

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



**Report on Banking System of the Republic of Macedonia in the
third quarter of 2008**

December, 2008

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1. Structure of the banking system

1.1. Number of banks and savings houses

As of September 30, 2008, the banking system of the Republic of Macedonia comprised of eighteen banks and eleven savings houses, which is unchanged relative to the end of the first half of 2008.

In the third quarter of 2008, changes occurred in the ownership structure of two banks. In September 2008, "Steiermärkische Bank und Sparkassen" from Graz, Austria acquired 96.1% of the total number of shares of "Investbanka" AD Skopje, while 66.6% of the total shares of "Izvozna i kreditna banka" AD Skopje were undertaken by "Demir Halk Bank (Holland) N.V." Rotterdam. Thus, the number of banks in dominant ownership of foreign shareholders increased by two banks and at the end of the third quarter of 2008, this number was 14.

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 credits of the non-financial entities and in the total households deposits, was maintained also in the third quarter and equaled 1.3%, 2% and 0.7%, respectively. Therefore, the further analysis in the Report focuses only on the banks' operations.

1.2. Concentration and market share

The relatively higher degree of concentration in the banking system of the Republic of Macedonia was maintained also in the third quarter of 2008.

Table 1

Degree of concentration in the banking system of the Republic of Macedonia

| Description | Herfindahl index | | | | | CR5 indicator | | | | |
|------------------------------------|------------------|------------|------------|------------|------------|---------------|------------|------------|------------|------------|
| | 30.09.2007 | 31.12.2007 | 31.03.2008 | 30.06.2008 | 30.09.2008 | 30.09.2007 | 31.12.2007 | 31.03.2008 | 30.06.2008 | 30.09.2008 |
| Total assets | 1,527 | 1,625 | 1,605 | 1,604 | 1,598 | 74.5% | 76.6% | 76.1% | 76.0% | 76.7% |
| Households loans | 2,024 | 2,001 | 1,940 | 1,947 | 1,997 | 80.3% | 80.0% | 80.1% | 80.4% | 81.0% |
| Loans to non-financial entities | 2,185 | 1,819 | 1,843 | 1,776 | 1,824 | 78.8% | 79.1% | 78.9% | 77.9% | 78.4% |
| Households deposits | 2,040 | 2,084 | 2,111 | 2,118 | 2,122 | 82.1% | 83.9% | 84.3% | 84.7% | 85.0% |
| Deposits of non-financial entities | 1,694 | 1,780 | 1,747 | 1,695 | 1,786 | 79.5% | 81.7% | 79.9% | 81.0% | 80.5% |

According to the Herfindahl index¹, at the end of the third quarter of 2008, the level of concentration for all analyzed domains of banks' operations, except total assets, registered an increase relative to the end of the previous quarter. However, relative to September 30, 2007, the concentration was reduced in the domain of banks' credit activity, especially in the credits extended to non-financial legal entities. The highest level of concentration is still present with the household deposits, which equaled 2,122 points as of September 30, 2008. Except for the total assets and corporate deposits, in all other analyzed segments of banks' operations Herfindahl index is above the level considered as acceptable.

¹ 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.

The analysis of the CR5² indicator confirms the conclusion about the relatively high level of concentration in the Macedonian banking system, especially in the operations with households. As of September 30, 2008, the highest concentration level of 85% according to this indicator was registered in the household deposits. In the third quarter of 2008, the dynamics of this indicator points to increased concentration in almost all domains of banks' operations.

Table 2
Market share of the individual groups of banks

| Groups of banks | Number of banks | | Share in total assets | | Share in total activities | | Share in gross credits | | Share in total deposits of non-financial entities | |
|-------------------|-----------------|------------|-----------------------|---------------|---------------------------|---------------|------------------------|---------------|---|---------------|
| | 30.06.2008 | 30.09.2008 | 30.06.2008 | 30.09.2008 | 30.06.2008 | 30.09.2008 | 30.06.2008 | 30.09.2008 | 30.06.2008 | 30.09.2008 |
| Large banks | 3 | 3 | 66.7% | 66.2% | 68.2% | 67.5% | 68.3% | 69.0% | 71.9% | 71.6% |
| Medium-size banks | 8 | 8 | 28.2% | 28.8% | 27.3% | 28.1% | 29.5% | 28.8% | 25.4% | 25.8% |
| Small-size banks | 7 | 7 | 5.1% | 5.0% | 4.5% | 4.4% | 2.2% | 2.2% | 2.7% | 2.6% |
| Total | 18 | 18 | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

In the third quarter of 2008, no changes were registered in the composition of the individual groups of banks, nor there were any significant changes in the market share of the groups of banks. The dominance of the group of large banks in all segments of the banking system of the Republic of Macedonia is still present. Unlike previous periods, the group of medium banks reduced its share in the credit activity, while in the other segments it continued to strengthen its market share. In the third quarter of 2008, the group of small banks maintained its insignificant role in the banking system of the Republic of Macedonia.

² 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.

2. Banks' activities

2.1. Balance sheet of banks

The total assets of the banking system reached the level of Denar 253,165 million, at the end of the third quarter of 2008. The dynamics of banks' total activities in this quarter was almost unchanged relative to the previous quarter. The quarterly growth rate of the banks' assets for the third quarter of 2008 was 5%, which is by 0.9 percentage points less relative to the quarterly growth rate for the second quarter of 2008. For comparison, the quarterly growth rate of banks' assets for the third quarter of 2007 equaled 3.9%, while the annual growth rate (September 2008/September 2007) was 22.4%.

Table 3
Structure of banks' assets and liabilities

| Balance sheet | Amount in millions of Denars | | Structure | | Change 30.09.2008/30.06.2008 | | | |
|--|------------------------------|----------------|---------------|---------------|------------------------------|-------------|---|-----------------------|
| | 30.06.2008 | 30.09.2008 | 30.06.2008 | 30.09.2008 | In absolute amounts | In percent | In the structure (in percentage points) | Share in the increase |
| Cash and balances with the NBRM | 25,295 | 25,809 | 10.5% | 10.2% | 514 | 2.0% | (0.3) | 4.3% |
| Securities portfolio | 30,803 | 29,157 | 12.8% | 11.5% | (1,646) | -5.3% | (1.3) | -13.6% |
| Placements to banks | 35,038 | 37,023 | 14.5% | 14.6% | 1,985 | 5.7% | 0.1 | 16.4% |
| Loans to non-financial entities (net) | 137,247 | 147,867 | 56.9% | 58.4% | 10,621 | 7.7% | 1.5 | 87.9% |
| Accrued interest and other assets | 5,153 | 5,846 | 2.1% | 2.3% | 693 | 13.4% | 0.2 | 5.7% |
| Fixed assets | 7,553 | 7,806 | 3.1% | 3.1% | 254 | 3.4% | (0.0) | 2.1% |
| Unallocated loan loss provisions | 0 | -344 | 0% | -0.1% | (344) | | (0.1) | -2.8% |
| Total assets | 241,088 | 253,165 | 100.0% | 100.0% | 12,077 | 5.0% | | 100.0% |
| Bank deposits | 8,700 | 10,922 | 3.6% | 4.3% | 2,222 | 25.5% | 0.7 | 18.4% |
| Deposits of non-financial entities | 176,798 | 183,656 | 73.3% | 72.5% | 6,857 | 3.9% | (0.8) | 56.8% |
| Borrowings (short-term and long-term) | 19,996 | 21,136 | 8.3% | 8.3% | 1,140 | 5.7% | 0.1 | 9.4% |
| Other liabilities | 7,419 | 7,499 | 3.1% | 3.0% | 80 | 1.1% | (0.1) | 0.7% |
| Provisions for off-balance sheet items | 919 | 952 | 0.4% | 0.4% | 33 | 3.6% | (0.0) | 0.3% |
| Capital and reserves | 27,257 | 29,000 | 11.3% | 11.5% | 1,743 | 6.4% | 0.1 | 14.4% |
| Total liabilities | 241,088 | 253,165 | 100.0% | 100.0% | 12,077 | 5.0% | | 100.0% |

On the side of the liabilities, deposits of non-financial entities continued to grow also in the third quarter of 2008, however at a slower pace. They still represent the main source of financing the banks' activities. On a quarterly level, deposits went up by Denar 6,857 million, or 3.9%, which is by 2.9 percentage points slower growth relative to the growth rate registered in the preceding quarter. For comparison, in the third quarter of the last year the quarterly growth rate equaled 3.5%. On annual basis, as of end September 2008, deposits went up by Denar 35,765 million, or by 24.2%. Despite the slower quarterly growth dynamics, deposits of non-financial entities maintained the dominance in the structure of the banks' liabilities and contributed significantly (with 56.8%) to its increase. Despite their low structural share, deposits of banks registered a significant quarterly rise of Denar 2,222 million, or 25.5% and contributed to the increase in the total liabilities with 18.4%. Such a rise was mainly a result of the increased utilization of funds by one bank from its parent bank. Capital and reserves went up by Denar 1,743 million on a quarterly basis, or by 6.4%, mainly as a result of presenting the unallocated gain from the last year in one bank, and the recapitalization of two banks. Borrowings registered a quarterly increase of Denar 1,140 million, or 5.7%, thus causing 9.4% of the rise of the total liabilities.

On the side of the assets, banks' credit growth started to decelerate in the third quarter of 2008, however at a slower pace relative to the slower growth dynamics of the deposits of non-financial entities. In this quarter, credits went up by Denar 11,017 million, or by 7.4%, which is the lowest quarterly growth compared with the preceding four quarters. This increase caused 24.7% of the annual growth of the banks' credits, which stood at Denar 44,577 million, or 38.5%. Despite the slower growth, credits, with a share of 58.4%, maintained their dominance in the structure of the banks' assets and caused the largest portion (87.9%) of its growth.³

³ The analysis of the credit growth was made on the basis of the amounts of the total credits to non-financial entities, while the analysis of the share of the credits in the total assets on the basis of the data about the credits to the non-

The securities portfolio continued to decline also in the third quarter of 2008. On a quarterly basis, securities portfolio dropped by Denar 1,646 million, or 5.3%, while on annual basis (September 2008/September 2007) this decline equaled Denar 2,676 million, or 8.4%. This contributed to the decline of its share in the total assets from 12.8% (end-June 2008) to 11.5% (end-September 2008). The decline in the securities portfolio is mostly explained with the fall of the placements in CB bills. During the third quarter of 2008, they registered the sharpest decline in absolute terms of Denar 1,549 million, i.e. 7.2%. As of September 30, 2008, their share in the structure of the securities portfolio equaled 68.8%, which is by 1.3 percentage points less relative to the share at the end of the preceding quarter. The remaining part of the portfolio pertains to other debt securities (26.5%) and to equity instruments (4.7%).

Placements with foreign banks during the third quarter of 2008 started to increase, contrary to the current downward trend registered in the past three quarters. At the end of September 2008, placements with foreign banks amounted to Denar 31,276 million, or 12.4% of the banks' assets. On a quarterly basis, they registered an increase of Denar 727 million, or 2.4%. On annual basis, placements with foreign banks dropped by Denar 5,790 million, or 15.6%.

2.1.1. Balance sheet of banks, by group of banks

Market shares of individual groups of banks in the total assets, total credits and total deposits of non-financial entities remained almost unchanged in the third quarter of this year. At the end of September 2008, the share of the group of large banks in these three balance sheet categories was over 66%. At the same time, this group of banks registered the highest quarterly growth of the assets, credit activity and deposits in absolute terms, thus having the largest contribution to the quarterly growth of these three main on-balance sheet categories at the level of the banking system. The group of medium-size banks registered higher quarterly growth rates of the assets and deposits compared with the group of large banks, which contributed to a certain increase in their market share in these categories.

Table 4

Market share and growth of the total assets, credits and deposits by group of banks

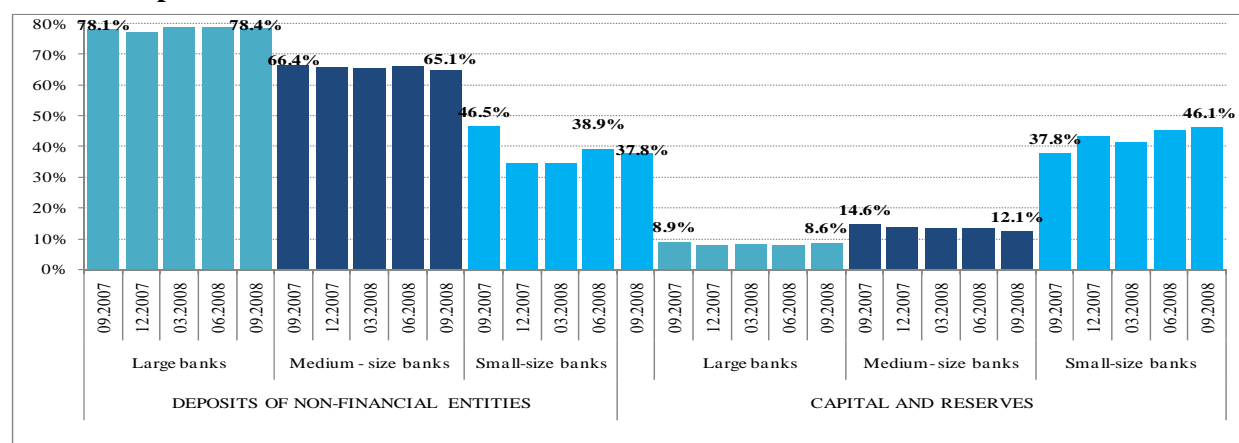
| ITEMS | Amount in millions of Denars | | Structure | | Quarterly change 30.09.08/30.06.08 | | | |
|---|------------------------------|----------------|---------------|---------------|------------------------------------|-------------|---|---------------------|
| | 30.06.2008 | 30.09.2008 | 30.06.2008 | 30.09.2008 | In absolute amounts | In percent | In the structure (in percentage points) | Share in the change |
| Total assets | 241,088 | 253,165 | 100.0% | 100.0% | 12,077 | 5.0% | | 100.0% |
| - Large banks | 160,886 | 167,705 | 66.7% | 66.2% | 6,818 | 4.2% | -0.5 | 56.5% |
| - Medium size banks | 67,803 | 72,925 | 28.1% | 28.8% | 5,123 | 7.6% | 0.7 | 42.4% |
| - Small size banks | 12,399 | 12,535 | 5.1% | 5.0% | 135 | 1.1% | -0.2 | 1.1% |
| Loans to non-financial entities | 149,254 | 160,271 | 100.0% | 100.0% | 11,017 | 7.4% | | 100.0% |
| - Large banks | 101,897 | 110,571 | 68.3% | 69.0% | 8,674 | 8.5% | 0.7 | 78.7% |
| - Medium size banks | 43,979 | 46,196 | 29.5% | 28.8% | 2,217 | 5.0% | -0.6 | 20.1% |
| - Small size banks | 3,378 | 3,504 | 2.3% | 2.2% | 126 | 3.7% | -0.1 | 1.1% |
| Deposits of non-financial entities | 176,798 | 183,656 | 100.0% | 100.0% | 6,857 | 3.9% | | 100.0% |
| - Large banks | 127,091 | 131,477 | 71.9% | 71.6% | 4,385 | 3.5% | -0.3 | 64.0% |
| - Medium size banks | 44,885 | 47,439 | 25.4% | 25.8% | 2,554 | 5.7% | 0.4 | 37.2% |
| - Small size banks | 4,822 | 4,740 | 2.7% | 2.6% | -82 | -1.7% | -0.1 | -1.2% |

At the level of the individual groups of banks, the structure of the liabilities, in general, did not register significant changes at the end of the third quarter of 2008. Deposits of non-financial entities still represent the main source of financing of the activities of large and medium-size banks, and during the last year their share in the liabilities of these groups of banks remained almost unchanged.

financial entities on net-basis, i.e. the credits to the non-financial entities reduced by the amount of the reserves for potential loan losses.

Figure 1

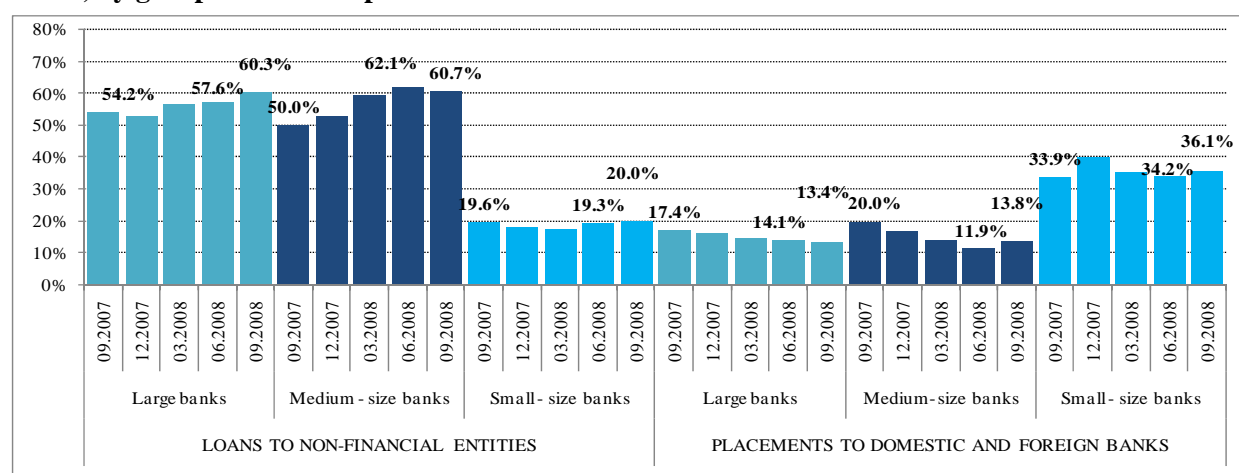
Share of deposits of non-financial entities and capital and reserves in the total liabilities, by group of banks in period of 30.09.2007 - 30.09.2008



As opposed to that, the group of small-size banks registered a decline in the share of the deposits of non-financial entities in the total assets, which was reduced to 37.8% as of September 30, 2008. This was due to the reduction of the deposits in the group of small-size banks, which ranged between 29.9% and 36.1% p.a. in the past four quarters, while at the end of September 2008, it equaled 33.4%. Unlike deposits, the share of the capital and reserves in the total liabilities, in the group of small-size banks, registered an annual increase of 8.3 percentage points.

Figure 2

Share of loans to non-financial entities and placements to domestic and foreign banks in the total assets, by group of banks in period of 30.09.2007 - 30.09.2008



The changes in the structure of the assets of the individual groups of banks during the past four quarters were characterized by strengthening of the share of the credits to non-financial entities. However, during the third quarter of 2008, the slower credit activity, especially in the group of medium-size banks, became evident in a certain decline of the share of credits in the assets of this group of banks. As of September 30, 2008, the annual credit growth rate in the group of medium-size banks equaled 53.4%, which is a slowdown of 7.2 percentage points compared with the annual credit growth rate as of June 30, 2008. The share of the credits in the total assets in the group of small-size banks is considerably lower, at the expense of the higher share of the placements with other banks and the securities portfolio. However, during the third quarter of 2008, the downward trend of credit activity in this group of banks continued to slow down (the negative annual credit growth rate was reduced from 19.9% at the end of June 2008 to 16.8% at the end of September 2008).

2.2. Credit activity of the banks - loans extended to non-financial entities

In the third quarter of 2008, the fast growth of lending, common for the past quarters, started to slow down. As of September 30, 2008, the total credits to the non-financial entities stood at Denar 160,271 million, and compared with June 30,

2008 they registered a quarterly growth of Denar 11,017 million, i.e. 7.4%. On annual basis, total credits went up by Denar 44,577 million⁴, i.e. 38.5%. Such growth rates are lower by 2.7 and 2.6 percentage points, respectively, compared with September 30, 2007. The signals for slowdown of the credit growth are even more evident when analyzing the newly-rolled credits to non-financial entities. **During the third quarter of 2008, the trend of continuous growth of the amount of newly-rolled credits, which started in the second quarter of 2007, was interrupted.** In the third quarter of 2008, the newly rolled credits stood at Denar 2,724 million, which is a decline of Denar 2,724 million, or 6.9⁵%, relative to the preceding quarter. Compared with the third quarter of 2007, newly rolled credits went up by 25.4%, which is the lowest annual growth rate of the newly rolled credits in the past three years.

At the end of the third quarter of 2008, the annual growth rate of corporate credits registered a decline for the first time since the beginning of 2008, while the slowdown in the household credit growth, which started in the preceding quarter, continued. Despite such a slowdown, credit growth rates remained relatively high. As of September 30, 2008, corporate credits registered an annual increase of Denar 23,919 million, i.e. 33.3%, which is by 1.8 percentage points less relative to the annual corporate credit growth rate as of June 30, 2008. Household credits registered high annual growth rate of 47.6%, i.e. Denar 20,545 million. However, corporate credits participated with 55.9% in the total quarterly growth of the credits to non-financial entities, as opposed to the household credits whose share in the growth was 43.6%.

Figure 3
Dynamics and annual growth rate of newly rolled credits

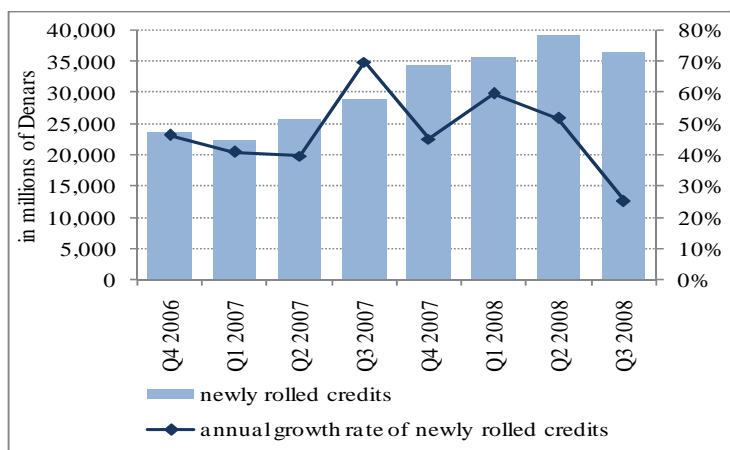
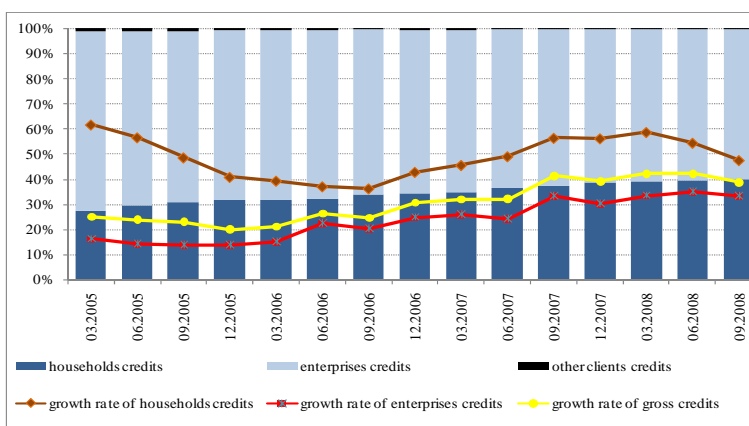


Figure 4
Sectorial structure and annual growth rate of total credits of nonfinancial entities



⁴ This change includes the effects of the newly extended credits, collection of credits and write-offs in the period September 30, 2007 - September 30, 2008.

⁵ Source: Banks' reports on the newly extended credits. The amount of the newly extended credits includes only the amount of the credits extended during a certain period, e.g. the third quarter of 2008, and not the effect of the collection of the credits in the same period.

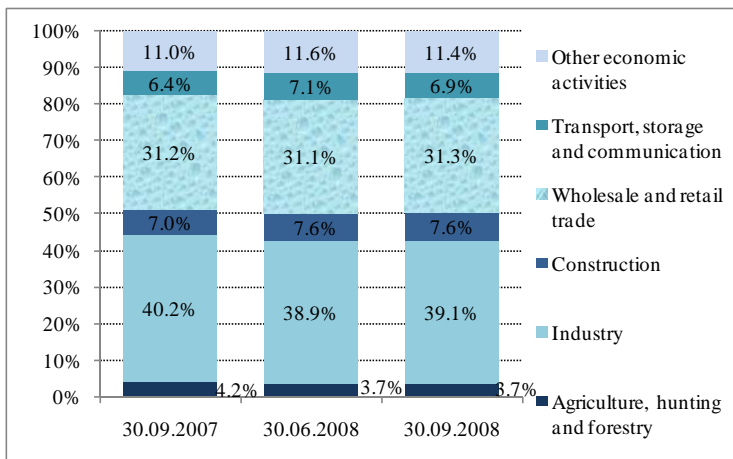
Corporate credits remained dominant in the sector-by-sector structure of the total credits. As of September 30, 2008, their share equaled 59.7%, which reduced by 0.3 percentage points compared with June 30, 2008.

The structure of the credits extended to enterprises and other

clients⁶ according to the activity they perform, does not show significant changes relative to the preceding quarters. Thus, "industry" and "wholesale and retail trade" still have the largest share. At the end of the third quarter of 2008, these two branches covered 70.4% of the total credits extended to enterprises and other clients. At the same time, these two branches generated 76% of the total quarterly growth of the credits to enterprises and other clients.

