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

Report on Banking System and Banking Supervision of the Republic of Macedonia in the first half of 2009

October, 2009

Contents

I. BANKING SYSTEM IN THE FIRST HALF OF 2009

1. Structure of the banking system

1.1. Number of banks and savings houses

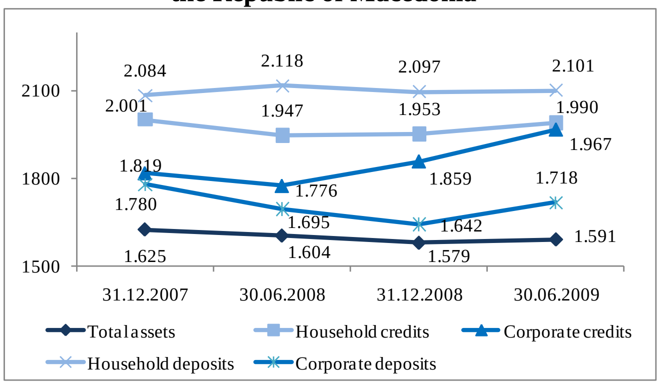
As of June 30, 2009, the banking system of the Republic of Macedonia comprised of eighteen banks and eleven savings houses, which is unchanged relative to the end of 2008[1]. Banks maintained their dominant position in all activities of the deposit institutions. The share of the savings houses in the total assets of the banking system was only 1.3%, while their share in the total credits to non-financial entities and in households' total deposits was 1.8% and 0.5%, respectively. Compared with the end of 2008, the share of savings houses in all segments of the banking system operations declined by 0.1 percentage points.

Considering the insignificant role of the savings houses in the overall activities of the banking system, the analyses in this Report focus solely on the banks' operations. In order to obtain more comprehensive overview, an analysis by group of banks is also made. As in the previous periods, banks are grouped according to the assets size[2].

1.2. Concentration and market share

During the first half of 2009, the concentration in all domains of banks' activities increased. Thus, as of June 30, 2009, the relatively high level of concentration in the banking system of the Republic of Macedonia was maintained. The Herfindahl index[3] in the corporate lending and in the operations with households (credits and deposits) is above the level generally considered as acceptable concentration. Relatively higher level of concentration is present in the banks' activities with households (deposit and lending activity). According to the dynamics of this index, the largest semi-annual increase in the level of concentration (by 108 index points) was

Figure 1
Dynamics of Herfindahl-index for the banking system of the Republic of Macedonia



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

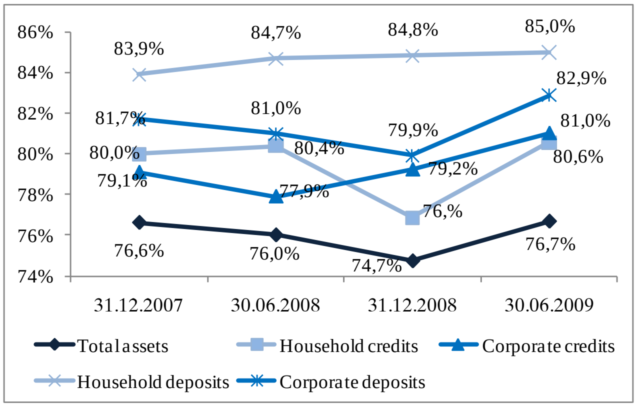
[1] In August 2009, the founding and operating license was revoked and a liquidation procedure was opened in one savings house.
[2] Large are considered those banks the assets of which exceed Denar 15 billion, the group of medium banks comprises the banks with assets ranging between Denar 4.5 and 15 billion, while the banks with assets lower than Denar 4.5 billion are included in the group of small banks.

[3] 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.

registered in corporate lending. Also, the downward trend in the concentration of the total assets of the banking system, was interrupted. However, the level of concentration in the banking system, according to this criterion, is still the lowest, compared with the other categories.

The CR5 indicator also confirms the relatively high level of concentration in the banks' operations. According to this indicator, the concentration in all analyzed domains of banks' operations registered an increase in the first half of 2009. As of June 30, 2009, the highest level of concentration was registered in the households deposits (CR5 = 85%), while the largest increment of 3.7 percentage points was registered in the concentration of household credits. This indicator also confirms the lowest level of concentration in the banks' total assets.

Figure 2
Dynamics of CR5 for the banking system of the Republic of Macedonia



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

Table 1
Market share of the individual groups of banks

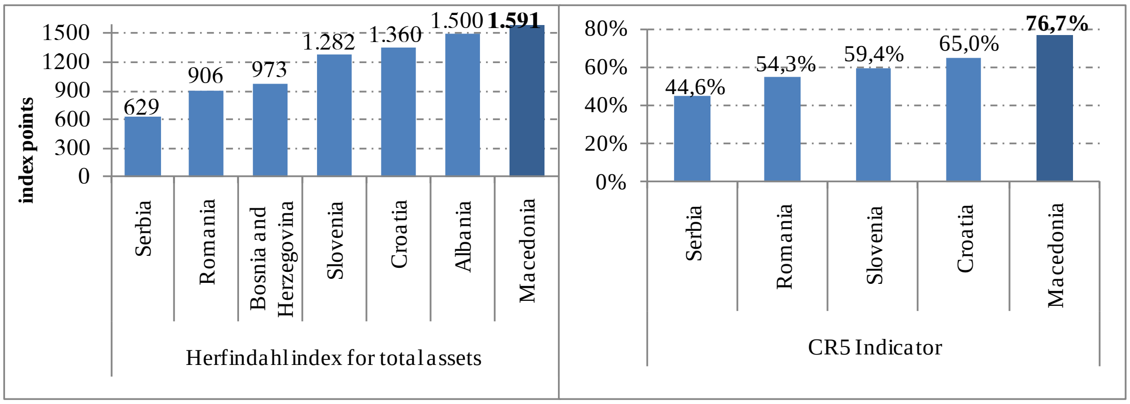
Groups of banks	Number of banks		Share in total assets		Share in total activities		Share in total loans		Share in total deposits	
	31.12.2007	31.12.2008	31.12.2007	31.12.2008	31.12.2007	31.12.2008	31.12.2007	31.12.2008	31.12.2007	31.12.2008
Large banks	3	3	66.1%	66.3%	67.9%	67.7%	69.0%	69.8%	70.1%	72.3%
Medium banks	8	8	28.8%	28.5%	27.5%	27.7%	28.7%	28.4%	26.8%	24.9%
Small banks	7	7	5.1%	5.1%	4.6%	4.6%	2.3%	1.8%	3.1%	2.8%
Total	**18**	**18**	**100,0%**	**100.0%**	**100,0%**	**100.0%**	**100,0%**	**100.0%**	**100,0%**	**100.0%**

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

The relatively high level of concentration in the banking system is confirmed also through the significance of the individual groups of banks on the market in the Republic of Macedonia. As of June 30, 2009, there were no significant changes in the role of the individual groups of banks, i.e. still one of the main structural features of the banking system is the dominance of the group of large banks. Relative to December 31, 2008, this group of banks strengthened its market share in almost all analyzed segments of the banking operations (excluding total activities[4]). Especially emphasized is the dominance of the group of large banks in the domain of deposit collection. On the other hand, the share of the group of medium banks in all other segments of the banking operations (excluding total activities) declined, contrary to the so far present trend of gradual increment of their role in the banking system. The role of the group of small banks in the area of financial intermediation, continued to decline.

[4] Total activities include total on-balance sheet and off-balance sheet banks' activities.

Figure 3
Degree of concentration of the assets of the banking system in the Republic of Macedonia and of some countries in the region



Source: Site pages of the central banks of the analyzed countries. The data for Serbia, Bosnia and Herzegovina, Slovenia and Albania are of 31.12.2008, for Romania and Croatia are of 31.03.2009, and for Republic of Macedonia are of 30.06.2009.

The relatively high level of banking system concentration is confirmed also by the comparative analysis with the banking systems of certain countries in the region. According to the Herfindahl index and CR5 indicator which pertain to the total assets, the banking system of the Republic of Macedonia has the largest level of concentration, compared with the banking systems from the group of analyzed countries.

1.3. Ownership structure of the banking system

1.3.1. Ownership structure of the banking system according to the type of shareholders

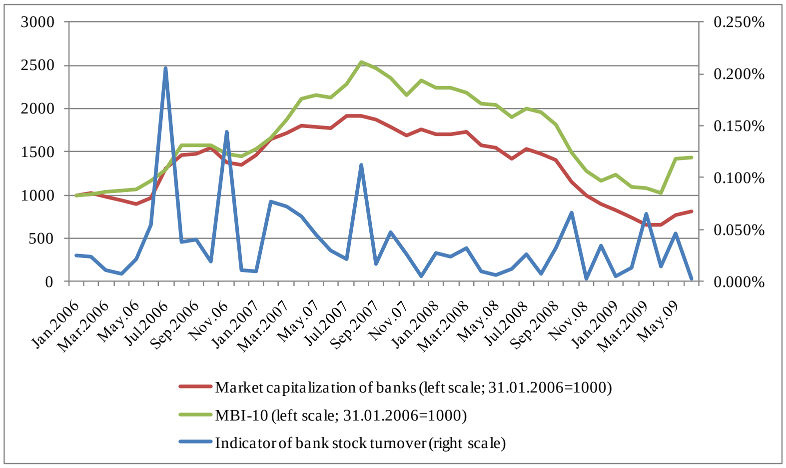
During the first half of 2009, almost no changes occurred in the ownership structure of the banking system of the Republic of Macedonia. Financial institutions[5] retained their dominant position, and as of June 30, 2009, they participated with 63,4% in the ownership structure of the common shares issued by banks, which is an insignificant decline of 0.4 percentage points relative to the end of 2008. The shares of the other entities in the shareholders structure of the banking system did not register significant changes, either. Such a situation is a result of the absence of significant ownership restructuring in the banking system in the first half of 2009. In the same period, the priority shares participated with insignificant 1.2% in the total number of shares issued in the banking system, and within that framework, natural persons still maintained their dominant position, with a share of 50.3%. At the same time, a significant increment was registered in the financial entities' share in the ownership of the preferred shares, as a result of the conversion of part of the common shares into preferred shares in one bank, by its mother bank abroad.

[5] The following are considered to be financial institutions: domestic and foreign banks, domestic and foreign brokerage houses, investment funds, pension funds, pension funds or investment funds management companies, insurance companies, as well as the international financial institutions (EBRD, IFC, etc.), which are owners of shares issued by the banks in the Republic of Macedonia.

Table 2
Ownership structure of the banking system according to the type of shareholders

No	Type of stockholders	Share of common stocks			Share of preferred stocks		
		30.06.2008	31.12.2008	30.06.2009	30.06.2008	31.12.2008	30.06.2009
1	Natural persons	10.3%	9.7%	10.2%	54.7%	69.1%	50.3%
2	Non-financial legal entities	19.9%	19.7%	19.6%	8.2%	19.1%	14.0%
3	Financial institutions	62.6%	63.8%	63.4%	36.4%	11.0%	35.0%
4	Public sector, public enterpreices, public institutions	6.6%	6.5%	6.6%	0.1%	0.8%	0.6%
	- without MBPR	1.6%	1.3%	1.3%	1.6%	1.3%	1.3%
5	Undefined status	0.6%	0.3%	0.3%	0.6%	0.1%	0.0%
	Total (1 to 5)	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
	Total of private capital (1+2+3+5)	93.4%	93.5%	93.4%	99.9%	99.2%	99.4%

Figure 4
Stock market indicators for the banks and MBI-10



Source: Macedonian stock exchange

In the first half of 2009, the contraction of the overall activity in the domestic economy as a reflection of the world economic crisis, the absence of regional investors and the refraining of the domestic investors from investing in shares, as well as the relatively completed ownership restructuring of the banking system (mainly by acquisitions by foreign shareholders), influenced the further decline in the prices of the shares of the banks quoted on the stock exchange[6], and hence the decline in their market capitalization. Thus, at the end of the first half, market capitalization dropped by 10.1% relative to the end of 2008, with opposite movement within the half-year period (quarterly decline of 21.6% in the first quarter, followed by a quarterly

[6] The stocks of the following banks are quoted on the official market of the Macedonian Stock Exchange: "Investbanka" AD Skopje, "Stater banka" AD Kumanovo, "Komercijalna banka" AD Skopje, "Ohridska banka" AD Ohrid, "Stopanska banka" AD Bitola and "TTK banka" AD Skopje. Starting from February 2007, and in line with the changed rules for quotation on the Stock Exchange, two of these banks ("Investbanka" AD Skopje and "Komercijalna banka" AD Skopje) were quoted on the newly-established special market segment called "superquotation". On the unofficial market, in the market segment of companies in public ownership, the shares of the following companies are traded: "NLB Tutunska banka" AD Skopje, "Centralna kooperativna banka" AD Skopje, "Stopanska banka" AD Skopje, and "UNI banka" AD Skopje (starting from March 2007).

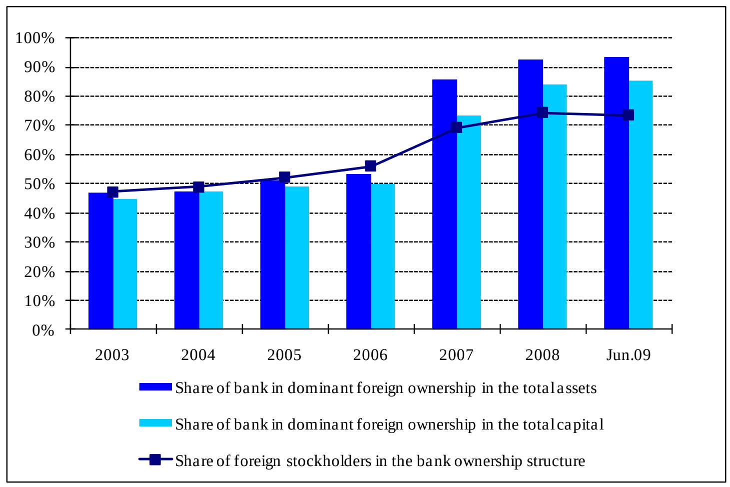
increase of 14.6% in the second quarter of 2009). The stagnation of the stock exchange trading is now evident from the reduced turnover of banks' shares. Slight upward tendency in the turnover and in the prices of shares was, however, registered in the second quarter of 2009, which corresponds with the assessments for exhaustion of the effects of the crisis on the financial markets, including the stock exchange. The overcoming of the consequences from the world economic crisis and the recovery of the economy in the future are expected to reflect also on the movements in the stock exchange. The general recovery of the economy is expected to change the sentiment about investing in the capital market. The increased investments by domestic investors are already visible in the moderate recovery of the MBI-10 index.

1.3.2. Share of foreign capital in the total capital of the banking system

As a result of the absence of ownership restructuring, at the end of the first half of 2009 there were no significant changes in the share of foreign shareholders in the banking system, compared with the end of 2008. Thus, as of June 30, 2009, the foreign capital participated with 73.5% in the total equity of banks (insignificant decline of 0.8 percentage points relative to December 31, 2008, which is a result of the exit of small shareholders). No change is registered in the number of banks, dominantly owned by foreign shareholders (14 banks, 8 of which dominantly owned by foreign banks). At the same time, the share of the banks in dominant foreign ownership, in the total assets and total equity of the banking system reached 93.2% and 85.1%, respectively, which is an insignificant rise of 0.5 percentage points and 0.9 percentage points, respectively, relative to December 31, 2008.

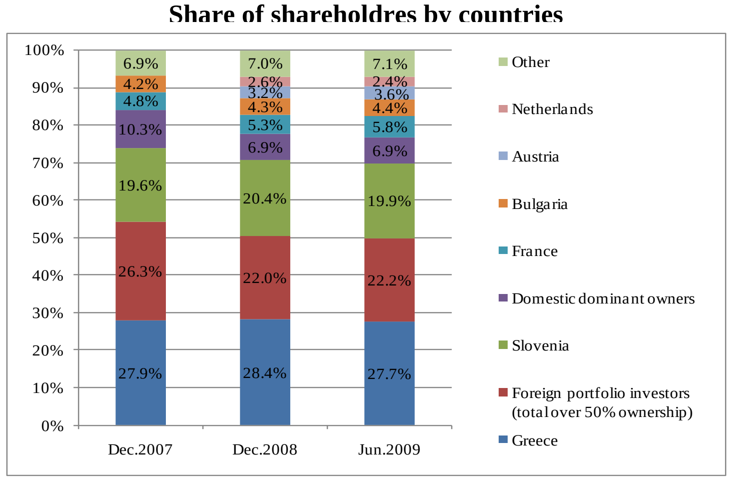
Following the almost unchanged ownership structure of the banking system, the assets distribution by banks according to the country of origin of their dominant owners, remained unchanged. The largest portion of the assets of the banking system is still concentrated with the banks whose dominant owners come from the EU countries. The banks which are dominantly owned by shareholders from

Figure 5
Foreign share in banks



Source: NBRM based on data from banks

Figure 6
Share of shareholdres by countries

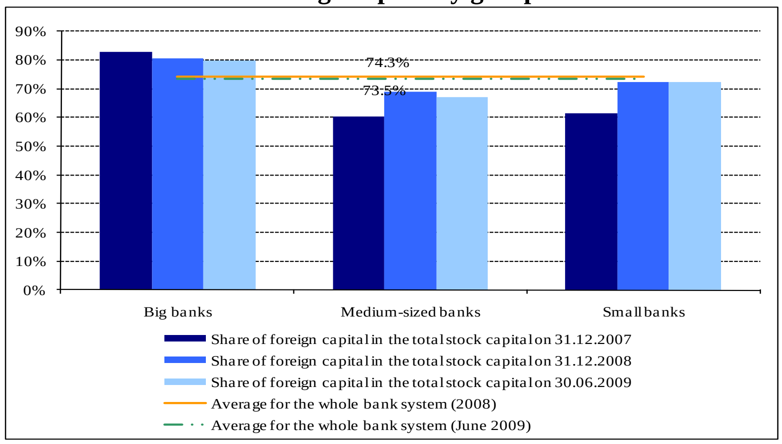


Source: NBRM on the basis of data obtained from the banks

the Republic of Macedonia, still cover only 6.9% of total banks' assets.

During the first half of 2009, the absence of ownership restructuring was common for all groups of banks. Still highest is the share of foreign capital in the ownership structure with the group of large banks, although also in the other two groups of banks it exceeds 2/3 of their total equity.

Figure 7
Share of the foreign capital by groups of banks



Source: NBRM based on data from banks

1.4. Access to banking services

Figure 8
Share of the individual groups of banks in the total number of business units and in the newly-opened business units

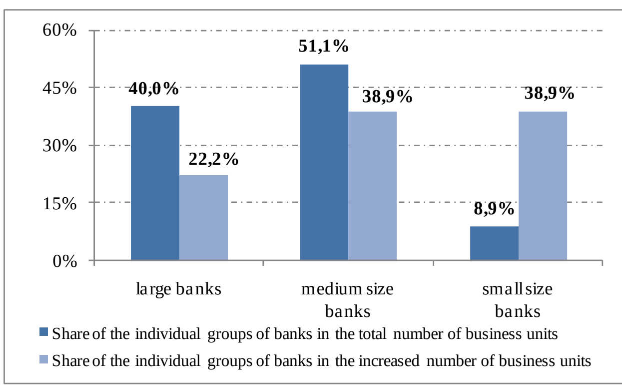
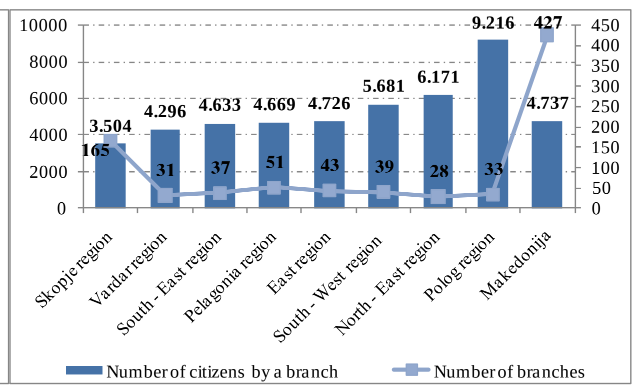


Figure 9
Geographic concentration of the bank network through regions in the Republic of Macedonia

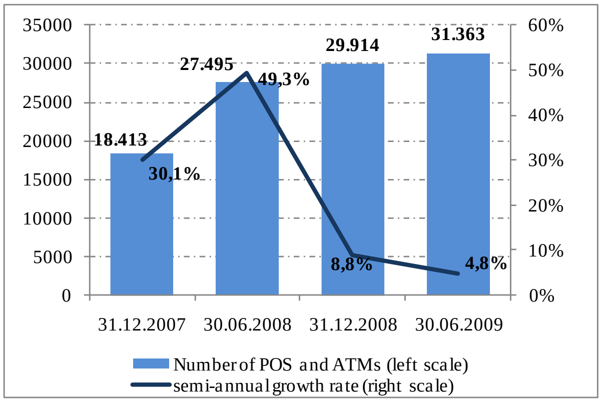


Source: State statistical office and internal calculations of NBRM on the basis of data obtained from the banks. The number of citizens by individual regions is calculated on the basis of the Census of Population, Households and Dwellings in the Republic of Macedonia, 2002, book XIII.

In the first half of 2009, although at a slower pace compared with the preceding year, the network of business units of the banks in the Republic of Macedonia continued to expand. Compared with December 31, 2008, the number of business units increased by 18, as opposed to the increment of 33 business units in the first half of 2008 and 43 business units in the second half of 2008. As a result of such change, as of June 30, 2009 the banking system had 427 business units on the territory of the Republic of Macedonia. The largest number of business units (218) belonged to the group of medium banks. Regarding the newly-opened business units, medium and small banks had an equal number of newly-opened business units (7), while large banks had 4 newly-opened business units.

The concentration of the network of banks' business units was maintained on the territory of the capital also in the first half of the year. Namely, 38.6% of the total number of business units belong to the region of Skopje. As a result of such concentration, this region is characterized with the smallest number of citizens per business unit, i.e. on average, one business unit in this region provides services for relatively smallest number of citizens, which has a positive influence on the access and the quality of the services obtained. The largest number of citizens per business unit is still common for the region of Polog. Analyzed by municipalities in the Republic of Macedonia, Novo Selo is still a municipality with the largest number of citizens per business unit (11,567 citizens per business unit), while the smallest number of citizens per business unit is common for Resen (1,869 citizens per business unit).

Figure 10
Number of POS and ATMs and their semi-annual growth rate



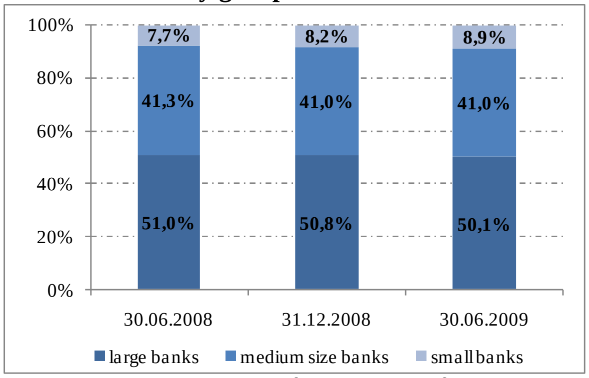
Source: NBRM on the basis of data obtained from the banks

During the first half of 2009, the number of POS and ATMs continued the upward trend, however at a slower pace relative to the preceding periods. The slowdown started in the second half of 2008, when the semi-annual growth rate of the number of POS and ATMs was only 8.8% (the semi-annual growth rate of POS and ATMs in the first half of 2008 was 49.3%). Such a slower dynamics continued in the first half of 2009, with the growth rate amounting to only 4.8%. As a result of that, as of June 30, 2009, the annual growth rate of the number ATMs was reduced down to 14.1%, as opposed to the annual growth rates of 87.1% and 62.5% as of December 31, 2007 and December 31, 2008, respectively. The slower growth is to a large extent a result of the relatively spread network of POS and ATMs, as opposed to the low starting basis of these devices in the preceding years.

1.5. Number of employees in the banking system

In the first half of 2009, the total number of employees in the banking system declined, which interrupted the trend of continuous growth, present in the preceding years. On the other hand, the trend of gradual improvement of the qualification structure of the employees, expressed through the increased share of the employees with university degree at the expense of the decline in the share of the employees with lower level of education, continued. Still the largest portion of the employees in the banking system are engaged in the groups of large and medium banks.

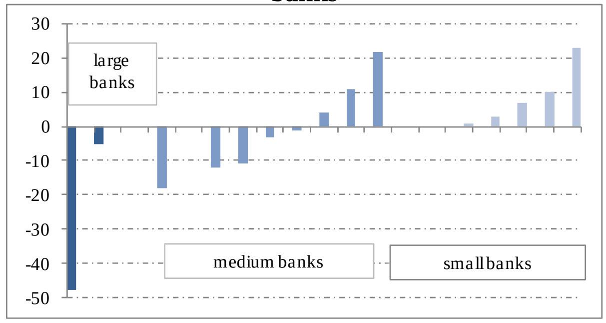
Figure 11
Structure of the employees in the banking system by groups of banks



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

As of June 30, 2009, the total number of employees in the banking system equaled 6,094. Relative to December 31, 2008, the number of employees in the banking system declined by 17 or by 0.3%. One of the factors for the decline in the number of employees in the banking system was the slower dynamics of the total activities of the banks in the Republic of Macedonia. The largest decline in the number of employees was registered in the group of large banks (53), where over 90% of this decline is due to one bank. The group of medium banks did not register significant changes in the number of employees, on net basis. In contrast, in the first half of 2009, only the group of small banks registered an increased number of employees (by 44). The largest share (of around 52%) in this growth was registered with one bank, in which a change of ownership was made, in 2008.

Figure 12
Change in the number of the employees by groups of banks



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

Figure 13
Structure of the employees' qualification in the banking system

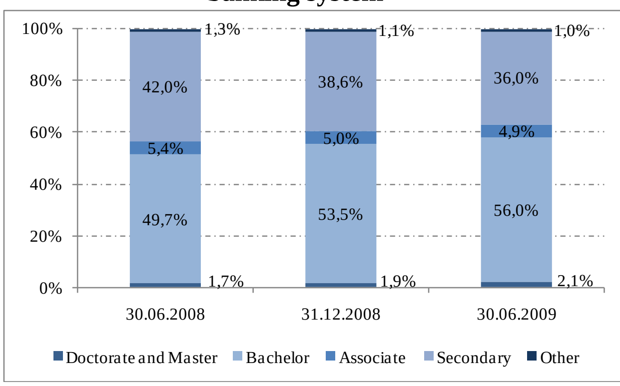
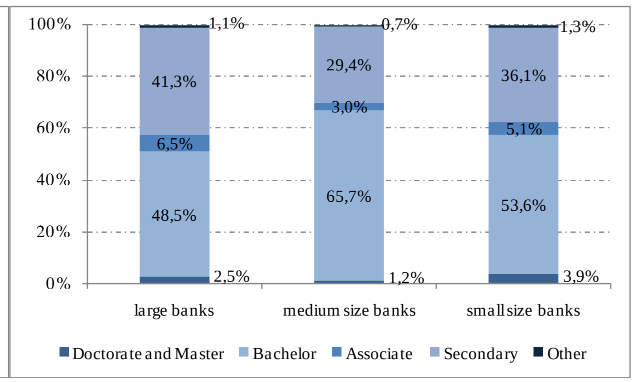


Figure 14
Structure of the employees' qualification by groups of banks



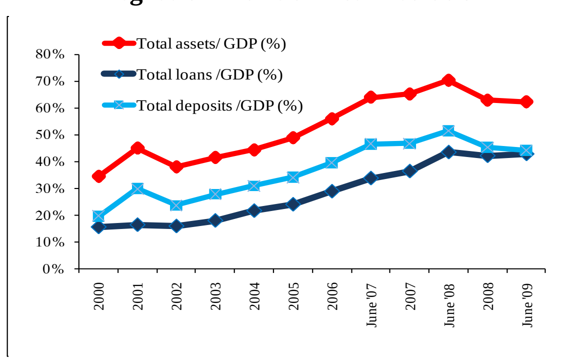
Source: NBRM on the basis of data obtained from the banks

Same as in the previous periods, the largest portion of the employees in the banking system belongs to the group of large banks. On the other hand, the highest share of employees with university degree in the qualifications structure of the employees was present in the group of medium banks.

2. Banks' activities

2.1. Degree of financial intermediation

Figure 15
Degree of financial intermediation



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

In the first half of 2009, the level and dynamics of the financial intermediation in the banking system of the Republic of Macedonia were under the influence of the decline in the domestic economic activity and the still present uncertainty about the ultimate effects of the global financial crisis on the overall economic developments and on the operations of the banks in the Republic of Macedonia. Banks' tightened terms of lending, as a

prudential response to the deteriorated macroeconomic conditions and compliance with the macroprudential measures undertaken by the NBRM, also had an appropriate influence. Under such circumstances, the trend of contraction of the overall activities and the deposit core continued, same as the slower dynamics of banks credit activity, which had its impact on the degree of financial intermediation. Financial intermediation indicators, measured as a ratio of the total assets, total deposits to GDP[7], reached 62.3% and 44.3%, respectively, and registered a decline of 0.6 and 1.1 percentage points, respectively, relative to the end of 2008. Only the degree of financial intermediation observed through the credit activity, continued to grow. The ratio of total credits to GDP equaled 42.8% and relative to December 31, 2008 it grew by 0.7 percentage points. The level of financial intermediation was the highest also in this half of the year in the group of large banks, and as a ratio of total assets, total deposits, and total credits to GDP it equaled 41.3%, 32.0% and 30.1%, respectively.

The comparative analysis of the degree of financial intermediation of the banking system of the Republic of Macedonia with the EU Member States and selected countries from the Balkan region, still indicates lower level of financial intermediation in the domestic economy. The three basic indicators (ratio of total assets, credits and deposits to GDP) show that the level of financial intermediation in the Republic of Macedonia, is among the lowest in the spectrum of the analyzed countries.

Table 3
Degree of financial intermediation in different countries

Country	Assets/GDP	Loans/GDP	Deposits/GDP
Romania	-	40.0%	44.0%
Serbia	63.7%	36.4%	36.4%
Albania	77.7%	-	37.0%
Poland	79.6%	59.2%	51.1%
Slovakia	91.1%	67.7%	59.2%
Bulgaria	93.5%	83.5%	71.6%
Croatia	101.8%	65.3%	67.9%
Estonia	131.4%	104.1%	61.2%
Slovenia	136.7%	112.3%	62.2%
Italy	170.3%	131.1%	70.8%
Greece	174.4%	147.9%	110.0%
Portugal	264.8%	227.6%	126.7%
Germany	280.2%	138.9%	55.9%
Austria	303.1%	229.8%	169.2%
Spain	315.6%	240.6%	161.2%
Belgium	388.7%	224.7%	161.9%
Netherlands	471.6%	318.9%	220.9%
Cyprus	677.1%	560.8%	428.4%
Republic of Macedonia (2008)	62.9%	42.1%	45.4%
Republic of Macedonia (June, 2009)	62.3%	42.8%	44.3%

Source: NBRM, ECB Report on EU banking sector stability, august 2009 and the Central banks' websites. Except for the Republic of Macedonia, the data presented for the rest of the countries refer to 31.12.2008.

[7] Financial intermediation indicators for the end of the first half of 2009 are calculated with an estimated data on GDP for 2008.

2.2. Balance sheet of banks

In the first half of 2009, the downward trend in the total banks' assets, which started in the last quarter of 2008, continued. The semi-annual growth rate of total assets was negative and equaled -0.9%, which reduced the annual growth rate of assets down to only 3.0%, contrary to the significantly higher growth rates common for the past years. For comparison, the annual growth rate of assets equaled 21.1% as of June 30, 2008. Such developments caused the banks' assets to be brought down to the level of Denar 248,345 million as of June 30, 2009.

Table 4
Structure of the assets and liabilities at the level of the banking system

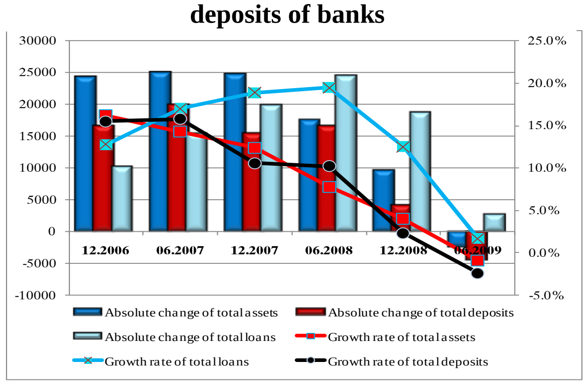
Balance sheet	Amount in millions of Denars		Structure		Change 30.06.2009/31.12.2008			
	31.12.2008	30.06.2009	31.12.2008	30.06.2009	Change in absolute amount	In percentage	Structure (in percentage points)	Share n the change
Cash and balances with NBRM	26,979	26,797	10.8%	10.8%	-182	-0.7%	0.0	7.7%
Securities portfolio	28,857	20,167	11.5%	8.1%	-8,690	-30.1%	-3.4	368.4%
Placements to other domestic and foreign banks	27,168	30,123	10.8%	12.1%	2,955	10.9%	1.3	-125.3%
Placements to other financial institutions		1,966		0.8%	1,966	0.0%		-83.4%
Loans to non-financial entities (net)	154,272	155,673	61.5%	62.7%	1,401	0.9%	1.1	-59.4%
Accrued interest and other assets	5,260	5,327	2.1%	2.1%	67	1.3%	0.0	-2.8%
Fixed and intangible assets	8,168	8,579	3.3%	3.5%	411	5.0%	0.2	-17.4%
Unrecognized impairment	0	-286	0.0%	-0.1%	-286	0.0%	-0.1	12.1%
Total assets	**250,704**	**248,345**	**100.0%**	**100.0%**	**-2,359**	**-0.9%**	0.0	**100.0%**
Deposits from banks and other financial institutions	12,006	15,286	4.8%	6.2%	3,280	27.3%	1.4	-139.0%
Deposits of non-financial entities	180,913	176,555	72.2%	71.1%	-4,358	-2.4%	-1.1	184.8%
Borrowings (short-term and long-term)	20,238	18,454	8.1%	7.4%	-1,784	-8.8%	-0.6	75.6%
Other liabilities	7,688	6,300	3.1%	2.5%	-1,388	-18.1%	-0.5	58.8%
Provisions for off-balance sheet items and other provisions	926	1,015	0.4%	0.4%	89	9.6%	0.0	-3.8%
Capital and reserves	28,932	30,735	11.5%	12.4%	1,802	6.2%	0.8	-76.4%
Total liabilities	**250,704**	**248,345**	**100.0%**	**100.0%**	**-2,359**	**-0.9%**		**100.0%**

* Loans to non-financial entities (net) do not iclude impairment (provisions) of loans to non-financial entities.

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

The contraction of the banks' total assets reflected the further narrowing of the deposit core, which still represents the dominant source of funds for the banks. Unlike the positive growth rates recorded in the past periods, as of June 30, 2009, deposits of non-financial entities dropped by 2.4% on semi-annual level, while their annual growth rate equaled -0.1%. At the same time, the decline in the deposits from non-financial entities is almost twice higher than the decline in the total liabilities. Borrowings, as another more significant category in the total sources of banks' funds (beside capital and reserves), also dropped on semi-annual basis by

Figure 16
Semi-annual growth of total assets, loans and deposits of banks



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

8.8%, whereby their share in the total banks' liabilities declined. In the first half of 2009, there was an increase in the share of deposits from other banks, which is mostly due to conducted re-recordings and respective presentation of the deposits of other financial institutions in the banks' balance sheets.[8]

In contrast to the negative growth rates of the total assets and deposits of non-financial entities in the first half of 2009, bank credits continued to grow, however at a slower pace, relative to the preceding periods. As of June 30, 2009, the semi-annual growth rate of total credits equaled only 1.7%, which is by 32.7 percentage points lower level compared with the semi-annual growth rate registered as of December 31, 2008, and by 17.8 percentage points less relative to the semi-annual growth rate registered as of June 30, 2008. Despite that, on annual basis, total credits registered a double-digit growth rate, which equaled 14.4%.

Amid contraction of the banks' deposit core, as a result of the unfavorable economic developments, the main generator of the growth of the credit activity also in this half of the year, was the restructuring of the assets of the banking system. Just as in the previous few years, further strengthening of the structural share of the credits in the total assets was registered, which as of June 30, 2009 equaled 62.7% and relative to December 31, 2008 it registered growth of 1.1 percentage point. Such a development went simultaneously with the further decline in the banks' funds placed in securities, and hence a decline in their structural share in the total banks' assets. During the first half of 2009, the decline in the securities portfolio was significantly more intensive (semi-annual decline of 30.1%), compared with 2008, when the annual decline equaled 18.7%. The decline in the securities portfolio was mostly reflected through the semi-annual fall in the subscribed CB bills by Denar 7,798 million or 44.7%. On the other hand, subscribed government bills registered a semi-annual growth of Denar 344 million or 10.2%.

Figure 17
Asset structure of the banking system

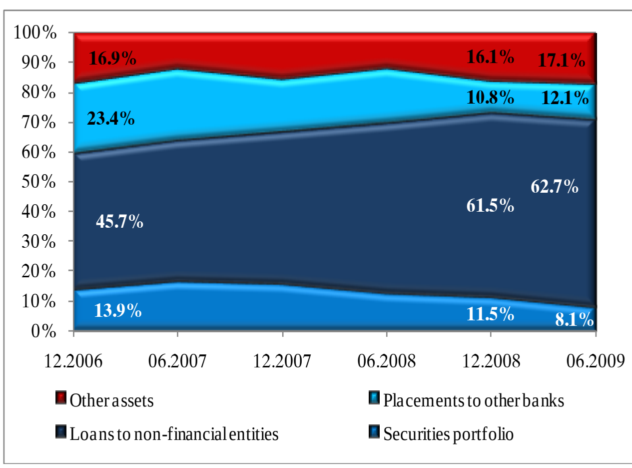
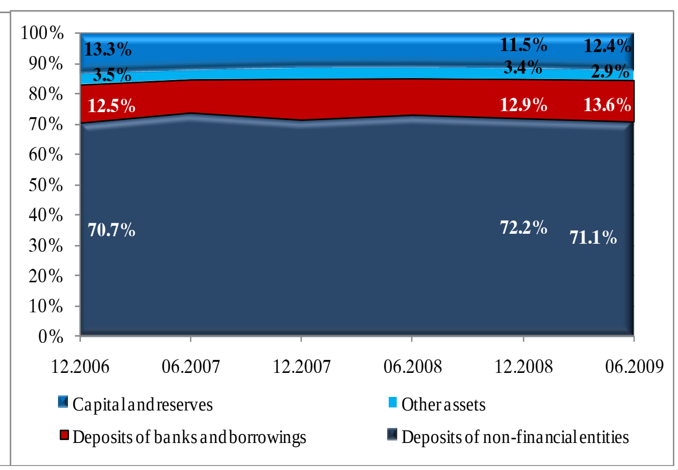


Figure 18
Liabilities structure of the banking system



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

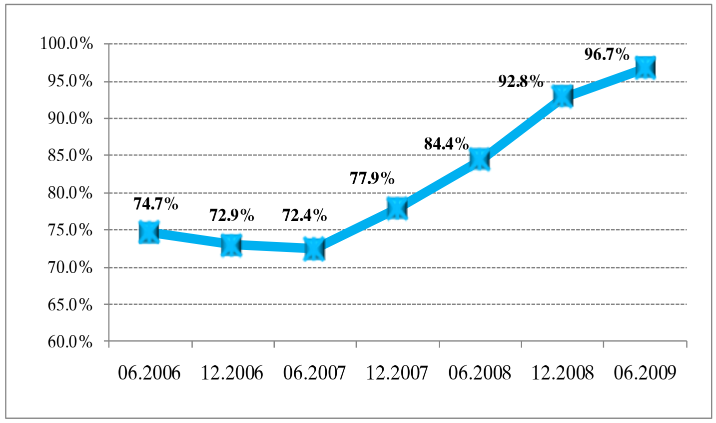
Another more important movement in the banks' assets in the first half of 2009, was the increase in the funds placed with other banks, which started in the first quarter of 2009, unlike their continuous decline present in the past few years. In the first half of 2009, funds placed with other banks went up by 10.9%, whereby they increased their share in forming the banks' total assets. This trend

[8] With the introduction of the new accounting framework, re-recordings were made of deposits of insurance companies and pension funds management companies from the accounts for deposits of other clients to respective accounts for deposits of insurance companies and pension funds management companies.

is to a large extent present as banks' prudent response in order to comply with the minimum levels of liquidity prescribed by the National Bank[9], but also due to the tightened credit policies of banks amid the still present uncertainty regarding the ultimate effects of the global crisis on the real sector and on banks in the Republic of Macedonia.

In conditions of continuously faster pace of the credit activity relative to the slower growth, and even contraction of total deposits, the indicator of total banks' credits to total banks' deposits ratio continued its upward trend also in the first half of 2009. Compared with December 31, 2008, this indicator went up by 3.9 percentage points, while the annual growth was more emphasized and equaled 12.3 percentage points. The higher utilization of the deposit core as a source of financing of banks' activities, contributed to the increased competitiveness among banks in taking as large portion of the deposit market as possible, which among other things was reflected in the increased deposit interest rates. In the future, one may expect an increased need of banks for orientation toward other sources of financing of their activities, which would mean a reduced dominance of deposits in their sources of funds.

Figure 19
Dynamics of the Loan / Deposit ratio



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

2.3. Balance sheet of the individual groups of banks

During the first half of 2009, the narrowing of the deposit core and the consequent decline in the overall activities of the banking system, were registered in all groups of banks. The downward movement of overall assets and deposit base was most evident in the group of medium banks. Such movements contributed to the termination of the trend of gradual increase of the significance of this group of banks, present in the past period. The decline in the activities of the group of small banks contributed to the further diminishing of its role in the framework of the banking system of the Republic of Macedonia. At the expense of that, and as a result of the smaller negative quarterly growth rates, the group of large banks maintained and additionally reinforced its dominance in the structure of the banks' total assets and sources of funds.

[9] At the end of 2008, NBRM adopted a new Decision on managing banks' liquidity risk. This Decision, inter alia, imposed the obligation for the banks to maintain a certain minimum liquidity ratio defined as a ratio of on-balance sheet to off-balance sheet assets and liabilities falling due within the maturity segments of up to 30 days and up to 180 days, individually for Denar and for FX assets and liabilities.

Table 5

Market share and growth of the total assets, loans and deposits by groups of banks

ITEMS	Amount in millions of Denars		Strucutre		Semiannual change 30.06.09/31.12.08			
	31.12.2008	30.06.2009	31.12.2008	30.06.2009	In absolute amount	In percentage	Structure (inpercentage points)	Share in the increase
Total assets	**250,704**	**248,345**	**100.0%**	**100.0%**	**(2,359)**	**-0.9%**		**100.0%**
- Large banks	165,798	164,714	66.1%	66.3%	(1,084)	-0.7%	0.2	46.0%
- Medium-size banks	72,136	70,893	28.8%	28.5%	(1,243)	-1.7%	-0.2	52.7%
- Small-size banks	12,770	12,738	5.1%	5.1%	(32)	-0.3%	0.0	1.4%
Loans to non-financial entities	**167,907**	**170,698**	**100.0%**	**100.0%**	**2,791**	**1.7%**		**100.0%**
- Large banks	115,826	120,012	69.0%	70.3%	4,186	3.6%	1.3	150.0%
- Medium-size banks	48,250	47,099	28.7%	27.6%	(1,151)	-2.4%	-1.1	-41.2%
- Small-size banks	3,831	3,587	2.3%	2.1%	(244)	-6.4%	-0.2	-8.7%
Deposits of non-financial entities	**180,913**	**176,555**	**100.0%**	**100.0%**	**(4,358)**	**-2.4%**		**100.0%**
- Large banks	129,909	127,697	71.8%	72.3%	(2,212)	-1.7%	0.5	50.8%
- Medium-size banks	45,941	43,960	25.4%	24.9%	(1,981)	-4.3%	-0.5	45.5%
- Small-size banks	5,063	4,898	2.8%	2.8%	(165)	-3.3%	0.0	3.8%

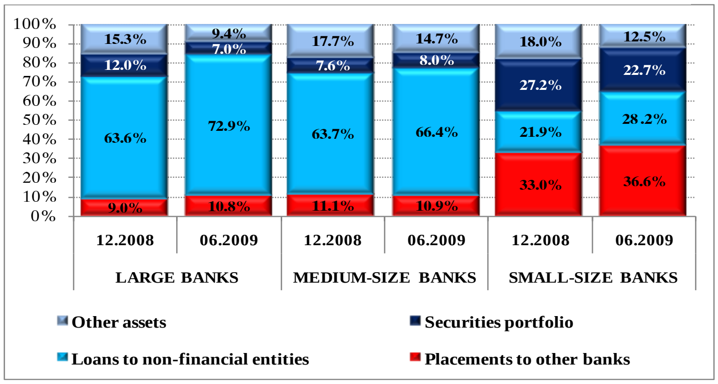
Source: NBRM, based on the data submitted by the banks.

