1	0.1	0.0	0.0
Other (*BAM millions*)	0.0	-	-	-	0.0
Total (*BAM millions*)	**83.1**	**82.6**	**97.2**	**108.6**	**119.2**
Lessees					
Corporate clients	79,649	79,127	92,679	97,569	108,001
Entrepreneurs	658	896	1,508	2,098	2,527
Individuals	2,523	2,193	2,498	2,631	3,322
Other	260	384	556	6,307	5,315
Total	**83,090**	**82,600**	**97,241**	**108,605**	**119,165**

Source: BARS

Capital Markets

The capital market in the Republic has not been classified according to the FTSE Global Equity Index Series classification and is closest to the frontier markets. The frontier markets are a group of developing markets that have smaller market capitalisation and liquidity than developed markets. These markets are characterised by a relative openness and availability for foreign investors, but also a possible higher economic and political instability, higher volatility, potential higher long-term recovery and not enough correlations with other capital markets.

The legal framework of the capital markets includes: the Law on Securities Market (*Official Gazette of the Republic, Nos. 92/06, 34/09, 8/12, 30/12, 59/13, 86/13, 108/13, and 4/17*), the Law on Investment Funds (*Official Gazette of the Republic, Nos. 92/06, 82/15, and 94/2019*) and the Law on Takeover of Joint-Stock Companies (*Official Gazette of the Republic, Nos. 65/08, 92/09, 59/13, and 19/19*). With the aim of transposing Directive MIFID II, a development of new, modern legal framework for the capital market is underway.

The Securities Commission, as a regulatory and supervisory body, is the competent body for performing supervision over regulated markets and other entities to whom it gives a permit to perform activities with the securities, as well as over issuers of the securities in the emission procedure and to define measures for eliminating found illegality and irregularity.

In 2009, the Securities Commission signed the Multilateral Memorandum of Understanding ("**MmoU**"), which provides the regulators of the securities with an important means for fighting against cross-border fraud and abuse of the market in terms of searching for data and information necessary for the implementation of procedures and activities for which the Securities Commission is competent. The Securities Commission is undertaking activities for signing the Enhanced Multilateral Memorandum of Understanding ("**EMMoU**"). By signing the International Organisation of Securities Commissions ("**IOSCO**") EMMoU, the Securities Commission, as the regulator of the securities market in the Republic, would be aligned with international rules and principles.

In 2018, the Securities Commission held several consultations regarding the decision on acquiring the status of a signatory of IOSCO EMMoU were considered. Activities concerning the preparation of the application for the status of a signatory, the questionnaire and the accompanying documentation were completed in June 2019, when it was officially submitted to IOSCO. In March 2020, the Commission received the first draft report of the verification team evaluating the Securities Commission's application. In accordance with the procedures for assessing the fulfillment of the conditions for acquiring the status of a signatory of IOSCO EMMoU, a meeting was held in June 2020 between the verification team and representatives of the Securities Commission, where the powers, procedures and activities of the Securities Commission were presented, in accordance with the provisions of IOSCO EMMoU. By signing the IOSCO EMMoU, the Securities Commission will be recognised as a regulator of the securities market, aligned with international rules and principles.

The Banja Luka Stock Exchange was founded in 2001 as a joint-stock company without public empowerment and it represents the only empowered place where one can perform activities regarding trade with the securities and financial derivatives, as well as other activities with the consent of a supervisory body.

In the first six months of 2020, the market participants on the Banja Luka Stock Exchange are as follows: issuers (635); stockbrokers (5); companies for managing investment funds (6); opened investment funds (18); closed investment funds (1); custody banks (3); Central register of the securities as depositor; investment advisers (3); investment managers (17); and brokers (11). The securities in Banja Luka Stock Exchange are included into the following organised markets: official stock exchange market and free market.

Official stock exchange markets are: prime markets – List A; standard market – List B; entry market – List C; market of shares of closed investment funds; market of shares of opened investment funds; market of bonds; EU Connect Market; and market of other securities. Free market consists of the following: shares, shares of closed investment funds, shares of opened investment, bonds, package of shares, securities of issuers that are late with financial reports, securities of issuers that are in bankruptcy or liquidation procedure and other securities. Short-term securities are included in the money market in line with special rules of the money market enacted by the Banja Luka Stock Exchange.

Banja Luka Stock Exchange is an organiser of an auction platform of stock exchange trading system as well as multilateral trading platform. Auction of treasury funds issued by the Republic is also done through stock exchange platform.

The following table shows statistical data of trading in Banja Luka Stock Exchange for the period 2016 to 2020, with years ending 31 December:

	Year ended 31 December				
Description	**2016**	**2017**	**2018**	**2019**	**2020**
Total turnover (*BAM millions*)	625.2	486.9	428.2	472.1	734.0
Year-on-Year change (%)	11.5	(22.1)	(12.1)	10.3	55.8
Total Market Capitalization (*BAM millions*)	3,962.5	4,024.2	3,630.3	3,786.3	4,010.8
Year-on-Year Change (%)	(7.3)	1.6	(9.8)	4.3	5.9
Total Market Cap/GDP (%)	41.1	39.9	34.0	33.7	-(1)
Ordinary turnover (*BAM millions*)	127.9	59.5	99.9	86.3	120.3
Year-on-Year change (%)	33.7	(53.5)	67.9	(13.6)	39.3
Number of transactions in ordinary turnover	17,184	13,317	17,136	14,711	7,595
Number of trading days	253	251	252	251	254
Ordinary turnover-shares (*BAM millions*)	20.9	17.2	32.4	40.9	44.1
Volume	37,015,173	250,395,906	121,258,323	143,32,46	136,649,699
Number of transactions	7,073	7,751	10,048	11,496	5,901
Average daily ordinary turnover (*BAM*)	82,792	68,578	128,680	162,812	173,761
Average value of a single transaction (*BAM*)	2,961	2,221	3,227	3,555	7,479
Ordinary turnover					
Debt instruments (*BAM millions*)	10.6	42.3	67.5	45.5	76.2
Volume	72.3	52.7	72.4	68.3	24.6
Number of transactions	10,111	5,566	7,088	3,215	1,694
Average daily ordinary turnover (*BAM*)	422,611	168,428	267,707	181,165	299,804
Average value of a single transaction (*BAM*)	10,575	7,595	9,518	14,144	44,953
BIRS	546.70	543.38	565.48	618.31	576.94
Year-on-Year change (%)	(17.04)	(0.60)	4.07	9.34	6.69

Source: The Stock Exchange Index of the Republic

Notes:
(1) Data for GDP from 2020 is not available as at the date of this Offering Circular.
(2) BIRS - Stock Exchange Index of Republic was established on 1 May 2004, with the initial value of 1,000.00 points. BIRS is a price and weighted index, with a weighting limitation of 25 per cent. It is currently composed of shares of 15 issuers listed on the official market on Banja Luka Stock Exchange.

Insurance Sector

Overview

The Republic's insurance market is underdeveloped as compared to the market parameters of other EU member states. According to the 2019 annual report on the insurance sector in the Republic published by the RS Insurance Agency, the share of the insurance premium in GDP in 2018 was 2.1 per cent., similar to the level of development in the insurance sectors of its neighbouring nations, particularly Serbia and Montenegro. In 2018, per capita insurance premium was U.S.$ 118.8 and compared to 2016, it increased by 22.85 per cent.

The legal framework of the insurance market comprises: the Law on Insurance Companies (*Official Gazette of the Republic, Nos. 17/05, 1/06, 64/06, 74/10, 47/17 and 58/19*), the Law on Insurance Intermediaries, the Insurance and Reinsurance law (*Official Gazette of the Republic, No. 47/17*) and the Law on Compulsory Traffic Insurance (*Official Gazette of the Republic, Nos. 82/15 and 78/20*). The RS Insurance Agency is a regulatory and supervisory body for the Republic's insurance market. Within its supervisory competencies, the RS Insurance Agency cooperates and exchanges information with institutions, for insurance supervision from the EU countries through the college of supervisors, in order to implement supervisory activities of insurance companies operating within groups of insurers. The RS Insurance Agency faces a number of problems in the realisation of international cooperation activities. This is particularly due to the division of power between BiH and Entities arising from the interpretation of provisions of Article 9 of the Law on Insurance Agency in BiH (*Official Gazette of BiH, No. 12/04*). The Insurance Agency of BiH is responsible for providing inter-Entity harmonisation and insurance sector statistics, but the regulation and supervision of the insurance sector is performed at the Entity level, thereby creating issues in an overall understanding of the insurance sector for effective international cooperation. This is, among others, also a reason why the RS Insurance Agency still has not been accepted in the International Association of Insurance Supervisors ("**IAIS**"), and why the memoranda of cooperation has not been signed with supervisors from EU countries, even though the RS Insurance Agency acts in accordance with the legal framework.

In the nine months ended 30 September 2020, 14 companies operated on the Republic's insurance market, 12 of which performed the activity of non-life insurance and two companies were registered as composite companies (with the permission to perform the activities of life and non-life insurance). As of 30 September 2020, 10 branch offices of insurance companies from the Federation were operating in the Republic while 9 companies from the Republic operated in the Federation through branch offices.

By ownership structure, 9 insurance companies have the majority ownership of domestic legal and/or natural persons, which is the share of 56.5 per cent. in the total capital, 38.9 per cent. in the total assets, and 54.6 per cent. in the gross invoiced premium. There were five insurance companies in majority foreign ownership (two companies were majority-owned by legal and/or natural persons from Austria, while one company was majority-owned by persons from the Republic, one by the Republic of Slovenia and one from the USA).

Taking into account the deadline for submitting reports of insurance companies to the RS Insurance Agency, the following table provides data on the insurance premium on the Republic market for the years 2016 to 2019, and the six-months ended 30 June 2019 and 2020:

	Year ended 31 December								Six months ended 30 June			
	2016		2017		2018		2019		2019		2020	
Type of insurance	**Value (*BAM millions*)**	**%**	**Value (*BAM millions*)**	**%**	**Value (*BAM millions*)**	**%**	**Value (*BAM millions*)**	**%**	**Value (*BAM millions*)**	**%**	**Value (*BAM millions*)**	**%**
Accident insurance......	13.3	6.7	15.3	7.2	17.1	7.5	18.0	7.6	9.3	8.1	6.7	5.8
Land vehicle insurance (except for railway vehicles)...............	12.5	6.3	14.0	6.5	16.0	7.1	18.3	7.7	9.4	8.2	9.1	7.8
Insurance of property against fire and natural forces.........	7.3	3.7	8.8	4.1	7.9	3.5	8.6	3.7	4.6	4.0	4.6	4.0
Insurance against other types of property damage.................	9.7	4.9	381,216	4.2	9.3	4.1	9.6	4.0	4.3	3.8	5.3	4.6
Motor vehicle liability insurance..............	118.6	59.8	6,501,694	59.3	131.8	58.3	131.7	55.6	63.9	55.6	64.7	56.0
Other	4.1	2.1	953,393	2.3	6.2	2.7	7.0	3.0	3.7	3.2	4.0	3.5
Total non-life insurance..............	165.5	83.5	8,431,098	83.7	188.3	83.3	193.2	81.6	95.1	82.8	94.4	81.7
Life insurance	32.7	16.5	,858,995	16.3	,792,973	16.7	43.4	18.4	19.7	17.2	21.2	18.3
Total	**198.1**	**100**	**213.3**	**100**	**226.1**	**100**	**236.6**	**100**	**114.8**	**100**	**115.6**	**100**

Source: Reports on the situation in the insurance sector of the Republic

According to the report of the RS Insurance Agency for the six-months ended 30 June 2020, the calculated premium based on mandatory motor third-party liability insurance had the dominant share with 56 per cent., while its share in the total calculated non-life insurance premium is 68.5 per cent. There is a steady downward trend in the share of non-life insurance when calculating the total premium.

Balance sheet

As of 30 June 2020, the value of the operating assets and liabilities of all insurance companies was BAM 540 million, and it increased by 5.5 per cent. in comparison to the year ending 31 December 2019. From 2016, the value has increased by almost 33 per cent.

The generated technical reserves at the sectoral level was BAM 321 million as at the six-months ended 30 June 2020, which represents an increase of 33.6 per cent. in relation to 2016. In the structure of investing assets for coverage of technical reserves of non-life insurance dominant are securities by domestic issuers, time deposits, and real estate, while with life insurance dominant are securities by domestic issuers, primarily bonds issued by the Republic.

As of 31 December 2020, one insurance company has reported a shortage of funds for coverage of technical reserves (based on its most recent unaudited financial statements and reports submitted to the RS Insurance Agency), and a supervisory measures that had previously been imposed by the RS Insurance Agency remained in effect as at such date on the insurance company. The measure prohibits it from disposing existing assets for generated technical reserves and assets for coverage of 50 per cent. of the minimum Guarantee Fund. This insurance company is placed under supervisory measures covering its planned activities for the provision of missing assets for the coverage of technical reserves, hence it is unable to use the current funds to cover 50 per cent. of the minimum Guarantee Fund. Other life and non-life insurance companies comply with the prescribed requirements for coverage of technical reserves.

The following table shows the profitability indicators for the years 2016 to 2019 and for the six-months ended 30 June 2019 and 2020:

Description	Year ended 31 December				Six months ended 30 June	
	2016	2017	2018	2019	2019	2020
				(%)		
ROA	2.7	6.5	6.3	5.3	2.9	4.4
ROE	8.4	20.1	19.8	17.1	9.4	14.7

Source: Reports on the situation in the insurance sector of the Republic

Sector for Voluntary Pension Funds

General overview

A single voluntary pension fund management company performs the activity of voluntary pension insurance: European Voluntary Pension Fund Management Company a.d. Banja Luka. According to the ownership structure, as of 30 June 2020, the European Voluntary Pension Fund Management Company a.d. Banja Luka had majority foreign ownership with the share of 67 per cent. ("Skupna" d.d. Ljubljana with 34 per cent., EBRD with 16.5 per cent. and "Enterprise Expansion Fund" with 16.5 per cent.) and domestic ownership of 33 per cent. (held by the Republic's Pension Reserve Fund). The fund has been operating since 2017.

According to the report of the RS Insurance Agency for the six-months ended 30 June 2020, the net value of assets of voluntary pension fund increased by 174 per cent. in relation to the end of 2019, and as of 30 June 2020 it was BAM 4.4 million. The number of issued shares was approximately 428,754.4, and the net value per unit was approximately BAM 10.3.

The assets of the voluntary pension fund are formed by bonds of domestic issuers, which had the dominant share accounting for 80 per cent. of the portfolio, followed by deposits at domestic banks with the share of 14 per cent., while other forms of investments accounted for 6 per cent.

The following table shows the net asset of voluntary pension funds for the years 2016 to 2019 and for the six-months ended 30 June 2019 and 2020:

Description	Year ended 31 December				Six months ended 30 June	
	2016	2017	2018	2019	2019	2020
Net asset (*BAM thousands*)	-	2,452	299,717	1,607,284	784,196	4,403,979

Source: Reports on the situation in the insurance sector of the Republic

It should be noted that since July of 2016, as per the final list of conditions for establishing the first voluntary pension fund defined for the period 2017 to 2020, the Republic has taken a number of measures to encourage individuals and their employers to make long-term savings for future pensions, including also the support to the establishment of the first voluntary pension fund and introduction of tax incentives for pension contributions.

In 2020, the RS Government supported the development of the market of voluntary pension insurance, as a special form of long-term purpose-oriented savings, through organising the pension plan for employees and including them into the voluntary pension fund.

Significant reforms in the financial market from 2016 to 2020

Improving stability of the financial sector

Improved supervisory capacities

After the adoption of the Law on the Banking Agency of the Republic, the BARS carried out a comprehensive reform of the regulations framework (over 60 regulations were issued in the form of implementing regulations that govern operational issues in the field of supervision and restructuring of banks). The new supervisory approach has also been implemented. To that end, the new Supervisory Review and Evaluation Process ("**SREP**") was adopted in 2019, which entered into force on 1 January 2020. The BARS assessed banking operations in accordance with the new methodology. In the given period, special attention was paid to the development of supervisory capacities. The focus was on the training of supervisors to assess banks according to the adopted SREP methodology, to perform supervision and evaluation of European Commission's internal capital adequacy assessment process (ICAAP) and internal liquidity adequacy assessment process (ILAAP), recovery plans and conducting stress tests. The training was conducted as part of the World Bank project "Strengthening the Banking Sector" and the USAID FINRA project, while employees also attended numerous international seminars organised by the BARS. In the coming period, emphasis will be on training employees to conduct IFRS 9 model assessments.

Support to financing the restructuring by means of Deposit Insurance Fund

The adoption of BiH's Law on Bank Deposit Insurance (*Official Gazette of BiH, No. 32/20*) in 2020, as part of the package of banking laws, enabled additional harmonisation with EU directives (Directive 2014/49/EU and Directive 2014/59/EU) (BRRD), which allow the use of the Insurance Fund deposits, under clear qualitative and quantitative conditions, to support the financing of the restructuring. According to the Republic's Banking Law, funds for bank restructuring can be partially provided from the Deposit Insurance Fund, in line with the restrictions established by the law governing BiH's bank deposit insurance, as provided by Article 11 of Directive 2014/49/EU on deposit insurance systems, which implies mobilisation of funds in the process of bank restructuring, accrued through paid contributions of member banks of the deposit insurance system.

The Republic has a Deposit Insurance Scheme since 2002, which is unique to the BiH territory and all BiH banks. The Scheme is administrated and managed by the State DIA and is funded by the ex-ante bank premiums (0.26 per cent. per annum on the basis determined by the Law). The funds from the Deposit Insurance Scheme are invested in accordance with the restrictions established by the law and internal regulation (investment policy), entirely abroad in high-quality fixed-income instruments, issued or guaranteed by EU countries, government agencies of EU countries or the USA. Also, investing in securities of banks and companies of the EU and the USA with a fixed yield is allowed only with their lower rating A or P1. Fund can be used to pay deposits covered by the insurance through the scheme and to partially finance bank resolution. As of 31 December 2020, the volume of the total portfolio is BAM 568.5 million. As of 31 December 2020, the Fund was used for payment of insured deposits of two banks in liquidation (BAM 50,000 per depositor per bank), which the RS DIA was able to recover almost fully from the assets of the two liquidated banks.

The Management Board is the sole governing body of the Agency and consists of five members with a five-year mandate. The ex officio members: the Governor of the Central Bank and the Minister of Finance and Treasury of Bosnia and Herzegovina, or their nominees. In addition, the Governing Board of the Central Bank has the right to appoint one member of the Management Board and, within the limit of the respective laws of each Entity, the Minister of Finance of the Federation and the RS Minister of Finance each has the right to appoint one member from their respective Entities to the Management Board.

The Deposit Insurance Scheme is not supported by any Entity or BiH guarantee, nor by the CBBH guarantee.

Register of accounts of natural persons established

The Law to Amend the Law on Internal Payment Operations (*Official Gazette of the Republic, No. 58/19*), adopted in 2019 established the Register of Accounts of Natural Persons, as an electronic record and a central database on open bank accounts of natural persons. The register of accounts of natural persons enables faster and easier identification of debtors' accounts in tax and enforcement proceedings, as well as in other court proceedings, in the investigation of suspicious activities, prevention of money laundering and financing of terrorist activities, among others.

Creating preconditions for the implementation of the Single Euro Payments Area ("SEPA") standard in payment transactions

In addition to SWIFT formatting, the 2019 Amendments to the Instruction on the form and content of payment orders and payment transaction procedures (*Official Gazette of the Republic, No. 40/19*) enabled the transfer of the data from payment order to the SEPA message format. The harmonising of the messages used in domestic interbank payment transactions with the ones used in the SEPA area gradually creates preconditions for the integration of the domestic payment system with the EU payment systems.

Established Economic Safeguards Support Scheme to minimise the impact caused by COVID-19

The amendments to the Republic's Guarantee Fund Law (*Official Gazette of the Republic*, *No. 53/20*) enables the Republic's Guarantee Fund to manage guarantee schemes facilitated by the Republic in the general economic interest in order to facilitate access to finance and mitigate the consequences of COVID-19. In July 2020, the RS Government set up a guarantee scheme, as a COVID-19 economic support action (*Official Gazette of the Republic*, *No. 64/20*) (the "**Guarantee Scheme**"). The goal of setting up the Guarantee Scheme is to facilitate access to credit funds of banks and MCOs. The program is intended for MSMEs, entrepreneurs, including farms, and is implemented through a guarantee portfolio including partial security of loans approved by a financial intermediary. The total guarantee of loan portfolio of the Guarantee Scheme amounts to BAM 50 million and the credit (loan) potential of financial intermediaries is BAM 238 million. Representatives of the EBRD, IMF and the World Bank were consulted during the development of the Guarantee Scheme, and technical assistance was provided by the EBRD. The Guarantee Scheme is managed by the Republic's Guarantee Fund, in the name and for the account of the Republic, and the guarantee portfolio represents an unconditional guarantee of the Republic, payable on the first call.

Liberalisation of the motor third party insurance prices

In order to create a free market environment for competitive advantages in the insurance market at more favourable prices, i.e. the premium that reflects actual risks, the Law on Compulsory Insurance in Traffic (*Official Gazette of the Republic, No. 82/15*) was adopted in 2015, which brought about significant progress in governing the issue and harmonisation with the EU directive (Directive 2009/103/EC), and in line with the level of development of the Republic's insurance market. An appropriate model of gradual deregulation and liberalisation of motor third party liability insurance prices was established, which was positively assessed by the IMF's Financial Sector Assessment Program in 2014, assuming there will be improvement of the prudential framework of the insurance sector, as stated in the final reports (Aide-Mémoire) of the Financial Sector Assessment Programme of BiH.

In 2020, to maintain stability and confidence in the insurance market, the statutory deadlines for the introduction of partial or full liberalisation of motor third party liability insurance prices were extended for a period of three years (*Official Gazette of the Republic, No. 78/20*), so that the implementation of this reform action in the coming period, as outlined in the Republic's strategic documents, could lead to positive impact on the insurance sector following the stabilisation of health and economic distress.

Transformation of closed-end investment funds created by the transformation of privatisation investment funds into open-end investment funds

The market of investment funds in the Republic was created in the process of privatisation of state capital in companies at the end of the last century. Since the business operations of closed-end investment funds did not yield the expected results on the market and in order to revisit the idea of collective investment on the market, the reform of this segment of the financial market was conducted from 2015 to 2018 through compulsory transformation of closed-end investment funds that were created by the transformation of privatisation investment funds into open-end investment funds. The reform was completed successfully in accordance with the legal requirements and transformation plans for investment fund management companies and, based on the presented market indicators, the first positive effects of the implementation of the new legal framework for investment funds are evident.

PUBLIC FINANCE

Introduction

The Republic regulates and secures its banking and tax systems as well as the goals and directions of economic, development, development policy and measures and commodity reserves. According to Article 68 of the Constitution, the Republic regulates its tax system and has original jurisdiction in the areas of corporate income tax, personal income tax, property tax and non-tax revenues (administrative, court and utility fees, fines, charges and other revenues).

The budget system of the Republic is regulated by the Law on the Budget System of the Republic (the "**Budget System Law**"). The budget system (the "**Budget**") consists of: the budget system of the Republic, the budgets of municipalities and cities and the budgets of social security funds. In accordance with the Budget System Law, the Republic's distinct budgetary system is established and maintained through the implementation of a common legal regulation, a unified budget classification, the use of unified budget documentation for drafting the Budget, a unified Budget accounting system, unified criteria for Budget control and unified principles on which the Budget procedure is based upon.

The deficit in relation to GDP increased from negative 0.5 per cent. in 2016 to 1.8 per cent. in 2017, then back down to 0 per cent. in 2018, 0.4 per cent. in 2019 and negative 4.1 per cent. in the nine months ended 30 September 2020.

Fiscal policy of BiH

The fiscal system in BiH is highly decentralised, reflecting the provisions of the Constitution of BiH. The Law on the Fiscal Council in Bosnia and Herzegovina (*Official Gazette of BiH, No. 63/08*) (the "**BiH Fiscal Law**") is the only legislation that regulates relations between various levels of governance in detail. The BiH Fiscal Law does not determine the relations of subordination but promotes the principle of coordination of fiscal policy in order to secure the macroeconomic stability and fiscal sustainability of BiH, each of its entities and the Brčko District.

In 2008, the Fiscal Council of BiH (the "**BiH Fiscal Council**") was established and acquired legal competency for the adoption of a common macroeconomic and fiscal framework for BiH under the BiH Fiscal Law. The BiH Fiscal Council has six members: the Chairman of BiH's Council of Ministers, the Republic's Prime Minister, the Federation's Prime Minister, BiH's Minister of Finance and Treasury, the Republic's Minister of Finance and the Federation's Minister of Finance. In order to coordinate fiscal policy, the BiH Fiscal Council adopts the Global Framework of the Fiscal Balance and Policy ("**GOF**") in the form of an agreement between the governments of the entities and the Council of Ministers of BiH, and it is adopted for the following three years, with the proviso that it be reviewed every year. The GOF is a document comprising:

- the proposed fiscal objectives of the budgets of the institutions of BiH, the Federation, the Republic and the Brčko District;
- the proposed macro-economic projections;
- the program scenario of revenues from indirect taxes;
- the projections of the total indirect taxes and their allocation for the next fiscal year, since indirect taxes fall under BiH's jurisdiction; and
- the proposed borrowing ceiling of the budgets of the institutions of BiH, the Federation, the Republic and Brčko District.

Fiscal policy of the Republic

Based on the concluded GOF, a Framework Budget of the Republic for the corresponding three-year period is prepared (the "**FBD**"). The Republic's FBD is a preliminary draft budget for next year and contains macroeconomic estimates and projections, projections of budget funds and expenditures, fiscal policy objectives and expenditure ceilings that each budget user must adhere to in the process of preparing its annual budget request. The key objective of the FBD is to ensure a better link between the RS Government's priority policies and the way in which it allocates public resources. See "*Public Finance – Budget Process*" for further information on the Budget process and the FBD.

The fiscal policy of the Republic for the years 2020 to 2023 is aimed at preventing and mitigating the negative impact of COVID-19. In July 2020, the FBD for the period 2021 to 2023 was adopted, which defines the planned budget frameworks, financing and debt for all levels of government in the Republic and which is the starting point for drafting the ERP of the Republic for 2021 to 2023.

The Law on Fiscal Responsibility of the Republic (*Official Gazette of the Republic, Nos. 94/15 and 62/18*) regulates fiscal rules, measures and procedures that establish the Republic's fiscal framework, implement mechanisms to limit and oversee public spending, enhance responsibility for the efficient and effective use of budgetary funds, and establish the function and authority of the Fiscal Council of the Republic to strengthen control and supervision functions. The objective of the Law on Fiscal Responsibility is to ensure the maintenance of fiscal responsibility, transparency and medium to long-term fiscal sustainability in the Republic. See "*Public Finance*".

Public expenditure and revenues of the Republic

The Entities and Brčko District adopt their own budgets, as public expenditure for each Entity is highly decentralised. The budget system of the Republic consists of the budget of the Republic, budgets of municipalities and cities and financial plans of funds (budgets of funds). Indirect taxation falls under the jurisdiction of BiH as defined under the Law on Indirect Taxation System. The Republic's tax authority, as a body within its Ministry of Finance regulates the basis for implementation and enforcement of tax laws and regulations in the Republic, including tax related infringements, criminal offences and sanctions. Public finance management in the Republic is top priority of the RS Government. The framework and for fiscal policy management is implemented through laws, strategies and arrangements: (i) Law on the Budget System of the Republic; (ii) the BiH Fiscal Law; (ii) Law on Fiscal Responsibility of the Republic; and (iv) Debt Management Strategy of the Republic 2020 to 2023.

Revenue shared between the budget of the Republic, budgets of municipalities and cities and other users are in the following ratios:

- revenues from indirect taxes, paid into the budget of the Republic from the single account of the Indirect Taxation Authority (at BiH level), which after the allocation of part of the funds for servicing the external debt of the Republic are distributed as follows:
    - the budget of the Republic – 72 per cent.;
    - the budgets of municipalities and cities – 24 per cent.; and
    - the motorways of the Republic – 4 per cent.
- income tax revenues: tax on income from self-employment and personal income tax, which is divided between the budget of the Republic and the budget of municipalities and cities in the ratio of 75:25;
- revenues from fees for changing the purpose of agricultural land and concession fees for the use of mineral resources, which are divided between the budget of the Republic and the budget of municipalities and cities in the ratio of 30:70;
- revenues from the lease of land owned by the Republic, which are divided between the budget of the Republic and the budget of municipalities and cities in the ratio of 50:50;
- revenues from special water charges:
    - fees for surface and groundwater abstraction, fees for the production of electricity obtained through the use of hydropower and fees for extraction of materials from watercourses, which are divided between the budget of the Republic and the budget of municipalities and cities in the ratio of 70:30;

- fees for water protection, which are divided between the budget of the Republic, the budget of municipalities and cities and the Environmental Protection Fund of the Republic in the proportion of 55:30:15;

confiscated property gain and funds obtained from the sale of confiscated items from the competence of the Republic Administration for Inspection Affairs, which is divided between the budget of the Republic and the budget of municipalities and cities in the proportion of 70:30.

The Republic's 2021 Budget

Under the 2021 Budget:

- total revenues are budgeted at BAM 3,043.7 million at the central RS Government level and BAM 4,365.5 at the general RS Government level;
- total expenditures are budgeted at BAM 3,181.2 million at the central RS Government level and BAM 4,355.9 at the general RS Government level; and
- the resulting budget deficit at the general RS Government level is assumed at BAM 335.2 million, or 3.0 per cent. of expected GDP.

The 2021 Budget assumes real GDP growth of 2.6 per cent. and average inflation of 0.3 per cent. in 2021. The budget for the general RS Government sector includes the consolidated budgets of various sub-sectors, being the central RS Government, the local self-government units and social security funds. See "–*Budget Process*" below for further information on the Budgets at the central RS Government Level and general RS Government level.

The above targets and assumptions are based on the most recently available information and may be further adjusted, amended or revised, whether as part of regular review or otherwise, to take into account the prevalent economic and fiscal indicators, which are evolving based on numerous factors that are highly uncertain, rapidly changing and cannot be accurately predicated as a consequence of COVID-19. See "– *Budget Process*" and "– *Budget Execution*" for further information.

Fiscal Framework of the Republic

For the Republic's fiscal policy goals, consolidated deficit of general government can be up to 3 per cent. of GDP. In 2020 expected budget deficit will be 5.8 per cent. of GDP (BAM 629.5 million) due to the crisis caused by spread of COVID-19. Since there will be temporary deviation from the fiscal rules regarding consolidated budget deficit, the RS National Assembly on its 13th Session held on 1 December 2020 adopted a report and a decision on temporary deviation of the consolidated budget deficit from fiscal rules. Reasons for deviation from fiscal rules were explained in the report, and they mainly relate to significant decrease of budget revenue and significant increase of investing in the health sector as well as additional cost of the measures issued by the RS Government for economic and social protection.

In the following period, the RS Government plans to adopt the program for fiscal consolidation with specific measures. The goal is to simultaneously increase the revenue and decrease expenditure, which will gradually secure compliance with fiscal rule regarding consolidated budget deficit. Total revenue planned in the sector of general government in 2021 is in the amount of BAM 4,365.5 million, which is less by BAM 50.8 million or 1.1 per cent. than the revised budget of general government for 2020. On the other hand, total expenditure is BAM 4,701.0 million, which is less by BAM 344.8 million or 6.8 per cent. than the revised budget of general government in 2020. Therefore, in 2021 it is expected that consolidated deficit of general government is 3 per cent. of GDP (BAM 335.5 million), and which would in 2022 to 2023 be at 2 per cent. (BAM 228.9 million) and 1 per cent. of GDP (BAM 124.5 million).

The ERP for period 2021 to 2023 targets a sustainable increase of the Total Debt as per cent. of GDP to 57.1 per cent., 57.2 per cent. and 57.2 per cent. in 2021, 2022 and 2023 respectively. For the Public Debt it targets a sustainable increase of as per cent. of GDP to 46.8 per cent. and 47.2 per cent. in 2021 and 2022, and slow decrease to 47.1 per cent. in 2023.

Fiscal Policy and Reform in the Republic

If the general RS Government Budget is observed, the most important fiscal consolidation happened in 2017, when the Republic went from deficit (0.5 per cent. of GDP) in 2016 to a significant surplus (1.8 per cent. of GDP) in 2017. There was a significant growth of total revenues of BAM 143.1 million or 3.7 per cent., while total expenditures and net outlays for the acquisition of non-financial assets decreased in total by BAM 87.7 million or 2.2 per cent. in 2017 in relation to 2016. Within the revenues, the highest growth was realised with revenues from indirect taxes (BAM 60.4 million) and revenues from corporate income tax (BAM 29 million), as a result of the application of the new Law on Corporate Income Tax (*Official Gazette of the Republic, Nos. 94/15 and 1/17*), which significantly improved the provisions on taxation of permanent place of business and business units, taxation of revenue from immovable property of foreign legal persons placed in the Republic, rules for determining transfer prices between related persons, for transfer of tax loss, as well as setting of precise rules for recognition of revenue and expenditures, among other provisions. In 2017, there was a significant inflow of funds from the succession of clearing debt of the Russian Federation of about BAM 60 million. On the other hand, within expenditures, current expenditures were reduced by BAM 33.4 million, with saving achieved through the application of a new manner of calculating past service of employees at the public sector, followed by a significant reduction of net outlays for the acquisition of non-financial assets by BAM 68.7 million. The increase within revenues happened by BAM 14.2 million due to transfers between government units.

A draft law on fiscalization is under way to transition to a new technically improved system of turnover registration through fiscal cash registers, with an aim to reduce or eliminate avoidance of turnover registration. The adoption of the new legislation and new technical solution in the field of turnover registration through fiscal cash registers is aimed at reducing the informal economy in the field of trade in goods and services due to increased visibility of goods and services being traded, which is expected to increase revenues. The Republic Institute for Inspectorate Affairs is responsible for supervising the implementation of laws, regulations, collective agreements and general acts aimed at reducing the informal economy in the field of trade in goods and services.

The Law on Fiscal Responsibility of the Republic

The Law on Fiscal Responsibility of the Republic (*Official Gazette of the Republic, No. 94/15 and 62/18*) (the "**Law on Fiscal Responsibility**") regulates fiscal rules, measures and procedures that establish the Republic's fiscal framework, implement mechanisms to limit and oversee public spending, enhance responsibility for the efficient and effective use of budgetary funds, and establish the function and authority of the Fiscal Council of the Republic (the "**Fiscal Council**") to strengthen control and supervision functions. The objective of the Law on Fiscal Responsibility is to ensure the maintenance of fiscal responsibility, transparency and medium to long-term fiscal sustainability in the Republic.

General and Special Fiscal Rules

The Law on Fiscal Responsibility prescribes for 'general' and 'special' fiscal rules, which operate as permanent or temporary constraints on fiscal policy in order to enhance budgetary discipline, improve coordination between the different levels of government, and establish long-term sustainable fiscal policies. The general fiscal rules relate to the overall budgetary system of the Republic, whereas the special fiscal rules represent binding, automatic measures that take effect if certain economic indicators exceed the thresholds prescribed by the 'general' fiscal rules. The thresholds prescribed by the 'general' fiscal rules are: (i) debt rule: the Public Debt of the Republic at the end of a fiscal year may not exceed 55 per cent. of the realised GDP for that year, and (ii) consolidated budget deficit rule: the consolidated budget deficit at the end of a fiscal year may not exceed 3 per cent. of the realised GDP for that year. The 'special' fiscal rules require the Budget for a following financial year to be a surplus in the event that Public Debt reaches 50 per cent. of GDP generated in a financial year or if the consolidated budget deficit reaches 2.5 per cent. in a financial year. Compliance with the 'special' fiscal rules is overseen and determined by the Fiscal Council on the basis of an assessment of the relevant data for a financial year.

If any of the fiscal rules are breached, the RS Government is obliged to prepare and submit to the RS National Assembly a fiscal consolidation programme in consultation with the Fiscal Council, which will recommend the measures and timeframe for remedying the breach within the parameters prescribed by applicable law. If any of the recommendations of the Fiscal Council are not reflected in the proposed fiscal consolidated programme, the

RS Government is obliged to state such deviations and provide explanations for such decision. The RS Government is required to submit such decision to the RS National Assembly in the form of a report on the temporary deviation which is prepared by the Ministry of Finance of the Republic and includes, in consultation with the Fiscal Council, (i) the reasons for the deviation from the fiscal rules, (ii) the measures that the RS Government plans to take to restore compliance with the fiscal rules, and (iii) the timeframe within which the situation will be remedied. The RS National Assembly may, subject to the rationale presented by the RS Government, approve the temporary deviation from any of the fiscal rules.