Figure 5

Structure of the credits to enterprises and other clients, by economic activity

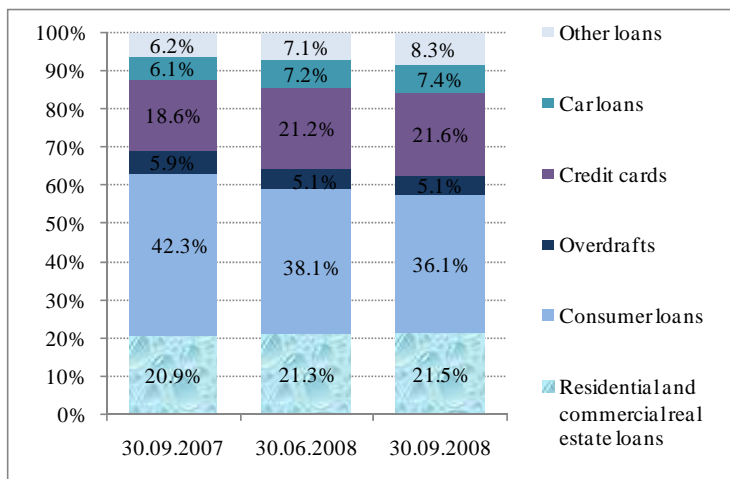


Consumer credits remained dominant in the structure of the household credits according to individual credit products. As of

September 30, 2008, they registered a quarterly increase of Denar 604 million, i.e. 2.9% and had a share of 36.1% in the total household credits. However, relative to the second quarter of 2008, their structural share reduced by 2.0 percentage points, at the expense of the increased share in the category "other credits"⁷. As of September 30, 2008, this type of credits registered a quarterly growth of Denar 1,008 million, or 25.7%, thus causing 25.1% of the total quarterly growth of the household credits. During the third quarter of 2008, the shares of the credit cards and automobile credits also increased in the structure of the total household credits. Credits on the basis of credit cards registered an increase of Denar 1,209 million relative to June 30, 2008 and had the largest contribution to the total quarterly increase in the household credits, which equaled 25.8%. Automobile credits registered a quarterly growth of Denar 481 million, i.e. 12.2%.

Figure 6

Structure of households' loans by bank product

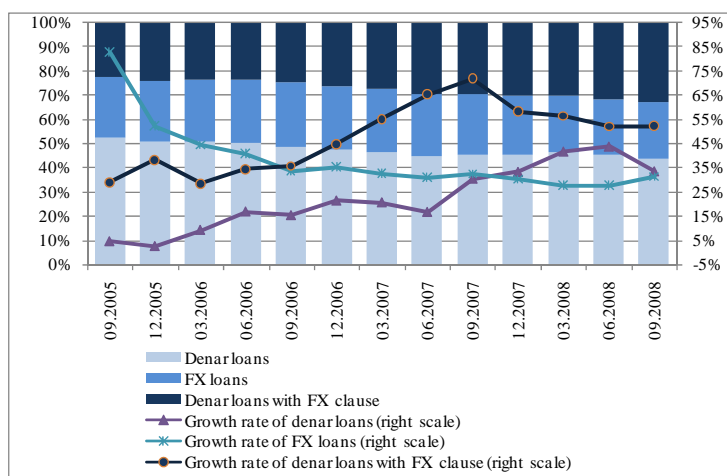


⁶ The term "other clients" denotes the following institutions: non-profit non-financial organizations, non-government organizations, extraterritorial organizations and bodies, foreign persons, etc.

⁷ Other credits refer to all credits which are not covered by the other five categories of household credits.

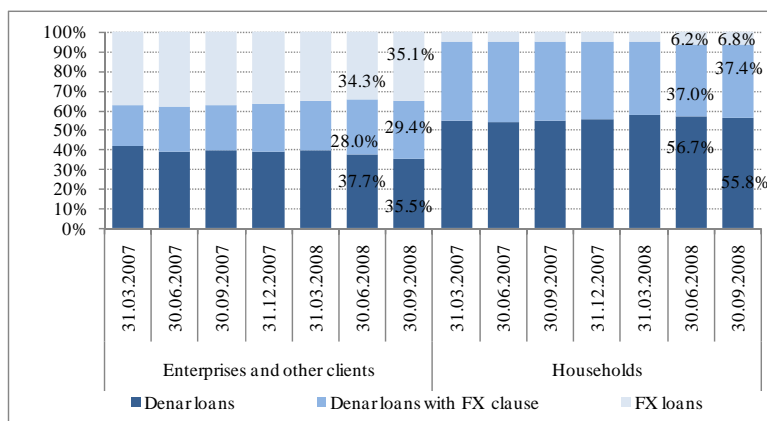
Credits with currency component, especially Denar credits with FX clause, continued to grow at a fast pace. Denar credits with FX clause went up by Denar 5,129 million, or 10.9% on a quarterly basis, while the foreign currency credits increased by Denar 3,522 million, or 10.2%. Thus, in the third quarter of 2008, credits with FX component covered 78.5% of the total growth of the credits to non-financial entities. On the other hand, in the third quarter of 2008, Denar credits registered slower growth dynamics. They went up by Denar 2,366 million, i.e. 3.5%. The faster quarterly growth of the credits with currency component led to an increase in their share in the currency structure of the credits, which equaled 56.4% as of September 30, 2008, which is by 1.6 percentage points more compared with June 30, 2008. The share of Denar credits with currency clause increased by 1 percentage point, while the rise in the foreign currency credits was 0.6 percentage points. The share of the Denar credits in the currency structure of the total credits equaled 43.6% as of September 30, 2008, and registered a quarterly decline of 1.6 percentage points.

Figure 7
Currency structure of the loans to non-financial entities and annual growth rate



The decline of the relative significance of the Denar credits during the third quarter of 2008 at the expense of the increased share of the credits with currency component is especially evident in the credits to non-financial legal entities. The credits with currency component participate with 64.5% in the total credits to the non-financial legal entities, and compared with June 30, 2008 their share went up by 2.2 percentage points. Such a structural change is due to the Denar credits with FX clause, which registered quarterly increase of Denar 3,108 million, i.e. 12.3%, thus contributing to the total quarterly increase in the credits to non-financial legal entities with 50%. Foreign currency credits to enterprises and other clients registered a quarterly rise of Denar 2,869 million, i.e. 9.3%. On the other hand, in the third quarter of 2008, Denar credits to non-financial legal entities recorded a moderate growth of Denar 242 million, i.e. 0.7%.

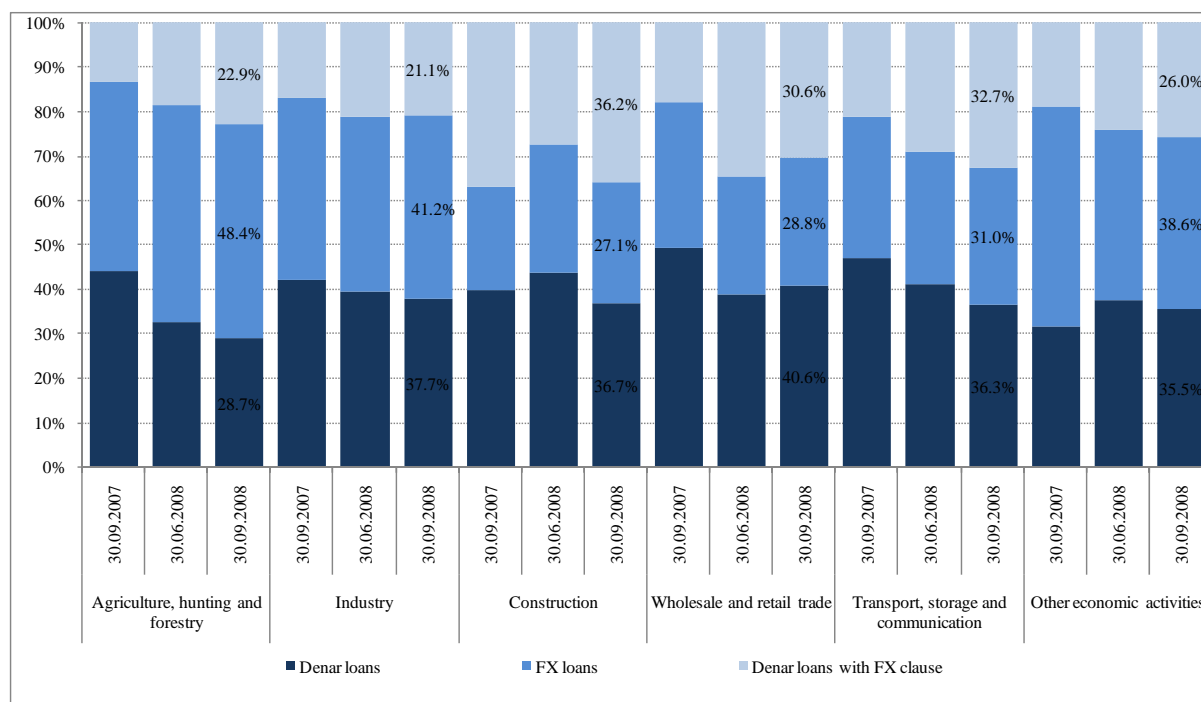
Figure 8
Dynamics of gross loans' currency structure by sectors



Decline in the share of the Denar credits, although to a smaller extent, was registered also in the currency structure of the household credits. Household Denar credits registered quarterly growth of Denar 2,124 million, i.e. 6.3%, as opposed to the credits with currency component, which went up by Denar 2,675 million, or 27%. Denar credits with foreign currency clause registered quarterly growth of Denar 2,021 million, participating with 42.1% in the quarterly growth of the household credits. Thus, the share of the household credits with currency component in the total household credits reached 44.2% as of September 30, 2008, which was 0.9 percentage points higher relative to June 30, 2008.

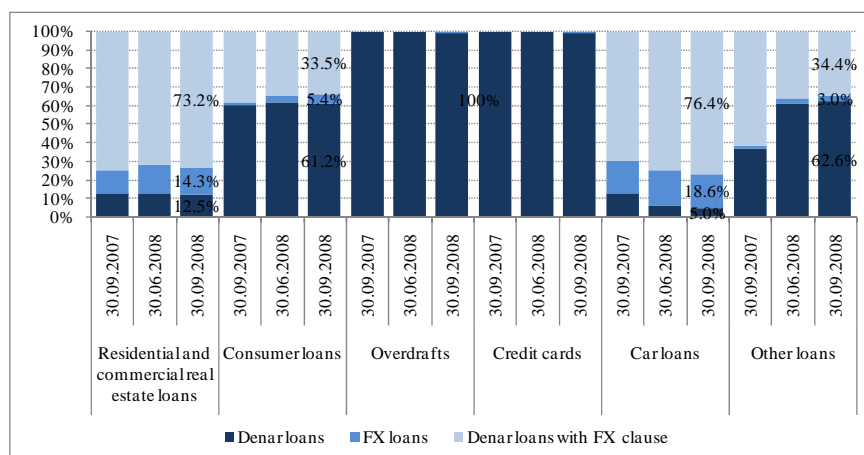
The analysis of the currency structure of the credits by individual branches, confirms the dominance of the credits with currency component also in the third quarter of 2008. The largest share of the credits with currency component of 71.3% was present in the "agriculture, hunting and forestry", and the lowest in "wholesale and retail trade" of 59.4%. Foreign currency credits have the largest share in "agriculture, hunting and forestry" (48.4%), while Denar credits with foreign currency clause are dominant in the "construction" with 36.2%. Denar credits have the largest share (40.6%) in "wholesale and retail trade".

Figure 9
Currency structure of the loans to enterprises and other clients, by economic activity



In the currency structure of the household credits according to the individual credit products, there is an uneven presence of Denar credits and credits with currency component. However, the currency structure of credits according to individual credit products registered in the preceding quarter, was retained. Thus, most of the automobile credits and credits for homes and business premises are with currency component, primarily Denar credits with FX clause. In the other credit products Denar lending is dominant, especially in the overdrafts on current accounts, credit cards and consumer credits.

Figure 10
Currency structure of the loans to households by bank product



In the third quarter of 2008, no significant changes were registered in the maturity structure of credits. Long-term credits remained dominant and caused the largest portion of the total credit growth.

Figure 11

Maturity structure of gross loans to non-financial entities and relative annual growth rate

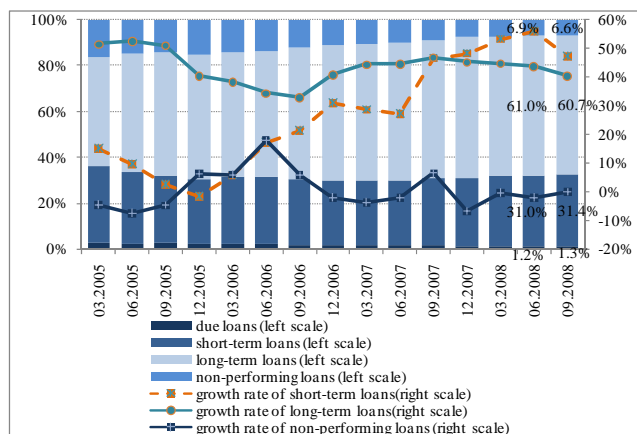
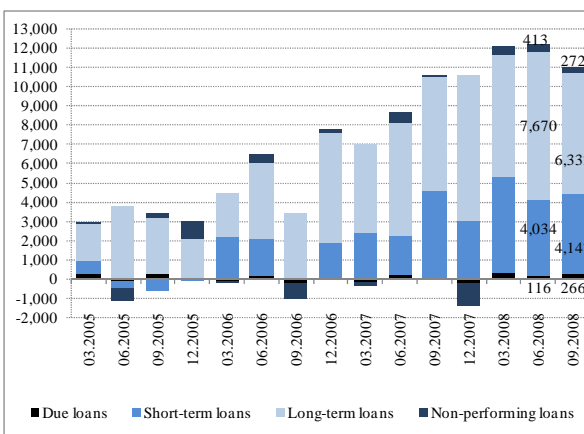


Figure 12

Absolute quarterly growth of total loans to non-financial entities



As of September 30, 2008, they participated with 60.7% in the total credits to the non-financial entities. At the same time, long-term credits registered the largest quarterly growth in absolute terms, contributing with 57.5% to the quarterly growth of the total credits to non-financial entities. On the other hand, the quarterly rise of the short-term credits equaled 37.6% of the quarterly growth of the total credits to the non-financial entities. In the third quarter of 2008, non-performing loans went up by 2.6%, whereby their share in the total credits to the non-financial entities dropped down to 6.6%. Due credits registered a quarterly rise of 15.2%, while their share in the total credits remained almost unchanged.

Table 5

Structure of credits to non-financial entities by individual group of banks

| | | 30.06.2008 | | | | 30.09.2008 | | | |
|--------------------|----------------------|-------------|-------------------|------------------|--------|-------------|-------------------|------------------|--------|
| | | Large banks | Medium-size banks | Small-size banks | Total | Large banks | Medium-size banks | Small-size banks | Total |
| Sector structure | Enterprises | 70.7% | 27.3% | 2.0% | 100.0% | 71.5% | 26.5% | 2.0% | 100.0% |
| | Households | 64.5% | 33.1% | 2.4% | 100.0% | 65.2% | 32.5% | 2.3% | 100.0% |
| | Other clients | 66.9% | 7.4% | 25.7% | 100.0% | 65.7% | 9.7% | 24.6% | 100.0% |
| Maturity structure | Short-term | 75.0% | 22.5% | 2.5% | 100.0% | 76.0% | 22.0% | 2.0% | 100.0% |
| | Long-term | 64.6% | 33.9% | 1.5% | 100.0% | 65.0% | 33.3% | 1.7% | 100.0% |
| | Due | 43.8% | 52.1% | 4.1% | 100.0% | 51.3% | 43.5% | 5.2% | 100.0% |
| | Non-performing | 74.5% | 17.8% | 7.7% | 100.0% | 75.4% | 17.2% | 7.4% | 100.0% |
| Currency structure | Denar | 67.8% | 27.8% | 4.4% | 100.0% | 69.6% | 26.2% | 4.2% | 100.0% |
| | Denar with FX clause | 64.6% | 34.7% | 0.7% | 100.0% | 64.2% | 34.8% | 1.0% | 100.0% |
| | FX | 74.2% | 25.7% | 0.1% | 100.0% | 74.4% | 25.5% | 0.1% | 100.0% |

Distribution of credits to non-financial entities by individual groups of banks indicates that the group of large banks mainly increased its market share in the third quarter of 2008. In this quarter, the group of large banks recorded the largest growth rate of total credits of 8.5%. The groups of medium and small banks registered quarterly credit growth of 5.0% and 3.7%, respectively. The diverse quarterly growth rates of the credit activity of individual groups of banks directed the changes in the sector, maturity and currency structure of the credits towards strengthening the role of the group of large banks.

Table 6
Distribution of credits to non-financial entities by individual group of banks

| | | 30.06.2008 | | | 30.09.2008 | | |
|---------------------------|-----------------------------|---------------|-------------------|------------------|---------------|-------------------|------------------|
| | | Large banks | Medium-size banks | Small-size banks | Large banks | Medium-size banks | Small-size banks |
| Sector structure | Enterprises | 62.2% | 55.6% | 53.2% | 61.9% | 54.9% | 53.6% |
| | Households | 37.3% | 44.3% | 41.1% | 37.6% | 44.9% | 40.7% |
| | Other clients | 0.5% | 0.1% | 5.7% | 0.5% | 0.2% | 5.7% |
| | Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| Maturity structure | Short-term | 34.0% | 23.6% | 34.0% | 34.6% | 24.0% | 29.0% |
| | Long-term | 57.7% | 70.1% | 40.5% | 57.3% | 70.2% | 45.7% |
| | Due | 0.8% | 2.1% | 2.1% | 0.9% | 1.9% | 3.0% |
| | Non-performing | 7.5% | 4.2% | 23.4% | 7.2% | 3.9% | 22.3% |
| | Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| Currency structure | Denar | 44.9% | 42.6% | 88.4% | 43.9% | 39.6% | 84.5% |
| | Denar with FX clause | 29.8% | 37.1% | 10.6% | 30.3% | 39.3% | 14.7% |
| | FX | 25.3% | 20.3% | 1.0% | 25.8% | 21.1% | 0.8% |
| | Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

The structural analysis of credits according to the sector, maturity and currency in the individual groups of banks shows that the corporate credits, long-term credits and credits with currency component are dominant in all groups of banks. Exception is the currency structure of the credits in the group of small banks, in which Denar credits have the largest share. Relative to June 30, 2008, following the general trend at the level of the banking system, the share of the credits extended to enterprises in the groups of large and medium banks, reduces at the expense of the credits extended to households. On the other hand, in the third quarter of 2008, the credit activity to the corporate sector in the group of small banks, increased.

2.3. Banks' deposit activities

2.3.1. Structure of the deposit base (by sector, maturity and currency)

Household deposits, with their share of 58.5% in the total deposits, are still the main component in the total bank's sources of financing. During 2008, household deposits continued to grow, registering the highest quarterly growth in absolute and in relative terms (Denar 5,629 million, or 5.5%) during the third quarter, while their share in the total growth of the deposits of non-financial entities with banks was 82.1%. For comparison, during the third quarter of 2007, these deposits went up by Denar 4,337 million, or 5.2%. The annual growth (September 2008/September 2007) of household deposits totaled Denar 20,168 million, or 23.1%. **Enterprises deposits** participate with 35.8% in the total deposits, representing the second largest source of funds. On a quarterly basis, they increased by Denar 1,661 million, or by 2.6%, thus contributing with 24.4% to the total quarterly growth of the non-financial entities deposits. On annual basis, enterprises deposits went up by Denar 14,053 million, or by 27.1%.

The trend of gradual increase of the maturity of banks' deposits continued also in the third quarter of 2008. Despite the continuous increase in the share of long-term deposits, the short-term household deposits contributed the most of the total deposits growth. The unfavorable maturity remained to be a feature of the banks' deposits. The largest portion (92.6%) of the total deposits are with maturity of up to one year, of which 57.4% are short-term deposits, and the rest are sight deposits⁸. In this quarter, short-term deposits registered the largest increase in absolute terms of Denar 4,424 million, which caused 64.5% of the quarterly growth of total deposits. Such a growth is almost entirely a result of the quarterly rise of the short-term households foreign currency deposits, which caused 94.5% of the total short-term deposits growth. Long-term deposits registered the highest quarterly growth rate of 16.2%, which caused almost one third of the quarterly growth of the total deposits. For comparison,

⁸ Sight deposits include demand deposits (transaction accounts of natural persons and legal entities).

growth rates of sight deposits and short-term deposits were lower and equaled 0.8% and 4.7%, respectively. The rise in the long-term deposits contributed to an increase in their structural share in the total deposits from 6.6% (end-June, 2008) to 7.3% (end-September, 2008). Such an increase was mostly (around 68%) a result of the growth in the household long-term deposits (especially foreign currency deposits).

During the third quarter of 2008, foreign currency deposits and Denar deposits with FX clause continued to grow. On the other hand, Denar deposits declined on a quarterly basis, which caused certain changes in the currency structure of deposits.

Foreign currency deposits registered a quarterly increment of Denar 5,798 million, or 7.2% and had the largest share (84.6%) in the total quarterly growth of deposits. The high growth of foreign currency deposits in the third quarter of this year, caused the largest annual growth in absolute terms (Denar 16,993 million) and highest annual growth rate (24.6%) compared with the previous four quarters. On the contrary, Denar deposits registered a quarterly decline of Denar 773 million (0.9%), while on annual basis they had the smallest annual growth (Denar 12,088 million, or 17.3%) compared with the preceding four quarters. For comparison, in the previous three quarters, the annual growth rates of Denar deposits ranged in an interval between 20.8% and 50%. The decline of the Denar deposits in this quarter caused certain movements in the currency structure of the total deposits. As opposed to the higher structural share of Denar deposits registered so far (a trend which started in June, 2007), starting from this quarter, foreign currency deposits have higher share (although insignificant) in the structure of the total deposits. Thus, 46.8% are foreign currency, and 44.6% are Denar deposits. The remaining 8.6% are Denar deposits with FX clause. They went up by Denar 1,833 million, or by 13.1% on a quarterly basis and caused almost one third of the total deposit growth. This growth was mostly due to the increase in the deposits of one depositor with one bank. On annual basis, Denar deposits with FX clause registered an increase of Denar 6,684 million, or 72.8%.

Figure 13

Movements of non-financial entities deposits of banking system, by currency structure

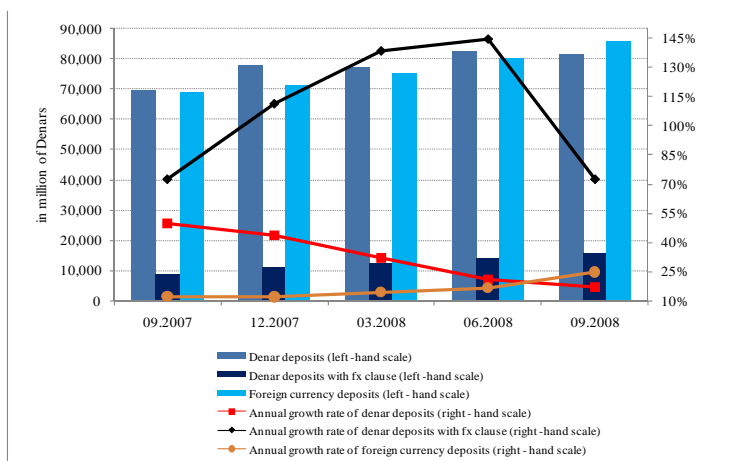


Table 7

Distribution of deposits by group of banks as of September 30, 2008

| Groups of banks | Sector structure | | | | Maturity structure | | | Currency structure | |
|-------------------|------------------|------------|---------------|---------------|--------------------|---------------------|----------------------|--------------------|---------------------------|
| | Enterprises | Households | Public sector | Other clients | Sight deposits | Short-term deposits | Long - term deposits | Denar deposits | Foreign currency deposits |
| Large banks | 66.4% | 75.2% | 80.9% | 63.9% | 74.1% | 72.5% | 51.3% | 67.9% | 75.7% |
| Medium-size banks | 31.0% | 22.7% | 10.8% | 28.0% | 22.2% | 25.9% | 44.7% | 28.5% | 22.8% |
| Small-size banks | 2.6% | 2.0% | 8.3% | 8.1% | 3.7% | 1.5% | 4.0% | 3.5% | 1.5% |

Distribution of **deposits by groups of banks** shows that the group of **large banks** has around three quarters of the total household deposits, total short-term sight deposits and total foreign currency deposits.

Table 8

Structure of the deposits of non-financial entities by group of banks as of September 30, 2008

| Groups of banks | Sector structure | | | | | Maturity structure | | | | Currency structure | | |
|-------------------|------------------|------------|---------------|---------------|--------|--------------------|---------------------|----------------------|--------|--------------------|---------|--------|
| | Enterprises | Households | Public sector | Other clients | Total | Sight deposits | Short-term deposits | Long - term deposits | Total | Denarski | Devizni | Total |
| Large banks | 33.3% | 61.5% | 1.0% | 4.2% | 100.0% | 40.8% | 53.9% | 5.3% | 100.0% | 50.5% | 49.5% | 100.0% |
| Medium-size banks | 43.0% | 51.5% | 0.4% | 5.2% | 100.0% | 33.9% | 53.5% | 12.7% | 100.0% | 58.7% | 41.3% | 100.0% |
| Small-size banks | 36.1% | 46.0% | 2.9% | 14.9% | 100.0% | 57.1% | 31.5% | 11.4% | 100.0% | 72.9% | 27.1% | 100.0% |

Household deposits are dominant in the deposit structure of each of the groups of banks, where the group of medium-size banks has more balanced sector structure of deposits. Long-term deposits are relatively more important in the maturity structure of the deposits in the group of medium-size banks. Denar deposits are dominant component in the deposit currency structure in the group of small-size banks.

3. Risks in the banking operations

3.1. Credit risk exposure

After the slowing down in the growth, present in the several previous quarters, in the third quarter of 2008, unchanged growth rate in the credit risk exposure of the banking sector was registered, relative to the previous quarter. On September 30, 2008, the total credit risk exposure equaled Denar 268.068 million, which represented quarterly growth of Denar 11.192 million, or by 4.4% (identical quarterly growth rate in the second quarter of 2008). Relative to September 30, 2007 a growth of Denar 45.404 million was realized, or by 20.4%, which represented almost identical annual growth with the one registered on June 30, 2008 (20.9%).