At the end of the first half of 2009, the growth of credits extended by the group of large banks was sufficient to offset the credit decline in the frames of the other two groups of banks. Despite the slowdown relative to the preceding periods, the group of large banks registered a semi-annual rise of the credit activity, whereby it was the only reason for the positive trend of this balance sheet category at the level of the banking system. In contrast, the groups of medium and small banks registered a decline in the credit activity in the first half of 2009. As a result of the slower credit activity during the first half of 2009, as of June 30, 2009 the annual rate of credit growth with the group of large banks was reduced down to only 17.8%, as opposed to 38.7% as of June 30, 2008. In the group of medium banks, the negative semi-annual growth of the credits led to even more emphasized slowdown in the annual credit growth rates (from 60.6% as of June 30, 2008 to only 7.1% as of June 30, 2009). In the group of small banks, which was already characterized with slower credit activity, there were not such significant changes in the annual rates of credit growth (from 9% as of June 30, 2008 to 6.2% as of June 30, 2009).

In the first half of 2009, structural changes in the assets with all groups of banks were in the same direction with those at the level of the entire banking system. The structure of the assets of all groups of banks registered an increased share of credits. However, with the groups of large and small banks this increase was at the expense of the smaller significance of the securities portfolio, while in the group of medium banks the increase was at the expense of the lower structural share of the placements with other banks and other assets. Credits to non-financial entities are still the dominant position with the groups of large and medium banks. On the other hand, the share of the credits in the total assets of the group of small banks is still considerably lower, at the expense of the higher share of the placements with other banks and the securities portfolio.

Figure 20

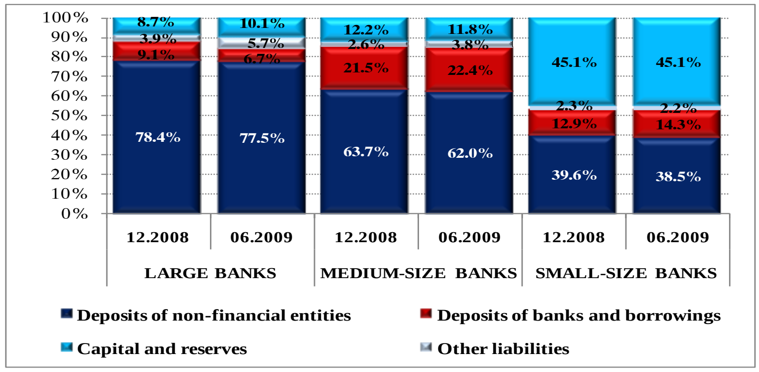
Asset structure by groups of banks



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

In the first half of 2009, common feature of all groups of banks was the lower share of the deposit base in the total liabilities. Despite such movements, with the groups of large banks and medium banks, deposits of non-financial entities still represent the most significant source of financing of their activities. In the group of medium banks, however, there was a relatively lower structural share of this source of funds at the expense of the higher level of utilization of the so-called "secondary" sources of funds (bank deposits and borrowings). The structure of the total sources of funds with the group of small banks, is still characterized with a significantly smaller share of the deposit core, as opposed to the higher level of capitalization of this group of banks

Figure 21
Liabilities structure by groups of banks

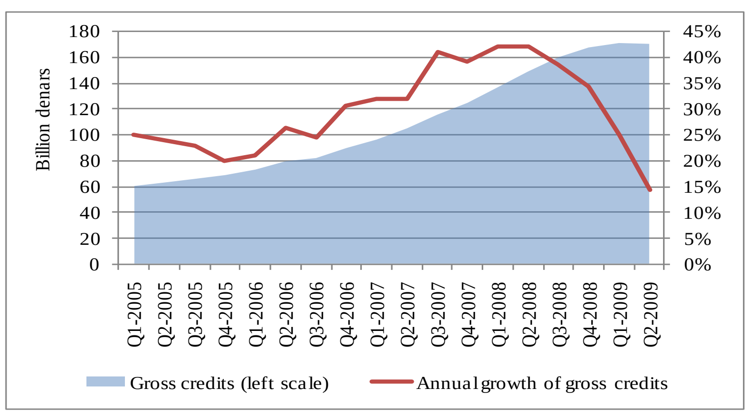


Source: NBRM, based on the data submitted by the banks.

2.4. Banks' lending activity

In the first half of 2009, the slowdown in the banks' credit activity continued, as a reflection of the contracted activity in the domestic economy and their sources for financing their activities, but also of the tightened terms of lending and macroprudent measures undertaken by the NBRM. As of June 30, 2009, the gross-credits to non-financial entities amounted to Denar 170,698 million and relative to the end of 2008 they registered an insignificant growth of 1.7%. Such a dynamics reduced the annual credit growth rate to only 14.4% contrary to the same period of the preceding year, when the annual credit growth rate was over 40%. The stagnation of the credit activity which commenced in the second half of 2008 was to a large extent simultaneous with the more intensive spillover of the global crisis into the Macedonian economy. Furthermore, the increased caution of the banks when extending credits and the continuation of the course of tightened monetary policy in the first half of 2009 led to a decline in the total gross credits in the second quarter of 2009, of 0.4% relative to the first quarter.

Figure 22
Trends of gross credits



Source: NBRM based on the data obtained from the banks

In the first half of 2009, the macroeconomic risks and the risks for the financial stability gained in intensity. The measures that were undertaken by the NBRM in such conditions were aimed at limiting such risks, and in that framework they influenced banks' credit activity.

Thus, during 2008, NBRM undertook a number of measures, which remained in power also in the first half of 2009[10]. At the same time, the National Bank continued to perform its supervisory function on a regular basis, putting a special emphasis on the possible consequences from the increased macroeconomic risks on the banks' credit portfolio. On the other hand, the monetary policy stance remained on the course of preserving the stability of the Denar, so that in April 2009, the interest rate on CB bills went up from 7% to 9%. Moreover, in May 2009, a change was made to the regulations on reserve requirement whereby the reserve requirement ratio increased from 10% to 11.5% for liabilities in foreign currency for the July period of fulfillment (i.e. 13% starting from the August period of fulfillment) and from 10% to 20% for Denar liabilities with FX clause.

The slower credit activity is to a large extent caused by the tightened terms of lending, which is also indicated by the banks' assessments of the realized and expected changes in the terms of lending to the real sector. In conditions of deteriorated perception for the macroeconomic environment and the possibly lowered credit worthiness of the borrowers, banks strengthened their prudence in extending new credits. Thus, more than three thirds of the banks tightened their terms of lending to households and companies in the first half of 2009. On the other hand, there is a clear tendency for reducing the number of banks which expect further increment in the degree of lending restrictiveness. While in the first quarter of 2009 most banks expected the terms of lending to tighten, in the second quarter they are expected to be unchanged.

Table 6
Realized and expected changes in the lending terms

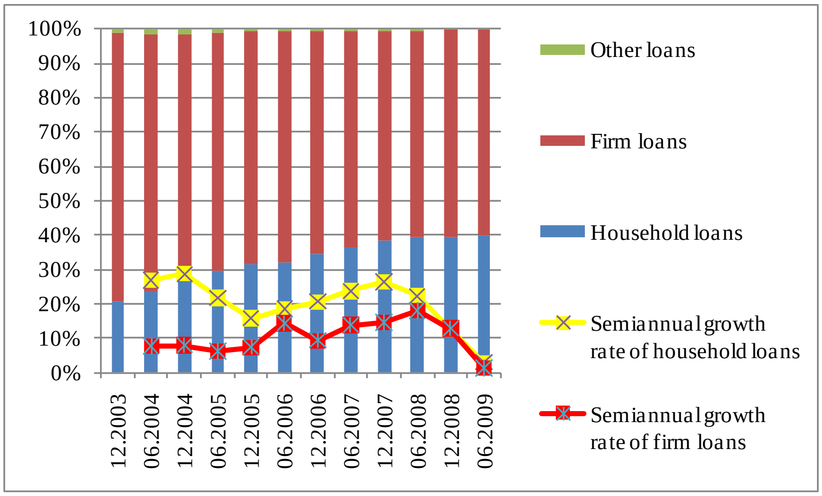
Period	Expectations of banks for the terms of lending in the next three months		Realised changes in the terms of lending	
	Enterprices	Households	Enterprices	Households
Fourth quarter of 2008	3/4 of banks expect partial aggrevation of terms of lending	more than 3/4 of banks expect partial aggrevation of terms of obtaining mortgage and consumer loans	more than a half of the banks have partially aggrevated the terms of lending	more than a half of the banks partially aggrevated terms of obtaining mortgage loans, and more than 3/4 for obtaining consumer loans
First quarter of 2009	more than half of the banks expect significant aggrevation of terms of lendingkreditirawe	more than 2/3 of the banks expect partial aggrevation of the terms for obtaining mortgage loans, while more than 3/4 for obtaining consumer loans	more than a half of the banks considerably, and more than a 1/3 partially aggrevated terms of lending	more than 3/4 of the banks partially aggrevated terms of obtaining mortgage and consumer loans
Second quarter of 2009	1/3 of the banks expect terms of lending to remain unchanged, while another 1/3 consider these will be significantly aggrevated	half of banks expect partial aggrevation, and a half an unchanged situation of the terms for obtaining mortgage loans; more than a half of the banks expect partial aggrevation, and less than a half an unchanged situation with the consumer loans	more than 1/3 od the banks considerably, and more than a half partially aggrevated terms of lending	more than 3/4 of the banks partially aggrevated terms of obtaining mortgage and consumer loans

Source: Survey on the credit activity of the NBRM

[10] In March 2008 the treatment of claims on the basis of credit cards and current account overdrafts was stricter when calculating the banks' capital adequacy ratio. At the end of June 2008, a measure was adopted for allocating a compulsory deposit with NBRM by the banks and savings houses, provided that at the end of a certain month, the household credit growth rate exceeds the growth rate set by the NBRM. The measure continued to be implemented also in 2009, with the permitted growth rate for the first half being set at 5.4%, i.e. 11.3% for entire 2009. Also, at the end of 2008, a requirement for the banks was set for maintaining minimum liquidity ratio in Denars and in foreign currency.

Following the dynamics of the total credits, in the first half of 2009, a slowdown was registered also in the growth of both the household and corporate credits. Thus, household credits and corporate credits grew at semi-annual rates of only 2.8% and 1.2%, respectively, as opposed to the growth rates registered in the preceding half-year periods, which were double-digit. As a result of such dynamics, the share of the household credits and corporate credits in the total credits did not register significant changes and were maintained at the level of 39.9% (households) and 59.9% (companies).

Figure 23
Credits by sector

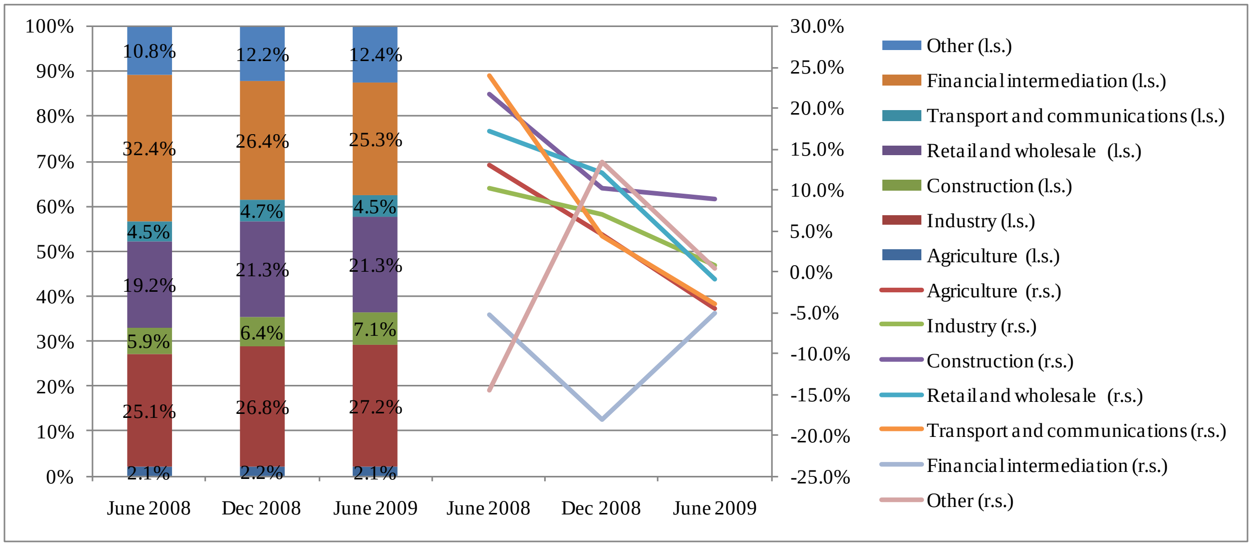


Source: NBRM based on the data obtained from the banks

Still dominant in the structure of the total credit exposure[11] to companies and other clients, by activity, are the credits extended to "industry", "wholesale and retail trade" and "financial intermediation". Despite the absence of significant structural changes, as a result of the substantial downward trend in the exposure to the activity "financial intermediation", as of June 30, 2009 a decline was registered in its share in the total credit exposure at the expense of the increased share primarily of the activity "construction". The credit exposure to the activity "construction" registered the highest semi-annual growth in absolute and in relative terms. Despite the slower pace of the semi-annual growth of the credit exposure in almost all activities, the credit exposure to the "construction" grew by 9% relative to December 31, 2008[12], thus registering an increase also in the share in the total credit exposure. On the other hand, primarily as a result of the lower investment of banks in the CB bills, the largest decline in the credit exposure of 5% relative to December 31, 2008 was registered in the activity "financial intermediation", which had an impact on its share in the total credit exposure. Credit exposure to industry registered an insignificant semi-annual growth of 0.9%, while all other activities registered negative growth rates relative to December 31, 2008.

[11] The banks' credit exposure, besides the credits, includes the claims on other bases (interest, fees, advances, investments in equities), as well as uncovered guarantees, uncovered LCs and other potential banks' claims which reflect a credit risk.
[12] Which is entirely due to the increased exposure of one bank to this sector.

Figure 24
Share (left) and semiannual growth (right) of credits to firms by activity



Source: NBRM based on the data obtained from the banks

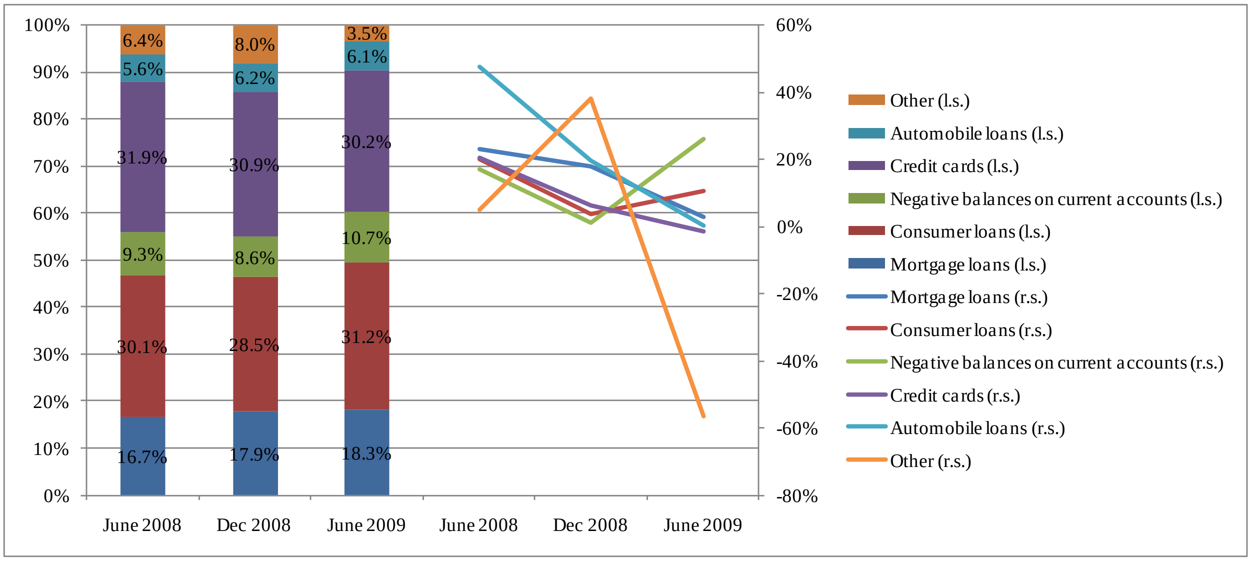
Still the most significant element in the structure of the total credit exposure to households, by credit products, are consumer credits, credit cards and housing and business premises loans. As of June 30, 2009, the share of these credit products in the total credit exposure to households equaled 31.2%, 30.2% and 18.3%, respectively. Compared to December 31, 2008, an increase was registered in the share of the consumer credits and credits on the basis of overdrafts on current accounts, at the expense of the decline in the share primarily of the category "other credits". These structural changes are mostly due to the conducted re-recordings and adequate presentation of the individual types of credit products for the households, offered by the banks.[13] However, if the consumer loans, overdrafts and other credits are analyzed on aggregate basis, then it is evident that there is a moderate increment in the aggregate category of 1.6%, while its share in the total credits is almost unchanged (from 45.1% at the end of 2008, to 45.4% at the end of the first half of 2009).

In the first half of 2009, simultaneously with the slowdown of the credit activity, deceleration was registered in the growth trend of the banks' operations related to payment cards, which is confirmed by the slower growth of the number of issued payment cards and by the decline in the number and the value of the concluded transactions. The rise in the number of issued payment cards slowed down and in the first half of 2009 it equaled 7.4%. The slower growth is primarily a result of the relatively larger number of issued payment cards, contrary to their low starting basis in the preceding years. On the other hand, the value of the transactions with payment cards in the same period declined by 14%. Larger decline (of 26%) was registered in the total value of the executed transactions in trade, while in the cash withdrawal a relatively smaller decline in the total value of the transactions, of 11%, was

[13] Such re-recordings contributed the consumer credits and credits on the basis of overdrafts on current accounts to be the only categories of credit products which as of June 30, 2009 registered higher rates of semi-annual growth relative to those registered as of December 31, 2008. Thus, as of June 30, 2009, consumer credits registered a semi-annual increment of 10.5%, contrary to the semi-annual growth of 3.9% registered as of December 31, 2008. Such a tendency is even more emphasized in the overdrafts on current accounts, which registered the highest semi-annual growth rate of 26.3% (contrary to 1.3% as of December 31, 2008). Contrary to these movements, the category "other credits" registered the largest semi-annual decline of 56.3%.

registered. Such changes did not have a significant influence on the structure of the total executed transactions with payment cards. Also during the first half of 2009, payment cards were mostly used for cash transactions, contrary to their utilization in the trading network. Relative to December 31, 2008, the average value of the transaction in trade dropped by 22%, while that of the transaction for cash withdrawal went down by 7%.

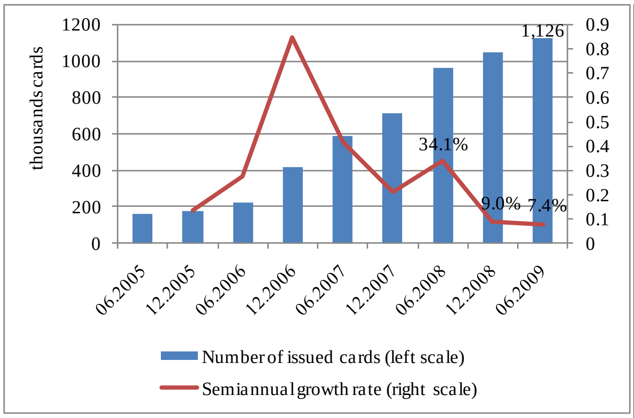
Figure 25
Share (left) and semiannual growth (right) of credits to households by products



Source: NBRM based on the data obtained from the banks

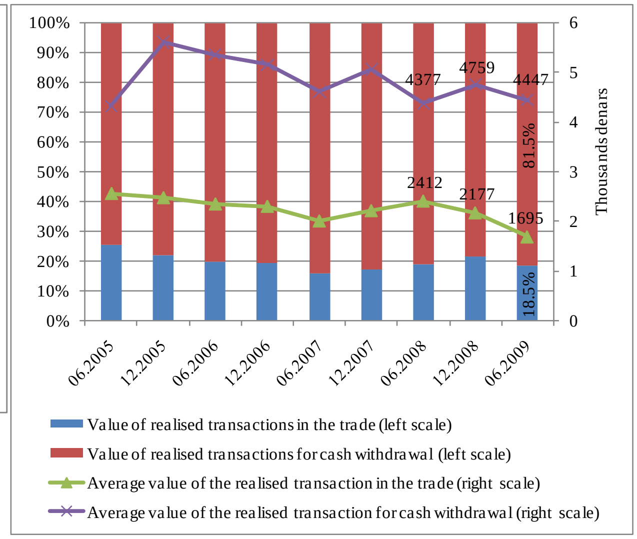
In the first half of 2009, slower growth was common for all types of credits from a viewpoint of the currency in which they are denominated, which did not cause significant changes in the currency structure of the total credits. Still, credits with currency component (in foreign currency and in Denars with FX clause) have larger share compared with the credits extended in Denars. In the first half of 2009, the growth in all three types of credits slowed down significantly, which was evident from the far lower semi-annual growth rates compared with the preceding periods. Unlike the previous periods when in general there was a trend of faster growth of the credits with currency component (in foreign currency or in Denars with FX clause), as of June 30, 2009, growth rates of all three types of credits approximated from a viewpoint of the currency in which they are denominated. Thus, relative to December 31, 2008, Denar credits went up by 1.9%, Denar credits with FX clause went up by 2.1%, while foreign currency credits increased by 0.6%. Such a dynamics reduced the annual growth rates down to 9.1%, 11.4% and 24.2% in the Denar credits, in the foreign currency credits and in the Denar credits with FX clause, respectively. For comparison, as of June 30, 2008, these rates equaled 43.8%, 27.6% and 52.1% in the Denar credits, in the foreign currency credits and in the Denar credits with FX clause, respectively.

Figure 26
Trends of the number of payment cards



Source: NBRM based on the data obtained from the banks

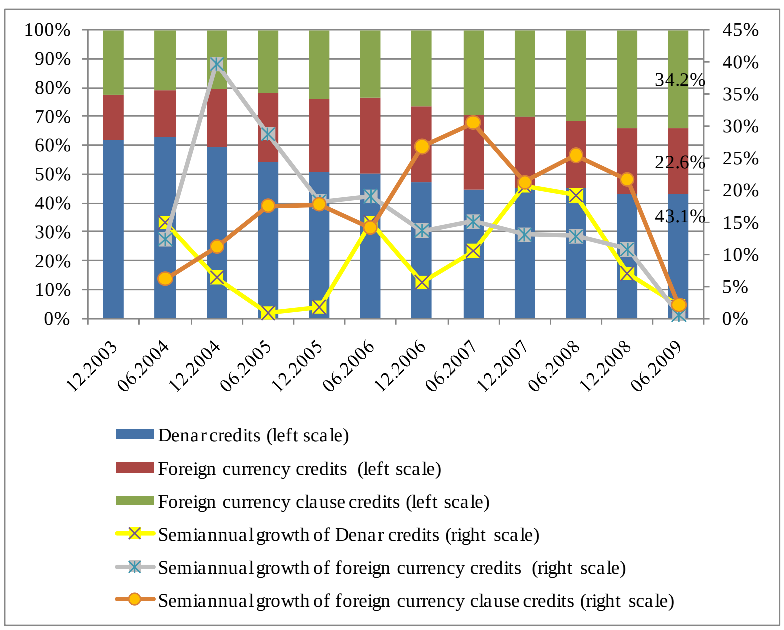
Figure 27
Trends of the transactions with payment cards



Source: NBRM based on the data obtained from the banks

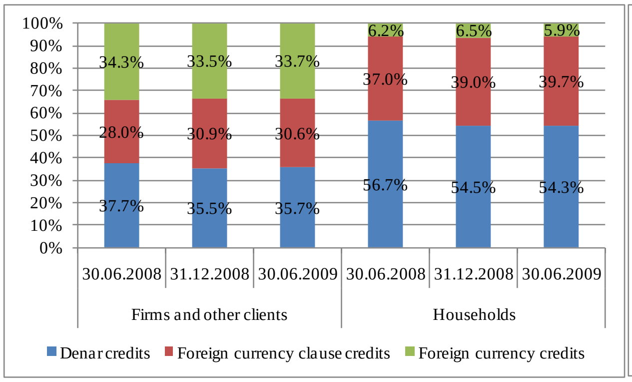
The relative signi ficance of the credits with currency components is still greater with the credits to legal entities, compared with the credits to households, where Denar credits still have a greater share. As of June 30, 2009, the share of credits with currency component in the total credits to non-financial legal entities equals 64.3%, which is almost unchanged relative to the end of 2008. On the other hand, Denar credits cover 54.3% in the currency structure of the household credits, which is an insignificant decline compared with December 31, 2008. The reason behind such an unchanged condition were the low and almost equal growth rates of the various types of credits from a viewpoint of the currency in which they are denominated in both sectors ("compan ies and other clients" and "households"). In the first half of 2009, both sectors registered slower growth in all types of credits according to the currency of denomination, expressed through the lower semi-annual growth rates relative to the preceding periods. It is notable that household foreign currency credits even registered semi-annual decline of 6.4%.

Figure 28
Credits by currency



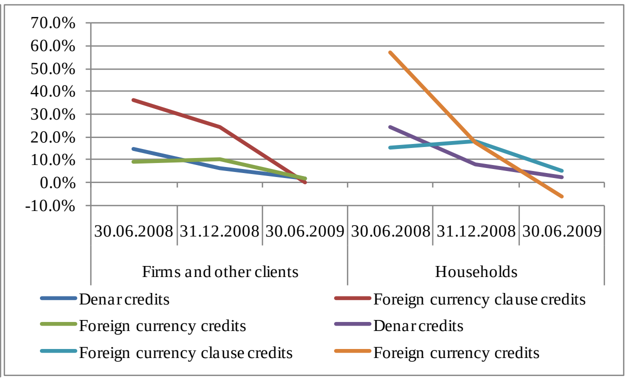
Source: NBRM based on the data obtained from the banks

Figure 29
Structure of the credits to firms and households by currency



Source: NBRM based on the data obtained from the banks

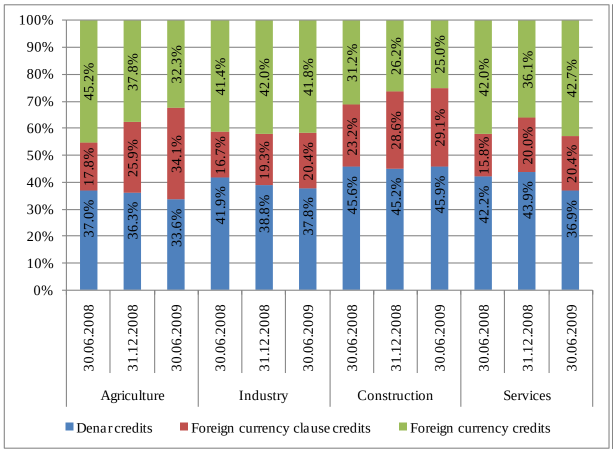
Figure 30
Semiannual growth of the credits to firms and households by currency



Source: NBRM based on the data obtained from the banks

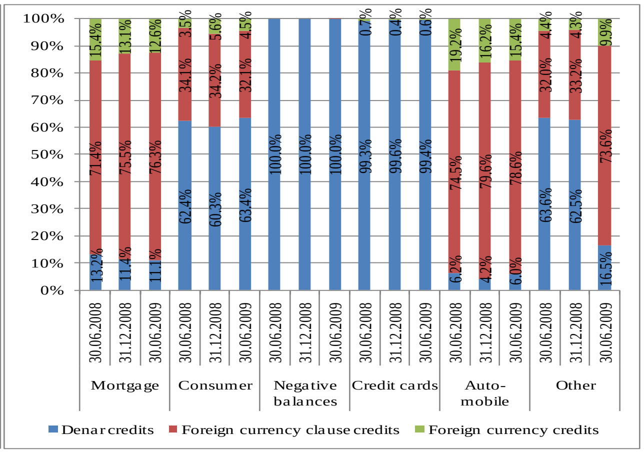
Crediting with FX component has a dominant share in the credit placements to individual activities of legal entities. More than one half of the credits extended to all activities are credits with currency component. As of June 30, 2009, the share of the credits with currency component in the total credits to legal entities registered further increment in the activities "agriculture" and "services".

Figure 31
Currency structure of credits to the activities



Source: NBRM based on the data obtained from the banks

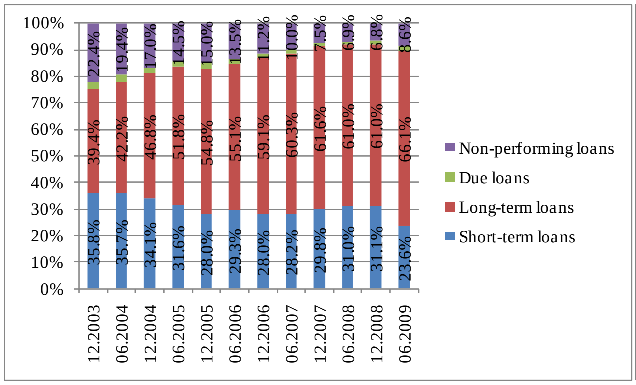
Figure 32
Currency structure of credits to the products



Source: NBRM based on the data obtained from the banks

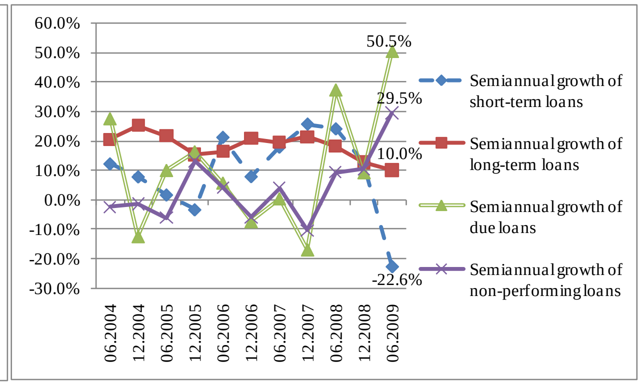
Unlike the corporate credits, in the c urrency structure of the household credits according to the individual credit products, there is an uneven presence of credits with currency component. Thus, most of the automobile credits, credits for homes and business premises, and other credits are with currency component, while in other credit products Denar credits prevail. Credits on the basis of overdrafts on current ac counts are entirely in Denars, while the presence of the currency component in the credits on the basis of credit cards is minor. Relative to December 31, 2008, no significant changes were registered in the currency structure of the household credits according to the individual credit products.

Figure 33
Structure of credits by maturity



Source: NBRM based on the data obtained from the banks

Figure 34
Growth of credits by maturity



Source: NBRM based on the data obtained from the banks

According to the maturity structure, long-term credits are still dominant in the total credits. In the first half of 2009, however, an increase was registered in the share of due and non-performing credits in the total credits to the non-financial entities. Complementary with the general credit contraction, short-term credits registered high negative semi-annual growth rate of 22.6%, interrupting the trend of high semi-annual growth rates in the preceding periods. Despite the slower growth relative to the previous periods, long-term credits grew by 10% on semi-annual basis. Observed by individual sectors, especially emphasized was the dynamics of contraction of the short-term credits to households, which dropped by 67.6%[14]. Contrary to such movements, semi-annual growth rates in corporate lending were more moderate (decline in the short-term credits by 3% and almost unchanged condition of long-term credits).

Non-performing and due credits registered a semi-annual growth of Denar 1,437 million and 764 million, respectively, continuing the trend of growth which commenced in the second half of 2008. Thus, as of June 30, 2009, the share of non-performing and due cre dits in the total gross-credits went up by 1.8 and 0.6 percentage points, respectively, and raised to 8.6% and 1.7%, respectively. Such a tendency in these two groups of credits reflects the contraction of the general economic activity and consequently the deterioration of the prospects for increased income of the private agents in the near future. Such movements should be observed very closely and they call for an adequate prudent response of banks.

[14] Such structural changes are mostly a result of conducted re-recordings and respective presentation of the household credits by the banks.

Table 7
Distribution of credits to non-financial entities by individual group of banks

Credits structure		31.12.2008				30.06.2009			
		Big banks	Medium-sized banks	Small banks	Totoal	Big banks	Medium-sized banks	Small banks	Totoal
Sectoral structure	Firms	71.3%	26.7%	2.0%	**100.0%**	72.6%	25.5%	1.9%	**100.0%**
	Households	65.5%	32.2%	2.4%	**100.0%**	66.8%	30.8%	2.4%	**100.0%**
	Other	68.0%	7.6%	24.4%	**100.0%**	72.0%	26.2%	1.8%	**100.0%**
Maturity structure	Short-term	75.4%	22.8%	1.8%	**100.0%**	72.2%	26.3%	1.5%	**100.0%**
	Long-term	65.7%	32.4%	1.9%	**100.0%**	70.1%	28.1%	1.8%	**100.0%**
	Due	54.5%	40.3%	5.2%	**100.0%**	66.3%	29.6%	4.1%	**100.0%**
	Non-performing	71.2%	21.2%	7.6%	**100.0%**	67.5%	27.1%	5.4%	**100.0%**
Currency structure	Denar	70.9%	24.8%	4.3%	**100.0%**	76.2%	20.0%	3.8%	**100.0%**
	Foreign currency clause	63.4%	35.5%	1.2%	**100.0%**	60.0%	38.7%	1.3%	**100.0%**
	Foreign currency	73.7%	26.2%	0.1%	**100.0%**	74.7%	25.3%	0.1%	**100.0%**

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

The group of large banks is still dominant in the distribution of credits by individual group of banks. Relative to December 31, 2008, almost all types of credits (except short-term credits, non-performing credits and Denar credits with FX clause) registered an additional growth in the share of this group of banks. On the other hand, the share of the group of medium banks declined, unlike the preceding periods, when generally, its role in the lending activity of the banking system, was registering increase. The role of the small banks in the credit activity in the first half of 2009 further marginalized.

Table 8
Structural features of the credits to non-financial entities, by group of banks).

Credits structure		31.12.2008			30.06.2009		
		Big banks	Medium-sized banks	Small banks	Big banks	Medium-sized banks	Small banks
Sectoral structure	Firms	62.1%	55.7%	53.6%	61.9%	55.3%	53.5%
	Households	37.4%	44.2%	41.0%	37.9%	44.5%	46.3%
	Other	0.5%	0.1%	5.4%	0.2%	0.2%	0.2%
	Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Maturity structure	Short-term	34.0%	24.6%	24.9%	24.3%	22.5%	17.1%
	Long-term	58.2%	68.8%	49.8%	65.9%	67.2%	57.3%
	Due	0.9%	1.6%	2.6%	1.6%	1.8%	3.3%
	Non-performing	7.0%	5.0%	22.6%	8.3%	8.4%	22.2%
	Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Currency structure	Denar	44.2%	37.0%	81.7%	46.7%	31.3%	77.8%
	Foreign currency clause	31.3%	42.1%	17.4%	29.2%	48.0%	21.3%
	Foreign currency	24.5%	20.9%	0.9%	24.0%	20.7%	0.9%
	Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

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

At the end of the first half of the year, all groups of banks had a similar sector and maturity structure of the credits as opposed to the relatively different currency structure of credits. From a viewpoint of the lending to individual sectors, in all groups of banks lending to the corporate sector is more emphasized. At the same time, long-term lending is most evident with all groups of banks. The analysis of the currency structure of the credits indicates that the groups of large and medium banks rather extend credits with currency component, compared with the Denar credits. In contrast, in the group of small banks, Denar credits are dominant.

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

The trend of slight decrease in the banks' deposit base continued in the first half of 2009, followed by the trend of currency transformation in favor of foreign currency deposits, which started in the second half of 2008.

Under the influence of the general contraction of the domestic economic activity, the banks' deposits reported a negative semiannual growth rate at the end of the first half of 2009. Thus, an annual negative rate of change was registered for the first time in the recent years. The deposit base contraction was more significant in the first quarter of 2009, whereas in the second quarter the deposits reported a slight increase compared to March 31, 2009 (of 0.5%). On June 30, 2009, the deposits totaled Denar 176,555 million, which is a semiannual fall of 2.4%. Annually, the total deposits registered a minimum decrease.

Figure 35
Developments in the total deposits

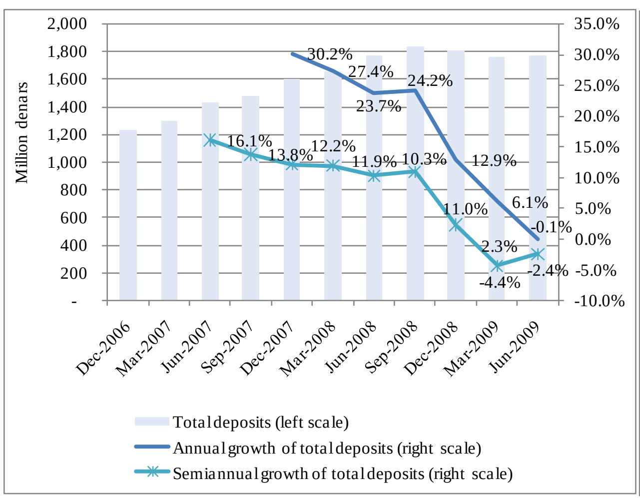
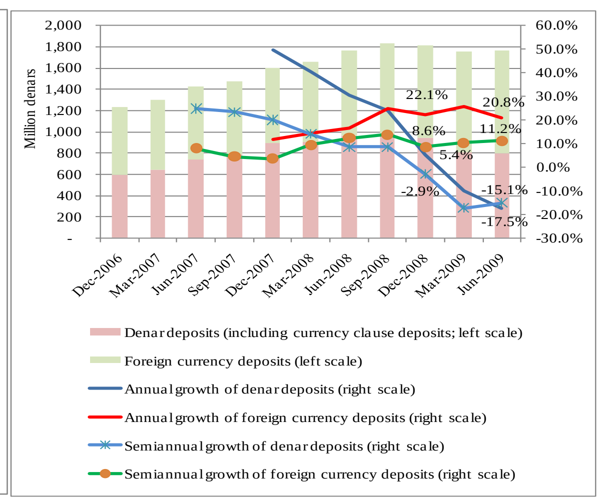


Figure 36
Deposit dynamics by currency structure



Source: NBRM, based on data submitted by banks

Under the influence of the present uncertainty caused by the global crisis, the deposit currency transformation which started in the second half of 2008 continued in the first half of 2009. It was evident through the faster growth of foreign currency deposits, followed by the increase in their share in the total banks' deposit base. On annual and semiannual basis, the foreign currency deposits kept their growth rate close to the growth in the several preceding quarters, equaling 20.8% and 11.2%, respectively. In the first half of 2009, they reported a faster increase in the first quarter (8.9%), which considerably decelerated in the second quarter (2.2%). Opposite of the foreign currency deposits, the Denar deposits steeply fell by 17.5% annually and 15.1% semiannually. The quarterly dynamics of the Denar deposits appropriately illustrated the dynamics of the foreign currency deposits (fall of 13.8% in the first quarter, which in the second quarter reduced to only 1.8%). The household deposits registered higher currency transformation. On June 30, 2009, the growth rate of the household foreign currency deposits on annual and semiannual basis equaled 31.7% and 20.0%, respectively, compared to the growth rates of the household Denar deposits which in the same period equaled -15.9% on annual basis and -15.4% on semiannual basis. Both Denar and foreign currency corporate deposits registered a negative growth; the growth rates of Denar deposits equal -14.6% and -8.0%, on annual and semiannual basis, respectively, and the foreign currency deposits equal -10.4% and -13.8%, on annual and semiannual basis, respectively. This tendency results from the contracted economic activity which also affected the corporate deposits.

Figure 37
Currency structure of the banks' total deposits

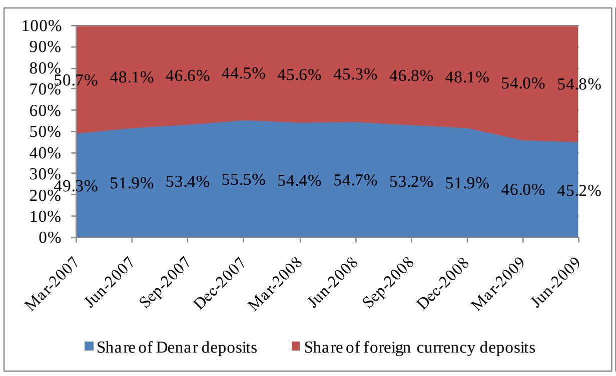
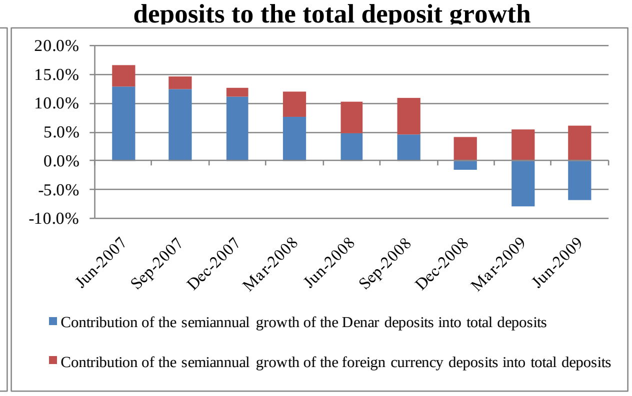


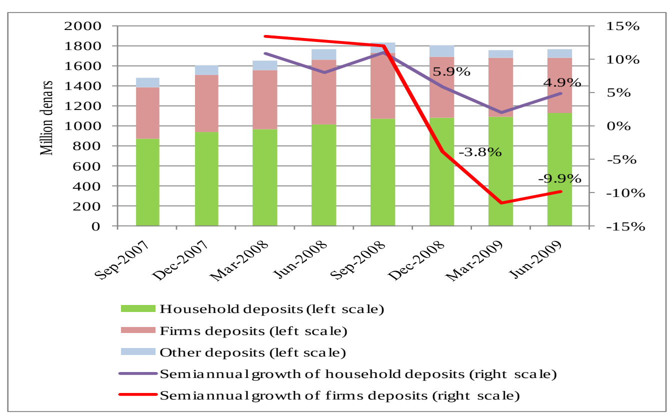
Figure 38
Contribution of Denar and foreign currency deposits to the total deposit growth



Source: NBRM, based on data submitted by banks

In the first half of 2009, the semiannual growth rate of the household deposits went up, whereas the growth rate of the corporate deposits, in spite of the slight improvement, remained negative. The corporate deposits significantly fell by 13.3% annually and 9.9% semiannually, continuing the trend which started in the second half of 2008. On t he other hand, the household deposits kept on growing, in a slightly faster semiannual pace. In the first half of 2009, they went up by 11.1% and 4.9% on annual and semiannual basis, respectively. Such pace of the sectoral deposits resulted in a further increase in the share of household deposits in

Figure 39
Deposit dynamics by sector structure



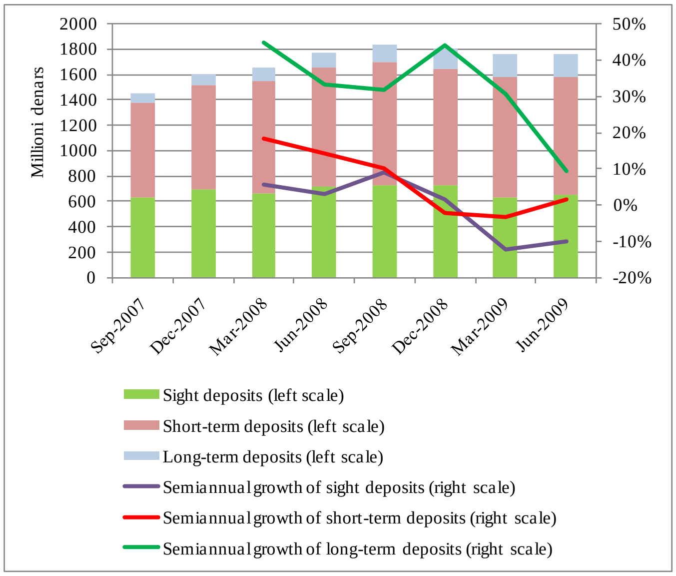
Source: NBRM, based on data submitted by banks

the total deposit base (of 4.5 percentage points) and a decrease in the share of corporate deposits (of 2.6 percentage points) on semiannual basis. Household deposits, constituting 64.1%, still remain dominant in the banks' deposit base.

