NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Report on Banking System and Banking Supervision of the Republic of Macedonia in 2005

Skopje, May 2006

CONTENT

Governor's foreword

The favorable macroeconomic environment in the Republic of Macedonia in 2005, evident in the positive performances in the real and in the external sectors, and the maintaining of price stability, was a solid foundation for the positive developments in the banking system. The banking system remained relatively stable with an underlined trend of increasing its efficiency and profitability.

The overall activities of the banks in the Macedonian economy in the course of 2005, quantified through the indicators of financial intermediation, register an increase relative to 2004. The main generator of the growth in the banks' assets was the pick up in the deposit potential, as an indicator of the continuous strengthening of the confidence in the banking system. The rise in the banks' financial potential enabled acceleration of the economic activity through increased lending to the private sector.

In spite of the increased scope of activities, banks maintained a relatively high solvent and liquidity position. Bank's capital adequacy level, as the basic prudent indicator, was significantly higher than the legally prescribed minimum level of 8%. As it was the case in the past years, banks maintained a relatively high liquidity position, which was to a large extent a result of the favorable movements on the foreign exchange market and the change in the monetary instruments in 2005. Given the increased volume of long-term lending financed by deposits of shorter maturity, the currency mismatch between individual segments of banks' assets and liabilities indicated the need for the banks to provide higher level of liquid assets.

The banks' unsatisfactory profit position, which lasted for several years, was left behind during 2005. The positive trend of banks' profitability was a reflection of the increased level of realized total revenues, and of the increased cost efficiency of banks. The continuous trend of reducing the share of revenues of incidental character in the total revenues, at the expense of the continuous increase in the revenues generated from banks' main activities, is considered to be especially positive.

During 2005, the risk profile of the overall banking system registered an improvement. Credit risk remains dominant in the operations. Accelerated credit activity of banks in 2005 generated low to moderate risk for the financial stability of the country. Despite the accelerated credit activity, there were no sighs of deterioration of the banks' credit portfolio quality. On the contrary, credit portfolio quality continued to improve. Foreign exchange risk to which the banks were exposed as a result of the currency mismatch of their on-balance sheet items was relatively low. Almost all banks were within the prudential limits for open foreign exchange positions. Other market risks were marginal in the spectrum of risks the banks faced with. In an environment of an insufficiently developed capital market, banks undertook initial activities related to trading in securities.

To the end of further strengthening of the supervisory function of the National Bank, in 2005 the drafting of the Supervisory Development Plan commenced, which was adopted in the beginning of 2006. This Plan was drafted in cooperation with the World Bank and it represents a detailed review of all activities that should be undertaken in the following few years in order to establish a risk-based supervision. The adoption of the Supervisory Development Plan is a result of the efforts of the National Bank for further improvement of its own capacity, as well as of the intention to establish adequate grounds for gradual implementation of the New Capital Accord (Basel II), especially the implementation of the Second and the Third Pillars (Supervisory Review and Market Discipline).

Following the example of other central banks, besides strengthening the capacity of banking supervision, during 2005, the National Bank commenced the activities related to analyzing financial stability. Unlike banking supervision, which has a micro approach and is based on the assessment of the stability of each individual bank and of the banking system as a whole, the concept of financial stability analysis is based on the analysis of the stability of the financial system as a whole. The aim of the financial stability analysis is to provide efficient asset allocation, successful risk management, and development of ability for shock absorption. In order to achieve efficient financial intermediation, besides the activities undertaken in 2005, the National Bank is still challenged to ensure balance between the need for regulation and efficient banking supervision for the purpose of ensuring safe banking system on the one hand, and the need for higher level of financial intermediation, on the other.

In 2005, activities towards amending and consolidating the Banking Law were undertaken, which continue also in 2006. These activities will lead to a new Banking Law, which will enable strengthening of the corporate management systems in banks and improvement of the National Bank's licensing function, by strengthening the so-called "fit and proper" criteria for the shareholders and members of bank bodies. At the same time, there is an intention to strengthen the corrective and penalty measures that the National Bank may undertake against a bank with identified problems and non-compliance with the legal regulations. Also, increased accuracy of financial reporting and transparency of banks' operations is expected.

Concomitantly, during 2005 the National Bank initiated a number of other activities aimed at further strengthening of supervisory standards and practices for prudent banking operations, such as:

- preparation for implementation of the regulations for including the market risk in determining the bank's capital adequacy ratio;
- preparation of a new regulatory framework for banks, aimed at harmonizing the existing accounting policies and the accounting plan with the international accounting standards and the international financial reporting standards;
- further improvement of the credit registry by increasing its efficiency and widening of the database and the types of reports that may be generated for the needs of the supervision and banks, as well as other activities.

Petar Goshev, MSc.
Governor and
President of the NBRM Council

I. BANKING SYSTEM IN 2005

1. Structure of the banking system

1.1. Number of banks and savings houses

As of December 31, 2005, the banking system of the Republic of Macedonia comprised of twenty banks and fourteen savings houses, which is one bank and one savings house less relative to the end of 2004. The fall in the number of banks is a result of the revoked founding and operating license and the initiated bankruptcy procedure in "Radobank" a.d. Skopje. The decline in the number of savings houses is a consequence of the acquisition of the "Malesevka" a.d. Berovo savings house by "Invest Banka" a.d. Skopje in the second half of 2005.

Analyzed from the viewpoint of the structure, banks dominate the banking system of the Republic of Macedonia. Thus, as of December 31, 2005, the share of savings houses in the total financial potential, as well as in the total collected households' deposits equaled 1.4% and 0.8%, respectively. Compared with the end of 2004, the share of the savings houses, according to these two categories, increased only by 0.1%. Having in mind the insignificant share of the savings houses in the activities of the banking system, the further analysis of the main features, the structure and performances of the banking system is focused on the data and indicators of the banks' operations.

At the end of 2005, fifteen banks were authorized to conduct domestic and international financial activities[1], four banks were authorized to conduct only domestic financial activities[2], while the "Macedonian Bank for Development promotion" a.d. Skopje performs specific financial activities in accordance with a special law[3].

For the purposes of more comprehensive analysis of the structure and the performances of the banking system, three groups of banks are distinguished according to the size of their assets. Having in mind the continuous upward trend of the banks' financial potential in the past years on the one hand, and the fact that this growth has not been dispersed with equal size and dynamics among all banks on the other, a change was made in the criterion for classification of banks in individual groups. The minimum asset level for classification of a bank in the group of medium-size banks was raised from Denar 2.5 million to Denar 4.5 billion.

[1] These financial activities are specified in Articles 45 and 46 of the Banking Law.
[2] These financial activities are specified in Article 45 of the Banking Law.
[3] This bank was established in accordance with the Law on Establishing the Macedonian Bank for Development Promotion for the purpose of promoting development by financing investments of SMEs, promoting exports, and administering loans and donations from abroad, mainly through commercial banks.

Table 1
Groups of banks according to their asset size as of December 31, 2005

Group	Classification criterion	Number of banks	
		31.12.2004	31.12.2005
Large banks	Assets > Denar 15 billion	3	3
Medium-size banks	4,5 billion < Assets > 15 billion	2	3
Small-size banks	Assets < Denar 4.5 billion	16	14
	Total	**21**	**20**

During 2005, there were structural changes in the composition of the groups of banks. Thus, one bank from the group of small-size banks exited the banking system, and another bank was transferred to the group of medium-size banks.

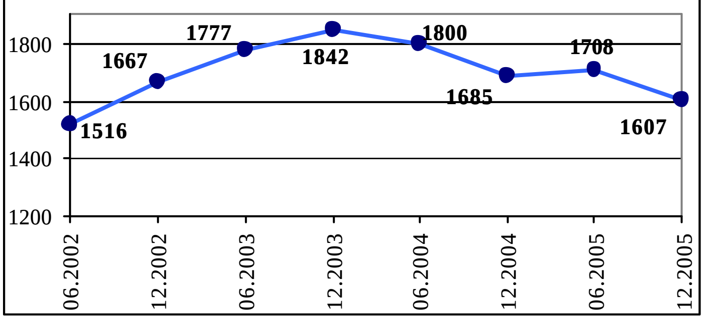
1.2. Concentration and market share

The concentration of the banking system and the market share of the individual groups of banks have been analyzed according to the following four criteria:

a) Total assets, i.e. total financial potential;
b) Total financial activities (on-balance sheet and off-balance sheet activities);
c) Total credit activity (gross-credits); and
d) Total deposit base.

The analysis has revealed a significant level of concentration of the banking system, which registered a decline to a certain extent. Thus, as of December 31, 2005 the Herfindahl index[4], determined for the total assets, total financial activities, and total credits, equaled 1,607, 1,666 and 1,734, respectively, which according to this index indicates an acceptable degree of banking system concentration. However, the Herfindahl index measured for the total deposits of non-financial entities equaled 2,049, which indicates significant concentration of the banking system in the field of collecting deposits from legal entities and natural persons.

Figure 1
Dynamics of the Herfindahl index for the total assets of the banking system



[4] The Herfindahl index is one of the most important indicators of the banking system concentration. This indicator is calculated as a sum of the square of each banks' share in particular category which denotes the size of an individual bank or the overall banking system (for example: total assets, total on-balance sheet and off-balance sheet activities, total deposits, total credits). An index equal to 10,000 is an indicator of monopoly in the banking system, while an index equal to 100 units is an indicator of absence of concentration. When the Herfindahl Index ranges between 1,000 and 1,800 units, the concentration of the assets is considered acceptable. For comparison, the value of the Herfindahl index, measured for the total assets of the banking system, is below 1,000 in eleven EU Member States, in seven countries it ranges in an interval between 1,000 and 1,400, in two Member States it is between 1,400 and 1,800, and in five Member States it exceeds 1,800, which leads to an unweighted average on the EU level of 1,171. Source: Report on the EU Banking Structures (ECB), October, 2005.

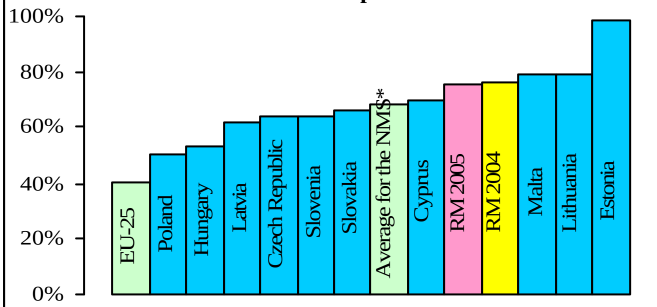
The analysis of the market share of the groups of banks in the total assets, the total on-balance sheet and off-balance sheet activities, the total gross-credits and the total deposits of non-financial entities at the level of the banking system, confirm the relatively high degree of the Macedonian banking system concentration. The share of the group of large banks is dominant according to each of these categories and it ranges between 66.1% in the total assets and 73.1% in the total deposit potential.

Table 2
Concentration of the banking system by groups of banks

	Share in the total assets		Share in the total activities		Share in the total gross credits		Share in the total deposits of non-financial entities	
	31.12.2004	**31.12.2005**	**31.12.2004**	**31.12.2005**	**31.12.2004**	**31.12.2005**	**31.12.2004**	**31.12.2005**
Large banks	66.8%	66.1%	67.7%	67.7%	66.2%	69.2%	75.5%	73.1%
Medium-size banks	9.4%	12.3%	9.3%	11.7%	9.9%	11.6%	8.9%	11.5%
Small-size banks	23.8%	21.6%	23.0%	20.6%	23.9%	19.2%	15.6%	15.4%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

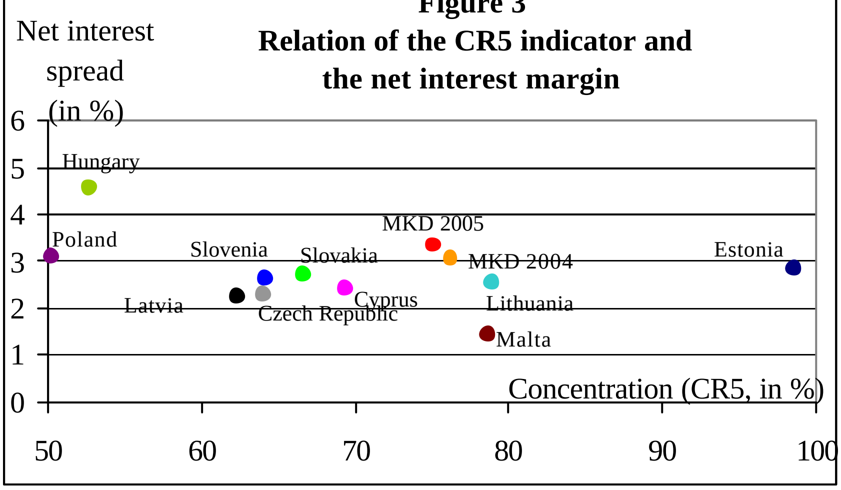
The comparison of the Macedonian banking system concentration with that of the banking systems of the EU Member States[5] is made by the so-called CR5 indicator (share of the assets of the five largest credit institutions in the total assets of the banking system). The average level of this indicator for the twenty-five EU Member States equals 40.2%, while the average concentration rate of the banking systems of the new EU Member States (NMS) ranges between 50.2% and 98.6%. As of December 31,2005 the Macedonian banking system concentration, measured according to this indicator, equaled 75.0%.

Figure 2
Comparison of the share of the five largest credit institutions in the total assets for the new EU Member States and the Republic of Macedonia



However, the concentration indicators, and hence the indicators of the competition in the banking system do not by themselves present the full picture of the price of financial intermediation. By the rule, high level of concentration in the banking system

Figure 3
Relation of the CR5 indicator and the net interest margin



[5] Source: Banking Structures in the New EU Member States (ECB), January 2005. The data on Member States pertain to 2004 - last available data.

should lead to reduced competition, and hence to an increased possibility for the banks to make high profits by higher interest spread. However, it seems that this ascertainment does not apply to the new EU Member States, as the level of banking system concentration and the level of net interest spread are not always in positive correlation. At the end of 2004, the CR5 indicator is almost twice higher for Estonia, but the net interest spread is lower relative to Poland. The banking system of the Republic of Macedonia, compared with the banking systems of countries with similar concentration levels (Lithuania, Malta, Cyprus), has higher net interest spread. This confirms the fact that when analyzing the banking systems' structure, and especially when analyzing the competition level, besides the concentration level one should also analyze some other specific factors that have different influence in different countries. For example, the structure of banks' assets, especially the high share of the non-interest-bearing and low-interest-bearing assets and the relatively long court procedures for collection of the claims are additional factors contributing to the high net interest spread in the Republic of Macedonia.

1.3. Assets and capital distribution

From the viewpoint of the asset distribution, there is still a considerable gap between individual banks in the Republic of Macedonia. At the end of 2005, the assets of the largest bank were 74 times higher relative to the assets of the smallest bank, and 5.3 times bigger than the size of the first medium-size bank. The difference in the amount of the assets of the first and the third largest bank was around 60% and it has significantly reduced relative to the end of 2004, when it exceeded 100%. Substantial differences were identified also among banks categorized in various groups of banks, but they are becoming increasingly moderate among the banks of the same group.

The analysis of the capital distribution from the largest down to the smallest bank, indicates relatively more balanced distribution. Thus, the difference between the largest and the smallest bank in terms of their capital is 11.7 times, while the difference between the capital of the largest banks and the first medium-size bank is 2.7 times. Smaller differences in the capital distribution, relative to the differences in asset distribution by bank are a consequence of the high capitalization rate of small-size banks and the dominant position of the large banks in accepting deposits.

1.4. Ownership structure of the banking system

The ownership structure of the banks in the Republic of Macedonia is analyzed from two aspects: 1) according to the level of privatization of the banks, and 2) according to the share of foreign capital.

1.4.1. Degree of banking system privatization

As of December 31, 2005, the degree of privatization of shareholders' capital[6] of the banking system in the Republic of Macedonia equaled 91.9%, i.e. 97.0% if the "Macedonian Bank for Development Promotion" a.d. Skopje, which is an entirely state-

[6] For the purpose of analyzing the ownership structure, the shareholders' capital is taken as a sum of the total nominal value of the common shares and the total nominal value of the preference shares issued by the banks in the Republic of Macedonia.

owned bank, is exempted from the analysis. Analyzed by group of banks, the degree of privatization is lowest in the group of small-size banks and equals 87.2%, which is to a large extent a result of the inclusion of the "Macedonian Bank for Development Promotion" a.d. Skopje in this group of banks. If this bank is exempted from the analysis, the degree of privatization of the group of small-size banks equals 97.2%.

From the viewpoint of the type of shareholders in the banks, non-financial legal entities are dominant in the structure of banks' common shares with 42.9% of the total common shares, followed by the financial institutions with 37.7%. On the other hand, the structure of the preference shares issued by the banks in the Republic of Macedonia is dominated by the natural persons with 64.7% in the total preference shares (Annex 4).

Table 3
Structure of Macedonian banks' shareholders

No.	Type of shareholders	Ownership of common shares		Ownership of preference shares	
		31.12.2004	31.12.2005	31.12.2004	31.12.2005
1	Natural persons	11.5%	10.4%	64.7%	64.7%
2	Non-financial legal entities	42.8%	42.9%	23.4%	21.6%
3	Financial institutions	36.1%	37.7%	10.1%	11.7%
4	Public sector, public enterprizes, and social - non-privatized enterprizes	8.8%	8.4%	1.7%	1.9%
5	Non-defined status	0.8%	0.6%	0.1%	0.1%
	Total (1+2+3+4+5)	**100.0%**	**100.0%**	**100.0%**	**100.0%**
	Total private capital (1+2+3+5)	***91.4%***	***91.6%***	***98.3%***	***98.1%***

As of 31 December, 2005 the common shares of eight banks[7] are listed on the official market of the Macedonian Stock Exchange a.d. Skopje. The share of these eight banks in the total capital is 38.2%, i.e. 40.3% in the total assets at the level of the banking system. Market capitalization of the common shares of these eight banks represents 4.5% of the GDP and 38.3% of the total market capitalization of all shares listed on the official Stock Exchange market. Three of the eight listed banks are included in the Stock Exchange Index MBI-10.

1.4.2. Share of foreign capital in the banking system

At the end of 2005, the share of foreign capital in the total shareholders' capital at the level of the banking system in the Republic of Macedonia equaled 52.5%. Foreign capital is present in seventeen banks, and its share ranges between 0.2% and 100%. If the "Macedonian Bank for Development Promotion" a.d. Skopje, which is an entirely state-owned bank, is exempted from the analysis, the share of foreign capital is 55.4%. Analyzed by group of banks, the participation of foreign shareholders is largest in the group of large banks, owning 68.4% of the total value of the issued shares of this bank group. In the groups of medium-size and small-size banks, the share of foreign shareholders is below the average for the overall banking system, and it equals 33.5% and 46.4%, respectively.

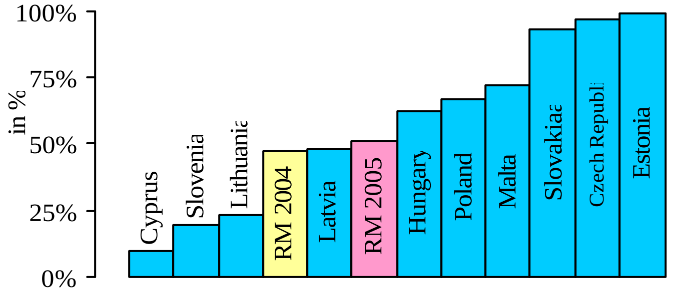
[7] The common shares of "Invest Banka" a.d. Skopje, "Komercijalno Investiciona Banka" a.d. Kumanovo, "Komercijalna Banka" a.d. Skopje, "Ohridska Banka" a.d. Ohrid, "Sileks Banka" a.d. Skopje, "Stopanska Banka" a.d. Bitola, "Teteks-Kreditna Banka" a.d. Skopje and "Tetovska Banka" a.d. Tetovo are listed on the officialmarket of the Macedonian Stock Exchange.

From the total number of banks in the Republic of Macedonia, eight are owned by foreign shareholders[8], with their share in the total assets and in the total capital on the level of the banking system equaling 51.3% and 49.1%, respectively. In four out of these eight banks, dominant shareholders are foreign banks and their share in the total assets at the level of the banking system is 43.7%. This relatively high share is a result of the fact that two of these four banks belong to the group of large banks.

Table 4
Structural share of banks according to the type of ownership

Type of ownership	Number of banks		Share in the total capital		Share in the total assets	
	31.12.2004	31.12.2005	31.12.2004	31.12.2005	31.12.2004	31.12.2005
Banks owned by domestic private shareholders	12	11	47.5%	46.4%	50.8%	47.1%
Banks owned by the government	1	1	4.9%	4.5%	1.9%	1.6%
Banks owned by foreign shareholders	8	8	47.6%	49.1%	47.3%	51.3%
Total	21	20	100.0%	100.0%	100.0%	100.0%

Figure 4
Share of the banks predominantly owned by foreign shareholders in the total assests at the level of bankng systems



From the viewpoint of the share of the foreign capital and the presence of foreign banks, the comparative analysis of the banking system in the Republic of Macedonia with the banking systems of the new EU Member States[9] shows that in most of them the share of foreign capital is higher. One of the reasons behind such a situation is the different approach in the process of privatization and transformation of the banking systems in the beginning of the nineties. Non-financial entities that were banks' shareholders played the main role in the process of transformation of the banking system. Their privatization implied indirect privatization of the banks, too. In most countries of Central and Eastern Europe, the state-owned capital in the banking system was privatized by sale to strategic investors (foreign banks). Besides, the membership of these countries in the EU facilitated the access of the financial institutions licensed in the other Member States to their markets, which added to the increased presence of the foreign banks and their greater significance for the banking systems of the new EU Member States.

[8] Banks owned by foreign shareholders are banks in which the foreign shareholders own more than 50% of the total number of issued common shares.
[9] Source: Banking Structures in the New EU Member States (ECB), January 2005. The data on Member States pertain to 2004 - last available data.

