

**Financial Stability Indicators in the Banking Sector of the Republic of Srpska:
A Descriptive Assessment of Restructuring Signals**Dragana Vujičić-Stefanović¹

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ABSTRACT

This paper presents a descriptive assessment of financial stability and restructuring indicators in the banking sector of the Republic of Srpska for the period 2020–2024, utilizing aggregate year-end supervisory data published by the Banking Agency of the Republic of Srpska. In accordance with domestic banking-resolution regulations and international standards, financial restructuring is defined as a set of extraordinary measures designed to preserve critical functions and maintain financial stability when standard supervisory and recovery actions prove inadequate. The study employs descriptive and comparative analyses, including both horizontal and vertical approaches, to evaluate trends in capital adequacy, profitability, efficiency, asset quality, liquidity, and growth, referencing relevant regulatory and analytical benchmarks. The findings demonstrate high capital adequacy, stable liquidity, improved profitability and efficiency, and a reduction in the non-performing loan ratio from 5.2% in 2020 to 3.7% in 2024. However, declining coverage of non-performing loans, a slight increase in non-performing loans in 2024, and a substantial proportion of short-term financial liabilities signal the need for ongoing supervisory vigilance. Aggregate data do not suggest immediate, widespread distress in the banking sector at the end of 2024. Nonetheless, given increased macro-financial uncertainty, ongoing monitoring and prompt preventive measures are essential to address vulnerabilities before recovery or restructuring interventions are required. This study provides a transparent, context-specific evaluation of recent supervisory data within a small, bank-centered financial system. As the analysis is based on aggregate sector-level data, the results do not preclude vulnerabilities at individual banks or confirm resilience under adverse stress conditions.

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1. Introduction

Banks serve as the primary financial intermediaries in bank-centred economies such as Bosnia and Herzegovina and the Republic of Srpska, where capital markets remain comparatively underdeveloped. The capacity of these institutions to maintain solvency, liquidity, asset quality, and sustainable earnings is essential for the continuity of financial intermediation and the preservation of confidence in the financial system. Recent research underscores that favourable point-in-time ratios must be considered alongside supervisory effectiveness, funding structure, governance, and the timely identification of vulnerabilities (Caparusso et al., 2023; Adrian et al., 2023; Balan et al., 2025).

To ensure conceptual clarity, this study distinguishes five related but distinct concepts. Financial stability denotes the observed capacity of the banking sector to perform its core intermediation functions without material disruption. Resilience is defined as the capacity to absorb adverse shocks and cannot be inferred solely from favourable historical ratios. Vulnerability indicates an observed weakening or exposure that may amplify future stress. Preventive supervisory intervention involves enhanced monitoring or remedial measures implemented before material distress arises. Financial restructuring refers to extraordinary measures intended to restore financial viability following material deterioration, and is analytically distinct from routine preventive supervision.

In this paper, the term “financial restructuring” is applied in a deliberately narrow, sector-level context: it refers to broad recapitalization, material balance-sheet repair, or comparable extraordinary measures that would be warranted if solvency, liquidity, asset quality, and earnings were to deteriorate simultaneously and materially. This definition excludes bank-specific recovery plans, resolution interventions, non-performing loan (NPL) workouts, operational restructuring, mergers, or ordinary prudential measures, which are not considered interchangeable with sector-wide financial restructuring. This distinction is significant because aggregate supervisory data can reveal the presence of broad-based distress but cannot determine the specific condition or intervention requirements of individual banks.

The period from 2020 to 2024 was selected as the most recent five-year interval for which complete

and mutually comparable annual supervisory data were available at the time of analysis. These five consecutive annual observations enable a descriptive assessment of the direction and continuity of changes in key indicators of capital, liquidity, asset quality, profitability, and funding, although this time frame is not considered sufficient for statistical inference. The period is particularly relevant as it includes the pandemic shock and its aftermath, the subsequent phase of inflation and interest-rate adjustments, and later growth in credit activity and total balance-sheet size. This combination of diverse macro-financial conditions provides a suitable context for evaluating whether the banking sector's aggregate indicators deteriorated simultaneously and materially during the observed period or remained above applicable regulatory minima while selected early-warning signals emerged.

The general objective of this study is to assess the observed financial condition of the Republic of Srpska banking sector using selected aggregate supervisory indicators. The specific objective is to determine whether these indicators provide evidence of broad-based financial distress that could indicate a need for sector-wide restructuring. The research question is as follows: Do selected aggregate year-end supervisory indicators reveal broad-based financial distress in the banking sector of the Republic of Srpska during 2020–2024, and which indicators generate warning signals that warrant enhanced supervisory monitoring? The corresponding descriptive research proposition is that the indicators do not exhibit simultaneous, material deterioration across capital, liquidity, asset quality, and earnings consistent with broad-based sectoral distress during the observed period.

The primary contribution of this paper is contextual and empirical, rather than the development of a new theoretical framework. It organises recent official supervisory evidence for a relatively under-researched banking system, applies a transparent indicator-and-benchmark matrix, and distinguishes evidence of observed financial condition from assertions regarding resilience under hypothetical shocks. The resulting framework is designed to support the interpretation of aggregate warning signals and to clarify when enhanced monitoring should precede more robust recovery or restructuring measures.

The remainder of the paper is organized as follows. Section 2 reviews the literature and conceptual framework. Section 3 describes the data, indicator definitions, regulatory benchmarks, and decision rules. Section 4 presents the results. Section 5 discusses their interpretation and comparability. Section 6 concludes with implications, limitations, and directions for further research.

2. Literature Review

Effective management of banks' financial performance, risk, and restructuring is essential for maintaining financial system stability. The Basel standards have significantly influenced this analytical framework by establishing capital, liquidity, and risk management requirements to strengthen banking sector resilience, especially during crises (Basel Committee on Banking Supervision, 2011). Empirical research identifies capital adequacy, profitability, liquidity, and risk exposure as key determinants of banking sector stability. Regulatory capital and leverage serve as critical shock absorbers and indicators of system strength (Berger & Bouwman, 2013), while inadequate capitalisation has historically contributed to banking crises (Reinhart & Rogoff, 2009). As a result, bank restructuring becomes necessary when weak profitability, low liquidity, and increased risk exposure undermine confidence in the financial system (Laeven & Valencia, 2018).

Recent international evidence broadens the concept of banking resilience beyond traditional solvency measures. The Basel Committee on Banking Supervision (2023) finds that banks may remain vulnerable even when meeting formal capital requirements if interest rate risk, unrealized losses, concentrated depositor bases, and rapid deposit outflows are present alongside weaknesses in governance and supervision. Similarly, the International Monetary Fund (2024), the European Banking Authority (2024), and the European Central Bank (2024) underscore the growing importance of liquidity management, deposit stability, diversified funding structures, commercial real estate exposures, and links with non-bank financial institutions in assessing banking sector resilience. Regional studies highlight the importance of timely monitoring of banking sector performance. Studies on the Western Balkans emphasise the significance of profitability and liquidity indicators.

Brkić and Arnaut (2018) examine the profitability of the banking sector in Bosnia and Herzegovina and find that, despite overall stability, the sector remains highly sensitive to changes in the deposit structure. Jakšić and Janković (2020) note that regulatory frameworks in Serbia have a substantial impact on banks' risk management practices.

Institutional reports support these findings. The European Banking Authority (2023) identifies risks associated with rising interest rates and liquidity shifts, while reports from the Central Bank of Bosnia and Herzegovina (2023), the Croatian National Bank (2023), the National Bank of Serbia (2023), and the Banking Agency of the Republic of Srpska (2023; 2024) confirm adequate capital bases and stable liquidity in the region.

