

REPORT

on the condition of the banking
system of Republika Srpska



АГЕНЦИЈА ЗА БАНКАРСТВО
РЕПУБЛИКЕ СРПСКЕ

R E P O R T

**on the condition of the banking system of Republika Srpska
for the period from 01/01/2021 to 31/12/2021**

Banja Luka, April 2022

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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
ICAAP	Internal Capital Adequacy Assessment Process
ILAAP	Internal Liquidity Adequacy Assessment Process
KM	Convertible mark
LCR	Liquidity Coverage Ratio
MCA	Microcredit Asociation
MCO	Microcredit organization
MKF	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 OF REGULATORY REQUIREMENTS

Minimum amount of paid in founding capital – 15 million KM	Article 34, Paragraph (1) of the Banking Law ¹
CET 1 ratio - 6,75%	Article 34, Paragraph (1), Item 1) of the Decision on calculating capital in banks ²
Tier 1 ratio - 9%	Article 34, Paragraph (1), Item 2) of the Decision on calculating capital in banks
Regulatory capital ratio - 12%	Article 34, Paragraph (1), Item 3) of the Decision on calculating capital in banks
Capital buffer in the form of CET 1 - 2,5% of the total amount of risk exposure	Article 39, Paragraph (1) of the Decision on calculating capital in banks
Leverage ratio - 6%	Article 37, Paragraph (2) and (9) of the Decision on calculating capital in banks
LCR ratio - ≥100%	Article 17, Paragraph (2) of the Decision on bank liquidity risk management ³
Maturity mismatch of financial assets and financial liabilities	<p>Article 77, Paragraph (8) of the Decision on bank liquidity risk management,</p> <p>The bank must meet requirements in terms of maturity match of remaining maturity up to concluded maturity of financial assets and financial liabilities instruments, where it has to:</p> <ol style="list-style-type: none"> 1. engage at least 65% of funding sources with maturity up to 30 days for other placements (asset instruments) with maturity up to 30 days, 2. engage at least 60% of funding sources with maturity up to 90 days for other placements (asset instruments) with maturity up to 90 days and 3. engage at least 55% of funding sources with maturity up to 180 days for other placements (asset instruments) with maturity up to 180 days.
Limit for individual FX overnight bank position, except in EUR – max. up to 20% of bank eligible capital	Article 7, Paragraph (2), Item 1) of the Decision of bank FX risk management ⁴
Limit for individual FX overnight bank position, except in EUR – max. up to 40% of bank eligible capital	Article 7, Paragraph (2), Item 2) of the Decision of bank FX risk management
Limit for total FX position – max. up to 40% of bank eligible capital	Article 7, Paragraph (2), Item 3) of the Decision of bank FX risk management

¹ „Official Gazette of RS“, No. 4/17, 19/18 and 54/19

² „Official Gazette of RS“, No. 74/17, 114/17, 48/19, 114/20, 120/21 and 26/22

³ „Official Gazette of RS“, No. 62/21 and 65/21

⁴ „Official Gazette of RS“, No. 12/03,53/03,85/04,74/17 and 56/20

Ratio of change in the economic value of the banking book and regulatory capital \leq 20%	Article 7 of the Decision on IRRBB management ⁵
Hirschman-Herfindahl Index	Represents the most commonly used measure of concentration in the European and American economic system. HHI is the sum of the squared percentage shares of a specific volume (e.g. assets, deposits, loans) of all market participants in the system. If the value of HHI is less than 1000, it is considered that there is no concentration present in the market, for the value of the index between 1000 and 1800 units, there is moderate concentration present in the market, if the value of HHI is above 1800, it is an indicator of the existence of high concentration.
Concentration ratio - CR	CR is an indicator of concentration in the banking sector and represents the total share of the largest banks in the sector in selected relevant categories: assets, loans and deposits. It is marked according to the number of banks that are included in the calculation, e.g. CR 3. There is no unified and generally accepted position on the interpretation of the obtained results of the concentration ratio. The higher the value, the higher the concentration of the market.
Ratio between loans and deposits and borrowed funds	Shows the ratio of the most important banking aggregates, loans, on the asset position and deposits and borrowed funds, on the funding source position. The higher the rate, the weaker the bank's liquidity position. Experience standards are: less than 70% - low, 70%-79.9% - medium low, 80%-110% - medium high, above 110% high.
Minimum amount of core capital of MCA - 500.000 KM	Article 27, Paragraph (1) of the Law on microcredit organizations ⁶
Minimum amount of core capital of MCF - 50.000 KM	Article 37, Paragraph (1) of the Law on microcredit organizations

⁵ „Official Gazette of RS“, No. 75/17

⁶ „Official Gazette of RS“, No. 64/06 and 116/11

SUMMARY

Basic indicators of the RS banking sector operations as of 31/12/2021

RS banking sector is comprised of 8 banks which operate through a network of 285 organizational units and 2,928 employees.

Gross balance sheet assets of the banking sector amounted to 9.9 billion KM with a growth rate of 11% or by 1 billion KM if compared to the end of 2020. The largest impact on growth was due to increase in cash funds, which increased by 43% and loans by 4%.

Net balance sheet assets of the RS banking sector amounted to 9.6 billion KM with a growth rate of 12% or by 1 billion KM. Apart from increase in gross loans, the growth of net assets was also influenced by the reduction in impairment by 10%.

Total off-balance sheet amounted to 1.4 billion KM and was higher by 74.5 million KM or 6% compared to the end of 2020. In the structure of the off-balance sheet, guarantees were increasing faster (7%) compared to irrevocable loan obligations (3%).

The increase in the overall balance sheet level was mostly due to the growth of deposits, the increase of which was significantly influenced directly or indirectly by the inflow based on the bond issue of Republika Srpska on the international market and the inflow based on credit transactions with the IMF.

Total balance sheet capital of banks amounted to 1.1 billion KM, constituted 11.7% of total liabilities and recorded an increase of 62.2 million KM or 6% compared to the end of 2020, mainly due to the generated profit of the current year and recapitalization in one bank. Share capital amounted to 696 million KM and was higher by 22 million KM or 3%, and retained earnings were 294 million KM and higher by 54.8 million KM or 23% compared to the end of 2020.

Regulatory capital amounted to 1 billion KM and was lower by 12.4 million KM or by 1% compared to the end of 2020. Tier 1 capital amounted to 962 million KM and was higher by 39.1 million KM or 4%, while Tier 2 capital was 43.8 million KM and was lower by 51.5 million KM or by 54% compared to the end of 2020. The changes in the trends of all categories of capital occurred due to the reduction of Tier 2 capital, i.e. general impairment as required by the new regulation, amortization of subordinated debt and increase of Tier 1 capital due to recapitalization and inclusion of part of the generated profit from 2020.

Regulatory capital ratio of the RS banking sector was 19.2%, which is 0.1 percentage points lower than at the end of 2020, but 7.2 percentage points higher than the legal minimum of 12%. At the level of the RS banking sector, other capital rates are significantly higher than the stipulated minimum rates, the ratio of CET1 capital was 19.2%, and Tier 1 capital was 18.2%.

Leverage ratio at the level of the RS banking sector was 9.7% and was 0.7 percentage points lower than at the end of 2020 and was 3.7 percentage points higher than the regulatory minimum of 6%.

Total exposure of banks or total financial assets as of 31/12/2021 was 10.9 billion KM, of which 9.7 billion KM accounted to balance sheet exposures, and 1.2 billion KM to off-balance sheet exposures.

The ECL ratio on total financial assets was 3.3% and was 0.7 percentage points lower than at the end of 2020. If we look at financial assets classified according to credit risk levels, the ECL coverage for exposures assigned to credit risk level 1 was 0.7% and was lower by 0.1 percentage points compared to the end of 2020, the coverage for exposures assigned to credit risk level 2 was reduced from 10.8% to 10.5%, and for exposures allocated to credit risk level 3 we have an increase from 81.5% to 81.9%, compared to the end of 2020.

Total loans amounted to 5.7 billion KM and were higher by 211.3 million KM or 4% compared to the end of 2020. The largest share in total loans of 49% is still held by retail loans, which amounted to 2.8 billion KM and were higher by 220.3 million KM or 9%, while corporate loans account to 34.6% of total loans and were higher by 59.6 million KM or 3% compared to the end of 2020. We have a decrease in loans to the government and government institutions by 52.3 million KM or 8%, to public and state enterprises by 10.7

million KM or 4%, to non-banking financial institutions by 1.3 million KM or 2% and other by 2.6 million KM or 26%.

Non-performing loans, i.e. loans classified into credit risk level 3 (NPL) amounted to 226.8 million KM and compared to the end of 2020 were lower by 60.7 million KM or 21%.

In 2021, the banks made an accounting write-off of the loan principal in the amount of 54.2 million KM and a permanent write-off of the loan principal in the amount of 6.4 million KM.

The share of NPLs in total loans decreased from 5.2% at the end of 2020 to 4%.

The share of NPLs of legal entities in the total loans of legal entities was 4%, which is less by 1.5 percentage points, and the share of NPLs of individuals in total loans of individuals was 3.9%, which is less by 1 percentage point, compared to the end of 2020.

The coverage ratio of total loans by ECL according to IFRS was 5.7% and was lower by 0.9 percentage points compared to the end of 2020.

The coverage ratio of total NPLs by ECL according to IFRS was 81.6% and was higher by 0.8 percentage points compared to the end of 2020.

Temporary measures due to the disease "COVID-19" covered 13% of total gross loans approved by banks with headquarters in Republika Srpska and banks with headquarters in the Federation of Bosnia and Herzegovina, which have business units operating in the territory of Republika Srpska. On the reporting date as of 31/12/2021, another 122.8 million KM or 1.3% of total loans that are under special measures are still active, of which 27.7 million KM refer to the grace period, 73.6 million KM to the additional loan amount and 21.5 million to other.

Cash funds in total amounted to 2.8 billion KM and were higher by 825.2 million KM or 43% compared to the end of 2020. The most significant part of cash funds in the amount of 1.9 billion KM or 69.2% are held at reserve accounts with the Central Bank of BiH, and they were higher by 576.5 million KM or 44% compared to the end of 2020, of which 798.2 million KM or 42% of the total funds held at the reserve account refer to funds of the required reserve, and 1.1 billion KM or 58% to funds above the required reserve.

Investments in securities amounted to 1.1 billion KM and were lower by 56.2 million KM or 1% compared to the end of 2020. In the structure of debt securities, the dominant share is securities issued by states and governments, accounting for 93.9%. Debt Sec amounted to 1 billion KM and were less by 5.7 million KM or 1% compared to the end of 2020. In the structure of debt Sec issued by states and governments, the dominant share is held by bonds issued by Republika Srpska of 78% with a growth rate of 2%, i.e. in the amount of 16.8 million KM and EU member states with a share of 14.1% and with a decrease of 36.4 million KM or 19% compared to the end of 2020.

Deposits, as the most significant funding source of banks with a share of 77.8% in total liabilities, amounted to 7.5 billion KM and recorded an increase of 983.3 million KM or by 15% compared to the end of 2020. The largest influence on the growth of deposits is the growth of deposits of the government and government institutions due to inflows from issued bonds, as well as withdrawn tranches from the IMF. The indirect impact of these inflows can also be seen in other sectors that had growth, except for banks and banking institutions, which are less by 133.2 million or 37% compared to the end of 2020. Deposits of the government and government institutions are higher by 350.7 million KM or 56%, deposits of state and public companies by 131.6 million KM or 41%, deposits of private companies by 236.7 million or 25%, retail deposits by 324.1 million KM or 8%, non-profit organizations for 19.8 million KM or 19%, non-bank financial institutions for 45.5 million KM or 16% and other deposits for 8.1 million KM or 49% compared to the end of 2020.

Retail savings, including transaction accounts, amounted to 4 billion KM and were higher by 389.1 million KM or 11% compared to the end of 2020. Term savings accounted for 71.2% of total savings and have maintained the same level, and demand savings excluding retail transaction accounts accounted for 26.2% of total retail savings and were by 14% higher than at the end of 2020. Retail demand savings and funds at transaction accounts have continuously increased over several reporting periods, while the share of term savings has decreased.

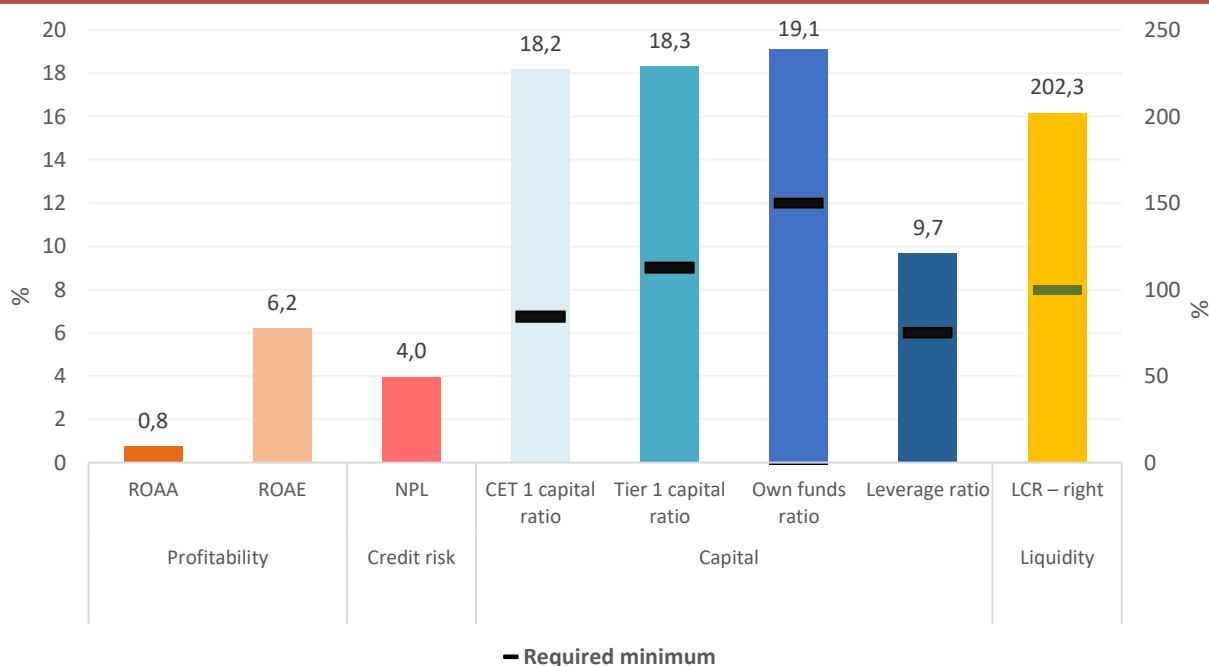
Total liabilities per loans taken amounted to 681.5 million KM with a share of 7.1% in total liabilities and have maintained the same level compared to the end of 2020.

Bearing in mind **the basic indicators of liquidity**, qualitative and quantitative requirements, as well as other factors that affect the liquidity position of banks, it can be concluded that liquidity at the level of the RS banking sector is at a satisfactory level, and the LCR at the level of the banking sector is 202% (stipulated minimum is 100%).

The financial result generated by banks in 2021 is positive and amounts to 115.5 million KM. Compared to the end of 2020, it is higher by 119% or 62.7 million KM. Seven banks reported a net profit (gross profit minus calculated tax) in the total amount of 122.8 million KM, which is higher by 62 million or 102%, and one bank reported a net loss in the amount of 7.3 million KM, which is lower by 2% or 700 thousand KM compared to the end of 2020.

In the following graph, the key indicators of the banking sector of banks from Republika Srpska are presented:

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



In Republika Srpska, seven banks seated in the Federation of BiH have 52 organizational units, and they extended loans in the total amount of 1.7 billion KM or 22.9% of the total loans extended in Republika Srpska and have a growth of 6% compared to the end of 2020. The aforementioned organizational units collected deposits in Republika Srpska in the total amount of 1.1 billion KM or 13.7% of the total deposits collected in Republika Srpska with a growth rate of 11% compared to the end of 2020.

Banks seated in Republika Srpska have 27 organizational units operating in the Federation of Bosnia and Herzegovina, and they extended 269.7 million KM in loans and had a 1% drop compared to the end of 2020, and collected 447.9 million KM in deposits, which increased by 24% compared to the end of 2020.

All segments of the banking sector are covered in detail in Chapter II.

* * * *

The microcredit sector of Republika Srpska with the balance as of 31/12/2021 is comprised of 13 MCOs, of which 11 MCAs, which as profit organizations can place microloans up to a maximum of 50 thousand KM and 2 microcredit foundations (MCF), which as non-profit organizations can place microloans up to a maximum of 10 thousand KM. Republika Srpska MCO operated throughout over 159 organizational units, and employed a total of 615 employees, with an employment growth rate of 11%, i.e. 59 employees more than at the end of 2020.

Also, in Republika Srpska, 121 organizational units of MCO operated within 9 MCO (7 MCFs and 2 MCAs) whose headquarters are in the Federation of Bosnia and Herzegovina, and they employed a total of 339 employees (as of 31/12/2020, they employed 342 employees). The financial indicators of these organizational units are included in the balance sheets of parent MCOs.

Basic business operation indicators of the microcredit sector of Republika Srpska as of 31/12/2021

The total assets (gross) of MCO seated in Republika Srpska amounted to 476.1 million KM and is higher by 11% or by 47.5 million KM compared to the balance at the end of 2020.

Gross loans amounted to 399.2 million KM or 84% of total gross assets and grew at a rate of 14% or in the amount of 50.5 million KM, of which loans without delay in repayment amount to 384.7 million KM or 96.4 % of total loans.

Receivables due amounted to 2 million KM or 0.51% of total loans with a decrease of 46% compared to the end of 2020.

The average weighted effective interest rate on total MCO loans is 34.4% and is higher by 10.85 percentage points compared to 2020 (when short-term loans of one MCA with an individual loan amount of up to 400 KM and with a repayment term of up to 3 months are excluded from the calculation of the average weighted EIR, the average weighted EIR on total loans is 21.84%, which is 1.71 percentage points less compared to 2020).

MCO capital (MCA capital and MCF holding) amounted to a total of 153.4 million KM or 33% of liabilities with growth at a rate of 10% or in the amount of 13.7 million KM compared to the balance as of 31/12/2020, and refers to the capital of MCA in the amount of 152 million KM and holding of MCF in the amount of 1.4 million KM.

The total liabilities of MCO for loans taken/borrowings amounted to 279.4 million KM or 60% of liabilities with growth at a rate of 9% or in the amount of 23.1 million KM compared to the balance as of 31/12/2020 (256.3 million KM).

MCOs generated a positive **financial result** in the total amount of 18.5 million KM, which is more by 49% or by 6.1 million KM compared to the same reported on 31/12/2020.

With the balance as of 31/12/2021, the balance of loans of the organizational units of MCO with headquarters in the Federation of BiH that operate in Republika Srpska amounts to a total of 182.1 million KM with a growth rate of 6% compared to the end of 2020, of which loans without delay amount to 177.9 million KM or 97.7% of total loans.

All segments of the MCO sector are covered in detail in Chapter III.

* * *

In the course of 2021, no savings-credit organizations operated in Republika Srpska.

* * *

In the course of 2021, there were no registered leasing providers (LP) seated in Republika Srpska.

3 LP business units operating in Republika Srpska have the Agency's license to perform leasing operations, and they are part of 3 companies for leasing operations with headquarters in the Federation of Bosnia and Herzegovina. The balance positions of these organizational units are included in the balance sheets of the parent LPs.

Also, one business unit of the bank based in the Federation of Bosnia and Herzegovina performs financial leasing operations in Republika Srpska (FLP), which are included in the balance sheet of the same.

Basic business operation indicators of LPs and FLPs as of 31/12/2021

LP business units (three organizational units) whose seat is in the Federation of Bosnia and Herzegovina, and which operate in Republika Srpska, employed a total of 7 employees.

Receivables from financial and operational leasing of LP business units and FLP financial leasing as of 31/12/2021 in total amount to 131.5 million KM with a growth rate of 11.8% or in the amount of 13.8 million KM compared to the balance as of 31/12/2020.

Financial leasing of business units of LP and FLP amounted to a total of 117.5 million KM or 89% of the total leasing with a growth rate of 12.6% or in the amount of 13.2 million KM compared to the balance as of 31/12/2020.

Operational leasing of LP business units amounted to 14 million KM or 11% of the total leasing with growth at a rate of 5% or in the amount of 0.7 million KM compared to the balance as of 31/12/2020.

Receivables from the leasing receipt are the most significant with legal entities in the total amount of 118.5 million KM or 90% of the total leasing with a growth rate of 11% or in the amount of 12.1 million KM compared to the balance as of 31/12/2020.

The average weighted effective interest rate of the leasing fee (ELIN) for financial leasing of business units of LP and FLP in this reporting period is 9.32% and is lower by 0.18 percentage points compared to 2020.

All business segments of the leasing provider sector are covered in more detail in Chapter IV.

* * *

At the level of the banking system of Republika Srpska, total retail loans consist of loans from the banking sector, the microcredit sector and receivables based on financial leasing, which with the balance as of 31/12/2021 totaled 3,691.4 million KM⁷ or 3,249.5 KM per resident of Republika Srpska. According to the publication of the Republic of Srpska Institute of Statistics, the number of population is 1,136,000⁸.

⁷ Due to the changed method of monitoring loans to households for the purposes of calculating credit indebtedness per resident, as of 31/12/2019, the indicator is reduced by loans given to self-employed entrepreneurs for the performance of activities.

⁸ As of 31/12/2021, instead of the number of population according to the 2013 census, the number of population published by the RS Institute of Statistics is taken into account: https://www.rzs.rs.ba/static/uploads/saopstenja/stanovnistvo/procene_stanovnistva/2013-2020/Procjene_Stanovnistva_2013_2020.pdf

INTRODUCTION

The banking system of Republika Srpska in terms of the Law on the Banking Agency of Republika Srpska ("Official Gazette of Republika Srpska", No. 59/13 and 4/17) includes banks, microcredit organizations, leasing providers and other financial organizations whose establishment and operations are regulated by special laws that stipulate that the Agency issues operating licenses or approvals, supervises operations and performs other tasks related to thereof.

As part of the regular execution of the competences stipulated by the law, the Agency compiles and publishes on its website quarterly information on the condition of the banking system, which is previously approved by the Agency's Management Board.

Report on the condition in the banking system of Republika Srpska as of 31/12/2021 includes the report on the macroeconomic environment and the overview of the banking sector's operations, the report on the condition of the banking sector, the sector of microcredit organizations and the sector of leasing providers, as well as a special segment on the anti-money laundering and combating the financing of terrorism, which applies to all sectors, and was made on the basis of reports submitted in the form stipulated by the Agency and based on other information available to the Agency through regular supervision.

This report includes a detailed report on the financial indicators of the operations as of the reporting date 31/12/2021.

I MACROECONOMIC ENVIRONMENT AND OVERVIEW OF THE BANKING SECTOR OPERATIONS

1. MACROECONOMIC ENVIRONMENT AND OVERVIEW OF THE BANKING SECTOR OPERATIONS

In 2021, the operations of the Republika Srpska banking sector was characterized by an extremely turbulent regional and global environment, primarily due to the continuation of the pandemic and the resulting unprecedented economic shock, while on the other hand, the geopolitical turmoil in Eastern Europe had a significant impact on the economic trends of our region, primarily through energy price movements and the consequent increase in the general level of prices, economic uncertainty and an increased tendency to save.

In October 2021, the International Monetary Fund (IMF) published an economic review (*World Economic Outlook*), calling the document *Recovery during the pandemic*⁹, forecasting a significant growth of economic activity at the global level of 5.9% for 2021, which represents an exceptional recovery of the world economy after falling by -3.1% in 2020. The updated document¹⁰ forecasts significant economic growth (4.4%) for 2022 as well, which could be called into question given the trends in energy prices and consequently inflation during the first quarter of the current year, all in light of the escalation of the conflict in the east of Europe.

Despite the very challenging business environment, the banking sector of Republika Srpska maintained liquidity at a satisfactory level during 2021, which is particularly reflected by the high liquidity coverage ratio (LCR), as well as the amount of funds above the required reserve with the CBBH. Also, the stability of the Sector is reflected in the favorable trends of other business indicators, primarily through the increase in the amount of deposits, net loans, ROAA, ROAE and others.

Net balance sheet assets, despite unfavorable business circumstances, increased by 12% compared to the end of 2020, with an improvement in the quality of assets, primarily through a significant reduction in the share of non-performing loans, both legal and natural persons, and an increase in their coverage ratio. In 2021, the banking sector of Republika Srpska was also distinguished by a significant increase in profits, 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, then macroeconomic indicators and their connection with the indicators of bank operations, as well as significant changes in the regulatory framework of the banking sector during 2021 are analyzed.

1.1. International economic environment and bank operations in EU

Economic recovery at the global level during 2021 was conditioned by the pandemic and new strains of the COVID-19 virus, constant challenges in the labor market, long-term restrictions in supply chains and growing inflationary pressures. After a global contraction of 3.1% in 2020 and then a projected expansion of 5.9% in 2021, which represents the highest rate of economic growth in more than 40 years, the negative effects of the pandemic measured through the reduction of global GDP were to a great extent annulled.

A strong recovery in 2021 was fueled by an increase in consumption and foreign trade (a 9.7% increase in the volume of world trade) due to the increase in immunization and incentive measures in a large number of countries. However, amid rising inflationary pressures, disruptions to global supply chains, the continued high number of COVID-19 cases and severe pandemic-related restrictions in some countries, the pace of sequential GDP expansion has lost its initial momentum with a minor slowdown in the third quarter of 2021.

During 2021, the European Central Bank (ECB), as in the previous period, kept the interest rate at a low level, which continued the pressure on interest rates in the banks of the euro zone countries, and

⁹ Recovery During a Pandemic, IMF, October 2021 <https://www.imf.org/en/Publications/WEO/Issues/2021/10/12/world-economic-outlook-october-2021>

¹⁰ World Economic Outlook Update, IMF, January 2022 <https://www.imf.org/en/Publications/WEO/Issues/2022/01/25/world-economic-outlook-update-january-2022>

therefore also in the banks of the surrounding countries, as well as in our. The average level of the six-month EURIBOR during 2021 was -0.523% (the highest -0.505%, the lowest -0.554%), with negligible fluctuations during the period¹¹. On the other hand, the American Federal Reserve (FED), after the reduction at the beginning of 2020, began to further reduce the interest rate, so that it would have a value of 0.1% by the end of 2020, where it remained throughout 2021.¹²

In such extraordinary conditions, and as was evident during 2020 and 2021, interest rates do not represent a sufficiently strong monetary instrument, which is why central banks around the world have introduced additional measures, referring to the ECB's TLTRO III program (Targeted Longer-Term Refinancing Operations) and the introduction of new and expansion of existing instruments to help in pandemic conditions (e.g. PELTRO - Non-Targeted Pandemic Emergency Longer-Term Refinancing Operations, PEPP - Pandemic Emergency Purchase Programme, APP - Asset Purchase Programme). The American FED introduced the possibility of buying the securities of certain investment funds (ETFs, Exchange Traded Funds), as well as the possibility of direct lending to large corporations, and the ECB abandoned the principle of the capital key, which means that when buying the bonds of individual member states of the euro zone, it flexibly interprets national quotas resulting from the participation of individual countries in the capital of the central bank.

The ECB twice expanded the securities purchase program within 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 zone due to the pandemic, was launched in March 2020 in the amount of 750 billion euros, and in June was expanded by another 600 billion euros, and in December with an additional 500 billion euros, and in December 2021, its completion was announced for the end of March 2022. The principal and interest on the bonds collected in the meantime will be reinvested by the end of 2024 at the latest.¹³

The earlier government bond purchase program (APP - Asset Purchase Program) was also continued with a recalibration at the end of 2021 with an announced purchase pace of 40 billion euros in the second quarter of 2022, 30 billion in the third quarter, and 20 billion euros per month, starting from October 2022.¹⁴

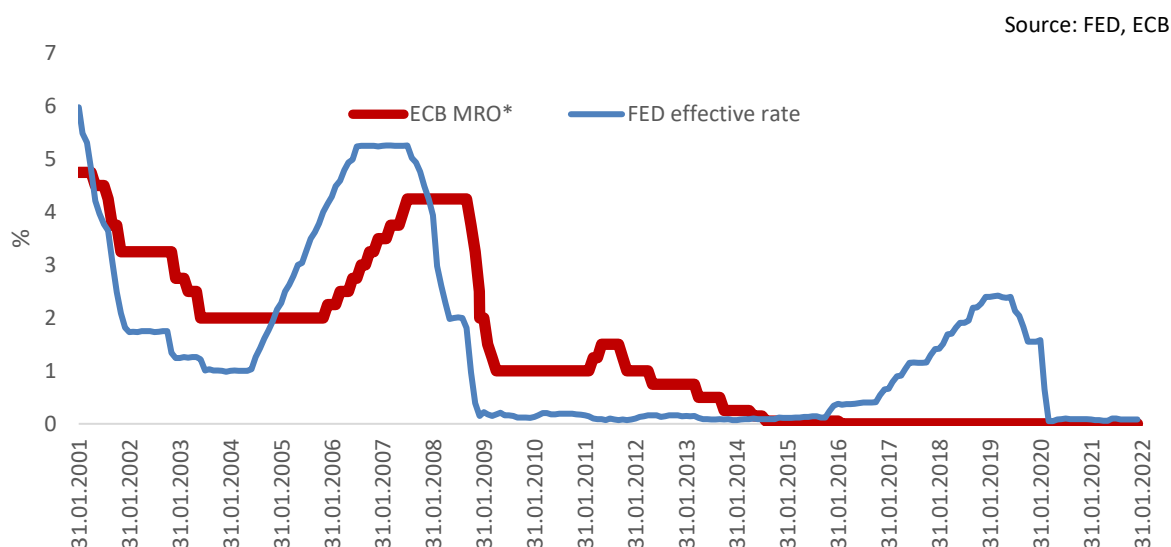
¹¹ <http://www.global-rates.com/interest-rates/euribor/2021.aspx>

¹² <https://fred.stlouisfed.org/series/FEDFUNDS>

¹³ [https://www.ecb.europa.eu/mopo/implement/pepp/html/index.en.html#:~:text=The%20ECB's%20pandemic%20emergency%20purchase,\(COVID%2D19\)%20outbreak.](https://www.ecb.europa.eu/mopo/implement/pepp/html/index.en.html#:~:text=The%20ECB's%20pandemic%20emergency%20purchase,(COVID%2D19)%20outbreak.)

¹⁴ <https://www.ecb.europa.eu/mopo/implement/app/html/index.en.html>

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



Due to the pronounced monetary expansion in the previous period and the market disturbance of the distribution channels of goods caused by the pandemic, inflationary pressures were visible during 2021, both in the countries of the Union and in the USA, which consequently led to an increase in prices in our market as well. The average annual inflation in the countries of the euro zone until 2021 was below the ECB's declared threshold of 2%. However, since the beginning of the year, there has been an increase in inflation, so that the consumer price index in these countries during 2021 amounted to 2.2%, with a note that it reached the level of 8.4% in developing European countries.¹⁵

The European Banking Authority (EBA) conducted stress tests of banks for 2021, whose adverse scenario implied the continuation of operations in pandemic conditions with low interest rates. With a cumulative decline in GDP over a three-year period of 3.6% in the EU and a negative cumulative decline in the GDP of each member state, the adverse scenario for 2021 can be considered serious.

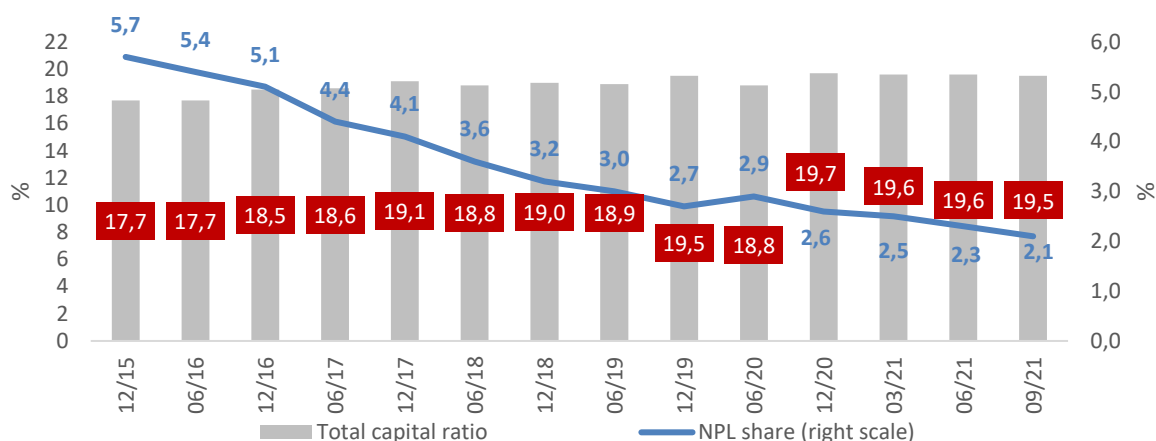
Under the adverse scenario, the EU banking system as a whole would experience a reduction in the Common Equity Tier 1 (CET1) rate of 485 basis points on a full-load basis after three years, while keeping the rate above 10%. The results also show dispersion by banks, so that banks that are more focused on domestic activities or those with lower net interest income show worse stress test results. The report covers 50 banks from 15 countries, which makes up slightly more than 70% of the total assets of the banking sector of the Union.¹⁶

Capital adequacy ratios of banks in the European Union have been kept at a relatively high average level of around 19% for a long time, and the ratio of the share of non-performing loans in total (NPL) continued to improve, reaching a low 2.1% at the end of the third quarter of 2021.

¹⁵ Recovery During a Pandemic, *IMF*, October 2021

¹⁶ <https://www.eba.europa.eu/eba-publishes-results-its-2021-eu-wide-stress-test>

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



Source: Risk Dashboard Data as of Q3, 2021, EBA

Bank capital in such a severe crisis, such as the last one caused by the pandemic, represents one of the most important elements of preserving the stability of the banking system. However, new lending depends on risk assessments, which are very difficult in crisis conditions, and therefore during the pandemic, a large number of countries decided to introduce special guarantee schemes by which governments assumed a significant part of the risk of new loans, while banks are therefore exposed to credit risk on a smaller scale.

