

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA



**Report on the Banking Supervision
and the Banking System
of the Republic of Macedonia in 2002**

Skopje, May 2003

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I. Activities of the Banking Supervision in 2002

1.1. Changes and promotion of the regulatory framework of the banking supervision

In 2002, the National Bank of the Republic of Macedonia continued performing the activities directed towards further promoting and strengthening of the regulatory framework for prudent banking operations. Therefore activities were performed for further compliance with and implementation of the international supervisory standards, as well as incorporation of certain legal solutions arising from the specific conditions and circumstances in which the Macedonian banks operate.

More important amendments to the legal framework regulating the banking supervision and the banking operations in 2002 are the following:

- the new Law on the National Bank of the Republic of Macedonia; and
- the amendments to the Banking Law.

The key systemic laws regulating the operations of the banking system in the Republic of Macedonia, such as the Banking Law, the Law on Foreign Exchange Operations and the Law on Payment Operations were adopted in the previous years. These laws had certain influence on the role and the functions of the National Bank of the Republic of Macedonia, imposing the need of compliance of the Law on the National Bank of the Republic of Macedonia with these laws and the other regulations. On the other hand, the signing of the Stabilization and Association Agreement between the Republic of Macedonia and the European Union imposed the obligation for adjusting the domestic legislation to the legislation of the European Union member states.

The new Law on the National Bank of the Republic of Macedonia was adopted in early 2002, thus providing a ground for structuring the functions and the organization of the Central Bank in accordance with the legal solutions of the European Union member states.

Few significant aspects may be distinguished in the new Law on the National Bank of the Republic of Macedonia, as follows:

- the price stability becomes a primary goal of the National Bank of the Republic of Macedonia;
- strengthening the functional, institutional and the financial sovereignty and independence of the National Bank of the Republic of Macedonia, particularly from the aspect of conducting the monetary policy. In order to avoid the political influence, the new Law does not allow members of political parties to become members of the Council of the National Bank of the Republic of Macedonia, while two of them shall be professionally engaged in the National Bank of the Republic of Macedonia. It strengthens the professionalism, the responsibility and the transparency in the operations of the bodies of the National Bank of the Republic of Macedonia;
- further strengthening of the supervisory role of the National Bank of the Republic of Macedonia, by expanding the range of corrective measures that could be undertaken against the banks or the savings houses in the Republic of Macedonia;
- the terms and criteria for placing the foreign exchange reserves have been strengthened, considering the safety, liquidity and profitability;
- the competence of the National Bank of the Republic of Macedonia in the conduct of payment operations is clearly defined;
- larger transparency in the operations of the National Bank of the Republic of Macedonia, by introducing the obligation for verification and assessment of the annual accounts of the National Bank of the Republic of Macedonia by an authorized audit company. The National Bank of the Republic of Macedonia publishes the supervisory report in the media;
- the possibilities for the National Bank of the Republic of Macedonia to extend loans or credits to the Government are limited;

- the tasks, the responsibilities and the organizational layout of the internal audit within the National Bank of the Republic of Macedonia are defined in more details.

At the beginning of 2002, amendments were made to the Banking Law. The most essential amendments to the Law are related to the authorization of the National Bank of the Republic of Macedonia to check the source of funds for each payment of capital and for each change in the ownership structure of the bank's shares. This amendment was made within the framework of the scope of activities the Government undertook, for prevention of the possible forms of money laundering through the banking system of the Republic of Macedonia. Also, this amendment was made in order to overcome the identified problems in the application of the provision of Article 11 of the Banking Law according to which the National Bank of the Republic of Macedonia assesses the integrity of each potential entity, on the basis of which it discusses the application for issuing an approval only when acquiring, gradually or at once, shares with total cumulative, nominal amount of 10%, 20%, 33%, 50% and 75% of the total number of shares bearing managing right.

On the basis of this change, the National Bank of the Republic of Macedonia acquired an authorization to check the source of funds paid in as banks' capital, irrespective of the amount of payment, i.e. the changes in the ownership structure, which lead to larger transparency of the ownership structure.

A Decision on the documentation necessary for issuing approvals was adopted on the basis of the amendments to the Banking Law, regarding the documentation enclosed for each payment of capital and for each change in the ownership structure of the banks' shares and the criteria for assessment of the source of funds, specifying the necessary documentation on the basis of which the source of funds is assessed (audit report, annual report, credit, loan, gift and other evidence for the funds used for purchasing or acquiring shares). The National Bank of the Republic of Macedonia verifies the adequacy of the submitted evidence for the source of funds, and if it is not submitted or is inadequate, the National Bank of the Republic of Macedonia is required to notify the Anti-Money Laundering Department. The shares acquired contrary to the legal regulations shall not bear voting right, while the persons who acquired such shares may not be members of the management bodies of the bank.

Other amendments to the Banking Law pertain to the following:

- possibility of transforming a savings house into a bank;
- setting standards for preparing and implementing security in the information system, on the basis of which the banks' information systems adequacy is assessed;
- specifying cases of allowed disclosure of data which according to the regulations are deemed confidential data on the bank;
- more precise definition of the terms that are to be met by the members of the Risk Management Board, who are required to be with tertiary education and to have an experience of at least three years in the area of finance or banking; and
- strengthening the method of carrying out the supervisory function by the National Bank of the Republic of Macedonia.

The enforcement of the new decisions regulating the basic supervisory standards started at the beginning of 2002, such as: banks' capital adequacy calculation, credit risk assessment by establishing a methodology for classification of the banks' risk assets, identification, measurement and monitoring of the credit concentration limits, etc. These by-laws were adopted in 2001, however, due to their complexity, and since their application required adequate changes in the internal systems and the software applications in the banks, an adjustment period for the banks was envisaged, and therefore, their enforcement started at the end of the first quarter of 2002.

Also, in March 2002, the Supervisory Circular no. 5 – Identification, measurement, monitoring and control of the country risk was adopted, with which the National Bank of the Republic of Macedonia continued the practice of preparing supervisory circulars which are

guidelines for providing more effective manner of fulfilling the set supervisory standards, i.e. fulfillment of the established legal obligations. This circular provides guidelines with regard to the country risk assessment by the bank, for defining the bank's exposure to a certain country, the establishment systems for monitoring and control of the exposure towards certain countries, for setting the potential losses arising from the exposure towards a particular client – foreign person and for defining the basic elements of the country risk management policy.

1.2. Supervisory function of the National Bank of the Republic of Macedonia

The layout of the National Bank of the Republic of Macedonia supervisory function is based on the Law on the National Bank of the Republic of Macedonia, the Banking Law, as well as other by-laws. This function is performed through:

- Licensing, i.e. issuing licenses and approvals;
- Supervision, i.e. examination of the operations of the banks and the savings houses; and
- Undertaking corrective measures.

1.2.1. Licensing function

In 2002, neither applications for licenses of new banks and savings houses, nor applications for issuing licenses for status changes on any ground were submitted to the National Bank of the Republic of Macedonia.

According to Article 28-a of the Law on the Foreign Exchange Operations and the Decision on the procedure, the necessary documentation and the criteria for obtaining a license and the commencement of performing the activity of money transfer, the determination of the manner and the terms of operating and undertaking measures at the end of 2002, an application for obtaining a license for performing the activity of money transfer was filed. The procedure for processing this application is underway.

On the basis of the provisions of Article 25 of the Banking Law, which provides for issuing approvals by the National Bank of the Republic of Macedonia on various bases and the provisions of Article 26 of the Banking Law, which stipulates verification of the submitted proof of the source of funds for each payment of capital and each change in the ownership structure of the banks, the following activities were carried out in 2002:

- out of 21 applications for issuing prior approval for appointing an executive body, an approval was granted for 20 applications, and 1 was withdrawn;
- out of 6 applications for issuing prior approval for changing the ownership structure of shares with voting right (2 of which were carried over from 2001), an approval was granted for 5 applications, while 1 was granted a partial approval;
- out of 18 applications for issuing prior approval for statutory change, an approval was granted for 16 applications, while as of December 31, 2002, the procedure for processing 2 applications was still underway;
- prior approval was granted for 2 applications for change in the name of a bank (Kreditna Banka AD Skopje changed its name into Alpha Banka AD Skopje, while Euroswiss Banka AD Skopje changed into Eurostandard Banka AD Skopje);
- the application for issuing prior approval for opening branch office abroad and the application for issuing prior approval for opening representative office in the country were rejected as incomplete by a Decision;
- prior approval was granted for 4 applications for acquiring a right to have an insight in an on-site supervision report (1 of which was submitted in 2001);
- out of 2 applications for issuing prior approval for extending license for founding and performing other financial activities, only one application was granted an approval;
- out of 24 notifications, in accordance with Article 26 of the Banking Law, the National Bank of the Republic of Macedonia affirmatively replied to 7 notifications, while as of December 31, 2002, 17 were undergoing a processing procedure.

1.2.2. Supervision of the banks and the savings houses operations

The National Bank of the Republic of Macedonia performs the supervisory function according to the existing regulation (Law on the National Bank of the Republic of Macedonia, the Banking Law), the Decision on the manner of conducting supervision of the banks and the procedure for undertaking measures for removing the identified irregularities, as well as according to other regulations. The supervision of the operations of the banks and the savings houses is conducted through:

- off-site supervision of the banks' and savings houses' operations, by analyzing and verifying the reports submitted to the National Bank of the Republic of Macedonia;
- on-site supervision of the operations of banks and savings houses, consisted of direct insight in the documentation, their policies and procedures when performing the everyday business activities, as well as in the systems for identification, monitoring, measuring and control of the risks involved in the operations of the institution. Depending on the scope, or the subject of the supervision, the on-site supervision may be full-scope or targeted.

The basis of the supervision lies in the assessment of the risk level of the overall operations of the banks and the savings houses and assessment of the compliance of their operations with the supervisory standards and regulations. In 2002, the full-scope on-site examinations were supplemented with the assessment of the compliance of the operations of the banks and the savings houses with the Anti-Money Laundering Law.

In 2002, the National Bank of the Republic of Macedonia carried out total of 50 on-site examinations, 21 of which full-scope and 29 targeted. Full-scope on-site examinations were carried out in 13 banks and 8 savings houses. Also, 28 targeted examinations of the operations of the banks were carried out, and one targeted examination of the operations of 1 savings house. The targeted examinations were carried out in order to check the manner of fulfilling the corrective measures imposed by the Governor of the National Bank of the Republic of Macedonia, to verify certain findings ascertained through the off-site supervision of the operations of the banks and the savings houses, as well as to check certain segments of the operations of the banks and the savings houses, such as the credit portfolio and the ownership structure.

The full-scope on-site supervision is carried out according to the CAMELS rating system, which covers analysis and assessment of the capital adequacy, assets quality, management, earnings, liquidity and the market risk involved in the banks' operations. The composite rating of the institution, ranging from "1" to "5" is determined on the basis of the carried out on-site examination. The composite rating indicates the risk level of the institution, the weaknesses in its operations, the risk management and the degree of compliance with the regulations. The rating "1" is the highest rating denoting safe and stable operations of the bank, whereas the rating "5" is the lowest rating denoting high-risk operations of the banks and requires the highest level of supervisory action.

Table 1

Structure of the banks and the savings houses in accordance with their composite rating

| Composite rating | 31.12.2001 | | 31.12.2002 | | Comparison 2002/2001 | |
|------------------|------------|----------------|------------|----------------|----------------------|----------------|
| | banks | savings houses | banks | savings houses | banks | savings houses |
| 1 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2 | 6 | 4 | 6 | 5 | 0 | 1 |
| 3 | 6 | 7 | 3 | 8 | -3 | 1 |
| 4 | 6 | 3 | 8 | 3 | 2 | 0 |
| 5 | 0 | 0 | 2 | 0 | 2 | 0 |
| No rating | 3 | 3 | 2 | 1 | -1 | -2 |
| Total | 21 | 17 | 21 | 17 | | |

The comparative analysis of the banks' structure by their composite ratings indicates that in 2002 the number of banks with composite rating "4" and "5" increased by 2 banks per each rating category, at the expense of the decrease in the number of the banks with composite rating "3", as well as reduction in the number of banks which remained non-assessed at the end of 2001. Also, in the analyzed period, the total number of savings houses with composite rating "2" and "3" increased by 1 savings house per each rating category, at the expense of the number of savings houses which were not assessed at the end of 2001.

Analyzing by banks (the operations of which were subject to full-scope examinations) a conclusion could be reached that the composite rating of 3 banks deteriorated from "3" to "4" and "5", and one bank with composite rating "4" was given a rating "5".

In the analyzed period, two savings houses registered improvement in their composite rating (from "3" to "2"), whereas the composite rating of one savings house deteriorated from "2" to "3".

The on-site examinations carried out in 2002, as well as the permanent off-site supervision of the operations of the banks and the savings houses affirm the ascertained problems in the operations of the banks and the savings houses in the previous period. Within the range of risks the banks and the savings houses are exposed to in their operations, the credit risk remains dominant. This risk is manifested through the relatively high percentage of placements bearing higher degree of risk; the credit concentrations, that is the high credit exposure of the banks to individual entities; high percentage of non-interest bearing assets due to the accumulated non-performing placements in the banks' balance sheets, as well as due to the mortgages foreclosed by the banks, that could not be sold on the real estate market in the Republic of Macedonia.

Besides the credit risk, other risks, primarily the liquidity and the operational risk significantly affect the performances of the banks and the savings houses, while a special problem represent the identified insufficient transparency of the shareholder structures in some banks in the Republic of Macedonia. These risks occur as a result of the weak corporate governance systems in several banks, inadequate internal control systems, inappropriate functioning of the internal audit departments, unsuitable written policies and procedures for managing the risks involved in the operations of the banks and the savings houses, as well as their improper implementation. Such conditions are affected by the unfavorable external factors, primarily the political and security situation typical for the preceding years, the still uncompleted reforms of the real sector, as well as the problems in the collection of the banks' claims, due to the inefficient judiciary system.

Alongside the supervision of the banks and the savings houses, the National Bank of the Republic of Macedonia conducts inspection of the application of the regulations in the area of foreign exchange and Denar operations. Total of 63 inspections were carried out in 2002. Out of them, 11 inspections covered the overall foreign exchange operations of the banks, 8 inspections covered targeted segments of the foreign exchange operations of the banks, while 41 inspections were carried out in exchange offices.

Most frequently, the enforcement of the regulations setting forth the manner of conducting the payment operations and the international credit operations, the daily foreign exchange position, fulfillment of the terms and the manner of conduction exchange operations, etc., were subject to partial inspections in the banks.

1.2.3. Measures imposed against banks and savings houses in 2002

Within its legal authorizations, the National Bank of the Republic of Macedonia undertakes corrective actions against banks and savings houses in which illegalities and irregularities were identified, in order to preserve the stability and the safety of the banks and the savings houses and the stability and the safety of the overall banking system.

In 2002, the National Bank of the Republic of Macedonia adopted 26 decisions with corrective measures against 14 banks and 2 savings houses and filed 22 requests for initiating misdemeanor procedure against 8 banks, 1 savings house and 12 exchange offices, as follows:

- measure for introduction of pre-rehabilitation procedure was imposed against 1 bank;
- measure for ban on lending to legal entities and prolonging already extended credits was undertaken against 2 banks;
- measure for ban on extending credits and operating with placements other than placements in securities based on sale of deposits of the National Bank of the Republic of Macedonia was imposed against 1 bank;
- measure for ban on lending to particular clients was undertaken against 1 bank;
- measure for ban on receiving savings deposits was undertaken against 2 banks;
- measure for ban on receiving new and prolonging the existing deposits from natural persons was undertaken against 1 bank;
- measure for ban on lending to clients classified in risk categories C, D and E was imposed against 4 banks;
- measure for ban on capital investments was undertaken against 2 banks;
- measure for ban on placing deposits which represent coverage based on credit exposures of third parties was imposed against 1 bank;
- measure for recapitalization was imposed against 3 banks;
- measure for verification of orders of authorized employees of the National Bank of the Republic of Macedonia was imposed against 2 banks;
- measure for cessation of payments abroad, other than payments for due liabilities based on foreign credits and convention liabilities, was imposed against 1 bank;
- measure for ban on purchase of claims was imposed against 1 bank;
- measure for ban on new uncovered off-balance sheet exposures was imposed against 1 bank;
- measure for restricting the wages of the management and the members of the Management Board was imposed against 1 bank;
- measure for restricting the representation and advertising costs was imposed against 1 bank;
- measure for excluding from the participation in the foreign exchange market was imposed against 7 banks;
- measure for compliance with the credit exposure limits was imposed against 5 banks;
- measure for compliance with the limit for the value of the property and the capital parts was imposed against 1 bank;
- action for adherence to the Decision on classification of on-balance sheet and off-balance sheet assets items of the banks and savings houses according to their risk degree was undertaken against 6 banks and 1 savings house;
- action for adherence to the Decision on determining and calculating the banks' open foreign exchange positions was undertaken against 2 banks;
- action for adherence to the Decision on supervisory standards for regulating overdue claims was undertaken against 2 banks;

Other measures: compliance with the Law on Accounting and Accounting Standards and Principles (4 banks and 1 savings house), intensification of the procedures for collection of due claims (2 banks), establishment of an Internal Audit Department (2 banks and 1 savings house), submission of an analysis for the possibility of selling the assumed assets on the basis of uncollected claims (1 bank), preparation of a plan for compliance by the Management Board (1 bank), submission of evidence for ownership of a property assumed on the basis of uncollected claims (2 banks); further development of the existing computer system (1 bank); update of the Shareholder Book (1 bank), compliance of the share of a single shareholder with the legally determined limit (1 bank), proper registration of shares in the Central Depository (1 bank), compliance of savings books with the Law on Consensual Agreement (1 savings house), submission of reports within set deadlines (6 banks and 1 savings house), submission of

specification of claims by clients (1 bank), submission of decisions of the Risk Management Board (1 bank), adjustment of the book value of own funds (1 bank) etc.

II. Banking system of the Republic of Macedonia in 2002

2.1. Structure of the banking system

In 2002, there were no changes in the number of banks and savings houses which are basic segments in the banking system of the Republic of Macedonia:

| | 2002 | 2001 |
|-------------------------|------|------|
| Banks of universal type | 21 | 21 |
| Savings houses | 17 | 17 |

Out of the total number of banks, on December 31, 2002, 18 were licensed for performing the financial activities specified in Article 45 and Article 46 of the Banking Law, while the other 3 banks were licensed to perform the financial activities provided for in Article 45 of the Banking Law stipulating the scope of activities of the banks established with capital of EURO 3,500,000¹.

At the end of 2002, the number of savings houses remained the same as at the end of the previous year, accounting for 0.97% of the total assets of the banking system. From the aspect of mobilization of the available funds of the households, as one of the major functions of the savings houses, their structural share at the level of the banking system equals 0.6%, i.e. 2.2% if only the Denar savings deposits are taken into account.

The issue on regulating the status of the savings houses, i.e. the future possibilities and perspectives of this segment of the banking system of the Republic of Macedonia remains open.

The basic structural features of the banking system of the Republic of Macedonia are analyzed from several aspects, as follows:

1. Size of the banks;
2. Ownership structure;
3. Regional structure;

2.1.1. Size of the banks

The analysis of the size of the banks was made according to five criteria:

- a. Total assets, i.e. total financial potential;
- b. Scope of operations, i.e. market share;
- c. Capital power, i.e. total amount of own funds available for the banks;
- d. Credit activity; and
- e. Deposit activity.

In line with the aforementioned criteria, the two largest banks dominate the banking system of the Republic of Macedonia, indicating certain concentration, which, according to the Herfindahl Index², is within the acceptable framework.

Thus, as of December 31, 2002, the two largest banks in the banking system of the Republic of Macedonia account for 54.1% of the total net assets. Comparing with December 31, 2001, according to this criterion, the concentration decreases by 1.7 percentage points. This is a result of the significant decline in the assets of the two largest banks in 2002, (14.4%) compared to

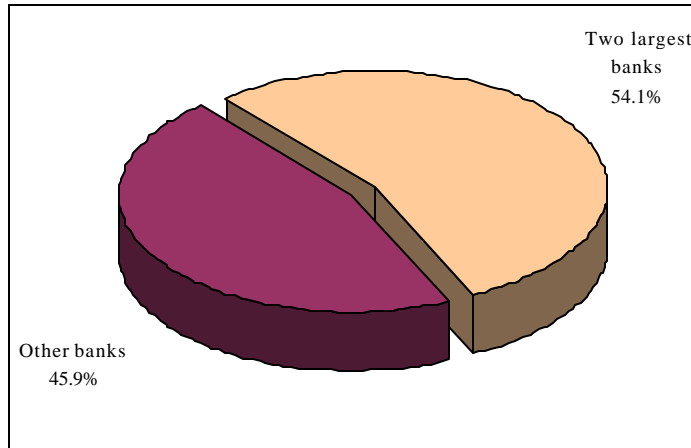
¹ On November 12, 2002, a pre-rehabilitation procedure by appointing a conservator was initiated against Export Import Banka a.d. Skopje. On January 8, 2003, the pre-rehabilitation procedure was replaced with receivership within the framework of the activities for rehabilitation of the bank. Therefore, de facto, at the end of 2002, the bank was out of the regular activities of the banking system of the Republic of Macedonia. In order to get real indicators for the structure, the activities and the performances of the banking system of the Republic of Macedonia, Export Import Banka a.d. Skopje is exempted from the further analysis in this Report.

