

# REPORT

## on the condition in the banking system of Republika Srpska

12/23

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BANKING AGENCY OF  
REPUBLICA SRPSKA





## **BANKING AGENCY OF REPUBLIKA SRPSKA**

Report on the condition in the banking system of Republika Srpska  
for the period 01/01/2023 – 31/12/2023

**Banja Luka, May 2024**



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## Abbreviations

Agency	Banking Agency of Republika Srpska
FBiH	Federation of Bosnia and Herzegovina
BiH	Bosnia and Herzegovina
CB BiH	Central Bank of Bosnia and Herzegovina
LP	Leasing Provider
FLP	Financial leasing provider – Business unit within the bank
EBA	European Banking Authority
EIR	Effective interest rate
ESCB	European System of Central Banks
EU	European Union
EUR	European Union official currency
ECB	European Central Bank
ECL	Expected Credit Loss
ICAAP	Internal Capital Adequacy Assessment Process
ILAAP	Internal Liquidity Adequacy Assessment Process
KM	Convertible mark
LCR	Liquidity Coverage Ratio
NSFR	<i>Net Stable Funding Ratio</i>
MCA	Microcredit Asociation
MCO	Microcredit organization
MCF	Microcredit Foundation
IAS	International Accounting Standard
IFRS	International Financial Reporting Standards
NPL	Non-performing Loans
POS	Point of Sale
ROAA	Return on Average Assets
ROAE	Return on Average Equity
SREP	Supervisory Review and Evaluation Process
FED	Federal Reserve District
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 of Republika Srpska <sup>1</sup>
CET 1 ratio - 6,75%	Article 34, Paragraph (1), Item 1) of the Decision on calculating capital in banks <sup>2</sup>
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 liquidity risk management <sup>3</sup>
NSFR ratio ≥100%	Article 47, Paragraph (2) of the Decision on liquidity risk management
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 on minimum standards of bank FX risk management <sup>4</sup>
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 on minimum standards 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 on minimum standards of bank FX risk management
Ratio of change in the economic value of the banking book and regulatory capital ≤ 20%	Article 7 of the Decision on managing interest rate risk in the banking book (IRRBB) <sup>5</sup>
Hirschman-Herfindahl Index - HHI	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.

<sup>1</sup> „Official Gazette of Republika Srpska“ No. 4/17, 19/18 and 54/19

<sup>2</sup> „Official Gazette of Republika Srpska“ No. 74/17, 114/17, 48/19, 114/20, 120/21 and 26/22

<sup>3</sup> „Official Gazette of Republika Srpska“ No. 62/21, 65/21 and 117/22

<sup>4</sup> „Official Gazette of Republika Srpska“ No. 12/03, 53/03, 85/04, 74/17 and 56/20

<sup>5</sup> „Official Gazette of Republika Srpska“ No. 75/17

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 loans/(deposits and loans taken)	Shows the ratio of the most important banking aggregates, loans, on the asset position and deposits and loans taken, on the funding source position. The higher the ratio, 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 <sup>6</sup>
Minimum amount of core capital of MCF - 50,000 KM	Article 37, Paragraph (1) of the Law on microcredit organizations
The total amount of donations awarded by MCO during the year cannot exceed 10% of the generated net profit, i.e. the net surplus of income over expenses according to the audited financial statements.	Article 16a, Paragraph (2) of the Law on microcredit organizations
MCO cannot award donations to related parties.	Article 16a, Paragraph (3) of the Law on microcredit organizations
MCO total investments in construction facilities, equipment, software, shares in other legal entities and held-to-maturity securities cannot amount more than 50% of its capital.	Article 16b of the Law on microcredit organizations
MCF cannot grant microloans to related parties.	Article 39, Paragraph (2) of the Law on microcredit organizations

<sup>6</sup> „Official Gazette of Republika Srpska“ No. 64/06 and 116/11

## SUMMARY

### Basic indicators of the Republika Srpska (RS) banking sector operations as of 31/12/2023

RS banking sector is comprised of **8 banks** which operate through a network of 277 organizational units and 3,021 employees.

10.4  
bill.  
KM

**Gross balance sheet assets** increased by 300.1 million KM or 3% compared to the end of 2022.

10.0  
bill.  
KM

**Net balance sheet assets** increased by 273.4 million KM or 3% compared to the end of 2022.

1.6  
bill.  
KM

**Total off-balance sheet** increased by 127.8 million KM or 9% compared to the end of 2022. In the structure of the risk off-balance sheet all categories recorded growth.

1.3  
bill.  
KM

**Total balance sheet capital** comprises of 13% of total liabilities and is higher by 90.1 million KM or 7% compared to the end of 2022, due to the increase in retained earnings position in the amount of 86.9 million KM, ordinary shares by 3.9 million KM and decrease in deductible item of other capital by 3.8 million KM.

1.2  
bill.  
KM

**Regulatory capital** increased by 99 million KM or 9% compared to the end of 2022, and comprises of Tier 1 in the amount of 1,130.0 million KM (growth by 86.6 million KM or 8%) and Tier 2 in the amount of 58.3 million KM (growth by 12.4 million KM or 27%). Changes to the structure and volume of Tier 1 were affected by: the growth of retained earnings by 75.9 million KM, recorded profit of the current year by 14.4 million KM, ordinary shares by 2.2 million KM, other reserves by 1.8 million KM and decrease in deductible item of capital by 0.8 million KM, and decrease was also present in the position of accumulated other comprehensive income by 8.6 million KM.

21.0  
%

**Regulatory capital ratio** is higher by 0.8 percentage point compared to the end of 2022 and by 9 percentage points than stipulated minimum. Tier 1 ratio is 19.9%, CET 1 19.8% and both increased by 0.5 percentage point compared to the end of 2022.

10.8  
%

**Leverage ratio** is higher by 0.5 percentage point compared to the end of 2022.

11.6  
bill.  
KM

**Total banks' exposure or total financial asset** is higher by 415.3 million KM or 3.7% compared to the end of 2022. Balance sheet exposures amount to 10.2 billion KM (higher by 3%), and off-balance sheet exposures amount to 1.4 billion KM (higher by 9.1%).

3.1  
%

**ECL ratio** to total financial asset is higher by 0.2 percentage point compared to the end of 2022. If we observe financial assets classified according to credit risk levels, the ECL coverage for exposures assigned to credit risk level 1 is 0.8% and increased by 0.1 percentage point, the coverage for exposures assigned to credit risk level 2 is 10.7% and decreased by 0.3 percentage point, and for exposures assigned to credit risk level 3, the coverage ratio is 76.1% and increased by 1.5 percentage points compared to the end of 2022.

6.1  
bill.  
KM

**Total gross loans** increased by 263.6 million KM or 4.6% compared to the end of 2022. **The largest share** in total loans, standing at 49.8%, is still held by retail loans, and loans to private enterprises and companies, which make up 34.7% of total loans.

The largest increase in loans was recorded in loans given to private enterprises and companies by 196.1 million KM or 10%, in retail loans by 93.3 million KM or 3%, in loans to public and state enterprises by 16.6 million KM or 5%, to non-banking financial institutions by 9.2 million KM or 16% and to non-profit organizations by 1.4 million KM or 13%. The decline in loans was recorded in loans to the Government and government institutions by 52.4 million KM or 10% and other loans by 0.6 million KM or 3%.

In the structure of retail loans, loans for financing general household consumption make up 64.8% of total retail loans, while housing loans make up 29.2% of total retail loans.

220.5  
mill.  
KM

**Non-performing loans (NPL)** increased by 7 million KM or 3.3% compared to the end of 2022. **Share of NPL** in total loans is 3.6% and decreased by 0.1 percentage point compared to the end of 2022.

5.20  
%

**ECL total loans coverage ratio** is higher by 0.15 percentage point compared to the end of 2022.

75.6  
%

**ECL total NPL coverage ratio** is higher by 2.1 percentage points compared to the end of 2022.

6.95  
%

**Total average weighted effective interest rate on newly approved loans of banks from Republika Srpska in this reporting period** is higher by 0.92 percentage point compared to the end of 2022.

2.6  
bill.  
KM

**Cash funds** are less by 76.6 million KM or 3% compared to the end of 2022. **The most significant portion of cash funds** in the amount of 1.5 billion KM or 57.2% of total cash funds **is held on reserve accounts at the Central Bank of BiH**, while cash funds above the required reserve amount to 630.0 million KM or 43% of total cash funds on the reserve account, while the required reserve funds amount to 833.7 million KM or 57% of the total cash funds on the reserve account.

1.4  
bill.  
KM

**Investments in securities** are higher by 106.1 million KM or 8.2% compared to the end of 2022. In the structure of debt securities, the dominant share is held by securities issued by sovereigns and governments, accounting for 96.2%, which recorded an increase by 115.9 million KM or 10% compared to the end of 2022. In the structure of debt securities issued by sovereigns and governments, the dominant share is held by securities issued by Republika Srpska with a share of 82.7% (in the amount of 1.1 billion KM and a growth rate of 19%) and EU member states with a share of 12.5% (in the amount of 171.7 million KM and a decline by 24%).

7.7  
bill.  
KM

**Deposits** recorded an increase of 144.9 million KM or 2% compared to the end of 2022. Household deposits make up 59.3% of total deposits and are **higher** by 503.2 million KM or 12%. Deposits of private enterprises and companies, which are the second largest share in total deposits (18.4%), recorded an **increase** of 113.6 million KM or 9%.

**Decrease in deposits** is recorded in sectors that make up 20.4% of total deposits. Deposits of public and state enterprises (accounting for 4% of total deposits) had the highest drop and are lower by 186.7 million KM or 37%, Government and government institutions (accounting for 11.1% of total deposits) are lower by 134.3 million KM or 13%, and deposits of banks and banking institutions (accounting for 1.7% of total deposits) are lower by 100.4 million KM or 43%. **Deposits in domestic currency** make up 68.7% of total deposits, while **deposits in foreign currency** make up 31.3%. **Long-term deposits** make up 31% of total deposits (up by 19%), while **short-term deposits** make up 69% of total deposits (down by 4%).

4.4  
bill.  
KM

**Household savings, including current accounts**, is higher by 479 million KM or 12% compared to the end of 2022. Term savings account for 74% of the total household savings and is higher by 222.2 million KM or 13%, and demand savings without current household accounts make up 26% of the total household savings and is higher by 7.9 million KM or 1%. Sight deposits held at household accounts increased by 248.9 million KM or 16%.

717.8  
mill.  
KM

**Total liabilities for taken loans** are higher by 13.2 million KM or 2% compared to the end of 2022 and make up 7.2% of total liabilities.

236.1  
%  
LCR

**LCR at the level of the banking sector** is higher by 14.8 percentage points compared to the end of 2022 (observed individually by banks, the LCR ranges from 167.9% to 620%).

168.2  
%  
NSFR

**NSFR at the level of the banking sector** is higher by 1 percentage point compared to the end of 2022 (observed individually by banks, the NSFR ranges from 159.5% to 186.6%).

189.3  
mill.  
KM

**The financial result of the banking sector is positive** and the net profit is higher by 50 million or 36% compared to the end of 2022. In this reporting period, all banks reported a positive financial result.

50  
org.  
units

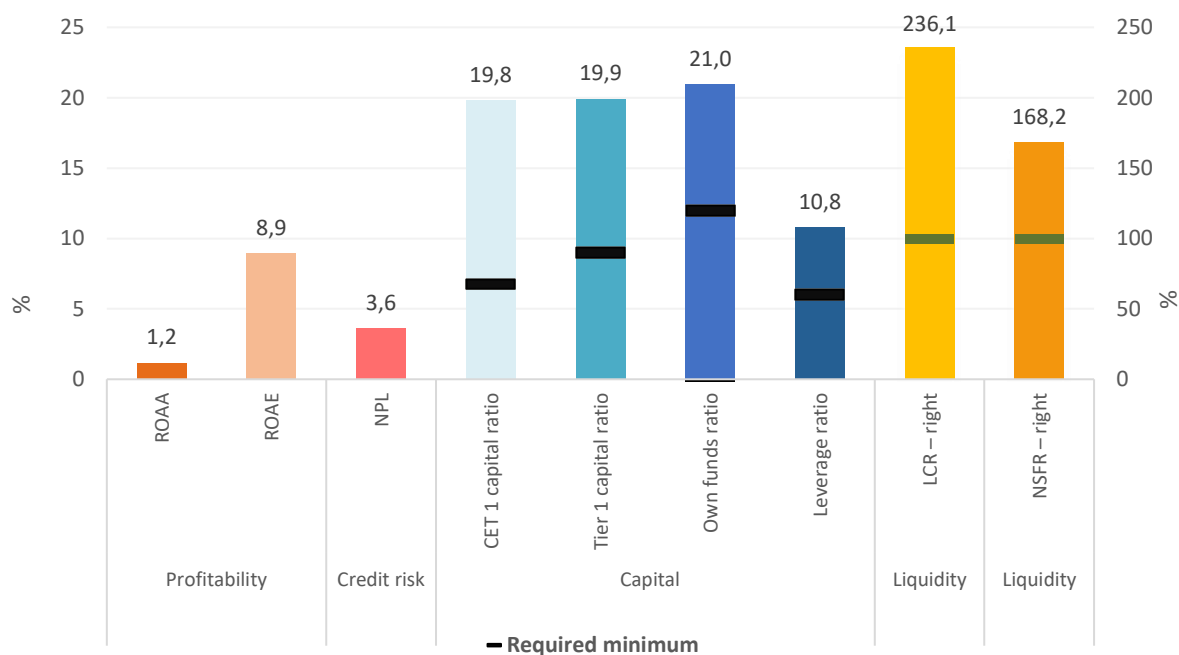
Seven banks based in the Federation of BiH, which have 50 organizational units in Republika Srpska, as of 31/12/2023 have 2.1 billion KM in loans, which make up 26.7% of total loans placed in Republika Srpska (an increase of 10%) and 1.2 billion KM in deposits, which make up 14.4% of the total deposits collected in Republika Srpska (a growth of 2% compared to the end of 2022).

25  
org.  
units

Three banks from Republika Srpska, which have 25 organizational units in the Federation of BiH, as of 31/12/2023 have 282.1 million KM in loans with a growth of 1% and 624.8 million KM in deposits, which had a growth of 37% compared to the end of 2022.

The following graph presents the key indicators of the RS banking sector operations:

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



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

\* \* \* \*

## Basic business operations indicators of the Republika Srpska microcredit sector as of 31/12/2023

**RS microcredit sector** as of 31/12/2023 comprises of 15 MCOs, of which 13 MCAs, which as profit organizations may place microloans up to a maximum of 50 thousand KM and 2 MCFs, which as non-profit organizations may place microloans up to a maximum of 10 thousand KM. RS MCO operated from the headquarters and through 231 organizational units, and employed a total of 782 workers, which is by 122 workers or 18.5% more than at the end of 2022.

Also, in Republika Srpska, 112 organizational units of MCO within 9 MCO (7 MCF and 2 MCA) operated, whose headquarters are in the Federation of BiH, and they employed a total of 356 workers (as of 31/12/2022, they employed 340 workers). The financial indicators of these organizational units are included in the balance sheets of parent MCOs.

624.1  
mill.  
KM

**Total asset (gross)** of MCO based in Republika Srpska is higher by 14% or 78.6 million KM compared to the end of 2022.

544.6  
mill.  
KM

**Gross loans** make up 87% of total assets and grew at a rate of 21% or in the amount of 94 million KM, of which loans with no repayment delay amount to 529.6 million KM or 97.3% of total loans.

2.1  
mill.  
KM

**Due receivables** make up 0.39% of total loans (as of 31/12/2022 they amounted to 2.1 million KM or 0.46% of total loans).

30.7  
%

**Average weighted effective interest rate** for loans places between January and December 2023 is lower by 2.99 percentage points compared to the end of 2022.

183.8  
mill.  
KM

**MCO capital** (MCA capital and MCF holding) accounts for 30% of liabilities with growth at a rate of 5% or in the amount of 8.8 million KM compared to the end of 2022, and refers to MCA capital in the amount of 182.2 million KM and MCF holding in the amount of 1.6 million KM.

387.6  
mill.  
KM

**Total liabilities of MCO for taken loans/borrowings** make up 63% of liabilities with growth at the rate of 18% or in the amount of 58.1 million KM compared to the end of 2022 (329.5 million KM or 61% of liabilities).

41.2  
mill.  
KM

MCO reported a positive **financial result that is** higher by 71% or by 17.1 million KM compared to the same reported on 31/12/2022. A significant increase in the financial result is a consequence of the one-off generated income based on the sale of shares of the issuer owned by the largest MCA in the amount of 15.4 million KM (if the financial result of the largest MCA were reduced by the one-off generated income, the financial result of the MCO sector would be recorded in the amount which is by 13% higher than the same reported on 31/12/2022).

As of 31/12/2023, the balance of loans of the MCO organizational units with headquarters in the Federation of BiH operating in Republika Srpska amounted to a total of 222.7 million KM with growth at a rate of 11% or in the amount of 22.1 million KM compared to the end of 2022, of which loans with no repayment delay amount to 219.5 million KM or 98.6% of the total loans of these organizational units.

All segments of the microcredit sector operations are explained in detail in the Chapter III.

\* \* \*

In the period from January to December 2023, no savings-credit organizations operated in Republika Srpska.

\* \* \*

### **Basic business operations indicators of Republika Srpska LP and FLP as of 31/12/2023**

LP business units (four organizational units), part of four leasing provider companies, whose headquarters are in the Federation of BiH but operating in Republika Srpska employed a total of 10 workers.

**170.2**  
mill.  
KM

**Receivables per financial and operational leasing** of business units of LP and financial leasing FLP are higher by 16% or by 22.8 million KM compared to the end of 2022.

Receivables per the recipient of the total leasing are the most significant with legal entities in the total amount of 149.4 million KM or 88% of the total leasing with growth at the rate of 11% or in the amount of 15.1 million KM compared to the end of 2022.

**21.7**  
mill.  
KM

**Operational leasing** of LP business units, accounts for 13% of total leasing with decline at a rate of 36% or in the amount of 5.8 million KM compared to the end of 2022.

**148.4**  
mill.  
KM

**Financial leasing** of business units of LP and FLP accounts for 87% of total leasing with a growth rate of 13% or in the amount of 17.1 million KM compared to the end of 2022.

**10.1**  
1 %

**The average weighted effective interest rate of leasing fees (ELIN)** per financial leasing of business units of LP and FLP is higher by 2.51 percentage points compared to the end of 2022.

\* \* \*

All segments of the leasing provider sector operations are explained in detail in the Chapter IV.

\* \* \*

At the level of the RS banking system, total retail loans account for loans from the banking sector, the microcredit sector and receivables based on financial leasing, which with the balance as of 31/12/2023 totaled 4,297.5 million KM or 3,836.2 KM per capita in Republika Srpska. According to the publication of the Republic of Srpska Institute for Statistics, the population amounts to 1,120.236<sup>7</sup>.

<sup>7</sup> [Republic of Srpska Institute for Statistics monthly statistical overview December 2023](#)

## 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 04/17) includes banks, microcredit organizations, leasing providers and other financial organizations whose establishment and operations are regulated by special laws in which it is stipulated that the Agency issues operating licenses and approvals, supervises operations and performs other tasks related to them.

As part of the regular execution of the competences stipulated by 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 31/12/2023 includes a report on the macroeconomic environment and overview of banking sector operations, the report on the condition in the banking sector, the sector of microcredit organizations and the leasing provider sector, as well as a special segment on the anti-money laundering and combating the financing of terrorism, which applies to all sectors, and is made on the basis of reports that were 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 business operations as of the reporting date 31/12/2023.

**Banking Agency of Republika Srpska**

Report on the condition in the banking system  
of Republika Srpska  
for the period 01/01/2023 – 31/12/2023

**I Macroeconomic  
environment and  
overview of banking  
sector operations**

## 1. MACROECONOMIC ENVIRONMENT AND OVERVIEW OF BANKING SECTOR OPERATIONS

The business operations of the RS banking sector during 2023, in terms of the challenges and risks it faced, were characterized by macroeconomic conditions, influences from the geopolitical scene that arose in 2022, then the accelerated growth of economic risks, and the growth of inflation, which growth was fueled by a combination of rising food and consumer goods prices.

The International Monetary Fund (IMF) in its updated World Economic Outlook predicts that the global economic growth achieved in 2023 (3.1%) will remain at the same level in 2024, and will have a slight increase to 3.2% in 2025. The forecasts indicated in this document are below the average achieved in the period 2019 - 2020, which was 3.8%. Inflation is falling faster than expected, and global inflation is forecast to fall to 5.8% in 2024 and 4.4% in 2025<sup>8</sup>.

In 2023, the RS banking sector maintained liquidity at a satisfactory level, which is particularly reflected by the high liquidity coverage ratio (LCR), as well as the high net stable funding ratio (NSFR), which were maintained above the legally stipulated minimum.

Also, the stability of the RS banking sector is reflected in the favorable values of other business indicators, primarily the capital adequacy ratio, ROAA, ROAE ratios, the growth of the amount of gross loans and other business indicators.

During 2023, the total balance sheet of the banking sector increased by 3% compared to the end of 2022, while the high quality of assets was maintained, which primarily refers to the slight reduction of the share of non-performing loans in total gross loans. The banking sector of Republika Srpska was also characterized by a significant increase in net profit, mostly due to the growth of net interest income.

### 1.1. International economic environment and operations of EU banks

According to the publication of the European Central Bank related to the Financial Stability Review, economic activity in 2023 proved to be more resilient than expected, and the turbulence that was recorded at the beginning of the year, caused by the collapse of banks outside the EURO zone, did not have a long-term negative impact. However, although the risks to financial stability may seem less pronounced, they remain elevated. Attention in the EURO zone is now focused on the impact of tightened financial and lending conditions, as well as the impact of reduced economic prospects on debtors' debt servicing capacity, the impact of changes in the real estate market, as well as the risks that arise for banks and non-banking financial institutions from the aforementioned<sup>9</sup>.

As the European Central Bank further points out, although the tightening of financing conditions contributes to aligning aggregate demand with supply, ensuring that inflation returns to the target level, an increase in interest rates, on the other hand, can be particularly challenging for borrowers with high levels of contracted variable rates or loans due for refinancing in the near future, thus increasing the risk of not being able to service the debt.

For international economies, the priority is above all to reduce and achieve sustainable inflation while ensuring financial stability, so central banks and other regulatory bodies are focused on re-establishing stable prices, macroeconomic stability, as well as strengthening financial supervision and risk monitoring. The global economic recovery has proved surprisingly resilient to the impacts of the COVID-19 pandemic, the conflict in Ukraine and the increased cost of living. Inflation, thanks to the weakening of current inflationary pressures, as well as the stabilization of earlier price increases, continuously decreased

<sup>8</sup> [World Economic Outlook Update, January 2024: Moderating Inflation and Steady Growth Open Path to Soft Landing \(imf.org\)](https://www.imf.org/en/Publications/WEO/Issues/2024/01/01/wEO-24-01)

<sup>9</sup> [Financial Stability Review, November 2023 \(europa.eu\)](https://www.europa.eu/press-room/media/30684)

through 2023, and such a trend is expected in 2024 as well. The slowdown in inflation through 2023 is primarily the result of significantly lower energy prices compared to the very high levels in 2022.

The previous 2022, as well as 2023, represent one of the most significant years in monetary policy and macroeconomics, which marked a strong tightening of monetary policy by the American Federal Reserve (FED), which led a policy of low interest rates until the beginning of 2022, after which they started raising interest rates (the federal funds rate was 1.25% in June 2022, while it was already 4.00% in December 2022, then in June 2023 reached the level of 5.25% in 2023, and 5.50% in December 2023).<sup>10</sup> The aforementioned activity is considered an instrument of the monetary authorities for suppressing rising inflation through slowed economic growth.

The FED stressed that inflation remains a key concern and that it does not expect a significant reduction in interest rates until it is confident that inflation is moving towards a sustainable level of 2%. Based on the above, the first reduction in the federal funds rate is expected in May or June 2024, which would reduce the rate to 4.25% and 4.00% at the end of 2024.

The American Federal Reserve is followed by the European Central Bank (ECB), which in the second half of 2022 also decided to increase interest rates, which continued the pressure on interest rates in the countries of the EURO zone and in neighboring countries, as well as here.

Considering all the circumstances, the ECB continuously evaluates the effects of its monetary policy, in terms of whether it will prematurely introduce a policy of reducing interest rates in the event that inflation, in addition to additional shocks, may rise again, or whether, on the other hand, it will be late with easing, which would lead to an additional slowdown of the economy.

The six-month EURIBOR at the beginning of December 2023 was 3.839%<sup>11</sup>, while at the end of 2022 it was 2.693% (beginning of 2022: -0.539%), and it reached its highest value on October 18, 2023, when it was 4.143%. According to announcements and forecasts, the ECB plans to gradually lower rates in 2024, while keeping rates at the same level for a certain period.

The Governing Board of the ECB determines the key interest rates for the Eurozone, which refer to the interest rate for the main refinancing operations (MRO - Eurozone Main Refinancing Operations Rate), which provides the largest part of the liquidity of the banking system, the rate on the deposit line that banks can use for overnight deposits with the Eurosystem and the rate on the marginal credit that offers overnight loans to banks from the Eurosystem.

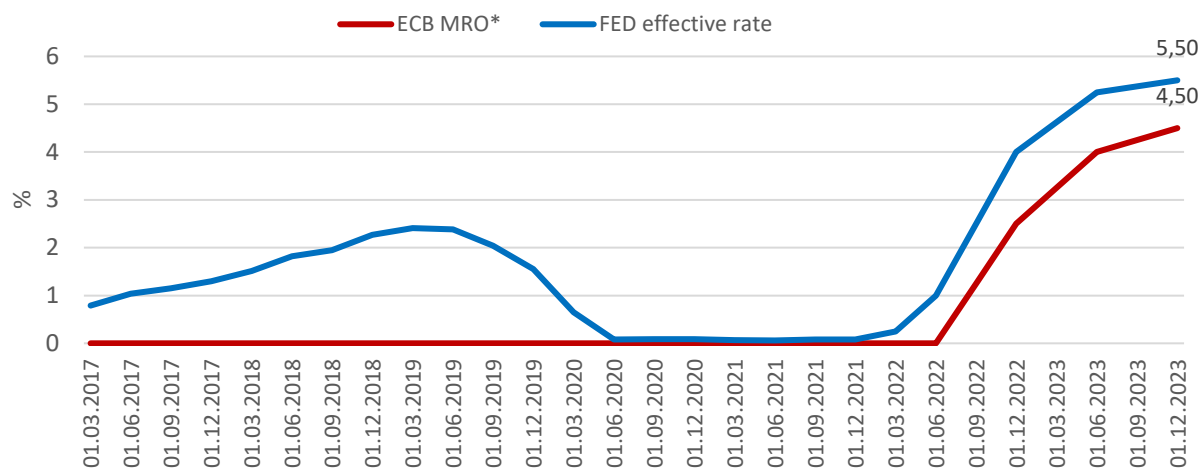
The Governing Board of the ECB has defined that the key interest rates will remain unchanged for as long as it is necessary to achieve a timely return of inflation to the medium-term target. Also, decisions on interest rates will continue to be based on the assessment of inflation in the world and its dynamics. The interest rate on main refinancing operations, interest rates on marginal loans and deposit facility will remain unchanged at 4.50%, 4.75% and 4.00%, respectively.

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<sup>10</sup> [FEDFUNDS](#)

<sup>11</sup> [EURIBOR interest rate](#)

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



Sources: [United States Fed Funds Rate - 2023 Data - 1971-2022 Historical - 2024 Forecast \(tradingeconomics.com\)](https://tradingeconomics.com)  
[Key ECB interest rates \(europa.eu\)](https://europa.eu)

\*Eurozone Main Refinancing Operations Rate

The European Banking Authority (EBA) conducted stress tests of banks at the beginning of 2023 (testing was carried out on the data as of 31/12/2022) whose adverse scenario is characterized by serious negative shocks to economic growth, and higher unemployment in combination with higher interest rates. Assumptions about the movement of GDP within the adverse scenario for 2023 have so far been the most conservatively used in stress testing.

Stress testing covered 70 banks from 16 countries, which makes up slightly more than 75% of the total assets of the banking sector of the European Union, and which aims to determine the impact of a hypothetical adverse macroeconomic scenario on banks in the three-year horizon of 2023 - 2025.

The results of the stress test show that even in the conditions of adverse scenario, which combines a severe recession in the EU and a global recession, banks are still resilient. This resilience of EU banks partly reflects a solid capital position at the start of the test horizon, with an average Common Equity Tier 1 (CET1) ratio of 15%, enabling banks to withstand capital reductions in adverse scenario. The capital reduction under the adverse stress test scenario is 459 basis points, resulting in a fulfilled CET1 requirement at the end of the test horizon of 10.4%. Higher earnings and better asset quality at the start of 2023 help moderate the capital drawdown under the adverse scenario, leading to the conclusion that EU banks are still sufficiently capitalized to continue supporting the economy in periods of severe stress.

Bank capital adequacy ratios in the European Union have been kept at a relatively high average level for a long time. According to the latest EBA Risk Report<sup>12</sup>, CET1 in the European Union is growing from 15.4% (end of 2022) to 15.9% (third quarter of 2023).

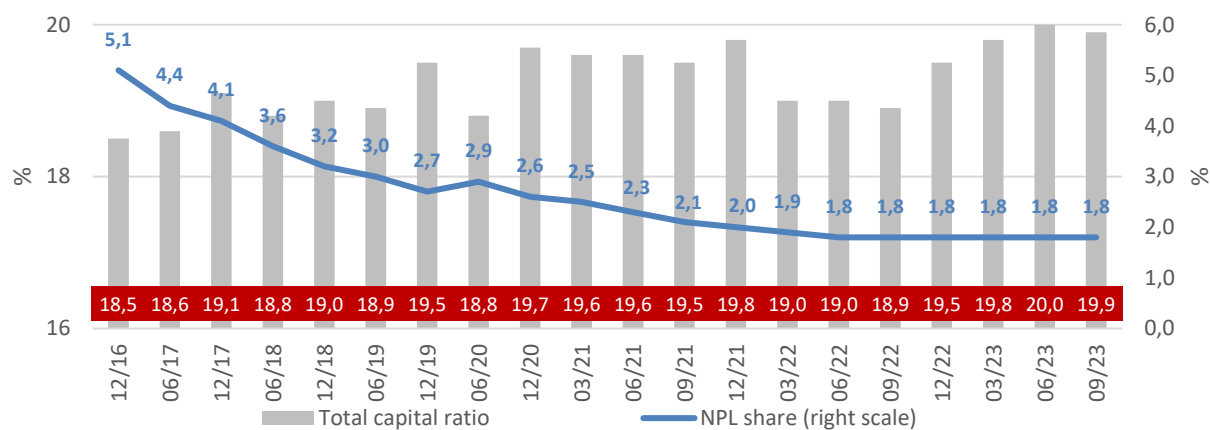
The ratio of total (regulatory) capital (Total capital ratio) of banks in the European Union for the third quarter of 2023 is 19.9% and is higher compared to the end of 2022 (19.5%), while the share of non-performing loans (NPL ratio) from the middle of 2022 is at the same level of 1.8%. Banks' operational risk is high due to the challenges of digitization and cyber risk, but also the risk of fraud, as well as the anti-money laundering and financing of terrorism (AML/CFT). The key drivers of operational risk are cyber risk and data security, due to the high frequency of cyber attacks.

<sup>12</sup> [EBA Dashboard - Q3 2023.pdf \(europa.eu\)](https://europa.eu)

According to the latest available data from the countries in the region, the share of non-performing loans in total loans of banks in Serbia was close to its historical minimum of 3.0%<sup>13</sup>, and such a trend was maintained until the end of 2023, thanks to the systemic approach to problem solving, the timely implementation of adequate measure and sustainability of the achieved results.

In Croatia, the share of non-performing loans in total loans at the end of 2023 decreased from 3.00% to 2.6%<sup>14</sup>, thus continuing the multi-year downward trend of that indicator.

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



Source: [EBA Dashboard - Q3 2023.pdf \(europa.eu\)](#)

Also, according to the aforementioned EBA Risk Report, the loan-to-deposit ratio in the third quarter of 2023 was 108.6% (December 2022: 108.1%), LCR 160.7% (December 2022: 164.6%), NSFR 126% (December 2022: 125.6%), and the rate of return on equity stabilized in the third quarter at 10.9% (September 2022: 7.8%).

The quality of bank assets proved to be resilient, given that the difficult and uncertain macroeconomic outlook did not have a strong impact on the household and companies. As previously stated, the share of non-performing loans remained stable, although there are visible signs of deterioration in certain sectors that are sensitive to economic downturns, such as exposures secured by real estate, and an increase in these exposures was recorded at credit risk level 2.

The growth of interest rates as an instrument to suppress inflation continues to weigh on economic activity, taking into account that there has been a reduction in consumption. According to the latest IMF projections for 2023, the growth of economic activity in the European Union amounts to 0.6%, which is similar in the countries of the EURO zone with a growth of gross domestic product of 0.5%. The GDP projection in the USA, as the world's largest economy, amounts to 2.5%, which is at a similar level to that of developing European countries<sup>15</sup>.