1.5. Bank network and number of employees in the banking system

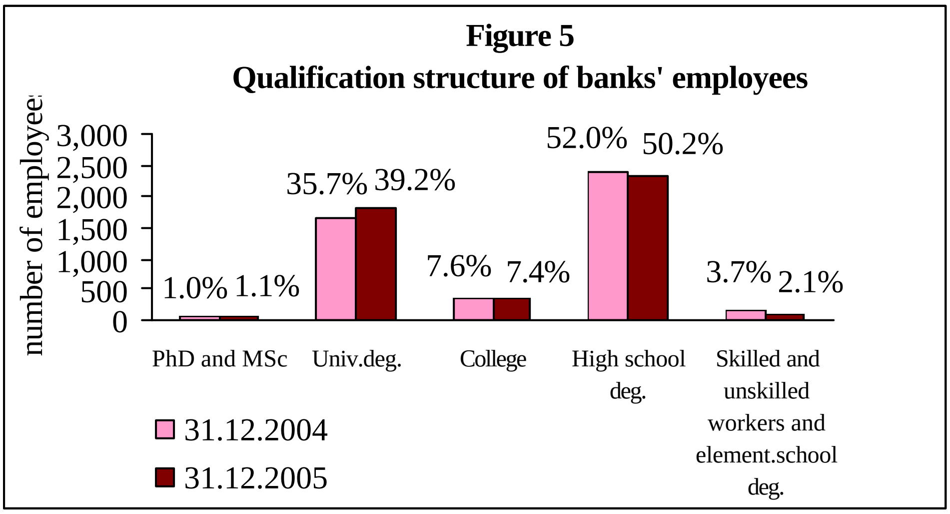
The analysis of the geographic distribution of banks revealed that most of them are concentrated on the territory of the capital. Thus, the head offices of sixteen banks are located in Skopje, while only four banks are located outside the capital. These four banks comprise 11.3% of the total financial potential of the banking system. Only one bank has its representative office abroad (in the Republic of Bulgaria).

The concentration of the banks' head offices on the territory of the capital is mitigated to a certain extent by the wide bank network, which consists of seventy-two branches, a hundred and eighty-seven sub-branches, four windows, and eleven business units. If the three hundred and twenty post-office units (i.e. six hundred and forty windows of the public enterprise Makedonska Posta (Macedonian Post)), which some of the banks use for performing their functions, are added to this number, one may conclude that the bank network is relatively wide. In recent years, especially attractive service is the internet-banking. Also, the access to a part of the banking services is enhanced by using a variety of payment cards. As of December 31, 2005 there were a hundred and fifty-seven ATMs and 5,914 devices at selling points that accept payment cards. The number of ATMs and devices that accept payment cards in the Republic of Macedonia is far smaller than that in the EU Member States. This is evident from the number of citizens on one ATM, which in the EU Member States equals 1,523[10] citizens, on average, while in the Republic of Macedonia one ATM provides services to more than 12,700 citizens.

As of December 31, 2005, the total number of employees at the level of the banking system equaled 4,633 persons, which is almost unchanged relative to the end of 2004. Despite the fact that most of the banks increased the number of employees during 2005, the stagnation in the total number of employees is a result of the fact that "Radobank" a.d. Skopje exited the banking system of the Republic of Macedonia. Analyzed by group of banks, the largest portion, i.e. 57.3% of the total number of banks' employees are concentrated in the group of large banks. The group of small-size banks accounts for 29.0%, while the group of medium-size banks accounts for 13.7% of the total number of employees in the banking system.

The continuous upward trend in the qualification structure of banks' employees continued in 2005. Nevertheless, despite the positive developments in the qualification structure of bank's employees, more than 50% of the employees are with high-school degree.

[10] Source: Report of the European Central Bank (ECB).



1.5. Structure of the supply of banking services

As of December 31, 2005, the average number of users of banking services by individual bank equaled 149,958, which is an increase of 29,264 users, i.e. 24.2% relative to the end of 2004.

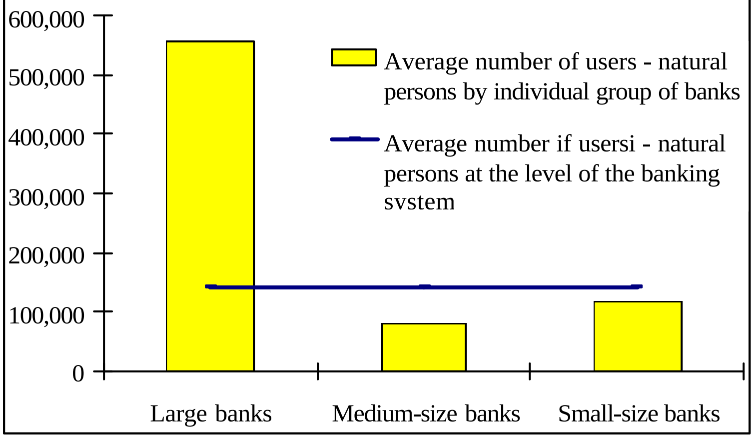
Table 5
Average number of users of banking services by individual bank as of December 31, 2005

No.	Description	Legal entities		Natural persons		Total	
		Average number of users	%	average number of users	%	average number of users	%
1	Credits, letters of credit, guarantees	1,148	14.7%	8,753	6.2%	9,901	6.6%
2	Deposits	6,569	84.1%	101,503	71.4%	108,071	72.1%
2a	- sight deposits	6,521	83.5%	88,926	62.6%	95,447	63.6%
2b	- term deposits	48	0.6%	12,576	8.8%	12,624	8.4%
3	Payment cards	94	1.2%	8,184	5.8%	8,277	5.5%
4	Current account	0	0.0%	23,708	16.7%	23,708	15.8%
	Total	**7,810**	**100.0%**	**142,148**	**100.0%**	**149,958**	**100.0%**

This rise in the number of users of banking services is primarily due to the banks' accelerated activity in the operations with natural persons, who remained to be the dominant category of users of banking services with a share of 94.8% in the total average number of users. Analyzed by type of services, the most commonly used service, just as it was the case in the preceding years, is deposits with banks. As of December 31, 2000 this service was exploited by 72.1% of the average number of users of banking services, which is an increase of 1.3 percentage points relative to December 31, 2004.

The analysis of the average number of users of banking services by group of banks, only confirms the view about the relatively high level of banking system concentration. The average number of natural persons who used banking services, in the group of large banks was almost four times higher than the average for the entire banking system. Similar are the ratios in the comparison of the average number of legal entities - users of banking services according to individual groups of banks, with the average at the level of the banking system.

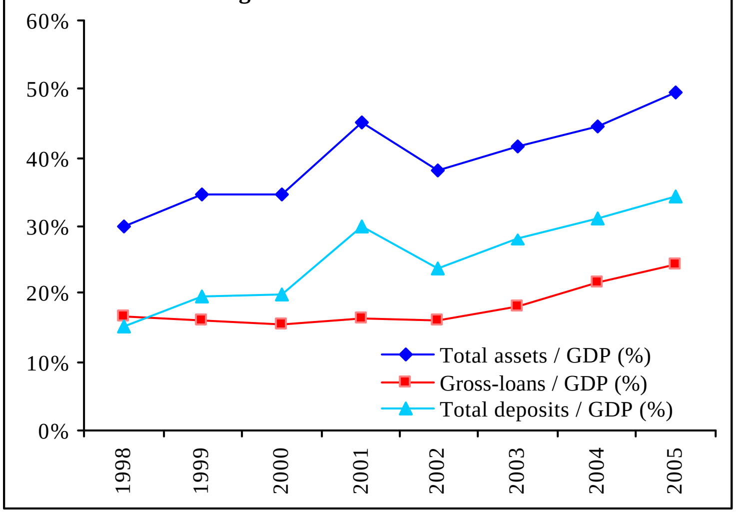
Figure 6
Structure of the average number of users - natural persons by individual group of banks



2. Banks' activities

The positive economic developments in the Republic of Macedonia in 2005 were supported by the overall banks' activities. The continuous strengthening of the confidence in the banking system and the stable macroeconomic environment contributed to the raise in the banks' deposit potential. This financial potential was a basis for acceleration of the economic activity in the country by increased credit activity of banks. In the past few years, the degree of financial intermediation, as the main indicator of the volume of activities of the banks in the Macedonian economy, has been registering continuous increase. At the end of 2005, the levels of financial intermediation of the banking system, measured as a ratio of the total assets, gross credits, and total deposits of non-financial entities to the gross domestic product (GDP)[11], equaled 49.4%, 24.2% and 34.5%, respectively. For comparison, as of December 31, 2004, these indicators equaled 44.5%, 21.6% and 31.0%, respectively. The analysis by group of banks shows that the group of large banks has the largest contribution to the

Figure 7
Degree of financial intermediation

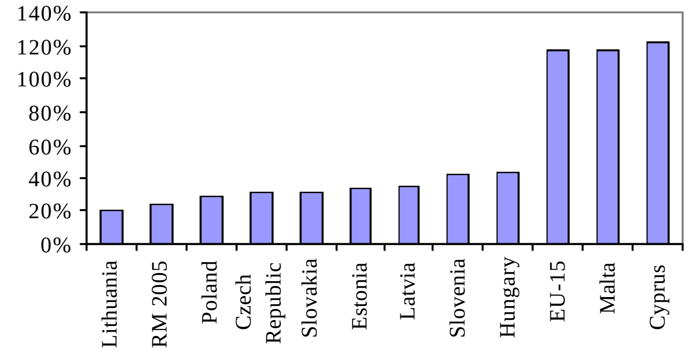


[11] Estimated data for 2005 of the State Statistical Office.

financial intermediation. Thus, as of December 31, 2005, the degree of financial intermediation of the group of large banks measured through the ratio of total assets, gross-credits and total deposits to GDP equaled 32.7%, 16.8%, and 25.2%, respectively.

However, despite the permanent trend of growth in the level of financial intermediation, it is far lower then the level of financial intermediation of the banks of most EU Member States. For comparison, the degree of financial intermediation in 2004, measured by the share of the assets of the banking system of Slovenia in GDP, equaled 91.4%, while in Poland it was 60.9%. The average share of credits in the GDP in 2003 for the EU Member States (EU-15[12]) stood at 117.0%, while for the new EU Member States this ratio equaled 35%[13].

Figure 8
Share of gross-credits in GDP



2.1. Balance sheet of banks

As of December 31, 2005, banks' total assets amounted to Denar 140,435 million, which is an annual increase of Denar 22,450 million, or 19.0% (Balance sheet - Annex 1). Such an increase in the assets is evident through growth of the credits to non-financial entities and investments in a securities portfolio, though mainly in CB bills. Generator of the asset growth is the increased deposit potential.

The annual increase in the assets of the banks in the Republic of Macedonia is mainly a result of the increase in the assets in the group of large banks, considering their dominant share of 66.1% in the total assets. In the analyzed period, the total assets of the group of large banks registered an increase of Denar 13,977 million, or 17.7%. The group of medium-size bank, although having the smallest share in the total assets (9.4%), registered the highest annual growth of 55.4%, thus contributing to the increase in the total assets with 27.4%. The assets of the group of small-size banks registered the smallest annual increase of Denar 2,325 million (8.3%). The dominant position of the group of large banks determines the movements in both main categories in the balance sheet (credits and deposits of non-financial entities).

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[12] EU Member States before the latest enlargement.
[13] Source: Banking Structures in the New EU Member States (ECB), January 2005. The data in the Figure pertain to 2003 - last available data, except for the Republic of Macedonia, the data on which pertain to 2005.

Table 6
Market share and growth in the total assets, credits and deposits by group of banks

CATEGORIES	Amount in millions of denars		Structure		Annual increase 31.12.05/31.12.04			
	31.12.2005	31.12.2004	31.12.2005	31.12.2004	In absolute amounts	In percent	In the structure	Share in the increase
Total assets	**140,436**	**117,985**	**100.0%**	**100.0%**	**22,451**	**19.0%**		**100.0%**
- Large banks	92,835	78,858	66.1%	66.8%	13,977	17.7%	(0.7)	62.3%
- Medium-size banks	17,245	11,096	12.3%	9.4%	6,149	55.4%	2.9	27.4%
- Small-size banks	30,356	28,031	21.6%	23.8%	2,325	8.3%	(2.1)	10.4%
Credits to non-financial entities	**68,797**	**57,367**	**100.0%**	**100.0%**	**11,429**	**19.9%**		**100.0%**
- Large banks	47,627	37,988	69.2%	66.2%	9,639	25.4%	3.0	84.3%
- Medium-size banks	7,947	5,657	11.6%	9.9%	2,290	40.5%	1.7	20.0%
- Small-size banks	13,222	13,722	19.2%	23.9%	(500)	-3.6%	(4.7)	-4.4%
Deposits of non-financial entities	**97,922**	**82,284**	**100.0%**	**100.0%**	**15,638**	**19.0%**		**100.0%**
- Large banks	71,540	62,087	73.1%	75.5%	9,453	15.2%	(2.4)	60.4%
- Medium-size banks	11,240	7,326	11.5%	8.9%	3,914	53.4%	2.6	25.0%
- Small-size banks	15,142	12,871	15.5%	15.6%	2,271	17.6%	(0.2)	14.5%

Analyzed on annual level, there were no significant changes in the structure of assets and liabilities. Table 7 shows that as of December 31, 2005, within the assets, the credits to non-financial entities retained and reinforced their dominant position by increasing their share from 40.7% (December 31, 2004), to 41.9% (December 31, 2005). They registered the highest annual absolute increase (Denar 10,832 million), thus having the largest share (48.3%) in the growth of total assets. Placements with other banks, as the second largest category, continued the downward trend of the share in the total assets from 34.2% (December 31, 2004) to 30.7% (December 31, 2005). Despite such a trend, however, they contributed with 12.6% to the total growth of assets. Securities portfolio remained to be the third largest category, whose share picked up from 11.0% to 12.7%. On annual basis, they registered an increase of 37.2%, which was the reason behind the increase in the total assets of 21.6%. The remaining 14.7% of the assets pertain to items whose individual share in the total assets is relatively small, not exceeding 6%.

Table 7
Structure of assets and liabilities

Balance sheet	Amount in millions of denars		Structure		Annual growth 31.12.05/31.12.04		
	31.12.2005	31.12.2004	31.12.2005	31.12.2004	Absolute amount	In percent	Share in the increase
Cash and balances wih the NBRM	7,983	5,100	5.7%	4.3%	2,883	56.5%	12.8%
Securities portfolio	17,845	13,007	12.7%	11.0%	4,838	37.2%	21.6%
Loans to non-financial entities (net)	43,158	40,331	30.7%	34.2%	2,827	7.0%	12.6%
Krediti na nefinansiski subjekti (neto)	58,908	48,076	41.9%	40.7%	10,832	22.5%	48.3%
Accrued interest and other assets	6,178	5,583	4.4%	4.7%	595	10.7%	2.7%
Fixed assets	6,476	6,523	4.6%	5.5%	(47)	-0.7%	-0.2%
Unallocated loan loss provisions	(113)	(634)	-0.1%	-0.5%	521	-82.2%	2.3%
Total assets	**140,435**	**117,986**	**100.0%**	**100.0%**	**22,449**	**19.0%**	**100.0%**
Bank deposits	2,717	1,537	1.9%	1.3%	1,180	76.8%	5.3%
Deposits of non-financial entities	97,921	82,284	69.7%	69.7%	15,637	19.0%	69.7%
Borrowings (short-term and long-term)	13,146	9,664	9.4%	8.2%	3,482	36.0%	15.5%
Other liabilities	3,676	3,868	2.6%	3.3%	(192)	-5.0%	-0.9%
Provisions for off-balance sheet items	713	610	0.5%	0.5%	103	16.9%	0.5%
Own funds	22,262	20,023	15.9%	17.0%	2,239	11.2%	10.0%
Total liabilities	**140,435**	**117,986**	**100.0%**	**100.0%**	**22,449**	**19.0%**	**100.0%**

Deposits of non-financial entities retained their dominant position (69.7%) in the liabilities structure, thus representing the most important source for financing the banking activities. They registered the largest increase in absolute amounts (Denar 15,637 million), thus contributing the most (69.7%) to the increase in the total assets. Banks' own funds had a smaller structural share (15.9%), but for part of the group of small-size banks they represent dominant source of funds. The remaining 14.4% of the assets pertain to items whose individual share does not exceed 10%, so that they do not influence significantly the liabilities structure.

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

The intensive lending activity of banks continued in 2005. Thus, gross-credits went up by Denar 11,429 million, or 19.9%. The largest portion of the annual increase in the total loans to non-financial entities (84.3%) was supported by the increase in the loans with the group of large banks, which stood at Denar 9,639 million, or 25.4%. Despite their smallest structural share (11.6%), the loans with group of medium-size banks in the total loans registered the fastest credit growth of 40.5% relative to the share of the groups of large and small-size banks, thus determining the total increase in loans of 20.0%. On the other hand, the loans with the group of small-size banks dropped by 3.6%, which caused a decline of 4.4% in the volume of total loans. The drop in the loans with this group of banks is a result of the exiting of one bank from the banking system, the transfer of one bank to the group of medium-size banks and the decline in the volume of loans with several banks. (Table 6- Market share and growth in the total assets, credits, and deposits by group of banks).

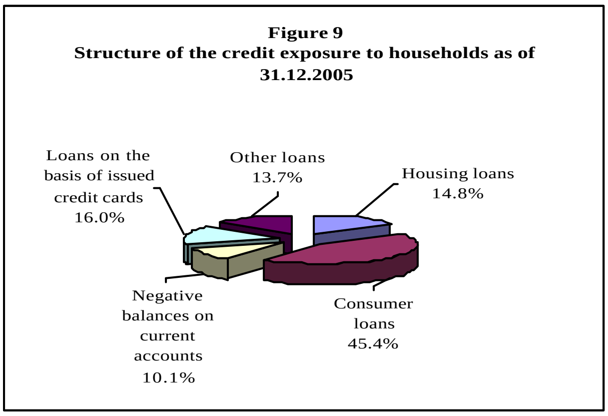
2.2.1. Structure of loans to non-financial entities (sector, maturity, and currency structures)

Table 8
Structure of loans to non-financial entities

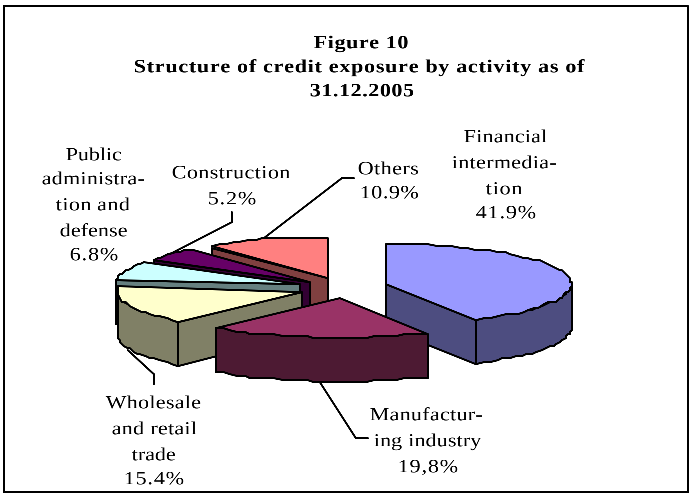
In millions of denars

Date	Description	Total	Total		Enterprises		Households		Other clients	
			Denar	FX	Denar	FX	Denar	FX	Denar	FX
31.12.2004	Due loans	1,210	726	484	616	470	110	3	0	11
	Short-term loans	19,583	16,822	2,760	13,771	2,703	2,457	43	594	15
	Long-term loans	26,848	19,851	6,997	8,464	6,611	11,378	298	9	87
	Non-performing loans	9,727	8,510	1,217	7,297	1,089	1,026	17	187	111
	Total gross-loans	**57,367**	**45,910**	**11,457**	**30,149**	**10,872**	**14,971**	**362**	**790**	**224**
	Loan loss provisions	-9,292								
	Total net-loans	**48,076**								
31.12.2005	Due loans	1,551	945	606	749	592	193	12	3	3
	Short-term loans	19,237	16,485	2,752	12,895	2,714	3,535	29	55	9
	Long-term loans	37,690	24,838	12,852	9,031	11,928	15,745	676	62	248
	Non-performing loans	10,319	9,077	1,242	7,657	1,119	1,382	25	38	98
	Total gross-loans	**68,797**	**51,344**	**17,452**	**30,332**	**16,352**	**20,854**	**742**	**159**	**359**
	Loan loss provisions	-9,889								
	Total net-loans	**58,908**								
Annual increase 31.12.05/ 31.12.04	**Absolute increase in gross-loans**	11,429	5,434	5,995	183	5,480	5,883	380	-631	135
	In pecent	19.9%	11.8%	52.3%	0.6%	50.4%	39.3%	105.0%	-79.9%	60.4%
	Share in the increase	100.0%	47.5%	52.5%	1.6%	47.9%	51.5%	3.3%	-5.5%	1.2%

As of December 31, 2005, the structure from the viewpoint of the various sectors is not significantly different than the one registered as of December 31, 2004.



Loans to enterprises retained their dominant share of 67.9% (71.5% - December 31, 2004), whereas the households sector strengthened its position by increasing the share from 26.7% (December 31, 2004) to 31.4% (December 31, 2005). Loans to households registered the fastest annual growth at the end of 2005 (Denar 6,263 million, or 40.8%) as opposed to the increase in the loans to enterprises (Denar 5,663 million, or 13.8%). Such trends point to the fact that in recent years banks have been increasingly focused on lending to households. Figure 9 shows that consumer loans have the dominant share of 45.4% in the structure of the credit exposure to households.



The analysis of banks' credit exposure by individual activity shows dominant share of the financial intermediation of 41.9% as of December 31, 2005 (42.1% as of December 31, 2004). The credit exposure to this activity is mostly a result of the banks' exposure to the National Bank on the basis of placements in CB bills and of the exposure in the form of deposits in foreign and in domestic banks, which jointly represent 97.0% of the overall credit exposure to this activity. Second largest is the banks' credit exposure to the manufacturing industry, which encompasses 19.8% of the total credit exposure, followed by the exposure to wholesale and retail trade with 15.4%. The substantial credit activity related to industry and trade is mirrored also in the significantly improved performances in these activities registered in 2005. Industry was the main driving force behind the economic growth in 2005, with a share of 41.1%, while trade is the second most important sector, generating 26.8% of the total economic growth in 2005. Accelerated activity is registered also in the other sectors of the economy, except construction (the share of which in the GDP is 5.3%), where a decline of 5% was registered (due to the delay in the construction of larger infrastructural projects). On the other hand, the banks' credit exposure to this activity on annual level registered a rise of Denar 467 million, or 8.5%, which could represent a leading indicator for a potential acceleration of the activities in the construction sector during the forthcoming year.