² $H = ? (\text{assets of one bank} / \text{total assets of all banks} * 100)^2$

the fall in the total assets of the banking system, which equals 11.7% in the same period. The concentration of the assets of the banks in the Republic of Macedonia, expressed through the Herfindahl Index for 2002, refers to acceptable concentration³, which analyzed on annual basis registers a downward trend. Thus, as of December 31, 2002, the concentration in the banking system of the Republic of Macedonia amounts to 1,667 units, which is by 71 units lower compared to December 31, 2001. As of December 31, 2002, the value of the Herfindahl Index for the two largest banks equals 1,465 units, which is by 116 units less compared to the same period of the preceding year.

Chart 1

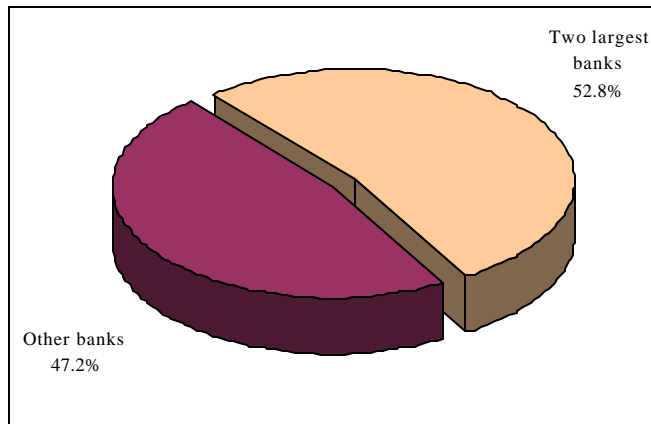
Concentration of the banking system according to the size of the total assets as of December 31, 2002



In 2002, certain decline in the concentration of the two largest banks may also be perceived from the aspect of the criteria of market share, i.e. the total volume of the on-balance sheet and off-balance sheet activities of the banks. On December 31, 2002, the share of the two largest banks equaled 52.8%, which is a decrease of 2.7 percentage points compared to the end of 2001. The lower concentration was a result of the reduced total volume of on-balance sheet and off-balance sheet activities in the two largest banks by 16.8%, while for the whole banking system in 2002, such a decrease equals 12.6%.

Chart 2

Concentration of the banking system according to the market share as of December 31, 2002

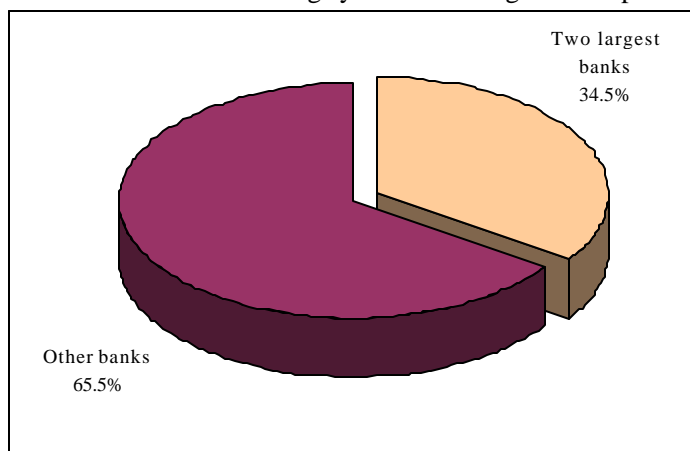


³ According to the Herfindahl if the Index ranges between 1,000 and 1,800 units, the concentration of the assets is considered acceptable.

If the capital available to the banks is taken as a comparison variable, it is ascertained that on December 31, 2002 the share of the two largest banks equaled 34.5% of the total banking system, which is by 4.9 percentage points higher, compared to December 31, 2001. The higher concentration in the two largest banks, according to the aforementioned criteria was due to the new capital infusion in the second half of 2002 by the strategic investors in one of the two largest banks. Analyzed by this criterion, the concentration in the two largest banks is not as evident as according to the previous two criteria: total assets and market share.

Chart 3

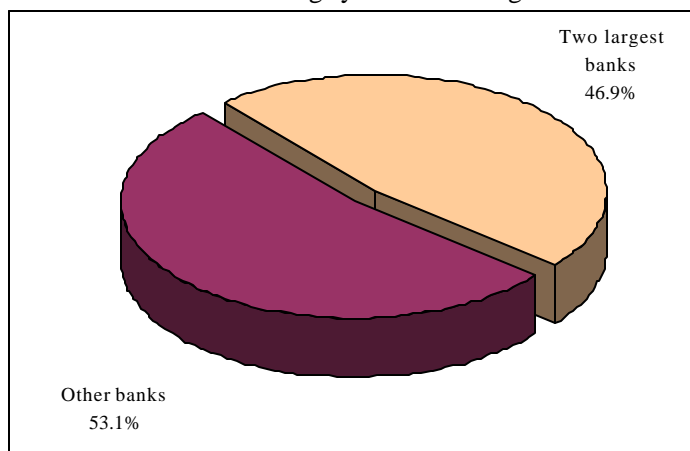
Concentration of the banking system according to the capital strength as of December 31, 2002



If the banks' credit activity is taken into consideration, the share of the two largest banks in the credit activity of all banks equals 46.9% as of December 31, 2002, which is almost unchanged compared to the end of 2001, when its share equaled 46.8%.

Chart 4

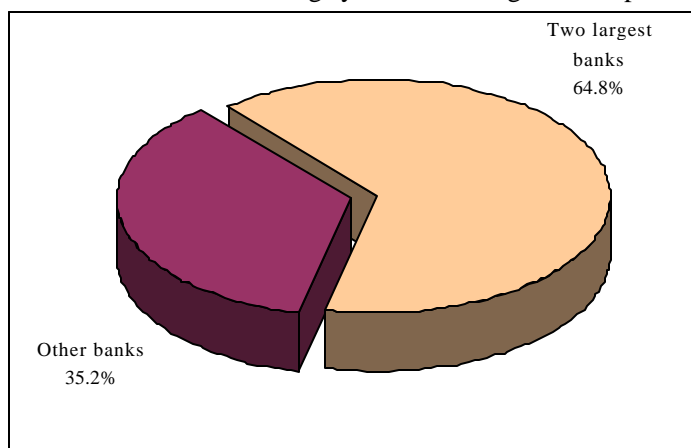
Concentration of the banking system according to the credit activity as of December 31, 2002



The most evident concentration in the two largest banks was ascertained in the analysis of the banks' deposit activity. As of December 31, 2002, the two largest banks mobilized 64.8% of the total deposits, which is by 1.7 percentage points lower compared to the end of the previous year. This was due to the withdrawal of the households' foreign exchange deposits in the first half of 2002, which is more apparent in the two largest banks. At the end of 2002, compared to the end of the previous year, the deposit base of the two largest banks dropped by 18.2%, while the total deposit base of the entire banking system fell by 15.9%.

Chart 5

Concentration of the banking system according to the deposit activity as of December 31, 2002



At the end of 2002, considerable concentration of the financial potential, the credit activities and the received deposits in the two largest banks, which have the precedence on the banking market in the Republic of Macedonia remain basic structural feature of the banking system of the Republic of Macedonia, although their concentration registered moderate downward trend.

2.1.2. Ownership structure

The ownership structure of the banks in the Republic of Macedonia is analyzed from two aspects:

- a. Banks' privatization degree;
 - b. Share of foreign capital
- a. As of December 2002, the privatization degree of the banking capital in the Republic of Macedonia equaled 85.9%, or 90.3% if the Macedonian Bank for Development Promotion AD Skopje, which is entirely state-owned bank, is exempted from the analysis. Analyzed by banks, the privatization degree ranges from 66.7% to 100% in 7 banks. Compared to December 31, 2001, the banks' privatization degree increased by 1.6 percentage points.
 - b. As of December 31, 2002, the share of the foreign capital in the total banking capital in the Republic of Macedonia equals 44.4%, or by 4.3 percentage points more compared to the end of December 2001. The analysis by banks indicates presence of foreign capital in 16 banks, with percentage share ranging from 0.2% to 100%.

Table 2

Structural share of the banks according to the type of ownership

| Type of ownership | Number of banks | | Share in total capital (%) | | Share in total assets (%) | |
|------------------------|-----------------|------------|----------------------------|------------|---------------------------|------------|
| | 31.12.2001 | 31.12.2002 | 31.12.2001 | 31.12.2002 | 31.12.2001 | 31.12.2002 |
| Domestic private banks | 12 | 12 | 51.6 | 50.5 | 47.6 | 54.0 |
| State owned banks | 1 | 1 | 4.9 | 4.9 | 1.3 | 2.0 |
| Foreign banks | 8 | 7 | 43.5 | 44.6 | 51.1 | 44.0 |
| Total: | 21 | 20 | 100.0 | 100.0 | 100.0 | 100.0 |

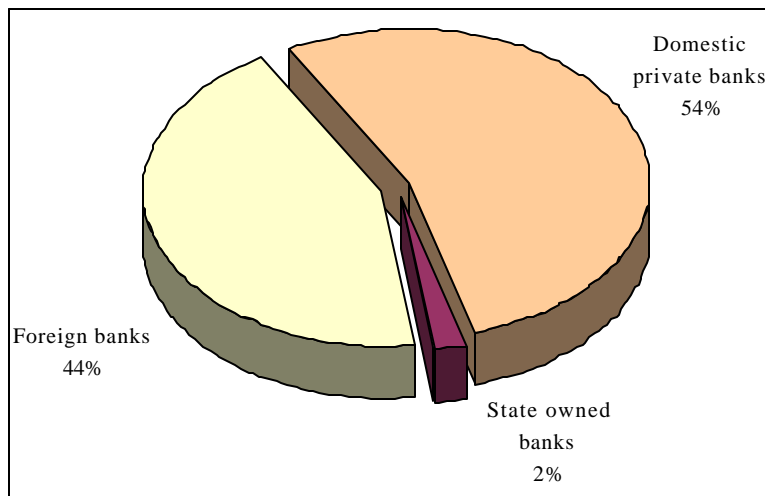
Note: Banks having more than 50% of foreign capital in the structure of their capital are considered to be owned by foreign shareholders.

The table above shows that at the end of 2002, the seven banks owned by foreign shareholders cover 44% of the total assets at the level of all banks, or 44.6% of the engaged capital

in the banks in the Republic of Macedonia. On the other hand, the banks owned by domestic private shareholders, the number of which was 12 at the end of 2002, cover 54% of the total assets at the level of all banks, or 50.5% of the engaged banking capital.

Chart 6

Structural share of the banks according to the type of ownership as of December 31, 2002



2.1.3. Regional structure

The structural features of the banking system of the Republic of Macedonia from the regional aspect affirm the already ascertained asymmetry and concentration of the supply of the financial services in the capital of the Republic of Macedonia. As of December 31, 2002, only 4 of the total number of banks are located outside Skopje, out of which 3 banks have a license for performing the financial activities provided for in Article 46 of the Banking Law, which include conducting international payment operations and credit activities. The financial potential of these 4 banks accounts for 11.2% of the total financial potential of the banking system of the Republic of Macedonia.

On the other hand, there is a relatively wide network of branches, windows and business units. As of December 31, 2002, the banks in the Republic of Macedonia had 34 branches, 250 windows and 13 business units. Certainly, the windows of the public utility Makedonski Posti (Macedonian Post) (315 post-office units with 620 windows throughout the territory of the Republic of Macedonia) at the disposal of Postenska Banka AD Skopje should be taken into consideration.

2.2. Banks' operations

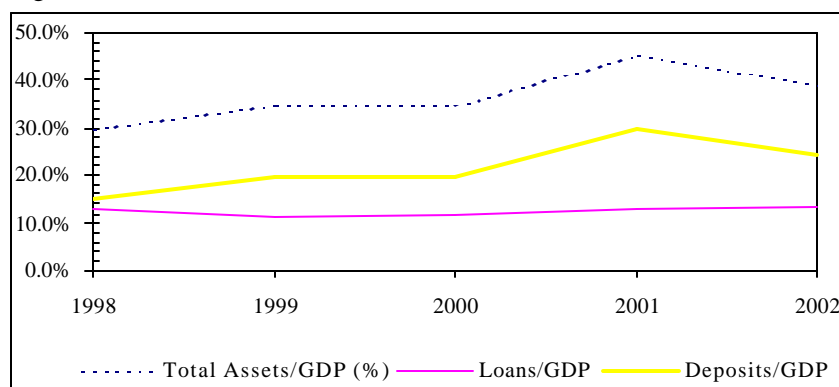
The gradual stabilization of the political and the economic situation in the country, the consistent macroeconomic policy, as well as the stable banking sector created all necessary prerequisites for favorable movements of the banking activities in 2002, evident through the further continuous increase in the deposit potential and the moderate increment in the credit activity for support of the economic development in the Republic of Macedonia. In 2002, the dynamics of the total deposits was primarily determined by retaining larger portion of the deposited savings during the Euro conversion and the additionally deposited savings. On December 31, 2002 compared to September 30, 2001 (prior to the effect of the Euro conversion) the households' deposits increased by Denar 19,403 million or by 128%, while the total deposits increased by Denar 19,275 million or by 49.9%. The analysis indicates that more than 70% of the households' deposits received during the Euro conversion remained in the banks. This confirms the returning of the confidence and the strengthening of the credibility of the banking system of the Republic of Macedonia.

The improvement of the economic conditions and the lower credit risk, especially in the second half of 2002 was the main precondition for continuing the trend of accelerating the banks' credit activity. In 2002, continuous moderate increase in the credit placements to the non-financial entities was registered, particularly in the long-term Denar placements of the households indicating the growing role of the banks in the Republic of Macedonia in the support of the economic development and the needs of the households.

The increased potential of the banks in the Republic of Macedonia as a major determinant for support of the total economic activity simultaneously reflects the strengthening of their function of financial intermediation in the Macedonian economy. The degree of financial intermediation of the banks in the Republic of Macedonia, measured through the ratio of the total assets, the net credits extended to clients and the total deposits to the gross domestic product, registers continuous upward trend.

Chart 7

Degree of financial intermediation



However, in spite of such trend, the degree of financial intermediation in the Republic of Macedonia is still relatively low. Thus this indicator calculated as a ratio of the banks' total assets to the gross domestic product of the Republic of Macedonia equals 39.0% on December 31, 2002. This indicates that from this aspect in the Republic of Macedonia there is a room for expanding the activities of the banks and increasing the level of financial intermediation aimed at economic development of the country.

2.2.1 Banks' assets

As of December 31, 2002, the banks' total assets in the Republic of Macedonia amounted to Denar 93,213 million, which compared to December 31, 2001 fell by Denar 12,420 million, or 11.8% (Balance sheet – Annex 1). Compared to the end of the first half of 2002, the assets remained almost unchanged, i.e. they registered a decline of Denar 107 million or 0.1%.

As of December 31, 2002, same as at the end of the previous several years, the liquid assets⁴ dominated the structure of the assets, accounting for 44.8% of the net assets, in spite of the trend of moderate decrease in 2002. On December 31, 2002 compared to December 31, 2001, the liquid assets equaled Denar 41,725 million, which is a fall of 27.6%, i.e. 2.6% compared to June 30, 2002. On annual basis, the decrease in the liquid assets was primarily due to the withdrawal of a portion of the deposits in the first quarter of 2002. Such trend was interrupted in the second quarter of 2002, with more than 70% of the savings deposited during the Euro conversion being

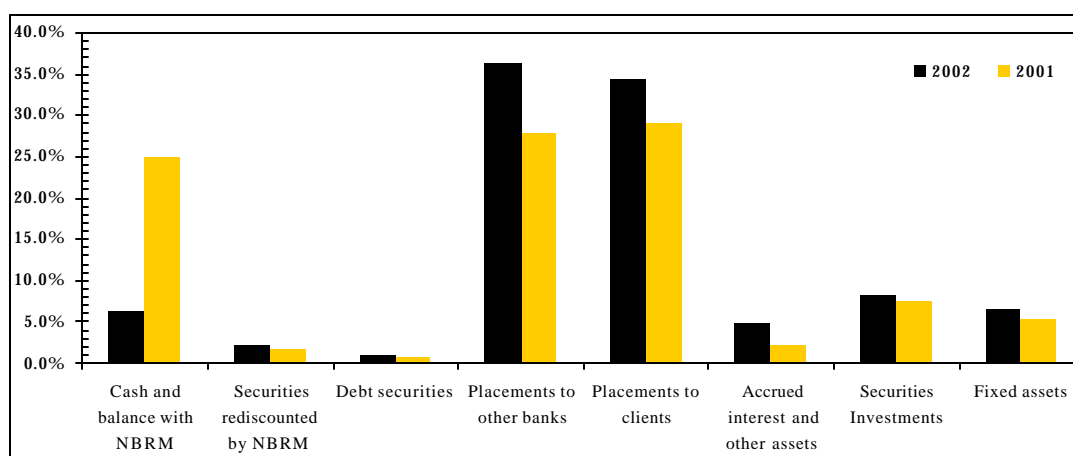
⁴ The liquid assets (defined in broader sense) consist of cash and balances with the National Bank of the Republic of Macedonia, CB bills with the National Bank of the Republic of Macedonia, short-term debt securities, short-term credits and balances on accounts with domestic and foreign banks.

retained in the banks of the Republic of Macedonia at the end of 2002. At the same time, the stabilization of the deposit potential resulted in placing the available liquid potential credit placements to non-financial legal entities and households, meaning continuation of the trend of moderate acceleration of the credit activity due to the improved economic conditions and the lower credit risk, particularly in the second half of 2002. The reduced level of liquid funds was primarily evident through the fall in the level of foreign assets which on December 31, 2002 compared to December 31, 2001 dropped by 13.3 times.

Structurally observed, the placements to the banks dominated in both the liquid assets and the total net assets of the banks in the Republic of Macedonia, accounting for 78.6% of the liquid assets, or 36.3% of the total net assets, meaning that the banks continued applying the strategy of directing the largest portion of the households' foreign exchange savings towards placements in first-class banks worldwide and conducting more conservative credit policy, however, with a tendency of enhancing the credit activity.

At the end of 2002, the placements to clients follow the liquid assets, with a share of 34.4% of the net assets, considering that the individual share of the other items on the assets side does not exceed 10% of the net assets of the banks in the Republic of Macedonia.

Chart 8
Structure of assets



2.2.2. Credit activity of the banks (placements to non-financial entities)

Taking into consideration that the first half was characterized as period of gradual normalization of the situation and overcoming of the effects from the security crisis, the trend of intensification of the credit activity of the banks in the Republic of Macedonia continued in the second half of 2002. Thus the placements to the non-financial entities, especially the households' long-term Denar placements, registered continuous moderate increase in almost all months in 2002, indicating the increasing role of the banks in the support of the economic growth and the needs of the households.

At the end of 2002, compared to the previous year, the gross placements to clients (non-financial legal entities and households) was by Denar 459 million or by 1.2% higher, and equaled Denar 38,769 million. If the claims transferred to the off-balance sheet records are taken into account in the calculations, the increase in the credit placements would equal 4.1%. However, in spite of the acceleration of the credit activity, the banks are still prudent considering their exposure to the clients.

The analysis of the placements from the aspect of the maturity and the sector structure and the structure of the currency of denomination as of December 31, 2002 compared to December 31, 2001, indicates certain favorable movements in the maturity structure of the placements in the enterprise sector, and especially the household structure directed towards increase in the long-term lending based on housing construction which is a positive impetus for the total economic activity. Thus from the aspect of the maturity, the long-term placements register increase of Denar 3,016 million or 30.6% in the analyzed period, whereas the short-term placements decreased by Denar 1,597 million or by 9.1%. From the aspect of the sector structure, the placements to enterprises fell by Denar 649 million or by 2.0%, whereas the placements to households rose by Denar 1,862 million or by 46.6%.

However, at the end of 2002, as well as at the end of 2001, from the aspect of maturity, the short-term placements registered the highest share of 40.9%, whereas from the aspect of the sector structure, the placements to enterprises dominate with a share of 81.6% in the total placements. From the aspect of the structure of currency of denomination, no significant changes were registered compared to 2001. Thus, 60.7% of the total credits extended by the banks are Denar-dominated (63.9% - December 31, 2001), 22.5% are Denar credits with foreign exchange clause (14.8% - December 31, 2001), while the other 16.8% are foreign exchange credits placed on the basis of foreign credit lines (21.3% - December 31, 2001).

