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

Report on Banking System and Banking Supervision of the Republic of Macedonia in the third quarter of 2010

December, 2010

Contents

I. BANKING SYSTEM IN THE THIRD QUARTER OF 2010

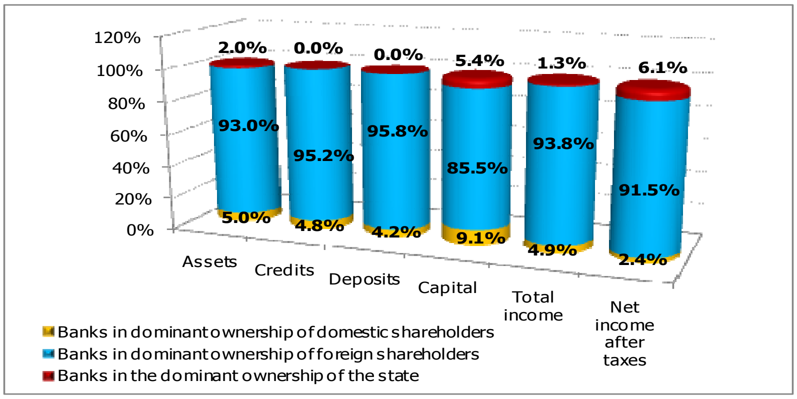
1. Banking system structure

1.1. Number of banks and savings houses and ownership structure of the banking system

On September 30, 2010 the number of banks and savings houses in the Republic of Macedonia remained the same. It is comprised of eighteen banks and nine savings houses. Taking into account the marginal share of the savings houses[1] in all segments of the banking system, the further analysis in this report is mainly focused on the banks' activities.

In the third quarter of 2010 no significant changes occurred within the banks' ownership structure. The most dominant on the market remained the banks owned by foreign shareholders. The number of banks with dominant foreign ownership (fourteen) including the number of foreign banks' branch offices (eight) remained unchanged.

Figure 1.2.1
Structure of the more important positions in banks' balance sheet by dominant ownership in banks



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

1.2. Concentration and market share

At the end of the third quarter of 2010, the concentration level remained high. According to the Herfindahl index[2] the concentration level was the highest, above acceptable limits, for loans and household deposits. The concentration level of corporate credits was also above the acceptable limits, besides its quarterly decrease. Total assets and corporate deposits are the only analyzed segments whose concentration level was within an acceptable interval. Thus, in the third quarter of 2010 the focus was on the total assets' concentration level decrease and the corporate deposits concentration level increase.

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[1] Savings houses share in total activities of the banking system remained insignificant (1.1% share in total assets of the banking system, 1.8% in total loans and 0.3% in total deposits of non-financial entities).

[2] 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 analyzed category (for example: total assets, total deposits etc.), while *n* denotes the total number of banks in the system. When the index ranges between 1,000 and 1,800 units the level of concentration in the banking system is generally considered acceptable.

Figure 1.2.2
Herfindahl index dynamics

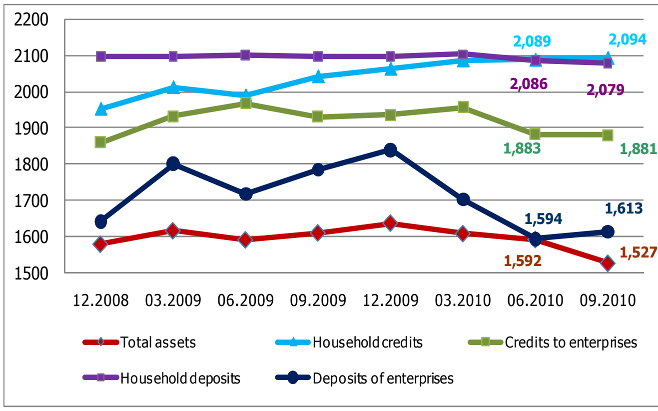
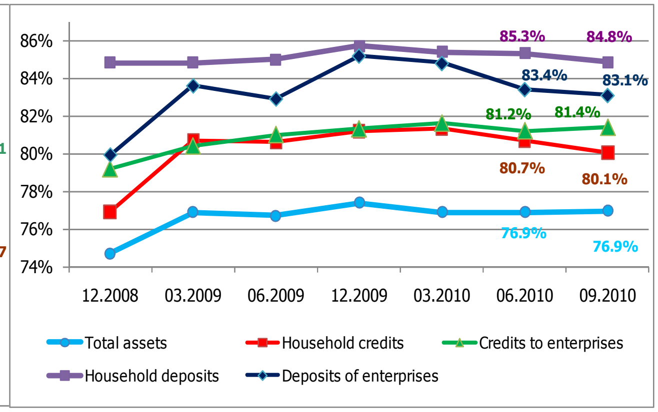


Figure 1.2.3
CR5 indicator dynamics

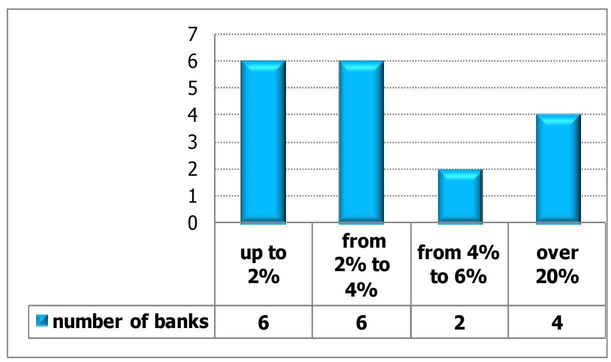


Source: NBRM, on the basis of data obtained from the banks.

The high concentration level in the banking system is also confirmed through analysis of CR5 indicator. As in the previous quarters, household deposits and corporate deposits have the highest concentration level. Except for the total assets and corporate credits, the concentration level according to the CR5 indicator had insignificant quarterly decrease in all other analyzed segments.

The fact that eleven out of eighteen banks in total each have less than 3% of total assets in the banking system confirms the high concentration level. These eleven banks have 15.6% of the banking system assets.

Figure 1.2.4
Market share (in assets) of banks as of September 30, 2010



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

On September 30, 2010 the large banks group[3] remained the most present in all areas of the banking activities. Compared to June 30, 2010 the changes in small and medium banks' market share (especially noticeable with the total assets and total activities) are due to "Macedonian Bank for Development Support" being transferred from small banks group to medium banks group. As a result from increasing the group of medium banks share in the total assets and total loans, there was a slight decrease in the large banks share in these two categories.

[3] Banks are grouped according to their assets in: group of small banks with assets less than 5 billion denars; group of medium banks with assets between 5 and 20 billion denars and group of large banks with assets over 20 billion denars. The margins between certain groups of banks are revised once a year according to average growth of total assets.

Table 1.2.1
Groups of banks' market share

Groups of banks	Number of banks		Share in the total assets		Share in the total activities		Share in the total credits		Share in the total deposits	
	30.06.2010	30.09.2010	30.06.2010	30.09.2010	30.06.2010	30.09.2010	30.06.2010	30.09.2010	30.06.2010	30.09.2010
Large banks	3	3	66.4%	65.8%	67.5%	66.8%	69.7%	69.5%	72.4%	72.5%
Medium-size banks	8	9	28.3%	30.6%	27.8%	30.0%	28.2%	28.3%	24.9%	24.6%
Small-size banks	7	6	5.3%	3.6%	4.7%	3.3%	2.1%	2.1%	2.6%	2.8%
Total	**18**	**18**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

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

The group of small banks still plays a minor role in the overall banking system.

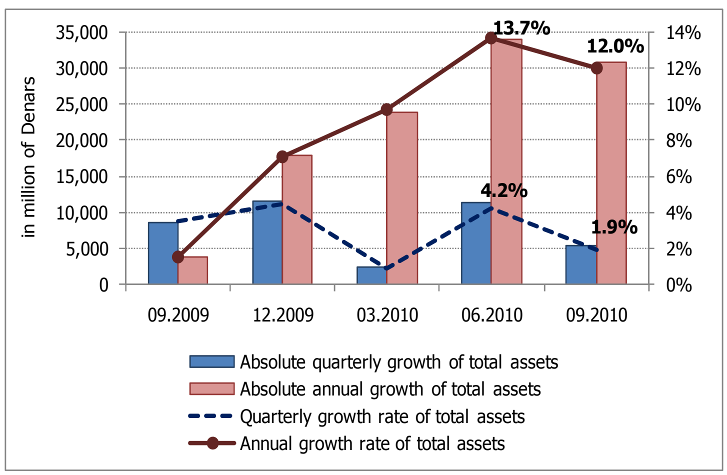
2. Activities of the banks

Besides the indications for moderate recovery of the economy in the third quarter of 2010 there was still a slowdown in the growth of the overall activities in the domestic banking system. The slowdown in the total assets growth is mainly due the slowdown in the growth of non-financial entities deposits. There was also a hold up in banks' credit activity while the level of low-risk assets in total assets increased.

2.1. Balance sheet of banks

At the end of the third quarter of 2010 the banking system total assets continued to grow but more slowly compared to the previous quarter. On September 30, 2010 the total assets amounted to Denar 287,832 million having about twice lower absolute and relative quarterly growth compared to the growth registred in the second quarter. The positive annual changes in total assets slowed down due to such movements. The total assets growth slowdown is mainly a result of dividend paid in the third quarter by a large company[4], which resulted in slower deposit growth on the liabilities side and decrease of cash and balances of accounts with the NBRM on the assets side.

Figure 2.1.1
Changes in banks' total assets



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

Deposits of non-financial entities continue to be main source for financing of the banks' activities despite their structure share decline in total source of funds. In the third quarter of 2010 borrowings and deposit core of the banks played a major role in the total banking system assets growth.

[4] Which mother company is non-resident and the Government of the Republic of Macedonia is also a shareholder.

Table 2.1.1
Structure of assets and liabilities at banking system level

Balance sheet	Amount in millions of Denars		Structure		Change 30.09.2010 / 30.06.2010			
	30.06.2010	30.09.2010	30.06.2010	30.09.2010	Absolute chnage	In percent	In the structure (in percentage points)	Share in the chnage
Cash and balances with NBRM	34,247	32,131	12.1%	11.2%	-2,116	-6.2%	-1.0	-38.5%
Securities portfolio	39,002	41,749	13.8%	14.5%	2,747	7.0%	0.7	50.0%
Placements with banks and other financial institutions	31,973	33,560	11.3%	11.7%	1,587	5.0%	0.3	28.9%
Credits to nonfinancial entities (net)*	162,186	165,126	57.4%	57.4%	2,940	1.8%	-0.1	53.5%
Accrued interest and other assets	6,533	7,021	2.3%	2.4%	488	7.5%	0.1	8.9%
Fixed assets	8,500	8,442	3.0%	2.9%	-58	-0.7%	-0.1	-1.1%
Unallocated loan loss provisions	-106	-196	0.0%	-0.1%	-90	84.9%	0.0	-1.6%
Total assets	**282,334**	**287,832**	**100.0%**	**100.0%**	**5,498**	**1.9%**	**0.0**	**100.0%**
Deposits from banks and other financial institutions	15,203	15,908	5.4%	5.5%	705	4.6%	0.1	12.8%
Deposits of nonfinancial entities	200,864	202,202	71.1%	70.3%	1,338	0.7%	-0.9	24.3%
Borrowings (short-term and long-term)	27,334	30,040	9.7%	10.4%	2,706	9.9%	0.8	49.2%
Other liabilities	6,360	7,137	2.3%	2.5%	777	12.2%	0.2	14.1%
Provisions for off-balance sheet items	754	683	0.3%	0.2%	-71	-9.4%	0.0	-1.3%
Capital and reserves	31,819	31,862	11.3%	11.1%	43	0.1%	-0.2	0.8%
Total liabilities	**282,334**	**287,832**	**100.0%**	**100.0%**	**5,498**	**1.9%**	**0.0**	**100.0%**

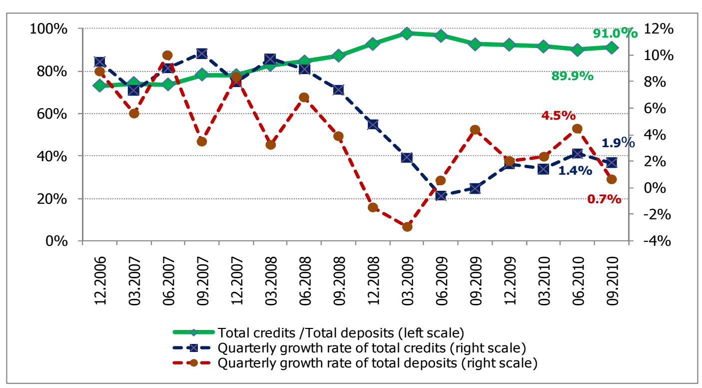
Source: NBRM on the basis of data obtained from the banks

* Credits to non-financial entities are presented on net basis i.e. have been reduced for the total impairment of credits which on September 30, 2010 was Denars 18,304 million and the total value of accumulated amortization which on September 30, 2010 was Denars 648 million.

On quarterly basis the borrowings had the highest absolute and relative growth which contributed with 49.2% to the total funds sources growth. Around 60% of the total borrowings growth refers to short-term borrowings[5], and the other 40% refer to long-term borrowings growth[6]. Deposits of non-financial entities are the next more significant category according to its contribution to the liabilities growth. Increase in the deposits of non-financial entities is a result of increased savings by citizens.

In the third quarter of 2010, the credits to non-financial entities rapidly grow compared to deposits which affected the growth ratio between these two categories.

Figure 2.1.2
Movement of total credits and total deposits and their ratio



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

[5] Quarterly growth of the short-term borrowings (for Denar 1,576 million) is completely concentrated with one bank and is due to the bank's borrowing from its parent bank.
[6] Quarterly growth of the long-term liabilities (for Denar 1,132 million) is mainly due to use of EIB credit line by one bank.

Despite the core interest rate decrease at history lowest (4.5% in August 2010) banks' interest in investing in CB bills continued also in the third quarter of 2010 which influenced on their securities portfolio increase. The CB bills had quarterly rise of 3,445 million denars or 14.9% which leads to conclusion of banks being watchful in placing their funds. The higher investment in securities resulted in high 50.0% of the total assets growth of the banks in the third quarter of 2010.

2.2 Balance sheet of individual groups of banks

At the end of the third quarter in 2010 the large banks group still had a major share in the structure of the three main balance sheet categories (total assets, loans and non-financial entities deposits). The positive quarterly change in loan and deposit activities was mainly due to the growth of these three categories in the large banks group. On the other side, the medium banks group contributed mainly in the banking system total assets growth in the quarter which is a result of the Macedonian Bank for Development Promotion transfer from the small banks group to the medium banks group as well as the medium banks group assets growth on a quarterly basis.

Table 2.2.1
Market share and growth of total assets, credits and deposits by groups of banks

ITEMS	Amount in million of Denars		Structure		Quarterly change 30.09.2010 / 30.06.2010			
	30.06.2010	30.09.2010	30.06.2010	30.09.2010	In absolute amount	In percentage	In the structure (in p.p)	Share in the change
Total assets	**282,334**	**287,832**	**100.0%**	**100.0%**	**5,498**	**1.9%**		**100.0%**
Large banks	187,525	189,473	66.4%	65.8%	1,948	1.0%	-0.6	35.4%
Medium-size banks	79,901	87,962	28.3%	30.6%	8,061	10.1%	2.3	146.6%
Small-size banks	14,909	10,398	5.3%	3.6%	(4,511)	-30.3%	-1.7	-82.0%
Credits to non-financial entities (net)	**162,186**	**165,126**	**100.0%**	**100.0%**	**2,940**	**1.8%**		**100.0%**
Large banks	112,034	113,724	69.1%	68.9%	1,690	1.5%	-0.2	57.5%
Medium-size banks	47,059	48,158	29.0%	29.2%	1,099	2.3%	0.1	37.4%
Small-size banks	3,092	3,244	1.9%	2.0%	152	4.9%	0.1	5.2%
Deposits of non-financial entities	**200,864**	**202,202**	**100.0%**	**100.0%**	**1,338**	**0.7%**		**100.0%**
Large banks	145,526	146,630	72.4%	72.5%	1,105	0.8%	0.1	82.5%
Medium-size banks	50,016	49,819	24.9%	24.6%	(197)	-0.4%	-0.3	-14.7%
Small-size banks	5,322	5,753	2.6%	2.8%	431	8.1%	0.2	32.2%

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

In the third quarter of 2010 certain changes occurred in the assets structure by groups of banks mainly at groups of medium and small banks. The structural changes are result of the change in the composition of the groups of small and medium banks.

Figure 2.2.1
Structure of assets by groups of banks

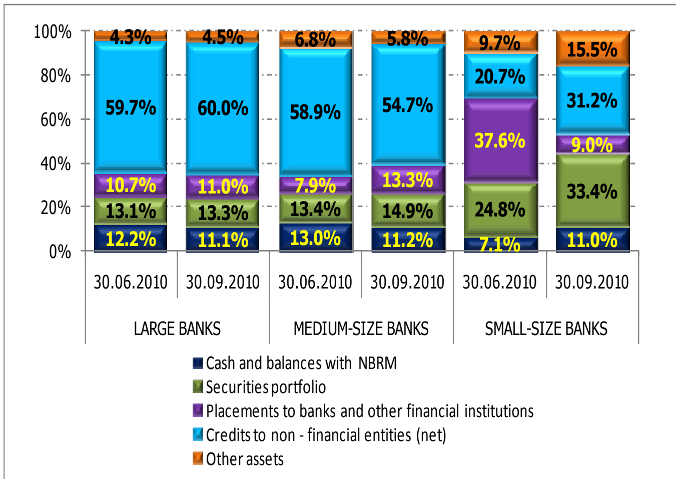
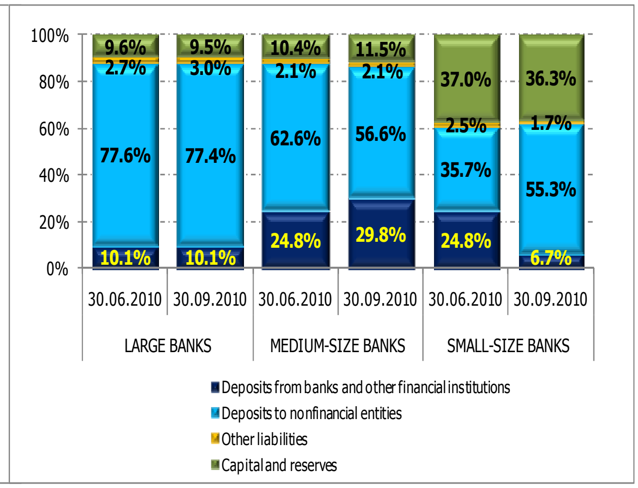


Figure 2.2.2
Structure of liabilities by groups of banks



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

Taking into account the simple structure of assets[7] of the Macedonian Bank for Development Promotion, more significant structural changes in the assets of these groups of banks were manifested through: a) increase of structural part of loans to non-financial entities in the total assets of the small banks group[8] and b) increase of placements to banks and other financial institutions as well as securities portfolio in the total assets of the medium banks group at the expense of lower share of endorsed loans [9] by these banks.

On the part of the liabilities by individual groups of banks, in the third quarter of 2010 there were also certain structural changes first of all at the groups of medium and small banks. These changes are mainly explained by change in the structure of these two groups of banks. Taking into account the basic liabilities structure[10] of the Macedonian Bank for Development Promotion the more important structural changes in the liabilities of these groups of banks generally consist of: decrease of deposits structural share in the total liabilities at medium banks group, and their increased presence in the total liabilities at small banks group. These changes are also a result of the quarterly decrease of deposits of non-financial entities by Denars 197 million at medium banks group[11] as well as their increase by Denars 431 million at small banks group. The decrease in share by deposits of banks and other financial institutions as well as

[7] Over 90% of total assets of this bank are placements to other banks and other financial institutions.
[8] This is due to lower amount of the total assets of small banks group, a small part also to the credit activity growth of this group of banks. Namely, the credit activity of the small banks group increased in this quarter by Denars 152 million or 4.9%.
[9] If the composition of the bank groups remains the same, in the part of assets at medium banks group, the highest quarter increase of 2.2 percentage points would have the structural share of securities portfolio which is a result of increased investment in CB bills by this group of banks.
[10] Around 60% of the total liabilities of this bank are borrowings and around 35% refers to capital and reserves.
[11] Decrease in deposits of non-financial entities is mainly due to withdrawal of deposits of one large company.

decrease in share of borrowings in the total liabilities at small banks group are result of the transfer of the Macedonian Bank for Development Promotion from the group of small to the group of medium banks. At the same time the increased share of this position in the total liabilities of the medium banks group, besides the transfer that occurred, is also due to increased use of borrowings and deposits by the medium banks group. At the small banks group which has the highest level of capitalization and finances its activities mainly from its own sources of funds, there was significant decrease in the capital and reserves (as a result from losses made by this group of banks).

Table 2.2.2
Assets and liabilities by individual group of banks

ITEMS	Large banks			Medium-size banks			Small-size banks		
	30.09.2010 (in millions of Denars)	Change September 2010 / June 2010	Percentage change September 2010 / June 2010	30.09.2010 (in millions of Denars)	Change September 2010 / June 2010	Percentage change September 2010 / June 2010	30.09.2010 (in millions of Denars)	Change September 2010 / June 2010	Percentage change September 2010 / June 2010
Cash and balances with NBRM	21,110	-1,696	-7.4%	9,880	-508	-4.9%	1,141	88	8.4%
Securities portfolio	25,151	581	2.4%	13,128	2,399	22.4%	3,470	-234	-6.3%
Placements to domestic and foreign banks and other financial institutions	20,912	876	4.4%	11,716	5,389	85.2%	933	-4,678	-83.4%
Credits to nonfinancial entities (net)	113,724	1,690	1.5%	48,158	1,099	2.3%	3,244	152	4.9%
Other*	8,576	498	6.2%	5,080	-318	-5.9%	1,611	160	11.0%
Total assets	**189,473**	**1,948**	**1.0%**	**87,962**	**8,061**	**10.1%**	**10,398**	**-4,511**	**-30.3%**
Deposits from banks and other financial institutions	6,627	123	1.9%	8,753	525	6.4%	528	57	12.1%
Deposits of nonfinancial entities	146,630	1,105	0.8%	49,819	-197	-0.4%	5,753	431	8.1%
Borrowings (short-term and long-term)	12,440	-38	-0.3%	17,431	5,806	49.9%	169	-3,062	-94.8%
Other**	5,778	753	15.0%	1,866	150	8.7%	176	-197	-52.8%
Capital and reserves	17,998	6	0.0%	10,093	1,777	21.4%	3,771	-1,739	-31.6%
Total liabilities	**189,473**	**1,948**	**1.0%**	**87,962**	**8,061**	**10.1%**	**10,398**	**-4,511**	**-30.3%**

Source: NBRM on the basis of data obtained from the banks
* "Other" includes accrued interest, fixed and intangible assets.
** "Other" includes special reserve for off-balance claims, other provisions and other liabilities.

2.3 Credit activity of the banks

In the third quarter of 2010 the credit activity of the banks continued to grow but with slower dynamics compared to the previous quarter. The credit growth in this quarter is one fourth lower compared to the quarterly growth in the second quarter of 2010. The slower credit growth coincides with the slower deposit growth but also with still present banks' perceptions about risks related to financial position of companies and households, as well as banks' investments in non-risk securities (CB bills) regardless of the low profit. **However, the positive annual changes of credits to non-financial entities which began at the end of 2009 also continued in the third quarter of 2010.**

Figure 2.3.1
Credits to non-financial entities

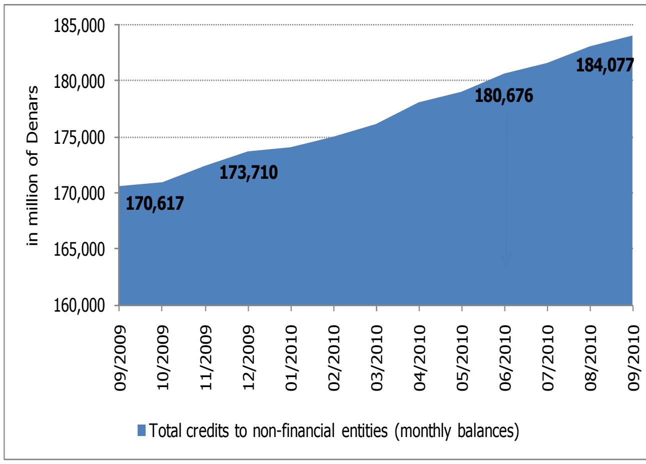
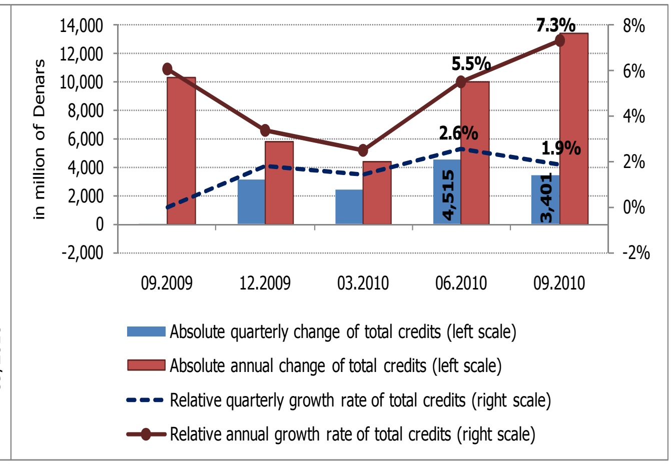
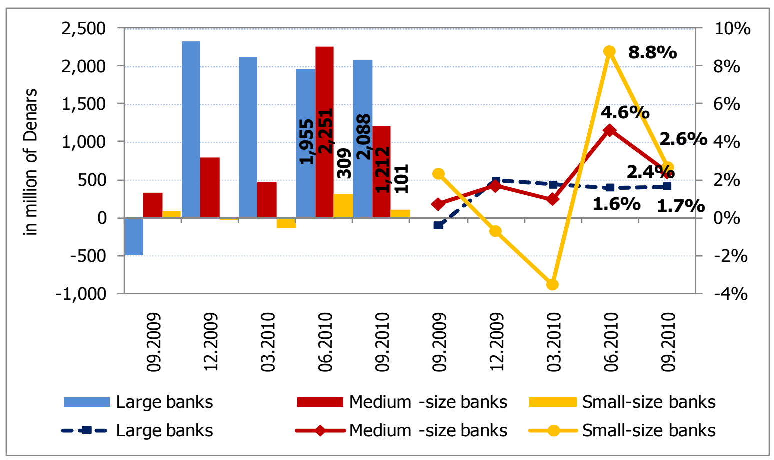


Figure 2.3.2
Quarterly and annual (absolute and relative) change in credits to non-financial entities



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

Figure 2.3.3
Absolute (left) and relative (right) quarterly growth of credits to non-financial entities by group of banks

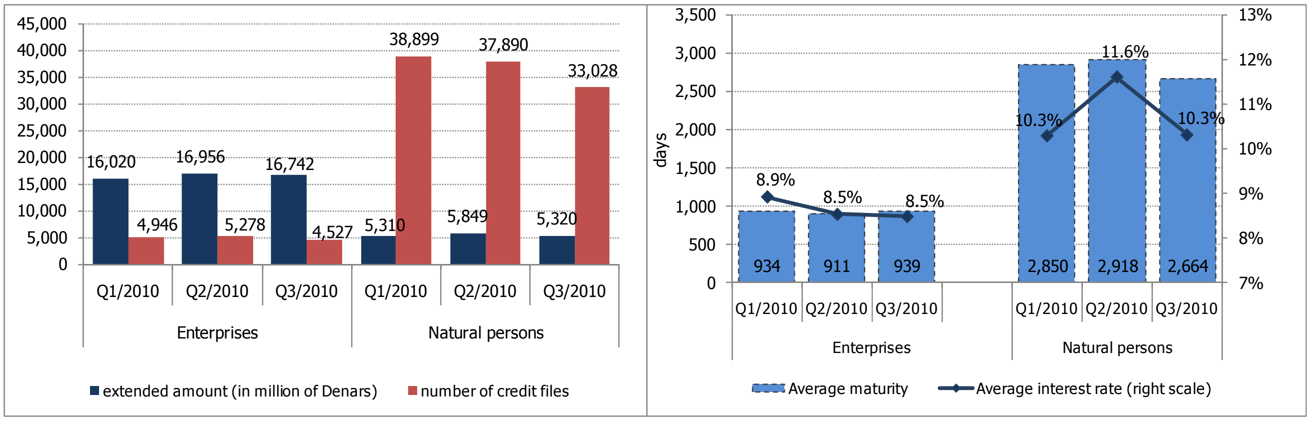


Source: NBRM on the basis of data obtained from the banks.