According to the latest EBA Risk Report¹⁷, the CET1 ratio of banks in the European Union has slightly decreased from 15.9% at the end of 2020 to 15.7% at the end of the third quarter of 2021. The regulatory capital ratio (Total capital ratio) is 19.5% and is also slightly lower compared to the end of 2020 (19.7%), while the share of non-performing loans (NPL ratio) is in constant decline compared to the end of 2020 and it was reduced from 2.6% to 2.1%. According to the latest available data, the share of non-performing loans in total bank loans in Serbia was 3.49%,¹⁸ and 4.70% in Croatia.¹⁹

According to the same report (EBA), the loan-to-deposit ratio at the end of the third quarter of 2021 was 108.2% (December 2020: 112.2%), LCR 174.7% (December 2020: 171.0%) and the ROE ratio in banks under the supervision of the EBA recorded a significant increase and amounted to 7.7% (December 2020: 1.9%).

When it comes to macroeconomic indicators, the expected growth of GDP in 2021 in the USA is 5.6% on an annual basis (Table 1) and, unlike the previous year, during 2021 a constant growth of GDP can be observed and with a slight lag in the third quarter.²⁰ In the European Union (EU), estimates say that economic activity is expected to grow by 5.2% in 2021, as well as in the countries of the euro zone.²¹

Data for the fourth quarter of 2021 speak of an increase in EU GDP of 4.8% compared to the same quarter of the previous year (Austria and France 5.4%, Italy 6.4%, euro zone countries 4.6%, Germany 1.4%)²².

¹⁷ Risk Dashboard Report; European Banking Authority, Q3 2021

https://www.eba.europa.eu/sites/default/documents/files/document_library/Risk%20Analysis%20and%20Data/Risk%20Dashboard/Q3%202021/1025829/EBA%20Dashboard%20-%20Q3%202021%20v2.pdf?retry=1

¹⁸ https://www.nbs.rs/export/sites/NBS_site/documents/finansijska-stabilnost/prezentacije/prezentacija_invest.pdf (data for December 2021)

¹⁹ <https://www.hnb.hr/-/savjet-hnb-a-nastavljen-trend-pada-udjela-losih-kredita-u-ukupnim-kreditima-banaka> (data for Q3 of 2021)

²⁰ U.S. Bureau of Economic Analysis

²¹ WEO Update – Rising Caseloads, a Disrupted Recovery and Higher Inflation, IMF, January 2022

²² Eurostat

According to IMF reports²³, global economic growth for 2021 is estimated at 5.9%. The previous projections from October 2021 were corrected in January 2022 for both developed and developing countries (Emerging and Developing Countries), primarily due to the higher rate of immunization of the population and the consequent reduced spread of the "COVID-19" pandemic, and in connection with that, economic recovery (increase in exchange of goods and services, opening of economies, economic facilities, increase in mobility of goods and services, establishment of supply chains, increase in the volume of production and consumption, etc.). However, despite optimistic estimates, in the coming period it is realistic to expect that the world economy will face additional restrictions related to GDP growth and the movement of the consumer price index.

Table 1: Selected macroeconomic indicators*

%

DESCRIPTION	2017	2018	2019	2020	2021
Gross domestic product growth (GDP)					
Globally	3,8	3,6	2,8	-3,1	5,9
Developed economies	2,5	2,3	1,7	-4,5	5,0
USA	2,3	2,9	2,3	-3,4	5,6
Euro zone	2,6	1,9	1,5	-6,4	5,2
European Union	3,0	2,3	1,9	-5,9	5,2
Slovenia	4,8	4,4	3,3	-4,2	6,3
Croatia	3,4	2,8	2,9	-8,0	6,3
Emerging and Developing countries	4,8	4,6	3,7	-2,0	6,5
European Emerging and Developing countries	4,1	3,4	2,5	-1,8	6,5
Serbia	2,1	4,5	4,2	-1,0	6,5
Bosnia and Herzegovina	3,2	3,7	2,8	-4,3	2,8
Republika Srpska	3,6	3,9	2,5	-2,5	5,4
Federation BiH	3,2	3,8	2,8	-3,6	...
Consumer price change (CPI), annual average					
Developed countries	1,7	2,0	1,4	0,7	3,1
European Emerging and Developing countries	5,6	6,4	6,6	5,4	8,4
EURO zone	1,5	1,8	1,2	0,3	2,2
Bosnia and Herzegovina	0,8	1,4	0,6	-1,1	1,8
The most interesting interest rate***					
6M EURIBOR	-0,2	-0,3	-0,2	-0,3	-0,5
FED Effective Rate	1,3	2,4	1,6	0,1	0,1

** Data on projected GDP growth in FBiH for 2021 were not available at the time the Report was prepared ***Data for the period refers to EURIBOR on the first working day of the year. The data for the FED rate refer to the end of the year (year close).

As a consequence of positive economic trends, the continuation of the recovery of the world economy (starting from the third quarter of 2020) is evident, despite the still strong impact of the pandemic and the negative socio-economic effects it causes. In this regard, the key driver of growth during 2021, apart from the vaccination rate of the population and consequently the opening of the economy, is still private consumption, with a continuous expansionary monetary policy guided by the policy of low interest rates (by the ECB but also by the FED). It is important to note that Gross Fixed Capital Formation after falling in 2020, during 2021 had a significant growth in developed economies.²⁴

The growth of the world economy in 2021 is obvious, and the forecasts are that it will continue in the following years, but at a slower pace. However, we should not lose sight of the fact that the assumptions that were the basis of economic forecasts have been significantly changed by the latest developments in Eastern Europe with global consequences, and a revision of the existing forecasts of economic growth for the next period can be expected already in April 2022.

²³ IMF WEO (Oct. 2021, Update Jan. 2022) <https://www.imf.org/en/Publications/WEO>

²⁴ WEO, Oct. 21

1.2. Macroeconomic developments in Republika Srpska

Based on the available data, and bearing in mind the fact that the final data on all macroeconomic indicators for 2021 have not yet been published, but only projections, it is expected that under the influence of the increase in the immunization rate, the opening of the market and, consequently, a greater volume of foreign trade exchange and demand, there has been increase in the volume of economic activity, so that in 2021 economic growth in Republika Srpska is expected at a rate of 5.4%.

Table 2: Basic macroeconomic indicators – Republika Srpska

DESCRIPTION	2017	2018	2019	2020	2021
GDP growth – real	3,1	3,9	2,5	-2,5	5,4*
Consumer price index	100,5	101,2	100,5	98,8	101,7
Realized investments (index)	96,7	116,5	95,2	109,5	102,0
Import (index)	110,7	106,6	91,6	93,5	130,5
Export (index)	121,2	107,6	96,5	94,0	124,8
Coverage of import by export	71,0	71,7	75,5	75,9	79,4
Unemployment rate (LFS)	21,0	17,2	11,7	12,9	14,6
Average net salary (KM, net)	831	857	906	956	1.005
GDP per capita (KM)	8.759	9.322	9.848	9.795	10.529*

* Projection for 2021

Source: RS Institute of Statistics (thematic publications), Program of economic reforms of Republika Srpska for the period 2022-2024, the Government of Republika Srpska

During 2021, an increase in the consumer share of retail sector in Republika Srpska is predicted, primarily due to the reduction of economic uncertainty caused by the restrictions that the economy suffered during stronger restrictions in the time of pandemic. Also, an increase in average net earnings in 2021 is evident, as well as an increase in the volume of foreign trade exchange with an increase in the coverage of imports by exports.

As some economic branches such as tourism, catering, transport, etc. were most affected by the negative impact of the crisis caused by the pandemic during 2020, data on their recovery at the end of 2021 is encouraging. In addition, the constant growth of construction and investment sector activity, demand, strengthening of the tourism sector, the decisions of the government authorities not to introduce additional lockdown measures in response to new strains of the COVID-19 virus, as well as the lending activity of banks have influenced the growth of the volume of total investments in Republika Srpska during 2021, which resulted in an increase of GDP. On the other hand, as the measures of the Government of Republika Srpska to mitigate the negative effects of the pandemic, i.e. measures aimed at suppressing it, supporting the economy and increasing allocations for public health had the largest volume during 2020, by the end of 2021 it is expected that this segment of public spending will decrease consumption with a significant increase in population consumption.

Considering the contribution of core inflation²⁵, and bearing in mind the fact that import prices have the greatest influence on the movement of prices of other goods, the growth of the consumer price index during 2021 (cost/imported inflation) was primarily affected by negative shocks on the supply side, i.e. growth in the price of oil derivatives on the world market (the average drop in crude oil prices on the world market in 2021 was over 55%), the growth of imports and domestic demand associated with the growth of average wages and the reduction of restrictions related to the pandemic, and the growth of transportation and food prices, i.e. basic foodstuffs. In this regard, the normalization of economic flows with significant growth of industrial production and GDP during 2021 is evident.²⁶ However, taking into

²⁵ When regulated prices, prices of fruits and vegetables and prices of oil derivatives are excluded from the consumer price index, the basis for measuring core inflation is obtained. In other words, the core inflation does not include the prices of seasonal goods and services, as well as the prices of goods that are under any regulation regime.

²⁶ Republika Srpska Institute of Statistics, statement No. 417/21 (first three quarters of 2021) and 418/21

account the structure of the economy and the negative growth rates of gross added value in the agricultural sector and the increase in food imports in the past year with the existing imported inflation, a further increase in the consumer price index is to be expected, as well as further interventions by the government authorities in order to preserve the standard of living of the population of Republika Srpska, which has already taken certain steps with the beginning of 2022.

The Government of Republika Srpska, i.e. the Republic Headquarters for Emergency Situations, since the first appearance of the corona virus, in addition to concern for the health of the population, which is the first priority in this situation, has devoted special attention to the analysis of the state of the economy, with an emphasis on those activities that are directly affected by the decisions of the Republic Headquarters for Emergency Situations. In this regard, and with the aim of protecting the economy and the population from the negative effects of the pandemic, and during 2021, the engagement of the institutions of Republika Srpska in the fight against the spread of the epidemic and preserving the stability of the health system and the stability of the economy was evident, namely the Government of Republika Srpska and the Republic Headquarters for Emergency Situations passed a large number of acts (decisions, conclusions and measures) with the aim of improving the state of the economy and amortizing the negative effects of the pandemic on economic activity in Republika Srpska.

Bearing in mind all of the above, as well as the details of the report on the condition of the banking system of Republika Srpska in 2021, especially in the part related to capitalization and liquidity and adjustment of operations in the conditions of the pandemic of the "COVID-19" virus, it can be concluded that the banking sector of Republika Srpska shows constant stability as well as the possibility of financial monitoring and active support and participation in the economic development of Republika Srpska.

1.3. The impact of macroeconomic developments on the banking sector

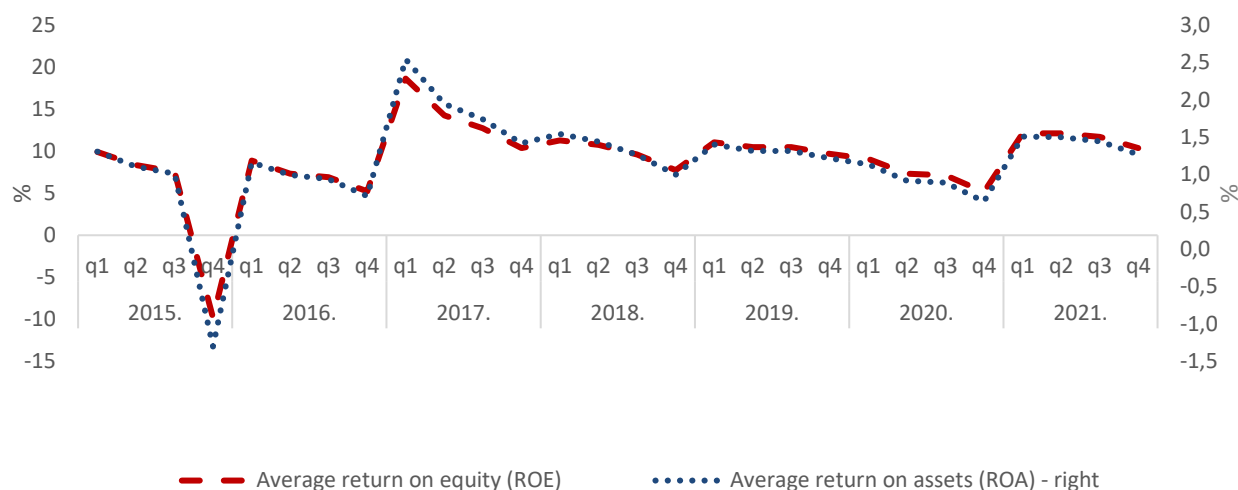
At the end of 2021, the banking sector of Republika Srpska has total assets (on-balance sheet and off-balance sheet) of 10.9 billion KM, which is 91% of the projected GDP, which represents an increase in this indicator of 3.7 percentage points compared to the previous year.

According to the available data, during the observed period (2017-2021), the gross domestic product (GDP) had a compound annual growth rate (CAGR) of 4.23%, while the total assets for the eight banks of Republika Srpska had a growth rate of 7.57%, and loans 4.85% (retail: 6.37%). Since the final GDP data for 2021 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.²⁷

The profitability of the banking sector of Republika Srpska during all four quarters of 2021 recorded a significant increase (especially in the last quarter). However, due to the increase in average net assets and total capital, the ROA and ROE coefficients, after the initial increase in the first quarter, did not change significantly during the year, maintaining volumes above the same ones achieved in the previous year.

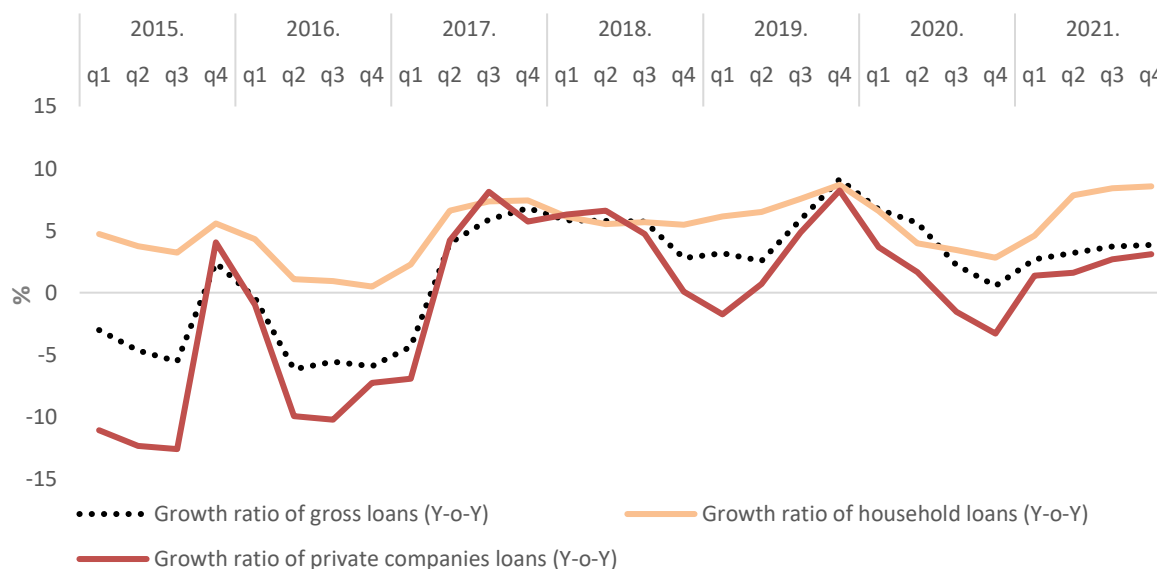
²⁷ Program of economic reforms of Republika Srpska for the period 2022-2024, the Government of Republika Srpska

Graph 4: 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 in 2020 there was a decrease in the lending activity of banks, as the most significant segment of their operations. However, during 2021 there is a recovery, especially during the first two quarters, as can be seen from the following graph.

Graph 5: Credit growth of the Republika Srpska 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 for the most part still represent a generator of growth in total loans, and therefore in the assets of the banking sector. If we look only at the year 2021, here too the long-term trend of faster growth of retail loans is confirmed compared to the growth trend of corporate loans, i.e. the growth trend of total loans.

Lending activity of the banking sector in 2021 can be characterized as satisfactory, bearing in mind that the long-term growth trend of this operation segment has not been interrupted. Such lending activity (growth by 4% compared to the previous year), which can be characterized as favorable but insufficient, is primarily the result of the still negative impact of the pandemic on the country's overall economic activity, uncertainty regarding its completion and normalization of economic activities, and consequently low propensity towards borrowing, high marginal propensity to save (growth of total deposits of 15% compared to 2020) and other factors, which also affected the operations of this segment of the banking

sector of Republika Srpska. Also, it is important to note that loans from banks based in the FBiH, in Republika Srpska account for 22.9% of total loans and record an increase of 6%, while loans from banks based in Republika Srpska, in the FBiH have a share of 3.8% in total loans, with a decrease of 1% compared to the previous year.

During the observed period, total deposits at the level of the banking sector had a slightly higher average growth rate than the lending indicators and amounted to 8.83% (retail 8.21%). However, the negative impact of the pandemic is evident here, bearing in mind that in 2020 total deposits grew by a modest 2%, while their growth in 2021 amounts to a whopping 14%.

Table 3: Ratio of macroeconomic and RS banking sector indicators

DESCRIPTION	2017	2018	2019	2020.	2021	CAGR (%)
Gross domestic product (mil. KM)	10.077,0	10.680,0	11.251,0	11.130,0	11.894,0	4,23%
Total assets (mil. KM)	8.084,8	8.781,8	9.433,8	9.721,2	10.823,5	7,57%
Loans (mil. KM)*	5.899,3	6.145,1	6.721,3	6.814,6	7.129,1	4,85%
of which Loans – retail (mil. KM)***	2.539,4	2.724,4	2.970,4	2.997,6	3.251,0	6,37%
Population no.(mil)	1,2	1,2	1,1	1,1	1,1	-0,22%
Average net wage (KM)	831,0	857,0	906,0	956,0	1.005,0	4,87%
Total deposits (mil. KM)**	5.821,7	6.512,7	7.016,1	7.158,3	8.165,5	8,83%
of which Deposits – retail (mil. KM)	3.279,5	3.608,6	3.966,0	4.149,5	4.497,2	8,21%
Total assets/GDP (%)	80,2	82,2	83,8	87,3	91,0	3,20%
Loans/GDP (%)	58,5	57,5	59,7	61,2	59,94	0,59%
Retail loans/Population no. (retail loans per capita, KM)	2.208,2	2.369,0	2.605,6	2.629,5	2.852	6,60%
Loans per capita/Average net wage	2,7	2,8	2,9	2,8	2,84	1,66%
Total deposits/GDP (%)	57,8	61,0	62,4	64,3	68,65	4,41%
Retail deposits/Population no. (retail deposits per capita, KM)	2.851,7	3.137,9	3.478,9	3.639,9	3.945	8,45%
Retail deposits per capita/ Average net wage	3,4	3,7	3,8	3,8	3,93	3,42%

Sources: Republika Srpska Institute of Statistics – various publications (household, earning, GDP, employees)

Banking sector data: Annual reports on the condition of the Republika Srpska banking system for 2017, 2018, 2019 and 2020

Program of economic reforms of Republika Srpska for the period 2022-2024

In-house calculations

Note:

* Total loans imply loans placed by banks from Republika Srpska in Republika Srpska, minus their placements in the FBiH and increased by the placements of banks based in the FBiH that operate in Republika Srpska.

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

*** The amount of household loans is expressed excluding loans for performing business

CAGR – Compound Annual Growth Rate

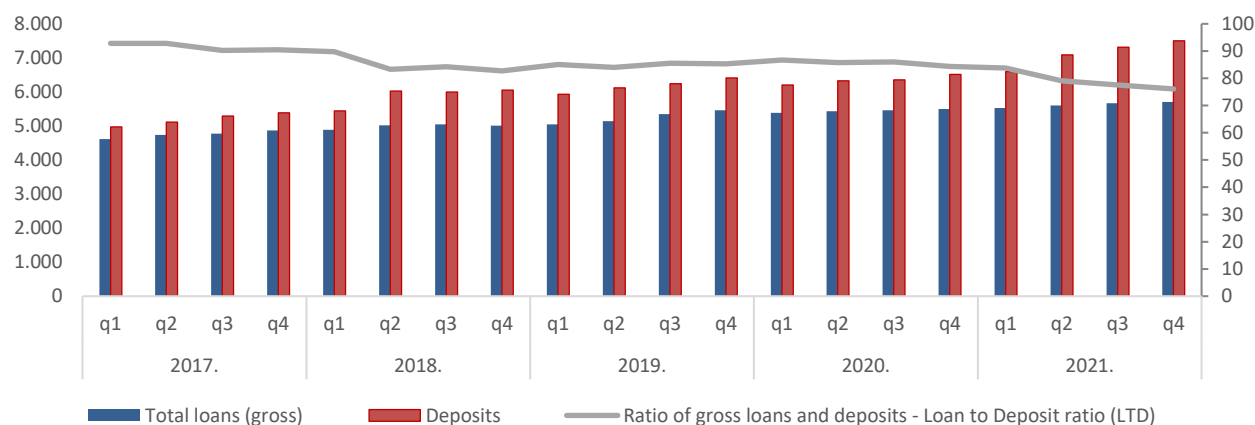
If we look at the relative indicators, it can be assessed that during the period 2017-2021, the ratio of total assets to GDP grew at an average rate of 3.20%, while the ratio of loans to GDP during the same period grew at an average rate of 0.59%. As in previous years, we can conclude from the presented data that economic growth was not entirely generated by credit debt, but partly by other means (e.g., stocks of liquid assets).

On the other hand, the ratio of loans of the banking sector placed to the household and the total number of inhabitants of Republika Srpska speaks about the average indebtedness of the inhabitants of Republika Srpska in the banking sector, that is, the amount of loans to the household *per capita*. During the observed period, the growth of this indicator is noticeable at an average rate of 6.60% and at the end of 2021 it amounts to 2,861.8 KM.

If we compare household deposits and the number of inhabitants, we see that this indicator has a higher average growth rate (8.45%) than the growth rate of household loans *per capita* (6.60%), therefore,

household deposits are growing faster than the growth of its indebtedness. although during the observed period interest rates on both deposits and loans remained at a low level. The mentioned data tells us about the constant improvement of the liquidity position of the banks in Republika Srpska, but also about the larger reserve of uncommitted loan funds.

Graph 6: Ratio of gross loans and deposits



The reasons for the faster growth of deposits than household indebtedness, i.e. bank placements in the observed period, should also be sought in the low propensity of the household to borrow due to uncertainty about future events, especially in times of crisis (job uncertainty, higher marginal propensity for household savings, etc.). Also, the causes could be found in the still insufficiently diversified existing product offer of the banking sector, their lack of adaptation to current conditions or the lack of new products or existing products on more favorable terms, which would direct most of the household deposits to loans. Although the banks have a significant surplus of funds (amount over the required reserve at the CBBH), it is evident that there is not enough lending that would create significant and sustainable economic growth with increased demand for domestic products, which would result in positive effects on the overall economic development of Republika Srpska (GDP, employment, production, coverage of imports by exports, etc.).

1.4. Regulatory framework of the banking sector

During 2021, activities on the reform of the framework for banking operations and supervision continued with the aim of improving the existing regulatory framework and harmonizing it with the best European and international practices.

As part of the mentioned activities, a large number of by-laws were adopted, of which we single out the following:²⁸

- Decision on bank management system,
- Decision on liquidity risk management, including the accompanying Instruction for reporting on liquidity coverage ratio,
- Decision on the supplement of the Decision on calculating capital in banks,
- Decision on the form and content of reports banks deliver to the Banking Agency of Republika Srpska, including the Instruction for FINREP and accompanying templates,
- Decision on repealing the Decision on the temporary method of reporting to the Banking Agency,
- Instruction for application of particular provisions of the Decision on calculating capital in banks,

²⁸ Регулаторни оквир за пословање банкарског сектора Републике Српске доступан је на интернет страници Агенције за банкарство Републике Српске <https://abrs.ba/sr/category/c122>

- Instruction for the treatment of loans included in the Guarantee Program for supporting the economy to mitigate the consequences of the COVID 19 pandemic caused by the SARS-COV-2 virus.

The main goal of the adoption of the new *Decision on bank management system* is to define in more detail the requirements regarding the establishment and supervision of the implementation of the corporate and risk culture, the establishment of an efficient and transparent organizational structure, personnel policy and prevention of conflicts of interest, the conscientious conduct of the bank's management body, the establishment and implementation of internal control system, defining the stress testing program and its implementation, as well as using the results of the stress testing for the purposes of making strategic decisions, fulfilling the eligibility criteria of the governing body on an individual and collective basis, especially in the part related to the assessment of the available time for performance of the duties of the members of the management body, the structure of members and presidents of the supervisory board, i.e. the Risk Committee and the Remuneration Committee, ensuring the independence of the control functions and their status, etc.

The main goal of adopting the new *Decision on liquidity risk management* is to stipulate requirements regarding the net stable funding ratio (hereinafter: NSFR) as a mandatory quantitative requirement. Banks will start reporting to the Agency on NSFR starting from the reporting date of 31/12/2021, while compliance with the limit of this coefficient of 100% is stipulate to start from 31/12/2022. With the entry into force of the obligation to maintain NSFR as a mandatory quantitative indicator, the currently stipulated requirements regarding maintaining maturity mismatch will cease to apply.

In addition to the above, taking into account the deterioration of the epidemiological situation and the measures that the competent authorities and institutions of Republika Srpska have adopted with the aim of protection against the deepening of the health and socio-economic crisis, in March 2021 the Agency adopted the *Decision on the amendments to the Decision on banks' temporary measures to mitigate negative economic consequences caused by the COVID-19 viral disease*, by which it extended the deadlines for submitting requests for the approval of special measures to bank clients whose incomes, i.e. sources for repayment are still reduced as a result of the impact of the pandemic, which has made it difficult, impossible or will be making it impossible for them to settle their obligations towards the banks. The goal of the Decision is, first of all, to provide the bank's clients who are facing negative economic consequences, due to the worsening of the epidemiological situation, the opportunity to submit requests for special measures during 2021 as well, whereby the moratorium on the repayment of obligations to the bank could be approved with expiring date until 30 June 2021, and the grace period with expiring date 31 December 2021.

With the *Decision on supplementing the Decision on calculating capital in banks*, exposures to the Guarantee Fund of Republika Srpska with an initial maturity of more than three months were assigned a more favorable risk weight for the purposes of calculating risk-weighted assets for credit risk, i.e. a risk weight of 50% instead of the previous weighting of 100%.

Decision on the form and content of reports banks deliver to the Banking Agency of Republika Srpska stipulates the obligation to submit new reports on assets, liabilities, capital, income and expenses, and other accumulated income on stipulated templates. Also, the obligation to submit a new Report on assessments carried out by external and internal assessors is stipulated to be performed by 30 April 2022.

By the Decision on repealing the Decision on temporary method of reporting to the Banking Agency of Republika Srpska, banks are ordered to submit all reports stipulated by the new Decision on the form and content of reports banks deliver to the Banking Agency of Republika Srpska, the Decision on capital adequacy reporting and the Decision on liquidity.

By the Instruction for application of particular provisions of the Decision on calculating capital in banks as of 27 March 2020, banks were allowed to include general value corrections in Tier 2 capital in stipulated amounts on the balance cut dates during 2021, with the fact that on 31/12/2021, general value corrections are completely excluded from Tier 2 capital. All banks acted in accordance with the instruction.

According to the Instruction for the treatment of loans included in the Guarantee Program to support the economy for mitigating the consequences of the COVID 19 pandemic caused by the SARS-COV-2 virus, with the unconditional guarantee of the Republika Srpska Government, it is considered that 50% of the exposure has been secured, instead of the previous 21%. Also, the Instruction proposes that 50% (instead of the previous 21%) of loans be considered a recognized risk mitigation technique and reduces the amount of exposure. At the same time, this amount is included in the total limit of exposure to the Government of Republika Srpska, the Government of FBiH and the Government of Brčko District of 300% of eligible capital. In addition, a guarantee of up to 50% of the loan is considered eligible collateral for the purposes of calculating value adjustments. This Instruction was issued in order to stimulate the use of guarantees in the following period (use is allowed until 31 December 2022).

It is especially necessary to point out that the European Commission on 1 October 2021, adopted a decision confirming the equivalence of the supervisory and regulatory framework in Bosnia and Herzegovina in relation to Regulation (EU) No. 575/2013 of the European Parliament and Council on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 (CRR) and Directive No. 2013/36/EU 2013 of the European Parliament and the Council on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (CRD).

Equivalence in the segments of the supervision and regulatory framework for the banking system is of particular importance in other assessments and potential long-term effects on Republika Srpska, i.e. Bosnia and Herzegovina, rating assessments, risk weights for calculating capital requirements to cover banking risks, interest rate levels, investment safety, etc.

II BANKING SECTOR

1 BASIC DATA ON BANKING SECTOR

1.1. Organizational structure

The total number of banks operating in Republika Srpska in 2021 did not change compared to the end of 2020. Eight banks with headquarters in Republika Srpska operated through a network of 285 organizational units, while seven banks with headquarters in the Federation of Bosnia and Herzegovina operated through 52 organizational units in Republika Srpska.

Compared to the end of 2020, banks based in Republika Srpska increased their organizational structure by 1 organizational unit, while banks based in the Federation of BiH kept the same number of organizational units in Republika Srpska. Three banks based in Republika Srpska have 27 organizational units that operate in the territory of the Federation of BiH.

The number of "POS" terminals was reduced by 100 at banks headquartered in Republika Srpska, and by 65 at the organizational units of banks from the Federation of BiH in Republika Srpska, compared to the end of 2020. The number of ATMs increased by 11 at banks based in Republika Srpska, and at organizational units from the Federation of BiH, the number of ATMs decreased by 1.

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

DESCRIPTION	Business unit/ Branch	Other organizational unit	"POS"	ATM
31.12.2020				
I RS banks	130	154	6.029	394
II Org. units of banks from FBiH operating in RS	28	24	3.153	117
Total	158	178	9.182	511
31.12.2021				
I RS banks	131	154	5.929	405
II Org. units of banks from FBiH operating in RS	29	23	3.088	116
Total	160	177	9.017	521

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

1.2. Ownership structure

The ownership structure is characterized by majority private ownership in all banks, with majority participation of domestic equity capital in three banks and majority foreign equity capital in five banks in Republika Srpska. Two banks have state equity capital (one bank has a small amount of equity capital of 1 thousand KM), so the participation of state equity capital in the total equity capital of banks in Republika Srpska is very low (0.7%).

Table 5: Share capital structure

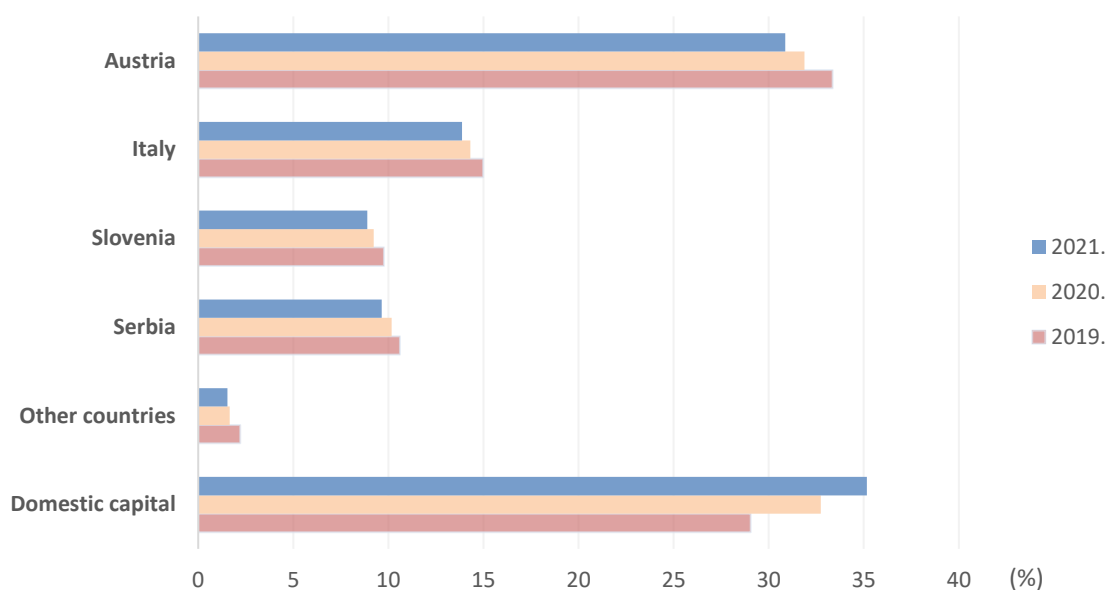
DESCRIPTION	2019		2020		2021		mill. KM
	Amount	%	Amount	%	Amount	%	Index 2021/ 2020
Private capital (domestic)	181,8	28,2	215,5	32,0	239,7	34,4	111
Foreign capital	456,8	70,9	453,3	67,3	451,2	64,8	100
State capital	5,0	0,8	5,0	0,7	5,0	0,7	100
Cooperative capital	0,4	0,1	0,2	0,0	0,1	0,0	31
TOTAL	644,0	100	674,0	100	696,0	100	103

The total equity capital amounts to 696.0 million KM, and consists of 99.3% of private equity capital, 0.7% of state capital and a very small share of cooperative capital.

Compared to the end of 2020, there was a change in the structure of private equity capital. The participation of private domestic equity capital increased by 2.4 percentage points, at the expense of

private foreign equity capital. In the structure of total private equity capital, private foreign equity capital has a share of 64.8%, and private domestic equity capital 34.4%.

Graph 7: Share capital structure according to the contry of origin



In the structure of equity capital by country of origin with the balance as of 31/12/2021 compared to the end of 2020, there was an increase in the share of domestic equity capital and a decrease in the share of all others in the overall structure. Domestic capital has the largest share of 35.17% in the structure of equity capital, followed by Austria with 30.87%, Italy with 13.87%, Serbia with 9.65%, Slovenia with 8.90% and other countries with 1, 54%.

