

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**  
**Sector for Supervision, Banking Regulation and Financial Stability**  
**Financial Stability, Banking Regulations and Methodology Department**



**Report on Banking System and Banking Supervision of  
the Republic of Macedonia in the first half of 2010**

**October, 2010**

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# I. BANKING SYSTEM IN THE FIRST HALF OF 2010

## 1. Structure of the banking system

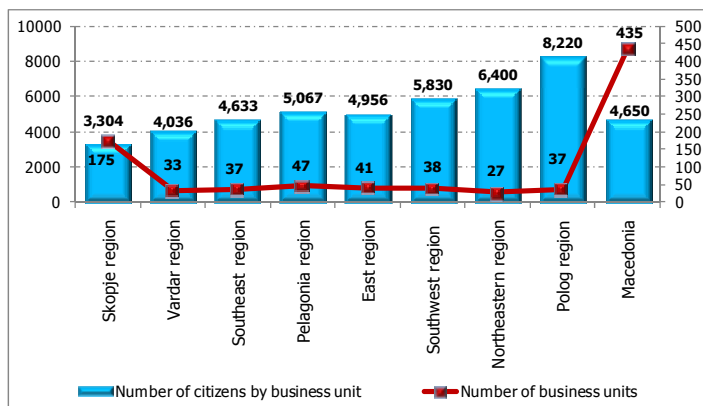
### 1.1 Number of banks and savings houses

As of 30.06.2010, the banking system of the Republic of Macedonia comprised of eighteen banks<sup>1</sup> and nine savings houses<sup>2</sup>. Relative to the end of 2009, the number of banks remained unchanged. Considering the highest share of banks<sup>3</sup> in the overall activities of deposit institutions, this Report focuses solely on banks' operations.

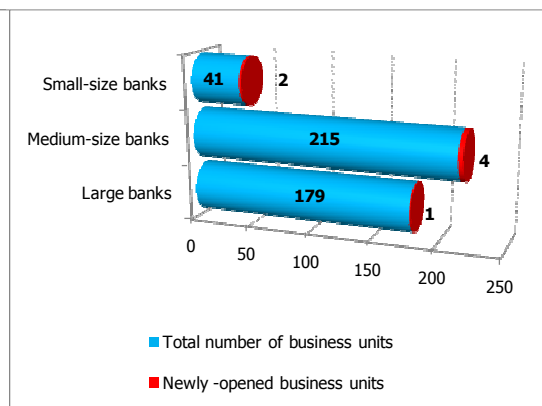
### 1.2 Access to banking services

In the first half of 2010, the network of business units of the banks in the Republic of Macedonia insignificantly expanded (the number of business units increased by 7 compared with the end of 2009). The bank network comprising of 435 business units, including head offices of banks, is spreading throughout almost all of the cities in the country. One business unit covers 4.650 citizens, while one bank takes into account 112.364 citizens.

**Figure No. 1.2.1**  
Geographic concentration of the bank network through regions in the Republic of Macedonia



**Figure No. 1.2.2**  
Share of the individual groups of banks in the total number of business units and in the newly-opened



Source: NBRM based on data obtained from banks.

<sup>1</sup> By Decision of the Governor in April 2010, previous consent was issued for amending the name of „Investbanka“ AD Skopje into „Sparkasse Bank Macedonia“ AD Skopje.

<sup>2</sup> In the first half of 2010, nine savings houses operated at the territory of the Republic of Macedonia, which is less by one compared with the end of 2009. By Decision of the Governor of the National Bank No. 2294, in April 2010 previous consent was issued for terminating the activity of savings house „Fershped“ DOO Skopje (the founding and operating license was revoked and it was determined that conditions and fulfilled to open liquidation proceedings).

<sup>3</sup> The share of savings houses in all segments of activity of the banking system remained insignificant (share of only 1,1% in the total assets of the banking system, 1,8% in the total credits and 0,3% in the total deposits of non-financial entities).

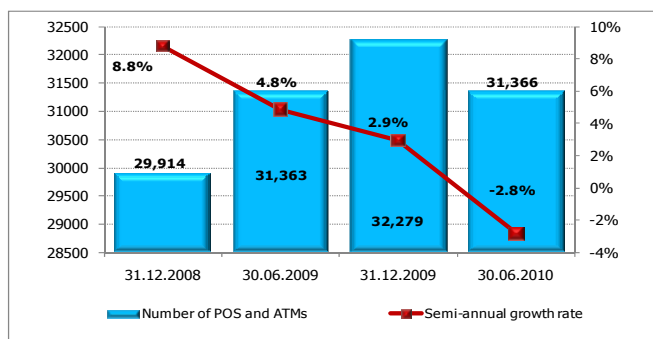
**As of 30.06.2010, the geographic concentration of the bank network was maintained on the territory of the capital,** given that 40.2% of the total number of business units belongs to Skopje region. As a result, this region is characterized with the smallest number of citizens per business unit, which has a positive influence on the access and quality of obtained services. The Polog region continues to be characterized with highest number of citizens per business unit.

**The insignificant expansion of the bank network in the first half of 2010 is a result almost completely of the increased number of business units of the group of medium banks<sup>4</sup>,** which continues to have the highest share in the total number of business units. The group of small banks is still at the last place according to development of the bank network.

**In the course of the first half of 2010 the number of total devices**

**accepting payment cards decreased** (devices in the merchant network and ATMs). The decrease is mostly a result of rationalization of the number of devices used in the merchant network, but certain influence was also made by the decelerated economic activity in the country. The number of ATMs registered modest growth.

**Figure No. 1.2.3  
Number of POS and ATMs and their semi-annual dynamics**



Source: NBRM based on data obtained from banks.

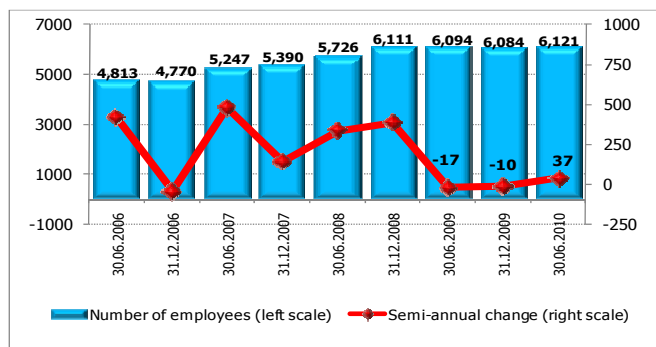
### 1.3 Employment in the banking system

**At the end of the first half of 2010, the level of employment in the banking system registered minor signs of increase relative to the end of 2009.** The increase of the total number of employees in the banking system is completely a result of the growth of the number of employees in the group of medium banks (by 40)<sup>5</sup>. On the other hand, the number of employees in the group of large and small banks insignificantly decreased.

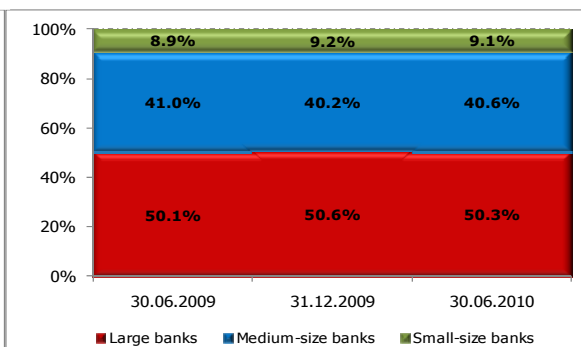
<sup>4</sup> Banks are grouped according to the size of their assets, as follows: Large are considered those banks the assets of which exceed Denar 20 billion, the group of medium banks comprises the banks with assets ranging between Denar 5 and 20 billion, while the banks with assets lower than Denar 5 billion are included in the group of small banks. The borders between separate groups are revised once a year on the basis of the economic principal – average growth of the total assets.

<sup>5</sup> In most significant part due to the increased number of employees in two banks of the group of medium banks.

**Figure No. 1.2.4**  
**Number of employees in the banking system and semi-annual change**



**Figure No. 1.2.5**  
**Structure of the number of employees in the banking system by groups of banks**



Source: NBRM based on data obtained from banks.

As of 30.06.2010 the trend of quality improvement of the employees' qualification structure continued, given that 61.3% of the total number of employees in the banking system have a university degree. Compared with the end of 2009, the number of employees with lower levels of education decreased by 95, while the number of employees with higher levels of education increased by 128. Most significant part of the employees with high level of education (91.1% of the total number of employees in the banking system) are engaged in the groups of large and medium banks.

**Table No. 1.2.1**  
**Structure of employees' qualification in the banking system and by groups of banks**

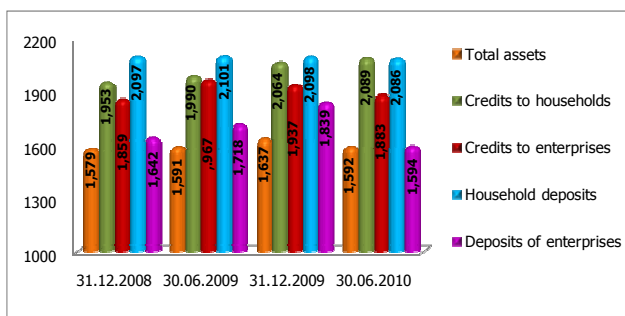
	31.12.2008	30.06.2009	31.12.2009	30.06.2010			
	Entire banking system			Large banks	Medium-size banks	Small-size banks	
<b>PhD and MSc</b>	1.9%	2.1%	2.4%	2.6%	3.1%	1.8%	3.9%
<b>University ed.</b>	53.5%	56.0%	57.1%	58.7%	50.7%	69.2%	55.6%
<b>College ed.</b>	5.0%	4.9%	4.9%	4.7%	6.3%	2.8%	4.5%
<b>High school ed.</b>	38.6%	36.0%	34.7%	33.5%	39.6%	25.6%	34.7%
<b>Other</b>	1.1%	1.0%	0.9%	0.5%	0.3%	0.6%	1.3%

Source: NBRM based on data obtained from banks

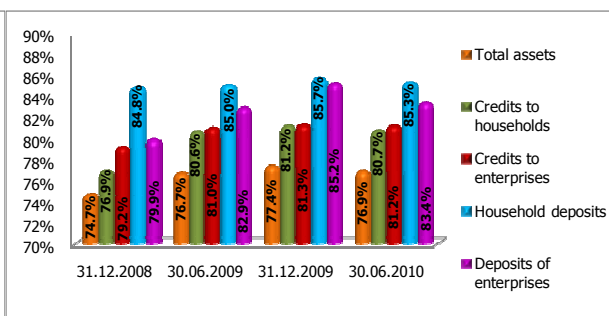
## 1.4 Concentration and market share of the banking system

At the end of the first half of 2010, the concentration of the banking system measured according to CR5<sup>6</sup> and the Herfindahl index<sup>7</sup> maintained the high level in all domains of banks' activities. However, relative to the end of 2009 the concentration in most of the analyzed categories decreased. Highest level of concentration according to the Herfindahl index continues to be common for household deposits and credits. The household deposits also have highest level of concentration according to the indicator CR5.

**Figure No. 1.2.6**  
Dynamics of Herfindahl index



**Figure No. 1.2.7**  
Dynamics of the indicator CR5



Source: NBRM based on data obtained from banks.

The high level of concentration in the banking system of the Republic of Macedonia is confirmed by the comparative analysis with the banking systems of the countries from the region as well.

**Table No. 1.2.2**  
Market share of the individual groups of banks

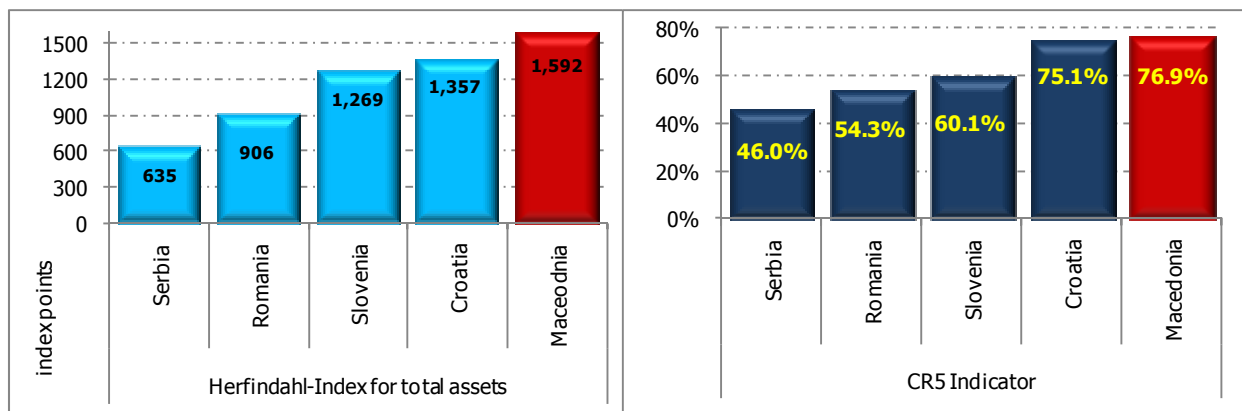
Groups of banks	Number of banks		Share in the total assets		Share in the total activities		Share in the total credits		Share in the total deposits	
	31.12.2009	30.06.2010	31.12.2009	30.06.2010	31.12.2009	30.06.2010	31.12.2009	30.06.2010	31.12.2009	30.06.2010
Large banks	3	3	67.5%	66.4%	68.4%	67.5%	70.1%	69.7%	74.5%	72.4%
Medium-size banks	8	8	27.6%	28.3%	27.2%	27.8%	27.8%	28.2%	22.9%	24.9%
Small-size banks	7	7	4.9%	5.3%	4.4%	4.7%	2.1%	2.1%	2.6%	2.6%
<b>Total</b>	<b>18</b>	<b>18</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: NBRM based on data obtained from banks.

<sup>6</sup> The indicator CR5 represents the participation of assets (i.e. the analyzed category, for example, corporate credits, corporate deposits etc.) of the five credit institutions with largest assets (i.e. the analyzed category) in the total assets (i.e. the analyzed category) of the banking system. In case of the Republic of Macedonia, banks are the subject.

<sup>7</sup> The Herfindahl index is calculated according to the equation  $HI = \sum_{j=1}^n (S_j)^2$  where S denotes each bank's share in the total amount of the analyzed category (for example: total assets, total deposits, etc.), while n denotes the total number of banks in the system. When the index ranges between 1,000 and 1,800 units, the level of concentration in the banking system is generally considered acceptable.

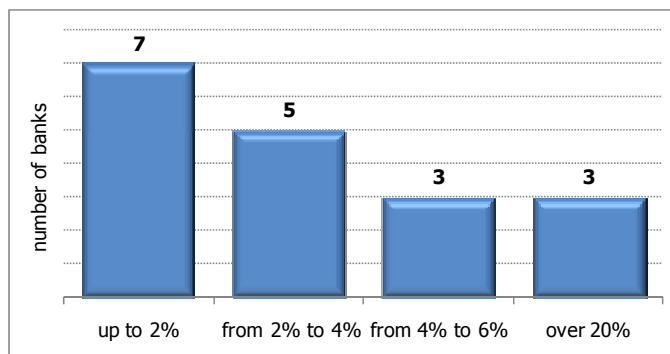
**Figure No. 1.2.8**  
**Degree of concentration of the assets of the banking system of some countries in the region**



Source: Site pages of the central banks of the analyzed countries. The data for Romania are of 31.03.2009, for Slovenia are of 31.12.2009, and for Serbia, Croatia and for Republic of Macedonia are of 30.06.2010.

**As of 30.06.2010 no significant changes were registered in the role of individual groups of banks on the market of the Republic of Macedonia. The dominance of the group of large banks remained one of the major structural features of the banking system.** On semi-annual level, the group of large banks modestly decreased its market share in all analyzed segments, while the market share of the group of medium banks increased. In due course, the group of large banks took from 66% to 72% of the more important positions of aggregate balances of the banking system. Eleven out of the total of eighteen banks took less than 3% of the total assets in the banking system.

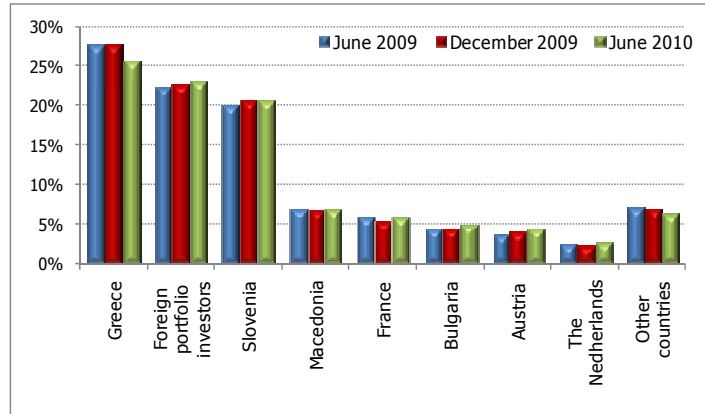
**Figure No. 1.2.9**  
**Market share (in assets) of banks**



Source: NBRM based on data obtained from banks

The market share of banks, from a viewpoint of the geographical origin of their shareholders with majority ownership, does not register significant changes in the first half of 2010. Most significant part of the assets in the banking system is concentrated with banks whose dominant shareholders come from the European Union. The participation of banks in dominant ownership of domestic shareholders in the total assets of the banking system increased only by 0,1 percentage point with regard to the end of 2009 and on 30.06.2010 achieved the level of 6.8%.

**Figure No. 1.2.10**  
Market share (assets) of banks according to the country of origin of the dominant shareholder

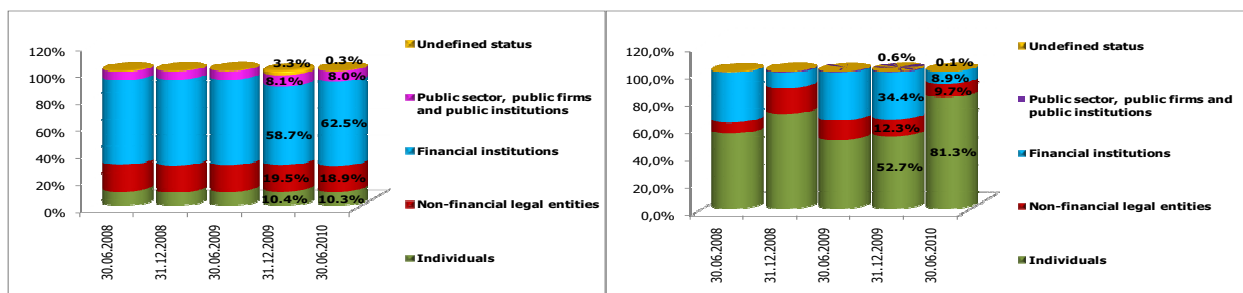


Source: NBRM based on data obtained from banks \*Note: The geographic origin of the foreign portfolio investors includes Austria, Slovenia, Croatia, Estonia, Switzerland, Cyprus, Belgium, Montenegro, Albania, Bosnia and

### 1.5 Ownership structure of the banking system

In the first half of 2010 no significant changes were registered in the ownership structure of the banking system of the Republic of Macedonia. The financial institutions, as major owners of common shares issued by banks, increased their participation in the ownership structure by 3.8 percentage points<sup>8</sup>.

**Figure No. 1.2.11**  
Ownership structure of common (left) and preferred shares (right) of the banking system



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

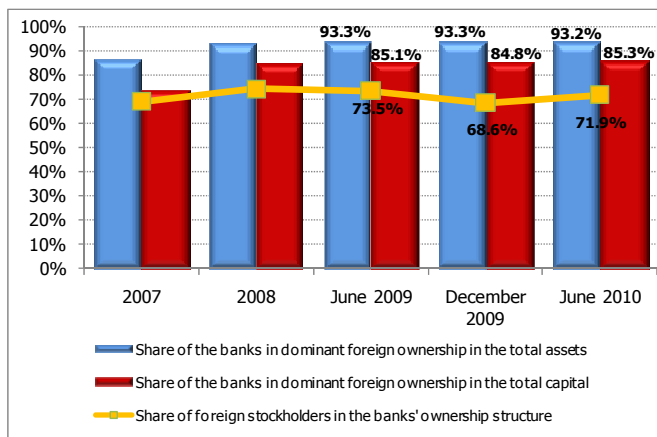
Note: The notion „undefined status“ takes into account shares in ownership of entities which cannot be identified, which are in bankruptcy proceedings, in liquidation proceedings or the bankruptcy/ liquidation proceedings were closed.

<sup>8</sup> In April 2010 a transaction was executed for purchase of 93,7% of the shares of „Starter Bank“ AD Kumanovo by „Central Cooperative Bank“ AD Sofia.

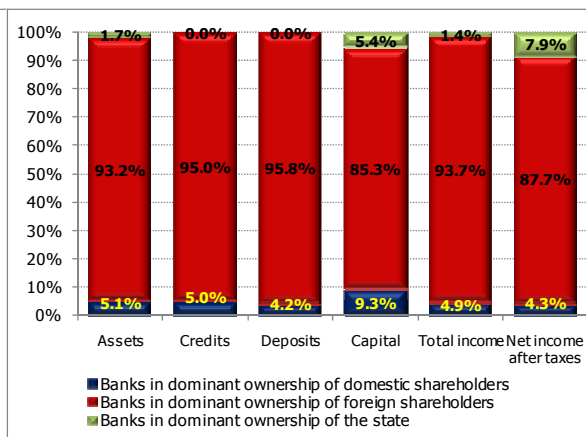


At the same time, the participation of preferred shares in the total issued shares of the banking system remained marginal (0.6%), given the most significant participation of the individuals as preferred shares owners. As result of the conversion of part of the preferred shares into common shares by one of the small banks in dominant ownership of a foreign bank, the participation of financial institutions in the structure of preferred shares of banks decreased by 25.5 percentage points.

**Figure No. 1.2.12**  
**Market share of banks in dominant foreign ownership and trend of participation of the foreign capital in the total capital**



**Figure No. 1.2.13**  
**Structure of most significant positions of balances of banks according to dominant ownership of banks**



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

**As of 30.06.2010 almost no changes were registered in the participation of foreign shareholders in the banking system, compared with the end of 2009. Banks in dominant foreign ownership are still with highest participation on the market.** The number of banks in dominant foreign ownership (fourteen), and within those frame also the number of banks which are foreign subsidiary banks (eight) is unchanged. The group of large banks again had highest participation (79.4%) of foreign capital in the total shareholders capital, while the group of medium and small banks had participation of 66.0% and 69.4%, respectively. In the first half of 2010 the invested foreign capital amounted to Denar 1,069 million, which is in most significant part (86.0%) a result of investments in a subordinated instrument on the part of three banks.

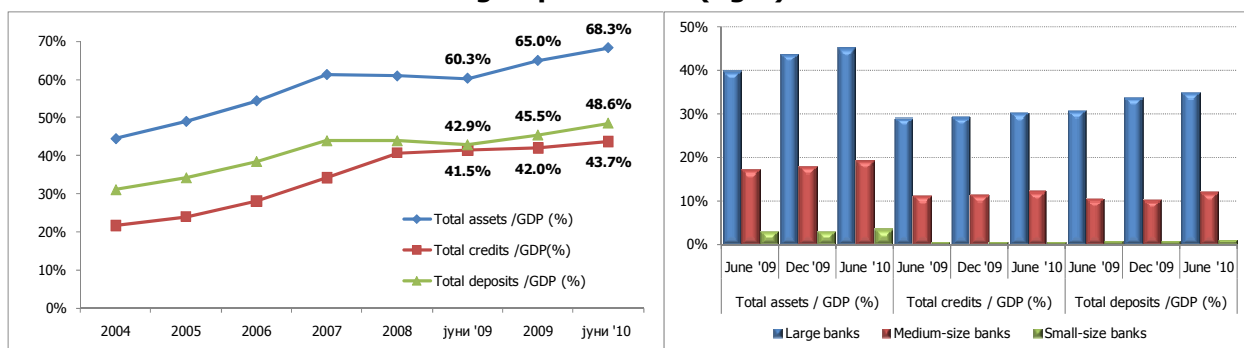
## 2. Banks' activities

In the first half of 2010, the total activities of the domestic banking system continued to increase with moderate dynamics. In conditions of gradual stabilization of global economic trends and domestic macroeconomic developments, accompanied by relaxation of the monetary policy, decrease of the psychological pressures and the uncertainty of economic entities, the credit activity of banks and the deposit base increased faster relative to the end of 2009. This had positive reflection on the degree of financial intermediation as well.

### 2.1 Degree of financial intermediation

In the first half of 2010, the degree of financial intermediation in the banking system of the Republic of Macedonia continued to move upwards. The financial intermediation indicators, measured by the share of the total assets and total deposits in GDP<sup>9</sup> grew faster compared with the degree of financial intermediation, analyzed according to the total credits to GDP ratio. Same as in the previous periods, the group of large banks had dominant position in the financial intermediation.

**Figure No. 2.1.1**  
**Degree of financial intermediation at level of the banking system (left) and by individual groups of banks (right)**



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

In the period 2004-2007, the assets of the banking system of the Republic of Macedonia registered two times faster growth than the growth of the gross domestic product, thus confirming the significant role of the banking system in the total growth of the Macedonian economy. Despite the slower growth of the assets in the banking sector within the last two years, same as in the first half of 2010, the significantly slower growth of the gross domestic product resulted in higher ratio between them, compared with the previous years.

<sup>9</sup> The financial intermediation data as of the end of the first half of 2010 were calculated according to estimated GDP data for 2009. If, for calculation purposes, the gross domestic product is taken for the first half of 2010, on annual level (GDP for the last four quarters), the ratio between the assets, credits and deposits and GDP amounts to: 67,7%, 43,3% and 48,2%, respectively.

**Table No. 2.1.1**

**Dynamics of financial intermediation in the Republic of Macedonia**

	2004	2005	2006	2007	2008	2009	30.06.2010
<b>growth rate of assets</b>	12.5%	19.0%	24.0%	28.5%	12.1%	7.1%	13.7%
<b>nominal growth rate of GDP</b>	5.5%	8.1%	11.7%	14.0%	12.8%	0.4%	1.8%
<b>growth rate of total assets/growth rate of GDP</b>	2.3	2.4	2.1	2.0	0.9	18.1	7.5

Source: NBRM, on the basis of data obtained from banks and the State Statistics Office.

Despite the dynamic growth of the banking system of the Republic of Macedonia in the last seven years, with exception of the crisis period (the end of 2008 and 2009), still it is among the banking systems in the countries from the region with lower degree of financial intermediation.

**Table No. 2.1.2**

**Degree of financial intermediation in the countries from the region**

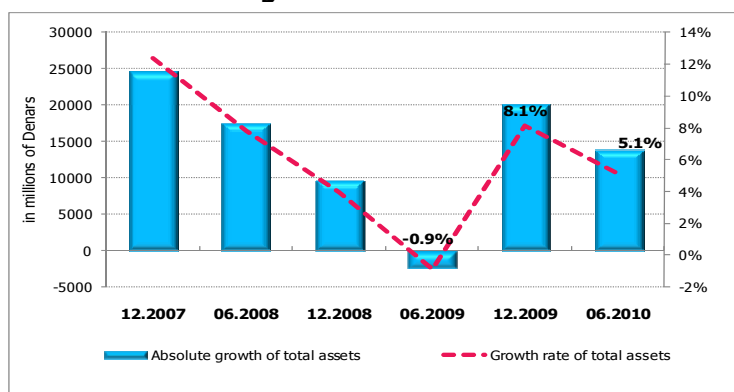
Country	Assets/GDP	Deposits/GDP	Credits/GDP
<b>Serbia</b>	78.4%	46.5%	50.9%
<b>Albania</b>	85.9%	54.6%	40.2%
<b>Croatia</b>	113.0%	69.4%	74.8%
<b>Slovenia</b>	147.4%	40.1%	97.7%
<b>Bosnia and Hercegovina</b>	-	45.2%	47.4%
<b>Republic of Macedonia (2009)</b>	65.0%	45.5%	42.0%
<b>Republic of Macedonia (June 2010)</b>	68.3%	48.6%	43.7%

Source: NBRM and the websites of the Central Banks of the analyzed countries. The data for Serbia and Albania refer to 30.06.2010, and for Croatia, Bosnia and Herzegovina and Slovenia refer to 31.12.2009.

## 2.2 Balance sheet of banks

As of the end of the first half of 2010, the total assets of the banking system amounted to **Denar 282,334 million**, registering semi-annual growth of **5.1%**. In the first half of this year, the total assets increased at slower dynamics compared with the same period last year. However, the annual growth rate of the assets (13.7%) realized as of 30.06.2010 is almost two times

**Figure No. 2.1.2**  
**Semi-annual growth of total assets of banks**



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

higher than the annual growth rate (7.1%) as of the end of 2009 and is nearly 4.5 times higher than the annual growth rate as of 30.06.2009.

**Deposits of non-financial entities remained a dominant source of funds for financing the banking activities. The growth of the deposit base of banks in the first half of 2010 was also the major factor of growth of the total liabilities of the banking system.**

**Table No. 2.1.3  
Structure of the assets and liabilities at level of the banking system**

Balance sheet	Amount in millions of Denars		Structure		Change 30.06.2010/31.12.2009			
	31.12.2009	30.06.2010	31.12.2009	30.06.2010	Absolute change	In percent	In the structure (in percentage points)	Share in the change
Cash and balances with NBRM	32,224	34,247	12.0%	12.1%	2,023	6.3%	0.1	14.7%
Securities portfolio	30,639	39,002	11.4%	13.8%	8,363	27.3%	2.4	60.6%
Placements with banks and other financial institutions	33,854	31,973	12.6%	11.3%	-1,881	-5.6%	-1.3	-13.6%
Credits to nonfinancial entities (net)*	157,128	162,186	58.5%	57.4%	5,058	3.2%	-1.1	36.7%
Accrued interest and other assets	6,151	6,533	2.3%	2.3%	382	6.2%	0.0	2.8%
Fixed assets	8,547	8,500	3.2%	3.0%	-47	-0.5%	-0.2	-0.3%
Unallocated loan loss provisions	0	-106	0.0%	0.0%	106	0.0%	0.0	0.8%
<b>Total assets</b>	<b>268,543</b>	<b>282,334</b>	<b>100.0%</b>	<b>100.0%</b>	<b>13,791</b>	<b>5.1%</b>	<b>0.0</b>	<b>100.0%</b>
Deposits from banks and other financial institutions	18,031	15,203	6.7%	5.4%	-2,828	-15.7%	-1.3	-20.5%
Deposits of nonfinancial entities	187,875	200,864	70.0%	71.1%	12,989	6.9%	1.2	94.2%
Borrowings (short-term and long-term)	24,020	27,334	8.9%	9.7%	3,314	13.8%	0.7	24.0%
Other liabilities	7,247	6,360	2.7%	2.3%	-886	-12.2%	-0.4	-6.4%
Provisions for off-balance sheet items	760	754	0.3%	0.3%	-6	-0.7%	0.0	0.0%
Capital and reserves	30,609	31,819	11.4%	11.3%	1,209	4.0%	-0.1	8.8%
<b>Total liabilities</b>	<b>268,543</b>	<b>282,334</b>	<b>100.0%</b>	<b>100.0%</b>	<b>13,791</b>	<b>5.1%</b>	<b>0.0</b>	<b>100.0%</b>

\* Credits to nonfinancial entities are on net basis and they are decreased for the impairment of credits.

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

\* Loans to non-financial entities are presented on net basis, i.e. decreased by total impairment of loans which as of 30.06.2010 amounted to 17.880 million and by value of depreciation in the amount of Denar 610 million.

Deposits of non-financial entities strengthened the highest participation in the liabilities of the banking system, while the importance of deposits of banks and other financial institutions decreased. Borrowings, as another more significant category in the total sources of banks' funds (besides capital and reserves), also increased the structural participation in the liabilities as a result of the growth of the long term liabilities on the basis of loans<sup>10</sup> (by 63.1%) and the growth of subordinated liabilities (by 18.9%).

**Credits to non-financial entities remained a category with highest participation in the total assets of the banking system, despite the decrease of their**

<sup>10</sup> The growth of liabilities under loans in the first half of 2010 is completely a result of the increased long term borrowing on part of two banks („Macedonian Bank for Development Promotion" AD Skopje and „NLB Tutunska Banka" AD Skopje) with international financial institutions (EIB – European Investment Bank and IFC – International Financial Corporation) in order to provide financial support to the domestic corporate sector.

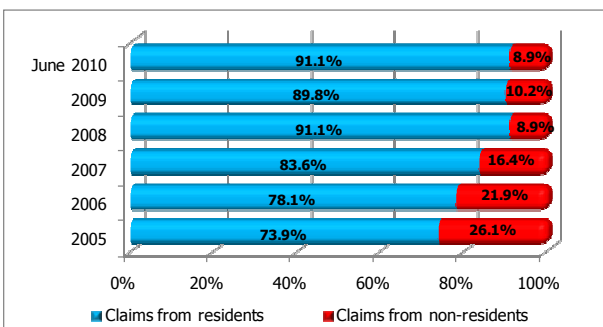
**structural share in the total assets of the banking system. In the first half of 2010 they increased with slower dynamics with regard to the deposit activity.**

**The increased interest of banks for investment in treasury bills in the course of the first half of 2010 had influence in direction of growth of their portfolio of securities.** Namely, 87.7% of this growth results from the growth of investments in treasury bills, which is another confirmation for the increased cautious behavior of banks concerning investments of their funds. The growth of investment in securities resulted in high 60.6% of the total growth of the bank's assets in the first half of 2010.

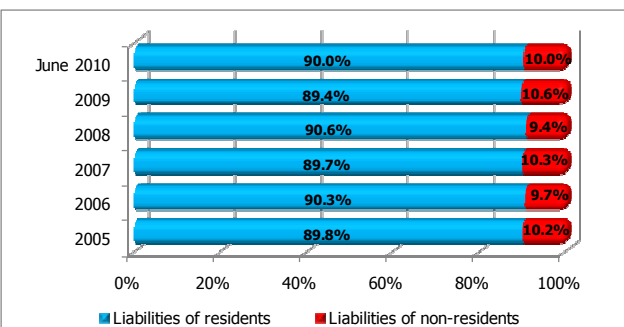
**As of 30.06.2010 the importance of claims on non-residents decreased, with regard to the structure of the total assets of the banking system.** This decrease in most significant part is a result of the decrease of placements with foreign banks. Same as in the previous periods, credits approved to nonfinancial entities – non-residents participate only with 0.5% in the total claims on non-residents.

**Liabilities to non-residents registered insignificant semi-annual decrease,** in most significant part as a result of decrease in utilized deposits and borrowings from home entities. In the structure of the liabilities to non-residents most significant part have deposits and borrowings from foreign banks with 58.8%, as well as subordinated and hybrid capital instruments with 24.2%.

**Figure No. 2.1.3  
Asset structure of the banking system**



**Figure No. 2.1.4  
Liabilities structure of the banking system**



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

### 2.3 Balance sheet of the individual groups of banks

**At the end of the first half of 2010, in the structure of the three major balance sheet categories of the banking system (total assets, credits and deposits of non-financial entities) the group of large banks continues to have highest participation.** The positive semi-annual change in the total assets of the banking system and the credit activity was in most significant part determined by the growth of these categories within the group of large banks. On the other hand, the group of medium banks influenced the largest part of the semi-annual growth of deposits of non-financial entities.