The uptrend of the long-term bank deposits continued in the first half of 2009, but at a slower semiannual pace. The long-term deposits registered an annual growth rate of 57.5%, although the semiannual growth rate slowed down, and equaled 9.4%. However, such developments in the long-term deposits could also be attributed to their previous relatively lower level (so-called low-base-effect). The share of long-term deposits in the total deposit base is still the lowest compared to the other maturity segments (sight deposits and short-term deposits). At the end of the first half of 2009 it reached 10.3% (semiannual growth of only 1.1 percentage point). The gradual increase of the share of long-term deposits in the total deposits is partially a result of the banks' business strategies for encouraging the long-term savings by offering new deposit products and conducting attractive interest rate policy in this area. The higher significance of long-term deposits in the total banks' deposit base is expected to result in a greater stability of the banks' sources of funding (deposit base with a longer average maturity date).

In the first half of 2009, the share of sight deposits and short-term deposits in the total deposits remained stable. However, while the sight deposits growth remained negative (-10.1% on a semiannual basis), the short-term deposits, after reporting two semiannual negative growth rates, in the first half of 2009 registered an increase of 1.6%. After the significant quarterly fall in the sight deposits of 13% in the first quarter, these deposits went up by 3.4% in the second quarter of 2009. This tendency corresponds with the slower quarterly pace of currency transformation in the favor of foreign currency deposits, taking into account that previously, the funds were deposited on longer runs, after being transformed into foreign currencies.

Figure 40
Deposit dynamics by maturity structure



Source: NBRM, based on data submitted by banks

The group of large banks still holds the dominant position in the deposit formation. Such conclusion is illustrated in the analysis of the deposit structure from all three aspects (sector, maturity and currency).

Table 9
Deposit distribution by group of banks, as of June 30, 2009

	Sectoral structure			Maturity structure			Currency structure		
Group of banks	**Firms**	**Households**	**Other**	**Sight**	**Short-term**	**Long-term**	**Denar**	**Clause**	**Foreign**
Big banks	66.1%	75.8%	66.9%	73.8%	72.8%	64.8%	72.6%	52.7%	74.4%
Medium banks	30.1%	22.3%	25.8%	22.1%	25.3%	32.7%	23.3%	43.3%	24.0%
Small banks	3.8%	2.0%	7.3%	4.1%	1.9%	2.5%	4.1%	4.0%	1.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: NBRM, based on data submitted by banks

On June 30, 2009, the deposit structure by group of banks registered no significant changes. Household deposits form the largest portion of the deposit base of all groups of banks, while the gap between their share and the share of corporate deposits with small-size banks narrowed. With respect to deposit maturity, the groups of large and medium-size banks still reported a higher share of short-term time deposits, compared to the group of small-size banks where the sight deposits dominate. Observing the currency structure of deposits, the groups of large and medium-size banks reported prevalence of foreign currency deposits, whereas in the group of small-size banks, their relative importance is lower compared to the Denar deposits. In all three groups of banks, the Denar deposits with currency clause have low relative significance.

Table 10
Deposit structure by group of banks, as of March 31, 2009

	Sectoral structure				Maturity structure				Currency structure			
Group of banks	Firms	Households	Other	TOTAL	Sight	Short-term	Long-term	TOTAL	Denar	Clause	Foreign	TOTAL
Big banks	28.8%	67.1%	4.1%	100.0%	37.9%	52.8%	9.3%	100.0%	39.0%	4.6%	56.4%	100.0%
Medium banks	38.1%	57.3%	4.6%	100.0%	33.0%	53.4%	13.6%	100.0%	36.3%	10.9%	52.8%	100.0%
Small banks	42.8%	45.5%	11.7%	100.0%	55.6%	35.0%	9.4%	100.0%	57.4%	9.0%	33.6%	100.0%

Source: NBRM, based on data submitted by banks

3. Bank risks

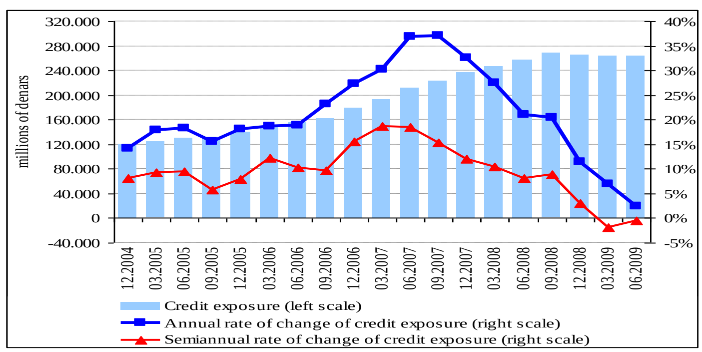
3.1. Credit risk

In conditions of exacerbated macroeconomic risks, accompanied with unfavorable real sector developments and deposit contraction as a major source of funding, in the first half of 2009, the banks applied more prudential credit policies. Simultaneously, to limit the risks arising from high credit growth typical for the recent years, the National Bank undertook measures towards enhancing the banks' prudence when lending. In such conditions, the banks considerably changed their perceptions for the risk-taking, demonstrated with intensive slowdown of the pace of credit exposure of the banking system. However, in spite of the increased prudence in the conduct of lending activity by the banks, the trend of deterioration of the credit portfolio quality indicators continued in the first half of 2009. This is illustrated through the growth of the higher risk exposure, the increase in the identified impairment losses and the reduction in coverage of the higher risk exposure with adequate amount of impairment and special reserve. These developments in the banks' credit portfolio primarily reflect the worsened business conditions of the domestic borrowers due to the economic crisis. However, this also proves the pro-cyclical character of the banking operations and the banks' tendency, in expansive periods, to ease the lending standards, which in periods of contraction of the economic activity, through risk reassessment, leads to higher impairments losses and restraint from lending to nonfinancial entities.

3.1.1 Bank credit exposure[15]

At the end of the first half of 2009, the credit exposure of the banking system equaled Denar 263,252 million. On semiannual basis, it slightly reduced by Denar 1,425 million, i.e. by 0.5%. Thus, the annual growth rate of the credit exposure reduced to 2.5%, which is the lowest in the last five years. Most of this reduction comes from the narrowing of the scope and definition of banks' credit exposure, as specified by the Decision on credit risk management[16]. This underlies more than three third of the absolute

Figure 41
Developments and growth rates of the credit exposure in the banking system



Source: NBRM, based on data submitted by banks

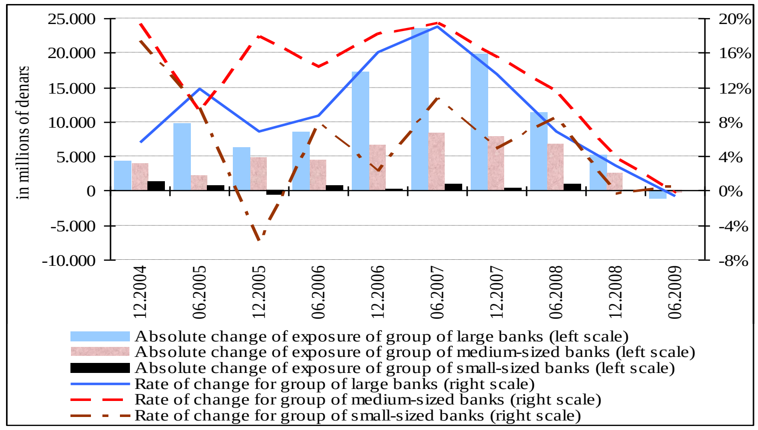
[15] Source: This part of the report uses data on the structure and quality of their credit exposure, the banks submit to the NBRM.

[16] The Decision on credit risk management ("Official Gazette of the Republic of Macedonia" no 17/2008 and 31/2009) started to be applied on January 1, 2009. This Decision sets forth the credit risk management methodology which includes criteria for classification of the on-balance sheet and off-balance sheet asset items by risk level, the manner of determining and the amount of impairment and special reserve, as well as the scope and the contents of the credit risk management system. Compared to the previous regulation, there are differences with respect to the scope and the definition of credit exposure, the manners and criteria for credit exposure classification, differences in the procedure for determining the impairment (impairment losses) of the banks' credit exposure, etc. As specified by this Decision, the total credit risk exposure does not include investments in securities and other financial instruments held for trading, measured at fair value through the income statement, investments in subsidiaries, affiliates and joint ventures and credits and claims measured at fair value through the income statement (these positions, by December 31, 2008 were included in the definition of credit exposure). On June 30, 2009, these banks' positions stood at Denar 1,195 million, making up 0.4% of the total credit exposure on June 30, 2009.[17] According to the Decision on credit risk management ("Official Gazette of the Republic of Macedonia" no. 17/2008 and 31/2009), the investments in securities and other

semiannual fall in the exposure. The lower banks' demand for CB bills and the slowdown in the growth of lending to nonfinancial entities also contributed to the semiannual fall in the credit exposure of the banking system.

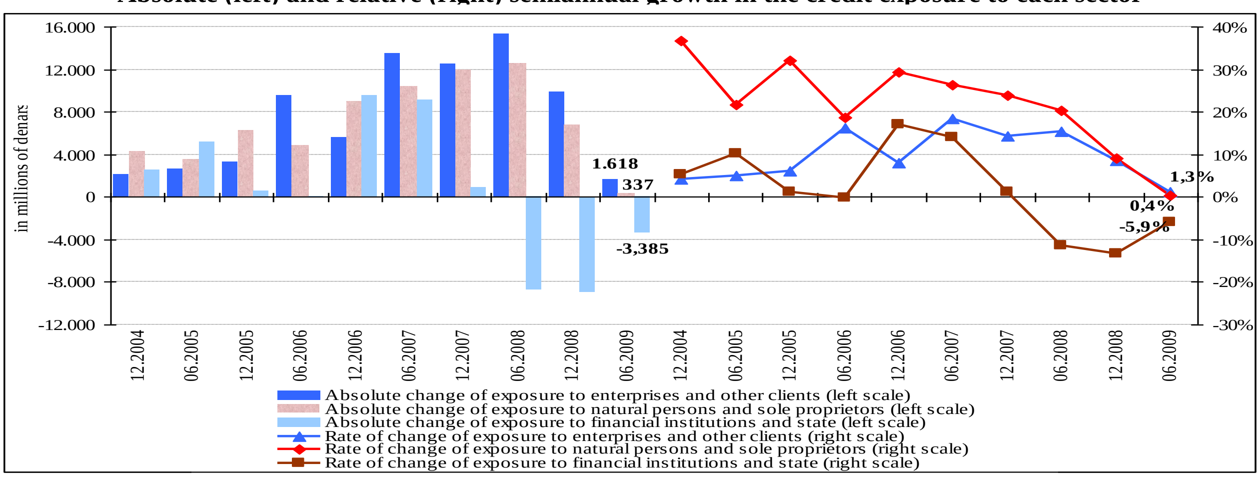
The semiannual decrease in the credit exposure was typical for the groups of large and medium-size banks, which were the major drivers of the accelerated credit growth in the recent years. However, the fall in the credit exposure was slow, causing no significant changes in the structural shares of each group of banks. Notwithstanding the semiannual fall in the credit exposure of 0.7%, i.e. Denar 1,234 million, on June 30, 2009, the group of large banks constituted significant 69.5% of the total credit exposure of the banking system, which is almost identical with the end of 2008. The semiannual decrease in the credit exposure of the group of medium-size banks equaled 0.4%, i.e. Denar 267 million and their share in the total credit exposure remained 25.8%. Only the group of small-size banks in the first half of 2009 reported symbolical growth in the credit exposure of 0.6%, i.e. Denar 77 million.

Figure 42
Absolute and relative semiannual change in the exposure by group of banks



Source: NBRM, based on data submitted by banks

Figure 43
Absolute (left) and relative (right) semiannual growth in the credit exposure to each sector



Source: NBRM, based on data submitted by banks

The decrease in the credit exposure to financial institutions and government and the moderate growth in the credit exposure to nonfinancial sectors caused no significant structural changes in the overall credit exposure of the banks in the first half of 2009. The semiannual decrease

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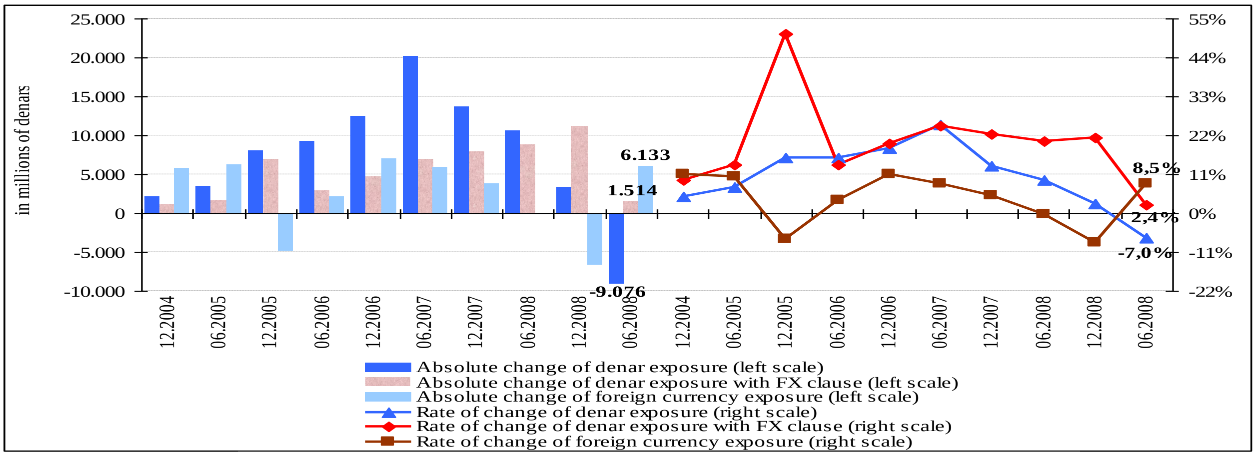
financial instruments held for trading shall not be included in the scope of banks' credit exposure. On June 30, 2009, the total amount of investments in securities held for trading amounted to Denar 980 million, Denar 614 million of which being securities issued by the Republic of Macedonia, Denar 221 million are debt securities issued by banks, Denar 95 million are equities and Denar 50 million CB bills issued by the NBRM.

in the credit exposure to financial institutions and government by 5.9% (in total for both activities) primarily arises from the lower banks' demand for CB bills, and from the narrowing of the scope of banks' credit exposure, as defined by the new Decision on credit risk management[17]. It made the share of credit exposure to financial institutions and government in the total credit exposure to fall by 1.2 percentage points. On the other hand, the semiannual increase in the credit exposure to corporations and other clients sector of 1.3% and in the credit exposure to natural persons and sole proprietors of 0.4% also made the share of these two sectors in the total credit exposure to rise by 0.9 and 0.3 percentage points. Thus, on June 30, 2009, the credit exposure to the sectors of corporations and other clients, natural persons and sole proprietors, and financial institutions and government made up 48.2%, 31.1% and 20.7% respectively, of the total credit exposure of the banking system.

Figure 44
Absolute (left) and relative (right) semiannual growth in the credit exposure by currency structure



Source: NBRM, based on data submitted by banks

The lower demand for CB bills, for the account of the increase in the assets in foreign banks caused certain shifts in the currency structure of the banks' credit exposure. The semiannual fall in the Denar credit exposure, triggered the entire fall in the total credit exposure of the banks in the same period. Conversely, the credit exposure with currency component went up by Denar 7,647 million on semiannual basis, with roughly 80% of this growth being growth in the foreign currency credit exposure, mainly resulting from the enhanced banks' preferences to invest foreign assets in foreign banks. These divergent movements caused changes in the currency structure of the credit exposure on semiannual basis, aimed at increasing the share of foreign currency exposure and Denar exposure with currency clause by 2.5 and 0.7 percentage points, respectively, for the account of the 3.2 percentage points decrease in the share of Denar credit exposure. Thus, on June 30, 2009, the credit exposure with currency component constituted 54.5%, compared to the share of Denar credit exposure of 45.5% in the total credit exposure of the banking system.

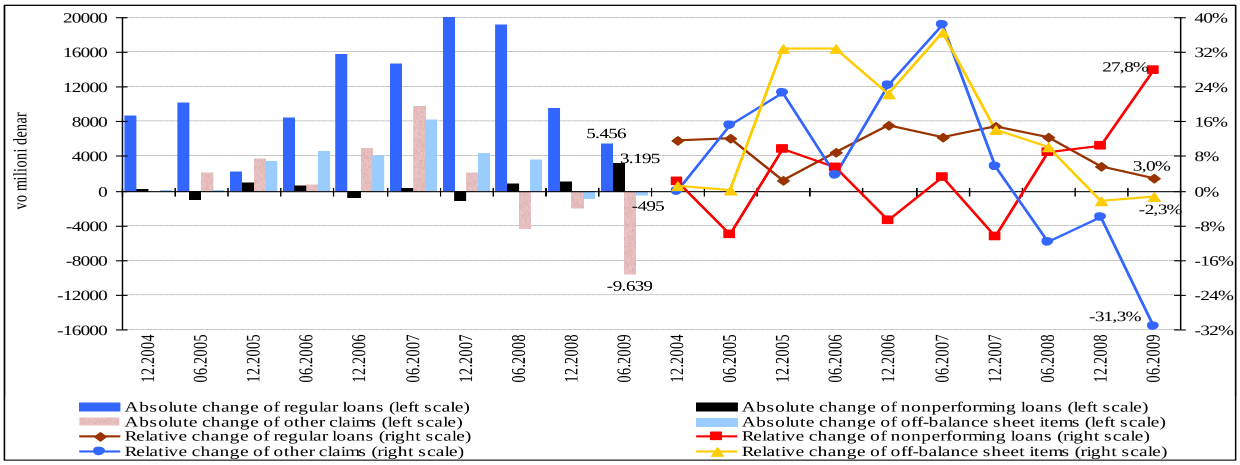
The semiannual fall in the total credit exposure in the banking system was accompanied with certain structural developments of its components. These developments were mostly caused by

[17] According to the Decision on credit risk management ("Official Gazette of the Republic of Macedonia" no. 17/2008 and 31/2009), the investments in securities and other financial instruments held for trading shall not be included in the scope of banks' credit exposure. On June 30, 2009, the total amount of investments in securities held for trading amounted to Denar 980 million, Denar 614 million of which being securities issued by the Republic of Macedonia, Denar 221 million are debt securities issued by banks, Denar 95 million are equities and Denar 50 million CB bills issued by the NBRM.

the faster growth in the nonperforming credits, the remarkable fall of other claims and the significant slowdown, or even a decrease in the growth of other components of the credit exposure. The banks' regular credits, as an item with the largest share in the total credit exposure of 71.8%, reported a moderate semiannual growth. On the other hand, in the first six months of 2009, the banks' exposure based on other claims, reduced by 31.3% (or by Denar 9,639 million) thus being the major driver for the quarterly fall of the total credit exposure in the banking system. Furthermore, 81.5% of the decrease in the credit exposure based on other claims results from the fall in the banks' demand for CB bills. The fall in the exposure based on other claims reduced their share in the structure of credit exposure in the banking system from 11.6% at the end of 2008 to 8.0% on June 30, 2009.

Figure 45

Absolute (left) and relative (right) semiannual change in the credit exposure by item (component)



Source: NBRM, based on data submitted by banks

The nonperforming credits were the fastest-growing component of the credit exposure in the first half of 2009. They registered a semiannual growth of Denar 3,195 million (27.8%), thus increasing their share in the credit exposure by 1.2 percentage points on June 30, 2009, reaching 5.6%. The growth in nonperforming credits is even more evident if observed on annual basis. The annual growth rate of nonperforming credits of 41.2% is the greatest growth rate over the last five years, which acted towards increasing the credit exposure risk level.

Figure 46

Absolute and relative semiannual change in the nonperforming credits by sector

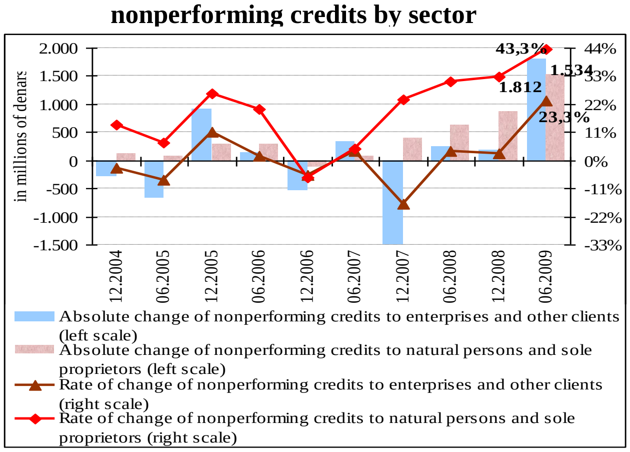
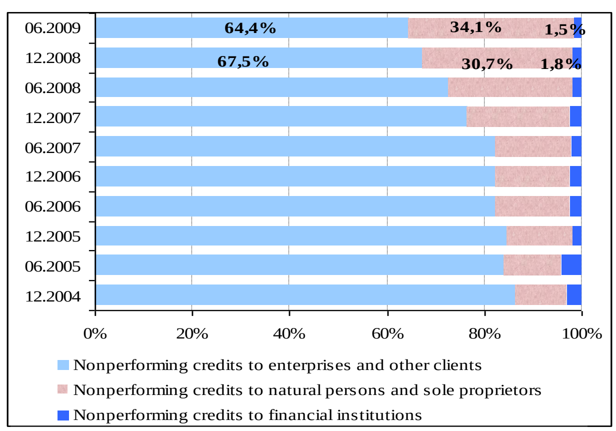


Figure 47

Sector strucure of nonperforming credits



Source: NBRM, based on data submitted by banks

The growth of nonperforming credits in the first half of 2009 was typical for all sectors, once again demonstrating the deteriorated performances of the domestic borrowers in environment of current global economic crisis and unfavorable developments in the country. The total growth of nonperforming credits in the first half of 2009, was mostly concentrated in the corporations and other clients sector (contributing with 53.8%), followed by the growth in these credits to the natural persons and sole proprietors (contribution of 45.6%) and to financial institutions (contribution of 0.6%).

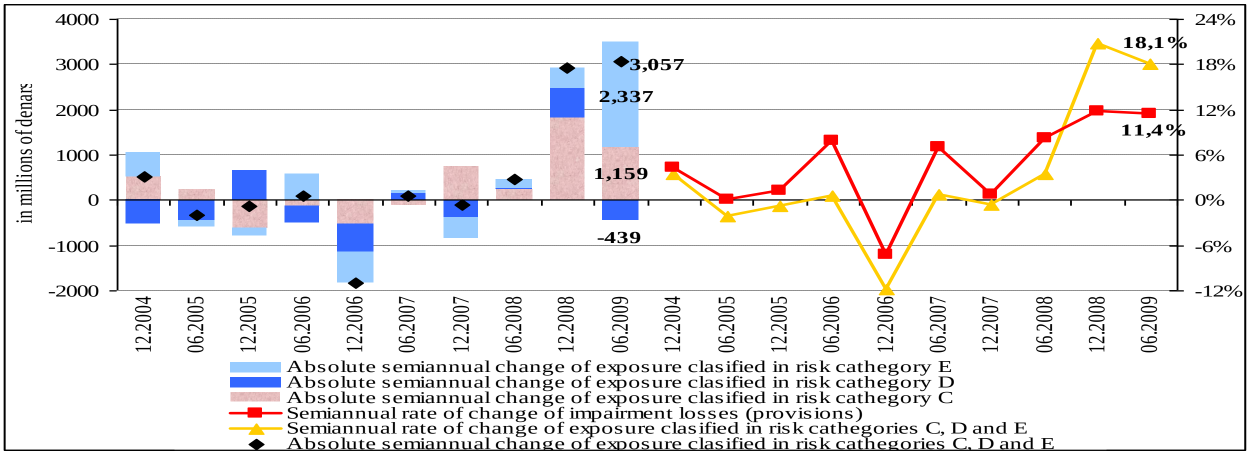
3.1.2. Credit exposure risk level in the banking system

In the first half of 2009, the banks' credit portfolio quality indicators kept on moving to negative direction. The changes in the risk level of the banks' credit portfolio in the first half of 2009 were somehow expected, considering the problems the domestic real sector faces with due to the economic crisis. The contraction of the total economic activity accelerated the process of migration of the credit exposure to higher risk categories. The assessment of the banks' credit risk should also consider the start of the application of the new Decision on credit risk management[18] which requires modifications in the manner and criteria for credit exposure classification, and amendments to the procedure and the manner of determining the impairment and the special reserve for credit risk.

Opposite to the decrease in the total credit exposure of the banks in the first half of 2009, the growth in the credit exposure with higher risk level (classified in C, D and E risk categories) accelerated. The acceleration of the growth of the higher risk credit exposure mainly arises from the growth in the credit exposure classified in E risk category. The credit exposure classified in the highest risk category generated roughly three fourths of the total semiannual growth of credit exposure with higher risk level. The deteriorated performances of the domestic real sector and the contracted economic activity create expectations for further growth of the higher risk credit exposure.

[18] The new Decision allows the bank to classify individually relevant items, items in a retail credit portfolio, and a group of similar financial instruments. Additionally, changes have been made in the criteria (the new Decision distinguishes general and special criteria) and the manner of classification of the banks' credit exposure in one of the five risk categories. Impairment losses (i.e. impairments for the on-balance sheet credit exposure and the special reserve for off-balance sheet credit exposure) are the difference between the carrying value and the determined present value by discounting the expected future cash flows. Unlike before, when each risk category was subject to specific percentage of special reserve, the new Decision specifies ranges for determining the impairment, i.e. special reserve, for each risk category (for A - from 0% to 10%, for B - over 10% to 25%, for C - over 25% to 50%, for D - over 50% to 75% and for E - over 75% to 100%). The Decision on credit risk management has been prepared in consistence with the International Financial Reporting Standards.

Figure 48
Absolute (left) and relative (right) semiannual change in the credit exposure classified in C, D and E risk categories and credit risk impairment losses



Source: NBRM, based on data submitted by banks

The faster growth of exposure classified in the higher risk categories in the first half of 2009 caused deterioration of all indicators for credit exposure risk. At the end of the first half of 2009, the average risk level of credit exposure equaled 6.5% and compared to the end of 2008 it went up by 0.7 percentage points. The average risk level of the exposure classified by risk categories[19], calculated as a share of identified impairment losses in the credit exposure classified by risk category equaled 1.1% for the exposure in the A risk category, 10.8% for B, 27.0% for C, 57.4% for D and 95.8% for E risk category. Therefore, compared to the previous Decision, the banks mainly reduced the identified credit risk impairment losses for the E risk categories, but also increased the amount of impairment losses for the B, C and D risk categories. Thus, the banks in essence reallocated the impairment and special reserve among the risk categories. However, even though the range of quantification of impairment losses for each risk category extended (for example: for A - from 0 to 10%, for B - over 10% to 25%, for C - over 25% to 50%, for D - over 50% to 75% and for E - over 75% to 100%), the practice shows that when determining impairment losses (except for the exposure classified in E risk category) the banks usually stick to the threshold (which corresponds to the minimum amount of impairment/special reserve to be allocated) for each risk category.

[19] The calculation of the average risk level for each risk category takes into account only the classified exposure and for which impairment (or special reserve) has been calculated on an individual basis, rather than the exposure classified on a group basis (retail credit portfolio, group of similar financial instruments for which no impairment losses have been calculated on individual basis) and investments classified as available for sale.

Table 11
Impairment according to the new (with ranges) and the old (with fixed percentages) method of calculation, by risk category

Risk category	Amount of credit exposure (in millions of denars)	Calculated impairment losses as of 30.06.2009 with use of appropriate intervals (vo milioni denari)	Impairment losses for credit exposure as of 30.06.2009 calculated with fixed procents (in millions of denars)	Difference of calculated impairment losses between the new and the old method of calculation
A	115.075	1.197	1.151	46
B	18.592	2.006	1.859	147
C	7.249	1.960	1.812	148
D	3.815	2.191	1.907	284
E	8.707	8.347	8.707	-360
TOTAL	**153.438**	**15.701**	**15.436**	**265**

Note: The table above provides the part of the total credit risk exposure as of June 30, 2009, which, according to the Decision on credit risk management, is classified on individual basis. It also gives calculation of the impairment losses by using fixed percentages (1% for A, 10% for B, 25% for C, 50% for D and 100% for E) which correspond to the average risk level for each category as of December 31, 2008; the difference between the impairment losses as of June 30, 2009 as calculated by the banks and the impairment losses derived by applying fixed percentages.
Source: NBRM, based on data submitted by banks - KA form, as defined by the Instructions for enforcing the Decision on credit risk management.

The share of exposure classified in C, D and E risk categories in the total credit exposure in the banking system equaled 7.6% on June 30, 2009, which is a semiannual increase of 1.2 percentage points. Simultaneously, the share of exposure classified in these risk categories in the total own funds of the banking system equaled 57.8%, which is by 7.9 percentage points more compared to the end of 2008. In the case of extreme scenario for full non-collectability of this exposure, 21.8% of the banks' own funds would be absorbed for loss coverage, while at the end of 2008, it would need 20.2%. Hence, the capital adequacy ratio would drop from the current 16.4% to 12.9%.

The acceleration of the growth of credit exposure classified in higher risk categories in the first half of 2009, along with the more moderate growth in the total impairment losses for credit risk, reduced the coverage rate of the exposure classified in C, D and E risk categories with the total allocated impairment and special reserve. The semiannual growth of credit risk impairment losses equaled 11.4%, which is by 6.7 percentage points below the semiannual growth rate of the exposure classified in C, D and E risk categories. The differences in the growth of impairment losses and the exposure classified in higher risk categories are more evident in the annual growth rates. On June 30, 2009, the annual growth rate of credit exposure classified in C, D and E risk categories equals 42.6%, whereas the annual growth rate of the impairment losses equals 24.5%. Of the total identified credit risk impairment losses, 98.3% have been covered with impairment and special reserve, while the remaining 1.7% has not been allocated as of June 30, 2009[20]. Hence, **on June 30, 2009, the coverage rate of the exposure classified in C, D and E risk categories with the total allocated impairment and special reserve equaled 84.4%, which is by 6.8 percentage points less on semiannual basis.** The decrease in the coverage rate creates a room for further impairment growth, and consequently, additional negative effect on the profitability of banking system. This results from the fact that most of the semiannual growth of credit exposure in higher risk categories arises from the growth in the exposure in the E risk category.

[20] Considering the relatively low percentage of unallocated impairment/special reserve, it has been omitted from the further analysis. Hence, the analysis of the impairment losses to credit exposure ratio will use the term credit exposure - impairment and special reserve coverage ratio. Also, after the cutoff date of the analysis, in July 2009, the banks fully allocated the impairment and the special reserve.

Table 12
Credit exposure risk indicators

Credit risk indicators	30.06.2008	31.12.2008	30.06.2009
Average level of riskiness	5,4%	5,8%	6,5%
Impairment losses / Own funds	45,5%	45,2%	49,4%
% of „C“, „D“ and „E“ in total credit exposure	5,5%	6,4%	7,6%
% of „E“ in total credit exposure	2,4%	2,5%	3,4%
Coverage of „C“, „D“ and „E“ with allocated impairment losses and special reserves	98,8%	91,2%	84,4%
% of „C“, „D“ and „E“ in own funds	46,4%	49,9%	57,8%
% of „E“ in own funds	20,1%	19,2%	25,6%
% of net „C“, „D“ and „E“ in own funds	17,1%	20,2%	21,8%
% of bullet credits in total gross-credits to nonfinancial entities	16,3%	14,8%	15,0%
% of net written-off claims during current semiannual in total credit exposure at the end of previous semiannual	0,6%	0,1%	0,3%

Source: NBRM, based on data submitted by banks

The semiannual fall in the Denar credit exposure, accompanied with structural changes directed towards decreasing the share of investment in CB bills, and the decrease in the creditworthiness of corporations and households, resulted in deterioration of the Denar credit exposure risk indicators. This fast semiannual decrease in the investments in CB bills usually classified in A risk category and for which no impairment losses have been determined, resulted in a higher average risk level of Denar exposure of 1.4 percentage points. Simultaneously, the Denar credit exposure classified in C, D and E risk categories reported an annual growth of 15.2%, thus accounting for 9.3% of the total Denar exposure on June 30, 2009. In the structure of semiannual growth of Denar credit exposure classified in higher risk categories, the corporations and other clients sector generated 54.7%, i.e. Denar 808 million (with 97.3% of this amount being concentrated in three activities: industry, retail sale and wholesale, and transport, storage and communications). The semiannual growth of Denar exposure classified in C, D and E risk categories in the natural persons and sole proprietors sector equaled Denar 689 million and was most evident in the exposure based on credit cards and consumer credits.

Table 13
Credit exposure classified in C, D and E risk categories and credit risk indicators by currency structure

Currency structure of credit exposure	Absolute amount of credit exposure classified in „C“, „C“ and „E“ (in millions of		Absolute semiannual change (in millions of denars)	Relative semiannual change (in %)	Share of „C“, „D“ and „E“ in total credit exposure		Average level of riskiness		Impairment losses / Exposure to „C“, „E“ and „E“	
	31.12.2008	30.06.2009			31.12.2008	30.06.2009	31.12.2008	30.06.2009	31.12.2008	30.06.2009
Denar exposure	9.650	11.121	1.471	15,2%	7,5%	9,3%	6,9%	8,3%	91,8%	89,7%
Denar exposure with FX clause	4.429	4.308	-121	-2,7%	7,0%	6,6%	5,6%	4,8%	80,2%	72,2%
FX exposure	2.853	4.560	1.707	59,8%	3,9%	5,8%	4,1%	5,1%	103,1%	87,8%
Credit exposure classified in risk categories „C“, „D“ and „E“ by currency and indicators for level of risk without credit exposure to „financial institutions and state“										
Denar exposure	9.403	10.900	1.497	15,9%	9,1%	10,6%	6,9%	8,3%	91,8%	89,7%
Denar exposure with FX clause	4.378	4.256	-122	-2,8%	7,9%	7,3%	6,3%	5,3%	79,1%	73,0%
FX exposure	2.551	4.360	1.809	70,9%	5,3%	9,1%	5,4%	8,3%	102,4%	91,7%

Source: NBRM, based on data submitted by banks

In the first half of 2009, the increase in the risk level was the most evident for the foreign currency credit exposure. The foreign currency credit exposure classified in C, D and E risk categories registered a fast semiannual growth of Denar 1,707 million (i.e. 59.8%), with 96.3% arising from the growth of this type of exposure in the corporations and other clients sector. The effect of deterioration of the creditworthiness of this sector on the risk level of foreign currency credit exposure would have been even higher if, in the first half of 2009, the banks showed no evident tendency to place their foreign assets in foreign banks, usually classified in A risk category. Thus, if the foreign currency exposure indicators were calculated without taking into account the exposure to the sector of financial institutions and state, the average risk level of the foreign currency credit exposure would than go up from 5.4% to 8.3%, and the share of exposure classified in C, D and E in the total foreign currency credit exposure would go up by 3.8 percentage points.

In the first half of 2009, almost all indicators for risk of the Denar credit exposure with currency clause improved, which is related to the modest semiannual fall in the Denar credit exposure with currency clause classified in C, D and E risk categories. The average risk level of Denar exposure with currency clause went down semiannually by 0.8 percentage points, and on June 30, 2009, it equaled 4.8%. This is also a lower level compared to the level of this indicator typical for the Denar and the foreign currency exposure.

The indirect credit risk, arising from the embedded so-called currency clauses and clauses of so-called adjustable interest rates[21] in the credit relations with clients, in the first half of 2009 remained one of the crucial elements of the banks' risk profile. On June 30, 2009, the currency component was present in 59.7% of the exposure to the corporations and other clients sector, and compared to the end of 2008 it went up by 1.2 percentage points. On the other hand, the share of exposure with currency component in the total exposure to the sector of natural persons is slightly lower, and on June 30, 2009 it equaled 36.5%, reporting a fall of 9.0 percentage points in the first half of 2009. Furthermore, the so-called adjustable interest rates are widely used, in the credits to both nonfinancial legal entities (80.8%) and households (88.0%). Indirect credit risk arises primarily from the method of enforcing the business strategies and credit policies by the banks over the recent years, and became especially important in environment of higher macroeconomic risks in the country.

In the first half of 2009, the amount of written-off claims by the banks went down, with the collected amount of previously written-off claims being substantially lower, compared to the first half of 2008. This led to a decrease in the amount of net-write offs[22] by Denar 629 million compared to the first half of 2008. The net written-off claims constituted 0.3% of the credit risk exposure at the end of 2008. If the banks did not write off claims in the first half of 2009, on June 30, 2009, the exposure in the C, D and E risk categories would make up 7.9% (instead of 7.6%) of the total credit exposure, and compared to the end of 2008 it would go up by 1.5 percentage points, instead of 1.2 percentage points.

Table 14
Written-off claims - amount and structural characteristics

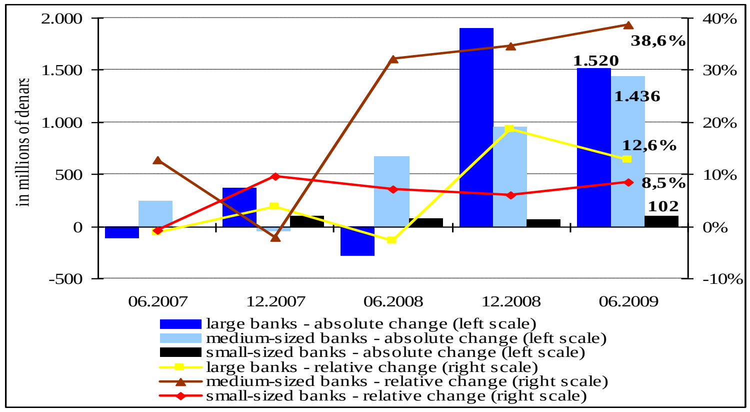
Period	Amount of net written-off claims of nonfinancial entities (in millions of denars)			Sector structure of written-off claims		Currency structure of written-off claims			Structure of written-off claims by type of claim		
	Written-off claims	Recovered written-off claims	Net - written-off claims	Nonfinancial entities	Natural persons	Denar exposure	Denar exposure with FX clause	Foreign currency exposure	Credits	Interest	Other
First half of 2008	1526	204	1322	87,8%	12,2%	79,1%	17,8%	25,4%	30,5%	61,0%	8,5%
First half of 2009	751	58	693	90,4%	9,6%	34,0%	192,4%	0,5%	34,2%	63,5%	2,4%

Source: NBRM, based on data submited by banks

[21] Adjustable interest rates are considered interest rates changed by a decision of the banks' management bodies.
[22] The amount of written-off claims on a net-basis equals the difference between the amount of written-off claims within a certain period and the amount of collected written-off claims in the same analyzed period.

The increase in the credit exposure risk in the first half of 2009 was typical for all groups of banks. The groups of large and medium-size banks had almost equal share in the total semiannual growth of the credit exposure classified in C, D and E risk categories of 49.7% and 47.0%, respectively. The group of medium-size banks reported the most significant exposure growth classified in C, D and E risk categories of 38.6%. This is also deteriorated almost all indicators for the quality of its credit portfolio. In spite of the faster increase in the credit portfolio risk of this group of banks, most of its indicators are better compared to those for the other two groups of banks.

Figure 49
Absolute (left) and relative (right) semiannual change in the credit exposure classified in C, D and E risk categories by group of banks



Source: NBRM, based on data submited by banks

Table 15
Credit exposure risk indicators by group of banks

Credit rsik indicators	Large banks			Medium-sized banks			Small-sized banks		
	30.06.2008	31.12.2008	30.06.2009	30.06.2008	31.12.2008	30.06.2009	30.06.2008	31.12.2008	30.06.2009
Average level of riskiness	5,8%	6,3%	6,8%	3,5%	3,9%	5,1%	8,9%	9,2%	9,3%
Impairment losses / Own funds	63,9%	58,6%	60,7%	24,9%	29,0%	38,3%	22,7%	22,6%	23,1%
% of „C“, „D“ and „E“ in total credit exposure	5,7%	6,5%	7,4%	4,2%	5,5%	7,6%	9,2%	9,8%	10,5%
% of „E“ in total credit exposure	2,5%	2,6%	3,5%	1,1%	1,1%	2,4%	7,4%	7,2%	7,1%
Coverage of „C“, „D“ and „E“ with allocated impairment losses and special reserves	103,1%	96,5%	92,7%	83,2%	71,8%	61,6%	98,1%	94,8%	88,5%
% of „C“, „D“ and „E“ in own funds	62,5%	61,0%	65,7%	30,1%	40,4%	57,3%	23,3%	23,8%	26,1%
% of „E“ in own funds	27,4%	24,6%	30,9%	7,8%	8,5%	17,9%	18,9%	17,6%	17,5%
% na net „C“, „D“ and „E“ in own funds	22,1%	23,7%	23,1%	15,5%	21,4%	27,9%	3,0%	4,1%	5,0%

Source: NBRM, based on data submited by banks

On the other hand, the relatively high level of impairment and special reserve the group of large banks allocated in this and past years is also noticeable. This had positive effect on the coverage rate of the exposure classified in C, D and E risk categories with the allocated impairment and special reserve (on June 30, 2009, the exposure equaled 92.7%), and on the share of net-exposure classified in C, D and E (exposure for which no impairment has been allocated) in the own funds (on June 30, 2009, it equaled 23.1%). Additionally, most of these indicators for the group of large banks are relatively better compared to those for the other two groups of banks.

