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

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

Skopje, july 2009

CONTENT

Summary

The influences from the global financial crisis were especially evident in the balance sheets of the banking system in the first quarter of 2009. The analyses on annual basis (compared March 2009 - March 2008), indicate slower growth in most categories of the banks' balance sheets. Quarterly analyses (compared March 2009 - December 2008) confirm the slowdown of the growth of individual categories, but additionally, they indicate certain downward tendencies. In the first quarter of 2009 the narrowing of the **activities** of the banking system, which commenced in the last quarter of 2008, continued. The quarterly growth rate of banks' assets was negative for a second quarter in a row, thus the annual growth rate was reduced to 8.5%, unlike the double digit growth rates registered in the past periods. Main cause for the narrowing of the activities of the banking system was the downward trend of the deposit core in the first quarter of 2009. Unlike the last quarter of 2008 when **deposit** growth slowed down, in the first quarter of 2009 they registered a decline relative to the end of 2008. Additionally, the currency transformation of deposits continued, in favor of the deposits with an FX component, with emphasized downward trend in the Denar deposits. In spite of the narrowing of the overall activities, **credits** extended by banks continued to grow, however at a significantly slower pace compared with the preceding quarters. In this quarter, the downward trend in the assets placed with other banks, present in the past few years, was terminated. In such conditions, and given the contraction of the collected deposits, the increase in the credit activity was to a large extent supported by the lower placement of funds in securities.

In conditions of negative deposit growth rates as the main source of financing of banks' activities, and given the simultaneous tightening of banks' credit policies, the **credit exposure** of the banking system declined moderately. On the one hand, this decline is a result of the narrowed volume of balance sheet items subject to classification according to the new regulations. However, it arises also from the lower investment of banks in the central bank bills. Simultaneously, the credit exposure to the non-financial sector continued to grow, but at a slower pace. In the first quarter of 2009, the indicators of the banks' credit portfolio quality deteriorated to a certain extent, while the non-performing loans went up more rapidly.

The downward trend of the liquid assets and the **liquidity** indicators for the banking system continued, however, without causing more serious consequences for the stable functioning of the individual banks and of the system as a whole. The relatively conservative liquidity management in the past, has provided a sufficiently accumulated level of liquid assets for the banks, which directly acted toward maintaining the stability and overcoming the tightened market conditions.

The realized quarterly **profit** (as of March 2009) is by significant 85.6% lower compared with the same period of 2008. At the same time, unfavorable movements were registered in the structure of the revenues and expenditures, so that after a period of several years, the revenues from regular operations realized in the first three months of 2009, were insufficient to cover the respective expenditures. The main reasons for this are the significant rise in the operational costs (which absorb almost two thirds of the total banks' revenues), as well as the rise in the impairment of the banks' claims. In such circumstances, "other revenues" again became important for the banks' profitability. Additionally, such movements in the revenue and expenditure categories led to a deterioration of the profitability indicators of the banking sector.

Banks hold sufficient **capital** for covering the risks from operations. They have a highly solvent position; as of March 31, 2009, the capital adequacy ratio was 16.5%. After a longer period of downward movements, this ratio started to grow in the last quarter of 2008, and the growth continued also in the first quarter of 2009.

The beginning of the implementation of the new accounting framework for the banks, prepared in line with the international financial reporting and accounting standards, had an important influence on certain movements in the balance sheets and on the structure of the balance sheets of the banking sector. On its part, this regulation has imposed a need of adjusting a large portion of the prudential banking by-laws. Having in mind these regulatory improvements, and especially due to the greater depth of the new accounting framework compared with the previous one, in certain cases the precise comparative analysis was rather difficult.

1. Structure of the banking system

1.1. Number of banks and savings houses

As of March 31, 2009, the banking system of the Republic of Macedonia comprised of eighteen banks and eleven savings houses, which is unchanged structure relative to the end of 2008.

In the first quarter of 2009 no significant changes occured within the banks' ownership structure. The number of banks dominantly owned by foreign shareholders remained unchanged and was fourteen.

Banks maintained the dominant role in the banking system of the Republic of Macedonia. The minor aggregate share of the savings houses in the total assets of the banking system, in the total credits to the non-financial entities and in the total household deposits, was maintained also in the first quarter of 2009 and equaled 1.4%, 1,7% and 0.6%, respectively. Therefore, the further analysis in the Report focuses only on the banks' operations.

1.2. Concentration and market share

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

Table 1
Degree of concentration of the banking system of Macedonia

	Herfindahl index					CR5 indicator				
	31.03.2008	30.06.2008	30.09.2008	31.12.2008	31.03.2009	31.03.2008	30.06.2008	30.09.2008	31.12.2008	31.03.2009
Total assets	1,605	1,604	1,598	38,352	38,533	76.1%	76.0%	76.7%	0.0%	0.0%
Loans to households	1,940	1,947	1,997	38,352	38,533	80.1%	80.4%	81.0%	0.0%	0.0%
Loans to non-financial enterprises	1,843	1,776	1,824	38,352	38,533	78.9%	77.9%	78.4%	0.0%	0.0%
Deposits to households	2,111	2,118	2,122	38,352	38,533	84.3%	84.7%	85.0%	0.0%	0.0%
Deposits to non-financial enterprises	1,747	1,695	1,786	38,352	38,533	79.9%	81.0%	80.5%	0.0%	0.0%

Source: NBRM calculations

According to the Herfindahl index[1], the level of concentration for all analyzed segments of the bank operations increased moderately, relative to the end of the preceding quarter. Such a concentration level approaches or exceeds the last year's level (March 31, 2008). The highest concentration level is still present with the household deposits, which as of March 31, 2009 equaled 2,098 index points. The largest increase of this index was registered in the deposits of non-financial legal entities - by 159 index points, relative to the end of the preceding quarter.

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

The CR5[2] indicator confirms the conclusion for the moderate increase of the already relatively high level of concentration in the Macedonian banking system. This indicator shows same tendencies as the Herfindahl index. Only corporate credits registered slight decline as regards the concentration.

Table 2
Market share of the bank groups

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

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

In the first quarter of 2009, no changes were registered in the composition of the individual groups of banks, nor there were any significant changes in the market share of the groups of banks. The dominance of the group of large banks in all domains of the operations continued and was accompanied by a moderate strengthening of its position. At the expense of that, the positions of the groups of medium and small banks weakened to some extent. The group of small banks still plays a minor role in the overall banking system, according to all segments of the market share.

2. Banks' activities

In the first quarter of 2009, in conditions of contracted activity of the domestic economy, uncertainty caused by the possible effects of the international financial crisis on the banks in the Republic of Macedonia, and emphasized influence of the psychological factors on the decision-making of the private sector, the contraction of the activities of the banking system, which started in the last quarter of 2008, continued. Additionally, the contraction of the activities was under the influence of the banks' tightened credit policies, as a prudent response to the deteriorated macroeconomic conditions and compliance with the macroprudential measures undertaken by the NBRM. These factors, together with the relatively high level of utilization of the deposit core for financing the credit activity and tightened conditions for borrowing on the international financial markets, are expected to continue to discourage the overall activities of the banks in the Republic of Macedonia.

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

2.1. Balance sheet of banks[3]

The contraction of the assets of the banking system, which started in the preceding quarter, continued in the first quarter of 2009. The quarterly growth rate of the total banks' assets was negative for the second quarter in a row and equaled -1.5%. Such a quarterly dynamics reduced the annual growth rate of the assets down to 8.5%, unlike the double digit growth rates recorded in the past periods. As a result of such movements, as of March 31, 2009 banks' assets were reduced down to Denar 246,973 million.

Figure 1
Annual growth of assets, loans and deposits

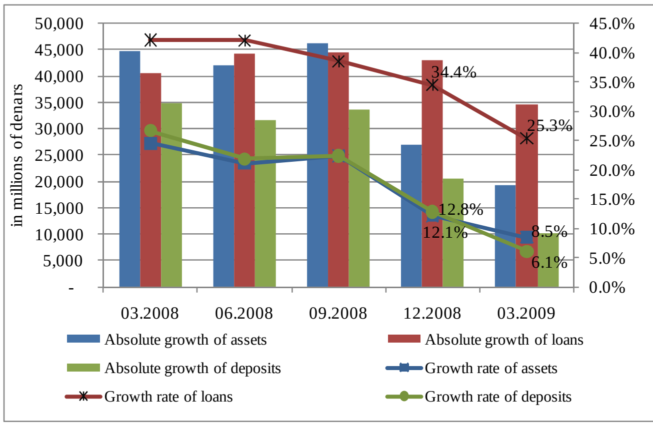
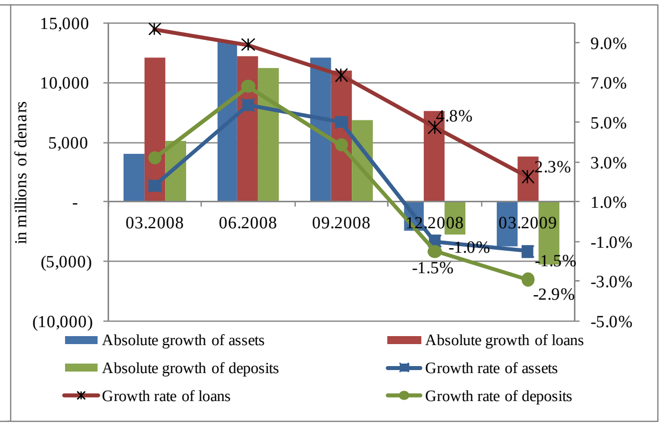


Figure 2
Quarterly growth of assets, loans and deposits



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

The main generator of the contraction of banks' assets was the narrowing of their deposit core. As a continuation of the trend which started in the last quarter of 2008, deposits of non-financial entities registered a quarterly decline of 2.9%. This was sufficient for the annual growth rate of deposits to halve in only one quarter and to equal 6.1% as of March 31, 2009, which is the lowest annual growth rate in the past few years.

Despite the significant slowdown, credits extended by the banks continued to grow. At the end of March 2009, despite the decline of the growth rate by almost 10 percentage points, the total credits continued to register a double digit annual growth rate (25.3%). However, on a quarterly level, the credit growth rate was by more than 50% lower than the quarterly growth rate registered as of December 31, 2008, and it was brought down to only 2.3%. For comparison, the quarterly growth of the credits registered in the first quarter of 2008 was about 10%.

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[3] The start of the implementation of the new accounting framework for the banks (from January 01, 2009), prepared in line with the international financial reporting and accounting standards, significantly influenced the individual balance sheet movements and structure of the balance sheets of the banking sector (The new accounting and financial reporting framework for banks is defined in the Decision on the banks' chart of accounts ("Official Gazette of RM" No. 118/2007, 139/2008, 163/2008, 31/2009 and 66/2009), Manual on the types and the contents of the banks' financial statements ("Official Gazette of RM" No.118/2007 and 80/2009) and the Methodology for recording and evaluating the accounting items and for preparation of the financial statements ("Official Gazette of RM" No.118/2007)). This regulation has imposed the need of adjusting a large part of the prudential banking by-laws. Having in mind these regulatory improvements, and especially due to the greater depth of the new accounting framework compared with the preceding one, in some cases the precise comparative analysis was rather difficult.

In the first quarter of 2009, the downward trend in the assets placed with other banks, present in the past few years, was terminated. In such conditions, and given the lower propensity to save and contraction of the collected deposits, the increase in the credit activity was to a large extent supported by the lower placement of funds in securities. As a continuation of the trend which started in the past few years, credits increased their dominant share and formed almost two thirds of the total banks' assets as of March 31, 2009. At the expense of this growth, a decline was registered in the share of the securities portfolio, as a result of the significant decline in the absolute amount of the banks' assets placed in securities. The decline in the securities portfolio was entirely a result of the significantly smaller amount of subscribed CB bills (Denar 6,876 million as of March 31, 2009, as opposed to Denar 17,437 million as of December 31, 2008). The increment in the subscribed treasury bills (from Denar 3,362 million as of December 31, 2008 to Denar 7,285 million as of March 31, 2009), was insufficient to offset this decline and the ultimate effect of these movements was a decline in the banks' overall securities portfolio.

Table 3
Structure of assets and liabilities at the level of the banking system

Item	Ammount in millions of denars		Structure		Change 31.03.2009/31.12.2008			
	31.12.2008	31.03.2009	31.12.2008	31.03.2009	Absolute change	In %	In the structure (in percentage points)	Share in the change
Cash and balances with NBRM	26,979	24,354	10.8%	9.9%	-2,625	-9.7%	-0.9	70.4%
Securities portfolio	28,857	21,717	11.5%	8.8%	-7,140	-24.7%	-2.7	191.4%
Placements with other domestic and foreign banks	27,168	28,734	10.8%	11.6%	1,566	5.8%	0.8	-42.0%
Placements with other financial institutions	n.a.	1,430	n.a.	0.6%	1,430		0.6	-38.3%
Loans to nonfinancial entities (net)*	154,272	157,626	61.5%	63.8%	3,354	2.2%	2.3	-89.9%
Accrued interest and other assets	5,260	5,118	2.1%	2.1%	-143	-2.7%	0.0	3.8%
Fixed and intangible assets	8,168	8,468	3.3%	3.4%	300	3.7%	0.2	-8.0%
Non recognized imparment of assets	0	-474	0.0%	-0.2%	-474		-0.2	12.7%
Total assets	**250,704**	**246,973**	**100.0%**	**100.0%**	**-3,731**	**-1.5%**		**100.0%**
Deposits from banks	12,006	13,580	4.8%	5.5%	1,574	13.1%	0.7	-42.2%
Deposits from non-financial entities	180,913	175,642	72.2%	71.1%	-5,271	-2.9%	-1.0	141.3%
Borrowings (long-term and short-term)	20,238	19,258	8.1%	7.8%	-980	-4.8%	-0.3	26.3%
Other liabilities	7,688	7,546	3.1%	3.1%	-142	-1.9%	0.0	3.8%
Provisions	926	954	0.4%	0.4%	27	2.9%	0.0	-0.7%
Capital and reserves	28,932	29,994	11.5%	12.1%	1,061	3.7%	0.6	-28.4%
Total liabilities	**250,704**	**246,973**	**100.0%**	**100.0%**	**-3,731**	**-1.5%**		**100.0%**

* Banks' claims are presented on net-basis, i.e. reduced by the impairment.
** Data on the placements with other financial institutions became available with the introduction of the new Accounting Plan for the banks. Previously, these placements were recorded in other categories of the assets.
*** Source: NBRM on the basis of data obtained from the banks

Despite the decline relative to the preceding quarter, the dominance of deposits in the structure of the total sources of banks' funds is still the main feature on the side of the liabilities. With a share of over two thirds, deposits of non-financial entities are still the "primary" source of banks' funds. The following more important category of sources of funds, besides capital and reserves, are the borrowings, which as a result of the quarterly decline registered a decline also in the share in the total liabilities, which was reduced to 7.8% as of March 31, 2009. In contrast, deposits from banks increased, and as of March 31, 2009 accounted for 5.5% of the total sources of funds.

2.1.1. Balance sheet of the individual groups of banks

In the first quarter of 2009, narrowing of the deposit core, accompanied by a decline also in the overall volume of activities was present with all groups of banks. The downward movement of overall activities was more evident in the groups of medium and small banks. Such movements contributed to the termination of the trend of gradual increase of the importance of the group of medium banks, present in the past period, as well as to the further marginalization of the role of the group of small banks within the banking system of the Republic of Macedonia. At the expense of that, and as a result of the lower negative quarterly growth rates, the group of large banks maintained and additionally reinforced its dominance in the structure of the banks' total assets and sources of funds.

Table 4
Market share and growth of the total assets, credits and deposits by group of banks

ITEMS	Ammount in millions of denars		Structure		Change 31.03.2009/31.12.2008			
	31.12.2008	31.03.2009	31.12.2008	31.03.2009	Absolute change	In %	In the structure	Share in the change
Total assets	**250,704**	**246,973**	**100.0%**	**100.0%**	**-3,731**	**-1.5%**		**100.0%**
- Large banks	165,798	165,493	66.1%	67.0%	-305	-0.2%	0.9	8.2%
- Medium-size banks	72,136	69,435	28.8%	28.1%	-2,701	-3.7%	-0.7	72.4%
- Small-size banks	12,770	12,045	5.1%	4.9%	-725	-5.7%	-0.2	19.4%
Loans to non-financial entities	**167,907**	**171,734**	**100.0%**	**100.0%**	**3,827**	**2.3%**		**100.0%**
- Large banks	115,826	120,537	69.0%	70.2%	4,711	4.1%	1.2	123.1%
- Medium-size banks	48,250	47,514	28.7%	27.7%	-736	-1.5%	-1.1	-19.2%
- Small-size banks	3,831	3,683	2.3%	2.1%	-148	-3.9%	-0.1	-3.9%
Deposits of non-financial entities	**180,913**	**175,642**	**100.0%**	**100.0%**	**-5,271**	**-2.9%**		**100.0%**
- Large banks	129,909	128,144	71.8%	73.0%	-1,765	-1.4%	1.1	33.5%
- Medium-size banks	45,941	42,978	25.4%	24.5%	-2,962	-6.4%	-0.9	56.2%
- Small-size banks	5,063	4,520	2.8%	2.6%	-543	-10.7%	-0.2	10.3%

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

Contrary to the contraction of deposits and total assets in all groups of banks, the increase in credits extended by the group of large banks was sufficient to offset the credit drop within t he other two groups of banks. This group of banks registered an absolute quarterly rise of the credit activity, which was the reason behind the positive trend of this balance sheet category at the level of the banking system. Thus, the group of large banks additionally increased its share in the structure of the total bank credits extended to the real sector in the Republic of Macedonia.

The structural changes in the assets in the individual groups of banks were complementary with those at the level of the overall banking system. There are, however, still significant differences in the structure of the assets of individual groups of banks (especially evident with respect to the group of small banks). In the first quarter of 2009, the structure of the assets of all groups of banks registered an increase in the share of the credits at the expense of the lower share of the securities portfolio. As in the preceding periods, dominant in the groups of large and medium banks are the credits to non-financial entities. On the other hand, the share of the credits in the total assets of the group of small banks is still considerably lower, at the expense of the higher share of the placements with other banks and the securities portfolio.

Figure 3
Structure of assets, by group of banks

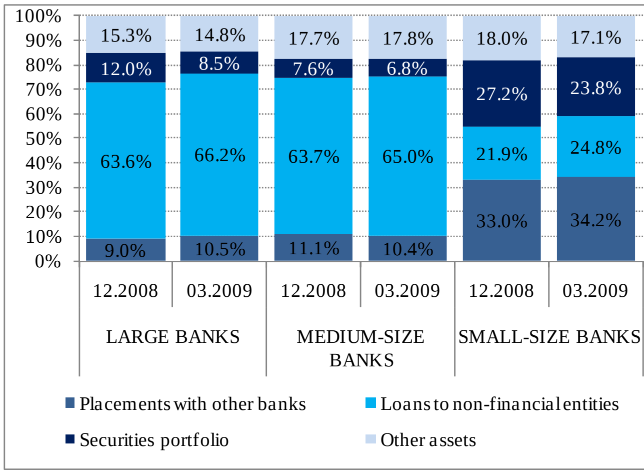
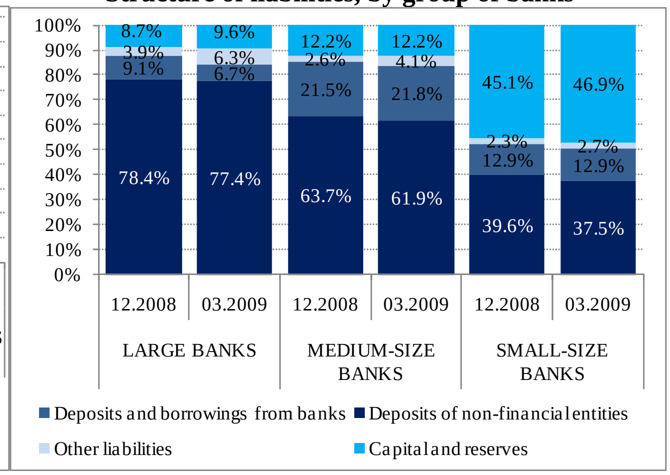


Figure 4
Structure of liabilities, by group of banks



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

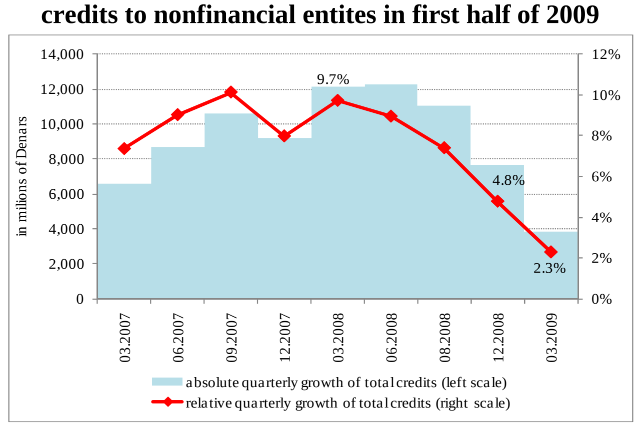
There are significant differences among the individual groups of banks also from a viewpoint of the structure of the sources of financing of their activities. Common feature of all groups of banks, as well as of the banking system as a whole, in the first quarter of 2009, was the lowered share of the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

2.2. Lending activity

The slower dynamics of banks' lending activity, which started in 2008, continued in the first quarter of 2009. Thus, as of March 31, 2009, gross-credits to non-financial entities reached the level of Denar 171,734 million and registered a quarterly growth of 2.3% and annual growth of 25.3%.

Such a dynamics of the lending activity is mostly a result of the tightened lending terms. The analysis of the banks' expectations about the future tendency of the lending terms indicates that in the following quarter the banks expect significant tightening of the terms of lending to companies, partial tightening of the terms of lending to households and decline of the credit demand[4].

Figure 5
Dynamics and quarterly growth rates of total credits to nonfinancial entites in first half of 2009

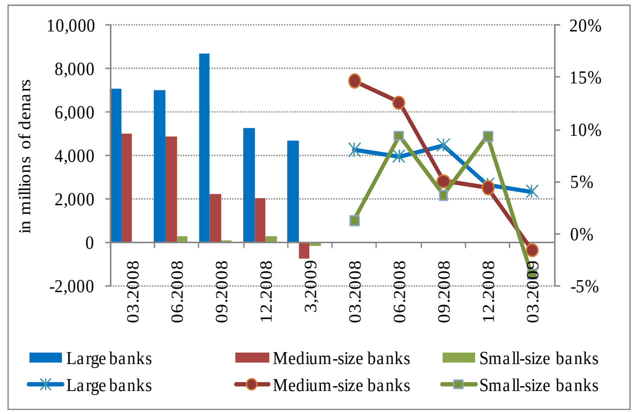


Source: NBRM, on the basis of data obtained from the banks

[4] Source: Survey on credit activity of the NBRM, for April 2009.

Lending activity slowed down in all groups of banks. As it was the case in the preceding quarters, the group of large banks had the largest contribution to the increase in the total gross credits, with a share of 74% in the annual credit growth, i.e. with 123.1% in the quarterly growth of total credits. This group of banks registered credit growth of 27.1% on annual basis, i.e. 4.1% on a quarterly basis. In this quarter, the groups of medium and small banks registered a decline in lending of 1.5% and 3.9%, respectively. On annual level, the growth of lending activities of these two groups slowed down.

Figure 6
Absolute and relative quarter change of total credits, by group of banks

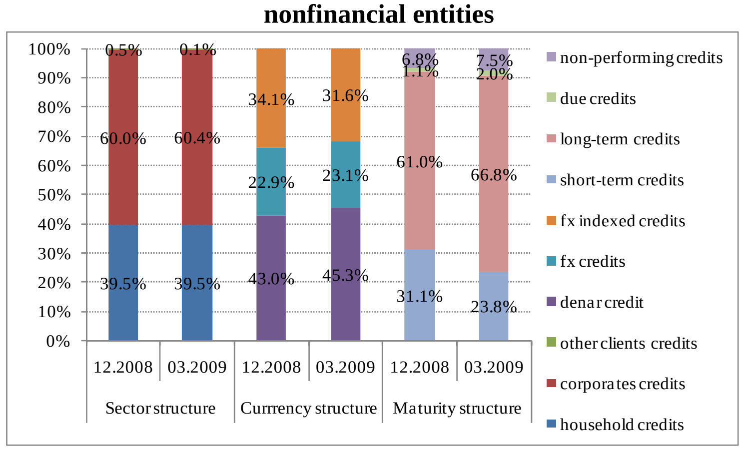


Source: NBRM. on the basis of data obtained from the banks

2.2.1. Structure of gross-credits to non-financial entities (by sector, maturity and currency)[5]

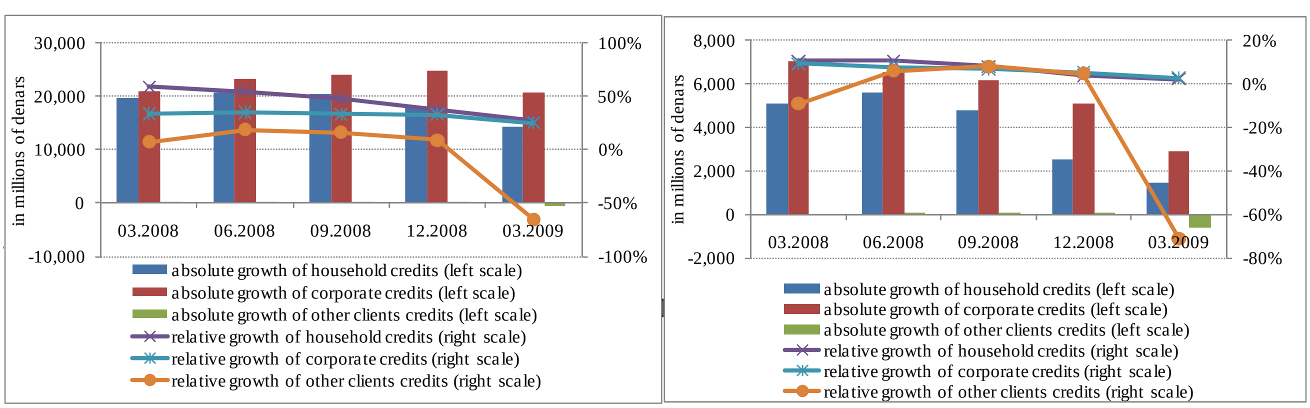
As of March 31, 2009 no significant changes were registered in the structure of the gross-credits to non-financial entities, relative to the preceding quarter. Thus, corporate credits are dominant in the sector-by-sector structure of the total credits to non-financial entities (with 60.4%). Regarding the currency structure, 54.7% are credits with currency component, but along with the growth, the share of Denar credits increased. Long-term credits remained dominant in the currency structure of the total credits and in the first quarter of 2009 they increased their share by 5.7 percentage points.

