



REPUBLIC OF SRPSKA  
MINISTRY OF FINANCE

Pursuant to Article 11 of the Law on the Market of Securities ("Official Gazette of Republic of Srpska", number: 92/06, 34/09, 30/12 and 108/13), Article 24 of the Rulebook on conditions for and procedure of issue of securities ("Official Gazette of Republic of Srpska", number: 60/12) and the Decision on long-term indebtedness of Republic of Srpska for 2015 ("Official Gazette of Republic of Srpska", number: 119/14), Republic of Srpska - Ministry of Finance (hereinafter: the Issuer) is hereby issuing the following

**SINGLE PROSPECTUS**  
**for the issue of bonds**  
**of Republic of Srpska in 2015**

*Banja Luka, February 2015*

SINGLE PROSPECTUS  
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Republic of Srpska - Ministry of Finance

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**Note**

*This Single Prospectus is issued for the issues of bonds of Republic of Srpska in 2015, in accordance with the Rulebook on conditions for and procedure of issue of securities ("Official Gazette of Republic of Srpska", number: 60/12)*

*This Prospectus shall not be considered a recommendation for purchase or sale, and any investor thinking about purchasing bonds is referred to his/her own estimate and judgement, including all possible risks specified in this Prospectus and published through public media.*

C O N T E N T

1.	RESPONSIBLE PERSONS	4
1.1.	Person responsible for information contained in the Prospectus	4
1.2.	Statements of Issuer's responsible persons	4
2.	RISK FACTORS	5
2.1.	Risk of untimely settlement of outstanding liabilities arising from issued bonds	5
2.2.	Tax revenue risk	5
2.3.	Republic of Srpska and Bosnia and Herzegovina capital market	5
2.4.	Political risk	6
2.5.	Operational risk	6
2.6.	Act of God- "Force Majeure"	6
3.	INFORMATION ABOUT THE ISSUER	6
3.1.	Basic information about the Issuer	6
3.2.	Events that could be of importance for the assessment of issuer's solvency	7
3.3.	Economic indicators	7
3.4.	Public investments	9
4.	PUBLIC FINANCES AND TRADE	9
4.1.	Tax system	9
4.2.	Data on Issuer's tax liabilities relating to securities	10
4.3.	Budget system	10
4.4.	Gross public debt	12
4.4.1.	External debt	12
4.4.2.	Internal debt	13
4.4.3.	Guarantees	15
4.4.4.	Macroeconomic indicators and debt sustainability indicators	16
4.4.5.	Debt management	17
4.5.	Foreign trade and balance of payments	18
4.6.	Foreign exchange reserves	19
4.7.	Revenues and expenditures	19
5.	SIGNIFICANT CHANGES	19
5.1.	Statement about significant changes	19
6.	COURT, ADMINISTRATIVE AND ARBITRATION PROCEEDINGS	19
6.1.	Information about court, administrative and arbitration proceedings	19
7.	DOCUMENTS AVAILABLE FOR INSPECTION	20
8.	PREPARATION OF PROSPECTUS	20

**1.1. RESPONSIBLE PERSONS**

1.1. Person responsible for information contained in the Prospectus

Responsible person	Responsible person's title
Zoran Tegeltija, PhD	Minister

1.2. Statements of Issuer's responsible persons

Having undertaken all measures required, I do, hereby, state that according to my knowledge, information contained in the Prospectus is consistent with the facts, just like that no facts have been omitted, which could affect veracity and completeness of the Prospectus.

/seal:  
Republic of Srpska  
Ministry of Finance  
Banja Luka/

**MINISTER OF FINANCE**

*/handwritten signature illegible/*  
Zoran Tegeltija, PhD

## 2.1. RISK FACTORS

Risk factors that are specific for the Issuer are as follows:

### 2.1. Risk of untimely settlement of outstanding liabilities arising from issued bonds

In accordance with the Law on Borrowing, Debt and Guarantees of the Republic of Srpska ("Official Gazette of Republic of Srpska", number: 71/12 and 52/14), Decision on the Republic of Srpska long-term borrowing for 2015 ("Official Gazette of Republic of Srpska", number: 119/14) and decisions on the issue of bonds of Republic of Srpska, the liabilities arising from issued bonds of the Republic of Srpska represent an absolute and unconditional obligation of the Republic of Srpska, they are mutually on an equal footing and are at least at the same rank as all other present and future liabilities the funds for the execution of which are secured by the Republic of Srpska:

The Republic of Srpska has so far carried out 25 issues of bonds as follows:

- six issues for settlement of liabilities arising from old foreign currency savings (RSDS-O-A, RSDS-O-B, RSDS-O-C, RSDS-O-D, RSDS-O-E and RSDS-O-F),
- two issues for settlement of liabilities towards suppliers (RSOD-O-A and RSOD-O-B)
- one issue for settlement of liabilities arising from enforceable judicial decisions (RSIO-O-A),
- nine issues of bonds for settlement of liabilities arising from war damage (RSRS-O-A, RSRS-O-B, RSRS-O-C, RSRS-O-D, RSRS-O-E, RSRS-O-F, RSRS-O-G, RSRS-O-H and RSRS-O-I) and
- seven issues of long-term bonds of Republic of Srpska by public offering (RSBD-O-A, RSBD-O-B, RSBD-O-C, RSBD-O-D, RSBD-O-E, RSBD-O-F and RSBD-O-G)

In addition to the above-listed, 25 issues of treasury bills of the Republic of Srpska, with one-year maturity, have also been carried out.

All coupons that have become due for payment, have as of the date of preparation of this Prospectus, been paid within the statutory deadlines.

Funds for the repayment of principal, interest and other costs in connection with an issue, are planned under the Republic of Srpska Budget. The debt of the Republic of Srpska is repaid from the Republic of Srpska revenues and represents a priority liability.

The risk of failure to settle the total debt of the Republic of Srpska, and therefore also of the liabilities arising from this issue, has been reduced to a minimum.

### 2.2 Tax revenue risk

Tax revenue risk is contained in the type and amount of tax revenues specified by the law as sources of funding, which means that revenues depend on sources as specified by the law just like the level of economic activities that the determined taxes are levied on. Significant changes in any of the two factors, under the assumption of unchanged expenditures, may result in the deficit of the issuer's budget.

### 2.3 Republic of Srpska and Bosnia and Herzegovina capital market

The market of capital of the Republic of Srpska and Bosnia and Herzegovina is characterized by the prevailing presence of ownership securities created in the privatization process.