3.1.3 Risk level of credit exposure to corporations and other clients sector

In environment of contracted economic activity in the country, deteriorated claim collection and lower liquidity in the domestic economy, accompanied with stricter terms of lending, including the worsened terms of debt refinancing, the business conditions for the companies kept on worsening in the first half of 2009. This deteriorated their creditworthiness, which inevitably increased the risk of credit exposure to this sector. On June 30, 2009, the semiannual growth rate of the exposure in C, D and E risk categories to corporations and other clients sector equaled 17.3%, which is by far higher than the semiannual growth rate of the total credit exposure to this sector (1.3%). This growth was accompanied with much lower growth rate of the identified impairment and special reserve (calculated impairment losses) which equaled 5.1% in the first half of the year. In addition, the exposure growth classified in C, D and E risk categories to this sector generated 64.4% of the total growth of exposure with higher risk level of the banking system, thus contributing the most to the deterioration of the credit risk indicators.

Figure 50
Semiannual change rates of the credit exposure and credit risk impairment losses arising from corporations and other clients sector

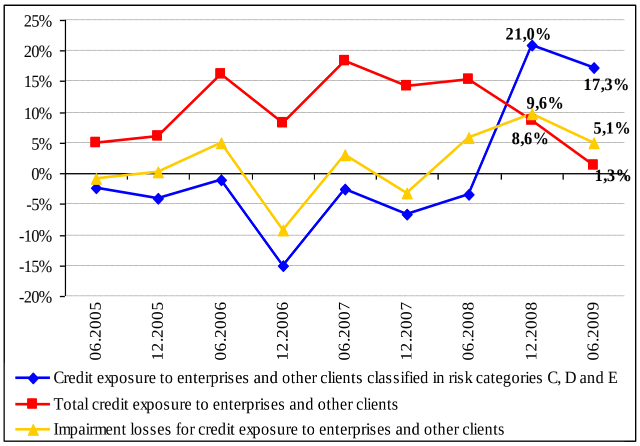
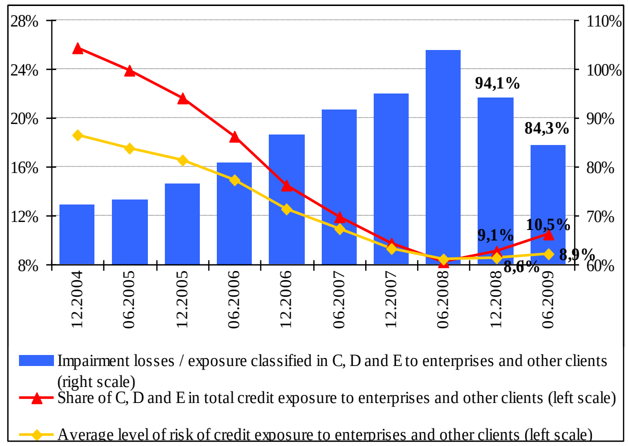


Figure 51
Dynamic of risk indicators for credit exposure to corporations and other clients sector



Source: NBRM, based on data submited by banks

Along with the slowdown in the total credit exposure to the corporations and other clients sector, the growth of exposure with higher risk intensified. This caused negative developments of this sector's credit risk indicators in the first half of 2009. The indicator for the average risk level of credit exposure to the corporations and other clients sector registered a semiannual growth of 0.9 percentage points, while the share of exposure classified in C, D and E risk categories in the total credit exposure to this sector went up by 1.4 percentage points. If we exempt the effect of the writing-off of claims on this sector (assume that in the first half of 2009, the banks did not write-off claims on this sector), then, on June 30, 2009, the indicator for the share of credit exposure classified in C, D and E risk categories in the total credit exposure would equal 11.0%, and compared to December 31, 2008, it would be by 1.9 percentage points higher. At the same time, due to the slower growth of the calculated impairment and special reserve (impairment losses) in the first half of 2009, their share in the credit exposure to this sector classified in C, D and E risk categories went down by 9.8 percentage points, and on June 30, 2009 it equaled 84.3%. Additional aspect in the analysis of the credit exposure risk to this sector is its coverage with certain type of collateral. In fact, 94.8% of the exposure to this sector is covered with certain collateral, which is almost unchanged compared to the end of 2008. Most of the exposure has been collateralized with certain property (65.2%) which is also unchanged compared to December 31, 2009.

Table 16
Change in the credit exposure to the corporations and other clients sector classified in C, D and E risk categories

Credit exposure to enterprises and other clients by activities	Credit exposure classified in „C“, „D“ and „E“ (in millions of denars)		Impairment losses calculated by banks (in millions of denars)		Absolute semiannual changes (in millions of denars)		Relative semiannual changes (in %)		Distribution of semiannual change (in %)	
	31.12.2008	30.06.2009	31.12.2008	30.06.2009	Exposure in „C“, „D“ and „E“	Impairments losses	Exposure to „C“, „E“ and „E“	Impairment losses	Exposure to „C“, „E“ and „E“	Impairment losses
Industry	5.724	6.853	5.263	5.584	1.129	321	19,7%	6,1%	57,3%	59,0%
Agriculture, hunting and forestry	706	629	676	602	-77	-74	-10,9%	-10,9%	-3,9%	-13,6%
Construction	1.074	970	896	864	-104	-32	-9,7%	-3,6%	-5,3%	-5,9%
Wholesale and retail trade	2.755	3.283	2.651	2.804	528	153	19,2%	5,8%	26,8%	28,1%
Transport, storage and communication	609	865	521	595	256	74	42,1%	14,2%	13,0%	13,6%
Other activities	522	760	714	816	238	102	45,6%	14,3%	12,1%	18,8%
Total credit exposure to enterprises and other clients	**11.390**	**13.360**	**10.721**	**11.265**	**1.970**	**544**	**17,3%**	**5,1%**	**100,0%**	**100,0%**

Source: NBRM, based on data submited by banks

Analyzed by activity[23], in the first half of 2009, the industry reported the highest growth, and the largest contribution to the growth of the exposure to the corporations and other clients sector, classified in C, D and E risk categories. Additionally, on June 30, 2009, the credit exposure to this activity classified in C, D and E risk category had a dominant share accounting for 51.3% of the total higher risk exposure to this sector, followed by retail sale and wholesale, constituting 24.6%.

Table 17
Indicators for the risk level of credit exposure to corporations and other clients sector

Credit risk indicators	Date	Industry	Agriculture, hunting and forestry	Construction	Wholesale and retail trade	Transport, storage and communication	Total exposure to enterprises and other clients
Average level of risk	30.06.2009	11,3%	16,2%	6,7%	7,2%	7,2%	8,9%
	31.12.2008	10,7%	17,3%	7,6%	6,8%	6,0%	8,6%
	30.06.2008	10,3%	17,6%	7,4%	7,0%	5,5%	8,5%
Share of „C“, „D“ and „E“ in total credit exposure	30.06.2009	13,9%	16,9%	7,6%	8,5%	10,5%	10,5%
	31.12.2008	11,7%	18,1%	9,1%	7,1%	7,1%	9,1%
	30.06.2008	10,2%	17,5%	8,5%	6,5%	5,8%	8,2%
Impairment losses / Credit exposure classified in „C“, „D“ and „E“	30.06.2009	81,5%	95,7%	89,1%	85,4%	68,7%	84,3%
	31.12.2008	91,9%	95,7%	83,5%	96,2%	85,5%	94,1%
	30.06.2008	101,5%	100,5%	87,6%	108,7%	94,9%	103,9%
Herfindahl -index	30.06.2009	2.415	1.551	2.496	2.056	1.525	2.067
	31.12.2008	2.349	1.704	2.160	1.986	1.442	1.981
CR 5	30.06.2009	87,0%	79,3%	88,5%	81,4%	70,8%	81,9%
	31.12.2008	86,2%	79,5%	85,3%	81,6%	70,7%	80,7%

Source: NBRM, based on data submited by banks

Additionally, the indicators for the credit exposure risk to the industry, retail sale and wholesale, and transport, storage and communications mainly reported negative developments. The fall in the ratio of the impairment and special reserve (impairment loss) - to - exposure classified in C, D and E risk categories for these activities is particularly noticeable. On the other hand, the credit risk indicators to construction, and agriculture, hunting and forestry improved.

In the first half of 2009, the concentration of credit exposure to corporations and other clients sector registered a certain increase. This, to a certain extent, arises from the slower credit

[23] Credit risk indicators have been calculated for five activities, which on June 30, 2009 account for 89.0% of the total credit risk exposure to the corporations and other client sector. The contribution of these activities to the 2008 GDP formation, according to the data of the State Statistical Office, equals 60.5%.

exposure growth, the conduct of conservative credit policies and stricter lending criteria by the banks. The semiannual moderate growth of the credit exposure to the corporations and other clients sector fully arises from the group of large banks which actually had a crucial contribution to the increase in the concentration level, taking into account the dominant position of this group in the banking system. In addition, the implementation of more conservative approach in the lending usually denotes "passive" behavior on the market by the banks, presented by restraint from credit exposures to new clients and orientation towards preserving the existing large clients, which creates preconditions for increasing the concentration level. Observing by activity, the largest concentration level is registered in the construction and industry, and the lowest in the transport, storage and communications.

3.1.4. Risk level of credit exposure to natural persons sector

The increase in the credit exposure risk to natural persons continued in the first half of 2009 in a faster pace. In environment of slower credit exposure growth, stricter terms for debt refinancing, certain time period past the initial expansion of household lending and the generally worsened economic conditions, the process of so-called "maturing" of the credit portfolio of natural persons, might be regarded as expected. Thus, the credit exposure to natural persons classified in C, D and E risk categories reported a semiannual growth rate of 24.8%, while the total credit exposure to this sector, on any base, in the same period went up by only 0.7%. The noticeable sensitivity of the income and the creditworthiness of the households to the potential adverse changes in the economic environment might cause further growth of higher risk exposure to the sector of natural persons.

Figure 52
Semiannual change rates of the credit exposure and credit risk impairment losses arising from natiral persons sector

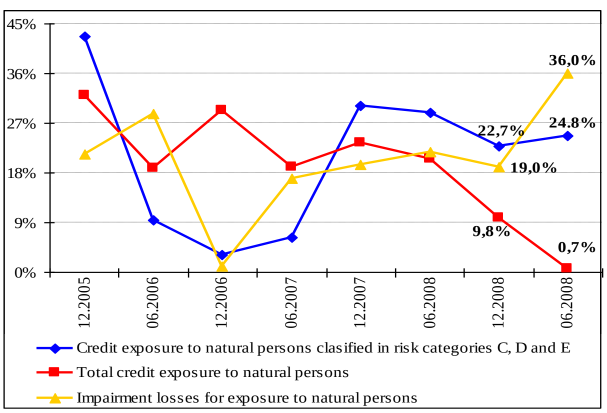
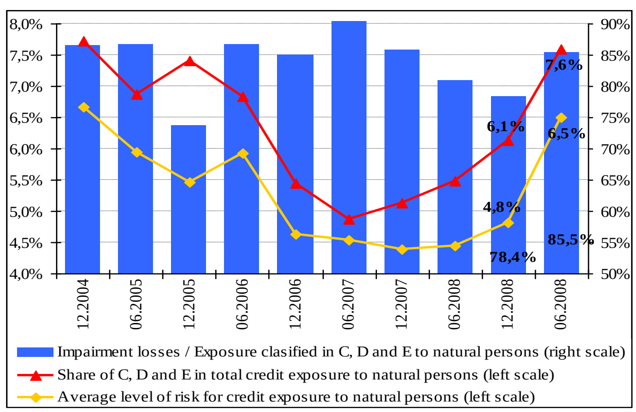


Figure 53
Dynamic of the indicators for credit exposure risk to natural persons sector



Source: NBRM, based on data submited by banks

However, the indicators for the credit exposure risk to the natural persons sector[24] are still lower compared to those of the exposure to the corporations and other clients sector. This primarily arises from the fact that most of this exposure is relatively "young", formed in generally relaxed lending terms. The average risk level of exposure to the natural persons sector and the share of exposure classified in C, D and E risk categories in the total exposure to this sector went up by 1.7 percentage points and 1.5 percentage points, respectively on semiannual basis. On the other hand, on June 30, 2009, the calculated

[24] In the analysis of the indicators for credit exposure risks to the natural persons sector, one should take into account that in the first six months of 2009, some banks used the opportunity to classify a portion of their credit exposure to this sector in the retail credit portfolio.

impairment and special reserve (impairment losses) covered 85.5% of the credit exposure to natural persons classified in higher risk categories, which compared to the end of 2008, is by 7.1 percentage points more. The growth of calculated impairment losses, on semiannual basis, was most evident in the consumer credits (Denar 672 million) and in the credit card exposure (Denar 666 million).

In the first half of 2009, the highest absolute growth of credit exposure with higher risk was characteristic for the credit cards. On the other hand, in spite of the relatively low comparison base, the highest percentage growth rate of higher risk credit exposure arising from car credits cannot be ignored. On semiannual basis, the credit card exposure classified in C, D and E risk categories went up by Denar 584 million (or by 53.6%), accounting for 49.7% of the total absolute growth of the higher risk exposure to the natural persons sector. The car credit exposure classified in C, D and E risk categories registered a quarterly increase of 136.5% or Denar 189 million. On June 30, 2009, the highest contribution to the structure of higher risk credit exposure to the natural persons sector was made by the consumer credit exposure (of 42.3%) and credit card exposure (of 28.3%), respectively.

Table 18
Change in the exposure to the natural persons sector classified in C, D and E risk categories

Total exposure to natural persons, by products	Credit exposure classified in „C“, „D“ and „E“ (in millions of denars)		Impairment losses calculated by banks (in millions of denars)		Absolute semiannual change (in millions of denars)		Relative semiannual change (in %)		Distribution of semiannual change (in %)	
	31.12.2008	30.06.2009	31.12.2008	30.06.2009	Exposure in „C“, „D“ and „E“	Impairment losses	Exposure in „C“, „D“ and „E“	Impairment losses	Exposure in „C“, „D“ and „E“	Impairment losses
Residential and commercial real estate loans	388	558	522	453	170	-69	43,7%	-13,2%	14,5%	-5,2%
Consumer credits	2.207	2.502	1.319	1.991	295	672	13,4%	50,9%	25,1%	50,2%
Overdrafts	433	298	337	499	-135	162	-31,2%	48,1%	-11,5%	12,1%
Credit cards	1.089	1.673	911	1.577	584	666	53,6%	73,1%	49,7%	49,8%
Car credits	138	327	159	218	189	59	136,5%	37,1%	16,1%	4,4%
Other credits	482	554	466	314	72	-152	15,0%	-32,6%	6,1%	-11,4%
Total exposure to natural persons	**4.738**	**5.912**	**3.714**	**5.052**	**1.174**	**1.338**	**24,8%**	**36,0%**	**100,0%**	**100,0%**

Source: NBRM, based on data submited by banks

The credit risk indicators for most credit products offered to the households deteriorated in the first half of 2009. On June 30, 2009, the highest average risk level was typical for the consumer credits (10.3%) and the category of other credits (20.5%)[25]. Conversely, the value of this indicator was the lowest in the credit exposure based on residential and business premise credits. However, the systems for classification of the risk of this credit product by the banks deserve attention, especially taking into account the semiannual fall of 13.2% in the calculated impairment and special reserve and the growth of Denar 170 million of the higher risk exposure (of 43.7%), based on these credits. Hence, the ratio of the calculated impairment and special reserve (identified impairment loss) based on residential and business premise credits to the respective higher risk exposure dropped in the first half of 2009, from 105.2% to 81.2%.

[25] With the introduction of the new accounting framework, the reentry of other credits into consumer credits caused semiannual fall of other credits of Denar 3,237 million, i.e. by 56.3%, thus increasing the average level of the category of other credits from 8.1% to 20.5%.

Table 19
Indicators for the risk level of credit exposure to natural persons sector

Credit risk indicators	Date	Residential and commercial real estate credits	Consumer credits	Overdrafts	Credit cards	Car credits	Other credits	Total exposure to natural persons
Share of „C", „D" and „E" in total credit exposure	30.06.2009	3,9%	10,3%	3,6%	7,1%	6,9%	20,5%	7,5%
	31.12.2008	2,9%	10,1%	6,0%	4,6%	2,9%	8,1%	6,1%
	30.06.2008	4,3%	8,5%	5,0%	3,8%	4,3%	4,3%	5,4%
Average level of risk	30.06.2009	3,2%	8,2%	6,0%	6,7%	4,6%	11,6%	6,5%
	31.12.2008	3,7%	6,0%	4,7%	3,9%	3,3%	7,8%	4,8%
	30.06.2008	4,6%	5,5%	4,2%	3,2%	4,2%	5,9%	4,4%
Impairment losses / Credit exposure clasified in „C", „D" and „E"	30.06.2009	81,2%	79,6%	167,5%	94,2%	66,7%	56,7%	86,1%
	31.12.2008	129,3%	59,7%	77,8%	83,7%	114,8%	96,8%	78,4%
	30.06.2008	105,2%	65,0%	83,4%	83,4%	96,9%	134,7%	80,9%
Herfindahl -index	30.06.2009	2.281	1.441	2.745	5.351	2.214	3.861	2.302
	31.12.2008	2.185	1.469	3.135	5.343	2.260	5.940	2.286
CR 5	30.06.2009	88,2%	77,2%	91,9%	93,7%	86,9%	92,4%	84,4%
	31.12.2008	87,7%	75,8%	91,7%	94,0%	89,2%	95,1%	84,3%

Source: NBRM, based on data submited by banks

At the end of the first half of 2009, the concentration of the credit exposure to the sector of natural persons remained relatively high. Except for the consumer credit exposure, the Herfindahl index of all other types of credit products offered to natural persons indicates high concentration level. Same as at the end of 2008, the credit card exposure registered the highest concentration level.

The collateralization level of the total credit exposure to natural persons in the first half of 2009 registered no significant changes. On June 30, 2009, the uncollateralized portion of the total credit exposure to natural persons equaled 37.5%, which is by 1.8 percentage points more compared to the end of 2008. The increase in the uncollateralized portion was most typical for the exposure based on current account overdrafts and credit cards. At the same time, the coverage rate of the exposure based on these two credit products with bills, guarantors, guarantees and other forms of collateral went down. This also led to semiannual decrease of 6.2 percentage points in the total credit exposure to natural persons, collateralized with these forms of collateral.

Table 20
Structure of exposure to the sector of natural persons by type of collateral

Type of collateral	Residential and commercial real estate loans		Consumer credits		Overdrafts and credit cards		Car credits		Other credits		Total credit exposure	
	31.12.2008	30.06.2009	31.12.2008	30.06.2009	31.12.2008	30.06.2009	31.12.2008	30.06.2009	31.12.2008	30.06.2009	31.12.2008	30.06.2009
Unsecured credit exposure	0,0%	4,3%	43,2%	16,4%	60,3%	77,9%	0,0%	0,6%	5,7%	6,0%	35,7%	37,5%
Credit exposure secured by real estate	90,4%	89,7%	11,0%	27,8%	0,1%	0,0%	0,8%	2,4%	73,4%	65,4%	23,8%	28,1%
Credit exposure secured by movables (including deposits and securities)	1,1%	2,8%	4,6%	6,5%	0,4%	0,2%	94,9%	92,2%	8,4%	5,3%	8,8%	8,9%
Credit exposure secured by bills of exchange, endorsers, guarantees and other types of collateral	8,5%	3,2%	41,2%	49,3%	39,3%	21,9%	4,3%	4,8%	12,5%	23,3%	31,7%	25,5%

Source: NBRM, based on data submited by banks

In the first half of 2009, same as at the end of 2008, most of the banks' credit exposure to natural persons is concentrated with persons with monthly income on all bases ranging from Denar 7,000 to Denar 30,000. At the end of the first half of 2009, the credit exposure to persons with monthly income ranging from Denar 7,000 to 30,000 constitutes 58.7%, of the banks' total exposure to natural persons, registering a minor fall of 0.6 percentage points compared to the end of 2008. Observing the credit products offered to the households, most of the users of car credits and residential and business premises credit are persons earning higher income. On the other hand, the persons with lower income use other credit products, such as credit cards, current account overdrafts and consumer credits.

Table 21
Structure of credit exposure to natural persons according to monthly income on all bases

Level on monthly income	Residential and commercial real estate	Car credits	Credit cards and overdrafts	Consumer credits	Other credit exposure	Total credit exposure to households
to 7.000 denars	3,9%	6,4%	6,7%	8,4%	4,6%	6,5%
from 7.000 to 15.000 denars	4,4%	6,9%	31,2%	25,3%	17,3%	22,4%
from 15.000 denars to 30.000 denars	15,9%	34,5%	45,2%	32,5%	57,0%	36,3%
from 30.000 denars to 50.000 denars	28,0%	33,4%	10,8%	17,6%	8,0%	17,0%
over 50.000 denars	47,9%	18,8%	6,1%	16,2%	13,0%	17,7%

Source: NBRM, based on data submited by banks

Stress-test simulation[26] for the resilience of the banking system to the deterioration of the quality of credit exposure to corporations and other clients and / or to natural persons

The stress-test simulation for the resilience of the banking system to the potential deterioration of the credit exposure risk to nonfinancial entities rests on the assumption for migration of a certain credit exposure percentage from each risk category to the two next higher risk categories, distributed equally (e.g. a certain percentage of exposure classified in A risk category migrates and equally distributes to B and C risk categories, a certain percentage of exposure classified in B risk category migrates and equally distributes to C and D risk categories, etc.). Other vital assumption in the conduct of this simulation is that the average risk level of each of the five risk categories, and consequently, the percentage for determining the impairment losses (impairment and special reserve) for the distributed exposure would remain the same as before the simulation. The purpose of this simulation is to determine the potential adverse effect of the credit exposure migration (for both the total exposure and the exposure by sector and activity) from the existing to the higher risk categories on the capital adequacy and the exposure risk.

The stress-test analysis has been conducted by applying two scenarios: 1) migration of 10% of the credit exposure of each risk category to the next two higher risk categories, distributed equally and 2) **redistribution of 30%** of the credit exposure of each risk category to the next two higher risk categories. Both scenarios are conducted for each activity within the corporations and other clients sector, and for each credit product offered to households.

The results of this simulation for the credit risk exposure to corporations and other clients sector indicate possible reduction in the capital adequacy ratio from the initial 16.4% to 15.2%, in the case of first scenario, i.e. to 12.8% in the case of second scenario. Simultaneously, the average risk level of credit exposure to corporations and other clients would increase from the initial 8.9%, to 10.8% (first scenario), i.e. would reach 14.8%, (second scenario). Observing by activity, the fastest reduction in the capital adequacy in the banking system of 0.5 percentage points (first scenario) and 1.5 percentage points (second scenario) given the potential deterioration of the quality of exposure by migration to worst risk categories, would occur in the case it happens in the exposure to the industry. The most significant effect on the capital adequacy of the banking system, given the increase in the exposure risk to the industry, is mainly due to the fact that this activity accounts for 38.9% of the total credit exposure to the corporations and other clients sector. On the other hand, the fastest deterioration of the credit portfolio quality indicators would be reported by the exposure to agriculture, hunting and forestry.

[26] Stress-test simulation has been conducted by using data from the Credit Registry (Report on credit exposure and calculated impairment losses by activity and by risk category, as of June 30, 2009).

Table 22
Initial balance and results from the redistribution of credit exposure to each activity of the corporations and other clients sector

	Indicators	Industry	Agriculture, hunting and forestry	Construction	Wholesale and retail trade	Transport, storage and communication	Credit exposure to corporations and other clients
initial condition	Capital adequacy ratio at the level of banking system	16,4%					
	% of "C", "D" and "E" in total credit exposure	13,9%	16,9%	7,6%	8,5%	10,5%	10,5%
	Average level of risk	11,3%	16,2%	6,7%	7,2%	7,2%	8,9%
I scenario	Capital adequacy ratio at the level of banking system	15,9%	16,4%	16,3%	16,1%	16,3%	15,2%
	% of "C", "D" and "E" in total credit exposure	18,9%	22,3%	12,8%	13,7%	15,3%	15,7%
	Average level of risk	13,3%	18,2%	8,6%	9,2%	9,2%	10,8%
II scenario	Capital adequacy ratio at the level of banking system	14,9%	16,3%	16,1%	15,3%	16,2%	12,8%
	% of "C", "D" and "E" in total credit exposure	28,8%	33,0%	23,4%	24,1%	25,0%	26,0%
	Average level of risk	17,2%	22,2%	12,4%	13,2%	13,2%	14,8%

Source: Internal NBRM calculations, based on data submitted by banks
Note: There is an assumption for insulated deterioration of the quality of credit exposure to each activity, and deterioration of the quality of total credit exposure to corporations and other clients

Under the assumption for migration to higher risk categories of credit exposure to natural persons, the capital adequacy ratio would decrease from the initial 16.4%, to 15.3% in the case of first scenario, i.e. to 14.0% in the case of second scenario. On the other hand, the average risk level of exposure to natural persons would go up by 2.2 percentage points, in the case of first scenario, i.e. by 6.6 percentage points in the case of second scenario. Analyzed by credit product offered to natural persons, the fastest deterioration of the capital adequacy ratio would be caused by the potential increase in the credit exposure risk based on credit cards. Additionally, the credit card exposure to natural persons, alongside the car credits and current account overdraft exposure would register the fastest deterioration of the quality indicators for credit risk exposure.

Table 23
Initial balance and results from the redistribution of credit exposure to each activity of the natural persons sector

	Indicators	Residential and commercial real estate	Consumer credits	Overdrafts	Credit cards	Car credits	Other credits	Credit exposure to households
initial condition	Capital adequacy ratio at the level of banking system	16,4%						
	% of "C", "D" and "E" in total credit exposure	3,9%	10,3%	3,6%	7,1%	6,9%	20,5%	7,5%
	Average level of risk	3,2%	8,2%	6,0%	6,7%	4,6%	11,6%	6,5%
I scenario	Capital adequacy ratio at the level of banking system	16,3%	16,2%	16,3%	16,1%	16,4%	16,4%	15,6%
	% of "C", "D" and "E" in total credit exposure	8,9%	15,4%	9,4%	12,4%	11,6%	24,9%	12,8%
	Average level of risk	5,1%	10,3%	8,0%	9,2%	6,7%	13,8%	8,7%
II scenario	Capital adequacy ratio at the level of banking system	16,0%	15,7%	16,2%	15,6%	16,3%	16,3%	14,0%
	% of "C", "D" and "E" in total credit exposure	19,0%	25,6%	21,0%	23,0%	21,1%	33,7%	23,1%
	Average level of risk	9,1%	14,5%	12,0%	14,2%	11,0%	18,2%	13,1%

Source: Internal NBRM calculations, based on data submitted by banks
Note: There is an assumption for insulated deterioration of the quality of credit exposure based on credit product, and deterioration of the quality of the overall credit exposure to households.

If we assume simultaneous redistribution from lower to higher risk categories of credit exposure to all nonfinancial entities (i.e. simultaneous migration in both corporations and other clients and natural persons sector) the capital adequacy of the banking system would go down by 2.0 percentage points in the case of first scenario, i.e. by 6.0 percentage points in the case of the second, more extreme scenario. Given such migration, the share of exposure classified in C, D and E risk categories in the total credit exposure in the banking system would go up by 4.2 percentage points i.e. by 12.0 percentage points, in the case of both scenarios, respectively.

Table 24
Initial balance and results from the potential deterioration of the quality of credit exposure to corporations and other clients and to natural persons

	Indicators	Credit exposure to corporations and other clients and to households	Credit exposure to banking system*
initial condition	Capital adequacy ratio at the level of banking system	16,4%	
	% of "C", "D" and "E" in total credit exposure	9,4%	7,6%
	Average level of risk	8,0%	6,5%
I scenario	Capital adequacy ratio at the level of banking system	14,4%	
	% of "C", "D" and "E" in total credit exposure	14,6%	11,8%
	Average level of risk	10,0%	8,3%
II scenario	Capital adequacy ratio at the level of banking system	10,4%	
	% of "C", "D" and "E" in total credit exposure	24,9%	19,6%
	Average level of risk	14,1%	11,3%

Source: Internal NBRM calculations, based on data submitted by banks
Note: There is an assumption for deterioration of the credit exposure to corporations and other clients and to natural persons, and analyses have been made of its effect on the total credit exposure risk of the banking system and the capital adequacy ratio.

The results from the stress-test simulation point to satisfactory resilience of the banking system in the Republic of Macedonia to potential credit shock, taking into account that neither of the scenarios decreases the capital adequacy ratio below the legally set minimum requirement of 8%. However, the developments in the credit exposure to nonfinancial entities need close monitoring, considering the identified relatively high correction of the credit exposure quality indicators in the conduct of each scenario for redistribution of the credit exposure.

3.2. Liquidity risk

At the end of the first half of 2009, certain slowing down of the downward trend of the liquid assets, which was characteristic for the previous year and a half, was registered. Such an occurrence, by one hand, is a prudent response of the banks to the worsened domestic economic environment and to the higher risks in their operating. However, the banks' liabilities for adherence to the new legal framework in the area of liquidity risk management also influenced. Almost all indicators for the banks' liquidity are at the lowest level in the previous year and half. However, termination of their continuing downward trend and certain stabilization, especially evident in the second quarter of 2009, was registered. Simultaneously, on June 30, 2009, almost all banks fulfilled the minimal liquidity rate in the maturity segment of 30 days, (in Denars and in foreign currency), while in the maturity segment of 180 days, the liquidity ratio over 1, (in Denars and in foreign currency) was registered by more than half of the banks. Although the influence of the turbulence in the real sector was still present, the changed preferences of the depositors and the deposit core contraction, the banks had available enough funds for covering the due liabilities. The deposit core contraction had no apparent influence on the structure of the sources of financing, which are still dominated by the primary sources of funds. The percentage of stable deposits according to the banks' expectations increased. The sight deposits still characterizes with high stability.

3.2.1. Indicators for the bank's liquidity[27]

The banks maintain sufficient level of liquid assets and fulfill their obligations timely and smoothly. However, in the past several years, certain liquidity indicators, which primarily mirror the maturity and the currency matching of their assets and liabilities, registered a decrease. Such movements were due to the strong increase in the banks crediting (primarily on longer-term basis), compared to the evident propensity of the depositors to save on shorter-term. This occurrence, in conditions of tightening of the international capital flows, liquidity problems in the banking systems of the West European countries and the speed they spill over from one country to another, emphasized the need of certain adjustments to the regulatory framework for liquidity risk management.

In that direction, at the end of 2009, the NBRM adopted a new Decision on managing banks' liquidity risk. This Decision, inter alia, imposed the requirement for the banks to maintain certain minimal liquidity level, defined as a correlation between on-balance sheet and off-balance sheet assets and liabilities maturing in the maturity segments of 30 and 180 days, separately for Denar and foreign currency assets and liabilities. In the calculation of the liquidity ratio, also the deposits concentration is taken into consideration, as a factor that might influence on the level of liquidity risk with banks. The anticipated effect of these amendments to the regulations is gradual improvement in the maturity match of the assets and liabilities of the banking system, through deceleration of the maturity transformation. Also this measure is expected to be additional challenge for the banks to have more active approach to the liabilities management, in direction of providing longer-terms sources of funds.

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

In the February - June 2009 period[28], improvement in these liquidity ratios of the banks within both maturity segments was registered[29]. As of June 30, 2009, within the maturity segment of up to 30 days, 16 banks (for the liquidity ratio in Denars) and 17 banks (for the liquidity ratio in foreign currency) registered the minimal level, while within the maturity segment of up to 180 days, the number of banks that reconciled with this ratio equals 11 (for Denar liquidity), i.e. 10 (for foreign currency liquidity). The implementation of the new Decision on managing the liquidity risk is expected to have a longer-term influence on the banks' liquidity position and visible effects on a longer-term basis.

Table 25
Survey for fulfillment of the liquidity ratio up to 30 and 180 days

number of banks	maturity segments up to 30 days				maturity segments up to 180 days			
	denar		foreign currency		denar		foreign currency	
	28.02.2009	30.06.2009	28.02.2009	30.06.2009	28.02.2009	30.06.2009	28.02.2009	30.06.2009
liquidity ratio > 1	14	16	12	17	9	11	8	10
liquidity ratio < 1	4	2	6	1	9	7	10	8

Source: NBRM, based on data submitted by the banks

The negative movements of other banks' liquidity indicators registered deceleration. The share of the liquidity assets in the total assets equaled 20.5% on June 30, 2009, which is a decrease of 2.5 percentage points compared to December 31, 2008. This decrease is far lower compared to the previous months, when this indicator reduced even to 7.8 percentage points on a semi-annual basis. A decrease of 2.4 and 3.0 percentage points relative to December 31, 2008 was also registered with the degree of coverage of the total liabilities and the short-term liabilities with liquid assets, respectively. As a comparison, in the previous months these two indicators registered a decrease to 9.0 and 9.1 percentage point, respectively on a semi-annual basis. The largest semi-annual decline (of 8.2 percentage points) is registered with the indicator for coverage of the households' deposits with the total liquid assets. However, the downward trend also of this indicator decelerates compared to the preceding months, when it registered a decrease also to 17.3 percentage points on a semi-annual basis.

[28] The new Decision on the managing the banks' liquidity risk entered into force on January 2009, with exception to the part relating to the fulfillment and the maintenance of the liquidity ratios, the implementation of which began on February 01,2009. However, the banks were required to develop and to submit to the NBRM the first report on the liquidity ratios as of February 28,2009. Starting from March 31,2009, the bank's requirement for increasing the liquidity ratios on a monthly basis, by adhering to the compliance dynamics, for March 21,2009 - June 30, 2009 period was introduced: 1/24 of the gap identified on February 28,2009, between the minimal level and the initial amount of the liquidity ratio up to 30 days and 1/60 of the gap identified on February 28,2009, between the minimal level and the initial amount of the liquidity ratio up to 180 days.

[29] On February 28,2009 within the maturity segment of up to 30 days the liquidity ratio over 1, 14 banks reported in Denars, while 12 banks in foreign exchange. With other banks, the liquidity ratios up to 30 days ranged from 0.70 to 0.95 in Denars and from 0.23 to 0.95 in foreign exchange. On June 30,2009 within the maturity segment of 30 days two banks for Denar assets and liabilities and one bank for foreign currency assets and liabilities have reported liquidity ratio below 1 (according to the current legal framework, the deadline for reaching this rate is February 2011). Within the same period (February - June 2009), within the maturity segment of 180 days, the number of banks registering liquidity ratio over 1 went up from 9 to 11 (in Denars), i.e. from 8 to 10 (in foreign exchange). With other banks, the liquidity ratios up to 180 days in Denars ranged from 0.54 to 0.97 on February 28,2009, i.e. from 0.73 to 0.98 on June 30,2009. Within the same maturity segment, but in foreign currency, liquidity ratios were from 0.29 to 0.92 on February 28,2009 i.e. from 0.52 to 0.96 on June 30,2009.

Figure 54
Monthly movement of banks' liquidity indicators

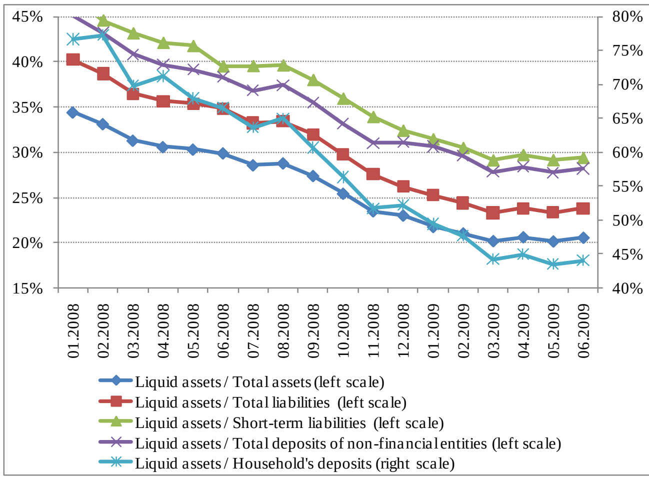
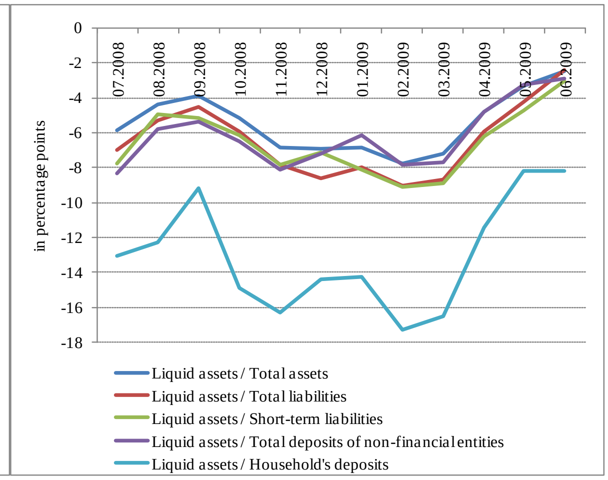


Figure 55
Semi-annual change of the banks' liquidity indicators



Source: NBRM, based on data submitted by the banks

Simultaneously, in June compared to May 2009, all indicators for the banks' liquidity improved from 0.2 to 0.6 percentage points.

Figure 56
Semi-annual change in the components of the banks' liquidity indicators

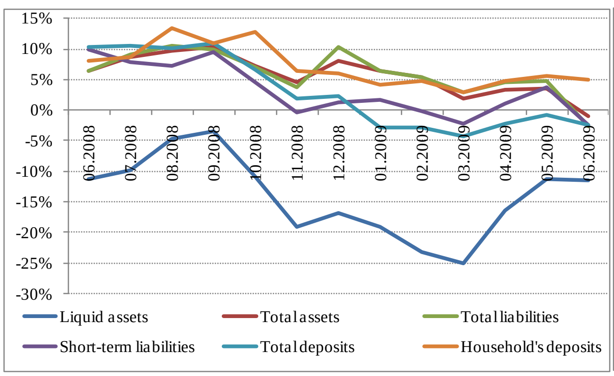
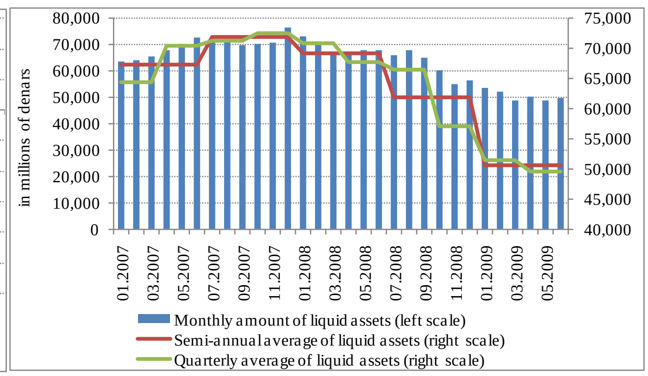


Figure 57
Movement of the banks' liquid assets



Source: NBRM, based on data submitted by the banks

Such a dynamics of the banks' liquidity indicators was, to large extent, determined by the negative rates of change of the liquid assets. Despite the decrease compared to the previous months, these negative rates of change with the liquid assets are still far higher than those registered with the other components of the liquidity indicators. On June 30, 2009, the bank's liquid assets[30] equaled Denar 49,818 million, which is less by 11.5% compared to December 31, 2008. During the same period, the other components of the liquidity indicators of the banks registered annual decline of 0.9% (total

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

assets) up to 2.6% (total liabilities). Oppositely, the households' deposits went up by 4.9% on semi-annual basis. The analysis of the movement of the average amount[31] of liquid assets in the first half of 2009 points to further decrease in the banks' liquid assets. However, within individual quarters of the first quarter of 2009, slowing down of the downward trend of the liquid assets of the banks in the second half was registered.

Figure 58
Monthly movement of certain components of the banks' liquid assets

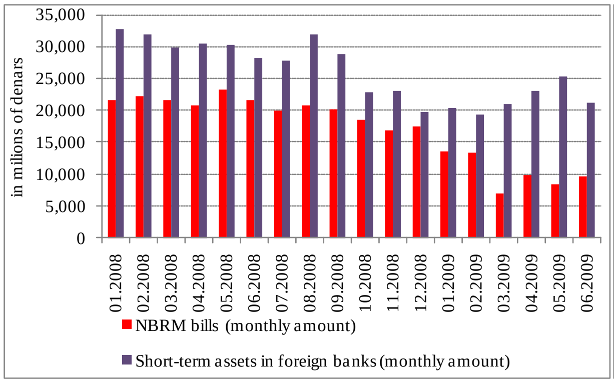
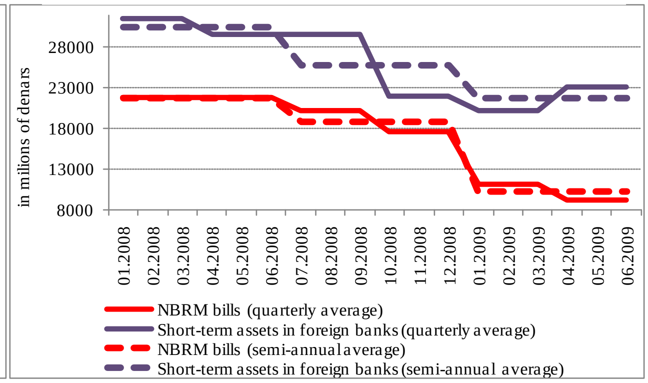


Figure 59
Dynamics of the average values of certain components of the banks' liquid assets



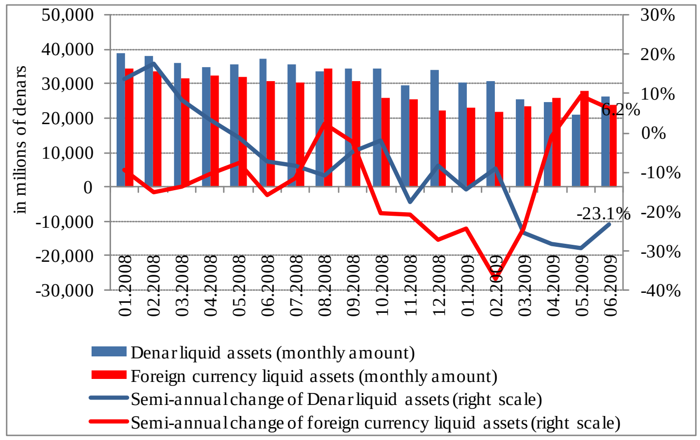
Source: NBRM, based on data submitted by the banks

The liquid assets dynamics in the first half of 2009 was determined by the dynamics of the CB bills and the placements in the short-term assets in foreign banks (correspondent accounts and other short-term assets with foreign banks). However, the continuing increase in the assets in foreign banks, which was characteristic almost for all months in the first half of 2009 was not sufficient to buffer the evident downward trend of the assets placed in CB bills. Thus on June 30, 2009, compared to the end of 2008, the amount of CB bills reduced by Denar 7,798 million, or by 44.7%. Adversely, the short-term assets in foreign banks within the same period registered an increase of Denar 1,433 million (7.2%). The upward trend of the short-term assets with foreign banks was especially evident in the second quarter of 2009, when termination of the decrease in the average quarterly amounts of these banks' assets was registered. However, such movement of the short-term assets with foreign banks was not sufficient to neutralize the significant decrease in the placements in CB bills, which was characteristic from the aspect of the semi-annual and quarterly averages. The remaining components of the liquid assets registered no significant changes relative to December 31,2008 (rise in the Treasury bills of 10.2% and decrease in the cash and the balances on the accounts with the NBRM of 4.0%).

[31] The average amount of liquid assets represents an average of the outstanding amount of the liquid assets at the end of the months in certain period.

The larger propensity of the domestic banks to place assets in foreign banks, contributed to increase the foreign currency component of the liquid assets. On the other hand, the lower amount of assets placed in CB bills reduced their Denar component[32]. Such movements had significant influence on the currency structure of the banks' liquid asses. The decrease in the share of the Denar component (by 7.9 percentage points compared to December 31,2008) contributed to almost equalized share of the Denar (52.5%) and the foreign currency component (47.7%) in the total liquid assets.