Figure 7
Sector, currency and maturity structure of total credits of nonfinancial entities



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

Figure 8
Annual (left) and quarter (right) absolute and relative change of the total credits by sector structure

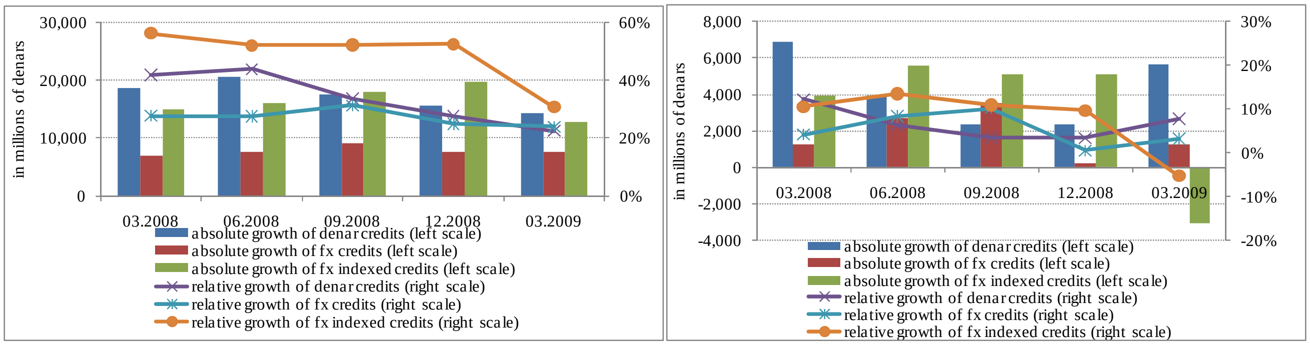


Source: NBRM, on the basis of data obtained from the banks

Corporate credits had the largest share in the quarterly and annual increment of the total gross-credits to non-financial entities. At the end of the first quarter of 2009, they generated 76.6% of the quarterly and 59.8% of the annual growth of total credits. In the sector-by-sector structure of the total credits, the largest slowdown was registered in the credits to other clients[6], which dropped by Denar 599 million or by 71.1% in this quarter.

Figure 9

Annual (left) and quarter (right) absolute and relative change of the total credits by currency structure

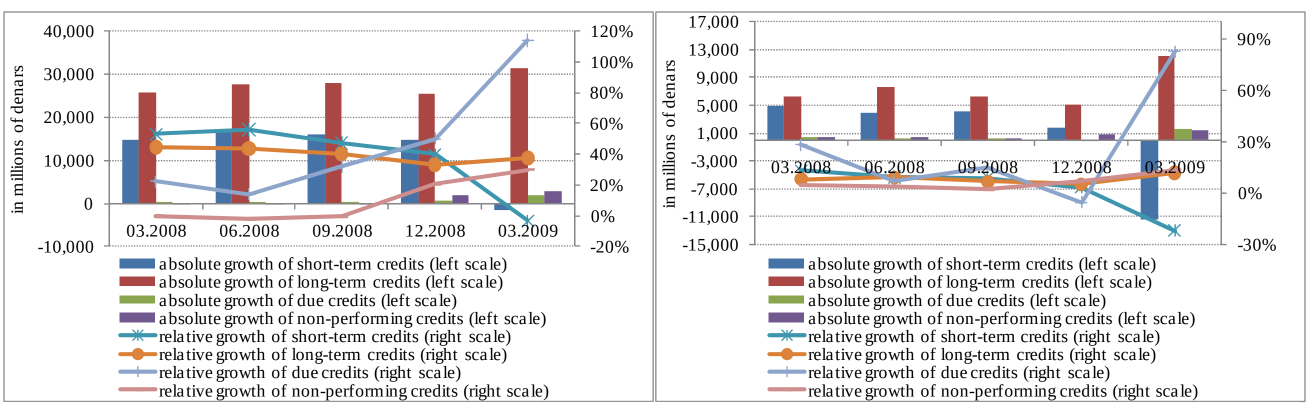


Source: NBRM, on the basis of data obtained from the banks

Denar credits increased their share in the total credits. As of March 31, 2009, they registered a quarterly growth of 7.8% (22.5% on annual level), thus registering the largest share in the total credit growth. In this quarter, Denar credits with FX clause declined by Denar 3,042 million, while foreign currency credits went up by Denar 1,241 million. This has led to a quarterly decline of the share of credits with currency component in the currency structure of the total credits by 2.3 percentage points.

Figure 10

Annual (left) and quarter (right) absolute and relative change of the total credits by maturity structure



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

At the end of the first quarter of 2009, long-term credits registered the fastest quarterly increment of 11.8%, thus determining 317.1% of the total credit growth. Short-term credits declined by

[6] The decline in the category "other credits" is partially due to the new accounting plan for the banksbeing more detailed, which enabled adequate dispersion of the credits which previously belonged to this category.

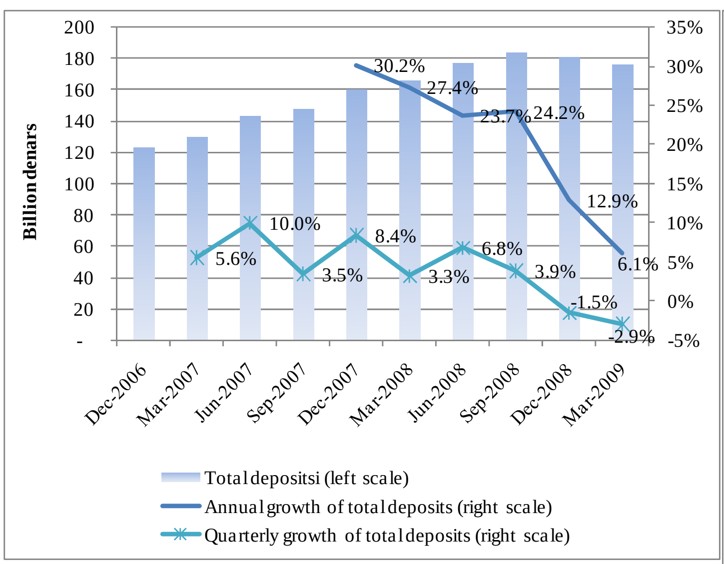
21.8%. Non-performing loans picked up by 13.1%, which acted toward increasing of their share in the structure of total gross credits. In this quarter, due credits rose by 82.7%, but their share in the total credits is small (2%).

At the end of the first quarter of 2009, the group of large banks remained dominant from a viewpoint of the sector, maturity and currency structure of the credits by individual group of banks (Annex 6 - Distribution of credits to non-financial entities by individual group of banks). From a viewpoint of lending to individual sectors, in all groups of banks lending to the corporate sector is more emphasized. At the same time, long-term lending is most evident with all groups of banks. The analysis of the currency structure of the credits indicates that the groups of large and medium banks have large share of credits with currency component, compared to Denar credits. In contrast, in the group of small banks, Denar credits are dominant. (Annex 6 - Structure of credits to non-financial entities by individual group of banks).

2.3. Banks' deposit activity

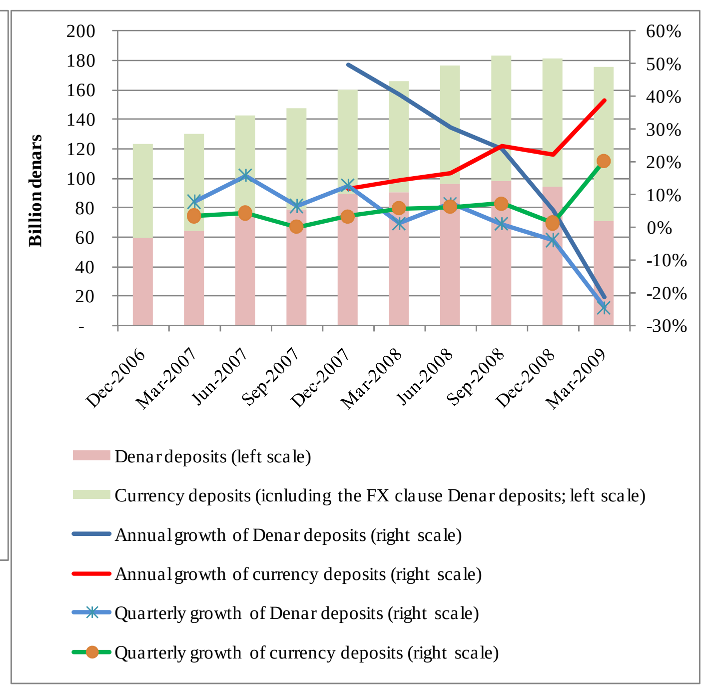
In the first quarter of 2009, the trend of quarterly contraction of the banks' deposit base, which started in the preceding quarter, as well as its intensified currency transformation, continued. Under the influence of the global economic developments, at the end of the first quarter of 2009 bank deposits registered negative quarterly growth rate. On annual basis, deposits registered the lowest growth rate registered in the past few years. At the same time, the trend of further currency transformation of deposits in favor of foreign currency deposits and Denar deposits with FX clause, continued.

Figure 11
Total deposit changes



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

Figure 12
Dynamics of the deposits accorting to the currency structure



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

At the end of the first quarter of 2009, banks' total deposits continued the trend of quarterly decline, which started in the last quarter of 2008. As of March 31, 2009, total deposits at Denar 175,642 million, which is a quarterly decline of 2.9%. On annual level, total deposits grew, although at a slower pace, by 6.1%. This annual growth rate is by more than a half lower than the annual growth rate registered in the preceding quarter, and by 4.5 times lower than the growth rate registered in the same quarter of the preceding year.

Deposits' currency transformation continued in the first quarter of 2009. It was reflected through the faster growth of the foreign currency deposits[7], as well as the increased share of foreign currency deposits in the structure of the banks' total deposit base. The growth of foreign currency deposits accelerated in the first quarter of 2009, so that on annual level it equaled 25.6%, while on a qua rterly level they grew by 8.9%. At their expense, Denar deposits registered a considerable decline of 10.2% on annual level, and of 13.8% on a quarterly level.

Figure 13
Currency structure of the total bank deposits

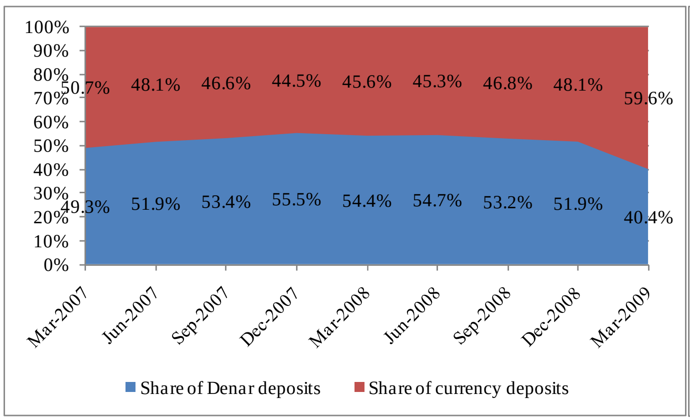
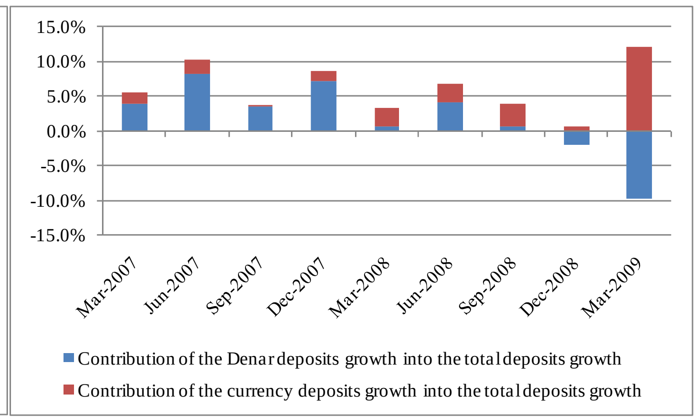


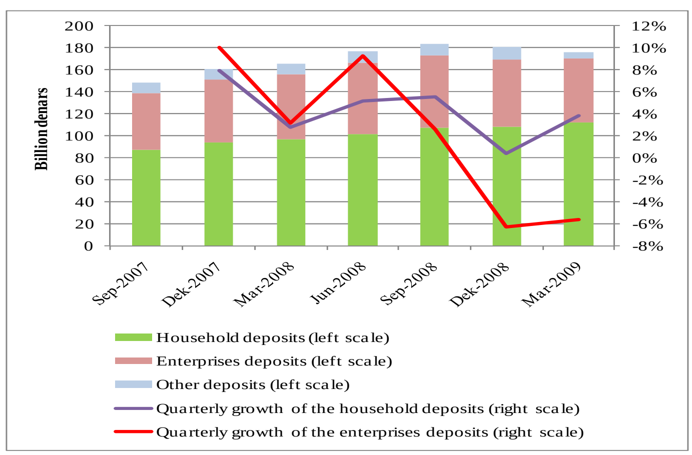
Figure 14
Contirbution of the Denar and currency deposits into the total deposit growth



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

In the first quarter of 2009, household deposits registered a moderate increment, while corporate deposits continued to decline. Corporate deposits dropped by 0.8% on annual level and by 5.6% on a quarterly level, continuing the fall which started in the preceding quarter. In contrast, household deposits continued to grow. In the first quarter of 2009, they went up by 15.7% and by 3.8%, on annual and on quarterly basis, respectively. Such a dynamics of deposits of individual sectors caused certain increase in the share of household deposits in the total deposit base (of 4.1 percentage points) and a decline in the share of corporate deposits (of 0.9 percentage points) on a quarterly basis.

Figure 15
Dynamics of deposits according to the sectoral structure

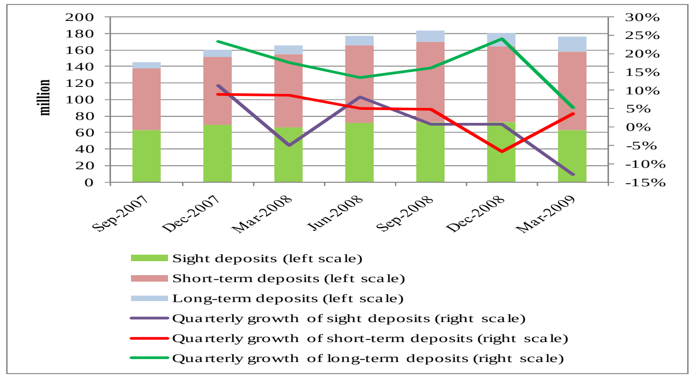


Source: NBRM on the basis of data obtained from the banks

[7] Due to comparison purposes, Denar deposits with FX clause are covered in the Denar deposits (and account for 12.3% of the Denar deposits).

The upward trend of long-term deposits of the banking system continued in the first quarter of 2009. They registered an annual growth rate of 72.2%, although the quarterly growth rate slowed down and equaled 5.3%. However, such movements in the long-term deposits could be also attributed to their previous relatively low level. The growth in long-term deposits contributed to the growth of their share in the total deposit base, which, at the end of the first quarter of 2009, reached 10%, and registered an increase of 0.8 percentage points relative to the end of 2008, and an increase of 3.8 percentage points relative to March 31, 2008. The moderate, but steady increment of the share of the long-term deposits in the total deposits is a result of banks' intentions to encourage long-term saving and to achieve more stable deposit base (a base with longer average maturity).

Figure 16
Dynamics of deposits according to the term structure



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

The share of sight deposits and short-term deposits in the total deposits remained stable in the first quarter of 2009. However, while short-term deposits again registered a quarterly growth of 3.7% in the first quarter of 2009, in the same period, sight deposits faced a significant quarterly decline of 13%.

The group of large banks still holds the dominant position in the deposit generation. This is confirmed by the analysis of the deposit structure from all three aspects (sector, maturity and currency).

Table 5
Deposit distribution by group of banks as of March 31, 2009

	Sectoral structure			Maturity structure			Currency structure		
Groups of banks	Enterprises	Households	Other	Sight	Short-term	Long-term	Denar	Denar with FX clause	Currency
Large banks	68.8%	75.6%	62.8%	74.9%	73.4%	63.6%	72.5%	51.1%	75.6%
Medium banks	28.3%	22.4%	27.0%	21.3%	24.8%	33.8%	23.1%	48.1%	23.0%
Small banks	3.0%	2.0%	10.2%	3.8%	1.7%	2.6%	4.4%	0.8%	1.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

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

As of March 31, 2009, no significant changes were registered in the deposit structure across the groups of banks. Household deposits constitute the largest portion of the deposit base of all groups of banks. From a viewpoint of deposit maturity, the groups of large and medium banks reported higher share of short-term time deposits, compared to the group of small banks where most of the deposits were sight deposits. Foreign currency deposits prevail in the currency structure of the deposits with the groups of large and medium banks, while with the group of small banks their relative significance is smaller, at the expense of the Denar deposits. In all three groups of banks, Denar deposits with FX clause have a small relative significance.

Table 6
Deposit structure by group of banks as of March 31, 2009

	Sectoral structure				Maturity structure				Currency structure			
Groups of banks	Enterprises	Households	Other	TOTAL	Sight	Short-term	Long-term	TOTAL	Denar	Denar with FX clause	Currency	TOTAL
Large banks	31.3%	66.1%	2.7%	100.0%	37.1%	54.2%	8.7%	100.0%	40.1%	4.0%	55.9%	100.0%
Medium banks	38.3%	58.3%	3.4%	100.0%	31.5%	54.6%	13.8%	100.0%	38.1%	11.1%	50.8%	100.0%
Small banks	38.3%	49.5%	12.3%	100.0%	53.3%	36.6%	10.1%	100.0%	68.5%	1.8%	29.7%	100.0%

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

3. Bank risks

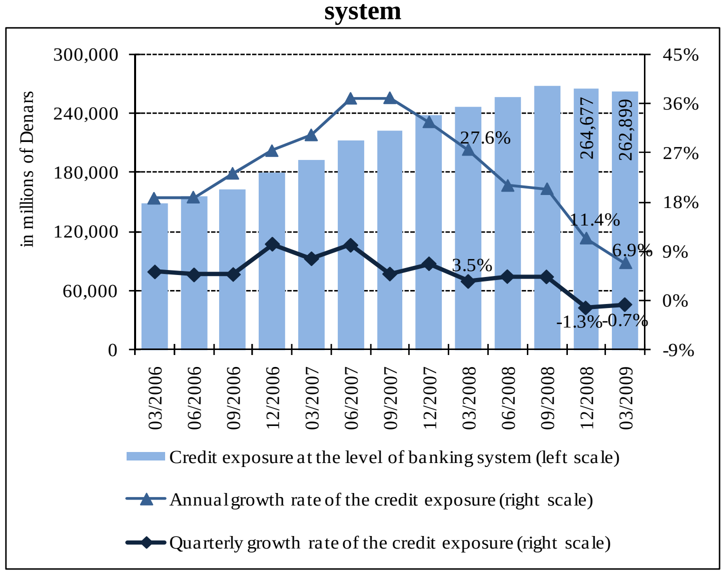
3.1. Credit risk

3.1.1. Total credit exposure

In the first three months of 2009, the credit exposure of the banking system registered a moderate decrease. This decrease partially results from the contraction of the scope and the definition of the banks' credit exposure, as specified by the new Decision on credit risk management[8], which started to be applied on January 1, 2009. On the other hand, the decrease in the credit exposure is primarily evident through the lower banks' demand for CB bills. Also, in the first quarter of 2009, there was a significant slowdown in the growth of credit exposure to nonfinancial sector. Such developments result from the quarterly decrease in the deposits (as a basic source of funding the bank activities) and the tightening of the banks' credit policies as a reasonable response to the effects of the global financial crisis. In the first quarter of 2009, the nonperforming credits went up in a fast pace, thus creating the need for the banks to enhance their monitoring of their credit portfolio, both as a whole and by segment.

In the first quarter of 2009, the banks' credit exposure slightly went down. On March 31, 2009, the credit exposure totaled Denar 262,899 million and compared to the end of 2008, fell by Denar 1,778 million i.e. by 0.7%. Roughly 60% of the quarterly decrease of the banks' credit exposure is due to the contraction of the scope of on-balance sheet asset items subject to classification, as specified by the new Decision on credit risk management [8]. The credit exposure slowdown in the last quarter of 2008 and the first quarter of 2009, led to considerable deceleration of the annual banks' credit exposure growth. Thus, on annual basis (March 31, 2008 - March 31, 2009), the total credit exposure went up by Denar 16,860 million (or by 6.9%), which is by Denar 36,299 million (or by 20.7 percentage points) less compared to the annual growth in the period of March 31, 2007 - March 31, 2008.

Figure 17
Developments and growth of credit exposure in the banking system



Source: NBRM, based on data submitted by banks

[8] The new Decision on credit risk management ("Official Gazette of the Republic of Macedonia" no. 17/2008 and 31/2009) started being applied on January 1, 2009. This Decision sets forth the credit risk management methodology, including classification criteria for the on-balance sheet and off-balance sheet asset items according to the risk level, the manner of calculating and the amount of impairment and the special reserve, and the scope and contents of the credit risk management system. Comparing with the previous regulation, certain differences exist in relation to the credit exposure scope and definitions, the manners and criteria for credit exposure classification, differences in the procedure and calculation of the impairment / special reserve for the banks' credit exposure, etc. Under this Decision, the total credit risk exposure explicitly excludes investments in securities and other financial instruments held for trading, measured at fair value through the income statement, investments in subsidiaries, auxiliary companies and joint ventures and credits and claims measured at fair value through the income statement (these items, as of December 31, 2008 were not excluded from the credit risk exposure definition). On March 31, 2009, these banks' items totaled Denar 1,053 million, accounting for 59.2% of the decrease in credit exposure of the banking system in the first quarter of 2009, but they make up only 0.4% of the total credit exposure on March 31, 2009.

The credit exposure of both the group of medium-size banks and the group of small-size banks registered a decline, whereas the credit exposure of the group of large banks registered minor quarterly increase. In the first quarter of 2009, the credit exposure of the group of medium-size banks went down by Denar 1,822 million, contributing the most to the decrease in the total credit exposure of the banking system. On the other hand, the credit exposure of the group of large banks reported a quarterly growth of Denar 335 million (or 0.2%), thus reinforcing its dominant share in the total exposure of the banking system.

Table 7
Balance and increase in the credit exposure by group of banks

Group of banks	Amount (in millions of Denars)			Structure (in %)			Qurterly change (31.03.2009/31.12.2008)			Annual change (31.03.2009/31.03.2008)		
	31.03.2008	31.12.2008	31.03.2009	31.03.2008	31.12.2008	31.03.2009	In millions of Denars	In %	Share in the change	In millions of Denars	In %	Share in the change
Large banks	172,809	184,282	184,617	70.2%	69.6%	70.2%	335	0.2%	-18.8%	11,807	6.8%	70.0%
Medium-size banks	61,288	68,185	66,363	24.9%	25.8%	25.2%	-1,822	-2.7%	102.5%	5,075	8.3%	30.1%
Small-size banks	11,941	12,210	11,920	4.9%	4.6%	4.5%	-290	-2.4%	16.3%	-21	-0.2%	-0.1%
Total:	**246,039**	**264,677**	**262,899**	**100.0%**	**100.0%**	**100.0%**	**-1,778**	**-0.7%**	**100.0%**	**16,861**	**6.9%**	**100.0%**

Source: NBRM, based on data submitted by banks

In the first three months of 2009, the credit exposure to the financial institutions and the state considerably dropped, whereas the credit exposure to the real sector went up. Compared, however, to the first quarter of 2008, the growth of credit exposure to the real sector considerably slowed down. The credit exposure to the financial institutions and state sector registered a quarterly decrease of Denar 5,513 million (or 9.5%), resulting from the lower demand of the banks for CB bills, and the contraction of the scope of banks' credit exposure, under the new Decision on credit risk management. On the other hand, the credit exposure to corporations and other clients registered the highest absolute and relative growth of Denar 3,167 million (or 2.5%), while the credit exposure to natural persons and sole proprietors sector marginally increased by Denar 548 million[9] (or 0.7%). For comparison purposes, in the first quarter of 2008, the credit exposure to the corporations and other clients sector went up by 7,273 million (or by 7.3%), and the exposure to the natural persons and sole proprietors went up by Denar 6,367 million (or 10.2%), pointing to the significant slowdown of the growth of credit exposure to the real sector, i.e. households, in particular. On March 31, 2009, the exposure of the banking system to corporations and other clients registered the highest structural share of 48.8% of the total credit exposure (Annex 8 - Balance and changes in the sector structure of credit exposure).

On quarterly basis (December 31, 2008 - March 31, 2009), the banks' Denar credit exposure reduced, whereas the credit exposure with currency component went up. In the first quarter of 2009, the Denar credit exposure went down by Denar 6,434 million (of 5%), due to the lower demand of the banks for CB bills and the contraction of the scope of credit exposure, mentioned above. On the other hand, the highest absolute and relative growth of Denar 4,021 million (or 5.5%) was reported by the foreign currency credit exposure, primarily as a result of the higher placing of funds in foreign banks. The Denar credit exposure with currency clause reported a minor quarterly growth of Denar 616 million (or 1%). On March 31, 2009, the Denar credit exposure registered the highest structural share of 46.6% in the total credit exposure of the banks (Annex 8 - Balance and changes in the currency structure of credit exposure).

Within the banks' credit exposure structure, by item, the fastest quarterly fall was registered by the credit exposure based on other claims, with the regular credits exposure registered the fastest quarterly absolute growth. Regular bank credits registered a quarterly growth of Denar 5,095 million (or 2.8%), thus remaining dominant, with 71.3%, in the total credit exposure. On the other hand, in the first quarter of 2009, the bank exposure based on other claims decreased by Denar 7,523 million or by 24.4%,

[9] Source: NBRM Credit Registry; Report on credit exposure by activity by risk category, by bank.

contributing the most to the quarterly fall in the total credit exposure across the banking system[10] (Annex 9 - Balance and changes in the credit exposure structure, by item).

Figure 18
Sector structure of nonperforming credits

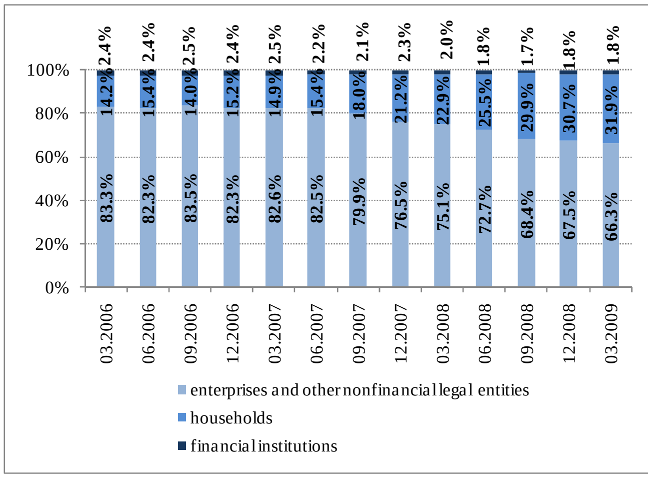
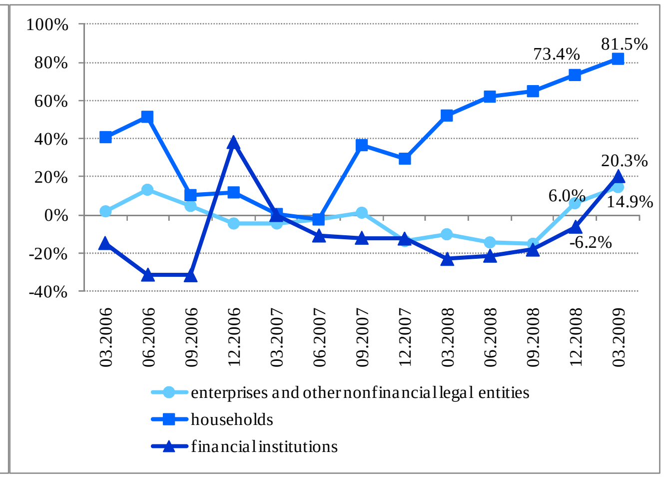


Figure 19
Annual rates of change in nonperforming credits



Source: NBRM, based on data submitted by banks

In the first three months of 2009, the total nonperforming credits registered an increase of Denar 669 million (or 5.8%), thus increasing their share in the total banks' credit exposure from 4.3% at the end of 2008, to 4.6% on March 31, 2009.