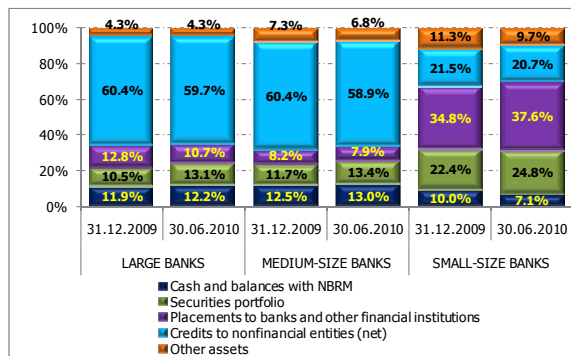
**Table No. 2.1.4**  
**Market share and growth of the total assets, credits and deposits by groups of banks**

ITEMS	Amount in millions of Denars		Structure		Semi-annual change 30.06.2010/31.12.2009			
	31.12.2009	30.06.2010	31.12.2009	30.06.2010	In absolute amount	In percent	In the structure (in percentage points)	Share in the change
<b>Total assets</b>	<b>268,543</b>	<b>282,334</b>	<b>100.0%</b>	<b>100.0%</b>	<b>13,791</b>	<b>5.1%</b>		<b>100.0%</b>
Large banks	181,398	187,525	67.5%	66.4%	6,127	3.4%	-1.1	44.4%
Medium-size banks	74,062	79,901	27.6%	28.3%	5,838	7.9%	0.7	42.3%
Small-size banks	13,082	14,909	4.9%	5.3%	1,826	14.0%	0.4	13.2%
<b>Credits to nonfinancial entities (net)</b>	<b>157,128</b>	<b>162,186</b>	<b>100.0%</b>	<b>100.0%</b>	<b>5,058</b>	<b>3.2%</b>		<b>100.0%</b>
Large banks	109,591	112,034	69.7%	69.1%	2,444	2.2%	-0.7	48.3%
Medium-size banks	44,730	47,059	28.5%	29.0%	2,329	5.2%	0.5	46.0%
Small-size banks	2,807	3,092	1.8%	1.9%	285	10.2%	0.1	5.6%
<b>Deposits to nonfinancial entities</b>	<b>187,875</b>	<b>200,864</b>	<b>100.0%</b>	<b>100.0%</b>	<b>12,989</b>	<b>6.9%</b>		<b>100.0%</b>
Large banks	139,933	145,526	74.5%	72.4%	5,593	4.0%	-2.0	43.1%
Medium-size banks	43,007	50,016	22.9%	24.9%	7,009	16.3%	2.0	54.0%
Small-size banks	4,935	5,322	2.6%	2.6%	387	7.8%	0.0	3.0%

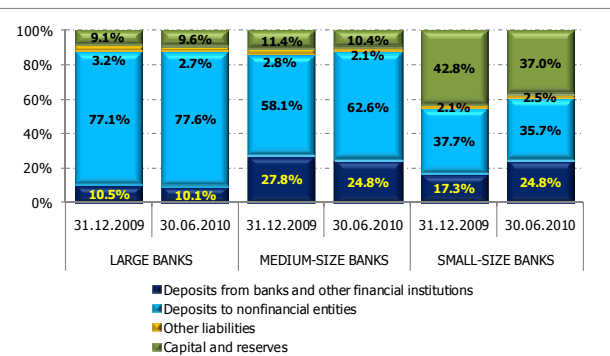
Source: NBRM, on the basis of data obtained from banks.

**In the first half of 2010, in the structure of assets by individual groups of banks certain changes were registered.** Mutual characteristic of all three groups of banks was the increased structural share of the securities portfolio in the total assets of each group of banks. In due course, highest increase of the share of the securities portfolio in the total assets was registered with the group of large banks. Relative to the end of 2009, this group of banks increased the investments in treasury bills and government bills by Denar 4,456 million (55.0%) and by Denar 1,515 million (27.4%), respectively, and participated in the total increase at the level of the banking system with 60.7% and 84.3%, respectively. The groups of large and medium banks realized increase of their share of securities portfolio at the expense of the share of funds placed with domestic and foreign banks and other financial institutions, while the group of small banks realized this increase at the expense of decreasing the share of cash funds and funds on accounts with NBRM in the total assets. Credits to non-financial entities continued to be dominant with the groups of large and medium banks. On the other hand, the share of credits in the total assets of the group of small banks is still at a lower level at the expense of the higher structural participation of the securities portfolio and placements with banks and other financial institutions.

**Figure No. 2.1.5**  
**Assets structure by groups of banks**



**Figure No. 2.1.6**  
**Liabilities structure by groups of banks**



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

**On the side of the liabilities, certain structural changes were registered, primarily with the groups of medium and small banks.** Deposits of non-financial entities, as major source of financing of the group of medium banks' activities strengthened their participation in the liabilities of this group of banks, and at the same time created 54.0% of the growth of total deposit activity of the banking system. Contrary to this, the group of small banks characterized with highest level of capitalization, which finances most significant part of its activities by own sources of funds, registered a significant decrease of capital and reserves (as a result of the incurred losses from this group of banks' activities). Deposits from banks, other financial institutions and borrowings registered highest increase of their participation in the liabilities of the group of small banks (94.9% of this increase is a result of the increased borrowings of non-residents with one bank<sup>11</sup>).

**Table No. 2.1.5**  
**Assets and liabilities by individual groups of banks**

ITEMS	Large banks			Medium-size banks			Small-size banks		
	30.06.2010 (in millions of Denars)	Change June 2010/December 2009	Percentage change June 2010/December 2009	30.06.2010 (in millions of Denars)	Change June 2010/December 2009	Percentage change June 2010/December 2009	30.06.2010 (in millions of Denars)	Change June 2010/December 2009	Percentage change June 2010/December 2009
Cash and balances with NBRM	22,807	1,142	5.3%	10,388	1,143	12.4%	1,052	-262	-20.0%
Securities portfolio	24,570	5,501	28.8%	10,729	2,089	24.2%	3,703	773	26.4%
Placements to domestic and foreign banks and other financial institutions	20,036	-3,209	-13.8%	6,327	264	4.4%	5,610	1,064	23.4%
Credits to nonfinancial entities (net)	112,034	2,444	2.2%	47,059	2,329	5.2%	3,092	285	10.2%
Other*	8,078	249	3.2%	5,398	13	0.2%	1,451	-33	-2.3%
<b>Total assets</b>	<b>187,525</b>	<b>6,127</b>		<b>79,901</b>	<b>5,838</b>		<b>14,909</b>	<b>1,826</b>	
Deposits from banks and other financial institutions	6,504	-2,119	-24.6%	8,228	-958	-10.4%	471	249	111.9%
Deposits of nonfinancial entities	145,526	5,593	4.0%	50,016	7,009	16.3%	5,322	387	7.8%
Borrowings (short-term and long-term)	12,478	2,055	19.7%	11,625	71	0.6%	3,231	1,188	58.1%
Other**	5,025	-807	-13.8%	1,716	-181	-9.6%	374	96	34.7%
Capital and reserves	17,992	1,405	8.5%	8,316	-102	-1.2%	5,511	-93	-1.7%
<b>Total liabilities</b>	<b>187,525</b>	<b>6,127</b>		<b>79,901</b>	<b>5,838</b>		<b>14,909</b>	<b>1,826</b>	

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

\* The item „other“ includes calculated interest, fixed assets and intangible assets.

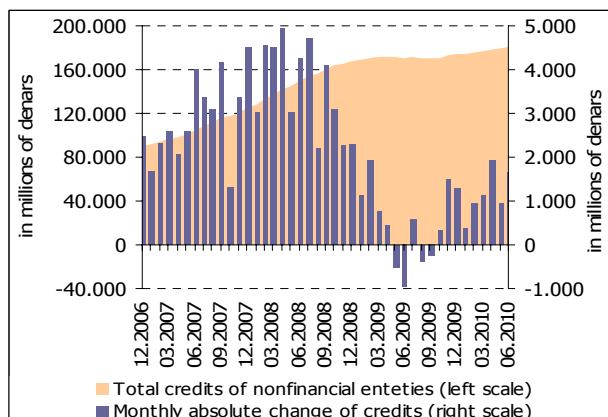
\*\* The item „other“ includes the special reserves for off-balance sheet claims, other provisions and other liabilities.

<sup>11</sup> In the first half of 2010, „Macedonian Bank for Development Promotion“ AD Skopje indebted with European Investment Bank (EIB) to provide financial support for the domestic corporate sector.

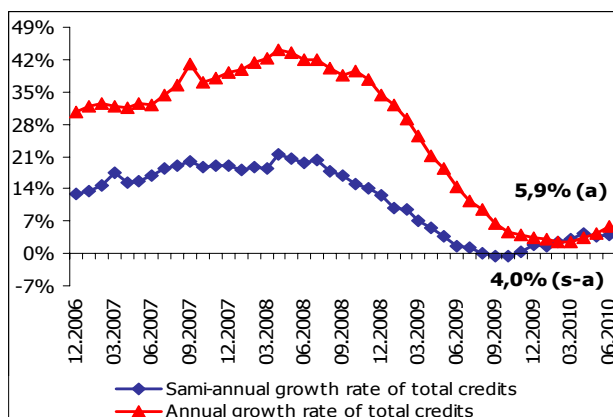
## 2.4 Credit activity of banks

**In the first half of 2010, the credit activity of banks registered initial signals of intensification after the period of decelerated dynamics common for 2009.** At the end of the first half of 2010, the total credits to non-financial entities amounted to Denar 180,676 million, marking thus **a semi-annual growth of Denar 6,966 million, i.e. of 4.0%**. The increased caution at loan approval, as well as the reassessment of the already taken credit risk, was one of the most important factors for the still moderate offer of loans on the part of banks in the course of the first six months of 2010 as well. However, the stabilization of the global economic trends and the first signs of recovery of the Macedonian economy, accompanied by the gradual decrease of the treasury bills interest rate in the course of the first half of 2010<sup>12</sup>, contributed to a gradual recovery of the credit activity of domestic banks.

**Figure No. 2.3.1**  
**Dynamics of credits to non-financial entities and their monthly change**



**Figure No. 2.3.2**  
**Annual and semi-annual growth rate of credits to non-financial entities**



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

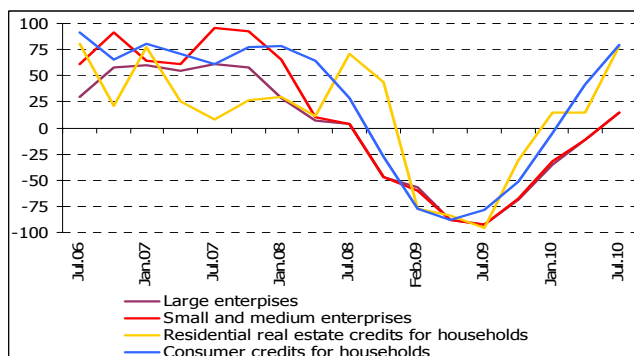
**The credit activity intensification is taking place under relaxation of terms for loan approval by the banks, accompanied with increased credit demand.** Thus, in retail lending, banks started loosening the lending terms and conditions for certain products (primarily for housing loans) already in the last quarter of 2009 (already three quarters in a row). The loosened terms and conditions for lending to companies by the banks occurred in the second quarter of 2010, for the first time after seven consequent quarters of tightening the lending terms and conditions. On the other hand, the credit demand (from households and companies) registered growth for three quarters in a row. **According to banks' expectations<sup>13</sup>**, in the third quarter of 2010, no significant changes of the lending terms and conditions for households and companies are expected. On the other hand, banks expect further increase of the credit demand by companies, but unchanged credit demand by households, in the following quarter of 2010.

<sup>12</sup> The interest rate of NBRM's bills at the end of 2009 was 8,5%, while at the end of the first half of 2010 it was 5,0%

<sup>13</sup> More detailed review of the banks' expectations regarding the lending terms and conditions and the credit demand of companies and individuals is presented in the Survey of credit activity from July 2010, published on the webpage of NBRM - [www.nbrm.mk](http://www.nbrm.mk).

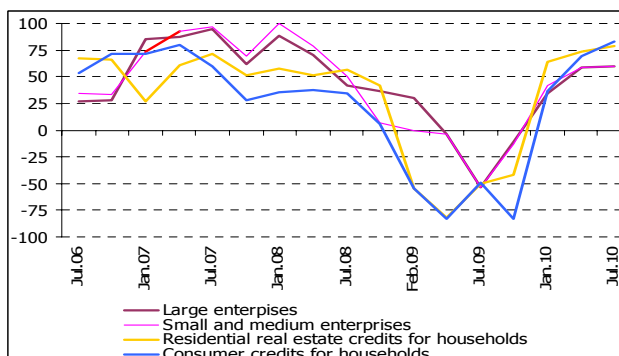


**Figure 2.3.3**  
**Net-percentage of banks which expect tightening / loosening the lending terms and conditions**



Source: NBRM, survey on credit activity of banks.  
 \*Note: The net-percentage represents difference between the percentage of banks which loosened the lending terms and conditions in the last three months and the percentage of banks which tightened the lending terms and conditions in the last three months. The positive net-percentage points out to loosened lending terms and conditions at level of the banking system, while the negative one points out to tightened lending terms and conditions at level of the banking system.

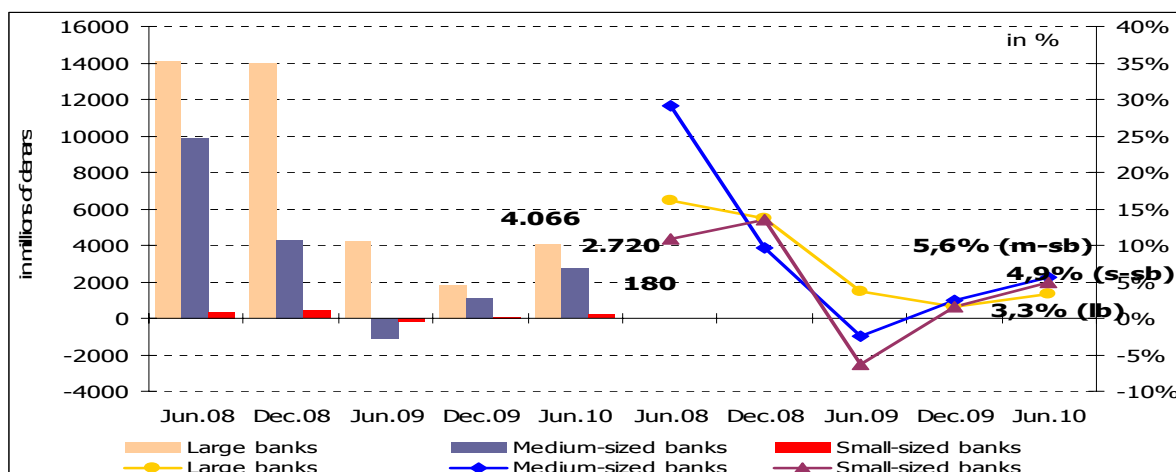
**Figure 2.3.4**  
**Net-percentage of banks which expect increased / decreased credit demand**



Source: NBRM, survey on credit activity of banks  
 \*Note: The net-percentage represents difference between the percentage of banks which pointed out to increased credit demand in the last three months and the percentage of banks which pointed out to decreased credit demand in the last three months. The positive net-percentage points out to increased credit demand at level of the banking system, while the negative one points out to decreased credit demand at level of the banking system.

In the first half of 2010, the accelerated **credit growth was common for all groups of banks**. Highest semi-annual growth rate of 5.6% within the credits to non-financial entities was realized by the group of medium banks. However, of highest importance for the growth of credits was the group of large banks, with contribution of 58.4% to the total semi-annual growth of credits to non-financial entities.

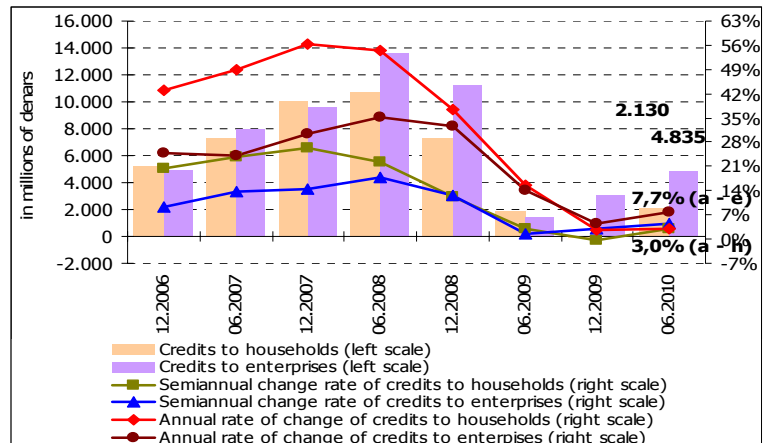
**Figure 2.3.5**  
**Absolute (left) and relative (right) semi-annual growth of credits to non-financial entities by individual groups of banks**



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

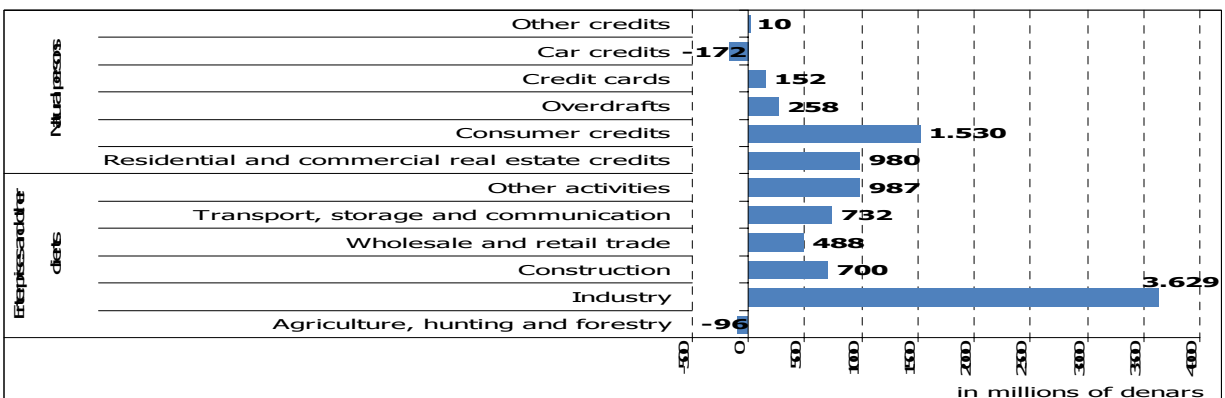
From a viewpoint of **sector structure of credits**, in the first half of 2010, faster growth was registered in the credits to companies compared to the credits to households. **Credits to companies registered semi-annual growth of Denar 4,835 million, i.e. of 4.6%**, resulting thus in almost 70% of the total semi-annual growth of credits. The restoration of the **credit support to the households was lower in volume (with semi-annual growth of Denar 2,130 million, i.e. of 3.1%)**, which reflects the still high caution of banks with regard to approving loans to this sector. At the same time, this also points out to a certain "saturation" of the banking market with certain credit products, which is expected after periods of accelerated credit growth. **The modest semi-annual growth of credits did not cause major changes in the sector structure of credits.** At the end of the first half of 2010, credits to companies covered 61.0% of the total credits (semi-annual increase of 0,4 percentage points), while credits to individuals participated with 38.8%.

**Figure 2.3.6**  
**Absolute and relative semi-annual and annual growth of credits according to sector structure**



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

**Figure 2.3.7**  
**Absolute growth of credit exposure in the first half of 2010, by individual sectors/ credit products**



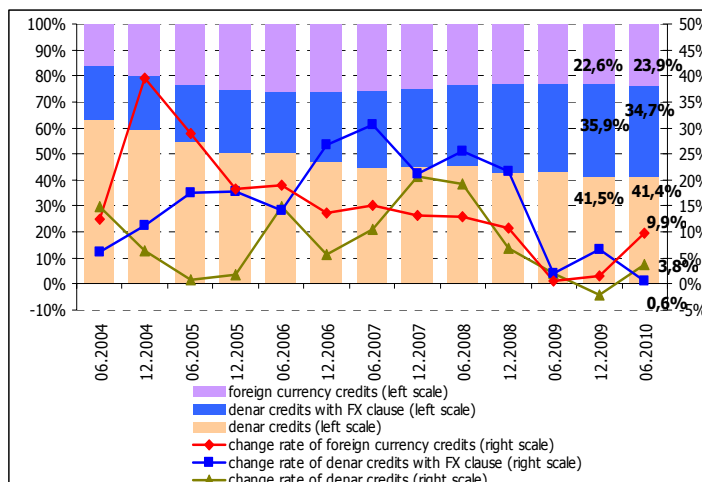
Source: NBRM, on the basis of data obtained from banks.

**In the first half of 2010, most significant part of the credit support of banks was directed to the clients of the "industry" sector. On the other hand, in the same period, consumer credits represented most significant credit product approved by the banks to the "household" sector.**

**Credits with currency component** (foreign currency credits and credits in Denar with foreign currency clause) maintained the highest share in the total credits. As of 30.06.2010, **they covered 58.6% of the total credits.** A more dynamic semi-annual growth of 9.9% i.e. of Denar 3,884 million, registered the foreign currency credits (the growth was resulting completely from the increase of foreign currency credits approved to residents, for the purpose of domestic payments). The credits in Denar in the first half of 2010 increased by 3.8%, i.e. by Denar 2,730 million,

and credits in Denar with foreign currency clause registered relatively moderate semi-annual growth of 0.6% i.e. of Denar 351 million.

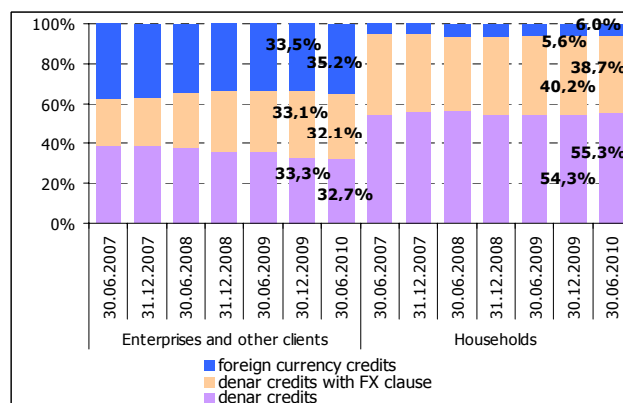
**Figure 2.3.8**  
**Currency structure and semi-annual growth rates of credits by currency**



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

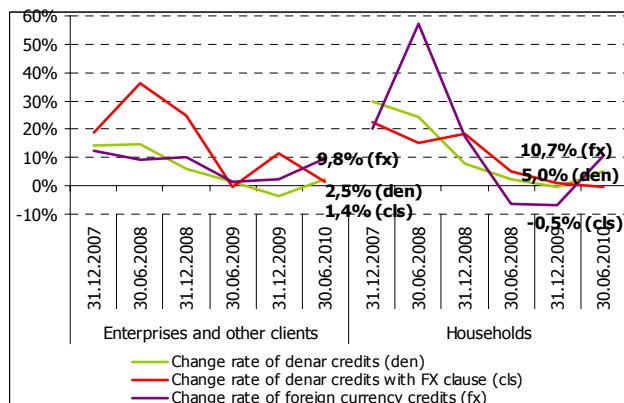
**The lending with currency component remains to be significantly important for the corporate sector.**

**Figure 2.3.9**  
**Currency structure of credits to companies and households by currency**



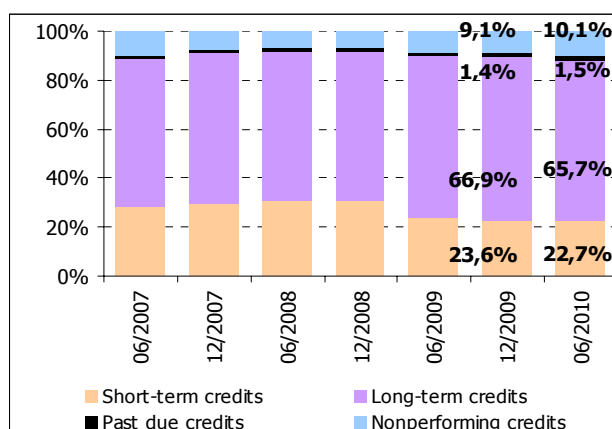
Source: NBRM, on the basis of data obtained from banks.

**Figure 2.3.10**  
**Semi-annual growth rates of credits by sector and currency**

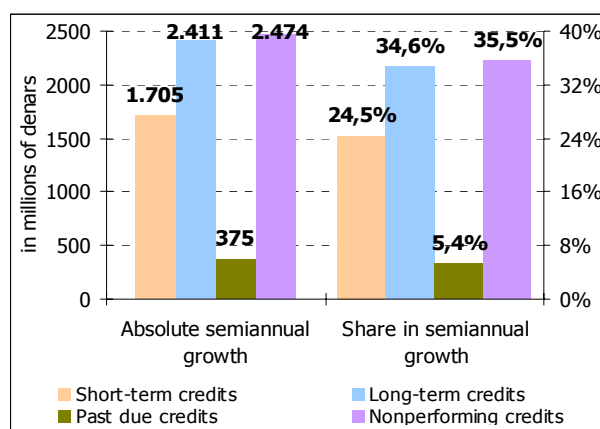


The strengthened dominant place of long term credits and the fast growth of non-performing credits represent general characteristics of the maturity structure of banks' credit activity in the first half of 2010. On semi-annual basis, the long term credits registered growth of 2.1%, which was in most significant part (by contribution of 64.1%) influenced by the growth of long term lending of companies. The non-performing credits registered faster semi-annual growth of 15.7%, with highest contribution to the growth, of 64.6%, registered by the non-performing credits to companies. On the other hand, although the short term credits realized growth of 4.4% in the first half of 2010, still, their participation in the maturity structure of credits decreased by 1.0 percentage point. Highest contribution in the growth of these credits was made by the credits to companies, of 78.1%.

**Figure 2.3.11**  
Maturity structure of total credits to non-financial entities



**Figure 2.3.12**  
Absolute semi-annual growth of credits by maturity and share in the total growth



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

As of 30.06.2010, the average remaining maturity (presented as average period until maturity in years) was the longest with credits<sup>14</sup> for purchasing and renovation of housing and business premises (8,7 years), and the shortest period until maturity was registered with credits to the "construction" sector (almost 2 years). With most sectors the average remaining maturity of credits ranged between two and three years.

<sup>14</sup> The average remaining maturity was calculated for regular credits.

**Table 2.3.1**  
**Average residual maturity of credits approved to non-financial entities (by sector and credit products), as of 30.06.2010.**

Description - activity for legal entities or credit product for natural persons	Average time to maturity (in years)
Agriculture, hunting and forestry	2,65
Industry	2,40
Construction	1,99
Wholesale and retail trade	2,57
Transport, storage and communication	2,44
Hotels and restaurants	3,29
Real estate activities	2,04
Residential and commercial real estate credits	8,74
Consumer credits	3,74
Car credits	2,58

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

The distribution of credits by individual groups of banks confirms the dominant position of the large banks in the banking system. Namely, the group of large banks has highest participation within the frames of all structural categories of credits. Furthermore, on semi-annual basis, certain changes were registered in the distribution of credits, in direction of increased importance of foreign currency and Denar credits with foreign currency clause in the currency structure and growth of the participation of non-performing and mature credits within the group of medium banks.

**Table 2.3.2**  
**Distribution of credits by individual groups of banks**

Structure of credits		31.12.2009				30.06.2010			
		Large banks	Medium-sized banks	Small - sized banks	Total	Large banks	Medium-sized banks	Small - sized banks	Total
Sector structure	Enterprises	71,4%	26,7%	1,9%	100,0%	70,2%	27,9%	1,9%	100,0%
	Households	68,3%	29,3%	2,4%	100,0%	69,0%	28,6%	2,4%	100,0%
	Other clients	54,4%	44,8%	0,9%	100,0%	58,3%	41,0%	0,7%	100,0%
Maturity structure	Short-term	72,5%	26,1%	1,4%	100,0%	72,0%	25,9%	2,1%	100,0%
	Long-term	70,0%	28,2%	1,8%	100,0%	69,7%	28,5%	1,8%	100,0%
	Past due	64,7%	31,3%	4,1%	100,0%	60,7%	36,8%	2,5%	100,0%
	Nonperforming	66,4%	28,1%	5,5%	100,0%	65,7%	30,1%	4,2%	100,0%
Currency structure	Denar	78,1%	18,5%	3,5%	100,0%	79,2%	17,4%	3,4%	100,0%
	Denar with FX clause	58,9%	39,4%	1,7%	100,0%	57,5%	40,5%	2,0%	100,0%
	Foreign currency	73,4%	26,4%	0,1%	100,0%	70,9%	29,1%	0,1%	100,0%

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

The main features of the credits by sector and maturity structure of the banking system are also reflected in the individual groups of banks. More significant differences between the individual groups of banks were registered in the currency structure of credits, especially in the participation of credits with currency component which is significantly higher with the group of medium banks, in comparison with the other two groups.

**Table 2.3.3**  
**Structural features of credits by individual groups of banks**

Structure of credits		31.12.2009			30.06.2010		
		Large banks	Medium-sized banks	Small-sized banks	Large banks	Medium-sized banks	Small-sized banks
Sector structure	Enterprises	61,7%	58,3%	54,5%	61,4%	60,3%	55,7%
	Hoseuholds	38,1%	41,3%	45,4%	38,4%	39,4%	44,3%
	Other clients	0,2%	0,4%	0,1%	0,2%	0,3%	0,1%
	<b>TOTAL</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>
Maturity structure	Short-term	23,3%	21,3%	15,2%	23,4%	20,8%	22,3%
	Long-term	66,8%	68,0%	58,4%	65,7%	66,4%	55,9%
	Past due	1,3%	1,6%	2,7%	1,3%	2,0%	1,8%
	Nonperforming	8,6%	9,2%	23,7%	9,5%	10,8%	20,0%
	<b>TOTAL</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>
Currency structure	Denar	46,2%	27,6%	68,9%	47,1%	25,5%	66,8%
	Denar with FX clause	30,1%	50,9%	29,5%	28,6%	49,9%	32,3%
	Foreign currency	23,7%	21,5%	1,6%	24,3%	24,6%	0,9%
	<b>TOTAL</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>

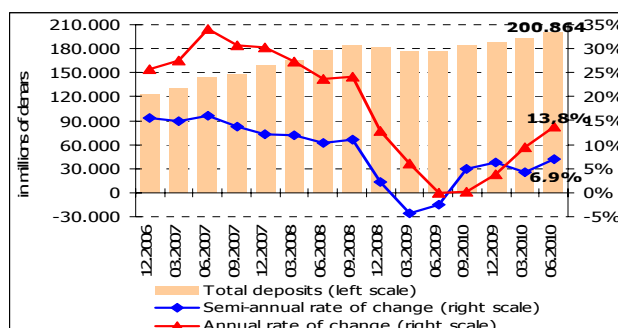
Source: NBRM, on the basis of data obtained from banks.

## 2.5 Deposit activity of banks

The narrowing of the foreign trade deficit and calmed uncertainty and psychological pressures related to the effects of the economic and financial crisis, as well as the stabilized movements on the foreign exchange market, in the first half of 2010, contributed to further gradual intensification of the dynamics of non-financial entities' deposits. Namely, the interrupted currency transformation of deposits, initiated in the last quarter of 2009, continued in the first half of 2010. As of 30.06.2010, the total deposits of non-financial entities amounted to Denar 200,864 million and with regard to the end of 2009 registered growth of Denar 12,989 million, i.e. of 6.9%. The faster semi-annual and annual growth of deposits relative to credits confirms the higher prudence of banks in creating new credit placements and their tendency to invest in instruments with insignificant credit risk. In the first half of 2010, deposits of all groups of banks registered growth, within the frame of which the highest growth, of 16.3%, was realized by the group of medium-sized banks. Thus, this group of banks created 54.0% of the total semi-annual growth of deposits of non-financial entities.

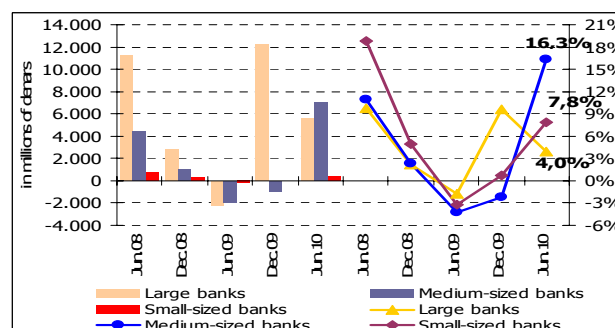
**Figure No. 2.4.1**

**Dynamics of total deposits of non-financial entities, with annual and semi-annual growth**



**Figure No. 2.4.2**

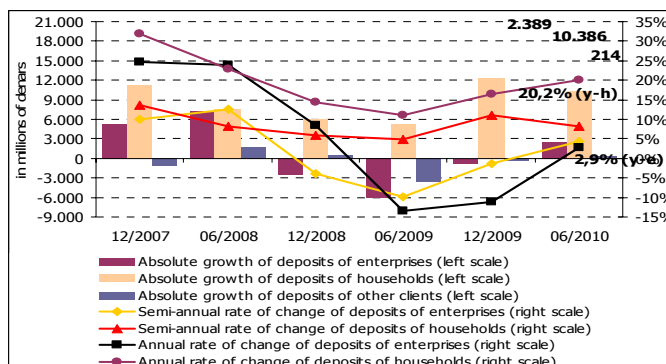
**Absolute and relative semi-annual growth of deposits by individual groups of banks**



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

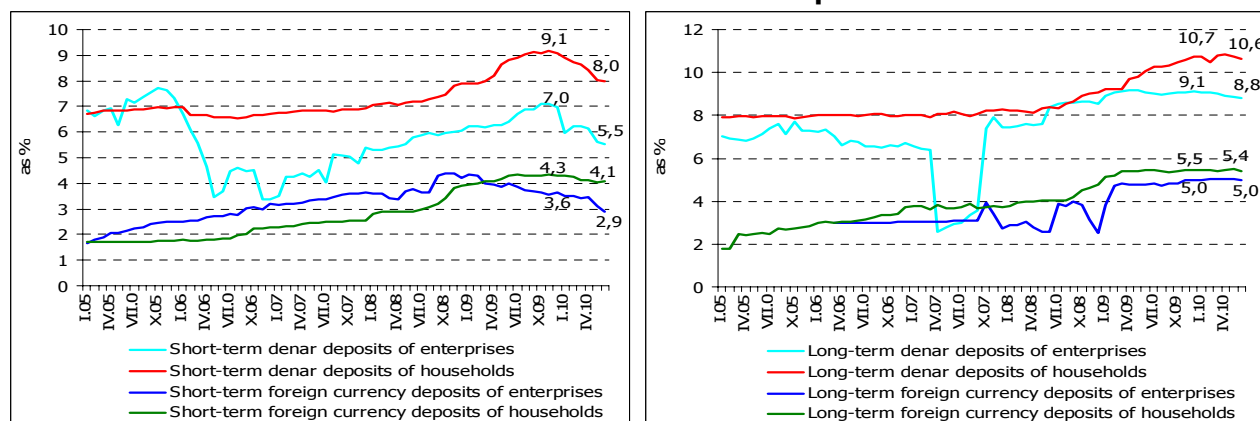
**The growth of deposits in the first half of 2010 reflected into their sector structure.** Deposits of companies in the first half of 2010 registered growth of Denar 2,389 million, i.e. of 4.4%, which is the first realized semi-annual growth from the first half of 2008. Still, deposits of households remained major generator of the dynamics of total deposits of non-financial entities. In the first half of 2010, they registered growth of 8.3% and created 80.0% of the total semi-annual growth of deposits. Thus, the participation of deposits of households in the total deposit base of banks in the first half of 2010 increased by 0.8 percentage points and as of 30.06.2010 amounted to 67.6%.

**Figure No. 2.4.3**  
**Absolute and relative semi-annual and annual growth of deposits by sector structure**



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

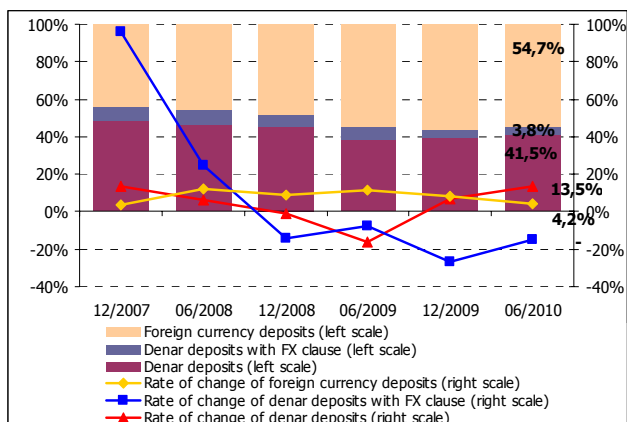
**Figure No. 2.4.4**  
**Movement of interest rates of deposits**



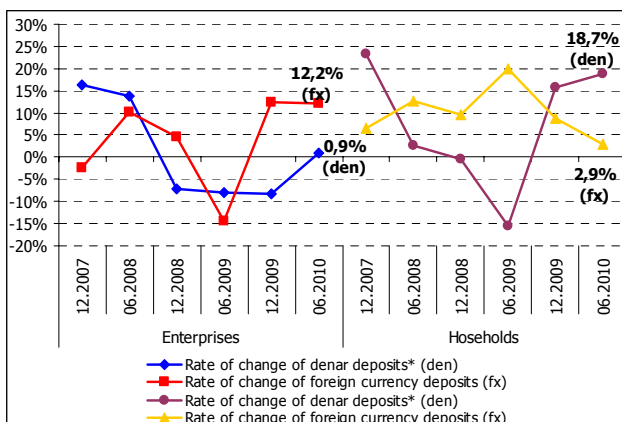
Source: NBRM, on the basis of data obtained from banks.