The improved performances in almost all sectors of the economy reflected on the average level of banks' risk exposure in each of them, individually. The average level of risk exposure to the activities with the highest share in loan-taking (financial intermediation, industry, trade, public administration and defense, and construction), of 89.1% of the total credit exposure ranges between risk categories "A" and "B".

Table 9
Average level of risk exposure

Activity	**Total credit exposure in millions of denars**	**Average risk category**
Financial intermediation	48,106	A
Manufacturing	22,701	C
Wholesale and retail trade	17,647	B
Public administration and defence	7,866	A
Construction	5,967	B
Other	12,553	B
Total	**114,839**	**B**

The analysis of the exposure of the groups of banks to individual activities shows a dominant share of the group of large banks of over 50% in the credit exposure to twelve sectors, which had a share of 74.3% in GDP.

From a viewpoint of maturity, long-term lending is still dominant (54.8%), as opposed to the short-term lending (28.0%) and due and non-performing loans (17.2%). Long-term lending is dominant also with the loans to enterprises and loans to households with 44.9% and 76.0%, respectively.

As for the currency structure, 74.6% of the loans to non-financial entities are in denars (29.7% of them are indexed denar loans), while 25.4% are foreign currency loans. In the analyzed period, foreign currency loans registered intensive annual increase of 52.3%, relative to the increase of 11.8% in denar loans and 19.9% of the total gross loans. The upward trend of lending to residents in foreign currency indicates increasing preference of enterprises to take loans in foreign currency, which is mostly motivated by the lower interest rates the banks offer for this type of loans. The increased intensity of banks' foreign currency lending to residents is evident also trough the increased volume of the newly extended foreign currency loans to residents during 2005 in the amount of Denar 14,977 million, which is by Denar 6,892 million, or 72.3% more relative to the newly extended loans during 2004. Such a dynamics leads to an increase in the share of the newly extended foreign currency loans in the total newly extended loans from 18.5% (December 31, 2004) to 26.2% (December 31, 2005).

According to the purpose, the largest portion of the regular foreign currency loans are approved for the purpose of settlement of liabilities to non-residents (61.4%), while the remaining portion of 38.6% were intended for domestic payments. As for the maturity, long-term foreign currency loans are dominant (88.9% of the total foreign currency loans extended for settlement of liabilities to non-residents and 74.0% of the total foreign currency loans extended for the purpose of regulating domestic payments).

During 2005, 8.6% of the total amount of extended foreign currency loans to residents were intended for financing of non-financial legal entities - net exporters[14], 4.8% were foreign currency loans extended to natural persons, while the remainder of

[14] The category of net-exporters pertains to residents who realized higher foreign currency inflow relative to the outflow during the preceding year, and/or for whom the banks' analysis shows that they will have a net-foreign currency inflow which will enable settlement of the total foreign currency liabilities.

86.6% pertains to foreign currency loans extended to other residents. The high share of foreign currency loans extended to residents whose foreign exchange risk is unhedged, could represent an indicator of a higher indirect credit risk that the banks undertake. This risk would materialize in case of a hypothetical decline in the value of the Denar relative to the foreign currencies.

The group of large banks is dominant also in the foreign currency lending to residents. The share of this group of banks in the total amount of foreign currency loans extended in 2005 equaled 80.7% (68.2% in 2004).

Table 10
Structure of loans by group of banks

Structure of loans as of 31.12.2005	Sector structure			Maturity structure			Currency structure	
	Enterprises	Households	Other clients	Short-term	Long-term	Due and non-performing	Denar	FX
Large banks	70.4%	67.2%	53.8%	64.9%	67.6%	81.5%	66.2%	78.1%
Medium-size banks	12.7%	9.2%	8.4%	17.9%	11.0%	3.0%	14.0%	4.2%
Small-size banks	17.0%	23.6%	37.9%	17.2%	21.4%	15.5%	19.7%	17.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

The analysis of the sector, maturity, and currency structure of the credit activity confirms the dominance of the large banks.

2.3. Securities portfolio

The higher investment in securities by the banks resulted in an increase in the securities portfolio by Denar 4,838 million, or by 37.2% on annual basis. Such dynamics led to increase in the share of securities portfolio in the total banks' assets in the Republic of Macedonia from 11.0% (December 31, 2004) to 12.7% (December 31, 2005). The annual increase in the securities portfolio is primarily due to the newly subscribed CB bills, as a result of the higher liquidity of banks caused by the upward trend of the deposit base.

The debt securities dominate the securities portfolio, accounting for 91.7%, and the remaining 8.3% are equity securities. Observing the debt securities structure, the CB bills prevail with 54.6% and securities issued by the government on various bases with 44.1%. Most important item in the government securities is the long-term bond issued by the government in the process of privatization of "Stopanska Banka" AD Skopje (69.1%), followed by the so-called old foreign exchange savings and denationalization bonds (17.6%). Some of these structural bonds (Bond of the so-called old foreign exchange savings and Denationalization Bonds) are listed on the Macedonian Stock Exchange ("Makedonska Berza" AD Skopje). Even though these bonds were issued for regulating some government liabilities and were not designed to be trade instruments, the Stock Exchange data indicate that they are the most traded and demanded securities on the Macedonian Stock Exchange ("Makedonska berza" AD Skopje).

On December 31, 2005, the treasury bills subscribed by the banks amounted to Denar 790 million, which is by Denar 251 million or 46.5% more on annual basis. Such increase made their share in the structure of government securities higher by 3.2 percentage points. With respect to maturity, three-month treasury bills dominate with 57.7%, followed by six-month treasury bills (24.1%) and 12-month treasury bills

(18.2%). Analyzing the ownership of purchased treasury bills, treasury bills subscribed for the account of clients dominate with 72.6%, and the remaining 27.4% are for the account of the banks.[15] The trade in treasury bills on the Macedonian Stock Exchange ("Makedonska berza" AD Skopje) was largely discouraged due to the relatively high commissions for transactions executed by Stock Exchange intermediators. Therefore, a more liquid government securities market was promoted - Over the counter market (OTC).

Table 11
Structure of securities portfolio

Securities portfolio	Amount in millions of denars		Structure		Annual growth 31.12.05/31.12.04		
	31.12.2005	31.12.2004	31.12.2005	31.12.2004	Absolute growth	In %	Share in the growth
Debt securities	**16,365**	**11,722**	**91.7%**	**90.1%**	**4,643**	**39.6%**	**96.0%**
CB bills	8,934	4,465	54.6%	38.1%	4,469	100.1%	96.3%
Government-issued securities	7,221	7,001	44.1%	59.7%	220	3.1%	4.7%
- Bond for privatization of Stopanska banka AD Skopje	4,992	5,502	69.1%	78.6%	(510)	-9.3%	-231.8%
- Bond for rehabilitation of Stopanska banka AD Skopje (large bond) issued by ASB	93	112	1.3%	1.6%	(19)	-16.7%	-8.5%
- Old foreign currency savings and denationalization bonds	1,273	847	17.6%	12.1%	426	50.3%	193.8%
- Treasury bills	790	539	10.9%	7.7%	251	46.5%	113.9%
- Continuous government securities	72		1.0%		72		32.6%
Other debt securities	211	256	1.3%	2.2%	(46)	-17.9%	-1.0%
Equity securities	**1,480**	**1,285**	**8.3%**	**9.9%**	**195**	**15.2%**	**4.0%**
Investments in securities with managing right in domestic non-financial legal entities	356	426	24.1%	33.2%	(70)	-16.4%	-35.8%
Investments in banks and other financial organizations in the country	887	623	59.9%	48.5%	264	42.4%	135.4%
Other equity securities	237	236	16.0%	18.4%	1	0.4%	0.4%
Total securities portfolio	**17,845**	**13,006**	**100.0%**	**100.0%**	**4,838**	**37.2%**	**100.0%**

The continuous government securities have minor share, but they deserve to be mentioned since they are a part of the government securities market development strategy. In November 2005, 2-year continuous government bond was issued for the first time. Analyzing the ownership structure of the purchased continuous government securities, the clients account for 28.3%, and the banks for 71.7%.

More than half of the equity securities are investments in banks and other financial organizations in the country (59.9%), and a lower portion are investments in domestic non-financial legal entities (24.1%).

2.4. Deposits of non-financial entities (legal entities and households)

On December 31, 2005, the deposits of non-financial entities were valued at Denar 97,922 million, which is an increase of Denar 15,638 million, i.e. 19.0% compared to December 31, 2004. Such dynamics shows that the upward trend of the deposits, evident in the previous years remained over 2005. Thus, the deposits reinforced their position of a primary source of funding the activities of the banks in the Republic of Macedonia.

[15] On December 31, 2005, the total amount of issued treasury bills (banks and clients) was valued at Denar 3,464 million (nominal amount).

2.4.1. Structure of deposits of non-financial entities (by sector, maturity and currency of denomination)

The sector analysis shows that the household deposits, constituting 58.8%, prevail in the total deposit base. They register the fastest annual increase of Denar 10,076 million, or 21.2%, representing a major component of the increase in the total deposits (64.4% of the total growth). The corporate deposits make up 35.1% of the total deposits. On annual basis, they went up by Denar 3,630 million, or 11.8%. The remaining 6.1% are public sector deposits and deposits of other clients.

Table 12
Structure of deposits of non-financial legal entities and households

in millions of denars

Date	Description	Total	Total		Enterprises		Households		Public sector		Other clients	
			Denar	Foreign currency	Denar	Foreign currency	Denar	Foreign currency	Denar	Foreign currency	Denar	Foreign currency
31.12.2004	Sight deposits	42,817	18,724	24,093	9,016	6,700	7,450	17,393	744	-	1,514	-
	Restricted deposits	1,039	478	561	344	561	-	-	128	-	6	-
	Short-term time deposits up to 1 year	35,025	16,089	18,936	9,637	4,089	5,278	14,530	702	-	472	318
	Long-term time deposits over 1 year	3,403	2,258	1,145	409	-	1,718	1,137	99	-	31	8
	Total	**82,284**	**37,549**	**44,735**	**19,406**	**11,350**	**14,447**	**33,059**	**1,673**	**-**	**2,024**	**326**
31.12.2005	Sight deposits	47,295	21,320	25,975	10,166	6,195	8,572	19,780	849	-	1,734	-
	Restricted deposits	974	439	535	303	535	-	-	128	-	8	-
	Short-term time deposits up to 1 year	45,920	19,318	26,602	10,051	6,500	7,882	18,581	723	-	662	1,521
	Long-term time deposits over 1 year	3,732	2,281	1,451	635	-	1,318	1,448	48	-	280	3
	Total	**97,922**	**43,359**	**54,563**	**21,155**	**13,230**	**17,772**	**39,809**	**1,748**	**-**	**2,684**	**1,524**
Annual growth 31.12.05/ 31.12.04	**Absolute growth in deposits**	15,638	5,810	9,828	1,749	1,880	3,326	6,750	74	-	660	1,198
	In %	19.0%	15.5%	22.0%	9.0%	16.6%	23.0%	20.4%	4.4%		32.6%	367.2%
	Share in the growth	100.0%	37.2%	62.8%	11.2%	12.0%	21.3%	43.2%	0.5%		4.2%	7.7%

According to the currency of denomination structure, on December 31, 2005, the foreign currency and Denar deposits constitute 55.7% and 44.3%, respectively, of the total deposit base (6.3% of which are foreign currency indexed deposits). Annually, the foreign currency and Denar deposits went up by 22.0% and 15.5%, respectively. The household deposits fully dominate the foreign currency deposits accounting for 72.9%, demonstrating the considerable propensity of the households to save in foreign currency. The denar deposit structure registers more even distribution between corporate and household sector. Thus, 48.8% of denar deposits belong to the enterprises, and 41.1% are household deposits.

With respect to the maturity of deposit potential, 49.3% are sight deposits[16], 46.9% are short-term deposits, and the share of long-term deposits equals 3.8%. On annual basis, short-term deposits register the fastest increase of 31.1%, and contribute to increasing their share by 4.3 percentage points. The structure of all categories of deposits by maturity (sight, short-term and long-term) is dominated by household deposits, making up 58.7%, 57.6% and 74.1%, respectively of each category of deposit maturity.

[16] The sight deposits include transaction deposits.

Table 13
Deposit structure by group of banks

Deposit structure on December 3, 2005	Sector structure				Maturity structure			Currency structure	
	Enterprises	Households	Public sector	Other clients	Sight deposits	Short-term deposits	Long-term deposits	Denar deposits	Foreign currency deposits
Large banks	70.2%	75.7%	49.8%	69.9%	72.8%	76.3%	35.9%	69.9%	75.6%
Medium-size banks	12.9%	10.6%	20.3%	7.6%	10.9%	11.2%	22.0%	12.0%	11.1%
Small-size banks	16.8%	13.7%	29.9%	22.6%	16.2%	12.5%	42.1%	18.1%	13.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Observing by group of banks, the domination of the group of large banks is proved by the analysis of the sector, maturity and currency structure of deposit activity.

2.5. Off-balance sheet activities of banks

The total off-balance sheet activities, i.e. the total banks' potential liabilities, as of December 31, 2005 stood at Denar 15,388 million, constituting 9.9% of the total banks' activities. Compared to December 31, 2004, the total off-balance sheet activities of the banks rose by Denar 3,315 million, i.e. 27.5%. The total risk off-balance sheet activity of the banks as of December 31, 2005 makes up 92.8% of all off-balance sheet activities. Thus, the uncovered guarantees and letters of credits dominate the structure of off-balance sheet assets of the banks, accounting for two thirds of the total off-balance sheet activity of the banks.

3. Risks in banking operations

3.1. Credit risk

3.1.1. Banks' credit portfolio

On December 31, 2005, the total credit exposure of the banking system amounted to 140,696 million, which is an increase of Denar 21,517 million or 18.1% relative to December 31, 2004. The group of large banks mostly contributes to the increase in the total credit exposure of 74.6%, which registered an annual increase of Denar 16,060 million, i.e. 19.5%. Although the share of group of medium-size banks in the total credit exposure was least significant, making up 11.3%, compared to the share of the group of large banks (70.0%) and the group of small-size group (18.7%), it constituted 22.7% of the increase in the total credit exposure. The group of medium-size banks in 2005 registered the highest relative annual increase in the credit exposure of 44.1% or Denar 4,880 million. The group of small-size banks registered the slowest increase of Denar 577 million, i.e. 2.2%, constituting only 2.7% of the increase in the total credit exposure, illustrating its marginal role in the financial intermediation.

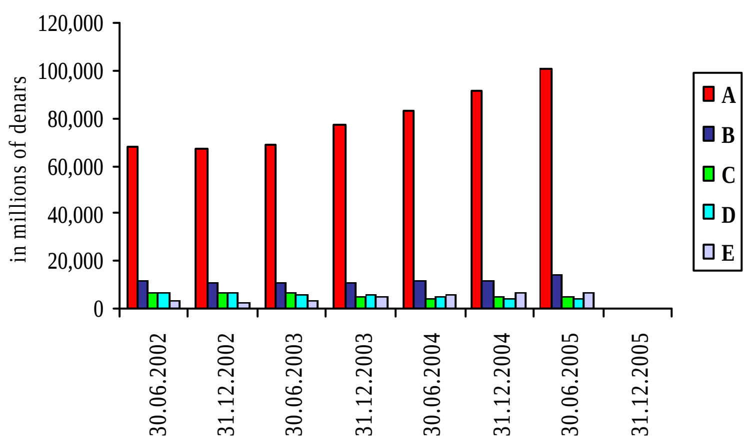
The increase in the credit exposure of the banks was accompanied by improvement of its structure. The regular credits constitute most of the total banks' credit exposure (68.2%), with the share of the non-performing credits equaling 7.5%. At the end of 2005 compared to the end of 2004, the regular credits were by Denar 12,421 million or 14.9% higher, whereas the non-performing credits reduced by Denar 167 million, or 1.6%.

The stress-test analysis which is based on the quantification of the fastest possible increase in the credit activity, without jeopardizing the banks' solvency[17], indicated that, as of December 31, 2005, the banks hold ample capacity to increase the lending volume. The gross credits across the banking system could increase by roughly 70%, without jeopardizing the solvent position of the banks. The credit growth rate of twelve banks could be over 100%, with their capital adequacy ratio remaining above the determined threshold of 8%. This is another indicator that the banking system in the Republic of Macedonia has a considerable potential for further deepening of the financial intermediation.

3.1.2. Credit portfolio quality

The credit risk is a dominant type of risk arising from the operations of the banks in the Republic of Macedonia. The considerable credit expansion over the recent years have not caused any credit portfolio quality deterioration. On the contrary, the credit risk, measured through a series of indicators, mitigates.

Figure 11
Structure of total credit exposure by risk category



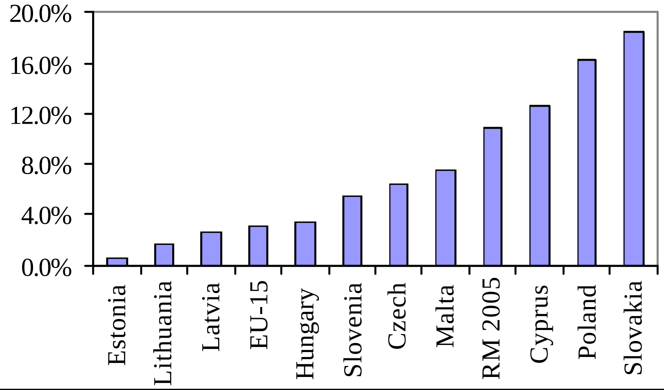
The credit portfolio structure observed by its risk indicates dominant share of the credit exposure classified in A and B risk categories (89.1%). Compared to December 31, 2004, the credit exposure in these risk categories rose by Denar 21,982 million or 21.3%. The total credit portfolio growth of 18.1% is primarily a result of the newly approved credit exposures mainly classified in A risk category. Such structure of credit exposure and low risk of the newly approved credits is a basis for high-quality credit portfolio. This is also a result of the decline in the share of credit exposure classified in the two categories reflecting the highest risk (D and E) from 9.2% (December 31, 2004) to 7.7% (December 31, 2005). The share of credit exposure classified in risk categories C, D and E in the total credit exposure dropped from 13.2% (December 31, 2004) to 10.9% (December 31, 2005).

Nevertheless, in spite of the downward trend, figure 12 shows that the share of credit exposure in C, D and E risk categories in the total credit exposure, compared to the more developed countries is still relatively high. Thus, in 2004, this indicator in the new EU member states equals 10.4%, which is still high relative to the average level of this indicator of 3.1% for 2004 in the EU member states (EU-15). There are significant differences in the credit portfolio quality of the banks in the new EU member states. Thus the average share of higher risk placements in the total banks' credit portfolio of

[17] This stress-test analysis is based on the underlying assumptions that the macroeconomic environment remains stable, also maintaining the same structure of newly approved credits with respect to the risk level in 2005.

the Baltic countries equals only 1.5%, compared to 11.1% of the Central and Eastern European Countries (CEECs). Within the group of CEECs, the share of higher-risk placements ranges from 3.5% to 21.9%.[18]

Figure 12
Share of credit exposure classified in C, D and E in the total credit exposure



On December 31, 2005, the average risk level of banks' credit portfolio equaled 8.4% that matches B risk category. On annual basis, this indicator went down by 1.3 percentage points. The lower credit portfolio risk of the banks in the Republic of Macedonia is also manifested through the stagnation of the growth in the special reserve for potential loan losses, notwithstanding the faster growth in the credit portfolio. Thus in 2005, the total credit exposure went up by 18.1%, and the special reserve for potential loan losses went up by 1.4%.

The credit portfolio quality analysis observing its coverage with banks' guarantee capital shows that on December 31, 2005, 71.8% of the guarantee capital were required for full coverage of the amount of banks' credit exposure classified in C, D and E risk categories (Annex 3). Thus, this indicator registered an improvement of 9.5 percentage points relative to December 31, 2004. The improvement results from the higher amount of banks' guarantee capital, and the mitigation of the credit portfolio risk.

The lower credit risk of banks could also be demonstrated through the lower non-provisioned amount of credit exposure classified in C, D and E risk categories (credit exposure less the allocated special reserve) in the guarantee capital from 29.5% (December 31, 2004) to 26.1% (December 31, 2005). This means that provided that the credit exposure classified in C, D and E risk categories is not fully recovered, roughly a quarter of the guarantee capital of the banks would be needed for covering the incurred losses. Consequently, the capital adequacy would decrease from 21.3% to 16.7%, indicating that the solvency of the banking system of the Republic of Macedonia remains stable. The resilience of the banks to credit risk has also been confirmed with the stress-test analysis as of December 31, 2005, showing that the banking system of the Republic of Macedonia is resistant to this type of risk, as a result of the high solvency of the banks.

[18] Source of data: Report on the structure of banking systems of the new EU member states, ECB, January 2005. The data on the Republic of Macedonia presented in the figure are as of December 31, 2005, whereas the data on EU-15 and Slovenia relate to 2004, and the data on other countries relate to 2003 - last available data. The results from the comparative analysis of this indicator should be taken into account with a certain reservation, considering the differences in the definitions on credit exposure classified in C, D and E risk categories.