Figure no. 14
Development and growth in the credit risk exposure at the level of the banking system

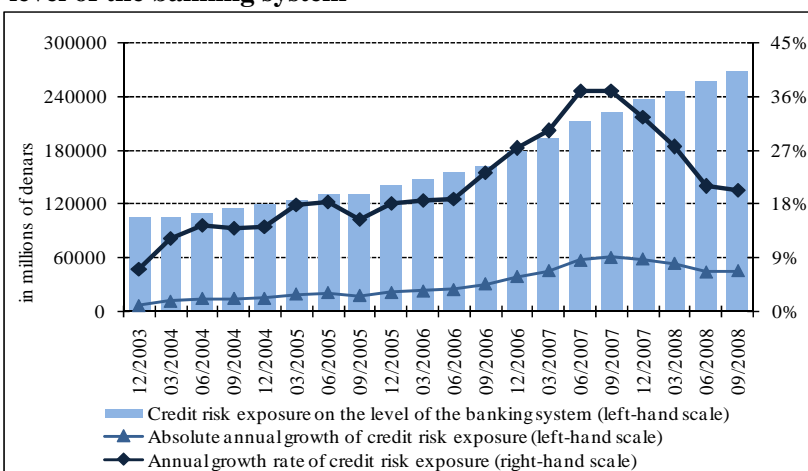


Table no. 9

Balance and change in the credit risk exposure, by group of banks

| Groups of banks | Amount (Denar million) | | | Structure (in %) | | | Quarterly change (30.09.2008/30.06.2008) | | | Annual change (30.09.2008/30.09.2007) | | |
|-----------------|------------------------|------------|------------|------------------|------------|------------|--|-------|---------------------|---------------------------------------|--------|---------------------|
| | 30.09.2007 | 30.06.2008 | 30.09.2008 | 30.09.2007 | 30.06.2008 | 30.09.2008 | Denar million | In % | Share in the change | Denar million | In % | Share in the change |
| Large banks | 152,943 | 179,021 | 186,574 | 68.7% | 69.7% | 69.6% | 7,553 | 4.2% | 67.5% | 33,631 | 22.0% | 74.1% |
| Medium banks | 55,603 | 65,598 | 69,388 | 25.0% | 25.5% | 25.9% | 3,790 | 5.8% | 33.9% | 13,785 | 24.8% | 30.4% |
| Small banks | 14,121 | 12,260 | 12,109 | 6.3% | 4.8% | 4.5% | -151 | -1.2% | -1.3% | -2,012 | -14.2% | -4.4% |
| Total: | 222,667 | 256,879 | 268,071 | 100.0% | 100.0% | 100.0% | 11,192 | 4.4% | 100.0% | 45,404 | 20.4% | 100.0% |

The group of large banks dominantly participated in the overall credit risk exposure and in its quarterly growth. This group of banks registered largest absolute quarterly growth of Denar 7.553 million, determining 67.5% of the total growth in the credit risk exposure and maintaining the dominant participation of 69.6% in the total credit risk exposure of the banking system. The group of medium banks registered largest relative growth in the credit risk exposure, same as in the previous quarters, the credit risk exposure of which went up by 5.8% in the third quarter of 2008. However, this group of banks registered slowing down in the relative change in the credit risk exposure (on 30.06.2008 the quarterly growth rate equaled 7%). On the other hand, the slowing down in the growth in the total credit risk exposure was to a certain extent moderated through the quarterly growth in the placements in foreign banks, which determined more than 60% of the total quarterly growth in the credit risk exposure in the group of medium banks. In the same period (30.06.2008 - 30.09.2008), the group of small banks registered fall in the credit risk exposure.

In the third quarter of 2008 the upward trend in the participation of the credit risk exposure to non-financial entities in the total credit exposure of the banking system continued, for the account of the fall in the participation of the exposure to the financial institutions and the

Government. The exposure to the sector "enterprises and other clients" still has the highest structural participation of 45.2%, which relative to June 30, 2008, represented growth of 0.3 percentage points. In the same period, the participation of the exposure to the households and the sole proprietors rose by 0.6 percentage points⁹ equaling 29.7%. Such structural changes reflected the higher annual growth rates of the exposure to the non-financial entities, especially to the sector "households and sole proprietors" in the previous few years.

Figure no. 15
Sector structure of the credit risk exposure

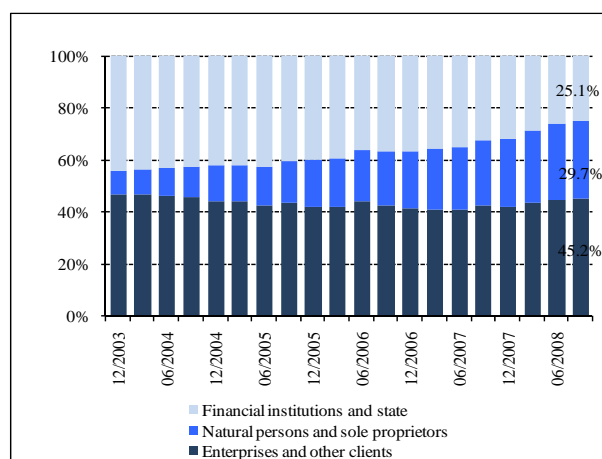
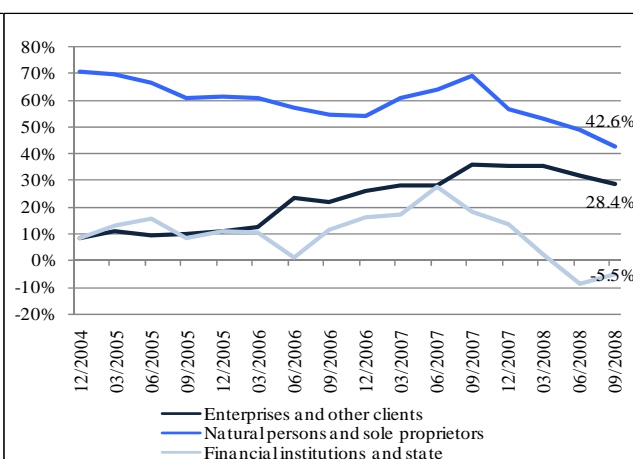


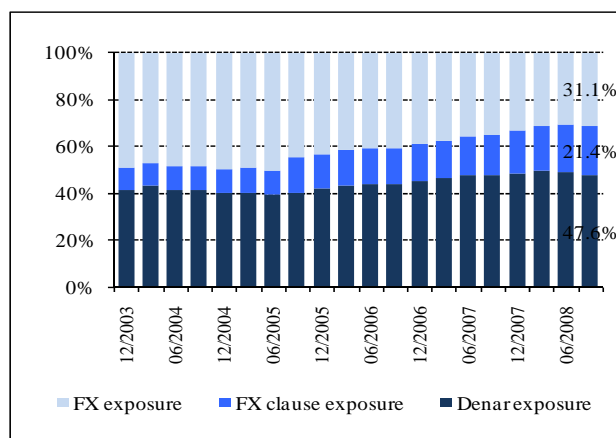
Figure no. 16
Annual growth rates in the credit risk exposure to individual sectors



The trend of slowing down in the growth characteristic for the total credit risk exposure, can also be registered in all individual sectors, especially in the sector "financial institutions and Government", where since June 30, 2008 negative annual growth rates in the total exposure were registered. The quarterly changes in the exposure to non-financial sectors maintained the same characteristics as in the previous quarters. Thus, in the third quarter of 2008 also the exposure to enterprises and other clients registered largest quarterly absolute growth of Denar 5.743 million, whereas the credit risk exposure to the sector "households and sole proprietors" registered highest growth rate of 6.6%. On the other hand, the exposure to the sector "financial institutions and Government" registered minimal upward movement (quarterly growth of 0.8%), different from the previous two quarters, mainly as a result of the higher placement of assets to foreign banks.

The currency structure of the credit risk exposure was almost unchanged relative to the previous quarter. At the end of September 2008, little bit less than half of the total credit risk exposure of the banking system pertains to Denar exposure. Minimal increase in the participation of the foreign currency exposure (by 0.3 percentage points) was characteristic for the third quarter of 2008, relative to its constant downward trend in the past few years. This change came mainly as a result of the previously mentioned growth in the assets placed with foreign banks. With respect to the currency structure of the credit risk exposure, the Denar exposure with FX clause registered the largest quarterly absolute growth (Denar 5.142

Figure no. 17
Currency structure of the credit risk exposure



⁹ Dominant part, in amount of 94.4%, of the exposure to the households and the sole proprietors pertains to the credit risk exposure to the households. Relative to June 30, 2008, the exposure to the households registered growth of 6.9% determining 98.4% of the quarterly growth in the total credit risk exposure to the sector "households and sole proprietors". In the same period, the exposure to the sole proprietors rose by 1.8%.

million) and relative growth (9.8%).

Effects from the change in securities prices on the banking system in the Republic of Macedonia

The global downward correction of the prices, which in the previous period of year and a half, characterized the developed markets of capital, reflected to a certain extent on the relatively "younger" capital markets, including the market in the Republic of Macedonia. In conditions of intensive drop in the market price of the securities (mainly shares), the need of estimating the eventual negative effects on the operations and performances of the banking system in the country imposed. Three possible channels of transfer of the negative effects were the following: decrease in the value of the equity portfolio in the banks' assets, drop in the value of the securities provided as collateral for certain credit exposure of banks and indirect negative effect from eventual worsening in the credit worthiness of the clients who use credits for trading with securities. The last method of transfer of the negative effects on the banks' operations can not be quantified due to the unavailability of the data on the amount of credits used for trading with securities.

The possible negative effects from the first method of transfer are extremely restricted, in conditions when the equity portfolio on September 30, 2008 participated with minimal 0.5% in the assets of the banking system. Additionally, the largest part of these securities were investments of the banks in connected entities, the banks do not trade with, and they record them at their purchasing value in their balance sheet. Consequently, the current downward correction of the prices of shares on the capital market had no negative effects on the value of the assets of the banking system in the Republic of Macedonia.

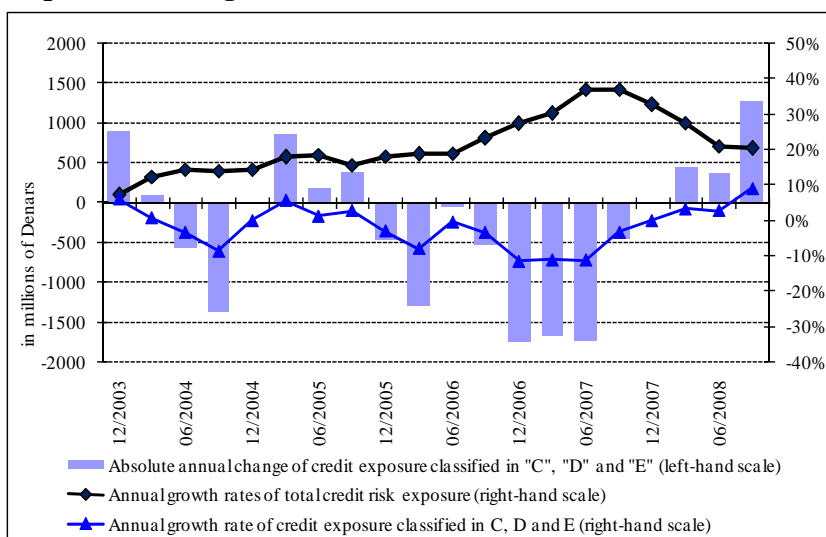
Apart from the fact that the provided collateral is not and should not be a primary source of repayment of the credit exposure, with eventual full of partial non-collectability of the exposure, the drop in its value may negatively influence banks' performances. Despite the considerable fall in the market prices of the securities, the negative consequences from this channel of transfer in the banking system of the Republic of Macedonia are minimal as well. On September 30, 2008 only 0.5% of the total credit risk exposure was collateralized with certain type of security. On the same date, 14 banks had exposure collateralized by securities, while at the level of individual banks this percent ranged between 0.01% and 2.6%. The largest part of 96.2% of the securities which are accepted as collateral were shares issued by domestic legal entities, and the other 3.8% were bonds issued by the Republic of Macedonia. Most of the banks use securities and especially shares as additional collateral. Namely, on September 30, 2008, another type of collateral was provided for 76.8% of the exposure collateralized with shares. The exposure collateralized only with shares represented 0.2% of the total credit risk exposure on September 30, 2008.

3.1.1. Risk level and indicators on the quality of the credit risk exposure of the banking system

At the end of the third quarter of 2008, the trend of quality improvement of the credit portfolio of the banking system stopped, i.e. the first signs of increase in its risk level became apparent. This worsening, on one side, became evident in conditions of slowing down in credit exposure growth, which started at the end of 2007. On the other hand, it came as a result of the so called "maturing" of the credit portfolio created in more relaxed conditions for crediting, which characterized the previous period. Annulment of the initial effect of improvement in the quality of the credit portfolio in conditions of intensive growth in the

Figure no. 18

Annual changes in the total credit risk exposure and the exposure with higher risk level



crediting, i.e. the maturing of the credit portfolio is clearly perceived through the analysis of the annual changes in the total credit risk exposure and the exposure classified in the risk categories "C", "D" and "E". Namely, till the end of 2007 intensive growth in the total credit portfolio of banks was registered, opposite of the continuous drop in the exposure classified in the three categories with higher risk level. But, since December 31, 2007 decline in the positive differential between the two growth rates started to become apparent. On September 30, 2008, the annual growth rate of the exposure classified in the risk categories "C", "D" and "E" equaled 8.8% and it was lower than the annual growth rate of the total credit risk exposure by 11.6 percentage points, different from the middle of 2007 when the differential between the two rates was reaching up to 48.2 percentage points. At the end of September 2008 the largest absolute annual growth in the exposure classified in the risk categories "C", "D" and "E" was registered in amount of Denar 1.242 million, relative to the previous quarters (Figure no. 18). It was solely determined by the absolute growth of this exposure in the third quarter of 2008 (Denar 1.376 million).

The growth in the exposure classified in the three categories with higher risk level during the third quarter of 2008 negatively influenced all indicators on the quality of the credit portfolio of banks. On quarterly basis (30.06.2008-30.09.2008), almost all analyzed indicators on the risk level of the credit portfolio of the banking system registered worsening. Namely, on September 30, 2008 the participation of the exposure classified in the risk categories "C", "D" and "E" in the total credit risk exposure amounted to 5.7%, which relative to June 30, 2008 represented worsening of 0.2 percentage points. Simultaneously, the indicator on the participation of the non-provisioned amount of the exposure classified in the risk categories "C", "D" and "E" in the total own funds of the banking system also registered worsening of 2.4 percentage points. Namely, in conditions of realization of the extreme scenario for full non-collectability of the exposure classified in these three categories with higher risk level, 19.5% of the banks' own funds would be required for covering the losses, different from the previous quarter when 17.1% of the own funds were required. The capital adequacy ratio would decrease from current 15% to 12.1%. Nevertheless, on annual basis (relative to September 30, 2007) an improvement in the indicators on the quality of the credit risk exposure was still present.

Table no. 10
Indicators on the quality of the credit risk exposure

| Credit risk indicators | 30.09.2007 | 30.06.2008 | 30.09.2008 |
|--|------------|------------|------------|
| Average level of risk | 5.8% | 5.4% | 5.4% |
| % of "C", "D" and "E" in total credit risk exposure | 6.4% | 5.5% | 5.7% |
| Coverage of "C", "D" and "E" by the allocated loan loss reserves | 91.5% | 98.8% | 92.7% |
| Net "C", "D" and "E" / Own funds | 17.6% | 17.1% | 19.5% |

The growth in the allocated provisions for potential losses did not correspond with the growth in the exposure classified in the risk categories "C", "D" and "E", which resulted in fall in the rate of coverage of this exposure by the amount of the allocated provisions. In the third quarter of 2008 the allocated provisions for potential losses rose by Denar 424 million, or by 3.1%. In the same period, the exposure classified in the risk categories "C", "D" and "E" grew by 8.9%. Consequently, on September 30, 2008 the allocated provisions for potential losses were enough for covering 92.7% of the exposure classified in the risk categories "C", "D" and "E" which was by 6.1 percentage point less relative to the previous quarter. The drop in the coverage level was due to the slowing down in the growth in the total credit exposure and the slowing down in the total allocated provisions for potential losses on one hand. On the other hand, the growth in the exposure classified in the three categories with higher risk level was almost solely determined by the increment in the exposure classified in the risk categories "C" and "D", the allocated provisions for potential losses which amounted to 25%, i.e. 50%, which in conditions of intensified growth in the exposure in these two risk categories resulted in drop in the rate of coverage with the allocated provisions for potential losses.

In the third quarter of 2008 the banks wrote-off claims in amount of Denar 201 million, which represented only 0.1% of the credit risk exposure on June 30, 2008. This amount was lower than 86.7% relative to the claims written-off during the previous quarter. In the same time, the performed write-offs of claims, different from the previous quarters, did not influence on the indicator on the

participation of the exposure classified in the risk categories "C", "D" and "E" in the total credit risk exposure (the indicator would equal 5.7% even if the banks were not performing write-offs during the third quarter of 2008). In the structure of the written-off claims, the claims based on principal dominated with participation of 64.4%, whereas the written-off claims based on interest participated with 35.3%. With respect to the currency structure of the written-off claims, the Denar claims dominantly participated with 97.5%. The written-off claims from natural persons and non-financial legal entities participated with 53.5% and 38.7%, respectively, in the total amount of claims written-off in the third quarter of 2008. 99.3% of the written-off claims of natural persons were performed by a bank from the group of large banks, and 85.3% of the written-off claims of non-financial legal entities from another bank of the group of large banks. In the same period previously written-off claims in amount of Denar 24 million were collected.

Table no. 11

Indicators on the quality of the credit risk exposure by group of banks

| Credit risk indicators | Large banks | | | Medium banks | | | Small banks | | |
|--|-------------|------------|------------|--------------|------------|------------|-------------|------------|------------|
| | 30.09.2007 | 30.06.2008 | 30.09.2008 | 30.09.2007 | 30.06.2008 | 30.09.2008 | 30.09.2007 | 30.06.2008 | 30.09.2008 |
| Average level of risk | 6.3% | 5.8% | 5.7% | 3.5% | 3.5% | 3.8% | 10.0% | 8.9% | 9.0% |
| % of "C", "D" and "E" in total credit risk exposure | 6.7% | 5.7% | 5.7% | 4.3% | 4.2% | 5.1% | 10.9% | 9.2% | 9.2% |
| Coverage of "C", "D" and "E" by the allocated loan loss reserves | 95.4% | 103.1% | 100.6% | 78.5% | 83.2% | 66.6% | 85.9% | 98.1% | 100.1% |
| Net "C", "D" and "E" / Own funds | 25.1% | 22.1% | 23.9% | 13.7% | 15.5% | 20.5% | 4.4% | 3.0% | 3.2% |

In the third quarter of 2008 worsening in the indicators on the risk level of the credit portfolio was registered in all groups of banks, mostly in the group of medium banks. Besides that, certain indicators on the credit risk in this group were still at the lowest level. Such developments of the indicator on the quality of the credit risk exposure in the group of medium banks came mainly as a result of the slowing down in the credit activity in the third quarter of 2008, which in the previous periods had most significant dynamics in this group of banks, mostly followed by relaxation in the terms for crediting. Most considerable worsening in the group of medium banks was registered in the level of coverage of the exposure classified in the risk categories "C", "D" and "E" with the allocated provisions for potential losses, which on September 30, 2008 reduced to the level of 66.6%. Such fall was due to the slowing down growth in the overall credit exposure and the slowing down in the increment of the allocated provisions for potential losses, opposite of the significant growth in the exposure classified in the three categories with higher risk level. Namely, in the third quarter of 2008 the total credit risk exposure in the group of medium banks rose by 5.8%, and the amount of allocated provisions for potential losses by 3.1%. Opposite of that, the exposure classified in the risk categories "C", "D" and "E" grew up by considerable 28.8% in the same period. The groups of large and small banks had full coverage of the exposure classified in the three categories with higher risk level with the allocated provisions for potential losses. Relative to June 30, 2008, the group of medium banks registered worsening also in the indicators on the average risk level and in the participation of the exposure classified in the risk categories "C", "D" and "E" in the total credit risk exposure. On the other hand, in the groups of large and small banks, these two indicators were almost unchanged relative to June 30, 2008.

The group of small banks still characterized with the highest level of average risk in the credit portfolio. However, as a result of their high capitalization, the participation of the non-provisioned part of the exposure classified in the risk categories "C", "D" and "E" in the own funds was at the lowest level. Same as in the previous quarters, the group of large banks characterized with the highest level of this indicator, where in conditions of realization of an extreme scenario for full non-collectability of the exposure classified in the three categories with higher risk level, about 1/4 of the own funds of these banks would be required for covering the losses.

With respect to the currency structure, worsening in the risk level on quarterly basis was registered in all types of credit risk exposure. The foreign currency credit risk exposure still

registers the lowest risk level. Such development was most evident in the Denar and foreign currency exposure, where the quarterly growth rate of the exposure classified in the risk categories "C", "D" and "E" (4.8% in the Denar and 12.7% in the foreign currency exposure) was more than twice higher than the growth rate of the total exposure (1.6% in the Denar and 5.1% in the foreign currency exposure).

Table no. 12

Risk level of the credit risk exposure, by the currency structure

| Indicator | Denar credit exposure | | | FX clause exposure | | | FX exposure | | |
|---|-----------------------|------------|------------|--------------------|------------|------------|-------------|------------|------------|
| | 30.09.2007 | 30.06.2008 | 30.09.2008 | 30.09.2007 | 30.06.2008 | 30.09.2008 | 30.09.2007 | 30.06.2008 | 30.09.2008 |
| Share of "C", "D" and "E" in the total credit exposure | 8.6% | 6.8% | 7.0% | 7.5% | 6.8% | 6.9% | 2.7% | 2.4% | 2.6% |
| Share of NPLs in the total credit exposure | 6.3% | 5.1% | 5.0% | 6.4% | 4.9% | 5.3% | 2.0% | 1.8% | 1.8% |
| % of "C", "D" and "E" in the total credit exposure without the effect of write-offs in the first three quarters of 2008 | | 7.1% | 7.4% | | 7.0% | 7.0% | | 2.4% | 2.6% |

Stress-test analysis for the banks' resilience to credit risk

The scenario for assessment of the maximal possible growth in the credit activity, without the legally predefined minimal capital adequacy rate being endangered in the process, indicated to constant drop in the maximal possible growth in the total credits. Such trend was present at the level of the total banking system, as well as at the level of individual groups of banks, especially the group of medium banks. On September 30, 2008, such defined rate of maximal possible growth in the total credits at the level of the banking system equaled 49.1%, whereas in the individual groups of banks ranged between 17.6% and 1,163.4%. For comparison, on September 30, 2008, the realized annual growth rates of the credits in 5 banks (2 large and 3 medium banks) already exceeded such assessed maximal rates of possible future growth in the credits.

Table no. 13

Possible growth rates of the credits without the legally predefined minimal capital adequacy rate being endangered

| Date | Overall banking system | Large banks | Medium banks | Small banks |
|------------|------------------------|-------------|--------------|-------------|
| 30.06.2007 | 66.0% | 32.3% | 104.5% | 374.4% |
| 30.09.2007 | 66.1% | 33.3% | 95.2% | 410.3% |
| 31.12.2007 | 60.5% | 34.2% | 83.2% | 457.7% |
| 31.03.2008 | 55.6% | 32.0% | 73.7% | 449.6% |
| 30.06.2008 | 52.5% | 30.4% | 69.1% | 475.0% |
| 30.09.2008 | 49.1% | 28.5% | 60.2% | 350.4% |

On the other hand, by individual banks, the percentage of transfer of regular to non-performing credits (without the banks solvency being endangered) ranged between 3.2% and 296%. The solvency position of 10 banks would not be endangered if more than 20% of the regular credits acquire non-performing character.

*This stress test analysis starts from the assumptions that the macroeconomic environment remains unchanged and that the structure of the newly extended credits is the same, with respect to their risk level and the currency, as on September 30, 2008.

3.1.1.1. Quality of the credit risk exposure to the sector "enterprises and other clients"

At the end of the third quarter of 2008 the first sings for growth in the risk level of the credit portfolio of the banking system to the sector "enterprises and other clients" became apparent. Thus, relative to June 30, 2008 the participation of the credit risk exposure classified in the risk categories "C", "D" and "E" in the total exposure to this sector registered increase of 0.3 percentage points. However, on annual basis (relative to September 30, 2007) drop in the risk level of the credit portfolio to the sector "enterprises and other clients" was still present.

