NATIONAL BANK OF THE REPUBLIC OF MACEDONIA
Financial Stability, Banking regulations and Methodology Department

Report on the Banking System of the Republic of Macedonia in the third quarter of 2009

Skopje, January

CONTENT

BANKING SYSTEM IN THE THIRD QUARTER OF 2009

1. Structure of the banking system

1.1. Number of banks and savings houses

As of September 30, 2009, the banking system of the Republic of Macedonia comprised of eighteen banks and ten savings houses. Compared with June 30, 2009, the number of banks is unchanged, while the number of savings houses reduced by one[1].

Banks maintained the dominant role in the banking system of the Republic of Macedonia. The minor aggregate share of the savings houses in the total assets of the banking system, in the total credits to the non-financial entities and in the total household deposits, was maintained also in the third quarter and equaled 1.3%, 1,8% and 0.5%, respectively. Therefore, the further analysis in the Report focuses only on the banks' operations.

In the third quarter of 2009, there was no change in the banks' ownership structure. The number of banks dominantly owned by foreign shareholders remained unchanged and equaled fourteen banks. They participated with 93.6% and 88.3% in the total assets and in the total own funds of the banking system, respectively. Eight of these banks are subsidiaries of foreign banks.

1.2. Concentration and market share

In the first quarter of 2009, the relatively high level of concentration in the banking system of the Republic of Macedonia was maintained, with slight upward tendency relative to the preceding quarters.

Table 1.2.1
Concentration level of the banking system of the Republic of Macedonia

	Herfindahl index					CR5 indicator				
	30.09.2008	31.12.2008	31.03.2009	30.06.2009	30.09.2009	30.09.2008	31.12.2008	31.03.2009	30.06.2009	30.09.2009
Total assets	1,598	1,579	1,616	1,591	1,610	76.7%	75.9%	76.9%	76.7%	77.2%
Loans to households	1,997	1,953	2,013	1,989	2,043	81.0%	80.5%	80.7%	80.5%	80.9%
Loans to non-financial enterprises	1,824	1,859	1,932	1,967	1,931	78.4%	79.2%	80.4%	81.0%	80.8%
Deposits to households	2,122	2,097	2,098	2,101	2,096	85.0%	84.8%	84.8%	85.0%	85.4%
Deposits to non-financial enterprises	1,786	1,642	1,801	1,730	1,784	80.5%	79.9%	83.6%	83.6%	84.1%

Source: NBRM calculations

According to the Herfindahl index[2], the concentration level increased in three and declined in two of the analyzed segments of banks' operations, compared with the preceding quarter. Only in two of the analyzed segments, the concentration level was within the framework of the "acceptable" concentration levels. The highest concentration which is above the acceptable levels, is

[1] As of August 24, 2009, the Governor of the National Bank adopted a decision whereby (1) the founding and operating license of "Stedilnica Inko" DOO Skopje was revoked, and (2) it was determined that the conditions for carrying out a liquidiation procedure in the savings house had been fulfilled. This decision was adopted on the basis of a request by the savings house.

[2] The Herfindahl index is calculated according to the equation $HI = \sum_{j=1}^{n} (S)_j^2$, where S denotes each bank's share in the total amount of the analyzed category (for example: total assets, total deposits, etc.), while *n* denotes the total number of banks in the system. When the index ranges between 1,000 and 1,800 units, the level of concentration in the banking system is generally considered acceptable.

still present with household deposits and household credits. The concentration with the deposits of non-financial legal entities is close to the ceiling of the interval of acceptable limits of Herfindahl, and at the same time it registers a significant increment of 54 points, relative to the end of the preceding quarter. The most significant decline in the concentration was registered in the credits to non-financial legal entities, however above the acceptable limits.

According to the CR5[3] indicator, the already high concentration increases further. As of September 30, 2009, this indicator increased in all observed categories (within a band from 0.4 to 0.5 percentage points) compared with the end of the preceding quarter, except for the credits to non-financial legal entities where moderate decline in the concentration was registered.

Table 1.2.2
Market share of the individual groups of banks

Groups of banks	Number of banks		Share in total assets		Share in total		Share in total loans		Share in total	
	31.12.2008	31.03.2009	31.12.2008	31.03.2009	31.12.2008	31.03.2009	31.12.2008	31.03.2009	31.12.2008	31.03.2009
Large banks	3	3	66.1%	67.0%	67.9%	68.4%	69.0%	71.9%	70.1%	70.5%
Medium banks	8	8	28.8%	28.1%	27.5%	27.2%	28.7%	26.0%	26.8%	26.9%
Small banks	7	7	5.1%	4.9%	4.6%	4.4%	2.3%	2.2%	3.1%	2.5%
Total	**18**	**18**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: NBRM calculations

In the third quarter of 2009, no changes were registered in the composition of the individual groups of banks, nor were there any significant changes in the market share of the groups of banks. The group of large banks continued to dominate all areas of activities, and its position in the part of total assets and total credits moderately strengthened at the expense of the mild weakening of the positions of the groups of medium and small banks. The group of small banks still plays a minor role in the overall banking system, according to all segments of market share.

Revision of the procedure for grouping of banks

For analytical purposes, NBRM groups the banks into three groups, according to their assets size. As of the second quarter of 2009, the limits between the groups of banks were fixed and they equaled Denar 4.5 billion and Denar 15 billion (group of small banks: assets up to Denar 4.5 billion, group of medium banks: assets between Denar 4.5 and 15 billion and group of large banks: assets exceeding Denar 15 billion). The application of fixed limits in conditions of more dynamic changes in the amount of the assets of the individual banks imposed the need for revising the manner of determining the limits, as well as the size of the respective limits.

The revision of the existing limits was carried out by statistical tools and argumentation for the statistical homogeneity of the groups of banks. Thus for each group of banks, the average assets and the standard deviation of the assets of the banks belonging to the respective group was estimated first, then the variation ratio as a correlation between the standard deviation and the assets average value (with data as of September 30,2009) was determined. The result showed that this ratio is very similar for the group of both the small and the medium banks, and it ranges about 40%, which means that the groups of small and medium banks are equally homogenous. The group of large

[3] The CR5 indicator represents the share of the assets (i.e. the category that is analyzed, e.g. corporate credits, corporate deposits, etc.) of the five banks with largest assets (i.e. category that is analyzed) in the total assets (i.e. category that is analyzed) of the banking system.

banks is the most homogeneous of all three groups of banks (it consists of only three banks with total assets close by their amount) and their variation ratio is approximately 9%.

Simulation was made of adding a bank with assets of minimum Denar 5 billion to the group of medium banks, which showed that the homogeneity of this group will not be disrupted. On the other hand, the adding of a bank having assets less than Denar 5 billion will increase the heterogeneity of the group of medium banks and reduce the heterogeneity of the group of small banks. Hence, the first limit (between the groups of small and medium banks) was set at Denar 5 billion. The approach is the same with the second limit. A bank with assets of minimum Denar 20 billion will cause an increase of heterogeneity of the group of large banks (having in mind that the smallest bank in the group of large banks has assets of about Denar 52 billion), but it will not cause the heterogeneity of the group of large banks to exceed the heterogeneity of the other two groups (i.e. to exceed the variation ratio of 40%). In other words, presuming that there is a bank with assets of minimum Denar 20 billion, its inclusion in the group of large banks will cause the variation ratio of this group to equal about 40%, which was also the number pertaining to the homogeneity of the other two groups. Oppositely, if the current limit for migrating from the group of medium banks into the group of large banks is applied (total assets of Denar 15 billion), then the heterogeneity of the group of large banks will increase up to 46%, while that for the group of medium banks will reduce to 33%, which is an evident difference in their homogeneity.

Hence, on September 30, 2009 the NBRM set the limits for the grouping of banks, according to their assets size, at Denar 5 and 20 billion (the group of small banks: assets up to Denar 5 billion, the group of medium banks: assets between Denar 5 and 20 billion and the group of large banks: assets exceeding Denar 20 billion). The limits between individual groups of banks will be corrected automatically according to an economic principle - the increase in the total assets of the banking system. The correction of the limits will be performed once a year. Namely, in each third quarter of the year, the limits for the following four quarters are going to be corrected, according to the average annual growth rate of the total assets of the banking system in the previous four quarters. In this way the limits will move in conformity with the average growth in the total assets of the entire system, but that change will be made once a year (each change will have one-year validity). Thus the need for frequent change of the limits due to the seasonal factors, shocks and factors of noneconomic nature will be overcome.

With such setting of the limits, the migration of a bank from one into another group will happen only on the basis of an economic principle, i.e. only a bank which is more aggressive on the market and the assets of which increase faster than the assets of the total banking system will migrate into a higher group. And vice versa, a bank which is inert on the market and which is outstripped by other banks, over time, will migrate to a lower group.

2. Banks' activities

In the third quarter of 2009, the activities of the banks in the Republic of Macedonia were under the influence of the gradual stabilization of the flows in the global and in the domestic economy, reduced influence of the psychological pressures in the decision-making process of the economic entities, as well as the further compliance of the banks with the macroprudent measures undertaken by the NBRM. Amid such circumstances, the total assets of the banking system, as well as the deposits of non-financial entities continued to register positive quarterly growth rates, as a trend which began in the end of the first half of 2009. On the other hand, although with a lower intensity, the tightening of the credit conditions continued also in the third quarter of 2009, which acted toward almost unchanged level of credit activity relative to the preceding quarter.

2.1. Balance sheet of banks

In the third quarter of 2009, the assets of the banking system registered a positive quarterly growth rate for a second quarter in a row. At the same time, the quarterly increment of 3.5% indicates certain acceleration of the growth of banks' activities relative to June 30, 2009, when they increased at a quarterly growth rate of 0.6%. However, compared with the last few years, when on annual level the banks' total assets registered double-digit growth rates, as of September 30, 2009, it equaled only 1.5%.

Figure 2.1.1.
Annual growth of assets, loans and deposits

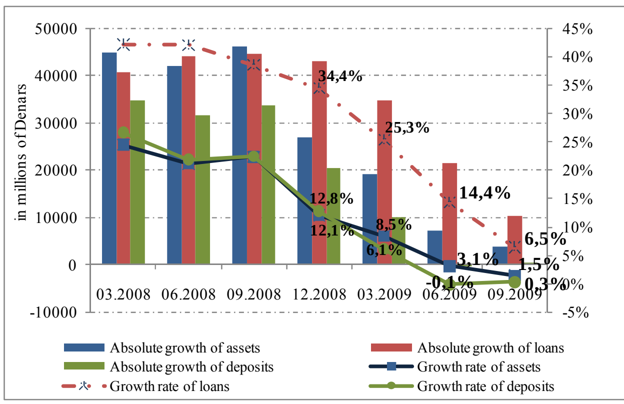
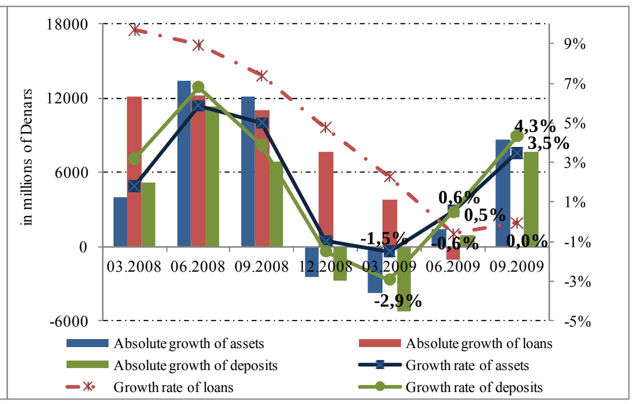


Figure 2.1.2.
Quarterly growth of assets, loans and deposits



Loans to non-financial entities are calculated on the gross base.
Source: NBRM on the basis of data obtained from the banks.

In this quarter, deposits of non-financial entities were the main generator of the increase in the banking activities. After the annual decline registered as of June 30, 2009 (-0.1%), they started to grow again (annual growth of 0.3%). The gradual stabilization of the flows in the domestic economy, as well as the reduction of the psychological pressures contributed to the acceleration of the quarterly growth rate of deposits, which has been positive for the second quarter in a row and equals 4.3%. Such changes in the deposit core entirely determined the quarterly changes in the banks' total sources of funds.

Table 2.1.1.
Structure of assets and liabilities at the level of the banking system

Balance sheet	Amount in millions of denars		Structure		Change 30.09.2009/30.06.2009			
	30.06.2009	30.09.2009	30.06.2009	30.09.2009	In absolute amounts	In percent	In the structure (in percentage points)	Share in the change
Cash and balances wih the NBRM	26,797	30,775	10.8%	12.0%	3,978	14.8%	1.2	46.1%
Securities portfolio	20,167	23,620	8.1%	9.2%	3,453	17.1%	1.1	40.0%
Placements to banks	30,123	31,790	12.1%	12.4%	1,667	5.5%	0.2	19.3%
Placements to other financial institutions	1,966	2,282	0.8%	0.9%	316	16.1%	0.1	3.7%
Loans to non-financial entities (net)*	155,673	154,420	62.7%	60.1%	-1,252	-0.8%	-2.6	-14.5%
Accrued interest and other assets	5,327	5,577	2.1%	2.2%	250	4.7%	0.0	2.9%
Fixed assets	8,579	8,556	3.5%	3.3%	-23	-0.3%	-0.1	-0.3%
Unallocated loan loss provisions	-286	-40	-0.1%	0.0%	-246	85.9%	0.1	-2.8%
Total assets	**248,345**	**256,979**	**100.0%**	**100.0%**	**8,634**	**3.5%**	**0.0**	**100.0%**
Deposits from banks and other financial institutions	15,286	15,553	6.2%	6.1%	267	1.7%	-0.1	3.1%
Deposits of non-financial entities	176,555	184,220	71.1%	71.7%	7,665	4.3%	0.6	88.8%
Borrowings (short-term and long-term)	18,454	18,387	7.4%	7.2%	-67	-0.4%	-0.3	-0.8%
Other liabilities	6,300	7,349	2.5%	2.9%	1,049	16.6%	0.3	12.1%
Provisions for off-balance sheet items	1,015	838	0.4%	0.3%	-178	-17.5%	-0.1	-2.1%
Capital and reserves	30,735	30,632	12.4%	11.9%	-102	-0.3%	-0.5	-1.2%
Total liabilities	**248,345**	**256,979**	**100.0%**	**100.0%**	**8,634**	**3.5%**	**0.0**	**100.0%**

*Loans to non-financial entities are calculated on the net base, as for they are decreased for the allocated loan losses provisions.

Source: NBRM on the basis of data obtained from the banks

In the third quarter of 2009, gross-credits[4] to non-financial entities registered a quarterly decline of only 0.05% (more detailed analysis of the movements of gross-credits is presented in Part 2.3. Banks' lending activity). Net-credits to non-financial entities registered higher quarterly decline of 0.8%, which is a result of the increased amount of impairment in conditions of deteriorated quality of the banks' credit portfolio. As a result of such change, for the first time in the past few years a decline in the structural share of the net-credits in the total bank assets was registered, which equaled 60.1% as of September 30, 2009, and registered a decline of 2.6 percentage points relative to June 30, 2009. Nevertheless, credits remained dominant in the structure of the banks' assets.

In conditions of a decline in the net-credits to non-financial entities, main determinants of the quarterly increment of the total banks' assets were the growth of the securities portfolio and of the cash and balances with the NBRM. As of September 30, 2009, the largest contribution (of 86.3%) to the quarterly growth of the securities portfolio was that of the subscribed CB bills which went up by Denar 2,979 million, relative to June 30, 2009, and as of September 30, 2009 amounted to Denar 12.618 million. **The growth in the banks' cash in the third quarter of 2009 is mostly a result of the changes in the legislation pertaining to the calculation and fulfillment of the banks' reserve requirement.** On the one hand, changes pertain to the increase in the banks' reserve requirement ratios[5]. On the other hand, changes pertain to the introduction of an obligation for including part of the reserve requirement in

[4] The analysis was made on the basis of the gross amount of the credits to non-financial entities, i.e. the amount which is not reduced by the determined impairment.

[5] In My 2009, amendment was made to the Decisison on the reserve requirement, whereby the reserve requirement ratios went up from 10% to 11.5% for the liabilities in foreign currency for the July period of fulfillment (i.e. 13% starting from the August period of fulfillment), and from 10% to 20% for the Denar liabilities with FX clause.

foreign currency in the calculation and fulfillment of the reserve requirement in Denars[6]. The increase in the amount of funds on banks' accounts with the NBRM (by Denar 3,314 million) caused around one half of the total quarterly growth in the banks' assets.

2.2. Balance sheet of the individual groups of banks

In the third quarter of 2009, the decline in the total activities and in the deposit core, continued only in the group of small banks, while in the groups of large and medium banks they registered an increase. With highest registered growth in the assets and deposits in absolute amounts, the group of large banks almost entirely determined the quarterly rise in these on-balance sheet categories also at the level of the entire banking system. Hereby, the group of large banks additionally reaffirmed its dominant position in the structure of the banks' total assets and deposits.

Contrary to the situation in the preceding quarters when the credit growth in the group of large banks was sufficient for offsetting the credit decline with the other two groups of banks, in the third quarter of 2009, only in the group of large banks a decline in the credits was registered. As a result of such a dynamics of credits, at the end of the third quarter of 2009, the share of the group of large banks in the total credits of the banking system registered an insignificant decline (of 0.3 percentage points).

Table 2.2.1
Market share and change in the total assets, gross-credits and deposits by group of banks

ITEMS	Amount in millions of denars		Structure		Change 30.09.09/30.06.09			
	30.06.2009	30.09.2009	30.06.2009	30.06.2009	In absolute amounts	In percent	In the structure (in percentage points)	Share in the change
Total assets	**248,345**	**256,979**	**100.0%**	**100.0%**	**8,634**	**3.5%**		**100.0%**
- Large banks	164,714	171,527	66.3%	66.7%	6,813	4.1%	0.4	78.9%
- Medium size banks	70,893	72,838	28.5%	28.3%	1,945	2.7%	-0.2	22.5%
- Small size banks	12,738	12,613	5.1%	4.9%	(125)	-1.0%	-0.2	-1.4%
Loans to non-financial entities	**170,698**	**170,617**	**100.0%**	**100.0%**	**(81)**	**0.0%**		**100.0%**
- Large banks	120,012	119,516	70.3%	70.0%	(496)	-0.4%	-0.3	615.7%
- Medium size banks	47,099	47,431	27.6%	27.8%	332	0.7%	0.2	-412.5%
- Small size banks	3,587	3,670	2.1%	2.2%	83	2.3%	0.0	-103.2%
Deposits of non-financial entities	**176,555**	**184,220**	**100.0%**	**100.0%**	**7,665**	**4.3%**		**100.0%**
- Large banks	127,697	133,141	72.3%	72.3%	5,444	4.3%	-0.1	71.0%
- Medium size banks	43,960	46,260	24.9%	25.1%	2,300	5.2%	0.2	30.0%
- Small size banks	4,898	4,819	2.8%	2.6%	(79)	-1.6%	-0.2	-1.0%

Source: NBRM on the basis of data obtained from the banks

In the third quarter of 2009, there were no significant structural changes in the assets of the individual groups of banks. Despite the lower share, compared with June 30, 2009, credits to non-financial entities are still the dominant category in the structure of the assets with the groups of large and medium banks. In contrast, the importance of credits in the group of small banks, is significantly lower. The increase in the share of the securities portfolio and cash and balances with the NBRM in the total assets is a common feature of all groups of banks and confirms the increment in these categories also at the level of the entire banking system.

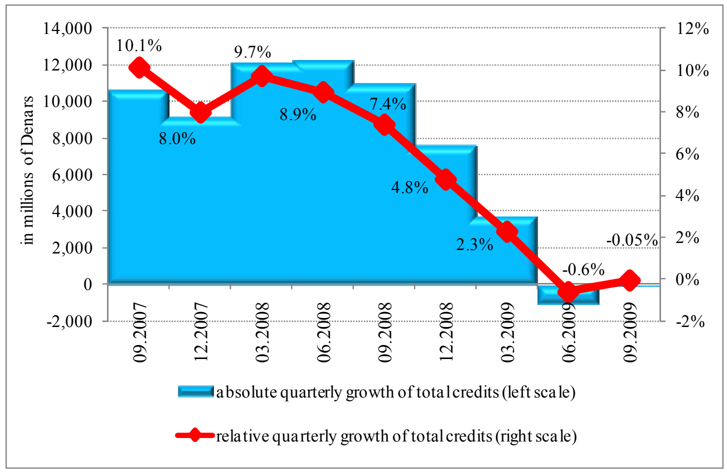
[6] With the amendments to the Decision on the reserve requirement, banks are obliged to fulfill part of the calculated reserve requirement in foreign currency (13% for the July period of fulfillment and 23% starting from the August period of fulfillment) in Denars.

Insignificant structural changes were common also for the liabilities of the individual groups of banks. Most significant source of financing of the activities with the groups of large and medium banks are still the deposits of the non-financial entities. At the same time, as a result of the accomplished quarterly growth, deposits of non-financial entities additionally reaffirmed their dominance in the structure of the total liabilities with these two groups of banks. In contrast, the quarterly fall in the deposits of non-financial entities contributed to the additional decline in the share of this source of financing in the structure of the liabilities with the group of small banks. Same as in the preceding periods, the group of small banks is characterized with higher level of capitalization compared with the other two groups of banks.

2.3. Banks' lending activity

In conditions of relatively lower intensity of tightening banks' credit policies and unchanged credit demand, in the third quarter of 2009, lending to non-financial entities stabilized to a certain extent. As of September 30, 2009, gross-credits to non-financial entities reached the amount of Denar 170,617 million, and registered a decline of only 0.05% or Denar 80 million, relative to the preceding quarter. However, on annual level, although at a slower pace, credits to non-financial entities continued to grow and they increased by 6.5%, in contrast to the double-digit annual growth rates present in the past few years (as of September 30, 2008 the annual credit growth rate equaled 38.5%). According to the banks' expectations, in the following quarter the conditions for extending corporate and consumer credits will not change. In contrast to that, banks expect partial relaxation of the conditions with housing loans. At the same time, most of the banks expect unchanged demand for corporate and consumer credits, and partial increase in the demand for housing credits[7].

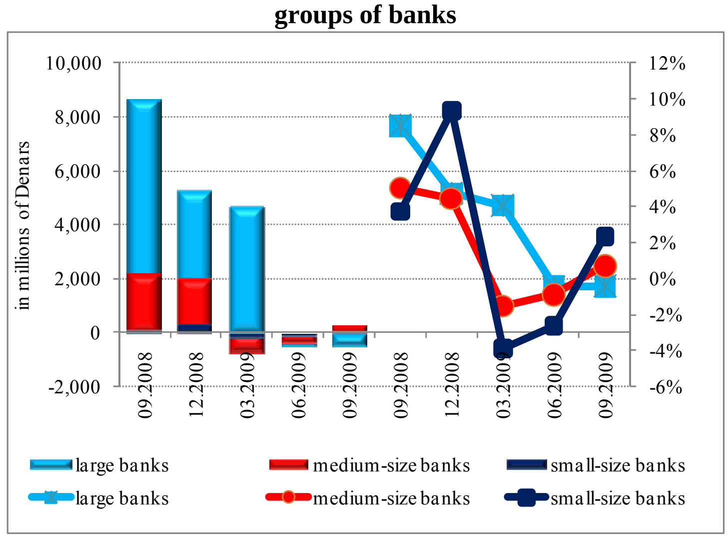
Figure 2.3.1
Dynamics and quarterly growth rates of total credits of non-financial entities



Source: NBRM, on the basis of data submitted by the banks

In the third quarter of 2009, a decline in the lending activity was registered only in the group of large banks. With this group of banks, total credits registered a quarterly decline of 0.4%, and annual growth of 8.1%. This annual growth rate is significantly lower compared with the double-digit annual percentage credit growth registered with the group of large banks in the preceding quarters. With the groups of medium and small banks a quarterly rise in the credits of 0.7% and 2.3%, respectively, was registered, which interrupted the trend of negative quarterly growth rates, recorded in March and in June 2009. Nevertheless, the annual credit growth rates with the groups of medium and small banks were even lower compared with the group of large banks, and as of September 30, 2009, they equaled 2.7% and 4.7%, respectively.

Figure 2.3.2
Absolute and relative quarterly change of total credits, by groups of banks



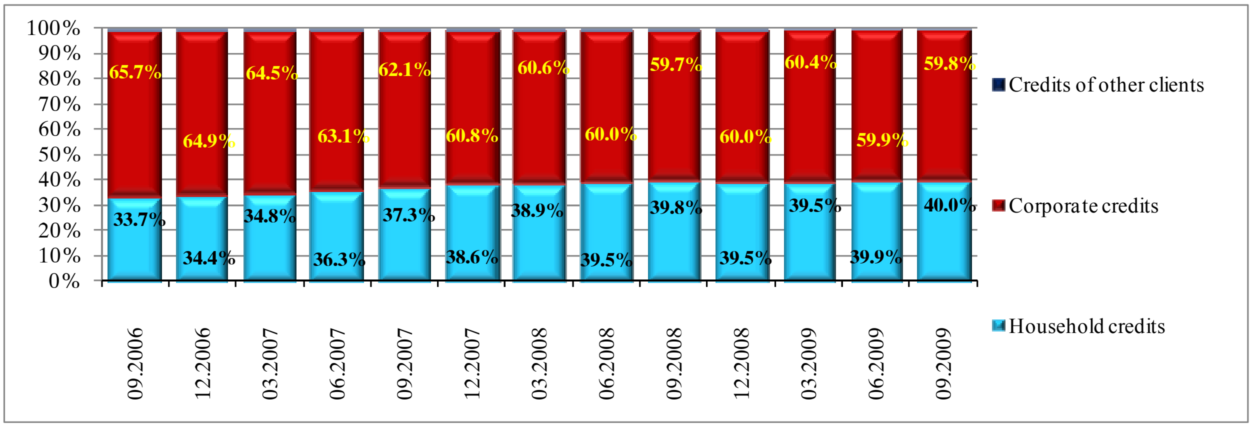
Source: NBRM, on the basis of data submitted by the banks

[7] Source: Survey on credit activity of the NBRM for October 2009.

2.3.1 Structure of gross-credits to non-financial entities (by sector, maturity and currency)

In the third quarter of 2009, the minimum decline in the corporate credits and the minimum growth in the household credits did not cause significant changes in the structure of the total credits to non-financial entities.

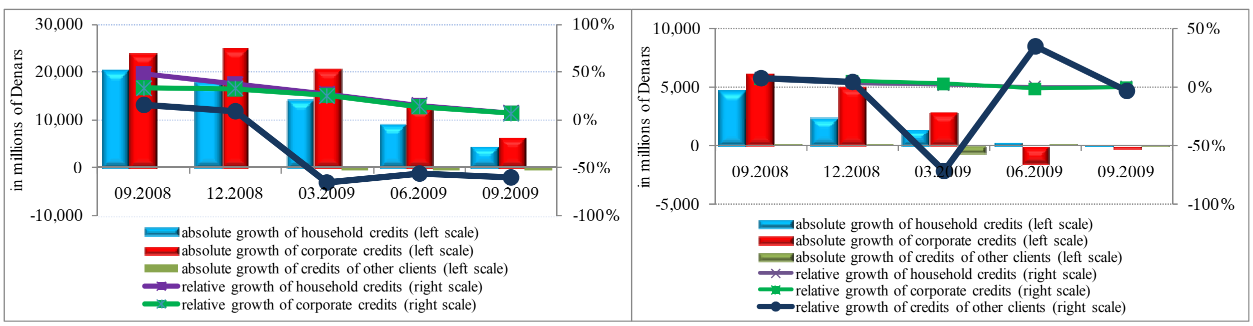
Figure 2.3.3
Structure of gross-credits of non-financial entites by sector



Source: NBRM, on the basis of data submitted by the banks

Thus, corporate credits maintained their dominant share in the structure of the total credits to non-financial entities, despite the insignificant quarterly decline of Denar 224 million, or 0.2%. Such a dynamics reduced the annual growth rate of corporate credits to 6.6%, compared with the annual growth rates from the previous quarters, which were present with two digits (for comparison, as of September 30, 2008, corporate credits registered an annual growth of 33.3%).