According to IMF reports, global economic growth for 2023 was estimated at 3.1%, which represents a slight decline compared to the previous year primarily due to the factors already mentioned.

<sup>13</sup> [National Bank of Serbia](#)

<sup>14</sup> [Croatian National Bank](#)

<sup>15</sup> [World Economic Outlook](#)

Table 1: Selected macroeconomic indicators

%

DESCRIPTION	2018.	2019.	2020.	2021.	2022.	2023.
<b>Gross domestic product growth (GDP)</b>						
Globally	3,6	2,9	-3,1	6,1	3,5	3,1
Developed economies	2,3	1,7	-4,5	5,4	2,7	1,6
USA	2,9	2,3	-3,4	5,9	2,1	2,5
Euro zone	1,8	1,6	-6,3	5,3	3,5	0,5
European Union	2,2	2,0	-5,8	5,5	3,7	0,6
Slovenia	4,4	3,3	-4,2	8,1	5,4	1,3
Croatia	2,8	3,4	-8,6	13,1	6,2	4,3
Emerging and Developing countries	4,6	3,7	-2,0	6,7	3,9	4,1
European Emerging and Developing countries	3,4	2,5	-1,8	6,9	0,8	2,7
Serbia	4,5	4,3	-0,9	7,4	2,3	2,5
Bosnia and Herzegovina	3,7	2,8	-3,1	5,8	3,8	1,6*
Republika Srpska*	3,9	2,5	-2,5	6,9	3,5	2,1*
<b>Consumer price change (CPI), annual average</b>						
Developed countries	2,0	1,4	0,7	3,1	7,3	4,6
European Emerging and Developing countries	6,4	6,6	5,3	9,4	6,6	3,5
EURO zone	1,8	1,2	0,3	2,6	8,3	2,9
Bosnia and Herzegovina	1,4	0,6	-1,1	2,0	14,0	2,2
<b>The most interesting interest rate***</b>						
6M EURIBOR	-0,3	-0,2	-0,3	-0,5	2,7	3,8
FED Effective Rate	2,4	1,6	0,1	0,1	4,1	5,3

Sources: [World Economic Outlook](#)[Euribor interest rates 2023 \(global-rates.com\)](#)[Federal Funds Effective Rate \(FEDFUNDS\) | FRED | St. Louis Fed \(stlouisfed.org\)](#)[bhas.gov.ba](#)[Statistical office Republic of Slovenia](#)[Web | Croatian Bureau of Statistics \(dzs.hr\)](#)

\* available data for Bosnia and Herzegovina November 2023, for Republika Srpska third quarter 2023

## 1.2. Macroeconomic trends in Republika Srpska

Positive macroeconomic trends were recorded in 2023, and it can be concluded that Republika Srpska has gone through a challenging period that resulted in maintaining the existing level of stability. Throughout 2023, the impact of geopolitical events and business challenges that had to be faced in adapting to the growth of interest rate risk, as a consequence of inflationary pressures, is evident.

After market uncertainty in the first half of the year, in the second half of the year economic activity is growing, and according to the latest available data, GDP is 2.1%. There is an improvement in other macroeconomic indicators, i.e. the unemployment rate is falling, while on the other hand, the average net salary is increasing.

Table 2: Basic macroeconomic indicators in Republika Srpska

DESCRIPTION	2018.	2019.	2020.	2021.	2022.	2023.
GDP growth – real**	3,9	2,5	-2,5	6,9	3,9	2,1
Consumer price index*	101,2	100,5	98,8	101,7	113,6	103,1
Import (index)*	106,6	91,6	93,5	124,8	128,6	89,2
Export (index)*	107,6	96,5	94	130,5	122,7	92,4
Coverage of import by export*	71,7	75,5	75,9	79,4	75,7	74,1
Unemployment rate (LFS)***	17,2	11,7	12,9	14,3	11,2	9,4
Average net salary (KM, net)****	857	906	956	1.005	1.144	1.304
GDP per capita (KM)	9.304	9.848	9.797	11.080	12.975	---

\* [RS Institute for Statistics monthly statistical review December 2023](#) – Q3 data

\*\* [Program of economic reforms of Republika Srpska for the period 2024-2026](#)

Real GDP growth in the third quarter of 2023, compared to the third quarter of 2022, was 2.1%. Significant real growth of gross added value was recorded in the following areas: Financial and insurance activities by 9.8%, Information and communications by 8.9%, Professional, scientific and technical activities by 8%, Administrative and auxiliary service activities by 8.0%, while a real decrease in gross added value by 1.0% was recorded in the following areas: Mining, Production and supply of electricity, gas, steam and air conditioning, Water supply, sewage, waste management and environmental rehabilitation (remediation) activities, and by 6.6% in the Manufacturing industry.

The overall consumer price index in Republika Srpska, in December 2023 compared to the previous month, is lower by 0.3%, while compared to December 2022, the overall consumer price index is on average higher by 3.3%.

The consumer price indices of Republika Srpska are calculated on the basis of a representative list of products (consumer basket) which in 2023 consists of 610 products.

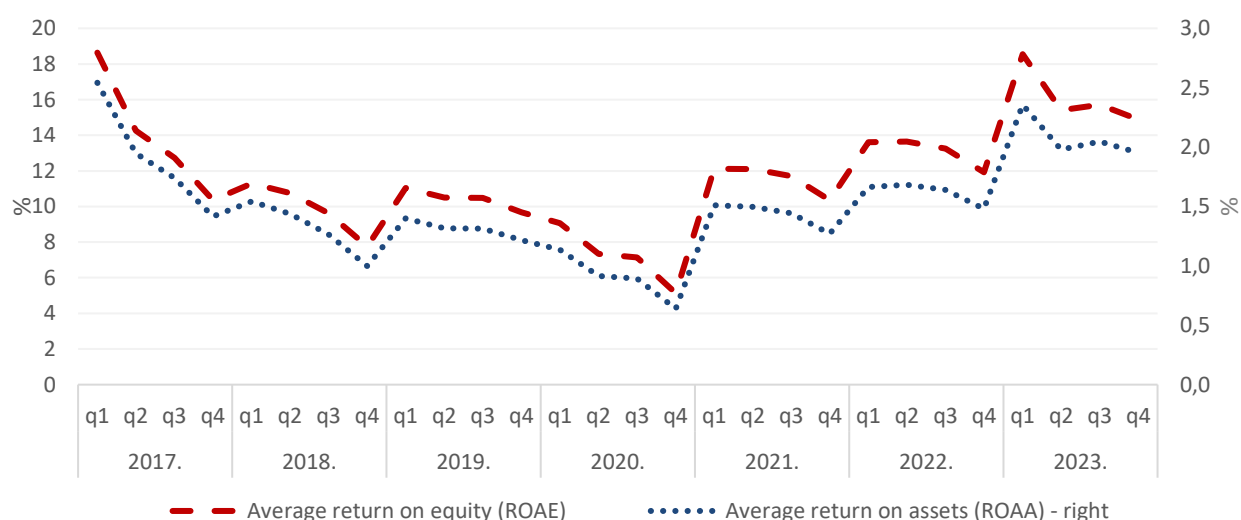
The average net salary paid-out in December 2023 was 1,304 KM and is nominally higher by 0.6%, and in real terms it is higher by 0.9% compared to the previous month. Compared to the same month last year, the average net salary is nominally higher by 7.1%, and in real terms by 3.7%. The average gross salary paid-out in December 2023 was 1,988 KM.

### 1.3. Impact of macroeconomic trends on the banking sector

The banking sector of Republika Srpska in 2023 has total financial assets in the amount of 11.5 billion KM.

According to the available data, during the observed period (2019 - 2023), the GDP of Republika Srpska had a compound annual growth rate (CAGR) of 8.29%, while total assets (net assets, risky off-balance sheet and commission business) for eight banks of Republika Srpska had a growth rate of 5.11%, and credit growth of 4.05% (household credit growth: 5.82%).

Graph 4: Profitability



The profitability of the RS banking sector in 2023 recorded growth, as well as the ROAA and ROAE ratios, which achieved growth during the year compared to the previous year (ROAA from 1.5% to 2.0%, and ROAE from 11.9% to 14.9%), maintaining values above those achieved since the beginning of 2018.

Analyzing the operations of the RS banking sector through lending, it is evident that after the period of negative geopolitical events in 2022, the recovery of credit growth followed, which has continued until

today. By comparing the growth of placements by quarters in 2023 in relation to the same quarters from the previous year, it can be concluded that the growth of placements is present in continuity, which especially refers to corporate loans.

**Graph 5: Credit growth of the Republika Srpska banking sector**



When observing 2023, loans to households have a lower average growth rate than total loans, as well as a lower growth rate compared to gross loans to companies.

Loans from commercial banks of the FBiH in Republika Srpska account for 25.8% of total loans, recording a growth of 10.4%, while loans from the banks of Republika Srpska in the FBiH have a share of 3.5% in total loans, and compared to the end of 2022 recorded a growth of 1%.

**Table 3: Ratio of macroeconomic and Republika Srpska banking sector indicators**

ОПИС	2019.	2020.	2021.	2022.	2023.	CAGR (%)
Gross domestic product (mil. KM)	11.251,0	11.132,0	12.502,0	14.537,0	15.474,0 <sup>16</sup>	8,29%
Total financial assets (mil. KM)	9.433,8	9.721,2	10.823,5	11.117,1	11.513,9	5,11%
Loans (mil. KM)*	6.721,3	6.814,6	7.129,1	7.416,8	7.877,0	4,05%
of which Loans – retail (mil. KM)**	2.970,4	2.997,6	3.251,0	3.451,6	3.724,4	5,82%
Population no.	1,14	1,14	1,13	1,12	1,12	-0,49%
Average net wage (KM)	906,0	956,0	1.005,0	1.144,0	1.296,0	9,36%
Total deposits (mil. KM)***	7.016,1	7.158,3	8.165,5	8.322,1	8.316,5	4,34%
of which Deposits – retail (mil. KM)	3.966,0	4.149,5	4.497,2	4.426,9	4.874,8	5,29%
Total assets/GDP (%)	83,8	87,3	86,6	76,5	74,4	-2,94%
Loans/GDP (%)	59,7	61,2	57,0	51,0	50,9	-3,92%
Retail loans/Population no. (retail loans per capita, KM)	2.600,0	2.638,1	2.881,3	3.081,2	3.324,6	6,34%
Loans per capita/Average net wage	2,9	2,8	2,9	2,7	2,57	-2,76%
Total deposits/GDP (%)	62,4	64,3	65,3	57,2	53,7	-3,65%
Retail deposits/Population no. (retail deposits per capita, KM)	3.471,3	3.651,9	3.985,8	3.951,8	4.351,6	5,81%
Retail deposits per capita/ Average net wage	3,8	3,8	4,0	3,5	3,36	-3,25%

Sources: RS Institute for Statistics – various publications (household, salary, GDP, employees)

Banking sector data: Annual reports on the condition in the banking system of Republika Srpska for 2019, 2020, 2021, 2022 and 2023, Banking Agency of Republika Srpska

In-house calculations

**Note:**

\* Total loans are 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.

\*\* The amount of retail loans is shown without loans for performing business

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

CAGR – Compound annual growth rate

<sup>16</sup> [Program of economic reforms of Republika Srpska for the period 2024-2026 – GDP projection for 2023](#)

During the observed period (2019 - 2023), total deposits at the level of the RS banking sector had a slightly higher average annual growth rate (4.34% total and 5.29% household) than the lending indicator, which was 4.05% (household 5.82%).

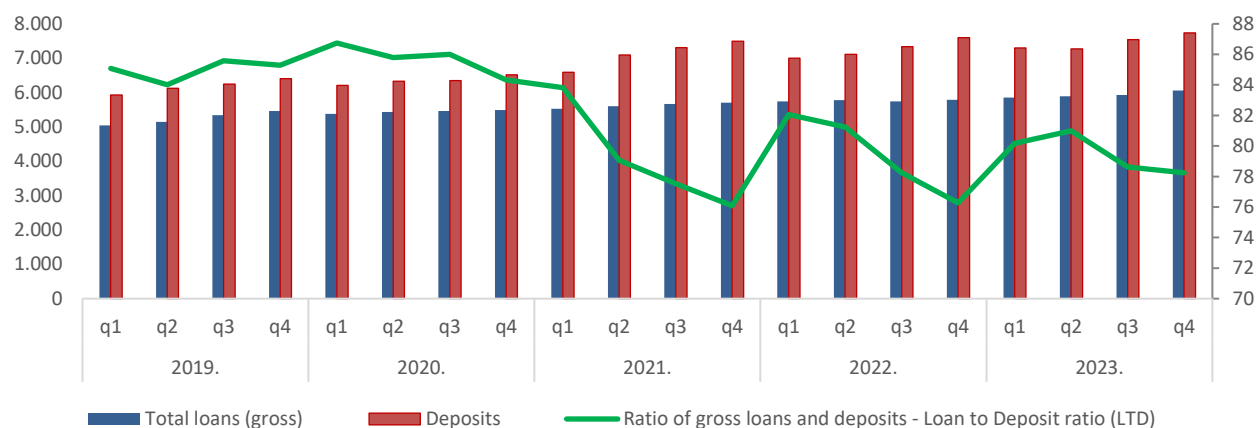
If we look at relative indicators, it can be assessed that during the period 2019 - 2023, the ratio of total assets to GDP decreased at an average annual rate of 2.94%, and the ratio of loans to GDP also decreased during the same period at an average rate of 3.92%, with a note that the GDP data used in 2023 is a projection.

As in previous years, and on the basis of the above, it can be concluded that economic growth was not entirely generated by credit debt, but partly in other ways (eg stocks of liquid assets).

On the other hand, the ratio of loans placed to the household and the total number of population of Republika Srpska speaks about the average indebtedness of the population of Republika Srpska in the banking sector, that is, the amount of household loans *per capita*. During the observed period, the growth of this indicator can be observed at an average rate of 6.34% and at the end of 2022 it amounted to 3,081.8 KM, and in 2023 it further increased to 3,324.6 KM.

If we compare household deposits and the number of population, we see that this indicator has a lower average growth rate (5.81%) than the growth rate of household loans *per capita* (6.34%), therefore, household deposits grow more slowly than the growth of household indebtedness.

Graph 6: Ratio of gross loans and deposits



The ratio of gross loans to deposits (loans to deposits ratio) at the end of 2023 is 78.2%, while at the end of 2022 it was 76.3%, which shows which part of the loan portfolio is covered by deposits.

The economy in Republika Srpska has so far proved relatively resistant to global shocks and tightened financing conditions that are under the pressure of several successive crises (pandemic, energy and geopolitical), so economic stabilization is expected to continue in the future in the absence of additional shocks.

## 1.4. Banking sector regulatory framework

The activities of the reform of the regulatory framework for operations and supervision of banks and MCOs, with the aim of improving the existing regulatory framework and harmonizing it with the best European and international practices continued in 2023 through the drafting of the following by-laws:

1. Decision on Amendments to the Decision on conditions and manner of exercising the rights of consumer protection and banks' acting upon clients' complaint<sup>17</sup>,
2. Decision on Amendments to the Decision on more detailed conditions and method of acting of microcredit organization upon client's complaint<sup>18</sup>,
3. Decision on Amendments to the Decision on the unique fee rates for microcredit organizations<sup>19</sup>,
4. Decision on minimum requirements for capital and eligible liabilities<sup>20</sup>,
5. Instruction on repealing the Instruction for determining minimum requirement for capital and eligible liabilities<sup>21</sup>,
6. Decision on Amendments to the Decision on the conditions and procedure of issuing licenses, approvals and consents to banks operating in Republika Srpska<sup>22</sup>,
7. Decision on Amendments to the Decision on minimum standards for documenting bank lending activities<sup>23</sup>,
8. Decision on Amendments to the Decision on bank and banking group recovery plans<sup>24</sup>,
9. Decision on Amendments to the Decision on credit risk management and determination of expected credit losses<sup>25</sup>,
10. Decision on Amendments to the Decision on the management system in the bank<sup>26</sup>,
11. Decision on Amendments to the Decision on temporary measures to mitigate the risk of increase in interest rates<sup>27</sup>,
12. Decision on Amendments to the Decision on temporary measures for limiting exposures<sup>28</sup>,
13. Decision on Amendments to the Decision on minimum standards for documenting lending activities of microcredit organizations<sup>29</sup>,
14. Decision on data and information to be delivered to the Banking Agency of Republika Srpska for the purpose of developing and updating bank and banking group resolution plan<sup>30</sup>,
15. Instruction on method of filling in reports to be submitted to the Banking Agency of Republika Srpska for the purpose of drafting and updating bank and banking group resolution plans<sup>31</sup>,
16. Instruction to invalidate the Instruction on reporting on the implementation of special measures in accordance with the Decision on MCOs' temporary measures to mitigate the negative economic consequences caused by COVID-19 viral disease (D-3/23)
17. Decision on temporary measures to mitigate the risk of increase in interest rates<sup>32</sup>,
18. Decision on credit risk management and determination of expected credit losses<sup>33</sup>,
19. Decision on minimum standards for documenting bank lending activities<sup>34</sup>,

<sup>17</sup> „Official Gazette of Republika Srpska“ number 01/23

<sup>18</sup> *Ibid.*

<sup>19</sup> „Official Gazette of Republika Srpska“ number 09/23

<sup>20</sup> „Official Gazette of Republika Srpska“ number 19/23

<sup>21</sup> *Ibid.*

<sup>22</sup> „Official Gazette of Republika Srpska“ number 35/23

<sup>23</sup> *Ibid.*

<sup>24</sup> *Ibid.*

<sup>25</sup> *Ibid.*

<sup>26</sup> *Ibid.*

<sup>27</sup> *Ibid.*

<sup>28</sup> *Ibid.*

<sup>29</sup> *Ibid.*

<sup>30</sup> „Official Gazette of Republika Srpska“ number 68/23

<sup>31</sup> „Official Gazette of Republika Srpska“ number 76/23

<sup>32</sup> „Official Gazette of Republika Srpska“ number 101/23

<sup>33</sup> *Ibid.*

<sup>34</sup> *Ibid.*

20. Decision on Amendments to the Decision on unique tariff for fees charged to banks for performing the activities of the Banking Agency of Republika Srpska<sup>35</sup>,
21. Instruction to invalidate the Instruction on reporting on the implementation of special measures in accordance with the Decision on banks' temporary measures to mitigate the negative economic consequences caused by COVID-19 viral disease (D-2/23),
22. Guidelines for management of climate-related risks (number D-26/23),
23. Instruction to invalidate the Instruction on temporary measure regarding calculation of bank's regulatory capital (own funds) (number D-13/23),
24. Decision on supplementing the Decision on inclusion of special conditions for contracting long term non-purpose and replacement loans of private individuals into the bank's risk management system<sup>36</sup>,
25. Decision on capital buffer for systemic risk<sup>37</sup>,
26. Decision on Amendments to the Decision on supervisory review and evaluation process of banks<sup>38</sup>,
27. Decision on managing interest rate risk in the banking book<sup>39</sup>,
28. Decision on calculating capital in banks<sup>40</sup>.

Also, in 2023, activities were conducted on the revision of regulation, i.e. amendments to the Decisions and Instructions, with the aim of improving supervisory control by introducing new requirements and adopting reporting practices that are used in the European Union.

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<sup>35</sup> „Official Gazette of Republika Srpska“ number 104/23

<sup>36</sup> „Official Gazette of Republika Srpska“ number 06/24

<sup>37</sup> *Ibid.*

<sup>38</sup> *Ibid.*

<sup>39</sup> *Ibid.*

<sup>40</sup> *Ibid.*

**Banking Agency of Republika Srpska**

Report on the condition in the banking  
system of Republika Srpska  
for the period 01/01/2023 – 31/12/2023

## **II Banking sector**

## 1. BANKING SECTOR BASIC DATA

### 1.1. Organizational structure

RS banking sector, on the reporting date 31/12/2023, when observing the total number of banks operating in Republika Srpska, did not change compared to the end of 2022. Eight banks based in Republika Srpska operated through a network of 277 organizational units, while seven banks based in the Federation of BiH operated through 50 organizational units in Republika Srpska.

Compared to the end of 2022, banks based in Republika Srpska reduced their organizational structure by three organizational units, while banks based in the Federation of BiH retained the same number of organizational units in Republika Srpska. Three banks based in Republika Srpska have 25 organizational units that operate in the territory of the Federation of BiH. The number of "POS" devices increased by 436 at banks headquartered in Republika Srpska, and at the organizational units of banks from the Federation of BiH in Republika Srpska reduced by 25 compared to the end of 2022. The number of ATMs is higher by 22 at banks with headquarters in Republika Srpska, and at the organizational units of banks from the Federation of BiH is higher by 6.

**Table 4: Republika Srpska banks and organizational units of banks from FBiH operating in Republika Srpska**

Description	Business unit/ Branch	Other organizational unit	"POS"	ATM
<b>31.12.2022</b>				
I Republika Srpska Banks	127	153	5.898	402
II Org. units of banks from FBiH operating in Republika Srpska	28	22	4.100	121
<b>Total</b>	<b>155</b>	<b>175</b>	<b>9.998</b>	<b>523</b>
<b>31.12.2023</b>				
I Republika Srpska Banks	170	104	6.334	424
II Org. units of banks from FBiH operating in Republika Srpska	29	21	4.075	127
<b>Total</b>	<b>199</b>	<b>125</b>	<b>10.409</b>	<b>551</b>

\* A business unit is a higher form of organization, including headquarters

### 1.2. Ownership structure

The ownership structure is characterized by majority private ownership in all banks, with the majority share of domestic equity capital in four banks and the majority of foreign share capital in four banks in Republika Srpska.

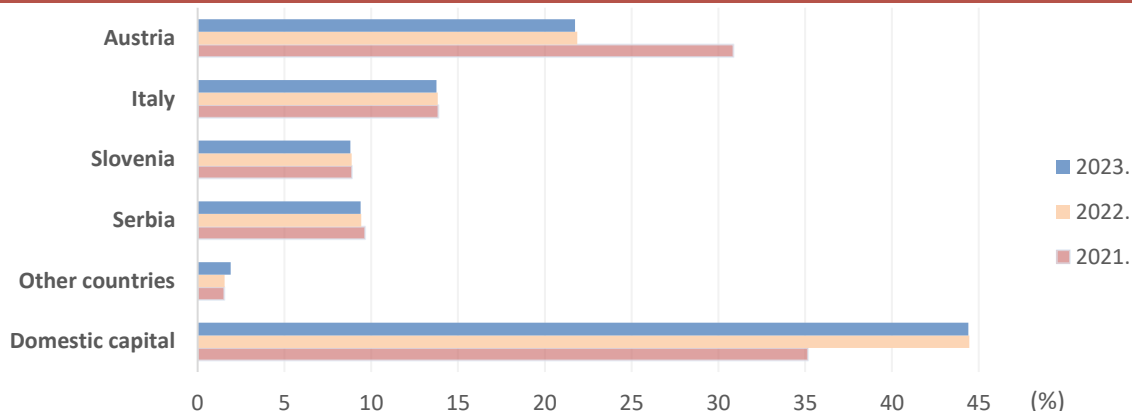
**Table 5: Share capital structure**

DESCRIPTION	2021.		2022.		2023.		Index 2023./2022.
	Amount	%	Amount	%	Amount	%	
Private capital (domestic)	239,7	34,4	310,9	44,5	312,1	44,4	100
Foreign capital	451,2	64,8	388,4	55,5	390,9	55,6	101
State capital	5,0	0,7	0,0	0,0	0,0	0,0	100
Cooperative capital	0,1	0,0	0,1	0,0	0,1	0,0	100
<b>TOTAL</b>	<b>696,0</b>	<b>100</b>	<b>699,4</b>	<b>100</b>	<b>703,1</b>	<b>100</b>	<b>101</b>

The total equity capital amounts to 703.1 million KM and mainly consists of private share capital, and a small share of cooperative and sovereign capital.

Compared to the end of 2022, there was a slight change in the structure of private equity capital. The share of private domestic equity capital decreased by 0.1 percentage point. In the structure of total private equity capital, private foreign equity capital has a share of 55.6%, and private domestic equity capital 44.4%.

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



In the structure of equity capital according to countries of origin, there was an increase in the share of domestic equity capital in the last two reporting periods due to the executed recapitalization in one bank and the obligation of taking over performed in accordance with regulation. Domestic capital has the largest share of 44.40% in the structure of equity capital, followed by Austria with 21.75%, Italy with 13.75%, Serbia with 9.39%, Slovenia with 8.81% and other countries with 1.90%.

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

Capital structure	2022.				2023.			
	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	50,0	42,8	49,6	4	52,0	47,1	51,3	4
With majority foreign capital	50,0	57,2	50,4	4	48,0	52,9	48,7	4

Four banks with majority domestic capital have 52% of share in total assets (increase in share by 2 percentage points compared to the end of 2022), 41.7% in total capital (increase in share by 4.3 percentage points compared to end of 2022) and 51.3% in total deposits (increase in share by 1.7 percentage points compared to end of 2022).

Four banks with majority foreign capital have 48% of share in total assets, 52.9% in total capital and 48.7% in total deposits.

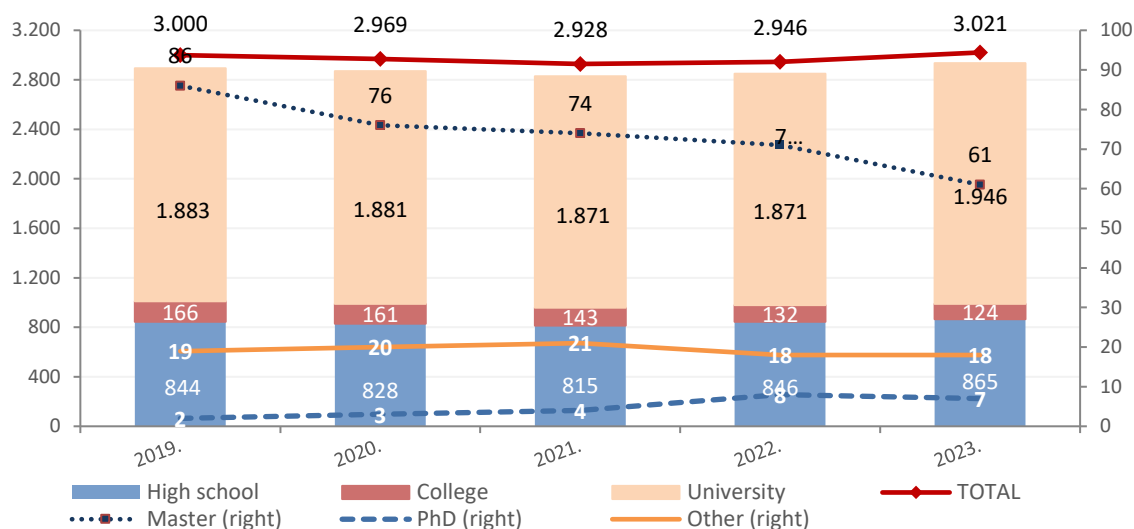
### 1.3. Staff structure

As of 31/12/2023, the total number of employees in the banking sector was 3,021, which is 75 more than at the end of 2022. Six banks had an increase, and two banks had a decrease in the number of employees.

#### 1.3.1. Staff qualification structure

When observing the qualification structure in this reporting period, the largest share of 64.4% is held by employees with university degree (more by 75 compared to the end of 2022), and in share of employees with high school degree amounting to 28.6% (more by 19 compared to the end of 2022) while there is a reduction in employees with college degree by 8, master degree by 10 and PhD by 1 compared to the end of 2022.

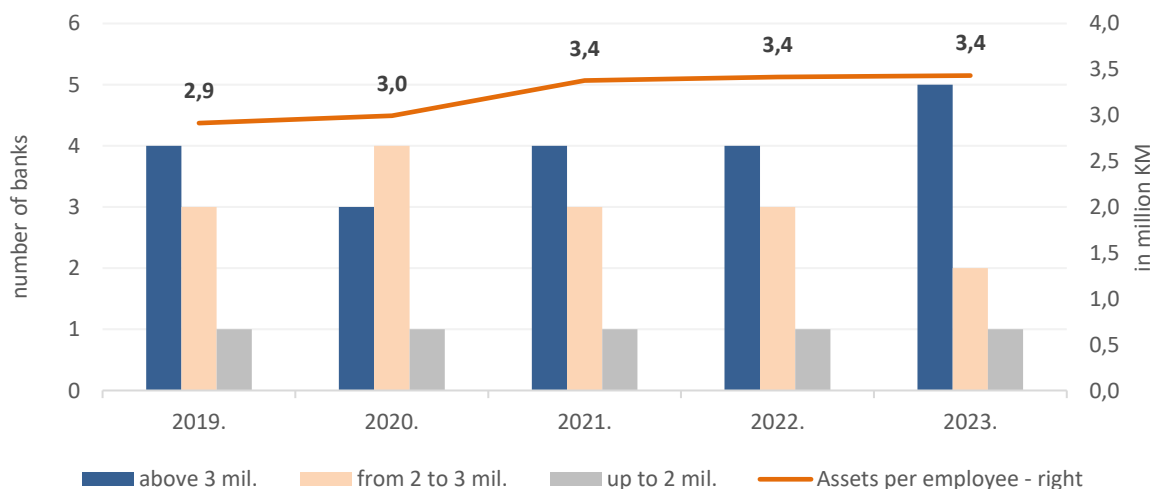
Graph 8: Staff qualification structure



### 1.3.2. Assets per employee

One of the indicators of the performance of the banking sector and of each individual bank is the efficiency of employees expressed as the ratio of total assets to the number of employees, where a higher amount is usually an indicator of better efficiency of the bank's operations and the overall sector. In this reporting period assets per employee amounted to 3.4 million KM and remained at the same level compared to 2022.

Graph 9: Assets per employee



Individually, three banks had an increase in assets per employee, three banks maintained approximately the same level, and two banks had a decrease in assets per employee.

## 2. FINANCIAL INDICATORS OF BANKS' BUSINESS OPERATIONS

### 2.1. Balance sheet

The balance sheet of banks based in Republika Srpska, presented over three comparative periods, shows a growth of gross and net balance sheet assets by 3% as of 31/12/2023 compared to the end of 2022.

DESCRIPTION	2021.		2022.		2023.		Index 2023./2022.
	Amount	%	Amount	%	Amount	%	
<b>ASSETS</b>							
1. Cash Funds	2.745,4	27,8	2.636,6	26,2	2.560,0	24,7	97
2. Securities	1.101,6	11,1	1.283,9	12,7	1.389,8	13,4	108
3. Placements to other banks	16,7	0,2	40,4	0,4	28,6	0,3	71
4. Loans (gross)	5.705,1	57,7	5.792,9	57,5	6.056,5	58,4	105
5. Office space and other fixed assets	192,7	1,9	186,8	1,9	189,1	1,8	101
6. Other assets	130,7	1,3	129,4	1,3	146,1	1,4	113
<b>GROSS BALANCE SHEET ASSETS</b>	<b>9.892,3</b>	<b>100</b>	<b>10.070,0</b>	<b>100</b>	<b>10.370,1</b>	<b>100</b>	<b>103</b>
<b>8. Impairment</b>	<b>341,0</b>		<b>312,9</b>		<b>339,6</b>		<b>109</b>
8.1. Impairment for loan items	322,5		292,4		314,9		108
8.2. Impairment for asset items except loans	18,5		20,4		24,7		121
<b>NET BALANCE SHEET ASSETS</b>	<b>9.551,3</b>		<b>9.757,2</b>		<b>10.030,6</b>		<b>103</b>
<b>OBLIGATIONS</b>							
10. Deposits	7.498,6	78,5	7.595,2	77,8	7.740,1	77,2	102
11. Obligations per loans taken	681,5	7,1	704,7	7,2	717,8	7,2	102
12. Subordinated debts	52,3	0,5	52,3	0,5	70,8	0,7	136
13. Off-balance sheet items provisioning	12,7	0,1	12,8	0,1	17,0	0,2	133
14. Other obligations	189,7	2,0	176,2	1,8	178,8	1,8	101
<b>CAPITAL</b>							
15. Capital	1.116,5	11,7	1.216,0	12,5	1.306,1	13,0	107
<b>TOTAL LIABILITIES (OBLIGATIONS AND CAPITAL)</b>	<b>9.551,3</b>	<b>100</b>	<b>9.757,2</b>	<b>100</b>	<b>10.030,6</b>	<b>100</b>	<b>103</b>

Gross balance sheet asset amounts to 10.4 billion KM and is higher by 300.1 million KM or 3% compared to the end of 2022. Six banks had growth of balance sheet asset from 2.3% to 15.8%, and two banks had a decline (4.9% and 11%)

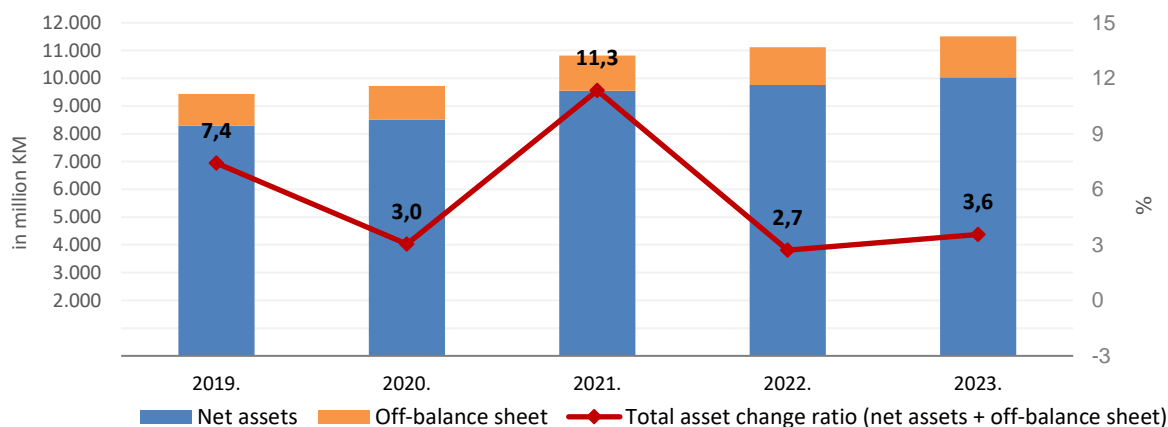
Net balance sheet asset (gross balance sheet asset minus value adjustments) amounts to 10 billion KM and is higher by 273.4 million KM or 3% compared to the end of 2022. Net balance sheet asset had a lower growth than gross balance sheet asset in absolute terms, due to the increase of value adjustments on total assets by 9% compared to the end of 2022.