Figure 60
Monthly movement and semi-annual rates of change of the liquid assets by currency structure

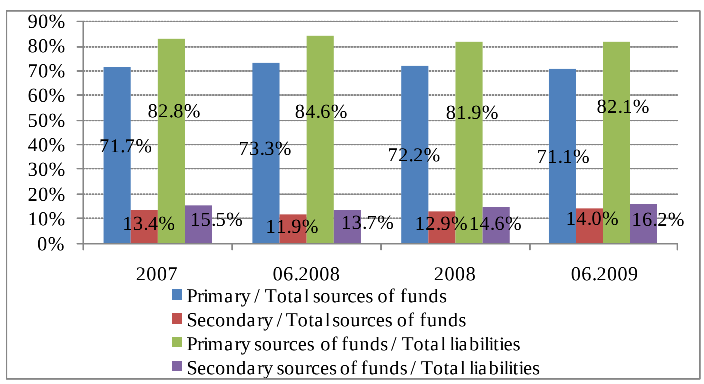


Source: NBRM, based on data submitted by the banks

3.2.2. Sources of financing of the banking system

The deposit core contraction has no apparent influence on the structure of the sources of financing of the banks in the first half of 2009. The deposits of the non-financial entities (the so-called primary sources of funds) still have the primacy as dominant source of financing of the bank activities. Compared to the previous periods, the primary sources of funds registered insignificant decline, not only in comparison with June 30, 2008 (of 0.1%), but relative to December 31,2008 (of 2.4%), as well. However, their share in the total sources of financing and in the total liabilities remained almost unchanged. Although the share of the secondary sources is minor, however, their growth of 21.5% relative to June 30,2008, and thus the increase in their significance in the total sources of financing of the banks shall be emphasized. More detailed analysis of the movements and the structure of the deposits is included in part 2.3 Deposit activity of banks.

Figure 61
Relative significance of the individual sources of funds

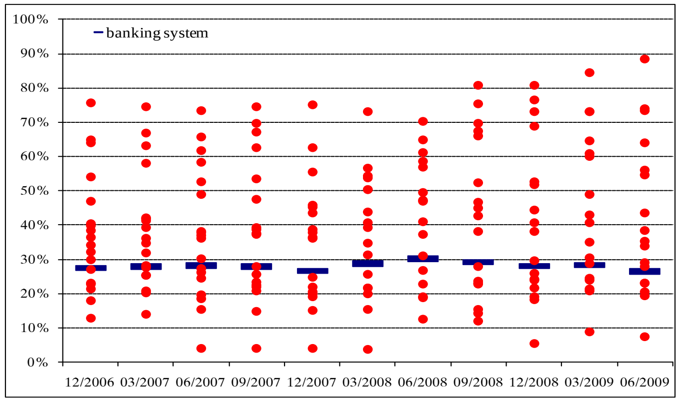


Source: NBRM, based on data submitted by the banks

[32] For the needs of the banks' liquidity analysis, the assets in Denars with FX clause are included in the Denar assets.

At the level of the banking system, it registers certain downward movements.[34] Namely, the participation of the twenty largest depositors in the total deposits equaled 26.4% on June 30,2009, which is a decrease of 1.6 and 3.8 percentage points compared to December 31,2008 and June 30, 2009, respectively. However, observed by banks, significant discrepancy is evident, with the deposits concentration being more apparent with part of the banks, exceeding 50% even 80%.

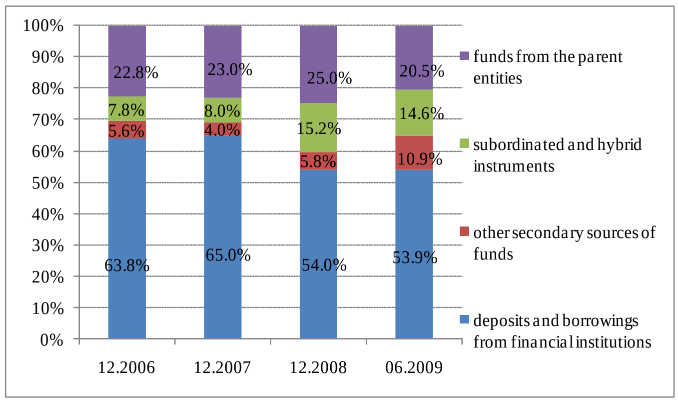
Figure 62
Concentration of the deposits of the banking system and by banks



Source: NBRM, based on data submitted by the banks

The structure of the secondary sources of funds registers no significant changes in the first half of 2009. Although with the slightest significance in the structure of the secondary sources of funds, "other secondary sources of funds" registered the largest semi-annual percentage growth of 102.0%. It is due to the increased liabilities of one bank based on credits to the 'government' sector[35]. The deposits and borrowings from financial institutions relative to the end of 2008 went up by 8%, while the subordinated and the hybrid instruments surged by 4.2%. The used funds from the parent entities (including also both subordinated and hybrid instruments of the parent entities) elevated their share in the secondary sources of funds. The largest portion of these assets (50.2%) is in form of deposits, with 79.5% of these deposits being placed with one bank.

Figure 63
Structure of the secondary sources of funds



Source: NBRM, based on data submitted by the banks

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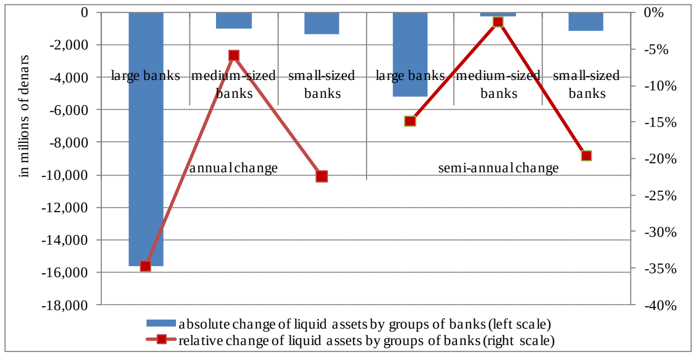
[34] In determining the liquidity ratio of up to 30 days in both Denars and foreign currency, the bank includes the transaction accounts and sight deposits in the amount of: 30%, if the level of concentration in Denars, i.e. foreign currency does not exceed 30%, in the amount of 35%, if the level of concentration in Denars, i.e. in foreign currency is over 30%, but does not exceed 50% and in the amount of 40%, if the level of concentration in Denars, i.e. in foreign currency exceeds 50%. In determining the liquidity ratio up to 180 days in both Denars and foreign currency, the bank includes the transaction accounts and sight deposits in the following amounts: 40%, if the level of concentration in Denars, i.e. in foreign currency does not exceed 30%, in the amount of 45%, if the level of concentration in Denars, i.e. foreign currency is over 30%, but does not exceed 50% and in the amount of 50%, if the level of concentration in Denars, i.e. foreign currency exceeds 50%. However, the level of concentration is measured according to the share of the deposits in the largest 20 depositors and their connected entities in the total banks' deposits, i.e. in Denars and in foreign currency.

[35] Based on foreign credit used through the Ministry of Finance.

3.2.3. Liquidity of individual groups of banks

The downward trend of the liquid assets was characteristic for all groups of banks in the first half of 2009. However, the severest decrease was registered with the group of large banks, which is the carrier of the decrease in the liquid assets at the level of the entire banking system. The decrease in the liquid assets with this group of banks is more apparent compared to June 30,2008 (its liquid assets reduced by Denar 15,636 million, or by 34.7%).

Figure 64
Absolute and relative change in the liquid assets by group of banks



Source: NBRM, based on data submitted by the banks

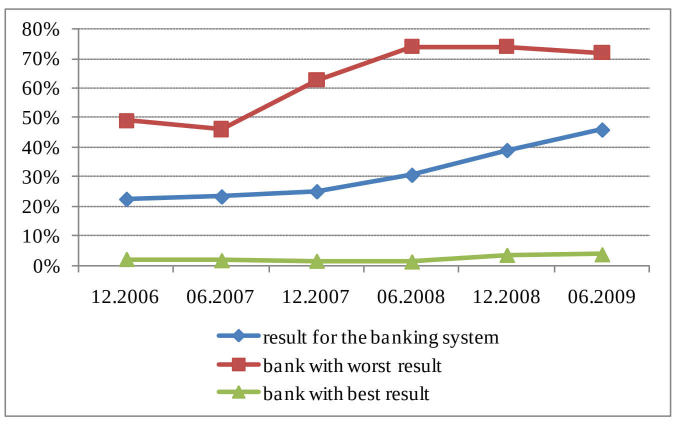
During the first half of 2009, almost all liquidity indicators by groups of banks deteriorated. (Annex no. 8 - Liquidity indicators by groups of banks). The most severe worsening of these indicators was registered with the group of small-sized banks. But they are still on higher level compared to the indicators with other two groups of banks. On the other hand, on June 30,2009, the level of the liquidity indicators of the group of large banks is still the lowest. The value of their credits continues to exceed the amount of their total deposits only in the group of medium-sized banks, with the largest portion accounting to one bank.

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

The stress-test analysis conducted on June 30, 2009 showed that the banks in conditions of possible unfavorable shocks can maintain the liquidity on satisfactory level. However, the downward trend of the liquid assets influenced towards worsening of the results from both scenarios used within this analysis.

Thus in case of **simulation of instant withdrawal of 20% of the households' deposits outside the banking system,** both liquid and highly liquid assets of the banking system would reduce by 45.9% and 59.7%, respectively, alike their decrease of 39.0% and 52.3%, respectively at the end of 2008. With individual banks, the liquid assets would reduce within an interval from 3.7% to 72.0%, while their highly liquid assets would reduce from 3.7% to 120% (with one bank, the highly liquid asset is not sufficient to cover the outflow).

Figure 65
Results of the stress-tests simulation for instant withdrawal of 20% of the households' deposits outside the banking system



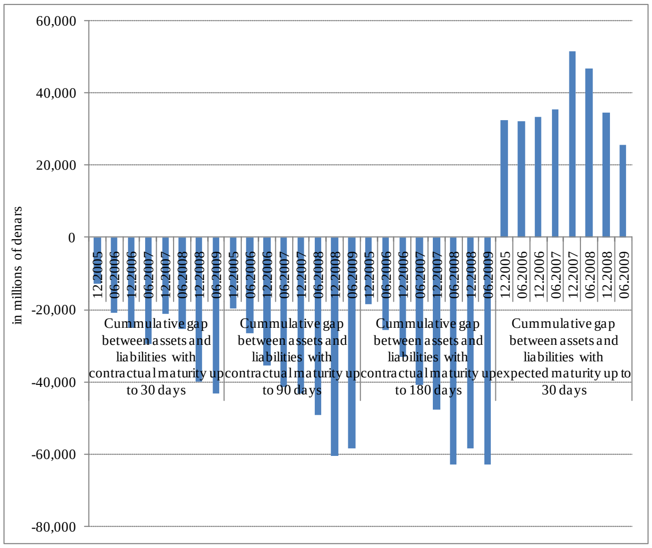
Source: NBRM, based on data submitted by the banks

The influence on the banks liquidity is more apparent in case of **the simulation of withdrawal of the deposits of the twenty largest depositors of each bank.** In case of this scenario, six banks register lack of liquid assets for covering the liabilities based on the deposits of twenty largest depositors.

3.2.4. Maturity structure of the assets and liabilities

In the first half of 2009, although with slower dynamic, the gap deepening between assets and liabilities, from the aspect of the contractual maturity, continued. Such a situation is mostly apparent with the cumulative mismatch between the assets and liabilities with contractual maturity of up to 180 days. In comparison with December 31, 2008, the cumulative gap of up to 180 days increased by Denar 4 ,571 million, or by 7.8%. Exception from these movements were registered with the assets and the liabilities with contractual maturity of up to 90 days, where the gap decreased by Denar 1,860 million. **Despite the mismatch in the assets and liabilities' contractual maturity structure, the banks succeeded to respond fully to all outflows of funds, primarily as a result of the high level of stability of their short-term sources of funds.** According to the banks' expectations, there is compliance between maturity of the assets and liabilities up to 30 days, although the positive gap reduced by Denar 9,005 million compared to December 31,2008.

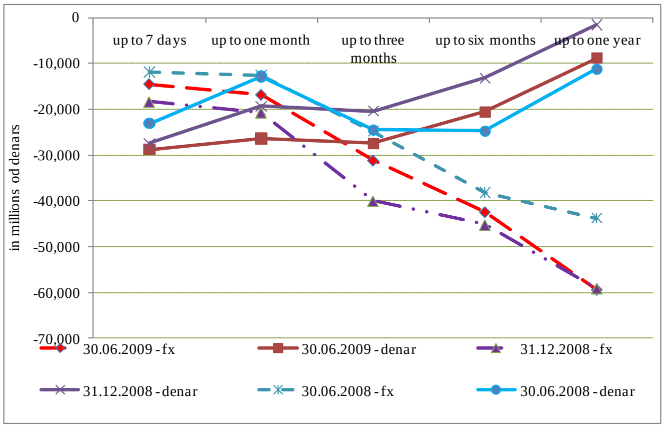
Figure 66
Dynamics of the cumulative gap between the contractual and anticipated maturity of the assets and liabilities for different maturity segments



Source: NBRM, based on data submitted by the banks

The compliance between the contractual maturity of the banks' assets and the liabilities in foreign currency improved in the first half of 2009. Alike that, the maturity mismatch between the assets and liabilities in Denars deepened. Within all maturity segments, the cumulative contractual mismatch of the assets and liabilities in foreign currency decreased. It is primarily a reflection of the increased placement of funds in foreign banks on a short-term basis. Alike that, the gap between the contractual maturity of the assets and liabilities in Denars, mostly within the maturity segment up to six months, continued.

Figure 67
Cumulative contractual residual maturity (mis)match of the assets and liabilities of the banking system by currency



Source: NBRM, based on data submitted by the banks

On June 30,2009, according to the banks' expectations, the level of stable deposit core went up. That, to certain extent, might be due also to the improved perceptions of the banks regarding the future macroeconomic movements and the final effects of the financial crisis. The percentage of stable deposits, according to the banks' expectations, at the level of the banking system, equaled 88.8%, which is higher by 4.5 percentage points compared to December 31,2008. Also, on June 30,2009, according to the banks' expectations, within a seven-day period 11.2% of the total sight deposits would outflow, which is a decrease of 4.3 percentage points compared to the end of 2008. Hence, the banks still expect high stability of the sight deposits.

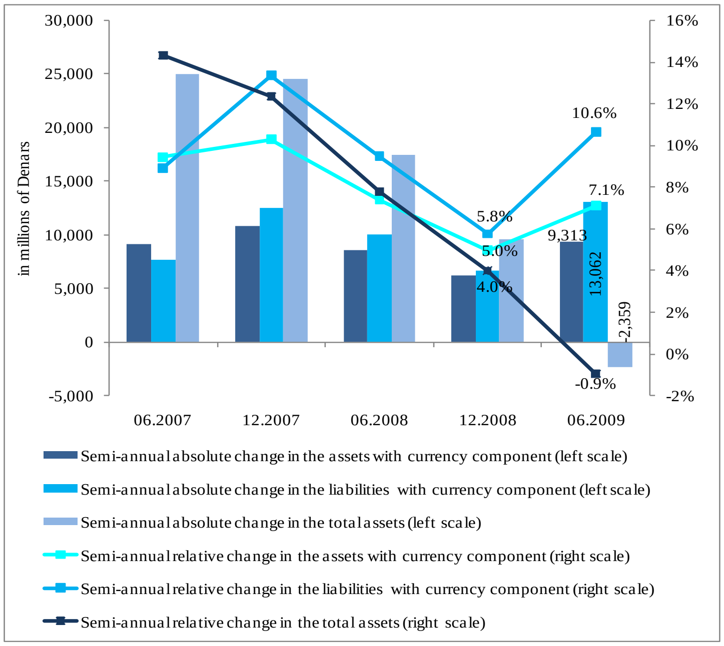
3.3 Currency risk

The presence of the foreign currency component in the total assets and liabilities of the banks in the Republic of Macedonia remained high also in the first half of 2009. The apparent psychological pressures from the uncertainty caused by the international economic crisis and the expectations for the possible effects on the domestic economy resulted in additional strengthening in the foreign currency component, especially with the deposit base. It is negative effect from the aspect of the increase in the Euroization in the Macedonian economy. However it resulted in a decrease in the gap between the assets and liabilities with currency component, i.e. to their larger match. In the first half of 2009, the banks manage with the currency risk mainly within the prescribed limits for the aggregate foreign currency position.

3.3.1. Currency structure of the assets and liabilities

Opposite to the fall in the total banks' assets in the first half of 2009, the currency component in total banks' assets and liabilities has increased[36]. In the first half of 2009, the assets with foreign currency component registered semi-annual growth of 7.1% and on June 30, 2009 it reached the amount of Denar 140,341 million. On the other hand, with the registered semi-annual growth rate of 10.6%, on June 30, 2009, the liabilities with currency component reached the level of Denar 135,879 million. Opposite to such movements, in the first six months of 2009, the Denar assets and liabilities of the banks went down by Denar 11,672 million (i.e. by 9.8%) and Denar 15,421 million (i.e. by 12.1%), respectively, which caused also a decrease in the total assets (liabilities) of the banking system.

Figure 68
Semi-annual change in the banks' total assets and the assets and liabilities with currency component



Source: NBRM, based on data submitted by the banks

[36] Source: Report on the exposure to currency risk by positions (Form ODP-p). Note: The foreign currency component of the assets and liabilities of the banks encompasses the assets and liabilities items denominated in foreign currencies and in Denars with FX clause. In conformity with the Instructions for implementation of the Decision on managing the currency risk, in the fulfillment of the Report on the currency risk by positions, the banks are obliged to present the on-balance sheet items classified in the risk categories C, D and E on a net basis, i.e. reduced by the amount of the impairment. The on-balance sheet positions classified in the risk categories A and B are presented on a gross basis, i.e. they are not reduced by the amount of the impairment.

The semi-annual growth in the assets with currency component, given simultaneous decrease in the Denar assets caused rise in the share of the currency component in the total banks' assets. On June 30, 2009, the assets with currency component participated with 56.5% in the total assets of the banks, which represents an increase of 4.2 percentage points, compared to the end of 2008. The semi-annual increase in the share of the foreign currency component in the total banks' assets arises mostly from the increase in the share of the items in foreign currency in the total banks' assets from 28% on December 31,2008, to 31.8% at the end of the first half of 2009. Such movements in the assets' currency structure are due, to largest extent, to the growth in the foreign currency placements, reserve requirement in foreign currency with the NBRM and the short-term deposits denominated in foreign currency with the NBRM. On the other hand, the CB bills, the Treasury bills in Denars and the Denar funds of the banks registered semi-annual decrease.

Figure 69
Currency structure of the assets of the banking system

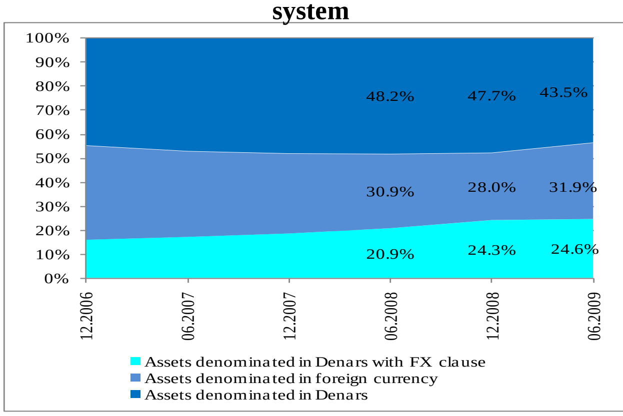
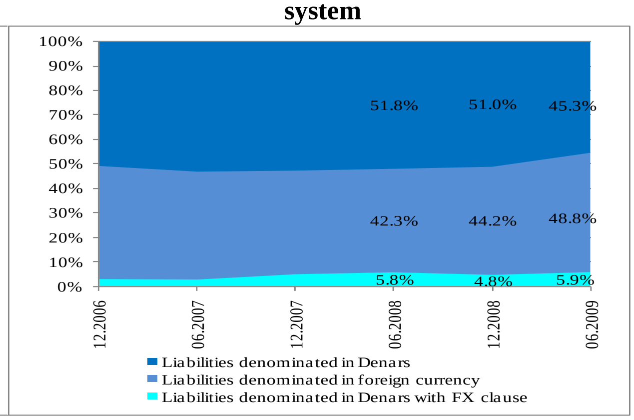


Figure 70
Currency structure of the liabilities of the banking system



Source: NBRM, based on data submitted by the banks

The apparent currency transformation of the banks' deposits conditioned an increase in the share of the currency component in the total banks' liabilities. On June 30,2009, the share of the liabilities with the currency component in the total liabilities of the banking system equaled 54.7% and in comparison with December 31,2008 registered an increase of 5.7 percentage points. On semi-annual basis (December 31,2008 - June 30,2009), the items denominated in foreign currency increased their share in the banks' liabilities by 4.6 percentage points, thus having the largest contribution to the widening of the share of the currency component in the total liabilities of the banking system.

Figure 71
Share of the assets with currency component in the total assets, by groups of banks

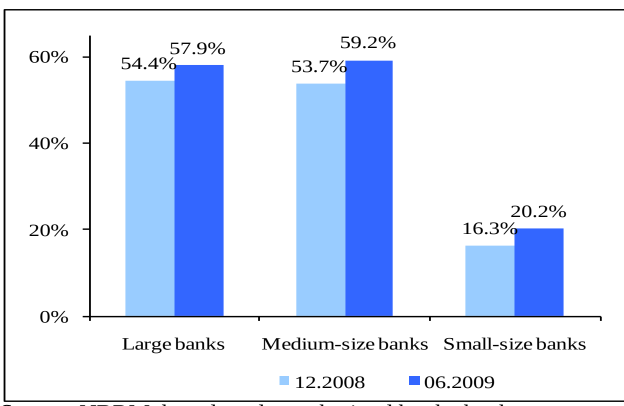
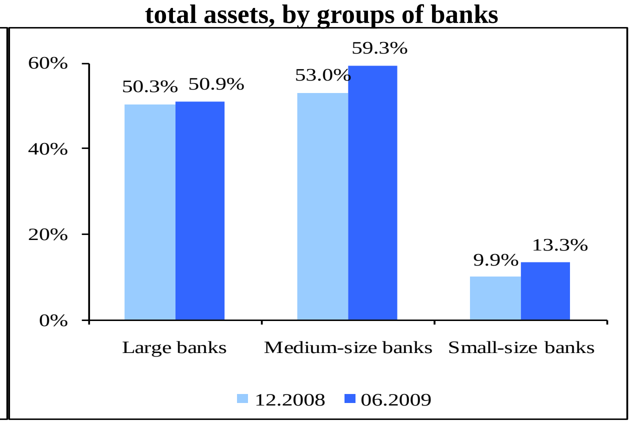


Figure 72
Share of the liabilities with currency component in the total assets, by groups of banks



Source: NBRM, based on data submitted by the banks

By groups of banks, the share of the currency component in the total assets and liabilities is the highest with the group of medium-size banks. On semi-annual basis (December 31,2008 - June 30,2009) the representation of the currency component in the total assets and liabilities register an increase with all groups of banks.

Table 26

Currency structure of the assets and liabilities with currency component and the gap between them

Currency	31.12.2008			30.06.2009		
	Currency structure of the assets with currency component	Currency structure of the liabilities with currency component	Currency structure of the gap between the assets and the liabilities with currency component	Currency structure of the assets with currency component	Currency structure of the liabilities with currency component	Currency structure of the gap between the assets and the liabilities with currency component
Euro	88.4%	88.8%	83.5%	89.6%	89.9%	85.3%
US Dollar	7.5%	8.0%	0.1%	6.7%	7.0%	-2.0%
Swiss franc	2.2%	1.6%	9.6%	1.8%	1.4%	12.3%
Other	1.9%	1.6%	6.8%	1.9%	1.8%	4.4%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

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

The currency structure of the assets and liabilities with currency component and the gap between them registered no changes of higher significance. Namely, in the first half of 2009, the dominant share of the Euro in the banks' balance sheets continued to increase, for the account of the decrease in the share of the remaining currencies. However, the gap between the assets and the liabilities with currency component at the level of the banking system is positive in all currencies, except to the US Dollar and the British Pound, where the assets is lower relative to the adequate components of the banks' liabilities.

The continuing decrease in the gap between the assets and the liabilities with currency component contributed to relatively high compliance level between the assets and liabilities with currency component. This decrease, parallel to the increase in the banks' own funds, caused downwards trend of the share of the gap between the assets and the liabilities with currency component in the banks' own funds. On June 30, 2009, the gap between the assets and the liabilities with currency component equaled Denar 4,462 million, which is a decrease of 45.7% compared to the end

Figure 73

Structure of the gap between the assets and the liabilities with currency component

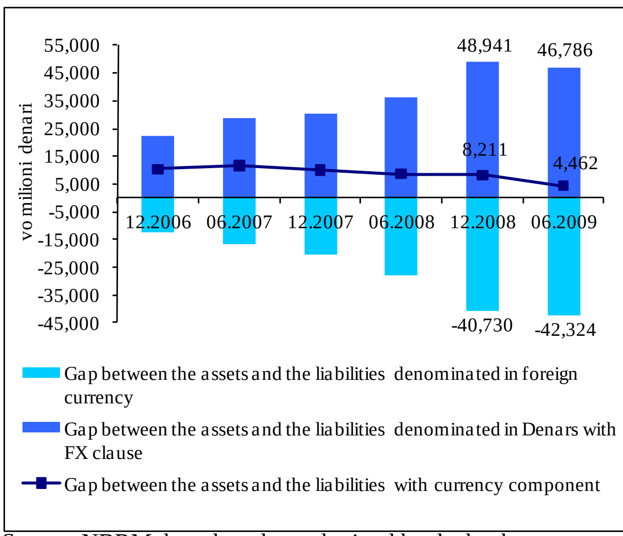
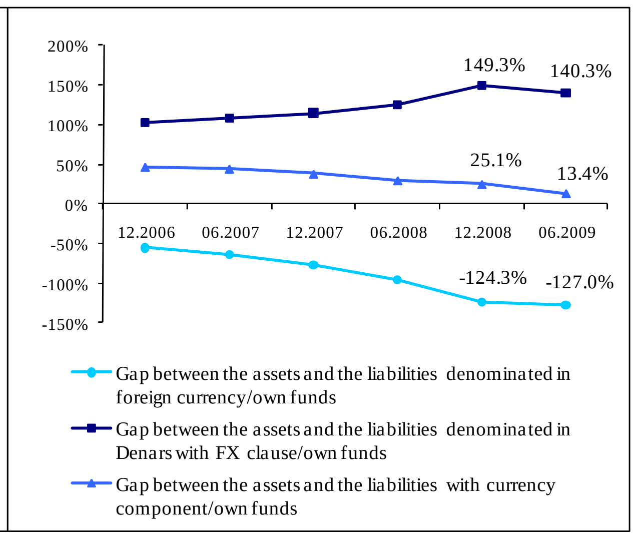


Figure 74

Share of the gap between the assets and the liabilities with currency component in the banks' own funds



Source: NBRM, based on data submitted by the banks

of 2008. Simultaneously, the gap equaled 13.4% of the banks' own funds, which is a semi-annual decrease of 11.7 percentage points.

The positive gap between the assets and the liabilities with currency component at the level of the banking system is still due to the positive difference between the assets and the sources of financing denominated in Denars with FX clause. Adversely, the increase in the negative gap between the assets and liabilities denominated in foreign currency continued. The lower representation of the deposits with currency component in the sources of financing, compared to the active utilization of the FX clauses in the banks' credit products are the main reasons for the positive gap between the assets and the liabilities denominated in Denars with FX clause. In conditions of higher tightness of the banks' credit policy in the first half of 2009 (that contributed to the slower growth in the credit activity in Denars with FX clause), compared to the currency transformation of the deposit core (transformation of the Denar deposits into Denar deposits with FX clause), the positive gap between the assets and liabilities denominated in Denars with FX clause registered a decrease of Denar 2,155 million, and on June 30,2009 it reached the level of Denar 46,786 million (the Denar assets with FX clause registered a semi-annual growth of 0.8%, while the Denar liabilities with FX clause went up by 22.2%). The negative gap between the banks' assets and liabilities denominated in foreign currency is primarily due to the non-financial entities' propensity to save in foreign currency, given simultaneous lower propensity of the banks to place funds in foreign banks and given the regulatory regime for placements foreign exchange to non-financial entities in the country. The enhanced transformation of the Denar deposits into foreign currency ones from one hand, and the more moderate absolute growth in the placements in foreign banks (compared to the foreign currency deposits growth), as well as the stagnated movement of the foreign currency credits of the non-financial entities (registered semi-annual growth of only 0.6%) on the other, in the first six months of 2009 caused deepening of the gap between the assets and the liabilities denominated in foreign currency, by Denar 1,594 million (on June 30,2009, the gap between the assets and the liabilities of the banks denominated in foreign currency equaled Denar -42,324 million).

3.3.2. Open currency position by currency and aggregate currency position of the banks

In conformity with the regulations, the ba nks are obliged to adhere to the aggregate foreign currency position[37] calculated relative to the own funds. On June 30,2009 four banks of the group of medium-size banks registered aggregate short currency position, while all other banks registered aggregate long currency position. Generally, the currency risk management by the banks is within the prescribed limits[38] for the aggregate currency position.

Table 27
List of banks according to the share of the aggregate foreign currency position in the own funds

Aggregate currency position/own funds	Number of banks	
	Aggregate long position	Aggregate short position
under 5%	4	1
from 5% to 15%	3	
from 15% to 30%	5	3
over 30%	1	

Source: NBRM, based on data submitted by the banks

[37] The aggregate foreign currency position represents the larger amount between the aggregate short foreign currency position and the aggregate long foreign currency position (in the absolute value) of the bank, i.e. the total exposure of the bank to currency risk.

[38] Since January 01, 2009, the implementation of the new Decision on managing currency risk began. Pursuant to the new Decision, the aggregate foreign currency position can equal maximum 30% of the banks' own funds, compared to previously, when the prescribed limit equaled 50% for the long, i.e. 10% for the short aggregate currency position. Also, this Decision revokes the prescribed limits for the banks' foreign currency position by currency, so each bank is required to determine those limits within its internal policies. Additionally, this Decision encompasses the off-balance sheet items in determining the open currency position. However, the following off-balance sheet items are included: irrevocable guarantees, uncovered letters of

The ratio between the aggregate currency position and the own funds with most of the banks equals up to 30%. According to the analysis by currency, the ratio between the open currency position by individual currencies and own funds the largest portion of the banks ranges up to 5%.

Table 28
Open currency position by currency/own funds

Open currency position by currency/own funds	Number of banks							
	Euro		US Dollar		Swiss franc		Other	
	Long	Short	Long	Short	Long	Short	Long	Short
under 5%	4	3	9	7	10	4	13	2
from 5% to10%	1				1		1	
from 10% to 20%	4	2						
from 20% to 30%	1	1						
over 30%	1							

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

credits and similar instruments which are classified in the risk categories C, D and E and/or for which the bank is sure that the payment will be carried out and there is probability that it can not be able to collect the off-balance sheet items (letters of credits, guarantees, etc.) in favor of the bank, from which the bank expects certain collection of funds (inflow).

3.4. Insolvency risk[39]

The intensified semi-annual increase in the own funds, compared to the increase in the risk weighted assets, resulted in improvement in the indicators for the solvency of the banking system of the Republic of Macedonia. The capital adequacy ratio continued the growth that commenced in the preceding half and it is still higher by twice than the legally prescribed minimum of 8%.

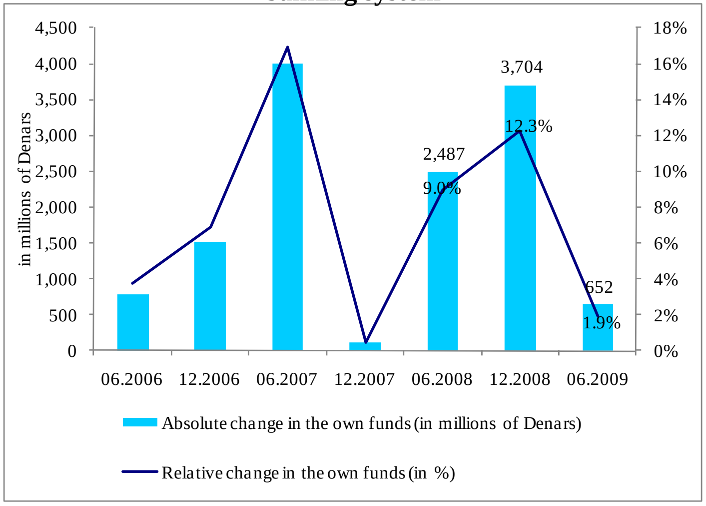
The reinvested gain and the subordinated instruments were the most significant sources of increase in the banks' own funds in the first half of 2009. However, the increase in the own funds in the first six months of 2009 registered significant deceleration compared to the previous two halves, which is mainly due to two reasons. Firstly, in conditions of low level of available liquid assets with the potential investors, the banks' owners and managers decided not to increase the own funds through new issues of shares. On the other hand, in the first half of 2009, certain growth in the current loss and non-allocated impairment on the claims[40], as items eroding the banks' core capital was registered.

In the first half of 2009, the banks continued performing tightened the credit policy, thus contributing to the slower growth in the credit activity and consequently, deceleration in the growth of the credit risk weighted assets. Additionally, the currency transformation of the banks' deposit core and consequently, the narrowing of the gap between the assets and liabilities with currency component, contributed to reduction of the currency risk weighted assets.

3.4.1. Own funds and risk weighted assets

In the first half of 2009, the own funds of the banking system continued to grow, although with smaller intensity. The moderate increase in the own funds in conditions of absence of new issues of shares by the banks was registered, but it results from the relatively high amounts of current loss and non-allocated impairment registered with individual banks in the first half of 2009. On June 30, 2009, the own funds equaled Denar 35,564 million, which is an increase of Denar 652 million (or of 1.9%) compared to the end of 2008. The largest contribution to their growth (of about 88%) accounted for the core capital, which went up by Denar 573 million. This increment is primarily due to the profit distribution for 2008 in reserves and retained gain, by the banks which

Figure 75
Semi-annual change of the own funds at the level of the banking system



Source: NBRM, based on data submitted by the banks

[39] Amendments to the Decision on the methodology for determining the capital adequacy ("Official Gazette of the Republic of Macedonia", no. 159/2007), which refer to the market risks arising from the trade book are applied from January 01,2009. Also, from 2009, new Instructions for implementation of the Decision on the Methodology for determining capital adequacy ("Official Gazette of the Republic of Macedonia" 43/2009) was enforced, resulting in certain structural changes in the own funds.

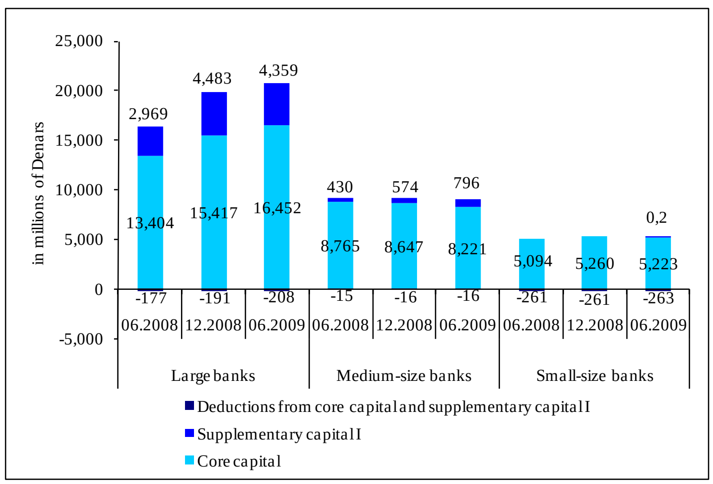
[40] In July 2009, the banks completely allocated the calculated impairment and the special reserve.

registered positive financial result in the preceding year. Additionally, in the first half of 2009, the utilization of the subordinated instruments continued. They went up by additional Denar 106 million on net basis (or 2.3%), contributing in the total semi-annual increase in the own funds by 16.3%. Opposite to such movements, on June 30, 2009 the current loss and the non-allocated impairment, as redundant items from the banks' core capital, incremented by Denar 350 million (or 65%) compared to the end of 2008, which was one of the reasons for the slower growth in the own funds of the banking system (Annex no. 14 - Structure and changes in the own funds at the level of the banking system).

The relatively quality structure remains to be one of the basic features of the banks' own funds. The core capital, with a share of 86.5% is the dominant item in the structure of the total own funds of the banking system. Within its frames, the largest portion (70.4%) accounts for the value of the common and the non-cumulative preference shares and the registered premium on these shares. The supplementary capital 1continues to have relatively small share in the banks' own funds (14.9%). The subordinated instruments have the largest significance in the creation of the supplementary capital 1, 92.1% of the banks' total supplementary capital accounts at. Despite the higher utilization of the subordinated instruments, they still have relatively small structural share in the banks' own funds (13.7%).

The group of large banks preserved its dominant position in the structure of the own funds and it was the main driving force of their increase. On the other hand, the own funds of the group of medium-size and small-size banks registered semi-annual decline. The decrease in the own funds with these groups of banks arises from the high current loss they registered in the first half of 2009. Simultaneously, the group of medium-size banks registered higher amount of non-allocated impairment, which as a deductible item, reduces the amount of the core capital. On June 30, 2009 the group of large banks created 59.6% of the banks' total own funds, compared to the share of the groups of both medium and small size banks of 26% and 14.4%, respectively. Also, the own funds with the group of large banks registered semi-annual increase of Denar 895 million (or by 4.5%), while the own funds of the group of medium and small-size banks went down by 2.2% and 0.8%, respectively on semi-annual basis. With its semi-annual increase in the supplementary capital 1 of 38.8% (or Denar 222 million), the group of medium-size banks almost completely determined its increase at the level of the entire banking system (utilization of subordinated instrument with one bank from the group of medium-size banks). However, the highest degree of "dependence" on the supplementary capital 1 in the financing of the total activities was registered with the group of large banks (on June 30,2009 the supplementary capital 1 represents 21.2% of the own funds of the group of large banks). (Annex no 15 - Structure and change in the own funds, by groups of banks)[41].

Figure 76
Own funds by groups of banks

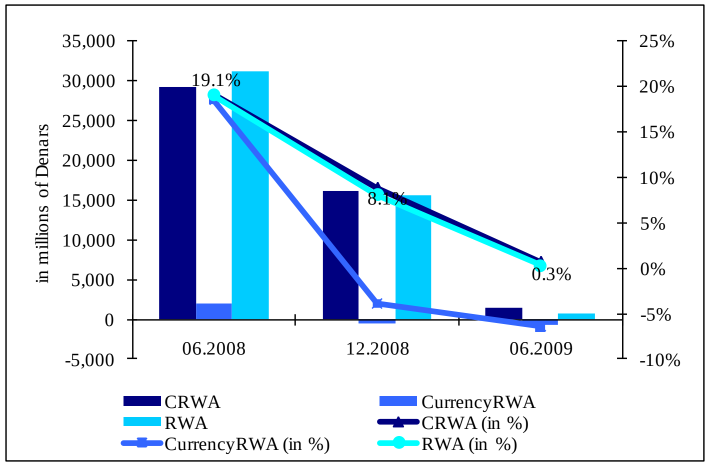


Source: NBRM, based on data submitted by the banks

[41] As of June 30,2009, the supplementary capital 1 was present with the group of small-size banks only in form of revaluation reserves.

In the first half of 2009, the risks weighted assets registered an increase, although with slower intensity. Such movement, from one hand, is due to the slower growth of the credit risk weighted assets, which corresponds to the slower dynamics of the credit activity of the banks. On the other hand, it is a result of the reduced gap between the assets and liabilities with currency component, which contributed to a decrease in the currency risk weighted assets. The risk weighted assets incremented by Denar 658 million, or 0.3% compared to December 31, 2008, and at the end of the first half of 2009 it equaled Denar 210,525 million (Annex no. 16 - Capital adequacy ratio). However, the credit risk weighted assets registered semi-annual growth of 0.7% (or of Denar 1,441 million). Just for comparison, during the same period of the preceding year, its semi-annual growth dynamics equaled 19.1%. Adversely, in the first half of 2009, the currency risk weighted assets went down by 6.4%, or Denar 783 million (just for comparison, in the first half of 2008, the currency risk weighted assets went up by 18.6%). Such movements, in the first six months of 2009, conditioned strengthening of the dominant share of the credit risk weighted assets in the total risks weighted assets, from 94.2% at the end of 2008, to 94.6% on June 30,2009.

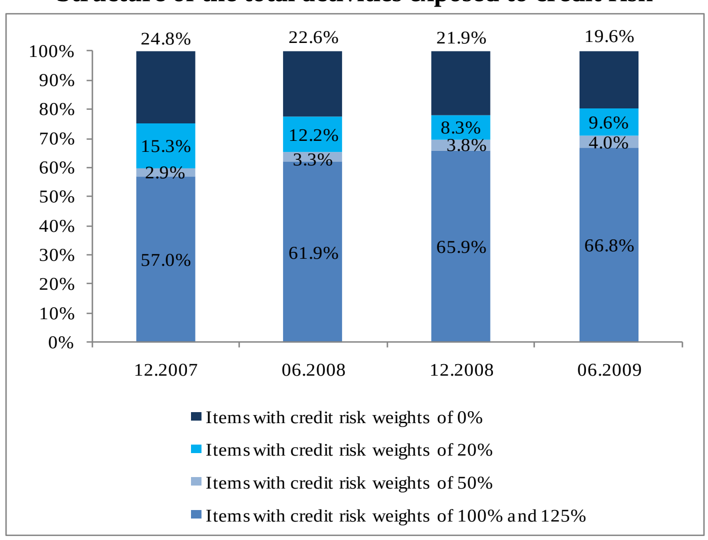
Figure 77
Semi-annual change of CRWA, CurrencyRWA and RWA at the level of the banking system



Source: NBRM, based on data submitted by the banks
CRWA: Credit risk weighted assets
CurrencyRWA: Currency risk weighted assets
RWA: Risk weighted assets

The trend of transformation of the lower interest bearing assets into higher interest bearing assets continued also in the first six months of 2009. In comparison with the previous period, when such transformation was directed towards increase in the activities, which means significantly higher risk taking, in the first half of 2009, the banks were more oriented towards increase in the activities bearing significantly more moderate risk. However, the structure of the total activities exposed to credit risk is still dominated by the items resulting from the banks' credit portfolio (those with the highest risks weights of 100 and 125%). In the first half of 2009, the largest increase of Denar 2,975 million (or 12.9%) was registered by the banks' activities that are weighted with 20% in the calculation of the credit risk weighted assets (primarily claims from first class banks and claims secured with irrevocable, unconditional guarantees and securities issued by these banks). Simultaneously, the items resulting from the banks' credit activity (items with risk weights of 100% and 125%) registered only

Figure 78
Structure of the total activities exposed to credit risk



Source: NBRM, based on data submitted by the banks

slight increase of 0.3%. Opposite to such movements, the items with weight of 0% (CB bills and funds, deposits with the NBRM and gold) registered semi-annual decline of 11,4%.