Table 14
Indicators for credit portfolio quality of the banks in the Republic of Macedonia by group of banks

Groups of banks	% of C, D and E in the total credit exposure				% of E in the total credit exposure				% na C, D and E in guarantee capital				% of net C, D and E in guarantee capital			
	2002	*2003*	*2004*	*2005*	*2002*	*2003*	*2004*	*2005*	*2002*	*2003*	*2004*	*2005*	*2002*	*2003*	*2004*	*2005*
Large banks	17.1	15.7	13.1	11.7	2.9	7.1	5.5	5.0	132.1	141.7	129.9	123.5	63.6	48.2	48.5	43.8
Medium-size banks	12.9	7.9	7.2	6.1	0.9	0.3	1.1	1.2	63.6	50.1	41.7	36.7	40.9	33.8	23.9	20.8
Small-size banks	15.5	18.5	16.2	10.5	1.8	4.4	8.1	4.8	45.2	50.6	45.5	29.8	26.8	22.0	13.4	9.8
At the level of banking system	**15.9**	**15.1**	**13.2**	**10.9**	**2.3**	**5.2**	**5.7**	**4.6**	**77.7**	**81.0**	**81.2**	**71.8**	**41.6**	**32.5**	**29.5**	**26.1**

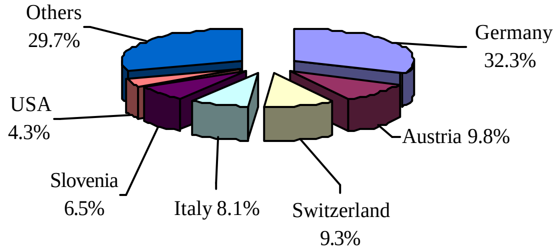
The improvement of the credit portfolio quality is evident in all groups of banks (Table 14 - Indicators for credit portfolio quality of the banks in the Republic of Macedonia by group of banks). Thus, on December 31, 2005, the average level of credit portfolio risk for the groups of large, medium-size and small-size banks equaled 9.1%, 4.3% and 7.9%, respectively. For comparison purposes, on December 31, 2004 this indicator equaled 9.6%, 4.9% and 12.2% for the groups of large, medium-size and small-size banks, respectively. In 2005, the most significant improvement of credit portfolio quality was registered in the group of small-size banks, perceived through the annual decrease of 5.7 percentage points in the share of credit exposure classified in C, D and E risk categories in the total credit exposure and 15.7 percentage points lower share of this credit exposure in the guarantee capital.

The group of large banks had the highest influence on the credit portfolio quality across the banking system, considering its dominant share in the total credit activity of the banks. Actually, 75.5% of the total credit exposure of the banks classified in C, D and E risk categories and 76.5% of the total amount of allocated special reserve for covering potential losses pertain to the group of large banks.

3.2. Country risk

On December 31, 2005, the total gross exposure of the banks to country risk amounted to Denar 36,005 million or 25.6% of the total credit exposure. The net exposure of the banking system to country risk[19] totaled Denar 35,589 million. The dominant position of the placements of the Macedonian banks in the form of deposits in foreign banks[20] (over 98% of the total net-exposure to country risk), makes the banks allocate lower amount of special reserve for potential losses (0.1% of the total net-exposure to country risk). Most of the allocated special reserve (98.0%) for covering the country risk arises from the banks' exposure to two countries,

Figure 13
Structure of credit exposure of banks by countries on December 31, 2005



[19] Gross exposure less the amount of allocated special reserve for potential credit risk losses.
[20] Credit exposure to foreign first-class banks and placements to banks with contractual maturity of up to three months, as specified by the methodology of the National Bank bear 0% risk weigh.

having an exposure of the banks in the Republic of Macedonia to 33 countries. Most of this credit exposure (70.3%) of the banks is towards foreign banks and non-financial entities from Germany, Italy, Austria, Switzerland, Slovenia and the USA.[21]. Analyzing by group of banks, the group of large banks registers the highest share in the total exposure to foreign countries (73.5%) and in the exposure to the six countries (69.3%) that dominate the net exposure to country risk.

3.3. Liquidity risk

The analysis of liquidity position of the banks observing the level and structure of sources of funds, availability of highly liquid and liquid assets and the maturity match between the banks' assets and liabilities leads to the conclusion that the banks in the Republic of Macedonia at the end of 2005 maintained satisfactory level of liquidity. It is largely due to the favorable developments on the foreign exchange market and the change in the monetary instruments[22] in 2005, affecting the initial increase in the banks' liquidity. The stress-test analysis of the banking system of the Republic of Macedonia as of December 31, 2005 indicates a relatively high level of resilience of the banking system to liquidity risk. The contractual residual maturity of banks' assets and liabilities on December 31, 2005 was mismatched owing to the dominant share of sight deposits, compared to the maturity structure of credits, most of which are long-term. On the other hand, there is a high degree of match between the residual maturity structure of the expected inflows and outflows, as an indicator that more adequately reflects the liquidity position of the banks. The positive picture provided by the expected residual maturity structure of assets and liabilities is primarily due to the high degree of stability of sight deposits, in line with the experience from the recent years.

3.3.1. Primary sources of funds (deposits of non-financial entities)

The deposits of non-financial entities are primary sources of funds of the banks in the Republic of Macedonia. Thus in 2005, the average monthly share of the primary sources of funds in the total average sources of funds equaled 69.6%, and 84.1% in the total average third party's sources of funds (69.0% and 85.3%, respectively, in 2004). The continuous upward trend of the deposits of non-financial entities registered in the previous years carried on in 2005. The average monthly amount[23] of deposits of non-financial entities in 2005 equaled Denar 90,365 million, which is an increase of 18.1% compared to 2004.

Figure 14
Maturity structure of primary sources of funds

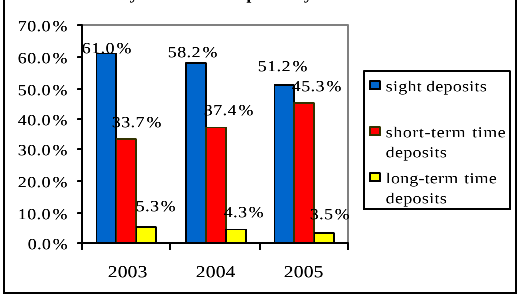


Figure 14 indicates that the sight deposits accounted for 51.2%, on average, of the total deposit base, the short-term time deposits made up 45.3%, on average, and the long-term deposits constituted 3.1%. Particularly positive is the increase in the maturity of primary sources of funds that went on in 2005. Yet, the unfavorable

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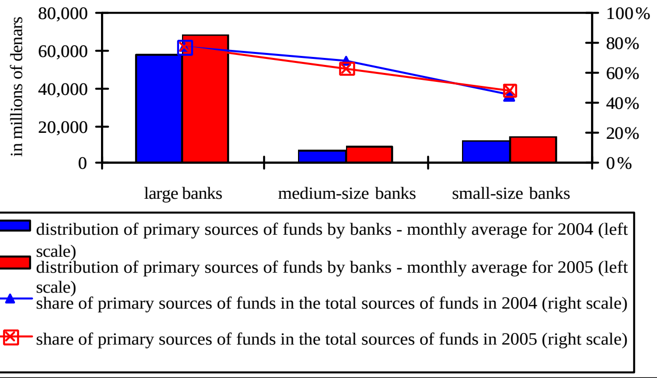
[21] Among other countries, the exposure to the Netherlands, Great Britain, Denmark, France and Norway dominates.
[22] Increase in the reserve requirement rate of Denar and foreign currency deposits from 7.5% to 10%
[23] For the purposes of this report, the term "average monthly amount" implies the average of balances at the end of each month in the analyzed period.

downward trend of the share of long-term deposits remains.

The structure of deposit potential by group of banks remained virtually unchanged compared to 2004. The group of large banks constituted dominant 75.0% of the total deposit potential, whereas the group of medium- and small-size banks made up 10.2% and 14.8%, respectively.

Figure 15
Distribution of primary sources of funds by group of banks



Such distribution also affects the share of primary sources in the total sources of funds, which in 2005 equaled 77.6%, 62.5% and 48.2% for the groups of large, medium- and small-size banks, respectively. Such share by group of banks is almost unchanged compared to the share in 2004 (Figure 15 - Distribution of primary sources of funds by group of banks).

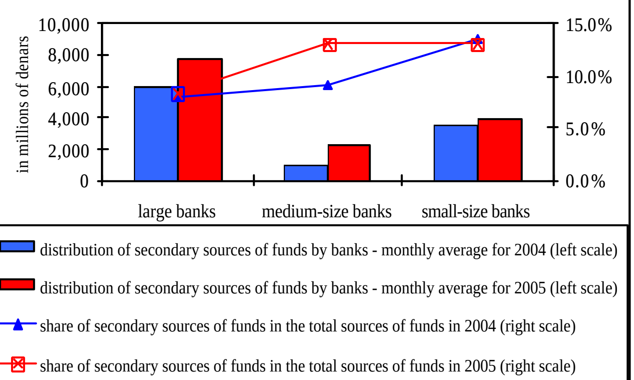
3.3.2. Secondary sources of funds

The secondary sources of funds of the banks include bank deposits and short-term and long-term borrowings. The average share of secondary sources of funds in the total average sources of funds in 2005 equaled 10.7% (9.3% in 2004), and 12.9% in the total banks' liabilities (11.6% in 2004). Most of the total secondary sources of funds (78.3%) are long-term borrowings on the basis of long-term credit lines withdrawn from foreign banks and placed in the form of long-term credits. Compared to December 31, 2004, the long-term credit lines withdrawn from foreign banks went up by 45.7%. The group of large banks had the highest contribution (82.2%) to the increase of such sources of funds. These long-term credit lines, along with the growth in the deposit base, were a basis for the accelerated credit activity of the group of large banks.

In 2005, as well, most of the secondary sources of funds (55.5%) belong to the group of large banks. Compared to 2004, the share of the group of medium-size banks in the total secondary sources of funds went up, compared to the lower share of the group of small-size banks. It is primarily due to the change in the composition of these two groups of banks, in line with the higher level of assets required for admission to the group of medium-size banks.

In 2005, the group of medium- and small-size banks financed 14.8% and 14.0%, respectively, of their activities with secondary sources of funds, and the group of large banks financed 8.3% of its activities. For comparison purposes, in 2004 these ratios equaled 9.1%, 13.5% and 8.0%

Figure 16
Distribution of secondary sources of funds by group of banks



for the group of medium-size, small-size and large banks, respectively. This indicates larger dependence of the group of small- and medium-size banks on the secondary sources, compared to the group of large banks.

3.3.3. Liquid assets and highly liquid assets

In 2005, the average amount of liquid assets of the banks (defined in broader terms[24]) was valued at Denar 58,524 million, accounting for 45.1% of the total banks' assets. Compared to 2004, the coverage level of the total banks' liabilities with liquid assets surged by 2.0 percentage points.

The structure of liquid assets in 2005 remains the same compared to the previous year. The cash on corresponding accounts with foreign banks represent a dominant component, constituting 60.8% of the total liquid assets of the banks, followed by 10.8% cash, and 10.2% CB bills. The remaining portion are debt securities, account with domestic banks and short-term credits of banks.

In 2005, the average amount of highly liquid assets[25] totaled Denar 20,872 million, and its share in the total banks' assets in the Republic of Macedonia equaled 16.1%, which is by 2.3 percentage points more compared to the monthly average for 2004. This level of highly liquid assets in the total assets provides 45.1% average level of coverage of sight deposits and full coverage of the expected cumulative outflow of deposits with maturity of up to three months.

Analyzing by group of banks, the group of medium-size banks has the highest share of highly liquid assets in the total assets of 23.7%, followed by the group of small-size banks that makes up 21.8%, with the share of the group of large banks being the lowest (13.0%). This results in higher coverage degree of sight deposits with highly liquid assets of the group of medium-size banks (75.4%) and the group of small-size banks (82.2%), compared to the group of large banks (33.0%).

As a result of the relatively high level of liquid and highly liquid assets of the banks, the stress-test analysis as of December 31, 2005 indicates a relatively high level of resilience of the banking system of the Republic of Macedonia to liquidity risk, having a possible outflow of deposits.

3.3.4. Maturity structure of assets and liabilities

Notwithstanding the high level of liquid assets in the total assets, there is a contractual[26] residual maturity mismatch of the banks' assets and liabilities as of December 31, 2005 (Annex 5 - Contractual maturity structure of assets and liabilities). This is caused by the unfavorable maturity structure of the sources of banks' financing, from the aspect of dominant share of sight deposits, compared to the longer-term nature

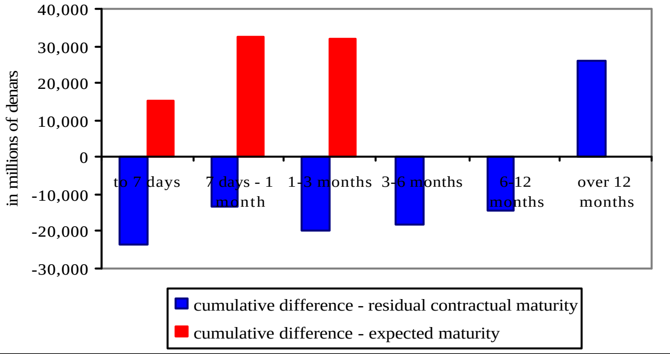
[24] Liquid assets, in broader terms, include the cash and balances with the National Bank, CB bills, short-term debt securities, short-term credits and balances on accounts with domestic and foreign banks.
[25] Defined as a sum of cash and balances with the National Bank, CB bills and sight deposits on accounts with domestic and foreign banks.
[26] Contractual residual maturity of assets and liabilities items implies the remaining period from the end of the reporting period to their contractual maturity, i.e. maturity specified by the agreement concluded between the bank and its client.

of the credits. The cumulative contractual residual maturity mismatch between assets and liabilities is likely to be overcome within a maturity block of over 12 months.

Analyzing by group of banks, the group of large banks has the largest effect on the contractual residual maturity mismatch across banks. The cumulative contractual residual maturity mismatch between assets and liabilities in the group of medium- and small-size banks could be overcome in the maturity block of seven days to one month.

In spite of the unfavorable contractual maturity structure of the deposit potential, the recent experience indicates high level of stability of sight deposits[27]. On December 31, 2005, the average level of stable sight deposits across the banking system equals 81.5% (74.6% on December 31, 2004), whereas the banks expect that only 11.7% of the total deposits could be withdrawn within 7 days.

Figure 17
Cumulative difference between the total assets and liabilities by contractual and expected maturity - as of December 31, 2005



The image of the liquidity position of the banks is completely different if the analysis includes the residual expected[28] maturity structure of assets and liabilities (Annex 6 - Expected maturity structure of assets and liabilities) determined by banks. On December 31, 2005, all maturity blocks register full coverage of the expected outflows with expected inflows, mostly die to the match in the group of large banks, and the positive difference between the expected inflows and outflows in the groups of medium- and small-size banks.

3.3.5. Maturity structure of denar and foreign exchange-nominated assets and liabilities

The residual contractual maturity structure of assets and liabilities from the viewpoint of denar and foreign exchange liquidity indicates negative liquidity denar gap, and negative liquidity foreign exchange gap, which could, cumulatively, be overcome in the maturity block of over twelve months. The negative liquidity gap to seven days in denars, amounts to Denar 13,284 million, and in foreign exchange it totals Denar 10,109 million.

More realistic picture on denar and foreign exchange liquidity position of the banks could be obtained by analyzing the expected residual maturity structure. On December 31, 2005, there is maturity match between the expected denar and foreign exchange inflows and outflows in all maturity blocks across the banking system, i.e. the negative contractual denar and foreign exchange liquidity gap to seven days is fully

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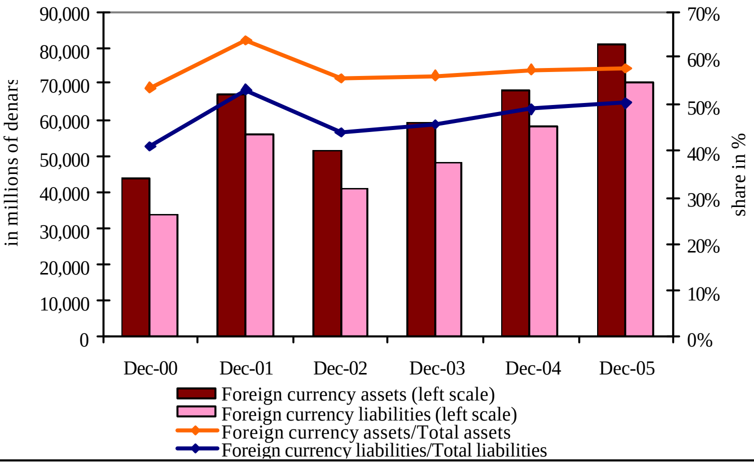
[27] Sight deposits also include transaction deposits.

[28] The expected residual maturity of assets and liabilities items denotes the remaining period from the end of the reporting period to their expected maturity, i.e. a period within which the bank assesses that there will be inflows and outflows of funds based on its claims and liabilities (based on the bank's experience, the liquidity risk management process in place, etc.).

overcome. The level of stable denar sight deposits went up and equaled 81.8% (78.3% on December 31, 2004), and the level of foreign exchange deposits equaled 81.2% (71.7% on December 31, 2004).

3.4. Exchange rate risk

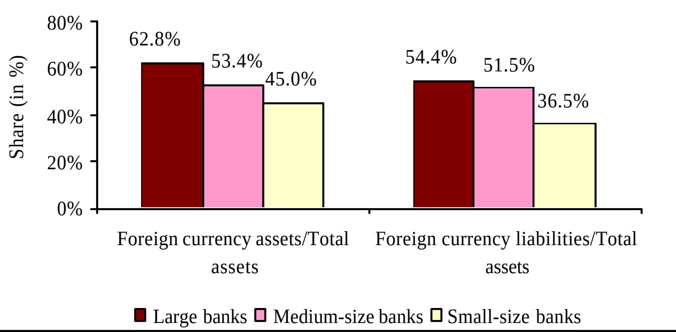
Figure 18
Trend and share of foreign currency assets and foreign currency liabilities in the total assets and total liabilities



The upward trend of the foreign exchange assets and foreign exchange liabilities of the banks in the Republic of Macedonia went on in 2005. Major driving force of such trend was the growth in the foreign exchange deposits and long-term borrowings from foreign banks, reflecting an increase in foreign exchange credits and foreign exchange indexed credits on the assets side. At the end of 2005, the foreign exchange assets of the banks totaled Denar 81,189 million, whereas the foreign exchange liabilities stood at Denar 70,445 million. Compared to the end of 2004, the foreign exchange assets and foreign exchange liabilities of the banks surged by 19%, i.e. 20.9%, respectively.

Such movements determine that their share in the total assets, i.e. total liabilities across the banking system equal 57.8%, i.e. 50.2%, respectively. Analyzing by group of banks, the group of large banks had the highest foreign exchange component in the assets and liabilities (on December 31, 2005 the share of foreign exchange assets and foreign exchange liabilities accounted for 62.8% and 54.4%, respectively in the total assets). On the other hand, the group of small-size banks shows the lowest share of foreign exchange-nominated items in the overall balance sheet, equaling 45.0% (for balance sheet asset items), and 36.5% (for balance sheet liability items).

Figure 19
Share of foreign currency assets and foreign currency liabilities in the total assets of each group of banks as of December 31, 2005



The dominant role of the large banks is also demonstrated by their share in the total foreign exchange assets and total foreign exchange liabilities across the banking system. Thus, on December 31, 2005, the group of large banks constitutes roughly 72.0% of the total amount of foreign exchange-nominated balance sheet items.

Figure 20
Share of foreign currency assets of each group of banks in the total foreign currency assets

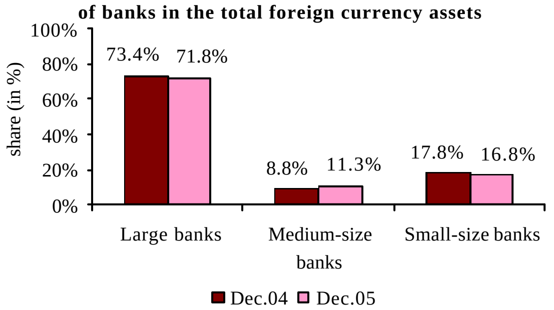


Figure 21
Share of foreign currency liabilities of each group of banks in the total foreign currency liabilities

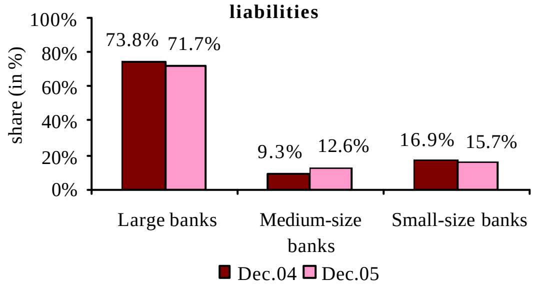


Table 15
Dynamics of the structure of foreign currency assets and liabilities by currency

Currency	Dec.03		Dec.04		Dec.05	
	Foreign currency assets	Foreign currency liabilities	Foreign currency assets	Foreign currency liabilities	Foreign currency assets	Foreign currency liabilities
Euro	83.1%	81.8%	84.0%	83.3%	83.3%	82.8%
Dollar	12.4%	14.7%	11.5%	13.3%	12.3%	14.0%
Others	4.6%	3.4%	4.5%	3.4%	4.4%	3.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Observing the currency of denomination, same as in the previous years, in 2005, Euro-nominated assets and liabilities had a dominant share in the currency of denomination structure of foreign exchange assets and foreign exchange liabilities of the banks. This results from the relatively high degree of currency substitution in the Macedonian economy and the foreign trade structure dominated by the Euro-area countries. Traditionally, the second most important currency in the operations of the Macedonian banks is the US Dollar, the share of which in the foreign exchange assets and foreign exchange liabilities has remained stable over the years. The individual share of other currencies (Pound sterling, Swiss franc, Australian Dollar, Danish krone, etc.), is marginal in the foreign exchange assets and foreign exchange liabilities across the banking system.