In the third quarter of 2010 the slower growth was characteristic of medium and small banks. On the other side, the group of large banks continued with positive quarterly upstream dynamics. Given these flows, the group of large banks had major contribution in the credit growth with 61.4% of the total quarterly growth of credits to non-financial entities, while the group of medium banks had 35.6% of the total credit growth. The group of small banks although with lowest contribution to the total growth of credits to non-financial entities (3.0%) still had the highest quarterly growth rate for credits to non-financial entities 2.6% compared to the quarterly growth rates of the other two groups of banks.

The slower credit dynamics is especially noticeable through newly approved credits flow. The amount of credits to non-financial entities approved in the third quarter of 2010 (in the amount of Denars 22,387 million) is 3.6% lower compared to the newly approved credits from the previous quarter. The newly approved credits to companies and natural entities are 1.3% and 9.0%, respectively, lower compared to the previous quarter (Annex 5 – Newly Approved Loans).

Figure 2.3.4
Dynamics of newly approved credits in 2010

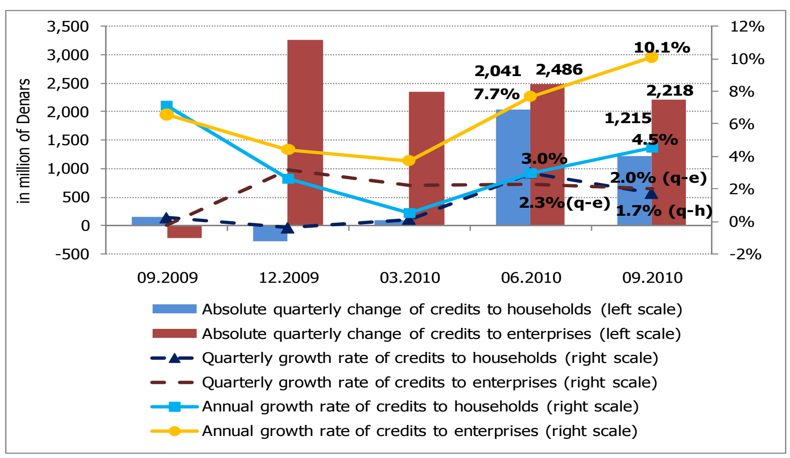


Source: NBRM, according to the data submitted by banks in the Credit Register.

The banks' expectations for the third quarter of 2010 were mainly towards unchanged interest rate policy, contrary to the downwards trend of loans approved in this quarter. The average interest rate for credits to non-financial entities endorsed in the third quarter of 2010 was 8.9% while in the previous quarter it was 9.2%. The most notable decrease in the average interest rate[12] from 13.4% to 12% was at consumption loans to natural entities in denars (Annex 5 – Newly Approved Loans). As for the newly approved loans to companies in the third quarter of 2010 there are no significant changes in the average maturity of the newly approved credits to non-financial entities (the average maturity of newly approved credits to companies and natural entities is two and a half and seven years, respectively).

From a viewpoint of **sector credit allocation** in the third quarter of 2010 credits to enterprises had higher growth compared to the credits to households[13] although both sectors had slower quarterly dynamics. Having these flows, the loans to companies contributed with around two thirds to the total quarterly credit growth, while the household credits with one third. **The annual growth rates of credits to enterprises and households, beginning with the first quarter of 2010, has continuously shown upwards tendency** while the annual

Figure 2.3.5
Quarterly and annual changes of credits by sector structure



Source: NBRM on the basis of data obtained from the banks.
Note: q-e is for quartaly enterprises, q-h is for quartaly households.

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12 Additional effects on the interest rates decrease may also have the latest amendments to the Law on Obligatory Relations (the amending of which has begun in February 2010) to limit the upper level of active contractual and penalty interest rate.

13 Such dynamics is to some extent in line with the banks' expectations, presented in the Loan activity survey, according to which the demand for loans to companies was expected to grow, and the demand for household loans to stagnate.

growth rate of credits to enterprises at the end of the third quarter of 2010 was even a two-digit number. Such dynamics of the credits to enterprises corresponds with economy revitalization process and increased financial needs of companies for turnover funds, settling of due liabilities and investing in core funds at this stage of the economic cycle. **The moderate quarterly credit growth has not caused major shift in sector structure of credits.** At the end of the third quarter of 2010 the credits to enterprises were 61.0% of total credits (quarterly increase of 0.1 percentage point) while the credits to households were 38.3%.

Table 2.3.1
Credit exposure in the third quarter of 2010, by activities/ credit products

Sector	Credit products / individual sectors	Credit risk exposure in million of Denars as of September 30, 2010	Absolute quarterly growth of credit risk exposure in million of Denars	Quarterly growth rate	Share in the total growth of the credit risk exposure
NATURAL PERSONS	Other loans	882	-321	-26.7%	-3.6%
	Car loans	4,378	-156	-3.4%	-1.7%
	Credit cards	23,641	40	0.2%	0.4%
	Overdrafts	9,019	307	3.5%	3.4%
	Residential and commercial real estate loans	16,411	545	3.4%	6.1%
	Consumer loans	27,727	1,070	4.0%	11.9%
ENTERPRISES AND OTHER CLIENTS	Industry	51,720	-363	-0.7%	-4.0%
	Agriculture, hunting and forestry	4,207	177	4.4%	2.0%
	Construction	15,060	234	1.6%	2.6%
	Transport, storage and communication	9,126	456	5.3%	5.1%
	Other sectors	16,407	853	5.5%	9.5%
	Wholesale and retail trade	42,923	1,421	3.4%	15.8%

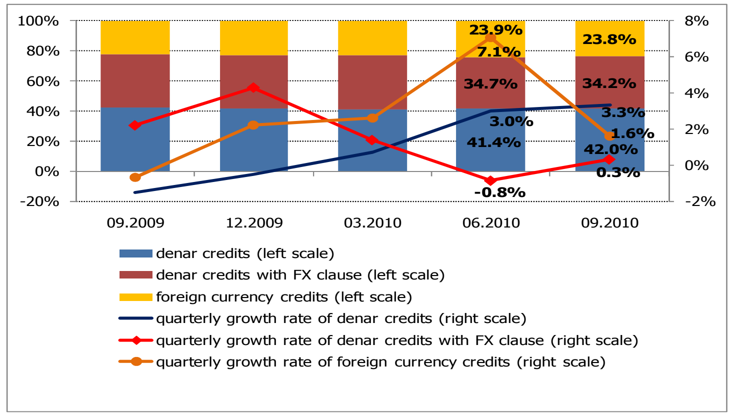
Note: The table presents only exposure to non-financial entities (natural persons and enterprises and other clients), and not the exposure to financial intermediation, public administration and defense and sole-proprietors. More details on progress in all activities and credit products exposed to risk are presented in Annex 10 – Credit risk exposure and impairment, at banking system level.
Source: NBRM on the basis of data obtained from the banks.

Besides the negative quarterly change of exposure to "industry" clients, **the major part of credit support by banks refers to these clients.** In the third quarter of 2010, loans endorsed to retail and wholesale clients had major contribution to total growth of loan risk exposure to non-financial entities. **On the other side, during the same period of time, consumer credits were the most important credit products delivered by banks to households sector** which is expected to have a further positive effect on personal consumption[14] growth. Upwards quarterly shifts are also noticeable at residential and commercial real estate loans, as well as overdrafts. However, there is a negative change in the other types of credits and car credits.

[14] Personal consumption in the second quarter of 2010 had 0.5% quarterly growth. Source: NBRM, Quarterly Report, October 2010.

Currency component credits (FX credits and credits in denars with currency clause) are still most present in total amount of credits. The strongest quarterly growth of Denars 2,488 million (or by 3.3%) showed the denar credits which were a major generator (with 73.1%) for the total credit growth. The FX credits and denar credits with currency clause had moderate growth in this quarter with Denars 698 million and Denars 216 million, respectively.

Figure 2.3.6
Currency structure and quarterly credit growth rates by currency



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

Currency component credits are still most significant for the corporate sector. However, in the third quarter of 2010 the quarterly growth of credits to enterprises and to other clients is mainly (63.5%) determined by denar credits growth, while at households they contribute with 90.5% to the total households credits growth.

Figure 2.3.7
Currency structure of credits to enterprises and other clients and households

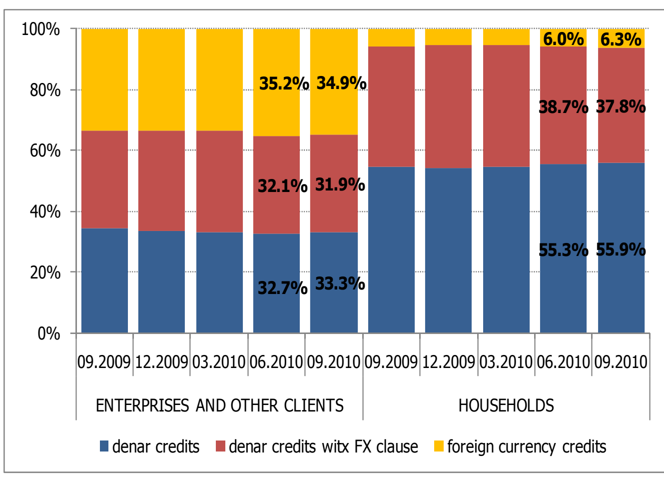
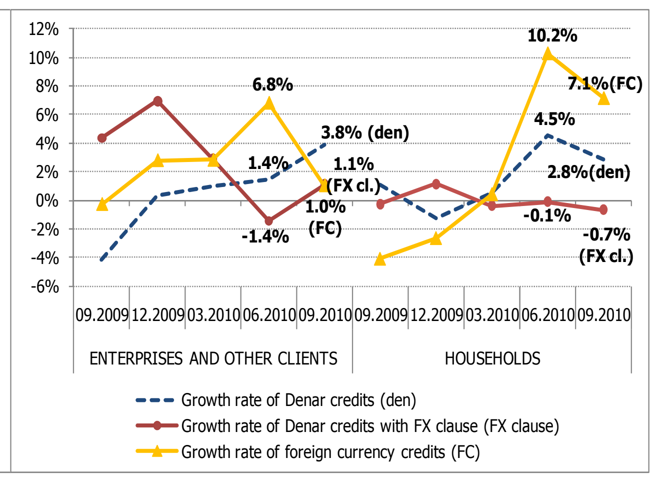


Figure 2.3.8
Quarterly growth rates of credits by sector and currency



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

High presence and main role of long-term credits in total growth of credits to non-financial entities are main characteristics of the maturity structure of the banks' credit activity in the third quarter of 2010. On a quarterly basis, **long-term credits** had 1.9% growth which was mostly (67.8%) conditioned by the growth of the long-term FX credits to enterprises. **Non-performing loans** had the highest relative quarterly growth of 7.4% where the non-performing denar loans to enterprises contributed the most to the growth with 84.5%. The insignificant quarterly growth of **short-term credits** (0.5%) and quarterly decrease of past due loans (14.8%) did not cause major changes in their share in total amount of credits.

Figure 2.3.9
Maturity structure of total credits to non-financial entities

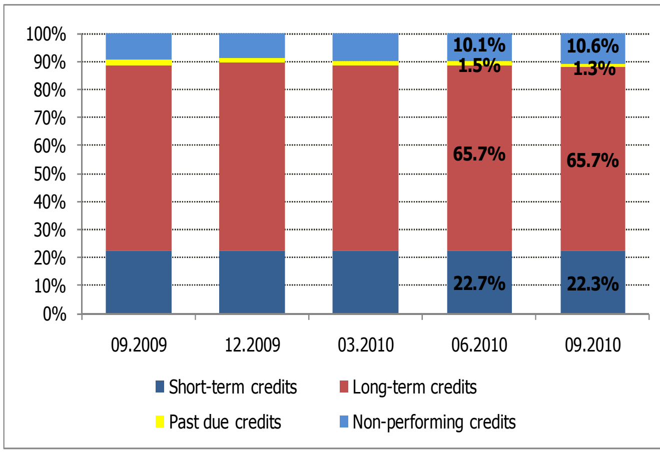
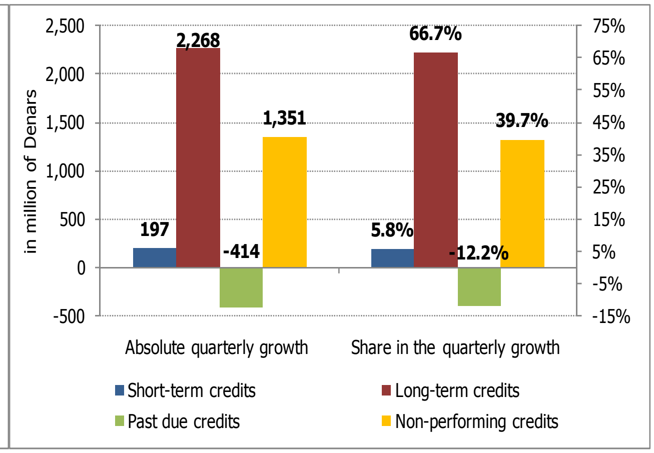


Figure 2.3.10
Absolute quarterly change in credits by maturity and total growth share



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

Allocation of credits by individual groups of banks proves the dominant position of the large banks group in the banking system. Namely, the large banks group has a major share within all structural categories of credits. On a quarterly basis, there are some changes in the allocation of credits in terms of higher importance of past due credits and decrease in share of credits to other clients and FX loans at the large banks group. On the other side, in the same period the medium banks group the share of the above mentioned categories of credits has opposite direction.

Table 2.3.2
Allocation of credits by bank groups

Credit structures		30.06.2010				30.09.2010			
		Large banks	Medium-size banks	Small -size banks	Total	Large banks	Medium-size banks	Small -size banks	Total
Sector structure	Enterprises	70.2%	27.9%	1.9%	100.0%	69.7%	28.3%	2.0%	100.0%
	Households	69.0%	28.6%	2.4%	100.0%	69.3%	28.3%	2.4%	100.0%
	Other clients	58.3%	41.0%	0.7%	100.0%	55.6%	43.7%	0.7%	100.0%
Maturity structure	Short-term	72.0%	25.9%	2.1%	100.0%	72.5%	25.3%	2.2%	100.0%
	Long-term	69.7%	28.5%	1.8%	100.0%	69.2%	28.9%	1.8%	100.0%
	Past due	60.7%	36.8%	2.5%	100.0%	65.8%	31.1%	3.1%	100.0%
	Non-performing	65.7%	30.1%	4.2%	100.0%	65.6%	30.7%	3.7%	100.0%
Currency structure	Denar	79.2%	17.4%	3.4%	100.0%	79.4%	17.1%	3.5%	100.0%
	Denar with Fx clause	57.5%	40.5%	2.0%	100.0%	57.6%	40.5%	1.9%	100.0%
	Foreign currency	70.9%	29.1%	0.1%	100.0%	69.3%	30.7%	0.0%	100.0%

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

Domination of the credits to enterprises by sector allocation and of the long-term credits by maturity structure at banking system level is present in all groups. Credits with currency component are the most present in the groups of large and medium banks while denar credits dominate at the small banks group.

Table 2.3.3
Structural characteristics of loans at individual groups of banks

Structure of credits		30.06.2010			30.09.2010		
		Large banks	Medium-size banks	Small-size banks	Large banks	Medium-size banks	Small-size banks
Sector structure	Enterprises	61.4%	60.3%	55.7%	61.2%	60.9%	56.7%
	Households	38.4%	39.4%	44.3%	38.6%	38.8%	43.3%
	Other clients	0.2%	0.3%	0.1%	0.2%	0.3%	0.1%
	Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Maturity structure	Short-term	23.4%	20.8%	22.3%	23.3%	20.0%	22.6%
	Long-term	65.7%	66.4%	55.9%	65.4%	67.0%	57.0%
	Past due	1.3%	2.0%	1.8%	1.2%	1.4%	1.9%
	Non-performing	9.5%	10.8%	20.0%	10.0%	11.5%	18.5%
	Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Currency structure	Denar	47.1%	25.5%	66.8%	48.0%	25.4%	68.5%
	Denar with FX clause	28.6%	49.9%	32.3%	28.3%	48.8%	31.1%
	Foreign currency	24.3%	24.6%	0.9%	23.7%	25.8%	0.4%
	Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

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

2.4. Deposit activity of the banks

At the end of the third quarter of 2010 there was a slowdown in the growth of total deposits of non-financial entities. That is mainly a result of the dividend paid to shareholders (non-resident and state) by one large company. Before distribution of the dividend the funds had been kept as short-term deposits, nominated in denars with currency clause. Hence, the withdrawal of these funds from the banking system influenced on the quarterly changes in the sector, currency and maturity structure of total deposits of non-financial entities. Therefore, the positive quarterly movements of deposits of non-financial entities which had began at the end of 2009 slowed down in the third quarter of 2010. Thus, at the end of September 2010, the amount of total deposits of non-financial entities was Denars 202,202 million. Compared to June 30, 2010 there was an increase of Denars 1,338 million (or 0.7%) which is about six times lower than the quarterly growth (absolute and relative) in the previous quarter. The dividend payment (i.e. the above mentioned deposit outflow) affected the amount of deposits at the medium banks group. The deposits at other two groups increased by 82.5% at the large banks group and 32.2% at the small banks group regarding the total quarterly growth of deposits of non-financial entities. The annual rate of change of total deposits is lower compared to that reached on June 30, 2010 which is mainly due to slower quarterly growth of household deposits.

Figure 2.4.1
Dynamics of total deposits of non-financial entities, with annual and quarterly growth rates

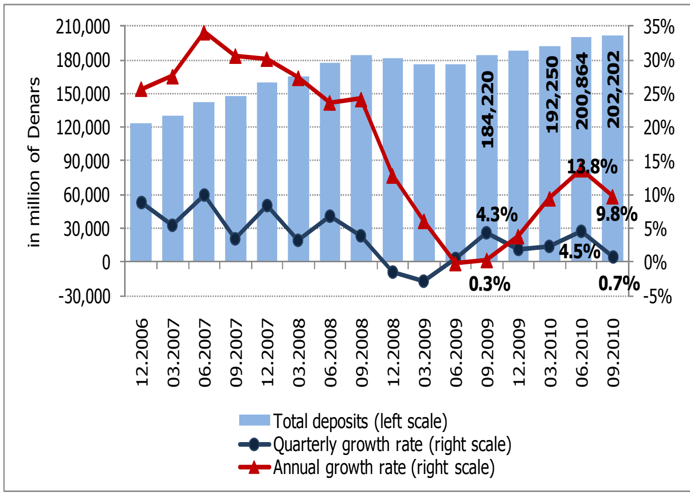
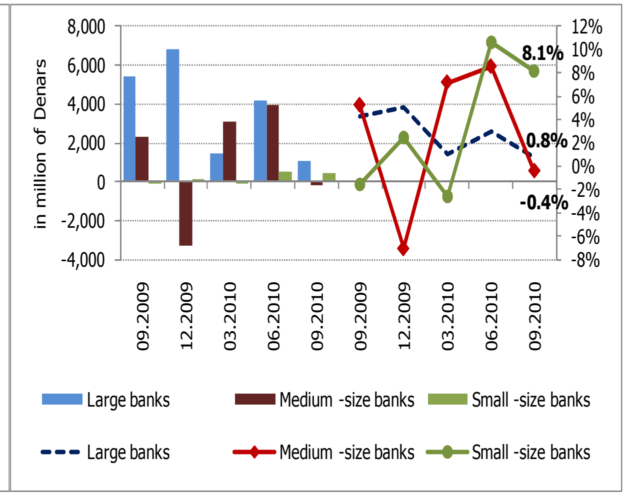
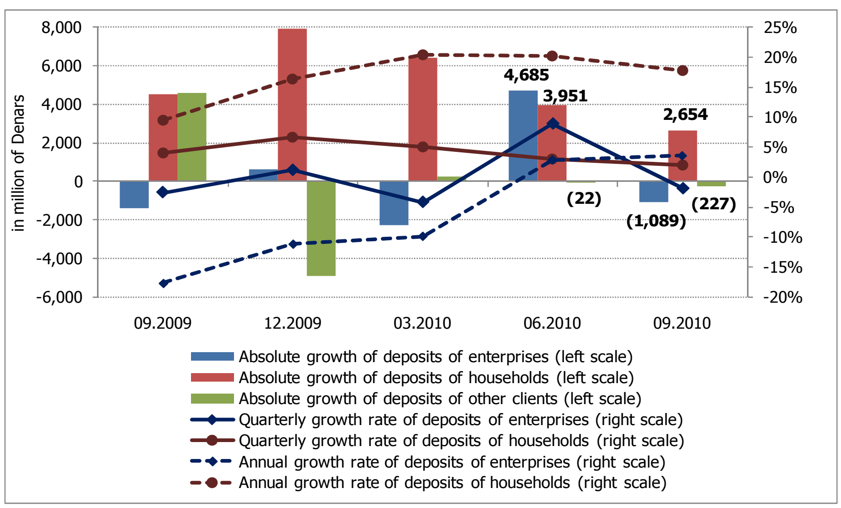


Figure 2.4.2
Absolute and relative quarterly growth of deposits of non-financial entities



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

Figure 2.4.3
Absolute quarterly change and relative quarterly and annual change of deposits by sector structure



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

The above mentioned payment of dividend almost completely determined the deposits of companies decrease, despite their growth in the previous quarter. Besides the slower quarterly dynamics, the household deposits even in the third quarter of 2010 had main input in the dynamics of total deposits of non-financial entities. In the third quarter of 2010 the amount of new household deposits is one third lower compared to the previous quarter. That conditioned their quarterly growth rate to decrease for 1 percentage point (from 3% on June 30, 2010 to 2% on September 30, 2010). However, due to decrease in deposits to enterprises, the share of household deposits in total deposits core of banks increased by 0.9 percentage point in the third quarter of 2010 and it was 68.5% on September 30, 2010. On annual basis, the household deposits on September 30, 2010 had 17.8% growth, compared to 20.1% on June 30, 2010 while the annual growth rate of deposits of enterprises from 2.9% (on June 30, 2010) went up to 3.6% (on September 30, 2010).

In the third quarter of 2010, denar deposits continued to grow stronger, vis-à-vis FX deposits and denar deposits with currency clause. The quarterly growth of denar deposits (Denars 5,156 million or 6.2%) as well as the moderate growth of FX deposits (Denars 262 million or 0.2%) completely buffered the decrease of denar deposits with currency clause in the amount of Denars 4,080 milllion (or by 54.0%)[15]. Such events caused denar deposits to strengthen their position in the structure of total deposits of non-financial entities at the expense of decrease of share of the other two deposit categories regarding currency structure. In the third quarter of 2010 the household deposits[16] had higher growth compared to the moderate growth of FX deposits and negative change of denar deposits with currency clause. At deposits of enterprises by currency, denar deposits had positive quarterly change[17], compared to the negative change of FX deposits and denar deposits with clause[18] of enterprises.