In the Republic of Srpska, reports from the Banking Agency of the Republic of Srpska (2023; 2024) document growth in assets, deposits, and profitability, indicating a favourable financial condition. However, these indicators alone do not confirm resilience under adverse shocks. Comparative evidence from other countries suggests that ongoing monitoring of funding structures, loan-funding indicators, capital adequacy, and profitability is critical for the early detection of weaknesses and potential restructuring needs (Schaeck & Čihák, 2014; Saunders et al., 2021). Studies on banking sector financial performance demonstrate that stability and resilience are contingent upon capital adequacy, profitability, and effective credit risk management (Athanasoglou et al., 2008). In developing economies, high capital adequacy is recognized as a key indicator of resilience and a reduced likelihood of financial restructuring (Demirgüç-Kunt et al., 2013).

The banking sector in the Republic of Srpska shares certain characteristics with other transitional banking systems in the Western Balkans, where capital adequacy and earnings capacity represent important dimensions of banking stability (Kubiszewska, 2019). Additionally, credit risk and the proportion of non-performing loans are significant factors influencing the need for preventive restructuring measures (Beck et al., 2015).

Profitability, typically measured by Return on Assets (ROA) and Return on Equity (ROE), serves as a standard indicator of banks' operational efficiency and long-term sustainability (Pasiouras & Kosmidou, 2007). In small open economies, Dumičić (2016)

argues that financial stability should be evaluated by monitoring the accumulation and realization of systemic risks and by jointly assessing multiple financial stability indicators, rather than relying on individual metrics. Recent studies further link profitability to resilience. Caparusso et al. (2023) demonstrate that profitability, valuation, and resilience are interconnected through the capital headroom maintained above regulatory minimums. Sustained profitability thus facilitates internal capital generation, enhances loss-absorption capacity, and lowers the probability that adverse shocks will necessitate restructuring.

Another strand of recent literature highlights the preventive function of supervision and liquidity stress testing. The Basel Committee on Banking Supervision (2025) notes that supervisory effectiveness relies on the timely identification of material weaknesses, prompt remediation, and credible enforcement. Baudino et al. (2024) contend that sector-wide liquidity stress tests are essential for identifying vulnerabilities related to funding concentration, contagion, and rapid deposit withdrawals. This approach is particularly pertinent for small bank-centered systems, where the banking sector plays a dominant intermediation role, and disruptions in confidence can have significant macroeconomic consequences. Despite these developments, empirical evidence remains limited for small transition and bank-centred systems in Southeast Europe, where high liquidity, concentrated funding structures, and underdeveloped capital markets coexist. Most existing research focuses on large advanced banking systems, crisis episodes, or isolated aspects of bank performance, with fewer studies jointly evaluating capital adequacy, liquidity, credit risk, profitability, and growth sustainability as early-warning indicators of potential restructuring needs. This gap underscores the analytical rationale for investigating the banking sector of the Republic of Srpska as a distinct case within Bosnia and Herzegovina and the Western Balkans.

The reviewed literature shows that regional research primarily addresses banks' resilience during economic crises, with a particular focus on monitoring liquidity, profitability, and asset quality indicators. These metrics form the analytical foundation for evaluating whether the banking sector of the Republic of Srpska displays signs that would justify financial

restructuring or, conversely, indicate the absence of such a need at the sectoral level.

3. Research Methodology

This study employs descriptive, horizontal, vertical, trend, comparative, and interpretative analyses to aggregate supervisory indicators for the banking sector of the Republic of Srpska. The research design is intentionally descriptive and non-causal; it does not estimate statistical relationships, test causal hypotheses, or simulate resilience under adverse shocks. Rather, the analysis evaluates whether observed year-end indicators exhibit patterns consistent with broad-based financial distress and identifies weaker signals that warrant supervisory attention.

The primary data sources consist of the Banking Agency of the Republic of Srpska (ABRS) year-end reports on the condition of the banking system for 31 December 2020, 2021, 2022, 2023, and 2024, along with the corresponding published supervisory tables. Values are recorded as of the reporting date for each year. The 2019 figures included in the balance-sheet table serve solely as an initial comparator for the first horizontal comparison and are excluded from the 2020–2024 analytical sample. A source map specifying the report, table or section, page, and reporting date is provided below and in the supplementary dataset.

The analytical scope encompasses five dimensions: (1) capital adequacy, (2) profitability and efficiency, (3) asset quality and credit risk, (4) liquidity and funding, and (5) growth and risk-exposure dynamics. A “restructuring need” is not inferred from a single ratio; rather, it would require a broad and mutually reinforcing deterioration across several dimensions, particularly regulatory capital or liquidity pressure in conjunction with worsening asset quality and earnings. In contrast, deterioration in an individual indicator, provided that binding regulatory minima remain satisfied, is classified as an early-warning signal rather than as evidence of a restructuring need.

Research question: Do selected aggregate year-end supervisory indicators provide evidence of broad-based financial distress in the banking sector of the Republic of Srpska during 2020–2024, and which indicators generate warning signals that justify enhanced supervisory monitoring?

Descriptive research proposition: During 2020–2024, the selected aggregate indicators do not exhibit simultaneous, material deterioration across solvency, liquidity, asset quality, and earnings that would constitute visible evidence of broad-based sectoral distress. This proposition is assessed using the ex ante decision matrix presented below and is not treated as a formal inferential hypothesis test.

To ensure transparency and reproducibility, each analyzed indicator is defined in terms of its conceptual meaning, interpretation, relevant regulatory or analytical benchmark, and the observed value for the banking sector of the Republic of Srpska, which is characterized as a small bank-centered financial system. Regulatory reference values are explicitly distinguished from analytical signals that identify potential vulnerabilities and the need for enhanced supervisory monitoring. For indicators of capital, liquidity, asset quality, profitability, and funding structure, the relevant regulatory minima or other benchmark values are specified, and their joint interpretation is based on a predefined decision matrix. This matrix establishes criteria for distinguishing between stable conditions, early-warning signals, recovery-related concerns, and indications that may suggest a potential need for financial restructuring. For each indicator, the data source, reporting period, and relevant regulatory basis are specified, thereby ensuring transparency of the analytical procedure and enabling reproducibility using the same data sources, defi-

nitions, benchmark values, and decision rules. Horizontal analysis measures year-to-year and period changes in the reported indicators. Vertical analysis examines balance-sheet and funding shares. Trend analysis describes the direction of indicators over the five year-end observations without estimating a statistical time trend. Comparative analysis contrasts regulatory ratios with applicable minima and situates selected EU/ECB figures in a contextual, non-harmonized comparison. Interpretative analysis classifies the joint pattern as stable or showing no visible broad-based distress, early-warning, recovery-related concern, or restructuring-related concern according to the decision matrix.

The methodology has several limitations. Five year-end observations may obscure intra-year volatility and are insufficient for statistical inference. Aggregate sector values may mask weak institutions, concentrated exposures, depositor concentration, or funding problems at individual banks. The study does not include bank-level dispersion, stress testing, sensitivity analysis, forward-looking macroeconomic scenarios, or a comprehensive macroprudential assessment of credit-to-GDP dynamics, real-estate and sovereign exposures, interest-rate risk, currency risk, parent-bank dependence, or interconnectedness. Comparisons with ECB-supervised banks are contextual, as reporting perimeters and definitions are not fully harmonized. As a result, the analysis can identify visible aggregate distress signals but cannot demonstrate shock resilience or rule out institution-specific vulnerabilities.