The RS National Assembly has the authority to approve such decision only in the event of (i) a natural disaster, (ii) an economic recession, or (iii) a realisation of a large infrastructure project. Only after receiving the opinion of the Fiscal Council can a proposal on a temporary deviation be adopted by the RS Government. A breach of the procedures and requirements prescribed by the Law on Fiscal Responsibility may result in the imposition of a fine on the relevant persons that breached such matters, including the fiscal rules and the procedures for temporary deviations.

The responsibility for the implementation of the Law on Fiscal Responsibility is borne by the Fiscal Council. The Fiscal Council was established in July 2017 with the objective of improving fiscal responsibility and enhancing fiscal discipline in connection with the expenditure of public funds across the entire Budget system in the Republic (namely, at the national level and at the local self-government unit level, as well as in relation to any extra-budgetary funds). The Fiscal Council operates as an independent body and reports to the RS National Assembly.

The Fiscal Council consists of a president and two members that are appointed by the RS National Assembly. The proposal for the appointment of the president and members of the Fiscal Council is submitted to the RS National Assembly by the President of the Republic in accordance with the required legal procedures. The members of the Fiscal Council are not employed. A member of the Fiscal Council may not perform any other duties or paid duties with any of the Budget users in the Republic, except for scientific, educational or editorial work. A member of the Fiscal Council cannot be a member of a political party nor can they be guided by political affiliations or ideology. Members are elected for a five-year term and may be not be elected more than twice. The Fiscal Council submits to the RS National Assembly, once a year, a report on the implementation of the Law on Fiscal Responsibility and any identified irregularities (being any actual and/or potential deviations from the fiscal rules and violations of fiscal measures) for the period from 1 January to 31 December of each year. The BiH Fiscal Council (as defined below) in BiH does not influence or otherwise have any involvement in the operations of the Republic's Fiscal Council.

Public Financial Management Strategy 2021 – 2025

In June 2020, the Fiscal Affairs Department of the IMF approved technical assistance to the Ministry of Finance in the form of consultations for updating and finalising the Public Financial Management Strategy 2021 – 2025 (the "**PFMS**"). The PFMS will be adopted in April 2021.

The objective of the PFMS is to provide a comprehensive and integrated framework for planning, coordinating, implementing and monitoring the progress of activities involving public finance with the aim of improving macroeconomic stability, ensuring efficient and effective allocation and use of public resources, and improving the services, transparency and overall functionality of the public administration. The PFMS sets out reforms to strengthen the legal and institutional framework for managing public finances in the Republic, in line with EU and international standards. The PFMS defines the direction for reforms in respect of the Republic's public finances and progress the Republic's framework for fiscal responsibility and long-term fiscal stability. The PFMS aims to achieve this by covering six core areas of activities: (i) fiscal framework, (ii) public revenues, (iii) planning and budgeting, (iv) Budget execution, (v) internal controls and (vi) external auditing.

The PFMS represents a comprehensive and integrated framework for planning, coordinating and implementing of a set of sustainable and interconnected reform activities, which ensure the achievement of the following key objectives in the long-term:

- improving fiscal and macroeconomic stability;
- the development of a strong system and practice of public financial management;

- the increase of efficiency of public resource management;
- improving the efficiency of service delivery; and
- increasing the transparency of public finances and accountability.

The RS Government is responsible for regularly monitoring the progress towards achieving the strategies outlined in the PFMS.

Public Investment Programs

Since 2007, the RS Government has been allocating fund in the Budget for financing public investments as a special budgetary position. Each fiscal year, the RS Government adopts a decision with respect to the financing of certain public projects with such funds in the form of a Public Investment Program.

Every year, the RS Government adopts a Public Investment Program for the successive three fiscal year period and is considered in June of each year in draft form and then formally proposed in December of the same year for RS Government adoption. The drafting and preparation of the Public Investment Program is prescribed by the Budget System Law. The Public Investment Program contains information on the relevant investment projects that are currently in the implementation phase (namely, projects that have secured or in the process of securing financial funds and their implementation has therefore taken effect or is considered to imminently take effect), as well as projects for which financial funds were not obtained during the documentary phase. The Public Investment Program is therefore intended to support the RS Government and its institutions with effectively managing the budgeted capital by providing a holistic overview of such projects. The Ministry of Finance receives such information on each relevant project through its dedicated project information management systems from other ministries and institutions of the Republic, which was also introduced to all local self-government units in 2019.

In order to establish a secure project management system and define a clear, stable public investments system, in July 2016 the RS Government adopted the Decree on the Rules for Selection, Evaluation and Prioritisation of Public Investment Projects in the Republic (*Official Gazette of the Republic, No. 66/16*) which prescribes rules for determining and assessing priority public investment projects in the Republic. This Decree is directly related to the preparation and drafting of a Public Investment Program, as it defines the overall process from the public investment project proposal and submission of formal project proposals to the RS Government through to the dissemination of information to the Ministry of Finance by way of the project information management systems and the adoption of a Public Investment Program by the RS Government. The Decree specifically prescribes rules for project nomination, as well as scoring and ranking nominated projects. The RS Government intends to continue improving its Public Investment Program in order to reflect investment prioritise in order to help enhance sector policies and implementing strategic goals (such as those related to social utility and economic profitability), improving management of public investments and allocating responsibility to the competencies of relevant institutions in the Republic.

The Public Investment Progam encompasses all public investment projects, which comprise of any capital expenditure on economic and social infrastructure and which are financed or co-financed from public Budget revenues, credit and donor funds, and other sources.

The current Project Investment Program that was adopted by the RS Government in December 2020 envisages the implementation of investment projects during the 2021–2023 period for a total amount of BAM 909.2 million, with 60.2 per cent. of such funding to be derived from foreign financing arrangements and the remaining 39.8 per cent. to be financed using Budget funds and domestic funding sources. The largest investments are expected to be in the energy, health, transport infrastructure and agriculture (accounting for 81.9 per cent. of total planned investment), with the remaining investment allocated to supporting refugees and displaced persons, spatial planning, ecology and other matters.

Medium-Term Debt Management Strategy

The Law on Fiscal Responsibility (*Official Gazette of the Republic, No.* 94/15 and 62/18) defines two general fiscal rules prescribing (i) that Public Debt in the end of a fiscal year may not exceed (i) 55 per cent. of GDP in a financial year and (ii) that the consolidated budget deficit cannot exceed 3 per cent. of GDP in a fiscal year. In addition, there are special fiscal rules that require the budget for a following fiscal year to be a surplus in the event that either Public Debt reaches 50 per cent. of GDP generated in a fiscal year or if the consolidated budget deficit reaches 2.5 per cent. in a fiscal year.

In the event of non-compliance with the fiscal rules stipulated by the Law on Fiscal Responsibility, the RS Government is obliged to prepare and submit to the RS National Assembly a fiscal consolidation programme, with an opinion from the Fiscal Council (see "– *Fiscal Policy and Reform in the Republic*"), which will determine the parameters of appropriate measures and the timeframe to rectify the breach of such fiscal rules. The Law on Fiscal Responsibility, as well as the Law on the BiH Fiscal Council (*Official Gazette of BiH, No. 63/08*), prescribe funding mechanisms to also facilitate the rectification of any breach of the abovementioned fiscal rules.

The goals and principles of the Republic's debt and indirect debt management are enshrined in the MTDS, and the MTDS indicators, i.e. guidelines were identified in order to realise a debt structure with acceptable levels of expenses and risks, as well as their assessed values in 2023.. See "*Total and Public Debt – Debt Management*" for further information on the medium term goals that are set by the MTDS.

Law on Games of Chance and Electronic Transactions

The Law on Games of Chance (*Official Gazette of the Republic, No. 22/119 and 131/20*), which entered into force on 19 March 2019, is intended to significantly increase revenues through online supervision of payments and withdrawals in the gambling system, and the involvement of all organizers in the information system for online gambling. Given the impact of COVID-19 in 2020, the intended deadlines for adaptation have been extended, so the full implementation of the law is expected to occur in by the end of June 2021. The revenues from the fees on games of chance amounted to BAM 22.5 million in 2016, BAM 25.1 million in 2017, BAM 27.9 million in 2018, BAM 43 million in 2019, while in 2020 they amounted to BAM 48.9 million, which represents a 13.7 per cent. year-on-year increase. The estimated revenues for 2021 amount to BAM 63.9 million, which would represent an increase of 30.6 per cent. as compared to 2020.

The RS Government also intends to introduce a new system of electronic transaction registration pursuant to the ERP, which is expected to reduce the grey economy and reduce tax evasion, and improve tax discipline, which directly increases the competitiveness of businesses that comply with tax regulations. The increase in the coverage and tax base as a consequence of the introduction of the new system should also lead to an increase in tax revenues. This is intended to be achieved through the adoption of a new Law on Fiscalisation which is expected to enter into force by October 2021, and related bylaws which are expected to be adopted by the end of 2021. The implementation of the new systems is expected to take effect in 2022, with the fiscal benefits of reducing the grey economy and tax evasion visible thereafter. The RS Government intends to finance the cost of the establishment of the initial fiscalisation system using public funds, which is expected to cost approximately BAM 40 million.

Tax reforms

Changes in the law in the field of income tax and contributions depend on such changes in the Federation, so at the date of this Offering Circular the Republic cannot provide an exact time frame in which such changes are planned. The amendments would concern expanding the tax base by abolishing some exemptions, possibly introducing a progressive rate or higher rate for certain types of income and introducing dividend taxation in order to create potential to reduce social contributions. The overall success of these tax reforms would depend upon the Federation mirroring such changes. The reform would also aim to reduce and eventually abolish some of the non-tax charges estimate of the increase in income tax revenue.

2020 Budget

Under the 2020 Budget (which includes both revisions of the supplementary budget):

- total revenues were budgeted at BAM 4,416.3 million at the general RS Government level, which includes total revenues of BAM 3,024.4 million in respect of the central RS Government sector;
- total expenditures were budgeted at BAM 4,448.9 million at the general RS Government level, which includes total expenditures of BAM 3,342.5 million in respect of the central RS Government sector; and

- the total fiscal deficit at the general RS Government level was assumed at BAM 629.5 million, or 5.8 per cent. of expected GDP, and the resulting budget deficit at the central RS Government level was assumed at BAM 553.7 million.

The 2020 Budget assumed real GDP contraction of 3.5 per cent. and an average deflation rate of 1.2 per cent. in 2020.

Due to the new situation caused by the pandemic, the Republic carried out two budget revisions during 2020. The Revised Budget of Republic for 2020 (Fund (01)) (*Official Gazette of the Republic, No.61/20*) changed compared to the adopted Budget of the Republic for 2020 (*Official Gazette of the Republic, No.112/19*) as the following, reflecting the cumulative changes of the two revisions relative to the original 2020 budget:

- total revenues are decreased by BAM 238.7 million,
- total expenditures are increased by BAM 193.6 million,
- total budget deficit increased by BAM 432.3 million, in fact it passed from the originally planned surplus of BAM 20.1 million to the budget deficit of BAM 412.2 million.

The second Revised Budget of the Republic for 2020 (Fund (01)) (*Official Gazette of the Republic, No. 122/20*) made the following changes compared to the first Revised Budget of the Republic for 2020:

- total revenues were increased by BAM 47.6 million,
- total expenditures were increased by BAM 29.1 million,
- total budget deficit decreased by BAM 18.5 million, in fact the originally planned deficit of BAM 412.2 million was reduced to BAM 393.8 million KM

Budget Process

The integrity of the budget system is ensured through uniform budget classification, the use of budget documentation for the preparation of draft budgets and financial plans and the application of an appropriate accounting system, which consists of strict criteria for budget control and audit. The process of drafting and enacting the Budget is carried out in accordance with detailed budget calendars prescribed by the Budget System Law, which sets out key dates for adoption of the fiscal strategy and budget actions by central and local authorities, respectively. The Budget System Law regulates the budget system, the preparation, planning, development, adoption, repayment, accounting, reporting and supervision of the budget of the Republic, the municipalities, cities and funds.

The budget for the general RS Government sector includes the consolidated budgets of various sub-sectors, being the central RS Government, the local self-government units and social security funds. Social security funds include the Health Insurance Fund, the Public Institution Fund for Child Protection, the Employment Bureau and the Pension and Disability Insurance Fund, with the Pension and Disability Insurance Fund gaining the status of a budget user from January 1, 2016 and operating through the treasury business system.

The central RS Government sub-sector includes institutions financed from the budget of the Republic presented within five funds:

- 'Fund (01)' strictly represents the budget of the Republic and is used to express all funds and all activities of budget users;
- 'Revenue fund under special regulations (02)' represents funds that are used on the basis of regulations only for special purposes and all activities financed from these funds;
- 'Grant fund (03)' represents a grant from budget users and all activities financed from those funds, which are not included in the Fund (01);
- 'Fund for privatization and succession funds (04)' represents the funds of privatization and succession and all activities financed from these funds, if the funds are not included in the Fund (01) (for example, the Development Program of the Republic); and

- ‘Fund for special projects (05)’ represents funds intended for special projects and all activities on the implementation of projects that are not included in the Fund (01) (for example, the use of funds towards the accession to the EU).

The Budget planning process begins on the basis of a medium-term plan that sets out a clearly defined budget calendar and allocation of responsibilities for formulation of the Budget. The medium-term plan requires that the Budget is planned on the basis of a three-year rolling plan (being an estimate of the annual budget for the next fiscal year, and preliminary budget projections for the successive two fiscal years). The Law on the Fiscal Council in Bosnia and Herzegovina (*Official Gazette of Bosnia and Herzegovina No. 63/18*) established the BiH Fiscal Council with the objective of coordinating fiscal policy in BiH to ensure the macroeconomic stability and fiscal sustainability of BiH, the Entities and the Brčko District. A key competency of BiH Fiscal Council is to prepare and adopt a Global Framework of Fiscal Balance and Policies (the “**FBP Framework**”) in respect of BiH, which is adopted each year in respect of the successive three fiscal years. Each fiscal year, the FBP Framework is revised and adopted in the form of an agreement between the relevant levels of government in BiH, more precisely, it is signed by the Chairperson of the Council of Ministers of BiH, Prime Minister of the Republic and Prime Minister of the Federation.

Based on the abovementioned agreement on the applicable FBP Framework, the Ministry of Finance is responsible for preparing and presenting a three-year FBD to the RS Government within the first half of a fiscal year. As mentioned above, the FBD is enacted for the next year next year and the successive two years thereafter. The FBD is a preliminary draft Budget for the next fiscal year and contains macroeconomic estimates and projections, projections of budget funds and expenditures, fiscal policy objectives and expenditure limits that each Budget user must follow while preparing its annual budget request. The FBD is delivered to Budget users with instructions for drafting and delivering budget requests to the Ministry of Finance in respect of the next fiscal year.

The Budget System Law prescribes the following timeline for the adoption of a Budget for Fund (01) of the central RS Government sector during any given fiscal year:

- 15 February: the Ministry of Finance submits instructions to Budget users on the manner and elements of drafting the FBD.

- 30 April: the Budget users submit to the Ministry proposals for priorities for the development of the FBD.

- 30 June: the RS Government adopts the FBD.

- 1 July: the Ministry of Finance delivers the adopted FBD to municipalities, cities and funds. The Ministry of Finance submits instructions to Budget users on the manner and element of drafting the Budget for the next fiscal year.

- 1 September: the Budget users submit budgetary requests to the Ministry of Finance for the next fiscal year.

- 15 October: the Ministry of Finance submits a draft Budget to the RS Government in respect of the next fiscal year.

- 5 November: the RS Government determines the draft Budget for the next fiscal year and then submits such draft to the RS National Assembly.

- 15 November: the RS National Assembly declares its position on the draft Budget for the next fiscal year.

- 1 December: the RS Government finalises and confirms the draft Budget for the next fiscal year and delivers it to the RS National Assembly.

- 15 December: the RS National Assembly adopts a decision in respect of the proposed Budget for the next fiscal year.

At the beginning of November, the RS Government adopts a draft Budget prepared by the Budget users and presents it to the RS National Assembly who is required to approve and adopt a decision in respect of the Budget by 15 December of the relevant year, in the form of the Law on Budget Execution for that year. The Law on Budget Execution is adopted for a period of one fiscal year and it prescribes the manners for budget execution. The Law on Budget Execution defines budget revenue, the manner for handling revenue of budget users and personal revenue of certain budget users. It also regulates the collection of revenue. It prescribes that the Ministry of Finance manages and controls inflow and outflow of cash funds according to the adopted budget, the manner of handling funds for procurement of non-financial assets and for subsidies and grants.

In case the Budget for Fund (01) of the central RS Government sector is not adopted before 15 December of the relevant year, the RS National Assembly may adopt a decision on a temporary financing arrangement for a maximum period starting from 1 January to 30 June of the relevant fiscal year, amounting to a maximum of the total Budget revenues generated in the same period of the previous fiscal year less any grants received during that period. If the decision is not adopted before the expiration of the current fiscal year, the temporary financing arrangement for the first quarter of the relevant fiscal year comes into force and effect on 1 January, in an amount equal to one-quarter of the Budget adopted for the previous fiscal year.

The Budget System Law also requires self-government units to adopt their budgets by 15 December for the next financial year.

Tax Policy

Tax policy in BiH is governed by regulations on two levels (joint BiH institutions and Entity level), depending on whether it is the case of indirect or direct taxes.

The RS Government has competency over direct tax policy whereas joint institutions are responsible for indirect taxations. The Tax Administration of the Republic is working towards improving communication with taxpayers by introducing new electronic services. Tax returns have been digitalized and an Integrated Information System has been implemented, which resulted in integration and automation of business processes, streamlining procedures, standardizing work by employees and improving services to taxpayers.

The Tax Administration of the Republic has enabled taxpayers to submit applications for issuing of certificates, tax refunds, reclassification and other types of applications by electronic means without the need to visit the premises of the Tax Administration. The level of taxpayer satisfaction with PURS services, which allows the citizens to access their tax records on Android mobile has also increased, as demonstrated by the survey conducted in early 2020 as part of a project with the Swedish Tax Agency. In addition to its regular work, in implementing the Decree with the force of law on tax measures to mitigate the economic consequences of COVID-19, the Tax Administration processed or approved over 40,000 requests worth more than BAM 51 million covering more than 90,000 employees.

In 2020, the Tax Administration of the Republic collected and charged a total of BAM 2 billion and 483 million in public revenues, or 0.2 per cent. more than in 2019. In view of COVID-19, which brought about reduced economic activity in the Republic, we managed to stabilize the collection of public revenues last year, which means that the improvement of electronic services to taxpayers, the aforementioned Government measures and regular activities of the RS Tax Administration have had a positive effect.

The Tax Administration of the Republic has established a Quality Management System and an Anti-Bribery Management System according to ISO 9001:2015 and ISO 37001:2016 standards for legal, reliable and complete management of all business processes, further improvement of its operations and providing best possible services to taxpayers.

Direct Taxation

Adopting laws and regulations in the field of direct taxes is exclusively in competence of the Republic. Direct taxes include the following: corporate income tax, personal income tax, property tax and tax paid for use, holding and carrying of goods. Signing contracts and agreements on double taxation avoidance related to personal income tax and property tax is carried out by the Ministry of Finance and Treasury of BiH, under the decision of the Presidency of BiH, and in accordance with legal procedures of the Law on Concluding and Executing International Agreements (*Official Gazette of BiH, No. 29/00 and 32/13*). Entity ministries of finance actively participate in negotiation stage for these agreements.

Corporate Income Tax

In the Corporate Income Tax Law of the Republic, principles for taxation of corporate income tax are determined in accordance with regulations applied in developed countries and EU member states. Those principles are developed from 2006 in continuity, in the Corporate Income Tax Law (*Official Gazette of the Republic, No. 94/15*) adopted at the end of 2015, which came into force on 1 January 2016. The field of taxation of corporate income of legal entities with head office in the Republic and parts of legal entities (business units or PE) with head office in the Federation, Brčko District or abroad is regulated. Single tax rate of 10 per cent. is prescribed.

The Corporate Income Tax Law was amended twice. Generally, Corporate Income Tax Law (*Official Gazette of the Republic, No. 94/15, 1/17 and 58/19*) currently in force, has significantly improved provisions for taxation of permanent establishment and business units, taxation of real estate income of foreign legal entities currently in the Republic, also rules for determining transfer prices between connected persons, for transfer of tax loss, as well as more precisely determined rules for recognition of revenues and expenditures.

Provisions for defining sources of income in the Republic are in complete compliance with international taxation rules. Agreements on double taxation avoidance applied in the Republic as well (currently 39 agreements are in force) are defining rights to taxation regarding mostly residency, so the compatibility in defining residency and sources of income in the Republic are important for application of international provisions and taxation of non-residents generate corporate income in the Republic.

By applying principles for corporate income taxation, the economy of the Republic became recognizable as part of the European economic space with modern market economy, and with clear legal provisions for foreign legal entities in the Republic or coming to the Republic. Very significant and extensive activities on drafting by-laws for corporate income tax and on creating forms for return and calculation of corporate income tax base have been undertook. The goal is to simplify content and outlook of the form, as well as to simplify the procedure.

Personal Income Tax

Law on Personal Income Tax, as one of three main laws regarding tax system in the Republic has been amended multiple times since 2006. Amendments were systematic and significantly changed personal income taxation policy in the Republic (such as changing to taxation of gross principle, introduction of single rate in relation to progressive rate of personal income tax and others).

The new Law on Personal Income Tax (*Official Gazette of the Republic*, *No. 60/15*) in force from 1 September 2015 kept its reform principles adopted in 2006. Taxpayers are natural persons earning taxable income, and the tax is paid at a 10 per cent. rate with two exceptions (small entrepreneur's tax and tax on income from foreign sources). Income taxable in the Republic is: personal income, self-employment, copyright, rights related to copyright and industrial property rights, capital, capital gains, income from foreign sources and other income. In relation to provision of the old Law on Personal Income, as taxable income in the new law two types of income were added: income from foreign sources and other income, which is not actually a new type of income, but a different treatment and classification of existing income.

In lieu of its economic policy, the RS Government proposed in the new Law on Personal Income Tax in 2015 to further decrease the burden on business entities by excluding income from dividends and share in gains from taxable personal income in order to free additional funds for investments and new employment. New tax reliefs were introduces, such as decrease of tax base (tax refund) for paid life insurance premium, as incentive for life saving, and specific definition of taxation of income from employment, from self-employment and self-employed activities. Taxation of other personal income and global income is determined more precisely.

The Law on Personal Income has been amended three times until now. First amendment came into force in July 2018 (*Official Gazette of the Republic, No. 66/18*). One of the main forms of the withholding tax on personal income is the tax on income of taxpayer from employment, where personal income of taxpayer includes income salary, increase of salary or fees from regulations governing work.

Every tax incentive in the new Law on Personal Income Tax has effects on taxpayers' income from employment. The law was amended in 2018 to increase basic personal allowance from BAM 2,400 to BAM 6,000 per year. Until the 2018 amendment, the personal tax allowance (amount of tax on the allowance) was in favour of the employer as it reduced the employer's labour costs. The amendment allowed the benefit to be passed to the worker.

Second amendment to the Law on Personal Income tax (*Official Gazette of the Republic, No. 105/19*) came into force on 1 January 2020, to further develop voluntary pension insurance market, as a special form of long-term purpose-oriented saving. By adopting the Law on Voluntary Pension Funds and Pension Plans in 2019, legal framework for organisation and management of the voluntary pension funds was created, as well as framework for establishing, and performing business activities of companies for managing voluntary pension funds. In amendments to the Law on Personal Income Tax, which came into force on 1 February 2014, tax relief in form of a right to deduction of income tax base by the amount of paid pension contribution for voluntary pension insurance up to the amount of BAM 1,200 annually, was introduced into tax legislation for the first time.

These tax amendments are expected to stimulate long-term purpose-oriented saving for pension insurance, and tax relief, which is annual tax base deducted by the amount of paid pension contribution for the voluntary pension insurance, was determined. Instead of previous Article 10 of the Law on Personal Income, that part of income is now regulated in Article 8 of the Law on Personal Income Tax prescribing tax reliefs. Therefore, part of the text in Article 8, paragraph 3 (point 1) of the law was deleted, to abolish tax on pension income, which means that taxes on income will not be paid for payments of pensions realised through voluntary pension funds.

In such way, through tax legislation the RS Government expresses strong will for development of this type of long-term purpose-oriented saving for pension, which should help raising awareness of the need and significance of saving for achieving additional safety when retired. Last amendments to the Law on Personal Income Tax (*Official Gazette of the Republic, No. 123/20*) came into force on 1 January 2021. The amendment aims to decrease tax burden for persons realizing income from capital gains.

Real Estate Tax

In the field of real estate taxation, the Law on Real Estate Tax, which came into force in 2012, established a new method of taxation characterized by taxation based on market value of real estate per rate determined by local self-government units within limits prescribed by the law. By introducing real estate tax, existing tax and non-tax revenues on property under the competence of local self-government units (namely, property tax, real estate trade tax, inheritance and gifts tax) were abolished. A fiscal register of real estate was established to fulfil the function as a real estate tax database.

Improvement of this field through reducing single tax rate, determining more suitable treatment of real estate directly used in manufacturing, as well as real estate used in further trade was performed in 2015 through adopting new Law on Real Estate Tax (*Official Gazette of the Republic, No. 91/15*).

Despite receiving results in first years of the law application, the RS Government aims to intensify activities on improving the field of taxation relating to reporting unreported real estate in the Republic, in order to create more complete fiscal registry of real estate. Since the tax on real estate is revenue of the local self-government units' budget, it is necessary to activate them more in filling of the fiscal registry of real estate, i.e. delivery of information.

Social Security Contributions

Law on Contributions (*Official Gazette of the Republic, No. 114/17 and 112/19*) regulates the system of compulsory contributions in the Republic. Mandatory contributions in the Republic are pension and disability insurance contribution, health insurance contribution, unemployment insurance contribution and child protection contribution. Base for contributions payment is total income subject to personal income tax, which includes contributions. According to the abovementioned Law on Contributions, the aggregated rate of social contributions is 32.8 per cent. (contributions for pension and disability insurance 18.5 per cent., contributions for health insurance 12 per cent., contributions for unemployment insurance 0.6 per cent., and child protection contributions 1.7 per cent.). The beneficiaries of contributions are mandatory insurance funds, through which the rights financed from contributions are exercised.

Tax Procedure of the Republic

The First Law on Tax Procedure of the Republic came into force on 1 January 2012 (*Official Gazette of the Republic, No. 102/11, 108/11, 67/13, 31/14 and 44/16*) and was in force until 12 August 2020, and it was amended three times. The law completely regulates procedures of the Tax Administration of the Republic during registration, determination, audit and collection of tax liabilities prescribed by tax laws, as well as procedure of inspection supervision i.e. tax audits. Goal of the amendments was improvement of procedures, introduction of legal grounds for determining tax base by assessment, specifying competencies and rights of tax administration and taxpayers, electronic tax returns and similar.

Introduction of the new law, which came into force on 13 August 2020 (*Official Gazette of the Republic, No. 78/20*) (the "**2020 Law**") introduced a legal framework for implementation of the project of e-registration of business entities in the Republic, and for specifying provisions on procedure for application of tax base assessment with natural entities. This 2020 Law (referred to above), in relation to the law in 2011, changed certain parts in the tax procedure followed by the Republic, i.e. certain procedures are simplified, both for taxpayers and Tax Administration of the Republic, which is also competent for implementation of the 2020 Law. In addition, for the first time, general principles for tax procedure are included in the 2020 Law. These principles are general rules relevant for tax officials and taxpayers, which must be respected in each stage of tax procedure. The method for determining tax base via assessment was specified, obsolete deadline for determining limitation period for rights to collect tax liabilities was prolonged, rules for IT control were prescribed and deadlines for submitting changed tax return are specified.

Law on Tax System of the Republic

The Law on Tax System of the Republic (*Official Gazette of the Republic, No. 62/17*) governs the tax system of the Republic as well as establishment and conduct of the register of tax and non-tax revenues in the Republic. Goal of the register of tax and non-tax revenues is enhanced transparency of introducing and collecting public revenue, establishing public control over fiscal burden on economy and citizens, and cooperation of government, citizens and business community in creating a more favourable economic environment, which will contribute to higher competitiveness of domestic economy and increase standard of living. This Law establishes a cohesive legal framework and system for the payment of taxes by taxpayers.

The register of tax and non-tax revenues in the Republic was published on the website of the Ministry of Finance of the Republic. In accordance with the Law on Tax System of the Republic, tax revenues determined contrary to provisions of law are not included in the register. In addition, tax and non-tax revenues that are not included in the Register of tax and non-tax revenues in the Republic should not be paid, and the administrative body proposing regulation which has such revenues is obliged to initiate the procedure for its removal from that regulation under the urgent procedure.

Non-tax revenues

Non-tax revenue includes various fees (administrative, court, utility), fines, charges and other revenue, and adopting laws and other regulation in the field of non-tax revenue is exclusively in competence of the Republic. In accordance with the Law on the Tax System in the Republic, all non-tax charges must be determined or determinable by law. Introducing or increasing any non-tax charge requires a justification analysis and opinion of the Ministry of Finance regarding that analysis. The Ministry of Finance prepares annual analysis of justification of certain non-tax charges, on the basis of which the ERP proposes reduction or abolition of certain charges. In accordance with the Law on the Tax System, the Register of Tax and Non-Tax Charges of the Republic was established to reduce or abolish non-tax charges. Any non-tax charge that has not been entered into the tax system in accordance with this law will not be part of the Register and taxpayers will not need to make any payment.

In 2020, some types of administrative and utility fees, court fees were reduced and abolished, while special republic tax was reduced by 30 per cent., which will be reduced by additional 30 per cent. from 2022, and it will be no longer paid in the Republic from 2023. It is important to mention revenue from contributions (for health insurance, unemployment insurance and child protection), which are revenue of the Republic extra budgetary funds. From 2016 revenue from contributions for pension and disability insurance are budgetary revenue of the Republic.

Indirect tax

Indirect taxation is governed by regulations on the level of BiH joint institutions. Laws and other regulations and policies on indirect taxation are determined by the Council of Minister of BiH on proposal of the Indirect Taxation Agency's Management Board, according to the Law on Indirect Taxation System in BiH (*Official Gazette of the Republic, No. 44/03, 52/04, 34/07, 49/09, 32/13 and 91/17*), and they are adopted in the House of Representatives and House of Peoples of the Parliamentary Assembly of BiH.

Revenue from indirect taxation is collected by the Indirect Taxation Agency (the "ITA"), which is an independent administrative organisation competent for implementation of regulations in the field of indirect taxation. Revenue from indirect taxes collected on the single account of the ITA (VAT, excise, tariffs and tolls) is allocated daily in accordance with the Law on Indirect Taxation System in BiH and the Law on Payments to the Single Account and Allocation of Revenue (*Official Gazette of BiH, No. 55/04, 34/07, 49/09, 91/17 and 49/09*), and according to the methodology based on share in end consumption shown on VAT returns.

The revenue from indirect taxes collected on single account of the ITA are allocated after the funds for reserves (refund) and predetermined funds for financing BiH institutions are allocated, after which Brčko District is allocated 3.55 per cent. of the revenue from indirect taxes. The rest of the funds are shared between entities according to temporary coefficient for allocation of revenues from indirect taxation. From the respective share for the Republic, direct payments for servicing external debt are then made, and the rest of the funds from the single account of the ITA are allocated between the Republic's budget (72 per cent.), municipalities and cities budgets (24 per cent.) and PE "Republic of Srpska Roads" (4 per cent.), which is in accordance with the Law on Budget System of the Republic. See also "*Total and Public Debt – Debt Service*" for further information.

<u>VAT</u>

There is a general rate of VAT of 17 per cent. and zero per cent. rate on exports. VAT registration threshold is BAM 50,000. Introduction of VAT repealed the sales tax which was payable in the Republic and a competence of the Republic.

<u>Excise taxes</u>

In addition to VAT, BiH also has excise taxes payable on certain goods (petroleum products and derivatives, gas, coffee, alcoholic and non-alcoholic beverages, tobacco and tobacco products), and road tolls (special type of excise tax) payable on motor gasoline, diesel fuels and other gas oils, heating oil and biofuels and bio liquids per litre in specifically determined amounts.

<u>Customs Duties</u>

Indirect taxes also include customs duties that are determined in BiH in accordance with the Law on Customs Policy and paid according to the customs tariff.

Government Finance Transparency

Following the adoption of the Budget by the RS National Assembly, the Ministry of Finance publishes a Guide for Citizens for the Budget of the Republic. The objective of the foregoing guide is to provide clarity and transparency to citizens with respect to the budgetary process and allocation of funds under the approved Budget for that fiscal year, given that such funds are derived from the collection of taxes to a large extent, in order to enhance the transparency of the management of public finances.

The drafting of the Budget of the Republic is a year-round process which includes a large number of participants and is open to interested parties through competent budget users (being local self-government bodies) to participate in its drafting through their constructive proposals. A broad range of information related to the preparation, drafting and adoption of the Budget is available from the dissemination of instructions to budget users (which are also published on the website of the Ministry of Finance of the Republic) through to the adoption and publication of the Budget by the Ministry of Finance of the Republic, the RS National Assembly and the Official Gazette of the Republic.

A consolidated report on the execution of the Budget of the Republic is prepared quarterly, semi-annually and annually in accordance with the Budget System Law. The Ministry of Finance of the Republic also reports quarterly, semi-annually and annually to the RS Government on the execution of the Budget of the Republic for the current fiscal year, while the RS Government submits a six-month and annual consolidated report to the RS National Assembly on the same matter. After the adoption of the Consolidated Report on the Execution of the Budget of the Republic by the RS National Assembly, the report made published and made publicly available on the website of the RS Government.

The Ministry of Finance of the Republic also annually publishes the following documents pertaining to debt management and data: (i) the MTDS, (ii) information about the outstanding debt incurred by the Republic, and (iii) an indicative securities issue calendar.

A quarterly calendar of securities auctions is published quarterly. The process for the issuance of securities by the Republic is public and transparent. The RS Government publicly announces any payments made on outstanding coupons on securities in issue through the Ministry of Finance of the Republic and the Banja Luka Stock Exchange. In the case of bond issues (as well as treasury bills), a public invitation for participation in an auction is published in the daily newspapers, as well as on the websites of the Ministry of Finance of the Republic and the Banja Luka Stock Exchange. The Stock Exchange also holds a copies of the relevant RS Government decisions and prospectus pertaining to any such bond issues. The results of auctions for bonds and treasury bills are published on the same day on the website of the Ministry of Finance and the Banja Luka Stock Exchange.

Information on the macroeconomic indicators of the Republic are published once a month in the local language and quarterly in English by the Ministry of Finance. The Ministry of Finance also makes available to the public on an annual basis copies of the relevant FBD (including any amendments or revisions) and Program of Economic Reforms. In accordance with the Rulebook on Financial Reporting (*Official Gazette of the Republic, No. 15/17*), a periodic transaction report with preliminary data is prepared once a month for the Republic and quarterly for all government units and is made available to the public by the Ministry of Finance of the Republic.

Budget Execution

The consolidated general Government Budget

In 2016, the general RS Government budget deficit amounted to BAM 49.2 million, or 0.5 per cent. of GDP. In 2017, the general RS Government budget surplus amounted to BAM 181.8 million, or 1.8 per cent. of GDP. In 2018 and 2019, the RS Government achieved a general RS Government surplus of BAM 3.2 billion (or 0 per cent. of GDP) and BAM 45.4 million (or 0.4 per cent. of GDP), respectively. See "*—Fiscal Developments in 2016*", "*—Fiscal Developments in 2017*", "*—Fiscal Developments in 2018*", "*— Fiscal Developments in 2019*" and "*—Fiscal Developments in 2020*" for additional information.