Figure 79
Distribution of own funds by risks at the level of the banking system

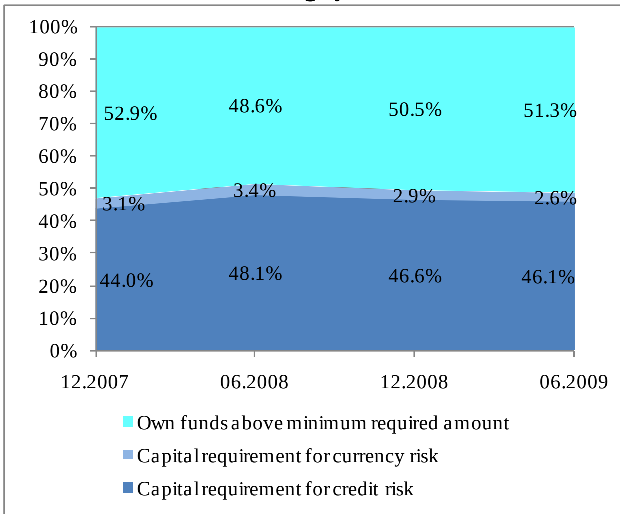
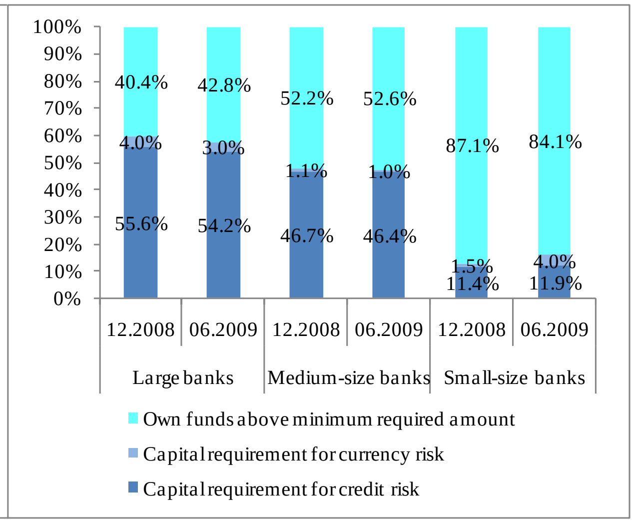


Figure 80
Distribution of own funds by risks, by groups of banks



Source: NBRM, based on data submitted by the banks

The intensified semi-annual increase in the own assets, compared to the increase in the risks weighted assets, caused certain increase in the share of the own funds over the minimum required level[42] in the total own assets of the banks. The banks from the group of large and medium-size banks were the main carrier of such movements. In the first half of 2009, the share of the own funds over the minimum required level in the total own funds of the banks registered an increase of 0.8 percentage points, for the account of the decrease in the share of the capital requirement for covering credit risk (of 0.5 percentage points) and the share of the capital requirement for covering currency risk (of 0.3 percentage points). Such movements were conditioned by the semi-annual rise in the share of the own funds over the minimal necessary level in the total own funds with the group of large banks (of 2.4 percentage points) and with the group of medium-size banks (of 0.4 percentage points). The group of small-size banks registered the highest level (84.1%) of own funds which are over the level necessary for risk coverage. Such a situation is a reflection of the relatively high capitalization level, opposite to the relatively lower credit activity of this group of banks.

3.4.2. Indicators for the solvency of the banking system

In conditions of slower increase in the risk weighted assets, in comparison with the growth in the own funds, the capital adequacy ratio at the level of the banking system continued the upward trend that commenced in the previous quarter. On June 30, 2009, the capital adequacy ratio at the level of the banking system equaled 16.4%, which represents semiannual growth of 0.2 percentage points (on annual basis, the capital adequacy ratio went up by 0.8 percentage points).

[42] The minimum required level of own funds is calculated as a sum of the capital requirement for credit risk coverage (8% of the credit risk weighted assets) and the capital requirement for currency risk coverage (8% of the currency risk weighted assets). The gap between the own funds and the minimum required level of own funds represent the level of the own funds over the minimum required level.

As in the previous periods, the group of large banks registered the lowest capital adequacy ratio (14%), while with the groups of medium-size and small-size banks, the capital adequacy ratio equaled 16.9% and 50.4%, respectively. Compared to December 31, 2009, the capital adequacy ratio went down only with the small-size banks (by 11.5 percentage points).

Figure 81
Movement of the capital adequacy ratio

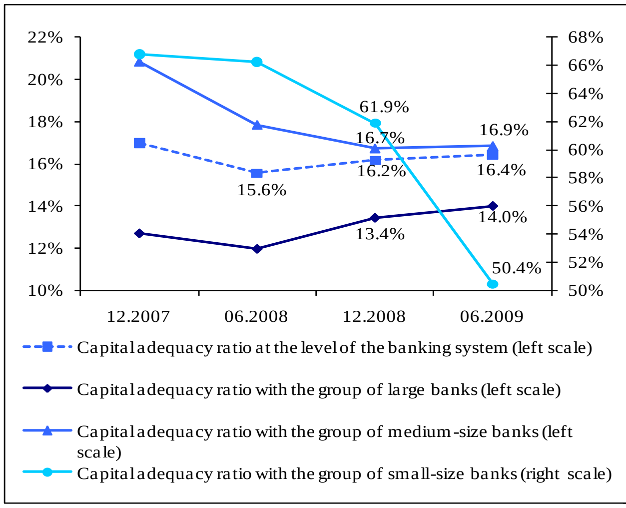
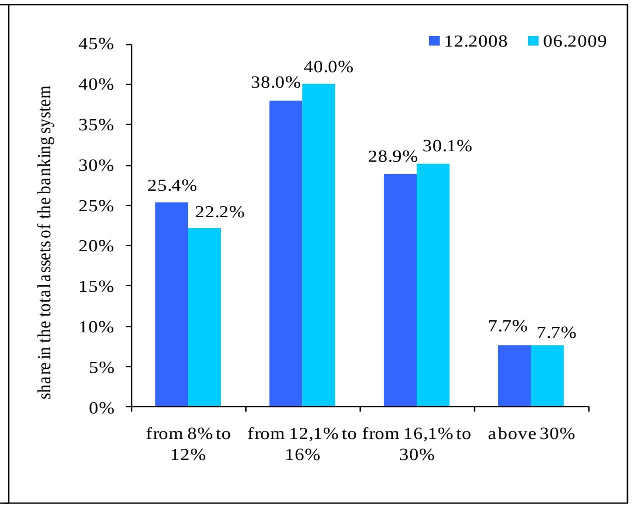


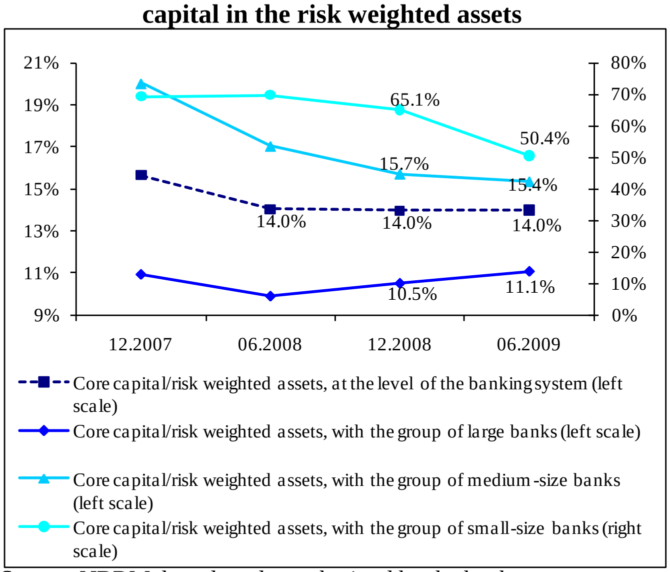
Figure 82
Distribution of the banks' assets by the capital adequacy ratio



Source: NBRM, based on data submitted by the banks

In the first half of 2009, the share of the banks with higher capital adequacy ratio in the total assets of the banking system increased. However, for the account of the reduced share of the banks with capital adequacy ratio ranging from 8% to 12% in the total assets of the banking system, the share of the banks with capital adequacy ratio in the interval of 12.1% and 30% increased.

Figure 83
Movement of the indicator for the share of the core capital in the risk weighted assets



Source: NBRM, based on data submitted by the banks

The indicator for the share of the core capital of the banking system in the risks weighted assets (Tier 1 ratio) registered stagnated movement. On June 30, 2009, this indicator equaled 14% and it remained unchanged compared to December 31,2008 and June 30,2008. The decrease in the core capital with the groups of medium and small-size banks, which was absorbed with the increase in this category with the group of large banks, contributed to the stagnated movement of this indicator.

Solvency position of the large banking groups from the Euro area[43]

The intensification of the financial crisis at the end of 2008 stimulated the banks from the Euro area to put larger efforts for promotion of their capital position, as one of the basic preconditions for future stable functioning. In 2008, the total regulatory capital, on analyzed sample of 15 large banking groups from the Euro area went down by 4%, while within the same period, their total risk weighted assets went down by 13%. The improvement in the quality of the total capital for regulatory purposes of the analyzed banking groups is of special importance, which can be perceived through the annual increase (December 31, 2007 - December 31, 2008) of the tier 1 capital of 6%, given simultaneous decrease in the supplementary capital of 28%. Such movements conditioned the improvement of the core indicator for solvency of the analyzed sample of banking groups. Thus the capital adequacy ratio of the 15 analyzed banking groups went up from 10.3% on December 31, 2007 to 11.4% on December 31, 2008, while their Tier 1 ratio registered an increment annually from 7.3% to 8.9%.

Table 29

Indicators for the solvency of the large banking groups from the Euro area and the amount of their integral parts (in millions of Euros)

	Core capital	Supplementary capital	Total regulatory capital	Total risk weighted assets	Tier 1 ratio	Capital adequacy ratio
31.12.2007	340,611	189,412	479,897	4,643,836	7.3%	10.3%
31.12.2008	360,757	136,278	461,898	4,039,954	8.9%	11.4%
Annual change	6%	-28%	-4%	-13%	2.2 p.p.	1.1 p.p.

	Tier 1 ratio	Capital adequacy ratio
31.12.2007	7.8%	10.6%
31.12.2008	8.8%	12.0%
31.03.2009	8.7%	11.5%

Source: Financial Stability Report, ECB, June 2009.

Note: The data in the left table refer to a sample of 15 large banking groups from the Euro area (last available data for December 31,2008), while the data from the right table refer to a sample of 20 large banking groups from the Euro area (last available data pertaining to March 31,2009).

Despite the improved capital position of the large banking groups from the Euro area (compared to the end of 2007), the opinion that the stable functioning of the analyzed banking groups would not be put into question in case the indicator for the share of the core capital of the banking system, in the risks weighted assets, the so-called Tier 1 ratio equals 10% prevails. For reaching this threshold (increase in Tier 1 ratio for additional 1.1 percentage point) additional Euro 47 billion for capitalization of the banking groups are required, or decrease in their risk weighted assets by Euro 469 billion, which is significant future challenge the large banking groups from the Euro area face with. In the first quarter of 2009, the large banking groups failed to reach the desired threshold, with respect to the decrease in Tier 1 ratio for the analyzed sample of 20 large banking groups from the Euro area, from 8.8% at the end of 2008, to 8.7% on March 31,2009 (simultaneously, the capital adequacy ratio for the analyzed period of banking groups registered a quarterly drop from 12% to 11.5%).

Certain improvement in the capital position of the large banking groups in the Euro area (in comparison with the end of 2007) is partially a result of the measures for banking systems support undertaken by the governments of the developed countries. The set of measures for supporting the banking systems, despite the banks capitalization[44] encompass also measures for guaranteeing the banks liabilities[45], as well as set of measures for banks' assets support[46].

[43] The Financial Stability Review, European Central Bank, June 2009 has been used in the preparation of this Annex.

[44] The capitalization by the authorities of the countries from the Euro area has been implemented through acquiring preference shares, or hybrid instruments issued by the banks requiring necessary capital injection.

[45] The authorities of the countries from the Euro area increased the coverage of their deposits insurance funds at the level of Euro 50,000 by individual deposit account. Despite that, in many countries the authorities guarantee the banks' liabilities based on newly issued debt securities.

[46] The measures for supporting the banks' assets can be in three forms: transfer of assets to other institution; measures for guaranteeing banks assets with those remaining within the banks' balance sheets, without their transmission; or combination of the previous two.

Table 30
Total volume of envisaged measures (for which the authorities were committed to undertake) and realized measures for supporting the banking systems in Europe (in billions of Euros)

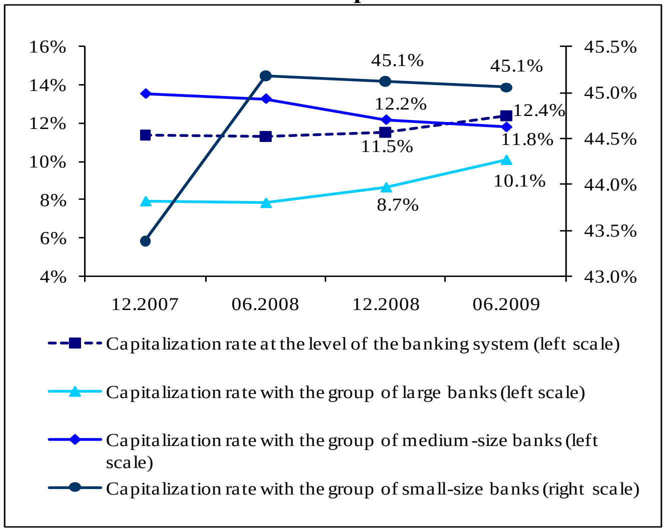
Region	Capital injections		Liability guarantees		Asset support		Total commitment as % of GDP
	Within schemes	Outside schemes	Guaranteed issuance of bonds	Other guarantees, loans	Within schemes	Outside schemes	
Europe	103.4 (251)	56.6	543.7 (2,136)	236.8 (-)	585.4 (877)	26.2	27.3%
EU	99.4 (247)	56.6	543.7 (2,096)	236.8 (-)	544.2 (836)	26.2	27.9%
Euro area	59.1 (172)	54.1	396.8 (1,677)	235 (-)	23.7 (198)	26.2	23.7%

Source: Financial Stability Report, ECB, June 2009.
Note: The data are given on cumulative basis starting from October 2008 until May 2009. The data in the brackets refer to the volume of the envisaged support (in line with the governments' announcements).

Having in mind that the performed capitalization of the banking systems, with the assistance of the governments from the Euro area, has been very often carried out through issuance of preference shares (with individual large and complex banking groups from the Euro area, this measure provided approximately 43% of the increase in their total capital) an issue arises whether such manner of capitalization represents real process of decrease at the level of indebtedness (the so-called deleveraging of the large banking groups). Namely, although such measures provide improvement of the banks' solvency position, however, the opinion that the capital on the basis of preference shares has not the same capacity for absorption of possible future losses dominates, in comparison with the capital based on common shares.

In the first half of 2009, the capitalization rate[47] of the banking system incremented, as a result of the increase in this indicator with the group of large banks. On June 30,2009, the capitalization rate of the banking system equaled 12.4%, which is an increase of 0.9 percentage points compared to the end of 2008 (the annual core capitalization ratio registered a growth of 1.1 percentage points).

Figure 84
Movement of the capitalization rate



Source: NBRM, based on data submitted by the banks

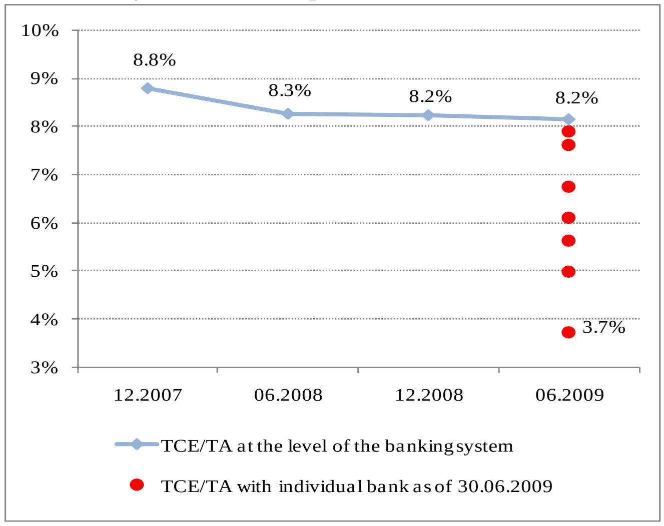
In conditions of the current financial crisis, for the purpose of more objective assessment of the financial strength and the resistance of the large commercial banks, the supervisory bodies from more developed countries commenced determining of one more solvency indicator, which is based on the ratio between the so-called tangible common equity, (which means certain narrowing of the definition of the banks' equity)[48] and the so-called tangible assets[49]. On June 30,2009 the indicator for the ratio between the tangible common

[47] The capitalization rate represents the ratio between the capital and reserves of the banks and their sources of funds.
[48] Tangible common equity is obtained when the accounting value of the banks' equity is reduced by the amount of all assets which in case of possible liquidation of the bank would have minor, or it would have no value at all (non-tangible assets), as well as for the amount of the book value of the banks' capital based on preference shares. Namely, the non-tangible assets, in conditions of financial crisis have very small, or no value at all and by their deduction from the accounting value of the equity, elimination of the subjective elements in the determining of the banks' value is enabled, i.e. in the estimation of its capacity for absorption of possible losses. On the other hand, having in mind the characteristics of the preference shares, (for example, in case of liquidation of the bank, the holders of the preference shares have advantage over the holders of common shares.; the holders of

equity and the tangible assets as the most conservative indicator for the banks' solvency equaled 8.2% for the banking system in the Republic of Macedonia and in comparison with December 31,2008 it remained unchanged. Analyzed by banks, this indicator ranges within an interval from 3.7% to 68.2%. For a comparison, this indicator with the European banks ranges within an interval of 2-4%[50].

The calculation of the ratio between the tangible common equity and tangible assets is of great importance for the larger commercial banks in the world, which from one hand has relatively high amounts of non-tangible assets (especially goodwill), which in conditions of a crisis have slight or have no value at all, and from the other hand, they significantly use the capital based on preference shares, which is considered to be more brittle source of financing of the bank activities (the second one became especially apparent in the conditions of the global financial crisis when the authorities from the developed countries undertook measures for capitalization of the large commercial banks by issuing preference shares). On the other hand, in the calculation of this indicator nor the reserves no the retained gain of the banks are taken into consideration, although they are completely and unrestrictedly available for covering the risks and the losses during the banks' operations, as well as for covering losses and liabilities of the banks towards their fiduciaries in case of bankruptcy, i.e. liquidation of the banks, which is another proof for the relatively high conservativeness of the indicator for the share of the tangible common equity in tangible assets, as well as the indicator for the banks' solvency. On June 30, 2009 the non-tangible assets participate only with 0.3% of the total banks' assets in the Republic of Macedonia, while the equity based on preference shares participate with only 0.7% in the total equity, which, from its part, influence on the relatively high level of the indicator for the share of the tangible common equity in tangible assets at the level of the banking system compared to the European banks. On the other hand, the reserves and the retained gain in the banking system of the Republic of Macedonia (which were not taken into consideration in the calculation of the indicator) participate with high 28.6% in the total own funds and represent significant absorber of possible future losses from the banks' operating.

Figure 85
Movement of the indicator TCE/TA, for the banking system of the Republic of Macedonia



Source: NBRM, based on data submitted by the banks
TCE: Tangible common equity
TA: Tangible assets
Note: In the figure, the red dots denote the level of the TCE/TA indicator of individual banks, on June 30, 2009. However, only the banks the level of the TCA/TA indicator of which is below this indicator for the entire banking system are shown.

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these shares mainly have the right on dividend, at certain rate, etc.), the banks' capital based on preference shares are considered more brittle source of financing in comparison with the capital based on common shares.

[49] Tangible assets are obtained by reducing the total assets by the amount of the non-tangible assets. The indicator for the share of the tangible common equity in the tangible assets is considered the most conservative indicator for the banks' capacity for possible loss absorption and in conditions of the global financial crisis it has got an advantage relative to the capital adequacy ratio and the indicator for the participation of the core capital of the banking system in the risks weighted assets.

[50] Source: Financial Stability Report- May 2009, Central Bank of the Republic of Turkey).

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

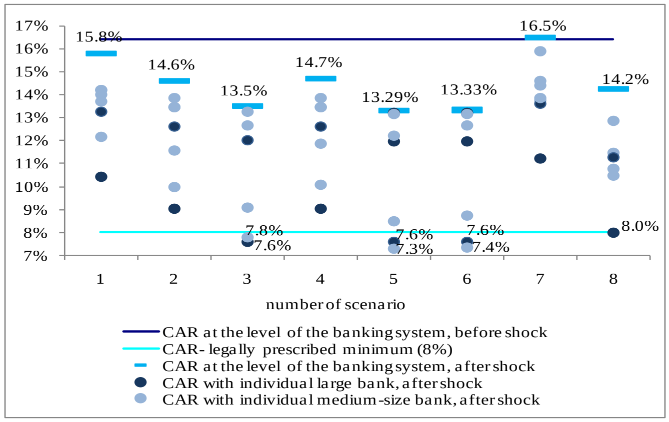
In the first half of 2009, the carried out stress test simulations[1] for the resistance of the banking system and individual banks in the Republic of Macedonia to possible external shocks, showed that the banking system and individual banks are still relatively resistant to the influence of these shocks. However, when more extreme scenarios are applied, decrease in the capital adequacy ratio below 8% is registered, not only with individual banks, but at the level of the banking system as well.

The results of the carried out stress test analysis show that the capital adequacy ratio at the level of the banking system decreases below 8% in case of extreme ninth (increase in the credit exposure in the risk categories C, D and E by 150% and depreciation of the Denar exchange rate relative to the Euro and the US Dollar by 30%) and the tenth scenario (simultaneous reclassification in the risk category E of the five largest credit exposures to non-financial entities).

Namely, in the implementation of the ninth scenario, the capital adequacy ratio of the banking system is carried out at the level of 6.1% (from the initial 16.4% in the shock implementation), while in case of the implementation of the tenth scenario the capital adequacy is reduced to the level of 6.3%.

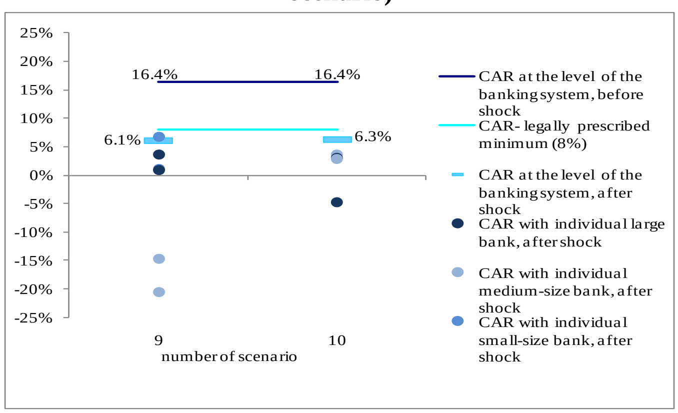
Analyzed by banks, the implementation of the third (in case of isolated credit shock), the fifth and the sixth scenario, the capital adequacy ratios decreased below 8% with two banks (with one bank from the group of large and another one with the group of medium-size banks), while in case of the extreme ninth and tenth scenario, the capital adequacy ratio reduces below 8% with six banks. (in the implementation of the ninth scenario, the capital adequacy drops below 8% with two banks of the group of large banks, two banks of the group of medium-size banks and two banks of the group of small-size banks, while in the implementation of the tenth scenario the capital adequacy ratio decreases below 8%, with two banks of the group of large banks and with four banks from the group of medium-size banks).

Figure 86
Results of the stress-tests simulations for the resistance of the banking system and individual banks to hypothetical shocks, as of June 30, 2009 (from the first to the eighth scenario)



Source: internal NBRM calculations, based on data submitted by the banks
Note: The individual dots in the figure denote the results of the stress-test simulations (the capital adequacy ratio after shock) for individual banks, with only the banks with a result below the capital adequacy of the banking system after the simulated shock being presented.

Figure 87
Results of the stress-tests simulations for the resistance of the banking system and individual banks to hypothetical extreme shocks, as of June 30, 2009 (ninth and tenth scenario)



Source: internal NBRM calculations, based on data submitted by the banks
Note: The individual dots in the figure denote the results of the stress-test simulations (the capital adequacy ratio after shock) for individual banks, with only the banks with a result below the legally prescribed minimum of 8% after the simulated shock being presented. Some of the dots for individual banks are overlapping, which is a result of the similarity in the results of the stress-test simulations (the capital adequacy ratio after shock), for some of the banks.

This stress test analysis is based on the implementation of the ten hypothetical scenarios, of which:

- three scenarios for isolated credit shock (increase in the credit exposure classified in the risk categories C,D and E by: 10%, 30% and 50%),
- fourth scenario as a combination of the credit and interest rate shock (increase in the credit exposure in the risk categories C, D and E of 30% and increase in the domestic interest rates of 5 percentage points),
- fifth scenario as a combination of credit and foreign exchange shock (increase in the credit exposure in the risk categories C, D and E of 50% and depreciation in the Denar exchange rate compared to the Euro and the US Dollar of 20%),
- sixth scenario as a combination of shocks on the side of the credit risk, the foreign exchange risk and the interest rate risk (increase in the credit exposure in the risk categories C, D and E of 50%, depreciation of the Denar exchange rate compared of the Euro and the US Dollar of 20% and increase in the domestic interest rates of 5 percentage points),
- seventh scenario, appreciation of the Denar exchange rate relative to the Euro and the US Dollar in the amount of 20%,
- eighth scenario, simultaneous reclassification in the risk category C of the five largest credit exposures to non-financial entities (including also the connected entities)
- ninth scenario as a combination of credit and foreign exchange shock (increase in the credit exposure in the risk categories C, D and E of 150% and depreciation in the Denar exchange rate compared to the Euro and the US Dollar of 30%) and
-tenth scenario, simultaneous reclassification in the risk category E of the five largest credit exposures to non-financial entities (including also the connected entities).

3.5 Profitability [51]

In the first six months of 2009, the total profit of the banks in the Republic of Macedonia amounted to Denar 646 million. Their profitable operating relies upon on the other regular income, considering the fact that the net interest income and the net income from fees and commissions were not enough for covering the expenditures based on impairment of assets and operational costs. Out of total 18 banks, 7 banks showed loss, the participation of which in the total assets of the banking system amounted to 10.7%. For comparison, in the first six months of 2008, 4 banks showed loss, and their participation in the assets at the level of the banking system amounted to 6%.

In the first half of 2009, the profitability of banks in the Republic of Macedonia deteriorated relative to the same period of 2008. The profit was reduced by 74.3%, which was due to the more intensive increase in the impairment[52] and in the operational costs[53] than the rise in the net interest income, as well as the fall in the net income from fees and commissions, extraordinary income[54] and other regular income[55].

The lower profitability of the banking system was mainly due to the halved profit in the group of large banks and the operating with loss of the group of medium-size banks. Relative to the first half of 2008, the profit of the group of large banks dropped by Denar 1,014 million, or by 45.2%. The group of medium-size banks continued to show loss, which at the end of the first six months of 2009 reached up to the level of Denar 509 million. For comparison, at the end of the first six months of 2008, the group of medium-size banks showed profit of Denar 280 million. The higher impairment (especially with the group of medium-size banks) and the larger operational costs, as well as the lower income from fees and commissions determined considerable fall in the profit of the group of large banks and loss with the group of medium-size banks. Within the group of large banks, the lower extraordinary income additionally worsened the profitability. At the end of the first half of 2009, the increased operational costs and the decreased extraordinary income were the main factors for loss of the group of small-size banks, in the amount of Denar 74 million. Such loss was by 7 times higher than the loss at the end of the first half of 2008 (Annex No. 2 - Statement of the comprehensive income at the level of the banking system).

3.5.1 Income and expenditure structure of the banking system of the Republic of Macedonia

In the first half of 2009, the banking system of the Republic of Macedonia realized total income in the amount of Denar 6,863 million, which was by Denar 691 million, or by 9.1% less relative to the first six months of 2008. The fall in the total income was due to the drop in all its components, excluding the net interest income, which registered considerably slower growth. Such

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[51] The start of applying of the new accounting framework for the banks, which is prepared in line with the international standards for financial reporting and for the accounting, considerably influenced certain balance movements and the structure of the balances of the banking sector. On its part, this regulation imposed a need for adjusting part of the prudent banking bylaws. Considering these regulation changes, and especially due to the depth of the changes, caused by the new accounting framework, in certain situations the ability for precise comparison analysis was confined.

[52] The impairment includes: impairment of the financial assets on net-basis, unrecognized (additionally determined) impairment, release of the impairment of interest income, net provisions for off-balance sheet items.

[53] The operational costs include: employees expenses, depreciation, general and administrative costs, deposit insurance premiums, other provisions and other expenditures of the activity excluding the extraordinary expenditures.

[54] The extraordinary income includes also the income based on collected, previously written off claims based on principal and interest.

55 The other regular income include: net trading income, net income from other financial instruments designated at fair value, net income from foreign exchange rate differentials, dividends and revenues based on capital investments, profit from sale of financial assets available for sale, capital gain realized from sale of assets, release of other provisions, other income and losses from sale of financial assets available for sale.

dynamics resulted in fall in the structure participation of part of the income components, but despite that the structure of the total income remained almost unchanged. Consequently, **the net interest income strengthened the dominant position in the structure of the income of banks,** thus increasing its participation by 6.5 percentage points. On annual basis, the net interest income registered growth of Denar 44 million or by 1.0%, which represented considerable slowing down relative to the growth in the same period of the previous year. Thus, compared (June 2008 with June 2007), the growth rate in the net interest income equaled 18.7%, i.e. Denar 694 million. **The net income from fees and commissions, although with lower participation, were the second income by significance in the structure of the total income.** However, relative to the first six months of 2008, this income registered drop by Denar 385 million, or by 20.3%[56], so they contributed mostly to the drop in the total income. **The other regular income did not register change in the participation in the total income.** Relative to the other income categories, they registered the lowest fall of 10.2% (or by Denar 81 million) thus representing a significant support for the profitable operating of banks in the first half of 2009. **The extraordinary income, although with the lowest structure participation, considerably influenced the decline in the total income.** They reduced by Denar 268 million or by 60.1%, on annual basis.

Figure 88
Structure of the total income of banks

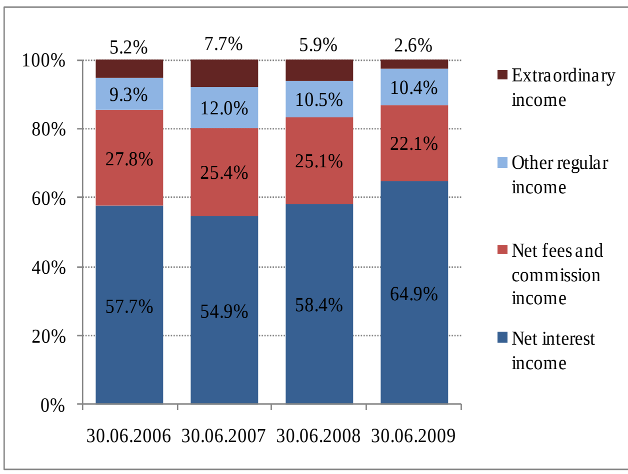
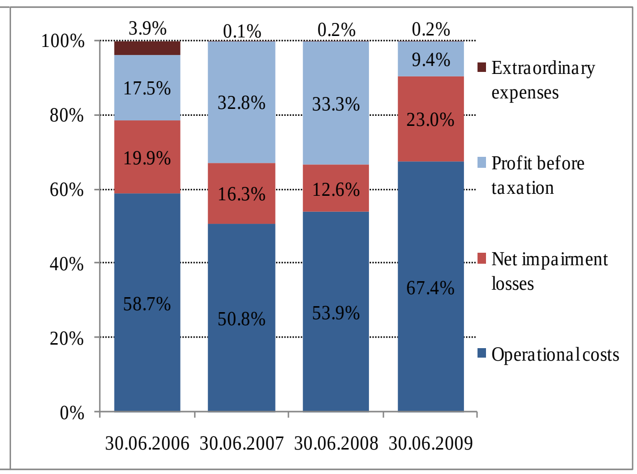


Figure 89
Utilization of the total income of banks



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

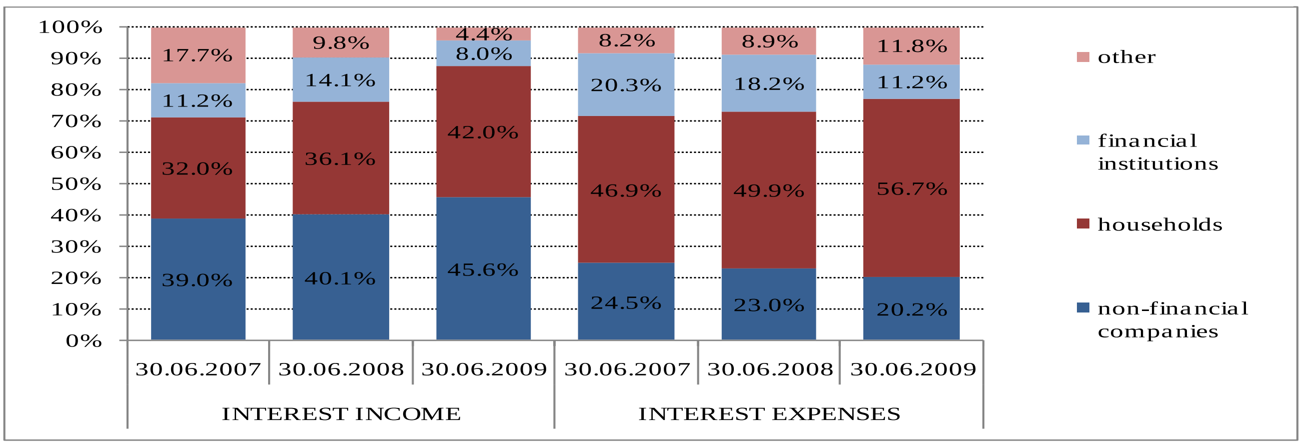
The largest share of the total income of banks was still used for covering the operational costs. Relative to the first six months of 2008, the operational costs of banks rose by Denar 554 million, or by 13.6%. The growth in the operational costs determined drop in their coverage by the total regular income from 174.5% (in June 2008), to 144.5% (in June 2009). In the structure of the operational costs, the costs for employees still had considerable participation (42.1%), and more than 1/4 of the total income of banks was used for covering of these costs. The costs for services were the next category by size in the structure of the operational costs forming 23.9% of them. In the first half of 2009, the participation of the impairment in the total income was almost twice higher relative to the first six months of 2008. The drop

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

of the credit quality influenced on the impairment of assets (relative to the first half of 2008) so it registered the highest absolute (Denar 626 million) and relative growth (65.7%), compared with the other analyzed categories. **The rise in the operational costs and of the impairment caused considerable fall in the part of the income of the banking system which remains as current profit.**

According to the sector segregation, the income from non-financial associations and the households had almost equal role in creating the income from interest. They participated with 87.6% in the structure of the interest income, which was by 11.4 percentage points more relative to the participation at the end of the first half of 2008. Constant increase in the participation of the income from these two sectors in the structure of the interest income was registered, which in conditions of slower credit growth, can be explained mainly by the rise in the lending interest rates. **In the structure of the interest expenses, the participation of the interest expenses from households was highest,** and it registers constant growth, whereas the participation of the interests expenses from non-financial companies dropped. Such structure was due to the dominant participation of the deposits from households (65.4% - June 2009) in the structure of the total deposits of the non-financial entities, of the increased deposit interest rates in order to attract new deposits from the households, but also to the negative annual change rate of the deposits of enterprises.

Figure 90
Sector structure of the interest income and the interest expenses



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

3.5.2 Indicators for profitability and efficiency of banks

The stated developments in the income and expenses and, subsequently, in the profit had worsened the profitability and efficiency indicators of the banking system.

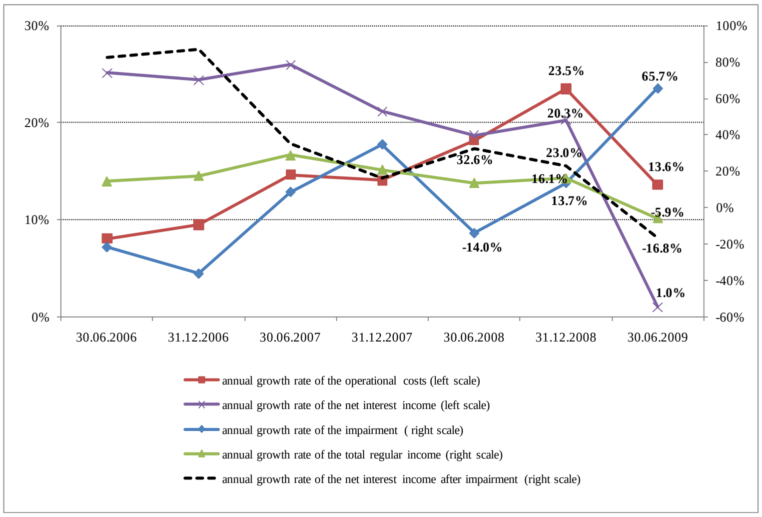
Table 31
Indicators for profitability and efficiency of banks' operating

Indicators	Banking system		Large banks		Medium-sized banks		Small-sized banks	
	30.06.2008	30.06.2009	30.06.2008	30.06.2009	30.06.2008	30.06.2009	30.06.2008	30.06.2009
Rate of return of average assets (ROAA)	2.2%	0.5%	2.9%	1.5%	0.9%	-1.4%	-0.2%	-1.2%
Rate of return of average equity (ROAE)	19.1%	4.3%	36.5%	15.9%	6.5%	-11.8%	-0.4%	-2.6%
Cost-to-income ratio *	57.3%	69.2%	48.0%	56.9%	73.4%	91.3%	79.7%	100.8%
Non-interest expenses/Total regular income*	61.7%	74.2%	51.3%	60.8%	78.8%	97.7%	93.3%	111.4%
Employees expenses/Total regular income*	23.6%	29.1%	19.6%	23.9%	29.8%	38.0%	38.1%	45.4%
Net impairment losses/Net interest income	21.6%	35.4%	17.6%	25.4%	25.0%	57.5%	50.0%	32.3%
Net interest income/Average assets	3.8%	3.6%	3.6%	3.5%	4.3%	3.7%	3.8%	3.6%
Net interest income/Total regular income*	62.1%	66.7%	61.0%	65.6%	63.8%	70.2%	65.5%	61.6%
Net interest income/Non-interest expenses	100.6%	89.9%	118.9%	107.8%	81.0%	71.9%	70.2%	55.2%
Profit /Total regular income*	35.3%	9.7%	48.8%	27.9%	13.0%	-26.7%	-2.9%	-19.6%
Number of employees	5,726	6,094	2,921	3,053	2,365	2,496	440	545
Assets per employee (milions denars)	42.1	40.8	55.1	54.0	28.7	28.4	28.2	23.4
Financial result per employee (milions denars)	0.4	0.1	0.8	0.4	0.1	(0.2)	(0.02)	(0.1)
Operational costs per employee (milions denars)	0.7	0.8	0.8	0.8	0.7	0.7	0.6	0.7

*Notice: The total regular income are calculated as a sum of net interest income, net fees and commission income, net trading income, net income from foreign exchange differences and other income from the activity excluding the extraordinary income.
Source: NBRM, based on the data submitted by banks.

The rate of return on assets (ROAA) and the rate of return on equity (ROAE) registered fall by 1.7 percentage points and 14.8 percentage points, respectively, relative to the first six months of 2008. Such downward trend was mainly due to the more intensively reduced profit, than the slower growth in the banks' activities. The growth in the impairment due to the worsened quality of the credit portfolio of banks, as well as the rise in the operational costs influenced mostly on the fall in the profit. The considerably higher growth rate of the impairment than the growth rate of the net interest income, as well as the fall in the total regular income determined considerable share of the income from the regular activities to be used for covering the expenditures which were due to the worsened quality of the credit portfolio.

Figure 91
Annual growth rates of the main profitability components



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

Thus, in the first half of 2009, more than one third of the net interest income was used for covering the impairment, which was by 13.8 percentage points more relative to the same period of the previous year. Parallel with this, the increased operational costs of the banks caused also a drop in the operational efficiency in the operating of banks. **Thus, the cost-to-income indicator** registered increase from 57.3% (in the first half of 2008), to 69.2% (in the first half of 2009). The worsening in the operational efficiency was confirmed also by the lower coverage of the non-interest expenses by net interest income by 10.7 percentage points, so this indicator reduced to 89.9%. The lower profitability and the operational efficiency contributed to drop in the participation of the profit in the total regular income by 3.6 times relative to the first six months of 2008, so it reduced to 9.7% (in the first six months of 2009).

Figure 92
Comparison of the return on equity, by individual countries

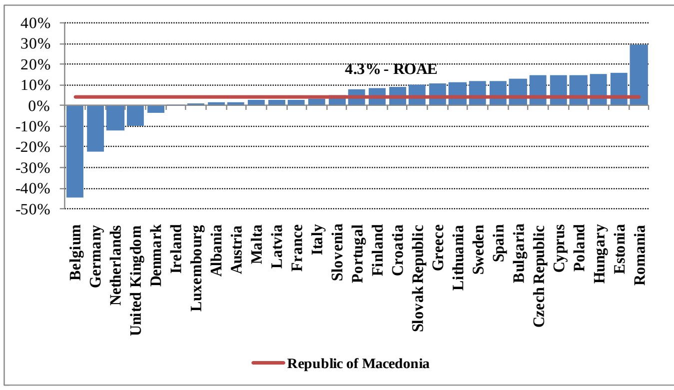
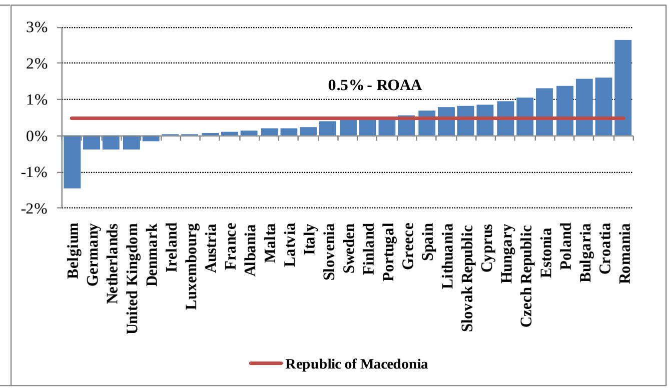


Figure 93
Comparison of the return on assets, by individual countries

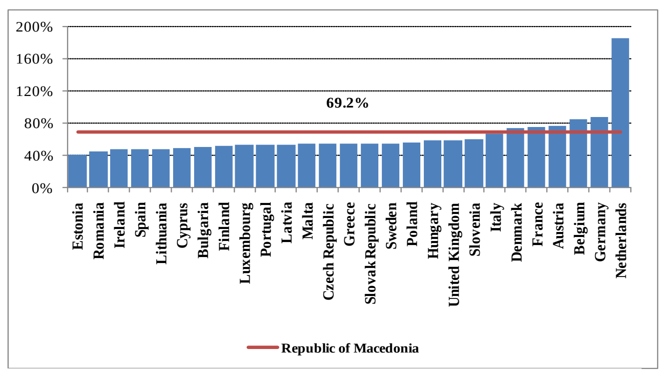


Source: NBRM, based on the data submitted by banks, EU banking sector stability Report, August 2009, central banks' internet sites.

According to the value of the rate of return on equity, the banking system of the Republic of Macedonia was at the bottom of the list of the group of analyzed countries[57] with positive rate of return on equity. Opposite to this, **the rate of return on assets was similar with the one in the banking systems of the countries from the area.**

The banking system of the Republic of Macedonia characterizes with relatively lower operational efficiency, relative to most of the analyzed countries.

Figure 94
Comparison of the cost - to income indicator, by individual countries

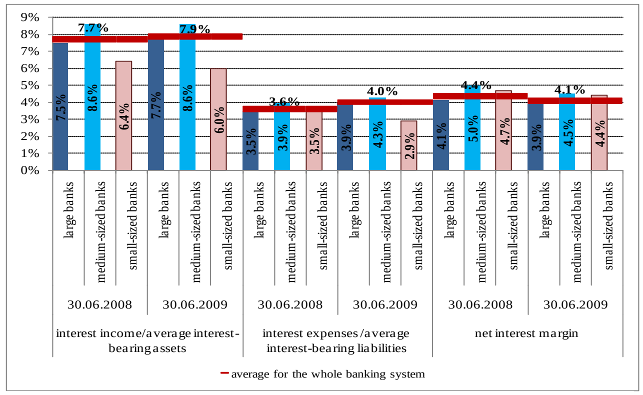


Source: NBRM, based on the data submitted by banks, EU banking sector stability Report, August 2009.