Table no. 14**Indicators on the quality of the credit risk exposure to enterprises and other clients**

| Credit risk indicators | Date | Industry | Agriculture, hunting and forestry | Construction | Wholesale and retail trade | Transport, storage and communication | Total |
|--|------------|----------|-----------------------------------|--------------|----------------------------|--------------------------------------|--------|
| Average level of risk | 30.09.2008 | 10.4% | 16.8% | 7.6% | 6.8% | 5.4% | 8.5% |
| | 30.06.2008 | 10.3% | 17.6% | 7.4% | 7.0% | 5.5% | 8.5% |
| | 30.09.2007 | 11.1% | 18.1% | 7.9% | 7.9% | 5.9% | 9.2% |
| % of "C", "D" and "E" in total credit risk exposure | 30.09.2008 | 10.6% | 16.3% | 9.3% | 6.6% | 5.8% | 8.5% |
| | 30.06.2008 | 10.2% | 17.5% | 8.5% | 6.5% | 5.8% | 8.2% |
| | 30.09.2007 | 13.0% | 18.7% | 11.3% | 6.5% | 4.5% | 9.8% |
| Coverage of "C", "D" and "E" by the allocated loan loss reserves | 30.09.2008 | 98.4% | 103.2% | 81.3% | 103.0% | 93.6% | 99.1% |
| | 30.06.2008 | 101.5% | 100.5% | 87.6% | 108.7% | 94.9% | 103.9% |
| | 30.09.2007 | 85.0% | 96.8% | 69.8% | 121.5% | 130.6% | 94.8% |

At the level of individual activities, in the third quarter of 2008, the increment in the risk level was apparent in the exposure of the banking system to the activities "industry" and "construction". Despite that, relative to September 30, 2007, fall in the risk level of the credit portfolio to these two activities was still present. However, it is especially significant to see what will be the influence of the lower foreign demand on the real sector in the Republic of Macedonia, and consequently on the quality of the credit portfolio of banks. The anticipated further slowing down in the economic activities on global level, and especially the negative conjuncture on the international metal market and the expectations for its further worsening may result in further considerable worsening in the quality of the credit exposure to enterprises and generally in the total credit exposure of banks. For example, the three largest credit users from the activity "industry", which on September 30, 2008 participated with 11.8% in the exposure to this activity and with 10.2% in the exposure to manufacturing industry, were metallurgic enterprises¹⁰. On September 30, 2008 they were classified in the category with lowest risk level ("A"). Their eventual reclassification, for example, in the risk category "C" would have considerable influence on the risk indicators on the credit portfolio of banks. Thus, the average risk exposure to the industry, from the current 10.4% would rise to 12.7%, whereas the participation of the exposure classified in the risk categories "C", "D" and "E" in the total credit exposure to the industry would go up by 13.5 percentage points and it would reach up to 24.1%.

Certain worsening in the quality of the banks' credit risk exposure to enterprises and other clients can be perceived also through analysis of the quality of the so called "old credit portfolio", i.e. excluding the effect from the newly extended credits of this sector in the period 30.09.2007-30.09.2008. Namely, the transitional matrix for non-financial legal entities¹¹, in this period of 1 year, indicated growth in the participation of the exposure classified in the categories "C", "D" and "E" in the total credit risk exposure, from 8.5% at the end of September 2007, to 8.9% at the end of September 2008.

3.1.1.2. Quality of the credit risk exposure to the sector "households"

The quality of the banks' credit risk exposure to the sector "households" registered worsening. At the end of the third quarter of 2008, the participation of the exposure classified in the risk categories "C", "D" and "E" in the total credit risk exposure to the households registered growth by 0.3 percentage points relative to June 30, 2008. The worsening in this indicator was due to the relatively high

¹⁰ In the same time, these enterprises are three of the four largest credit users with participation of 1.8% in the total credit risk exposure at the level of the total banking sector (including all activities).

¹¹ The transitional matrix of the clients - non-financial legal entities (enterprises) pertains only to the non-financial legal entities - residents, which the banks are obliged to report individually in the Credit Registry of NBRM, in accordance with the Decision on the content and the method of functioning of the Credit Registry ("Official Gazette of RM" 61/2004 and 25/2007). Hence, the exposure of banks to other domestic banks, to legal entities - non-residents (including the foreign banks) and to legal entities with total exposure lower than Denar 500.000 were taken in consideration in the preparing of the transitional matrix. The transitional matrix of the clients - non-financial legal entities (enterprises) was presented in Annex no. 6 - Transitional matrix of the clients - non-financial legal entities.

quarterly growth in the credit risk exposure to this sector with higher risk level, by 12.9% (or by Denar 386 million). Simultaneously the level of coverage of the exposure classified in the lower risk categories with the allocated provisions for potential losses reduced by 3.6 percentage points on quarterly basis, to the level of 77.3%.

Table no. 15

Indicators on the quality of the credit risk exposure to the households

| Credit risk indicators | Date | Residential and commercial real estate loans | Consumer loans | Overdrafts | Credit cards | Car loans | Other loans | Total |
|--|------------|--|----------------|------------|--------------|-----------|-------------|-------|
| % of "C", "D" and "E" in total credit risk exposure | 30.09.2008 | 3.5% | 9.5% | 5.2% | 3.9% | 3.8% | 5.2% | 5.7% |
| | 30.06.2008 | 4.3% | 8.5% | 5.0% | 3.8% | 4.3% | 4.3% | 5.4% |
| | 30.09.2007 | 5.2% | 6.6% | 6.4% | 3.2% | 4.4% | 8.6% | 5.4% |
| Average level of risk | 30.09.2008 | 4.1% | 5.6% | 4.5% | 3.2% | 3.5% | 6.3% | 4.4% |
| | 30.06.2008 | 4.6% | 5.5% | 4.2% | 3.2% | 4.2% | 5.9% | 4.4% |
| | 30.09.2007 | 5.3% | 5.1% | 4.8% | 2.7% | 4.8% | 7.9% | 4.5% |
| Coverage of "C", "D" and "E" by the allocated loan loss reserves | 30.09.2008 | 118.8% | 58.2% | 85.6% | 80.9% | 93.1% | 119.9% | 77.3% |
| | 30.06.2008 | 105.2% | 65.0% | 83.4% | 83.4% | 96.9% | 134.7% | 80.9% |
| | 30.09.2007 | 101.7% | 76.6% | 75.5% | 84.1% | 108.5% | 92.4% | 84.4% |

In the third quarter of 2008, the risk level increased in the exposure based on consumer loans, overdrafts, credit cards and other loans. Opposite of that, the trend of improvement in the quality of the exposure based on residential and commercial real estate loans and car loans continued. Same as in the previous quarters, the highest risk level was present in the consumer loans. On September 30, 2008, in this type of credit product, the participation of the exposure classified in the risk categories C", "D" and "E" in the total exposure equaled 9.5%. Also, in the consumer loans, constantly lowest level of coverage of the exposure in these three categories by the allocated provisions for potential losses was registered. At the end of the third quarter of 2008 the level of coverage additionally decreased equalling 58.2%. In the consumer loans and the credit cards, worsening in the indicator on the quality of the credit exposure was registered on annual basis as well (relative to September 30, 2007). Opposite of that, the exposure based on overdrafts and other loans maintained the downward trend in the risk level of the credit portfolio on annual basis.

Worsening in the quality of the credit portfolio of the households was confirmed through the analysis on the quality of the so called "old credit portfolio", i.e. excluding the effect from the newly extended credit to this sector in the period 30.09.2007-30.09.2008. Based on the transitional matrices for natural persons¹² for this period, the exposure to the natural persons registered considerable worsening, quantified through the participation of the exposure classified in the categories C", "D" and "E" in the total credit risk exposure to the households. Namely, this indicator rose from 5.4% on September 30, 2007, to 8.1% on September 30, 2008.

The credit policies of banks represent an important part of the analysis of the credit risk, especially in the part pertaining to the determination of the acceptable level of the loan-to-value (LTV) ratio, as well as the loan-to-income (LTI) ratio. Most of the banks, in their credit policies determine relatively conservative levels of the acceptable level of the LTV ratio. The lowest level of this ratio was determined for the credits collateralized with securities, bills of exchange and/or endorsers, where the maximal level was determined up to 50%. Higher level was determined in the mortgage credits, where the amount of the credit exposure may reach up to 2/3 at maximum of the value of the provided collateral. In the car credits, this ratio reached up to 95%, and it was highest in the credits collateralized with deposit, where the amount of the credit exposure may be fully equal to the value of the collateral. As for the LTI ratio, the banks most often determined the level at 33%. For certain credit users (if bank employees, persons with monthly wages at determined level etc. are in question), this ratio may

¹² The transitional matrix of the natural persons was prepared considering only the natural persons - residents with exposure higher than Denar 150.000, which the banks are obliged to report in the credit Registry of NBRM, in accordance with the Decision on the content and the method of functioning of the Credit Registry ("Official Gazette of RM" 61/2004 and 25/2007). It is presented in Annex no. 6 - Transitional matrix of the clients - natural persons.

reach up to 50%. Most of the banks in the process of determining both ratios (LTV and LTI) do not make differences concerning the currency character of the liabilities, i.e. the same ratios are valid for the Denar liabilities, foreign currency liabilities, and Denar liabilities with FX clause. Also, most of the banks do not determine different levels of these two ratios on the basis of the risk level of the clients.

3.2. Liquidity risk

The liquidity position of banks in the Republic of Macedonia, in the third quarter of 2008 was satisfactory, but the downward trend of the liquidity indicators continued. It mainly resulted from the high growth in the crediting on longer terms in the last three years, relative to the considerable preference of the domestic depositors for saving on shorter terms. In conditions of rise in the uncertainty in the economic environment, including the deepening in the financial crises in the developed countries, and with that the fall in the inflows of foreign assets, the need of higher level of cautiousness in the liquidity management by the banks imposed. The level of liquid assets available to the banks in the Republic of Macedonia was enough for neutralization of the initial anxiety of the households, caused by the general uncertainty for the future economic situation and the domination of the so called "negative news" on the situation in the international financial markets.

3.2.1 Liquid and highly liquid assets

On September 30, 2008, the average monthly amount¹³ of the liquid assets¹⁴ amounted to Denar 67.395 million, and of the highly liquid assets¹⁵ - Denar 41.668 million. In the third quarter of 2008, the average monthly amount of the liquid assets registered drop of Denar 374 million, i.e. by 0.6%, on quarterly basis. On the other hand, the average amount of the highly liquid assets registered quarterly growth of Denar 428 million, i.e. by 1.0%. The opposite developments in the liquid and the highly liquid assets were largely due to the transformation process of the short-term placement in foreign banks into placements in domestic economy, which registered certain slowing down in the third quarter of 2008. This influenced an increase in the participation of the average monthly amount of the highly liquid assets in the average monthly amount of the liquid assets, which in the third quarter of 2008 equaled 61.8% and relative to the second quarter of 2008 it registered growth of 0.9 percentage points.

In the third quarter of 2008, in the currency structure of the liquid assets there was a moderate increase of the foreign currency component of the liquid assets, for the account of the drop of the liquid assets in denars. In the third quarter of 2008, the average participation of the foreign currency liquid assets in the total liquid assets rose by 1.8 percentage points, reaching up to 47.4%. However, despite this small movement, the Denar liquid assets still registers higher average participation in the total liquid assets. In the third quarter of 2008, the average monthly amount of the balances of the correspondent accounts and short-term assets placed with foreign banks registered drop of Denar 55 million, i.e. by 0.2% relative to the average of the second quarter, but it is still the single component with highest participation, creating 43.9% of the liquid assets. The CB bills, despite the decrease of Denar 1.592 million in the third quarter of 2008, still participated with 30.0% in the average monthly amount of the liquid assets. The developments in the components of the liquid assets indicated that the banks, although with lower dynamics, continued using theirs liquidity potential for financing the growth in the credit activity in the third quarter 2008. The character of the maturity and currency transformation of the assets and the liabilities of banks and the tightening of the access and the conditions for borrowing on the international financial markets, imposed a need for rise in the prudence of the liquidity management by the banks.

¹³ The analysis of the liquidity risk is based on the average amount of all categories from the balance sheet of the banking system.

¹⁴ The liquid assets, in a wider sense, includes the highly liquid assets, short-term placed assets with foreign banks and the placements to other short-term debt securities.

¹⁵ The highly liquid assets includes the cash and the balances with NBRM, the CB bills, the correspondent accounts with foreign banks and the placements in short-term securities issued by the Government.

Figure no. 19
Currency structure of the liquid assets

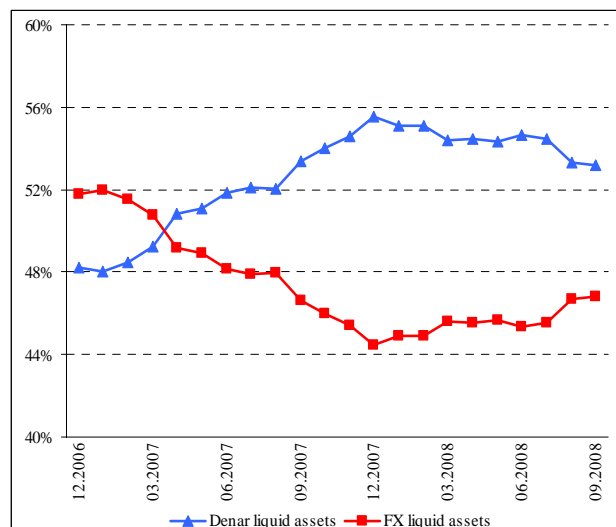
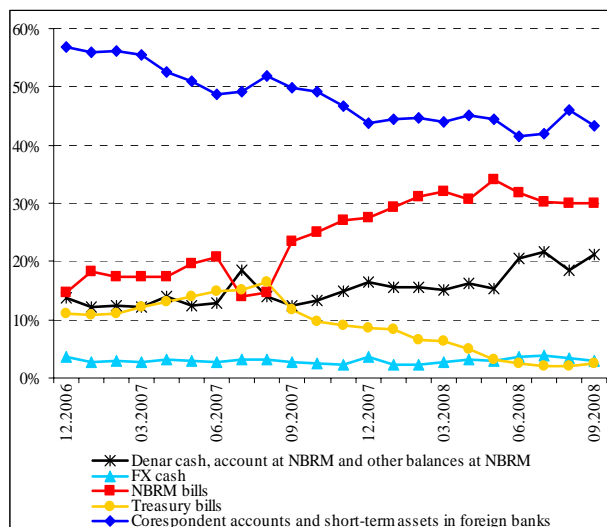


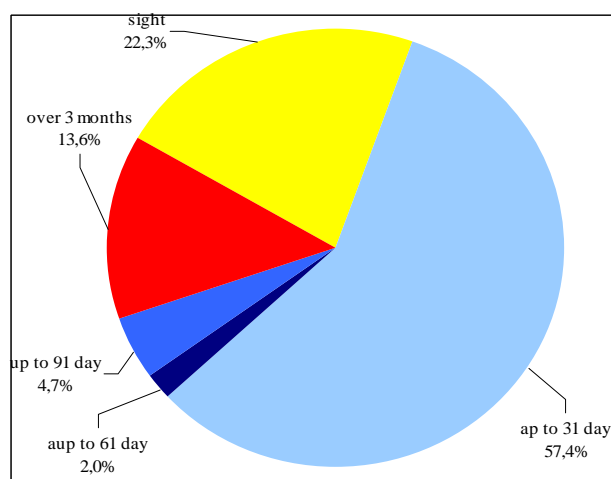
Figure no. 20
Liquid assets structure by its components



The group of large banks retained its dominant share in the structure of both liquid and highly liquid assets by groups of banks. Thus in the third quarter of 2008, the group of large banks participated with 63.6% and 59.1% in the average monthly amounts of liquid and highly liquid assets at the level of the banking system. The share of the group of medium-size banks in the average monthly amounts of liquid and highly liquid assets equaled 27.5% and 29.8%, while the share of the small-size banks equaled 8.9% and 11.1%, respectively.

The size and the quality of the placements of the banks from the Republic of Macedonia with foreign banks played an important role for estimating the liquidity of the domestic banks, as well as of the safety of their entire operating. On September 30, 2008 the placements of the banks from the Republic of Macedonia in foreign banks amounted to Euro 502.5 million¹⁶. The share of the group of large banks in the placements with foreign banks was dominant and it equaled 68.1%, or Euro 342 million, while the placements of the groups of small-size and medium-size banks equaled Euro 131.3 million (26.1%) and Euro 29.0 million (5.9%), respectively. On September 30, 2008, the largest portion of the domestic banks' assets was placed with the European Union. 16.0% were placed with the banks from European Union that are not members of EU, while the remaining part of 3.4% - in the non-European countries (USA, Canada, Australia and Japan). The largest amount of Euro 129.7 million was placed in German banks, which is also 25.8% of the total placed assets abroad. Other countries in the banking systems of which significant amounts of funds were placed were Italy with Euro

Figure 21
Structure of the placements in foreign banks by countries

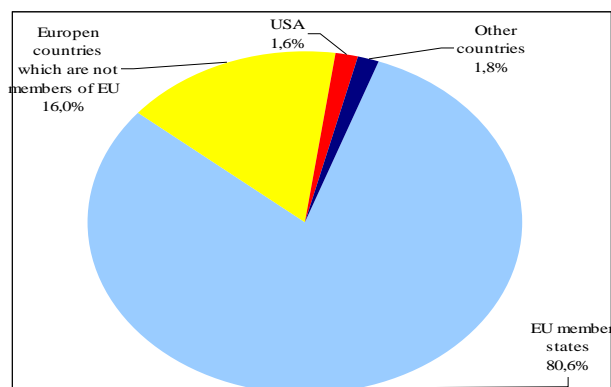


¹⁶ This amount includes the correspondent accounts and short-term placements with foreign banks that are included in the liquid assets, as well as the long-term and restricted placements which are not an integral part of the liquid assets.

54.9 million, (10.9%), Austria with Euro 49.6 million (9,0%), Switzerland with Euro 36.5 million (7.2%) and France with Euro 33.2 million (6.6%).

The largest portion of the domestic banks' placements with foreign banks had short maturity. Namely, Euro 112 million, or 22.3% of the total amount of assets in foreign banks accounted for sight deposits. Euro 288 million, or 57.4% of the assets placed with foreign banks were with maturity of up to one month. Only 13.6% of the assets with foreign banks (Euro 68 million) were with maturity of over three months. However, 76.2% of the total assets with maturity over three months were placed by three banks in the Republic of Macedonia.

Figure 22
Maturity structure of the placements in foreign banks



The timely and the safe access to the assets placed with foreign banks was of essential significance for maintenance of the banks' liquidity, and generally, for smooth operating of the banks. The current global financial crisis, inter alia, showed a variety of weaknesses in the structure of the developed financial systems. One of the identified weaknesses was also the manner of functioning of the international credit rating agencies and within those frames, the objectivity and the validity of the current rating of the financial institutions, especially in conditions of global liquidity crisis. However, besides the public doubts in the reliability of the obtained ratings of the foreign financial institutions, they were yet the main available data that can be used for assessment of the exposure of the banking system to the credit risk on the basis of the placements in the foreign financial institutions. As of September 30, 2008 the dominant part of the domestic banks' placements abroad (94.1%) was in banks with the so-called investment credit rating (BBB-or more). However, more than 70% of these placements were in banks rated A+, or more, i.e. they belong to the category of the so-called first-class-banks. Additional factor for the safety of the placed assets in foreign banks was the clearly exposed political will in most of the European countries for assistance of the financial institutions and for normalization of the developments on the interbank money markets. However, the banks in the Republic of Macedonia are obliged to monitor the developments on the international plan constantly and carefully, and to react timely towards prudent management of their deposits with foreign banks.

3.2.2. Liquidity indicators

The trend of decrease in the liquidity indicators continued also in the third quarter of 2008. Namely, almost all liquidity indicators of the banking system in the analyzed period registered a decline compared to the previous quarter and to the third quarter of 2007. The banks' orientation towards increase in their market share, mainly through enhanced growth in crediting, was the main reason for the decrease of liquidity indicators of the banking system. In the third quarter of 2008, the average ratio between the credits and deposits of the nonfinancial entities equaled 86.2%. In comparison with the same period of 2007, this indicator registered rise of significant 10.2 percentage points. By groups of banks, the largest value of the average ratio between the credits and deposits of the nonfinancial entities of 97.7% was evidenced with the group of medium-size banks. Also, the group of medium-size banks showed most dynamic annual increments of this indicator, of 18.4 percentage points.

Table 16

Liquidity indicators of the banking system and by individual groups of banks

| Indicators | July - September 2007 | April - June 2008 | July - September 2008 | Change (percentage points) | |
|--|-----------------------------|----------------------|-----------------------------|--|---|
| | | | | III quarter 2008 / III quarter 2007 | III quarter 2008 / II quarter 2008 |
| Total loans/Total deposits of nonfinancial entities | 76,1% | 83,8% | 86,2% | 10,2 | 2,5 |
| - Large banks | 75,9% | 79,8% | 82,9% | 6,9 | 3,1 |
| - Medium-sized banks | 79,3% | 96,5% | 97,7% | 18,4 | 1,2 |
| - Small-sized banks | 61,2% | 70,8% | 67,2% | 6,0 | -3,6 |
| Liquid assets/Total assets | 34,8% | 28,6% | 27,0% | -7,8 | -1,6 |
| - Large banks | 32,4% | 28,2% | 25,9% | -6,5 | -2,3 |
| - Medium-sized banks | 38,0% | 26,1% | 25,9% | -12,1 | -0,2 |
| - Small-sized banks | 43,5% | 46,8% | 47,1% | 3,6 | 0,4 |
| Highlyliquid assets/Total assets | 19,0% | 17,4% | 16,7% | -2,4 | -0,7 |
| - Large banks | 15,7% | 16,1% | 14,9% | -0,8 | -1,2 |
| - Medium-sized banks | 23,8% | 16,9% | 17,3% | -6,5 | 0,4 |
| - Small-sized banks | 30,9% | 36,4% | 36,5% | 5,6 | 0,0 |
| Liquid assets/Total liabilities | 40,6% | 32,8% | 31,1% | -9,5 | -1,7 |
| - Large banks | 36,2% | 31,2% | 29,0% | -7,2 | -2,3 |
| - Medium-sized banks | 45,6% | 30,4% | 29,9% | -15,7 | -0,5 |
| - Small-sized banks | 72,0% | 85,0% | 86,5% | 14,5 | 1,5 |
| Highlyliquid assets/Total liabilities | 22,2% | 20,0% | 19,2% | -3,0 | -0,7 |
| - Large banks | 17,5% | 17,8% | 16,6% | -0,9 | -1,2 |
| - Medium-sized banks | 28,5% | 19,7% | 20,0% | -8,5 | 0,3 |
| - Small-sized banks | 51,1% | 66,2% | 66,9% | 15,7 | 0,7 |
| Liquid assets/Short-term liabilities | 48,2% | 39,0% | 36,8% | -11,4 | -2,2 |
| - Large banks | 40,7% | 35,5% | 32,8% | -7,9 | -2,6 |
| - Medium-sized banks | 59,9% | 39,7% | 38,8% | -21,2 | -0,9 |
| - Small-sized banks | 113,2% | 127,4% | 123,6% | 10,4 | -3,8 |
| FX liquid assets/FX short-term liabilities | 52,2% | 38,9% | 36,2% | -16,0 | -2,8 |
| - Large banks | 46,0% | 35,8% | 32,1% | -13,9 | -3,7 |
| - Medium-sized banks | 64,3% | 42,6% | 41,8% | -22,5 | -0,8 |
| - Small-sized banks | 122,0% | 123,6% | 158,5% | 36,5 | 34,9 |
| Liquid assets/Total deposits of nonfinancial entities | 48,4% | 39,0% | 37,1% | -11,4 | -2,0 |
| - Large banks | 41,8% | 35,6% | 32,9% | -8,9 | -2,7 |
| - Medium-sized banks | 58,3% | 39,5% | 39,8% | -18,4 | 0,3 |
| - Small-sized banks | 94,3% | 127,4% | 117,4% | 23,1 | -10,0 |
| Highlyliquid assets/Total deposits of nonfinancial entities | 26,5% | 23,8% | 22,9% | -3,6 | -0,8 |
| - Large banks | 20,3% | 20,3% | 18,9% | -1,4 | -1,4 |
| - Medium-sized banks | 36,5% | 25,7% | 26,7% | -9,8 | 1,0 |
| - Small-sized banks | 67,0% | 99,2% | 90,8% | 23,8 | -8,4 |
| Liquid assets/Deposits of citizens | 83,0% | 68,5% | 63,9% | -19,1 | -4,6 |
| - Large banks | 69,9% | 59,6% | 53,9% | -15,9 | -5,7 |
| - Medium-sized banks | 105,8% | 78,5% | 77,9% | -27,9 | -0,6 |
| - Small-sized banks | 176,3% | 284,1% | 272,7% | 96,5 | -11,4 |
| FX Liquid assets/FX deposits of citizens | 79,7% | 57,6% | 52,2% | -27,5 | -5,4 |
| - Large banks | 68,6% | 51,5% | 45,1% | -23,5 | -6,3 |
| - Medium-sized banks | 105,3% | 67,5% | 65,2% | -40,0 | -2,3 |
| - Small-sized banks | 216,8% | 279,7% | 244,2% | 27,4 | -35,4 |
| Highlyliquid assets/Sight deposits | 60,1% | 58,7% | 58,8% | -1,3 | 0,1 |
| - Large banks | 45,1% | 49,3% | 47,4% | 2,3 | -1,9 |
| - Medium-sized banks | 92,5% | 71,8% | 78,7% | -13,9 | 6,9 |
| - Small-sized banks | 118,3% | 155,7% | 147,8% | 29,5 | -7,9 |

In the third quarter of 2008, the average share of the liquid assets in the total assets at the level of the banking system equaled 27.0% and it went down by 1.6 percentage points compared to the previous quarter. This level of liquid assets provides coverage of the households' deposits and the total deposits of the nonfinancial entities at the level of the banking system of 63.9% and 37.1%, respectively. In the third quarter of 2008, the average coverage of the short-term liabilities with liquid assets equaled 36.8% and registered decrease of 2.2 percentage points compared to the second quarter of 2008. The coverage of the average total liabilities with liquid assets equaled 31.1% in the third quarter of 2008 and it was reduced by 1.7 percentage points in comparison with the preceding quarter. In the third quarter of 2008, the average coverage of the total liabilities and the total deposits of the nonfinancial entities with highly

liquid assets equaled 19.2% and 22.9% and registered decline compared to the preceding quarter of 0.7 and 0.8 percentage points. Observed annually, in the third quarter of 2008, the coverage of the short-term liabilities with liquid assets reduced by 11.4 percentage points, while the coverage of the households' deposits with the liquid assets in foreign currency by 27.5 percentage points. In conditions of tightening of the international capital flows and the anticipated negative effects on the economy of the Republic of Macedonia as a result of the international financial and economic crisis, a need of strengthening of the banks liquidity position imposed. Hence, in the forthcoming period, the banks, in direction of preserving the future stability and providing further smooth operating, should pay additional attention to the liquidity management and to put extra efforts to increase the liquidity potential.