The following table illustrates the actual revenues and expenditures of the consolidated general RS Government budget for the years 2016 to 2019, and the preliminary execution figures for the nine months ended

30 September 2020 compared with the actual revenues and expenditures for the nine months ended 30 September 2019:

	Year ended 31 December									Nine months ended 30 September	
	2016		2017		2018		2019		2020	2019	2020
	Budget	Executed	Budget	Executed	Budget	Executed	Budget	Executed	Budget	Executed	Executed
					(BAM millions)						
Public Revenues	**3,825.2**	**3,855.2**	**3,929.9**	**3,998.3**	**4,212.7**	**4,283.8**	**4,363.6**	**4,473.9**	**4,416.3**	**3,259.6**	**3,107.1**
Tax revenues	3,390.2	3,395.9	3,432.9	3,471.9	3,726.7	3,791.2	3,877.9	3,927.2	3,871.3	2,901.8	2,779.8
Corporate income tax and other taxes on income, profit and capital gains	328.0	344.1	347.0	368.9	393.2	393.0	387.3	382.8	376.3	302.9	276.4
Social security contributions	1,463.6	1,447.1	1,395.6	1,426.3	1,481.3	1,545.8	1,569.5	1,614.7	1,659.9	1,175.8	1,210.9
Personal income tax	57.0	54.2	57.2	58.3	60.2	57.0	50.2	45.3	49.2	33.9	33.7
Taxes on property	42.8	36.9	42.6	39.4	42.8	42.6	47.0	45.2	45.1	34.2	29.0
Tax on sales of products and services	28.9	2.9	25.8	8.4	25.4	21.2	16.3	16.5	1.1	11.5	0.4
Customs and import duties	-	-	-	-	-	-	-	0.7	-	0.7	-
Indirect taxes collected by ITA	1,469.5	1,509.9	1,564.5	1,570.3	1,723.5	1,731.2	1,807.7	1,818.7	1,736.6	1,341.9	1,226.6
Other tax revenues	0.2	0.8	0.2	0.3	0.3	0.4	0.2	3.2	3.1	1.0	2.9
Non-tax revenues	413.9	430.3	464.9	486.6	456.5	443.7	466.4	450.2	457.1	336.9	300.9
Income from financial and non-financial assets	56.0	70.3	89.0	66.4	83.9	85.6	81.3	72.8	60.2	55.3	38.8
Charges and fees and revenues from public services	314.4	309.0	332.2	321.6	338.7	323.7	353.4	342.4	359.3	256.4	238.5
Fines and penalties	18.4	18.1	18.5	20.9	20.7	19.1	21.4	22.7	21.1	16.3	15.1
Income from financial and non-financial assets and exchange transactions between or within government units	-	-	-	-	0.1	4.7	0.2	-	0.3	-	-
Other non-tax revenues	25.1	32.8	25.3	77.7[3]	13.1	10.6	10.1	12.3	16.3	8.9	8.4
Transfers between government units	0.2	0.1	1.2	0.4	2.2	0.7	2.9	0.3	0.0	0.1	0.2
Grants[4]	20.9	28.9	30.9	39.4	27.3	48.2	16.4	96.2	87.9	20.6	26.1
Public Expenditures	**3,657.5**	**3,598.1**	**3,658.8**	**3,579.0**	**3,885.5**	**3,925.0**	**4,023.9**	**4,033.4**	**4,448.9**	**2,896.9**	**3,143.1**
Current expenditures	3,599.9	3,547.6	3,586.9	3,514.2	3,740.4	3,788.8	3,867.1	3,888.5	4,314.1	2,790.4	3,047.6
Compensation of employees	966.1	961.0	965.5	947.2	974.3	970.1	1,026.0	1,020.7	1,134.5	758.2	833.8
Purchase of goods and services	290.6	297.3	280.8	272.5	294.2	302.4	300.5	304.9	319.7	206.0	202.0
Interest and other financing costs	96.9	96.5	126.1	120.4	127.1	132.6	134.1	132.8	135.1	90.8	76.5
Subsidies[5]	112.1	111.7	147.9	132.7	164.4	149.4	167.1	154.7	267.9	93.5	183.2
Grants[6]	99.1	93.2	100.2	98.6	150.2	179.4	129.2	172.2	195.7	108.1	145.7
Social assistance from the budgets	318.9	295.1	312.5	292.6	307.8	320.1[7]	315.1	311.3	329.1	227.3	235.1
Social security benefits from compulsory social security funds	1,716.2	1,692.8	1,636.0	1,634.7	1,706.5	1,711.6	1,771.7	1,771.7	1,916.5	1,296.0	1,363.2
Interest, other financing costs and expenses from exchange transactions between or within government units	-	-	-	-	0.3	-	0.7	0.1	0.6	0.2	-
Cost of court decisions	-	-	17.9	15.6	15.5	23.3	17.4	20.2	15.0	10.3	8.1
Transfers between and within self-government units[8]	48.3	50.6	62.6	64.8	136.5	136.2	143.6	144.9	129.4	106.5	95.5
Budget Reserve	**9.2**	**-**	**9.4**	**-**	**8.7**	**-**	**13.2**	**-**	**5.4**	**-**	**-**
Gross Surplus/Deficit	**167.7**	**257.1**	**271.1**	**419.3**	**327.2**	**358.8**	**339.6**	**440.5**	**(32.6)**	**362.7**	**(36.0)**
Net Acquisition Of Non-Financial Assets	**(252.6)**	**(306.3)**	**(335.3)**	**(237.6)**	**(456.8)**	**(355.6)**	**(464.6)**	**(395.1)**	**(596.9)**	**(199.7)**	**(294.8)**
Net Fiscal Surplus/Deficit	**(84.9)**	**(49.2)**	**(64.2)**	**181.8**	**(129.6)**	**3.2**	**(125.0)**	**45.4**	**(629.5)**	**163.0**	**(330.8)**
Net Financing	**96.6**	**(42.8)**	**64.4**	**14.2**	**166.7**	**84.4**	**81.0**	**48.5**	**629.7**	**52.2**	**491.3**
Difference in Financing	11.8	(92.0)	0.2	195.9	37.0	87.6	(44.0)	93.9	0.2	215.3	160.6

Source: Financial reports of the Budget users of the Republic, local self-government units and social security funds.

Notes:

(1) From 1 January 2017, the Budget reflects an updated methodology for accounting policies and economic classifications. Any revenues are actual (or current) collected revenues, whereas expenses are stated on the basis of assumed liabilities (but do not include depreciation of assets, impairment of assets, provisions and other expenses that have an accounting character without requiring a specific future cash flow).

(2) The amounts for the 2020 Budget are derived from the Republic's FBD 2021 – 2023 (see "-*Budget Process*" for further information).

(3) In 2017, BAM 60.0 million of succession funds were received in settling the clearing debt of the Russian Federation, in accordance with an agreement between the Council of Ministers of BiH and the Russian authorities in connection with the regulation of the obligations on settlements related to trade in goods between the former USSR and Socialist Federal Republic of Yugoslavia. The decision on the ratification of the foregoing agreement was published in the *Official Gazette of BiH, No. 4/17.* The total obligation of BiH amounted to approximately U.S.$125,157,834, and the Republic received U.S.$36,295,772 of that amount.

(4) In accordance with the Agreement on the Establishment of Special Parallel Relations between the Republic and the Republic of Serbia (*Official Gazette of the Republic, No. 60/07*), and in order to enhance bilateral relations, from September 2017 to December 2020, the Republic of Serbia approved 11 donations to the Republic in a total amount of EUR 73,700,000. A total of BAM 10.8 million, BAM 16.8 million, BAM 72.8 million and BAM 43.8 million were remitted in 2017, 2018, 2019 and 2020, respectively.

(5) The Agency for Agrarian Payments reported BAM 71.0 million of expenditures on the basis of subsidies to non-financial entities in the field of agriculture. The Minister of Agriculture, Forestry and Water Management on the basis of the Law on Provision and Direction of Funds for Stimulating the Development of Agriculture and Villages (*Official Gazette of the Republic, Nos. 43/02 and 106/09*) and the Law on Agriculture (*Official Gazette of the Republic, Nos. 70/06, 20/07, 86/07 and 71/09*) and the Law on Republic Administration (*Official Gazette of the Republic, Nos. 118/08, 11/09, 74/10, 86/10, 24/12, 121 / 12, 15/16 and 57/16*) adopt the rulebook on the conditions and manner of realization of financial incentives for the development of agriculture and villages. This ordinance prescribes the conditions that must be met by the beneficiaries of incentive funds, procedures for their realization, types of incentives, amount and manner of payment and obligations of recipients of incentives after their receipt as well as time of submission, forms and other necessary documentation. In 2018, the ordinance produced liabilities based on subsidies in the amount of BAM 71.0 million classified into three groups, namely: support for current production of BAM 56.1 million, support for long-term development of BAM 10.3 million and systemic measures of BAM 4.6 million.

(6) In 2019 and 2020, the increased allocation of grants was a result of donor funds from the Republic of Serbia, as well as funds realised from clearing debts and the allocation of budget funds for public investments.

(7) In 2018, the RS Government authorised and approved a one-time payment of BAM 18.1 million to provide assistance to pensioners which impacted expenses incurred as a result of social assistance from the Budgets.

(8) Tolls are charged in the amount of BAM 0.10litere (which took effect until the end of January 2018), or BAM 0.25/litre (which has been in force since February 2018) in respect of the price of oil and petroleum products in order to facilitate the funding of the construction of highways and roads. According to the Law on Payments to the Single Account and Distribution of Revenues (*Official Gazette of BiH, No. 55/04, 34/07, 49/09 and 92/17*), these funds are not included in the usual distribution of revenues collected through the Indirect Taxation Authority. Toll revenue is collected in a special sub-account of the Indirect Taxation Authority and is distributed according to the Decision on temporary distribution of toll revenue for construction of highways and construction and reconstruction of other roads (*Official Gazette of BiH, No. 50/18*), and then transferred to PE Roads RS and PE Highways RS.

(9) Indirect taxes include VAT, customs, road levy and excises. Since BiH is responsible for indirect taxes, it is presented on an aggregated basis as the data for individual taxes is not available. For further information, see "*– Public Finance – Fiscal Developments in 2020 – Tax policy.*"

The following table illustrates the budget of revenues and expenditures of the consolidated general RS Government budget for the years 2020 and 2021:

	Year ended 31 December	
	2020	**2021**
	Budget	**Budget**
	(*BAM millions*)	
Public Revenues	**4,416.3**	**4,365.5**
Tax revenues	3,871.3	3,869.6
Corporate income tax and other taxes on income, profit and capital gains	376.3	375.7
Social security contributions	1,659.9	1,691.2
Personal income tax	49.2	46.6
Taxes on property	45.1	43.8
Tax on sales of products and services	1.1	0.8
Customs and import duties	-	-
Indirect taxes collected by ITA	1,736.6	1,707.6
Other tax revenues	3.1	3.9
Non-tax revenues	457.1	438.6
Income from financial and non-financial assets	60.2	59.3
Charges and fees and revenues from public services	359.3	346.3
Fines and penalties	21.1	22.1
Income from financial and non-financial assets and exchange transactions between or within government units	0.3	0.3
Other non-tax revenues	16.3	10.9
Transfers between government units	0.0	0.1
Grants	87.9	57.1
Public Expenditures	**4,448.9**	**4,355.9**
Current expenditures	4,314.1	4,208.3
Compensation of employees	1,134.5	1,137.0
Purchase of goods and services	319.7	318.8
Interest and other financing costs	135.1	146.7
Subsidies	267.9	165.2
Grants	195.7	142.5
Social assistance from the budgets	329.1	330.3
Social security benefits from compulsory social security funds	1,916.5	1,955.9
Interest, other financing costs and expenses from exchange transactions between or within government units	0.6	0.2
Cost of court decisions	15.0	11.7
Transfers between and within self-government units	129.4	134.0
Budget Reserve	**5.4**	**13.5**
Gross Surplus/Deficit	**(32.6)**	**9.6**
Net Acquisition Of Non-Financial Assets	**(596.9)**	**(345.1)**
Net Fiscal Surplus/Deficit	**(629.5)**	**(335.5)**
Net Financing	**629.7**	**255.1**
Difference in financing	0.2	(80.5)

Source: Financial reports of the Budget users of the Republic, local self-government units and social security funds.

The following table shows year-on-year nominal changes in certain categories of revenues and expenditures of the general government budget for the years 2018 to 2019 and for the first nine months ended 30 September 2019 and 2020:

	Year ended 31 December		Nine months ended 30 September	
	2018	2019	2019	2020
	(% change)			
Public Revenues	**7.1**	**4.4**	**4.6**	**(4.7)**
Tax revenues	9.2	3.6	5.0	(4.2)
Corporate income tax and other taxes on income, profit and capital gains	14.4	9.1	8.6	(12.1)
Social security contributions	8.4	4.5	8.0	3.0
Personal income tax	(3.1)	(20.2)	(23.5)	(1.2)
Taxes on property	8.1	6.1	3.9	(15.2)
Tax on sales of products and services	-	-	-	-
Customs and import duties	-	-	-	-
Indirect taxes collected by ITA	10.2	5.1	6.2	(8.6)
Other tax revenues	-	-	-	-
Non-tax revenues	(8.8)	1.5	7.3	(10.7)
Income from financial and non-financial assets	28.9	(15.0)	7.7	(29.8)
Charges and fees and revenues from public services	0.7	5.8	5.9	(7.0)
Fines and penalties	(8.6)	18.8	18.8	(7.2)
Income from financial and non-financial assets and exchange transactions between or within government units	-	-	-	-
Other non-tax revenues	(86.4)	16.0	29.5	(5.6)
Transfers between government units	-	-	-	-
Grants	22.3	99.6	(43.2)	26.4
Public Expenditures	**9.7**	**2.8**	**4.4**	**8.5**
Current expenditures	7.8	2.6	3.8	9.2
Compensation of employees	2.4	5.2	5.1	10.0
Purchase of goods and services	11.0	0.8	3.8	(1.9)
Interest and other financing costs	10.1	0.2	(0.4)	(15.8)
Subsidies	12.6	3.5	(1.4)	95.9
Grants	81.9	(4.0)	29.2	34.8
Social assistance from the budgets	9.4	(2.7)	(5.2)	3.4
Social security benefits from compulsory social security funds	4.7	3.5	4.0	5.2
Interest, other financing costs and expenses from exchange transactions between or within government units	-	-	-	-
Cost of court decisions	49.4	(13.3)	(11.5)	(21.2)
Transfers between and within self-government units	110.2	6.4	23.3	(10.3)
Budget Reserve	**0.0**	**0.0**	**0.0**	**0.0**
Gross Surplus/Deficit	**(14.4)**	**22.8**	**6.3**	**(109.9)**
Net Acquisition Of Non-Financial Assets	**49.7**	**11.1**	**23.4**	**47.7**
Net Fiscal Surplus/Deficit	**(98.2)**	**1,318.8**	**(9.2)**	**(302.9)**
Net Financing	**494.4**	**(42.5)**	**(49.0)**	**840.8**

Source: Financial reports of the Budget users of the Republic, local self-government units and social security funds.

The central Government Budget

As part of the general RS Government sector, the central RS Government sub-sector includes institutions financed from the budget of the Republic and the five funds discussed in "*-Budget Process*" above. Fund (01), which is the Budget of the Republic, often accounts for more than half of the consolidated budget of the general Government Budget.

The following table illustrates the execution of the central Government Budget (Fund (01) for the years 2016 to 2019 and the nine months periods ended 30 September 2019 and 2020:

	Year ended 31 December				Nine months ended 30 September	
	2016	2017	2018	2019	2019	2020
			(BAM millions)			
Public Revenues	**2,484.1**	**2,597.5**	**2,783.2**	**2,846.1**	**2,120.9**	**2,008.6**
Tax revenues	2,280.8	2,405.7	2,567.8	2,631.3	1,957.4	1,861.3
Corporate income tax and other taxes on income, profit and capital gains	181.5	192.9	220.8	238.0	194.2	165.7
Social security contributions	763.6	798.8	860.9	891.9	654.3	679.6
Personal income tax	162.5	176.0	172.2	144.9	108.6	110.7
Taxes on property	13.3	14.3	15.0	17.3	12.2	12.6
Tax on sales of products and services	1.8	8.1	20.0	13.9	10.0	0.2
Customs and import duties	-	-	-	0.7	0.7	-
Indirect taxes collected by ITA	1,157.5	1,215.3	1,278.8	1,324.6	977.1	892.4
Other tax	0.5	0.2	0.2	-	-	0.1
Non-tax revenues	202.9	187.4	208.8	207.9	161.8	145.4
Income from financial and non-financial assets	49.5	37.2	56.8	44.5	37.1	19.4
Charges and fees and revenues from public services	116.8	117.6	121.6	136.1	105.4	107.1
Fines and penalties	17.8	20.5	18.7	22.3	16.0	14.8
Income from financial and non-financial assets and exchange transactions between or within government units	-	8.9	8.8	1.9	1.2	1.4
Other non-tax revenues	18.8	3.3	2.9	3.1	2.2	2.8
Transfers between government units	0.3	4.4	6.7	6.9	1.8	1.8
Grants	-	-	-	-	-	-
Public Expenditures	**2,338.8**	**2,338.7**	**2,580.4**	**2,662.4**	**1,912.1**	**2,207.0**
Current expenditures	2,221.2	2,244.1	2,400.3	2,471.9	1,786.2	1,901.2
Compensation of employees	721.8	703.2	715.3	755.4	560.9	618.9
Purchase of goods and services	101.1	95.9	115.5	106.8	70.6	67.9
Interest and other financing costs	73.7	97.7	110.5	109.1	73.3	62.0
Subsidies	95.3	101.2	111.1	110.5	62.6	75.6
Grants	20.6	20.8	45.4	50.6	26.8	42.6
Social assistance from the budgets	218.7	216.7	240.1	224.1	163.3	164.8
Social security benefits from compulsory social security funds	990.0	1,001.7	1,047.8	1,101.2	821.9	866.1
Interest, other financing costs and expenses from exchange transactions between or within government units	-	0.2	0.2	0.2	0.3	0.1
Cost of court decisions	-	6.7	14.3	13.9	6.4	3.2
Transfers between and within self-government units	117.6	144.6	180.1	190.5	125.9	305.8
Budget Reserve	-	-	-	-	-	-
Gross Surplus/Deficit	**145.3**	**208.8**	**202.9**	**183.8**	**208.9**	**(198.4)**
Net Acquisition Of Non-Financial Assets	**(45.2)**	**(39.6)**	**(58.0)**	**(90.1)**	**(39.2)**	**(49.4)**
Net Fiscal Surplus/Deficit	**100.0**	**169.1**	**144.9**	**93.7**	**169.7**	**(247.8)**
Net Financing	**(144.4)**	**(92.9)**	**(119.0)**	**(68.7)**	**(15.1)**	**418.2**
Difference in Financing	(14.3)	76.3	25.9	25.0	154.6	170.4

Source: Financial reports of the Budget users of the Republic.

Notes:

(1) From 1 January 2017, the Budget reflects an updated methodology for accounting policies and economic classifications. Any revenues are actual (or current) collected revenues, whereas expenses are stated on the basis of assumed liabilities (but do not include depreciation of assets, impairment of assets, provisions and other expenses that have an accounting character without requiring a specific future cash flow).

(2) The amounts for the 2020 Budget are derived from the Republic's FBD 2021 – 2023 (see "*-Budget Process*" for further information).

The following table illustrates the year-on-year nominal changes of the central Government budget (Fund (01) for the years 2017 to 2019 and the nine months ended 30 September 2020 and 2019:

	Year ended 31 December			Nine months ended 30 September	
	2017	2018	2019	2019	2020
			(% change)		
Public Revenues	4.6	7.1	2.3	3.6	(5.3)
Tax revenues	5.5	6.7	2.5	2.9	(4.9)
Corporate income tax and other taxes on income, profit and capital gains	6.3	14.5	7.8	7.5	(14.7)
Social security contributions	4.6	7.8	3.6	6.7	3.9
Personal income tax	8.3	(2.2)	(15.9)	(19.4)	1.9
Taxes on property	7.5	4.9	15.3	9.9	3.3
Tax on sales of products and services	350.0	146.9	(30.5)	(49.7)	(98.0)
Customs and import duties	-	-	-	-	-
Indirect taxes collected by ITA	5.0	5.2	3.6	3.7	(8.7)
Other tax revenues	-	-	-	-	-
Non-tax revenues	(7.6)	11.4	(0.4)	11.4	(10.1)
Income from financial and non-financial assets	(24.8)	52.7	(21.7)	15.9	(47.7)
Charges and fees and revenues from public services	0.7	3.4	11.9	11.5	1.6
Fines and penalties	15.2	(8.8)	19.3	19.4	(7.5)
Income from financial and non-financial assets and exchange transactions between or within government units	-	(1.1)	(78.4)	(66.7)	16.7
Other non-tax revenues	(82.4)	(12.1)	6.9	22.2	27.3
Transfers between government units	1366.7	52.3	3.0	-	-
Grants	-	-	-	-	-
Public Expenditures	**2.1**	**8.0**	**3.2**	**2.7**	**15.4**
Current expenditures	1.0	7.0	3.0	2.4	6.4
Compensation of employees	(2.6)	1,7	5.6	5.3	10.3
Purchase of goods and services	(5.1)	20.4	(7.5)	(0.4)	(3.8)
Interest and other financing costs	32.6	13.1	(1.3)	(3.2)	(15.4)
Subsidies	6.2	9.8	(0.5)	(8.7)	20.8
Grants	1.0	118.3	11.5	(2.5)	59.0
Social assistance from the budgets	(0.9)	10.8	(6.7)	(10.0)	0.9
Social security benefits from compulsory social security funds.	1.2	4.6	5.1	5.2	5.4
Interest, other financing costs and expenses from exchange transactions between or within government units	-	-	-	-	-
Cost of court decisions	-	113.4	(2.8)	(1.5)	(50.0)
Transfers between and within self-government units	23.0	24.6	5.8	7.0	142.9
Budget Reserve	-	-	-	-	-
Gross Surplus/Deficit	**43.7**	**(2.8)**	**(9.4)**	**12.6**	**(195.0)**
Net Acquisition Of Non-Financial Assets	**(12.4)**	**46.5**	**55.3**	**64.7**	**26.0**
Net Fiscal Surplus/Deficit	**69.1**	**(14.3)**	**(35.3)**	**4.9**	**(246.0)**
Net Financing	**18.8**	**(28.1)**	**42.3**	**(151.0)**	**2,869.5**

Source: Financial reports of the Budget users of the Republic.

Notes:

(1) Data for 2016 is not represented above as data for 2016 and 2015 is not comparable because the Republic's Pension and Disability Insurance Fund was included in the central Government (Fund (01)) at the beginning of 2016.

Fiscal Developments in 2016

The consolidated surplus of the general RS government of 0.4 per cent. of GDP in 2015 grew into a deficit of 0.5 per cent. of GDP in 2016.The fiscal deficit in 2016 amounted to BAM 49.2 million, which is 42.1 per cent. lower than the BAM 84.9 million anticipated in the 2016 Budget.

At the same time, the Public Debt amounted to 45.1 per cent. of GDP in 2016. The debt growth in nominal terms in 2016 was close to the realised deficit in the same year, however the GDP growth was faster, which contributed to the decline of the public debt in relation to GDP. In the same period, RS Government revenues increased by BAM 26.3 million or 0.6 per cent. in nominal terms compared to 2015. Tax revenues contributed the most to public revenues in 2016, amounting to BAM 3,395.9 million, or 88.1 per cent. of public revenues.

RS Government expenditures decreased by BAM 2.0 million or 0.1 per cent. compared to 2015, but also decreased compared to the anticipated expenditure by BAM 59.4 million, or .6 per cent. of GDP, in the 2016 Budget. This was largely as a result of less execution of expenditures on items, social assistance from the budget and social security benefits from compulsory social security funds, which decreased by BAM 22.9 million (or 1.1 per cent.) compared to 2015, and they were less than planned budget funds by BAM 47.2 million (or 2.3 per cent.), due to the reduction of the number of users (natural outflow), since there was no reduction of the amount of rights.

Fiscal Developments in 2017

The consolidated deficit of the general RS government of 0.5 per cent. of GDP in 2016 grew into a surplus of 1.8 per cent. of GDP in 2017. The fiscal surplus in 2017 amounted to BAM 181.8 million, 383.2 per cent. higher than the BAM 64.2 million deficit anticipated in the 2017 Budget.

Public Debt decreased to 38.3 per cent. of GDP in 2017. The reduction of public debt in nominal terms in 2017 was contributed by fiscal consolidation, appreciation of domestic in relation to foreign currencies, as well as changes in the methodology of reporting the internal debt of the Republic according to the obligations regulated by the Law on Internal Debt of the Republic (*Official Gazette of the Republic, Nos. 1/12, 28/13, 59/13, and 44/14*), in accordance with the recommendation of the World Bank, which together with GDP growth led to a more significant decline of public debt in relation to GDP. In the same period, RS Government revenues increased by BAM 143.1 million or 3.7 per cent. in nominal terms compared to 2016. Tax revenues contributed the most to public revenues in 2017, amounting to BAM 3,471.9 million, or 86.8 per cent. of public revenues. Also, in 2017, there was a significant inflow of funds from the succession of the clearing debt of the Russian Federation in the amount of about BAM 60 million.

RS Government expenditures decreased by BAM 19.1 million or 0.5 per cent. compared to 2016, but also decreased compared to the anticipated expenditure by BAM 79.8 million, or 0.8 per cent. of GDP, in the 2017 Budget. This was largely as a result of the application of the new rulebook on Budget classifications, account content and application of chart of accounts for Budget users which was adopted in late 2016 and used as the basis for preparing the 2017 Budget. The updated rulebook modified applicable accounting policies and economic classification. For example, revenues are actual (current) collected revenues, and expenses only state liabilities (and so do not include depreciation of assets, impairment of assets, provisions and other expenses that have an accounting character without requiring a specific future cash outflow). Within expenditures, current expenditures were reduced (by BAM 33.4 million), while savings were achieved by the application of the new method of calculating past service for employees at the public sector, and the increase was within transfers between government units (by BAM 14.2 million). Also, there was a significant decrease in net outlays for the acquisition of non-financial assets (by BAM 68.7 million).

RS Government expenditures increased by BAM 346.0 million or 9.7 per cent. compared to 2017, and also increased compared to the anticipated expenditure by BAM 39.5 million, or 0.4 per cent. of GDP, in the 2018 Budget. This was primarily the result of (i) an increase of interest and other financing costs as a result of the Republic's issuance of its EUR 168,000,000 2.9 per cent. Notes due 2023 which resulted in an increase of BAM 12.2 million of such costs as compared to 2017; (ii) a BAM 22.9 million increase in compensation to employees due to the transition to a treasury business system which result in an increase of Budget users thereby increasing personnel expenses (iii) a BAM 80.8 million increase in the provision of grants as compared to 2017, which primarily resulted from the provision of additional funds to the domestic healthcare sector; (iv) the increase of funds provided for social assistance in connection with a one-off financial assistance programme for pension beneficiaries as well as the provision of medical equipment for disabled war veterans (in accordance with the Law on the Rights of Soldiers, Disabled Soldiers and Families of Killed Soldiers of the Defence and Patriotic War of the Republic (*Official Gazette of the Republic, No. 134/11, 09/12 and 40/12*) which increased such social assistance contributions by BAM 27.5 million as compared to 2017; and (v) a BAM 71.4 million increase in transfers between different government self-units as a result of the impact of the Law on Child Protection (*Official Gazette of the Republic, Nos. 114/17, 122/18 and 107/19*) which prescribe for the right to maternity allowance and provides monetary support to eligible families.

Fiscal Developments in 2018

The consolidated deficit of the general RS government of 0.5 per cent. GDP in 2016 grew into a surplus of 1.8 per cent. of GDP in 2016. The fiscal surplus in 2018 amounted to BAM 3.2 million, 102.5 per cent. higher than the BAM 129.6 million deficit anticipated in the 2018 Budget. Public Debt decreased to 37.9 per cent. of GDP in 2018. The growth of debt in nominal terms in 2018 was contributed by positive net borrowing, due to the financing of investment activities, however, the GDP growth was faster, which resulted in the decline of public debt in relation to GDP. In the same period, RS Government revenues increased by BAM 285.5 million or 7.1 per cent. in nominal terms compared to 2017 due to a high growth of revenues from contributions of BAM 119.5 million, which partially referred to the settlement of debts of the PI "RS Railways" in the amount of BAM 27.8 million. Also, revenues for indirect taxes achieved a significant growth of BAM 160.9 million, as a result of applying the Law on Amendments to the Law on Excise Duties in BiH (*Official Gazette of BiH, No. 91/17*), which increased the toll for construction of highways and construction and reconstruction of other roads from 0.10 to BAM 0.25 per l of petroleum products, then the taxation of biofuels and bioliquids was introduced, as well as of liquefied petroleum gas for motor vehicles. Tax revenues contributed the most to public revenues in 2018, amounting to BAM 3,791.2 million, or 88.5 per cent. of public revenues.

RS Government expenditures increased by BAM 346.0 million or 9.7 per cent. compared to 2017, and also increased compared to the anticipated expenditure by BAM 39.5 million, or 0.4 per cent. of GDP, in the 2018 Budget. This was primarily the result of (i) an increase of interest and other financing costs as a result of the Republic's issuance of its €168,000,000 2.9 per cent. Notes due 2023 which resulted in an increase of BAM 12.2 million of such costs as compared to 2017; (ii) a BAM 22.9 million increase in compensation to employees due to the transition to a treasury business system which result in an increase of Budget users thereby increasing personnel expenses (iii) a BAM 80.8 million increase in the provision of grants as compared to 2017, which primarily resulted from the provision of additional funds to the domestic healthcare sector; (iv) the increase of funds provided for social assistance in connection with a one-off financial assistance programme for pension beneficiaries as well as the provision of medical equipment for disabled war veterans (in accordance with the Law on the Rights of Soldiers, Disabled Soldiers and Families of Killed Soldiers of the Defence and Patriotic War of the Republic (*Official Gazette of the Republic, Nos. 134/11, 09/12 and 40/12*) which increased such social assistance contributions by BAM 27.5 million as compared to 2017; and (v) a BAM 71.4 million increase in transfers between different government self-units as a result of the impact of the Law on Child Protection (*Official Gazette of the Republic, Nos. 114/17, 122/18 and 107/19*) which prescribe for the right to maternity allowance and provides monetary support to eligible families.

Fiscal Developments in 2019

The RS Government surplus increased from 0 per cent. of GDP in 2018 to 0.4 per cent. of GDP in 2019. The fiscal surplus in 2019 amounted to BAM 45.4 million, 375.3 per cent. higher than the BAM 125.0 million deficit anticipated in the 2019 Budget.

Public Debt decreased to 37.5 per cent. of GDP in 2019. The growth of debt in nominal terms in 2019 was contributed by positive net borrowing, due to the financing of investment activities, however, GDP growth was faster, which resulted the decline of public debt in relation to GDP. In the same period, RS Government revenues increased by BAM 190.1 million or 4.4 per cent. in nominal terms compared to 2018. Tax revenues contributed the most to public revenues in 2019, amounting to BAM 3,927.2 million, or 87.8 per cent. of public revenues.

RS Government expenditures increased by BAM 108.4 million or 2.7 per cent. compared to 2018, and also increased compared to the anticipated expenditure by BAM 9.5 million, or 0.1 per cent. of GDP, in the 2019 Budget. This was largely as a result of (i) a BAM 50.6 million increase in expenditures for the compensation of employees due to the application of amendments to the legal framework on salaries of employees in the field of education and culture, internal affairs and certain judicial institutions, as well as financing the salaries of judges and prosecutors working on war crimes cases paid out of the Budget, (ii) the effect of the Law on Pension and Disability Insurance (*Official Gazette of the Republic, Nos. 134/11, 82/12, 96/12 and 103/15*), the Republic observed a BAM 60.1 million increase in funds allocated to social security benefits arising from mandatory social security funds, and (iii) the reimbursement to employers of salary compensations schemes provided to persons utilising their maternity leave rights which resulted in an increase of BAM 8.7 million in transfers between and within government units.

Fiscal Developments in 2020 and 2021

In the first nine months of 2020, a fiscal deficit of BAM 330.8 million was realised at the general RS Government level with a central RS Government budget deficit of BAM 364.4 million. Total revenues (including grants) amounted to BAM 3,107.1 at the general RS Government level, representing 70.4 per cent.

of projected total revenues and grants set forth in the Budget for 2020. This result is 4.8 per cent. lower compared to the same period in 2019 as a result of the temporary measures implemented by the RS Government and the shutdown of economic activity in the beginning of March 2020 in response to the COVID-19 pandemic. In the first nine months of 2020, total expenditures amounted to BAM 3,143.1 at the general RS Government level, representing 70.6 per cent. of projected total expenditures set forth in the Budget for 2020. Expenditures relating to social security benefits increased by 4.9 per cent. on the back of the RS Government's response to the pandemic, while grants increased by 34.8 per cent. and subsidies increased by 95.9 per cent., in each case as compared to the same period in 2019.

The effects of the COVID-19 pandemic began to emerge in March, when the RS Government declared a "state of emergency" and wide-ranging restrictions were introduced, in line with the approach taken in many other countries. The RS Government allocated approximately BAM 220 million in 2020 (being 2.0 per cent. of expected GDP) and an additional BAM 43 million during the first quarter of 2021 to provide stimulus and support to the domestic economy and public health sector through this period of reduced activity and heightened uncertainty. See "*Public Finance – COVID-19 measures adopted by the Republic*" for further details on the RS Government's economic response to the impact of the COVID-19 pandemic.

In 2021, the RS Government expects to observe a gradual recovery of GDP growth at a rate of 2.6 per cent. as a result of the recovery of domestic demand, the gradual recovery of export demand and the positive effect of investments. The expected growth of economic activity in the surrounding countries, although of lower intensity, will enable positive trends in foreign trade and will be reflected in the growth of industrial production, especially the processing industry, which is export-oriented. The energy sector is expected to recover. The growth of the industry enables greater investments, as well as an increase in the employment, and together with the growth of personal incomes, will enable the growth of domestic consumption. The average annual inflation rate of 0.3 per cent. is projected for 2021. The Budget for 2021 takes into account the impact of the COVID-19 pandemic, which led to a change in the structure and amount of budgeted funds and expenditures, as well as a change in priorities financed from budget funds.

While the fiscal cost of COVID-19 is difficult to accurately predict, the RS Government expects the total fiscal deficit to reach a projected level of 3.0 per cent. of GDP in 2021. The projected level of deficit is based on the most recently available information and tentative estimates of the economic measures designed to address the current situation of COVID-19. Economic adjustments to address or mitigate the impact of COVID-19 or its eventual aftermath may require the implementation of new measures in line with future developments, which may involve additional fiscal incentives and require constant revision of the economic and fiscal metrics based on the assessment of the future situation and available new information. Accordingly, the actual fiscal cost of COVID- 19, and its resulting impact on the total fiscal deficit and other relevant metrics, may differ, potentially significantly, from the amounts set forth.

COVID-19 measures adopted by the Republic

Various measures were taken by the Republic to provide support to the economy due to COVID-19. On 17 March 2020, the Council of Ministers of BiH declared a state of emergency in the entire country. On 2 April 2020, the RS National Assembly declared a ban on the Republic, which lasted until 22 May 2020. Due to increase in the number of cases, the Republic on 11 March 2021 re-introduced social distancing measures and adopted restrictions on certain businesses and activities. The Republic announced various measures and reliefs, as detailed below.

The Compensation Fund of the Republic

In May 2020, the RS Government formed the Compensation Fund of the Republic of Srpska (the "**Compensation Fund**") with the goal of mitigating the impact of the COVID-19 pandemic on the economy of the Republic. The Compensation Fund provides direct financial support for entrepreneurs and businesses in the Republic that have suffered or are currently suffering from the impact of the COVID-19 pandemic. The Decree-Law on the Compensation Fund of the Republic of Srpska (*Official Gazette of the Republic*, *No. 46/20*) regulates the activities of the Compensation Fund, the sources of funding, management and disposal of earmarked funds as well as other issues relevant to the Compensation Fund's work. The Statute of the Compensation Fund regulates the organisation, activities, bodies, manner of allocation and use of the Compensation Fund's resources, sources of financing. Funds for providing direct support to the Compensation Fund are provided from budget funds, domestic and foreign loans or credits, domestic and foreign donations and other funds in accordance with special regulations.