Table 1
Operational definitions, benchmarks, data sources, interpretation, and relationship of the main indicators to restructuring risk

Indicator	Formula / definition	Benchmark / unit	Primary data source	Interpretation and relationship to restructuring risk
Total regulatory capital ratio	Regulatory capital / total risk exposure amount	≥12%; %	ABRS capital adequacy tables	Interpretation: Overall solvency buffer. Restructuring relevance: A material decline toward or below the minimum may signal weakening solvency and increased restructuring concern.
Tier 1 capital ratio	Tier 1 capital / total risk exposure amount	≥9%; %	ABRS capital adequacy tables	Interpretation: Loss-absorbing Tier 1 capital. Restructuring relevance: Declining headroom above the minimum may indicate reduced capacity to absorb losses.

CET1 ratio	CET1 / total risk exposure amount	≥6.75%; %	ABRS capital adequacy tables	Interpretation: Core loss-absorbing capital. Restructuring relevance: Persistent deterioration or a breach may indicate weakening core loss-absorbing capacity and heightened restructuring concern.
Capital conservation buffer	Additional capital buffer equal to 2.5% of total risk exposure amount (TREA)	2.5% of TREA; %	ABRS capital adequacy framework	Interpretation: Additional buffer above Pillar 1 minima. Restructuring relevance: Buffer depletion may indicate increased vulnerability and the need for corrective or recovery measures.
Leverage ratio	Tier 1 capital / total exposure measure	≥6%; %	ABRS leverage table	Interpretation: Non-risk-weighted prudential backstop. Restructuring relevance: A decline toward or below the minimum may indicate excessive leverage and reduced loss-absorbing capacity.
ROA / ROE	Net sector result / average net assets or average equity	%; no regulatory minimum	ABRS profitability tables	Interpretation: Earnings performance and internal capital generation. Restructuring relevance: Persistent losses weaken internal capital generation and may intensify restructuring risk.
NIM	Net interest income / average net assets × 100	%; analytical	ABRS profitability tables	Interpretation: Profitability generated from net interest income. ABRS reports the acronym NIM and labels it “Net Income Margin”; based on the reported formula, this study treats it as Net Interest Margin. Restructuring relevance: Sustained deterioration may weaken profitability and internal capital generation.
NPL ratio	Non-performing gross loans / total gross loans	%; analytical	ABRS credit-risk tables	Interpretation: Asset-quality indicator. Restructuring relevance: A material increase may signal deteriorating asset quality and rising credit losses.
NPL coverage	ECL for NPL / gross NPL	%; analytical	ABRS credit-risk tables	Interpretation: Provisioning coverage of NPLs. Restructuring relevance: Declining coverage may increase vulnerability to future credit losses.
NPL change indicator	Increase/decrease in NPL amount at reporting date relative to comparative period / relevant gross performing-loan base	%; analytical	ABRS credit-risk tables	Interpretation: Direction of change in NPLs; negative values denote a net decline. Restructuring relevance: Persistent positive values may indicate emerging deterioration in credit quality.

Texas coefficient	Gross NPL / (balance-sheet capital + ECL for NPL)	%; analytical	ABRS credit-risk tables	Interpretation: Capital/provision cushion relative to NPLs. Restructuring relevance: A rising ratio indicates weaker coverage of NPLs and greater vulnerability.
LCR	Liquidity buffer / net liquidity outflows	≥100%; %	ABRS liquidity section	Interpretation: Short-horizon regulatory liquidity position. Restructuring relevance: A decline toward or below the minimum may signal short-term liquidity stress.
NSFR	Available stable funding / required stable funding	≥100%; %	ABRS liquidity section	Interpretation: Structural funding stability; N/A for 2020, reporting from 31.12.2021, with the 100% minimum applicable from 31.12.2022. Restructuring relevance: A decline toward or below the minimum may signal structural funding vulnerability.
Loans / (deposits + borrowings)	Gross loans / (deposits + borrowed funds)	%; analytical	ABRS funding / liquidity tables	Interpretation: Funding intensity indicator; not a simple loan-to-deposit ratio. Restructuring relevance: A rising ratio may indicate increasing funding pressure, particularly if accompanied by weaker liquidity.

Note. Author's compilation based on ABRS year-end reports for 2020–2024 and the applicable ABRS. Indicator definitions and benchmarks follow the supervisory methodology reported by ABRS; analytical interpretations are the author's. No single indicator is treated as sufficient evidence of a restructuring need. The relationship to restructuring risk is interpretative and should be assessed jointly across solvency, liquidity, asset quality, profitability, and funding conditions.

Table 2

Ex Ante Assessment Matrix for Interpreting Aggregate Supervisory Indicators and Restructuring Signals

Assessment category	Ex ante assessment criterion	Interpretation in this study
No visible signs of broad-based financial distress	Regulatory capital and liquidity minima are met, with no simultaneous material deterioration in solvency, asset quality, liquidity, and profitability.	The observed financial condition is consistent with sector-wide stability; no inference is made regarding resilience under adverse stress scenarios.
Early-warning signal	One or more indicators that do not represent binding regulatory minima deteriorate (e.g., rising NPLs, declining coverage, concentrated or short-term funding), while regulatory minima remain satisfied.	Enhanced monitoring, targeted supervisory review, and, where appropriate, sensitivity analysis are warranted.

Indications of a need for recovery measures	Material deterioration or approaching regulatory thresholds at an individual institution, requiring corrective measures and/or activation of recovery measures.	Cannot be reliably determined from aggregate sector data; detailed bank-level supervisory information is required.
Indications of a possible need for restructuring	Simultaneous, material, and broad-based deterioration, including solvency and/or liquidity pressure, deterioration in asset quality and profitability, which cannot be adequately addressed through ordinary measures.	Such a pattern could indicate the need to consider extraordinary restructuring measures. It is not observed in the selected aggregate indicators used in this study.

Note. Author's compilation based on ABRS year-end reports for 2020–2024 and the applicable ABRS. Indicator definitions and benchmarks follow the supervisory methodology reported by ABRS; analytical interpretations are the author's.

4. Results

The results are presented as aggregate, sector-wide year-end observations for 2020–2024. These findings describe the sector's overall financial condition, rather than the distribution of risk among individual banks.

This empirical analysis utilizes official statistical reports from the Banking Agency of the Republic of Srpska for the period 2020–2024. It relies on aggregated indicators of capital adequacy, liquidity, credit risk, profitability, efficiency, and growth sustainability to assess the financial strength and stability of the banking sector, as well as to determine whether observed trends have implications for financial restructuring. The analysis incorporates data on total assets, capital and liabilities, loans, deposits, the Liquidity Coverage Ratio (LCR), the Net Stable Funding Ratio (NSFR), loan portfolio quality, provision coverage, net financial result, return on assets (ROA), return on equity (ROE), net interest margin (NIM), the ratio of operating income to average net assets, the Cost-to-Income Ratio (CIR), and the relationship between capital indicators and total risk exposure growth.

All of these indicators are presented in the subsequent tables. Their analysis enables a comprehensive evaluation of the performance of the banking sector in the Republic of Srpska and facilitates an assessment of whether systemic signals indicate a potential need for financial restructuring. The

analysis of the five-year period from 2020 to 2024 demonstrates that the banking sector in the Republic of Srpska experienced continuous growth in total assets. As of 31 December 2024, gross total assets reached KM 11.2 billion, representing an 8% increase compared to the previous year. Net total assets, defined as gross assets net of value adjustments, amounted to KM 10.9 billion, also reflecting an annual growth rate of 8%. This expansion was accompanied by increases in both deposits and loans. The key issue is whether this growth was associated with any deterioration in capital, liquidity, asset quality, or earnings.