**The stabilized movements on the FX market and the current differences between the income from Denar and foreign currency deposits, in the first half of 2010, enabled changes of the currency propensities of depositors, in direction of higher propensity towards saving in Denars.** In the first half of 2010, Denar deposits were principal generator of the growth of total deposits of non-financial entities with contribution of 76.4%. Thus, their participation in the currency structure of deposits increased on semi-annual basis by 2,4 percentage points. On the other hand, in the first half of 2010 the growth of foreign currency deposits decelerated, and their contribution to the total growth of deposits came down to 33.9%. Denar deposits with foreign currency clause registered fall of 15.0% in the first half of 2010. The growth of Denar deposits in the first half of 2010 was faster with households, while foreign currency deposits were principal generator of the semi-annual growth of deposits of companies.

**Figure No. 2.4.5**  
**Currency structure and semi-annual growth of deposits by currency**



**Figure No. 2.4.6**  
**Semi-annual growth of deposits by currency and sector**

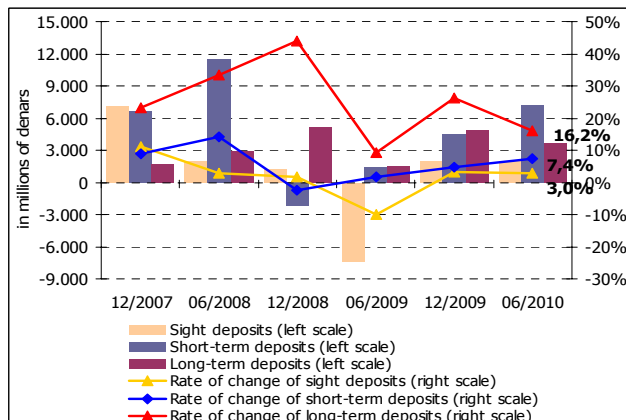


Source: NBRM, on the basis of data obtained from banks.

\* For the needs of figure 2.4.6, Denar deposits also cover Denar deposits with foreign currency clause.

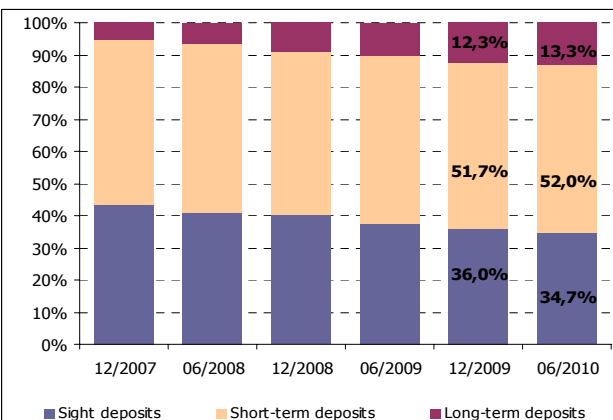
The proactive interest rate policy of banks in direction of stimulating the long term saving (the utterly modest fall of interest rates of long term deposits, as opposed to a slightly more intense decrease of interest rates on short term deposits) reflected into the **maturity structure of the deposits in the first half of 2010, by keeping the trend of faster growth of long term deposits**. Thus, the long term deposits realized semi-annual growth rate of 16.2%, i.e. Denar 3,729 million and increased their participation in the structure by one percentage point. On the other hand, the trend of continuous decrease of the participation of sight deposits in the maturity structure was preserved and as of 30.06.2010 it was lower by 1.3 percentage points, compared with the end of 2009. Still, short term deposits maintain the highest contribution in the maturity structure of deposits creating at the same time 55.7% of the semi-annual growth of total deposits.

**Figure No. 2.4.7**  
**Absolute and relative semi-annual growth of deposits by maturity**



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

**Figure No. 2.4.8**  
**Maturity structure of deposits**





The distribution of deposits by individual groups of banks confirms the dominant position of the group of large banks in the banking system. This group of banks has highest participation in almost all categories of deposits, with exception of the Denar deposits with foreign currency clause, where the group of medium banks has higher structural participation. At the same time, Denar deposits with foreign currency clause registered also highest movements in the distribution by groups of banks, compared with the end of 2009. More significant movements in direction of increased participation of the group of medium banks, at the expense of a fall in the participation of the group of large banks, were registered also with deposits of companies.

**Table No. 2.4.1**  
**Distribution of deposits by individual groups of banks**

Deposit's structures		31.12.2009				30.06.2010			
		Large banks	Medium-sized banks	Small sized banks	Total	Large banks	Medium-sized banks	Small-sized banks	Total
Sector structure	Enterprises	71,1%	25,5%	3,4%	100,0%	63,1%	33,2%	3,7%	100,0%
	Households	76,4%	21,7%	1,9%	100,0%	76,5%	21,6%	1,9%	100,0%
	Other clients	66,9%	24,5%	8,6%	100,0%	70,2%	22,4%	7,4%	100,0%
Maturity structure	Sight deposits	75,2%	21,1%	3,7%	100,0%	73,0%	23,6%	3,4%	100,0%
	Short-term	75,2%	22,8%	2,0%	100,0%	72,9%	24,8%	2,3%	100,0%
	Long-term	69,4%	28,4%	2,2%	100,0%	69,2%	28,8%	2,0%	100,0%
Currency structure	Denar	74,1%	21,8%	4,1%	100,0%	74,2%	21,9%	3,9%	100,0%
	Denar with FX clause	74,9%	20,2%	4,9%	100,0%	45,8%	48,7%	5,5%	100,0%
	Foreign currency	74,7%	23,9%	1,4%	100,0%	73,0%	25,5%	1,5%	100,0%

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

The dominant place of household deposits is common for the sector structure of deposits of all groups of banks, especially emphasized in the group of large banks, and least present with the group of small banks. From a viewpoint of the maturity structure, dominant position with all groups of banks have short term deposits, while highest participation of long term deposits is present with the group of medium banks. The foreign currency deposits are most present in the currency structure of deposits of the groups of large and medium banks, while Denar deposits have dominance only with the group of small banks. The semi-annual growth of Denar deposits, of 13.7% with the group of large banks, and of Denar deposits with foreign currency clause, of 105.5% with the group of medium banks, contributed to increased participation of these categories of deposits in the currency structure of the deposits of these groups of banks.

**Table 2.4.2**  
**Deposit structure by individual groups of banks**

Deposit's structures		31.12.2009			30.06.2010		
		Large banks	Medium-sized banks	Small-sized banks	Large banks	Medium-sized banks	Small-sized banks
Sector structure	Enterprises	27,9%	32,5%	37,8%	24,8%	38,0%	39,6%
	Households	68,5%	63,2%	48,9%	71,4%	58,5%	49,6%
	Other clients	3,6%	4,3%	13,3%	3,8%	3,5%	10,8%
	<b>TOTAL</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>
Maturity structure	Sight deposits	36,4%	33,2%	50,5%	35,0%	32,9%	44,9%
	Short-term	52,2%	51,5%	39,1%	52,3%	51,7%	45,1%
	Long-term	11,4%	15,3%	10,4%	12,7%	15,4%	10,0%
	<b>TOTAL</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>
Currency structure	Denar	38,8%	37,2%	61,0%	42,5%	36,5%	60,7%
	Denar with FX clause	4,8%	4,2%	8,8%	2,4%	7,4%	7,8%
	Foreign currency	56,4%	58,6%	30,2%	55,1%	56,1%	31,5%
	<b>TOTAL</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>

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

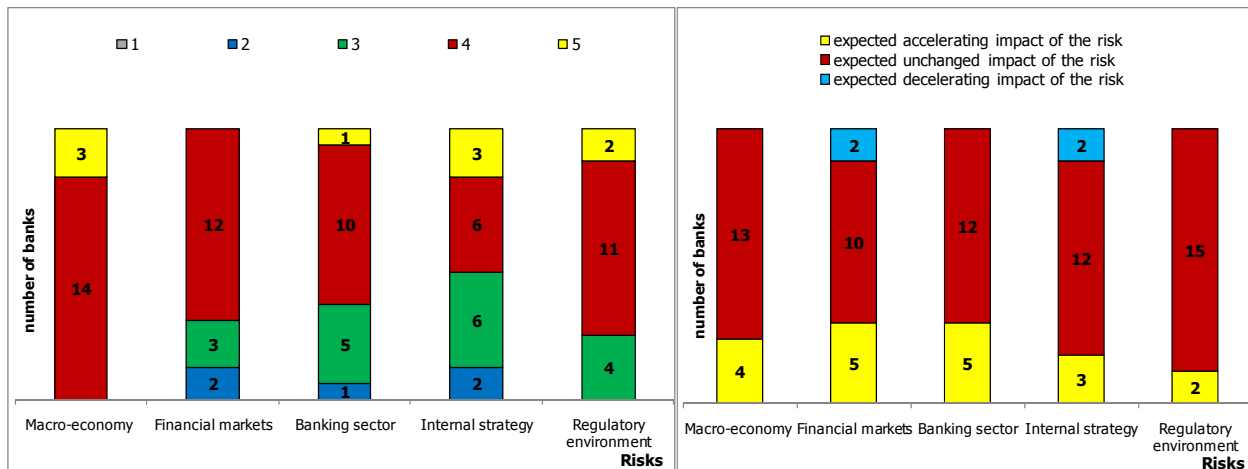
### 3. Risks in banks' operations

**In the first half of 2010, the risk profile of banks in the Republic of Macedonia did not significantly change.** The **credit risk** remained dominant and strengthened its role in the specter of risks the banks face with. Despite the change of the business cycle in the Macedonian economy, initiated at the end of 2009, still the slow recovery of the corporate sector, and consequently of the "household" sector, caused further decrease of their ability to service the debt to banks. This created further upward reassessment of the credit risk by banks, which reflected into increased migration of clients to higher categories of risk and determining higher impairment for credit losses. This process was expected in the post-crisis period, in circumstances of still unfavorable economic conditions and limited sources for refinancing the liabilities of clients on the part of banks. Certainly, the process of "aging" of the credit portfolio of banks created in the period of economic prosperity and overwhelming optimism among economic entities also has its contribution, which among other things reflected in underestimation of the credit risk undertaken by banks. The **indirect credit risk**, as separate component of the credit risk, remains to be very important. The usage of protection clauses in majority of banking products decreases the importance of currency and interest rate risk in their banking operations, but strengthens the role of the credit risk. In addition to this, some of the banks in the Republic of Macedonia are also exposed to **concentration risk** in their portfolios, especially taking into consideration the credit exposure to the corporate sector. On the other hand, in the first half of 2010, the **liquidity risk** decreased its importance in the activity of banks. The banks' liquidity significantly improved, which basically represents a reflection of the still high caution in their business behavior, but also a reflection of the prudent regulatory measure of the NBRM on maintaining minimum liquidity ratios by banks. The negative gap between the assets and liabilities of banks, maturing in shorter periods, is shrinking, which is a result of the strengthened liquidity assets of banks (which is primarily a result of the growth in the risk-free securities portfolio), and of the qualitative movement in the structure of banks' liabilities, in direction of increase of the sources of financing with longer maturity (long term deposits and long term credit lines for financial support of the corporate sector). The **currency risk** continues to decrease its importance in the activity of banks. The gap between the assets and liabilities with foreign currency component, in the first half of 2010, is shrinking, which points out to lower level of currency risk of banks. However, the shrinking of the gap is a result of two contrary movements in the balance sheet of banks – widening of the negative gap between asset and liability balance sheet positions in foreign currency and widening the positive gap among foreign currency clause positions. The **insolvency risk** of banks in the Republic of Macedonia is within controlled frames, which is pointed out by the results from stress-testing of the resistance of the banking system to various hypothetical shocks and simulations. The solvency of the banking system remained high at the end of the first half of 2010. Banks' own funds increased, as a result of increased capital funds by retained profit for 2009, but also by issuing new subordinated instruments. The dominance of the credit risk in the activity of banks is also confirmed by the fact that most significant part of their own funds is used to cover this type of risk.

## Survey of banks' opinion on risks in their operations

In the first half of 2010, second survey was conducted regarding the opinion of banks on the risks in their operations. In the survey, the banks<sup>15</sup> presented their opinions on the current and potential risks they are faced with or shall be faced with in the course of their operations. The Survey covered five groups of risks: macroeconomic risks, risks from financial markets, risks from the banking sector, risks from internal strategy of the bank and risks arising from the regulatory environment. The current level of each of the five groups of risks was estimated by the banks in the interval from 1 to 5 (1 – risks are insignificant for the bank, 5 – risks are very significant for the bank), while the future expectations were presented by qualitative assessment of the direction of risks in the following six months (accelerating, decelerating or unchanged).

**Figure No. 3.1.1**  
**Opinion of banks on risks in their activity for the first half of 2010 (left) and their expectations for the second half of 2010 (right)**



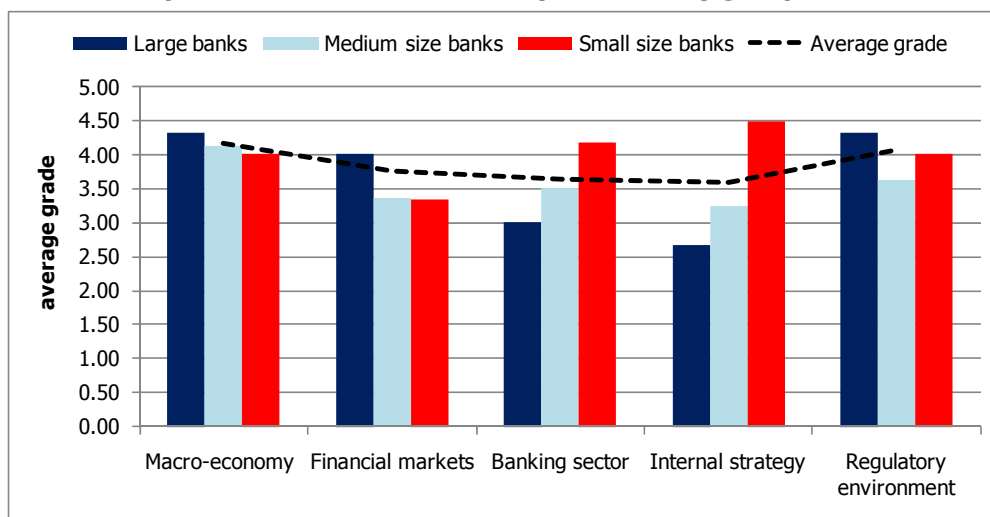
Source: Answers to the Survey on the opinion on risks submitted to NBRM by banks.

According to the results of the conducted survey, all five groups of risks have average assessment moving in the interval from 3 to 4, which means that banks give almost equal importance to all five groups of risks. In due course, not one group of risks was estimated as unimportant, and most significant number of banks expect unchanged influence of all five groups of risks over their activity in the second half of 2010 as well. If the results from the survey, conducted at the end of 2009, are taken into consideration, it can be concluded that the situation and expectations of banks remain almost unchanged. The **macroeconomic risks** continued to be estimated as risks with highest influence over the activity of banks (average grade of 4.2). Almost the same level of importance is registered by the **risks from regulatory environment**. What is characteristic for this group of risks is the fact that compared with the end of 2009, in the first half of 2010 banks consider these risks to be more significant and with higher influence over their activity. The next group of risks according to their influence over the activity of banks are the **risks from financial markets** and they represent a group of risks with highest growth in the average grade (from 3.3 at the end of 2009, to 3.8 in the second half of 2010). The remaining two groups of risks (risks from the banking sector and risks from

<sup>15</sup> The analysis of the Survey includes received answers from 17 banks in the country.

internal strategy of the bank) were estimated by banks as risks with lowest level of influence over their activity (average grade of 3.6).

**Figure No. 3.2.1**  
**Opinion on risks in the activity of banks by groups of banks**



Source: Answers to the Survey on the opinion on risks submitted to NBRM by banks.

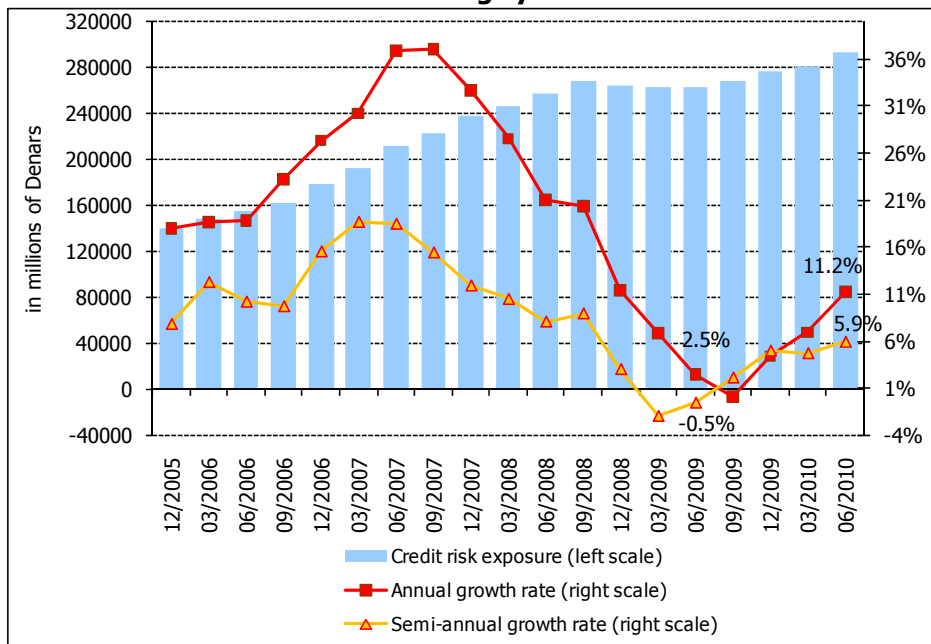
Figure No. 3.2.1 presents the opinion on the importance of the five groups of risks by individual groups of banks. The group of macroeconomic risks has highest reconciliation between individual groups of banks with regard to their opinion on the importance of these risks. With the other groups of risks a significant difference is observed, especially between the opinions of the group of medium and the group of large banks. These differences are most visible with risks from internal strategy and characteristics of the bank (strategic risk), where the average assessment of the both groups of banks differs by almost two figures. Similar situation is present with the risks from the banking sector and the financial markets. From the received answers it can be concluded that the differences are result of the different size and different activities performed by these two groups of banks.

### 3.1 Credit risk

#### 3.1.1 Credit risk exposure of the banking system

**At the end of the first half of 2010, the credit risk exposure of banks reached Denar 292,834 million, realizing semi-annual growth of 5.9%.** Regardless of the fact that the credit activity of banks increased in the first half of 2010, still, their business behavior continued to be based on high level of caution. Confirmation for this is the further growth of banks' placements in treasury bills and government bills (on semi-annual basis they increased by Denar 7,654 million), which represent major generator of the semi-annual growth of the total credit exposure (with contribution to the growth of 46.4%).

**Figure No. 3.1.1**  
**Developments and growth rates of the credit risk exposure at level of the banking system**



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

**However, despite the growth of the credit risk exposure, which is mostly based on increased placements in non-risk securities, the majority of risk indicators of the total credit portfolio registered deterioration. The average level of risk<sup>16</sup> of the credit risk exposure at the level of the banking system registered increase.** With regard to the exposure classified on individual basis, generator of this deterioration is the exposure classified in "C" risk category.

<sup>16</sup> The average risk level is calculated as participation of calculated impairment and special reserve in the total exposure.

**Table 3.1.1**  
**Indicators for the quality of the banking system credit portfolio**

Indicator	30.06.2009	31.12.2009	30.06.2010
Average level of risk	6.5%	6.5%	6.8%
% of „C“, „D“ and „E“ in total credit risk exposure	7.6%	7.9%	8.6%
% of „E“ in total credit risk exposure	3.4%	3.7%	3.9%
Coverage of „C“, „D“ and „E“ with calculated impairment and special reserves	85.5%	82.4%	79.6%
Coverage of nonperforming credits with calculated impairment and special reserves	n.a.	112.6%	108.2%
% of „C“, „D“ and „E“ in own funds	57.8%	62.2%	68.2%
% of „E“ in own funds	25.6%	28.8%	31.2%
Calculated impairment and special reserves/Own funds	49.4%	51.3%	54.3%
% of nonperforming credits, net of calculated impairment for nonperforming credits in own funds	n.a.	13.2%	15.0%
% of „C“, „D“ and „E“, net of calculated impairment for nonperforming credits in own funds	21.8%	23.0%	25.5%
Nonperforming credits / Total credits*	8.6%	9.1%	10.1%
% of bullet credits in total gross-credits to nonfinancial entities	15.0%	16.4%	15.8%
Restructured and prolonged credits / Total credits	10.5%	7.8%	7.3%
% of net written-off claims in the first half of 2010 in total credit risk exposure at the end of first half of 2009	0.3%	1.1%	0.3%
Unsecured exposure / total credit risk exposure of non-financial entities	20.2%	25.3%	23.9%
Herfindahl index for nonperforming credits	1,725	1,702	1,729
Herfindahl index for total credit risk exposure	1,718	1,769	1,728
CR 5 for total credit risk exposure	78.5%	79.4%	79.0%

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

\* Data as of 30.06.2009 and 31.12.2010 are corrected and was received on the basis of the accounting balance of accounts recording non-performing loans.

As of 30.06.2010, 19.0% of the total credit risk exposure was classified on group level (19.8% as of 31.12.2009). Highest part (89%) of the exposure classified on group level represents the portfolio of small credits<sup>17</sup>, the average risk of which amounts to 2.6% (2.5% as of 31.12.2009). The big difference between the average levels of risk of the total credit portfolio and the portfolio classified on group level, may be an indicator of insufficient cover of the portfolio of small credits with calculated impairment and special reserve, as potential source of additional losses for banks.

<sup>17</sup> The average risk of the remaining exposure on group level, homogenous sub-portfolios of similar financial instruments not impaired on individual basis, in the first half did not change and amounted to 0,3%.

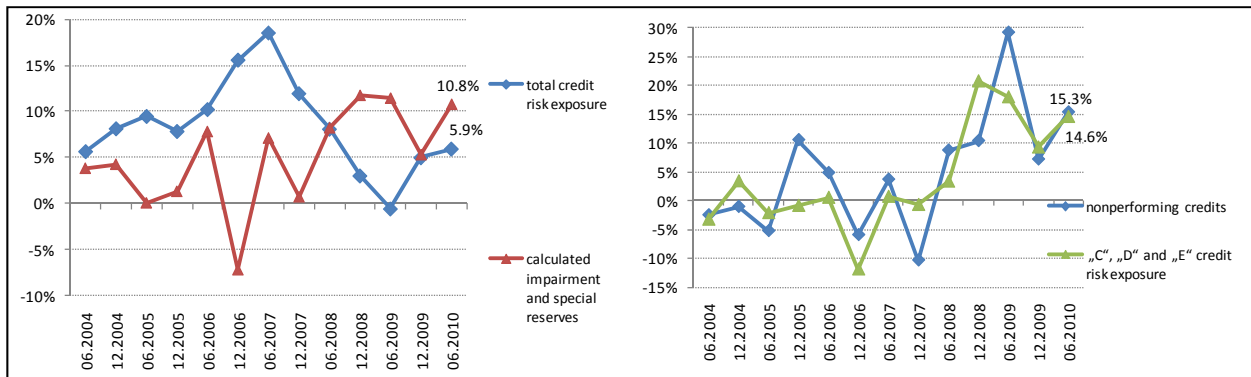
**Table 3.1.2**  
**Average risk of the credit risk exposure**

Date	Average risk according classified exposure and risk category																		
	Exposure classified on individual level (in%)						Exposure classified on group level (in%)						Total exposure (in %)						
	A	B	C	D	E	total	A	B	C	D	E	total	A	B	C	D	E	total	
31.12.2009	0.6	10.5	27.1	58.2	94.4	7.4	1.1	11.7	36.3	50.0	99.5	2.3	0.7	10.8	28.4	58.2	94.4	6.5	
30.06.2010	0.6	10.5	29.8	54.0	94.3	7.9	1.1	11.2	33.8	50.0	100.0	2.3	0.7	10.7	30.0	54.0	94.3	6.8	
<b>Change in percentage points</b>	<b>0.0</b>	<b>0.0</b>	<b>2.7</b>	<b>-4.1</b>	<b>-0.1</b>	<b>0.4</b>	<b>0.0</b>	<b>-0.5</b>	<b>-2.5</b>	<b>0.0</b>	<b>0.5</b>	<b>0.0</b>	<b>0.0</b>	<b>-0.1</b>	<b>1.6</b>	<b>-4.1</b>	<b>-0.1</b>	<b>0.3</b>	

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

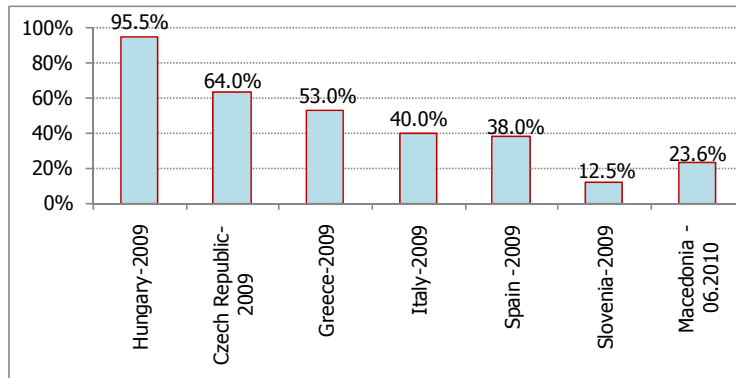
Given the moderate growth of the total credit risk exposure and the accelerated migration of the current exposure to the higher level of risk categories, the participation of the exposure classified in the risk categories "C", "D" and "E" increased in the total credit risk exposure by 0.7 percentage points. At the same time, the degree of covering of the exposure classified in the risk categories "C", "D" and "E" decreased, with calculated impairment and special reserve.

**Figure No. 3.1.2**  
**Semi-annual growth rate of the components of credit risk indicators**



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

**Figure No. 3.1.3**  
**Annual growth rate of non-performing credits, by individual countries**



Out of all exposure components, **highest annual growth rate (of 23.6%)** registered the non-performing credits, which contributed to decrease in their "cover" with calculated impairment. Their growth participates with 14,9% in the semi-annual growth of the total credit risk exposure (Annex No. 8 – Non-performing credits and

Source: „NPL Europe“ Issue 2, June 2010, PWC.

calculated impairment for non-performing credits, at the level of the banking system – sector structure). **Still, the annual growth rate of the non-performing credits in the banking system of the Republic of Macedonia is among the lower rates, compared with the selected analyzed countries.**

**Furthermore, in case the extreme scenario is realized regarding complete non-collection of the exposure in "C", "D" and "E" and the non-performing credits, 25.5% and 15.0% would be absorbed respectively from own funds of banks, to cover losses.** In due course, the capital adequacy rate would decrease from the current 16.5% to 12.3% and 14.0%, respectively.

**The credits with onetime repayment of principal,** which according to their nature include higher credit risk, registered semi-annual growth of 10.8%, but decreased their participation in the total gross-credits to non-financial entities. Contrary to those, restructured and prolonged credits registered semi-annual decrease of 5.2% which contributed to a decrease of their participation in the total credits of the banking system by 0.5 percentage points on semi-annual basis.

**In the first half of 2010, the written-off claims on part of banks were higher by 12.1% with regard to the claims which were written-off in the first six months of 2009.** Furthermore, from the previously written-off claims Denar 59 million were collected. Despite the fact that the most significant decrease was registered with net written-off Denar claims on non-financial legal entities (of 740 million or 35.5%), this item participates with 77.5% in the total net written-off claims.

**Table No. 3.1.3  
Amount and structure of the written-off claims**

Period	Net written-off claims on nonfinancial entities (in millions of denars)			Sector structure		Currency structure		
	Written-off claims	Collected previously written-off claims	Net written-off claims	Non-financial legal entities	Natural persons	Denar	Denar with FX clause	FX
First half of 2008	1526	204	1322	87.8%	12.2%	79.1%	17.8%	25.4%
First half of 2009	751	58	693	90.4%	9.6%	34.0%	192.4%	0.5%
First half of 2010	836	59	777	101.9%	-1.9%	96.3%	3.2%	0.5%

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

**At the end of the first half of 2010, the unsecured part of the credit portfolio decreased by 1.4 percentage points.** In due course, this movement in most significant part reflects the more rigorous credit standards of banks in the part of requiring appropriate security. The structure of the secured part of the credit portfolio has not significantly changed with regard to the end of last year. The secured part of the credit portfolio with the "household" sector covers 62.0% (62.2% as of 31.12.2009), while the credit exposure to the sector "enterprises and other clients" - 87.7% (84.3% as of 31.12.2009) of the total exposure to individual sectors.



**The importance of the indirect credit risk in the total risk profile of banks continues to be on a relatively high level.** As of 30.06.2010, 83.4% of the total credits to non-financial entities are with adjustable interest rate, which is variable according to the decision of competent body of the bank (85.1% as of 31.12.2009). The used foreign currency protection clauses on part of banks, (Denar credits with foreign currency clause) with the sectors "household" and "enterprises and other clients" participated with 38.7% and 32.0%, respectively, in the total credits to these sectors. If the amount of foreign currency credits of Denar 20,612 million, which are for the purpose of domestic payment (which according to their structure are the same as the Denar credits with foreign currency clause), is added to these credits, than the total amount of credits with included protection clause on part of banks with regard to possible change in the foreign exchange rate of the Denar amounts to Denar 83,076 million, or 46% of the total credits (Denar 78,775 million as of 31.12.2009) (see 3.4 Currency risk – Results of the questionnaire submitted to banks regarding their exposure to indirect credit risk).

**At the end of the first half of 2010, the concentration of credits risk exposure registered decrease,** and the Herfindahl index is close to the upper concentration limit of 1.800 points. Still, according to the sector and currency structure, highest concentration is registered in the exposure to the "household" sector, with the credit cards (5.016 index points) and the Denar exposure to credit risk (1.866 index points).

### **3.1.2 Credit risk exposure by individual groups of banks**

**At the end of the first half of 2010, all groups of banks realized positive rates of increase of credit risk exposure.** Generator of the increase is the group of large banks, with contribution of 53.6%, followed by the group of medium banks with contribution to the growth of 35.8% (Annex No. 10 – Credit risk exposure and calculated impairment, by individual groups of banks – sector structure).

**With the group of large banks, at the end of the first half of 2010, all indicators for the quality of the credit portfolio deteriorated.** This group participates with 66.2% in the total credit risk exposure classified in the risk categories "C", "D" and "E" (63.3% as of 31.12.2009). Furthermore, despite the semi-annual growth of calculated impairment with this group of banks (of 13.5%), the cover of the exposure classified in risk categories "C", "D" and "E" and the non-performing credits with calculated impairment is decreasing. The growth of non-performing credits with large banks is at the same the major generator of the semi-annual growth of non-performing credits at the level of the banking system. They registered semi-annual growth of 14.4% thus creating 61.5% of growth of the total non-performing credits in the banking system (Annex No. 11 – Non-performing credits and calculated impairment for non-performing credits, by individual groups of banks – currency structure).

**Table 3.1.4**  
**Credit exposure risk indicators by group of banks**

Indicator	Large banks			Medium size banks			Small size banks		
	30.06.2009	31.12.2009	30.06.2010	30.06.2009	31.12.2009	30.06.2010	30.06.2009	31.12.2009	30.06.2010
Share of total credit risk exposure	69.5%	70.7%	69.7%	25.8%	25.0%	25.7%	4.7%	4.3%	4.6%
Average level of risk	6.8%	6.6%	7.2%	5.1%	5.6%	5.8%	9.3%	9.9%	6.2%
% of „C“, „D“ and „E“ in total credit risk exposure	7.4%	7.1%	8.1%	7.6%	9.7%	10.0%	10.5%	11.0%	7.1%
% of „E“ in total credit risk exposure	3.5%	3.6%	4.1%	2.4%	3.0%	3.2%	7.1%	8.6%	5.3%
Coverage of „C“, „D“ and „E“ with calculated impairment and special reserves	92.3%	93.8%	88.8%	66.8%	57.3%	58.1%	88.6%	90.5%	88.3%
Coverage of nonperforming credits with calculated impairment and special reserves	n.a.	123.6%	122.7%	n.a.	85.7%	78.3%	n.a.	119.0%	99.2%
% of „C“, „D“ and „E“ in own funds	65.7%	67.4%	75.7%	57.3%	70.4%	52.4%	26.1%	25.4%	18.9%
% of „E“ in own funds	30.9%	34.3%	38.2%	17.9%	21.7%	24.3%	17.5%	19.8%	14.1%
Calculated impairment and special reserves/Own funds	60.7%	63.3%	67.3%	38.3%	40.5%	44.5%	23.1%	23.0%	16.7%
% of nonperforming credits, net of calculated impairment for nonperforming credits in own funds	n.a.	12.2%	12.7%	n.a.	21.2%	26.8%	n.a.	2.5%	2.3%
% of „C“, „D“ and „E“, net of calculated impairment for nonperforming credits in own funds	23.1%	21.7%	24.9%	27.9%	35.8%	38.2%	5.0%	4.2%	2.9%
Nonperforming credits / Total credits*	8.3%	8.6%	9.5%	8.4%	9.2%	10.8%	22.2%	23.7%	20.0%
% of bullet credits in total gross-credits to nonfinancial entities	13.2%	13.2%	14.5%	19.3%	19.0%	19.4%	17.4%	12.4%	9.3%

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

**In parallel with the highest participation of exposure in "C", "D" and "E" with regard to the credit portfolio of the group of medium banks, the level of cover for this category of exposure with calculated impairment is the lowest with this group of banks, compared with the remaining groups of banks and the banking system as a whole. Furthermore, the average risk of the medium banks credit portfolio is the lowest.** In conditions of worsened performance of the corporate sector and the "household" sector, these indicators may point out to still present differences in the manner of assessing the credit risk among the groups of banks, which is reflected in the classification of the credit risk exposure and the amount of calculated impairment and special reserve.

As opposed to the previous quarters, when the average risk was highest with the group of small banks, this group of banks, despite the moderate growth of the credit risk exposure, presented improved indicators for the quality of the credit risk exposure in comparison with the other two groups. This group at the end of the first half of 2010 registered semi-annual decrease of non-performing credits of 13.4%<sup>18</sup>.

<sup>18</sup> The decrease of non-performing credits is a result of the write-off conducted by one bank of the group of small banks.

**Table 3.1.5**  
**Indicators for the degree of concentration by individual groups of banks**

<b>Indicator of concentration</b>	<b>Large banks</b>	<b>Medium size banks</b>	<b>Small size banks</b>
10 largest exposures of the sector "enterprises and other clients" / total credit risk exposure of the sector "enterprises and other clients"	26.1%	25.8%	50.5%
10 largest exposures of residential real estate credits / total credit risk exposure of the total residential real estate credits	5.4%	10.0%	n.a.
10 largest exposures of consumer credits / total credit risk exposure of the total consumer credits	3.2%	4.5%	5.4%
10 largest exposures of overdrafts / total credit risk exposure of the total overdrafts	0.2%	2.4%	1.8%
10 largest exposures of credit cards / total credit risk exposure of the total credit cards	0.1%	1.3%	7.6%
10 largest exposures of car credits / total credit risk exposure of the total car credits	4.3%	7.0%	n.a.

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

**Additional risk to which the group of small banks is exposed is the concentration risk of their credit portfolio.** As of 30.06.2010, the ten largest exposures to individual clients (non-financial entities) and entities related to them cover, on average, a little more than half of the credit exposure of this group of banks to the corporate sector. Contrary to this, the diversification which as a rule is common for the retail credit portfolio of banks, is also confirmed by the low level of concentration by separate credit products for this sector.

