12/20

REPORT

on condition of the banking system of Republika Srpska

АГЕНЦИЈА ЗА БАНКАРСТВО
РЕПУБЛИКЕ СРПСКЕ

REPORT

on condition of the banking system of Republika Srpska for period 01/01/2020 – 31/12/2020

Banja Luka, April 2021

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Abbreviations

BiH	Bosnia and Herzegovina
LP	Leasing Provider
EBA	European Banking Authority
EIR	Effective interest rate
ESCB	European System of Central Banks
EU	European Union
ECL	Expected Credit Loss
IM	Impairment
KM	Convertible mark
LCR	Leverage Coverage Ratio
MCA	Microcredit Asociation
MCO	Microcredit organization
MCF	Microcredit Foundation
IAS	International Accounting Standard
IFRS	International Financial Reporting Standards
NPL	Non-performing Loans
POS	Point of Sale
ROAA	Return on Average Assets
ROAE	Return on Average Equity
SREP	Supervisory Review and Evaluation Process
SeC	Securities
HHI	Hirschman-Herfindahl Index
CR	Concentration Ratio

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SUMMARY

Basic indicators of the RS banking sector operations as of 31/12/2020:

RS banking sector is comprised of 8 banks with the total number of employees standing at 2,969 where such banks operate through a network of 284 organizational units.

Total banking sector assets amounted to 9.7 billion KM with a growth rate of 3% or by 287.4 million KM if compared to the end of 2019.

RS banking sector net assets amounted to 8.5 billion KM with a growth rate of 2.5% or by 210.9 million KM, and the total off-balance sheet amounted to 1.2 billion KM with a growth rate of 7% or by 76.4 million KM if compared to the end of 2019.

In the structure of total assets, loans have the largest share of 61.8% and recorded an increase of 0.3 percentage points, trading securities increased their share by 1.3 percentage points and accounted for 11.8% of total assets, while cash funds maintained a share of 21.6% compared to the end of 2019. Other asset items have a small share in total assets.

Total bank capital amounted to 1 billion KM and accounted for 12.4% of total liabilities and recorded increase by 10.8 million KM or by 1% if compared to the end of 2019, out of which share capital amounted to 674 million KM.

Own funds amounted to 1 billion KM and increased by 41.8 million KM or by 4% if compared to the end of 2019. Tier 1 capital amounted to 922.9 million KM and increased by 23.3 million KM or by 3%, while Tier 2 capital amounted to 95.3 million KM and increased by 18.5 million KM or by 24% if compared to the end of 2019. Changes in the trend of all categories of capital occurred due to the effects of the application of new regulations, recapitalization in one bank, coverage of losses from the previous period in one bank and profit distribution.

The ratio of own funds of the RS banking sector amounted to 19.3% and increased by 1 percentage point if compared to the end of 2019 and is higher by 6.3 percentage points than stipulated minimum of 12%. At the RS banking sector level, all other capital ratios (Common Equity Tier 1 ratio and Tier 1 ratio) were significantly above stipulated minimum.

Leverage ratio (ratio of Tier 1 and total exposure) at the RS banking sector level amounted to 10.4% and remained the same if compared to the end of 2019, i.e. higher by by 4.4 percentage points if compared to regulatory stipulated minimum of 6%.

Total exposure of banks or total financial assets as as of 31/12/2020 amounted to 9.7 billion KM, of which 8.6 billion KM refers to balance sheet exposures, and 1.1 billion KM to off-balance sheet exposures.

In 2020, balance sheet exposures increased by 205.5 million KM or 2%, while off-balance sheet exposures increased by 65.5 million KM or 6%.

Due to the significant write-off of non-performing loans, the ratio of coverage by impairment, i.e. the ratio of ECL on total financial assets amounted to 4% and decreased by 0.4 percentage points compared to the end of 2019. If we look at financial assets classified according to credit risk levels, the coverage by ECL for exposures allocated to credit risk level 1 increased from 0.6% to 0.8%, the coverage for exposures allocated to credit risk level 2 increased from 9% to 10.8% and for exposures allocated to the level of credit risk 3 there was an increase from 77.1% to 81.5%, compared to the end of 2019.

Total loans accounted to 61.8% of gross balance sheet assets and amounted to 5.5 billion KM with a growth rate of 1% or by 30.5 million KM if compared to the end of 2019. If the impact of the accounting write-off is excluded, in the period from 01/01/2020 to 31/122020, the gross loans increased by 149.7 million KM or 2.8%. The largest share in total loans of 46.8% still represent loans extended to private individuals amounting to 2.6 billion KM with a growth rate of 3% or by 70.7 million KM, while loans extended to private companies accounted to 34.9% of total loans and decreased by 3% or 65.5 million KM if compared to the end of 2019. Loans to government and government institutions increased their share in total loans by 0.4 percentage

points and accounted for 12.4% of total loans with an increase of 30.0 million KM or 5%, while loans to public and state-owned enterprises decreased their share to 4.5% of total loans and are lower by 6.2 million KM or 2%, loans to non-banking financial institutions also recorded growth and are higher by 3.1 million KM or 6% compared to the end of 2019.

Non-performing loans, i.e. loans classified in credit risk level 3 (NPL) amounted to 287.5 million KM and decreased by 24.2% or by 92.2 million KM if compared to the end of 2019.

The share of NPL in total loans decreased from 6.9% to 5.2% mostly as a result of the application of new regulations which define the obligation to write off non-performing loans.

The share of NPL of legal persons in total loans of legal persons amounted to 5.5%, which is by 1.5 percentage points lower if compared to the end of 2019, while the share of NPL of private individuals in total loans of private individuals amounted to 5.1%, which is by 1.7 percentage point lower if compared to the end of 2019.

The coverage ratio of total loans by ECL under IFRS amounted to 6.5% and recorded decrease by 0.4 percentage points if compared to the end of 2019.

The coverage ratio of total NPL by ECL under IFRS amounted to 80.8% and increased by 3 percentage points if compared to the end of 2019.

In 2020, the temporary measures covered 20% or 1.4 billion KM of total gross loans placed by banks from Republika Srpska and business units of banks based in the Federation of BiH. Temporary measures have expired for loans in the amount of 966 million KM, and another 387.6 million KM or 5.5% of total loans placed by banks from Republika Srpska and business units of banks based in the Federation of BiH are still active, of which grace period and moratorium accounts to 70.9 million KM.

Cash funds amounted to 1.9 billion KM or 21.6% out of total assets with an increase rate of 2% or by 33.7 million KM if compared to the end of 2019. The most significant share of cash funds in the amount of 1.3 billion KM or 69% is held at the reserves accounts at the Central Bank of Bosnia and Herzegovina and remained at the same level as at the end of 2019, out of which 700 million KM or 52.8% of total funds at the reserves accounts refers to regulatory reserves, and 624.7 million KM or 47.2% refers to the funds above regulatory reserves.

Investments in securities amount to 1.1 billion KM, which is 12% of total assets and increased by 139.7 million KM or 15% compared to the end of 2019. In the structure of securities issued by states and governments, securities issued by Republika Srpska of 78.6% with a growth rate of 25%, i.e. in the amount of 164.4 million KM, and Slovenia with a share of 13.7% and growth of 11% or in the amount of 13.8 million KM compared to the end of 2019, have a dominant share,.

Deposits, as the main source of bank operations funding, with the share of 76.6% in total liabilities amounted to 6.5 billion KM and recorded increase by 109.4 million KM or by 2% if compared to the end of 2019. Deposits of private individuals have the largest share of 59.2% in deposit structure with the increase of 165.5 million KM or by 4% if compared to the end of 2019. Increase was recorded in public and state enterprises deposits by 49.9 million KM or 18%, private deposits by 40.3 million KM or 4%, non-profit organizations by 5.1 million KM or 5% and other deposits by 3.3 million KM or 24% if compared to the end of 2019. The decrease in deposits compared to the end of 2019 was recorded at government institutions by 28.4 million KM or 4%, banks and banking institutions by 104.7 million KM or 22% and non-banking financial institutions by 21.7 million KM or 7%.

Private individual savings, also including current accounts, amounted to 3.7 billion KM and increased by 156 million KM or 5% if compared to the end of 2019. Termed savings accounted for 73.8% of total private individual savings and recorded a decrease of 1%, and sight deposits, excluding private individual current accounts, accounted for 26.2% of total private individual savings and recorded an increase of 1% if compared to the end of 2019. Private individual sight savings increased by 1% compared to the end of 2019, while term savings recorded a decrease of 1%, to which banks must pay special attention when setting interest rates and managing the maturity mismatch of assets and liabilities.

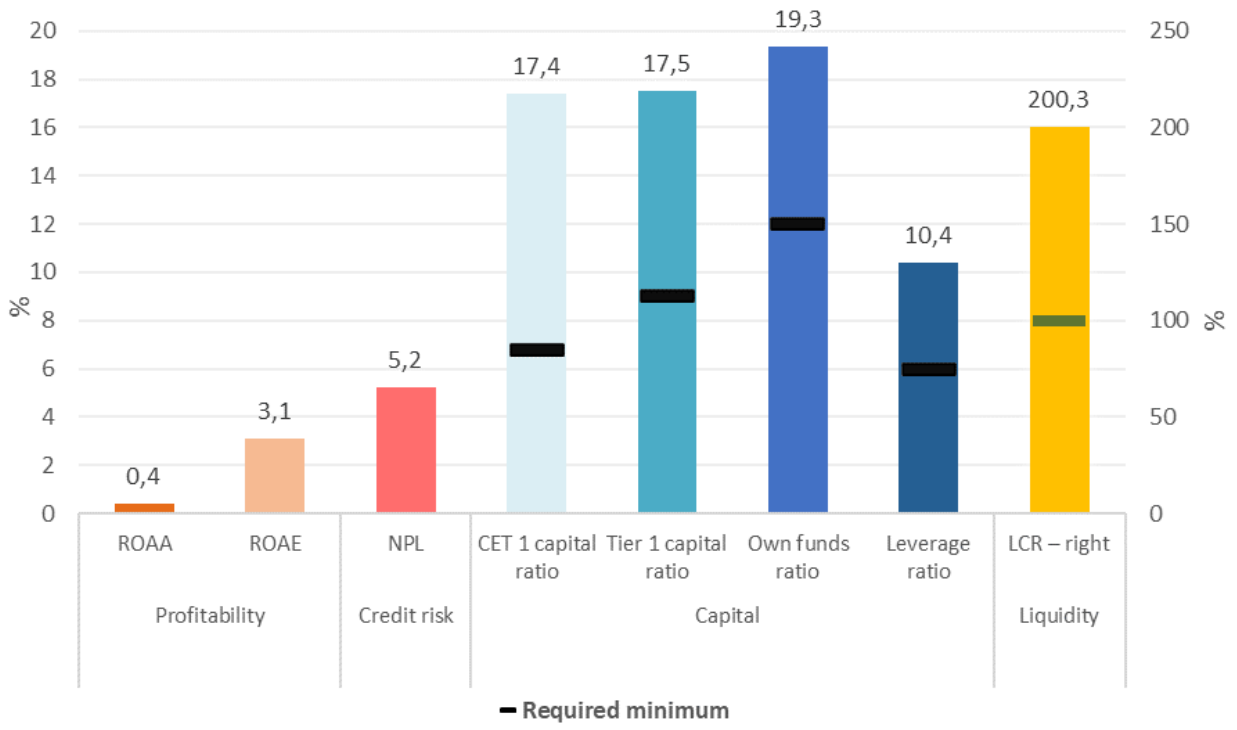
Total obligations per loans taken amounted to 678.3 million KM with the share of 8% of total liabilities and increased by 76.9 million KM or 13% if compared to the end of 2019.

Having in mind basic liquidity indicators, qualitative and quantitative requirements, as well as other factors which influence banks' liquidity position, it can be concluded that the liquidity at the RS banking sector level is satisfactory. As the deadline for the application of special measures to mitigate the consequences of the COVID-19 pandemic has been extended, banks must continue to pay special attention to liquidity risk management.

Based on the report of banks based in Republika Srpska as of 31/12/2020, seven banks reported net profit (gross profit less calculated tax) in the total amount of 60.8 million KM, which is lower by 35.8 million KM or 37% compared to the same period in 2019. One bank reported a loss of 8 million KM. The rate of return on equity is 5.1% and is lower by 4.6 percentage points compared to the end of 2019, which indicates a significant decline in profitability compared to the end of 2019, which was largely affected by the crisis caused by the pandemic viral disease "COVID-19".

The following graph provides an overview of key operation indicators of the banking sector of banks from Republika Srpska:

Graph 1. Key indicators of business operations of Republika Srpska banks



In Republika Srpska, 7 banks seated in the Federation of BiH have 52 organizational units, and the same extended loans in total amount of 1.6 billion KM or 22.5% of total loans extended in Republika Srpska, with a growth rate of 5% if compared to the end of 2019. Stated organizational units received deposits in Republika Srpska in the total amount of 1 billion KM or 13.4% of total deposits received in Republika Srpska, with a growth rate of 8% if compared to the end of 2019.

Banks seated in Republika Srpska have 28 organizational units which operate in the Federation of BiH and the same extended loans in the amount of 273.7 million KM, with a growth rate of 4% if compared to the end of 2019, and received deposits in the amount of 360.5 million KM, with a growth rate of 12% if compared to the end of 2019.

All segments of the banking sector shall be analyzed in detail in Chapter II.

* * *

As of 31/12/2020, RS MCO sector comprised of 14 microcredit organizations (MCO), out of which there where 12 microcredit associations – MCA, as profit organizations which may extend micro loans maximum up to 50 thousand KM and 2 microcredit foundations - MCF, as non-profit organizations which may extend micro loans maximum up to 10 thousand KM. RS MCOs operated through a network of over 146 organizational units, and employed in total 556 persons, with a growth rate in employment of 3.3% if compared to the end of 2019.

Additionally, in RS there were 129 organizational units belonging to 9 MCOs (7 MCF and 2 MCA) with head office in FBiH, and employed in total 342 persons, with a growth rate in employment of 7.5% Financial indicators of those organizational units are included in balance sheets of their mother MCOs.

Basic indicators of the RS MCO sector operations as of 31/12/2020:

Total assets (gross) of MCO seated in RS amounted to 428.6 million KM and was higher by 63.2 million KM or by 17% if compared to the condition at the end of 2019.

Gross loans amounted to 348.7 million KM or 81% of total gross assets with a growth rate of 18% or in the amount of 52.5 million KM, out of which loans without delay in repayment amounted to 333.2 million KM or 95.5% of total loans.

Receivables due amounted to 3.8 million KM or 1.08% of total loans.

Average weighted effective interest rate on total MCO loans was 23.55%, and was higher by 0.99 percentage points if compared to the end of 2019.

MCO capital (MCA capital and MCF holding) amounted to in total 139.6 million or 34% of total liabilities, with a growth rate of 12% or in the amount of 14.5 million KM if compared to the end of 2019, and related to MCA capital in the amount of 138.6 million KM and MCF holding in the amount of 1 million KM.

Total liabilities of MCOs on loans / borrowings amounted to 256.3 million KM with an increase at the rate of 20% or in the amount of 42.8 million KM compared to the end of 2019.

MCO reported net profit/the excess of revenues over expenses in the amount of 12.4 million KM, which was lower by 12% or 1.7 million KM if compared to net profit/the excess of revenues over expenses reported on 31/12/2019.

Organizational units of MCOs seated in FBiH operating in RS, extended in total 172.1 million KM, with a growth rate of 5% or in the amount of 8.7 million KM if compared to the end of 2019, out of which loans without delay in repayment amounted to 167.8 million KM or 97.5% of total loans.

All segments of the microcredit sector operation shall be analyzed in detail in Chapter III.

* * *

In the period from January to December 2020, there were no registered saving-credit organizations in Republika Srpska.

* * *

In the period from January to December 2020, there were no registered leasing providers (LP) with headquarters in RS.

Operating license was issued by the Agency to 3 LP business units which operate in RS, and the same are part of 3 LP associations with headquarters in FBiH. Balance sheet positions of these organizational units are included in the balance sheet of parent LPs.

Also, one bank business unit with headquarters in FBiH performs financial leasing operations in RS (BLP-bank leasing provider), where such operations are included in the balance sheet of the same.

Basic indicators of LP and BLP operations as of 31/12/2020:

LP business units (3 organizational units), with headquarters in FBiH which operate in RS, employed in total 7 persons.

Financial leasing of LP and BLP business units amounted in total 104.3 million KM or 89% of total leasing, with a growth rate of 11% if compared to the end of 2019.

Operational leasing of LP business units amounted to 13.3 million KM or 11% of total leasing, with a decrease rate of 11% if compared to the end of 2019.

Receivables towards leasing beneficiaries are most significant in legal persons in the total amount of 106.3 million KM or 90% of total leasing (financial and operational leasing in the total amount of 117.6 million KM), with a growth rate of 9% if compared to the end of 2019.

The average weighted effective interest rate of the leasing fee (ELIN) based on the financial leasing of LP and BLP business units in this reporting period is 9.5% and is higher by 0.77 percentage points compared to 2019.

All segments of the leasing provider sector shall be analyzed in detail in Chapter IV.

* * *

At the level of RS banking system, total private individual loans are comprised of loans of banking sector, microcredit sector and receivables per financial leasing, which as of 31/12/2020 amounted to 3,396.5 million KM[1] or 2,902.1 KM per capita in RS (per capita indebtedness in RS as of 31/12/2019 amounted to 2,846 KM). According to the results of the 2013 census in Republika Srpska and BiH, the total number of enumerated persons for the territory of Republika Srpska is 1,170,342.

[1] Due to changed manner of montoring retail loans, indicator has been reduced for loans extended to self-employed entrepreneurs for the purpose of performing business operations .

INTRODUCTION

Pursuant to the Law on Banking Agency of Republika Srpska ("Official Gazette of Republika Srpska" number 59/13 and 4/17) the banking system of Republika Srpska includes banks, microcredit organizations, leasing providers, and other financial organizations whose founding and operation is regulated by separate laws where it is stipulated that the Banking Agency of Republika Srpska (hereinafter: Agency) shall issue operating licenses or approvals, and shall supervise operations, and perform other activities related to such organizations.

As part of the regular execution of legally stipulated competencies, the Agency compiles and publishes on its website quarterly information on the situation in the banking system, which is previously adopted by the Management Board of the Agency.

The report on the condition of RS banking system, as of 31/12/2020, includes macroeconomic environment and overview of the banking sector operations, reports on the condition of banking sector, microcredit organization sector, and leasing providers sector, as well as a separete segment on anti money laundering and financing terrorist activities relating to all sectors, and is compiled based on reports submitted in the form defined by the Agency and based on other information available to the Agency obtained by continuous supervision.

This report includes a detailed report on financial performance indicators for 2020.

I MACROECONOMIC ENVIRONMENT AND OVERVIEW OF BANKING SECTOR OPERATIONS

Unlike previous years, during 2020, the banking sector of Republika Srpska operated in an extremely turbulent regional and global environment caused by an unprecedented shock caused by the pandemic of the "COVID-19" virus. The International Monetary Fund (IMF) published economic forecasts in October 2020, calling the document *A Long and Difficult Ascent*[2], forecasting a significant decline in global economic activity of -4.4% in 2020, unprecedented since World War II. In January 2021, this document was updated[3] and the decline in economic activity worldwide was estimated at -3.5% with significant assumptions about the growth of the global economy in the next year, 2021 (5.5%). This correction was made thanks to an unexpected increase in the volume of production and world trade in the second half of 2020.

During 2020, the RS banking sector maintained liquidity at a satisfactory level, which is especially reflected in the high liquidity coverage ratio (LCR), as well as the amount of funds above the required reserve with the CBBH. Despite the unfavorable business circumstances, the total balance sheet increased by 3% compared to the end of 2019, with an improvement in asset quality, primarily through a significant reduction in the share of non-performing loans, both legal persons and private individuals, and an increase in their coverage ratio under all credit risk levels. The RS banking sector in 2020 was also characterized by a smaller increase in the amount of loans and deposits, but also a significant decrease in net profit of banks caused by the pandemic, compared to previous years.

In the continuation of this chapter of the Report, the international economic environment, macroeconomic trends in Republika Srpska and their impact on the banking sector of Republika Srpska, macroeconomic indicators and their connection with bank performance indicators, as well as changes in the regulatory framework of the banking sector during 2020 are analyzed.

1.1. International economic environment and banking operations in the EU

During 2020, the same as in the previous period, the European Central Bank (ECB) kept the interest rate low, which created pressure to reduce interest rates both in the banks of the euro zone countries and in the surrounding countries. The average amount of six-month *EUROBIR* during 2020 ranged from -0.367% (the highest -0.114%, the lowest -0.526%) with less fluctuations during the indicated period[4]. On the other hand, the US Federal Reserve (FED), after last year's reduction to 1.55%, from February to April 2020 reduced the interest rate to a low 0.05%, to remain at approximately the same level (0.09%) until the end of 2020[5].

As can be seen from Graph 1, inflationary pressures have completely disappeared, which has opened up space for central banks for unprecedented monetary expansion. The main interest rate of the European Central Bank (*MRO - Marginal Refinancing Operations*) has been at zero for the fifth year in a row, and the US Fed lowered the interest rate to almost zero with a series of lowering the main interest rate in March and April 2020.

[2] Long and Difficult Ascent, IMF, October 2020 https://www.imf.org/en/Publications/WEO/Issues/2020/09/30/worldeconomic-outlook-october-2020

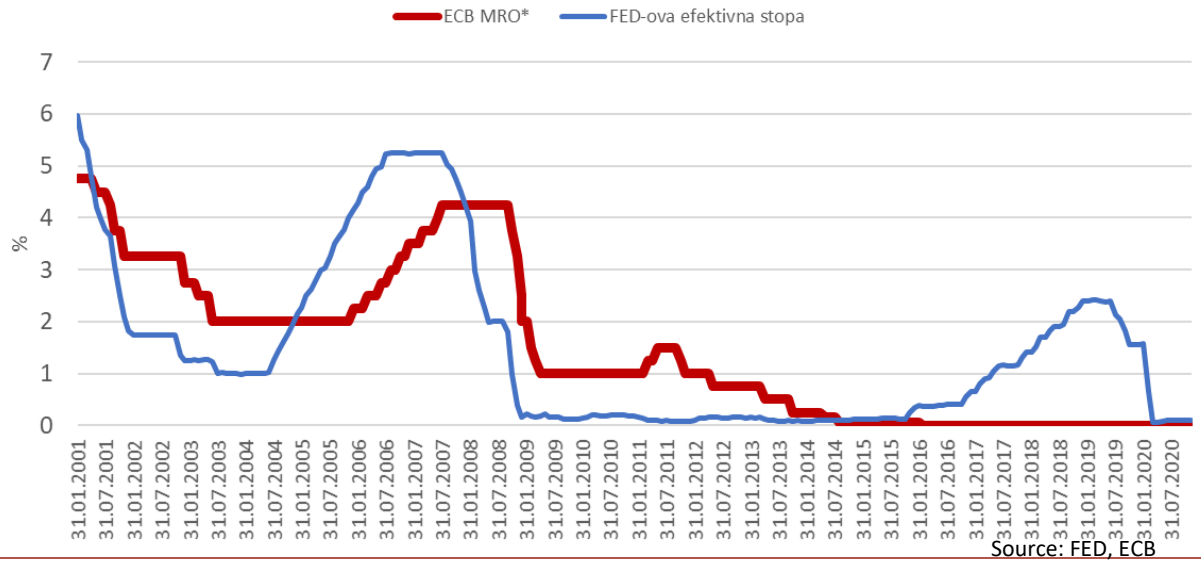
[3] World Economic Outlook Update, IMF, January 2021 https://www.imf.org/en/Publications/WEO/Issues/2021/01/26/2021-world-economic-outlook-update

[4] http://www.global-rates.com/interest-rates/euribor/2020.aspx Data on the amount of the rate refer to the first working day of the month.

[5] https://fred.stlouisfed.org/series/FEDFUNDS

In such extraordinary conditions of recession, interest rates do not represent a sufficiently strong monetary instrument, which is why central banks around the world have started with additional measures of quantitative easing of monetary policy. The possibilities of repurchasing not only government securities have been expanded, with more favorable collateral value requirements. The conditions for direct refinancing of banks (*ECB's TLTRO III - Targeted Longer-Term Refinancing Operations*) have been relaxed, and new and expanded existing instruments have been introduced to assist in pandemic conditions (e.g. *PELTRO - Non-Targeted Pandemic Emergency Longer-Term Refinancing Operations, PEPP - Pandemic Emergency Purchase Program, APP - Asset Purchase Program*). The FED has introduced the possibility of repurchasing securities of certain investment funds (*ETFs - Exchange Traded Funds*) and direct lending to large corporations, and the ECB has abandoned the principle of capital key, which means that when buying bonds of individual eurozone member states flexibly interprets the resulting national quotas from the participation of individual countries in the capital of the central bank.

Graph 2. Main interest rates of leading central banks (ECB and FED)



Source: FED, ECB

The ECB has twice expanded its securities repurchase program under the PEPP program. This program, as a non-standard monetary measure aimed at counteracting the serious risk of the Monetary Policy Transmission Mechanism and the prospects for the euro area due to the pandemic of the viral disease "COVID-19", was launched in March 2020 in the amount of 750 billion euros, to be expanded by another 600 billion euros in June, and an additional 500 billion euros in December. The earliest end date of this program is March 2022, with the ECB retaining the possibility of extending it depending on the state of the economy. The principal and interest on the bonds to be collected in the meantime will be reinvested at the latest by the end of 2023[6]. The previous Asset Purchase Program (APP) also continued, with a government bond purchase rate of up to € 20 billion per month. The total amount of pandemic monetary intervention of 1.850 billion euros represents about 10% of the GDP of the European Union, or 14% of the GDP of the Eurozone[7]. Stability of interest rates results from such extensive monetary interventions. Also, automatic stabilizers that are triggered when a critical event occurs, as is the case with the last pandemic, are no less important.

This unprecedented monetary expansion was made possible by the fact that pandemic shock created strong deflationary pressures. Average annual inflation in euro area countries during 2020 was only 0.2%, which is significantly lower than the declared ECB threshold of up to 2%. However, a more flexible interpretation of this target could be expected in the future, and the US Fed, which is also implementing a monetary expansion program with a quantitative easing, announces the possibility of temporarily

6 https://www.ecb.europa.eu/mopo/implement/pepp/html/index.en.html#:~:text=The%20ECB's%20pandemic%20emergency%20purchase,(COVID%2D19)%20outbreak.

7 https://www.focus-economics.com/country-indicator/eurozone/gdp-eur-bn

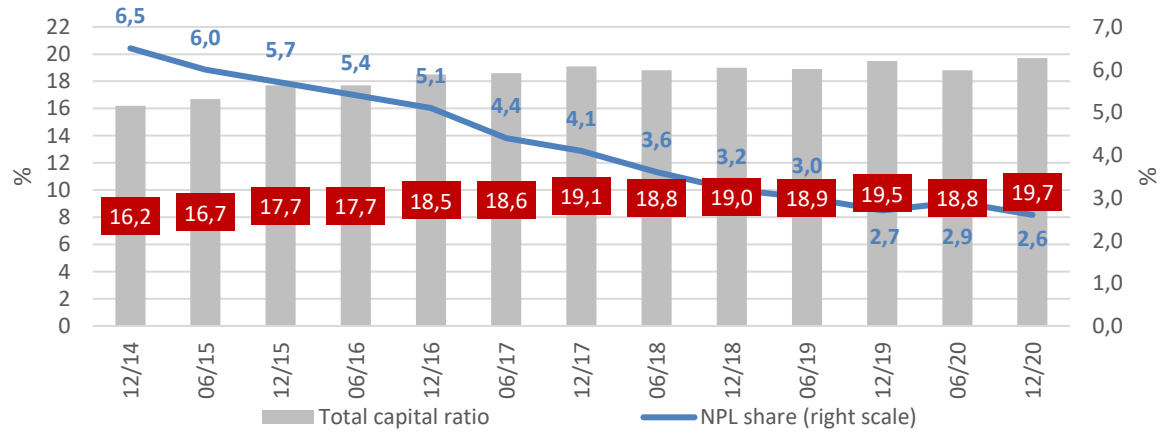
allowing the annual inflation rate to exceed 2%. The first signs of a return in inflation are recorded in early 2021, mainly as a result of rising oil prices on the world market. Consumer prices in BiH also decreased by 0.8% in 2020.

Even in crises of much less strength, there is often an escalation of risks and disturbances in the financial markets. However, the size of the ECB's intervention ensures the continuation of the period of low interest rates without significant disruptions. Although the risks of individual countries are different (notice the difference in yield between the Italian and German ten-year bonds in Table 1), the situation in terms of interest rates generally remains favorable, which is reflected in the banks in our country. Thanks to the currency board and integration with banking groups headquartered in euro area countries, banks in the domestic market are maintaining high liquidity in this crisis, which reduces or eliminates significant pressures on interest rate growth.

At the very beginning of the pandemic, the prevailing view was that the expected depth of the recession could not be overcome only by monetary policy measures, and most countries, in addition to financial and monetary, also use measures of fiscal expansion. In the area of financial policy, two instruments are applied: (1) adjustment of regulations and supervision of banks in order to enable the normal operation of clients with temporary difficulties in repayment due to the one-time impact of the "COVID-19" crisis; (2) the introduction of state guarantee schemes to encourage lending during periods of crisis. Both instruments are applied in Bosnia and Herzegovina.

Recognizing that the priority of banks is to continue operating in a pandemic, the European Banking Agency (EBA) has postponed the stress tests of banks in the European Banking Union for 2021 and called on national regulators to flexibly interpret regulations, especially in the area of application of IFRS 9. In addition, an interpretation was published on March 25, which eliminates the need to reclassify earlier performing loans, in case the lender estimates that the intervention in the loan agreement (moratorium, loan rescheduling) was temporarily caused by the "COVID-19" crisis. One of the reasons for such a flexible supervisory approach, apart from the severity of the crisis itself, lies in the belief that European banks are stable and strong enough to withstand the impact of the crisis. Capital adequacy ratios have long been kept at a relatively high average level of around 19%, and the share ratio of non-performing loans (NPL) in total loans continued to improve, reaching a low 2.6% at the end of 2020.

Graph 3. NPL and ratios of total capital of banks in EU and ratios of total capital of banks in EU



Source: Risk Dashboard Data as of Q4, 2020, *EBA*

The capital of banks in such a strong crisis is a guarantee of preserving savings and the value of creditors' claims. However, capitalization alone cannot guarantee the continuation of the credit cycle. New lending depends on risk assessments, which are very difficult, sometimes impossible, in crisis conditions, which is why a large number of countries have decided to introduce special guarantee schemes whereby governments take a significant part of the risk of new loans and banks are exposed to credit risk to a lesser extent. These guarantee schemes are most often approved on a portfolio basis, which means that the public interest in maintaining the flow of credit is directed towards the target market segments, while the final debtor is chosen by the bank itself according to its own criteria. Most often, these are micro, small and medium-sized enterprises, which are among the first to have limited access to credit due to higher risk during the crisis period. In some countries, there are sectoral guarantee schemes as well as those depending on the purpose of the loan (for liquidity, for investments, etc.).

The values of these schemes vary greatly between countries depending on the fiscal capacity to bear the risk because some of them are not firmly predetermined, but are adjusted as needed, and there is also no universal principle for their organization. The most common forms of organization are guarantee schemes managed by public development banks, and the largest value of state subsidies for liquidity loans and guarantee schemes in the European Union was approved by Italy (about 32% of GDP) and Germany (about 27% of GDP). On the other hand, much smaller amounts (between 2 and 4% of GDP) were approved in Greece, Denmark and the Netherlands[8].

According to the latest EBA Risk Report[9], the ratio of banks' CET1 in the European Union increased slightly from 15.0% at the end of 2019 to 15.6% at the end of 2020. The total capital ratio is 19.7% and is slightly higher compared to the end of 2019 (19.5%), while the share of NPL (NPL ratio) is constantly declining compared to the end of 2019, and is slightly decreased from 2.7% to 2.6%. According to the latest available data, the share of NPL in total loans in Serbia was 3.5% (data for August 2020) [10], and in Croatia 5.4%[11].

According to the same report, the loan-to-deposit ratio at the end of 2020 was 112.2% (December 2019: 114.9), and the ratio of return on equity in banks under the supervision of the EBA decreased significantly and amounted to 2.0 % (December 2019: 5.7%).

When it comes to macroeconomic indicators, the expected decline in GDP in 2020 in the US, as the world's largest economy, is -3.4% annually (Table 1), and the estimate of GDP decline for the critical period of the second quarter, at a time when restrictions on movement and activity were strongest, was high -32.9% compared to the first quarter. In the third quarter, the US economy recorded significant growth of 33.4%, and in the fourth 4.3%, primarily due to the growth of personal consumption and investment and increased production of durable and consumer goods[12]. In the European Union (EU), the first estimates say that economic activity is expected to contract, by -7.2% in 2020 in the euro area countries, and -7.6% in the entire Union. Preliminary estimates for the fourth quarter of 2020 show a decline in GDP of -0.5% compared to the previous quarter (Austria -4.3%, Italy -2.0%, France -1.3%, euro area countries -0.7% compared to the previous quarter.) However, if we compare with the same quarter of the previous year, the decrease in economic activity is many times greater, which clearly shows the scope and strength of the economic consequences of the pandemic[13].

According to an IMF report[14], global economic growth for 2020 is estimated at -3.5%. Previous projections (-3.0%, WEO, April 2020, IMF) have been revised downwards for both Emerging and Developing Countries and Developed Countries (USA), primarily due to a significant spread of the viral disease pandemic "COVID-19", and in connection with that and economic disturbances (closing of borders, economic facilities,

8 Anderson, Julia at al. (2020): The Fiscal Response to the Economic Fallout From the Coronavirus; *Bruegel Datasets*.

9 Risk Dashboard Report; *European Banking Authority*, Q4 2020 https://www.eba.europa.eu/sites/default/documents/files/document_library/Risk%20Analysis%20and%20Data/Risk%20dashboard/Q4%202020/972092/EBA%20Dashboard%20-%20Q4%202020.pdf

10 https://www.nbs.rs/sr/scripts/showcontent/index.html?id=16134&konverzija=yes

11 https://www.hnb.hr/statistika/statisticki-podaci/financijski-sektor/druge-monetarne-financijske-institucije/kreditne-institucije/bankovna-supervizija/pokazatelji-poslovanja-kreditnih-institucija (data as of 31.12 2020)

12 U.S. Bureau of Economic Analysis

13 Eurostat

14 IMF WEO (Oct. 2020, Update Jan. 2021) https://www.imf.org/en/Publications/WEO

reduction of employees, reduced mobility of goods and services, disruption of supply chains, reduction of production and consumption, etc.).

Table 1. Selected macroeconomic indicators

%

DESCRIPTION	2016.	2017.	2018.	2019.	2020*.
Gross domestic product growth (GDP)					
Globally	3,3	3,8	3,5	2,8	-3,5
Developed economies	1,8	2,5	2,2	1,6	-4,9
USA	1,7	FALSE	3,0	2,2	-3,4
	1,9	2,6	1,8	1,3	-7,2
European Union	2,1	3,0	2,3	1,7	-7,6
Emerging and Developing countries	4,5	4,8	4,5	3,6	-2,4
European Emerging and Developing countries	1,9	4,1	3,3	2,2	-2,8
Slovenia	3,1	4,8	4,1	2,4	-6,7
Croatia	3,5	3,1	2,7	2,9	-9,0
Serbia	3,3	2,0	4,4	4,2	-3,0
Bosnia and Herzegovina	3,1	3,2	3,7	2,7	-6,5
Republika Srpska	3,5	3,1	3,9	2,5	-3,5
Federation BiH	2,9	3,2	3,8	2,6	n/a
Consumer price change (CPI), annual average					
Developed countries	0,7	1,7	2,0	1,4	0,7
European Emerging and Developing countries	5,5	5,6	6,4	6,6	5,2
EURO zone	0,2	1,5	1,8	1,2	0,4
Bosnia and Herzegovina	-1,6	0,8	1,4	0,6	-0,8
The most important interest rates					
6M EURIBOR ***	-0,04	-0,2	-0,3	-0,2	-0,5
Bond yield (10Y, Germany) ****	0,3	0,3	0,2	-0,4	-0,6
Bond yield (10Y, Italy) ****	1,9	1,8	3,0	1,2	0,6

** Expected values for 2020 (IMF, WEO Oct. 2020, Jan. 2021); ** Data on projected GDP growth in the FBiH during 2020 were not available at the time of report drafting *** Data for the period refer to EURIBOR on the first working day of the year. **** EUROSTAT for EU Member States, 10-year yield used to calculate the Maastricht criteria: data for the last month of the reporting period*

Source: IMF, EUROSTAT, entity statistical institutes, Ministry of Finance of Republika Srpska, EURIBOR.