The structural analysis of assets shows that gross loans constitute the largest share, representing 59.7% of total balance sheet assets. Cash and cash equivalents are the second largest component at 24.6%, while securities account for 11.9%. This composition reflects the continuation of a predominantly credit-oriented business model, supported by a substantial liquidity buffer and investments in financial instruments. For comparison, loans represent over 60% of total assets in banks within the EU and European Economic Area (EEA), while the corresponding share in United States banks typically ranges from 40% to 45%.

The structural analysis of liabilities in the banking sector of the Republic of Srpska indicates that deposits are the primary source of funding, accounting for 77% of total liabilities as of 31 December 2024. Capital is the second largest component, reaching a record 13.7% of total liabilities, which confirms the

sector's strong capital base. Meanwhile, liabilities from borrowed funds have shown a declining trend,

amounting to 6.2% of total liabilities on the observed date.

Table 3
Balance Sheet of the Banking Sector of the Republic of Srpska for the Period 2020-2024

BALANCE SHEET											in million BAM	
DESCRIPTION	2019.		2020.		2021.		2022.		2023.		2024.	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
ASSETS												
1. Cash and Cash Equivalents	1,886.5	21.6	1,920.2	21.6	2,745.4	27.8	2,636.6	26.2	2,560.0	24.7	2,755.9	24.6
2. Securities	932.1	10.7	1,071.8	12.1	1,101.6	11.1	1,283.9	12.7	1,389.8	13.4	1,329.2	11.9
3. Placements with Other Banks	40.9	0.5	44.8	0.5	16.7	0.2	40.4	0.4	28.6	0.3	51.4	0.5
4. Loans and Advances (Gross)	5,463.3	62.5	5,493.8	61.8	5,705.1	57.7	5,792.9	57.5	6,056.5	58.4	6,695.2	59.7
5. Premises and Other Fixed Assets	214.8	2.5	202.8	2.3	192.7	1.9	186.8	1.9	189.1	1.8	193.6	1.7
6. Other Assets	206.6	2.4	155.8	1.8	130.7	1.3	129.4	1.3	146.1	1.4	180.1	1.6
Total Gross Assets	8,744.1	100	8,889.2	100	9,892.3	100	10,070.0	100	10,370.1	100	11,205.3	100
8. Loss Allowances (Expected Credit Losses – ECL)	446.5		380.6		341.0		312.9		339.6		349.5	
8.1. Loss Allowances on Loans and Advances (ECL on Loans)	376.9		357.4		322.5		292.4		314.9		327.2	
8.2. Loss Allowances on Financial Assets Other than Loans (ECL on Non-Loan Financial Assets)	69.6		23.2		18.5		20.4		24.7		22.4	
Total Net Assets	8,297.7		8,508.6		9,551.3		9,757.2		10,030.6		10,855.8	
LIABILITIES												
10. Deposits	6,405.8	77.2	6,515.2	76.6	7,498.6	78.5	7,595.2	77.8	7,740.1	77.2	8,354.2	77.0
11. OLiabilities from Borrowed Funds	601.5	7.2	678.3	8.0	681.5	7.1	704.7	7.2	717.8	7.2	671.4	6.2
12. Subordinated Debt	52.3	0.6	52.3	0.6	52.3	0.5	52.3	0.5	70.8	0.7	99.7	0.9
13. Provisions for Off-Balance Sheet Exposures	8.3	0.1	11.2	0.1	12.7	0.1	12.8	0.1	17.0	0.2	16.9	0.2
14. Other Liabilities	186.3	2.2	197.2	2.3	189.7	2.0	176.2	1.8	178.8	1.8	227.1	2.1
EQUITY												
15. Equity	1,043.5	12.6	1,054.3	12.4	1,116.5	11.7	1,216.0	12.5	1,306.1	13.0	1,486.6	13.7
TOTAL LIABILITIES AND EQUITY	8,297.7	100	8,508.6	100	9,551.3	100	9,757.2	100	10,030.6	100	10,855.8	100

*Note*². Author's presentation based on data from the Banking Agency of the Republic of Srpska, *Reports on the Condition of the Banking Sector of the Republic of Srpska*.

The analysis of the income statement of the banking sector of the Republic of Srpska over the five-year period (2020-2024) demonstrates a continuous increase in both interest income and operating income, resulting in total revenues reaching KM 744.2 million as of 31 December 2024. The structural analysis reveals that interest income consistently accounted for the dominant share of total revenues throughout the observed period, exceeding 60% in each year and reaching 62.9% at the end of 2024. In contrast, operating income, generated from payment service fees, foreign exchange transactions, off-balance-sheet activities, and loan-related fees, accounted for less than 50% of total revenues, with a recorded share of 37.1% as of 31 December 2024.

According to data from the European Banking Authority (EBA, 2023), net interest income has historically constituted the largest component of

European banks' net operating income, accounting for approximately 60%, while non-interest income represents less than one-third. By contrast, U.S. banks rely more heavily on non-interest income, which, following the global financial crisis, accounted for nearly half of total operating revenues. This structural divergence highlights fundamental differences in the business models of European and American banks.

Such a revenue structure indicates a strong dependence on interest-bearing activities, which, in an environment of fluctuating interest rates and evolving regulatory requirements, may pose risks to the sector's stability and long-term profitability. The relatively lower share of operating (non-interest) income suggests insufficient diversification of revenue sources, thereby limiting banks' resilience to market shocks. Therefore, despite the stable growth in total revenues, the banking sector of

²The 2019 column in Table 1 is shown solely as the open-ing comparator for the first 2020 horizontal change; (the analytical period 2020–2024).

the Republic of Srpska remains primarily reliant on a traditional lending-based business model. The further development of non-interest income streams and digital innovation represents an area

requiring additional strategic attention, particularly in the context of potential regulatory pressures and the ongoing transformation of the financial market.

Table 4

Income Statement of the Banking Sector of the Republic of Srpska for the Period 2020-2024

Income Statement of the Banking Sector of the Republic of Srpska									in million BAM	
DESCRIPTION	2020.		2021.		2022.		2023.		2024.	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
1. INTEREST INCOME AND SIMILAR INCOME										
a) Interest income and similar income	294.7	64.1	308.2	61.9	329.6	60.0	409.4	63.0	468.1	62.9
b) Operating income	164.9	35.9	190.0	38.1	219.6	40.0	240.8	37.0	276.2	37.1
2. TOTAL INCOME (1.a + 1.b)	459.6	100	498.2	100	549.2	100	650.2	100	744.2	100
3. EXPENSES										
a) Interest expenses and similar expenses	58.8	14.6	57.9	15.5	50.3	12.7	56.8	12.9	78.6	16.6
b) Business and direct expenses	104.2	25.9	69.8	18.7	96.5	24.3	104.3	23.6	97.9	20.6
v) Operating expenses	239.8	59.5	245.7	65.8	249.4	62.9	280.1	63.5	298.1	62.8
4. TOTAL EXPENSES (3.a + 3.b + 3.v)	402.8	100	373.5	100	396.3	100	441.2	100	474.5	100
TOTAL INCOME – TOTAL EXPENSES (2.- 4.)	56.9		124.7		152.9		209.0		269.7	
PROFIT BEFORE TAX	67.5		132.4		152.9		209.0		269.7	
LOSS	10.6		7.7		0.0		0.0		0.0	
TAXES	6.6		10.4		13.3		19.7		22.8	
Profit arising from increase in deferred tax assets and decrease in deferred tax liabilities	2.9		2.5		0.8		1.3		1.1	
Loss arising from decrease in deferred tax assets and increase in deferred tax liabilities	0.3		1.3		1.1		1.4		0.9	
NET PROFIT	60.8		122.8		139.3		189.3		247.2	
NET LOSS	8.0		7.3		0.0		0.0		0.0	

*Note*³. Author's presentation based on data from the Banking Agency of the Republic of Srpska, Reports on the Condition of the Banking Sector of the Republic of Srpska.