DESCRIPTION	2021.		2022.		2023.		Index 2023./2022.
	Amount	%	Amount	%	Amount	%	
<b>Risk off-balance sheet</b>	<b>1.183,7</b>	<b>100,0</b>	<b>1.277,2</b>	<b>100,0</b>	<b>1.393,2</b>	<b>100,0</b>	<b>109</b>
1. Irrevocably approved, undrawn loans	628,3	53,1	634,2	49,7	660,0	47,4	104
2. Non-covered letters of credit	5,6	0,5	0,8	0,1	0,9	0,1	116
3. Issued guarantees	549,4	46,4	641,5	50,2	732,0	52,5	114
3.1. Payable guarantees	191,3	16,2	204,5	16,0	238,3	17,1	117
3.2. Performance guarantees	358,0	30,2	437,0	34,2	493,7	35,4	113
4. Other off-balance sheet items	0,5	0,0	0,7	0,1	0,3	0,0	47
<b>Revocable credit liabilities</b>	<b>125,5</b>		<b>128,4</b>		<b>132,9</b>		<b>104</b>
<b>Commission transactions</b>	<b>88,6</b>		<b>82,7</b>		<b>90,1</b>		<b>109</b>
<b>TOTAL OFF-BALANCE SHEET</b>	<b>1.397,8</b>		<b>1.488,4</b>		<b>1.616,2</b>		<b>109</b>

The risk off-balance sheet amounts to 1.4 billion KM and is higher by 115.9 million KM or 9% compared to the end of 2022. All risk off-balance sheet items increased, except other off-balance sheet items (reduction by 0.4 million KM) compared to the end of 2022. The highest growth in risk off-balance sheet items was recorded by issued guarantees in the amount of 90.4 million (in the structure of issued guarantees, the largest increase was made by effective guarantees in the amount of 56.6 million or 13%, while payable guarantees increased by 33.8 million KM or 17%), and irrevocably approved but unused loans that increased by 25.8 million KM or 4%, compared to the end of 2022.

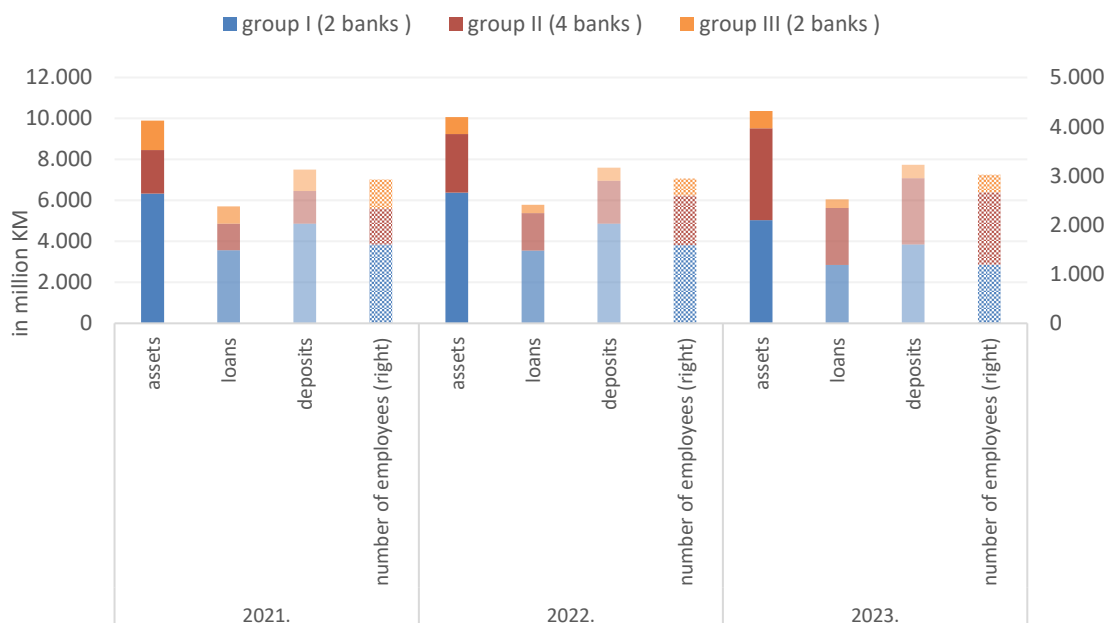
The trend of net asset, off-balance sheet and the ratio of change of total asset through the last five reporting periods are shown in the following graph:

**Graph 10: Total assets of the Republika Srpska banking sector**



The ratio of change of net asset with off-balance sheet compared to the end of 2022 amounts to 3.6%. Banks in Republika Srpska can be divided into three groups according to the size of gross balance sheet assets.

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



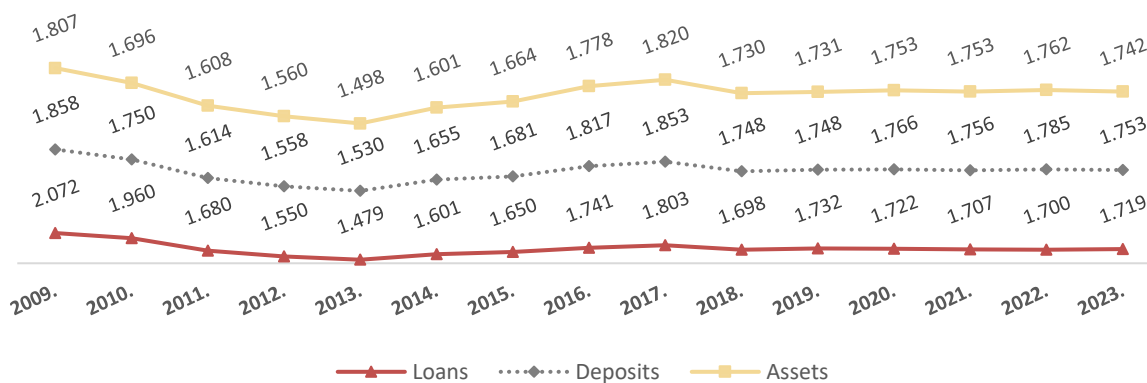
group I (over 1400 million KM gross assets) group II (700 to 1400 million KM gross assets)  
group III (up to 700 million KM gross assets)

Two banks belong to the group of banks with gross assets over 1,400 million KM and have a share of 48.6% in total assets, 47.2% in total loans, 49.8% in total deposits and employ 39.4% of the total number of employees in the banking sector.

In the group of banks with gross assets of 700 to 1,400 million KM in the first half of 2023, the number of banks increased to four, and their share in total assets as of 31/12/2023 is 43.3%, in total loans 45.9%, in total deposits 41.8% and employ 48.8% of the total number of employees in the banking sector.

In the group of banks with gross assets below 700 million KM, there are two banks, which account for 8.1% of total gross assets, 6.9% in total loans, 8.4% in total deposits, and employ 11.8% of the total number of employees in the banking sector.

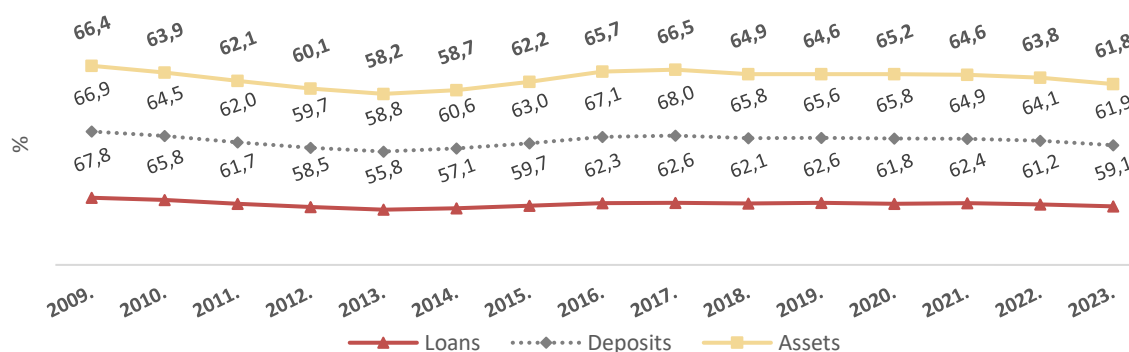
Graph 12: Hirschman - Herfindahl index (HHI)



Market concentration on the banking market of Republika Srpska measured by the Herfindahl-Hirschman index (HHI)<sup>41</sup> depends on the share of each bank in the specific balance sheet position of the banking sector. For the three basic elements (loans, deposits and net assets), the value of the HHI index as of 31/12/2023 indicates the existence of a moderate concentration in all three elements, which are close to the upper limit that separates moderate and high concentration.

Another indicator of market concentration in the banking sector of Republika Srpska is the concentration ratio (CR<sub>3</sub>)<sup>42</sup> for the three largest banks:

Graph 13: Concentration rate (CR3)



<sup>41</sup> 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.

<sup>42</sup> Concentration ratio (CR) is marked according to the number of institutions that are included in the calculation.

The concentration ratio (CR<sub>3</sub>) at the three largest banks: for loans recorded a drop of 2.1 percentage points, for deposits a drop of 2.2 percentage points and for assets a drop of 2.0 percentage points, compared to the end of 2022.

### 2.1.1. Liabilities

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

**Table 9: Liabilities structure**

DESCRIPTION	2021.		2022.		2023.		Index 2023./2022.
	Amount	%	Amount	%	Amount	%	
Deposits	7.498,6	78,5	7.595,2	77,8	7.740,1	77,2	102
Obligations per loans taken	681,5	7,1	704,7	7,2	717,8	7,2	102
Subordinated debt	52,3	0,5	52,3	0,5	70,8	0,7	136
Other liabilities	189,7	2,0	176,2	1,8	178,8	1,8	101
Provisioning for off-balance sheet items	12,7	0,1	12,8	0,1	17,0	0,2	133
Capital	1.116,5	11,7	1.216,0	12,5	1.306,1	13,0	107
<b>TOTAL LIABILITIES</b>	<b>9.551,3</b>	<b>100</b>	<b>9.757,2</b>	<b>100</b>	<b>10.030,6</b>	<b>100</b>	<b>103</b>

Total balance sheet liabilities amount to 10 billion KM and are higher by 273.4 million KM or 3% compared to the end of 2022. Deposits have the largest share of 77.2% in liabilities, amounting to 7.7 billion KM and recorded an increase of 144.9 million KM or 2% compared to the end of 2022. Capital accounts for 13.0% of total balance sheet liabilities and is higher by 90.1 million KM or 7% compared to the end of 2022.

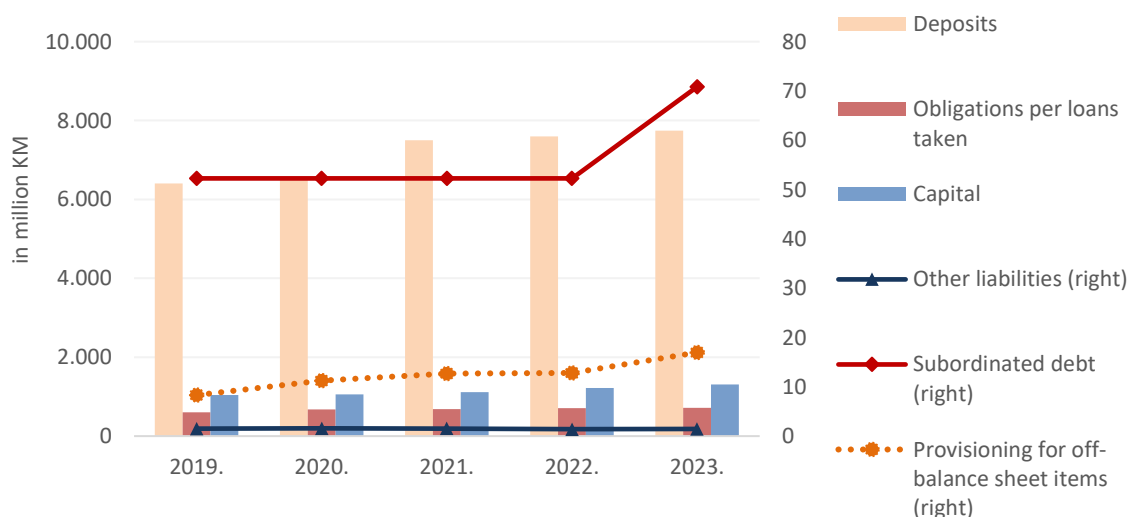
Liabilities for taken loans recorded an increase of 13.2 million KM or 2%, while other liabilities are higher by 2.5 million KM or 1% compared to the end of 2022.

The trend of the items that make up the balance sheet liabilities, through the last five comparative periods, is shown in the following graph

Subordinated debt also increased by 18.6 million KM or 36%, and reserves for off-balance sheet items recorded an increase of 4.2 million KM or 33%, compared to the end of 2022.

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

**Graph 14: Liabilities structure**



### 2.1.1.1. Capital

The total balance sheet capital is 1.3 billion KM and is higher by 90.0 million KM or 7% compared to the end of 2022.

DESCRIPTION				Index
	2021.	2022.	2023.	2023./2022.
Permanent preferred shares	6,0	6,0	6,0	100
Ordinary shares	690,0	693,1	697,1	101
Agio (exchange premium)	7,1	17,3	15,8	92
Retained earnings	294,0	379,2	466,2	123
Capital reserves	144,5	131,3	128,1	98
Other capital	-25,0	-10,9	-7,1	65
<b>TOTAL</b>	<b>1.116,5</b>	<b>1.216,0</b>	<b>1.306,1</b>	<b>107</b>

The increase in the total balance sheet capital was influenced by: an increase in the position of retained earnings by 86.9 million KM or 23%, ordinary shares by 3.9 million KM or 1% and a decrease in negative position of other capital by 3.8 million KM or 35% compared to the end of 2022.

### 2.1.1.2. Deposits

Deposits amount to 7.7 billion KM and record an increase of 144.9 million KM or 2% compared to the end of 2022.

#### *Deposit sector structure*

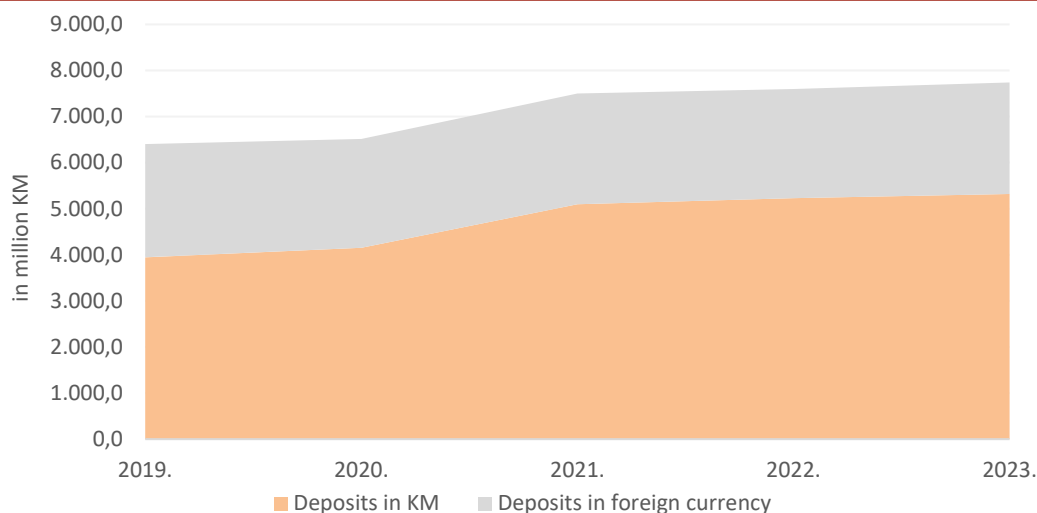
According to the presented sector structure, the growth of deposits was recorded in retail sector, private corporate sector and non-profit organizations sector, and all other sectors recorded a drop in deposits.

DESCRIPTION	2021.		2022.		2023.		Index 2023./2022.
	Amount	%	Amount	%	Amount	%	
Government and government inst.	973,2	13,0	995,7	13,1	861,4	11,1	87
Public and state entities	455,7	6,1	498,6	6,6	311,9	4,0	63
Private enterprises and companies	1.180,4	15,7	1.313,2	17,3	1.426,7	18,4	109
Non-profit organizations	125,5	1,7	141,9	1,9	149,2	1,9	105
Banks and banking institutions	228,1	3,0	232,1	3,1	131,7	1,7	57
Non-banking financial institutions	331,2	4,4	310,0	4,1	265,7	3,4	86
Retail/household	4.179,7	55,7	4.084,7	53,8	4.587,9	59,3	112
Other	24,8	0,3	18,9	0,2	5,5	0,1	29
<b>TOTAL</b>	<b>7.498,6</b>	<b>100</b>	<b>7.595,2</b>	<b>100</b>	<b>7.740,1</b>	<b>100</b>	<b>102</b>

Household deposits make up 59.3% of total deposits and are higher by 503.2 million KM or 12%, and deposits of private companies make up 18.4% of total deposits and are higher by 113.6 million KM or 9% compared to the end of 2022. Deposits of non-profit organizations also recorded an increase of 7.4 million KM or 5% compared to the end of 2022. Deposits of public and state enterprises (accounting for 4% of total deposits) recorded the biggest decline and were lower by 186.7 million KM or 37%, deposits of the Government and government institutions (accounting for 11.1% of total deposits) were lower by 134.3 million KM or 13%, deposits of banks and banking institutions are lower by 100.4 million or 43%, deposits of non-banking financial institutions are lower by 44.4 million KM or 14%, and other deposits are lower by 13.4 million KM or 71%, compared to the end of 2022.

**Deposit structure per currency**

Deposits in domestic currency decreased their share by 0.2 percentage points and make up 68.7% of total deposits.

**Graph 15: Deposit structure per currency**

Deposits in domestic currency amount to 5.3 billion KM and record a growth of 88.8 million KM or 1.7%, while deposits in foreign currency amount to 2.4 billion KM and record a growth of 56.1 million KM or 2.4% compared to the end of 2022.

**Deposit maturity structure**

According to the presented maturity structure of deposits in the following table, long-term deposits increased their share in total deposits by 4.4 percentage points in favor of short-term deposits. Short-term deposits recorded a decrease in the amount of 232.7 million KM or 4%, and long-term deposits recorded an increase in the amount of 377.6 million KM or 19% compared to the end of 2022.

**Table 12: Deposit maturity structure**

DESCRIPTION	2021.		2022.		2023.		Index 2023./2022.
	Amount	%	Amount	%	Amount	%	
<b>Total short-term deposits</b>	<b>5.206,1</b>	<b>69,4</b>	<b>5.571,5</b>	<b>73,4</b>	<b>5.338,9</b>	<b>69,0</b>	96
Sight deposits	4.803,4	64,1	5.147,8	67,8	5.123,9	66,2	100
Up to 3 months	177,8	2,4	84,9	1,1	8,5	0,1	10
Up to 1 year	224,9	3,0	338,8	4,5	206,5	2,7	61
<b>Total long-term deposits</b>	<b>2.292,4</b>	<b>30,6</b>	<b>2.023,6</b>	<b>26,6</b>	<b>2.401,2</b>	<b>31,0</b>	119
Up to 3 years	1.979,8	26,4	1.747,1	23,0	2.168,6	28,0	124
Over 3 years	312,6	4,2	276,5	3,6	232,6	3,0	84
<b>Total deposits</b>	<b>7.498,6</b>	<b>100</b>	<b>7.595,2</b>	<b>100</b>	<b>7.740,1</b>	<b>100</b>	<b>102</b>

In the structure of short-term deposits, there was a decrease in savings up to a year by 132.2 million KM or 39%, up to 3 months by 76.5 million KM or 90%, and savings and sight deposits by 23.9 million KM or 0.5% in relation to the end of 2022. In the structure of long-term deposits, there was an increase in deposits up to 3 years by 421.5 million KM or 24% and a decrease in deposits over 3 years by 43.9 million KM or 16%, compared to the end of 2022.

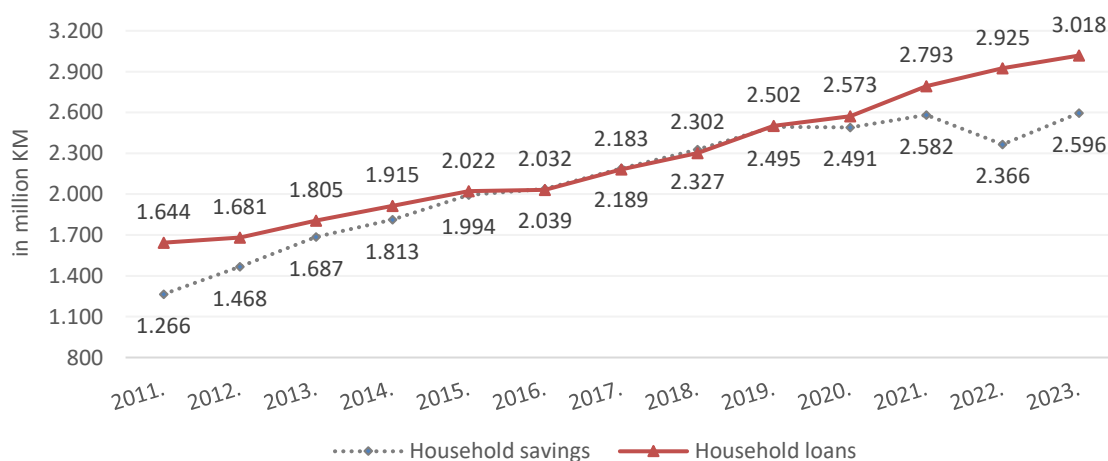
### Loans and household savings

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

DESCRIPTION	2021.	2022.	2023.	mil. KM Index 2023./2022.
1. Retail/household loans	2.793,1	2.924,6	3.018,0	103
2. Household savings	2.581,8	2.365,8	2.595,9	110
2.1. termed savings	1.837,9	1.699,2	1.921,4	113
2.2. sight savings	743,9	666,6	674,5	101
<b>3. Loans/Savings</b>	<b>108,2</b>	<b>123,6</b>	<b>116,3</b>	<b>94</b>
4. Household transaction accounts	1.460,3	1.557,8	1.806,7	116
5. Total deposits (2+4)	4.042,2	3.923,6	4.402,6	112
<b>6. Loans/Total deposits</b>	<b>69,1</b>	<b>74,5</b>	<b>68,5</b>	<b>92</b>

In this reporting period, household loans increased by 93.3 million KM or 3%, and household savings increased by 230.0 million KM or 10% compared to the end of 2022. Term savings account for 74% (at the end of 2022, 71.8%) of the total household savings and is higher by 222.2 million KM, and demand savings without current household accounts make up 26% of the total household savings and is higher by 7.9 million KM or 1%, compared to the end of 2022. Household current accounts are higher by 248.9 million KM or 16%, and total household deposits are higher by 479.0 million KM or 12%, compared to the end of 2022. The ratio obtained when household loans are divided by total household deposits is 68.5% and is lower by 6 percentage points, due to the higher growth of total household deposits compared to household loans, compared to the end of 2022.

Graph 16: Household loans and savings

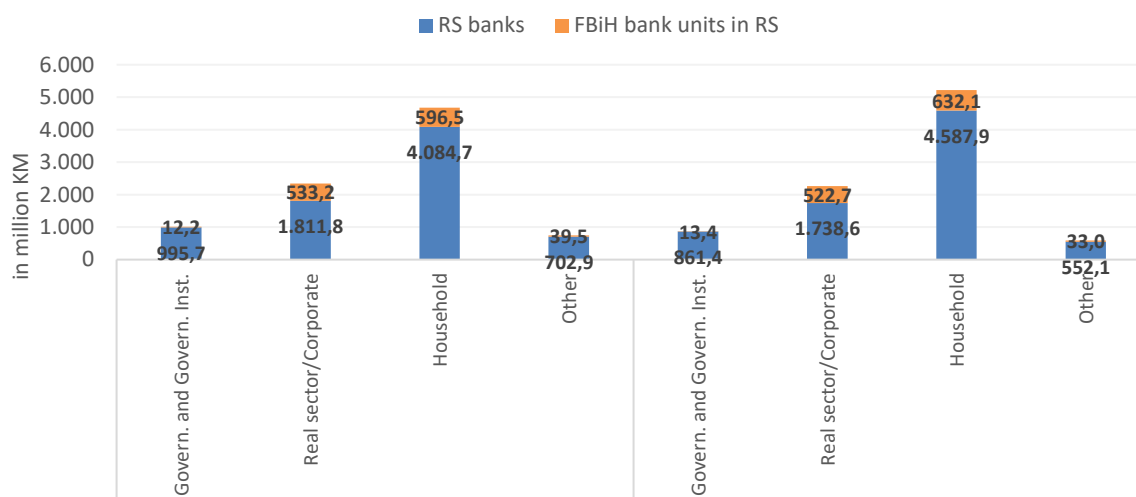


From 2016-2019, the trend of household savings (excluding current accounts) and loans to household is approximately the same, and loans to household are almost completely covered by household savings. Since 2019, the coverage ratio has been in continuous decline because household loans are growing faster than household savings, but it started to grow again in 2023.

### 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 8.9 billion KM and are higher by 164.6 million KM or 2% compared to the end of 2022.

Short-term deposits amount to 6.3 billion KM and are lower by 212.0 million KM or 3%, and long-term deposits amount to 2.6 billion KM and are higher by 376.6 million KM or 17% compared to the end of 2022.

In the case of short-term deposits, the largest percentage in the structure of the same is held by household deposits, which amount to 3.3 billion KM and are higher by 339.7 million KM or 11% compared to the end of 2022.

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 199 million KM or 12% compared to the end of 2022.

#### 2.1.2. Assets

Gross balance sheet assets amount to 10.4 billion KM and are higher by 300.1 million KM or 3% compared to the end of 2022. Gross loans and cash funds account for 83.1% of total assets. Cash funds recorded a decrease of 76.6 million KM or 3%, while gross loans, which account for 58.4% of total assets, recorded an increase of 263.6 million KM or 5% compared to the end of 2022. The highest growth was recorded by securities held up to maturity, which grew by 340.2 million KM or 394% compared to the end of 2022.

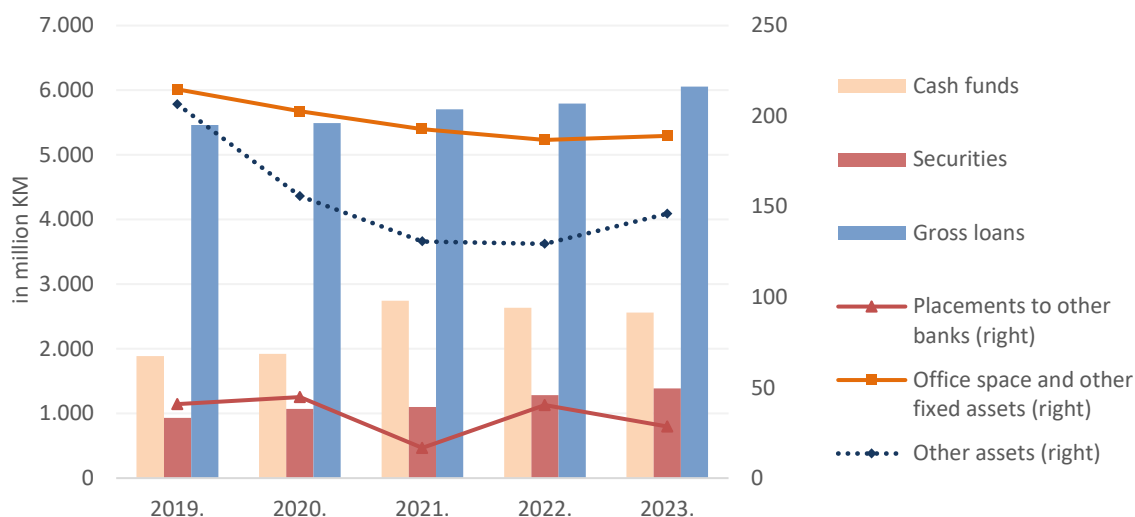
Table 14: Balance sheet asset structure (gross)

DESCRIPTION	2021.		2022.		2023.		Index 2023./2022.
	Amount	%	Amount	%	Amount	%	
<b>ASSETS (PROPERTY)</b>							
Cash funds	2.745,4	27,8	2.636,6	26,2	2.560,0	24,7	97
Trading securities	1.075,7	10,9	1.197,5	11,9	963,2	9,3	80
Placements to other banks	16,7	0,2	40,4	0,4	28,6	0,3	71
Loans (gross)	5.705,1	57,7	5.792,9	57,5	6.056,5	58,4	105
Securities held up to maturity	25,9	0,3	86,4	0,9	426,6	4,1	494
Office space and other fixed assets	192,7	1,9	186,8	1,9	189,1	1,8	101
Other assets	130,7	1,3	129,4	1,3	146,1	1,4	113
<b>TOTAL</b>	<b>9.892,3</b>	<b>100</b>	<b>10.070,0</b>	<b>100</b>	<b>10.370,1</b>	<b>100</b>	<b>103</b>

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

Since 2019 to this reporting period, there is a continuous growth of gross loans and securities. However, since 2019 up to the end of 2022, office space and other fixed assets and other assets record a continuous decline, however, the mentioned trend was stopped at the end of this reporting period, and the mentioned items record a slight increase. However, cash funds grew until 2021, and in the two most recent comparative periods show a significant decline.

Graph 18: Balance sheet asset structure



Total active off-balance sheet as of 31/12/2023 is 1.4 billion KM and recorded an increase of 116 million KM or 9% compared to the end of 2022.

Table 15: Off-balance sheet asset structure

DESCRIPTION	2021.		2022.		2023.		Index 2023./2022.
	Amount	%	Amount	%	Amount	%	
<b>Risk off-balance sheet</b>	<b>1.183,7</b>	<b>100,0</b>	<b>1.277,2</b>	<b>100,0</b>	<b>1.393,2</b>	<b>100,0</b>	<b>109</b>
1. Irrevocably approved, undrawn loans	628,3	53,1	634,2	49,7	660,0	47,4	104
2. Non-covered letters of credit	5,6	0,5	0,8	0,1	0,9	0,1	116
3. Issued guarantees	549,4	46,4	641,5	50,2	732,0	52,5	114
3.1. Payable guarantees	191,3	16,2	204,5	16,0	238,3	17,1	117
3.2. Performance guarantees	358,0	30,2	437,0	34,2	493,7	35,4	113
4. Other off-balance sheet items	0,5	0,0	0,7	0,1	0,3	0,0	47
<b>Revocable credit liabilities</b>	<b>125,5</b>		<b>128,4</b>		<b>132,9</b>		<b>104</b>
<b>Commission transactions</b>	<b>88,6</b>		<b>82,7</b>		<b>90,1</b>		<b>109</b>
<b>TOTAL OFF-BALANCE SHEET</b>	<b>1.397,8</b>		<b>1.488,4</b>		<b>1.616,2</b>		<b>109</b>

In the structure of the risk off-balance sheet, mostly all positions had growth, and the most significant items refer to irrevocably approved and undrawn loans and issued guarantees. Guarantees issued are higher by 90.4 million KM or 14%, and irrevocably approved and undrawn loans are higher by 25.8 million KM or 4%, compared to the end of 2022. In the structure of issued guarantees, performance guarantees accounting for 35.4% of the total risk off-balance sheet, are higher by 56.6 million KM or 13%, and payable guarantees, accounting for 17.1% of the total risk off-balance sheet, are higher by 33.8 million KM or 17% compared to the end of 2022.