Figure 2.3.4
Annual growth (left) and quarterly growth (right) of the total credits of non-financial entites by sectors



Source: NBRM, on the basis of data submitted by the banks

However, corporate credits gave the largest contribution to the quarterly and annual dynamics of the total gross-credits and caused 278.4% of the quarterly growth and 60.8% of the annual growth of total credits. Household credits registered an insignificant quarterly increase of Denar 153 million, or 0.2%.

The annual growth rate of household credits equaled 7.1%, as opposed to the double-digit annual growth rates registered in the preceding quarters (for comparison, as of September 30, 2009, the annual growth rate equaled 47.6%). Credits to other clients had a marginal share in the structure and the changes in the total credits to non-financial entities, also in this quarter.

Figure 2.3.5
Structure of household credits, by credit product

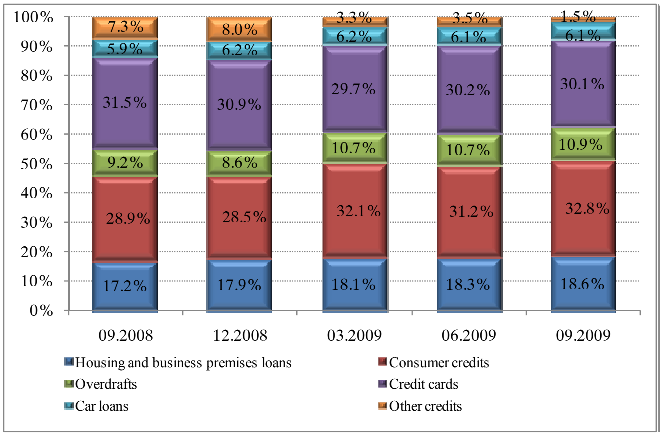
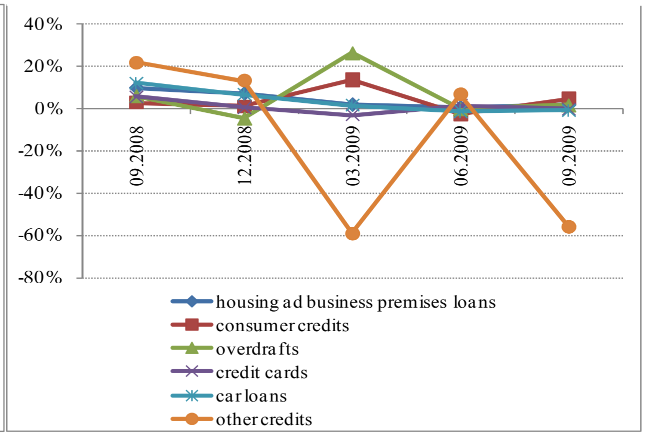


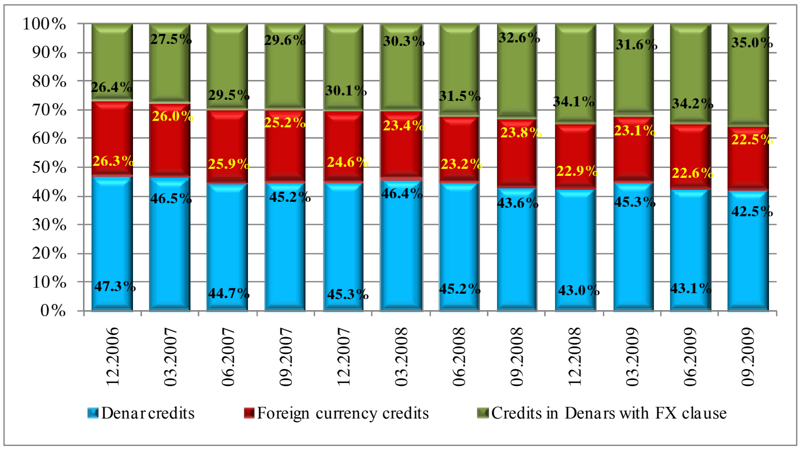
Figure 2.3.6
Quarterly change of household credits, by credit product



Source: NBRM, on the basis of data submitted by the banks

No significant changes were registered in the structure of the total credit exposure to households, by credit product. Still most significant is the share of the consumer credits, credit cards and housing and business premises loans. The high volatility of the quarterly growth rates in the category "other credits" is a result of re-recordings and adequate presentation of the individual types of credit products for the households.

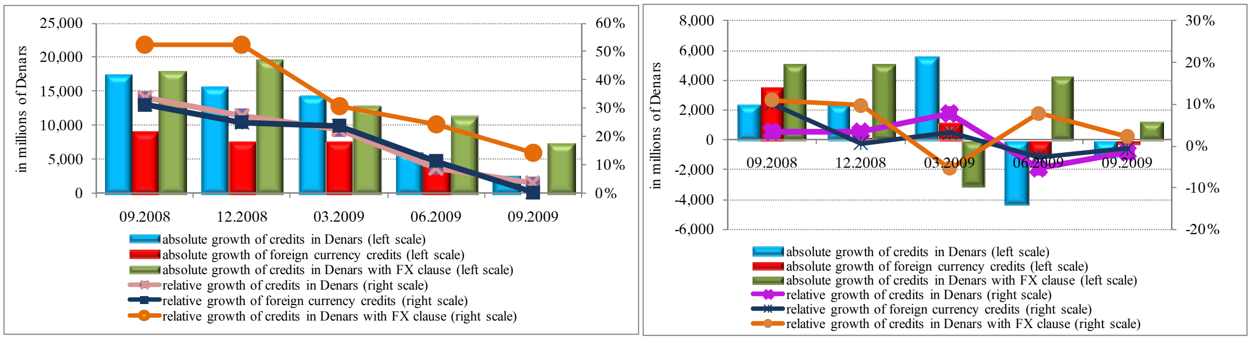
Figure 2.3.7
Currency structure of total credits of non-financial entities



Source: NBRM, on the basis of data submitted by the banks

As of September 30, 2009, no significant changes were registered in the currency structure of the total credits to non-financial entities, primarily as a result of the relatively similar quarterly changes in the three types of credits from a viewpoint of their currency features. As in the preceding quarter, credits with currency component (in foreign currency and in Denars with FX clause) had larger share in the structure of total credits to non-financial entities compared with the credits extended in Denars. Common for this quarter was the slowdown of the decline in the credits extended in Denars and in foreign currency, so that they registered a quarterly decline of 1.5% and 0.7%, respectively (these rates were by 3.9 and 1.9 percentage points lower relative to the previous quarter). In contrast, credits in Denars with FX clause registered a quarterly increment of 2.2%, which is by 5.6 percentage points less relative to the preceding quarter. On annual basis, the largest increase of 14.5% was registered in the credits in Denars with FX clause, while credits extended in Denars and credits in foreign currency registered an annual growth of only 3.8% and 0.4%, respectively. For comparison, as of September 30, 2008, the annual growth rates of credits in Denars with FX clause, in Denars and in foreign currency equaled 52.2%, 33.6% and 31.2%, respectively.

Figure 2.3.8
Annual growth (left) and quarterly growth (right) of total credits of non-financial entities by currency

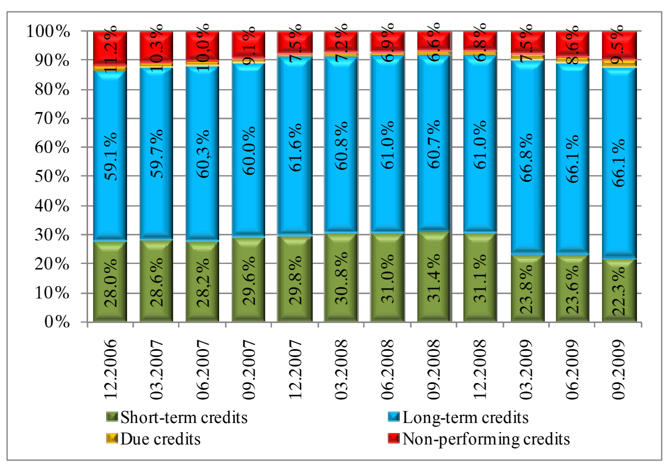


Source: NBRM, on the basis of data submitted by the banks

As of September 30, 2009 no significant changes were registered in the maturity structure of the total credits to non-financial entities, relative to the preceding quarter. In this quarter, an increase was registered only in the past due and non-performing credits. High quarterly growth of 29.5% was registered in due credits, so the annual growth rate of these credits reached significant 84.9%. As a result of such movements, due credits increased their share in the structure of the total credits to non-financial entities, but it is still marginal and equals 2.2%. Non-performing credits went up by 9.8% on a quarterly basis, and registered an annual growth rate of 52.9%. Compared with the preceding quarter, the annual growth rate of non-performing credits to non-financial entities went up by 10.0 percentage points, continuing the upward trend which commenced at the end of 2008. As a result of such a dynamics, the share of the non-performing credits in the total credits increased by 0.8 percentage points and equaled 9.5% as of September 30, 2009. Long-term credits maintained their dominant share in the total credits to non-financial entities. In accordance with the general dynamics of the credit activity for this quarter, these credits registered an insignificant quarterly decline (0.01%), and annual growth of 15.9% (for comparison, as of September 30, 2008, this rate equaled 40.3%). In contrast, for the third quarter in a row, short-term credits registered a decline on quarterly and on annual basis, and as of September 30, 2009 they equaled -5.8% and -24.6%, respectively.

Also in this quarter, the group of large banks remained dominant with respect to the sector-by-sector, maturity and currency structure of total credits of the banking system (Annex 8 - Distribution of credits to non-financial entities by individual group of banks). Compared with June 30, 2009, there were no significant changes in the distribution of credits by individual group of banks, expect for due credits. On a quarterly basis, the share of the group of large banks in these credits went up by 9.7 percentage points, along with the decline in the share with the groups of medium banks (by 7.7 percentage points) and small banks (by 2.0 percentage points).

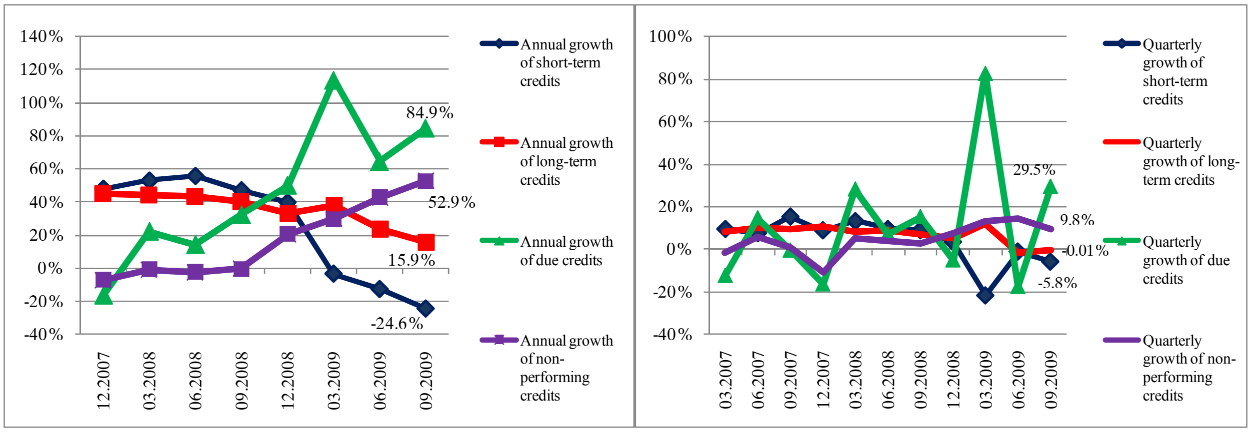
Figure 2.3.9
Maturity structure of total credits of non-financial entities



Source: NBRM, on the basis of data submitted by the banks

Long-term lending and lending to the corporate sector remained dominant in the structure of the total credits to non-financial entities with all groups of banks (Annex 9 - Structural features of the credits to non-financial entities, by group of banks).

Figure 2.3.10
Annual growth (left) and quarterly growth (right) of total credits of non-financial entites by maturity



Source: NBRM, on the basis of data submitted by the banks

With respect to the currency of denomination, lending with currency component is dominant in the credit portfolios of large and medium banks, while in the group of small banks Denar lending still prevails.

2.4. Banks' deposit activity (deposits of nonfinancial entities)

Unlike the negative annual change in the preceding quarter, in the third quarter of 2009, the deposit base resumed growing up. The quarterly dynamics of deposits, which reported a positive growth rate for two subsequent quarters, also registered certain acceleration. Such a deposit dynamics was followed by a continuation of a trend of currency transformation in favor of foreign currency deposits.

On September 30, 2009, bank deposits totaled Denar 184,220 million, which is by 4.3% more on quarterly basis. Deposit analysis on quarterly and annual comparison base showed divergent movements in some segments. The end conclusion, however, is that there are signs of acceleration of the deposit growth.

Figure 2.4.1
Annual and quarterly changes of total deposits

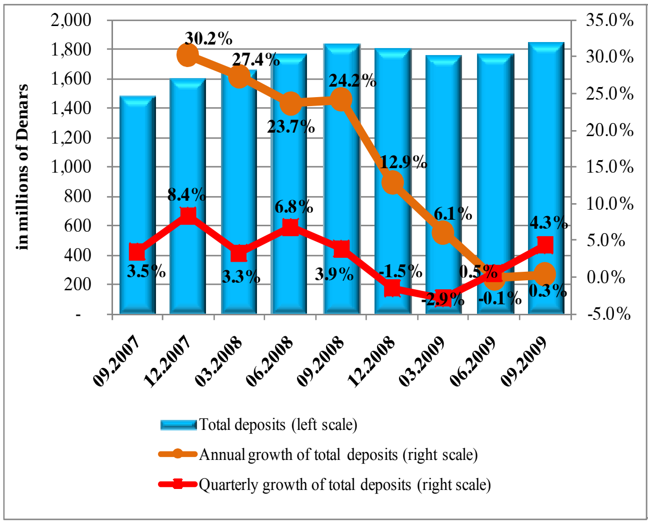
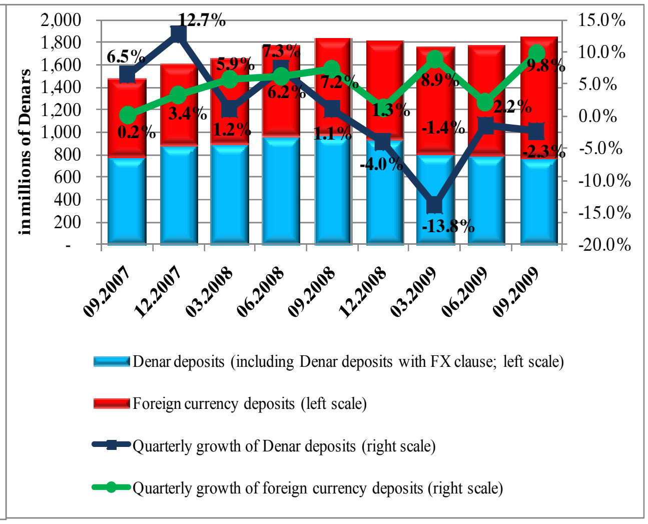


Figure 2.4.2
Dynamics of total deposits by currency structure



Source: NBRM, based on the data submitted by the banks

2.4.1. Deposit dynamics by currency structure

Deposit currency transformation, which continued in the third quarter of 2009, was evident through the further foreign currency deposit growth, whereas the Denar deposit base contracted. On quarterly basis, the foreign currency deposits went up by 9.8%, which is the highest quarterly growth rate over the last two years. Such dynamics made the annual growth rate of foreign currency deposits amount to 23.7%. Conversely, Denar deposits[8] kept on decreasing for four subsequent quarters, and made the annual rate of decrease of Denar deposits reach the highest negative level over the last three quarters (-20.3%). Due to such changes, on September 30, 2009, foreign currency deposits registered a further growth in the structural share and accounted for 60% of the total banks' deposit base. Corporate deposits made the highest contribution to the currency transformation. The quarterly growth rate of corporate foreign currency deposits equaled 10.6%, whereas the corporate Denar deposits went down by 8.3%, quarterly. Both household Denar and foreign currency deposits reported a quarterly growth of 1.3% and 5.3%, respectively.

[8] Currency indexed deposits in Denars are included in Denar deposits (constituting 10.5% of the Denar deposits).

Figure 2.4.3
Currency structure of total deposits of banks

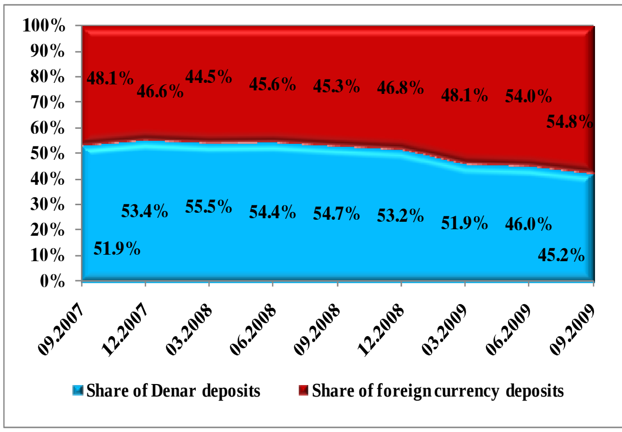
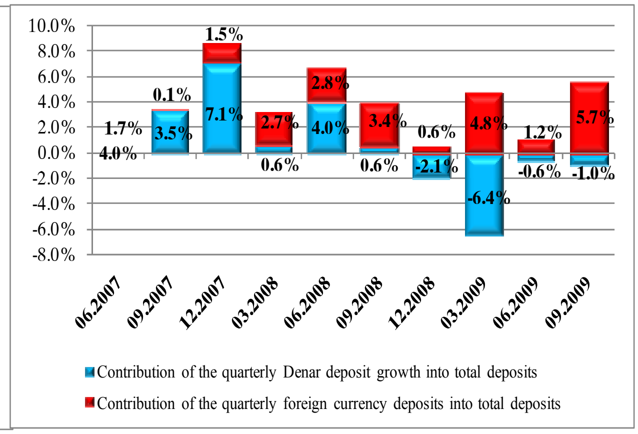


Figure 2.4.4
Contribution of the Denar and foreign currency deposits into the growth of total deposits of banks

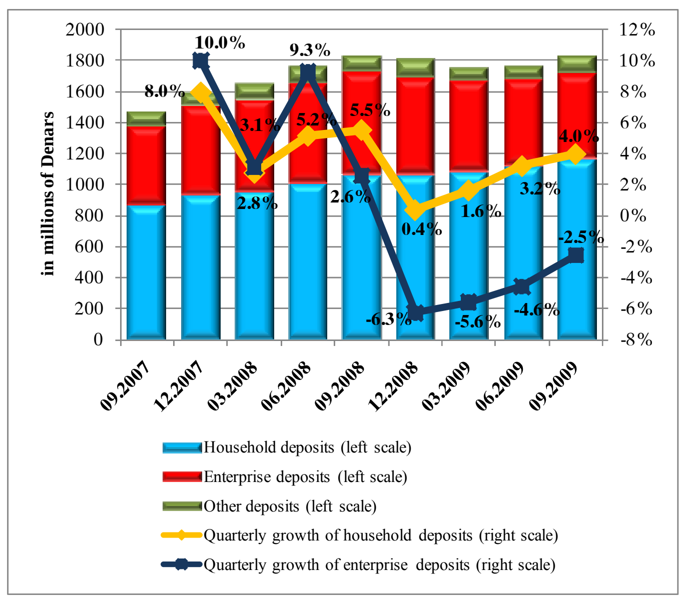


Source: NBRM, based on the data submitted by the banks

2.4.2. Deposit dynamics by sector structure

In the third quarter of 2009, household deposits registered a mild quarterly increase, whereas the quarterly growth rate of corporate deposits remained negative. Corporate deposits registered a negative quarterly growth rate for four subsequent quarters. Therefore, the annual growth rate of such deposits reached -17.7%, which is the highest negative level since March 2009 (since when the corporate deposits have reported a negative annual growth rates). On the other hand, household deposits kept on growing at the highest quarterly pace in the last year. Their annual growth rate reached 9.5%. Household deposit growth in this quarter, and the significant increase in other deposits (58.4%)[9], in particular, interrupted the contraction of banks' deposit base. As a result of such deposit dynamics in some sectors, the share of corporate deposits in the total deposit base decreased by 2.1 percentage points on quarterly basis, and reduced to 29.4%. Share of household deposits reported inconsiderable quarterly decrease of 0.2 percentage points; nevertheless, these deposits still make up most of the banks' deposit base (63.8%).

Figure 2.4.5
Dynamics of total deposits by sectoral structure



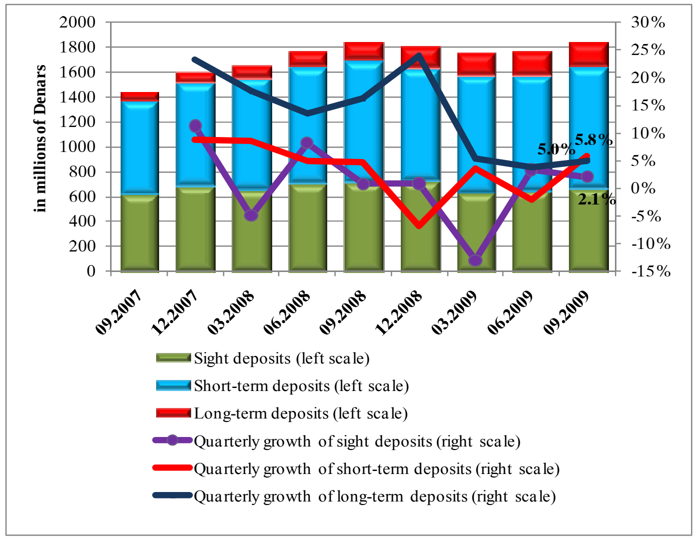
Source: NBRM, based on the data submitted by the banks

[9] The increase in the deposits of other client is due to the dividend payment to nonresident, which is held in the banking system of the Republic of Macedonia in the form of foreign currency deposit.

2.4.3. Deposit dynamics by currency structure

On September 30, 2009, all deposit types reported a quarterly increase from the maturity viewpoint, so that no significant changes were registered in the maturity structure of total deposits. Short-term deposits reported the highest quarterly growth rate, so that their annual growth rate again acquired a positive value (0.3%), following the annual fall reported on June 30, 2009. Same as the preceding periods, short-term deposits remained dominant, constituting 53.2% of the banks' deposit base structure on September 30, 2009 (quarterly decrease of 0.7 percentage points). Long-term deposits' growth rate registered a quarterly increase of 1.1 percentage points, and annual growth rate of 42.4%. This was the highest growth rate compared to short-term and sight deposits, which also made the share of long-term deposits increase to 10,4% in the total deposit base at the end of the third quarter of 2009 (quarterly growth of 0.1 percentage point and increase of 3.1 percentage points compared to September 30, 2008). However, the share of long-term deposits in the total deposit base is still the lowest compared to other maturity segments, mostly due to the previous relatively low level of these deposits. Gradual increase in the structural share of long-term deposits partially reflect the banks' business strategies to encourage long-term savings, for the purposes of extending the average maturity date of the deposit base, and making it more stable. Sight deposits, in spite of the quarterly growth of 2.1%, registered a negative annual growth rate for three subsequent quarters, which on September 30, 2009 equaled -7.4%. Sight deposits accounted for 36.4% of the total deposit base, and compared to the second quarter of 2009 they registered a minor decrease of 0.8 percentage points.

Figure 2.4.6
Dynamics of total deposits by maturity structure



Source: NBRM, based on the data submitted by the banks

In this quarter, the group of large banks remained dominant in the deposit base structure, analyzed from all viewpoints (sector, maturity and currency).

Table 2.4.1
Deposit distribution by group of banks, as of September 30, 2009

	Sectoral structure			Maturity structure			Currency structure		
Groups of banks	Enterprises	Households	Other	Sight	Short-term	Long-term	Denar	Denar with FX clause	Foreign currency
Large banks	69,0%	75,9%	52,1%	73,0%	72,8%	66,8%	73,3%	74,1%	71,5%
Medium-size banks	27,6%	22,1%	43,1%	23,1%	25,4%	30,7%	22,7%	20,5%	27,0%
Small-size banks	3,5%	2,0%	4,8%	3,9%	1,7%	2,5%	4,0%	5,4%	1,5%
Total	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%

Source: NBRM, based on the data submitted by the banks

On September 30, 2009, the deposit structure by group of banks registered no significant changes. Observing the sector structure, all groups of banks reported a dominant share of household deposits. Short-term time deposits still prevail in the deposit structure of the groups of large and medium-size banks, whereas the group of small-size banks reported a domination of sight deposits. Same as the preceding quarter, foreign currency deposits comprised most of the total deposits of the groups of large and medium-size banks, with the Denar deposits making up most of the deposit structure of the group of small-size banks. Typical for all groups of banks was the marginal share of the currency indexed deposits in the structure of total bank deposits.

Table 2.4.2
Deposit structure by group of banks, as of September 30, 2009

	Sectoral structure				Maturity structure				Currency structure			
Groups of banks	Enterprises	Households	Other	TOTAL	Sight	Short-term	Long-term	TOTAL	Denar	Denar with FX clause	Foreign currency	TOTAL
Large banks	28,1%	67,1%	4,9%	100,0%	36,8%	53,6%	9,6%	100,0%	38,4%	4,5%	57,1%	100,0%
Medium-size banks	32,3%	56,1%	11,6%	100,0%	33,4%	53,9%	12,7%	100,0%	34,2%	3,6%	62,1%	100,0%
Small-size banks	38,8%	48,7%	12,4%	100,0%	54,6%	35,5%	9,9%	100,0%	58,2%	9,2%	32,7%	100,0%

Source: NBRM, based on the data submitted by the banks

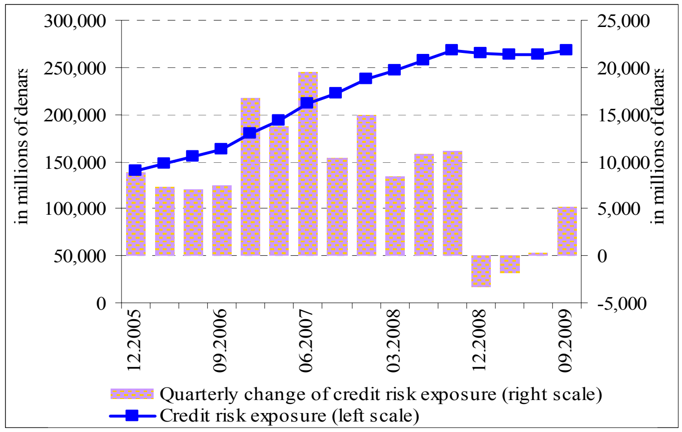
3. Bank risks

3.1. Credit risk[10]

3.1.1. Credit risk exposure[11]

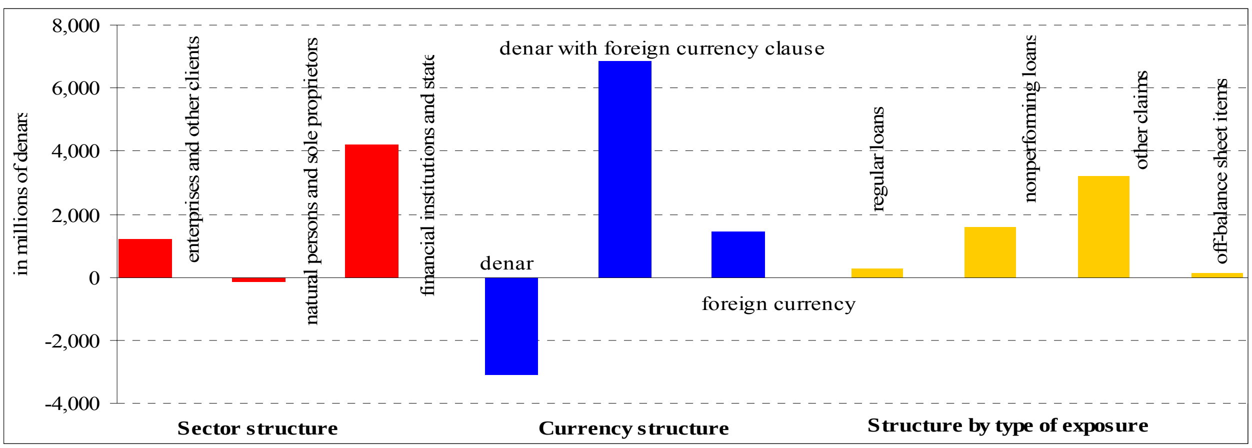
At the end of the third quarter of 2009, the credit risk exposure of the banking system equaled Denar 268,504 million. Thus, after the reduction of the credit risk exposure in the preceding quarters, in the third quarter of 2009, it went up by Denar 5,252 million, i.e. by 2.0%. Such an increase primarily resulted from the positive dynamics of nonfinancial entities' deposits as a major source of funding banks' activities, and became evident through the higher banks' investments in liquid assets, especially CB bills and funds on correspondent accounts with foreign banks. Yet, the total credit risk exposure registered a marginal annual growth of 0.2%, due to the contraction of the lending activity in 2009.