Tax measures and relief

The enactment of the Decree on Tax Measures for Mitigating the Economic Impact of COVID-19 allowed for important tax relief measures, such as:

- Extension of the deadline for submitting annual returns for corporate and personal income tax, fees for simple reproduction of forests, and fees for fire protection for 2020 by 30 days, settling tax liabilities and abolition of decisions on deferred payment of tax obligations up until 30 June 2020, to help enterprises facing business difficulties. These obligations, automatically became a tax debt and could be paid by debtors over six equal monthly instalments until the end of 2020. The lowest amount of tax payable by a small entrepreneur on an annual basis was reduced from BAM 600 to BAM 240 for 2020 as compared to the current law.

- Extension of the deadline for the payment of real estate tax, so that the first instalment of tax was paid by 30 September 2020 and the second instalment was paid by 31 December 2020.

- Tax debtors whose payments had been deferred were granted an "interest-free moratorium" on the payment of any instalments during the emergency period.

Relief to sectors of the economy

The Expert Group for the Development of Therapeutic Protocols and Guidelines for the Treatment of Hospital Patients Infected with COVID-19 was formed on 26 March 2020, on the basis of a decision adopted by the Ministry of Health and Social Welfare of the Republic, with the aim of standardising treatment of all patients infected with COVID-19 in the Republic and reviewing and analysing international practices and experience.

Various industries and sectors received support from the RS Government, as follows:

- *Healthcare*: In 2020 and 2021, BAM 124.3 million was allocated to support the health sector for the purchase of medical supplies, disinfectants, containers, test kits, vaccines and support to health workers in the form of one-off allowance.

- *Hospitality and Tourism:*

    - On 10 March 2020, the Republic enacted a suspension on all public gatherings, schools and banned all tourists from entering from certain countries to contain the spread of the virus. This was followed by a suspension of operations in the cities of the Republic in March 2020, closing restaurants, cafes and limiting the timing of essential services. On 21 March 2020, a curfew was introduced in the Republic. On 28 March 2020, the RS National Assembly declared a ban on entry of tourists to the Republic. On 22 May 2020, President Cvijanović announced that She had agreed with the Assembly that 20,000 vouchers for three-night hotel stays would be issued to tourists in a first phase, which would be followed by two issues of 15,000 vouchers.

    - In May 2020, the RS Government issued a decree on the requirements and manner of use of tourist vouchers to subsidise the accommodation costs in the Republic until 30 June 2021. In 2020 and 2021, BAM 1.9 million has been paid for the implementation of this measure.

    - In December 2020, the RS Government issued a decree on the procedure of allocating funds to service providers who provide hospitality services, travel agencies and artists to cover the financial loss caused by COVID-19 for the period July to September 2020. In 2020, BAM 1.0 million has been paid for the implementation of this measure.

- *Transport:* In early October 2020, the RS Government issued a decree to allocate funds to international hauliers and airport service providers for June and July 2020 to maintain liquidity of the economic operators that suffered economic loss due to the COVID-19 impact. In 2021, BAM 2.0 million has been paid for the implementation of this measure.

- *Small and medium sized businesses:* The Decree on Tax Measures for Mitigating the Economic Impact of COVID-19 allowed the RS Government's support to economic operators with the aim of preserving jobs in 2020, to the total amount of BAM 66.5 million, which includes:

    - Payment of taxes and contributions pertaining to wages for March and May 2020 on behalf of employers, legal entities and small businesses, and payment of contributions on behalf of persons earning income from self-employment, whose operations were prohibited by virtue of decisions of the Republic, city or municipal emergency teams in March and May 2020 provided the ban was in place until 11 May 2020;

    - Payment of the minimum wage and contributions for April 2020 on behalf of persons employed with legal entities and entrepreneurs whose business operations were banned by decisions of the emergency team or who closed their business due to the pandemic;

    - Payment of the minimum wage and contributions for May 2020 on behalf of persons employed with legal entities and entrepreneurs whose business operations were banned by decisions of the emergency team and the ban remained in place until 12 May 2020;

    - Support to economic operators that ceased their operations to an extent in April 2020 or had a reduced volume of operations.

- Other sectors: The support to other sectors, such as the agricultural sector, public employment service, investment projects in agriculture and others accounted for BAM 31.8 million.

Relief to the banking and non-banking sector

In March 2020, the Management Board of the Banking Agency of the Republic adopted the Decision on Interim Measures of Banks for Mitigation of Negative Economic Consequences Caused by COVID-19 Viral Disease and the Decision on Interim Measures to Microcredit Organisations for Mitigation of Negative Economic Consequences Caused by COVID-19 Viral Disease (the "**Decisions**").

In accordance with the Decisions, banks and MCOs are permitted to approve:

- temporary moratorium (so that they can agree with the client on the appropriate modality of approving special measures) with a deadline until the end of the state of emergency;

- moratorium, i.e. delay in repayment of principal and interest on loans for a maximum period of six months;

- grace period for repayment of the principal of credit obligations for a maximum period of six months; and

- additional amount of exposure for the purpose of overcoming its current liquidity difficulties, and other measures aimed at facilitating the settlement of the client's credit obligations and maintaining the client's business.

In September 2020, the Management Board of the Banking Agency of the Republic issued new decisions, which enabled clients to submit a request for approval of special measures, such as grace period of 12 months and a moratorium for a period of six months. However, given the current situation due to COVID-19, in March 2021, the Management Board of the Banking Agency of the Republic made provisions for clients facing negative economic consequences, allowing them to apply for special measures during 2021, whereby a moratorium could be approved until 30 June 2021 and grace period until 31 December 2021.

On 1 December 2020, the RS National Assembly adopted a law on factoring to regulate factoring as a non-banking financial service. This law ensures better access to financial resources for MSMEs through a recovery of short-term claims. The law stipulates that factoring companies, banks that already perform factoring activities, the Republic's Investment and Development Bank and other organisations providing financial services, may perform factoring activities as long as they are organised as a business. These organisations are supervised by the Republic's Securities Commission. The Law stipulates that the subject of factoring may be any existing, overdue or future, full or partial, short-term monetary claim arising from a contract for the sale of goods or provision of services, in which the assignor, factor and debtor participate. A short-term claim is a monetary receivable that falls due within one year from the date of sale of goods or provision of services. The Law on Factoring should result in:

- higher collection of receivables while increasing the liquidity and solvency of economic operators;
- legal certainty in the operations of contracting parties, which would result in higher investments;
- higher competitiveness of economic operators;
- lower debt of economic operators; and
- increase in competition in the financial sector, lowering the cost of capital.

Guarantee Programme for COVID-19

In 2020, the Decision on the Guarantee Fund to Support the Economy and Mitigate the Impact of COVID-19 (*Official Gazette of the Republic, Nos. 64/20 and 122/20*) was adopted, which resulted in the establishment of the COVID Guarantee Programme. The purpose of the COVID Guarantee Programme is to facilitate access by MSMEs and entrepreneurs (including agricultural farms) to loans extended by commercial banks and MCOs and is implemented through a guarantee portfolio to partially secure receivables on a loan approved by a financial intermediary. The COVID Guarantee Programme is valued at BAM 50 million. Representatives from the EBRD, IMF and the World Bank were consulted during the development of the COVID Guarantee Programme, and technical assistance was provided by the EBRD. The COVID Guarantee Programme is managed by the Republika Srpska Guarantee Fund and provides for unconditional guarantees of eligible financings.

In July 2020, the RS Government passed the Decision on the Guarantee Program of Economic Support for Mitigating the Consequences of the COVID 19 SARS-CoV-2 Pandemic. The Ministry of Finance of the Republic, after analysing the implementation so far and the achieved effects, proposed the Decision on changes to the legal framework of the Guarantee Program of the Republic, with the aim of better use of credit potential and greater coverage of the target group of clients, which was adopted by the RS Government in early December 2020.

The amendments increased the repayment period from four to seven years. The maximum loan amount was increased from BAM 30,000 to 50,000 for micro enterprises, BAM 200,000 for small enterprises and BAM 400,000 for medium-sized enterprises. Through the Guarantee Fund, the Republic will continue to guarantee 70 per cent. of individual loans extended to these businesses, not only for the working capital, but also for technological improvements in order to facilitate the continuity of business in the circumstances of COVID-19. Also, the preconditions for the financial assistance, such as positive business results as at 31 December 2019 were abandoned, but loan repayment as at 16 March 2020 was retained as a condition and clients defaulting as at this date would be ineligible. Current loans could be refinanced only if the client is not in default. A new loan under the Guarantee Programme is extended under terms that are more favourable if the need for re-financing is caused by the impact of the COVID-19.

The Guarantee Programme is implemented through nine banks and two MCOs. There is a total of 138 guarantees totalling BAM 10.8 million as at 9 April 2021. The implementation period of the Guarantee Programme, which should originally have ended in 2020, has been extended to 31 December 2021.

Support for municipalities and cities

To avoid shrinking revenues of the RS Government during COVID-19, the RS Government approved support to municipalities and cities for BAM 30.4 million.

Other measures

- The RS Government paid BAM 5.1 million to the staff of the Ministry of the Interior, Civil Protection Office, municipal police and municipal inspection service in the form of one-off allowance.
- According to the Law on Incentives in the Economy of Republic (*Official Gazette of the Republic, Nos. 52/19 and 78/20*), the RS Government refunds part of the paid income tax and contributions to increase

salaries in the previous period. In March 2020, BAM 3.2 million were paid to 450 business entities for about 13,000 workers for salary increases in the second half of 2019. The Republic paid BAM 4.9 million to 519 businesses for 18,000 workers for salary increases in the first half of 2020. The collection and processing of requests for salary increases in the second half of 2020 is in progress.

- In November 2019, the RS Government set up a working group for the reform of tax and non-tax revenues and payment procedures, with the members from the Ministry of Economy and Entrepreneurship, Ministry of Finance, the Republic's Employers' Organisation, Chamber of Commerce and Trade Union Organisation. The working group implemented its activities within the specified period and prepared a short report on its activities with a set of recommendations, which the RS Government reviewed and adopted in March 2020, particularly the decrease in non-tax revenues. Through the amendments to the Law on Court Fees, the Law on Administrative Fees, the Law on Special Republic Fees and the Law on Communal Fees, which were adopted in 2020, the total relief of the economy in the amount of approximately BAM 7 million is expected to be achieved.

- As of 1 January 2020, employers were no longer required to pay gross salary for employed women who have recently given birth, for which purpose the Republic allocated BAM 57.2 million in 2020.

Support for COVID-19

The following tables provides an overview of the monthly COVID-19 cases from March 2020 through 13 April 2021:

Period	**Number of Cases**
March 2020	243
April 2020	599
May 2020	580
June 2020	892
July 2020	2,597
August 2020	2,553
September 2020	1,942
October 2020	9,022
November 2020	11,859
December 2020	6,898
January 2021	3,138
February 2021	2,929
March 2021	10,707
April 2021 (through 13 April 2021)	4,480

Source: Institute for Public Health of the Republic

COVAX Facility

COVAX is a global initiative aimed at equitable access to COVID-19 vaccines led by UNICEF, Gavi, the Vaccine Alliance, the World Health Organization, the Coalition for Epidemic Preparedness Innovations, and others. The Republic is a participant in COVAX which was established by the EU, which is designed to provide participants with access to COVID-19 vaccine doses. The RS Government paid BAM 7 million for 400,000 doses of vaccines under the COVAX initiative (for a population of 200,000), but only received its first shipment of the COVID-19 vaccines on 25 March 2021 which consisted of 7,020 doses of the Pfizer-BioNTech COVID-19 vaccine and 8,600 doses of the AstraZeneca COVID-19 vaccine. On 12 February 2021, the health professionals working in the Republic were vaccinated with the Sputnik V COVID-19 vaccine and by 30 March 2021, the RS Government had independently procured 42,000 doses of the Sputnik V COVID-19 vaccine. The Government of the Republic of Serbia, together with the RS Government, organised the inoculation of 2,940 health professionals and persons working in nursing homes in the Republic. The Republic has also received an additional 11,020 doses of the Sinovac COVID-19 vaccine as part of 30,000 doses that were donated by Turkey to BiH.

EU project for Western Balkan nations

On 19 February 2021, the EU launched a new project to support the readiness to vaccination and better health systems in the Western Balkans in the value of EUR 7 million. This project will finance the procurement (up to 15 per cent. of the total project value) and payment of vaccines obtained through the EU vaccine sharing mechanism with the EU member states. The Ministry of Health and Social Welfare in Government of the

Republic has submitted a request for 60,000 doses of vaccines to Ministry of civil affairs in Council of Ministers of Bosnia and Herzegovina.

Agreement for joint procurement of medical countermeasures

On 25 August 2020, the Council of Ministers of BiH entrusted the Ministry of Civil Affairs to conclude framework agreements within the Agreement for joint procurement of medical countermeasures, and the Joint Presidency appointed minister Alen Šeranić as a member of the Steering Board of the Agreement for joint public procurement of medical countermeasures. The Ministry of Health and Social Welfare of the Republic participated in two procurements:

- procurement of vaccines for immunisation against COVID-19 (*SANTE/2020/C3/055*); and
- procurement of the drug remdesivir for the treatment of COVID-19 patients (*SANTE/2020/C3/048*).

The World Health Organization ("**WHO**") provided support for training related to ways of transmission on SARS-CoV-2 and prevention of COVID-19, and enabled the engagement of additional human resources for assisting the Institute for Public Health of Republic and Primary Health Care Centre Banja Luka in controlling the spread of SARS-CoV-2. The WHO is supporting the procedure of introducing the SARS-CoV-2 genome sequencing in the laboratory of the Institute for Public Health of Republic.

UNICEF donated three freezers for storing vaccines at -80°C, which have been distributed to the Institute for Public Health of Republic and its regional centres, and has supported the organisation of training related to infection prevention and control in hospitals and primary health care centres. Training was completely prepared and ready to start, but it has to be restructured due to worsening of the epidemiological situation.

Donations from other nations, international organisations and companies

In 2020, the Republic has received donations for protective and medical equipment, laboratory reagents, samples for testing, COVID-19 detection kit, rapid tests, respirators and products from countries such as Serbia, Hungary, China and Japan as well as international organisations such as UN organisations, WHO Geneva, WHO Copenhagen as well as embassies and domestic and foreign companies.

Covid-19 Emergency Project

The loan agreement for "BiH Emergency COVID-19 Project" no. 9097-BA, between the World Bank and BiH was concluded on 13 May 2020 for the amount of EUR 33.1 million. The amount of loan for the Republic is EUR 13.2 million, which is 40 per cent. of the total loan.

The loan was for financial assistance to institutions of the health system for providing necessary medical and hygiene and sanitary equipment necessary for the prevention and suppression of the spread of the pandemic, as well as additional financial assistance for socially vulnerable categories of the population. The project became effective on 1 September 2020 and is expected to be been implemented by 30 June 2022.

The project has two components for the Republic:

- Component 1 – Response to the COVID-19 pandemic in the Republic
  - Subcomponent 1.1: Health protection and strengthening of the health care system with a total of EUR 8.9 million planned for this subcomponent; and
  - Subcomponent 1.2: Social protection and assistance with a total of EUR 3.9 million planned for this subcomponent.
- Component 2- Project management
  - Subcomponent 2.1: A total of EUR 426,600 is planned for this subcomponent.

As at the date of this Offering Circular, the project is in the implementation stage.

TOTAL AND PUBLIC DEBT

Overview

The Republic can borrow directly or through the Ministry of Finance and Treasury of BiH. All such debt is included in the calculation of Total Debt (defined below) and Public Debt (defined below). Public companies, the Investment Development Bank ("**IDB**") and public sector institutions can also borrow directly or through the Republic. When such entities borrow directly, it is not included in the calculation of Total Debt included in this Offering Circular. Such borrowings are only included in Total Debt when incurred by the Republic on behalf of and for the account of the relevant entity (and therefore constituting Indirect Debt of the Republic (as defined below)) or when they benefit from a guarantee of the Republic that has been called upon. Local self-government units and social security funds can also borrow directly or through the Republic and all debt of such entities is included in the calculation of both Total Debt and Public Debt.

All borrowings are classified as either external or internal, depending on the governing law of the agreements in respect of such borrowings.

The definitions of the Republic's classifications of debt are as follows:

- ***Total Debt*** **-** total debt of the Republic is comprised of Public Debt (defined below) and the Indirect Debt of the Republic incurred on behalf and for the account of public companies, the IDB and public sector institutions (the "**Total Debt**").
- ***Public Debt*** **-** public debt of the Republic is comprised of Debt of the Republic (defined below), the debt of local self-government units, and the debt of social security funds (the "**Public Debt**").
- ***Debt of the Republic –***debt of the Republic is the debt borrowed by the Government of the Republic on behalf of the Republic, excluding Indirect Debt of the Republic and debt of local self-government units, social security funds, public companies, IDB and public sector institutions (the "**Debt of the Republic**").
- ***Indirect Debt of the Republic*** **-** indirect debt of the Republic is debt incurred by the Republic on behalf and for the account of local self-government units, social security funds, public companies, the IDB and public sector institutions and repaid by the Republic from the funds paid by that debtor for its relevant debt (the "**Indirect Debt of the Republic**").
    - Indirect Debt of the Republic incurred on behalf of public companies, the IDB and public sector institutions is not included in the calculation of Public Debt unless and until the underlying borrower defaults on the debt, at which point the debt would be reclassified as Debt of the Republic and included in the calculation of Public Debt.
    - Indirect Debt of the Republic incurred on behalf of local self-government units and social security funds is included in the calculation of Public Debt, but not in the calculation of Debt of the Republic. It only becomes Debt of the Republic at such time that the underlying borrower defaults on the debt.
- ***External Debt –*** external debt is any debt described above that is incurred pursuant to an international agreement or international treaty, in accordance with the Constitutions of the Republic and BiH and the laws of the Republic and BiH ("**External Debt**"). External Debt can be further classified as:
    - ***relevant external debt -*** represents External Debt which, in respect of Debt of the Republic, has been borrowed by the Ministry of Finance and Treasury of BiH for purposes of on-lending the funds to the Republic, and in respect of debt of other entities, has been borrowed through the Republic and the Ministry of Finance and Treasury of BiH for purposes of on-lending to such entity;
    - ***indirect direct external debt –*** in respect of entities other than the Republic, represents Indirect Debt of the Republic incurred directly from the external borrower on behalf of and for the account of such entity; and
    - ***direct external debt*** - represents External Debt, excluding any relevant external debt and indirect direct external debt.
- ***Internal Debt –*** internal debt is any debt described above that is not classified as External Debt ("**Internal Debt**"). Internal Debt can be further classified as:
    - ***relevant internal debt -*** represents Internal Debt which, in respect of Debt of the Republic, has been borrowed by the Ministry of Finance and Treasury of BiH for purposes of on-lending the

funds to the Republic, and in respect of debt of other entities, has been borrowed through the Republic and the Ministry of Finance and Treasury of BiH for purposes of on-lending to such entity. As of the date of the Offering Circular no such relevant internal debt has been issued,

- ***indirect direct internal debt*** – in respect of entities other than the Republic, represents Indirect Debt of the Republic incurred directly from the internal borrower on behalf of and for the account of such entity; and
- ***direct internal debt*** **-** represents Internal Debt, excluding any relevant internal debt and indirect direct internal debt.

The Republic's Government may incur debt on the domestic and foreign markets for the purposes of financing the Budget deficit, refinancing outstanding debts, financing capital projects or settling liabilities arising out of guarantee obligations.

The Law on Borrowing, Debt and Guarantees of BiH (*Official Gazette of BiH, Nos. 52/05, 103/09 and 90/16*) does not set any limits on borrowing. The Law on Borrowing, Debt and Guarantees of the Republic (*Official Gazette of the Republic, Nos. 71/12, 52/14, 114/17, 131/20 and 28/21*) implements the following limitations on the incurrence of debt by the Republic or other entities:

- the Republic's Total Debt as at the end of any fiscal year must not exceed 60 per cent. of GDP for that fiscal year while its Public Debt as at the end of any fiscal year must not exceed 55 per cent. of GDP for that fiscal year;
- the total exposure of the Republic to issued guarantees cannot exceed 15 per cent. of GDP in a fiscal year, and the total exposure of local self-government units to issued guarantees cannot exceed 30 per cent. of revenues generated in the previous fiscal year (social security funds are not permitted to issue guarantees);
- the Republic's short-term debt must not exceed 8 per cent. of revenues generated in the previous fiscal year, and the short-term debt of local self-government units and social security funds must not exceed 5 per cent. of revenues generated in the previous fiscal year; and
- a local self-government unit or social security fund may incur long-term debt only if, as at the time of its incurrence, such entity's proposed long-term debt together with its overall outstanding existing debt do not exceed 18 per cent. of revenues generated in the previous fiscal year.

Any debt incurred by the Republic to finance the repair of damages resulting from the flooding in the Republic in May 2014 and included on the Unified Register of Damages pursuant to the Law on the Solidarity Fund for the Reconstruction of the Republic (*Official Gazette of the Republic, No. 37/20*) is exempted from the abovementioned limits on the Republic's Total debt and Public Debt.

The Law on Fiscal Responsibility (*Official Gazette of the Republic, No.* 94/15 and 62/18) defines two general fiscal rules prescribing that Public Debt in the end of a fiscal year may not exceed (i) 55 per cent. of GDP in a financial year and (ii) that the consolidated budget deficit cannot exceed 3 per cent. of GDP in a fiscal year. In addition, there are special fiscal rules that require the budget for a following fiscal year to be a surplus in the event that either Public Debt reaches 50 per cent. of GDP generated in a fiscal year or if the consolidated budget deficit reaches 2.5 per cent. of GDP in a fiscal year.

In the event of non-compliance with the fiscal rules stipulated by the Law on Fiscal Responsibility, the RS Government is obliged to prepare and submit to the RS National Assembly a fiscal consolidation programme, with an opinion from the Fiscal Council, (see "*Public Finance – Fiscal Policy and Reform*"), which will determine the parameters of appropriate measures and the timeframe to rectify the breach of such fiscal rules. The Law on Fiscal Responsibility, as well as the Law on the BiH Fiscal Council (*Official Gazette of BiH, No. 63/08*), prescribe funding mechanisms to also facilitate the rectification of any breach of the abovementioned fiscal rules.

The goals and principles of the Republic's debt and indirect debt management are enshrined in the MTDS, and the MTDS indicators, i.e. guidelines were identified in order to realise a debt structure with acceptable levels of expenses and risks, as well as their assessed values in 2023. See "*– Debt Management*" for further information. In period 2016 to 2019, all indicators of debt structure defined by MTDS showed favourable trend, except in 2018, when, comparing to 2017, share of domestic debt in debt covered by MTDS deteriorated (as a result of replacing domestic with external instruments, mainly securities issued at the international market), as well as weighted average interest rate which slightly increased, but still remained at a low level.

Between 2010 and 2016, the Republic's Total Debt and Public Debt increased, as the RS Government and other entities raised borrowings in order to finance its Budget deficits, which arose partly as a result of the global financial and economic crisis. During this period, the Ministry of Finance introduced a series of consolidation and reform plans as stipulated by its Economic Reform Programme 2017-2019 and the subsequently approved Economic Reform Programme (the "**ERP**") in order to facilitate fiscal sustainability and social-economic developments as envisaged. See "*Public Finance – Fiscal Policy and Reform*".

The ERP for the period 2021 to 2023 targets a sustainable increase of Total Debt and Public Debt to 57.2 per cent. and 47.1 per cent. of GDP by 2023, respectively. Support for Improvement in Governance and Management, on behalf of the European Commission, monitors the implementation of the set fiscal targets. There can be no assurance that the objectives outlined by the ERP for period 2021 to 2023 will be achieved and that Total Debt and Public Debt will reach the targeted values, particularly in light of the impact of COVID-19 on the Republic's economy.

In 2017, the Public Debt decreased to BAM 3,861.7 million, or 38.3 per cent. of GDP compared to the amount of BAM 4,346.9 million, or 45.1 per cent. of GDP realised in 2016. This was the first time the Public Debt had fallen since 2010 and was primarily due to strong fiscal consolidation measures and fiscal and primary surplus achieved in 2017, change in methodology in respect of the presentation of the balance of Internal Public Debt under liabilities regulated by the Law on Internal Debt, as well as due to favourable foreign exchange market developments, mainly the weakening of SDR and the U.S. dollar against the Euro. The Public Debt continued to decline as a percentage of GDP to BAM 4,048.9 million, or 37.9 per cent. of GDP in 2018, and further declined to BAM 4,223.4 million, or 37.5 per cent. of GDP in 2019. As at 31 December 2020, the Public Debt amounted to BAM 4,723.2 million (preliminary data), which represented 43.4 per cent. of GDP which was largely as a result of increased borrowing to mitigate the socio-economic impact of the COVID-19 pandemic.

The Republic recorded a similar trend in respect of its Total Debt, which amounted to BAM 5,440.0 million (or 56.5 per cent. of GDP), BAM 4,967.9 million (or 49.3 per cent. of GDP), BAM 5,178.5 million (or 48.5 per cent. of GDP), BAM 5,388.5 million (or 47.9 per cent. of GDP) and BAM 5,830.6 million (or 53.5 per cent. of GDP) (preliminary data) in 2016, 2017, 2018, 2019 and 2020, respectively.

The following table illustrates the Republic's outstanding Total Debt, including as a percentage of nominal GDP, as at 31 December for the years 2016 to 2020:

	Year ended 31 December[(1)]				
	2016	**2017**	**2018**	**2019**	**2020[(3)]**
			(BAM millions)		
Total debt	**5,440.0**	**4,967.9**	**5,178.5**	**5,388.5**	**5,830.6**
Total debt subject to legal limit[(2)]	**5,398.6**	**4,922.6**	**5,121.1**	**5,316.2**	**5,763.7**
The Republic	3,792.6	3,291.6	3,456.3	3,576.0	4,022.6
Subject to legal limit	3,751.3	3,246.3	3,398.9	3,503.7	3,955.7
not subject to legal limit	41.4	45.3	57.4	72.3	66.9
Local self-government units	372.3	404.2	413.7	444.4	488.1
Social security funds	182.0	165.8	178.9	203.0	212.6
Public Companies and IDB	1,093.1	1,106.3	1,129.6	1,165.1	1,107.4
GDP[(4)]	**9,630.6**	**10,077.0**	**10,679.6**	**11,251.3**	**10,890.2**
			(% of GDP)		
Total debt	**56.5**	**49.3**	**48.5**	**47.9**	**53.5**
Total debt subject to legal limit[(2)]	**56.1**	**48.8**	**48.0**	**47.2**	**52.9**
The Republic	39.4	32.7	32.4	31.8	36.9
subject to law limit	39.0	32.2	31.8	31.1	36.3
not subject to law limit	0.4	0.4	0.5	0.6	0.6
Local self-government units	3.9	4.0	3.9	4.0	4.5
Social security funds	1.9	1.6	1.7	1.8	2.0
Public Companies and IDB	11.4	11.0	10.6	10.4	10.2

Source: *Ministry of Finance of the Republic*

Notes:

(1) Certain data differ from previously published information as figures have been adjusted according to the revised GDP numbers published based on quarterly estimates of the Institute of Statistics. See "*Presentation of Economic and Other Information" and "Economy of the Republic – Gross Domestic Product*".

(2) References to the legal limit are in relation to the limitations established by The Law on Borrowing, Debt and Guarantees of the Republic

(*Official Gazette of the Republic Nos 71/12, 52/14, 114/17, 131/20 and 28/21*) Any debt incurred by the Republic to finance the repair of damages resulting from the flooding in the Republic in May 2014 and included on the Unified Register of Damages pursuant to the Law on the Solidarity Fund for the Reconstruction of the Republic (*Official Gazette of the Republic, No. 37/20*) is exempted from limits on the Republic's Total debt and Public Debt.

(3) Preliminary data.

(4) The GDP data presented for 2020 is based on estimates of the Ministry of Finance.

The following table illustrates the Republic's outstanding Public Debt, including as a percentage of nominal GDP, as at 31 December for the years 2016 to 2020:

	Year ended 31 December(1)				
	2016	**2017**	**2018**	**2019**	**2020(3)**
			(BAM millions)		
Public debt	**4,346.9**	**3,861.7**	**4,048.9**	**4,223.4**	**4,723.2**
Public debt subject to legal limit(2)	**4,305.5**	**3,816.3**	**3,991.5**	**4,151.1**	**4,656.3**
The Republic	3,792.6	3,291.6	3,456.3	3,576.0	4,022.6
subject to legal limit	3,751.3	3,246.3	3,398.9	3,503.7	3,955.7
not subject to legal limit	41.4	45.3	57.4	72.3	66.9
Local self-government units	372.3	404.2	413.7	444.4	488.1
Social security funds	182.0	165.8	178.9	203.0	212.6
GDP(4)	**9,630.6**	**10,077.0**	**10,679.6**	**11,251.3**	**10,890.2**
			(% of GDP)		
Public debt	**45.1**	**38.3**	**37.9**	**37.5**	**43.4**
Public debt subject to legal limit(2)	**44.7**	**37.9**	**37.4**	**36.9**	**42.8**
The Republic	39.4	32.7	32.4	31.8	36.9
subject to legal limit	39.0	32.2	31.8	31.1	36.3
not subject to legal limit	0.4	0.4	0.5	0.6	0.6
Local self-government units	3.9	4.0	3.9	4.0	4.5
Social security funds	1.9	1.6	1.7	1.8	2.0

Source: Ministry of Finance of the Republic

Notes:

(1) Certain data differ from previously published information as figures have been adjusted according to the revised GDP numbers published based on quarterly estimates of the Institute of Statistics. See "*Presentation of Economic and Other Information*" and "*Economy of the Republic – Gross Domestic Product*".

(2) References to the legal limit are in relation to the limitations established by The Law on Borrowing, Debt and Guarantees of the Republic (*Official Gazette of the Republic Nos 71/12, 52/14, 114/17, 131/20 and 28/21*) Any debt incurred by the Republic to finance the repair of damages resulting from the flooding in the Republic in May 2014 and included on the Unified Register of Damages pursuant to the Law on the Solidarity Fund for the Reconstruction of the Republic (*Official Gazette of the Republic, No. 37/20*) is exempted from limits on the Republic's Total debt and Public Debt.

(3) Preliminary data.

(4) The GDP data presented for 2020 is based on estimates of the Ministry of Finance.

The following table shows the Republic's outstanding Internal and External Total Debt, and such Total Debt as a percentage of nominal GDP, as at the dates indicated:

	Year ended 31 December(1)				
	2016	**2017**	**2018**	**2019**	**2020(2)**
			(BAM millions)		
Total Debt	**5,440.0**	**4,968.0**	**5,178.5**	**5,388.5**	**5,830.6**
Internal Debt	2,272.0	2,002.5	1,815.4	1,973.0	2,304.2
External Debt	3,168.0	2,965.4	3,363.1	3,415.5	3,526.4
			(% of nominal GDP)(3)		
Total Debt	**56.5**	**49.3**	**48.5**	**47.9**	**53.5(3)**
Internal Debt	23.6	19.9	17.0	17.5	21.2(5)
External Debt	32.9	29.4	31.5	30.4	32.4(5)

Source: *Ministry of Finance of the Republic*

Notes:

(1) Certain data differ from previously published information as figures have been adjusted according to the revised GDP numbers published based on quarterly estimates of the Institute of Statistics. See "*Presentation of Economic and Other Information" and "Economy of the Republic – Gross Domestic Product*".

(2) Preliminary data.

(3) The GDP data presented for 2020 is based on estimates of the Ministry of Finance.

The following table shows the Republic's outstanding Internal and External Public Debt, and such Public Debt as a percentage of nominal GDP, as at the dates indicated:

	Year ended 31 December(1)

	2016	2017	2018	2019	2020(2)
			(BAM millions)		
Public Debt	**4,346.9**	**3,861.7**	**4,048.9**	**4,223.4**	**4,723.2**
Internal Debt	2,272.0	2,002.5	1,815.4	1,973.0	2,304.2
External Debt	2,074.9	1,859.1	2,233.5	2,250.4	2,419.0
			(% of nominal GDP)(3)		
Public Debt	**45.1**	**38.3**	**37.9**	**37.5**	**43.4(3)**
Internal Debt	23.6	19.9	17.0	17.5	21.2(3)
External Debt	21.5	18.4	20.9	20.0	22.2(3)

Source: Ministry of Finance of the Republic

Notes:

(1) Certain data differ from previously published information as figures have been adjusted according to the revised GDP numbers published based on quarterly estimates of the Institute of Statistics. See *"Presentation of Economic and Other Information" and "Economy of the Republic – Gross Domestic Product*".

(2) Preliminary data.

(3) The GDP data presented for 2020 is based on estimates of the Ministry of Finance.

In accordance with ERP 2021-2023, the Republic plans to borrow BAM 1 billion in 2021, and the projections under the ERP 2021-2023 are that the Total Debt and the Public Debt as a proportion of GDP at the end of 2021 is estimated to be approximately 57.1 per cent. and 46.8 per cent., respectively.

The abovementioned funding requirement includes disbursements of credit funds based on the Republic's borrowings for the account and on behalf of public companies and the Republic's IDB. The RS Government expects up to BAM 928 million to be raised through utilising external financing sources, which will be used to finance Budget expenditures and implement new projects in the Republic (in particular, utilising financing disbursed by IFIs and multilateral partners). The remaining BAM 68 million is expected to be raised from proceeds of domestic borrowings, which will be used to finance Budget expenditures.

Indirect Debt of the Republic in respect of Public Companies

As of the date of this Offering Circular, the RS Government includes debt of the following public companies (which amounts to BAM 982.5 million as at 31 December 2020 (preliminary data)):

- PE "Elektroprivreda of Republic of Srpska" – BAM 291.9 million;
- PE "Railways of Republic of Srpska" – BAM 102.2 million (after the completion of all activities related to conversion of debt of PE "Railways of Republic of Srpska" into share capital to be owned by the Republic within the restructuring procedure of PE "Railways of Republic of Srpska" sc Doboj, the amount of BAM 97.1 million out of BAM 102.2 million, will become the debt of the Republic;
- PE "Roads of Republic of Srpska" – BAM 68.3 million;
- PE "Highways of Republic of Srpska" – BAM 493.3 million; and
- Others - BAM 26.9 million.

Internal Debt

The Law on Borrowing, Debt and Guarantees of the Republic (*Official Gazette of Republika Srpska, nos. 71/12, 52/14, 114/17, 131/20, and 28/21*) regulates how the debt of the Republic can be incurred, i.e. it is incurred by borrowing through a credit agreement, through an agreement which records the relevant debt of the Republic and by issuing securities. These borrowings, when incurred in the domestic market, are included in the calculation of Internal Debt.

Internal Debt arising from liabilities from the War and Post-War Period

In addition to debt that is included in Internal Debt as described above, there is also a category of internal debt of the Republic, which refers to the war and post-war period, that is the period from 20 May 1992 to 31 December 2002. Obligations of the Republic from this period are regulated by the Law on the Internal Debt of the Republic (*Official Gazette of the Republic, Nos. 1/12, 28/13, 59/13 and 44/14*).

The Law on Internal Debt of the Republic (*Official Gazette of the Republic, Nos. 1/12, 28/13, 59/13 and 44/14*), estimates that liabilities incurred in the war and post-war period in the total amount of BAM up to 1.6 billion. The balance of debt on this basis as at 31 December 2020 was BAM 287.36 million (approximately EUR 146.92 million). This debt is included in the calculation of Total Debt and Public Debt.

These liabilities are divided into three primary groups:

- liabilities based on old foreign currency savings deposited with banks in the territory of the Republic until 31 December 1991;
- liabilities on the basis of material and non-material damage incurred during the war from 20 May 1992 to 19 June 1996; and
- general unpaid liabilities of the budget of the Republic, incurred from 20 June 1996 to 31 December 2002.

Old Foreign Currency Savings Accounts

The estimated amount of old foreign currency savings is up to BAM 774.9 million. The verification method and settlement of liabilities based on old foreign currency savings deposited with banks in the territory of the Republic is regulated in detail by the Law on Settlement of Liabilities Arising from Old Foreign Currency Savings Accounts (*Official Gazette of BiH, No. 28/06, 76/06, 72/07, 97/11 and 100/13*) and the Law on Conditions and Manner of Settling the Liabilities Arising from Old Foreign Currency Savings Accounts by Issuing Bonds in the Republic (*Official Gazette of the Republic, No. 1/08*).

Verification of these obligations requires a procedure for identifying the claimant and checking the amount on the old foreign currency savings accounts for each claimant, i.e., determining the exact balance on each account on 31 December 1991; and calculating interest at the prescribed rate and for the period given by law.