### **3.1.3 Credit risk exposure to the sectors "enterprises and other clients" and "household"**

**As of 30.06.2010, highest participation (of 46.7%) in the sector structure of the credit portfolio at the level of the banking system continues to have the exposure to the sector "enterprises and other clients". The credit risk exposure to this sector registered semi-annual growth of 4.9%, contributing thus with 39.2% to the semi-annual growth of the total credit risk exposure at the level of the banking system.**

**Table 3.1.6**  
**Indicators for the degree of credit risk exposure to the sector "companies and other clients"**

Indicator	Date	Industry	Agriculture, hunting and forestry	Construction	Wholesale and retail trade	Transport, storage and communication	Hotels and restaurants	Real estate activities	Total credit risk exposure to enterprises and other clients
Share of total credit risk exposure to the sector "enterprises and other clients"	30.06.2009	39.0%	2.9%	10.1%	30.5%	6.5%	3.1%	4.9%	100.0%
	31.12.2009	32.7%	3.2%	10.9%	31.5%	6.1%	2.9%	5.5%	100.0%
	30.06.2010	38.1%	2.9%	10.8%	30.4%	6.3%	2.8%	5.6%	100.0%
Average level of risk	30.06.2009	11.3%	16.2%	6.7%	7.2%	7.2%	6.7%	4.9%	8.9%
	31.12.2009	12.7%	13.3%	5.4%	7.3%	6.9%	12.8%	5.8%	9.3%
	30.06.2010	25.7%	13.0%	5.7%	7.9%	6.8%	12.8%	9.4%	9.8%
% of „C“, „D“ and „E“ in total credit risk exposure	30.06.2009	13.9%	16.9%	7.6%	8.5%	10.5%	7.1%	4.6%	10.5%
	31.12.2009	16.2%	16.6%	6.6%	7.4%	9.2%	26.9%	8.6%	11.6%
	30.06.2010	16.9%	14.4%	5.8%	8.1%	10.2%	27.1%	18.3%	12.6%
% of „E“ in total credit risk exposure	30.06.2009	7.5%	11.6%	4.1%	3.7%	3.2%	1.7%	1.6%	5.2%
	31.12.2009	8.6%	7.7%	4.0%	4.4%	3.8%	3.0%	1.3%	5.8%
	30.06.2010	8.5%	8.6%	3.8%	4.8%	4.0%	2.6%	1.8%	5.9%
Coverage of „C“, „D“ and „E“ with calculated impairment and special reserves	30.06.2009	81.5%	95.7%	89.1%	85.4%	68.7%	94.9%	105.9%	84.3%
	31.12.2009	78.2%	80.4%	82.0%	99.2%	75.4%	47.6%	68.0%	80.4%
	30.06.2010	152.5%	90.1%	97.5%	97.3%	67.3%	47.2%	51.4%	77.6%
Herfindahl index	30.06.2009	2,415	1,551	2,496	2,056	1,525	1,706	2,142	2,067
	31.12.2009	2,373	1,526	2,292	2,005	1,491	1,593	2,523	2,029
	30.06.2010	2,370	1,785	2,549	1,791	1,334	1,571	2,528	1,992
CR 5	30.06.2009	87.0%	79.3%	88.5%	81.4%	70.8%	80.2%	83.9%	81.9%
	31.12.2009	86.6%	79.2%	87.1%	81.6%	73.4%	79.2%	87.1%	82.0%
	30.06.2010	86.0%	84.2%	85.2%	80.8%	72.3%	78.9%	86.6%	81.9%

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

Note: The table presents only those sectors with share of more than 2,2% in the total credit risk exposure to the sector „enterprises and other clients“.

**In the first half of 2010 the indicators for the degree of risk exposure to the sector "companies and other clients" and the sector "household" deteriorated. Higher intensity of deterioration was common for the credit exposure to the sector "enterprises and other clients".** The consequences from the crisis for the activity of the sector "enterprises and other clients", especially the decreased level of liquidity, as well as the limitations with regard to the sources of refinancing, resulted in growth of the level of risk exposure to this sector. Thus, the non-performing credits of the sector "enterprises and other clients" realized semi-annual growth of 15.3% and as of 30.06.2010 participated with 64.1% in the total non-performing credits at level of the banking system. The non-performing credits of the "industry" sector realized highest semi-annual absolute growth (Denar 946 million), while highest percentage growth of these credits was realized in the sector "hotels and restaurants" (292.6%). The non-performing credits with these two sectors created 75.8% of the semi-annual growth of the total non-performing credits of the sector "enterprises and other clients" (Annex No. 6 and 8 and Annex No. 9 – Non-performing credits and calculated impairment for non-performing credits at the level of the banking system – currency structure).

**Table 3.1.7**  
**Indicators for the degree of credit risk exposure to the sector "household"**

Indicator	Date	Residential and commercial real estate credits	Consumer credits	Overdrafts	Credit cards	Car credits	Total exposure to household
Share of total credit risk exposure to the sector "household"	30.06.2009	18.3%	31.2%	10.7%	30.2%	6.1%	100.0%
	31.12.2009	19.1%	32.3%	10.9%	30.1%	6.1%	100.0%
	30.06.2010	19.7%	33.1%	10.8%	29.3%	5.6%	100.0%
Average level of risk	30.06.2009	3.2%	8.2%	6.0%	6.7%	4.6%	6.5%
	31.12.2009	3.1%	8.5%	6.2%	6.4%	4.5%	6.6%
	30.06.2010	3.4%	9.6%	6.1%	7.4%	5.0%	7.3%
% of „C“, „D“ and „E“ in total credit risk exposure	30.06.2009	3.9%	10.3%	3.6%	7.1%	6.9%	7.5%
	31.12.2009	3.8%	11.3%	4.0%	6.7%	5.7%	7.7%
	30.06.2010	4.7%	12.8%	4.2%	7.8%	6.2%	8.6%
% of „E“ in total credit risk exposure	30.06.2009	0.9%	3.1%	2.3%	1.7%	1.8%	2.2%
	31.12.2009	1.1%	3.6%	3.2%	2.1%	2.0%	2.7%
	30.06.2010	1.3%	4.9%	3.5%	3.9%	2.6%	3.8%
Coverage of „C“, „D“ and „E“ with calculated impairment and special reserves	30.06.2009	81.2%	79.6%	167.5%	94.2%	66.7%	85.4%
	31.12.2009	81.5%	75.6%	155.6%	95.7%	78.5%	85.8%
	30.06.2010	73.4%	75.5%	144.7%	95.0%	81.3%	84.5%
Coverage of nonperforming credits with calculated impairment and special reserves	31.12.2009	87.2%	81.5%	161.7%	116.0%	93.1%	96.1%
	30.06.2010	80.4%	82.4%	151.2%	110.8%	90.7%	91.1%
Herfindahl index	30.06.2009	2,281	1,441	2,745	5,351	2,214	2,302
	31.12.2009	2,431	1,569	2,754	5,145	2,384	2,356
	30.06.2010	2,403	1,630	2,689	5,016	2,433	2,362
CR 5	30.06.2009	88.2%	77.2%	91.9%	93.7%	86.9%	84.4%
	31.12.2009	88.3%	79.3%	91.3%	93.3%	87.5%	84.8%
	30.06.2010	85.9%	79.7%	90.5%	93.0%	86.8%	84.4%

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

**In the first half of 2010, the credit risk exposure to the sector "household" increased by 3.5% and as of 30.06.2010 participated with 27.5% in the credit portfolio of banks.** Most significant part of this credit risk exposure belongs to consumer credits (33.1%) which are major generators of the semi-annual growth of the total credit risk exposure to the sector **"household"** (55.5% participation in the growth), but also to the growth of non-performing credits of this sector (58.8% participation in the growth). The semi-annual growth rates of the credit exposure classified in the risk categories "C", "D" and "E" and the non-performing credits of the sector **"household"** amounted to 16.3% and 15.8%, respectively.

### 3.1.4 Currency structure of the credit risk exposure

**As of 30.06.2010 no significant changes were registered in the currency structure of the credit risk exposure. Only the participation of the Denar exposure increased to the expense of insignificantly lower importance of the Denar exposure with foreign currency clause.** At the same time, with realized semi-annual growth of 8%, this exposure created 58.3% of the semi-annual growth of the total credit risk exposure at the level of the bankign system, and 42.9% of the semi-annual growth of the non-performing credits of banks (Annex No. 7 – Credit risk exposure and calculated impairment at the level of the banking system – currency structure).

**Table 3.1.8**  
**Indicators for the degree of credit risk exposure by currency structure**

Indicator	Denar exposure			Denar exposure with FX clause			FX exposure		
	30.06.2009	31.12.2009	30.06.2010	30.06.2009	31.12.2009	30.06.2010	30.06.2009	31.12.2009	30.06.2010
Share of total credit risk exposure	45.5%	43.2%	44.1%	24.6%	28.2%	27.5%	29.9%	28.5%	28.4%
Average level of risk	8.3%	8.5%	8.3%	4.8%	5.0%	5.4%	5.1%	5.1%	5.9%
% of „C“, „D“ and „E“ in total credit risk exposure	9.3%	10.0%	10.1%	6.6%	6.2%	7.2%	5.8%	6.5%	7.4%
% of „E“ in total credit risk exposure	4.6%	5.1%	5.0%	1.4%	2.6%	3.0%	3.1%	2.5%	3.1%
Coverage of „C“, „D“ and „E“ with calculated impairment and special reserves	89.7%	85.0%	82.1%	72.1%	80.6%	74.2%	87.8%	77.8%	79.3%
Coverage of nonperforming credits with calculated impairment and special reserves	n.a.	115.7%	109.3%	n.a.	104.3%	103.1%	n.a.	113.9%	110.3%
Nonperforming credits / Total credits	n.a.	11.5%	13.0%	n.a.	5.0%	5.7%	n.a.	11.0%	11.5%
Herfindahl index	1,835	1862	1,866	1,606	1641	1,656	1,854	1954	1,826
CR 5	79.1%	75.7%	79.2%	83.3%	84.4%	83.8%	76.4%	85.5%	82.8%

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

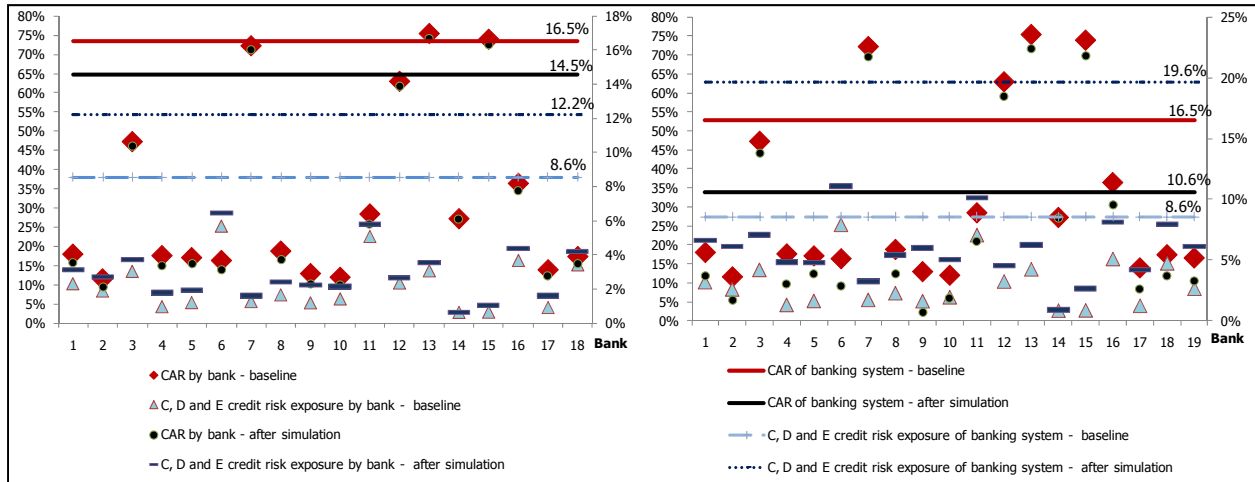
The decrease of the average risk level of the Denar exposure in the first half of 2010 was primarily a result of the increased investment of banks in CB bills issued by NBRM. Still, at the end of the first half of 2010 the coverage of non-performing credits in Denar with total calculated impairment registered a decrease. These credits, at semi-annual level, increased by 12% and have the highest participation (42.9%) in the growth of non-performing credits at the level of the banking system. On the other hand, all indicators for the risk of the exposure with foreign currency component, deteriorated in the first half of 2010. The foreign currency and Denar exposure with foreign currency clause, increased semi-annually by 5.6% and 3.1%, respectively, while the non-performing credits with foreign currency clause and those in foreign currency registered semi-annual growth of 27.3% and 12.1%, respectively. Due to the fact that the calculated impairment registered modest growth with the Denar exposure with foreign currency clause, the cover of this type of credit risk exposure is at the lowest level.

**Stress-test simulation<sup>19</sup> for the sensitivity of the banking system to the increased risk of credit risk exposure, to the sector "enterprises and other clients" and/or to the sector "household"**

**The stress-testing for the sensitivity of the banking system to possible deterioration of the risk of the credit exposure to non-financial entities rests on the assumption of migration of certain percentage of exposure from each risk category to the next two following categories with higher risk degree, where distribution is made in equal amount.** Furthermore, in the course of the simulation an identical level of average risk for each risk category is assumed, same as prior to the migration of the exposure. **The purpose of the simulation is to determine the potential adverse effects of the credit risk exposure migration (for the total exposure, and for the exposure by individual sectors and activities) from current to higher risk categories on the capital adequacy and the risk of the exposure.**

<sup>19</sup> Stress-test simulation has been conducted by using data from the Credit Registry of NBRM as of June 30, 2010.

**Figure No. 3.1.4**  
**Results of the simulation – migration of 10% (left) and 30% (right) of credit risk exposure in each following two risk categories, within the frame of exposure to „enterprises and other clients“ and „household“**



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

If simultaneous distribution is assumed of 10% and 30% of the credit risk exposure to the sectors "companies and other clients" and "household", from lower risk categories to higher ones, largest deterioration of the quality is registered with the exposure to the sector - "industry", while for the exposure to the sector "household" – is that of the consumer credits. Largest decrease of the capital adequacy at assumed migration of credit risk exposure is registered with the migration of exposure to the sectors "industry" and "wholesale and retail trade" for the exposure to the sector "companies and other clients" and with the exposure on the basis of credit cards and consumer loans for the exposure to the sector "household".

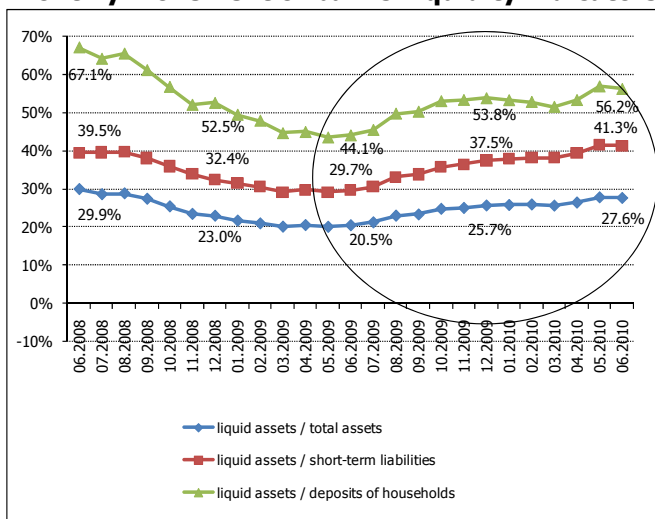
## 3.2 Liquidity risk

In the first half of 2010, the liquidity of the banking system improved. The volume of the liquid assets registered high annual and semiannual growth, conditioning the upward dynamics of all liquidity indicators of the banking system. The cumulative negative gap between the assets and liabilities, from the aspect of their contractual maturity, registered a decrease in the maturity segments of up to 7 days, one and three months, and slight increase in the maturity segments of up to 6 and 12 months. Despite the improved results from the performed stress test simulations for the resistance of the banking system to liquidity shocks, some banks, however, are still sensitive to hypothetical withdrawal of the deposits of the ten largest depositors.

### 3.2.1 Liquidity indicators of the banking system<sup>20</sup>

The analysis of the monthly condition of the liquidity indicators of the banking system points to the conclusion for their almost constant improvement in the last one-year period (June 30, 2009 - June 30, 2010). In the first half of 2010, the largest improvement (of 3.8 percentage points) was registered by the indicator for the coverage of the short-term liabilities of the banking system with liquid assets<sup>21</sup>. On June 30, 2010, it reached the level of 41.3%, which is an increase of 1.8 percentage points, relative to the level registered two years ago (on June 30, 2008) (Annex no. 14 - Liquidity indicators).

Figure 3.2.1  
Monthly movement of banks' liquidity indicators



Source: NBRM, based on data submitted by the banks

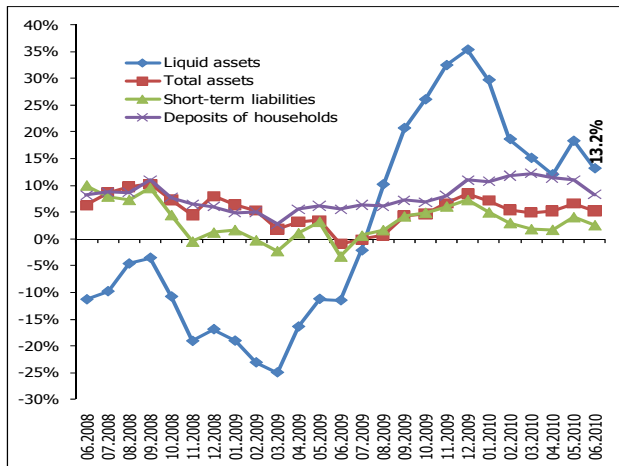
Despite the slowing down in the first six months of 2010, the semiannual growth rates of the liquid assets of the banking system are still higher than the increase in the other components of the liquidity indicators. Such movements conditioned the upward dynamics of all liquidity indicators of the banking system. On June 30, 2010, the banks' liquid assets reached the level of Denar 76,358 million, which is by 8,898 million more than the level of the liquid assets registered at the end of 2009. Observed on annual basis, (June 30, 2009 - June 30, 2010) the liquid assets of the banking system increased by Denar 26,540 million, or by 53.3%.

<sup>20</sup> The calculation of the individual components for analysis of the banks' liquidity position do not take into consideration the deposits with and the credits of the domestic banks (assets components), i.e. the deposits of and the borrowings from domestic banks (liabilities components).

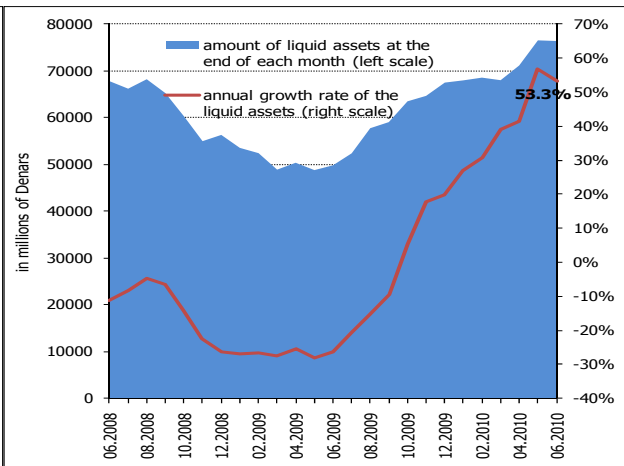
<sup>21</sup> The liquid assets encompass funds and the balances on the NBRM accounts, the CB bills, the correspondent account and the short-term placements with foreign banks and placements in short-term securities issued by the Government.



**Figure 3.2.2**  
Semiannual change in the components of the banks' liquidity indicators



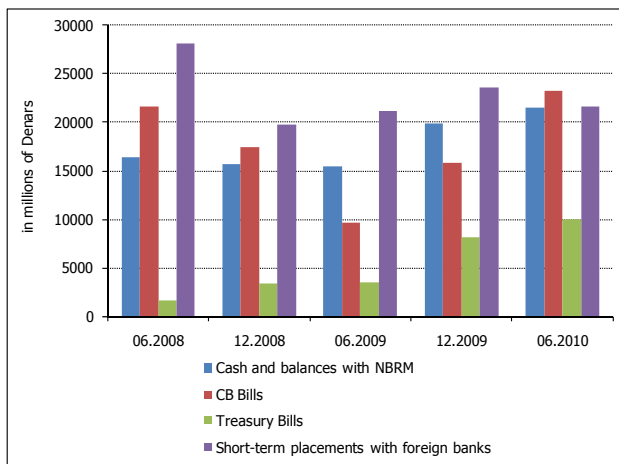
**Figure 3.2.3**  
Movement of the banks' liquid assets



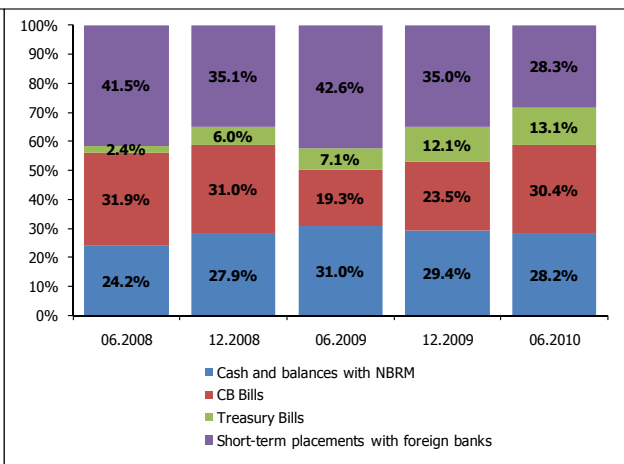
Source: NBRM, based on data submitted by the banks

**In the first half of 2010, the largest contribution to the liquid assets growth accounted for the CB bills (of 82.5%).** Despite the downward trend of the basic interest rate of NBRM in the first six months of 2010, the CB bills registered semiannual growth of Denar 7,337 million, or 46.3%, thus strengthening its structural share in the liquid assets by almost 7 percentage points (about 97% of the semiannual growth of the banks' placements in CB bills was concentrated in the first quarter of 2010). The funds and the balances on the NBRM accounts, as well as the placements in Treasury bills contributed in the liquid assets growth by about 20% each. Opposite to the other elements of the liquid assets, the correspondent accounts and the short-term placements with the foreign banks registered negative semi-annual growth rate of 8.3%, which, basically, arises from the decrease in the short-term assets in foreign banks in the first quarter of the year.

**Figure 3.2.4**  
Monthly movement of banks' liquid assets components



**Figure 3.2.5**  
Structure of the banks' liquid assets by components



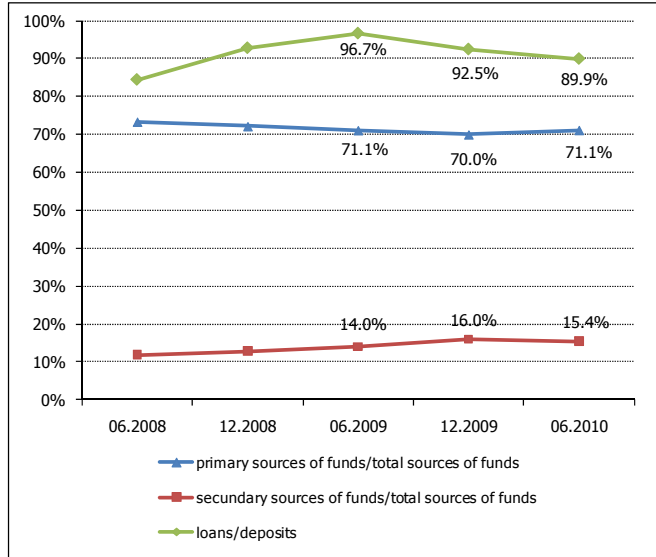
Source: NBRM, based on data submitted by the banks

### 3.2.2 Sources of financing of the banking system

At the end of the first half of 2010, the structure of the sources of financing remained almost unchanged in comparison with the end of the previous semiannual and the first semiannual of 2009. The banks fund their activities mainly from deposits of the non-financial entities (the so-called primary sources of financing), while the secondary sources of funds take about 15% of the total sources of funds. Such structure of the sources conditions the indicator for the loan-to-deposit-ratio to be constantly below 100%. However, at the end of the first half of 2010, this indicator reduced below 90%, which arises from the stronger semiannual growth of the deposits of the non-financial entities, compared to the credit growth (this is the lowest recorded level of the "loan-to-deposit" indicator since October 2008).

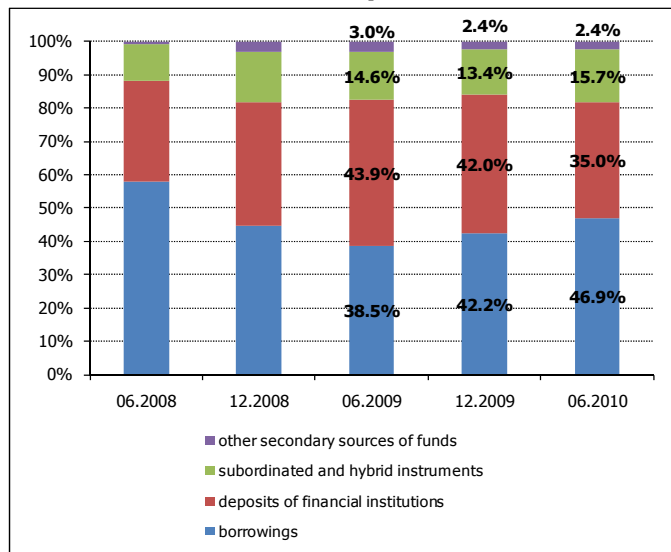
In the first half of 2010, the secondary sources of funds registered moderate rise of 1.1% (or by Denar 491 million). The semi-annual increase in the secondary sources of funds is almost fully due to the increase in the liabilities based on credits (of Denar 2,234 million) and increase in the subordinated and hybrid instruments (of Denar 1,060 million). The increase in these two categories of the secondary sources of funds buffers the semiannual fall of the financial institutions' deposits (of Denar 2,828 million). In the first half of 2010, the increase in the liabilities based on credits completely arises from the bigger long-term borrowing of two banks with the international financial institutions, in order to provide financial support intended for the domestic corporate sector. On June 30, 2010, the long-term sources prevail in the maturity structure of the secondary sources of funds, with their share being equal to 73.1%.

**Figure 3.2.6**  
Relative significance of the individual sources of funds and movement of loan-to-deposit ratio



Source: NBRM, based on data submitted by the banks

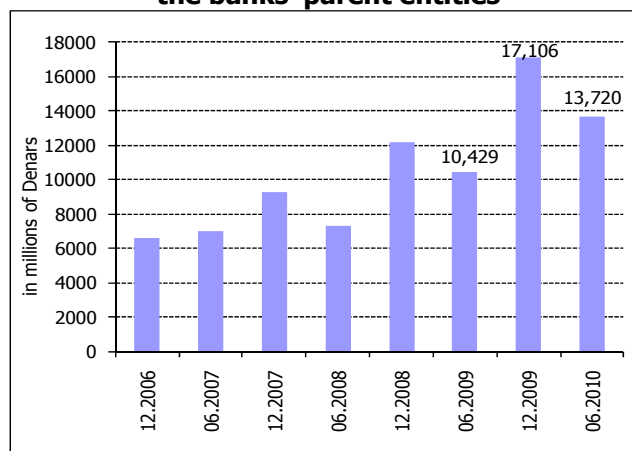
**Figure 3.2.7**  
Structure of secondary sources of funds



Source: NBRM, based on data submitted by the banks

**In the first six months of 2010, the used funds from the banks' parent entities registered a decline of Denar 3,385 million (or 19.8%)<sup>22</sup>, which corresponds to the movement of these sources of financing during the same period of 2009.** Such movements of these sources of finance resulted in a decrease in their share in the structure of the total sources of funds from 6.4% at the end of 2009, to 4.9% on June 30, 2010. Also, their share in the secondary sources of funds registered a decrease from 39.8% on December 31, 2009, to 31.6% on June 30, 2010. On June 30, 2010, more than 75% of the sources of funds originating from the banks' parent entities are long-term.

**Figure 3.2.8**  
**Movement of the amount of used funds from the banks' parent entities**



Source: NBRM, based on data submitted by the banks

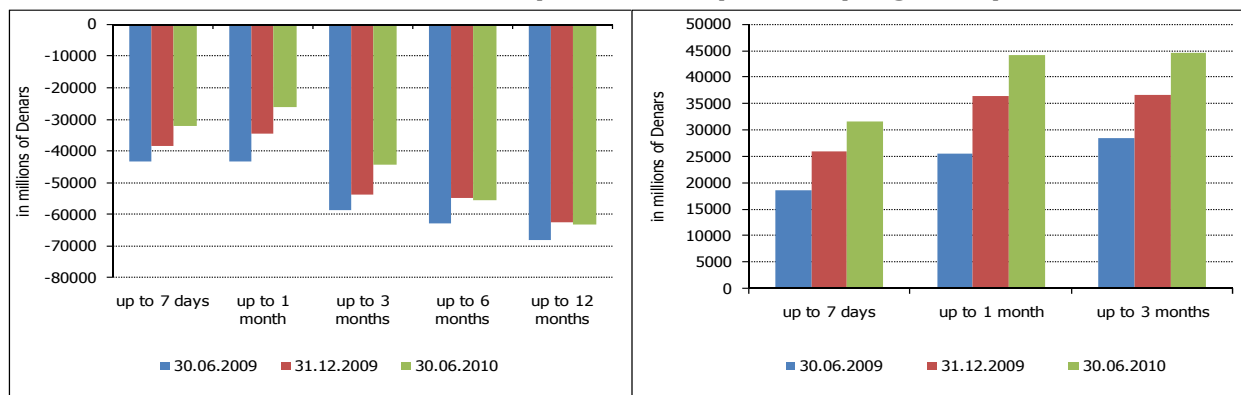
### 3.2.3 Maturity structure of the banks' assets and liabilities

**In the first half of 2010, the decrease in the cumulative negative gap between assets and liabilities, with residual contractual maturity up to 7 days, 1 month and 3 months, continued. On the other hand, the cumulative negative gap between assets and liabilities with residual contractual maturity up to 6 and 12 months registered slight increase.** Such movements, from one hand, arise from the changes in the assets structure, towards maintenance of higher level of liquid assets with shorter contractual maturities. On the other hand, in the first six months of 2010, the amount of the time deposits with shorter residual maturity registered a decrease in the banks' liabilities structure (from one to 90 days) of Denar 8,565 million (or 11%), while the amount of the time deposits with longer residual contractual maturity increased (from 91 to 360 days), by Denar 20,184 (or 10.7%).

In spite of the mismatch in the contractual residual assets and liabilities structure, **the banks continue to expect harmonization between the maturity of the assets and liabilities. It is primarily a result of their assessment for high stability of the short-term sources of funds, including also the sight deposits** (annexes no. 12 and 13 - Contractual and anticipated maturity structure of the assets and liabilities of the banking system on June 30, 2010). On June 30, 2010, according to the banks' expectations, the level of stable deposits is still high (79.5%), despite the decrease of 3.6 percentage points relative to the end of 2009. Also, according to their expectations, within a period of up to seven days only 9.1% of the total sight deposits would outflow, which is less by 0.8 percentage points compared to the end of 2009.

<sup>22</sup> In the first half of 2010, parent entities of two banks withdrawn deposits in the total amount of Denar 3,151 million, thus completely contributing to the total semiannual decrease in the deposits from the banks' parent entities (of Denar 3,078 million). The liabilities based on credits to the banks' parent entities also reduced (by Denar 1,359 million) (it is fully concentrated with one bank). As a contrast, the used funds based on subordinated and hybrid instruments registered an increase (of Denar 1,052 million).

**Figure 3.2.9**  
**Contractual (left) and expected (right) residual maturity (mis) match of the banking system assets and liabilities (cumulative by maturity segments)**



Source: NBRM, based on data submitted by the banks

The banks' liquidity position can be perceived also through the realization of the prescribed liquidity rates, for both maturity segments<sup>23</sup>. On June 30, 2010 all banks registered liquidity ratio up to 30 days bigger than (or equal to) 1 (not only for the Denar, but also for the foreign assets and liabilities that mature in the following 30 days, as well). In the maturity segment of up to 180 days, the number of banks that fulfilled the prescribed liquidity ratio (or the necessary liquidity ratio rate determined for the specific date) is unchanged compared to 2009.

**Table no. 3.2.1**  
**List for attaining of the liquidity ratio of up to 30 and 180 days**

Number of banks	maturity band- up to 30 days								maturity band- up to 180 days							
	Denars				Foreign currency				Denars				Foreign currency			
	28.02.2009	30.06.2009	31.12.2009	30.06.2010	28.02.2009	30.06.2009	31.12.2009	30.06.2010	28.02.2009	30.06.2009	31.12.2009	30.06.2010	28.02.2009	30.06.2009	31.12.2009	30.06.2010
Liquidity ratio > 1	14	17	17	18	12	17	17	18	9	11	16	16	8	10	10	10
Liquidity ratio < 1	4	1	1	0	6	1	1	0	9	7(3)*	2	2	10	8(1)*	8(1)*	8(1)*

Source: NBRM, based on data submitted by the banks

\*Note: the number in the brackets denotes the number of banks with liquidity ratio below 1 that failed to register the required minimal level of the liquidity ratio set for the specific date.

### 3.2.4 Liquidity by groups of banks and by banks

The improved liquidity of the banking system is almost completely due to the improved liquidity with the group of large and medium-size bank. The group of large banks contributed with 42.6% in the total semiannual growth of the liquid assets of the banking system, while the group of medium-size banks participated with 50.8%. All liquidity indicators with the group of large and medium banks registered an improvement. With the group of small banks, certain decrease was registered with the liabilities coverage indicators (both the total and the short-term) with liquid assets, which are still higher than 100% and they are far better than the adequate indicators for the groups of large and medium-size banks.

<sup>23</sup> Pursuant to the Decision on managing banks' liquidity risk ("Official Gazette of RM" no. 163/08, 66/09 и 144/09), the banks are required, according to the prescribed dynamics, to reach and to maintain the liquidity ratios for Denar and foreign exchange assets and liabilities up to 30 and 180 days equal to 1.

**Table no. 3.2.2**  
**Liquidity by groups of banks and by banks**

Ratio	Large banks	Medium size banks	Small size banks	Large banks	Medium size banks	Small size banks	Large banks	Medium size banks	Small size banks
	30.06.2009			31.12.2009			30.06.2010		
Liquid assets/total assets	18.0%	22.8%	48.0%	25.2%	23.8%	48.5%	26.3%	27.6%	50.0%
Liquid assets /total liabilities	20.3%	26.0%	121.1%	28.2%	27.1%	120.8%	29.4%	30.9%	108.3%
Liquid assets/short-term liabilities	24.5%	35.7%	95.5%	34.7%	38.6%	111.6%	37.2%	46.1%	107.3%
Liquid assets/total deposits of non financial entities	23.0%	36.0%	94.5%	32.4%	40.6%	94.1%	33.8%	43.9%	98.3%
Liquid assets/deposits of households	34.3%	62.9%	207.5%	47.3%	64.2%	192.3%	47.3%	75.0%	198.0%
Loans/deposits	94.0%	107.1%	73.2%	87.1%	112.1%	73.8%	86.5%	101.9%	71.8%

Source: NBRM, based on data submitted by the banks

The analysis of the liquidity indicators by banks<sup>24</sup> points to the conclusion that part of the banks follows the trend at the level of the banking system, while the other registered reverse movements. Namely, almost all analyzed liquidity indicators improved with at least half of the banks, on both semi-annual and annual basis. However, the liquidity indicators with individual banks worsened (on semiannual and annual basis) and on June 30,2010 their liquidity indicators are poorer than the indicators for the level of the total banking system.