As a consequence of the above, the growth of the world economy slowed down compared to the previous year, but there is also an obvious improvement in the third and fourth quarters of 2020. It can be concluded that private consumption is still the strongest driver of growth, given the fact that the expansionary monetary policy pursued through a policy of low interest rates (by the ECB and the Fed) has not led to greater investment momentum worldwide, on the contrary, to a decrease in the growth rate in almost all developed countries, and in this connection also in developing countries due to the global integration of the world economy. When the negative impact caused by the pandemic is added to everything, it should come as no surprise that economic indicators are deteriorating, and it is a consolation that a more significant recovery is expected as early as 2021.

However, it should be noted that the estimated GDP figures for 2020 have a much smaller decline in developing countries compared to developed countries. The reason for this phenomenon can be found in the quick responses of the governments of some countries regarding the latest crisis, as well as the fact that underdeveloped, i.e. developing economies have a more unfavorable structure of the economy, and are insufficiently connected with the world economy in terms of for example tourism or exports, especially when it comes to the export of higher processing products with higher added value. In times of crisis, the trend of GDP generally does not depend so much on the size of the economy, but primarily on its structure and dependence on international economic flows. As an example, we can cite FR Germany, which is forecast to reduce GDP in 2020 by -5.4%, and the reason is the extremely high share of industrial exports (especially cars) in total country exports (projected GDP reduction for the US in 2020 amounts -4.3%, euro

zone countries -7.2%, France -9.0%, Italy -9.2%, Spain -11.1%, Great Britain -10.0%). In this sense, it has been shown that less developed countries that have a lower share of tourism or exports in GDP have a projected smaller decline in economic activity in 2020. The projected decline in GDP in Republika Srpska as well as in the Republic of Serbia is -3.5%.

1.2. Macroeconomic trends in Republika Srpska

Based on available data, and having in mind the fact that final data on all macroeconomic indicators for 2020 have not been published yet, but projections, it is expected to be influenced by weaker external demand and a significant decrease in economic activity during the second quarter of 2020. As a result of the negative impact of the crisis caused by the pandemic, the economic growth of Republika Srpska in 2020 slowed down compared to the previous year and amounted to -3.5%.

Table 2. Basic macroeconomic indicators –Republika Srpska **%**

DESCRIPTION	2016.	2017.	2018.	2019.	2020.
GDP growth – real	3,5	3,1	3,9	2,5	-3,5*
Consumer price index	98,8	100,5	101,2	100,5	98,8
Gross investments in fixed assets (index)	106,6	92,8	116,5	95,2	n/a
Import (index)	101,3	110,7	106,6	91,6	93,5
Export (index)	109,8	121,2	107,6	96,5	93,8
Coverage of import by export	64,8	71,0	71,7	75,5	75,7
Unemployment rate (LFS)	24,8	21,0	17,2	11,7	11,0*
Average net salary (KM, net)	836	831	857	906	956
GDP *per capita* (KM)	8.320	8.740	9.304	9.848	9.557*

* Forecast for 2020.

Source: *Republic of Srpska Institute of Statistics (theme publications), Program of economic reforms of Republika Srpska for period 2021-2023,* Republika Srpska Framework Budget Document for period 2021-2023; RS Government

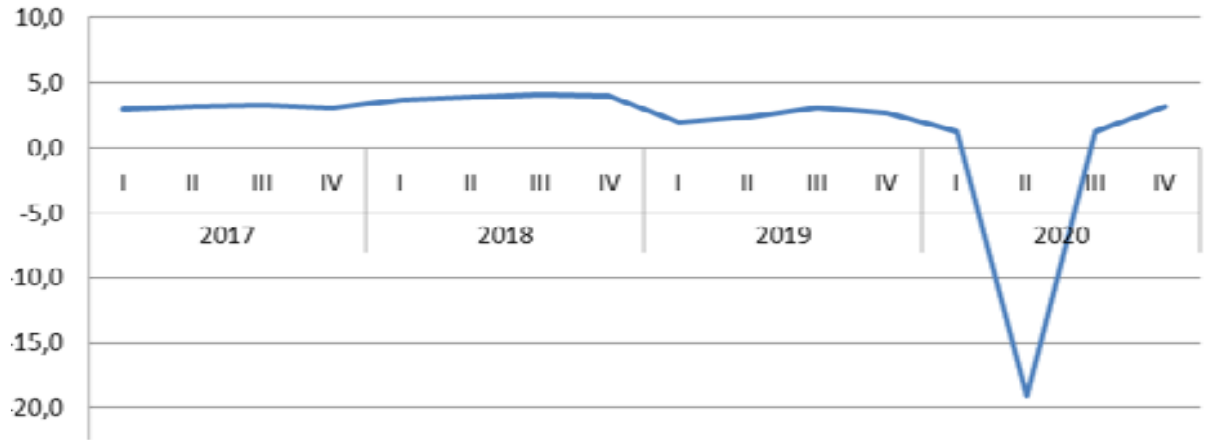
During 2020, the projected reduction in private consumption in Republika Srpska is 3.6%, primarily due to uncertainty regarding the level of wages, reduction of foreign remittances, fear of losing a job and other factors that have a negative impact on the propensity to spend. It can already be said with certainty that some areas of the economy, such as tourism, catering, traffic, etc. are most affected by the negative impact of the crisis and it is not realistic to expect encouraging data on their recovery by the end of 2020. In addition, the expected decline in the activity of the construction sector, the reduction of foreign direct investments, somewhat lower lending activity to legal entities and similar factors will affect the reduction of investments in Republika Srpska during 2020. On the other hand, due to the measures of the Government of Republika Srpska to mitigate the negative effects of the pandemic, restrictive measures to combat it, support the economy and increase public health spending, government spending is expected to grow by 2.8%.

Given the contribution of core inflation[15], and having in mind the fact that import prices have the greatest impact on the trend of prices of other goods, the slight decrease in consumer price indices during 2020 was primarily due to lower prices of petroleum products worldwide (average decline in crude oil prices world market in 2020 was over 20%[16]) and the domestic market (largely as a result of limiting the margin on petroleum products), reduced imports, but also a gradual increase in domestic demand associated with the growth of average wages. However, significant growth in consumption, and thus the impact on GDP and new production, was absent during the first half of 2020 due to the pandemic, and during the last two quarters, as expected, there was a gradual normalization of economic flows.

[15] When regulated prices, prices of fruits and vegetables and prices of petroleum products are excluded from the consumer price index, the basis for measuring core inflation is obtained. In other words, core inflation does not include the prices of seasonal goods and services, nor the prices of goods that are under any regulatory regime.

[16] https://www.macrotrends.net/2516/wti-crude-oil-prices-10-year-daily-chart

Graph 4. GDP growth rates per quarters with forecast by the end of 2020 (in %)



Source: Republika Srpska Framework Budget Document for period 2021-2023

Although the initial estimate of GDP trends by quarters during 2020 was quite pessimistic (especially for the second quarter), the latest data from the Republic of Srpska Institute of Statistics[17] show that the largest decline in GDP during 2020 in the second quarter was -6.8%, while after that there was a milder recovery, and the decline in economic activity in the third quarter was reduced to -3.4%.

Total spending, which accounts for over 80% of GDP in Republika Srpska, is expected to be about 2.3% lower. The biggest contribution to the decline in consumption is the consumption of households due to a possible reduction in the number of employees, reduction of salaries and remittances from abroad. Data on private consumption are expected to show signs of recovery in the second half of 2020, while consumption in some industries (e.g. catering and tourism) is unlikely to recover by the end of the year.

The RS Government, i.e. the Republic Emergency Situations Headquarters, since the first appearance of the corona virus, in addition to caring for the health of the population, which is the first priority in this situation, has paid special attention to analyzing the situation in the economy, with an emphasis on those activities that are directly affected by the decisions of the Republic Emergency Situations Headquarters..

The increased engagement of Republika Srpska institutions in the fight against the spread of the epidemic and preserving the stability of the health system (increased health expenditures in order to strengthen the capacity and resources of the health sector) and economic stability (assistance through the IDB and the Republika Srpska Guarantee Fund) is evident, and economic measures to reduce the negative effects of the epidemic are planned, so that an increase in government spending in GDP can be expected, which will partially offset the decline in private consumption. The largest decline in economic activity was recorded in the second quarter, while according to data for the third and fourth quarters of 2020, we can speak of a slight recovery[18].

In this regard, during 2020, the RS Government and the Republic Emergency Situations Headquarters passed a number of acts (decisions, conclusions and measures) with the aim of improving the situation in the economy and amortizing the negative effects of the pandemic on economic activity in Republika Srpska.

Within the financial sector, the RS Government, in cooperation with the EBRD, amended the Law on the Guarantee Fund of Republika Srpska to provide a new guarantee line to support businesses to start a new business cycle. Part of the funds for these purposes is provided by the RS Government, and the other part will be provided through the EBRD credit line. In addition, the amendments to the Placement Rules of the Investment - Development Bank of Republika Srpska provided very favorable credit funds through commercial banks, and opened the possibility for the purchase of receivables of economic entities that they claim from the public sector.

Having in mind all the above, as well as the details of the report on the condition in the banking system of Republika Srpska in 2020, especially in the part related to capitalization and liquidity, and business adjustment in the conditions of the pandemic viral disease "COVID-19", it can be concluded that the

17 Republic of Srpska Institute of Statistics, Press Release No. 96/21

18 Ibid.

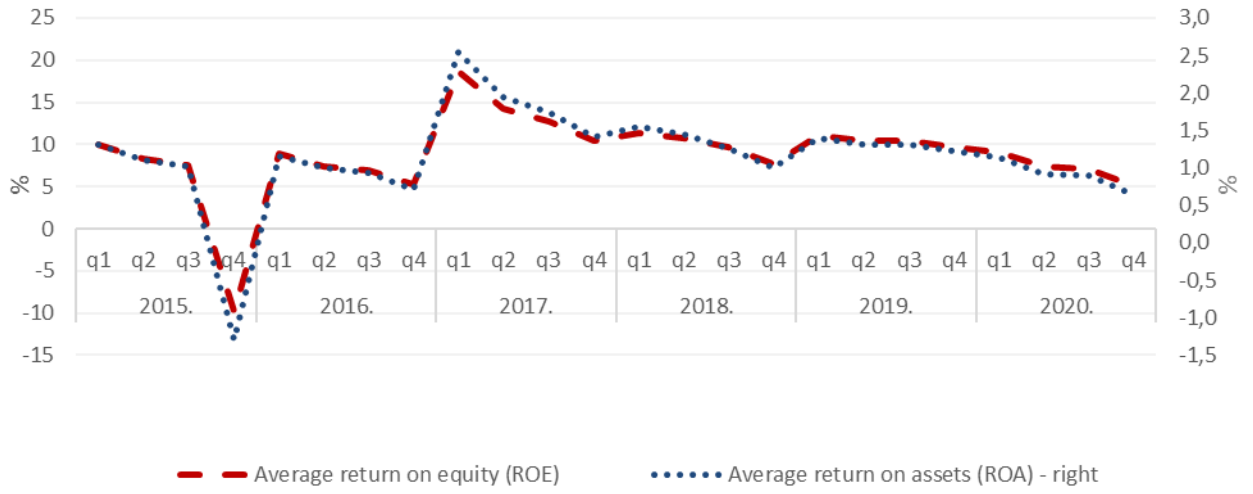
banking sector of Republika Srpska shows stability, as well as the possibility of financial monitoring and active support and participation in the economic development of Republika Srpska.

1.3. Impact of macroeconomic trends on the banking sector

At the end of 2020, the banking sector of Republika Srpska had total assets of 9.7 billion KM, which is 89% in relation to the projected GDP at the end of 2020.

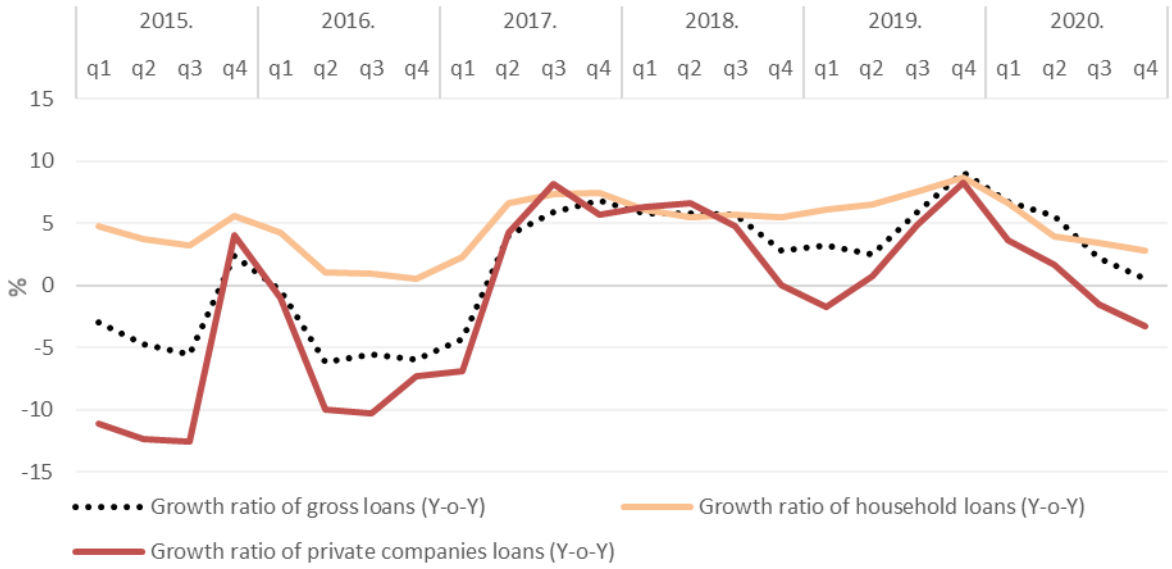
According to available data, during the observed period (2016-2020), gross domestic product (GDP) had a complex annual growth rate (CAGR) of 3.12%, while total assets for eight banks in Republika Srpska had a growth rate of 6.57%, and loans 5.71%. As the final data on GDP for 2020 were not published during the preparation of the Report, it should be noted that they represent projections by the Ministry of Finance of Republika Srpska - Economic Reform Program. During 2020, and especially in the second quarter, a significant impact of the pandemic of the viral disease "COVID-19" on certain segments of banks' operations, and above all on profitability, is evident.

Graph 5. Profitability of the Republika Srpska banking sector



Analyzing the operations of the banking sector of Republika Srpska, it is evident that under the influence of the pandemic during 2020, there was a decrease in credit activity of banks, as the most important segment of their operations, which we can see from the following graph.

Graph 6. Credit growth of the RS banking sector



Bearing in mind that during the observed period, retail loans had a slightly higher average growth rate than total loans, it can be concluded that retail loans are mostly a generator of growth in total loans, and thus the assets of the banking sector. If we look only at 2020, we can see that total loans, despite the pandemic, had a smaller growth (1.4%), which is significantly lower than the average for the observed period.

Such low credit activity during 2020 is the result of the application of new regulations on the basis of which accounting and permanent write-off of bad loans was executed in a smaller amount than the total growth of credit activities, but also the negative impact of the pandemic on overall economic activities, especially reducing consumption, which was reflected in the operations of the banking sector of Republika Srpska.

Total deposits at the level of the banking sector during the observed period had a slightly higher average growth rate than the lending indicator and amounted to 7.06% (retail 8.38%). However, the negative impact of the pandemic on this segment of banks' operations is evident here as well, compared to the end of 2019, bearing in mind that in 2020 total deposits grew by a modest 2.0%, so that economic uncertainty during 2020 led to to lower absolute growth of total deposits compared to the average annual growth for the observed period.

Table 3. Ratio of macroeconomic and RS banking sector indicators **%**

DESCRIPTION	2016.	2017.	2018.	2019.	2020.	CAGR
Gross domestic product (mil. KM)	9.630,6	10.077,0	10.679,6	11.251,0	10.890,0	3,12%
Total assets (mil. KM)	7.537,3	8.084,8	8.781,8	9.433,8	9.721,2	6,57%
Loans (mil. KM)*	5.458,2	5.899,3	6.145,1	6.721,3	6.814,6	5,71%
Loans – retail (mil. KM)	2.382,1	2.539,4	2.724,4	2.970,4	2.997,6	5,91%
Population no. ***	1,2	1,2	1,2	1,2	1,2	0,00%
Average net wage (KM)	836	831	857	906	956	3,41%
Total deposits (mil. KM)**	5.448,0	5.821,7	6.512,7	7.016,1	7.158,3	7,06%
Deposits – retail (mil. KM)	3.007,9	3.279,5	3.608,6	3.966,0	4.149,5	8,38%
Total assets/ BDP (%)	78,3	80,2	82,2	83,8	89,3	3,34%
Loans/ BDP (%)	56,7	58,5	57,5	59,7	62,58	2,51%
Loans retail/ Population no (Loans retail per capita, (KM))	2.035,4	2.169,8	2.327,8	2.538,1	2.561,3	5,91%
Loans per capita/ Average net wage	2,4	2,6	2,7	2,8	2,7	2,42%

Total deposits/ BDP (%)	56,6	57,8	61,0	62,4	65,73	3,82%
Retail deposits/ Population no. (Retail deposits per capita, (KM))	2.570,1	2.802,2	3.083,3	3.388,7	3.546	8,38%
Retail deposits per capita/ Average net wage	3,1	3,4	3,6	3,7	3,71	4,80%

Source: Republic of Srpska Institute of Statistics, various publications (retail, wages, GDP, emplyed)

Banking sector data: Annual reports on the condition of the RS banking system for 2016, 2017, 2018 and 2019

Program of economic reforms of Republika Srpska for period 2021-2023. Republika Srpska Framework Budget Document for period 2021-2023

Own calculations

Note:

* Total loans are loans that banks from Republika Srpska placed in Republika Srpska reduced by their placements in the FBiH and increased by the placements of banks seated in the FBiH operating in Republika Srpska.

** Total deposits are deposits of banks from Republika Srpska, reduced by their deposits in the FBiH and increased by deposits of banks based in the FBiH operating in Republika Srpska.

*** 2011 census data.

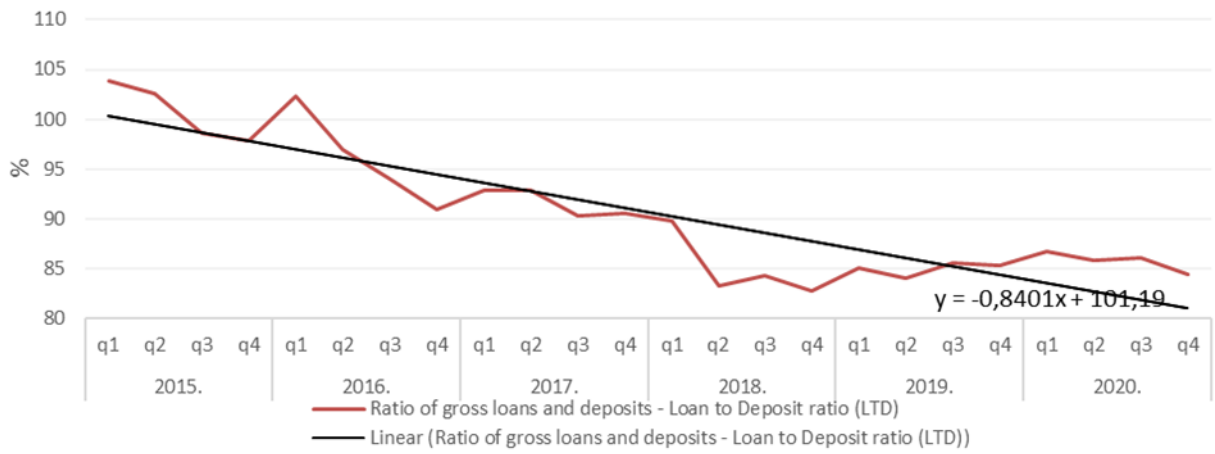
CAGR – Compound Annual Growth Rate

If we look at the relative indicators, it can be estimated that during the period 2016-2020, the ratio of total assets to GDP grew at an average rate of 3.34%, while the ratio of loans to GDP during the same period had a slightly lower average growth rate (2.51%). From the presented data we can conclude that economic growth was not entirely generated by credit indebtedness, but partly in other ways (e.g. stocks of liquid assets), but it is significant to note the growth of total loans and GDP during the observed period.

The ratio of loans placed to retail of the banking sector of Republika Srpska and the total number of population[19] speaks of the average indebtedness of the population of Republika Srpska in the banking sector, i.e. the amount of *per capita* retail loans. During the observed period, the growth of this indicator is noticeable at an average rate of 5.91% and at the end of 2020 it amounted to 2,561.3 KM.

If we compare the retail deposits and the number of population, we see that this indicator has a higher average growth rate (8.38%) than the growth rate of loans to retail *per capita* (5.91%), therefore, retail deposits grow faster than the growth of its indebtedness, although interest rates on both deposits and loans remained low during the observed period. For that reason, the loan-to-deposit ratio had a linear downward trend, which confirmed the positive trends that enable the growth of deposits and loans in conditions of economic growth and relatively low interest rates, while improving the quality of bank assets. Also, the mentioned data indicates a constant improvement of the liquidity position of banks in Republika Srpska, but also an insufficient placement of credit funds of banks.

Graph 7. Ratio of gross loans and deposits



The reasons for the faster growth of deposits than retail indebtedness, i.e. banks' placements, in the observed period should be sought in the low propensity of the population to borrow due to uncertainty in future events (job uncertainty, higher marginal propensity to retail savings, lack of diverse supply of

[19] Source: Population number – 2013 census data.

alternative investment opportunities, etc.). Also, the reasons may be sought in still inadequate existing offer of banking sector products, their inadequate adjustment to current conditions or the lack of new products or existing products under more favorable conditions, that would direct part of the retail deposits to loans, which should be understood as a general remark related to this indicator in the observed period. Although banks have a significant surplus of funds (amount above the required reserve at the CBBH), it is evident that the lending of the base, especially under new circumstances, that is able to create significant and sustainable economic growth is not sufficiently present.
One of the consequences of the above is the insufficient level of domestic investments, on which the increased demand of the population for durable and consumer goods would have a positive impact, and thus positive effects would be reflected in the overall economic development of Republika Srpska.

1.4. Banking sector regulatory framework

In 2020, the Agency continued its activities on a comprehensive reform of the regulatory framework for banking operations and supervision with the aim of improving the existing regulatory framework and harmonizing it with the best European and international practices. A significant part of the activities in the regulatory framework was related to the development of an interim regulatory framework, which was adopted in response to the crisis caused by the pandemic of the viral disease "COVID-19".

Regulatory and supervisory activities were carried out in accordance with the planned activities, but given the pandemic, the plans and priorities of the Agency in 2020 were periodically changed and adjusted to new challenges. The Agency's activities were aimed at preserving the stability, liquidity, good capitalization and security of the banking sector of Republika Srpska.

Significant technical assistance to strengthen banking supervision was provided by USAID through a long-standing project to strengthen banking supervision and resolution capacity. Activities continued on the development of a new regulatory framework for financial reporting (FINREP), a new regulatory framework for calculating and reporting on the ratio of net stable sources of financing (NSFR), amending the regulatory framework for the bank's management system, building capacity to support supervision (models, methodologies, reports, standards), as well as updating the methodology for supervisory stress testing. In the part of resolution, activities are aimed at strengthening the capacity in determining key functions in the bank, adopting the approach of minimum requirement for own funds and liabilities (MREL approach), as well as updating resolution plans.

The pandemic of the viral disease "COVID-19" has led to various challenges in the functioning and maintenance of key functions of banks. By adopting an interim regulatory framework, and in response to the crisis caused by the pandemic of the viral disease "COVID-19", the Agency defined a clear, flexible and realistic framework for the operations of banks and MCOs. The adoption of the interim by-law framework was preceded by detailed analyzes of the impact of temporary measures on capital, liquidity, NPL and profitability. The adopted interim acts enabled banks and MCOs to adjust when adopting temporary measures for all clients that are directly or indirectly affected by the negative consequences of the pandemic. In September 2020, the Agency adopted a second package of measures aimed at stimulating lending activities that would contribute to the growth of economic activities, employment and economic development.

As part of the above activities, the following bylaws were adopted:

- Decision on the Amendments to the Decision on minimum standards for foreign exchange risk management of banks[20],
- Decision on bank liquidity risk management[21],
- Decision on the Amendments to the Decision on bank operations with persons in a special relation with a bank[22],
- Decision on the Amendments to the Decision on calculating capital in banks[23],

[20] „Official Gazette of Republika Srpska“, No. 56/20
[21] „Official Gazette of Republika Srpska“, No. 79/20
[22] „Official Gazette of Republika Srpska“, No. 99/20
[23] „Official Gazette of Republika Srpska“, No. 114/20

- Decision on outsourcing management[24],
- Decision on ICAAP[25],
- Instructions for assessing the value of collateral[26],
- Instructions for reporting on the liquidity coverage ratio[27],
- Instruction on repealing the Instruction on the application of the provisions of the Decision on liquidity risk management related to the calculation of the liquidity coverage ratio - No. 2/19,
- Amendment to the Instructions for classification and valuation of financial assets,
- Instruction for application of particular provisions of the Decision on calculating capital in banks,
- Decision on banks temporary measures to mitigate the negative economic consequences caused by the viral disease "COVID-19"[28],
- Decision on temporary measures regarding the submission of reports to the Banking Agency of Republika Srpska[29],
- Decision on temporary method of reporting to the Banking Agency of Republika Srpska[30],
- Decision on the Amendments to the Decision on banks temporary measures to mitigate the negative economic consequences caused by the viral disease "COVID-19"[31],
- Decision on banks temporary measures to mitigate the negative economic consequences caused by the viral disease "COVID-19"[32],
- Instruction on reporting on the application of special measures in accordance with the Decision on banks temporary measures to mitigate the negative economic consequences caused by COVID-19,
- Instruction for drafting recovery plans for the bank and the banking group in 2020,
- Instruction for the treatment of loans included in the guarantee program of economic support for mitigating the consequences of the pandemic of the viral disease "COVID-19".

An overview of the adopted bylaws and instructions is available on the Agency's website.

[24] „Official Gazette of Republika Srpska“, No. 114/20
[25] „Official Gazette of Republika Srpska“, No. 127/20
[26] „Official Gazette of Republika Srpska“, No. 77/20
[27] „Official Gazette of Republika Srpska“, No. 86/20
[28] „Official Gazette of Republika Srpska“, No. 27/20
[29] „Official Gazette of Republika Srpska“, No. 27/20
[30] „Official Gazette of Republika Srpska“, No. 30/20
[31] „Official Gazette of Republika Srpska“, No. 56/20
[32] „Official Gazette of Republika Srpska“, No. 89/20

II BANKING SECTOR

1 BANKING SECTOR BASIC DATA

Banking sector of Republika Srpska, on the reporting date 31/12/2020, consists of 8 banks and there was no change compared to the end of 2019. The organizational network consists of 284 organizational units of banks based in Republika Srpska and 52 organizational units of banks based in the Federation of BiH.

1.1 Organizational structure

In relation to the end of 2019, banks seated in Republika Srpska reduced their organizational structure by 4 organizational units, while banks seated in the Federation of BiH operating in Republika Srpska retained the same number of organizational units. Three banks seated in Republika Srpska have 28 organizational units operating in the Federation of BiH. The number of "POS" terminals decreased in banks seated in Republika Srpska by 184, and increased by 162 in banks seated in the Federation of BiH and operating in Republika Srpska if compared to the end of 2019. The number of ATMs increased by 2 in banks seated in Republika Srpska, and by 5 in banks seated in the Federation of BiH.

The following table shows the organizational structure of banks in Republika Srpska as of 31/12/2020.

Table 4. RS banks and organizational units of banks from FBiH operating in RS

Banks	Business unit/Branch	Other organizational unit	"POS"	ATM
I RS banks				
"Nova banka" a.d. Banja Luka	15	51	2.399	109
"UniCredit Bank" a.d. Banja Luka	36	0	8	58
"NLB banka" a.d. Banja Luka	9	42	2.276	73
"Sberbank" a.d. Banja Luka	12	15	1.333	42
"Addiko Bank" a.d. Banja Luka	29	0	0	51
"MF banka" a.d. Banja Luka	12	16	0	26
"Komercijalna banka" a.d. Banja Luka	11	9	13	25
"Naša banka" a.d. Bijeljina	6	21	0	10
Total I	**130**	**154**	**6.029**	**394**
II Org. units of banks from FBiH operating in RS				
"UniCredit Bank" d.d. Mostar	4	0	1.087	13
"ProCredit Bank" d.d. Sarajevo	1	1	0	7
"Raiffeisen Bank" d.d. Sarajevo	8	20	2.040	65
"Intesa SanPaolo banka" d.d. Sarajevo	3	3	9	11
"Sparkasse Bank" d.d. Sarajevo	6	0	0	10
"Ziraat Bank" d.d. Sarajevo	3	0	17	6
"Bosna Bank International" d.d. Sarajevo	3	0	0	5
Total II	**28**	**24**	**3.153**	**117**
Total I+II	**158**	**178**	**9.182**	**511**

* Business unit is a higher form of organization, including central office

1.2 Ownership structure

The ownership structure is characterized by majority private ownership in all banks, with a dominant share of domestic share capital in three banks and a majority of foreign share capital in five banks in Republika Srpska. Compared to the end of 2019, one bank increased its total share capital by 30 million KM or 4.7% due to recapitalization.

The purchase and sale of shares with two banks affected the change in the structure of domestic and foreign share capital. Two banks have state share capital (one bank has a small amount of share capital of 1 thousand KM), and the share of state share capital in the total share capital of banks in Republika Srpska is very low (0.8%).

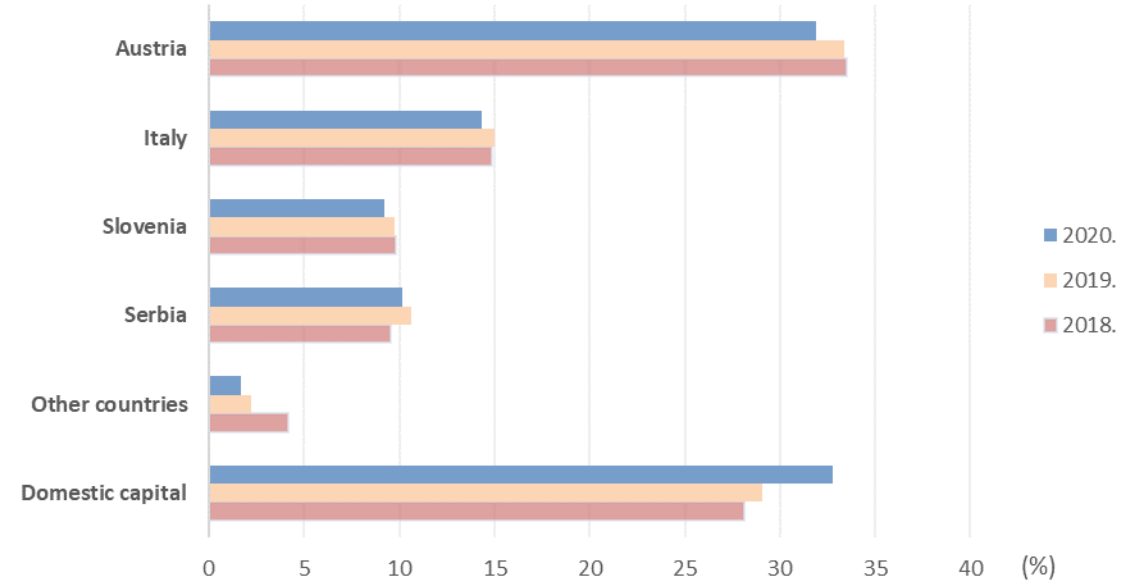
Table 5. Share capital structure mil. KM

Bank	Private capital						State capital		Cooperative capital		Total capital	
	Foreign		Domestic		Total							
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
"Nova banka" a.d. Banja Luka	2,1	0,5	162,4	75,4	164,5	24,6	0,0	0,0	0,1	68,1	164,6	24,4
"UniCredit Bank" a.d. Banja Luka	96,6	21,3	0,5	0,2	97,0	14,5	0,0	0,0	0,0	17,4	97,1	14,4
"NLB banka" a.d. Banja Luka	61,9	13,7	0,1	0,0	62,0	9,3	0,0	0,0	0,0	0,0	62,0	9,2
"Sberbank" a.d. Banja Luka	62,0	13,7	0,2	0,1	62,2	9,3	0,0	0,0	0,0	0,0	62,2	9,2
"Addiko Bank" a.d. Banja Luka	152,9	33,7	0,2	0,1	153,1	22,9	0,0	0,0	0,0	1,4	153,1	22,7
"MF banka" a.d. Banja Luka	10,6	2,3	40,5	18,8	51,1	7,6	0,0	0,0	0,0	0,0	51,1	7,6
"Komercijalna banka" a.d. Banja Luka	60,0	13,2	0,0	0,0	60,0	9,0	0,0	0,0	0,0	0,0	60,0	8,9
"Naša banka" a.d. Bijeljina	7,2	1,6	11,6	5,4	18,8	2,8	5,0	100,0	0,0	13,0	23,8	3,5
TOTAL	**453,3**	**100**	**215,5**	**100**	**668,8**	**100**	**5,0**	**100**	**0,2**	**100**	**674,0**	**100**

The total share capital amounts to 674.0 million KM, and consists of 99.2% of private share capital, 0.8% of state capital and a very small share of cooperative capital.

In the structure of private share capital, there was a decrease in foreign and an increase in private share capital by 0.8 percentage points. Private foreign share capital accounts for 67.8%, and private domestic share capital accounts for 32.2% of total private share capital.

Graph 8. Share capital structure according to the contry of origin



In the structure of share capital by countries of origin as of 31/12/2020 compared to the end of 2019, the share of domestic capital increased by 3.69 percentage points. All other countries had a reduction in share

capital, and the largest reduction was in Austria by 1.49 percentage points.

Table 6. Banks' market share in total assets, capital and deposits %

Capital structure	2019.				2020.			
	Share			Number of banks	Share			Number of banks
	in total assets	in total capital	in deposits		in total assets	in total capital	in deposits	
With majority domestic capital	34,8	25,1	34,1	3	36,1	25,8	35,7	3
With majority foreign capital	65,2	74,9	65,9	5	63,9	74,2	64,3	5

Five banks with majority foreign capital have a 63.9% share in total assets (decrease of share by 1.4 percentage points compared to the end of 2019), 74.2% in total capital (decrease of share by 0.7 percentage points in compared to the end of 2019) and 64.3% in total deposits (decrease in share by 1.5 percentage points).

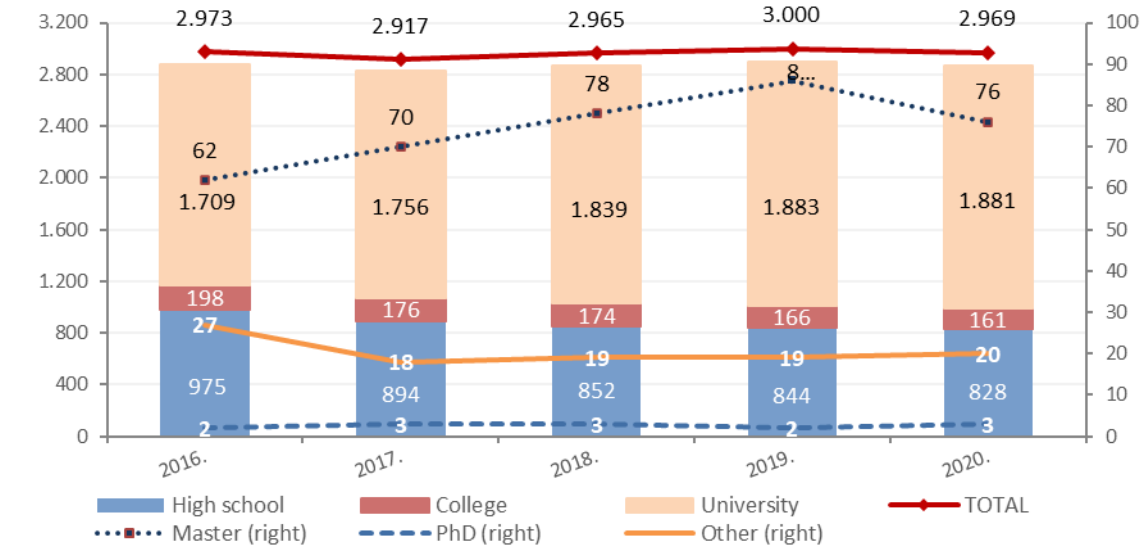
1.3 Staff structure

The total number of employees in the banking sector is 2,969 as of 31/12/2020 and is lower by 31 employees compared to the end of 2019.