Figure 3.1.1
Dynamics and quartal change of credit risk exposure



Source: NBRM, based on data submitted by the banks

Figure. 3.1.2
Distribution of change of the credit risk exposure in third quarter of 2009 by structural characteristics



Source: NBRM, based on data submitted by the banks

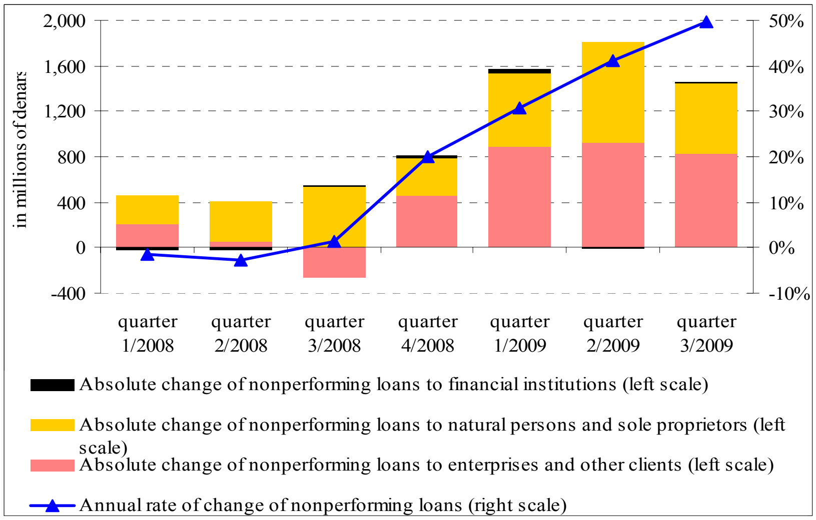
Bank exposure to the sector of financial institutions and state was dominant in the growth of credit risk exposure in the third quarter of 2009[12]. The quarterly growth of exposure to this sector

[10] This part of the report uses data on the structure and quality of credit exposure, the banks submit to the NBRM.
[11] The Decision on credit risk management ("Official Gazette of the Republic of Macedonia" no. 17/2008 and 31/2009) started being applied on January 1, 2009. Comparing with the previous regulation, certain differences exist in relation to the credit exposure scope and definition. As specified by this Decision, the total credit risk exposure does not include investments in securities and other financial instruments held for trading, securities measured at fair value through the income statement, investments in subsidiaries, associated companies and joint ventures and credits and claims measured at fair value through the income statement (by December 31, 2008, these items were included in the definition of credit exposure). On September 30, 2009, these banks' items totaled Denar 1,372 million.

generated almost 80% of the total quarterly growth of the credit risk exposure. The currency transformation on the primary market of government securities towards issuing currency indexed treasury bills at the expense of the Denar treasury bills made the currency indexed Denar exposure report the fastest quarterly growth of 10.6% in the exposure currency structure.

The increased demand of the banks for CB bill made the exposure based on other claims register the fastest quarterly growth. In the third quarter of 2009, credit risk exposure based on other claims increased by 14.7%, i.e. Denar 3,103 million, thus generating 59.1% of the total quarterly growth of credit risk exposure.

Figure 3.1.3
Sector distribution of quarterly change of nonperforming credits



Source: NBRM, based on data submitted by the banks

On the other hand, the adverse real sector developments and the contraction of the overall economic activity made the nonperforming credit[13] growth accelerate. In the third quarter of 2009, nonperforming credits went up by Denar 1,617 million, i.e. by 11.0%. Nonfinancial credits of the corporations and other clients sector made the highest contribution to the total quarterly growth of nonperforming credits, making up 56.5%, followed by the nonperforming credits of the natural persons and sole proprietors sector, which constituted 42.7%. The growth of nonperforming credits is even faster if observed on annual basis. On September 30, 2009, compared to September 30, 2008, nonperforming credits surged by Denar 5,630 million, or by 49.7%, which is the highest annual growth rate of nonperforming credits over the last six years.

In the third quarter of 2009, the overall growth of the credit risk exposure was concentrated in the group of large banks. Credit risk exposure of the group of large banks went up by 3.0% in the third quarter, and only this group reported a positive annual growth rate of credit risk exposure. The group of large banks enhanced its structural share in the credit risk exposure by 0.7 percentage points on quarterly basis, reaching 70.2% on September 30, 2009. The group of medium-size banks reported a modest quarterly growth of 0.6% in the credit risk exposure; yet, on annual basis it went down by 1.5%. On the other hand, the group of small-size banks reported a contraction of the credit risk exposure on both quarterly and annual basis.

[12] For the purposes of this analysis, the financial institutions and state sector which, inter alia, includes investments in CB bills and treasury bills, have been analyzed jointly.
[13] Source: Credit Registry, based on data submitted by the banks. In this analysis, nonperforming credits include nonperforming credits of nonfinancial and financial entities.

Table 3.1.1
Quarterly and annual change in credit risk exposure by group of banks

Group of banks	Credit risk exposure (in millions of denars)			Annual change (30.09.2008 - 30.09.2009)			Quarterly change (30.06.2009 - 30.09.2009)		
	30.09.2008	30.06.2009	30.09.2009	Absolute change (in millions of denars)	Change rate (vo %)	Share in change (vo %)	Absolute change (in millions of denars)	Change rate (vo %)	Share in change (vo %)
Large banks	186,574	183,048	188,497	1,923	1.0%	441.1%	5,449	3.0%	103.8%
Medium-sized banks	69,385	67,918	68,358	-1,027	-1.5%	-235.6%	440	0.6%	8.4%
Small-sized banks	12,109	12,286	11,649	-460	-3.8%	-105.5%	-637	-5.2%	-12.1%
Total	**268,068**	**263,252**	**268,504**	**436**	**0.2%**	**100.0%**	**5,252**	**2.0%**	**100.0%**

Source: NBRM, based on data submitted by the banks

3.1.2. Credit risk exposure quality in the banking system

The banks' credit risk exposure quality resumed its downward trend in the third quarter of 2009. Higher risk level is seen through both the dynamics of credit risk indicators and the migration of the credit risk exposure to higher risk categories, thus reflecting the acceleration of the process of so-called "maturing" of credit portfolio. Amid contraction of the overall economic activity and stricter terms for refinancing of the real sector debt in the preceding quarters, the adverse developments in the credit risk exposure quality could, to a certain extent, be regarded as expected. Also, the banks hold sufficient initial level of own funds to absorb losses arising from credit risk materialization.

Credit risk exposure classified in C, D and E risk categories kept on increasing at a faster pace in the third quarter of 2009. Thus, on September 30, 2009, the credit risk exposure in these risk categories registered a growth rate of 42.4%, or Denar 6,544 million. On quarterly basis (30.09.2009 - 30.06.2009), the credit risk exposure with higher risk increased by Denar 1,989 million, or by 10.0%. Credit risk exposure classified in C and E risk categories comprised 55.3% and 43.9%, respectively, of the quarterly growth of exposure of higher risk categories. In the third quarter of 2009, 84.2% of the growth of exposure with higher risk level was concentrated in the corporations and other clients sector, 11.3% in the natural persons and sole proprietors sector, and 4.5% in the sector of financial institutions and state.

Chart 3.1.4
Quarterly change of the credit risk exposure classified in risk categories C, D and E and impairment losses

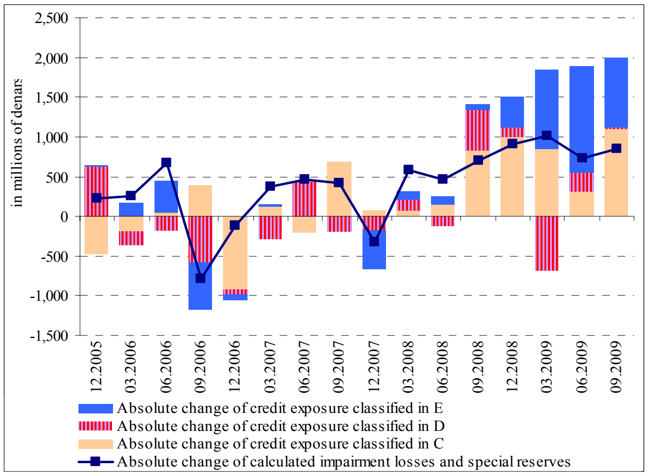
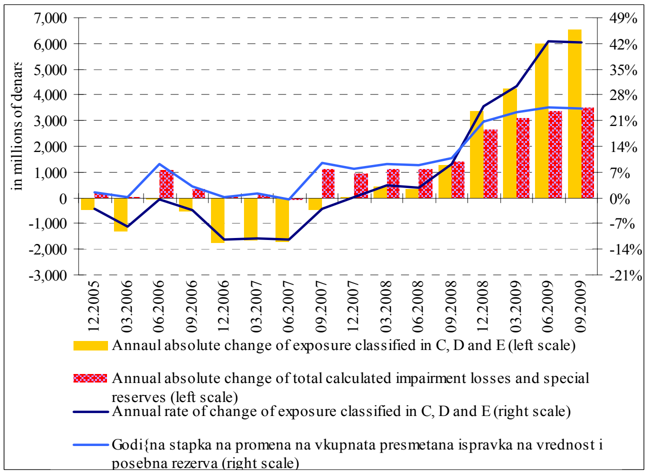


Chart 3.1.5
Annual absolute and relative change of the exposure classified in risk categories C, D and E and impairment losses



Source: NBRM, based on data submited by the banks

The acceleration of the credit risk exposure with higher risk level was not followed by same dynamic of growth of the total impairment and special reserve determined by the banks. On September 30, 2009, the identified impairment and special reserve[14] went up by Denar 855 million, quarterly, covering 43% of the quarterly growth of exposure classified in C, D and E risk categories. The unequal pace of growth between the determined impairment and special reserve and the exposure in C, D and E risk categories is even more noticeable if observed annually. On September 30, 2009, the calculated impairment and special reserve registered an annual growth of 24.3%, which is by 18.1 percentage points less compared to the annual growth rate of the exposure with higher risks level. The discrepancy between the growth of the identified impairment and special reserve and the growth of the higher risk exposure creates a need of higher prudence, that is, higher prudence in the risk assessment by banks, particularly subject to the nature of the overall macroeconomic developments.

The migration of credit risk exposure to riskier categories, amid moderate growth of total credit risk exposure and contraction of the overall economic activity, made the credit risk indicators for the banking system report negative developments. In the third quarter of 2009, credit risk indicators deteriorated on both quarterly and annual basis. Thus, on September 30, 2009, the exposure classified in C, D and E risk categories accounted by 8.2% of the total credit risk exposure, which is by 0.6 percentage points and 2.4 percentage points more on quarterly and annual basis. The further downtrend of the coverage of credit risk exposure classified in C, D and E risk categories with the allocated impairment and special reserve was particularly evident, and on September 30, 2009 it equaled 81.5%, which is by 10.9 percentage points less on annual basis.

Table 3.1.2
Indicators for the risk level of the credit risk exposure of the banking system

Credit risk indicators	30.09.2008	30.06.2009	30.09.2009
Average level of riskiness	5.4%	6.5%	6.7%
Average level of riskiness, without considering exposure to financial institutions and state	6.9%	7.9%	8.3%
Calcualted impairment losses and special reserves/Own funds	46.8%	49.4%	51.5%
% of C, D and E in total credit risk exposure	5.8%	7.6%	8.2%
% of C, D and E in total credit risk exposure, without considering exposure to financial institutions and state	7.1%	9.3%	10.2%
% of E in total credit risk exposure	2.3%	3.4%	3.6%
Coverage of C, D and E with allocated impairment losses and special reserves	92.4%	84.4%	81.5%
% of C, D and E in own funds	50.0%	57.8%	63.1%
% of E in own funds	19.9%	25.6%	27.9%
% of net C, D and E in own funds	19.5%	21.8%	23.8%

Source: NBRM, based on data submited by the banks

On September 30, 2009, the exposure classified in riskier categories constituted 63.1% of the total own funds of the banking system. In case of potential full non-recoverability of the exposure classified in C, D and E risk categories, for loss coverage would be absorbed 23.8% of the banks' own funds, which is by 2.0 percentage points more compared to June 30, 2009. Hence, the capital adequacy ratio would drop from the current 16.5% to 12.1%.

[14] On September 30, 2009, only 0.2% of the total identified impairment were not allocated and recognized as expense in the income statement.

On September 30, 2009, the average risk level[15] of the total credit risk exposure went up by 0.2 percentage points quarterly and by 1.3 percentage points on annual basis. The start of application of the Decision on credit risk management, inter alia, creates a room for segmentation of the credit risk exposure by the technique for determining impairments, which is not uniform for the overall credit risk exposure. This could create differences in the size and the significance of the average risk indicator, for each segment of the credit risk exposure. At the end of the third quarter of 2009, the banks, on individual basis, classified 80.6% of total credit risk exposure, and the remainder (19.4%) of the credit risk exposure has been classified on group basis[16]. On September 30, 2009, 82.2% of the exposure classified on a group basis is an exposure classified on a group basis in the retail credit portfolio. Average risk level of the exposure classified on individual basis, and by risk category equaled 7.7% on September 30, 2009 (1.1% for the exposure in A risk category, 10.5% for B, 26.7% for C, 60.9% for D and 95.7% for E). On September 30, 2009, the average risk of the exposure classified on a group basis in the retail credit portfolio equaled 2.9%. The average risk of exposure classified on a group basis in homogenous portfolios of similar financial instruments which have not been impaired on individual basis equaled 0.4% on September 30, 2009. The relatively lower risk of exposure classified on group basis, could be pointed to as a source of unexpected credit risk losses, particularly if the models used for its calculation are not being properly constructed. Hence, there is a need of regular update and revision of the statistical models used for determining the impairment on group basis. Additionally, it is essential to ensure sufficient level of incorporation of these models into the overall bank risk management system.

In the third quarter of 2009, the banks made relatively insignificant writing-offs of claims in the amount of Denar 60 million, which is only 0.02% of the credit risk exposure at the end of June 30, 2009. Hence, in the third quarter of 2009, the effect of the written-off claims on the credit risk exposure quality indicators was marginal. Thus, if the bank did not write off claims in the third quarter of 2009, the share of exposure classified in C, D and E risk categories would have remained unchanged (8.2%). The structure of written-off claims is dominated by claims on credits, accounting for 80.7%, and from the viewpoint of the currency structure, the Denar claims dominate with a share of 64.4%. Observing the sector structure of written-off claims, 88.5% are claims on nonfinancial legal entities, and only 11.5% on natural persons. In the third quarter, the banks recovered the previously written-off claims in the amount of Denar 14 million.

In the third quarter of 2009, the quality of credit risk exposure in Denars deteriorate, notwithstanding the increase in the banks' demand for CB bills as credit risk-free instruments. The Denar exposure classified in C, D and E risk categories registered a quarterly growth of Denar 935 million, or 8.4%, thus its share in the total Denar exposure increased by 1.0 percentage points compared to June 30, 2009. The corporations and other clients sector makes up 93.3% of the quarterly growth of Denar exposure classified in higher risk categories, which is almost a sole contribution of the industry and retail

[15] The average risk level is the ratio of the calculated impairment (for on-balance sheet credit risk exposure) and the special reserve (for off-balance sheet items of the credit risk exposure) to total credit risk exposure.

[16] According to the provisions of the Decision on credit risk management ("Official Gazette of the Republic of Macedonia" no. 17/2008 and 31/2009) applied since January 1, 2009, the banks shall classify each exposure considered to be individually significant item on individual basis. Individually significant item shall be the exposure to client exceeding Denar 300,000 or by more than 0.007% of the total credit risk exposure of the bank. The bank may classify the exposures not considered to be individually significant items, on a group basis in the retail credit portfolio, where the total amount of such classified exposure shall not exceed 33% of the total bank's credit risk exposure. Exposures for which no impairment or special reserve have been allocated at the classification on individual basis, the bank shall reassess on a group basis for similar financial instruments, in homogeneous portfolios by credit risk akin. There is an exception in the case of inability to be classified in homogeneous sub-portfolios. Impairment and special reserve shall be determined on group basis by application of a proper statistical model. This is an additional challenge for the banks, for the need of constructing a proper model which the best suits their profile and risk level. On September 30, 2009, seven banks have classified a portion of the credit risk exposure on a group basis in the retail credit portfolio, and only five banks have calculated impairment on a group basis for similar financial instruments.

sale and wholesale. Identified impairment and special reserve in the Denar exposure to credit risk increased by Denar 413 million, or by 4.1% in the third quarter of 2009.

Currency indexed credit risk exposure in Denars registered a quarterly growth of the exposure of riskier categories of Denar 1,120 million, or 26.0%. Corporations and other clients sector constituted 81.6% of this growth (concentrated in industry and construction sectors). The faster growth of identified impairment and special reserve of the currency indexed exposure in Denars (of 31.7%, i.e. Denar 986 million) brought about a 3.2 percentage points increase in the level of coverage of the exposure from riskier categories with the allocated impairment and special reserve.

Table 3.1.3
Indicators for the risk level by currency structure of the credit risk exposure

Indicators for level of riskiness	Denar exposure		Denar exposure with fx clause		Foreign currency exposure	
	30.06.2009	30.09.2009	30.06.2009	30.09.2009	30.06.2009	30.09.2009
Credit risk indicators for total credit risk exposure						
Share of C, D and E in total credit risk exposure	9.3%	10.3%	6.6%	7.3%	5.8%	5.6%
Average level of riskiness	8.3%	8.9%	4.8%	5.7%	5.1%	4.3%
Calculated impairment losses and special reserves for credit risk / Exposure in C, D and E	89.7%	86.2%	72.2%	75.4%	87.8%	77.0%
Credit risk indicators without considering exposure to financial institutions and state						
Share of C, D and E in total credit risk exposure	10.6%	11.7%	7.3%	8.8%	9.1%	8.8%
Average level of riskiness	8.3%	10.0%	5.3%	6.6%	8.3%	6.7%
Calculated impairment losses and special reserves for credit risk / Exposure in C, D and E	89.7%	85.8%	73.0%	74.9%	91.7%	76.4%

Source: NBRM, based on data submited by the banks

Unlike the developments in the Denar exposure and the currency indexed exposure in Denars, the foreign currency exposure reported an improvement of the risk profile presented through the credit risk indicators. This improvement was driven by the quarterly decrease in the exposure classified in C, D and E risk categories of Denar 66 million or 1.4%. However, the coverage level of the foreign currency exposure classified in C, D and E risk categories dropped by 10.8 percentage points, due to the quarterly decrease in the identified impairment and special reserve of the foreign currency exposure to credit risk of Denar 544 million, or 13.6%.

Each group of banks reported a deterioration of the credit risk exposure quality, reflected through the deterioration of the credit risk indicators. The fastest quarterly growth of the exposure classified in higher risk categories of Denar 1,528 million was registered in the group of large banks which generated 76.8% of the total growth of this exposure. In addition, the group of large banks reported a lower level of coverage of the exposure with allocated impairment and special reserve by 5.5 percentage points on a quarterly basis. However, at the end of the third quarter of 2009, the group of medium-size banks still registered the lowest coverage of the exposure in riskier categories with the allocated impairment and special reserve of 63.8%. On September 30, 2009, the portion of exposure classified in C, D and E risk categories for which no impairment and special reserve have been allocated, comprises 27.8% of the own funds of the group of medium-size banks, and in case of full non-recoverability of this exposure, the capital adequacy ratio of the group of medium-size banks would be by 4.8 percentage points lower, i.e. from the current 17.4% to 12.6%. If the exposure to financial institutions and state is disregarded, on September 30, 2009, the share of exposure classified in C, D and E risk categories is exceptionally high (22.3%) in the group of small-size banks.

Table 3.1.4
Credit risk exposure quality indicators by group of banks

Credit risk indicators	Large banks			Medium-sized banks			Small-sized banks		
	30.09.2008	30.06.2009	30.09.2009	30.09.2008	30.06.2009	30.09.2009	30.09.2008	30.06.2009	30.09.2009
Average level of riskiness	5.7%	6.8%	7.0%	3.8%	5.1%	5.3%	9.0%	9.3%	10.1%
Average level of riskiness, without considering exposure to financial institutions and state	7.3%	8.2%	8.6%	4.8%	6.4%	6.7%	18.6%	19.0%	19.3%
Calcualted impairment losses and special reserves/Own funds	63.7%	60.7%	64.0%	29.4%	38.3%	38.5%	21.7%	23.1%	24.1%
% of C, D and E in total credit risk exposure	5.7%	7.4%	8.0%	5.2%	7.6%	8.2%	9.2%	10.5%	11.0%
% of C, D and E in total credit risk exposure, without considering exposure to financial institutions and state	7.4%	8.9%	9.8%	5.4%	9.6%	10.3%	19.4%	23.1%	22.3%
% of E in total credit risk exposure	2.4%	3.5%	3.6%	1.2%	2.4%	2.8%	7.2%	7.1%	8.0%
Coverage of C, D and E with allocated impairment losses and special reserves	100.6%	92.7%	87.2%	65.8%	61.6%	63.8%	100.1%	88.5%	91.6%
% of C, D and E in own funds	63.8%	65.7%	73.4%	39.8%	57.3%	59.8%	22.2%	26.1%	26.2%
% of E in own funds	26.3%	30.9%	33.4%	9.5%	17.9%	20.4%	17.4%	17.5%	19.2%
% of net C, D and E in own funds	23.9%	23.1%	26.6%	20.6%	27.9%	27.8%	3.2%	5.0%	4.3%

Source: NBRM, based on data submited by the banks

3.1.3. Quality of credit risk exposure to corporations and other clients sector[17]

Contraction of the economic activity, worsened conditions for debt refinancing and contraction of the lending activity were also present in the third quarter of 2009 and acted towards deteriorating the creditworthiness of the corporations and other clients sector. This caused further deterioration of the credit risk exposure quality to this sector. In the third quarter of 2009, the credit risk exposure to the corporations and other clients sector classified in C, D and E risk categories went up by Denar 1,675 million, or by 12.5%. Such growth was followed by considerably lower quarterly growth rates of the total credit risk exposure to this sector and of the identified impairment and special reserve which in the first half equaled 1.0% and 6.1%, respectively. Moreover, the growth in the exposure classified in C, D and E risk categories to this sector was almost solely concentrated in the industry, and retail sale and wholesale.

Table 3.1.5
Change in the credit risk exposure to the corporations and other clients sector classified in C, D and E risk categories

Credit exposure to enterprises and other clients by activities	Credit risk exposure classified in C, D and E (in millions of denars)			Calculated impairment losses and special reserves (in millions of denars)			Absolute quarterly changes (in millions of denars)		Relative quarterly change (in %)		Distribution of quarterly change (in %)	
	30.09.2008	30.06.2009	30.09.2009	30.09.2008	30.06.2009	30.09.2009	Credit risk exposure in C, D and E	Impairment losses and special reserves	Credit risk exposure in C, D and E	Impairment losses and special reserves	Credit risk exposure in C, D and E	Impairment losses and special reserves
Industry	5,048	6,853	8,101	4,969	5,584	6,055	1,248	471	18.2%	8.4%	74.5%	68.2%
Agriculture, hunting and forestry	640	629	672	660	602	587	43	-15	6.8%	-2.5%	2.6%	-2.2%
Construction	1,037	970	947	844	864	768	-23	-96	-2.4%	-11.1%	-1.4%	-13.9%
Wholesale and retail trade	2,449	3,283	3,673	2,523	2,804	3,115	390	311	11.9%	11.1%	23.3%	45.0%
Transport, storage and communication	495	865	857	463	595	609	-8	14	-0.9%	2.4%	-0.5%	2.0%
Other activities	1,105	760	785	775	816	822	25	6	3.3%	0.7%	1.5%	0.9%
Total credit risk exposure to enterprises and other clients	**10,774**	**13,360**	**15,035**	**10,234**	**11,265**	**11,956**	**1,675**	**691**	**12.5%**	**6.1%**	**100.0%**	**100.0%**

Source: NBRM, based on data submited by banks

The deteriorated quality of credit risk exposure to the sector of corporations and other clients is also evident through the quarterly changes in the credit risk indicators. The average risk level of the exposure to this sector increased by 0.4% on quarterly basis and on September 30, 2009 equaled 9.3%. Thus, on September 30, 2009, the exposure classified in C, D and E risk categories accounted for 11.7% of the total exposure to this sector, which is quarterly and annual increase of 1.2 percentage points and 3.2 percentage points, respectively. Also, the level of coverage of the exposure

[17] Other clients include nonprofit institutions serving households, public offices and institutions, social and health insurance funds, etc.

classified in C, D and E risk categories with identified impairment and special reserve steeply dropped by 19.6 percentage points on annual basis. Deterioration of the risk indicators in the third quarter of 2009 was the most noticeable in the industry.

Table 3.1.6
Indicators for the risk level of credit risk exposure to corporations and other clients sector

Credit risk indicators	Date	Industry	Agriculture, hunting and forestry	Construction	Wholesale and retail trade	Transport, storage and communication	Total exposure to enterprises and other clients
Average level of riskiness	30.09.2009	12.5%	15.7%	6.0%	7.8%	7.3%	9.3%
	30.06.2009	11.3%	16.2%	6.7%	7.2%	7.2%	8.9%
	30.09.2008	10.4%	16.8%	7.6%	6.8%	5.4%	8.5%
Share of C, D and E in total credit risk exposure	30.09.2009	16.7%	18.0%	7.4%	9.2%	10.3%	11.7%
	30.06.2009	13.9%	16.9%	7.6%	8.5%	10.5%	10.5%
	30.09.2008	10.6%	16.3%	9.3%	6.6%	5.8%	8.5%
Calculated impairment losses and special reserves / exposure classified in C, D and E	30.09.2009	74.7%	87.8%	81.1%	84.8%	71.1%	79.5%
	30.06.2009	81.5%	95.7%	89.1%	85.4%	68.7%	84.3%
	30.09.2008	98.4%	103.2%	81.3%	103.0%	93.6%	99.1%

Source: NBRM, based on data submited by banks

Analyzed by group of banks, the group of large banks reported the fastest quarterly growth of 13.8%, or Denar 1,368 million, of the exposure classified in C, D and E risk categories to the corporations and other clients sector. Thus, on September 30, 2009, the share of exposure with higher risk in this group of banks equaled 12.1%, which is by 1.5 percentage points higher compared to June 30, 2009 (Annex 12- Credit risk indicators for each sector by group of banks). Moreover, the level of coverage of the exposure of riskier categories to this sector with identified impairment and special reserve went down by 6.6 percentage points and reduced to 82.5% on September 30, 2009. The group of medium-size banks reported the lowest coverage level of the exposure of riskier categories to the sector of corporations and other clients with identified impairment and special reserve of 66.9%, and the lowest average risk of exposure to this sector of 6.3%. The group of small-size banks reported relatively high risk of exposure to the corporations and other clients sector, which, to a certain extent, arises from the modest role of this group in the financial intermediation.