Upon verification of old foreign currency savings, the Republic will make a cash payment of verified liabilities up to a maximum amount of BAM 2,000. Any remaining amounts of verified savings above that amount are repaid in bonds. Foreign currency savings bonds are issued for a period of 5 years and with an annual interest rate of 2.5 per cent. Repayment of 10 per cent. of the principal is made semi-annually. Interest is paid semi-annually and is calculated on the outstanding principal.

War claims

War claims include material and non-material damage caused during the war from 20 May 1992 to 19 June 1996, in the amount of up to BAM 600 million, which is the compensation of damages to legal and natural persons who have been recognised by a final court decision or out-of-court settlement as having a right to compensation through out-of-court settlement for material and non-material damage. Legal and natural persons who have a right to compensation is regulated by the Law on Exercising the Right to Compensation for Material and Non-Material Damage Incurred During the War from 20 May 1992 to 19 June 1996 (*Official Gazette of the Republic, Nos. 103/05, 1/09, 49/09 and 118/09*).

Verification of obligations based on war damages requires a procedure to identify the claimant, determine the exact awarded amount (together with interest, if awarded) by a final court decision, i.e. the exact recognized right to compensation by out-of-court settlement, and record all necessary personal data, so that the obligations of the claimant can be settled.

Settlement of verified obligations for court decisions is performed in two ways: i) in cash - according to the adopted payment plan which predicts the settlement schedule by years (the criterion is the order of receiving and recording the court decision in the database of the Ministry of Finance) and ii) the issuance of bonds for war damages obligations (performed for persons who have a court judgment and statements that they want their bonds to be issued).

Settlement of verified obligations for out-of-court settlements is done exclusively by issuing bonds.

War damage bonds were initially issued for a period of 15 years, and changes in regulations governing this area shortened the stated maturity to 14 years, and now a legal solution is in force where the maturity is 13 years. The interest rate borne by these bonds is 1.5 per cent. per annum, principal repayment is made 10 per cent. of the nominal amount in the last 10 years of repayment. For all bonds issued to date, only the principal repayment period (grace period) differs. Interest is paid once a year and is calculated on the outstanding principal.

General outstanding budget liabilities of the Republic

The estimated amount of general liabilities is up to BAM 182.6 million. In accordance with the Law on Internal Debt of the Republic, subcategories of general outstanding budget liabilities of the Republic are: (i) amounts due and payable to suppliers; (ii) the right to compensation as recognised under final court judgments for damage incurred by natural and legal persons from 20 June 1996 to 31 December 2002; (iii) other general liabilities (for example, liabilities for gravestones for fallen soldiers); and (iv) liabilities arising from the application of the Law on Initial Balance Sheet in the Procedure of Privatisation of State Capital in Enterprises (*Official Gazette of the Republic, Nos. 24/98*).

The conditions and procedure of verification of general liabilities of the Republic are regulated by the Law on Conditions and Procedure of Verification of General Liabilities of the Republic (*Official Gazette of the Republic, No. 109/12*). This procedure includes: (i) determining the legal basis of the liabilities; (ii) determining the bookkeeping basis of the liabilities; (iii) determining the existence of liabilities based on court and out-of-court settlements and final and enforceable court judgments; and (iv) determining any other important elements in the procedure for documenting liabilities. After the verification of the domestic debt, the general liabilities are settled in cash (for liabilities arising from gravestones and final court judgments) or through the issuance of bonds issued by the Republic (for any other type of general liabilities).

Bonds based on general obligations were issued for a period of 15 years, and later a change in regulations followed and that period was shortened to 14 years. The interest rate borne by these bonds is 1.5 per cent. per annum, principal repayment is made 10 per cent. of the nominal amount in the last 10 years of repayment. Interest is paid annually and is calculated on the outstanding principal.

Tax refund

The Law on Internal Debt of the Republic also stipulates that bonds issued for the settlement of general obligations and bonds for the settlement of material and non-material war damage may be used to settle due tax liabilities incurred until December 31, 2007. Since the Republic is not the beneficiary of all tax obligations paid by these bonds, it is required to seek reimbursement of these obligations from the social security funds and local self-government units.

In accordance with the Law on Internal Debt, the Republic has issued the following bonds to the relevant natural and legal persons who are entitled to exercise such rights under the foregoing law:

(a) to settle liabilities due to suppliers:

(i) the Republic issued bonds on 31 December 2007 with a principal amount of BAM 1.7 million, a maturity of 15 years, grace period of five years and an interest rate of 1.5 per cent. The amortisation of these bonds commenced in 2012 and they are due to mature in 2022. The total outstanding amounts under these bonds as at 31 December 2020 was BAM 425,169.1.

(ii) the Republic issued bonds on 15 December 2008 with a principal amount of BAM 542,293.0, a maturity of 15 years, grace period of five years and an interest rate of 1.5 per cent. The amortisation of these bonds commenced in 2013 and they are due to mature in 2023. The total outstanding amounts under these bonds as at 31 December 2020 was BAM 227,098.80.

(b) to settle liabilities based on enforced court judgments:

(i) the Republic issued bonds on 22 December 2008 with a principal amount of BAM 2.9 million, a maturity of 15 years, grace period of five years and an interest rate of 1.5 per cent. The amortisation of these bonds commenced in 2013 and they are due to mature in 2023. The total outstanding amounts under these bonds as at 31 December 2020 was BAM 353,752.0.

(c) to settle liabilities arising from material and non-material war damage:

(i) the Republic issued two series of bonds in 2008 with a total principal amount of BAM 68.6 million, a maturity of 15 years, with a grace period of five years and an interest rate of 1.5 per cent. The amortisation of these bonds commenced in 2013 and they are due to mature in 2023. The total aggregate outstanding amounts under these bonds as at 31 December 2020 was BAM 16.0 million.

(ii) the Republic issued three series of bonds in 2009, 2010 and 2011 with a total principal amount of BAM 145.6 million, a maturity of 14 years, grace period of four years and interest rate of 1.5 per cent. The amortisation of these bonds commenced in 2013, 2014 and 2015, respectively, each for a 10-year tenor. The total aggregate outstanding amounts under these bonds as at 31 December 2020 was BAM 35.8 million.

(iii) the Republic issued nine series of bonds in 2012, 2013, 2014, 2015, 2016, 2018, 2019 and 2020 with a total principal amount of BAM 228.7 million, a maturity of 13 years, grace period of three years and an interest rate of 1.5 per cent. The amortisation of these bonds commenced in 2015, 2016, 2017, 2018, 2019, 2021, respectively, and the 2019 and 2020 bonds will begin amortising in 2022 and 2023, respectively, in each case for a 10-year tenor. The total aggregate outstanding amounts under these bonds as at 31 December 2020 was BAM 132.9 million.

(d) to settle liabilities from old foreign currency savings deposited by natural persons with banks in the territory of the Republic as of 31 December 1991:

(i) the Republic issued eight series of bonds with a total aggregate principal amount of BAM 573.0 million, with a maturity of 5 years and interest rate of 2.5 per cent. As at 31 December 2020, six series of bonds had been fully repaid and the total aggregate outstanding amounts under these bonds was BAM 35.8 million.

Overview of Internal Debt

The following table shows the composition of the Republic's outstanding Internal Debt as at 31 December for the years 2016 to 2020:

	Year ended 31 December				
	2016	**2017**	**2018**	**2019**	**2020[3]**
			(*BAM millions*)		
The Republic	**1,804.4**	**1,542.7**	**1,338.2**	**1,454.0**	**1,725.0**
Determined by the Internal Debt Law	861.4	421.6	398.3	338.8	287.4
Frozen Foreign Currency Savings	276.3	63.3	77.9	51.5	35.8
War Claims	428.2	350.5	315.4	282.6	248.6
General liabilities	155.6	6.1	2.8	2.2	1.7
Suppliers	66.8	1.3	1.0	0.8	0.7
Court decisions	25.7	4.8	1.8	1.4	1.1
Gravestones	3.1	-	-	-	-
Privatization	40.0	-	-	-	-
Other liabilities	20.0	-	-	-	-
Taxes refund	1.3	1.7	2.2	2.5	1.2
Treasury bills	88.0	82.0	-	-	108.7
Treasury Bonds	728.0	852.8	730.5	867.8	1,084.6
Commercial bank loans[1]	126.9	186.3	209.5	247.4	244.3
Local self-government units	**285.7**	**294.0**	**298.3**	**316.0**	**366.7**
Bonds	40.2	33.3	44.2	46.8	62.1
Commercial bank loans	245.5	260.7	254.1	269.2	304.6
Social security funds debt	**182.0**	**165.8**	**178.9**	**203.0**	**212.6**
Commercial bank loans contracted directly	48.4	59.9	172.2	199.4	210.1
Indirect direct internal debt[2]	133.5	105.9	6.7	3.6	2.5
Public Debt	**2,272.0**	**2,002.5**	**1,815.4**	**1,973.0**	**2,304.2**
Total Debt	**2,272.0**	**2,002.5**	**1,815.4**	**1,973.0**	**2,304.2**
Public Debt subject to law limit	**2,272.0**	**2,002.5**	**1,815.4**	**1,973.0**	**2,304.2**
Total Debt subject to law limit	**2,272.0**	**2,002.5**	**1,815.4**	**1,973.0**	**2,304.2**

Source: *Ministry of Finance of the Republic*

Notes:
(1) Commercial bank loans include guarantees that have been called. The Republic has one guarantee for the company Biteks Ltd. that has been called.
(2) Indirect Debt of the Republic incurred directly from the internal borrower on behalf and for the account of the social security funds.
(3) Preliminary data.

During the period under review, the share of Internal Debt of the Republic maintained a steady decline until 2019, which saw an increase of Internal Debt by value to BAM 1,973.0 million and further increased to BAM 2,304.2 million in 2020 (preliminary data), as compared to BAM 1,815.4 million, BAM 2,002.5 million and BAM 2,272.0 million in 2018, 2017 and 2016, respectively. The increased trend observed from 2019 onwards was primarily a result of (i) a change in methodology in respect of the presentation of the balance of Internal Debt under liabilities regulated by the Law on Internal Debt in 2017 to match World Bank recommended standards which prescribe for presenting only verified internal debt liabilities in the Republic's debt records, (ii) increased liabilities in respect of social security funds, and (iii) in respect of the 2020 year, the impact of COVID-19, which result in a positive net internal borrowing in order to mitigate the effects of the outbreak. The Republic's Total Internal Debt at 31 December 2020 was BAM 2,304.2 million and it increased by 1.4 per cent. comparing to the amount of BAM 2,272.0 million at 31 December 2016.

As at 31 December 2020, indirect direct internal debt of the Republic was BAM 2.5 million. As at 31 December 2020, direct internal debt of public companies and public sector for which the Republic issued guarantees was BAM 153.8 million. If indirect direct internal debt and guarantees are called on to the Republic, then BAM 156.2 million will become Debt of the Republic.

The Republic issued bonds in the domestic market for the first time in 2011 and up to 31 December 2020, the issued bonds in the total aggregate nominal amount of BAM 1,743.9 million through public offerings on the domestic market. Among such bond subscribers, only two foreign legal persons were registered to hold BAM 89 million of the nominal value of issued bonds, representing 5.1 per cent. of the total issued domestic bonds (excluding any natural and legal persons investing in the Republic's bonds through the secondary market).

The following table shows the total nominal value of treasury bills and treasury bonds outstanding as at 31 December for the years 2016 to 2020:

	Year ended 31 December									
	2016		**2017**		**2018**		**2019**		**2020**	
	(%)	*(BAM millions)*	*(%)*	*(BAM millions)*	*(%)*	*(BAM millions)*	*(%)*	*(BAM millions)*	*(%)*	*(BAM millions)*
Treasury Bills										
6-month maturity	7.1	58.0	4.1	38.0	-	-	-	-	3.2	38.0
12-month maturity	3.7	30.0	4.7	44.0	-	-	-	-	5.9	70.7
Treasury Bonds(1)										
3-years maturity	4.0	33.0	6.2	58.0	7.9	58.0	2.9	25.0	-	-
4-years amortising maturity	15.5	126.3	8.2	76.3	3.6	26.3	-	-	-	-
5-years amortising maturity	20.8	170.1	13.4	124.8	23.6	172.5	14.7	127.3	6.3	75.0
5-years maturity	12.9	105.0	21.9	205.0	28.1	205.0	35.8	311.0	45.3	540.1
7-years maturity	28.8	235.0	30.0	280.0	21.9	160.0	27.2	235.8	22.7	270.8
10-years maturity	7.2	58.7	11.6	108.7	14.9	108.7	19.4	168.7	16.7	198.7
Total	**100.0**	**816.0**	**100.0**	**934.8**	**100.0**	**730.5**	**100.0**	**867.8**	**100.0**	**1,193.3**

Source: Ministry of Finance of the Republic

Notes:
(1) As a result of a change to the accounting treatment of bonds, from 2018 the liability incurred by the Republic under its bonds is recorded at their effective interest rate while applying effective amortisation, as opposed to their nominal values. There was a change in the methodology of bookkeeping of bonds (the change was from recording liabilities at nominal value to recording them at the effective interest rate and applying effective amortisation).

As of 31 December 2020, the outstanding amount of debt represented by T-bills and T-bonds increased to BAM 1,193.3 million, compared to BAM 867.8 million as of 31 December 2019 and BAM 730.5 million as of 31 December 2018.

In 2011, the RS Government issued seven-year bonds in the local currency for the first time, with a nominal value of BAM 120 million and which matured in 2018. In 2012, the RS Government issued two series of seven-year bonds with an aggregate nominal value of BAM 30 million, which matured in 2019. The RS Government has continued its successful benchmark issuances, issuing four series of bonds (two four-year bonds and two five-year bonds) with an total aggregate nominal value of BAM 185 million. The four-year bonds matured in 2018 and the five-year bonds matured in 2019. In 2015, the RS Government issued five series of bonds (two four-year bonds and three five-year bonds) with a total aggregate nominal value of BAM 241.3 million. The four-year bonds matured in 2019 and the five-year bonds matured in 2020. In 2016, the RS Government issued eight series of bonds (one three-year bond, three five-year bonds, three seven-year bonds and one ten-year bond) with a total aggregate nominal value of BAM 281.7 million. The three-year bonds matured in 2019, the five-year bond will mature in 2021 with a bullet repayment of BAM 105 million, the seven-year bond will mature in 2023 with a bullet repayment of BAM 85 million and the ten-year bond will mature in 2026 with a bullet repayment of BAM 58.7 million.

In 2017, the RS Government issued eight series of bonds (one three-year bond, three five-year bonds, two seven-year bonds and two ten-year bonds) with a total aggregate nominal value of BAM 220 million. The three-year bonds matured in 2020, the five-year bonds will mature in 2022 with a bullet repayment of BAM 100 million, the seven-year bonds will mature in 2024 with a bullet repayment of BAM 45 million and the ten-year bonds will mature in 2027 with a bullet repayment of BAM 50 million.

In 2018, the RS Government issued one five-year bond with a nominal value of BAM 100 million and which will mature in 2023. In 2019, the RS Government issued eight series of bonds (three five-year bonds, three seven-year bonds and two ten-year bonds) with a total aggregate nominal value of BAM 271.8 million. The five-year bonds will mature in 2024 with a bullet repayment of BAM 106 million, the seven-year bonds will mature in 2026 with a bullet repayment of BAM 105.8 million and the ten-year bonds will mature in 2029 with a bullet repayment of BAM 60 million.

In 2020, the RS Government issued six series of bonds (four five-year bonds, one seven-year bond and one ten-year bond) with a total aggregate nominal value of BAM 294.1 million. The five-year bonds mature in 2025 with a bullet repayment of BAM 229.1 million, one seven-year bond maturing in 2027 with a bullet repayment of BAM 35 million and a ten-year bond maturing in 2030 with a bullet repayment of BAM 30 million.

The following table shows the weighted-average effective interest rates on treasury bonds and treasury bills as at 31 December for the years 2016 to 2020:

	Year ended 31 December				
	2016	2017	2018	2019	2020
			(%)		
1-month treasury bills	2.3	-	-	-	-
6-month treasury bills	0.9	0.7	0.3	0.0	0.4
12-month treasury bills	1.5	0.9	-	-	1.1
3-year treasury bonds	3.5	2.7	-	-	-
5-year amortising treasury bonds	-	-	2.9	-	-
5-year treasury bonds	3.9	3.0	-	2.3	3.1
7-year treasury bonds	4.4	3.7	-	1.9	1.7
10-year treasury bonds	5.0	4.2	-	2.8	3.0

Source: Ministry of Finance of the Republic

In 2021, the RS Government issued two series of bonds (one seven-year bond and one ten-year bond). The seven-year bond nominal value of BAM 20 million and the ten-year bond nominal value of BAM 24.9 million . During 2021, the RS Government issued four series of T-bills (all of them are 6-month maturity) with a total aggregate nominal value of BAM 115.3 million.

External Debt

The Republic's External Debt decreased to BAM 2,965.4 million in 2017 from BAM 3,168.0 million in 2016 as a result of its fiscal consolidation efforts which reduced external net borrowings, as well as an appreciation of the BAM relative to other foreign currencies. In 2018, the Republic's External Debt increased to BAM 3,363.1 million primarily as a result of the Republic's debut issuance of its EUR 168 million bonds, due 2023, which were listed on the Vienna Stock Exchange. While the Republic recorded a slower growth of total External Debt in 2019, which amounted to BAM 3,415.5 million, as a result of the continued repayment of existing debt, in 2020 the Republic's Total External Debt increased to its highest levels during the period under review amounting to BAM 3,526.4 million (preliminary data) which was primarily a result of increased public borrowing to mitigate the impact of COVID-19 on the domestic economy and the public health crisis. During the period under review, the Republic's External Debt increased by 11.3 per cent. as at 31 December 2020.

The following table illustrates the Republic's External Debt structure by liability holder and instrument as at 31 December for the years 2016 to 2020:

	Year ended 31 December				
	2016	2017	2018	2019	2020[4]
			(*BAM millions*)		
The Republic	**1,988.2**	**1,748.9**	**2,118.1**	**2,122.0**	**2,297.6**
Relevant external debt	1,982.6	1,745.1	1,787.4	1,793.1	1,969.0
Multilateral loans	1,491.4	1,313.2	1,345.8	1,388.2	1,635.2
subject to law limit[1]	1,450.0	1,267.9	1,288.3	1,315.9	1,568.3
not subject to law limit	41.4	45.3	57.4	72.3	66.9
Bilateral loans	415.3	381.3	403.7	379.6	321.1
Bonds	76.0	50.6	37.9	25.3	12.6

Direct external debt	5.6	3.8	330.7	328.9	328.6
Bilateral loans	5.6	3.8	2.1	0.3	-
Bonds	-	-	328.6	328.6	328.6
Local self-government units	**86.6**	**110.2**	**115.4**	**128.4**	**121.4**
Relevant external debt	86.6	93.9	99.1	104.3	99.7
Multilateral loans	48.7	60.4	70.1	79.9	79.9
Bilateral loans	37.9	33.5	29.0	24.4	19.8
Direct external debt(2)	-	16.3	16.3	24.1	21.8
Multilateral loans	-	16.3	16.3	24.1	21.8
Public Companies and IDB	**1,093.1**	**1,106.3**	**1,129.6**	**1,165.1**	**1,107.4**
Relevant external debt	1,042.1	1,059.1	1,086.3	1,125.8	1,072.0
Multilateral loans	1,013.1	1,007.5	956.4	957.2	888.2
Bilateral loans	29.0	51.6	130.0	168.6	183.8
Indirect direct external debt(3)	51.1	47.1	43.2	39.3	35.4
Bilateral loans	51.1	47.1	43.2	39.3	35.4
Public debt	**2,074.9**	**1,859.1**	**2,233.5**	**2,250.4**	**2,419.0**
Total debt	**3,168.0**	**2,965.4**	**3,363.1**	**3,415.5**	**3,526.4**
Public debt subject to law limit	**2,033.5**	**1,813.8**	**2,176.1**	**2,178.1**	**2,352.1**
Total debt subject to law limit	**3,126.6**	**2,920.1**	**3,305.7**	**3,343.2**	**3,459.5**

Source: *Ministry of Finance of the Republic*

Notes:

(1) Any debt incurred by the Republic to finance the repair of damages resulting from the flooding in the Republic in May 2014 and included on the Unified Register of Damages pursuant to the Law on the Solidarity Fund for the Reconstruction of the Republic (*Official Gazette of the Republic, No. 37/20*) is exempted from limits on the Republic's Total debt and Public Debt.

(2) Direct external debt incurred by local self-government units constitutes external debt, which was contracted directly in the name of local self-government and therefore is not categorised as a direct or indirect liability of the Republic.

(3) Indirect Debt of the Republic incurred directly by the Republic from the external borrower on behalf and for the account of Public Companies and IDB.

(4) Preliminary data.

The following table provides a breakdown of the multilateral, bilateral and other creditors of the Republic's External Debt:

	Year ended 31 December				
	2016	**2017**	**2018**	**2019**	**2020**
			(BAM millions)		
Multilateral creditors	**2,553.2**	**2,397.4**	**2,422.2**	**2,485.1**	**2,625.1**
IBRD	358.3	316.3	419.6	456.4	484.1
EIB	906.5	1,005.1	1,007.6	1,087.2	1,054.9
IMF	375.8	220.3	145.9	102.2	328.2
IDA	654.9	614.6	617.7	619.7	566.2
Others	257.7	241.2	231.3	219.6	191.8
Bilateral creditors	**538.8**	**517.4**	**574.4**	**576.6**	**560.0**
Paris Club(1)	242.4	222.9	212.9	201.2	186.9
Serbia	21.0	18.2	15.4	12.6	11.2
EU member states	136.1	125.3	115.4	104.2	91.5
Other	139.4	151.0	230.7	258.6	270.5
Bonds	**76.0**	**50.6**	**366.5**	**353.9**	**341.2**
Total External Debt	**3,168.0**	**2,965.4**	**3,363.1**	**3,415.5**	**3,526.4**

Source: Ministry of Finance of the Republic.

Notes:

(1) The Paris Club is registered as a bilateral creditor.

The Republic's largest external creditor is the EIB, accounting for 29.9 per cent. of External Debt as at 31 December 2020, followed by the World Bank, accounting for 29.8 of External Debt.

The Republic's Guarantees

In accordance with the Law on Borrowing, Debt and Guarantees (*Official Gazette of the Republic, Nos. 71/12, 52/14, 114/17, 131/20 and 28/21*), a guarantee is a potential liability of a guarantor which is activated in the event that the borrower fails to repay the guaranteed liability in part or in full, if the conditions from the guarantee are triggered. Pursuant to the Law on Borrowing, Debt and Guarantees, the Republic is not permitted to issue guarantees in excess of 15 per cent of GDP for the relevant financial year. Additionally, the RS National Assembly decides on the total amount of guarantees that the RS Government may issue during any given financial year. Pursuant to this decision of the RS National Assembly, the Government of the Republic adopts separate decisions on the issuance of a guarantee by the Republic.

Guarantees can be issued for liabilities incurred by borrowing of local self-government units, social security funds, IDB and funds managed by it, as well as public enterprises and public sector institutions.

If the beneficiary of the guarantee of the Republic issues a demand under the guarantee, pursuant to conditions from the guarantee and in accordance with prescribed laws, then an obligation of the Republic to repay such debt will arise. Minister of Finance issues a decision confirming that conditions from the guarantee are triggered, which then makes the guarantee of the Republic due for payment in accordance with conditions from the guarantee becomes the Debt of the Republic. Direct debt incurred by public companies and public sector for which the Republic issues a guarantee is not calculated in either Public Debt or Total Debt until the guarantee is called, after which it becomes Debt of the Republic.

The following table illustrates an overview of the debt balance of loans guaranteed by the Republic as at 31 December for the years 2016 to 2020:

	Year ended 31 December				
	2016	**2017**	**2018**	**2019**	**2020[3]**
			(BAM millions)		
The Republic's External Guarantees for...	**344.0**	**312.7**	**299.8**	**306.2**	**322.5**
Local government units................................	-	-	-	-	-
Public companies and public sector[1]	344.0	312.7	299.8	306.2	322.5
The Republic's Internal Guarantees for....	**2.3**	**0.6**	**231.3**	**270.2**	**331.5**
Local government units................................	-	-	3.2	3.1	3.0
Social Security funds....................................	-	-	121.0	155.8	174.8
Public companies and public sector[1]	2.3	0.6	107.0	111.3	153.8
Total RS guarantees	**346.3**	**313.3**	**531.1**	**576.3**	**654.0**
GDP	**9,630.6**	**10,077.0**	**10,679.6**	**11,251.3**	**10,890.2**
			(% of GDP)[2]		
The Republic's External Guarantees for...	**3.6**	**3.1**	**2.8**	**2.7**	**3.0**
Local government units................................	-	-	-	-	-
Public companies and public sector[1]	3.6	3.1	2.8	2.7	3.0
The Republic's Internal Guarantees for....	**-**	**-**	**1.2**	**1.4**	**1.6**
Local government units................................	-	-	0.0	0.0	0.0
Social Security funds....................................	-	-	1.1	1.4	1.6
Public companies and public sector[1]	0.0	0.0	1.0	1.0	1.4
Total guarantees	**3.6**	**3.1**	**4.0**	**4.1**	**4.6**

Source: *Ministry of Finance of the Republic.*

Notes:

(1) Guarantees issued in respect of debt incurred by public companies and public sector debt is not included in Total Debt.

(2) Certain data differ from previously published information as figures have been adjusted according to the revised GDP numbers published by the Institute of Statistics. See "*Presentation of Economic and Other Information" and "Economy of the Republic – Gross Domestic Product*".

(3) Preliminary data.

Between 31 December 2016 to 31 December 2020, and during 2021, the Republic issued guarantees to the following debtors under certain commercial loan arrangements for the values indicated:

	Date of Guarantee(s)	**Value of Guarantee(s)**
		(BAM millions)
The Republic's Guarantees of External Debt of:		
PC Highways of the Republic of Srpska d.o.o.	2016	68.5
PC Highways of the Republic of Srpska d.o.o.[1]	2018	19.6
PC Highways of the Republic of Srpska d.o.o.[2]	2019	136.9
The Republic's Guarantees of Internal Debt of:		
PHI University Clinical Centre of the Republic	2018	51.0
Municipality of Bileća..	2018	3.0
Republic of Srpska Health Insurance Fund	2018	133.0
PC Highways of the Republic of Srpska d.o.o.	2018	40.0

Municipality of Kostajnica	2018	0.4
PHI Hospital “Sveti apostol Luka” Doboj	2018	5.0
PHI University Hospital Foča	2018	5.0
PHI Hospital “Sveti vračevi” Bijeljina	2018	4.0
AD “Grad” Bijeljina	2018	1.0
PHI Hospital Nevesinje	2018	1.7
PHI Hospital Istočno Sarajevo	2018	1.2
PHI Hospital Mladen Stojanović Prijedor	2018	3.5
PI National Park “Sutjeska” Tjentište	2018	1.5
Municipality of Krupa na Uni	2018	0.2
Olimpic Centre “Jahorina” Pale	2019	9.0
“RiTE Gacko”, a.d. Gacko	2019	6.0
“RiTE Gacko”, a.d. Gacko	2019	12.4
Republic of Srpska Health Insurance Fund	2019	60.0
Power Utility of the Republic of the Republic of Srpska	2019	9.6
PHI Hospital Gradiška	2019	5.2
PHI Special Hospital for Psychiatry Sokolac.	2019	2.5
PHI Hospital Zvornik.	2020	1.8
PE Roads of Republic of Srpska	2020	95.0
PFE “Forests of the Republic of Srpska”.	2020	6.0
PFE “Forests of the Republic of Srpska”.	2020	6.0
Olimpic Centre “Jahorina” Pale	2020	10.0
Olimpic Centre “Jahorina” Pale	2020	10.0
Olimpic Centre “Jahorina” Pale	2020	23.4
Health insurance Fund of Republic of Srpska	2021	35.0

Source: *Ministry of Finance of the Republic*

Notes:

(1) The guarantee of a loan for PC Motorways of the Republic from the EBRD in respect of the stage I construction of the Banja Luka - Doboj motorway.

(2) The guarantee of a loan for PC Motorways of the Republic from the EBRD in respect of the construction of the first section of the “Corridor Vc”.

Total Debt Currency Structure

The following table shows the Total Debt of the Republic, listed by currency as at 31 December for the years 2016 to 2020:

	Year ended 31 December									
	2016		**2017**		**2018**		**2019**		**2020(1)**	
Original currency	*(BAM millions)*	*(% of Total Debt)*	*(BAM millions))*	*(% of Total Debt)*	*(BAM millions)*	*(% of Total Debt)*	*(BAM millions)*	*(% of Total Debt)*	*(BAM millions)*	*(% of Total Debt)*
External debt										
CAD	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CHF	7.9	0.1	7.0	0.1	7.1	0.1	7.0	0.1	6.7	0.1
CPU	95.8	1.8	80.0	1.6	73.3	1.4	65.0	1.2	52.6	0.9
DKK	0.4	0.0	0.3	0.0	0.3	0.0	0.2	0.0	0.1	0.0
EUR	1,714.1	31.5	1,745.8	35.1	2,147.3	41.5	2,232.1	41.4	2,195.6	37.7
JPY	29.0	0.5	51.1	1.0	128.0	2.5	165.9	3.1	181.3	3.1
KRW	110.5	2.0	99.9	2.0	102.8	2.0	92.7	1.7	89.1	1.5
SDR	1,064.8	19.6	865.3	17.4	796.3	15.4	755.6	14.0	925.3	15.9
SEK	0.5	0.0	0.4	0.0	0.3	0.0	0.2	0.0	0.1	0.0
USD	145.0	2.7	115.5	2.3	107.8	2.1	96.7	1.8	75.5	1.3
Total external debt	**3,168.0**		**2,965.4**		**3,363.1**		**3,415.5**		**3,526.4**	
Internal debt										
BAM	2,272.0	41.8	2,002.5	40.3	1,815.4	35.1	1,973.0	36.6	2,304.2	39.5
Total internal debt	**2,272.0**		**2,002.5**		**1,815.4**		**1,973.0**		**2,304.2**	
TOTAL DEBT	**5,440.0**		**4,967.9**		**5,178.5**		**5,388.5**		**5,830.6**	

Source: *Ministry of Finance of the Republic*

Notes:

(1) Preliminary data.

As at 31 December 2020, the largest portion of Total Debt was denominated in BAM (39.5 per cent.), followed by EUR (37.7 per cent.) and SDR (15.9 per cent.). Since the end of 2016, the share of BAM-denominated debt as a proportion of the Republic’s Total Debt decreased until 2018 and subsequently increased in 2019 and 2020. The share of EUR-denominated debt increased between 2016 and 2019, primarily as a result of issuance of the

Republic's bonds that are admitted to trading on the Vienna Stock Exchange. The share of EUR-denominated Total Debt decreased in 2020 mainly due to deficit financing mainly from domestic sources.

As a result of the significant share of SDR in the Republic's Total Debt currency structure, and the strong influence of the U.S. dollar on the SDR currency, any appreciation in the value of the U.S. dollar could in turn increase the Republic's share of Total External Debt that is denominated in SDR as such circumstance may require more than anticipated domestic currency to service such foreign currency debt. See "*Risk Factors – Risks associated with the Republic's Debt - Depreciation of the BAM, if it occurs, may adversely affect the Republic's Public Debt and, in turn, impact its economy and public finances*".

During the years 2016 to 2020, the share of the debt repaid under fixed terms grew in the Republic's Total Debt stock, except in 2020, as a result of borrowings from the IMF. The following table illustrates the Total Debt of the Republic by volatility for the years 2016 to 2020:

	Year ended 31 December									
	2016		**2017**		**2018**		**2019**		**2020**[(1)]	
	(BAM millions)	*(% of Total Debt)*	*(BAM millions)*	*(% of Total Debt)*	*(BAM millions)*	*(% of Total Debt)*	*(BAM millions)*	*(% of Total Debt)*	*(BAM millions)*	*(% of Total Debt)*
Fixed	3,282.1	**60.3**	3,409.5	**68.6**	3,666.3	**70.8**	4,208.2	**78.1**	4,461.0	**76.5**
Variable..........	1,799.2	**33.1**	1,549.3	**31.2**	1,503.1	**29.0**	1,171.3	**21.7**	1,360.5	**23.3**
Not determined	358.7	**6.6**	9.1	**0.2**	9.1	**0.2**	9.1	**0.2**	9.1	**0.2**
Total debt	5,440.0	**100.0**	4,967.9	**100.0**	5,178.5	**100.0**	5,388.5	**100.0**	5,830.6	**100.0**

Source: *Ministry of Finance of the Republic*

Notes:
(1) Preliminary data.

Since 2016, the vast majority of the Republic's Total Debt stock has been incurred on a long-term basis. The following table indicates the level of Total Debt of the Republic by original maturity during the years 2016 to 2020:

	Year ended 31 December									
	2016		**2017**		**2018**		**2019**		**2020**[(3)]	
	(BAM millions)	*(% of Total Debt)*	*(BAM millions)*	*(% of Total Debt)*	*(BAM millions)*	*(% of Total Debt)*	*(BAM millions)*	*(% of Total Debt)*	*(BAM millions)*	*(% of Total Debt)*
long-term debt[(1)]	5,348.9	98.3	4,883.5	98.3	5,177.0	100.0	5,386.8	100.0	5,827.4	99.9
short-term debt[(2)]	91.0	1.7	84.5	1.7	1.5	0.0	1.8	0.0	3.2	0.1
Total debt	**5,440.0**	100.0	**4,967.9**	100.0	**5,178.5**	100.0	**5,388.5**	100.0	**5,830.6**	100.0

Source: *Ministry of Finance of the Republic*

Notes:
(1) Long-term debt is debt which original maturity is longer than one year.
(2) Short-term debt is debt which original maturity is up to one year.
(3) Preliminary data.

Debt Management

The RS Government's debt management strategy is enshrined in the MTDS for period 2020 to 2023. The main debt management goal is to ensure the realisation of funds to finance approved investment projects, refinance existing indebtedness and finance the execution of the Budget, in each case at minimum cost and risk to the Republic. In order to fulfil the stated goal of the MTDS, the RS Government intends to adhere to the following operating objectives and principles as defined in its strategy:

- continually promote, and be active in, the domestic and international financial markets by issuing securities and other instruments in order to contribute to the reduction of borrowing costs over the medium to long-term;
- the maintenance of a debt portfolio in accordance with previously identified debt indicators and target

values (as specified below); and

- enhancing and implementing the transparency and predictability of the borrowing process.

The MTDS sets various portfolio limits of the Republic's debt and indirect debt in order to reduce exposure to risks, as well as their targeted values. Among other measures, the RS Government intends to implement the following initiatives by 2023:

- the Republic's External Debt and Indirect Debt denominated in a foreign currency (except EUR) should not exceed 35 per cent. of the debt covered by MTDS and the targeted value for 2023 is 18.0 per cent. for the purposes of managing the Republic's currency risk and exposure; this was 24.5 per cent., 25.9 per cent., 26.5 per cent. and 30.6 per cent as of 31 December 2019, 2018, 2017 and 2016 and the targeted value for 2023 is 18.0 per cent.);

- for the development of the domestic markets, the debt covered by MTDS should exceed 25 per cent. (this was 30.1 per cent., 28.8 per cent., 35.9 per cent. and 33.4 per cent as of 31 December 2019, 2018, 2017 and 2016 and the targeted value for 2023 is 22.2 per cent.);

- to reduce the Republic's exposure to refinancing risk, the average time to maturity of debt covered by MTDS should be at least 4 years (this was 6.8 years, 6.7 years, 6.4 years and 6.3 years as of 31 December 2019, 2018, 2017 and 2016 and the target value for 2023 is 5.8 years), whereas short-term debt covered by MTDS should amount to less than 8 per cent. of revenues generated in the previous year (this was 0.0 per cent., 0.0 per cent., 3.3 per cent. and 5.5 per cent. as of 31 December 2019, 2018, 2017 and 2016 and the target value for 2023 is 0.7 per cent.); and

- to manage the Republic's interest rate risk, debt covered by MTDS (this was 81.3 per cent., 78.6 per cent., 71.9 per cent. and 66.0 per cent. as of 31 December 2019, 2018, 2017 and 2016 and the target value for 2023 is 80.5 per cent.) incurred on a fixed term basis should amount more than 60 per cent. of debt covered by MTDS, while the average weighted interest rate should not exceed 3.5 per cent. (this was 2.3 per cent., 2.3 per cent., 2.2 per cent. and 2.3 per cent. for debt covered by MTDS as of 31 December 2019, 2018, 2017 and 2016 and the target value for 2023 is 2.5 per cent.).