The sector-by-sector analysis of the nonperforming credits indicates acceleration of the growth of nonperforming credits of all analyzed sector. Nonperforming credits to natural persons and sole proprietors sector reported the highest annual growth rate of 81.5%, which is by 8.1 percentage points more compared to the annual growth in the December 31, 2007 - December 31, 2008[11] period. Substantial growth was also registered in the nonperforming credits to the financial institutions sector which in the March 31, 2008 - March 31, 2009 period increased by 20.3% or by Denar 40 million. The high annual growth rate of the nonperforming credits to financial institutions could be made relative, taking account of the modest share of nonperforming credits to this sector in the total nonperforming credits across the banking system (1.8% on March 31, 2009). Nonperforming credits to the corporations and other nonfinancial legal entities sector[12] reported a moderate annual growth of 14.9%, remaining dominant in the sector structure of nonperforming credits of 66.3%.

On quarterly basis (December 31, 2008 - March 31, 2009), nonperforming credits to corporations and other nonfinancial legal entities reported the highest absolute growth of Denar 890 million (or of 11.4%). On the other hand, nonperforming credits to households reported the highest percentage growth of 18.2% (or of Denar 644 million). In the first quarter of 2009, nonperforming credits to financial institutions went up by Denar 31 million (or 15.1%), which mainly results from the growth of nonperforming credits made by one bank.

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[10] In spite of the relatively high quarterly growth in the banks' demand for treasury bills (in the first quarter of 2009, these investments surged by Denar 3,923 million or by 116.7%), the banks' credit exposure based on other claims went down, primarily due to the lower banks' demand for CB bills, and partially due to the contraction of the scope of banks' credit exposure.
[11] Source: Accounts from the Chart of Accounts the banks submit to the NBRM.
[12] Other nonfinancial legal entities include nonresidents, public sector, and alike.

3.1.2. Risk level and credit risk exposure quality indicators across the banking system

In the first quarter of 2009, all indicators for the banks' credit portfolio quality registered certain deterioration. This deterioration is additionally evident in environment of decrease in the credit exposure which started in the last quarter of 2008. On the other hand, it results from the migration of the credit exposure from lower risk categories to higher. However, when drawing up the conclusions on the developments of the banks' credit exposure quality indicators in the first quarter of 2009, one should take into account the changes in the manners and criteria for credit exposure classification, and the amendments to the procedure and the calculation of the impairment / special reserve for the banks' credit exposure, which started being applied on January 1, 2009, as a part of the new Decision on credit risk management[13].

Table 8
Credit exposure quality indicators

Ratio	31.03.2008	31.12.2008	31.03.2009
Average level of risk	5.4%	5.8%	6.2%
% of C, D and E in total credit exposure	5.6%	6.4%	6.9%
% of E in total credit exposure	2.4%	2.5%	2.9%
% of net C, D and E in total own funds	17.8%	20.2%	20.6%
Coverage of C, D and E by the total amount of allocated impairment of credit exposure	95.3%	91.0%	88.4%

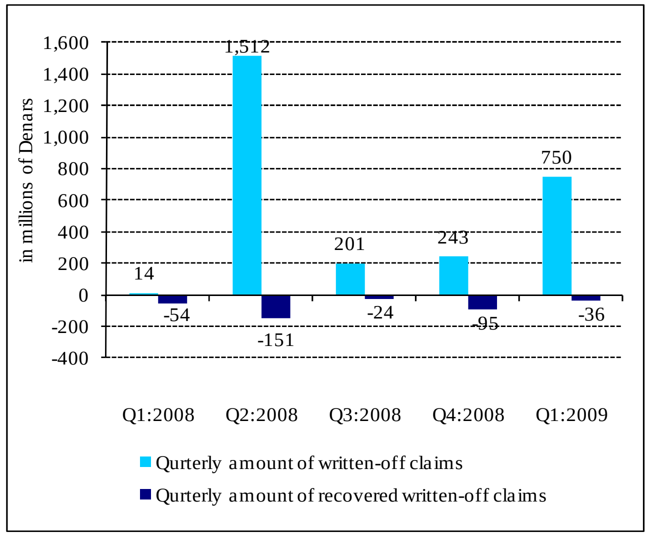
Source: NBRM, based on data submitted by banks

While the total banks' credit exposure went down, in the first quarter of 2009, the credit exposure with higher risk degree went up. On the other hand, the quarterly increase in the total impairment of banks' credit exposure increased in a slower pace, which is not in line with the increase in the credit exposure with lower quality. Such developments had their adverse effects on all banks' credit portfolio quality indicators. The credit exposure classified in C, D and E risk categories reported a quarterly increase of 6.9% (of Denar 1,162 million), whereas the total credit exposure of the banks reduced by 0.7% (Annex 9 - Balance and structure of credit exposure, by risk category). On the other hand, on quarterly basis (December 31, 2008 - March 31, 2009) the total impairment of the banks' credit exposure went up by 3.8% (or by Denar 592 million). The average risk level of credit exposure registered a quarterly increase (deterioration) of 0.4 percentage points, and on March 31, 2009 it reached 6.2%. Exposure classified in C, D and E risk category accounts for 6.9% of the total credit exposures, which is a deterioration of 0.5 percentage points, compared to the end of 2008. Simultaneously, 0.4 percentage points deterioration was also reported by the indicator for the share of nonprovisioned amount of exposure classified in C, D and E category in the total own funds of the banking system (20.6% on March 31, 2009). On March 31, 2009, the total impairment of banks' credit exposure covers 88.4% of the credit exposure with higher risk degree, which is by 2.6 percentage points less compared to December 31, 2008.

[13] The new Decision allows the banks to classify the individually important items, retail credit portfolios and group of similar financial instruments (a new category introduced by this Decision. In addition, the criteria were also subject to changes (the new Decision defines general and special criteria) and the manner of classification of the banks' credit exposure items into one of the five risk categories. The procedure for calculation of impairment (special reserve) is further expanded with the possibility to be determined not only on the basis of specified criteria for classification of a specific item into the respective risk category, but also as a difference between the carrying value and the determined present value (by discounting the expected future cash flows) of the item subject to classification. Unlike before, when each risk category had its exact percentage of special reserve, the new Decision allows for intervals of impairment/ special reserve for each risk category (0-10% for A, over 10 to 25% for B, over 25 to 50% for C, over 50 to 75% for D and over 75 do 100% for E). The Decision on credit risk management has been developed in line with the International Financial Reporting Standards.

In the first quarter of 2009, the banks written off claims in the amount of Denar 750 million, that is 0.3% of the total credit exposure on December 31, 2008. This amount is by Denar 736 million higher compared to the claims written off in the first quarter of 2008. The volume of writing offs affects the indicator for the share of exposure classified in C, D and E risk categories in the total credit exposure. Thus, if the banks did not write-off claims, on March 31, 2009 this indicator would be 7.1% (instead of 6.9%), and compared to the end of 2008, they would increase by 0.7 percentage points (instead of 0.5 percentage points). The structure of written-off claims is prevailed by interest claims, with share of 63.5%, and according to the currency and sector structure, the written-off foreign claims and claims on corporations dominate, constituting 65.9% and 89.6%, respectively. In the same period, Denar 36 million of the previously written-off claims has been recovered, (by Denar 18 million less compared to the first quarter of 2008).

Figure 20
Changes in the quarterly amounts of written-off claims



Source: NBRM, based on data submitted by banks

Table 9
Credit exposure quality indicators, by currency structure

Ratio	Denar credit exposure			Denar credit exposure with FX clause			FX credit exposure		
	31.03.2008	31.12.2008	31.03.2009	31.03.2008	31.12.2008	31.03.2009	31.03.2008	31.12.2008	31.03.2009
% of C, D and E in total credit exposure	7.0%	7.5%	8.6%	7.0%	7.0%	5.2%	2.6%	3.9%	5.6%
Average level of risk	6.6%	6.9%	7.8%	6.0%	5.6%	4.3%	3.6%	4.1%	5.3%

Source: NBRM, based on data submitted by banks

In the first three months of 2009, the credit exposure quality in foreign currency and in Denars deteriorated. Such change is particularly evident in the foreign currency credit exposure, which in the first quarter of 2009 increased by 5.5%, while the currency component with higher risk degree surged by 50.6%. On the other hand, the first three months of 2009 witnessed an 8.5% increase in the Denar exposure with higher risk level, whereas the total Denar credit exposure reduced by 5%. Only the credit portfolio quality indicators for the credit exposure in Denars with currency clause improved, which on March 31, 2009 was characterized with the lowest risk level.

Table 10
Credit exposure quality indicators, by group of banks

Group of banks	% of C, D and E in total credit exposure			% of net C, D and E in total own funds			Average level of risk		
	31.03.2008	31.12.2008	31.03.2009	31.03.2008	31.12.2008	31.03.2009	31.03.2008	31.12.2008	31.03.2009
Large banks	6.0%	6.5%	6.8%	24.6%	23.7%	22.3%	5.9%	6.3%	6.6%
Medium-size banks	3.9%	5.5%	6.5%	13.3%	21.4%	25.2%	3.4%	3.9%	4.6%
Small-size banks	9.1%	9.8%	10.9%	2.9%	4.1%	5.1%	8.8%	9.2%	10.3%
Total:	**5.6%**	**6.4%**	**6.9%**	**17.8%**	**20.2%**	**20.6%**	**5.4%**	**5.8%**	**6.2%**

Source: NBRM, based on data submitted by banks

The relatively significant increase in the credit exposure with higher risk level by group of banks, in environment of reduction or deceleration of the growth of their total credit exposure, resulted in deterioration of most of the credit portfolio quality indicators for all groups of banks. Most of the indicators for the volume of credit risk of the group of medium-size banks are still at the bottom, although this group of banks showed the fastest percentage growth in the riskier exposure and the decrease in the total credit exposure. The credit exposure with higher risk level at the group of large, medium-size and small-size banks reported a quarterly growth rates of 4.1%, 15.3% and 8.7%, respectively, and in the same period, the total credit exposure changed by 0.2%, -2.7% and -2,4%, respectively. Such developments contributed to the deterioration of the average risk level and share of credit exposure classified in C, D and E risk categories in the total credit exposure of all groups of banks.

3.1.3. Risk level and indicators for the quality of credit exposure to corporations and other clients sector

On quarterly basis (December 31, 2008 - March 31, 2009), most of the indicators for the quality of credit exposure to the corporations and other clients sector registered a certain deterioration. The indicators for the share of credit exposure classified in C, D and E in the total credit exposure and for the coverage of the exposure classified in higher risk categories with the total impairment of the credit exposure deteriorated by 0.6 and 5.6 percentage points and equal 9.7% and 88.5%, respectively. On the other hand, if the effects of the writing-off of claims on this sector are exempted (supposing that in the first quarter of 2009, the banks did not write off claims on corporations and other clients), on March 31, 2009, the indicator for the share of credit exposure with lower quality in the total credit exposure would equal 10.1%. In the first quarter of 2009, the indicator for the average risk level of the credit exposure to corporations and other clients remained unchanged (8.6%). These changes are result of the higher quarterly growth rate of the credit exposure with higher risk level to the corporations and other client (9.1%), compared to the growth of total credit exposure (2.5%) and the total impairment for the credit exposure to the corporations and other clients (2.5%).

Table 11
Indicators for the quality of credit exposure to the corporations and other clients sector

Indicators for the degree of quality of the credit exposure	Date	Industry	Agriculture, hunting and forestry	Construction	Wholesale and retail trade	Transport, storage and communication	Total credit exposure to enterpises and other clients
Average level of risk	31.03.2009	10.9%	16.4%	7.1%	6.7%	6.2%	8.6%
	31.12.2008	10.7%	17.3%	7.6%	6.8%	6.0%	8.6%
	31.03.2008	10.8%	18.2%	7.8%	7.5%	5.9%	8.9%
Share of C, D and E in total credit exposure	31.03.2009	12.9%	19.5%	7.7%	7.3%	8.9%	9.7%
	31.12.2008	11.7%	18.1%	9.1%	7.1%	7.1%	9.1%
	31.03.2008	11.6%	18.4%	9.5%	6.9%	5.4%	9.1%
Coverage of C, D and E by the total impairment of the credit exposure	31.03.2009	84.5%	84.3%	92.3%	92.4%	70.1%	88.5%
	31.12.2008	91.9%	95.7%	83.5%	96.2%	85.5%	94.1%
	31.03.2008	93.2%	98.7%	81.8%	109.1%	109.7%	98.6%

Source: NBRM, based on data submitted by banks

The average risk level of the credit exposure to industry and transport and communications deteriorated by 0.2 percentage points each. On the other hand, the indicators for the share of credit exposure to all more relevant activities, other than construction, classified in C, D and E risk categories in the total credit exposure and the coverage of the exposure classified in higher risk categories with the

total impairment also deteriorated. On quarterly basis, all indicators for the credit exposure quality to the construction improved.

Table 12
Change in credit exposure to corporations and other clients classified in C, D and E risk categories

Credit exposure to enterpises and other clients, by activity	Credit exposure classified in categories of risk C, D and E (in millions of Denars)			Change in millions of Denars		Change in %	
	31.03.2008	31.12.2008	31.03.2009	31.03.2008-31.03.2009	31.12.2008-31.03.2009	31.03.2008-31.03.2009	31.12.2008-31.03.2009
Industry	5,057	5,724	6,475	1,418	750	28.0%	13.1%
Agriculture, hunting and forestry	641	706	727	86	21	13.5%	3.0%
Construction	869	1,074	1,031	162	-42	18.7%	-3.9%
Wholesale and retail trade	2,231	2,755	2,838	608	83	27.2%	3.0%
Transport, storage and communication	402	609	739	337	130	83.9%	21.4%
Other activities	535	522	613	78	91	14.5%	17.4%
Total credit exposure to enterpises and other clients	**9,734**	**11,390**	**12,423**	**2,689**	**1,033**	**27.6%**	**9.1%**

Source: NBRM, based on data submitted by banks

On quarterly basis (December 31, 2008 - March 31, 2009), the credit exposure with higher risk level to the industry registered the highest absolute growth. On the other hand, the credit exposure with lower quality to transport and communications registered the highest percentage growth. In the first quarter of 2009, the credit exposure classified in C, D and E risk categories to the industry went up by Denar 750 million (or by 13.1%), constituting 72.6% of the total absolute growth in the exposure with higher risk level to the corporations and other clients. The credit exposure classified in C, D and E risk categories to the transport and communications, registered a quarterly growth of 21.4% (or Denar 130 million).

3.1.4. Risk level and indicators for the quality of credit exposure to the natural persons

On quarterly basis (December 31, 2008 - March 31, 2009), some of the indicators for quality of credit exposure to natural persons deteriorated. This deterioration appears in environment of faster slowdown of the increase in the overall credit exposure to natural persons, compared to the slowdown in the growth of credit exposure with higher risk level. In the first quarter of 2009, the total credit exposure to natural persons went up by 0.9% (10.3% growth rate in the first quarter of 2008), and the credit exposure classified in C, D and E risk categories rose by 6.6%, or by Denar 313 million (in the first quarter of 2008, the credit exposure with higher risk level to natural persons was going up at 12.9% growth rate). On the other hand, in the first three months of 2009, the total impairment of credit exposure to natural persons increased by 24.1% (or by Denar 894 million).

In the first quarter of 2009, the indicators for the average risk level of the exposure to natural persons and for the share of credit exposure with higher risk level in the total credit exposure deteriorated by 0.4 and 1.1 percentage points, respectively. On the other hand, the indicator for the higher risk credit exposure coverage with the total impairment of exposure to natural persons improved by 12.8 percentage points.

Table 13
Indicators for the quality of credit exposure to natural persons

Indicators for the degree of quality of the credit exposure	Date	Residential and commercial real estate loans	Consumer loans	Overdrafts	Credit cards	Car loans	Other loans	Total credit exposure to natural persons
Share of C, D and E in total credit exposure	31.03.2009	4.0%	10.1%	3.3%	4.9%	5.8%	10.6%	6.5%
	31.12.2008	2.9%	10.1%	6.0%	4.6%	2.9%	8.1%	6.1%
	31.03.2008	4.2%	7.6%	5.7%	3.6%	3.6%	5.6%	5.3%
Average level of risk	31.03.2009	3.5%	7.4%	6.2%	5.8%	4.2%	8.1%	5.9%
	31.12.2008	3.7%	6.0%	4.7%	3.9%	3.3%	7.8%	4.8%
	31.03.2008	4.7%	5.3%	4.3%	3.2%	3.7%	6.4%	4.4%
Coverage of C, D and E by the total impairment of the credit exposure	31.03.2009	86.5%	73.8%	187.5%	116.8%	72.0%	76.3%	91.2%
	31.12.2008	129.3%	59.7%	77.8%	83.7%	114.8%	96.8%	78.4%
	31.03.2008	111.9%	69.1%	75.8%	90.4%	101.4%	113.8%	84.1%

Source: NBRM, based on data submitted by banks

On quarterly basis (December 31, 2008 - March 31, 2009), the exposure risk based on consumer credits, credit cards, car credits and other credits increased. On the other hand, the indicator for the average risk level of the exposure based on residential and business premises credits improved (by 0.2 percentage points), whereas the indicator for the share of exposure with higher risk level in the total credit exposure deteriorated (by 1.1 percentage points). The developments of the indicators for the quality of credit exposure based on current accounts overdrafts is specific, where in spite of the relatively steep quarterly decrease in the indicator for the share of exposure classified in C, D and E risk categories in the total credit exposure (by 2.7 percentage points), there is a quarterly increase (deterioration) of the indicator for the average risk level of 1.5 percentage points[14].

Table 14
Change in the exposure to the natural persons classified in C, D and E risk categories

Credit exposure to natural persons, by type of credit product	Credit exposure classified in categories of risk C, D and E (in millions of Denars)			Change in millions of Denars		Change in %	
	31.03.2008	31.12.2008	31.03.2009	31.03.2008-31.03.2009	31.12.2008-31.03.2009	31.03.2008-31.03.2009	31.12.2008-31.03.2009
Residential and commercial real estate loans	416	388	567	151	179	36.4%	46.1%
Consumer loans	1,511	2,207	2,518	1,007	311	66.7%	14.1%
Overdrafts	352	433	275	-77	-158	-21.8%	-36.5%
Credit cards	741	1,089	1,144	403	55	54.5%	5.0%
Car loans	121	138	279	158	140	131.1%	101.5%
Other loans	240	482	268	28	-214	11.7%	-44.4%
Total credit exposure to natural persons	**3,380**	**4,738**	**5,051**	**1,671**	**313**	**49.5%**	**6.6%**

Source: NBRM, based on data submitted by banks

[14] In the drawing up the conclusions regarding the developments of the indicators for the quality of credit exposure to natural persons, one should take into account that in the first three months of 2009, most of the banks used the opportunity to classify a portion of their credit exposure to this sector in retail credit portfolio. Under the new Decision on credit risk management, the banks should apply adequate statistical models for retail credit portfolio classification in a certain risk category, and for calculation of the impairment of this portfolio.

In the first quarter of 2009, the fastest absolute increase was reported by the credit exposure based on consumer credits. On the other hand, the fastest percentage growth rate was registered in the credit exposure with lower quality of the exposure based on car credits. On quarterly basis (December 31, 2008 - March 31, 2009), the credit exposure classified in C, D and E risk categories of the consumer credits went up by Denar 311 million (or by 14.1%), accounting for 99.3% of the total absolute growth of exposure with higher risk level to natural persons. The credit exposure classified in C, D and E risk categories based on car credits surged on quarterly basis by 101.5%, or by Denar 140 million.

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

The stress-test simulation for the resilience of the banking system to the deterioration of the quality of credit exposure, if any, to nonfinancial entities rests on the assumption for migration of a certain credit exposure percentage of each risk category to the two next categories with higher risk level, distributed equally (e.g. a certain percentage of exposure classified in A risk category migrates and equally distributes to B and C risk categories, a certain percentage of exposure classified in B risk category migrates and equally distributes to C and D risk categories, etc.). Vital assumption in the conduct of this stress-test simulation is that the percentage of impairment of credit exposure classified in each of the five risk categories remains the same, even after the supposed deterioration of credit exposure quality (e.g. if before the simulation, the bank calculated 15% impairment for the exposure in B risk category, the same percentage shall also apply in the calculation of impairment after the assumed deterioration of the credit exposure quality).

The stress-test simulation has been conducted by applying two scenarios: migration of 10% (first scenario) and **migration of 30%** (second scenario) of the credit exposure of each risk category to the next two higher risk categories. Both scenarios are conducted for each activity within the corporations and other clients sector, and for each credit product offered to natural persons.

Table 15
Initial balance and results from the potential deterioration of the quality of credit exposure to each activity of the corporations and other clients sector

	Indicators	Industry	Agriculture, hunting and forestry	Construction	Wholesale and retail trade	Transport, storage and communication	Credit exposure to enterprises and other clients
initial balance	Capital adequacy ratio at the level of banking system	16.5%					
	% of C, D and E in total credit exposure	12.9%	19.5%	7.7%	7.3%	8.9%	9.7%
	Average level of risk	10.9%	16.4%	7.1%	6.7%	6.2%	8.6%
I scenario	Capital adequacy ratio at the level of banking system	16.0%	16.5%	16.4%	16.2%	16.5%	15.3%
	% of C, D and E in total credit exposure	17.4%	23.1%	12.8%	12.1%	13.6%	14.4%
	Average level of risk	12.9%	17.7%	9.2%	8.4%	8.1%	10.4%
II scenario	Capital adequacy ratio at the level of banking system	15.0%	16.4%	16.1%	15.4%	16.3%	12.7%
	% of C, D and E in total credit exposure	27.4%	33.1%	23.4%	22.5%	23.4%	24.7%
	Average level of risk	17.3%	21.8%	13.4%	12.5%	12.2%	14.7%

Source: Internal NBRM calculations
Note: There is an assumption for insulated deterioration of the quality of credit exposure to each activity, and deterioration of the quality of total credit exposure to corporations and other clients.

The potential deterioration of the quality of credit risk exposure to corporations and other clients, due to the redistribution of the credit exposure from the lower to higher risk categories would cause a decrease in the capital adequacy ratio by 1.2 percentage points in case of the first scenario, i.e. by 3.8 percentage points in case of the second scenario. Simultaneously, the average risk level of credit exposure to corporations and other clients would increase from the initial 8.6%, to 10.4% (first scenario), i.e. would reach 14.7%, (second scenario). Observing by activity, the potential deterioration of the quality of exposure to the industry would caused fastest drop of the capital adequacy of the banking system. On the other hand, the fastest deterioration of the credit portfolio quality indicators would be reported by the exposure to construction.

Table 16
Initial balance and results from the potential deterioration of the quality of credit exposure to natural persons, by credit product

	Indicators	Residential and commercial real estate loans	Consumer loans	Overdrafts	Credit cards	Car loans	Other loans	Total credit exposure to natural persons
initial balance	Capital adequacy ratio at the level of banking system	16.5%						
	% of C, D and E in total credit exposure	4.0%	10.1%	3.3%	4.9%	5.8%	10.6%	6.5%
	Average level of risk	3.5%	7.4%	6.2%	5.8%	4.2%	8.1%	5.9%
I scenario	Capital adequacy ratio at the level of banking system	16.4%	16.3%	16.5%	16.3%	16.5%	16.5%	15.7%
	% of C, D and E in total credit exposure	8.3%	14.1%	9.1%	11.5%	10.9%	15.3%	11.6%
	Average level of risk	4.8%	9.2%	8.0%	8.7%	6.2%	10.0%	8.0%
II scenario	Capital adequacy ratio at the level of banking system	16.1%	15.8%	16.3%	15.7%	16.4%	16.5%	14.1%
	% of C, D and E in total credit exposure	18.3%	24.3%	20.9%	22.1%	20.4%	25.4%	22.0%
	Average level of risk	9.0%	13.5%	11.9%	13.6%	10.7%	14.6%	12.4%

Source: Internal NBRM calculations
Note: There is an assumption for insulated deterioration of the quality of credit exposure based on credit products, and deterioration of the quality of total credit exposure to natural persons

Under the assumption for deterioration of quality of credit exposure to natural persons, the capital adequacy ratio would decrease from the initial 16.5%, to 15.7% in case of the first scenario, i.e. would reduce to 14.1% in case of the second scenario. On the other hand, the average risk level of the exposure to natural persons would go down by 2.1 percentage point, in case of the first scenario, i.e. this indicator would go down by 6.5 percentage points in case of the second scenario. Analyzed by credit product offered to natural persons, the fastest deterioration of the capital adequacy ratio would cause the decrease in the credit exposure quality based on credit cards. Additionally, the exposure to natural persons based on this credit product would register the fastest quality deterioration, caused by the redistribution of the credit exposure from the lower to the higher risk categories.

If we assume simultaneous deterioration of the quality of credit exposure to the overall nonfinancial entities sector (corporations and other clients and natural persons, the capital adequacy of the banking system would go down by 2.1 percentage point in case of the first scenario, i.e. by 6.3 percentage points in case of the second more extreme scenario. At the same time, the redistribution of credit exposure to nonfinancial entities from lower to higher risk categories would cause a deterioration of the indicator for the average risk level of the credit exposure in the banking system in the case of the first and the second scenario by 1.6, i.e. by 5.1 percentage points, respectively.

Table 17
Initial balance and results from the potential deterioration of the quality of credit exposure to corporations and other clients and to natural persons

Indicators		Credit exposure to enterprises and other clients and to natural persons	Credit exposure to banking system*
Initial balance	Capital adequacy ratio at the level of banking system	16.5%	
	% of C, D and E in total credit exposure	8.5%	6.9%
	Average level of risk	7.6%	6.2%
I scenario	Capital adequacy ratio at the level of banking system	14.4%	
	% of C, D and E in total credit exposure	13.3%	10.8%
	Average level of risk	9.5%	7.8%
II scenario	Capital adequacy ratio at the level of banking system	10.2%	
	% of C, D and E in total credit exposure	23.6%	19.0%
	Average level of risk	13.8%	11.3%

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

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

*Stress-test simulation has been conducted by using data from the Credit Registry, the Report on credit exposure and impairment by activity - KAD by risk category, as of March 31, 2009.