### 2.1.2.1. Cash funds

Cash funds in total amount to 2.6 billion KM and are lower by 76.6 million KM or 3% compared to the end of 2022. The following table shows the structure of cash funds.

Table 16: Cash funds structure							mil. KM
DESCRIPTION	2021.		2022.		2023.		Index 2023./2022.
	Amount	%	Amount	%	Amount	%	
<b>Cash funds</b>	<b>319,0</b>	<b>11,6</b>	<b>352,6</b>	<b>13,4</b>	<b>392,9</b>	<b>15,3</b>	<b>111</b>
KM	182,6	6,7	210,4	8,0	233,8	9,1	111
foreign currency	136,4	5,0	142,2	5,4	159,1	6,2	112
<b>Reserve accounts at CBBH</b>	<b>1.901,2</b>	<b>69,2</b>	<b>1.806,8</b>	<b>68,5</b>	<b>1.463,7</b>	<b>57,2</b>	<b>81</b>
KM	1.901,2	69,2	1.806,8	68,5	1.463,7	57,2	81
foreign currency	0,0	0,0	0,0	0,0	0,0	0,0	-
<b>Deposit accounts with depository institute. in BiH</b>	<b>24,1</b>	<b>0,9</b>	<b>26,1</b>	<b>1,0</b>	<b>29,9</b>	<b>1,2</b>	<b>114</b>
KM	2,9	0,1	1,1	0,0	1,4	0,1	124
foreign currency	21,2	0,8	25,0	0,9	28,4	1,1	114
<b>Deposit accounts with depository institute. abroad</b>	<b>500,2</b>	<b>18,2</b>	<b>451,1</b>	<b>17,1</b>	<b>673,7</b>	<b>26,3</b>	<b>149</b>
KM	0,0	0,0	0,0	0,0	0,0	0,0	-
foreign currency	500,2	18,2	451,1	17,1	673,7	26,3	149
<b>Cash funds in collection process</b>	<b>1,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>-</b>
KM	0,0	0,0	0,0	0,0	0,0	0,0	-
foreign currency	1,0	0,0	0,0	0,0	0,0	0,0	-
<b>Debts not repaid</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>-</b>
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	-
<b>TOTAL</b>	<b>2.745,4</b>	<b>100,0</b>	<b>2.636,6</b>	<b>100,0</b>	<b>2.560,0</b>	<b>100,0</b>	<b>97</b>
KM	2.086,6	76,0	2.018,3	76,5	1.698,9	66,4	84
foreign currency	658,8	24,0	618,3	23,5	861,2	33,6	139

Cash funds in domestic currency, making up 66.4% of total cash funds, amount to 1.7 billion KM and have a decrease of 16% or 319.4 million KM compared to the end of 2022. Cash funds in foreign currency, making up 33.6% of total cash funds, amount to 861.2 million KM and have an increase of 39% or 242.8 million KM compared to the end of 2022.

Cash funds at the reserve account with the CBBiH make up 57.2% of the total cash funds and amount to 1.5 billion KM and are less by 343.1 million KM or 19% compared to the end of 2022.

Coins and bank notes account for 15.3% of total cash funds, amounting to 392.9 million KM, with a growth of 40.3 million KM or 11%, with the fact that cash in KM is higher by 11%, and cash in foreign currencies is higher by 12%, and compared to the end of 2022.

Cash funds at the deposit account with depository institutions abroad make up 26.3% of total cash funds, amounting to 673.7 million KM and are higher by 222.5 million KM or 49% compared to the end of 2022.

Of the total cash funds (2.6 billion KM), the amount of 1.3 billion KM or 49.2% are interest-bearing deposit accounts (at the end of 2022, they made up 52% of the total cash funds), and the amount of 1.3 billion KM is the position of coins and bank notes and non-interest-bearing accounts on which banks do not generate income, which accounts for 50.8% of total cash funds (as of the end of 2022, it accounted for 48% of total cash funds). In this reporting period, there was a decrease in interest-bearing deposits (by 113.2 million KM) compared to non-interest-bearing deposits which grew (by 36.6 million).

### 2.1.2.2. Securities

Investments in securities in total amount to 1.4 billion KM and are higher by 106.1 million KM or 8% compared to the end of 2022. The following table shows securities by type:

DESCRIPTION	2021.		2022.		2023.		Index 2023./2022.
	Amount	%	Amount	%	Amount	%	
<b>Equity securities</b>	<b>15,1</b>	<b>100,0</b>	<b>26,3</b>	<b>100,0</b>	<b>28,8</b>	<b>100,0</b>	<b>109</b>
Shares	15,1	99,9	26,3	100,0	28,8	100,0	109
Other equity shares	0,0	0,1	0,0	0,0	0,0	0,0	100
<b>Debt securities</b>	<b>1.089,0</b>	<b>100</b>	<b>1.270,9</b>	<b>100</b>	<b>1.374,5</b>	<b>100</b>	<b>108</b>
Bonds	960,5	88,2	1.045,2	82,2	1.168,4	85,0	112
Treasury bills	128,5	11,8	225,7	17,8	206,0	15,0	91

Equity securities make up 2% of the total securities, have a growth of 2.5 million KM or 9% compared to the end of 2022 and refer to shares. Debt securities are higher by 103.6 million KM or 8% compared to the end of 2022. In the structure of debt securities, bonds make up 85% of the total debt securities and have an increase of 123.3 million KM or 12% compared to the end of 2022. Treasury bills make up 15% of total debt securities and have decreased by 19.7 million KM or 9% compared to the end of 2022.

The following table shows securities by issuer and origin of the issuer:

Description	2021.		2022.		2023.		Index 2023./2022.
	Amount	%	Amount	%	Amount	%	
<b>1. Equity securities</b>	<b>15,2</b>	<b>100,0</b>	<b>26,3</b>	<b>100,0</b>	<b>28,8</b>	<b>100,0</b>	<b>109</b>
Domestic equity investments	2,5	16,3	13,2	50,2	13,3	46,1	100
Foreign equity investments	12,7	83,7	13,1	49,8	15,5	53,9	118
<b>2. Debt securities</b>	<b>1.089,0</b>	<b>100,0</b>	<b>1.270,9</b>	<b>100,0</b>	<b>1.374,5</b>	<b>100,0</b>	<b>108</b>
<b>Countries and government</b>	<b>1.022,1</b>	<b>93,9</b>	<b>1.206,4</b>	<b>94,9</b>	<b>1.322,3</b>	<b>96,2</b>	<b>110</b>
Republika Srpska	849,7	78,0	954,8	75,1	1.137,0	82,7	119
Federation of BiH	10,0	0,9	0,0	0,0	0,0	0,0	-
EU member states	153,7	14,1	227,3	17,9	171,7	12,5	76
Other countries	8,6	0,8	24,3	1,9	13,7	1,0	56
<b>Other issuers</b>	<b>66,9</b>	<b>6,1</b>	<b>64,5</b>	<b>5,1</b>	<b>52,2</b>	<b>3,8</b>	<b>81</b>
Republika Srpska	35,7	3,3	36,6	2,9	30,7	2,2	84
EU member states	31,2	2,9	27,9	2,2	21,5	1,6	77
Other countries	0,0	0,0	0,0	0,0	0,0	0,0	-

If we look at the structure of the equity securities, 46.1% or 13.3 million KM refers to domestic equity investments, and 53.9% or 15.5 million KM refers to foreign equity investments.

In the structure of debt securities, the dominant share have securities issued by states and governments, accounting for 96.2% and record an increase of 115.9 million KM or 10% compared to the end of 2022. In the structure of debt securities issued by states and governments, the dominant share have securities issued by Republika Srpska, with a share of 82.7% and a growth rate of 19%, i.e. they grew in the amount of 182.2 million KM, followed by EU member states with a share of 12.5% and which decreased by 55.7 million KM or 24% compared to the end of 2022.

### 2.1.2.3. Loans

Gross loans amount to 6.1 billion KM or 58.4% of gross balance sheet assets and are higher by 263.6 million KM or 5% compared to the end of 2022.

In 2023, the banks made an accounting write-off of the loan principal in the amount of 16.1 million KM and a permanent write-off of the loan principal in the amount of 9.6 million.

### 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 given to private enterprises and companies.

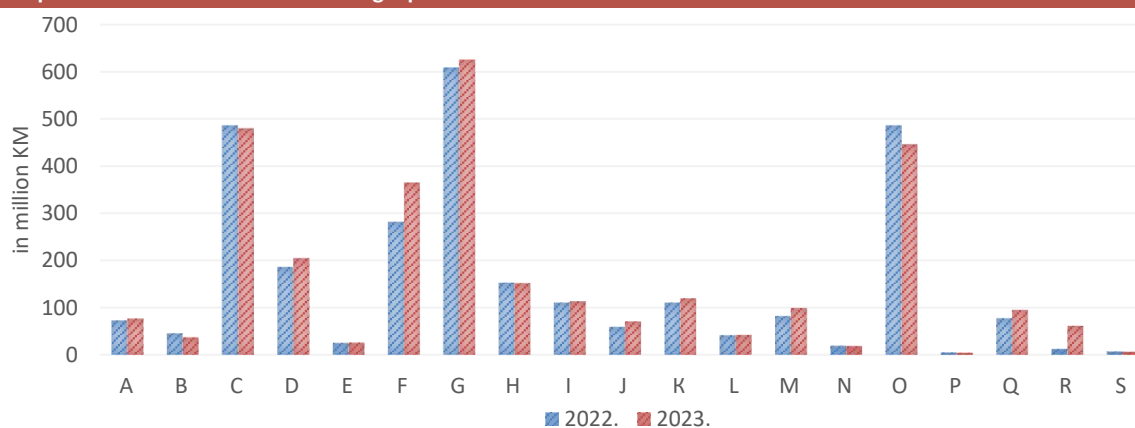
Table 19: Total loans sector structure

DESCRIPTION	2021.		2022.		2023.		Index 2023./2022.
	Amount	%	Amount	%	Amount	%	
Government and Government inst.	631,5	11,1	547,9	9,5	495,5	8,2	90
Public and State Enterprises	237,2	4,2	325,2	5,6	341,8	5,6	105
Private Enterprises and Companies	1.976,2	34,6	1.902,7	32,8	2.098,8	34,7	110
Non-Profit Organizations	4,8	0,1	11,5	0,2	12,9	0,2	113
Banks and Banking Institutions	0,0	0,0	0,0	0,0	0,0	0,0	-
Non-Banking Financial Institutions	55,1	1,0	58,8	1,0	68,1	1,1	116
Private individuals	2.793,1	49,0	2.924,6	50,5	3.018,0	49,8	103
Other	7,3	0,1	22,1	0,4	21,5	0,4	97
<b>TOTAL</b>	<b>5.705,1</b>	<b>100</b>	<b>5.792,9</b>	<b>100</b>	<b>6.056,5</b>	<b>100</b>	<b>105</b>

The largest increase in loans was recorded in loans given to private enterprises and companies for 196.1 million KM or 10%, household loans for 93.3 million KM or 3%, loans given to public and state enterprises for 16.6 million KM or 5% and loans given to non-banking financial institutions in the amount of 9.2 million KM or 16%, compared to the end of 2022. Loans to the Government and government institutions decreased by 52.4 million KM or 10% compared to the end of 2022.

The detailed branch structure of loans to legal entities and the trend through two comparative periods is shown in the following chart.

Graph 19: Loan branch structure of legal persons



#### Legend

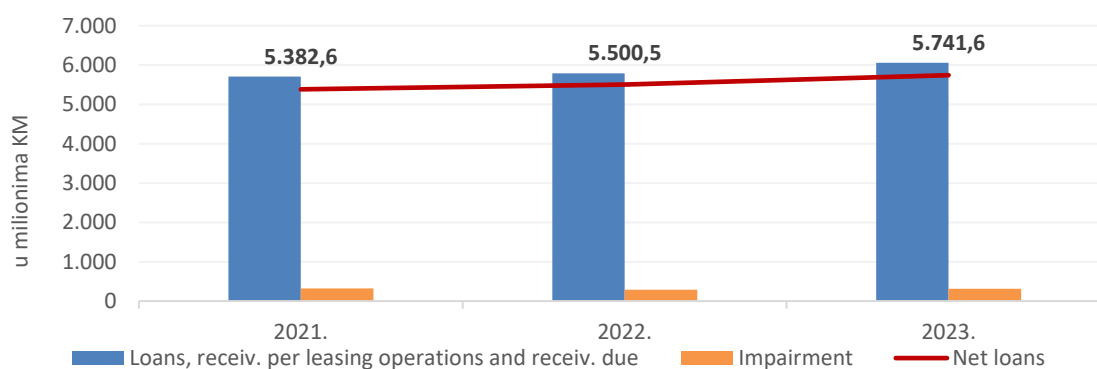
- |   |  |   |  |
|---|--|---|--|
| A | Agriculture, forestry, fishing   | K | Financial and insurance activities                             |
| B | Mining   | L | Real estate activities   |
| C | Manufacture industry   | M | Expert, scientific and technical activities                    |
| D | Production 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 (legal entities and private individuals), the largest percentage of 32.3% refers to the financing of the general household consumption, 14.5% refers to the financing of housing needs, followed by: 10.3% trade, 7.4% public administration, 7.9% manufacturing industry, 6% construction, 3.4% production and supply of electricity, gas, steam and air conditioning, and 18.2% refers to all other sectors (Attachment No. 2).

### Net loans

Net loans represent gross loans less ECL according to the Decision on credit risk management and determining expected credit losses<sup>43</sup>. The stock and trend of the net loans of Republika Srpska banks can be seen from the following chart:

Graph 20: Net loans



Net loans amount to 5.7 billion KM and are higher by 241.2 million KM or 4% compared to the end of 2022. Loans, receivables from leasing operations and due receivables are higher by 263.6 million KM or 5%, and ECL is higher by 22.5 million KM or 8% compared to the end of 2022. Coverage of total loans by expected credit losses (ECL) is 5.2% (as of 31/12/2022, it was 5% of total loans).

### Loan maturity structure

Short-term loans increased by 8 million KM or 1%, and long-term loans increased by 256.2 million KM or 5% compared to the end of 2022. Long-term loans account for 84.7% of total loans and have increased their share by 0.5 percentage points compared to the end of 2022. Due receivables are lower by 0.8 million KM or 1% compared to the end of 2022. The largest decrease was recorded in due receivables of private enterprises and companies (in the amount of 2 million KM or 3%), while due receivables of household increased (in the amount of 0.7 thousand KM or 1%).

Table 20: Loan maturity structure

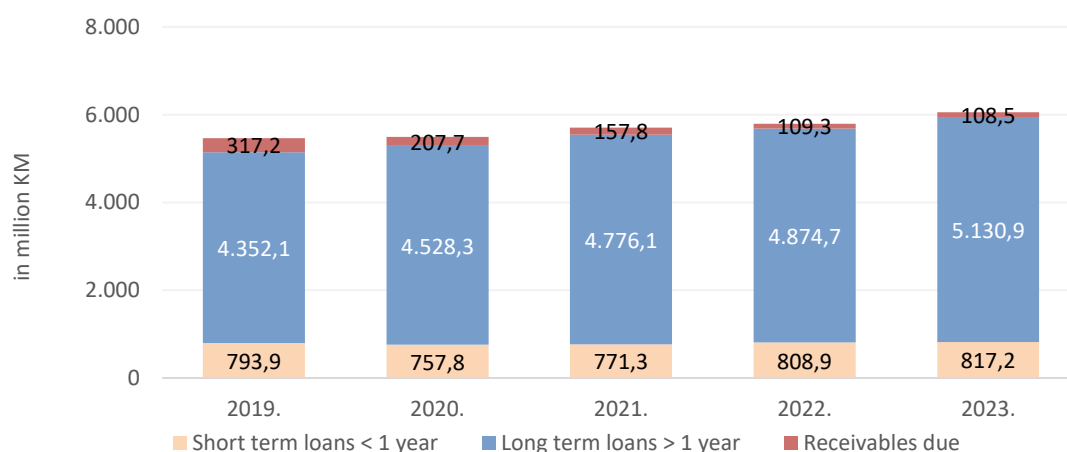
DESCRIPTION	mil. KM								
	Short term loans < 1 year			Long term loans > 1 year			Receivables due		
	2022.	2023.	Index	2022.	2023.	Index	2022.	2023.	Index
Government and Government inst.	5,9	3,0	50	541,3	491,8	91	0,6	0,7	122
Public and state Ent.	48,9	48,0	98	276,1	293,6	106	0,3	0,3	99
Private Ent. And Companies	563,4	571,7	101	1.280,5	1.470,3	115	58,8	56,8	97
Non-profit organizations	0,1	0,3	253	11,3	12,6	111	0,1	0,1	103
Banks and bank. Inst.	0,0	0,0	-	0,0	0,0	-	0,0	0,0	-
Non-bank. Fin. Inst.	4,9	5,5	112	54,0	62,6	116	0,0	0,0	-
Retail/household	177,5	188,7	106	2.697,6	2.779,1	103	49,5	50,2	101
Other	8,2	0,1	1	13,9	21,0	151	0,0	0,4	1881
<b>TOTAL</b>	<b>808,9</b>	<b>817,2</b>	<b>101</b>	<b>4.874,7</b>	<b>5.130,9</b>	<b>105</b>	<b>109,3</b>	<b>108,5</b>	<b>99</b>

<sup>43</sup> „Official Gazette of Republika Srpska" number 48/19, 109/19, 73/21, 35/23 and 101/23

In the structure of short-term and long-term loans, loans to private enterprises and companies and the household have a dominant share. Long-term loans to the household increased by 81.5 million KM or 3% compared to the end of 2022, and they account for 54.2% of the total long-term loans. Long-term loans to private enterprises and companies increased by 189.8 million KM or 15% compared to the end of 2022, and they account for 28.7% of the total long-term loans.

Short-term household loans are higher by 11.2 million KM or 6% compared to the end of 2022, and they account for 23.1% of total short-term loans. Short-term loans to private enterprises and companies are higher by 8.3 million KM or 1% than at the end of 2022, and they account for 70% of total short-term loans.

Graph 21: Loan maturity structure

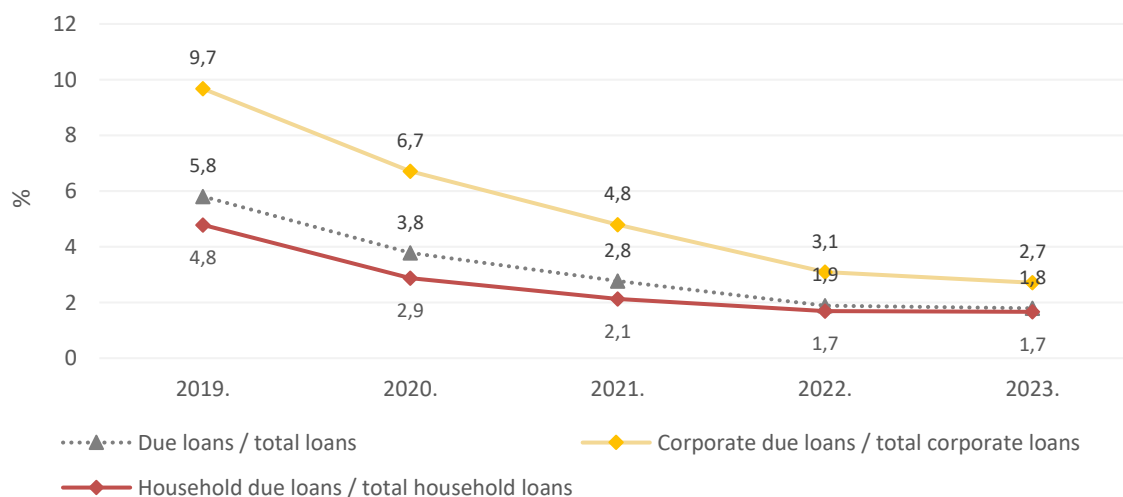


Changes in the maturity structure of loans are shown in the previous graph through a series of five comparative periods, starting from 2019.

### Due receivables on loans

Due receivables on loans from private enterprises and companies and due receivables on household loans together make up 98.7% of total due receivables

Graph 22: Ratio of loan receivables due and total loans



As of 31/12/2023, the ratio of overdue loans in relation to total loans is 1.8% (as of 31/12/2022 it was 1.9%), the ratio of overdue loans of private enterprises and companies in relation to total loans to private enterprises and companies is 2.7% (as of 31/12/2022 it was 3.1%) and the ratio of overdue loans to household in relation to total household loans is 1.7% (as of 31/12/2022 it was 1.7%).

### Loan currency structure

According to the currency structure of the loans, loans with a currency clause in total loans account for 48%, loans in foreign currency (EUR) with 2.3%, and loans in domestic currency with 49.7%.

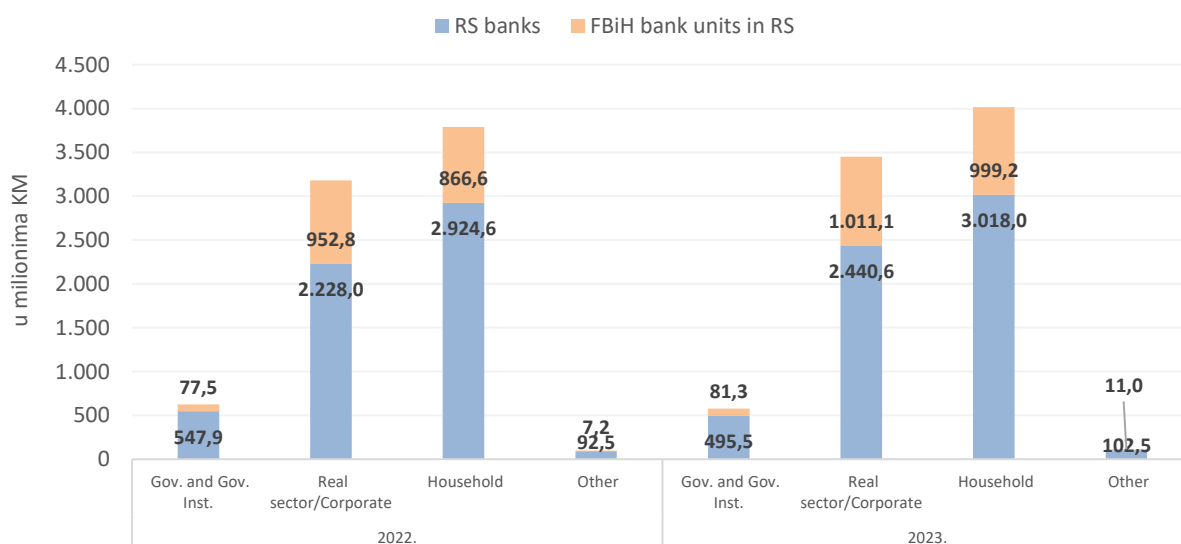
### Maturity and sector structure of loans of Republika Srpska banks and business units of FBiH banks

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 real sector and household, and that they are oriented towards long-term lending.

Total loans placed in Republika Srpska as of 31/12/2023 amount to 8.2 billion KM and are by 6% higher compared to the end of 2022, of which loans from organizational units of banks whose headquarters are in the Federation of BiH amount to 2.1 billion KM or 25.8% of total loans placed in Republika Srpska and have a growth of 198.5 million KM or 10.4% compared to the end of 2022. Organizational units of banks from Republika Srpska (three banks) operating in the territory of the Federation of BiH as of 31/12/2023 placed a total of 282.1 million KM in loans, with an increase in the amount of 1.9 million KM or 1% compared to the end of 2022.

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



### Household loans

Total loans to household placed by banks from Republika Srpska and organizational units of banks based in the Federation of BiH operating in the territory of Republika Srpska as of 31/12/2023 amount to 4 billion KM and are higher by 226 million KM or 6% compared to the end of 2022.

Of the total loans to household, banks from Republika Srpska placed 3.1 billion KM or 75.1% of total household loans, while the business units of banks headquartered in the Federation of BiH placed 999.2 million KM or 24.9% of total household loans.

Short-term household loans are higher by 13.7 million KM or 5% compared to the end of 2022 and make up 6.9% of the total household loans.

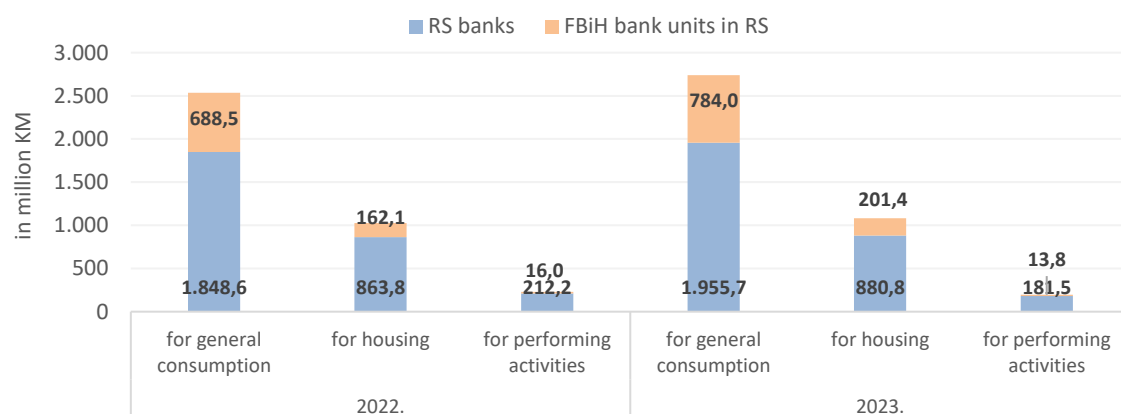
Long-term household loans are higher by 212.2 million KM or 6% compared to the end of 2022 and make up 93.1% of the total household loans.

In the structure of total household loans, short-term loans for general consumption make up 5.7% of total household loans and are higher by 12.6 million KM or 6% compared to the end of 2022. In the structure of total household loans, long-term loans for general consumption make up 62.5% of total household loans and are higher by 190 million KM or 8%.

Housing loans (short-term and long-term) make up 26.9% of total household loans and are higher by 56.20 million KM or 5.5% compared to the end of 2022.

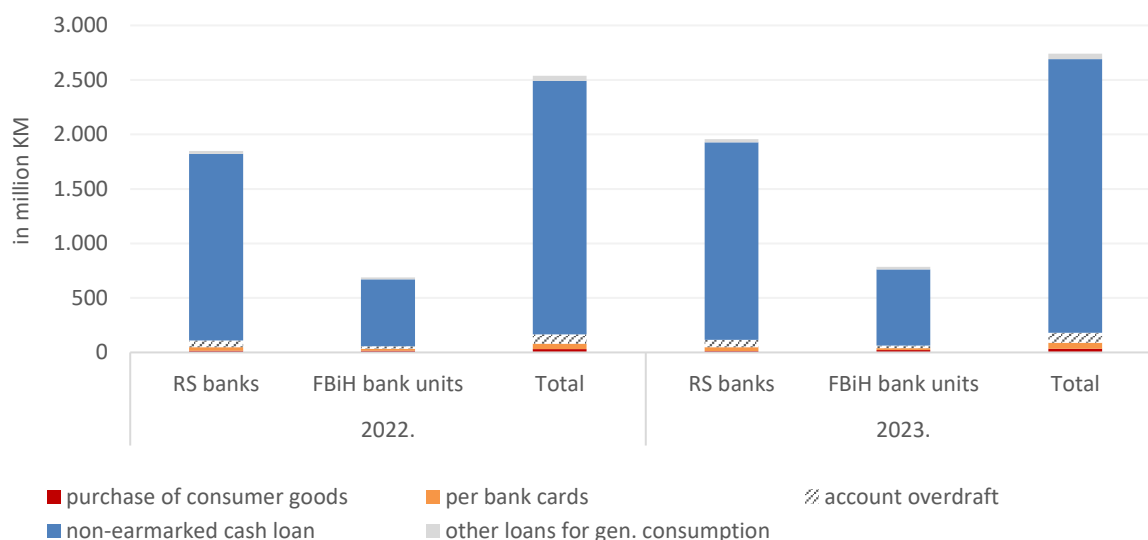
Loans for the performance of business (short-term and long-term) make up 4.9% of the total household loans and are lower by 32.8 million KM or 14.4% compared to the end of 2022.

**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 2.7 billion KM and are higher by 202.6 million KM or 8%, compared to the end of 2022.

According to the purpose structure of household loans for general consumption, non-purpose cash loans make up 91.6% of total household loans for general consumption and are higher by 185.5 million KM or 8%.

### **Household indebtedness by banking sector loans**

The following table shows the trend of total household loans by banks from Republika Srpska and business units of banks from the FBiH:

<b>Table 21: Private individuals' indebtedness per loans (excluding loans for providing services)</b>				<b>mil. KM</b>
<b>DESCRIPTION</b>	<b>2021.</b>	<b>2022.</b>	<b>2023.</b>	<b>Index</b>
Private individual loans				-
1. Republika Srpska Banks	2.591,3	2.712,5	2.836,4	105
2. Republika Srpska Banks business units in FBiH	111,7	111,5	97,5	87
3. FBiH bank business units in Republika Srpska*	771,4	850,6	985,4	116
<b>TOTAL (1-2+3)</b>	<b>3.251,0</b>	<b>3.451,6</b>	<b>3.724,4</b>	<b>108</b>
Republika Srpska population*	1.128.309	1.120.236	1.120.236	
<b>Republika Srpska indebtedness per capita (in KM)</b>	<b>2.881,29</b>	<b>3.081,16</b>	<b>3.324,62</b>	<b>108</b>

According to the latest publication of the Republika Srpska Institute of Statistics<sup>44</sup>, the population in Republika Srpska is 1,120,236 and the total amount of household loans is 3,724.4 million KM, which gives credit indebtedness per capita in the amount of 3,324.6 KM (as of 31/12/2022 it was 3,081.2 KM).

### **Total collected deposits and placed loans in Republika Srpska**

Business units of banks headquartered in the Federation of BiH and operating in Republika Srpska have a deposit growth of 2% and a loan growth of 10% compared to the end of 2022.

<b>Table 22: Collected deposits and loans placed</b>						<b>mil. KM</b>
<b>DESCRIPTION</b>	<b>2022.</b>		<b>2023.</b>		<b>Deposit index</b>	<b>Loan index</b>
	<b>Deposit amount</b>	<b>Loan amount</b>	<b>Deposit amount</b>	<b>Loan amount</b>		
1. Republika Srpska Banks	7.595,2	5.792,9	7.740,1	6.056,5	102	105
2. FBiH bank business units	1.181,5	1.904,1	1.201,2	2.102,6	102	110
3. TOTAL	8.776,7	7.697,0	8.941,3	8.159,1	102	106
4. Minus: Republika Srpska Banks business units in FBiH	454,6	280,2	624,8	282,1	137	101
<b>5. TOTAL</b>	<b>8.322,1</b>	<b>7.416,8</b>	<b>8.316,5</b>	<b>7.877,0</b>	<b>100</b>	<b>106</b>

Business units of banks headquartered in Republika Srpska and operating in the territory of the Federation of BiH have a deposit growth of 37% and a loan growth of 1% compared to the end of 2022. At the overall level, deposits are at approximately the same level and loans are higher by 6% compared to the end of 2022.

<sup>44</sup> [Republika Srpska Institute of Statistics monthly statistical review December 2023](#)

## 2.2. Profitability

Structure of the income statement of the Republika Srpska banking sector as of 31/12/2022 and 31/12/2023 is shown in the following table:

DESCRIPTION	2022.		2023.		Index
	Amount	%	Amount	%	
<b>1. INTEREST INCOME AND SIMILAR INCOME</b>					
a) Interest income and similar income	329,6	60,0	409,4	63,0	124
b) Operational income	219,6	40,0	240,8	37,0	110
<b>2. TOTAL INCOME (1.a+1.b)</b>	<b>549,2</b>	<b>100</b>	<b>650,2</b>	<b>100</b>	<b>118</b>
<b>3. EXPENSES</b>					
a) Interest expenses and similar expenses	50,3	12,7	56,8	12,9	113
b) Business and direct expenses	96,5	24,3	104,3	23,6	108
c) Operational expenses	249,4	62,9	280,1	63,5	112
<b>4. TOTAL EXPENSES (3.a+3.b+3.c)</b>	<b>396,3</b>	<b>100</b>	<b>441,2</b>	<b>100</b>	<b>111</b>
<b>TOTAL INCOME - EXPENSES (2.- 4.)</b>	<b>152,9</b>		<b>209,0</b>		<b>137</b>
<b>PROFIT BEFORE TAX</b>	<b>152,9</b>		<b>209,0</b>		<b>137</b>
<b>LOSS</b>	<b>0,0</b>		<b>0,0</b>		<b>-</b>
<b>TAX</b>	<b>13,3</b>		<b>19,7</b>		<b>148</b>
<b>Profit per increase of deferred tax funds and decrease of deferred tax obligations</b>	<b>0,8</b>		<b>1,3</b>		<b>159</b>
<b>Loss per decrease of deferred tax funds and increase of deferred tax obligations</b>	<b>1,1</b>		<b>1,4</b>		<b>121</b>
<b>NET-PROFIT</b>	<b>139,3</b>		<b>189,3</b>		<b>136</b>
<b>NET-LOSS</b>	<b>0,0</b>		<b>0,0</b>		<b>-</b>

The total income of banks as of 31/12/2023 amounts to 650.2 million KM and is higher by 101 million KM or 18% compared to the end of 2022.