4.1. Capital Adequacy and Stability

The data indicate a sustained strengthening of the capital base within the banking sector. Throughout the observed period, the regulatory capital ratio ranged from 19.2% to 21.1%, which significantly exceeds the minimum regulatory requirement of 12%. In 2024, the Tier 1 capital ratio reached 20.0%, and the Common Equity Tier 1 (CET1) ratio was 19.9%, both reflecting ongoing growth and stability. The leverage ratio ranged from 9.7% to 11.5%. These margins suggest no aggregate capital shortfall in the year-end data. However, these figures should not be interpreted as evidence that all individual banks would remain adequately capitalised under adverse stress scenarios.

For contextual reference, selected EU and ECB capital indicators are provided. However, differences in supervisory scope, sample composition, definitions, and regulatory frameworks prevent direct comparison between the Republic of Srpska banking sector and ECB-supervised banks. According to the European Central Bank, the average Common Equity Tier 1 (CET1) ratio for banks under direct ECB supervision was 15.86% in the fourth quarter of 2024. This figure is presented solely for context and is not directly comparable to the Republic of Srpska ratios (ECB, 2025). Similarly, the average total capital ratio for euro area banks was 19.99% during the same period, which aligns with regulatory standards but remains below the levels observed in banks in Bosnia and Herzegovina (ECB, 2025).

³ Table 4 reports profits of profit-making banks and losses of loss-making banks separately. Accordingly, the 2020 "net profit" of BAM 60.8 million and "net loss" of BAM 8.0 million imply a net sector result of BAM 52.8 million; for 2021, BAM 122.8 million less BAM 7.3 million yields BAM 115.5 million. Table 4 uses these net sector results, which explains the apparent difference between Table 9.

Table 5

Financial Performance Indicators of the Banking Sector of the Republic of Srpska - Capital Adequacy and Stability (2020-2024)

Key Financial Performance Indicators	2020	2021	2022	2023	2024
1. Capital Adequacy and Stability	in million BAM and %				
Total Risk Exposure Amount (Risk-Weighted Assets (RWA))	5,267.2	5,252.7	5,382.6	5,668.2	6,563.4
Regulatory Capital	1,018.2	1,005.8	1,089.3	1,188.3	1,386.8
Surplus (+) / Shortfall (–) of Regulatory Capital	386.2	375.8	443.3	508.3	598.8
Regulatory Capital Ratio (min. 12%)	19.3%	19.2%	20.2%	21.0%	21.1%
Tier 1 Capital	922.9	962.0	1,043.4	1,130.0	1,309.9
Surplus (+) / Shortfall (–) of Tier 1 Capital	448.9	489.0	559.4	620.0	718.9
Tier 1 Capital Ratio (min. 9%)	17.5%	18.3%	19.4%	19.9%	20.0%
Common Equity Tier 1 (CET1) Capital	916.9	956.0	1,037.4	1,124.0	1,303.9
Surplus (+) / Shortfall (–) of Common Equity Tier 1 Capital	560.9	601.0	674.4	741.0	860.9
Common Equity Tier 1 (CET1) Ratio (min. 6.75%)	17.4%	18.2%	19.3%	19.8%	19.9%
Leverage Ratio (min. 6%)	10.4%	9.7%	10.3%	10.8%	11.5%

Note. Author's presentation based on data from the Banking Agency of the Republic of Srpska, Reports on the Condition of the Banking Sector of the Republic of Srpska.

4.2. Profitability and Efficiency

The banking sector in the Republic of Srpska demonstrated substantial profitability growth during the observed period. Return on Assets (ROA) increased from 0.6% in 2020 to 2.4% in 2024, while Return on Equity (ROE) rose from 5.1% to 17.7%.

The Net Interest Margin (NIM) followed a consistent upward trajectory, rising from 2.9% to 3.8%, which indicates an improved ability of banks to generate income from interest-bearing activities. The Cost-to-Income Ratio (CIR) declined from 65.6% in 2020 to 49.2% in 2024, signifying enhanced operational efficiency within the sector.

Table 6

Key Financial Performance Indicators of the Banking Sector of the Republic of Srpska - Profitability and Efficiency (2020-2024)

Key Financial Performance Indicators	2020	2021	2022	2023	2024
2. Profitability and Efficiency	in %				
ROA (Return on Assets)	0.6%	1.3%	1.5%	2.0%	2.4%
ROE (Return on Equity)	5.1%	10.4%	11.9%	14.9%	17.7%
NIM (Net Interest Margin) – net interest income / average net assets	2.9%	2.8%	3.0%	3.6%	3.8%
Operating income / average net assets	2.0%	2.1%	2.3%	2.5%	2.7%
CIR (Cost-to-Income Ratio) – operating expenses relative to operating income	65.60%	62.15%	55.78%	52.23%	49.22%

Note. Author's presentation based on data from the Banking Agency of the Republic of Srpska, Reports on the Condition of the Banking Sector of the Republic of Srpska.

For contextual purposes, selected profitability indicators for ECB-supervised banks are also reported, but the comparison is descriptive and non-harmonized. According to data from the European Central Bank, the average ROA of banks under direct ECB supervision amounted to 0.67% in the fourth quarter of 2024, while the average ROE stood at 9.54% (ECB, 2025). The net interest margin of European banks ranged between 1.8% and 2.5% during the same period, whereas the average Cost-to-Income Ratio (CIR) was 55%, reported here as contextual information rather than as evidence of a relative performance ranking.

4.3. Credit Risk

Data show that credit risk in the banking sector of the Republic of Srpska remained stable during the observed period, with improvements in specific segments. The Non-Performing Assets (NPA) ratio ranged from 2.1% to 3.1%, indicating a moderate level of credit risk exposure. Similarly, the Non-Performing Loans (NPL) ratio fluctuated between 3.6% and 5.2%, suggesting that risk exposure was effectively managed.

Coverage of NPA and NPL by Expected Credit Loss (ECL) provisions exhibited a slight downward trend during the observed period. For instance, the NPA coverage ratio declined from 81.5% in 2020 to 71.1% in 2024, while ECL coverage of total assets decreased from 4.0% to 2.9%. Similarly, the NPL coverage ratio fell from 80.8% to 71.4%, and ECL coverage of total loans declined from 6.5% to 4.9%. These trends indicate that, although banks maintain substantial reserves for potential losses, the declining coverage ratios require ongoing monitoring.

The NPL-change indicator recorded a slight increase during the observed period, rising from -1.8% in 2020 to 0.4% in 2024. However, this level remains consistent with a sound loan portfolio, with only a modest increase in the final year. The Texas coefficient, as defined by ABRS (gross NPL divided by the sum of balance-sheet capital and ECL for NPL), declined from 22.3% in 2020 to 15.0% in 2024, reflecting an improved capital and provision cushion relative to NPLs.

Overall, the data confirm that credit risk in the banking sector of the Republic of Srpska remains controlled, with stable NPA and NPL ratios and relatively high, though gradually declining, provision coverage. The sector maintains the quality of its loan portfolio, but ongoing monitoring of loss coverage is essential to ensure long-term financial stability. In the European Union, the average NPL ratio in the euro area amounted to 2.9% in the fourth quarter of 2024, while the average coverage of NPLs by ECL provisions stood at 73% (ECB, 2025). These figures are presented only as contextual information because the supervisory perimeter, sample, definitions, and reporting context are not fully harmonized; they are therefore not used to rank the Republic of Srpska banking sector or to infer resilience. Credit risk in the banking sector of the Republic of Srpska, as reflected in NPA/NPL ratios and relatively high provisioning coverage, remains at an acceptable level. A comparative analysis with EU banks indicates that the sector demonstrates a competitive capacity for credit risk management. Nevertheless, continuous monitoring of provisioning coverage and loan portfolio quality remains essential for preserving long-term financial stability.