3.2 Liquidity risk

The unfavorable movements in the real sector and the intensified changes in the currency preferences of the depositors, in the first quarter of 2009, caused further downward trend of the liquid assets and the liquidity indicators of the banking system. However, the tightening of the economic conditions and the consequent decrease in the liquid assets caused no serious consequences on the stable functioning of the individual banks, nor to the entire system. The relatively conservative liquidity management in the past enabled the banks to accumulate satisfactory level of liquid assets, which in conditions of economic turbulences, influenced directly towards stability maintenance and overcoming of the tightened market conditions. Hence, the maintenance of the prudent approach to the liquidity management, and accordingly, the appropriate protection of the interest of their depositors, given current deterioration in the macroeconomic movements will be of immense importance for the banking system of the Republic of Macedonia.

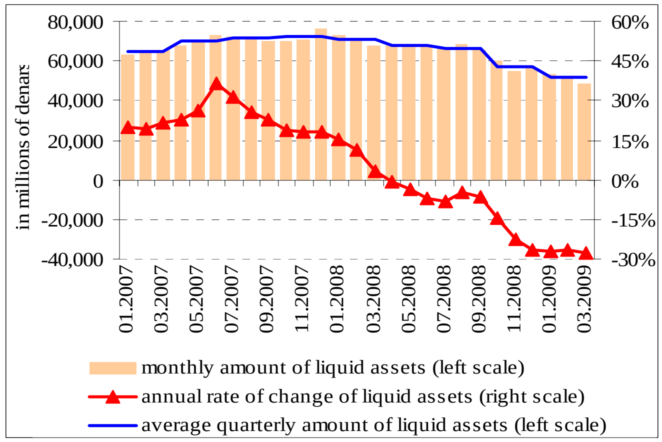
3.2.1 Liquid and highly liquid assets

In the first quarter of 2009, the average monthly amount[15] of the liquid[16] and highly liquid assets[17] amounted to Denar 51,571 million and Denar 39,709 million, respectively. In comparison with the

[15] The liquidity risk analysis is based on the average amounts of all balance sheet categories of the banking system.

first quarter of 2008, the average monthly amounts of the liquid and highly liquid assets registered a decline of Denar 19,267 and 2,732 million, or by 27.2% and 6.4%, respectively. Quarterly decrease in the average monthly amount of liquid assets (compared to the average amount in the last quarter of 2008) of Denar 5,608 million, i.e. 9.8% was registered. Also, on March 31, 2009, compared to March 31, 2008 and December 31, 2008 the liquid assets went down by 27.7% and 13.2%, respectively. The adjustment of the banks' business policies and the amendments to the regulations within the liquidity domain[18], determined reassessment of the potential risks and the credit activity reduction. Also, the worsening of the real sector performances influenced towards increased variability of the sources of funds and slowing down of their dynamics, which determined almost the entire "use" of the deposit core for credit funding. Namely, the average indicator for credit-to-deposit ratio of non-financial entities, in the first quarter of 2009 equaled 97.1%. The increase in the indicator on both quarterly and annual basis equaled 5.0 and 16.5 percentage points, respectively, with the increase in the first quarter of 2009 primarily arising from the decrease in the deposits. Hence, the variability of the deposits and the restricted possibilities for increase in the sources of funds, in conditions of risk assessment evident in the real sector, inevitably narrows the possibility for further intensive credit growth.

Figure 21
Movement and annual change in the average annual and monthly amount of liquid assets

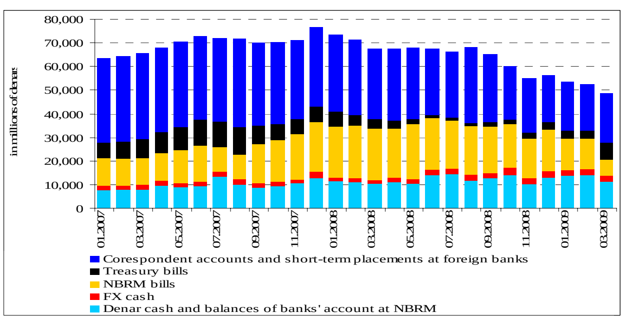


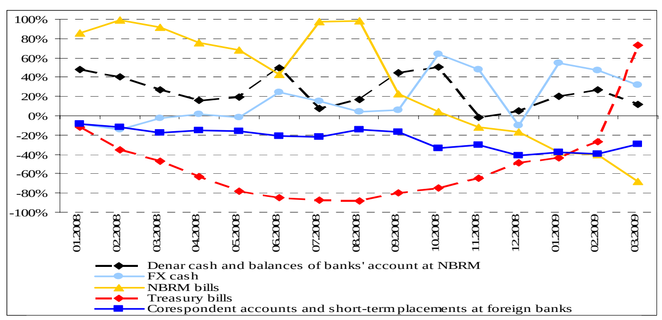
Source: NBRM, on the basis of data submitted by the banks

Figure 22
Dynamics of the liquid assets by its components

Figure 23
Annual rates of change of the liquid assets' components

In the first quarter of 2009, certain changes in both dynamics and items' structure of the liquid assets, were registered. This primarily refers to the significant growth in the Treasury bills, followed by the





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

[16] Liquid assets, in wider sense, encompass the highly liquid assets, short-term assets placed with foreign banks and placements in other short-term debt securities.

[17] The highly liquid assets encompass the funds and the balances with the NBRM (except the reserve requirement in foreign exchange), CB bills, the correspondent accounts with foreign banks and short-term placements in securities issued by the Government (Treasury bills).

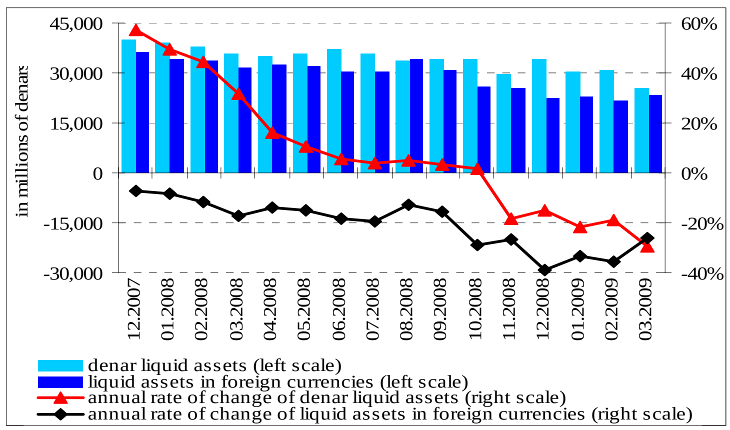
[18] At the end of 2008, the NBRM adopted new Decision on managing banks' liquidity management. This Decision, inter alia, imposed the need for the banks' requirement for maintaining certain minimal level of liquidity ratio, defined as a correlation between the on-balance sheet and off-balance sheet assets and liabilities maturing in segments of 30 and 180 days, separately for Denar and for foreign currency assets and liabilities. Also, in the calculation of the liquidity ratio, the deposits concentration, as a factor that might influence on the level of the liquidity risk with the banks, ha also been taken into consideration

decrease in the amount of the CB bills, especially characteristic for March 2009. These changes in the liquid assets are due to the auctions of Treasury bills with contractual maturity of one month[19], which were attractive for the banks because of their yield. Accordingly, the annual growth rate of the Treasury bills in March 2009 registered a significant increase relative to the preceding period and it equaled 73.2%. Also, the Treasury bills encompassed 14.1% of the liquid assets on March 31, 2009, and relative to December 31, 2008 their share went up by 8.9 percentage points.

Among other components of the liquid assets, in March 2009, significant growth rate of 31.8% of the foreign exchange funds was registered. However, their share in the liquid assets is the smallest compared to the other components and on March 31, 2009 they equaled 4.8%. On March 31, 2009 also the placements with foreign banks (assets on correspondent accounts and placed assets with maturity of one year) registered an increase in the share of the liquid assets of 7.8 percentage points, even though their annual rate of change in the first quarter of 2009 was still with negative sign. On the other hand, in the first quarter of 2009, the Treasury bills continued to register a downwards trend and on March 31, 2009 they encompassed 14.1% of the liquid assets, which is less by 16.9 percentage points compared to the end of 2009. Also, at the end of the first quarter of 2009 the annual rate of decrease in the CB bills equaled 68.3%.

The changes in the dynamics of the individual items comprising the liquid assets reflected also on the dynamics of its currency components. Namely, in the first quarter of 2009, the trend of decrease in the amount of the foreign liquid assets ceased. Thus on March 31, 2009 the foreign currency component of the liquid assets equaled Denar 23,355 million, which is an increase of Denar 1,062 million compared to the end of 2009, or by 4.8%. However, on annual basis, the foreign liquid assets still register negative rate of change, which primarily arises from their faster decrease in the second half of 2008. On the other hand, in the first quarter of 2009 the Denar liquid assets registered significant decrease, which indicates that in conditions of intensified change in the depositors' currency preferences, the liquid assets were used on the foreign exchange market to amortize the economic agents' higher demand for foreign exchange. At the end of the first quarter of 2009, the Denar liquid assets reduced by Denar 8,506 million, or by 25.0%, compared with the end of 2008. On annual basis (March 2009 - March 2008), the Denar liquid assets indicate that 80.9% of the annual decrease of the Denar liquid assets were registered exactly in the first quarter of 2009. In the first quarter of 2009, the currency structure of the liquid assets remained stable. In the first quarter of 2009, the foreign liquid assets, on average, participated with 43.9%, while the share of the Denar ones equaled 56.1%, which means that no changes of higher significance were registered compared to the last quarter of 2008.

Figure 24
Dynamics and annual change of Denar and foreign liquid assets

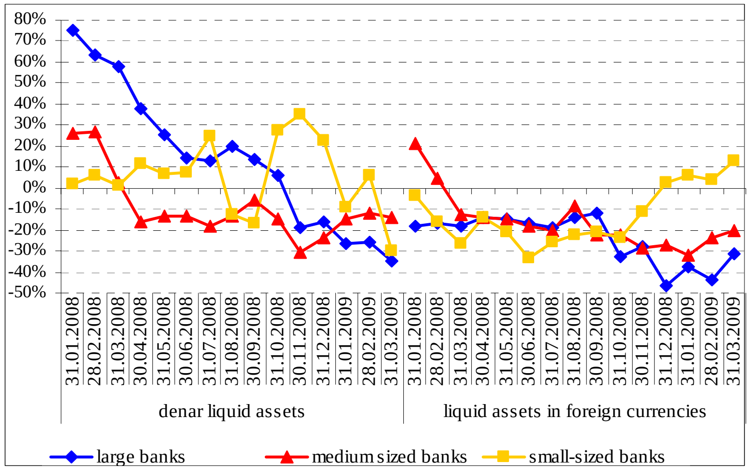


Source: NBRM, on the basis of data submitted by the banks

[19] The issuance of the Treasury bills with contractual maturity of one month began in March 2009, with two auctions being held - first auction was carried out on March 10, 2009, the second one on March 24,2009, while the total realized amount equaled Denar 4,099 million.

The analysis of the movement of the liquid assets by groups of banks confirms the decrease in the liquid assets the domestic banking system faced with. Thus in the first quarter of 2009, the liquid assets in Denars register negative annual growth rates with all groups of banks, with the annual decrease being the severest with the group of large banks on March 31, 2009, and it equaled Denars 7,979 million, or 34.8%. Also, 82.0% of the annual decrease in the Denar liquid assets with the group of large banks is realized in the first quarter of 2009. With the foreign liquid assets, at the end of the first quarter of 2009, only the group of small-size banks registered positive annual rate of change of 12.6%, while the group of large and medium-size banks registered annual decline of 31.3% and 20.4%, respectively. Observed on a quarterly basis, (March 31, 2009 compared to December 31, 2008), the foreign liquid assets registered and increase of Denar 1,728 million, i.e. 13.3% only with the group of large banks. With the group of medium-size and small-size banks, the foreign liquid assets reduced by 6.5% and 9.9%, respectively on a quarterly basis.

Figure 25
Annual rates of change of the Denar and foreign currency liquid assets by groups of banks



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

In the first quarter of 2009, the group of large banks preserved the dominant position in the distribution of the liquid assets by groups of banks. Namely, in the first quarter of 2009, the share of the group of large banks equaled 59.7% of the average amount of the liquid assets in the banking system, with its share registering a decrease on both annual and quarterly basis by 1.8 and 5.1 percentage points, respectively. On the other hand, the share of the average liquid assets of the groups of medium and small-size banks, in the first quarter of 2009 equaled 30.3% and 10.0%, respectively and registered annual increase of 2.8 and 2.3 percentage points, respectively.

3.2.2 Liquidity indicators of the banking system

In the first quarter of 2009, the trend of decrease in the liquidity indicators of the banking system continued. Namely, the average value of the most of the liquidity indicators registered a decrease, not only on quarterly basis, but on annual basis, as well. Thus the average share of the liquid in the total assets in the first quarter of 2009 equaled 20.6% and registered a decrease on both annual and quarterly basis of 10.7 and 2.2 percentage points, respectively. The decrease is registered also with the indicators for the average coverage of individual sources of funds with liquid assets. Thus the average coverage of the short-term liabilities of the banking system with liquid assets equaled 30.1% in the first quarter of 2009 and it declined by 2.2 percentage points on a quarterly basis. The average level of coverage of the households' deposits and the total deposits of the non-financial entities with the liquid assets registered an annual decrease of 27.5 and 13.8 percentage points, respectively. Increase in the share of the items with the highest degree of liquidity in the liquid assets' structure was registered, which caused certain quarterly rise in the average coverage of the short-term liabilities and sight deposits with the highly liquid assets. Besides, the apparent movements in the currency structure of the sources of funds, especially with the deposits, in conditions of a decrease in the foreign exchange inflows in the economy (caused by the economic crisis), influenced towards the largest quarterly decrease in the indicators for the average coverage of the foreign exchange sources of funds with foreign liquid assets. Thus the average coverage of the foreign exchange short-term liabilities and the households' foreign currency deposits with the foreign liquid assets, in the first quarter of 2009, went down by 2.9 and 6.1 percentage points, respectively, compared to the last quarter of 2008.

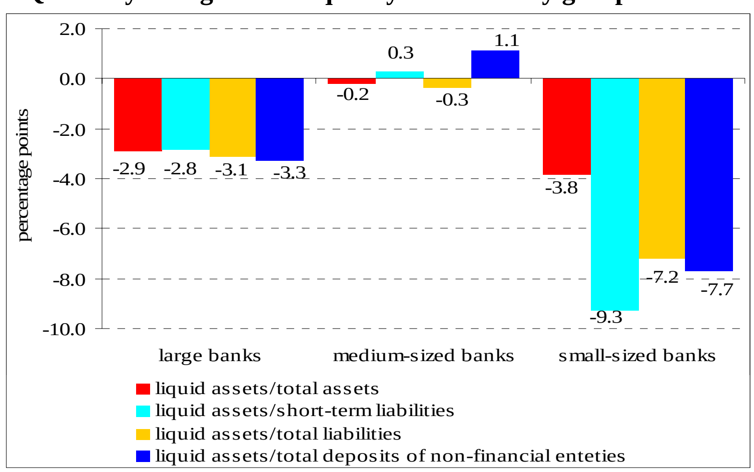
Table 18
Liquidity indicators of the banking system

Indicators	Average for first quarter or 2008	Average for last quarter of 2008	Average for first quarter or 2009	Change (in percentage points)	
				Annual	Quarterly
Total loans/Total deposits of non-financial enteties	80.6%	92.1%	97.1%	16.5	5.0
Liquid assets/Total assets	31.3%	22.9%	20.6%	-10.7	-2.2
Highlyliquid assets/Total assets	18.8%	15.7%	15.9%	-2.9	0.2
Liquid assets/Total liabilities	36.2%	26.3%	23.8%	-12.4	-2.5
Liquid assets/Short-term liabilities	42.4%	32.3%	30.1%	-12.3	-2.2
Liquid assets in foreign currencies/Short-term liabilities in foreign currencies	42.9%	28.4%	25.4%	-17.5	-2.9
Liquid assets/Total deposits of non-financial enteties	43.1%	31.8%	29.3%	-13.8	-2.4
Liquid assets in foreign currencies/Total deposits of non-financial enteties in foreign currencies	44.8%	28.7%	24.6%	-20.2	-4.1
Highlyliquid assets/Short-term liabilities	25.4%	22.2%	23.2%	-2.2	1.0
Liquid assets/Household's deposits	74.6%	53.4%	47.1%	-27.5	-6.4
Liquid assetsin foreign currencies/Household's deposits in foreign currencies	63.6%	39.1%	33.0%	-30.6	-6.1
Highlyliquid assets/Sight deposits	62.7%	55.5%	61.2%	-1.5	5.7

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

The decrease in the liquidity indicators in the first quarter of 2009 is evident also with the individual groups of banks (Annex no. 10 - Liquidity indicators and their annual and quarterly change by groups of banks). The decrease in the indicators was most evident with the group of small-size banks, which primarily originates from the relatively higher amounts of liquid assets available for the banks from this group, compared to the groups of large and small-size banks. This is verified with the average share of the liquid in the total assets, which, in this quarter, equals 41.3% in this group of bank, while with the group of large and medium-size banks it equals 18.4% and 22.3 %, respectively. This occurrence is even more obvious with the indicator for the average coverage of the short-term liabilities with liquid assets, which with the group of small-size banks equaled 111.1% in the first quarter of 2009, while 25.4% and 34.5% with the groups of large and medium-size banks, respectively. The decrease in the liquidity indicators is also evident with the group of large banks.

Figure 26
Quarterly change of the liquidity indicators by groups of banks

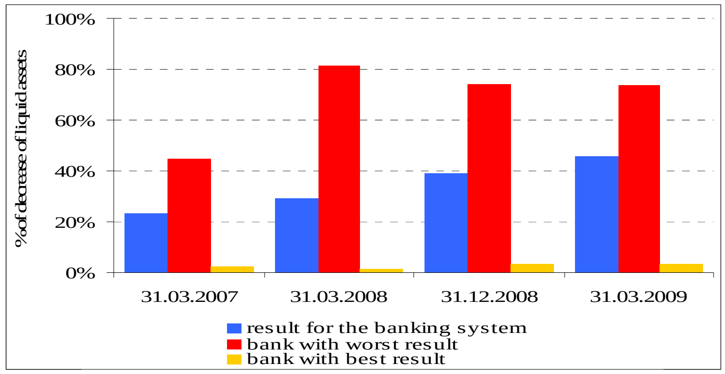


Source: NBRM, on the basis of data submited by the banks

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

The stress-test simulations of the resistance of the banking system to liquidity shocks, for March 31, 2009 shows that the banks in the Republic of Macedonia maintained satisfactory level of liquid assets for overcoming the possible unfavorable and unexpected liquidity shocks. Namely, in case of hypothetical liquidity blow in form of instant withdrawal of 20% of the total households' deposits outside the banking system, the individual banks would have enough liquid assets to buffer the liquidity shock. However, the trend of decrease in the volume of the liquid assets influence also on the results of this simulation, which register worsening on both quarterly and annual basis.

Figure 27
Results of the stress-test scenario for instant withdrawal of 20% of the households' deposits outside the banking system



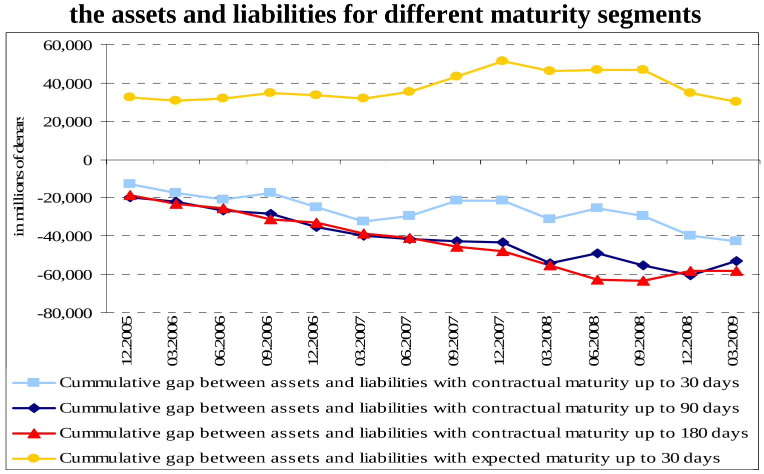
Source: Internal calculations of NBRM

In the realization of this hypothetical liquidity shock, the liquid assets and the highly liquid assets of the banking system would reduce by 45.7% and 57.8%, respectively, which compared to the results from the identical simulation on December 31, 2008 represents an increase of 6.7 and 5.5 percentage points, respectively. The decrease in the liquid assets by banks would range from 3.6% to 73.6%. Opposite to the risk of mass non-confidence in the system, and thus larger outflow of deposits encompassed with the previous simulation, it seems that the risk of concentration of deposits and sources of funds is more apparent with the banks in the Republic of Macedonia. Namely, the negative influence on the banks' liquidity becomes more obvious in case of simulation for hypothetical withdrawal of the deposits of the ten largest depositors of each bank. In case of such highly extreme scenario, seven banks would register a lack of liquid assets in order to compensate the outflow of deposits of the twenty largest depositors.

3.2.3 Maturity structure of the assets and liabilities

The deceleration of the banks' credit activity and the changes in the legal framework pertaining to liquidity risk management reflected also on the gap dynamics between the residual contractual maturity of assets and liabilities. Namely, in the first quarter of 2009, initial signs of delay in the several year trend of gap deepening in the contractual residual maturity between assets and liabilities were evident. This can especially be perceived in the maturity segments of 90 and 180 days, where the cumulative mismatch between the contractual maturity and assets and liabilities began to decrease. Besides, the residual maturity of the assets and liabilities

Figure 28
Cumulative gap between contractual and anticipated maturity of the assets and liabilities for different maturity segments

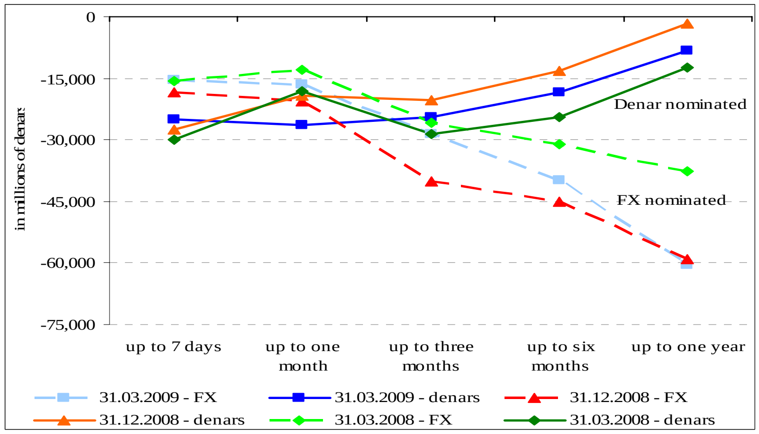


Source: NBRM, on the basis of data submited by the banks

according to banks' expectations, despite the increased the instability in the general environment, further points to full coverage of the anticipated outflows with the anticipated inflows of funds.

The initial changes in the maturity transformation of the assets reflected also on the volume of the cumulative contractual maturity mismatch of the Denar and the foreign assets and liabilities. However, in the first quarter of 2009 the divergent movements of the foreign exchange and Denar contractual maturity cumulative mismatch between asserts and liabilities were obvious. Opposite to the movements registered in the last several years, when the gap in the contractual maturity of the foreign assets and liabilities deepened, in the first quarter of 2009, this trend ceased. The decrease in the cumulative contractual maturity mismatch between assets and liabilities is especially remarkable in the intervals with shorter maturity. On the other hand, the Denar assets and liabilities registered an increase in the cumulative contractual maturity mismatch in the first quarter of 2009. This occurrence of more evident transformation of Denar into foreign currency assets is direct reflection of the changes in the currency structure of the banks' sources of funds, especially the deposits, which influence on the emergence of the banks as purchasers of foreign exchange on the foreign exchange market.

Figure 29
Cumulative residual maturity (mis)match of the assets and liabilities of the banking system by currency



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

In the first quarter of 2008, certain movements also with the different indicators calculated on the basis of contractual maturity structure of the assets and liabilities were registered. Thus at the end of the first quarter of 2009, the assets with residual maturity of up to three months cover 65.5% of the liabilities with residual maturity of up to three months, which is a rise of 6.0 percentage points compared to the end of 2008. Quarterly decrease was registered with the share of the assets and liabilities with residual maturity up to one month in the total assets and liabilities, of 1.8 and 1.4 percentage points, respectively. The correlation between the assets and liabilities with residual maturity up to one year equaled 72.2% on March 31, 2009, which is an increment of 1.8 percentage points compared to the end of 2008.

Table 19
Indicators based on residual contractual maturity of the assets and liabilities

Indicators	31.12.2008	31.12.2008	31.03.2009
Assets with residual contractual maturity up to one month/Total assets	32.7%	28.0%	26.2%
Liabilities with residual contractual maturity up to one month/Total liabilities	49.9%	47.8%	46.4%
Assets/Liabilities (with residual contractual maturity up to one month)	71.2%	64.4%	64.3%
Assets/Liabilities (with residual contractual maturity up to three months)	63.3%	59.5%	65.5%
Assets/Liabilities (with residual contractual maturity up to one year)	73.6%	70.4%	72.2%

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

Despite the decelerated deposits dynamics and the recorded changes in their structure, however, in the first quarter of 2009, the anticipated[20] percentage of the sight deposits stability at the level of the banking system registered no significant changes. On March 31, 2009, according to the banks' expectations, the percentage of stable sight deposits, at the level of the banking system, equaled 84.8%, which is higher by 0.5 percentage points compared to December 31, 2008. The stability of the bank's sources of financing is verified through the banks' expectations for the possible outflow of sight deposits and the total liabilities. On March 31, 2009, according to the banks' expectations, 15.1% of the total sight deposits would outflow within seven days, which relative to the expectations of the banks in 2008, is a decrease of 0.4 percentage points. The total outflows with residual maturity of up to three months the banks expect at any basis, on March 31,2009 encompass 33.8% of the total liabilities and compared to the end of 2008 they incremented by 0.4 percentage points.

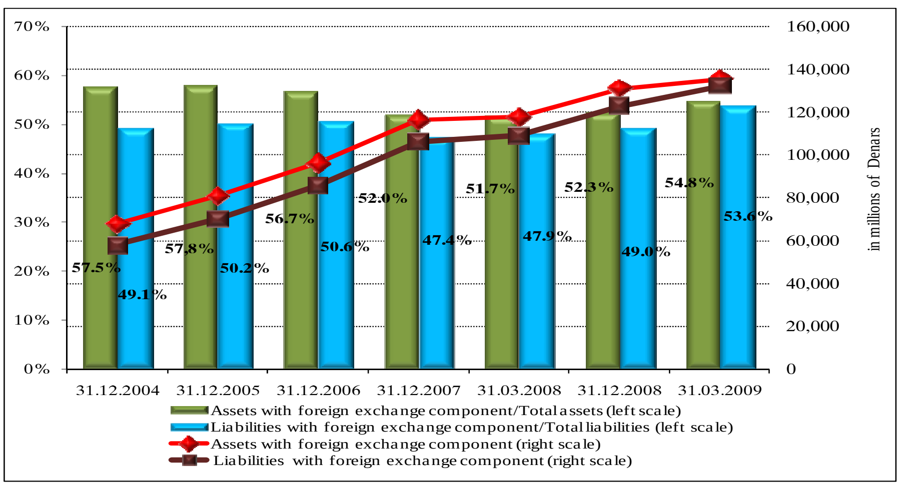
3.3 Currency risk

The banks' balance sheets characterize with significant presence of items with foreign currency component (in foreign exchange and in Denars with FX clause). Such a situation maintained also at the end of the first quarter of 2009, with additional strengthening of the foreign currency component on the side of the liabilities being registered. It resulted in decrease in the gap between the assets and liabilities with currency component, i.e. their larger harmonization. On March 31, 2009 the banks were managing the currency risk generally within the prescribed limits for the aggregate open currency position. In January 2009, the implementation of the new Decision on managing the currency risk commenced.