Figure 2.4.4
Currency structure and quarterly growth of deposits by currency

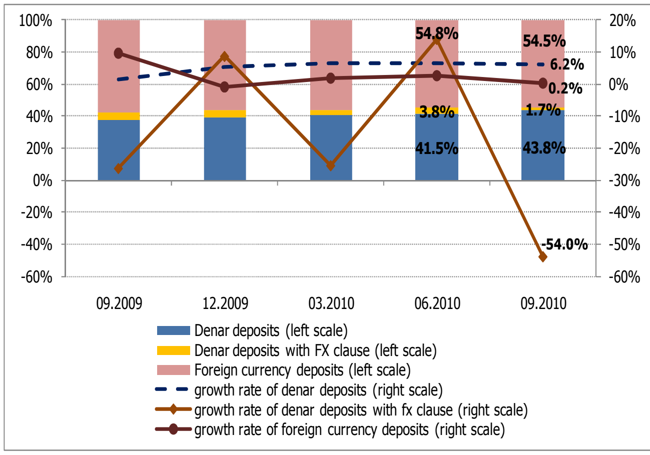
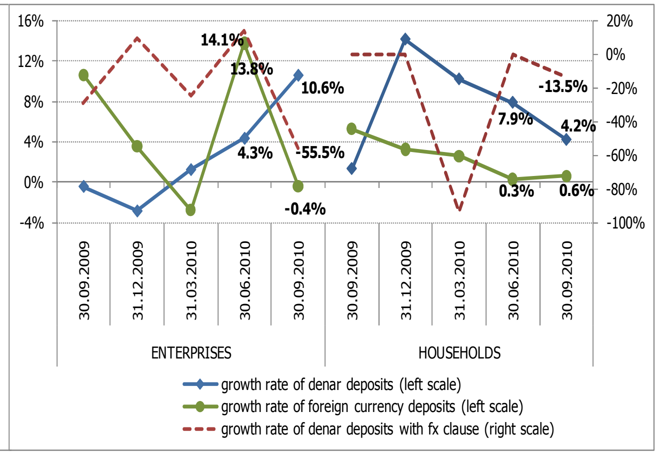


Figure 2.4.5
Quarterly growth of deposits by currency and sector



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

In the third quarter of 2010, maturity structure of deposits remained almost unchanged compared to the previous quarter. Short-term deposits are still the most present in the maturity structure of deposits regardless of their quarterly fall.[19] On the other side, the long-term deposits continued to grow with almost four times higher dynamics compared to sight deposits. Thus, from maturity point of view, the long-term deposits have strengthened their position in the total deposits structure at the expense of the lower share of the sight deposits.

[15] Decrease of denar deposits with currency clause is due to July payment of dividend by a large company.
[16] Total growth of household deposits is completely due to the denar deposits growth, while short-term deposits input was 57.7% and the long-term household deposits input was 42.1%.
[17] Denar deposits of enterprises had quarterly growth of Denars 3,010 million or 10.6%. About 70% of them refer to the growth of sight denar deposits of enterprises. Over 86% of this growth is due to the growth of sight deposits of enterprises at three banks (two from the large and one middle bank).
[18] Fall of enterprises' denar deposits with clause is due to withdrawal of deposits by one large company for payment of dividend.
[19] Decrease of short-term deposits is also explained by payment of dividend by one large company.

Figure 2.4.6
Absolute and relative quarterly change of deposits by maturity

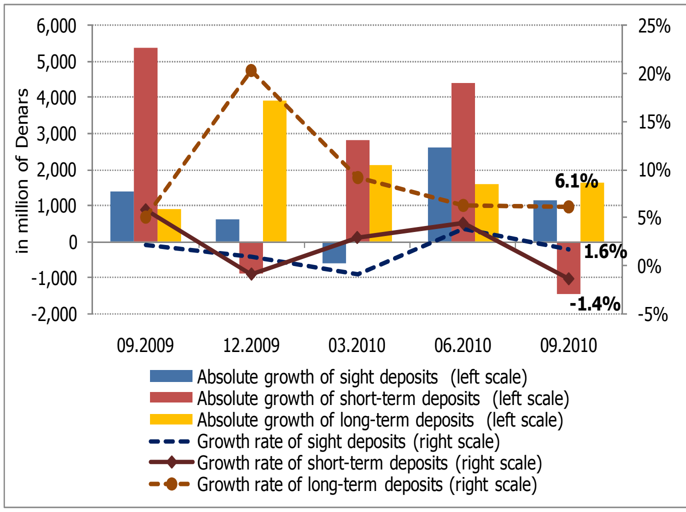
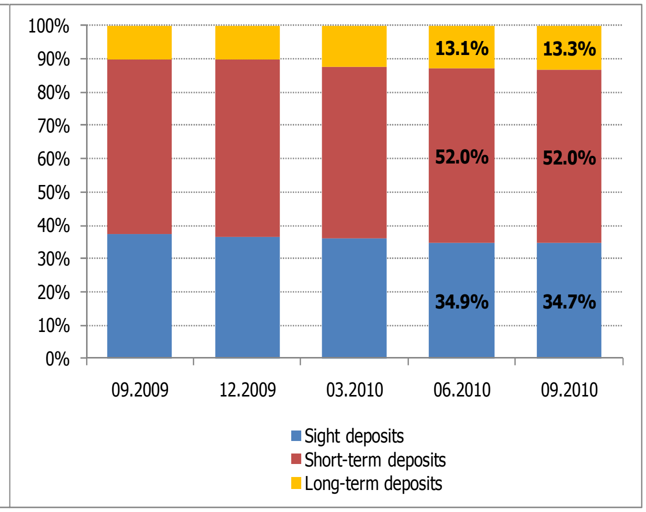


Figure 2.4.7
Deposits maturity structure



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

Allocation of deposits by individual groups of banks proves the dominant position of the large banks group in the banking system. This group has major share in almost all categories of deposits excluding denar deposits with currency clause where the medium banks group has higher structural share. Also, denar deposits with currency clause have most of the changes in terms of allocations by groups of banks, compared to the previous quarter.

Table 2.4.1
Deposits allocation by individual groups of banks

Deposit's structures		30.06.2010				30.09.2010			
		Large banks	Medium - size banks	Small-size banks	Total	Large banks	Medium-size banks	Small-size banks	Total
Sector structure	Enterprises	63.1%	33.2%	3.7%	100.0%	63.5%	32.3%	4.2%	100.0%
	Households	76.5%	21.6%	1.9%	100.0%	76.3%	21.6%	2.1%	100.0%
	Other clients	70.2%	22.4%	7.4%	100.0%	69.2%	23.5%	7.3%	100.0%
Maturity structure	Sight deposits	73.0%	23.6%	3.4%	100.0%	72.8%	23.7%	3.5%	100.0%
	Short-term	72.9%	24.8%	2.3%	100.0%	73.5%	23.9%	2.6%	100.0%
	Long-term	69.2%	28.8%	2.0%	100.0%	68.2%	29.7%	2.1%	100.0%
Currency structure	Denar	74.2%	21.9%	3.9%	100.0%	73.6%	22.3%	4.1%	100.0%
	Denar with FX clause	45.8%	48.7%	5.5%	100.0%	37.7%	50.4%	11.9%	100.0%
	Foreign currency	73.0%	25.5%	1.5%	100.0%	72.7%	25.7%	1.5%	100.0%

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

Household deposits are the most present in all three bank groups, by sector structure of deposits, at the presence being mostly noticeable in large banks group, and it is the lowest at the small banks group. Viewed from maturity structure aspect, short-term deposits have dominant position in all bank groups, and long-term deposits are dominant only in the medium banks group.

FX deposits are the most present in currency structure of deposits at the groups of large and medium banks, while denar deposits prevail only at the small banks group.

Table 2.4.2
Deposits structure by individual groups of banks

Deposit's structures		30.06.2010			30.09.2010		
		Large banks	Medium - size banks	Small-size banks	Large banks	Medium - size banks	Small-size banks
Sector structure	Enterprises	24.8%	38.0%	39.6%	24.3%	36.4%	40.8%
	Households	71.4%	58.5%	49.6%	72.1%	60.0%	49.6%
	Other clients	3.8%	3.5%	10.8%	3.6%	3.6%	9.6%
	Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Maturity structure	Sight deposits	35.0%	32.9%	44.9%	35.2%	33.7%	43.2%
	Short-term	52.3%	51.7%	45.1%	51.6%	49.4%	46.4%
	Long-term	12.7%	15.4%	10.0%	13.2%	16.9%	10.4%
	Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Currency structure	Denar	42.5%	36.5%	60.7%	44.4%	39.5%	63.1%
	Denar with FX clause	2.4%	7.4%	7.8%	0.9%	3.5%	7.2%
	Foreign currency	55.1%	56.1%	31.5%	54.7%	57.0%	29.7%
	Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

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

3. Banking activities risks

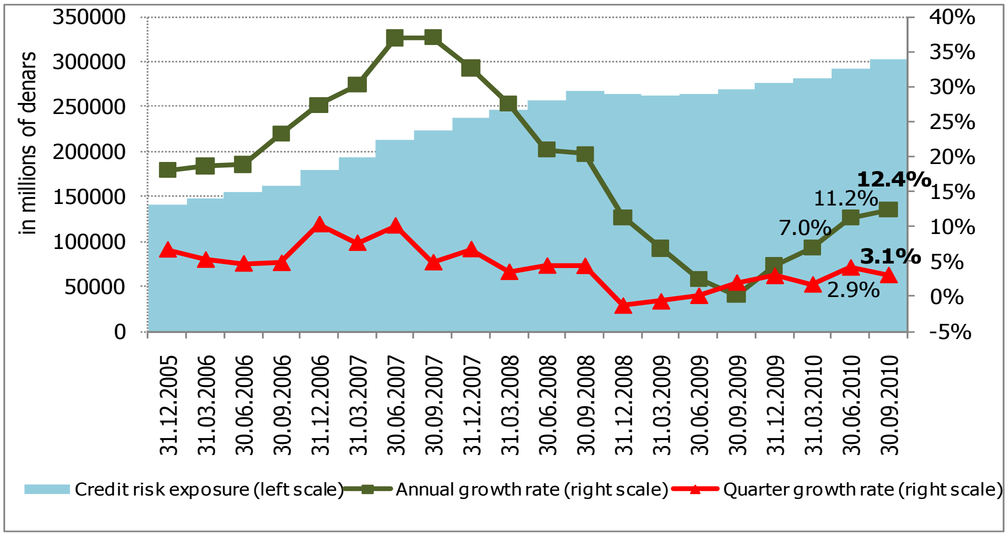
3.1. Credit risk

In the third quarter of 2010 the credit risk exposure quality continued to deteriorate. However, according to some of the indicators there are signs of its slowing down. This is more typical for credit risk exposure towards "enterprises and other clients" sector. At "household" sector all credit portfolio quality indicators continued to deteriorate also in this quarter.

The total credit risk exposure in the banking system at the end of the third quarter of 2010 amounted to 301,820 million denars. Its quarterly growth by 8,986 million denars or 3.1% contributed for its annual growth rates acceleration trend to continue, which began in the third quarter of the previous year.

Over 98% of the credit risk exposure total quarterly growth is due to the exposure growth classified in A risk category which on quarterly basis increased by 8,891 million denars. The major part of it (58%) is due to growth of placements to financial institutions (CB bills investments, banks and other financial institutions) and the other part (42%) is a result of the growth to non-financial entities.

Figure 3.1.1
Developments and growth of credit risk exposure at banking system level



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

3.1.1. Quality of credit portfolio of the banking system and groups of banks

In the third quarter of 2010 according to some quality indicators the deterioration in quality of the banks' credit portfolio stagnated. In this period, credit exposure classified in A risk category increased by 3.6% and participated with 98.9% in the total credit risk quarterly growth. On the other side, credit risk exposure classified in B risk category which in the previous quarter was carrier of the deterioration of credit portfolio quality, it decreased by 13.8% in this quarter. This leaded into lower share of C, D and E risk categories in the total credit risk exposure and in the banks' own funds. However, the share of non-performing credits in total credits continued to increase and in the third quarter of 2010 and as of September 30, 2010 it amounted to a level of 10.6%. The quarterly growth of the impairment and special reserve (2.3%) had a similar dynamics as well as the credit risk exposure growth which contributed for the **credit portfolio's average level of risk to remain the same**.

Table 3.1.1 Quality indicators of banking system credit portfolio

Indicator	30.09.2009	30.06.2010	30.09.2010
Average level of risk	6.7%	6.8%	6.8%
% of „C“, „D“ and „E“ in total credit risk exposure	8.2%	8.6%	8.3%
% of „E“ in total credit risk exposure	3.6%	3.9%	3.9%
Coverage of „C“, „D“ and „E“ with calculated impairment and special reserves	81.5%	79.6%	81.8%
Coverage of nonperforming credits with calculated impairment and special reserves	112.5%	108.2%	103.1%
% of „C“, „D“ and „E“ in own funds	63.1%	68.2%	66.9%
% of „E“ in own funds	27.9%	31.2%	31.4%
% of nonperforming credits, net of calculated impairment for nonperforming credits in own funds	14.3%	15.0%	16.0%
% of „C“, „D“ and „E“, net of calculated impairment for nonperforming credits in own funds	23.8%	25.5%	23.6%
Nonperforming credits / Total credits	9.5%	10.1%	10.6%
% of prolonged credit risk exposure in total credit risk exposure	9.3%	6.1%	5.8%
% of restructured credit risk exposure in total credit risk exposure	0.8%	1.0%	0.9%

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

Analysis was performed on credit portfolio quality created in the last twelve months (September 30, 2009- September 30, 2010) by using transition matrix[20] for enterprises and household sector. **The transition matrix for enterprises shows that during the period September 30, 2009 – September 30, 2010, 49.5% of the total exposure were closed [21] or 55.5% of credit parties reported on September 30, 2009**; **while 3.7% of the exposure in A and B category was reclassified in worse risk categories.** However, there is higher migration from B (26.5%) and D (58.3%) categories into worse risk categories (Annex no. 9 – Transition matrix for enterprises and household).

Table 3.1.2
Transition matrix for enterprises and household sector

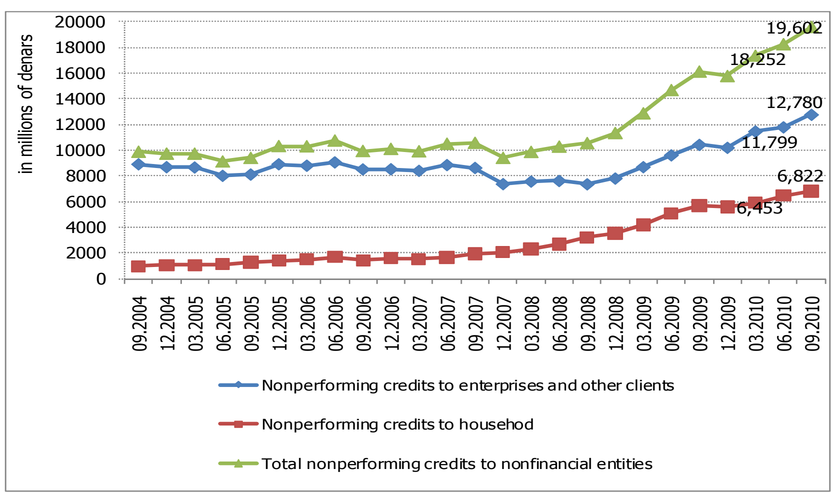
Risk category	Enterprises				Households			
	Credit risk exposure (in millions of denars)		Number of credit party		Credit risk exposure (in millions of denars)		Number of credit party	
	30.09.2009	30.09.2010	30.09.2009	30.09.2010	30.09.2009	30.09.2010	30.09.2009	30.09.2010
A	97,417	44,048	30281	11,003	64,613	51,540	738,964	620,074
B	15,539	7,110	3393	1,590	7,234	5,418	135,202	103,828
C	6,244	4,447	2344	1,330	2,337	1,793	21,133	15,819
D	1,555	1,573	679	662	1,807	1,332	25,144	13,551
E	6,818	7,289	2453	2,840	1,957	3,171	36,151	50,662
Total	**127,573**	**64,467**	**39,150**	**17,425**	**77,947**	**63,255**	**956,594**	**803,934**

*The difference between two dates are the closed credit party.

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

Household sector, during the same period closed 18.8% of the exposure or 16% of credits as of September 30, 2009; while the major part (65%) of credits to households which were classified under category D were transferred in the worst risk category. During the last four quarters the exposure to households classified in C category was almost equally allocated in amounts closed, amounts which classification improved and amounts which classification deteriorated.

Figure 3.1.2
Development of non-performing credits at individual sectors



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

In the quarterly growth of total credit risk exposure, the regular credits have the largest contribution with 39.9% (Annex no.13 – Credit risk exposure by risk category) **while non-performing credits are the most fast growing component in the total credit risk exposure. Hence, non-performing credits to non-financial entities had a quarterly growth of 7.4% or 21.6% on annual level.** The

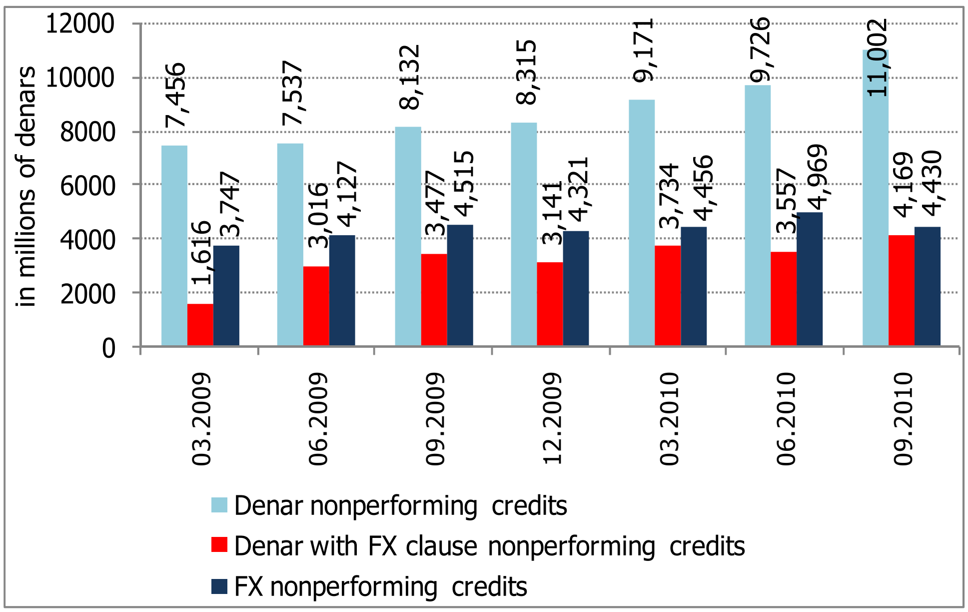
[20] Transition matrix represents the transfer of credit users from one to another risk category in certain period of time. Transition matrix for enterprises and household sector refers only to residents which banks are obliged to report separately in the NBRM Credit Register pursuant to the Decision on Contents and Manner of Functioning of the Credit Register. Hence, in creating a transition matrix the bank's exposure to non-residents is not taken into account as well as the exposure lower than 300,000 denars for enterprises and lower than 5,000 denars for household sector.

[21] Closed credits/ credit exposure in the transition matrix encompasses collected and written-off credit exposure i.e. credits for the analyzed period.

upwards trend of non-performing credits is mainly coming from "enterprises and other clients" sector (72.7% share in the quarterly growth). Non-performing credits increased on quarterly level by 981 million denars or 8.3% regarding this sector while the annual growth rate as of September 30, 2010 was 22.5%. At the same time, the quarterly growth of non-performing credits to "household" sector decreased by 3.8 percentage points compared to the growth in the second quarter of 2010 and it was 5.7%. Also, the annual growth rates decrease that began six quarters ago continued in the third quarter of 2010 (annual growth rate for these credits as of September 30, 2010 was 19.8% and 27.2% as of June 30, 2010). By individual groups of banks the large banks group had the highest non-performing credits quarterly growth (886 million denars) followed by non-performing credits increase in the groups of medium and small banks, 464 and 21 million denars, respectively.

Viewed from the credit exposure currency structure point, in the third quarter of 2010 only the credit risk exposure quality in denars with FX clause deteriorated (Annex no. 8 – Indicators for the degree of credit risk exposure by currency structure). This type of credit exposure fell by 3.6% while the non-functional credits in denars with FX clause had a high quarterly growth rate of 17.2% (Annex no. 7 – Credit risk exposure and impairment at banking system level – currency structure). Exposure in denars is the most present in the total credit risk exposure (with 45.9% share) and with the achieved quarterly growth rate of 7.4% it contributed the most (105.6%) in the quarterly growth of credit risk exposure.

Figure 3.1.3
Currency structure of non-performing credits of banks



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

Compared to the previous periods, in the third quarter of 2010, the share of prolonged and restructured exposure in the total credit risk exposure went down. The exposure which was subject to prolongations got slightly decreased. On the other side, the restructured exposure got increased at household sector.

Table 3.1.3
Prolonged and restructured credit risk exposure

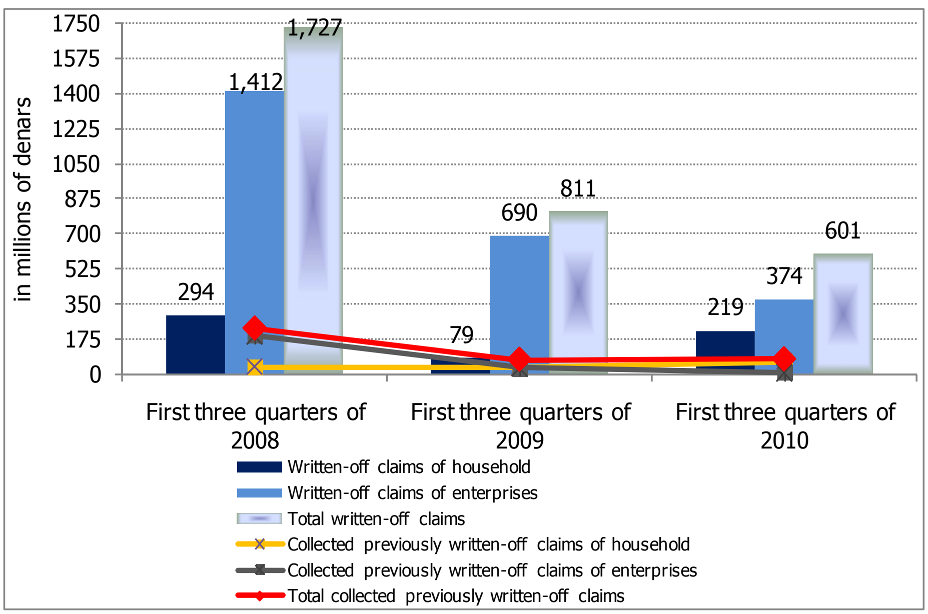
Sector (in millions of Denars)	**30.09.2009**	**30.06.2010**	**30.09.2010**	**Relative quarter change**	**Relative annual change**
prolonged exposure					
Enterprises	24,695	17,619	17,347	-1.5%	-29.8%
Household	180	121	110	-9.1%	-38.8%
Total for nonfinancial entities*	25,029	17,753	17,467	-1.6%	-30.2%
restructured exposure					
Enterprises	2,145	2,547	2,387	-6.3%	11.3%
Household	78	114	310	171.9%	296.5%
Total for nonfinancial entities*	2,256	2,792	2,833	1.5%	25.6%

* Sum of enterprises, household and sole proprietors.

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

The amounts of the written-offs in the third quarter of 2010 is by 217 million denars lower compared to the written-offs in the previous quarter, while on the annual level there is an increase of 173 million denars. However, the total amount of net written-offs in the first nine months of 2010 is almost at the same level as the written-offs in the same period last year (written-offs for the period December 31, 2009 – September 30, 2010 are 0.2% of the exposure as of December 31, 2009; while the written-offs during the period December 31, 2008 – September 30, 2009 are 0.3% of the credit exposure as of December 31, 2008). One medium bank had 92.2% of the written-offs during the third quarter of 2010, while 5.3% and 0.6% belongs to large and small groups of banks, respectively. Viewed from the sector and currency structure point, in the third quarter of 2010, the denar claims from households dominate at the write-offs as well as at the collected previously written-off claims with a share of 90.4% and 59.7%, respectively.

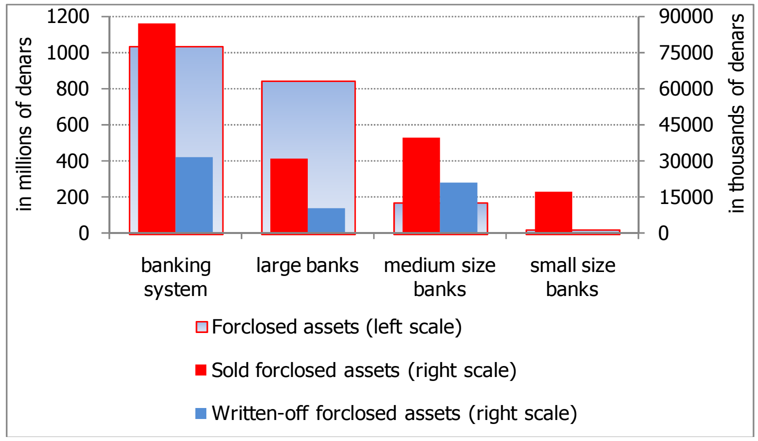
Figure 3.1.4
Development of written-off and collected previously written-off claims from non-financial entities



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

On September 30, 2010 the amount of taken over assets based on uncollected claims was 4,611 million denars or 1.6% of total assets. In the third quarter of 2010 the banks took over[22] assets based on uncollected claims in the total amount of 1.035 million denars compared to the realized income from the sale of these assets in the amount of 87 million denars and written-offs in the amount of 31 million denars. The major part (47.1%) of the sold assets belongs to apartments although the most present in the structure of taken over and written-off assets are the factories (59.4% and 41.2%, respectively). The major part of the taken over assets belongs to the large banks group (taken over assets in the amount of 845 million denars in the third quarter of 2010) while the medium banks group achieved highest revenues from their sale (39 million denars in the third quarter of 2010). The highest write-offs of these assets were done by the medium banks group (in the amount of 21 million denars).