In period 2016-2019, all strategy defined indicators of debt structure showed favourable trend, except in 2018, when, comparing to 2017, share of domestic debt in total debt deteriorated (as a result of replacing domestic with external instruments, mainly securities issued at the international market), as well as weighted average interest rate which slightly increased, but still remaining at low level. At the end 2023, comparing to the situation at the end 2019, indicators of solvency, liquidity, refinancing risks, interest rate and currency risk will be slightly deteriorated, which is the result of financing sources structure change, and projected deficit for 2020 to 2023. However, achieving these targets depends on a number of variables both in and outside of the Republic's control and there can be no assurances that the Republic will reach these targets.

The goals and principles of the MTDS is expected to be fulfilled through a strategy of diversifying sources of financing, instruments and investor base. This strategy is based on financing Budget expenditures largely by issuing medium-term securities through the international and domestic financial markets, on a bullet repayment schedule, and, to a lesser extent, by way of incurring domestic and external loans. The Republic intends to utilise official external sources of funding for the purposes of financing investment projects, which aims maximising access to concessional sources of funding (including, without limitation funding from the World Bank, the EIB and the EBRD), which is expected to contribute to a reduction of the Republic's exposure to refinancing risk and also decrease borrowing costs.

Debt Service

Article 16 of the Law on Borrowing, Debt and Guarantees of BiH provides that the debt incurred at BiH level represents an absolute and unconditional obligation of BiH in accordance with the terms of the relevant loan agreements entered into, and securities issued by, BiH. Articles 31 and 32 of the Law on Borrowing, Debt and Guarantees of BiH define reserve measures for the indirect internal debt, and govern the event of a default arising from the indirect internal BiH debt obligations, such as the relevant internal debt of the Republic or the Federation. In addition, Articles 45 and 46 of the foregoing legislation define reserve measures for external BiH debt, and govern the event of a default arising from the external BiH debt obligations.

Article 26 of the Law on Borrowing, Debt and Guarantees of the Republic provides that the Total Debt incurred by the Republic represents an absolute and unconditional obligation of the Republic in accordance with the terms of the relevant indebtedness. Further, Article 30 of the Law on Borrowing, Debt and Guarantees of the Republic prescribes that all of the Republic's Total Debt liabilities have equal status regardless of when they were incurred, and that the repayment of such debt constitutes a priority liability, which should be serviced from the Republic's revenues.

Article 15 of the 2021 Law on Budget Execution of the Republic (*Official Gazette of the Republic, No. 131/20*) sets forth the manner of settling the liabilities arising from the relevant and direct external debt and internal debt.

Indirect taxation is subject to regulations adopted at the level of joint institutions of BiH as determined by the Council of Ministers of BiH (at the behest of the Steering Board of the Indirect Taxation Authority according to the Law on Indirect Taxation System in BiH (*Official Gazette of BiH, Nos. 44/03, 52/04, 34/07, 4/08, 50/08, 49/09, 32/13 and 91/17*), which are adopted by the House of Representatives and the House of Peoples of the Parliamentary Assembly of BiH. Any revenues generated from indirect taxes are collected by the Indirect Taxation Authority, which is the administrative organisation responsible for enforcing the legislation on indirect taxation. Revenues from indirect taxes are collected in the Indirect Taxation Authority's single treasury account that is held with commercial banks (which includes VAT, excise, customs and tolls) (the "**Single Account**") and are distributed daily in accordance with the Law on Indirect Taxation System in BiH and the Law on Payments to the Single Account and Distribution of Revenues (*Official Gazette of BiH, Nos. 55/04, 49/09 and 91/2017*).

The distribution of revenues from indirect taxes from the Single Account is processed by allocating funds between the Federation, the Republic and the Brčko District according to temporary distribution coefficients, after allocating funds to the reserve account for the purpose of tax refunds (VAT and other revenues), and daily remittances for financing the joint institutions of BiH. From the share of revenues generated from indirect taxes that are allocated to the Republic, payment is made directly for servicing the Republic's "relevant" External Debt (see "- *External Debt*" above), which means that the liabilities on foreign debt are settled as a priority, while the remaining share of revenues is distributed between the Budgets of the Republic (72 per cent.), municipalities (24 per cent.) and PI "Republic of Srpska Public Roads" (4 per cent.), in accordance with the Law on Budget System of the Republic.

The process for servicing each Entity's external indebtedness for each financial year is effected as follows:

- BiH's Treasury and ministries of finance of each Entity formulate and agree an external debt servicing plan for the next year, which is then submitted to the Indirect Taxation Authority;
- BiH's Treasury updates the debt servicing plan on a quarterly, monthly and ten-day basis and submits them to the Indirect Taxation Authority and the ministries of finance of each Entity throughout the relevant financial year;
- with reference to such updated plans, the Indirect Taxation Authority authorises an allocation from each Entity's portion of revenues according to a pre-determined methodology and subsequently transfers them, in accordance with the instructions of BiH's Treasury, to the sub-account for each Entity held with the Central Bank for the purposes of servicing any 'relevant' External Debt obligations;
- BiH's Treasury receives all notifications and/or invoices from foreign creditors and relays such information to each Entity's ministry of finance as applicable;
- following receipt of such notifications and/or invoices, each Entity's ministry of finance confirms the calculations for their debt servicing and issues payment approval to BiH's Treasury, which then directs the Central Bank to release payments to foreign creditors from the relevant Entity's sub-account; and
- the Central Bank submits statements of such transactions to BiH's Treasury and the applicable Entity's ministry of finance for their accounting records.

Each Entity is only entitled to receipt of indirect taxes following completion of the abovementioned process. The Republic's 'direct' External Debt and Internal Debt are serviced from the revenues of the Republic from its Single Account that is held with commercial banks and the Republic's Ministry of Finance directly coordinates and arranges the payment of such liabilities to the relevant creditors.

The following table shows the historic debt service payments of the Republic Total Debt and debt service payments out of the Republic's Budget with respect to principal and interest for the years ended 31 December 2016 to 2020:

	Year ended 31 December				
	2016	**2017**	**2018**	**2019**	**2020[(1)]**
External debt					
Principal payments	215.1	305.0	291.0	229.8	196.2
Interest payments	42.1	43.0	54.6	63.7	65.5
Total	257.2	347.9	345.6	293.5	261.6
Internal debt					
Principal payments	399.8	523.6	505.8	373.3	261.5
Interest payments	71.7	77.9	81.6	67.0	61.0
Total	**471.5**	**601.5**	**587.4**	**440.3**	**322.5**
Total debt servicing payments					
Principal payments	615.0	828.6	796.7	603.1	457.7
Interest payments	113.7	120.9	136.2	130.7	126.4
Total	**728.7**	**949.5**	**933.0**	**733.8**	**584.1**
Total debt servicing payments out of the Budget					
Principal payments	566.7	662.7	738.2	479.4	374.8
Interest payments	94.0	97.9	116.3	107.3	107.1
Total	**660.7**	**760.6**	**854.5**	**586.6**	**482.0**

Source: *Ministry of Finance of the Republic*

Notes:
(1) Preliminary data.

The following table shows the projected service payments of the Republic's Total Debt and debt service payments out of the Republic's Budget with respect to principal and interest (before taking into account any payment obligations in respect of the issue of the Notes described in this Offering Circular) for the years ended 31 December 2021 to 2025 based on the stock of the Republic's Total Debt as at 31 December 2020:

	Year ended 31 December				
	2021	**2022**	**2023[(2)]**	**2024**	**2025**
External debt					
Principal payments	207.9	208.1	650.8	340.9	286.7
Interest payments	61.5	60.4	43.2	29.0	24.4
Total	**269.4**	**268.6**	**694.0**	**369.9**	**311.1**
Internal debt					
Principal payments	441.5	309.3	286.1	274.6	330.5
Interest payments	68.9	57.4	47.1	38.2	29.5
Total	**510.4**	**366.7**	**333.2**	**312.8**	**360.0**
Total debt servicing payments[(1)]					
Principal payments	649.4	517.4	936.9	615.4	617.2
Interest payments	130.3	117.9	90.3	67.3	53.8
Total	**779.8**	**635.3**	**1,027.2**	**682.7**	**671.1**
Total debt servicing payments out of the Budget[(1)]					
Principal payments	559.7	433.2	851.9	536.5	554.1
Interest payments	109.2	99.5	74.9	54.3	43.5
Total	**668.9**	**532.7**	**926.8**	**590.8**	**597.6**

Source: Ministry of Finance of the Republic.

Notes:
(1) This does not include future borrowings.
(2) This value is inclusive of the Republic's currently outstanding EUR 168,000,000 2.9 per cent. Notes due 2023.

Bilateral and Multilateral Development Organisations

In order to source funding from the IMF, the World Bank, the European Union, the EBRD and the EIB, the Republic participates in programmes with such bilateral and multilateral development organisations alongside the relevant institutions of BiH and the Federation. Consequently, any funds provided by such bilateral and multilateral development organisations are disbursed through BiH, which then allocates an appropriate share of funding to the Republic and the Federation, and sometimes to Brčko District as well. The distribution of credit funds is agreed during negotiations with each lender individually. Based on the agreed distribution, a subsidiary agreement is subsequently agreed between BiH and the Republic (and other participants, if any), based on which funds are transferred to the Republic (and other parties, if any).

For the most part, any loans granted to BiH by the IMF are distributed in the following proportion: one-third to the Republic and two-thirds to the Federation. However, this is not strictly the case for all IMF financings and so the proportion of funding allocated to the Entities and the Brčko District may differ from time to time. For example, the proceed disbursed to BiH under the IMF's RFI (as defined below) is allocated in the following proportions: 37.5 per cent. for the Republic, 61.5 per cent. for the Federation and 1 per cent. for the Brčko District.

Any funds disbursed by other bilateral and multilateral development organisations, including the World Bank, EIB and EBRD, are allocated in accordance with an agreed ratio as prescribed by the agreement(s) governing such funding. Each Entity is also entitled to negotiate and implement a special project for its own benefit in case the other Entity does not wish to participate in such project pursuant to the Law on Borrowing, Debt and Guarantees of BiH. For example, the World Bank approved a loan to the Republic through BiH for the restructuring of RS Railways. A loan agreement was signed between the World Bank and BiH in March 2018. The project agreement was concluded between the World Bank and the Republic on 20 March 2018 and the subsidiary agreement between BiH and the Republic was executed in July 2018. A similar example is the Sava and Drina Rivers Corridors Integrated Development Program, for which the loan agreement was signed in December 2020 and the project agreement was executed by the Republic and the World Bank in March 2021. The harmonisation of the subsidiary agreement between BiH and the Republic is remains ongoing. In 2011, the EIB approved a loan to the Republic, through BiH, to finance Hospitals Project in the Republic, and for which the financing agreement was executed in October 2011 between BiH, the EIB and the Republic and the subsidiary agreement between BiH and the Republic was concluded in May 2012. All three of the foregoing projects are being implemented only in the Republic.

The RS National Assembly has accepted lending from the World Bank and IBRD for the Sava and Drina Rivers Corridors Integrated Development Program worth EUR 30 million and another Firm Recovery and Support Project for EUR 22.4 million, and from the International Fund for Development of Agriculture under a loan worth EUR 4.7 million for Rural Enterprises and Agricultural Development Project. In the coming period, the World Bank and IBRD plan to approve funds to the Republic for Health Systems Improvement Project (worth U.S.$50 million), Water and Sanitation Services Modernization Project (EUR 30 million) and for Forest Economy Development Project (for which the value is undecided).

International Monetary Fund

BiH joined the IMF and officially succeeded to the IMF membership of the former Yugoslavia in December 1995, thereby providing the country access to the quota, as well as outstanding loans and payments, on behalf of Yugoslavia. Since BiH joined the IMF, it has utilised six borrowing arrangements, four of which were under stand-by arrangements and one of which was pursuant to an extended fund facility. In accordance with Article IV of the IMF Agreement, representatives of the IMF regularly visit BiH to hold consultations within the Council of Ministers, the representatives of the Entities and the Central Bank. The IMF has been instrumental to the Republic, and more broadly, BiH's development particularly in the wake of the global economic crisis in 2008 onwards, and the natural disaster caused by flooding in the Republic and BiH in May 2014.

In September 2016, BiH concluded an Extended Fund Facility with the IMF for 433.04 million special drawing rights ("**SDR**") (approximately EUR 512.7 million) for the purposes of addressing a medium-term balance of payments issue, as well as increasing overall economic potential and stability. The Republic was allocated credit in the amount of SDR 147.68 million (approximately EUR 174.8 million), of which the Republic utilised SDR 42.28 million (approximately EUR 50.1 million). The primary objectives of the extended fund facility were to facilitate the introduction of new legislation governing deposit insurance and structural and economic reforms with three main objectives: (i) intensifying reforms to improve the business environment to attract investment, create more jobs in the private sector, and increase the potential for economic growth; (ii) continuing the process of fiscal consolidation to ensure a continuous reduction of public debt in relation to GDP, while also reducing the public sector and improving the quality of spending of public sector funds; and (iii) preserving the stability of the financial sector and reviving the credit activity of banks.

In April 2020, the IMF approved a SDR 265.2 million (or approximately EUR 314.0 million) Rapid Financing Instrument (the "**RFI**") in order to support BiH's crisis efforts in relation to the COVID-19 pandemic. The Republic was allocated SDR 99.45 million (or approximately EUR 117.7 million) which was fully utilised. As a result of the deterioration of BiH's external accounts and urgent balance of payment needs, the RFI was disbursed to support the authorities' efforts to increase spending for containing costs associated with the COVID-19 pandemic, supporting the local health sector and providing social assistance, as well as financing stabilisation measures while preserving debt sustainability.

In February 2021, the Executive Board of the IMF concluded the Article IV consultation with BiH and the latest Article IV country report was published on 26 February 2021. The IMF noted that prior to the onset of the COVID-19 pandemic BiH had been able to achieve macroeconomic stabilisation and improve internal and external imbalances, and that certain structural reforms had been implemented in accordance with the 2016 extended fund facility, but additional effort was required to improve economic pace to facilitate convergence with the European Union, as well as decreasing the unemployment rate amount youth and women. Acknowledging the severe disruptions caused by the COVID-19 pandemic, the Executive Board of the IMF specifically recognised that both monetary and financial measures taken by the governments at BiH and Entity levels, as well as the large fiscal package deployed, in response to the crisis played a key role in supporting BiH's economy. The IMF recommended a strengthening of BiH's governance and policy systems, in particular relating to its banking industry, and the need to initiate to a low-carbon economy in order to bring its policies and legislation in line with European Union standards. Notwithstanding the need for such improvements, the IMF projected that BiH's real GDP growth is poised to rebound to 3.5 per cent. in 2021, although uncertainty surrounding the mass inoculation programme tempers the outlook.

International Bank for Reconstruction and Development ("IBRD") (World Bank)

BiH joined the World Bank Group in 1993. The World Bank's funding is currently focused on infrastructure investments in the agriculture, water, energy, transport, health, forestry and education sectors. The World Bank (International Bank for Reconstruction and Development and International Association for Development) approved 76 funding programs for the Republic totaling EUR 1.2 million (this includes funding for the Republic's IDB and public companies as at December 2020).

In November 2015, the World Bank adopted the Country Partnership Framework ("**CPF**") for BiH for the period 2016-2020. The aim of the CPF is to support BiH with the implementation of its far-reaching reforms and achieve integration into the European Union, such as increasing public sector efficiency and effectiveness, creating the appropriate conditions for accelerated private sector growth and building resilience to natural shocks. During the term of the CPF, the World Bank approved nine projects in the Republic. The outstanding debt of the Republic to the IBRD as at 31 December 2020 was EUR 188.7 million. Further, in April 2020, the World Bank approved a EUR 33.1 million loan to BiH, of which 40 per cent., or EUR 13.2 million, were allocated to the Republic to finance activities relating to the strengthening of health and social protection, the public health system, the agricultural sector and veterinary services. As at 31 December 2020, the Republic had utilised EUR 5 million of such available funds under the World Bank's loan.

As at the date of this Offering Circular, the preparation of a new CPF for the 2022-2026 is in progress. The new CPF is expected to be utilised to expedite the growth of the private sector by promoting and making available higher quality employment opportunities, and to support investment in human capital and environmental management for sustainable growth.

European Bank for Reconstruction and Development ("EBRD")

Since 1995, the EBRD has approved over EUR 332.69 million to the Republic. As at 31 December 2020, the total amount of outstanding debt incurred by the Republic under EBRD loans was EUR 16.57 million. The funds disbursed to the Republic under EBRD loans are mainly used to finance infrastructure projects, in particular relating to communal infrastructure, energy, municipal infrastructure, railway and roads.

European Investment Bank

Since 2000, the EIB has provided over EUR 769 million by way of funding to the Republic. As at 31 December 2020, the total amount of outstanding debt incurred by the Republic under EIB loans was EUR 539.36 million. The funds disbursed are mainly used to finance projects involving the construction and improvement of roads, railways, electric power system, hospitals, water and sanitation systems, flood protection, small and medium enterprises.

Council of Europe Development Bank ("CEB")

Since 2005, the CEB, through its cooperation and agreements with BiH, has approved EUR 30.57 million and U.S.$5.60 million in funding to the Republic. As at 31 December 2020, the total amount of outstanding debt incurred by the Republic under CEB loans was EUR 23.83 million and U.S.$1.34 million. The funds are disbursed primarily for health care, reconstruction of housing facilities for the return of refugees and displaced persons, closure of collective centres and housing care.

The European Commission

Since 1999, the European Commission, through its cooperation and agreements with BiH, has approved EUR 45 million in funding to the Republic. As at 31 December 2020, the total amount of outstanding debt by the Republic under such loans was EUR 24.67 million. The funds are disbursed primarily to support the Republic's budgetary requirements.

In 2020, the EU Commission adopted a EUR 3 billion macro-financial assistance programme for the benefit of several nations with the objective of providing financial assistance to mitigate the effects of the COVID-19 pandemic. BiH was granted a two-tranche loan in an aggregate principal amount of EUR 250 million. The RS Government expects 37.5 per cent., or EUR 93.75 million, of such financing to be allocated to support its budgetary requirements, whereas 61.5 per cent. and 1 per cent. of the financing will be allocated to the Federation and the Brčko District, respectively.

International Fund for Agricultural Development ("IFAD")

In its agreements with BiH since 1998, the IFAD has approved SDR 21.62 million and EUR 4.68 million in funding to the Republic. As at 31 December 2020, the total amount of outstanding debt disbursed by the IFAD was SDR 13.49 million and EUR 3.19 million. The funds are disbursed primarily for rural financing, business and entrepreneurship, agricultural productivity, rural enterprises, livestock and competitiveness development in rural areas.

Kreditanstalt für Wideraufbau ("KfW")

Since 2004, KfW, through its agreements with BiH, has approved EUR 131.96 million to the Republic. As of 31 December 2020, the total amount of outstanding debt under loans disbursed by KfW was EUR 6.33 million. The funds are disbursed primarily for energy sector, water supply and sewerage systems in the Republic.

Paris Club

As at 31 December 2020, liabilities to Paris Club creditors amounted to EUR 95.53 million (BAM 186.85 million).

London Club

As at 31 December 2020, liabilities to London Club creditors amounted to EUR 6.46 million (BAM 12.64 million).

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Conditions which (subject to modification and except for the paragraphs in italics) will be endorsed on the Certificates issued in respect of the Notes:

The €300,000,000 4.75 per cent. Notes due 2026 (the "**Notes**", which expression shall in these Conditions, unless the context otherwise requires, include any further notes issued pursuant to Condition 16 and forming a single series with the Notes) of the Republic of Srpska (the "**Issuer**"), represented by the Government of the Republic of Srpska, are issued subject to, and with the benefit of, an Agency Agreement dated 27 April 2021 (such agreement as amended and/or supplemented and/or restated from time-to-time, the "**Agency Agreement**") made among the Issuer, The Bank of New York Mellon SA/NV, Dublin Branch, as registrar (the "**Registrar**"), and The Bank of New York Mellon SA/NV, London Branch, as fiscal agent, paying agent and transfer agent (the "**Fiscal Agent**", the "**Paying Agent**" and the "**Transfer Agent**", and, collectively with the Registrar and any other Paying Agents appointed in respect of the Notes, the "**Agents**"). The holders of the Notes are entitled to the benefit of a Deed of Covenant (the "**Deed of Covenant**") dated 27 April 2021 and executed by the Issuer. The original of the Deed of Covenant is held by the Fiscal Agent on behalf of the Noteholders (as defined below) at its specified office.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions contained in the Agency Agreement. Copies of the Agency Agreement and the Deed of Covenant (i) are available for inspection or collection during normal business hours upon reasonable request by the Noteholders at the specified office of each of the Paying Agents or (ii) may be provided by email to a Noteholder following their prior written request to any Paying Agent and provision of proof of holding and identity (in a form satisfactory to the relevant Paying Agent). The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement and the Deed of Covenant applicable to them. References in these Conditions to the Fiscal Agent, the Registrar, the Transfer Agents, the Paying Agents and the Agents shall include any successor appointed under the Agency Agreement.

*The owners shown in the records of Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**") of book entry interests in Notes are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement and the Deed of Covenant applicable to them.*

1. FORM, DENOMINATION AND TITLE

1.1 Form and Denomination

The Notes are issued in registered form in minimum denominations of €100,000 and integral multiples of €1,000 in excess thereof (referred to as the "**principal amount**" of a Note). A note certificate (each, a "**Certificate**") will be issued to each Noteholder in respect of its registered holding of Notes. Each Certificate will be numbered serially with an identifying number, which will be recorded on the relevant Certificate and in the relevant Register (as defined below), which the Issuer will procure to be kept by the Registrar.

1.2 Title

The Registrar will maintain a separate register (each, a "**Register**") in respect of each of the Unrestricted Notes and the Restricted Notes in accordance with the provisions of the Agency Agreement. Title to the Notes passes only by registration in the relevant Register. The holder of any Note will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder. In these Conditions, "**Noteholder**" and (in relation to a Note) "**holder**" means the person in whose name a Note is for the time being registered in the relevant Register (or, in the case of joint holders, the first named thereof) and "**holders**" shall be construed accordingly.

For a description of the procedures for transferring title to book entry interests in the Notes, see the Agency Agreement and "Clearing and Settlement Arrangements" below.

2. TRANSFERS OF NOTES AND ISSUE OF CERTIFICATES

2.1 Transfers

A Note may, subject to Condition 2.4, be transferred in whole or in part by depositing the Certificate issued in respect of that Note, with the form of transfer on the back duly completed and signed, at the specified office of the Registrar or any Transfer Agent. No Note may be transferred unless each of the principal amount of Notes transferred and (where not all of the Notes held by a holder are being transferred) the principal amount of the balance of the Notes not transferred is no less than €100,000. No transfer of a Note will be valid unless and until entered on the relevant Register.

For a description of certain restrictions on transfers of interests in the Notes, see "Transfer Restrictions".

2.2 Delivery of new Certificates

Each new Certificate to be issued upon the transfer of Notes will, within five business days of receipt by the Registrar or the relevant Transfer Agent of the duly completed form of transfer endorsed on the relevant Certificate, be mailed by uninsured mail at the risk of the holder entitled to the Note to the address specified in the form of transfer. For the purposes of this Condition, "**business day**" shall mean a day on which commercial banks and foreign exchange markets are open for business in the city in which the specified office of the Agent with whom a Certificate is deposited in connection with a transfer is located.

Except in the limited circumstances described in "The Global Certificates —Exchange for Certificates", owners of interests in the Notes will not be entitled to receive physical delivery of Certificates. Issues of Certificates upon transfer of Notes are subject to compliance by the transferor and transferee with the certification procedures described above and in the Agency Agreement and compliance with the legends placed on the Notes as described in "Transfer Restrictions".

Where some but not all of the Notes in respect of which a Certificate is issued are to be transferred, a new Certificate in respect of the Notes not so transferred will, within five business days of receipt by the Registrar or the relevant Transfer Agent of the original Certificate, be mailed by uninsured mail at the risk of the holder of the Notes not so transferred to the address of such holder appearing on the relevant Register or as specified in the form of transfer.

2.3 Formalities Free of Charge

Registration of a transfer of Notes will be effected without charge by, or on behalf of, the Issuer or any Agent but upon payment by the Noteholder (or the giving of such indemnity as the Issuer or any Agent may reasonably require) in respect of any tax or other governmental charges, which may be imposed in relation to such transfer.

2.4 Closed Periods

No Noteholder may require the transfer of a Note to be registered during the period of 15 days ending on (and including) the due date for any payment of principal or interest on that Note.

2.5 Regulations

All transfers of Notes and entries on the relevant Register will be made subject to the detailed regulations concerning transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar and the Transfer Agent. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests one.

3. STATUS

The Notes constitute direct, general, unconditional and (subject to Condition 4) unsecured obligations of the Issuer and the full faith and credit of the Issuer is pledged for the due and punctual payment of principal and interest on the Notes and for the performance of all obligations of the Issuer in respect of the Notes. The Notes will at all times rank *pari passu*, without preference among themselves and at least *pari passu* in right of payment with all other present and future unsecured obligations of the Issuer, save only for such obligations as may be preferred by mandatory provisions of applicable law, *provided, further, that* the Issuer shall have no obligation to effect equal or rateable payment(s) at any time with respect to any such other unsecured obligations of the Issuer and, in particular, the Issuer shall have no obligation to pay other unsecured obligations at the same time or as a condition of paying sums due on the Notes and vice versa.

4. NEGATIVE PLEDGE

So long as any of the Notes remains outstanding (as defined in the Agency Agreement) the Issuer will not create or permit to subsist any Security Interest (as defined below) upon the whole or any part of its present or future property, assets or revenues to secure any of its Public External Indebtedness or any Guarantee of any Public External Indebtedness of any other person unless the Issuer shall, in the case of the creation of any Security Interest, at the same time or prior thereto, and in any other case, promptly, procure that all amounts payable in respect of the Notes are secured equally and rateably therewith or provide such other security or other arrangement for the Notes as may be approved by an Extraordinary Resolution or a Written Resolution or an Electronic Consent (each as defined in Condition 13), in each case in accordance with Condition 13.

In these Conditions:

"**External Indebtedness**" means any indebtedness for or in respect of any money borrowed or raised (whether or not evidenced by bonds, notes or other securities), denominated or payable, or which at the option of the relevant creditor or holder thereof may be payable, in a currency other than the lawful currency of the Issuer.

"**Guarantee**" means, in relation to any indebtedness, any guarantee or indemnity given by the Issuer in respect of such indebtedness.

"**Public External Indebtedness**" means any External Indebtedness which is evidenced or represented by bonds, notes or other securities, which are or are capable of being quoted, listed or ordinarily purchased and sold on any international stock exchange, automated trading system, over-the-counter or other securities market.

"**Security Interest**" means any mortgage, charge, lien, pledge or other security interest including, without limitation, anything having an equivalent effect to any of the foregoing under the laws of any jurisdiction.

5. INTEREST

5.1 Interest Rate and Interest Payment Dates

The Notes bear interest on their outstanding principal amount from and including 27 April 2021 at the rate of 4.75 per cent. *per annum* (the "**Rate of Interest**"), payable annually in arrear on 27 April in each year (each an "**Interest Payment Date**"). The first payment (for the period from, and including, 27 April 2021 to, but excluding, 27 April 2022 and amounting to €47.5 per €1,000 in principal amount of Notes) shall be made on 27 April 2022.

The period beginning on, and including, 27 April 2021 and ending on, but excluding, the first Interest Payment Date and each successive period beginning on, and including, an Interest Payment Date and ending on, but excluding, the next successive Interest Payment Date is called an "**Interest Period**".

5.2 Interest Accrual

Each Note will cease to bear interest from, and including, its due date for redemption unless, upon surrender of the Certificate representing such Note, payment of the principal in respect of the Note is improperly withheld or refused or unless default is otherwise made in respect of payment. In such event, interest will continue to accrue at the rate referred to in Condition 5.1 until whichever is the earlier of:

(a) the date on which all amounts due in respect of such Note have been paid; and

(b) the day which is seven days after notice has been given to the Noteholders that the Fiscal Agent or the Paying Agent has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment to the relevant Noteholders under these Conditions).

5.3 Calculation of Broken Interest

When interest is required to be calculated in respect of a period which is shorter than a full year, it shall be calculated by applying the Rate of Interest to each €1,000 principal amount of Notes (the "**Calculation Amount**") and on the basis of (a) the actual number of days in the period from, and including, the date from which interest begins to accrue (the "**Accrual Date**") to, but excluding, the date on which it falls due, divided by (b) the actual number of days from, and including, the Accrual Date to, but excluding, the next following Interest Payment Date. The resultant figure shall be rounded to the nearest cent, with half a cent being rounded upwards. The interest payable in respect of a Note shall be the product of such rounded figure and the amount by which the Calculation Amount is multiplied to reach the denomination of the relevant Note, without any further rounding.

6. PAYMENTS

6.1 Payments in respect of Notes

Payment of principal and interest will be made by transfer to the registered account of the Noteholder or by Euro cheque drawn on a bank that processes payments in Euro mailed by uninsured first class mail or (if posted to an address overseas) airmail to the registered address of the Noteholder if it does not have a registered account. Payments of principal and payments of interest due otherwise than on an Interest Payment Date will only be made against surrender of the relevant Certificate at the specified office of any of the Agents. Interest on Notes due on an Interest Payment Date will be paid to the holder shown on the relevant Register at the close of business on the date (the "**record date**") being the fifteenth day before the due date for the relevant payment of interest.

For the purposes of this Condition, a Noteholder's "**registered account**" means the Euro account maintained by, or on behalf of, it with a bank that processes payments in Euro, details of which appear on the relevant Register at the close of business, in the case of principal and interest due otherwise than on an Interest Payment Date, on the second Business Day (as defined in Condition 6.4 below) before the due date for payment and, in the case of interest due on an Interest Payment Date, on the relevant record date, and a Noteholder's "**registered address**" means its address appearing on the relevant Register at that time.

6.2 Payments subject to Applicable Laws

Payments in respect of principal and interest on the Notes are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment or other laws and regulations to which the Issuer or its Agents are subject but without prejudice to the provisions of Condition 8.

6.3 No Commissions

No commissions or expenses shall be charged to the Noteholders in respect of any payments made in accordance with this Condition.

6.4 Payment on Business Days

Where payment is to be made by transfer to a registered account, payment instructions (for value the due date or, if that is not a Business Day (as defined below), for value the first following day which is a Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed, on the Business Day for payment or, in the case of a payment of principal or a payment of interest due otherwise than on an Interest Payment Date, if later, on the Business Day on which the relevant Certificate is surrendered at the specified office of an Agent.

Noteholders will not be entitled to any interest or other payment in respect of any delay after the due date in receiving the amount due if the due date is not a Business Day, if the Noteholder is late in surrendering its Certificate (if required to do so) or if a cheque mailed in accordance with this Condition arrives after the due date for payment.

In this Condition "**Business Day**" means a day (other than a Saturday or Sunday) on which the Trans-European Automated Real Time Gross Settlement Express Transfer (TARGET2) system is open and on which commercial banks and foreign exchange markets are open for general business in London and, in the case of surrender of a Certificate, in the place in which the Certificate is surrendered (or, as the case may be, endorsed).

6.5 Partial Payments

If the amount of principal or interest that is due on the Notes is not paid in full, the Registrar will annotate the relevant Register with a record of the amount of principal or interest in fact paid.

6.6 Agents

The names of the initial Agents and their initial specified offices are set out at the end of these Conditions. The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents *provided that*:

(a) there will at all times be a Fiscal Agent;

(b) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent (which may be the Fiscal Agent) having a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or such other relevant authority;

(c) there will at all times be a Paying Agent in a jurisdiction within Europe, other than the Republic of Srpska, and Bosnia and Herzegovina; and

(d) there will at all times be a Registrar.

Notice of any termination or appointment and of any changes in specified offices shall be given to the Noteholders as soon as practicable thereafter by the Issuer in accordance with Condition 12.

7. REDEMPTION AND PURCHASE

7.1 Redemption at Maturity

Unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem each Note at its principal amount on 27 April 2026.

7.2 No Other Redemption

The Issuer shall not be entitled to redeem the Notes otherwise than as provided in Condition 7.1 above.

7.3 Purchases

The Issuer may at any time purchase Notes at any price in the open market or otherwise. The Notes so purchased may be held or resold (*provided that* such resale is in compliance with all applicable laws) or surrendered for cancellation at the option of the Issuer or otherwise, as the case may be, in compliance with Condition 7.4.

7.4 Cancellation

All Notes which are (a) redeemed or (b) submitted for cancellation pursuant to Condition 7.3, shall be cancelled and may not be reissued or resold.

8. TAXATION

8.1 Payment without Withholding

All payments in respect of the Notes by, or on behalf of, the Issuer shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied collected, withheld or assessed by, or on behalf of, the Republic of Srpska and/or, to the extent applicable, Bosnia and Herzegovina or any political subdivision or any authority thereof or therein having power to tax (collectively, "**Taxes**"), unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders after the withholding or deduction shall equal the respective amounts, which would have been receivable in respect of the Notes in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Note:

(a) held by or on behalf of a holder who is liable to such Taxes in respect of such Note by reason of his having some connection with the Republic of Srpska and/or, to the extent applicable, Bosnia and Herzegovina other than the mere holding of the Note; or

(b) if such Note is surrendered for payment more than 30 days after the Relevant Date (as defined below), except to the extent that the holder would have been entitled to such additional amounts on surrender of such Note for payment on the last day of such period of 30 days, assuming that day to have been a Business Day (as defined in Condition 6.4).

8.2 Interpretation

In these Conditions "**Relevant Date**" means the date on which the payment first becomes due, but, if the full amount of the money payable has not been received by the Fiscal Agent on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Noteholders by the Issuer in accordance with Condition 12.

8.3 Additional Amounts

Any reference in these Conditions to any amounts in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable under this Condition.

9. PRESCRIPTION

Claims in respect of principal and interest will become void unless made within 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date, as defined in Condition 8.

10. EVENTS OF DEFAULT

10.1 Declaration of Acceleration

If any of the following events (each an "**Event of Default**") occurs and is continuing:

(a) *Non-payment*: the Issuer fails to pay any amount in respect of the Notes when the same becomes due and payable and such failure continues for a period of 15 days; or

(b) *Breach of other obligations*: the Issuer does not perform or comply with any one or more of its other obligations under the Notes, which default is incapable of remedy or, if capable of remedy, is not remedied within 45 days after notice of such default has been given to the Issuer (with a copy to the Fiscal Agent at its specified office) by any Noteholder; or

(c) *Cross-acceleration of the Issuer*:

(i) the holders of any Public External Indebtedness of the Issuer accelerate such Public External Indebtedness or declare such Public External Indebtedness to be due and payable, or required to be prepaid (other than by an originally scheduled optional or mandatory prepayment or redemption), prior to the originally stated maturity thereof; or

(ii) the Issuer defaults in the payment of any principal of, or interest on, any Public External Indebtedness when due and payable (after expiration of any originally applicable grace period) or any Guarantee of any Public External Indebtedness given by the Issuer shall not be honoured when due and called upon (after the expiration of any originally applicable grace period);

provided that the aggregate amount of the relevant Public External Indebtedness in respect of which one or more of the events mentioned in this Condition 10.1(c) shall have occurred equals or exceeds €20,000,000 or its equivalent in other currencies; or

(b) *Moratorium*: the Issuer shall declare a general moratorium on, or in respect of, its Public External Indebtedness or any part thereof, unless the Notes are expressly excluded from any of the foregoing; or

(c) *Unlawfulness or Invalidity*: the validity of the Notes is contested by the Issuer or the Issuer shall repudiate any of its obligations under the Notes or it r becomes unlawful for the Issuer to perform or comply with all or any of its obligations set out in the Notes or any of such obligations shall be or become unenforceable or invalid; or

(d) *International Monetary Fund*: Bosnia and Herzegovina ceases to be a member, or becomes ineligible to use the general resources of, the International Monetary Fund,

then the holders of not less than 25 per cent. in aggregate principal amount of the outstanding Notes may, by notice in writing to the Issuer (with a copy to the Fiscal Agent), declare all of the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality. Notice of any such declaration shall promptly be given to all other Noteholders by the Issuer.