3.3.1 Assets and liabilities currency structure

The high share of assets and liabilities with the currency component[21] in the total assets and liabilities of the banking system of the Republic of Macedonia remained also during the first quarter of 2009. Similar to the previous quarters, the trend of strengthening of the foreign currency component in the banks' balances continued. On March 31, 2009, 54.8% (Denar 135,385 million) of the total assets is with currency component, while on the side of the liabilities, this share is slightly lower and it

Figure 30
Share of the assets and the liabilities with currency component in the total assets and liabilities at the level of the banking system



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

[20] The anticipated residual maturity of individual asset (assets) and liabilities positions (liabilities) represents the residual period from the end of the reporting period until their anticipated maturity, i.e. the maturity within which the bank estimates an occurrence of inflows based on their claims and outflows based on its liabilities.

[21] The assets and the liabilities with currency component encompass the assets and liabilities items in foreign exchange and in Denars with FX clause.

equals 53.6% (Denar 132,273 million). On a quarterly basis, the assets and liabilities with currency component went up by 2.5 and 4.6 percentage points, respectively. As a result of the continuous higher increase in the foreign currency component on the side of the liabilities and the minor increase in the foreign currency component in the assets, in the first quarter of 2009, significant contraction of the gap between the assets and liabilities at the level of the banking system was registered.

By groups of banks, quarterly increase in the share of the assets and the liabilities with currency component in the total assets and liabilities is characteristic for all groups of banks. The foreign currency component on the side of the assets is identically represented with the groups of large and medium-size banks, while on the side of the liabilities, the highest share of the foreign currency component was registered with the group of medium-size banks**.**

Figure 31
Share of the assets with currency component in the total assets, by groups of banks

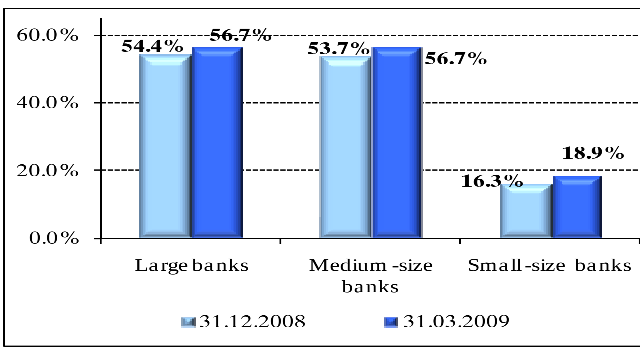
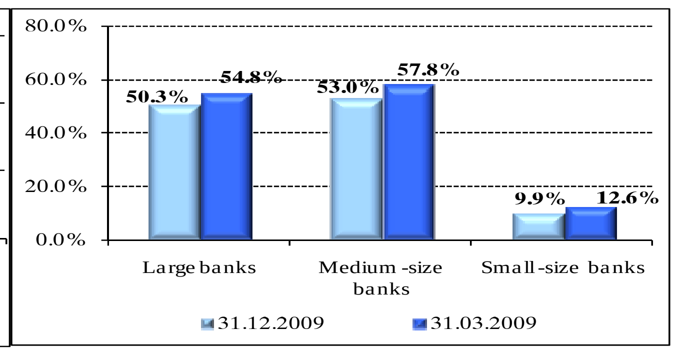


Figure 32
Share of the liabilities with currency component in the total liabilities, by groups of banks



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

From the aspect of the assets' currency structure, on March 31,2009 the items in foreign exchange registered quarterly increase in the share of 2.7 percentage points, while the share of the items in Denars with FX clause registered minor decrease of 0.2 percentage points. Such structural movements in the assets with currency component are primarily due to the slight decrease in the credits with FX clause and the increase in the foreign exchange credits and placements in foreign banks. On the side of the liabilities, the currency transformation of the deposit core of the banks contributed to increase in the share of the items in foreign exchange and in Denars with FX clause of 3.7 and 0.9 percentage points, respectively.

Figure 33
Currency structure of the banks' assets

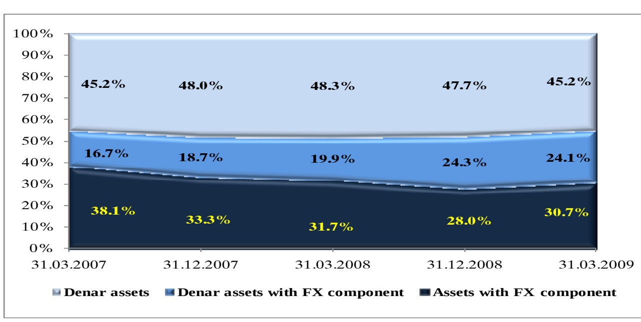
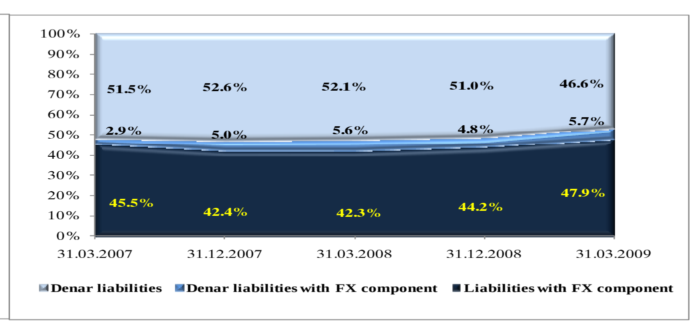


Figure 34
Currency structure of the banks' liabilities



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

Figure 35
Structure of the assets with currency component at the level of the banking system

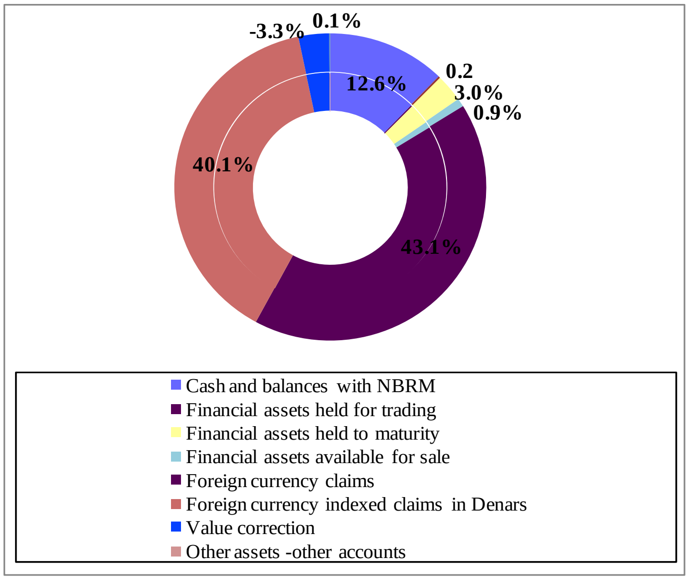
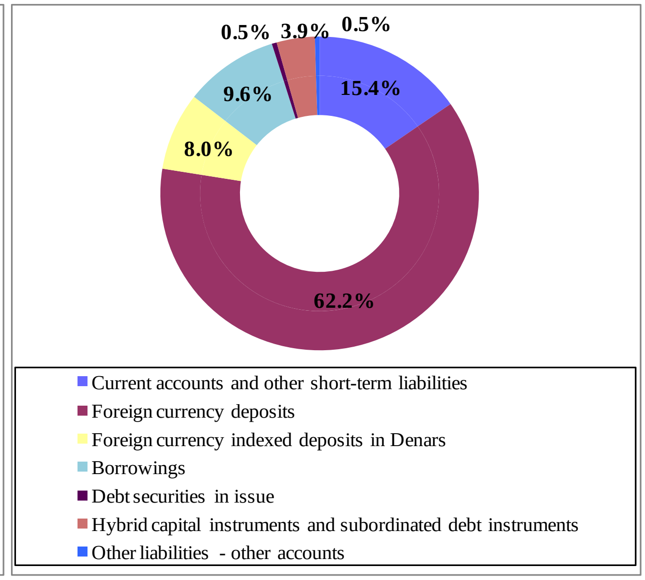


Figure 36
Structure of the liabilities with currency component at the level of of the banking system



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

The currency structure of the assets and liabilities with currency component and the gap between them registers no significant quarterly changes. The most frequent foreign currency in the banks' balances is the Euro, which insignificantly increased in the last quarter. In the currency structure of the gap between the foreign exchange denominated assets and liabilities, the share of the Euro decreased on a quarterly basis (decrease in the share of 5.3 percentage points). This is mostly a result of the higher quarterly rise (9.5%) of the Euro denominated liabilities, compared to the quarterly decrease in the Euro denominated assets (4.3%). Such movements result in even bigger approximation (compliance) of the banks' assets and liabilities with currency component. The Swiss Frank registered a significant quarterly increase in the share of the currency structure of the gap between the assets and liabilities with currency component.

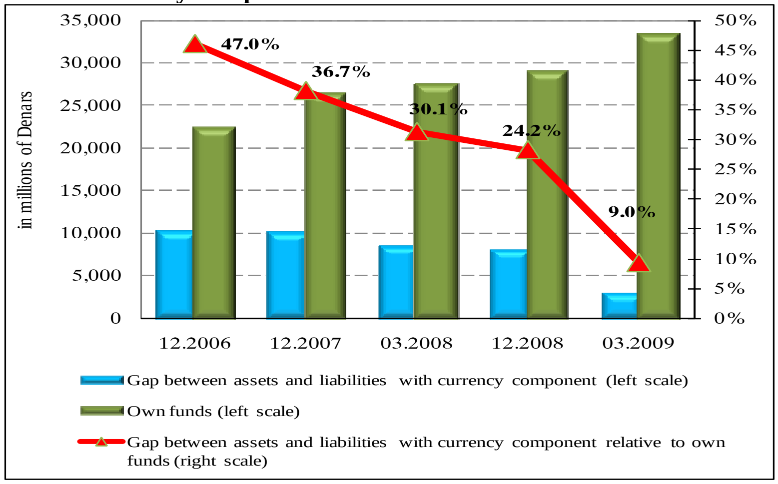
Table 20
Currency structure of the assets and liabilities with currency component

Currencies	31.12.2008			31.03.2009		
	Currency structure of the assets with FX component	Currency structure of the liabilities with FX component	Currency structure of the gap with between assets and liabilities with FX component	Currency structure of the assets with FX component	Currency structure of the liabilities with FX component	Currency structure of the gap with between assets and liabilities with FX component
Euro	88.4%	88.8%	83.5%	89.4%	89.7%	78.2%
U.S. Dollar	7.5%	8.0%	0.1%	7.0%	7.2%	-1.0%
Swiss frank	2.2%	1.6%	9.6%	1.8%	1.4%	15.9%
Other	1.9%	1.6%	6.8%	1.8%	1.7%	6.9%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

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

On March 31, 2009, the gap between assets and liabilities with currency component equaled Denar 3,112 million and participate with 9.0% in the own funds at the level of the banking system. The continuous decrease in the gap between the assets and the liabilities with currency component contributed to a relatively high level of compliance between assets and liabilities with currency component. In conditions of rise in the banks' own funds, the gap / own funds ratio evidently reduced.

Figure 37
Movement of the gap between assets and liabilities with currency component relative to the banks' own funds



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

3.3.2 Open currency position

Pursuant to the regulations, the banks are obliged to adhere to the limit for the aggregate open currency position[22], calculated relative to the own funds.

On March 31, 2009, one bank from the group of large banks and six banks from the group of medium-size banks have aggregate short currency position, while all other banks characterize with aggregate long currency position. Generally, the currency risk management by the banks is carried out within the prescribed limits[23] for the aggregate open currency position. The aggregate open currency position / own funds ratio with most of the banks equaled 30%. According to the analysis by currency, the correlation between the open currency position by currency and the own funds ranges up to 5% with most of the banks.

Table 21
Position of banks according to the share of the aggregate open currency position relative to own funds

Aggregate OCP/Own funds	Number of banks	
	Long	Short
under 5%	3	2
from 5% to 15%		2
from 15% to 30%	6	3
from 30% to 50%	1	
over 50%		

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

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

[23] Since January 01, 2009, the implementation of the new Decision on managing currency risk began. Pursuant to the new Decision, the aggregate foreign currency position can be maximum 30% of the banks' own funds, compared to previously, when the prescribed limit equaled 50% for the long, i.e. 10% for the short aggregate currency position. Also, with this Decision, there are no more prescribed limits for the banks' foreign currency position by currency, but each bank is required to determine those limits within its internal policies. Additionally, the off-balance sheet items in determining the open currency position are encompassed with this Decision. On March 31, 2009, the off-balance sheet positions participate with 0.12% and 0.06% in the total on- and off-balance sheet items, on the asset and liabilities side, respectively.

Table 22
Open currency position by currency / own funds

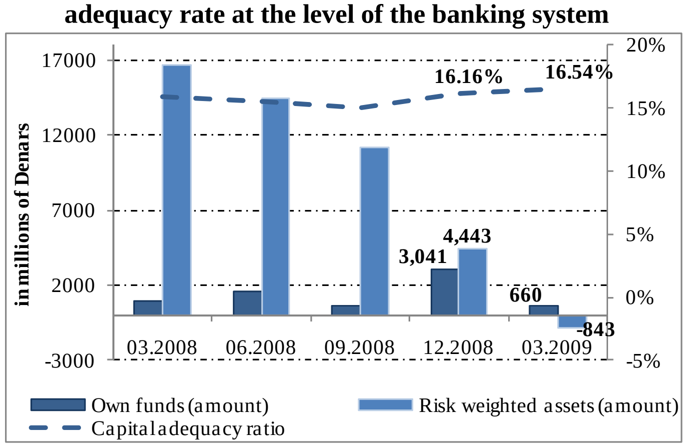
Open currency position by currencies/Own funds	Number of banks							
	Euro		U.S. Dollar		Swiss frank		Other	
	Short	Long	Short	Long	Short	Long	Short	Long
under 5%	2	3	7	6	8	5	12	1
from 5% to 10%		2	1				1	
from 10% to 20%	4							
from 20% to 30%	2	2						
over 30%								

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

3.4 Insolvency risk[24]

The worsened macroeconomic conditions in the country in the first quarter of 2009, as well as the uncertainty from the global financial crisis increased the perception of the banks for the significance of the capital position for their further stable functioning. The reinvesting of part of the net profit in reserves and the higher utilization of the additional capital, contributed to growth in the own funds. Simultaneously, the banks continued increasing the level of restrictiveness of the credit policy, which contributed to slower growth in the credit activity. Additionally, the currency transformation of the core deposit of banks and subsequent narrowing in the gap between the assets and the liabilities with foreign currency component contributed also for reducing the capital required for covering the currency risk. Such developments ensured strengthening of the relatively high solvency position of the banking system. The capital adequacy rate continued its growth which started in the previous quarter and it is still twice higher than the legally prescribed minimal level of 8%.

Figure No. 38
Quarterly change in the own funds, the assets weighted according to risks and the capital adequacy rate at the level of the banking system

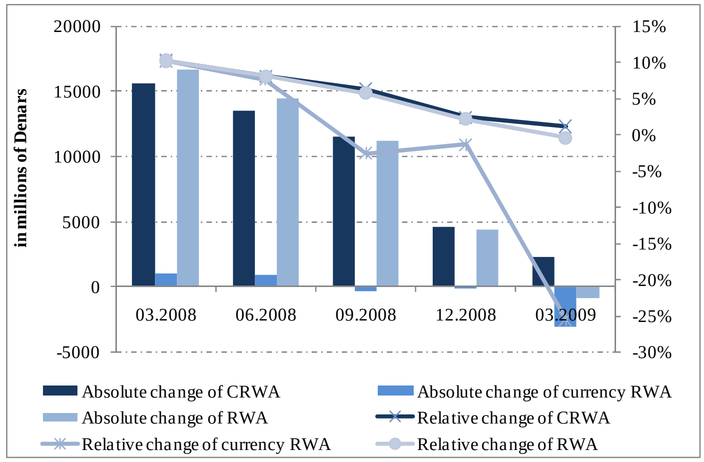


Source: NBRM, based on the data submitted by other banks.

[24] The amendments to the Decision on the methodology for determining the capital adequacy ("Official Gazette of the Republic of Macedonia", No.159/2007), which pertain to the market risks emerging from the trade portfolio are being applied since January 1, 2009. Also, since 2009 the new Instructions for implementing the Decision on the methodology for determining the capital adequacy started being applied ("Official Gazette of the Republic of Macedonia", No. 43/2009), which resulted in certain structure changes in the own funds.

The own funds continued the upward trend in the first quarter of 2009 as well. On March 31, 2009 they amounted to Denar 34.573 million, which represented rise of 1.9% relative to the end of 2008 (Annex No. 14 - Changes in the own funds of banks). The core capital gave the largest contribution to their growth (of approximately 80%), which rose by Denar 535 million. This increase was mostly due to the distribution of a part of the profit for 2008 in reserves with one bank. Additionally, in the first quarter of 2009 the utilization of the subordinated instruments continued to grow. In this quarter, the subordinated instruments of the banks, on net basis rose by additional Denar 130 million. This change was for approximately three times higher relative to the first quarter of 2008. Despite that, the significance of the additional capital for the total own funds remained at a considerable lower level, relative to the core capital which still creates a dominant part of them.

Figure No. 39
Quarterly change of CRWA, CurrencyRWA, and RWA at the level of the banking system



Source: NBRM, based on the data submitted by other banks.
CRWA: credit risk weighted assets
Currency RWA: currency risk weighted assets
RWA: risk weighted assets

In the first quarter of 2009, for the first time in the last few quarters, the risk weighted assets dropped. This decrease, on one hand was, due to the slower growth in the credit risk weighted assets which corresponded with the slower dynamics of the credit activity of banks. On the other hand, it resulted from the lower gap between the assets and the liabilities with foreign currency component which contributed to drop in the currency risk weighted assets. Different from the previous periods when the development of the risk weighted assets was mostly determined from the the credit risk weighted assets, in the first quarter of 2009 it was mostly determined by the dynamics of the currency risk weighted assets as well. The risk weighted assets, relative to December 31, 2008 reduced by Denar 843 million or by 0.4% and at the end of the first quarter of 2009 it amounted to Denar 209.025 million (Annex No. 14 - Capital adequacy ratio). The credit risk weighted assets registered quarterly growth of only 1.1%. For comparison, in the first quarter of 2008 it grew with quarterly dynamics of 10.2%. Opposite to that, the currency risk weighted assets in the first quarter of 2009 reduced to considerable 25.5%, thus determining the downward trend of the total risk weighted assets.

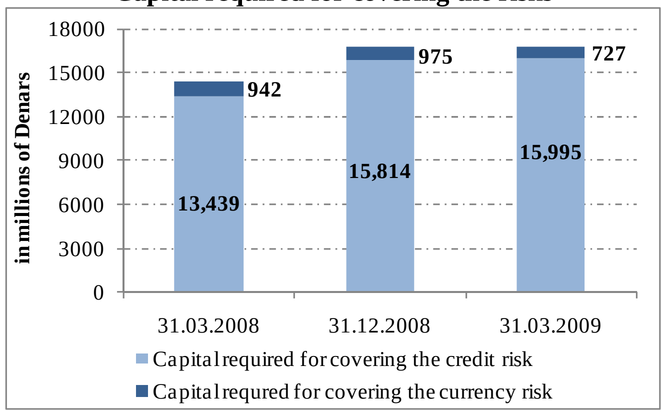
With slower growth in the credit activity and narrowing in the gap between the assets and the liabilities with foreign currency component being registered on one side, and growth in the own funds on the other side, **the capital adequacy rate continued the upward trend which started in the previous quarter, and on March 31, 2009 it amounted 16.5%.**

Same as in the previous periods, the group of large banks registered the lowest capital adequacy rate (14%), while with the groups of medium-size and small-size banks the capital adequacy rate amounted to 16.9% and 59.7%, respectively. Relative to December 31, 2008 drop in the capital adequacy was registered only with the small-size banks (by 2.2 percentage points). Opposite to this, with the groups of large and medium-size banks, the capital adequacy rate went up by 0.59 percentage points and 0.15 percentage points, respectively. On March 31, 2009, the capital adequacy with all individual banks was above the legally prescribed level of 8%.

As a result to the drop in the risk weighted assets, the capital required for covering the risks decreased as well. It enabled growth in the participation of the own funds above the level required for covering the risks in the total own funds of the banking system. Relative to December 31, 2008 the own funds above the level required for covering the risks rose by 4.3% so their participation in the structure of the total own funds of the banking system went up by 1.1 percentage point and on December 31, 2009 it amounted to 51.6%.

The drop in the currency risk weighted assets determined also a decrease in the amount of the capital required for covering this risk, as well as a decline in its participation in the total capital required for covering the risks. In the first quarter of 2009, the participation of the capital for covering the currency risk in the total capital for covering risks dropped by 1.5 percentage points relative to the end of 2008 and by 2.2 percentage points relative to the first quarter of 2008. At the expense of this drop, the capital required for covering the credit risk registered further growth, so its dominant participation in the total capital for covering the risks went up additionally and on December 31, 2009 it equaled 95.7%.

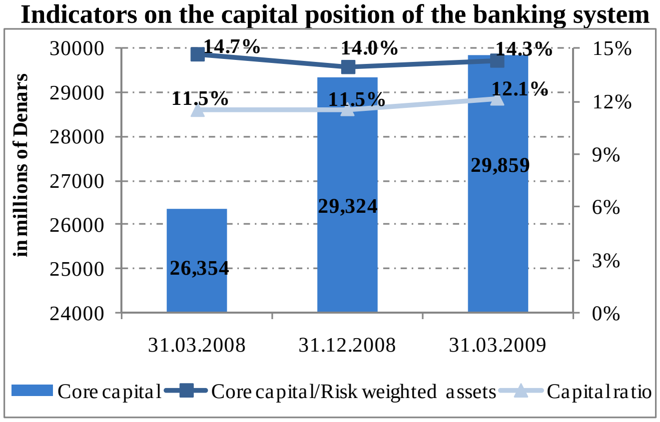
Figure No. 40
Capital required for covering the risks



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

The strengthening in the core capital in the first quarter of 2009 resulted in growth in the capitalization ratio of the banking system as well[25]. The capitalization ratio, which on March 31, 2009 amounted to 12.1%, ensures satisfactory level of safety of the banking system in the Republic of Macedonia. Relative to December 31, 2008 and relative to March 31, 2008 the capitalization ratio grew up by 0.6 percentage points. Although the funding from own sources can represent more expensive source of funding , still in conditions of crisis on the international financial markets and more difficult approach to the external sources of funds, the banks in the Republic of Macedonia can respond more adequately to the external shocks with its own sources.

Figure No. 41
Indicators on the capital position of the banking system



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

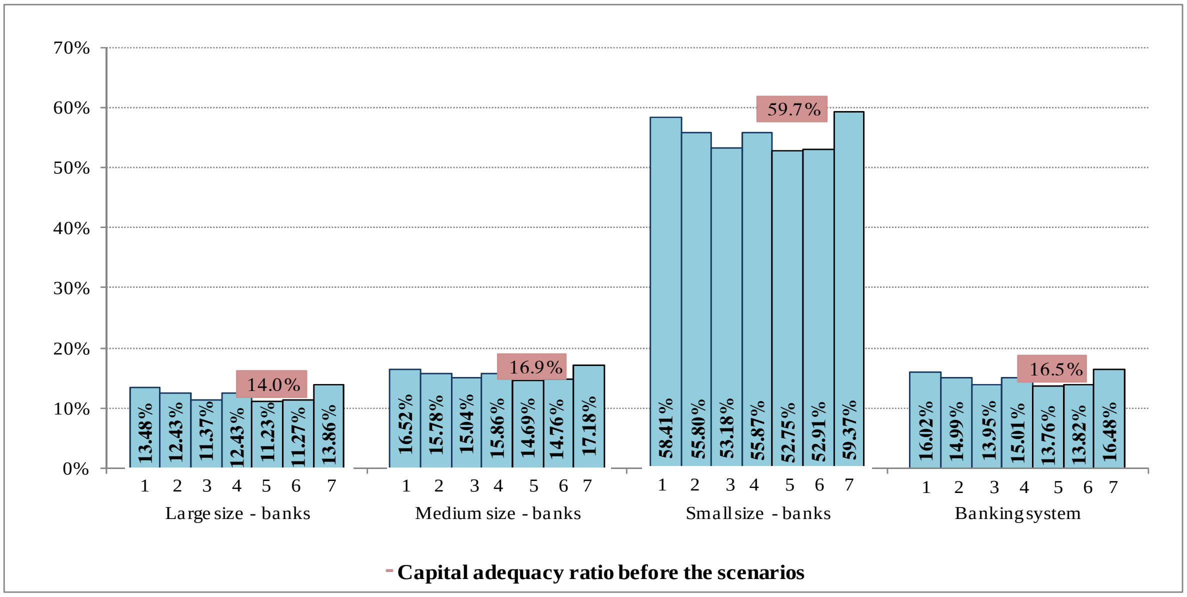
[25] The rate of capitalisations represents a corelation between the capital and the reserves of the banks with their total sources of funds.

Stress test simulations for the resistance of the banking system to hypothetical shocks as of March 31, 2009

In the first quarter of 2009, the conducted stress test simulations for the resistance of the banking system in the Republic of Macedonia to eventual external shocks indicated that the bank system is still relatively resistant to the influence of various external shocks.

Figure No. 42

Interval of the rate of capital adequacy after the performed stress-test simulations



Source: Internal calculations of NBRM

In the previous periods, the results from the stress test analyses indicated most evident drop in the capital adequacy when using the isolated credit shock. In this quarter the capital adequacy ratio registered its most significant fall after applying the fifth scenario (which represented combination of the credit and currency risk). Such results were specific for all groups of banks, and consequently, for the total banking system. Such results confirmed all the above mentioned statements for the dependence of the capital adequacy on the slower growth in the credit activities and the currency transformation of the core deposit of the banking system that were present in the first quarter of 2009.

[1] This stress test analysis is based on the implementation of seven hypothetical scenarios, of which:
- three scenarios for isolated credit shock (increase in the credit exposure classified in the risk categories C, D and E of: 10%, 30% and 50%),
- fourth scenario as a combination of credit and interest shock (increase in the credit exposure in the risk categories C, D and E by 30% and increase in the domestic interest rates of 5 percentage points),
- fifth scenario as a combination of credit and foreign exchange shock (increase in the credits exposure in the risk categories C, D and E by 50% and depreciation of the Denar exchange rate relative to the Euro and the US Dollar of 20%),
- sixth scenario as a combination of the shocks on the side of the credit risk, foreign exchange risk and interest rate risk (increase in the credit exposure in the risk categories C, D and E by 50%, depreciation of the Denar exchange rate relative to the Euro and the US Dollar of 20% and rise in the domestic interest rates of 5 percentage points) and
- appreciation of the Denar exchange rate relative to the Euro and the US Dollar in the amount of 20%.