Table 3

Structure of the credit placements extended to non-financial entities

MKD (000,000)

MKD (000,000)

| Period | Beneficiaries | Enterprises | | Other clients | | Households | | | |
|--|------------------------------------|-------------|-------|---------------|-------|------------|-------|--------|--------|
| 31.12.2001 | Maturity | Denar | ForEx | Denar | ForEx | Denar | ForEx | Total | |
| | Overdue | 1,376 | 135 | 1 | 2 | 54 | 0 | 1,566 | |
| | Short-term | 12,326 | 2,307 | 335 | 1,354 | 1,157 | 0 | 17,481 | |
| | Long-term | 4,486 | 2,881 | 59 | 90 | 2,351 | 0 | 9,866 | |
| | Non-performing | 7,525 | 1,261 | 76 | 104 | 403 | 28 | 9,397 | |
| | Gross credits | 25,713 | 6,584 | 471 | 1,549 | 3,965 | 28 | 38,310 | |
| | Reserves for Potential Loan Losses | | | | | | | | -7,667 |
| | Net credits | | | | | | | | 30,642 |
| Credit claims transferred to off-balance sheet records | | | | | | | | 9,308 | |
| | | | | | | | | | |
| 31.12.2002 | Maturity | Denar | ForEx | Denar | ForEx | Denar | ForEx | Total | |
| | Overdue | 911 | 42 | 0 | 4 | 94 | 0 | 1,051 | |
| | Short-term | 12,557 | 1,336 | 409 | 379 | 1,203 | 0 | 15,884 | |
| | Long-term | 5,421 | 3,178 | 52 | 297 | 3,933 | 0 | 12,882 | |
| | Non-performing | 7,073 | 1,129 | 2 | 125 | 609 | 15 | 8,953 | |
| | Gross credits | 25,963 | 5,685 | 462 | 804 | 5,840 | 15 | 38,769 | |
| | Reserves for Potential Loan Losses | | | | | | | | -6,699 |
| | Net credits | | | | | | | | 32,070 |
| Credit claims transferred to off-balance sheet records | | | | | | | | 10,819 | |

2.2.3. Placements to banks

As of December 31, 2002, the placements to other banks equaled Denar 33,803 million, i.e. 36.3% of the total assets of the banks in the Republic of Macedonia, which is an increase in the share of 8.3 percentage points compared to the end of 2001.

Table 4

Structure of placements to domestic and foreign banks

| | MKD (000,000) | | |
|---------------------------|---------------|--------|--------|
| | Denar | ForEx | Total |
| 31.12.2001 | | | |
| Accounts with banks | 0 | 26,995 | 26,995 |
| Overdue | 3 | 0 | 3 |
| Short-term | 1,390 | 38 | 1,429 |
| Long-term | 288 | 300 | 588 |
| Non-performing | 161 | 401 | 562 |
| Loans to banks | 1,842 | 740 | 2,581 |
| Total placements to banks | 1,842 | 27,734 | 29,576 |
| 31.12.2002 | | | |
| Accounts with banks | 0 | 30,896 | 30,896 |
| Overdue | 0 | 0 | 0 |
| Short-term | 1,623 | 294 | 1,917 |
| Long-term | 194 | 748 | 942 |
| Non-performing | 18 | 29 | 47 |
| Loans to banks | 1,836 | 1,070 | 2,906 |
| Total placements to banks | 1,836 | 31,967 | 33,803 |

The foreign exchange accounts with domestic banks dominate the structure of the placements to banks with 91.4%.

As of December 31, 2002, the total credits extended to other banks equaled Denar 2,906 million which is an increase of 12.6% compared to December 31, 2001. Out of them, Denar 1,387 million or 47.7% were extended by the Macedonian Bank for Development Promotion AD Skopje, which performs its credit activity with intermediation of the commercial banks in the Republic of Macedonia.

2.2.4. Securities Investments

As of the end of 2002, the portfolio investments in securities in the banks of the Republic of Macedonia registers no considerable changes neither in the volume nor in the structure. The largest portion of the securities are the government bonds issued by the Republic of Macedonia on various bases and the CB bills.

The oscillations of the level of liquidity in 2002 affected the movements of the CB bills. The higher level of liquidity of the banks in the Republic of Macedonia in 2002, compared to 2001, as well as the attractive interest rates on CB bills resulted in larger demand for CB bills, as well as securities without an investment risk compared to the risk of the client placements. Thus the average daily amount of CB bills⁵ in 2002 amounted to Denar 3,532 million, compared to Denar 2,070 million in 2001. In December 2002, only the amount of CB bills registers a decrease (the average daily amount equals Denar 2,540 million) which is due to the lower demand for CB bills, particularly at the end of the year primarily under the influence of the seasonal factors, as well as the determination to handle available liquid funds.

At the end of 2002, the securities investments (excluding the CB bills) amounted to Denar 8,599 million or 9.2% of the total assets of the banks in the Republic of Macedonia. Out of them, 81.0% are Government securities, with the largest portion or 90.3% accounting for the Government bonds issued for restructuring of Stopanska Banka a.d. Skopje⁶, with maturity of 15 years. The other are bonds issued by the Bank Rehabilitation Agency, as well as by the Ministry of Finance on

⁵ Owned by banks.

⁶ Law on guarantying the investment of strategic investors and assuming claims on ultimate users by the Republic of Macedonia in Stopanska Banka a.d. Skopje

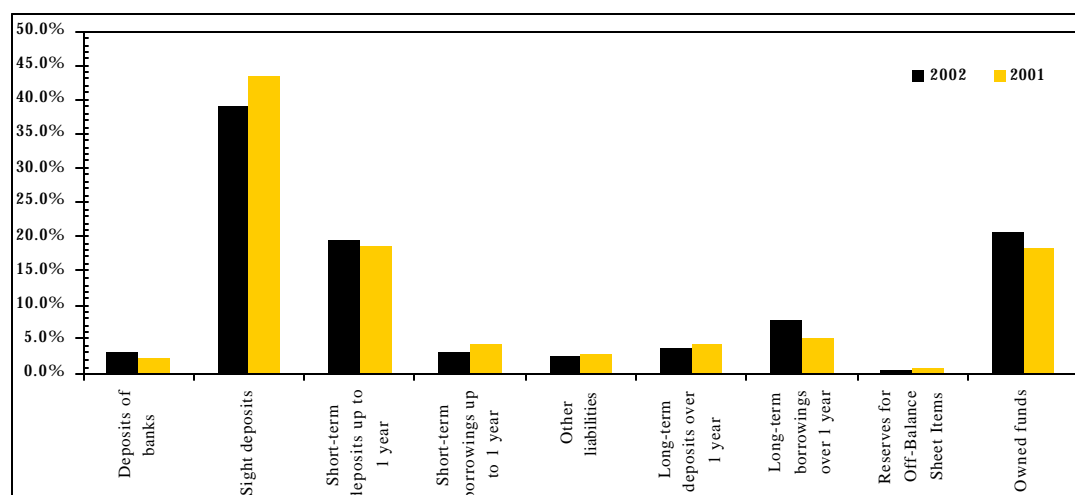
the basis of “frozen” foreign exchange savings which are actively traded on the Macedonian Stock Exchange. Small portion of the debt securities are debt securities issued by other banks and checks issued by domestic and foreign banks.

2.2.5. Capital and liabilities

On December 31, 2002, same as in the preceding year, the structure of the sources of funds indicates the largest share of the primary sources of funds (deposits of the non-financial legal entities and households) of 62.1%. The own funds with 20.7% and the external sources (deposits from banks and borrowings) of 14.1% follow.

Chart 9

Structure of liabilities

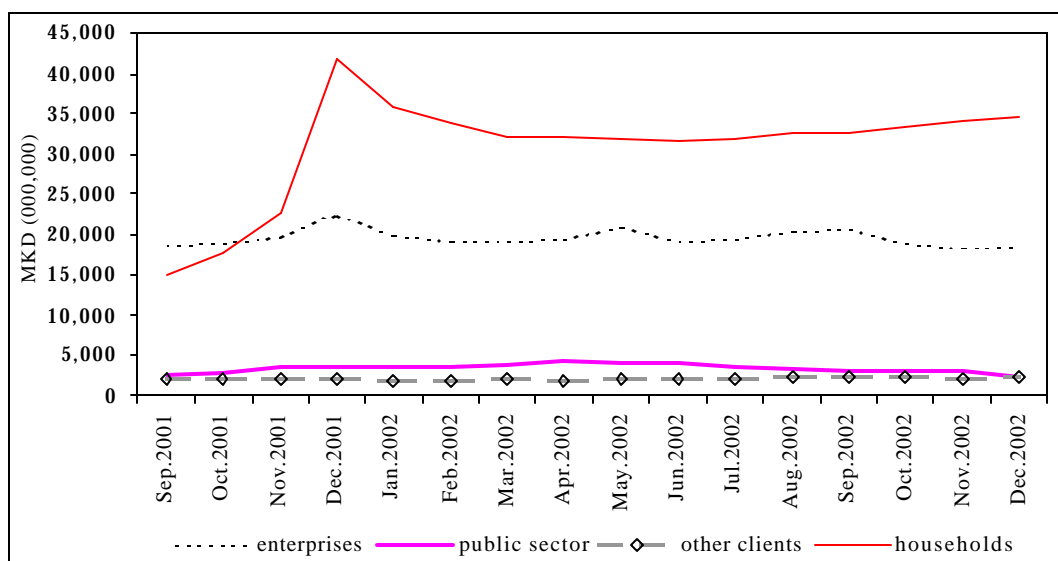


2.2.6. Primary sources of funds – deposits of non-financial legal entities and households

At the end of 2002, the total deposits of non-financial legal entities and households amounted to Denar 57,905 million, which compared to December 31, 2001 fell by Denar 12,090 million or by 17.2%, whereas compared to June 30, 2002 they increased by Denar 726 million or by 1.3%. Major determinant for the movements of the total deposits are the households’ deposits, taking into account their dominant share of 59.7%. On December 31, 2002, they equaled Denar 34,561 million, which is a fall of Denar 7,258 million or 17.3% compared to December 31, 2001, or increase of Denar 2,969 million or 9.4% compared to June 20, 2002. Compared to September 30, 2001 (prior to the effect of the Euro conversion) the households’ deposits rose by Denar 19.403 million or by 128.0%, indicating that over 70% of the households savings deposited for the Euro conversion remained in the banking sector of the Republic of Macedonia. Additionally, this not only confirms the return, but also the strengthening of the confidence in the banking system in the Republic of Macedonia.

Chart 10

Movements of the deposits of the non-financial legal entities and households



The analysis of the primary sources of funds from the aspect of their maturity, as well as their sector structure and the structure of the currency of denomination on December 31, 2002, indicates no significant changes compared to December 31, 2001. According to the maturity, the sight deposits have the highest share of 61.6%, i.e. 62.8% if the restricted deposits are taken into account, followed by the short-term deposits with 31.2% and the long-term deposits with 6.0%. In the context of the unfavorable maturity structure of the primary sources of funds, it is essential to underline that positive movements were registered aimed at continuous upward trend of the short-term and the long-term deposits in 2002. Thus in 2002, the average monthly amount of the short-term deposits equaled Denar 16,789 million, while in 2001 they amounted to Denar 10,938 million. Also, in 2002, the average monthly amount of long-term deposits equaled Denar 4,223 million, while in 2001, they amounted to Denar 3,699 million. It was due to the increase of 110.2% in the short-term Denar deposits of the households at the end of 2002, compared to the end of 2001.

The structural sector-by-sector analysis indicates that although a portion of the households savings was withdrawn at the beginning of 2002, they have dominant share of 59.7%. The enterprises deposits account for 32.1%, while the share of the public sector and other clients equals 8.2%. According to the structure of the currency of denomination, the foreign exchange deposits account for 52.3% in the primary sources of funds, compared to 62.4% registered on December 31, 2001, while the remaining 47.7% are Denar deposits, compared to their share of 37.6% on December 31, 2001, indicating their approximation, which was primarily due to the increase in the household Denar deposits, contrary to the decrease in the household foreign exchange deposits.

Table 5

Structure of the deposits of non-financial legal entities and households

MKD (000,000)

| Period | Deposits | Enterprises | | Public sector | | Other clients | | Households | | Total |
|------------|----------------------------------|-------------|--------|---------------|-------|---------------|--------|------------|--------|--------|
| | | Denar | ForEx | Denar | ForEx | Denar | ForEx | Denar | ForEx | |
| 31.12.2001 | Maturity | | | | | | | | | |
| | Sight deposits | 7,782 | 7,059 | 1,490 | - | 1,519 | - | 3,993 | 21,982 | 43,825 |
| | Restricted deposits | 301 | 1,604 | 124 | - | 24 | - | - | - | 2,054 |
| | Short-term deposits up to 1 year | 5,687 | - | 1,799 | - | 268 | 222 | 989 | 10,769 | 19,734 |
| | Long-term deposits over 1 year | 83 | - | 144 | - | 67 | 3 | 2,061 | 2,025 | 4,383 |
| | Total | 13,852 | 8,663 | 3,557 | - | 1,879 | 224 | 7,042 | 34,777 | 69,995 |
| | Growth Rate | -2.3% | -15.3% | -29.3% | | 13.6% | -88.9% | 22.1% | 348.4% | 50.1% |
| 31.12.2002 | Maturity | | | | | | | | | |
| | Sight deposits | 7,951 | 4,580 | 1,625 | - | 1,556 | - | 5,718 | 14,213 | 35,641 |
| | Restricted deposits | 271 | 374 | 51 | - | 9 | - | - | - | 705 |
| | Short-term deposits up to 1 year | 4,876 | 322 | 558 | - | 324 | 430 | 2,080 | 9,487 | 18,076 |
| | Long-term deposits over 1 year | 187 | - | 154 | - | 74 | 3 | 2,189 | 875 | 3,482 |
| | Total | 13,284 | 5,276 | 2,389 | - | 1,963 | 433 | 9,986 | 24,574 | 57,905 |
| | Growth Rate | -4.1% | -39.1% | -32.9% | | 4.4% | 92.9% | 41.8% | -29.3% | -17.3% |

2.2.7. Secondary sources of funds – Banks' deposits and borrowings

At the end of 2002, the secondary sources of funds (banks' deposits, short-term borrowings of up to 1 year and long-term borrowings of over 1 year of maturity) amounted to Denar 13,243 million, or 14.2% in the structure of the total sources of funds. Compared to 2001, this category of sources of funds registered an increase of 4.6%.

As of December 31, 2002, the banks' deposits accounted for Denar 2,924 million or 3.1% of the total sources of funds of the banks in the Republic of Macedonia. Out of the total deposits from banks, 90.8% are deposits from domestic banks, while the remaining portions are deposits from foreign banks. Analyzing by maturity, the share of the short-term time deposits with maturity of up to 1 year dominate with 53.6%, while according to the structure of the currency of denomination, 55.9% are banks' foreign exchange deposits. Compared to December 31, 2001, the short-term time deposits with maturity of up to 1 year account for 53.1%, while the foreign exchange deposits account for 63.1%.

Table 6

Structure of banks' deposits

MKD (000,000)

| 31.12.2001 | Domestic banks | | Foreign banks | | Total deposits of banks |
|---------------------|----------------|---------|---------------|---------|-------------------------|
| | Denar | ForEx | Denar | ForEx | |
| Sight deposits | 72 | 516 | - | 416 | 1,004 |
| Short-term deposits | 695 | 568 | - | 0 | 1,263 |
| Long-term deposits | 111 | 0 | - | 0 | 111 |
| Total | 878 | 1,084 | - | 416 | 2,379 |
| Annual Growth Rate | 81.39% | -49.88% | | -81.95% | -51.98% |
| 31.12.2002 | Denar | ForEx | Denar | ForEx | |
| Sight deposits | 378 | 583 | - | 269 | 1,229 |
| Short-term deposits | 797 | 771 | - | 0 | 1,567 |
| Long-term deposits | 116 | 12 | - | 0 | 128 |
| Total | 1,290 | 1,365 | - | 269 | 2,924 |
| Annual Growth Rate | 46.91% | 25.86% | | -35.47% | 22.90% |

As of December 31, 2002, the share of the short-term borrowings of up to 1 year, equaled 3.1% in the structure of the total sources of funds. Within the framework of this category of sources of funds, the share of the short-term borrowings from foreign banks dominates (67.1%). The

remaining 32.9% are short-term Denar borrowings from domestic banks (through the Money Market or directly). The oscillations in the level of the total liquidity, as well as the unevenly dispersed liquidity in the banking system of the Republic of Macedonia in the analyzed period proportionately influenced the movements of the short-term borrowings from domestic banks, also.

As of December 31, 2002, the long-term borrowings accounted for 7.9% of the structure of the total sources of funds. The borrowings from foreign banks on the basis of long-term foreign credit lines, which finance long-term economic projects, further dominate the structure of the long-term borrowings with 79.0%. At the end of 2002, the long-term borrowings from foreign banks amounted to Denar 5,853 million, which is by 69.2% higher compared to the end of the previous year. Out of the total amount of long-term borrowings from foreign banks, Denar 470 million are subordinated deposit placed with one bank.

From the aspect of the structure of the currency of denomination, there are no significant changes in the analyzed period. The largest portion of the borrowings are in foreign exchange (76.1%), while the remaining portion are Denar borrowings, primarily short-term credits for liquidity used from other banks, directly or through the Money Market.

Table 7
Structure of borrowings

| MKD (000,000) | | | | | | | | | | | |
|---------------|---------|-------|---------------|--------|---------------|--------|-------------|-------|---------|---------|--------|
| 31.12.2001 | NBRM | | Domestic bans | | Foreign banks | | Enterprises | | Other | | Total |
| Maturity | Denar | ForEx | Denar | ForEx | Denar | ForEx | Denar | ForEx | Denar | ForEx | |
| Short-term | 0 | - | 707 | - | - | 3,891 | - | - | 118 | - | 4,717 |
| Long-term | 426 | - | 241 | 25 | - | 3,460 | 0 | - | 1,394 | 16 | 5,561 |
| Total | 426 | - | 948 | 25 | - | 7,351 | 0 | - | 1,512 | 15,584 | 10,278 |
| Growth Rate | -33.56% | | 11.61% | | | 35.03% | -99.64% | | 75.09% | | 31.4% |
| 31.12.2002 | NBRM | | Domestic bans | | Foreign banks | | Enterprises | | Other | | Total |
| Maturity | Denar | ForEx | Denar | ForEx | Denar | ForEx | Denar | ForEx | Denar | ForEx | |
| Short-term | 0 | - | 958 | - | - | 1,959 | 0 | - | 0 | - | 2,917 |
| Long-term | 398 | - | 177 | 27 | - | 5,853 | 0 | 16 | 931 | 0 | 7,402 |
| Total | 398 | - | 1,135 | 27 | - | 7,812 | 0 | 16 | 931 | 0 | 10,319 |
| Growth Rate | -6.69% | | 19.73% | 10.34% | | 6.27% | 0.00% | | -38.43% | -100.0% | 0.4% |

2.2.8. Own funds

At the end of 2002, the banks' own funds amounted to Denar 19,279 million, accounting for 20.7% of the structure of the total sources of funds. Compared to the end of the previous year, a conclusion can be drawn that in 2002 no considerable changes were registered in the total own funds of the banks in the Republic of Macedonia.

2.2.9. Off-balance sheet activity of the banks

The regular off-balance sheet banking activities such as issuing guarantees, opening letters of credit and extending credit lines are still the basic feature of the off-balance sheet activities of the banks in Macedonia.

As of December 31, 2002, the total off-balance sheet activity in the Republic of Macedonia equals Denar 12,620 million, which is by Denar 2,820 lower compared to the end of 2001, due to the decline in both the covered off-balance sheet items and the uncovered guarantees of Denar 1,896 million and Denar 976 million, respectively.

The share of risky off-balance sheet items in the total off-balance sheet assets equals 90.2%, which is an increase of 10.5 percentage points compared to the end of 2001.