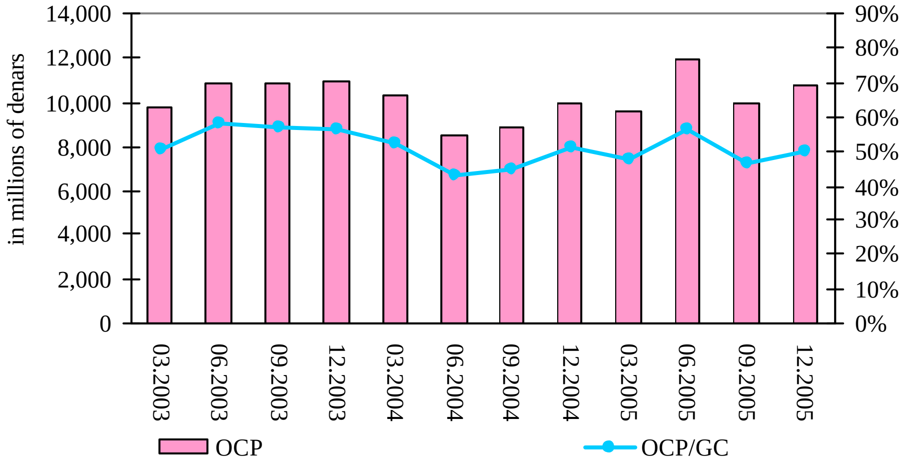
Table 16
Structure of foreign exchange assets and liabilities

Foreign currency assets	Amount on 31.12.2005	Share on 31.12.2005	Share on 31.12.2004	Foreign currency liabilities	Amount on 31.12.2005	Share on 31.12.2005	Share on 31.12.2004
Cash and checks and debt market securities	2,026	2.5%	2.3%	Foreign currency deposits of banks	1,437	2.0%	1.4%
Funds in foreign and domestic banks	41,348	50.9%	57.0%	Foreign currency deposits of households	39,305	55.8%	55.8%
Foreign currency claims	18,480	22.8%	17.9%	Foreign currency deposits of enterprises, public sector and other clients	11,688	16.6%	16.7%
Foreign currency indexed claims	21,384	26.3%	25.4%	Foreign currency of foreign persons	3,881	5.5%	4.2%
Correction of value	-2,457	-3.00%	-3.10%	Foreign currency indexed deposits	2,731	3.9%	7.4%
Securities available for sale	59	0.1%	0.1%	Foreign currency credits of banks	11,017	15.6%	13.3%
Other assets - other accounts	349	0.4%	0.4%	Other liabilities - other accounts	385	0.5%	1.2%
Total foreign currency assets	**81,189**	**100.0%**	**100.0%**	**Total foreign currency liabili**	**70,444**	**100.0%**	**100.0%**

In 2005, there were certain structural movements on the side of foreign exchange assets of the banks. Due to the accelerated growth of credit activity, particularly of the group of large banks, brought about reduction in the share of funds placed with foreign banks (50.9% on December 31, 2005, compared to 57.0% on December 31, 2004), at the expense of the increase in the share of claims based on foreign exchange credits and foreign exchange indexed credits. Simultaneously, the side of foreign exchange liabilities registered no significant structural movements. The foreign exchange household deposits remained dominant in the foreign exchange liabilities across the banking system, equaling 55.8%.

On December 31, 2005, the open foreign exchange position across the banking system was valued at Denar 10,744 million or 50.5% relative to the guarantee capital.

Figure 22
Movement of open currency position relative to the guarantee capital at the level of banking system



Bank-by-bank analysis as of December 31, 2005 shows that only three banks had short open currency position, while the remaining fifteen banks had long open currency position[29]. The banks manage the exchange rate risk within the prudential limits set by the National Bank.[30]. On December 31, 2005, only one bank cut across these limits.

3.5. Capital adequacy / Insolvency risk

3.5.1. Capital

On December 31, 2005, the banks' capital in the Republic of Macedonia, as defined by the National Bank methodology totaled Denar 21,670 million. Compared to the end of 2004, the banks' capital went up by Denar 1,765 million, i.e. 8.9%. This growth was a result of the decrease in the deductible capital items (unallocated loan loss

[29] According to the Law on Amending the Law on Establishing the Macedonian Bank for Development Promotion (("Official Gazette of the Republic of Macedonia" no 109/05), the regulations governing the open currency positions ceased being applied to MBPR AD Skopje.
[30] As specified by the Decision on determining and calculating banks' open currency positions ("Official Gazette of the Republic of Macedonia" no. 103/01 - revised text), the open currency position by currency may not exceed 20% of the guarantee capital, excluding the Euro, the limit on which is 30%. The open aggregate currency position may not exceed 50% of the guarantee capital.

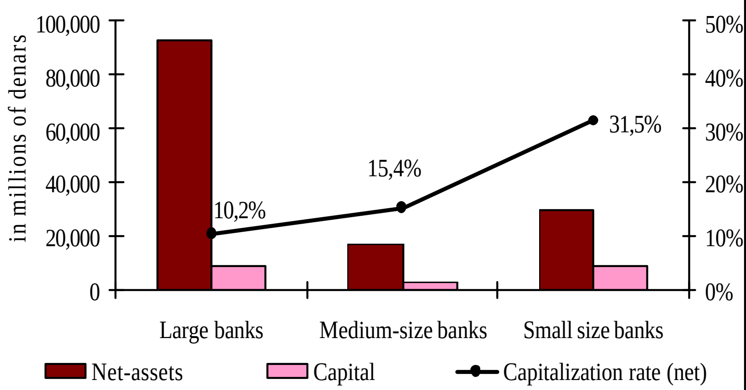
provisions and lower amount of uncovered loss from previous years), and the increase in the banks' reserve fund.

The capital distribution analysis by banks indicates that the capital ranges from Denar 3,609 million in the bank with highest capital, to Denar 308 million in the bank with lowest capital.

Observing by group of banks, the group of small-size banks registers the largest share of 44,1% in the capital base across the banking system, followed by the group of large banks with share of 43.6% and the group of medium-size banks with a share of 12.3%.

On December 31, 2005, the banking system capitalization rate, calculated as capital - to - net-assets ratio equaled 15.4%. Compared to 2004, the capitalization rates dropped by 1.5 and 1.1 percentage point, arising from the larger relative growth of assets compared to the relative growth of capital in the previous year.

Figure 23
Level of net-assets, capital and capitalization rate by group of banks as of December 31, 2005



Same as in the previous years, the group of small-size banks shows the highest capitalization rate. Even though there is a downward trend, the capitalization rate of this group of banks is still far higher than the average of the overall banking system. The high capitalization rate of the group of small-size banks is due to the simple structure of sources of financing of this group of banks, dominated by the capital. Consequently, the financial intermediation rate in the group of small-size banks is considerably low, particularly comparing to the financial intermediation rate in the group of large banks.

3.5.2. Banks' capital adequacy rate

On December 31, 2005, the guarantee capital across the banking system totaled Denar 21,292 million, registering an annual growth rate of 9.8%. The core capital[31] had the largest share in the formation of the guarantee capital, whereas the influence of the additional capital[32] was exceptionally low. Observing by group of banks, the group of

[31] The core capital, as specified by the Decision of the National Bank on the methodology for determining the guarantee capital is constituted by the following components: book value of issued common and preference shares (excluding the cumulative preference shares), bank's reserves, retained undistributed gain unencumbered by liabilities or losses and confirmed by management body, current gain discounted by 50% all of which reduced by the amount of uncovered loss from the previous years, amount of current loss and goodwill.

[32] Additional capital, as defined by the Decision on National Bank on the on the methodology for determining the guarantee capital is constituted by the following components: book value of issued cumulative preference shares, revaluation reserves, hybrid capital instruments and subordinated liabilities.

large banks has the highest share of 43.9% in the guarantee capital formation across the banking system, followed by the group of small-size banks with 43.6% and the group of medium-size banks with 12.5%.

Figure 24
Dynamics and structure of guarantee capital

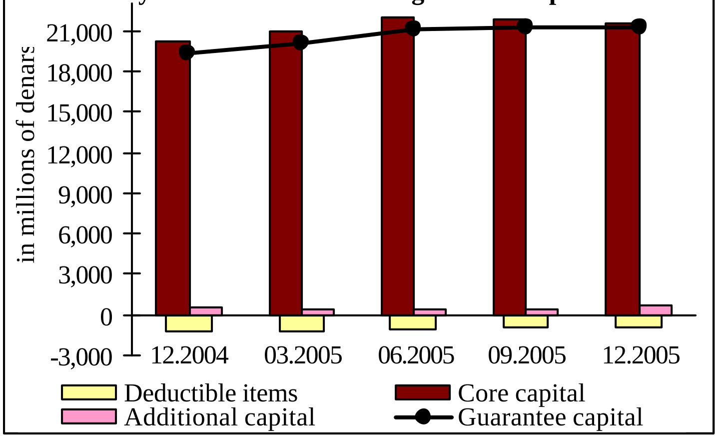
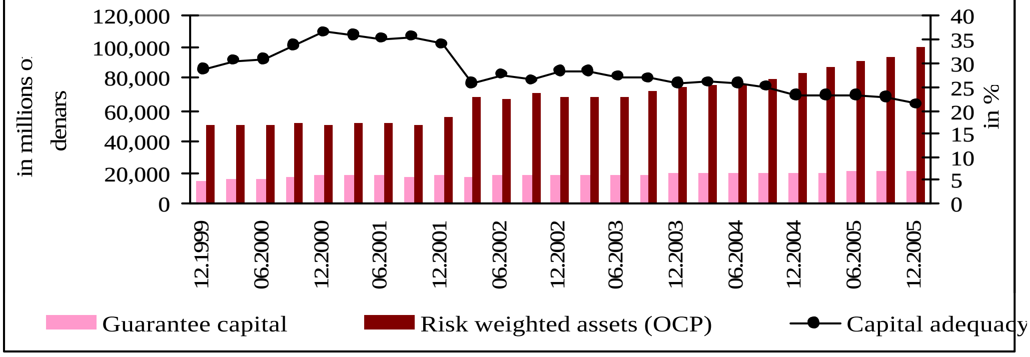


Figure 25
Movement of the guarantee capital, risk weighted assets and capital adequacy ratio



At the end of 2005, the risk weighted assets at the end of 2005 was valued at Denar 89,048 million, registering an annual growth of 20.9%.

The aggregate open currency position on December 31, 2005 totaled Denar 10,800 million, which compared to December 31, 2004 went up by 1.9%. As a result of the movement of the guarantee capital, the risk weighted assets and aggregate open currency position, the average capital adequacy ratio across the banking system equaled 21.3% on December 31, 2005, which is by 1.7 percentage points less compared to December 31, 2004.

Observing by group of banks, the capital adequacy ratio ranges from 13.7% in the group of large banks, 27.6% in the group of medium-term banks, to 42.4%, in the group of small-size groups. Such distribution of capital adequacy by group of banks is due to the dominant position of the group of large banks in the performing of banking activities, and accordingly, in the financial intermediation.

Within the additional capital, on December 31, 2005, the banks held no hybrid capital instruments and subordinated forms of capital.

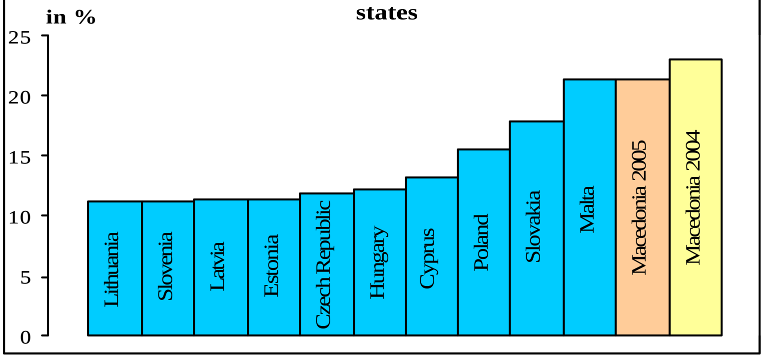
Table 17
Banks' capital adequacy

Capital adequacy rate	Number of banks		Share in total assets as of December 31, 2005
	31.12.2004	31.12.2005	
below 8%	0	0	0.0%
from 8 to 12%	0	0	0.0%
from 12 to 16%	2	3	66.1%
from 16 to 20%	2	1	3.4%
from 20 to 30%	3	5	13.4%
from 30 to 50%	9	5	10.6%
from 50 to 100%	5	6	6.5%
over 100%	0	0	0.0%
Total banks	**21**	**20**	**100.0%**

As of December 31, 2005, no bank registered capital adequacy ratio below the minimum set by law of 8%. On December 31, 2005, the capital adequacy ratio distribution by bank shows that eleven of them have a capital adequacy ratio of over 30%, and only four of them (representing almost 70% of the total financial potential of the banks) register a capital adequacy ratio of 20%. It does not corresponds with the situation and trends in the EU, where 35.3% of all banks in the EU member states register capital adequacy ratio below 11%, in 47.6% of the banks, the capital adequacy ratio ranges from 11% to 13%, and in only 17.1% of the banks, the capital adequacy ratio is above 13%.[33]

Notwithstanding the moderate downward trend of the average capital adequacy ratio of the Macedonian banking system, it is still above the average capital adequacy ratio of the banking systems of the new EU member states, that ranges below 20%.

Figure 26
Capital adequacy ratio of banks in the new EU member-states



Yet, the relatively high capital adequacy ratio of the Macedonian banks ensure its greater stability, also confirmed by the results from the stress-test analyses of the sensitivity of the banking system to larger economic shocks. The results from the stress-test analyses show relatively well capability of the banking system to endure isolated high credit shock, a combination of credit and foreign exchange shock, and combination of credit, foreign exchange and interest rate shocks. The capital adequacy ratio across the banking system does not fall below the threshold of 8% in none of the hypothetical scenarios the stress-test analysis is made for.

Hence, the permanent downward trend of the capital adequacy ratio, which is one of the indicators for increasing the banks' financial intermediation and its approximation to the capital adequacy ratio of the EU member states, should be followed by strengthening the corporate governance and internal audit systems, particularly in the smaller banks, by promoting and adhering to the prudential risk management principles.

[33] Source of data: Report on structures of banking systems of EU (ECB), October 2005 and Report on structures of banking systems of the new EU member states (ECB), January 2005.

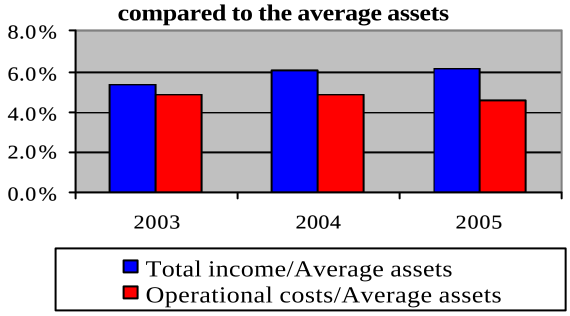
3.6. Profitability

In 2005, the trend of improved profitability and efficiency of the banking system of the Republic of Macedonia continued. On December 31, 2005, the banks presented profit generated from their operating in the amount of Denar 1,704 million, which is a significant increase of 36.6% compared to the previous year. Loss was registered by only three banks, the total market participation of which in the assets of the banking system equaled 4.3%.

All bank groups generated profit. The aggregated financial result at the level of the banking system (Annex 2 - Income Statement) is mostly determined by the group of large banks, where 66.1% of the total financial potential of all banks is concentrated in.

The positive trend of the banks' profitability is due to the higher level of total income, as well as to the higher cost efficiency of the banks. The cost efficiency registers extremely positive movement which contributes to the long-term strengthening of the banks' financial position.

Figure 27
Total income and operational costs compared to the average assets



3.6.1. Income statement structure

On December 31, 2005, the structural analysis of the aggregated income statement of all banks indicates a significantly improved profitability of the banks compared to the previous year. The largest share of the presented profit is based on income originating from the banks regular operating. Namely, 61.5% of the total income are due to the net interest income based on provisioning and net income originating from commissions. The continuous trend of reducing the dominance of the occasional income (income on other basis and extraordinary income) in the total income is assessed as especially positive, for the account of the continuous increase in the income generated from the banks regular operating. Although the regular income is not sufficient for overall coverage of the general and administrative expenses of the banks yet, on December 31, 2005 the costs coverage spread equals 93.5% and it registers significant improvement of 112 percentage points compared to December 31, 2004.

Table 18 presents the positive movements in the total income structure, which primarily originate from the rise in the interest income, which is in direct correlation with the intensified credit activity of the banks. Namely, the upward trend of the credit portfolio of the banks reflected positively on the registered interest income of the banks, which is higher by significant 29.6% compared to December 31, 2004. The largest share in the interest income structure of 77.0% accounts for the income based on interest collected from enterprises and households. The households' interest income registered an increase of 51.1% compared to the previous year, which corresponds to the continuing growth trend of credit support to households. The interest income originating from enterprises surged by 16.1% compared to 2004.

Table 18
Reclassified income statement of the banks

	Amount in millions of Denars		Annual increase (%)	Structural share in the total income	
	2004	2005	2005/2004	2004	2005
Interest income	*5,920*	*7,670*	*29.6%*	*87.6%*	*97.3%*
Interest expenditure	*(2,310)*	*(3,013)*	*30.4%*	*34.2%*	*38.2%*
Net interest income	3,609	4,657	29.0%	53.4%	59.1%
Net provisions	(1,979)	(2,436)	23.1%	29.3%	30.9%
Net interest income based on provisions	***1,630***	***2,221***	***36.2%***	***24.1%***	***28.2%***
Net income based on commissions	2,268	2,625	15.7%	33.5%	33.3%
Total income based on regular operating	***3,898***	***4,846***	**24.3%**	***57.7%***	***61.5%***
Other income (occasional)	2,209	2,356	6.7%	32.7%	29.9%
Other income, net	652	679	4.1%	9.7%	8.6%
Total income	**6,759**	**7,881**	**16.6%**	**100.0%**	**100.0%**
General and administrative expenses	(4,776)	(5,185)	8.6%	70.7%	65.8%
Other expenditures	(550)	(743)	35.1%	8.1%	9.4%
Operational costs	***(5,326)***	***(5,928)***	***11.3%***	***78.8%***	***75.2%***
Gross income	**1,433**	**1,953**	**36.2%**	**21.2%**	**24.8%**
Net income based on taxes	**1,247**	**1,704**	**36.6%**		

Simultaneously, the increase in the credit portfolio followed by continuous decrease in the average credit portfolio risk led to lower percentage points growth in loan loss provisions. As a result of such movements, the banks' credit portfolio generated income sufficient for covering both net loan loss provisions and as interest expenditure.

The interest expenditures, as the basic expenditure component resulting from collecting deposits as primary bank activity, went up by 30.4%, compared to the previous year, which is in direct correlation with the increase in the banks' deposit potential. The most significant component of the interest expenditure with a share of 35.9% accounts for the households' expenditures based on interest, thus corresponding to the dominant share of the households' deposits in the total deposit potential of banks. These expenditures augmented by 21.3% compared to 2004.

Other significant component of the bank income based on regular operating is the income based on commissions. The annual increase in the net income based on commissions of 15.7% results from the higher volume of services provided by the banks, especially in performing payment operations, credit activity, foreign exchange operations, off-balance sheet operations, etc.

Although in 2005 the share of the total income necessary for covering general and administrative expenses dropped, high percentage share of the total income for covering this cost category is still necessary (65.8%). In comparison with December 31, 2004, these costs went higher by 8.6%. The wage expenses remain to be the dominant component of the general and administrative expenses, and their share equals 51.6%.

3.6.2. Banks' Profitability and Efficiency Indicators

The positive trend of the main categories of the aggregated income statement of banks, and primarily the increase in the income categories, caused improved profitability and higher level of bank efficiency at the end of 2005 compared to 2004.

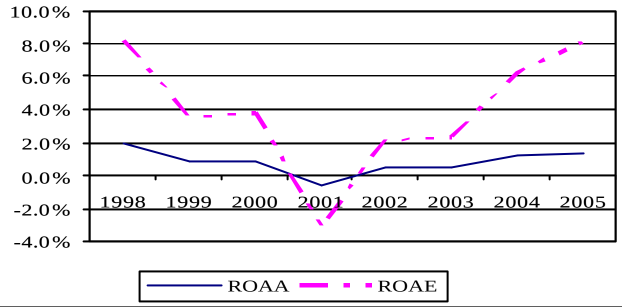
All profitability and efficiency indicators at the level of the entire banking system register an improvement compared to the previous year.

Table 19
Banks' profitability and efficiency indicators

Indicator	*2002*	*2002**	*2003*	*2003**	*2004*	*2004**	*2005*	*2005**
Rate of return on average assets (ROAA)	0.4%	1.5%	0.5%	1.7%	1.1%	1.9%	1.3%	1.6%
Rate of return on average equity (ROAE)	2.1%	6.9%	2.3%	8.9%	6.2%	11.4%	8.1%	10.2%
Operational costs/ Total income	91.0%	76.0%	90.0%	74.0%	78.8%	67.3%	75.2%	69.8%
Wage expenses/ Total income	40.0%	33.0%	43.0%	36.0%	36.8%	31.9%	33.9%	33.3%
Loan loss provisions/ Net interest income	74.0%	55.0%	92.0%	56.0%	54.8%	41.1%	52.3%	54.2%
Net interest income/ Operational costs	48.0%	72.0%	53.0%	60.0%	67.8%	73.7%	78.6%	86.0%
Number of employees	4,569	2,781	4,595	3,908	4,635	3,804	4,633	4,203
Financial result/ Number of employees (in millions of Denars)	0.09	0.35	0.10	0.36	0.27	0.53	0.37	0.48
Total assets/ Number of employees (in millions of Denars)	20.40	23.40	22.80	25.20	25.46	28.96	30.31	31.97

After 2001, the indicators for the rate of return on average assets and the rate of return on average equity registered continuous increase and on December 31, 2005 they equaled 1.3% and 8.1%, respectively.

Figure 28
Movements of the ROAA and ROAE indicators



The analysis of the profitability indicators points to significant improvement with the group of small-size banks, while the largest part of the indicators with the groups of large and medium-size banks registers a tendency of certain deterioration compared to 2004 (Table 20 - Profitability and efficiency indicators by groups of banks). However, the group of medium-size banks continues registering the best profitability and efficiency indicators. Namely, on December 31, 2005 the indicators for return on average assets and average own funds of the group of medium-size banks were far below the average of all banks and they equaled 2.0% and 16.1%, respectively.

In 2005, the banking sector showed improved operating efficiency from the aspect of the expenses for generating one Denar income. In comparison with 2004, in 2005 the banks registered lower operational costs by 3.6 percentage points, on average, and lower wage expenses by 2.9 percentage points, as their dominant category for registering one Denar income.

In comparison with 2004, part of the interest income necessary for absorption of anticipated credit risk decreased at the level of the entire banking system, i.e. the level of coverage of loan loss provisions with the registered net interest income is higher by 2.5 percentage points.