10.2 Withdrawal of Declaration of Acceleration

If the Issuer receives notice in writing from holders of at least 50 per cent. in aggregate principal amount of the outstanding Notes to the effect that the Event of Default or Events of Default giving rise to any above mentioned declaration of acceleration is or are cured following any such declaration and that such holders wish the relevant declaration to be withdrawn, the Issuer shall give notice thereof to the Noteholders (with a copy to the Fiscal Agent at its specified office), whereupon the relevant declaration shall be withdrawn and shall have no further effect but without prejudice to any rights or obligations which may have arisen before the Issuer gives such notice (whether pursuant to these Conditions or otherwise). No such withdrawal shall affect any other or any subsequent Event of Default or any right of any Noteholder in relation thereto.

11. REPLACEMENT OF CERTIFICATES

If any Certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity and/or security as the Issuer may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

12. NOTICES

12.1 Notices to the Noteholders

All notices to the Noteholders will be valid if mailed to them by first class mail or (if posted to an address overseas) by airmail to the holders (or the first of any joint named holders) at their respective addresses in the relevant Register. The Issuer shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed. Any notice shall be deemed to have been given on the second day after being so mailed or on the date of publication or, if so published more than once or on different dates, on the date of the first publication.

12.2 Notices to the Issuer

All notices to the Issuer will be valid if sent to the Issuer at the Ministry of Finance of the Republic of Srpska at Trg Repulike Srpske 1, 78000 Banja Luka, Republic of Srpska, Bosnia and Herzegovina or such other address as may be notified by the Issuer to the Noteholders in accordance with Condition 12.1.

13. MEETINGS OF NOTEHOLDERS; ELECTRONIC CONSENTS; WRITTEN RESOLUTIONS

13.1 Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Electronic Consents; Written Resolutions

(a) The Issuer may convene a meeting of the Noteholders at any time in respect of the Notes in accordance with the Agency Agreement. The Issuer will determine the time and place of the meeting (which may be by way of conference call or by use of a videoconference platform). The Issuer will notify the Noteholders of the time, place and purpose of the meeting not less than 21 and not more than 45 days before the meeting.

(b) The Issuer will convene a meeting of Noteholders if the holders of at least 10 per cent. in principal amount of the outstanding Notes (as defined in the Agency Agreement and described in Condition 13.9 below) have delivered a written request to the Issuer (with a copy to the Fiscal Agent) setting out the purpose of the meeting. The Issuer will agree the time and place of the meeting. The Issuer will notify the Noteholders within 10 days of receipt of such written request of the time and place of the meeting, which shall take place not less than 21 and not more than 45 days after the date on which such notification is given.

(c) The Issuer will set the procedures governing the conduct of any meeting in accordance with the Agency Agreement. If the Agency Agreement does not include such procedures, or additional procedures are required, the Issuer will agree such procedures as are customary in the market and in such a manner as to facilitate any multiple series aggregation, if in relation to a Reserved Matter the Issuer proposes any modification to the terms and conditions of, or action with respect to, two or more series of debt securities issued by the Issuer.

(d) The notice convening any meeting will specify, *inter alia*;

  (i) the date, time and location of the meeting;

  (ii) the agenda and the text of any Extraordinary Resolution to be proposed for adoption at the meeting;

  (iii) the modification record date for the meeting, which shall be no more than five business days before the date of the meeting;

  (iv) the documentation required to be produced by a Noteholder in order to be entitled to participate at the meeting or to appoint a proxy to act on the Noteholder's behalf at the meeting;

  (v) any time deadline and procedures required by any relevant international and/or domestic clearing systems or similar through which the Notes are traded and/or held by Noteholders;

  (vi) whether Condition 13.2 or Condition 13.3 or Condition 13.4 shall apply and, if relevant, in relation to which other series of debt securities it applies;

  (vii) if the proposed modification or action relates to two or more series of debt securities issued by the Issuer and contemplates such series of debt securities being aggregated in more than one group of debt securities, a description of the proposed treatment of each such group of debt securities;

(viii) such information that is required to be provided by the Issuer in accordance with Condition 13.6;

(ix) the identity of the Aggregation Agent and the Calculation Agent, if any, for any proposed modification or action to be voted on at the meeting, and the details of any applicable methodology referred to in Condition 13.7; and

(x) any additional procedures which may be necessary and, if applicable, the conditions under which a multiple series aggregation will be deemed to have been satisfied if it is approved as to some but not all of the affected series of debt securities.

(e) In addition, the Agency Agreement contains provisions relating to Electronic Consents and Written Resolutions. All information to be provided pursuant to Condition 13.1(d) shall also be provided, *mutatis mutandis*, in respect of Electronic Consents and Written Resolutions.

(f) A "**modification record date**" in relation to any proposed modification or action means the date fixed by the Issuer for determining the Noteholders and, in the case of a multiple series aggregation, the holders of debt securities of each other affected series that are entitled to vote on a Multiple Series Single Limb Extraordinary Resolution or a Multiple Series Two Limb Extraordinary Resolution, or to sign a Multiple Series Single Limb Written Resolution or a Multiple Series Two Limb Written Resolution.

(g) An "**Extraordinary Resolution**" means any of a Single Series Extraordinary Resolution, a Multiple Series Single Limb Extraordinary Resolution and/or a Multiple Series Two Limb Extraordinary Resolution, as the case may be.

(h) A "**Written Resolution**" means any of a Single Series Written Resolution, a Multiple Series Single Limb Written Resolution and/or a Multiple Series Two Limb Written Resolution, as the case may be.

(i) Any reference to "**debt securities**" means any notes (including the Notes), bonds, debentures or other debt securities issued by the Issuer in one or more series with an original stated maturity of more than one year.

(j) "**Debt Securities Capable of Aggregation**" means those debt securities which include or incorporate by reference this Condition 13 and Condition 14 or provisions substantially in these terms which provide for the debt securities which include such provisions to be capable of being aggregated for voting purposes with other series of debt securities.

13.2 Modification of this Series of Notes only

(a) Any modification of any provision of, or any action in respect of, the Notes, the Agency Agreement and/or the Deed of Covenant may be made or taken if approved by a Single Series Extraordinary Resolution or a Single Series Written Resolution as set out below.

(b) A "**Single Series Extraordinary Resolution**" means a resolution passed at a meeting of Noteholders duly convened and held in accordance with the procedures prescribed by the Issuer pursuant to Condition 13.1 by a majority of:

(i) in the case of a Reserved Matter, at least 75 per cent. of the aggregate principal amount of the outstanding Notes held by Noteholders present in person or represented by proxy; or

(ii) in the case of a matter other than a Reserved Matter, more than 50 per cent. of the aggregate principal amount of the outstanding Notes held by Noteholders present in person or represented by proxy.

(c) A "**Single Series Written Resolution**" means a resolution in writing signed or confirmed in writing by or on behalf of the holders of:

(i) in the case of a Reserved Matter, at least 75 per cent. of the aggregate principal amount of the outstanding Notes; or

(ii) in the case of a matter other than a Reserved Matter more than 50 per cent. of the aggregate principal amount of the outstanding Notes.

Any Single Series Written Resolution may be contained in one document or several documents in the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders.

(d) Any Single Series Extraordinary Resolution duly passed or Single Series Written Resolution approved shall be binding on all Noteholders, whether or not they attended any meeting, whether or not they voted in favour thereof and whether or not they signed or confirmed in writing any such Single Series Written Resolution, as the case may be.

13.3 Multiple Series Aggregation – Single limb voting

(a) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Debt Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Single Limb Extraordinary Resolution or by a Multiple Series Single Limb Written Resolution as set out below, *provided that* the Uniformly Applicable condition is satisfied.

(b) A "**Multiple Series Single Limb Extraordinary Resolution**" means a resolution considered at separate meetings of the holders of each affected series of Debt Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Issuer pursuant to Condition 13.1, as supplemented if necessary, which is passed by a majority of at least 75 per cent. of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate).

(c) A "**Multiple Series Single Limb Written Resolution**" means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Debt Securities Capable of Aggregation, in accordance with the applicable bond documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of at least 75 per cent. of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate). Any Multiple Series Single Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders or one or more holders of each affected series of Debt Securities Capable of Aggregation.

(d) Any Multiple Series Single Limb Extraordinary Resolution duly passed or Multiple Series Single Limb Written Resolution approved shall be binding on all Noteholders and holders of each other affected series of Debt Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Single Limb Written Resolution, as the case may be.

(e) The "**Uniformly Applicable**" condition will be satisfied if:

(i) the holders of all affected series of Debt Securities Capable of Aggregation are invited to exchange, convert, or substitute their debt securities, on the same terms, for (A) the same new instrument or other consideration or (B) a new instrument, new instruments or other consideration from an identical menu of instruments or other consideration; or

(ii) the amendments proposed to the terms and conditions of each affected series of Debt Securities Capable of Aggregation would, following implementation of such amendments, result in the amended instruments having identical provisions (other than provisions which are necessarily different, having regard to different currency of issuance).

(f) It is understood that a proposal under paragraph 13.3(a) above will not be considered to satisfy the Uniformly Applicable condition if each exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation is not offered the same amount of consideration per amount of principal, the same amount of consideration per amount of interest accrued but unpaid and the same amount of consideration per amount of past due interest, respectively, as that offered to each other exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation (or, where a menu of instruments or other consideration is offered, each exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation is not offered the same amount of consideration per amount of principal, the same amount of consideration per amount of interest accrued but unpaid and the same amount of consideration per amount of past due interest, respectively, as that offered to each other exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation electing the same option from such menu of instruments).

(g) Any modification or action proposed under Condition 13.3(a) may be made in respect of some series only of the Debt Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 13.3 may be used for different groups of two or more series of Debt Securities Capable of Aggregation simultaneously.

13.4 Multiple Series Aggregation – Two limb voting

(a) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Debt Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Two Limb Extraordinary Resolution or by a Multiple Series Two Limb Written Resolution as set out below.

(b) A "**Multiple Series Two Limb Extraordinary Resolution**" means a resolution considered at separate meetings of the holders of each affected series of Debt Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Issuer pursuant to Condition 13.1, as supplemented if necessary, which is passed by a majority of:

(i) at least two thirds of the aggregate principal amount of the outstanding debt securities of affected series of Debt Securities Capable of Aggregation (taken in aggregate); and

(ii) more than 50 per cent. of the aggregate principal amount of the outstanding debt securities in each affected series of Debt Securities Capable of Aggregation (taken individually).

(c) A "**Multiple Series Two Limb Written Resolution**" means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Debt Securities Capable of Aggregation, in accordance with the applicable bond documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of:

(i) at least two thirds of the aggregate principal amount of the outstanding debt securities of all the affected series of Debt Securities Capable of Aggregation (taken in aggregate); and

(ii) more than 50 per cent. of the aggregate principal amount of the outstanding debt securities in each affected series of Debt Securities Capable of Aggregation (taken individually).

Any Multiple Series Two Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders or one or more holders of each affected series of Debt Securities Capable of Aggregation.

(d) Any Multiple Series Two Limb Extraordinary Resolution duly passed or Multiple Series Two Limb Written Resolution approved shall be binding on all Noteholders and holders of each other affected series of Debt Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Two Limb Written Resolution, as the case may be.

(e) Any modification or action proposed under Condition 13.4(a) may be made in respect of some series only of the Debt Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 13.4 may be used for different groups of two or more series of Debt Securities Capable of Aggregation simultaneously.

13.5 Reserved Matters

In these Conditions, "**Reserved Matter**" means any proposal:

(a) to change the date, or the method of determining the date, for payment of principal, interest or any other amount in respect of the Notes, to reduce or cancel the amount of principal, interest or any other amount payable on any date in respect of the Notes or to change the method of calculating the amount of principal, interest or any other amount payable in respect of the Notes on any date;

(b) to change the currency in which any amount due in respect of the Notes is payable or the place in which any payment is to be made;

(c) to change the majority required to pass an Extraordinary Resolution, an Electronic Consent, a Written Resolution or any other resolution of Noteholders or the number or percentage of votes required to be cast, or the number or percentage of Notes required to be held, in connection with the taking of any decision or action by or on behalf of the Noteholders or any of them;

(d) to change this definition, or the definition of "Extraordinary Resolution", "Single Series Extraordinary Resolution", "Multiple Series Single Limb Extraordinary Resolution", "Multiple Series Two Limb Extraordinary Resolution", "Electronic Consent", "Written Resolution", "Single Series Written Resolution", "Multiple Series Single Limb Written Resolution" or "Multiple Series Two Limb Written Resolution";

(e) to change the definition of "debt securities" or "Debt Securities Capable of Aggregation";

(f) to change the definition of "Uniformly Applicable";

(g) to change the definition of "outstanding" set out in the Agency Agreement or to modify the provisions of Condition 13.9;

(h) to change the legal ranking of the Notes;

(i) to change any provision of the Notes describing circumstances in which Notes may be declared due and payable prior to their scheduled maturity date, set out in Condition 10.1;

(j) to change the law governing the Notes, the courts or arbitral tribunals to the jurisdiction of which the Issuer has submitted in the Notes, any of the arrangements specified in the Notes to enable proceedings to be taken or the Issuer's waiver of immunity, in respect of actions or proceedings brought by any Noteholder, set out in Condition 17;

(k) to impose any condition on or otherwise change the Issuer's obligation to make payments of principal, interest or any other amount in respect of the Notes, including by way of the addition of a call option;

(l) to modify the provisions of this Condition 13.5;

(m) except as permitted by any related guarantee or security agreement, to release any agreement guaranteeing or securing payments under the Notes or to change the terms of any such guarantee or security; or

(n) to exchange or substitute all the Notes for, or convert all the Notes into, other obligations or securities of the Issuer or any other person, or to modify any provision of these Conditions in connection with any exchange or substitution of the Notes for, or the conversion of the Notes into, any other obligations or securities of the Issuer or any other person, which would result in the Conditions as so modified being less favourable to the Noteholders which are subject to the Conditions as so modified than:

(i) the provisions of the other obligations or debt securities of the Issuer or any other person resulting from the relevant exchange or substitution or conversion; or

(ii) if more than one series of other obligations or debt securities results from the relevant exchange or substitution or conversion, the provisions of the resulting series of debt securities having the largest aggregate principal amount.

13.6 Information

Prior to or on the date that the Issuer proposes any Extraordinary Resolution, Electronic Consent or Written Resolution pursuant to Condition 13.2, Condition 13.3 or Condition 13.4, the Issuer shall publish in accordance with Condition 14, the following information:

(a) a description of the Issuer's economic and financial circumstances which are, in the Issuer's opinion, relevant to the request for any potential modification or action, a description of the Issuer's existing debts and a description of its broad policy reform programme and provisional macroeconomic outlook;

(b) if the Issuer shall at the time have entered into an arrangement for financial assistance with multilateral and/or other major creditors or creditor groups and/or an agreement with any such creditors regarding debt relief, a description of any such arrangement or agreement and, where permitted under the information disclosure policies of the multilateral or such other creditors, as applicable, copies of the arrangement or agreement shall be provided;

(c) a description of the Issuer's proposed treatment of external debt securities that fall outside the scope of any multiple series aggregation and its intentions with respect to any other debt securities and its other major creditor groups; and

(d) if any proposed modification or action contemplates debt securities being aggregated in more than one group of debt securities, a description of the proposed treatment of each such group, as required for a notice convening a meeting of the Noteholders in Condition 13.1(d)(vii).

13.7 Claims Valuation

For the purpose of calculating the par value of the Notes and any affected series of debt securities which are to be aggregated with the Notes in accordance with Condition 13.3 and 13.4, the Issuer may appoint a calculation agent (the "**Calculation Agent**"). The Issuer shall, with the approval of the Aggregation Agent and any appointed Calculation Agent, promulgate the methodology in accordance with which the par value of the Notes and such affected series of debt securities will be calculated. In any such case where a Calculation Agent is appointed, the same person will be appointed as the Calculation Agent for the Notes and each other affected series of debt securities for these purposes, and the same methodology will be promulgated for each affected series of debt securities.

13.8 Manifest error, etc.

The Notes, these Conditions and the provisions of the Agency Agreement and the Deed of Covenant may be amended by the Issuer without the consent of the Noteholders to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature or it is not in the sole opinion of the Issuer materially prejudicial to the interests of the Noteholders.

13.9 Notes controlled by the Issuer

For the purposes of: (i) determining the right to attend and vote at any meeting of Noteholders, or the right to give an Electronic Consent, or the right to sign or confirm in writing, or authorise the signature of, any Written Resolution; (ii) this Condition 13; and (iii) Condition 10, any Notes which are for the time being held by or on behalf of the Issuer or by or on behalf of any person which is owned or controlled directly or indirectly by the Issuer or by any public sector instrumentality of the Issuer shall be disregarded and be deemed not to remain outstanding, where:

(a) "**public sector instrumentality**" means the Central Bank of Bosnia and Herzegovina, the Ministry of Finance of the Republic of Srpska, any other department, ministry or agency of the government of Bosnia and Herzegovina or the Republic of Srpska or any corporation, trust, financial institution or other entity owned or controlled by the government of Bosnia and Herzegovina or the Republic of Srpska or any of the foregoing; and

(b) "**control**" means the power, directly or indirectly, through the ownership of voting securities or other ownership interests or through contractual control or otherwise, to direct the management of or elect or appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of a corporation, trust, financial institution or other entity.

A Note will also be deemed to be not outstanding if the Note has previously been cancelled or delivered for cancellation or held for reissuance but not reissued, or, where relevant, the Note has previously been called for redemption in accordance with its terms or previously become due and payable at maturity or otherwise and the Issuer has previously satisfied its obligations to make all payments due in respect of the Note in accordance with its terms.

In advance of any meeting of Noteholders, or in connection with any Electronic Consent or Written Resolution, the Issuer shall provide to the Fiscal Agent a copy of the certificate prepared pursuant to Condition 14.5, which includes information on the total number of Notes which are for the time being held by or on behalf of the Issuer or by or on behalf of any person which is owned or controlled directly or indirectly by the Issuer or by any public sector instrumentality of the Issuer and, as such, such Notes shall be disregarded and deemed not to remain outstanding for the purposes of ascertaining the right to attend and vote at any meeting of Noteholders, the right to give any Electronic Consent or the right to sign, or authorise the signature of, any Written Resolution in respect of any such meeting. The Issuer shall make any such certificate available for inspection during normal business hours at the specified office of the Fiscal Agent and, upon reasonable request, will allow copies of such certificate to be taken.

13.10 Publication

The Issuer shall publish all Extraordinary Resolutions, Electronic Consents and Written Resolutions which have been determined by the Aggregation Agent to have been duly passed in accordance with Condition 14.8.

13.11 Exchange and Conversion

Any Extraordinary Resolutions, Electronic Consents or Written Resolutions which have been duly passed and which modify any provision of, or action in respect of, the Conditions may be implemented at the Issuer's option by way of a mandatory exchange or conversion of the Notes and each other affected series of debt securities, as the case may be, into new debt securities containing the modified terms and conditions if the proposed mandatory exchange or conversion of the Notes is notified to Noteholders at the time notification is given to the Noteholders as to the proposed modification or action. Any such exchange or conversion shall be binding on all Noteholders.

13.12 Written Resolutions and Electronic Consents

A Written Resolution may be contained in one document or in several documents in like form, each signed by or on behalf of one or more of the Noteholders.

For so long as any Notes are in the form of a global Certificate held on behalf of one or more of Euroclear Bank SA/NV ("**Euroclear**"), Clearstream Banking S.A. ("**Clearstream, Luxembourg**") or any other clearing system (the "**relevant clearing system(s)**"), then approval of a resolution proposed by the Issuer given by way of electronic consent communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures:

(a) by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders; or

(b) (where such holders have been given at least 21 days' notice of such resolution) by or on behalf of:

   (i) in respect of a proposal pursuant to Condition 13.2, the persons holding at least 75 per cent. of the aggregate principal amount of the Notes then outstanding in the case of a Reserved Matter or at least 50 per cent. of the aggregate principal amount of the Notes then outstanding, in the case of a matter other than a Reserved Matter;

   (ii) in respect of a proposal pursuant to Condition 13.3, the persons holding at least 75 per cent. of the aggregate principal amount of the debt securities then outstanding of all affected series of Debt Securities Capable of Aggregation (taken in aggregate);

   (iii) in respect of a proposal pursuant to Condition 13.4, (x) the persons holding at least two thirds of the aggregate principal amount of the debt securities then outstanding of all affected series of Debt Securities Capable of Aggregation (taken in aggregate); and (y) the persons holding more than 50 per cent. of the aggregate principal amount of the debt securities then outstanding in each affected series of Debt Securities Capable of Aggregation (taken individually),

(in the case of (i), (ii) and (iii), each an "**Electronic Consent**") shall, for all purposes (including Reserved Matters) take effect as (A) a Single Series Extraordinary Resolution (in the case of (i) above), (B) a Multiple Series Single Limb Extraordinary Resolution (in the case of (ii) above) or (C) a Multiple Series Two Limb Extraordinary Resolution (in the case of (iii) above), as applicable.

The notice given to Noteholders shall specify, in sufficient detail to enable Noteholders (in the case of a proposal pursuant to Condition 13.2) or holders of each affected Series of Debt Securities capable of Aggregation (in the case of a proposal pursuant to Condition 13.3 or Condition 13.4) to give their consents in relation to the proposed resolution, the method by which their consents may be given (including, where applicable, blocking of their accounts in the relevant clearing system(s)) and the time and date (the "**Relevant Consent Date**") by which they must be received in order for such consents to be validly given, in each case subject to and in accordance with the operating rules and procedures of the relevant clearing system(s).

If, on the Relevant Consent Date on which the consents in respect of an Electronic Consent are first counted, such consents do not represent the required proportion for approval, the resolution shall, if the party proposing such resolution (the "**Proposer**") so determines, be deemed to be defeated. Alternatively, the Proposer may give a further notice to Noteholders (in the case of a proposal pursuant to Condition 13.2) or holders of each affected Series of Debt Securities capable of Aggregation (in the case of a proposal pursuant to Condition 13.3 or Condition 13.4) that the resolution will be proposed again on such date and for such period as shall be agreed with the Issuer (unless the Issuer is the Proposer). Such notice must inform Noteholders (in the case of a proposal pursuant to Condition 13.2) or holders of each affected Series of Debt Securities capable of Aggregation (in the case of a proposal pursuant to Condition 13.3 or Condition 13.4) that insufficient consents were received in relation to the original resolution and the information specified in the previous paragraph. For the purpose of such further notice, references to "Relevant Consent Date" shall be construed accordingly.

An Electronic Consent may only be used in relation to a resolution proposed by the Issuer which is not then the subject of a meeting that has been validly convened above, unless that meeting is or shall be cancelled or dissolved.

Where Electronic Consent has not been sought, for the purposes of determining whether a Written Resolution has been validly passed, the Issuer shall be entitled to rely on consent or instructions given in writing directly to the Issuer (a) by accountholders in the relevant clearing system(s) with entitlements to any global Certificate and/or (b) where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person identified by that accountholder as the person for whom such entitlement is held. For the purpose of establishing the entitlement to give any such consent or instruction, the Issuer shall be entitled to rely on any certificate or other document issued by, in the case of (a) above, the relevant clearing system(s) and, in the case of (b) above, the relevant clearing system(s) and the accountholder identified by the relevant clearing system(s). Any such certificate or other document (i) shall be conclusive and binding for all purposes and (ii) may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear's EUCLID or Clearstream, Luxembourg's CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Notes is clearly identified together with the amount of such holding. The Issuer shall not be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

All information to be provided pursuant to paragraph (d) of Condition 13.1 shall also be provided, *mutatis mutandis*, in respect of Written Resolutions and Electronic Consents.

A Written Resolution and/or Electronic Consent (i) shall take effect as an Extraordinary Resolution and (ii) will be binding on all Noteholders, whether or not they participated in such Written Resolution and/or Electronic Consent, even if the relevant consent or instruction proves to be defective.

14. AGGREGATION AGENT; AGGREGATION PROCEDURES

14.1 Appointment

The Issuer will appoint an aggregation agent (the "**Aggregation Agent**") to calculate whether a proposed modification or action has been approved by the required principal amount outstanding of Notes, and, in the case of a multiple series aggregation, by the required principal amount of outstanding debt securities of each affected series of debt securities. In the case of a multiple series aggregation, the same person will be appointed as the Aggregation Agent for the proposed modification of any provision of, or any action in respect of, these Conditions, the Agency Agreement or the Deed of Covenant in respect of the Notes and in respect of the terms and conditions or bond documentation in respect of each other affected series of debt securities. The Aggregation Agent shall be independent of the Issuer.

14.2 Extraordinary Resolutions

If an Extraordinary Resolution has been proposed at a duly convened meeting of Noteholders to modify any provision of, or action in respect of, these Conditions and other affected series of debt securities, as the case may be, the Aggregation Agent will, as soon as practicable after the time the vote is cast, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Notes and, where relevant, each other affected series of debt securities, have voted in favour of the Extraordinary Resolution such that the Extraordinary Resolution is passed. If so, the Aggregation Agent will determine that the Extraordinary Resolution has been duly passed.

14.3 Written Resolutions

If a Written Resolution has been proposed under the terms of these Conditions to modify any provision of, or action in respect of, these Conditions and the terms and conditions of other affected series of debt securities, as the case may be, the Aggregation Agent will, as soon as reasonably practicable after the relevant Written Resolution has been signed or confirmed in writing, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Notes and, where relevant, each other affected series of debt securities, have signed or confirmed in writing in favour of the Written

Resolution such that the Written Resolution is passed. If so, the Aggregation Agent will determine that the Written Resolution has been duly passed.

14.4 Electronic Consents

If approval of a resolution proposed under the terms of these Conditions to modify any provision of, or action in respect of, these Conditions and the terms and conditions of other affected series of debt securities, as the case may be, is proposed to be given by way of Electronic Consent, the Aggregation Agent will, as soon as reasonably practicable after the relevant Electronic Consent has been given, calculate whether holders of a sufficient portion of the aggregate principal amount of the Notes then outstanding and, where relevant, each other affected series of debt securities, have consented to the resolution by way of Electronic Consent such that the resolution is approved. If so, the Aggregation Agent will determine that the resolution has been duly approved.

14.5 Certificate

For the purposes of Conditions 14.2, 14.3 and 14.4, the Issuer will provide a certificate to the Aggregation Agent up to three days prior to, and in any case no later than, with respect to an Extraordinary Resolution, the date of the meeting referred to in Condition 13.2, Condition 13.3 or Condition 13.4, as applicable, and, with respect to a Written Resolution, the date arranged for the signing of the Written Resolution and, with respect to an Electronic Consent, the date arranged for consenting to the Electronic Consent.

The certificate shall:

(a) list the total principal amount of Notes outstanding and, in the case of a multiple series aggregation, the total principal amount of each other affected series of debt securities outstanding on the modification record date; and

(b) clearly indicate the Notes and, in the case of a multiple series aggregation, debt securities of each other affected series of debt securities which shall be disregarded and deemed not to remain outstanding as a consequence of Condition 13.9 on the modification record date identifying the holders of the Notes and, in the case of a multiple series aggregation, debt securities of each other affected series of debt securities.

The Aggregation Agent may rely upon the terms of any certificate, notice, communication or other document believed by it to be genuine.

14.6 Notification

The Aggregation Agent will cause each determination made by it for the purposes of this Condition 14 to be notified to the Fiscal Agent and the Issuer as soon as practicable after such determination. Notice thereof shall also promptly be given to the Noteholders.

14.7 Binding nature of determinations; no liability

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 14 by the Aggregation Agent and any appointed Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Fiscal Agent and the Noteholders and (subject as aforesaid) no liability to any such person will attach to the Aggregation Agent or the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

14.8 Manner of publication

The Issuer will publish all notices and other matters required to be published pursuant to the Agency Agreement including any matters required to be published pursuant to Condition 10, Condition 13 and this Condition 14:

(a) through the systems of Clearstream Banking, S.A. and Euroclear Bank SA/NV and/or any other international or domestic clearing system(s) through which the Notes are for the time being cleared;

(b) in such other places and in such other manner as may be required by applicable law or regulation; and

(c) in such other places and in such other manner as may be customary.

15. CURRENCY INDEMNITY

If any sum due from the Issuer in respect of the Notes or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the specified office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

16. FURTHER ISSUES

The Issuer may from time-to-time without notice to or the consent of the Noteholders create and issue further notes, having terms and conditions the same as those of the Notes or the same except for the amount of the first payment of interest, which may be consolidated and form a single series with the outstanding Notes.

17. GOVERNING LAW, ARBITRATION AND SUBMISSION TO JURISDICTION

17.1 Governing Law

The Notes and any non-contractual obligations arising out of, or in connection with, the Notes are governed by, and will be construed in accordance with, English law.

17.2 Arbitration

Subject to Condition 17.3, any dispute arising out of or in connection with the Notes (including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligation arising out of or in connection with the Notes) (a "**Dispute**") shall be referred to and finally resolved by arbitration under the Rules of Arbitration (the "**Rules**") of the International Chamber of Commerce (the "**ICC**"), which Rules are deemed to be incorporated by reference into this Condition.

(a) The arbitral tribunal shall consist of three arbitrators, each of whom shall be disinterested in the Dispute, shall have no connection with any party thereto and shall be an attorney experienced in international securities transactions.

(b) The claimant(s), irrespective of number, shall nominate jointly one arbitrator and the respondent(s), irrespective of number, shall nominate jointly the second arbitrator, in accordance with the Rules, for confirmation by the International Court of Arbitration of the ICC (the "**ICC Court**"). If a party or parties fail(s) to nominate an arbitrator, the appointment shall be made by the ICC Court. The third arbitrator, who shall serve as president of the arbitral tribunal, shall be nominated, for confirmation by the ICC Court, by agreement of the two party-nominated arbitrators within 30 days of the nomination of the second arbitrator, or, in default of such agreement, shall be appointed by the ICC Court as soon as possible.

(c) The seat and place of arbitration shall be London, United Kingdom.

(d) The language of the arbitration shall be English.

17.3 Jurisdiction

(a) At any time before any Noteholder has nominated an arbitrator to resolve any Dispute(s) pursuant to Condition 17.2, that Noteholder or any other Noteholder, at its sole option, may elect by notice in writing to the Issuer that such Dispute(s) shall instead be heard by the courts of England or by any other court of competent jurisdiction, as more particularly described in Condition 17.3(b)(iii). Following any such election, no arbitral tribunal shall have jurisdiction in respect of any Dispute(s).

(b) In the event that any Noteholder issues a notice pursuant to Condition 17.3(a), the following provisions shall apply:

(i) subject to Condition 17.3(b)(iii), the courts of England shall have exclusive jurisdiction to settle any Dispute and each of the Issuer and any Noteholders in relation to any Dispute submits to the exclusive jurisdiction of the English courts;

(ii) the Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary; and

(iii) this Condition 17.3(b) is for the benefit of the Noteholders only. As a result, and notwithstanding Condition 17.3(b)(i), to the extent allowed by law, each Noteholder may, in respect of any Dispute or Disputes, take (A) proceedings relating to a Dispute ("**Proceedings**") in any other court with jurisdiction; and (B) concurrent Proceedings in any number of jurisdictions.

17.4 Appointment of Process Agent

The Issuer irrevocably appoints Law Debenture Corporate Services Limited at Fifth Floor, 100 Wood Street, London EC2V 7EX, United Kingdom as its agent for service of process in England and agrees that, in the event of Law Debenture Corporate Services Limited being unable or unwilling for any reason so to act, it will immediately appoint another person as its agent for service of process in England in respect of any Proceedings or Disputes. The Issuer agrees that failure by a process agent to notify it of any process will not invalidate service. Nothing in this Condition shall affect the right to serve process in any other manner permitted by law.

17.5 Waiver of Immunity

The Issuer irrevocably and unconditionally with respect to any Dispute: (a) waives any right to claim sovereign or other immunity from jurisdiction, recognition or enforcement and any similar argument in any jurisdiction; (b) submits to the jurisdiction of the English courts and the courts of any other jurisdiction in relation to the recognition of any judgment or order of the English courts or the courts of any competent jurisdiction in relation to any Dispute; and (c) consents to the giving of any relief (whether by way of injunction, attachment, specific performance or other relief) or the issue of any related process, in any jurisdiction, whether before or after final judgment, including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Dispute.

Notwithstanding any of the above, the Issuer does not waive any immunity in respect of any present or future: (a) property, including any bank account, used by a diplomatic or consular mission of the Issuer through which the Issuer is being represented or its special missions or delegations to international organisations, (b) property of a military character or in use for military purposes and in each case under the control of a military authority or defence agency related to the Issuer, (c) assets that are non-tradable (*stvari van prometa*), (d) ore deposits and other natural resources, (e) facilities, weapons and equipment required to meet the needs of the armed forces and police forces that are related to the Issuer, as well as funds provided for those purposes and (f) immovable and movable assets, and the rights of the Issuer, and cities, municipalities and public enterprises within the Republic of Srpska that are necessary for the performance of activities of public interest. The Issuer reserves the right to plead sovereign immunity under the U.S. Foreign Sovereign Immunities Act of 1976 with respect to actions brought against it in any court of, or in, the United States of America under any United States federal or state securities law.

17.6 Other Documents

The Issuer has in the Agency Agreement and the Deed of Covenant agreed that the Agency Agreement and the Deed of Covenant, and any non-contractual obligations arising out of, or in connection with, the Agency Agreement and the Deed of Covenant, shall be governed by, and construed in accordance with, English law, and submitted to the jurisdiction of the ICC and the English courts and appointed an agent in England for service of process in terms substantially similar to those set out above. In addition, the Issuer has, in such documents, waived any rights to sovereign immunity and other similar defences which it may have, in terms substantially similar to those set out above.

18. RIGHTS OF THIRD PARTIES

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Note, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

THE GLOBAL CERTIFICATES

The Global Certificates contain the following provisions, which apply to the Notes in respect of which they are issued while they are represented by the Global Certificates, some of which modify the effect of the Conditions. Terms defined in the Conditions have the same meaning in paragraphs 1 to 8 below.

1. FORM OF THE NOTES

The Regulation S Notes will be represented on issue by the Unrestricted Global Certificate, and the Rule 144A Notes will be represented on issue by the Restricted Global Certificate, each of which will be registered in the name of a nominee of, and delivered to, a common depositary for Euroclear and Clearstream, Luxembourg.

Beneficial interests in a Global Certificate may be held only through Euroclear or Clearstream, Luxembourg or their participants at any time. The Global Certificates will each have an ISIN and a Common Code. Beneficial interests in the Restricted Global Certificate (and any individual Certificates issued in exchange therefor) will be subject to certain restrictions on transfer contained in a legend appearing on the face of each such Certificate, as set out therein and under "*Transfer Restrictions*".

Except in the limited circumstances described below, owners of beneficial interests in the Global Certificates will not be entitled to receive physical delivery of individual certificates in definitive form.

Book-entry interests in the Restricted Global Certificate ("**restricted book-entry interests**") may be transferred to a person who takes delivery in the form of book-entry interests in the Unrestricted Global Certificate ("**unrestricted book-entry interests**") only upon delivery by the transferor of a written certification (in the form provided in the Agency Agreement) to the effect that the transfer is made in accordance with Regulation S and in accordance with any applicable securities laws of any state of the US or any other jurisdiction.

Unrestricted book-entry interests may be transferred to a person who takes delivery in the form of restricted book-entry interests only upon delivery by the transferor of a written certification to the effect that the transfer is being made to a person who the transferor reasonably believes is a qualified institutional buyer within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the US or any other jurisdiction.

Any book-entry interest in one of the Global Certificates that is transferred to a person who takes delivery in the form of a book-entry interest in the other Global Certificate will, upon transfer, cease to be a book-entry interest in the first-mentioned Global Certificate and become a book-entry interest in the other Global Certificate, and accordingly, will thereafter be subject to all transfers, if any, and other procedures applicable to book-entry interest in that other Global Certificate for as long as that person retains the book-entry interests.