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

Capital structure	2020				2021			
	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	36,1	25,8	35,7	3	37,0	28,1	36,3	3
With majority foreign capital	63,9	74,2	64,3	5	63,0	71,9	63,7	5

Five banks with majority foreign capital have 63.0% share in total assets (decrease in share by 0.9 percentage points compared to the end of 2020), 71.9% in total capital (decrease in share by 2.3 percentage points compared to the end of 2020) and 63.7% in total deposits (decrease in share by 0.6 percentage points compared to the end of 2020).

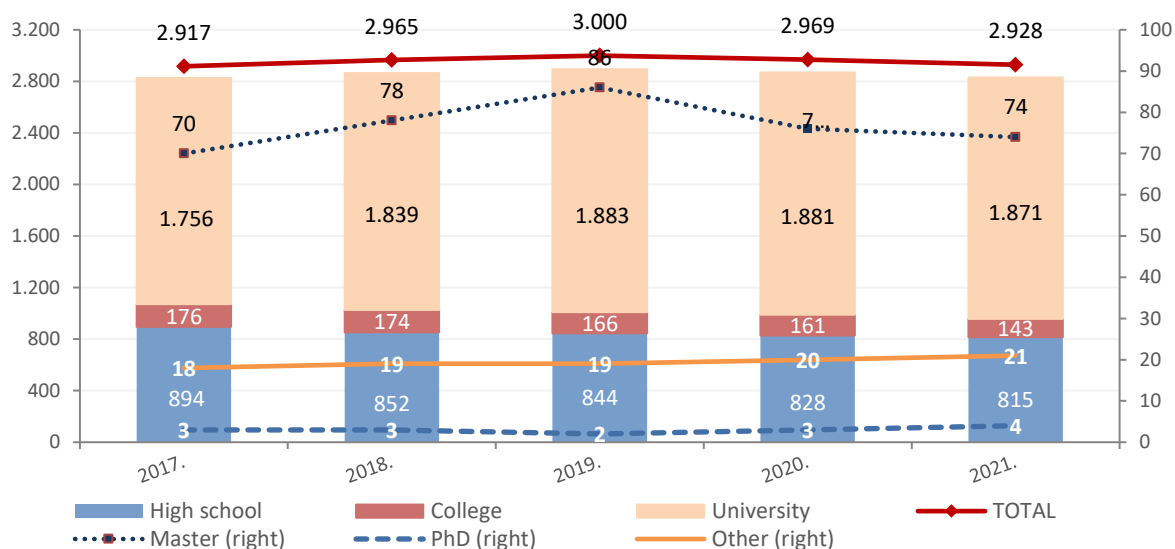
1.3. Staff structure

The total number of employees in the banking sector is 2,928 as of 31/12/2021 and is lower by 41 compared to the end of 2020. Two banks had an increase in employees, two remained at almost the same number, and four banks had a significant decrease in employees.

1.3.1. Qualification structure of employees

When we look at the qualification structure, the largest share is held by employees with university degree at 63.9%, and there is a significant decrease in the number of employees with PhD degree by 13, college degree by 18 and other by 10 employees.

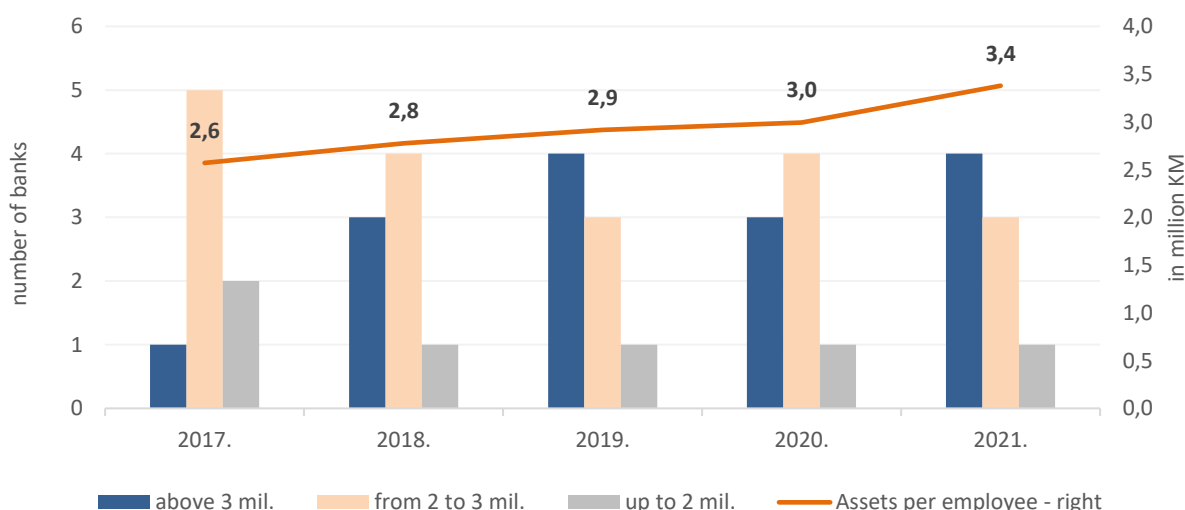
Graph 8: Staff qualification structure



1.3.2. Asset per employee

One of the indicators of the successful operation of the banking sector and of each bank individually is the efficiency of employees, expressed as the ratio of the number of employees to total assets, where a higher amount is, as a rule, an indicator of better efficiency of the bank's operations and the overall sector. This indicator has a continuous growth through five comparative periods. Asset per employee at the level of the banking sector amounts to 3.4 million KM and is higher by 13% compared to the end of 2020.

Graph 9: Assets per employee



Individually, all banks had an increase in asset per employee. One bank has asset per employee above 4 million KM, three banks have asset per employee between 3 and 4 million KM, three banks between 2 and 3 million KM and one bank has less than 2 million KM.

2 FINANCIAL INDICATORS OF BANKS' OPERATIONS

2.1. Balance sheet

The balance sheet of banks based in Republika Srpska, presented over three comparative periods, shows a constant and significant growth in total assets.

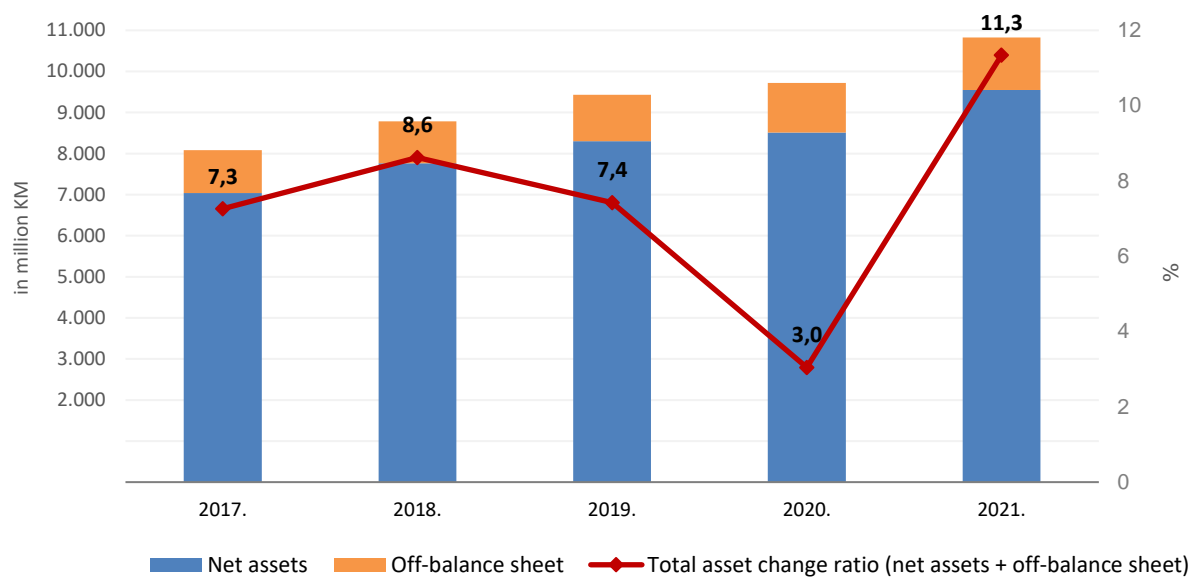
Table 7: Balance sheet structure							mill. KM
DESCRIPTION	2019		2020		2021		Index 2021/ 2020
	Amount	%	Amount	%	Amount	%	
ASSETS							
1. Cash Funds	1.886,5	21,6	1.920,2	21,6	2.745,4	27,8	143
2. Securities	932,1	10,7	1.071,8	12,1	1.101,6	11,1	103
3. Placements to other banks	40,9	0,5	44,8	0,5	16,7	0,2	37
4. Loans (gross)	5.463,3	62,5	5.493,8	61,8	5.705,1	57,7	104
5. Office space and other fixed assets	214,8	2,5	202,8	2,3	192,7	1,9	95
6. Other assets	206,6	2,4	155,8	1,8	130,7	1,3	84
GROSS BALANCE SHEET ASSETS	8.744,1	100	8.889,2	100	9.892,3	100	111
8. Impairment	446,5	0,0	380,6	0,0	341,0		90
8.1. Impairment for loan items	376,9	0,0	357,4	0,0	322,5		90
8.2. Impairment for asset items except loans	69,6	0,0	23,2	0,0	18,5		80
NET BALANCE SHEET ASSETS	8.297,7		8.508,6		9.551,3		112
OBLIGATIONS							
10. Deposits	6.405,8	77,2	6.515,2	76,6	7.498,6	78,5	115
11. Obligations per loans taken	601,5	7,2	678,3	8,0	681,5	7,1	100
12. Subordinated debts	52,3	0,6	52,3	0,6	52,3	0,5	100
13. Off-balance sheet items provisioning	8,3	0,1	11,2	0,1	12,7	0,1	113
14. Other obligations	186,3	2,2	197,2	2,3	189,7	2,0	96
CAPITAL							
15. Capital	1.043,5	12,6	1.054,3	12,4	1.116,5	11,7	106
TOTAL LIABILITIES (OBLIGATIONS AND CAPITAL)	8.297,7	100	8.508,6	100	9.551,3	100	112

Gross balance sheet asset amounts to 9.9 billion KM and is higher by 1.0 billion KM or 11% compared to the end of 2020. All banks had growth in total assets ranging from 1.2% to 16.4%.

Net balance sheet asset (gross balance sheet asset minus value adjustments) amounts to 9.6 billion KM and is higher by 1.0 billion KM or 12% compared to the end of 2020. Net asset increased more than gross asset due to the reduction of value adjustments on total asset by 39.6 million KM or 10% compared to the end of 2020. In the structure of asset, cash funds in the amount of 825.2 million KM or 43% had the greatest growth, and in the structure of liabilities, deposits increased the most in the amount of 983.3 million KM or 15% compared to the end of 2020.

The trend of net asset, off-balance sheet and the rate of change of total assets through the last five reporting periods is shown in the following graph:

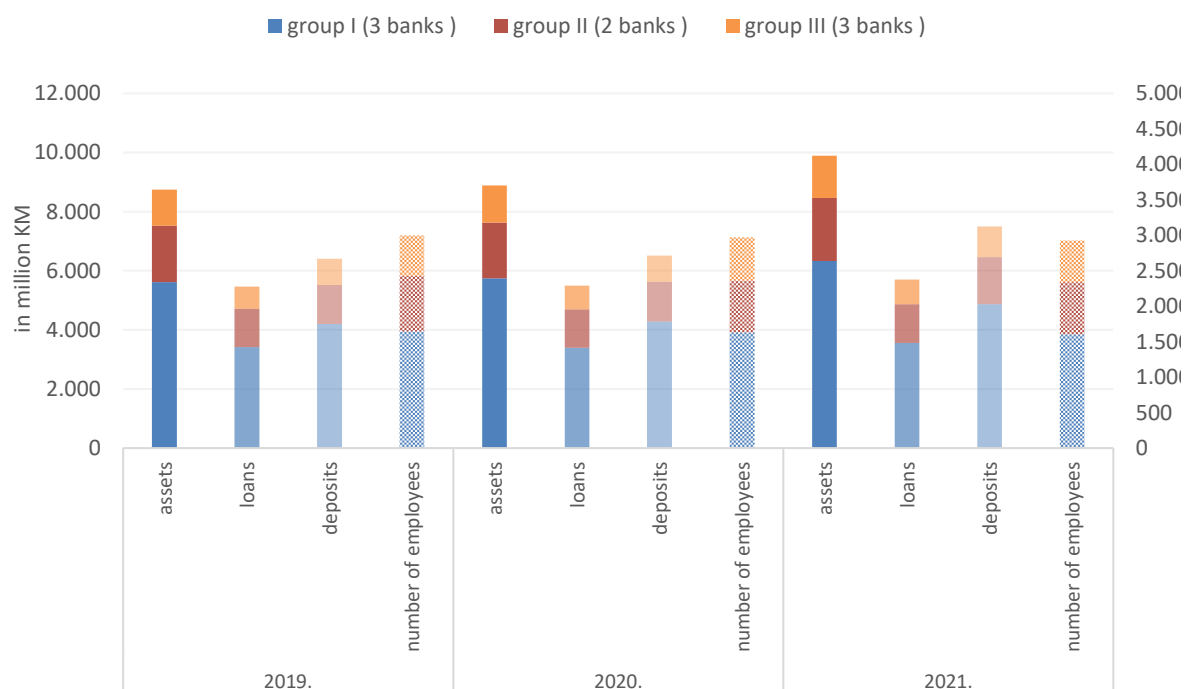
Graph 10: Total assets of the Republika Srpska banking sector



The rate of change in net asset with off-balance sheet compared to the end of 2020 shows a significant growth of 8.3 percentage points, which is a satisfactory indicator considering the impact of the pandemic of the viral disease "COVID-19". The biggest impact on the growth of this rate was the increase in cash funds of 825.2 million KM or 43% compared to the end of 2020.

Banks in Republika Srpska can be divided into three groups according to the size of gross balance sheet asset.

Graph 11: Share of group banks in total assets, capital, deposits and number of employees



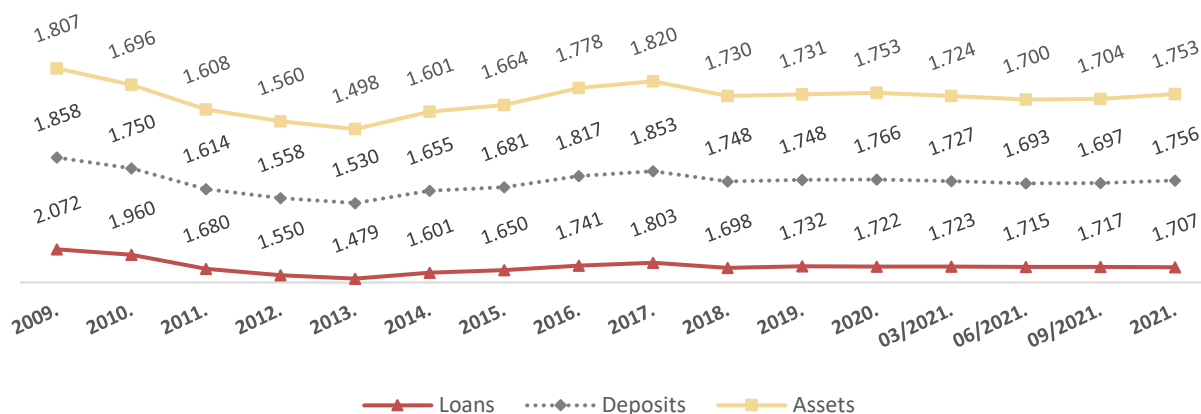
group I (over 1400 million KM of gross assets) group II (700 to 1400 million KM of gross assets)
group III (up to 700 million KM of gross assets)

The group of banks with gross assets over 1,400 million KM belong to three banks that have a share of 64.0% in total assets, 62.4% in total loans, 64.9% in total deposits and 54.7% 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 21.6% in total assets, 22.8% in total loans, 21.2% in total deposits and 25.2% in total employees in the banking sector.

With gross asset under 700 million KM, there are three banks that have a share of 14.4% in the total gross asset of the banking sector, 14.8% in total loans, 13.9% in total deposits, and employ 20.1% of the total number of employees in the banking sector.

Graph 12: HHI (Hirschmann-Herfindahl index)



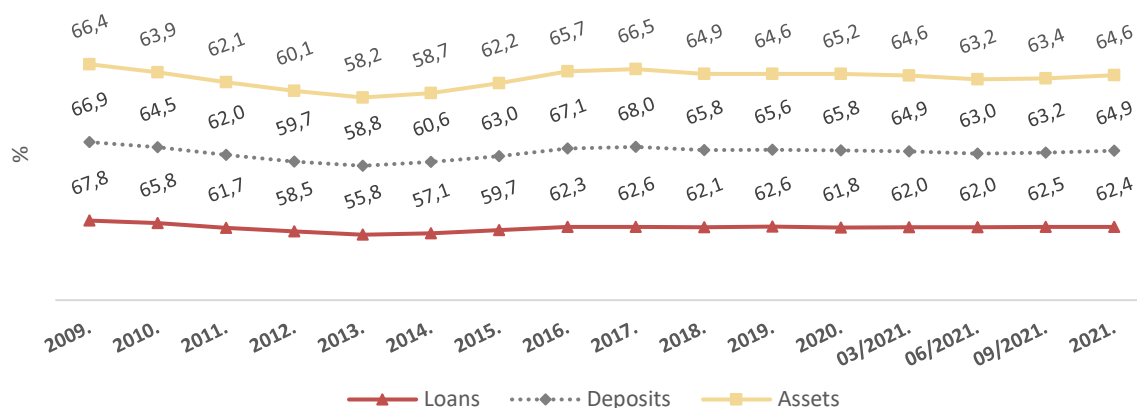
Market concentration on the banking market of Republika Srpska measured by the Hirschmann-Herfindahl index (*HHI*)²⁹ depends on the share of each bank in the specific balance sheet position of the banking sector. For the three basic business segments (loans, deposits and asset), the value of the HHI index as of 31/12/2021 indicates the existence of moderate concentration in all three business segments that are close to the upper limit dividing moderate and high concentration.

Another indicator of market concentration in the banking sector of Republika Srpska is the concentration ratio (CR3)³⁰ for the three largest banks:

²⁹ If the value of HHI is less than 1,000, it is considered that there is no concentration present in the market, for the value of the index between 1,000 and 1,800 units, there is moderate concentration present in the market, and if the value of HHI is above 1,800, it is an indicator of the existence of high concentration.

³⁰ Concentration ratio (CR) is marked according to the number of institutions that are included in the calculation.

Graph 13: Concentration rate (CR3)



The concentration ratio (CR3) of the three largest banks had a decrease of 0.1 percentage points for loans, a growth of 1.7 percentage points for deposits and a growth of 1.2 percentage points for assets, compared to the end of 2020.

2.1.1. Liabilities

The structure of liabilities for the three reporting periods and the growth index between the two most recent comparative periods are shown in the following table:

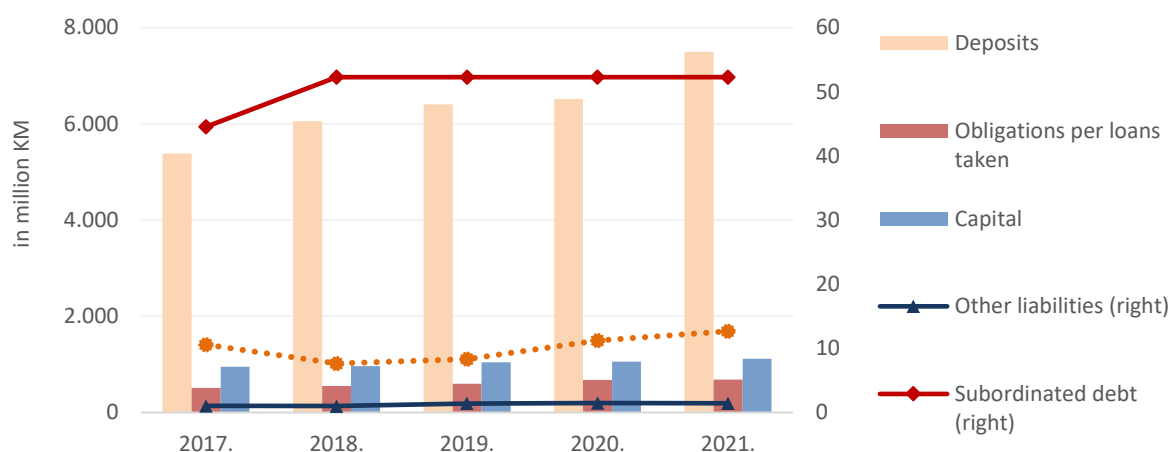
Table 8: Liabilities structure

DESCRIPTION	2019.		2020.		2021.		Index
	Amount	%	Amount	%	Amount	%	
Deposits	6.405,8	77,2	6.515,2	76,6	7.498,6	78,5	115
Obligations per loans taken	601,5	7,2	678,3	8,0	681,5	7,1	100
Subordinated debt	52,3	0,6	52,3	0,6	52,3	0,5	100
Other liabilities	186,3	2,2	197,2	2,3	189,7	2,0	96
Provisioning for off-balance sheet items	8,3	0,1	11,2	0,1	12,7	0,1	113
Capital	1.043,5	12,6	1.054,3	12,4	1.116,5	11,7	106
TOTAL LIABILITIES	8.297,7	100	8.508,6	100	9.551,3	100	112

The total balance sheet liabilities of the banking sector amount to 9.6 billion KM and are higher by 1 billion KM or 12% compared to the end of 2020. Deposits have the greatest impact on the trend of liabilities, which amount to 7.5 billion KM and have increased by 983.3 million or 15% compared to the end of 2020. Capital accounts for 11.7% of total balance sheet liabilities and is higher by 62.2 million KM or 6% compared to the end of 2020. Reserves for off-balance sheet items increased by 13%, but they have a small share of 0.1%, while other liabilities with a share of 2% are less by 7.5 million KM or 4% compared to the end of 2020.

The trend of the items that make up the balance sheet liabilities of the banking sector through the last five comparative periods is shown in the following chart:

Graph 14: Liabilities structure



2.1.1.1. Capital

The total balance sheet capital amounts to 1.1 billion KM and is higher by 62.2 million KM or 6% compared to the end of 2020.

Table 9: Total balance sheet capital structure

DESCRIPTION	mill. KM			Index
	2019	2020	2021	
Permanent preferred shares	6,0	6,0	6,0	100
Ordinary shares	638,0	668,0	690,0	103
Agio (exchange premium)	25,1	10,1	7,1	70
Retained earnings	205,2	239,2	294,0	123
Capital reserves	231,4	171,5	144,5	84
Other capital	-62,2	-40,5	-25,0	62
TOTAL	1.043,5	1.054,3	1.116,5	106

The increase in the total balance sheet capital was influenced by the increase in the position of ordinary shares by 22 million KM (due to the recapitalization of one bank), undistributed profit by 54.8 million KM (all banks that made a profit decided to keep a certain percentage of the current profit in this position) and the reduction of the negative position of other capital by 15.6 million KM (caused by the change in regulation and the booking of negative effects that are gradually offset against the generated result), and compared to the end of 2020.

2.1.1.2. Deposits

Deposits amount to 7.5 billion KM and record an increase of 983.3 million KM or 15% compared to the end of 2020.

Sector structure of deposits

According to the presented sector structure, household deposits make up 55.7% of total deposits and decreased their share in the total structure of deposits by 3.5 percentage points due to the faster growth of deposits of the government and government institutions, which increased their share by 3.4 percentage points and growth in the share of deposits of private companies by 1.2 percentage points compared to the end of 2020.

Table 10: Deposit sector structure

mill. KM

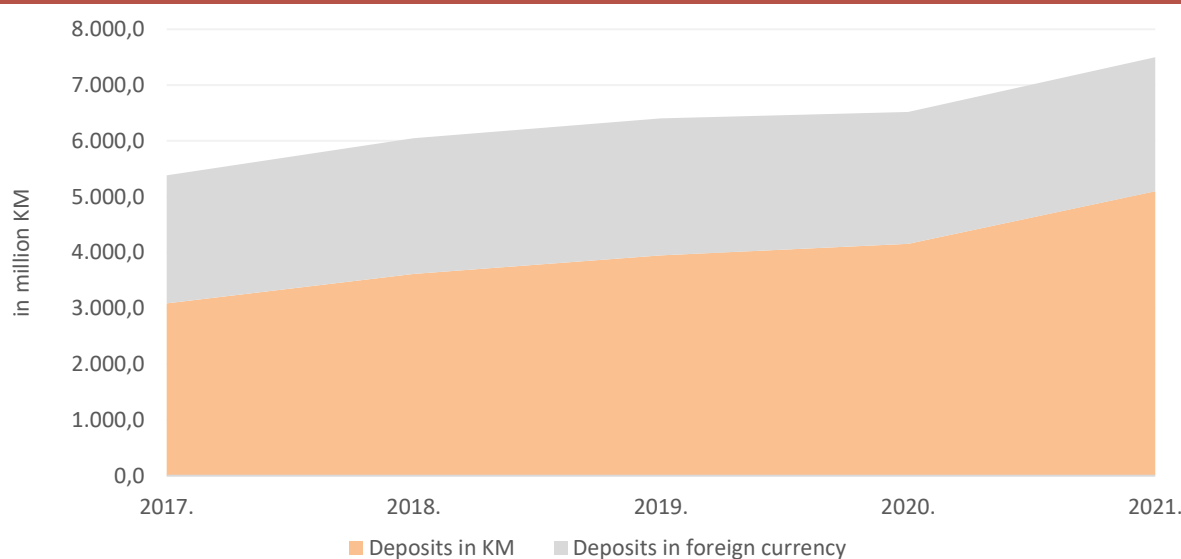
DESCRIPTION	2019.		2020.		2021.		Index
	Amount	%	Amount	%	Amount	%	
Government and government inst.	650,8	10,2	622,5	9,6	973,2	13,0	156
Public and state entities	274,2	4,3	324,1	5,0	455,7	6,1	141
Private enterprises and companies	903,3	14,1	943,7	14,5	1.180,4	15,7	125
Non-profit organizations	100,6	1,6	105,7	1,6	125,5	1,7	119
Banks and banking institutions	466,0	7,3	361,3	5,5	228,1	3,0	63
Non-banking financial institutions	307,5	4,8	285,8	4,4	331,2	4,4	116
Retail/household	3.690,0	57,6	3.855,5	59,2	4.179,7	55,7	108
Other	13,4	0,2	16,7	0,3	24,8	0,3	149
TOTAL	6.405,8	100	6.515,2	100	7.498,6	100	115

The biggest influence on the growth of deposits is the growth of deposits of the government and government institutions due to inflows from issued bonds, as well as withdrawn funds from the IMF. The indirect impact of these inflows can also be seen in other sectors that had growth, except for banks and banking institutions, which are less by 133.2 million or 37% compared to the end of 2020. Deposits of the government and government institutions are higher by 350.7 million KM or 56%, deposits of state and public companies by 131.6 million KM or 41%, deposits of private companies by 236.7 million or 25%, deposits of households by 324.1 million KM or 8%, non-profit organizations by 19.8 million KM or 19%, non-banking financial institutions by 45.5 million KM or 16% and other deposits by 8.1 million KM or 49% compared to the end of 2020.

Structure of deposits by currency

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

Graph 15: Deposit structure per currency



Deposits in domestic currency amount to 5.1 billion KM and increased by 943.6 million KM or 23%, while deposits in foreign currency amount to 2.4 billion KM and increased by 39.7 million KM or 2% compared to the end in 2020

Maturity structure of deposits

According to the presented maturity structure of deposits in the following table, short-term deposits grew by 1.1 billion KM or 28%, and long-term deposits were lower by 140.1 million KM or 6% compared to the end of 2020.

Table 11: Deposit maturity structure							mill. KM
DESCRIPTION	2019.		2020.		2021.		Index
	Amount	%	Amount	%	Amount	%	
1. Total short term deposits	4.050,9	63,2	4.082,7	62,7	5.206,1	69,4	128
Sight deposits	3.520,6	55,0	3.739,4	57,4	4.803,4	64,1	128
Up to 3 months	147,7	2,3	136,4	2,1	177,8	2,4	130
Up to 1 year	382,6	6,0	206,9	3,2	224,9	3,0	109
2. Total long term deposits	2.355,0	36,8	2.432,6	37,3	2.292,4	30,6	94
Up to 3 years	2.034,0	31,8	2.094,6	32,1	1.979,8	26,4	95
Over 3 years	321,0	5,0	338,0	5,2	312,6	4,2	92
Total deposits (1+2)	6.405,8	100	6.515,2	100	7.498,6	100	115

In the structure of short-term deposits, demand deposits grew by 28% or 1.1 billion KM, savings up to 3 months by 30% or 41.4 million KM and savings up to 1 year by 18 million KM or 9%, compared to the end in 2020. In the structure of long-term deposits, there was a decrease in deposits up to 3 years by 5% or 114.7 million KM and deposits over 3 years by 8% or 25.4 million KM, compared to the end of 2020. The decline in term savings is influenced by low interest rates and increased inflation.

Household loans and savings

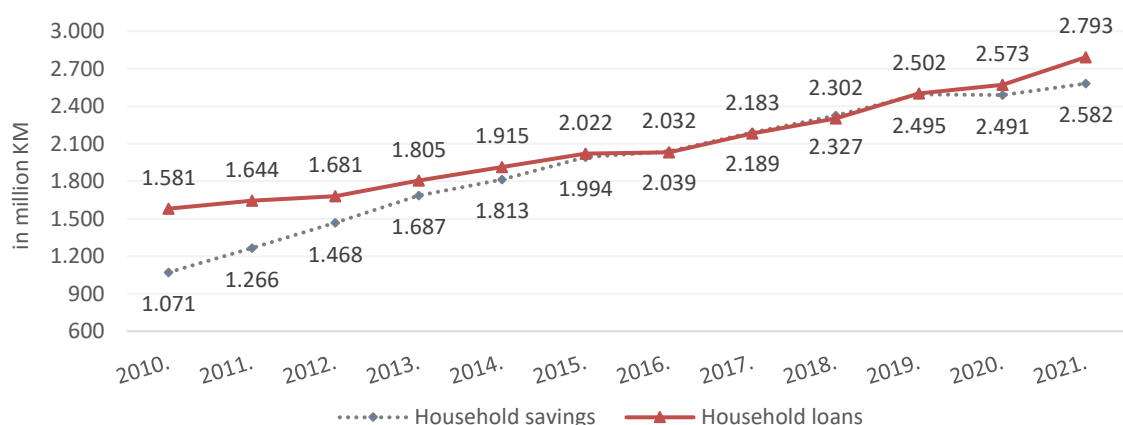
The following table shows the structure and trend of household savings and loans extended to household, as well as the degree of coverage of loans extended to household with household savings.

Table 12: Household loans and savings				mill. KM
DESCRIPTION	2019	2020	2021	Index
1. Retail/household loans	2.502,1	2.572,8	2.793,1	109
2. Household savings	2.494,9	2.490,5	2.581,8	104
2.1. termed savings	1.852,2	1.838,4	1.837,9	100
2.2. sight savings	642,6	652,2	743,9	114
3. Loans/Savings	100,3	103,3	108,2	105
4. Household transaction accounts	1.002,6	1.162,6	1.460,3	126
5. Total deposits (2+4)	3.497,4	3.653,1	4.042,2	111
6. Loans/Total deposits	71,5	70,4	69,1	98

In this reporting period, loans extended to household have a higher growth than the household savings. Loans extended to household increased by 220.3 million KM or 9%, while household savings increased by 91.3 million KM or 4%, compared to the end of 2020. Term savings account for 71.2% (at the end of 2020: 73.8%) of the total household savings and have maintained the same level, and demand savings without current accounts of the household make up 28.8% of the total household savings and are higher by 91.8 million KM or 14% compared to the end of 2020.

However, when the current accounts of households are added, which are higher by 297.7 million KM or 26%, we see that the total household deposits are higher by 389.1 million KM or 11%. The ratio obtained when household loans are divided by household deposits is 69.1% and is 1.3 percentage points lower than at the end of 2020, which indicates that loans grew more than deposits, but also that household deposits are fully financed by household loans and that a significant part is used for other purposes.

Graph 16: Household loans and savings

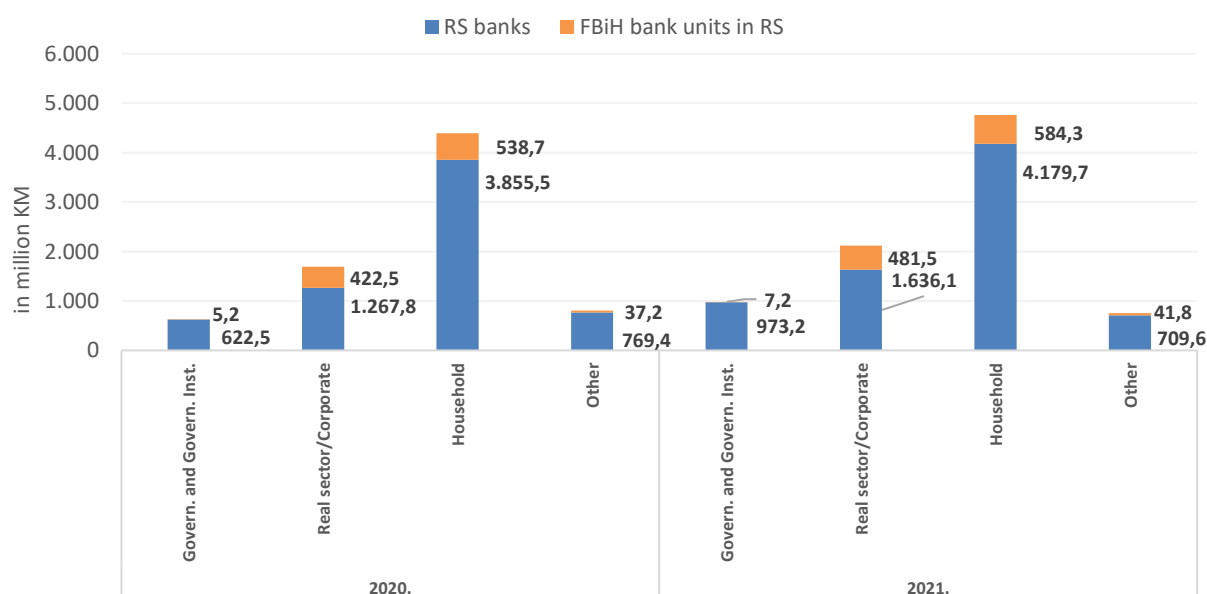


From 2016-2019, the trend of household savings (excluding current accounts) and household loans is approximately the same, and household loans are almost completely covered by household savings. In 2020, loans extended to household grew, and the household savings remained at the same level, so the ratio of coverage of household loans by the household savings is lower by 1.2 percentage points compared to the end of 2019, i.e. the household savings is lower than the household loans. In this reporting period, household loans increased by 9%, and household savings increased by 4%, which led to a decrease in the coverage ratio of household loans with household savings by 4.4 percentage points compared to the end of 2020. Household loans are by 211.2 million KM higher than the household savings.