Analyzed by groups of banks, group of small-size banks registered the highest share of the liquid in the total assets of 47.1%, followed by the groups of large and medium-size banks with a share of 25.9%. In third quarter of 2008, the liquidity indicators dropped remarkably with the groups of large and medium-size banks, in comparison with the second quarter of 2008 and the third quarter of 2007. Thus annually, the average coverage of the short-term liabilities with liquid assets with the group of medium-size banks went down by 21.2 percentage points, while with the group of large banks, by 7.9 percentage points. The liquidity reduction was in direct correlation with the strong growth of the credit activity with these two groups of banks. Part of the banks in the group of small-size banks, in the previous one-year period, experienced a process of ownership and management restructuring, which contributed this group to have smaller role in the process of financial intermediation and consequently, significantly higher liquidity indicators. Also, in the previous year, capitalization of one part of the small-size banks was carried out, which also influenced towards increase in the level of liquid assets they manage with.

Regarding the structure of the sources of financing of the banks' activities, the primary sources of funds remained dominant despite the slight decrease in their share in the third quarter. The average monthly amount of primary sources of funds went up quarterly by 8,262 million, i.e. 4.8%. In the third quarter of 2008, the average monthly share of the primary sources of funds in the total sources of financing and in others sources of funds equaled 72.7% and 83.8%, respectively.

From the aspect of individual groups of banks, the largest presence of the primary sources of funds was registered in the financing of the activities of the group of large banks. In comparison with the second quarter of 2008, the group of large and medium-size banks registered slight decline in the share of the primary sources of funds in the total sources of funds. Contrary, in the third quarter of 2008, the group of small-size banks augmented its share of the primary sources of funds in the total sources by 3.4 percentage points. This rise was due to the relatively low initial base and the relatively small role this group of banks had on the market in the several previous years, and the enlargement of which is expected.

Table 17
Significance of particular sources of funds of the banking system and individual groups of banks

| Indicators | July - September 2007 | April - June 2008 | July - September 2008 | Change (percentage points) | |
|--|-----------------------------|----------------------|-----------------------------|---|--|
| | | | | III quarter 2008 / III quarter 2007 | III quarter 2008 / II quarter 2008 |
| Primary sources of funds/Total sources of funds | 71,8% | 73,3% | 72,7% | 0,9 | -0,5 |
| - Large banks | 77,5% | 79,2% | 78,6% | 1,1 | -0,6 |
| - Medium-size banks | 65,3% | 66,1% | 65,0% | -0,3 | -1,1 |
| - Small-size banks | 46,2% | 36,7% | 40,2% | -6,0 | 3,4 |
| Primary sources of funds/Other sources of funds | 83,8% | 84,0% | 83,8% | 0,0 | -0,2 |
| - Large banks | 86,5% | 87,7% | 88,0% | 1,4 | 0,3 |
| - Medium-size banks | 78,2% | 76,9% | 75,0% | -3,2 | -1,9 |
| - Small-size banks | 76,3% | 66,7% | 73,7% | -2,7 | 6,9 |
| Secondary sources of funds/Total sources of funds | 12,2% | 11,7% | 12,5% | 0,3 | 0,8 |
| - Large banks | 10,5% | 8,8% | 9,2% | -1,3 | 0,4 |
| - Medium-size banks | 16,1% | 17,9% | 20,0% | 3,9 | 2,2 |
| - Small-size banks | 13,0% | 15,0% | 13,0% | 0,0 | -2,0 |
| Secondary sources of funds/Other sources of funds | 14,3% | 13,4% | 14,4% | 0,1 | 1,0 |
| - Large banks | 11,8% | 9,8% | 10,3% | -1,4 | 0,6 |
| - Medium-size banks | 19,4% | 20,8% | 23,1% | 3,8 | 2,3 |
| - Small-size banks | 21,5% | 27,2% | 23,9% | 2,3 | -3,3 |

The primary sources of funds of the banking system of the Republic of Macedonia had relatively unfavorable maturity structure, although gradual rise in the deposits maturity was registered. In the third quarter of 2008, only 7.1% of the total primary sources of funds were long-term time deposits, were 53.9% were time deposits with maturity of up to one year, while 39.0% were sight deposits. In comparison with the second quarter of 2008 and the third quarter of 2007, the average monthly share of the long-term time deposits in the total primary sources of funds registered increase of 0.7 and 1.8 percentage points. On annual and quarterly basis, increase in the average share of the short-term and long-term time deposits with all groups of banks was registered. In the third quarter of 2008, the short-term time deposits created 70.0% of the rise in the average monthly amount of the primary sources of funds followed by the long-term time deposits with 22.2% and sight deposits with 7.8%.

Table 18
Maturity structure of the primary sources of funds

| Description | | Average July - September 2007 | Average March - June 2008 | Average July - September 2008 | Change (percentage points) | |
|-----------------------|---------------------|--|---------------------------------|--|---|--|
| | | | | | III quarter 2008 / III quarter 2007 | III quarter 2008 / II quarter 2008 |
| Large banks | sight deposits | 44,9% | 41,2% | 39,9% | -5,0 | -1,3 |
| | short-term deposits | 52,8% | 54,6% | 55,2% | 2,4 | 0,6 |
| | long-term deposits | 2,3% | 4,2% | 4,9% | 2,6 | 0,7 |
| Medium-sized banks | sight deposits | 39,4% | 35,7% | 33,9% | -5,5 | -1,8 |
| | short-term deposits | 49,9% | 52,2% | 53,4% | 3,5 | 1,2 |
| | long-term deposits | 10,7% | 12,1% | 12,7% | 2,0 | 0,6 |
| Small-sized banks | sight deposits | 56,6% | 63,7% | 61,4% | 4,8 | -2,3 |
| | short-term deposits | 22,7% | 24,5% | 27,8% | 5,1 | 3,3 |
| | long-term deposits | 20,6% | 11,8% | 10,8% | -9,8 | -1,0 |
| Banking system | sight deposits | 44,1% | 40,4% | 39,0% | -5,1 | -1,4 |
| | short-term deposits | 50,6% | 53,2% | 53,9% | 3,3 | 0,7 |
| | long-term deposits | 5,3% | 6,4% | 7,1% | 1,8 | 0,7 |

In the first quarter of 2008, the average share of the secondary sources of funds in the total and in others sources of funds, at the level of the banking system equaled 12.5% and 14.4%, which was increase of 0.8 and 1.0 percentage points, respectively compared to the previous quarter. However, the quarterly rise in the average monthly amount of the secondary sources of funds amounted to Denars 3,619 million, or 13.1%. The largest contribution to the quarterly rise in the average secondary sources of funds of 47.5% had the borrowings from foreign financial institutions, including also the parent entities. The share of the deposits and the borrowings from the domestic financial institutions equaled 29.2%, while the subordinated deposits and hybrid capital instruments participated with 15.8% in the quarterly rise in the average sources of funds.

Figure 23
Sector structure of the secondary sources of funds as of September 30,2008

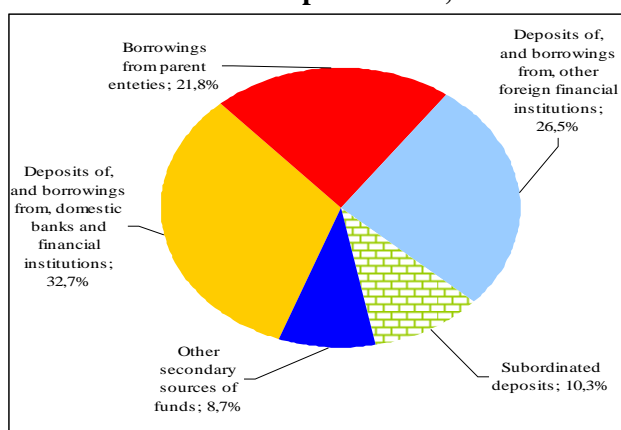


Table 19
Maturity structure of the secondary sources of funds

| Description | | Average July - September 2007 | Average March - June 2008 | Average July - September 2008 | Change (percentage points) | |
|--------------------|---|-------------------------------|---------------------------|-------------------------------|-------------------------------------|------------------------------------|
| | | | | | III quarter 2008 / III quarter 2007 | III quarter 2008 / II quarter 2008 |
| Large banks | sight deposits of banks | 5,1% | 4,8% | 5,1% | 0,0 | 0,3 |
| | short-term borrowings and deposits of banks | 32,0% | 36,5% | 38,8% | 6,8 | 2,2 |
| | long-term borrowings and deposits of banks | 63,0% | 58,7% | 56,2% | -6,8 | -2,5 |
| Medium-sized banks | sight deposits of banks | 7,3% | 3,6% | 8,3% | 1,1 | 4,7 |
| | short-term borrowings and deposits of banks | 24,5% | 39,2% | 41,5% | 17,0 | 2,3 |
| | long-term borrowings and deposits of banks | 68,2% | 57,2% | 50,2% | -18,0 | -7,1 |
| Small-sized banks | sight deposits of banks | 4,0% | 13,0% | 1,0% | -3,1 | -12,0 |
| | short-term borrowings and deposits of banks | 10,1% | 15,9% | 16,9% | 6,8 | 1,0 |
| | long-term borrowings and deposits of banks | 85,9% | 71,1% | 82,1% | -3,8 | 11,0 |
| Banking system | sight deposits of banks | 5,8% | 4,8% | 6,3% | 0,6 | 1,5 |
| | short-term borrowings and deposits of banks | 27,5% | 36,3% | 38,9% | 11,3 | 2,6 |
| | long-term borrowings and deposits of banks | 66,7% | 58,9% | 54,8% | -11,9 | -4,1 |

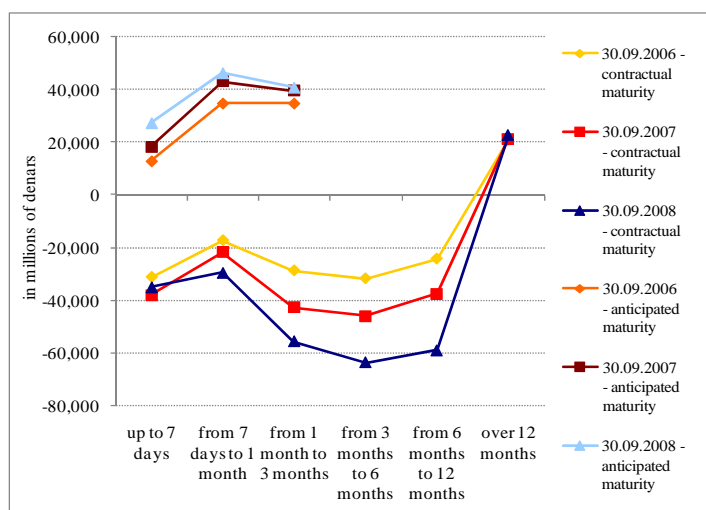
* Long-term borrowings and deposits of banks includes subordinated deposits and hybrid capital instruments

During the third quarter of 2008, certain decrease in the share of the long-term secondary sources of funds in the maturity structure of the secondary sources of funds was registered. Namely, the long-term secondary sources of funds, annually, registered reduced share by 11.9 percentage points, while on a quarterly basis, by 4.1 percentage point. However, during the third quarter of 2008, the long-term secondary sources of funds with an average share of 54.8% were still dominant component in the total secondary sources of funds. In the third quarter of 2008, the average monthly amount of the short-term secondary sources of funds registered the highest increase of Denars 2,127 million, i.e. by 21.2%, which was 58.8% of the total average quarterly rise in the secondary sources of funds. This increase of the short-term secondary sources of funds enabled quarterly growth of their average share in the maturity structure of the secondary sources of funds of 2.6 percentage points. By individual groups of banks, the largest average share in the short-term secondary sources of funds of the assets of 41.5%, accounted for the group of medium size banks, which primarily arises from the utilization of the short-term borrowings of some banks from this group from their parent entities. The largest share of the long-term secondary sources of funds in the total secondary sources of funds of 82.1% in the group of small-size banks was registered.

3.2.3. Maturity structure of the assets and the liabilities

The contractual maturity gap between the assets and the liabilities and its further deepening remained to be one of the features of the banking system of the Republic of Macedonia also in the third quarter of 2008. This was especially apparent in the maturity blocks with shorter maturity, which was a reflection of the hasten maturity transformation of the banks' assets in the previous several years. The contractual maturity gap primarily aroused from the structure of the sources of financing, where the sources with shorter contractual maturity dominate, as well as from the intensive growth of crediting, which influence towards prolongation of the contractual maturity of the assets. The exceeding of the cumulative contractual maturity gap between the assets and the liabilities, as in the last quarters, was registered within the maturity block of over

Figure 24
Cumulative contractual and anticipated residual maturity (mis)match of the assets and the liabilities



twelve months. The gap widening with the banks' contractual maturity structure of the assets and the liabilities pointed to enhanced need of extending the maturity date of their sources of financing, or enlargement of the level of liquid assets the banks manage. This, to certain extent stimulates the upward movement of the deposit interest rates during the second half of 2008, as well as the gradual slowing down of the crediting growth.

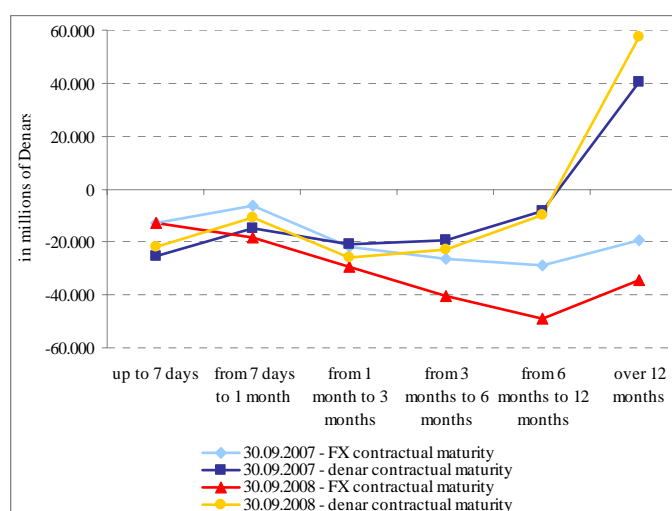
The analysis of the residual anticipated¹⁷ maturity of the assets and the liabilities of the banks, provides a completely different perception of the banks' liquidity position. Namely, as well as in the previous years, on September 30, 2008, full-scope coverage of the anticipated outflows with the expected inflows in all maturity blocks was registered. This points to the fact that the banks expect stability of their sources of financing in future. However, the expectations for tightening of the conditions for future access to funds from the international financial markets, not only for the domestic banks, but for their parent entities, as well, increased the sensitivity of the domestic banks to unfavorable movements, related to possible wrong expectations regarding the outflows of funds, especially the funds of the resident depositors.

The widening of the contractual residual maturity mismatch between the assets and the liabilities had different intensity with the Denar and the foreign currency assets and liabilities. Namely, in the September 30,2007 - September 30,2008 period, the cumulative

contractual maturity mismatch between the Denar assets and liabilities registered insignificant movements. Oppositely, in the same period, the contractual maturity mismatch between the foreign assets and liabilities deepened significantly. This deepening of the contractual maturity mismatch between the foreign assets and liabilities was evident in all maturity blocks with larger maturity. Also, it was evident that in the last maturity block (over 12 months), the aggregate maturity mismatch of the Denar assets and liabilities was exceeded, which was not the case with the total mismatch between the foreign assets and liabilities. This was direct reflection of the transformation process

of the foreign exchange placements in foreign banks into Denar placements and into placements with currency clause in the domestic economy. Exactly this event in the maturity block of over one year pointed to the high exposure of banks to general developments and changes in the economic environment. In terms of enhancement of the negative consequences on the real sector due to the current global financial and economic crisis, the need of increased prudence level in the bank's operating enhanced.

Figure 25
Cumulative contractual residual maturity (mis)match of the assets and the liabilities of the banking system by currency

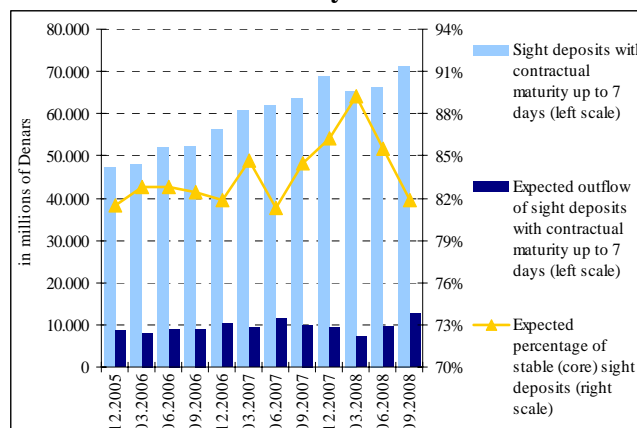


¹⁷ The anticipated residual maturity of the individual asset (assets) and the liability (liabilities) item shall represent the residual period from the end of the reporting month until their anticipated maturity, i.e. the deadline within which the bank envisages inflows based on its claims and outflows based on its liabilities.

In the third quarter of 2008, according to the banks' expectations, the level of stability of the sight deposits reduced. On September 30, 2008, according to the banks' expectations, the percentage of stable sight deposits equaled 81.9%, at the level of the banking system, which was lower by 3.6 and 2.6 percentage points compared to June 30, 2008 and September 30, 2007, respectively. However, despite the registered revision of the banks' expectations, the sight deposits were still characteristic with relatively high anticipated stability. According to the banks' expectations on September 30, 2008, 17.8% of the total sight deposits would outflow within seven days, which was rise of 1.4 and 2.5 percentage points compared to the banks' expectations on June 30, 2008 and September 30, 2007, respectively.

Also, increase in the total deposits the banks expect to outflow within seven days was registered. On September 30, 2008, the banks expected that 8.4% of the total deposits would outflow within seven days, which was an increment of 1.7 percentage points compared to June 30, 2008.

Figure 26
Expected percentage of stability of the sight deposits with contractual maturity up to seven days



Stress-test analysis of the resistance of the banking system to liquidity shocks

The stress-test analysis of the resistance of the banking system to liquidity shocks, carried out on September 30, 2008, point to a conclusion that although the banks in the Republic of Macedonia registered a decrease in the liquidity indicators, they showed resistance to possible unfavorable and unexpected liquidity shocks. The banks manage with sufficient amount of liquid and highly liquid assets for covering the hypothetical withdrawal, instantly, of 20% of the total households' deposits outside the banking system. The decrease in the liquid assets by banks would range from 1.7% to 62.1%. By applying this simulation, the liquid assets of the banking system would decrease by 32.7%, while the highly liquid assets by 52.2%. The level of coverage of the banks' liabilities with liquid and highly liquid assets would drop from 30.4% to 20.2%, i.e. 19.0% to 9.0%, respectively.

On the other hand, the simulation of the hypothetical withdrawal of the deposits of the twenty largest depositors of each bank (as a highly extreme scenario), influenced more apparently on the banks' liquidity, pointing to their exposure to concentration risk on the side of the sources of funds. This withdrawal would cause a lack of highly liquid assets with eleven banks, while the decrease in the highly liquid assets with other banks would vary from 15.2% to 88.9%. The lack of highly liquid assets may be compensated from the amount of the liquid assets, except with six banks where even the liquid assets would not be sufficient to cover the outflow of deposits of the twenty largest depositors.

3.3. Currency risk

The high share of the assets and the liabilities with FX clause¹⁸ in the total assets and liabilities of the banking system of the Republic of Macedonia remained high also in the third quarter of 2008. The presence of the FX component was slightly higher on the side of the assets and on September 30, 2008 it equaled 53% (31.2% - foreign assets, and 21.8% - Denar assets with FX clause). Simultaneously, 49.7% of the total liabilities accounted for the total liabilities with FX clause (43.4% - foreign currency liabilities and 6.3% - Denar liabilities with FX clause).

In comparison with the second quarter of 2008, the share of the FX component in the total assets and liabilities additionally increased. On September 30, 2008 the liabilities with FX component totaled Denar 134,389 million, which was a quarterly increase of Denar 9,572 million, or by 7.7%. Adversely, the assets with FX component went up by Denar 9,698 million, or by 8.4%. The largest contribution (50.6%) to the increase in the assets with FX component accounted for the households' foreign currency deposits, which augmented by Denar 4,905 million, or 8.6% (Annex 9 - Structure of the assets and the liabilities with FX clause at the level of the banking system). Moreover, in comparison with the second quarter 2008, their contribution to the total rise in the liabilities with FX clause decreased. The main cause for such a drop was the enhanced growth in the foreign currency deposits from foreign persons/entities, primarily with one bank of the group of medium-size banks, which incremented by Denar 2,008 million, or 19.2% quarterly, thus causing 20.7% of the increase in the liabilities with FX component. On the other hand, the largest contribution to the increase in the assets with FX component accounted for the Denar claims with FX clause, as well as the foreign currency claims of 51.3% and 37.1%¹⁹, respectively. These two categories surged by 9.7% and 10.2%, respectively, on a quarterly basis.

Figure 27
Assets currency structure

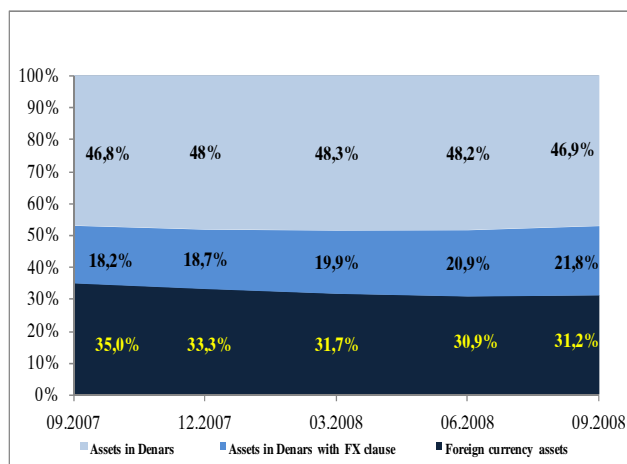
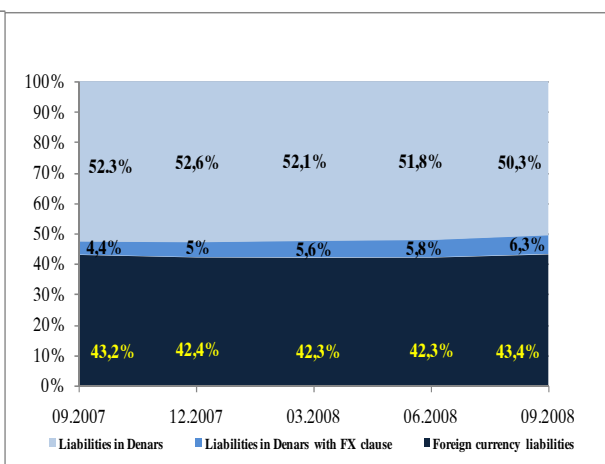


Figure. 28
Liabilities currency structure



At the level of individual groups of banks, the share of the assets and the liabilities with FX component in the total assets and liabilities of the respective group registered quarterly increase with all groups of banks. The largest presence of the FX component was still evidenced with the group of large banks, where the liabilities and the assets with FX component took 55.8% and 51.7%, respectively, of the total assets and liabilities of this group of banks.

¹⁸ Within the assets and the liabilities with FX component, the asset and the liabilities items in foreign exchange and in Denars with FX clause were encompassed.

¹⁹ Other items that were not included in the assets with FX component are cash, checks, debt market securities, assets in foreign and domestic banks, securities available for sale and other assets in foreign currency.

Figure 29
Share of the assets with FX component in the total assets, by groups of banks

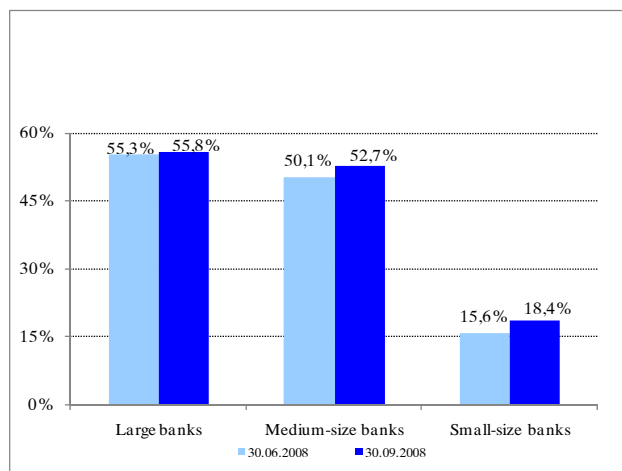
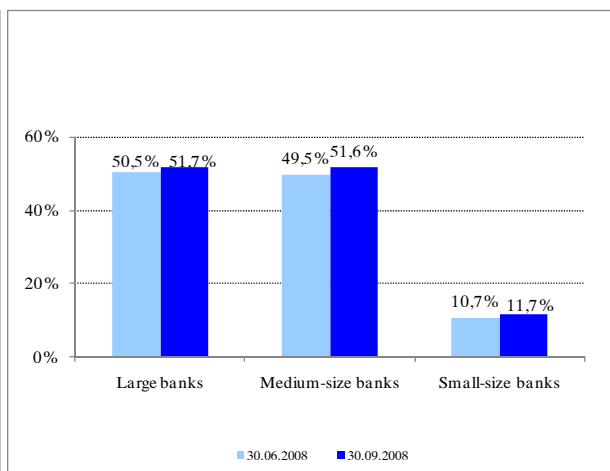


Figure 30
Share of the assets with FX component in the total liabilities, by groups of banks



The gap between the assets and the liabilities of the banks with FX component (denominated in foreign currency and in Denars with FX clause) was constantly positive. Since the end of 2005, its value was mostly due to the positive gap between the assets and the liabilities in Denars with FX clause, which has been registering continuous growth. On the other hand, the gap between the assets and the liabilities denominated in foreign currencies was negative and it has been deepening even more. Such movements were mostly due to the different changes in individual categories of assets and liabilities with FX. Namely, during the two previous years, in conditions of constant moderate increase in the foreign currency deposits and intensified growth in the Denar deposits, the banks tendency to augment the crediting in the country instead of depositing the assets abroad was apparent. It contributed to the deepening of the negative gap between the assets and the liabilities denominated in foreign currencies. In shortage of other instruments for safeguard from the currency risk, the banks actively used the currency deposits in their credit products, thus transforming the currency risk into the so-called indirect credit risk. On other hand, the banks had no interest to offer to clients (primarily, to households and medium-size and small-size enterprises) deposit products with FX clause, which remained a privilege of the large depositors from the corporate sector. In such conditions, the positive gap between the assets and the liabilities denominated in Denars with FX clause increased. The deepening of the negative gap between the assets and the liabilities denominated in foreign currencies was mostly present with the banks with the strongest growth in the crediting (the group of large banks and the largest portion of the banks from the group of medium size banks). Only the small-size banks, which registered moderate growth in the crediting) registered positive gap between the assets and the liabilities denominated in foreign currencies.