Interest income and similar income amount to 409.4 million KM and are higher by 79.9 million KM or 24%, and operational income amounts to 240.8 million KM and is higher by 21.1 million KM or 10% compared to the end in 2022.

In the structure of interest income and similar income, the most significant is still interest income on loans amounting to 324.0 million KM or 79.1% of total interest income, with growth in the amount of 49.1 million KM or 18% compared to the end of 2022. Income from securities amounts to 36.8 million KM or 9% of total interest income and similar income, with a growth rate of 47% compared to the end of 2022, while other interest income and similar income amounts to 30.6 million KM with a share of 7.5% and is higher by 2.5 million KM or 9% (income from fees for credit transactions, from placements with other banks and interest-bearing deposit accounts with depository institutions and similar).

Operational income amounts to 240.8 million KM and makes up 37% of total income with growth in the amount of 21.1 million KM or 10% compared to the end of 2022. The structure of operational income consists of: income from payment services performed in the amount of 165.5 million KM or 68.7% of total operational income with an increase of 17.5 million KM or 12% compared to the end of 2022, then income from operations with foreign exchange in the amount of 21.9 million KM or 9.1% of total operational income with a drop of 800 thousand KM or 3.6%, income from off-balance sheet activities in the amount of 12.6 million KM or 5.2% of total operational income with a growth of 1.4 million or 13%, income from loan fees in the amount of 4.7 million KM or 2% of total operational income with a drop of 12.1%, and other operational income in the total amount of 35.8 million KM or 14.9% of total operational income with a growth of 11% or in the amount of 3.7 million KM (other operational income consists of income from trading activities, net positive exchange differences, income from collected written-off receivables,

rent, sale of fixed assets and intangible investments, income from holding in the capital of other legal entities and other income), all in relation to the end of 2022.

The total expenses of the banking sector amount to 441.2 million KM and are higher by 44.9 million KM or 11% compared to the end of 2022.

According to the structure of the total expenses of the banking sector, interest expenses and similar expenses amount to 56.8 million KM or 12.9% of total expenses and record a growth of 6.5 million KM or 13% compared to the end of 2022.

Business and direct expenses amount to 104.3 million KM or 23.6% of total expenses and are higher by 7.8 million KM or 8%, and consist of: costs of reserves for general credit risk and potential credit and other losses on the balance sheet and off-balance sheet provisions (formed by applying the Decision on credit risk management and determining expected credit losses) in the amount of 47.1 million KM or 45.2% of total business and direct expenses with an increase of 2.3 million KM or 5%, and other business and direct expenses (expenses based on fees and charges and similar) in the amount of 57.2 million KM or 54.8% of total business and direct expenses with an increase of 5.5 million KM or 11% compared to the end of 2022.

Operational expenses amount to 280.1 million KM or 63.5% of total expenses and are higher by 30.7 million KM or 12% compared to the end of 2022. These expenses refer to the costs of salaries and contributions in the amount of 120.2 million KM, and are higher by 9.9 million KM or 9% compared to the end of 2022, then to the costs of office space, other fixed assets and overhead in to the amount of 73 million KM, and are at approximately the same level compared to the end of 2022, and to other operational expenses in the amount of 86.9 million KM (mostly related to intangible costs, negative exchange differences, debiting and write-off of fixed assets and intangible investments, costs of taxes and contributions, costs of provisions for liabilities, losses from the sale of fixed assets and other costs) which are higher by 20.7 million KM or 31% compared to the end of 2022.

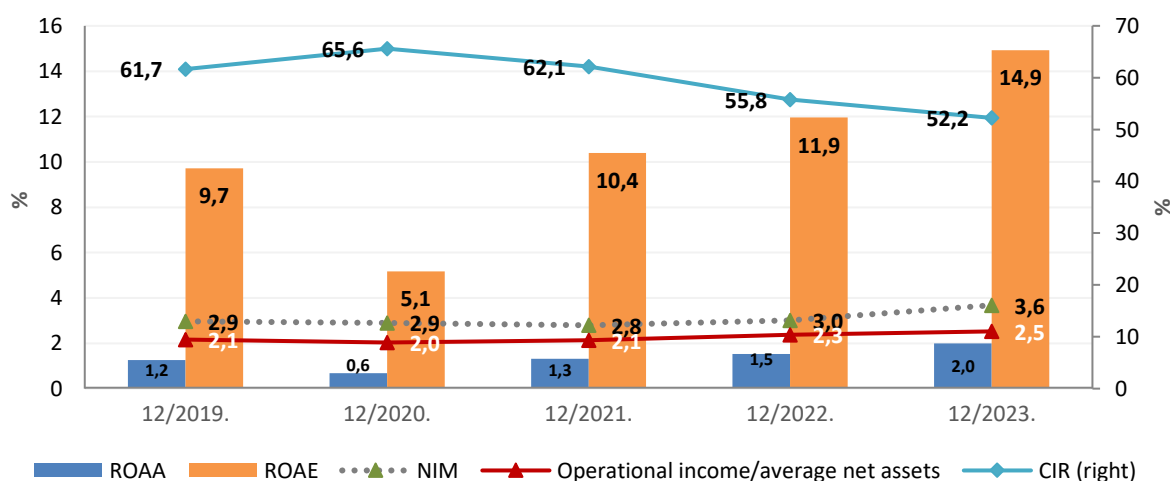
In this reporting period, banks generated a higher growth in total income (18%) compared to the growth in total expenses (11%).

Based on the report of the banks of the banking sector of Republika Srpska for 2023, all banks reported a net profit in the total amount of 189.3 million KM, which is higher by 50 million or 36% compared to the end of 2022.

### Profitability ratio

The profitability ratios 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 are shown in the following table:

Graph 26: Profitability ratio



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

CIR (Cost-income Ratio) : Operational expenses/Total income reduced by other business and direct costs

An overview of the profitability ratios shows a significant increase in the profitability of banks. ROAA ratio is 2% and is higher by 0.5 percentage points, ROAE is 14.9% and is higher by 3 percentage points, NIM is 3.6% and is higher by 0.7 percentage points, while CIR is 52.2% and is lower by 3.5 percentage points, compared to the end of 2022.

## 2.3. Banks' business operations risks

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

### 2.3.1. Credit risk

Loans and other placements have the largest share in the total structure of assets and are its riskiest part. The loan portfolio accounts for 58.4% 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.

### 2.3.2. Asset classification

The following table shows an overview of on-balance sheet and off-balance sheet exposures at the level of the banking sector, and expected credit loss for on-balance sheet exposures and provisions to cover expected credit losses for off-balance sheet exposures (ECL), which the bank records through the income statement.

FINANCIAL ASSETS	2021.			2022.			2023.		
	Amount	ECL	Cover. rate	Amount	ECL	Cover. rate	Amount	ECL	Cover. rate
<b>TOTAL</b>	<b>10.861,4</b>	<b>353,7</b>	<b>3,3</b>	<b>11.153,5</b>	<b>325,7</b>	<b>2,9</b>	<b>11.568,8</b>	<b>356,5</b>	<b>3,1</b>
<b>Balance sheet</b>	<b>9.677,7</b>	<b>341,0</b>	<b>3,5</b>	<b>9.876,2</b>	<b>312,9</b>	<b>3,2</b>	<b>10.175,6</b>	<b>339,6</b>	<b>3,3</b>
Financial assets at amortized cost	8.524,4	335,8	3,9	8.583,7	305,1	3,6	9.102,8	330,3	3,6
Cash funds, cash receivables and other sight deposits	2.762,1	3,2	0,1	2.677,1	6,0	0,2	2.588,9	6,5	0,3
Debt securities	25,9	0,0	0,1	86,4	0,1	0,1	426,6	2,8	0,6
Loans	5.705,1	322,5	5,7	5.792,9	292,4	5,0	6.056,5	314,9	5,2
Other asset	31,2	10,0	32,1	27,4	6,6	24,0	30,8	6,0	19,6
Financial asset per fair value through balance sheet	12,5	0,0		12,9	0,0		15,2	0,0	
Financial asset per fair value through Accumulated other comprehensive income*	1.076,9	0,0		1.198,6	0,0		967,4	0,0	
Other financial receivables	63,9	5,2	8,2	81,0	7,8	9,6	90,1	9,3	10,3
<b>Off-balance sheet</b>	<b>1.183,7</b>	<b>12,7</b>	<b>1,1</b>	<b>1.277,2</b>	<b>12,8</b>	<b>1,0</b>	<b>1.393,2</b>	<b>17,0</b>	<b>1,2</b>
Guarantees issued	549,4	5,4	1,0	641,5	6,3	1,0	732,0	9,9	1,4
Non-covered letters of credit	5,6	0,0	0,5	0,8	0,0	0,5	0,9	0,0	0,7
Irrevocably approved, not utilized loans	628,3	7,2	1,2	634,2	6,5	1,0	660,0	7,1	1,1
Other potential bank liabilities	0,5	0,0	0,9	0,7	0,0	0,9	0,3	0,0	0,6

Total exposure of banks as of 31/12/2023 amounts to 11.6 billion KM and is higher by 415.3 million KM or 3.7%, of which 10.2 billion KM refers to on-balance sheet exposures, and 1.4 billion KM to off-balance sheet exposures.

In this reporting period, there was an increase in on-balance sheet exposures by 299.4 million KM or 3% and an increase in off-balance sheet exposures by 115.9 million KM or 9.1% compared to the end of 2022. The largest share in total financial assets has financial assets valued at amortized cost, which has a growth of 519.1 million KM or 6% (loans make up 67% and have a growth of 263.6 million KM or 4.6%, while cash funds make up 28.4% and have a drop of 88.2 million KM or 3.3% compared to the end of 2022).

The ECL ratio on total financial assets is 3.1% and is higher by 0.2 percentage points than at the end of 2022.

The following table shows an overview of on-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 25: Total financial asset per credit risk level									
FINANCIAL ASSETS	2021.			2022.			2023.		
	Amount	ECL	Cover. rate	Amount	ECL	Cover. rate	Amount	ECL	Cover. rate
<b>TOTAL</b>	<b>10.861,4</b>	<b>353,7</b>	<b>3,3</b>	<b>11.153,5</b>	<b>325,7</b>	<b>2,9</b>	<b>11.568,8</b>	<b>356,5</b>	<b>3,1</b>
Credit risk level 1	9.830,6	71,8	0,7	10.222,6	76,5	0,7	10.501,4	84,6	0,8
Credit risk level 2	787,9	82,9	10,5	700,1	76,9	11,0	826,3	88,5	10,7
Credit risk level 3	242,8	199,0	81,9	230,8	172,2	74,6	241,0	183,4	76,1
<b>Balance sheet</b>	<b>9.677,7</b>	<b>341,0</b>	<b>3,5</b>	<b>9.876,2</b>	<b>312,9</b>	<b>3,2</b>	<b>10.175,6</b>	<b>339,6</b>	<b>3,3</b>
Credit risk level 1	8.720,0	64,7	0,7	9.037,7	68,4	0,8	9.239,6	76,3	0,8
Credit risk level 2	715,6	77,6	10,8	608,8	72,6	11,9	697,1	80,3	11,5
Credit risk level 3	242,1	198,8	82,1	229,7	171,9	74,8	238,9	183,0	76,6
<b>Off-balance sheet</b>	<b>1.183,7</b>	<b>12,7</b>	<b>1,1</b>	<b>1.277,2</b>	<b>12,8</b>	<b>1,0</b>	<b>1.393,2</b>	<b>17,0</b>	<b>1,2</b>
Credit risk level 1	1.110,6	7,1	0,6	1.184,8	8,1	0,7	1.261,9	8,3	0,7
Credit risk level 2	72,3	5,3	7,3	91,4	4,3	4,8	129,2	8,2	6,4
Credit risk level 3	0,8	0,2	31,5	1,0	0,3	27,7	2,1	0,4	19,3

On-balance sheet exposures allocated to credit risk level 1 as of 31/12/2023 amount to KM 9.2 billion and make up 90.8% of total on-balance sheet exposures. Compared to the end of 2022, they are higher by 201.8 million KM or 2.2%.

On-balance sheet exposures allocated to credit risk level 2 as of 31/12/2023 amount to 697.1 million KM and make up 6.8% of total on-balance sheet exposures. Compared to the end of 2022, they are higher by 88.4 million KM or 14.5%.

On-balance sheet exposures allocated to credit risk level 3 as of 31/12/2023 amount to 238.9 million KM and make up 2.4% of total on-balance sheet exposures. Compared to the end of 2022, they are higher by 9.2 million KM or 4%.

Off-balance sheet exposures allocated to credit risk level 1 as of 31/12/2023 amount to 1.3 billion KM and make up 90.6% of total off-balance sheet exposures. Exposures allocated to credit risk level 2 amount to 129.2 million KM or 9.3% of total off-balance sheet exposures, while 2.1 million KM or 0.1% of total off-balance sheet exposures are allocated to credit risk level 3.

For total exposures allocated to credit risk level 1, ECL on 31/12/2023 is 84.6 million KM and is higher by 8.1 million KM or 10.6% compared to the end of 2022.

For total exposure allocated to credit risk level 2, ECL on 31/12/2023 is 88.5 million KM and is higher by 11.6 million KM or 15.1% compared to the end of 2022.

For total exposures allocated to credit risk level 3, ECL on 31/12/2023 is 183.4 million KM and is higher by 11.2 million KM or 6.5% compared to the end of 2022.

The ECL coverage ratio at the overall level is 3.1% and is higher by 0.2 percentage points compared to the end of 2022. ECL coverage for exposures allocated to credit risk level 1 is 0.8% and is higher by 0.1 percentage points compared to the end of 2022, coverage for exposures allocated to credit risk level 2 is 10.7% and is lower by 0.3 percentage points, and for exposures allocated to credit risk level 3, the coverage ratio is 76.1% and is higher by 1.5 percentage points compared to the end of 2022.

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 26: Overview of loans to legal entities and private individuals according to the credit risk level and relevant ECL** mil. KM

Loans	2021.			2022.			2023.		
	Amount	ECL	Cover. rate	Amount	ECL	Cover. rate	Amount	ECL	Cover. rate
<b>Total loans</b>	<b>5.705,1</b>	<b>322,5</b>	<b>5,65</b>	<b>5.792,9</b>	<b>292,4</b>	<b>5,05</b>	<b>6.056,5</b>	<b>314,9</b>	<b>5,20</b>
Legal entities	2.912,1	171,5	5,89	2.868,3	140,9	4,91	3.038,6	158,8	5,23
Private individuals	2.793,1	151,0	5,41	2.924,6	151,5	5,18	3.017,9	156,1	5,17
<b>Credit risk level 1</b>	<b>4.770,4</b>	<b>60,6</b>	<b>1,3</b>	<b>4.978,4</b>	<b>63,6</b>	<b>1,3</b>	<b>5.143,1</b>	<b>68,4</b>	<b>1,3</b>
Legal entities	2.364,4	30,9	1,3	2.423,1	32,0	1,3	2.481,7	32,8	1,3
Private individuals	2.405,9	29,7	1,2	2.555,3	31,6	1,2	2.661,3	35,6	1,3
<b>Credit risk level 2</b>	<b>708,0</b>	<b>76,8</b>	<b>10,9</b>	<b>601,0</b>	<b>71,9</b>	<b>12,0</b>	<b>693,0</b>	<b>79,7</b>	<b>11,5</b>
Legal entities	431,1	48,3	11,2	329,8	36,0	10,9	439,3	46,0	10,5
Private individuals	276,8	28,6	10,3	271,2	35,8	13,2	253,7	33,7	13,3
<b>Credit risk level 3</b>	<b>226,8</b>	<b>185,0</b>	<b>81,6</b>	<b>213,5</b>	<b>156,9</b>	<b>73,5</b>	<b>220,5</b>	<b>166,8</b>	<b>75,6</b>
Legal entities	116,5	92,3	79,2	115,3	72,9	63,2	117,6	80,1	68,1
Private individuals	110,3	92,7	84,1	98,2	84,1	85,6	102,9	86,8	84,3

Loans allocated to credit risk level 1 as of 31/12/2023 amount to 5.1 billion KM and make up 84.9% of the total loan portfolio. Compared to the end of 2022, they are higher by 164.6 million KM or 3.3%. The ECL coverage ratio for loans allocated to credit risk level 1 is 1.3% (legal entities 1.3% and private individuals 1.3%) and in relation to the end of 2022, it has maintained the same level.

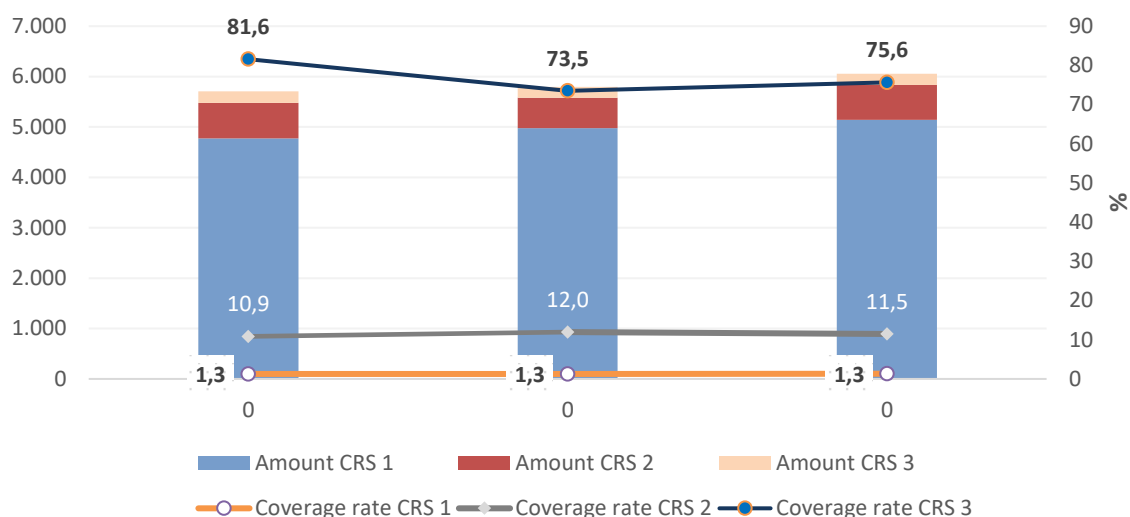
Loans allocated to credit risk level 2 as of 31/12/2023 amount to 693.0 million KM and make up 11.5% of the total loan portfolio. Compared to the end of 2022, they are higher by 92 million KM or 15.3%. The ECL coverage ratio for credit risk level 2 is 11.5% (legal entities 10.5%, private individuals 13.3%) and compared to the end of 2022, it is lower by 0.5 percentage points.

Loans allocated to credit risk level 3 (NPL) as of 31/12/2023 amount to 220.5 million KM and make up 3.6% of the total loan portfolio. Compared to the end of 2022, they are higher by 7 million KM or 3.3%. The ECL coverage ratio for credit risk level 3 is 75.6% (legal entities 68.1%, and private individuals 84.3%) and compared to the end of 2022, it is higher by 2.1 percentage points.

Of the total loans placed to legal entities amounting to 3 billion KM, 117.6 million KM or 3.9% refers to NPL (the share of NPL as at the end of 2022 was 4%). Of the total loans placed to private individuals amounting to 3 billion KM, 102.9 million KM or 3.4% refers to NPL, and compared to the end of 2022 it maintained the same percentage.

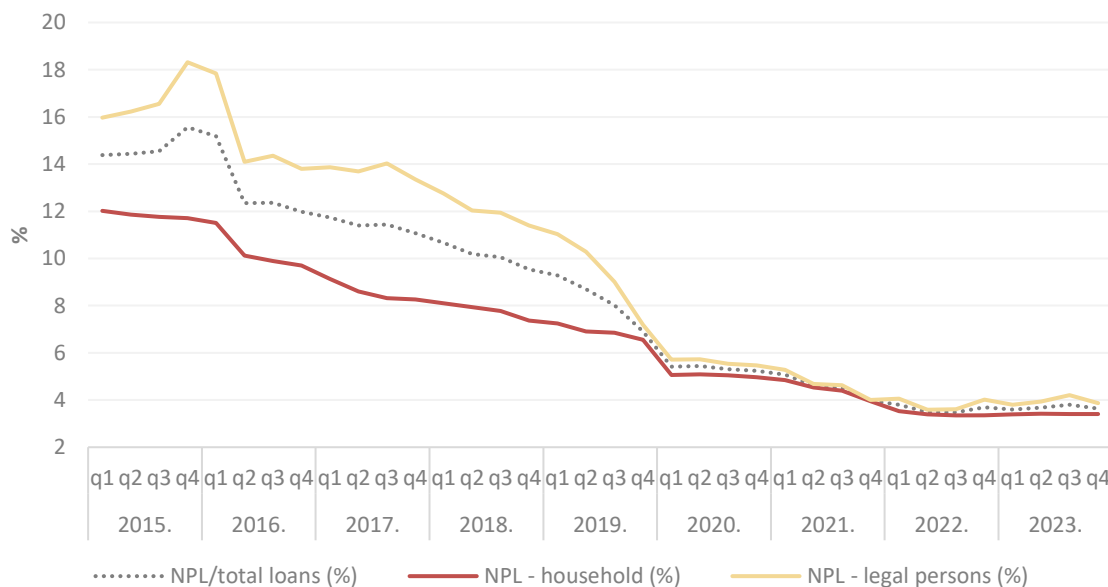
The following graph shows the trend of loans distributed in three levels of credit risk with the corresponding coverage ratio, i.e. ECL, through three comparative periods:

**Graph 27: Loans per credit risk levels 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 27: Credit risk indicators**

DESCRIPTION	2021.	2022.	2023.
NPA ratio	2,2	2,1	2,1
Coverage ratio of NPA with ECL	81,9	74,6	76,1
Coverage ratio of total asset with ECL	3,3	2,9	3,1
NPL ratio	4,0	3,7	3,6
Coverage ratio of NPL with ECL	81,6	73,5	75,6
Coverage ratio of total loans with ECL	5,7	5,0	5,2
New NPL*/total relevant gross loans	-1,1	-0,2	0,1
Texas coefficient**	17,4	15,5	15,0

\* NPL growth/drop on the reporting date relative to the comparative period

\*\*Non-performing gross loans/ balance sheet capital and ECL for NPLs

CRL 1,2,3 - credit risk level

NPL – non-performing gross loans (CRL 3)

ECL – expected credit loss

NPA- non-performing assets (CRL 3)

Total performing gross loans (CRL 1+ CRL 2)

### 2.3.3. Foreign exchange 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 adjustment of financial assets, liabilities and off-balance sheets, that is, the degree of adjustment 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 assets and liabilities items in individual currencies is the open individual foreign exchange position, which can be long or short, as well as the bank's total position.

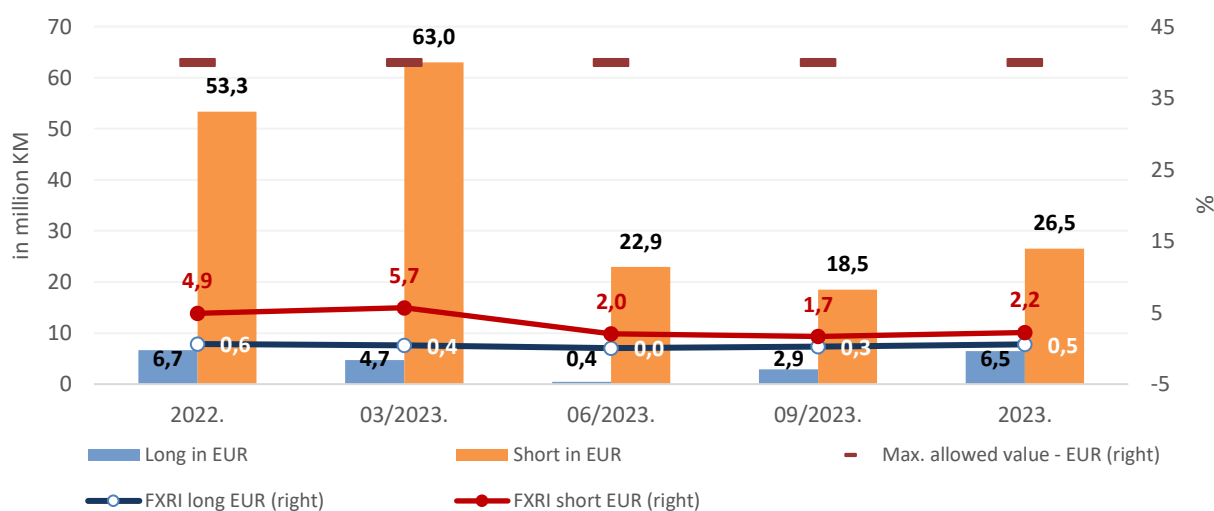
Total foreign currency financial assets amount to 4.6 billion KM and is at approximately the same level compared to the end of 2022. In the structure of foreign currency assets, the most significant item is placed loans with a contracted foreign currency clause, amounting to 2.9 billion KM, and are higher by 5.3 million KM or 0.2% compared to the end of 2022.

Total foreign currency liabilities amount to 4.6 billion KM and are higher by 25 million KM or 1% compared to the end of 2022. 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 56.1 million KM or 2.4% compared to the end of 2022 and deposits with foreign currency clause which amount to 2 billion KM and are lower by 36 million KM or 1.8% compared to the end of 2022.

At the level of the banking sector, the total long foreign currency position is 6.8 million KM and is lower by 2.2 million KM or 24%, and the total short position is 24.2 million KM, which is lower by 17.2 million KM or 42% compared to the end of 2022.

The currency EUR participates with 95.9% in total financial assets and 96% in total financial liabilities. 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. Managing interest rate risk

The Agency's Decision on managing 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, netting the positions of assets and liabilities with a fixed interest rate, a variable interest rate and an interest rate that changes based on the decision of the bank's management 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 31/12/2023, the ratio of change in the economic value of the banking book and regulatory capital is 10.3% and is higher by 1.6 percentage points compared to the end of 2022, as shown in the following table:

Table 28: Net weighted position of the banking book per currency				mil. KM
DESCRIPTION	2021.	2022.	2023.	Index 2023./2022.
1. Net weighted position of the banking book (FIR + VIR + IRBMB)*				
1.1 Per BAM currency (long position)	34,3	52,6	82,6	157
1.2 Per EUR currency (long position)	55,8	44,3	43,7	98
1.3 Per other currencies (short position)	-2,1	-1,8	-3,5	-
2. Change in economic value  1.1 + 1.2 + 1.3	93,0	95,2	122,7	129
3. Regulatory capital	1.005,8	1.089,3	1.188,3	109
<b>CHANGE IN ECONOMIC VALUE / REGULATORY CAPITAL * 100 (%)</b>	<b>9,3</b>	<b>8,7</b>	<b>10,3</b>	<b>118,2</b>

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

By observing individual banks, the ratio of change in economic value ranged from 2.6% to 16.3%.

### 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 period. The effective interest rate is the market price of banking products, i.e. services.

Table 29: Average weighted interest rates on loans

%

DESCRIPTION	2022.				2023.			
	Republika Srpska banks		FBIH bank units		Republika Srpska banks		FBIH bank units	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
<b>Weighted int. rates on short term loans</b>	<b>3,99</b>	<b>4,74</b>	<b>2,05</b>	<b>2,31</b>	<b>4,73</b>	<b>5,61</b>	<b>1,95</b>	<b>2,14</b>
Loans to Government and Government institutions	3,52	3,70	0,00	0,00	7,62	7,91	0,00	0,00
Real sector	3,68	4,26	1,99	2,17	4,40	5,11	1,91	2,07
Loans to banks and other fin. inst.	3,54	4,35	0,00	0,00	3,44	3,85	0,00	0,00
Household	9,05	12,56	7,74	15,66	9,20	12,45	8,26	15,48
Other loans	2,32	2,59	7,75	9,05	7,44	10,87	7,75	9,08
<b>Weighted int. rate on long term loans</b>	<b>5,53</b>	<b>6,52</b>	<b>4,47</b>	<b>5,45</b>	<b>6,14</b>	<b>7,32</b>	<b>5,02</b>	<b>6,05</b>
Loans to Government and Government institutions	4,58	4,74	2,68	2,84	6,40	6,66	6,17	6,53
Real sector	5,17	5,61	3,66	4,17	6,08	7,03	4,42	4,75
Loans to banks and other fin. inst.	4,24	4,51	2,85	2,96	4,68	5,14	0,00	0,00
Household	5,89	7,36	4,95	6,20	6,28	7,81	5,16	6,37
Housing loans	3,92	4,35	3,27	3,93	4,20	4,85	3,62	4,10
Other loans	4,34	4,74	0,00	0,00	5,77	6,13	5,20	5,55
<b>Weighted int. rates on total loans</b>	<b>5,10</b>	<b>6,03</b>	<b>3,63</b>	<b>4,35</b>	<b>5,84</b>	<b>6,95</b>	<b>3,60</b>	<b>4,25</b>

Average weighted nominal interest rate on total bank loans from Republika Srpska as of 31/12/2023 is 5.84% and is higher by 0.74 percentage points, and the total average effective interest rate is 6.95% and is higher by 0.92 percentage points compared to 2022.

Average weighted effective interest rate on total loans in the observed period at the units of banks from the Federation of BiH operating in Republika Srpska is 4.25% and is by 0.10 percentage points lower than in 2022. The units of banks from the Federation of BiH operating in Republika Srpska have an average weighted effective interest rate lower by 2.70 percentage points compared to the average weighted effective interest rate on total loans of banks from Republika Srpska.

Average weighted nominal and effective interest rates for 2022 and 2023 were calculated on the basis of monthly reports submitted by banks from Republika Srpska and business units of banks from the Federation of BiH, which operate in Republika Srpska.

Average weighted nominal and effective interest rates on term deposits for 2023, calculated on the basis of monthly reports, for the banking sector of Republika Srpska and for business units of banks from the Federation of BiH operating in Republika Srpska, can be seen in the following table:

Table 30: Average weighted interest rates on deposits

%

DESCRIPTION	2022.				2023.			
	Republika Srpska Banks		FBIH bank units		Republika Srpska Banks		FBIH bank units	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
Weighted int. rates on short term deposits	0,64	0,64	0,26	0,26	1,66	1,65	0,34	0,35
Weighted int. rates on long term deposits	1,50	1,50	0,30	0,30	2,33	2,33	1,61	1,61
<b>Weighted int. rates on total deposits</b>	<b>1,03</b>	<b>1,03</b>	<b>0,27</b>	<b>0,27</b>	<b>2,21</b>	<b>2,21</b>	<b>1,09</b>	<b>1,10</b>

Average weighted effective interest rate on total deposits of banks based in Republika Srpska is 2.21% and is higher by 1.18 percentage points compared to 2022.

Average weighted effective interest rate on total deposits of bank units from the Federation of BiH is 1.10% and is by 0.83 percentage points higher than in 2022.

Average weighted effective interest rate on total deposits of bank units from the Federation of BiH is by 1.11 percentage points lower than the same in banks seated in Republika Srpska.

The difference between the average weighted effective interest rate on total loans (6.95%) and the average weighted effective interest rate on total deposits (2.21%) in banks from Republika Srpska is 4.74 percentage points and is lower by 0.26 percentage points compared to 2022. The difference between the average weighted effective interest rate on total loans (4.25%) and the average weighted effective interest rate on total deposits (1.10%) in the units of banks from the Federation of BiH is 3.15 percentage points and is lower by 0.93 percentage points compared to 2022.

Table 31: Average weighted interest rates on overdraft and sight deposits									%
DESCRIPTION	2022.				2023.				
	Republika Srpska Banks		FBiH bank units		Republika Srpska Banks		FBiH bank units		
	NKS	EKS	NKS	EKS	NKS	EKS	NKS	EKS	
<b>Weighted interest rates on loans (overdrafts)</b>									
total legal entities and household	7,10	8,04	6,63	6,92	7,41	8,25	6,13	6,39	
household	13,05	15,20	13,67	14,31	13,04	15,00	13,70	14,34	
<b>Weighted interest rates on sight deposits</b>									
total legal entities and household	0,02	0,02	0,01	0,01	0,01	0,01	0,01	0,01	
household	0,02	0,02	0,02	0,02	0,01	0,01	0,02	0,02	

### 3. CAPITAL AND CAPITAL ADEQUACY

As of 31/12/2023, the capital ratios of the banking sector of Republika Srpska were significantly above the stipulated minimums.