Total collected deposits in Republika Srpska

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

Graph 17: Sector structure of total received deposits



The total collected deposits amount to 8.6 billion KM and are higher by 1.1 billion KM or 15% compared to the end of 2020.

Short-term deposits amount to 6.1 billion KM and have increased by 1.2 billion KM or 25%, and long-term

deposits amount to 2.6 billion KM and are lower by 120.3 million KM or 5% compared to the end of 2020. In short-term deposits, the largest percentage in the structure of the same is held by household deposits and are higher by 389.9 million KM or 16%.

Also, in the structure of long-term deposits, the largest percentage refers to household deposits, which amount to 1.9 billion KM and are lower by 20.2 million KM or 1% compared to the end of 2020.

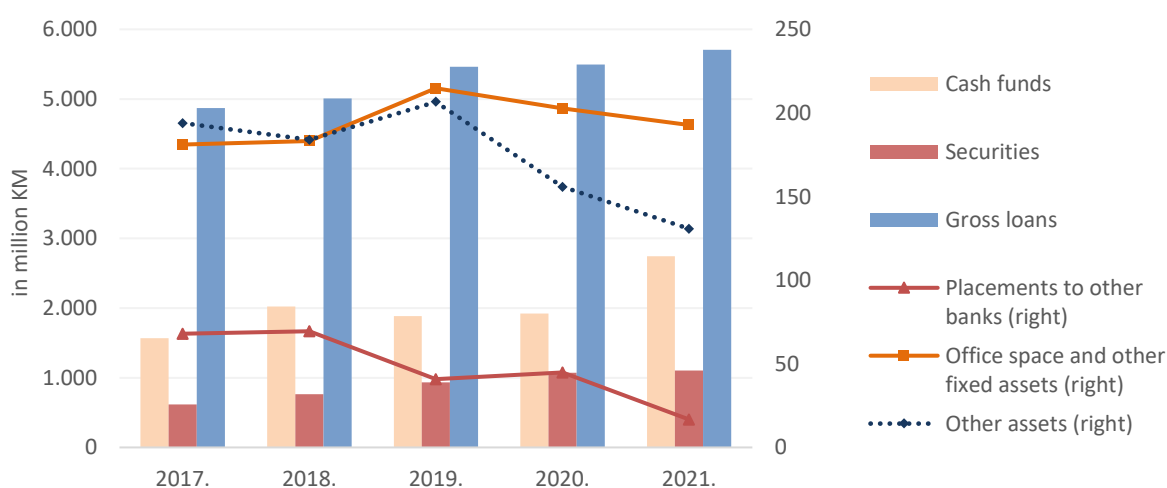
2.1.2. Asset

Gross balance sheet asset amounts to 9.9 billion KM and is higher by 1 billion KM or 11% compared to the end of 2020. Gross loans and cash funds account for 85.5% of total assets. The largest growth is in cash funds of 825.2 million KM or 43%, gross loans are higher by 211.3 million KM or 4%, and securities are higher by 29.7 million KM or 3% compared to the end of 2020.

Table 13: Balance sheet asset structure (gross)							mill. KM
DESCRIPTION	2019		2020		2021		Index
	Amount	%	Amount	%	Amount	%	
ASSETS (PROPERTY)							
Cash funds	1.886,5	21,6	1.920,2	21,6	2.745,4	27,8	143
Trading securities	921,7	10,5	1.050,6	11,8	1.075,7	10,9	102
Placements to other banks	40,9	0,5	44,8	0,5	16,7	0,2	37
Loans (gross)	5.463,3	62,5	5.493,8	61,8	5.705,1	57,7	104
Securities held up to maturity	10,5	0,1	21,2	0,2	25,9	0,3	122
Office space and other fixed assets	214,8	2,5	202,8	2,3	192,7	1,9	95
Other assets	206,6	2,4	155,8	1,8	130,7	1,3	84
TOTAL	8.744,1	100	8.889,2	100	9.892,3	100	111

The trend of the items that make up the assets of the banking sector through the last five comparative periods is shown in the previous graph. From 2019 to this reporting period, we have a continuous growth of gross loans, cash funds and securities, and a decrease in placements with other banks, office space and other fixed assets and other assets.

Graph 18: Balance sheet asset structure



Total active off-balance sheet as of 31/12/2021 is 1.4 billion KM and records an increase of 75.5 million KM or 6% compared to the end of 2020.

Table 14: Off-balance sheet asset structure

mill. KM

DESCRIPTION	2019		2020		2021		Index
	Amount	%	Amount	%	Amount	%	
Risk off-balance sheet	1.063,8	100	1.129,3	100	1.183,7	100	105
1. Irrevocably approved, undrawn loans	550,8	51,8	610,5	54,1	628,3	53,1	103
2. Non-covered letters of credit	4,4	0,4	2,7	0,2	5,6	0,5	206
3. Issued guarantees	508,1	47,8	514,7	45,6	549,4	46,4	107
3.1. Payable guarantees	176,6	16,6	175,6	15,6	191,3	16,2	109
3.2. Performance guarantees	331,5	31,2	339,1	30,0	358,0	30,2	106
4. Other off-balance sheet items	0,5	0,0	1,3	0,1	0,5	0,0	35
Revocable credit liabilities	102,1		109,6		125,5		115
Commission transactions	72,4		83,4		88,6		106
TOTAL OFF-BALANCE SHEET	1.238,3		1.322,3		1.397,8		106

In the structure of the risk off-balance sheet, almost all positions had growth, and the most significant items refer to irrevocable approved and unfacilitated loans and issued guarantees. Irrevocable approved and unfacilitated loans are higher by 17.8 million KM or 3%, issued guarantees by 34.6 million KM or 7% compared to the end of 2020.

2.1.2.1. Cash funds

Cash funds in total amount to 2.8 billion KM and are higher by 825.2 million KM or 43% compared to the end of 2020. The following table shows the structure of cash funds.

Table 15: Cash funds structure

mill. KM

DESCRIPTION	2019.		2020.		2021.		Index
	Amount	%	Amount	%	Amount	%	
Cash funds	259,2	13,7	264,8	13,8	319,0	11,6	121
KM	140,8	7,5	169,1	8,8	182,6	6,7	108
foreign currency	118,3	6,3	95,6	5,0	136,4	5,0	143
Reserve accounts at CBBH	1.319,0	69,9	1.324,7	69,0	1.901,2	69,2	144
KM	1.319,0	69,9	1.324,7	69,0	1.901,2	69,2	144
foreign currency	0,0	0,0	0,0	0,0	0,0	0,0	-
Deposit accounts with depositary institute. in BiH	15,8	0,8	21,7	1,1	24,1	0,9	111
KM	0,5	0,0	1,0	0,1	2,9	0,1	281
foreign currency	15,3	0,8	20,7	1,1	21,2	0,8	103
Deposit accounts with depositary institute. abroad	292,5	15,5	309,1	16,1	500,2	18,2	162
KM	0,0	0,0	0,0	0,0	0,0	0,0	-
foreign currency	292,5	15,5	309,1	16,1	500,2	18,2	162
Cash funds in collection process	0,0	0,0	0,0	0,0	1,0	0,0	-
KM	0,0	0,0	0,0	0,0	0,0	0,0	-
foreign currency	0,0	0,0	0,0	0,0	1,0	0,0	-
Debts not-repaid	0,0	0,0	0,0	0,0	0,0	0,0	-
KM	0,0	0,0	0,0	0,0	0,0	0,0	-
foreign currency	0,0	0,0	0,0	0,0	0,0	0,0	-
TOTAL	1.886,5	100,0	1.920,2	100,0	2.745,4	100,0	143
KM	1.460,3	77,4	1.494,8	77,8	2.086,6	76,0	140
foreign currency	426,2	22,6	425,4	22,2	658,8	24,0	155

Cash funds in KM make up 76% of total cash funds and amount to 2.1 billion KM and have a growth of 40% or 591.8 million KM compared to the end of 2020. Cash funds in foreign currency make up 24% of total cash funds and amount to 658.8 million KM and have a growth of 55% or 233.4 million compared to

the end of 2020.

Cash funds in the reserve account with the Central Bank of BiH make up 69.2% of the total cash funds and amount to 1.9 billion KM and are higher by 576.5 million KM or 44% compared to the end of 2020.

Cash accounts for 11.6% of total cash funds, amounts to 319.0 million KM, has a growth of 54.3 million KM or 21%, with the fact that foreign currencies grew more in relation to cash in KM.

Cash funds on deposit accounts with depository institutions abroad make up 18.2% of total cash funds, amounting to 500.2 million KM and they have increased by 191.1 million KM or 62% compared to the end of 2020.

Out of the total cash funds (2.8 billion KM), the amount of 1.4 billion KM or 52.2% are interest-bearing deposit accounts (at the end of 2020, they made up 45.2% of the total cash funds), and the amount of 1,3 billion KM is the position of cash and non-interest-bearing accounts on which banks do not generate income, which makes up 44.8% of total cash funds (at the end of 2020, it made up 54.8% of total cash funds). In this reporting period, there was an increase in interest-bearing deposit accounts, but considering that most of them are burdened with negative interest rates, the impact on profitability is still negative.

2.1.2.2. Securities

Investments in securities in total amount to 1.1 billion KM, are higher by 29.8 million KM or 3% compared to the end of 2020 and make up 11.1% of total balance sheet assets. The following two tables show securities by type and issuer:

DESCRIPTION	2019		2020		2021		Index 2021/ 2020
	Amount	%	Amount	%	Amount	%	
Equity securities	13,2	100,0	14,0	100,0	15,1	100,0	108
Shares	13,2	99,9	14,0	99,9	15,1	99,9	108
Other equity shares	0,0	0,1	0,0	0,1	0,0	0,1	100
Debt securities	921,4	100	1.060,3	100	1.089,0	100	103
Bonds	910,7	98,8	946,8	89,3	960,5	88,2	101
Treasury bills	10,6	1,2	113,5	10,7	128,5	11,8	113

Equity securities make up 1.4% of the total securities, have a growth of 1.1 million KM or 8% compared to the end of 2020 and refer to shares. Debt securities are higher by 28.7 million KM or 3% compared to the end of 2020. In the structure of debt securities, bonds make up 88.2% of total debt securities and have an increase of 13.7 million KM or by 1% compared to the end of 2020. Treasury bills make up 11.8% of total debt securities and have increased by 15.0 million KM or 13% compared to the end of 2020.

DESCRIPTION	2019		2020		2021.		Index 2021/ 2020
	Amount	%	Amount	%	Amount	%	
1. Equity securities	13,2	100,0	14,0	100,0	15,2	100,0	108
Domestic equity investments	2,5	19,1	2,4	17,3	2,5	16,3	102
Foreign equity investments	10,7	80,9	11,6	82,7	12,7	83,7	109
2. Debt securities	921,4	100,0	1.060,3	100,0	1.089,0	100,0	103
Countries and government	881,5	95,7	1.027,8	96,9	1.022,1	93,9	99
Republic of Srpska	668,5	72,6	832,9	78,6	849,7	78,0	102
Federation BiH	0,0	0,0	0,0	0,0	10,0	0,9	-
Bosnia and Herzegovina	0,1	0,0	0,0	0,0	0,0	0,0	-
EU member states	207,7	22,5	190,1	17,9	153,7	14,1	81
Other countries	5,2	0,6	4,8	0,5	8,6	0,8	180
Other issuers	39,9	4,3	32,5	3,1	66,9	6,1	206
Republic of Srpska	7,1	0,8	8,3	0,8	35,7	3,3	433
Federation BiH	3,0	0,3	0,0	0,0	0,0	0,0	-
EU member states	29,8	3,2	24,3	2,3	31,2	2,9	129
Other countries	0,0	0,0	0,0	0,0	0,0	0,0	-

If we look at the structure of equity securities, 16.3% or 2.5 million KM refers to domestic equity investments, and 83.7% or 12.7 million KM refers to foreign equity investments.

In the structure of debt securities, the dominant share is securities issued by states and governments, accounting for 93.9%. Debt securities amount to 1 billion KM and are less by 5.7 million KM or 1% compared to the end of 2020. In the structure of debt securities issued by states and governments, the dominant share of 78% is held by bonds issued by Republika Srpska with a growth rate of 2%, i.e. in the amount of 16.8 million KM and EU member states with a share of 14.1% and with a drop of 36.4 million KM or 19% compared to the end of 2020.

2.1.2.3. Loans

In this reporting period, gross loans with a balance as of 31/12/2021 amount to 5.7 billion KM or 57.7% of gross balance sheet assets and are higher by 211.3 million KM or 4% compared to the end of 2020. The growth of gross loans is reduced by the accounting 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.

In 2021, the banks made an accounting write-off of the loan principal in the amount of 54.2 million KM and a permanent write-off of the loan principal in the amount of 6.4 million KM.

On the reporting date 31/12/2021, 13% of the total gross loans approved by banks with headquarters in Republika Srpska and banks with headquarters in the Federation of BiH, which have business units operating in the territory of Republika Srpska, were included in the temporary measures due to the "COVID-19" disease. Another 122.8 million KM or 1.3% of total loans are active, which are under special measures, of which 27.7 million KM refers to the grace period, 73.6 million KM to the additional loan amount and 21.5 million KM to other.

Sector structure of total loans

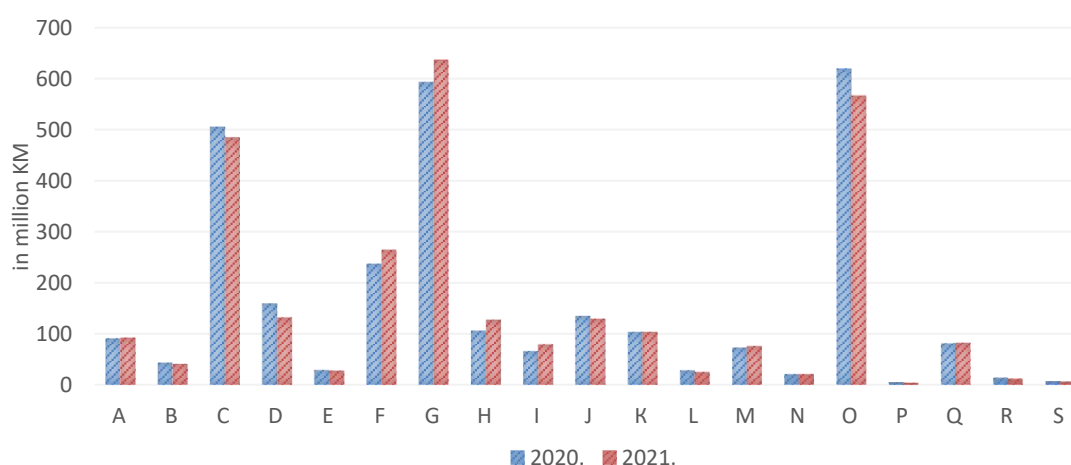
According to the presented sector structure of total loans, the largest share is still held by household loans and loans extended to private companies.

Table 18: Total loans sector structure							mill. KM
DESCRIPTION	2019		2020		2021		Index
	Amount	%	Amount	%	Amount	%	
Government and Government inst.	653,9	12,0	683,9	12,4	631,5	11,1	92
Public and State Enterprises	254,1	4,7	247,9	4,5	237,2	4,2	96
Private Enterprises and Companies	1.982,1	36,3	1.916,6	34,9	1.976,2	34,6	103
Non-Profit Organizations	6,8	0,1	6,3	0,1	4,8	0,1	76
Banks and Banking Institutions	0,0	0,0	0,0	0,0	0,0	0,0	-
Non-Banking Financial Institutions	53,3	1,0	56,4	1,0	55,1	1,0	98
Private individuals	2.502,1	45,8	2.572,8	46,8	2.793,1	49,0	109
Other	11,0	0,2	9,9	0,2	7,3	0,1	74
TOTAL	5.463,3	100	5.493,8	100	5.705,1	100	104

Loan growth was recorded in household loans by 220.3 million KM or 9% and loans extended to private companies by 59.6 million KM or 3%. We have a decrease in loans to the government and government institutions by 52.3 million KM or 8%, to public and state enterprises by 10.7 million KM or 4%, to non-profit organizations by 1.5 million KM or 24%, to non-banking financial institutions by 1.3 million KM or 2% and to others by 2.6 million KM or 26%.

The detailed branch structure of loans and the trend through two comparative periods is shown in the following graph and Annex No. 2.

Graph 19: Loan branch structure



Legend

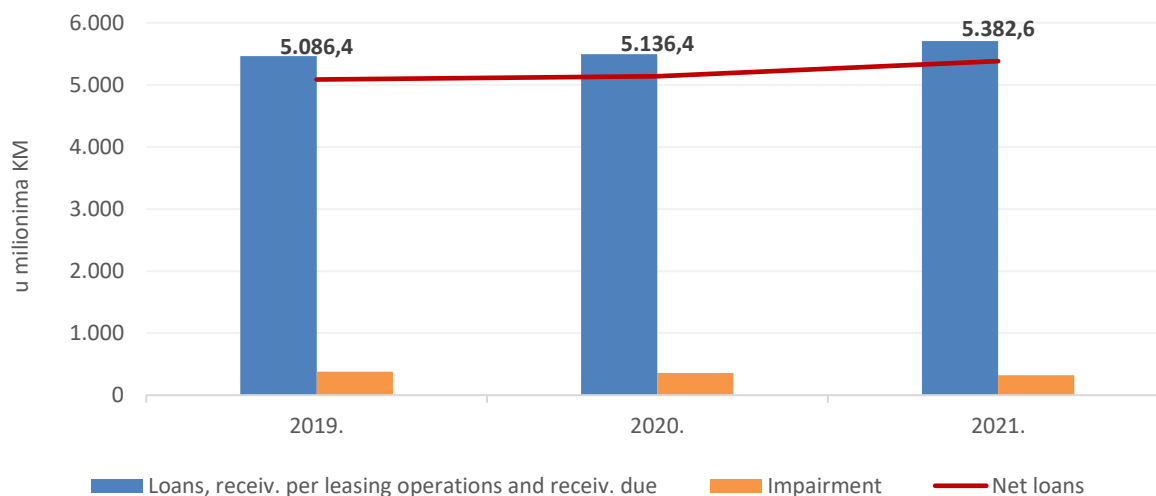
A	Agriculture, forestry, fishing	K	Financial and insurance activities
B	Mining	L	Real estate activities
C	Manufacture industry	M	Expert, scientific and technical activities
D	Production and supply of electricity, gas, steam and air conditioning	N	Administrative and support service activities
E	Water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

In the structure of total loans, the largest percentage of 31% refers to the financing of general consumption of the household, 14% refers to the financing of housing needs, followed by: 11% trade, 10% public administration, 9% processing industry, 5% construction, and 10% falls on all other sectors.

Net loans

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

Graph 20: Net loans



Net loans amount to 5.4 billion KM and are higher by 246.3 million KM or 5% compared to the end of 2020. Loans, receivables from leasing operations and due receivables are higher by 211.3 million KM or 4%, and ECL is lower by 34.9 million KM or 10% compared to the end of 2020. On average, ECL covers 5.7% of total loans (6.5% of total loans at the end of 2020).

Maturity structure of loans

Short-term loans increased by 13.5 million KM or 2%, and long-term loans by 247.7 million KM or 5% compared to the end of 2020. Long-term loans account for 83.7% of total loans and have increased their share by 4.3% percentage points compared to the end of 2020. Due receivables are lower by 49.9 million KM or 24% compared to the end of 2020. We have a decline in due receivables in all sectors, except for non-banking financial institutions, which remained at the same level. The largest decrease was driven by due receivables from private companies by 33.8 million KM or 26% and due receivables in household by 14.4 million KM or 20%, compared to the end of 2020

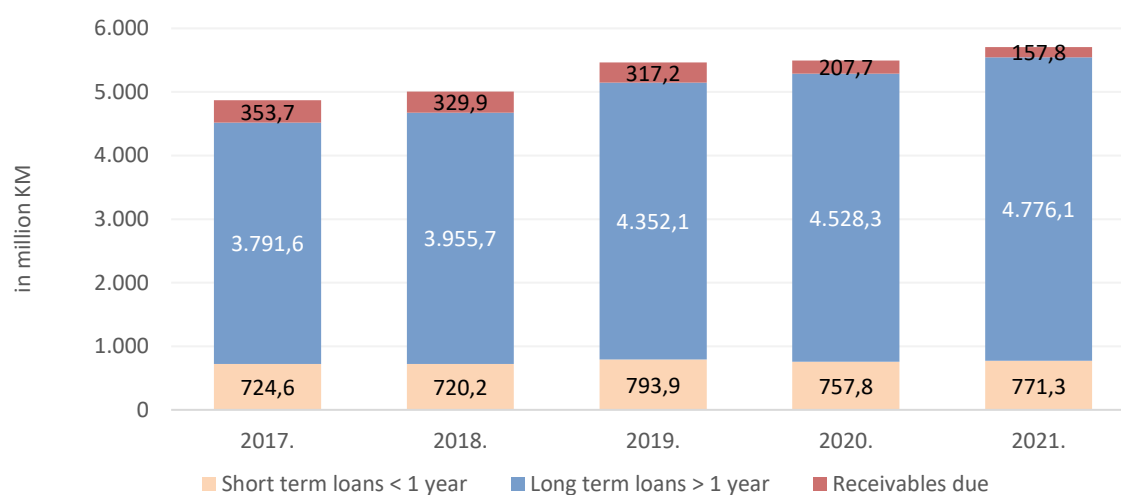
Table 19: Loan maturity structure

DESCRIPTION	mill. KM								
	Short term loans < 1 year			Long term loans >1 year			Receivables due		
	2020	2021	Index	2020	2021	Index	2020	2021	Index
Government and Government inst.	6,3	6,5	103	676,1	624,6	92	1,5	0,5	35
Public and state Ent.	16,7	10,9	65	228,0	223,7	98	3,2	2,6	81
Private Ent. And Companies	556,7	568,4	102	1.231,4	1.313,1	107	128,5	94,7	74
Non-profit organizations	1,4	0,4	30	4,9	4,3	89	0,1	0,1	87
Banks and bank. Inst.	0,0	0,0	-	0,0	0,0	-	0,0	0,0	-
Non-bank. Fin. Inst.	2,2	7,5	338	53,8	47,2	88	0,4	0,4	100
Retail/household	174,0	177,6	102	2.324,9	2.556,0	110	73,9	59,4	80
Other	0,4	0,1	16	9,3	7,2	77	0,1	0,0	9
TOTAL	757,8	771,3	102	4.528,3	4.776,1	105	207,7	157,8	76

In the structure of short-term and long-term loans, loans to private companies and household have a dominant share. Long-term loans to households increased by 10%, and long-term loans to private companies increased by 6% compared to the end of 2020, with household loans accounting for 53.5% of total long-term loans.

Short-term loans in both of the above-mentioned sectors increased by 2% compared to the end of 2020, with loans to private companies accounting for 73.7% of total short-term loans.

Graph 21: Loan maturity structure

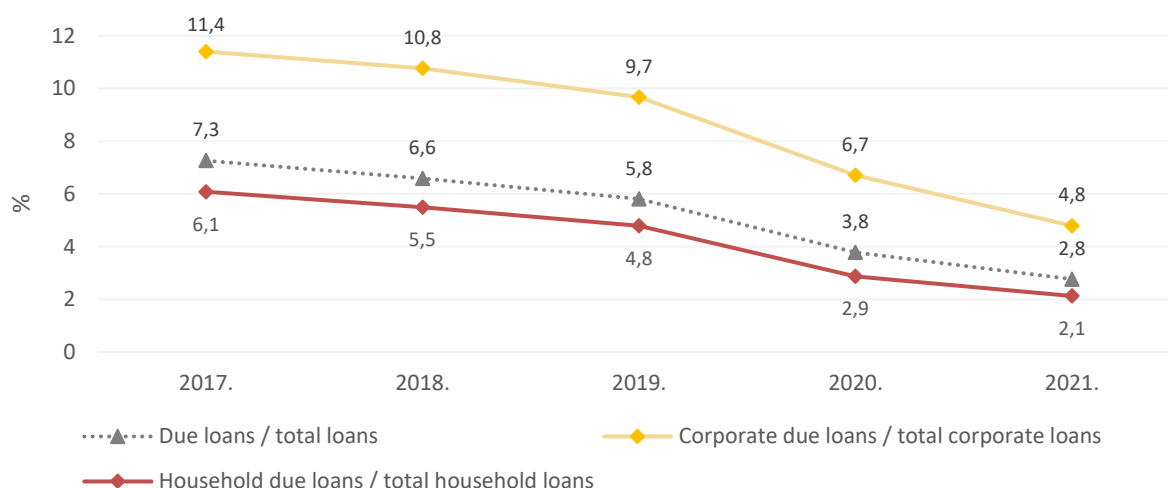


Changes in the maturity structure of loans are shown in the previous graph through a series of five comparative periods, starting from 2017.

Loan due receivables

Due receivables for loans to private companies and due receivables for loans to household together account for 97.7% of total due receivables.

Graph 22: Ratio of loan receivables due and total loans



On the reporting date, the ratio of overdue loans in relation to total loans is 2.8% (as of 31/12/2020 it was 3.8%), the ratio of overdue loans to the economy in relation to total loans to the economy is 4.8% (as of 31/12/2020 it was 6.7%) and the ratio of overdue household loans in relation to total household loans is 2.1% (as of 31/12/2020 it was 2.9%).

Loan currency structure

In the currency structure of loans, the largest share have loans approved with a currency clause with a share of 58.4% or 3.3 billion KM (EUR: 3.3 billion KM, CHF: 4.7 thousand KM), followed by loans approved in local currency of 41.2% or 2.4 billion KM, and the smallest share of 0.4% or 21.6 million KM have loans approved in foreign currency (EUR).

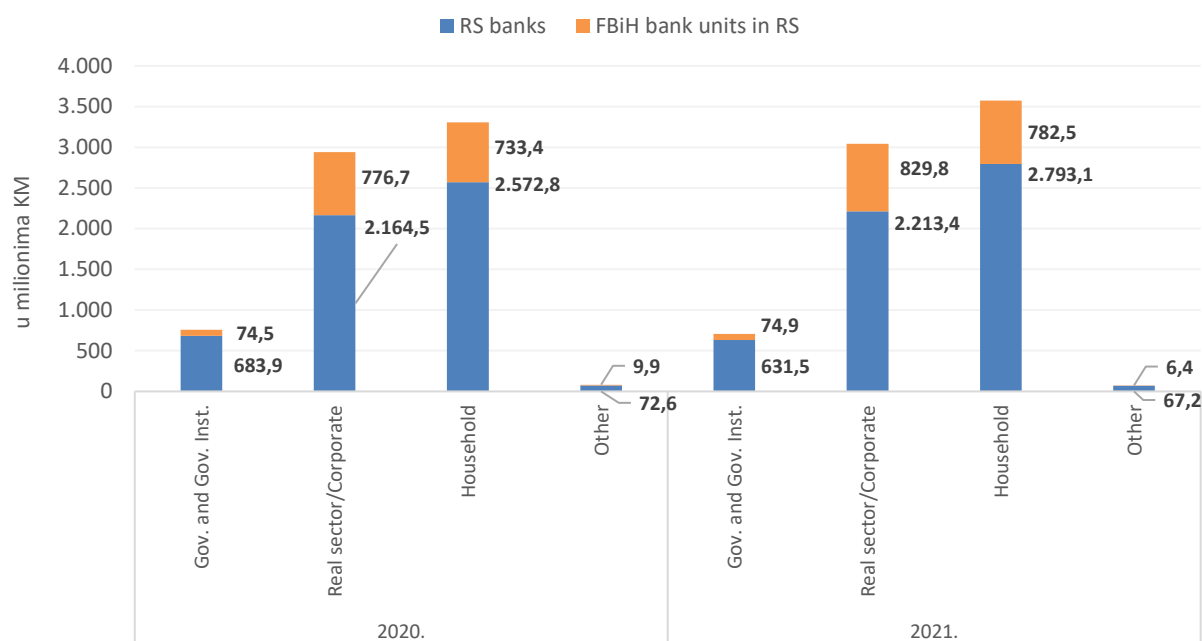
Maturity and sector structure of loans of Republika Srpska banks and business units of banks from the Federation of BiH

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

Total loans placed in Republika Srpska as of 31/12/2021 amount to 7.4 billion KM and are higher by 4% compared to the end of 2020, of which loans from organizational units of banks whose headquarters are in the Federation of BiH amount to 1.7 billion KM or 22.9% of total loans placed in Republika Srpska and have a growth of 99.1 million KM or 6% compared to the end of 2020. Organizational units of banks from Republika Srpska (three banks) operating in the territory of the Federation of BiH placed a total of 269.7 million KM in loans, with a decrease of 4 million KM or 1% compared to the end of 2020.

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 that operate in the territory of Republika Srpska is shown in the following graph.

Graph 23: Sector str. of loans of Republika Srpska banks and bank business units from the Federation of BiH



Household loans

Total loans granted to household by banks from Republika Srpska and organizational units of banks based in the Federation of BiH that operate in the territory of Republika Srpska as of 31/12/2021 amount to 3.6 billion KM and are higher by 269.5 million KM or 8% compared to the end of 2020.

Of the total loans to households, banks from Republika Srpska placed 2.8 billion KM or 78.1% of total household loans, while the business units of banks headquartered in the Federation of BiH placed 782.5 million KM or 21.9% of total household loans.

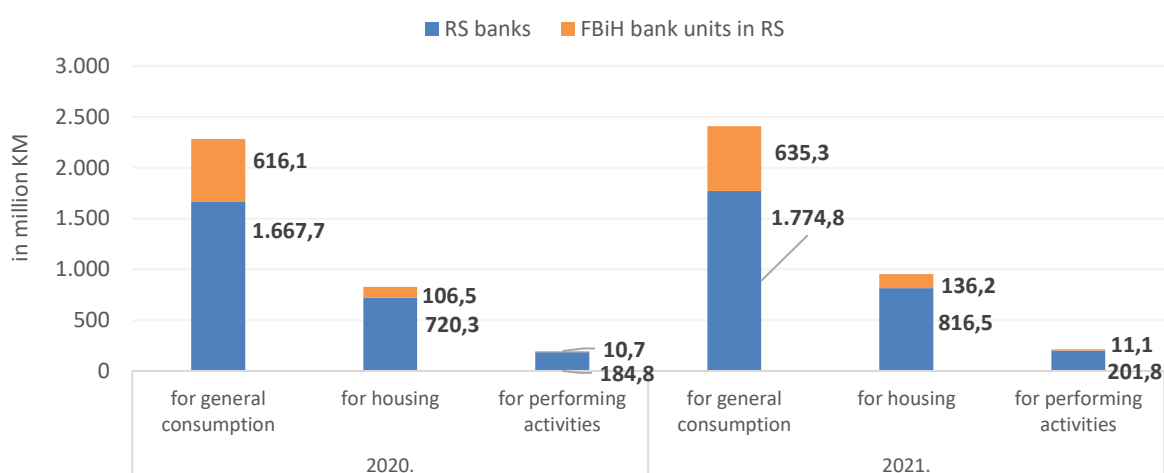
Short-term loans given to household are lower by 11.6 million KM or 4% compared to the end of 2020 and make up 7.7% of the total loans extended to household.

Long-term loans extended to household are higher by 281.1 million KM or 9% compared to the end of 2020 and make up 92.3% of the total loans extended to household.

In the structure of short-term loans, loans for general consumption make up 6.3% of total loans extended to household and are lower by 10.3 million KM or 4% compared to the end of 2020.

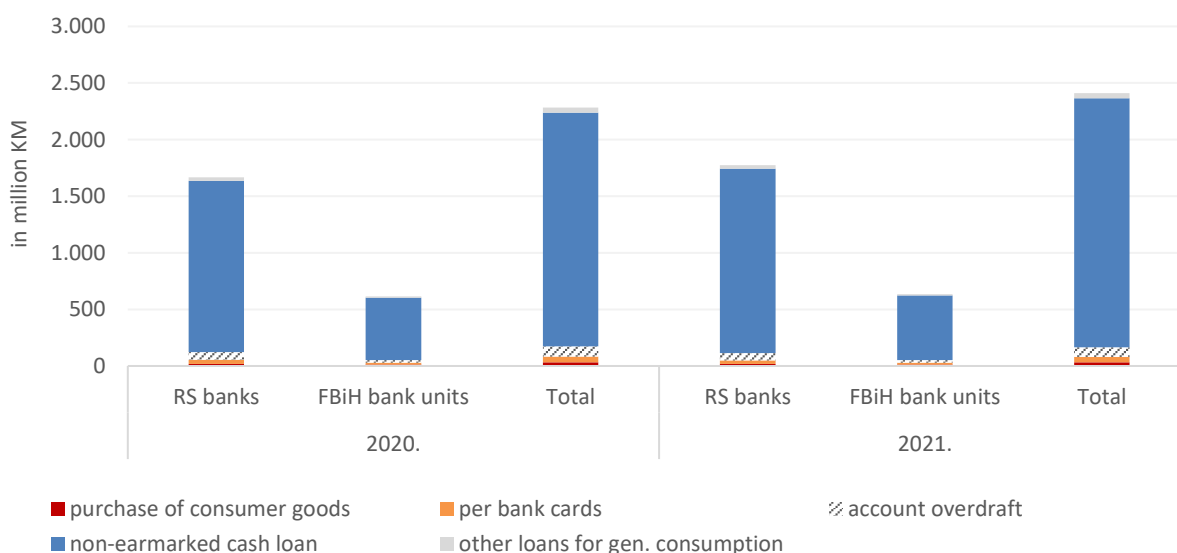
In the structure of long-term loans, loans for general consumption make up 61.1% of the total loans extended to household and are higher by 136.6 million KM or 7%, and loans for housing needs make up 26.1% of the total loans extended to household and are higher by 126.5 million KM or 16% compared to the end of 2020. Loans for the performance of activities make up 5.1% of the total loans extended to household and are higher by 18 million KM or 11% compared to the end of 2020.