Table 8
Off-balance sheet activities

MKD (000,000)

| | 31.12.2002 | 30.06.2002 | 31.12.2001 | 30.06.2001 | 31.12.2000 | 30.06.2000 | 31.12.1999 | 30.06.1999 | 31.12.1998 | 31.12.1997 |
|--|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| <i>Covered off-balance sheet items</i> | 1,238 | 1,400 | 3,134 | 2,683 | 1,573 | 2,338 | 1,899 | 1,625 | 1,795 | 1,620 |
| <i>Performance Guarantees</i> | 3,010 | 2,322 | 3,340 | 3,789 | 3,244 | 3,297 | 2,744 | 3,337 | 3,005 | 2,531 |
| <i>Unused credit lines</i> | 536 | 167 | 155 | 278 | 123 | 29 | 65 | 110 | 110 | 49 |
| <i>Uncovered guarantees, letters of credit and other off-balance sheet items</i> | 7,835 | 8,825 | 8,811 | 9,069 | 9,059 | 9,224 | 9,300 | 8,993 | 9,826 | 8,319 |
| <i>Total off-balance sheet</i> | 13 | 13 | 15 | 15,818 | 13,998 | 14,887 | 14,008 | 14,065 | 14,736 | 12,520 |
| <i>Risk assets / total off-balance sheet assets</i> | 90.19 | 88.99 | 79.70 | 83.04 | 88.77 | 84.30 | 86.44 | 88.45 | 87.82 | 87.06 |

The analyzed indicators show that a significant portion (90%) of the total off-balance sheet activities of the banks in the Republic of Macedonia bear certain credit risk and as such, they have the potential to transform into balance sheet claims.

From a structural aspect, the uncovered guarantees and letters of credit have the highest share in the total off-balance sheet assets, which on December 31, 2002 accounted for 62.1% of the total off-balance sheet assets. Compared to the end of 2001, their share in the structure of the off-balance sheet assets increased by 5 percentage points, primarily due to the lower total off-balance sheet assets.

2.3. Activity of the savings houses

As of December 31, 2002, the total financial potential of the savings houses equals Denar 956 million which is 0.97% of the total financial potential of the banks in the Republic of Macedonia. The capitalization rate equals 72.1%, which means that only 27.9% of the total assets of the savings houses are generated from the received households' deposits and other sources of funds⁷. Within these frameworks, the received households' savings deposits equal Denar 215 million, or 22.5% of the total assets of the savings houses. This indicates that only about a quarter of the operations of the savings houses is financial intermediation, while the remaining portion is activity based on own funds of the savings houses, that is the funds that the founders invested in the savings house. Compared to the total received savings deposits of the banks in the Republic of Macedonia, one could come to a conclusion that the share of the savings houses equals only 0.6%.

Table 9
Maturity structure of the savings deposits of the savings houses as of December 31, 2002

| | <i>Savings</i> | <i>Amount</i> | |
|---|------------------------------|---------------------------|----------|
| | <i>deposits by maturity</i> | <i>in millions Denars</i> | <i>%</i> |
| 1 | <i>sight deposits</i> | 10 | 4.8 |
| 2 | <i>maturity up to 1 year</i> | 118 | 54.9 |
| 3 | <i>maturity over 1 year</i> | 87 | 40.3 |
| | <i>Total</i> | 215 | 100.0 |

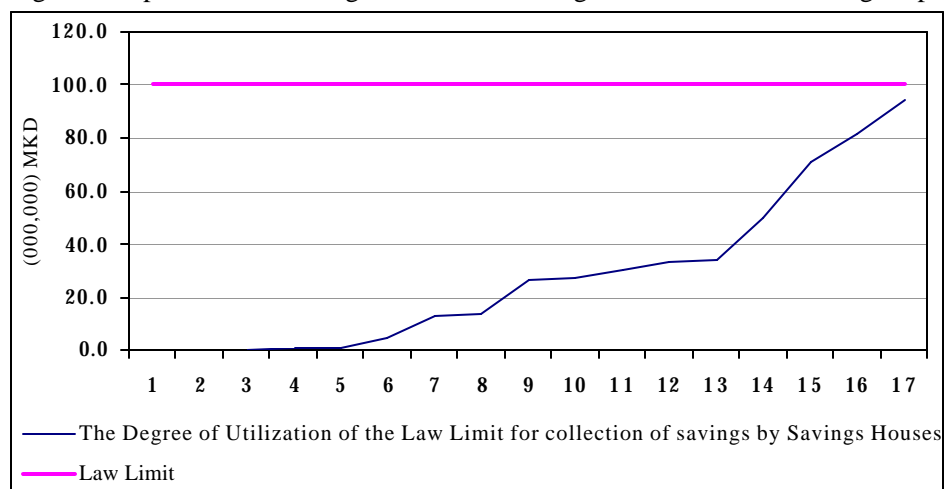
On the other hand, if the total savings deposits are compared to the capital of the savings houses, the ratio is 34.9%. If the legal possibility given to the savings houses to receive savings deposits up to the amount twice higher than their capital is taken into account, it could be concluded that in line with the level of capital available to the savings houses on December 31, 2002, 82.6% of their right to receive savings deposits from the households is not exploited. According to the level of capital available to the savings houses on December 31, 2002 (Denar 618 million), they are entitled to receive savings deposits from the households up to the amount of Denar 1,236 million, which compared to the actual received savings deposits from the households

⁷ It covers the household deposits (22.5% share in the total assets) and borrowings from banks and other liabilities (5.4% share in the total assets).

in the amount of Denar 215 million indicates average level of exploitation of the legally provided possibility of only 17.4%.

Chart 11

Degree of exploitation of the legal limit of the savings houses to receive savings deposits



Analyzing by savings houses as shown in the chart, the degree of exploitation of the legal limit for receiving savings deposits ranges from 0% in 4 savings houses, to 94.7% in 1 savings house. The distribution by groups is the following: up to 20% of exploitation – 8 savings houses, 20% - 40% of exploitation – 5 savings houses, 40% - 60% of exploitation – 1 savings house, over 60% of exploitation – 3 savings houses. A conclusion could be reached that as many as 13 savings houses belong to the zone of up to 40% of exploitation of the legal limit, which results in low average rate of exploitation.

The analysis of the assets of the savings houses in the Republic of Macedonia indicates that the largest portion of their financial potential is placed in credits to households and legal entities. On December 31, 2002, the total credits amounted to Denar 762 million (80% of the total assets), out of which Denar 627 million or 82% are credits extended to households.

2.4. Performances of banks

2.4.1. Capital adequacy / Solvency risk

2.4.1.1. Level of banks' capitalization

At the end of 2002, the own funds of the banks in the Republic of Macedonia amounted to Denar 19,279 million (Euro 316 million), which is an increase of Denar 120 million or inconsiderable 0.6%, compared to the end of 2001.

The structural analysis of the capital by banks indicates that the capital of the two largest banks equals 34.5% of the total capital of the banks in the Republic of Macedonia, while the other 18 banks account for 65.5% of the total capital. In 2002, the structural share of the two largest banks, increased by 4.9 percentage points, which is a result of the recapitalization of one of the two largest banks in the second half of the year. The average amount of capital of the two largest banks equals Denar 3,327 million (Euro 54.4 million), while the average amount of capital of the other banks amounts to Denar 701 million (Euro 11.5 million).

The drop in the banks' net assets of 11.8% in 2002, compared to the end of 2001, on the one hand, and the inconsiderable rise in the capital in the same period of 0.6%, on the other,

resulted in capitalization rate of 20.7% on December 31, 2002, which is an increase of 2.5 percentage points compared to the end of 2001.

Table 10

Level of capitalization of the banks in the Republic of Macedonia as of December 31, 2002

| MKD (000,000) | | | | | | | | | | | |
|----------------------|------------|---------------------------------|--------------|-------------|-------------------|----------------------|--|-------------------------------|---------------------------------|----------------------|--------|
| BANK | Net assets | Provisions for potential losses | Gross assets | Owned funds | Guarantee capital | Risk-Weighted Assets | Aggregate Open Foreign Exchange Position | Capitalization rate - net (%) | Capitalization rate - gross (%) | Capital adequacy (%) | |
| 1 | 2 | 3 | 4 | 5=3+4 | 6 | 7 | 8 | 9 | 10=6/3 | 11=6/5 | 12=7/8 |
| 1. Two largest banks | 50,443 | 4,684 | 55,127 | 6,653 | 6,519 | 27,161 | 6,930 | 13.19 | 12.07 | 19.12 | |
| 2. Other banks | 42,770 | 3,502 | 46,272 | 12,626 | 12,603 | 30,176 | 3,732 | 29.52 | 27.29 | 37.17 | |
| 3. Total (3=1+2) | 93,213 | 8,186 | 101,399 | 19,279 | 19,122 | 57,337 | 10,662 | 20.68 | 19.01 | 28.12 | |

The capitalization rate of the two largest banks equals 13.2% and compared to the average capitalization rate of the banks in the Republic of Macedonia it is by 7.5 percentage points lower. The average capitalization rate of the other banks is higher compared to the average rate of all banks by 8.8. percentage points. Such situation is a result of the more diverse structure of the sources of financing, primarily the more enhanced deposit base of the two largest banks. Unlike them, the structure of the sources of financing the smaller banks' activities is simpler, with the own sources of funds having a significant share, indicating the lower efficiency in performing the financial intermediation.

The ascertainment for the increase in the capitalization rate for 2002 compared to the end of 2001 remains unchanged if the analysis considers also the level of off-balance sheet activity of the banks in this period. The indicator for the degree of coverage of the total on-balance sheet and off-balance sheet claims with own funds equals 18.2%, which is by 2.4 percentage points higher compared to the end of 2001. Given the inconsiderable rise in the capital of 0.6%, the increase in this indicator is a result of the decline in the balance sheet assets of 11.8% and the drop in the off-balance sheet assets of 18.2%.

2.4.1.2. Banks' capital adequacy ratio

An essential moment that should be taken into consideration when analyzing the banks' capital adequacy ratio are the changes in the methodology for determining its two basic components: the guarantee capital and the risk weighted assets. The changes made in the methodology for determining the banks' guarantee capital in 2000 were followed by the changes in the methodology for determining the risk weighted assets, which the banks started to apply on March 31, 2002. In accordance with the changes in the methodology for determining the risk-weighted assets, in spite of the credit risk, the capital adequacy calculation includes also the exchange rate risk, by considering the open foreign exchange position in the calculation.

At the end of 2002, the guarantee capital of the banks in the Republic of Macedonia (as first component in determining the capital adequacy ratio) amounted to Denar 19.122 million, which is by Denar 423 million higher compared to the end of 2001 (Annex 4). The structure of the guarantee capital indicates that its dominant component is the shareholder capital generated from the issued common and preferred shares. The increase in the guarantee capital by paying in a subordinated deposit in one bank is an innovation in the second half of 2002.

As of the end of December 2002, the risk-weighted assets, as the second component in determining the capital adequacy ratio, amounted to Denar 57,338 million, which is by Denar 2,752 million more compared to the end of December 2001 (the increase pertains to the risk-weighted balance sheet assets). As noted above, the calculation of the risk-weighted assets also considers the aggregate open foreign exchange position, which on December 31, 2002 equaled Denar 10,663 million.

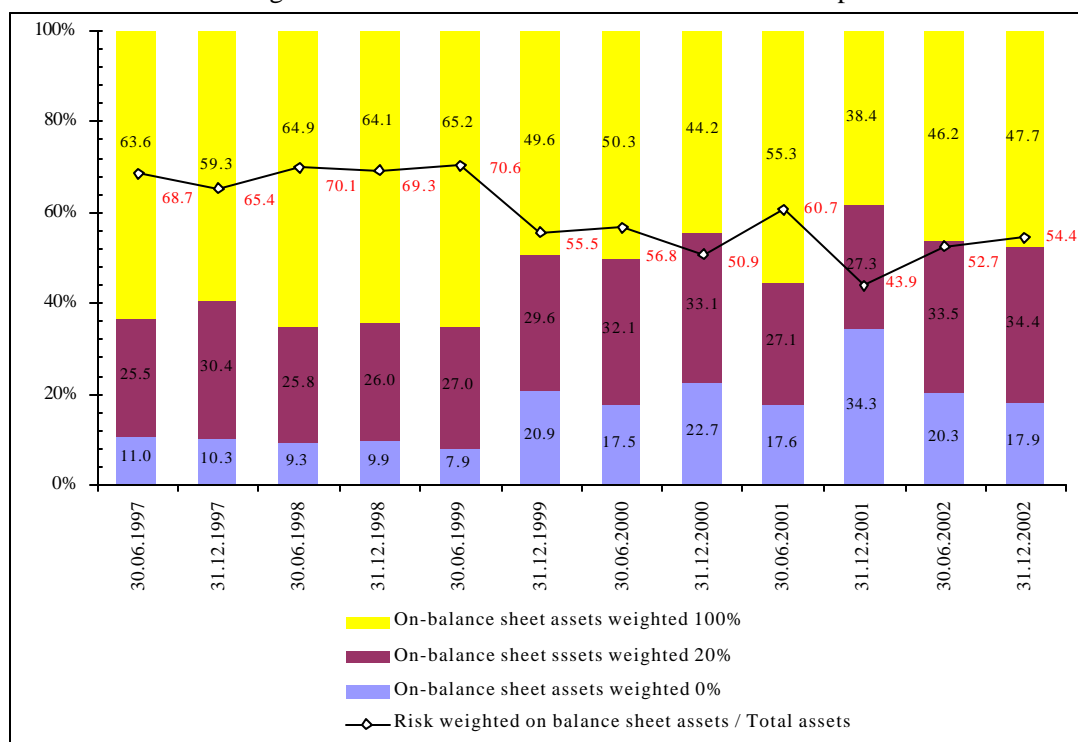
In accordance with the new methodology implemented in the first quarter of 2002, when creating the structure of the on-balance sheet and off-balance sheet assets items, a different approach was defined for their distinguishing by risk weights, i.e. factors of conversion, starting from the debtor features and the type of the collateral, as well as distinguishing the claims against other banks according to their residual maturity. Also, when calculating the risk-weighted off-balance sheet assets, despite the regular off-balance sheet items, there is a possibility of including the specific off-balance sheet items (the financial derivatives), which the banks in the Republic of Macedonia do not apply, yet.

The chart showing the structure of the risk-weighted balance sheet assets of the banks in the Republic of Macedonia, indicates that as of December 31, 2002, the share of the balance sheet assets items, which involve certain level of risk, equals 54.4%, which is by 10.5 percentage points lower compared to the end of 2001, while compared to the first half of 2002 its level remains almost unchanged. This was due to the structural movements of some items within the framework of the banks' assets, evident through the lower share of the assets with 0% weight, due to the decrease in the liquid assets of the banks, especially in the first half of 2002.

With respect to the movement and the structure of the categories in the banks' assets with 20% and 100% weights, they register even increase in the analyzed period. An innovation in the structure of the risk-weighted assets introduced in the new methodology is the risk weight of 50% which pertains to the claims on the local government, the government funds and agencies and claims secured with guarantees and securities of these entities. This item is not included in the analysis of the structure of the risk-weighted balance sheet assets as of December 31, 2002, due to its minor share. Generally speaking, a conclusion could be drawn that the structure of the risk-weighted assets is almost identical with the one in the first half of 2002.

Chart 12

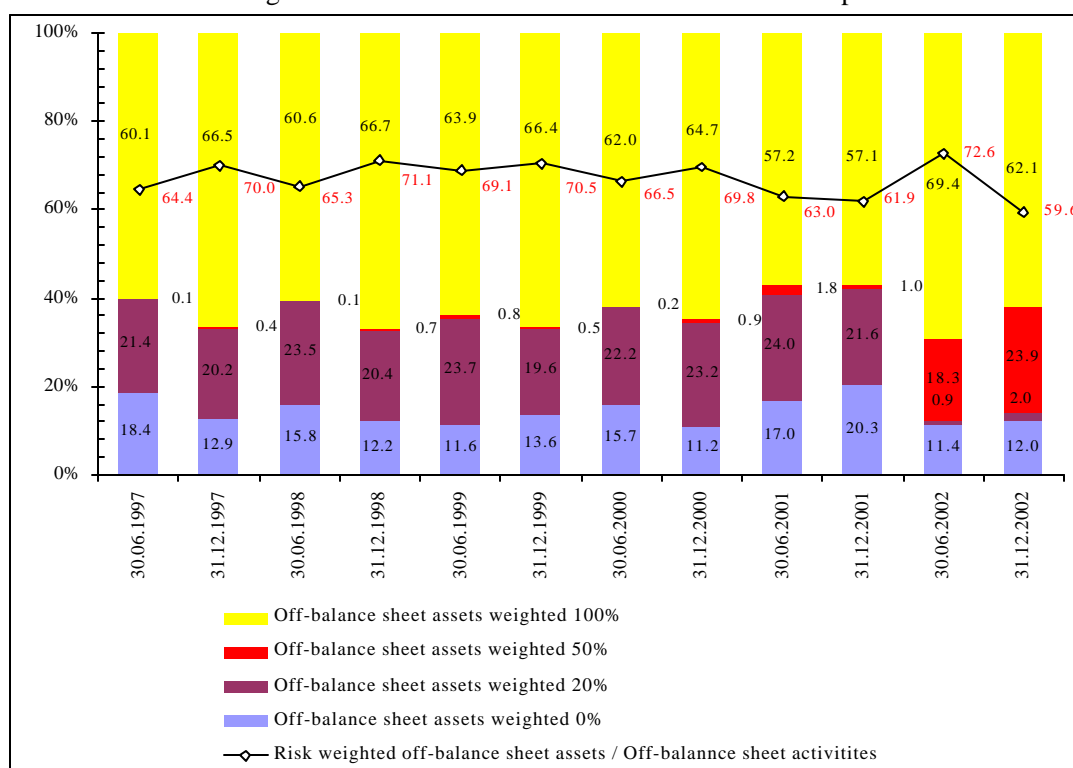
Structure of the risk weighted on-balance sheet assets of the banks in the Republic of Macedonia



As of December 31, 2002, the analysis of the structure of the risk weighted off-balance sheet assets of the banks in the Republic of Macedonia shows that the participation of the risk off-balance sheet items in the total off-balance sheet operations of the banks equals 59.6%, which is a decrease of 2.3 times compared to December 31, 2001 and of 13 percentage points compared to the first half of 2002 (when the highest level in the five previous years was registered). The lower share of the risk weighted off-balance sheet assets in the second half of the year presented in percentages, is a result of the decrease in the share of the off-balance sheet assets with a factor of conversion of 100% being registered. The banks still refrain from using completely the possibility given by the methodology for determining the risk weighted off-balance sheet assets, which refers to more precise limitation of credit equivalents with different factors of conversion by separate weights of 0%, 20%, 50% and 100%.

Chart 13

Structure of the risk weighted off-balance sheet assets of the banks in the Republic of Macedonia

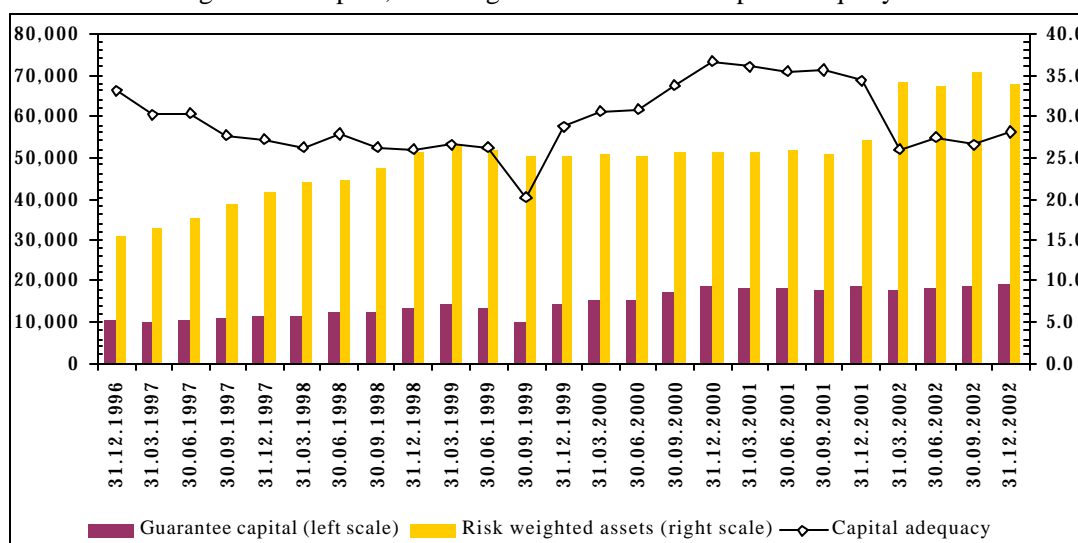


On December 31, 2002, the average capital adequacy ratio of the banks in the Republic of Macedonia equaled 28.1% as a result of the movement in the guarantee capital and the risk weighted on-balance sheet and off-balance sheet assets, which is a decrease of 6.2 percentage points compared to the end of the previous year. This situation is primarily due to the inclusion of the aggregate open foreign exchange position in the methodology for the calculation of this ratio. However, despite the introduction of the new element in the calculation of the capital adequacy ratio, the fulfillment of the prescribed minimum of 8% was not put in question in any bank in the Republic of Macedonia, i.e. it did not cause a deterioration of their solvency. As an illustration, the lowest capital adequacy ratio equals 17.1%, while the highest reaches 156.8%.