2. ACCOUNTHOLDERS

For so long as any of the Notes are represented by the Global Certificates, each person (other than another clearing system) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg (as the case may be) as the holder of a particular aggregate principal amount of such Notes (each an "**Accountholder**") (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg (as the case may be) as to the aggregate principal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes) shall be treated as the holder of such aggregate principal amount of such Notes (and the expression "**Noteholders**" and references to "**holding of Notes**" and to "**holder of Notes**" shall be construed accordingly) for all purposes other than with respect to payments on such Notes, the right to which shall be vested, as against the Republic, solely in the nominee for the clearing systems named in the relevant Register (the "**Nominee**") in accordance with and subject to the terms of the Global Certificates. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the Nominee.

3. CANCELLATION

Cancellation of any Note following its redemption or purchase by the Republic will be effected by reduction in the aggregate principal amount of the Notes in the relevant Register and by the annotation of the appropriate schedule to the relevant Global Certificate.

4. PAYMENTS

Payments of principal and interest in respect of Notes represented by a Global Certificate will be made upon presentation or, if no further payment falls to be made in respect of the Notes, against presentation and surrender of such Global Certificate to or to the order of the Fiscal Agent or such other Agent as shall have been notified to the holders of the Global Certificates for such purpose.

Distributions of amounts with respect to book-entry interests in the Global Certificates held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Fiscal Agent, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

A record of each payment made will be endorsed on the appropriate schedule to the relevant Global Certificate by or on behalf of the Fiscal Agent and shall be *prima facie* evidence that payment has been made.

All payments in respect of Notes represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the relevant Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where "**Clearing System Business Day**" means Monday to Friday inclusive except 25 December and 1 January.

5. INTEREST CALCULATION

For so long as Notes are evidenced by a Global Certificate, interest payable to the Nominee will be calculated by applying the Rate of Interest to the outstanding principal amount of the Notes evidenced by the relevant Global Certificate and on the basis of (a) the actual number of days in the period from, and including, the Accrual Date to, but excluding, the date on which it falls due, divided by (b) the actual number of days from, and including, the Accrual Date to, but excluding, the next following Interest Payment Date. The resultant figure shall be rounded to the nearest cent (half a cent being rounded upwards).

6. NOTICES

So long as the Notes are represented by a Global Certificate or Global Certificates and such Global Certificate(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg for communication by them to entitled Accountholders in substitution for notification as required by Condition 12 (*Notices*) except that, so long as the Notes are listed on any stock exchange, notices shall also be published in accordance with the rules of such exchange. Any such notice shall be deemed to have been given to the Noteholders on the day after the day on which such notice is delivered to Euroclear and Clearstream, Luxembourg as aforesaid.

Whilst any of the Notes held by a Noteholder are represented by a Global Certificate, notices to be given by such Noteholder may be given by such Noteholder (where applicable) through Euroclear or Clearstream, Luxembourg, as applicable, in accordance with its standard rules and procedures and otherwise in such manner as the Fiscal Agent and the applicable clearing system may approve for this purpose.

7. REGISTRATION OF TITLE

The Registrar will not register title to the Notes in a name other than that of the Nominee for a period of 15 calendar days preceding the due date for any payment of principal or interest in respect of the Notes.

8. EXCHANGE FOR CERTIFICATES

Exchange

The Restricted Global Certificate will be exchangeable, free of charge to the holder, in whole but not in part, for individual Certificates ("**Restricted Certificates**") and the Unrestricted Global Certificate will be exchangeable, free of charge to the holder, in whole but not in part, for individual Certificates (the "**Unrestricted Certificates**" and, together with the Restricted Certificates, the "**Certificates**") upon the occurrence of an Exchange Event.

For these purposes an "**Exchange Event**" means that:

(a) circumstances described in Condition 10 (*Events of Default*) have occurred; or

(b) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces that it is permanently to cease business or does in fact do so and no successor or alternative clearing system is available; or

provided that, in the case of any exchange pursuant to (b) above, the holder has given the Registrar not less than 30 days' notice at its specified office of such holder's intention to effect such exchange.

In exchange for the relevant Global Certificate, as provided in the Agency Agreement, the Registrar will deliver or procure the delivery of an equal aggregate principal amount of duly executed Certificates in or substantially in the form set out in the Agency Agreement.

Delivery

In such circumstances, the relevant Global Certificate shall be exchanged in full for Certificates and the Republic will, at the cost of the Republic (but against such indemnity and/or security as the Registrar or Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Certificates to be executed and delivered to the Registrar for completion and dispatch to the relevant Noteholders. A person having an interest in a Global Certificate must provide the Registrar with (a) a written order containing instructions and such other information as the Republic and the Registrar may require to complete, execute and deliver such Certificates and (b) in the case of the Restricted Global Certificate only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a purchaser that the transferor reasonably believes to be a QIB. Restricted Certificates issued in exchange for a beneficial interest in a Restricted Global Certificate shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under "*Transfer Restrictions*".

Legends

Upon the transfer, exchange or replacement of a Restricted Certificate bearing the legend referred to under "*Transfer Restrictions*" below, or upon specific request for removal of the legend on a Restricted Certificate, the Republic will deliver only Restricted Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Republic and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Republic that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the Securities Act.

TAXATION

The following is a summary of certain income tax consequences resulting from the purchase, ownership and disposition of the Notes and is not intended to reflect the individual tax position of any beneficial owner.

Persons considering the purchase of the Notes should consult their own tax advisers concerning the application of the tax laws of the Republic to their particular situations, as well as any consequences of the purchase, ownership and disposition of the Notes arising under the laws of any other taxing jurisdiction. Such laws and regulations are subject to change or varying interpretations, possibly with retroactive effect. As with other areas of the Republic's legislation, tax law and practice in the Republic is not as clearly established as that of more developed jurisdictions. It is possible, therefore, that the current interpretation of the law or understanding of the practice may change or, that the law may be amended with retroactive effect. Accordingly, it is possible that payments to be made to Noteholders could become subject to taxation, or that tax rates currently in effect could be increased, in ways that cannot be anticipated as at the date of this Offering Circular.

Taxation in the Republic

The following is a general summary of the relevant tax consequences according to the taxation laws of the Republic as at the date hereof in relation to payments made under the Notes and in relation to the sale or transfer of Notes. It is not exhaustive, and purchasers are urged to consult their professional advisers as to the tax consequences to them of holding or transferring Notes.

Tax Implications for Non-Residents of the Republic

Under existing taxation laws of the Republic, payments of principal and interest on the Notes to any legal entity which is non-resident or not having its branch in the Republic will not be subject to the taxation in the Republic and no withholding tax will be required on any of such payments. As any amounts representing principal or interest under the Notes will be paid to the Clearing Systems, which would be considered as a non-resident legal entity, such payments are not subject to withholding taxation in the Republic. Conversely, the applicable tax laws provide that such payments of interest directly to a non-resident natural person are subject to a withholding tax. All taxes that may be imposed on non-residents are levied at a rate of 10 per cent.

In the event that a payment of principal and interest in respect of the Notes is subject to withholding or deduction for any taxation pursuant to Condition 8 (*Taxation*) of the Notes, the Republic has agreed to pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required, subject only to certain exceptions set out in the relevant Condition. The exception is that if a Noteholder is subject to the taxation in the Republic by reason of his having some connection with the Republic and/or, to the extent applicable, BiH, other than the mere holding of the Note, that Noteholder would not be entitled to payment of any additional amounts under the relevant Condition.

Legal non-resident entities will not be subject to taxation in respect of any capital gains (determined as the difference between the sale price and the acquisition price) realised on the transfer of the Notes outside the territory of the Republic, assuming that the qualification of such transfer would be to the effect that it has happened outside of the territory of the Republic.

Individual (i.e. natural persons) non-residents are not subject to tax on capital gains with respect to transfer of the Notes outside of the Republic, considering that the non-resident individuals are considered tax payers with respect to the income realized on the territory of the Republic only, and assuming that the qualification of such transfer would be to the effect that it has happened outside of the territory of the Republic.

While the Issuer may not be able to make a withholding on the account of tax on interest payable under the Notes held by a Clearing System where the ultimate beneficiary of the Notes is an individual, it cannot be excluded that such individual is not subject to the obligation to file a tax return and self-assess its tax obligation on such interest or realised capital gain in the Republic.

Tax Implications for Residents of the Republic

Legal entities, residents of the Republic shall be subject to the capital gains tax in a rate of 10 per cent. Payments of the interest to such entities shall not be subject to taxation.

As for the individual residents of the Republic, payments of principal and interest on the Notes shall be subject to income tax in a rate of 10 per cent. with respect to both, transfer of the Notes and income gained from the interest.

U.S. Federal Income Tax Considerations

The following discussion is an overview of certain U.S. federal income tax consequences relevant to the purchase, ownership and disposition of the Notes. This discussion addresses only U.S. Holders (as defined below) who purchase Notes in the original offering at the issue price (generally, the initial offering price to the public (not including bond houses, brokers or similar persons or organisations acting in the capacity of underwriters, placement agents or wholesalers) at which a substantial amount of the Notes is sold for money), hold the Notes as capital assets and use the U.S. Dollar as their functional currency. This summary is based on the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), final, temporary and proposed U.S. Treasury Regulations thereunder, and administrative and judicial interpretations, all as in effect as of the date of this Offering Circular and any of which may be repealed, revoked or modified or subject to differing interpretations, possibly with retroactive effect, so as to result in U.S. federal income tax consequences different from those discussed below. There can be no assurances that the Internal Revenue Service (the "**IRS**") will not challenge one or more of the tax consequences described herein, and we have not obtained, nor do we intend to obtain, a ruling from the IRS with respect to the U.S. federal income tax consequences of purchasing, owning or disposing of the Notes.

This discussion is not a complete description of all U.S. federal tax consequences relating to the Notes and does not address U.S. state, local, foreign, gift, estate or other tax laws. This summary does not address aspects of U.S. federal income taxation that may be applicable to U.S. Holders that are subject to special tax rules, such as U.S. expatriates, "dual resident" companies, banks, thrifts, financial institutions, insurance companies, real estate investment trusts, regulated investment companies, a U.S. or non-U.S. partnership or other entity treated as a partnership for U.S. federal income tax purposes, grantor trusts, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations or investors, dealers or traders in securities, commodities or currencies, traders in securities that elect to use a mark-to-market method of accounting, holders that will hold a Note as part of a position in a "straddle" or as part of a "synthetic security" or as part of a "hedging", "conversion", "integrated" or constructive sale transaction for U.S. federal income tax purposes, and investors using the accrual method of accounting for U.S. federal income tax purposes and who are required to recognize income for such purposes no later than when such income is taken into account in an applicable financial statement. Moreover, this summary does not address the U.S. federal estate and gift tax, U.S. Holders liable for alternative minimum tax or the Medicare tax applicable to net investment income and investors holding the Notes in connection with a trade or business conducted outside of the US. Each prospective purchaser should consult its tax adviser with respect to the U.S. federal, state, local and foreign tax consequences of acquiring, holding, retiring or other disposition of Notes.

For the purposes of this discussion, a "**U.S. Holder**" is a beneficial owner of the Notes that is, for purposes of U.S. federal income taxation, (i) an individual who is a citizen or resident of the US, (ii) a corporation created or organised in or under the laws of the US or any U.S. state or the District of Columbia, (iii) a trust (A) with respect to which a court within the US is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all of its substantial decisions or (B) that has made a valid election in effect to be treated as a U.S. person for U.S. federal income tax purposes, or (iv) an estate the income of which is subject to U.S. federal income taxation regardless of its source.

If a partnership (or any entity or arrangement treated as a partnership for U.S. federal income tax purposes) purchases or holds the Notes, the U.S. federal income tax treatment of a partner in the partnership generally will depend upon the status of the partner and the activities of the partnership. If a U.S. Holder is a partner in a partnership that holds the Notes, such holder is urged to consult its own tax adviser regarding the specific tax consequences of the purchase, ownership and disposition of the Notes.

THE OVERVIEW OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. ALL PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCE TO THEM OF OWNING THE NOTES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

Interest

Except as set forth below, interest paid on a Note will be included in a U.S. Holder's gross income as ordinary interest income at the time it is received or accrued in accordance with the U.S. Holder's usual method of accounting for U.S. federal income tax purposes. Interest income on the Notes will be treated as income from sources outside the US for U.S. federal income tax purposes, including U.S. foreign tax credit limitation purposes.

Foreign Currency Denominated Qualified Stated Interest

Except as set forth below, the amount of income realized by a U.S. Holder will be the U.S. Dollar value of any qualified stated interest (generally, stated interest that is unconditionally payable in cash or in property (other than debt instruments of the issuer) at least annually at a single fixed rate) paid on a Note in Euros, including the amount of any applicable withholding tax thereon and any additional amounts paid with respect thereto, regardless of whether the Euros are converted into U.S. Dollars. Generally, a U.S. Holder that uses the cash method of tax accounting and that receives a payment of qualified stated interest will determine such U.S. Dollar value using the spot rate of exchange on the date of receipt. Generally, a U.S. Holder that uses the accrual method of tax accounting may determine the U.S. Dollar value of accrued interest income using the average rate of exchange for the accrual period (or, in the case of an accrual period that spans two taxable years of a U.S. Holder, at the average rate for the partial period within each taxable year) or, at the U.S. Holder's election, at the spot rate of exchange on the last day of the accrual period (and in the case of a partial accrual period, the spot rate on the last day of the taxable year) or on the date of receipt, if that date is within five business days of the last day of the accrual period. Any such election will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and will be irrevocable without the consent of the IRS. A U.S. Holder that uses the accrual method of tax accounting will recognise U.S. source foreign currency gain or loss on the receipt of an interest payment if the exchange rate in effect on the date payment is received differs from the rate applicable to an accrual of that interest, regardless of whether the payment is converted to U.S. Dollars at such time. This foreign currency gain or loss will be treated as ordinary income or loss, but generally will not be treated as an adjustment to interest income received on the Note.

Original Issue Discount

For U.S. federal income tax purposes, a Note will be treated as issued with original issue discount ("**OID**") if the excess of the Note's stated redemption price at maturity over its issue price (as defined above) equals or exceeds a specified *de minimis* amount (generally 0.25 per cent. of the Note's stated redemption price at maturity multiplied by the number of complete years to maturity). The "stated redemption price at maturity" of a Note is the sum of all amounts payable on the Note that are not payments of qualified stated interest. U.S. Holders of Notes issued with OID must, in general, include the OID as ordinary income, calculated on a constant yield method, in advance of the receipt of some or all of the related cash payments, regardless of their method of accounting. The amount of OID includible in income by the initial U.S. Holder of such Note is the sum of the "daily portions" of OID with respect to the Note for each day during the taxable year or portion of the taxable year in which such U.S. Holder held such Note. Under these rules, a U.S. Holder will generally have to include in income increasingly greater amounts of OID in successive accrual periods. Persons considering the purchase of Notes should consult their own tax advisors regarding the U.S. federal income tax consequences of the ownership and disposition of such Notes, including the potential application of the OID rules as well as the receipt in foreign currency of amounts attributable to OID.

Further Issues

The Issuer may, without the consent of the Noteholders of outstanding Notes, issue further securities with identical terms as the Notes. These additional Notes, even if they are treated for non-tax purposes as part of the same series as the original Notes, in some cases may be treated as a separate series for U.S. federal income tax purposes. In such a case, the additional Notes may be considered to have been issued with OID even if the original Notes had no OID, or the additional Notes may have a greater amount of OID than the original Notes. These differences may affect the market value of the original Notes if the additional Notes are not otherwise distinguishable from the original Notes. Any U.S. federal income tax considerations which apply to a separate series of additional Notes issued with OID will be described in the applicable offering circular.

Sale, Exchange, Redemption or Other Disposition of Notes

A U.S. Holder generally will recognise gain or loss on the sale, exchange, redemption or other disposition of a Note in an amount equal to the difference between the amount realised (less any accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income) and the U.S. Holder's adjusted tax basis in the Note. The amount realised on a sale, exchange, redemption or other disposition for an amount in foreign currency will be the U.S. Dollar value of such amount on the date of sale, exchange, redemption or other disposition or, in the case of Notes traded on an established securities market (within the meaning of the applicable U.S. Treasury Regulations) sold by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the sale, exchange, redemption or other disposition. Such settlement date election by an accrual basis U.S. Holder must be applied consistently from year to year and cannot be revoked without the consent of the IRS. An accrual basis U.S. Holder that does not make the settlement date election will recognize exchange gain or loss to the extent that there are exchange rate fluctuations between the sale date and the settlement date, and such gain or loss generally will constitute ordinary income or loss.

A U.S. Holder's adjusted tax basis in a Note generally will be its U.S. Dollar cost, increased by the amount of any OID included in the U.S. Holder's income with respect to the Note and reduced by the amount of any payments that are not qualified stated interest payments. The U.S. Dollar cost of a Note (including a Note purchased with a foreign currency) generally will be the U.S. Dollar value of the purchase price on the date of purchase or, in the case of Notes traded on an established securities market (as defined in the applicable U.S. Treasury Regulations) that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the purchase.

Gain or loss recognised on the sale, exchange, redemption or other disposition of a Note (other than gain or loss that is attributable to OID or to currency exchange rate fluctuations) generally will be treated as capital gain or loss. A U.S. Holder will have long-term capital gain or loss if it has held the Note for more than one year at the time of such disposition. Gain or loss realised by a U.S. Holder on the sale, exchange, redemption or other disposition of the Notes generally will be U.S. source capital gain or loss. The long-term capital gains of non-corporate U.S. Holders may be taxed at lower rates. Deductions for capital losses are subject to significant limitations. Gain or loss recognised by a U.S. Holder on the sale, exchange, redemption or other disposition of a Note that is attributable to changes in the currency exchange rates will be treated as U.S. source ordinary income or loss; however, exchange gain or loss (including with respect to accrued interest and, if any, accrued OID) is taken into account only to the extent of total gain or loss realised by such U.S. Holder on the transaction.

U.S. Holders should consult their tax advisors regarding how to account for payments made in a foreign currency with respect to the acquisition, sale, exchange, retirement or other taxable disposition of a Note and the foreign currency received upon a sale, exchange, retirement or other taxable disposition of a Note.

Information Reporting and Backup Withholding

In general, payments of principal, interest on and the proceeds from the sale, exchange, redemption or other disposition of a Note payable to a U.S. Holder by a U.S. paying agent or other U.S. related intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. U.S. backup withholding tax will apply to amounts subject to reporting if the U.S. Holder fails to provide an accurate taxpayer identification number to certify that such U.S. Holder is not subject to backup withholding or certification of exempt status or otherwise fails to comply with the applicable backup withholding requirements. Certain U.S. Holders (including corporations) are not subject to information and backup withholding. Backup withholding is not an additional tax. The amount of any backup withholding imposed on a payment may be allowed as a credit against any U.S. federal income tax liability of a U.S. Holder and may entitle the U.S. Holder to a refund, provided the required information is timely furnished to the IRS. U.S. Holders of Notes should consult their own tax advisers regarding any filing and reporting obligations they may have as a result of their purchase, ownership or disposition of the Notes.

Reportable Transaction Reporting

Under certain U.S. Treasury Regulations, U.S. Holders that participate in "reportable transactions" (as defined in the U.S. Treasury Regulations) must attach to their U.S. federal income tax returns a disclosure statement on Form 8886. Under the relevant rules, if the Notes are denominated in a foreign currency, a U.S. Holder may be required to treat foreign currency exchange loss from the Notes as a reportable transaction if this loss exceeds the relevant threshold in the regulations (U.S.$50,000 in a single taxable year, if the U.S. Holder is an individual or trust, or higher amount for other non-individual U.S. Holders), and to disclose its investment by filing Form 8886 with the IRS. A penalty of up to U.S.$10,000 in the case of a natural person and U.S.$50,000 in all other cases may be imposed in any taxable year on any taxpayer that fails to timely file an information return with the IRS with respect to a transaction resulting in a loss that is treated as a reportable transaction. U.S. Holders should consult their own tax advisors as to the possible obligation to file Form 8886 with respect to the ownership or disposition of the Notes, or any related transaction, including without limitation, the disposition of any foreign currency received as interest or as proceeds from the sale, exchange or retirement of the Notes.

Foreign Financial Asset Reporting

Certain U.S. Holders that own "specified foreign financial assets," including securities issued by any foreign person, either directly or indirectly or through certain foreign financial institutions may be subject to additional reporting obligations, if the aggregate value of all of those assets exceeds U.S.$50,000 on the last day of the taxable year or U.S.$75,000 at any time during the taxable year, or certain other requirements are met. The Notes may be treated as specified foreign financial assets, and U.S. Holders may be subject to this information reporting regime. Significant penalties and an extended statute of limitations may apply to a U.S. Holder that fails to file information reports. U.S. Holders should consult their own tax advisers regarding these potential information reporting obligations.

The Proposed Financial Transactions Tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) No 1287/2006 are expected to be exempt.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

The Commission's Proposal, however, remains subject to negotiation among participating Member States. It may, therefore, be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

CLEARING AND SETTLEMENT ARRANGEMENTS

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear or Clearstream, Luxembourg (together, the "**Clearing Systems**") currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Republic believes to be reliable, but neither the Republic or the Joint Lead Managers takes any responsibility for the accuracy of this section. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Republic or any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.*

Clearing Systems

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are worldwide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

Registration and Form

Interests in the Unrestricted Global Certificate and the Restricted Global Certificate will be in uncertificated book-entry form ("**book-entry interests**"). The holdings of book-entry interests in the Notes through Euroclear or Clearstream, Luxembourg will be reflected in the book-entry accounts of each such institution. As necessary, the Registrar will adjust the relevant Register to reflect the amounts of Notes held through Euroclear and Clearstream, Luxembourg, respectively. Beneficial ownership of Notes will be held through financial institutions as direct and indirect participants in Euroclear and Clearstream, Luxembourg.

So long as Euroclear or Clearstream, Luxembourg or the nominee of their common depositary is the registered holder of the Global Certificates, Euroclear, Clearstream, Luxembourg or such nominee, as the case may be, will be considered the sole owner or holder of the Global Certificates for all purposes under the Agency Agreement. Consequently, none of the Republic, the Fiscal Agent, any other Agent or the Joint Lead Managers or any affiliate of any of the above or any person by whom any of the above is controlled for the purposes of the Securities Act will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Certificates or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The laws of some states of the US require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer interests in a Global Certificate to such persons will be limited. Because Euroclear and Clearstream, Luxembourg can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in a Global Certificate to pledge such interest to persons or entities which do not participate in the relevant clearing system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

The Republic will not impose any fees in respect of holding the Notes; however, holders of book-entry interests in the Notes may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear or Clearstream, Luxembourg.

Clearing and Settlement Procedures

Upon their original issue, the Notes will be in global form represented by the Global Certificates. Interests in the Notes will be in uncertificated book-entry form. Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

The book-entry interests will trade through participants of Euroclear or Clearstream, Luxembourg and will settle in same-day funds. Since the purchase determines the place of delivery, it is important to establish at the time of trading of any book-entry funds where both the purchaser's and the seller's accounts are located to ensure that settlement can be made on the desired value date.

General

Neither Euroclear nor Clearstream, Luxembourg is under any obligation to perform or continue to perform the procedures referred to above, and such procedures may be discontinued at any time.

None of the Republic or any of their agents will have any responsibility for the performance by Euroclear or Clearstream, Luxembourg or their respective participants of their respective obligations under the rules and procedures governing their operations or the arrangements referred to above.

SUBSCRIPTION AND SALE

Pursuant to and subject to the terms and conditions of a subscription agreement dated 23 April 2021 (the "**Subscription Agreement**") between the Republic and the Joint Lead Managers, each of the Joint Lead Managers has severally agreed to purchase, and the Issuer has agreed to sell to each of the Joint Lead Managers, the principal amount of the Notes set forth opposite each Joint Lead Manager's name below:

Joint Lead Manager	**Principal amount of Notes** (*EUR*)
Intesa Sanpaolo S.p.A, London Branch	75,000,000
Société Générale	150,000,000
UniCredit Bank AG	75,000,000
Total	**300,000,000**

The Issuer has been informed that the Joint Lead Managers propose to resell the Notes at the issue price set forth on the cover page of this Offering Circular within the United Sates to persons reasonably believed to be qualified institutional buyers (as defined in Rule 144A) in reliance upon Rule 144A, and to persons outside the United States in reliance upon Regulation S. See "*– United States*" and "*Transfer Restrictions*" below. The issue price at which the Notes are offered may be changed at any time without notice.

The Issuer will reimburse the Joint Lead Managers in respect of certain of their expenses, and have agreed to indemnify the Joint Lead Managers and their controlling persons against certain liabilities (including liabilities under the Securities Act), incurred in connection with the issue of the Notes.

The Subscription Agreement provides that the obligations of the Joint Lead Managers to subscribe for Notes are subject to certain conditions precedent, including (among other things) receipt of legal opinions from legal counsel, and the Subscription Agreement may also be terminated in certain circumstances prior to payment of the issue price to the Issuer. The offering of the Notes by the Joint Lead Managers is subject to the Joint Lead Managers' right to reject any order in whole or in part.

Offers and sales of the Notes in the United States will be made by those Joint Lead Managers or their affiliates that are registered broker-dealers under the U.S. Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), or in accordance with Rule 15a-6 thereunder.

Allocations of the Notes to potential investors in the offering will be made in accordance with customary allocation processes and procedures following the completion of the book-building process for the offering of the Notes and will be made at the sole discretion of the Issuer.

The Notes are a new issue of securities for which there currently is no market. The Issuer cannot provide assurance that the prices at which the Notes will sell in the market after this offering will not be lower than the initial offering price or that an active trading market for the Notes will develop and continue after this offering. The Joint Lead Managers have advised the Issuer that following the completion of the offering of the Notes, they intend to make a market in the Notes. They are not obligated to do so, however, and any market-making activities with respect to the Notes may be discontinued at any time at their sole discretion without notice. In addition, such market-making activity will be subject to the limits imposed by the Securities Act and the Exchange Act. Accordingly, the Issuer cannot give any assurance as to the development of any market or the liquidity of any market for the Notes.

In connection with the offering of the Notes, the Joint Lead Managers may engage in over-allotment, stabilising transactions and syndicate covering transactions. Over-allotment involves sales in excess of the offering size, which creates a short position for the Joint Lead Managers. Stabilising transactions involve bids to purchase the Notes in the open market for the purpose of pegging, fixing or maintaining the price of the Notes. Syndicate covering transactions involve purchases of the Notes in the open market after the distribution has been completed in order to cover short positions. Any of these activities may prevent a decline in the market price of the Notes, and may also cause the price of the Notes to be higher than it would otherwise be in the absence of these transactions. The Joint Lead Managers may conduct these transactions in the over-the-counter market or otherwise. If the Joint Lead Managers commence any of these transactions, they may discontinue them at any time.

The Issuer expects that delivery of interests in the Notes will be made against payment therefor on the Issue Date specified on the cover page of this Offering Circular, which will be the fifth Business Day following the date of pricing of the Notes (this settlement cycle being referred to as T+5). Under Rule 15c6-l of the Exchange Act, trades in the secondary market generally are required to settle in two New York business days, unless the parties to any such trade expressly agree otherwise. Accordingly, investors who wish to trade interests in the Notes on the date of pricing of the Notes or the next New York business day will be required, by virtue of the fact that the Notes initially will settle in T+5, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Investors in the Notes who wish to trade interests in the Notes on the date of pricing of the Notes or the next New York business day should consult their own adviser.

The Joint Lead Managers or their respective affiliates from time to time have provided in the past and may provide in the future investment banking, financial advisory, mergers and acquisitions and commercial banking services to us and our affiliates in the ordinary course of business for which they have received or may receive customary fees and commissions. Certain of the Joint Lead Managers and their affiliates have performed certain investment and commercial banking or financial advisory services for the Issuer and their affiliates from time-to-time, for which they have received customary fees and commissions, and they expect to provide these services to the Issuer and their affiliates in the future, for which they expect to receive customary fees and commissions. "Affiliates" as used above is defined as under Rule 501(b) of Regulation D of the U.S. Securities Act. One or more of the Joint Lead Managers may purchase Notes offered hereby for their own account.

In addition, in the ordinary course of their business activities, the Joint Lead Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or its affiliates. If the Joint Lead Managers or their affiliates have a lending relationship with the Issuer, they routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, the Joint Lead Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the Issuer's securities, including potentially the Notes. Any such short positions could adversely affect future trading prices of the Notes. The Joint Lead Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each Joint Lead Manager has represented, warranted and undertaken to the Republic that it proposes to offer the Notes for resale (a) to persons they reasonably believe to be QIBs, within the meaning of Rule 144A under the Securities Act, in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and (b) in "offshore transactions" (as defined in Rule 902(k) under the Securities Act) in accordance with Rule 903 of Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of any of the Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if the offer or sale is made otherwise than in accordance with Rule 144A.

United Kingdom

Each Joint Lead Manager has represented, warranted and undertaken that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000, as amended (the "**FSMA"**)) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Republic; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Bosnia and Herzegovina

The offering of the Notes has not been and will not be registered pursuant to securities legislation applicable in Bosnia and Herzegovina and, accordingly, no Notes may be offered, and no offers to buy the Notes may be solicited, nor may copies of this Offering Circular or of any other document relating to the Notes be distributed, in Bosnia and Herzegovina.

Republic of Italy

The offering of the Notes has not been and will not be registered pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, nor may copies of this Offering Circular or of any other document relating to the Notes be distributed in the Republic of Italy, except:

(i) to qualified investors (*investitori qualificati*), as defined pursuant to Article 2 of the Regulation (EU) 2017/1129 (the "**Prospectus Regulation**") and any applicable provision of Legislative Decree No. 58 of 24 February 1998, as amended (the "**Financial Services Act**") and Italian CONSOB regulations; or

(ii) in other circumstances which are exempted from the rules on public offerings pursuant to Article 1 of the Prospectus Regulation, Article 34-ter of CONSOB Regulation No. 11971 of 14 May 1999, as amended from time to time, and the applicable Italian laws.

Any offer, sale or delivery of the Notes or distribution of copies of this Offering Circular or any other document relating to the Notes in the Republic of Italy under (i) or (ii) above must:

(a) be made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation № 20307 of 15 February 2018 (as amended from time-to-time) and Legislative Decree No. 385 of 1 September 1993, as amended (the "**Banking Act**"); and

(b) comply with any other applicable laws and regulations or requirement imposed by CONSOB, the Bank of Italy (including the reporting requirements, where applicable, pursuant to Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy, as amended from time-to-time) and/or any other Italian authority.

Hong Kong

Each Joint Lead Manager has represented and agreed that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (i) to persons whose ordinary business is to buy or sell shares or debentures (whether as principal or agent); or (ii) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong ("**SFO**") and any rules made under the SFO; or (iii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**CWUMPO**") or which do not constitute an offer to the public within the meaning of the CWUMPO; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

Singapore

Each Joint Lead Manager has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore (the "**MAS**"). Accordingly, each Joint Lead Manager has represented and agreed that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale or invitation for subscription or purchase of the Notes, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore (as amended or modified from time to time, the "**SFA**")) pursuant to Section 274 of the SFA, (b) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provisions of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferable within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) of the SFA or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) pursuant to Section 276(7) of the SFA; or

(v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018 of Singapore.

Notification under Section 309B(1)(c) of the SFA

The Issuer has determined, and hereby notifies all relevant persons (as defined in section 309A(1) of the SFA) that the Notes are prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in the MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and in the MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

General

No action has been or will be taken in any jurisdiction by the Republic or any Joint Lead Manager that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Offering Circular or any other offering material, in any country or jurisdiction where action for that purpose is required. Accordingly, each Joint Lead Managers has undertaken that it will not, directly or indirectly, offer or sell any Notes or have in its possession, distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

TRANSFER RESTRICTIONS

As the following restrictions will apply with respect to the Notes, purchasers of the Notes are advised to consult legal counsel prior to making an offer, resale, pledge or transfer of any of the Notes. References to "Notes" in this section should, as appropriate, be deemed to refer to the Notes themselves and/or beneficial interests therein.

By its purchase of Notes, each purchaser of Notes will be deemed to have acknowledged, represented and agreed with the Joint Lead Managers and the Issuer as follows:

1. the purchaser (a) (i) is a QIB within the meaning of Rule 144A, (ii) is acquiring the Notes for its own account or for the account of such a qualified institutional buyer and (iii) is aware that the sale of the Notes to it is being made in reliance on Rule 144A or (b) is purchasing the Notes in an offshore transaction pursuant to and in accordance with Regulation S;

2. the Notes are being offered only in a transaction not involving any public offering in the United States within the meaning of the Securities Act, and the Notes offered hereby have not been and will not be registered under the Securities Act and may not be reoffered, resold, pledged, or otherwise transferred except pursuant to an exemption from or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable state securities laws;

3. the Restricted Global Certificate and any Restricted Certificate will bear a legend to the following effect, unless the Republic determines otherwise in accordance with applicable law:

   "THE NOTES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**") OR ANY SECURITIES LAW OF ANY STATE OF THE UNITED STATES. THE HOLDER HEREOF, BY PURCHASING THE NOTES REPRESENTED HEREBY, AGREES FOR THE BENEFIT OF THE REPUBLIC OF SRPSKA THAT THE NOTES REPRESENTED HEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER APPLICABLE LAWS AND ONLY (1) PURSUANT TO RULE 144A UNDER THE SECURITIES ACT ("**RULE 144A**") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER ("**QIB**") WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT THE REOFFER, RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), OR (4) TO THE REPUBLIC OF SRPSKA OR ITS AFFILIATES."

4. it understands that the Republic, the Joint Lead Managers, their respective affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of the Notes is no longer accurate, it shall promptly notify the Republic and the Joint Lead Managers;

5. if it is acquiring any Notes for the account of one or more investor accounts, the purchaser represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account; and

6. it acknowledges that neither the Republic, the Joint Lead Managers nor any person representing the Republic or the Joint Lead Managers, has made any representation to it with respect to the Republic or the offer or sale of any of the Notes, other than (in the case of the Republic) the information contained in this Offering Circular, which Offering Circular has been delivered to it and upon which it is relying in making an investment decision with respect to the Notes. It acknowledges that the Joint Lead

Managers make no representation or warranty as to the accuracy or completeness of this Offering Circular.

GENERAL INFORMATION

Authorisation

The Issuer has obtained all necessary consents, approvals and authorisations in the Republic of Srpska in connection with the issue and performance of the Notes. The issue of the Notes is authorised pursuant to Decision on long-term borrowing of the Republic of Srpska for 2021 issued by the National Assembly of the Republic of Srpska (*Official Gazette of the Republic, No. 131/20*) and Decision on accepting borrowing of the Republic of Srpska through a bond issuance on the international financial market, issued by the Government of the Republic of Srpska (*Official Gazette of the Republic No. 36/21*).

LEI Code

The Issuer's LEI code is 213800Y1FRB44X9VBR21.

Listing of Notes

An application has been made to the FCA for the Notes to be admitted to the Official List and to the London Stock Exchange for the Notes to be admitted to trading on the London Stock Exchange's main market; however, no assurance can be given that such application will be accepted. It is expected that admission of the Notes to the Official List and to trading on the London Stock Exchange's main market will be granted on or around the Issue Date, subject only to the issue of the Notes.

The expenses in connection with the admission of the Notes to the Official List and to trading on the London Stock Exchange's main market are expected to amount to approximately £5,515.

Clearing Systems

The Global Certificates have been accepted for clearance through Euroclear and Clearstream, Luxembourg.

In respect of the Regulation S Notes, the ISIN is XS2332900682 and the common code is 233290068. In respect of the Rule 144A Notes the ISIN is XS2332900922 and the common code is 233290092.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels. The address of Clearstream, Luxembourg is Clearstream Banking S.A., 42 Avenue JF Kennedy, L 1855 Luxembourg.

Legal and Arbitration Proceedings

Other than as described in "*Description of the Republic – Legal Proceedings*", there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened, of which the Issuer is aware) which may have, or have had during the 12 months prior to the date of this Offering Circular, a significant effect on the financial position of the Issuer.

Foreign Language

The language of the Offering Circular is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

No Significant Change

There has been no significant change in the tax and budgetary systems, gross public debt, foreign trade and balance of payments, foreign exchange reserves, financial position and resources and income and expenditure figures of the Issuer since 31 December 2020.

Yield

As at the Issue Date and on the basis of the issue price of the Notes, the interest rate of the Notes, the redemption amount of the Notes and the tenor of the Notes, as calculated on the pricing date, the yield to maturity of the Notes is 5.00 per cent. per annum. This is not an indication of future yield.

THE ISSUER

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(represented by the Government of the Republic of Srpska)
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