Graph 24: Household loan structure



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

Graph 25: Earmarked structure of household loans for general consumption



Total household loans for general consumption amount to 2.4 billion KM and are higher by 126.3 million KM compared to the end of 2020.

According to the purpose structure of household loans for general consumption, non-purpose cash loans make up 91.2% of total loans for general consumption of household and are higher by 134.8 million KM or 7%, Lombard loans increased by 11% or 772 thousand KM, other loans for general consumption increased by 263 thousand KM or 1%, and other categories had a decrease in loans compared to the end of 2020.

Household indebtedness by banking sector loans

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

Table 20: Private individuals indebtedness per loans (excluding loans for providing services*)				mill. KM
DESCRIPTION	2019	2020	2021	Index 2021/ 2020
Private individual loans				-
1. RS banks	2.337,5	2.387,9	2.591,3	109
2. RS bank business units in FBiH	100,5	113,0	111,7	99
3. FBiH bank business units in RS*	733,4	722,6	771,4	107
TOTAL (1-2+3)	2.970,4	2.997,6	3.251.0	108
RS population ³¹	1.142.000	1.136.000	1.136.000	
RS indebtedness per capita (in KM)³²	2.601,1	2.638,7	2.861,8	108

According to the latest publication of the Republic of Srpska Institute of Statistics, the number of inhabitants in Republika Srpska is 1,136,000, and the total amount of household loans amounts to 3,251.0 million KM, which gives credit indebtedness *per capita* in the amount of 2,861.8 KM (as of 31/12/2020 was 2,638.7 KM).

Total collected deposits and loans placed in Republika Srpska

Business units of banks headquartered in the Federation of BiH and operating in Republika Srpska have an 11% increase in deposits and a 6% increase in loans compared to the end of 2020.

Table 21: Collected deposits and loans placed					mill. KM	
DESCRIPTION	2020		2021		Deposit index	Loan index
	Deposits	Loans	Deposits	Loans		
1. RS banks	6.515,2	5.493,8	7.498,6	5.705,1	115	104
2. FBiH bank business units	1.003,6	1.594,5	1.114,8	1.693,6	111	106
3. TOTAL	7.518,8	7.088,3	8.613,3	7.398,8	115	104
4. Minus: RS bank business units in FBiH	360,5	273,7	447,9	269,7	124	99
5. TOTAL	7.158,3	6.814,6	8.165,5	7.129,1	114	105

Business units of banks based in Republika Srpska and operating in the territory of the Federation of BiH have a deposit growth of 24% and a decrease in loans of 1%. At the overall level, deposits are higher by 14% and loans by 5% compared to the end of 2020.

³¹ As of 31/12/2021, instead of the number of inhabitants according to the 2013 census, the number of inhabitants published by the Institute of Statistics is taken into account: https://www.rzs.rs.ba/static/uploads/saopstenja/stanovnistvo/procene_stanovnistva/2013-2020/Procjene_Stanovnistva_2013_2020.pdf

³² Due to the changed method of monitoring loans to households for the purposes of calculating credit indebtedness per capita, as of 31/12/2019, the indicator is reduced by loans given to independent entrepreneurs for the performance of their activities.

2.2. Profitability

Structure of the income statement of the banking sector of Republika Srpska as of 31/12/2020 and 31/12/2021 is shown in the following table:

Table 22: RS banking sector income statement					mill. KM
DESCRIPTION	2020		2021		Index
	Amount	%	Amount	%	
1. INTEREST INCOME AND SIMILAR INCOME					
a) Interest income and similar income	294,7	64,1	308,2	61,9	105
b) Operational income	164,9	35,9	190,0	38,1	115
2. TOTAL INCOME (1.a+1.b)	459,6	100	498,2	100	108
3. EXPENSES					-
a) Interest expenses and similar expenses	58,8	14,6	57,9	15,5	99
b) Business and direct expenses	104,2	25,9	69,8	18,7	67
c) Operational expenses	239,8	59,5	245,7	65,8	102
4. TOTAL EXPENSES (3.a+3.b+3.c)	402,8	100	373,5	100	93
TOTAL INCOME - EXPENSES (2.- 4.)	56,9		124,7		219
PROFIT BEFORE TAX	67,5		132,4		196
LOSS	10,6		7,7		73
TAX	6,6		10,4		157
Profit per increase of deferred tax funds and decrease of deferred tax obligations	2,9		2,5		87
Loss per decrease of deferred tax funds and increase of deferred tax obligations	0,3		1,3		394
NET-PROFIT	60,8		122,8		202
NET-LOSS	8,0		7,3		92

The total income of banks for 2021 amounts to 498.2 million KM and is higher by 38.6 million KM or 8% compared to the end of 2020.

Interest income and similar income amount to 308.2 million KM and are higher by 13.4 million KM or 5%, and operating income is 190.0 million KM and is higher by 25.1 million KM or 15% compared to the end in 2020.

In the structure of interest income and similar income, the interest income on loans is still the most significant, amounting to 259.0 million KM or 84% of total interest income, with growth in the amount of 46.8 million KM or 3% compared to the same period in 2020. Income from securities operations amounts to 24.2 million KM or 7.8% of total interest income and similar income with a growth rate of 8% or by 1.8 million KM compared to the end of 2020, while other interest income and similar income amount to 24.7 million KM with a share of 8% and are higher by 4.9 million KM or 25% (income from charges for credit transactions, from placements with other banks and interest-bearing deposit accounts with depository institutions and similar).

Operational income amounts to 190.0 million KM and makes up 38.1% of total income with growth in the amount of 25.1 million KM or 15% compared to the end of 2020. The structure of operational income consists of: income from payment services performed in the amount of 127.6 million KM or 67.2% of total operational income with an increase of 19.8 million KM or 18% compared to the end of 2020, then income based on foreign exchange operations in the amount of 18 million KM or 9.5% of total operational income with growth of 3 million KM or 7%, income from off-balance sheet operations in the amount of 9.8 million KM or 5.2% of total operating income with growth of 8%, income from loan fees in the amount of 5.3 million KM or 2.8% of total operational income with a growth of 7% or by 300 thousand KM, and other operational income in the total amount of 29 million KM or 15, 3% of total operational income with a growth of 6% or in the amount of 1.6 million KM (other operational income consists of income from trading operations, net positive exchange differences, income from collected written-off receivables, rent, sale of fixed assets and intangible investments, income per share in capital of other legal entities and other income).

The total expenses of the banking sector amount to 373.5 million KM and are lower by 29.2 million KM or 7% compared to the end of 2020.

According to the structure of the total expenses of the banking sector, interest expenses and similar expenses amount to 57.9 million KM or 15.5% of total expenses and record a decrease of 847 thousand KM compared to the same period in 2020.

Business and direct expenses amount to 69.8 million KM or 18.7% of total expenses and are lower by 34.3 million KM or 33%, and consist of: costs of provisioning for general credit risk and potential credit and other losses on the balance sheet and off-balance sheet provisions (formed by applying IFRS) in the amount of 25.0 million KM or 35.8% of total business and direct expenses with a drop of 43.9 million KM or 74%, and other business and direct expenses (expenses based on charges and commission and similar) in the amount of 44.8 million KM or 64.2% of total business and direct expenses with an increase of 9.6 million KM or 27% compared to the end of 2020.

Operational expenses amount to 245.7 million KM or 65.8% of total expenses and are higher by 5.9 million KM or 2% compared to the same period in 2020. These expenses refer to the costs of salaries and contributions in the amount of 104.0 million KM, which are higher by 6.4 million KM or 7% compared to the end of 2020, then to the costs of office space, other fixed assets and overheads in the amount of 72.3 million KM, which is higher by 900 thousand KM, and to other operational expenses in the amount of 69.5 million KM (mostly related to intangible costs, negative exchange differences, debiting and write-off of fixed assets and intangible investments, expenses for taxes and contributions, provisioning costs for liabilities, losses from the sale of fixed assets and other costs) which are lower by 1.3 million KM or 2% compared to the end of 2020.

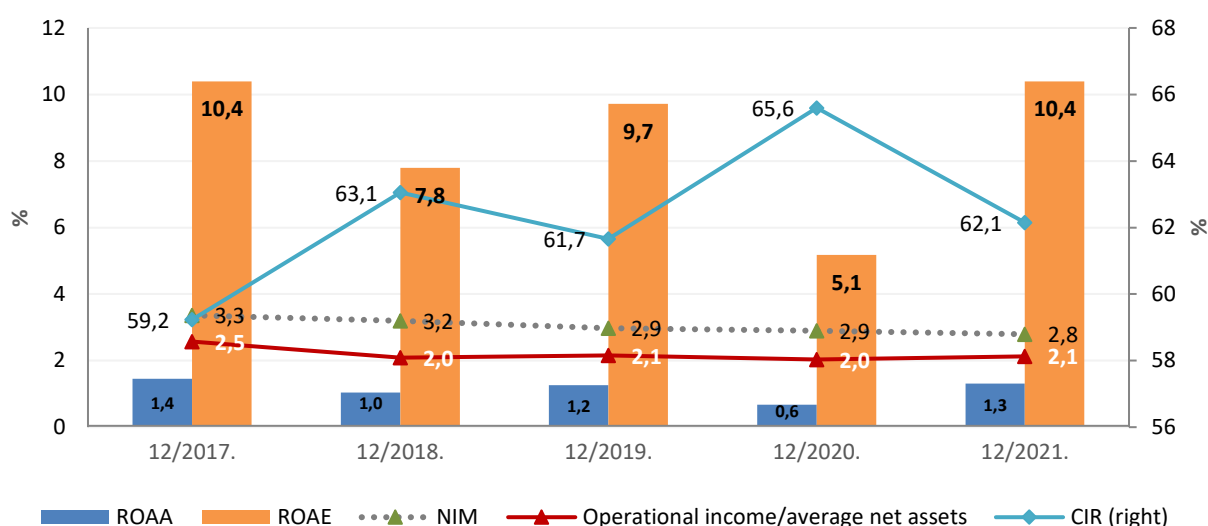
This reporting period is characterized by a higher growth of total income of 8% compared to total expenses, which are lower by 7% compared to the end of 2020, which indicates that banks managed their profitability well in this reporting period.

Based on the report of the banks of the banking sector of Republika Srpska for 2021, seven banks reported a profit in the total amount of 122.8 million KM, which is higher by 62 million or 102% compared to the end of 2020. One bank reported a loss in the amount of 7.3 million KM, which is 700 thousand KM less than at the end of 2020. At the level of the banking sector, the profit minus the loss amounts to 115.5 million KM and is higher than at the end of 2020 by 62.7 million KM or 102%.

Profitability ratio

The profitability ratio 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 five reporting periods is shown in the following table:

Graph 26: Profitability coefficient



NIM (eng. Net Income Margin): Net interest income/average net assets

CIR (eng. Cost-income Ratio) : Operational expenses/ Total income minus other business and direct expenses

An overview of the profitability ratios shows a significant growth in the ratios indicating profitability. The ROAA ratio is 1.3% and is higher by 0.7 percentage points, and the ROAE ratio is 10.4% and is higher by 5.3 percentage points compared to the end of 2020, the NIM ratio is 2.8% and is lower by 0.1 percentage point compared to the end of 2020, which indicates a slight drop in interest income.

2.3. Banking operation risks

In accordance with the regulations of the Agency, banks are obliged to adopt and implement adequate risk management policies and procedures, and establish an adequate level, scope and method of control and reporting on risks.

2.3.1. Credit risk

Loan and other placements have the largest share in the total structure of assets and are its riskiest part. The loan portfolio accounts for 57.7% of gross balance sheet assets. The stability and success of the operations of each bank and the banking sector as a whole depends to the greatest extent on the quality of loans, that is, the level of loan collectability.

The obligation of banks is to make financial statements and valuation of assets in accordance with IAS and IFRS, and in accordance with the stated obligation, banks started applying IFRS 9 as of 01/01/2018.

2.3.2. Asset classification

The following table shows an overview of balance sheet and off-balance sheet exposures at the level of the banking sector, and expected credit loss for balance sheet exposures and provisions to cover expected credit losses for off-balance sheet exposures (ECL), which the bank records through the income statement, and determines in the manner explained in the Report on the banking system of Republika Srpska dated 30/09/2021.

Table 23: Total financial asset per manner of valuation and ECL mill. KM

FINANCIAL ASSETS	2019			2020			2021		
	Amount	ECL	Cover. rate	Amount	ECL	Cover. rate	Amount	ECL	Cover. rate
TOTAL	9.502,3	422,8	4,4	9.773,3	391,8	4,0	10.861,4	353,7	3,3
Balance sheet	8.438,5	414,5	4,9	8.644,0	380,6	4,4	9.677,7	341,0	3,5
Financial assets at amortized cost	7.447,4	399,1	5,4	7.514,3	374,0	5,0	8.524,4	335,8	3,9
Cash funds, cash receivables and other sight deposits	1.927,4	1,2	0,1	1.965,0	3,3	0,2	2.762,1	3,2	0,1
Debt securities	10,5	0,0	0,1	21,2	0,0	0,1	25,9	0,0	0,1
Loans	5.461,2	376,0	6,9	5.492,4	357,4	6,5	5.705,1	322,5	5,7
Other asset	48,3	22,0	45,4	35,6	13,3	37,3	31,2	10,0	32,1
Financial asset per fair value through balance sheet	13,3	0,0	-	13,2	0,0	-	12,5	0,0	-
Financial asset per fair value through Accumulated other comprehensive income*	918,2	0,0	-	1.050,5	0,0	-	1.076,9	0,0	-
Other financial receivables	59,6	15,4	25,9	66,1	6,6	10,0	63,9	5,2	8,2
Off-balance sheet	1.063,8	8,3	0,8	1.129,3	11,2	1,0	1.183,7	12,7	1,1
Guarantees issued	508,1	4,3	0,8	514,7	5,2	1,0	549,4	5,4	1,0
Non-covered letters of credit Irrevocably approved, not utilized loans	4,4	0,1	1,2	2,7	0,0	0,5	5,6	0,0	0,5
Other potential bank liabilities	550,8	4,0	0,7	610,5	6,0	1,0	628,3	7,2	1,2
	0,5	0,0	0,4	1,3	0,0	1,0	0,5	0,0	0,9

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

Total exposure of banks as of 31/12/2021 is KM 10.9 billion, of which KM 9.7 billion refers to balance sheet exposures, and KM 1.2 billion to off-balance sheet exposures.

In this reporting period, there was an increase in balance sheet exposures by 1 billion KM or 12% and off-balance sheet exposures by 54.4 million KM or 5% compared to the end of 2020.

Financial assets valued at amortized cost have the largest share in total financial assets, of which loans amount to 66.9% and have the highest growth compared to the end of 2020.

The ECL ratio on total financial assets is 3.3% and is 0.7 percentage points lower than at the end of 2020.

The following table shows an overview of balance sheet and off-balance sheet exposures at the level of the banking sector, classified according to credit risk levels with the associated ECL and coverage ratio:

Table 24: Total financial asset per credit risk level mill. KM

FINANCIAL ASSETS	2019			2020			2021		
	Amount	ECL	Cover. rate	Amount	ECL	Cover. rate	Amount	ECL	Cover. rate
TOTAL	9.502,3	422,8	4,4	9.773,3	391,8	4,0	10.861,4	353,7	3,3
Credit risk level 1	8.559,0	53,4	0,6	8.835,5	73,1	0,8	9.830,6	71,8	0,7
Credit risk level 2	525,2	47,3	9,0	630,0	68,0	10,8	787,9	82,9	10,5
Credit risk level 3	418,0	322,2	77,1	307,8	250,8	81,5	242,8	199,0	81,9
Balance sheet	8.438,5	414,5	4,9	8.644,0	380,6	4,4	9.677,7	341,0	3,5
Credit risk level 1	7.562,7	49,3	0,7	7.766,8	66,3	0,9	8.720,0	64,7	0,7
Credit risk level 2	459,6	43,6	9,5	570,4	64,0	11,2	715,6	77,6	10,8
Credit risk level 3	416,2	321,7	77,3	306,7	250,3	81,6	242,1	198,8	82,1
Off-balance sheet	1.063,8	8,3	0,8	1.129,3	11,2	1,0	1.183,7	12,7	1,1
Credit risk level 1	996,3	4,1	0,4	1.068,7	6,8	0,6	1.110,6	7,1	0,6
Credit risk level 2	65,6	3,7	5,7	59,5	4,0	6,7	72,3	5,3	7,3
Credit risk level 3	1,8	0,5	26,9	1,0	0,5	46,9	0,8	0,2	31,5

Balance sheet exposures assigned to credit risk level 1 as of 31/12/2021 amount to 8.7 billion KM and make up 90.1% of total balance sheet exposures. Compared to the end of 2020, they are higher by 953.2 million KM or 12.3%.

Balance sheet exposures assigned to credit risk level 2 as of 31/12/2021 amount to 715.6 million KM and make up 7.4% of total balance sheet exposures. Compared to the end of 2020, they are higher by 145.2 million KM or 25.5%.

Balance sheet exposures assigned to credit risk level 3 as of 31/12/2021 amount to 242.1 million KM and make up 2.5% of total balance sheet exposures. Compared to the end of 2020, they are 64.7 million KM or 21% less.

Off-balance sheet exposures assigned to credit risk level 1 as of 31/12/2021 amount to 1.1 billion KM and make up 93.8% of total off-balance sheet exposures. Exposures assigned to credit risk level 2 amount to 72.3 million KM or 6.1% of total off-balance sheet exposures, while 0.8 million KM or 0.1% of total off-balance sheet exposures are assigned to credit risk level 3.

For total exposures assigned to credit risk level 1, ECL on 31/12/2021 is 71.8 million KM and is lower by 1.3 million KM or 1.7% compared to the end of 2020.

For total exposure assigned to credit risk level 2, ECL on 31/12/2021 is 82.9 million KM and is higher by 14.9 million KM or 21.9% compared to the end of 2020.

For total exposures assigned to credit risk level 3, ECL on 31/12/2021 is 199 million KM and is lower by 51.8 million KM or 20.6% compared to the end of 2020.

The ECL coverage ratio at the overall level is 3.3% and is lower by 0.7 percentage points compared to the end of 2020. ECL coverage for exposures assigned to credit risk level 1 is 0.7% and is less than 0.1 percentage point compared to the end of 2020, coverage for exposures assigned to credit risk level 2 is 10.5% and is less by 0.3 percentage points, and for exposures assigned to credit risk level 3, the coverage ratio is 81.9 and is higher by 0.4 percentage points compared to the end of 2020.

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 25: Overview of loans to legal entities and private ind. according to the credit risk level and rel. ECL										mill. KM
Loans	2019			2020			2021			
	Amount	ECL	Cover. rate	Amount	ECL	Cover. rate	Amount	ECL	Cover. rate	
Total loans	5.463,3	376,9	6,90	5.493,8	357,4	6,51	5.705,1	322,5	5,65	
Legal entities	2.961,2	207,2	7,00	2.921,0	192,1	6,58	2.912,1	171,5	5,89	
Private individuals	2.502,1	169,7	6,78	2.572,8	165,4	6,43	2.793,1	151,0	5,41	
Credit risk level 1	4.630,2	40,5	0,9	4.658,5	63,1	1,4	4.770,4	60,6	1,3	
Legal entities	2.527,1	24,9	1,0	2.437,0	34,0	1,4	2.364,4	30,9	1,3	
Private individuals	2.103,1	15,6	0,7	2.221,5	29,1	1,3	2.405,9	29,7	1,2	
Credit risk level 2	453,4	41,5	9,1	547,8	62,1	11,3	708,0	76,8	10,9	
Legal entities	224,4	19,9	8,9	324,3	34,7	10,7	431,1	48,3	11,2	
Private individuals	229,0	21,5	9,4	223,5	27,4	12,2	276,8	28,6	10,3	
Credit risk level 3	379,7	295,0	77,7	287,5	232,2	80,8	226,8	185,0	81,6	
Legal entities	209,7	162,4	77,4	159,7	123,3	77,2	116,5	92,3	79,2	
Private individuals	170,0	132,5	78,0	127,7	108,9	85,3	110,3	92,7	84,1	

Loans allocated to credit risk level 1 as of 31/12/2021 amount to 4.8 billion KM and make up 83.6% of the total loan portfolio. Compared to the end of 2020, they are higher by 111.9 million KM or 2.4%. The ECL coverage ratio for loans assigned to credit risk level 1 is 1.3% (legal entities 1.3% and private individuals 1.2%) and compared to the end of 2020, it is lower by 0.1 percentage point.

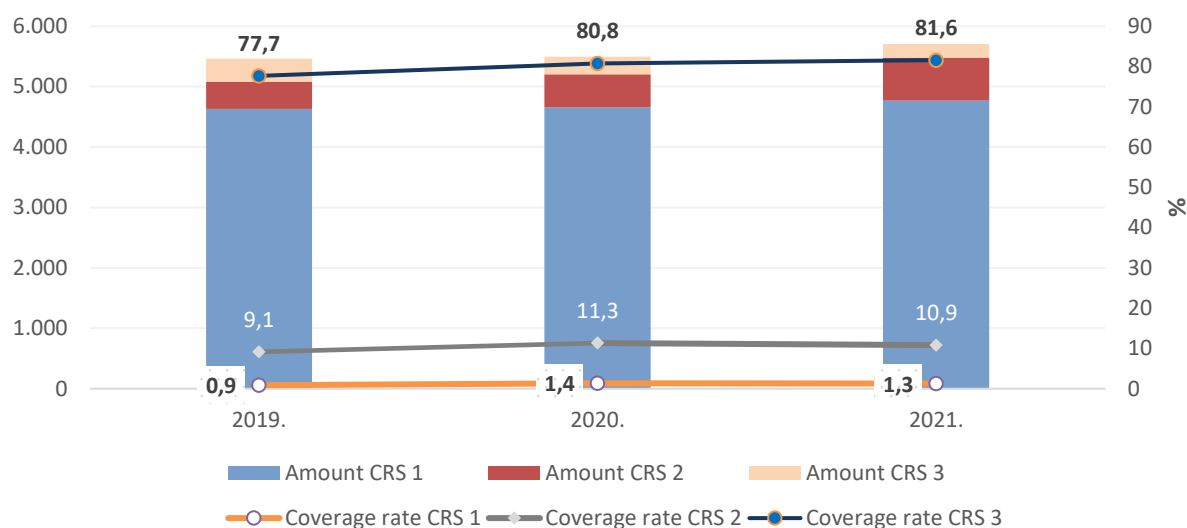
Loans allocated to credit risk level 2 as of 31/12/2021 amount to 708 million KM and make up 12.4% of the total loan portfolio. Compared to the end of 2020, they are higher by 160.1 million KM or 29.2%. The ECL coverage ratio for credit risk level 2 is 10.9% (legal entities 11.2%, private individuals 10.3%) and compared to the end of 2020, it is lower by 0.4 percentage points.

Loans allocated to credit risk level 3 (NPL) as of 31/12/2021 amount to 226.8 million KM and make up 4% of the total loan portfolio. Compared to the end of 2020, they are lower by 60.7 million KM or 21%, 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 81.6% (legal entities 79.2%, and private individuals 84.1%) and compared to the end of 2020, it is higher by 0.8 percentage points.

Out of the total loans extended to legal entities amounting to 2.9 billion KM, 116.5 million KM or 4% refer to NPL, which is 1.5 percentage points less than at the end of 2020. Out of the total loans to private individuals, which amount to 2.8 billion KM, 110.3 million KM or 4% refer to NPL, which is 1 percentage point less compared to the end of 2020.

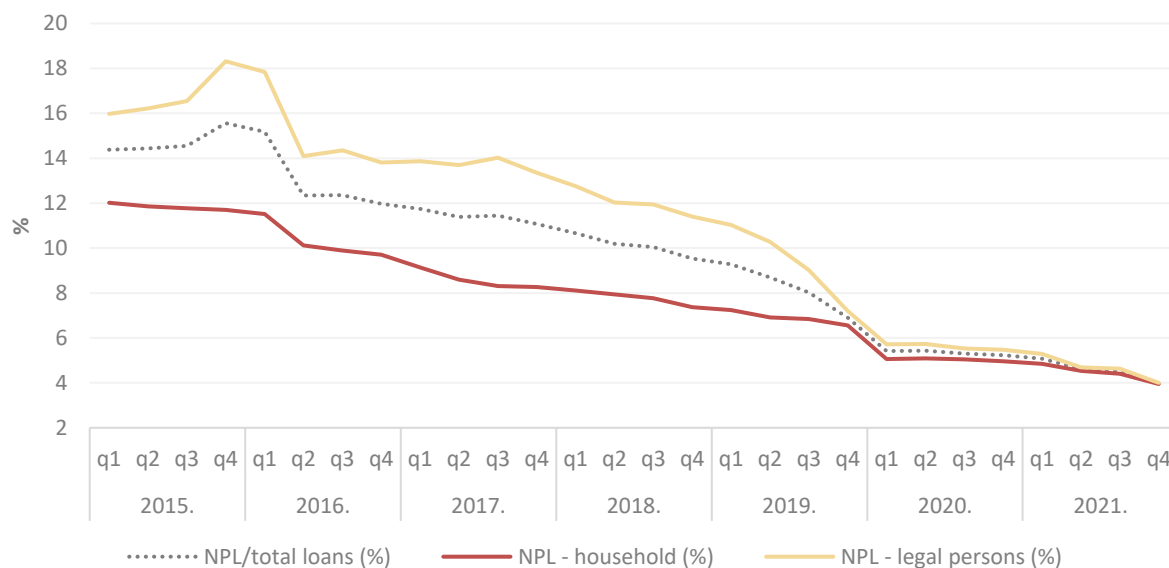
The following graph shows the trend of loans distributed in three credit levels with the corresponding coverage ratio, i.e. ECL, through three comparative periods:

Graph 27: Loans per credit risk stages with relevant coverage rates



The trend of NPL over several comparative periods is shown in the following graph:

Graph 28: Share of NPL in loans



The following table shows the indicators of credit risk through the three most recent comparative periods:

Table 26: Credit risk indicators

DESCRIPTION	2019	2020	2021
1. NPA ratio	4,4	3,1	2,2
2. Coverage ratio of NPA with ECL	77,1	81,5	81,9
3. Coverage ratio of total asset with ECL	4,4	4,0	3,3
4. NPL ratio	7,0	5,2	4,0
5. Coverage ratio of NPL with ECL	77,7	80,8	81,6
6. Coverage ratio of total loans with ECL	6,9	6,5	5,7
7. New NPL*/total relevant gross loans	-2,3	-1,8	-1,1
8. Texas coefficient**	28,4	22,3	17,4

* NPL Growth/Decline Amount on the reporting date relative to the comparative period

** NPL gross / balance sheet capital and ECL for NPL)

NKR 1,2,3 – credit risk level

NPL - non-performing gross loans (NKR 3)

ECL – Expected credit loss

NPA- non-performing assets (NKR 3)

Total performing gross loans (NKR1+NKR2)

2.3.3. FX mismatch of financial assets and liabilities

Foreign exchange risk represents the bank's exposure to the possible impact of changes in exchange rates depending on the level and duration of the exposure and the degree of currency mismatch of financial assets, liabilities and off-balance sheets, that is, the degree of mismatch of foreign currency cash flows.

Due to the possibility of a negative impact of exchange rate changes on the bank's financial position, minimum standards have been 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 in 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.

Total foreign currency financial assets of banks from Republika Srpska as of 31/12/2021 is 4.8 billion KM and is higher by 143.6 million KM or 3% compared to the end of 2020. In the structure of foreign currency assets, the most significant item is placed loans with a contracted foreign currency clause, which amount to 3.1 billion KM and are lower by 114.9 million KM or 4% compared to the end of 2020.

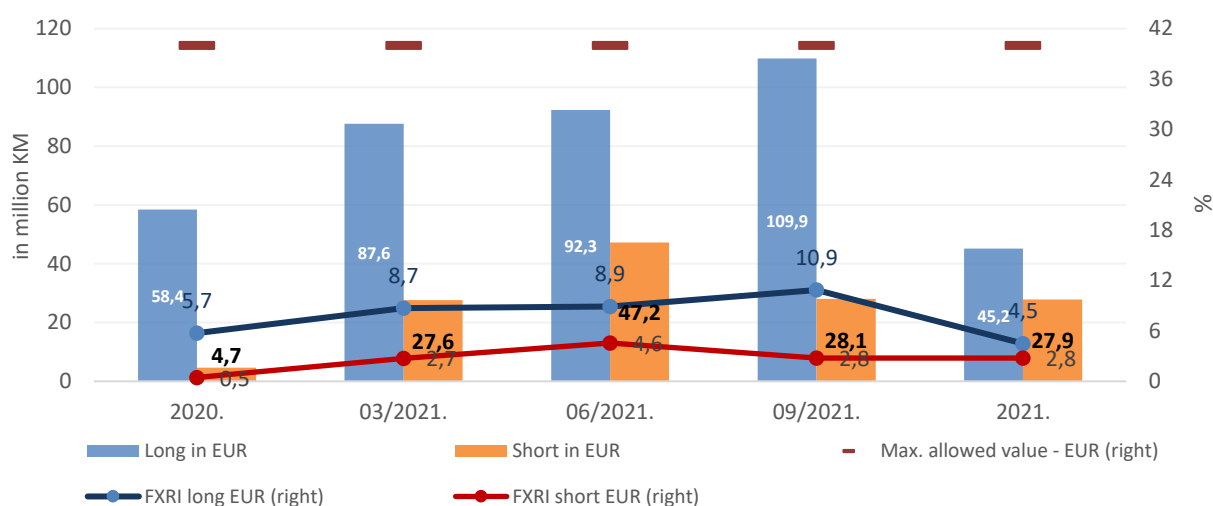
Total foreign currency liabilities amount to 4.6 billion KM and are higher by 188 million KM or 4% compared to the end of 2020. In the structure of these liabilities, the most significant item is the total foreign currency deposits which amount to 2.4 billion KM and are higher by 39.8 million KM or 2% compared to the end of 2020 and deposits with foreign currency clause which amount to 2 billion KM and increased by 171 .8 million KM or 9% compared to the end of 2020.

At the level of the banking sector, the total long foreign currency position as of 31/12/2021 is 47.8 million KM and is lower by 13.9 million KM or 23%, and the total short position is 24.9 million KM and is higher by 22.1 million KM or 791% compared to the end of 2020.

The foreign exchange risk indicator is the ratio of the long foreign exchange position in relation to the amount of eligible capital, which is 4.8% and is lower by 6.4 percentage points compared to the end of 2020, and in relation to the maximum allowed position it is lower by 35,2 percentage points.

The currency EUR participates with 96.2% in total financial assets, 96.3% in total financial liabilities and 94.5% in total long position. The trend of the foreign exchange position in EUR is shown in the following graph.

Graph 29: Overview of long and short position for EUR



FXRI– FX risk indicator

2.3.4. Interest rate risk management

The Agency's Decision on the management of interest rate risk in the banking book regulates, among other things, the process of calculating the assessment of the change in the economic value of the banking book for each significant currency individually and for other currencies in total, by netting the positions of assets and liabilities with a 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 amount 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 with the balance as of 31/12/2021, the ratio of change in the economic value of the banking book and regulatory capital is 9.3% and is higher by 0.9 percentage points compared to the end of 2020, as shown in the following table:

Table 27: Net weighted position of the banking book by currency

DESCRIPTION	2020	2021	mill. KM Index
1. Net weighted position of the banking book (FIR + VIR + IRBMB)*			
1.1 Per BAM currency (long position)	18,4	34,3	187
1.2 Per EUR currency (long position)	69,0	55,8	81
1.3 Per other currencies (short position)	-1,7	-2,1	-
2. Change in economic value (1.1 + 1.2 + 1.3)	85,7	93,0	109
3. Regulatory capital	1.018,1	1.005,8	99
CHANGE IN ECONOMIC VALUE / REGULATORY CAPITAL * 100 (%)	8,4	9,3	109,9

*FIR-fixed interest rate/VIR-variable interest rate/IRGB – interest rate changed based on the bank's governing body decision

By observing individual banks, the ratio of change in economic value ranged from 2.1% to 14.6%.

2.3.5. Weighted nominal and effective interest rates

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

Table 28: Average weighted interest rates on loans									%
DESCRIPTION	2020				2021				
	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	3,43	4,13	3,12	3,78	3,68	4,37	2,48	2,92	
Loans to Government and Government institutions	3,99	4,98	-	-	3,29	3,57	-	-	
Real sector	3,15	3,65	2,98	3,42	3,37	3,88	2,37	2,66	
Loans to banks and other fin. inst.	3,34	4,16	-	-	3,87	4,78	-	-	
Household	8,77	13,17	8,97	19,66	8,78	12,25	8,28	17,34	
Other loans	3,72	4,30	7,75	9,07	2,37	2,76	7,75	9,05	
Weighted int. rate on long term loans	5,17	6,14	5,02	6,13	5,16	6,16	4,84	5,84	
Loans to Government and Government institutions	3,82	4,07	3,11	3,26	3,41	3,54	2,48	2,54	
Real sector	4,72	5,15	3,87	4,11	4,79	5,22	3,81	4,06	
Loans to banks and other fin. inst.	4,11	4,40	-	-	3,49	3,69	-	-	
Household	5,84	7,44	5,92	7,69	5,67	7,22	5,44	6,89	
Housing loans	3,72	4,20	3,62	4,56	3,75	4,21	3,19	4,01	
Other loans	3,32	3,74	3,94	4,03	4,15	4,51	5,00	5,30	
Weighted int. rates on total loans	4,66	5,55	4,59	5,59	4,76	5,68	4,25	5,12	

NIR = nominal interest rate; EIR = effective interest rate

The average total weighted nominal interest rate on loans from banks from Republika Srpska for 2021 is 4.76% and is higher by 0.10 percentage points, and the total average effective interest rate is 5.68% and is higher by 0.13 percentage points compared to 2020.

The average total weighted effective interest rate on loans in the observed period of the units of banks from the Federation of Bosnia and Herzegovina operating in Republika Srpska is 5.12% and is 0.48 percentage points lower than in 2020. The units of banks from the Federation of Bosnia and Herzegovina operating in Republika Srpska have an average weighted effective interest rate lower by 0.56 percentage points compared to the average weighted effective interest rate of banks from Republika Srpska.