3.1.4. Quality of credit risk exposure to natural person sector

In the third quarter of 2009, the credit risk exposure to natural person kept on deteriorating, however, at a significantly slower pace compared to the three preceding quarters. The credit risk exposure to natural persons classified in C, D and E risk categories registered a quarterly growth of Denar 144 million, or 2.4% which is the slowest quarterly growth over the last two years. The total identified impairment and special reserve for credit risk of the exposure to natural persons, in the third quarter of 2009, registered almost identical growth and the exposure with higher risk level. In addition, the total exposure to this sector registered a minimum quarterly decrease of 0.1%, which is a reflection of the higher prudence of the banks for households lending.

Table 3.1.7
Change in the credit risk exposure to the natural persons sector classified in C, D and E risk categories

Credit exposure to natural persons, by products	Credit risk exposure classified in C, D and E (in millions of denars)			Impairment losses and pecial reserves, calculated by banks (in millions of denars)			Absolute quarterly changes (in millions of denars)		Relative quarterly change (in %)		Distribution of quarterly change (in %)	
	30.09.2008	30.06.2009	30.09.2009	30.09.2008	30.06.2009	30.09.2009	Credit risk exposure in C, D and E	Impairment losses and special reserves	Credit risk exposure in C, D and E	Impairment losses and special reserves	Credit risk exposure in C, D and E	Impairment losses and special reserves
Residential and commercial real estate credits	448	558	509	532	453	422	-49	-31	-8.8%	-6.8%	-34.0%	-21.5%
Consumer credits	2,075	2,502	2,954	1,207	1,991	2,214	452	223	18.1%	11.2%	313.9%	154.9%
Overdrafts	362	298	346	310	499	528	48	29	16.1%	5.8%	33.3%	20.1%
Credit cards	925	1,673	1,552	748	1,577	1,546	-121	-31	-7.2%	-2.0%	-84.0%	-21.5%
Car credits	168	327	276	156	218	212	-51	-6	-15.6%	-2.8%	-35.4%	-4.2%
Other credits	286	554	419	344	314	274	-135	-40	-24.4%	-12.7%	-93.8%	-27.8%
Total credit risk exposure to natural persons	**4,264**	**5,912**	**6,056**	**3,297**	**5,052**	**5,196**	**144**	**144**	**2.4%**	**2.9%**	**100.0%**	**100.0%**

Source: NBRM, based on data submited by banks

After the credit products offered to the households, the consumer credits registered the fastest growth of the exposure in riskier categories, followed by overdrafts. In the third quarter of 2009, the higher risk exposure to other credit products went down. Identical quarterly changes were also registered in the identified impairment losses by credit product.

Table 3.1.8
Indicators for the credit risk exposure to natural persons sector

Credit risk indicators	Date	Residential and commercial real estate credits	Consumer credits	Overdrafts	Credit cards	Car credits	Other credits*	Total exposure to natural persons
Average level of riskiness	30.09.2009	2.9%	8.7%	6.2%	6.6%	4.5%	23.0%	6.7%
	30.06.2009	3.2%	8.2%	6.0%	6.7%	4.6%	11.6%	6.5%
	30.09.2008	4.1%	5.6%	4.5%	3.2%	3.5%	6.3%	4.4%
Share of C, D and E in total credit risk exposure	30.09.2009	3.5%	11.6%	4.1%	6.6%	5.8%	35.1%	7.8%
	30.06.2009	3.9%	10.3%	3.6%	7.1%	6.9%	20.5%	7.5%
	30.09.2008	3.5%	9.5%	5.2%	3.9%	3.8%	5.2%	5.7%
Calculated impairment losses and special reserves / exposure classified in C, D and E	30.09.2009	82.8%	75.0%	152.8%	99.7%	76.7%	65.5%	85.8%
	30.06.2009	81.2%	79.6%	167.5%	94.2%	66.7%	56.7%	86.1%
	30.09.2008	118.8%	58.2%	85.6%	80.9%	93.1%	119.9%	77.3%

* Other credits include balance sheet and off-balance sheet credit risk exposure to natural persons, which is not included within previously noted credit products for natural persons

Source: NBRM, based on data submited by banks

Indicators for the credit risk exposure to the sector of natural persons deteriorated in the third quarter of 2009. However, the deterioration is by far more apparent if the indicators are observed annually, rather than only in the third quarter of 2009. The risk level of some credit products offered to the households improved in the third quarter of 2009. This is the case with credits for residential and commercial real estate, car credits and credit card exposure, where the average risk level went down, whereas the coverage of exposure classified in C, D and E risk categories with identified impairment losses increased. Consumer credits registered a quarterly growth in the share of exposure with higher risk of 1.3 percentage points.

On September 30, 2009, the group of medium-size banks reported the highest share of exposure classified in C, D and E risk categories in the total exposure to the sector of natural persons of 11.8%. The group of medium-size banks registered the lowest coverage of credit risk exposure of higher risk categories with identified impairment and special reserve compared to other groups of banks, of 61.0%. The level of coverage of higher risk exposure to natural persons with identified impairment losses in the group of large and small-size banks equaled 102.5% and 89.1%. Analyzed by credit products offered to natural persons, on September 30, 2009, the group of large banks reported the highest average risk in the consumer credits, and the group of medium- and small-size banks, in the credit card exposure.

Stress-test simulation[18] for the resilience of the banking system to the deterioration of the quality of credit risk exposure to corporations and other clients and / or to natural persons

The stress-test simulation for the resilience of the banking system to the potential deterioration of credit risk exposure to nonfinancial entities rests on the assumption for migration of a certain credit risk exposure percentage of each risk category to the two next categories with higher risk level, distributed equally Moreover, the simulation assumes average risk for each of the five risk categories identical to the one before the exposure migration. The purpose of this simulation is to determine the potential adverse effect of the credit risk exposure migration (for both the total exposure and the exposure by sector and activity) from the existing to higher risk categories on the capital adequacy and the exposure risk.

Under the assumption of simultaneous redistribution of 10% and 30% of the credit risk exposure to the sectors of natural persons and corporations and other clients, from lower to higher risk categories, the capital adequacy of the banking system would go down by 2.0 and 6.0 percentage points, respectively. At such migration, the share of exposure classified in C, D and E risk categories in the total credit risk exposure in the banking system would be 12.0% and 19.8% (8.2% prior to the simulation). Analysis of the results by activity shows that the assumed exposure migration would cause the fastest deterioration of the quality of exposure to agriculture, hunting and forestry, and industry sectors. Observing the credit products offered to households, the consumer credits would have the highest risk level after the simulation. On the other hand, the banks' capital adequacy shows the highest sensitiveness in the migration of the credit risk exposure to the sector of corporations and other clients, the industry and wholesale and retail trade, i.e. the sector of natural persons, for credit card and consumer credit exposure.

[18] Stress-test simulation has been conducted by using data from the Credit Registry (Report on credit risk exposure by activity and by credit products, as of September 30, 2009).

3.2. Liquidity risk

In the third quarter of 2009, the liquidity of the banking system improved, which, to large extent, is a prudent response of the banks to the enhanced risks in their operating. The banks compliance with the NBRM requirement for maintaining minimal liquidity level introduced at the beginning of 2009, also influenced. The qualitatively improved liquidity position of the banking system can be perceived through the following: improved liquidity indicators, increased number of banks registering liquidity ratio over 1, improvement in the results from the conducted stress-test analysis, narrowing of the negative gap between assets and liabilities from the aspect of their contractual maturity and the high percentage of stable deposits. Despite the registered favorable movements and expectations compared to the second quarter of 2009, the consequent post crisis risks arising from the recovery of the economy are still present, creating uncertain environment, which imposed a need for the banks' additional attention in the liquidity management in the following period.

3.2.1. Banks' liquidity indicators[19]

In the third quarter of 2009, the liquidity indicators of the banking system started to show an improvement. Since July 2009, all liquidity indicators have positive quarterly change. On September 30, 2009, the share of the liquid assets[20] in the total assets equaled 23.3% and registered an increase of 2.8 percentage points compared to June 30, 2009. All other liquidity indicators registered improvement compared to the preceding quarter. The most evident quarterly increment (of 6.2 percentage points) was registered by the indicator for covering of the households' deposits with the total liquid assets (Annex no. 13 - Liquidity indicators).

Figure 3.2.1
Monthly movement of banks' liquidity indicators

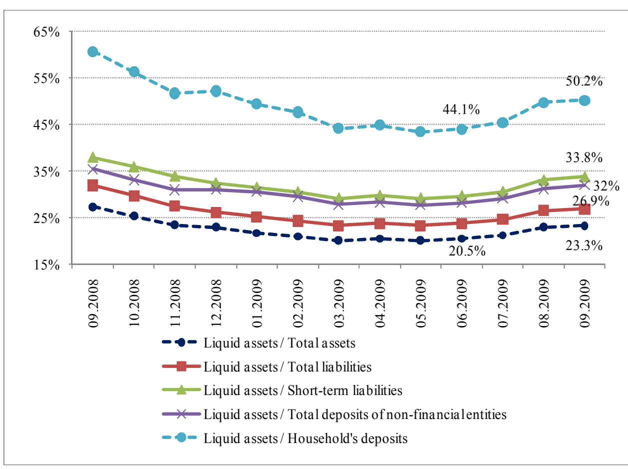
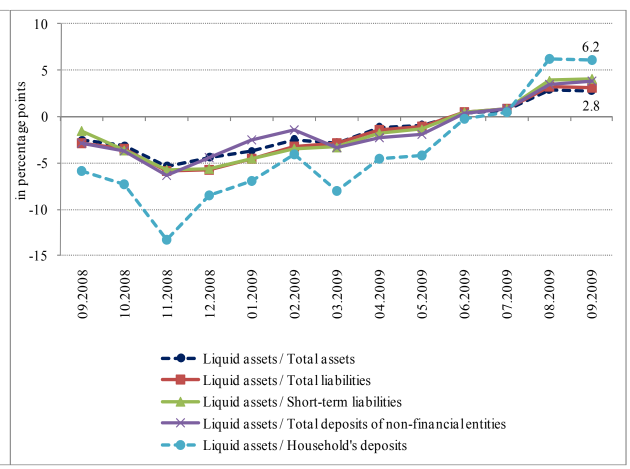


Figure 3.2.2
Quarterly change of the banks' liquidity indicators



Source: NBRM, based on data submitted by the banks

[19] The calculation of the individual components for analysis of the banks' liquidity position do not take into consideration the deposits with and the credits of the domestic banks (assets components), i.e. the deposits of and the borrowings from domestic banks (liabilities components).

[20] The liquid assets encompasses cash and balances with NBRM, the CB bills, the correspondent accounts and the short-term placements with foreign banks and placements in short-term securities issued by the Government.

Such a dynamics of the liquidity indicators was determined, to large extent, by the positive liquid assets' change rates, which were far higher than those in the other components of the liquidity indicators in the third quarter of 2009. On September 30, 2009, the banks' liquid assets equaled Denar 59,037 million, which is more by 18.5% compared to June 30,2009. During the same period, the other components of the banks' liquidity indicators registered quarterly increase from 3.5% (total assets) to 4.8% (total deposits). The improvement in the banks' liquidity in the third quarter of 2009 is proven also through the considerable decrease in the negative value of the annual change rate of the liquid assets characteristic for the preceding months. On September 30, 2009, the annual change rate of the liquid assets equaled negative 9.5%, and it is lower almost by three times than the respective rate registered on June 30, 2009.

Figure 3.2.3
Quarterly change in the components of the banks' liquidity indicators

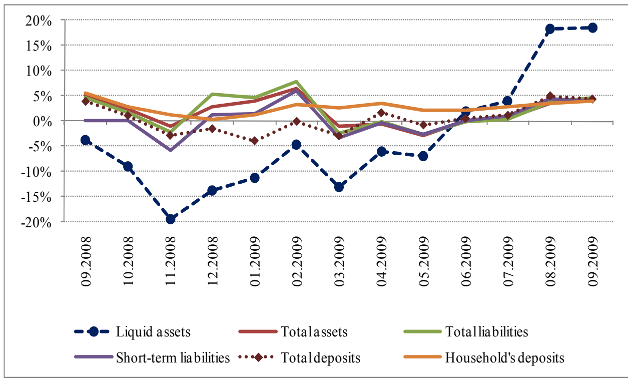
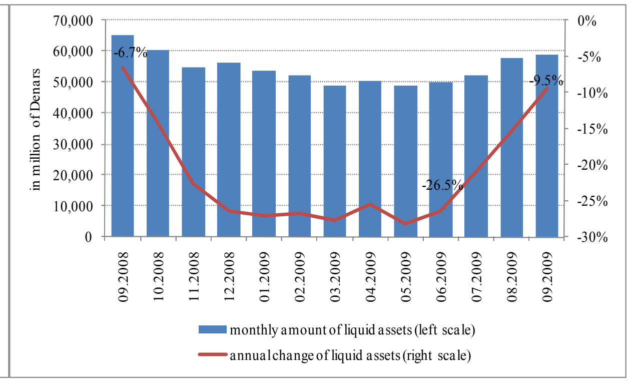


Figure 3.2.4
Movement of the banks' liquid assets



Source: NBRM, based on data submitted by the banks

Figure 3.2.5
Monthly movement of the banks' liquid assets components

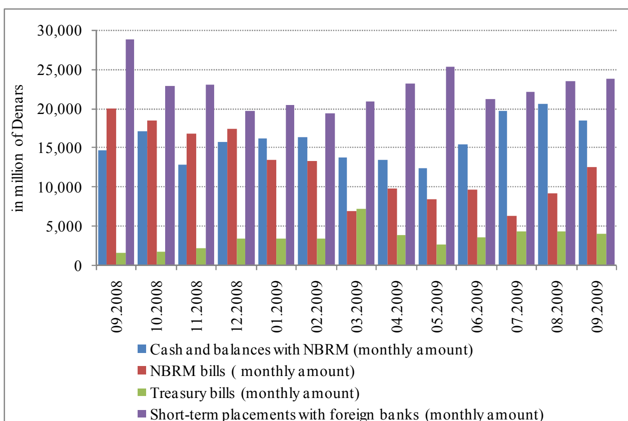
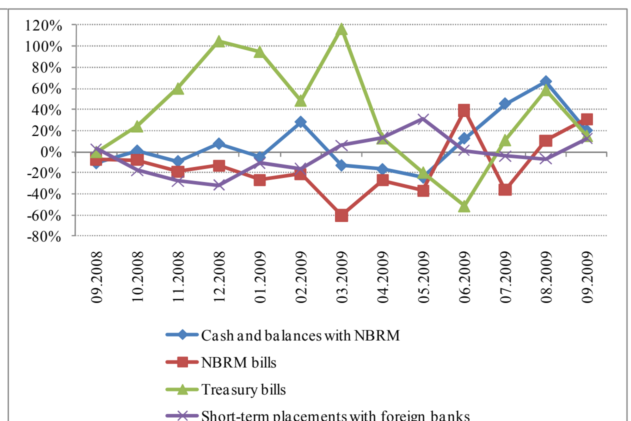


Figure 3.2.6
Quarterly change of the banks' liquid assets components



Source: NBRM, based on data submitted by the banks

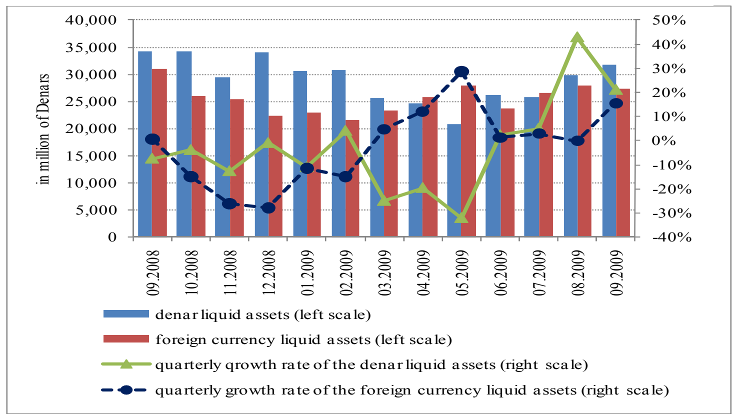
In the third quarter of 2009, the increase in the liquid assets is due to the increase in the CB bills, cash and balances with NBRM, as well as the short-term placements with foreign banks[21]. All these categories respectively contributed to the increase in the liquid assets with approximately

[21] Placements in short-term assets with foreign banks refer to the correspondent accounts and other short-term assets with foreign banks.

30%. The cash and balances with NBRM registered the highest quarterly increase of Denar 3,090 million (or 20.0%). The CB bills and the short-tern placements with foreign banks registered quarterly rise of 30.9% and 12.3%, respectively. These three components participate with 93.1% in the liquid assets (40.3% accounts for the participation of the short-term placements with foreign banks, 31.4% for cash and balances with NBRM and 21.4% to the CB bills). Although with the smallest contribution to the increase in the liquid assets (of 5.8%), the Treasury bills went up quarterly by 15.2%.

Intensified increase in the Denar than the foreign currency liquid assets in the third quarter of 2009 resulted in larger share of the Denar component[22] **in the liquid assets' structure.** On September 30, 2009, the Denar liquid assets participated with 53.7%, which is by 1.2 percentage points more compared to the share registered on June 30, 2009. Such movements are due to the larger amount of placed assets in the CB bills, as well as to the keeping larger amount of Denar cash by the banks (mostly as a result of the changes in the regulations pertaining to the reserve requirement - given in details in part 2. Banks' activities).

Figure 3.2.7
Monthly movement and quarterly growth of the liquid assets by currency structure

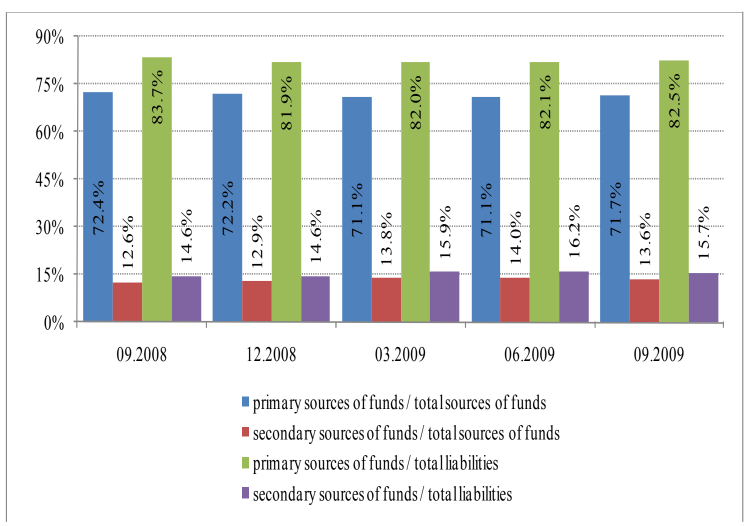


Source: NBRM, based on data submitted by the banks

3.2.2. Sources of financing of the banking system

The deposits of the non-financial entities (the so-called primary sources of financing) preserved the role as the dominant source of financing of the banking activities also in this quarter. The structure of the banks' sources of financing remained almost unchanged relative to the preceding quarters. The primary sources of funds, adversely to the negative change rates in the first months of 2009, register positive quarterly growth rate since June 2009, which reached the level of 4.3% on September 30, 2009. In comparison with September 30,2008, they augmented insignificantly (by 0.3%). However, their share in the total sources of financing in the total liabilities remained almost unchanged. More detailed analysis of the deposits' movements and structure is incorporated in part 2.3. Deposit activity of the banks.

Figure 3.2.8
Relative significance of the individual sources of funds



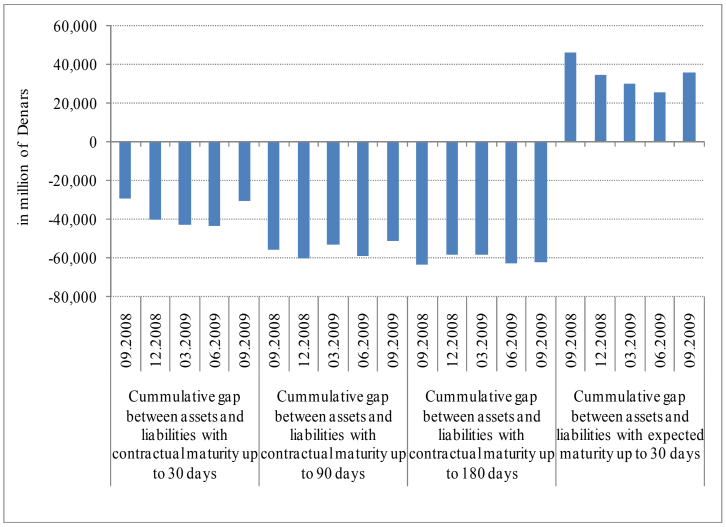
Source: NBRM, based on data submitted by the banks

[22] For the need of the banks' liquidity analysis, the Denar assets include the assets in Denars with FX clause.

3.2.3. Maturity structure of the assets and liabilities

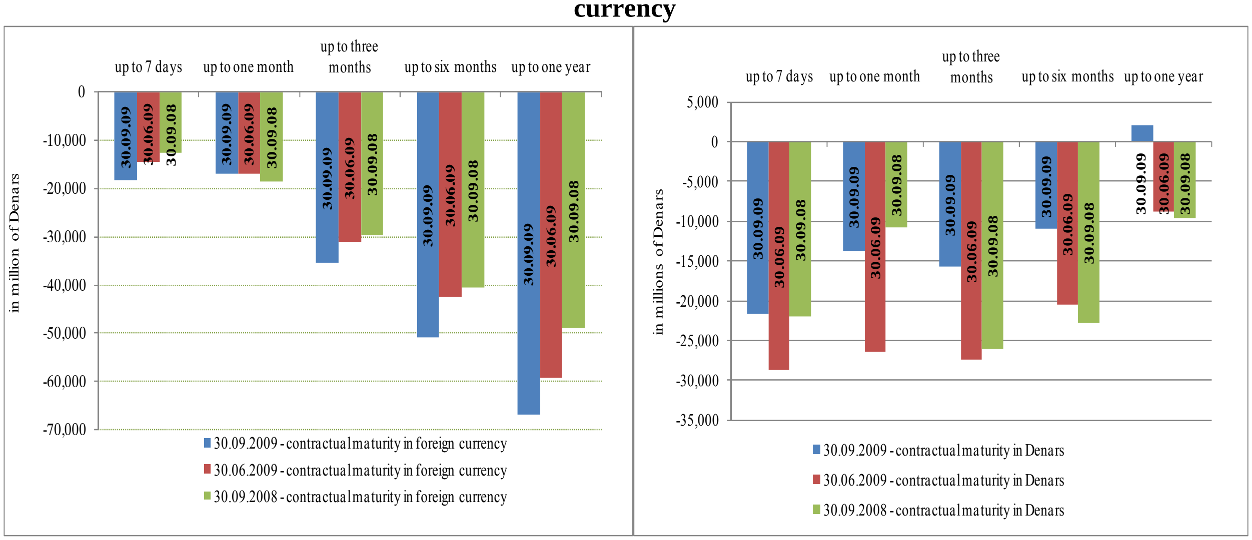
In the third quarter of 2009, the negative gap between the assets and liabilities, from the aspect of their contractual maturity, narrows. Such a situation is mostly apparent with the cumulative mismatch between the assets and liabilities with contractual maturity up to 30 days, which reduced by Denar 12,493 million, or by 28.9% compared to June 30, 2009. Despite the mismatch in the contractual maturity structure of assets and liabilities, the banks succeed to respond fully to all outflows of assets. **According to the banks' expectations, the maturity of the assets and liabilities** of up to 30 days matched with the anticipated positive gap being increased on June 30, 2009 by Denar 10,671 million (or 41.8%), while compared to September 30, 2008 it went down by Denar 10,364 million, or 22.3% (Annex no. 14 and 15 - Contractual and anticipated maturity structure of the assets and liabilities of the banking system on September 30,2009).

Figure 3.2.9
Dynamics of the cumulative gap between the contractual and anticipated maturity of the assets and liabilities for different maturity segments



Source: NBRM, based on data submitted by the banks

Figure 3.2.10
Cumulative contractual residual maturity (mis)match of the assets and liabilities of the banking system by currency



Source: NBRM, based on data submitted by the banks

From the aspect of the gap currency structure, in the third quarter of 2009, the cumulative contractual mismatch of the assets and liabilities in Denars in shorter maturity blocks fell, reaching even positive gap in the maturity block of up to one year. This is due, to large extent, to the higher placements in CB bills and larger Denar cash of the banks in the third quarter of 2009, as well as the decrease in the deposits in Denars with FX clause (due to the outflow of deposit in Denars with FX clause held for payment of dividend to foreign shareholder). **Oppositely, the maturity mismatch between the assets and liabilities in foreign currency deepened,** mostly within the maturity segment of up to six months, which is mainly due to the changes on the side of the banks' liabilities.

On September 30, 2009, according to banks' expectations, the level of stable deposits[23] is high and almost unchanged relative to the preceding quarter. The percentage of stable deposits, according to the banks' expectations, at the level of the banking system equaled 82.1% (82.8% on June 30,2009). Also, on September 30,2009, according to the banks' expectations, within seven days period 17.9% of the total sight deposits would outflow, which is an increase of 0.7 percentage points compared to the preceding quarter.

The banks liquidity position can be perceived also through the realization of the prescribed prudent liquidity ratios for both maturity segments[24]. In comparison with June 30, 2009, the number of banks that reached and exceed the liquidity ratio of 1 in Denars and in both maturity segments increased. The tempo of the realization of the prescribed dynamics for reaching the liquidity ratios in foreign currency is slightly slower. Namely, compared to the previous quarter, the number of banks with liquidity ratio over 1 in foreign currency in the maturity segment up to 30 days declined, and simultaneously in both maturity segments for foreign currency, the number of banks with liquidity ratio below 1 that failed to realize the required dynamics for September 30, 2009 increased.

Table 3.2.1
Survey of the fulfillment of the liquidity ratio up to 30 and 180 days

Number of banks	Maturity segments up to 30 days						Maturity segments up to 180 days					
	in Denars			in foreign currency			in Denars			in foreign currency		
	28.02.2009	30.06.2009	30.09.2009	28.02.2009	30.06.2009	30.09.2009	28.02.2009	30.06.2009	30.09.2009	28.02.2009	30.06.2009	30.09.2009
liquidity ratio > 1	14	17	17	12	17	16	9	11	16	8	10	10
liquidity ratio < 1	4	1	1	6	1	2 (1)*	9	7 (3)*	2	10	8 (1)*	8 (3)*

*Note: the number in the brackets refers to banks with liquidity ratio below 1 that failed to realize the required dynamics for the cut-off date.
Source: NBRM, based on data submitted by the banks

3.2.4. Liquidity of individual groups of banks

The increase in the liquid assets in the third quarter of 2009 was characteristic for all groups of banks. However, the most evident increase was registered with the group of large banks, which is also the carrier of the growth in the liquid assets at the level of the entire banking system. This group of banks registered quarterly rise in the liquid assets by Denar 7,644 million (or 26.0%), with the contribution of the total increase in the total liquid assets at the level of the entire banking system being equal to 82.9%. **In the third quarter of 2009, almost all liquidity indicators by groups of banks began registering an improvement.** The most considerable improvement in these indicators was registered with the group of large banks, which is mostly a result of the positive dynamics of the liquid assets with this group of banks.