Capital structure of the banking sector as of 31/12/2021, 31/12/2022 and 31/12/2023 is given in the following table:

Table 32: Capital structure				mil. KM
DESCRIPTION	2021	2022	2023	Index 2023./2022.
1	2	3	4	5
<b>REGULATORY CAPITAL</b>	<b>1.005,8</b>	<b>1.089,3</b>	<b>1.188,3</b>	<b>109</b>
<b>TIER 1 CAPITAL</b>	<b>962,0</b>	<b>1.043,4</b>	<b>1.130,0</b>	<b>108</b>
<b>CET 1</b>	<b>956,0</b>	<b>1.037,4</b>	<b>1.124,0</b>	<b>108</b>
<b>CET 1 items</b>	<b>993,2</b>	<b>1.082,6</b>	<b>1.168,5</b>	<b>108</b>
Paid in capital instruments (shares)	690,0	693,4	695,6	100
Share premium	17,1	17,3	17,3	100
Undistributed profit or loss from previous years	149,0	194,8	270,7	139
Recognized profit or loss of current year	0,0	50,3	64,7	129
Accumulated other comprehensive income	4,8	-8,7	-17,3	-
Other reserves	132,3	135,6	137,4	101
<b>CET 1 deductible items</b>	<b>-37,1</b>	<b>-45,2</b>	<b>-44,4</b>	<b>-</b>
(-) intangible assets	-28,2	-24,8	-24,5	-
(-) Deferred tax assets	-5,0	-6,6	-7,4	-
(-) Other CET 1 deductions	-3,9	-13,8	-12,5	-
<b>AT 1</b>	<b>6,0</b>	<b>6,0</b>	<b>6,0</b>	<b>100</b>
Paid in capital instruments recognized as AT 1	6,0	6,0	6,0	100
(-) AT 1 deductions	0,0	0,0	0,0	-
<b>Tier 2 capital</b>	<b>43,8</b>	<b>45,9</b>	<b>58,3</b>	<b>127</b>
Paid in capital instruments and subordinated loans recognized as Tier 2	43,8	45,9	58,3	127
General impairment	0,0	0,0	0,0	-
(-) Tier 2 deductions	0,0	0,0	0,0	-

Regulatory capital of the banking sector of Republika Srpska as of 31/12/2023 amounts to 1,188.3 million KM and is higher by 99 million KM or by 9% compared to the end of 2022.

Tier 1 capital amounts to 1,130.0 million KM and is higher by 86.6 million KM or 8% and consists of CET 1 capital in the amount of 1,124.0 million KM (it is higher by 86.6 million KM compared to the end of 2022) and AT 1 capital in the amount of 6 million KM (at the same level compared to the end of 2022).

The growth of the CET 1 capital was influenced by the increase in retained earnings of previous years by 75.9 million or 39%, eligible profit of the current year by 14.4 million KM or 29%, paid-in capital instruments (shares) by 2.3 million KM, other reserves by 1.8 million KM, as well as the reduction of the position of the deductible item from capital by 0.7 million KM, all in relation to the end of 2022.

Tier 2 capital amounts to 58.3 million KM and is higher by 12.4 million KM or 27% compared to the end of 2022 (subordinated loan taken from two banks).

#### 3.1. Capital adequacy

Very important indicators of capital soundness are indicators of capital adequacy on the basis of which the quality of regulatory, Tier 1 and CET 1 capital is continuously assessed 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.

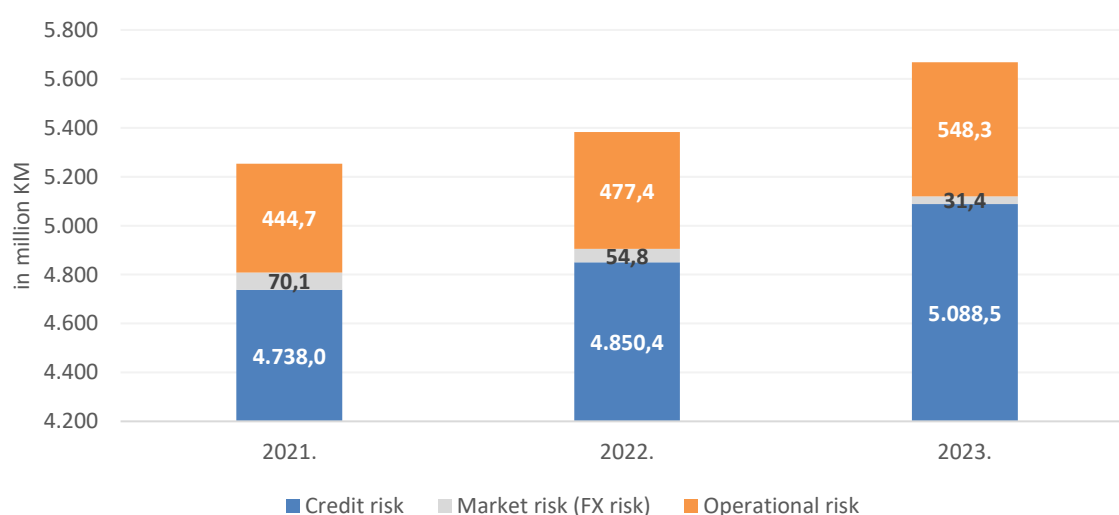
Total risk exposure of the banking sector of Republika Srpska as of 31/12/2023 is 5.7 billion KM and is higher by 258.6 million KM or 5% compared to the end of 2022.

The total amount of exposure to credit risk is higher by 238.1 million KM or 5% compared to the end of 2022.

The total amount of exposure to market (foreign exchange) risk is lower by 23.4 million KM or 43% compared to the end of 2022.

The total amount of exposure to operational risk is higher by 70.9 million KM or 15% compared to the end of 2022.

Graph 30: Total banking sector risk exposure



The previous graph shows the trend of the amount of exposure to credit, market and operational risk through the three most recent comparative periods.

Capital adequacy indicators as of 31/12/2023 are shown in the following table:

Table 33: Capital adequacy indicators				mil. KM i %
DESCRIPTION	2021.	2022.	2023.	Index 2023./2022.
<b>Total amount of risk exposure</b>	<b>5.252,7</b>	<b>5.382,6</b>	<b>5.668,2</b>	<b>105</b>
Regulatory capital	1.005,8	1.089,3	1.188,3	109
Excess (+) / shortage (-) of regulatory capital	375,8	443,3	508,3	115
<b>Capital adequacy ratio (min. 12%)</b>	<b>19,2%</b>	<b>20,2%</b>	<b>21,0%</b>	<b>104</b>
Tier 1	962,0	1.043,4	1.130,0	108
Excess (+) / shortage (-) of Tier 1	489,0	559,4	620,0	111
<b>Tier 1 ratio (min. 9%)</b>	<b>18,3%</b>	<b>19,4%</b>	<b>19,9%</b>	<b>103</b>
CET 1	956,0	1.037,4	1.124,0	108
Excess (+) / shortage (-) of CET 1	601,0	674,4	741,0	110
<b>CET 1 ratio (min. 6,75%)</b>	<b>18,2%</b>	<b>19,3%</b>	<b>19,8%</b>	<b>103</b>

The regulatory capital ratio is 21% and is higher by 0.8 percentage point compared to the end of 2022 (the minimum stipulated ratio is 12%), the Tier 1 capital ratio is 19.9% and is higher by 0.5 percentage

points (the minimum stipulated ratio is 9%) and the CET 1 capital ratio is 19.8% and is higher by 0.5 percentage points compared to the end of 2022 (the 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 (the minimum stipulated ratio is 6%).

The measure of total exposure represents the sum of balance sheet exposures minus value correction and off-balance sheet exposures minus reserves with the application of appropriate conversion factors, all minus the amount of deductible items from the Tier 1 capital.

The ratio of leverage of the banking sector as of 31/12/2023 is 10.8%, as given in the following overview:

Table 34: Leverage ratio				mil. KM
DESCRIPTION	2021.	2022.	2023.	Index
1. Off-balance sheet items with conversion factor	<b>425,1</b>	<b>440,2</b>	<b>474,6</b>	108
10%	12,6	12,8	13,3	104
20%	117,0	138,0	151,6	110
50%	290,6	285,1	308,6	108
100%	4,9	4,3	1,1	27
2. Other assets	<b>9.551,3</b>	<b>9.757,2</b>	<b>10.030,6</b>	103
3. (-) Amount of asset deductible items – Tier 1	-33,2	-42,4	-42,9	101
4. Leverage ratio exposure (1+2+3)	<b>9.943,2</b>	<b>10.154,9</b>	<b>10.462,2</b>	<b>103</b>
5. Tier 1	962,0	1.043,4	1.130,0	108
<b>6. Leverage ratio (5/4)</b>	<b>9,7%</b>	<b>10,3%</b>	<b>10,8%</b>	

The ratio of leverage at the level of the banking sector of Republika Srpska is higher by 0.5 percentage points compared to the end of 2022. If we look at individual banks, the leverage ratio ranges from 7.4% to 16%.

## 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.

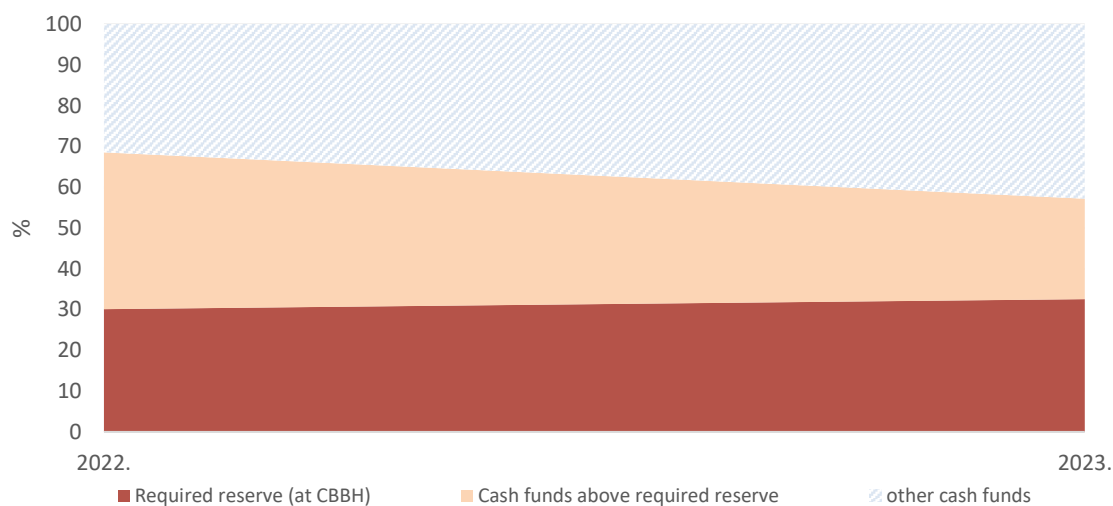
Total cash funds and securities (3.9 billion KM) have a significant share of 38.1% in total gross assets as of 31/12/2023.

Cash funds in the reserve account at the Central Bank of BiH with the balance as of 31/12/2023 amount to 1.5 billion KM or 57.2% of total cash funds and are less by 343.1 million KM or 19% compared to the end of 2022.

Funds above the mandatory reserve in the reserve account at the Central Bank of BiH amount to 630 million KM or 43% of the total cash funds in the reserve account, while the funds of the mandatory reserve amount to 833.7 million KM or 57% of the total cash funds in the reserve account at the Central Bank of BiH (as of 31/12/2022, the cash funds in the reserve account at the Central Bank of BiH above the funds of the mandatory reserve amounted to 1 billion KM or 56.1% of the total cash funds in the reserve account with the Central Bank of BiH, and the mandatory reserve funds amounted to 793.2 million KM or 43.9% of the total cash funds in the reserve account with the Central Bank of BiH).

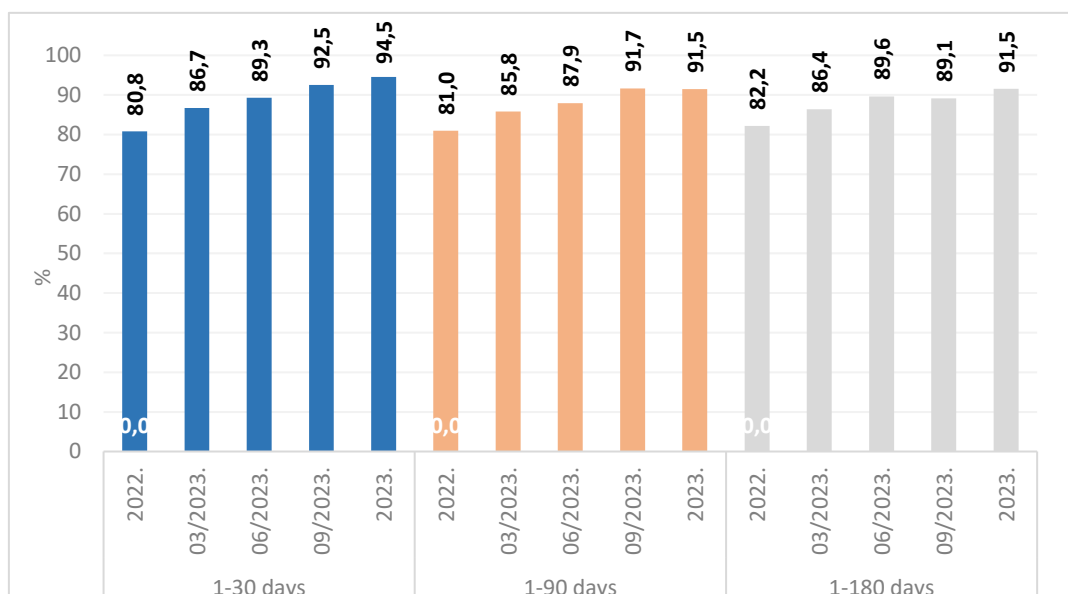
The following graph shows the trend of total cash funds through two comparative periods.

Graph 31: Total bank cash funds



Maturity mismatch of financial assets and financial 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 is presented in following graph:

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



As of 31/12/2022, that is, from the beginning of the application of the requirement to maintain stable funding sources, the requirement to meet maturity mismatch ceases to be valid.

For the remaining term of 1-30 days, the maturity mismatch is 94.5%, it is higher than the end of 2022 by 13.7 percentage points.

For the remaining term of 1-90 days, the maturity mismatch is 91.5%, it is higher than the end of 2022 by 10.7 percentage points.

For the remaining period of 1-180 days, the maturity mismatch is 91.5%, it is higher than the end of 2022 by 9.3 percentage points.

Table 35: Deposit maturity structure per remaining maturity period

Deposits	2021.		2022.		2023.		Index 2022./2021.	Index 2023./2022.
	Amount	%	Amount	%	Amount	%		
1 - 7 days	4.715,8	62,9	5.298,9	69,8	4.309,9	55,7	112	81
8 - 15 days	26,1	0,3	22,2	0,3	69,7	0,9	85	314
16 -30 days	103,4	1,4	68,9	0,9	100,5	1,3	67	146
31 -90 days	378,4	5,0	384,5	5,1	452,5	5,8	102	118
91 -180 days	365,1	4,9	331,3	4,4	511,4	6,6	91	154
181 -365 days	891,6	11,9	557,9	7,3	987,4	12,8	63	177
<b>1 . Total short term</b>	<b>6.480,4</b>	<b>86,4</b>	<b>6.663,7</b>	<b>87,7</b>	<b>6.431,5</b>	<b>83,1</b>	<b>103</b>	<b>97</b>
From 1 up to 5 years	989,6	13,2	922,5	12,1	1.299,1	16,8	93	141
Over 5 years	28,5	0,4	9,0	0,1	9,5	0,1	31	105
<b>2 . Total long term</b>	<b>1.018,1</b>	<b>13,6</b>	<b>931,5</b>	<b>12,3</b>	<b>1.308,6</b>	<b>16,9</b>	<b>91</b>	<b>140</b>
<b>Total (I + II)</b>	<b>7.498,6</b>	<b>100</b>	<b>7.595,2</b>	<b>100</b>	<b>7.740,1</b>	<b>100</b>	<b>101</b>	<b>102</b>

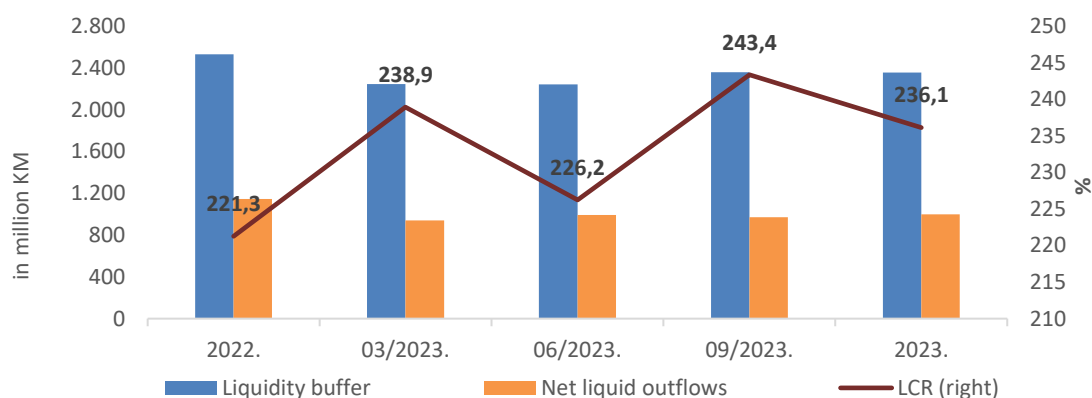
The maturity structure of funding sources is the basis for the maturity structure of placement, and the planning of funding sources and the total liquidity position of each bank must be harmonized with the planned lending policy.

In this reporting period, long-term deposits grew by 40%, while short-term deposits decreased by 3%. Deposits with a remaining maturity of 1-7 days have the largest share of 55.7% in total deposits and they decreased by 989 million KM or 19%. Long-term deposits with a remaining term of 1 to 5 years are the next in size and participate with 16.8% in total deposits and record an increase by 376.7 million KM or 41% compared to the end of 2022.

In order to ensure short-term resilience of banks 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 LCR represents the ratio between the level of the liquidity buffer and the total net liquidity outflows during the stress period lasting 30 calendar days (the stipulated minimum is 100%).

All banks in Republika Srpska have LCR above the stipulated minimum, and on 31/12/2023 the LCR at the level of the banking sector is 236.1% and is higher by 14.8 percentage points compared to the end of 2022. If we look at individual banks, the LCR ranges from 167.9% to 620%. 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



On 31/12/2023, the liquidity buffer is lower by 7% compared to the end of 2022. The largest share in the structure of the liquidity buffer is held by funds of regional governments and local authorities amounting to 48.8% and are higher by 19% compared to the end of 2022. Funds above the mandatory reserve in the reserve account with the Central Bank of BiH have a share of 26.7%, which is 38% lower, bank notes coins account for 16.6% of the liquidity buffer and are higher by 11% and assets of the central government account for 7.9% of the liquidity buffer and is lower by 8% compared to the end of 2022.

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

Table 36: Liquidity buffer				mil. KM	
DESCRIPTION	2021.	2022.	2023.	Index 2022/2021.	Index 2023./2022.
1	2	3	4	5=3/2	6=4/3
<b>Liquid assets level 1</b>	<b>2.440,6</b>	<b>2.531,3</b>	<b>2.354,6</b>	<b>104</b>	<b>93</b>
Coins and banknotes	316,9	350,2	390,3	111	111
Central Bank reserves withdrawable	1.101,7	1.012,3	628,8	92	62
Central Bank assets	0,0	0,0	0,0	-	-
Central Government assets	162,3	202,4	185,3	125	92
Regional Governments and local authorities' assets	859,7	966,4	1.150,2	112	119
<b>Liquid assets level 2</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>-</b>	<b>-</b>
Liquid assets 2a	0,0	0,0	0,0	-	-
Liquid assets 2b	0,0	0,0	0,0	-	-
<b>Total</b>	<b>2.440,6</b>	<b>2.531,3</b>	<b>2.354,6</b>	<b>104</b>	<b>93</b>

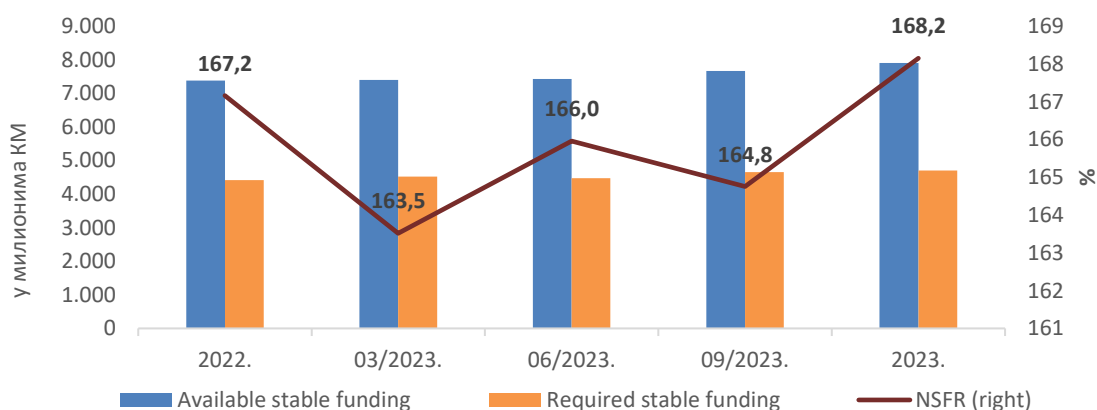
Net liquid outflows are lower by 146.9 million KM or 12.8%, compared to the end of 2022, which was influenced by a decrease in total outflows by 1% and an increase in inflows by 19%, compared to the end of 2022.

Table 37: Net liquid outflows				mil. KM	
DESCRIPTION	2021.	2022.	2023.	Index 2022/2021	Index 2023./2022.
1	2	3	4	5=3/2	6=4/3
1. Total outflows	1.765,5	1.787,9	1.763,0	101	99
2. Inflows to which inflow cap of 75% is being applied	559,1	643,9	765,9	115	119
<b>3. Net liquid outflows (1-2)</b>	<b>1.206,4</b>	<b>1.144,0</b>	<b>997,1</b>	<b>95</b>	<b>87</b>

Net stable funding ratio- NSFR represents the ratio between the available amount of stable funding and the required amount of stable funding (the stipulated minimum is 100%). Namely, banks are obliged to provide adequate funding of the bank's long-term assets with stable funding sources, that is, with appropriate items of liabilities and capital under normal and stressful conditions.

All banks in Republika Srpska have NSFR above the stipulated minimum, i.e. on 31/12/2023 NSFR at the level of the banking sector is 168.2%. If we look at individual banks, the NSFR ranges from 159.5% to 186.6%. The trend of the elements for calculating the net stable funding ratio and the NSFR ratio at the level of the banking sector is shown in the following graph:

Graph 34: Net Stable Funding Ratio - NSFR



\*As of 31/12/2021, banks were obliged to submit a Report on NSFR to the Agency, and as of 31/12/2022 also to adhere to the limit defined by the by-law that regulates the relevant domain (stipulated minimum is 100%).

According to the by-laws of the Agency, banks are obliged to provide stable, diversified funding sources, adequate organization of liquidity management, clear business policies, and contingency plans, that is, unforeseen cases with testing of possible stressful situations.

Table 38: Liquidity indicators			(γ %)
DESCRIPTION	2021.	2022.	2023.
Liquid funds*/net asset	28,7	27,4	25,7
Liquid funds*/short term financial liabilities	40,7	38,7	38,7
Short term financial liabilities/total financial liabilities	80,0	80,9	76,7
Loans / (deposits and loans taken)	69,7	69,8	71,6
Loans / (deposits and loans taken and subordinated debts)	69,3	69,4	71,0

## 5. PAYMENT TRANSACTIONS

The Law on payment transactions ("Official Gazette of BiH" No. 52/12, 92/12, 58/19 and 38/22) and the Law on foreign exchange operations ("Official Gazette of Republika Srpska" No. 96/03, 23/06, 92/09, 20/14 and 20/18) stipulate 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.

All banks of Republika Srpska and banks from the Federation of BiH are included in the payment transactions of Republika Srpska, through organizational units operating in Republika Srpska, and as of

31/12/2023 had a total of 127,512 accounts opened in KM (main accounts, accounts for regular business, accounts of organizational units, accounts for special purposes, public revenue accounts and accounts without account type designation) of legal entities and entrepreneurs, which is by 4.5% more compared to 31/12/2022 and 32,605 foreign currency accounts of legal entities and entrepreneurs (by 4.5% more compared to 31/12/2022). Of these, non-residents (legal entities) had a total of 95 accounts in KM and 130 foreign currency accounts. Of the above-mentioned number of open accounts of legal entities and entrepreneurs, a total of 41,605 accounts in KM (by 1.3% more compared to 31/12/2022) and 8,704 foreign currency accounts (by 6.4% more compared to 31/12/2022) were blocked.

On 31/12/2023, banks had a total of 1,088,645 accounts of private individuals opened in KM (current/transaction accounts, etc.), which is by 3% more compared to 31/12/2022 and 288,139 foreign currency accounts of private individuals, i.e. by 15.2% more compared to 31/12/2022.

On 31/12/2023, the total number of inactive/ blocked accounts of private individuals was 175,770 accounts (by 1.7% more compared to 31/12/2022)

Also, on 31/12/2023, there were a total of 2,719 safe deposit box users in banks (17 safe deposit box users more compared to 31/12/2022).

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

In 2023, the total volume of payment transactions (domestic and foreign currency payment transactions) realized in banks based in Republika Srpska amounted to 111.8 billion KM (equivalent in KM), which is by 9.7% more compared to the same period in 2022.

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 2023 is given:

**Table 39: Payment transaction system**

Period	Cash payment transactions		Non-cash payment transactions				Total	
			Intra-banking payment transactions		Inter-banking payment transactions			
	Number	Amount (mil. KM)	Number	Amount (mil. KM)	Number	Amount (mil. KM)	Number	Amount (mil. KM)
01/2023.	1.628.516	1.487,8	2.437.743	2.641,9	1.279.147	2.609,2	5.345.406	6.739,0
02/2023.	1.568.772	1.459,0	2.545.897	2.863,6	1.465.487	2.911,0	5.580.156	7.233,7
03/2023.	1.712.000	1.557,2	2.850.034	3.563,0	1.574.077	3.270,4	6.136.111	8.390,6
04/2023.	1.599.894	1.440,1	2.661.054	3.172,1	1.467.232	2.770,6	5.728.180	7.382,7
05/2023.	1.676.836	1.525,7	2.901.664	3.274,0	1.592.069	3.138,1	6.170.569	7.937,8
06/2023.	1.665.350	1.489,6	2.884.658	4.283,1	1.582.823	3.373,5	6.132.831	9.146,2
07/2023.	1.643.784	1.628,4	2.934.469	3.256,9	1.597.701	3.149,6	6.175.954	8.034,9
08/2023.	1.655.269	1.783,3	2.946.377	3.567,6	1.515.468	3.382,6	6.117.114	8.733,5
09/2023.	1.604.235	1.533,0	2.954.601	3.441,3	1.468.358	3.519,2	6.027.194	8.493,5
10/2023.	1.642.810	1.626,4	3.073.426	3.597,9	1.564.483	3.366,9	6.280.719	8.591,2
11/2023.	1.553.458	1.458,9	2.964.886	3.497,7	1.481.386	3.300,0	5.999.730	8.256,6
12/2023.	1.590.246	1.560,4	3.080.092	4.630,6	1.620.585	3.707,5	6.290.923	9.898,5
<b>TOTAL</b>	<b>19.541.170</b>	<b>18.549,9</b>	<b>34.234.901</b>	<b>41.789,8</b>	<b>18.208.816</b>	<b>38.498,5</b>	<b>71.984.887</b>	<b>98.838,1</b>

The total number of completed cash payment transactions in 2023 amounted to 19.5 million transactions, with a total value of 18.5 billion KM. Compared to the same period in 2022, the number of executed cash payment transactions decreased by 8%, while the value of cash payment transactions decreased by 8.2%. The total number of intra-bank payment transactions performed in 2023 amounted to 34.2 million transactions, with a total value of 41.8 billion KM. Compared to the same period in 2022, the number of intra-bank payment transactions performed increased by 14%, while the value of transactions increased by 16%.

A total of 18.2 million payment transactions were made in interbank payment transactions, the total value of which was 38.5 billion KM. Compared to the same period in 2022, the number of executed interbank payment transactions increased by 6.9%, while the value of transactions increased by 15.4%.

**Table 40: 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 - 31.12.2023	236.150	7.038,4	608.551	5.892,6	844.701	12.931,0

The total value of completed transactions (outflow/payment) to abroad in 2023 was 7 billion KM (equivalent in KM), which is by 15.5% more compared to 2022, while the total value of completed transactions (inflow/payment) from abroad was 5.9 billion KM (equivalent in KM), which is by 4.8% less compared to the same period in 2022. Out of the total value of executed payment transactions, the share of inflow of funds from abroad is 45.6%, while the outflow of funds to abroad is 54.4%.

**Table 41: 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 - 31.12.2023				
EUR	815.200	1.174,8	119.389	479,1
Other currencies	112.869	106,7	51.660	59,5
<b>TOTAL</b>	<b>928.069</b>	<b>1.281,5</b>	<b>171.049</b>	<b>538,6</b>

The total value of currency exchange transactions (equivalent in KM) in banks in 2023 amounted to 1.28 billion KM, which is by 6% more compared to the same period in 2022, while the total value of sold currency (equivalent in KM) was 538.6 million KM, which is by 3.5% less compared to the same period in 2022.

In addition to the reports on the executed exchange operations of the banks, reports on the executed exchange operations of the authorized money changers with whom the banks have concluded contracts on the execution of exchange operations were also submitted. In 2023, authorized money changers purchased currency (KM equivalent) in the total amount of 3.5 billion KM, which is by 6.1% more compared to the same period in 2022, while the total value of sold currency (KM equivalent) was 123 million KM, which is by 9.6% less compared to the same period in 2022.

In 2023, the Agency, through off-site and on-site supervision of banks, supervised the compliance of banks' operations in the area 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 share 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 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;
- monitoring the activities of banks regarding significant increase in interest rate and implementation of the Decision on temporary measures to mitigate the risk of increase in interest rates<sup>45</sup>;
- supervision of the protection of the rights of users of financial services;
- supervision of payment transactions and monitoring of the amount of fees calculated for payment transaction services and other costs charged by banks for providing services;
- supervision of activities on anti-money laundering and counter-terrorism financing, and in this sense improving cooperation with other competent institutions.

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

- professional development of in-house HR 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 transposition 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 Republika Srpska Financial Sector;
- continuation and improvement of cooperation with the Association of Banks of Bosnia and Herzegovina with the aim of improving the operations of banks, compliance of their operations with regulations and market requirements;

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<sup>45</sup> „Official Gazette of Republika Srpska“ бр. 98/22, 35/23 and 101/23

- continuation of activities on the implementation of projects related to the improvement of the regulatory and supervisory framework in cooperation with European and international institutions.

Due to the special role and significant share that banks have in the financial system, the achieved level of development and stability of the banking sector in the conditions caused by the current geopolitical situation can significantly influence the improvement of opportunities in the overall economic system. In the following period, banks are expected to focus their activities on:

- adequate management and daily and intraday monitoring of 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 on-balance and off-balance 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;
- greater use of the Guarantee Fund of Republika Srpska and other benefits adopted by the competent authorities in Republika Srpska;
- further improvement of payment transactions and consistent application of policies and procedures for anti-money laundering and counter-terrorism financing;
- revising in-house contingency plans and recovery plans;
- more comprehensive information and adequate education with the aim of better protection of users of financial services;
- personnel 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.

**Banking Agency of Republika Srpska**

Report on the condition in the banking  
system of Republika Srpska  
for the period 01/01/2023 – 31/12/2023

## **III Microcredit organization sector (MCO)**

## 1. MCO STRUCTURE

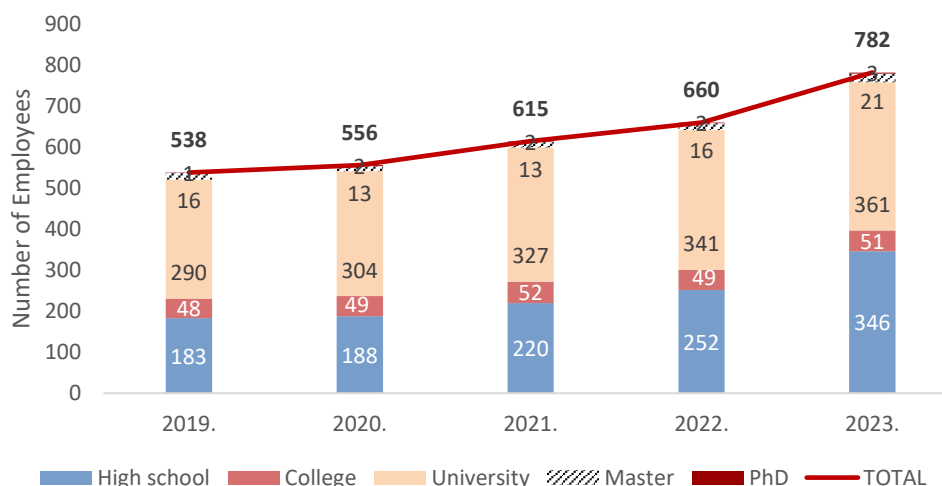
The microcredit sector of Republika Srpska as of 31/12/2023, consisted of 15 MCOs, which operated from the MCO headquarters and over 231 organizational units (43 branches and 188 other organizational units), and it refers to 13 microcredit associations (MCA) and 2 microcredit foundations (MCF). One MCA was issued an operating license in May 2023, while the same one started lending activity in June 2023.