1.3.1. Staff qualification structure

When we look at the qualification structure, employees with a university degree have the largest share of 63.4%.

Graph 9. Staff qualification structure



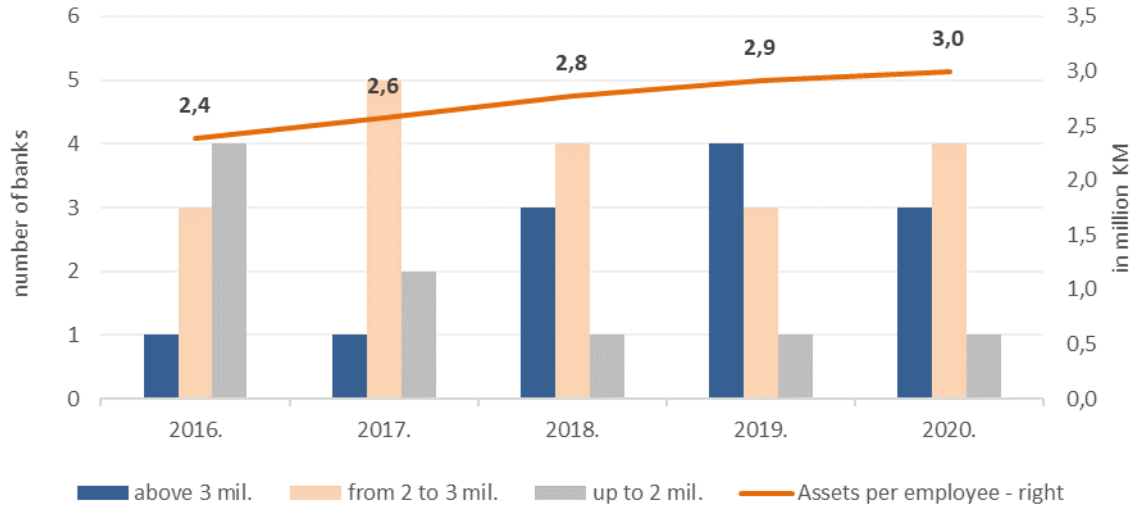
Increase in the number of employees is present in qualification of PhD by 1 and Vocational school by 1, and decrease in High school education by 16, College degree by 5, University degree by 2 and Master degree by 10 compared to the end of 2019.

1.3.2. Assets per employee

One of the indicators of the performance of the banking sector and each bank individually is the efficiency

of employees expressed as the ratio of the number of employees and total assets, whereas a higher amount, as a rule, is an indicator of better efficiency of the bank and the overall sector. Three banks have assets per employee above 3 million KM, four banks between 2 and 3 million KM and one bank has less than 2 million KM.

Graph 10. Assets per employee



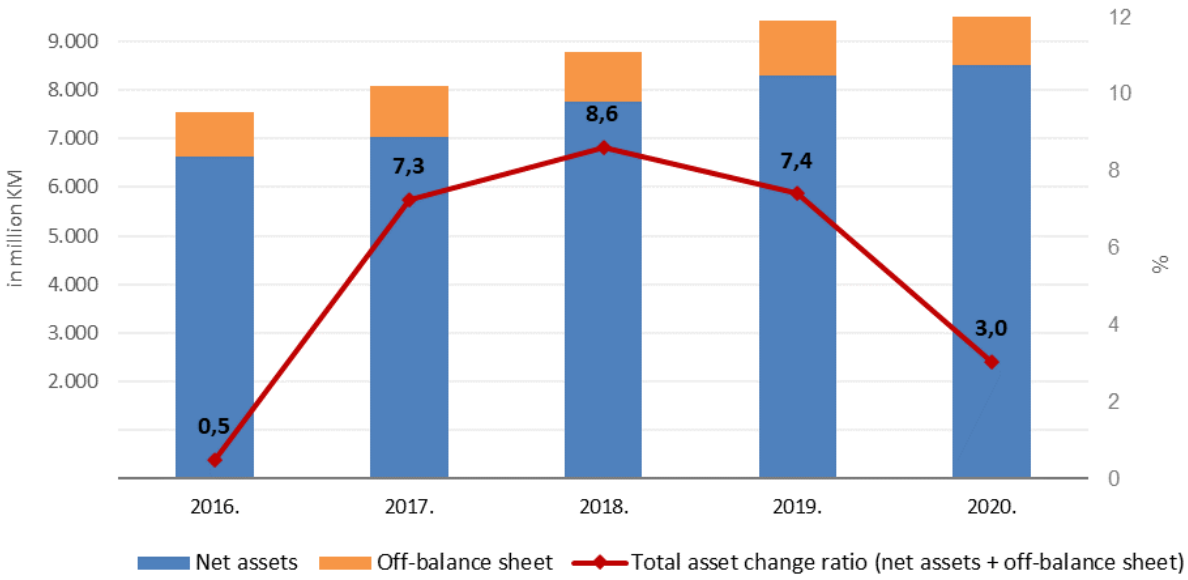
Assets per employee at the level of the banking sector is 3 million KM and is higher by 100 thousand KM compared to the end of 2019. At three banks, assets per employee remained at the same level as at the end of 2019, with the assets and number of employees growing equally at one bank, the assets and number of employees decreased equally at one bank, and at one bank had the growth of assets and the decline of employees. Three banks had an increase in the above ratio, and two banks had a decrease compared to the end of 2019.

2 FINANCIAL INDICATORS OF BANK OPERATIONS

2.1 Balance sheet

Trends in net assets, off-balance sheet and the ratio of change in total assets over the last five reporting periods are shown in the following graph:

Graph 11. Total assets of the Republika Srpska banking sector



Total assets of the banking sector as of 31/12/2020 amounted to 9.7 billion KM and recorded an increase of 276.4 million KM or 3% compared to the end of 2019.

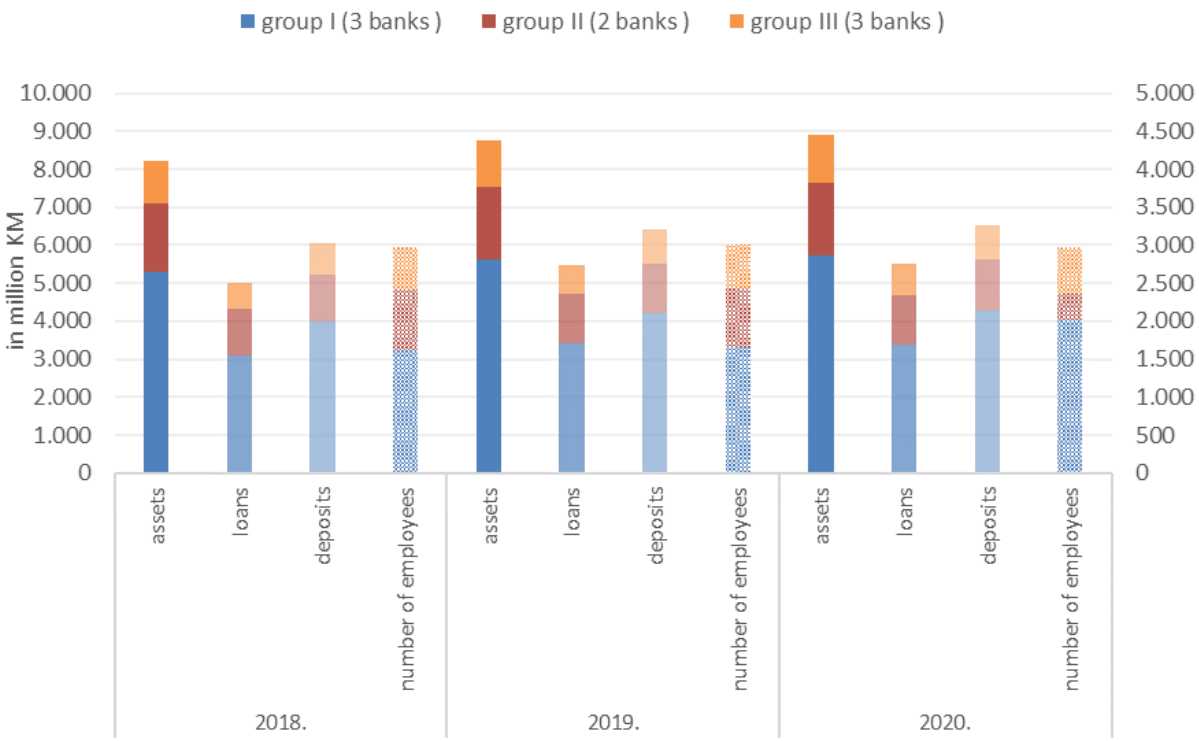
Two banks had a decline in total assets ranging from 1.2 to 5%, and six banks had a growth in total assets ranging from 1 to 10.7% compared to the end of 2019.

The total off-balance sheet is higher by 76.5 million KM or 7%, while in the structure of the off-balance sheet there was an increase in the active off-balance sheet by 65.5 million KM or 6%, and commission transactions are higher by 11 million KM or 15% compared to the end 2019.

The ratio of change in net assets with off-balance sheet compared to the end of 2019 shows an increase of 3%, which is a satisfactory indicator given the impact of the viral disease pandemic "COVID-19" and the application of new regulations that affected the decline in total assets in the first quarter of 2020.

Banks in Republika Srpska can be divided into three groups according to the size of gross balance sheet assets, as shown in the following graph:

Graph 12. Share of group banks in total assets, capital, deposits and number of employees



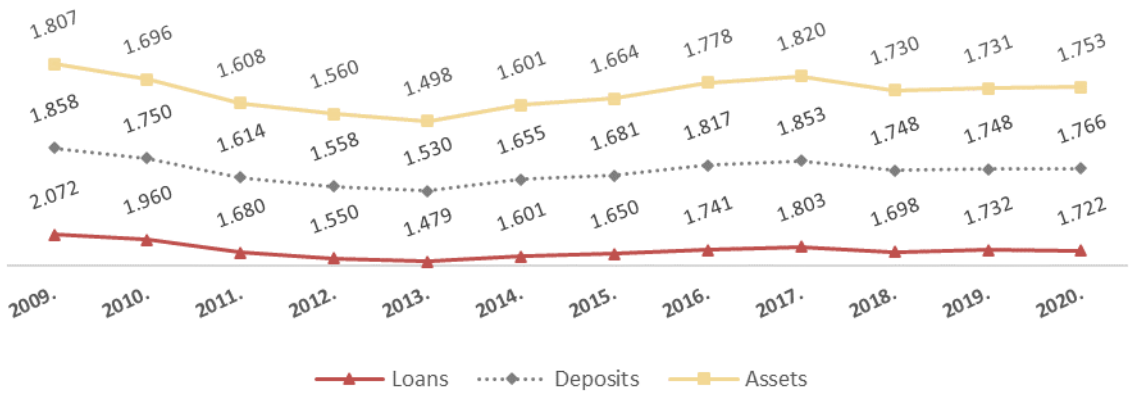
The group of banks with gross assets over 1,400 million KM includes three banks with a share of 64.6% in total assets, 61.8% in total loans, 65.7% in total deposits and 68.1% in total employees in the banking sector.

The group of banks with gross assets of 700 to 1,400 million KM includes two banks that have a share of 21.3% in total assets, 23.7% in total loans, 20.6% in total deposits and 11.4% in total employees in banking sector.

With gross assets below 700 million KM, there are three banks that have a share in the total gross assets of the banking sector 14.1%, total loans 14.5%, total deposits 13.6%, and employ 20.5% of the total number of employees in the banking sector.

The market concentration on the banking market of Republika Srpska measured by the Hirschmann-Herfindahl index *(HHI)*[33] can be seen from the following graph:

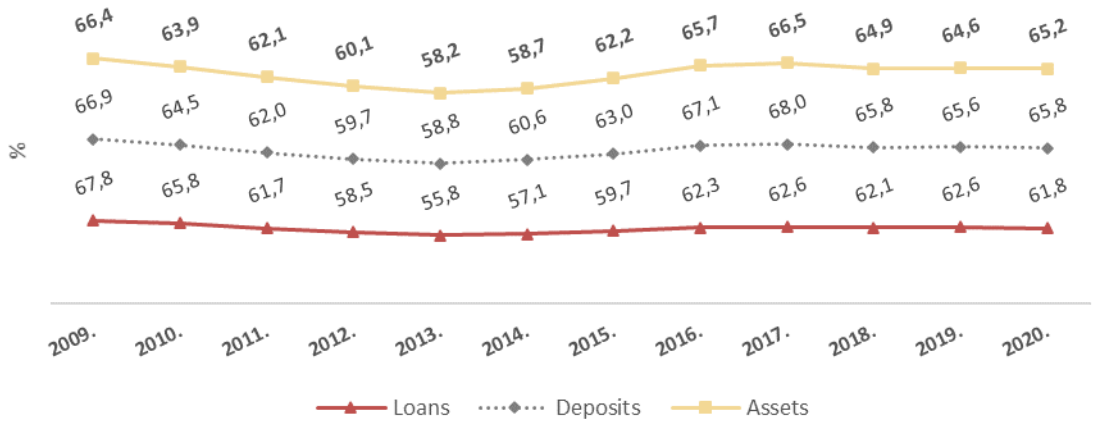
Graph 13. Hirschman - Herfindahl index (HHI)



The value of the HHI index depends on the share of each bank in the specific balance sheet position of the banking sector. For the three basic business segments (loans, deposits and assets), the value of the HHI index as of 31/12/2020 indicates the existence of moderate concentration, but all three indicators are close to the upper limit that divides moderate and high concentration.

Another indicator of market concentration in the banking sector of Republika Srpska is the concentration rate (CR_3)[34] for the three largest banks:

Graph 14. Concentration rate (CR_3) in %



The concentration rate (CR_3) at the three largest banks shows an increase in the concentration of assets and deposits, and a decrease in the concentration of loans compared to 31/12/2019.

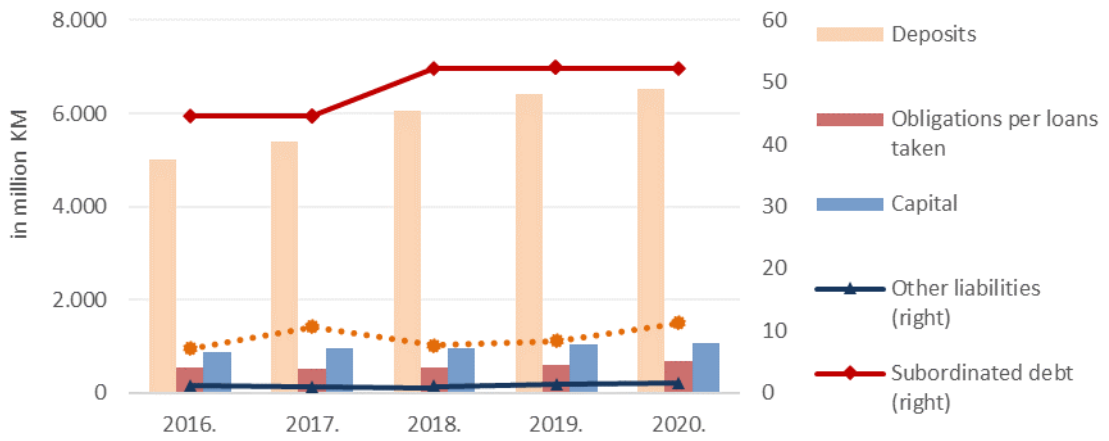
[33] If the HHI value is less than 1,000, no concentration is considered to be present on the market, for an index value between 1,000 and 1,800 units, a moderate concentration is present on the market, and if the HHI value is above 1,800, it is an indicator of high concentration..

[34] *Concentration ratio* (CR) is denoted by the number of institutions involved in the calculation.

2.1.1. Liabilities

The trend of items that make up the liabilities of the banking sector over the last five comparative periods is shown in the following graph:

Graph 15. Liabilities structure



The total liabilities of the banking sector are higher by 210.9 million KM or 3% compared to the end of 2019. Deposits have the greatest impact on the trend of total liabilities, which, due to the impact of the "COVID-19" viral disease pandemic, interrupted their long-term growth trend in the first, second and third quarters of 2020. In the fourth quarter, deposits had an increase and on the reporting date amounted to 6.5 billion KM, i.e., they are higher by 2% compared to the end of 2019. Liabilities for borrowings, other liabilities and provisioning for off-balance sheet items increased, accounting for 10.4% of total liabilities. Capital accounts for 12.4% of total liabilities and is higher by 1%, and subordinated debt remained at the same level compared to the end of 2019.

2.1.1.1. Capital

The total balance sheet capital amounts to 1.1 billion KM and is higher by 1% compared to the end of 2019.

Table 7. Total balance sheet capital structure **mil. KM**

DESCRIPTION	2018.	2019.	2020.	Index
Permanent preferred shares	6,0	6,0	6,0	100
Ordinary shares	635,6	638,0	668,0	105
Agio (exchange premium)	23,9	25,1	10,1	40
Retained earnings	163,6	205,2	239,2	117
Capital reserves	196,2	231,4	171,5	74
Other capital	-76,4	-62,2	-40,5	65
Loan loss provisions under regulatory requirement	16,7	0,0	0,0	-
TOTAL CAPITAL	**965,5**	**1.043,5**	**1.054,3**	**101**

In the structure of total balance sheet capital, capital provisioning decreased by 59.8 million KM (mostly due to the coverage of losses from the previous period at one bank), and retained earnings increased by 34 million KM compared to the end of 2019. The increase in total balance capital was influenced by a decrease in the deduction item of capital on the position of other capital by 21.7 million KM (mostly to cover the effects of the new Decision on credit risk management and determination of expected credit losses) compared to the end of 2019.

2.1.1.2. Deposits

Deposits account for 76.6% of total liabilities and recorded an increase of 109.4 million KM or 2% compared to the end of 2019.

Deposit sector structure

According to the presented sector structure of total deposits, retail deposits account for 59.2% of total deposits and increased their share in the total structure of deposits compared to the end of 2019.

Table 8. Deposit sector structure — mil. KM

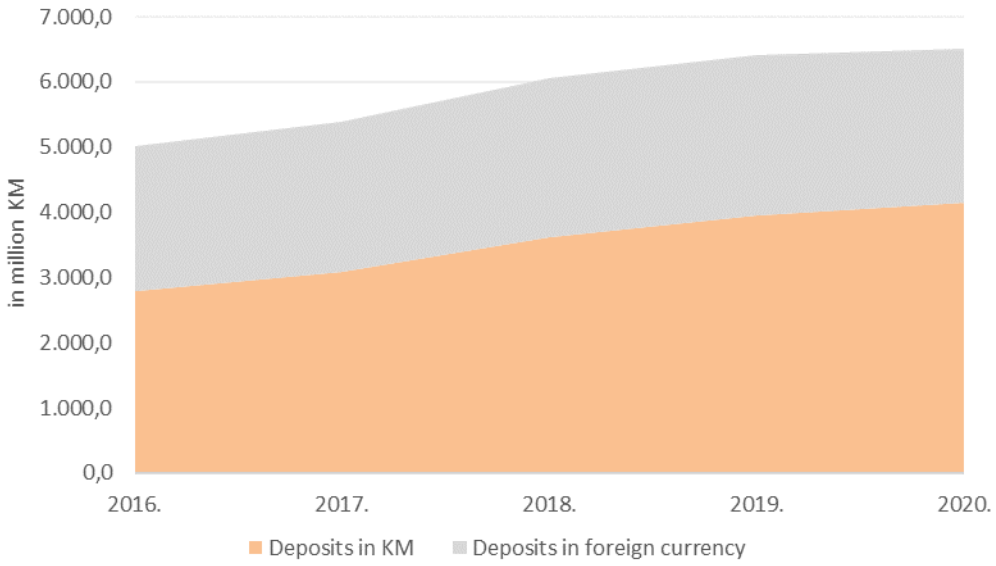
DESCRIPTION	2018.		2019.		2020.		Index
	Amount	%	Amount	%	Amount	%	
Government institutions	581,7	9,6	650,8	10,2	622,5	9,6	96
Public and state entities	235,8	3,9	274,2	4,3	324,1	5,0	118
Private enterprises and companies	933,5	15,4	903,3	14,1	943,7	14,5	104
Non-profit organizations	95,3	1,6	100,6	1,6	105,7	1,6	105
Banks and banking institutions	395,7	6,5	466,0	7,3	361,3	5,5	78
Non-banking financial institutions	349,1	5,8	307,5	4,8	285,8	4,4	93
Retail/household	3.393,4	56,1	3.690,0	57,6	3.855,5	59,2	104
Other	65,5	1,1	13,4	0,2	16,7	0,3	124
TOTAL	**6.050,0**	**100**	**6.405,8**	**100**	**6.515,2**	**100**	**102**

Growth of deposits compared to the end of 2019 had retail deposits by 165.5 million KM or 4%, public and state enterprises by 49.9 million KM or 18%, private enterprises by 40.3 million KM or 4%, non-profit organizations by KM 5.1 million or 5% and other deposits by KM 3.3 million or 24%. The decrease in deposits compared to the end of 2019 was recorded in government institutions by KM 28.4 million or 4%, banks and banking institutions by KM 104.7 million or 22% and non-banking financial institutions by KM 21.7 million or 7% .

Deposit currency structure

Deposits in domestic currency recorded an increase compared to deposits in foreign currency in the last five comparative periods, which are shown in the following graph:

Graph 16. Deposit structure per currency



Deposits in domestic currency increased by 207 million KM or 5%, while deposits in foreign currency decreased by 97.6 million KM or 4% compared to the end of 2019.

Deposit maturity structure

According to the maturity structure of deposits shown in the following table, short-term deposits increased by 31.8 million KM or 1%, and long-term deposits increased by 77.6 million KM or 3% compared to the end of 2019.

Table 9. Deposit maturity structure mil. KM

DESCRIPTION	2018.		2019.		2020.		Index
	Amount	%	Amount	%	Amount	%	
Savings and sight deposits	3.271,5	54,1	3.520,6	55,0	3.739,4	57,4	106
Up to 3 months	152,2	2,5	147,7	2,3	136,4	2,1	92
Up to 1 year	403,5	6,7	382,6	6,0	206,9	3,2	54
1. Total short term deposits	**3.827,3**	**63,3**	**4.050,9**	**63,2**	**4.082,7**	**62,7**	101
Up to 3 years	1.931,8	31,9	2.034,0	31,8	2.094,6	32,1	103
Over 3 years	291,0	4,8	321,0	5,0	338,0	5,2	105
2. Total long term deposits	**2.222,8**	**36,7**	**2.355,0**	**36,8**	**2.432,6**	**37,3**	**103**
Total deposits (1+2)	**6.050,0**	**100**	**6.405,8**	**100**	**6.515,2**	**100**	**102**

In short-term deposits, there was an increase in savings and sight deposits by 6% or 218.8 million KM and a decrease in short-term savings by 187 million KM or 22% compared to the end of 2019. The biggest impact on the growth of long-term deposits had the growth of time savings up to 3 years of 60.6 million KM or 3% compared to the end of 2019. In addition to the COVID-19 pandemic, the interest rates on time savings also affect the trend of total deposits and changes in the structure.

Retail/household loans and savings

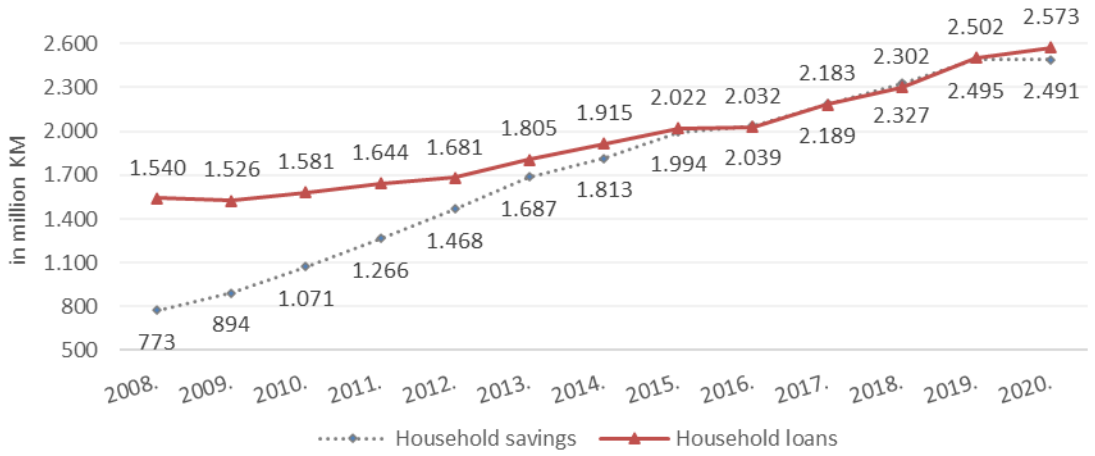
The following table shows the structure and trends of retail savings and retail loans, as well as the degree of coverage of retail loans with retail savings.

Table 10. Household loans and savings mil. KM

DESCRIPTION	2018.	2019.	2020.	Index
1. Retail/household loans	2.302,0	2.502	2.573	103
2. Household savings	2.327,1	2.495	2.491	100
2.1. termed savings	1.737,8	1.852	1.838	99
2.2. sight savings	589,3	643	652	101
3. Loans/Savings	**98,9**	**100,3**	**103,3**	**103**
4. Household transaction accounts	880,6	1.003	1.163	116
5. Total deposits (2+4)	3.207,7	3.497	3.653	104
6. Loans/Total deposits	**71,8**	**71,5**	**70,4**	**98**

In this reporting period, retail loans recorded a growth, while retail savings have maintained almost the same level compared to the end of 2019. Retail loans are higher by 71 million KM or 3%, while retail savings are lower by 4 million KM compared to the end of 2019. Term savings account for 73.8% (74.1% at the end of 2019) of total retail savings and recorded a decline of 14 million KM or 1%, while sight savings without current retail accounts accounted for 26.2% of total retail savings and was higher by 10 million KM or 1% compared to the end of 2019. However, when we add the current retail accounts, which are higher by 160 million KM or 16%, we see that the total retail deposits are higher by 156 million KM or 4%. The coverage of retail loans with retail deposits is 100%, and the ratio that shows the ratio of retail loans and retail deposits is 70.4% and is lower by 1.1 percentage points compared to the end of 2019.

Graph 17. Household loans and savings

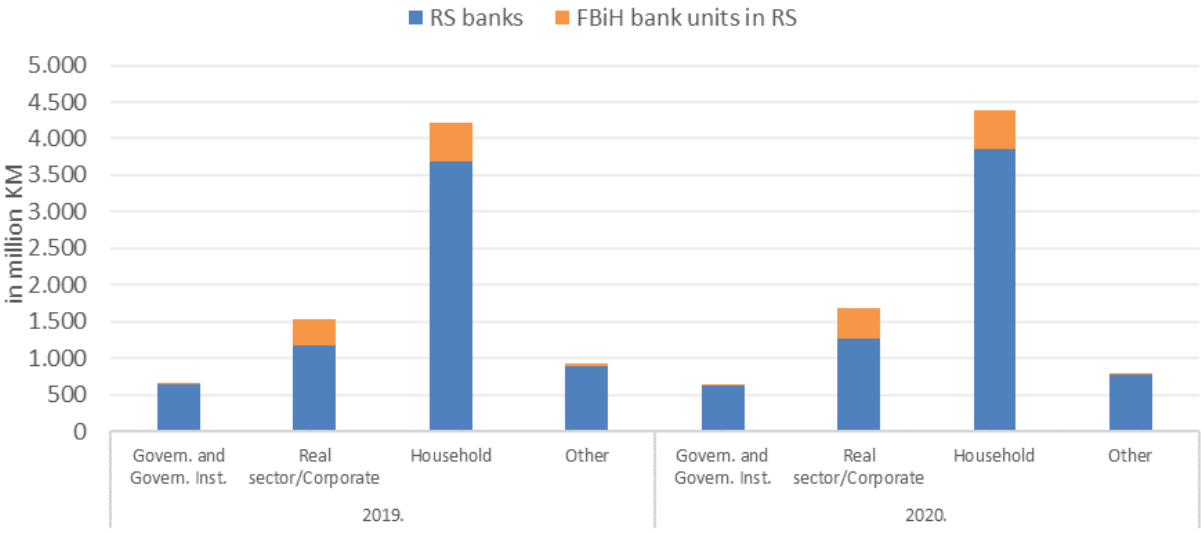


From 2016-2019, the trend of retail savings (excluding current accounts) and retail loans is approximately the same and retail loans are almost completely covered by retail savings. In this reporting period, retail loans recorded a growth, and retail savings remained at the same level, so that the coverage ratio of retail loans with retail savings was lower by 1.1 percentage points compared to the end of 2019, i.e. retail savings are less than retail loans.

Total received deposits in Republika Srpska

The sector structure of the total received deposits of banks based in Republika Srpska and business units of banks from the Federation of BiH is given in the following graph:

Graph 18. Sector structure of total received deposits



The total received deposits amount to 7.5 billion KM and are higher by 2% compared to the end of 2019.

After a short-term decline in deposits in the third and fourth months of 2020, there was a stabilization and growth of deposits compared to the end of 2019.

Short-term deposits increased by 122.6 million KM or 3%, and long-term deposits increased by 58.3 million KM or 2% compared to the end of 2019.

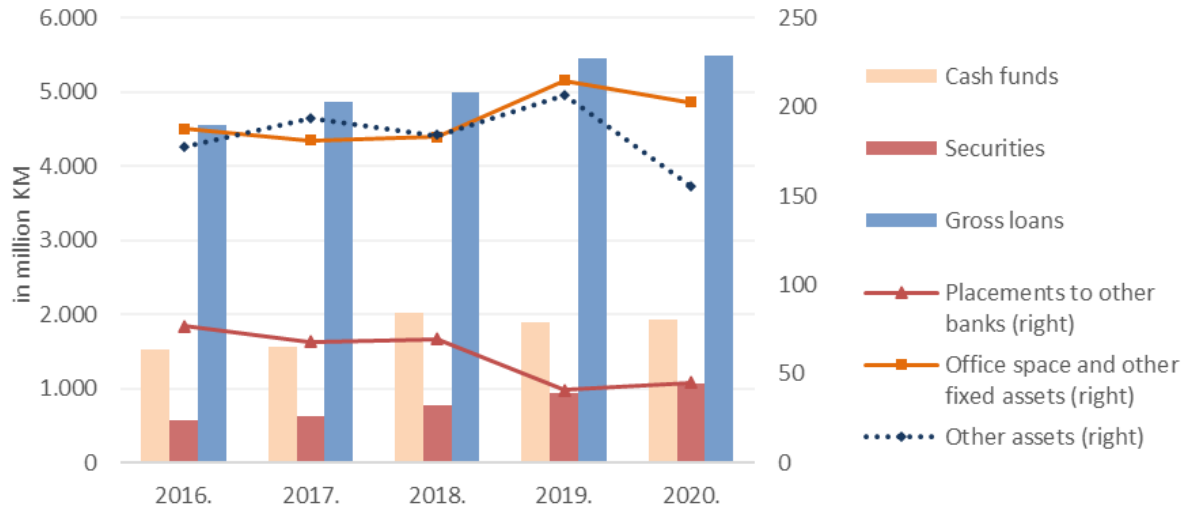
In the case of short-term deposits, retail deposits have the largest percentage in their structure and are higher by 207.6 million KM or 9%.

In the structure of long-term deposits as well, the highest percentage refers to retail deposits, which are lower by 20.8 million KM or 1% compared to the end of 2019.

2.1.2. Assets

Gross balance sheet assets amount to 8.9 billion KM and are higher by 145.1 million KM or 2% compared to the end of 2019. Gross loans and cash funds account for 83% of total assets. Cash funds are higher by 33.7 million KM or 2%, and gross loans are higher by 30.5 million KM or 1% compared to the end of 2019. Securities are higher by 139.7 million KM or 12% compared to the end of 2019 and are continuously increasing their share in total assets.

Graph 19. Balance sheet asset structure



The trend of items that make up the assets of the banking sector over the last five comparative periods is shown in the previous graph.

Total active off-balance sheet as of 31/12/2020 amounts to 1.2 billion KM and records an increase of 76.5 million KM or 7% compared to the end of 2019.

Table 11. Off-balance sheet asset structure mil. KM

DESCRIPTION	2018.		2019.		2020.		Index
	Amount	%	Amount	%	Amount	%	
1. Active Off-Balance Sheet	**946,8**	**100**	**1.063,8**	**100**	**1.129,3**	**100**	**106**
Irrevocable obligations for lending	463,9	49,0	550,8	51,8	610,5	54,1	111
Bought receivables per loans extended	0,0	0,0	0,0	0,0	0,0	0,0	-
Irrevocable documentary L/C	1,4	0,1	4,4	0,4	2,7	0,2	62
Other L/C to be paid abroad	1,0	0,1	0,0	0,0	0,0	0,0	-
Guaranties issued	464,7	49,1	508,1	47,8	514,7	45,6	101
Drafts and sureties issued	0,1	0,0	0,1	0,0	0,1	0,0	100
Nostro financial activities – being collected	0,0	0,0	0,0	0,0	0,0	0,0	-
Current FC transaction contracts	0,0	0,0	0,0	0,0	0,0	0,0	-
Other off-balance sheet items	15,8	1,7	0,4	0,0	1,3	0,1	294
2. Commission business activities	**74,9**		**72,4**		**83,4**		**115**
TOTAL	**1.021,7**		**1.136,2**		**1.212,6**		**107**

In the structure of the active off-balance sheet, the most important items are irrevocable liabilities for granting loans and issued guarantees. Irrevocable liabilities for granting loans increased by 11%, and issued

guarantees increased by 1% compared to the end of 2019.

2.1.2.1. Cash funds

Cash funds amount to a total of 1.9 billion KM and are higher by 33.7 million KM or 2% compared to the end of 2019.

Table 12. Cash funds structure mil. KM

DESCRIPTION	2018.		2019.		2020.		Index
	Amount	%	Amount	%	Amount	%	
KM							
Cash funds	108,8	5,4	140,8	7,5	169,1	8,8	120
Reserve accounts at CBBH	1.413,6	69,8	1.319,0	69,9	1.324,7	69,0	100
Deposit accounts with depositary institut. in BiH	2,0	0,1	0,5	0,0	1,0	0,1	216
Deposit accounts with depositary institute. abroad	0,0	0,0	0,0	0,0	0,0	0,0	-
Cash funds in collection process	0,0	0,0	0,0	0,0	0,0	0,0	-
Debts not-repaid	0,0	0,0	0,0	0,0	0,0	0,0	-
TOTAL	**1.524,4**	**75,3**	**1.460,3**	**77,4**	**1.494,8**	**77,9**	**102**
FOREIGN CURRENCY							
Cash funds	92,1	4,6	118,3	6,3	95,6	5,0	81
Reserve accounts at CBBH	0,0	0,0	0,0	0,0	0,0	0,0	-
Deposit accounts with depositary institut. in BiH	9,7	0,5	15,3	0,8	20,7	1,1	135
Deposit accounts with depositary institute. abroad	397,5	19,6	292,5	15,5	309,1	16,1	106
Cash funds in collection process	0,0	0,0	0,0	0,0	0,0	0,0	0
Debts not-repaid	0,0	0,0	0,0	0,0	0,0	0,0	-
TOTAL	**499,4**	**24,7**	**426,2**	**22,6**	**425,4**	**22,2**	**100**
GRAND TOTAL	**2.023,8**	**100**	**1.886,5**	**100**	**1.920,2**	**100**	**102**

The increase in total cash funds was influenced by the increase in cash funds in KM, while cash funds in foreign currency kept almost the same amount as at the end of 2019. The growth of cash funds in KM was influenced by the growth of cash by 28.3 million KM or 20%, while the funds on the reserve account with the CB BiH maintained almost the same level compared to the end of 2019.