3.5 Profitability[26]

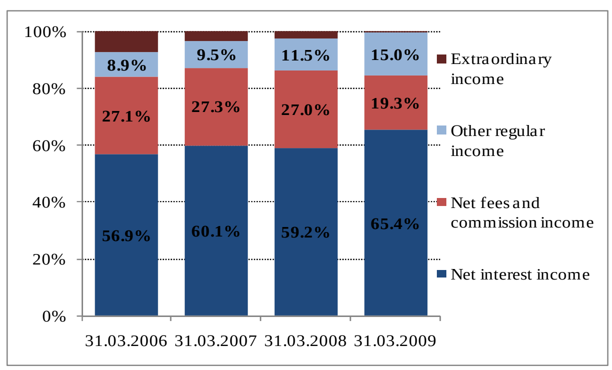
In the first three months of 2009, the total profit of the banking system of the Republic of Macedonia amounted to Denar 136 million. It was by Denar 810 million, i.e. by 85.6% lower relative to the profit realized in the first three months of 2008. The lower profit was due to the increase in the impairment of the financial assets and the operational costs, as well as to the drop in the net income from fees and commissions and extraordinary income. The profitable operating of banks in the first three months of 2009 was due to the other regular income considering the fact that the net interest income and the net income from fees and commissions, were not enough to cover the expenditures based on impairment of financial and non-financial assets and operational costs. Out of the total 18 banks, 7 banks showed loss, the participation of which in the total assets at the level of the banking system amounted to 11%. For comparison, in the first three months of 2008, 4 banks showed loss, and their participation in the assets at the level of the banking system amounted to 5.6%.

The lower profit with the group of large banks and the operating with loss of the group of medium-size banks was the main reason for the drop in the profit at the level of the banking system. This shows that the total profit at the level of the banking system was solely due to the performances of the group of large banks. Relative to the first quarter of 2008, the profit of the group of large banks was almost halved (by Denar 389 million lower or by 44.5%). The group of medium-size banks, different from the profitable operating registered so far, at the end of the first quarter of 2009 showed loss in the amount of Denar 261 million. For comparison, in the same period of the previous year, the group of medium-size banks showed profit of Denar 100 million. The higher impairment ant the increased operational costs, as well as the lower income from commissions, determined considerable drop in the profit in the group of large groups, and loss with the group of medium-size banks. At the end of the first quarter of 2009, the group of small banks showed loss of Denar 87 million, which was by three times higher than the loss in the first quarter of 2008. (Annex No. 2 - Statement of the comprehensive income 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 at the level of the banking system, as of March 2009 amounted to Denar 3.802 million, which was by Denar 412 million, or by 12.1% more relative to the first quarter of 2008. The net interest income remained the dominant item in the structure of the income of banks and contributed with 116.3% to the growth in the total income. In the same time, the net interest income increased its participation in the total income by 6.2 percentage points. The net income from fees and commissions, although with evidently lower participation, were the second by significance income in the structure of the total income. However, relative to March 2008, this income registered

Figure 43
Structure of the total income of banks



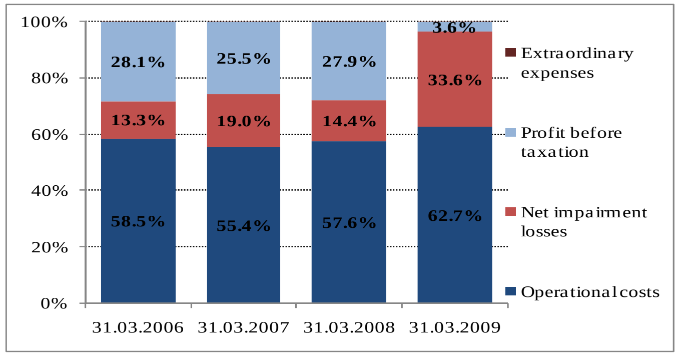
Source: NBRM, based on the data submitted by other banks.

[26] The start of applying the new accounting framework for the banks, which was prepared in a line with the international standards for financial reporting influenced significantly on individual balance developments and the structure of the balances of the banking sector. These regulations created a need for adjustment of a large part of the bylaw prudent banking regulations. Considering these improvements, and especially as a result of the more detailed new accounting framework relative to the previous, in certain situations the ability for precise comparison analysis was confined.

drop by Denar 181 million or by 19.8%[27]. The other regular income increased their participation in the total income and contributed to their growth with 44%. Relative to the other income categories, they registered the highest relative growth of 46.4% (or by Denar 181 million), and they are significant support for the profitable operating of the banks in this quarter.

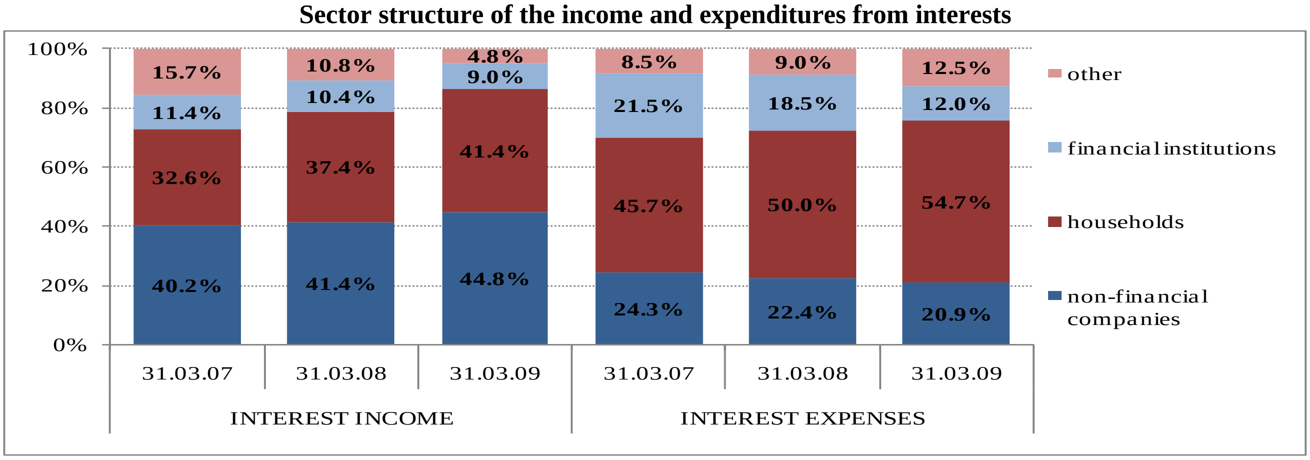
In the first three months of 2009, the operational costs[28] continued to absorb the largest part (62.7%) of the total income of banks. Relative to the first quarter of 2008, the operational costs of banks rose by Denar 429 million, or by 22%. The growth in the operational costs determined drop in their coverage with the total regular income from 165% (in March 2008) to 152.5% (in March 2009). The costs for the employees maintained the considerable participation (about 40%) in the structure of the operational costs, and almost 1/4 of the total income of banks was used for covering these costs. In the first quarter of 2009, the participation of the impairment for the financial and non-financial assets in the total income was by 2.3 times higher relative to first three months of 2008. The worsening in the quality of the credits determined the impairment of assets (relative to the first quarter of 2008) to register the highest absolute (Denar 789 million) and relative growth (161.5%) relative to the other analyzed categories. The growth in the operational costs and in the impairment determined considerable drop in the part of the income which pertains to the current profit.

Figure 44
Utilization of the total income of banks



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

Figure 45
Sector structure of the income and expenditures from interests



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

[27] The appliance of new regulative framework since January 1, 2009 can have some influence on the amount of the fees and commission income. Namely, by applying the new accounting framework for the banks and the new Decision on credit risk management the new category "accumulated depreciation" was introduced. Previously (with part of the banks) the collected commissions based on credits were shown as income from commission in full amount, without allocating the income over the expected life of the credit. With the new regulations, such commissions represent interest income, which is shown as income over the credit maturity.

[28] The operational costs include: costs for employees, depreciation, and other expenditures of the activity excluding the extraordinary expenditures.

According to the sector segregation, the income and the expenditures from non-financial companies and households had the main role in the creation of the interest income and expenditures. They participated in the structure of the interest income with 86.2%, and in the structure of the interest expenditures with 75.6%. In the structure of the income, the participation of the income from non-financial companies and households was almost equal. In the structure of the expenditure, the participation of the expenditures of the households was higher relative to the participation of the expenditures of the non-financial companies which was due to the dominant participation of the deposits of the households (63.7% - March 2009) in the structure of the total deposits, as well as of the higher deposit rates in order to attract new depositors.

3.5.2 Indicators on the profitability and efficiency of banks

In the first three months of 2009, the rate on return on assets (ROAA) amounted to 0.2% and relative to the same period in the previous year it registered drop by 1.5 percentage points. The rate on return on equity (ROAE) amounted to 1.8% which was by high 12.9 percentage points less relative to first quarter of 2008. The slower growth in the activities of banks, the higher operational costs and the lower quality of the credit portfolio of the banks acted towards drop in the banks' profitability. On the other hand, growth in the participation of the net interest income in the total regular income, as well as upward trend in the correlation between the net interest income and the average assets were registered, which was due to the more intensive annual growth in the net interest income from the total regular income and the average assets. However, in the first quarter of 2009, considerable part of the income from regular activities served for covering the expenditures due to the worsened quality in the credit portfolio.

Table 23
Indicators on the profitability and efficiency of banks' activities

Indicators	Banking system		Large banks		Medium-sized banks		Small-sized banks	
	31.03.2008	31.03.2009	31.03.2008	31.03.2009	31.03.2008	31.03.2009	31.03.2008	31.03.2009
Rate of return of average assets (ROAA)	1.7%	0.2%	2.3%	1.2%	0.6%	-1.5%	-0.9%	-2.8%
Rate of return of average equity (ROAE)	14.7%	1.8%	28.5%	12.8%	4.8%	-12.1%	-2.2%	-6.1%
Cost-to-income ratio *	59.0%	62.9%	49.4%	50.3%	75.2%	88.8%	82.2%	96.3%
Non-interest expenses/Total regular income*	64.0%	66.7%	53.4%	53.2%	80.5%	93.8%	97.6%	105.8%
Employees expenses/Total regular income*	24.1%	24.4%	20.3%	19.0%	29.5%	34.8%	40.4%	43.2%
Net impairment losses/Net interest income	24.4%	51.4%	20.4%	49.3%	24.8%	51.9%	70.0%	77.0%
Net interest income/Average assets	3.6%	4.0%	3.3%	3.9%	4.2%	4.1%	3.4%	4.0%
Net interest income/Total regular income*	60.6%	65.6%	58.7%	63.1%	63.8%	72.5%	65.7%	63.3%
Net interest income/Non-interest expenses	94.8%	98.2%	109.8%	118.5%	79.2%	77.2%	67.3%	59.8%
Profit /Total regular income*	28.6%	3.6%	41.1%	18.7%	9.7%	-25.9%	-18.0%	-44.9%

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

Thus, in the first three months of 2009, approximately half of the net interest income was used to cover the impairment of the financial and the non-financial assets, which was by twice more relative to the first three months of 2008. Parallel with this, the higher operational costs of the banks influenced the drop in the operating efficiency in the banks' activities. Thus, **the cost-to-income indicator** registered growth from 59% (first quarter 2008) to 62.9% (first quarter 2009). The lower profitability and the operating efficiency determined for the participation of the income in the total regular income to reduce from 28.6% (in the first quarter of 2008) to 3.6% (in the first quarter of 2009).

In the first three months of 2009, the trend of improvement of the profitability and the efficiency of the group of large banks was interrupted, the group of medium size banks started to show loss, while the group of small-size banks deepened the loss even more. The rise in the impairment and in the operational costs, as well as the lower net income from commissions were the main reasons for the worsened profitability and efficiency with all individual groups of banks. In the groups of large and small-size banks, the lower extraordinary income had additional influence on the worsening of the profitability.

3.5.3 Development of the interest rates

In the first three months of 2009, generally the lending rates of the households and the non-financial companies continued to grow, excluding the interest rates of certain categories of credits which registered fall relative to the condition in March 2008. Compared to March 2008, the interest rates of the Denar short-term households credits registered most significant growth of 0.9 percentage points. In the analyzed period, with the non-financial companies, the interest rates of the long-term Denar credits registered the highest growth of 1 percentage point.

Figure 46
Development in the lending interest rates of the households

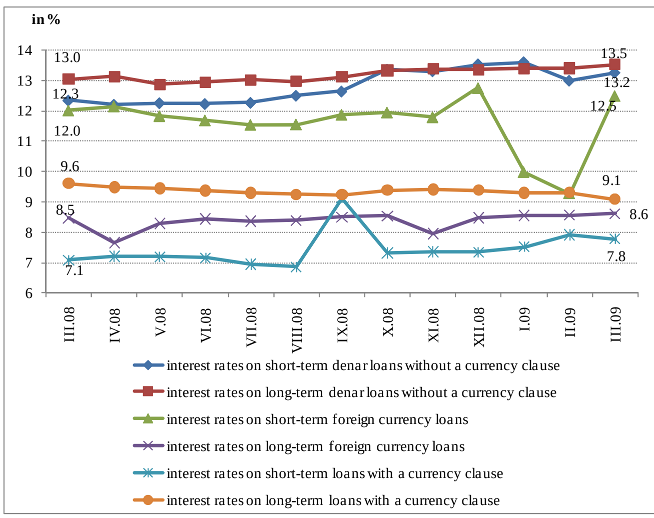
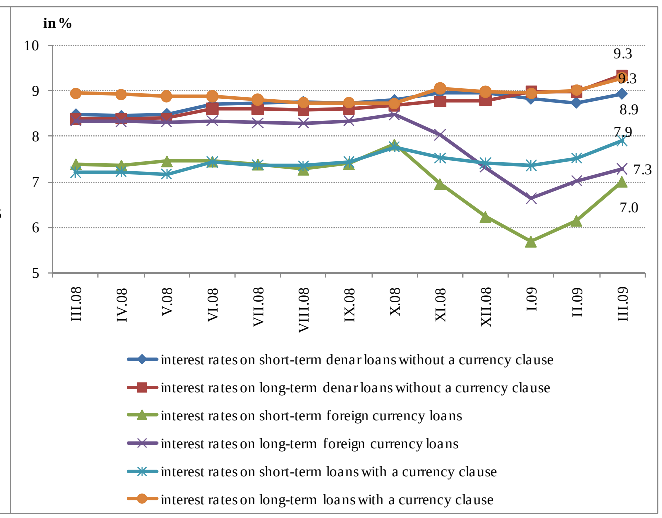


Figure 47
Development in the lending interest rates of the non-financial companies



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

Figure 48
Development in the deposit interest rates of the households

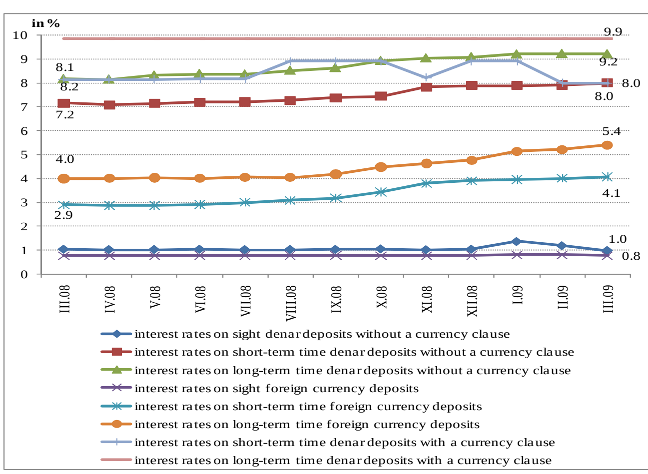
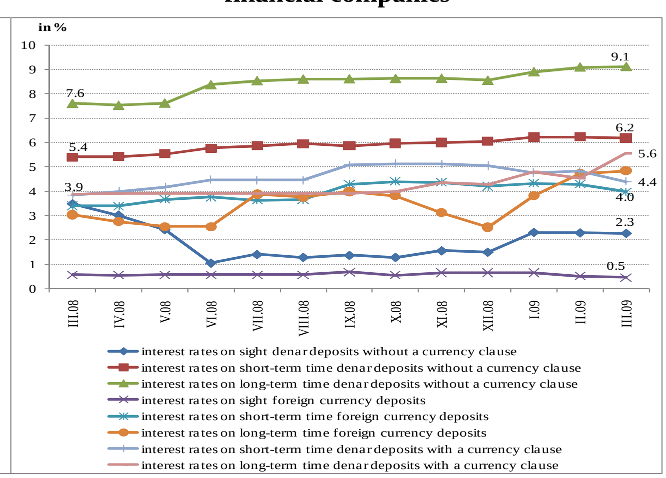


Figure 49
Development in the deposit interest rates of the non-financial companies



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

In the first quarter of 2009, the deposit interest rates generally grew more, relative to the lending interest rates. Compared to March 2008, the interest rates of the long-term foreign currency households deposits registered the highest growth of 1.4 percentage points. They are followed by the interest rates of the short-term foreign currency deposits with a growth of 1.2 percentage points. Such upward dynamics of the foreign currency households deposit interest rates was in order to keep the existing and to attract new depositors, which on the other hand contributed to currency transformation of the household deposits from Denar to foreign currencies. The interest rates of the Denar long-term and short-term deposits were developing in similar direction, with slightly slower dynamics, and in the analyzed period they registered growth of 1 and 0.8 percentage points, respectively. With the non-financial companies, the interest rates of foreign currency long-term deposits registered the highest growth of 1.8 percentage point, followed by the interest rates of the FX indexed long-term deposits of 1.7 percentage points and the interest rates of the Denar long-term deposits with 1.5 percentage points.

ANNEXES

Annex 1

STATEMENT OF FINANCIAL POSITION BY GROUPS OF BANKS IN REPUBLIC OF MACEDONIA AS OF 31.03.2009

in millions of Denars

No.	Assets	Large banks	Medium banks	Small banks	Total
1	**CASH AND BALANCES WITH NBRM**	***16,091***	***7,111***	***940***	***24,142***
	Denar cash	*7,171*	*3,286*	*673*	***11,129***
	Foreign currency cash	*1,485*	*726*	*129*	***2,339***
	Gold and other precious metals	*0*	*1*	*0*	***1***
	Checks and bills of exchange	*13*	*12*	*2*	***27***
	Compulsory reserves requirement and compulsory deposits	*7,423*	*3,087*	*136*	***10,646***
2	**FINANCIAL ASSETS HELD FOR TRADING**	***894***	***2***	***0***	***896***
	Denar securities and other financial instruments held for trading	*612*	*2*	*0*	***614***
	Foreign currency securities and other financial instruments held for trading	*59*	*0*	*0*	***59***
	FX indexed securities and other financial instruments held for trading	*223*	*0*	*0*	***223***
6	**FINANCIAL ASSETS HELD-TO-MATURITY**	***9,048***	***1,331***	***1,392***	***11,771***
	Money market instruments held-to -maturity issued by the state	*2,752*	*309*	*434*	***3,496***
	Money market instruments held-to -maturity issued by the central bank	*2,249*	*936*	*493*	***3,678***
	Other debt instruments held-to-maturity issued by the state	*3,740*	*64*	*465*	***4,269***
	Other debt instruments held-to-maturity issued by banks and saving houses	*307*	*0*	*0*	***307***
	Other debt instruments held-to-maturity issued by other financial institutions	*0*	*21*	*0*	***21***
7	**FINANCIAL ASSETS AVAILABLE FOR SALE**	***4,169***	***3,401***	***1,480***	***9,050***
	Money market instruments available for sale issued by nonfinancial institutions	*0*	*0*	*0*	***0***
	Money market instruments available for sale issued by the state	*1,001*	*2,159*	*511*	***3,671***
	Money market instruments available for sale issued by the central bank	*1,591*	*902*	*605*	***3,099***
	Money market instruments available for sale issued by banks and saving houses	*0*	*20*	*0*	***20***
	Other debt instruments available for sale issued by nonfinancial institutions	*0*	*0*	*0*	***0***
	Other debt instruments available for sale issued by the state	*1,082*	*156*	*8*	***1,247***
	Other debt instruments available for sale issued by banks and saving houses	*307*	*0*	*0*	***307***
	Other debt instruments available for sale issued by other financial institutions	*0*	*13*	*0*	***13***
	Other debt instruments available for sale issued by nonresidents	*0*	*0*	*53*	***53***
	Equity instruments available for sale issued by nonfinancial institutions	*11*	*34*	*9*	***55***
	Equity instruments available for sale issued by banks and saving houses	*7*	*32*	*252*	***292***
	Equity instruments available for sale issued by other financial institutions	*166*	*83*	*35*	***284***
	Equity instruments available for sale issued by nonresidents	*2*	*2*	*6*	***11***
8	**PLACEMENTS TO THE CENTRAL BANK**	***0***	***162***	***50***	***212***
	Deposits with the central bank	*0*	*163*	*50*	***214***
	Impairment (provisions) of placements with the central bank	*0*	*-1*	*0*	***-1***
9	**PLACEMENTS TO FINANCIAL INSTITUTIONS (NET)**	***18,508***	***7,504***	***4,152***	***30,164***
	Accounts with domestic banks (net)	*855*	*856*	*265*	***1,976***
	Accounts with domestic banks	*861*	*863*	*266*	***1,990***
	Accumulated amortization and impairment (provisions) of accounts with domestic banks	*-6*	*-7*	*0*	***-13***
	Accounts with foreign banks (net)	*16,423*	*6,165*	*1,567*	***24,155***
	Accounts with foreign banks	*16,423*	*6,169*	*1,567*	***24,159***
	Accumulated amortization and impairment (provisions)of accounts with foreign banks	*0*	*-4*	*0*	***-4***
	Deposits with financial institutions-nonresidents (net)	*39*	*84*	*2*	***126***
	Deposits with financial institutions-nonresidents	*39*	*84*	*2*	***126***
	Loans to domestic banks (net)	*80*	*220*	*2,260*	***2,560***
	Loans to domestic banks	*80*	*220*	*2,333*	***2,634***
	Impairment (provisions) of loans to domestic banks	*0*	*0*	*-73*	***-73***
	Loans to saving houses (net)	*1,020*	*0*	*0*	***1,020***
	Loans to saving houses	*1,028*	*0*	*0*	***1,028***
	Accumulated amortization of loans to saving houses	*0*	*0*	*0*	***0***
	Impairment (provisions) of loans to saving houses	*-7*	*0*	*0*	***-7***
	Loans to insurance companies (net)	*0*	*1*	*0*	***1***
	Loans to insurance companies	*0*	*1*	*0*	***1***
	Impairment (provisions) of loans to insurance companies	*0*	*0*	*0*	***0***
	Loans to pension funds (net)	*0*	*0*	*0*	***0***
	Loans to pension funds	*0*	*0*	*0*	***0***
	Impairment (provisions) of loans to pension funds	*0*	*0*	*0*	***0***
	Loans to other financial institutions (net)	*29*	*177*	*0*	***206***
	Loans to other financial institutions	*29*	*186*	*0*	***215***
	Accumulated amortization of loans to other financial institutions	*0*	*0*	*0*	***0***
	Impairment (provisions) of loans to other financial institutions	*-1*	*-8*	*0*	***-9***
	Factoring and forfeiting receivables from financial institutions - nonresidents (net)	*11*	*0*	*0*	***11***
	Factoring and forfeiting receivables from financial institutions - nonresidents	*11*	*0*	*0*	***11***
	Accumulated amortization of factoring and forfeiting receivables from financial institutions - nonresidents	*0*	*0*	*0*	***0***
	Impairment (provisions) of factoring and forfeiting receivables from financial institutions - nonresidents	*0*	*0*	*0*	***0***
	Overdrafts of financial institutions - nonresidents (net)	*0*	*0*	*0*	***0***
	Overdrafts of financial institutions - nonresidents	*0*	*0*	*0*	***0***
	Impairment (provisions) of overdrafts of financial institutions - nonresidents	*0*	*0*	*0*	***0***
	Suspicious and contested claims from financial institutions (net)	*51*	*0*	*57*	***108***
	Suspicious and contested claims from financial institutions	*131*	*21*	*137*	***289***
	Impairment (provisions) of suspicious and contested claims from financial institutions	*-80*	*-21*	*-80*	***-181***