**Table 3.2.3**  
**Number of banks registering improvement/worsening of the liquidity indicators**

Ratio	30.06.2009-30.06.2010		31.12.2009-30.06.2010	
	Number of banks that have improved the ratio in the period from 30.06.2009 to 30.06.2010	Number of banks that have worsened the ratio on annual basis (in the period from 30.06.2009-30.06.2010) and as of 30.06.2010 registered weaker ratio compared with the ratio for the overall banking system	Number of banks that have improved the ratio in the first semi-annual of 2010	Number of banks that have worsened the ratio on semi-annual basis (in the period from 31.12.2009-30.06.2010) and as of 30.06.2010 registered weaker ratio compared with the ratio for the overall banking system
Liquid assets/total assets	3(l);6(m);3(s)	1(m);1(s)	2 (l);6(m);4(s)	1(l);1(m);1(s)
Liquid assets /total liabilities	3(l);6(m);2(s)	0	1(l);5(m);1(s)	1(l);3(m)
Liquid assets/short-term liabilities	3(l);6(m);3(s)	1(s)	2(l);6(m);1(s)	1(l);1(m);3(s)
Liquid assets/total deposits of non financial entities	3(l);7(m);3(s)	0	2(l);6(m);2(s)	1(l);1(m)
Liquid assets/deposits of households	3(l);6(m)	0	1(l);5(m);2(s)	1(l);1(m)

Note: 1. the analysis of the liquidity by banks does not include "MBPR" AD Skopje, because of the specific nature and the absence of certain categories necessary in the calculation of the liquidity indicators;

2. (l)- large bank, (m)- medium bank, (s)- small bank;

3. The liquidity indicator with the banks that are not covered (in this table) remains unchanged or worsens. However, as of 30.06.2010, the liquidity indicator with these banks is not weaker compared with the ratio with the overall banking system.

Source: NBRM, based on data submitted by the banks

<sup>24</sup> The analysis of the liquidity by banks does not include the Macedonian Bank for Development Promotion AD Skopje, because of the specific nature and the absence of certain categories necessary for the calculation of the liquidity indicators.

**Table 3.2.4**  
**Minimal and maximal level registered by the liquidity indicators, by banks**

Ratio	30.06.2009			31.12.2009			30.06.2010		
	At the level of the banking system	Bank with weakest ratio	Bank with best ratio	At the level of the banking system	Bank with weakest ratio	Bank with best ratio	At the level of the banking system	Bank with weakest ratio	Bank with best ratio
Liquid assets/total assets	20.5%	11.5% (m)	54.3% (s)	25.7%	17.1% (m)	54.3% (s)	27.6%	22.5% (l)	61.5% (s)
Liquid assets /total liabilities	23.8%	12.9% (m)	118.0% (s)	29.5%	19.5% (m)	139.5% (s)	31.4%	24.9% (m)	99.3% (s)
Liquid assets/short-term liabilities	29.7%	16.5% (m)	124.3% (s)	37.5%	27.0% (m)	155.7% (s)	41.3%	30.7% (l)	127.8% (s)
Liquid assets/total deposits of non financial entities	28.2%	20.9% (l)	636.3% (s)	35.9%	28.0% (l)	271.2% (s)	38.0%	28.3% (l)	127.3% (s)
Liquid assets/deposits of households	44.1%	28.5% (l)	928.3% (s)	53.8%	38.1% (l)	483.4% (s)	56.2%	37.8% (l)	606.6% (s)

Note: 1. the analysis of the liquidity by banks does not include "MBPR" AD Skopje, because of the specific nature and the absence of certain categories necessary in the calculation of the liquidity indicators;

2. (l)- large bank, (m)- medium bank, (s)- small bank;

Source: NBRM, based on data submitted by the banks

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

On June 30,2010, the stress test analysis which is based on two hypothetical simulations<sup>1</sup> shows bigger resistance of the banking system to liquidity shocks.

**Table 3.2.5**

**Share of the liquid assets in the total assets at the level of the banking system, before and after the simulation**

Description	30.06.2009	31.12.2009	30.06.2010
Before simulation	20.5%	25.7%	27.6%
After first simulation	12.0%	17.3%	19.6%
After second simulation	-0.7%	7.0%	10.9%

Note: (l)- large bank, (m)- medium bank, (s)- small bank;

Source: NBRM. based on data submitted by the banks

However, the stress test analysis by banks points to more evident sensitivity of individual banks to hypothetical deposits withdrawal by the ten biggest depositors. Namely, besides the annual and semiannual decrease in the possible percentage decrease in the liquid assets at the level of the banking system and the bank with the severest possible drop in the liquid assets in case of simulation of hypothetical deposits withdrawal by the twenty largest depositors, however, six banks would register a lack of liquid assets in case of this simulation, which is an increase in the number of banks for one compared to the end of 2009. This points to the high concentration of the banks' deposit base and emphasize the risks it poses.

**Table 3.2.6**

**Percentage decrease in the liquid assets at the level of the banking system and also with individual banks, after hypothetic simulations**

Description	30.06.2009				31.12.2009				30.06.2010			
	Decrease of liquid assets (in %)		Number of banks		Fall in liquid assets (in %)		Number of banks		Fall in liquid assets (in %)		Number of banks	
	at the level of the banking system	bank with highest decrease of liquid assets	whose decrease of liquid assets > decrease of liquid assets at the level of the banking system	whose decrease of liquid assets > 100%	at the level of the banking system	bank with highest decrease of liquid assets	whose decrease of liquid assets > decrease of liquid assets at the level of the banking system	whose decrease of liquid assets > 100%	at the level of the banking system	bank with highest decrease of liquid assets	whose decrease of liquid assets > decrease of liquid assets at the level of the banking system	whose decrease of liquid assets > 100%
After first simulation	45.9%	72.0% (l)	2(l);2(m)	0	37.7%	53.3% (l)	2(l);3(m)	0	35.7%	52.9% (l)	2(l);2(m)	0
After second simulation	102.8%	569.1% (m)	1(l);4(m)	1(l);4(m);1(s)	77.6%	377.3% (m)	1(l);4(m);3(s)	4(m);1(s)	67.9%	246.9% (m)	2(l);5(m);2(s)	4(m);2(s)

Note: (l)- large bank, (m)- medium bank, (s)- small bank;

Source: NBRM, based on data submitted by the banks

<sup>1</sup> This stress test analysis is based on the implementation of two hypothetical simulations:

- **the first simulation** assumes withdrawal of 20% of the households' deposits outside the banking system,
- **the second simulation** assumes withdrawal of the deposits of the twenty largest depositors of each bank individually.

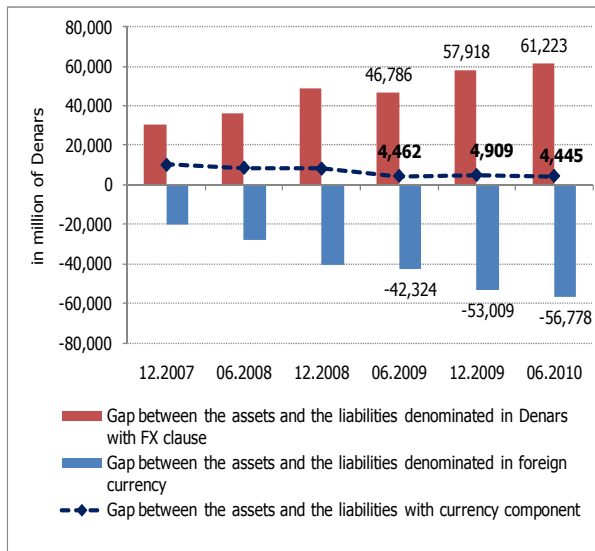
### 3.3 Currency risk

**In the first half of 2010, the currency risk of the banking system in the Republic of Macedonia reduced and remained on a relatively low level by its importance relative to the other types of risks.**

At the end of the first half of 2010, at the level of the banking sector, the gap between the assets and liabilities with currency component fell by Denar 464 million, or 9.5%, on semi-annual basis. Their bigger compliance, actually, denotes smaller level of currency risk the banks are exposed to. The gap contraction between the assets and liabilities with currency component, parallel to the rise in the banks' own funds, caused a decrease in their ratio, from 14.6% (December 31,2009) to 12.6% (on June 30,2010), which is another indicator for the decrease in the level of currency risk the banks are exposed to.

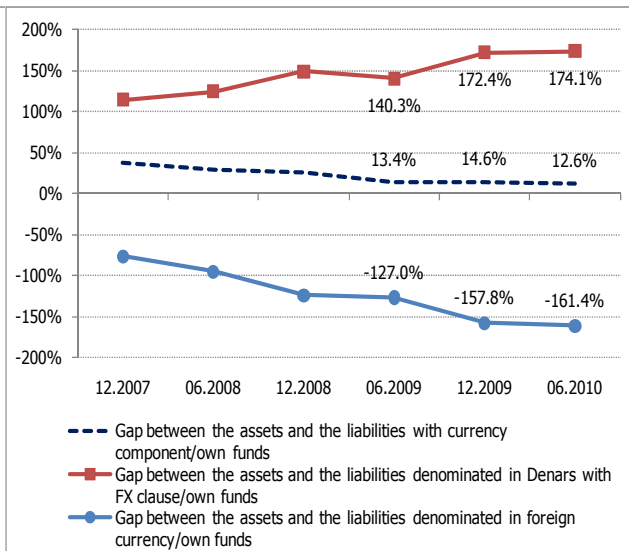
**Figure 3.3.1**

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



**Figure 3.3.2**

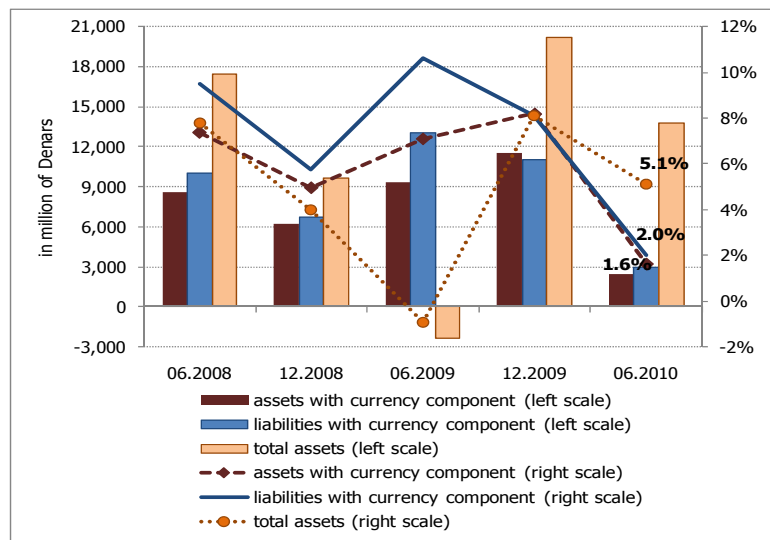
**Share of the gap between the assets and the liabilities with currency component in the banks' own funds**



Source: NBRM, based on data submitted by banks.

**The gap contraction between the assets and liabilities with currency component (i.e. the decrease in the open foreign currency position) primarily arises from the more evident rise in the liabilities with currency component compared to the increase in the assets with currency component. On semi-annual basis, the assets with currency component registered an increase of Denar 2,498 million, or 1.6%.**

**Figure 3.3.3**  
**Semi-annual change of the assets and the liabilities with currency component and of the total assets**



Source: NBRM, based on data submitted by banks.

while the remaining amount of Denar 809 million is due to the higher increase in the foreign currency credits (of Denar 3.884 million) than the drop in the short-term placements in foreign banks (of Denar 1,951 million) and the increase in the allocated impairment for the assets with currency component classified in the risk categories C, D and E (of Denar 1,170 million)<sup>25</sup>. **The liabilities with currency component registered semi-annual growth rate of 2.0%, or by Denar 2,962 million.** This increase is mainly due to the increase in the foreign currency deposits of the non-financial entities (of Denar 4,399 million), as well as the bigger borrowings (by Denar 2,234 million)<sup>26</sup>, compared to the decrease in the Denar deposits with FX clause (by about Denar 1,600 million)<sup>27</sup> and decrease in the foreign currency deposits of the financial institutions (of about Denar 2,600 million).

**Such movements, in the first quarter of 2010 caused decrease in the share of the foreign currency component in the total banks' assets and liabilities of 1.9 and 1.6 percentage points, respectively.** In contrast to the decrease in the foreign currency component in the first quarter of 2010, the Denar component of the banks' total assets and liabilities registered an increase<sup>28</sup>.

<sup>25</sup> Pursuant to the regulations, in the calculation of the open currency position, the allocated impairment for the assets with currency component classified in the risk category C, D and E represents deductible item of the total assets with FX clause.

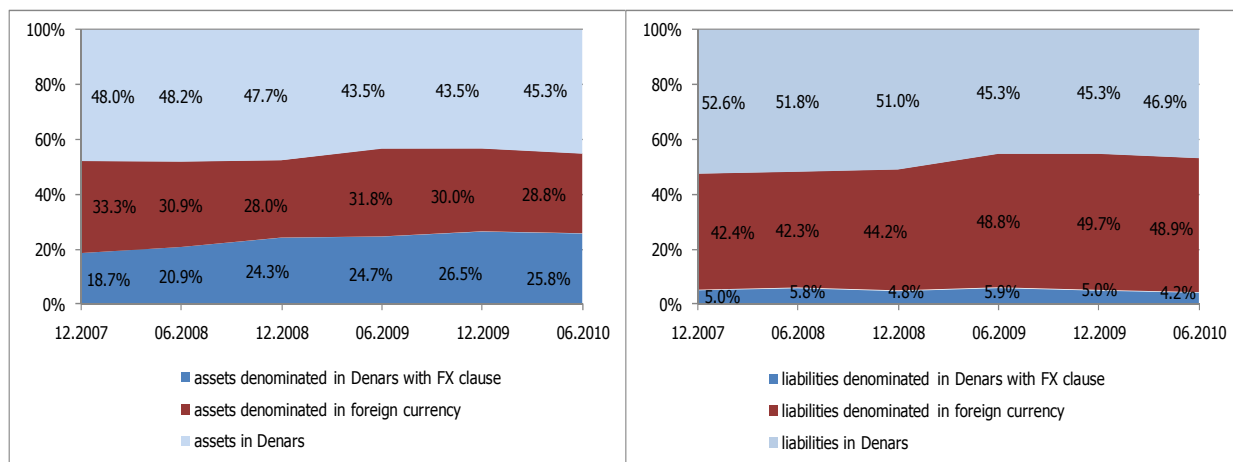
<sup>26</sup> The increase of the borrowings in the first half of 2010 completely arises from the bigger long-term borrowing of two banks (Macedonian Bank for Development Promotion AD Skopje and NLB Tutunska Banka AD Skopje) within the international financial institutions (EIB - European Investment Bank and IFC - International Financial Corporation), in order to provide financial support aimed at the domestic corporate sector.

<sup>27</sup> The decrease in the Denar deposits with FX clause is mainly due to the outflow of deposits of both the depositors and one parent bank.

<sup>28</sup> The Denar assets augmented by Denar 11,294 million (or by 9.7%), as a result of the increased placements of the banks in CB bills (by Denar 7,337 million) and intensified Denar crediting (by Denar 2,730 million), while the Denar liabilities incremented by Denar 10,830 million (or 8.9%), which mostly arises from the increase in the amount of the households' Denar deposits.



**Figure 3.3.4**  
**Currency structure of the assets (left) and the liabilities (right) of the banking system**

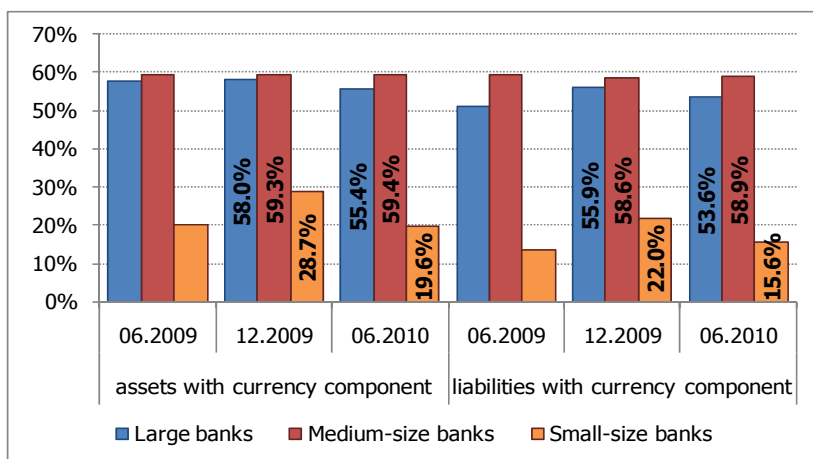


Source: NBRM, based on data submitted by banks.

**The share of the foreign currency component in the total assets and liabilities is still the highest with the group of medium-size banks.** Also, increased share of the foreign currency component in the total assets and liabilities of the banking system on semi-annual basis was registered only with this group of banks. Contrary, the remaining two groups of banks registered lower share of the foreign currency component in the total assets and liabilities.

**Figure 3.3.5**  
**Share of the assets and liabilities with currency component in the total assets and liabilities, by groups of banks**

**The currency structure of the assets and liabilities with foreign currency component and their gap registers no changes of higher significance.** The share of the Euro in the banks' balance sheets is still the largest. The gap between the assets and liabilities with currency component at the level of the banking system is positive in all currencies, except to the US Dollar.



Source: NBRM, based on data submitted by banks.

**Table 3.3.1**  
**Currency structure of the assets and liabilities with currency component and their gap**

Currency	31.12.2009			30.06.2010		
	Currency structure of the assets with currency component	Currency structure of the liabilities with currency component	Currency structure of the gap between the assets and the liabilities with currency component	Currency structure of the assets with currency component	Currency structure of the liabilities with currency component	Currency structure of the gap between the assets and the liabilities with currency component
Euro	89,9%	89,8%	90,3%	88,7%	88,9%	82,0%
US Dollar	6,9%	7,3%	-5,9%	7,8%	8,1%	-2,3%
Swiss franc	1,8%	1,4%	13,4%	1,8%	1,5%	13,1%
Other	0,0%	0,0%	2,2%	1,7%	1,5%	7,2%
<b>Total</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>

Source: NBRM, based on data submitted by banks.

The ratio between the open foreign exchange position in Euro and the own funds with most of the banks ranged within an interval of 5% - 10%, while regarding the other currencies, this ratio reaches up to 5% with the largest number of banks. This ratio exceeds 30% only with one bank.

**Table 3.3.2**  
**Open foreign exchange position by individual currencies/own funds**

Open foreign exchange position by currency/own funds	Number of banks							
	Euro		US Dollar		Swiss franc		Other	
	Long	Short	Long	Short	Long	Short	Long	Short
under 5%	2	1	9	6	9	5	14	
from 5% to 10%	4	3		1				
from 10% to 20%	5							
from 20% to 30%	1							
above 30%	1							

Source: NBRM, based on data submitted by banks.

The banks maintain the exposure to currency risk within the prescribed limit for the aggregate foreign exchange position (maximum 30% of the own funds), except to one bank.

**Table 3.3.3**  
**List of banks according to the share of the aggregate foreign exchange position in the own funds, as of June 30, 2010**

Aggregate foreign exchange position/own funds	Number of banks	
	Aggregate long position	Aggregate short position
under 5%		1
from 5% to 15%	8	1
from 15% to 30%	5	1
above 30%	1	

Source: NBRM, based on data submitted by banks.

## **Results of the questionnaire submitted to banks for their exposure to indirect credit risk (credit risk of the banks arising from the foreign exchange rate risk the credit users are exposed to)**

Regarding the significance of the indirect credit risk in the total risk profile of the banks, at the end of 2009, the National Bank submitted a questionnaire for the indirect credit risk to all banks. This questionnaire was intended to elevate the banks awareness for the significance and the effects of the exposure to the indirect credit risk, to improve their analysis for the sensitivity to this risk, as well as to contribute toward identification of the possible weaknesses in the contents, the quality and the manner of implementation of the policies and the procedures for assessment of the indirect credit risk. The questionnaire was sent to the banks in a period when the movements in their credit portfolios characterized with constant rise in the share of the exposure with currency component, which was mostly towards clients with non-harmonized foreign currency position. The questionnaire showed that some banks should be focused towards improvement of their policies and procedures for indirect credit risk management (the policies and the procedures for assessing the indirect credit risk with most of the banks were adopted in 2006, while the policies and the procedures for extending credits in foreign currency and Denar credits with FX clause were passed within a period of 2001 - 2009).

### ***Extending credits***

The regulations in the Republic of Macedonia prescribes that in the moment of approval of foreign currency credits, or Denar credits with FX clause to a user - resident, the user shall fulfill the following conditions:

- to be classified by the bank in the risk categories A or B and to have average risk category at the level of the banking system of the Republic of Macedonia according to the Credit Registry of the National Bank of the Republic of Macedonia in the risk category A or B; or
- to provide first-class collateral instrument (cash deposit, non-risk securities, etc.)

Except these conditions, the questionnaire showed that according to the most of the banks, for approving credits in foreign exchange and credits in Denars with FX clause, the clients should have currency structure of the claims and liabilities complied, favorable relation between the realized and projected foreign exchange inflows and used credits in foreign exchange and in Denars with foreign currency clause and to perform bigger part of the payment operations (domestic and foreign exchange) through banks. The largest portion of the credits in foreign exchange and credits in Denars with FX clause the banks extend to enterprises are intended for funding of the import of goods and services, fixed assets, durable working assets, investment operations, current liabilities, as well as for financing the export of goods and services, while with the households, for vehicle, housing and consumer loans.

### ***Approval and collection of foreign currency credits and in Denars with FX clause***

The banks approve (pay) and collect foreign currency credits and Denar credits with FX clause according to the middle exchange rate of the National Bank (except to certain banks which perform the approval (payment) according to the purchasing or the middle exchange rate of the bank, while the collection is made at the banks' selling rate).

### ***Determining of interest rates***

Generally, with most of the banks, the interest rate for the credits in foreign exchange and Denar credit with FX clause is adjustable (a rate that varies according to the decision of a bank body), while less fixed and/or variable. The amount of the interest rate primarily depends on the purpose of the credit, its maturity and the risk category the client is classified in, while some banks, in determining of the interest rates, take into consideration also the credit amount and the currency in which the credits are extended/collected. The manner of determining of the interest rates on the foreign exchange credits and Denar credits with FX clause is identical, except to certain number of banks, where the interest rates for

the credits in foreign exchange and Denar credits with FX clause are set on the basis of the expense of the respective source of funds.

### ***Managing with the indirect credit risk***

Most of the banks monitor the compliance between the assets and liabilities of the clients - *legal entities* according to the currency and maturity, by analyzing the harmonization of the foreign exchange assets and foreign exchange liabilities by currency, while considerable number of banks also through the analysis of the effects of the foreign exchange debiting on the basis of the client's current operations and the analysis of the maturity compliance of the foreign exchange inflows and outflows by currency. When monitor the harmonization between the claims and the liabilities of the clients - *natural persons* according to the currency and maturity, the largest portion of the banks uses assessment of the stability of the clients' monthly income, while small number of banks - assessment of the influence of the change in the foreign exchange rate on the clients' monthly income, i.e. analysis of the influence of the change in the foreign exchange rate on the total liabilities and the clients' total income. The analysis of the harmonization of the foreign exchange claims and liabilities of the clients (legal entities and natural persons), according to the currency and maturity, is mostly made on annual basis (and more frequently, if needed - in the approval of credits), and less on a semi-annual basis, i.e. quarterly. The analysis dynamics is the same for all types of clients, regardless of their size, indebtedness, debt structure, net exporters etc. (for legal entities), i.e. place of employment, the bank where the clients receive their wage etc. (for natural persons).

The determining of acceptable security, the coverage of the currency risk with interest income, i.e. the incorporation of the possible losses from exchange rate changes in the interest rate on the credits, the determining of acceptable level of open currency positions of the client and determining limits for the foreign exchange exposure to clients (individually and for the total foreign exchange credit exposure) are the most frequent measures and instruments the banks undertake to protect from the possible foreign exchange rate risks.

### ***Determining of quantitative limits***

Most of the banks determine the quantitative limits of the bank's credit exposure in foreign exchange and in Denar with FX clause to individual entity on the basis of the suitability of the collateral and profitability of the client, while small part of the banks, on the basis of the client's orientation towards export. On the other hand, in the determining of the quantitative limits for the total credits and the total exposure in foreign exchange and in Denars with FX clause the banks start from the following: legally prescribed exposure limit of 25% of the banks' own funds, the clients' sources of funds, the current ratio between the open foreign currency position and the bank's own funds, the client's orientation to export, the steadiness of their income, as well as the banks' internal limits for the concentration of the exposure by individual persons and group of connected persons, for the geographic concentration, for the sector concentration, by types of collateral, currency structure, by credit products, etc.

Almost all of the banks performed the last revision of the quantitative limits in 2009.

### ***Defining of the amount of the collateral***

According to the banks' answers, the amount of the collateral requirement for foreign exchange credits and Denar credits with FX clause, mostly depends on the profitability of the clients operating, the cash flows and the possibility for regular servicing of the liabilities, the credit amount, the maturity of the credit, and less on the purpose of the credit and the clients' orientation to exports. However, with most of the banks, the necessary amount of the credit collateral do not differ from their currency features (Denar credits, Denar credits with FX clause and foreign exchange credits), except with certain banks envisaging bigger collateral value in the extending of credits in foreign exchange and Denar credits with FX clause.

### ***Stress testing***

In accordance with the answers given in the questionnaire, the banks conduct stress tests for assessing the influence of the changes in the foreign exchange rate on the quality of the credit portfolio and it is mostly performed on annual basis. The most frequent shocks and/or scenarios the banks use in the stress tests are the following: increase in the amounts of credits classified in the risk categories C, D and E of 10%, 30% and 50%, Denar depreciation by 30% with the clients ability to service the foreign currency liabilities of 30%, i.e. 50%, the influence of the Denar depreciation by 30% on the amount of the non-performing claims and on the capital adequacy ratio. The obtained results/reports from the performed stress test analysis are most frequently submitted to the Board of Directors, the Supervisory Board and the Risk Management Board. Except to certain banks which undertook enhanced monitoring with certain clients, the establishment of adequate strategy and replacement of the foreign exchange exposure in Denar exposure (at the level of individual client), so far, the results of the conducted stress tests gave no reason for undertaking specific measures and activities by the banks.

### **3.4 Insolvency risk**

**The solvency of the banking system remained high also at the end of the first half of 2010. On June 30,2010, all banks registered capital adequacy over 10% (the legally prescribed minimum is 8%). The banks still have relatively quality structure of the own funds, while the credit risk weighted assets retained the largest share in the structure of the risk weighted assets. In the first half of 2010, the solvency indicators of the banking system registered minimal improvement, which was fully concentrated with the group of large banks. Such movements with the large banks are due to the distribution of part of the profit for 2009 into reserves and retained gain. On the other hand, the slower increase in the activities of this group of banks is additional reason for improvement of their solvency and capitalization indicators. Opposite to such movements, the solvency and the capitalization indicators with the group of medium and small banks registered certain worsening, which is due to the presented loss with these groups of banks in the first half of 2010, as well as to the faster increase in their activities.**

#### **3.4.1 Indicators for the solvency and capitalization of the banking system**

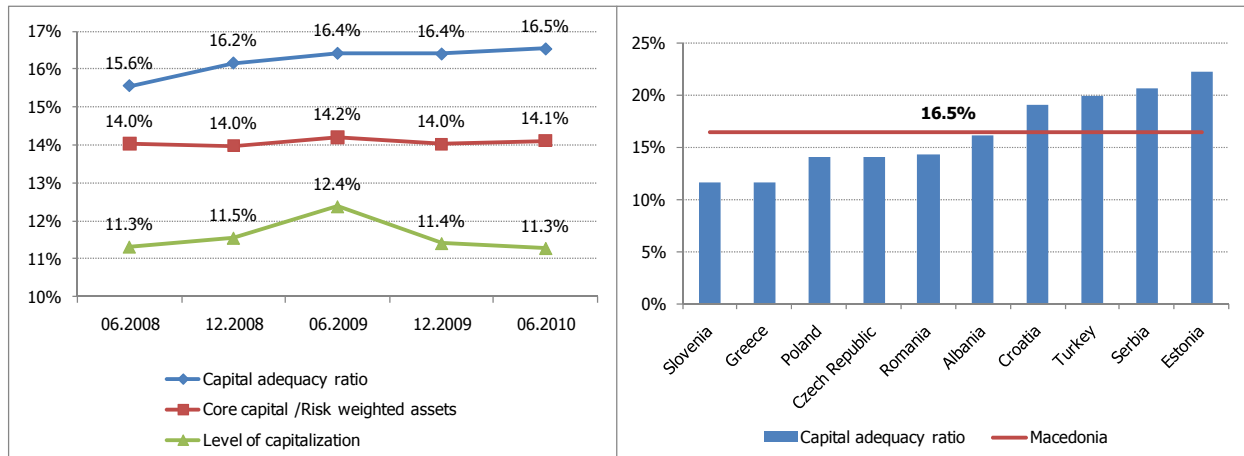
**The solvency of the banking system remained high also at the end of the first half of 2010. Measured through the capital adequacy ratio, it is higher by double from the legally prescribed minimum of 8% and it equals 16.5%. On June 30,2010, the capital adequacy ratio of all banks was over 10%. The analysis of more conservative indicators for the solvency of the banking system points to moderate increase with Tier-1 indicator<sup>29</sup>, while insignificant decrease in the capitalization level<sup>30</sup>. **The comparison with the banking systems of certain countries** shows that the banking system of the Republic of Macedonia, according to the capital adequacy ratio level is positioned in the middle of the list of analyzed countries.**

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<sup>29</sup> Tier 1 indicator is calculated as a ratio between the core capital (prior to deductible items) and the risk weighted assets.

<sup>30</sup> The capitalization level represents a correlation between the banks' capital and reserves with their total assets.

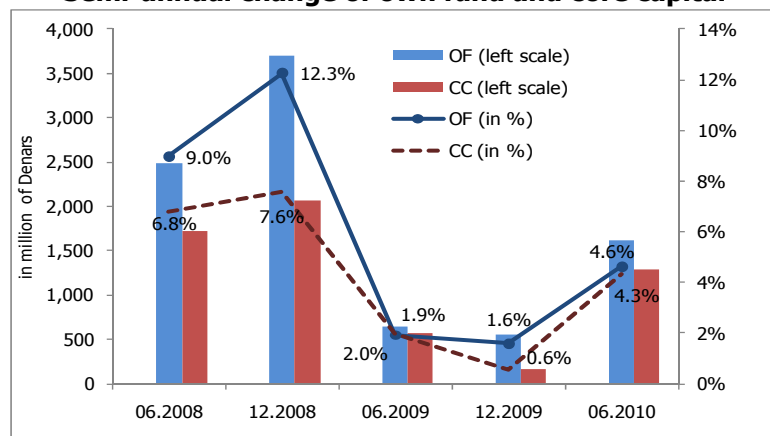
**Figure 3.4.1** Movement of the solvency and capitalization indicators  
**Figure 3.4.2** Capital adequacy ratio, by individual countries



Source: NBRM, based on data submitted by banks and central banks' web sites. The capital adequacy ratio for more of the stated countries is as of June, April or March 2010, with exception of Slovenia, Czech Republic and Albania whereas the data is for 2009.

**The maintenance of part of the gain for 2009 in the banks' capital funds, their lower current loss, as well as the issuance of new subordinated instruments were the main sources of increase in the own funds in the first half of 2010.** On June 30, 2010, the own funds registered bigger annual growth rate almost by three times compared to the registered semi-annual growth rate at the end of 2009, thus reaching the amount of Denar 36.740 million. In the first half of 2010, there was no new issue of shares. The increase in the own funds is due to the distribution of part of the gain for 2009 into the reserve fund and retained gain by the group of large banks<sup>31</sup>, the smaller amount of current loss (presented by the group of medium-size and small-size banks)<sup>32</sup>, as well as of the issued subordinated instruments<sup>33</sup> (annex 19 - Structure and changes in the own funds at the level of the banking system and annex 17 - Own funds by groups of banks). **The relatively quality structure continues to be one of the basic features of the banks' own funds.** The share of the core capital is still the largest and it equals about 85% in the structure of the total own funds of the banking system.

**Figure 3.4.3** Semi-annual change of own fund and core capital



Source: NBRM, based on data submitted by banks.

Note: OF - Own funds, CC - Core capital.

<sup>31</sup> Only this group of banks registered positive financial result in 2009.

<sup>32</sup> At the end of the first half of 2010, the current loss with the group of medium-size and small-size banks is halved relative to the end of the first half of 2009.

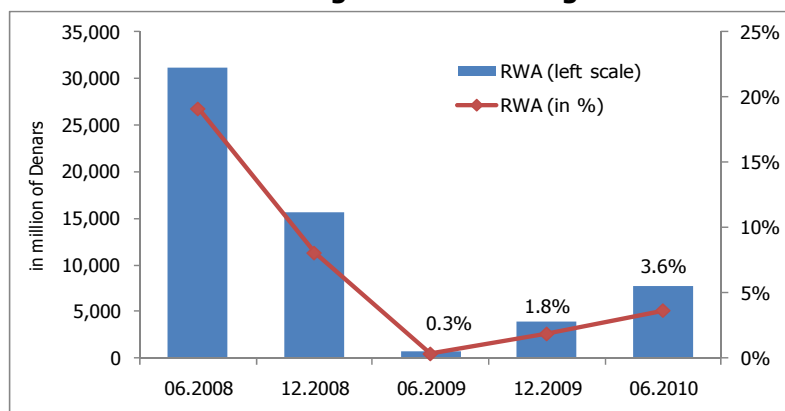
<sup>33</sup> On semi-annual basis, the subordinated instruments, which can be part of the supplementary capital 1 increased by Denar 376 million, or by 7.3 million, 90% of which are due to the increase in these instruments with the group of medium-size banks.

At the end of the first half of 2010, the risk weighed assets registered bigger semi-annual growth rate almost by twice than the realized semi-annual growth rate at the end of 2009, thus reaching the level of Denar 222,206 million (annex 18 - Capital adequacy ratio, by groups of banks).

The credit risk weighted assets augmented by Denar 6,196 million (or by 3.1%), while the currency risk weighted assets incremented by Denar 1,597 million (or by 13.6%)<sup>34</sup>. For comparison, at the end of 2009, the semi-annual growth rate of the credit risk weighted assets equaled 1.8%, and 2.9% of the currency risk weighted assets. **In the structure of the risk weighted assets, the largest portion of 94% still accounts for the credit risk weighted assets.**

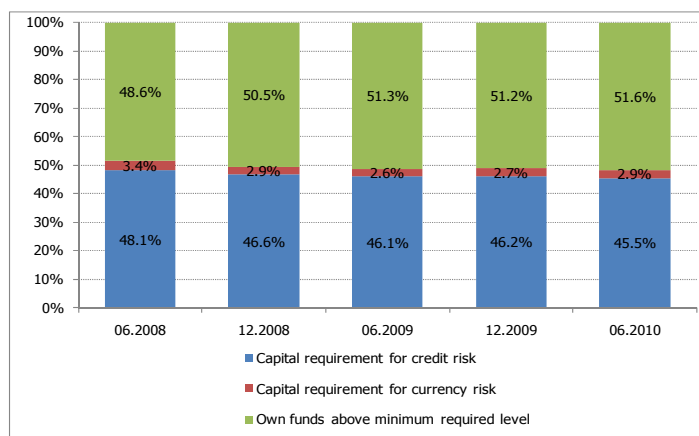
However, the slower semi-annual increase in the risk weighted assets compared to the increase in the own funds resulted in an increase in the share of the own funds above the minimum required level<sup>35</sup> in the total own funds from 51.2% (December 31,2009) to 51.6% (June 30,2010). From the aspect of the risk structure covered with own funds, the largest portion of the own funds (45.5%) is still used for credit risk coverage.

**Figure 3.4.4**  
Semi-annual change of the risk weighed assets



Source: NBRM, based on data submitted by banks.  
Note: RWA - Risk weighted assets.

**Figure 3.4.5**  
Breakdown of capital requirement for risks



Source: NBRM, based on data submitted by banks.

<sup>34</sup> Explained in details in part 3.3 - Currency risk. The semi-annual increase in the currency risk weighted assets is almost fully due to the increase in the aggregate foreign currency position with one bank, because of the severe decrease in the foreign currency liabilities (because of the outflow of deposits of one depositor and one parent entity), the decrease in the foreign currency assets (reduced placements in foreign banks).

<sup>35</sup> The minimum required level of own funds for risk coverage is calculated as a sum of the capital requirement for credit risk coverage (8% of the credit risk weighed assets) and currency risk capital requirement (8% of the total of the absolute amount of the net position in gold and the aggregate foreign currency position). The difference between the total own funds and the minimum required level of own funds for risk coverage represents the level of own funds above the minimum required level.