Figure 3.1.5
Taken over, sold and written-off assets based on uncollected claims by banks in the third quarter of 2010



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

Table 3.1.4
Credit portfolio quality indicators at individual group of banks

Indicator	Large banks			Medium size banks			Small size banks		
	30.09.2009	30.06.2010	30.09.2010	30.09.2009	30.06.2010	30.09.2010	30.09.2009	30.06.2010	30.09.2010
Share of total credit risk exposure	70.2%	69.7%	69.2%	25.5%	25.7%	27.9%	4.3%	4.6%	2.9%
Average level of risk	7.0%	7.2%	7.2%	5.3%	5.8%	5.5%	10.1%	6.2%	8.0%
% of „C", „D" and „E" in total credit risk exposure	8.0%	8.1%	7.9%	9.3%	10.0%	9.1%	11.0%	7.1%	9.5%
% of „E" in total credit risk exposure	3.6%	4.1%	4.0%	2.8%	3.2%	3.2%	8.0%	5.3%	6.6%
Coverage of „C", „D" and „E" with calculated impairment and special reserves	63.8%	88.8%	91.8%	53.5%	58.1%	60.2%	83.7%	88.3%	84.3%
% of „C", „D" and „E" in own funds	73.4%	75.7%	73.6%	59.8%	52.4%	67.1%	26.2%	18.9%	23.4%
% of „E" in own funds	33.4%	38.2%	37.7%	20.4%	24.3%	23.8%	19.2%	14.1%	16.2%
% of „C", „D" and „E", net of calculated impairment for nonperforming credits in own funds	26.6%	24.9%	22.2%	27.8%	38.2%	32.0%	4.3%	3.6%	5.3%
Nonperforming credits / Total credits	9.2%	9.5%	10.0%	9.3%	10.9%	11.5%	20.9%	18.5%	18.5%

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

Taking into account that Macedonian Bank for Development Promotion moved to the medium banks group, this group had the main role in the credit risk total exposure quarterly growth within the banking system with its share in the growth of 100.1% (Annex no. 11 – Credit risk exposure and impairment by individual groups of banks - sector structure). On the contrary, at the small banks group almost all quality indicators deteriorated due to change in this group's composition. This was also a reason for the quarterly decrease of the

[22] According to the Decision on Accounting and Regulatory Treatment of Taken Over Assets Based on Uncollected Claims (Official Gazette of the RM no.79/2007) an asset is considered to be taken over when there is a legal ground for registering of ownership, which is considered as date of taking over the asset. Under this decision, taken over assets are all fixed assets (land, buildings, equipment etc.). If the bank fails to sell the taken over asset in a period of 5 years it is obliged to completely write-off this asset, i.e. its accounting value has to be zero.

credit risk exposure by 35.3% at the small banks group, as well as for the exposure decrease in A risk category (by 37.2%). On the other side, during this quarter at this group of banks there was only increase of exposure in the C risk category (13.3%). Only the group of medium banks had quarterly growth of exposure classified in C, D and E risk categories although its share in the total exposure of this group of banks went down.

3.1.2. Quality of credit portfolio to "enterprises and other clients" and "household" sector

In the third quarter of 2010 the credit risk exposure sector structure did not change compared to the previous quarter (Annex no. 6 – Credit risk exposure and impairment at banking system level – sector structure). Exposure to "enterprises and other clients" sector had a dominant share with 46.2% in the total credit risk exposure and highest contribution (30.9%) in its quarterly growth. The average risk level of exposure to this sector did not change compared to the second quarter of 2010. Non-performing exposure to this sector on a quarterly basis grew by 0.7% and its share in the total non-performing exposure quarterly growth was 71.4% at banking system level (Annex no.10 – Non-performing credits and impairment, at banking system level – sector structure).

Table 3.1.5
Indicators of quality of credit portfolio exposure to "enterprises and other clients" sector

Indicator	Date	Industry	Agriculture, hunting and forestry	Construction	Wholesale and retail trade	Transport, storage and communication	Hotels and restaurants	Real estate activities	Total credit risk exposure to enterprises and other clients
Share of total credit risk exposure to the sector "enterprises and other clients"	30.06.2010	38.1%	2.9%	10.8%	30.4%	6.3%	2.8%	5.6%	100.0%
	30.09.2010	37.1%	3.0%	10.8%	30.8%	6.5%	2.5%	6.3%	100.0%
Average level of risk	30.06.2010	25.7%	13.0%	5.7%	7.9%	6.8%	12.8%	9.4%	9.8%
	30.09.2010	26.3%	12.6%	7.1%	7.0%	6.1%	13.6%	11.9%	9.8%
% of „C", „D" and „E" in total credit risk exposure	30.06.2010	16.9%	14.4%	5.8%	8.1%	10.2%	27.1%	18.3%	12.6%
	30.09.2010	16.8%	13.7%	5.3%	7.3%	10.5%	28.6%	15.7%	12.1%
% of „E" in total credit risk exposure	30.06.2010	8.5%	8.6%	3.8%	4.8%	4.0%	2.6%	1.8%	5.9%
	30.09.2010	8.3%	8.7%	3.8%	4.6%	4.1%	3.0%	2.1%	5.7%
Coverage of „C", „D" and „E" with calculated impairment and special reserves	30.06.2010	152.5%	90.1%	97.5%	97.3%	67.3%	47.2%	51.4%	77.6%
	30.09.2010	156.9%	92.2%	134.6%	95.3%	57.8%	47.7%	76.2%	80.7%
Coverage of nonperforming credits with calculated impairment and special reserves	30.09.2010	106.3%	143.5%	125.1%	125.5%	107.5%	50.6%	84.3%	106.4%
Share of nonperforming credits in the total credits of the sector "enterprises and other clients"	30.06.2010								10.7%
	30.09.2010								11.3%

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

In the third quarter of 2010, the credit risk exposure to enterprises and other clients classified in C, D and E categories of risk decreased by 407 million denars or 2.4%. Such fall is mainly (50.9%) due to the credit risk exposure in C, D and E categories of risk in the item "wholesale and retail trade" (6.1% quarterly decrease). Contrary to the quarterly decrease of credit risk exposure to enterprises and other clients classified in C, D and E categories of risk, the impairment and special reserve grew by 1.5%.

Table 3.1.6
Indicators of quality of credit portfolio exposure to "household" sector

Indicator	Date	Residential and commercial real estate credits	Consumer credits	Overdrafts	Credit cards	Car credits	Total exposure to household
Share of total credit risk exposure to the sector "household"	**30.06.2010**	19.7%	33.1%	10.8%	29.3%	5.6%	100.0%
	30.09.2010	20.0%	33.8%	11.0%	28.8%	5.3%	100.0%
Average level of risk	**30.06.2010**	3.4%	9.6%	6.1%	7.4%	5.0%	7.3%
	30.09.2010	3.6%	10.2%	5.8%	7.4%	5.4%	7.4%
% of „C", „D" and „E" in total credit risk exposure	**30.06.2010**	4.7%	12.8%	4.2%	7.8%	6.2%	8.6%
	30.09.2010	5.2%	13.0%	4.4%	7.9%	7.3%	8.8%
% of „E" in total credit risk exposure	**30.06.2010**	1.3%	4.9%	3.5%	3.9%	2.6%	3.8%
	30.09.2010	1.4%	5.7%	3.5%	4.2%	3.0%	4.1%
Coverage of „C", „D" and „E" with calculated impairment and special reserves	**30.06.2010**	73.4%	75.5%	144.7%	95.0%	81.3%	84.5%
	30.09.2010	69.4%	78.3%	131.4%	93.7%	74.0%	84.2%
Coverage of nonperforming credits with calculated impairment and special reserves	**30.06.2010**	80.4%	82.4%	151.2%	110.8%	90.7%	91.1%
	30.09.2010	73.3%	83.2%	138.7%	110.2%	79.0%	90.6%
Share of nonperforming credits in the total credits of the sector "household"	**30.06.2010**						9.2%
	30.09.2010						9.6%

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

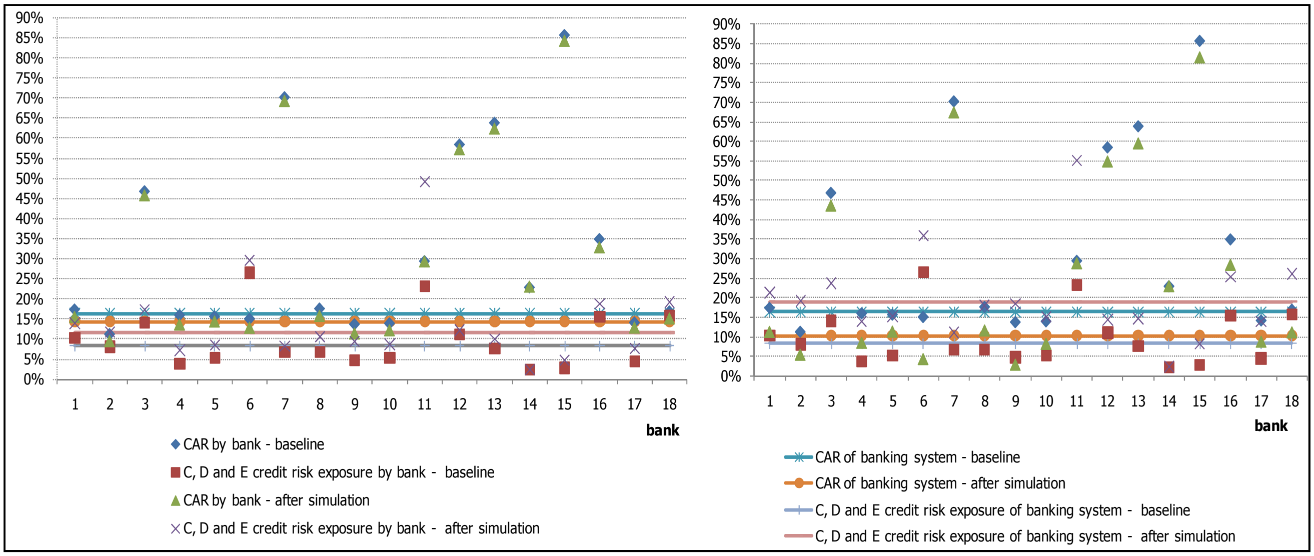
In the third quarter of 2010 the trend of decreasing in quality of credit risk exposure to households continued. The credit risk exposure to households increased by 1.486 million denars or 1.8%, compared to the second quarter of 2010. Non-performing exposure share was 24.9% in the quarterly growth of the total credit risk exposure in this sector. The credit risk exposure classified in C, D and E categories of risk in the third quarter increased by 4.2% and in this increase the credit risk exposure classified in E category of risk at consumer credits was 88.9%. Thus, at certain credit products the highest growth of exposure in higher categories of risk has the consumer credits in the amount of 1.070 million denars or 4%.

Stress-test simulation [23] for the resilience of the banking system to the deterioration of the quality of credit exposure to enterprises and other clients and / or to households

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. Additionally this stress-test simulation assumes identical average risk level for all categories of risk, as it was before the migration of exposure. The goal of the simulation is to define the negative effect on capital adequacy and the risk of migration of the exposure to the credit risk exposure from the current to the higher risk categories (for total exposure and exposure to individual sectors and businesses).

[23] Data from the NBRM credit register as of September 30, 2010 is used in the stress-test simulation

Figure 3.1.7
Simulation results-migration of 10% (left) and 30% (right) from the credit risk exposure in each category of risk in the next two within the exposure to enterprises and other clients and households



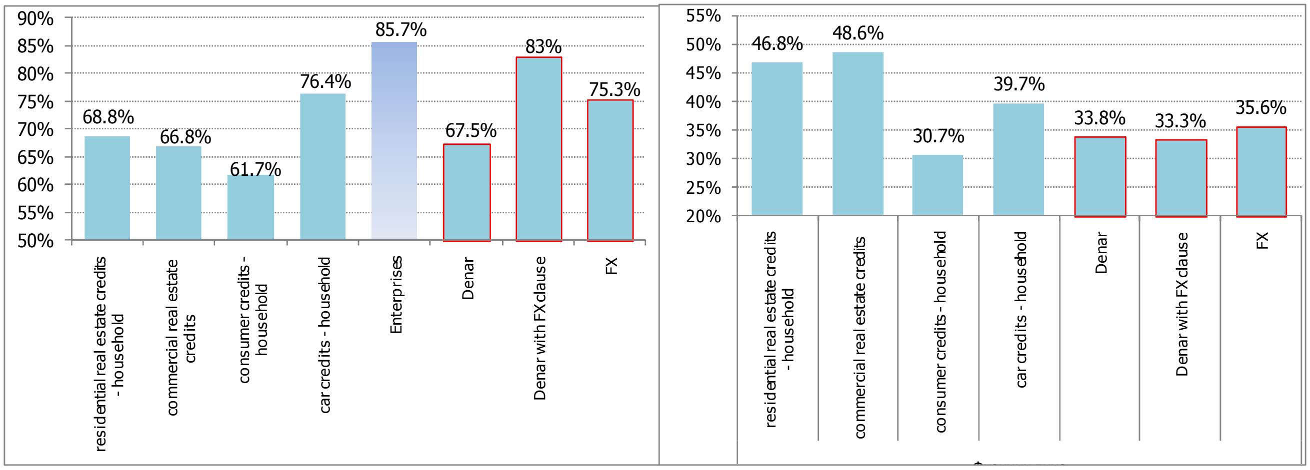
Source: NBRM on the basis of data obtained from the banks.

If one assumes simultaneous allocation of 10% and 30% of credit risk exposure to enterprises and other clients and households, from categories with lower to categories with higher risk, the major deterioration of quality there is at "property sale business" while at "household" sector for credit cards product. The largest decrease of capital adequacy at the supposed migration of credit risk exposure is noticed at migration of exposure to "industry" and "wholesale and retail trade" for the exposure to "enterprises and other clients" and at the exposure based on credit cards and at consumer credits for exposure to "household" sector.

3.1.3 Credit standards

In the third quarter of 2010 there was a change in the credit standard only at three banks towards relaxing of the loan-to-value ratio. Neither bank had a change in loan-to-income ratio. The loan-to-value ratio is different among the banks depending on the factors (type and quality of provisioning, credit ability of credit users and other factors) which are taken into account in the credit endorsement process as well as depending on the credit product that needs to be approved. The required value of this ratio ranges between 33% and 100% for households, and between 70% and 100% for enterprises.

Figure 3.1.8
Average level of loan-to-value ratio (left) and loan-to-income ratio (right), as of September 30, 2010



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

Several banks demanded lower level of provisioning (which ranges from 75% to 90.9%) for denar deposits with FX component. However, most of the banks in determining both ratios do not make difference between the exposure currency type i.e. the same ratios are valid for exposures in denars, FX and denars with FX component. As for the loan-to-income indicator (monthly, quarterly etc.) the banks usually set the interval from 30% (lowest level) at consumer credits to 90% at house-credits.

3.2 Liquidity risk

Dividend payment by one large bank depositor resulted in slowing down of the liquidity assets growth of the banking system and quarterly fall of liquidity assets in the large banks group. The banking system liquidity indicators registered insignificant quarterly changes, but had significantly improved on annual basis (September 30, 2009 – September 30, 2010). Total negative gap between assets and liabilities according to their contractual maturity spilled over all analyzed maturity segments, except the 180-days maturity segment. Besides the improvement of results from the conducted stress-test simulations for resilience of the banking system to liquidity shocks, several banks are still vulnerable to hypothetical withdrawal of deposits by the top twenty largest depositors.

3.2.1 Movement of liquidity assets and liquidity indicators of the banking system[24]

Banking system liquidity assets continued to grow also in the third quarter of 2010 with a slightly lower dynamics. In the third quarter of 2010 liquidity assets of the banks increased by 1.5% (or 1,183 million denars) which is for 10.8 percentage point less than the growth in the previous (second) quarter of 2010. The slowing down of the quarterly growth of the banks'

[24] In calculating certain components in order to analyze the liquidity position of banks, deposits at and credits of domestic banks (assets component) as well as deposits and loans from domestic banks (liabilities component) are not taken into account.

liquidity assets is due to the dividend payment by a large company in July 2010. This caused quarterly decrease of cash and balances of the banks at accounts with the NBRM by 2,456 million denars (or 11.4%). However, besides the relatively high outflow of deposits by this client, in the third quarter of 2010 the total sources for financing the banking system increased (by 5,695 million denars) and part of them were again placed in liquidity assets. Hence, the CB bills placements (as

Figure 3.2.1
Movement of the banking system liquidity assets

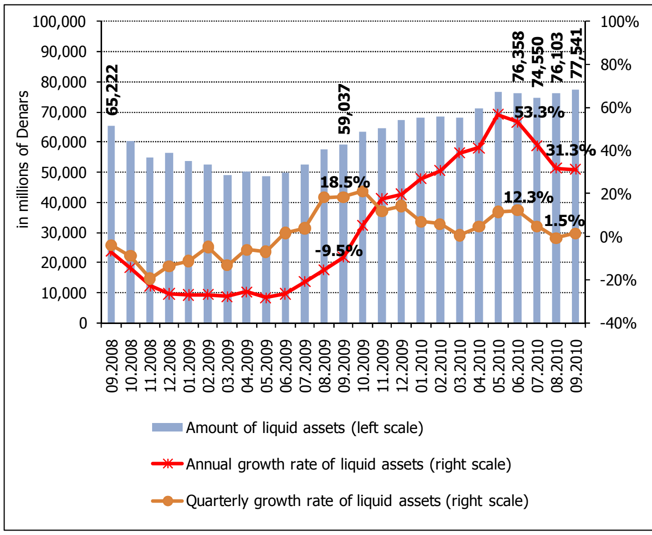
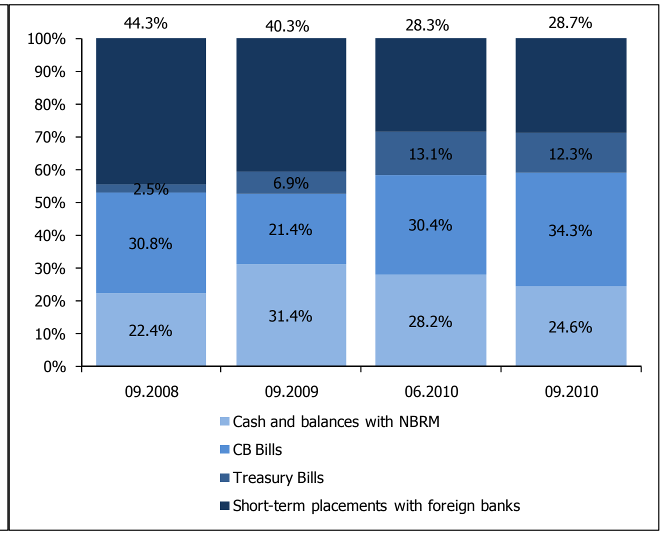


Figure 3.2.2
Structure of the banking system liquidity assets



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

one of more profitable components of the liquidity assets) has the biggest quarterly growth of 3,445 million denars (or 14.9%) which completely buffered the fall of cash and balances of banks at accounts with the NBRM. The other components of liquidity assets had lower quarterly changes (correspondent accounts and short-term placements at foreign banks increased by 621 million denars or 2.9% while placements at T-bills decreased by 427 million denars or 4.3%). Analyzed at

Figure 3.2.3
Monthly report of banking system liquidity indicators

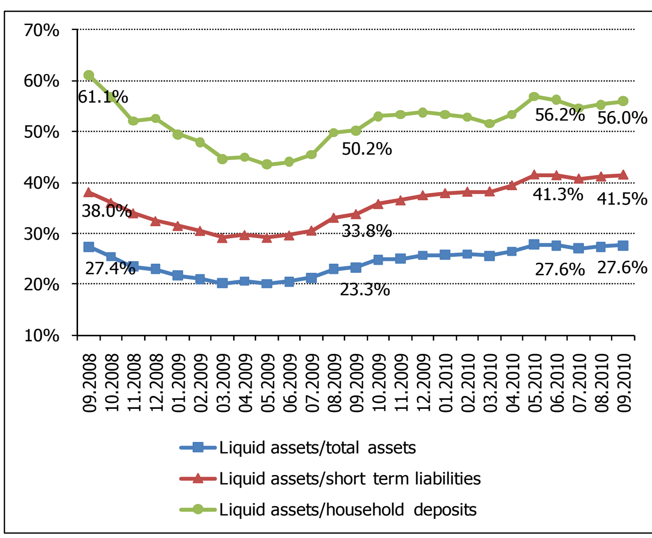
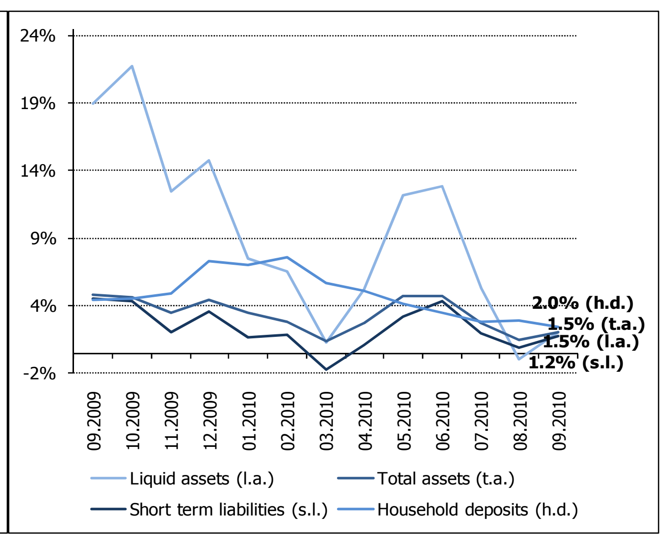


Figure 3.2.4
Quarterly change of components of banking system liquidity indicators



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

the annual level (September 30, 2009- September 30, 2010) the liquidity assets in the banking system grew by 18,504 million denars (or 31.3%) opposite to the registered annual fall during the period from September 30, 2008 to September 30, 2009 (by 6,185 million denars or 9.5%).

In the third quarter of 2010 the banking system liquidity indicators had insignificant changes due to the similar quarterly growth rates of the indicators' components. The quarterly increase of 0.2 percentage points marked the ratio between the liquidity assets and short-term liabilities of the banks (on September 30, 2010 this indicator was at a level of 41.5%), while the same change, but in opposite direction was also registered with the indicator for the coverage of households deposits with liquidity assets (on 30.09.2010 this indicator dropped at a level of 56%). The indicator for liquidity assets share in the banking system total assets remained unchanged in the third quarter of 2010 (27.6%). **On annual level all liquidity indicators in the banking system improved** (Annex no.14 – Liquidity indicators).

3.2.2 Sources of finance of the banking system

Short-term deposits[25] of non-nonfinancial entities dominate in the structure of sources of finance of the banking sector activities. Regardless of the decrease of short-term deposits of non-financial entities share in total liabilities of the banks (by 1.3 percentage point on the quarterly basis or 3.9 percentage points on annual basis) this source of finance still has more than 60% of total sources of finance.

Table 3.2.1
Structure and movement of banking system sources of financing

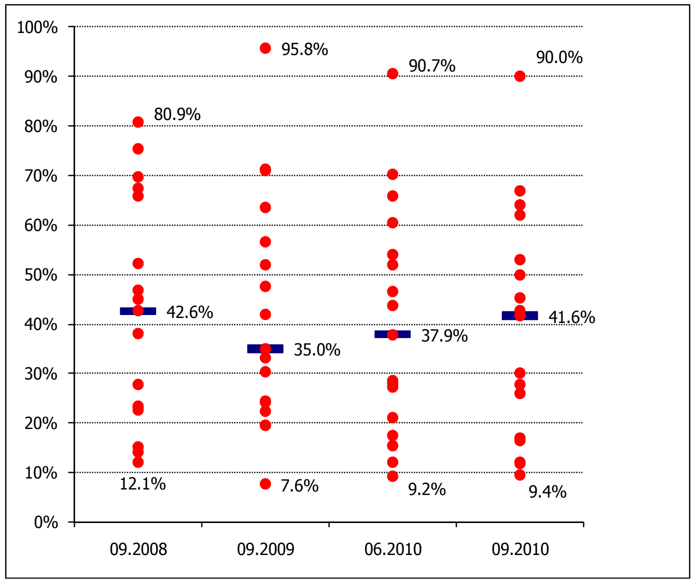
Sources of financing	30.09.2009		30.06.2010		30.09.2010		Quarterly change (30.06.2010-30.09.2010)		
	Amount (in millions of Denars)	Structure (in %)	Amount (in millions of Denars)	Structure (in %)	Amount (in millions of Denars)	Structure (in %)	Amount (in millions of Denars)	In %	Share in change (in %)
Deposits of non-financial entities	**184,220**	**71.9%**	**200,864**	**71.3%**	**202,202**	**70.4%**	**1,338**	**0.7%**	**24.0%**
-long-term	19,171	7.5%	26,798	9.5%	28,437	9.9%	1,639	6.1%	29.4%
-short-term*	165,048	64.4%	174,066	61.8%	173,766	60.5%	-300	-0.2%	-5.4%
Deposits of financial entities	**15,553**	**6.1%**	**15,203**	**5.4%**	**15,908**	**5.5%**	**705**	**4.6%**	**12.7%**
-long-term	3,452	1.3%	5,541	2.0%	4,818	1.7%	-723	-13.0%	-13.0%
-short-term*	12,101	4.7%	9,662	3.4%	11,090	3.9%	1,428	14.8%	25.6%
Borrowings, debt securities, subordinated debt and hybrid capital instruments	**19,495**	**7.6%**	**28,264**	**10.0%**	**30,971**	**10.8%**	**2,708**	**9.6%**	**48.6%**
-long-term	19,229	7.5%	26,222	9.3%	27,354	9.5%	1,132	4.3%	20.3%
-short-term**	266	0.1%	2,041	0.7%	3,617	1.3%	1,576	77.2%	28.3%
Equity, reserves and current financial result	**32,920**	**12.9%**	**32,775**	**11.6%**	**33,583**	**11.7%**	**808**	**2.5%**	**14.5%**
Other sources of financing (that are not covered with the previous items)	**3,954**	**1.5%**	**4,474**	**1.6%**	**4,485**	**1.6%**	**11**	**0.2%**	**0.2%**
Total:	**256,141**	**100.0%**	**281,580**	**100.0%**	**287,149**	**100.0%**	**5,570**	**2.0%**	**100.0%**

Source: NBRM on the basis of data obtained from the banks
Note: Total sources of finance exclude special reserve and provisions and include liabilities towards domestic banks (liabilities towards domestic banks have 2.5% of the analyzed sources of finance)
* Include short-term time deposits, sight deposits and current accounts
** Include short-term and due credits.