[23] Starting from January 2009, the level of stable deposits refers to the total deposits at the level of the banking system, not only to the deposits of the non-financial entities.
[24] Pursuant to the Decision on managing banks' liquidity risk ("Official Gazette of the Republic of Macedonia" no.163/08, 66/09 and 144/09) the banks shall be obliged, according to the prescribed dynamics, starting from March 2009, to reach liquidity ratios for assets and liabilities in Denars and in foreign exchange up to 30 and 180 days, equal to 1.

Table 3.2.2
Quarterly change in the liquidity indicators by groups of banks

Indicators	30.09.2008			30.06.2009			30.09.2009		
	Large banks	Medium-sized banks	Small-sized banks	Large banks	Medium-sized banks	Small-sized banks	Large banks	Medium-sized banks	Small-sized banks
Liquid assets / Total assets	26.0%	26.7%	52.3%	18.0%	22.8%	48.0%	21.8%	23.9%	44.0%
Liquid assets / Total liabilities	29.5%	31.0%	116.0%	20.3%	26.0%	121.1%	24.6%	27.1%	93.0%
Liquid assets / Short-term liabilities	33.5%	41.1%	149.3%	24.4%	36.2%	112.8%	29.6%	37.7%	115.6%
Liquid assets / Total deposits of non-financial entities	31.4%	38.7%	119.2%	23.0%	36.0%	94.5%	27.8%	37.2%	100.1%
Liquid assets / Household's deposits	51.0%	75.2%	258.9%	34.3%	62.9%	207.5%	41.4%	66.3%	205.3%

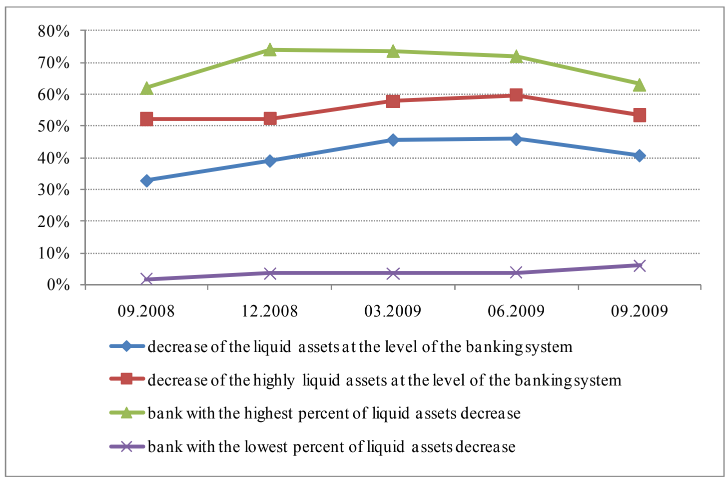
Source: NBRM, based on data submitted by the banks

Stress-test simulations for the resistance of the banking system to the liquidity shocks

On September 30, 2009, the stress-test analysis showed that the banks can maintain the liquidity on a satisfactory level even in conditions of possible unfavorable shocks. The upward trend of the liquid assets caused certain improvement of the results from both scenarios used within this analysis.

Thus, in case of **simulation of withdrawal of 20% of the households' deposits outside the banking system,** the decline in both, the high and the highly liquid assets of the banking system is smaller compared to the preceding quarter. After the simulation all banks manage with enough liquid and highly liquid assets for outflow coverage, except one bank, which has no sufficient amount of highly liquid assets.

Figure 3.2.11
Results of the stress-tests simulation of withdrawal of 20% of the households' deposits outside the banking system



Source: NBRM, based on data submitted by the banks

Table 3.2.3
Share of the liquid and highly liquid assets before and after simulation

Ratios/Results	Liquid assets / Total assets			Highly liquid assets / Total assets		
	30.09.2008	30.06.2009	30.09.2009	30.09.2008	30.06.2009	30.09.2009
Before simulation	26.30%	20.10%	23%	16.50%	15.4%	17.5%
After simulation : of withdrawal of 20% of the households' deposits outside the banking system	19.4%	12%	15%	8.6%	6.9%	9%

The influence on the banks liquidity is more apparent in case of **simulation of withdrawal of the deposits of the twenty largest depositors of each bank individually.** In case of this scenario, the severest decrease in the liquid assets reaches even 91.1%. In case of this scenario, four banks register lack of liquid assets for covering the liabilities based on the deposits of twenty largest depositors, which is by two banks less compared to June 30, 2009 and September 30, 2008.

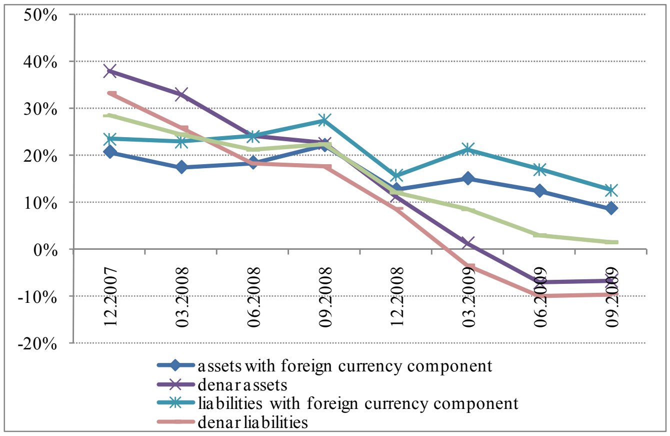
3.3 Currency risk

In the third quarter of 2009, the share of assets and liabilities with currency component in the banks' balance sheets remained high. As a result of the more dynamic growth in the currency component in the banks' liabilities, at the end of the third quarter of 2009, the gap between the assets and liabilities with currency component additionally narrowed. This also indicates a decrease in the banks' exposure to currency risk. On September 30,2009, all banks fulfilled the prescribed limits for the aggregate foreign currency position.

3.3.1. Exposure to currency risk

In the third quarter of 2009, the assets and liabilities with currency component continued to increase with higher pace compared to the banks' total assets. Simultaneously, the trend of more dynamic increase in the liabilities with currency component continued, which contributed to further contraction of the gap between the assets and liabilities with currency component. Thus, on September 30,2009 the assets with currency component reached the level of Denar 146,105 million, which is quarterly rise of 4.1% (annual increase of 8.7%). The largest part for the increase in the assets with currency component is due to the Denar assets with FX clause, which generates 56.2% of the quarterly increase in the total assets with currency component. The liabilities with currency component equaled Denar 141,696 million, which is an increase of 4.3% compared to the previous quarter (annual rise of 12.6%). The foreign currency liabilities went up quarterly by Denar 8,029 million, compared to the quarterly fall of Denar 2,211 million, of the liabilities in Denars with FX clause. On September 30, 2009, the Denar assets and the Denar liabilities augmented quarterly by 2.7% and 2.5%, respectively, opposite to the still negative annual change rates of these categories.

Figure 3.3.1
Annual growth rates of assets and liabilities of the banking system, by currency structure

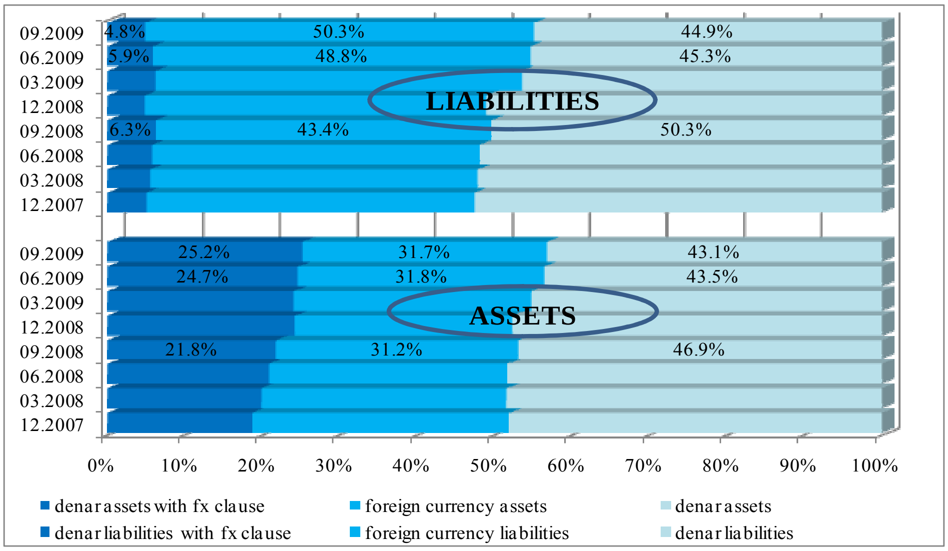


Source: NBRM, on the basis of data submitted by the banks

Such movements did not result in significant changes in the assets and liabilities' currency structure of the banking system (Annex 16 and 17 - Structure of the on-balance sheet and off-balance sheet assets/liabilities in foreign currency and in Denars with FX clause). The Denar component in the banks' assets and liabilities takes less than 45%, with a trend of constant decrease in this share in the currency structure being present.

The foreign currency component dominates both sides of the balance sheet at the level of the banking system. In contrast to the assets, where the shares of the assets in foreign currency and the assets in Denars with FX clause, on the side of the liabilities are close, the share of the liabilities with FX clause is minor.

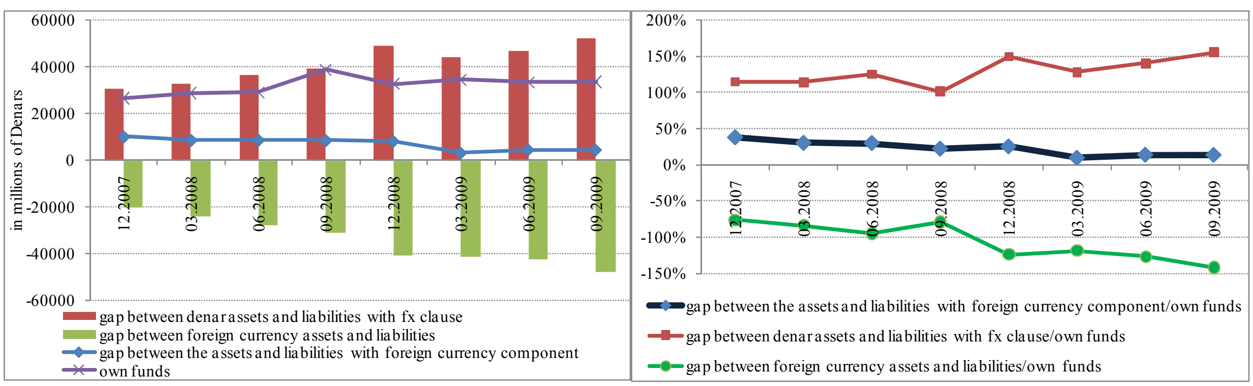
Figure 3.3.2
Currency structure of the banks' assets and liabilities



Source: NBRM, on the basis of data submitted by the banks

The contraction of the gap between the assets and the liabilities with currency component, with the simultaneous increase in the banks' own funds resulted in certain decrease also in their correlation. On September 30, 2009 the gap between assets and liabilities with currency component equaled Denar 4,408 million, and it registered quarterly drop of 1.2%. Given the quarterly increase in the own funds of 0.8%, the correlation of the gap between the assets and liabilities with currency component and the own funds reduced to 13.1% (quarterly decline of 0.3 percentage points).

Figure 3.3.3
Movement of the gap between the assets and the liabilities with currency component relative to the banks' own funds



Source: NBRM, on the basis of data submitted by the banks

As in the previous periods, the positive gap between assets and liabilities with currency component is due to the apparent positive gap between assets and liabilities in Denars with FX clause, compared to the negative gap between the foreign assets and liabilities. The gap in Denars with FX clause, at the end of the third quarter of 2009, equals Denar 52,235 million and it registered evident quarterly growth of 11.6%. The increase in this gap is due to the rise in the assets in Denars with FX clause, and primarily to the rise in the banks' investments in Treasury bills in Denars with FX clause (which went up by 74.7% in the previous quarter). On the other hand, the liabilities in Denars with FX clause moved downwards as a consequence of the payment of dividend by domestic entity (held in Denars with FX clause) to foreign shareholder (held in foreign currency). The same transaction contributed to the short-term foreign currency deposits from nonfinancial entities - nonresidents to register quarterly rise of 48.7%. Thus opposite to the minor increase in the banks' activities in foreign currency, it reflected on the deepening of the **negative gap between assets and liabilities in foreign currency compared to the preceding quarter by 13%, thus reaching the negative value in the amount of Denar 47,826 million.**

Table 3.3.1
Structure of assets and liabilities with currency component and their gap, by currency

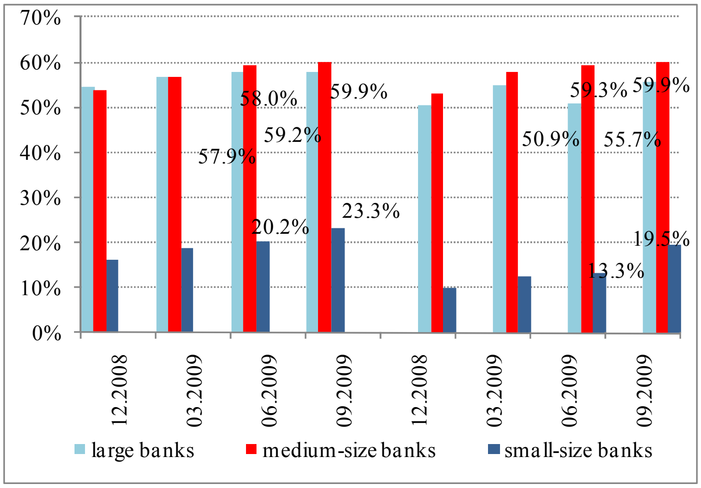
Currency	30.06.2009			30.09.2009		
	Currency structure of the assets with currency component	Currency structure of the liabilities with currency component	Currency structure of the gap between the assets and the liabilities with currency component	Currency structure of the assets with currency component	Currency structure of the liabilities with currency component	Currency structure of the gap between the assets and the liabilities with currency component
Euro	89.6%	89.9%	85.3%	90.4%	90.4%	88.8%
US Dollar	6.7%	7.0%	-2.0%	6.1%	6.6%	-7.3%
Swiss franc	1.8%	1.4%	12.3%	1.7%	1.4%	11.3%
Other	1.9%	1.8%	4.4%	1.8%	1.7%	7.2%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: NBRM, on the basis of data submitted by the banks

Analyzed by currency, the structure of assets and liabilities with currency component, as well as their gap, remained unchanged. The Euro additionally strengthened its dominance in the banks' balance sheets. The US Dollar is the only currency where the gap between assets and liabilities with currency component, at the level of the banking system, is negative.

Also at the end of the third quarter of 2009, the share of assets and liabilities with currency component is the highest with the group of medium-size banks. In the third quarter of 2009, all groups of banks registered rise in the share in the assets and liabilities' currency component. The most significant quarterly percentage rise in such share is registered with the group of small banks (of 3.1 and 6.2 percentage points, respectively).

Figure 101
Share of the assets and liabilities with currency component in the total assets and liabilities, by group of banks



Source: NBRM, on the basis of data submitted by the banks

3.3.2. Aggregate currency position of the banks and open currency position in individual currency

On September 30,2009, all banks adhered to the prescribed limit[25] for the aggregate foreign currency position[26]. Four banks of the group of medium-size banks registered aggregate short currency position, while all other banks registered aggregate long currency position. The open currency position by currency with most of the banks failed to exceed 5% of the own funds, with exception to the open currency position in Euro, where more equal distribution of the banks within respective intervals for the correlation between the open currency position in individual currency and the own funds of the banks, was registered.

Table 3.3.2 Aggregate open currency position / own funds

Aggregate currency position/own funds	Number of banks	
	Aggregate long position	Aggregate short position
under 5%		2
from 5% to 15%	6	1
from 15% to 30%	6	2

Source: NBRM, on the basis of data submitted by the banks

Table 3.3.3
Open currency position by currency/own funds

Open currency position by currency/own funds	Number of banks							
	Euro		US Dollar		Swiss franc		Other	
	Long	Short	Long	Short	Long	Short	Long	Short
under 5%	2	3	6	10	11	3	12	1
from 5% to10%	2				1		1	
from 10% to 20%	5	1						
from 20% to 30%	2	2						

Source: NBRM, on the basis of data submitted by the banks

[25] Pursuant to the Decision on managing the currency risk, the aggregate currency position should equal maximum 30% of the banks' own funds.
[26] The aggregate currency position represents larger amount between the aggregate long currency position (a sum of all long positions) and the aggregate short currency position (sum of all short positions in absolute values) of the bank.

3.4. Insolvency risk

In the third quarter of 2009, the capital adequacy ratio at the level of the banking system registered growth of 0.1 percentage point. This minimal growth is due to slightly intensified increase in the own funds of the banking system, in comparison with the rise in the risk weighted assets.

The subordinated instruments are the most important source of the increase in the own funds of the banking system. Oppositely, in conditions of absence of new issues of shares, the capital and the reserves registered minimal decline, which is primarily a consequence of the increase in the current loss. Such movements caused certain deterioration in certain indicators pertaining to the solvency and the capitalization of the banking system (Tier - 1 indicator, the capitalization rate of the banking system).

3.4.1. Indicators for the solvency and the capitalization of the banking system

The banks have relatively strong solvent position. On September 30,2009, the capital adequacy ratio at the level of the banking system equals 16.5%, which is quarterly rise of 0.1 percentage point (annually, the capital adequacy ratio went up by 1.5 percentage points). The quarterly increase in this rate arises from the increase in the capital adequacy with the group of medium-size banks (from 16.9% on June 30, 2009 to 17.4% on September 30,2009). Oppositely, the capital adequacy ratio with the groups of large and small banks, registered minimal quarterly drop of 0.1 percentage point.

Figure 3.4.1
Movement of the capital adequacy ratio

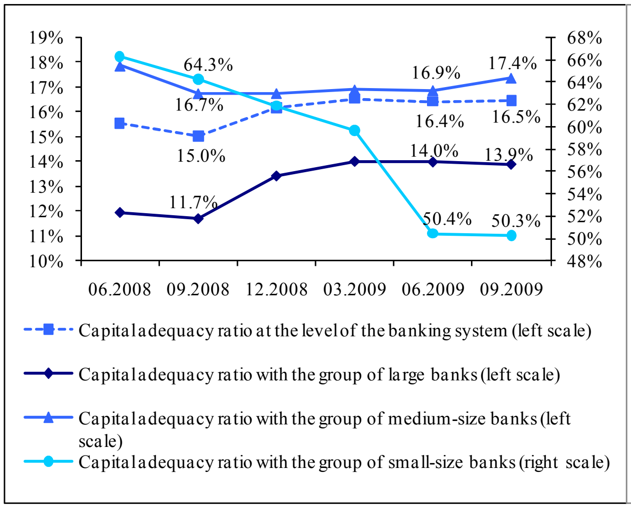
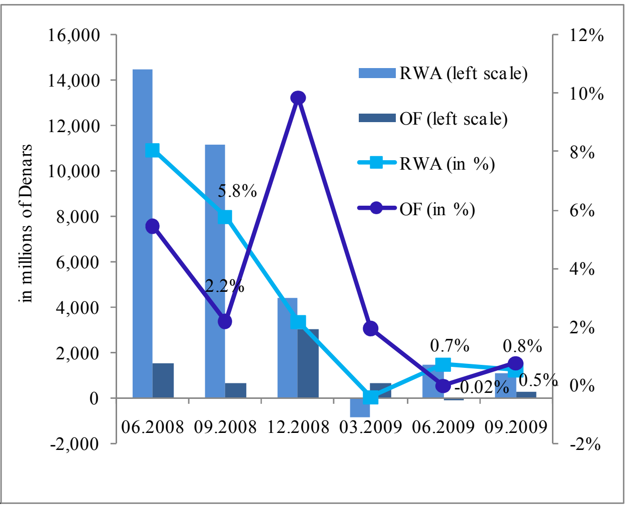


Figure 3.4.2
Quarterly change of the own funds and the risk weighted assets

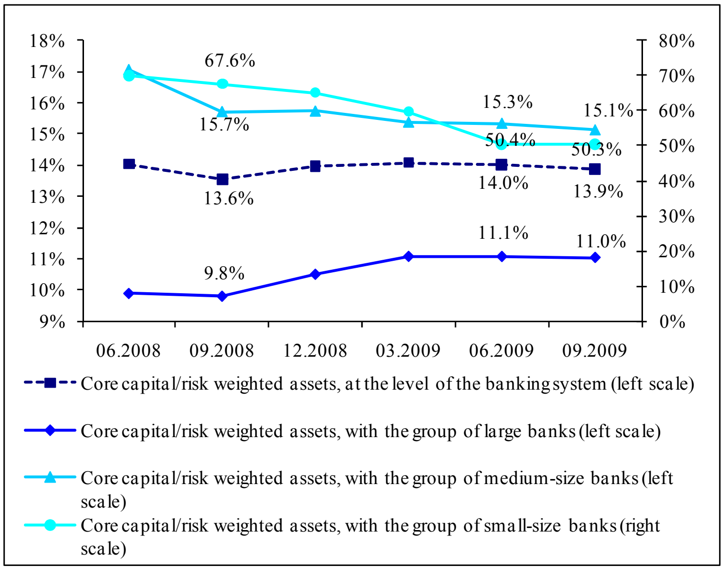


Source: NBRM, based on data submitted by the banks
Note: RWA: Risk weighted assets; OF: own funds.

The minimal quarterly growth in the capital adequacy ratio arises from the slightly intensified increase in the own funds of the banking system, compared to the increase in the risk weighted assets. On September 30,2009, the banks' own funds amount to Denar 34,827 million and in comparison with the end of the first half of 2009, they registered an increase of 0.8%. **The increase in the own funds at the level of the banking system is due exclusively to the higher use of subordinated instruments,** which was fully concentrated with one bank from the group of medium-size banks (on a net basis, the subordinated instruments at the level of the banking system augmented by additional Denar 338 million, i.e. 7.1%). On the other hand, at the end of the third quarter of 2009, the risk weighted assets equaled Denar 211,641 million, which is more by 0.5% compared to June 30, 2009. The largest contribution to the quarterly increase in the risk weighted assets[27] accounted for the rise in the uncovered guarantees and letters of credit, which surged by Denar 1,643 million (or by 12.2%), in the third quarter of 2009. (Annex 19 - Capital adequacy ratio, by groups of banks).

The indicator for the share of the core capital[28] in the risk weighted assets (Tier - 1 ratio), calculated at the level of the banking system, registered minimal drop, which is a consequence of the quarterly decline in the core capital. In conditions of an absence of new issues of common shares, the decrease in the core capital is present with the group of large banks (by Denar 0.7 million) and the group of small banks (quarterly fall of Denar 77 million, or 1.6%). The drop in the core capital with the group of large banks arises from the increase in the non-tangible assets[29], as deductable item of the core capital, while the decrease in the core capital with the small banks is a result of the rise in the current loss as deductable item of the core capital. The quarterly decrease in the share of the core capital in the risk weighted assets with the group of medium-size banks results from the slower increase in the core capital (in the third quarter of 2009, the bank' core capital went up by just 0.2%[30], which is due to the higher current loss as a redundant item of the core capital), in comparison with the growth in the risk weighted assets (of 1.5%).

Figure 3.4.3
Movement of the indicator for the share of the core capital in the risk weighted assets



Source: NBRM, based on data submitted by the banks

In the third quarter of 2009, the capitalization rate[31] of the banking system reduced, which is the consequence of the decrease in the banks' capital and reserves. On September 30, the capitalization rate of the banking system equaled 11.9%, which is a decrease of 0.5 percentage points compared to the end of the preceding quarter of 2009. The decrease in the capital and reserves with the group of medium-size banks (of Denar 13 million, or by 0.1%) and with the group of small-size banks (of Denar 64 million, or by 1.1%) resulted from the quarterly increase in the current loss with these groups of banks. On the other hand, the group of large banks registered quarterly decrease in the capital and reserves (of Denar 25 million, or by 0.2%), which is a consequence of the fall in the revaluation reserves.

[27] Pursuant to the regulations, the risk weighted assets consist of: the on-balance sheet and the off-balance sheet credit risk weighted assets and the currency risk weighted assets.
[28] The calculations use the core capital reduced by the deductable items (line IV of the Report for the banks' own funds, in conformity with the Instructions for the implementation of the Decision on the methodology for determining the capital adequacy - "Official Gazette of RM" no. 43/2009).
[29] Pursuant to the Instructions for the implementation of the Decision for the methodology for determining the capital adequacy, the non-tangible assets encompass the goodwill, patents, licenses, concessions and brands.
[30] The increase in the core capital with the group of medium-size banks is completely concentrated with one bank and it arises from the decrease in the amount of the non-allocated impairment and the special reserve, compared to June 30, 2009.
[31] The capitalization rate represents the ratio between the banks' capital and reserves and their assets.

Figure 3.4.4
Movement of the capitalization rate

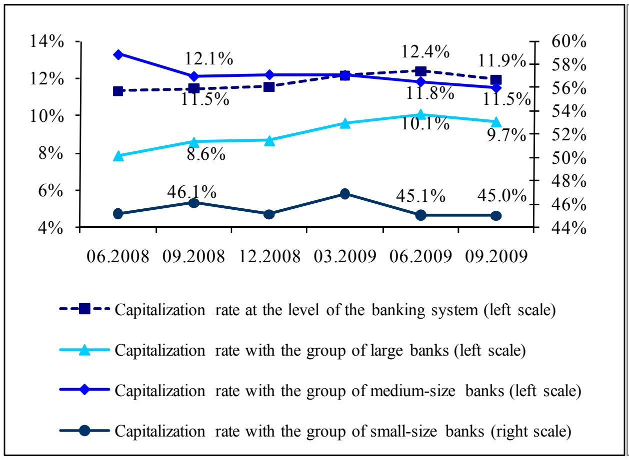
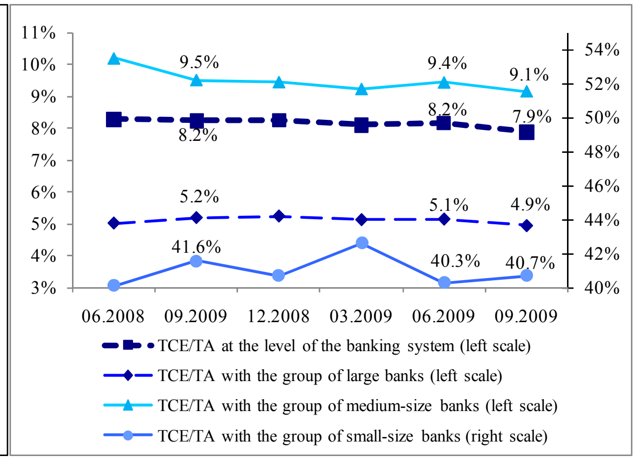


Figure 3.4.5
Movement of the indicator TCE/TA



Source: NBRM, based on data submitted by the banks
Note: TCE: Tangible common equity; TA: Tangible assets

The indicator[32] for the share of the equity in material form based on common shares[33] (the so-called "tangible common equity") in tangible assets[34] (the so-called "tangible assets") at the level of the banking system registered a quarterly decrease of 0.3 percentage points. Such movements originate from more intensive quarterly growth in the tangible assets with the group of large banks (of 4.1%), compared to the rise in the tangible common equity with this group of banks (of 0.04%), as well as the decline in the tangible common equity with the group of medium-size banks (of 0.3%, or Denar 23 million), which results from the increase in the non-tangible assets.

Stress-test simulations for the resistance of the banking system to hypothetical shocks as of September 30,2009

At the end of the third quarter of 2009, the conducted stress-test simulations[1] for the resistance of the banking system and individual banks in the Republic of Macedonia to possible external shocks, showed that the banking system and the individual banks are still relatively resistant to the influence of these shocks. However, in the implementation of more extreme simulations, a decrease in the capital adequacy ratio below 8%, not only with individual banks, but at the level of the banking system, as well, was registered.