The analysis of the movement of the capital adequacy ratio indicates that the downward trend, which started as of December 31, 2000 when the capital adequacy ratio equaled 36.7%, is still present. This conclusion remains unchanged also if the effect of the inclusion of the open foreign exchange position in the calculation of the indicator, which would equal 33%, is not taken into consideration in the analysis.

Chart 14

Movement of the guarantee capital, risk weighted assets and the capital adequacy ratio



2.4.2. Credit risk

The changes in the by-laws adopted in 2001, the implementation of which started on March 31, 2002, were incorporated in the analysis of the assets quality, i.e. the credit risk the banks in the Republic of Macedonia assumed in 2002. Namely, with the new Decision on determining the methodology for classification of the on-balance sheet and off-balance sheet asset items of the banks according to their risk level, an adequate methodology for classification of the on-balance sheet and off-balance sheet asset items of the banks was prescribed, which is of an essential significance from the aspect of determining the level of the credit risk, i.e. the level of potential losses which this risk reflects with the banks. If the credit risk of the banks in the Republic of Macedonia is taken into consideration as the main indicator for their total risk profile, then prescribing more comprehensive and more consistent methodology for presenting and calculating this risk will also mean having more real picture about the total performances in the banks' operations.

With the new Decision on determining the methodology for classification of the on-balance sheet and off-balance sheet asset items of the banks according to their risk level being applied, the following more important changes in the methodology for classifying on-balance sheet and off-balance sheet asset items of the banks were made:

- The credit exposure category is encompassed and defined in more details. The scope of this category was extended, with certain components which can incorporate a suitable level of credit risk being included, such as the deposits with domestic and foreign banks and the uncovered performance guarantees;
- The spectrum of objective and subjective criteria for classifying on-balance sheet and off-balance sheet asset items of the banks was extended;
- The terms "first class instruments for securing the credit exposure of the banks" and "first class banks" were defined⁸.
- The country risk was defined.

⁸ In this regard, first class security instruments are considered: the money deposits or funds in depot for which the terms prescribed with the Decision are fulfilled; the securities of the Republic of Macedonia and the National Bank of the Republic of Macedonia, and the securities of the governments and the central banks of the European Union member-states, Switzerland, Canada, Japan and the USA; the irrevocable guarantees or the super-guarantees issued by domestic or foreign first-class banks; the unconditional guarantees payable at first written call issued by the Republic of Macedonia and the governments and the central banks of the EU member-states, Switzerland, Canada, Japan and the USA. Pursuant to the Decision, a bank is considered to be a first-class bank if it is rated BBB at least (according to the credit rating system of **Standard & Poor's**, **Fitch IBCA** and **Thompson Bank Watch**), or Baa3 (according to the **Moody's** rating).

In accordance with the changes in the methodology for classification of the lending on-balance sheet and off-balance sheet asset items of the banks according to their risk level, changes in the Decision on the amount and the manner of allocating special reserves for potential loan losses of the banks were made. The essential change consists of the inclusion of a special amount in the reserve for covering the potential loan losses originating from the country risk.

The structure and the quality of the credit portfolio of the banks in the Republic of Macedonia are presented in Annex no.3. Real comparative analysis of the indicators is possible only for the June - December 2002 period, while the comparative analysis of the indicators in the December 31, 2001 - December 31, 2002 period, incorporates the effect from the changes in the methodology for classifying the on-balance sheet and off-balance sheet asset items of the banks.

The total credit exposure of the banks in the Republic of Macedonia as of December 31, 2002 equaled Denar 93, 214 million, which is an increase of 75.7% or Denar 40,174 million compared to December 31, 2001. This increase in the credit exposure is caused by the inclusion of the deposits with domestic and foreign banks (Denar 30,408 million), the claims on the Republic of Macedonia (Denar 6,437 million) and the National Bank of the Republic of Macedonia (Denar 2,639 million), as well as by the part of the performance guarantees that remained uncovered. If the off-balance sheet risk exposure is not taken into consideration, then, on December 31, 2002 the remaining share of the credit portfolio in the total gross assets equals 84.9%, which is an increase of 47.6 percentage points in comparison with December 31, 2001. This increase in the structural share of the credit portfolio in the total gross assets of the banks is primarily due to the broader definition of the volume of the banks' total credit exposure in accordance with the new methodology.

The structural analysis of the credit portfolio indicates that with its share of 68.0%, the category "regular credits" remains to be the dominant component also in 2002. In the structure of the credit portfolio, the regular credits are followed by: Other claims with a share of 12.9% (on December 31, 2001 it equaled 4.1%), Non-performing loans 9.7% (on December 31, 2001 it equaled 19.0%), Off-balance sheet exposure 8.9% (on December 31, 2001 it equaled 17.6%), and Regular interest 0.6% (on December 31, 2001 it equaled 1.2%). Compared to December 31, 2001, movements in the structural share of all categories, with an exception of the category "regular interest" were registered, which were mainly caused by the methodological changes in defining the category "credit exposure".

On December 31, 2002, the analysis of the main indicators for the quality of the credit portfolio of the banks showed significant improvement compared to the end of 2001. However, if the effect of the changes made in the methodology for defining and calculating the total credit exposure of banks is excluded, a slight improvement in the quality of the credit portfolio in 2002 can be seen. This conclusion about the movement of the quality of the credit portfolio in 2002 is also supported by the comparison of the indicators in the January - December 2002 period, where the calculation is consistent, in compliance with the new methodology. Namely, on December 31, 2002, the total claims of the banks classified in the risk categories C, D and E equaled 15.9% (excluding the claims classified in the risk category E for more than two quarters, which are transferred to the off-balance sheet record), which is a decrease of 1.5 percentage points in comparison with June 30, 2002.

If the claims on the Republic of Macedonia and the National Bank of the Republic of Macedonia in the total amount of Denar 9,076 million are excluded from the classification of the assets, as well the claims on foreign banks classified in the risk categories A and B in the total amount of Denar 29,940 million, the total credit exposure in the risk categories C, D and E presented in percentages, will equal 27.4% instead of the current 15.9%.

At the end of 2002, the total credit exposure in the risk categories C, D and E equaled Denar 14,860 million, representing 77.7% of the guarantee capital of the banks in the Republic of Macedonia. As of December 31, 2001, the credit exposure in the risk categories C, D and E equaled Denar 17,892 million, or 95.7% of the guarantee capital of the banks in the Republic of Macedonia, which points to an improvement in the indicator by 18 percentage points.

However, in order to perceive the trend of the change in the quality of the credit portfolio of the banks in 2002 more realistically, the total amount of the claims classified in the risk category E for more than two quarters that are transferred to the off-balance sheet record during the year, should also be taken into consideration. Thus, including this amount which in 2002 equaled Denar 5,346 million, the total credit exposure of the banks equaled Denar 20,206 million on December 31, 2002. Hence, the share of the credit exposure classified in the risk categories C, D and E in the total credit portfolio of the banks equaled 20.5% on December 31, 2002. In comparison with December 31, 2001, this ratio decreased by 17.7 percentage points, while compared to June 30, 2002, it decreased by 1 percentage point. However, if the guarantee capital is taken as a comparison base, the indicator total credit exposure in C, D and E / Guarantee capital equals 105.7%. The improvement in the indicator of 10.5 percentage points compared to 2001, is a result of the decrease in the placements in C, D and E of Denar 1,521 million, and increased guarantee capital by Denar 423 million.

If during the analysis the allocated provisions for the credit exposure classified in the risk categories C, D and E are taken into account, it can be ascertained that the uncovered share of this segment of the banks' risk exposure equals Denar 7,950 million on December 31, 2002, which represents 8.5% of the total credit portfolio, i.e. 41.6% of the guarantee capital of the Macedonian banks as of December 31, 2002. Compared to 2001, this indicator registered a decrease of 10.8 percentage points, however, the solvency of the banks has not been jeopardized, yet, i.e. if the worst case scenario is assumed where the banking placements in the risk categories C, D and E are not collected at all, then the losses would be covered with 41.6% of the guarantee capital.

Table 11

Indicators of the quality of the credit portfolio of the banks in the Republic of Macedonia⁹

| Indicators | 31.12.1999 | 31.12.2000 | 31.12.2001 | 31.12.2001* | 30.06.2002 | 30.06.2002* | 31.12.2002 | 31.12.2002* |
|--|------------|------------|------------|-------------|------------|-------------|------------|-------------|
| % of C,D,E in total credit exposure | 41.3 | 34.8 | 33.73 | 38.2 | 17.41 | 21.54 | 15.94 | 20.5 |
| % of D,E in total credit exposure | 25.1 | 22.7 | 18.85 | 24.3 | 10.38 | 14.86 | 9.22 | 14.14 |
| % of C,D in total credit exposure | 34.4 | 26.18 | 29.47 | 27.5 | 14.13 | 13.42 | 13.7 | 12.95 |
| % of E in total credit exposure | 7.0 | 8.6 | 4.3 | 10.7 | 3.28 | 8.12 | 6.97 | 6.59 |
| % of risk (potential losses/total credit exposure) | 22.6 | 21.4 | 18.1 | 23.6 | 10.13 | 14.62 | 8.76 | 13.71 |
| % of C,D,E in guarantee capital | 145.3 | 94.2 | 95.7 | 116.2 | 91.82 | 119.6 | 77.71 | 105.67 |
| % of D,E in guarantee capital | 88.3 | 61.4 | 53.5 | 73.9 | 54.74 | 82.52 | 44.93 | 72.88 |
| % of C,D in guarantee capital | 120.8 | 70.8 | 83.6 | 83.6 | 74.52 | 74.52 | 66.76 | 66.76 |
| % of E in guarantee capital | 24.6 | 23.4 | 12.1 | 32.6 | 17.3 | 45.07 | 10.95 | 38.91 |
| % of net C,D,E in guarantee capital | 74.6 | 43.6 | 52.4 | 52.4 | 46.53 | 46.53 | 32.79 | 32.79 |

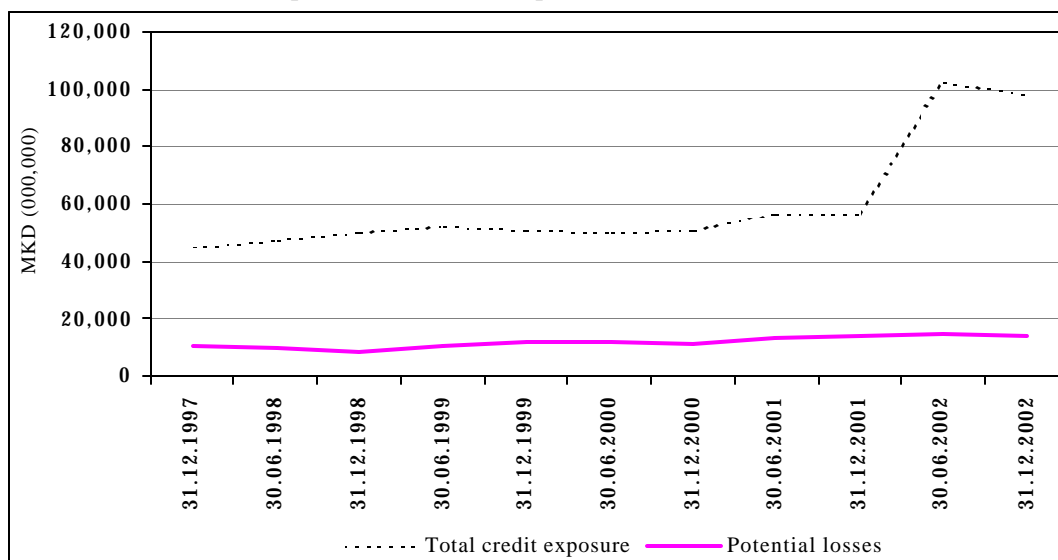
* indicators of the quality of the credit portfolio including the non-performing loans transferred to the off-balance sheet record.

In 2002, the rate of risk of the credit portfolio, which shows the relation between the calculated potential losses and the total credit exposure equaled 8.8% (13.7% including the claims transferred to the off-balance sheet record), which corresponds to the risk category B. This significant decrease in the rate of risk of the credit portfolio in comparison with 2001, is due to the changes in the legal framework, while a minimal decrease in the rate in real terms was registered in the second half of 2002.

⁹ A detailed Review of certain indicators for the quality of the credit portfolio of the banks in the Republic of Macedonia is presented in Annex 3.

Chart 15

Movement of the credit exposure and calculated potential losses of the banks



The total credit exposure of the banks in the analyzed December 31, 1997 – December 31, 2002 period increased by Denar 53.309 million or by 117.8%. During the same period, the identified loan losses in the credit portfolio of banks together with the potential losses from the country risk increased by Denar 2,756 million or by 25.6%, reaching Denar 13,512 million as of December 31, 2002. In 2002, the potential losses from the country risk equaled insignificant Denar 8 million.

2.4.3. Country risk

With the changes in the Decision on the methodology for classification of the on-balance sheet and off-balance-sheet asset items of banks according to their risk level, the country risk has been defined for the first time in the Republic of Macedonia and the banks are now obliged to calculate the potential losses on this basis. When assessing the country risk, the bank is calculating the potential losses according to the clients' credit exposure - foreign entity, which should amount at least to the percentage set for the country the client comes from. The banks are calculating the amount of the potential losses from the country risk, on the basis of a special list they receive from the National Bank of the Republic of Macedonia.

In this manner, more realistic assessment of the potential losses is made, which not only incorporates the potential losses that originate from the commercial risk related to the particular client, but also those originating from the risk of the country the client comes from. The total amount of the potential losses can not exceed the amount of the client's credit exposure.

Exception to the obligation of the banks to allocate a special reserve for the country risk are the following cases:

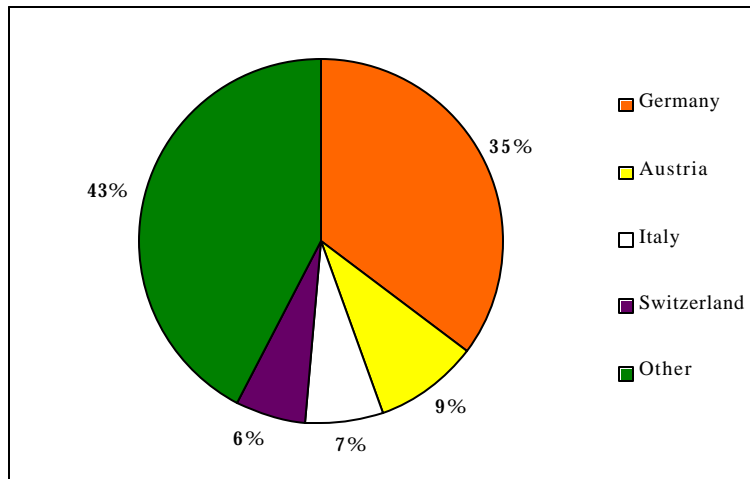
- When the contractual maturity of a certain type of credit exposure towards a client - foreign entity is up to three months;
- For a credit exposure towards international first class banks (defined in the part referring to the credit risk);
- For a credit exposure towards international financial institutions.

The total exposure to the country risk as of December 31, 2002 equaled Denar 29,813 million, or 32% of the total credit exposure, while the total net exposure to the country risk (the total credit exposure of the client reduced by the amount of the potential losses) equaled Denar

29,438 million. The total amount of the potential losses from the country risk equals Denar 8 million, i.e. the indicator measuring the country risk level equals only 0.03%. This is due to the fact that the most frequent cases of an exposure to a foreign entity, are when the Macedonian banks are exposed to foreign first class banks with a contractual maturity of up to three months. In addition, 91.1% of the placements with the clients - foreign entities are in countries having risk weight of 0%.

Chart 16

Structure of the credit exposure by individual countries



The chart shows that the banks in the Republic of Macedonia are mostly exposed to clients - foreign entities from Germany, Austria, Italy and Switzerland. The category "other" encompasses 43% of the exposure to the country risk and refers to 35 countries. In this category there is high dispersion of the risk by countries, ranging up to 6%.

2.4.4. Liquidity risk

The stabilization of the economic flows and the gradual rehabilitation from the last year crisis in the Republic of Macedonia, led to a significant decrease in the liquidity risk of the banks in 2002. Within the favorable trend of the general situation in the country, two main factors gave a strong additional impetus in reducing the liquidity risk: withholding of the largest part of the households' savings deposited during the Euro conversion, as well as the new payment system which enables the banks to plan and manage the liquidity on a daily basis directly and much more efficiently. In their managing the liquidity risk, the banks are highly influenced by the monetary policy instruments, the main objective of which is the maintenance of the price stability through the exchange rate targeting, as a nominal anchor in the economy. In 2001 (the security crisis) and in 2002 (consequences from the security crisis and the elections), having in mind the more expansive fiscal policy, the main burden in preserving the macroeconomic stability was born by the monetary policy. The normalized economic situation in 2002 led to a redesigning of a part of the monetary regulation instruments into more relaxed monetary policy which should contribute to a dynamization of the economic activity, primarily through a decrease in the interest rates.

2.4.4.1. Assets and liabilities management

In 2002, observed from the aspect of the liquidity risk management, the trend of stability of the deposit base is positively evaluated. The dynamics of the total deposit base of the banks in the Republic of Macedonia was mainly determined by the maintenance of the largest part of the deposited funds during the Euro conversion, as well as the additionally deposited households' deposits, having in mind their dominant share in the total deposit base (average monthly share of

56.8%). Namely, the withdrawal of the households' foreign exchange savings registered during the first quarter of the year, was followed by a period of stabilization of the banks' deposit potential, and as well as by a continuing moderate extension of the deposit base. Such trends point to a permanent strengthening of the propensity to save, which also signalizes the strengthened credibility of the banking system and positive expectations for the future developments. Thus in 2002, the deposits of the non-financial legal entities, i.e. primary sources of funds with their average share in the total sources of funds being equal to 62.0%, represent the dominant source of funds of the banks in the Republic of Macedonia.

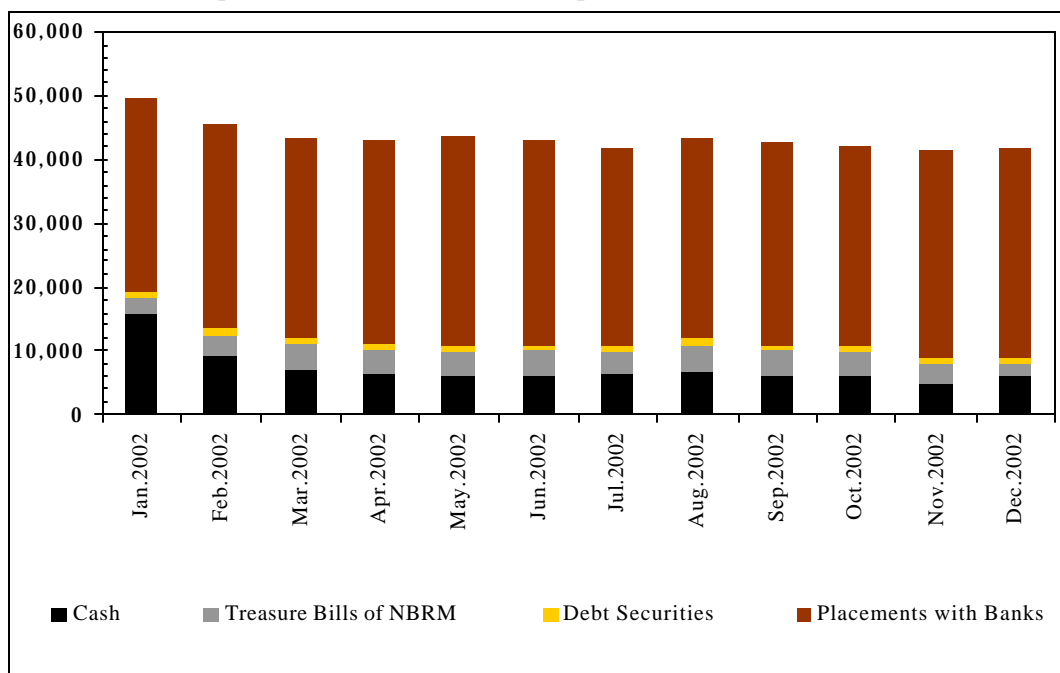
The analysis of the deposit base from the aspect of maturity in 2002, points to the dominant share of the sight deposits the average participation of which in the total deposit base equaled 63.8% on a monthly basis. Observed from the aspect of managing and planning the liquidity, the movements in the maturity structure of the primary sources of funds in the last quarter of the year are positive and they are directed toward the redistribution of the deposits from the sight deposits accounts to the term deposits accounts.