[25] In this analysis, "short-term deposits" include short-term time deposits, sight deposits and current accounts.

In the third quarter of 2010 the long-term deposits of non-financial entities had the highest absolute growth (1,639 million denars) while liabilities from short-term loans had the highest relative growth (77.2%). The quarterly growth of the long-term deposits of non-financial entities is completely due to increase in long-term household deposits in the banking system. On the other side, the quarterly growth of liabilities from short-term loans (by 1,576 million denars) is fully concentrated in a single bank and is a result of this bank's borrowing from its mother bank. The short-term deposits of financial institutions had also sound quarterly growth by 1,428 million denars (or 14.8%) which is mostly due to depositing of funds at one bank by its mother bank. In the past two years (September 30, 2008-September 30, 2010) the deposit concentration in the banking system of the Republic of Macedonia measured by top twenty depositors' share in the total amount of deposits[26] with the banks, has not changed. In the period from September 30, 2008 to September 30, 2010 median value of the share of top twenty depositors in the total amount of deposits with the banks lowered by only 1 percentage point. There are large differences in deposit concentration among the banks, being over 60% with some of them. The difference in deposit concentration reflects the difference in business strategies[27], competition ability and market position of certain banks. The high concentration of deposit base with certain banks represents higher risk to the liquidity position in case of deposits outflow by some of the large depositors.

Figure 3.2.5
Top twenty largest depositors' share in total deposits, by banks



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

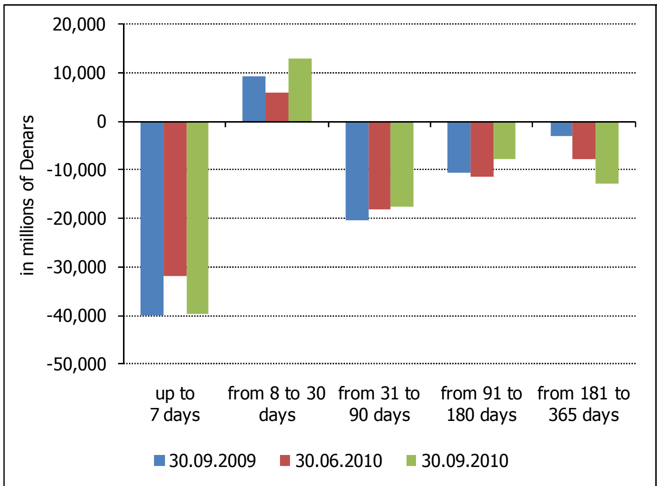
3.2.3 Maturity (mis)match of assets and liabilities

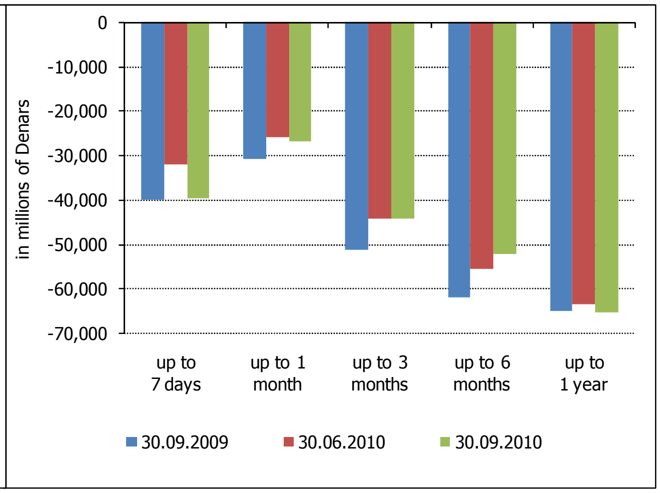
High growth of the negative gap between assets and liabilities with residual contractual maturity up to 7 days in the third quarter of 2010 caused deeper total (cumulative) negative gap between the assets and liabilities in maturity segments up to 30 days and up to 90 days. Additionally, in the third quarter of 2010 the negative gap between the assets and liabilities with residual contractual maturity from 181 to 365 days also deepened, which consequently resulted in deepening of the total negative gap between the assets and liabilities in 365 days maturity segment. Deepening of the negative gap between the assets and liabilities in the maturity segment up to 7 days is a result of decreasing of assets in this maturity segment by 6,056 million denars (there is a decrease in money market instruments for assets available for sale, at cash and at credits with residual contractual maturity up to 7 days) and at the same time increase of liabilities of banks with residual contractual maturity up to 7 days by 1,502 million denars (the increase is due to increase in current accounts and other

[26] Deposits of non-financial and financial entities are included.
[27] Banks with higher deposit base concentration, usually "rely" less on deposits as their sources of finance compared to the banks with lower concentration as well as some of the banks withdraw higher amounts of deposits from its mother bank as funds resources which increase their total deposits level concentration.

short-term liabilities). The deepening of the negative gap between assets and liabilities with residual contractual maturity from 181 to 365 days is a result of lower credit claims in this maturity segment by 2,063 million denars and at the same time increase of credit liabilities by 3,264 million denars and time deposits by 1,651 million denars.

Figure 3.2.6
Residual contractual maturity (mis)match of assets and liabilities, by maturity segments (left) and cumulative by maturity segments (right)

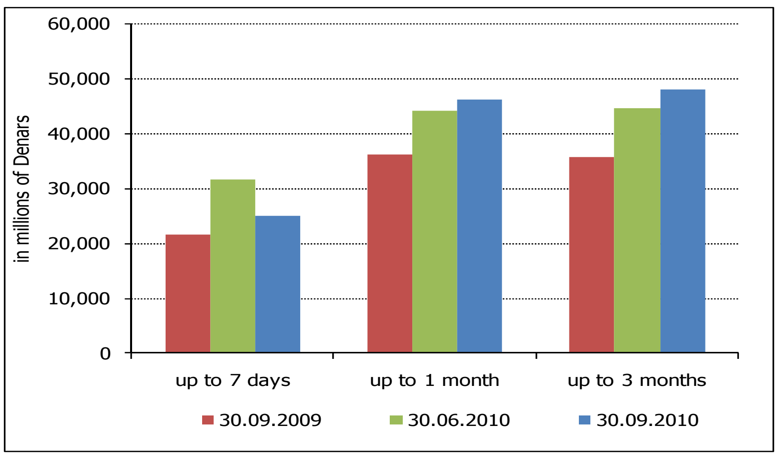




Source: NBRM on the basis of data obtained from the banks

Besides the mismatch in the contractual maturity structure of assets and liabilities **banks still expect the maturity of assets and liabilities to match. This is most of all a result of their assessment of high stability level of short-term sources of funds.** (Annex no. 15 and no.16 – Contractual and expected maturity structure of banking system assets and liabilities as of September 30, 2010). According to the banks expectations on September 30, 2010 the level of stable deposits is still high (78.3%) besides the decrease of 1.2 percentage points compared to June 30, 2010.

Figure 3.2.7
Expected residual maturity match of assets and liabilities of the banking system (cumulative by maturity blocks)



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

Table 3.2.2
Review of liquidity ratio fulfillment up to 30 days and up to 180 days

Number of banks	maturity band- up to 30 days								maturity band- up to 180 days							
	Denars				Foreign currency				Denars				Foreign currency			
	28.02.2009	30.09.2009	30.06.2010	30.09.2010	28.02.2009	30.09.2009	30.06.2010	30.09.2010	28.02.2009	30.09.2009	30.06.2010	30.09.2010	28.02.2009	30.09.2009	30.06.2010	30.09.2010
Liquidity ratio > 1	14	17	18	18	12	16	18	18	9	16	16	17	8	10	10	10
Liquidity ratio < 1	4	1	0	0	6	2 (1)*	0	0	9	2	2	1	10	8 (3)*	8 (1)*	8 (2)*

Note: * number in brackets denotes the number of banks with liquidity ratio lower than 1which did not achieve the required minim level of liquidity ratio as of that day.
Source: NBRM on the basis of data obtained from the banks

Liquidity position of the banks is also assessed through fulfillment of set forth liquidity ratio, for both maturity segments [28]. On September 30, 2010 all banks had liquidity ratio up to 30 days higher (or equal) than 1 (both for denar and FX assets and liabilities which are due in the next 30 days). Compared to June 30, 2010 the number of banks that had liquidity ratio up to 180 days higher (or equal) than 1 increased by one bank at denar assets and liabilities and remained the same at foreign assets and liabilities which are due in the next 180 days.

3.2.4 Liquidity by groups of banks and by bank

The quarterly increase of the banking system liquidity is completely a result of the liquidity assets growth with the medium banks group. On contrary, the liquidity at the groups of small and large banks fell down. Such movements of liquidity with certain groups of banks caused changes in the liquidity indicators' level.

Table 3.2.3
Liquidity indicators by groups of banks

Indicator	Large banks	Medium-size banks	Small-size banks	Banking system	Large banks	Medium-size banks	Small-size banks	Banking system	Large banks	Medium-size banks	Medium-size banks excluding MBDP*	Small-size banks	Small-size banks including MBDP*	Banking system
	30.09.2009				30.06.2010				30.09.2010					
Liquid assets/total assets	21.8%	23.9%	44.0%	23.3%	26.3%	27.6%	50.0%	27.6%	25.8%	29.3%	28.3%	47.5%	53.2%	27.6%
Liquid assets/total liabilities	24.6%	27.1%	93.0%	26.9%	29.4%	30.9%	108.3%	31.4%	28.9%	33.5%	31.7%	75.2%	107.4%	31.5%
Liquid assets/short-term liabilities	29.6%	37.7%	115.6%	33.8%	37.2%	46.1%	107.3%	41.3%	36.8%	48.6%	46.5%	87.5%	107.3%	41.5%
Liquid assets/total deposits of non-financial entities	27.8%	37.2%	100.1%	32.0%	33.8%	43.9%	98.3%	38.0%	33.0%	48.5%	46.5%	85.5%	103.3%	38.3%
Liquid assets/deposits of households	41.5%	66.3%	205.3%	50.2%	47.3%	75.0%	198.0%	56.2%	45.8%	80.8%	77.4%	172.3%	208.3%	56.0%
Loans/deposits	89.8%	102.5%	76.2%	92.6%	86.5%	101.9%	71.8%	89.9%	87.3%	104.6%	104.6%	68.2%	68.2%	91.0%

Source: NBRM on the basis of data obtained from the banks
Note: * Liquidity level indicators at small and medium banks assuming that the structure of these groups is not changed compared to June 30, 2010 and September 30, 2010

Liquidity assets at medium banks group increased by 2,215 million denars which is partly a result of the transfer of one bank from small to medium banks group (the transfer of this bank from the group of small to the group of medium banks contributed with 46,4% in the total quarterly growth of liquidity assets of the medium banks group). The large banks' liquidity assets had a quarterly fall of 718 million denars (or by 1.5%) while the liquidity assets at small banks decreased by 314 million denars (if one assumes that the structure of medium and small banks groups remained the same as it was on June 30, 2010 then the liquidity assets of the small banks would

[28] According to the Decision on banks liquidity risk management (Official Gazette of the RM no.163/08, 66/09 and 144/09) the banks are obliged, in line with the prescribed dynamics beginning as of march 2009, to achieve and maintain liquidity ratio for assets and liabilities in denars and foreign currency up to 30 and 180 days, equal to 1.

increase by 713 million denars). Such movements of the liquidity assets at some groups of banks caused certain quarterly deterioration of liquidity indicators of the large banks group (the deterioration of specific indicators ranges from 0.4 to 1.5 percentage points) and at the small banks group (the deterioration of indicators ranges from 2.5 to 33.1. percentage points) while the liquidity indicators at the medium banks group improved (improvement at certain indicators ranges from 1.7 to 5.8 percentage points). If one assumes that the structure of medium and small banks groups remained the same as it was on June 30, 2010 then the small banks group would register a quarterly improvement at almost all liquidity indicators and the medium banks group would again have improvement at liquidity indicators but with a slightly lower intensity.

Figure 3.2.8
Liquidity assets/ total assets, by individual banks

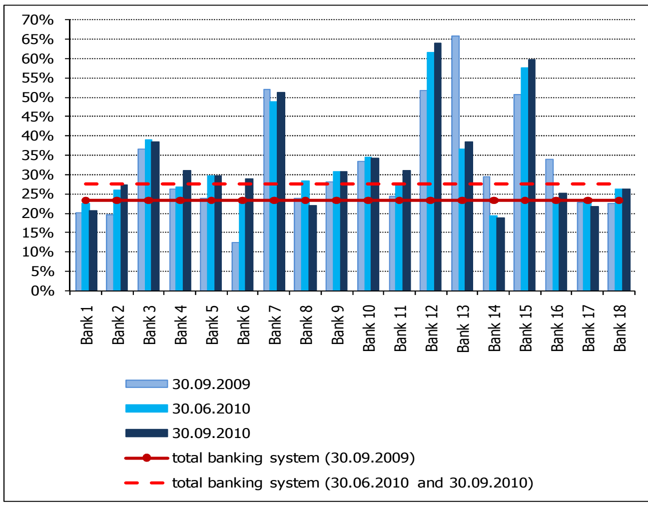
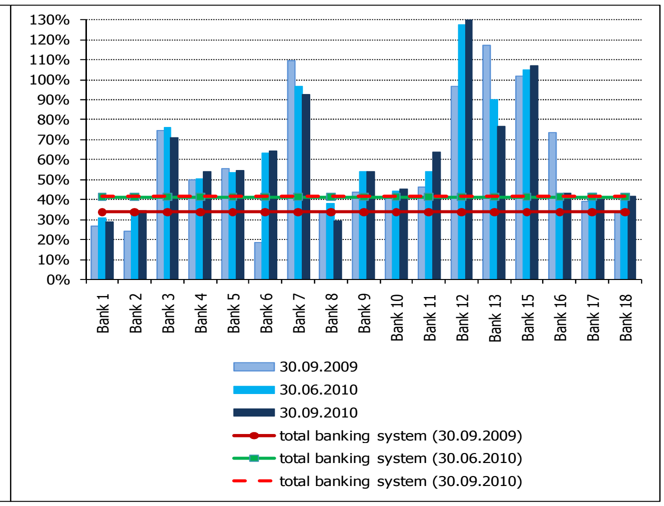


Figure 3.2.9
Liquidity assets / short-term liabilities, by individual banks



Source: NBRM on the basis of data obtained from the banks
Note: 1. In calculating certain components for analysis of liquidity position of the banks the deposits at and credits with domestic banks (assets component) are also taken into account, i.e. at the liabilities side deposits and loans from domestic banks are also taken into account; 2. In the right figure (Figure 3.2.9 Liquidity assets/ short-term liabilities, by individual banks) Macedonian Bank for Development Promotion is excluded from the analysis since its short-term liabilities equal zero (0).

The analysis of the two more important liquidity indicators by individual banks leads to a conclusion that most of the banks had improvement in the two analyzed indicators. Namely, in the third quarter of 2010 the indicator of liquidity assets share in total assets improved at ten banks (the improvement by individual banks ranges from 0.2 to 5.1 percentage points), it remained same at one bank and it worsened at seven banks (deterioration of this indicator ranges from 0.2 to 6.4 percentage points, by individual banks). On the other side, the indicator of short-term liabilities coverage with liquidity assets quarterly increased at nine banks (the increase by individual banks ranges from 0.8 to 9.5 percentage points), it remained same at one bank, and it reduced at seven banks (the drop of this indicator ranges from 0.1 to 13.4 percentage points, by individual banks).

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

On September 30, 2010 the stress-test analysis based on two hypothetic simulations showed increased resistance of the banking system to liquidity shocks.

Table 3.2.4
Share of the liquidity assets in the total banking system assets, before and after the simulation

Description	30.09.2009	30.06.2010	30.09.2010
Before simulation	23.3%	27.6%	27.6%
After first simulation	15.0%	19.6%	19.7%
After second simulation	2.6%	10.9%	12.8%

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

The stress-test analysis by individual banks still leads to a conclusion that certain banks are more vulnerable to hypothetical withdrawing of deposits by the top twenty depositors. Namely, besides the annual and quarterly decrease of potential percentage fall of liquidity assets at the banking system level and at the bank with the highest registered potential fall of liquidity assets during the simulation of hypothetical withdrawing of deposits by the twenty largest depositors, still there would be a lack of liquidity at five banks (which however shows decrease in number of banks compared to June 30, 2010). This leads to further high concentration of deposit base of certain banks and stresses out the risks it may bring.

Table 3.2.5
Percentage fall of liquidity assets, at the banking system level and at individual banks, after hypothetical simulations

Description	30.09.2009				30.06.2010				30.09.2010			
	Decrease of liquid assets (in %)		Number of banks		Decrease of liquid assets (in %)		Number of banks		Decrease of liquid assets (in %)		Number of banks	
	at the level of total banking system	bank with highest decrease of liquid assets	whose decrease of liquid assets > decrease of liquid assets at the level of total banking system	whose decrease of liquid assets > 100%	at the level of total banking system	bank with highest decrease of liquid assets	whose decrease of liquid assets > decrease of liquid assets at the level of total banking system	whose decrease of liquid assets > 100%	at the level of total banking system	bank with highest decrease of liquid assets	whose decrease of liquid assets > decrease of liquid assets at the level of total banking system	whose decrease of liquid assets > 100%
After first simulation	40.7%	63.1% (l)	2(l);3(m)	0	35.7%	52.9% (l)	2(l);2(m)	0	35.6%	60.2% (l)	2(l);3(m)	0
After second simulation	91.1%	509.9% (m)	1(l);3(m);2(s)	1(l);3(m)	67.9%	246.9% (m)	2(l);5(m);2(s)	4(m);2(s)	61.6%	118.0% (m)	1(l);6(m);5(s)	3(m);2(s)

Source: NBRM on the basis of data obtained from the banks
Note: (l)- large bank; (m)-medium bank, (s)-small bank

[1] This stress-test analysis is based on implementation of two hypothetical scenarios, of which:
- **the first scenario** assumes withdrawing 20% of household deposits out of the banking system
- **the second scenario** assumes withdrawing deposits by the twenty largest depositors for each bank individually.

3.3 Currency risk

In the third quarter of 2010 as a result of more significant fall of banks' investments in denar T-bills with FX component as well as the decrease of denar deposits with FX component, there was a decrease of FX component share in total assets and liabilities of banks. At the same time, the mismatch between the assets and liabilities with FX component increased (i.e. the gap widened) which basically means an increase of the level of currency risk to which the banks are exposed.

According to the currency structure of the gap between the assets and liabilities with FX component, in the third quarter of 2010 there was a further widening of the positive gap in denars with FX component and the negative gap in foreign currency. The positive gap between the assets and liabilities in denars with FX component increased by 736 million denars (or 1.2%) as a result of higher quarterly decrease of denar liabilities with FX component (34.6%) compared to the quarterly fall of denar assets with FX component (4.6%). On the other side, the negative gap between assets and liabilities in foreign currency went up (by 349 million denars or 0.6%) mainly because of the higher growth of the liabilities in foreign currency than the assets in foreign currency growth.

Figure 3.3.1
Structure of the gap between assets and liabilities with FX component

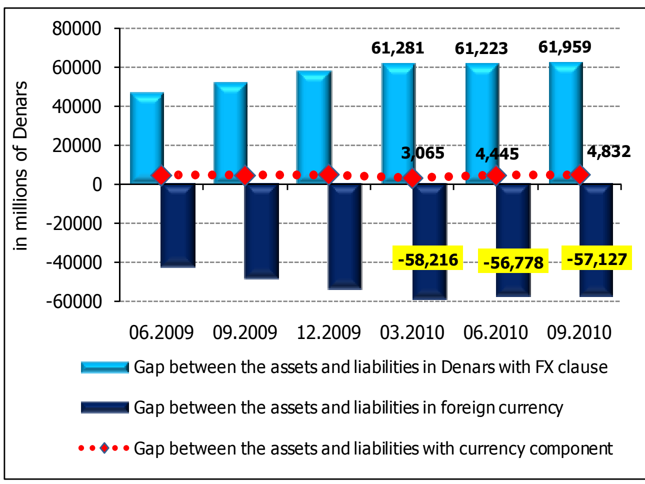
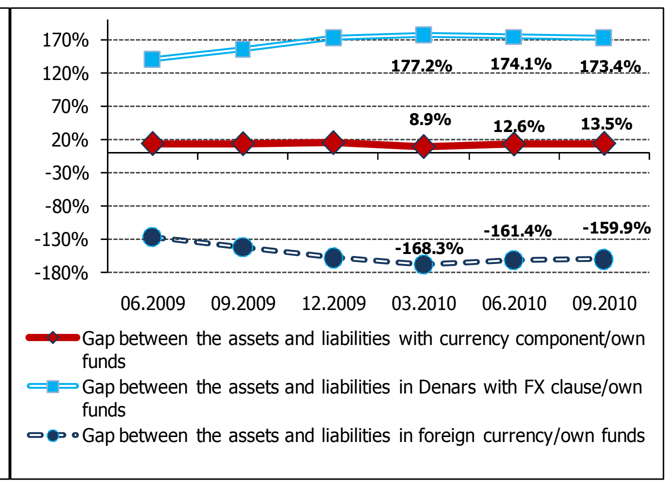


Figure 3.3.2
Share of the gap between the assets and liabilities with FX component in the banks' own fund

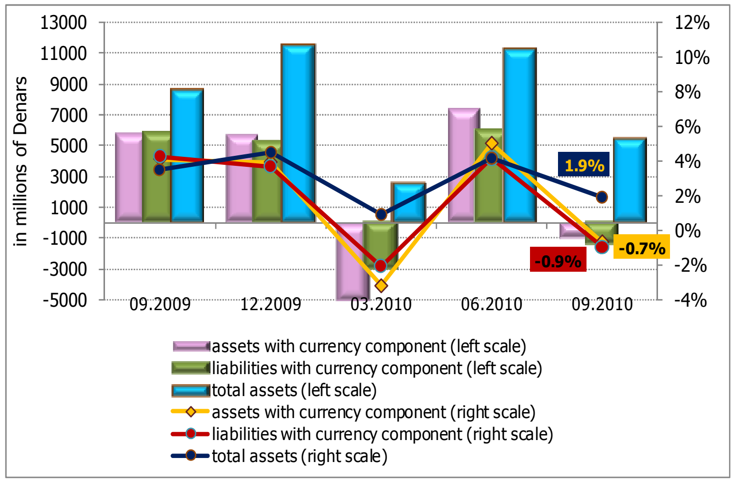


Source: NBRM, on the basis of data obtained from the banks.

On September 30, 2010 the gap between assets and liabilities with FX component at the banking system level quarterly increased by 8.7% (or 387 million denars). Such movement, along with the increase of banks' own funds, caused slight increase in their ratio from 12.6% (on June 30, 2010) to 13.5% (on September 30, 2010). The widening of the gap between the assets and liabilities with FX component comes out from the higher quarterly fall of liabilities with FX component (by 1.421 million denars or 0.9%) compared to the quarterly decrease of assets with FX component (by 1.034 million denars or 0.7%).

Decrease of the assets with FX component is a result of significant decrease of banks' investments in T-bills in denars with FX component (by 2,962 million denars) compared to a relatively moderate growth of foreign exchange crediting (by 698 million denars) and the increase of short-term assets in foreign banks (by 621 million denars). **The quarterly fall of liabilities with FX component** is mainly due to a significant decrease of deposits with currency component of non-financial entities (by 4,080 million denars) [29] against the increase in credit liabilities in foreign currency (by 2,844 million denars)[30].

Figure 3.3.3
Quarterly change of assets and liabilities with FX component and of total assets

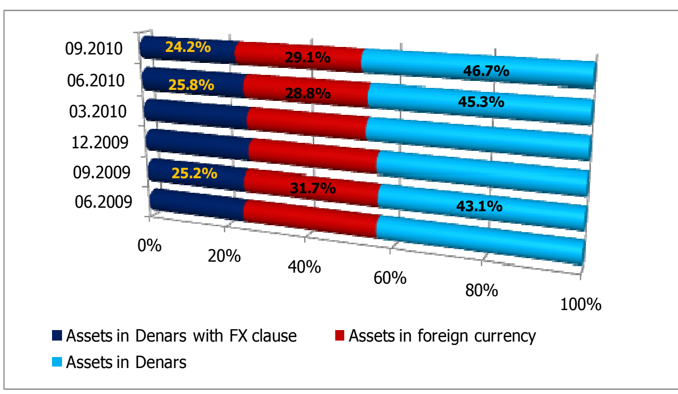


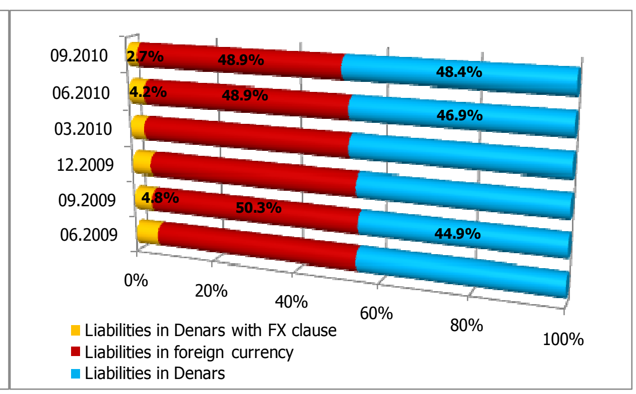
Source: NBRM, on the basis of data obtained from the banks.

As a result from such developments in the third quarter of 2010, there was a decrease of the FX component share by 1.4 percentage points in the total assets and by 1.5 percentage points in the total liabilities of the banks.

Besides the decrease of FX component in the third quarter of 2010, the denar component of total assets and liabilities of banks increased. The denar assets increased by 6,532 million denars (or 5.1%) as a result of the increased placements of CB bills (by 3,445 million denars) and increase of crediting in denars (by 2,488 million denars) while the liabilities in denars went up by 6,919 million denars (or 5.2%) which is mainly due to stronger quarterly growth of denar deposits.