In the Republic of Srpska capital market there are municipal bonds, corporate bonds, bank bonds, just like bonds issued by the Republic of Srpska:

- on the basis of payment of old foreign currency savings (RSDS-O-C, RSDS-O-D, RSDS-O-E and RSDS-O-F),

- on the basis of settlement of war damage (RSRS-O-A, RSRS-O-B, RSRS-O-C, RSRS-O-D, RSRS-O-E, RSRS-O-F, RSRS-O-G, RSRS-O-H and RSRS-O-I),
- on the basis of settlement of liabilities towards suppliers (RSOD-O-A and RSOD-O-B),
- on the basis of enforceable judicial decisions (RSIO-O-A),
- long-term bonds of the Republic of Srpska (RSBD-O-A, RSBD-O-B, RSBD-O-C, RSBD-O-D, RSBD-O-E, RSBD-O-F and RSBD-O-G).

While, as already stated, it is ownership securities that prevail in the Republic of Srpska capital market, bonds and treasury bills of Republic of Srpska have, over the past few years, prevailed in the structure of overall turnover realized at the Banja Luka Stock Exchange, both in public offering and in regular turnover, which suggests that the safety of investment is the decisive factor when choosing investment.

#### 2.4 Political risk

The political risk of a country involves all risks in connection with possible political instability, including integrity and constancy of the country as such.

In addition to political risk's dependence on Bosnia and Herzegovina's relations with neighbouring countries and the world, this risk, also, depends on the influence of transition process onto the market economy. Increased political risk is characteristics of transition countries and it depends on relationship between the legislative, executive and judicial power, just like trade unions, but, also, on relationship between the common bodies of Bosnia and Herzegovina and Republic of Srpska institutions.

#### 2.5. Operational risk

The operational risk arises from possible omissions in the work of issuer's employees and bodies, inappropriate internal procedures and processes, inadequate management of the information system and other systems, just like from unforeseeable external events.

#### 2.6. Act of God - "Force Majeure"

The following events are understood to fall under this term:

- war, invasion, act of external enemy, terrorist activities, rebellion or uprising of an enemy of the Republic of Srpska and Bosnia and Herzegovina;
- occurrence of an epidemic affecting citizens and workers;
- cases such as: earthquakes, tornadoes, hurricanes, floods, fires and similar, with the exception of unforeseeable and normal climate and natural occurrences causing damage or destruction.

### 3. INFORMATION ABOUT THE ISSUER

#### 3.1. Basic information about the Issuer

Name of the issuer	Republic of Srpska - Ministry of Finance
Organizational form	Legislative and executive authority
Main activity	General public administration activities
Registered office	Banja Luka
Address	Trg Republike Srpske 1

SINGLE PROSPECTUS  
for the issues of bonds of Republic of Srpska in 2015  
Republic of Srpska - Ministry of Finance

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Issuer's registration number	107000132538115
E-mail	mf@mf.vladars.net
Telephone	051/339-768
Fax	051/339-655

3.2. Events that could be of importance for the assessment of issuer's solvency

It appears clearly from macroeconomic indicators and indicators of indebtedness for the period 2009-2014 that the sustainability of the Republic of Srpska debt is at a satisfactory level.

On the other hand, bearing in mind the possibility of stagnation of the GDP and Republic of Srpska budget revenues, just like that the settlement of long-term liabilities (arising from international agreements, agreements on financing, decisions on issue of bonds etc) as a priority may engage budget funds to a strong extent, caution is still needed in future borrowings, in the sense of contracting of new borrowings under more favourable conditions, adjusting of liability repayment schedule to amounts of expected revenues in the coming years, selecting of priority projects that the Republic of Srpska would become indebted for, selecting of creditworthy final beneficiaries, just like identifying of new sources of funding.

Aside from the foregoing, it is, also, necessary to take account of basic risks with regard to the internal debt projections i.e. the possibility of changes in legal provisions that would regulate the liability of internal debt settlement differently from the existing legal solutions, thus preventing repayment planning and controlling, just like of potential liabilities that would result from a settlement of the restitution issue, which would be liabilities of the Republic of Srpska Budget.

3.3. Economic indicators

The text below shows the structure of economy by share in Gross Domestic Product (GDP) for 2014 and 2013<sup>1</sup>.

The Gross Domestic Product (GDP) in the third quarter of 2014 reported a real growth rate of -0.1% compared to the third quarter of 2013.

Looking by the fields of classification of activities the gross value added registered a real drop in the third quarter of 2014 in the following areas:

- agriculture, forestry and fishing by 7.2%,
- mining and quarrying; manufacturing; electricity, gas, steam and air conditioning supply, water supply, sewage, waste management and environmental rehabilitation activities (remediation) by 0.6%, where the Manufacturing registered a real growth of 4.4.%,

The gross value added in the third quarter of 2014 registered a real growth in the following areas:

- construction by 3.5%,
- arts, entertainment and recreation; other service activities 3.3%,
- financial and insurance activities 2.2%,
- public administration and defence, compulsory social insurance; Education; Health protection and social work activities 1.3%,
- wholesale and retail, repair of motor vehicles, motorcycles; transportation and storage; accommodation, food preparation and serving activities, hotel industry and catering industry by 1.3%,
- Information and communications 0.8% and

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<sup>1</sup> Source: Republic of Srpska institute of Statistics

- professional, scientific and technical activities; Administrative and support service activities 0.3%

In 2013, the nominal GDP (in current prices) amounted to BAM 8,761.46 million, with the real growth rate of 1.9%. In the structure of the Republic of Srpska GDP, in 2013, the largest share belongs to activities as follows:

- wholesale and retail, repair of motor vehicles, motorcycles 12.1 % of GDP;
- agriculture, forestry and fishing 10.4 % of GDP;
- public administration and defence, compulsory social insurance 9.9 % of GDP;
- manufacturing 8.7 % of GDP;
- Information and communications 5.2 % of GDP;
- Health protection and social work activities 5.0 % of GDP;
- Real estate activities 4.7 % of GDP;
- Electricity, gas, steam and air conditioning supply, 4.6 % of GDP;