Funds on foreign currency deposit accounts with depository institutions abroad and in BiH amount to 329.8 million KM and are higher by 7%, and they consist of funds on deposit accounts with depository institutions in the country in the amount of 20.7 million KM (with a growth of 35% in compared to the end of 2019) and funds on deposit accounts with depository institutions abroad in the amount of 309.1 million KM (with an increase of 6% compared to the end of 2019).

Of the total cash funds (1.9 billion KM), the amount of 868 million KM or 45% are cash funds and interest-bearing deposit accounts (at the end of 2019 they accounted for 46.3% of total cash funds), and the amount of 1.1 billion KM is the position of cash and non-interest bearing accounts to which banks do not generate income, which makes up 55% of total cash funds (as of 31 December, 2019, it accounted for 53.7% of total cash funds). This structure of cash funds is not favorable for the profitability of banks, but it is conditioned by low interest rates.

2.1.2.2. Securities

Investments in securities in total amount to 1.1 billion KM and are higher by 15% compared to the end of 2019 and account for 12% of total balance sheet assets. The following two tables show the securities by type and issuer:

Table 13. Securities per types mil. KM

DESCRIPTION	2018.		2019.		2020.		Index
	Amount	Share	Amount	Share	Amount	Share	
Equity securities	**8,9**	**100**	**13,2**	**100**	**14,0**	**100**	**106**
Shares	8,5	95,9	12,9	97,3	13,6	97,0	106
Holding in investment funds	0,0	0,1	0,0	0,1	0,0	0,1	100
Other	0,4	4,0	0,4	2,7	0,4	2,9	116
Debt securities	**756,3**	**100**	**921,4**	**100**	**1.060,3**	**100**	**115**
Bonds	707,3	93,5	910,7	98,8	946,8	89,3	104
Treasury bills	39,3	5,2	0,0	0,0	0,0	0,0	-
Commercial papers	0,0	0,0	0,0	0,0	0,0	0,0	-
Certificate of deposit	0,0	0,0	0,0	0,0	0,0	0,0	-
Other	9,8	1,3	10,6	1,2	113,5	10,7	1.068

Equity securities make up 1.3% of total securities, have a growth of 6% compared to the end of 2019 and 97% relate to shares. Debt securities are higher by 139 million KM or 15% compared to the end of 2019. In the structure of debt securities, bonds make up 89.3% of total debt securities and have an increase of 36.1 million KM or 4% compared to the end of 2019. Other debt instruments account for 10.7% of total debt securities and they increased by 102.9 million KM compared to the end of 2019.

Table 14. Securities per issuer and issuer origin mil. KM

Description	2018.		2019.		2020.		Index
	Amount	Share	Amount	Share	Amount	Share	
1. Equity securities	**8,9**	**100**	**13,2**	**100**	**14,0**	**100**	**106**
Companies	1,0	11,6	1,2	8,9	1,2	8,4	100
Investment companies	0,2	2,3	0,4	2,8	0,1	1,0	37
Other	7,7	86,1	11,7	88,3	12,7	90,6	109
2. Debt securities	**756,3**	**100**	**921,4**	**100**	**1.060,3**	**100**	**115**
Countries and government	**706,8**	**93,5**	**881,5**	**95,7**	**1.027,8**	**96,9**	**117**
Republika Srpska	576,3	76,2	668,5	72,6	832,9	78,6	125
Bosnia and Herzegovina	0,1	0,0	0,1	0,0	0,0	0,0	50
Slovenia	101,5	13,4	131,3	14,3	145,2	13,7	111
Romania	0,0	0,0	0,0	0,0	10,4	1,0	-
Poland	13,3	1,8	0,0	0,0	0,0	0,0	-
Bulgaria	0,0	0,0	14,5	1,6	14,3	1,4	99
Spain	0,0	0,0	17,2	1,9	8,9	0,8	52
Ireland	4,6	0,6	10,7	1,2	4,7	0,4	44
Italy	0,0	0,0	7,9	0,9	0,0	0,0	0
Germany	0,0	0,0	5,9	0,6	0,0	0,0	0
France	3,9	0,5	18,1	2,0	4,4	0,4	24
USA	5,1	0,7	5,2	0,6	4,8	0,5	91
Finland	2,1	0,3	2,1	0,2	2,1	0,2	102
Companies	**41,6**	**5,5**	**32,8**	**3,6**	**24,3**	**2,3**	**74**
Resident	3,0	0,4	3,0	0,3	0,0	0,0	0

Non-resident	38,6	5,1	29,8	3,2	24,3	2,3	81
Other	**7,9**	**1,0**	**7,1**	**0,8**	**8,3**	**0,8**	**116**
Resident	7,9	1,0	7,1	0,8	8,3	0,8	116
Non-resident	0,0	0,0	0,0	0,0	0,0	0,0	-

If we look at securities against the issuer, it can be seen that equity securities issued by companies make up 8.4% of total equity securities and they remained at the same level compared to the end of 2019. Investment companies and other investors have a decline, but their impact is negligible because it is a share of 1% in equity securities, the category of others participates with 90.6% in total equity securities and have a growth of 9% compared to the end of 2019.

In the structure of debt securities, securities issued by states and governments have a dominant share of 96.9% and they increased by 146 million KM or 17% compared to the end of 2019. In the structure of securities issued by states and governments, the dominant share have securities issued by Republika Srpska in the amount of 78.6% with a growth rate of 25%, i.e. in the amount of 164.4 million KM, and Slovenia with a share of 13.7% and growth of 11% or in the amount of 13.8 million KM compared to the end of 2019.

2.1.2.3. Loans

The credit function is one of the basic functions of bank operations, and consequently the level of total loans is the most important indicator of the volume of operations of each bank and the sector as a whole, but also this function is the largest potential generator of risk in bank operations. In this reporting period, gross loans as of December 31, 2020 amounted to 5.5 billion KM or 61.8% of gross balance sheet assets and recorded an increase at a rate of 1% compared to the end of 2019.

Gross loans are lower for the written write-off, which is in accordance with the requirements of Article 11, Item 5, Sub-item 3 of the Decision on credit risk management and determination of expected credit losses and permanent write-off in the total amount of 119.2 million KM.

If the impact of the accounting write-off is excluded, in the period from 31/12/2019 until 31/12/2020, gross loans increased by 149.7 million KM or 2.8%. Due to the state of emergency caused by the viral disease "COVID-19", the Agency adopted the Decision on temporary measures to mitigate the negative economic consequences caused by the viral disease "COVID-19" and according to the Decision, banks could offer clients affected by the viral disease "COVID-19", temporary moratorium for repayment of incurred obligations and other special measures in agreement with the client. According to the reports submitted by the banks to the Agency on the reporting date 31/12/2020, temporary measures covered 20% of total gross loans or 1.4 billion KM approved by banks headquartered in Republika Srpska and banks headquartered in the Federation of BiH with business units operating in Republika Srpska. Approved temporary measures have expired for loans in the amount of 966 million KM, and there are still active loans that are under special measures in the amount of 387.6 million KM, of which 70.9 million KM refers to the grace period and the moratorium.

Total loan sector structure

In this reporting period, the sector structure of loans did not change significantly.

According to the presented sector structure of total loans, retail loans and loans extended to private companies and enterprises still have the largest share.

Table 15. Total loans sector structure **mil. KM**

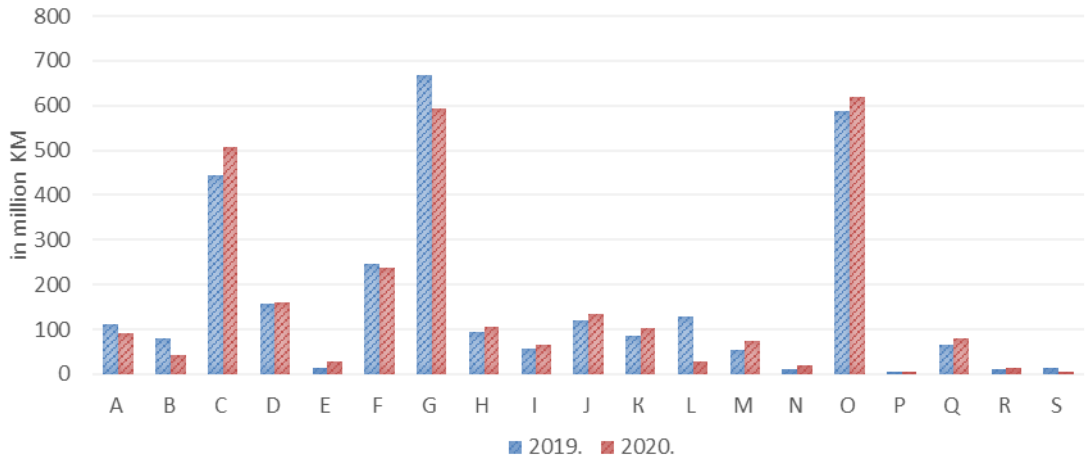
DESCRIPTION	2018.		2019.		2020.		Index
	Amount	%	Amount	%	Amount	%	
Government Institutions	540,5	10,8	653,9	12,0	683,9	12,4	105
Public and State Enterprises	268,5	5,4	254,1	4,7	247,9	4,5	98
Private Enterprises and Companies	1.831,3	36,6	1.982,1	36,3	1.916,6	34,9	97

Non-Profit Organizations	6,9	0,1	6,8	0,1	6,3	0,1	93
Banks and Banking Institutions	0,0	0,0	0,0	0,0	0,0	0,0	-
Non-Banking Financial Institutions	44,5	0,9	53,3	1,0	56,4	1,0	106
Private individuals	2.302,0	46,0	2.502,1	45,8	2.572,8	46,8	103
Other	12,1	0,2	11,0	0,2	9,9	0,2	90
TOTAL	**5.005,9**	**100**	**5.463,3**	**100**	**5.493,8**	**100**	**101**

Loans extended to private companies are lower by 65.5 million KM or 3%, loans to public and state-owned companies are lower by 6.2 million KM or 2% compared to the end of 2019. The increase in loans was recorded in retail loans by 70.7 million KM or 3%, loans extended to government and government institutions by 30 million KM or 5%, loans to non-banking financial institutions by 3.1 million KM or 6% compared to the end of 2019.

The detailed branch structure of loans and trends through two comparative periods are shown in the following graph:

Graph 20. Loan branch structure



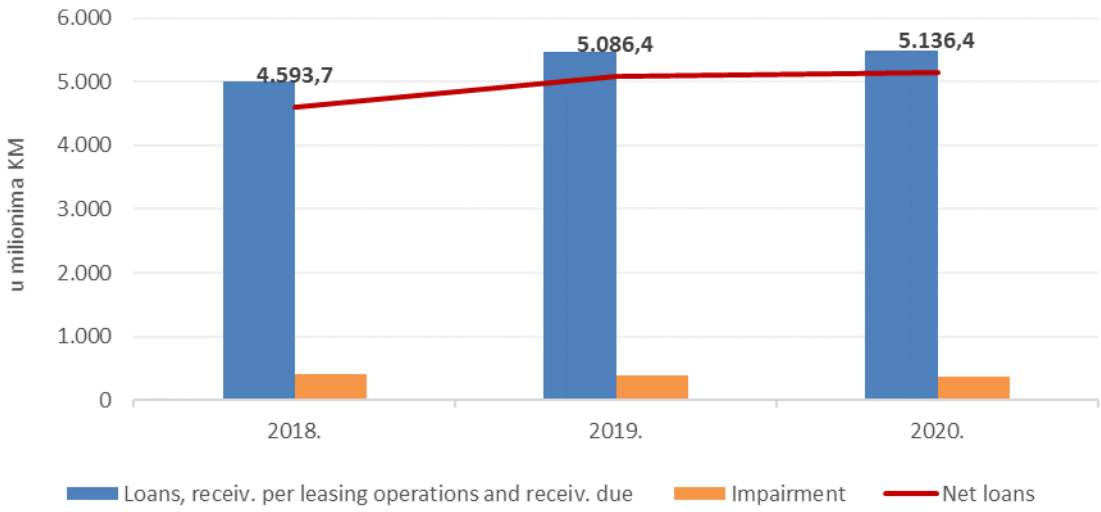
Legend

A	Agriculture, forestry, fishing
B	Mining
C	Manufacture industry
D	Production and supply of electricity, gas, steam and air conditioning
E	Water supply; sewerage, waste management and remediation activities
F	Construction
G	Wholesale and retail trade; repair of motor vehicles and motorcycles
H	Traffic and warehousing
I	Accommodation, food preparation and serving activities; hotel and catering
J	Information and communication
K	Financial and insurance activities
L	Real estate activities
M	Expert, scientific and technical activities
N	Administrative and support service activities
O	Public administration and defense; compulsory social insurance
P	Education
Q	Health and social work activities
R	Art, entertainment and recreation
S	Other service activities

Net loans

Net loans represent gross loans less ECL under IFRS. The balance and trend of net loans of banks in Republika Srpska can be seen from the following graph:

Graph 21. Net loans



Net loans amount to 5.1 billion KM and are higher by 50 million KM or 1% compared to the end of 2019. Loans, receivables from leasing operations and receivables due are higher by 30.5 million KM or 1%, and ECL is lower by 19.5 million KM or 5% compared to the end of 2019. ECL covers an average of 6.5% of total loans (with 6.9% of total loans at the end of 2019).

Loan maturity structure

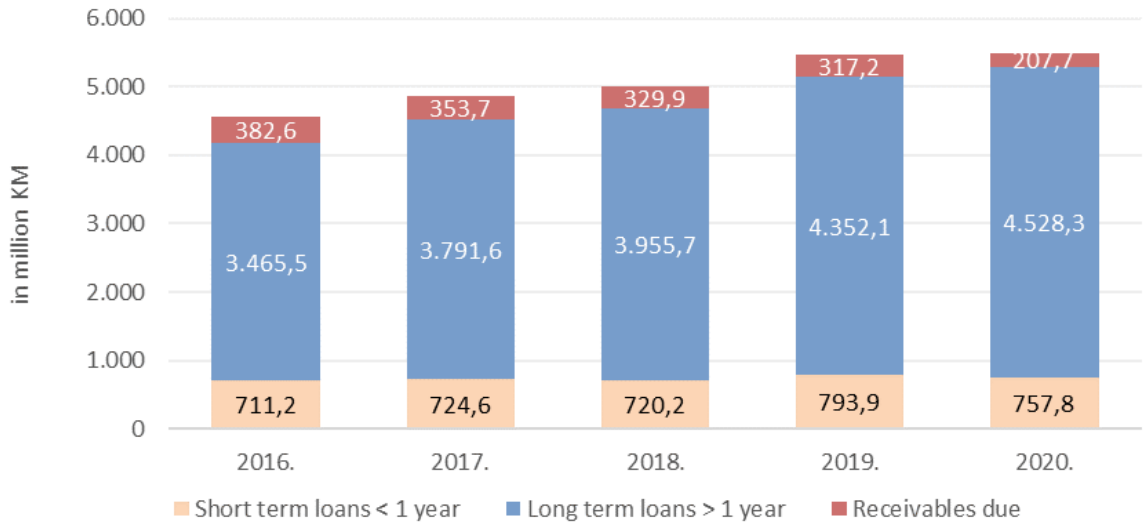
Short-term loans decreased by 36.2 million KM or 5%, while long-term loans increased by 176.2 million KM or 4% compared to the end of 2019. Receivables due had a significant decrease in the amount of 109.5 million KM or 35% compared to the end of 2019.

Table 16. Loan maturity structure mil. KM

DESCRIPTION	Short term loans < 1 year			Long term loans >1 year			Receivables due		
	2019.	**2020.**	Index	**2019.**	**2020.**	Index	**2019.**	**2020.**	Index
Government inst.	4,9	6,3	129	647,8	676,1	104	1,2	1,5	117
Public and state Ent.	10,6	16,7	157	242,5	228,0	94	0,9	3,2	341
Private Ent. And Companies	599,5	556,7	93	1.190,9	1.231,4	103	191,7	128,5	67
Non-profit organizations	0,6	1,4	239	3,2	4,9	153	3,0	0,1	2
Banks and bank. Inst.	0,0	0,0	-	0,0	0,0	-	0,0	0,0	-
Non-bank. Fin. Inst.	3,7	2,2	60	49,2	53,8	109	0,5	0,4	93
Retail/household	174,2	174,0	100	2.208,1	2.324,9	105	119,7	73,9	62
Other	0,4	0,4	96	10,4	9,3	90	0,1	0,1	117
TOTAL	**793,9**	**757,8**	**95**	**4.352,1**	**4.528,3**	**104**	**317,2**	**207,7**	**65**

In the structure of short-term and long-term loans, loans extended to private companies and retail loans have a dominant share. In loans to private companies, short-term loans decreased by 7% and receivables due by 33%, while long-term loans increased by 3% compared to the end of 2019. In retail loans, short-term loans remained at the same level, while long-term loans grew by 5% compared to the end of 2019. Long-term loans had an increase in all users in the presented structure, except for public and state-owned companies and category other.

Graph 22. Loan maturity structure

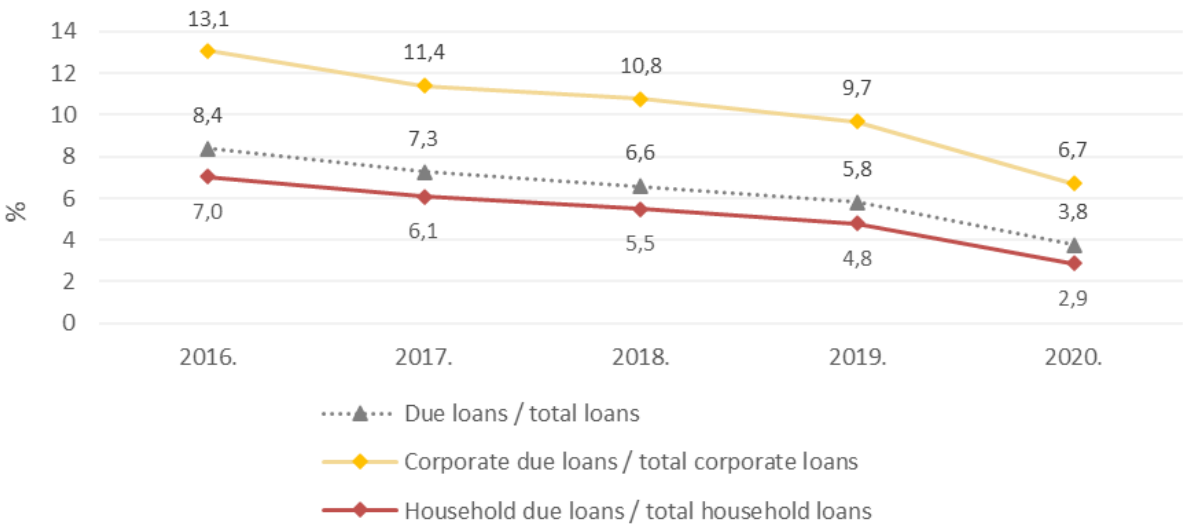


Changes in the maturity structure of loans are shown in the previous graph through a series of five comparative periods, starting from 2016.

Receivables due per loans

Receivables due in loans to private companies and enterprises and receivables due in retail loans together account for 97.5% of total receivables due.

Graph 23. Ratio of loan receivables due and total loans



At the reporting date, the ratio of overdue loans in relation to total loans was 3.8% (as of 31 December, 2019 it was 5.8%), the ratio of overdue loans to the economy in relation to total loans extended to the economy was 6.7% (as of 31 December, 2019, it was 9.7%) and the ratio of overdue loans to private individuals in relation to total retail loans was 2.9% (as of 31 December, 2019, it was 4.8%).

The decrease in receivables due was significantly caused by the application of the new Decision on credit risk management and determination of expected credit losses, which stipulated the accounting write-off of overdue loans, and to a lesser extent permanent write-off, as well as better credit risk management.

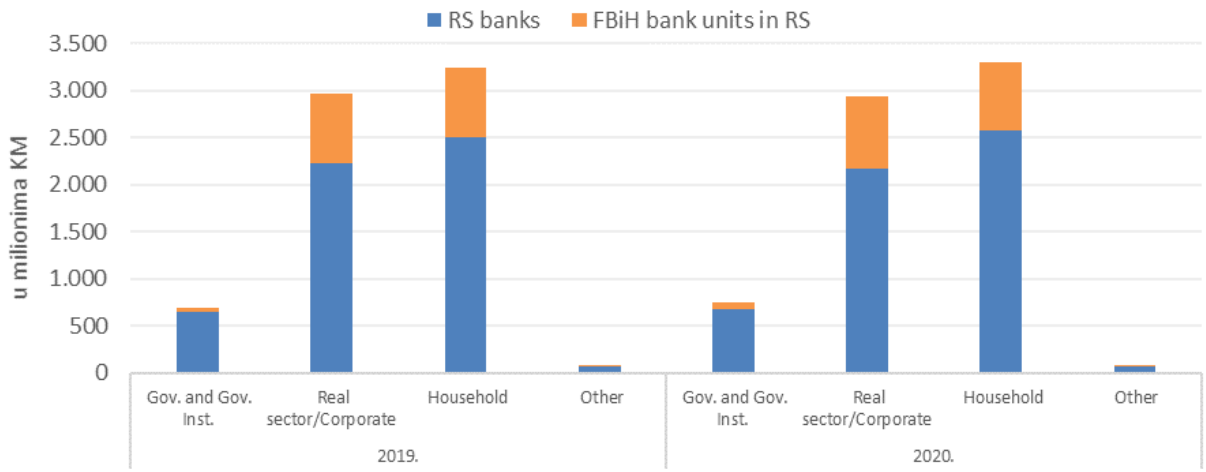
Maturity and sector structure of RS banks and FBIH banks business units loans

The maturity and sector structure of placed loans of banks based in Republika Srpska and branches and business units of banks based in the Federation of BiH is very similar. That is, we see that the most common loans are placed to the economy and private individuals, and that they are oriented towards long-term lending.

Total placed loans in Republika Srpska as of 31/12/2020 amount to 7.1 billion KM and are higher by 2% compared to the end of 2019, of which loans of organizational units of banks headquartered in the Federation of BiH amount to 1.6 billion KM or 22.5% of total loans placed in Republika Srpska and have a growth of 5% compared to the end of 2019. Organizational parts of banks from Republika Srpska (three banks) operating in the Federation of BiH placed a total of 273.7 million KM with a growth rate of 4% compared to the end of 2019.

A comparative overview of the most represented branches from the sector structure of loans of banks from Republika Srpska and business units of banks from the Federation of BiH operating in the territory of Republika Srpska is shown in the following graph.

Graph 24. Sector structure of loans of Republika Srpska banks and bank business units from the Federation of BiH



Retail loans

Total retail loans as of 31/12/2020 amount to 3.3 billion KM and are higher by 66.2 million KM or 2% compared to the end of 2019.

Out of total retail loans, banks from Republika Srpska placed 2.6 billion KM or 77.8% of total retail loans, while business units of banks based in the Federation of BiH placed 733.4 million KM or 22.2% of total retail loans.

Short-term retail loans are lower by 48.9 million KM compared to the end of 2019 and account for 8.6% of total retail loans.

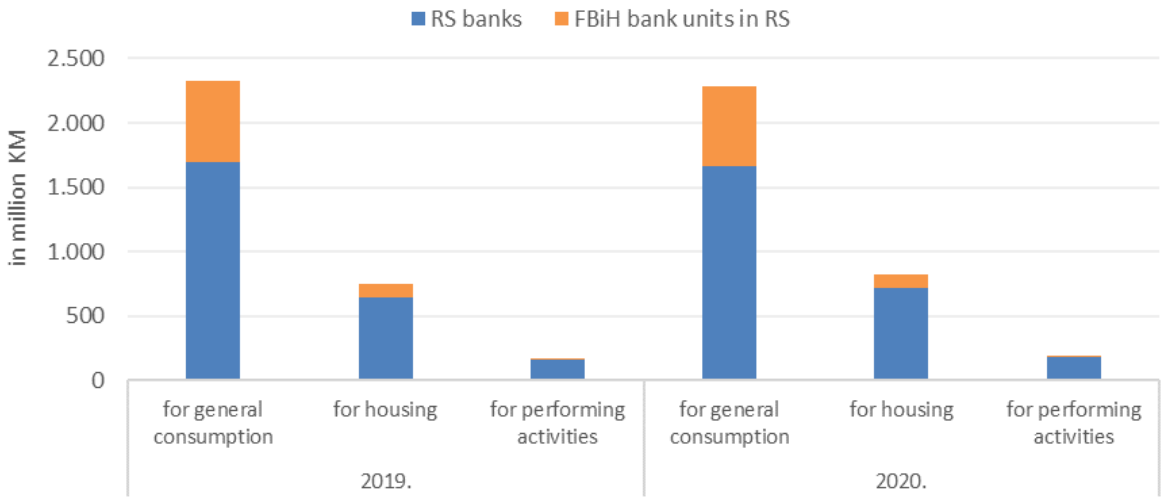
Long-term retail loans are higher by 115.1 million KM compared to the end of 2019 and account for 91.4% of total retail loans.

In the structure of short-term loans, general consumption loans account for 7.1% of total retail loans and are lower by 46.5 million KM compared to the end of 2019.

In the structure of long-term loans, general consumption loans account for 62% of total retail loans and are higher by 5.4 million KM, and housing loans account for 24.4% of total retail loans and are higher by 82.7 million KM compared to the end of 2019. Loans for performing business activities account for 4.9% of total retail loans and are higher by 27.1 million KM compared to the end of 2019.

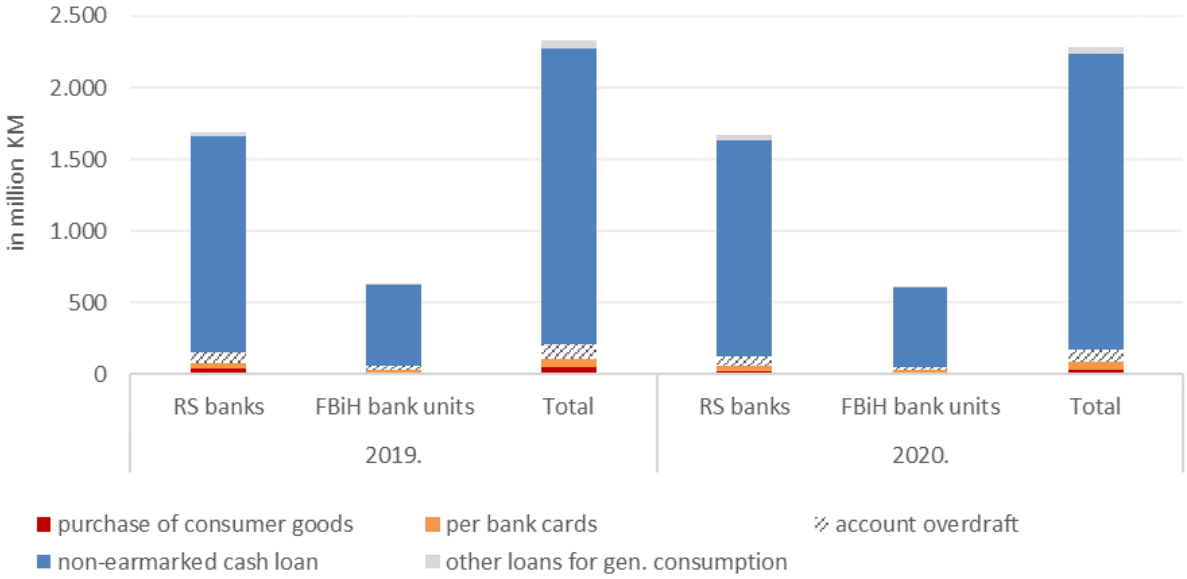
When we look at retail loans by purpose at the overall level, in this reporting period there was a decrease in loans for general consumption by 2%, while loans for housing increased by 11% and loans for performing business activities increased by 16%.

Graph 25. Household loan structure



The previous graph shows the sector structure of retail loans placed by banks from Republika Srpska and business units of banks from the Federation of BiH.

Graph 26. Earmarked structure of household loans for general consumption



According to the earmarked structure of retail loans for general consumption, non-earmarked cash loans account for 90.4% of total retail loans for general consumption and have almost the same amount as at the end of 2019.

Household indebtedness per banking sector loans

The following table shows the trend of total retail loans by RS banks and business units of banks from FBiH:

Table 17. Household indebtedness per loans (excluding loans for providing services)					mil. KM
	DESCRIPTION	2018.	2019.	2020.	Index
1.1.	Total household loans	2.302,0	2.502,1	2.572,8	103
1.2.	Household loans for providing services	144,6	164,6	184,8	112
1.	**RS banks* (1.1.-1.2.)**	**2.157,4**	**2.337,5**	**2.387,9**	**102**
2.1.	Total household loans	111,8	119,4	131,6	110
2.2.	Household loans for providing services	13,3	18,9	18,6	98
2.	**RS bank business units in FBiH* (2.1.-2.2.)**	**98,5**	**100,5**	**113,0**	**112**
3.1.	Total household loans	671,1	737,8	733,4	99
3.2.	Household loans for providing services	5,6	4,4	10,7	246
3.	FBiH bank business units in RS* (3.1.-3.2.)	665,4	733,4	722,6	99
	TOTAL (1-2+3)	**2.724,4**	**2.970,4**	**2.997,6**	**101**

According to the results of the census in Republika Srpska and BiH for 2013, for the territory of Republika Srpska the total number of enumerated persons is 1,170,342, which gives credit indebtedness per capita in the amount of 2,561.3 KM (as of 31 December, 2019 it was 2,538 ,1 KM).

Total received deposits and loans placed in Republika Srpska

Business units of banks headquartered in the Federation of BiH and operating in Republika Srpska have a deposit growth of 8%, while loans increased by 5% compared to the end of 2019.

Table 18. Received deposits and loans placed						mil. KM
DESCRIPTION	2019.		2020.		Deposit index	Loan index
	Deposit amount	Loan amount	Deposit amount	Loan amount		
1. RS banks	6.405,8	5.463,3	6.515,2	5.493,8	102	101
2. FBiH bank business units	932,1	1.520,1	1.003,6	1.594,5	108	105
3. TOTAL	7.337,9	6.983,4	7.518,8	7.088,3	102	102
4. Minus: RS bank business units in FBiH	321,9	262,2	360,5	273,7	112	104
5. TOTAL	**7.016,1**	**6.721,3**	**7.158,3**	**6.814,6**	**102**	**101**

Business units of banks headquartered in Republika Srpska and operating in the Federation of BiH, have a deposit growth of 12% and a loan growth of 4%. At the overall level, deposits are higher by 2%, and loans are higher by 1% compared to the end of 2019.

2.2 Profitability

Income statement

The structure of the income statement of the banking sector of Republika Srpska as of 31/12/2019 and 31/12/2020 can be seen from the following table:

Table 19. RS banking sector income statement **mil. KM**

DESCRIPTION	2019.		2020.		Index
	Amount	%	Amount	%	
1. INTEREST INCOME AND SIMILAR INCOME					
a) Interest income and similar income	295,2	63,7	294,7	64,1	100
b) Operational income	168,1	36,3	164,9	35,9	98
2. TOTAL INCOME (1.a+1.b)	**463,3**	**100**	**459,6**	**100**	99
3. EXPENSES					
a) Interest expenses and similar expenses	62,5	17,6	58,8	14,6	94
b) Business and direct expenses	68,7	19,3	104,2	25,9	152
c) Operational expenses	224,8	63,2	239,8	59,5	107
4. TOTAL EXPENSES (3.a+3.b+3.c)	**356,0**	**100**	**402,8**	**100**	113
TOTAL INCOME - EXPENSES (2.- 4.)	**107,3**		**56,9**		53
PROFIT BEFORE TAX	**107,3**		**67,5**		63
LOSS	**0,0**		**10,6**		-
TAX	10,8		6,6		61
Profit per increase of deferred tax funds and decrease of deferred tax obligations	0,3		2,9		857
Loss per decrease of deferred tax funds and increase of deferred tax obligations	0,2		0,3		137
NET-PROFIT	**96,6**		**60,8**		63
NET-LOSS	**0,0**		**8,0**		-

The total income of banks in 2020 amounted to 459.6 million KM and decreased by 3.7 million KM or by 1% compared to 2019.

Interest income and similar income amounted to 294.7 million KM and maintained the same level compared to the end of 2019, but increased their share in total income by 0.4 percentage points due to a decrease in operating income by 2%.

In the structure of interest income and similar income, the most significant are still interest income on loans amounting to 252.2 million KM or 85.6% of total interest income with a decrease of 2.6 million KM or 1% compared to the same period in 2019. Income from securities operations amounts to 22.4 million KM or 7.6% of total interest income and similar income with a growth rate of 11% or 2.2 million KM compared to the same period in 2019, while other income from interest and similar income amount to 19.8 million KM with a share of 6.7% and a growth rate of 2% (income from fees on credit transactions, placements with other banks and interest-bearing deposit accounts with depository institutions, etc.).

Operating revenues amount to 164.9 million KM and account for 35.9% of total revenues with a decrease of 3.7 million KM or 2% compared to the same period in 2019. The structure of operating revenues consists of: revenues based on performed payment services in the amount of 107.8 million KM or 65.4% of total operating revenues with a small decrease of 0.4 million KM compared to the same period in 2019, then revenues based on foreign exchange operations in the amount of 15 million KM or 9.1% of total operating revenues with a decrease of 1.1 million KM or 7%, off-balance sheet revenues in the amount of 9.1 million KM or 5.5% of total operating revenues with an increase of 1%, income from loan fees in the amount of 5 million KM or 3% of total operating income with a decrease of 39% or by 3.1 million KM, and other operating income in the total amount of 27.5 million KM or 16 .7% of total operating income with a growth of 4% or in the amount of 1 million KM (other operating income consists of income from trading,

net foreign exchange differences, income from collected written-off receivables, rent, sale of fixed assets and intangible assets, income by equity participation of other legal entities and other income).

Total expenditures of the banking sector amount to 402.8 million KM and are higher by 46.8 million KM or 13% compared to the same period in 2019.

According to the structure of total expenses of the banking sector, interest expenses and similar expenses amount to 58.8 million KM or 14.6% of total expenses and record a decrease of 3.7 million KM or 6% compared to the same period in 2019.

Operating and direct expenses amount to 104.2 million KM or 25.9% of total expenses and are higher by 35.5 million KM or 52%, and consist of: costs of impairment per balance sheet and provisions for off-balance sheet (formed by applying IFRS) in the amount of 68.9 million KM or 66% of total operating and direct expenses with an increase of 36.5 million KM or 112%, and other business and direct expenses (expenses based on fees and commissions, etc.) in the amount of 35.3 million KM or 34% of total business and direct costs with a decrease of 1 million KM or 3% compared to the same period in 2019.

Operating expenses amount to 239.8 million KM or 59.5% of total expenditures and are higher by 15 million KM or 7% compared to the same period in 2019. These expenses refer to the costs of salaries and contributions in the amount of 97.6 million KM, which are higher by 1.3 million KM or 1% compared to the same period in 2019, then to the costs of office space, other fixed assets and utilities in in the amount of 71.4 million KM that remained at the same level, and other operating expenses in the amount of 70.8 million KM (mostly related to intangible costs, foreign exchange losses, write-off and write-off of fixed assets and intangible assets, costs taxes and contributions, provisions for liabilities, losses on the sale of fixed assets and other costs) which are higher by 13.7 million KM or 24% compared to the same period in 2019.