10	**PLACEMENTS TO NONFINANCIAL ENTITIES (NET)**		***109,519***	***45,122***	***2,985***	***157,626***
	Loans to nonfinancial institutions (net)		*65,334*	*24,335*	*1,434*	***91,104***
		Loans to nonfinancial institutions	*68,482*	*25,035*	*1,479*	***94,996***
		Accumulated amortization of loans to nonfinancial institutions	*-44*	*-71*	*-1*	***-116***
		Impairment (provisions) of loans to nonfinancial institutions	*-3,104*	*-629*	*-43*	***-3,777***
	Loans to sector - state (net)		*51*	*38*	*0*	***89***
		Loans to sector - state	*51*	*38*	*0*	***89***
		Accumulated amortization of loans to sector - state	*0*	*0*	*0*	***0***
		Impairment (provisions) of loans to sector - state	*0*	*0*	*0*	***0***
	Loans to nonprofit institutions serving households (net)		*82*	*17*	*1*	***99***
		Loans to nonprofit institutions serving households	*84*	*17*	*1*	***102***
		Accumulated amortization of loans to nonprofit institutions serving households	*0*	*0*	*0*	***0***
		Impairment (provisions) of loans to nonprofit institutions serving households	*-2*	*0*	*0*	***-3***
	Loans to households (net)		*41,389*	*19,225*	*1,306*	***61,920***
		Loans to households	*42,388*	*19,695*	*1,483*	***63,565***
		Accumulated amortization of loans to households	*-156*	*-118*	*0*	***-275***
		Impairment (provisions) of loans to households	*-843*	*-352*	*-176*	***-1,371***
	Receivables from payments made to backing guarantees of debt instruments and guarantees		*4*	*18*	*0*	***22***
	Factoring and forfeiting receivables from nonfinancial institutions (net)		*12*	*90*	*0*	***101***
		Factoring and forfeiting receivables from nonfinancial institutions	*12*	*90*	*0*	***101***
		Impairment (provisions) of factoring and forfeiting receivables from nonfinancial institutions	*0*	*0*	*0*	***0***
	Placements to nonfinancial institutions - nonresidents (net)		*1*	*37*	*0*	***38***
		Placements to nonfinancial institutions - nonresidents	*1*	*37*	*0*	***38***
		Accumulated amortization of placements to nonfinancial institutions - nonresidents	*0*	*0*	*0*	***0***
	Placements to households - nonresidents (net)		*0*	*1*	*1*	***2***
		Placements to households - nonresidents	*0*	*1*	*1*	***2***
		Accumulated amortization of placements to households - nonresidents	*0*	*0*	*0*	***0***
		Impairment (provisions) of placements to households - nonresidents	*0*	*0*	*0*	***0***
	Suspicious and contested claims from nonfinancial entities (net)		*2,839*	*1,674*	*255*	***4,768***
		Suspicious and contested claims from nonfinancial entities	*9,515*	*2,585*	*719*	***12,819***
		Impairment (provisions) of suspicious and contested claims from nonfinancial entities	*-6,676*	*-911*	*-464*	***-8,051***
	Group impairment for the retail credit portfolio		*-192*	*-311*	*-12*	***-516***
11	**ACCRUED INTEREST**		***790***	***457***	***69***	***1,315***
	Denar interest receivables from loans and placements		*271*	*208*	*34*	***513***
	Foreign currency interest receivables from loans and placements		*144*	*83*	*5*	***233***
	FX indexed interest receivables from loans and placements		*270*	*148*	*15*	***433***
	Denar interest receivables from debt instruments		*24*	*15*	*8*	***48***
	FX indexed interest receivables from debt instruments		*47*	*0*	*0*	***47***
	Interest receivables from other instruments		*8*	*2*	*6*	***15***
	Denar interest receivables as a result of deposits		*0*	*0*	*0*	***0***
	Foreign currency interest receivables from deposits		*25*	*0*	*0*	***26***
	Suspicious and contested claims of interest receivables		*0*	*-1*	*0*	***0***
12	**INVESTMENTS IN ASSOCIATES, SUBSIDIARIES AND JOINT VENTURES**		***155***	***0***	***0***	***155***
	Investments in associates		*125*	*0*	*0*	***125***
	Investments in subsidiaries		*31*	*0*	*0*	***31***
13	**OTHER ASSETS**		***732***	***875***	***109***	***1,717***
	Fees and Commission receivables		*39*	*28*	*26*	***94***
	Suspicious and contested claims from fees and commissions		*2*	*1*	*0*	***3***
	Net internal relations		*0*	*0*	*0*	***0***
	Deferred tax assets		*2*	*0*	*0*	***2***
	Other assets		*68*	*78*	*6*	***152***
	Account receivables and other receivables		*434*	*486*	*49*	***968***
	Deferred income, prepaid expenses and temporary accounts		*187*	*283*	*28*	***498***
14	**FORECLOSURES**		***1,401***	***709***	***395***	***2,505***
	Foreclosures		*1,556*	*855*	*416*	***2,827***
	Impairment of foreclosures		*-155*	*-147*	*-21*	***-322***
15	**INTANGIBLE ASSETS**		***291***	***327***	***74***	***693***
	Founding investments		*0*	*0*	*1*	***1***
	Patents, licenses and concessions		*95*	*120*	*11*	***226***
	Software		*663*	*330*	*74*	***1,067***
	Other rights		*8*	*131*	*2*	***141***
	Other items of intangible assets		*27*	*26*	*39*	***92***
	Accumulated amortization of intangible assets		*-502*	*-280*	*-52*	***-834***
	Impairment of intangible assets		*0*	*0*	*0*	***0***
16	**FIXED ASSETS (PROPERTY, PLANT AND EQUIPMENT)**		***3,907***	***2,845***	***1,023***	***7,775***
	Land		*0*	*0*	*0*	***0***
	Buildings		*3,381*	*1,803*	*889*	***6,072***
	Equipment		*3,024*	*1,658*	*429*	***5,111***
	Other items of property, plant and equipment		*394*	*82*	*80*	***556***
	Property, plant and equipment under construction		*213*	*458*	*83*	***754***
	Accumulated amortization of fixed assets		*-3,104*	*-1,155*	*-458*	***-4,718***
18	**NET COMMISSION RELATIONS**		***-11***	***-8***	***-555***	***-575***
	Denar receivables from activities on behalf of and on account of others		*3,319*	*2,204*	*587*	***6,110***
	Foreign currency receivables from activities on behalf of and on account of others		*365*	*1*	*446*	***812***
	Denar payables from activities on behalf of and on account of others		*-3,329*	*-2,038*	*-963*	***-6,330***
	Foreign currency payables from activities on behalf of and on account of others		*-365*	*0*	*-625*	***-990***
	Operating expenses on behalf of and on account of others		*0*	*125*	*4*	***129***
	Operating income on behalf of and on account of others		*-2*	*-301*	*-4*	***-307***
19	**UNRECOGNIZED IMPAIRMENT**		***0***	***-404***	***-70***	***-474***
20	**TOTAL ASSETS**		***165,493***	***69,435***	***12,045***	***246,973***

Annex 1

STATEMENT OF FINANCIAL POSITION BY GROUPS OF BANKS IN REPUBLIC OF MACEDONIA AS OF 31.03.2009

in millions of Denars

No.	Liabilities	Large banks	Medium banks	Small banks	Total
1	**INSTRUMENTS FOR TRADING AND FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS**	***0***	***0***	***0***	***0***
2	**DERIVATIVES HELD FOR HEDGING**	***0***	***0***	***0***	***0***
	DEPOSITS OF FINANCIAL INSTITUTIONS	***5,351***	***8,005***	***224***	***13,580***
	Deposits of domestic banks	*665*	*310*	*10*	***985***
	Deposits of saving houses	*188*	*46*	*1*	***234***
	Deposits of insurance companies	*1,619*	*1,784*	*92*	***3,496***
	Deposits of pension funds	*187*	*504*	*30*	***722***
	Deposits of other financial institutions	*973*	*251*	*73*	***1,297***
	Deposits of financial institutions-nonresidents	*848*	*4,904*	*7*	***5,759***
	Restricted deposits and other deposits of financial institutions	*870*	*206*	*12*	***1,087***
	SIGHT DEPOSITS OF NONFINANCIAL ENTITIES	***47,570***	***13,554***	***2,411***	***63,534***
	Denar accounts and sight deposits of nonfinancial entities	*12,938*	*4,004*	*950*	***17,892***
	Denar accounts and sight deposits of sector - state	*902*	*22*	*76*	***1,001***
	Denar accounts and sight deposits of nonprofit institutions serving households	*1,071*	*248*	*55*	***1,374***
	Denar accounts and sight deposits of households	*9,223*	*2,773*	*391*	***12,387***
	Denar accounts and sight deposits of nonresidents	*252*	*65*	*58*	***375***
	Foreign currency accounts and sight deposits of nonfinancial entities	*4,921*	*1,552*	*124*	***6,597***
	Foreign currency accounts and sight deposits of sector - state	*13*	*0*	*0*	***13***
	Foreign currency accounts and sight deposits of nonprofit institutions serving households	*244*	*54*	*13*	***311***
	Foreign currency accounts and sight deposits of households	*14,370*	*3,999*	*402*	***18,771***
	Foreign currency accounts and sight deposits of nonresidents	*1,240*	*539*	*263*	***2,042***
	Denar sight deposits with FX clause of nonfinancial entities	*0*	*0*	*0*	***0***
	Restricted sight deposits and other deposits of nonfinancial entities	*2,395*	*299*	*79*	***2,772***
	SHORT TERM DEPOSITS OF NONFINANCIAL ENTITIES	***69,394***	***23,481***	***1,653***	***94,527***
	Denar short term deposits of nonfinancial entities	*5,174*	*2,606*	*555*	***8,335***
	Denar short term deposits of sector - state	*76*	*92*	*1*	***168***
	Denar short term deposits of nonprofit institutions serving households	*375*	*178*	*29*	***582***
	Denar short term deposits of households	*16,695*	*3,763*	*611*	***21,069***
	Denar short term deposits of nonfinancial entities - nonresidents	*28*	*0*	*0*	***29***
	Foreign currency short term deposits of nonfinancial entities	*7,643*	*2,274*	*3*	***9,920***
	Foreign currency short term deposits of nonprofit institutions serving households	*6*	*7*	*0*	***14***
	Foreign currency short term deposits of households	*32,950*	*8,587*	*333*	***41,870***
	Foreign currency short term deposits of nonfinancial entities - nonresidents	*193*	*474*	*17*	***684***
	FX indexed short term deposits of nonfinancial entities	*4,848*	*4,526*	*19*	***9,393***
	FX indexed short term deposits of sector - state	*0*	*20*	*0*	***20***
	FX indexed short term deposits of nonprofit institutions serving households	*0*	*76*	*0*	***76***
	FX indexed short term deposits of households	*0*	*1*	*0*	***1***
	FX indexed short term deposits of nonfinancial entities - nonresidents	*0*	*0*	*61*	***61***
	Restricted deposits of nonfinancial entities up to 1 year	*1,406*	*877*	*23*	***2,305***
	LONG TERM DEPOSITS OF NONFINANCIAL ENTITIES	***11,181***	***5,944***	***456***	***17,581***
	Denar long term deposits of nonfinancial entities	*615*	*313*	*6*	***933***
	Denar long term deposits of nonprofit institutions serving households	*12*	*8*	*0*	***20***
	Denar long term deposits of households	*2,440*	*1,689*	*290*	***4,419***
	Denar long term deposits of nonfinancial entities - nonresidents	*0*	*5*	*0*	***5***
	Foreign currency long term deposits of nonfinancial entities	*0*	*151*	*0*	***151***
	Foreign currency long term deposits of households	*4,892*	*2,827*	*82*	***7,802***
	Foreign currency long term deposits of nonfinancial entities - nonresidents	*12*	*88*	*1*	***101***
	FX indexed long term deposits of nonfinancial entities	*93*	*40*	*0*	***132***
	FX indexed long term deposits of sector - state	*0*	*61*	*0*	***61***
	FX indexed long term deposits of households	*0*	*5*	*0*	***5***
	Restricted deposits of nonfinancial entities over 1 year	*3,117*	*757*	*78*	***3,952***
	DEBT SECURITIES IN ISSUE	***655***	***300***	***0***	***955***
	Other debt securities in issue	*655*	*300*	*0*	***955***
	BORROWINGS	***5,724***	***7,157***	***1,324***	***14,205***
	Borrowings from financial institutions	*1,322*	*2,837*	*18*	***4,176***
	Borrowings from sector - state	*1,464*	*1,112*	*190*	***2,767***
	Borrowings from other sectors - residents	*0*	*23*	*0*	***23***
	Borrowings from nonresidents	*2,938*	*3,179*	*1,112*	***7,229***
	Financial lease payables from financial institutions	*0*	*0*	*3*	***3***
	Financial lease payables from other sector -residents	*0*	*6*	*0*	***6***
	LIABILITY COMPONENT OF HYBRID INSTRUMENTS	***0***	***184***	***0***	***184***
	Liability component of foreign currency hybrid instruments	*0*	*184*	*0*	***184***
	SUBORDINATED DEBT AND CUMULATIVE PREFERRED SHARES	***4,470***	***583***	***0***	***5,053***
	Foreign currency subordinated debt	*4,361*	*583*	*0*	***4,945***
	Cumulative preferred shares	*108*	*0*	*0*	***108***
	INTEREST LIABILITIES	***733***	***449***	***51***	***1,234***
	Interest payables from borrowings	*45*	*51*	*14*	***110***
	Interest payables from sight deposits and current accounts	*32*	*30*	*16*	***77***
	Interest payables from term deposits	*617*	*348*	*22*	***987***
	Interest payables from hybrid instruments	*0*	*0*	*0*	***0***
	Interest payables from subordinated debt	*16*	*14*	*0*	***30***
	Interest payables from other instruments	*10*	*0*	*0*	***10***
	Interest payables from issued securities	*13*	*7*	*0*	***20***
	OTHER LIABILITIES	***3,243***	***1,007***	***232***	***4,481***
	Fee and Commission liabilities	*0*	*1*	*0*	***1***
	Accrued expenses, deferred income and temporary accounts	*728*	*326*	*55*	***1,109***
	Other liabilities	*2,514*	*680*	*177*	***3,372***
	PROVISIONS	***793***	***141***	***19***	***954***
	Provisions	*793*	*141*	*19*	***954***
	CAPITAL AND RESERVES	***15,896***	***8,450***	***5,647***	***29,994***
	Equity capital	*8,746*	*7,058*	*5,270*	***21,074***
	Reserve fund	*4,838*	*1,325*	*759*	***6,921***
	Retained earnings / Accumulated losses	*2,236*	*508*	*-283*	***2,461***
	Revaluation reserves	*77*	*0*	*16*	***93***
	Current loss	*0*	*-441*	*-114*	***-555***
	GROSS PROFIT	***484***	***180***	***27***	***691***
16	**TOTAL LIABILITIES**	***165,493***	***69,435***	***12,045***	***246,973***

Annex 2

STATEMENT OF COMPREHENSIVE INCOME BY GROUPS OF BANKS IN REPUBLIC OF MACEDONIA AS OF 31.03.2009

in millions of denars

No.	STATEMENT OF COMPREHENSIVE INCOME	Large banks	Medium-size banks	Small-size banks	Total
1	**INTEREST INCOME**	**3,025**	**1,354**	**167**	**4,546**
	Non-financial companies	1,315	596	51	**1,962**
	private	1,309	590	51	**1,950**
	public	6	6	0	**12**
	State	99	50	17	**165**
	central government	99	50	17	**165**
	local government	0	0	0	**0**
	social insurance funds	0	0	0	**0**
	Non-profitable non-financial institutions serving households	1	0	0	**2**
	Financial institutions	251	86	55	**392**
	central bank	142	54	31	**228**
	banks	91	28	24	**143**
	saving houses	17	0	0	**17**
	insurance companies	0	0	0	**0**
	pension funds	0	0	0	**0**
	other financial institutions	1	4	0	**4**
	Households	1,167	605	40	**1,812**
	self-employed individuals	2	110	1	**112**
	citizens	1,165	495	39	**1,699**
	Non-residents	31	9	5	**44**
	non-financial companies, non-residents	0	0	0	**0**
	states, non-residents	0	0	0	**0**
	non-profitable non financial institutions serving households, non-residents	0	0	0	**0**
	financial institutions, non-residents	31	9	5	**44**
	households, non-residents	0	0	0	**0**
	Net impairment of interest income	160	9	0	**169**
2	**INTEREST EXPENSES**	**-1,395**	**-621**	**-44**	**-2,060**
	Non-financial companies	-259	-160	-11	**-431**
	private	-226	-155	-10	**-391**
	public	-33	-5	-1	**-40**
	State	-10	-10	0	**-21**
	central government	-10	-10	0	**-20**
	local government	0	0	0	**0**
	social insurance funds	0	0	0	**0**
	Non-profitable non-financial institutions serving households	-8	-4	0	**-12**
	Financial institutions	-134	-108	-5	**-246**
	central bank	-2	0	0	**-3**
	banks	-87	-43	0	**-131**
	saving houses	-1	0	0	**-1**
	insurance companies	-20	-30	-1	**-51**
	pension funds	-4	-6	-1	**-10**
	other financial institutions	-19	-29	-3	**-50**
	Households	-859	-248	-19	**-1,126**
	self-employed individuals	-1	0	0	**-1**
	citizens	-858	-248	-19	**-1,125**
	Non-residents	-125	-91	-8	**-224**
	non-financial companies, non-residents	-12	-22	-1	**-36**
	states, non-residents	0	0	0	**0**
	non-profitable non financial institutions serving households, non-residents	0	0	0	**0**
	financial institutions, non-residents	-108	-65	-7	**-181**
	households, non-residents	-4	-3	0	**-7**
3	**NET INTEREST INCOME (1-2)**	**1,630**	**732**	**123**	**2,486**
4	**NET FEES AND COMMISSION INCOME**	**509**	**184**	**40**	**733**
	Fees and commission income	586	235	59	**880**
	Fees and commission expenses	-77	-51	-19	**-147**
5	**NET TRADING INCOME**	**62**	**0**	**6**	**68**
	Net income from trading assets and liabilities	-2	0	0	**-2**
	realized	3	0	0	**3**
	unrealized	-5	0	0	**-5**
	Net income from derivative financial instruments held for trading	0	0	0	**0**
	realized	0	0	0	**0**
	unrealized	0	0	0	**0**
	Dividend income from trading assets	0	0	0	**0**
	Net interest income from trading assets and liabilities	63	0	6	**69**
6	**NET INCOME FROM FINANCIAL INTRUMENTS DESIGNATED AT FAIR VALUE**	**0**	**0**	**0**	**0**
	Net income from financial assets and liabilities designated at fair value	0	0	0	**0**
	realized	0	0	0	**0**
	unrealized	0	0	0	**0**
	Net income from derivative financial instruments held for hedging	0	0	0	**0**
	realized	0	0	0	**0**
	unrealized	0	0	0	**0**
	net change of fair value of hedged item	0	0	0	**0**
	Dividend income from financial assets designated at fair value	0	0	0	**0**
7	**GAINS AND LOSSES FROM FOREIGN EXCHANGE DIFFERENCES**	**125**	**54**	**12**	**192**
	Realized	95	-26	11	**79**
	Unrealized	11	81	2	**95**
	Net income from FX activities	19	-1	-1	**18**
8	**OTHER OPERATING INCOME**	**262**	**49**	**13**	**324**
	Dividends and revenues based on capital investments	8	8	3	**19**
	Capital gain from sale of financial assets available for sale	0	0	0	**0**
	Capital gains realized from sales of assets	10	1	0	**11**
	Release of provisions for off-balance sheet items	168	0	1	**169**
	Release of other provisions	0	0	0	**0**
	Other income	50	20	8	**78**
	Collected previously written-off loans and receivables	23	11	0	**34**
	Extraordinary income	3	8	0	**12**
9	**NET IMPAIRMENT LOSSES (PROVISIONS) OF FINANCIAL ASSETS**	**-803**	**-380**	**-95**	**-1,278**
	Impairment losses of financial assets	-1,359	-163	-52	**-1,575**
	losses due to impairment of financial assets - an individual basis	-1,237	-65	-40	**-1,342**
	losses due to impairment of financial assets - a group basis	-122	-99	-12	**-233**
	Reversal of impairment losses of financial assets	556	187	27	**771**
	reversal of impairment losses of financial assets - an individual basis	553	118	27	**698**
	reversal of impairment losses of financial assets - a group basis	3	70	0	**73**
	Unrecognized impairment	0	-404	-70	**-474**
10	**IMPAIRMENT LOSSES OF NON-FINANCIAL ASSETS**	**0**	**-1**	**0**	**-1**
	Losses due to impairment of non-financial assets	0	-1	0	**-1**
	Reversal of impairment losses of non-financial assets	0	0	0	**0**
11	**EMLOYEES EXPENSES**	**-490**	**-352**	**-84**	**-926**
12	**DEPRECIATION**	**-132**	**-101**	**-18**	**-251**
13	**OTHER OPERATING EXPENSES**	**-679**	**-448**	**-85**	**-1,211**
	General and administrative expenses	-360	-339	-71	**-770**
	Deposit insurance premiums	-145	-43	-4	**-192**
	Capital losses realized from sales of assets	0	0	0	**0**
	Capital losses from sale of financial assets available for sale	0	0	0	**0**
	Provisions for off-balance sheet items	-106	-32	-6	**-143**
	Other provisions	-1	-4	0	**-5**
	Other expenses	-65	-27	-4	**-96**
	Extraordinary expenses	-2	-3	0	**-5**
14	**PROFIT (LOSS) BEFORE TAXATION**	**484**	**-261**	**-87**	**136**

Annex 3

Credit structure of non-financial entities

in millions of Denars

Date	Description	Total	Total			Corporates			Households			State			Credts to nonprofit institutions serving households			Nonresidents - nonfinancial entities		
			denar	FX indexed	FX	denar	FX indexed	FX	denar	FX indexed	FX	denar	FX indexed	FX	denar	FX indexed	FX	denar	FX indexed	FX
31.03.2009	Short-term credits	40,797	26,962	4,638	9,197	22,392	4,379	9,169	4,561	184	22	7	15	4	2	60	0	0	0	1
	Due credits	3,484	2,141	573	770	1,094	406	731	1,046	165	39	1	2	0	0	0	0	0	-	-
	Long-term credits	114,635	41,277	47,401	25,957	12,186	22,744	22,018	29,051	24,626	3,871	26	17	17	14	12	14	0	1	37
	Non-performing credits	12,819	7,456	1,616	3,747	4,302	882	3,437	3,142	733	310	12	-	0	1	-	0	-	-	-
	Total gross credits	**171,734**	**77,835**	**54,227**	**39,671**	**39,974**	**28,412**	**35,354**	**37,799**	**25,709**	**4,243**	**45**	**34**	**22**	**17**	**72**	**14**	**0**	**1**	**38**
	Accumulated amortization	-391	(184)	(162)	(44)	(55)	(33)	(27)	(129)	(129)	(17)	(0)	(0)	(0)	0	-	-	-	-	(0)
	Impairment (provisions)	-13,202	(7,049)	(2,431)	(3,722)	(5,163)	(1,526)	(2,965)	(1,873)	(903)	(756)	(12)	(0)	(0)	(1)	(2)	(0)	(0)	-	(0)
	Group impairment for the retail credit portfolio	-516																		
	Total net credits	**157,626**																		

Annex4

Banks credit exposure by activities as of 30.06.2009

in millions of Denars

No.	Sektor	31.12.2008				31.03.2009			
		Denar credit exposure	Denar credit exposure with FX clause	Foreign exchange credit exposure	Total	Denar credit exposure	Denar credit exposure with FX clause	Foreign exchange credit exposure	Total
1	Agriculture, hunting and forestry	1,411	1,022	1,479	3,912	1,340	1,250	1,146	3,736
2	Fishing	34	9	28	71	29	8	35	72
3	Mining and quarrying	318	98	1,579	1,995	250	92	1,566	1,908
4	Processing industry	17,658	7,970	15,817	41,445	17,836	8,383	16,541	42,760
5	Electricity, gas and water supply	1,034	1,375	3,168	5,576	1,756	1,215	2,658	5,629
6	Construction	5,321	3,370	3,090	11,781	6,123	3,394	3,850	13,366
7	Wholesale and retail trade; Repair of motor vehicles, motorcycles and items for personal use and for households	17,422	9,942	11,713	39,077	17,169	10,065	11,644	38,878
8	Hotels and restaurants	1,260	958	1,688	3,906	1,158	982	1,731	3,871
9	Transport, storage and communication	3,808	2,332	2,454	8,594	3,516	2,544	2,229	8,289
10	Financial intermediation	21,145	3,137	23,984	48,265	8,653	3,304	27,491	39,447
11	Real estate, renting and business activities	2,749	1,182	1,814	5,744	3,342	1,289	1,930	6,560
12	Public administration and defense; compulsory social security	4,459	5,043	70	9,572	8,149	4,678	94	12,921
13	Education	79	164	328	571	168	166	311	645
14	Health and social work	290	234	416	940	282	247	394	923
15	Other community, social and personal service activities	619	685	307	1,611	848	507	292	1,647
16	Households employing staff	0	0	0	0	0	0	0	0
17	Extraterritorial organizations and bodies	80	0	2	82	106	0	19	125
18	Natural persons	49,238	23,799	4,171	77,208	49,721	23,928	4,290	77,940
	- residential real estate loans	1,559	9,813	1,796	13,168	1,566	10,007	1,834	13,407
	- commercial real estate loans	21	635	9	666	19	681	4	704
	- consumer loans	13,248	7,509	1,226	21,983	16,001	7,735	1,253	24,990
	- overdrafts	6,605	0	0	6,605	8,353	0	0	8,353
	- credit cards	23,728	0	104	23,832	22,978	0	140	23,118
	- car loans	200	3,785	771	4,756	267	3,772	793	4,833
	- other loans	3,876	2,057	264	6,198	536	1,733	266	2,535
19	Sole proprietors, natural persons that are not considered as proprietors and natural persons that perform small-scale commercial activities	1,927	2,051	365	4,343	1,972	1,914	283	4,169
	- agriculture	489	802	24	1,315	495	801	19	1,316
	- trade	597	561	180	1,338	554	540	104	1,198
	- other service activities	213	162	57	431	191	72	20	283
	- other activities	629	526	104	1,260	732	501	139	1,372
	Total	**128,853**	**63,369**	**72,472**	**264,694**	**122,419**	**63,965**	**76,502**	**262,885**

Annex 5

Annual and quarter relative change of credits, by currency structure

in millions of Denars

Description	03.2008	12.2008	03.2009	annual change 03.2009/ 03.2008	quarter change 03.2009/ 12.2008
Corporates and other clients	**83,694**	**101,652**	**103,984**	**24.2%**	**2.3%**
Denar credits	32,917	36,089	40,037	21.6%	10.9%
FX credits	29,299	34,102	28,519	-2.7%	-16.4%
FX indexed credits	21,478	31,461	35,429	65.0%	12.6%
Households	**53,326**	**66,256**	**67,750**	**27.0%**	**2.3%**
Denar credits	30,615	36,119	37,799	23.5%	4.7%
FX credits	2,712	4,328	4,243	56.5%	-2.0%
FX indexed credits	19,999	25,809	25,708	28.5%	-0.4%

Annex 6

Distribution of credits to nonfinancial entities, by group of banks

Structures of credits		31.12.2008				31.03.2009			
		Large banks	Medium-size banks	Small-size banks	Total	Large banks	Medium-size banks	Small-size banks	Total
Sector structure	Enterprises	71.3%	26.7%	2.0%	**100.0%**	72.8%	25.2%	2.0%	**100.0%**
	Households	65.4%	32.2%	2.4%	**100.0%**	66.2%	31.4%	2.4%	**100.0%**
	Other clients	68.0%	7.6%	24.4%	**100.0%**	61.1%	37.8%	1.2%	**100.0%**
Maturity structure	Short-term	75.4%	22.8%	1.8%	**100.0%**	71.2%	27.1%	1.7%	**100.0%**
	Long-term	65.7%	32.4%	1.9%	**100.0%**	69.7%	28.6%	1.8%	**100.0%**
	Due	54.5%	40.3%	5.2%	**100.0%**	60.8%	31.9%	7.3%	**100.0%**
	Non-performing	71.2%	21.2%	7.6%	**100.0%**	74.2%	20.2%	5.6%	**100.0%**
Currency structure	Denar	70.9%	24.8%	4.3%	**100.0%**	71.7%	24.5%	3.8%	**100.0%**
	FX indexed	63.4%	35.5%	1.2%	**100.0%**	64.8%	33.9%	1.3%	**100.0%**
	FX	73.7%	26.2%	0.1%	**100.0%**	74.5%	25.4%	0.1%	**100.0%**

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

Structures of credits		31.12.2008			31.03.2009		
		Large banks	Medium-size banks	Small-size banks	Large banks	Medium-size banks	Small-size banks
Sector structure	Enterprises	62.1%	55.7%	53.6%	62.7%	55.0%	55.1%
	Households	37.4%	44.2%	41.0%	37.2%	44.8%	44.8%
	Other clients	0.5%	0.1%	5.4%	0.1%	0.2%	0.1%
	Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Maturity structure	Short-term	33.9%	24.6%	25.0%	24.1%	23.2%	18.9%
	Long-term	58.2%	68.8%	49.8%	66.2%	69.0%	54.6%
	Due	0.9%	1.6%	2.6%	1.8%	2.3%	6.9%
	Non-performing	7.0%	5.0%	22.6%	7.9%	5.4%	19.5%
	Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Currency structure	Denar	44.2%	37.0%	81.7%	46.3%	40.1%	79.7%
	FX indexed	31.3%	42.1%	17.4%	29.1%	38.7%	19.6%
	FX	24.5%	20.9%	0.9%	24.5%	21.2%	0.7%
	Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Anex no.7

Structure of deposits to non-financial entities

in million of denars

		Total			Households			Corporate sector			Other sectors		
	Total	**Denar**	**Clause**	**Currency**	**Denar**	**Clause**	**Currency**	**Denar**	**Clause**	**Currency**	**Denar**	**Clause**	**Currency**
Sight deposits	63,534	33,319	0	30,215	12,400	-	18,786	18,147	0	9,045	2,772	-	2,384
Short-term deposits	94,527	30,934	9,616	53,977	21,232	1	43,003	8,915	9,457	10,221	787	158	753
Long-term deposits	17,581	6,639	347	10,595	4,763	5	9,385	1,771	281	428	105	61	782

Annex 8

Balance and changes in the sector structure of credit exposure

Type of credit exposure	Amount (in millions of Denars)			Structure (in %)			Qurterly change (31.12.2008-31.03.2009)			Annual change (31.03.2008-31.03.2009)		
	31.03.2008	31.12.2008	31.03.2009	31.03.2008	31.12.2008	31.03.2009	In millions of Denars	In %	Share in the change	In millions of Denars	In %	Share in the change
Credit exposure to enterprises and other clients	107,290	125,241	128,408	43.6%	47.3%	48.8%	3,167	2.5%	-176.3%	21,118	19.7%	125.4%
Credit exposure to financial institutions and state	70,260	57,881	52,368	28.6%	21.9%	19.9%	(5,513)	-9.5%	306.8%	-17,892	-25.5%	-106.2%
Credit exposure to natural persons and sole proprietors	68,489	81,560	82,108	27.8%	30.8%	31.2%	548	0.7%	-30.5%	13,619	19.9%	80.8%
Total:	**246,039**	**264,682**	**262,885**	**100.0%**	**100.0%**	**100.0%**	**(1,797)**	**-0.7%**	**100.0%**	**16,846**	**6.8%**	**100.0%**

Balance and changes in the currency structure of credit exposure

Type of credit exposure	Amount (in millions of Denars)			Structure (in %)			Qurterly change (31.12.2008-31.03.2009)			Annual change (31.03.2008-31.03.2009)		
	31.03.2008	31.12.2008	31.03.2009	31.03.2008	31.12.2008	31.03.2009	In millions of Denars	In %	Share in the change	In millions of Denars	In %	Share in the change
Denar credit exposure	122,902	128,853	122,419	50.0%	48.7%	46.6%	(6,434)	-5.0%	358.1%	-483	-0.4%	-2.9%
Denar credit exposure with FX clause	47,026	63,349	63,965	19.1%	23.9%	24.3%	616	1.0%	-34.3%	16,939	36.0%	100.5%
FX credit exposure	76,111	72,480	76,502	30.9%	27.4%	29.1%	4,021	5.5%	-223.8%	391	0.5%	2.3%
Total:	**246,039**	**264,682**	**262,885**	**100.0%**	**100.0%**	**100.0%**	**(1,797)**	**-0.7%**	**100.0%**	**16,846**	**6.8%**	**100.0%**

***Note:** The differences in the figures presented in this Annex and the figures presented in the textual part for Credit risk in the Report on banking system are due to rounding effects.