The results of the performed stress-test analysis show that the capital adequacy ratio, at the level of the banking system reduces below 8% in case of extreme ninth (increase in the exposure to credit risk in the risk categories C, D and E by 150% and the depreciation in the Denar exchange rate relative to the Euro and the US Dollar by 30%) and the tenth simulation (simultaneous reclassification in the risk category E of the

[32] The indicator for the share of tangible common equity in tangible assets is considered to be the most conservative indicator for the banks' capacity for absorbing the possible losses and in conditions of the global financial crisis it attained advantage relative to the capital adequacy ratio and the indicator for the share of the core capital of the banking system in the risk weighted assets.
[33] The tangible common equity is obtained when the accounting value of the banks' equity is reduced by the amount of all assets which in case of possible liquidation of the bank would have minor, or it would have no value at all (non-tangible assets including: core investments, patents, licenses and concessions, software, goodwill, design, model and brands and other rights and items of non-tangible assets), as well as for the amount of the banks' paid capital based on preference shares.
[34] Tangible assets are obtained by reducing the total assets by the amount of the non-tangible assets, which include: core investments, patents, licenses and concessions, software, goodwill, design, model and brands and other rights and items of non-tangible assets.

five largest exposures to non-financial entities). Namely, during the implementation of the ninth simulation, the capital adequacy ratio of the banking system reduces to the level of 5.2% (from the initial 16.5% before the shock implementation), while in case of the tenth simulation, the capital adequacy ratio reduces to the level of 5.5%.

Table 3.4.1
Results from the stress-test simulations for the resistance of the banking system and individual banks to hypothetical shocks as of September 30,2009

No. of simulation	CAR at the level of the banking system, before simulation	CAR at the level of the banking system, after simulation	Number of banks with a result (CAR after simulation) below the CAR of the overall banking system after simulation
1	16.5%	15.8%	2 (l); 4 (m)
2	16.5%	14.5%	2 (l); 4 (m)
3	16.5%	13.2%	2 (l); 4 (m)
4	16.5%	14.6%	2 (l); 4 (m)
5	16.5%	13.1%	3 (l); 4 (m)
6	16.5%	13.2%	3 (l); 4 (m)
7	16.5%	16.6%	2 (l); 4 (m)
8	16.5%	14.4%	2 (l); 3 (m)

Source: internal NBRM calculations, based on data submitted by the banks
Note: (l) - large bank; (m) medium bank; (s) - small bank

The analysis by individual banks shows that the capital adequacy ratio reduces below 8%, with individual banks, in case of third, fifth, sixth and eighth simulation. In case of severest simulations applied in the analysis, the capital adequacy ratio reduces even more.

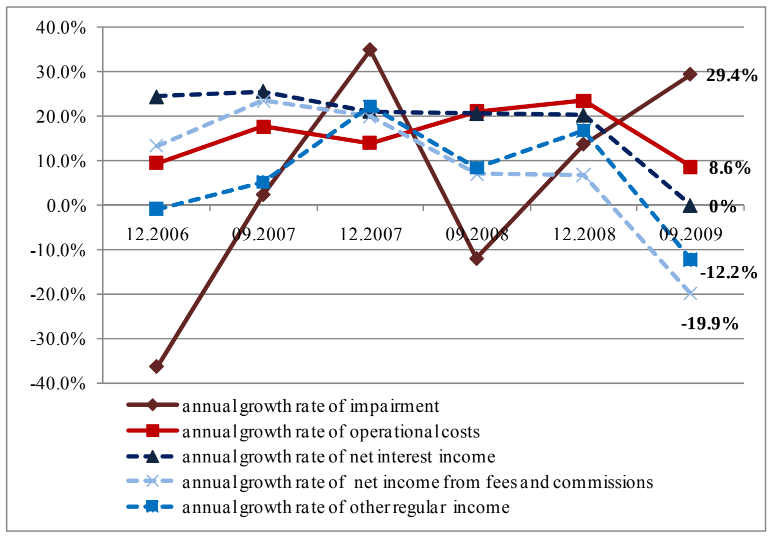
This stress test analysis is based on the application of eighth hypothetical simulations, of which:

- three simulations for isolated credit shock (increase in the credit risk exposure classified in the risk categories C, D and E by 10%, 30% and 50%),
- fourth simulation as a combination of the credit and interest rate shock (increase in the credit exposure in the risk categories C, D and E of 30% and increase in the domestic interest rates of 5 percentage points),
- fifth scenario as a combination of credit and foreign exchange shock (increase in the credit exposure in the risk categories C, D and E of 50% and depreciation in the Denar exchange rate compared to the Euro and the US Dollar of 20%),
- sixth simulation as a combination of shocks on the side of the credit risk, the foreign exchange risk and the interest rate risk (increase in the credit exposure in the risk categories C, D and E of 50%, depreciation of the Denar exchange rate compared of the Euro and the US Dollar of 20% and increase in the domestic interest rates of 5 percentage points),
- seventh simulation, appreciation of the Denar exchange rate relative to the Euro and the US Dollar in the amount of 20%,
- eighth simulation, simultaneous reclassification in the risk category C of the five largest credit exposures to non-financial entities (including also the connected entities).

3.5. Profitability

In the first nine months of 2009, the profitability of banks in the Republic of Macedonia was at a lower level relative to the same period in 2008. In the first nine months of 2009, the total profit of the banking system of the Republic of Macedonia amounted to Denar 1.348 million, which represented fall by 60% relative to the same period of 2008. The worsened profitability of the banks is perceived through the rise in the number of banks which showed current loss as well, from five on September 30, 2008, to eight on September 30, 2009 and growth in their participation in the total assets of banks from 8.7% on September 30, 2008, to 10.9% on September 30, 2009.

Figure 3.5.1
Dynamics of the main components of profitability



Source: NBRM, on the basis of data submitted by the banks.

The slower rise in the banks' activities, the worsened quality of their credit portfolio, as well as the limited possibilities of the banks for reducing the operational costs were the basic factors which contributed to lower profitability and efficiency of the banking system. The increase in the impairment[35] influenced mostly on the fall in the profit which was due to the worsened quality in the credit portfolio of banks. Simultaneously, although with slower dynamics, the rise in the operational costs[36], which was present in the last few years, continued. In the structure of the operational costs, the costs for the employees still represented most significant item with participation of 42% and it contributed with 53.8% to their growth relative to the first nine months of 2008. Opposite to this, **for the first time in the last few years drop in the income of banks on all bases was registered** (net interest income, net income from fees and commissions, other regular income[37] and extraordinary income[38]). The drop in the two basic categories of regular income of banks: the net interest income and net income from fees and commissions, which were the main profit-making elements of banks' operations in the previous period, can be assessed as considerably negative. In conditions of slower credit activity and worsened quality of the credit portfolio, in the first nine months of 2009 considerable slowing down in the growth in the interest income of banks (growth of 6.7% relative to the first nine months of 2008, opposite to the growth of 31.6% for the first nine months of 2008, relative to the first nine months of 2007). Opposite to this, the stimulating interest rate policy, in order to keep the current and to extend the deposit base, contributed to more intensive rise in the interest expenses (rise of 15.2% relative to the first

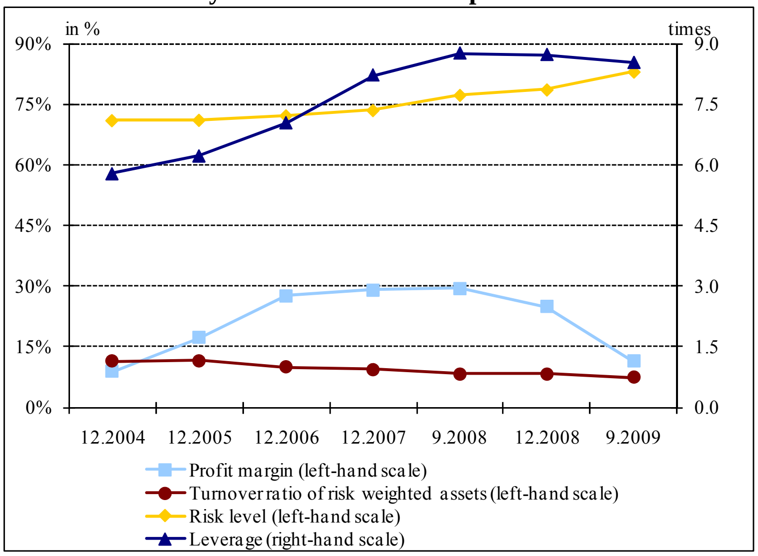
[35] For the purpose of comparability with the period before applying the new accounting framework, the impairment includes: impairment of the financial assets on net-basis, unrecognized (additionally determined) impairment, release of the impairment of interest income, net provisions for off-balance sheet items.
[36] The operational costs include: costs for employees, depreciation, general and administrative costs, deposit insurance premiums, other provisions and other expenses excluding the extraordinary expenses.
[37] The other regular income includes: net trading income, net income from other financial instruments designated at fair value, net income from foreign exchange rate differentials, dividends and revenues based on capital investments, profit from sale of financial assets available for sale, capital gain realized from sale of assets, release of other provisions, other income and losses from sale of financial assets available for sale.
[38] The extraordinary income includes also the income based on collected, previously written off claims based on principal and interest.

nine months of 2008). In such conditions, the downward trend of the net interest income of banks was inevitable. The drop in the net income from fees and commissions was determined mostly from the general slowing down in the activities of banks in this period[39].

3.5.1. Indicators for the profitability and efficiency of banks

The negative developments in the income, expenses and financial result of banks contributed to worsening in all analyzed indicators for the profitability and efficiency of the banking system.

Figure 3.5.2
Dynamics of ROAE components



Source: NBRM, on the basis of data submitted by the banks.

The fall in the amount of the realized profit in the first nine months of 2009, parallel with the rise in the assets of banks (which although with slower dynamics, continued in 2009 as well), contributed to drop in the rate of return on assets (ROAA). Namely, at the end of the third quarter of 2009, this indicator was more than halved relative to the same period of the previous year, equaling 0.7%. Simultaneously, **the rate of return on equity (ROAE) considerably dropped relative to September 30, 2008 and it maintained the one-digit level (6%) third quarter in a row. Different from the previous years when the dynamics of the ROAE indicator[40] was mostly determined by the debt ratio[41], in the first nine months of 2009 it was under the negative influence of the developments in the profit margin[42], as well as the indicator for the risk level of the banking activities.** Namely, the profit margin, different from the constant increase till the third quarter of 2008, at the end of the third quarter of 2009 registered annual fall of 18.1 percentage point, reducing to 11.4%, i.e. to the levels present before 2005. The rise in the general risk level of the banking activities, expressed through growth in the ratio of the risk weighted assets to the average assets of banks, from 77.3% on September 30, 2008 to 83% on September 30, 2009, gave additional negative effect to the level of the ROAE indicator in the first nine months of 2009.

---

[39] The application of the new regulation framework dated January 1, 2009 may have certain influence on the amount of the income from fees and commissions. Namely, with the application of the new accounting framework for the banks and the new Decision on credit risk management the category "accumulated amortization" was introduced. Previously (with part of the banks) the collected fees and commissions based on credits were shown as income from fees and commissions in full amount, without allocating the income over the expected life of the credit. With the new regulations, such fees and commissions represent interest income, which is shown as income over the credit maturity.

[40] The rate of return on average own funds (ROAE) can be shown on the following manner:

$$ROAE = \frac{P}{CR} * \frac{S}{S} * \frac{A}{A} * \frac{RWA}{RWA} = \frac{P}{S} * \frac{S}{RWA} * \frac{A}{CR} * \frac{RWA}{A} = PM * RWAturnover * L * RBAratio$$ where:

P=after tax profit; CR=average own funds; S=total regular income; A=average assets, RWA=risk weighted assets; PM=profit margin; RWAturnover=risk weighted asset turnover; L=leverage or debt ratio and RBAratio=ratio of the level of assumed risk.

[41] The debt ratio was calculated as a correlation between the average assets and the average equity of the banking system.

[42] The profit margin was calculated as a correlation between the profit and the total regular income.

Table 3.5.1
Profitability and efficiency indicators of banks

Indicator	Banking system		Large banks		Medium size banks		Small-size banks	
	30.09.2008	30.09.2009	30.09.2008	30.09.2009	30.09.2008	30.09.2009	30.09.2008	30.09.2009
Rate of return of average assets (ROAA)	1.9%	0.7%	2.7%	1.8%	0.3%	-0.5%	-0.5%	-0.2%
Rate of return of average equity (ROAE)	16.5%	6.0%	33.0%	16.5%	2.6%	-7.0%	-1.2%	-2.7%
Cost-to-income ratio *	58.3%	67.9%	47.8%	55.9%	74.8%	88.2%	94.5%	104.9%
Non-interest expenses/Total regular income*	62.9%	72.9%	51.4%	59.8%	80.2%	94.8%	107.4%	115.9%
Employees expenses/Total regular income*	23.9%	28.5%	19.8%	23.2%	30.1%	36.9%	39.3%	48.2%
Net impairment losses/Net interest income	24.4%	31.5%	18.6%	25.6%	34.8%	45.1%	34.2%	26.8%
Net interest income/Average assets	3.8%	3.6%	3.7%	3.5%	4.2%	3.8%	3.8%	3.7%
Net interest income/Total regular income*	62.3%	66.7%	61.8%	65.5%	62.7%	69.7%	65.8%	64.6%
Net interest income/Non-interest expenses	99.0%	91.4%	120.3%	109.5%	78.2%	73.5%	61.2%	55.7%
Profit /Total regular income*	30.9%	13.2%	46.1%	28.6%	5.0%	-15.3%	-9.0%	-21.2%
Number of banks with profit	13	10	3	3	6	5	4	2

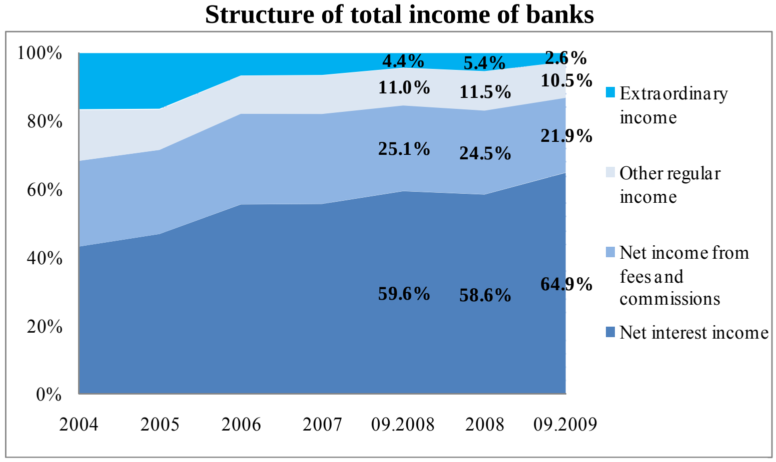
*Note: Total regular income includes: net-interest income, net-income from fees and commisions, other net-financial income and other regular income.

In the first nine months of 2009, the trend of worsening in the operational efficiency of banks, which started at the end of 2008, continued. In conditions of annual growth in all expenses (operational costs by 8.6%, non-interest expenses by 8.2% and costs for employees by 11.3%), relative to the fall in the total regular income by 6.6%, considerable part of the income from regular activities was used for covering the expenses of banks. All ratios between the individual types of costs and total regular income registered worsening relative to the first nine months of 2008. The worsening in the operational efficiency was confirmed through the lower margin of coverage of the non-interest expenses with the net interest income, from almost total coverage as of September 30, 2008, to the level of 91.4% as of September 30, 2009. In the future, the banks are expected to improve the profitable position through increasing their capacity for control and decreasing the operating costs as well.

The rise in the impairment, opposite to the lower net interest income, contributed to rise in the part of these regular income which is required for absorbing the determined losses from the credit portfolio of banks. Namely at the end of the third quarter of 2009, almost one third of the realized net interest income was used for covering the determined impairment for potential credit losses.

The drop in the income of banks did not cause any significant changes in the structure of the total income, as well as in the structure of the regular income of banks. At the end of the third quarter of 2009, the net interest income strengthened its dominant position in the structure of the total income of banks, despite the drop in its absolute amount relative to the same period of 2008. The increased significance of the net interest income in the structure of the total income of banks resulted from the more evident negative growth rates of the other income categories of banks. The net interest income formed the largest part of the total regular income of banks (about two thirds). As a result of the considerable drop in the net income from fees and commissions, decrease in their significance for forming the total income of banks became evident. Despite this, they still are the second most significant component in the structure of the total income.

Figure 3.5.3
Structure of total income of banks



Source: NBRM, on the basis of data submitted by the banks.

3.5.2 Profitability of individual groups of banks

The worsened profitability at the end of the first nine months of 2009 was characteristic for all three groups of banks. This can be perceived through the almost halved profit with the group of large banks, the operating with loss of the group of medium-size banks and the higher loss of the group of small-size banks. Relative to the first nine months of 2008, the profit of the group of large banks reduced by Denar 1.339 million, or by 41.1%. The group of medium-size banks, at the end of the first nine months of 2009 showed loss of Denar 453 million, opposite to the positive financial result of Denar 168 million in the same period of the previous year. The rise in the impairment and the operational costs, opposite to the lower income from fees and commissions were common factors which determined considerable drop in the profit in the group of large banks and loss in the group of medium-size banks. The lower extraordinary income gave additional negative influence in the profitability with the group of large banks, and the lower other regular income influenced the medium-size banks. The higher operational costs and the lower extraordinary income were the basic factors for the loss of the group of small banks, in the amount of Denar 116 million, which was higher by 140.9% than the loss in the first nine months of 2008 (Annex No. 3 - Statement of comprehensive income at the level of the banking system). **Such developments contributed to worsening in all profitability and efficiency indicators of the individual groups of banks.**

\

ANNEXES

Annex 1

STATEMENT OF FINANCIAL POSITION AS OF 30.09.2009

in millions of denars

No.	Assets	Large banks	Medium-size banks	Small-size banks	Total
1	**CASH AND BALANCES WITH NBRM**	**19,464**	**9,222**	**1,199**	**29,885**
	Denar cash	9,687	4,420	889	**14,996**
	Foreign currency cash	1,717	805	108	**2,631**
	Gold and other precious metals	0	1	0	**1**
	Checks and bills of exchange	16	25	2	**44**
	Compulsory reserves requirement and compulsory deposits	8,043	3,971	199	**12,213**
2	**FINANCIAL ASSETS HELD FOR TRADING**	**783**	**421**	**0**	**1,203**
	Denar securities and other financial instruments held for trading	523	132	0	**655**
	Foreign currency securities and other financial instruments held for trading	74	164	0	**238**
	FX indexed securities and other financial instruments held for trading	186	124	0	**310**
3	**DERIVATIVES HELD FOR TRADING AT FAIR VALUE**	**16**	**0**	**0**	**16**
4	**FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT AND**	**0**	**0**	**0**	**0**
5	**EMBEDDED DERIVATIVES HELD FOR HEDGING**	**0**	**0**	**0**	**0**
6	**FINANCIAL ASSETS HELD-TO-MATURITY**	**3,654**	**999**	**1,048**	**5,701**
	Money market instruments held-to -maturity issued by the state	0	54	207	**261**
	Money market instruments held-to -maturity issued by the central bank	0	945	841	**1,786**
	Other debt instruments held-to-maturity issued by the state	3,348	0	0	**3,348**
	Other debt instruments held-to-maturity issued by banks and saving houses	306	0	0	**306**
7	**FINANCIAL ASSETS AVAILABLE FOR SALE**	**9,377**	**5,412**	**1,910**	**16,700**
	Money market instruments available for sale issued by the state	1,690	1,748	249	**3,687**
	Money market instruments available for sale issued by the central bank	6,264	3,104	1,334	**10,703**
	Money market instruments available for sale issued by banks and saving houses	0	0	0	**0**
	Money market instruments available for sale issued by other financial institutions	0	0	0	**0**
	Other debt instruments available for sale issued by the state	937	375	25	**1,337**
	Other debt instruments available for sale issued by banks and saving houses	306	0	0	**306**
	Equity instruments available for sale issued by nonfinancial institutions	4	38	9	**51**
	Equity instruments available for sale issued by banks and saving houses	8	26	253	**287**
	Equity instruments available for sale issued by other financial institutions	166	119	35	**321**
	Equity instruments available for sale issued by nonresidents	2	2	6	**10**
8	**PLACEMENTS TO THE CENTRAL BANK**	**856**	**0**	**33**	**889**
	Deposits with the central bank	856	0	33	**889**
9	**PLACEMENTS TO FINANCIAL INSTITUTIONS (NET)**	**22,352**	**7,521**	**4,197**	**34,071**
	Accounts with domestic banks (net)	1,664	673	615	**2,953**
	Accounts with domestic banks	1,671	674	616	**2,961**
	Accumulated amortization and impairment (provisions) of accounts with domestic banks	-6	-1	-1	**-8**
	Accounts with foreign banks (net)	19,606	5,817	1,195	**26,617**
	Accounts with foreign banks	19,608	5,819	1,196	**26,623**
	Accumulated amortization and impairment (provisions)of accounts with foreign banks	-2	-2	-1	**-5**
	Deposits with financial institutions-nonresidents (net)	36	76	2	**114**
	Accumulated amortization of deposits at financial institutions-nonresidents	0	0	0	**0**
	Loans to domestic banks (net)	0	20	2,300	**2,320**
	Loans to domestic banks	0	20	2,330	**2,350**
	Impairment (provisions) of loans to domestic banks	0	0	-30	**-30**
	Loans to saving houses (net)	972	30	0	**1,002**
	Loans to saving houses	977	30	0	**1,007**
	Impairment (provisions) of loans to saving houses	-5	0	0	**-5**
	Loans to insurance companies (net)	0	0	0	**0**
	Loans to insurance companies	0	0	0	**0**
	Accumulated amortization of loans to insurance companies	0	0	0	**0**
	Impairment (provisions) of loans to insurance companies	0	0	0	**0**
	Loans to pension funds (net)	0	0	0	**0**
	Loans to pension funds	0	0	0	**0**
	Impairment (provisions) of loans to pension funds	0	0	0	**0**
	Loans to other financial institutions (net)	8	82	0	**90**
	Loans to other financial institutions	8	95	0	**103**
	Accumulated amortization of loans to other financial institutions	0	0	0	**0**
	Impairment (provisions) of loans to other financial institutions	0	-12	0	**-13**
	Loans to financial institutions - nonresidents (net)	0	802	72	**874**
	Loans to financial institutions - nonresidents	0	802	73	**875**
	Impairment (provisions) of loans to financial institutions - nonresidents	0	0	-1	**-1**
	Factoring and forfeiting receivables from financial institutions - nonresidents (net)	16	0	0	**16**
	Factoring and forfeiting receivables from financial institutions - nonresidents	17	0	0	**17**
	Accumulated amortization of factoring and forfeiting receivables from financial institutions - nonresidents	0	0	0	**0**
	Impairment (provisions) of factoring and forfeiting receivables from financial institutions - nonresidents	-1	0	0	**-1**
	Suspicious and contested claims from financial institutions (net)	51	21	13	**86**
	Suspicious and contested claims from financial institutions	77	44	119	**240**
	Impairment (provisions) of suspicious and contested claims from financial	-25	-23	-106	**-154**

10	**PLACEMENTS TO NONFINANCIAL ENTITIES (NET)**	**107,266**	**44,274**	**2,881**	**154,420**
	Loans to nonfinancial institutions (net)	62,454	24,385	1,303	**88,142**
	Loans to nonfinancial institutions	65,294	24,903	1,349	**91,546**
	Accumulated amortization of loans to nonfinancial institutions	-69	-85	-4	**-158**
	Impairment (provisions) of loans to nonfinancial institutions	-2,772	-432	-42	**-3,246**
	Loans to sector - state (net)	109	20	0	**129**
	Loans to sector - state	109	20	0	**129**
	Accumulated amortization of loans to sector - state	0	0	0	**0**
	Impairment (provisions) of loans to sector - state	0	0	0	**0**
	Loans to nonprofit institutions serving households (net)	67	14	1	**81**
	Loans to nonprofit institutions serving households	69	14	1	**84**
	Accumulated amortization of loans to nonprofit institutions serving households	0	0	0	**0**
	Impairment (provisions) of loans to nonprofit institutions serving households	-2	0	0	**-2**
	Loans to households (net)	42,673	17,566	1,459	**61,698**
	Loans to households	43,055	18,033	1,495	**62,584**
	Accumulated amortization of loans to households	-187	-114	-5	**-306**
	Impairment (provisions) of loans to households	-196	-353	-32	**-581**
	Receivables from payments made to backing guarantees of debt instruments and	16	13	0	**29**
	Receivables from payments made to backing guarantees of debt instruments and guarantees	19	18	0	**38**
	Impairment of receivables from payments made to backing guarantees of debt instruments and guarantees	-3	-5	0	**-9**
	Factoring and forfeiting receivables from nonfinancial institutions (net)	9	61	0	**69**
	Factoring and forfeiting receivables from nonfinancial institutions	9	61	0	**69**
	Impairment (provisions) of financial lease receivables from households	0	0	0	**0**
	Placements to nonfinancial institutions - nonresidents (net)	1	42	0	**42**
	Placements to nonfinancial institutions - nonresidents	1	42	0	**42**
	Impairment (provisions) of placements to nonprofit institutions serving households - nonresidents	0	0	0	**0**
	Placements to households - nonresidents (net)	0	0	2	**2**
	Placements to households - nonresidents	0	0	2	**2**
	Accumulated amortization of placements to households - nonresidents	0	0	0	**0**
	Impairment (provisions) of overdrafts of nonresidents	0	0	0	**0**
	Overdrafts of nonresidents (net)	0	0	0	**0**
	Overdrafts of nonresidents	0	0	0	**0**
	Suspicious and contested claims from nonfinancial entities (net)	2,805	2,284	123	**5,211**
	Suspicious and contested claims from nonfinancial entities	10,960	4,340	823	**16,124**
	Impairment (provisions) of suspicious and contested claims from nonfinancial	-8,105	-2,057	-701	**-10,862**
	Group impairment for the retail credit portfolio	-865	-110	-6	**-981**
	Group impairment for individually significant exposures found not to be impaired	-1	0	0	**-1**
11	**ACCRUED INTEREST**	**861**	**456**	**43**	**1,360**
	Denar interest receivables from loans and placements	333	172	19	**524**
	Foreign currency interest receivables from loans and placements	135	89	4	**228**
	FX indexed interest receivables from loans and placements	312	173	18	**503**
	Denar interest receivables from debt instruments	32	11	1	**45**
	Foreign currency interest receivables as a result of debt instruments	0	5	0	**5**
	FX indexed interest receivables from debt instruments	26	4	1	**31**
	Interest receivables from other instruments	10	3	0	**13**
	Denar interest receivables as a result of deposits	0	0	0	**0**
	Foreign currency interest receivables from deposits	12	0	0	**12**
	Suspicious and contested claims of interest receivables	0	-1	0	**-1**
12	**INVESTMENTS IN ASSOCIATES, SUBSIDIARIES AND JOINT VENTURES**	**154**	**0**	**0**	**154**
	Investments in associates	123	0	0	**123**
	Investments in subsidiaries	31	0	0	**31**
13	**OTHER ASSETS**	**773**	**690**	**109**	**1,572**
	Fees and Commission receivables	49	53	16	**117**
	Suspicious and contested claims from fees and commissions	9	3	0	**12**
	Deferred tax assets	2	0	0	**2**
	Other assets	66	74	8	**149**
	Account receivables and other receivables	472	274	49	**794**
	Deferred income, prepaid expenses and temporary accounts	176	286	37	**498**
14	**FORECLOSURES**	**1,746**	**621**	**407**	**2,773**
	Foreclosures	1,746	621	407	**2,773**
15	**INTANGIBLE ASSETS**	**298**	**377**	**78**	**753**
	Founding investments	0	0	1	**1**
	Patents, licenses and concessions	123	131	21	**275**
	Software	687	412	107	**1,207**
	Other rights	7	141	2	**150**
	Other items of intangible assets	28	3	4	**35**
	Accumulated amortization of intangible assets	-547	-310	-58	**-916**
16	**FIXED ASSETS (PROPERTY, PLANT AND EQUIPMENT)**	**3,959**	**2,882**	**961**	**7,803**
	Land	0	0	0	**0**
	Buildings	3,473	2,086	820	**6,379**
	Equipment	3,142	1,805	460	**5,407**
	Other items of property, plant and equipment	392	116	90	**598**
	Property, plant and equipment under construction	251	183	72	**506**
	Accumulated amortization of fixed assets	-3,299	-1,307	-481	**-5,087**
17	**NON CURRENT ASSETS HELD FOR SALE**	**0**	**0**	**58**	**58**
18	**NET COMMISSION RELATIONS**	**-31**	**2**	**-310**	**-339**
	Denar receivables from activities on behalf of and on account of others	3,170	2,141	647	**5,958**
	Foreign currency receivables from activities on behalf of and on account of others	602	1	462	**1,065**
	Denar payables from activities on behalf of and on account of others	-3,199	-1,953	-829	**-5,981**
	Foreign currency payables from activities on behalf of and on account of others	-602	0	-590	**-1,193**
	Operating expenses on behalf of and on account of others	0	114	1	**115**
	Operating income on behalf of and on account of others	-2	-301	-1	**-303**
19	**UNRECOGNIZED IMPAIRMENT**	**0**	**-39**	**-2**	**-40**
20	**TOTAL ASSETS**	**171,527**	**72,838**	**12,613**	**256,979**