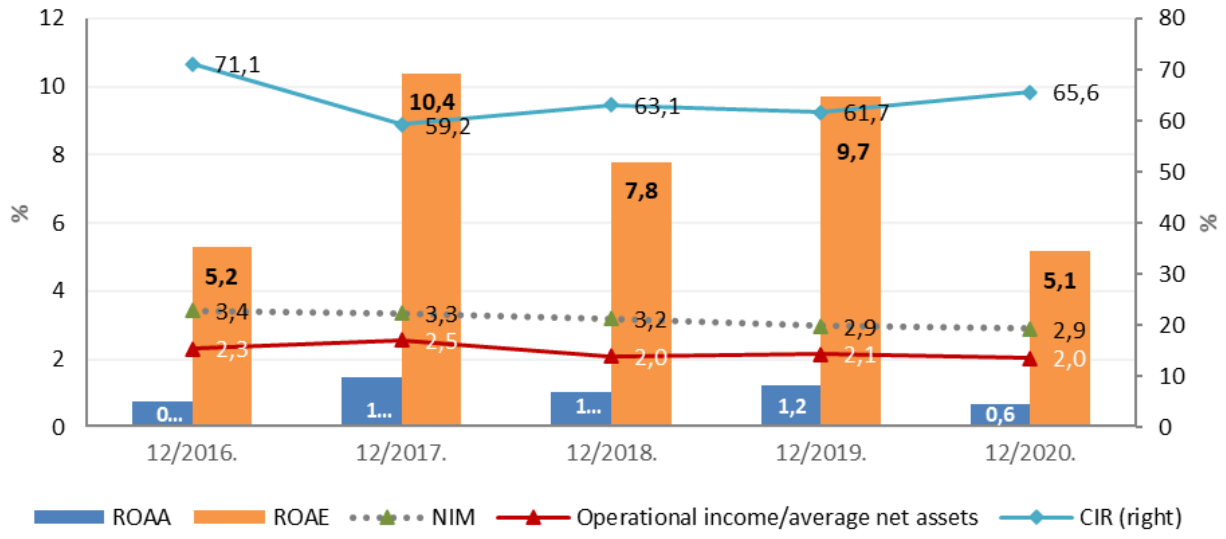
This reporting period is characterized by a decrease in total revenues by 1% and an increase in total expenditures by 13%, to which banks must pay special attention when creating business policy in the future.

Based on the report of the banks of the banking sector of Republika Srpska for 2020, seven banks reported net profit (gross profit less calculated tax) in the total amount of 60.8 million KM, which is lower by 35.8 million KM or 37% compared to the same period in 2019. One bank reported a loss of 8 million KM.

Profitability coefficients

The profitability coefficients of the banking sector measured on the basis of the annual level of net profit and the average balance of assets and capital (13-month average) for the five reporting periods are shown in the following table:

Graph 27. Profitability coefficient



An overview of profitability coefficients shows a decline in coefficients that reflect profitability. The ROAA coefficient is 0.6% and is lower by 0.6 percentage points, and the ROAE coefficient is 5.1% and is lower by 4.6 percentage points compared to the end of 2019.

2.3 Bank business operation risks

U skladu sa propisima Agencije, banke su dužne usvojiti i provoditi adekvatne politike i postupke upravljanja rizicima, te uspostaviti adekvatan nivo, obim i način kontrole i izvještavanja o rizicima.

2.3.1. Credit risk

Loan and other placements have the largest share in the overall structure of assets and are the riskiest part of it. The loan portfolio accounts for 62% of gross balance sheet assets. The stability and success of the operations of each bank and the banking sector as a whole largely depend on the quality of the loan, i.e. the degree of loan collection.

The obligation of banks is to prepare financial statements and valuation of assets in accordance with IAS and IFRS and in accordance with the stated obligation, banks began to apply IFRS 9 from 01/01/2018. Banks calculated expected credit losses in accordance with their internal methodologies, and the Agency determined a transitional period and, in parallel with the application of IFRS 9, maintained the existing regulatory requirement for classification of assets (on-balance sheet and off-balance sheet) and determination of potential credit risk exposure, and calculation of provisioning for coverage of credit and other losses until 31/12/2019, i.e. until 01/01/2020 when the booking of the effects of the application of the new regulations is stipulated.

The effects of the first application relate to the difference in the level of expected credit losses determined by banks in accordance with the provisions of the Decision on credit risk management and determination of expected credit losses and the level of expected credit losses determined and recorded by banks in accordance with their internal methodologies, whereas they were obliged to calculate the effects for each individual exposure. In addition, during the first application, banks were required to write off balance sheet exposures in accordance with the requirements of Article 11, Item 5, Sub-item 3 of the Decision on credit risk management and determination of expected credit losses.

2.3.2. Asset classification

The new Decision on credit risk management and determination of expected credit losses and the Instruction for classification and valuation of financial assets caused significant changes in the classification of assets, whereby the previous classification of assets into five categories and calculation of loan loss provisioning by these categories was replaced by defining a new allocation of exposures into three levels of credit risk and by calculating expected credit losses for each defined level of risk.

In accordance with the new Decision, the bank is obliged to classify each exposure into one of the following categories:

1) credit risk level 1 - low level of credit risk (performing),

2) credit risk level 2 - increased level of credit risk (underperforming) and

3) credit risk level 3 - exposures where impairment has occurred, i.e. exposures in the default status n(on-performing).

Expected credit loss (ECL) is an impairment of balance sheet exposure and provisions to cover expected credit losses for off-balance sheet exposures that the bank records in the income statement and is determined in accordance with the provisions of the above new Decision and Instructions.

In December 2019, the Agency amended the Decision on the form and content of reports submitted by the bank to the Agency[35] and stipulated new reports on asset quality.

The following table shows an overview of balance sheet and off-balance sheet exposures at the level of the banking sector according to the new valuation method, with ECL and coverage ratio:

Table 20. Total financial asset per manner of valuation and ECL **mil. KM**

FINANCIAL ASSETS	2018.			2019.			2020.		
	Amount	ECL	Coverage ratio	Amount	ECL	Coverage ratio	Amount	ECL	Coverage ratio
TOTAL	**8.935,3**	**465,6**	**5,2**	**9.502,3**	**422,8**	**4,4**	**9.773,3**	**391,8**	**4,0**
Balance sheet	**7.988,5**	**457,9**	**5,7**	**8.438,5**	**414,5**	**4,9**	**8.644,0**	**380,6**	**4,4**
Financial assets at amortized cost	7.154,3	450,0	6,3	7.447,4	399,1	5,4	7.514,3	374,0	5,0
Cash funds, cash receivables and other sight deposits	2.093,3	2,9	0,1	1.927,4	1,2	0,1	1.965,0	3,3	0,2
Debt securities	0,7	0,0	0,1	10,5	0,0	0,1	21,2	0,0	0,1
Loans	5.002,9	410,5	8,2	5.461,2	376,0	6,9	5.492,4	357,4	6,5
Other asset	57,3	36,5	63,6	48,3	22,0	45,4	35,6	13,3	37,3
Financial asset per fair value through balance sheet	9,9	0,0		13,3	0,0		13,2	0,0	
Financial asset per fair value through Accumulated other comprehensive income*	761,9	0,0		918,2	0,0		1.050,5	0,0	
Other financial receivables	62,4	8,0	12,7	59,6	15,4	25,9	66,1	6,6	10,0
Off-balance sheet	**946,8**	**7,6**	**0,8**	**1.063,8**	**8,3**	**0,8**	**1.129,3**	**11,2**	**1,0**
Guarantees issued	464,7	4,2	0,9	508,1	4,3	0,8	514,7	5,2	1,0
Non-covered letters of credit	2,4	0,0	0,2	4,4	0,1	1,2	2,7	0,0	0,5
Irrevocably approved, not utilized loans	463,9	3,4	0,7	550,8	4,0	0,7	610,5	6,0	1,0
Other potential bank liabilities	15,8	0,0	0,0	0,5	0,0	0,4	1,3	0,0	1,0

*In accordance with the new regulation, ECL for debt securities is recorded through accumulated other comprehensive income as capital item

[35] „Official Gazette of Republika Srpska“, No. 109/19

Total exposure of banks as of 31/12/2020 amounted to 9.8 billion KM, of which 8.6 billion KM refers to balance sheet exposures, and 1.1 billion KM to off-balance sheet exposures.
In 2020, balance sheet exposures increased by 205.5 million KM or 2%, while off-balance sheet exposures increased by 65.5 million KM or 6%.
Due to the significant write-off of non-performing loans, the coverage ratio by value adjustments, i.e. the ratio of ECL on total financial assets is 4% and is lower by 0.4 percentage points compared to the end of 2019.
The following table presents an overview of balance sheet and off-balance sheet exposures at the level of the banking sector, classified according to the levels of credit risk with the corresponding ECL and coverage ratio:

Table 21. Total financial asset per credit risk level mil. KM

FINANCIAL ASSETS	2018.			2019.			2020.		
	Amount	ECL	Coverage ratio	Amount	ECL	Coverage ratio	Amount	ECL	Coverage ratio
TOTAL	**8.935,3**	**465,6**	**5,2**	**9.502,3**	**422,8**	**4,4**	**9.773,3**	**391,8**	**4,0**
Credit risk level 1	7.758,5	47,5	0,6	8.559,0	53,4	0,6	8.835,5	73,1	0,8
Credit risk level 2	628,8	38,9	6,2	525,2	47,3	9,0	630,0	68,0	10,8
Credit risk level 3	548,0	379,2	69,2	418,0	322,2	77,1	307,8	250,8	81,5
Balance sheet	**7.988,5**	**457,9**	**5,7**	**8.438,5**	**414,5**	**4,9**	**8.644,0**	**380,6**	**4,4**
Credit risk level 1	6.906,8	43,7	0,6	7.562,7	49,3	0,7	7.766,8	66,3	0,9
Credit risk level 2	540,9	36,9	6,8	459,6	43,6	9,5	570,4	64,0	11,2
Credit risk level 3	540,8	377,4	69,8	416,2	321,7	77,3	306,7	250,3	81,6
Off-balance sheet	**946,8**	**7,6**	**0,8**	**1.063,8**	**8,3**	**0,8**	**1.129,3**	**11,2**	**1,0**
Credit risk level 1	851,7	3,9	0,5	996,3	4,1	0,4	1.068,7	6,8	0,6
Credit risk level 2	87,9	2,0	2,2	65,6	3,7	5,7	59,5	4,0	6,7
Credit risk level 3	7,2	1,8	25,3	1,8	0,5	26,9	1,0	0,5	46,9

Balance sheet exposures allocated to credit risk level 1 as of 31/12/2020 amounted to 7.8 billion KM and account for 90.4% of total balance sheet exposures. Compared to the end of 2019, they are higher by 204.2 million KM or 3%.

Balance sheet exposures allocated to credit risk level 2 as of 31/12/2020 amounted to 570.4 million KM and account for 6.6% of total balance sheet exposures. Compared to the end of 2019, they are higher by 110.8 million KM or 24%.

Balance sheet exposures allocated to credit risk level 3 as of 31/12/2020 amounted to 306.7 million KM and account for 3.6% of total balance sheet exposures. Compared to the end of 2019, they are less by 109.5 million KM or 26%.

Off-balance sheet exposures allocated to credit risk level 1 as of 31/12/2020 amounted to 1.1 billion KM and account for 94.6% of total off-balance sheet exposures. Exposures allocated to credit risk level 2 amount to 59.5 million KM or 5.3% of total off-balance sheet exposures, while 1 million KM or 0.1% of total off-balance sheet exposures are allocated to credit risk level 3.

For total exposures allocated to credit risk level 1, ECL as of 31/12/2020 was 73.1 million KM and is higher by 19.7 million KM or 37% compared to the end of 2019.

For total exposures allocated to credit risk level 2, ECL as of 31/12/2020 was 68 million KM and is higher by 20.7 million KM or 5% compared to the end of 2019.

For total exposures allocated to credit risk level 3, ECL as of 31/12/2020 was 250.8 million KM and is lower by 71.4 million KM or 22% compared to the end of 2019.

As a result of the implementation of the Decision on credit risk management and determination of expected credit losses, the ECL coverage ratio at the overall level is 4% and is lower by 0.4 percentage

points compared to the end of 2019. ECL coverage for exposures allocated to credit risk level 1 increased from 0.6% to 0.8%, coverage for exposures allocated to credit risk level 2 increased from 9% to 10.8% and for exposures allocated to credit risk level 3 we have an increase from 77.1% to 81.5%, compared to the end of 2019.

The following table shows an overview of loans to legal entities and private individuals according to the level of credit risk and the corresponding ECL.

Table 22. Overview of loans to legal entities and private individuals according to the credit risk level and corresponding ECL mil. KM

Loans	2018.			2019.			2020.		
	Amount	ECL	Coverage ratio	Amount	ECL	Coverage ratio	Amount	ECL	Coverage ratio
Total loans	**5.005,8**	**412,2**	**8,23**	**5.463,3**	**376,9**	**6,90**	**5.493,8**	**357,4**	**6,51**
Legal entities	2.703,9	234,8	8,68	2.961,2	207,2	7,00	2.921,0	192,1	6,58
Private individuals	2.302,0	177,4	7,71	2.502,1	169,7	6,78	2.572,8	165,4	6,43
Credit risk level 1	**3.977,6**	**39,2**	**1,0**	**4.630,2**	**40,5**	**0,9**	**4.658,5**	**63,1**	**1,4**
Legal entities	2.070,8	24,1	1,2	2.527,1	24,9	1,0	2.437,0	34,0	1,4
Private individuals	1.906,8	15,1	0,8	2.103,1	15,6	0,7	2.221,5	29,1	1,3
Credit risk level 2	**532,8**	**34,5**	**6,5**	**453,4**	**41,5**	**9,1**	**547,8**	**62,1**	**11,3**
Legal entities	315,5	14,9	4,7	224,4	19,9	8,9	324,3	34,7	10,7
Private individuals	217,2	19,6	9,0	229,0	21,5	9,4	223,5	27,4	12,2
Credit risk level 3	**495,5**	**338,4**	**68,3**	**379,7**	**295,0**	**77,7**	**287,5**	**232,2**	**80,8**
Legal entities	317,5	195,8	61,7	209,7	162,4	77,4	159,7	123,3	77,2
Private individuals	178,0	142,7	80,2	170,0	132,5	78,0	127,7	108,9	85,3

Loans allocated to credit risk level 1 as of 31/12/2020 amounted to 4.7 billion KM and account for 85% of the total loan portfolio. Compared to the end of 2019, they are higher by 28.3 million KM or 1%. The ECL coverage ratio for loans allocated to credit risk level 1 is 1.4% (legal entities 1.4%, and private individuals 1.3%) and compared to the end of 2019, it is higher by 0.4 percentage points.

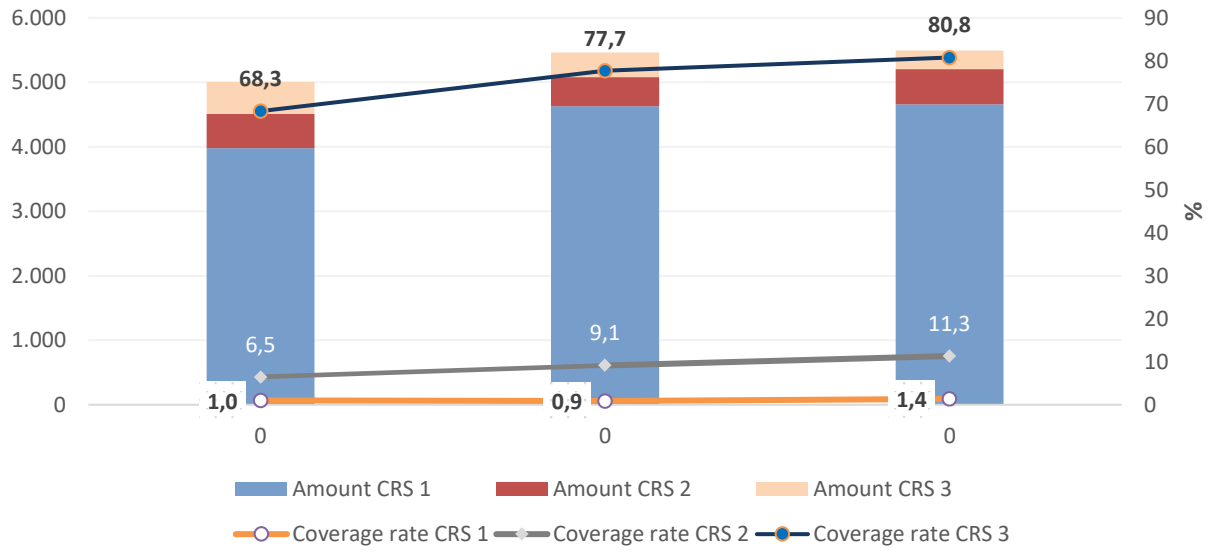
Loans allocated to credit risk level 2 as of 31/12/2020 amounted to 547.8 million KM and account for 10% of the total loan portfolio. Compared to the end of 2019, they are higher by 94.4 million KM or 21%. The ECL coverage ratio for credit risk level 2 is 11.3% (legal entities 10.7%, private individuals 12.2%) and compared to the end of 2019 it is higher by 2.2 percentage points.

Loans allocated to credit risk level 3 (NPL) as of 31/12/2020 amounted to 287.5 million KM and account for 5.2% of the total loan portfolio. Compared to the end of 2019, they are lower by 92.2 million KM or 24%, mostly due to the accounting write-off in accordance with the Decision on credit risk management and determination of expected credit losses. The ECL coverage ratio for credit risk level 3 is 80.8% (legal entities 77.2% and private individuals 85.3%) and compared to the end of 2019 it is higher by 3.1 percentage points.

Out of the total loans placed to legal entities amounting to 2.9 billion KM, 159.7 million KM or 5.5% refers to NPLs, which is 0.5 percentage points less than at the end of 2019. Out of the total loans to private individuals amounting to 2.6 billion KM, 127.7 million KM or 5% refers to NPLs, which is 1.8 percentage points less compared to the end of 2019.

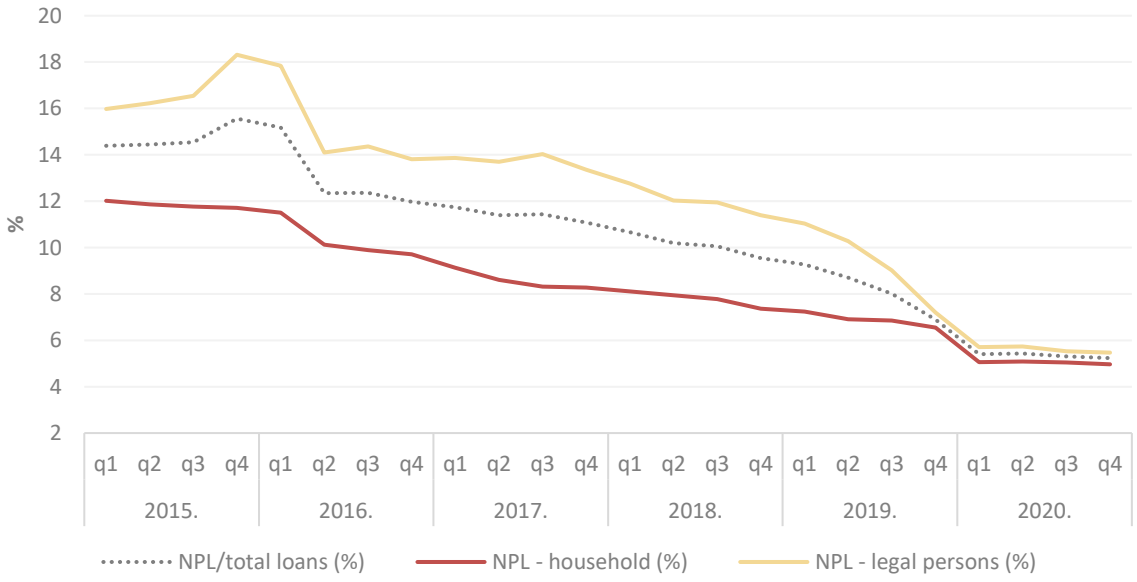
The following graph shows the trend of loans allocated into three credit levels with the corresponding coverage ratio, i.e. ECL, through three comparative periods:

Graph 28. Loans per credit risk stages with corresponding coverage ratio



The trend of NPLs through several comparative periods is shown in the following graph:

Graph 29: Share of NPL in loans



The following table shows the credit risk indicators through the last three comparative periods:

Table 23. Credit risk indicators **%**

DESCRIPTION	2018.	2019.	2020.
NPA ratio	6,1	4,4	3,1
Coverage ratio of NPA with ECL	69,2	77,1	81,5
Coverage ratio of total asset with ECL	5,2	4,4	4,0
NPL ratio	9,9	7,0	5,2
Coverage ratio of NPL with ECL	68,3	77,7	80,8
Coverage ratio of total loans with ECL	8,2	6,9	6,5
New NPL*/total relevant gross loans	11,0	-2,3	-1,8
Texas coefficient**	38,0	28,4	22,3

*NPL / (balance sheet capital and NPL impairment)

*Increase/decrease amount of NPL on the reporting date compared to comparative period

**Non performing gross loans / balance sheet capital and impairment for non-performing loans

CRL 1, 2, 3 – credit risk level

NPL – non-performing gross loans (CRL 3)

ECL – impairment

NPA – non-performing assets (CRL 3)

Total corresponding gross loans (CRL 1 + CRL 2)

2.3.3. FX adjustment of financial assets and liabilities

Foreign exchange risk is the bank's exposure to the possible impact of changes in foreign exchange rates depending on the amount and duration of exposure and the degree of foreign exchange adjustment of financial assets, liabilities and off-balance sheet, or the degree of adjustment of foreign exchange cash flow.

Due to the possibility of a negative impact of changes in foreign exchange rates on the bank's financial position, minimum standards are stipulated that banks must adhere to in performing foreign exchange activities, adopting and implementing programs, policies and procedures for monitoring, controlling and managing foreign exchange risk.

The difference between asset and liability items by individual currencies is the open individual foreign exchange position, which can be a long or short position, as well as the total position of the bank.

Foreign exchange adjustment of net financial assets, net liabilities and off-balance sheet is monitored daily based on bank reports.

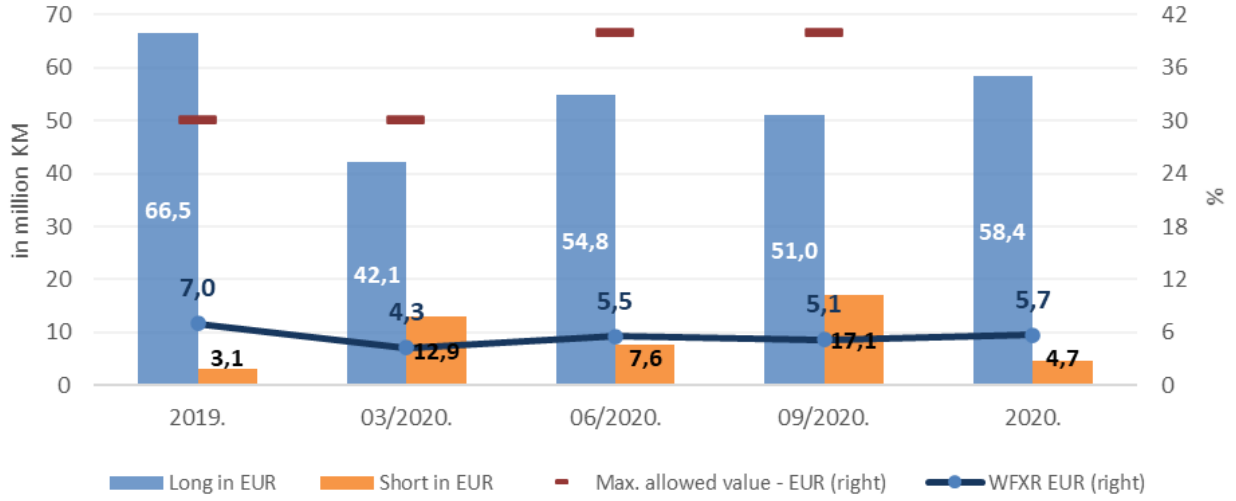
Total foreign currency financial assets of banks from Republika Srpska as of 31/12/2020 amounted to 4.6 billion KM and is higher by 137.3 million KM compared to the end of 2019. In the structure of foreign currency assets, the most significant item are placed loans with an agreed foreign exchange clause amounting to 3.2 billion KM and which are higher by 46.4 million KM compared to the end of 2019.

The total foreign currency liabilities amount to 4.4 billion KM and are higher by 127.2 million KM compared to the end of 2019. In the structure of these liabilities, the most significant item are total foreign currency deposits amounting to 2.4 billion KM and recording a decline rate of 4%, i.e. they are lower by 97.4 million KM compared to the end of 2019 and deposits with foreign exchange clause amounting to 1, 9 billion KM and increased by 13%, or 216.9 million KM compared to the end of 2019.

At the level of the banking sector, the total foreign exchange position as of 31/12/2020 is long and amounts to 58.9 million KM and is lower by 30% compared to the end of 2019.

EUR currency participates with 96.8% in total financial assets, 96.7% in total financial liabilities and 91.3% in total long position. The trend of the foreign exchange position in EUR is shown in the following graph.

Graph 30. Overview of long and short position for EUR



WFXR - weighted FX risk

2.3.4. Interest rate risk management

The Agency's Decision on interest rate risk management in the banking book regulates, among other things, the process of calculating the assessment of changes in the economic value of the banking book for each significant currency individually and for other currencies in total, netting fixed asset and liabilities positions with fixed interest rate, variable interest rate and interest rate which is changed based on the decision of the bank's governing body, in order to obtain the total net weighted position of the banking

book, which in absolute terms represents the change in the economic value of the banking book. The ratio of the change in the economic value of the banking book and regulatory capital should not exceed 20%.

At the level of the banking sector of Republika Srpska as of 31/12/2020, the ratio of the change in the economic value of the banking book and regulatory capital is 8.4%, as shown in the following table:

Table 24. Net weighted position of the banking book per currency mil. KM

DESCRIPTION	2019.	2020.	Index
1. Net weighted position of the banking book (FIR + VIR + IRBMB)*			
1.1 Per BAM currency (long position)	11,9	18,4	155
1.2 Per EUR currency (long position)	66,8	69,0	103
1.3 Per other currencies (short position)	-1,8	-1,7	-
2. Change in economic value (1.1 + 1.2 + 1.3)	76,8	85,7	112
3. Regulatory capital	976,4	1.018,1	104
CHANGE IN ECONOMIC VALUE / REGULATORY CAPITAL * 100 (%)	**7,9**	**8,4**	**107,0**

*FIR – fixed interest rate/VIR – variable interest rate/IRBMB – interest rate changed based on the decision of the bank managing body

Ratio of change in economic value of banking book positions and regulatory capital as of 31/12/2020 is 8.4% and is higher by 0.5 percentage points compared to the end of 2019. Looking at individual banks, the coefficient of change in economic value ranged from 1.2% to 14.1%.

2.3.5. Weighted nominal and effective interest rates

Weighted nominal and effective interest rates are calculated on newly approved loans, i.e. deposits received in the reporting month. The effective interest rate is the market price of banking products or services.

Table 25. Average weighted interest rates on loans %

DESCRIPTION	2019.				2020.			
	RS banks		FBIH bank units		RS banks		FBIH bank units	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
Weighted int. rates on short term loans								
Loans to Government and Government institutions	1,60	1,72	0,00	0,00	3,99	4,98	0,00	0,00
Real sector	3,25	3,75	2,79	3,08	3,15	3,65	2,98	3,42
Loans to banks and other fin. inst.	3,48	4,23	0,00	0,00	3,34	4,16	0,00	0,00
Household	11,52	16,26	8,58	17,85	8,77	13,17	8,97	19,66
Other loans	5,49	6,00	0,00	0,00	3,72	4,30	7,75	9,07
Weighted int. rate on long term loans								
Loans to Government and Government institutions	2,61	2,65	2,47	2,55	3,82	4,07	3,11	3,26
Real sector	4,26	4,63	3,54	3,81	4,72	5,15	3,87	4,11
Loans to banks and other fin. inst.	3,78	4,02	4,85	5,07	4,11	4,40	0,00	0,00
Household	5,69	7,24	5,72	7,31	5,84	7,44	5,92	7,69
Housing loans	3,82	4,31	3,56	4,32	3,72	4,20	3,62	4,56
Other loans	4,00	4,29	0,00	0,00	3,32	3,74	3,94	4,03
Weighted int. rates on total loans	**4,73**	**5,73**	**4,57**	**5,62**	**4,66**	**5,55**	**4,59**	**5,59**

NIR – nominal interest rate; EIR – effective interest rate

The average weighted total nominal interest rate on loans of banks from Republika Srpska for 2020 is 4.66% and is lower by 0.07 percentage points, and the total average effective interest rate is 5.55% and is lower by 0.18 percentage points points compared to 2019.

The average weighted total effective interest rate on loans in the observed period with units of banks from the Federation of BiH operating in Republika Srpska is 5.59% and is lower by 0.19 percentage points compared to 2019. Units of banks from the Federation of BiH operating in Republika Srpska have an average weighted effective interest rate higher by 0.04 percentage points compared to the average weighted effective interest rate of banks from Republika Srpska.

Units of banks from the Federation of BiH operating in Republika Srpska have an average weighted effective interest rate higher by 0.04 percentage points compared to the average weighted effective interest rate of banks from Republika Srpska.

The weighted average nominal and effective interest rates on loans for 2019 and 2020 were calculated on the basis of monthly reports submitted by banks from Republika Srpska and business units of banks from the Federation of BiH, which operate in Republika Srpska.

Average weighted nominal and effective interest rates on time deposits for 2019 and 2020 calculated on the basis of monthly reports, for the banking sector of Republika Srpska and for business units of banks from the Federation of BiH operating in Republika Srpska, can be seen from the following table:

Table 26. Average weighted interest rates on deposits %

DESCRIPTION	2019.				2020.			
	RS banks		FBIH bank units		RS banks		FBIH bank units	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
Weighted int. rates on short term deposits	0,01	0,01	0,44	0,44	0,35	0,35	0,74	0,75
Weighted int. rates on long term deposits	1,40	1,40	1,46	1,46	1,38	1,39	1,26	1,26
Weighted int. rates on total deposits	**0,64**	**0,64**	**1,26**	**1,26**	**0,93**	**0,94**	**1,05**	**1,06**

NIR – nominal interest rate; EIR – effective interest rate

The average weighted effective interest rate on total deposits of banks based in Republika Srpska is 0.94% and is higher by 0.30 percentage points compared to 2019.

The average weighted effective interest rate on total deposits of bank units from the Federation of BiH is 1.06% and is lower by 0.2 percentage points compared to 2019.

In the organizational units of banks from the Federation of BiH, the average weighted effective interest rate on total deposits is higher than the same in banks based in Republika Srpska by 0.12 percentage points.

The difference between the average weighted effective interest rate on total loans (5.55%) and the average weighted effective interest rate on total deposits (0.94%) is 4.61 percentage points and is lower by 0.48 percentage points compared to 2019. The difference between the average weighted effective interest rate on total loans (5.59%) and the average weighted effective interest rate on total deposits (1.06%) in units of banks from the Federation of BiH is 4.53 percentage points and is higher by 0.17 percentage points compared to 2019.

Table 27. Average weighted interest rates on overdraft and sight deposits %

DESCRIPTION	2019.				2020.			
	RS banks		FBIH bank units		RS banks		FBIH bank units	
	NKS	EKS	NKS	EKS	NKS	EKS	NKS	EKS
Weighted interest rates on loans (overdrafts)								
total legal entities and household	8,01	9,29	6,45	6,73	7,17	8,31	6,35	6,61
household overdrafts	13,28	15,75	13,63	14,24	13,32	15,93	13,90	14,51
Weighted interest rates on sight deposits								
total legal entities and household	0,05	0,05	0,02	0,02	0,04	0,04	0,02	0,02
household overdrafts	0,02	0,02	0,03	0,03	0,02	0,02	0,02	0,02

NIR – nominal interest rate; EIR – effective interest rate

3 CAPITAL AND CAPITAL ADEQUACY

The soundness and stability of the banking sector largely depends on the amount and ability of capital to absorb and ensure the resilience of the banking sector to potential risks in order to maintain sound and stable operations of the banking sector and meet obligations to creditors.

Starting from 31/12/2017, banks are obliged to report to the Agency on ratios and levels of own funds, Tier 1 capital and CET1 capital, capital requirements and leverage in accordance with the Decision on calculating capital in banks and the Decision on reporting on bank capital adequacy.

The capital structure of the banking sector as of 31/12/2018, 31/12/2019 and 31/12/2020 are given in the following table:

Table 28. Capital structure mil. KM

	DESCRIPTION	2018.	2019.	2020.	Index
1.	**REGULATORY CAPITAL**	**879,4**	**976,4**	**1.018,2**	**104**
1.1.	**TIER 1 CAPITAL**	**807,1**	**899,6**	**922,9**	**103**
1.1.1.	**CET 1**	**804,7**	**898,1**	**916,9**	**102**
1.1.1.1.	Paid in capital instruments	635,6	638,0	653,0	102
1.1.1.2.	Share premium	23,9	25,1	25,1	100
1.1.1.3.	(–) Investments in CET 1 instruments for which the Agency determines that they do not represent realistic and acceptable regulatory capital increase	0,0	0,0	0,0	-
1.1.1.4.	Undistributed profit from previous years	69,5	53,8	108,1	201
1.1.1.5.	Recognized profit or loss	-76,4	0,0	0,0	-
1.1.1.6.	Other total result	6,1	15,6	16,3	104
1.1.1.7.	Other reserves	181,6	207,0	146,7	71
1.1.1.8.	(–) Other intangible assets	-23,2	-26,5	-28,8	109
1.1.1.9.	(–) Deferred tax assets - assets that depend on future profitability and do not arise from temporary differences reduced by related tax liabilities	-1,1	-1,0	-1,1	115
1.1.1.10	(–) Deductions from AT 1 items that exceed AT 1 capital	-11,4	-13,9	0,0	-
1.1.1.11	(–) Deferred tax assets - assets that depend on future profitability and arise from temporary differences	0,0	0,0	-2,3	14.488
1.1.2.	**AT 1**	**2,4**	**1,5**	**6,0**	**388**
1.1.2.1.	Paid in capital instruments recognized as AT 1	6,0	6,0	6,0	100
1.1.2.2.	(–) Deductions from Tier 2 items exceeding Tier 2	-14,9	-18,4	0,0	-
1.1.2.3.	Deduction from AT 1 items exceeding AT 1 (deducted from CET 1)	11,4	13,9	0,0	**0**
1.2.	**T2**	**72,3**	**76,8**	**95,3**	**124**
1.2.1.	Paid in capital instruments and subordinated loans recognized as Tier 2	50,6	49,3	47,3	96
1.2.2.	General impairment for credit risk in accordance with standardized approach	52,8	55,3	48,0	87
1.2.3.	Deduction from Tier 2 items exceeding Tier 2 (deducted in AT 1)	14,9	18,4	0,0	0
1.2.4.	Elements or deductions from Tier 2 – other (amount of lacking regulatory reserves)	-46,1	-46,2	0,0	-

Own funds are the sum of Tier 1 and Tier 2 capital after regulatory adjustments and the bank is obliged to maintain it in the stipulated amount, for the purpose of sound and stable operations and fulfillment of obligations to creditors. Own funds of the banking sector of Republika Srpska as of 31/12/2020 amounted to 1 billion KM and is higher by 41.8 million KM or 4% compared to the end of 2019. The Tier 1 capital amounts to 922.9 million KM and is higher by 23.3 million KM or 3%, and consists of CET 1 capital in the amount of 916.9 million KM (it is higher by 18.8 million KM compared to the end of 2019) and AT1 capital in the amount of 6 million KM (higher by 4.5 million KM compared to the end of 2019). AT1 capital amounts to 95.3 million KM and is higher by 18.5 million KM or 24% compared to the end of 2019.

The effects of the application of the new Decision on credit risk management and determination of expected credit losses were recorded through capital and had an impact on the reduction of own funds, Tier 1 and CET1 capital. The effects of the first application represent the difference between the expected credit losses determined in accordance with the provisions of the new Decision and those determined by the bank in accordance with its internal methodology. A detailed description of the booking of effects and the impact on capital items is described in the Report on the banking system of Republika Srpska as of 31/03/2020[36]. In the second quarter, significant changes in capital relate to the coverage of losses from the previous period with one bank at the expense of capital reserves and reducing the item of retained earnings due to the coverage of the negative effects of the new regulations in several banks.