**Table 1: Structure of the Republic of Srpska GDP by activities  
for the period 2011-2013 at constant prices**

*(in thousands of BAM)*

		2011	2012	2013
A	Agriculture, forestry and fishing	842,354	813,268	926,696
B	Mining and quarrying	182,251	179,422	198,996
C	Manufacturing	736,124	734,331	713,504
D	Electricity, gas, steam and air conditioning supply	381,825	360,922	353,694
E	Water supply, sewage, waste management and environmental rehabilitation (remediation) activities	84,283	80,307	84,143
F	Construction	387,809	378,635	372,067
G	Wholesale and retail; repair of motor vehicles, motorcycles	1,055,086	1,056,652	1,042,235
H	Transportation and storage	233,363	236,127	248,254
I	Accommodation, food preparation and serving activities, hotel industry and catering industry	126,061	123,453	130,394
J	Information and communications	421,461	434,927	456,247
K	Financial and insurance activities	236,087	256,768	260,864
L	Real estate activities	416,870	416,520	410,315
	- of which, the imputed rent is	377,132	377,525	375,751
M	Professional, scientific and technical activities	272,658	260,190	229,152
N	Administrative and support service activities	30,493	37,184	39,416
O	Public administration and defence, compulsory social insurance	820,273	903,703	881,567
P	Education	370,751	408,222	405,468
Q	Health protection and social work activities	374,110	428,603	427,141
R	Arts, entertainment and recreation	77,089	79,093	92,543
S	Other service activities	60,723	64,317	59,041
FISIM (minus)		181,378	198,703	201,285
<b>GROSS VALUE ADDED</b>		<b>6,928,293</b>	<b>7,053,941</b>	<b>7,130,452</b>
Taxes on products minus subsidies on products		1,456,993	1,532,981	1,616,779
<b>GROSS DOMESTIC PRODUCT</b>		<b>8,385,286</b>	<b>8,586,922</b>	<b>8,747,231</b>

Source: Republic of Srpska Institute of Statistics

### 3.4. Public Investments

Due to the extreme importance the Republic of Srpska Government gives to the increase of investments and employment, which are of importance for the Republic of Srpska economic development, not only on the short run, but, also, on the long run, the Government contracted and secured investment funds in the amount of BAM 1.52 billion (of which BAM 1.5 billion are investments in social-economic development and BAM 0.02 billion are investments in the strengthening of administrative-technical capacities) for the 2015-2017 period. Of the investments contracted for 2015-2017 period, the traffic and transport infrastructure sector will see the strongest investment rate of 35.37% of the total investments, then comes the water-supply and sanitation sector with 11.51%, then the environmental protection sector with 10.93%, reconstruction and rehabilitation assistance with 10.82%, industry, energetic and mining sector with 9.60%, and other sectors with 21.77% of the total investments. The contracted public investments are mainly financed from foreign sources (loans and grants to a smaller extent) - 85.73%, with the remaining 14.27% belonging to domestic sources.

Furthermore, additional investments amounting to BAM 6.7 billion are planned as priorities that funds have still not been secured for (the largest investments are planned for the energetic sector - 43.64% and transport infrastructure - 37.95%, as well as for rehabilitation of damage caused by the May floods in the Republic of Srpska - 11.82%).

An activity planned for the coming period is the expansion of the Public Investment Management Information System (PIMIS) to the municipal and city levels with the aim to improve the potential of the Republic of Srpska municipalities and cities for the implementation of development plans (in accordance with RS Government's Conclusion made towards the end of November 2014). The said activities will be implemented within the scope of implementation of the "Development of Efficient Public Investment Management Capacities at the Ministries of Finances at the BiH and Entity Levels" project financed by the Swedish International Development Cooperation Agency (SIDA).

## 4. PUBLIC FINANCES AND TRADE

### 4.1. Tax system

The Republic of Srpska tax system encompasses all forms of taxes and other public revenues applied in its territory. The basic division of taxes is as follows:

a) **Direct taxes** i.e. taxes relating to economic strength, through possession of property or income. These taxes fall under the competence of the Republic of Srpska. The legislation regulating this field of direct taxes in the Republic of Srpska include:

- ✓ Law on Income Tax ("Official Gazette of Republic of Srpska", number: 91/06, 128/06, 120/08, 71/10, 1/11 and 107/31);
- ✓ Law on Profit Tax ("Official Gazette of Republic of Srpska", number: 91/06 and 57/12),
- ✓ Law on Real Estate Tax ("Official Gazette of Republic of Srpska", number: 110/08, 118/09 and 64/14),
- ✓ Law on Using, Holding and Carrying of Goods Tax ("Official Gazette of Republic of Srpska", number: 37/01, 35/07 and 52/14),
- ✓ Republic of Srpska Law on Tax Procedure ("Official Gazette of Republic of Srpska", number: 102/11, 108/11, 67/13 and 52/14),
- ✓ Law on Special Ways of Tax Debt Settlement ("Official Gazette of Republic of Srpska", number: 66/13 and 52/14),
- ✓ Law on the Solidarity Fund for Reconstruction of Republic of Srpska ("Official Gazette of Republic of Srpska", number: 52/14).

b) **Indirect taxes** are taxes relating to spending (VAT, excises, customs duties etc). In 2005, indirect taxes were transferred onto the Bosnia and Herzegovina level. Regulations governing this field are passed by the BiH Parliamentary Assembly and applied throughout the territory of Bosnia and Herzegovina.

SINGLE PROSPECTUS  
for the issues of bonds of Republic of Srpska in 2015  
Republic of Srpska - Ministry of Finance

- ✓ Law on Value Added Tax ("Official Gazette of Bosnia and Herzegovina", number: 9/05, 35/05 and 100/08);
- ✓ Law on Excises in Bosnia and Herzegovina ("Official Gazette of Bosnia and Herzegovina ", number: 49/09),
- ✓ Law on Customs Policy of Bosnia and Herzegovina ("Official Gazette of Bosnia and Herzegovina ", number: 57/04, 51/06, 93/08 and 76/11),
- ✓ Law on Customs Tariff ("Official Gazette of Bosnia and Herzegovina ", number: 58/12).

#### 4.2 Data on Issuer's tax liabilities relating to securities

According to the Law on Income Tax, and Article 65, paragraph 2 of the Rulebook on the implementation of the Law on Income Tax (hereinafter: the Rulebook), the interest rate a natural person has earned on debt securities shall not be liable to taxation, just like the capital gain earned by a natural person from the sale of debt securities (Article 68, paragraph 1, Item d) of the Rulebook).

Article 7, paragraph 1, item *illegible* of the Law on Profit Tax in the Republic of Srpska reads that revenues from interest on securities issued or guaranteed by Bosnia and Herzegovina Republic of Srpska, Federation of Bosnia and Herzegovina, Brčko District, units of local self-government, the Bosnia and Herzegovina Central Bank, companies, insurance companies, investment funds and banks or other financial institutions operating as authorized agents, shall not be included in the tax base calculation.