Table 20
Profitability and efficiency indicators by groups of banks

Indicator	*Large banks*		*Medium-size banks*		*Small-size banks*	
	2004	*2005*	*2004*	*2005*	*2004*	*2005*
Rate of return on average assets (ROAA)	1.4%	1.1%	2.9%	2.0%	-0.3%	1.2%
Rate of return on average equity (ROAE)	11.9%	10.4%	15.9%	16.1%	-1.0%	3.6%
Operational costs/ Total income	74.5%	76.3%	49.7%	57.9%	100.2%	81.9%
Wage expenses/ Total income	34.6%	37.0%	28.8%	28.4%	45.1%	30.9%
Loan loss provisions/ Net interest income	59.6%	72.8%	11.8%	9.0%	63.1%	33.7%
Net interest income/ Operational costs	64.2%	80.7%	135.9%	119.4%	61.9%	60.3%
Number of employees	2,684	2,654	304	635	1,647	1,344
Financial result/ Number of employees (in millions of Denars)	0.38	0.35	1.01	0.67	-0.05	0.25
Total assets/ Number of employees (in millions of Denars)	29.38	34.98	36.50	27.16	17.02	22.59

The registered net interest income of the banking system is sufficient for covering 78.6% of the operational costs, which is improvement of 10.8 percentage points compared to 2004. The operational costs were completely covered by the net interest income with the group of medium-size banks (119.4%), although this indicator deteriorated compared to 2004.

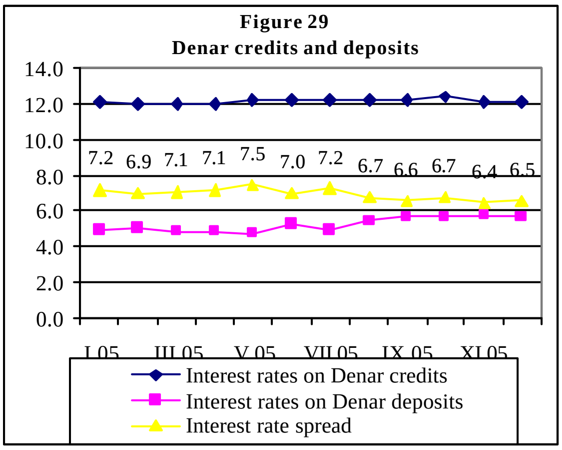
The improvement of both financial result and assets at the level of the banking system, given almost the same number of employees, had positive reflection also on the banks' productivity indicators. On December 31, 2005, the income per employee augmented by Denar 0.1 million compared to the previous year. Also, at the end of 2005 compared to the end of 2004, higher amount of net assets per employee by Denar 4.9 million was registered.

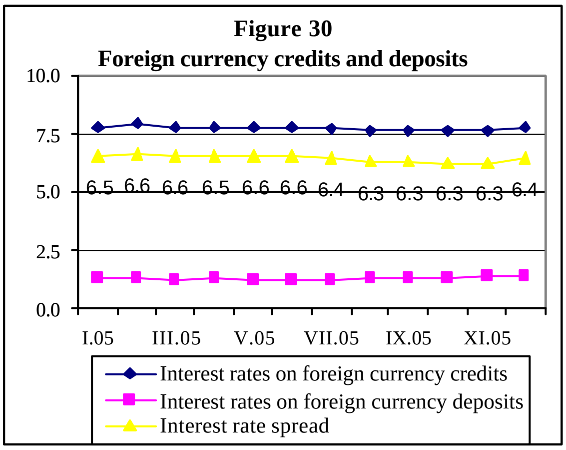
The profitability analysis points to a statement that in 2005 the banks entered the zone of profitable operating, after the unsatisfactory profitability which has been lasting for several years. The improved structure of the total income, as well as of the whole profitability of the banks compared to 2004, is due to enhanced credit activity to great extent. This shows that the further improvement of the banks' profitability is still mainly determined by the possibilities for reallocating the low interest bearing assets of the banks to placements in both Macedonian economy and households.

3.6.3. Lending and deposit interest rates and interest rate spread

The analysis of the movement of the weighted lending and deposit Denar interest rates indicates a downward trend of the interest rate spread in the January - December 2005 period.[34] The decrease in the interest rate spread is indicator for improved efficiency of the banks and increased competitiveness among them. However, this "squeezing" of the interest rate spread in the analyzed period is more due to the augmented deposit interest rates, than to the change in the lending interest rates, which were relatively stable, besides the initiated trend of decrease in the interest rate on CB bills as reference interest rate.

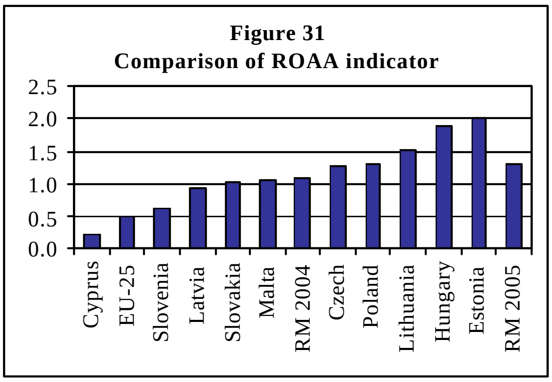
[34] No comparable data pertaining to the period before 2005 are available as a result of the methodological change in the calculation of the weighted interest rates.



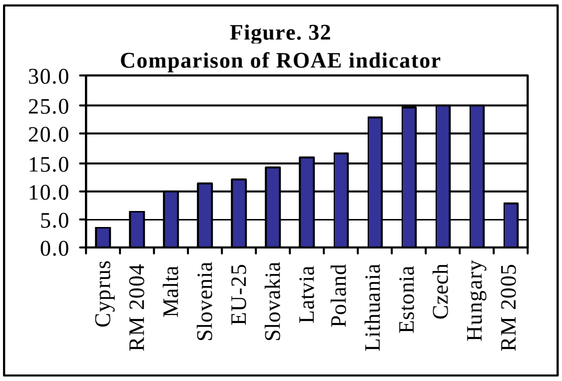


The increase in the deposit interest rates is banks' response to the enhanced competitiveness in the banking sector for attracting new deposits. This trend is especially obvious with the group of small-size banks, where the share of the primary in the total sources of funds is low. During the same period (January 2005 - December 2005), the foreign currency weighted interest rates remained almost unchanged (change of 0.1 percentage point).

The comparison of the rate of return on the average assets of the banks in the Republic of Macedonia with that registered in the banking sector of the European Union[35] shows that at the end of 2004 and 2005 the banks in the Republic of Macedonia registered higher return on 100 asset units on aggregate level, than the banking sector of the European Union member states. The analysis at the level of individual countries (the new ten member states of the European Union and the Republic of Macedonia) shows that the rate of return on the average assets of the banking system of the Republic of Macedonia is relatively satisfactory (Figure 31 - Comparison of the ROAA indicator).



The indicator for the return on the average own funds of the banks in the Republic of Macedonia is low compared to the average rate of return on the own funds at the level of all banks in the European Union, as well as with those of the banking sectors of the new ten members of the European Union. The reason for this is the high capitalization of the banks in the Republics of Macedonia. Namely, the



[35]Source of data: National Bank and Report on the stability of the banking systems of EU (ECB), October 2005. The data on the new ten member states of EU pertain to 2004 - last available data.

own funds participate with 15.9% in the total sources of financing at the level of all banks in the Republic of Macedonia. The same indicator for the banking system of the European Union member states at the end of 2004 equals 4.1% (Figure 32 - Comparison of the ROAE indicator).

II. BANKING SUPERVISION IN 2005

1. Legal framework of the banking supervision

Within the area of promoting the legal framework pertaining to banking, the activities focused on further approximation to the European legislation and the Basle standards and practices for safe and sound banking operating dominated in 2005. As a result of these activities, amendments to the current by-laws were made and supervisory circulars containing guidelines and recommendations for adequate implementation of the banking regulations and promotion of the banks' risk management systems they are exposed to in their operating were prepared. Thus in 2005 the National Bank has prepared and adopted the following acts:

- Decision on calculating and publishing effective interest rate on credits and deposits;
- Amendments to the Manual for keeping credit files;
- Supervisory circular no. 1 on the internal control systems, the structure of the internal audit, the role of the external audit and the relationship between the internal audit, external audit and the banking supervision (revised text);
- Supervisory circular no. 7 - Anti-money laundering systems of the banks;
- Supervisory circular no. 8 - Accounting and regulatory aspects of the assets leased and held under lease;
- Circular for safety of the information systems of the banks.

The adoption of the Decision on calculating and publishing effective interest rate on credits and deposits enabled approximation to the European legislation regulating the consumers' rights protection (Council Directive 90/88/EEC for approximation of the laws, regulations and administrative provisions of the Member States concerning consumer credit), which is also part of the activities envisaged in the Action Plan for European Partnership of the Government of the Republic of Macedonia. This Decision is primarily aimed at protecting the interests of the natural persons - clients of the bank and the smaller enterprises, which are generally considered to have limited access to the financial information and the banks' operating. The Decision sets forth uniformed rules the banks should comply with when providing banking services, through prescribing obligation for uniform calculation and publishing of effective interest rate on deposits and credits, as well as through prescribing obligation for publishing a variety of other information (terms and conditions for using credit, amount of penalty interest, credit collateral instruments, possibility for early repayment of the credit, i.e. withdrawal of the deposit, etc.). In this manner, the decision-making of the client on the selection of the bank from which it will use certain banking service is expected to be facilitated. Namely, the effective interest rate on the credits and deposits should be the main indicator for the clients in the selection of the most favorable conditions for using credit, i.e. deposit investment. Having in mind the complexness of the methodology for calculating the effective interest rate and the need for appropriate preparations the banks and the savings houses should make, the implementation of the Decision will commence after June 30, 2006.

The Manual for keeping credit files regulates the scope of information and documentation the banks should have on each their client for the purpose of adequate identification, monitoring, measurement and control of the credit risk originating from the exposure to that client. The amendments to this Manual are aimed at widening the data base pertaining to the clients, for the purpose of improved management with the so-called indirect credit risk, arising from the exposure of banks' clients to the exchange rate risk. The amendments refer also to the inclusion of data on the currency structure of the client's financial statements, the level of the client's total foreign currency liabilities, the analysis of the possibility for generating foreign currency inflows and their size and structure according to the currency and maturity, as well as all other data which the level of the foreign exchange rate risk the client is exposed to can be perceived from. In this manner, comprehensive identification and monitoring of the credit risk by the banks is enabled.

At the beginning of 2005, the **Supervisory circular no. 1** providing guidelines for promoting the internal control systems, the internal audit structure, the role of the external audit and the relationship between the internal audit, external audit and the banking supervision was revised. The need for revising this Circular originates from the constant changes in the banks operating, the amendments to the banking regulations pertaining to the corporate management area, as well as from the efforts of the National Bank for full acceptance of the recommendations of the FSAP mission[36] and the Basle principle no.14. Pursuant to these international standards, the internal control system should ensure appropriate segregation of authorizations and responsibilities and clear defining of the role of the bank bodies, the role of both internal audit and external auditors. A special aspect covered in details in the Circular is the analysis of the difference between the internal and the external audit and the importance of the cooperation between the banking supervision, the internal audit and the external auditors.

In 2005, the National Bank continued with its activities related to money laundering prevention and financing of terrorism. Significant activities for strengthening the capacity of the banking supervision of the National Bank with regard to control over the money laundering prevention systems of banks and savings houses were undertaken. A list of indicators for detecting doubtful transactions in banks, savings houses, exchange offices and fast money transfer service providers was prepared in cooperation with the Money Laundering Prevention Directorate. Also, at the beginning of 2005, the **Supervisory circular no. 7 - Anti-money laundering systems of the banks** was adopted. This circular defines the minimum standards required for establishing adequate systems for money laundering prevention, with special accent being put on the basic elements that should be encompassed within the bank policies for acquainting the client, as well as their implementation. Also, the National Bank has its representative in the National Council for money laundering prevention and financing of terrorism, the main objective of which is coordination of the activities of certain institutions in the country having appropriate role in the money laundering prevention.

For the purpose of certain clearing up of the accounting and regulatory treatment of assets leased and held under lease, at the beginning of 2005 the **Supervisory circular no. 8** was prepared. The objective of this circular is more precise defining of the manner of accounting record of the assets leased and held under lease, according to the International Accounting Standard 17, which defines the appropriate accounting policies

[36] Financial Sector Assessment Program.

and disclosures applied in case of financial and operational leases. Also, the circular defines the inclusion of the assets leased and held under lease within the legal limits[37] for the amount of the capital investments and investments in real estate.

The supervisory circular for safety of the information system of the banks gives guidelines and recommendations for promotion of the safety of the information system of the banks, defines the methodologies for identification, measurement, monitoring and control of the risks arising from the information technology, making review on the most common types of controls for reducing the risk level, gives recommendations for establishment of an adequate business continuity plan and defines the competencies of the management bodies, persons in charge and employees in the banks from the aspect of management with and control of those risks. Recommendations and guidelines given in the International Standard for management with the information system safety (BS7799-2:2002, i.e. ISO/IEC17799:2000E) and the Basle document for operational risk management[38] were used.

2. Banking supervision activities

The supervisory role of the National Bank is performed through the following components:

- Licensing, i.e. issuing licenses and approvals to the banks and savings houses;
- Supervision of the banks and savings houses' performances; and
- Undertaking corrective actions.

2.1. Licensing function

Within the process of licensing, the National Bank issues the following licenses and approvals:

1. Founding and operating license of a bank and subsidiary of a foreign bank;
2. License for carrying out status changes (merger of banks, bank division, transformation of a savings house into a bank and acquisition of a savings house to a bank);
3. License for establishing the Money and Short-Term Securities Market;
4. Approval to acquire shares, gradually or at once, the cumulative face value of which is 5%, 10%, 20%, 33%, 50% and 75% of the voting shares in a bank or savings house, irrespective of the fact whether the shares are acquired by one or more affiliated entities, directly or indirectly;
5. Approval to amend the Statute of a bank or a savings house;
6. Approval to appoint an executive body of a bank or a savings house;
7. Approval to establish a bank and open a branch office, subsidiary, or a representative office abroad;
8. Approval to amend the title, main office and address of a bank or a savings house

[37] Limits stipulated in Article 39 of the Banking Law.
[38] Sound Practices for Management and Supervision of Operational Risk (Basle Committee Publications No.96 - February 2003).

9. Approval to establish a brokerage house, authorized to work in its own behalf and for its own account by a bank or a savings house
10. Approval for capital investment of a bank or a savings house in a financial or non-financial institution in the country or abroad, that amounts more than 10% of the guarantee capital of the bank, except for capital investments of a bank in another bank and establishing a brokerage house authorized to work on its own behalf and its own account for which prior approval of the National Bank is required, irrespective of the amount of the investments against the guarantee capital;
11. Approval for inspection by a third party in the report of a performed supervision on a bank or a savings house;
12. Approval to amend the Decision on issuing founding and operating license of a bank or a savings house;
13. Approval to the Policy for safety of a bank information system; and
14. Approval to open a representative office of a foreign bank or other foreign financial institution in the Republic of Macedonia.

Within the process of licensing, the National Bank scrutinizes the source of funds used to purchase shares and stakes in banks and savings houses. For each purchase of shares, or stakes, which would change the total shareholding by 1% - 5%, that is, the stakes with a voting right, the legal entities and natural persons have the obligation to give an account on the source of the funds used to purchase the shares or the stakes in the banks and the savings houses (Article 26 of the Banking Law). The main goal of this licensing procedure segment is to protect the banking system integrity through preventing inflow of capital from dubious sources and to provide transparent shareholding structures as a foundation of a safe, stable and efficient banking system.

Bellow are given tables showing the number of issued or not issued licenses and approvals, as well as withdrawn license or approval applications, by banks and savings houses in 2004 and 2005.

The greatest part of the licensing activities in 2005 refers to approvals issued for a statute and for an executive body of a bank. The amendments to the bank statutes, to a large extent, are a result of the compliance with the new Law on Trade Companies, which stipulated that the trade companies, including banks, had the obligation to comply their internal acts with the provisions of this Law by 30.06.2005, at latest.

Table 21
Types and number of issued, i.e. non-issued licenses and approvals

Type of license (banks)	January-December 2004			January-December 2005		
	Issued	Refused	Withdrawn	Issued	Refused	Withdrawn
Status changes				1		
Acquiring 5%, 10%, 20%, 33%, 50% and 75% of voting shares	5	2	1	1	2	1
Statute	8		1	26		
Executive body	25		1	25		4
Change in the title, main office and address	1			3	1	
Capital investment				2	1	
Insight in report	2		2	10	1	
Amendment to the Decision on issuing license of a bank	3					
Total	**44**	**2**	**5**	**68**	**5**	**5**

Type of license (savings houses)	January-December 2004			January-December 2005		
	Issued	Refused	Withdrawn	Issued	Refused	Withdrawn
Status change		1				
Transformation of a savings house into a bank		2				
Acquiring 5%, 10%, 20%, 33%, 50% and 75% of voting shares, i.e. stakes	2			2		
Statute	5			3		1
Executive body	3	2		2	1	
Change in the title, main office and address	3					
Total	**13**	**5**		**7**	**1**	**1**

In 2005, as part of the National Bank activities to examine the source of the funds used to purchase shares and stake in banks and savings houses, a positive assessment of the attestations provided for the source of the funds, was given to eighteen reports (eleven for banks and seven for savings houses).

2.2. Supervision on banks and savings houses operating

2.2.1. On-site examination of banks and savings houses

In 2005, a total number of 35 on-site examinations[39] over the operations of banks and savings houses in the Republic of Macedonia were made. Of them, 20 were examinations of the overall operating of 10 banks and 10 savings houses, whilst 15 examinations were of partial character. In addition, in 2005, there were partial examinations conducted once a month over all savings houses, regarding posting of updated lists of saving deposits[40].

The dominant component of the on-site examinations was the analysis of the asset quality, that is, the estimation and the quantification of the credit risk, as the dominant risk that the banks and the savings houses are exposed to. Simultaneously, during the on-site examinations, special attention was paid to the following aspects of the banks and savings houses' operating:

- the layout and the functioning of the internal control systems and the internal audit, as well as of the money laundering prevention systems;
- the organization and the functioning of the corporate management;
- the risk management, especially the liquidity risk management and the risk of the exchange rates fluctuation; and,
- the level of capitalization of the banks and savings houses from the aspect of covering of risks they are exposed to.

The positive movements in the banking system could be verified by the findings of the on-site examinations of banks and savings houses, performed during 2005. It can be concluded that, generally, the overall risk profile of the banks is improving. Also, the bank risk management systems and corporate management systems register significant improvement compared to the previous controls. The credit risk continues to remain the dominant risk the banks are faced with. The banks make continuous improvement of the risk monitoring and management systems, from the aspect of credit risk quantification. An indication of this is the fact that the amount of additional loan loss provisions from the credit portfolio, confirmed with the controls, is negligible, or it is on a significantly lower level compared to those of before.

However, certain banks have been found with weaknesses, which mainly refer to the following:

- the problem with the high amount of assumed tangible assets as a result of uncollected claims, i.e. high share of the non-interest bearing assets in the overall asses, which has negative impact on the profit making potential;
- weaknesses in the organization and the functioning of the internal audit, as well as inadequately established systems for corporate management, which is

[39] Of the total number of 35 examinations, 34 were completed by the end of the year, while one was still underway on 31.12.2005

[40] This obligation of the savings houses is stipulated in the Decision on determining the scope and the manner of operating of the savings houses

reflected through the weaknesses in performing the functions of the Board of Directors, the Audit Board, and the Risk Management Board;

- weaknesses in the internal money laundering prevention systems , especially in identifying suspicious and linked transactions;
- weaknesses in the accounting systems and financial reporting.

Improved performances of the banking system have been confirmed with the summary[41] rating of the banks and savings houses. Namely, in 2005 in comparison with the previous year, improvements in the summary rating of the banks and savings houses were registered. So, in 2005 the average weighted summary rating of the banks[42] equals 2.34, compared to 2004 when it equaled 2.44. The average weighted summary rating of the savings houses[43] for 2005 is 1.97, compared to 2004 when it was 2.13

2.2.2 Regulation application control

Pursuant to the provisions under Article 24 and 32 of the Law on the National Bank of the Republic of Macedonia, in 2005, there were 33 on-site examinations of the application of regulations by banks and savings houses. Sixteen examinations covered the overall work of the banks, 5 were examinations of a particular operating segment, while 12 were examinations of the operating of savings houses.

2.2.3. Supervision of the safety of the banks' information system (IT supervision)

In 2005, six full-scope and five partial controls of the safety of the banks' information system were carried out. The focus of the controls was determining the level of implementation of the standards for safety of the banks' information system. The main conclusions resulting from the performed controls were as follows:

- In some of the supervised banks a training of the management body in the area of information safety is required, since the executive body fails to give complete support to the implementation of safe information system;
- In some banks, the implemented controls of the main server providing protection and safety of the information are insufficient, since they have weak internal mechanisms for protection of their own data on the test servers;
- Part of the banks failed to complete full-scope assessment of risks to the information system and they implement internal controls non-systematically;
- Certain banks have no adequate business continuity plans, since their plans pertains only to the ensuring continuity of the informatics equipment;
- The banks should make analysis of the services they provide through external service providers, together with simultaneous revision of the current contracts according to the legal framework;

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[41] The summary rating of the banks' operations is determined by the CAMELS rating system, which is comprised of analysis and evaluation of the capital, the asset quality, assets and liabilities management, monitoring of risks the banks are exposed to during their operating, profitability and the overall process of corporate bank management. The summary rating shows the level of the supervisory interest in each bank and savings house and its intention is solely for conducting the National Bank’s supervisory role.

[42] The ratings average for each bank weighted with the amount of its assets.

[43] The ratings average for each savings house weighted with the amount of its assets.

- The banks should advance the technical controls for providing adequate and safe information system;
- Improper organization and staff capacity in the organizational units competent for the information system with some of the banks is registered.

According to the Decision on defining the standards for ensuring banks' information security, the banks were required to submit request for previous approval for the Policy for safety of information system to the National Bank until the end of 2005. According to the submitted documentation, it was concluded that although larger part of the banks reached significant progress in ensuring more safe information system, some of them still fails to meet the conditions for obtaining prior approval from the Governor of the National Bank.