The increase in the amount of CET1 capital was influenced by the increase in paid-in share capital by 15 million KM or 2% and the increase in retained earnings in recent years by 54.4 million KM or 101% compared to the end of 2019.

AT1 capital is higher by 4.5 million KM, due to the revocation of part of the lacking regulatory reserves, which were a deductible item from this capital.

Tier 1 capital is the sum of CET1 capital and Tier 2 capital, so that the changes described above affected the amount of Tier 1 capital, which is higher by 23.3 million KM or 3% compared to the end of 2019.

Tier 2 capital was increased by 18.5 million KM, and in the structure of this capital there was a decrease in subordinated liabilities by 2 million KM, general value adjustments by 7.3 million[37] KM and the revocation of the deductible item related to the lacking regulatory reserves.

Own funds are the sum of Tier 1 and Tier 2 capital and all the changes described above affected the increase of own funds in the amount of 41.8 million KM or 4% compared to the end of 2019.

3.1 Capital adequacy

Very important indicators of capital soundness are capital adequacy indicators on the basis of which the quality of own funds, Tier 1 and Tier 2 capital is continuously assessed in accordance with the Banking Law of Republika Srpska and bylaws, which represent the individual ratio of CET1 capital, Tier 1 capital, own funds and the total amount of risk exposure.

The total amount of risk exposure is the sum of risk weighted exposures for credit risk, market risk (position risk, foreign exchange and commodity risk), operational risk, settlement / free delivery risk and risk associated with large exposures arising from trading book items.

Risk-weighted balance sheet exposure means the carrying amount of the balance sheet asset less impairment, which is related to the initial exposure and allocated to the appropriate risk weights.

Risk-weighted off-balance sheet exposure means the carrying amount of off-balance sheet assets less provisions, which are associated with the initial exposure and allocated to appropriate conversion factors depending on whether they are classified as high-risk, medium-risk or low-risk items.

Ukupna izloženost riziku bankarskog sektora Republike Srpske sa stanjem na dan 31.12.2020. godine iznosi 5,3 milijarde KM i manja je za 66 miliona KM ili 1% u odnosu na kraj 2019. godine.

[36] www.abrs.ba

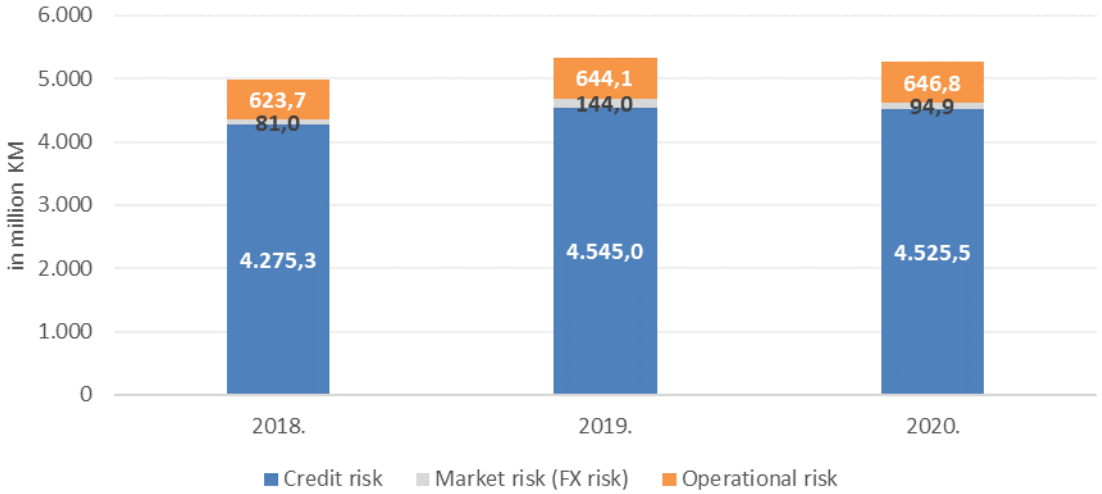
[37] Instruction for application of individual provisions of the Decision on calculating capital in banks UO No: D-6/20 as of 27/03/2020.

Credit risk is lower by 19.5 million KM, i.e. it has maintained approximately the same level compared to the end of 2019.

Market (foreign exchange) risk is lower by 49.2 million KM or 34% compared to the end of 2019.

The operational risk is higher by 2.7 million KM, i.e. it has maintained approximately the same level compared to the end of 2019.

Graph 31. Total banking sector risk exposure



The previous graph shows the trend of credit, market and operational risk through the last three comparative periods.

Capital adequacy indicators as of 31/12/2020 indicate that the banking sector of Republika Srpska is satisfactorily capitalized, taking into account the capital structure and capital adequacy ratios that are above the stipulated minimum, as given in the following overview:

Table 29. Capital adequacy indicators **mil. KM**

DESCRIPTION	2018.	2019.	2020.	Index
Total amount of risk exposure	**4.979,9**	**5.333,1**	**5.267,2**	**99**
Regulatory capital	879,4	976,4	1.018,2	104
Excess (+) / shortage (–) of regulatory capital	281,4	336,4	386,2	115
Capital adequacy ratio (min. 12%)	**17,7%**	**18,3%**	**19,3%**	**106**
Tier 1	807,1	899,6	922,9	103
Excess (+) / shortage (–) of Tier 1	359,1	419,6	448,9	107
Tier 1 ratio (min. 9%)	**16,2%**	**16,9%**	**17,5%**	**104**
CET 1	804,7	898,1	916,9	102
Excess (+) / shortage (–) of CET 1	468,7	538,1	560,9	104
CET 1 ratio (min. 6,75%)	**16,2%**	**16,8%**	**17,4%**	**103**

The own funds ratio is 19.3% and is higher by 1 percentage point compared to the end of 2019 (minimum stipulated ratio of 12%), the Tier 1 capital ratio is 17.5% and is higher by 0.7 percentage points (minimum stipulated ratio of 9%) and the ratio of CET1 capital is 17.4% and is higher by 0.6 percentage points compared to the end of 2019 (the minimum stipulated ratio is 6.75%), and all capital ratios are significantly above the stipulated minimum.

3.2 Leverage

The Decision on calculating capital in banks established a new methodology for calculating leverage, i.e. the regulatory framework for monitoring the leverage ratio in banks as a ratio of Tier 1 capital and measures of total bank exposure on the last day of the reporting period, which must be at least 6%.

The measure of total exposure is the sum of balance sheet exposures less impairment and off-balance sheet exposures less reserves calculated according to international accounting standards using appropriate conversion factors, all reduced by the amount of deductible assets (assets shown in the calculation of Tier 1 capital, related to other intangible assets and deferred tax assets).

Leverage ratio of the banking sector as of 31/12/2020 is 10.4%, as given in the following overview:

Table 30. Leverage ratio mil. KM

DESCRIPTION	2018.	2019.	2020.	Index
1. Off-balance sheet items with conversion factor	**307,7**	**361,4**	**403,5**	112
10%	9,7	10,2	11,0	107
20%	115,2	119,3	112,6	94
50%	180,3	227,3	275,0	121
100%	2,5	4,6	4,8	104
2. Other assets	**7.760,1**	**8.297,9**	**8.508,6**	103
3. (-) Amount of asset deductible items – Tier 1	-24,4	-27,6	-32,3	117
4. Leverage ratio exposure (1+2+3)	**8.043,4**	**8.631,7**	**8.879,7**	**103**
5. Tier 1	807,1	899,6	922,9	103
6. Leverage ratio (5/4)	**10,0%**	**10,4%**	**10,4%**	

The leverage ratio at the level of the banking sector of Republika Srpska is 4.4 percentage points higher than the minimum stipulated ratio. In relation to the condition as of 31/12/2019, the leverage ratio remained the same. If we look at individual banks, the leverage ratio ranges from 7.2% to 16.6%.

4 LIQUIDITY

Liquidity maintenance and liquidity risk management is a very complex and important business segment of every bank and the banking sector as a whole. The stability of each bank's operations, confidence building and market position depend on the quality of liquidity risk management and the ability to maintain a liquid position, as well as the level of credit risk.

The responsibility for implementing the liquidity policy and ensuring the bank's ability to perform its obligations without delay on the maturity date lies with the bank's management and the bank governing bodies.

In the process of liquidity risk management, banks are obliged, by means of implementation of adopted programs, policies and procedures, to ensure the maturity structure and harmonization of assets, liabilities and off-balance sheet, plan future needs and sources of liquidity, taking into account the necessary diversification of sources, protect the bank from unexpected cash outflows, and anticipate liquidity needs for emergencies. Banks must provide all of the above, having in mind, in addition to the influence of internal factors on the bank's liquidity, also the influence of external factors (regulatory, monetary, economic and legislative system, market conditions, money market development and money market access, etc.) on the bank's overall operations.

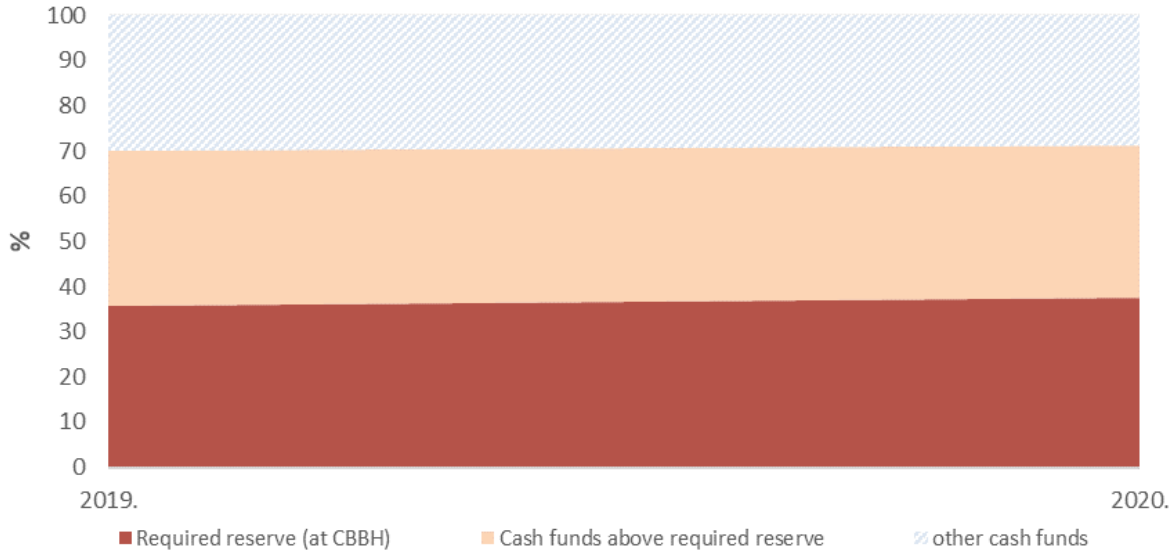
The focus of banks is on strictly keeping current liquidity under control, and increasing the degree of prudency when planning the future liquidity position. From the aspect of the liquidity position, the banking sector of Republika Srpska in 2020 maintained liquidity at a satisfactory level and was able to perform all obligations within maturity. The strictly established regulatory framework for liquidity maintenance and planning, the implementation of which is under the constant supervision of the Agency, also has a significant impact on banks' liquidity.

In addition to regularly planned liquidity measures, banks had to develop liquidity plans to overcome the problems caused by the pandemic of the viral disease "COVID 19" and approve the approval special measures with the necessary cash flows that do not jeopardize the liquidity of banks.

Total cash funds and trading securities (3 billion KM) have a significant share of 33.4% in total gross assets.

In the period from 01/01 to 31/12/2020, all banks continuously met the set conditions for maintaining the liquidity position, i.e. maintaining cash funds above the stipulated minimum of daily amount of cash funds of 5% and maintaining the ten-day amount of cash funds above 10%, all in relation to short-term sources.

Graph 32. Total bank cash funds

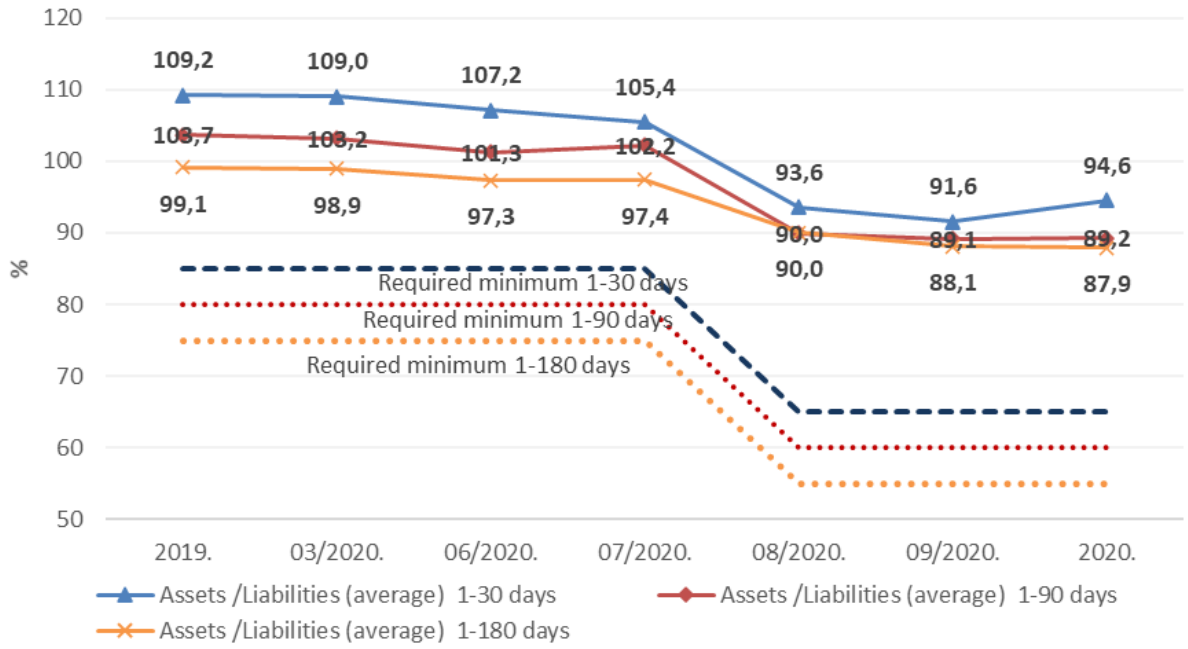


Cash funds at the reserve account at the Central Bank of BiH as of 31/12/2020 amounted to 1.3 billion KM or 69% of total cash funds, which maintained the same level compared to the end of 2019. Pursuant to the Decision on determining and maintaining required reserves and determining the fee for the amount

of the reserve, which is being applied from 01/07/2016, the banks from Republika Srpska fulfilled the obligation to maintain the stipulated level of required reserves within the reserve account at the Central Bank of BiH (at a rate of 10% on the balance of deposit funds and borrowed funds as a basis for calculating required reserves). As of 31/12/2020, the banking sector had at its disposal cash funds at the required reserve fund accounts at the Central Bank of BiH above the required reserves in the amount of 624.7 million KM or 47.2% of total cash funds at the reserve account, while required reserve funds amounted to 700 million KM or 52.8% of total cash funds at the reserve account at the Central Bank of BiH (as of 31/12/2019, the cash funds at the reserve account at the Central Bank of BiH above the required reserve funds amounted to 645.8 million KM or 49% of the total cash funds at the reserve account at the Central Bank of BiH, and funds of required reserves amounted to 673.2 million KM or 51% of total cash funds at the reserve account at the Central Bank of BiH).

Maturity mismatch of financial assets and liabilities measured by the remaining maturity for the period of 1-30 days, 1-90 days and 1-180 days shows at an aggregate level that the banking sector continuously meets the maturity mismatch of assets and liabilities.

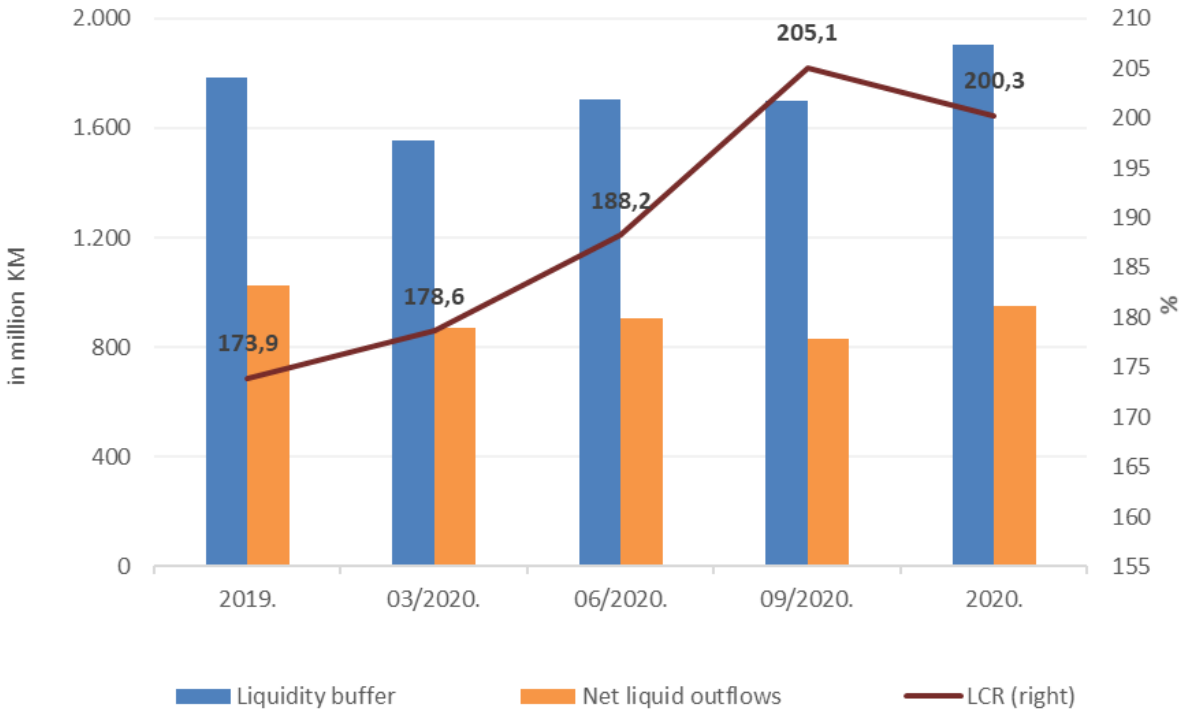
Graph 33. Maturity mismatch of financial assets and liabilities measured per remaining maturity period



In order to ensure the bank's short-term resilience to liquidity risk, banks are required to provide an adequate level of liquidity buffer, in order to meet liquidity needs for a liquidity stress scenario of 30 calendar days. The minimum liquidity coverage ratio (hereinafter: LCR), which is the ratio between the level of the liquidity buffer and total net liquidity outflows during a stress period of 30 calendar days, is stipulated in the amount of ≥ 100%.

All banks in Republika Srpska have LCR above the stipulated amount, and in this reporting period, the total LCR at the level of the banking sector is 200.3% and is higher by 26.4 percentage points compared to the end of 2019. If we look at individual banks, the LCR ranges from 130% to 470%. The trend of elements for calculating the liquidity coverage ratio and the LCR ratio at the level of the banking sector is shown in the following graph:

Graph 34. Liquidity Coverage Ratio - LCR



The maturity structure of sources is the basis for the maturity structure of placements, and the planning of sources and the overall liquid position of each bank must be harmonized with the planned lending policy. Banks should pay particular attention to the impact of temporary moratorium measures and other special measures on cash inflows and the maintenance of liquidity stipulated by regulations.

Any serious breach of maturity mismatch may lead to liquidity maintenance problems and may worsen the bank's overall financial condition.

The overall liquidity assessment of the banking sector of Republika Srpska is satisfactory. Pursuant to the bylaw of the Agency, banks are obliged to, in addition to providing stable, diversified sources of funds, adequate liquidity management organization, clear business policies, also have contingency plans, i.e. unexpected situations with testing of possible stress situations.

Table 31. Deposit maturity structure per remaining maturity period **mil. KM**

Deposits	2018.		2019.		2020.		Index 2019./2018.	Index 2020./2019.
	Amount	%	Amount	%	Amount	%		
1 - 7 days	2.613,9	43,2	2.590,8	40,4	3.654,6	56,1	99	141
8 - 15 days	62,5	1,0	84,6	1,3	19,0	0,3	135	22
16 -30 days	184,7	3,1	204,1	3,2	80,1	1,2	111	39
31 -90 days	390,4	6,5	408,0	6,4	455,2	7,0	105	112
91 -180 days	590,5	9,8	559,9	8,7	381,1	5,8	95	68
181 -365 days	1.143,3	18,9	1.362,7	21,3	928,9	14,3	119	68
1. Total short term	**4.985,2**	**82,4**	**5.210,1**	**81,3**	**5.518,8**	**84,7**	**105**	**106**
Up to 5 years	1.033,2	17,1	1.185,4	18,5	972,5	14,9	115	82
Over 5 years	31,6	0,5	10,3	0,2	23,9	0,4	33	232
2. Total long term	**1.064,8**	**17,6**	**1.195,7**	**18,7**	**996,4**	**15,3**	**112**	**83**
Total (I + II)	**6.050,0**	**100**	**6.405,8**	**100**	**6.515,2**	**100**	**106**	**102**

Table 32. Liquidity indicators			%
DESCRIPTION	**2018.**	**2019.**	**2020.**
Liquid funds*/net asset	26,7	23,0	22,9
Liquid funds*/short term financial liabilities	40,0	35,0	33,8
Short term financial liabilities/total financial liabilities	76,4	75,1	77,4
Loans /(deposits and loans taken)	75,9	78,0	76,4
Loans /(deposits and loans taken and subordinated debts)	75,3	77,4	75,8

***Liquid assets in the narrow sense: cash and deposits and other financial assets with a remaining maturity of less than three months, excluding interbank deposits**

5 PAYMENT TRANSACTION SYSTEM

Law on Payment Transaction System ("Official Gazette of RS", No.: 52/12, 92/12, 58/19) and the Law on Foreign Exchange Operations ("Official Gazette of RS", No: 96/03, 23/06, 92/09, 20 / 14, 20/18) stipulates that the supervision over the implementation of the mentioned laws in banks, in addition to other controlling bodies, is performed by the Agency within its competence.

Republika Srpska payment transaction system includes all banks from Republika Srpska and banks from the Federation of BiH, through organizational units operating in Republika Srpska, and as of 31/12/2020 they had a total of 112,012 open transaction accounts in KM (main accounts, accounts for daily operations, accounts of organizational units, accounts for special purposes, accounts of public revenues) of legal entities and entrepreneurs and 29,087 foreign currency accounts of legal entities and entrepreneurs. Also, as of 31/12/2020, the banks had in total 1,032.080 accounts in KM of private individuals (current/transaction account, giro accounts) and 263,037 of foreign currency accounts of private individuals.

Pursuant to the Law on Payment Transaction System, participants in on payment transaction system (legal entities, entrepreneurs and private individuals) may have several open accounts with banks.

In 2020, the total volume of payment transaction system (domestic and foreign currency payment transaction system) realized in banks based in Republika Srpska amounted to 71 billion KM (equivalent in KM).

Based on the submitted reports of banks based in Republika Srpska on domestic and foreign payment transactions, as well as transactions in performing foreign exchange transactions, a tabular overview of the number and value of executed transactions in 2020 is given:

Table 33. Payment transaction system

Period	Cash payment transactions		Non-cash payment transactions				Total	
			Intra-banking payment transactions		Inter-banking payment transactions			
	Number	Amount (mil. KM)	Number	Amount (mil. KM)	Number	Amount (mil. KM)	Number	Amount (mil. KM)
01/2020.	1.765.837	999,4	1.725.779	1.971,9	1.105.462	1.831,4	4.597.078	4.802,7
02/2020.	1.876.152	1.050,1	1.863.480	2.233,9	1.169.289	1.963,7	4.908.921	5.247,6
03/2020.	1.604.914	1.044,6	1.816.322	2.269,5	1.169.383	2.004,1	4.590.619	5.318,2
04/2020.	1.346.412	724,5	1.655.764	2.361,6	929.569	1.824,6	3.931.745	4.910,7
05/2020.	1.740.723	844,2	2.021.886	1.910,0	1.023.003	1.545,0	4.785.612	4.299,1
06/2020.	1.821.934	1.070,0	2.032.702	2.411,1	1.297.525	1.990,0	5.152.161	5.471,2
07/2020.	1.843.249	1.133,2	2.117.085	2.496,1	1.322.993	2.076,0	5.283.327	5.705,3
08/2020.	1.751.259	1.113,7	2.019.244	2.178,5	1.216.382	1.912,6	4.986.885	5.204,8
09/2020.	1.783.725	1.101,1	2.016.697	2.355,5	1.290.544	1.991,8	5.090.966	5.448,4
10/2020.	1.784.266	1.110,5	2.036.058	2.433,2	1.219.068	2.101,7	5.039.392	5.645,4
11/2020.	1.698.842	1.008,5	1.910.553	2.206,1	1.150.093	1.898,4	4.759.488	5.112,9
12/2020.	1.855.983	1.139,5	2.099.060	2.724,7	1.314.018	2.356,8	5.269.061	6.221,0
TOTAL	**20.873.296**	**12.339,2**	**23.314.630**	**27.552,1**	**14.207.329**	**23.496,2**	**58.395.255**	**63.387,5**

The total number of performed non-cash intrabank payment transactions in 2020 amounted to 23.3 million transactions, with a total value of 27.6 billion KM. Compared to the same period in 2019, the number of executed intrabank payment transactions decreased by 19.6%, while the value of transactions decreased by 34.4%.

A total of 14.2 million non-cash payment transactions were performed in interbank payment transactions, the total value of which amounted to 23.5 billion KM. Compared to the same period in 2019, the number of executed interbank payment transactions increased by 5.2%, while the value of transactions decreased by 15.2%.

Table 34. Foreign exchange payment transaction system (equivalent in KM)

Period	Outflow		Inflow		Total	
	Number of transactions	Amount (in mil. KM)	Number of transactions	Amount (in mil. KM)	Number of transactions	Amount (in mil. KM)
2020.	225.603	3.704,1	621.129	3.860,9	846.732	7.565,0

The total value of performed transactions (outflow / payment) abroad in 2020 amounted to 3.7 billion KM (equivalent in KM), while the total value of performed transactions (inflow / payment) from abroad amounted to 3.9 billion KM (equivalent in KM) of foreign currency payment transaction system.

Table 35. Exchange operations of banks

Currency	Repurchase		Sale	
	Number of transactions	Amount (in mil. KM)	Number of transactions	Amount (in mil. KM)
EUR	788.406	689,5	92.953	307,5
Other currencies	105.988	73,1	51.110	40,1
Total	**894.394**	**762,6**	**144.063**	**347,6**

The total value of foreign exchange transactions of currency purchase (equivalent in KM) in banks in 2020 amounted to 762.6 million KM, while the total value of sold currency (equivalent in KM) amounted to 347.6 million KM.

In addition to the reports on performed exchange operations of banks, reports on performed exchange operations of authorized exchange offices with which banks have concluded a contract on performing exchange operations were also submitted. In 2020, authorized exchange offices repurchased currency (the equivalent of KM) in the total amount of 1,141 million KM, while in the same period they sold currencies (the equivalent of KM) in the total amount of 45 million KM.

In 2020, the Agency also supervised the compliance of banks' operations in the area of performing payment transactions and foreign exchange operations. Supervision was performed with the consistent application of the Manual for the Supervision of Compliance of Banks in Payment Transaction System.

Based on the performed supervision, and the condition of banks in this reporting period, it can be concluded that the functioning of payment transactions in the banking sector of Republika Srpska has been successfully continued. Supervision in banks did not identify significant discrepancies in operations related to the performance of payment transactions and foreign exchange operations.

6 RECOMMENDATIONS FOR THE BANKING SECTOR

In the previous period, banking sector supervision activities were reflected in a significant activity on the reform of the regulatory framework for banking operations and supervision, defining a new framework for bank resolution, implementation of a multi-year transition project with existing supervisory methodologies based on CAMEL on a completely new supervisory framework - SREP, and introduction of a new supervisory reporting system.

Having in mind the basic task of the Agency on maintaining and strengthening the stability of the banking sector of Republika Srpska, the tasks of the Agency in the coming period will be focused on the following:

- enhanced supervision of credit risk, primarily in terms of checking the application of the new Decision on credit risk management and determining the expected credit losses, i.e. the adequacy of calculated impairment and credit risk management;
- enhanced supervision and monitoring of reports related to the implementation of the Decision on temporary measures to mitigate the negative economic consequences caused by the viral disease "COVID-19"
- enhanced onsite supervision and monitoring of banks' daily liquidity reports;
- continuous supervision, primarily of systemically important banks, because the most significant part of savings and other deposits is concentrated in them, all with the aim of more efficient protection of depositors and preservation of financial stability;
- insisting on capital strengthening in terms of achieving the most adequate capital requirements, and adequate coverage of credit, operational, market risk and interest rate risk in the banking book;
- continuation of activities on the introduction of a new framework for supervisory reporting of banks;
- active role in the supervision and protection of the rights of users of financial services;
- professional training of own staff and strengthening of capacities for performing efficient supervision over banks, and further continuous improvement of the information system;
- continuous monitoring of changes in the legislation of the European Union (Basel principles, European directives, international accounting standards, etc.) and transposition into our legislation in order to achieve the greatest possible equivalence with European regulations;
- monitoring of payment transactions and activities on anti-money laundering and terrorist financing, and in that sense to improve cooperation with other competent institutions;
- further improvement and establishment of cooperation with supervisory bodies of other countries, especially from countries whose banks have shareholdings in banks from Republika Srpska;
- improving cooperation and exchange of information with the ECB and the EBA, as well as other international financial institutions, with the aim of developing supervisory practices and harmonizing regulations;
- continuation and improvement of cooperation with external auditors;
- active participation in the work of the Committee for Coordination of the Financial Sector of Republika Srpska;
- together with other competent institutions members of the Standing Committee on Financial Stability of BiH - SOFS, continue to work on improving the framework for crisis management;
- continuation and improvement of cooperation with the Association of Banks of BiH with the aim of improving the operations of banks, compliance of their operations with market regulations and requirements;
- continuation of activities on the implementation of the World Bank project "strengthening banking supervision" and the USAID FINRA project.

In order to improve the quality of operations and maintain the stability of the banking system of Republika Srpska, it is necessary for banks in the coming period to further focus their activities on:

- capital strengthening;
- strengthening credit support to the economy and the retail while respecting the limits stipulated for credit risk and capital adequacy;
- additional engagement in the organization and adequate consideration of the possibilities for the implementation of the requirements from the Decision on temporary measures for mitigation of negative economic consequences caused by the viral disease "COVID-19";
- adequate management and daily and intraday liquidity monitoring;
- ensuring growth and greater share of long-term sources;
- control of the level of overdue receivables, especially non-performing loans, and additional activities for more efficient collection and improvement of the system for early recognition of deterioration in the quality of the loan portfolio;
- improvement of own risk management systems, primarily credit risk and liquidity risk;
- adequate allocation of value adjustments for balance sheet items and reserves for off-balance sheet items and strengthening of information support for these activities;
- improving asset management;
- strengthening the system of internal controls and establishing efficient control functions;
- establishment and improvement of stress tests and their application in business policy making;
- improvement of ICAAP and ILAAP in accordance with the new regulatory requirements;
- development of policies and procedures for adequate management of risks to which banks are exposed in their operations;
- further improvement of payment transactions and consistent application of policies and procedures for anti-money laundering and terrorist financing;
- revision of own contingency plans and recovery plans;
- more comprehensive information and adequate education with the aim of better protection of users of financial services;
- staff strengthening and professional training of employees with the aim of better and more comprehensive satisfaction of the needs of the bank's clients;
- strengthening information systems and support in the preparation of reports, and security of information systems;
- strengthening protection and development of new procedures for electronic business and work with remote clients.

III MICROCREDIT ORGANIZATION SECTOR (MCO)

1 MCO STRUCTURE

Microcredit sector of Republika Srpska as of 31/12/2020 consisted of 14 MCOs, which operated through 146 organizational units (35 branches and 111 other organizational units), and referred to 12 microcredit associations (hereinafter: MCA) and 2 microcredit foundations (hereinafter: MCF).

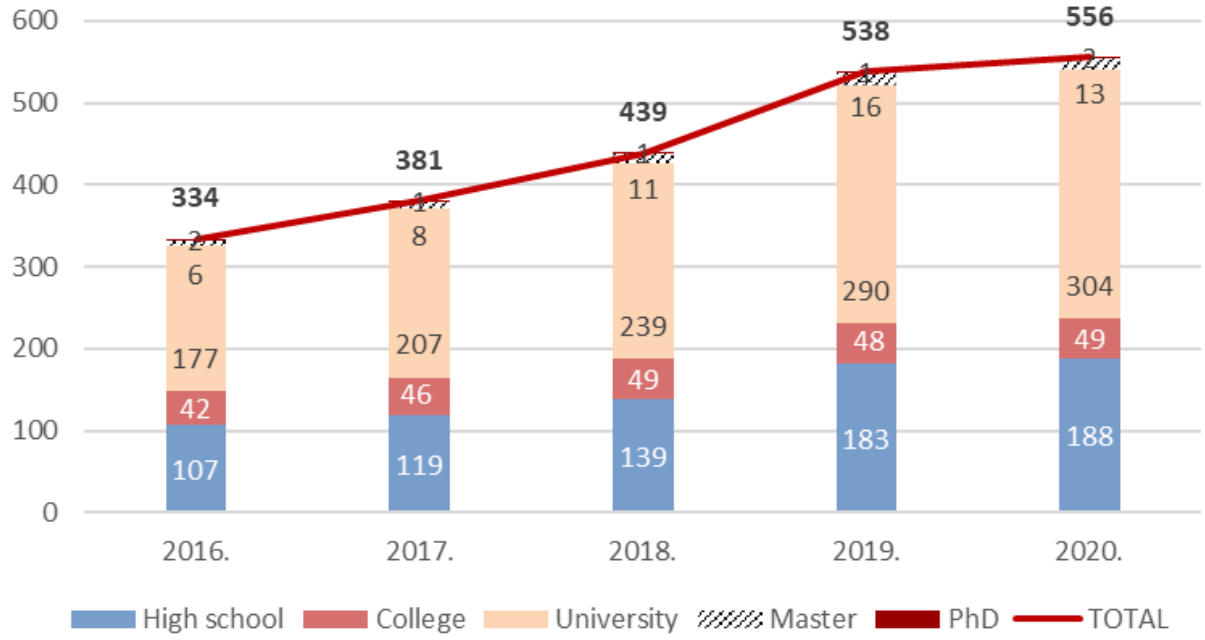
The Agency issued an operating license to one MCA in March 2020, and that MCA commenced with its operations in May 2020.

In Republika Srpska as of 31/12/2020, 129 organizational units of MCOs were operated (5 branches and 124 other organizational units) within 9 MCOs (7 MCFs and 2 MCA) whose headquarter is in the Federation of BiH. Financial performance indicators of these organizational units are included in the balance sheets of parent MCOs.

1.1 Staff

MCO with its headquarters in Republika Srpska as of 31/12/2020 employed a total of 556 workers and compared to the end of 2019, there is an increase in the number of employees by 18 workers or 3.3% (3 MCAs account for 75% of total employees in RS MCOs).

Graph 35. Staff qualification structure in Republika Srpska MCOs



The qualification structure and the total number of employees in MCOs from Republika Srpska largely depends on the structure and number of employees in the largest MCA which employs 326 workers, which is 58.6% of the total number of employees in MCOs from Republika Srpska (at the end of 2019 it employed 309 workers or 57% of total employees).

Organizational parts of MCOs that operate in Republika Srpska, and whose headquarter is in the Federation of BiH, as of 31/12/2020 employed a total of 342 workers or 38.1% of the total 898 employees in the microcredit sector of Republika Srpska and an increase of 7.5% is evident compared to the end of 2019, when they employed 318 workers or 37% of the total 856 employees microcredit sector of Republika Srpska.

The staff qualification structure in these organizational units consists of a university degree (47%), secondary education (40%), higher education (11%) and a master's degree (2%).

Assets per employee at the level of MCOs seated in Republika Srpska amount to KM 770.9 thousand (as of 31/12/2019 it amounted to KM 679.2 thousand), which is an increase by 13.5% compared to the end of 2019.