Figure 31
Gap structure between the assets and the liabilities with FX component

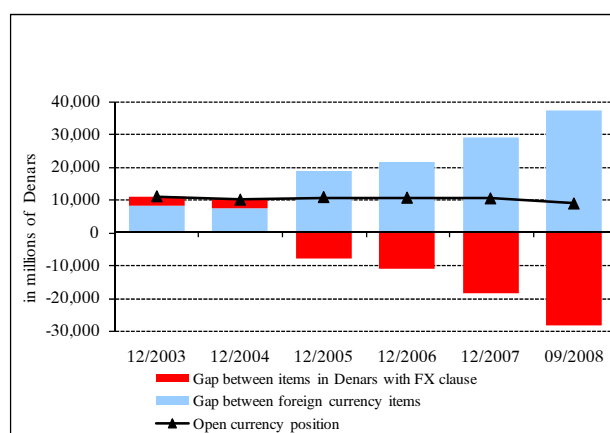


Table 20
Currency structure of the assets and the liabilities with FX component

| Currencies | 30.06.2008 | | | 30.09.2008 | | |
|--------------------|--|---|--|--|---|--|
| | Currency structure of the assets with FX component | Currency structure of the liabilities with FX component | Currency structure of the gap between assets and liabilities with FX component | Currency structure of the assets with FX component | Currency structure of the liabilities with FX component | Currency structure of the gap between assets and liabilities with FX component |
| Euro | 87.4% | 87.7% | 83.0% | 88.1% | 88.4% | 84.3% |
| USD Dollar | 8.0% | 8.6% | 0.2% | 7.8% | 8.4% | -0.1% |
| Swiss franc | 2.4% | 1.9% | 8.9% | 2.0% | 1.6% | 7.0% |
| Other | 2.2% | 1.8% | 8.0% | 2.0% | 1.6% | 8.8% |
| | 100% | 100% | 100% | 100% | 100% | 100% |

The currency structure of the gap between the assets and the liabilities with FX component registered insignificant changes relative to June 2008. Euro remained to be the dominant currency, the share of which continued to register an upward trend also in the third quarter of 2008. Such movements were due to the quarterly increase in the Euro assets and liabilities, which amounted to Denar 10,607 million (or 9.8%) and Denar 10,597 million (or 10.7%), respectively on September 30, 2008.

3.3.1.Open currency position

In conformity with the legal framework, the banks were obliged to adhere to the limits for the open currency position by currencies, as well as the aggregate open currency position, calculated relative to the own funds²⁰.

Table 21
Aggregate OCP / own funds

| Aggregate OCP / Own funds | Number of banks | |
|---------------------------|-----------------|-------|
| | Long | Short |
| under 5% | | 1 |
| from 5% to 15% | 6 | |
| from 15% to 30% | 7 | |
| from 30% to 50% | 1 | |
| over 50% | 2 | |

On September 30,2008 the open aggregate currency position²¹ was long and it equaled Denar 9,113 millions. Compared to the second quarter 2008 it went down by 2.1%. The open aggregate currency position was short only with one bank from the group of medium-size banks. However, the analysis of the indicators on the share of the aggregate open currency position in the own funds by banks, on September 30, 2008, showed that with the largest number of banks this indicator ranged between the intervals from 15% to 30% and from 5% to 15%.

²⁰ Pursuant to the Decision on determining and calculating open currency positions of the banks ("Official Gazette of the Republic of Macedonia" no. 103/2001 - revised text), the open currency position by currency may equal maximum 20% of the bank's own funds, with exception to the open currency position in Euro currency, which can equal maximum 30% of the bank's own funds. The open aggregate position may equal maximum 50% of the bank's own funds. The open currency position by currency and the open aggregate currency position may show negative amount of 10% of the bank's own funds.

²¹ Within the open aggregate currency position, besides the positions in foreign exchange, the positions in Denars with FX clause are also included.

Tabel 22**Open currency position by currencies/own funds**

| Open currency position by currencies/Own funds | Number of banks | | | | | | | |
|---|-----------------|-------|-----------|-------|-------------|-------|-------|-------|
| | Euro | | US Dollar | | Swiss franc | | Other | |
| | Long | Short | Long | Short | Long | Short | Long | Short |
| under 5% | | 1 | 8 | 8 | 12 | 1 | 12 | 1 |
| from 5% to 10% | 7 | | | | 1 | | 2 | |
| from 10% to 20% | 5 | | | | | | | |
| from 20% to 30% | 2 | | | | | | | |
| over 30% | 2 | | | | | | | |

On September 30,2008, the analysis of the correlation between the open currency position by currencies and the own funds by banks showed that the number of banks registering a correlation of up to 10% was the largest. Also, most of the banks registered long open currency positions in Euros.

3.4. Insolvency risk

The solvency position of the banking system of the Republic of Macedonia remained relatively high also in the third quarter of 2008. Although the capital adequacy continued to reduce, it was still beyond the legally prescribed minimal level of 8%. The banking system managed with sufficient own funds for covering the identified risks.

3.4.1. Own funds

On September 30, 2008, the own funds of the banking system reached the level of Denars 30,871 million, which was an increase of Denar 663 million, or by 2.2% compared to the end of the previous quarter. The largest portion (89.3%) of this increase was due to the growth in the core capital, the share of which in the own funds remained unchanged and equaled 90.2%. The capitalization of one large and one small-size bank completely conditioned the rise in the bank's core capital in the third quarter of 2008. At the end of the third quarter of 2008, the share of the supplementary capital I in the own funds remained almost unchanged. Changes were registered only in its structure, as a result of the hybrid capital instruments (which the banks did not use as sources of funds in the previous quarters).

Table 23
Structure and change of the banks' own funds

| | Amount in millions of Denars | | Structure | | Change 30.09.2008/30.06.2008 | | | |
|--|------------------------------|---------------|--------------|--------------|------------------------------|-------------|----------------------|---------------------|
| | 30.06.2008 | 30.09.2008 | 30.06.2008 | 30.09.2008 | in millions of denars | in % | in structure in p.p. | share in the change |
| Own funds | 30,209 | 30,871 | 100% | 100% | 663 | 2.2% | 0.0% | 100.0% |
| Core capital | 27,263 | 27,855 | 90.2% | 90.2% | 592 | 2.2% | 0.0% | 89.3% |
| -Paid in and subscribed common and non-cumulative preference shares and premiums based on these shares | 20,462 | 21,407 | 67.7% | 69.3% | 945 | 4.6% | 1.6% | 142.5% |
| -Reserve fund | 4,934 | 5,101 | 16.3% | 16.5% | 166 | 3.4% | 0.2% | 25.1% |
| -Profit/Loss* | 2,241 | 2,085 | 7.4% | 6.8% | -156 | -7.0% | -0.7% | -23.6% |
| Supplementary capital I | 3,399 | 3,471 | 11.3% | 11.2% | 72 | 2.1% | 0.0% | 10.9% |
| -Hibrid capital instruments | 0 | 184 | 0.0% | 0.6% | 184 | / | 0.6% | / |
| -Subordinated instruments | 3,102 | 3,050 | 10.3% | 9.9% | -52 | -1.7% | -0.4% | -7.8% |
| Deductions from the core capital and supplementary I capital | 453 | 454 | 1.5% | 1.5% | 1 | 0.3% | 0.0% | 0.1% |

*Profit/Loss refers to the current profit/loss and retained earnings deducted for the accumulated loss from previous years

In the third quarter of 2008, the own funds of the groups of large and small-size banks registered an increase, while they dropped in the group of medium-size banks. The rise in the supplementary capital I in the group of medium-size banks, as a result of the introduction of the hybrid instruments was not sufficient to annul the decrease in the supplementary capital I on the basis of unallocated loan loss provisions²².

²² The unallocated loan loss provisions occur mainly due to the time mismatch between the deadline for submission of the banks' quarterly reports (including the report on the banks' own funds and the report on the banks' asset quality) and the deadline for submission of the report on the book balance on the banks' assets and liabilities accounts. Because of this time mismatch, it is necessary to allocate the necessary level of loan loss provisions during the following month (in October 2008, in this particular case).

Table 24

Structure and change in the own funds by groups of banks

| | Large banks | | | Medium size - banks | | | Small size - banks | | |
|--|-----------------------------|-----------------------------|----------------|-----------------------------|-----------------------------|----------------|-----------------------------|-----------------------------|----------------|
| | 30.09.2008 | | | 30.09.2008 | | | 30.09.2008 | | |
| | Amount in million of Denars | Change in million of Denars | Structure in % | Amount in million of Denars | Change in million of Denars | Structure in % | Amount in million of Denars | Change in million of Denars | Structure in % |
| Own funds | 16,786 | 590 | 100.0% | 9,058 | -121 | 100.0% | 5,027 | 194 | 100.0% |
| Core capital | 14,064 | 660 | 83.8% | 8,503 | -262 | 93.9% | 5,288 | 194 | 105.2% |
| -Paid in and subscribed common and non-cumulative preference shares and premiums based on these shares | 9,003 | 661 | 53.6% | 7,134 | 44 | 78.8% | 5,270 | 240 | 104.8% |
| -Reserve fund | 3,581 | 166 | 21.3% | 1,192 | 0 | 13.2% | 327 | 0 | 6.5% |
| -Profit/Loss* | 1,559 | -166 | 9.3% | 674 | 10 | 7.4% | -148 | 0 | -2.9% |
| Supplementary capital 1 | 2,899 | -70 | 17.3% | 572 | 142 | 6.3% | 0 | 0 | 0.0% |
| -Hibrid capital instruments | 0 | 0 | 0.0% | 184 | 184 | | 0 | 0 | 0.0% |
| -Subordinated instruments | 2,714 | -52 | 16.2% | 336 | 0 | 3.7% | 0 | 0 | 0.0% |
| Deductions from the core capital and supplementary 1 capital | 177 | 0 | 1.1% | 16 | 2 | 0.2% | 261 | 0 | 5.2% |

The banking system in the Republic of Macedonia managed with own funds for covering the risks in the amount exceeding the minimal level necessary for covering the identified risks²³. Thus on September 30, 2008, 46.8% of the banks' own funds were over the necessary minimum for covering the identified risks which is less by 1.8 percentage points compared to the previous quarter. This level was the lowest with the group of large banks, and the highest with the group of small-size banks, which reflected the volume of activities of these two groups of banks. As in the previous quarter, the share necessary for covering the credit risk was dominant and equaled 94% of own funds necessary for risk coverage.

Table 25

Allocation of own funds by risks at the level of the banking system and by groups of banks

| Allocation of own funds by risks at the level of the banking system and by groups of banks | 30.06.2008 | 30.09.2008 |
|--|--------------|--------------|
| Share of own funds for covering the credit risk into total own funds | 48.1% | 50.0% |
| - Large banks | 61.8% | 63.8% |
| - Medium size - banks | 43.4% | 46.2% |
| - Small size - banks | 10.9% | 10.9% |
| Share of own funds for covering the currency risk into total own funds | 3.4% | 3.2% |
| - Large banks | 5.1% | 4.6% |
| - Medium size - banks | 1.4% | 1.6% |
| - Small size - banks | 1.2% | 1.5% |
| The amount of own funds above minimum required amount | 48.6% | 46.8% |
| - Large banks | 33.0% | 31.6% |
| - Medium size - banks | 55.2% | 52.2% |
| - Small size - banks | 87.9% | 87.6% |

3.4.2. Capital adequacy

The capital adequacy ratio at the level of the banking system continued to decrease, which was result of more dynamic growth in the bank's activities relative to the rise in their own funds. On September 30, 2008, the capital adequacy ratio equaled 15%, which is less by 0.6 percentage points compared to June 30, 2008. At the end of the third quarter of 2008, other indicators on the banks' capital position also registered a decline, except the capitalization rate with the group of both large and small-size banks, which augmented primarily as a result of the performed capitalization with these two groups of banks.

²³ However, the necessary level for covering the credit risk is calculated as 8% of the asset weighted according to the credit risk, while the necessary level of currency risk coverage is calculated as 8% of the assets weighted according to the currency risk. The amount of the assets beyond the minimal level necessary for covering the identified risks is calculated as a gap between the own funds and the amount necessary for covering both credit and currency risk.

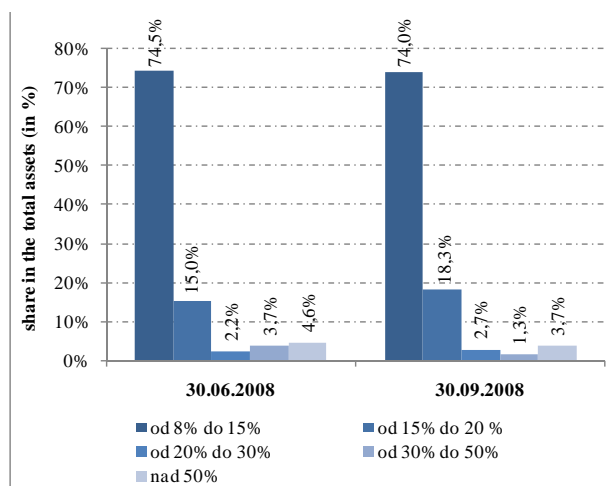
Table 26

Indicators on the capital position of the banking system and by groups of banks

| Indicators | 30.06.2008 | 30.09.2008 |
|--|--------------|--------------|
| Capital adequacy ratio | 15.6% | 15.0% |
| - Large banks | 11.9% | 11.7% |
| - Medium size - banks | 17.9% | 16.7% |
| - Small size - banks | 66.2% | 64.3% |
| Core capital/risk weighted assets (Tier 1 ratio) | 14.0% | 13.6% |
| - Large banks | 9.9% | 9.8% |
| - Medium size - banks | 17.1% | 15.7% |
| - Small size - banks | 69.8% | 67.6% |
| Core capital/credit risk weighted assets | 15.0% | 14.4% |
| - Large banks | 10.7% | 10.5% |
| - Medium size - banks | 17.6% | 16.3% |
| - Small size - banks | 77.5% | 77.0% |
| Equity and reserves/ Total assets (capitalization rate) | 11.3% | 11.5% |
| - Large banks | 7.9% | 8.6% |
| - Medium size - banks | 13.3% | 12.1% |
| - Small size - banks | 45.2% | 46.1% |

On September 30, 2008, the allocation of the banks' assets according to the amount of the capital adequacy ratio showed no changes of higher significance compared to the previous quarter. The dominant share in the total assets of the banking system still accounted for the banks with a capital adequacy ratio ranging between 8% and 15%. Certain increase in the share of the banks' assets between 15% and 20% was registered, at the expense of the decline in the share of the banks' assets with a capital adequacy ratio over 30%.

Figure 32
Allocation of the banks' assets according to the capital adequacy ratio



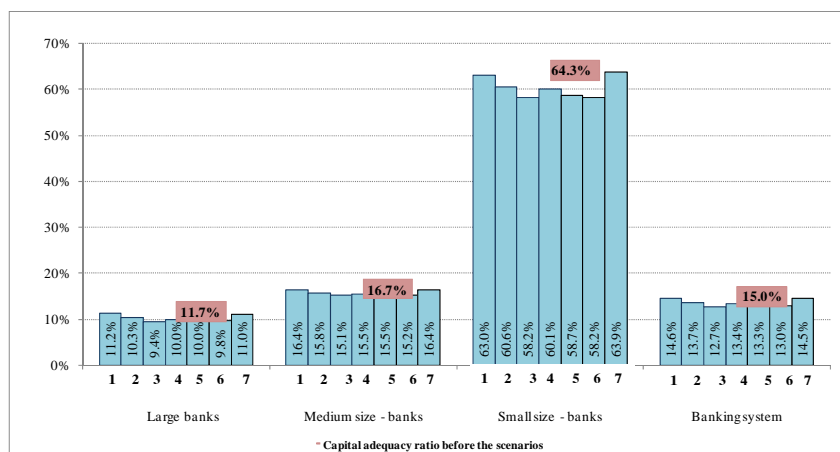
Stress-test analysis for the resistance of the banking system to hypothetical shocks as of September 30, 2008

On the basis of the results of the stress-tests analysis for the third quarter of 2008, the banking system in the Republic of Macedonia is relatively resistant to different hypothetical shocks. According to all scenarios of the basic stress test analysis¹, the solvency position, not only of the banking system, but of individual groups of banks too, is not endangered. The banking system is most sensitive to credit risk. The largest drop in the capital adequacy ratio, at the level of the banking system and by groups of banks, is evident in case of the implementation of the third scenario (increase in the credit exposure classified in the risk categories C, D and E of 50%).

Parallel to the basic stress-test analysis, part of the banks (mainly those with

intensified credit activity) carried out a simulation of isolated credit shock, i.e. reclassification of the credit exposure to their largest ten credit users in the risk category E. The banks solvency position is seriously put in question in case of this additional eighth scenario. Namely, the capital adequacy ratio with all analyzed banks, after the scenario, registered negative value. However, it should be emphasized that the character of such a scenario assuming dramatic worsening of the credit portfolio quality, is extreme.

Figure 33
Capital adequacy ratio in case of the seven scenarios of the basic stress test analysis



¹ The basic stress test analysis is based on the implementation of seven hypothetical scenarios, of which:

- three scenarios for isolated credit shock (increase in the credit exposure classified in the risk categories C, D and E of: 10%, 30% and 50%),
- fourth scenario as a combination of credit and interest shock (increase in the credit exposure in the risk categories C, D and E by 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 credits exposure in the risk categories C, D and E by 15% and depreciation of the Denar exchange rate relative to the Euro and the US Dollar of 20%),
- sixth scenario as a combination of the shocks on the side of the credit risk, foreign exchange risk and interest rate risk (increase in the credit exposure in the risk categories C, D and E by 50%, depreciation of the Denar exchange rate relative to the Euro and the US Dollar of 20% and rise in the domestic interest rates of 5 percentage points) and
- appreciation of the Denar exchange rate relative to the Euro and the US Dollar in the amount of 20%.

3.5. Profitability

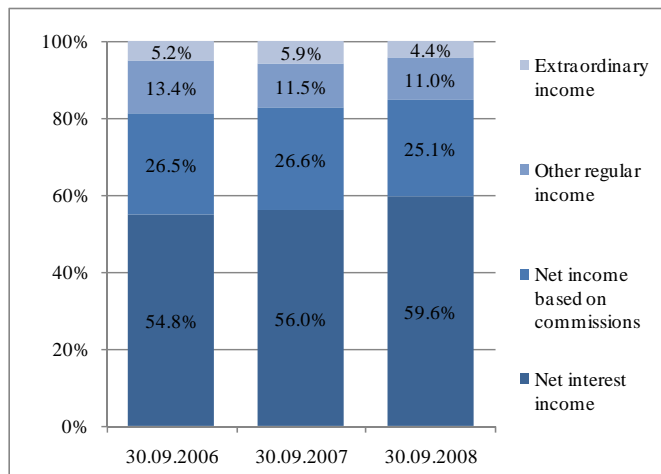
In the first nine months of 2008, the banking system of the Republic of Macedonia registered a net gain in the amount of Denar 3,376 million, which is an increment of Denar 460 million, or 15.8% compared to the same period of 2007. However, the increase in the interest rate expenditures and the operating costs, compared to the decelerated rise in the revenues based on regular operating, in the first nine months of 2008 conditioned slower profit growth compared to the relative increase in the first nine months of 2007 (the registered profit in the first nine months of 2007 was higher by 56% compared to the gain recorded in the same period of 2006).

The banks from the group of large banks had the largest influence on the banking system profitability, which in the first nine months of 2008 generated a profit of Denar 3,256 million, which is a growth of Denar 1,255 million, or 62.7% compared to the same period of 2007. Thus, intensification in the profit growth with this group of banks was registered, relative to the relative increase in the first nine months of 2007 (the registered gain in the first nine month of 2007 was higher by 54.5% compared to that recorded in the same period of 2006), which is primarily a result of the lower amount of allocated provisions in the first nine months of 2008, compared to the same period of 2007. On the other hand, in the first nine months of 2008, the group of medium-size banks registered a fall in the generated profit by 80.8% (or by Denar 708 million), compared to the same period of 2007 (the profit registered by the group of medium-size banks in the first nine months of 2007 was higher by 75.7% than the profit registered in the same period of 2006), while the small-size banks registered an operating loss (Annex 2 - Income Statement at the level of the banking system). However, five banks the joint share of which in the total assets at the level of the banking system equaled 8.7% on September 30, 2008, showed loss in the first nine months of 2008).

3.5.1. Income and expenditures structure and indicators on the profitability and efficiency in operating

In the first nine months of 2008, the banking system of the Republic of Macedonia registered total revenues in the amount of Denar 11,431 million, which was an increment of Denar 1,351 million (or 13.4%) compared to the same period of 2007. Regarding the structure of the banks' income, the net interest income preserved its dominant position, followed by the net income based on commissions, with a share of 59.6% and 25.1%, respectively. These two income categories created more than 100% of the rise in the total income, compared to the first nine months of 2007. The constant credit activity growth in the previous period, especially to the "households" sector was the main factor for increasing the significance of the net interest income of the banks in the total income structure (increase in the share of the net interest income in the total income from 56% for the first nine months of 2007 to 59.6% for the first nine months of 2008).

Figure 34
Structure of the banks' total income



(increase in the share of the net interest income in the total income from 56% for the first nine months of 2007 to 59.6% for the first nine months of 2008).

The interest expenditures of the bank registered more dynamic growth in the creation of the net interest income, compared to the interest income. Such movements, characteristic for the group of both large and medium size banks were due primarily to the tightening of the competitiveness between the banks. Namely, in the first nine months of 2008, the banks were mainly increasing their deposit interest rates, especially with the Denar deposits, without larger changes to the lending interest rates, in order to avoid the possible outflow of the deposits and to attract new deposits.

The rise in the deposit interest rates was due to at least two reasons. First, the banks' assessments that they must ensure deposit base for credit growth in 2009, especially in conditions of worsen possibility and conditions for borrowing from abroad. Second, the banks were trying to prevent transformation of the deposits into another type of property for the depositors, in conditions when given high annual inflation rates, the deposit interest rates presented in their real terms were significantly negative.

In the first nine months of 2008, the increase in the average amount of borrowings from foreign banks (including also the subordinated financial instruments) contributed to an augmentation in the banks' interest expenditures, in comparison with the same period of 2007. The borrowings from foreign banks and the subordinated financial instruments were commonly with variable interest rate, set on the basis of the movement of the interest rates on the international financial markets. In conditions of upward movement of the interest rates on the international financial markets, which was happening constantly in the first nine months of 2008, the banks' expenditures based on interest were incrementing. All of this influenced on the relatively high rise in the interest expenditures of 48.6% in the first nine months of 2008, compared to the same period of 2007.

In the structure of the banks' interest income, the income from "other sectors" category plunged by Denar 544 million (or by 32.8%). It was one of the main reasons for the significantly more moderate growth of the interest income of 31.6% compared to the increase in the interest expenditures. The annual absolute decrease in the interest income in the "other sectors" category was due to the lower investments of the banks into Treasury bills and bonds in the first nine months of 2008, compared to the same period of 2007.