Table 7*Key Financial Performance Indicators of the Banking Sector of the Republic of Srpska - Credit Risk (2020-2024)*

Indicator (%)	2020	2021	2022	2023	2024
NPA ratio	3.10	2.20	2.10	2.10	2.20
NPA coverage with ECL	81.50	81.90	74.60	76.10	71.10
ECL / total assets	4.00	3.30	2.90	3.10	2.90
NPL ratio	5.20	4.00	3.70	3.60	3.70
NPL coverage with ECL	80.80	81.60	73.50	75.60	71.40
ECL / total loans	6.50	5.70	5.00	5.20	4.90
NPL change / relevant gross performing loans	-1.80	-1.10	-0.20	0.10	0.40
Texas coefficient	22.30	17.40	15.50	15.00	15.00

*Note*⁴. Author's presentation based on data from the Banking Agency of the Republic of Srpska, Reports on the Condition of the Banking Sector of the Republic of Srpska.

The aggregate credit-risk indicators support a limited conclusion: there is no evidence of widespread deterioration across the 2020 to 2024 period. However, the observed increase in the NPL-change indicator and the decline in coverage ratios in 2024 indicate a need for enhanced monitoring. These findings do not confirm the absence of concentrated or institution-specific credit risk.

4.4. Liquidity Risk

An examination of liquidity risk indicators for the banking sector of the Republic of Srpska during the five-year period from 2020 to 2024 indicates overall stability in the sector's liquidity position. Observed fluctuations are primarily attributable to changes in interest rates and variations in deposit inflows from both households and the corporate sector.

The Liquidity Coverage Ratio (LCR) consistently exceeded the regulatory minimum requirement of 100% throughout 2020 to 2024. The highest LCR was recorded in 2023 at 236.1%,

with subsequent years ranging from 200.30% to 221.30%. The Net Stable Funding Ratio (NSFR), introduced into the liquidity regulatory framework in 2021, measures the ratio of available stable funding to required stable funding, ensuring that stable assets are financed through stable sources such as appropriate liability and capital components. During the observed period, the NSFR ranged from 161.10% to 168.2%, significantly surpassing the prescribed minimum of 100%. The ratio of liquid assets to net total assets fluctuated between 22.9% and 28.7%, peaking in 2021, followed by a slight decline and subsequent stabilization at approximately 25-26%.

The LCR consistently remained above the 100% minimum, increasing from 200.3% in 2020 to 211.6% in 2024, with a peak of 236.1% in 2023. The NSFR was 162.6% in 2021 and 161.1% in 2024. These ratios indicate regulatory compliance at aggregate reporting dates; however, they do not necessarily reflect resilience to a confidence shock.

⁴ ABRS definitions are used. "NPL change indicator" is the increase/decrease in NPL relative to the comparative period over the relevant gross performing-loan base. Texas coefficient = gross NPL / (balance-sheet capital + ECL for NPL). For NPA, NPL and ECL-coverage indicators, the ABRS-reported definitions were applied consistently across the available 2020–2024 year-end series; no reclassification or imputation was performed.

Table 8

Key Financial Performance Indicators of the Banking Sector of the Republic of Srpska - Liquidity and Financial Stability (2020-2024)

Key Financial Performance Indicators	2020	2021	2022	2023	2024
4. Liquidity and Financial Stability	in %				
LCR (Liquidity Coverage Ratio) (min ≥ 100%)	200.30%	202.30%	221.30%	236.10%	211.60%
NSFR (Net Stable Funding Ratio) (min ≥ 100%)	-	162.60%	167.20%	168.2%	161.10%
Liquid Assets / Net Assets*	22.90%	28.70%	27.40%	25.70%	25.80%
Liquid Assets / Short-Term Financial Liabilities*	33.80%	40.70%	38.70%	38.70%	37.70%
Short-Term Financial Liabilities / Total Financial Liabilities	77.40%	80.00%	80.90%	76.70%	79.50%
Loans / (Deposits and Borrowings)	76.40%	69.70%	69.80%	71.60%	74.20%

Note. Author's presentation based on data from the Banking Agency of the Republic of Srpska, Reports on the Condition of the Banking Sector of the Republic of Srpska⁵.

An examination of the ratio of liquid assets to short-term liabilities demonstrates that banks have maintained sufficient liquid assets to cover a substantial portion of their short-term obligations, despite a slight decline observed during 2023-2024. The highest value was recorded in 2021 (40.7%), after which the indicator followed a moderate downward trend. Short-term financial liabilities represented between 77.4% and 80.9% of total financial liabilities throughout the observed period, reaching 79.5% in 2024. While the relatively high proportion of short-term liabilities in total liabilities may indicate potential liquidity risk, this exposure is mitigated by consistently high levels of the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR).

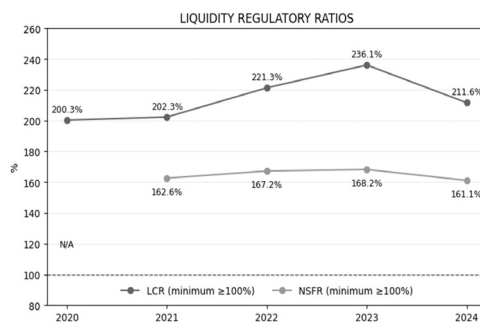
The liquidity of the banking sector in the Republic of Srpska, measured by the ratio of gross loans to deposits plus borrowed funds, ranged from 69.7% to 76.4% during the observed period, reaching 74.20% as of 31 December 2024. In comparison, the European Union average Liquidity Coverage Ratio (LCR) exceeded 160% during the same period, according to European Banking Authority (EBA) data (European Banking Authority, 2024). The banking sector of the Republic of Srpska thus recorded significantly higher levels.

Short-term financial liabilities accounted for 77.4% to 80.9% of total financial liabilities during the period, and 79.5% in 2024. This high contractual short-term share is considered a warning signal re-

garding funding structure. However, it is not inconsistent with a large household-deposit base, as retail deposits may remain behaviourally stable despite being contractually short-term. Due to the lack of detailed aggregate data on depositor concentration, insured versus uninsured balances, behavioural maturity, and potential outflows under stress, this analysis does not infer confidence-shock resilience based solely on high LCR or NSFR values.

Figure 1

Liquidity Trends in the Banking Sector of the Republic of Srpska (2020-2024), as Measured by the LCR and NSFR Indicators



Note. Author's presentation based on data from the Banking Agency of the Republic of Srpska, Reports on the Condition of the Banking Sector of the Republic of Srpska⁶.

⁵ NSFR is reported as N/A for 2020 because comparable supervisory reporting was not yet available; ABRS required reporting from 31 December 2021 and application of the 100% minimum from 31 December 2022.

⁶ Note. NSFR for 2020 is unavailable and is shown as N/A; no line is drawn from a zero value.

4.5. Sustainability of Growth

The data demonstrate a consistent expansion of the banking sector during 2020–2024. Total assets, deposits, and loans all increased, and both average capital and net profit exhibited substantial growth.

Household deposits continued to represent a significant component of sector funding. These trends collectively indicate an expansion in business volume. The implications for financial stability are evaluated in conjunction with capital, liquidity, and credit-risk indicators in the following analysis.