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





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

[29] The more significant fall of denar deposits with FX component is due to dividend payment by one large company.
[30] The growth of credit liabilities in the third quarter of 2010 is mainly a result of the increased short-term borrowing by one bank from its mother bank and use of EIB credit line by one bank.

As in the past period the share of FX component in the total assets and liabilities in the banking system is the highest at the medium banks group. Thus, the medium and small banks had quarterly increase of FX component share in the total assets and liabilities of the banks. On the contrary, the large banks group had quarterly decrease of FX component share in the total assets and liabilities.

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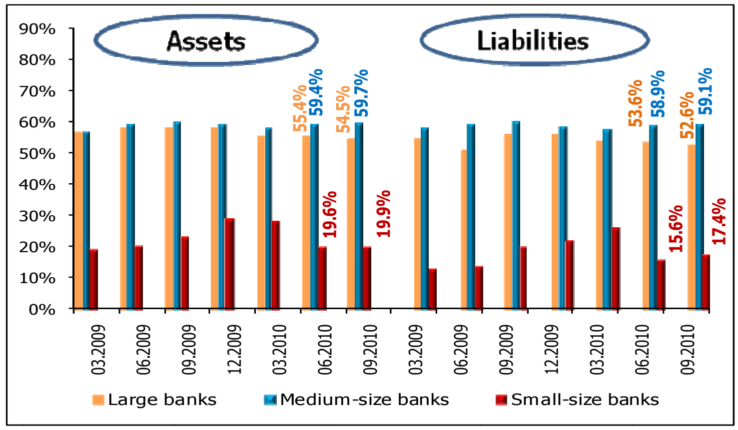

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In the third quarter of 2010 there were no significant changes in the currency structure of assets and liabilities with FX component as well as in the gap between them. The Euro is the still most present currency in the banks' balance sheets. The gap between the assets and liabilities with FX component at the banking system level is positive for all currencies, except the US dollar.

Table 3.3.1
Currency structure of assets and liabilities with foreign exchange component and of the gap between them

Currency	30.06.2010			30.09.2010		
	Currency structure of the assets with currency component	Currency structure of the liabilities with currency component	Currency structure of the gap between the assets and liabilities with currency component	Currency structure of the assets with currency component	Currency structure of the liabilities with currency component	Currency structure of the gap between the assets and liabilities with currency component
Euro	88.7%	88.9%	82.0%	89.5%	89.7%	81.3%
US Dollar	7.8%	8.1%	-2.3%	6.9%	7.3%	-4.6%
Swiss franc	1.8%	1.5%	13.1%	1.9%	1.5%	14.4%
Other	1.7%	1.5%	7.2%	1.8%	1.5%	8.8%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

The ratio between the open currency position [31] by currency and the own funds is not over 5% at most of the banks, excluding the open currency position in Euro, which ranges from 1% to 38%.

[31] Open currency position (OCP), besides the gap between assets and liabilities with FX component, also includes the gap between the off-balance sheet claims and liabilities.

Table 3.3.2
OCP by individual currency/ own funds

Aggregate position by currency/own funds	Number of banks							
	Euro		US Dollar		Swiss franc		Other	
	Long	Short	Long	Short	Long	Short	Long	Short
under 5%	3		8	6	10	4	16	
from 5% to 10%	2	1			1			
from 10% to 20%	4	2						
from 20% to 30%	3							
over 30%	2							

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

On September 30, 2009 two banks were over the aggregate OCP limit (30% of own funds).

Table 3.3.3
Position of banks according to the share of the aggregate foreign currency position relative to own funds, as of September 30, 2010

Aggregate currency position/own funds	Number of banks	
	Aggregate long position	Aggregate short position
under 5%	2	1
from 5% to 15%	3	3
from 15% to 30%	6	
over 30%	2	

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

3.4 Interest rates riks in banking book

The interest rates risk in banking book activities of the banks in the Republic of Macedonia is modestly present, first of all because of the possibility to use so called adjustable interest rates which dominate at interest-sensitive assets, as well as at interest-sensitive liabilities.

Regulation framework of the interest rates risk in banking book

The intermediation between surplus and deficit economic agents, besides being the core of operational functioning of banks, it is inevitably related to exposure to interest rates change. Banks take this risk through a trading book which mainly refers to activities related to debt securities trade on the financial markets. On the other side, the risk of change of interest rates can also appear from banking book activities, mainly from collecting deposits and placement of assets in loans or other debt instruments. For the interest rates risk in the trading book the banks have to allocate certain capital (which is integrated part of capital needed for market risks covering) while the interest rate risk in the banking book is part of Pilar 2 of Basel capital agreement (Basel 2). That means that the banks are not obliged to allocate separate amount of the capital for covering of this risk, except if the supervision body assesses as necessary.

With implementation of the Decision on managing the interest rates risk in banking book (Official Gazette of the RM No. 163/08 and No. 144/09) and with submitting the first reports to the NBRM (as of July 1, 2010) a possibility appeared for assessing the overtaken level of risk from interest rates changes in the banking system. **The analysis of aggregated data from the banking system provides indirect insight in business strategy differences among banks, especially regarding taking the risk from interest rates changes in banking book, that is, their preferences for exposure to market influence and variables.** In assessing the risk of interest rates changes in the banking book, some specific items from the

Decision need to be taken into account which affect the process of identification, measuring, following and control of the risk of interest rates change in the banking book.

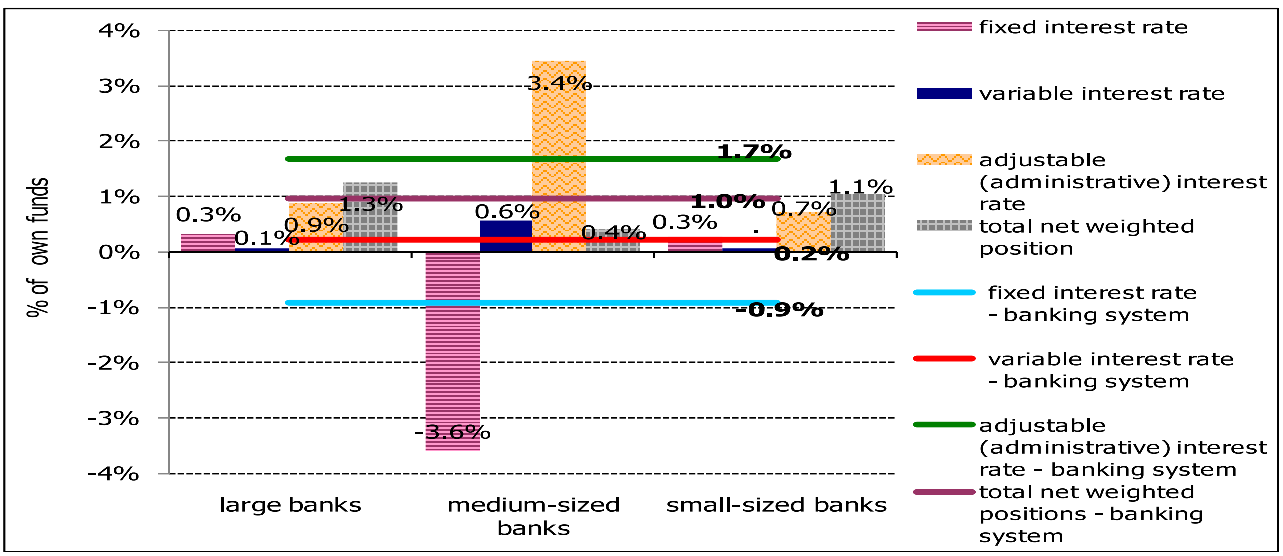
Namely, the Decision defines three types of contractual interest rates which banks could have in their positions – fixed, variable and adjustable. Fixed interest rate positions are allocated in certain periods of time (maturity segments) according to the residual due time of positions, where the positions with contractual annuity payment are allocated according to the remained due period of each annuity. The positions with variable interest rate are allocated with certain periods of time (maturity segments) according to the time that has to pass until the next agreed change of the interest rate, where the positions which according to the contracts have annuity payment are allocated according to the remained due period of each annuity for the period before the date of the next reassessment of the interest rate. Positions with adjustable interest rates are considered those positions where the interest rates change in accordance with decision by a certain bank authority. In practice, the decision on change of interest rates ,that is, the adjustment of interest rates level, is due to change of the bank's interest rates policy (pricing policy i.e. tariffs) by authority in charge. Thus, for these positions, as well as at the positions that do not have or at which the due date cannot be specified (such as sight deposits), this Decision introduces the obligation for determining probability and frequency of interest rates change. The determined probability and frequency of interest rates change represents the base for allocation of these positions in specified maturity segments. Hence, the manner and method chosen by banks for determining the probability and frequency of the interest rates change at these positions has a key influence on the change of the economic value of the banking book.

Also, according to the provisions from the Decision, the economic value of the banking book, that is, the net-position of the banking book is the present value of expected net cash flows in the banking book discounted by market interest rate. The bank is obliged to divide the interest sensitive assets and liabilities from the banking book in thirteen defined maturity segments i.e. periods of time and by each type of interest rate (fixed, variable and flexible), as well as by currency. The net position for each maturity segment is a result from the difference between long and short positions and then multiplied by specified weights, which is assumed change of economic value of the baking book for that period of time by using standard interest rate shock[32]. Also, according to the provisions from the Decision, the economic value of the banking book, that is, the net-position of the banking book is the present value of expected net cash flows in the banking book discounted by market interest rate. The bank is obliged to divide the interest sensitive assets and liabilities from the banking book in thirteen defined maturity segments i.e. periods of time and by each type of interest rate (fixed, variable and flexible) as well as by currency. The net position for each maturity segment is a result from the difference between long and short positions and then multiplied by specified weight which is assumed change of economic value of the baking book for that period of time by using standard interest rate shock. The sum of net-weighted positions for all maturity segments, by interest rates and currency, regardless whether those positions are long or short represents the total weighted value, that is, the net-weighted position of the bank. The main assessment of interest rates risk in the banking book is done when such calculated net-weighted position is compared to the bank's own funds. If the ratio is up to or beyond 20% the bank should prepare proposal for its reduction. The National Bank may accept the proposed measures or it can prescribe different measures and deadlines for decreasing of the ratio.

[32] According to the Decision on managing the risk of interest rates change in banking book, standard interest rate shock is simultaneous positive or negative interest rate change by two percentage points.

The interest rate risk, having the present regulatory environment[33], does not have significant position between the risks range that banks face with in their activities, because they mainly control or avoid sources of the interest rates risk. The net-weighted position on banking system level[34] as of September 30, 2010 was 359 million denars which is 1.0% of the own funds. Analyzed by banks, the net-weighted position/own funds ratio moves within an interval of 0.1% to 11.9% with median of 1.9% whereas no bank accedes the set limit of 20% for the net-weighted / own funds ratio. Hence, the relatively low net-weighted/own funds ratio should mean that the interest rates changes would not have high influence on the economic value of the banking book. But this conclusion should be carefully accepted primarily because of clauses used in contracts for so called adjustable interest rates (i.e. embeded options that transfer the interest rates risk to clients) at which the bank can one-sidedly change the interest rates level anytime, the way it prefers, as well as the range. Therefore, the insignificant ratio between the net-weighted position and the own funds, does not mean that the interest rates change risk does not exist but simply reflects the banks' practice to transfer this risk to users of banking products and for themselves they only retain the possible business risk. The implementation of so called adjustable interest rates at certain banking products creates the dilemma whether the goal of their use is better management, avoidance or transfer of taken risks or serves as instrument for managing banks' liquidity and profitability.

Figure 3.4.1
Net-weighted position / own funds ratio by various interest rate types, for the banking system and by groups of banks as of September 30, 2010



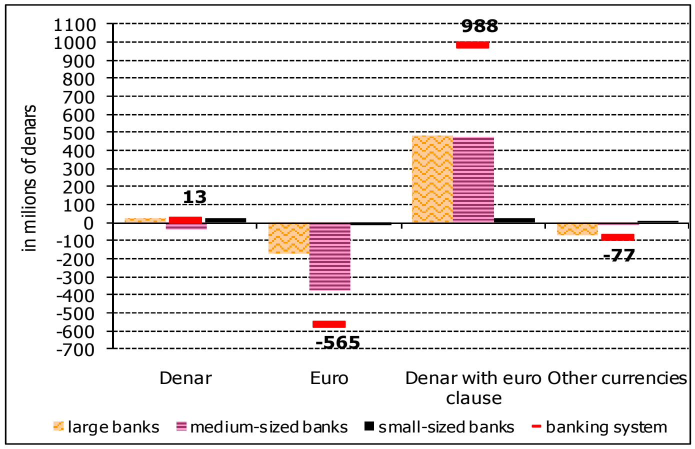
Source: NBRM on the basis of data obtained from the banks

[33] In case of legislation change (for example, in law of obligations, consumer protection, financial services contracts etc.) which would set forth a framework for implementation of clauses for one-side interest rate adjustment, the risk of change in interest rates for banks would have another dimension. Namely, in case of change in regulation, the treatment of the current adjustable interest rate positions would have a crucial importance, i.e. whether they would be reclassified as fixed interest rate positions or variable interest rate positions.

[34] Net-weighted position at banking system level is result of aggregation of absolute net-weighted positions by banks.

The dominant role in creating the risk of interest rates risk in banking book have the positions in euro and in denars with currency clause in euro. Namely, on the banking system level, the positions in denars with currency clause in euro mainly create positive net-weighted position, while the positions in euro create negative weighted position. This is mainly a result of structural characteristics of assets and financial resources of the banks, and most of all the presence of financial instruments in denars with foreign currency clause in banks' assets in situation when deposit core in denars and in euro is the main source of financing the activities. This is especially characteristic for the groups of large and medium banks.

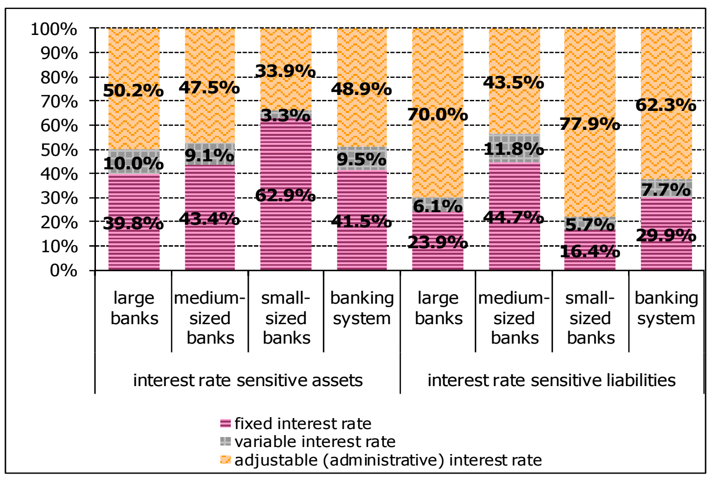
Figure 3.4.2
Currency structure of net-weighted position as of September 30, 2010



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

The structure of interest-sensitive assets and liabilities according to the type of interest rate proves the importance of the adjustable interest rates in creating the net position as well as the practice of the domestic banks to have control over potential change of interest rates. In the interest-sensitive positions structure of bank's assets, as of September 30, 2010, the major share of 48.9% belongs to the interest-sensitive assets with adjustable interest rates followed by the interest-sensitive assets with fixed interest rates with 41.5% while the assets with variable interest rates have only 9.5%. The adjustable interest rates credits share in total amount of credits was even more dominant on September 30, 2010 with 75.7% which makes them a financial instrument having 99.7% of total assets with adjustable interest rates. On the contrary, in the fixed interest rates assets the loans have 22.2% share, but there is domination by banks' placements of securities (CB-bills, T-bills and state bonds), allocated compulsory reserve with the NBRM, as well as time deposits at foreign banks with mainly fixed interest rates.

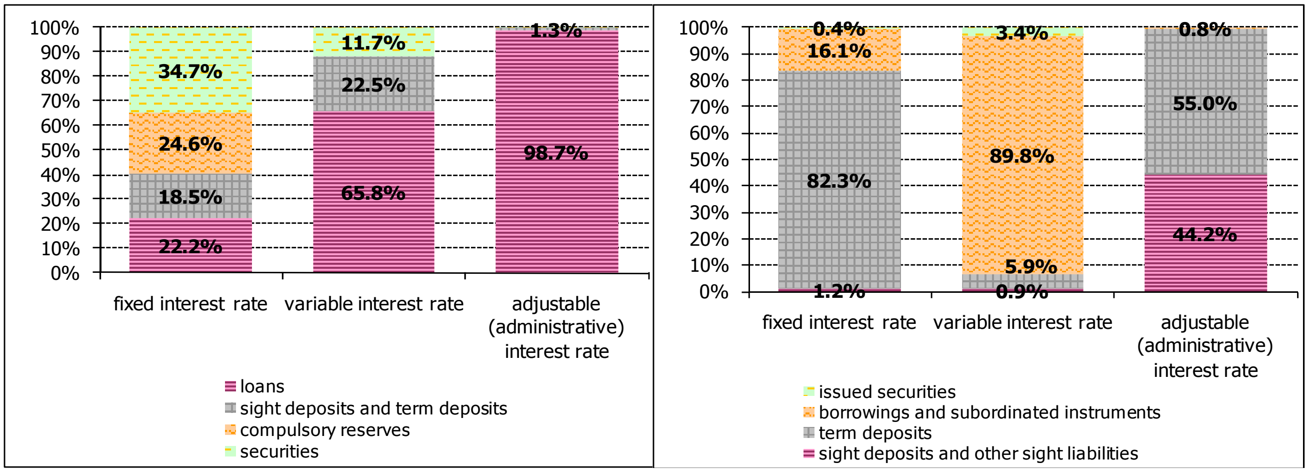
Figure 3.4.3
Structure by type of interest rates of interest-sensitive assets and liabilities as of September 30, 2010



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

The domination of the adjustable interest rates is also present in the structure of the interest-sensitive liabilities in the banking system. On September 30, 2010 the positions with adjustable interest rate were 62.3% of the total amount of interest-sensitive liabilities. Hence, the adjustable interest rate is mainly applied to collected deposits which create 99.2% of positions with adjustable interest rate in banks' liabilities. Also, on September 30, 2010 70.9% out of total deposits are deposits with adjustable interest rate which to some extent is due to the sight deposits, where this type of interest rate is present at 98.3% of these deposits. At time deposits, regardless of the maturity period, the adjustable interest rate is present at 57.8% of them, while there is also a significant presence of the fixed interest rate with 41.4%. The fixed interest rate liabilities have 29.9% of the total interest sensitive liabilities and are mainly due to the deposits. The variable interest rate liabilities are largely due to liabilities based on credits, subordinated instruments and hybrid capital instruments which create 89.8% of the liabilities with variable interest rate.

Figure 3.4.4
Structure of interest sensitive assets (left) and liabilities (right) by interest rate type and items as of September 30, 2010



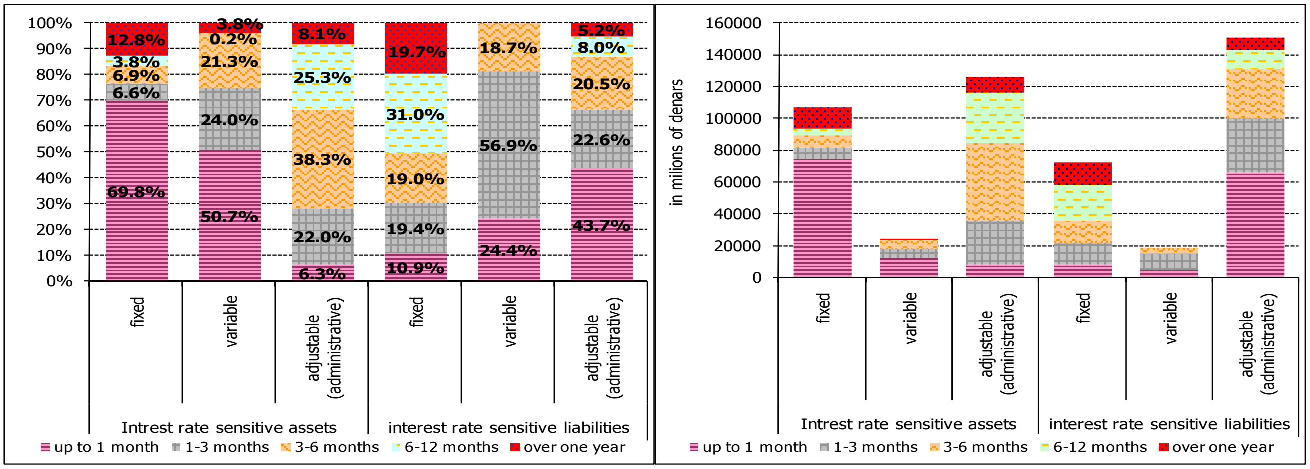
Source: NBRM on the basis of data obtained from the banks

From the point of view of maturity structure of the interest-sensitive assets and liabilities with fixed interest rate, there are large differences in share of positions with residual maturity up to one month on the assets and liabilities side of the balance-sheet. These differences are due to the fact that the compulsory reserve and CB bills of the NBRM are classified in one-month maturity segment. In the maturity structure of assets and liabilities with variable interest rate[35] there is relatively high level of adjustment of positions according to periods of another change of interest rates, which are mainly shorter than one year.

The analysis of the maturity structure of interest sensitive positions with adjustable interest rates is more specific, since the maturity mismatch between the interest sensitive assets and liabilities first of all depends on asumptions used by banks, regarding probability and frequency of interest rates changes at these positions. Hence, **the maturity structure of the adjustable interest rates positions, indirectly show the banks' expectations about the period until the next "adjustment" of the interest rates level.** According to that, the major share in the maturity structure of the adjustable interest rates assets belongs to assets for which the banks expects changes in the interest rate in a period from three to six months after September 30, 2010, that is, in the first quarter of 2011. The liabilities with interest rates change up to one month have dominant position in the maturity structure of the liabilities with adjustable interest rate primarily because the major part of sight deposits are classified in this maturity segment.

[35] The variable interest rate positions are allocated in adequate time periods (maturity segments) according to the period that needs to pass until the next contractual change of interest rate, where the positions with annuity payment according to contracts are allocated according to residual due time of each annuity for the period before the next reassessment of the interest rate.

Figure 3.4.5
Structure (left) and absolute amount (right) of interest sensitive assets and liabilities by type of interest rate and maturity structure, as of September 30, 2010



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

3.5 Insolvency risk

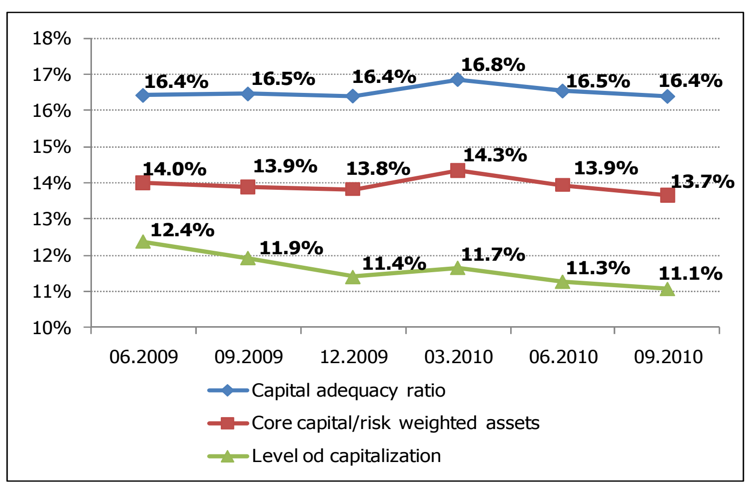
In the third quarter of 2010 the trend of maintaining relatively high solvency position of the banking system in the Republic of Macedonia continued.

The quarterly rise of risk weighted assets in the banking system is slightly stronger compared to the rise of banks' own funds. In this quarter, the most important source of increasing the own funds in the banking system are the subordinated instruments.

3.5.1. Banking system solvency and capitalization indicators

The capital adequacy ratio had minimal quarterly decrease of 0.1 percentage point at higher quarterly rise of risk weighted assets, compared to the own funds quarterly rise. Besides the insignificant fall, in the third quarter of 2010, **the capital adequacy ratio of the banking system remained twice higher than the legal minimum of 8.0% and it was 16.4%.** On September 30, 2010 only one bank had the capital adequacy ratio below 12.0% (11.4%) and even 6 banks had their capital adequacy ratio beyond 30.0%. **The quarterly decrease by 0.2 percentage points**

Figure 3.5.1
Movement of solvency and capitalization indicators



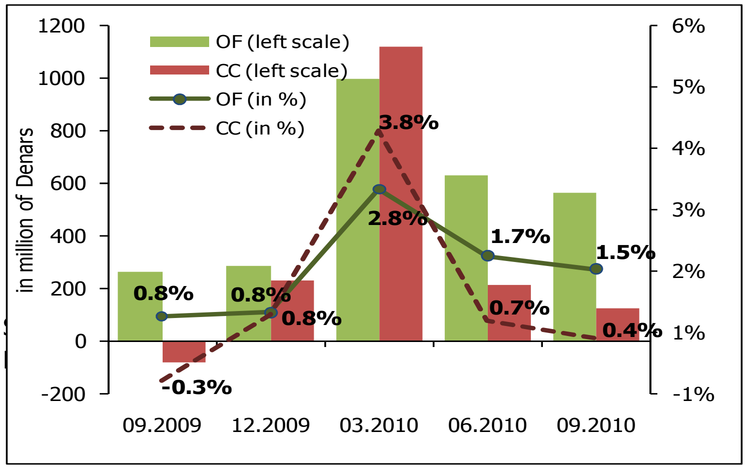
Source: NBRM, based on data submitted by banks.

had also the Tier-1 indicator[36] and the capitalization ratio[37].

3.5.2. Own funds and risk weighted assets

In the third quarter of 2010, the banking system own funds continued to grow, but with lower intensity. On September 30, 2010 they amounted to Denar 37,303 million, which is an increase by Denar 563 million or 1.5% in comparison with the end of the first half of 2010. The highest contribution to their growth (by 78.2%) had the supplementary capital 1, that is, the increased use of subordinated instruments (which have 96% of the banks' total supplementary capital)[38]. However, the importance of supplementary capital 1 for the total own funds remained at significantly lower level, compared to the core capital which still has the major part of them[39].