According to Article 12 of the Law on Profit Tax and Article 45 of the Rulebook on the implementation of the Law on Profit Tax, capital gains arising from the sale of securities shall not be included in the calculation of the profit tax base in the tax balance, while realized capital losses may not be included in the tax balance as a deductible item. The profit tax rate in the Republic of Srpska is 10%.

#### 4.3. Budget system

The budget system of the Republic of Srpska is governed by the Law on the Republic of Srpska budget system ("Official Gazette of Republic of Srpska", number: 121/12 and 52/14). The Law governs the preparation, planning, method of development and passage of the Republic of Srpska Budget, municipal and city budgets and financial plans of funds, the execution of the Republic budget, municipal and city budgets and financial plans of funds, just like borrowings, debt management and budget accounting, control and audit of the Republic Budget, municipal and city budgets and financial plans of funds.

Framework Budget Document of the Republic of Srpska is adopted by the Republic of Srpska Government, the Republic of Srpska Budget and the consolidated Report on the Execution of the Republic of Srpska Budget is adopted by the Republic of Srpska National Assembly. The adopted documents are published on the Republic of Srpska Government's Web page [www.vladars.net](http://www.vladars.net), under the Ministry of Finance section.

**Table 2: Republic of Srpska Budget and Execution of Budget for 2013 and 2014**

Econ. code	Description	RS Budget for 2013	Execution of RS Budget for 2013	RS Budget for 2014
1	2	3	4	5
	<b>A. BUDGET REVENUES (I + II)</b>	<b>1,580,444,000</b>	<b>1,521,415,089</b>	<b>1,540,574,000</b>
<b>710000</b>	<b>I Tax revenues</b>	<b>1,399,752,000</b>	<b>1,360,791,304</b>	<b>1,338,130,000</b>
711000	Revenues from income tax and profit tax	339,487,000	338,876,873	294,787,000
714000	Property taxes	11,570,000	11,610,931	10,573,000

SINGLE PROSPECTUS  
for the issues of bonds of Republic of Srpska in 2015  
Republic of Srpska - Ministry of Finance

715000	Sales taxes on products and services	695,000	2,368,696	11,154,000
717000	Indirect taxes transferred by the Indirect Taxation Authority	1,048,000,000	1,007,934,804	1,021,616,000
<b>720000</b>	<b>II Non tax revenues</b>	<b>180,692,000</b>	<b>159,779,575</b>	<b>202,444,000</b>
721000	Revenues from financial and non-financial assets and positive differences in exchange rates	46,631,000	19,893,650	70,722,000
722000	Fees, charges and revenues from provision of public services	105,583,000	109,673,480	102,521,000
723000	Fines	18,417,000	19,115,306	18,921,000
729000	Other non-tax revenues	10,061,000	11,097,139	10,280,000
	<b>B. BUDGET EXPENDITURES (I+II+III)</b>	<b>1,458,411,816</b>	<b>1,428,546,579</b>	<b>1,577,018,000</b>
<b>410000</b>	<b>I Current expenditures</b>	<b>1,180,777,116</b>	<b>1,160,380,900</b>	<b>1,208,971,000</b>
411000	Expenditures for personal income	656,639,400	655,236,877	694,095,100
412000	Expenditures for use of goods and services	97,729,416	94,160,848	93,963,000
413000	Financing expenditures and other financial expenditures	45,408,900	38,824,178	45,599,800
414000	Subsidies	112,320,700	112,810,511	98,234,900
415000	Grants	29,650,900	28,995,717	25,463,100
416000	Social welfare remittances paid from Republic, municipal and city budgets	239,027,800	230,352,768	251,615,100
<b>480000</b>	<b>II Transfers among budget units</b>	<b>277,460,700</b>	<b>268,165,679</b>	<b>345,047,000</b>
481000	Transfers among budget units at different levels of authority	247,251,500	239,497,372	296,842,000
482000	Transfers among budget units at the same level of authority	30,209,200	28,668,307	48,205,000
<b>***</b>	<b>III Budget reserve</b>	<b>174,000</b>	<b>0</b>	<b>3,000,000</b>
	<b>C. GROSS BUDGET SURPLUS/DEFICIT (A-B)</b>	<b>122,032,184</b>	<b>92,868,510</b>	<b>-16,444,000</b>
	<b>D. NET EXPENSES OF NON-FINANCIAL ASSETS (I-II)</b>	<b>-16,388,984</b>	<b>- 18,824,292</b>	<b>-79,950,100</b>
810000	I Income for non-financial assets	5,000,000	333,031	0
510000	II Expenses of non-financial assets	21,388,984	19,157,323	79,950,100
	<b>E. BUDGET SURPLUS/DEFICIT (C+D)</b>	<b>105,648,200</b>	<b>74,044,218</b>	<b>-96,394,100</b>
	<b>F. NET FINANCING (G+H)</b>	<b>- 105,648,200</b>	<b>-83,634,240</b>	<b>96,394,100</b>
	<b>G NET INCOME FROM FINANCIAL ASSETS (I-II)</b>	<b>-152,000</b>	<b>614,145</b>	<b>-100,000</b>
910000	I Income from financial assets	0	616,145	400,000
610000	II Expenses for financial assets	152,000	2,000	500,000
	<b>H. NET BORROWINGS (I-II)</b>	<b>-105,491,200</b>	<b>-84,248,386</b>	<b>96,494,100</b>
920000	I Income from debts	359,556,000	373,165,210	615,026,000
620000	II Expenses of repayment of debts	465,047,200	457,413,596	518,531,900
	<b>I. DIFFERENCE IN FINANCING (E + F)</b>	<b>0</b>	<b>- 9,590,023</b>	<b>0</b>

SINGLE PROSPECTUS  
for the issues of bonds of Republic of Srpska in 2015  
Republic of Srpska - Ministry of Finance

4.4. Gross public debt

4.4.1. External debt

The balance of external debt of the Republic of Srpska as of 31 December 2013 was BAM 2,675.35 million, of which:

- BAM 1,715.28 million was the Republic of Srpska (budget) debt,
- BAM 48.22 million was the debt of local self-government units
- BAM 911.85 million was the debt of public enterprises and the Investment Development Bank.

The share of the "new" debt in external debt structure amounts to BAM million 2,017.92 or 75.43%, with the "old" debt amounting to BAM million 657.43 or 24.57%.