**The bigger readiness of the banks for taking credit risk can be perceived also through the increase in the own funds, which are required for credit risk coverage arising from the corporate lending.** The semi-annual increase in the own funds for credit risk coverage arising from enterprises equals Denar 332 million (3.7%), which conditioned also bigger share (of 0.3 percentage points) in the own funds' structure. **The largest portion (56%) of the own funds is used for credit risk coverage from lending to enterprises, while for covering the credit risk from lending to households, 31.9% are required.** The increase in the exposure on the basis of the housing loans of Denar 937 million (or 6.6%) on semi-annual basis conditioned an increase in the capital requirement of Denar 49 million (or 10.5%) for covering the risks from this bank activity.

**Table 3.4.1**  
**Capital requirement for credit risk**

Capital requirement for credit risk (in million of Denars)	31.12.2009	30.06.2010	Change
	16,214	16,710	496
	Distribution of capital requirement for credit risk (in %)		Change (in p.p.)
<b>Government, government funds and state agencies</b>	0.0	0.0	0.0
<b>Financial institutions</b>	5.0	5.0	0.0
<b>Corporates</b>	55.7	56.0	0.3
<b>Households</b>	29.4	28.8	-0.6
<b>Housing loans</b>	2.9	3.1	0.2
<b>Other assets</b>	7.0	7.1	0.1

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

**At the end of the first half of 2010, the minimal improvement in both the solvency and the capitalization at the level of the banking system is fully due to the increase in these indicators with the group of large banks.** All solvency and capitalization indicators with the group of large banks improved. As a contrast, these indicators worsened in the group of medium-size and small-size banks (annex 1 - Balance sheet - liabilities, annex 18 - Capital adequacy ratio, by groups of banks and annex 20 - Structure and changes in the own funds, by groups of banks). Additionally, 85.0% of the rise in the own funds at the level of the banking system originated from the increase in the own funds with the group of large banks, while the semi-annual increase in the core capital and the capital and the reserves of the banking system as a whole is due to the rise of these categories with the group of large banks, having in mind that these categories with the group of medium-size and small-size banks registered a decline. The group of small banks manages with the highest level of own funds which are above the level necessary for risk coverage. Such a situation is a reflection of the relatively high capitalization level, opposite to the relatively smaller credit activity of this group of banks. The largest portion of the own funds with the group of large banks is used for credit risk coverage, which is due to the high credit activity of this group of banks, and consequently, to the largest role in the financial intermediation at the level of the banking system.



**Table 3.4.2**  
**Solvency and capitalization indicators, by individual groups of banks**

Indicators for solvency and level of capitalization	LARGE BANKS					MEDIUM -SIZE BANKS					SMALL - SIZE BANKS				
	06.2008	12.2008	06.2009	12.2009	06.2010	06.2008	12.2008	06.2009	12.2009	06.2010	06.2008	12.2008	06.2009	12.2009	06.2010
Capital adequacy ratio	11.9%	13.4%	14.0%	13.8%	14.3%	17.9%	16.7%	16.9%	17.4%	16.9%	66.2%	61.9%	50.4%	48.1%	43.4%
Core capital / Risk weighted assets	9.9%	10.5%	11.2%	11.0%	11.7%	17.1%	15.7%	15.4%	15.1%	14.2%	69.8%	65.1%	53.1%	50.6%	45.2%
Level of capitalization	7.9%	8.7%	10.1%	9.1%	9.6%	13.3%	12.2%	11.8%	11.4%	10.4%	45.2%	45.1%	45.1%	42.8%	37.0%
Capital requirement for credit risk	61.8%	55.6%	54.2%	55.3%	52.6%	43.4%	46.7%	46.4%	44.5%	45.5%	10.9%	11.4%	11.9%	12.7%	14.6%
Capital requirement for currency risk	5.1%	4.0%	3.0%	2.9%	3.2%	1.4%	1.1%	1.0%	1.5%	1.7%	1.2%	1.5%	4.0%	4.0%	3.8%
Own funds above minimum required level	33.0%	40.4%	42.8%	41.9%	44.2%	55.2%	52.2%	52.6%	54.0%	52.7%	87.9%	87.1%	84.1%	83.4%	81.6%

Source: NBRM, based on data submitted by banks.

**Stress test simulations for resistance of the banking system to hypothetical shocks as of June 30, 2010**

On June 30, 2010, the conducted stress test simulations<sup>1</sup> for the resistance of the banking system and the individual banks in the Republic of Macedonia to possible shocks showed that the banking system and the individual banks are still relatively resistant to the influence of these shocks. However, in the implementation of certain simulations, fall in the capital adequacy ratio below 12% and 8% with two equal banks of the group of large banks and three equal banks from the medium-size banks were registered.

**Table 3.4.3**  
**Results from the stress test simulations for the resistance of the banking system and individual banks to hypothetical shocks as of June 30, 2010**

No. of simulation	CAR at the level of the banking system, before simulation	CAR at the level of the banking system, after simulation	Number of banks with a result (CAR after simulation) below the CAR of the overall banking system after simulation	Number of banks with a result (CAR after simulation) below 12%	Number of banks with a result (CAR after simulation) below 8%
1	16.5%	15.8%	2 (r); 3 (c)	1 (l); 1 (m)	0
2	16.5%	14.4%	2 (r); 4 (c)	2 (l); 2 (m)	0
3	16.5%	13.0%	2 (r); 4 (c)	2 (l); 3 (m)	1 (l); 1 (m)
4	16.5%	14.5%	2 (r); 4(c)	2 (l); 2 (m)	0
5	16.5%	12.9%	2 (r); 4 (c)	2 (l); 3 (m)	1 (l); 1 (m)
6	16.5%	12.9%	2 (r); 4 (c)	2 (l); 3 (m)	1 (l); 1 (m)
7	16.5%	16.4%	2 (r); 3 (c)	1 (l)	0
8	16.5%	13.7%	2 (r); 2 (c)	2 (l); 3 (m)	1 (l); 1 (m)

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

Note: (l) - large banks; (m) - medium-size bank; (s) - small-size bank.

1 This stress test analysis is based on the implementation of eight hypothetical simulations, of which:

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

### 3.5 Profitability

**In the first six months of 2010, the banking system of the Republic of Macedonia registered profit of Denar 497 million (Annex No. 2 - Statement of the comprehensive income). Compared with the same period of the previous year, it was lower by Denar 149 million, i.e. by 23.1%. The number of banks that are operating with loss continued to grow up, so at the end of this half eight banks showed loss in their operating (in the same period of the previous year seven banks showed loss). The worsened profitability in the first half of 2010 resulted from the larger amount of impairment<sup>36</sup> and the operating costs<sup>37</sup>.**

**The lower profit with the banking sector was mostly due to the considerable decreased profit with the group of large banks, despite the halved loss with the group of medium and small banks.** The large banks showed lower gain by 38.5%, which on June 30, 2010 amounted to Denar 755 million. The medium banks realized loss from operating in the first six months of the year (in the amount of Denar 223 million), which was still lower than the loss realized in the same period of the last year. The group of small banks showed smaller loss relative to the same period of the previous year by 52.6%. **The larger impairment and the operational costs were the key factors for the fall in the profit with the group of large banks.** The dynamics of these components with this group of banks influenced mostly on the dynamics of these categories at the level of the banking system. Namely, the impairment with this group rose by Denar 636 million, while with the group of medium and small banks it showed drop by Denar 237 and 105 million, respectively. **The group of medium banks registered largest growth in the operating costs** (by Denar 110 million), which was twice higher relative to the rise in the operating costs with the group of large banks, and approximately four times higher than the growth in this category with the group of small banks. These costs with the group of medium banks considerably contributed to the realized loss with this group of banks, and simultaneously their growth participated with more than 58% to the total rise in the operational costs at the level of the banking system.

#### 3.5.1 Income and expenditures structure of the banking system of the Republic of Macedonia

**The total income of the banking system of the Republic of Macedonia reached up to Denar 7.950 million in the first half of 2010. Compared with June 2009, they rose by Denar 325 million, i.e. by 4.3%. The income structure of the banking system remained positive, with domination of the income from banking activities, the net interest income and the net income from fees and commissions.**

**In the first half of 2010, most of the total income of banks was used for covering the operating costs.** At the end of June 2010, the operating costs amounted to Denar 5.150 million, and they rose by Denar 188 million, i.e. by 3.8% relative to the same period of the last year. Still, this growth rate was considerably lower relative to the growth rate (of 21.8%) in the first half of 2009. In the structure of the operating costs, still the largest part

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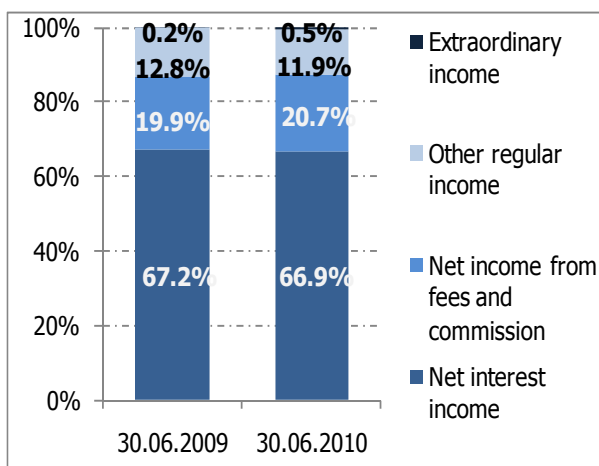
<sup>36</sup> The impairment includes: impairment of the financial assets on net-basis, unrealized (additionally determined) impairment, and special reserves.

<sup>37</sup> The operational costs include: costs for employees, depreciation, general and administrative costs, deposit insurance premiums, other provisioning and other expenditures excluding the extraordinary expenditures.

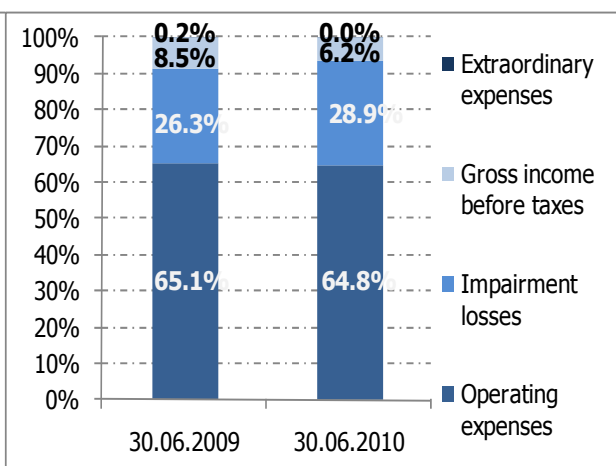
belonged to the employee costs which participated with 39.1%, while the second largest category were the general administrative costs with participation of 33.6%.

**The impairment of claims was the next more significant component that influenced the profitability of the banking system.** In the first half of 2010 it rose by Denar 294 million, or by 14.7%, which indicated further worsening in the quality of the credit portfolio.

**Figure 3.5.1**  
Structure of total income of banks



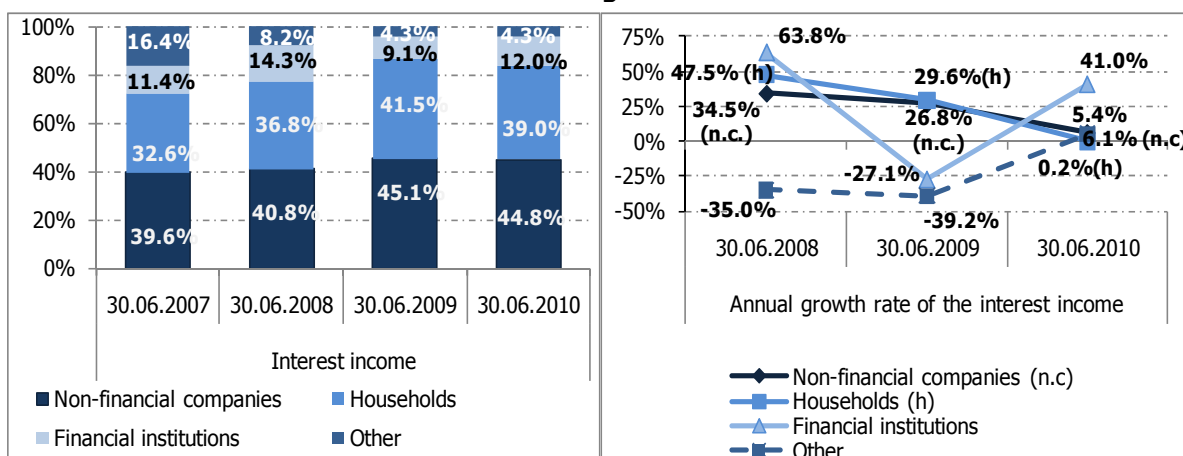
**Figure 3.5.2**  
Utilization of total income of banks



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

**In the sector structure, the income from non-financial companies and the households still had the largest participation in the creating of interest income,** although their participation to the total income went down by 2.8 percentage points, mostly at the expense of the participation of the income from financial companies.

**Figure 3.5.3**  
Sector structure and annual growth rate of the interest income



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

**In the first half of 2010, the banking sector registered growth stagnation in the interest income from the household sector.** Despite the revival of the credit support

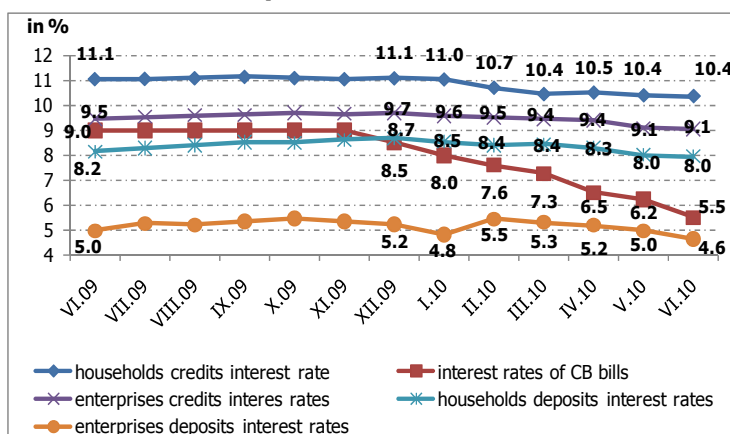
to this sector, the rise in the non-performing credits to the households contributed to considerable fall in the annual growth rate of the income of this sector. The fall in the lending interest rates which was due to the consolidation with the changes in the monetary policy, as well as the eventual effects from the last amendments to the Law on Obligatory Relations (the amending of which started in 2010), which limited the maximum of the lending contractual and penalty interest, additionally contributed to the fall in the rise in the interest income from households.<sup>38</sup>

**The income from financial companies considerably rose.** Their rise of Denar 334 million was solely due to the interest income from the central bank. With continuous downward trend in the interest rate of the CB bills at the end of the last year, the rise in the income can be explained solely by the higher interest for investing in such type of securities.

**The interest expenses to the households represented the largest component in the structure of the total interest expenses.** On June 30, 2010 they realized annual growth rate by 25.7%, thus strengthening their participation in the structure of the total interest expenses. The rise in the household deposits had larger influence on the amount of interest expenses, relative to the influence of the interest rates, which banks gradually decreased in the analyzed period.

Opposite to them, in the first half of 2010, **the interest expenses to the companies** went down by 18.9% relative to the same period of the last year which resulted in fall in their participation in the total interest expenses. In the period 30.06.2009-30.06.2010, the fall in the interest rates of the deposits from enterprises, as well as the drop in their long-term deposits (the interest rates of which are higher than those of the short-term deposits) explained most of the lower expenses.

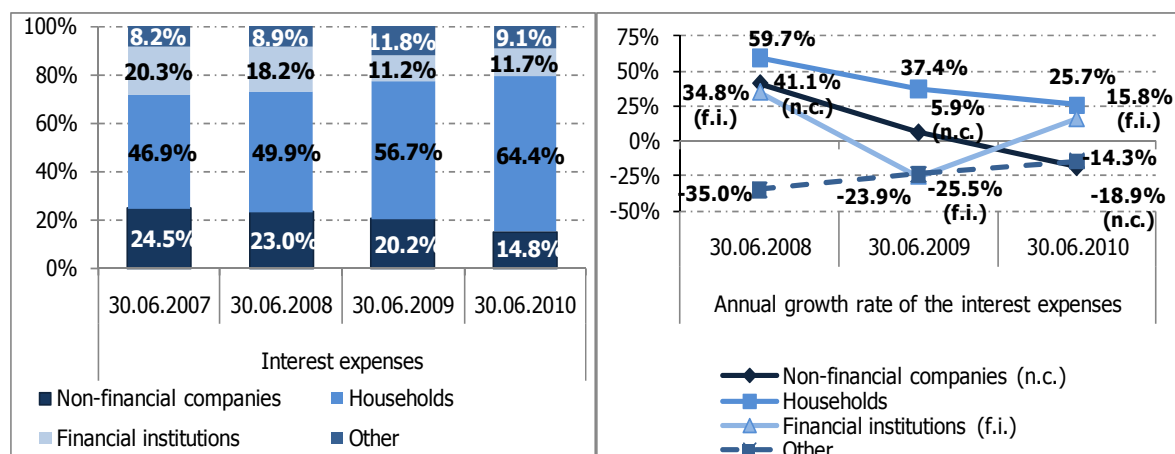
**Figure 3.5.4**  
**Development of the interest rates of CB bills and credits and deposits of non-financial entities**



Source: NBRM, based on the data submitted by banks

<sup>38</sup> In the first half of 2010, the income from penalty interest from households and from companies were almost halved compared to the same period of the previous year.

**Figure 3.5.5**  
**Sector structure and annual growth rate of the interest expenses**



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

### 3.5.2 Indicators on the profitability and efficiency of the banks

**The lower profit resulted in further fall in the basic profitability indicators.** Compared with June 30, 2009, the rate of return on equity reduced by 1.1 percentage point, whereas the drop in the rate of return on assets amounted to 0.1 percentage point.

**Further fall in the profitability as a result to the worsened credit portfolio quality can be confirmed through the rise in the participation of the impairment in the net interest income.** Thus, in the first six months of 2010, 43.2% of the net interest income was spent on allocating impairment, which was by 4.1 percentage point more compared to the same period of the previous year. **On the other hand, the indicator on the operating efficiency of banks showed inconsiderable improvement.** The rate of coverage of the operating costs by the total regular income remained almost unchanged as a result of the larger increase in the amount of the total regular income relative to the rise in the operating costs. The coverage of the non-interest expenses by the net interest income reduced by 1.2 percentage points.

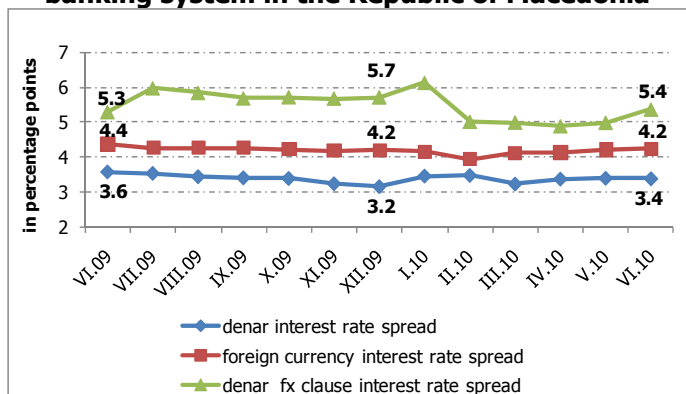
**Table No. 3.5.1**  
**Indicators on the profitability and efficiency of banks' operating**

Indicator	Banking system		Large banks		Medium-size banks		Small-size banks	
	30.06.2009	30.06.2010	30.06.2009	30.06.2010	30.06.2009	30.06.2010	30.06.2009	30.06.2010
Rate of return of average assets (ROAA)	0.5%	0.4%	1.5%	0.8%	-1.4	-0.6%	-1.2	-0.5%
Rate of return of average equity (ROAE)	4.3%	3.2%	15.9%	8.7%	-11.8	-5.3%	-2.6	-1.3%
Cost-to-income ratio	65.2%	65.1%	54.5%	53.2%	85.5%	84.1%	95.0%	113.0%
Non-interest expenses/Total regular income	69.5%	70.4%	57.8%	56.9%	91.4%	92.1%	104.5%	134.1%
Labour costs/Total regular income	25.6%	25.5%	20.6%	20.3%	34.9%	34.1%	40.6%	48.3%
Impairment losses of financial and non-financial assets/Net interest income	39.1%	43.2%	32.1%	49.1%	56.4%	38.0%	36.1%	-5.2%
Net interest income/Average assets	2.1%	1.9%	2.1%	1.9%	2.0%	2.0%	2.0%	1.9%
Net interest income/Total regular income	67.3%	67.3%	67.0%	66.5%	69.5%	68.7%	59.8%	70.2%
Net interest income/Non-interest expenses	96.8%	95.5%	116.0%	116.8%	76.0%	74.6%	57.2%	52.4%
Financial result/Total regular income	8.5%	6.3%	24.0%	14.2%	-24.5%	-10.1%	-17.5%	-9.3%
Number of employees	6,094	6,121	3,053	3,076	2,496	2,486	545	559
Assets per employee (in millions of denars)	40.8	46.1	54.0	61.0	28.4	32.1	23.4	26.7
Financial result per employee (in millions of denars)	0.1	0.1	0.4	0.2	-0.2	-0.1	-0.1	-0.1
Operating expenses per employee (in millions of denars)	0.8	0.8	0.9	0.9	0.7	0.8	0.7	0.8

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

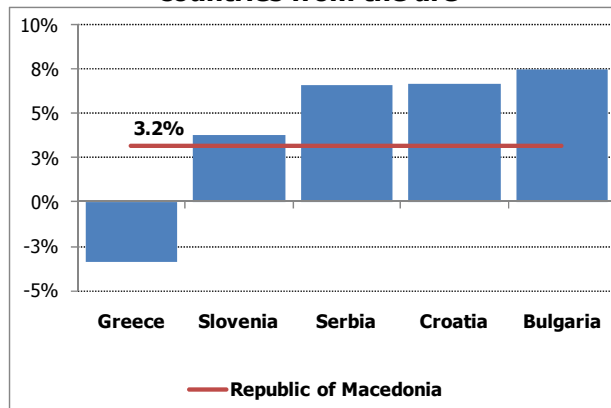
On June 30, 2010, the interest rate spread in Denars, foreign currencies and Denar with FX clause registered minimal changes. The banks still create their largest part of the income from their Denar on-balance sheet positions with FX clause, so the interest rate spread between the Denar interest rates with FX clause was still higher relative to the spread between the Denar interest rates and the spread between foreign currency interest rates.

**Figure 3.5.6**  
Development in the interest rate spread in the banking system in the Republic of Macedonia

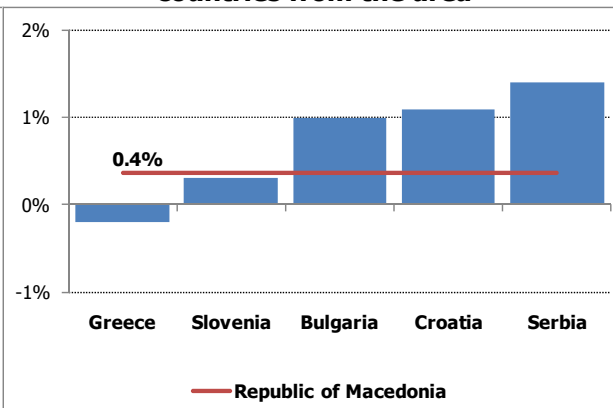


Source: NBRM, based on the data submitted by banks

**Figure 3.5.7**  
Comparison of the return on equity with the countries from the area



**Figure 3.5.8**  
Comparison of the return on assets with the countries from the area



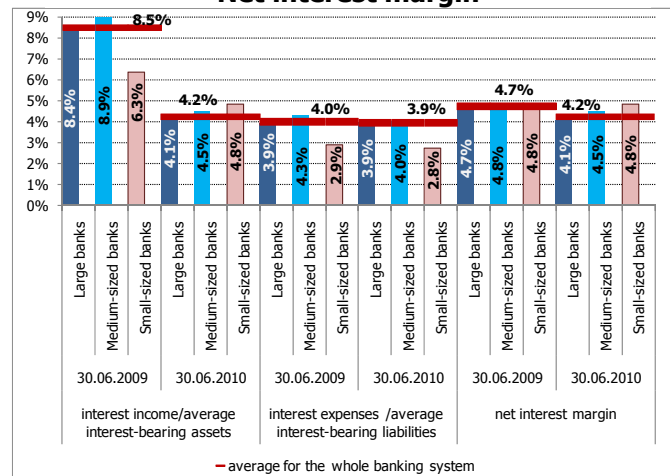
Source: NBRM, based on the data submitted by the banks and web pages of the national central banks.

The comparison with the countries from the area showed<sup>39</sup> that the indicators on the rate on return on equity and rate on return on assets of the banking sector in the Republic of Macedonia are at a lower level, excluding the banking systems of Greece (where the indicator is negative) and Slovenia.

<sup>39</sup> The indicators on return on equity and return on assets for Greece were calculated as of March 31, 2010, for Croatia as of December 31, 2009, and for all other countries they are calculated for June 30, 2010.

The net interest margin<sup>40</sup> at the level of the banking system continued to drop, as a result to the more intensive annual growth in the average interest bearing assets relative to the rise in the net interest income. The interest bearing assets rose by 20.6% relative to the first half of 2009, while the non-interest bearing assets for the same period registered drop of 34.1%. The fall in the lending and deposit interest rates contributed to fall in the interest income and interest expenses per interest bearing asset and liability unit.

**Figure 3.5.9**  
**Net interest margin**



Source: NBRM, based on the data submitted by banks

<sup>40</sup> The net interest margin was calculated as correlation between the net interest income and the average interest bearing assets.

## II. BANKING SUPERVISION IN THE FIRST HALF OF 2010

### 1. Regulatory framework of the banking supervision

In the first half of 2010, the activities of the National Bank in the area of improvement of the regulatory framework, were directed towards completing the regulations for **implementation of the rehabilitation plan and the assets and liabilities transfer plan with a bank under administration**. The terms and procedures for implementing the rehabilitation plan and assets and liabilities transfer plan with a bank under administration are prescribed with an adequate decision<sup>41</sup> which was adopted in February 2008. In the first half of 2010 amendments were made to this decision with the following purposes:

- to define more precisely the assets which can be sold when implementing the rehabilitation plan, as well as the assets and liabilities which can be transferred when implementing the plan for transfer of assets and liabilities to a bank under administration;
- to determine more precisely the rights and responsibilities of the administrator and other participants regarding the decision on selecting the purchasing bank and for stopping the procedure for transfer of assets and liabilities to the bank under administration.

Also, the National Bank prepared and adopted **procedures for performing the transfer of assets and liabilities of a bank under administration and procedures for performing the sale of assets of a bank under administration**. They represent detailed review of activities that should be undertaken by the individual participants in the administration, in order to implement both plans efficiently and successfully.

### 2. Banking supervision activities

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

In the first half of 2010, the NBRM continued performing its regular activities in the area of licensing of banks and saving houses and issued the following licenses and approvals:

Type of license/approval	issued	refused	stopped
<b>Banks</b>			
Amendment and/or supplement to a statute	9	/	/
Appointment of members of Supervisory Board	12	/	/
Appointment of members of Board of Directors	11	/	1
Change of address of a bank	1	/	/
Change of name of a bank	1	/	/

<sup>41</sup> Decision on the terms and procedures for implementing the rehabilitation plan and the assets and liabilities transfer plan ("Official Gazette of the Republic of Macedonia" No. 31/2008 and 61/2010).



Acquiring shares in a bank the cumulative nominal amount of which equals or exceeds 5%, 10%, 20%, 33%, 50% and 75% of the total number of shares, or of the total number of issued voting shares	1	/	/
Allowing a look at the Examination Report	6	/	2
<b>Total (banks)</b>	<b>41</b>	<b>/</b>	<b>3</b>
<b>Saving houses</b>			
Termination of operation	1	/	/
Amendments to the agreement/ statement of company	2	/	/
<b>Total (saving houses)</b>	<b>3</b>	<b>/</b>	<b>/</b>

## 2.2 Supervision of the operating of banks and saving houses

In the first half of 2010 total thirteen on-site examinations of the operating of banks and saving houses in the Republic of Macedonia were performed. Out of them, seven were risk-based examinations, whereas the other six pertained to the compliance of the operating with the regulations.

The risk-based examinations in the operating of banks and saving houses were conducted according to the internal risk assessment methodology of NBRM<sup>42</sup>. According to such approach, the assessment of the material risks they are exposed to in their operating was the priority in the process of conducting the on-site examinations.

Out of the conducted risk-based examinations in the first half of 2010, two controls were full, and five were targeted. The aim of the conducted full on-site risk-based examinations was to determine the safety, stability, the risk and the compliance with the regulations of the examined banks, through assessment of the system of the established internal controls, the adequacy of the risk management systems, as well as the efficiency of the corporate management. Four of the five conducted targeted risk-based examinations were examinations on the operating of saving houses, thus assessing their system for quantifying and monitoring of the credit and liquidity risk. The fifth control with targeted character was focused on the management of the information systems incompatibility risk of one bank.

The performed on-site risk examinations identified weaknesses in the internal policies and procedures through which the controlled institutions established the basis of their risk management. Some weaknesses in the processes of quantification of the anticipated credit losses, as well as in the manner of conducting the stress test of the exposure to credit risk and liquidity risk were determined. Also, the management and supervisory bodies of some of the institutions have failed to fully meet the requirements of the regulations which prescribe their operating, which resulted in certain non-adherence to the Banking Law and bylaws that arise

<sup>42</sup> This Methodology is based on the cumulative risk profiles of banks determined on the basis of the assessment at the level of their exposure to certain risks and their management.

from it, Law on Obligatory Relations, as well as the Law on protection of consumers in contracts for consumer loans.

The targeted examination which was focused on the information security of one bank showed weaknesses in the reporting system of the supervisory board, insufficient staffing of the organizational parts competent for the information technology, weaknesses in the contracts with the service providers, conflicts of interests among the managers, as well as inadequacy of the management systems with audit traces.

With the performed examinations of the compliance with the regulations, no mismatch was determined with the operating of most of the examined institutions. As an exemption, non-adherence to certain provisions of the Law on protection of consumers in contracts for consumer loans and the Law on Foreign Exchange Operations was determined with some of them.

### **2.3 Undertaken corrective activities to banks and saving houses**

In the first half of 2010, five written recommendations to three banks and two saving houses were imposed, two memorandums with two banks were concluded, and measures were imposed to one bank with two decisions (Annex No. 21 - Imposed measures by NBRM to the banks and saving houses in the period from January 1, 2010 to June 30, 2010).

In the first half of 2010, prior approval for closure of one saving house was issued, its founding and operating license was revoked and it was determined that the terms and conditions for conducting liquidation procedure are fulfilled. Until the day of registration of the liquidator in the trade registry, the saving house was banned from performing any activities, except collection of claims, and NBRM employees were authorized to verify the orders for payment from the account of the saving house.

As a result of non-adherence to the Banking Law and the adequate bylaws, in the first half of 2010, two intermediation procedures were conducted with one bank and the responsible persons in the bank and other offenders and with one Audit Company and the responsible persons.

As a result to the failure of two intermediation procedures conducted in 2009, two requests for misdemeanor procedure were submitted against two persons with special rights and responsibilities in one bank.

## **ANNEX**

**BALANCE SHEET - ASSETS****Annex 1**

in millions of Denars

<b>ASSETS</b>	<b>Large banks</b>	<b>Medium-size banks</b>	<b>Small-size banks</b>	<b>Total</b>
CASH AND BALANCES WITH NBRM	22,807	10,388	1,052	<b>34,247</b>
FINANCIAL ASSETS HELD FOR TRADING	605	178	0	<b>782</b>
DERIVATIVES HELD FOR TRADING AT FAIR VALUE	0	20	0	<b>20</b>
FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS	0	0	0	<b>0</b>
FINANCIAL ASSETS HELD-TO-MATURITY	4,626	2,264	1,518	<b>8,408</b>
FINANCIAL ASSETS AVAILABLE FOR SALE	19,160	8,267	1,934	<b>29,360</b>
PLACEMENTS TO THE CENTRAL BANK	0	0	0	<b>0</b>
PLACEMENTS TO FINANCIAL INSTITUTIONS	20,036	6,327	5,610	<b>31,973</b>
PLACEMENTS TO NONFINANCIAL ENTITIES	112,034	47,059	3,092	<b>162,186</b>
ACCRUED INTEREST	802	427	50	<b>1,279</b>
INVESTMENTS IN ASSOCIATES, SUBSIDIARIES AND JOINT VENTURES	180	0	252	<b>431</b>
OTHER ASSETS	962	726	130	<b>1,818</b>
FORECLOSURES	2,205	1,070	434	<b>3,708</b>
INTANGIBLE ASSETS	299	425	150	<b>874</b>
FIXED ASSETS (PROPERTY, PLANT AND EQUIPMENT)	3,841	2,858	926	<b>7,626</b>
NONCURRENT ASSETS HELD FOR SALE	0	0	58	<b>58</b>
NET COMMISSION RELATIONS	-31	-3	-297	<b>-330</b>
UNRECOGNIZED IMPAIRMENT	0	-105	-1	<b>-106</b>
<b>TOTAL ASSETS (NET)</b>	<b>187,525</b>	<b>79,901</b>	<b>14,909</b>	<b>282,334</b>

**BALANCE SHEET - LIABILITIES**

in millions of Denars

<b>LIABILITIES</b>	<b>Large banks</b>	<b>Medium-size banks</b>	<b>Small-size banks</b>	<b>Total</b>
INSTRUMENTS FOR TRADING AND FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS	2	0	0	<b>2</b>
DERIVATIVES HELD FOR HEDGING	0	0	0	<b>0</b>
DEPOSITS OF FINANCIAL INSTITUTIONS	6,504	8,228	471	<b>15,203</b>
SIGHT DEPOSITS OF NONFINANCIAL ENTITIES	50,878	16,452	2,387	<b>69,716</b>
SHORT-TERM DEPOSITS OF NONFINANCIAL ENTITIES	76,101	25,847	2,401	<b>104,350</b>
LONG-TERM DEPOSITS OF NONFINANCIAL ENTITIES	18,547	7,717	534	<b>26,798</b>
DEBT SECURITIES IN ISSUE	634	300	0	<b>934</b>
BORROWINGS	7,892	9,316	3,176	<b>20,385</b>
LIABILITY COMPONENT OF HYBRID INSTRUMENTS	0	185	0	<b>185</b>
SUBORDINATED DEBT AND CUMULATIVE PREFERRED SHARES	4,586	2,124	55	<b>6,765</b>
INTEREST LIABILITIES	965	538	72	<b>1,575</b>
OTHER LIABILITIES	2,024	681	188	<b>2,893</b>
PROVISIONS	645	98	12	<b>754</b>
CAPITAL AND RESERVES	17,992	8,316	5,511	<b>31,819</b>
GROSS PROFIT*	755	99	102	<b>956</b>
<b>TOTAL LIABILITIES</b>	<b>187,525</b>	<b>79,901</b>	<b>14,909</b>	<b>282,334</b>

\* The sum of the financial result of the banks that have generated a profit. The total loss generated by the banks is a deductible item from the capital and reserves.