Figure 3.5.2
Quarterly change of the own funds and core capital



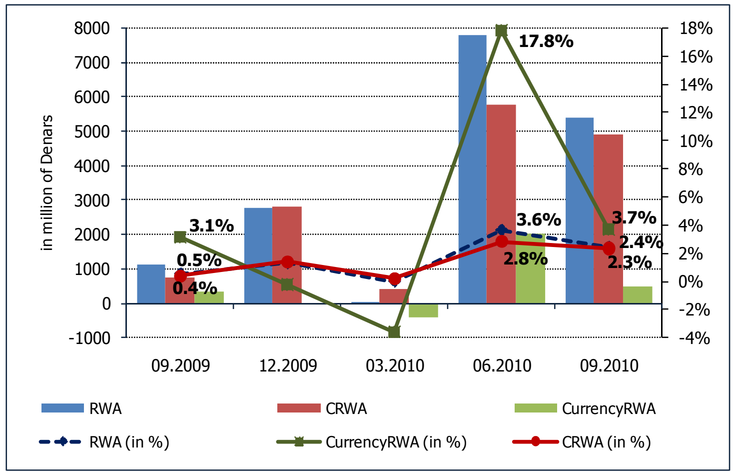
Source: NBRM, based on data submitted by banks.
Note: OF- own funds; CC- core capital.

Besides the rise in supplementary capital, a contribution to the rise in own funds (by 21.8%) also had the higher amount of core capital. In the third quarter of 2010 the core capital of the banking system had relatively low rise of 0.4% as a result of emission of new common shares by one medium bank[40]. Besides such developments on September 30, 2010 the current loss as deductable item of core capital increased by 63.3% compared to the second quarter of 2010, which is one of the reasons for slower growth of the own funds in the course of this quarter (Annex no. 20 – Own fund by groups of banks).

[36] Tier-1 indicator is calculated as a ratio between the core capital (by deductable items) and the risk weighted assets.
[37] The capitalization level represents a correlation between the banks' capital and reserves with their total assets.
[38] On quarterly basis, the subordinated instruments, which can be part of the supplementary capital 1 increased by Denar 452 million, or by 8.2%, out of which 88% are due to the increase in these instruments with the group of large banks.
[39] Besides the dominant 83.3% share of core capital in the structure of total own funds of the banking system, the share of the supplementary capital 1 in the own funds structure is lower and it equals 16.7%.
[40] In the third quarter of 2010 there was emission of common shares with total nominal value of Denar 413 million. Out of them, Denar 307 million is the nominal value of the common shares issued by one medium bank and the rest Denar 106 million refer to the nominal value of common shares issued by one small bank, which only allocated the retain profit from 2007, 2008 and 2009 with this emission.

In the third quarter of 2010 there was significantly lower growth intensity also at risk weighted assets. On September 30, 2010 the risk weighted assets were Denar 227,597 million (Annex no. 19 – Capital Adequacy Ratio, by groups of banks). Compared to the previous quarter, the credit risk weighted assets increased by Denar 4,900 million (or by 2.3%) and the currency weighted assets by Denar 493 million (or by 3.7%). The rise of risk weighted assets on the banking system level is mainly determined by the group of medium banks, which is also due to the transfer of Macedonian Bank for Development Promotion from the group of small banks into the group of medium banks[41]. **In the third quarter of 2010, the credit risk weighted assets has the highest share of 94% (which remained the same as in the second quarter of 2010) in the structure risk weighted assets.**

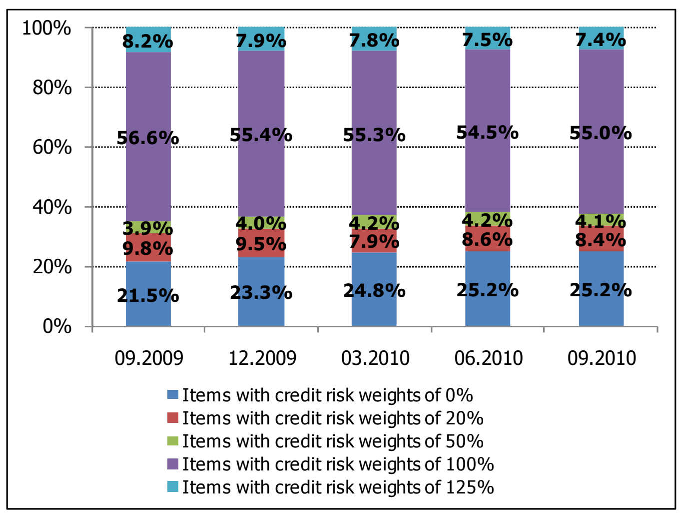
Figure 3.5.3
Quarterly change of CRWA, CurrencyRWA and RWA at the level of the banking system



Source: NBRM, based on data submitted by banks.
Note:
CRWA- credit risk weighted assets;
CurrencyRWA- currency risk weighted assets;
RWA- risk weighted assets.

In the third quarter of 2010, the highest quarterly growth of Denar 4,850 million (or 2.9%) had the activities of the banks which in calculating the credit risk weighted assets applied 100% weight[42]. Thus, they contributed with 79.2% for the total growth of activities exposed to credit risk. **Also, these items (100% risk weight) which mainly involve the banks' credit portfolio are still the most present in the structure of total activities exposed to credit risk.** Significant quarterly growth of 1.8% had 0% weighted items which is mainly due to banks' increased investing in CB bills in this quarter. Contrary to such developments, the 20% weighted items had quarterly decrease of 0.7%.

Figure 3.5.4
Structure of total activities exposed to credit risk



Source: NBRM, based on data submitted by banks.
Note: The calculation is based on the accounting value of balance and off-balance items, reduced by amount of allocated impairment and special reserve.

[41] Had such structural changes not occurred in the banking system of the Republic of Macedonia, in the third quarter of 2010 the largest share in the growth of credit risk weighted assets (58.2%) or currency risk weighted assets (57.5%) would have been that of the group of large banks.
[42] They are mainly claims based on credits, interest rates and other claims except the claims for which the other type of risk weight is applied.

Faster quarterly growth of the risk weighted assets compared to the own funds quarterly growth caused decrease (by 0.4 percentage points) at the level of own funds over the minimum required level[43] in the total own funds of the banks. However, the banks have own funds available which are sufficient for covering the existing risks as well as undertaking additional activities. On September 30, 2010, 51.2% of the banks' own funds are above the level required for covering of possibly identified risks.

Figure 3.5.5
Breakdown of capital requirement for risks

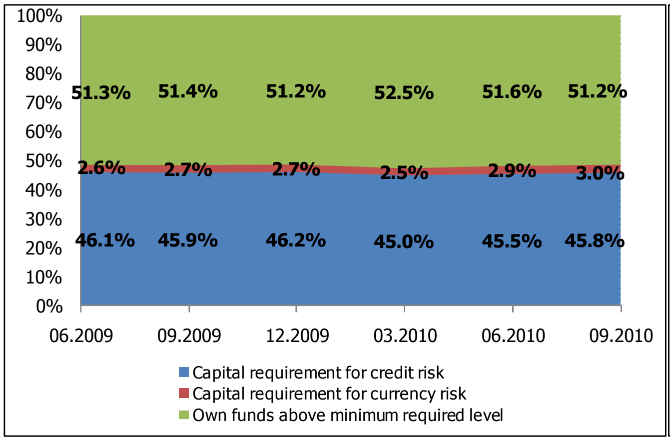
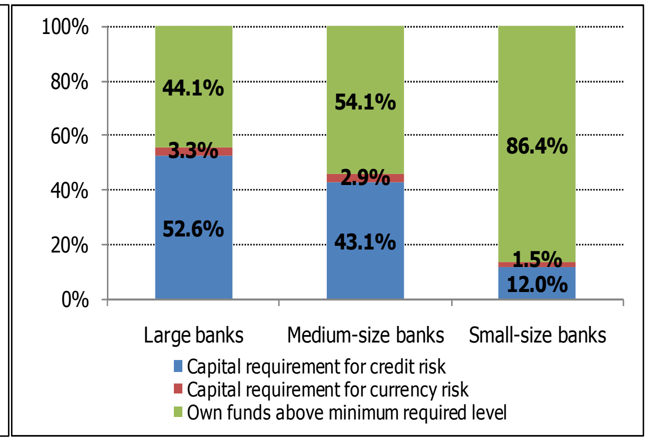


Figure 3.5.6
Breakdown of capital requirement for risks by groups of banks



Source: NBRM, based on data submitted by banks.

The group of small banks has the highest level of own funds (86.4%) which are beyond the required risk covering level. Such balance is a result of the relatively high capitalization level, opposed to the relatively lower credit activity of this group of banks. At the large banks group the major part of the own funds is used for covering the credit risk (52.6%) which is due to the high credit activity of this group of banks and consequently, the main role in the financial mediation at banking system level.

Table 3.5.1
Solvency and capitalization indicators, by groups of banks

Indicators for solvency and level of capitalization	LARGE BANKS					MEDIUM - SIZE BANKS					SMALL - SIZE BANKS				
	09.2009	12.2009	03.2010	06.2010	09.2010	09.2009	12.2009	03.2010	06.2010	09.2010	09.2009	12.2009	03.2010	06.2010	09.2010
Capital adequacy ratio	13.9%	13.8%	14.7%	14.3%	14.3%	17.4%	17.4%	16.8%	16.9%	17.4%	50.28%	48.10%	47.48%	43.40%	59.02%
Core capital/risk weighted assets	11.0%	10.9%	11.9%	11.6%	2.3%	15.1%	15.1%	14.6%	14.1%	0.0%	50.27%	48.08%	47.48%	43.40%	0.29%
Level of capitalization	9.7%	9.1%	9.8%	9.6%	9.5%	11.5%	11.4%	11.1%	10.4%	11.5%	45.0%	42.8%	39.0%	37.0%	36.3%
Capital requirement for credit risk	54.6%	55.3%	51.8%	52.6%	52.6%	44.5%	44.5%	46.0%	45.5%	43.1%	12.1%	12.7%	13.2%	14.6%	12.0%
Capital requirement for currency risk	2.9%	2.9%	2.7%	3.2%	3.3%	1.6%	1.5%	1.6%	1.7%	2.9%	3.9%	4.0%	3.6%	3.8%	1.5%
Own funds above minimum required level	42.4%	41.9%	45.5%	44.2%	44.1%	53.9%	54.0%	52.5%	52.7%	54.1%	84.1%	83.4%	83.2%	81.6%	86.4%

Source: NBRM internal calculations, based on data submitted by banks.

[43] The minimum required level of own funds for risk coverage is calculated as a sum of the capital requirement for credit risk coverage (8% of the credit risk weighted assets) and currency risk capital requirement (8% of the total of the absolute amount of the net-position in gold and the aggregated FX position). The difference between the total own funds and the minimum required level of own funds for risk coverage represents the level of own funds above the minimum required level.

Stress test simulation for the resistance of the banking system to hypothetical shocks as of September 30, 2010

On September 30, 2010 the conducted stress test simulations[1] for the resistance of the banking system and individual banks in the Republic of Macedonia to possible shocks showed that the banking system is still relatively resistant to the influence by these shocks. However, in conducting certain simulations decrease of capital adequacy below 8% was noticed at some banks.

Table 3.5.2
Results from stress test simulation for the resistance of the banking system to hypothetical shocks as of September 30, 2010

No. of simulation	CAR at the level of the banking system, before simulation	CAR at the level of the banking system, after simulation	Median value of the CAR by individual banks, after simulation	Number of banks with a result (CAR after simulation) below the CAR of the overall banking system after simulation
1	16.4%	15.7%	16.9%	2 (г); 4 (с)
2	16.4%	14.3%	15.9%	2 (г); 4 (с)
3	16.4%	12.7%	15.2%	2 (г); 3 (с)
4	16.4%	14.3%	15.9%	2 (г); 4 (с)
5	16.4%	12.6%	15.1%	2 (г); 3 (с)
6	16.4%	12.7%	15.1%	2 (г); 3 (с)
7	16.4%	16.3%	17.5%	2 (г); 5 (с)
8	16.4%	14.0%	16.0%	3 (г); 4 (с)

Source: NBRM internal calculations, based on data submitted by banks.
Note: (L) – large bank; (M) – medium bank; (S) - small bank

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

Amendments to the Basel Capital Accord (introducing Basel III) and preliminary assessments of their influence on the capital adequacy of the banks in the Republic of Macedonia

In order to respond to the effects from the global financial crisis, in the last two years the Basel committe on banking supervision developed several proposals for enhancement of the current capital framework and strengthening of the prudent standards. In that direction are also the last draft-amendments (reforms) of the Basel Capital Accord, **Basel III**, which were adopted by the highest authority of the Basel committee in August and September, 2010.

The most important segments of the proposed reform of the capital framework can be divided in two parts: strengthening of the capital framework (increased capital requirements) and introducing international liquidity standard. Given the importance of the amendments envisaged by the reform, the Basel committee also defined the time framework (dynamics) for gradual implementation of the new steps. Hence, different time framework was defined for achieving higher capital standard (along with leverage ratio) and for the new liquidity standard.

Increased capital requirements

The main goal of the first part of the capital framework reform is improving the quality of own funds structure through increasing the level and share of the basic elements of Tier-1 capital (core capital). Viewed from the core capital definition point, the focus is more on the common equity (common shares and retained profit) than instruments with debt characteristics and lower quality. The minimum requirement for common equity will be increased from the current 2% to 4.5%. This ratio increase is followed by increase of the Tier – 1 capital requirement from 4% to 6%, while the total capital requirement remains at the existing level (8%).

However, with the proposed reform there are two additional amounts of capital buffers: capital conservation buffer and countercyclical buffer, which cause increase of the capital requirements. *Additional amount for capital conservation buffer* may consist only of common equity (issuance of shares, increased retained profit) whereas it must be at least 2.5% of the risk-weighted assets, while the second part of capital buffers (*countercyclical buffer*) could range between 0 and 2.5% depending on the condition of the national financial system[44].

If these two capital buffers created from the common equity are taken into account, then the total common equity level should be at least 7% compared to the risk-weighted assets, and in event of introducing maximum level of countercyclical buffer, the common equity could reach even 9.5% of the risk-weighted assets. Tier - 1 capital is increased by at least 8.5% of the risk-weighted assets (11% if the requirement for allocation of countercyclical buffer is fully introduced). The total amount of own funds should amount to at least 10.5% of the risk-weighted assets. **Thus, although the proposed reform does not change the minimum level of capital adequacy ratio, by introducing the capital buffers, this ratio level increases by at least 2.5 percentage points and it reaches a higher level than the required level of 8%.**

The implementation process for the new requirements regarding the own funds level will have several phases starting from the beginning of 2013 until the beginning of 2015. The implementation of additional capital conservation buffer will begin in 2016 and will finish on January 1, 2019 whereas it has been foreseen that this amount increases each year by 0.625%. Gradual increase of this type of capital will also result in increase of the total required capital amount (from 8% to 10.5%). The countries with significant credit growth have been recommended to introduce also the required amount of countercyclical capital in the projected dynamics.

Assessment of the capital level required for covering the risks in the banking system of the Republic of Macedonia by implementing the elements from the new capital framework (BASEL III)

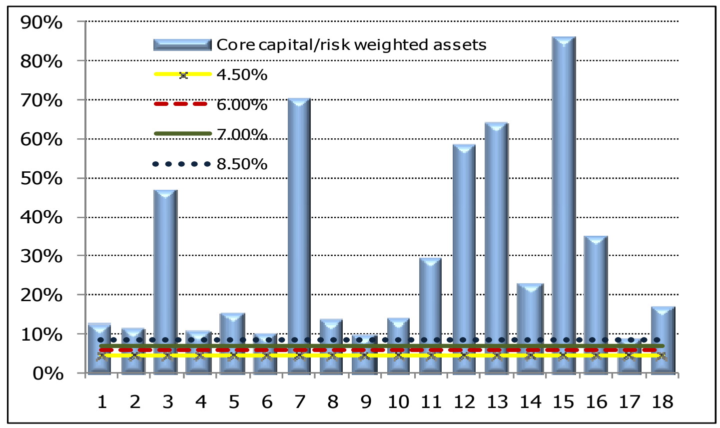
With the Decision on the methodology for determining the capital adequacy (Official Gazette of the Republic of Macedonian no. 159/2007, 32/2008, 31/2009, 96/2009 and 157/2009) the core capital is: nominal value of common and non-cumulative priority shares (together with the premium) as well as reserves and retained non-allocated profit (including the amount of the current profit, if certain criteria are met). The Decision does not anticipate a possibility as part of the core capital to be also some types of debt instruments as anticipated by the Basel Accord and the European Directive (so called innovative instruments which could be part of the core capital). The core capital could only consist of items which according to the new capital requirements are defined as common equity. Thus, pursuant to the current regulations, these two positions (core equity capital and common equity) are identical.

[44] The countercyclical capital is determined by a national supervision organization, depending on the phase of the economic cycle of the national economy.

As result of the existing prudent Decision by the National Bank regarding the core equity capital structure it is highly adjusted with the proposed amendments to the capital framework. The banks in the Republic of Macedonia fulfill the new levels of required capital set forth in the proposed reform of the Basel Accord which can be also concluded from the analysis of the current amount of Tier - 1 ratio and the amount of capital adequacy ratio of the banks in the Republic of Macedonia, which follows next.

Analyzed by banks, in the third quarter of 2010, the ratio of the bank's core equity capital[45] to its total risk weighted assets (Tier - 1 ratio) ranges from 8.8% to 85.6% and it is beyond the common equity and core equity capital minimum level (4.5%, 6.0%, 7.0% and 8.5%) set forth in the proposed reform of the Basel Accord. Only at one bank this indicator is close to the total minimum of 8.5% (8.8%) and at three banks the current core equity capital and risk-weighted ratio is below 11% (9.5%, 10.1% and 10.7%). At all other banks Tier-1 ratio is beyond 11.0% which is a satisfactory indicator for possible additional expenditures which the Macedonian banks will need to make for achieving the new capital requirements.

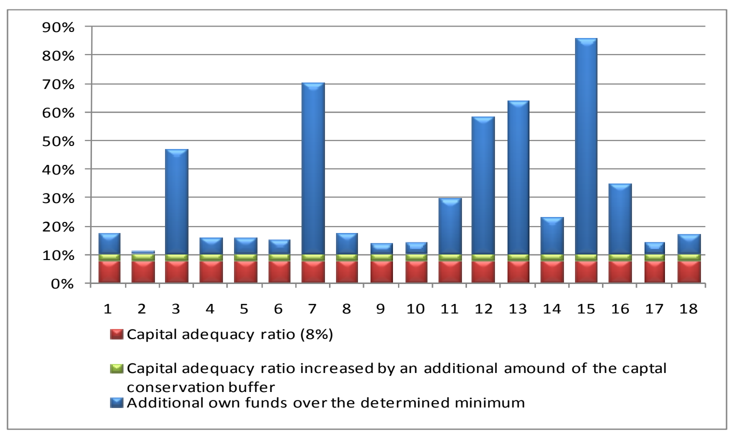
Figure 3.5.7
Core capital share in the risk-weighted assets, by banks



Source: NBRM, based on data submitted by banks.

The same conclusion can be made if the current values of the capital adequacy ratio of the banks in the Republic of Macedonia are analyzed. **Although in the last years the capital adequacy ratio has been decreasing it is still over the legally prescribed minimum of 8% but also beyond the new level of 10.5% (together with the capital conservation buffer).** In the third quarter of 2010 the capital adequacy ratio in all banks in the Republic of Macedonia ranged between 11.4% and 85.6%[46]. Only one bank in the country has the capital adequacy ratio below 12% (11.4%) and even 6 banks have the capital adequacy ratio beyond 30%. Total amount of additional own funds over the determined minimum of 8% is Denar 19,095 million and individually by banks ranges from Denar 281 million to Denar 5,623 million. If the new 10.5% capital adequacy ratio is taken into account then the amount of additional own funds decrease and it is equal Denar 13,405 million.

Figure 3.5.8
Capital adequacy ratio, by banks



Source: NBRM, based on data submitted by banks.

[45] The core equity capital reduced by deductable items is used in the calculations (line IV from the Report on bank's own funds, according to Instruction for implementation of the Decision on the Methodology for determining capital adequacy – Official Gazette of the Republic of Macedonia no. 43/2009).

[46] Group of large banks: 11.4% - 17.5%; group of medium banks: 14.0% - 29,5%; group of small banks: 34,9% - 85,6%.

In order to strengthen the capital framework (increase of required capital level) the introduction of additional capital safeguard instrument at banks' level via leverage ratio should be stressed out as specifically important novelty in the so called Basel III framework. **The leverage ratio** is a ratio between the capital (core equity capital) and balance and off-balance assets (including derivatives) of the bank. The goal of introducing this ratio is to provide counterbalance to the capital adequacy ratio that covers risk assets but not the total assets of the banking institutions. This ratio should be at least 3% and shall be calculated as quarterly average. The final goal is to make this ratio part of the first pillar of the capital accord starting as of January 1, 2018. **In the third quarter of 2010, all banks in the Republic of Macedonia were beyond the proposed leverage ratio minimum of 3%.**

New liquidity standard

The second important part of the reform refers to the proposal for introducing two liquidity ratios in order to strengthen the short-term resistance of banks to potential liquidity problems and to protect from long-term structural mismatch of assets and liabilities. The aim of the first ratio – **Liquidity Coverage Ratio** (LCR) is to assure that banks possess sufficient level of high quality liquidity assets for covering 30-days funding in event of shocks (stress scenario). Hence, this represents the ratio between the high quality liquidity assets amount and net outflows for the following 30 days and it must not be lower than 100%[47]. The second ratio- **Net Stable Funding Ratio** (NSFR) has long-term structural characteristic and assures covering of maturity mismatch of assets and liability positions of the bank. This ratio should be at least 100% and should encourage the banks to use stable financial resources. It is calculated as ratio between available amount of stable funding and required amount of stable funding.

Different time frameworks are projected for introducing and implementation of both ratios. The period for following the LCR should start in 2011 and should last until the end of 2014. The implementation of this ratio is anticipated to begin on January 1, 2015. Opposite to this time framework, the period anticipated for following the NSFR ratio is longer (six years) and its implementation should start as of January 1, 2018.

3.6 Profitability

In the first nine months of 2010 the banking system in the Republic of Macedonia came up with lower profit compared to the same period last year. The banks in the Republic of Macedonia for this period had a profit of 948 millions of denars, which is for 400 millions of denars lower than the one in the first nine months of 2009[48]. However, profitability deterioration has slower dynamics compared to the same period in 2009. The number of banks with losses remained the same (eight banks) while the assets share of these banks in the total banking system assets reduced by 0.8 percentage points and it was 10.1% as of September 30, 2010.

The reduced profit of the banking system for the first nine months of 2010 is due to decrease in other regular revenue on the one hand and increase of operating expenses[49] on the other. The other regular revenue decreased by Denar 454 million and on September 30, 2010 it was Denar 1,374 million while the operating expenses increased by Denar 302 million reaching Denar 7,675 million.

[47] National supervisors may prescribe lower minimum level of these two rates, if they consider that such level is more suitable to national conditions.
[48] The rate which reduced the profit of the banks in the first nine months of 2010 (which was around 30%) is twice lower than the same period last year (when this rate was 60%).
[49] The operating expenses include: personnel expenses, depreciation, general and administrative expenses, deposit insurance premiums and other expenses, except extraordinary expenses.

The analysis by groups of banks showed that the reduced profit at banking system level is completely determined by lower profit at large banks group. The large banks in the first nine months of 2010 had Denar 475 million lower profit compared to the profit registered for the same period last year (Annex 2 – Profit and Loss Statement). **The lower profit at this group of banks is conditioned first of all by decrease in other regular income and increased impairment[50].** The other lower regular income at the large banks group contributed the most in decreasing of other regular income at the whole banking system level. At the large banks group it decreased by Denar 383 million or 29.1% and in the change of profitability component in the overall banking system participated with 84.4%. On the other side, the impairment costs at the large banks group increased by Denar 247 million or 12.9% but it did not have significant influence on the overall banking system due to reduced impairment at other groups of banks. **The medium and small groups of banks in these nine months continued with the loss, as it was the case during the same period last year.** The medium banks reduced their loss and as of September 30, 2010 it was Denar 317 million. The decrease in loss is a result of increased net interest income and reduced impairment which had higher influence than the higher operational expenses on the profitability of this group of banks.[51] The small banks group had higher loss compared to the first nine months of 2009 and as of September 30, 2010 it was Denar 177 million. This is a result of the transfer of the Macedonian Bank for Development Promotion (which works with profit) from the group of small to the group of medium banks. If this change had not occurred the loss of the small banks group would have decreased with lower dynamics.[52] In event of such hypothetical situation the changes at the small banks would have had reverse direction.[53] Such situation points out to the important influence that this bank has on the profitability of the group of small banks.

3.6.1 Banking system income and expenditure structure

Total banks' income reduced by Denar 47 million or 0.4% and as of September 30, 2010 it was Denar 11,765 million. The decrease of banks' total income is due to the significant decrease of other regular income. Their share in the total income structure also decreased, at the expense of the increased share of net commission income and net interest income. The medium banks had major influence on the growth of net interest income where this component increased by Denar 154 million (almost double compared to the large banks)[54] while the large banks contributed to the growth of net income from fees and commission (which is three times higher than the growth at the medium banks). In addition, net income from fees and commission at the large banks group had double increase (by Denar 166 million).

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[50] The impairment includes: impairment of financial assets on a net-base, losses from damage of non-financial assets and non-performed (additionally determined) impairment and special reserve.

[51] Operational expenses and net interest income increased by Denar 209 million and Denar 154 million, respectively while the impairment reduced by Denar 117 million.

[52] The medium banks instead of reporting 29.9% loss decrease would report only 6.9%.

[53] The small banks instead of reporting 52.2% loss increase would report 37.4% loss decrease.