The external debt is serviced on a regular basis and a total of BAM 241.87 million was paid in 2013 (of which BAM 208.63 million for repayment of the principal, and BAM 33.24 million for the repayment of interest rate, servicing and other costs, including bank commission).

Loans in the amount of BAM million 288.88 were withdrawn in 2013, of which BAM 117.28 million for investment projects and BAM 171.60 million to support the Budget.

Looking at the structure of loans by purpose of investment, the largest share belongs to the investments in public budget spending of 46.01%, then comes infrastructure with 43.77% share, and economic activities with 10.22% share.

**Table 3: Structure of total debt by creditors as of 31 December 2013**

CREDITORS	Amount in BAM	Share in debt in %
World Bank (WB IDA)	546,871,894.40	20.44%
European Investment Bank (EIB)	509,725,620.38	19.05%
International Monetary Fund (IMF)	314,717,889.96	11.76%
World Bank (WB IBRD)	307,481,853.80	11.49%
Paris Club	282,928,558.08	10.58%
European Bank for Reconstruction and Development (EBRD)	196,646,056.99	7.35%
London Club	144,857,757.07	5.41%
Republic of Korea	78,931,775.03	2.95%
European Commission	77,556,488.43	2.90%
Republic of Austria	73,546,013.25	2.75%
Republic of Poland	37,134,876.55	1.39%
International Fund for Agricultural Development (IFAD),	30,634,686.87	1.15%
Republic of Serbia	21,565,779.56	0.81%
Reconstruction Credit Institute Frankfurt am Main (KfW)	15,020,907.81	0.56%
Council of Europe Development Bank (CEB)	14,594,671.29	0.55%
Government of Japan	10,204,087.31	0.38%
Republic of Portugal	6,934,306.37	0.26%
Kingdom of Spain	3,799,583.92	0.14%
Government of Kingdom of Belgium	1,705,435.39	0.06%
OPEC Fund	492,221.18	0.02%
<b>TOTAL</b>	<b>2,675,350,463.57</b>	<b>100.00%</b>

**Table 4: Servicing of total external debt during the 2009-2013 period  
by type of liability**

*(in millions BAM)*

Description	2009	2010	2011	2012	2013
Repayment of principal	55.70	78.40	90.57	111.91	208.63
Interest and other expenses	35.29	30.13	36.07	39.56	32.80
Factorage	0.91	0.87	0.69	0.64	0.44
<b>TOTAL</b>	<b>91.90</b>	<b>109.40</b>	<b>127.33</b>	<b>152.10</b>	<b>241.87</b>

#### 4.4.2 Internal debt

The balance of internal debt as of 31 December 2013 amounted to BAM million 2,029.31, and relates to:

- the Republic of Srpska (budget) debt in the amount of BAM 1,405.74 million,
- the debt of local self-government units in the amount of BAM 345.93 million,
- the debt of social security funds in the amount of BAM 277.65 million.

The structure of the Republic of Srpska budget internal debt is as follows:

- projected internal debt (old foreign currency savings, war damage and general liabilities) in the amount of BAM 1,119.28,
- short-term debt (resulting from the issue of treasury bonds of the Republic of Srpska) in the amount of BAM 121.46 million,
- long-term debt (resulting from issued long-term bonds of the Republic of Srpska and long-term loans) in the amount of BAM 165.00 million.

During the 2002-2013 period, a considerable settlement of RS (budget) internal debt was apparent, both in cash and in continuous issues of bonds, where a total of BAM 757.93 million was paid for outstanding liabilities during the mentioned period.

A total of 16 issues of bonds amounting to BAM 765.27 million were carried out as of 31 December 2013, as follows:

- 5 issues for settlement of old foreign currency savings,
- 3 issues for general liabilities and
- 8 issues for war damages.

The RS (budget) internal debt was serviced on a regular basis in 2013, too, BAM 147.97 million was paid (of which BAM 130.33 million for repayment of principal, and BAM 17.65 million for repayment of interest rate, servicing and other expenses).

The debt of municipalities and funds as of 31 December 2013 was BAM 623.58 million, of which BAM 345.93 million was the debt of municipalities and BAM 277.65 million was the debt of social security funds.

The number of Republic of Srpska municipalities issuing bonds as a way to finance projects and liabilities is growing, which is contributing to a large extent to the development of capital market.

**Table 5. Public and total internal debt of Republic of Srpska as of 31 December 2013**

*(in million BAM)*

Internal debt		Amount	Share in total debt in %
1	Republic of Srpska (budget)	1,405.74	69.27%
2	Local self-government units	345.93	17.05%

SINGLE PROSPECTUS  
for the issues of bonds of Republic of Srpska in 2015  
Republic of Srpska - Ministry of Finance

3	Social security funds and Banja Luka Clinical centre	277.65	13.68%
4	<b>PUBLIC DEBT (1+2)</b>	<b>2,029.31</b>	<b>100.00%</b>
5	<b>TOTAL DEBT (1+2+3)</b>	<b>2,029.31</b>	<b>100.00%</b>

**Table 6. Structure of the Republic of Srpska (budget) internal debt as of 31 December 2013**  
(in million BAM)

Republic of Srpska (budget) internal debt		Amount	Share in total debt in %
1	Projected internal debt	1,119.28	55.16%
2	Short-term debt (arising from treasury bills)	121.46	5.98%
3	Long-term debt (arising from long-term bonds and long-term loans)	165.00	8.13%
4	<b>TOTAL (1+2+3)</b>	<b>1,405.74</b>	<b>69.27%</b>

**Table 7. Structure of balance of local self-government units' internal debt by borrowing instruments as of 31 December 2013 in BAM**

Borrowing instruments	Debt balance as of 31 12 2013	Share in %
Through a loan agreement	294,541,016	85.14%
Issuance of securities	51,388,240	14.86%
<b>TOTAL</b>	<b>345,929,257</b>	<b>100.00%</b>

**Table 8. Servicing of Republic of Srpska (budget) internal debt during the 2009-2013 period by type of liability**

Servicing	(in million BAM)				
	2009	2010	2011	2012	2013
Debt principal	46.91	56.46	108.22	147.23	130.33
Interest rate and other expenses	7.51	7.12	8.85	14.22	17.65
<b>TOTAL</b>	<b>54.43</b>	<b>63.59</b>	<b>117.07</b>	<b>161.45</b>	<b>147.97</b>