Average weighted nominal and effective interest rates for 2020 and 2021 were calculated based on 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 2020 and 2021, 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, is shown in the following table:

Table 29: Average weighted interest rates on deposits									%
DESCRIPTION	2020				2021				
	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	0,35	0,35	0,74	0,75	0,11	0,11	0,37	0,37	
Weighted int. rates on long term deposits	1,38	1,39	1,26	1,26	1,34	1,35	0,78	0,78	
Weighted int. rates on total deposits	0,93	0,94	1,05	1,06	0,90	0,91	0,68	0,68	

NIR = nominal interest rate; EIR = effective interest rate

The average weighted effective interest rate on total deposits of banks based in Republika Srpska is 0.91% and is 0.03 percentage points lower than in 2020.

The average weighted effective interest rate on total deposits of bank units from the Federation of Bosnia and Herzegovina is 0.68% and is lower by 0.37 percentage points compared to 2020.

In the case of organizational units of banks from the Federation of BiH, the average weighted effective interest rate on total deposits is lower than the same for banks based in Republika Srpska by 0.23 percentage points.

The difference between the average weighted effective interest rate on total loans (5.68%) and the average weighted effective interest rate on total deposits (0.91%) is 4.77 percentage points and is higher by 0.16 percentage points compared to 2020. The difference between the average weighted effective interest rate on total loans (5.12%) and the average weighted effective interest rate on total deposits (0.68%) of units of banks from the Federation of Bosnia and Herzegovina is 4.44 percentage points and is lower by 0.09 percentage points compared to 2020.

Table 30: Average weighted interest rates on overdraft and sight deposits

%

DESCRIPTION	2020				2021			
	RS banks		FBiH bank units		RS banks		FBiH bank units	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
Weighted interest rates on loans (overdrafts)								
total legal entities and household	7,17	8,31	6,35	6,61	7,31	8,47	6,39	6,67
household overdrafts	13,32	15,93	13,90	14,51	13,31	15,92	12,71	13,26
Weighted interest rates on sight deposits								
total legal entities and household	0,04	0,04	0,02	0,02	0,04	0,06	0,01	0,01
household overdrafts	0,02	0,02	0,02	0,02	0,02	0,09	0,02	0,02

NIR = nominal interest rate; EIR = effective interest rate

3 CAPITAL AND CAPITAL ADEQUACY

In 2021, the banking sector of Republika Srpska was well capitalized, which is confirmed by capital ratios that are significantly above the stipulated minimum.

Capital structure of the banking sector as of 31/12/2019, 31/12/2020 and 31/12/2021 is given in the following table:

Table 31: Capital structure				mill. KM
DESCRIPTION	2019	2020	2021	
REGULATORY CAPITAL	976,4	1.018,2	1.005,8	99
TIER 1 CAPITAL	899,6	922,9	962,0	104
CET 1	898,1	916,9	956,0	104
CET 1 items	939,5	949,2	993,2	105
Paid in capital instruments (shares)	638,0	653,0	690,0	106
Share premium	25,1	25,1	17,1	68
Undistributed profit or loss from previous years	53,8	108,1	149,0	138
Recognized profit or loss of current year	0,0	0,0	0,0	-
Accumulated other comprehensive income	15,6	16,3	4,8	29
Other reserves	207,0	146,7	132,3	90
CET 1 deductible items	-41,5	-32,3	-37,1	-
(-) intangible assets	-26,5	-28,8	-28,2	-
(-) Deferred tax assets	-1,0	-3,5	-5,0	-
(-) Other CET 1 deductions	-13,9	0,0	-3,9	-
AT 1	1,5	6,0	6,0	100
Paid in capital instruments recognized as AT 1	6,0	6,0	6,0	100
(-) AT 1 deductions	-4,5	0,0	0,0	-
Tier 2 capital	76,8	95,3	43,8	46
Paid in capital instruments and subordinated loans recognized as Tier 2	49,3	47,3	43,8	93
General impairment	55,3	48,0	0,0	0
(-) Tier 2 deductions	-27,8	0,0	0,0	-

Regulatory capital of the banking sector of Republika Srpska as of 31/12/2021 is 1 billion KM and is lower by 12.4 million KM or by 1% compared to the end of 2020. Tier 1 capital amounts to 962 million KM and is higher by 39.1 million KM, and consists of CET 1 capital in the amount of 956 million KM (it is higher by 39.1 million KM compared to the end of 2020) and AT 1 capital in the amount of 6 million KM (the same amount compared to the end of 2020). Tier 2 capital amounts to 43.8 million KM and is lower by 51.5 million KM or 54% compared to the end of 2020.

Regulatory capital is the sum of Tier 1 and Tier 2 capital, and the biggest impact on the reduction of regulatory capital was the drop of Tier 2 capital.

The increase in the amount of CET 1 capital was influenced by an increase in paid-in capital instruments by 37 million KM or 6% and an increase in retained earnings of past years by 40.9 million KM or 38% compared to the end of 2020.

AT 1 capital amounts to 6 million KM and remained at the same level compared to the end of 2020.

Tier 1 capital is the sum of CET 1 capital and AT 1 capital, so the changes described above affected the amount of Tier 1 capital, which is higher by 39.1 million KM or 4% compared to the end of 2020.

Tier 2 capital is lower by 51.5 million KM or 54% due to the gradual exclusion of general value corrections in the total amount of 48 million KM and amortization of subordinated debt in the amount of 3.5 million KM or 7% compared to the end of 2020.

3.1. Capital adequacy

Very important indicators of capital strength are indicators of capital adequacy, on the basis of which the quality of regulatory, Tier 1 and CET 1 capital is continuously evaluated in accordance with the Banking

Law of Republika Srpska and by-laws, and which represent the individual ratio of CET 1 capital, Tier 1 capital, regulatory capital and the total amount of risk exposure.

Total 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 implies the book value of balance sheet assets minus the value correction, which is linked to the initial exposure and distributed according to the appropriate risk weights.

Risk-weighted off-balance sheet exposure implies the book value of off-balance sheet assets minus provisions, which are related to the initial exposure and distributed according to the appropriate conversion factors depending on whether they are classified as high risk items, medium risk items or low risk items.

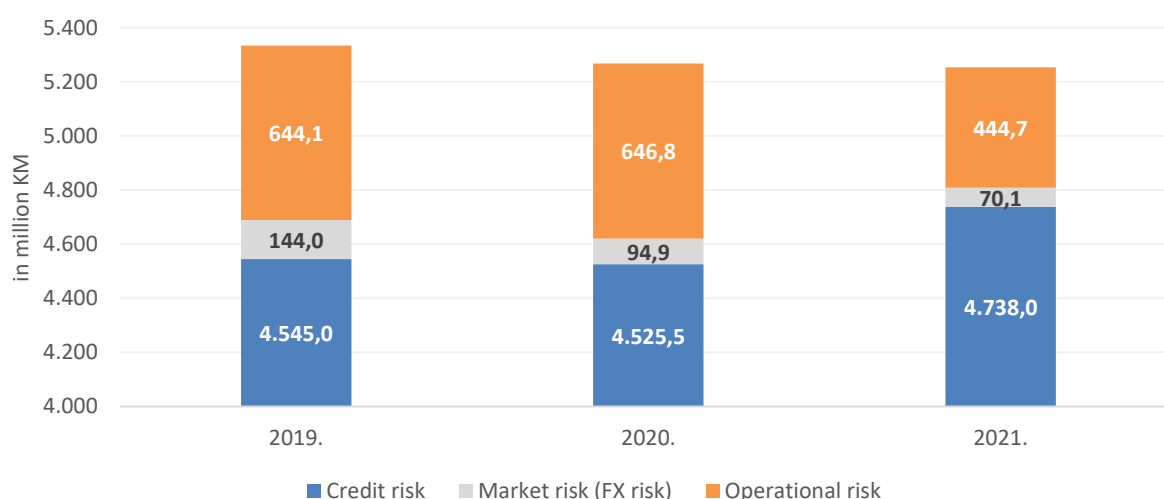
Total risk exposure of the banking sector of Republika Srpska as of 31/12/2021 is 5.3 billion KM and is less by 14.4 million KM compared to the end of 2020.

Credit risk is higher by 212.5 million KM or 5% compared to the end of 2020.

The market (foreign exchange) risk is lower by 24.8 million KM or 26% compared to the end of 2020, mainly due to the reduction of the long open foreign exchange position by 33% and the change in the Decision on calculating capital in banks³³, whereby the weight was changed from 12.5 to 8.33, by which the total market risk is multiplied when calculating the capital adequacy ratio.

Operational risk is lower by 202.1 million KM or 31% compared to the end of 2020, mainly due to the application of a lower weight of 8.33 stipulated by the aforementioned Decision.

Graph 30: Total banking sector risk exposure



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

Capital adequacy indicators as of 31/12/2021 are shown in the following table:

³³ Official Gazette of Republika Srpska, No. 114/20

Table 32: Capital adequacy indicators				mill. KM and %
DESCRIPTION	2019	2020	2021	Index 2021/2020
Total amount of risk exposure	5.333,1	5.267,2	5.252,7	100
Regulatory capital	976,4	1.018,2	1.005,8	99
Excess (+) / shortage (-) of regulatory capital	336,4	386,2	375,8	97
Capital adequacy ratio (min. 12%)	18,3%	19,3%	19,2%	99
Tier 1	899,6	922,9	962,0	104
Excess (+) / shortage (-) of Tier 1	419,6	448,9	489,0	109
Tier 1 ratio (min. 9%)	16,9%	17,5%	18,3%	105
CET 1	898,1	916,9	956,0	104
Excess (+) / shortage (-) of CET 1	538,1	560,9	601,0	107
CET 1 ratio (min. 6,75%)	16,8%	17,4%	18,2%	105

The ratio of regulatory capital is 19.2% and is lower by 0.1 percentage points compared to the end of 2020 (minimum stipulated ratio is 12%), the ratio of Tier 1 capital is 18.3% and is higher by 0.8 percentage points (minimum stipulated ratio is 9%) and the ratio of CET1 capital is 18.2% and is higher by 0.8 percentage points compared to the end of 2020 (minimum stipulated ratio is 6.75%).

3.2. Leverage

The leverage ratio is another measure of capital adequacy that is defined by the Decision on calculating capital in banks and represents the ratio of Tier 1 capital and the measure of the bank's total exposure on the last day of the reporting period, which must be at least 6%.

The measure of total exposure represents the sum of balance sheet exposures minus value correction and off-balance sheet exposures minus reserves calculated according to international accounting standards with the application of appropriate conversion factors, all minus the amount of deductible items from capital (intangible assets and deferred tax assets).

The leverage ratio of the banking sector as of 31/12/2021 amounts to 9.7%, as given in the following overview:

Table 33: Leverage ratio				mill. KM
DESCRIPTION	2019	2020	2021	Index 2021/2020
1. Off-balance sheet items with conversion factor	361,4	403,5	425,1	105
10%	10,2	11,0	12,6	115
20%	119,3	112,6	117,0	104
50%	227,3	275,0	290,6	106
100%	4,6	4,8	4,9	102
2. Other assets	8.297,9	8.508,6	9.551,3	112
3. (-) Amount of asset deductible items – Tier 1	-27,6	-32,3	-33,2	103
4. Leverage ratio exposure (1+2+3)	8.631,7	8.879,7	9.943,2	112
5. Tier 1	899,6	922,9	962,0	104
6. Leverage ratio (5/4)	10,4%	10,4%	9,7%	

The leverage ratio at the level of the banking sector of Republika Srpska is lower by 0.7 percentage points compared to the end of 2020, but it is still 3.7 percentage points higher than the legally required minimum ratio of 6%. If we look at individual banks, the leverage ratio ranges from 7.4% to 14.1%.

4 LIQUIDITY

Maintaining liquidity and managing liquidity risk 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.

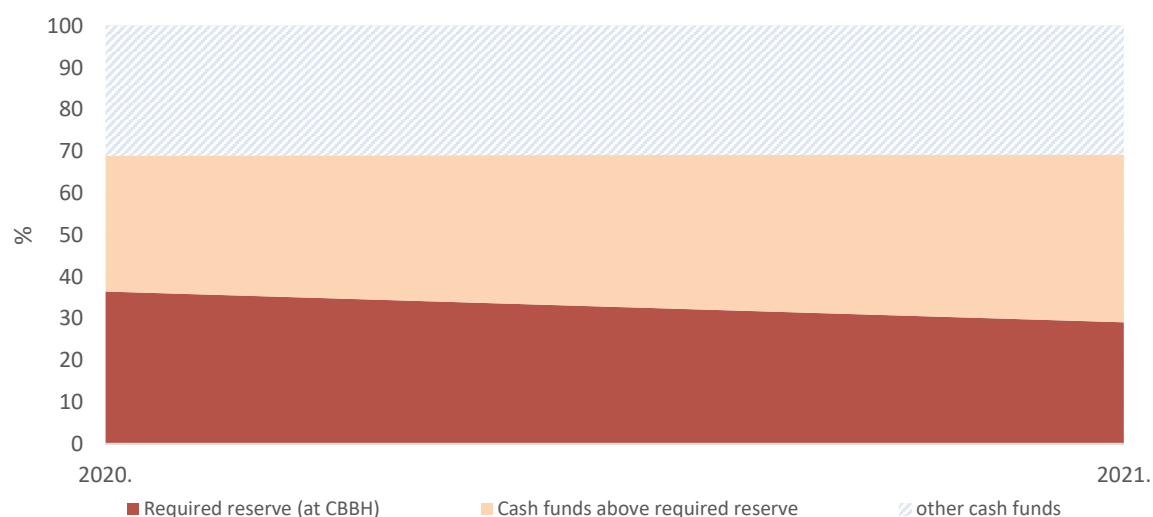
Banks' focus is on keeping current liquidity under strict control and increasing the level of caution when planning future liquidity positions. From the perspective of the liquidity position, the banking sector of Republika Srpska maintained liquidity at a satisfactory level in 2021 and was able to fulfill all obligations by due date. The strictly set regulatory framework for maintaining and planning liquidity has a significant impact on banks' liquidity, the application of which is under the constant supervision of the Agency.

Total cash funds and trading securities (3.8 billion KM) have a significant share of 38.6% in total gross assets.

Cash funds at the reserve account at the Central Bank of Bosnia and Herzegovina with the balance as of 31/12/2021 amount to 1.9 billion KM or 69.2% of total cash funds and are higher by 576.5 million KM or 44% compared to the end of 2020. Funds above the required reserve at the reserve account with the Central Bank of BiH amount to 1.1 billion KM or 58% of the total cash funds at the reserve account, while the required reserve funds amount to 798.2 million KM or 42% of the total cash funds at the reserve account with the Central Bank of BiH (as of 31/12/2020, the cash funds at the reserve account with the Central Bank of BiH above the required reserve amounted to 624.7 million KM or 47.2% of the total cash funds at the reserve account with the Central Bank of BiH, and the required reserve funds amounted to 700 million KM or 52.8% of the total cash funds at the reserve account with the Central Bank of BiH).

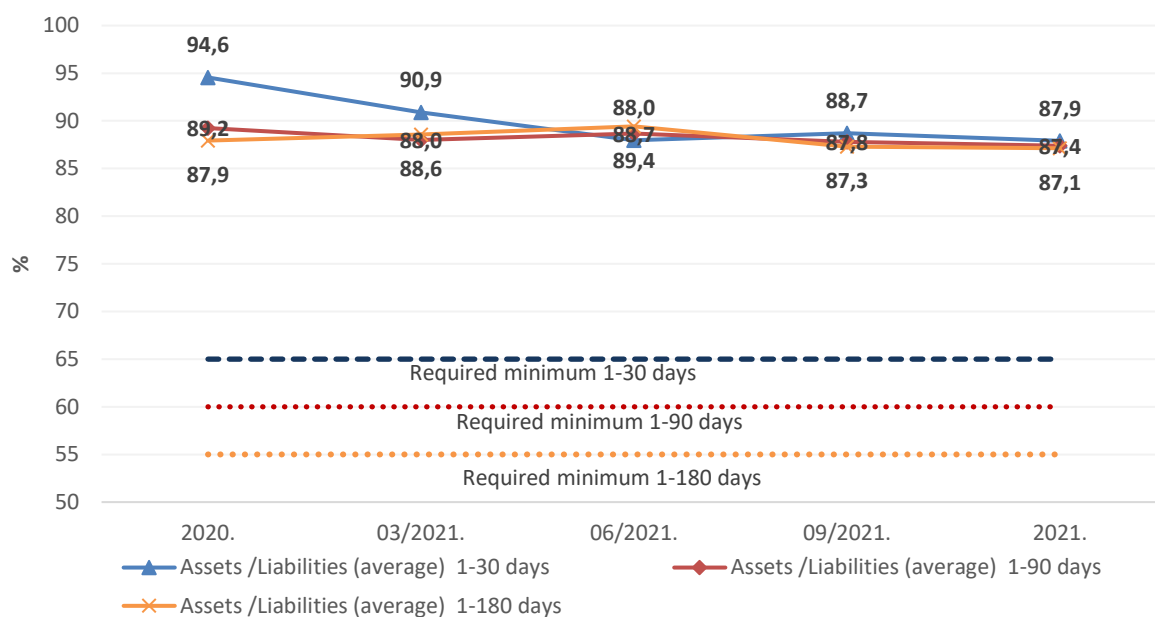
The following graph shows the trend of total cash funds through two comparative periods.

Graph 31: Total bank cash funds



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

Graph 32: Maturity mismatch of financial assets and liabilities measured per remaining maturity period



For the remaining period of 1-30 days, maturity mismatch is 87.9%, which is lower than the end of 2020 by 6.6 percentage points, and higher by 12.9 percentage points than the stipulated minimum amount of 65%.

For the remaining period of 1-60 days, the maturity mismatch is 87.4%, it is lower than the end of 2020 by 1.9 percentage points, and it is higher by 27.4 percentage points than the prescribed minimum amount of 60%.

For the remaining period of 1-180 days, the maturity mismatch is 87.1%, which is lower than the end of 2020 by 0.8 percentage points, and higher by 32.1 percentage points than the stipulated minimum amount of 55%.

Table 34: Deposit maturity structure per remaining maturity period

Deposits	2019		2020		2021		Index 2020/2019	Index 2021/2020
	Amount	%	Amount	%	Amount	%		
1 - 7 days	2.590,8	40,4	3.654,6	56,1	4.715,8	62,9	141	129
8 - 15 days	84,6	1,3	19,0	0,3	26,1	0,3	22	138
16 -30 days	204,1	3,2	80,1	1,2	103,4	1,4	39	129
31 -90 days	408,0	6,4	455,2	7,0	378,4	5,0	112	83
91 -180 days	559,9	8,7	381,1	5,8	365,1	4,9	68	96
181 -365 days	1.362,7	21,3	928,9	14,3	891,6	11,9	68	96
1 . Total short term	5.210,1	81,3	5.518,8	84,7	6.480,4	86,4	106	117
Up to 5 years	1.185,4	18,5	972,5	14,9	989,6	13,2	82	102
Over 5 years	10,3	0,2	23,9	0,4	28,5	0,4	232	119
2 . Total long term	1.195,7	18,7	996,4	15,3	1.018,1	13,6	83	102
Total (I + II)	6.405,8	100	6.515,2	100	7.498,6	100	102	115

The maturity structure of sources is the basis for the maturity structure of placements, so the planning of sources and the total liquidity position of each bank must be aligned with the planned credit policy. Banks especially need to take into account the impact of temporary moratorium measures and other special measures on cash inflows and maintenance of liquidity, which is stipulated by the regulation.

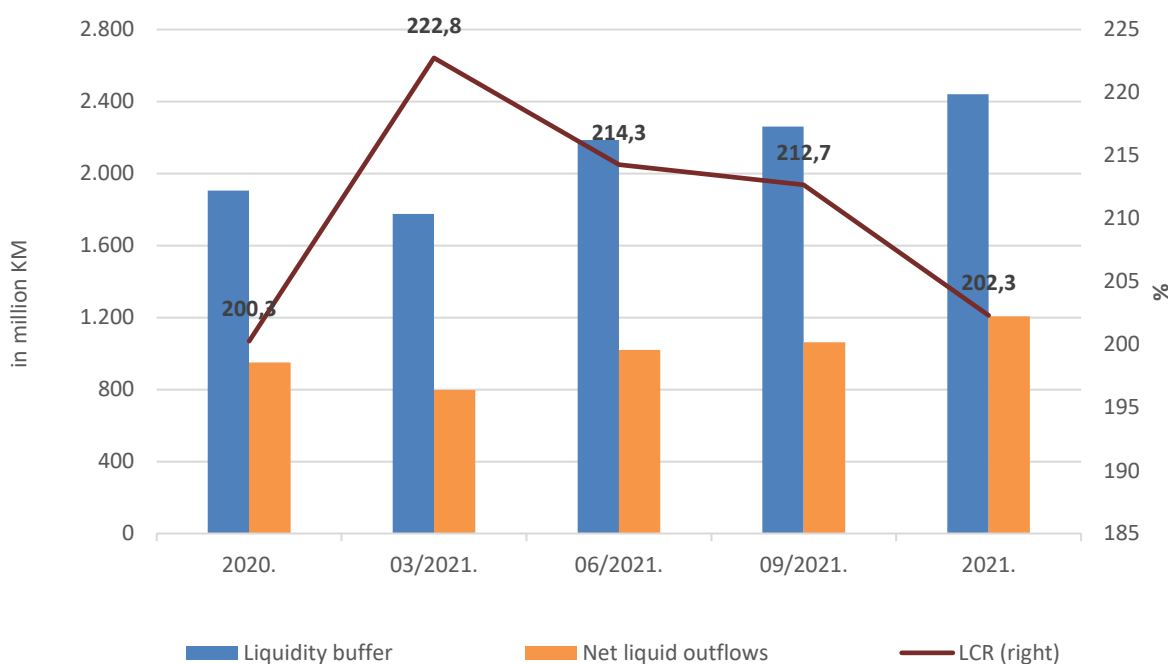
In this reporting period, short-term deposits grew faster than long-term deposits. Deposits with a remaining maturity of 1-7 days have the largest share of 62.9% in total deposits and a growth of 1.1 billion

KM. Long-term deposits with a remaining maturity of 1 to 5 years are the next largest and account for 13.2% of total deposits and record an increase of 17.1 million KM compared to the end of 2020.

In order to ensure the bank's short-term resistance to liquidity risk, banks are required to provide an appropriate level of liquidity buffer, in order to meet liquidity needs for a liquidity stress scenario of 30 calendar days. The minimum Liquidity Coverage Ratio (LCR), which represents the ratio between the level of the liquidity buffer and the total net liquidity outflows during the stress period lasting 30 calendar days, is stipulated in the amount of $\geq 100\%$.

All banks in Republika Srpska have LCR above the stipulated amount, and in this reporting period, the aggregate LCR at the level of the banking sector is 202.3% and is higher by 2.3 percentage points compared to the end of 2020. If we look at individual banks, the LCR ranges from 144.8% to 440.2%. The trend of the 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 33: Liquidity Coverage Ratio - LCR



In this reporting period, the liquidity buffer increased by 28% compared to the end of 2020. The largest share in the structure of the liquidity buffer is held by funds above the required reserve at the reserve account with the Central Bank of BiH, which is 45.1%, and increased by 75% compared to the end of 2020.

The structure of the liquidity buffer and the trend through three comparative periods is shown in the following table:

Table 35: Liquidity buffer				mill. KM
DESCRIPTION	2019	2020	2021	Index 2021/2020
Liquid assets level 1	4.985,8	1.904,5	2.440,6	128
Coins and banknotes	748,4	262,6	316,9	121
Central Bank reserves withdrawable	1.766,9	628,7	1.101,7	175
Central Bank assets	1,9	5,8	0,0	
Central Government assets	713,4	173,4	162,3	94
Regional Governments and local authorities assets	1.755,2	834,0	859,7	103
Liquid assets level 2	0,0	0,0	0,0	-
Liquid assets 2a	0,0	0,0	0,0	-
Liquid assets 2b	0,0	0,0	0,0	-
Total	4.985,8	1.904,5	2.440,6	128

Table 36: Net liquid outflows				mill. KM
DESCRIPTION	2019	2020	2021	Index 2021/2020
1. Total outflows	1.403,5	1.399,9	1.765,5	126
2. Inflows to which inflow cap of 75% is being applied	386,6	448,9	559,1	125
3. Net liquid outflows (1-2)	1.016,9	951,0	1.206,4	127

The liquidity buffer and eligible inflows grew faster than total outflows, so the overall assessment of the liquidity of the banking sector of Republika Srpska is satisfactory. According to the by-law of the Agency, banks are obliged to provide stable, diversified funding sources, adequate organization of liquidity management, clear business policies, and contingency plans, i.e. unexpected situations with testing of possible stress scenarios.

Table 37: Liquidity indicators				(in %)
DESCRIPTION	2019	2020	2021	
Liquid funds*/net asset	23,0	22,9	28,7	
Liquid funds*/short term financial liabilities	35,0	33,8	40,7	
Short term financial liabilities/total financial liabilities	75,1	77,4	80,0	
Loans / (deposits and loans taken)	78,0	76,4	69,7	
Loan / (deposits and loans taken and subordinated debts)	77,4	75,8	69,3	

* 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 TRANSACTIONS

The Law on payment transactions ("Official Gazette of Republika Srpska", No. 52/12, 92/12, 58/19) and the Law on foreign exchange operations ("Official Gazette of Republika Srpska " No. 96/03, 23/06, 92/09, 20/14, 20/18) stipulates that the supervision of the implementation of the aforementioned laws in banks, in addition to other control bodies, is carried out by the Agency within its jurisdiction.

The payment transactions of Republika Srpska include all banks of Republika Srpska and banks from the Federation of Bosnia and Herzegovina, operating through organizational units in Republika Srpska, and as of 31/12/2021 they had a total of 116,920 accounts opened in KM (main accounts, accounts for regular business operations, accounts of organizational units, accounts for special purposes, public revenue accounts and accounts without account type designation) of legal entities and entrepreneurs, which is 4.4% more if compared to 31/12/2020 and 29,348 foreign currency accounts of legal entities and entrepreneurs (0.9% more if compared to 31/12/2020).

Also, as of 31/12/2021, banks had a total of 1,019,451 accounts of individuals opened in KM (current/transaction accounts, giro accounts), which is by 1.3% less compared to 31/12/2020 and 266,397 foreign currency accounts of individuals (1.3% more compared to 31/12/2020).

As of 31/12/2021, there were a total of 2,215 safe deposit box users in banks (52 safe deposit box users more than on 31/12/2020).

Pursuant to the Law on payment transactions, payment transaction participants (legal entities, entrepreneurs and individuals) may have one or more open accounts with banks.

In 2021, the total volume of payment transactions (domestic and foreign currency payment transactions) realized in banks based in Republika Srpska amounted to 84.9 billion KM (equivalent in KM), which is by 19.6% more compared to the same period in 2020.

Based on the submitted reports of banks with headquarters in Republika Srpska on internal and foreign payment transactions, as well as transactions in the performance of foreign exchange operations, a tabular overview of the number and value of transactions performed in 2021 is given:

Table 38: 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)
31.01.2021	1.577.354	872,2	1.764.088	1.895,1	1.014.146	1.672,7	4.355.588	4.440,0
28.02.2021	1.675.196	932,5	1.877.249	2.177,6	1.135.261	1.968,8	4.687.706	5.079,0
31.03.2021	1.835.443	1.143,1	2.132.219	2.611,6	1.321.157	2.183,3	5.288.819	5.937,9
30.04.2021	1.797.925	1.099,6	2.121.942	2.556,9	1.258.528	2.398,3	5.178.395	6.054,7
31.05.2021	1.802.095	1.193,4	1.629.276	1.969,6	1.198.100	1.751,1	4.629.471	4.914,2
30.06.2021	1.859.893	1.239,8	2.215.036	2.548,6	1.397.247	2.363,3	5.472.176	6.151,7
31.07.2021	1.872.442	1.421,5	2.280.043	2.637,3	1.425.591	2.347,6	5.578.076	6.406,3
31.08.2021	1.792.051	1.494,6	2.221.167	2.595,2	1.357.258	2.551,7	5.370.476	6.641,5
30.09.2021	1.777.804	1.316,4	2.216.752	2.523,2	1.361.186	2.386,1	5.355.742	6.225,7
31.10.2021	1.770.006	1.328,6	2.234.532	2.537,2	1.353.560	2.308,9	5.358.098	6.174,7
30.11.2021	1.762.187	1.358,5	2.234.428	2.746,8	1.381.202	2.424,8	5.377.817	6.530,1
31.12.2021	1.854.898	1.566,2	2.444.599	3.184,0	1.513.888	2.904,5	5.813.385	7.654,8
TOTAL	21.377.294	14.966,4	25.371.331	29.983,1	15.717.124	27.261,1	62.465.749	72.210,6

The total number of realized cash payment transactions in 2021 amounted to 21.4 million transactions, with a total value of 15 billion KM. Compared to the same period in 2020, the number of realized cash payment transactions increased by 2.4%, while the value of cash payment transactions increased by 21.3%.

The total number of intra-bank payment transactions performed in 2021 amounted to 25.4 million transactions, with a total value of 30 billion KM. Compared to the same period in 2020, the number of intra-bank payment transactions, as well as their value, increased by 8.9%.

In interbank payment transactions, a total of 15.7 million payment transactions were realized, the total value of which amounted to 27.3 billion KM. Compared to 2020, the number of realized interbank payment transactions increased by 10.6%, while the value of transactions increased by 16%.

Table 39: 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)
1	2	3	4	5	6=2+4	7=3+5
01.01.-31.12.2021.	223.423	5.986,2	647.404	6.695,1	870.827	12.681,3

The total value of realized transactions (outflow/payment) to abroad in 2021 was 6 billion KM (equivalent value in KM), which is 61.6% more compared to the same period in 2020, while the total value of realized transactions (inflow/collection) from abroad amounted to 6.7 billion KM (equivalent in KM), which is 73.4% more compared to the same period in 2020. Out of the total value of realized payment transactions, the share of inflows from abroad is 52.8%, while outflows to abroad account for 47.2%.

Table 40: Exchange operations of banks (equivalent in KM)

Period	Repurchase		Sale	
	Number of transactions	Amount (in mil. KM)	Number of transactions	Amount (in mil. KM)
01.01.-31.12.2021.				
EUR	825.350	806,9	110.794	353,9
Other currencies	128.532	93,2	57.029	45,0
Total	953.882	900,1	167.823	398,9

The total value of the realized exchange operations of currency purchase (equivalent value in KM) in banks in 2021 was 900.1 million KM, which is by 18% more compared to the same period in 2020, while the total value of sold currency (equivalent value in KM) amounted to 398.9 million KM, which is by 14.8% more compared to the same period in 2020.

In addition to the reports on the realized exchange transactions of the banks, the reports on the realized exchange transactions of the authorized money changers with whom the banks have concluded an agreement on the execution of exchange transactions were also submitted. In 2021, authorized money changers purchased currency (KM equivalent) in the total amount of 2.3 billion KM, which is by 101.6% more compared to the same period in 2020, while in the same period they sold currencies (KM equivalent KM) in the total amount of 85.9 million KM, which is by 90.9% more compared to the same period in 2020. In the period from 01/01 to 31/12/2021, the Agency, through off-site and on-site supervision of banks, supervised compliance of banks' operations in the segment of internal payment transactions and foreign exchange operations. The supervision was carried out with the consistent application of the Manual for supervision of the compliance of banks' operations in payment transactions.

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

6 RECOMMENDATIONS FOR THE BANKING SECTOR

Proceeding from the basic task of the Agency to protect and strengthen the stability of the banking sector of Republika Srpska and to ensure the legal operation of banks, the activities of the Agency in the coming period will relate primarily to the continuation of continuous supervision of banks, with a special emphasis on:

- supervision and monitoring of credit risk, liquidity risk, with special reference to the assessment of the bank's management system and verification of the adequacy of ECL and management of credit and liquidity risks;
- continuous supervision, especially of banks with significant participation in the market, because the most significant part of savings and other deposits is concentrated in them, all with the aim of protecting depositors as efficiently as possible and preserving financial stability;
- monitoring the effects of special measures stipulated by the Agency in the Decision on temporary measures to mitigate the negative economic consequences caused by the viral disease "COVID-19", by analyzing the reports that banks are required to submit to the Agency;
- monitoring the implementation of capital plans and insisting on capital strengthening, where deemed necessary, 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;
- carrying out stress testing, with the aim of better risk assessment in each bank and timely undertaking of the necessary measures;
- supervision of the protection of the rights of users of financial services;
- supervision of payment transactions and monitoring of the amount of fees charged for payment transaction services and other costs charged by banks for providing services ;
- supervision of activities related to anti-money laundering and combating the financing of terrorism, and in this sense improving cooperation with other competent institutions.

In addition to carrying out activities on continuous supervision, the Agency will work on:

- professional development of in-house staff and strengthening of capacities for efficient supervision of banks, and further continuous improvement of the information system;
- continuous monitoring of changes in the legal regulations of the European Union (Basel principles, European directives, international accounting standards, etc.) and adoption in our legislation with the aim of achieving the greatest possible equivalence with European regulations;
- 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 ECB and 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;
- 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 regulations and market requirements;
- continuation of activities on the implementation of the USAID FINRA project, the ESCB project, as well as other projects related to the improvement of the regulatory and supervisory framework in cooperation with the World Bank and the International Monetary Fund.

Due to the specific role and significant participation that banks have in the financial system, the achieved level of development and stability of the banking sector in the conditions caused by the negative consequences of the pandemic, can significantly influence the improvement of conditions in the overall economic system. In the following period, banks are expected to focus their activities on:

- adequate credit support for the economy and the population with the application of special measures and restrictions stipulated by the Agency, with the aim of recovering from the negative consequences of the pandemic;
- greater use of the Guarantee Fund of Republika Srpska and other benefits adopted by the competent authorities in Republika Srpska, with the aim of mitigating the negative consequences of the pandemic;
- adequate management and monitoring of daily and intraday liquidity;
- ensuring growth and greater share of long-term funding sources;
- adequate management 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 in-house risk management systems, primarily credit risk and liquidity risk;
- adequate management of ECL for balance and off-balance sheet items and strengthening of information support for the mentioned activities;
- improvement of asset management;
- strengthening the system of internal controls and establishing effective control functions;
- establishment and improvement of stress tests and their application in the creation of business policy;
- improvement of ICAAP and ILAAP in accordance with 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 combating the financing of terrorism;
- revising in-house contingency plans and recovery plans;
- more comprehensive information and adequate education with the aim of better protecting users of financial services;
- staff strengthening and professional training of workers with the aim of better and more comprehensive satisfaction of the needs of the bank's clients;
- strengthening of information systems and support in the preparation of reports, as well as the security of information systems;
- strengthening protection and developing new procedures for electronic business and working with clients remotely.