Observed from the aspect of the asset management in 2002, high level of liquid assets in the structure of the total assets of the banks in the Republic of Macedonia is recorded, primarily determined by the maturity structure of the sources of funds, i.e. the dominant share of the sight deposits (average monthly share of 39.6% in the total sources of funds). Thus the average share of the liquid assets in the total assets of the banking system during the year equaled 46.4%, which is by 9 percentage points more compared to 2001, and is an indicator of the larger liquidity of the banks in the Republic of Macedonia during the analyzed period. On the other hand, this situation points to the fact that the banks continue with conducting a conservative credit policy, i.e. they restrain from approving credits to non-financial entities despite the modest trend of revival of the credit activity in 2002, directly influencing the profitability from the aspect of return on assets and equity, as well as the amount of the registered net interest margins.

The movements in the structure of the liquid assets registered during the Euro conversion at the end of 2001 directed towards an increase in the structural share of the funds at the expense of a decrease in the foreign exchange deposits with domestic and foreign banks, were followed by an evident gradual directing of the largest part of the households' foreign exchange deposits that remained in the banks toward placements in international first class banks, with which the liquid assets accomplished the structure they registered before the Euro conversion. Thus in 2002, the average monthly share of the deposits with the foreign banks in the total banks' assets equaled 64.7%, i.e. 70.3% at the end of 2002. In 2002, the monthly average share of the cash of the Macedonian banks in the liquid assets equaled 16.3% (14.6% on December 31, 2002), the share of the CB bills equaled 8% (4.7% on December 31, 2002), while the remaining share accounts for the debt securities, the accounts with domestic banks and the short-term credits of banks.

Chart 17

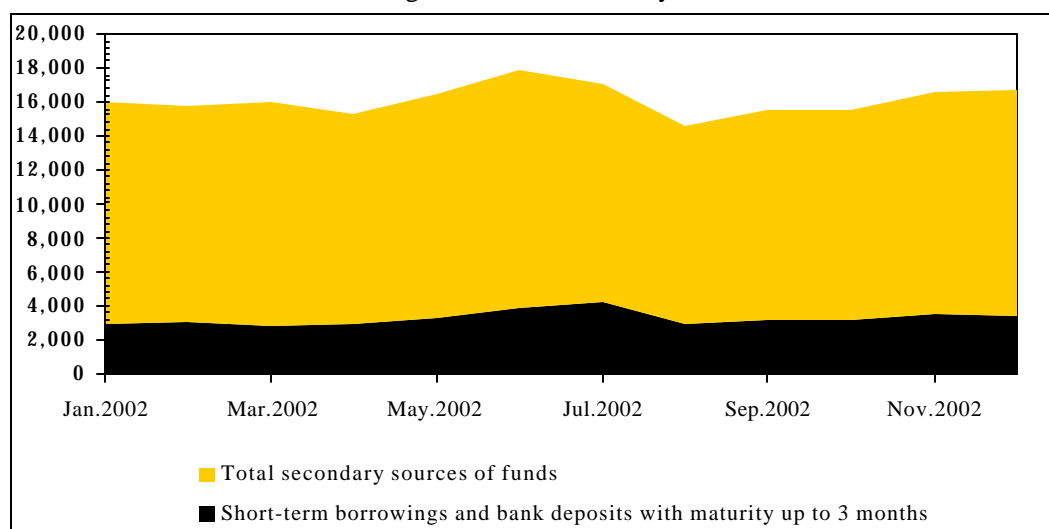
Movement of the liquid assets of the banks in the Republic of Macedonia



The increased liquidity registered in 2002 on annual basis, as well as the stability of the deposit base mean lower dependence on the secondary sources of funds on aggregate basis. During the analyzed period, the average share of the secondary sources of funds in the total sources of funds equaled 13.7% (by 1.3 percentage points less compared to 2001), i.e. 17.4% of the total liabilities of the banks (a decrease of 2.9 percentage points compared to their average monthly share in 2001). In 2002, the average share of the domestic and foreign banks' accounts with the Macedonian banks, the short-term term deposits, and the bank credits with maturity of up to three months in the structure of the total secondary sources of funds equaled about 25.6%. The remaining share refers to the long-term credit lines withdrawn from foreign banks and placed in the form of long-term credits, mainly intended for accomplishing development and investment aims.

Chart 18

The share of the short-term borrowings in the total secondary sources of funds



The analysis of the main indicators of the quality on the banks' credit portfolio, which acting as a generator of liquid assets influenced on the banks' liquidity position, shows its moderate improvement on aggregate basis in the second half of 2002. At the end of 2002, compared to the end of the first half of the year, the decrease in the overdue claims of the banks and the non-performing loans, as well as the smaller amount of non-performing claims transferred to the off-balance sheet record¹⁰ in the second half of the year in comparison with the first half of 2002, points to a certain improvement in managing the credit portfolio. This, together with the recovery of the credit activity registered in the second half of the year (as a result of the normalized situation in the country, i.e. improved conditions for conducting business activities and reduced credit risk), characterized by the prudence and the restraint of the banks from extending credits, is expected to lead toward an increase in the cash inflows resulting from the banks' credit activity in 2003. The bank-by-bank analysis indicates that the reduced cash inflows from the credit portfolio for the banks having more risky credit portfolios means having problems with planning and managing the liquidity, i.e. overcoming the liquidity "gaps" through utilization of more expensive sources of funds.

From the aspect of the introduction of the new payment system, it should be emphasized that the NBRM introduced the possibility for the banks to use an overdraft on the account with the National Bank of the Republic of Macedonia (intraday credit - collateralized by Government bonds and CB bills) in order to facilitate the banks' payments.

2.4.4.2. Monetary regulation instruments

Having in mind the retained macroeconomic stability, the gradual normalization of the general economic situation in the country, the international relations, as well as the increased liquidity in the banking sector, a need for changes in some of the monetary regulation instruments emerged¹¹. Thus in **January** 2002, the National Bank of the Republic of Macedonia stopped offering CB bills with maturity of 14 days. In **February** 2002, it abolished the instrument for setting the minimum liquidity requirement of the banks, while the compulsory reserve instrument¹²

¹⁰ In accordance with the Decision on the Supervisory Standards for Regulating the Overdue Claims of the Banks and Savings Houses.

¹¹ The activities for permanent reforming of the monetary regulation instruments are aimed at obtaining better efficiency, clearer and more successful transmission of the monetary policy signals, flexible positioning and better market orientation. The flexible layout presumes a possibility for adjustment of the monetary instruments to the changes in the economic environment, and especially adjustment as a reaction to certain shocks from (non) economic factors.

¹² Redefinition of the methodology for the compulsory reserve of the banks, with the deposits included in the basis for calculating the compulsory reserve being determined; the funds for meeting the compulsory reserve requirement are no longer allocated on separate

was redesigned, taking into consideration the changes that occurred as a result of the reform in the payments system and the transfer of part of the public sector's deposits to the commercial banks. In the **first quarter of 2002**, the National Bank of the Republic of Macedonia made a change in the monetary policy i.e. it reduced the interest rates of the CB bills¹³, thus sending an appropriate signal to the commercial banks to change their interest rate policy. The change in the type of the tender of the CB bills auctions and the decrease in the remuneration rate for compulsory reserves, were additional signals. Namely, in order to reduce the interest rates in accordance with the gradual normalization of the situation in the economy, in **July 2002** the NBRM started organizing "interest rate tender" CB bills auctions (instead of the "volume tender" auctions which were applied until then, due to the need for more aggressive approach of the NBRM in defending the foreign exchange rate during the last year crisis and the post-crisis period). Hence, the interest rates on the CB bills are again created on a market basis. Namely, the NBRM offers limited amounts of CB bills, and banks bid with interest rates. Simultaneously, the NBRM stopped offering CB bills with shorter maturity (7 days), directing the banks to satisfy their liquidity needs on the Money Market. On the other hand, the NBRM decreased the rate of remuneration for compulsory reserves two times, in July and August, by 2.52 percentage points, i.e. by additional 1 percentage point, so it equaled 6% annually at the end of 2002.

Compulsory reserve

The high liquidity of the banking system during the analyzed period enabled the banks (with an exception of one bank) to continually allocate funds for fulfilling the compulsory reserve requirement and to use funds from the allocated compulsory reserve within the allowed limits. In the February - December 2002 period, the compulsory reserve requirement equaled Denar 2,515 million on average. The banks were meeting the compulsory reserve requirement with an excess of allocated funds in the compulsory reserve of 24.6%, or Denar 615 million. Of the total allocated funds 87% were covered by funds deposited in the accounts of the banks, while the remaining 13% were covered by cash in vaults with the banks.

CB bills

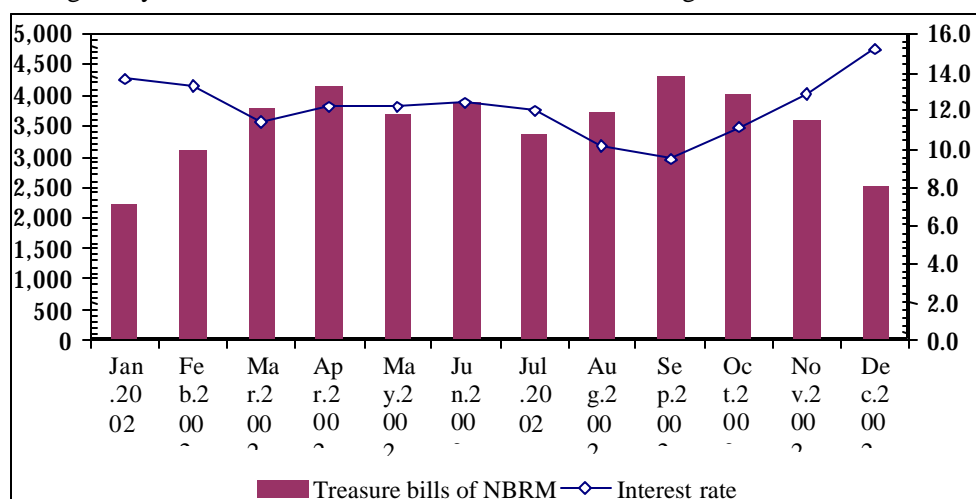
The increased liquidity of the banking system of the Republic of Macedonia in 2002, in the absence of a developed financial market and diversified financial instruments, as well as the preference of non-risky placements, caused the banks to place a significant share of the liquid assets into CB bills. The average daily amount of treasury bills that the banks purchased from the National Bank of the Republic of Macedonia during the year equals Denar 3,532 million, or by 70.6% more compared to 2001. The banks showed smaller interest in purchasing CB bills during the last month of the year, which is due to the expected increase in the outflows of seasonal character (taking into consideration the single maturity of CB bills of 28 days). In 2002, the average weighted interest rate registered on the CB bills auctions equaled 12.6%, or by 0.66 percentage points less in comparison with the one in 2001.

account, but on the bank's account with the National Bank of the Republic of Macedonia, through which the bank executes its interbanking transactions; the cash in vaults is included as a mean for meeting the compulsory reserve requirement; redefining the funds for which the NBRM pays compulsory reserve remuneration rate; the calculation and the fulfillment of the compulsory reserve requirement is conducted according to the calendar number of days in the month.

¹³ The interest rate of the CB bills with maturity of 28 days declined from 15% to 13% on annual basis, while the interest rate of the CB bills with a seven-day maturity declined from 11% to 8%, annually.

Chart 19

Average daily amount of subscribed CB bills and realized weighted interest rate

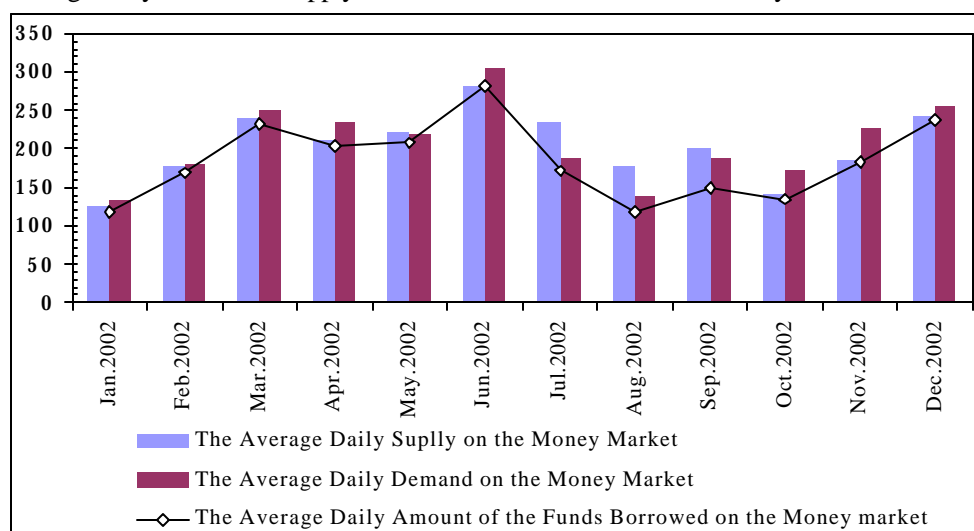


Money Market

The Money Market, where the banks place part of the excess liquidity, plays a special role in the management of the liquidity of the banks. In 2002, the activities on the Money Market significantly intensified. Namely, the average daily amount of realization on the Money Market equaled Denar 184 million, which is by 2.8 times more compared to 2001. Such an increase given the high liquidity in the banking system, is a result of the unequal dispersion of the liquidity within the system. The average interest rate¹⁴ realized on the Money Market in 2002 equaled 11.9%, contrary to 12.85% as it equaled in 2001.

Chart 20

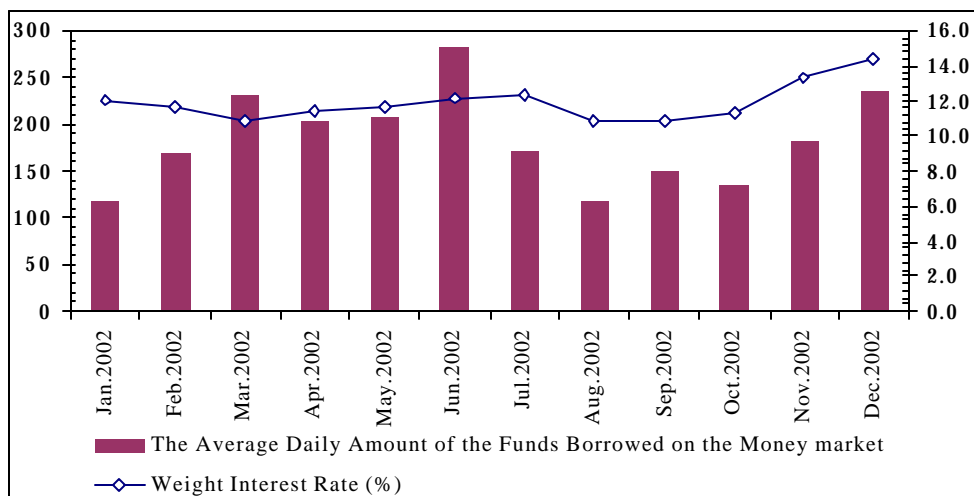
Average daily amount of supply, demand and realization on the Money Market



¹⁴ Set as an average of the monthly weighted interest rates realized on the Money Market.

Chart 21

Average daily amount of realization on the Money Market and movement of the weighted interest rate



Lombard Credit

The unequal allocation of the liquidity in the banking system, as well as the fluctuations in the liquidity, especially with the largest banks during the year, caused several banks to use the Lombard Credit as an instrument of last resort, adhering to the stipulated terms for its utilization.

Table 12

Lombard Credits granted by the National Bank of the Republic of Macedonia

MKD (000,000)

| 2002 | Number of banks | Amount of Lombard Credit | Maturity in days | Interest Rate (in % p.a.) |
|-----------|-----------------|--------------------------|------------------|---------------------------|
| January | 3 | 1,939 | 4 | 23.0 |
| February | 1 | 1,900 | 5 | 23.0 |
| March | 1 | 2,490 | 5 | 23.0 |
| April | 2 | 1,991 | 7 | 23.0 |
| May | - | - | - | - |
| June | 3 | 2,743 | 8 | 23.0 |
| July | - | - | - | - |
| August | - | - | - | - |
| September | 1 | 150 | 1 | 23.0 |
| October | 1 | 7 | 1 | 23.0 |
| November | 1 | 264 | 4 | 23.0 |
| December | 2 | 2,443 | 8 | 23.0 |

2.4.5. Analysis of the Profitability of Banks

2.4.5.1. Profit and Loss Account Structure

In 2002, the banks in the Republic of Macedonia showed positive financial results in the amount of Denar 396 million on aggregate level. Fifteen banks, representing 69.8% of the total financial potential of all banks, showed positive financial result in the total amount of Denar 972 million, while 5 banks showed negative financial result in the total amount of Denar 576 million.

Basically, the positive financial result of the banks in 2002 originates from the positive net interest income after provisioning, given the negative differential between other revenues and other

expenditures. Since the banks registered a negative financial result in the first six months of 2002, which equaled Denar 894 million on aggregate basis, the sources of the registered profit of the banks for 2002 are to be found in the operations of the banks during the second half of 2002.

The statements about the level of profitability of the Macedonian banks are based on the structural and comparative analysis of the separate components of the profit and loss accounts for 2001 and 2002 presented in Annex 2 of this Report.

The total **interest income** of the banks in 2002 equaled Denar 5,428 million, which is an increase of Denar 945 million or 21.1% compared to 2001. The structural analysis of the interest income during the analyzed period points to the statement that this increase is due to the significant annual decline in the reversed interest income on the basis of non-accrual interest of Denar 979 million, or 56.7%. In addition, the trend of decline in the interest income of enterprises persisted also in 2002 (Denar 361 million, or 9.6%), with a simultaneous increase in the interest income of banks (Denar 239 million, or 25.4%) and in the interest income of households (Denar 102 million, or 14.9%) being registered. As a result of such movements, the share of the interest income of enterprises as a dominant position in generating the total interest income in the structure of the gross interest income registered in 2002 reduced to 55.1%, which is a decrease of 5.5 percentage points compared to 2001.

The movements of the separate interest income categories in the structure of the total interest income are caused by the following:

- Maintenance of the high level of the banks' liquid assets. Thus, the average share of the liquid assets in the banks' total assets in 2002 is set on a level of 46.4%, contrary to the situation in 2001, when this share equaled 37.4%;
- Such a policy of the banks in managing their assets caused a relatively high level of low-income placements in the form of foreign currency deposits with foreign banks. On the other hand, due to the relatively high liquidity position of the banks and the attractive interest rates, an increase in the volume of the purchased CB bills during this year compared to 2001 was registered (the average daily amount of purchased CB bills in 2002 equaled Denar 3,532 million, contrary to 2001 when it equaled Denar 2,070 million). Such a volume of transactions and the simultaneous decrease in the average interest rate of CB bills of 0.6 percentage points annually, caused an increase in the interest income of the banks. Given the high and unequally dispersed liquidity in the banking system, in 2002 compared to 2001, the activity on the Money and short-term securities market registered a significant increase relative to the average daily amount of supply, demand and realization given the reduced annual average interest rate of 1 percentage point (the average daily amount of realization in 2002 equaled Denar 65 million, while in 2001 it equaled Denar 184 million).
- Retention of the prudent and restrictive credit policy of the banks with relation to the non-financial entities, despite the slight revival being registered in comparison with the previous year, as a result of the normalized economic and security situation in the country, as well as in the general conditions for conducting business activities. The average weighted interest rate is still high, although a slight decrease of 0.97 percentage points compared to 2001 was registered¹⁵. An essential characteristic for the analyzed period, observed from the aspect of the sector structure of the placements, is the registered increase in the households' placements, and especially in accordance with the intensified process of long-term Denar crediting of the households by banks, thus generating an interest income of the households in comparison with 2001.

The total **interest expenditures** of the banks in 2002 equaled Denar 2,999 million and compared to 2001 they increased by Denar 373 million, or by 14.2%. Having in mind the decrease

¹⁵ The movement in the interest rates registered in the last months of 2002, points to a moderate increase in the flexibility in the banks' interest rate policy, having in mind the significant stabilization in the total economic flows. Namely, the weighted lending interest rate in November equaled 17.9%, while in December it equaled 17.7%, which is the bottom level since the independence of the Republic of Macedonia.

in the average weighted deposit interest rate by 0.36 percentage points, the increase in the interest expenditures during this year is due to the significantly higher level of the deposit base of the banks in the Republic of Macedonia compared to the previous year. Namely, after the intensive growth in the deposit base at the end of 2001 as a result of the Euro conversion, the largest share of the deposits remained in the banks in 2002. Besides the effect of the Euro conversion, the dynamics of the deposits during the year was also characterized by a moderate increase, thus showing the strengthened confidence in the banks and reflecting the preferences for saving, which gives a ground for optimistic expectations from the future movements.