**Table 9. Total and public debt of Republic of Srpska as of 31 December 2013 and preliminary data for 2014**

Balance of debt			31 12 2013	end of 2014	Index	31 12 2013	end of 2014
			in million BAM			% in total debt	
1	External debt:		2,675.4	2,898.6	108.3	56.9%	57.2%
	1.1.	Republic of Srpska (budget)	1,715.3	1,870.5	109.0	36.5%	36.9%
	1.2.	Local self-government units	48.2	63.5	131.6	1.0%	1.3%
	1.3.	Public enterprises and Investment Development Bank	911.9	964.7	105.8	19.4%	19.0%
2	Internal debt		2,029.3	2,170.8	107.0	43.1%	42.8%

SINGLE PROSPECTUS  
for the issues of bonds of Republic of Srpska in 2015  
Republic of Srpska - Ministry of Finance

	2.1.	Republic of Srpska (budget)	1,405.7	1,530.8	108.9	29.9%	30.2%
	2.2.	Local self-government units	345.9	330.4	95.5	7.4%	6.5%
	2.3	Social security funds and Clinical Hospital Centre	277.6	309.7	111.6	5.9%	6.1%
3		RS (budget) debt (1.1.+2.1.)	3,121.0	3,401.3	109.0	66.3%	67.1%
4		Debt of local self-government units (1.2. + 2.2.)	394.1	393.8	99.9	8.4%	7.8%
5		Debt of social security funds and Clinical Hospital Centre (2.3.)	277.6	309.7	111.6	5.9%	6.1%
6		Debt of public enterprises and Investment Development Bank (1.3.)	911.9	964.7	105.8	19.4%	19.0%
7		<b>PUBLIC DEBT (3+4+5)</b>	<b>3,792.8</b>	<b>4,104.8</b>	<b>108.2</b>	<b>80.6%</b>	<b>81.0%</b>
8		<b>TOTAL DEBT (3+4+5+6)</b>	<b>4,704.7</b>	<b>5,069.5</b>	<b>107.8</b>	<b>100.0%</b>	<b>100.0%</b>

#### 4.4.3. Guarantees

The Republic of Srpska National Assembly gave its approval for the issuing of a total of five Republic of Srpska guarantees, and as of 31 December 2013 three guarantees of the Republic of Srpska were issued, as follows:

- guarantee issued to company a.d. "Vodovod i kanalizacija" Bijeljina in the amount of EUR 5.00 million, under the following conditions: repayment time 15 years, grace period 3 years, interest rate Euribor +1%, factorage 0.5%, one-time commission 1%;
- guarantee issued to a.d. "Željeznice Republike Srpske" in the amount of EUR 8.25 million, under the following conditions: repayment time 7 years, grace period of 2 years, interest rate six-month Euribor +5.1%, fee 0.2 %;
- guarantee issued to JP "Autoputevi RS" in the amount of EUR 150.00 million under the following conditions: repayment time 15 years, grace period of 3 years, interest rate Euribor+1%, Factorage 0.5%, one-time commission 1%.

The guarantees approved, but not issued by the Republic of Srpska Government as of 31 December 2013 include:

- guarantee for "Nikola Tesla" DOO Banja Luka's loan with business banks in the amount of BAM 12.00 million under the following conditions: repayment time up to 15 years, grace period included in the repayment time up to 2 years, interest rate variable or fixed up to 8%, and
- guarantee for KP Gradske Toplane a.d. Pale's loan with the European Bank for Reconstruction and Development (EBRD) in the amount of EUR 4.50 million under the following conditions: repayment time 15 years, grace period of 3 years included in the repayment time, interest rate six-month Euribor + 1%, factorage 0.5%, one-time commission 1%.

Loans amounting to BAM 168.61 million were withdrawn as of 31 December 2013 under the issued guarantees, with the balance of debt amounting to BAM 167.53 million.

**Table 10. Overview of issued Republic of Srpska guarantees as of 31 December 2013**

Creditor/ guarantee recipient	Guarantee beneficiary	Amount of guarantee		Amount withdrawn as of 31 12 2013	
		original currency (EUR)	BAM	original currency (EUR)	BAM
EBRD	"Vodovod i kanalizacija" Bijeljina	5,000,000.00	9,779,150.00	3,974,721.84	7,773,880.22
EBRD	JP "Autoputevi RS"	150,000,000.00	293,374,500.00	77,908,551.79	152,375,882.85

SINGLE PROSPECTUS  
for the issues of bonds of Republic of Srpska in 2015  
Republic of Srpska - Ministry of Finance

Unicredit bank	Željeznice RS*	4,556,357.08	8,911,459.87	4,326,725.23	8,462,339.01
<b>Total</b>		<b>159,556,357.08</b>	<b>312,065,109.87</b>	<b>86,209,998.86</b>	<b>168,612,102.07</b>

\*Annex to Loan Agreement modified the approved amount to EUR 4,556, 357.08. The loan was closed on 12 June 2013, and the Bank will book out the difference up to the amount approved.

#### 4.4.4. Macroeconomic indicators and debt sustainability indicators

The balance of Republic of Srpska total debt as of 31 December 2013 amounted to BAM 4,704.66 million, i.e. 53.70% of the GDP (GDP for 2013 was BAM 8,761 million).

The balance of Republic of Srpska public debt of 31 December 2013 amounted to BAM 3,792.81 million, i.e. 43.29% of the GDP.

The projected balance of external debt for 2015 in the table below is based on the amount of withdrawn loans increased by the amount of estimated withdrawals for projects under implementation, and reduced by the estimated amount of external debt servicing. We do note that the projected balance of external debt for 2015 does not include potential loans in various phases of preparation.

The basic risks in internal debt projections relate to:

- possibility of changes in legal provisions that would regulate the liability of internal debt settlement differently from the existing legal solutions, and would thus prevent repayment planning and controlling, and
- potential liabilities that would arise from a settlement of the restitution issue, and which would be the liabilities of the Republic of Srpska budget.