## STATEMENT OF COMPREHENSIVE INCOME

in millions of Denars

STATEMENT OF COMPREHENSIVE INCOME	Large banks		Medium-size banks		Small-size		Total	
	30.06.2009	30.06.2010	30.06.2009	30.06.2010	30.06.2009	30.06.2010	30.06.2009	30.06.2010
	INTEREST INCOME	6,127	6,706	2,665	2,799	334	367	9,126
INTEREST EXPENSES	-2,801	-3,167	-1,221	-1,282	-82	-102	-4,105	-4,551
NET INTEREST INCOME (1-2)	3,326	3,538	1,444	1,518	251	265	5,021	5,321
NET FEES AND COMMISSION INCOME	1,045	1,158	384	416	85	67	1,514	1,642
NET INCOME FROM ASSETS AND LIABILITIES HELD FOR TRADING	146	2	-4	26	6	0	148	28
NET INCOME FROM FINANCIAL INSTRUMENTS DESIGNATED AT FAIR VALUE	0	0	0	0	0	0	0	0
NET (GAINS - LOSSES) FROM FOREIGN EXCHANGE DIFFERENCES	192	291	110	92	17	27	318	409
OTHER OPERATING INCOME	409	340	153	192	61	18	623	550
NET IMPAIRMENT LOSSES (PROVISIONS) OF FINANCIAL ASSETS	-1,101	-1,728	-813	-560	-91	14	-2,005	-2,274
IMPAIRMENT LOSSES OF NON-FINANCIAL ASSETS	0	-9	-1	-17	0	0	-1	-26
EMPLOYEES EXPENSES	-1,051	-1,080	-725	-752	-171	-182	-1,947	-2,014
DEPRECIATION	-271	-297	-193	-220	-39	-55	-503	-572
OTHER OPERATING EXPENSES	-1,465	-1,461	-864	-917	-194	-189	-2,523	-2,566
CURRENT PROFIT/LOSS	1,229	755	-509	-223	-74	-35	646	497

## Structure of credits of nonfinancial subjects

in millions of denars

Date	Description	TOTAL			TOTAL			Enterprises			Households			Other clients				
		TOTAL	Denar	Denar with FX clause	Foreign currency	Denar	Denar with FX clause	Foreign currency	Denar	Denar with FX clause	Foreign currency	Denar	Denar with FX clause	Foreign currency	Denar	Denar with FX clause	Foreign currency	
31.12.2009	Past due credits	2,415	1,586	501	328	620	364	309	964	135	18	2	2	1				
	Short-term credits	39,229	23,441	7,555	8,233	18,493	7,365	8,221	4,930	170	8	18	20	4				
	Long-term credits	116,290	38,796	51,134	26,360	11,400	25,513	22,851	27,360	25,515	3,325	36	106	184				
	Nonperforming credits	15,776	8,315	3,140	4,321	4,649	1,595	3,889	3,656	1,495	432	10	50	0				
	<b>Total credits</b>	<b>173,710</b>	<b>72,138</b>	<b>62,330</b>	<b>39,242</b>	<b>35,162</b>	<b>34,837</b>	<b>35,270</b>	<b>36,910</b>	<b>27,315</b>	<b>3,783</b>	<b>66</b>	<b>178</b>	<b>189</b>				
	Impairment losses	-16,054																
	Accumulated amortization	-528																
	<b>Total credits, net</b>	<b>157,128</b>																
	Past due credits	2,789	1,583	709	497	615	561	478	967	146	19	1	2	0				
	Short-term credits	40,934	24,144	8,773	8,017	18,770	8,640	8,000	5,357	127	12	17	6	5				
Long-term credits	118,701	39,414	49,645	29,642	11,231	24,147	25,931	28,152	25,337	3,567	31	161	144					
Nonperforming credits	18,252	9,726	3,557	4,969	5,416	1,938	4,378	4,295	1,568	590	15	51	1					
<b>Total credits</b>	<b>180,676</b>	<b>74,867</b>	<b>62,684</b>	<b>43,125</b>	<b>36,032</b>	<b>35,286</b>	<b>38,787</b>	<b>38,771</b>	<b>27,178</b>	<b>4,188</b>	<b>64</b>	<b>220</b>	<b>150</b>					
Impairment losses	-17,880																	
Accumulated amortization	-610																	
<b>Total credits, net</b>	<b>162,186</b>																	
Change 30.06.2010/ 31.12.2009	Absolute change of credits	6,966	2,729	354	3,883	870	449	3,517	1,861	-137	405	-2	42	-39				
	Change as %	4.0%	3.8%	0.6%	9.9%	2.5%	1.3%	10.0%	5.0%	-0.5%	10.7%	-3.0%	23.6%	-20.6%				
	Structure of change		39.2%	5.1%	55.7%	12.5%	6.4%	50.5%	26.7%	-2.0%	5.8%	0.0%	0.6%	-0.6%				

## Structure of deposits of nonfinancial subjects

in millions of denars

Date	Description	TOTAL	TOTAL			Enterprises			Households			Other clients		
			Denar	Denar with FX clause	Foreign currency	Denar	Denar with FX clause	Foreign currency	Denar	Denar with FX clause	Foreign currency	Denar	Denar with FX clause	Foreign currency
31.12.2009	Sight deposits	67,687	36,525	0	31,162	18,636	0	9,634	15,334	0	19,598	2,555	0	1,930
	Short-term deposits	97,119	29,434	8,617	59,068	6,955	8,241	9,378	21,410	76	48,879	1,069	300	811
	Long-term deposits	23,069	7,432	269	15,368	1,346	210	429	5,990	5	14,192	96	54	747
	<b>Total deposits</b>	<b>187,875</b>	<b>73,391</b>	<b>8,886</b>	<b>105,598</b>	<b>26,937</b>	<b>8,451</b>	<b>19,441</b>	<b>42,734</b>	<b>81</b>	<b>82,669</b>	<b>3,720</b>	<b>354</b>	<b>3,488</b>
30.06.2010	Sight deposits	69,716	37,193	3	32,520	18,782	3	11,616	15,678	0	18,918	2,733	0	1,986
	Short-term deposits	104,350	36,522	7,314	60,514	8,324	7,016	9,536	27,104	0	50,223	1,094	298	755
	Long-term deposits	26,798	9,595	240	16,963	1,352	228	361	8,032	5	15,910	211	7	692
	<b>Total deposits</b>	<b>200,864</b>	<b>83,310</b>	<b>7,557</b>	<b>109,997</b>	<b>28,458</b>	<b>7,247</b>	<b>21,513</b>	<b>50,814</b>	<b>5</b>	<b>85,051</b>	<b>4,038</b>	<b>305</b>	<b>3,433</b>
Change 30.06.2010/31.12.2009	Absolute change of deposits	12,989	9,919	-1,329	4,399	1,521	-1,204	2,072	8,080	-76	2,382	318	-49	-55
	Change as %	6.9%	13.5%	-15.0%	4.2%	5.6%	-14.2%	10.7%	18.9%	-93.8%	2.9%	8.5%	-13.8%	-1.6%
	Structure of change		76.4%	-10.2%	33.9%	11.7%	-9.3%	16.0%	62.2%	-0.6%	18.3%	2.4%	-0.4%	-0.4%

## Structure of securities portfolio

No.	Securities portfolio	Amount in millions of denars		Structure (as %)		Semi-annual change 31.12.2009/30.06.2010		
		31.12.2009	30.06.2010	31.12.2009	30.06.2010	Absolute change	As percentage	
<b>1.</b>	<b>Debt instruments - securities (1.1.+1.2.)</b>	<b>29,664</b>	<b>38,035</b>	<b>96.8%</b>	<b>97.5%</b>	<b>8,371</b>	<b>28.2%</b>	<b>100.1%</b>
<b>1.1.</b>	<b>Money market instruments</b>	<b>24,036</b>	<b>33,170</b>	<b>78.4%</b>	<b>85.0%</b>	<b>9,134</b>	<b>38.0%</b>	<b>109.2%</b>
	- NBRM bills	15,846	23,183	51.7%	59.4%	7,337	46.3%	87.7%
	- Treasury bills	8,190	9,987	26.7%	25.6%	1,797	21.9%	21.5%
<b>1.2.</b>	<b>Bonds (1.2.1.+1.2.2.+1.2.3.)</b>	<b>5,628</b>	<b>4,865</b>	<b>18.4%</b>	<b>12.5%</b>	<b>-764</b>	<b>-13.6%</b>	<b>-9.1%</b>
<b>1.2.1.</b>	<b>Bonds issued by government</b>	<b>4,639</b>	<b>4,029</b>	<b>15.1%</b>	<b>10.3%</b>	<b>-610</b>	<b>-13.1%</b>	<b>-7.3%</b>
	- Continuous government bonds (treasury bonds)	221	30	0.7%	0.1%	-191	-86.4%	-2.3%
	- Structural government bonds	1,443	1,152	4.7%	3.0%	-291	-20.1%	-3.5%
	- Bond issued for privatization of Stopanska Banka AD Skopje	2,625	2,509	8.6%	6.4%	-116	-4.4%	-1.4%
	- Eurobonds	350	338	1.1%	0.9%	-12	/	-0.1%
<b>1.2.2.</b>	<b>Corporate bonds issued by domestic banks</b>	<b>831</b>	<b>835</b>	<b>2.7%</b>	<b>2.1%</b>	<b>4</b>	<b>0.4%</b>	<b>0.0%</b>
<b>1.2.3.</b>	<b>Bonds issued by foreign governments</b>	<b>158</b>	<b>0</b>	<b>0.5%</b>	<b>0.0%</b>	<b>-158</b>	<b>-100.0%</b>	<b>-1.9%</b>
<b>2.</b>	<b>Equity instruments - securities</b>	<b>960</b>	<b>947</b>	<b>3.1%</b>	<b>2.4%</b>	<b>-13</b>	<b>-1.4%</b>	<b>-0.2%</b>
	- issued by nonfinancial entities	72	70	0.2%	0.2%	-2	-2.6%	0.0%
	- issued by banks and other financial institutions - residents	795	790	2.6%	2.0%	-5	-0.6%	-0.1%
	- issued by financial institutions - nonresidents	94	87	0.3%	0.2%	-7	-7.1%	-0.1%
<b>3.</b>	<b>Derivatives</b>	<b>15</b>	<b>20</b>	<b>0.0%</b>	<b>0.1%</b>	<b>6</b>	<b>/</b>	<b>0.1%</b>
<b>4.</b>	<b>Total securities portfolio (1+2+3)</b>	<b>30,639</b>	<b>39,002</b>	<b>100.0%</b>	<b>100.0%</b>	<b>8,363</b>	<b>27.3%</b>	<b>100.0%</b>



## Credit risk exposure and calculated impairment at the level of the banking system – sector structure

	in millions of Denars																						
	A		B		C		D		E		Total												
	Credit risk exposure	Calculated impairment and special reserves	Credit risk exposure	Calculated impairment and special reserves	Credit risk exposure	Calculated impairment and special reserves	Credit risk exposure	Calculated impairment and special reserves	Credit risk exposure	Calculated impairment and special reserves	Credit risk exposure	Calculated impairment and special reserves											
	12.2009	06.2010	12.2009	06.2010	12.2009	06.2010	12.2009	06.2010	12.2009	06.2010	12.2009	06.2010											
<b>ENTERPRISES AND OTHER CLIENTS</b>	<b>99,085</b>	<b>103,286</b>	<b>97,3</b>	<b>1,027</b>	<b>16,049</b>	<b>16,108</b>	<b>1,689</b>	<b>1,690</b>	<b>1,828</b>	<b>2,387</b>	<b>1,158</b>	<b>1,328</b>	<b>717</b>	<b>7,502</b>	<b>8,039</b>	<b>7,054</b>	<b>7,587</b>	<b>130,226</b>	<b>136,665</b>	<b>12,139</b>	<b>13,408</b>		
- Agriculture, hunting and forestry	2,676	2,640	23	24	766	810	78	78	64	57	194	18	169	88	85	316	348	4,176	4,030	550	572		
- Fishing	82	66	1	1	19	16	2	2	6	6	7	0	0	0	0	1	1	128	97	11	9		
- Industry	34,257	38,586	344	373	6,350	4,704	688	507	3,255	3,666	924	1,203	214	302	4,168	4,425	3,955	4,240	48,454	52,083	6,135	6,711	
- Construction	12,491	12,809	111	101	698	1,156	72	127	352	255	90	68	42	14	22	558	564	14,126	14,826	768	840		
- Wholesale and retail trade	32,397	31,949	321	347	5,590	6,198	577	642	890	1,141	239	310	333	242	174	1,266	1,841	41,014	41,502	3,002	3,265		
- Hotels and restaurants	2,479	2,536	38	41	296	291	31	30	862	892	294	303	44	56	22	31	115	102	3,795	3,876	486	496	
- Transport, storage and communication	6,549	7,107	49	55	661	681	68	66	77	112	129	102	69	53	305	343	303	7,938	8,670	549	593		
- Financial intermediation	51,510	57,801	62	46	88	63	13	7	8	220	2	101	28	2	14	206	226	51,839	58,311	298	380		
- Real estate, renting and business activities	5,178	4,234	61	50	1,306	2,008	135	210	498	1,251	126	321	18	9	5	91	137	7,092	7,639	413	719		
- Public administration and defense; compulsory social security	12,483	13,846	2	3	2	0	0	0	1	1	0	0	0	0	0	181	0	12,666	13,948	184	4		
- Education	702	1,171	4	8	702	1,171	4	8	2	7	1	2	1	0	0	0	0	708	1,182	5	11		
- Health and social work	790	856	6	7	66	84	7	9	8	25	2	7	0	1	0	19	12	884	977	33	32		
- Other community, social and personal service activities	1,239	1,327	15	19	297	167	31	17	49	143	12	37	10	5	2	84	94	1,679	1,736	148	169		
- Households employing staff	6	6	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	6	6	0	0		
- Extraterritorial organizations and bodies	237	0	0	0	0	0	0	0	0	0	0	0	0	0	0	39	40	276	40	39	40		
<b>HOUSEHOLD</b>	<b>64,815</b>	<b>66,740</b>	<b>620</b>	<b>669</b>	<b>7,037</b>	<b>6,899</b>	<b>802</b>	<b>762</b>	<b>2,106</b>	<b>1,982</b>	<b>1,751</b>	<b>1,910</b>	<b>1,098</b>	<b>1,035</b>	<b>2,107</b>	<b>3,042</b>	<b>1,998</b>	<b>77,815</b>	<b>80,573</b>	<b>5,117</b>	<b>5,860</b>		
- residential and commercial real estate loans	13,765	14,492	108	116	554	632	64	67	312	357	93	186	54	94	165	199	150	14,886	15,866	463	545		
- consumer loans	19,135	20,076	174	196	3,165	3,178	365	350	1,164	1,106	297	769	444	530	895	1,319	838	1,196	25,127	26,657	2,136	2,568	
- overdrafts	6,758	7,192	86	93	1,361	1,150	147	118	32	29	8	34	40	18	22	268	301	262	295	8,454	8,712	535	
- credit cards	20,171	20,129	216	225	1,707	1,636	191	183	364	295	119	91	726	625	506	343	481	916	473	902	23,449	23,601	1,744
- car loans	4,232	4,027	29	34	204	227	30	37	121	109	36	28	55	35	30	93	118	82	98	4,706	4,533	211	227
- other loans	754	824	8	7	47	76	5	8	113	87	32	24	42	16	205	189	194	186	1,193	1,203	281	241	
<b>SOLE PROPRIETORS</b>	<b>3,274</b>	<b>2,860</b>	<b>30</b>	<b>34</b>	<b>219</b>	<b>189</b>	<b>25</b>	<b>22</b>	<b>175</b>	<b>165</b>	<b>74</b>	<b>86</b>	<b>44</b>	<b>44</b>	<b>121</b>	<b>138</b>	<b>113</b>	<b>3,863</b>	<b>3,437</b>	<b>259</b>	<b>280</b>		
<b>TOTAL</b>	<b>231,166</b>	<b>244,532</b>	<b>1,688</b>	<b>1,779</b>	<b>23,395</b>	<b>22,259</b>	<b>2,531</b>	<b>2,481</b>	<b>8,721</b>	<b>10,272</b>	<b>3,010</b>	<b>3,326</b>	<b>1,751</b>	<b>1,797</b>	<b>10,117</b>	<b>11,445</b>	<b>9,551</b>	<b>276,409</b>	<b>292,834</b>	<b>17,996</b>	<b>19,931</b>		

## Credit risk exposure and calculated impairment at the level of the banking system – currency structure

	in millions of Denars													
	Denar				Denar with FX clause				FX				Total	
	Credit risk exposure	Calculated impairment and special reserves	Credit risk exposure	Calculated impairment and special reserves	Credit risk exposure	Calculated impairment and special reserves	Credit risk exposure	Calculated impairment and special reserves	Credit risk exposure	Calculated impairment and special reserves	Credit risk exposure	Calculated impairment and special reserves	Credit risk exposure	Calculated impairment and special reserves
	12.2009	06.2010	12.2009	06.2010	12.2009	06.2010	12.2009	06.2010	12.2009	06.2010	12.2009	06.2010	12.2009	06.2010
<b>ENTERPRISES AND OTHER CLIENTS</b>	<b>49,459</b>	<b>50,342</b>	<b>6,033</b>	<b>6,259</b>	<b>36,603</b>	<b>37,302</b>	<b>2,650</b>	<b>2,957</b>	<b>44,164</b>	<b>49,021</b>	<b>3,456</b>	<b>4,192</b>	<b>130,226</b>	<b>136,665</b>
Agriculture, hunting and forestry	1,308	1,251	309	258	1,639	1,482	142	122	1,179	1,297	100	143	4,126	4,030
Fishing	35	6	3	1	18	18	1	1	75	73	7	7	128	97
Industry	17,211	17,623	3,146	3,212	11,430	11,695	1,132	1,195	19,813	22,765	1,856	2,304	48,454	52,083
Construction	6,099	6,777	229	312	4,369	4,329	391	377	3,658	3,720	148	152	14,126	14,826
Wholesale and retail trade	16,499	15,389	1,564	1,541	12,225	12,852	720	845	12,291	13,261	718	880	41,014	41,502
Hotels and restaurants	998	950	146	155	1,243	1,324	74	55	1,554	1,602	266	286	3,795	3,876
Transport, storage and communication	3,181	3,318	303	244	2,693	2,659	97	154	2,064	2,693	150	195	7,938	8,670
Financial intermediation	18,004	24,784	25	37	3,679	4,434	64	60	30,156	29,093	209	284	51,839	58,311
Real estate, renting and business activities	2,916	3,737	228	422	1,702	1,406	58	145	2,473	2,496	127	151	7,092	7,639
Public administration and defense; compulsory social security	1,369	1,272	184	3	10,971	12,082	0	0	326	494	0	0	12,666	13,848
Education	208	431	3	6	179	414	1	4	320	337	2	2	708	1,182
Health and social work	254	269	14	13	293	294	4	14	337	415	16	6	884	977
Other community, social and personal service activities	520	590	88	97	807	830	32	45	352	316	28	27	1,679	1,736
Households employing staff	1	1	0	0	0	0	0	0	5	5	0	0	6	6
Extraterritorial organizations and bodies	230	0	0	0	4	0	0	0	42	40	39	40	276	40
<b>HOUSEHOLD</b>	<b>49,078</b>	<b>51,220</b>	<b>3,794</b>	<b>4,305</b>	<b>24,721</b>	<b>24,897</b>	<b>1,045</b>	<b>1,158</b>	<b>4,016</b>	<b>4,456</b>	<b>278</b>	<b>397</b>	<b>77,815</b>	<b>80,573</b>
- residential and commercial real estate loans	1,587	1,587	116	128	11,593	12,329	278	316	1,706	1,950	68	100	14,886	15,866
- consumer loans	15,247	16,981	1,554	1,763	8,826	8,527	485	645	1,055	1,150	98	161	25,127	26,657
- overdrafts	8,454	8,712	522	535	0	0	0	0	0	0	0	0	8,454	8,712
- credit cards	23,106	23,209	1,483	1,706	0	0	0	0	343	392	21	38	23,449	23,601
- car loans	318	292	65	64	3,750	3,667	100	108	638	575	46	55	4,706	4,533
- other loans	367	439	54	109	552	375	182	89	274	389	45	43	1,193	1,203
<b>SOLE PROPRIETORS</b>	<b>1,635</b>	<b>1,501</b>	<b>108</b>	<b>132</b>	<b>2,034</b>	<b>1,741</b>	<b>127</b>	<b>132</b>	<b>194</b>	<b>196</b>	<b>24</b>	<b>16</b>	<b>3,863</b>	<b>3,437</b>
<b>TOTAL</b>	<b>119,545</b>	<b>129,119</b>	<b>10,144</b>	<b>10,735</b>	<b>78,008</b>	<b>80,456</b>	<b>3,886</b>	<b>4,306</b>	<b>78,856</b>	<b>83,260</b>	<b>3,966</b>	<b>4,890</b>	<b>276,409</b>	<b>292,834</b>
													<b>17,996</b>	<b>19,931</b>

**Non-performing credits and calculated impairment for non-performing credits, at the level of the banking system –  
sector structure**

in millions of Denars

	C		D		E		TOTAL			
	Credit risk exposure		Credit risk exposure		Credit risk exposure		Credit risk exposure			
	12.2009	06.2010	12.2009	06.2010	12.2009	06.2010	12.2009	06.2010		
<b>ENTERPRISES AND OTHER CLIENTS</b>	<b>2,420</b>	<b>3,349</b>	<b>983</b>	<b>1,133</b>	<b>6,828</b>	<b>7,330</b>	<b>10,231</b>	<b>11,812</b>	<b>7,611</b>	<b>8,514</b>
Agriculture, hunting and forestry	153	31	16	10	280	311	448	352	322	289
Fishing	21	21	0	0	1	1	22	22	6	6
Industry	1,516	1,611	420	694	3,600	3,840	5,536	6,145	4,085	4,539
Construction	64	152	24	33	555	575	643	760	507	589
Wholesale and retail trade	418	367	325	231	1,785	1,923	2,529	2,522	1,958	2,008
Hotels and restaurants	47	646	42	54	115	98	203	798	132	358
Transport, storage and communication	104	222	128	100	294	336	526	657	373	404
Financial intermediation	1	34	26	1	117	116	145	151	131	125
Real estate, renting and business activities	82	242	17	8	90	132	188	382	110	193
Public administration and defense; compulsory social security	0	1	0	0	0	0	0	1	0	0
Education	1	2	1	0	0	1	2	3	1	1
Health and social work	4	22	0	1	19	12	24	34	19	16
Other community, social and personal service activities	10	33	10	3	65	75	85	111	72	84
Households employing staff	0	0	0	0	0	0	0	0	0	0
Extraterritorial organizations and bodies	0	0	0	0	25	26	25	26	25	26
<b>HOUSEHOLD</b>	<b>1,613</b>	<b>1,424</b>	<b>1,726</b>	<b>1,880</b>	<b>1,986</b>	<b>2,864</b>	<b>5,325</b>	<b>6,168</b>	<b>3,412</b>	<b>4,067</b>
- residential and commercial real estate loans	277	295	91	186	163	197	531	678	280	343
- consumer loans	976	832	767	977	878	1,306	2,621	3,116	1,532	1,930
- overdrafts	27	22	34	40	261	292	323	354	280	314
- credit cards	158	131	704	602	435	841	1,297	1,574	967	1,196
- car loans	80	81	55	52	92	117	227	250	139	148
- other loans	96	62	74	23	157	110	327	196	215	138
<b>SOLE PROPRIETORS</b>	<b>83</b>	<b>74</b>	<b>73</b>	<b>85</b>	<b>120</b>	<b>137</b>	<b>276</b>	<b>296</b>	<b>178</b>	<b>196</b>
<b>TOTAL</b>	<b>4,117</b>	<b>4,882</b>	<b>2,808</b>	<b>3,100</b>	<b>9,051</b>	<b>10,446</b>	<b>15,977</b>	<b>18,429</b>	<b>11,333</b>	<b>12,903</b>

**Non-performing credits and calculated impairment for non-performing credits, at the level of the banking system – currency structure**

	in millions of Denars													
	Denar				Denar with FX clause				FX				TOTAL	
	Credit risk exposure	Calculated impairment and special reserves	Credit risk exposure	Calculated impairment and special reserves	Credit risk exposure	Calculated impairment and special reserves	Credit risk exposure	Calculated impairment and special reserves	Credit risk exposure	Calculated impairment and special reserves	Credit risk exposure	Calculated impairment and special reserves	Credit risk exposure	Calculated impairment and special reserves
<b>ENTERPRISES AND OTHER CLIENTS</b>	<b>12.2009</b>	<b>06.2010</b>	<b>12.2009</b>	<b>06.2010</b>	<b>12.2009</b>	<b>06.2010</b>	<b>12.2009</b>	<b>06.2010</b>	<b>12.2009</b>	<b>06.2010</b>	<b>12.2009</b>	<b>06.2010</b>	<b>12.2009</b>	<b>06.2010</b>
	5,023	3,905	3,940	3,940	2,262	2,620	2,946	3,734	1,972	2,616	10,231	11,812	7,611	8,514
Agriculture, hunting and forestry	175	123	154	111	153	105	120	124	59	98	448	352	322	289
Fishing	0	0	0	0	1	1	21	21	5	5	22	22	6	6
Industry	2,843	3,015	2,128	2,148	934	1,063	1,758	2,068	1,186	1,510	5,536	6,145	4,085	4,539
Construction	166	226	141	185	353	394	283	124	83	90	643	760	507	589
Wholesale and retail trade	1,333	1,215	1,090	1,027	638	753	558	554	404	447	2,529	2,522	1,958	2,008
Hotels and restaurants	58	247	31	80	69	57	76	494	59	255	203	798	132	358
Transport, storage and communication	314	267	247	187	77	176	40	135	86	127	526	657	373	404
Financial intermediation	1	6	1	2	51	46	50	93	80	77	145	151	131	125
Real estate, renting and business activities	57	281	46	133	30	31	102	70	44	40	188	382	110	193
Public administration and defense; compulsory social security	0	1	0	0	0	0	0	0	0	0	0	1	0	0
Education	1	1	0	1	0	0	0	2	0	1	2	3	1	1
Health and social work	11	8	9	6	1	22	10	12	4	11	24	34	19	16
Other community, social and personal service activities	63	75	59	63	7	19	7	15	17	14	85	111	72	84
Households employing staff	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Extraterritorial organizations and bodies	0	0	0	0	0	0	0	25	26	26	25	26	25	26
<b>HOUSEHOLD</b>	<b>3,650</b>	<b>4,235</b>	<b>2,536</b>	<b>2,996</b>	<b>1,267</b>	<b>1,352</b>	<b>408</b>	<b>580</b>	<b>182</b>	<b>286</b>	<b>5,325</b>	<b>6,168</b>	<b>3,412</b>	<b>4,067</b>
- residential and commercial real estate loans	109	126	80	88	299	361	146	123	191	53	531	678	280	343
- consumer loans	1,831	2,069	1,138	1,309	604	771	318	186	276	76	2,621	3,116	1,532	1,930
- overdrafts	323	354	280	314	0	0	0	0	0	0	323	354	280	314
- credit cards	1,288	1,565	959	1,188	0	0	0	9	9	8	1,297	1,574	967	1,196
- car loans	58	56	43	42	93	101	57	76	94	39	227	250	139	148
- other loans	42	66	35	56	270	120	173	14	10	7	327	196	215	138
<b>SOLE PROPRIETORS</b>	<b>96</b>	<b>121</b>	<b>81</b>	<b>96</b>	<b>146</b>	<b>157</b>	<b>34</b>	<b>18</b>	<b>22</b>	<b>15</b>	<b>276</b>	<b>296</b>	<b>178</b>	<b>196</b>
<b>TOTAL</b>	<b>8,770</b>	<b>9,822</b>	<b>6,522</b>	<b>7,034</b>	<b>3,725</b>	<b>4,176</b>	<b>3,482</b>	<b>4,432</b>	<b>2,256</b>	<b>2,995</b>	<b>15,977</b>	<b>18,429</b>	<b>11,333</b>	<b>12,903</b>

## Credit risk exposure and calculated impairment, by individual groups of banks – sector structure

	in millions of Denars															
	Large banks				Medium size banks				Small size banks							
	Credit risk exposure	Calculated impairment and special reserves	"C", "D" and "E" credit risk exposure	Credit risk exposure	Calculated impairment and special reserves	"C", "D" and "E" credit risk exposure	Credit risk exposure	Calculated impairment and special reserves	"C", "D" and "E" credit risk exposure	Credit risk exposure	Calculated impairment and special reserves	"C", "D" and "E" credit risk exposure				
12.2009	06.2010	12.2009	06.2010	12.2009	06.2010	12.2009	06.2010	12.2009	06.2010	12.2009	06.2010	12.2009	06.2010			
<b>ENTERPRISES AND OTHER CLIENTS</b>	<b>94,634</b>	<b>97,925</b>	<b>10,288</b>	<b>12,208</b>	<b>33,361</b>	<b>36,330</b>	<b>2,133</b>	<b>2,343</b>	<b>4,018</b>	<b>4,434</b>	<b>2,231</b>	<b>2,409</b>	<b>667</b>	<b>545</b>	<b>786</b>	<b>628</b>
Agriculture, hunting and forestry	2,551	2,712	342	303	1,469	1,241	146	142	291	261	106	77	50	12	51	16
Fishing	47	22	5	5	81	76	6	6	21	21	0	0	0	0	0	0
Industry	38,166	40,689	5,019	6,012	9,465	10,707	883	929	1,523	1,661	823	687	233	163	312	197
Construction	10,425	10,883	583	697	3,542	3,739	132	178	176	252	160	204	53	53	64	57
Wholesale and retail trade	28,815	27,996	2,217	2,432	11,417	12,608	495	566	755	834	783	898	289	268	314	304
Hotels and restaurants	2,350	2,420	319	344	573	1,398	161	145	482	470	19	58	5	6	8	7
Transport, storage and communication	4,460	4,531	393	475	3,335	3,990	138	210	232	419	144	149	18	20	21	25
Financial intermediation	33,078	35,272	129	235	11,811	14,512	34	50	29	68	6,950	8,527	134	95	118	87
Real estate, renting and business activities	5,403	5,923	259	577	1,602	1,495	144	131	505	459	87	221	10	10	10	5
Public administration and defense; compulsory social security	9,535	10,668	1	2	2,526	2,587	0	1	0	0	606	592	183	2	181	0
Education	589	1,047	4	8	104	121	1	2	2	3	15	14	0	1	0	3
Health and social work	433	514	23	16	433	443	10	13	10	21	18	20	1	3	0	8
Other community, social and personal service activities	1,117	1,145	124	139	487	510	17	21	21	35	75	81	7	8	6	7
Households employing staff	4	4	0	0	1	1	0	0	0	0	2	1	0	0	0	0
Extrateritorial organizations and bodies	276	40	39	40	0	0	0	0	0	0	0	0	0	0	0	0
<b>HOUSEHOLD</b>	<b>57,591</b>	<b>59,880</b>	<b>3,882</b>	<b>3,979</b>	<b>18,287</b>	<b>18,750</b>	<b>1,523</b>	<b>1,781</b>	<b>2,411</b>	<b>2,720</b>	<b>1,937</b>	<b>1,943</b>	<b>177</b>	<b>197</b>	<b>197</b>	<b>235</b>
- residential and commercial real estate loans	10,782	11,379	325	353	4,075	4,458	136	213	213	355	29	29	2	2	2	1
- consumer loans	15,790	17,195	1,257	1,336	8,058	8,225	793	1,031	1,386	1,622	1,279	1,237	86	82	105	99
- overdrafts	7,160	7,339	421	451	934	1,009	64	45	42	54	360	364	37	39	40	43
- credit cards	20,757	20,855	1,223	1,453	2,449	2,492	240	253	314	328	243	254	40	38	36	46
- car loans	2,986	2,974	124	122	1,718	1,557	88	105	147	177	1	2	0	0	0	0
- other loans	116	137	67	71	1,053	1,009	202	134	308	185	25	57	12	36	14	46
<b>SOLE PROPRIETORS</b>	<b>585</b>	<b>473</b>	<b>90</b>	<b>95</b>	<b>3,253</b>	<b>2,942</b>	<b>165</b>	<b>187</b>	<b>269</b>	<b>287</b>	<b>25</b>	<b>22</b>	<b>5</b>	<b>3</b>	<b>5</b>	<b>4</b>
<b>TOTAL CREDIT RISK EXPOSURE</b>	<b>195,422</b>	<b>204,219</b>	<b>12,975</b>	<b>14,726</b>	<b>69,238</b>	<b>75,121</b>	<b>3,856</b>	<b>4,363</b>	<b>6,727</b>	<b>7,509</b>	<b>11,749</b>	<b>13,495</b>	<b>1,166</b>	<b>842</b>	<b>1,288</b>	<b>954</b>
Denar	86,187	93,590	6,947	7,749	27,928	29,602	2,309	2,434	4,020	4,215	5,430	5,927	888	551	966	621
Denar with FX clause	50,657	51,849	2,780	2,965	24,565	25,628	947	1,128	1,617	1,922	2,786	2,979	159	214	176	260
FX	58,578	58,781	3,248	3,862	16,746	19,890	600	801	1,090	1,372	3,532	4,589	119	77	146	72

**Non-performing credits and calculated impairment for non-performing credits, by individual groups of banks – currency structure**

	in millions of Denars											
	Large banks				Medium size banks				Small size banks			
	Nonperforming credits		Calculated impairment and special reserves for nonperforming		Nonperforming credits		Calculated impairment and special reserves for nonperforming credits		Nonperforming credits		Calculated impairment and special reserves for nonperforming	
	12.2009	06.2010	12.2009	06.2010	12.2009	06.2010	12.2009	06.2010	12.2009	06.2010	12.2009	06.2010
<b>ENTERPRISES AND OTHER CLIENTS</b>	<b>7,408</b>	<b>8,405</b>	<b>5,877</b>	<b>6,702</b>	<b>2,137</b>	<b>2,838</b>	<b>1,126</b>	<b>1,326</b>	<b>686</b>	<b>569</b>	<b>608</b>	<b>486</b>
Agriculture, hunting and forestry	299	270	230	240	103	70	48	42	46	11	44	7
Fishing	1	1	1	1	21	21	5	5	0	0	0	0
Industry	4,349	4,983	3,424	3,925	950	985	458	464	238	178	203	150
Construction	440	485	359	410	150	226	99	131	53	49	49	48
Wholesale and retail trade	1,689	1,593	1,349	1,397	531	640	331	362	309	289	277	249
Hotels and restaurants	93	544	71	278	103	248	56	74	7	6	5	5
Transport, storage and communication	343	301	273	236	166	339	87	153	17	17	14	15
Financial intermediation	7	7	6	6	21	59	21	34	117	85	104	85
Real estate, renting and business activities	90	121	73	118	90	257	28	72	9	4	9	3
Public administration and defense; compulsory social security	0	1	0	0	0	0	0	0	0	0	0	0
Education	1	2	0	1	1	1	0	1	0	0	0	0
Health and social work	15	8	13	6	9	18	6	9	0	8	0	2
Other community, social and personal service activities	65	71	59	64	13	33	7	13	6	7	6	7
Households employing staff	0	0	0	0	0	0	0	0	0	0	0	0
Extraterritorial organizations and bodies	25	26	25	26	0	0	0	0	0	0	0	0
<b>HOUSEHOLD</b>	<b>2,991</b>	<b>3,496</b>	<b>2,062</b>	<b>2,446</b>	<b>2,162</b>	<b>2,480</b>	<b>1,215</b>	<b>1,464</b>	<b>172</b>	<b>191</b>	<b>135</b>	<b>157</b>
- residential and commercial real estate loans	339	360	183	186	191	317	96	156	2	1	1	1
- consumer loans	1,290	1,476	807	959	1,243	1,563	663	913	89	77	62	58
- overdrafts	245	263	221	245	40	50	26	33	38	40	32	36
- credit cards	992	1,267	751	959	274	279	187	210	31	29	28	26
- car loans	95	100	69	68	132	151	70	81	0	0	0	0
- other loans	31	31	31	31	282	121	174	72	13	44	11	35
<b>SOLE PROPRIETORS</b>	<b>92</b>	<b>96</b>	<b>61</b>	<b>66</b>	<b>179</b>	<b>197</b>	<b>114</b>	<b>127</b>	<b>5</b>	<b>3</b>	<b>4</b>	<b>3</b>
<b>TOTAL CREDIT RISK EXPOSURE</b>	<b>10,498</b>	<b>12,005</b>	<b>8,006</b>	<b>9,221</b>	<b>4,499</b>	<b>5,575</b>	<b>2,476</b>	<b>2,951</b>	<b>980</b>	<b>849</b>	<b>851</b>	<b>731</b>
<b>Denar</b>	<b>5,637</b>	<b>6,302</b>	<b>4,487</b>	<b>4,968</b>	<b>2,390</b>	<b>2,957</b>	<b>1,390</b>	<b>1,577</b>	<b>744</b>	<b>563</b>	<b>645</b>	<b>489</b>
<b>Denar with FX clause</b>	<b>2,342</b>	<b>2,543</b>	<b>1,754</b>	<b>1,918</b>	<b>1,238</b>	<b>1,410</b>	<b>673</b>	<b>778</b>	<b>145</b>	<b>222</b>	<b>127</b>	<b>178</b>
<b>FX</b>	<b>2,519</b>	<b>3,160</b>	<b>1,765</b>	<b>2,334</b>	<b>871</b>	<b>1,207</b>	<b>413</b>	<b>597</b>	<b>91</b>	<b>64</b>	<b>78</b>	<b>64</b>