The movements in the deposit base conditioned by the trend of decline in the share of the enterprises' deposits at the expense of the increase in the share of the households' deposits, caused the structural layout of certain categories of the interest expenditures in the profit and loss account of the banks to change. Namely, the largest share of 38% accounts for the interest expenditures of the households in comparison with the interest expenditures of enterprises, the share of which equals 26.6%. Consequently, the largest changes from the aspect of the comparative analysis of both of the compared years, 2001 and 2002, were identified exactly in these two items. Thus in 2002, the interest expenditures of households increased by Denar 327 million, or by 40.3%, while the interest expenditures of enterprises decreased by Denar 217 million, or by 21.3%. Simultaneously to the movements in the deposit base of households, a significant increase in the deposit insurance premiums by Denar 181.8 million, or 120.3% was registered.

As a result of the movements in the total interest income and the total interest expenditures, the **net interest income** of the Macedonian banks in 2002 equaled Denar 2,430 million, which is an increase of Denar 572 million, or 30.8% compared to 2001.

In 2002, the **net loan loss provisions** equaled Denar 1,798 million, which is a decrease of 29.3% in comparison with 2001. Such a decline is mainly due to the lower amount of provisioning in 2002 compared to 2001 by Denar 512 million, or 15.7%, and to a smaller extent, to the higher amount of return on provisions by Denar 232 million, or 32.8%. Such movements are a result of the improved quality of the banks' credit portfolio, as well as of the movements in the volume and the type of the banks' credit activity in 2002.

As a result of the positive movements effectuated through the constant increase in the net interest income, as well as the reduced net provisions, the **net interest income after provisioning** was positive in 2002 and equaled Denar 631 million, contrary to the previous years when this amount had negative sign (Denar 684 million in 2001, Denar 328 million in 2000 and Denar 1,268 million in 1999). The influence of the non-allocated loan loss provisions (including the additionally set non-performing interest) in the total amount of Denar 20 million, identified through the on-site examinations, which are not presented in the profit and loss account, is totally insignificant.

The banks' positive net interest income after provisioning in 2002 generated from performing their main function (intermediation between the entities that register financial surplus and those that register financial deficit) is the main reason for the registered positive financial result from the banks' operations on aggregate level during the analyzed period. Such a situation is conditioned by the improved quality of the credit portfolio, the share of which in the assets of the banks in the Republic of Macedonia is significant, i.e. by the calculated lower degree of credit risk, mainly shown through the lower amount of the allocated loan loss provisions and the lower amount of reversed interest income.

The comparison analysis shows that in 2002 contrary to the previous years, the banks registered lower income on other basis relative to the other expenditures, i.e. a negative differential in the amount of Denar 161 million, which caused a certain decrease in the positive net interest income after provisioning.

The total income realized on other basis (net income from commissions, dividends, securities, capital gains, exchange rate differentials and other income) registered in 2002, equaled Denar 4,900 million, which is by Denar 91 million, or by 1.9% more compared to the previous year, i.e. by Denar 452 million, or by 10.2% relative to the previous year on corrected basis¹⁶. Observed from a structural aspect, the net income based on commissions and the category "other income" registered almost identical share of 46.7% and 46.1%, respectively. In comparison with the previous year, the net income based on provisions increased by Denar 485 million, or by 26.9%, which is due to the reforms in the payment operations, i.e. the transfer of the payment operations to banks, while regarding the category "other income", an increase of 36.2% on corrected basis was recorded, resulting from the increased extraordinary income based on transfer of claims from the off-balance sheet record to the on-balance sheet record of the banks.

The category "general and administrative expenses" retained its dominant share in the item "other expenditures" also this year, and it equaled 80.2%, which is an increase of 4.2 percentage points compared to the previous year. The total amount of the expenditures within this category equaled Denar 4,059 million, which is an increase of 15.2% relative to the same period of 2001, meaning that a continuous increase with almost identical intensity relative to the previous years is registered. Such increase is primarily conditioned by the increase in the wage expenses, which is the most important item in the general and the administrative expenses, with its share being equal to 55.1% in 2002.

2.4.5.2. Banks' Profitability and Efficiency Indicators

The second level of the analysis of the profitability of the Macedonian banks and the estimation of their efficiency is the calculation and the analysis of the main indicators that reflect the performances of these two aspects of the banks' operations.

Table 13

Indicators of the profitability and the efficiency of the banks in the Republic of Macedonia

| Ratios | 31.12.2001 | 31.12.2002 | 31.12.2001* | 31.12.2002* |
|---|------------|------------|-------------|-------------|
| Return on average assets(ROAA) | -0.66% | 0.40% | 1.50% | 1.46% |
| Return of average equity(ROAE) | -3.24% | 2.06% | 5.98% | 6.90% |
| Operational costs/Total income | 1.12 | 0.91 | 0.75 | 0.76 |
| Wage expenses/Total income | 0.48 | 0.4 | 0.30 | 0.33 |
| Loan loss provisions/Net interest income | 1.37 | 0.74 | 0.58 | 0.55 |
| Total number of employees (banks and savings houses) | 4,332 | 4,676 | 2,501 | 2,781 |
| Reported financial result/Total number of employees (in MKD million) | -0.14 | 0.087 | 0.36 | 0.35 |
| Total net assets/Total number of employees (in MKD million) | 24.9 | 20.4 | 27.6 | 23.4 |

*The indicators refer only to the banks which achieved positive financial results in 2001 and 2002

This table shows that all indicators register an upward trend, which points to the improved profitability of the banks in the Republic of Macedonia in 2002. An exception is only the last indicator which registered a downward trend, i.e. lower amount of assets per employee.

The registered positive financial result in 2002, reflected the positive values of the indicators of the rate of return on assets (ROAA) and the indicator of the rate of return on equity (ROAE). The ROAA shows that in 2002, 100 units of assets of the banks in the Republic of Macedonia generated 0.4 units of profit, while ROAE shows that 100 units of equity of the banks in the Republic of Macedonia generated 2.06 units of profit. If the analysis encompasses only the banks which generate profit in their operations, the rate of return on assets and the rate of return of equity are set on the level of 1.46%, i.e. 6.9%, respectively. This shows that most of the banks in the Republic of Macedonia, the financial potential of which equals 69.8% of the total financial

¹⁶ As a result of the aforementioned inappropriate book-keeping record, in 2002, one bank registered an unnecessary increase in the extraordinary income by Denar 361 million, and thus the category "other income" would equal Denar 1,659 million instead of Denar 2,020 million, i.e. the total other income would equal Denar 4,447 million instead of Denar 4,808 million.

potential, make an adequate allocation of the available resources and ensure profitability, as well as return on assets and return on equity which adhere to the international standards.

As for the indicator operational costs / total income, an improvement in the banks' efficiency regarding the decrease in the amount of the necessary expenses for generating income of one Denar was registered. Namely, in 2002, this indicator equaled 0.91 compared to 1.12 in 2001, which is a decrease in the operational costs of Denar 0.21 to an income of one Denar. In 2002, this indicator with the banks that showed positive financial result equaled 0.76 compared to 0.75 in 2001. Within this framework, certain decrease in the amount necessary for generating one Denar income in the wage expenses was also registered. Thus in 2002, in order to generate an income of one Denar, it was necessary to make wage expenses of Denar 0.40, compared to the previous year when it was necessary to make wage expenses in the amount of Denar 0.48 to realize an income of one Denar.

In 2002, the indicator loan loss provisions / net interest income equaled 0.74, thus showing that the net interest income this year is sufficient for covering the expenditures based on loan loss provisions i.e. for absorbing the credit risk involved in conducting classical banking operations. This indicator is more favorable with the banks which generated profit, and in 2002 it equaled 0.55 (0.58 in 2001), which means that the quality of the credit portfolio with these banks requires an allocation of loan loss provisions, which participate with more than half of the registered net interest income. Contrary to 2002, in 2001 this indicator was unfavorable on aggregate level and it equaled 1.37, thus representing a basis for the net negative interest income after provisioning, and ultimately, for the end negative financial results of the banks' operations.

As of December 31, 2002, the total number of employees in the banks and the savings houses in the Republic of Macedonia equaled 4,676 persons, which is an increase of 344 employees or 7.9% compared to December 31, 2001.

Using the registered positive financial results of the banks in the Republic of Macedonia relative to the number of employees as a starting point, despite the small amount of generated gain in the amount of Denar 86.6 thousand per employee, there is still an improvement in the indicator compared to the previous year, when a loss per employee in the banks in the Republic of Macedonia was registered. This indicator for the banks showing profit at the end of the year, is at the level of Denar 0.35 million of net income per employee, thus confirming their higher efficiency.

The indicator "total net assets / number of employees in banks" as of December 31, 2002, shows that there are Denar 20.4 million net assets per employee in the Macedonian banks, contrary to Denar 24.9 million as of December 31, 2001, while as of December 31, 2002 there are Denar 23.4 million net assets per employee in the banks generating profit, contrary to Denar 27.6 million registered at the end of 2001.

From the aspect of the qualification structure of the employees in the Macedonian banks, the conclusion made during the previous years, that the structure is unfavorable and has an appropriate adverse effect on the total efficiency of the banks, remains.

Thus the employees with high school degree and lower level of education participate with 61.62% in the total number of the employees. The share of the employees with university degree equals 29.1%, while the employees with Ph.D. and M.Sc. degree account for only 0.6% of the total number of employees. The table presenting the qualification structure of the employees in the Macedonian banks and savings houses is given below.

Table 14

Qualification structure of employees in the banks and savings houses in the Republic of Macedonia

| As of 31.12.2002 | Total number of employees | Ph.D & M.Sc. | | University degree | | Advanced specialist's training | | Intermediate specialist's training | | High-skilled, Low-skilled & Under-skilled | |
|-----------------------|---------------------------------|--------------|------|----------------------|------|--------------------------------------|------|--|------|---|------|
| | | number | % | number | % | number | % | number | % | number | % |
| <i>Banks</i> | 4,569 | 28 | 96.6 | 1,312 | 96.3 | 394 | 97.5 | 2,571 | 98.3 | 264 | 99.2 |
| <i>Savings houses</i> | 107 | 1 | 3.4 | 50 | 3.7 | 10 | 2.5 | 44 | 1.7 | 2 | 0.8 |
| <i>Total</i> | 4,676 | 29 | 100 | 1,362 | 100 | 404 | 100 | 2,615 | 100 | 266 | 100 |
| <i>% of share</i> | 100 | 0.6 | | 29.1 | | 8.6 | | 55.9 | | 5.7 | |

APPENDIX

BALANCE SHEET

MKD (000,000)

| ASSETS | 31.12.2002 | | 31.12.2001 | |
|--|---------------|---------------|----------------|---------------|
| CASH AND BALANCE WITH NBRM | 6,079 | 6.5% | 26,470 | 25.1% |
| Denar cash | 4,399 | 72.4% | 2,348 | 8.9% |
| Foreign currency exchange cash | 1,675 | 27.6% | 22,315 | 84.3% |
| Precious metals and other kind of cash | 5 | 0.1% | 5 | 0.0% |
| Compulsory reserve and other balances with NBRM | 0 | 0.0% | 1,803 | 6.8% |
| SECURITIES REDISCOUNTED BY NBRM | 1,968 | 2.1% | 1,932 | 1.8% |
| DEBT SECURITIES | 865 | 0.9% | 845 | 0.8% |
| Checks and bills of exchange | 164 | 19.0% | 146 | 17.2% |
| Government securities denar nominated | 674 | 78.0% | 693 | 81.9% |
| Other debt securities | 26 | 3.0% | 7 | 0.9% |
| PLACEMENTS TO OTHER BANKS | 33,803 | 36.3% | 29,576 | 28.0% |
| Accounts with domestic banks | 1,559 | 4.6% | 6,571 | 22.2% |
| Accounts with foreign banks | 29,338 | 86.8% | 20,424 | 69.1% |
| Short-term loans and other claims on domestic banks and other financial institutions | 1,623 | 4.8% | 1,390 | 4.7% |
| Short-term loans and other claims on foreign and domestic banks in foreign exchange | 294 | 0.9% | 38 | 0.1% |
| Past due loans and claims on banks | 0 | 0.0% | 3 | 0.0% |
| Long-term loans and other claims on domestic banks and other financial institutions | 194 | 0.6% | 288 | 1.0% |
| Long-term loans and other claims on foreign banks and other financial institutions | 748 | 2.2% | 300 | 1.0% |
| Non-performing loans on banks | 47 | 0.1% | 562 | 1.9% |
| Reserves for potential losses for claims on banks | 0 | 0.0% | 0 | 0.0% |
| PLACEMENTS TO CLIENTS | 32,070 | 34.4% | 30,642 | 29.0% |
| Enterprises | 23,445 | 73.1% | 23,511 | 76.7% |
| Other customers | 1,140 | 3.6% | 1,840 | 6.0% |
| Households | 5,231 | 16.3% | 3,561 | 11.6% |
| Non-performing loans on clients | 8,953 | 27.9% | 9,397 | 30.7% |
| Reserves for potential loan losses | - 6,699 | -20.9% | - 7,667 | -25.0% |
| ACCRUED INTEREST AND OTHER ASSETS | 4,504 | 4.8% | 2,554 | 2.4% |
| Accrued interest | 554 | 12.3% | 710 | 27.8% |
| Non-accrual interest and other claims | 3,710 | 82.4% | 3,581 | 140.2% |
| Reserves for potential losses for interest | - 3,766 | -83.6% | - 3,675 | -143.9% |
| Other claims | 881 | 19.6% | 54 | 2.1% |
| Foreclosures | 2,998 | 66.6% | 1,820 | 71.3% |
| Net commission relations | - 89 | -2.0% | - 140 | -5.5% |
| Net internal relations | (0) | 0.0% | 2 | 0.1% |
| Other assets | 216 | 4.8% | 200 | 7.8% |
| SECURITIES INVESTMENTS | 7,734 | 8.3% | 8,049 | 7.6% |
| Securities in foreign currency available for sale | 207 | 2.7% | 353 | 4.4% |
| Securities in foreign currency held up to maturity | 6,290 | 81.3% | 7,015 | 87.2% |
| Equity investments in domestic currency | 1,237 | 16.0% | 695 | 8.6% |
| Reserves for purchased owned shares | 0 | 0.0% | (14) | -0.2% |
| FIXED ASSETS | 6,211 | 6.7% | 5,661 | 5.4% |
| Buildings | 4,354 | 70.1% | 4,458 | 78.8% |
| Equipment | 2,715 | 43.7% | 2,196 | 38.8% |
| Intangible investments | 218 | 3.5% | 169 | 3.0% |
| Other means of operation | 157 | 2.5% | 308 | 5.4% |
| Means of operation in preparation | 921 | 14.8% | 563 | 9.9% |
| Correction of value of fixed assets | - 2,155 | -34.7% | - 2,033 | -35.9% |
| NON-ALLOCATED RESERVES FOR POTENTIAL LOSSES | - 20 | 0.0% | - 98 | -0.1% |
| TOTAL ASSETS | 93,213 | 100.0% | 105,633 | 100.0% |
| OFF-BALANCE SHEET ITEMS | 12,620 | | 15,440 | |

BALANCE SHEET

MKD (000,000)

| <i>Liabilities</i> | <i>31.12.2002</i> | | <i>31.12.2001</i> | |
|---|-------------------|---------------|-------------------|---------------|
| DEPOSITS OF BANKS | 2,924 | 3.1% | 2,379 | 2.3% |
| Denar sight deposits | 378 | 12.9% | 72 | 3.0% |
| FX sight deposits of domestic banks | 583 | 19.9% | 516 | 21.7% |
| FX sight deposits of foreign banks | 269 | 9.2% | 416 | 17.5% |
| Short-term denar deposits | 797 | 27.3% | 695 | 29.2% |
| Short-term FX deposits | 771 | 26.4% | 568 | 23.9% |
| Long-term denar deposits | 116 | 4.0% | 111 | 4.7% |
| Long-term FX deposits | 12 | 0.4% | | |
| SIGHT DEPOSITS | 36,347 | 39.0% | 45,879 | 43.4% |
| Denar sight deposits of enterprises | 7,951 | 21.9% | 7,782 | 17.0% |
| Denar sight deposits of public sector | 1,625 | 4.5% | 1,490 | 3.2% |
| Denar sight deposits of other customers | 1,556 | 4.3% | 1,519 | 3.3% |
| Denar sight deposits of households | 5,718 | 15.7% | 3,993 | 8.7% |
| Restricted denar deposits | 331 | 0.9% | 450 | 1.0% |
| FX sight deposits of enterprises | 4,580 | 12.6% | 7,059 | 15.4% |
| FX sight deposits of households | 14,213 | 39.1% | 21,982 | 47.9% |
| Restricted FX deposits | 374 | 1.0% | 1,604 | 3.5% |
| SHORT TERM DEPOSITS UP TO 1 YEAR | 18,076 | 19.4% | 19,734 | 18.7% |
| Denar short term deposits of enterprises | 4,876 | 27.0% | 5,687 | 28.8% |
| Denar short term deposits of public sector | 558 | 3.1% | 1,799 | 9.1% |
| Denar short term deposits of other customers | 324 | 1.8% | 268 | 1.4% |
| Denar short term deposits of households | 2,080 | 11.5% | 989 | 5.0% |
| FX short term deposits of enterprises | 322 | 1.8% | 0 | 0.0% |
| FX short term deposits of other customers | 430 | 2.4% | 222 | 1.1% |
| FX short term deposits of households | 9,487 | 52.5% | 10,769 | 54.6% |
| SHORT TERM BORROWINGS UP TO 1 YEAR AND ISSUED DEBT SECURITIES | 2,917 | 3.1% | 4,717 | 4.5% |
| Short-term borrowings of NBRM | 0 | 0.0% | 0 | 0.0% |
| Short-term denar borrowings of domestic banks | 958 | 32.9% | 707 | 15.0% |
| Short-term FX borrowings of domestic banks | - | 0.0% | | |
| Short-term borrowings of foreign banks | 1,959 | 67.1% | 3,891 | 82.5% |
| Short-term denar borrowings of other customers | - | 0.0% | 118 | 2.5% |
| Short-term borrowings of enterprises | - | 0.0% | 0 | 0.0% |
| Issued debt securities and other short-term liabilities | - | 0.0% | | |
| OTHER LIABILITIES | 2,296 | 2.5% | 2,975 | 2.8% |
| Payable interest | 179 | 7.8% | 219 | 7.4% |
| Other liabilities in denars | 1,826 | 79.5% | 1,679 | 56.4% |
| Other liabilities in FX | 161 | 7.0% | 379 | 12.8% |
| Temporary accounts | 131 | 5.7% | 697 | 23.4% |
| LONG TERM DEPOSITS OVER 1 YEAR | 3,482 | 3.7% | 4,383 | 4.1% |
| Denar long term deposits of enterprises | 187 | 5.4% | 83 | 1.9% |
| Denar long term deposits of public sector | 154 | 4.4% | 144 | 3.3% |
| Denar long term deposits of other customers | 74 | 2.1% | 67 | 1.5% |
| Denar long term deposits of households | 2,189 | 62.9% | 2,061 | 47.0% |
| FX long term deposits of other customers | 3 | 0.1% | 3 | 0.1% |
| FX long term deposits of households | 875 | 25.1% | 2,025 | 46.2% |
| LONG TERM BORROWINGS OVER 1 YEAR | 7,402 | 7.9% | 5,561 | 5.3% |
| Long term borrowings of NBRM | 398 | 5.4% | 426 | 7.7% |
| Long term denar borrowings of domestic banks | 177 | 2.4% | 241 | 4.3% |
| Long term FX borrowings of domestic banks | 27 | 0.4% | 25 | 0.4% |
| Long term borrowings of foreign banks | 5,383 | 72.7% | 3,460 | 62.2% |
| Long term borrowings of other customers | 931 | 12.6% | 1,394 | 25.1% |
| Long term borrowings of enterprises | 0 | 0.0% | 0 | 0.0% |
| Assumed long term FX borrowings | 16 | 0.2% | 16 | 0.3% |
| Long term issued securities, subordinated deposits and hybrid capital instruments | 470 | 6.4% | | |
| PROVISIONS FOR OFF BALANCE SHEET ITEMS | 490 | 0.5% | 847 | 0.8% |
| OWNED FUNDS | 19,279 | 20.7% | 19,159 | 18.1% |
| Equity capital | 17,168 | 89.1% | 17,690 | 92.3% |
| Reserve fund | 2,505 | 13.0% | 3,006 | 15.7% |
| Revaluation reserves | 53 | 0.3% | 2 | 0.0% |
| Unallocated profit from previous years | 237 | 1.2% | 92 | 0.5% |
| Other funds | 1 | 0.0% | 23 | 0.1% |
| Loss | - 666 | -3.5% | - 1,557 | -8.1% |
| Non-allocated reserves for potential losses | - 20 | -0.1% | - 98 | -0.5% |
| TOTAL LIABILITIES and CAPITAL | 93,213 | 100.0% | 105,633 | 100.0% |