**Table 11. Analysis of sustainability of the Republic of Srpska debt**

(in million BAM)

DESCRIPTION		2009	2010	2011	2012	2013	2014**	2015***
1	External debt servicing	90.0	109.4	127.3	152.1	241.9	265.0	208.5
1.1	Republic of Srpska (budget)	63.20	77.52	87.09	102.34	184.7	200.7	133.5
1.2	Local self-government units				0.45	2.4	3.6	7.5
1.3	Public enterprises and Investment Development Bank	26.76	31.88	40.24	49.31	54.8	60.6	67.5
2	Internal debt servicing	54.4	53.9	158.6	247.5	246.0	248.7	392.1
2.1	Republic of Srpska (budget)	54.4	53.9	117.2	161.4	148.0	212.5	265.5
2.2	Local self-government units			41.1	47.4	52.2	57.5	57.3
2.3	Social security funds	0.00	0.00	0.03	38.7	45.8	47.3	69.3
<b>3</b>	<b>Servicing of total Republic of Srpska debt (1+2)</b>	<b>144.4</b>	<b>163.3</b>	<b>285.9</b>	<b>399.6</b>	<b>487.9</b>	<b>513.7</b>	<b>600.7</b>
4	Balance of external debt	1,857.6	2,196.6	2,396.1	2,653.2	2,675.4	2,898.6	3,208.1
4.1	Republic of Srpska (budget)	1,433.2	1,662.4	1,688.7	1,721.4	1,715.3	1,870.5	1,927.3
4.2	Local self-government units	18.1	23.4	27.1	33.0	48.2	63.5	85.5
4.3	Public enterprises and Investment Development Bank	406.3	510.8	680.4	898.8	911.9	964.7	1,195.3
5	Balance of internal debt	1,824.4	1,651.8	1,853.2	2,015.8	2,029.3	2,170.8	2,125.6
5.1	Republic of Srpska (budget)	1,421.9	1,347.5	1,440.7	1,410.1	1,405.7	1,530.8	1,598.1
5.2	Local self-government units	291.4	220.8	255.9	321.8	345.9	330.4	299.7
5.3	Social security funds	111.1	83.5	156.6	283.9	277.6	309.7	227.8
6	Republic of Srpska (budget) debt	2,855.1	3,009.9	3,129.4	3,131.5	3,121.0	3,401.3	3,525.4
7	Debt of local self-government units	309.5	244.1	283.0	354.8	394.1	393.8	385.2
8	Debt of social security funds	111.1	83.5	156.6	283.9	277.6	309.7	227.8
9	Debt of public enterprises and Investment Development Bank	406.3	510.8	680.4	898.8	911.9	964.7	1,195.3
<b>10</b>	<b>REPUBLIC OF SRPSKA PUBLIC DEBT (6+7+8)</b>	<b>3,275.7</b>	<b>3,337.5</b>	<b>3,568.9</b>	<b>3,770.2</b>	<b>3,792.8</b>	<b>4,104.8</b>	<b>4,138.4</b>

SINGLE PROSPECTUS  
for the issues of bonds of Republic of Srpska in 2015  
Republic of Srpska - Ministry of Finance

<b>11</b>	<b>REPUBLIC OF SRPSKA TOTAL DEBT (6+7+8+9)</b>	<b>3,681.9</b>	<b>3,843.3</b>	<b>4,249.4</b>	<b>4,669.0</b>	<b>4,704.7</b>	<b>5,069.5</b>	<b>5,333.6</b>
12	Gross Domestic Product*	8,236.3	8,318.2	8,682.4	8,585.0	8,760.7	8,608.5	8,792.5
14	Servicing of external debt (% GDP)	1.1%	1.3%	1.5%	1.8%	2.8%	3.1%	2.4%
15	Servicing of internal debt (% GDP)	0.7%	0.6%	1.8%	2.9%	2.8%	2.9%	4.5%
16	Servicing of total debt (% GDP)	1.8%	2.0%	3.3%	4.7%	5.6%	6.0%	6.8%
17	Balance of Republic of Srpska (budget) debt (% GDP)	34.7%	36.2%	36.0%	36.5%	35.6%	39.5%	40.1%
18	Balance of local self-government units' debt (% GDP)	3.8%	2.9%	3.3%	4.1%	4.5%	4.6%	4.4%
19	Balance of debt of social security funds and Clinical Hospital Centre (% GDP)	1.3%	1.0%	1.8%	3.3%	3.2%	3.6%	2.6%
20	Balance of debt of public enterprises and Investment Development Bank (% GDP)	4.9%	6.1%	7.8%	10.5%	10.4%	11.2%	13.6%
<b>21</b>	<b>Republic of Srpska public debt (% GDP)<sup>2</sup></b>	<b>39.8%</b>	<b>40.1%</b>	<b>41.1%</b>	<b>43.9%</b>	<b>43.3%</b>	<b>47.7%</b>	<b>47.1%</b>
<b>22</b>	<b>Republic of Srpska total debt (% GDP)<sup>3</sup></b>	<b>44.7%</b>	<b>46.3%</b>	<b>48.9%</b>	<b>54.4%</b>	<b>53.7%</b>	<b>58.9%</b>	<b>60.7%</b>
23	Export of goods and services*	1,672.9	2,177.8	2,560.8	2,374.7	2,588.1	2,731.7	2,927.0
<b>24</b>	<b>Servicing of external debt / Export (%)</b>	<b>5.4%</b>	<b>5.0%</b>	<b>5.0%</b>	<b>6.4%</b>	<b>9.3%</b>	<b>9.7%</b>	<b>7.1%</b>
<b>25</b>	<b>Balance of external debt / Export (%)</b>	<b>111.0%</b>	<b>100.9%</b>	<b>93.6%</b>	<b>111.7%</b>	<b>103.4%</b>	<b>106.1%</b>	<b>109.6%</b>

\*Republic of Srpska Institute of Statistics (data for 2008-2013 period); 2014 and 2015 is the projection of the Republic of Srpska Ministry of Finance;

\*\* Preliminary data;

\*\*\*Republic of Srpska Ministry of Finance's estimates.

#### 4.4.5. Debt Management

In the currency structure of debt as of 31 December 2013, the largest share belongs to BAM 43.13% and EUR 30.48%, with significant shares of another two currencies: SDR of 18.96% and USD of 3.45%.

From the point of view of volatility of interest rates, the debt is repaid under the following conditions:

- external debt
  - 47.38% of the debt is repaid under fixed conditions,
  - 52.28% of the debt is repaid under variable conditions.
  - repayment conditions have still not been specified for 0.34% of the debt (part of the debt towards the Paris Club Germany);
- internal debt
  - 77.45% of the debt is repaid under fixed conditions,
  - 22.55% of the debt is repaid under variable conditions.

61.57% of the total debt is in the repayment phase, with 38.43% of the total debt in the grace period.

From the point of view of maturity structure, 97.42% of the total debt is long-term debt, and only 2.58% is short-term debt.

From the point of view of debt instruments, 28.35% of the total debt structure belongs to securities, 66.27% to loans and 5.38% is the action plan and other cash liabilities.