[57] The indicators on return on capital and assets for the Republic of Macedonia were calculated as of June 30, 2009, for Bulgaria, Croatia and Albania are for March 31, 2009, and for all other countries they are calculated for December 31, 2008.

The net interest margin[58] **at the level of the banking system dropped,** which was due to the more intensive annual growth in the average interest bearing assets than the rise in the net interest income. At the end of the first half of 2009, the interest bearing assets were by 3.1% higher relative to the end of the first half of 2008, while relative to the end of 2008, they registered drop of 0.7%, so the current process of restructuring of the non-interest bearing to interest bearing assets was interrupted. However, the interest bearing assets were by Denar 12.780 million higher than the interest bearing liabilities, which enabled creating an adequate amount of interest margin for covering the non-interest expenses of banks. Also, the interest income and interest expenses per unit of interest bearing assets and liabilities increased, which was mainly due to the rise in the lending and deposit interest rates.

Figure 95
Net interest margin



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

On annual basis, the net interest margin decreased in all groups of banks. However, the group of medium-size and small-size banks realized higher net interest margin relative to the average rate for the total banking system.

[58] The net interest income was calculated as correlation between the net interest income and the average interest bearing assets.

Decomposition of the interest rate spread

The decomposition of the interest rate spread, i.e. its decomposing to its integral costs components in order to quantify their relative contribution for the scope of the interest rate spread, was performed by using the following formula:

$$i^l - i^d = o + l + i^d r/(1-r) + d + p + \tau\left[p - o - l - i^d r/(1-r) - d\right]$$

where,

i^L - lending interest rate;
i^D - deposit interest rate;
o - correlation between the operational costs and the total gross credits (the operational costs are weighted with the participation of the total gross credits in the total assets);
l - correlation between the impairment and the total gross credits;
r - rate of reserve requirement;
d - correlation between the deposit insurance premiums and the total gross credits;
τ - profit tax rate
p - profit margin from the credit activity of banks (calculated as a residual after the calculation of the other components).

Table 32
Decomposition of the interest rate spreads in Macedonia, for the first half of 2008 and 2009

Decomposition of the interest rate spread	30.06.2008		30.06.2009	
	in percentage points	Percentage share of the components in the interest rate spread	in percentage points	Percentage share of the components in the interest rate spread
Interest rate spread	**5.18**	**100.0%**	**4.77**	**100.0%**
Cost components (factors)	**5.53**	**106.7%**	**5.77**	**121.0%**
Operating costs	3.22	62.0%	3.40	71.2%
Impairment losses	1.39	26.8%	1.50	31.5%
Deposit insurance premium	0.49	9.5%	0.37	7.8%
Reserve requirements	0.43	8.3%	0.50	10.6%
Profit margin of the banks' credit activity, before taxation	**-0.34**	**-6.7%**	**-1.00**	**-21.0%**
Profit taxes	0.00	0.0%	0.00	0.0%
Profit margin of the banks' credit activity	-0.34	-6.7%	-1.00	-21.0%

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

The analysis showed that the interest rate spread was not enough for covering the cost components, so the profit margin from the credit activities of banks is negative. The negative profit margin from the credit activity of banks was due to more interrelated factors: 1/ the growth in the operational costs; 2/ the slower credit activity; 3/ the worsened quality of the credit portfolio, i.e. the higher impairment. The stated factors, despite the growth in the lending interest rates, contributed to the narrowing in the interest rate spread to fall at the expense of the profit margin from the credit activity of banks.

Out of the costs components, the largest part of the interest rate spread pertains to the operational costs, followed by the impairment. Compared on annual basis, growth in the participation of the operational costs and in the impairment in the interest rate spread was registered, by 0.2 and by 0.1 percentage points, respectively. The comparison of the contribution of the operational costs and of the impairment in the creation of the interest rate spread with certain countries showed that the Republic of Macedonia is close to the countries which have high participation of these two cost components in the creation of the interest rate spread.

Figure 96
Operational costs / gross credits

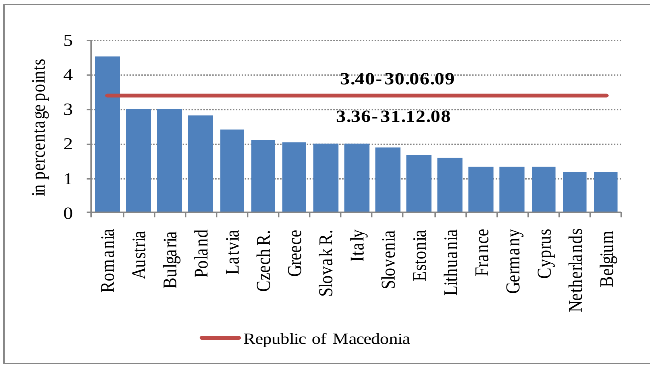
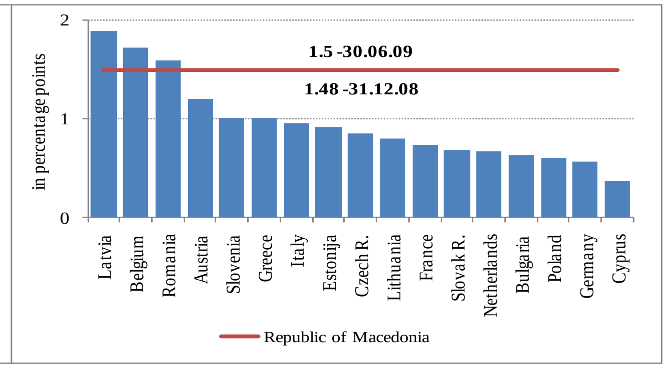


Figure 97
Impairment / gross credits

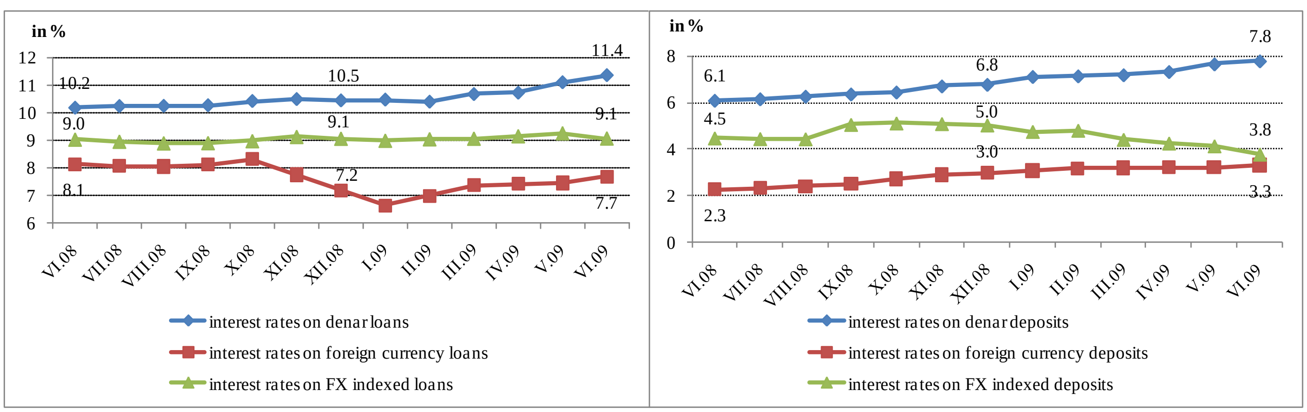


Source: NBRM calculations, based on the data submitted by banks and on EU banking stability Report, ECB, August, 2009.
Note: data for all countries are for 2008, except the data for the Republic of Macedonia which are for the first half of 2009 and for

3.5.3 Developments in the interest rates[59]

In the first half of 2009, the interest policy of banks in the Republic of Macedonia was under the influence of the deepened effects from the global economy crisis and the respective measures of the monetary policy. The interest rates of the Denar credits and deposits registered most evident growth, and relative to June 2008, they rose by 1.2 percentage points and 1.7 percentage points, respectively. Simultaneously, the interest rates of the foreign currency deposits registered growth of 1 percentage point.

Figure 98
Development in the lending and deposit interest rates

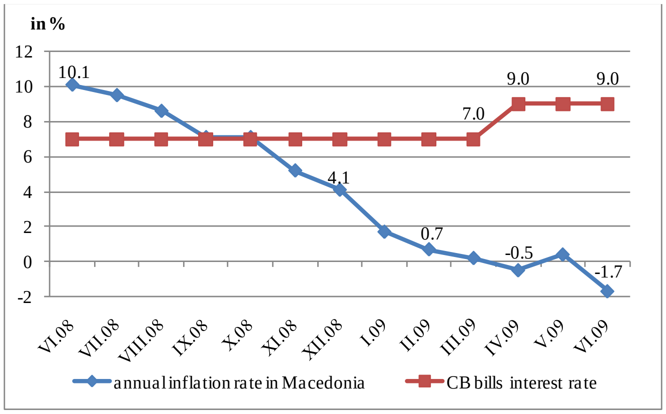


Source: NBRM, based on the data submitted by banks.

[59] This subtitle explains the developments in the interest rates at the level of the banking system, whereas the developments in the interest rates by groups of banks were shown in the Annex No. 18.

The growth in the deposit interest rates was mainly under the influence of the stimulating interest policy by the banks in order to keep the existing and to attract new depositors. The growth in the foreign currency deposit interest rates, in conditions of continuous drop in the interest rates on the international financial markets can be explained also by the need of keeping and increasing of the deposit core of the banks, when its considerable currency transformation was registered, characteristic for the last year. Opposite to this, the non-stimulating policy of banks concerning the interest rates for the FX indexed Denar deposit can be explained, inter alia, by the fact that these products to a certain extent make the managing with the assets and deposits of banks more difficult (with respect to the influence on the banks' exposure to currency risk, liquidity risk and the effect on their profitability).

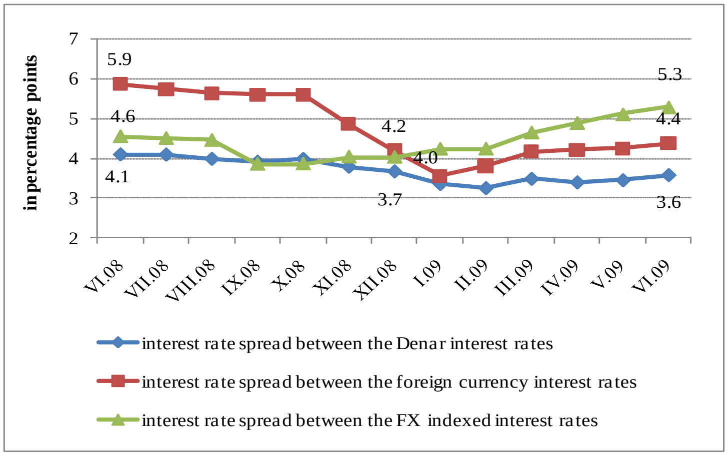
Figure 99
Development in the CB bills interest rate and inflation



Source: NBRM.

The growth in the deposit interest rates influenced on the growth in the lending interest rates (mainly the Denar lending interest rates). The rise in the lending interest rates was under significant influence of the deepened effects from the global economic crisis, which were evident through the negative expectations for: the total economic activity, the credit capability of the borrowers, the increased risk of the credit portfolio of banks, the anticipation for the enterprise branch outlook, the risk of collateral default. Parallel, the interest policy of banks was also under the influence of the monetary policy measures in the country (the rise in the interest rate of CB bills at the beginning of April 2009 by 2 percentage points, thus reaching the level of 9%). Most of these factors were identified by the banks as well as in the Lending Activity Survey for the second quarter of 2009. Additionally, the stabilization in the inflation rate in the first half of 2009, when it went down under 2%, and in two months (April and June 2009) it was also negative, contributed for the growth in the interest rates on real level to be higher in essence.

Figure 100
Development in the interest rate spread in the banking system of the Republic of Macedonia



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

In the first six months of 2009, the spread between the foreign currency interest rates registered most evident narrowing, whereas the narrowing in the spread of the Denar interest rates was with lower intensity. On the other hand, the spread between the FX indexed interest rates in Denars broadened. Thus, compared on annual level (June 2009 and June 2008), the interest rate spread between the foreign currency interest rates registered drop of 1.5 percentage points, which can be explained with the growth in the foreign currency deposit interest rates opposite to the fall in the interest rates on foreign currency credits. The more intensive growth in the Denar deposit interest rate relative to the growth in the lending interest rates caused the interest rate spread between the Denar interest rates to reduce by only 0.5 percentage points. On the other hand, the FX indexed interest rate spread rose by 0.7 percentage points, which was due to the growth in the FX indexed lending interest rates, opposite to the fall in the FX indexed deposit interest rates.

II. BANKING SUPERVISION IN THE FIRST HALF OF 2009

1. Regulatory framework of the banking supervision

In the area of improvement of the regulatory framework of the banking supervision, in the first half of 2009, NBRM amended the following bylaws:

- The Decision on the methodology for determining the capital adequacy and the respective Instructions;
- The Decision on credit risk management and the respective Instructions;
- The Decision on managing banks' liquidity risk and the respective Instructions;
- The Decision on the bank's information system security.

Also, in this period the Decision on the manner and procedures for establishment and application of the banks' program for prevention of money laundering and financing terrorism was adopted.

1.1. Changes in the methodology for determining the capital adequacy

The development of the financial market and the increased participation of the information technology in the every day performance of the activities of banks in the Republic of Macedonia contributed to risk of losses as a result of errors, frauds, robberies or other similar unexpected events. All these events represent exposure to operational risk the materialization of which may cause considerable negative effects on the total operating of banks, especially if insufficient amount of capital is ensured for its covering.

Of those reasons, in accordance with the action plan of NBRM for gradual introducing of the New Basel Capital Accord - Basel 2, with the scope and depth adequate to the features of the banking system and the terms on the banking market in the Republic of Macedonia, at the beginning of 2009 the regulation that envisages an obligation for determining the capital required for covering the operational risk by the banks was finalized. According to the Basel 2, the operational risk represents risk from loss due to inadequate persons, inadequate or weak internal processes and systems or external events. This definition includes the legal risk as exposure to misdemeanor sanctions, fines or other sanctions due to undertaken supervisory measures or private lawsuits. The definition of the operational risk given by the Basel Committee does not include the reputational and strategy risk.

The changes to the **Decision on the methodology for determining the capital adequacy** envisage the possibility for the banks to choose between two approaches for determining the capital required for covering the operational risk, as follows: the Basic Indicator Approach and the Standardized Approach. These two approaches differ from themselves by their level of sophistication of the method for determining the capital required for covering the operational risk. When calculating, both approaches start from determining the so called Basic Indicator, which implies relating the size of the operational risk with the realized income and expenditures of the bank from regular operating. In addition, with the Standardized Approach, the bank shall segregate its operating in 8 business lines (corporate finance, trading and sale, retail banking, commercial banking, payment operations and settlement, agent services, asset management and retail brokerage), when the basic indicator shall be determined based on the income and expenditures from the regular operating of bank for each business line where they emerged. Considering the differences in the risk level and the possibility for realizing losses with certain activities performed by a bank, such segregation in the banks' operating in 8 business lines enables more adequate relating of the risk level and the level of capital required. Also, different from the Basic Indicator Approach, the application of which is not determined by fulfillment of certain criteria, the bank can use the Standardized Approach only if it fulfills series of criteria, as the following: segregation of activities by business lines according to defined principles and adoption of an adequate policy; ensuring fully documented system for operational risk management; regular independent check-up of the operational risk management system by the internal audit department and/or audit company etc.

Considering the innovation introduced with this Decision and the need for adequate preparation by the banks for its efficient application, delayed application of the provisions which pertain to the determination of the capital required for covering the operational risk was envisaged, which shall start on December 31, 2011.

1.2. Changes of the methodology for credit risk management

The **Decision on amending the Decision for credit risk management** more precisely determines the method for classification and determination of the impairment of the investments of the banks in securities available for sale. No classification is performed for these exposures to credit risk by the risk category, but in case the bank assesses that the investment is impaired, it shall calculate and allocate impairment equal to the negative differential between the objective value and the depreciated purchase value.

Simultaneously, this Decision introduces an obligation for the banks to define, within its credit risk management systems, the acceptable level of coverage of the credit risk exposure to natural persons with an adequate source of funding (amount of wage and other income). When defining the acceptable level, the banks shall consider the relevant indicators for the development of the consumer costs as well. Simultaneously, the banks shall monitor on regular basis the structure of its credit portfolio to the sector "households" according to their source of funding.

1.3. Changes of the methodology for liquidity risk management

The **Decision on amending the Decision on managing banks' liquidity risk** enables for the banks to include their placements in instruments of the monetary policy of the National Bank (excluding the foreign currency reserves requirements), not depending on their currency in the calculation of the rates for determining the minimal required level of Denar or foreign currency liquidity. The possibility for using the NBRM's instruments, not depending on their currency, in fulfillment of the liquidity rates, is given by their cash equivalent features, i.e. they are highly liquid instruments which can be converted into other currency easily and without larger costs.

1.4. Changes in the methodology for the safety of the information system of the bank

The **Decision on amending the Decision for safety of the bank's information system** defines more precisely the companies that perform services for banks in the area of functioning of their information systems. Under this Decision, a company for services to banks for the information system shall represent:

a) company for auxiliary services to bank the prevailing activity of which is managing and maintaining a system for data processing and that processes and maintains data for the bank during the performance of the banking and financial activities, based on a written agreement; and/or
b) third party which based on a written agreement processes and maintains data for the bank during the performance of banking and financial activities.

1.5. Bank's program for prevention of money laundering and financing terrorism

In accordance with the Law on prevention of money laundering and other proceeds from crime and financing terrorism, the supervisory bodies of Republic of Macedonia authorized for supervision of the implementation of the measures and activities for prevention of money laundering and financing terrorism by the entities determined by this Law have right to prescribe more detailed the contents of the Program for prevention of money laundering and financing terrorism. Considering the significance of the banking system in the prevention of money laundering and financing terrorism, it is of great significance to ensure conditions for unique and efficient application of the provisions of the Law on prevention from money laundering and other proceeds from crime and financing terrorism by all banks in the country. Therefore, the **Decision on the manner and procedures for establishment and application of the banks' program for prevention of money laundering and financing terrorism** specifies the manner of application of this Law, thus commencing from the nature of activities performed by banks and their features with respect to the possibility to be included in money laundering and financing terrorism.

The Decision prescribes the following more significant aspects of the measures and activities for prevention of money laundering and financing terrorism:

- Detailing the method of analysis of the client and creating risk profile for each client within which the level of risk from money laundering and financing terrorism related with that client is determined;
- Performance of intensive analysis of certain clients or types of business relation (politically exposed persons, correspondent banks, private banking, clients not being physically present when concluding or performing the business relation etc.);
- Determination of the documents and data which the bank is obliged to keep;
- Detailing the tasks and responsibilities of the responsible person for prevention of money laundering and financing terrorism;
- Establishment and application of efficient plan for training of the employees in the bank for all significant aspects of money laundering and financing terrorism;
- Including of the activities for audit of the process for prevention of money laundering and financing terrorism in the annual audit plan of the Internal Audit Department.

2. Banking supervision activities

2.1. Licensing - issuing licenses and approvals to banks and saving houses

As a result of the regular activities of NBRM in the area of bank licensing, in the first half of 2009, the following licenses and approvals were issued:

Type of license/approval (banks)	**issued**	**refused**	**stopped**
Appointing of members of Board of Directors	13	/	2
Appointing of members of Supervisory Board	6	/	/
Change of Statute	10	/	/
Issuing approval for initiation of performing financial activities	1	1	/
Change of a main office of a bank	3	/	/

Acquiring shares in a bank the nominal amount of which exceeds 5%, 10%, 20%, 33%, 50% and 75% of the total number of issued voting shares	1	/	/
Look in NBRM's record	6	1	1
Total	**40**	**2**	**3**

Type of license/ approval (saving house)	**issued**	**refused**	**stopped**
Transformation of a saving house into a bank	/	1	/
Change of agreement/ statement of company	3	/	/
Appointing of administrator/manager	2	/	/
Total	**5**	**1**	/

2.2. Supervision of the operating of banks and saving houses

In the first half of 2009 total 16 on-site examinations of the banks' operating in the Republic of Macedonia were performed. Out of them, 7 were risk-based examinations of the banks' operating, whereas 9 pertained to the incompliance of their operating with the regulations.

Three of the performed risk-based examinations focused on the total operating of banks. The aim of these examinations was to determine the risk profile of the banks, through assessment of the level of exposure to certain risks the banks are facing with, assessment of the quality of risk management, as well as assessment of the anticipated direction of development of certain risks from operating in the following period. Four examinations had targeted character, out of which three represented examination of the information security of banks and the method for management of risk from inadequacy of the information systems (IT risk), while one examination focused on the credit risk and concentration risk. The assessment of the manner on which the banks manage the operational risks included also a check-up of the application of the new standards for bank organization and management resulting from the changes in the regulatory framework made in 2007 and 2008.

The assessment of the system of internal controls and the adequacy of the established systems for risk management, mostly with respect to their support of the growth in the activities characteristic for 2007 and 2008, were the primary focus of the on-site examinations. In that direction, considering the fact that the growth in the banks mostly pertained to the area of the credit support to the households, the manner of the banks' credit risk management arising from this type of credit activity was given special attention. The segment of monitoring the undertaken credit risk and the measuring of the credit losses were given special attention, considering the potential influence of the world economic crisis, and consequently the possibility for larger materialization of the credit risk in the following period. The credit growth implied higher exposure to other risks as well, as the operational risk, the interest rate risk, liquidity risk and exchange rate risk, which were also in the focus of the on-site controls of the operating of banks.

From the performed on-site examinations, it can be concluded that the banks generally measure the losses from granted credits adequately and that the solvency and the liquidity of the examinated banks are not threatened. But, with some of the examinated banks weaknesses were found in the functioning of the internal control system, risks management and corporate governance. It was concluded that the bodies of the examinated banks failed to fulfill totally the legally prescribed tasks (which resulted in certain incompliance of their operating and the Banking Law) and failed to establish integrated risk management system. Additionally, the examinations found weaknesses in the banks' systems for prevention of money laundering and financing terrorism, especially in the part pertaining to the analysis of the clients and identification and monitoring of suspicious transactions.

Most often incompliance found with the banks, in accordance with the examinations on the compliance of the operating with the regulations, resulted from the Law on consumer protection in connection with credit, Law on prevention of money laundering and other proceeds from crime and financing terrorism and certain aspects from the regulations concerning the performance of payment operations abroad.

At the beginning of 2009, the Methodology for recording and evaluating accounting items and compiling financial reports and the new regulation for credit risk management starter being applied. The need for determining the effectiveness of the application of certain more significant aspects from this regulation, which are assessed as being able to cause more considerable financial effects in the balance sheets of banks or representing considerable changes in the banks' systems, was the basis for initiating partial controls. The controls, which are planned to be executed with all banks, started at the end of the first half of 2009.

2.3. Undertaken corrective activities to banks and saving houses

Within its legal authorization, and in order to maintain the stability and the safety of certain bank institutions and the total banking system, NBRM undertook corrective activities to the banks and the saving houses which were found illegitimacies, irregularities and incorrectness in their operating.

In the first half of 2009, NBRM imposed two written warnings towards one bank and one saving house and two recommendations towards two banks. As a result of the determined braking of the Banking Law and the respective bylaws, in this period two procedures for intermediation to one bank and to the responsible persons in the bank and other offenders and to one saving house and its responsible person were conducted. Due to the one unsuccessful procedure for intermediation in one bank, a request for initiating misdemeanor procedure to persons with special rights and responsibilities was submitted, and as a result of one unsuccessful procedure for settlement, a request for initiating misdemeanor procedure to one responsible person in a bank. In the Annex No. 19 of this Report a detailed review of the written recommendations and recommendations imposed by NBRM in the first half of 2009 was given.

Besides the procedures for intermediation and the initiated misdemeanor procedures for the incompliance with the Banking Law, according to the legally prescribed authorizations, NBRM conducts settlement procedures and initiates misdemeanor procedures towards banks and saving houses according also to the Law on foreign exchange operations, Law on consumer protection in connection with credit and the Law on prevention of money laundering and other proceeds from crime and financing of terrorism. On such basis, in the period January 1, 2009 to June 30, 2009, total 91 settlement procedures were conducted with offenders with banks and saving houses. Out of them, 29 procedures resulted from previously initiated procedures at the authorized courts, which in accordance with the changes in the misdemeanor regulation, were returned to the NBRM on further realization of the settlement procedure. Out of the total conducted settlement procedures, 79 were successfully realized, whereas for 12 of them requests for initiating misdemeanor procedure were submitted, considering the negative result of the settlement procedure.

ANNEX

Balance sheet

in millions of denars

ASSETS	Large banks	Meduim-size banks	Small-size banks	Total
CASH AND BALANCES WITH NBRM	***17.002***	***7.427***	***935***	***25.364***
Denar cash	*7.534*	*3.389*	*647*	***11.570***
Foreign currency cash	*1.561*	*733*	*114*	***2.409***
Gold and other precious metals	*0*	*1*	*0*	***1***
Checks and bills of exchange	*10*	*15*	*0*	***25***
Compulsory reserves requirements and compulsory deposits	*7.896*	*3.289*	*173*	***11.358***
FINANCIAL ASSETS HELD FOR TRADING	***822***	***158***	***0***	***980***
Denar securities and other financial instruments held for trading	*569*	*3*	*0*	***572***
Foreign currency securities and other financial instruments held for trading	*65*	*91*	*0*	***156***
FX indexed securities and other financial instruments held for trading	*187*	*64*	*0*	***251***
DERIVATIVES HELD FOR TRADING AT FAIR VALUE	***0***	***0***	***0***	***0***
FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS	***0***	***0***	***0***	***0***
EMBEDDED DERIVATIVES HELD FOR TRADING	***0***	***0***	***0***	***0***
FINANCIAL ASSETS HELD-TO-MATURITY	***3.781***	***1.221***	***1.181***	***6.183***
Money market instruments held-to-maturity issued by the state	*0*	*69*	*0*	***69***
Money market instruments held-to-maturity issued by the central bank	*0*	*1.095*	*976*	***2.071***
Other debt instruments held-to-maturity issued by the state	*3.475*	*58*	*205*	***3.738***
Other debt instruments held-to-maturity issued by banks and saving houses	*306*	*0*	*0*	***306***
FINANCIAL ASSETS AVAILABLE FOR SALE	***6.979***	***4.311***	***1.715***	***13.004***
Money market instruments available for sale issued by the state	*1.711*	*1.108*	*528*	***3.348***
Money market instruments available for sale issued by the central bank	*3.835*	*2.809*	*815*	***7.458***
Money market instruments available for sale issued by banks and saving houses	*0*	*60*	*0*	***60***
Other debt instruments available for sale issued by the state	*942*	*150*	*69*	***1.162***
Other debt instruments available for sale issued by banks and saving houses	*306*	*0*	*0*	***306***
Other debt instruments available for sale issued by other financial institutions	*0*	*13*	*0*	***13***
Equity instruments available for sale issued by nonfinancial institutions	*8*	*38*	*9*	***55***
Equity instruments available for sale issued by banks and saving houses	*8*	*28*	*253*	***288***
Equity instruments available for sale issued by other financial institutions	*166*	*104*	*35*	***305***
Equity instruments available for sale issued by nonresidents	*2*	*2*	*6*	***10***
PLACEMENTS TO THE CENTRAL BANK	***1.223***	***187***	***22***	***1.433***
Deposits with the central bank	*1.223*	*187*	*22*	***1.433***
PLACEMENTS TO FINANCIAL INSTITUTIONS (NET)	***18.850***	***8.494***	***4.745***	***32.089***
Accounts with domestic banks (net)	*1.380*	*1.243*	*702*	***3.324***
Accounts with domestic banks	*1.386*	*1.244*	*703*	***3.333***
Impairment (provisions)of accounts with domestic banks	*-6*	*-1*	*-2*	***-9***
Accounts with foreign banks	*16.361*	*6.332*	*1.549*	***24.242***
Accounts with foreign banks	*16.362*	*6.335*	*1.549*	***24.246***
Impairment (provisions) of accounts with foreign banks	*-1*	*-2*	*-1*	***-4***
Deposits with financial institutions-nonresidents (net)	*37*	*79*	*2*	***118***
Deposits with financial institutions-nonresidents	*37*	*79*	*2*	***118***
Loans to domestic banks (net)	*0*	*130*	*2.405*	***2.535***
Loans to domestic banks	*0*	*130*	*2.437*	***2.568***
Impairment (provisions) of loans of domestic banks	*0*	*0*	*-33*	***-33***
Loans to saving houses (net)	*990*	*0*	*0*	***990***
Loans to saving houses	*993*	*0*	*0*	***993***
Impairment (provisions) of loans to domestic banks	*-3*	*0*	*0*	***-3***
Loans to insurance companies (net)	*0*	*1*	*0*	***1***
Loans to insurance companies	*0*	*1*	*0*	***1***
Loans to other financial institutions (net)	*24*	*123*	*0*	***147***
Loans to other financial institutions	*24*	*134*	*0*	***159***
Impairment (provisions) of loans to other financial institutions	*-1*	*-11*	*0*	***-11***
Loans to financial institutions -nonresidents (net)	*0*	*576*	*74*	***650***
Loans to financial institutions-nonresidents	*0*	*576*	*74*	***650***
Factoring and forfeiting receivables from financial institutions- nonresidents (net)	*8*	*0*	*0*	***8***
Factoring and forfeiting receivables from financial institutions-nonresidents	*9*	*0*	*0*	***9***
Impairment (provisions) of factoring and forfeiting receivables from financial institutions-nonresidents	*-1*	*0*	*0*	***-1***
Suspicious and contested claims from financial institutions (net)	*51*	*10*	*13*	***74***
Suspicious and contested claims from financial institutions	*77*	*32*	*120*	***228***
Impairment (provisions) of suspicious and contested claims from financial institutions	*-26*	*-22*	*-106*	***-155***

PLACEMENTS TO NONFINANCIAL ENTITIES (NET)	***108.596***	***44.244***	***2.832***	***155.673***
Loans to nonfinancial institutions (net)	*64.639*	*23.484*	*1.234*	***89.356***
Loans to nonfinancial institutions	*67.250*	*24.043*	*1.283*	***92.576***
Accumulated amortization of loans to nonfinancial institutions	*-62*	*-110*	*-3*	***-174***
Impairment (provisions) of loans to nonfinancial institutions	*-2.550*	*-450*	*-46*	***-3.045***
Loans to sector - state (net)	*112*	*21*	*0*	***134***
Loans to sector - state	*113*	*21*	*0*	***134***
Loans to nonprofit institutions serving households (net)	*60*	*25*	*1*	***86***
Loans to nonprofit institutions serving households	*62*	*25*	*1*	***88***
Impairment (provisions) of loans to nonprofit institutions serving households	*-2*	*0*	*0*	***-2***
Loans to households (net)	*42.289*	*18.370*	*1.454*	***62.113***
Loans to households	*42.660*	*18.905*	*1.487*	***63.052***
Accumulated amortization of loans to households	*-164*	*-119*	*-1*	***-284***
Impairment (provisions) of loans to households	*-206*	*-416*	*-32*	***-654***
Receivables from payments made to backing guarantees of debt instruments and guarantees (net)	*12*	*5*	*14*	***32***
Receivables from payments made to backing guarantees of debt instruments and guarantees	*12*	*8*	*14*	***34***
Impairment (provisions) of receivables from payments made to backing guarantees of debt instruments and guarantees	*0*	*-2*	*0*	***-2***
Factoring and forfeiting receivables from nonfinancial institutions (net)	*10*	*78*	*0*	***88***
Factoring and forfeiting receivables from nonfinancial institutions	*10*	*78*	*0*	***88***
Placements to nonfinancial institutions-nonresidents (net)	*1*	*39*	*3*	***43***
Placements to nonfinancial institutions-nonresidents	*1*	*39*	*3*	***43***
Placements to households -nonresidents (net)	*0*	*0*	*1*	***1***
Placements to households-nonresidents	*0*	*0*	*1*	***1***
Suspicious and contested claims from nonfinacial entities (net)	*2.344*	*2.442*	*133*	***4.919***
Suspicious and contested claims from nonfinancial entites	*9.905*	*3.978*	*798*	***14.681***
Impairment (provisions) of suspicious and contested claims from nonfinancial entities	*-7.561*	*-1.536*	*-665*	***-9.762***
Group impairment of the retail credit portfolio	*-871*	*-220*	*-8*	***-1.100***
ACCRUED INTEREST	***776***	***428***	***44***	***1.248***
Denar interest receivables from loans and placements	*300*	*180*	*19*	***499***
Foreign currency interest receivables from loans and placements	*150*	*74*	*3*	***227***
FX indexed interest receivables from loans and placements	*270*	*161*	*16*	***447***
Denar interest receivables from debt instruments	*32*	*11*	*6*	***49***
FX indexed interest receivables from debt instruments	*9*	*0*	*0*	***10***
Interest receivables from other financial instruments	*7*	*3*	*0*	***10***
Foreign currency interest receivables as a result of deposits	*7*	*0*	*0*	***7***
Suspicious and contested claims from interest receivables	*0*	*-2*	*0*	***-2***
INVESTMENTS IN ASSOCIATES, SUBSIDIARIES AND JOINT VENTURES	***156***	***0***	***0***	***156***
Investments in associates	*125*	*0*	*0*	***125***
Investments in subsidiaries	*31*	*0*	*0*	***31***
OTHER ASSETS	***732***	***764***	***111***	***1.607***
Fees and commission receivables	*49*	*58*	*16*	***123***
Suspicious and contested claims from fees and commissions	*8*	*2*	*0*	***10***
Deferred tax assets	*2*	*0*	*0*	***2***
Other assets	*65*	*76*	*8*	***149***
Account receivables and other receivables	*426*	*340*	*51*	***817***
Deferred income, prepaid expenses and temporary accounts	*181*	*289*	*36*	***506***
FORECLOSURES	***1.565***	***716***	***402***	***2.682***
Foreclosures	*1.565*	*716*	*402*	***2.682***
INTANGIBLE ASSETS	***302***	***354***	***75***	***731***
Founding investments	*0*	*0*	*1*	***1***
Patents, licenses and concessions	*114*	*124*	*11*	***249***
Software	*678*	*359*	*107*	***1.144***
Other rights	*7*	*137*	*2*	***146***
Other items of intangible assets	*27*	*26*	*9*	***62***
Accumulated amortization of intangible assets	*-524*	*-292*	*-55*	***-871***
Impairment of intangible assets	*0*	*0*	*0*	***0***
FIXED ASSETS (PROPERTY, PLANT AND EQUIPMENT)	***3.951***	***2.865***	***1.031***	***7.848***
Land	*0*	*0*	*0*	***0***
Buildings	*3.366*	*2.059*	*889*	***6.314***
Equipment	*3.106*	*1.759*	*448*	***5.313***
Other items of property, plant and equipment	*450*	*95*	*89*	***634***
Property, plant and equipment under construction	*235*	*186*	*81*	***502***
Accumulated amortization of fixed assets	*-3.206*	*-1.234*	*-475*	***-4.915***
Impairment of property, plant and equipment	*0*	*0*	*0*	***0***
NON CURRENT ASSETS HELD FOR SALE	***0***	***0***	***0***	***0***
NET COMMISSION RELATIONS	***-21***	***2***	***-348***	***-367***
Denar receivables from activities on behalf of and on account of others	*3.893*	*2.277*	*748*	***6.918***
Foreign currency receivables from activities on behalf of and on account of others	*387*	*1*	*504*	***891***
Denar payables from activities on behalf of and on account of others	*-3.911*	*-2.095*	*-990*	***-6.997***
Foreign currency payables from activities on behalf of and on account of others	*-387*	*0*	*-609*	***-996***
Operating expenses on behalf of and on account of others	*0*	*114*	*5*	***118***
Operating income on behalf of and on account of others	*-2*	*-295*	*-5*	***-301***
UNRECOGNIZED IMPAIRMENT	***0***	***-279***	***-8***	***-286***
TOTAL ASSETS	***164.714***	***70.893***	***12.737***	***248.345***

Balance sheet - Liabilities

in millions of Denars

LIABILITIES	Large banks	Medium-size banks	Small-size banks	Total
INSTRUMENTS FOR TRADING AND FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS	0	0	0	0
DERIVATIVES HELD FOR HEDGING	0	0	0	0
DEPOSITS OF FINANCIAL INSTITUTIONS	6.195	8.663	428	15.286
Deposits of domestic banks	666	609	6	1.280
Deposits of saving houses	152	60	0	213
Deposits of insurance companies	1.746	2.018	68	3.832
Deposits of pension funds	412	721	30	1.163
Deposits of other financial institutions	961	243	106	1.310
Deposits of financial institutions-nonresidents	1.625	4.710	206	6.541
Restricted deposits and other deposits of financial institutions	634	302	11	947
SIGHT DEPOSITS OF NONFINANCIAL ENTITIES	48.433	14.513	2.724	65.670
Denar accounts and sight deposits of nonfinancial entities	13.081	4.541	1.064	18.687
Denar accounts and sight deposits of sector - state	994	21	65	1.079
Denar accounts and sight deposits of nonprofit institutions serving households	1.067	244	45	1.355
Denar accounts and sight deposits of households	9.486	2.898	472	12.856
Denar accounts and sight deposits of nonresidents	304	69	38	411
Foreign currency accounts and sight deposits of nonfinancial entities	4.635	1.939	294	6.868
Foreign currency and sight deposits of sector-state	14	0	0	14
Foreign currency and sight deposits of nonproft institutions serving households	187	64	6	258
Foreign currency accounts and sight deposits of households	15.272	3.991	458	19.720
Foreign currency accounts and sight deposits of nonresidents	1.157	493	225	1.875
Restricted sight deposits and other deposits of nonfinancial entities	2.237	253	56	2.546
SHORT TERM DEPOSITS OF NONFINANCIAL ENTITIES	67.437	23.473	1.716	92.625
Denar short term deposits of nonfinancial entities	4.420	2.227	255	6.902
Denar short term deposits of sector -state	112	92	1	205
Denar short term deposits of nonprofit institutions serving households	392	202	29	624
Denar short term deposits of households	15.298	3.296	486	19.080
Denar short term deposits of nonfinancial entities - nonresidents	36	1	0	36
Foreign currency short term deposits of nonfinancial entities	4.892	2.272	45	7.209
Foreign currency short term deposits of nonprofit institutions serving households	33	0	0	33
Foreign currency short term deposits of households	35.074	9.391	411	44.875
Foreign currency short term deposits of nonfinancial entities - nonresidents	187	502	29	719
FX indexed short term deposits of nonfinancial entities	5.574	4.469	381	10.424
FX indexed short term deposits of sector -state	0	16	0	16
FX indexed short term deposits of nonprofit institutions serving households	0	81	0	81
FX indexed short term deposits of households	0	76	0	76
FX indexed short term deposits of nonfinancial entities - nonresidents	0	0	49	49
Restricted deposits of nonfinancial entities up to 1 year	1.418	850	29	2.297
LONG TERM DEPOSITS OF NONFINANCIAL ENTITIES	11.827	5.974	458	18.260
Denar long term deposits of nonfinancial entities	594	192	6	792
Denar long term deposits of nonprofit institutions serving households	12	0	0	12
Denar long term deposits of households	2.574	1.613	282	4.470
Denar long term deposits of nonfinancial entities - nonresidents	0	5	0	5
Foreign currency long term deposits of nonfinancial entities	0	165	0	165
Foreign currency long term deposits of households	5.559	3.046	86	8.691
Foreign currency long term deposits of nonfinancial entities - nonresidents	12	87	1	100
FX indexed long term deposits of nonfinancial entities	92	40	0	132
FX indexed long term deposits of sector - state	0	61	0	61
FX indexed long term deposits of households	0	5	0	5
Restricted deposits of nonfinancial entities over 1 year	2.984	760	83	3.827
DEBT SECURITIES IN ISSUE	630	300	0	930
Other debt securities in issue	630	300	0	930
BORROWINGS	4.810	7.219	1.399	13.427
Borrowings from financial institutions	1.430	2.538	84	4.052
Borrowings from sector - state	1.411	1.117	204	2.733
Borrowings from other sectors - residents	0	22	0	22
Borrowings from nonresidents	1.968	3.536	1.108	6.612
Financial lease payables from financial institutions	0	0	3	3
Financial lease payables from other sector - residents	0	5	0	5
LIABILITY COMPONENT OF HYBRID INSTRUMENTS	0	183	0	183
Liability component of foreign currency hybrid instruments	0	183	0	183
SUBORDINATED DEBT AND CUMULATIVE PREFERRED SHARES	4.446	581	0	5.027
Foreign currency subordinated debt	4.338	581	0	4.919
Cumulative preferred shares	108	0	0	108
INTEREST LIABILITIES	807	496	52	1.354
Interest payables from borrowings	28	36	10	74
Interest payables from sight deposits and current accounts	54	35	1	91
Interest payables from term deposits	692	393	40	1.125
Interest payables from hybrid instruments	0	4	0	4
Interest payables from subordinated debt	26	27	0	53
Interest payables from other instruments	5	0	0	5
Interest payables from issued securities	2	0	0	2
OTHER LIABILITIES	1.385	799	152	2.335
Fee and Commission liabilities	1	2	3	6
Accrued expenses, deferred income and temporary accounts	615	454	85	1.154
Other liabilities	769	343	64	1.175
PROVISIONS	903	97	15	1.015
Provisions	903	97	15	1.015
CAPITAL AND RESERVES	16.614	8.382	5.739	30.735
Equity capital	8.746	7.058	5.270	21.074
Reserve fund	5.092	1.230	861	7.183
Retained earnings / accumulated loss	2.693	816	-277	3.232
Revaluation reserves	82	1	14	97
Current loss	0	-723	-129	-851
GROSS PROFIT	1.229	214	55	1.497
TOTAL LIABILITIES	164.714	70.893	12.737	248.345