INCOME STATEMENT

MKD (000,000)

| | 2002 | | 2001 | |
|---|---------------|---------------|---------------|---------------|
| INTEREST INCOME | 5,428 | 100.0% | 4,483 | 100.0% |
| Banks | 1,178 | 21.7% | 940 | 21.0% |
| Enterprises | 3,404 | 62.7% | 3,765 | 84.0% |
| Households | 787 | 14.5% | 685 | 15.3% |
| Other | 806 | 14.9% | 819 | 18.3% |
| Reversed interest | -748 | -13.8% | -1,726 | -38.5% |
| INTEREST EXPENSE | -2,999 | 100.0% | -2,625 | 100.0% |
| Banks | -476 | 15.9% | -428 | 16.3% |
| Enterprises | -798 | 26.6% | -1,014 | 38.6% |
| Households | -1,139 | 38.0% | -812 | 30.9% |
| Other | -254 | 8.5% | -221 | 8.4% |
| Insurance premium | -333 | 11.1% | -151 | 5.8% |
| NET INTEREST INCOME | 2,430 | 100.0% | 1,858 | 100.0% |
| NET PROVISIONS | -1,798 | 100.0% | -2,542 | 100.0% |
| Provisions | -2,738 | 152.3% | -3,250 | 127.9% |
| Recovery, regarding provisions | 940 | -52.3% | 708 | -27.9% |
| NET INTEREST INCOME AFTER PROVISIONS | 631 | 100.0% | -684 | 100.0% |
| NET FEES AND COMMISSION INCOME | 2,287 | 100.0% | 1,802 | 100.1% |
| Fees and commission income | 2,685 | 117.4% | 2,224 | 123.4% |
| Fees and commission expenses | -398 | -17.4% | -421 | -23.4% |
| DIVIDENDS | 41 | 100.0% | 18 | 100.0% |
| NET INCOME, REGARDING THE SECURITIES | 2 | 100.0% | 2 | 100.0% |
| NET CAPITAL INCOME | -47 | 100.0% | 75 | 100.0% |
| NET FX INCOME | 356 | 100.0% | 891 | 100.0% |
| OTHER INCOME | 2,259 | 100.0% | 2,020 | 100.0% |
| Other income | 474 | 21.0% | 637 | 31.5% |
| Extraordinary income | 1,785 | 79.0% | 1,384 | 68.5% |
| OPERATING EXPENSES | -4,059 | 100.0% | -3,525 | 100.0% |
| Salary | -2,235 | 55.1% | -1,966 | 55.8% |
| Depreciation | -412 | 10.2% | -313 | 8.9% |
| Material expenses | -363 | 8.9% | -292 | 8.3% |
| Services | -815 | 20.1% | -694 | 19.7% |
| Business trip expenses | -62 | 1.5% | -52 | 1.5% |
| Representation expenses | -173 | 4.3% | -208 | 5.9% |
| OTHER EXPENSES | -1,001 | 100.0% | -1,113 | 100.0% |
| Other expenses | -952 | 95.1% | -986 | 88.6% |
| Extraordinary expenses | -49 | 4.9% | -126 | 11.4% |
| GROSS INCOME | 470 | | -514 | |
| TAXES | 74 | | 107 | |
| NET INCOME | 396 | | -620 | |

Appendix 3

INDICATORS FOR THE QUALITY OF THE CREDIT PORTFOLIO OF THE BANKS IN THE REPUBLIC OF MACEDONIA

MKD (000,000)

| Items | 31.12.1999 | 30.06.2001 | 30.06.2001* | 31.12.2001 | 31.12.2001* | 30.06.2002 | 30.06.2002* | 31.12.2002 | 31.12.2002* |
|---|---------------|--------------|---------------|--------------|---------------|----------------|---------------|----------------|---------------|
| A | 21,617 | 23,011 | 23,011 | 23,303 | 23,303 | 68,660 | 68,660 | 67,337 | 67,337 |
| B | 8,083 | 13,180 | 13,180 | 11,844 | 11,844 | 11,892 | 11,892 | 11,018 | 11,018 |
| C | 8,218 | 6,802 | 6,802 | 7,891 | 7,891 | 6,854 | 6,854 | 6,269 | 6,269 |
| D | 9,175 | 7,576 | 7,576 | 7,740 | 7,740 | 6,923 | 6,923 | 6,497 | 6,497 |
| E | 3,541 | 3,152 | 6,001 | 2,260 | 6,095 | 3,198 | 8,333 | 2,094 | 7,440 |
| Total Credit Exposure | 50,634 | 53,721 | 56,570 | 53,040 | 56,875 | 97,526 | 102,661 | 93,214 | 98,560 |
| Potential Losses | 11,424 | 102,562 | 13,105 | 9,609 | 13,444 | 9,876 | 15,011 | 8,166 | 13,512 |
| Total C, D, E | 20,934 | 17,530 | 20,379 | 17,892 | 21,727 | 16,975 | 22,110 | 14,860 | 20,206 |
| Total D, E | 12,716 | 10,728 | 13,578 | 10,001 | 13,836 | 10,121 | 15,256 | 8,591 | 13,937 |
| Total C, D | 17,393 | 14,378 | 14,378 | 15,632 | 15,632 | 13,777 | 13,777 | 12,766 | 12,766 |
| C, D, E / Total Credit Exposure (%) | 41.34 | 32.63 | 36.02 | 33.73 | 38.20 | 17.41 | 21.54 | 15.94 | 20.50 |
| D, E / Total Credit Exposure (%) | 25.11 | 19.97 | 24.00 | 18.85 | 24.33 | 10.38 | 14.86 | 9.22 | 14.14 |
| C, D / Total Credit Exposure (%) | 34.35 | 26.76 | 25.42 | 29.47 | 27.48 | 14.13 | 13.42 | 13.70 | 12.95 |
| D / Total Credit Exposure (%) | 18.12 | 14.10 | 13.39 | 14.59 | 13.61 | 7.10 | 6.74 | 6.97 | 6.59 |
| E / Total Credit Exposure (%) | 6.99 | 5.87 | 10.61 | 4.26 | 10.72 | 3.28 | 8.12 | 2.25 | 7.55 |
| C / Total Credit Exposure (%) | 16.23 | 12.66 | 12.02 | 14.88 | 13.87 | 7.03 | 6.68 | 6.73 | 6.36 |
| Potential Losses/Total Credit Exposure(%) | 22.56 | 19.09 | 23.17 | 18.10 | 23.64 | 10.13 | 14.62 | 8.76 | 13.71 |
| Net Items in C,D and E | 20,934 | 8,889 | 8,889 | 9,789 | 9,789 | 8,602 | 8,602 | 7,950 | 7,950 |
| Guarantee Capital | 14,404 | 18,413 | 18,413 | 18,699 | 18,699 | 18,487 | 18,487 | 19,122 | 19,122 |
| C, D, E / Guarantee Capital (%) | 145.34 | 95.20 | 110.68 | 95.68 | 116.19 | 91.82 | 119.60 | 77.71 | 105.67 |
| D, E / Guarantee Capital (%) | 88.28 | 58.26 | 73.74 | 53.48 | 73.99 | 54.74 | 82.52 | 44.93 | 72.88 |
| C, D / Guarantee Capital (%) | 120.75 | 78.09 | 78.09 | 83.60 | 83.60 | 74.52 | 74.52 | 66.76 | 66.76 |
| D / Guarantee Capital (%) | 63.70 | 41.15 | 41.15 | 41.39 | 41.39 | 37.45 | 37.45 | 33.98 | 33.98 |
| E / Guarantee Capital (%) | 24.59 | 17.12 | 32.59 | 12.09 | 32.60 | 17.30 | 45.07 | 10.95 | 38.91 |
| C / Guarantee Capital (%) | 57.05 | 36.94 | 36.94 | 42.20 | 42.20 | 37.07 | 37.07 | 32.79 | 32.79 |
| Net Items in C,D and E/Guarantee Capital | 145.34 | 48.28 | 48.28 | 52.35 | 52.35 | 46.53 | 46.53 | 41.58 | 41.58 |
| Capital Adequacy Ratio | 28.70 | 35.36 | 35.36 | 35.26 | 35.26 | 27.50 | 27.50 | 28.10 | 28.10 |
| Total Exposure on the Country Risk | | | | | | 27981.0 | | 29437.9 | |
| Potential Losses for Country Risk | | | | | | 137.0 | | 8.3 | |
| Potential Losses for Country Risk / Total Exposure on the Country Risk | | | | | | 0.49 | | 0.03 | |

* Indicators for the quality of the credit portfolio which includes the amount of the non-performing receivables transferred into the off-balance sheet records

GUARANTEE CAPITAL OF THE BANKS IN THE REPUBLIC OF MACEDONIA
as of 31.12.2002

| | | MKD (000.000) |
|------------|---|---------------|
| No. | Description | Total |
| A | CORE CAPITAL | |
| 1 | Issued common and preferred shares or paid-in funds | 16,752 |
| 2 | Reserves | 2,505 |
| 3 | Retained undistributed income | 237 |
| 4 | Income according to interim financial statement discounted by 50% | - |
| 5 | Uncovered loss in the previous years | - 666 |
| 6 | Current loss | - |
| 7 | Goodwill | - |
| 8 | TOTAL CORE CAPITAL | 18,828 |
| B | ADDITIONAL CAPITAL | |
| 9 | Issued cumulative preference shares | 377 |
| 10 | Revaluation reserves | 53 |
| 11 | Hybrid capital instruments | - |
| 12 | Subordinated debts | 470 |
| 13 | TOTAL ADDITIONAL CAPITAL | 900 |
| 14 | Additional capital included in the guarantee capital | 900 |
| V | GUARANTEE CAPITAL | |
| 15 | Gross guarantee capital | 19,728 |
| 16 | Capital investments in banks and non-banking financial institutions | - 586 |
| 17 | Non-allocated reserves for potential losses | - 20 |
| 17.1 | Non-allocated non-accrual interest | - 18 |
| 17.2 | Non-allocated reserves for credit losses | - 2 |
| | GUARANTEE CAPITAL | 19,122 |

LEGAL FRAMEWORK OF THE BANKING SUPERVISION

Laws:

1. Law on the National Bank of the Republic of Macedonia ("Official Gazette of the Republic of Macedonia" No.3/2002);
2. Banking Law ("Official Gazette of the Republic of Macedonia" No.63/2000 and 37/2002);
3. Law on the Establishment of Macedonian Bank for Development Promotion ("Official Gazette of the Republic of Macedonia" No.24/98 and 6/2002);
4. Law on Microfinancing Banks ("Official Gazette of the Republic of Macedonia" No.61/2002).

Decisions:

1. Decision on the documentation necessary for granting licenses according to the provisions of the Banking Law, the Law on Securities and the Law on Microfinancing Banks ("Official Gazette of the Republic of Macedonia" No.81/2002 - revised text);
2. Decision on the documentation necessary for granting approvals, on the documentation enclosed for each payment of capital and for each change in the ownership structure of the bank's shares and the criteria for assessment of the source of funds ("Official Gazette of the Republic of Macedonia" No.81/2002 - revised text);
3. Decision on issuing an authorization to banks for conducting international payment and credit operations and an authorization for conducting foreign exchange operations in the Republic of Macedonia ("Official Gazette of the Republic of Macedonia" No. 65/96, 16/2001 and 85/2001);
4. Decision on the manner of conducting supervision on banks and procedure for undertaking measures for elimination of the identified irregularities ("Official Gazette of the Republic of Macedonia" No.111/2000);
5. Decision on the manner of overseeing the application of the regulations governing denar and foreign exchange operations and undertaking measures against banks ("Official Gazette of the Republic of Macedonia" No.44/2002 and 80/2002);
6. Decision on the methodology for determining the bank guarantee capital ("Official Gazette of the Republic of Macedonia" No.77/2000);
7. Decision on the methodology for determining risk weighted assets of the banks ("Official Gazette of the Republic of Macedonia" No.50/2001);
8. Decision on determining the methodology for classification of the on-balance sheet and off-balance sheet asset items of banks according to the their risk level ("Official Gazette of the Republic of Macedonia" No.21/2002 – revised text);
9. Decision on the amount and the method of establishing special reserves for coverage of the banks' potential losses ("Official Gazette of the Republic of Macedonia" No.50/2001);
10. Decision on determining and calculating the banks' open foreign exchange positions ("Official Gazette of the Republic of Macedonia" No.103/2001 – revised text);
11. Decision on defining and the method of determining affiliated entities according to the provisions of the Banking Law ("Official Gazette of the Republic of Macedonia" No.28/2001);
12. Decision on the methodology for determining the banks' net debtors ("Official Gazette of the Republic of Macedonia" No.28/2001);
13. Decision on enforcing Articles 35 and 36 of the Banking Law ("Official Gazette of the Republic of Macedonia" No.41/2001);
14. Decision on the supervisory standards for regulating the past due claims of banks and savings houses ("Official Gazette of the Republic of Macedonia" No.26/96 and 27/98);

15. Decision on the dynamics for adjusting the amount of the founding capital of savings houses to the provisions of the Banks and Savings Houses Act ("Official Gazette of the Republic of Macedonia" No. 49/98)
16. Decision on determining the scope and the manner of operations of the savings houses ("Official Gazette of the Republic of Macedonia" No.111/2000 and 80/2002);
17. Decision on extending the application (validity) of the Decisions adopted by the National Bank of the Republic of Macedonia Council ("Official Gazette of the Republic of Macedonia" No.68/2000);
18. Decision on the procedure, the necessary documentation and the criteria for obtaining a license for conducting money transfer business, setting the manner and the terms of operating and undertaking measures ("Official Gazette of the Republic of Macedonia" No.80/2002).

BANKS AND SAVINGS HOUSES IN THE REPUBLIC OF MACEDONIA
as of 31.12.2001

I. BANKS

***Banki koi imaat ovlast uvawe za vr{ ewe na finansiski akt ivnost i soglasno
~len 45 i 46 od Zakonot za banki t evklu-it elno i plat en promet i kredit ni i
garanciski rabot i so st ranst vo***

***Banks licensed to perform international payment operations and
credit and guarantee activities***

Alfa banka a.d. Skopje
Dame Gruev 1
1000 Skopje
tel ++ 389 2 116 433
faks ++ 389 2 116 830

Balkanska banka a.d.Skopje
Maksim Gorki 6
1000 Skopje
tel ++ 389 2 286 100
faks ++ 389 2 132 186

Eurostandard banka a.d. Skopje
ul. Vasil Glavinov br.12, kat 2 TCC Plaza
1000 Skopje
tel ++ 389 2 228 444
faks ++ 389 2 224 095

Investbanka a.d.Skopje
Makedonija 9/11
1000 Skopje
tel ++ 389 2 114 166
faks ++ 389 2 135 367

Izvozna i kreditna banka a.d.Skopje
bul. Partizanski Odredi br. 3, blok 11
1000 Skopje
tel ++ 389 2 122 207
faks ++ 389 2 122 393

Komercijalna banka a.d.Skopje
Dimitar Vlahov 4
1000 Skopje
tel ++ 389 2 107 107
faks ++ 389 2 113 494

Makedonska banka a.d. Skopje
Bul. VMRO 3-12/2
1000 Skopje
tel ++ 389 2 117 111

faks ++ 389 2 117 191

Makedonska banka za podrška na razvojot a.d. Skopje
Bul. III Makedonska brigada bb
1000 Skopje
tel ++ 389 2 115 844
faks ++ 389 2 239 688

Ohridska banka a.d. Ohrid
Makedonski prosvetiteli 19
6000 Ohrid
tel ++ 389 46 206 600
faks ++ 389 46 254 130

Radobank a.d. Skopje
Jurij Gagarin 17
1000 Skopje
tel ++ 389 2 393 300
faks ++ 389 2 380 453

Sileks banka a.d. Skopje
Gradski zid blok 9 lokal 5
1000 Skopje
tel ++ 389 2 115 288
faks ++ 389 2 114 891

Stopanska banka a.d. Bitola
Dobrivoe Radosavqevi} 21
7000 Bitola
tel ++ 389 47 207 500
faks ++ 389 47 207 515

Stopanska banka a.d. Skopje
11 Oktomvri 7
1000 Skopje
tel ++ 389 2 295 295
faks ++ 389 2 114 503

Teteks - Kreditna banka a.d. Skopje
Naroden Front 19/a
1000 Skopje
tel ++ 389 2 127 449
faks ++ 389 2 131 419

Tetovska banka a.d. Tetovo
Mar{al Tito 14
1200 Tetovo
tel ++ 389 44 335 280
faks ++ 389 44 335 274

Tutunska banka a.d. Skopje
12-ta Udarna brigada b.b.
1000 Skopje
tel ++ 389 2 105 601
faks ++ 389 2 105 630

T.X. Ziraat bankasi podru`nica Skopje
11 Oktomvri 3
1000 Skopje
tel ++ 389 2 111 337
faks ++ 389 2 110 013

***Banki koi soglasno ~len 45 od Zakonot za banki te imaat ovlast uvawe za
vr{ewe na finansiski aktivnost i vo zenjata
Banks licensed to perform domestic payment operations***

Komercijalno investiciona banka a.d. Kumanovo
Plo{tad Nova Jugoslavija bb
1300 Kumanovo
tel ++ 389 31 475 100
faks ++ 389 31 420 061

Internacionalna Privatna Banka a.d. Skopje
27 Mart 1
1000 Skopje
tel ++ 389 2 119 191
faks ++ 389 2 112 830

Po{tenska banka a.d. Skopje
ul. Orce Nikolov b.b.
1000 Skopje
tel ++ 389 2 112 862
faks ++ 389 2 163 054

II.SAVINGS HOUSES

AL KOSA a.d. [tip
Van~o Pr}e bb
2000 [tip
tel ++ 389 32 392 960
faks ++ 389 32 393 163

AM d.o.o. Skopje
ul. Luj Paster Palata Makedonija, lokal 6
1000 Skopje
tel ++ 389 2 223 770
faks ++ 389 2 223 770

Bavag d.o.o. Skopje
11 Oktomvri 23/1
1000 Skopje
tel ++ 389 2 134 362
faks ++ 389 2 135 328

Gra|anska {tedilnica d.o.o. Skopje
Dame Gruev 10
1000 Skopje

tel ++ 389 2 118 585
faks ++ 389 2 118 585

Dikuko d.o.o. Skopje
Mito Haxivasilev Jasmin br. 6 lokal 3
1000 Skopje
tel ++ 389 2 112 140
faks ++ 389 2 213 930

Inko d.o.o. Skopje
Dimitrija ^upovski 23
1000 Skopje
tel ++ 389 2 114 182
faks ++ 389 2 223 277

Interfalko d.o.o. Skopje
Bul Partizanski odredi 123
1000 Skopje
tel ++ 389 2 362 546 i
faks ++ 389 2 362 546

Kiro Ju~uk d.o.o. Veles
Car Samoil 1
1400 Veles
tel ++ 389 43 231 199
faks ++ 389 43 232 637

Mak BS d.o.o. Skopje
Dame Gruev blok 2/3
1000 Skopje
tel ++ 389 2 131 190
faks ++ 389 2 166 466

Makedonska {tedilnica a.d. Skopje
Kliment Ohridski 58 b
1000 Skopje
tel ++ 389 2 121 370
faks ++ 389 2 121 408

Male{evka a.d. Berovo
Mar{al Tito 10/A
2330 Berovo
tel ++ 389 33 470 755
faks ++ 389 33 470 755

Mit [tedilnica d.o.o. Kumanovo
Ivo Lola Ribar 14
1300 Kumanovo
tel ++ 389 31 426 180
tel ++ 389 31 426 180

Mo`nosti d.o.o. Skopje
bul. Jane Sandanski br.111
1000 Skopje
tel ++ 389 2 401 051

faks ++ 389 2 401 050

Mladinec d.o.o. Skopje
Bul. G.Del~ev 11 Lamela A/1, DTC Mavrovka
1000 Skopje
tel ++ 389 2 238 712
faks ++ 389 2 237 521

Peon d.o.o. Strumica
Mar{al Tito bb
2400 Strumica
tel ++ 389 34 321 927
faks ++ 389 34 345 706

Fer{ped d.o.o. Skopje
Veqko Vlahovi} br.11
1000 Skopje
tel ++ 389 2 219 233
faks ++ 389 2 228 978

FULM {tedilnica d.o.o. Skopje
ul. Mitohaxivasilev br.48
1000 Skopje
tel ++ 389 2 115 244
faks ++ 389 2 115 653