<sup>2</sup> According to preliminary data, the public debt, which is, pursuant to the Law on Borrowing, Debt and Guarantees of the Republic of Srpska, subject to a 55% limitation, amounted to BAM 4,005.1 million, or 46.5% of GDP as of the end of 2014, and it is estimated that it will amount to BAM 4,012.3 million, or 45.6% of GDP, in 2015.

<sup>3</sup> According to preliminary data, the total debt, which is, pursuant to the Law on Borrowing, Debt and Guarantees of the Republic of Srpska, subject to a 60% limitation, amounted to BAM 4,969.8 million, or 57.7% of GDP, as of the end of 2014, and it is estimated that it will amount to BAM 5,207.5 million, or 59.2% of GDP, in 2015.

**Table 12. Structure of Republic of Srpska external debt by currencies**

BALANCE OF DEBT as of 31 12 2013			Share of currency in debt balance
Original currency	BAM		
EUR	733,270,421.21	1,434,152,287.94	53.61%
SDR	401,818,833.24	891,920,973.94	33.34%
USD	133,063,607.70	162,361,064.63	6.07%
CUP	5,120.48	109,211,389.61	4.08%
KRW	14,154,190.04	58,846,752.90	2.20%
JPY	215,118,002.00	10,204,087.31	0.38%
CHF	4,617,214.53	7,366,414.87	0.28%
SEK	22,029,834.04	666,615.60	0.02%
DKK	2,013,929.42	527,981.81	0.02%
CAD	70,123.81	92,895.04	0.003%
<b>Total external debt</b>		<b>2,657,350,463.57</b>	<b>100.00%</b>

#### 4.5. Foreign trade and balance of payments

In January 2014, the volume of external trade of the Republic of Srpska amounted to EUR 228,948,000, of which EUR 100,141,000 related to export and EUR 128,807,000 to import.

Foreign trade deficit amounted to EUR 28,666,000 in January 2014, with the rate of coverage of import by export of 77.7%.

In January 2014, the export increased by 16.6% compared to January 2013, while the import dropped by 12.9%.<sup>4</sup>

The volume of external trade of Republic of Srpska amounted to BAM 6,861.9 million in 2012, of which BAM 2,374.3 million related to export, and BAM 4,487.5 million related to import.

**Table 13. Bosnia and Herzegovina Balance of payments for the 2010-2012 period<sup>5</sup>**

		2010	2011	2012
<b>I</b>	<b>Current account (1+2+3+4)</b>	<b>-1,358.90</b>	<b>-2,429.30</b>	<b>- 2,450.30</b>
1.	Goods	-7,629.10	-8,346.10	-8,455.10
	Export	4,281.50	5,134.40	5,035.90
	Import	11,910.50	13,480.50	13,480.90
2.	Services	2,158.20	2,095.50	2,067.30
3.	Primary revenue	582.60	318.90	344.70
4.	Secondary revenue	3,529.40	3,502.40	3,582.80
<b>II</b>	<b>Capital account</b>	<b>389.30</b>	<b>355.40</b>	<b>298.40</b>
	<b>Capital and current account balance (I+II)</b>	<b>-969.60</b>	<b>-2,037.90</b>	<b>-2,151.90</b>
<b>III</b>	<b>Financial account (1+2+3+4)</b>	<b>-806.00</b>	<b>-1,922.20</b>	<b>-1,955.00</b>
1.	Direct investments	-363.50	-532.20	-907.90
2.	Portfolio investments	174.40	45.90	60.60

<sup>4</sup> Source: Republic of Srpska Institute of Statistics

<sup>5</sup> Source: BiH Central Bank's Annual Report for 2012

3.	Other investments	-875.30	-1,402.89	-1.180.40
4.	Reserve assets	258.40	-33.10	72.70
<b>IV</b>	<b>Net errors and omissions</b>	<b>163.50</b>	<b>151.80</b>	<b>196.90</b>
<b>Current account in % of GDP</b>		<b>-5.50</b>	<b>-9.50</b>	<b>-9.50</b>

#### 4.6. Foreign exchange reserves

Records of foreign exchange reserves are kept in a unified manner for entire Bosnia and Herzegovina and managed by the Bosnia and Herzegovina Central Bank.

*Table 14 Average balance of Bosnia and Herzegovina Central banks' foreign exchange reserves <sup>6</sup>*

Year	Amount (in million BAM)
2008	6,569.8
2009	6,072.9
2010	6,112.9
2011	6,114.2
2012	6,094.1
2013	6,572.7

#### 4.7. Revenues and expenditures

Total Republic of Srpska budget revenues in 2012 amounted to BAM 1,555.84 million. Total Republic of Srpska budget revenues in 2013 amounted to BAM 1,521.42 million.

Total Republic of Srpska budget expenditures in 2012 amounted to BAM 1,411.99 million. Total Republic of Srpska budget expenditures in 2013 amounted to BAM 1,428.55 million.

### 5. SIGNIFICANT CHANGES

#### 5.1. Statement about significant changes

Data contained in Item 4 of this Prospectus have been taken from laws and bylaws and documents adopted by the Republic of Srpska Government and the Republic of Srpska National Assembly.

### 6. COURT, ADMINISTRATIVE AND ARBITRATION PROCEEDINGS

#### 6.1. Information about court, administrative and arbitration proceedings

The Republic of Srpska is fulfilling its liabilities arising from court, administrative or arbitration proceedings in accordance with legal regulations that define the given area.

Funds are planned under the Republic of Srpska budget every year for timely execution of final judicial decisions.

<sup>6</sup> Source: BiH Central Bank's Annual Report for 2012

7. DOCUMENTS AVAILABLE FOR INSPECTION

The below-listed documents are available on the Republic of Srpska Government Web Page [www.vladars.net](http://www.vladars.net), under the Ministry of Finance<sup>7</sup> section:

- Republic of Srpska Budget,
- Framework Budget Document,
- Consolidated Report on Budget Execution,
- Debt Report and
- Economic Policy.

8. PREPARATION OF PROSPECTUS

The Prospectus has been prepared by the Republic of Srpska Ministry of Finance.

/seal:  
REPUBLIC OF SRPSKA  
MINISTRY OF FINANCE  
BANJA LUKA/

**MINISTER**  
*/handwritten signature/*  
**Zoran Tegeltija PhD**

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<sup>7</sup> <http://www.vladars.net/sr-SP-Cyrl/Vlada/Ministarstva/mf/Pages/Default.aspx>