Table 9

Key Financial Performance Indicators of the Banking Sector of the Republic of Srpska - Growth Sustainability (2020-2024)

Key Financial Performance Indicators	2020	2021	2022	2023	2024
5. Growth Sustainability and Market Position	in million BAM and %				
Total (Net) Assets of the Sector	8,508.6	9,551.3	9,757.2	10,030.6	10,855.8
Total Risk Exposure Amount (TREA)	5,267.2	5,252.7	5,382.6	5,668.2	6,563.4
Credit Risk	4,525.5	4,738.0	4,850.4	5,088.5	5,921.3
Market Risk (Foreign Exchange Risk)	94.9	70.1	54.8	31.4	7.7
Operational Risk	646.8	444.7	477.4	548.3	634.3
Total Deposits	6,515.2	7,498.6	7,595.2	7,740.1	8,354.2
Share of the Household Sector in Total Deposits	59.20%	55.70%	53.80%	59.30%	60.7%
Total Loans	5,493.8	5,705.1	5,792.9	6,056.5	6,695.2
Net Profit	52.8	115.5	139.3	189.3	247.2
Average Net Assets	8,267.4	9,088.9	9,405.8	9,691.7	10,363.3
Average Total Capital	1,028.4	1,115.4	1,169.2	1,272.2	1,399.2

*Note*⁷. Compiled by the author based on data from the Banking Agency of the Republic of Srpska, Reports on the Condition of the Banking Sector of the Republic of Srpska.

4.6. Consolidated Assessment of Supervisory Indicators

Table 10 presents a consolidation of the principal indicators utilized in the assessment and clearly differentiates between binding regulatory benchmarks and the actual indicator values. Collectively, the consolidated indicators for the 2020–2024 period suggest a favourable financial position for the banking sector of the Republic of Srpska. Furthermore, the aggregate indicators at the end of 2024 do not signal immediate, broad-based financial distress at the sector level. Capital and

liquidity indicators remain above regulatory minimums, and trends in profitability, efficiency, and asset quality generally demonstrate improvement relative to the beginning of the observed period. However, lower non-performing loan (NPL) coverage, a positive NPL-change indicator in 2024, and a high proportion of short-term financial liabilities are factors that require ongoing monitoring. The overall assessment highlights the necessity of preventive supervision and timely intervention to address potential vulnerabilities before recovery or financial restructuring measures become required.

⁷“Foreign-exchange risk” is a component of market-risk exposure in the ABRS presentation and is not used here as a synonym for total market risk. Net profit in this table is the net sector result (profit of profitable banks less losses of loss-making banks).

Table 10*Consolidated Supervisory Indicator Dashboard, 2020–2024: Benchmarks, Direction of Change, and 2024 Assessment*

Indicator	2020	2021	2022	2023	2024	Benchmark	Direction 2020–2024	2024 assessment
Regulatory capital ratio (%)	19.3	19.2	20.2	21.0	21.1	≥12%	↑	Above regulatory minimum
CET1 ratio (%)	17.4	18.2	19.3	19.8	19.9	≥6.75%	↑	Above regulatory minimum
Leverage ratio (%)	10.4	9.7	10.3	10.8	11.5	≥6%	↑	Above regulatory minimum
ROA (%)	0.6	1.3	1.5	2.0	2.4	No regulatory minimum	↑	Improved profitability
ROE (%)	5.1	10.4	11.9	14.9	17.7	No regulatory minimum	↑	Improved profitability
CIR (%)	65.60	62.15	55.78	52.23	49.22	Analytical; lower is better	↓	Improved efficiency
NPL ratio (%)	5.2	4.0	3.7	3.6	3.7	Analytical	↓	Lower than 2020; slight rise vs 2023
NPL coverage (%)	80.8	81.6	73.5	75.6	71.4	Analytical	↓	Warning signal: lower coverage
NPL change indicator (%)	-1.8	-1.1	-0.2	0.1	0.4	Analytical	↑	Warning signal: positive value
Texas coefficient (%)	22.3	17.4	15.5	15.0	15.0	Analytical; lower is better	↓	Improved vs 2020
LCR (%)	200.3	202.3	221.3	236.1	211.6	≥100%	↑	Above regulatory minimum
NSFR (%)	N/A	162.6	167.2	168.2	161.1	≥100% from 31.12.2022	N/A	Above minimum; 2020 not comparable
Short-term financial liabilities / total financial liabilities (%)	77.4	80.0	80.9	76.7	79.5	Analytical; no regulatory minimum	↑	Funding-structure warning: high share

Note. Author's compilation based on ABRs year-end reports for 2020–2024⁸.

5. Discussion

At the aggregate year-end level, capital and liquidity ratios remained above applicable regulatory minima, profitability improved, efficiency strengthened, and the NPL ratio at the end of 2024 was below its 2020 level. These findings do not support the presence of immediate, broad-based sectoral distress. However, lower NPL coverage, renewed positive NPL migration, and a high proportion of short-term financial liabilities warrant preventive supervisory attention.

Capital adequacy. The results indicate that the regulatory capital ratio, Tier 1 ratio, and CET1 ratio consistently exceeded the prescribed minimum levels,

confirming the strong capital position of the banking sector. This evidence supports the view that substantial capital buffers enhance loss-absorption capacity and reduce the likelihood that adverse shocks will lead to restructuring episodes. Comparisons with banks under direct ECB supervision further reinforce this interpretation. However, the literature cautions that strong capital ratios alone do not eliminate all future vulnerabilities.

This interpretation aligns with the literature, which identifies capital and profitability as key mechanisms for loss absorption and internal capital generation, while also emphasizing the significance of liquidity structure, asset quality, governance, and supervisory action in determining vulnerability (Ca-

⁸ Note: ↑ increase; ↓ decrease; N/A = unavailable/not comparable. Direction refers to the change between 2020 and 2024, except for NSFR, for which a full-period comparison is not possible because the 2020 value is unavailable. For analytical indicators without binding regulatory minima, the assessment is based on the direction and prudential interpretation of the indicator.

parusso et al., 2023; Adrian et al., 2023; Baudino et al., 2024).

Credit risk. Credit risk presents a more nuanced outcome. The available aggregate indicators do not demonstrate broad-based deterioration in credit risk during the analysed period. However, weaker coverage and a positive NPL-change indicator warrant ongoing supervisory attention. Euro-area indicators serve solely as contextual, non-harmonised reference points and are not intended to rank relative credit-risk performance. While these findings do not necessarily indicate structural weakness, they underscore the need for continuous supervisory attention to provisioning trends and loan portfolio quality.

International comparisons are provided solely for contextual purposes. Differences in supervisory perimeter, bank size, accounting definitions, macroeconomic structure, and funding composition limit direct comparability between the Republic of Srpska and ECB-supervised institutions. Consequently, observed ratios are not used to rank the domestic sector as stronger, weaker, more competitive, or fully aligned with international peers.

Collectively, the results suggest that growth in assets, deposits, loans, profit, and capital during 2020–2024 was not accompanied by material deterioration in the selected capital, liquidity, asset-quality, and profitability indicators. The aggregate indicators do not provide evidence of immediate, broad-based sectoral distress that would indicate restructuring-related concerns during the observed period. Nevertheless, the increase in total risk exposure in 2024, the predominance of credit risk, and continued reliance on short-term funding highlight the necessity for ongoing and preventive supervision to maintain financial stability and resilience.

The liquidity findings require a balanced interpretation. While a predominantly deposit-funded system can offer a granular funding base, contractual short maturities and depositor concentration may still introduce rollover or confidence risk. In the absence of bank-level maturity ladders, data on insured and uninsured deposit shares, depositor concentration, and stress-outflow assumptions, the appropriate conclusion is that regulatory compliance was achieved at the reporting dates. However, there remains a

need for ongoing review of funding concentration and liquidity stress.