2.3. Undertaken corrective activities against banks and savings houses

Within its legal authorizations, and in order to maintain the stability and safety of certain banks and savings houses, the National Bank undertakes corrective activities against deposit money institutions in which irregularities in the operating were registered. In 2005, the National Bank adopted twenty decisions on corrective actions against eleven banks and two savings houses and submitted twenty requests for pressing misdemeanor charges against twelve banks and two savings houses and their persons in charge. Also, within this period the National Bank lodged two criminal charges, with one of them being pressed against a conservator of a bank under conservatorship and former members of executive body in a bank and one charge against the persons in charge of legal entities - bank shareholders.

In 2005, a founding and operating license of Radobank AD Skopje was revoked, with the fulfillment of the terms and conditions for initiating bankruptcy proceeding against this banks being determined.

In Table 22, the undertaken measures and the number of banks and savings houses they pertain to are presented.

Table 22
Types and number of undertaken measures

Type of measure	Number of banks	Number of savings houses
Appointing trustee	1	
Ban on performing all bank activities, except collection of claims	1	
Ban on extending credits and other types of credit exposures, which are not collateralized with first class collateral instruments	2	
Ban on extending credits and other types of credit exposures against groups of insiders and persons affiliated thereto, until the reconciliation with the credit exposure limit to bank insiders	1	
Ban on acquiring capital shares in financial and non-financial institutions, increasing the current capital shares and broadening of the operating network, until the reconciliation with the capital investments limit	1	
Revocation of authorization for issuing foreign exchange cards in the country	1	

Table 22
Types and number of undertaken measures

Type of measure	Number of banks	Number of savings houses
Increasing capital	2	
Exclusion from the payment operations and ban on payment from the bank's account, except for collection of claims and payment of expenses based on activities aimed at prevention of bank's property reduction	1	
Ban on approving new uncovered off-balance sheet exposures, without prior verification by authorized person of the National Bank	1	
Obligation for cessation of performing financial activities under Article 46 of the Banking Law (which refer to a bank having capital beyond Euro 9 million in Denar denomination)	1	
Obligation for sale of shares a bank owns in other bank	1	
Obligation for reducing the share of a bank shareholder below 10% of the voting shares	2	
Obligation for replacement of the management bodies' members	1	
Obligation for reducing the amount of preference shares and the shares without voting right within the limit (Article 10 paragraph 1 of the Banking Law)	4	
Limiting the voting right of a group of affiliated shareholders	2	
Authorization of National Bank employee to supervise the implementation of the corrective actions stated against the bank	2	
Verification of orders by authorized National Bank employees	1	
Obligation for submitting recapitalization plan, including a plan for reconciliation of the bank with the prescribed credit exposure and capital investment limits	1	
Obligation for gain allocation for covering losses from previous years	1	
Obligation for complying with the credit exposure limit against single entity (Article 35 paragraph 1 of the Banking Law)	1	
Obligation for complying with the credit exposure limit against single shareholder owning more than 5% of the voting share (Article 35 paragraph 2 of the Banking Law)	3	
Obligation for complying with the credit exposure limit towards bank's insiders (Article 35 paragraph 3 of the Banking Law)	1	
Obligation for complying with the limit for capital investments of banks (Article 39 paragraph 1 of the Banking Law)	3	
Obligation for reclassification of the claims on clients according to statements arising from on-site examination of the operating	3	
Obligation for undertaking enhanced activities for assumed tangible assets and fixed assets of the bank, as well as collection of due claims	2	
Obligation for changing the building where the bank's main office is located in with a building that will have adequate technical equipment and suitable physical protection	1	
Obligation for closing foreign exchange accounts of a bank in foreign banks	2	
Restriction of entertainment and advertising expenses	1	
Obligation for Internal Audit Department reorganization	3	
Obligation for appointing person in charge of the information system safety	1	

Table 22
Types and number of undertaken measures

Type of measure	Number of banks	Number of savings houses
Obligation for complete revision of the credit policy and credit procedures		1
Obligation for establishing adequate system for identification, measurement and monitoring of the credit risk	2	
Obligation for establishing system for recording the credits classified in risk categories D and E and credits the interest on which is not collected longer than 90 days.	1	
Obligation for establishing adequate system for identification of affiliated entities	1	1
Obligation for developing a system for identifying and monitoring transactions related to money laundering	2	
Obligation for establishing a system for updated accounting record		1
Obligation for strengthening the exchange rate risk monitoring system	1	
Obligation for establishing module in the information system for adequate and automatic transfer of due claims on appropriate book-keeping account	1	
Obligation for establishing module in the information system for adequate and automatic transfer of non-performing loans to appropriate book-keeping account	1	1
Obligation for defining and implementation of the protection mechanisms for processing transactions from the payment system area	1	
Obligation for procurement of alternative communication device or preparation of plan and scenario for conducting operations of a bank in terms of terminated functioning of the main communication devices	1	
Obligation for dislocation of external company from bank premises and establishing physical protection mechanisms for controlling the safety of the information system	1	
Obligation for establishing adequate data protection on remote location in fire-resistant safe and occasional testing of the successfulness of such a protection	1	
Obligation for transferring funds from foreign exchange accounts with foreign banks to foreign exchange accounts with domestic bank authorized for performing international payment operations	1	
Obligation for sale of excess foreign assets based on foreign exchange saving of households, to National Bank or other bank authorized for performing international payment operations	1	
Obligation for sale of excess foreign assets based on foreign exchange accounts of natural persons to National Bank or other bank authorized for performing international payment operations	1	
Obligation for notifying foreign banks and other non-residents of revoked authorization for conducting international payment operations and credit guarantee operations	1	
Obligation for notifying domestic legal entities of revoked authorization for conducting international payment operations and credit guarantee operations	1	

Table 22
Types and number of undertaken measures

Type of measure	Number of banks	Number of savings houses
Obligation for notifying domestic and foreign natural persons of revoked authorization for conducting international payment operations and credit guarantee operations	1	
Obligation for updating shareholders book	1	
Obligation for providing adequate accounting record of commission operating	1	
Obligation for appropriate presentation of the total credit exposure to individual client according to the prescribed methodology	1	
Obligation for appropriate accounting record of undertaken facilities	2	
Obligation for updating the documentation for the members of the Board of Directors	2	

Within the accomplishment of the supervisory function, in 2005, the voting right was limited in three cases of acquiring shares in a bank by legal entities and natural persons without prior approval from the National Bank. Also, the voting right has been restricted in 17 cases of acquiring shares in five banks by legal entities and natural persons violating Article 26 of the Banking Law, i.e. without appropriate proof for the sources of funds for acquiring shares being submitted.

ANNEX

Annex 1

Balance Sheet

in millions of denars

ASSETS	31.12.2005				31.12.2004			
	Group of large banks	***Group of medium-size banks***	***Group of small-size banks***	***Total***	***Group of large banks***	***Group of medium-size banks***	***Group of small-size banks***	***Total***
CASH AND BALANCES WITH NBRM	***4,561***	***1,366***	***2,056***	***7,982***	***3,155***	***529***	***1,417***	***5,100***
Denar cash	3,499	875	1,665	6,039	2,433	274	934	3,641
Foreign currency cash	1,062	490	389	1,941	720	255	480	1,455
Precious metals and other cash	0	0	2	3	1	0	3	4
CB BILLS	***4,072***	***2,379***	***2,483***	***8,934***	***1,246***	***1,146***	***2,073***	***4,465***
DEBT SECURITIES	***6,516***	***447***	***409***	***7,372***	***1,092***	***153***	***408***	***1,653***
Checks and bills of exchange	45	47	41	16,306	40	45	45	131
Denar-nominated Government securities	6,167	47	145	6,359	821	57	80	958
Other debt securities	305	352	223	880	231	51	283	565
PLACEMENTS TO OTHER BANKS	***30,337***	***4,676***	***8,146***	***43,158***	***29,937***	***3,336***	***7,058***	***40,331***
Accounts with domestic banks	4,040	596	1,087	5,723	2,622	300	903	3,824
Accounts with foreign banks	26,081	3,999	5,141	35,221	27,182	2,988	4,872	35,043
Short-term loans and other claims on domestic banks and other financial organizations	77	2	173	252	59	47	277	382
Short-term loans and other claims on foreign banks and other financial organizations	76	76	278	430	31	0	5	35
Past due loans and claims on banks	0	0	0	0	0	0	0	0
Long-term loans and other claims on domestic banks and other financial organizations	62	3	419	484	43	0	122	164
Long-term loans and other claims on foreign banks and other financial organizations	0	0	867	867	0	0	579	579
Non-performing loans from banks	0	1	182	183	0	1	301	303
LOANS TO CLIENTS	***39,964***	***7,367***	***11,577***	***58,908***	***31,812***	***5,170***	***11,093***	***48,076***
Loans to enterprises	25,553	5,674	6,681	37,908	21,197	4,832	6,606	32,635
Loans to other clients	181	43	157	381	600	9	107	716
Loans to households	13,364	1,955	4,869	20,189	9,385	519	4,386	14,290
Non-performing loans to clients	8,529	275	1,515	10,319	6,807	296	2,624	9,727
Special loan reserve	-7,663	-580	-1,645	-9,889	-6,176	-487	-2,629	-9,292
ACCRUED INTEREST AND OTHER ASSETS	***3,249***	***319***	***2,611***	***6,178***	***2,231***	***220***	***3,132***	***5,583***
Interest claims	359	80	154	593	268	63	192	524
Suspended interest and other claims	4,373	125	573	5,071	3,712	121	982	4,815
Special interest reserve	-4,394	-130	-579	-5,103	-3,730	-125	-990	-4,845
Other claims	972	1	250	1,223	-91	-7	390	291
Foreclosures	1,831	224	2,292	4,348	2,013	147	2,641	4,800
Net commission relations	-26	0	-152	-177	-6	0	-123	-129
Net internal relations	*0*	*0*	*0*	0	0	0	-2	-2
Other assets	134	19	72	225	66	20	43	129
PLACEMENTS IN SECURITIES	***581***	***79***	***879***	***1,539***	***6,099***	***97***	***693***	***6,889***
Securities available for sale in foreign currency	152	0	59	210	192	0	58	250
Securities in foreign currency held to maturity	0	0	0	0	5,502	0	0	5,502
Investments in domestic equity securities	429	79	820	1,328	405	97	634	1,136
Special reserve for repurchased own securities	0	0	0	0	0	-1	1	0
FIXED ASSETS	***3,557***	***615***	***2,304***	***6,476***	***3,810***	***446***	***2,267***	***6,523***
Buildings	3,158	471	1,834	5,463	2,985	433	1,568	4,987
Equipment	2,288	312	920	3,520	2,205	183	1,026	3,414
Intangible investments	275	41	86	402	294	2	112	407
Other means of operation	60	4	50	114	49	2	42	93
Means of operation in preparation	80	33	355	469	300	21	399	720
Correction of value of fixed assets	-2,304	-246	-941	-3,491	-2,022	-195	-881	-3,098
UNALLOCATED LOAN LOSS PROVISIONS	***0***	***-3***	***-109***	***-113***	***-524***	***0***	***-110***	***-634***
TOTAL ASSETS	***92,835***	***17,245***	***30,356***	***140,436***	***78,858***	***11,096***	***28,031***	***117,985***

Annex 1

Balance Sheet

in millions of denars

LIABILITIES	31.12.2005				31.12.2004			
	Group of large banks	Group of medium-size banks	Group of small-size banks	Total	Group of large banks	Group of medium-size banks	Group of small-size banks	Total
BANK DEPOSITS	**1,247**	**333**	**1,137**	**2,717**	**741**	**133**	**662**	**1,537**
Denar sight deposits	200	14	11	224	35	1	6	42
Foreign currency sight deposits of domestic banks	135	48	83	266	112	44	61	217
Foreign currency sight deposits of foreign banks	226	0	254	479	253	0	203	456
Short-term time Denar deposits	499	163	249	911	265	85	221	570
Short-term time foreign currency deposits	188	108	403	699	77	0	44	120
Long-term time Denar deposits	0	0	138	138	0	0	127	127
Long-term time foreign currency deposits	0	0	0	0	0	3	0	3
SIGHT DEPOSITS	**35,160**	**5,268**	**7,841**	**48,269**	**32,432**	**3,600**	**7,823**	**43,856**
Denar sight deposits of enterprises	7,242	952	1,972	10,166	6,480	631	1,905	9,016
Denar sight deposits of public sector	346	222	281	849	521	26	197	744
Denar sight deposits of other clients	1,260	130	343	1,734	1,105	86	323	1,514
Denar sight deposits of households	6,116	759	1,697	8,572	5,402	569	1,479	7,450
Restricted Denar deposits	278	62	100	439	288	65	125	478
Foreign currency sight deposits of legal entities	4,213	748	1,235	6,195	4,552	604	1,544	6,700
Foreign currency sight deposits of households	15,423	2,320	2,037	19,780	13,722	1,549	2,122	17,393
Restricted foreign currency deposits	283	75	177	535	361	71	130	561
SHORT-TERM DEPOSITS UP TO 1 YEAR	**35,039**	**5,152**	**5,729**	**45,920**	**27,888**	**3,279**	**3,859**	**35,025**
Denar short-term deposits of enterprises	7,250	1,847	955	10,051	7,642	1,266	729	9,637
Denar short-term deposits of public sector	472	85	167	723	486	80	136	702
Denar short-term deposits of other clients	504	14	144	662	266	14	192	472
Denar short-term deposits of households	5,981	643	1,258	7,882	4,111	322	846	5,278
Foreign currency short-term deposits of legal entities	4,616	767	1,117	6,500	3,284	448	357	4,089
Foreign currency short-term deposits of other clients	1,148	98	275	1,521	228	0	90	318
Foreign currency short-term deposits of households	15,067	1,699	1,815	18,581	11,871	1,149	1,509	14,530
SHORT-TERM BORROWINGS UP TO 1 YEAR	**201**	**0**	**18**	**219**	**610**	**35**	**200**	**845**
Short-term Denar borrowings from domestic banks	121	0	8	129	196	0	75	271
Short-term Denar borrowings from foreign banks	80	0	10	89	414	35	125	574
Short-term Denar borrowings from others	0	0	0	0	0	0	0	0
OTHER LIABILITIES	**1,988**	**713**	**975**	**3,676**	**2,246**	**447**	**1,175**	**3,868**
Payable interest	299	63	65	426	170	14	70	253
Other Denar liabilities	1,317	582	808	2,707	1,495	422	939	2,856
Other foreign currency liabilities	245	18	63	326	502	8	69	578
Other differed credits	127	51	39	217	79	3	97	180
LONG-TERM DEPOSITS OVER 1 YEAR	**1,341**	**820**	**1,571**	**3,732**	**1,767**	**447**	**1,189**	**3,403**
Denar long-term deposits of enterprises	325	0	311	635	135	6	268	409
Denar long-term deposits of public sector	0	48	0	48	53	46	0	99
Denar long-term deposits of other clients	17	76	187	280	10	0	21	31
Denar long-term deposits of households	507	355	456	1,318	1,028	299	391	1,718
Foreign currency long-term deposits of other clients	1	0	2	3	8	0	0	8
Foreign currency long-term deposits of households	490	341	616	1,448	533	96	508	1,137
LONG-TERM BORROWINGS OVER 1 YEAR	**7,611**	**2,211**	**3,106**	**12,927**	**4,164**	**1,159**	**3,497**	**8,819**
Long-term borrowings from NBRM	158	750	29	937	174	592	250	1,016
Long-term Denar borrowings from domestic banks	331	59	157	546	115	32	19	166
Long-term foreign currency borrowings from domestic banks	11	262	697	970	16	0	522	538
Long-term borrowings from foreign banks	6,602	835	1,887	9,324	3,299	534	2,343	6,177
Long-term borrowings from others	508	0	305	813	559	0	364	923
Long-term borrowings from non-financial legal entities	0	0	27	27	0	0	0	0
Long-term foreign currency borrowings from others	0	306	0	306	0	0	0	0
Assumed long-term foreign currency liabilities	0	0	4	4	0	0	0	0
PROVISIONS FOR OFF-BALANCE SHEET ITEMS	**637**	**36**	**40**	**713**	**522**	**27**	**61**	**610**
OWN FUNDS	**9,612**	**2,712**	**9,937**	**22,262**	**8,487**	**1,970**	**9,565**	**20,023**
Equity capital	7,626	2,467	9,418	19,510	7,626	1,706	9,906	19,237
Reserve fund	1,886	232	1,165	3,284	1,368	214	1,132	2,714
Revaluation reserves	132	0	272	404	40	0	11	52
Unallocated gain from previous years	29	53	51	133	48	50	50	148
Other funds	1	0	88	90	1	0	0	1
Loss	-62	-36	-948	-1,046	-72	0	-1,424	-1,497
Unallocated loan loss provisions	0	-3	-109	-113	-524	0	-110	-634
TOTAL LIABILITIES	**92,835**	**17,245**	**30,356**	**140,436**	**78,858**	**11,096**	**28,031**	**117,985**

Annex 2

Income Statement

in millions of denars

Income statement	31.12.2005				31.12.2004			
	Group of large banks	***Group of medium-size banks***	***Group of small-size banks***	***Total***	***Group of large banks***	***Group of medium-size banks***	***Group of small-size banks***	***Total***
INTEREST INCOME	***4,834***	***1,140***	***1,696***	***7,670***	***3,699***	***655***	***1,565***	***5,920***
banks	419	239	325	983	405	160	267	832
enterprises	2,123	591	681	3,395	1,742	475	706	2,924
households	1,624	286	601	2,511	1,044	56	563	1,662
others	787	45	148	981	614	1	102	717
cancelled income	-119	-22	-58	-199	-105	-37	-73	-215
INTEREST EXPENDITURE	***-2,116***	***-343***	***-554***	***-3,013***	***-1,617***	***-215***	***-479***	***-2,310***
banks	-362	-42	-82	-486	-266	-15	-92	-373
enterprises	-618	-107	-114	-839	-387	-83	-80	-551
households	-769	-114	-198	-1,081	-645	-80	-167	-891
others	-88	-44	-114	-246	-81	-11	-98	-189
insurance premium	-279	-35	-47	-360	-238	-27	-42	-306
NET INTEREST INCOME	***2,718***	***797***	***1,142***	***4,657***	***2,082***	***440***	***1,087***	***3,609***
NET PROVISIONS	***-1,979***	***-72***	***-384***	***-2,436***	***-1,241***	***-52***	***-686***	***-1,979***
Provisions	-2,386	-105	-533	-3,024	-1,686	-81	-1,045	-2,813
Provisions recovery	407	33	149	588	445	29	360	834
NET INTEREST INCOME AFTER PROVISIONING	***738***	***725***	***758***	***2,221***	***841***	***388***	***401***	***1,630***
NET FEES AND COMMISSIONS INCOME	***1,805***	***237***	***583***	***2,625***	***1,510***	***140***	***618***	***2,268***
Fees and commissions income	2,013	283	751	3,047	1,664	173	790	2,627
Fees and commissions expenses	-209	-46	-168	-423	-154	-33	-172	-359
DIVIDENDS	***2***	***3***	***7***	***12***	***12***	***2***	***14***	***28***
NET INCOME FROM SECURITIES	***39***	***0***	***2***	***41***	***28***	***0***	***1***	***30***
NET CAPITAL INCOME	***58***	***1***	***-59***	***0***	***267***	***-4***	***-81***	***182***
NET EXCHANGE RATE DIFFERENTIALS	***425***	***68***	***133***	***626***	***248***	***50***	***114***	***412***
OTHER INCOME	***1,347***	***118***	***890***	***2,356***	***1,446***	***76***	***687***	***2,209***
Other income	437	8	139	584	492	6	198	696
Extraordinary income	910	110	751	1,771	955	69	489	1,513
GENERAL AND ADMINISTRATIVE EXPENSES	***-3,115***	***-626***	***-1,444***	***-5,185***	***-2,872***	***-299***	***-1,604***	***-4,776***
Salary	-1,633	-328	-714	-2,675	-1,508	-188	-791	-2,487
Depreciation	-497	-62	-189	-748	-489	-33	-214	-736
Tangible expenses	-182	-53	-108	-343	-177	-27	-145	-348
Service expenses	-607	-134	-360	-1,102	-524	-36	-366	-926
Business trip expenses	-31	-10	-21	-62	-31	-4	-24	-59
Representation expenses	-166	-38	-52	-255	-144	-11	-65	-219
OTHER EXPENSES	***-251***	***-42***	***-451***	***-743***	***-373***	***-25***	***-153***	***-550***
Other expenses	-227	-40	-114	-381	-364	-24	-137	-525
Extraordinary expenses	-24	-2	-337	-363	-9	-0	-16	-25
GROSS INCOME / LOSS	***1,048***	***485***	***420***	***1,952***	***1,108***	***328***	***-3***	***1,433***
INCOME TAX	106	61	81	249	76	22	88	186
NET INCOME AFTER TAXATION / LOSS	***941***	***424***	***338***	***1,704***	***1,032***	***306***	***-90***	***1,247***