III MICROCREDIT ORGANIZATION SECTOR (MCO)

1 MCO STRUCTURE

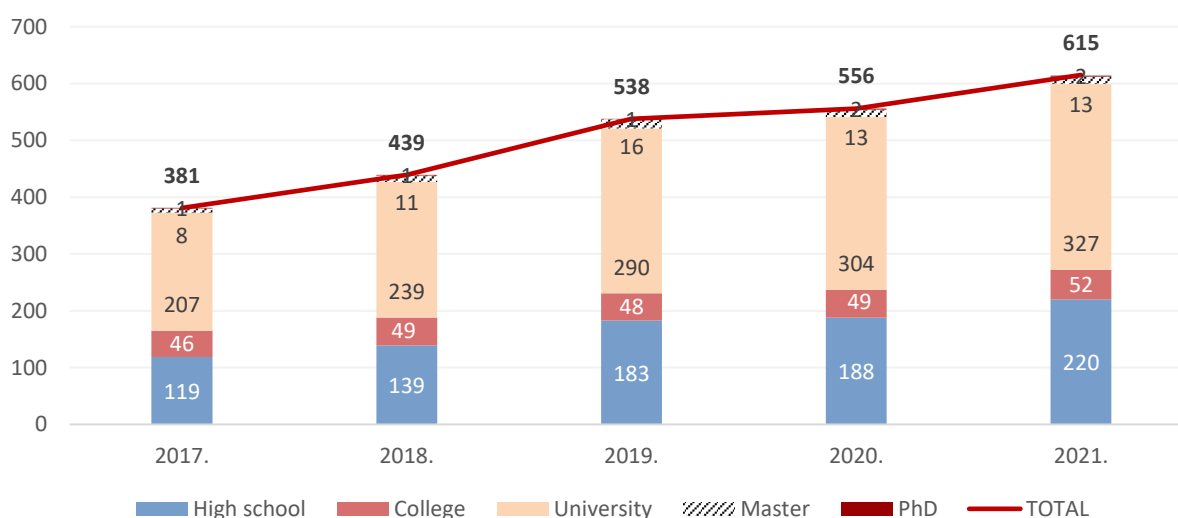
The microcredit sector of Republika Srpska as of 31/12/2021 consisted of 13 MCOs, which operated from the MCO headquarters and over 159 organizational units (40 branches and 119 other organizational units), and refers to 11 microcredit associations (hereinafter: MCA) and 2 microcredit foundations (hereinafter: MCF). In January 2021, 1 MCA had its license revoked at its request.

In Republika Srpska as of 31/12/2021, 121 organizational units of MCO (5 branches and 116 other organizational units) operated within 9 MCO (7 MCF and 2 MCA), whose headquarters are in the Federation of Bosnia and Herzegovina. The financial performance indicators of these organizational units are included in the balance sheets of parent MCOs.

1.1 Staff

MCO with headquarters in Republika Srpska as of 31/12/2021 employed a total of 615 employees and compared to the end of 2020, there is an evident increase in the number of employees by 11% or by 59 employees (4 MCA make up 83% of the total number of employees in MCO from Republika Srpska).

Graph 34: Staff qualification structure in Republika Srpska MCOs (2017-2021)



The qualification structure and the total number of employees in MCO from Republika Srpska largely depends on the structure and number of employees in the largest MCO, which employs 353 employees, which makes up 57.4% of the total employees in MCO from Republika Srpska (as of the end of 2020, it employed 326 employees or 58.6% of total employees).

Organizational units of MCO that operate in Republika Srpska, and whose headquarters are in the Federation of Bosnia and Herzegovina, as of 31/12/2021 employed a total of 339 employees or 35.5% of a total of 954 employees in the microcredit sector of Republika Srpska (as of 31/12/2020, they employed 342 employees or 38.1% of a total of 898 employees in the microcredit sector of Republika Srpska). The qualification structure of the employees in these organizational units consists of university degree (46%), high-school (41%), college (11%) and master's degree (2%).

Assets per employee at MCO level with headquarters in Republika Srpska amounts to 774.2 thousand KM (as of 31/12/2020 it was 770.9 thousand KM), and is at approximately the same level as at the end of 2020.

2 FINANCIAL INDICATORS OF MCO OPERATIONS

The Agency performs the function of supervision of MCO at sight by means of on-site supervision and analysis of the reports submitted by MCO to the Agency (off-site supervision), in accordance with the Agency's legal regulations and by-laws.

The reporting basis consists of quarterly reports on the balance sheet, capital, loans, provisioning for credit losses, 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

The following table shows the balance sheet of MCO as of 31/12/2020 and 31/12/2021.

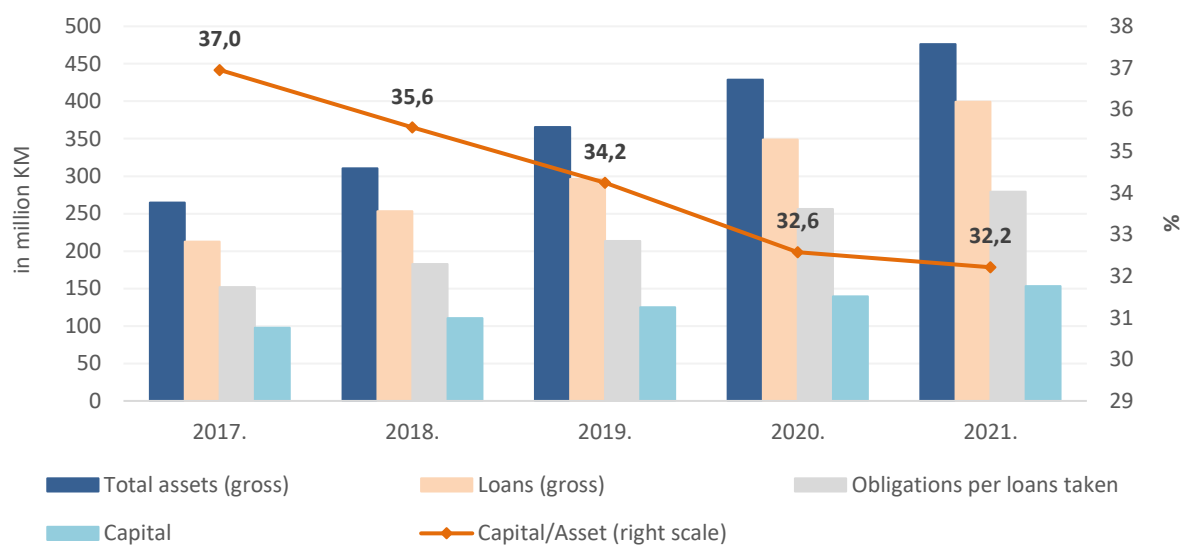
Table 41: MCO balance sheet											000 KM
DESCRIPTION	2020					2021					Индекс
	MAC	%	MCF	%	Total	MCA	%	MCF	%	Total	
ASSETS (PROPERTY)											
1. Cash funds	30.985	7	465	10	31.423	27.548	6	319	9	27.867	89
2. Placements to banks	-	-	-	-	-	-	-	-	-	-	-
3. Loans (gross)	345.046	81	3.704	81	348.750	396.010	84	3.223	84	399.233	114
4. Office space and other fixed assets	3.719	1	128	3	3.847	3.966	1	89	2	4.055	105
5. Long term investments	36.112	9	-	-	36.112	36.112	7	-	-	36.112	100
6. Other asset	8.260	2	253	6	8.513	8.648	2	203	5	8.851	104
7. Total asset (gross) (1+2+3+4+5+6)	424.095	100	4.550	100	428.645	472.284	100	3.834	100	476.118	111
8. Provisioning (8a.+8b.)	8.545		145		8.690	7.230		102		7.332	84
8a. Loan items provisioning	6.109		136		6.245	5.729		95		5.824	93
8b. Provisioning for other asset items except loans	2.436		9		2.445	1.501		7		1.508	62
9. Total asset (net: 7. - 8.)	415.550		4.405		419.955	465.054		3.732		468.786	112
LIABILITIES (OBLIGATIONS)											
10. Obligations per loans / borrowings taken	254.889	61	1.461	33	256.350	278.113	60	1.277	34	279.390	109
11. Other liabilities	22.090	5	1.884	43	23.974	34.999	7	1.033	28	36.032	150
12. Total capital / holding	138.571	34	1.060	24	139.631	151.942	33	1.422	38	153.364	110
13. Total liabilities (obligations and capital / holding: (10+11+12)	415.550	100	4.405	100	419.955	465.054	100	3.732	100	468.786	112
14. Off-balance sheet records	59.339		133		59.472	68.269		215		68.484	115

2.1.1. MCO assets

The growth of the total assets (gross) of MCO based in Republika Srpska at a rate of 11% or in the amount of 47.5 million KM is the result of a more significant nominal growth of total loans in the amount of 50.5 million KM or at a rate of 14% (the same make up 84% of total assets) and a simultaneous decrease in cash funds in the amount of 3.6 million KM or at a rate of 11% (the same make up 6% of total assets), while an increase in other assets (2% of total assets) by 0.3 million KM or by 4% and the increase of office space and other fixed assets (1% of total assets) by 0.2 million KM or by 5% has no significant impact on the growth of total assets in this reporting period. The value of long-term investments (investment of the largest MCA in the bank's share capital) is at the same level as the balance on 31/12/2020 (7% of total assets).

The growth of credit activity is evident in eight MCAs, namely in five MCAs with a growth rate ranging from 12% to 17%, in two MCAs with a growth rate of 32% and 49%, and in one MCA at a rate of 159% (the same started operating in May 2020), while in two MCAs there is an evident decrease at the rate of 1%. The value of the loan portfolio at one MCA is at approximately the same level as at the end of 2020. The growth of loans in MCFs is evident at one MCF with a growth rate of 51%, while the loan portfolio at one MCF is 30% lower compared to the balance at the end of 2020. In the total growth of MCO loans compared to the end of 2020, the largest MCA accounts for 70% of the total loan growth.

Graph 35: Republika Srpska MCO balance sheet positions (2017 –2021)



According to the structure of other assets (8.8 million KM or 2% of total assets), the most significant is the share of other receivables in the amount of 2.7 million KM or 30% of other assets (net assets with the right to use - lease of office space, temporary and transitional accounts related to changes in transaction accounts, etc.), then receivables by interest (2.3 million KM) and charges (0.7 million KM), which in total make up 33% of other assets, and accruals (2.3 million KM or 26% of other assets), and funds acquired by collection of receivables (0.5 million KM or 8% of other assets) and advances (0.3 million KM or 3% of other assets).

2.1.2. MCO liabilities

In the structure of liabilities, liabilities for taken loans/borrowings, as the main source of funding for MCO, amount to 279.4 million KM (60% of liabilities) and are higher by 23.1 million KM or by 9% compared to the balance at the end of 2020.

Table 42: Maturity structure of taken MCOs loans / borrowings

DESCRIPTION	2019				2020				2021				Index 2021/ 2020
	MCA	MCF	Total	%	MCA	MCF	Total	%	MCA	MCF	Total	%	
Obligations per taken short term loans / borrowings	4.750	64	4.814	2	7.355	768	8.123	3	15.534	939	16.473	6	203
Obligations per taken long term loans / borrowings	208.128	555	208.683	98	247.534	693	248.227	97	262.579	338	262.917	94	106
TOTAL	212.878	619	213.497	100	254.889	1.461	256.350	100	278.113	1.277	279.390	100	109

In total liabilities for taken loans/borrowings, the most significant creditors of the microcredit sector of Republika Srpska are: foreign international financial institutions with a share of 67% (97% of the liabilities towards the aforementioned investors refer to the largest MCA), then domestic banks with a share of 21%, IDBRS funds with a share of 3%, other foreign investors with a share of 4% and other funding sources (loans from legal entities and private individuals) with a share of 5% in the total liabilities for taken loans/borrowings.

Other liabilities amount to 36 million KM or 8% of liabilities with growth at a rate of 50% or in the amount of 12.1 million KM compared to the balance at the end of 2020, mainly due to an increase in "other liabilities" (28% of other liabilities or 9.9 million KM) by 149% or by 5.9 million KM due to the formation of obligations for the payment of dividends from undistributed profits from previous years, which amount to 5.3 million KM or 53% of other liabilities.

Also, in other liabilities, there is an evident increase in obligations based on the issue of securities by 27% or by 2.5 million KM (bonds 33% of other liabilities issued by six MCA and one MCF in the total amount of 11.9 million KM), then accruals for 26% or for 1.8 million KM (25% of other liabilities or 9 million KM), and obligations based on interest and charges on taken loans/borrowings by 54% or 1 million KM (8% of other liabilities or 2.9 million KM), while liabilities to employees and based on taxes and salary contributions (6% of other liabilities or 2.3 million KM) are higher by 51% or by 0.7 million KM, all compared to the balance with the end of 2020.

Off-balance sheet records reported for all MCOs with the balance as of 31/12/2021 amounts 68.5 million KM and the same is higher by 15% or by 9 million KM (the impact of the growth of loans and their associated interest and charges with a delay in repayment over 180 days by 14% or by 6.3 million KM and the growth of potential liabilities on the basis of unused funds under concluded agreements on framework or revolving credit for 20% or for 2.7 million KM). According to the structure of this position, the reported MCO loans with a delay in repayment over 180 days amount to a total of 29.2 million KM or 42% of the total off-balance sheet records, followed by receivables for interest/charges with a delay in repayment over 180 days in the amount of 5.1 million KM or 7% of the total off-balance sheet records (one MCA accounts for 80% of the mentioned receivables), receivables based on default interest and other loan costs in the total amount of 18 million KM or 27% of the total off-balance sheet records, potential liabilities for undrawn funds from approved framework loans to MCO clients in the amount of 8.1 million KM or 12% of the off-balance sheet (one MCA), potential liabilities under concluded contracts with banks based on unused funds from framework or revolving loans (five MCA and one MCF) in the amount of 8.1 million KM or 12% of total off-balance sheet records.

2.2. MCO capital (MCA capital and MCF holding)

The total capital/holding of MCO amounts to 153.4 million KM or 33% of liabilities and is higher by 13.7 million KM or by 10% compared to the balance as of 31/12/2020, mainly as a result of the significant impact of the growth of undistributed profit of MCA in the total amount of 15.2 million KM or at the rate of 20% (ten MCA) and the reduction of the founding capital by 1.8 million KM or by 3% (in 2021, one MCA with a founding holding in the amount of 2.7 million KM had its license revoked at its request, while two MCA and one MCF had their founding capital/holding increased by 0.9 million KM).

Table 43: MCO capital / holding structure

DESCRIPTION	2020					2021					Index 2021/2020
	MCA	%	MCF	%	Total	MCA	%	MCF	%	Total	
Founding capital / holding	56.855	41	672	63	57.527	54.974	36	741	52	55.715	97
Share premium	-	-	-	-	-	-	-	-	-	-	-
Undistributed profit	77.330	56			77.330	92.503	61			92.503	120
Excess/ lack of income			366	35	366			652	46	652	178
Legally required reserves	4.342	3	22	2	4.364	4.417	3	29	2	4.446	102
Other reserves	44	-	-	-	44	48	-	-	-	48	109
MCA capital / MCF holding	138.571	100	1.060	100	139.631	151.942	100	1.422	100	153.364	110

Holding of MCF in the total amount of 1.4 million KM is higher by 34% or by 0.4 million KM compared to the balance at the end of 2020 (impact of the increase in the founding holding of one MCF and the reported surplus of income over expenses at one MCF), and they make up 0.93% of the total capital/holding of MCO.

The founding holding of two MCF totaled 741 thousand KM, which is higher by 10% or by 69 thousand KM (increase of the founding holding by paid-in of one MCF) compared to the balance as of 31/12/2020, and they 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 MCO is the undistributed profit of MCA (92.5 million KM or 60.3% of the total capital/holding), which is higher by 15.2 million KM or by 20% compared to the balance as of 31/12/2020. Undistributed profit of MCA as of 31/12/2021 consists of: undistributed revised net profit from previous years in the total amount of 74.3

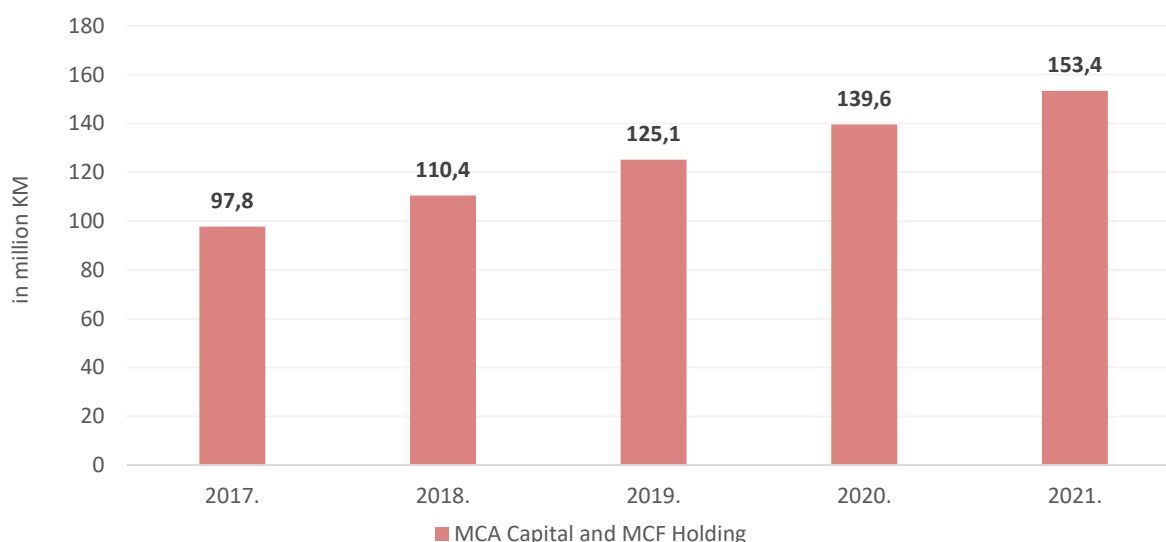
million KM (for six MCA the net profit was 76.1 million KM, and for two MCA the loss was a total of 1.8 million KM, while three MCA distributed revised net profit during 2021) and MCA reported net profit with the balance as of 31/12/2021 in the total amount of 18.2 million KM (ten MCA reported a net profit in the amount of 20.1 million KM, and one MCA reported a loss for 2021 in the amount of 1.9 million KM).

At the MCF level, there is an evident net surplus of income over expenses in the total amount of 652 thousand KM (0.4% of the total MCO capital/holding) with a growth rate of 78%, which represents the revised net surplus of income over expenses in previous years in the total amount of 358 thousands of KM (surplus of income over expenses at one MCF in the amount of 578 thousand KM and deficit of income over expenses at one MCF in the amount of 220 thousand KM) and net surplus of income over expenses with the balance as of 31/12/2021 in the total amount of 294 thousand KM (two MCF).

Required reserves (4.4 million KM or 3% of the total MCO capital/holding) are higher by 2% compared to the same at the end of 2020 (increase in five MCA and one MCF), and most of them (90%) relate to the largest MCA.

MCO's investments in business premises and other fixed assets and long-term investments in total amount to 40.2 million KM, and are higher by only 0.2 million KM or by 0.5% compared to the balance of the mentioned investments at the end of 2020, and they make on average 26.2% of the total MCO capital/holding. Stipulated maximum limit of up to 50% of MCO capital/holding as of 31/12/2021 have been met by all MCOs, except for one MCA (its capital is below the stipulated minimum amount due to the reported loss, and it has undertaken activities to increase the founding capital by cash payment, in response to the Agency's order).

Graph 36: Republika Srpska MCO total capital and holding (2017 – 2021)



2.3. Loan portfolio quality

The main activity of MCO is the placement of microloans, mainly to private individuals and independent entrepreneurs, as the target group of microcredit users (98% of MCO's loan portfolio).

Total gross loans of MCO based in Republika Srpska with balance as of 31/12/2021 amount to 399.2 million KM or 84% of the total assets of MCO with growth at the rate of 14% or in the amount of 50.5 million KM compared to the balance at the end of the previous year. MCA total loans account for 99% of MCO gross loans.

MCO provisioning for potential credit losses according to the regulatory requirement make up 1.5% of gross loans, i.e. they amount to 5.8 million KM, and comparing their balance with the end of 2020, it is evident that they are less by 7% or by 0.4 million KM at the end in 2020 (the impact of a 6.5% drop in overdue loans and simultaneous growth of loans without delay in repayment by 15%).

Net loans, which make up total gross loans of MCO minus the amount of calculated and formed provisioning for loan losses according to regulatory requirements, are shown in the following table:

DESCRIPTION	2020			2021			Index 2021/2020
	MCA	MCF	Total	MCA	MCF	Total	
1. Loans (gross)	345.046	3.704	348.750	396.010	3.223	399.233	114
2. Loan loss provisioning	6.109	136	6.245	5.729	95	5.824	93
Net loans (1.-2.)	338.937	3.568	342.505	390.281	3.128	393.409	115

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

Microloans	2020				2021				Index 2021/2020
	Short term loans	Long term loans	Receivables due	Total	Short term loans	Long term loans	Receivables due	Total	
1. Legal entities									
Providing services	454	2.164	3	2.621	831	2.941	6	3.778	144
Trade	303	1.383	5	1.691	395	1.423	3	1.821	108
Agriculture	55	242	-	297	40	224	-	264	89
Manufacture	240	1.150	-	1.390	506	1.379	26	1.911	137
Other	194	348	3	545	341	830	75	1.246	229
Total	1.246	5.287	11	6.544	2.113	6.797	110	9.020	138
2. Private individuals									
Providing services	1.564	41.780	72	43.416	1.283	47.229	130	48.642	112
Trade	607	8.223	13	8.843	590	8.834	16	9.440	107
Agriculture	4.561	87.089	120	91.770	4.627	88.896	100	93.623	102
Manufacture	277	5.153	6	5.436	159	5.205	33	5.397	99
Housing	349	14.478	49	14.876	424	17.707	37	18.168	122
Other	23.791	150.566	3.508	177.865	21.425	191.920	1.598	214.943	121
Total	31.149	307.289	3.768	342.206	28.508	359.791	1.914	390.213	114
Total (1.+2.)	32.395	312.576	3.779	348.750	30.621	366.588	2.024	399.233	114

According to the maturity structure of loans, the dominant share is long-term loans, which make up 91.8% of total loans and amount to 366.6 million KM, and are higher by 17% or by 54 million KM compared to the balance at the end of 2020. Short-term loans (with due receivables) make up 8.2% of total loans and amount to 32.6 million KM with a decrease at the rate of 9.8% or in the amount of 3.5 million KM (as of 31/12/2020 they amounted to 36,2 million KM or 10.4% of total loans).

According to the sector structure, loans to legal entities account for 2% of total loans with a growth rate of 38% or in the amount of 2.5 million KM, while loans to private individuals (including small entrepreneurs) are higher by 48 million KM with a growth rate of 14% and with share in total loans of 98%, all in relation to the balance at the end of 2020.

In the total loans of MCO according to the structure of branch concentration, loans for other purposes are still the most represented (loans for pensioners, financing of general consumption of private individuals, non-purpose cash loans, commodity loans, etc.) with a share in total loans of 54% with growth at the rate of 21%. Also, the growth of loans for financing agriculture (24% of total loans) at a rate of 2%, service activities (13% of total loans) at a rate of 14%, and housing loans (5% of total loans) at a rate of 22 %, and trade activities (3% of total loans) at a rate of 7% and production (3% of total loans) at a rate of 7% is evident, all compared to the balance at the end of 2020.

MCO due receivables amount in total 2 million KM or 0.51% of total loans with a decrease of 46% or in the amount of 1.7 million KM (a significant drop in due receivables at one MCA) compared to the end of 2020 (as of 31/12/2020, they amounted to 3.8 million KM or 1.08% of total MCO loans) and mainly relate to due receivables of private individuals (94.6% of total due receivables). Due receivables of two MCA as of 31/12/2021 make up 78.3% of the total MCO due receivables.

MCO loans from Republika Srpska placed to related persons amount in total 129 thousand KM (owners and senior management) and are by 108 thousand KM higher than the balance of the same at the end of the previous year, and refer to two MCA.

Loans of organizational units of MCO with headquarters in Republika Srpska operating in the Federation of BiH (four MCA with 55 organizational units) with balance as of 31/12/2021 amount in total to 136.7 million KM or 34.2% of the total loans of MCO based in Republika Srpska, with a growth rate of 14.6% (on 31/12/2020 they placed a total of 119.3 million KM or 34.2% of the total MCO loans) and are included in the balance sheets of MCO based in Republika Srpska.

Loans of organizational units of MCO operating in Republika Srpska, whose seat is in the Federation of Bosnia and Herzegovina, with balance as of 31/12/2021 amount in total to 182.1 million KM or 31.3% of the total loans of the microcredit sector of Republika Srpska (581.3 million KM), and are higher by 6% or by 10 million KM than the balance of the same as of 31/12/2020 (172.1 million KM or 33% of total loans of the microcredit sector of Republika Srpska).

Microloans	2020				2021				Index 2021/2020
	Short term loans	Long term loans	Receivables due	Total	Short term loans	Long term loans	Receivables due	Total	
1. Legal entities									
Providing services	52	1.739	1	1.792	31	1.765	18	1.814	101
Trade	15	435	2	452	7	596	1	604	134
Agriculture	6	124	-	130	-	67	-	67	52
Manufacture	5	491	-	496	-	711	-	711	143
Other	3	22	-	25	-	8	-	8	32
Total	81	2.811	3	2.895	38	3.147	19	3.204	111
2. Private individuals									
Providing services	990	29.284	54	30.328	528	18.959	66	19.553	64
Trade	138	2.416	4	2.558	99	1.822	7	1.928	75
Agriculture	2.052	62.989	82	65.123	1.706	61.940	86	63.732	98
Manufacture	110	3.969	5	4.084	78	2.522	12	2.612	64
Housing	1.190	33.011	54	34.255	910	41.425	47	42.382	124
Other	6.381	26.364	158	32.903	6.128	42.336	197	48.661	148
Total	10.861	158.033	357	169.251	9.449	169.004	415	178.868	106
Total (1.+2.)	10.942	160.844	360	172.146	9.487	172.151	434	182.072	106

Sector structure of loans of MCO organizational units operating in Republika Srpska, whose headquarters are in the Federation of Bosnia and Herzegovina, is similar to the sector structure of loans of MCO with headquarters in Republika Srpska, i.e. loans to private individuals make up 98.2%, while loans to legal entities make up 1.8 % of total loans of these organizational units.

Maturity structure of loans of MCO organizational units based in the Federation of BiH is also similar to the maturity structure of MCO based in Republika Srpska, i.e. long-term loans make up 94.6% of total loans with a growth rate of 7%, while short-term loans, which include due receivables (9.9 million KM) make up 5.4% of total loans with a decrease of 12%, all compared to the balance as of 31/12/2020.

Due receivables of MCO business units based in the Federation of BiH amount to 434 thousand KM or 0.24% of total loans, and are by 20% higher than at the end of the previous year (360 thousand KM or 0.21% of total loans), and mainly refer to loans placed to private individuals (95.6%).

In terms of branch concentration, in the loan portfolio of these organizational units, what is evident is a significant financing of agriculture (35% of total loans) with a decrease of 2%, followed by financing of other purposes (27% of total loans) with growth of 48%, and housing (23% of total loans) with growth at a rate of 24% and financing of service activities (12% of total loans) with a decrease at a rate of 33%, all compared to the balance at the end of 2020.

The total amount of microloans placed to private individuals for all MCO operating in Republika Srpska as of 31/12/2021 is given in the following table:

DESCRIPTION	Amount
1. Republika Srpska MCO	390.213
minus: Republika Srpska MCO business units in the Federation of BiH	133.032
Total 1	257.181
2. Federation of BiH MCO business units in Republika Srpska	178.868
Total (1.+2.)	436.049

Loans placed to private individuals by MCOs operating in Republika Srpska as of 31/12/2021 amount in total 436 million KM (as of 31/12/2020 they amounted to 395.4 million KM).

MCOs are obliged to allocate all credit and other receivables into specific groups by applying the criteria of the number of repayment delay days and allocate provisioning for credit and other losses at the expense of operational expenses for each group.

In MCO based in Republika Srpska, the amount of receivables classified into default groups by days of delay in repayment and calculated reserves for those groups with the balance as of 31/12/2021 can be seen from the following overview:

Days in default	Provisioning rate	Loan amount	Interest		Amount of other asset items	Provisioning			Total provisioning
			Provisioning rate	Interest amount		Per loans	Per accrued interest	Per other asset items	
1	2	3	4	5	6	7=(2x3)/100	8=(4x5)/100	9=(2x6)/100	10=(7+8+9)
0	0%	384.718	0%	102	337	-	-	-	-
1-15	2%	3.749	2%	43	38.805	75	-	776	851
16-30	15%	4.303	100%	58	39	644	58	6	708
31-60	50%	2.256	100%	51	59	1.130	52	30	1.212
61-90	80%	1.156	100%	44	66	924	44	53	1.021
91-180	100%	3.051	100%	186	304	3.051	185	304	3.540
Total		399.233		484	39.610	5.824	339	1.169	7.332

Loans with no delay amount to 384.7 million KM or 96.4% of total loans, and are higher by 15.5% or by 51.5 million KM compared to the balance as of 31/12/2020 (333.2 million KM or 95.5% of total loans).

A more significant amount with a delay in the repayment of credit obligations is evident in loans with a delay in repayment of 1 to 30 days in the total amount of 8 million KM, which make up 2% of the total loans and are smaller by 4.2% or by 0.4 million KM compared to the balance at the end of the previous year (as of 31/12/2020, they amounted to 8.4 million KM or 2.4% of total loans). Loans with a delay in repayment classified into the group of 31 to 180 days (6.5 million KM or 1.6% of total loans) recorded a decrease of 0.6 million KM or by 9.3% compared to the balance as of 31/12/2020 when they amounted to 7.1 million KM or 2% of total loans.

From the total amount of the MCO loans with the balance as of 31/12/2021 (399.2 million KM), loans with a delay in repayment from 1 to 180 days amount in total 14.5 million KM or 3.6% of total loans, and are lower by 6.5% or 1 million KM compared to the balance as of 31/12/2020, when they amounted to 15.5 million KM or 4.5% of total loans.

For the loan portfolio with a delay in repayment as of 31/12/2021, reserves were calculated to cover credit losses in the total amount of 5.8 million KM or 1.5% of total loans or 40.1% of total loans with a delay in repayment from 1 to 180 days, and are less by 6.7% in relation to the reserves reported with the balance as of 31/12/2020 (6.2 million KM or 1.8% of total loans or 40.2% of total loans with a delay in repayment).

Provisioning for potential losses based on receivables for interest due as of 31/12/2021 were calculated in the amount of 339 thousand KM or 4.6% of total provisioning, while provisioning for potential losses on other asset items (investments in securities, cash, prepaid commissions on contracted credits/loans, funds acquired through the collection of receivables and etc.) amount to 1.2 million KM or 15.9% of total provisioning (provisioning for other asset items of the two MCAs make up 96% of them).

The total amount of reported provisioning on all bases is 7.3 million KM with a decrease of 15.6% or 1.4 million KM (as of 31/12/2020 they were 8.7 million KM).

In MCO with headquarters in the Federation of Bosnia and Herzegovina operating in Republika Srpska, out of the total loans (182.1 million KM), loans with no delay with the balance as of 31/12/2021 amount to 177.9 million KM or 97.7% of total loans. Loans where there is an evident delay in repayment from 1 day to 180 days amount to 4.1 million KM or 2.3% of total loans, and are lower by 3.4% or 148 thousand KM compared to the balance of the same as of 31/12/2020 (they amounted to 4.3 million KM or 2.5% of total loans).

The total amount of provisioning for credit losses of organizational units of MCO from the Federation of Bosnia and Herzegovina on all bases (loans and due interest) is reported in the amount of 1.9 million KM or 1% of total loans or 46% of loans with a delay in repayment from 1 to 180 days, and are higher by 16.6% or by 272 thousand KM in relation to the reported provisioning at the end of 2020 (1.6 million KM or 0.9% of total loans or 38.1% of total loans with delay in repayment).

* * * *

In accordance with the Decision on temporary measures for microcredit organizations to mitigate the negative economic consequences caused by the viral disease "COVID-19", the obligation of MCOs to report on the effects of the implementation of special measures (moratorium, grace period, extension of the deadline for loan repayment, etc.) is stipulated. Based on the submitted reports by MCOs seated in Republika Srpska and the organizational units of MCO seated in the Federation of Bosnia and Herzegovina operating in Republika Srpska, MCOs have, for the implementation of all special measures, as of 31/12/2021, approved 10,900 requests from clients from Republika Srpska in the total amount of 51.7 million KM, which represents 11.6% of the total amount of loans placed to clients from Republika Srpska (as of 31/12/2021, they amounted to 444.6 million KM). From the total number of approved lots as of 31/12/2021, the number of active credit lots with special measures is 3,467 lots, the balance of which as of 31/12/2021 is 16.4 million KM (17% moratorium, 17% grace period and 66% other special measures), which makes 3.7% of the total amount of loans placed to clients from Republika Srpska.

* * * *

According to the reports of MCOs based in Republika Srpska in the period from 01/01-31/12/2021, 310 guarantors/co-borrowers repaid 271 thousand KM³⁴ for 300 beneficiaries of private individuals loans or 0.22% of a total of 135,055 lots of private individuals loans. 250 guarantors/co-debtors who repaid 201 thousand KM for 241 loan beneficiaries refer to the largest MCA, which makes 0.33% of the total number of loan lots of the same MCA. At the level of MCO of Republika Srpska, in the period from 01/01-31/12/2020, 237 guarantors/co-borrowers repaid a total of 228,000 KM³⁵ for 227 beneficiaries of private individuals loans or 0.16% of a total of 140,429 private individual loan lots.