Note: Rows with balances equal to zero are hidden

Annex 2

STATEMENT OF FINANCIAL POSITION AS OF 30.09.2009

in millions of denars

No.	Liabilities	Large banks	Medium-size banks	Small-size banks	Total
1	**INSTRUMENTS FOR TRADING AND FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS**	**0**	**0**	**0**	**0**
2	**DERIVATIVES HELD FOR HEDGING**	**0**	**0**	**0**	**0**
3	**DEPOSITS OF FINANCIAL INSTITUTIONS**	**7,091**	**7,953**	**508**	**15,553**
	Deposits of domestic banks	720	211	30	**960**
	Deposits of saving houses	195	83	0	**279**
	Deposits of insurance companies	1,900	2,133	57	**4,090**
	Deposits of pension funds	497	632	30	**1,159**
	Deposits of other financial institutions	1,120	233	71	**1,424**
	Deposits of financial institutions-nonresidents	2,225	4,213	311	**6,749**
	Restricted deposits and other deposits of financial institutions	435	447	10	**892**
4	**SIGHT DEPOSITS OF NONFINANCIAL ENTITIES**	**48,956**	**15,461**	**2,631**	**67,048**
	Denar accounts and sight deposits of nonfinancial entities	12,628	4,695	1,091	**18,415**
	Denar accounts and sight deposits of sector - state	1,577	30	87	**1,694**
	Denar accounts and sight deposits of nonprofit institutions	908	265	44	**1,218**
	Denar accounts and sight deposits of households	9,547	2,786	456	**12,789**
	Denar accounts and sight deposits of nonresidents	319	65	56	**440**
	Foreign currency accounts and sight deposits of nonfinancial	4,835	2,662	121	**7,619**
	Foreign currency accounts and sight deposits of sector - state	14	0	0	**14**
	Foreign currency accounts and sight deposits of nonprofit	189	49	4	**242**
	Foreign currency accounts and sight deposits of households	15,689	4,027	527	**20,244**
	Foreign currency accounts and sight deposits of nonresidents	981	497	219	**1,697**
	Restricted sight deposits and other deposits of nonfinancial	2,267	385	25	**2,677**
5	**SHORT TERM DEPOSITS OF NONFINANCIAL ENTITIES**	**71,374**	**24,916**	**1,711**	**98,000**
	Denar short term deposits of nonfinancial entities	4,708	2,174	221	**7,103**
	Denar short term deposits of sector - state	152	122	0	**273**
	Denar short term deposits of nonprofit institutions serving	482	208	29	**720**
	Denar short term deposits of households	15,852	3,345	468	**19,666**
	Denar short term deposits of nonfinancial entities - nonresidents	81	2	0	**84**
	Foreign currency short term deposits of nonfinancial entities	5,489	2,806	9	**8,303**
	Foreign currency short term deposits of nonprofit institutions serving households	29	0	0	**29**
	Foreign currency short term deposits of households	36,464	9,867	480	**46,811**
	Foreign currency short term deposits of nonfinancial entities - nonresidents	707	3,849	44	**4,601**
	FX indexed short term deposits of nonfinancial entities	5,619	1,414	381	**7,414**
	FX indexed short term deposits of sector - state	0	7	0	**7**
	FX indexed short term deposits of nonprofit institutions serving households	179	81	0	**260**
	FX indexed short term deposits of households	0	76	0	**76**
	FX indexed short term deposits of nonfinancial entities - nonresidents	0	0	49	**49**
	Restricted deposits of nonfinancial entities up to 1 year	1,612	964	28	**2,604**
6	**LONG TERM DEPOSITS OF NONFINANCIAL ENTITIES**	**12,812**	**5,882**	**477**	**19,171**
	Denar long term deposits of nonfinancial entities	609	147	6	**762**
	Denar long term deposits of nonprofit institutions serving households	12	0	0	**12**
	Denar long term deposits of households	2,700	1,355	281	**4,336**
	Denar long term deposits of nonfinancial entities - nonresidents	0	4	0	**4**
	Foreign currency long term deposits of nonfinancial entities	0	165	7	**173**
	Foreign currency long term deposits of households	6,332	3,207	94	**9,632**
	Foreign currency long term deposits of nonfinancial entities - nonresidents	13	104	0	**117**
	FX indexed long term deposits of nonfinancial entities	16	40	0	**56**
	FX indexed long term deposits of sector - state	0	0	0	**0**
	Denar long term deposits with FX clause of nonprofit institutions serving households	52	0	0	**52**
	FX indexed long term deposits of households	0	5	0	**5**
	Restricted deposits of nonfinancial entities over 1 year	3,077	856	89	**4,021**
7	**DEBT SECURITIES IN ISSUE**	**630**	**300**	**0**	**930**
	Other debt securities in issue	630	300	0	**930**
8	**BORROWINGS**	**4,525**	**7,106**	**1,323**	**12,954**
	Borrowings from financial institutions	1,306	2,428	14	**3,748**
	Borrowings from sector - state	1,437	1,116	227	**2,781**
	Borrowings from other sectors - residents	0	22	0	**22**
	Borrowings from nonresidents	1,782	3,533	1,079	**6,394**
	Financial lease payables from financial institutions	0	0	3	**3**
	Financial lease payables from other sector -residents	0	6	0	**6**
9	**LIABILITY COMPONENT OF HYBRID INSTRUMENTS**	**0**	**184**	**0**	**184**
	Liability component of foreign currency hybrid instruments	0	184	0	**184**
10	**SUBORDINATED DEBT AND CUMULATIVE PREFERRED SHARES**	**4,454**	**979**	**0**	**5,433**
	Foreign currency subordinated debt	4,346	979	0	**5,325**
	Cumulative preferred shares	108	0	0	**108**
11	**INTEREST LIABILITIES**	**939**	**523**	**62**	**1,525**
	Interest payables from borrowings	28	36	14	**78**
	Interest payables from sight deposits and current accounts	76	52	2	**130**
	Interest payables from term deposits	809	390	47	**1,245**
	Interest payables from hybrid instruments	0	9	0	**9**
	Interest payables from subordinated debt	14	30	0	**44**
	Interest payables from other instruments	7	0	0	**7**
	Interest payables from issued securities	6	7	0	**13**
12	**OTHER LIABILITIES**	**1,514**	**779**	**129**	**2,422**
	Fee and Commission liabilities	1	1	4	**6**
	Accrued expenses, deferred income and temporary accounts	496	429	89	**1,015**
	Other liabilities	1,017	348	36	**1,401**
13	**PROVISIONS**	**727**	**98**	**13**	**838**
	Provisions	727	98	13	**838**
14	**CAPITAL AND RESERVES**	**16,588**	**8,369**	**5,675**	**30,632**
	Equity capital	8,746	7,058	5,270	**21,074**
	Reserve fund	5,092	1,230	862	**7,184**
	Retained earnings / Accumulated losses	2,693	816	-272	**3,237**
	Revaluation reserves	57	6	14	**77**
	Current loss	0	-741	-199	**-940**
15	**GROSS PROFIT**	**1,917**	**288**	**83**	**2,288**
16	**TOTAL LIABILITIES**	**171,527**	**72,838**	**12,613**	**256,979**

Note: Rows with balances equal to zero are hidden

Annex 3

STATEMENT OF COMPREHENSIVE INCOME BY GROUPS OF BANKS AS OF 30.09.2009

in millions of denars

No.	STATEMENT OF COMPREHENSIVE INCOME	Large banks	Medium-size banks	Small-size banks	Total
1	**INTEREST INCOME**	**9,310**	**4,066**	**503**	**13,879**
	Non-financial companies	4,228	1,809	126	**6,164**
	private	4,205	1,794	126	**6,126**
	public	23	15	0	**38**
	State	281	114	47	**442**
	central government	281	112	47	**440**
	local government	0	1	0	**1**
	Non-profitable institutions serving households	4	1	0	**6**
	Financial institutions	579	273	184	**1,037**
	central bank	308	212	114	**633**
	banks	214	49	71	**334**
	saving houses	56	0	0	**56**
	insurance companies	0	0	0	**0**
	pension funds	0	0	0	**0**
	other financial institutions	1	12	0	**14**
	Households	3,725	1,840	124	**5,689**
	self-employed individuals	8	418	2	**428**
	citizens	3,716	1,423	122	**5,261**
	Non-residents	63	29	9	**102**
	non-financial companies, non-residents	0	0	0	**0**
	non-profitable non financial institutions serving households, non-residents	0	0	0	**0**
	financial institutions, non-residents	63	29	9	**101**
	households, non-residents	0	0	0	**0**
	Net impairment of interest income	430	-2	12	**440**
2	**INTEREST EXPENSES**	**-4,265**	**-1,818**	**-122**	**-6,205**
	Non-financial companies	-735	-414	-25	**-1,174**
	private	-659	-368	-21	**-1,048**
	public	-77	-46	-4	**-126**
	State	-29	-28	-1	**-58**
	central government	-29	-27	-1	**-57**
	local government	0	-1	0	**-1**
	social insurance funds	0	0	0	**0**
	Non-profitable institutions serving households	-27	-13	-1	**-42**
	Financial institutions	-371	-295	-12	**-677**
	central bank	-1	-1	0	**-2**
	banks	-219	-117	-1	**-337**
	saving houses	-4	-1	0	**-6**
	insurance companies	-73	-98	-3	**-174**
	pension funds	-20	-22	-2	**-44**
	other financial institutions	-53	-55	-5	**-114**
	Households	-2,784	-791	-60	**-3,636**
	self-employed individuals	-3	0	0	**-3**
	citizens	-2,782	-791	-60	**-3,633**
	Non-residents	-318	-277	-23	**-618**
	non-financial companies, non-residents	-44	-86	-4	**-133**
	state, non-residents	-1	-1	0	**-2**
	non-profitable non financial institutions serving households, non-residents	0	0	0	**0**
	financial institutions, non-residents	-261	-179	-19	**-459**
	households, non-residents	-12	-10	-1	**-23**
3	**NET INTEREST INCOME (1-2)**	**5,045**	**2,248**	**381**	**7,674**
4	**NET FEES AND COMMISSION INCOME**	**1,595**	**576**	**127**	**2,298**
	Fees and commission income	1,857	772	187	**2,815**
	Fees and commission expenses	-261	-195	-60	**-517**
5	**NET INCOME FROM ASSETS AND LIABILITIES HELD FOR TRADING**	**220**	**15**	**6**	**242**
	Net income from assets and liabilities held for trading	22	8	0	**30**
	realized	8	8	0	**16**
	unrealized	13	1	0	**14**
	Net income from derivative instruments held for trading	18	0	0	**18**
	realized	3	0	0	**3**
	unrealized	16	0	0	**16**
	Dividend income from assets held for trading	1	0	0	**1**
	Net interest income from assets and liabilities held for trading	179	7	6	**192**
6	**NET INCOME FROM FINANCIAL INTRUMENTS DESIGNATED AT FAIR VALUE**	**0**	**0**	**0**	**0**
7	**NET (GAINS - LOSSES) FROM FOREIGN EXCHANGE RATE DIFFERENCES**	**324**	**177**	**17**	**519**
	Realized	270	-452	21	**-162**
	Unrealized	20	626	-2	**644**
	Net income from FX activities	35	3	-2	**36**
8	**OTHER OPERATING INCOME**	**776**	**227**	**76**	**1,080**
	Dividends and revenues based on capital investments	24	41	15	**81**
	Capital gain from sale of financial assets available for sale	1	0	0	**2**
	Capital gains realized from sales of assets	22	13	0	**35**
	Reversal of provisions for off-balance sheet items	534	52	28	**614**
	Reversal of other provisions	0	0	0	**0**
	Other income	126	72	28	**226**
	Collected previously written-off loans and receivables	66	40	5	**110**
	Extraordinary income	3	9	0	**12**
9	**NET IMPAIRMENT LOSSES (PROVISIONS) OF FINANCIAL ASSETS**	**-1,911**	**-1,005**	**-119**	**-3,035**
	Impairment losses of financial assets	-5,793	-1,850	-399	**-8,041**
	losses due to impairment of financial assets - an individual basis	-4,855	-1,671	-387	**-6,913**
	losses due to impairment of financial assets - a group basis	-938	-179	-12	**-1,129**
	Reversal of impairment losses of financial assets	3,882	884	281	**5,046**
	reversal of impairment losses of financial assets - an individual basis	3,807	733	275	**4,815**
	reversal of impairment losses of financial assets - a group basis	74	151	6	**231**
	Unrecognized impairment	0	-39	-2	**-40**
10	**IMPAIRMENT LOSSES OF NON-FINANCIAL ASSETS**	**0**	**-35**	**0**	**-36**
	Losses due to impairment of non-financial assets	0	-35	0	**-36**
11	**EMLOYEES EXPENSES**	**-1,557**	**-1,089**	**-264**	**-2,910**
12	**DEPRECIATION**	**-414**	**-300**	**-59**	**-773**
13	**OTHER OPERATING EXPENSES**	**-2,161**	**-1,268**	**-280**	**-3,709**
	General and administrative expenses	-1,194	-1,001	-225	**-2,420**
	Deposit insurance premiums	-449	-135	-12	**-595**
	Capital losses from sale of financial assets available for sale	0	0	0	**0**
	Provisions for off-balance sheet items	-372	-49	-25	**-445**
	Other provisions	-2	-8	0	**-10**
	Other expenses	-132	-72	-14	**-219**
	Extraordinary expenses	-12	-4	-4	**-20**
14	**CURRENT PROFIT/LOSS**	**1,917**	**-453**	**-116**	**1,348**

CHANGE OF THE ASSETS AND LIABILITIES BY GROUPS OF BANKS

in millions of Denars

ITEM	Large banks		Medium-size banks		Small-size banks	
	amount	%	amount	%	amount	%
Cash and balances with NBRM	2,095	11.5%	1,607	21.11%	275	28.73%
Securities portfolio	2,248	19.4%	1,142	20.07%	63	2.18%
Placements with other domestic and foreign banks	3,538	20.0%	-1,193	-15.53%	-544	-11.88%
Loans to nonfinancial entities (net)*	-1,331	-1.2%	30	0.07%	49	1.72%
Other assets	263	3.1%	359	6.34%	33	2.27%
Total assets	**6,814**	**4.1%**	**1,945**	**2.74%**	**-124**	**-0.98%**
Deposits from banks	896	14.5%	-710	-8.19%	81	18.82%
Deposits from non-financial entities	5,444	4.3%	2,299	5.23%	-79	-1.61%
Borrowings (long-term and short-term)	-276	-3.0%	285	3.65%	-75	-5.39%
Other liabilities	951	23.5%	82	4.10%	16	6.28%
Provisions	-176	-19.5%	1	1.00%	-2	-15.34%
Capital and reserves	-25	-0.2%	-13	-0.15%	-64	-1.12%
Total liabilities	**6,814**	**4.1%**	**1,945**	**2.74%**	**-124**	**-0.98%**

Annex 5

Credit structure of non-financial entities

in millions of Denars

Date	Description	Total	Total			Corporates			Households			State			Credts to nonprofit institutions			Nonresidents - nonfinancial entities		
			denar	FX indexed	FX	denar	FX indexed	FX	denar	FX indexed	FX	denar	FX indexed	FX	denar	FX indexed	FX	denar	FX indexed	FX
30.09.2009	Short-term credits	37,999	23,634	6,468	7,897	18,501	6,284	7,884	5,104	161	8	8	-	4	15	22	0	6	-	1
	Due credits	3,718	2,211	598	908	1,186	453	886	1,024	143	22	0	2	0	1	0	0	0	-	0
	Long-term credits	112,778	38,504	49,211	25,062	10,967	23,947	21,544	27,499	25,168	3,455	24	77	13	14	19	12	1	1	37
	Non-performing credits	16,124	8,132	3,477	4,515	4,360	1,890	4,114	3,759	1,536	400	12	-	-	1	-	0	1	50	0
	Total gross credits	**170,617**	**72,481**	**59,754**	**38,382**	**35,014**	**32,574**	**34,429**	**37,385**	**27,009**	**3,885**	**44**	**79**	**18**	**31**	**41**	**13**	**7**	**51**	**37**
	Accumulated amortization	-464	(208)	(202)	(53)	(60)	(61)	(37)	(148)	(142)	(16)	(0)	-	(0)	(0)	-	-	(0)	(0)	(0)
	Impairment (provisions)	-14,751	(8,013)	(3,049)	(3,689)	(5,264)	(1,962)	(3,453)	(2,735)	(1,035)	(235)	(12)	-	-	(2)	(1)	(0)	(1)	(51)	(0)
	Group impairment for the retail credit portfolio	-981																		
	Total net credits	**154,422**																		

Annex6

Banks credit exposure by activities as of 30.09.2009

in millions of Denars

No.	Sector	**30.06.2009**				**30.09.2009**			
		Denar credit exposure	Denar credit exposure with FX clause	Foreign exchange credit exposure	Total	Denar credit exposure	Denar credit exposure with FX clause	Foreign exchange credit exposure	Total
1	Agriculture, hunting and forestry	1,249	1,289	1,173	3,711	1,148	1,451	1,137	4
2	Fishing	28	9	55	92	31	18	73	0
3	Mining and quarrying	248	117	1,591	1,956	252	134	1,612	2
4	Processing industry	16,937	8,459	16,739	42,135	15,701	9,616	16,154	41
5	Electricity, gas and water supply	1,508	1,495	2,320	5,324	1,567	1,528	1,947	5
6	Construction	5,893	3,737	3,209	12,838	5,454	4,147	3,188	13
7	Wholesale and retail trade; Repair of motor vehicles, motorcycles and items for personal use and for households	16,218	10,534	11,950	38,702	16,608	11,077	12,114	40
8	Hotels and restaurants	1,184	1,068	1,697	3,950	930	1,048	1,448	3
9	Transport, storage and communication	3,508	2,624	2,115	8,247	3,537	2,702	2,105	8
10	Financial intermediation	11,651	3,697	30,501	45,849	14,132	3,725	31,823	50
11	Real estate, renting and business activities	2,895	1,475	1,898	6,268	3,035	1,621	2,872	8
12	Public administration and defense; compulsory social security	5,704	2,913	30	8,648	1,671	6,979	355	9
13	Education	230	158	312	700	212	158	325	1
14	Health and social work	276	264	375	915	242	290	359	1
15	Other community, social and personal service activities	680	743	358	1,782	730	863	365	2
16	Households employing staff	0	0	2	2	1	0	4	0
17	Extraterritorial organizations and bodies	225	0	12	237	229	4	47	0
18	Natural persons	49,375	24,393	4,019	77,788	49,371	24,427	3,948	77,747
	- residential real estate loans	1,560	10,148	1,786	13,494	1,538	10,500	1,712	14
	- commercial real estate loans	18	697	0	715	31	684	0	1
	- consumer loans	15,396	7,810	1,094	24,299	15,447	8,957	1,073	25
	- overdrafts	8,341	0	0	8,341	8,482	0	1	8
	- credit cards	23,327	0	137	23,465	23,204	0	196	23
	- car loans	285	3,747	735	4,767	307	3,736	685	5
	- other loans	448	1,991	268	2,707	362	550	281	1
19	Sole proprietors, natural persons that are not considered as proprietors and natural persons that perform small-scale commercial activities	1,967	1,886	257	4,109	1,824	1,955	210	4
	- agriculture	500	800	16	1,315	473	786	13	1
	- trade	592	520	108	1,220	539	519	94	1
	- other service activities	195	74	17	286	181	90	16	0
	- other activities	680	492	116	1,288	630	561	87	1
	Total	**119,776**	**64,862**	**78,614**	**263,252**	**116,677**	**71,742**	**80,084**	**268,504**

Annex 7

Annual and quarter relative change of credits, by currency structure

in millions of Denars

Description	06.2009	09.2009	quarter change 09.2009/ 06.2009
Corporates and other clients	**102,571**	**102,338**	**-0.2%**
Denar credits	36,600	35,098	-4.1%
FX credits	34,593	34,494	-0.3%
FX indexed credits	31,378	32,745	4.4%
Households	**68,127**	**68,279**	**0.2%**
Denar credits	36,999	37,385	1.0%
FX credits	4,050	3,885	-4.1%
FX indexed credits	27,077	27,009	-0.3%

Annex 8

Distribution of credits to nonfinancial entities, by group of banks

Structures of credits		30.06.2009				30.09.2009			
		Large banks	Medium-size banks	Small-size banks	Total	Large banks	Medium-size banks	Small-size banks	Total
Sector structure	Enterprises	72.6%	25.5%	1.9%	**100.0%**	71.5%	26.5%	1.9%	**100.0%**
	Households	66.8%	30.8%	2.4%	**100.0%**	67.8%	29.8%	2.5%	**100.0%**
	Other clients	72.0%	26.2%	1.8%	**100.0%**	75.1%	23.7%	1.2%	**100.0%**
Maturity structure	Short-term	72.2%	26.3%	1.5%	**100.0%**	71.9%	26.5%	1.7%	**100.0%**
	Long-term	70.1%	28.1%	1.8%	**100.0%**	69.5%	28.6%	1.9%	**100.0%**
	Due	66.3%	29.6%	4.1%	**100.0%**	76.0%	21.9%	2.2%	**100.0%**
	Non-performing	67.5%	27.1%	5.4%	**100.0%**	68.0%	26.9%	5.1%	**100.0%**
Currency structure	Denar	76.2%	20.0%	3.8%	**100.0%**	76.9%	19.3%	3.8%	**100.0%**
	FX indexed	60.0%	38.7%	1.3%	**100.0%**	59.4%	39.1%	1.5%	**100.0%**
	FX	74.7%	25.3%	0.1%	**100.0%**	73.6%	26.3%	0.1%	**100.0%**

Annex 9

Structural features of the credits to nonfinancial entites, by group of banks

Structures of credits		30.06.2009			30.09.2009		
		Large banks	Medium-size banks	Small-size banks	Large banks	Medium-size banks	Small-size banks
Sector structure	Enterprises	61.9%	55.3%	53.5%	61.1%	57.0%	54.2%
	Households	37.9%	44.5%	46.3%	38.7%	42.8%	45.7%
	Other clients	0.2%	0.2%	0.2%	0.2%	0.2%	0.1%
	Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Maturity structure	Short-term	24.3%	22.5%	17.1%	22.9%	21.2%	17.1%
	Long-term	65.9%	67.2%	57.3%	65.6%	67.9%	58.2%
	Due	1.6%	1.8%	3.3%	2.4%	1.7%	2.2%
	Non-performing	8.3%	8.4%	22.2%	9.2%	9.2%	22.4%
	Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Currency structure	Denar	46.7%	31.3%	77.8%	46.6%	29.5%	75.1%
	FX indexed	29.2%	48.0%	21.3%	29.7%	49.3%	23.6%
	FX	24.0%	20.7%	0.9%	23.6%	21.3%	1.3%
	Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Anex 10

Structure of deposits to non-financial entities

in million of denars

		Total			Households			Corporate sector			Other sectors		
Decription (30.09.2009)	**Total**	**Denar**	**Clause**	**Currency**	**Denar**	**Clause**	**Currency**	**Denar**	**Clause**	**Currency**	**Denar**	**Clause**	**Currency**
Sight deposits	67,048,130	34,967,931	257	32,079,943	12,823,027	-	20,332,110	18,767,515	257	9,722,824	3,377,389	-	2,025,009
Short-term deposits	98,000,365	28,600,905	7,917,100	61,482,360	19,973,312	76,304	48,183,741	7,548,645	7,497,255	8,635,184	1,078,948	343,541	4,663,435
Long-term deposits	19,171,482	6,139,614	251,596	12,780,272	4,640,169	4,847	11,551,292	1,410,497	192,401	419,909	88,948	54,348	809,071

Annex 11

Structure features of credit risk exposure by group of banks (sector, currency and items of exposure)

Structures of credit risk exposure (in millions of denars)		30.06.2009			30.09.2009			Change		
		Large banks	Medium-sized banks	Small-sized banks	Large banks	Medium-sized banks	Small-sized banks	Large banks	Medium-sized banks	Small-sized banks
Sector structure of credit risk exposure	Enterprises and other clients	93,551	31,102	2,206	93,556	32,264	2,263	5	1,162	57
	Natural persons and sole proprietors	57,389	22,587	1,921	57,839	21,955	1,942	450	-632	21
	Financial institutions and state	32,108	14,229	8,160	37,102	14,139	7,444	4,994	-90	-716
	Total	**183,048**	**67,918**	**12,287**	**188,497**	**68,358**	**11,649**	**5,449**	**440**	**-638**
Currency structure of credit risk exposure	Denar exposure	86,057	27,331	6,389	83,788	26,885	6,004	-2,269	-446	-385
	Denar exposure with foreign currency clause	40,706	21,969	2,163	46,281	23,130	2,331	5,575	1,161	168
	Foreign currency exposure	56,285	18,618	3,735	58,428	18,343	3,314	2,143	-275	-421
	Total	**183,048**	**67,918**	**12,287**	**188,497**	**68,358**	**11,649**	**5,449**	**440**	**-638**
Credit risk exposure by items of exposure	Regular loans	129,912	51,466	7,541	131,702	50,538	6,970	1,790	-928	-571
	Nonperforming loans	9,749	4,010	926	10,981	4,385	942	1,232	375	16
	Other claims and regular interest	12,287	6,908	3,249	14,796	7,742	3,132	2,509	834	-117
	Off-balance sheet items	31,100	5,534	571	31,018	5,693	605	-82	159	34
	Total	**183,048**	**67,918**	**12,287**	**188,497**	**68,358**	**11,649**	**5,449**	**440**	**-638**