Annex 3

Indicators for the credit portfolio quality

in millions of denars

Items	31.12.1999	31.12.2000	31.12.2001	30.06.2002	31.12.2002	30.06.2003	31.12.2003	30.06.2004	31.12.2004	30.06.2005	31.12.2005
A	21,617	21,530	23,303	68,660	67,337	69,537	77,686	83,033	91,394	100,541	108,913
B	8,083	11,432	11,844	11,892	11,018	10,959	10,871	11,942	12,025	14,495	16,487
C	8,218	6,121	7,891	6,854	6,269	6,296	4,602	4,318	4,826	5,074	4,473
D	9,175	7,122	7,740	6,923	6,497	5,868	5,735	4,716	4,191	3,761	4,420
E	3,541	4,372	2,260	3,198	2,094	3,633	5,413	6,204	6,744	6,593	6,403
Total credit exposure	**50,634**	**50,576**	**53,040**	**97,527**	**93,214**	**96,293**	**104,306**	**110,213**	**119,179**	**130,464**	**140,696**
Potential losses	**11,424**	**10,842**	**9,609**	**9,876**	**8,166**	**9,422**	**10,719**	**11,117**	**11,591**	**11,600**	**11,753**
total C, D, E	**20,934**	**17,615**	**17,892**	**16,975**	**14,860**	**15,797**	**15,749**	**15,238**	**15,761**	**15,428**	**15,296**
total D, E	**12,716**	**11,494**	**10,001**	**10,121**	**8,591**	**9,501**	**11,148**	**10,920**	**10,935**	**10,354**	**10,823**
total C and D	**17,393**	**13,243**	**15,632**	**13,777**	**12,766**	**12,164**	**10,336**	**9,034**	**9,017**	**8,835**	**8,893**
% of C, D, E in the total credit exposure	**41.34**	**34.83**	**33.73**	**17.41**	**15.94**	**16.41**	**15.10**	**13.83**	**13.22**	**11.83**	**10.87**
% of D, E in the total credit exposure	**25.11**	**22.73**	**18.85**	**10.38**	**9.22**	**9.87**	**10.69**	**9.91**	**9.18**	**7.94**	**7.69**
% of C, D in the total credit exposure	**34.35**	**26.18**	**29.47**	**14.13**	**13.70**	**12.63**	**9.91**	**8.20**	**7.57**	**6.77**	**6.32**
% of D in the total credit exposure	**18.12**	**14.08**	**14.59**	**7.10**	**6.97**	**6.09**	**5.50**	**4.28**	**3.52**	**2.88**	**3.14**
% of E in the total credit exposure	**6.99**	**8.64**	**4.26**	**3.28**	**2.25**	**3.77**	**5.19**	**5.63**	**5.66**	**5.05**	**4.55**
% of C in the total credit exposure	**16.23**	**12.10**	**14.88**	**7.03**	**6.73**	**6.54**	**4.41**	**3.92**	**4.05**	**3.89**	**3.18**
% of risk (potential loss/total exposure)	**22.56**	**21.44**	**18.10**	**10.13**	**8.76**	**9.78**	**10.28**	**10.09**	**9.73**	**8.89**	**8.35**
Net positions in C, D, E (less adequate provisions)	**10,751**	**8,152**	**9,789**	**8,602**	**7,950**	**7,656**	**6,318**	**5,597**	**5,715**	**5,686**	**5,565**
Guarantee capital	**14,404**	**18,708**	**18,699**	**18,487**	**19,122**	**18,669**	**19,441**	**19,571**	**19,397**	**21,106**	**21,292**
% of C, D, E in the guarantee capital	**145.34**	**94.15**	**95.68**	**91.82**	**77.71**	**84.62**	**81.01**	**77.86**	**81.25**	**73.10**	**71.84**
% of D, E in the guarantee capital	**88.28**	**61.44**	**53.48**	**54.75**	**44.93**	**50.89**	**57.34**	**55.80**	**56.37**	**49.06**	**50.83**
% of C, D in the guarantee capital	**120.75**	**70.79**	**83.60**	**74.52**	**66.76**	**65.16**	**53.17**	**46.16**	**46.49**	**41.86**	**41.77**
% of D in the guarantee capital	**63.70**	**38.07**	**41.39**	**37.45**	**33.98**	**31.43**	**29.50**	**24.10**	**21.61**	**17.82**	**20.76**
% of E in the guarantee capital	**24.59**	**23.37**	**12.09**	**17.30**	**10.95**	**19.46**	**27.84**	**31.70**	**34.77**	**31.24**	**30.07**
% of C in the guarantee capital	**57.05**	**32.72**	**42.20**	**37.07**	**32.79**	**33.72**	**23.67**	**22.06**	**24.88**	**24.04**	**21.01**
% of net C, D, E in the guarantee capital	**74.64**	**43.57**	**52.35**	**46.53**	**41.58**	**41.01**	**32.50**	**28.60**	**29.46**	**26.94**	**26.13**
Capital adequacy	**28.70**	**36.73**	**35.26**	**27.50**	**28.10**	**27.20**	**25.80**	**25.70**	**23.03**	**23.10**	**21.32**
Total country risk exposure (net)				27,981	**29,438**	**30,087**	**31,195**	**32,142**	**35,278**	**38,377**	**35,589**
Potential country risk losses				137	**8**	**23**	**12**	**60**	**13**	**42**	**42**
% of potential country risk losses/ total country risk exposure				**0.49**	**0.03**	**0.08**	**0.04**	**0.19**	**0.04**	**0.11**	**0.12**

Annex 4

Shareholder structure of banks in the Republic of Macedonia as of December 31, 2005

Ref. no.	Type of shareholder	Nominal value of common shares (in millions of denars)	Share of common shares	Nominal value of preference shares (in millions of denars)	Share of preference shares
1	**Natural persons**	**1,773**	**10.4%**	**461**	**64.7%**
1.1	domestic	839	4.9%	454	63.7%
1.2	foreign	934	5.5%	7	1.0%
2	**Non-financial legal entities**	**7,310**	**42.9%**	**154**	**21.6%**
2.1	domestic	4,801	28.2%	152	21.4%
2.2	foreign	2,509	14.7%	2	0.2%
3	**Financial institutions - banks**	**4,820**	**28.3%**	**38**	**5.4%**
3.1	domestic	460	2.7%	25	3.5%
3.2	foreign banks in dominant state ownership	838	4.9%	0	0.0%
3.3	foreign banks in dominant private ownership	3,522	20.7%	13	1.9%
4	**Other financial institutions**	**1,597**	**9.4%**	**45**	**6.3%**
4.1	domestic	157	0.9%	1	0.2%
4.2	foreign	329	1.9%	3	0.4%
4.3	international financial institutions	1,110	6.5%	41	5.8%
5	**Public sector**	**1,047**	**6.2%**	**10**	**1.4%**
6	**Public enterprises**	**353**	**2.1%**	**0**	**0.0%**
7	**State-owned enterprises (non-privatized)**	**23**	**0.1%**	**3**	**0.5%**
8	**Undefined status**	**99**	**0.6%**	**1**	**0.1%**
	Total (1+2+3+4+5+6+7+8)	***17,021***	***100.0%***	***713***	***100.0%***
	Total private capital (1+2+3+4+8)	***15,599***	***91.6%***	***700***	***98.1%***

Annex 5

Contractual maturity structure of the assets and the liabilities as of December 31, 2005

in millions of denars

Ref. no.	Description	to 7 days	from 7 days to 1 month	from 1 month to 3 months	3 - 6 months	6 - 12 months	over 12 months	Total
1	2	3	4	5	6	7	8	9
	Assets							
1	Cash and balances with NBRM	7,098	3	4	1	15	6,186	**13,307**
2	Securities of NBRM and Republic of Macedonia	1,810	7,380	476	417	440	5,520	**16,042**
3	Debt securities and other payment instruments	72	49	19	10	3	59	**210**
4	Placements to other banks	17,327	16,806	659	627	834	1,575	**37,828**
5	Placements to clients	2,926	3,347	6,642	8,400	12,894	34,397	**68,607**
6	Accrued interest	359	120	90	4	7	5,089	**5,668**
7	Other assets	1,194	495	540	29	163	410	**2,832**
8	Placements in equity securities and capital investments	22	0	252	0	18	1,269	**1,560**
9	**Total assets (1+2+3+4+5+6+7+8)**	**30,808**	**28,201**	**8,681**	**9,488**	**14,374**	**54,504**	**146,055**
	Liabilities							
10	Bank deposits	1,227	542	545	200	83	139	**2,736**
11	Sight deposits	47,385	497	33	52	44	246	**48,258**
12	Short-term deposits up to 1 year	4,266	15,561	13,197	6,558	6,075	229	**45,887**
13	Short-term borrowings up to 1 year	0	21	89	0	106	0	**217**
14	Issued debt securities	0	0	0	0	0	0	**0**
15	Other liabilities	835	504	129	3	61	39	**1,571**
16	Long-term deposits over 1 year	146	109	169	248	799	2,261	**3,732**
17	Long-term borrowings over 1 year	5	159	320	406	1,266	10,768	**12,925**
18	Off-balance sheet items	335	322	936	893	1,500	492	**4,478**
19	**Total liabilities (10+11+12+13+14+15+16+17+18)**	**54,200**	**17,715**	**15,419**	**8,360**	**9,935**	**14,175**	**119,803**
20	**Difference (9-19)**	**-23,392**	**10,486**	**-6,739**	**1,128**	**4,439**	**40,329**	**26,252**
21	**Cumulative difference**	**-23,392**	**-12,907**	**-19,645**	**-18,517**	**-14,078**	**26,252**	

Annex 6

Expected maturity structure of the assets and the liabilities as of December 31, 2005

in millions of denars

Ref. no.	Description	to 7 days	from 7 days to 1 month	from 1 month to 3 months	TOTAL
1	2	3	4	5	6
	Assets				
1	Cash and balances with NBRM	6,635	4	3	**6,641**
2	Securities of NBRM and Republic of Macedonia	1,775	7,254	563	**9,593**
3	Debt securities and other payment instruments	72	48	17	**137**
4	Placements to other banks	16,327	16,932	907	**34,166**
5	Placements to clients	2,156	3,038	5,196	**10,391**
6	Accrued interest	305	132	163	**600**
7	Other assets	570	123	546	**1,239**
8	Placements in equity securities and capital investments	22	0	252	**274**
9	**Total assets (1+2+3+4+5+6+7+8)**	**27,861**	**27,531**	**7,648**	**63,040**
	Liabilities				
10	Bank deposits	748	429	351	**1,529**
11	Sight deposits	8,771	1,553	1,057	**11,380**
12	Short-term deposits up to 1 year	2,633	7,255	5,719	**15,607**
13	Short-term borrowings up to 1 year	0	21	89	**111**
14	Issued debt securities	0	0	0	**0**
15	Other liabilities	601	455	128	**1,185**
16	Long-term deposits over 1 year	24	53	92	**169**
17	Long-term borrowings over 1 year	4	159	320	**483**
18	Off-balance sheet items	98	88	231	**416**
19	**Total liabilities (10+11+12+13+14+15+16+17+18)**	**12,879**	**10,014**	**7,987**	**30,880**
20	**Difference (9-19)**	**14,982**	**17,517**	**-339**	**32,160**
21	**Cumulative difference**	**14,982**	**32,499**	**32,160**	

Annex 7

Guarantee capital

in millions of denars

Ref. no.	Description	Total
A	**CORE CAPITAL**	
1	Issued common and preference shares or immediately paid in funds	19,227
2	Reserves	3,174
3	Retained undistributed income	243
4	Income according to interim financial statement discounted by 50%	0
5	Uncovered loss from previous years	-1,046
6	Current loss	0
7	Goodwill	0
8	**CORE CAPITAL**	**21,598**
B	**ADDITIONAL CAPITAL**	
9	Issued cumulative preference shares	283
10	Revaluation reserves	404
11	Hybrid capital instruments	0
12	Subordinated liabilities	0
13	**TOTAL ADDITIONAL CAPITAL**	**687**
14	Additional capital included in the guarantee capital	**687**
V	**GUARANTEE CAPITAL**	
15	**Gross guarantee capital**	**22,285**
16	Capital investments in banking and non-banking financial institutions	-880
17	Unallocated special loan loss provisions and country risk losses	-113
17.1	Unallocated non-performing interest	-1
17.2	Unallocated special loan loss provisions	-112
	GUARANTEE CAPITAL	**21,292**

Annex 8

LEGAL FRAMEWORK OF THE BANKING SUPERVISION

Laws:

1. Law on the National Bank of the Republic of Macedonia ("Official Gazette of the Republic of Macedonia" no. 3/2002, 51/2003, 85/2003, 40/2004 and 61/2005);
2. Banking Law ("Official Gazette of the Republic of Macedonia" no. 63/2000, 37/2002, 51/2003 and 85/2003);
3. Law on Establishment of Macedonian Bank for Development and Promotion ("Official Gazette of the Republic of Macedonia" no. 24/98 and 6/2002)
4. Law on Microfinancing Banks ("Official Gazette of the Republic of Macedonia" no. 61/2002).

Decisions:

1. Decision on the documentation necessary for granting approvals and submitting notification on the change in the ownership structure of the voting shares ("Official Gazette of RM" no. 85/2004);
2. Decision on the documentation necessary for granting licenses according to the provisions of the Banking Law, the Law on Securities and the Law on Microfinancing Banks ("Official Gazette of the Republic of Macedonia" no. 68/2003 - revised text);
3. Decision on the supervisory standards for regulating the banks and the savings houses' past due claims ("Official Gazette of the Republic of Macedonia" no. 19/2003);
4. Decision on determining the methodology for classification of the on-balance and off-balance sheet asset items of banks according to the their risk level ("Official Gazette of the Republic of Macedonia" no. 21/2002 - revised text);
5. Decision on the methodology for determining risk weighted assets of the banks ("Official Gazette of the Republic of Macedonia" no. 50/2001);
6. Decision on the amount and the method of establishing special reserves for coverage of the banks' potential losses ("Official Gazette of the Republic of Macedonia" no. 50/2001);
7. Decision on issuing authorizations to the banks for performing international payment operations and international credit activities and authorization for performing foreign currency operations in the Republic of Macedonia ("Official Gazette of the Republic of Macedonia" no. 65/96, 16/2001 and 85/2001);
8. Decision on the manner of conducting surveillance of the application of the regulations governing the foreign exchange and the Denar operations and undertaking measures against banks ("Official Gazette of the Republic of Macedonia" no. 44/02 and 80/02);
9. Decision on the manner of conducting supervision on banks and procedure for eliminating the identified irregularities ("Official Gazette of the Republic of Macedonia" no.111/2000);
10. Decision on the dynamics of adjusting the amount of the initial capital of the savings houses in compliance with the provisions of the Law on Banks and Savings Houses ("Official Gazette of the Republic of Macedonia" no. 49/98);

11. Decision on the methodology for determining the bank guarantee capital ("Official Gazette of the Republic of Macedonia" no. 77/2000);
12. Decision on determining and calculating the banks' open foreign exchange positions ("Official Gazette of the Republic of Macedonia" no. 103/2001 - revised text);
13. Decision on determining the scope and the manner of operating the savings houses ("Official Gazette of the Republic of Macedonia" no. 111/2000, 80/2002 and 66/2003);
14. Decision on defining and the method of determining related persons according to the provisions of the Banking Law ("Official Gazette of the Republic of Macedonia" no. 28/2001);
15. Decision on the methodology for determining the banks' capital ("Official Gazette of the Republic of Macedonia" no. 66/2003);
16. Decision on defining the standards for ensuring the banks' information security ("Official Gazette of the Republic of Macedonia" no. 77/2003);
17. Decision on consolidated supervision of banks ("Official Gazette of the Republic of Macedonia" no. 84/2003);
18. Decision on identifying, assessing and managing the banks' liquidity risk ("Official Gazette of the Republic of Macedonia" no. 84/2003);
19. Decision on the credit exposure limits of bank ("Official Gazette of RM" no. 1/2004 - revised text);
20. Decision on the contents and the manner of functioning of credit registry ("Official Gazette of RM", no. 61/2004);
21. Decision on calculating and publishing the effective interest rate on credits and deposits ("Official Gazette of RM", no. 117/2005).

Annex 9

Review of banks by group of banks

	Group of large banks (assets exceeding Denar 15 billion)		**Group of medium-size banks (assets from Denar 4.5 to 15 billion)**		**Group of small-size banks (assets below Denar 4.5 billion)**
1	Komercijalna banka AD Skopje	1	Ohridska banka AD Ohrid	1	Alpha banka AD Skopje
2	Stopanska banka AD Skopje	2	ProCredit banka AD Skopje	2	Eurostandard banka AD Skopje
3	Tutunska banka AD Skopje	3	Stopanska banka AD Bitola	3	Investbanka AD Skopje
				4	Internacionalna Privatna banka AD Skopje
				5	Export and Credit Bank AD Skopje
				6	Komercijalno Investiciona banka AD Kumanovo
				7	Makedonska banka AD Skopje
				8	Macedonian Bank for Development Promotion AD Skopje
				9	Postenska banka AD Skopje
				10	Silex banka AD Skopje
				11	T.X. Ziraat bankasi AD Skopje
				12	Teteks Kreditna banka AD Skopje
				13	Tetovska banka AD Tetovo
				14	UNI banka ADSkopje

Annex 10

BANKS AND SAVINGS HOUSES IN THE REPUBLIC OF MACEDONIA
as of December 31, 2005

I. BANKS

Banks licensed to perform financial activities stipulated under Articles 45 and 46 of the Banking Law

Alfa Banka a.d. Skopje
Dame Gruev 1
1000 Skopje
tel ++ 389 2 3116 433
fax ++ 389 2 116 830; 2 3135 206

UNI Banka a.d. Skopje
Maksim Gorki 6
1000 Skopje
tel ++ 389 2 3286 100
fax ++ 389 2 3130 448; 2 3286 600

Eurostandard Banka a.d. Skopje
Vasil Glavinov 12/2
1000 Skopje
tel ++ 389 2 3228 444
fax ++ 389 2 3224 095

Investbanka a.d. Skopje
Makedonija 9/11
1000 Skopje
tel ++ 389 2 3114 166
fax ++ 389 2 3135 367

Izvozna i kreditna banka a.d. Skopje
bul. Partizanski odredi 3, blok 11
1000 Skopje
tel ++ 389 2 3122 207
fax ++ 389 2 3122 393

Komercijalna Banka a.d. Skopje
Dimitar Vlahov 4
1000 Skopje
tel ++ 389 2 3107 107; 2 3111 133
fax ++ 389 2 3113 494

Ohridska banka a.d. Ohrid
Makedonski prosvetiteli 19
6000 Ohrid
tel ++ 389 46 206 600; 46 265 330
fax ++ 389 46 254 130; 46 254 133

ProKredit Banka a.d. Skopje
Jane Sandanski 109/a

1000 Skopje
tel ++ 389 02 3219 900; 02 3219 948
fax ++ 389 02 3219 901

Sileks Banka a.d. Skopje
Gradski zid blok 9 lokal 5
1000 Skopje
tel ++ 389 2 3115 288; 2 3115 880; 2 3112 699
fax ++ 389 2 3114 891; 2 3224 844

Stopanska Banka a.d. Bitola
Dobrivoe Radosavljevic 21
7000 Bitola
tel ++ 389 47 207 500
fax ++ 389 47 207 515; 47 207 541; 47 207 513

Stopanska Banka a.d. Skopje
11 Oktomvri 7
1000 Skopje
tel ++ 389 2 3295 295
fax ++ 389 2 3114 503

Teteks Kreditna Banka a.d. Skopje
Naroden Front 19/a
1000 Skopje
tel ++ 389 2 3236 400
fax ++ 389 2 3136 444

Tetovska Banka a.d. Tetovo
Marsal Tito 14
1200 Tetovo
tel ++ 389 44 335 280
fax ++ 389 44 335 274

Tutunska Banka a.d. Skopje
12-ta Udarna brigada 20
1000 Skopje
tel ++ 389 2 3105 601; 2 3105 606; 02 3105 649
fax ++ 389 2 3105 630; 2 3105 681

T.X. Ziraat bankasi podruznica Skopje
Zeleznicka 8
1000 Skopje
tel ++ 389 2 3111 337
fax ++ 389 2 3110 013

Makedonska banka za poddrska na razvojot a.d. Skopje
Veljko Vlahovic 26
1000 Skopje
tel ++ 389 2 3114 840; 2 3115 844
fax ++ 389 2 3239 688

Banks licensed to perform financial activities stipulated under Article 45 of the Banking Law

Komercijalno investiciona banka a.d. Kumanovo
Plostad Nova Jugoslavija bb
1300 Kumanovo
tel ++ 389 31 475 100; 31 426 455
fax ++ 389 31 420 061

Makedonska Banka a.d. Skopje
bul. VMRO 3-12/2
1000 Skopje
tel ++ 389 2 3117 111
fax ++ 389 2 3117 191

Internacionalna Privatna Banka a.d. Skopje
27 Mart 1
1000 Skopje
tel ++ 389 2 3119 191; 2 3124 288
fax ++ 389 2 112 830; 2 3134 060

Postenska Banka a.d. Skopje
Nikola Karev bb
1000 Skopje
tel ++ 389 2 2402 200
fax ++ 389 2 2401 946

II. SAVINGS HOUSES

AL KOSA a.d. Stip
Vanco Prke bb
2000 Stip
tel ++ 389 32 392 960
fax ++ 389 32 393 163

AM d.o.o. Skopje
Orce Nikolov 70
1000 Skopje
tel ++ 389 2 3223 770
fax ++ 389 2 3223 770

Bavag d.o.o. Skopje
Koco Racin 32/1-1
1000 Skopje
tel ++ 389 2 3134 362
fax ++ 389 2 3135 328

Fersped d.o.o. Skopje
Marsal Tito 11
1000 Skopje
tel ++ 389 2 3149 325; 02 3149 336
fax ++ 389 2 3149 350

Graganska stedilnica d.o.o. Skopje
Dame Gruev 10
1000 Skopje

tel ++ 389 2 3118 585
faks ++ 389 2 3118 585

Inko d.o.o. Skopje
Dimitrija Cupovski 23
1000 Skopje
tel ++ 389 2 3114 182
fax ++ 389 2 3223 277

Interfalko d.o.o. Skopje
Bul. Partizanski odredi 123
1000 Skopje
tel ++ 389 2 3062 546
fax ++ 389 2 3062 546

Kiro Cucuk d.o.o. Veles
Car Samoil 1
1400 Veles
tel ++ 389 43 212 638; 043 212 639
fax ++ 389 43 232 637

Mak BS d.o.o. Skopje
Dame Gruev blok 1
1000 Skopje
tel ++ 389 2 3131 190
fax ++ 389 2 3166 466

Makedonska stedilnica a.d. Skopje
bul. St. Kliment Ohridski 58 b
1000 Skopje
tel ++ 389 2 3121 370
fax ++ 389 2 3121 408

Moznosti d.o.o. Skopje
bul. Jane Sandanski 111
1000 Skopje
tel ++ 389 2 2401 051
fax ++ 389 2 2401 050

Mladinec d.o.o. Skopje
Bul. G.Delcev 11 Lamela A/1, DTC Mavrovka
1000 Skopje
tel ++ 389 2 3238 712
fax ++ 389 2 3237 521

Peon d.o.o. Strumica
Marsal Tito bb
2400 Strumica
tel ++ 389 34 321 927
fax ++ 389 34 345 706

FULM stedilnica d.o.o. Skopje
Mito Haxivasilev-Jasmin.48
1000 Skopje

tel ++ 389 2 3115 244; 2 3131 106
fax ++ 389 2 3115 653