According to the reports of MCO based in Republika Srpska, in accordance with the Decision on more detailed conditions and method of acting of microcredit organization upon client complaint ("Official Gazette of Republika Srpska" No. 58/10), in this reporting period the clients of three MCAs submitted a total of 50 complaints (1 complaint from the guarantor/co-debtor, 1 complaint based on interest calculation and 48 complaints on other grounds) of which 45 complaints were resolved in favor of the clients, 3 complaints were resolved negatively, and 2 complaints are in the process of being resolved.

³⁴ The repayment amount at the expense of guarantors/co-borrowers includes all repayments by guarantors instead of the debtor in the reporting period, whether it is the repayment of one or several installments or the assumption of continuous repayment of the loan.

³⁵ The repayment amount at the expense of guarantors/co-borrowers includes all repayments by guarantors instead of the debtor in the reporting period, whether it is the repayment of one or several installments or the assumption of continuous repayment of the loan.

2.4. Weighted nominal and effective interest rates

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

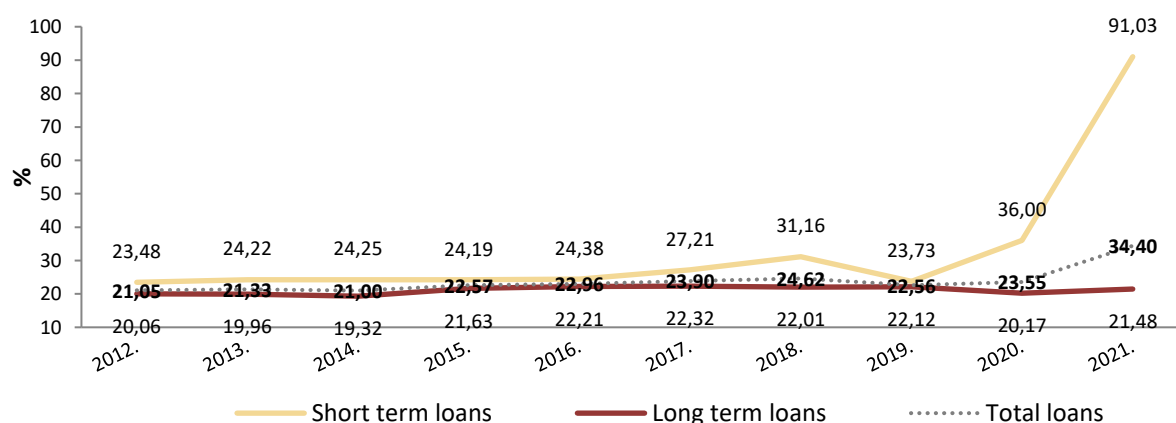
Average weighted nominal and effective interest rates of MCOs based in Republika Srpska and business units of MCOs based in the Federation of Bosnia and Herzegovina operating in Republika Srpska for 2020 and 2021 are given in the following table:

DESCRIPTION	2020				2021				%
	RS MCO		FBiH MCO units in RS		RS MCO		FBiH MCO units in RS		
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	
1. Short term loans									
Providing services	15,41	25,33	21,41	27,52	16,49	28,43	21,28	29,01	
Trade	15,99	27,04	21,22	28,20	14,49	25,72	19,15	25,71	
Agriculture	16,45	19,65	20,50	25,60	16,32	19,98	21,32	26,40	
Manufacture	14,91	22,21	20,67	26,84	13,50	30,04	20,53	27,81	
Housing	19,83	29,22	20,73	24,94	19,13	28,32	20,97	27,26	
Other	14,56	40,27	19,49	30,66	14,85	114,43	19,49	28,48	
Weighted interest rates on short term loans	14,95	36,00	20,03	28,74	15,18	91,03*	20,02	28,01	
2. Long term loans									
Providing services	15,53	17,98	18,15	20,66	16,18	18,96	18,22	21,88	
Trade	14,70	16,79	18,03	20,93	15,70	18,19	15,45	18,50	
Agriculture	14,64	16,58	17,79	20,39	15,51	17,68	18,01	20,39	
Manufacture	14,89	16,93	18,34	20,70	15,63	18,06	17,10	20,29	
Housing	18,59	23,07	19,01	21,87	18,04	22,19	19,15	22,28	
Other	18,08	22,51	21,34	26,74	18,08	23,35	20,48	25,45	
Weighted interest rates on long term loans	16,74	20,17	18,79	21,95	17,26	21,48	19,09	22,63	
Weighted interest rates on total loans	16,36	23,55	18,96	22,92	16,88	34,40*	19,21	23,33	

NIR = nominal interest rates EIR = effective interest rates

* when short-term loans of one MCA with individual loan amount up to 400 KM and with a repayment term of up to 3 months, are excluded from the calculation of average weighted EIR, the average weighted EIR on short-term loans is 23.58%, and the average weighted EIR on total loans is 21.84%

Graph 37: Trend of average weighted EIR of Republika Srpska MCO (2012 – 2021)



The average weighted EIR on total MCO loans from Republika Srpska in this reporting period is higher by 10.85 percentage points compared to the average weighted EIR in 2020. In 2021, a significant increase in the average weighted EIR on total short-term loans is evident, by 55.03 percentage points compared to the weighted average in 2020 (the impact of a significant increase in the average weighted EIR on short-term loans placed for other purposes at one MCA for loans of an individual amount of up to 400 KM and with an agreed repayment term of 31 days to 3 months), and at the same time the average weighted EIR on long-term loans was increased by 1.31 percentage points compared to the weighted average of 2020.

Organizational units of MCO from the Federation of Bosnia and Herzegovina operating in Republika Srpska in 2021 increased the average weighted EIR on total loans by 0.41 percentage points compared to the weighted average for 2020.

Average weighted EIR on total loans in MCO from Republika Srpska, in the period from 01/01-31/12/2021, at eleven MCOs was below the average weighted EIR on total MCO loans from Republika Srpska, so that in two MCOs it was expressed at a rate of 19.26% and 19.54%, in four MCOs it was in the range of 21.52% to 23.63%, in three MCOs it ranged from 26.63% to 29.15%, and two MCOs reported the same at a rate of 33.19% and 33.47%. Two MCOs, in this reporting period, reported an average weighted EIR above the average weighted EIR on total loans of MCOs from Republika Srpska, i.e. one MCO reported the same at a rate of 38.24%, and one MCO reported an average weighted EIR on total loans at a rate of 259.33% (the effect of short-term loans of an individual amount of up to 400 KM with a repayment term of 31 days to 3 months).

In the case of organizational units of MCOs from the Federation of BiH operating in Republika Serbia, the average weighted EIR on total loans, in this reporting period, in four MCOs was below the average weighted EIR on total loans of these organizational units, i.e. it was the same for the mentioned MCOs expressed at the rate that ranged from 20.39% to 22.93%. Five MCOs reported an average weighted EIR above the average weighted EIR on their total loans, and four MCOs reported the same at a rate ranging from 26.03% to 28.54%, while one MCO reported the same at a rate of 76.77% (the impact of loans of an average amount of up to 1,000 KM with a repayment term of up to 12 months).

2.5. Income statement

The microcredit sector of Republika Srpska as of 31/12/2021 reported a positive financial result in the amount of 18.5 million KM with growth at a rate of 49% or in the amount of 6.1 million KM compared to the same period in 2020, mainly as a result of a significant increase in interest and charges income based on loans placed by MCAs in the amount of 7.8 million KM or at a rate of 12%, and a simultaneous reduction in the cost of regulatory provisioning for credit losses of MCA by 2.1 million KM or by 27%.

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

DESCRIPTION	2020				2021				Index 2021/2020
	MCA	MCF	Total	%	MCA	MCF	Total	%	
INCOME									
Interest income and similar income	63.551	911	64.462	98	71.396	1.044	72.440	98	112
Operational income	894	64	958	2	1.058	17	1.075	1	112
Extraordinary income	451	-	451	1	342	268	610	1	135
1. TOTAL INCOME	64.896	975	65.871	100	72.796	1.329	74.125	100	113
EXPENSES									
Interest expenses and similar expenses	10.899	224	11.123	22	12.311	199	12.510	24	112
Operational expenses	31.359	651	32.010	62	33.677	683	34.360	65	107
Costs of provisioning for loan and other losses	8.073	118	8.191	16	5.936	52	5.988	11	73
Extraordinary expenses	172	-	172	-	190	77	267	-	155
TOTAL EXPENSES	50.503	993	51.496	100	52.114	1.011	53.125	100	103
3. PROFIT MCA /SURPLUS OF REVENUES OVER EXPENSES MSF BEFORE TAX (1.-2.)	14.393	- 18	14.375		20.682	318	21.000		146
4. TAX	1.970	17	1.987		2.501	24	2.525		127
5. MCA NET PROFIT/MCF SURPLUS OF REVENUES OVER EXPENSES (3. -4.)	12.423	- 35	12.388		18.181	294	18.475		149

According to the structure of interest income and similar income of MCO as of 31/12/2021, interest income (60.5 million KM or 82% of total income) is higher by 17.4% or 8.9 million KM compared to interest income as of 31/12/2020 (51.6 million KM or 78% of total income).

Other similar income (mainly charges for processing loan applications) as of 31/12/2021 amounted to 11.9 million KM or 16% of total income, and are lower by 7.6% or by 1 million KM compared to the same income as of 31/12/2020 (12.9 million KM or 20% of total income).

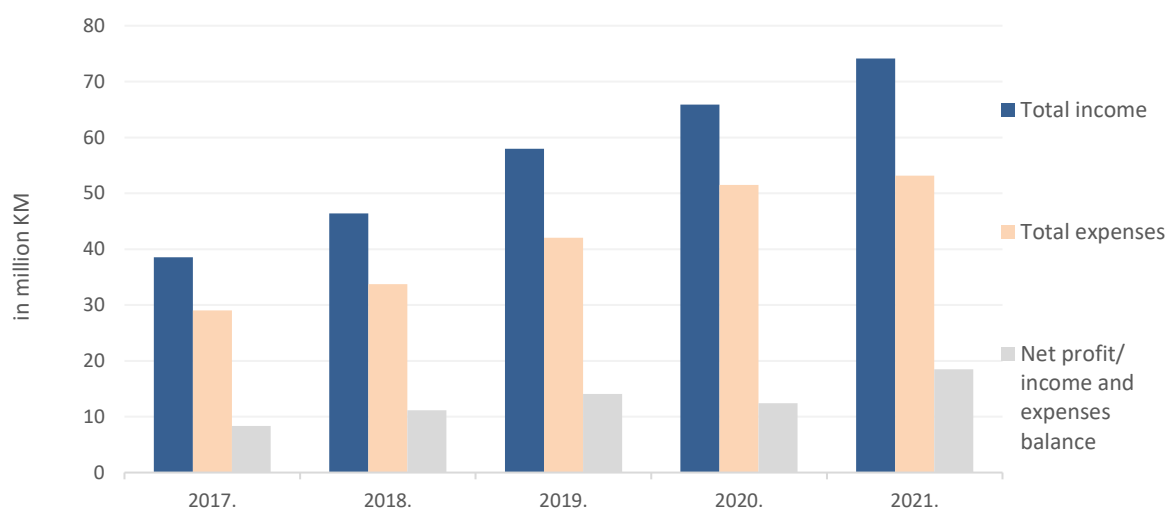
Operational income of MCO (mainly charges for mediation services in insurance business operations and other charges from lending operations) as of 31/12/2021 is higher by 12% or by 117 thousand KM.

According to the structure of interest expenses and similar expenses with the balance as of 31/12/2021, interest expenses amounted to 10.6 million KM or 20% of total expenses with growth at the rate of 12.6% or in the amount of 1.2 million KM compared to the balance as of 31/12/2020. Other similar expenses (mainly based on bank fees) as of 31/12/2021 amounted to 1.9 million KM or 4% of total expenses and are higher by 11.7% or by 204 thousand KM compared to the same period of the previous year.

In the structure of total operational expenses with the balance as of 31/12/2021 (34.4 million KM or 65% of total expenses), the most significant share represents expenses based on salaries and contributions (20.1 million KM or 38% of total expenses) with growth at the rate of 11.7% or in the amount of 2.1 million KM (increase in the number of employees by 59 workers or by 11%) compared to the same period of the previous year. Expenses for office space, other fixed assets and overheads (4.9 million KM or 9% of total expenses) are higher by 3% or 166 thousand KM, while other operational expenses amounted to 9.4 million KM or 18% of total expenses (share of two MCA in these expenses is 80%) and are higher by 1%, all in relation to the balance of the same period of the previous year (expenses of marketing, software and maintenance of the information system, direct write-off of receivables, cost of lease, depreciation, court costs based on the resolution of disputes etc.).

The expense of provisions for covering credit losses (6 million KM or 11% of total expenses) is lower by 27% or by 2.2 million KM. Comparing the balance of the mentioned expenses with that as of 31/12/2020, it is evident that the aforementioned reduction was influenced by the cancellation, i.e. the reduction of regulatory reserves at three MCAs by 1.1 million KM, and the cessation of operations of one MCA (at its request, the operating license was revoked in January 2021), which reported recorded reserves at the end of 2020 in the amount of 1 million KM.

Graph 38: Income statement items of Republika Srpska MCO sector (2017 – 2021)



At the level of the Republika Srpska MCO, with the balance as of 31/12/2021, a positive financial result was generated in the total amount of 18.5 million KM, which is the result of the reported net profit in ten MCAs in the total amount of 20.1 million KM, a loss in one MCA in the amount of 1.9 million KM and of the recorded net surplus of income over the expenses of the MCF in the total amount of 294 thousand KM.

2.6. Recommendations for the microcredit sector of Republika Srpska

The performance indicators of the microcredit sector for 2021 indicate growth in total assets, loans, total capital and the number of employees, and profitability has improved significantly.

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

- capital strengthening as a basis for sustainability and business improvement;
- control of the level of due receivables, especially loans with a delay 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 in-house risk management systems, primarily credit risk;
- improvement of asset management and adequate allocation of reserves according to regulatory requirements, i.e. cost of value corrections in accordance with IAS/IFRS;
- preparation and updating of business plans;
- establishment of adequate policies and systems for funding sources planning;
- establishment of effective internal control and audit systems;
- further improvement of policies and procedures for anti-money laundering and countering the financing of terrorism;
- more comprehensive information and adequate education with the aim of better protection of microcredit users;
- personnel 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 operations and reporting, while ensuring the security of information systems and developing new procedures for electronic business and working with clients remotely;
- continuous analysis of products provided to microcredit users and their adaptation to market conditions and economic viability of users.

Starting from the Agency's basic task of maintaining and strengthening the stability of the microcredit sector, the Agency's tasks in the coming period will be focused on the following:

- continuous supervision of microcredit organizations through on-site and off-site supervision;
- enhanced monitoring of credit risk, primarily in terms of the adequacy of reserves for potential credit losses, that is, the adequacy of credit risk management;
- an active role in the development of new laws and by-laws for the operation and supervision of the microcredit sector;
- timely and adequate acting of MCO in accordance with the measures of the Agency;
- an active role in the supervision and protection of the rights of microcredit users and, in this sense, improving the transparency of MCO operations;
- monitoring of activities on anti-money laundering and countering the financing of terrorism, and in this sense improving the cooperation with other competent institutions;
- professional development of in-house personnel and capacity building for efficient supervision of microcredit organizations;
- active participation in the work of the Committee for Coordination of the Financial Sector of Republika Srpska;
- further improvement of cooperation with the Banking Agency of the Federation of Bosnia and Herzegovina with the aim of improving the effective supervision of MCO, and the continuation and improvement of cooperation with external auditors;
- continuous improvement of information systems.

IV LEASING PROVIDER SECTOR

In 2021, there were no registered LPs based in Republika Srpska.

As of 31/12/2021, data were provided on the operations of LP with headquarters in the Federation of BiH, which have a license issued by the Agency to operate in Republika Srpska, and for three business units of LP that are part of three leasing companies with headquarters in the Federation of BiH. Also, the data on financial leasing includes the data of the organizational unit of a bank based in the Federation of BiH, which performs financial leasing (FLP). Data on the operations of these organizational units are included in the balance sheets of the aforementioned parent companies for leasing providers (LP) and banks (FLP).

The reporting basis for monitoring and supervising the operations of LP business units based in the Federation of Bosnia and Herzegovina (three LP business units) and the organizational unit of the bank that performs financial leasing activities (FLP) consists of 1 monthly report and 6 quarterly reports.

In the LP business units that operate in Republika Srpska, and whose headquarters are in the Federation of BiH, 7 workers are employed, as well as at the end of 2020. Out of the total number of employees, there are 5 employees with university degree, and 1 employee with college degree and secondary school degree.

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

DESCRIPTION	2020					2021					Index 2021./ 2020.
	RS leasing		LP/FLP FBiH units		Total	RS leasing		LP/FLP FBiH units		Total	
	Fin. leas.	Oper. leas.	Fin. leas.	Oper. leas.		Fin. leas.	Oper. leas.	Fin. leas.	Oper. leas.		
BY LEASING SUBJECT											
Passenger vehicles	-	-	40.186	7.349	47.535	-	-	48.001	7.821	55.822	117
Vehicles for service. act. (off-road and passenger)	-	-	35.200	5.870	41.070	-	-	37.722	6.095	43.817	107
Machinery and equipment	-	-	28.896	85	28.981	-	-	31.752	53	31.805	110
Real-estate	-	-	33	-	33	-	-	23	-	23	70
Rail vehicles, watercraft and aviation facilities	-	-	-	-	-	-	-	-	-	-	-
Household appliances	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	34	-	34	-	-	24	-	24	71
Total	-	-	104.349	13.304	117.653	-	-	117.522	13.969	131.491	112
PER LEASING RECEIVER											
Legal entities	-	-	97.570	8.751	106.321	-	-	108.286	10.179	118.465	111
Entrepreneurs	-	-	2.802	119	2.921	-	-	4.452	98	4.550	156
Private individuals	-	-	3.529	77	3.606	-	-	4.279	83	4.362	121
Other	-	-	448	4.357	4.805	-	-	505	3.609	4.114	86
Total	-	-	104.349	13.304	117.653	-	-	117.522	13.969	131.491	112

Receivables based on financial and operational leasing of LP business units and FLP financial leasing as of 31/12/2021 amount in total 131.5 million KM with a growth rate of 11.8% or in the amount of 13.8 million KM compared to the end of 2020.

Receivables based on financial leasing (LP and FLP) amount to 117.5 million KM or 89% of total leasing with growth at a rate of 12.6% or in the amount of 13.2 million KM. Receivables based on LP operational leasing (14 million KM or 11% of total leasing) increased by 5% or by 0.7 million KM, all in relation to the balance as of 31/12/2020.

Based on the subject of financial leasing, the largest receivables relate to the financing of passenger vehicles (37% of total leasing) with growth at a rate of 19% or in the amount of 7.8 million KM, followed by financing of vehicles for the performance of activities (29% of total leasing), which is higher by 2.5 million KM or by 7%, and financing of machinery and equipment (24% of total leasing) with growth at the rate of 10% or in the amount of 2.5 million KM, all in relation to the balance as of 31/12/2020.

Financial leasing receivables from legal entities (108.3 million KM or 82% of total leasing) are significantly represented and recorded growth at a rate of 11% or in the amount of 10.7 million KM, followed by receivables from private individuals (4, 4 million KM or 3% of total leasing) which are higher by 59% or by 1.6 million KM, and receivables from entrepreneurs (4.3 million KM or 3% of total leasing) with growth at a rate of 21% or in the amount of 0.7 million KM, all compared to the balance at the end of the previous year.

Based on the subject of operational leasing (LP), there is an evident increase in receivables based on passenger vehicles (6% of total leasing) at a rate of 6% or in the amount of 0.5 million KM, as well as receivables based on vehicles for the performance of activities (5% of total leasing) which are higher by 4% or by 0.2 million KM than the balance of the same at the end of 2020. Operational leasing based on the lessee is more significant among legal entities (10.2 million KM or 8% of total leasing) with growth at a rate of 16% and among other users (3% of total leasing) with a decrease at a rate of 25% or in the amount of 0.7 million KM.

Average weighted nominal interest rates and effective interest rates of leasing fees based on financial leasing for the year 2020 and 2021 for the organizational units of LP and FLP operating in Republika Srpska, whose headquarters are in the Federation of Bosnia and Herzegovina, are given in the following table:

Table 52: Average weighted interest rates of leasing fee					%
DESCRIPTION	2020		2021		
	NIR	ELIN	NIR	ELIN	
1. By leasing subject					
Passenger vehicles	4,36	12,63	4,28	11,37	
Vehicles for performing services	4,00	10,69	3,83	10,12	
Machinery and equipment	3,18	4,53	3,74	6,76	
Real-estate	-	-	-	-	
Rail vehicles, watercraft and aviation facilities	-	-	-	-	
Household appliances	-	-	-	-	
Other	-	-	-	-	
2. By leasing receiver					
Legal entities	3,79	8,89	3,82	8,92	
Entrepreneurs	5,44	11,76	4,67	9,61	
Private individuals	4,88	22,35	4,82	19,22	
Other	2,13	2,98	-	-	
Total weighted interest rates	3,87	9,50	3,91	9,32	

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

The average weighted leasing fee effective interest rate (ELIN) of LP and FLP business units in this reporting period is lower by 0.18 percentage points, comparing it with the same one in 2020.

V ANTI-MONEY LAUNDERING AND COUNTERING THE FINANCING OF TERRORISM

In accordance with the Law on the Banking Agency of Republika Srpska, the Agency supervises the compliance of the operations of banks and microcredit organizations with the minimum standards of anti-money laundering and countering the financing of terrorism. Also, the Law on anti-money laundering and countering the financing of terrorism ("Official Gazette of Bosnia and Herzegovina", No. 47/14 and 46/16) stipulates that the supervision of its implementation in banks and microcredit organizations is carried out by the Agency.

During 2021, the Agency, through off-site and on-site supervision, supervised the compliance of the operations of banks and microcredit organizations with the standards of anti-money laundering and countering the financing of terrorism. Supervision was carried out with the consistent application of the instructions for supervision of compliance of banks and microcredit organizations with the minimum standards of anti-money laundering and countering the financing of terrorism.

Bank supervision determined that the banks adopted policies on client eligibility, defined which clients are eligible for the bank, that they apply an approach to the client based on the analysis of the risks that the client may have for the bank, and that they established registers of client profiles for legal entities and private individuals. Also, banks have adopted client identification policies as a basic element of the "Know Your Customer" standard and apply them when establishing business relations with clients, as well as during the business relation. In their operations, banks also apply policies on the constant monitoring of accounts and transactions of bank clients, based on which they have established transaction limits for certain types of accounts and transactions, and with the application of information systems, adequate application of the established limits in monitoring accounts and transactions is enabled. The supervision found that three banks did not fully and adequately apply the minimum standards for anti-money laundering and countering the financing of terrorism (in the follow-up procedure, decisions were issued to eliminate the identified non-compliances, and the banks informed the Agency in writing about their elimination).

Also, microcredit organizations have adopted Programs for the implementation of activities for anti-money laundering and countering the financing of terrorism, which contain: policies on client eligibility, that define which clients are eligible for the microcredit organization, as well as the method to establish a client profile register for private individuals and legal entities; policies on identification and monitoring of client activities that are applied when establishing business relations with clients, as well as during the business relations with them, and policies on managing the risk of money laundering and financing of terrorist activities, which define the responsibilities of the bodies of microcredit organizations and reporting to the competent authorities. During the supervision, it was determined that four microcredit organizations did not fully and adequately apply the minimum standards for anti-money laundering and countering the financing of terrorism (in the follow-up procedure, decisions were issued to eliminate the identified non-compliances, and the microcredit organizations informed the Agency in writing about their elimination).

Based on the performed supervision, and the state of banks and microcredit organizations in the previous supervisory cycle, it can be concluded that they are largely aligned with the standards of anti-money laundering and countering the financing of terrorism. Management of risks that may appear in business operations as a consequence of money laundering and financing of terrorist activities (operational risk, reputational risk, concentration risk, legal risk) is at a satisfactory level.

Based on submitted reports on cash transactions of 30 thousand KM or more, related cash transactions of 30 thousand KM or more and suspicious transactions, in 2021 banks reported to the Agency for Investigations and Protection of BiH - Financial Intelligence Department a total of 94,883 transactions worth 8 billion KM (compared to the same period in 2020, the number of reported transactions increased by 50%, and the total value of reported transactions increased by 73%).

In 2021, banks reported a total of 41 suspicious money laundering transactions in the total amount of 11.7 million KM (compared to 2020, the number of reported transactions increased by 2.5%, while the total value of reported transactions increased by 37, 6%) and 110 suspected money laundering clients (33 suspected clients more than in 2020).

In this period too, there were no reported suspicious transactions, nor suspicious clients for the financing of terrorist activities.

A comparative overview of the number and value of reported transactions, reported suspicious transactions and clients suspected of money laundering by banks in 2020 and 2021 is given in the following tables:

Table 53: Reported transactions					mill. KM
Transaction type	12/2020		12/2021		
	Number	Amount	Number	Amount	
Transactions reported before execution	7	1,5	5	5,5	
Transactions reported within 3 days	63.188	4.625,3	94.822	8.006,9	
Transactions reported after the 3-day deadline	74	7,8	56	4,5	
TOTAL	63.269	4.634,6	94.883	8.016,9	

Table 54: Reported suspicious transactions					mill. KM
Врста трансакција	12/2020.		12/2021.		
	Number	Amount	Number	Amount	
Transactions reported before execution	7	1,5	5	5,5	
Transactions reported within 3 days	23	2,2	29	4,6	
Transactions reported after the 3-day deadline	10	4,8	7	1,6	
TOTAL	40	8,5	41	11,7	

Table 55: Reported suspicious clients						
Type of suspicion on client	Number of recorded suspicious clients	12/2020		12/2021		
		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	77	15	62	110	3	107
Clients suspicious for financing terrorist activities	0	0	0	0	0	0
TOTAL (1+2)	77	15	62	110	3	107

In 2021, microcredit organizations had no reported cash transactions, suspicious transactions, or reported clients suspected of money laundering or terrorist financing.

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 legal regulations.

ATTACHMENT

BANKING SECTOR

- **Basic data on banks**
- **Sector structure of total loans**

MCO SECTOR

- **Basic data on MCO**

Attachment 1: Basic data on banks									mill. KM
BANK	HEADQUARTER	ADDRESS	MANAGEMENT PRESIDENT	2021					
				Net asset	Total capital	Total loans	Deposits	No. of employees	
"Nova banka" a.d. Banja Luka	Banja Luka	Kralja Alfonsa 13 br 37A	Siniša Adžić	2.663,3	215,4	1.533,5	2.068,7	686	
"NLB Banka" a.d. Banja Luka	Banja Luka	Milana Tepića 4	Goran Babić	1.820,3	189,6	955,0	1.485,4	479	
"UniCredit Bank" a.d. Banja Luka	Banja Luka	Marije Bursać 7	Gordan Pehar	1.682,0	256,6	1.073,7	1.309,3	437	
"Sberbank" a.d. Banja Luka	Banja Luka	Jevrejska 71	Aleksandar Kesić	1.087,1	141,6	683,3	863,1	386	
"Addiko Bank" a.d. Banja Luka	Banja Luka	Aleja Svetog Save 13	Srđan Kondić	946,0	158,0	616,6	727,7	351	
"MF banka" a.d. Banja Luka	Banja Luka	Aleja Svetog Save 61	Bojan Luburić	601,7	77,9	454,6	452,8	261	
"Komercijalna banka" a.d. Banja Luka	Banja Luka	Jevrejska 69	Boško Mekinjić	507,8	56,6	270,7	393,1	140	
"Naša banka" a.d. Bijeljina	Banja Luka	Patrijarha Pavla 3	Dejan Vuklišević	243,0	20,8	117,7	198,4	188	
			TOTAL	9.551,3	1.116,5	5.705,1	7.498,6	2.928	

Attachment 2: Sector structure of total loans										mill. KM and %	
Description	Credit risk level			Total loans	ECL			Total ECL	NPL ratio	NPL Cover. rate	
	1	2	3		1	2	3				
Total loans to legal entities	2.364,4	431,1	116,5	2.912,1	30,9	48,3	92,3	171,5	4,0	79,2	
A - Agriculture, forestry, fishing	77,2	8,2	6,9	92,4	1,1	1,2	5,5	7,8	7,5	79,7	
B - Mining	28,1	12,4	0,6	41,1	0,5	1,1	0,5	2,1	1,4	82,9	
C - Manufacture industry	353,3	99,3	32,3	484,9	5,9	12,0	27,9	45,7	6,7	86,3	
D - Production and supply of electricity, gas, steam and air conditioning	104,5	27,5	0,1	132,1	1,1	2,6	0,1	3,8	0,1	93,5	
E - Water supply; sewerage, waste management and remediation activities	15,7	11,3	0,9	27,9	0,2	0,9	0,8	1,9	3,1	91,6	
F - Construction	193,6	60,4	10,2	264,1	2,6	6,1	6,0	14,7	3,8	58,7	
G - Wholesale and retail trade; repair of motor vehicles and motorcycles	504,0	82,9	49,9	636,8	6,7	8,7	41,0	56,4	7,8	82,2	
H - Traffic and warehousing	95,6	28,7	3,4	127,7	1,4	3,3	2,9	7,6	2,7	84,0	
I - Accommodation, food preparation and serving activities; hotel and catering	37,4	35,4	6,1	78,9	0,3	5,2	2,0	7,5	7,8	33,3	
J - Information and communication	110,0	19,4	0,1	129,6	0,7	2,2	0,1	3,0	0,1	86,9	
K - Financial and insurance operations	96,6	6,5	0,4	103,6	0,9	1,8	0,4	3,1	0,4	100,0	
L - Real estate operations	20,1	5,1	0,0	25,3	0,2	0,5	0,0	0,7	0,2	93,3	
M - Expert, scientific and technical operations	59,6	13,7	2,8	76,0	0,6	1,2	2,6	4,5	3,7	94,7	
N - Administrative and support service activities	16,1	3,7	1,2	21,1	0,3	0,5	1,1	1,8	5,7	89,9	
O - Public administration and defence; compulsory social insurance	556,5	8,9	0,5	566,0	7,6	0,7	0,5	8,8	0,1	99,6	
P - Education	0,4	2,8	0,6	3,8	0,0	0,1	0,6	0,7	16,9	85,2	
Q - Health and social work activities	79,9	2,0	0,2	82,2	0,6	0,2	0,1	0,9	0,3	62,3	
R - Art, entertainment and recreation	10,4	1,6	0,0	12,1	0,2	0,1	0,0	0,3	0,1	93,8	
S - Other service providing activities	5,3	1,2	0,1	6,6	0,1	0,1	0,1	0,4	2,1	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	2.405,9	276,8	110,3	2.793,1	29,7	28,6	92,7	151,0	3,9	84,1	
General consumption	1.491,1	202,2	81,4	1.774,8	22,9	20,7	70,6	114,2	4,6	86,7	
Housing	758,5	43,9	14,1	816,5	4,4	4,4	11,2	19,9	1,7	79,3	
Performing activities	156,3	30,7	14,7	201,8	2,5	3,5	10,9	16,9	7,3	74,2	
Total loans	4.770,4	708,0	226,8	5.705,1	60,6	76,8	185,0	322,5	4,0	81,6	

Attachment 3: Basic data on MCO

000 KM

MICROCREDIT ORGANIZATION	HEADQUARTER	ADDRESS	DIRECTOR	12/2021				
				Gross assets	Gross loans	Total capital MCA/ Holding MCF	Net profit/loss of MCA and Net surplus/deficit of income over expenditure of MCF	No. of employees
MKD "Mikrofin" d.o.o. Banja Luka	Banja Luka	Vase Pelagića 22	Mladen Bosnić	344.578	287.879	124.712	13.568	353
MKD "FinCredit" d.o.o. Banja Luka	Banja Luka	Nikole Pašića 1	Slađan Budiša	51.383	43.877	10.740	3.175	67
"Prvo penzionersko mikrokreditno društvo" a.d. Banja Luka	Banja Luka	Kralja Petra I Karađorđevića 66	Vesna Todorović	15.332	11.757	2.042	1.492	12
MKD "Credis" a.d. Banja Luka	Banja Luka	Knjaza Miloša 3a	Dragan Katana	10.349	8.067	2.067	277	33
"Brčko gas penzionersko mikrokreditno društvo" a.d. Banja Luka	Banja Luka	Kralja Petra I Karađorđevića 119	Bojana Teodorović Kukrika	10.154	9.848	5.199	883	19
MKD "Zdravo" d.o.o. Banja Luka	Banja Luka	Bulevar vojvode Stepe Stepanovića 175 B	Jelica Galić	5.583	4.976	2.606	71	13
MKD "Auris" a.d. Banja Luka	Banja Luka	Veljka Mladenovića 7d	v.d. Radenko Vujić	5.582	4.043	2.044	28	11
MKD "Pro fin" Istočno Sarajevo	Istočno Sarajevo	Spasovdanska bb	Gordana Ćorović	5.497	5.027	940	327	19
MKD "Privrednik" d.o.o. Bijeljina	Bijeljina	Stefana Dečanskog 125	Davor Pejić	4.813	4.545	1.170	155	8
MKD "Taurus" d.o.o. Banja Luka	Banja Luka	Radoslava Lakića 40	Milorad Despotović	2.995	2.785	817	95	6
MKF "Pro fin" Istočno Sarajevo	Istočno Sarajevo	Spasovdanska bb	Jelena Lučić	2.492	2.076	1.111	104	12
MKF "Prodest" Banja Luka	Banja Luka	Dosideja Obradovića 1	Dragan Ostojić	1.342	1.147	311	190	3
MKD "Digital Finance International" d.o.o. Banja Luka	Banja Luka	Svetozara Markovića 5/11	Dragan Danojević	16.018	13.206	-395	-1.890	59
				476.118	399.233	153.364	18.475	615

BANKING AGENCY OF REPUBLIKA SRPSKA
Vladike Platona 1/A
78000 Banja Luka

+387 51 224 079
+387 51 224 070
office@abrs.ba
www.abrs.ba