Annex 2

STATEMENT OF COMPREHENSIVE INCOME BY GROUPS OF BANKS AS OF 30.06.2009

in millions of Denars

No.	STATEMENT OF COMPREHENSIVE INCOME	Large banks	Medium-size banks	Small-size banks	Total
1	**INTEREST INCOME**	**6,127**	**2,665**	**334**	**9,126**
	Non-financial companies	2,757	1,193	88	**4,038**
	private	2,742	1,182	88	**4,011**
	public	15	11	0	**26**
	State	193	82	37	**312**
	central government	193	81	37	**311**
	local government	0	1	0	**1**
	social insurance funds	0	0	0	**0**
	Non-profitable institutions serving households	3	1	0	**4**
	Financial institutions	423	175	113	**712**
	central bank	225	128	66	**419**
	banks	160	39	47	**246**
	saving houses	37	0	0	**37**
	insurance companies	0	0	0	**0**
	pension funds	0	0	0	**0**
	other financial institutions	1	9	0	**10**
	Households	2,414	1,225	81	**3,721**
	self-employed individuals	5	266	2	**272**
	citizens	2,410	959	80	**3,449**
	Non-residents	50	16	7	**72**
	non-financial companies, non-residents	0	0	0	**0**
	state, non-residents	0	0	0	**0**
	non-profitable institutions serving households, non-residents	0	0	0	**0**
	financial institutions, non-residents	50	16	7	**72**
	households, non-residents	0	0	0	**0**
	Net impairment of interest income	287	-27	8	**268**
2	**INTEREST EXPENSES**	**-2,801**	**-1,221**	**-82**	**-4,105**
	Non-financial companies	-506	-305	-18	**-829**
	private	-446	-266	-16	**-728**
	public	-59	-39	-2	**-101**
	State	-19	-19	-1	**-39**
	central government	-19	-19	-1	**-38**
	local government	0	-1	0	**-1**
	social insurance funds	0	0	0	**0**
	Non-profitable institutions serving households	-17	-8	-1	**-26**
	Financial institutions	-254	-199	-8	**-461**
	central bank	-1	0	0	**-1**
	banks	-161	-79	-1	**-240**
	saving houses	-2	-1	0	**-3**
	insurance companies	-45	-62	-2	**-109**
	pension funds	-11	-14	-1	**-26**
	other financial institutions	-35	-42	-4	**-81**
	Households	-1,781	-509	-39	**-2,329**
	self-employed individuals	-2	0	0	**-2**
	citizens	-1,779	-509	-39	**-2,327**
	Non-residents	-224	-181	-16	**-421**
	non-financial companies, non-residents	-27	-38	-3	**-67**
	state, non-residents	-1	-1	0	**-2**
	non-profitable institutions serving households, non-residents	0	0	0	**0**
	financial institutions, non-residents	-189	-135	-13	**-337**
	households, non-residents	-8	-7	0	**-15**
3	**NET INTEREST INCOME (1-2)**	**3,326**	**1,444**	**251**	**5,021**
4	**NET FEES AND COMMISSION INCOME**	**1,045**	**384**	**85**	**1,514**
	Fees and commission income	1,214	507	125	**1,846**
	Fees and commission expenses	-170	-123	-40	**-332**
5	**NET INCOME FROM ASSETS AND LIABILITIES HELD FOR TRADING**	**146**	**-4**	**6**	**148**
	Net income from assets and liabilities held for trading	9	-4	0	**5**
	realized	8	-4	0	**4**
	unrealized	1	0	0	**1**
	Net income from derivative instruments held for trading	4	0	0	**4**
	realized	4	0	0	**4**
	unrealized	0	0	0	**0**
	Dividend income from assets held for trading	0	0	0	**0**
	Net interest income from assets and liabilities held for trading	133	1	6	**139**
6	**NET INCOME FROM FINANCIAL INTRUMENTS DESIGNATED AT FAIR VALUE**	**0**	**0**	**0**	**0**
	Net income from financial assets and liabilities designated at fair value	0	0	0	**0**
	realized	0	0	0	**0**
	unrealized	0	0	0	**0**
	Net income from derivative instruments held for hedging	0	0	0	**0**
	realized	0	0	0	**0**
	unrealized	0	0	0	**0**
	net change of fair value of hedged item	0	0	0	**0**
	Dividend income from financial assets designated at fair value	0	0	0	**0**
7	**NET (GAINS - LOSSES) FROM FOREIGN EXCHANGE RATE DIFFERENCES**	**192**	**110**	**17**	**318**
	Realized	163	-328	15	**-151**
	Unrealized	6	435	4	**445**
	Net income from FX activities	22	3	-1	**24**
8	**OTHER OPERATING INCOME**	**409**	**153**	**61**	**623**
	Dividends and revenues based on capital investments	19	31	15	**64**
	Capital gain from sale of financial assets available for sale	1	0	0	**2**
	Capital gains realized from sales of assets	17	1	0	**18**
	Reversal of provisions for off-balance sheet items	233	36	20	**290**
	Reversal of other provisions	0	0	0	**0**
	Other income	96	47	22	**164**
	Collected previously written-off loans and receivables	39	29	4	**73**
	Extraordinary income	3	9	0	**12**
9	**NET IMPAIRMENT LOSSES (PROVISIONS) OF FINANCIAL ASSETS**	**-1,101**	**-813**	**-91**	**-2,005**
	Impairment losses of financial assets	-4,108	-1,162	-294	**-5,564**
	losses due to impairment of financial assets - an individual basis	-3,302	-1,012	-282	**-4,595**
	losses due to impairment of financial assets - a group basis	-807	-150	-12	**-969**
	Reversal of impairment losses of financial assets	3,008	627	211	**3,846**
	reversal of impairment losses of financial assets - an individual basis	3,002	614	207	**3,822**
	reversal of impairment losses of financial assets - a group basis	6	14	4	**24**
	Unrecognized impairment	0	-279	-8	**-286**
10	**IMPAIRMENT LOSSES OF NON-FINANCIAL ASSETS**	**0**	**-1**	**0**	**-1**
	Losses due to impairment of non-financial assets	0	-1	0	**-1**
	Reversal of impairment losses of non-financial assets	0	0	0	**0**
11	**EMLOYEES EXPENSES**	**-1,051**	**-725**	**-171**	**-1,947**
12	**DEPRECIATION**	**-271**	**-193**	**-39**	**-503**
13	**OTHER OPERATING EXPENSES**	**-1,465**	**-864**	**-194**	**-2,523**
	General and administrative expenses	-791	-684	-153	**-1,627**
	Deposit insurance premiums	-294	-88	-8	**-390**
	Capital losses realized from sales of assets	0	0	0	**0**
	Capital losses from sale of financial assets available for sale	0	0	0	**0**
	Provisions for off-balance sheet items	-280	-35	-20	**-335**
	Other provisions	-2	-4	0	**-6**
	Other expenses	-96	-48	-9	**-153**
	Extraordinary expenses	-3	-4	-4	**-11**
14	**CURRENT PROFIT/LOSS**	**1,229**	**-509**	**-74**	**646**

Annex 3

Structure of credits to non-financial entities

in milluion denars

Date	Description	Total	Total		Firms		Households		Other	
			Denar	Currency	Denar	Currency	Denar	Currency	Denar	Currency
31.12.2008	Due credits	1,907	1,403	504	1,025	470	377	34	1	1
	Short-term credits	52,165	42,827	9,337	26,954	9,288	15,798	13	76	37
	Long-term credits	102,501	75,400	27,101	32,810	22,745	42,458	4,036	131	320
	Non-performing credits	11,335	9,848	1,487	6,280	1,237	3,295	245	272	5
	Total gross credits	**167,908**	**129,478**	**38,430**	**67,069**	**33,739**	**61,928**	**4,328**	**480**	**363**
	Loan loss provisions	-13,636								
	Total net credits	**154,272**								
30.06.2009	Due credits	2,832	2,242	590	1,099	567	1,140	23	3	0
	Short-term credits	40,406	31,472	8,934	26,349	8,919	5,114	9	10	6
	Long-term credits	112,778	87,790	24,988	34,519	21,248	53,166	3,689	105	52
	Non-performing credits	14,681	11,182	3,499	6,388	3,156	4,732	343	62	-
	Total gross credits	**170,698**	**132,686**	**38,012**	**68,355**	**33,890**	**64,152**	**4,064**	**180**	**58**
	Impairment	-14,566								
	Accumulated amortization of credits	-459								
	Total net credits	**155,673**								
Growth 30.06.2009/ 31.12.2008	Absolute growth of gross credits	2,790	3,208	-418	1,285	150	2,224	-264	-301	-305
	Growth in %	1.7%	2.5%	-1.1%	1.9%	0.4%	3.6%	-6.1%	-62.6%	-84.0%
	Structure of the growth		115.0%	-15.0%	89.5%	10.5%	113.5%	-13.5%	49.7%	50.3%

Annex 4

Structure of deposits to non-financial entities

in million denars

		Total			Households			Enterprises			Other		
Description (30.06.2009)	**Total**	**Denars**	**FX clause**	**Currency**	**Denars**	**FX clause**	**Currency**	**Denars**	**FX clause**	**Currency**	**Denars**	**FX clause**	**Currency**
Sight deposits	65,670	34,698	0	30,972	12,884	-	19,744	18,949	0	9,014	2,865	-	2,214
Short-term deposits	92,625	27,549	10,750	54,326	19,332	76	45,991	7,348	10,517	7,531	870	157	804
Long-term deposits	18,260	6,376	342	11,542	4,731	5	10,326	1,546	276	430	98	61	786

Annex 5

Structure characteristics of credit risk exposure by groups of banks (sector, currency and items which are constituting credit risk exposure)

Structure of credit risk exposure		31.12.2008			30.06.2009			Change of structural share (in percentage points)		
		Large banks	Medium-sized banks	Small-sized banks	Large banks	Medium-sized banks	Small-sized banks	Large banks	Medium-sized banks	Small-sized banks
Sector structure of credit risk exposure	Enterprises and other clients	49.8%	45.6%	19.6%	51.1%	45.8%	18.0%	1.3	0.2	-1.6
	Natural persons and sole proprietors	30.8%	34.2%	16.2%	31.4%	33.3%	15.6%	0.6	-1.0	-0.6
	Financial institutions and state	19.4%	20.2%	64.2%	17.5%	21.0%	66.4%	-1.9	0.8	2.2
	Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**0.0**	**0.0**	**0.0**
Currency structure of credit risk exposure	Denar exposure	48.2%	46.6%	56.5%	47.0%	40.2%	52.0%	-1.2	-6.3	-4.5
	Denar exposure with FX clause	32.0%	25.9%	16.6%	22.2%	32.3%	17.6%	-9.7	6.4	1.0
	FX exposure	19.8%	27.5%	26.9%	30.7%	27.4%	30.4%	10.9	-0.1	3.5
	Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**0.0**	**0.0**	**0.0**
Structure of credit risk exposure by particular items of exposure	Regular loans	66.5%	78.9%	57.6%	71.0%	75.8%	61.4%	4.5	-3.1	3.7
	Nonperforming loans	4.4%	3.6%	8.0%	5.3%	5.9%	7.5%	0.9	2.3	-0.5
	Other claims and regular interest	12.0%	9.4%	29.4%	6.7%	10.2%	26.4%	-5.3	0.8	-2.9
	Off-balance sheet items	17.1%	8.2%	5.0%	17.0%	8.1%	4.6%	-0.1	0.0	-0.3
	Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**0.0**	**0.0**	**0.0**

Annex 6

Credit risk indicators

in millions of denars

Items	31.12.2004	30.06.2005	31.12.2005	30.06.2006	31.12.2006	30.06.2007	31.12.2007	30.06.2008	31.12.2008	30.06.2009
A	91,394	100,541	108,913	119,118	143,707	174,139	198,617	212,827	215,279	217,024
B	12,025	14,495	16,487	20,564	21,931	24,535	25,484	30,039	32,467	26,240
V	4,826	5,074	4,473	4,328	3,807	3,711	4,469	4,706	6,531	7,690
G	4,191	3,761	4,420	4,075	3,435	3,597	3,219	3,243	3,884	3,445
D	6,744	6,593	6,403	6,978	6,308	6,341	5,867	6,064	6,517	8,854
Total credit exposure	**119,179**	**130,464**	**140,696**	**155,063**	**179,188**	**212,323**	**237,656**	**256,879**	**264,677**	**263,252**
Calculated impairment losses	**11,591**	**11,600**	**11,753**	**12,670**	**11,762**	**12,598**	**12,690**	**14,437**	**15,341**	**17,090**
total C,D and E	15,761	15,428	15,296	15,381	13,550	13,649	13,555	14,013	16,932	19,989
total D and E	10,935	10,354	10,823	11,053	9,743	9,938	9,086	9,307	10,401	12,299
total C and D	9,017	8,835	8,893	8,403	7,242	7,308	7,688	7,949	10,415	11,135
% of C,D and E in total credit exposure	**13.22**	**11.83**	**10.87**	**9.92**	**7.60**	**6.43**	**5.70**	**5.46**	**6.40**	**7.59**
% of C and D in total credit exposure	9.18	7.94	7.69	7.13	5.40	4.68	3.82	3.62	3.93	4.67
% of C and D in total credit exposure	7.57	6.77	6.32	5.42	4.00	3.44	3.23	3.09	3.93	4.23
% of D in total credit exposure	3.52	2.88	3.14	2.63	1.90	1.69	1.35	1.26	1.47	1.31
% of E in total credit exposure	5.66	5.05	4.55	4.50	3.50	2.99	2.47	2.36	2.46	3.36
% of C in total credit exposure	4.05	3.89	3.18	2.79	2.10	1.75	1.88	1.83	2.47	2.92
Average level of riskiness (impairment losses/total credit exposure)	**9.73**	**8.89**	**8.35**	**8.17**	**6.60**	**5.93**	**5.34**	**5.35**	**5.82**	**6.49**
Own funds	**19,397**	**21,106**	**21,292**	**22,085**	**23,604**	**27,602**	**27,721**	**30,209**	**33,912**	**34,565**
% of C, D and E in own funds	**81.25**	**73.10**	**71.84**	**69.64**	**57.40**	**49.45**	**48.90**	**30.81**	**49.93**	**57.83**
% of D and E in own funds	56.37	49.06	50.83	50.05	41.30	36.00	32.78	30.80	30.67	35.58
% of C and D in own funds	46.49	41.86	41.77	38.05	30.70	26.48	27.73	26.31	30.71	32.22
% of D in own funds	21.61	17.82	20.76	18.45	14.60	13.03	11.61	10.73	11.45	9.97
% of E in own funds	34.77	31.24	30.07	31.60	26.70	22.97	21.17	20.07	19.22	25.61
% of C in own funds	24.88	24.04	21.01	19.60	16.10	13.44	16.12	15.58	19.26	22.25
% of net C, D and E in own funds	**29.46**	**26.94**	**26.13**	**23.92**	**19.40**	**16.60**	**17.90**	**17.05**	**20.17**	**21.76**
Capital adequacy	**23.03**	**23.10**	**21.32**	**19.61**	**18.30**	**17.98**	**17.00**	**15.55**	**16.16**	**16.42**

Annex 7

Indicators for the quality of the exposure to credit risk by sole proprietors, natural persons not considered as proprietors and natural persons that perform small scale commercial activity as of December 31, 2008

Economic activity	Average level of risk		% of "C", "D" and "E" in total credit exposure		Coverage of "C", "D" and "E" by the allocated loan loss reserves	
	31.12.2008	30.06.2009	31.12.2008	30.06.2009	31.12.2008	30.06.2009
Agriculture	4.0%	5.2%	4.7%	5.9%	85.0%	86.8%
Trade	3.6%	7.9%	2.7%	8.5%	134.8%	92.8%
Other service activities	4.5%	4.2%	4.4%	3.8%	101.7%	109.1%
Other activities	7.8%	**5.8%**	7.0%	4.0%	112.7%	145.1%
Total credit exposure to sole proprietors	**5.1%**	**6.1%**	**4.7%**	**5.9%**	**107.2%**	**102.6%**

Annex 8

Liquidity indicators by group of banks

Indicators	30.06.2008	31.12.2008	30.06.2009	Change (in percentage points)	
				Annual	Semi-annual
Total loans / Total deposits of non-financial entities	**84.4%**	**92.8%**	**96.7%**	**12.3**	**3.9**
- Large banks	80.2%	89.2%	94.0%	13.8	4.8
- Medium-sized banks	98.0%	105.0%	107.1%	9.2	2.1
- Small-sized banks	70.1%	75.7%	73.2%	3.2	-2.5
Liquid assets / Total assets	**29.9%**	**23.0%**	**20.5%**	**-9.4**	**-2.5**
- Large banks	29.5%	21.1%	18.0%	-11.5	-3.1
- Medium-sized banks	26.1%	22.6%	22.8%	-3.3	0.2
- Small-sized banks	61.8%	55.1%	48.0%	-13.8	-7.1
Highly liquid assets / Total assets	**19.0%**	**17.0%**	**15.8%**	**-3.2**	**-1.2**
- Large banks	17.7%	15.9%	12.8%	-4.9	-3.1
- Medium-sized banks	17.6%	16.0%	19.5%	1.9	3.5
- Small-sized banks	47.9%	41.2%	39.3%	-8.6	-1.9
Liquid assets / Total liabilities	**34.8%**	**26.2%**	**23.8%**	**-11.0**	**-2.4**
- Large banks	33.8%	23.3%	20.3%	-13.5	-3.0
- Medium-sized banks	30.7%	25.8%	26.0%	-4.7	0.2
- Small-sized banks	151.8%	123.5%	121.1%	-30.7	-2.4
Liquid assets / Short-term liabilities	**39.5%**	**32.4%**	**29.4%**	**-10.1**	**-3.0**
- Large banks	35.9%	28.1%	24.5%	-11.4	-3.6
- Medium-sized banks	40.3%	34.8%	35.7%	-4.6	0.9
- Small-sized banks	137.6%	121.6%	95.5%	-42.1	-26.1
Liquid assets / Total deposits of non-financial entities	**38.3%**	**31.1%**	**28.2%**	**-10.1**	**-2.9**
- Large banks	35.4%	26.6%	23.0%	-12.4	-3.6
- Medium-sized banks	37.5%	34.9%	36.0%	-1.5	1.1
- Small-sized banks	123.7%	113.7%	94.5%	-29.2	-19.2
Highly liquid assets / Short-term liabilities	**25.1%**	**24.0%**	**22.7%**	**-2.4**	**-1.3**
- Large banks	21.6%	21.2%	17.5%	-4.1	-3.7
- Medium-sized banks	27.2%	24.6%	30.6%	3.4	6.0
- Small-sized banks	106.6%	90.7%	78.2%	-28.4	-12.5
Liquid assets / Deposits of households	**66.6%**	**52.2%**	**44.1%**	**-22.5**	**-8.2**
- Large banks	58.9%	42.3%	34.3%	-24.6	-8.1
- Medium-sized banks	73.0%	66.8%	62.9%	-10.1	-3.9
- Small-sized banks	260.3%	253.0%	207.5%	-52.9	-45.5
Highly liquid assets / Sight deposits	**59.9%**	**57.0%**	**58.4%**	**-1.5**	**1.4**
- Large banks	51.1%	48.2%	43.3%	-7.8	-4.9
- Medium-sized banks	71.6%	69.3%	93.4%	21.8	24.1
- Small-sized banks	148.2%	154.9%	139.1%	-9.2	-15.9

Annex 9

Contractual maturity structure of assets and liabilities of the banking system as of 30.06.2009

in millions of denars

No.	Description		up to 7 days	from 8 to 30 days	from 31 to 90 days	from 91 to 180 days	from 181 to 365 days	Total
	ASSETS							
1	Cash, cash equivalents, gold and precisious metals		15,299	89	22	0	0	15,410
2	Financial instruments held for trading		165	406	0	212	32	815
		money market instruments	0	50	0	60	30	139
		other debt instruments	162	356	0	152	3	674
		equity instruments	3	0	0	0	0	3
3	Derivatives for trading		0	0	0	0	0	0
4	Embedded derivatives and derivatives held for hedging		0	0	0	0	0	0
5	Financial instruments at fair value through profit and loss, identified as such at initial recognition		0	0	0	0	0	0
		money market instruments	0	0	0	0	0	0
		other debt instruments	0	0	0	0	0	0
		equity instruments	0	0	0	0	0	0
		credits	0	0	0	0	0	0
6	Financial instruments held to maturity		690	1,746	69	201	291	2,997
		money market instruments	629	1,229	69	0	0	1,926
		other debt instruments	61	517	0	201	291	1,070
7	Financial instruments available for sale		2,077	5,247	1,588	631	1,816	11,359
		money market instruments	2,035	5,194	1,544	391	1,228	10,390
		other debt instruments	0	0	44	240	321	606
		equity instruments	42	54	0	0	267	362
		other instruments	0	0	0	0	0	0
8	Credit and claims		21,472	13,376	15,444	22,368	30,101	102,762
		interbank transactions	15,427	6,036	760	179	960	23,362
		deposits	10	204	0	0	0	214
		financial leasing	0	0	0	0	0	0
		credits	6,001	7,122	14,630	22,168	29,139	79,060
		other claims	34	14	55	22	2	126
9	Interest receivables		770	455	28	41	7	1,301
10	Commission and fees receivables		123	7	0	0	0	130
11	Other on-balance sheet assets		670	201	38	27	60	996
12	**TOTAL ASSETS (1+2+3+4+5+6+7+8+9+10+11)**		41,266	21,527	17,189	23,480	32,307	135,769
	LIABILITIES							
13	Transaction accounts		53,789	0	0	0	0	53,789
14	Financial liabilities at fair value through profit and loss		0	0	0	0	0	0
		money market instruments	0	0	0	0	0	0
		other debt instruments	0	0	0	0	0	0
		equity instruments	0	0	0	0	0	0
		deposits	0	0	0	0	0	0
		liabilities from credits	0	0	0	0	0	0
		subordinated instruments	0	0	0	0	0	0
15	Derivatives for trading		0	0	0	0	0	0
16	Embedded derivatives and derivatives held for hedging		0	0	0	0	0	0
17	Deposits		22,271	19,504	29,632	23,872	30,802	126,080
		sight deposits	14,126	0	1	0	0	14,127
		term deposits	8,145	19,504	29,630	23,872	30,802	111,953
18	Liabilities from credits		344	187	456	1,334	1,232	3,553
19	Issued debt securities		0	0	0	0	0	0
20	Interest payable		504	286	203	154	149	1,296
21	Commissions and fees payable		4	1	0	0	0	6
22	Financial leasing		5	0	0	0	1	6
23	Other on-balance sheet liabilities		1,528	585	74	1	3	2,191
24	**TOTAL LIABILITIES (13+14+15+16+17+18+19+20+21+22+23)**		78,445	20,562	30,365	25,361	32,186	186,920
	OFF-BALANCE SHEET ITEMS							
25	Off-balance sheet assets		164	13	105	241	241	764
26	Off-balance sheet liabilities		6,224	985	2,246	2,752	5,545	17,752
27	**Net off-balance sheet items (25-26)**		-6,061	-973	-2,140	-2,510	-5,304	-16,988
28	**GAP (12-24+27)**		-43,240	-8	-15,316	-4,391	-5,182	-68,138
29	**CUMULATIVE GAP**		-43,240	-43,248	-58,565	-62,956	-68,138	

Annex 10

Expected maturity structure of assets and liabilities of the banking system as of 30.06.2009

in millions of denars

NO.	DESCRIPTION	Anticipated maturity (on-balance sheet and off-balance sheet items)			Anticipated maturity (future activities)		
		up to 7 days	from 8 to 30 days	from 31 to 90 days	up to 7 days	from 8 to 30 days	from 31 to 90 days
	ASSETS						
1	Cash, cash equivalents, gold and precisious metals	14,170	89	6	0	0	0
2	Financial instruments held for trading	165	406	0	0	120	0
	money market instruments	0	50	0	0	0	0
	other debt instruments	162	356	0	0	120	0
	equity instruments	3	0	0	0	0	0
3	Derivatives for trading	0	0	0	0	0	0
4	Embedded derivatives and derivatives held for hedging	0	0	0	0	0	0
5	Financial instruments at fair value through profit and loss, identified as such at initial recognition	0	0	0	0	0	0
	money market instruments	0	0	0	0	0	0
	other debt instruments	0	0	0	0	0	0
	equity instruments	0	0	0	0	0	0
	credits	0	0	0	0	0	0
6	Financial instruments held to maturity	690	1,746	69	5	10	0
	money market instruments	629	1,229	69	5	10	0
	other debt instruments	61	517	0	0	0	0
7	Financial instruments available for sale	1,943	4,731	1,170	-110	660	516
	money market instruments	1,905	4,654	1,125	-110	660	476
	other debt instruments	0	24	44	0	0	40
	equity instruments	39	54	0	0	0	0
	other instruments	0	0	0	0	0	0
8	Credit and claims	18,285	12,007	14,376	263	-2,758	-837
	interbank transactions	14,821	5,766	853	205	0	0
	deposits	16	192	2	0	0	0
	financial leasing	0	0	0	0	0	0
	credits	3,418	6,036	13,495	58	-2,758	-837
	other claims	31	14	26	0	0	0
9	Interest receivables	541	509	251	102	129	202
10	Commission and fees receivables	108	10	5	4	12	31
11	Other on-balance sheet assets	576	201	38	1	0	0
12	**TOTAL ASSETS (1+2+3+4+5+6+7+8+9+10+11)**	36,479	19,700	15,914	266	-1,827	-88
	LIABILITIES						
13	Transaction accounts	10,079	3,065	1,242	3,170	990	1,067
14	Financial liabilities at fair value through profit and loss	0	0	0	0	0	0
	money market instruments	0	0	0	0	0	0
	other debt instruments	0	0	0	0	0	0
	equity instruments	0	0	0	0	0	0
	deposits	0	0	0	0	0	0
	liabilities from credits	0	0	0	0	0	0
	subordinated instruments	0	0	0	0	0	0
15	Derivatives for trading	0	0	0	0	0	0
16	Embedded derivatives and derivatives held for hedging	0	0	0	0	0	0
17	Deposits	5,242	8,376	10,267	1,153	3,092	5,863
	sight deposits	1,578	26	34	242	10	171
	term deposits	3,665	8,350	10,233	911	3,082	5,692
18	Liabilities from credits	256	186	456	4	444	891
19	Issued debt securities	0	0	0	0	0	0
20	Interest payable	274	282	202	1	43	193
21	Commissions and fees payable	5	1	0	0	25	6
22	Financial leasing	5	0	0	0	0	0
23	Other on-balance sheet liabilities	1,174	578	73	57	0	0
24	**TOTAL LIABILITIES (13+14+15+16+17+18+19+20+21+22+23)**	17,035	12,488	12,241	4,384	4,593	8,020
	OFF-BALANCE SHEET ITEMS						
25	Off-balance sheet assets	111	6	36	412	1,401	3,652
26	Off-balance sheet liabilities	928	337	719	-120	-9	-27
27	**Net off-balance sheet items (25-26)**	-818	-330	-683	532	1,411	3,680
28	**GAP (12-24+27)**	18,626	6,882	2,991	-3,586	-5,009	-4,429
29	**CUMULATIVE GAP**	18,626	25,508	28,499	-3,586	-8,596	-13,024

Annex 11

Structure of on-balance sheet assets and off-balance sheet assets in foreign currency and in Denars with FX clause, as of 30.06.2009

No.	Item	Amount (in million of Denars)	Structure (in %)
1	Cash, cash equivalents, gold and precious metals	**18,643**	**13.3%**
2	Financial instrument for trading	**407**	**0.3%**
3	Derivatives for trading	**0**	**0.0%**
4	Embedded derivatives and derivatives held for risk management	**0**	**0.0%**
5	Financial instruments at fair value through profit and loss as such at initial recognize	**0**	**0.0%**
5.1	in foreign currency	0	0.0%
5.2	in Denars with FX clause	0	0.0%
6	Financial instruments held to maturity	**3,907**	**2.8%**
6.1	in foreign currency	0	0.0%
6.2	in Denars with FX clause	3,907	2.8%
7	Financial instruments available for sale	**2,737**	**1.9%**
7.1	in foreign currency	14	0.0%
7.2	in Denars with FX clause	2,722	1.9%
8	Credits and claims in foreign currency	**59,670**	**42.5%**
8.1	deposits	23,259	16.6%
8.2	financial leasing	0	0.0%
8.3	credits	38,820	27.6%
8.4	other claims	15	0.0%
8.5	impairment	-2,425	-1.7%
9	Credits and claims in Denars with FX clause	**54,121**	**38.5%**
9.1	deposits	306	0.2%
9.2	financial leasing	0	0.0%
9.3	credits	55,678	39.6%
9.4	other claims	12	0.0%
9.5	impairment	-1,875	-1.3%
10	Interest receivable in foreign currency	**224**	**0.2%**
10.1	accrued interest	381	0.3%
10.2	impairment	-157	-0.1%
11	Interest receivable in Denars with FX clause	**440**	**0.3%**
11.1	accrued interest	698	0.5%
11.2	impairment	-258	-0.2%
12	Commissions and fees receivables	**15**	**0.0%**
12.1	accrued commissions and fees	15	0.0%
12.2	impairment	0	0.0%
13	Investments	**0**	**0.0%**
14	Other non-mentioned on-balance sheet assets	**176**	**0.1%**
15	**Total on-balance sheet assets (1+2+3+4+5+6+7+8+9+10+11+12+13+14)**	**140,341**	**99.9%**
16	Off-balance sheet assets	**185**	**0.1%**
17	**Total on-balance sheet assets and off-balance sheet assets in foreign currency and in Denars with FX clause (15+16)**	**140,525**	**100.0%**

Annex 12

Structure of on-balance sheet and off-balance sheet liabilities in foreign currency and in Denars with FX clause, as of 30.06.2009

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

Annex 13

Own funds as of 30.06.2009

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	21,043
1.1	Nominal value	17,368
1.1.1	Nominal value of common shares	17,271
1.1.2	Nominal value of non-cumulative preference share	97
1.2	Premium	3,675
1.2.1	Premium based on common shares	3,675
1.2.2	Premium based on non-cumulative preference shares	0
2	Reserve and retained profit/loss	9,888
2.1	Reserve fund	6,745
2.2	Retained profit restricted to distribution to shareholders	3,773
2.3	Accumulated loss from previous years	-630
2.4	Current profit	0
2.5	Unrealized loss on equities available for sale	-0.2
3	Positions arising from consolidation	0
3.1	Minority interest	0
3.2	Reserves from exchange rate differentials	0
3.3	Other differentials	0
4	Deductions	1,035
4.1	Loss at the end of the year, or current loss	602
4.2	Own shares	0
4.3	Intangible assets	146
4.4	Net negative revaluation reserves	0
4.5	Difference between the amount of required and made impairment/special reserve	0
4.6	Amount of unallocated impairment and special reserve as a result of accounting time lag	286
5	Common shares, reserves and retained profit and deductions	29,800
6	Amount of other positions that may be included in the core capital	97
I	**CORE CAPITAL**	**29,897**
	SUPPLEMENTARY CAPITAL 1	
7	Paid-in and subscribed cumulative preference shares and premium on such shares	139
7.1	Nominal value	123
7.2	Premium	16
8	Revaluation reserves	84
9	Hybrid capital instruments	183
10	Subordinated instruments	4,749
11	Amount of subordinated instruments that may be included in the additional capital I	4,749
II	**SUPPLEMENTARY CAPITAL 1**	**5,155**
	DEDUCTIONS FROM CORE CAPITAL AND SUPPLEMENTARY CAPITAL 1	
12	Capital investments in other banks or financial institutions of over 10% of the capital of such institutions	322
13	Investments in subordinated and hybrid capital instruments and other instruments of institutions referred to in 12	0
14	Aggregate amount of investments in capital, subordinated and hybrid instruments and other instruments exceeding 10% of (I+II)	0
15	Direct capital investments in insurance and reinsurance companies and pension fund management undertakings	160
16	Investments in financial instruments issued by the insurance and reinsurance companies and pension fund management undertakings	5
17	Amount of excess of limits on investments in nonfinancial institutions	0
18	Positions arising from consolidation (negative amounts)	0
III	**Deductions from the core capital and supplementary capital 1**	**488**
IV	**CORE CAPITAL AFTER DEDUCTIONS**	**29,474**
V	**SUPPLEMENTARY CAPITAL 1 AFTER DEDUCTIONS**	**5,091**
	SUPPLEMENTARY CAPITAL 2	
19	Subordinated instruments of supplementary capital 2	0
20	Supplementary capital 1 and 2	5,091
21	Allowed amount of supplementary capital 1 and 2	5,091
21.1	Supplementary capital 1	5,091
21.2	Supplementary capital 2	0
22	Core capital	12,632
22.1	Excess core capital (150%)	18,948
22.2	Excess core capital (250%)	31,580
VI	**Allowed amount of supplementary capital 2**	0
	OWN FUNDS	
VII	Core capital	29,474
VIII	Supplementary capital 1	5,091
IX	Supplementary capital 2	0
X	**OWN FUNDS**	**34,564**

Annex 14

Structure and change of the own funds at the level of the banking system

	Amount (in millions of Denars)			Structure (in %)			Semi-annual change (30.06.2009/31.12.2008)*			Annual change (30.06.2009/30.06.2008)*		
	30.06.2008	31.12.2008	30.06.2009	30.06.2008	31.12.2008	30.06.2009	in millions of Denars	in %	Share in the change	in millions of Denars	in %	Share in the change
Own funds	**30,209**	**33,912**	**34,564**	**100.0%**	**100.0%**	**100.0%**	**652**	**1.9%**	**100.0%**	**4,356**	**14.4%**	**100.0%**
Core capital	**27,263**	**29,324**	**29,897**	**90.2%**	**86.5%**	**86.5%**	**573**	**2.0%**	**87.9%**	**2,634**	**9.7%**	**60.5%**
-Paid in and subscribed common and non-cumulative preference shares and premiums based on these shares	20,462	21,371	21,043	67.7%	63.0%	60.9%	-328	-1.5%	-50.2%	581	2.8%	13.3%
-Reserve and retained profit/loss	7,176	8,624	9,888	23.8%	25.4%	28.6%	1,264	14.7%	193.9%	2,712	37.8%	62.3%
-Deductions	375	671	1,035	1.2%	2.0%	3.0%	364	54.2%	55.8%	659	175.5%	15.1%
1. current loss	223	538	602	0.7%	1.6%	1.7%	63	11.8%	9.7%	379	170.4%	8.7%
2. unallocated impairment and special reserves	0	0.1	286	0.0%	0.0%	0.8%	286	409102.5%	43.9%	286	/	6.6%
3. other deductions	153	132	146	0.5%	0.4%	0.4%	14	10.5%	2.1%	-7	-4.3%	-0.2%
Supplementary capital 1	**3,399**	**5,057**	**5,155**	**11.3%**	**14.9%**	**14.9%**	**98**	**1.9%**	**15.1%**	**1,757**	**51.7%**	**40.3%**
-Paid-in and subscribed cumulative preference shares and premium on such shares	297	230	139	1.0%	0.7%	0.4%	-91	-39.7%	-14.0%	-158	-53.3%	-3.6%
-Revaluation reserves	/	/	84	/	/	0.2%	84	/	12.9%	84	/	1.9%
-Hybrid capital instruments	0	184	183	0.0%	0.5%	0.5%	-1	-0.4%	-0.1%	183	/	4.2%
-Subordinated instruments	3,102	4,643	4,749	10.3%	13.7%	13.7%	106	2.3%	16.3%	1,647	53.1%	37.8%
Deductions from core capital and supplementary capital 1	**453**	**468**	**488**	**1.5%**	**1.4%**	**1.4%**	**19**	**4.1%**	**3.0%**	**35**	**7.7%**	**0.8%**

* Decreases which occur with paid in and subscribed common and non-cumulative preference shares and premiums based on these shares is due to the changes in the accounting framework enforced from January 2009

Annex 15

Structure and change of the own funds by group of banks

in millions of Denars

	Large banks			Medium-size banks			Small-size banks		
	30.06.2009			30.06.2009			30.06.2009		
	Amount (in millions of Denars)	Structure (in %)	Semi-annual change (30.06.2009/ 31.12.2008)*	Amount (in millions of Denars)	Structure (in %)	Semi-annual change (30.06.2009/ 31.12.2008)*	Amount (in millions of Denars)	Structure (in %)	Semi-annual change (30.06.2009/ 31.12.2008)*
Own funds	**20,603**	**100.0%**	**895**	**9,001**	**100.0%**	**-204**	**4,960**	**100.0%**	**-39**
Core capital	**16,452**	**79.9%**	**1,036**	**8,221**	**91.3%**	**-426**	**5,223**	**105.3%**	**-36**
-Paid in and subscribed common and non-cumulative preference shares and premiums based on these shares	8,746	42.5%	-257	7,027	78.1%	-70	5,270	106.2%	0
-Reserve and retained profit/loss	7,784	37.8%	1,310	2,015	22.4%	58	90	1.8%	-103
-Deductions	78	0.4%	17	821	9.1%	414	136	2.7%	-67
1. current loss	0	0.0%	0	481	5.3%	137	121	2.4%	-74
2. unallocated impairment and special reserves	0	0.0%	0	279	3.1%	279	8	0.2%	8
3. other deductions	78	0.4%	17	61	0.7%	-2	7	0.1%	-1
Supplementary capital 1	**4,359**	**21.2%**	**-124**	**796**	**8.8%**	**222**	**0**	**0.004%**	**0**
-Paid-in and subscribed cumulative preference shares and premium on such shares	108	0.5%	-71	31	0.3%	-21	0	0.0%	0
-Revaluation reserves	84	0.4%	84	0	0.0%	0	0.2	0.004%	0.2
-Hybrid capital instruments	0	0.0%	0	183	2.0%	-1	0	0.0%	0
-Subordinated instruments	4,168	20.2%	-137	581	6.5%	243	0	0.0%	0
Deductions from core capital and supplementary capital 1	**208**	**1.0%**	**17**	**16**	**0.2%**	**0**	**263**	**5.3%**	**3**

* Decreases which occur with paid in and subscribed common and non-cumulative preference shares and premiums based on these shares is due to the changes in the accounting framework enforced from January 2009

Annex 16

Capital adequacy ratio as of 30.06.2009

in millions of Denars

No.	Description	TOTAL
I	**CREDIT RISK WEIGHTED ASSETS**	
1	On-balance sheet credit risk weighted assets	174,257
2	Off-balance sheet credit risk weighted assets	24,864
3	**Credit risk weighted assets (1+2)**	**199,121**
4	Capital requirement for credit risk	15,930
II	**CURRENCY RISK WEIGHTED ASSETS**	
5	Aggregate currency position	11,404
6	Net-position in gold	0
7	**Currency risk weighted assets (5+6)**	**11,404**
8	Capital requirement for currency risk	912
III	**RISK WEIGHTED ASSETS (3+7)**	**210,525**
9	Capital requirement for risks (4+8)	16,842
IV	**OWN FUNDS**	**34,564**
V	**CAPITAL ADEQUACY RATIO (IV/III)**	**16.42%**

Annex 17

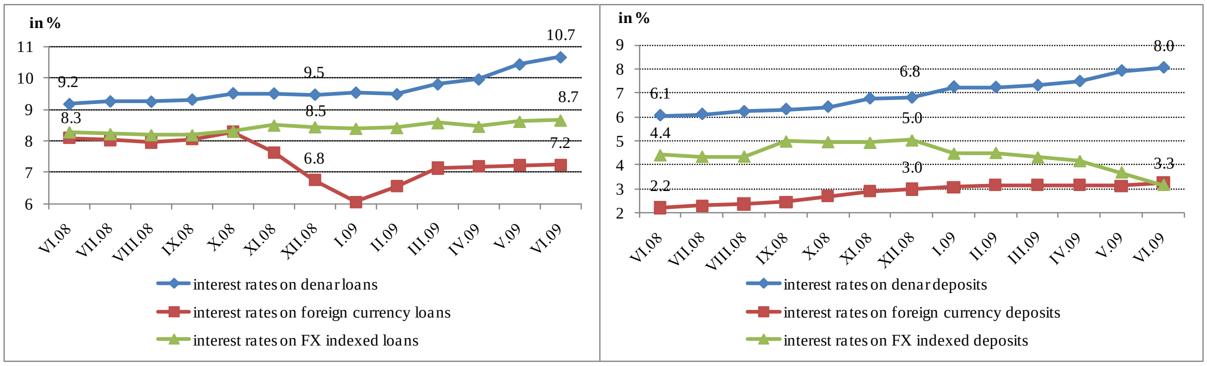
Groups of banks as of 30.06.2009

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

* Banks are in alphabetical order

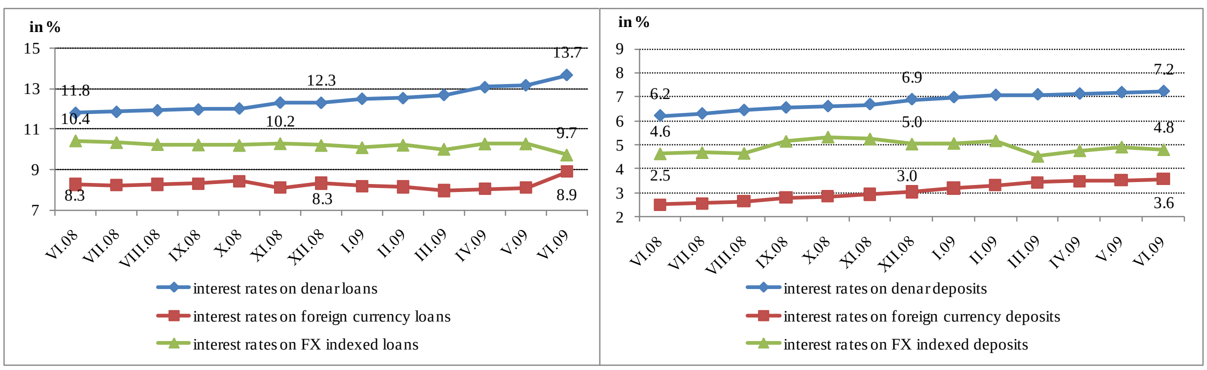
Annex 18

Figure
Lending and deposit interest rates of large banks



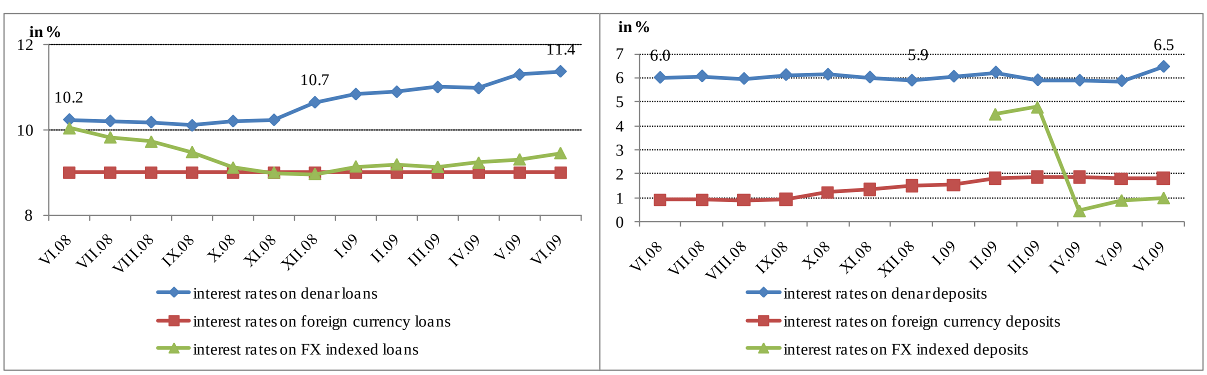
Source: NBRM, based on the data submitted by banks.

Figure
Lending and deposit interest rates of medium-size banks



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

Figure
Lending and deposit interest rates of small-size banks



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

Annex no. 19

Measures imposed by NBRM in January 01,2009 - June 30,2009 period

Type of measure		
Written warning	**Number of banks**	**Number of savings houses**
Establishment of adequate accounting records of the deposits based liabilities.	1	
The explanations of the requests for extending the maturity date of credits should be based on the analysis of the reasons for extending the maturity date	1	
Revocation of a decision on intention for core principal reduction		
Recommendation	**Number of banks**	**Number of savings houses**
Holding sessions of the IT Oversight Board on three-month basis, at minimum, or more frequently, if required.	1	
Review and verification of the IT development strategies, significant operating plans, as well as issues related to larger procurements by the IT Oversight Board.	1	
Monitoring of the intensity of the IT risk by the bank bodies	1	
Adequate assigning of duties to the employees in the IT Department, by adhering to the double control principle.	1	
Strengthening of the capacity of the Internal Audit Department within IT audit domain through constant and adequate training of the employees.	1	
Preparation of an action plan for overcoming the identified irregularities and for application of the recommendations given in the report from the control.	1	
Development of the credit risk management system with a requirement for the Internal Audit Department to assess bank's actions with regard to the improvement of the credit risk management system.	1	
Development of the system for reporting to adequate bank bodies regarding all operating risks.	1	
The Risk Management Board should define and the Supervision Board should approve the following: - critical values of the liquidity indicators, which would be a basis for activating the plan for liquidity risk management in extraordinary conditions; - precisely determined extraordinary conditions, which will be a signal for activating the plan for liquidity risk management in extraordinary conditions, and - acceptable level of deposit base concentration.	1	
Estimation of the liquidity risk management systems by the Risks Management Board.	1	
Notifying the NBRM on the stratus of the court procedures instigated against the bank.	1	