2 FINANCIAL INDICATORS OF MCOs OPERATIONS

The Agency performs the function of supervision of MCOs by on-site inspection in MCOs and analysis of reports submitted by MCOs to the Agency (off site inspection), in accordance with legal regulations and bylaws of the Agency.

The reporting basis consists of quarterly reports on the balance sheet, capital, loans, loan loss provisioning, business results and other reports and information on individual business segments, as well as monthly reports on average weighted interest rates.

2.1 MCO balance sheet

MCO balance sheet as of 31/12/2019 and 31/12/2020 is shown in the following table.

Table 36. MCO balance sheet 000 KM

DESCRIPTION	2019.					2020.					Ind
	MCA	%	MCF	%	Total	MCA	%	MCF	%	Total	
ASSETS (PROPERTY)											
1. Cash funds	20.177	6	141	4	20.318	30.958	7	465	10	31.423	155
2. Placements to banks	-	-	-	-	-	-	-	-	-	-	-
3. Loans (gross)	293.311	81	2.917	87	296.228	345.046	81	3.704	81	348.750	118
4. Office space and other fixed assets	4.087	1	160	5	4.247	3.719	1	128	3	3.847	91
5. Long term investments	36.112	10	-	-	36.112	36.112	9	-	-	36.112	100
6. Other asset	8.356	2	151	5	8.507	8.260	2	253	6	8.513	100
7. Total asset (gross) (1+2+3+4+5+6)	**362.043**	**100**	**3.369**	**100**	**365.412**	**424.095**	**100**	**4.550**	**100**	**428.645**	**117**
8. Provisioning (8a.+8b.)	**5.527**		**76**		**5.603**	**8.545**		**145**		**8.690**	**155**
8a.Loan items provisioning	3.411		71		3.482	6.109		136		6.245	179
8b.Provisioning for other asset items except loans	2.116		5		2.121	2.436		9		2.445	115
9. Total asset (net: 7. - 8.)	**356.516**		**3.293**		**359.809**	**415.550**		**4.405**		**419.955**	**117**
LIABILITIES (OBLIGATIONS)											
10. Obligations per loans / borrowings taken	212.878	60	619	19	213.497	254.889	61	1.461	33	256.350	120
11. Other liabilities	19.599	6	1.579	48	21.178	22.090	5	1.884	43	23.974	113
12. Total capital / holding	124.039	35	1.095	33	125.134	138.571	33	1.060	24	139.631	112
13. Total liabilities (obligations and capital / holding: (10+11+12)	**356.516**	**100**	**3.293**	**100**	**359.809**	**415.550**	**100**	**4.405**	**100**	**419.955**	**117**
14. Off-balance sheet records	53.721		28		53.749	59.339		133		59.472	111

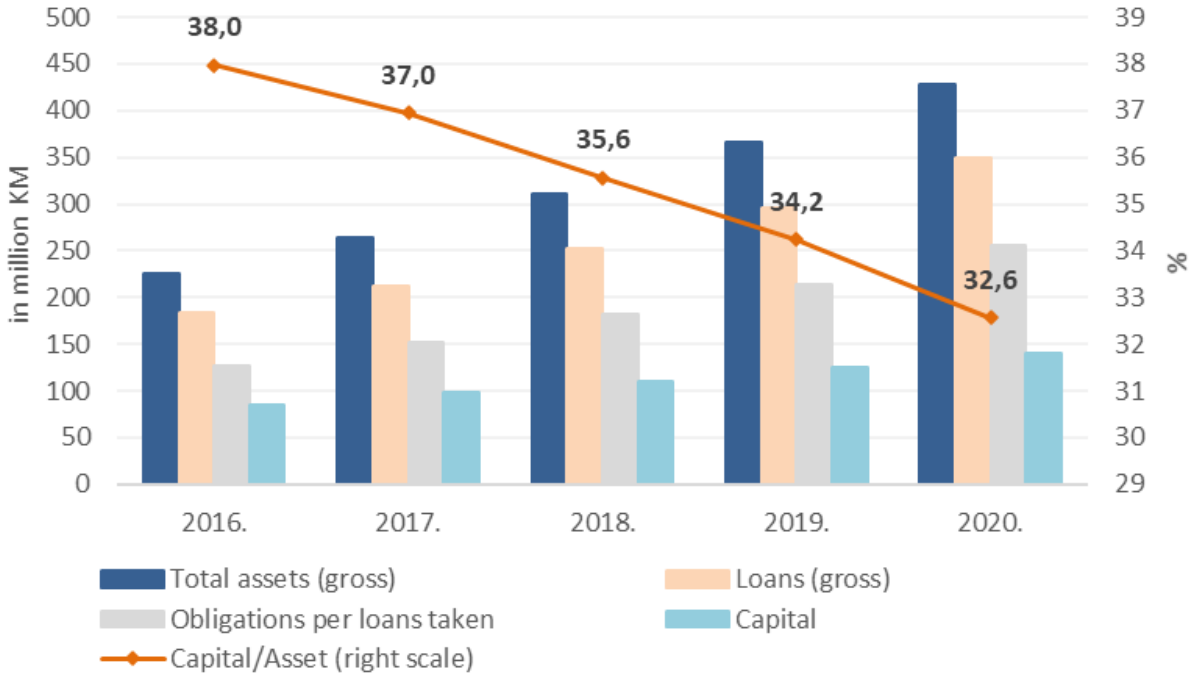
2.1.1. MCO assets

The growth of total assets (gross) of MCOs seated in Republika Srpska at the rate of 17% or in the amount of 63.2 million KM is the result of a significant nominal total loan growth (81% of total assets) in the amount of 52.5 million KM or 18% and cash funds by 55% or by 11.1 million KM (7% of total assets), all compared to the condition as of 31/12/2019. The value of long-term investments (investment of the largest MCA in the share capital of the bank) is at the same level as of 31/12/2019 (9% of total assets). The balance sheet position "office space and other fixed assets" (1% of total assets) decreased by 0.4

million KM or 9%, while "other assets" (2% of total assets) is approximately at the same level, all in relation to to the condition of the same with the end of 2019.

The growth of lending activity is evident in seven MCAs, in four MCAs with a growth rate ranging from 7% to 22%, in two MCAs with a growth rate of 42% and 63% and in one MCA with a growth rate of 134%. The loan portfolio of three MKAs decreased at a rate ranging from 1% to 5%, while the value of the loan portfolio of one MCA decreased by 99% (operating license for the MCA was revoked in January 2021 - loans with a delay of over 180 days are reported as written-off loans). The loan portfolio of the newly established MCA accounts for only 0.6% of total MCO loans (the same commenced the lending activity in May 2020). The increase in loans is evident in both MCFs with a growth rate of 8% and 310% compared to the condition at the end of 2019. In the total growth of MCO loans compared to the end of 2019, the largest MCA accounts for 75% of total loan growth.

Graph 36. Republika Srpska MCO balance sheet positions (2016-2020)



According to the structure of other assets (8.5 million KM or 2% of total assets), the most significant is the share of interest receivables (2 million KM) and fees (1.4 million KM), which makes a total of 40% of other assets, followed by accruals and deferrals (1.9 million KM or 22% of other assets), other receivables in the amount of 1.8 million KM or 21% of other assets (receivables from banks, workers and health insurance, lease of business premises, property with the right to use, advance payment of income tax etc.), and funds acquired through collection of receivables (0.8 million KM or 10% of other assets) and given advances (0.6 million KM or 7% of other assets).

2.1.2. MCO liabilities

In the structure of liabilities, liabilities on loans / borrowings, as the main source of financing for MCOs, amount to 256.3 million KM (61% of liabilities) and are higher by 42.8 million KM or 20% compared to the end of 2019 (213.5 million KM or 59.3% of liabilities) mainly as a result of nominal growth of liabilities on long-term loans / borrowings by 39.5 million KM.

Table 37. Maturity structure of taken MCOs loans / borrowings 000 KM

DESCRIPTION	2018.				2019.				2020.				Index
	MCA	MCF	Total	%	MCA	MCF	Total	%	MCA	MCF	Total	%	

Obligations per taken short term loans / borrowings	10.606	987	11.593	6	4.750	64	4.814	2	7.355	768	8.123	3	169
Obligations per taken long term loans / borrowings	170.148	849	170.997	94	208.128	555	208.683	98	247.534	693	248.227	97	119
TOTAL	**180.754**	**1.836**	**182.590**	**100**	**212.878**	**619**	**213.497**	**100**	**254.889**	**1.461**	**256.350**	**100**	**120**

In the total liabilities on loans / borrowings, the most significant creditors of the microcredit sector of Republika Srpska are foreign international financial organizations with a share of 65% (93% of liabilities to these investors relate to the largest MCA), then domestic banks with a share of 25%, IDB RS funds with a share of 3%, other foreign investors with a share of 2% and other funding sources (loans from legal entities and private individuals) with a share of 5% in total liabilities on loans / borrowings.

Other liabilities amount to 24 million KM or 6% of total liabilities with a growth rate of 13% or in the amount of 2.8 million KM compared to the end of 2019, and consist of: liabilities based on securities issue (bonds 39% of other liabilities issued by five MCAs and one MCF), accrued costs and deferred revenue (30% of other liabilities), interest and fee liabilities (8% of other liabilities), liabilities to employees and taxes and contributions to salaries (6% of other liabilities) and other liabilities (17% of other liabilities: liabilities to suppliers, based on rent, assets with the right to use, based on marketing services, based on provisions for litigation, etc.).

Off-balance sheet records of MCOs (ten MCAs and two MCFs) as of 31/12/2020 amounts to 59.5 million KM, and comparing it with the end of 2019, it is higher by 11% or 5.7 million KM. On this position, MCO loans with a delay in repayment of over 180 days in the total amount of 25.9 million KM or 44% of the total off-balance sheet records with a growth rate of 19% compared to the end of 2019 were recorded, then interest receivables / compensation with a delay in repayment of over 90 days in the amount of 2.9 million KM or 5% of the total off-balance sheet records, receivables based on default interest and other loan costs in the total amount of 13.1 million KM or 22% of the total off-balance sheet records, and contingent liabilities for undrawn funds from framework loans granted to MCO clients in the amount of 7.9 million KM or 13% of the off-balance sheet (one MCA with a growth rate of 90% or in the amount of 3.7 million KM) and contingent liabilities based on unused funds under concluded agreements on framework or revolving credit (five MCAs and one MCF) and on the basis of liabilities to employees (one MCA) in the total amount of 9.7 million KM or 16% of the total off-balance sheet records.

2.2 MCO capital (MCA capital and MCF holdings)

The total capital / holding of MCOs amounts to 139.6 million KM or 34% of total liabilities and is higher by 14.5 million KM or 12% compared to 31/12/2019, mainly due to a significant impact of recapitalization in two MCAs, paid-in funding capital of newly established MCA and increase in net undistributed profit of MCA.

Table 38. MCO capital / holding structure **000 KM**

DESCRIPTION	2019.					2020.					Index
	MCA	%	MCF	%	Total	MCA	%	MCF	%	Total	
Founding capital / holding	54.269	44	676	62	54.945	56.855	41	672	63	57.527	105
Share premium	-	-	-	-	-	-	-	-	-	-	-
Undistributed profit	65.455	53			65.455	77.330	56			77.330	118
Excess/ lack of income			408	37	408			366	35	366	90
Legally required reserves	4.286	4	11	1	4.297	4.342	3	22	2	4.364	102
Other reserves	29	-	-	-	29	44	-	-	-	44	152
MCA capital / MCF holding	**124.039**	**100**	**1.095**	**100**	**125.134**	**138.571**	**100**	**1.060**	**100**	**139.631**	**112**

MCF holdings in the total amount of 1 million KM are lower by 3% compared to the condition at the end of 2019 (reduction of excess revenues over expenditures), and account for 0.8% of the total capital / holding of MCOs.

The founding capital / holding of MCOs (57.5 million KM or 41.1% of the total capital / holding of MCO) is higher by 5% or 2.6 million KM, based on the recapitalization of two MCAs and the payment of the founding capital of one MCA. The founding holding of the two MCFs totaled 672 thousand KM, and are lower by 0.6% than the condition as of 31/12/2019, and make up only 0.5% of the total capital / holding of MCO.

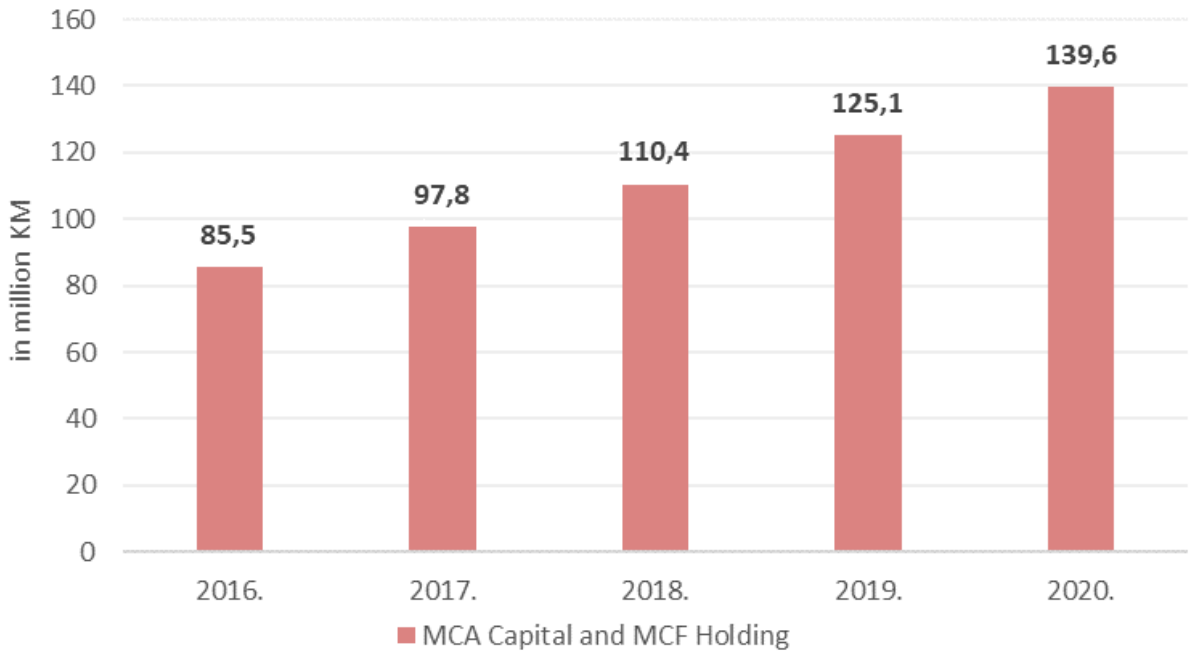
In addition to the founding capital / holding, a significant share in the capital structure of MCOs is the retained earnings of MCA (77.3 million KM or 55.4% of total capital / holding) which is higher by 11.9 million KM or 18% compared to 31/12/2019. Retained earnings of MCA as of 31/12/2020 consists of: undistributed audited net profit of previous years in the total amount of 64.9 million KM (with eight MCAs net profit amounted to 67.2 million KM, and with three MCAs loss amounted in total 2.3 million KM) and reported net profit of MCAs as of 31/12/2020 in the total amount of 12.4 million KM (ten MCAs reported a net profit of 14.7 million KM, and two MCAs reported a loss for the current period in 2020 in the amount of 2.3 million KM).

At the MCF level, there is a net surplus of revenues over expenditures in the total amount of 366 thousand KM (0.3% of total capital / holding) with a decline rate of 10%, which is a revised net surplus of revenues over expenditures in previous years in the total amount of 401 thousand KM (surplus of income over expenses at one MCF in the amount of 437 thousand KM and deficit of income over expenses at one MCF in the amount of 36 thousand KM) and net deficit of income over expenses of the current period as of 31/12/2020 in the total amount of 35 thousand KM (excess of income over expenditures at one MCF in the amount of 148 thousand KM and deficit of income over expenditures at one MCF in the amount of 183 thousand KM).

Required reserves (4.4 million KM or 3.1% of total capital / holding of MCOs) are higher by 2% compared to the end of 2019 (increase in five MCAs and one MCF), and for the most part (91.7%) refer to the largest MCA.

MCO holdings in business premises and other fixed assets and long-term investments in total amount to 40 million KM and are lower by 1% or 0.4 million KM compared to the balance of these holdings at the end of 2019, and make up an average of 28.6% total capital / holding of MCOs. Stipulated limit up to a maximum of 50% of the capital / holding of MCOs as of 31/12/2020, meet all MCOs, except for one MCA and one MCF (the Agency sent a warning to the MCF, while in January 2021 the MCA was revoked the license to operate at the request of the same).

Graph 37. Republika Srpska MCO total capital and holding (2016-2020)



2.3 Loan portfolio quality

The main activity of MCOs is the placement of microcredits, mainly to private individuals and sole proprietors, as a target group of microcredit users (98.1% of MCOs' loan portfolio).

Total gross loans of MCOs based in Republika Srpska as of 31/12/2020 amounted to 348.7 million KM or 81% of total gross assets of MCOs with a growth rate of 18% or in the amount of 52.5 million KM compared to the end of the previous year. Total MCA loans make up 99% of gross MCO loans.

MCO reserves for credit losses according to the regulatory requirement make up 1.8% of gross loans, i.e. amount to 6.2 million KM, and comparing their balance with the end of 2019, an increase of 79% or 2.8 million KM is evident due to the increase in loans with default in repayment from 1 to 180 days for 6 million KM or 63.5%. A significant increase in loans with delayed repayment is evident in loans classified in groups of delays from 1 to 60 days, by 4.2 million KM or 60% (mainly due to the impact of the pandemic of the viral disease "COVID-19").

Net loans, which consist of total gross loans of MCOs less the amount of calculated and formed reserves for credit losses under regulatory requirements, are shown in the following table:

Table 39. Republika Srpska MCO net loans 000 KM

DESCRIPTION	2019.			2020.			Index
	MCA	MCF	Total	MCA	MCF	Total	
1. Loans (gross)	293.311	2.917	296.228	345.046	3.704	348.750	118
2. Loan loss provisioning	3.411	71	3.482	6.109	136	6.245	179
Net loans (1.-2.)	**289.900**	**2.846**	**292.746**	**338.937**	**3.568**	**342.505**	**117**

The sector and maturity structure of MCO loans based in Republika Srpska is given in the following overview:

Table 40. Sector and maturity structure of MCO loans **000 KM**

Microloans	2019.				2020.				Index 2020/2019
	Short term loans	Long term loans	Receivables due	Total	Short term loans	Long term loans	Receivables due	Total	
1. Legal entities									
Providing services	295	1.593	4	1.892	454	2.164	3	2.621	139
Trade	171	1.005	45	1.221	303	1.383	5	1.691	138
Agriculture	76	90	0	166	55	242	0	297	179
Manufacture	171	936	12	1.119	240	1.150	0	1.390	124
Other	85	129	5	219	194	348	3	545	249
Total	**798**	**3.753**	**66**	**4.617**	**1.246**	**5.287**	**11**	**6.544**	**142**
2. Private individuals									
Providing services	2.828	33.711	87	36.626	1.564	41.780	72	43.416	119
Trade	986	6.803	52	7.841	607	8.223	13	8.843	113
Agriculture	6.400	78.639	185	85.224	4.561	87.089	120	91.770	108
Manufacture	346	4.124	12	4.482	277	5.153	6	5.436	121
Housing needs	444	15.392	31	15.867	349	14.478	49	14.876	94
Other	27.485	111.632	2.454	141.571	23.791	150.566	3.508	177.865	126
Total	**38.489**	**250.301**	**2.821**	**291.611**	**31.149**	**307.289**	**3.768**	**342.206**	**117**
Total (1.+2.)	**39.287**	**254.054**	**2.887**	**296.228**	**32.395**	**312.576**	**3.779**	**348.750**	**118**

According to the maturity structure of loans, the dominant share is long-term loans, which account for 89.6% of total loans and amount to 312.6 million KM, and are higher by 23% or 58.5 million KM compared to the end of 2019. Short-term loans (with overdue receivables) account for 10.4% of total loans, i.e. amount to 36.2 million KM and are lower by 14% or 6 million KM (as of 31/12/2019, they amounted to 42.2 million KM or 14, 24% of total loans).

According to the sector structure, loans to legal entities account for 1.88% of total loans with a growth rate of 42% or in the amount of 1.9 million KM, while loans to private individuals (including small entrepreneurs) increased by 50.6 million KM with a growth rate of 17% and with a share in total loans of 98.12%, all in relation to the condition at the end of 2019.

In total loans of MCOs according to the structure of branch concentration, loans placed for other purposes (loans for pensioners, financing of general consumption of private individuals, cash non-purpose loans, commodity loans, etc.) with a share in total loans of 51% with growth at the rate of 26%, are still the most dominant ones. Loans for financing agriculture participate with 26% in total loans and are higher by 8%, while loans for financing service activities participate with 13% in total loans and are higher by 20%. Also, there is an increase in financing of the microcredit sector in the field of production (2% of total loans) by 22%, as well as trade (3% of total loans) by 16%, while financing the housing needs of private individuals (4% of total loans) is less by 6% , all in relation to the condition at the end of the previous year.

Overdue receivables of MCOs in total amount to 3.8 million KM or 1.08% of total loans with a growth rate of 31% or in the amount of 0.9 million KM compared to the end of 2019 (as of 31/12/2019 they amounted to 2 .9 million KM or 0.97% of total MCO loans) and mainly relate to overdue receivables from private individuals (99.7% of total overdue receivables).

Overdue receivables of one MCA as of 31/12/2020 make up 75% of the total overdue receivables of MCOs (the loan portfolio of the same mainly refers to loans placed on the amount of an individual loan up to 400 KM with a repayment period of up to 30 days).

Loans of MCOs from Republika Srpska placed to related persons (owners, members of the board of directors and senior management) in total amount to only 21 thousand KM with a rate of decline of 32% and refer to two MCAs.

Loans to organizational units of MCOs based in Republika Srpska operating in the Federation of BiH (four MCAs with 51 organizational units) as of 31/12/2020 in total amount to 119.3 million KM or 34.2% of total MCO loans based in Republika Srpska, with a growth rate of 23% (31/12/2019 they placed a total of 97

million KM or 33% of total MCO loans) and are included in the balance sheets of MCOs based in Republika Srpska.

Loans of organizational units of MCOs operating in Republika Srpska, whose headquarters are in the Federation of BiH as of 31/12/2020 amount to a total of 172.1 million KM or 33% of total loans of the microcredit sector of Republika Srpska (520.9 million KM), and are higher by 5% or 8.7 million KM compared to the same as of 31/12/2019 (163.4 million KM or 35.5% of total loans of the microcredit sector of Republika Srpska).

Table 41. Sector and maturity structure of total loans of MCO organizational parts operating in RS, with headquarters in FBiH 000 KM

Microloans	2019.				2020.				Index 2020/2019
	Short term loans	Long term loans	Receivables due	Total	Short term loans	Long term loans	Receivables due	Total	
1. Legal entities									
Providing services	63	1.588	6	1.657	52	1.739	1	1.792	108
Trade	7	506	2	515	15	435	2	452	88
Agriculture	0	140	0	140	6	124	0	130	93
Manufacture	4	369	1	374	5	491	0	496	133
Other	10	31	1	42	3	22	0	25	60
Total	**84**	**2.634**	**10**	**2.728**	**81**	**2.811**	**3**	**2.895**	**106**
2. Private individuals									
Providing services	1.477	26.972	73	28.522	990	29.284	54	30.328	106
Trade	208	2.586	7	2.801	138	2.416	4	2.558	91
Agriculture	2.462	61.102	102	63.666	2.052	62.989	82	65.123	102
Manufacture	174	3.581	7	3.762	110	3.969	5	4.084	109
Housing needs	1.070	32.246	43	33.359	1.190	33.011	54	34.255	103
Other	4.801	23.658	103	28.562	6.381	26.364	158	32.903	115
Total	**10.192**	**150.145**	**335**	**160.672**	**10.861**	**158.033**	**357**	**169.251**	**105**
Total (1.+2.)	**10.276**	**152.779**	**345**	**163.400**	**10.942**	**160.844**	**360**	**172.146**	**105**

The sector structure of loans of organizational units of MCOs operating in Republika Srpska, whose headquarters are in the Federation of BiH, is similar to the sector structure of MCO loans based in Republika Srpska, i.e. loans to private individuals account for 98.3%, while loans to legal entities account for 1.7 % of total loans of these organizational units.

The maturity structure of loans of MCO organizational units based in the Federation of BiH is also similar to the maturity structure of MCOs based in Republika Srpska, i.e. long-term loans account for 93.4% of total loans with a growth rate of 5%, and short-term loans including overdue receivables (11.3 million KM) account for 6.6% of total loans with a growth rate of 6%.

Overdue receivables of MCO business units based in the Federation of BiH amount to KM 360 thousand or 0.21% of total loans, and are higher by 4% compared to the end of the previous year (KM 345 thousand or 0.21% of total loans), and they mainly refer to loans to individuals (99.2%).

Overdue receivables of MCO business units based in the Federation of BiH amount to 360 thousand KM or 0.21% of total loans, and are higher by 4% compared to the end of the previous year (345 thousand KM or 0.21% of total loans), and they mainly refer to loans to private individuals (99.2%).

From the point of view of branch concentration, the loan portfolio of these organizational units recorded significant financing of agriculture (38% of total loans) with a growth rate of 2%, then financing of service activities (19% of total loans) with a growth rate of 6%, and financing other purposes (19% of total loans)

with a growth rate of 15% and housing needs (20% of total loans) with a growth rate of 3%, all in relation to the condition at the end of 2019.

The total amount of microloans issued to private individuals for all MCOs operating in Republika Srpska as of 31/12/2020 is given in the following table:

Table 42. Total amount of microloans placed to private individuals	000 KM
DESCRIPTION	Amount
1. Republika Srpska MCO	342.206
minus: Republika Srpska MCO business units in the Federation of BiH	116.076
Total 1	**226.130**
2. Federation of BiH MCO business units in Republika Srpska	169.251
Total (1.+2.)	**395.381**

Loans issued by MCOs operating in Republika Srpska to private individuals as of 31/12/2020 in total amount to 395.4 million KM (as of 31/12/2019 they amounted to 357.7 million KM).

MCOs are obliged to allocate all credit and other receivables to certain groups by applying the criterion of the number of days in arrears and to set aside reserves for credit and other losses at the expense of operating costs for each group.

Amount of receivables classified into default groups by days of delay in repayment and calculated reserves by these groups as of 31/12/2020 can be seen from the following view:

Table 43. MCO receivables and relevant provisioning per days in default									000 KM
			Interest			Provisioning			2020.
Days in default	Provisioning rate	Loan amount	Provisioning rate	Interest amount	Amount of other asset items	Per loans	Per accrued interest	Per other asset items	Total provisioning
1	2	3	4	5	6	7=(2x3)/100	8=(6x7)/100	9=(2x6)/100	10=(7+8+9)
0	0%	333.225	0%	356	90	-	-	-	-
1-15	2%	3.646	2%	89	38.756	72	1	775	848
16-30	15%	4.756	100%	100	0	713	100	-	813
31-60	50%	2.709	100%	159	0	1.354	159	-	1.513
61-90	80%	1.543	100%	175	0	1.235	175	-	1.410
91-180	100%	2.871	100%	857	377	2.871	857	378	4.106
Total		**348.750**		**1.736**	**39.223**	**6.245**	**1.292**	**1.153**	**8.690**

Loans without delay amount to 333.2 million KM or 95.5% of total loans, and are higher by 16% or 46.5 million KM compared to the condition as of 31/12/2019 (286.7 million KM or 96.8% of total loans).

A significant amount with a delay in repayment of credit obligations is evident in loans with a delay in repayment of 1 to 60 days in the total amount of 11.1 million KM, and make up 3.2% of total loans and are higher by 60% or 4.2 million KM, and also, loans with late repayment classified in the group of 61 to 180 days (4.4 million KM or 1.3% of total loans) recorded an increase of 1.8 million KM or 72%, all in relation to the condition as of 31/12/2019. These delays in the repayment of credit obligations to microcredit organizations are mainly due to the negative impact of the pandemic of the viral disease "COVID-19". Under the Decision on temporary measures for microcredit organizations to mitigate the negative economic consequences caused by a viral disease (“Official Gazette of Republika Srpska”, No. 89/20 and 22/21), microcredit organizations granted special measures to clients (starting from April 1, 2020) in order to facilitate the settlement of clients' credit obligations to microcredit organizations, which affected the reduction of loans with a delay in repayment of 1 up to 60 days by 60.2% or by 16.8 million

KM in relation to the balance of the mentioned loans as of March 31, 2020 (the same amounted to 27.9 million KM or 9.2% of total loans).

Out of the total amount of MCO loans (348.7 million KM), loans with a delay in repayment from 1 day to 180 days in total amount to 15.5 million KM or 4.5% of total loans, and are higher by 63.5% or 6 million KM in relation to the the condition as of 31/12/2019, when they amounted to 9.5 million KM or 3.2% of total loans (as of 31/03/2020 these loans amounted to 31.1 million KM or 10.2% of total loans, and were higher by 228% or by 21.6 million KM in relation to the condition as of 31/12/2019).

For loan portfolio with late repayment as of 31/12/2020, reserves for covering credit losses in the total amount of 6.2 million KM or 1.8% of total loans were calculated and are higher by 77% or 2.7 million KM in relation to the reserves reported as of 31/12/2019 (3.5 million KM or 1.2% of total loans).

Reserves for potential losses based on interest / fee receivables as of 31/12/2020 were calculated in the amount of 1.3 million KM or 14.9% of total reserves, and are higher by 32.5% in relation to the balance of the same reported at the end of 2019.

The total amount of reported reserves on all bases is 8.7 million KM with an increase at the rate of 55% (as of 31/12/2019 they amounted to 5.6 million KM).

In MCOs based in the Federation of BiH operating in Republika Srpska, out of total loans (172.1 million KM), loans without delay amount to 167.8 million KM or 97.5% of total loans. Loans with an overdue repayment from 1 day to 180 days in total amount to 4.3 million KM or 2.5% of total loans (as of 31/12/2019 they amounted to 2.5 million KM or 1.6% of total loans). In these organizational units of MCOs, there is a delay in repayment of loans classified in groups of delays from 1 to 60 days, mainly as a result of the negative impact of the pandemic of the viral disease "COVID-19", which as of 31/12/2020 amounted to 3.3 million KM or 1.9% of total loans of MCOs based in the Federation of BiH operating in Republika Srpska, and are higher by 1.6 million KM or 96.3% compared to the end of 2019 (1.7 million KM or 1% of the total loans of these organizational units).

The total amount of reserves for credit losses of organizational units of MCOs from the Federation of BiH on all bases (loans and accrued interest) is reported in the amount of 1.6 million KM or 1% of total loans, and are higher by 36% or 430 thousand KM in relation to the stated reserves with the end of 2019 (1.2 million KM or 0.8% of total loans) and mainly relate to provisions for loans in the amount of 1.5 million KM.

* * * *

In accordance with the Decision on temporary measures to microcredit organizations to mitigate the negative economic consequences caused by viral disease "COVID-19" ("Official Gazette of Republika Srpska" No. 89/20 and 22/21), the obligation of MCOs to report on the effects of special measures (moratorium, grace period, extension of the loan repayment deadline, etc.) is stipulated. Based on the submitted reports by MCOs based in Republika Srpska and organizational units of MCOs based in the Federation of BiH that operate in Republika Srpska, MCOs as of 31/12/2020 for the application of all special measures, approved 12,431 requests of clients in the total amount of 59.6 million KM, which represents 14.8% of the balance of total loans placed to clients from Republika Srpska (as of 31/12/2020 they amounted to 401.6 million KM).

* * * *

According to the reports of MCOs based in Republika Srpska in the period 01/01-31/12/2020, 237 guarantors / co-debtors repaid 228 thousand KM[38] for 227 beneficiaries of loans to private individuals or 0.16% of the total of 140,429 loan lots to private individuals. The largest MCA refers to 218 guarantors / co-debtors who repaid 210 thousand KM for 205 loan users, which is 0.29% of the total number of loan lots of the same MCA.

[38] The amount of repayment at the expense of guarantors / co-debtors includes all repayments of guarantors instead of debtors in the reporting period, whether it is the repayment of one or several installments or taking over the continuous repayment of the loan.

At the level of MCOs of Republika Srpska in the period from 01/01-31/12/2020, 254 guarantors / co-debtors repaid a total of 196 thousand KM[39] for 237 users of loans to private individuals or 0.2% of a total of 118,564 lots of loans to private individuals.

According to the reports of MCOs based in Republika Srpska, in accordance with the Decision on detailed conditions and manner of acting of MCOs upon client complaints, in this reporting period MCO clients filed a total of 40 complaints (in four MCAs) based on guarantor complaints, calculation of interest and fees and other basis, out of which 35 complaints were resolved in favor of clients, while 5 complaints were resolved negatively.

Prema izvještajima MKO sa sjedištem u Republici Srpskoj, shodno Odluci o bližim uslovima i načinu postupanja MKO po prigovoru klijenata, u ovom izvještajnom periodu klijenti MKO podnijeli su ukupno 40 prigovora (kod četiri MKD) po osnovu prigovora jemaca, obračuna kamate i naknade i po ostalim osnovama, od čega je 35 prigovora riješeno u korist klijenata, dok je 5 prigovora negativno riješeno.

2.4 Weighted nominal and effective interest rates

Average weighted nominal and effective interest rates are calculated on newly placed loans during the calendar month, and refer to this reporting period.

The weighted average nominal and effective interest rates of MCOs based in Republika Srpska and business units of MCOs based in the Federation of BiH operating in Republika Srpska for 2019 and for 2020 are given in the following table:

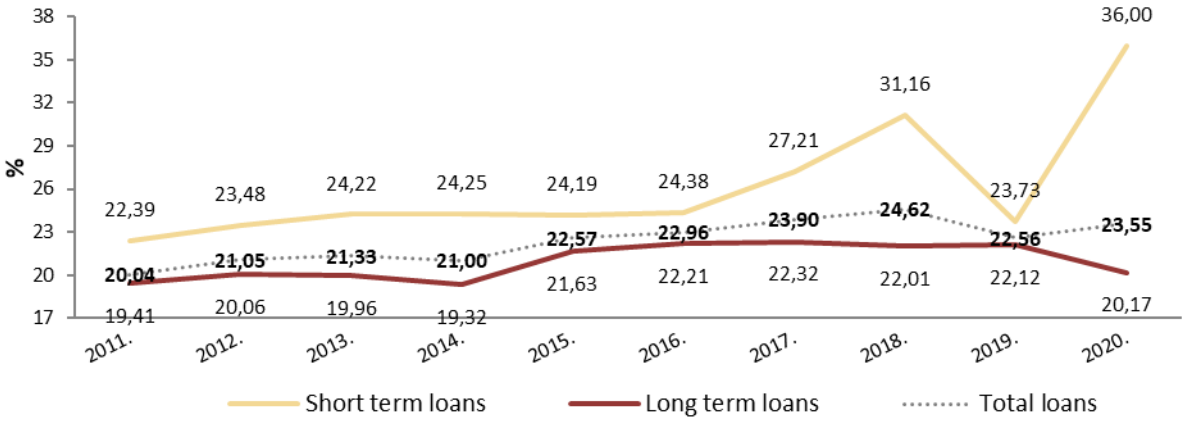
Table 44. MCO average weighted interest rates %

DESCRIPTION	2019.				2020.			
	RS MCO		FBiH MCO units in RS		MCO RS		FBiH MCO units in RS	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1. Short term loans								
Providing services	15,13	20,05	20,60	26,73	15,41	25,33	21,41	27,52
Trade	13,97	16,58	21,25	28,46	15,99	27,04	21,22	28,20
Agriculture	16,42	19,60	20,12	26,18	16,45	19,65	20,50	25,60
Manufacture	16,35	19,47	19,38	25,46	14,91	22,21	20,67	26,84
Housing	19,59	28,88	19,65	25,00	19,83	29,22	20,73	24,94
Other	15,89	25,72	23,09	30,80	14,56	40,27	19,49	30,66
Weighted interest rates on short term loans	**15,89**	**23,73**	**21,42**	**28,13**	**14,95**	**36,00**	**20,03**	**28,74**
2. Long term loans								
Providing services	17,15	19,85	18,97	22,28	15,53	17,98	18,15	20,66
Trade	16,60	18,70	18,77	22,53	14,70	16,79	18,03	20,93
Agriculture	16,28	18,58	18,30	21,42	14,64	16,58	17,79	20,39
Manufacture	16,27	18,40	18,70	21,93	14,89	16,93	18,34	20,70
Housing	18,47	22,98	18,37	21,39	18,59	23,07	19,01	21,87
Other	19,09	24,45	21,97	26,56	18,08	22,51	21,34	26,74
Weighted interest rates on long term loans	**18,02**	**22,12**	**19,13**	**22,55**	**16,74**	**20,17**	**18,79**	**21,95**
Weighted interest rates on total loans	**17,43**	**22,56**	**19,45**	**23,34**	**16,36**	**23,55**	**18,96**	**22,92**

NIR = nominal interest rates EIR = effective interest rates

[39] The amount of repayment at the expense of guarantors / co-debtors includes all repayments of guarantors instead of debtors in the reporting period, whether it is the repayment of one or several installments or taking over the continuous repayment of the loan.