## CONTRACTUAL MATURITY STRUCTURE OF THE ASSETS AND LIABILITIES as of 30.06.2010

in millions of denars

Number	Description	up to 7 days	from 8 to 30 days	from 31 to 90 days	from 91 to 180 days	from 181 to 365 days	TOTAL
<b>Assets</b>							
1	Cash, cash equivalents, gold and precious metals	26,598	1	7	0	0	26,606
2	Financial instruments held for trading	9	430	37	1	9	487
	Money Market instruments	0	100	0	0	0	100
	other debt instruments	0	331	30	1	9	371
	equity instruments	9	0	7	0	0	17
3	Derivatives for trading	0	0	20	0	0	20
4	Embedded derivatives and derivatives held for hedging	0	0	0	0	0	0
5	Financial instruments at fair value through profit and loss, identified as such at initial recognition	0	0	0	0	0	0
	Money Market instruments	0	0	0	0	0	0
	other debt instruments	0	0	0	0	0	0
	equity instruments	0	0	0	0	0	0
	credits	0	0	0	0	0	0
6	Financial instruments held to maturity	1,429	4,021	156	336	395	6,337
	Money Market instruments	1,297	4,021	24	50	0	5,392
	other debt instruments	132	0	132	286	395	945
7	Financial instruments available for sale	6,845	13,053	2,287	5,845	169	28,200
	Money Market instruments	6,790	13,053	2,287	5,819	0	27,950
	other debt instruments	0	0	0	26	160	185
	equity instruments	55	0	0	0	9	64
	other instruments	0	0	0	0	0	0
8	Credits and claims	18,970	10,212	12,800	22,332	34,731	99,045
	interbank transactions	14,552	3,609	51	160	92	18,464
	deposits	5	0	0	0	0	5
	financial leasing	0	0	0	0	0	0
	credits	4,332	6,581	12,721	22,140	34,633	80,407
	other claims	81	23	28	32	6	169
9	Interest receivables	849	402	52	26	386	1,715
10	Commission and fees receivables	99	32	0	0	0	132
11	Other on-balance sheet assets	1,021	180	84	18	23	1,327
12	<b>Total Assets (1+2+3+4+5+6+7+8+9+10+11)</b>	<b>55,821</b>	<b>28,332</b>	<b>15,444</b>	<b>28,558</b>	<b>35,714</b>	<b>163,869</b>
<b>Liabilities</b>							
13	Transaction accounts	59,350	0	0	0	0	59,350
14	Financial liabilities at fair value through profit and loss	0	0	0	0	0	0
	Money Market instruments	0	0	0	0	0	0
	other debt instruments	0	0	0	0	0	0
	equity instruments	0	0	0	0	0	0
	deposits	0	0	0	0	0	0
	liabilities from credits	0	0	0	0	0	0
	subordinated instruments	0	0	0	0	0	0
15	Derivatives for trading	0	0	2	0	0	2
16	Embedded derivatives and derivatives held for hedging	0	0	0	0	0	0
17	Deposits	19,990	19,453	29,890	33,609	35,713	138,655
	sight deposits	12,319	0	0	0	0	12,319
	term deposits	7,672	19,453	29,890	33,609	35,712	126,336
18	Liabilities from credits	352	530	415	2,055	2,187	5,539
19	Issued debt securities	0	0	0	300	0	300
20	Interest payable	601	299	257	196	171	1,525
21	Commissions and fees payable	4	1	0	3	0	8
22	Financial leasing	5	0	0	0	1	6
23	Other on-balance sheet liabilities	1,832	905	13	4	4	2,758
24	<b>Total Liabilities (13+14+15+16+17+18+19+20+21+22+23)</b>	<b>82,134</b>	<b>21,188</b>	<b>30,577</b>	<b>36,167</b>	<b>38,076</b>	<b>208,143</b>
<b>Off-Balance sheet items</b>							
25	Off-balance sheet assets	157	14	7	154	480	811
26	Off-balance sheet liabilities	5,861	1,106	3,102	3,896	5,832	19,797
27	<b>Net off-balance sheet items (25-26)</b>	<b>-5,705</b>	<b>-1,092</b>	<b>-3,095</b>	<b>-3,742</b>	<b>-5,352</b>	<b>-18,986</b>
28	<b>Gap (12-24+27)</b>	<b>-32,017</b>	<b>6,052</b>	<b>-18,228</b>	<b>-11,352</b>	<b>-7,715</b>	<b>-63,260</b>
29	<b>Cummulative gap</b>	<b>-32,017</b>	<b>-25,965</b>	<b>-44,193</b>	<b>-55,545</b>	<b>-63,260</b>	

## ANTICIPATED MATURITY STRUCTURE OF THE ASSETS AND LIABILITIES as of 30.06.2010

in millions of denars

Number	Description	Anticipated maturity (on-balance sheet and off-balance sheet items)			Anticipated maturity (future activities)		
		up to 7 days	from 8 to 30 days	from 31 to 90 days	up to 7 days	from 8 to 30 days	from 31 to 90 days
<b>Assets</b>							
1	Cash, cash equivalents, gold and precious metals	23,928	1	7	0	0	0
2	Financial instruments held for trading	9	430	37	0	0	0
	Money Market instruments	0	100	0	0	0	0
	other debt instruments	0	331	30	0	0	0
	equity instruments	9	0	7	0	0	0
3	Derivatives for trading	0	0	20	0	0	0
4	Embedded derivatives and derivatives held for hedging	0	0	0	0	0	0
5	Financial instruments at fair value through profit and loss, identified as such at initial recognition	0	0	0	0	0	0
	Money Market instruments	0	0	0	0	0	0
	other debt instruments	0	0	0	0	0	0
	equity instruments	0	0	0	0	0	0
	credits	0	0	0	0	0	0
6	Financial instruments held to maturity	1,362	3,763	198	0	-220	0
	Money Market instruments	1,230	3,763	66	0	-220	0
	other debt instruments	132	0	132	0	0	0
7	Financial instruments available for sale	5,965	13,218	2,098	515	215	-541
	Money Market instruments	5,924	13,218	2,098	515	215	-541
	other debt instruments	0	0	0	0	0	0
	equity instruments	41	0	0	0	0	0
	other instruments	0	0	0	0	0	0
8	Credits and claims	17,467	9,582	10,568	62	-3,993	-2,009
	interbank transactions	14,339	3,278	48	0	0	0
	deposits	0	0	0	30	38	42
	financial leasing	0	0	0	0	0	0
	credits	3,106	6,281	10,491	32	-4,031	-2,051
	other claims	22	23	28	0	0	0
9	Interest receivables	587	509	308	56	193	449
10	Commission and fees receivables	95	33	3	4	14	41
11	Other on-balance sheet assets	763	183	84	1	0	0
12	<b>Total Assets (1+2+3+4+5+6+7+8+9+10+11)</b>	<b>50,176</b>	<b>27,719</b>	<b>13,324</b>	<b>637</b>	<b>-3,791</b>	<b>-2,060</b>
<b>Liabilities</b>							
13	Transaction accounts	12,183	5,027	695	4,665	920	823
14	Financial liabilities at fair value through profit and loss	0	0	0	0	0	0
	Money Market instruments	0	0	0	0	0	0
	other debt instruments	0	0	0	0	0	0
	equity instruments	0	0	0	0	0	0
	deposits	0	0	0	0	0	0
	liabilities from credits	0	0	0	0	0	0
	subordinated instruments	0	0	0	0	0	0
15	Derivatives for trading	0	0	2	0	0	2
16	Embedded derivatives and derivatives held for hedging	0	0	0	0	0	0
17	Deposits	4,120	7,565	9,537	1,745	3,929	4,734
	sight deposits	1,123	49	45	176	29	54
	term deposits	2,996	7,516	9,493	1,568	3,900	4,680
18	Liabilities from credits	329	529	407	20	101	210
19	Issued debt securities	0	0	0	0	0	0
20	Interest payable	332	300	252	1	4	14
21	Commissions and fees payable	4	1	0	0	0	0
22	Financial leasing	5	0	0	0	0	0
23	Other on-balance sheet liabilities	1,503	903	10	1	0	0
24	<b>Total Liabilities (13+14+15+16+17+18+19+20+21+22+23)</b>	<b>18,475</b>	<b>14,325</b>	<b>10,903</b>	<b>6,431</b>	<b>4,954</b>	<b>5,782</b>
<b>Off-Balance sheet items</b>							
25	Off-balance sheet assets	958	9	6	0	1	36
26	Off-balance sheet liabilities	1,134	680	2,088	1	-21	-51
27	<b>Net off-balance sheet items (25-26)</b>	<b>-176</b>	<b>-672</b>	<b>-2,083</b>	<b>-1</b>	<b>21</b>	<b>86</b>
28	<b>Gap (12-24+27)</b>	<b>31,525</b>	<b>12,722</b>	<b>339</b>	<b>-5,795</b>	<b>-8,724</b>	<b>-7,756</b>
29	<b>Cummulative gap</b>	<b>31,525</b>	<b>44,248</b>	<b>44,587</b>	<b>-5,795</b>	<b>-14,519</b>	<b>-22,275</b>



## Liquidity ratios

Date	Liquid assets / total assets	Liquid assets / total liabilities	Liquid assets / short-term liabilities	Liquid assets / total deposits of non financial entities	Liquid assets / total deposits of households	Credits / deposits
06.2009	20.5%	23.8%	29.7%	28.2%	44.1%	96.7%
07.2009	21.3%	24.7%	30.6%	29.2%	45.5%	95.4%
08.2009	23.0%	26.6%	33.1%	31.3%	49.7%	92.7%
09.2009	23.3%	26.9%	33.8%	32.0%	50.2%	92.6%
10.2009	24.8%	28.6%	35.8%	33.9%	53.0%	91.4%
11.2009	25.0%	28.8%	36.5%	34.3%	53.3%	91.6%
12.2009	25.7%	29.5%	37.5%	35.9%	53.8%	92.5%
01.2010	25.8%	29.3%	37.8%	35.8%	53.3%	91.7%
02.2010	25.9%	29.5%	38.1%	36.1%	52.8%	92.1%
03.2010	25.6%	29.2%	38.2%	35.4%	51.5%	91.6%
04.2010	26.4%	30.0%	39.4%	36.2%	53.3%	90.7%
05.2010	27.8%	31.6%	41.5%	38.2%	56.9%	89.5%
06.2010	27.6%	31.4%	41.3%	38.0%	56.2%	89.9%

**Structure of on-balance sheet assets and off-balance sheet assets in foreign currency and in Denars with FX clause, as of 30.06.2010**

<b>No.</b>	<b>Item</b>	<b>Amount (in million of Denars)</b>	<b>Structure (in %)</b>
<b>1</b>	Cash, cash equivalents, gold and precious metals	<b>20,536</b>	<b>13.2%</b>
<b>2</b>	Financial instrument for trading	<b>393</b>	<b>0.3%</b>
<b>3</b>	Derivatives for trading	<b>20</b>	<b>0.0%</b>
<b>4</b>	Embedded derivatives and derivatives held for risk management	<b>0</b>	<b>0.0%</b>
<b>5</b>	Financial instruments at fair value through profit and loss as such at initial recognize	<b>0</b>	<b>0.0%</b>
<b>5.1</b>	in foreign currency	0	0.0%
<b>5.2</b>	in Denars with FX clause	0	0.0%
<b>6</b>	Financial instruments held to maturity	<b>3,357</b>	<b>2.2%</b>
<b>6.1</b>	in foreign currency	0	0.0%
<b>6.2</b>	in Denars with FX clause	3,357	100.0%
<b>7</b>	Financial instruments available for sale	<b>10,882</b>	<b>7.0%</b>
<b>7.1</b>	in foreign currency	193	1.8%
<b>7.2</b>	in Denars with FX clause	10,689	98.2%
<b>8</b>	Credits and claims in foreign currency	<b>59,643</b>	<b>38.3%</b>
<b>8.1</b>	deposits	19,855	33.3%
<b>8.2</b>	financial leasing	0	0.0%
<b>8.3</b>	credits	43,768	73.4%
<b>8.4</b>	other claims	92	0.2%
<b>8.5</b>	impairment	-4,071	-6.8%
<b>9</b>	Credits and claims in Denars with FX clause	<b>58,286</b>	<b>37.4%</b>
<b>9.1</b>	deposits	308	0.5%
<b>9.2</b>	financial leasing	0	0.0%
<b>9.3</b>	credits	60,142	103.2%
<b>9.4</b>	other claims	5	0.0%
<b>9.5</b>	impairment	-2,168	-3.7%
<b>10</b>	Interest receivable in foreign currency	<b>281</b>	<b>0.2%</b>
<b>10.1</b>	accrued interest	498	177.1%
<b>10.2</b>	impairment	-217	-77.1%
<b>11</b>	Interest receivable in Denars with FX clause	<b>486</b>	<b>0.3%</b>
<b>11.1</b>	accrued interest	800	164.7%
<b>11.2</b>	impairment	-314	-64.7%
<b>12</b>	Commissions and fees receivables	<b>2</b>	<b>0.0%</b>
<b>12.1</b>	accrued commissions and fees	4	234.4%
<b>12.2</b>	impairment	-2	-134.4%
<b>13</b>	Investments	<b>0</b>	<b>0.0%</b>
<b>14</b>	Other non-mentioned on-balance sheet assets	<b>448</b>	<b>0.3%</b>
<b>15</b>	<b>Total on-balance sheet assets (1+2+3+4+5+6+7+8+9+10+11+12+13+14)</b>	<b>154,334</b>	<b>99.0%</b>
<b>16</b>	Off-balance sheet assets	<b>1,506</b>	<b>1.0%</b>
<b>17</b>	<b>Total on-balance sheet assets and off-balance sheet assets in foreign currency and in Denars with FX clause (15+16)</b>	<b>155,840</b>	<b>100.0%</b>

**Structure of on-balance sheet and off-balance sheet liabilities in foreign currency and in Denars with FX clause, as of 30.06.2010**

<b>No.</b>	<b>Item</b>	<b>Amount (in million of Denars)</b>	<b>Structure (in %)</b>
<b>1</b>	Current accounts	<b>24,167</b>	<b>16.0%</b>
<b>2</b>	Financial liabilities at fair value through profit and loss	<b>0</b>	<b>0.0%</b>
<b>2.1</b>	in foreign currency	0	0.0%
<b>2.2</b>	in Denars with FX clause	0	0.0%
<b>3</b>	Derivatives for trading	<b>2</b>	<b>0.0%</b>
<b>4</b>	Embedded derivatives and derivatives held for risk management	<b>0</b>	<b>0.0%</b>
<b>5</b>	Deposits in foreign currency	<b>91,900</b>	<b>60.7%</b>
<b>5.1</b>	financial institutions	1,278	1.4%
<b>5.2</b>	nonfinancial institutions	9,910	10.8%
<b>5.3</b>	natural persons	75,289	81.9%
<b>5.4</b>	non-residents	5,404	5.9%
<b>5.5</b>	other clients	19	0.0%
<b>6</b>	Deposits in Denars with FX clause	<b>8,112</b>	<b>5.4%</b>
<b>6.1</b>	financial institutions	673	8.3%
<b>6.2</b>	nonfinancial institutions	7,214	88.9%
<b>6.3</b>	natural persons	5	0.1%
<b>6.4</b>	non-residents	50	0.6%
<b>6.5</b>	other clients	170	2.1%
<b>7</b>	Liabilities from credits	<b>16,349</b>	<b>10.8%</b>
<b>7.1</b>	in foreign currency	13,386	81.9%
<b>7.2</b>	in Denars with FX clause	2,963	18.1%
<b>8</b>	Issued debt securities	<b>634</b>	<b>0.4%</b>
<b>9</b>	Interest payable in foreign currency	<b>821</b>	<b>0.5%</b>
<b>10</b>	Interest payable in Denars with FX clause	<b>34</b>	<b>0.0%</b>
<b>11</b>	Commissions and fees payable	<b>0</b>	<b>0.0%</b>
<b>12</b>	Financial leasing	<b>3</b>	<b>0.0%</b>
<b>13</b>	Hybrid and subordinated instruments in foreign currency	<b>6,827</b>	<b>4.5%</b>
<b>14</b>	Hybrid and subordinated instruments in Denars with FX clause	<b>0</b>	<b>0.0%</b>
<b>15</b>	Other non-mentioned on-balance sheet liabilities	<b>1,041</b>	<b>0.7%</b>
<b>16</b>	<b>Total on-balance sheet liabilities (1+2+3+4+5+6+7+8+9+10+11+12+13+14+15)</b>	<b>149,889</b>	<b>99.0%</b>
<b>17</b>	Off-balance sheet liabilities	<b>1,464</b>	<b>1.0%</b>
<b>18</b>	<b>Total on-balance sheet and off-balance sheet liabilities in foreign currency and in Denars with FX clause (16+17)</b>	<b>151,354</b>	<b>100.0%</b>

## Own funds by group of banks

Annex 17

in million of Denars

No	Description	31.12.2009				30.06.2010			
		Large banks	Medium-size banks	Small-size banks	Total	Large banks	Medium-size banks	Small-size banks	Total
<b>CORE CAPITAL</b>									
1	Paid in and subscribed common and non-cumulative preference shares and premiums based on these shares	8,747	7,007	5,822	21,576	8,763	7,007	5,822	21,591
1.1	Nominal value	6,364	5,738	5,819	17,920	6,379	5,738	5,819	17,936
1.1.1	Nominal value of common shares	6,364	5,734	5,730	17,827	6,379	5,734	5,819	17,932
1.1.2	Nominal value of non-cumulative preference share	0	4	89	93	0	4	0	4
1.2	Premium	2,383	1,269	3	3,656	2,383	1,269	3	3,656
1.2.1	Premium based on common shares	2,383	1,269	3	3,656	2,383	1,269	3	3,655
1.2.2	Premium based on non-cumulative preference shares	0	0	0	0	0	0	1	1
2	Reserve and retained profit/loss	7,784	2,015	-185	9,614	9,204	1,582	-407	10,378
2.1	Reserve fund	5,091	1,230	441	6,762	5,924	1,094	470	7,488
2.2	Retained profit restricted to distribution to shareholders	2,693	1,074	0	3,767	3,279	698	12	3,990
2.3	Accumulated loss from previous years	0	-289	-626	-916	0	-211	-889	-1,099
2.4	Current profit	0	0	0	0	0	0	0	0
2.5	Unrealized loss on equities available for sale	0	0	0	0	0	0	0	0
3	Positions arising from consolidation	0	0	0	0	0	0	0	0
3.1	Minority interest	0	0	0	0	0	0	0	0
3.2	Reserves from exchange rate differentials	0	0	0	0	0	0	0	0
3.3	Other differentials	0	0	0	0	0	0	0	0
4	Deductions	77	752	293	1,122	68	383	154	605
4.1	Loss at the end of the year, or current loss	0	685	278	963	0	224	136	360
4.2	Own shares	0	0	0	0	0	0	0	0
4.3	Intangible assets	77	59	15	151	68	51	17	136
4.4	Net negative revaluation reserves	0	7	0	7	0	4	0	4
4.5	Difference between the amount of required and made impairment/special reserve	0	0	0	0	0	0	0	0
4.6	Amount of unallocated impairment and special reserve as a result of accounting time lag	0	0	0	0	0	105	1	106
5	Common shares, reserves and retained profit and deductions	16,454	8,266	5,255	29,975	17,898	8,202	5,260	31,360
6	Amount of other positions that may be included in the core capital	0	4	89	93	0	4	1	4
<b>I</b>	<b>CORE CAPITAL</b>	<b>16,454</b>	<b>8,270</b>	<b>5,344</b>	<b>30,067</b>	<b>17,898</b>	<b>8,205</b>	<b>5,261</b>	<b>31,364</b>
<b>SUPPLEMENTARY CAPITAL 1</b>									
7	Paid-in and subscribed cumulative preference shares and premium on such shares	107	51	0	158	91	51	0	142
7.1	Nominal value	107	16	0	122	91	16	0	107
7.2	Premium	0	35	0	36	0	35	0	36
8	Revaluation reserves	64	6	0	70	35	2	0	38
9	Hybrid capital instruments	0	184	0	184	0	185	0	185
10	Subordinated instruments	4,118	1,223	0	5,341	4,100	1,846	55	6,002
11	Amount of subordinated instruments that may be included in the additional capital I	4,118	1,029	0	5,147	4,100	1,368	55	5,523
<b>II</b>	<b>SUPPLEMENTARY CAPITAL 1</b>	<b>4,289</b>	<b>1,269</b>	<b>0</b>	<b>5,558</b>	<b>4,227</b>	<b>1,605</b>	<b>56</b>	<b>5,887</b>
<b>DEDUCTIONS FROM CORE CAPITAL AND SUPPLEMENTARY CAPITAL 1</b>									
12	Capital investments in other banks or financial institutions of over 10% of the capital of such institutions	49	15	256	319	49	16	256	321
13	Investments in subordinated and hybrid capital instruments and other instruments of institutions referred to in 12	0	0	0	0	0	0	0	0
14	Aggregate amount of investments in capital, subordinated and hybrid instruments and other instruments exceeding 10% of (I+II)	0	0	0	0	0	0	0	0
15	Direct capital investments in insurance and reinsurance companies and pension fund management undertakings	183	1	7	192	183	0	7	191
16	Investments in financial instruments issued by the insurance and reinsurance companies and pension fund management undertakings	0	0	0	0	0	0	0	0
17	Amount of excess of limits on investments in nonfinancial institutions	0	0	0	0	0	0	0	0
18	Positions arising from consolidation (negative amounts)	0	0	0	0	0	0	0	0
<b>III</b>	<b>Deductions from the core capital and supplementary capital 1</b>	<b>232</b>	<b>16</b>	<b>263</b>	<b>511</b>	<b>232</b>	<b>17</b>	<b>263</b>	<b>512</b>
<b>IV</b>	<b>CORE CAPITAL AFTER DEDUCTIONS</b>	<b>16,286</b>	<b>8,254</b>	<b>5,081</b>	<b>29,621</b>	<b>17,715</b>	<b>8,189</b>	<b>5,053</b>	<b>30,956</b>
<b>V</b>	<b>SUPPLEMENTARY CAPITAL 1 AFTER DEDUCTIONS</b>	<b>4,225</b>	<b>1,268</b>	<b>0</b>	<b>5,493</b>	<b>4,178</b>	<b>1,605</b>	<b>0</b>	<b>5,783</b>
<b>SUPPLEMENTARY CAPITAL 2</b>									
19	Subordinated instruments of supplementary capital 2	0	0	0	0	0	0	0	0
20	Supplementary capital 1 and 2	4,225	1,268	0	5,493	4,178	1,605	0	5,783
21	Allowed amount of supplementary capital 1 and 2	4,225	1,268	0	5,493	4,178	1,605	0	5,783
21.1	Supplementary capital 1	4,225	1,268	0	5,493	4,178	1,605	0	5,783
21.2	Supplementary capital 2	0	0	0	0	0	0	0	0
22	Core capital	4,360	3,873	4,235	12,468	5,501	3,558	4,122	13,180
22.1	Excess core capital (150%)	6,540	5,810	6,353	18,702	8,251	5,337	6,182	19,770
22.2	Excess core capital (250%)	10,900	9,683	10,588	31,171	13,752	8,895	10,304	32,950
<b>VI</b>	<b>Allowed amount of supplementary capital 2</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>OWN FUNDS</b>									
<b>VII</b>	<b>Core capital</b>	<b>16,286</b>	<b>8,254</b>	<b>5,081</b>	<b>29,621</b>	<b>17,715</b>	<b>8,189</b>	<b>5,053</b>	<b>30,956</b>
<b>VIII</b>	<b>Supplementary capital 1</b>	<b>4,225</b>	<b>1,268</b>	<b>0</b>	<b>5,493</b>	<b>4,178</b>	<b>1,605</b>	<b>0</b>	<b>5,783</b>
<b>IX</b>	<b>Supplementary capital 2</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>X</b>	<b>OWN FUNDS</b>	<b>20,511</b>	<b>9,523</b>	<b>5,081</b>	<b>35,115</b>	<b>21,893</b>	<b>9,794</b>	<b>5,053</b>	<b>36,740</b>

Annex 18

Capital adequacy ratio, by group of banks

in million of Denars

No	Description	31.12.2009				30.06.2010			
		Large banks	Medium-size banks	Small-size banks	Total	Large banks	Medium-size banks	Small-size banks	Total
<b>I</b>	<b>CREDIT RISK WEIGHTED ASSETS</b>								
1	On-balance sheet credit risk weighted assets	120,833	48,952	7,584	177,369	121,787	51,454	8,727	181,967
2	Off-balance sheet credit risk weighted assets	20,835	4,003	469	25,307	22,109	4,298	498	26,905
<b>3</b>	<b>Credit risk weighted assets (1+2)</b>	<b>141,668</b>	<b>52,955</b>	<b>8,054</b>	<b>202,676</b>	<b>143,896</b>	<b>55,752</b>	<b>9,224</b>	<b>208,872</b>
4	Capital requirement for credit risk	11,333	4,236	644	16,214	11,512	4,460	738	16,710
<b>II</b>	<b>CURRENCY RISK WEIGHTED ASSETS</b>								
5	Aggregate currency position	7,408	1,814	2,514	11,735	8,780	2,135	2,418	13,332
6	Net-position in gold	0	0	0	0	0	0	0	0
<b>7</b>	<b>Currency risk weighted assets (5+6)</b>	<b>7,408</b>	<b>1,814</b>	<b>2,514</b>	<b>11,735</b>	<b>8,780</b>	<b>2,135</b>	<b>2,418</b>	<b>13,332</b>
8	Capital requirement for currency risk	593	145	201	939	702	171	193	1,067
<b>III</b>	<b>RISK WEIGHTED ASSETS (3+7)</b>	<b>149,075</b>	<b>54,769</b>	<b>10,568</b>	<b>214,411</b>	<b>152,676</b>	<b>57,887</b>	<b>11,642</b>	<b>222,205</b>
9	Capital requirement for risks (4+8)	11,926	4,381	845	17,153	12,214	4,631	931	17,776
<b>IV</b>	<b>OWN FUNDS</b>	<b>20,511</b>	<b>9,523</b>	<b>5,081</b>	<b>35,115</b>	<b>21,893</b>	<b>9,794</b>	<b>5,053</b>	<b>36,740</b>
<b>V</b>	<b>CAPITAL ADEQUACY RATIO (IV/III)</b>	<b>13.8%</b>	<b>17.4%</b>	<b>48.1%</b>	<b>16.4%</b>	<b>14.3%</b>	<b>16.9%</b>	<b>43.4%</b>	<b>16.5%</b>

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

Description	Amount in million of Denars			Structure in (%)			Semi-annual change (30.06.2010 / 31.12.2009)			Annual change (30.06.2010/30.06.2009)		
	30.06.2009	31.12.2009	30.06.2010	30.06.2009	31.12.2009	30.06.2010	in million of Denars	in %	share in the change	in million of Denars	in %	учество во промена
<b>Own funds</b>	<b>34,564</b>	<b>35,115</b>	<b>36,740</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>1,625</b>	<b>4.6%</b>	<b>100.0%</b>	<b>2,175</b>	<b>6.3%</b>	<b>100.0%</b>
<b>Core capital</b>	<b>29,897</b>	<b>30,068</b>	<b>31,364</b>	<b>86.5%</b>	<b>85.6%</b>	<b>85.4%</b>	<b>1,297</b>	<b>4.3%</b>	<b>79.8%</b>	<b>1,467</b>	<b>4.9%</b>	<b>67.5%</b>
-Paid in and subscribed common and non-cumulative preference shares and premiums based on these shares	21,043	21,576	21,591	70.4%	71.8%	68.8%	16	0.1%	1.2%	548	2.6%	37.4%
-Reserve and retained profit/accumulated loss	9,888	9,614	10,378	33.1%	32.0%	33.1%	765	8.0%	59.0%	490	5.0%	33.4%
-Deductions	1,035	1,121	605	3.5%	3.7%	1.9%	-516	-46.0%	-39.8%	-479	-41.5%	-29.2%
1. current loss	602	963	360	58.2%	85.9%	59.4%	-603	-62.7%	116.9%	-242	-40.2%	56.4%
2. unallocated impairment and special reserve	286	0	106	27.7%	0.0%	17.5%	106	#DIV/0!	-20.6%	-180	/	42.0%
3. other deductable items	146	158	140	14.1%	14.1%	23.1%	-19	-11.8%	3.6%	-7	-4.5%	1.5%
<b>Supplementary capital 1</b>	<b>5,155</b>	<b>5,558</b>	<b>5,887</b>	<b>14.9%</b>	<b>15.8%</b>	<b>16.0%</b>	<b>329</b>	<b>5.9%</b>	<b>20.3%</b>	<b>732</b>	<b>14.2%</b>	<b>33.7%</b>
-Paid-in and subscribed cumulative preference shares and premium on such shares	139	158	142	2.7%	2.8%	2.4%	-16	-10.0%	-4.8%	3	2.5%	0.5%
-Revaluation reserves	84	70	38	1.6%	1.3%	0.6%	-32	/	-9.8%	-47	/	-6.4%
-Hybrid instruments	183	184	185	3.6%	3.3%	3.1%	1	0.6%	0.3%	1	/	0.2%
-Subordinated instruments	4,749	5,147	5,523	92.1%	92.6%	93.8%	376	7.3%	114.2%	774	16.3%	105.7%
<b>Deductions from the core capital and supplementary capital 1</b>	<b>488</b>	<b>511</b>	<b>512</b>	<b>1.4%</b>	<b>1.5%</b>	<b>1.4%</b>	<b>1</b>	<b>0.1%</b>	<b>0.0%</b>	<b>24</b>	<b>4.9%</b>	<b>1.1%</b>

## Structure and change of the own funds by group of banks

Description	Large banks			Medium size banks			Small size banks		
	30.06.2010			30.06.2010			30.06.2010		
	Amount in million of Denars	Structure (in %)	Semi-annual change (30.06.2010/31.12.2009)	Amount in million of Denars	Structure (in %)	Semi-annual change (30.06.2010/31.12.2009)	Amount in million of Denars	Structure (in %)	Semi-annual change (30.06.2010/31.12.2009)
<b>Own funds</b>	<b>21,893</b>	<b>100.0%</b>	<b>1,382</b>	<b>9,794</b>	<b>100.0%</b>	<b>271</b>	<b>5,053</b>	<b>100.0%</b>	<b>-28</b>
<b>Core capital</b>	<b>17,898</b>	<b>81.8%</b>	<b>1,444</b>	<b>8,205</b>	<b>83.8%</b>	<b>-65</b>	<b>5,261</b>	<b>104.1%</b>	<b>-83</b>
-Paid in and subscribed common and non-cumulative preference shares and premiums based on these shares	8,763	49.0%	16	7,007	85.4%	0	5,822	110.7%	0
-Reserve and retained profit/accumulated loss	9,204	51.4%	1,420	1,582	19.3%	-433	-407	-7.7%	-222
-Deductions	68	0.4%	-9	383	4.7%	154	154	2.9%	-139
1. current loss	0	0.0%	0	224	58.3%	136	136	88.5%	-142
2. unallocated impairment and special reserve	0	0.0%	0	105	27.4%	1	1	0.5%	1
3. other deductible items	68	100.0%	-9	55	14.2%	17	17	11.0%	2
<b>Supplementary capital 1</b>	<b>4,227</b>	<b>19.3%</b>	<b>-62</b>	<b>1,605</b>	<b>16.4%</b>	<b>336</b>	<b>56</b>	<b>1.1%</b>	<b>55</b>
-Paid-in and subscribed cumulative preference shares and premium on such shares	91	2.2%	-16	51	3.2%	0	0	0.0%	0
-Revaluation reserves	35	0.8%	-29	2	0.2%	-3	0	0.4%	0
-Hybrid instruments	0	0.0%	0	185	11.5%	1	0	0.0%	0
-Subordinated instruments	4,100	97.0%	-18	1,368	85.2%	339	55	99.6%	55
<b>Deductions from the core capital and supplementary capital 1</b>	<b>232</b>	<b>1.1%</b>	<b>0</b>	<b>17</b>	<b>0.2%</b>	<b>1</b>	<b>263</b>	<b>5.2%</b>	<b>0</b>

**Measures imposed by NBRM to the banks and saving houses in the period from January 1, 2010 to June 30, 2010.**

<b>Type of measure</b>		
<b>Written recommendation</b>	<b>Number of banks</b>	<b>Number of saving houses</b>
Achievement and maintenance of certain capital adequacy rate	1	1
Achievement and maintenance of an amount of own funds not lower than Euro 256 thousands in Denar denomination		1
Determining new audit company for the financial reports in 2009		1
The outsourcing company to provide ISO/IEC certificate	1	
With internal acts to prescribe the obligations of the Board of Directors, Supervisory Board and other persons that perform management functions in order to undertake measures regarding the findings and recommendations by the Internal Audit Department	1	
Effective prevention of extending credits for collection of claims	1	
Undertaking activities for compliance with the Law on Obligatory Relations regarding the calculation of interest on interest	1	
Improving the internal acts for credit risk management	1	
Adopting a Policy for undertaking and managing the credit risk	1	
Establishing internal acts approved by the Supervisory Board which will define the competency of the Risk Management Department in the process of credit risk management	1	
The Supervisory board shall monitor the implementation of the policy and procedures for performing internal audit by the Internal Audit Department	1	
The Internal Audit Department shall assess the implementation of the imposed measures for improvement of the credit risk management system	1	



<b>Memorandum</b>	<b>Number of banks</b>	<b>Number of saving houses</b>
Improvement of the information security management system	1	
Overcoming the weaknesses in the module for crediting in the software support thus enabling compliance with the analytical accounting record	1	
Overcoming the weaknesses in the internal controls with respect to the legal risk	1	
Improvement of the management system of the risk from money laundering and financing terrorism	2	
Improvement of the credit risk management system	2	
Improvement of the liquidity risk management system	2	
Improvement of the strategy risk management system	2	
Establishing efficient system for legal risk management	1	
Establishing efficient system for strategy risk management	1	
Establishing efficient system for reputational risk management	1	
Adequate additional staffing with some organizational units (services), according to the organizational chart	1	
The Supervisory Board undertakes activities for strengthening the supervision on the internal controls and for larger participation in the operations of the Audit Department	1	
The Risk Management Board shall assess the efficiency of the functioning of internal controls of risk management and shall assess the risk management	1	
The Risk Management Board shall assess its own operations and shall submit the assessments to the Supervisory Board	1	
The Risk Management Board shall assess the risk management system on a regular basis	1	
The Internal Audit Department shall assess the implementation of the measures for improvement of the credit risk management system	1	
The Internal Audit Department shall also perform an audit of the legal, reputational and credit risk management	1	
The Internal Audit Department shall include an audit of the efficiency of the systems for internal control for prevention of money laundering and financing terrorism	1	

<b>Measures prescribed in a decision</b>	<b>Number of banks</b>	<b>Number of saving houses</b>
Maintaining an amount of liquid assets which shall ensure coverage of over 70% of the total assets	1	
Deleting the financial activity - lending abroad, including the factoring and forfeiting and financing commercial transactions	1	
Withdrawal of issued approval for financial activity - purchase and sale, warranty and placement of issue of securities	1	
Withdrawal of issued approval for financial activity - trade with foreign currencies, which includes trading with precious metals	1	
Withdrawal of issued approval for financial activity - trade with securities	1	

## Annex 22

### Group of banks as of 30.06.2010

	<b>Large banks</b>		<b>Medium-sized banks</b>		<b>Small-sized banks</b>
1	Komercijalna banka AD Skopje	1	Alfa banka AD Skopje	1	Eurostandard banka AD Skopje
2	Nlb Tutunska banka AD Skopje	2	Izvozna i kreditna banka AD Skopje	2	Ziraat banka AD Skopje
3	Stopanska banka AD Skopje	3	Ohridska banka AD Ohrid	3	Kapital banka AD Skopje
		4	Prokredit banka AD Skopje	4	Macedonian bank for promotion of development AD Skopje
		5	Stopanska banka AD Bitola	5	Postenska banka AD Skopje
		6	TTK banka AD Skopje	6	Stater banka AD Kumanovo
		7	UNI banka AD Skopje	7	Central Cooperative Bank AD Skopje
		8	Sparkasse bank Macedonia AD Skopje		

\* Banks are shown in alphabetical order