Structures of credit risk exposure (in percentages)		30.06.2009			30.09.2009			Change of structure share (in percentage points)		
		Large banks	Medium-sized banks	Small-sized banks	Large banks	Medium-sized banks	Small-sized banks	Large banks	Medium-sized banks	Small-sized banks
Sector structure of credit risk exposure	Enterprises and other clients	51.1%	45.8%	18.0%	49.6%	47.2%	19.4%	1.3	0.2	-1.6
	Natural persons and sole proprietors	31.4%	33.3%	15.6%	30.7%	32.1%	16.7%	0.6	-1.0	-0.6
	Financial institutions and state	17.5%	21.0%	66.4%	19.7%	20.7%	63.9%	-1.9	0.8	2.2
	Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**0.0**	**0.0**	**0.0**
Currency structure of credit risk exposure	Denar exposure	47.0%	40.2%	52.0%	44.5%	39.3%	51.5%	-1.2	-6.3	-4.5
	Denar exposure with foreign currency clause	22.2%	32.3%	17.6%	24.6%	33.8%	20.0%	-9.7	6.4	1.0
	Foreign currency exposure	30.7%	27.4%	30.4%	31.0%	26.8%	28.4%	10.9	-0.1	3.5
	Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**0.0**	**0.0**	**0.0**
Credit risk exposure by items of exposure	Regular loans	71.0%	75.8%	61.4%	69.9%	73.9%	59.8%	4.5	-3.1	3.8
	Nonperforming loans	5.3%	5.9%	7.5%	5.8%	6.4%	8.1%	0.9	2.3	-0.5
	Other claims and regular interest	6.7%	10.2%	26.4%	7.8%	11.3%	26.9%	-5.3	0.8	-3.0
	Off-balance sheet items	17.0%	8.1%	4.6%	16.5%	8.3%	5.2%	-0.1	-0.1	-0.4
	Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**0.0**	**-0.1**	**-0.1**

Annex 12

Credit risk indicators by sectors or credit products for natural persons, by group of banks

Sector / Activity or credit product	Large banks			Medium-sized banks			Small-sized banks		
	Share of C, D and E in total credit exposure	Average level of riskiness	Impairment losses / Exposure in C, D and E	Share of C, D and E in total credit exposure	Average level of riskiness	Impairment losses / Exposure in C, D and E	Share of C, D and E in total credit exposure	Average level of riskiness	Impairment losses / Exposure in C, D and E
Industry	17.2%	13.0%	75.7%	13.7%	9.2%	67.3%	27.9%	24.3%	87.0%
Agriculture, hunting and forestry	13.1%	13.3%	102.0%	24.2%	17.4%	71.7%	51.7%	46.9%	90.6%
Construction	7.5%	6.1%	81.2%	5.2%	4.0%	77.0%	34.9%	30.9%	88.6%
Wholesale and retail trade	9.3%	8.4%	89.9%	6.7%	4.5%	67.0%	41.2%	34.3%	83.3%
Transport, storage and communication	10.3%	8.2%	79.7%	9.7%	5.7%	58.4%	20.3%	15.9%	78.2%
Total exposure to enterprises and other clients	**12.1%**	**10.0%**	**82.5%**	**9.3%**	**6.3%**	**66.9%**	**32.4%**	**27.7%**	**85.6%**
Residential and commercial real estate credits	2.9%	2.9%	98.1%	4.9%	2.9%	59.5%	9.6%	8.1%	86.5%
Consumer loans	9.7%	8.8%	91.2%	15.7%	8.7%	55.6%	8.7%	7.0%	80.9%
Overdrafts	3.4%	5.9%	171.6%	6.5%	7.7%	119.5%	10.3%	9.0%	87.4%
Credit cards	5.9%	6.2%	104.9%	12.2%	9.3%	75.6%	16.6%	20.0%	120.3%
Car loans	4.1%	4.2%	100.8%	8.6%	5.0%	57.7%	13.7%	15.4%	112.6%
Other loans	56.8%	54.0%	95.1%	32.1%	18.7%	58.2%	49.5%	43.6%	88.2%
Total exposure to natural persons	**6.2%**	**6.4%**	**102.5%**	**11.8%**	**7.2%**	**61.0%**	**10.6%**	**9.4%**	**89.1%**
Total exposure to sole proprietors	**14.5%**	**14.4%**	**99.6%**	**6.7%**	**4.3%**	**64.1%**	**22.0%**	**13.1%**	**59.3%**

Annex No. 13

Indicators	09.2008	10.2008	11.2008	12.2008	01.2009	02.2009	03.2009	04.2009	05.2009	06.2009	07.2009	08.2009	09.2009
	27.4%	25.4%	23.5%	23.0%	21.7%	21.0%	20.2%	20.6%	20.1%	20.5%	21.3%	23.0%	23.3%
Liquid assets / Total assets	32.0%	29.8%	27.6%	26.2%	25.3%	24.4%	23.3%	23.8%	23.3%	23.8%	24.7%	26.6%	26.9%
Liquid assets / Total liabilities	38.0%	36.0%	34.0%	32.4%	31.5%	30.5%	29.2%	29.7%	29.2%	29.7%	30.6%	33.1%	33.8%
Liquid assets / Short-term liabilities	35.5%	33.2%	31.0%	31.1%	30.7%	29.6%	27.8%	28.4%	27.8%	28.2%	29.2%	31.3%	32.0%
Liquid assets / Total deposits of non-financial entities	60.7%	56.4%	51.7%	52.2%	49.4%	47.7%	44.2%	44.9%	43.5%	44.1%	45.5%	49.7%	50.2%

Annex 14

CONTRACTUAL MATURITY STRUCTURE OF THE ASSETS AND LIABILITIES as of 30.09.2009

in million of Denars

Number	Description		up to 7 days	from 8 to 30 days	from 31 to 90 days	from 91 to 180 days	from 181 to 365 days	TOTAL
Assets								
1	Cash, cash equivalents, gold and precisious metals		21,980	222	0	0	6	22,208
2	Financial intruments held for trading		34	454	370	0	200	1,058
		Money Market instruments	30	99	60	0	60	248
		other debt instruments	1	355	310	0	141	807
		equity instruments	3	0	0	0	0	3
3	Derivatives for trading		16	0	0	0	0	16
4	Embeded derivtives and derivatives held for hedging		0	0	0	0	0	0
5	Financial instruments at fair value through profit and loss, identified as such at initial recognition		0	0	0	0	0	0
		Money Market instruments	0	0	0	0	0	0
		other debt instruments	0	0	0	0	0	0
		equity instruments	0	0	0	0	0	0
		credits	0	0	0	0	0	0
6	Financial instruments held to maturity		401	1,283	299	131	870	2,984
		Money Market instruments	328	1,283	0	0	382	1,993
		other debt instruments	74	0	299	131	487	991
7	Financial instuments available for sale		1,944	8,879	1,087	994	1,948	14,852
		Money Market instruments	1,864	8,879	872	994	1,490	14,098
		other debt instruments	25	0	215	0	443	684
		equity instruments	55	0	0	0	15	70
		other instruments	0	0	0	0	0	0
8	Credits and claims		18,255	17,176	16,004	21,530	28,831	101,796
		interbank transactions	12,279	8,544	843	1,349	43	23,057
		deposits	4	889	0	0	0	894
		financial leasing	0	0	0	0	0	0
		credits	5,938	7,714	15,134	20,166	28,780	77,732
		other claims	34	29	27	15	8	113
9	Interest receivables		863	460	68	13	335	1,738
10	Commission and fees receivables		119	7	1	0	0	126
11	Other on-balance sheet assets		768	182	43	21	60	1,074
12	**Total Assets (1+2+3+4+5+6+7+8+9+10+11)**		44,380	28,662	17,872	22,688	32,250	145,852
Liabilities								
13	Transaction accounts		55,693	0	0	0	0	55,693
14	Financial liabilities at fair value through profit and loss		0	0	0	0	0	0
		Money Market instruments	0	0	0	0	0	0
		other debt instruments	0	0	0	0	0	0
		equity instruments	0	0	0	0	0	0
		deposits	0	0	0	0	0	0
		liabilities from credits	0	0	0	0	0	0
		subordinated intruments	0	0	0	0	0	0
15	Derivatives for trading		0	0	0	0	0	0
16	Embeded derivatives and derivatives held for hedging		0	0	0	0	0	0
17	Deposits		20,343	17,049	34,380	28,976	28,891	129,639
		sight deposits	13,197	0	0	0	0	13,197
		term deposits	7,146	17,049	34,380	28,976	28,891	116,442
18	Liabilities from credits		223	228	946	760	1,449	3,606
19	Issued debt securities		0	0	0	0	0	0
20	Interest payable		546	290	294	175	174	1,479
21	Commissions and fees payable		2	0	0	0	0	2
22	Financial leasing		6	0	0	0	1	7
23	Other on-balance sheet liabilities		1,500	793	81	4	7	2,385
24	**Total Liabilities (13+14+15+16+17+18+19+20+21+22+23)**		78,312	18,362	35,701	29,916	30,521	192,811
Off-Balance sheet items			0	0	0	0	0	0
25	Off-balance sheet assets		192	59	213	796	105	1,365
26	Off-balance sheet liabilities		6,212	1,163	2,724	4,293	4,813	19,205
27	**Net off-balance sheet items (25-26)**		-6,020	-1,103	-2,512	-3,498	-4,709	-17,841
28	**Gap (12-24+27)**		-39,952	9,197	-20,340	-10,726	-2,979	-64,800
29	**Cummulative gap**		-39,952	-30,755	-51,095	-61,821	-64,800	0

ANTICIPATED MATURITY STRUCTURE OF THE ASSETS AND LIABILITIES as of 30.09.2009

in million of Denars

Number	Description		Anticipated maturity (on-balance sheet and off-balance sheet items)			Anticipated maturity (future activities)		
			up to 7 days	from 8 to 30 days	from 31 to 90 days	up to 7 days	from 8 to 30 days	from 31 to 90 days
	Assets							
1	Cash, cash equivalents, gold and precisious metals		20,684	199	0	0	0	0
2	Financial intruments held for trading		422	355	211	0	0	0
		Money Market instruments	129	0	60	0	0	0
		other debt instruments	290	355	151	0	0	0
		equity instruments	3	0	0	0	0	0
3	Derivatives for trading		16	0	0	0	0	0
4	Embeded derivtives and derivatives held for hedging		0	0	0	0	0	0
5	Financial instruments at fair value through profit and loss, identified as such at initial recognition		0	0	0	0	0	0
		Money Market instruments	0	0	0	0	0	0
		other debt instruments	0	0	0	0	0	0
		equity instruments	0	0	0	0	0	0
		credits	0	0	0	0	0	0
6	Financial instruments held to maturity		401	1,283	353	52	0	0
		Money Market instruments	328	1,283	0	0	0	0
		other debt instruments	74	0	353	52	0	0
7	Financial instuments available for sale		1,903	7,756	1,122	-42	-70	46
		Money Market instruments	1,714	7,732	922	-42	-70	46
		other debt instruments	150	24	200	0	0	0
		equity instruments	39	0	0	0	0	0
		other instruments	0	0	0	0	0	0
8	Credits and claims		15,475	15,827	14,462	-232	-2,444	-1,191
		interbank transactions	11,994	8,248	849	-40	133	0
		deposits	0	880	5	0	0	0
		financial leasing	0	0	0	0	0	0
		credits	3,473	6,670	13,577	-192	-2,577	-1,191
		other claims	7	29	32	0	0	0
9	Interest receivables		562	580	380	66	97	184
10	Commission and fees receivables		123	9	4	4	15	34
11	Other on-balance sheet assets		682	182	43	1	0	0
12	**Total Assets (1+2+3+4+5+6+7+8+9+10+11)**		40,266	26,190	16,576	-150	-2,402	-927
	Liabilities		0	0	0	0	0	0
13	Transaction accounts		10,860	2,578	1,246	3,310	829	690
14	Financial liabilities at fair value through profit and loss		0	0	0	0	0	0
		Money Market instruments	0	0	0	0	0	0
		other debt instruments	0	0	0	0	0	0
		equity instruments	0	0	0	0	0	0
		deposits	0	0	0	0	0	0
		liabilities from credits	0	0	0	0	0	0
		subordinated intruments	0	0	0	0	0	0
15	Derivatives for trading		0	0	0	0	0	0
16	Embeded derivatives and derivatives held for hedging		0	0	0	0	0	0
17	Deposits		4,442	7,457	13,652	1,158	3,620	6,818
		sight deposits	1,437	27	35	311	60	4
		term deposits	3,006	7,430	13,617	846	3,560	6,814
18	Liabilities from credits		84	228	847	19	233	1,117
19	Issued debt securities		0	0	0	0	0	0
20	Interest payable		260	289	287	3	24	151
21	Commissions and fees payable		2	0	0	0	14	13
22	Financial leasing		6	0	0	0	0	0
23	Other on-balance sheet liabilities		2,298	830	79	1	0	0
24	**Total Liabilities (13+14+15+16+17+18+19+20+21+22+23)**		17,953	11,383	16,110	4,491	4,720	8,789
	Off-Balance sheet items		0	0	0	0	0	0
25	Off-balance sheet assets		188	39	42	317	1,079	2,757
26	Off-balance sheet liabilities		808	361	1,073	0	-10	-14
27	**Net off-balance sheet items (25-26)**		-620	-323	-1,031	317	1,089	2,771
28	**Gap (12-24+27)**		21,694	14,485	-566	-4,325	-6,034	-6,945
29	**Cummulative gap**		21,694	36,179	35,613	-4,325	-10,358	-17,303

Annex 16

Structure of on-balance sheet assets and off-balance sheet assets in foreign currency and in Denars with FX clause, as of 30.09.2009

No.	Item	30.06.2009		30.09.2009	
		Amount (in million of Denars)	Structure (in %)	Amount (in million of Denars)	Structure (in %)
1	Cash, cash equivalents, gold and precious metals	18,643	13.3%	19,223	13.2%
2	Financial instrument for trading	407	0.3%	548	0.4%
3	Derivatives for trading	0	0.0%	16	0.0%
4	Embedded derivatives and derivatives held for risk management	0	0.0%	0	0.0%
5	Financial instruments at fair value through profit and loss as such at initial recognize	0	0.0%	0	0.0%
5.1	in foreign currency	0	0.0%	0	0.0%
5.2	in Denars with FX clause	0	0.0%	0	0.0%
6	Financial instruments held to maturity	3,907	2.8%	3,747	2.6%
6.1	in foreign currency	0	0.0%	0	0.0%
6.2	in Denars with FX clause	3,907	2.8%	3,747	2.6%
7	Financial instruments available for sale	2,737	1.9%	4,899	3.4%
7.1	in foreign currency	14	0.0%	144	0.1%
7.2	in Denars with FX clause	2,722	1.9%	4,755	3.3%
8	Credits and claims in foreign currency	59,670	42.5%	61,261	42.0%
8.1	deposits	23,259	16.6%	25,273	17.3%
8.2	financial leasing	0	0.0%	0	0.0%
8.3	credits	38,820	27.6%	38,790	26.6%
8.4	other claims	15	0.0%	23	0.0%
8.5	impairment	-2,425	-1.7%	-2,826	-1.9%
9	Credits and claims in Denars with FX clause	54,121	38.5%	55,430	38.0%
9.1	deposits	306	0.2%	306	0.2%
9.2	financial leasing	0	0.0%	0	0.0%
9.3	credits	55,678	39.6%	57,051	39.1%
9.4	other claims	12	0.0%	9	0.0%
9.5	impairment	-1,875	-1.3%	-1,937	-1.3%
10	Interest receivable in foreign currency	224	0.2%	236	0.2%
10.1	accrued interest	381	0.3%	419	0.3%
10.2	impairment	-157	-0.1%	-182	-0.1%
11	Interest receivable in Denars with FX clause	440	0.3%	523	0.4%
11.1	accrued interest	698	0.5%	801	0.5%
11.2	impairment	-258	-0.2%	-278	-0.2%
12	Commissions and fees receivables	15	0.0%	2	0.0%
12.1	accrued commissions and fees	15	0.0%	2	0.0%
12.2	impairment	0	0.0%	0	0.0%
13	Investments	0	0.0%	0	0.0%
14	Other non-mentioned on-balance sheet assets	176	0.1%	226	0.2%
15	**Total on-balance sheet assets (1+2+3+4+5+6+7+8+9+10+11+12+13+14)**	140,341	99.9%	146,111	100.2%
16	Off-balance sheet assets	185	0.1%	-253	-0.2%
17	**Total on-balance sheet assets and off-balance sheet assets in foreign currency and in Denars with FX clause (15+16)**	140,525	100.0%	145,858	100.0%

Annex 17

Structure of on-balance sheet and off-balance sheet liabilities in foreign currency and in Denars with FX clause, as of 30.09.2009

No.	Item	30.06.2009		30.09.2009	
		Amount (in million of Denars)	Structure (in %)	Amount (in million of Denars)	Structure (in %)
1	Current accounts	**21,509**	**15.8%**	**23,040**	**16.2%**
2	Financial liabilities at fair value through profit and loss	**0**	**0.0%**	**0**	**0.0%**
2.1	in foreign currency	0	0.0%	0	0.0%
2.2	in Denars with FX clause	0	0.0%	0	0.0%
3	Derivatives for trading	**0**	**0.0%**	**0**	**0.0%**
4	Embedded derivatives and derivatives held for risk management	**0**	**0.0%**	**0**	**0.0%**
5	Deposits in foreign currency	**83,891**	**61.7%**	**90,759**	**63.9%**
5.1	financial institutions	1,874	1.4%	1,354	1.0%
5.2	nonfinancial institutions	7,995	5.9%	9,070	6.4%
5.3	natural persons	66,979	49.2%	69,845	49.2%
5.4	non-residents	7,038	5.2%	10,465	7.4%
5.5	other clients	6	0.0%	24	0.0%
6	Deposits in Denars with FX clause	**11,927**	**8.8%**	**8,990**	**6.3%**
6.1	financial institutions	835	0.6%	935	0.7%
6.2	nonfinancial institutions	10,794	7.9%	7,611	5.4%
6.3	natural persons	81	0.1%	81	0.1%
6.4	non-residents	61	0.0%	61	0.0%
6.5	other clients	157	0.1%	303	0.2%
7	Liabilities from credits	**11,337**	**8.3%**	**11,109**	**7.8%**
7.1	in foreign currency	8,659	6.4%	8,337	5.9%
7.2	in Denars with FX clause	2,678	2.0%	2,772	2.0%
8	Issued debt securities	**630**	**0.5%**	**630**	**0.4%**
9	Interest payable in foreign currency	**770**	**0.6%**	**868**	**0.6%**
10	Interest payable in Denars with FX clause	**50**	**0.0%**	**45**	**0.0%**
11	Commissions and fees payable	**0**	**0.0%**	**1**	**0.0%**
12	Financial leasing	**4**	**0.0%**	**5**	**0.0%**
13	Hybrid and subordinated instruments in foreign currency	**5,103**	**3.8%**	**5,509**	**3.9%**
14	Hybrid and subordinated instruments in Denars with FX clause	**0**	**0.0%**	**0**	**0.0%**
15	Other non-mentioned on-balance sheet liabilities	**657**	**0.5%**	**746**	**0.5%**
16	**Total on-balance sheet liabilities (1+2+3+4+5+6+7+8+9+10+11+12+13+14+15)**	**135,879**	**99.9%**	**141,702**	**99.8%**
17	Off-balance sheet liabilities	**120**	**0.1%**	**297**	**0.2%**
18	**Total on-balance sheet and off-balance sheet liabilities in foreign currency and in Denars with FX clause (16+17)**	**135,999**	**100.0%**	**142,000**	**100.0%**

Annex 18

Own funds, by groups of banks

in millions of Denars

No.	Description	30.06.2009				30.09.2009			
		Large banks	Medium-size banks	Small-size banks	Total	Large banks	Medium-size banks	Small-size banks	Total
	CORE CAPITAL								
1	Paid in and subscribed common and non-cumulative preference shares and premiums based on these shares	8,746	7,007	5,270	21,024	8,746	7,007	5,270	21,024
1.1	Nominal value	6,363	5,738	5,267	17,368	6,363	5,738	5,267	17,369
1.1.1	Nominal value of common shares	6,363	5,734	5,174	17,271	6,363	5,734	5,174	17,271
1.1.2	Nominal value of non-cumulative preference share	0	4	93	97	0	4	93	97
1.2	Premium	2,383	1,269	3	3,655	2,383	1,269	3	3,655
1.2.1	Premium based on common shares	2,383	1,269	3	3,655	2,383	1,269	3	3,655
1.2.2	Premium based on non-cumulative preference shares	0	0	0	0	0	0	0	0
2	Reserve and retained profit/loss	7,784	2,015	90	9,888	7,784	2,015	91	9,889
2.1	Reserve fund	5,091	1,230	424	6,745	5,091	1,230	425	6,746
2.2	Retained profit restricted to distribution to shareholders	2,693	1,074	6	3,773	2,693	1,074	6	3,773
2.3	Accumulated loss from previous years	0	-289	-340	-630	0	-289	-340	-630
2.4	Current profit	0	0	0	0	0	0	0	0
2.5	Unrealized loss on equities available for sale	0	0	0	0	0	0	0	0
3	Positions arising from consolidation	0	0	0	0	0	0	0	0
3.1	Minority interest	0	0	0	0	0	0	0	0
3.2	Reserves from exchange rate differentials	0	0	0	0	0	0	0	0
3.3	Other differentials	0	0	0	0	0	0	0	0
4	Deductions	78	821	136	1,035	81	807	215	1,103
4.1	Loss at the end of the year, or current loss	0	481	121	602	0	706	197	903
4.2	Own shares	0	0	0	0	0	0	1	1
4.3	Intangible assets	78	61	7	146	81	62	15	158
4.4	Net negative revaluation reserves	0	0	0	0	0	0	0	0
4.5	Difference between the amount of required and made impairment/special reserve	0	0	0	0	0	0	0	0
4.6	Amount of unallocated impairment and special reserve as a result of accounting time lag	0	279	8	286	0	39	2	40
5	Common shares, reserves and retained profit and deductions	16,452	8,198	5,130	29,780	16,449	8,211	5,053	29,713
6	Amount of other positions that may be included in the core capital	0	4	93	97	0	4	93	97
I	**CORE CAPITAL**	**16,452**	**8,201**	**5,223**	**29,877**	**16,449**	**8,215**	**5,146**	**29,811**
	SUPPLEMENTARY CAPITAL 1								
7	Paid-in and subscribed cumulative preference shares and premium on such shares	108	51	0	158	108	51	0	158
7.1	Nominal value	107	16	0	123	107	16	0	123
7.2	Premium	0	35	0	36	0	35	0	36
8	Revaluation reserves	84	0	0	84	68	5	0	73
9	Hybrid capital instruments	0	183	0	183	0	184	0	184
10	Subordinated instruments	4,168	581	0	4,749	4,108	979	0	5,087
11	Amount of subordinated instruments that may be included in the additional capital I	4,168	581	0	4,749	4,108	979	0	5,087
II	**SUPPLEMENTARY CAPITAL 1**	**4,359**	**816**	**0**	**5,175**	**4,283**	**1,218**	**0**	**5,502**
	DEDUCTIONS FROM CORE CAPITAL AND SUPPLEMENTARY CAPITAL 1								
12	Capital investments in other banks or financial institutions of over 10% of the capital of such institutions	52	15	256	322	52	15	256	322
13	Investments in subordinated and hybrid capital instruments and other instruments of institutions referred to in 12	0	0	0	0	0	0	0	0
14	Aggregate amount of investments in capital, subordinated and hybrid instruments and other instruments exceeding 10% of (I+II)	0	0	0	0	0	0	0	0
15	Direct capital investments in insurance and reinsurance companies and pension fund management undertakings	151	2	7	160	154	2	7	163
16	Investments in financial instruments issued by the insurance and reinsurance companies and pension fund management undertakings	5	0	0	5	0	0	0	0
17	Amount of excess of limits on investments in nonfinancial institutions	0	0	0	0	0	0	0	0
18	Positions arising from consolidation (negative amounts)	0	0	0	0	0	0	0	0
III	**Deductions from the core capital and supplementary capital 1**	**208**	**16**	**263**	**488**	**206**	**16**	**263**	**485**
IV	**CORE CAPITAL AFTER DEDUCTIONS**	**16,309**	**8,185**	**4,960**	**29,454**	**16,308**	**8,199**	**4,883**	**29,391**
V	**SUPPLEMENTARY CAPITAL 1 AFTER DEDUCTIONS**	**4,294**	**816**	**0**	**5,110**	**4,219**	**1,217**	**0**	**5,436**
	SUPPLEMENTARY CAPITAL 2								
19	Subordinated instruments of supplementary capital 2	0	0	0	0	0	0	0	0
20	Supplementary capital 1 and 2	4,294	816	0	5,110	4,219	1,217	0	5,436
21	Allowed amount of supplementary capital 1 and 2	4,294	816	0	5,110	4,219	1,217	0	5,436
21.1	Supplementary capital 1	4,294	816	0	5,110	4,219	1,217	0	5,436
21.2	Supplementary capital 2	0	0	0	0	0	0	0	0
22	Core capital	4,523	3,915	4,173	12,612	4,491	3,863	4,106	12,459
22.1	Excess core capital (150%)	6,785	5,873	6,260	18,918	6,736	5,794	6,159	18,689
22.2	Excess core capital (250%)	11,309	9,788	10,433	31,531	11,227	9,657	10,265	31,149
VI	**Allowed amount of supplementary capital 2**	0	0	0	0	0	0	0	0
	OWN FUNDS								
VII	Core capital	16,309	8,185	4,960	29,454	16,308	8,199	4,883	29,391
VIII	Supplementary capital 1	4,294	816	0	5,110	4,219	1,217	0	5,436
IX	Supplementary capital 2	0	0	0	0	0	0	0	0
X	**OWN FUNDS**	**20,603**	**9,001**	**4,960**	**34,564**	**20,527**	**9,417**	**4,883**	**34,827**

Annex 19

Capital adequacy ratio, by groups of banks

in millions of Denars

No.	Description	30.06.2009				30.09.2009			
		Large banks	Medium-size banks	Small-size banks	Total	Large banks	Medium-size banks	Small-size banks	Total
I	CREDIT RISK WEIGHTED ASSETS								
1	On-balance sheet credit risk weighted assets	118,773	48,401	7,083	174,257	118,610	48,321	7,064	173,995
2	Off-balance sheet credit risk weighted assets	20,729	3,833	301	24,864	21,589	4,001	295	25,884
3	**Credit risk weighted assets (1+2)**	**139,502**	**52,235**	**7,384**	**199,121**	**140,199**	**52,322**	**7,359**	**199,879**
4	Capital requirement for credit risk	11,160	4,179	591	15,930	11,216	4,186	589	15,990
II	CURRENCY RISK WEIGHTED ASSETS								
5	Aggregate currency position	7,818	1,135	2,451	11,404	7,521	1,887	2,354	11,762
6	Net-position in gold	0	0	0	0	0	0	0	0
7	**Currency risk weighted assets (5+6)**	**7,818**	**1,135**	**2,451**	**11,404**	**7,521**	**1,887**	**2,354**	**11,762**
8	Capital requirement for currency risk	625	91	196	912	602	151	188	941
III	RISK WEIGHTED ASSETS (3+7)	147,320	53,370	9,835	210,525	147,720	54,209	9,713	211,641
9	Capital requirement for risks (4+8)	11,786	4,270	787	16,842	11,818	4,337	777	16,931
IV	OWN FUNDS	20,603	9,001	4,960	34,564	20,527	9,417	4,883	34,827
V	CAPITAL ADEQUACY RATIO (IV/III)	14.0%	16.9%	50.4%	16.4%	13.9%	17.4%	50.3%	16.5%

Groups of banks as of 30.09.2009

	Large banks		Medium-size banks		Small-size banks
1	Komercijalna banka AD Skopje	1	Alfa banka AD Skopje	1	Centralna kooperativna banka AD Skopje
2	NLB Tutunska banka AD Skopje	2	Investbanka AD Skopje	2	Eurostandard banka AD Skopje
3	Stopanska banka AD Skopje	3	Izvozna i kreditna banka AD Skopje	3	Kapital banka AD Skopje
		4	Ohridska banka AD Ohrid	4	Macedonian Bank for Development Promotion AD Skopje
		5	Prokredit banka AD Skopje	5	Postenska banka AD Skopje
		6	Stopanska banka AD Bitola	6	Stater banka AD Kumanovo
		7	TTK banka AD Skopje	7	Ziraat banka AD Skopje
		8	UNI banka AD Skopje		

* Banks are in alphabetical order