The empirical contribution of the analysis for the 2020–2024 period lies in the systematic assessment of trends in key indicators of the financial condition of a small, bank-centered financial system during a period marked by the pandemic shock, inflation, interest-rate adjustment, and subsequent balance-sheet growth. The results provide a transparent empirical basis for assessing financial stability and identifying potential vulnerability signals in a timely manner, underscoring the importance of continuous preventive supervision so that potential vulnerabilities can be identified and addressed before recovery or financial restructuring measures become necessary.

6. Conclusions and Implications

The selected aggregate year-end supervisory indicators do not indicate immediate or widespread financial distress in the banking sector of the Republic of Srpska at end-2024. Capital and liquidity ratios remained above regulatory minima, while profitability and efficiency improved during 2020–2024. The non-performing loan (NPL) ratio also remained below its 2020 level.

However, several indicators require increased supervisory attention. NPL coverage declined compared to 2020, the NPL-change indicator turned positive in 2023–2024, and short-term financial liabilities continued to represent a significant proportion of total financial liabilities. These factors serve as early-warning signals within the decision matrix, rather than evidence necessitating sector-wide financial restructuring.

Accordingly, the findings support the descriptive research proposition within the scope of the applied analytical framework: the selected aggregate indicators do not demonstrate a simultaneous and significant deterioration in solvency, liquidity, asset quality, and profitability that would indicate immediate and widespread financial distress at the sector level during the observed period. This conclusion does not preclude vulnerabilities at individual banks or risks that may arise under adverse macroeconomic conditions, interest rate changes, liquidity pressures, or deterioration in credit portfolio quality.

6.1. Theoretical Implications

The principal contribution of this paper is the contextual empirical assessment of aggregate supervisory indicators for the banking sector of the Republic of Srpska during 2020–2024. The analysis organizes recent supervisory evidence for a relatively under-researched, small, bank-centered financial system across five analytical dimensions, providing a structured descriptive framework for interpreting aggregate warning signals. The study clarifies the conceptual distinctions among observed stability, vulnerability, preventive supervision, recovery, and financial restructuring. Empirical findings indicate that the selected aggregate indicators at end-2024 do not signal immediate, broad-based financial distress at the sector level. However, declining NPL coverage, a positive NPL-change indicator, and a high share of short-term financial liabilities are specific signals warranting enhanced supervisory monitoring. The study also provides a consistent 2020–2024 sector-level data series and a transparent benchmark and decision matrix.

6.2. Managerial, and Policy Implications

For supervisory authorities, the most relevant triggers include deterioration in asset quality and provisioning coverage, reduced headroom above capital or liquidity requirements, and evidence of funding concentration. A sustained increase in the NPL-change indicator combined with declining coverage should prompt enhanced portfolio monitoring and a more detailed provisioning review. A significant decline in the liquidity coverage ratio (LCR) or net stable funding ratio (NSFR), or increased funding concentration, should prompt targeted liquidity sensitivity analysis and stress testing. Breaches or near-breaches at individual institutions require bank-specific recovery and supervisory measures, which cannot be inferred from sector averages.

For bank management, the findings support maintaining capital headroom, enhancing forward-looking credit risk monitoring, regularly validating expected credit loss (ECL) assumptions, and diversifying sources of stable funding. High aggregate LCR and NSFR should be supplemented by internal monitoring of depositor concentration, behavioral maturity, uninsured balances, and contingency funding capacity.

For economic policymakers and monetary or financial authorities, the results support further development of macroprudential and data infrastructure that links bank-level exposures with macroeconomic conditions. Improved availability of quarterly and institution-level indicators would facilitate direct assessment of concentration, real estate and sovereign exposures, interest rate risk, currency risk, interconnectedness, and credit growth relative to economic activity.

These recommendations are based on the observed evidence and are preventive in nature. They should be viewed as operational steps for identifying a transition from standard monitoring to enhanced supervision, rather than as a call for sector-wide restructuring.

6.3. Limitations and Suggestions for Future Research

The main limitation of the study is its reliance on aggregated sector-level data and publicly available official reports, which do not allow for insight into differences across individual banks, ownership structures, governance arrangements, or supervisory assessments. Sector averages can conceal heterogeneity across banks, concentrated exposures, funding concentration, or institution-specific weaknesses, while year-end data can conceal intra-year volatility. The analysis is descriptive and non-causal and does not include bank-level dispersion, stress testing, sensitivity analysis, forward-looking scenarios, or a full set of macroeconomic and macroprudential indicators. In addition, the observed period reflects specific macroeconomic circumstances and may not fully capture longer-term trends.

Comparisons with ECB-supervised banks are only contextual because samples, reporting dates, and definitions are not fully harmonized. Regulatory definitions and reporting requirements also evolved during the period, most visibly for NSFR, which is therefore reported as N/A for 2020. Favorable historical ratios cannot be used to infer resilience directly.

Future research could therefore use bank-level panel data, stress-testing approaches, and comparative analysis with other banking sectors in Southeast Europe. It would also be useful to examine more closely the relationship between early warning indicators, supervisory actions, and the timing of restructuring needs.

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Biography

Dragana Vujičić-Stefanović is a PhD candidate at the Faculty of Economics, University of Banja Luka, where she serves as a Senior Assistant specializing in International Economics. She earned a master's degree in economics from the same institution. Her research focuses on banking, business finance, risk management, and international economics. She possesses substantial professional experience in the banking sector, including extensive managerial roles and membership on a bank's management board. She has authored numerous scientific and professional papers in these and related fields, published in both national and international scientific journals and conference proceedings.

**Показатељи финансијске стабилности банкарског сектора Републике Српске:
дескриптивна оцјена сигнала за реструктурирање**

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Кључне ријечи:
банкарски сектор,
показатељи финансијске стабилности,
финансијско реструктурирање,
супервизорски подаци,
сигнали раног упозорења

JEL класификација: M21, G21, G32,
G34

У раду се даје дескриптивна оцјена показатеља финансијске стабилности и реструктурирања банкарског сектора Републике Српске за период 2020–2024. године, на основу агрегатних супервизорских података са краја године које објављује Агенција за банкарство Републике Српске. У складу са домаћим прописима о реструктурирању банака и међународним стандардима, финансијско реструктурирање дефинише се као скуп ванредних мјера усмјерених на очување критичних функција и финансијске стабилности када уобичајене супервизорске мјере и мјере опоравка нису довољне. Истраживање примјењује дескриптивну и компаративну анализу, укључујући хоризонтални и вертикални приступ, ради оцјене кретања показатеља адекватности капитала, профитабилности, ефикасности, квалитета активе, ликвидности и раста, уз поређење са релевантним регулаторним и аналитичким референтним вриједностима. Резултати указују на високу адекватност капитала, стабилну ликвидност, побољшање профитабилности и ефикасности те смањење учешћа неквалитетних кредита са 5,2% у 2020. на 3,7% у 2024. години. Међутим, смањење покривености неквалитетних кредита, њихов благи раст у 2024. години и значајно учешће краткорочних финансијских обавеза указују на потребу за континуираним супервизорским опрезом. Агрегатни подаци не указују на непосредне, широко распрострањене потешкоће у банкарском сектору крајем 2024. године. Ипак, у условима повећане макрофинансијске неизвјесности, континуирано праћење и благовремене превентивне мјере неопходни су за отклањање рањивости прије него што се јави потреба за мјерама опоравка или реструктурирања. Истраживање пружа транспарентну, контекстуално утемељену оцјену новијих супервизорских података у малом финансијском систему у којем доминирају банке. Будући да се анализа заснива на агрегатним подацима на нивоу сектора, резултати не искључују рањивости појединачних банака нити потврђују отпорност у неповољним стресним условима.

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