In Republika Srpska with the balance as of 31/12/2023, 112 organizational units of MCO (5 branches and 107 other organizational units) operated within 9 MCOs (7 MCFs and 2 MCAs) whose headquarters are in the Federation of BiH (in March 2023, the organizational part of the newly founded MCA was issued an operating license for Republika Srpska, and the same started lending activity in June 2023). 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 on 31/12/2023 employed a total of 782 workers and compared to the end of 2022, there is an evident increase in the number of employees by 18.5% or by 122 workers (3 MCAs make up 74% of the total number of employees in MCO from Republika Srpska).

Graph 35: Staff qualification structure in Republika Srpska MCOs (2019-2023)



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 MCA, which employs 387 workers, which is 49.5% of the total number of employees in the MCO from Republika Srpska (as of the end of 2022, it employed 371 workers or 56% of the total employees).

Organizational units of MCO operating in Republika Srpska, whose headquarters are in the Federation of BiH, as of 31/12/2023 employed a total of 356 workers or 31% of a total of 1,138 employees in the microcredit sector of Republika Srpska (as of 31/12/2022, they employed 340 workers or 34% of a total of 1,000 employees in the microcredit sector of Republika Srpska). The qualification structure of the employees in these organizational units consists of a university degree education (45%), a secondary school education (42%), a college education (12%) and a master's degree (1%).

Assets per employee at the MCO level headquartered in Republika Srpska amounts to 798 thousand KM (as of 31/12/2022 it was 826.5 thousand KM), with a decrease rate of 3.4% compared to the end of 2022.

## 2. FINANCIAL INDICATORS OF MCO BUSINESS OPERATIONS

The Agency performs the supervision function of the MCO by on-site supervision and analysis of the reports submitted by the 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, reserves for credit losses, business performance and other reports and information on individual operation 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 31/12/2023 and 31/12/2022.

DESCRIPTION	2022.					2023.					Index
	MCA	%	MCF	%	Total	MCA	%	MCF	%	Total	
<b>ASSETS (PROPERTY)</b>											
1. Cash funds	42.492	8	396	8	42.888	35.630	6	907	32	36.537	85
2. Placements to banks	0	-	0	-	0	3.034	-	0	-	3.034	-
3. Loans (gross)	446.286	82	4.271	85	450.557	542.896	87	1.666	58	544.562	121
4. Office space and other fixed assets	5.511	1	129	3	5.640	8.510	1	181	6	8.691	154
5. Long term investments	36.112	7	0	-	36.112	20.453	4	0	-	20.453	57
6. Other asset	10.088	2	223	4	10.311	10.703	2	110	4	10.813	105
<b>7. Total asset (gross) (1+2+3+4+5+6)</b>	<b>540.489</b>	<b>100</b>	<b>5.019</b>	<b>100</b>	<b>545.508</b>	<b>621.226</b>	<b>100</b>	<b>2.864</b>	<b>100</b>	<b>624.090</b>	<b>114</b>
<b>8. Provisioning (8a.+8b.)</b>	<b>5.683</b>		<b>37</b>		<b>5.720</b>	<b>6.354</b>		<b>83</b>		<b>6.437</b>	<b>113</b>
8a. Loan items provisioning	4.259		35		4.294	5.022		77		5.099	119
8b. Provisioning for other asset items except loans	1.424		2		1.426	1.332		6		1.338	94
<b>9. Total asset (net: 7. - 8.)</b>	<b>534.806</b>		<b>4.982</b>		<b>539.788</b>	<b>614.872</b>		<b>2.781</b>		<b>617.653</b>	<b>114</b>
<b>LIABILITIES (OBLIGATIONS)</b>											
10. Obligations per loans / borrowings taken	326.440	61	3.045	61	329.485	386.632	63	1.019	37	387.651	118
11. Other liabilities	35.025	7	313	6	35.338	46.080	7	165	6	46.245	131
12. Total capital / holding	173.341	32	1.624	33	174.965	182.160	30	1.597	57	183.757	105
<b>13. Total liabilities (obligations and capital / holding: (10+11+12))</b>	<b>534.806</b>	<b>100</b>	<b>4.982</b>	<b>100</b>	<b>539.788</b>	<b>614.872</b>	<b>100</b>	<b>2.781</b>	<b>100</b>	<b>617.653</b>	<b>114</b>
14. Off-balance sheet records	74.486		905		75.391	84.112		200		84.312	112

#### 2.1.1. MCO assets

The total assets (gross) of MCOs based in Republika Srpska recorded growth at a rate of 14% or in the amount of 78.6 million KM compared to the balance as of the end of 2022, which is the result of changes in the following balance sheet positions: loan growth by 94 million KM or by 21% (87% of total assets), then office space and other fixed assets with growth at a rate of 54% or by 3 million KM (1% of total assets), and growth of other assets at a rate of 5% or in the amount of 0.5 million KM (2% of total assets) and an increase in placements with banks in the amount of 3 million KM (term deposits with banks that do not have a significant share in total assets) and a simultaneous decrease in the value of long-term investments (3% of total assets and refers to investment of the largest MCA in the bank's share capital) by 43% or by 15.7 million KM (the impact of the sale of shares of the issuer owned by the largest MCA) and a decrease in cash assets (6% of total assets) by 6.3 million KM or by 15%.

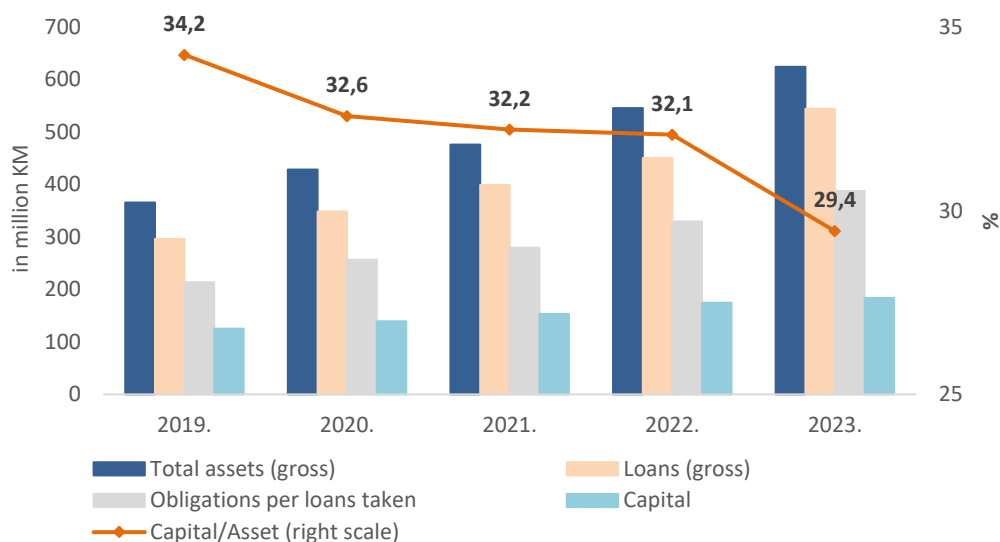
The growth of lending activity of MCOs based in Republika Srpska, in relation to the balance at the end of 2022, is evident in 11 MCOs, namely in four MCAs with growth at rates ranging from 8% to 10%, then in four

MCA's with growth at rates ranging from 19% to 37%, in two MCA's there was an evident growth of loans at a rate of 124% and 133%, and in one MCA loans grew at a rate of 428%, while in one MCA there was an evident decline in credit activity by rate of 57%. Loans of one MCA that started lending activities in June 2023 (founded in May 2023), as of 31/12/2023 do not have a significant share in the total loans of MCOs based in Republika Srpska.

In this reporting period, two MCFs recorded a significant decline in credit activity at rates of 53% and 77%.

In the total growth of MCO loans as of 31/12/2023 (94 million KM) compared to the end of 2022, the growth of loans at three MCA's accounts for 87% of the total growth of MCO loans.

**Graph 36: Republika Srpska MCO balance sheet positions (2019-2023)**



According to the structure of other assets (10.8 million KM), the most significant share is evident in the following items: receivables by interest on given loans (4 million KM or 37% of other assets) with growth at a rate of 25% or in the amount of 0.8 million KM, active accruals (3.4 million KM or 32% of other assets) with growth at the rate of 32% or in the amount of 0.8 million KM, "other receivables" in the amount of 1.8 million KM or 17% of other assets with a decrease at the rate of 36% or in the amount of 1 million KM (receivables based on the sale of fixed assets, lease of business premises, the Health Insurance Fund, passing accounts for postal services performed, etc.), funds acquired through the collection of receivables (0.7 million KM or 6% of other assets), receivables from fees (0.6 million KM or 5% of other assets) with a decrease at the rate of 2%, and advances and deferred tax funds (0.3 million KM or 3% of other assets) with a decrease at the rate of 12%, and all compared to the balance as of 31/12/2022.

### 2.1.2. MCO liabilities

In the structure of liabilities, liabilities for taken loans/borrowings, as the main funding source for MCO, amount to 387.6 million KM (63% of liabilities) and are higher by 58.1 million KM or by 18% compared to the end of 2022.

**Table 43: Maturity structure of taken MCOs loans / borrowings**

DESCRIPTION	2021.				2022.				2023.				Index 2023./2022.
	MCA	MCF	Total	%	MCA	MCF	Total	%	MCA	MCF	Total	%	
Obligations per taken short term loans / borrowings	15.534	939	16.473	6	11.561	560	12.121	4	10.335	0	10.335	3	85
Obligations per taken long term loans / borrowings	262.579	338	262.917	94	314.879	2.485	317.364	96	376.297	1.019	377.316	97	119
<b>TOTAL</b>	<b>278.113</b>	<b>1.277</b>	<b>279.390</b>	<b>100</b>	<b>326.440</b>	<b>3.045</b>	<b>329.485</b>	<b>100</b>	<b>386.632</b>	<b>1.019</b>	<b>387.651</b>	<b>100</b>	<b>118</b>

In terms of 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 69% (93% of the liabilities towards the mentioned investors refer to the largest MCA), then domestic banks with a share of 22%, funds of the Investment-Development bank of Republika Srpska with a share of 3%, other foreign investors with a share of 1% and other funding sources (loans from legal entities and private individuals) with a share of 5% in total liabilities for taken loans/borrowings.

Other liabilities as of 31/12/2023 amounted to 46.2 million KM or 7% of liabilities and are higher by 31% or 10.9 million KM compared to the balance at the end of 2022, as a result of a significant increase in liabilities based on bond issues by 6.2 million KM or by 51% (as of 31/12/2023 these liabilities are evident at five MCAs in the total amount of 18.5 million KM), then an increase in accrued liabilities (12.8 million KM or 28% of other liabilities) by 27% or 2.7 million KM (mainly prepaid loan installments and loan processing fees), increase in liabilities to employees based on wages, taxes and contributions to wages (2.5 million KM or 5% of other liabilities) by 21% or 0.4 million KM, and an increase in "other liabilities" (10.1 million KM or 22% of other liabilities) by 44% or 3.1 million KM (rents, dividend payments, liabilities based on calculated taxes, suppliers, etc.), while liabilities for interest and fees (2 million KM or 4% of other liabilities) were reduced by 46% or 1.7 million KM. In addition to the above liabilities, there are evident liabilities based on provisions under IAS 19 and court cases in the amount of 0.2 million KM and deferred tax liabilities in the amount of 0.1 million KM, which together make up 1% of other liabilities and are greater than 0.1 million KM, all compared to the balance as of 31/12/2022.

### **2.1.3. Off-balance sheet records**

Off-balance sheet records reported with the balance as of 31/12/2023 is 84.3 million KM, and comparing it with the balance as of 31/12/2022 is higher by 12% or 8.9 million KM, as a result of the increase in reported loans with a delay in repayment of more than 180 days and their associated interest and other asset items by 3.3 million KM or by 6% (increase in the mentioned credit claims at two MCAs accounts for 67% of the total increase at the level of microcredit organizations based in Republika Srpska) and an increase in other potential liabilities by 31% or 5.6 million KM (unused funds under loan agreements make up 83% of other potential liabilities). According to the structure of the off-balance sheet, the following items are reported in this position: MCO loans with a delay in repayment over 180 days in the total amount of 34 million KM or 40% of the total off-balance sheet, then claims for interest/fee and other asset items with a delay in repayment over 180 days in the amount of 26.6 million KM or 32% of the total off-balance sheet (the largest MCA accounts for 70% of the mentioned claims), potential liabilities for undrawn funds based on unused funds under agreements on framework or revolving loans concluded with banks in the total amount of 19,8 million KM or 23% off balance sheet (seven MCAs), potential liabilities for undrawn funds from framework loans granted to MCA clients in the amount of 3.8 million KM or 5% of the off balance sheet and on other grounds in the amount of 0.1 million KM (potential liabilities for payments to employees, etc.).

## **2.2. MCO capital (MCA capital and MCF holding)**

The total capital/holding of MCO as of 31/12/2023 amounts to 183.8 million KM or 30% of liabilities and is higher by 8.8 million KM or 5%, which is the result of the following changes in the capital of MCO: increase of Tier 1 capital by 4.2 million KM or 7% (recapitalization of three MCAs in the total amount of 3.6 million KM and pay-in of founding capital of one MCA in the amount of 0.6 million KM), and an increase in the total undistributed net profit of MCA in the total amount of 4.5 million KM or at a rate of 4% as a result of an increase in the position of undistributed net profit in 2023 by 17.1 million KM (the impact of the generated one-off income based on the sale of the issuer's shares owned by the largest MCA), all compared to the balance as of 31/12/2022.

Table 44: MCO capital / holding structure

000 KM

DESCRIPTION	2022.					2023.					Index 2023./2022.
	MCA	%	MCF	%	Total	MCA	%	MCF	%	Total	
Core capital / holding	56.178	32	741	46	56.919	60.418	33	741	46	61.159	107
Share premium	-	-	-	-	-	-	-	-	-	-	-
Undistributed profit	112.598	65	-	-	112.598	117.064	64	-	-	117.064	104
Excess/ lack of income	-	-	848	52	848	-	-	812	51	812	96
Legally required reserves	4.507	3	35	2	4.542	4.620	3	44	3	4.664	103
Other reserves	58	-	-	-	58	58	-	-	-	58	100
<b>MCA capital / MCF holding</b>	<b>173.341</b>	<b>100</b>	<b>1.624</b>	<b>100</b>	<b>174.965</b>	<b>182.160</b>	<b>100</b>	<b>1.597</b>	<b>100</b>	<b>183.757</b>	<b>105</b>

The MCF holding in the total amount of 1.6 million KM is at approximately the same level as at the end of 2022, and makes up 0.87% of the total capital/holding of the MCO based in Republika Srpska.

The founding holding of the MCFs are unchanged compared to the end of 2022 and amount in total 741 thousand KM (0.4% of the total capital/holding of MCO).

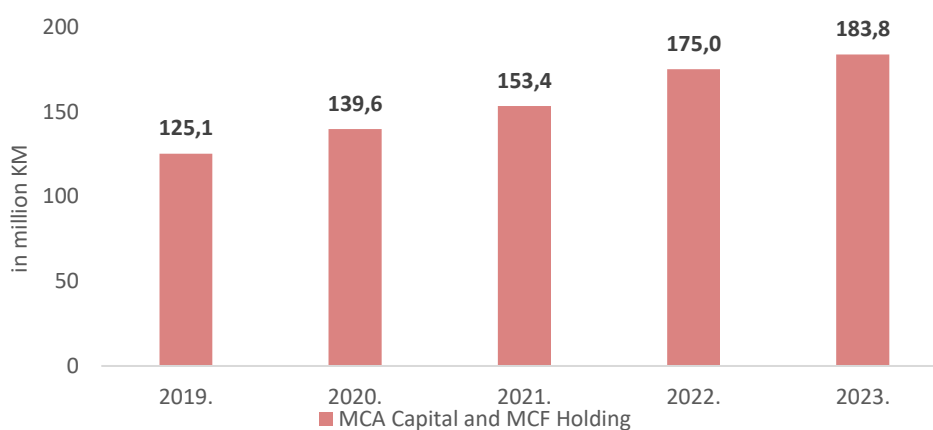
In addition to the founding capital/holding, a significant share in the capital structure of MCO is the undistributed profit of MCA (117.1 million KM or 64% of the total capital/holding), with a growth rate of 7% or in the amount of 4.5 million KM, which as of 31/12/2023 consists of undistributed audited net profit from previous years in the total amount of 75.8 million KM (for seven MCAs, the net profit from previous years was 79.9 million KM, and for two MCAs the loss was 4.1 million KM) and reported MCA net profit as of 31/12/2023 in the total amount of 41.2 million KM (twelve MCAs reported a net profit in the amount of 41.7 million KM, and one MCA reported a loss in the amount of 0.5 million KM).

At the level of the MCF as of 31/12/2023, there is an evident net excess of income over expenditure in the total amount of 812 thousand KM, which represents the revised net excess of income over expenditure in the previous years in the total amount of 840 thousand KM and a net deficit of income over expenses as of 31/12/2023 in the total amount of 28 thousand KM.

Mandatory reserves (4.7 million KM or 3% of the total capital/holding of MCO) are higher by 3% compared to the same as at the end of 2022 (increase in six MCA). A significant share in the total amount of mandatory reserves (86%) is recorded by the largest MCA.

MCO's investments in office space and other fixed assets and long-term investments amount to 29.1 million KM in total, and make up an average of 15.9% of MCO's total capital/holding based in Republika Srpska (stipulated limit, a maximum of 50% of the capital/holding of MCO, as of 31/12/2023 has been met by all MCOs).

Graph 37: Republika Srpska MCO total capital and holding (2019-2023)



### 2.3. Loan portfolio quality

The main activity of MCO is placing microloans, mainly to the household and craftsmen, as the target group of microcredit users (97.5% of MCO's loan portfolio).

Total gross loans of MCO based in Republika Srpska as of 31/12/2023 amount to 544.6 million KM or 87% of the total assets of MCO with a growth rate of 21% or in the amount of 94 million KM compared to the end of the previous year.

MCO's reserves for potential credit losses under the regulatory requirement make up 1% of gross loans, i.e. they amount to 5.1 million KM, and comparing their balance with the end of 2022, it is evident that they are higher by 19% or 0.8 million KM (growth of loans with repayment delay from 1 to 180 days by 25% or 3 million KM).

Net loans, which make up MCO total gross loans minus the amount of calculated reserves for potential credit losses in accordance with regulatory requirements, are shown in the following table:

DESCRIPTION	2022.			2023.			Index 2023./2022.
	MCA	MCF	Total	MCA	MCF	Total	
1. Loans (gross)	446.286	4.271	450.557	542.896	1.666	544.562	121
2. Loan loss provisioning	4.259	35	4.294	5.022	77	5.099	119
<b>Net loans (1.-2.)</b>	<b>442.027</b>	<b>4.236</b>	<b>446.263</b>	<b>537.874</b>	<b>1.589</b>	<b>539.463</b>	<b>121</b>

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

Microloans	2022.				2023.				Index
	Short term loans	Long term loans	Receivables due	Total	Short term loans	Long term loans	Receivables due	Total	
<b>1. Legal entities</b>									
Providing services	695	3.131	4	3.830	1.253	4.581	24	5.858	153
Trade	558	1.831	12	2.401	800	1.967	19	2.786	116
Agriculture	0	605	0	605	172	653	3	828	137
Manufacture	497	1.902	16	2.415	771	2.850	55	3.676	152
Other	297	490	282	1.069	55	417	0	472	44
<b>Total</b>	<b>2.047</b>	<b>7.959</b>	<b>314</b>	<b>10.320</b>	<b>3.051</b>	<b>10.468</b>	<b>101</b>	<b>13.620</b>	<b>132</b>
<b>2. Private individuals</b>									
Providing services	1.616	55.697	78	57.391	2.207	77.484	110	79.801	139
Trade	719	10.282	23	11.024	922	17.245	19	18.186	165
Agriculture	5.277	90.835	71	96.183	6.755	107.648	72	114.475	119
Manufacture	346	5.919	5	6.270	727	9.180	13	9.920	158
Housing	413	19.068	35	19.516	184	18.671	26	18.881	97
Other	22.935	225.370	1.548	249.853	29.239	258.655	1.785	289.679	116
<b>Total</b>	<b>31.306</b>	<b>407.171</b>	<b>1.760</b>	<b>440.237</b>	<b>40.034</b>	<b>488.883</b>	<b>2.025</b>	<b>530.942</b>	<b>121</b>
<b>Total (1.+2.)</b>	<b>33.353</b>	<b>415.130</b>	<b>2.074</b>	<b>450.557</b>	<b>43.085</b>	<b>499.351</b>	<b>2.126</b>	<b>544.562</b>	<b>121</b>

According to the maturity structure of loans, the dominant share is long-term loans, which make up 91.7% of total loans and amount to 499.3 million KM, and are higher by 20% or 84.2 million KM compared to the end of 2022. Short-term loans (with overdue receivables) make up 8.3% of total loans and amount to 45.3 million KM and are higher by 9.8 million KM or 28% compared to the end of 2022.

Due receivables of MCO make up 0.39% of total loans and are higher by 2.5% or 52 thousand KM than the balance of the same at the end of 2022 (as of 31/12/2022, they accounted for 0.46% of MCO's total loans) and they mainly refer to overdue receivables from private individual loans (95% of total overdue receivables). Overdue receivables of three MCAs as of 31/12/2023 make up 85% of the total overdue receivables of MCO based in Republika Srpska.

According to the sector structure, loans to legal entities (2.5% of total loans) increased by 32% or 3.3 million KM, while loans to private individuals increased by 21% or 90.7 million KM, all in relation to the end of 2022.

In total MCO loans of Republika Srpska, according to the structure of branch concentration, loans placed 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 53%, and with growth at a rate of 16% or in the amount of 39.2 million KM. Also, what is evident is a significant growth of loans for financing agriculture (21% of total loans) with growth at a rate of 3% or in the amount of 2.9 million KM, service activities (16% of total loans) at a rate of 40% or in the amount of 24.4 million KM, followed by financing of agriculture (21% of total loans) at a rate of 19% or in the amount of 18.5 million KM, and the growth of loans for financing trade activities (4% of total loans) at a rate of 56% or in the amount of 7.6 million KM. Furthermore, there is an evident increase in loans for financing production (3% of total loans) at a rate of 56% or in the amount of 4.9 million KM, while the financing of housing needs (3% of total loans) decreased by 3% or in the amount of 0.6 million KM, all in relation to the end of 2022.

Loans of organizational units of MCO with headquarters in Republika Srpska operating in the Federation of BiH (six MCAs and one MCF with 66 organizational units) as of 31/12/2023 in total amount to 186.6 million KM or 34.3% of the total loans of MCO based in Republika Srpska, with growth at the rate of 18% or in the amount of 28.1 million KM (on 31/12/2022 they placed a total of 158.5 million KM or 35.2% of total MCO loans) and are included in the balance sheets of MCOs based in Republika Srpska.

Loans of organizational units of MCOs operating in Republika Srpska, headquartered in the Federation of BiH, with balance as of 31/12/2023 in total amount to 222.7 million KM or 29% of the total loans placed to clients of all MCOs operating in Republika Srpska (767.3 million KM), and are higher by 11% or 22.1 million KM than the balance of the same as of 31/12/2022.

**Table 47: Sector and maturity structure of total loans of MCO organizational parts operating in RS, with headquarters in FBiH**

Microloans	2022.				2023.				Index 2023./2022.
	Short term loans	Long term loans	Receivables due	Total	Short term loans	Long term loans	Receivables due	Total	
<b>1. Legal entities</b>									
Providing services	34	1.884	29	1.947	70	2.452	5	2.527	130
Trade	56	558	1	615	61	563	5	629	102
Agriculture	0	65	0	65	0	142	0	142	218
Manufacture	0	601	3	604	43	422	1	466	77
Other	0	12	0	12	0	16	2	18	150
<b>Total</b>	<b>90</b>	<b>3.120</b>	<b>33</b>	<b>3.243</b>	<b>174</b>	<b>3.595</b>	<b>13</b>	<b>3.782</b>	<b>117</b>
<b>2. Private individuals</b>									
Providing services	401	12.472	67	12.940	63	7.867	39	7.969	62
Trade	82	1.599	2	1.683	35	1.374	2	1.411	84
Agriculture	2.041	65.972	106	68.119	2.115	68.183	98	70.396	103
Manufacture	54	1.708	2	1.764	24	793	2	819	46
Housing	1.179	54.925	71	56.175	1.303	71.261	91	72.655	129
Other	5.419	51.100	226	56.745	5.155	60.413	136	65.704	116
<b>Total</b>	<b>9.176</b>	<b>187.776</b>	<b>474</b>	<b>197.426</b>	<b>8.695</b>	<b>209.891</b>	<b>368</b>	<b>218.954</b>	<b>111</b>
<b>Total (1.+2.)</b>	<b>9.266</b>	<b>190.896</b>	<b>507</b>	<b>200.669</b>	<b>8.869</b>	<b>213.486</b>	<b>381</b>	<b>222.736</b>	<b>111</b>

The sector structure of loans of organizational units of MCOs operating in Republika Srpska, whose seat is in the Federation of BiH, is similar to the sector structure of loans of MCOs with headquarters in Republika Srpska, i.e. loans placed to private individuals make up 98.3% with a growth rate of 11% or in the amount of 21.6 million KM, while loans to legal entities make up 1.7% of the total loans of these organizational units and are higher by 0.5% all in relation to the end of 2022.

The maturity structure of loans of MCO organizational units based in the Federation of BiH is also similar to the maturity structure of MCOs based in Republika Srpska, i.e. long-term loans make up 95.8% of total loans (with a growth rate of 12% or in the amount of 22.6 million KM), while short-term loans, which include overdue receivables (9.3 million KM or 4.2% of total loans) are lower by 5% or 0.5 million KM, all in relation to the end of 2022.

Overdue receivables of MCO business units based in the Federation of BiH amount to 381 thousand KM or 0.17% of total loans, and are by 25% lower than at the end of the previous year (507 thousand KM or 0.25% of total loans), and they mainly refer to loans placed to private individuals (96.6%).

From the aspect of branch concentration, in the loan portfolio of these organizational units, what is evident is more significant financing of agriculture (34% of total loans) with a growth rate of 7%, then financing of housing needs (28% of total loans) with a growth rate of 33%, and others purpose (28% of total loans) with a growth rate of 17%, while loans for financing service activities (7% of total loans) are 30% lower, all compared to the end of 2021.

From the aspect of branch concentration, in the loan portfolio of these organizational units, what is evident is more significant financing of agriculture (32% of total loans) with a growth rate of 3% or in the amount of 2.3 million KM, then financing housing (33% of total loans) with a growth rate of 29% or in the amount of 16.5 million KM, and financing private individuals for others purpose (29% of total loans) with a growth rate of 16% or in the amount of 9 million KM, while loans to legal entities and private individuals for financing service activities (5% of total loans) recorded a decrease of 30% or 4.4 million KM, as well as loans for trade financing (1% of total loans), which are lower by 11% or 0.2 million KM, and loans for financing production do not have a significant share in the total loans of these organizational units, and they record a decrease of 46% or 1.1 million KM, all in relation to the end of 2022.

The total amount of microloans placed to private individuals for all MCOs operating in Republika Srpska as of 31/12/2023 is given in the following table:

Table 48: Total amount of microloans placed to private individuals		000 KM
DESCRIPTION		Amount
1. Republika Srpska MCO		530.890
minus: Republika Srpska MCO business units in the Federation of BiH		181.210
<b>Total 1</b>		<b>349.680</b>
2. Federation of BiH MCO business units in Republika Srpska		218.954
<b>Total (1.+2.)</b>		<b>568.634</b>

MCOs operating in Republika Srpska placed loans to private individuals as of 31/12/2023 in total amount of 568.6 million KM (as of 31/12/2022, they amounted to 483.8 million KM).

MCOs are obliged to allocate all credit and other receivables into certain groups by applying the criteria of the number of repayment delay days and to calculate regulatory reserves for credit and other losses, that is, they are obliged to calculate and form value adjustments for credit and other losses at the expense of operational expenses for each group.

At MCOs based in Republika Srpska, the amount of receivables classified into stipulated default groups by days of delay in repayment and the calculated reserves for those groups with the balance as 31/12/2023 can be seen from the following overview:

Table 49: MCO receivables and relevant provisioning per days in default

000 KM

Days in default	Provisioning rate	Loan amount	Interest		Amount of other asset items	Provisioning			2023.
			Provisioning rate	Interest amount		Per loans	Per accrued interest	Per other asset items	Total provisionin g
1	2	3	4	5	6	$7=(2 \times 3)/10$ 0	$8=(6 \times 7)/10$ 0	$9=(2 \times 6)/10$ 0	$10=(7+8+9)$
0	0%	529.610	0%	75	453	0	0	0	0
1-15	2%	5.058	2%	73	23.124	102	1	463	566
16-30	15%	4.385	100%	72	21	659	72	10	741
31-60	50%	1.753	100%	80	43	878	80	34	992
61-90	80%	1.480	100%	97	39	1.184	97	36	1.317
91-180	100%	2.276	100%	284	261	2.276	284	261	2.821
<b>Total</b>		<b>544.562</b>		<b>681</b>	<b>23.941</b>	<b>5.099</b>	<b>534</b>	<b>804</b>	<b>6.437</b>

Loans without delay amount to 529.6 million KM or 97.3% of total loans, and are higher by 21% or 91 million KM compared to the end of 2022 (438.7 million KM or 97.4% of total loans).

A more significant amount with a delay in repayment of loan receivables is evident in loans with a delay in repayment from 1 to 30 days (9.4 million KM or 1.7% of total loans), and an increase of these loans in the amount of 2 million KM or 27% is also evident (as of 31/12/2022, they amounted to 7.4 million KM or 1.6% of total loans), as well as an increase in related provisions by 16% compared to the calculated reserves of previous year.

From the total value of the loan portfolio of MCO based in Republika Srpska with the balance as of 31/12/2023 (544.6 million KM), loans with a delay in repayment from 1 to 180 days amount in total 14.9 million KM or 2.7% of total loans, and are higher by 25% or 3 million KM compared to the end of 2022 (they amounted to 11.9 million KM or 2.6% of total loans).

For the loan portfolio with a delay in repayment as of 31/12/2023, reserves were calculated to cover credit losses in the total amount of 5.1 million KM or 0.9% of total loans or 34% of the value of total loans with a delay in repayment from 1 to 180 days, and they are higher by 19% or 0.8 million KM in relation to the reserves reported with the balance as of 31/12/2022 (4.3 million KM or 0.95% of total loans or 36% of total defaulted loans).

Required reserves for potential losses on the basis of receivables for overdue interest as of 31/12/2023 were calculated in the amount of 0.5 million KM or 8% of total reserves, while required reserves for potential losses on other asset items amount to 0.8 million KM or 12% of total reserves.

The total amount of reported reserves on all bases is 6.4 million KM with an increase of 12% or in the amount of 0.7 million KM (as of 31/12/2022 they amounted to 5.7 million KM).

At MCO with headquarters in the Federation of BiH operating in Republika Srpska, out of total loans (222.7 million KM), loans without default as of 31/12/2023 amount to 219.5 million KM or 98.5% of total loans with growth at a rate of 12% or in the amount of 23.5 million KM compared to the end of 2022. Loans where there is an evident delay in repayment from 1 day to 180 days in total amount to 3.2 million KM or 1.4% of total loans, and are lower by 30% or 1.4 million KM compared to their balance as of 31/12/2022.

The total amount of required reserves for credit losses of organizational units of MCOs seated in the Federation of BiH and operating in Republika Srpska on all grounds (loans and overdue interest) is reported in the amount of 1.6 million KM or 0.7% of total loans or 49.6% of defaulted loans from 1 to 180 days, and are lower by 27% or 0.6 million KM in relation to the stated reserves at the end of 2022 (2.2 million KM or 1% of total loans or 47.7% of total defaulted loans).

\* \* \*

According to the report of MCOs based in Republika Srpska in the period 01/01 – 31/12/2023, 349 guarantors/co-borrowers repaid 455 thousand KM<sup>46</sup> for 338 individuals' loan beneficiaries or 0.23% of a

<sup>46</sup> 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.

total of 149,411 individual loan lots. At the largest MCA, 188 guarantors/co-borrowers repaid 209,000 KM for 182 individual loan beneficiaries, which is 0.22% of the total number of loan lots of the same MCA.