Graph 38. Trend of average weighted EIR of Republika Srpska MCO (2011-2020)



The average weighted EIR on total loans of MCOs from Republika Srpska in this reporting period is higher by 0.99 percentage points compared to the average weighted EIR in 2019. In this reporting period, there was a significant increase in the weighted average EIR on total short-term loans by 12.27 percentage points compared to the weighted average in 2019 (the impact of a significant increase in the weighted average EIR on short-term loans placed for other purposes), while at the same time, the weighted average EIR on long-term loans decreased by 1.95 percentage points compared to the weighted average in 2019.

Organizational units of MCOs from the Federation of BiH operating in Republika Srpska in 2020 reduced the weighted average EIR on total loans by 0.42 percentage points compared to the weighted average for 2019. In this reporting period, it is lower than the average weighted EIR on total loans of MCOs of Republika Srpska by 0.63 percentage points.

Average weighted EIR on total loans at MCOs from Republika Srpska, in the period from 01/01 to 31/12/2020, in four MCOs was recorded at a rate ranging from 17.79% to 23.1% (below the weighted average EIR of MCOs of Republika Srpska), in four MCOs it ranged from 23.94% to 26.5 %, in two MCOs it was recorded at the rate of 28.93% and 29.51%, in two MCOs it was recorded at the rate of 35.99% and 38.64%, and in one MCO at the rate of 98.61 % (impact of placed short-term loans from 500 KM to 2,000 KM with a repayment period of 30 days to 12 months). In this reporting period, one MCO placed loans that are less than 400 KM and with a repayment period of up to 30 days, so that it did not have the obligation to report weighted EIR in accordance with applicable regulations.

For organizational units of MCOs from the Federation of BiH operating in Republika Srpska, the average weighted EIR on total loans in this reporting period for three MCOs is recorded at a rate ranging from 18.44% to 22.21% (below the weighted average EIR on total loans of organizational parts of the mentioned MCOs), for two MCOs the same is recorded at the rate of 23.26% and 26.14%, and in three MCOs it ranged from 29.29% to 30.22%, while one MCO reported the same at a rate of 98.71%.

2.5 Income statement

Microcredit sector of Republika Srpska as of 31/12/2020 reported a net profit / deficit of revenues over expenditures in the total amount of 12.4 million KM with a decrease at the rate of 12% or in the amount of 1.7 million KM, as a result of a significant increase in total expenditures at a rate of 23% or in the amount of of 9.5 million KM in relation to the growth of total revenues at the rate of 14% or in the amount of 7.9 million KM, all in relation to the same period last year. The increase in total expenses was mostly due to an increase in the cost of provisions to cover credit losses by 5.9 million KM or 257%.

The structure of the income statement of MCOs of Republika Srpska is shown in the following table:

Table 45. Republika Srpska MCO sector income statement									000 KM
DESCRIPTION	2019.				2020.				Index
	MCA	MCF	Total	%	MCA	MCF	Total	%	
INCOME									
Interest income and similar income	55.949	763	56.712	98	63.551	911	64.462	98	114
Operational income	667	46	713	1	894	64	958	2	134
Extraordinary income	542	1	543	1	451	0	451	1	83
1. TOTAL INCOME	**57.158**	**810**	**57.968**	**100**	**64.896**	**975**	**65.871**	**100**	**114**
EXPENSES									
Interest expenses and similar expenses	9.805	118	9.923	24	10.899	224	11.123	22	112
Operational expenses	29.322	406	29.728	71	31.359	651	32.010	62	108
Costs of provisioning for loan and other losses	2.230	67	2.297	6	8.073	118	8.191	16	357
Extraordinary expenses	83	0	83	0	172	0	172	0	207
TOTAL EXPENSES	**41.440**	**591**	**42.031**	**100**	**50.503**	**993**	**51.496**	**100**	**123**
3. PROFIT MCA /SURPLUS OF REVENUES OVER EXPENSES MSF BEFORE TAX (1.-2.)	**15.718**	**219**	**15.937**		**14.393**	**-18**	**14.375**		**90**
4. TAX	1.817	25	1.842		1.970	17	0		0
5. MCA NET PROFIT/MCF SURPLUS OF REVENUES OVER EXPENSES (3. -4.)	**13.901**	**194**	**14.095**		**12.423**	**-35**	**12.388**		**88**

*for 2019, the net profit of MCA was reduced by 408 thousand KM after the audit of financial statements by the external auditor

According to the structure of interest income and similar income of MCOs as of 31/12/2020, interest income (51.6 million KM or 78.4% of total income) is higher by 12.4% or 5.7 million KM compared to interest income as of 31/12/2019.

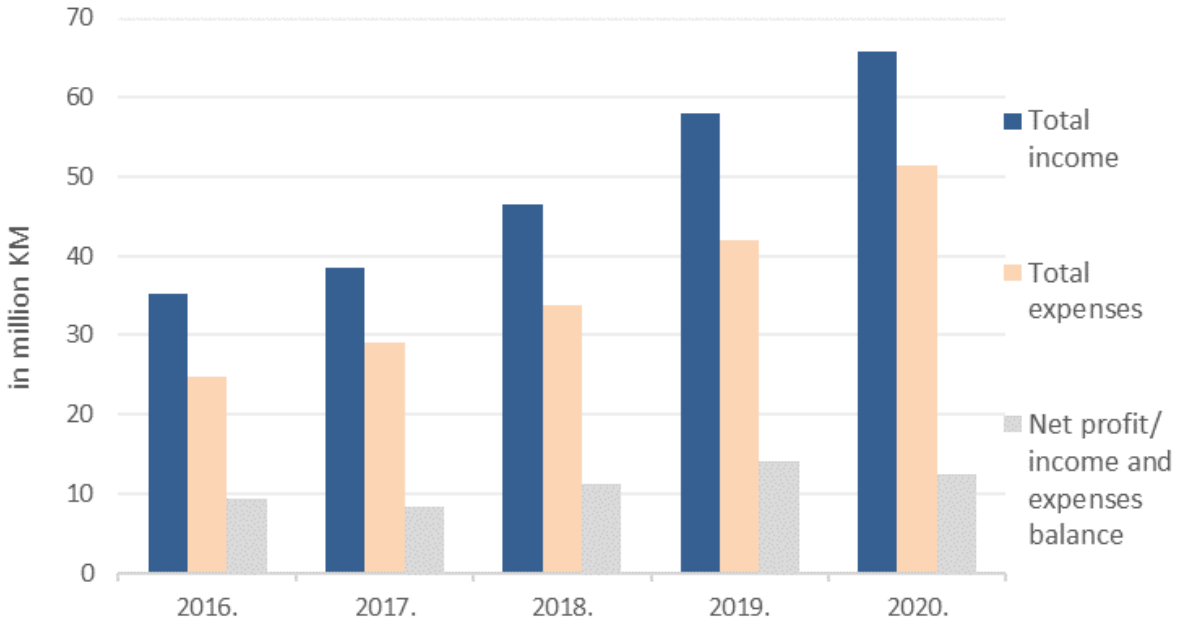
Other similar income (mainly fees for processing loan applications) as of 31/12/2020 amounted to 12.9 million KM or 19.6% of total income, and is higher by 19% or 2.1 million KM compared to the same income as of 31/12/2019.

Operating income of MCOs (mainly commissions for performed insurance brokerage services and other fees from loan operations) as of 31/12/2020 is higher by 245 thousand KM (four MCAs make 79% of the mentioned income).

According to the structure of interest expenses and similar expenses as of 31/12/2020, interest expenses amounted to 9.4 million KM or 18% of total expenses with an increase at the rate of 12.7% or in the amount of KM 1 million compared to 31/12/2019 (growth of liabilities for loans / borrowings). Other similar expenses (mainly on the basis of bank fees) as of 31/12/2020 amounted to 1.7 million KM or 4% of total expenses and are higher by 9.1% or 146 thousand KM compared to the same period in 2019.

In the structure of total operating expenses as of 31/12/2020 (32 million KM), the most significant share is of expenses based on salaries and contributions (18 million KM or 35% of total expenses) with an increase at the rate of 11.8% or in the amount of 1.9 million KM (increase in the number of employees). Expenses of office space, other fixed assets and overheads (4.8 million KM or 9.1% of total expenses) are higher by 41% or 1.4 million KM and other operating expenses (marketing, software and maintenance of information system, direct write-off receivables, lease, depreciation, court costs based on dispute resolution, etc.) as of 31/12/2020 amounted to 9.2 million KM or 17.9% of total expenses and are lower by 1 million KM or 9.7% compared to the same period in 2019 (the share of three MCAs in these expenses is 82%).

Graph 39. Income statement items of Republika Srpska MCO sector (2016-2020)



At the level of MCOs of Republika Srpska, net profit / deficit of revenues over expenditures as of 31/12/2020 in the total amount of 12.4 million KM is the result of the reported net profit of ten MCAs in the total amount of 14.7 million KM, loss of two MCAs in the amount of 2.3 million KM and the reported deficit of income over MCF expenditures in the total in the amount of 35 thousand KM (net surplus of income over expenses at one MCF in the amount of 148 thousand KM and net deficit of income over expenses at one MCF in the amount of 183 thousand KM).

2.6 Recommendations for the RS MCO sector

Business performance indicators of the microcredit sector in 2020 indicate an increase in total assets, lending activity, total capital and the number of employees, and profitable operations continued.

In order to improve the quality of business and maintain the stability of the microcredit sector, it is necessary for the microcredit sector, in the coming period, to further focus its activities on:

- capital strengthening as a basis for sustainability and business improvement;
- control of the level of overdue receivables, especially loans with default in repayment, and additional activities for more efficient collection and improvement of the system of early recognition of deterioration in the quality of the loan portfolio;
- development of policies and procedures for adequate risk management, and improvement of own risk management systems, primarily credit risk;
- improvement of asset management and adequate allocation of reserves according to the regulatory requirement, i.e. the cost of value adjustments in accordance with IAS / IFRS;
- preparation and updating of business plans;
- establishing adequate policies and systems for planning funding sources;
- establishment of efficient internal control and audit systems;
- further improvement of policies and procedures for anti-money laundering and terrorist financing;
- more comprehensive information and adequate education with the aim of better protection of microcredit users;
- staff strengthening and professional training of workers with the aim of better and more comprehensive satisfaction of the needs of clients of microcredit organizations;
- strengthening information systems and support in business and reporting, while ensuring the security of information systems and the development of new procedures for working with clients remotely.

Having in mind the basic task of the Agency on maintaining and strengthening the stability of the microcredit sector, the tasks of the Agency in the coming period will be focused on the following:

- continuous supervision of microcredit organizations through onsite and offsite supervision;
- enhanced supervision of credit risk, primarily in terms of the adequacy of reserves for potential credit losses, i.e. the adequacy of credit risk management;
- active role in drafting a new legal and by-law framework for operations and supervision of the microcredit sector;
- enhanced supervision and monitoring of reports related to the Decision on temporary measures to microcredit organizations to mitigate the negative economic consequences caused by the viral disease "COVID 19";
- timely and adequate acting of MCOs in accordance with the corrective measures of the Agency;
- active role in the supervision and protection of the rights of microcredit users and in that sense improving the transparency of MCO operations;
- monitoring and activities on anti-money laundering and terrorist financing, and in that sense to improve cooperation with other competent institutions;
- professional training of own staff and capacity building for effective supervision of microcredit organizations;
- active participation in the work of the Committee for Coordination of the Financial Sector of the Republika Srpska;
- further improvement of cooperation with the Banking Agency of the Federation of BiH with the aim of improving the efficient supervision of MCOs, and continuation and improvement of cooperation with external auditors and the Association of Microcredit Organizations in BiH.

IV LEASING PROVIDER SECTOR

In the period January-December 2020, there were no registered LPs based in Republika Srpska.

As of 31/12/2020, data on the operations of LPs with its registered office in the Federation of BiH, to which the Agency issued a license to operate in Republika Srpska, are given for three business units of LP, which are part of three leasing companies based in the Federation of BiH. Also, data on financial leasing include data on the organizational unit of one bank based in the Federation of BiH, which performs financial leasing (BLP). Data on the operations of these organizational units are included in the balance sheets of the mentioned parent companies for leasing operations (LP) and banks (BLP).

The reporting basis for monitoring and supervising the operations of LP business units based in the Federation of BiH (three LP business units) and the organizational unit of the bank that performs financial leasing (BLP) consists of:

- quarterly reports on the structure of financial and operating leasing receivables, the largest debtors, calculated reserves to cover losses, and the number and qualification structure of employees, and
- monthly reports on nominal and weighted interest rates (ELIN).

The business units of LPs that operate in Republika Srpska, and whose headquarters are in the Federation of BiH, employ 7 workers, as at the end of 2019. Out of the total number of employees, 5 workers with university degree are employed, and 1 worker with college degree and high school.

The structure of receivables on the basis of financial and operational leasing of LP business units and on the basis of financial leasing of BLP operating in Republika Srpska can be seen from the following overview:

Table 46. Receivables structure per leasing operations

000 KM

DESCRIPTION	2019.					2020.					Ind
	RS leasing		FBiH LP units		Total	RS leasing		FBiH LP units		Total	
	Fin. Leas.	Oper. Leas.	Fin. Leas.	Oper. Leas.		Fin. Leas.	Oper. Leas.	Fin. Leas.	Oper. Leas.		
PER LEASING SUBJECT											
Passenger vehicles	-	-	31.497	8.354	39.851	-	-	40.186	7.349	47.535	119
Vehicles for performing activities (off-road and passenger)	-	-	35.825	6.522	42.347	-	-	35.200	5.870	41.070	97
Machinery and equipment	-	-	26.364	-	26.364	-	-	28.896	85	28.981	110
Real estate	-	-	43	-	43	-	-	33	-	33	77
Rail vehicles, watercraft and aeronautical facilities	-	-	-	-	-	-	-	-	-	-	-
Household appliances	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	34	-	34	-
Total	**-**	**-**	**93.729**	**14.876**	**108.605**	**-**	**-**	**104.349**	**13.304**	**117.653**	**108**
PER LEASE RECEIVER											-
Legal entities	-	-	88.476	9.092	97.568	-	-	97.570	8.751	106.321	109
Entrepreneurs	-	-	2.077	20	2.097	-	-	2.802	119	2.921	139
Private individuals	-	-	2.630	-	2.630	-	-	3.529	77	3.606	137
Other	-	-	543	5.764	6.307	-	-	448	4.357	4.805	76
Total	**-**	**-**	**93.726**	**14.876**	**108.602**	**-**	**-**	**104.349**	**13.304**	**117.653**	**108**

Receivables from financial and operational leasing of LP business units and financial leasing of BLP as of 31/12/2020 in total amount to 117.6 million KM with a growth rate of 8% or in the amount of 9 million KM compared to the end of 2019.

Receivables from financial leasing (LP and BLP) amount to 104.3 million KM or 89% of total leasing with an increase at the rate of 11% or in the amount of 10.6 million KM. Receivables based on operatinal leasing LP (13.3 million KM or 11% of total leasing) decreased by 11% or 1.6 million KM, all in relation to the condition as of 31/12/2019.

According to the subject of financial leasing, the largest amount of receivables relates to the financing of passenger vehicles (38% of total financial leasing) with a growth rate of 28% or in the amount of 8.7 million KM, followed by financing of vehicles for performing activities (34% of total financial leasing) which is less by 1.7% or 0.6 million KM compared to the end of 2019, and the financing of machinery and equipment (28% of financial leasing) with a growth rate of 9% or in the amount of 2, 5 million KM, all in relation to the condition as of 31/12/2019.

According to the subject of operatinal leasing (LP), receivables from passenger vehicles (55% of operatinal leasing) decreased by 12% or 1 million KM, while receivables from vehicles for performing activities (44% of operatinal leasing) decreased by 10%, and all in relation to the condition as of 31/12/2019. Operatinal leasing to the lessee is significantly present with legal entities (8.7 million KM or 66% of operatinal leasing) with a decrease at the rate of 3.7% and with other users (33% of operatinal leasing) with a decrease at the rate of 24% or in the amount of 1.4 million KM.

Receivables from financial leasing to the lessee from legal entities (97.6 million KM or 93% of financial leasing) are significantly represented and recorded an increase at the rate of 10% or in the amount of 9.1 million KM, followed by receivables from private individuals (3,5 million KM or 3% of financial leasing) which are higher by 34% or 0.9 million KM, and receivables from entrepreneurs (2.8 million KM or 3% of financial leasing) with a growth rate of 35% or in the amount of 0.7 million KM, all in relation to the condition at the end of the previous year.

Average weighted nominal interest rates and effective interest rates of leasing fees based on financial leasing for 2019 and 2020 for organizational units of LP and BLP operating in Republika Srpska, and whose headquarters are in the Federation of BiH are given in the following table:

Table 47. Average weighted interest rates of leasing fee **%**

DESCRIPTION	2019.		2020.	
	NIR	ELIN	NIR	ELIN
Per leasing subject				
Passenger vehicles	4,40	11,71	4,36	12,63
Vehicles for performing activities	3,99	8,87	4,0	10,69
Machinery and equipment	3,69	5,84	3,18	4,53
Real estate	-	-	-	-
Rail vehicles, watercraft and aeronautical facilities	-	-	-	-
Household appliances	-	-	-	-
Other	-	-	-	-
Per lease receiver	-	-	-	-
Legal entities	3,93	8,17	3,79	8,89
Entrepreneurs	5,22	9,53	5,44	11,76
Private individuals	5,53	24,69	4,88	22,35
Other	4,48	5,82	2,13	2,98
Total weighted interest rates	**4,01**	**8,73**	**3,87**	**9,50**

NIR = nominal interest rate; ELIN = effective rate of leasing fee

The average weighted effective leasing interest rate (ELIN) of LP and BLP business units in this reporting period is higher by 0.77 percentage points, compared to the same in 2019.

V ANTI-MONEY LAUNDERING AND TERRORISM FINANCING

In accordance with the Law on the Banking Agency of Republika Srpska, the Agency supervises the compliance of banks and microcredit organizations with the minimum standards for the prevention of money laundering and terrorist financing. Also, the Law on Anti-Money Laundering and Financing of Terrorist Activities ("Official Gazette of BiH", No. 47/14 and 46/16), stipulates that the Agency supervises its implementation in banks and microcredit organizations.

During 2020, the Agency performed onsite and offsite inspections on the compliance of the operations of banks and microcredit organizations with the standards of anti-money laundering and financing of terrorist activities. The inspections were performed with the consistent application of manuals for supervising the compliance of banks and microcredit organizations with minimum standards for the anti-money laundering and terrorist financing.

Banking supervision found that banks had adopted client eligibility policies, defined which clients were eligible for the bank, applied a client approach based on an analysis of the client's risk to the bank, and established client profile registers for legal entities and private individuals. Also, banks have adopted policies on client identification, as a basic element of the standard "Know your client" and they apply them in establishing business relations with clients, as well as during the business relation. In their operations, banks also apply policies on constant monitoring of accounts and transactions of the bank's clients, on the basis of which they have established transaction limits for certain types of accounts and transactions, and with the application of information systems, adequate application of established limits in monitoring accounts and transactions was enabled. Supervision at two banks established that they still did not fully in an adequate manner apply the minimum standards for the anti-money laundering and terrorist financing (in the follow-up procedure, rulings were issued to eliminate the identified discrepancies, and the banks notified the Agency in writing about their elimination).

Microcredit organizations are undertaking significant activities to implement regulations in the field of anti-money laundering and terrorist financing, and supervision of three microcredit organizations found that they have not yet adequately applied the minimum standards for anti-money laundering and terrorist financing (in the follow-up procedure, rulings for elimination of identified non-compliances were issued, and microcredit organizations have notified the Agency in writing about the elimination of the same).

Based on the performed supervision, and the condition of banks and microcredit organizations in the previous supervisory cycle, it can be concluded that they are largely in line with the standards of anti-money laundering and terrorist financing. The management of risks that may arise in business as a result of money laundering and terrorist financing (operational risk, reputation risk, concentration risk, legal risk) is at a satisfactory level.

Based on the submitted reports on cash transactions of 30 thousand KM or more, related cash transactions of 30 thousand KM or more and suspicious transactions, in 2020 the banks reported to the State Investigation and Protection Agency of BiH - Financial Intelligence Department (FID) a total of 63,269 transactions worth 4.6 billion KM. In the reporting period, the number of reported cash and related cash transactions decreased compared to the same period in 2019 (one bank corrected the software method of reporting related cash transactions), and the total value of reported cash and related cash transactions increased by 5.5%.

In 2020, banks reported 40 suspicious money laundering transactions in the total amount of 8.4 million KM and 77 suspicious clients for money laundering (there were no reported suspicious transactions, nor suspicious clients for financing terrorist activities).

A comparative overview of reported suspicious transactions and clients suspected of money laundering by banks in 2019 and 2020 is given in the following tables:

Table 48. Reported suspicious transactions				mil. KM
Transaction type	2019.		2020.	
	Number	Amount	Number	Amount
Transactions reported before execution	5	4,8	7	1,5
Transactions reported within 3 days	17	3,3	23	2,2
Transactions reported after the 3 day deadline	3	1,3	10	4,8
TOTAL	**25**	**9,4**	**40**	**8,4**

Table 49. Reported suspicious clients						
Transaction type	2019.			2020.		
	Number of recorded suspicious clients	for which FID requested additional information	for which FID did not request additional information	**Number of recorded suspicious clients**	for which FID requested additional information	for which FID did not request additional information
Clients suspicious for money laundering	59	3	56	77	15	62
Clients suspicious for financing terrorist activities	1	0	1	0	0	0
TOTAL (1+2)	**60**	**3**	**57**	**77**	**15**	**62**

In this reporting period, the number of reported suspicious transactions and suspicious clients for money laundering increased compared to the same period in 2019, which is an indicator that banks pay due attention to monitoring transactions and business activities of clients.

In 2020, microcredit organizations did not have reported cash transactions, suspicious transactions, or reported clients suspected of money laundering or terrorist financing.

The reporting to the Agency on transactions for which reporting is stipulated was at a satisfactory level, and banks and microcredit organizations performed reporting in accordance with the legislation.

CONCLUSION

In accordance with its legal competencies, the most important of which is maintaining and strengthening the stability of the financial system, by performing the planned continuous supervision, the Agency controls the legality of operations and stability of individual financial organizations and undertakes measures to preserve stability, in accordance with its powers. The competence of the Agency is also the adoption of bylaws which regulate the operations of financial organizations for whose control it is responsible, and in accordance with the laws, Basel principles and EU directives.

Unlike previous years, during 2020, the banking sector of Republika Srpska operated in an extremely unfavorable regional and global environment due to the shock caused by the pandemic of the "COVID-19" virus.

General indicators of the condition and operations of the banking sector for 2020, with the exception of profitability indicators, recorded a positive trend. Total assets of the banking sector increased by 3%. In the structure of total assets, the largest growth was recorded in trading securities, in the structure of which 96.9% are debt securities of the state and government. Banks had adequate capital reserves to absorb all the effects of the new regulations, as well as the negative effects caused by the COVID-19 virus pandemic.

The regulatory capital adequacy ratio at the level of the banking sector is higher by 1 percentage point compared to the end of 2019, and by 6.3 percentage points it is above the legally required minimum (12%).

Loans increased by 1%, and non-performing loans in total loans reduced their share to 5.2%, which is largely the result of accounting write off of non-performing loans in accordance with the regulatory framework, which also reduced the growth rate of total loans.

Total deposits, as the most important of bank funding source, recorded an increase of 2%, and total retail deposits increased by 4% compared to 2019. Retail savings remained at the same level, but private individual sight deposits increased.

In 2020, the banking sector of Republika Srpska generated a net profit of 52.8 million KM, but the ratio of return on equity (ROAE) fell from 9.7% (end of 2019) to 5.1%. Comparing ROAE with neighboring countries and the European Union, we concluded that the trends are similar.

Measures to mitigate the negative consequences caused by the viral disease "COVID-19" covered 20% of total gross bank loans and 14.8% of total MCO gross loans, and the application of the Decision was extended.

In 2020, the microcredit sector of Republika Srpska, despite the negative impact caused by the pandemic, maintained a significant growth in total assets, lending activities, total capital and the number of employees, and maintained a profitable business.

ATTACHMENTS

BANKING SECTOR

- **Basic bank data**
- **Balance sheet**
- **Sector structure of total loans**

MCO SECTOR

- **Basic MCO data**

Attachment 1: Basic data on banks mil. KM

BANK	HEADQUARTER	ADDRESS	MANAGEMENT PRESIDENT	2020.				
				Net asset	Total capital	Total loans	Deposits	No. of employees
"Nova banka" a.d. Banja Luka	Banja Luka	Kralja Alfonsa XIII br 37A	Jasna Zrilić	2.317,3	184,0	1.536,0	1.771,3	715
"UniCredit Bank" a.d. Banja Luka	Banja Luka	Marije Bursać 7	Gordan Pehar	1.662,2	254,6	980,7	1.274,7	436
"NLB banka" a.d. Banja Luka	Banja Luka	Milana Tepića 4	Radovan Bajić	1.564,1	192,1	879,7	1.237,5	479
"Sberbank" a.d. Banja Luka	Banja Luka	Jevrejska 71	Aleksandar Kesić	955,5	124,3	679,1	742,1	392
"Addiko Bank" a.d. Banja Luka	Banja Luka	Aleja Svetog Save 13	Srđan Kondić	820,9	148,9	622,4	602,5	339
"MF banka" a.d. Banja Luka	Banja Luka	Aleja svetog Save 61	Bojan Luburić	519,7	69,1	383,8	384,8	247
"Komercijalna banka" a.d. Banja Luka	Banja Luka	Jevrejska 69	Boško Mekinjić	461,1	62,7	313,1	335,4	163
"Naša banka" a.d. Bijeljina	Bijeljina	Patrijarha Pavla 3	Dejan Vukličević	207,8	18,6	98,9	166,8	198
			TOTAL	**8.508,6**	**1.054,3**	**5.493,8**	**6.515,2**	**2.969**

Attachment 2: Balance sheet structure mil. KM

DESCRIPTION	2018.		2019.		2020.		Index
	Amount	%	Amount	%	Amount	%	
ASSETS (PROPERTY)							
1. Cash Funds	2.023,8	24,6	1.886,5	21,6	1.920,2	21,6	102
2.Trading securities	762,5	9,3	921,7	10,5	1.050,6	11,8	114
3.Placements to other banks	69,5	0,8	40,9	0,5	44,8	0,5	110
4.Loans (gross)	5.005,9	60,8	5.463,3	62,5	5.493,8	61,8	101
5.Securities held up to maturity	0,7	0,0	10,5	0,1	21,2	0,2	203
6.Office space and other fixed assets	183,3	2,2	214,8	2,5	202,8	2,3	94
7.Other assets	183,9	2,2	206,6	2,4	155,8	1,8	75
8. TOTAL (1 to 7)	**8.229,5**	**100**	**8.744,1**	**100**	**8.889,2**	**100**	**102**
9.Impairment	469,4		446,5		380,6		85
9.a. Impairment for loan items	412,2		376,9		357,4		95
9.б.Impairment for asset items except loans	57,2		69,6		23,2		33
10. TOTAL ASSETS (8-9)	**7.760,1**		**8.297,7**		**8.508,6**		**103**
11. Total off-balance sheet items (12+13)	1.021,7		1.136,2		1.212,6		107
12. Active off-balance sheet items	946,8		1.063,8		1.129,3		106
13. Commission (agent) business activities	74,9		72,4		83,4		115
14. TOTAL ASSETS (10+11)	**8.781,8**		**9.433,8**		**9.721,2**		**103**
LIABILITIES (OBLIGATIONS)							
15.Deposits	6.050,0	78,0	6.405,8	77,2	6.515,2	76,6	102
16.Borrowings taken	0,0	0,0	0,0	0,0	0,0	0,0	
17.Obligations per loans taken	548,7	7,1	601,5	7,2	678,3	8,0	113
18.Subordinated debts	52,3	0,7	52,3	0,6	52,3	0,6	100
19.Other obligations	135,9	1,8	186,3	2,2	197,2	2,3	106
20.Off-balance sheet items provisioning	7,6	0,1	8,3	0,1	11,2	0,1	135
21.Capital	965,5	12,4	1.043,5	12,6	1.054,3	12,4	101
22. TOTAL LIABILITIES (OBLIGATIONS AND CAPITAL)	**7.760,1**	**100**	**8.297,7**	**100**	**8.508,6**	**100**	**103**
23. Total off-balance sheet items (24+25)	1.021,7		1.136,2		1.212,6		107
24. Active off-balance sheet items	946,8		1.063,8		1.129,3		106
25. Commission (agent) business activities	74,9		72,4		83,4		115
26. TOTAL LIABILITIES (22+23)	**8.781,8**		**9.433,8**		**9.721,2**		**103**

Attachment 3: Sector structure of total loans	mil. KM and %									
Description	Credit risk level			Total loans	ECL			Total ECL	NPL ratio	NPL coverage ratio
	1	2	3		1	2	3			
Total loans to legal entities	**2.437,0**	**324,3**	**159,7**	**2.921,0**	**34,0**	**34,7**	**123,3**	**192,1**	**5,5**	**77,2**
A - Agriculture, forestry, fishing	73,5	7,3	10,2	91,0	1,2	1,4	9,4	12,1	11,2	92,9
B - Mining	34,1	8,7	0,9	43,7	0,7	0,6	0,9	2,2	2,0	99,9
C - Manufacture industry	366,5	87,4	52,3	506,2	5,8	10,3	39,4	55,5	10,3	75,2
D - Production and supply of electricity, gas, steam and air conditioning	138,0	20,9	0,4	159,3	2,0	1,5	0,3	3,8	0,3	70,1
E - Water supply; sewerage, waste management and remediation activities	20,5	7,8	1,0	29,3	0,3	0,6	0,8	1,8	3,3	84,7
F - Construction	187,5	40,3	9,5	237,4	2,6	4,0	6,0	12,6	4,0	63,0
G - Wholesale and retail trade; repair of motor vehicles and motorcycles	475,9	52,0	65,9	593,7	7,1	4,6	54,3	66,0	11,1	82,5
H - Traffic and warehousing	86,9	15,5	3,8	106,2	1,9	1,9	3,1	6,9	3,6	80,8
I - Accommodation, food preparation and serving activities; hotel and catering	36,8	23,2	6,1	66,2	0,6	3,7	1,8	6,1	9,3	30,0
J - Information and communication	133,4	1,6	0,2	135,1	1,3	0,1	0,2	1,6	0,1	96,1
K - Financial and insurance operations	92,1	11,4	0,4	103,9	1,4	1,5	0,4	3,4	0,4	100,0
L - Real estate operations	22,8	5,4	0,3	28,5	0,5	1,1	0,2	1,8	1,2	71,5
M - Expert, scientific and technical operations	58,3	11,4	3,2	72,9	0,9	1,0	2,9	4,9	4,3	91,8
N - Administrative and support service activities	18,7	1,0	1,1	20,7	0,4	0,1	0,9	1,4	5,2	85,5
O - Public administration and defense; compulsory social insurance	608,5	9,2	2,4	620,1	6,3	1,1	0,9	8,3	0,4	36,5
P - Education	2,3	2,2	0,9	5,3	0,0	0,1	0,5	0,7	16,4	60,3
Q - Health and social work activities	63,9	17,0	0,1	80,9	0,6	0,9	0,1	1,5	0,1	100,0
R - Art, entertainment, and recreation	11,0	1,7	1,0	13,7	0,1	0,1	1,0	1,2	7,4	99,9
S - Other service providing activities	6,3	0,4	0,1	6,8	0,2	0,0	0,1	0,4	2,0	100,0
T - Activities of households as employers; activities of households that produce different goods and perform different services for their own use	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	-	-
U - Activities of extraterritorial organizations and bodies	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	-	-
Total household loans	**2.221,5**	**223,5**	**127,7**	**2.572,8**	**29,1**	**27,4**	**108,9**	**165,4**	**5,0**	**85,3**
General consumption	1.406,0	168,2	93,4	1.667,7	22,2	21,9	82,5	126,6	5,6	88,3
Housing	661,3	41,2	17,8	720,3	4,2	4,0	14,6	22,8	2,5	82,0
Performing activities	154,2	14,1	16,5	184,8	2,7	1,4	11,8	16,0	8,9	71,7
Total loans	**4.658,5**	**547,8**	**287,5**	**5.493,8**	**63,1**	**62,1**	**232,2**	**357,4**	**5,2**	**80,8**

Attachment 4: Basic data on MCOs 000 KM

MICROCREDIT ORGANIZATION	HEADQUARTER	ADDRESS	DIRECTOR	2020. Gross assets	Gross loans	Total capital MCA/ Holding MCF	Net profit/loss MCA and Net excess/shortage of income over expenses MCF	No. of employees
MKD "Mikrofin" d.o.o. Banja Luka	Banja Luka	Vase Pelagića 22	Mladen Bosnić	306.255	252.324	113.644	9.155	326
MKD "FinCredit" d.o.o. Banja Luka	Banja Luka	Nikole Pašića 1	Slađan Budiša	54.168	37.544	7.569	2.690	54
MKD "Digital Finance International" d.o.o. Banja Luka	Banja Luka	Svetozara Markovića 5/11	Dragan Danojević	14.185	11.715	702	-1.058	38
"Prvo penzionersko mikrokreditno društvo" d.o.o. Banja Luka	Banja Luka	Kralja Petra I Karađorđevića 66	Vesna Todorović	13.401	11.724	3.036	1.301	14
"Brčko gas penzionersko mikrokreditno društvo" d.o.o. Banja Luka	Banja Luka	Kralja Petra I Karađorđevića 119	Bojana Teodorović Kukrika	9.018	8.802	4.316	759	19
MKD "Credis " a.d. Banja Luka	Banja Luka	Knjaza Miloša 3a	Dragan Katana	7.813	7.018	1.790	206	30
MKD "Zdravo" d.o.o. Banja Luka	Banja Luka	Bulevar vojvode Stepe Stepanovića 175 B	Jelica Galić	5.553	5.042	2.586	80	13
MKD "Auris" a.d. Banja Luka	Banja Luka	Veljka Mlađenovića 7d	Dragan Ostojić	4.399	3.051	2.310	202	12
MKF "Pro fin" Istočno Sarajevo	Istočno Sarajevo	Spasovdanska bb	Jelena Lučić	3.641	2.946	1.007	148	11
MKD "Privrednik" d.o.o. Bijeljina	Bijeqina	Stefana Dečanskog 125	Davor Pejić	3.569	3.053	1.305	158	5
MKD "Taurus" d.o.o. Banja Luka	Banja Luka	Radoslava Lakića 40	Milorad Despotović	3.281	2.811	722	84	6
MKD "Pro fin" Istočno Sarajevo	Istočno Sarajevo	Spasovdanska bb	Tiana Stanković	2.018	1.943	613	113	7
MKF "Prodest" Banja Luka	Banja Luka	Dositeja Obradovića 1	Nikola Luburić	909	758	53	-183	3
MKD "Moneda" d.o.o.	Istočna Ilidža	Trg ilidžanske brigade 2A	Kenan Hukić	435	19	-22	-1.267	18
			TOTAL	**428.645**	**348.750**	**139.631**	**12.388**	**556**

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