Among the banks' expenditures items, the largest significance accounts for the operating costs, for the coverage of which 55.8% of the total banks' income were necessary. In the first nine months of 2008, the banks' operating costs were higher by Denar 1,114 million (or 21.2%), compared to the same period of the previous year. However, the staff costs and the costs of services remained dominant items in the operating costs structure, with a share of 41% and 22.4%, respectively, contributing with 38.7% and 32.3%, respectively to the total increase in the operating costs. In comparison with the first nine months of 2007, decrease in the part of the registered income necessary for

Figure 35
Annual growth rates of the net interest income and its components at the level of the banking system

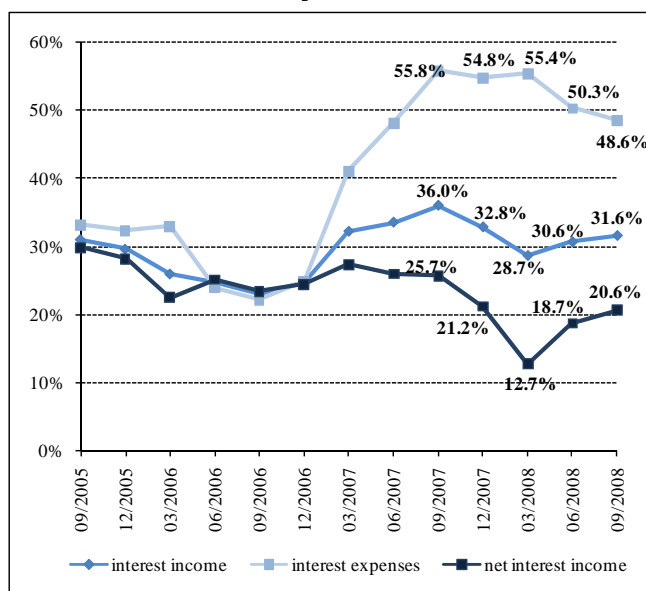
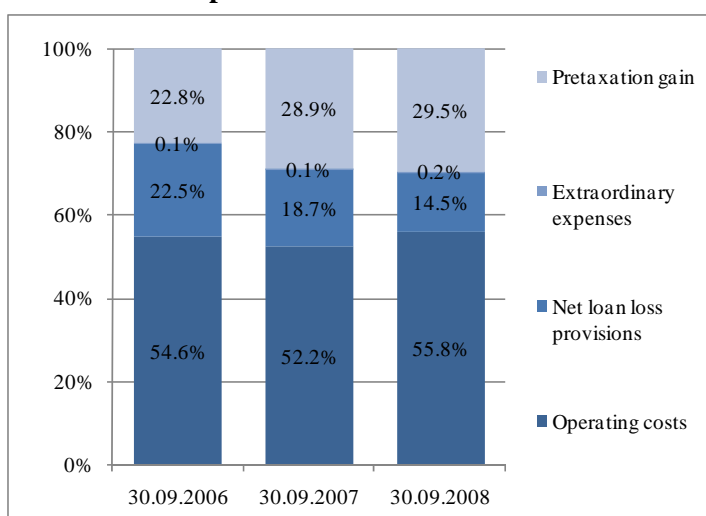


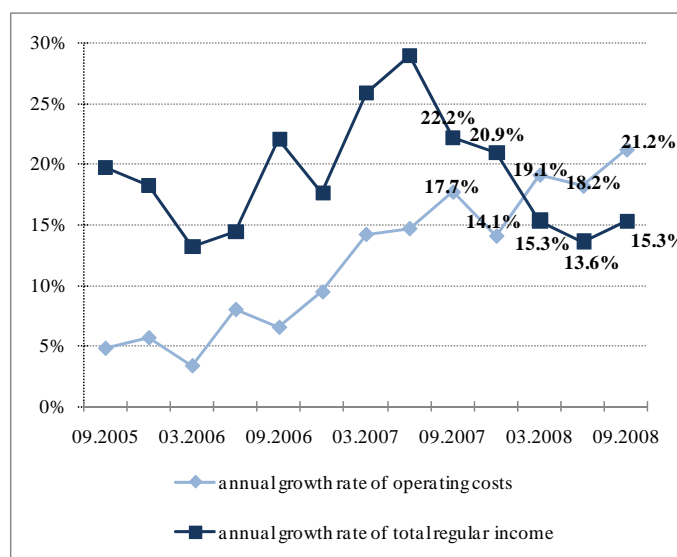
Figure 36
Disposal of banks' total income



covering the loan loss provisions and increase in the part of the income remaining as a pretaxation gain were registered.

In the first nine months of 2008, the rate on return on assets (ROAA) equaled 1.9%, which was a decline of 0.1 percentage point compared to the first nine months of 2007. In the first nine months of 2008, the return on equity (ROAE) equaled 16.5%, which was higher by 0.7 percentage points compared to the same period of 2007. The indicator on the correlation between the operating costs and total regular income (cost-to-income indicator), went up from 55.5% for the first nine months of 2007 to 58.3% for the first nine months of 2008. The worsening of the operational efficiency of the banks arises from the more dynamic annual rise in the operating costs, relative to the increase in the previous categories. Thus in the first nine months of 2008, the operating costs of the banks were higher by 21.1% relative to the same period of the previous year, while the total income from regular activities registered more moderate growth of 15.3%.

Figure 37
Dynamics of the operating costs and the total regular income of the banks



The worsening of the operational efficiency, in the first nine months of 2008, compared to the same period of 2007, was especially characteristic for the group of the medium-size banks, where the gap between the annual growth rate of the operating costs and the annual growth rate of the total regular income equaled 22.5 percentage points. The relatively high annual increase in the operating costs with this group of banks can be considered expected, having in mind the aggressive performance of the group of medium-size banks on the market, which was proved also with the strong growth of their activities. In the structure of the operating costs, dynamization of the growth in the costs of employees, services and material costs were registered with this group of banks. On the contrary, the structure of the regular income evidenced slower annual growth in the interest income (relative to the augmentation in the interest expenditures) and the income based on commissions (compared to the increase in the expenditures based on commissions), as well as the absolute decline in other net financial income (i.e. decrease in the net capital gain). Such movements were the main reasons for worsening of almost all indicators on the profitability and efficiency in operating in the group of medium-size banks. In the first nine months of 2008, additional factor for the reduced profitability with this group of banks, compared to the same period of 2007 was the relatively high growth of the loan loss provisions, which contributed with more than 50% to the total decrease in the registered gain.

In the first nine months of 2008, relatively high increase in the correlation between the operating costs and the total regular income (of 11.9 percentage points) was evidenced also with the group of small-size banks, compared to the same period of 2007. Such movements were primarily a result of the annual drop in the total regular income with this group of banks (by Denar 172 million, or 24.3%), which is proof for the small volume of activities of the group of small-size banks. The decrease in the extraordinary income (by Denar 100 million, or 70.2%), compared to the same period of 2007 was an additional reason for worsening in the profitability and efficiency indicators of the group of small-size banks and the shown operating loss in the first nine months of 2008.

Table 27**Indicators on the profitability and efficiency in operating of the banks**

| Indicator | Banking system | | Large banks | | Medium-sized banks | | Small-sized banks | |
|---|----------------|------------|-------------|------------|--------------------|------------|-------------------|------------|
| | 30.09.2007 | 30.09.2008 | 30.09.2007 | 30.09.2008 | 30.09.2007 | 30.09.2008 | 30.09.2007 | 30.09.2008 |
| Rate of return on average assets (ROAA) | 2.0% | 1.9% | 2.1% | 2.7% | 2.3% | 0.3% | 0.4% | -0.5% |
| Rate of return on average equity (ROAE) | 15.8% | 16.5% | 24.5% | 33.0% | 14.6% | 2.6% | 0.9% | -1.2% |
| Cost-to-income ratio* | 55.5% | 58.3% | 48.8% | 47.8% | 62.5% | 74.8% | 82.6% | 94.5% |
| Non interest expenses/total regular income* | 60.0% | 62.9% | 52.6% | 51.4% | 67.2% | 80.2% | 91.7% | 107.4% |
| Labor costs/total regular income* | 23.0% | 23.9% | 20.2% | 19.8% | 25.4% | 30.1% | 36.6% | 39.3% |
| Loan loss provisions/net interest income | 33.4% | 24.4% | 37.1% | 18.6% | 19.6% | 34.8% | 62.9% | 34.2% |
| Net interest income/average assets | 3.9% | 3.8% | 3.8% | 3.7% | 4.4% | 4.2% | 3.2% | 3.8% |
| Net interest income/total regular income* | 59.5% | 62.3% | 61.3% | 61.8% | 58.5% | 62.7% | 49.3% | 65.8% |
| Net interest income/non interest expenses | 99.2% | 99.0% | 116.4% | 120.3% | 86.9% | 78.2% | 53.7% | 61.2% |
| Financial result/total regular income* | 30.8% | 30.9% | 34.1% | 46.1% | 30.2% | 5.0% | 5.5% | -9.0% |

*Note: The total regular income are calculated as a sum of net interest income, net income based on commissions, other net-financial income and other regular income.

With the group of large size banks, the trend of improvement of the indicators on profitability and efficiency in operating continued. The largest change was registered with the indicator on the correlation between the loan loss provisions and the net interest income (decrease in this indicator from 37.1% to 18.6%), primarily arising from the lower amount of allocated loan loss provisions by Denar 524 million (or by 39.3%) in the first nine months of 2008, compared to the same period of 2007.

A N N E X

Balance sheet

in millions of denars

| ASSETS | 30.06.2008 | | | | 30.09.2008 | | | |
|--|----------------------|----------------------------|---------------------------|----------------|----------------------|----------------------------|---------------------------|----------------|
| | Group of large banks | Group of medium-size banks | Group of small-size banks | Total | Group of large banks | Group of medium-size banks | Group of small-size banks | Total |
| CASH AND BALANCE WITH NBRM | 17,515 | 6,660 | 1,120 | 25,295 | 16,795 | 7,898 | 1,116 | 25,809 |
| Denar cash | 9,359 | 3,650 | 792 | 13,801 | 7,895 | 3,931 | 793 | 12,618 |
| Foreign currency cash | 1,602 | 786 | 88 | 2,475 | 1,142 | 722 | 100 | 1,963 |
| Precious metals and other kind of cash | 2 | 1 | 0 | 3 | 2 | 1 | 0 | 3 |
| Other balances with NBRM | 0 | 0 | 0 | 0 | 783 | 681 | 4 | 1,467 |
| Compulsory reserves in FX | 6,553 | 2,223 | 240 | 9,016 | 6,975 | 2,563 | 220 | 9,758 |
| CB BILS | 13,922 | 4,696 | 2,990 | 21,607 | 13,235 | 4,331 | 2,492 | 20,058 |
| DEBT SECURITIES | 5,982 | 1,290 | 476 | 7,748 | 5,745 | 1,542 | 395 | 7,682 |
| Checks and bills of exchange | 90 | 25 | 2 | 117 | 20 | 25 | 1 | 46 |
| Government securities denar nominated | 4,856 | 1 | 6 | 4,863 | 4,851 | 1 | 6 | 4,858 |
| Other debt securities | 1,036 | 1,264 | 468 | 2,768 | 875 | 1,517 | 388 | 2,779 |
| PLACEMENTS TO OTHER BANKS | 22,756 | 8,045 | 4,237 | 35,038 | 22,456 | 10,045 | 4,522 | 37,023 |
| Accounts with domestic banks | 23 | 203 | 92 | 318 | 27 | 851 | 98 | 976 |
| Accounts with foreign banks | 20,896 | 6,816 | 1,627 | 29,338 | 20,012 | 8,179 | 1,878 | 30,068 |
| Short-term loans and other claims on domestic banks and other financial institutions | 632 | 206 | 301 | 1,138 | 1,337 | 294 | 256 | 1,887 |
| Short-term loans and other claims on foreign and domestic banks in foreign exchange | 402 | 820 | 195 | 1,417 | 249 | 720 | 142 | 1,110 |
| Past due loans and claims on banks | 3 | 0 | 0 | 3 | 0 | 0 | 3 | 3 |
| Long-term loans and other claims on domestic banks and other financial institutions | 724 | 0 | 887 | 1,611 | 755 | 0 | 1,014 | 1,770 |
| Long-term loans and other claims on foreign banks and other financial institutions | 0 | 0 | 1,029 | 1,029 | 0 | 0 | 1,021 | 1,021 |
| Non-performing loans on banks | 75 | 1 | 108 | 183 | 76 | 1 | 110 | 187 |
| PLACEMENTS TO CLIENTS | 92,744 | 42,106 | 2,397 | 137,247 | 101,106 | 44,251 | 2,510 | 147,867 |
| Enterprises | 57,348 | 23,556 | 1,318 | 82,222 | 62,587 | 24,645 | 1,423 | 88,656 |
| Other customers | 423 | 55 | 5 | 483 | 451 | 78 | 4 | 533 |
| Households | 36,473 | 18,539 | 1,263 | 56,275 | 39,579 | 19,661 | 1,295 | 60,535 |
| Non-performing loans to clients | 7,653 | 1,830 | 791 | 10,275 | 7,953 | 1,812 | 782 | 10,547 |
| Reserves for potential loan losses | -9,152 | -1,874 | -981 | -12,007 | -9,465 | -1,945 | -994 | -12,404 |
| ACCRUED INTEREST AND OTHER ASSETS | 3,354 | 1,920 | -121 | 5,153 | 3,708 | 1,987 | 151 | 5,846 |
| Accrued interest | 667 | 426 | 51 | 1,144 | 829 | 473 | 51 | 1,353 |
| Non-accrued interest and other claims | 3,221 | 230 | 232 | 3,684 | 3,351 | 251 | 235 | 3,837 |
| Reserves for potential losses for interest | -3,254 | -241 | -234 | -3,729 | -3,389 | -273 | -236 | -3,899 |
| Other claims | 1,035 | 675 | 7 | 1,717 | 1,204 | 689 | 3 | 1,897 |
| Foreclosures | 1,567 | 672 | 418 | 2,657 | 1,512 | 668 | 411 | 2,590 |
| Net commission relations | -86 | 8 | -630 | -708 | -89 | 10 | -352 | -432 |
| Net internal relations | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other assets | 204 | 150 | 34 | 388 | 291 | 169 | 39 | 500 |
| SECURITIES INVESTMENTS | 779 | 301 | 367 | 1,447 | 774 | 275 | 368 | 1,417 |
| Securities in foreign currency available for sale | 178 | 6 | 63 | 247 | 171 | 6 | 64 | 241 |
| Securities in foreign currency held up to maturity | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Equity investments in domestic currency | 601 | 296 | 304 | 1,201 | 603 | 269 | 304 | 1,176 |
| Reserves for purchased owned shares | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| FIXED ASSETS | 3,835 | 2,785 | 933 | 7,553 | 3,884 | 2,932 | 991 | 7,806 |
| Buildings | 3,248 | 1,779 | 875 | 5,902 | 3,309 | 1,782 | 884 | 5,974 |
| Equipment | 2,885 | 1,367 | 361 | 4,613 | 2,967 | 1,463 | 392 | 4,821 |
| Intangible investments | 239 | 233 | 41 | 513 | 333 | 264 | 45 | 643 |
| Other means of operation | 183 | 34 | 5 | 222 | 131 | 33 | 5 | 168 |
| Means of operation in preparation | 184 | 358 | 5 | 547 | 143 | 440 | 29 | 611 |
| Correction of value of fixed assets | -2,905 | -986 | -353 | -4,244 | -2,999 | -1,049 | -364 | -4,411 |
| Non-allocated reserves for potential losses | 0 | 0 | 0 | 0 | 0 | -334 | -10 | -344 |
| TOTAL ASSETS | 160,886 | 67,803 | 12,399 | 241,088 | 167,705 | 72,925 | 12,535 | 253,165 |

Balance sheet

in millions of denars

| LIABILITIES | 30.06.2008 | | | | 30.09.2008 | | | |
|--|----------------------|----------------------|---------------------------|----------------|----------------------|----------------------|---------------------|----------------|
| | Group of large banks | Group of medium-size | Group of small-size banks | Total | Group of large banks | Group of medium-size | Group of small-size | Total |
| DEPOSITS OF BANKS | 3,216 | 5,055 | 429 | 8,700 | 3,758 | 6,716 | 448 | 10,922 |
| Denar sight deposits | 139 | 2 | 30 | 172 | 169 | 8 | 7 | 184 |
| Foreign currency sight deposits of domestic banks | 331 | 88 | 3 | 422 | 256 | 83 | 5 | 344 |
| Foreign currency sight deposits of foreign banks | 263 | 286 | 3 | 552 | 304 | 381 | 8 | 693 |
| Short-term denar deposits | 1,016 | 1,463 | 249 | 2,729 | 1,210 | 1,299 | 285 | 2,794 |
| Short-term foreign currency deposits | 523 | 1,187 | 0 | 1,710 | 1,028 | 853 | 0 | 1,881 |
| Short-term foreign currency deposits of foreign banks | 944 | 2,028 | 0 | 2,972 | 792 | 4,091 | 0 | 4,883 |
| Long-term denar deposits | 0 | 1 | 143 | 144 | 0 | 1 | 143 | 144 |
| Long-term foreign currency deposits | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| SIGHT DEPOSITS | 52,916 | 15,846 | 3,118 | 71,881 | 53,671 | 16,061 | 2,704 | 72,437 |
| Denar sight deposits of enterprises | 15,094 | 4,714 | 1,232 | 21,039 | 14,581 | 4,896 | 982 | 20,460 |
| Denar sight deposits of public sector | 655 | 34 | 82 | 772 | 529 | 50 | 106 | 686 |
| Denar sight deposits of other customers | 1,847 | 634 | 286 | 2,767 | 1,952 | 598 | 183 | 2,732 |
| Denar sight deposits of citizens | 10,198 | 3,249 | 594 | 14,041 | 10,239 | 3,248 | 468 | 13,955 |
| Restricted denar deposits | 344 | 243 | 9 | 597 | 328 | 125 | 21 | 475 |
| Foreign currency sight deposits of enterprises | 7,462 | 1,695 | 414 | 9,570 | 8,664 | 1,862 | 430 | 10,956 |
| Foreign currency sight deposits of citizens | 16,715 | 5,156 | 472 | 22,343 | 16,606 | 5,109 | 461 | 22,176 |
| Restricted foreign currency deposits | 600 | 122 | 29 | 751 | 771 | 173 | 53 | 996 |
| SHORT TERM DEPOSITS UP TO 1 YEAR | 68,572 | 23,603 | 1,152 | 93,327 | 70,896 | 25,362 | 1,494 | 97,751 |
| Denar short term deposits of enterprises | 13,342 | 9,144 | 216 | 22,702 | 12,691 | 10,532 | 481 | 23,704 |
| Denar short term deposits of public sector | 1,112 | 2 | 25 | 1,139 | 814 | 32 | 25 | 871 |
| Denar short term deposits of other customers | 870 | 87 | 25 | 982 | 745 | 125 | 81 | 951 |
| Denar short term deposits of citizens | 20,723 | 5,118 | 656 | 26,497 | 20,977 | 5,276 | 666 | 26,919 |
| Foreign currency short term deposits of enterprises | 7,444 | 3,093 | 21 | 10,558 | 7,149 | 2,757 | 32 | 9,939 |
| Foreign currency short term deposits of other customers | 92 | 726 | 18 | 835 | 141 | 418 | 15 | 574 |
| Foreign currency short term deposits of citizens | 24,989 | 5,433 | 191 | 30,614 | 28,378 | 6,221 | 194 | 34,794 |
| SHORT TERM BORROWINGS UP TO 1 YEAR AND ISSUED DEBT SECURITIES | 2,916 | 393 | 62 | 3,371 | 3,251 | 928 | 1 | 4,180 |
| Short-term denar borrowings of domestic banks | 300 | 360 | 1 | 661 | 600 | 895 | 1 | 1,496 |
| Short-term foreign currency borrowings of domestic banks | 0 | 33 | 0 | 33 | 0 | 33 | 0 | 33 |
| Short-term borrowings of foreign banks | 2,614 | 0 | 0 | 2,614 | 2,614 | 0 | 0 | 2,614 |
| Short-term denar borrowings of other customers | 2 | 0 | 61 | 63 | 37 | 0 | 0 | 37 |
| OTHER LIABILITIES | 3,378 | 1,186 | 120 | 4,684 | 2,262 | 1,169 | 208 | 3,639 |
| Payable interest | 541 | 348 | 42 | 931 | 692 | 403 | 54 | 1,149 |
| Other liabilities in denars | 1,682 | 280 | 52 | 2,015 | 600 | 261 | 57 | 918 |
| Other liabilities in foreign currency | 569 | 289 | 13 | 870 | 378 | 199 | 81 | 658 |
| Temporary accounts | 587 | 269 | 14 | 869 | 593 | 307 | 15 | 915 |
| LONG TERM DEPOSITS OVER 1 YEAR | 5,603 | 5,436 | 552 | 11,590 | 6,909 | 6,017 | 542 | 13,468 |
| Denar long term deposits of enterprises | 645 | 449 | 3 | 1,097 | 891 | 523 | 3 | 1,417 |
| Denar long term deposits of public sector | 0 | 97 | 0 | 97 | 0 | 98 | 0 | 98 |
| Denar long term deposits of other customers | 546 | 723 | 170 | 1,439 | 681 | 754 | 145 | 1,580 |
| Denar long term deposits of citizens | 1,721 | 1,466 | 293 | 3,480 | 1,958 | 1,608 | 297 | 3,862 |
| Foreign currency long term deposits of enterprises | 26 | 36 | 0 | 62 | 161 | 47 | 0 | 207 |
| Foreign currency long term deposits of other customers | 553 | 50 | 1 | 604 | 553 | 40 | 1 | 594 |
| Foreign currency long term deposits of citizens | 2,112 | 2,614 | 85 | 4,810 | 2,666 | 2,947 | 97 | 5,710 |
| LONG TERM BORROWINGS OVER 1 YEAR | 8,606 | 6,781 | 1,237 | 16,624 | 8,487 | 7,261 | 1,208 | 16,956 |
| Long term borrowings of NBRM | 690 | 594 | 5 | 1,289 | 659 | 569 | 5 | 1,233 |
| Long term denar borrowings of domestic banks | 364 | 610 | 6 | 979 | 334 | 707 | 6 | 1,047 |
| Long term foreign currency borrowings of domestic banks and other financial institutions | 678 | 1,674 | 0 | 2,352 | 637 | 1,705 | 0 | 2,343 |
| Long term borrowings of foreign banks | 3,435 | 2,169 | 1,183 | 6,788 | 3,310 | 2,325 | 1,155 | 6,790 |
| Long term borrowings of others customers | 672 | 638 | 43 | 1,354 | 769 | 676 | 43 | 1,487 |
| Long term foreign currency borrowings of other customers | 0 | 459 | 0 | 459 | 0 | 459 | 0 | 459 |
| Long term borrowings of enterprises | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Long term issued securities, subordinated deposits and hybrid capital instruments | 2,767 | 636 | 0 | 3,404 | 2,778 | 820 | 0 | 3,598 |
| PROVISIONS FOR OFF BALANCE SHEET LIABILITIES | 792 | 98 | 29 | 919 | 823 | 100 | 29 | 952 |
| EQUITY AND RESERVES | 12,646 | 9,008 | 5,603 | 27,257 | 14,392 | 8,831 | 5,777 | 29,000 |
| Equity capital | 8,452 | 7,183 | 5,030 | 20,666 | 9,113 | 7,189 | 5,270 | 21,572 |
| Reserve fund | 3,415 | 1,192 | 327 | 4,934 | 3,581 | 1,192 | 327 | 5,101 |
| Revaluation reserves | 160 | 0 | -2 | 157 | 138 | 0 | -2 | 135 |
| Unallocated profit from previous years | 617 | 1,136 | 92 | 1,845 | 1,559 | 1,149 | 92 | 2,799 |
| Other funds | 1 | 0 | 423 | 424 | 1 | 0 | 423 | 424 |
| Loss | 0 | -387 | -160 | -547 | 0 | -387 | -160 | -547 |
| Current loss | 0 | -116 | -107 | -223 | 0 | -312 | -172 | -484 |
| NET INCOME AFTER TAXES | 2,242 | 396 | 97 | 2,735 | 3,256 | 480 | 124 | 3,860 |
| TOTAL LIABILITIES, EQUITY AND RESERVES | 160,886 | 67,803 | 12,399 | 241,088 | 167,705 | 72,925 | 12,535 | 253,165 |

INCOME STATEMENT

Annex 2

in millions of Denars

| Income statement | 30.09.2007 | | | | 30.09.2008 | | | |
|--|----------------------|----------------------------|---------------------------|---------------|----------------------|----------------------------|---------------------------|---------------|
| | Group of large banks | Group of medium-size banks | Group of small-size banks | Total | Group of large banks | Group of medium-size banks | Group of small-size banks | Total |
| INTEREST INCOME | 6,028 | 2,749 | 492 | 9,270 | 8,004 | 3,710 | 482 | 12,195 |
| Banks | 497 | 385 | 138 | 1,021 | 1,109 | 422 | 222 | 1,754 |
| Enterprises | 2,424 | 1,166 | 103 | 3,693 | 3,357 | 1,562 | 86 | 5,005 |
| Citizens | 1,923 | 1,009 | 153 | 3,085 | 2,807 | 1,634 | 106 | 4,547 |
| Other | 1,257 | 261 | 140 | 1,658 | 870 | 166 | 77 | 1,113 |
| Reversed interest | -74 | -71 | -42 | -187 | -140 | -75 | -10 | -224 |
| INTEREST EXPENSE | -2,432 | -1,052 | -143 | -3,627 | -3,642 | -1,616 | -129 | -5,387 |
| Banks | -547 | -168 | -8 | -723 | -689 | -276 | -42 | -1,007 |
| Enterprises | -606 | -269 | -8 | -883 | -806 | -464 | -12 | -1,282 |
| Citizens | -1,186 | -443 | -78 | -1,708 | -1,985 | -603 | -54 | -2,641 |
| Other | -92 | -172 | -49 | -312 | -162 | -274 | -21 | -457 |
| NET INTEREST INCOME | 3,597 | 1,697 | 349 | 5,643 | 4,361 | 2,093 | 352 | 6,807 |
| NET PROVISIONS | -1,333 | -333 | -219 | -1,886 | -809 | -728 | -120 | -1,658 |
| Provisions | -1,659 | -364 | -168 | -2,191 | -1,406 | -525 | -140 | -2,071 |
| Recovery, regarding provisions | 326 | 101 | 45 | 471 | 597 | 130 | 29 | 756 |
| Nonallocated provisions for potential losses | 0 | -70 | -96 | -165 | 0 | -334 | -10 | -344 |
| NET INTEREST INCOME AFTER PROVISIONS | 2,264 | 1,364 | 130 | 3,757 | 3,552 | 1,365 | 232 | 5,149 |
| NET FEES AND COMMISSION INCOME | 1,782 | 665 | 232 | 2,680 | 2,006 | 729 | 132 | 2,868 |
| Fees and commission income | 2,006 | 804 | 297 | 3,106 | 2,254 | 910 | 202 | 3,366 |
| Fees and commission expenses | -223 | -138 | -65 | -426 | -248 | -181 | -69 | -498 |
| DIVIDENDS | 18 | 32 | 32 | 83 | 38 | 71 | 18 | 127 |
| NET INCOME, REGARDING THE SECURITIES | 59 | 0 | 0 | 59 | 41 | 11 | 0 | 53 |
| NET CAPITAL INCOME | 5 | 298 | -7 | 295 | 74 | 96 | 0 | 171 |
| NET FX INCOME | 272 | 130 | 5 | 408 | 291 | 170 | 7 | 468 |
| OTHER INCOME | 470 | 202 | 240 | 912 | 633 | 236 | 68 | 937 |
| Other income | 137 | 80 | 97 | 314 | 247 | 167 | 26 | 439 |
| Extraordinary income | 333 | 122 | 143 | 598 | 386 | 69 | 43 | 498 |
| OPERATING EXPENSES | -2,741 | -1,636 | -538 | -4,915 | -3,204 | -2,336 | -426 | -5,966 |
| Salary | -1,187 | -737 | -259 | -2,184 | -1,400 | -1,004 | -211 | -2,615 |
| Depreciation | -385 | -168 | -52 | -605 | -366 | -235 | -41 | -642 |
| Material expenses | -183 | -97 | -47 | -328 | -206 | -143 | -36 | -385 |
| Services | -511 | -420 | -135 | -1,066 | -631 | -685 | -110 | -1,426 |
| Business trip expenses | -26 | -18 | -6 | -50 | -27 | -24 | -5 | -56 |
| Representation expenses | -148 | -105 | -21 | -274 | -184 | -129 | -12 | -325 |
| Insurance premium | -300 | -91 | -19 | -410 | -390 | -116 | -11 | -517 |
| OTHER EXPENSES | -129 | -180 | -54 | -363 | -176 | -174 | -81 | -431 |
| Other expenses | -125 | -178 | -47 | -350 | -174 | -159 | -80 | -413 |
| Extraordinary expenses | -3 | -2 | -7 | -13 | -2 | -15 | 0 | -18 |
| GROSS INCOME / LOSS | 2,001 | 876 | 39 | 2,916 | 3,256 | 168 | -48 | 3,376 |