According to the report of the MCO of Republika Srpska in the period 01/01 – 31/12/2022, 292 guarantors/co-borrowers repaid a total of 317,000 KM<sup>47</sup> for 276 individual loan beneficiaries or 0.20% of a total of 137,482 loan lots.

According to the reports of the MCOs 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 six MCAs submitted a total of 23 complaints (17 complaints on other grounds, 2 complaints on fees for credit transactions and 4 complaints of guarantors/co-borrowers), of which 15 complaints were resolved positively, 6 complaints were resolved negatively, and 2 complaints are currently being processed.

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<sup>47</sup> 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

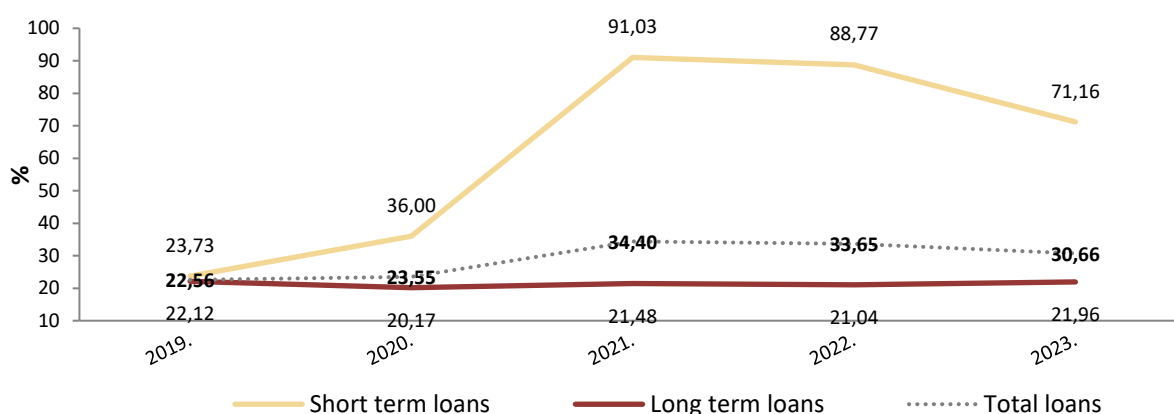
Average weighted nominal and effective interest rates are calculated on new loans placed during the calendar month, and refer to this reporting period.

The average weighted nominal and effective interest rates for loans placed in 2022 and 2023 of MCOs with headquarters in Republika Srpska and business units of MCOs with headquarters in the Federation of BiH operating in Republika Srpska are given in the following table:

DESCRIPTION	2022.				2023.			
	Republika Srpska MCO		FBiH MCO units in RS		Republika Srpska MCO		FBiH MCO units in RS	
	NKS	EKS	NKS	EKS	NKS	EKS	NKS	EKS
<b>1. Short term loans</b>								
Providing services	16,22	27,83	20,66	28,79	15,64	26,56	15,00	20,42
Trade	15,87	24,07	18,65	24,98	15,06	24,49	14,00	18,65
Agriculture	15,92	19,03	21,14	26,11	16,50	19,92	20,90	26,67
Manufacture	16,55	29,44	19,70	27,91	18,76	25,12	16,02	22,87
Housing	19,21	27,48	19,18	22,99	19,40	27,28	19,84	25,92
Other	27,55	114,76	19,67	29,25	36,07	92,03	21,57	28,26
<b>Weighted interest rates on short term loans</b>	<b>24,33</b>	<b>88,77</b>	<b>19,95</b>	<b>27,75</b>	<b>30,12</b>	<b>71,16</b>	<b>21,00</b>	<b>27,35</b>
<b>2. Long term loans</b>								
Providing services	16,19	18,76	18,60	22,25	16,78	19,53	11,57	13,38
Trade	15,55	17,77	15,63	18,55	16,18	18,63	11,95	13,82
Agriculture	15,30	17,48	17,91	20,15	16,17	18,51	18,18	20,65
Manufacture	15,65	17,91	18,07	21,53	16,71	19,38	13,67	15,98
Housing	17,99	21,98	18,12	20,47	18,59	22,22	18,56	21,51
Other	18,22	22,74	19,75	25,51	19,14	24,05	20,39	24,02
<b>Weighted interest rates on long term loans</b>	<b>17,32</b>	<b>21,04</b>	<b>18,57</b>	<b>22,03</b>	<b>18,05</b>	<b>21,96</b>	<b>18,78</b>	<b>21,76</b>
<b>Weighted interest rates on total loans</b>	<b>18,62</b>	<b>33,65</b>	<b>18,72</b>	<b>22,66</b>	<b>20,18</b>	<b>30,66</b>	<b>18,99</b>	<b>22,30</b>

NIR = nominal interest rates      EIR = effective interest rates

Graph 38: Trend of average weighted EIR of Republika Srpska MCO (2019-2023)



The average weighted EIR on total MCO loans from Republika Srpska in this reporting period (30.66%) is lower by 2.99 percentage points compared to the average weighted EIR in 2022 (33.65%). In 2023, there is an evident decrease in the average weighted EIR on total short-term loans by 17.61 percentage points compared to the weighted average in 2022, as a result of the decrease in the average weighted effective interest rate for loans placed for financing certain operations (services, production, housing and other

purposes) and a simultaneous increase in short-term loans for financing agriculture and trade. The average weighted EIR on long-term loans increased by 0.92 percentage points compared to the weighted average of the same for 2022.

The average weighted EIR on total loans at MCOs from Republika Srpska, in the period January - December 2023, at eleven MCOs was below the average weighted EIR on total loans by MCOs from Republika Srpska. Four MCOs, in this reporting period, reported an average weighted EIR above the average weighted EIR on total loans of MCOs from Republika Srpska.

Organizational units of MCOs based in the Federation of BiH operating in Republika Srpska, in the period January - December 2023, reduced the average weighted EIR on total loans (22.30%) by 0.36 percentage points compared to the weighted average for 2022. In this reporting period, the average weighted effective interest rate on total loans of three MCOs was below the average weighted EIR on total loans of organizational units of MCOs based in the Federation of BiH operating in Republika Srpska, while six MCOs reported an average weighted EIR above the average weighted EIR on total loans of all MCOs based in the Federation of BiH operating in Republika Srpska.

## 2.5. Income statement

MCOs seated in Republika Srpska as of 31/12/2023 reported a positive financial result in the total amount of 41.2 million KM with growth at a rate of 71% or in the amount of 17.1 million KM compared to the same period in 2022, as a result of increase in interest income and similar income by 32 million KM or 38%, which mainly related to one-off income based on the sale of shares of the issuer owned by the largest MCA in the amount of 15.4 million KM (if the financial result of the largest MCA was to be reduced by one-off income, the total financial result of the MCOs based in Republika Srpska would be recorded in the amount that is by 7% higher than the same amount reported on 31/12/2022).

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

Table 51: Republika Srpska MCO sector income statement									000 KM
DESCRIPTION	2022.				2023.				Index 2023/2022
	MCA	MCF	Total	%	MCA	MCF	Total	%	
<b>INCOME</b>									
Interest income and similar income	82.286	1.067	83.353	99	114.399	986	115.385	97	138
Operational income	945	16	961	1	2.690	14	2.704	2	281
Other income	310	20	330	0	525	10	535	1	162
<b>1. TOTAL INCOME</b>	<b>83.541</b>	<b>1.103</b>	<b>84.644</b>	<b>100</b>	<b>117.614</b>	<b>1.010</b>	<b>118.624</b>	<b>100</b>	<b>140</b>
<b>EXPENSES</b>									
Interest expenses and similar expenses	13.151	165	13.316	24	17.849	186	18.035	25	135
Operational expenses	39.182	747	39.929	69	48.406	777	49.183	68	123
Costs of provisioning for loan and other losses	4.224	-43	4.181	7	4.904	54	4.958	7	119
Other expenses	110	5	115	0	290	15	305	0	265
<b>TOTAL EXPENSES</b>	<b>56.667</b>	<b>874</b>	<b>57.541</b>	<b>100</b>	<b>71.449</b>	<b>1.032</b>	<b>72.481</b>	<b>100</b>	<b>126</b>
<b>3. PROFIT MCA /SURPLUS OF REVENUES OVER EXPENSES MCF BEFORE TAX (1.-2.)</b>	<b>26.874</b>	<b>229</b>	<b>27.103</b>		<b>46.165</b>	<b>-22</b>	<b>46.143</b>		<b>170</b>
4. TAX	3.005	27	3.032		4.959	6	0		0
<b>5. MCA NET PROFIT/MCF SURPLUS OF REVENUES OVER EXPENSES (3. -4.)</b>	<b>23.869</b>	<b>202</b>	<b>24.071</b>		<b>41.206</b>	<b>-28</b>	<b>41.178</b>		<b>171</b>

According to the income structure as of 31/12/2023, interest income on loans (87.8 million KM or 74% of total income) is higher by 15.6 million KM or 22% compared to interest income as of 31/12/2022 (72.2 million KM or 85% of total income). Other similar income as of 31/12/2023 amounted to 27.5 million KM or 23% of total income (consisting of fees for processing loan requests in the amount of 12.1 million KM and one-off income based on the sale of shares of the issuer owned by the largest MCA in the amount of 15.4 million KM), and is higher by 148% or 16.4 million KM in relation to the same income reported on 31/12/2022 (11.1 million KM or 13% of total income).

Operational income of MCO (mainly income based on the cancellation of reserves for loans and fees, commissions for mediation services in insurance business and other fees from lending activities) as of 31/12/2023 is higher by 181% or 1.7 million KM (the mentioned income is reported by three MCAs and make up 82% of the total operating income of MCOs).

According to the expenses structure as of 31/12/2023, interest expenses amounted to 15.9 million KM or 22% of total expenses with growth at a rate of 35% or in the amount of 4.1 million KM compared to 31/12/2022 (11.8 million KM or 20% of total expenses). Other similar expenses (mainly based on bank fees) as of 31/12/2023 amounted to 2.1 million KM or 3% of total expenses and are higher by 38% or 0.6 million KM compared to the same period of the previous year.

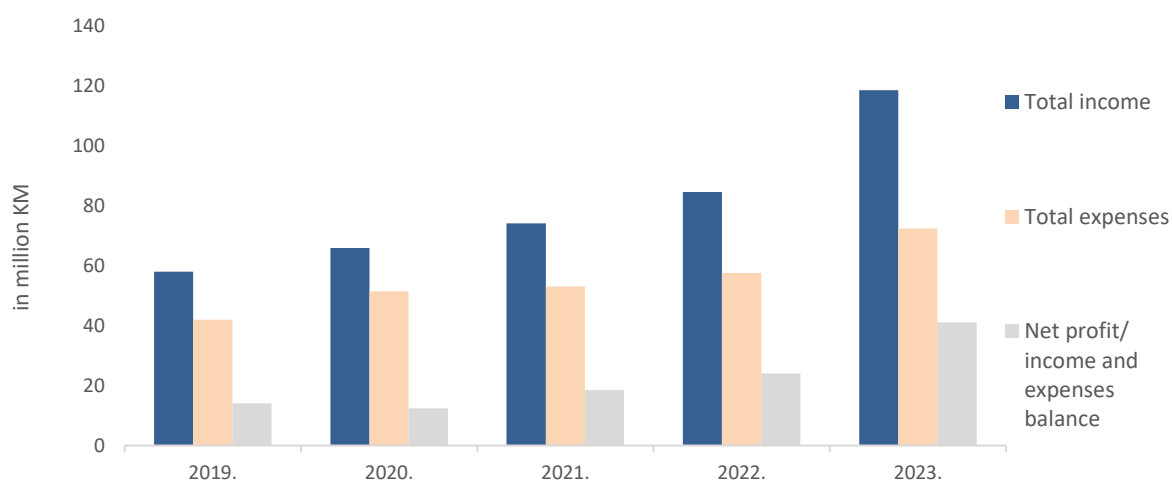
Operating expenses as of 31/12/2023 (49.2 million KM or 68% of total expenses) recorded growth at the rate of 23% or in the amount of 9.2 million KM, and according to the structure of operating expenses, the increase in expenses based on salaries and contributions had a more significant impact on the growth of the same (28.8 million KM or 40% of total expenses or 59% of total operating expenses) by 22% or 5.2 million KM (increased number of employees by 122 workers or by 18.5% compared to the same period in 2022).

Other operating expenses (13.5 million KM or 19% of total expenses or 27% of total operating expenses) are higher by 27% or 2.9 million KM compared to the same as of 31/12/2022 (cost of marketing, software and maintenance of information systems, direct write-off of receivables, cost of lease, depreciation, court costs based on dispute resolution, cost of postal services, cost of fees of regulatory institutions, etc.).

Expenses for office space, other fixed assets and overhead (6.8 million KM or 9% of total expenses or 14% of total operating expenses) are higher by 21% or 1.2 million KM (increased number of organizational units by 22%).

The cost of provisions for covering credit losses as of 31/12/2023 was 5 million KM or 7% of total expenses (three MCAs participate with 92% in the total cost of provisions at the MCO level), and is higher by 0.8 million KM or 19% compared to 31/12/2022, (growth of loans with a delay in repayment).

**Graph 29: Income statement items of Republika Srpska MCO sector (2019-2023)**



At the level of Republika Srpska MCO, as of 31/12/2023, a positive financial result was reported in the total amount of 41.2 million KM, as a result of the reported net profit of twelve MCAs in the total amount of 41.7 million KM and the reported loss of one MCA in the total amount of 0.5 million KM. The net

shortfall of income over expenditures of the MCFs totals 28 thousand KM and has no significant impact on the financial result of the MCOs based in Republika Srpska.

## **2.6. Recommendations for the microcredit sector of Republika Srpska**

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

- capital strengthening as a basis for sustainability and business operations improvement;
- control of the level of overdue receivables, especially loans with a delay in repayment, and additional activities for more efficient collection and improvement of the system for early recognition of deterioration in the loan portfolio quality;
- 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. value corrections according to IAS/IFS;
- updating business plans;
- establishment of adequate policies and systems for planning funding sources;
- establishment of more effective internal control and audit systems;
- further improvement of policies and procedures for anti-money laundering and counter-terrorism financing;
- 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 and reporting, while ensuring the security of information systems and developing new procedures for electronic business and working with clients remotely;
- continuous analysis of the products provided to microcredit users and their adaptation to market conditions and the 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 also be focused on the following:

- continuous 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 action by 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 counter-terrorism financing, and in this sense improving 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 BiH 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.

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## **IV Leasing provider sector**

In the period January - December 2023, there were no registered LPs based in Republika Srpska.

As of 31/12/2023, data on the business operations of LPs based in the Federation of BiH, which have a license issued by the Agency to operate in Republika Srpska, were given for four business units of LP that are part of four leasing companies based in the Federation of BiH (one LP was issued an operating license at the beginning of 2023, and started its operations in Q4 2023). Also, the data on financial leasing includes the data of the organizational unit of one bank based in the Federation of BiH, which performs financial leasing operations (FLP) in Republika Srpska. Data on the operations of these organizational units are included in the balance sheets of the aforementioned parent companies for leasing (LP) and banks (FLP) operations.

The reporting basis for monitoring and supervising the work of the LP business units based in the Federation of BiH (four LP business units) and the organizational unit of the bank that performs financial leasing activities (FLP) consists of one monthly report and five quarterly reports.

In the LP business units that operate in Republika Srpska, and whose headquarters are in the Federation of BiH, 10 workers are employed (as of 31/12/2022 7 workers). Out of the total number of employees, 7 workers with university degree are employed, and 1 worker with college degree and 2 workers with secondary school degree.

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

Table 52: Receivables structure per leasing operations											000 KM
DESCRIPTIO N	2022.					2023.					Index 2023./20 22.
	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.		
<b>Per leasing subject</b>											
Passenger vehicles	-	-	59.441	8.425	67.866	-	-	68.868	15.238	84.106	124
Vehicles for performing activities	-	-	46.140	7.528	53.668	-	-	56.184	6.470	62.654	117
Machinery and equipment	-	-	25.764	23	25.787	-	-	23.386	35	23.421	91
Real estate	-	-	12	-	12	-	-	1	-	1	8
Rail vehicles, watercraft and aeronautical facilities	-	-	-	-	-	-	-	-	-	-	-
Household appliances	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	1	-	1	-	-	-	-	-	0
<b>Total</b>	-	-	<b>131.358</b>	<b>15.976</b>	<b>147.334</b>	-	-	<b>148.439</b>	<b>21.743</b>	<b>170.182</b>	<b>116</b>
<b>Per leasing receiver</b>											
Legal entities	-	-	120.700	13.612	134.312	-	-	137.423	12.006	149.429	111
Entrepreneurs	-	-	5.589	63	5.652	-	-	6.032	68	6.100	108
Private individuals	-	-	4.453	54	4.507	-	-	4.514	93	4.607	102
Other	-	-	616	2.247	2.863	-	-	470	9.576	10.046	351
<b>Total</b>	-	-	<b>131.358</b>	<b>15.976</b>	<b>147.334</b>	-	-	<b>148.439</b>	<b>21.743</b>	<b>170.182</b>	<b>116</b>

Receivables based on financial and operational leasing of LP business units and FLP financial leasing as of 31/12/2023 in total amount to 170.2 million KM with a growth rate of 16% or in the amount of 22.8 million KM compared to the end of 2022.

Receivables based on financial leasing (LP and FLP) amount to 148.4 million KM or 87% of total leasing with growth at a rate of 13% or in the amount of 17.1 million KM. Receivables based on operational leasing LP (21.7 million KM or 13% of the total leasing) increased by 36% or 5.8 million KM, all compared to the balance as of 31/12/2022.

According to the subject of financial leasing, the largest receivables relate to the financing of passenger vehicles (40% of total leasing) with growth at a rate of 16% or in the amount of 9.4 million KM, followed by financing of vehicles for the performance of activities (33% of total leasing), which is higher by 10 million KM or 22%, and financing of machinery and equipment (14% of total leasing) with a decrease at the rate of 9% or in the amount of 2.3 million KM, all in relation to the balance as of 31/12/2022.

Financial leasing receivables against the lessee from legal entities (137.4 million KM or 81% of total leasing) are significantly represented and recorded growth at a rate of 14% or in the amount of 16.7 million KM, followed by entrepreneurs (6 million KM or 3% of total leasing) with growth at a rate of 8% or in the amount of 0.4 million KM, as well as receivables from private individuals (4.5 million KM or 3% of total leasing) with growth at a rate of 1% or 61 thousand KM only, all in relation to the end of the previous year.

According to the subject of operational leasing (LP), there is an evident growth of receivables based on passenger vehicles (9% of total leasing) at a rate of 81% or in the amount of 6.8 million KM, while receivables based on vehicles for the performance of activities (4% of total leasing) are lower by 14% or 1.1 million KM than the balance of the same at the end of 2022.

Operational leasing according to the lessee is significantly present with legal entities (7% of total leasing) with a decrease at the rate of 12% or in the amount of 1.6 million KM, and other users (6% of total leasing) with growth at a rate of 326% or in the amount of 7.3 million KM. Operational leasing for entrepreneurs and private individuals has no significant share in total leasing).

Average weighted nominal interest rates and effective interest rates of leasing fees based on financial leasing for 2022 and 2023 for the organizational units of LP and FLP operating in Republika Srpska, whose headquarters are in the Federation of BiH are given in the following table:

Table 53: : Average weighted interest rates of leasing fee					%
DESCRIPTION	2022.		2023.		
	NIR	ELIN	NIR	ELIN	
<b>1. By leasing subject</b>					
Passenger vehicles	3,89	7,60	6,13	9,90	
Vehicles for performing activities	4,01	8,21	5,69	9,58	
Machinery and equipment	3,76	6,15	5,33	12,32	
Real estate	-	-	-	-	
Rail vehicles, watercraft and aeronautical facilities	-	-	-	-	
Household appliances	-	-	-	-	
Other	-	-	-	-	
<b>2. By leasing receiver</b>					
Legal entities	3,86	7,21	5,83	9,91	
Entrepreneurs	4,17	7,28	6,01	9,28	
Private individuals	4,90	17,48	6,26	17,82	
Other	-	-	-	-	
<b>Total weighted interest rates</b>	<b>3,91</b>	<b>7,60</b>	<b>5,85</b>	<b>10,11</b>	

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

The average weighted effective interest rate of the leasing fee (ELIN) of LP and FLP business units in this reporting period is higher by 2.51 percentage points, comparing it with the same one in 2022.

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## **V Anti-money laundering and counter- terrorism financing**

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 counter-terrorism financing. Also, the Law on Anti-money laundering and counter-terrorism financing stipulates that supervision over the implementation of the same in banks and microcredit organizations is carried out by the Agency.

In 2023, 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 counter-terrorism financing. Supervision was carried out with the consistent application of the manual for supervision of compliance of banks and microcredit organizations with the minimum standards of anti-money laundering and counter-terrorism financing.

Bank supervision has established that banks have 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 have 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 Client" standard and apply them when establishing business relations with clients, as well as in the course of 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. During the supervision of three banks, it was determined that they did not fully and adequately apply the minimum standards of anti-money laundering and counter-terrorism financing (in the follow-up procedure, decisions were issued with orders to eliminate irregularities, and subsequent supervision established that the banks acted according to the Agency's orders).

The supervision of microcredit organizations established that they have adopted a policy on client eligibility, which defines clients eligible to microcredit organizations, that they have established client profile registers for legal entities and private individuals, that in accordance with the policy on identification and monitoring of client activities, when establishing business relations, adequately carry out their identification, and regularly monitor clients in the course of the business relation. Also, microcredit organizations defined the responsibilities of employees in microcredit organizations by the policy on managing the risk of money laundering and financing of terrorist activities, and defined the method of reporting to the competent authorities. During the supervision of three microcredit organizations, it was determined that they did not fully and adequately apply the minimum standards of anti-money laundering and counter-terrorism financing (in the follow-up procedure, decisions were issued with orders to eliminate irregularities, and subsequent supervision determined that the microcredit organizations acted according to the Agency's orders).

Based on the performed supervision, and the condition of banks and microcredit organizations in 2023, it can be concluded that they are largely aligned with the standards of anti-money laundering and counter-terrorism financing. 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, as of 31/12/2023 banks reported to the State Investigation and Protection Agency of BiH - Financial Intelligence Department a total of 139,493 transactions worth 12.54 billion KM (compared to the same period in 2022, the number of reported transactions increased by 4.9%, and the total value of reported transactions increased by 7.5%).

In 2023, banks reported a total of 74 suspicious money laundering transactions in the total amount of 9.2 million KM (15 more suspicious transactions and by 7.8 million KM less value of reported suspicious transactions than in 2022) and 181 clients suspected of money laundering (24 suspicious clients more than in 2022).

In this period, 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 2022 and 2023 is given in the following tables:

Table 54: Reported transactions				mil. KM	
Transaction type	12/2022.		12/2023.		
	Number	Amount	Number	Amount	
Transactions reported before execution	4	8,8	3	1,7	
Transactions reported within 3 days	132.604	11.614,1	139.301	12.525,3	
Transactions reported after the 3 day deadline	332	42,5	189	8,5	
<b>TOTAL</b>	<b>132.940</b>	<b>11.665,4</b>	<b>139.493</b>	<b>12.535,5</b>	

Table 55: Reported suspicious transactions				Mil. KM	
Transaction type	12/2022.		12/2023.		
	Number	Amount	Number	Amount	
Transactions reported before execution	4	8,8	3	1,7	
Transactions reported within 3 days	45	6,9	70	7,4	
Transactions reported after the 3-day deadline	10	1,3	1	0,1	
<b>TOTAL</b>	<b>59</b>	<b>17,0</b>	<b>74</b>	<b>9,2</b>	

Table 56: Reported suspicious clients						
Type of suspicion on client	12/2022.			12/2023.		
	Number of recorded suspicious clients	for which FID requested additional information	for which FID did not request additional information	Number of recorded suspicious clients	for which FID requested additional information	for which FID did not request additional information
Clients suspected of money laundering	157	0	157	181	1	180
Clients suspicious for financing terrorist activities	0	0	0	0	0	0
<b>TOTAL (1+2)</b>	<b>157</b>	<b>0</b>	<b>157</b>	<b>181</b>	<b>1</b>	<b>180</b>

In 2023, microcredit organizations had no reported cash transactions of 30 thousand KM or more and related cash transactions of 30 thousand KM or more, nor did they have reported suspicious transactions or suspicious clients for money laundering or financing terrorist activities.

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

## ATTACHMENTS

### BANKING SECTOR

- Bank basic data
- Sector structure of total loans

### MCO SECTOR

- MCO basic data

Attachment 1: Basic bank data									mil. KM
BANK	SEAT	ADDRESS	MANAGEMENT PRESIDENT	2023					
				Net assets	Total capital	Total loans	Deposits	No. of employees	
„Nova banka" a.d. Banja Luka	Banja Luka	Kralja Alfonsa 13 br 37A	Siniša Adžić	2.871,1	309,5	1.733,9	2.207,9	679	
„NLB Banka" a.d. Banja Luka	Banja Luka	Milana Tepića 4	Goran Babić	2.046,5	213,2	1.122,3	1.645,0	512	
„UniCredit Bank" a.d. Banja Luka	Banja Luka	Marije Bursać 7	Gordan Pehar	1.275,9	247,3	724,1	938,2	386	
„Atos Bank" a.d. Banja Luka	Banja Luka	Jevrejska 71	Igor Jovičić	1.213,7	176,2	772,8	920,8	388	
„Addiko Bank" a.d. Banja Luka	Banja Luka	Aleja Svetog Save 13	Srđan Kondić	1.012,7	174,7	681,8	805,2	365	
„MF banka" a.d. Banja Luka	Banja Luka	Aleja svetog Save 61	Bojan Luburić	788,5	98,8	601,8	574,4	334	
„Banka Poštanska štedionica" a.d. Banja Luka	Banja Luka	Jevrejska 69	Boško Mekinjić	493,1	56,1	244,2	382,1	153	
„Naša banka" a.d. Bijeljina	Bijeljina	Ivana Franje Jukića 1	Dejan Vuklišević	329,1	30,2	175,7	266,5	204	
			<b>TOTAL</b>	<b>10.030,6</b>	<b>1.306,1</b>	<b>6.056,5</b>	<b>7.740,1</b>	<b>3.021</b>	

Attachment 2: Sector structure of total loans					2023.			mil. KM and %		
Description	Credit risk level			Total loans	ECL			Total ECL	NPL ratio	NPL coverage ratio
	1	2	3		1	2	3			
<b>Total loans to legal entities</b>	<b>2.481,7</b>	<b>439,3</b>	<b>117,6</b>	<b>3.038,6</b>	<b>32,8</b>	<b>46,0</b>	<b>80,1</b>	<b>158,8</b>	<b>3,9</b>	<b>68,1</b>
A - Agriculture, forestry, fishing	62,6	10,7	3,3	76,6	0,9	0,7	3,2	4,7	4,2	97,8
B - Mining	30,1	6,9	0,0	36,9	0,3	0,7	0,0	0,9	0,0	-
C - Manufacture industry	362,9	75,8	40,5	479,3	4,8	8,1	24,6	37,5	8,5	60,7
D - Production and supply of electricity, gas, steam and air conditioning	199,9	4,5	0,0	204,5	2,9	0,9	0,0	3,8	0,0	88,1
E - Water supply; sewerage, waste management and remediation activities	21,2	4,3	0,1	25,6	0,2	0,3	0,1	0,6	0,2	88,9
F - Construction	233,4	119,9	11,0	364,3	3,2	12,5	5,7	21,4	3,0	51,6
G - Wholesale and retail trade; repair of motor vehicles and motorcycles	487,2	98,7	38,7	624,6	6,3	9,2	32,7	48,2	6,2	84,5
H - Traffic and warehousing	114,1	27,9	9,3	151,3	1,7	3,6	6,2	11,5	6,1	67,1
I - Accommodation, food preparation and serving activities; hotel and catering	93,4	19,4	0,6	113,3	1,2	2,3	0,5	3,9	0,5	90,6
J - Information and communication	47,4	23,1	0,0	70,5	0,8	2,4	0,0	3,2	0,0	100,0
K - Financial and insurance operations	114,0	5,5	0,0	119,5	1,3	0,9	0,0	2,2	0,0	-
L - Real estate operations	24,6	10,5	7,2	42,3	0,4	1,0	2,5	3,9	17,1	34,7
M - Expert, scientific and technical operations	87,5	10,3	1,1	98,9	1,0	1,0	1,0	3,1	1,1	94,5
N - Administrative and support service activities	14,0	3,0	1,3	18,3	0,2	0,2	1,1	1,5	7,0	85,6

O - Public administration and defense; compulsory social insurance	433,2	11,8	0,4	445,4	5,7	1,8	0,4	7,9	0,1	100,0
P - Education	2,8	0,1	1,5	4,4	0,0	0,0	0,9	0,9	34,8	56,4
Q - Health and social work activities	92,4	1,6	1,2	95,2	0,7	0,2	0,8	1,6	1,3	61,3
R - Art, entertainment and recreation	56,6	3,6	1,2	61,4	1,1	0,2	0,2	1,5	1,9	20,6
S - Other service providing activities	4,5	1,6	0,3	6,3	0,1	0,1	0,2	0,4	4,1	80,2
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	-	-
<b>Total household loans</b>	<b>2.661,3</b>	<b>253,7</b>	<b>102,9</b>	<b>3.017,9</b>	<b>35,6</b>	<b>33,7</b>	<b>86,8</b>	<b>156,1</b>	<b>3,4</b>	<b>84,3</b>
General consumption	1.697,0	180,8	77,8	1.955,7	25,7	25,0	69,2	119,8	4,0	88,9
Housing	820,8	52,0	8,0	880,8	7,6	7,0	5,3	19,9	0,9	65,6
Performing activities	143,5	20,9	17,1	181,5	2,3	1,7	12,3	16,4	9,4	72,0
<b>Total loans</b>	<b>5.143,1</b>	<b>693,0</b>	<b>220,5</b>	<b>6.056,5</b>	<b>68,4</b>	<b>79,7</b>	<b>166,8</b>	<b>314,9</b>	<b>3,6</b>	<b>75,6</b>

Attachment 3.: Basic data on MCO based in Republika Srpska of Srpska								000 KM
								2023
MICROCREDIT ORGANIZATION	SEAT	ADDRESS	DIRECTOR	Gross assets	Gross loans	MCA total capital/MCF holding	Net profit/loss MCA and Net surplus/deficit of income over expenditure MCF	No. of employees
MKD "Mikrofin" d.o.o. Banja Luka	Banja Luka	Vase Pelagića 22	Milena Haneš	438.734	392.006	141.612	31.969	387
MKD "FinCredit" d.o.o. Banja Luka	Banja Luka	Nikole Pašića 1	Sladjan Budiša	74.355	57.910	16.559	2.908	77
MKD "Pro fin" d.o.o. Istočno Sarajevo	Istočno Sarajevo	Spasovdanska bb	Gordana Čorović	19.124	16.730	2.255	1.011	29
MKD "Credis " a.d. Banja Luka	Banja Luka	Knjaza Miloša 3a	Dragan Katana	16.698	14.482	3.835	503	33
"Prvo penzionersko mikrokreditno društvo" a.d. Banja Luka	Banja Luka	Kralja Petra I Karađorđevića 66	Vesna Todorović	15.091	13.899	2.040	1.490	12
"Brčko gas penzionersko mikrokreditno društvo" a.d. Banja Luka	Banja Luka	Kralja Petra I Karađorđevića 119	Bojana Teodorović Kukrika	11.965	11.514	4.193	921	22
MKD "Taurus" d.o.o. Banja Luka	Banja Luka	Jovana Dučića 25	Milorad Despotović	9.701	8.040	1.194	299	13
MKD "Privrednik" d.o.o. Bijeljina	Bijeljina	Stefana Dečanskog 125	Davor Pejić	8.439	8.011	1.393	359	9
MKD "Flex Credit" d.o.o. Banja Luka	Banja Luka	Miše Stupara 3	Nikolay Penchev Penchev	7.159	5.314	1.020	-481	112
MKD "Zdravo" d.o.o. Banja Luka	Banja Luka	Bulevar vojvode Stepe Stepanovića 175 B	Jelica Galić	6.120	5.560	2.726	92	14
MKD "Digital Finance International" d.o.o. Banja Luka	Banja Luka	Svetozara Markovića 5/11	Dragan Danojević	5.753	2.950	2.797	1.514	43
MKD "Auris" a.d. Banja Luka	Banja Luka	Veljka Mladenovića 7d	Radenko Vujić	5.170	4.539	1.879	564	12
MKD "Prodest" d.o.o. Banja Luka	Banja Luka	Dositeja Obradovića 1	Dragan Ostojčić	2.917	1.941	657	57	5
MKF "Prodest" Banja Luka	Banja Luka	Dositeja Obradovića 1	Nikola Luburić	1.618	1.360	401	3	5
MKF "Pro fin" Istočno Sarajevo	Istočno Sarajevo	Spasovdanska bb	Jelena Lučić	1.246	306	1.196	-31	9
				<b>624.090</b>	<b>544.562</b>	<b>183.757</b>	<b>41.178</b>	<b>782</b>

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