Annex 9

Balance and changes in the credit exposure structure, by item

Type of exposure	Amount (in millions of Denars)			Structure (in %)			Qurterly change (31.12.2008-31.03.2009)			Annual change (31.03.2008-31.03.2009)		
	31.03.2008	31.12.2008	31.03.2009	31.03.2008	31.12.2008	31.03.2009	In millions of Denars	In %	Share in the change	In millions of Denars	In %	Share in the change
Regular loans	162,851	183,463	188,557	66.2%	69.3%	71.7%	5,095	2.8%	-286.5%	25,706	15.8%	152.5%
Other claims	35,517	30,817	23,294	14.4%	11.6%	8.9%	-7,523	-24.4%	423.1%	-12,223	-34.4%	-72.5%
Off-balance sheet items	36,588	37,700	36,599	14.9%	14.2%	13.9%	-1,101	-2.9%	61.9%	11	0.0%	0.1%
Nonperforming loans	10,010	11,495	13,092	4.1%	4.3%	5.0%	1,597	13.9%	-89.8%	3,082	30.8%	18.3%
Regular interest	1,073	1,203	1,357	0.4%	0.5%	0.5%	154	12.8%	-8.7%	284	26.5%	1.7%
Total:	**246,039**	**264,677**	**262,899**	**100.0%**	**100.0%**	**100.0%**	**-1,778**	**-0.7%**	**100.0%**	**16,860**	**6.9%**	**100.0%**

Balance and changes in the credit exposure structure, by category of risk

Category of risk	Amount (in millions of Denars)			Structure (in %)			Qurterly change (31.12.2008-31.03.2009)			Annual change (31.03.2008-31.03.2009)		
	31.03.2008	31.12.2008	31.03.2009	31.03.2008	31.12.2008	31.03.2009	In millions of Denars	In %	Share in the change	In millions of Denars	In %	Share in the change
A	203,992	215,279	218,321	82.9%	81.3%	83.0%	3,042	1.4%	-171.1%	14,328	7.0%	85.0%
B	28,180	32,467	26,485	11.5%	12.3%	10.1%	-5,982	-18.4%	336.4%	-1,695	-6.0%	-10.1%
C	4,549	6,531	7,377	1.8%	2.5%	2.8%	846	12.9%	-47.6%	2,827	62.2%	16.8%
D	3,354	3,884	3,205	1.4%	1.5%	1.2%	-679	-17.5%	38.2%	-149	-4.4%	-0.9%
E	5,963	6,517	7,512	2.4%	2.5%	2.9%	995	15.3%	-56.0%	1,549	26.0%	9.2%
Total C, D and E	13,867	16,932	18,094	5.6%	6.4%	6.9%	1,162	6.9%	-65.3%	4,227	30.5%	25.1%
Total:	**246,039**	**264,677**	**262,899**	**100.0%**	**100.0%**	**100.0%**	**-1,778**	**-0.7%**	**100.0%**	**16,860**	**6.9%**	**100.0%**

Annex 10

Liquidity indicators, annual and quarterly change by group of banks

Indicators	Average for first quarter of 2008	Average for last quarter of 2008	Average of first quarter of 2009	Change (in percentage points)	
				Annual	Quarterly
Total loans / Total deposits of non-financial entities	**80.6%**	**92.1%**	**97.1%**	**16.5**	**5.0**
- Large banks	77.5%	88.9%	93.7%	16.3	4.9
- Medium-sized banks	90.6%	102.6%	109.1%	18.4	6.4
- Small-sized banks	71.1%	76.3%	76.5%	5.3	0.2
Liquid assets / Total assets	**31.3%**	**22.9%**	**20.6%**	**-10.7**	**-2.2**
- Large banks	30.3%	21.3%	18.4%	-11.9	-2.9
- Medium-sized banks	31.3%	22.6%	22.3%	-9.0	-0.2
- Small-sized banks	43.9%	45.1%	41.3%	-2.6	-3.8
Highly liquid assets / Total assets	**18.8%**	**15.7%**	**15.9%**	**-2.9**	**0.2**
- Large banks	17.2%	14.5%	13.7%	-3.4	-0.7
- Medium-sized banks	19.7%	15.3%	18.1%	-1.6	2.8
- Small-sized banks	33.5%	33.9%	32.1%	-1.5	-1.8
Liquid assets / Total liabilities	**36.2%**	**26.3%**	**23.8%**	**-12.4**	**-2.5**
- Large banks	33.8%	23.8%	20.7%	-13.1	-3.1
- Medium-sized banks	37.0%	25.9%	25.6%	-11.4	-0.3
- Small-sized banks	77.1%	84.1%	76.9%	-0.2	-7.2
Liquid assets / Short-term liabilities	**42.4%**	**32.3%**	**30.1%**	**-12.3**	**-2.2**
- Large banks	37.7%	28.2%	25.4%	-12.3	-2.8
- Medium-sized banks	48.4%	34.2%	34.5%	-13.9	0.3
- Small-sized banks	106.1%	120.4%	111.1%	5.0	-9.3
Liquid FX assets / Short-term FX liabilities	**42.9%**	**28.4%**	**25.4%**	**-17.5**	**-2.9**
- Large banks	37.5%	23.4%	21.1%	-16.4	-2.3
- Medium-sized banks	56.0%	35.4%	31.2%	-24.8	-4.2
- Small-sized banks	95.1%	177.3%	143.5%	48.4	-33.8
Liquid assets / Total deposits of non-financial entities	**43.1%**	**31.8%**	**29.3%**	**-13.7**	**-2.4**
- Large banks	38.4%	27.4%	24.1%	-14.3	-3.3
- Medium-sized banks	47.9%	34.9%	36.0%	-11.9	1.1
- Small-sized banks	127.1%	115.2%	107.5%	-19.6	-7.7
Liquid FX assets / Total deposits in foreign currencies of non-financial entities	**44.8%**	**28.7%**	**24.6%**	**-20.2**	**-4.1**
- Large banks	39.1%	23.0%	19.7%	-19.5	-3.3
- Medium-sized banks	56.6%	39.5%	33.9%	-22.7	-5.6
- Small-sized banks	134.7%	156.7%	134.9%	0.2	-21.8
Highly liquid assets / Short-term liabilities	**25.4%**	**22.2%**	**23.2%**	**-2.2**	**1.0**
- Large banks	21.4%	19.2%	19.0%	-2.4	-0.2
- Medium-sized banks	30.4%	23.2%	27.9%	-2.5	4.7
- Small-sized banks	81.0%	90.4%	86.3%	5.3	-4.1
Liquid assets / Deposits of households	**74.6%**	**53.4%**	**47.1%**	**-27.5**	**-6.4**
- Large banks	64.3%	43.5%	37.1%	-27.2	-6.3
- Medium-sized banks	90.3%	68.2%	63.7%	-26.5	-4.4
- Small-sized banks	267.6%	256.2%	235.9%	-31.7	-20.3
Liquid FX assets / FX Deposits of households	**63.6%**	**39.1%**	**33.0%**	**-30.6**	**-6.1**
- Large banks	54.4%	30.7%	26.1%	-28.3	-4.6
- Medium-sized banks	84.6%	56.3%	46.4%	-38.2	-9.9
- Small-sized banks	256.4%	240.9%	216.5%	-39.9	-24.4
Highly liquid assets / Sight deposits	**62.7%**	**55.5%**	**61.2%**	**-1.5**	**5.7**
- Large banks	51.9%	46.3%	47.5%	-4.4	1.1
- Medium-sized banks	82.3%	67.8%	92.3%	10.0	24.5
- Small-sized banks	157.5%	151.0%	151.1%	-6.3	0.2

Annex 11

Contractual maturity structure of assets and liabilities of the banking system as of 31.03.2009

in millions of denars

No.	Description		up to 7 days	from 8 to 30 days	from 31 to 90 days	from 91 to 180 days	from 181 to 365 days	Total
	ASSETS							
1	Cash, cash equivalents, gold and precisious metals		15,640.2	24.2	0.0	7.0	0.0	15,671.4
2	Financial instruments held for trading		53.2	430.1	8.2	0.0	211.8	703.3
		money market instruments	49.7	49.7	0.0	0.0	59.6	159.0
		other debt instruments	1.1	380.3	8.2	0.0	152.2	541.9
		equity instruments	2.4	0.0	0.0	0.0	0.0	2.4
3	Derivatives for trading		0.0	0.0	0.0	0.0	0.0	0.0
4	Embedded derivatives and derivatives held for hedging		0.0	0.0	0.0	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	0.0	0.0	0.0
		money market instruments	0.0	0.0	0.0	0.0	0.0	0.0
		other debt instruments	0.0	0.0	0.0	0.0	0.0	0.0
		equity instruments	0.0	0.0	0.0	0.0	0.0	0.0
		credits	0.0	0.0	0.0	0.0	0.0	0.0
6	Financial instruments held to maturity		2,391.2	4,541.2	1,049.6	132.5	330.6	8,445.2
		money market instruments	2,262.3	4,011.5	865.2	0.0	0.0	7,139.0
		other debt instruments	129.0	529.7	184.4	132.5	330.6	1,306.2
7	Financial instruments available for sale		1,946.2	2,726.5	2,122.4	109.5	532.5	7,437.1
		money market instruments	1,890.5	2,688.4	1,981.8	109.5	22.8	6,693.1
		other debt instruments	34.7	38.1	140.6	0.0	242.5	455.9
		equity instruments	21.0	0.0	0.0	0.0	267.1	288.1
		other instruments	0.0	0.0	0.0	0.0	0.0	0.0
8	Credit and claims		19,597.8	14,971.2	14,715.3	20,300.4	28,916.0	98,500.6
		interbank transactions	13,138.2	6,851.6	61.9	61.4	73.7	20,186.8
		deposits	9.9	168.4	0.0	0.0	0.2	178.5
		financial leasing	0.0	0.0	0.0	0.0	0.0	0.0
		credits	6,421.9	7,934.6	14,634.4	20,212.2	28,799.6	78,002.6
		other claims	27.8	16.6	19.0	26.7	42.5	132.7
9	Interest receivables		855.2	423.1	59.9	9.4	224.2	1,571.7
10	Commission and fees receivables		100.3	17.9	1.1	0.0	0.0	119.3
11	Other on-balance sheet assets		632.4	261.6	52.3	33.6	55.9	1,035.8
12	**TOTAL ASSETS (1+2+3+4+5+6+7+8+9+10+11)**		41,216.5	23,395.8	18,008.7	20,592.4	30,270.9	133,484.4
	LIABILITIES		0.0	0.0	0.0	0.0	0.0	0.0
13	Transaction accounts		51,392.7	0.0	11.6	0.0	0.0	51,404.3
14	Financial liabilities at fair value through profit and loss		0.0	0.0	0.0	0.0	0.0	0.0
		money market instruments	0.0	0.0	0.0	0.0	0.0	0.0
		other debt instruments	0.0	0.0	0.0	0.0	0.0	0.0
		equity instruments	0.0	0.0	0.0	0.0	0.0	0.0
		deposits	0.0	0.0	0.0	0.0	0.0	0.0
		liabilities from credits	0.0	0.0	0.0	0.0	0.0	0.0
		subordinated instruments	0.0	0.0	0.0	0.0	0.0	0.0
15	Derivatives for trading		0.0	0.0	0.0	0.0	0.0	0.0
16	Embedded derivatives and derivatives held for hedging		0.0	0.0	0.0	0.0	0.0	0.0
17	Deposits		21,432.3	23,493.5	24,213.0	21,770.8	34,112.5	125,022.0
		sight deposits	14,337.2	0.0	0.0	0.0	0.0	14,337.2
		term deposits	7,095.1	23,493.5	24,213.0	21,770.8	34,112.5	110,684.8
18	Liabilities from credits		445.8	237.4	1,226.8	772.7	1,864.9	4,547.6
19	Issued debt securities		0.0	0.0	0.0	0.0	0.0	0.0
20	Interest payable		428.4	327.3	171.6	94.4	185.6	1,207.3
21	Commissions and fees payable		0.9	0.0	0.0	0.0	0.0	0.9
22	Financial leasing		6.4	0.1	0.3	0.3	0.6	7.6
23	Other on-balance sheet liabilities		1,700.3	967.8	76.0	0.0	17.2	2,761.3
24	**TOTAL LIABILITIES (13+14+15+16+17+18+19+20+21+22+23)**		75,406.7	25,026.1	25,699.3	22,638.2	36,180.7	184,951.0
	OFF-BALANCE SHEET ITEMS		0.0	0.0	0.0	0.0	0.0	0.0
25	Off-balance sheet assets		7.9	46.5	32.7	71.2	210.6	369.0
26	Off-balance sheet liabilities		6,210.6	857.9	2,459.3	3,295.0	4,775.5	17,598.2
27	**Net off-balance sheet items (25-26)**		-6,202.6	-811.4	-2,426.6	-3,223.8	-4,564.9	-17,229.3
28	**GAP (12-24+27)**		-40,392.8	-2,441.7	-10,117.1	-5,269.6	-10,474.7	-68,695.9
29	**CUMULATIVE GAP**		-40,392.8	-42,834.5	-52,951.6	-58,221.2	-68,695.9	0.0

Annex 12

Expected maturity structure of assets and liabilities of the banking system as of 31.03.2009

in millions of denars

NO.	DESCRIPTION		Anticipated maturity (on-balance sheet and off-balance sheet items)			Anticipated maturity (future activities)		
			up to 7 days	from 8 to 30 days	from 31 to 90 days	up to 7 days	from 8 to 30 days	from 31 to 90 days
	ASSETS							
1	Cash, cash equivalents, gold and precisious metals		14,190.7	24.2	0.0	0.0	0.0	0.0
2	Financial instruments held for trading		53.2	430.1	8.2	0.0	0.0	0.0
		money market instruments	49.7	49.7	0.0	0.0	0.0	0.0
		other debt instruments	1.1	380.3	8.2	0.0	0.0	0.0
		equity instruments	2.4	0.0	0.0	0.0	0.0	0.0
3	Derivatives for trading		0.0	0.0	0.0	0.0	0.0	0.0
4	Embedded derivatives and derivatives held for hedging		0.0	0.0	0.0	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	0.0	0.0	0.0
		money market instruments	0.0	0.0	0.0	0.0	0.0	0.0
		other debt instruments	0.0	0.0	0.0	0.0	0.0	0.0
		equity instruments	0.0	0.0	0.0	0.0	0.0	0.0
		credits	0.0	0.0	0.0	0.0	0.0	0.0
6	Financial instruments held to maturity		2,391.2	4,541.2	1,361.2	-4.0	-82.9	-33.1
		money market instruments	2,262.3	4,011.5	1,176.8	-4.0	-18.1	-63.1
		other debt instruments	129.0	529.7	184.4	0.0	-64.8	30.0
7	Financial instruments available for sale		1,943.0	2,654.6	1,750.3	375.0	595.0	-20.0
		money market instruments	1,890.5	2,601.8	1,609.7	375.0	580.0	-20.0
		other debt instruments	34.7	52.8	140.6	0.0	15.0	0.0
		equity instruments	17.7	0.0	0.0	0.0	0.0	0.0
		other instruments	0.0	0.0	0.0	0.0	0.0	0.0
8	Credit and claims		16,447.5	13,157.5	13,217.5	287.7	-2,272.5	-242.8
		interbank transactions	12,749.5	6,716.6	109.2	-37.7	-193.5	25.4
		deposits	9.9	153.5	0.7	0.0	0.0	0.0
		financial leasing	0.0	0.0	0.0	0.0	0.0	0.0
		credits	3,668.3	6,277.3	13,089.9	325.3	-2,079.0	-268.2
		other claims	19.8	10.1	17.7	0.0	0.0	0.0
9	Interest receivables		638.9	487.9	269.7	74.8	157.2	219.2
10	Commission and fees receivables		96.7	18.4	5.6	3.8	13.3	28.9
11	Other on-balance sheet assets		578.5	261.5	52.3	6.5	0.0	0.0
12	**TOTAL ASSETS (1+2+3+4+5+6+7+8+9+10+11)**		36,339.8	21,575.4	16,664.8	743.8	-1,589.9	-47.8
	LIABILITIES		0.0	0.0	0.0	0.0	0.0	0.0
13	Transaction accounts		8,312.2	2,712.5	1,936.2	1,825.9	1,051.9	1,219.6
14	Financial liabilities at fair value through profit and loss		0.0	0.0	0.0	0.0	0.0	0.0
		money market instruments	0.0	0.0	0.0	0.0	0.0	0.0
		other debt instruments	0.0	0.0	0.0	0.0	0.0	0.0
		equity instruments	0.0	0.0	0.0	0.0	0.0	0.0
		deposits	0.0	0.0	0.0	0.0	0.0	0.0
		liabilities from credits	0.0	0.0	0.0	0.0	0.0	0.0
		subordinated instruments	0.0	0.0	0.0	0.0	0.0	0.0
15	Derivatives for trading		0.0	0.0	0.0	0.0	0.0	0.0
16	Embedded derivatives and derivatives held for hedging		0.0	0.0	0.0	0.0	0.0	0.0
17	Deposits		4,565.1	9,757.0	10,114.9	1,024.9	3,680.4	6,022.9
		sight deposits	1,658.0	21.1	28.8	107.7	0.1	0.3
		term deposits	2,907.1	9,735.9	10,086.0	917.2	3,680.3	6,022.6
18	Liabilities from credits		377.2	210.9	1,227.6	50.6	556.0	525.0
19	Issued debt securities		0.0	0.0	0.0	0.0	0.0	0.0
20	Interest payable		243.8	312.5	167.6	1.0	2.4	9.4
21	Commissions and fees payable		0.5	0.0	0.0	0.0	0.0	0.0
22	Financial leasing		6.4	0.1	0.3	0.0	0.0	0.0
23	Other on-balance sheet liabilities		1,626.0	968.2	75.9	120.4	0.0	0.0
24	**TOTAL LIABILITIES (13+14+15+16+17+18+19+20+21+22+23)**		15,131.2	13,961.1	13,522.4	3,022.8	5,290.8	7,776.9
	OFF-BALANCE SHEET ITEMS		0.0	0.0	0.0	0.0	0.0	0.0
25	Off-balance sheet assets		9.4	46.5	6.9	356.2	1,527.0	3,550.8
26	Off-balance sheet liabilities		283.3	456.4	1,202.1	-121.9	-9.6	-28.7
27	**Net off-balance sheet items (25-26)**		-273.8	-409.8	-1,195.1	478.1	1,536.6	3,579.5
28	**GAP (12-24+27)**		20,934.8	7,204.4	1,947.2	-1,800.9	-5,344.0	-4,245.2
29	**CUMULATIVE GAP**		20,934.8	28,139.2	30,086.5	-1,800.9	-7,144.9	-11,390.1

Annex 13

Own funds as of 31.03.2009

in millions of denars

No.	Description	TOTAL
	CORE CAPITAL	
1	Paid in and subscribed common and non-cumulative preference shares and premiums based on these shares	21,023
1.1	Face value	17,368
1.1.1	Face value of common shares	17,271
1.1.2	Face value of non-cumulative preference share	97
1.2	Premium	3,655
1.2.1	Premium based on common shares	3,655
1.2.2	Premium based on non-cumulative preference shares	-
2	Reserve and retained profit/loss	9,674
2.1	Reserve fund	6,498
2.2	Retained profit	2,685
2.3	Accumulated loss from previous years	-843
2.4	Current profit	1,334
2.5	Unrealized loss from own common and non-cumulative shares available for sale	-
3	Positions as a result of consolidation (positive items)	-
3.1	Minority share	-
3.2	Reserves based on exchange rate differentials	-
3.3	Other differences	-
4	Deductions	838
4.1	Loss at the end of the year, or current loss	229
4.2	Own common and non-cumulative preference shares	0
4.3	Intangible assets	136
4.4	Net negative revaluation reserves	-
4.5	Difference between the amount for the required special reserves for potential losses and the alloceted special reserves	-
4.6	Amount of unallocated impairment and special reserve as a result of accounting time lag	474
5	Common shares, retained profit and deductions	29,762
6	Amount of other positions that can not be included in the core capital	97
I	**Core capital**	**29,859**
	SUPPLEMENTARY CAPITAL 1	
7	Paid in and subscribed cumulative preference shares and premiums for these shares	159
7.1	Face value of the cumulative preference shares	123
7.2	Premium based on cumulative preference shares	36
8	Revaluation reserves	85
9	Hybrid capital instruments	184
10	Subordinated instruments	4,773
11	Amount of subordinated instruments that can be part of the supplementary capital 1	4,773
II	**Supplementary capital 1**	**5,201**
	DEDUCTIONS FROM THE CORE CAPITAL AND SUPPLEMENTARY CAPITAL 1	
12	Capital investments in capital of other banks or financial institutions exceeding 10% of the capital of those institutions except to the institutions under no.15	322
13	Investments in subordinated and hybrid capital instruments in other instruments of the institutions under no.11	-
14	Aggregate amount of capital investments, subordinated and hybrid instruments and other instruments exceeding 10% of (I+II)	-
15	Direct investments in the capital of other insurance and reinsurance companies and pension funds management companies	160
16	Investments in financial instruments issued by companies under no 15 included in their capital	5
17	Amount of exceeding the limits for investments in non-financial institutions	-
18	Positions resulting from consolidation (negative items)	-
III	**Deductions from the core capital and supplementary capital 1**	**488**
IV	**CORE CAPITAL AFTER DEDUCTIONS**	**29,437**
V	**SUPPLEMENTARY CAPITAL 1 AFTER DEDUCTIONS**	**5,136**
	SUPPLEMENTARY CAPITAL 2	
19	Subordinated instruments from the supplementary capital 2	-
20	Supplementary capital 1 and 2	5,136
21	Allowed amount of suppliment capital 1 and 2	5,136
21.1	Supplementary capital 1	5,136
21.2	Supplementary capital 2	-
22	Core capital	12,715
22.1	Excess core capital (150%)	19,072
22.2	Excess core capital (250%)	31,787
VI	**Allowed amount of suppliment capital 2**	-
	OWN FUNDS	
VII	Core capital	29,437
VIII	Supplement capital 1	5,136
IX	Supplement capital 2	-
X	**OWN FUNDS**	**34,573**

Annex 14

Change of the own funds of the banking system as of 31.03.2009

		Amount in millions of Denars			CHANGE in millions of Denars		CHANGE in %	
		31.03.2008	31.12.2008	31.03.2009	31.03.2008/31.12.2007	31.03.2009/31.12.2008	31.03.2008/31.12.2007	31.03.2009/31.12.2008
	Own funds	**28,648**	**33,912**	**34,573**	**927**	**661**	**3.3%**	**1.9%**
1	**Core capital**	26,354	29,324	29,859	820	535	3.2%	1.8%
	Paid in and subscribed common and non-cumulative preference shares and premiums based on these shares*	20,048	21,371	21,023	-189	-348	-0.9%	-1.6%
	Reserve fund and retained earnings or loss	6,654	8,624	9,674	1,060	1,050	18.9%	12.2%
2	**Supplementary capital 1**	2,746	5,057	5,201	104	144	3.9%	2.8%
	-Hybrid capital instruments	0	184	184	0	0	0.0%	0.0%
	-Subordinated instruments	2,445	4,643	4,773	46	130	1.9%	2.8%
3	**Deductions from the core capital and supplementary capital 1**	453	468	488	2	20	-0.4%	4.3%

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

Annex 15

Capital adequacy ratio as of 31.03.2009

in millions of denars

No.	Description	TOTAL
I	**CREDIT RISK WEIGHTED ASSETS**	
1	On-balance sheet assets weighted by credit risk	175,518
2	Off-balance sheet assets weighted by credit tisk	24,422
3	**Credit risk weighted assets (1+2)**	**199,940**
4	Capital requirement for credt risk coverage (8% of no. 3)	15,995
II	**CURRENCY RISK WEIGHTED ASSETS**	
5	Aggregate foreign currency position	9,085
6	Net-position in gold	0
7	**Currency risk weighted assets (5+6)**	**9,085**
8	Capital requirement for currency risk coverage (8% of no.7)	727
III	**RISK WEIGHTED ASSETS (3+7)**	**209,025**
9	Capital requirement for risk coverage (4+8)	16,722
IV	**OWN FUNDS**	**34,573**
V	**CAPITAL ADEQUACY RATIO**	**16.54%**

Annex 16

Groups of banks as of 31.03.2009

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

* Banks are in alphabetical order