Structure of credits to non-financial entities

in millions of Denars

| Date | Description | Total | Total | | Enterprises | | Households | | Other clients | |
|---------------------------------------|----------------------------------|----------------|----------------|---------------|---------------|---------------|---------------|--------------|---------------|------------|
| | | | Denar | FX | Denar | FX | Denar | FX | Denar | FX |
| 30.06.2008 | Due loans | 1,745 | 1,363 | 382 | 892 | 349 | 470 | 30 | 1 | 3 |
| | Short-term loans | 46,244 | 38,176 | 8,068 | 23,612 | 8,031 | 14,545 | 21 | 19 | 16 |
| | Long-term loans | 90,990 | 66,104 | 24,886 | 28,183 | 21,155 | 37,802 | 3,406 | 119 | 325 |
| | Non-performing loans | 10,275 | 8,922 | 1,353 | 6,219 | 1,125 | 2,446 | 223 | 257 | 5 |
| | Total gross loans | 149,254 | 114,565 | 34,689 | 58,906 | 30,660 | 55,263 | 3,680 | 396 | 349 |
| | Reserves for potential losses | -12,007 | | | | | | | | |
| | Total net loans | 137,247 | | | | | | | | |
| 30.09.2008 | Due loans | 2,011 | 1,605 | 406 | 1,073 | 376 | 532 | 29 | - | 1 |
| | Short-term loans | 50,389 | 40,748 | 9,641 | 25,109 | 9,590 | 15,608 | 18 | 31 | 33 |
| | Long-term loans | 97,323 | 70,533 | 26,790 | 30,106 | 22,402 | 40,294 | 4,054 | 133 | 334 |
| | Non-performing loans | 10,548 | 9,174 | 1,374 | 5,935 | 1,134 | 2,974 | 233 | 265 | 7 |
| | Total gross loans | 160,271 | 122,060 | 38,211 | 62,223 | 33,502 | 59,408 | 4,334 | 429 | 375 |
| | Reserves for potential losses | -12,404 | | | | | | | | |
| | Total net loans | 147,867 | | | | | | | | |
| Increase 30.09.2008/ 30.06.2008 | Absolute increase in gross loans | 11,017 | 7,495 | 3,522 | 3,317 | 2,842 | 4,145 | 654 | 33 | 26 |
| | Increase in % | 7.4% | 6.5% | 10.2% | 5.6% | 9.3% | 7.5% | 17.8% | 8.3% | 7.4% |
| | Growth structure | | 68.0% | 32.0% | 30.1% | 25.8% | 37.6% | 5.9% | 0.3% | 0.2% |

Securities portfolio structure

| No. | Securities portfolio | Amount (millions denars) | | Structure | | Annual change 30.09.2008/30.06.2008 | | |
|----------|---|--------------------------|---------------|---------------|---------------|-------------------------------------|--------------|-------------------------|
| | | 30.06.2008 | 30.09.2008 | 30.06.2008 | 30.09.2008 | Absolute change | In percent | Participation in change |
| 1 | Debt securities (1.1+1.2+1.3) | 29,413 | 27,799 | 95.5% | 95.3% | -1,615 | -5.5% | 98.1% |
| 1.1 | NBRM bills | 21,607 | 20,058 | 73.5% | 72.2% | -1,549 | -7.2% | 94.2% |
| 1.2 | Government securities (1.2.a+1.2.b+1.2.v+1.2.g+1.2.d) | 7,400 | 7,424 | 25.2% | 26.7% | 24 | 0.3% | -1.4% |
| 1.2.a | - Bond for privatization of Stopanska banka AD Skopje | 3,413 | 3,412 | 11.6% | 12.3% | 0 | 0.0% | 0.0% |
| 1.2.b | - Bond for rehabilitation of Stopanska banka AD Skopje, issued by Banks Rehabilitaiton Agency | 0 | 0 | 0.0% | 0.0% | 0 | 0.0% | 0.0% |
| 1.2.v | - Bond for frozen foreign currency savings and denationalization | 1,451 | 1,446 | 4.9% | 5.2% | -5 | -0.3% | 0.3% |
| 1.2.g | - Treasury bills | 1,642 | 1,641 | 5.6% | 5.9% | -2 | -0.1% | 0.1% |
| 1.2.d | - Treasury bonds (continuous government securities) | 895 | 925 | 3.0% | 3.3% | 31 | 3.4% | -1.9% |
| 1.3 | Other debt securities | 406 | 317 | 1.4% | 1.1% | -89 | -22.0% | 5.4% |
| 2 | Equity securities (2.1+2.2+2.3) | 1,389 | 1,359 | 4.5% | 4.7% | -31 | -2.2% | 1.9% |
| 2.1 | Equities in domestic non-financial legal enteties | 417 | 416 | 30.0% | 30.6% | -1 | -0.2% | 0.1% |
| 2.2 | Equities in domestic banks and other financial organizations | 784 | 760 | 56.4% | 55.9% | -24 | -3.1% | 1.5% |
| 2.3 | Other equity securities | 189 | 183 | 13.6% | 13.5% | -6 | -3.0% | 0.3% |
| 3 | Total securities portfolio (1+2) | 30,803 | 29,157 | 100.0% | 100.0% | -1,646 | -5.3% | 100.0% |

Structure of deposits of non-financial entities

| Date | Descriptions | Total | Total | | Enterprises | | Households | | Public sector | | Other clients | |
|-----------------------------|---|----------------|---------------|------------------|---------------|------------------|---------------|------------------|---------------|------------------|---------------|------------------|
| | | | Denar | Foreign currency | Denar | Foreign currency | Denar | Foreign currency | Denar | Foreign currency | Denar | Foreign currency |
| 30.06.2008 | Sight deposits | 70,533 | 38,619 | 31,914 | 21,039 | 7,564 | 14,041 | 22,343 | 772 | 1 | 2,767 | 2,005 |
| | Restricted deposits | 1,348 | 597 | 751 | 405 | 751 | 0 | 0 | 186 | 0 | 6 | 0 |
| | Short-term time deposits up to one year | 93,327 | 51,320 | 42,008 | 22,702 | 10,558 | 26,497 | 30,614 | 1,139 | 0 | 982 | 835 |
| | Long term time deposits over one year | 11,590 | 6,114 | 5,477 | 1,097 | 62 | 3,480 | 4,810 | 97 | 0 | 1,439 | 604 |
| | Total | 176,798 | 96,649 | 80,149 | 45,243 | 18,936 | 44,019 | 57,768 | 2,194 | 1 | 5,194 | 3,444 |
| 30.09.2008 | Sight deposits | 70,965 | 37,833 | 33,132 | 20,460 | 8,655 | 13,955 | 22,176 | 686 | 1 | 2,732 | 2,300 |
| | Restricted deposits | 1,471 | 475 | 996 | 461 | 996 | - | - | 8 | - | 6 | - |
| | Short-term time deposits up to one year | 97,751 | 52,445 | 45,307 | 23,704 | 9,939 | 26,919 | 34,794 | 871 | - | 951 | 574 |
| | Long term time deposits over one year | 13,468 | 6,956 | 6,511 | 1,417 | 207 | 3,862 | 5,710 | 98 | - | 1,580 | 594 |
| | Total | 183,656 | 97,709 | 85,947 | 46,042 | 19,798 | 44,736 | 62,680 | 1,662 | 1 | 5,269 | 3,468 |
| Change 30.09.08/30.06.08 | Absolute change of deposits | 6,857 | 1,059 | 5,798 | 799 | 862 | 717 | 4,912 | -532 | 0 | 75 | 24 |
| | In % | 3.9% | 1.1% | 7.2% | 1.8% | 4.6% | 1.6% | 8.5% | -24.3% | 31.9% | 1.4% | 0.7% |
| | Participation in change | 100.0% | 15.4% | 84.6% | 11.7% | 12.6% | 10.5% | 71.6% | -7.8% | 0.0% | 1.1% | 0.4% |

Annex 6

Transition matrix for clients

| Risk category | Number of clients | | | Risk category on 30.09.2008 | | | | | |
|---------------|-------------------|-------------------------|---------------|-----------------------------|--------------|-------------|-------------|-------------|---------------|
| | 30.09.2007 | Settled and written off | 30.09.2008* | A | B | C | D | E | Total |
| A | 55,646 | 16,102 | 39,544 | 86.9% | 8.1% | 3.5% | 1.4% | 0.1% | 100.0% |
| B | 13,777 | 3,898 | 9,879 | 34.9% | 54.0% | 8.0% | 2.7% | 0.4% | 100.0% |
| C | 2,815 | 1,191 | 1,624 | 24.1% | 19.8% | 29.9% | 21.1% | 5.0% | 100.0% |
| D | 904 | 453 | 451 | 15.7% | 7.3% | 13.1% | 34.6% | 29.3% | 100.0% |
| E | 832 | 443 | 389 | 6.7% | 2.1% | 2.8% | 8.5% | 79.9% | 100.0% |
| Total | 73,974 | 22,087 | 51,887 | 73.8% | 17.2% | 5.3% | 2.6% | 1.2% | 100.0% |

Transition matrix for clients- nonfinancial legal entities

| Risk category | Number of clients | | | Risk category on 30.09.2008 | | | | | |
|---------------|-------------------|-------------------------|--------------|-----------------------------|--------------|-------------|-------------|-------------|---------------|
| | 30.09.2007 | Settled and written off | 30.09.2008* | A | B | C | D | E | Total |
| A | 8,198 | 1,388 | 6,810 | 87.0% | 8.3% | 3.7% | 0.4% | 0.5% | 100.0% |
| B | 2,156 | 465 | 1,691 | 21.5% | 67.1% | 7.8% | 1.7% | 1.8% | 100.0% |
| C | 523 | 136 | 387 | 15.0% | 12.4% | 48.6% | 8.3% | 15.8% | 100.0% |
| D | 270 | 47 | 223 | 3.6% | 4.0% | 5.4% | 58.7% | 28.3% | 100.0% |
| E | 693 | 136 | 557 | 1.3% | 0.4% | 2.0% | 1.3% | 95.2% | 100.0% |
| Total | 11,840 | 2,172 | 9,668 | 65.8% | 18.2% | 6.1% | 2.4% | 7.5% | 100.0% |

* This column includes the clients the banks were exposed to on September 30, 2007 and the clients the banks are still exposed to on September 30, 2008 as well as the total amount of credit exposure of those clients. The column does not include those new clients to which the banks in the meantime established credit exposure and the amount of that exposure.

Contractual residual maturity structure of assets and liabilities, as of 30.09.2008

in millions of denars

| No. | Items | up to 7 days | from 7 days to 1 month | from 1 month to 3 months | from 3 months to 6 months | from 6 months to 12 months | over 12 months | TOTAL |
|-----|---|---------------|------------------------|--------------------------|---------------------------|----------------------------|----------------|----------------|
| 1 | Cash and balances with the NBRM | 12,811 | 1,467 | - | - | 300 | 11,232 | 25,809 |
| 2 | Securities of the NBRM and RM securities | 6,852 | 14,203 | 750 | 369 | 528 | 4,780 | 27,482 |
| 3 | Debt securities and other payment instruments | 121 | 217 | - | - | - | 58 | 396 |
| 4 | Placements with other banks | 23,588 | 5,476 | 2,566 | 1,005 | 313 | 4,074 | 37,023 |
| 5 | Placements to clients | 6,515 | 9,354 | 12,398 | 17,719 | 30,017 | 84,268 | 160,271 |
| 6 | Accrued interest | 972 | 456 | 29 | 4 | 2 | 3,726 | 5,190 |
| 7 | Other assets | 1,524 | 574 | 193 | 102 | 71 | 681 | 3,144 |
| 8 | Placements in own securities and capital investments | 18 | 252 | - | - | - | 1,009 | 1,279 |
| 9 | Total assets (1+2+3+4+5+6+7+8) | 52,401 | 31,998 | 15,936 | 19,200 | 31,231 | 109,829 | 260,594 |
| 10 | Deposits from banks | 1,994 | 1,485 | 1,232 | 607 | 560 | 169 | 6,047 |
| 11 | Sight deposits | 71,258 | 208 | 201 | 165 | 197 | 400 | 72,429 |
| 12 | Short-term deposits with up to 1 year | 7,465 | 21,902 | 33,867 | 22,158 | 17,239 | 4 | 102,634 |
| 13 | Short-term borrowings with up to 1 year | 884 | 600 | 2,651 | 21 | 23 | - | 4,179 |
| 14 | Issued debt securities | - | - | - | - | - | 300 | 300 |
| 15 | Other liabilities | 1,620 | 1,181 | 542 | 87 | 61 | 137 | 3,628 |
| 16 | Long-term deposits with over 1 year | 109 | 170 | 902 | 1,240 | 2,716 | 11,629 | 16,765 |
| 17 | Long-term borrowings with over 1 year | 23 | 355 | 377 | 591 | 1,629 | 10,384 | 13,359 |
| 18 | Off-balance sheet items | 3,783 | 630 | 2,470 | 2,075 | 4,163 | 5,337 | 18,458 |
| 19 | Total liabilities (10+11+12+13+14+15+16+17+18) | 87,136 | 26,531 | 42,241 | 26,945 | 26,588 | 28,360 | 237,801 |
| 20 | Difference (9-19) | -34,735 | 5,467 | -26,305 | -7,746 | 4,643 | 81,469 | 22,793 |
| 21 | Accumulation of the difference | -34,735 | -29,268 | -55,573 | -63,319 | -58,676 | 22,793 | |

Anticipated residual maturity structure of assets and liabilities, as of 30.09.2008

in millions of denars

| No. | Items | up to 7 days | from 7 days to 1 month | from 1 month to 3 months | TOTAL |
|-----|---|---------------|------------------------|--------------------------|---------------|
| 1 | Cash and balances with the NBRM | 12,079 | 1,813 | 255 | 14,147 |
| 2 | Securities of the NBRM and RM securities | 6,712 | 13,906 | 767 | 21,385 |
| 3 | Debt securities and other payment instruments | 121 | 217 | - | 338 |
| 4 | Placements with other banks | 22,209 | 5,734 | 2,698 | 30,641 |
| 5 | Placements to clients | 4,259 | 9,373 | 12,449 | 26,081 |
| 6 | Accrued interest | 816 | 433 | 212 | 1,461 |
| 7 | Other assets | 1,397 | 718 | 200 | 2,315 |
| 8 | Placements in own securities and capital investments | 4 | - | 252 | 256 |
| 9 | Total assets (1+2+3+4+5+6+7+8) | 47,597 | 32,195 | 16,832 | 96,624 |
| 10 | Deposits from banks | 1,449 | 1,280 | 935 | 3,665 |
| 11 | Sight deposits | 12,907 | 2,035 | 1,596 | 16,539 |
| 12 | Short-term deposits with up to 1 year | 3,204 | 7,522 | 13,920 | 24,646 |
| 13 | Short-term borrowings with up to 1 year | 864 | 220 | 2,633 | 3,717 |
| 14 | Issued debt securities | - | - | - | - |
| 15 | Other liabilities | 1,223 | 884 | 532 | 2,639 |
| 16 | Long-term deposits with over 1 year | 50 | 57 | 690 | 797 |
| 17 | Long-term borrowings with over 1 year | 24 | 170 | 322 | 517 |
| 18 | Off-balance sheet items | 443 | 933 | 1,859 | 3,235 |
| 19 | Total liabilities (10+11+12+13+14+15+16+17+18) | 20,165 | 13,102 | 22,487 | 55,754 |
| 20 | Difference (9-19) | 27,432 | 19,093 | (5,656) | 40,869 |
| 21 | Accumulation of the difference | 27,432 | 46,525 | 40,869 | - |

Structure of foreign asset and foreign liabilities of the banking system

| Foreign Assets | Amount (in millions of Denars) | | Share in assets | | Quarterly Growth Rate 30.09.08/30.06.08 | | | |
|---|---------------------------------|----------------|-----------------|---------------|---|-------------|------------------|-------------------|
| | 30.06.2008 | 30.09.2008 | 30.06.2008 | 30.09.2008 | In absolute amounts | In percent | In the structure | Share in increase |
| FX cash and checks and debt market securities | 2,601 | 2,009 | 2.1% | 1.5% | -592 | -22.7% | (0.6) | -6.2% |
| Assets in foreign and domestic banks | 39,369 | 41,221 | 31.5% | 30.7% | 1,852 | 4.7% | (0.9) | 19.4% |
| Foreign currency claims | 34,910 | 38,454 | 28.0% | 28.6% | 3,544 | 10.2% | 0.6 | 37.1% |
| Foreign currency indexed claims in Denars | 50,387 | 55,289 | 40.4% | 41.1% | 4,902 | 9.7% | 0.8 | 51.3% |
| Provisions for loan losses | -3,032 | -3,157 | -2.4% | -2.3% | -125 | 4.1% | 0.1 | -1.3% |
| Securities available for sale | 58 | 58 | 0.0% | 0.0% | 0 | 0.3% | (0.0) | 0.0% |
| Other Assets - other accounts | 524 | 494 | 0.4% | 0.4% | -30 | -5.7% | (0.1) | -0.3% |
| Total Foreign Assets | 124,817 | 134,369 | 100.0% | 100.0% | 9,552 | 7.7% | | 100.0% |

| Foreign Liabilities | Amount (in millions of Denars) | | Share in liabilities | | Quarterly Growth Rate 30.09.08/30.06.08 | | | |
|---|---------------------------------|----------------|----------------------|---------------|---|-------------|------------------|-------------------|
| | 30.06.2008 | 30.09.2008 | 30.06.2008 | 30.09.2008 | In absolute amounts | In percent | In the structure | Share in increase |
| Foreign currency deposits of banks | 2,674 | 2,910 | 2.3% | 2.3% | 236 | 8.8% | 0.0 | 2.4% |
| Foreign currency deposits of households | 57,047 | 61,952 | 49.1% | 49.2% | 4,905 | 8.6% | 0.1 | 50.6% |
| Foreign currency deposits of enterprises, public sector and other clients | 19,177 | 20,165 | 16.5% | 16.0% | 988 | 5.2% | (0.5) | 10.2% |
| Foreign assets of foreign entities | 10,469 | 12,477 | 9.0% | 9.9% | 2,008 | 19.2% | 0.9 | 20.7% |
| Foreign currency indexed depositis in Denars | 14,035 | 15,868 | 12.1% | 12.6% | 1,833 | 13.1% | 0.5 | 18.9% |
| Foreign currency loans of banks | 11,645 | 11,611 | 10.0% | 9.2% | -34 | -0.3% | (0.8) | -0.4% |
| Other liabilities - other accounts | 1,070 | 834 | 0.9% | 0.7% | -236 | -22.1% | (0.3) | -2.4% |
| Total Foreign Liabilities | 116,117 | 125,816 | 100.0% | 100.0% | 9,699 | 8.4% | | 100.0% |

Own funds as of September 30,2008

in millions of denars

| No. | Description | TOTAL |
|---|---|---------------|
| CORE CAPITAL | | |
| 1 | Paid in and subscribed common and non-cumulative preference shares and premiums based on these shares | 21,407 |
| 1.1 | Face value | 17,448 |
| 1.1.1 | Face value of common shares | 17,410 |
| 1.1.2 | Face value of non-cumulative preference share | 38 |
| 1.2 | Premium | 3,959 |
| 1.2.1 | Premium based on common shares | 3,959 |
| 1.2.2 | Premium based on non-cumulative preference shares | 0 |
| 2 | Reserve and retained profit/loss | 7,186 |
| 2.1 | Reserve fund | 5,101 |
| 2.2 | Retained profit | 2,632 |
| 2.3 | Accumulated loss from previous years | 547 |
| 2.4 | Current profit | 0 |
| 3 | Positions as a result of consolidation (positive items) | 0 |
| 3.1 | Minority share | 0 |
| 3.2 | Reserves based on exchange rate differentials | 0 |
| 3.3 | Other differences | 0 |
| 4 | Deductions | 738 |
| 4.1 | Loss at the end of the year, or current loss | 244 |
| 4.2 | Intangible assets | 145 |
| 4.3 | Own common and non-cumulative preference shares | 5 |
| 4.4 | Difference between the amount for the required special reserves for potential losses and the allocated special reserves | 344 |
| 5 | Common shares, retained gain and deductions | 27,817 |
| 6 | Amount of other positions that can not be included in the core capital | 38 |
| I | Core capital | 27,855 |
| SUPPLEMENTARY CAPITAL 1 | | |
| 7 | Paid in and subscribed cumulative preference shares and premiums for these shares | 237 |
| 7.1 | Face value of the cumulative preference shares | 124 |
| 7.2 | Premium based on cumulative preference shares | 113 |
| 7.3 | Own cumulative preference shares | 0 |
| 8 | Hybrid capital instruments | 184 |
| 9 | Subordinated instruments | 3,050 |
| 10 | Amount of subordinated instruments that can be part of the supplementary capital 1 | 3,050 |
| II | Supplementary capital 1 | 3,471 |
| DEDUCTIONS FROM THE CORE CAPITAL AND SUPPLEMENTARY CAPITAL 1 | | |
| 11 | Investments in capital of other banks or financial institutions exceeding 10% of the capital of those institutions except to the institutions under no.14 | 304 |
| 12 | Investments in subordinated and hybrid capital instruments in other instruments of the institutions under no.11 | 0 |
| 13 | Aggregate amount of capital investments, subordinated and hybrid instruments and other instruments exceeding 10% of (I+II) | 0 |
| 14 | Direct investments in the capital of other insurance and reinsurance companies and pension funds management companies | 150 |
| 15 | Investments in financial instruments issued by companies under no 14 included in their capital | 0 |
| 16 | Amount of exceeding the limits for investments in non-financial institutions | 0 |
| 17 | Positions resulting from consolidation (negative items) | 0 |
| III | Deductions from the core capital and supplementary capital 1 | 454 |
| IV | OWN FUNDS | 30,871 |

Capital adequacy ratio as of September 30, 2008

in millions of denars

| No. | Description | TOTAL |
|------------|---|----------------|
| I | CREDIT RISK WEIGHTED ASSETS | |
| 1 | On-balance sheet assets weighted by credit risk | 167,187 |
| 2 | Off-balance sheet assets weighted by credit risk | 25,881 |
| 3 | Credit risk weighted assets (1+2) | 193,068 |
| 4 | Capital requirement for credit risk coverage (8% of no. 3) | 15,445 |
| II | CURRENCY RISK WEIGHTED ASSETS | |
| 5 | Aggregate foreign currency position | 12,356 |
| 6 | Net-position in gold | 0 |
| 7 | Currency risk weighted assets (5+6) | 12,356 |
| 8 | Capital requirement for currency risk coverage (8% of no.7) | 988 |
| III | RISK WEIGHTED ASSETS (3+7) | 205,424 |
| 9 | Capital requirement for risk coverage (4+8) | 16,434 |
| IV | OWN FUNDS | 30,871 |
| V | CAPITAL ADEQUACY RATIO | 15.03% |

Review of groups of banks

| | Large banks (asset over 15 billion denars) | | Medium banks (asset between 4.5 - 15 billion denars) | | Small banks (asset lower than 4.5 billion denars) |
|---|---|---|---|---|--|
| 1 | Komercijalna banka AD Skopje | 1 | Alfa banka AD Skopje | 1 | Eurostandard banka AD Skopje |
| 2 | NLB Tutunska banka AD Skopje | 2 | Investbanka AD Skopje | 2 | Kapital banka AD Skopje |
| 3 | Stopanska banka AD Skopje | 3 | Izvozna i kreditna banka AD Skopje | 3 | Macedonian Bank for Development Promotion AD Skopje |
| | | 4 | Ohridska banka AD Ohrid | 4 | Postenska banka AD Skopje |
| | | 5 | Prokredit banka AD Skopje | 5 | Sileks banka AD Skopje |
| | | 6 | Stopanska banka AD Bitola | 6 | Stater AD Kumanovo |
| | | 7 | TTK banka AD Skopje | 7 | Ziraat banka AD Skopje |
| | | 8 | UNI banka AD Skopje | | |

* Banks are in alphabetical order