[54] If the Macedonian Bank for Development Promotion was not transferred from small to medium banks, in that case the group of large banks would have the major influence on the net interest income growth with Denar 82 million while the medium banks' share in the growth would be Denar 73 million.

Figure 3.6.1
Structure of the banks' total income

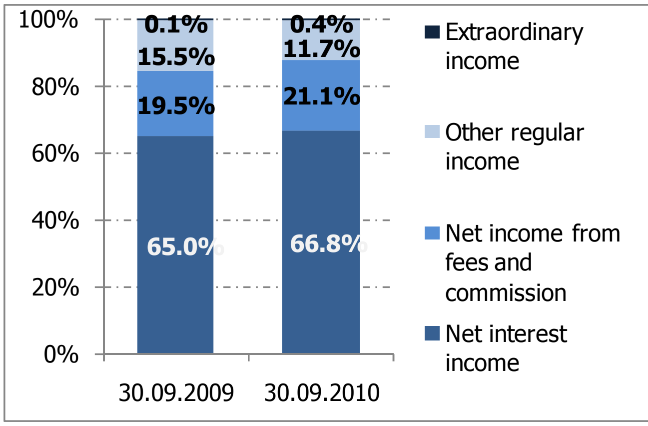
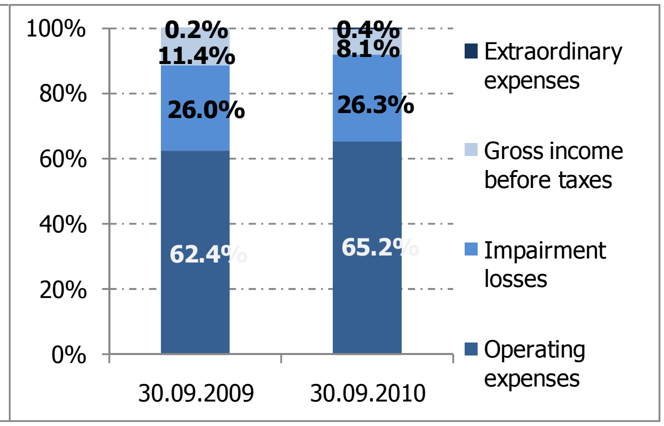


Figure 3.6.2
Usage of the banks' total income



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

In the first nine months of 2010 the major part of total regular income is still used for covering operating expense. On September 30, 2010 the amount of total income required for covering these expenses increased by 2.8 percentage points due to increased operating expenses from one side and reduced total income from another. The medium banks mainly contributed for operational expenses increase (with Denar 209 million or 69.2%) followed by the large banks (with Denar 103 million or 34.1%). The major part of the operating expenses structure still goes for personnel expenses. However, in total increase of the operating expense the administrative expenses have the major share (57.1% or Denar 172 million) followed by deposit insurance premiums[55] (38% or Denar 115 million) and personnel expenses (36.8% or Denar 111 million).

The impairment which in the past period had significantly affected the banks' profitability (impairment rise mainly due to deteriorated quality of the credit portfolio) in the first nine months of 2010 remained almost the same. Namely, the impairment increased only for Denar 28 million mostly having the same growth dynamics as in the first nine months of the previous year.

Figure 3.6.3
Interest income sector structure

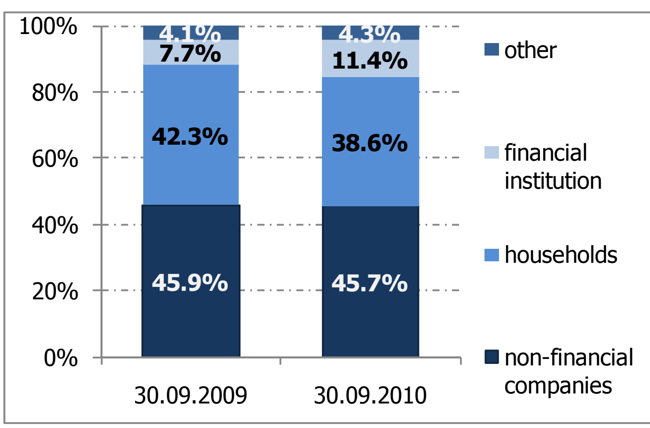
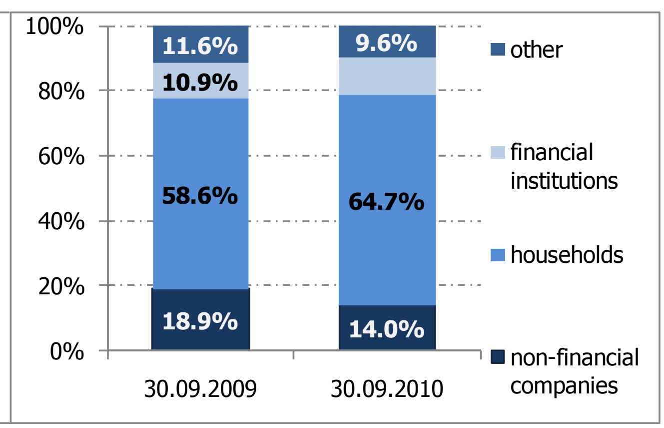


Figure 3.6.4
Interest expenditures sector structure

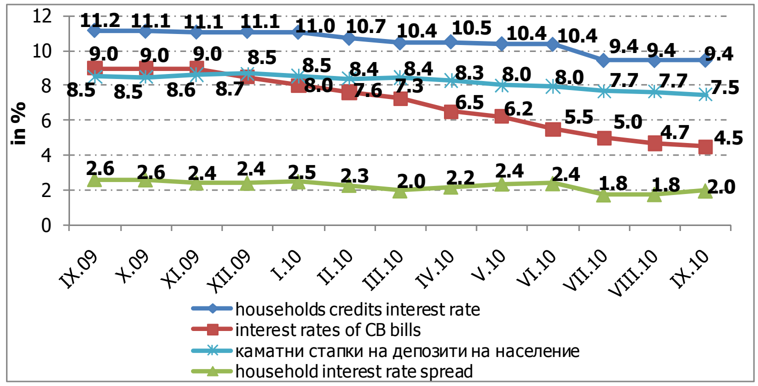


Source: NBRM on the basis of data obtained from the banks

[55] There is major rise in deposit insurance premiums at the large banks group which participates with 80.4% in the rise of the total deposit insurance premiums at banking system level.

The income from non-financial entities still dominates in the interest rate income sector structure and did not have major changes compared to the same period last year. The interest income in the household sector decreased at the expense of the rise of this income from financial entities. The household interest income decreased by Denar 220 million mainly due to the rise of non-performing household credits but also due to the active interest rates decrease in this sector. The amendments to the Law on Obligatory Relations (which started in February 2010) could also have additional influence on the household interest income decrease, according to which there is ceiling of the upper limit of active contractual and penalty interest rate.[56] Such developments leaded to decreased household share in the total interest income structure by 3.7 percentage points. Interest income from financial entity increased mainly due to the rise of interest income from the Central Bank[57]. Given that the CB bills interest rate has had a constant downwards line since the end of the last year, the banks have increased their investments in these non-risk securities.

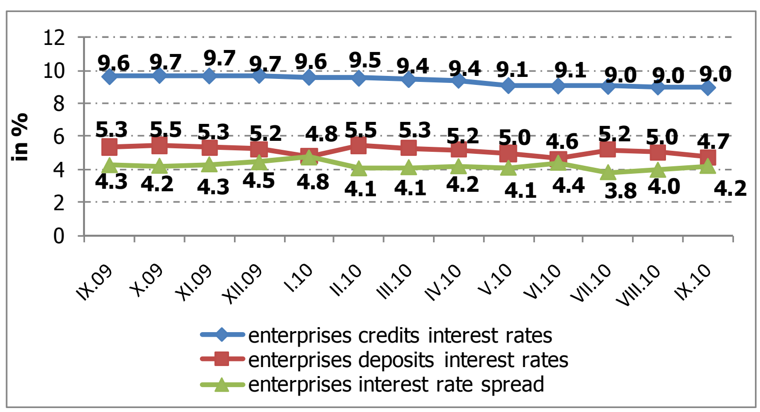
Figure 3.6.5
Development of interest rates of CB bills, credits and household deposits as well as the household interest rate range



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

In the first nine months of 2010 along with the rise of interest expenses towards households, their share increased also in the total interest expenses of the banking system (by 6.1 percentage points). This additionally strengthened the dominant role of the interest expenses towards households within the total interest expenses, while the share of the interest expenses towards non-financial entities reduced (by 4.9 percentage points). The rise of the household deposits in the first nine months of 2010 had higher influence on the interest expenses level than the influence by the interest rates, which in the analyzed period were gradually decreased by the banks. Thus, the interest expenses towards households increased by Denar 776 million or 21.3%. On the other side, the interest expense towards companies decreased by 18.6% mainly due to the reduced deposit interest rates in this sector.

Figure 3.6.6
Development of interest rate range and of the interest rates of credits to and deposits from companies

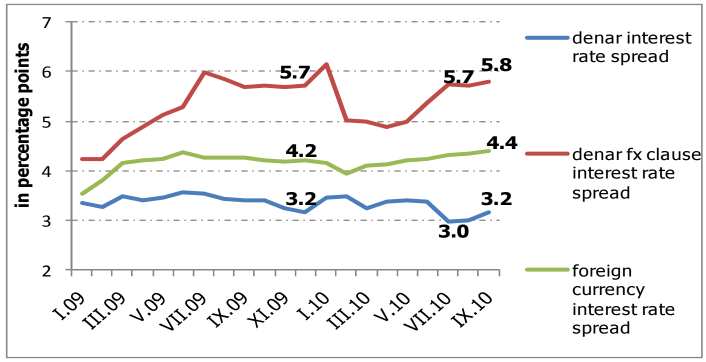


Source: NBRM on the basis of data obtained from the banks

[56] In the first half of 2010, the income from penalty interest to households and companies was almost half compared to the same period last year.
[57]This income increased by Denar 641 million.

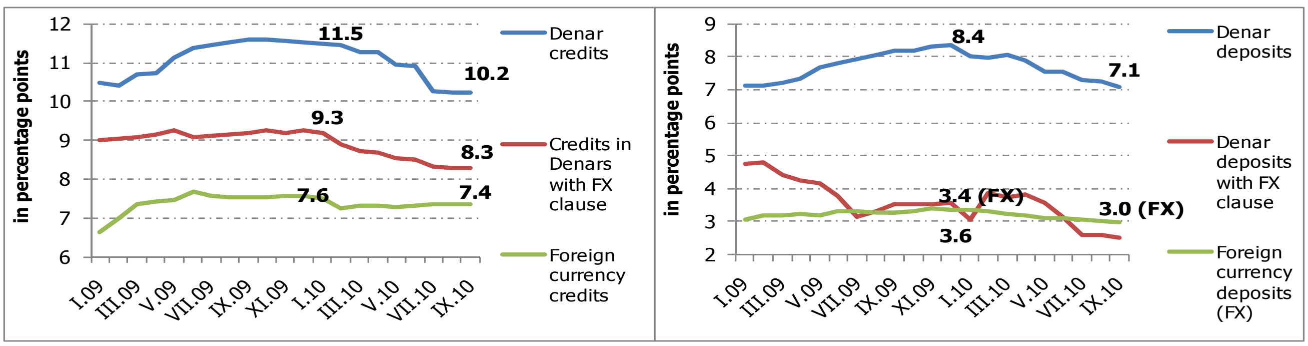
As of September 30, 2010 there is mainly a rise in the foreign currency interest spread in balance positions, while there are variable developments at the denar interest rate spread and denar interest rate spread with currency component. The upper trend at the foreign currency spread is due to the downwards line of the passive interest rates in foreign currency, while the active interest rates for placements in foreign currency retain relatively stable level. Unstable development in the denar fx clause spread is due to the unstable movements noticed at the passive interest rates in denars with foreign currency clause, while the active interest rates have mainly downwards line.

Figure 3.6.7
Development of banking system interest range



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

Figure 3.6.8
Developments of banks' credit and deposit interest rates



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

3.6.2 Banks' profitability and efficiency indicators

The lower profit of the banks in the first nine months of 2010 led to decrease in the banks' basic profitability indicators compared to the same period last year. Thus, as of September 30, 2010 the rate of return on average equity (ROAE) and the rate of return on average assets decreased by 2 and 0.2 percentage points, respectively.

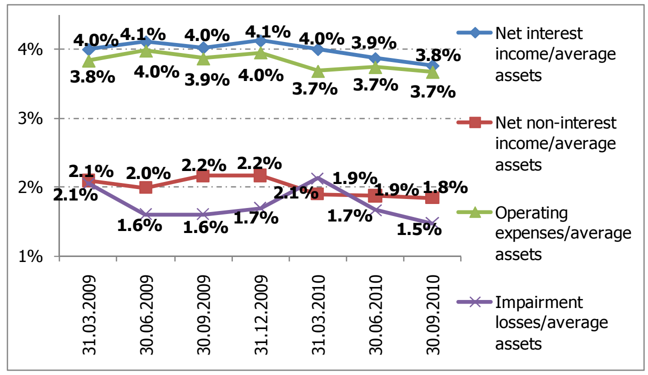
Table 3.6.1
Indicators of profitability and efficiency in the work of the banks

Indicator	Banking system		Large banks		Medium-size banks		Small-size banks	
	30.09.2009	30.09.2010	30.09.2009	30.09.2010	30.09.2009	30.09.2010	30.09.2009	30.09.2010
Rate of return on average assets (ROAA)	0.7%	0.5%	1.5%	1.0%	-0.83%	-0.5%	-1.22%	-2.4%
Rate of return on average equity (ROAE)	6.0%	4.0%	16.5%	11.1%	-7.02%	-4.2%	-2.70%	-6.1%
Cost-to-income ratio	62.5%	65.5%	51.8%	54.0%	82.0%	83.4%	98.7%	126.9%
Non-interest expenses/Total regular income	66.9%	71.1%	55.1%	58.0%	88.0%	91.5%	108.7%	139.8%
Labour costs/Total regular income	24.7%	25.8%	19.6%	20.7%	33.7%	33.3%	43.5%	54.8%
Impairment losses of financial and non-financial assets/Net interest income	40.0%	-39.4%	37.9%	-42.1%	46.3%	-38.4%	31.4%	-5.0%
Net interest income/Average assets	3.0%	2.8%	3.0%	2.8%	3.1%	3.0%	3.0%	2.8%
Net interest income/Total regular income	65.0%	67.1%	63.4%	65.5%	69.5%	70.0%	62.8%	71.8%
Net interest income/Non-interest expenses	97.3%	94.4%	115.1%	112.9%	78.9%	76.4%	57.8%	51.4%
Financial result/Total regular income	11.4%	8.1%	24.1%	18.4%	-14.0%	-9.2%	-19.1%	-38.1%

Source: NBRM on the basis of data obtained from the banks
*Note: The total regular income includes net interest income, net commission income and other regular income, without the extraordinary income.

Also, the profit margin indicator was reduced which leads to the conclusion that there is deterioration in the work efficiency of the banks. Namely, the ratio between the income and the total regular income is reduced by 3.3 percentage points as a result of the rise in operational expenses for the covering of which a significant share of total regular income was allocated on September 30, 2009. The increased share of non-interest expenses in total regular income by 4.2 percentage points also proves the deterioration in the banks' work efficiency. The first signs of probable cease of the banks' credit portfolio quality deterioration trend are visible also at the indicator of impairment share in net interest income. This indicator improved as result of faster growth of net interest income compared to the slower impairment growth.

Figure 3.6.9
Net interest income, net non-interest income, operational costs and impairment as percentage of average assets



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

A N N E X

BALANCE SHEET - ASSETS

Annex 1

in millions of Denars

ASSETS	Large banks		Medium-size banks		Small-size banks		Total	
	06.2010	09.2010	06.2010	09.2010	06.2010	09.2010	06.2010	09.2010
CASH AND BALANCES WITH NBRM	22,807	21,110	10,388	9,880	1,052	1,141	**34,247**	**32,131**
FINANCIAL ASSETS HELD FOR TRADING	605	574	178	178	0	0	**782**	**752**
DERIVATIVES HELD FOR TRADING AT FAIR VALUE	0	2	20	0	0	0	**20**	**2**
FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS	0	0	0	0	0	0	**0**	**0**
FINANCIAL ASSETS HELD-TO-MATURITY	4,626	4,669	2,264	2,700	1,518	1,157	**8,408**	**8,526**
FINANCIAL ASSETS AVAILABLE FOR SALE	19,160	19,727	8,266	10,249	1,934	2,061	**29,360**	**32,037**
PLACEMENTS TO THE CENTRAL BANK	0	0	0	0	0	0	**0**	**0**
PLACEMENTS TO FINANCIAL INSTITUTIONS	20,036	20,911	6,327	11,716	5,610	933	**31,973**	**33,560**
PLACEMENTS TO NONFINANCIAL ENTITIES	112,034	113,724	47,059	48,158	3,092	3,244	**162,186**	**165,126**
ACCRUED INTEREST	802	757	427	453	50	26	**1,279**	**1,236**
INVESTMENTS IN ASSOCIATES, SUBSIDIARIES AND JOINT VENTURES	180	180	0	0	252	251	**431**	**431**
OTHER ASSETS	962	1,136	726	753	130	126	**1,818**	**2,015**
FORECLOSURES	2,205	2,629	1,070	1,037	434	429	**3,708**	**4,095**
INTANGIBLE ASSETS	299	295	425	449	150	159	**874**	**903**
FIXED ASSETS (PROPERTY, PLANT AND EQUIPMENT)	3,841	3,791	2,858	2,936	926	812	**7,626**	**7,539**
NONCURRENT ASSETS HELD FOR SALE	0	0	0	0	58	58	**58**	**58**
NET COMMISSION RELATIONS	-31	-32	-3	-351	-297	0	**-330**	**-383**
UNRECOGNIZED IMPAIRMENT	0	0	-105	-196	-1	0	**-106**	**-196**
TOTAL ASSETS (NET)	**187,525**	**189,473**	**79,900**	**87,962**	**14,909**	**10,397**	**282,334**	**287,832**

BALANCE SHEET -LIABILITIES

in millions of Denars

LIABILITIES	Large banks		Medium-size banks		Small-size banks		Total	
	06.2010	09.2010	06.2010	09.2010	06.2010	09.2010	06.2010	09.2010
INSTRUMENTS FOR TRADING AND FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS	2	0	0	5	0	0	**2**	**5**
DERIVATIVES HELD FOR HEDGING	0	0	0	0	0	0	**0**	**0**
DEPOSITS OF FINANCIAL INSTITUTIONS	6,504	6,627	8,228	8,753	471	528	**15,203**	**15,908**
SIGHT DEPOSITS OF NONFINANCIAL ENTITIES	50,878	51,605	16,452	16,771	2,387	2,486	**69,716**	**70,862**
SHORT-TERM DEPOSITS OF NONFINANCIAL ENTITIES	76,101	75,625	25,847	24,608	2,401	2,671	**104,350**	**102,904**
LONG-TERM DEPOSITS OF NONFINANCIAL ENTITIES	18,547	19,400	7,717	8,440	534	596	**26,798**	**28,436**
DEBT SECURITIES IN ISSUE	634	635	300	300	0	0	**934**	**935**
BORROWINGS	7,892	7,851	9,316	15,038	3,176	89	**20,385**	**22,978**
LIABILITY COMPONENT OF HYBRID INSTRUMENTS	0	0	185	185	0	0	**185**	**185**
SUBORDINATED DEBT AND CUMULATIVE PREFERRED SHARES	4,586	4,590	2,123	2,208	55	80	**6,764**	**6,878**
INTEREST LIABILITIES	965	1,053	538	534	72	65	**1,575**	**1,652**
OTHER LIABILITIES	2,024	2,057	681	696	188	71	**2,893**	**2,824**
PROVISIONS	645	590	98	84	12	8	**754**	**682**
CAPITAL AND RESERVES	17,992	17,998	8,316	10,093	5,511	3,771	**31,819**	**31,862**
GROSS PROFIT*	755	1,442	99	247	102	32	**956**	**1,721**
TOTAL LIABILITIES	**187,525**	**189,473**	**79,900**	**87,962**	**14,909**	**10,397**	**282,334**	**287,832**

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

Annex 2

STATEMENT OF COMPREHENSIVE INCOME

in millions of Denars

STATEMENT OF COMPREHENSIVE INCOME	Large banks		Medium-size banks		Small-size banks		Total	
	30.09.2009	30.09.2010	30.09.2009	30.09.2010	30.09.2009	30.09.2010	30.09.2009	30.09.2010
INTEREST INCOME	9,310	9,849	4,066	4,368	503	468	13,879	14,685
INTEREST EXPENSES	-4,265	-4,721	-1,818	-1,966	-122	-135	-6,205	-6,822
NET INTEREST INCOME (1-2)	5,045	5,127	2,248	2,402	381	334	7,674	7,862
NET FEES AND COMMISSION INCOME	1,595	1,762	576	639	127	84	2,298	2,484
NET INCOME FROM ASSETS AND LIABILITIES HELD FOR TRADING	220	24	15	12	6	0	242	36
NET INCOME FROM FINANCIAL INTRUMENTS DESIGNATED AT FAIR VALUE	0	0	0	0	0	0	0	0
NET (GAINS - LOSSES) FROM FOREIGN EXCHANGE DIFFERENCES	324	368	177	176	17	23	519	567
OTHER OPERATING INCOME	776	550	227	241	76	24	1,080	816
NET IMPAIRMENT LOSSES (PROVISIONS) OF FINANCIAL ASSETS	-1,911	-2,130	-1,005	-862	-119	-16	-3,035	-3,008
IMPAIRMENT LOSSES OF NON-FINANCIAL ASSETS	0	-29	-35	-61	0	0	-36	-91
EMLOYEES EXPENSES	-1,557	-1,623	-1,089	-1,144	-264	-254	-2,910	-3,021
DEPRECIATION	-414	-445	-300	-335	-59	-78	-773	-858
OTHER OPERATING EXPENSES	-2,161	-2,162	-1,268	-1,385	-280	-292	-3,709	-3,840
CURRENT PROFIT/LOSS	1,917	1,442	-453	-317	-116	-177	1,348	948

Annex 3

Structure of credits of non-financial entities

in millions of Denars

Date	Description	Total	Total			Enterprises			Households			Other clients		
			Denars	Denar with FX clause	Foreign currency	Denars	Denar with FX clause	Foreign currency	Denars	Denar with FX clause	Foreign currency	Denars	Denar with FX clause	Foreign currency
30.06.2010	Past due credits	2,789	1,583	709	497	615	561	478	967	146	19	1	2	0
	Short-term credits	40,934	24,144	8,773	8,017	18,770	8,640	8,000	5,357	127	12	17	6	5
	Long-term credits	118,701	39,414	49,645	29,642	11,231	24,147	25,931	28,152	25,337	3,567	31	161	144
	Non-performing credits	18,252	9,726	3,557	4,969	5,416	1,938	4,378	4,295	1,568	590	15	51	1
	Total credits	**180,676**	**74,867**	**62,684**	**43,125**	**36,032**	**35,286**	**38,787**	**38,771**	**27,178**	**4,188**	**64**	**220**	**150**
	Impairment losses	-17,880												
	Accumulated amortization	-610												
	Total net credits	**162,186**												
30.09.2010	Past due credits	2,375	1,387	572	417	457	424	402	929	145	15	1	3	0
	Short-term credits	41,131	24,881	8,704	7,545	19,434	8,578	7,524	5,428	122	20	19	5	1
	Long-term credits	120,969	40,085	49,454	31,431	10,971	24,349	27,469	29,083	24,979	3,810	31	125	152
	Non-performing credits	19,602	11,002	4,169	4,430	6,557	2,369	3,789	4,432	1,749	641	14	51	1
	Total credits	**184,077**	**77,355**	**62,899**	**43,824**	**37,418**	**35,720**	**39,185**	**39,871**	**26,995**	**4,486**	**65**	**184**	**153**
	Impairment losses	-18,304												
	Accumulated amortization	-648												
	Total net credits	**165,126**												
Growth 30.09.2010/ 30.06.2010	Absolute credit growth	3,401	2,488	215	699	1,386	434	398	1,100	-183	298	1	-36	3
	Growth in %	1.9%	3.3%	0.3%	1.6%	3.8%	1.2%	1.0%	2.8%	-0.7%	7.1%	1.5%	-16.5%	2.2%
	Growth structure		73.1%	6.3%	20.6%	40.8%	12.8%	11.7%	32.4%	-5.4%	8.8%	0.0%	-1.1%	0.1%

Annex 4

Structure of deposits of non-financial subjects

in millions of Denars

Date	Description	Total	Total			Enterprises			Households			Other clients		
			Denar	Denar with FX clause	Foreign currenc	Denar	Denar with FX clause	Foreign currency	Denar	Denar with FX clause	Foreign currency	Denar	Denar with FX clause	Foreign currency
30.06.2010	Sight deposits	69,716	37,193	3	32,520	18,782	3	11,616	15,678	0	18,918	2,733	0	1,986
	Short-term deposits	104,350	36,522	7,314	60,514	8,324	7,016	9,536	27,104	0	50,223	1,094	298	755
	Long -term deposits	26,798	9,595	240	16,963	1,352	228	361	8,032	5	15,910	211	7	692
	Total deposits	**200,864**	**83,310**	**7,557**	**109,997**	**28,458**	**7,247**	**21,513**	**50,814**	**5**	**85,051**	**4,038**	**305**	**3,433**
30.09.2010	Sight deposits	70,862	38,684	2	32,175	20,906	2	11,813	15,166	0	18,484	2,613	0	1,879
	Short-term deposits	102,904	39,046	3,187	60,672	9,224	2,946	9,293	28,635	0	50,755	1,186	241	623
	Long -term deposits	28,437	10,737	288	17,411	1,341	277	327	9,150	4	16,330	246	7	754
	Total deposits	**202,202**	**88,467**	**3,477**	**110,258**	**31,471**	**3,225**	**21,433**	**52,951**	**4**	**85,569**	**4,045**	**248**	**3,256**
Growth 30.09.2010 / 30.06.2010	Absolute growth of deposits	1,338	5,157	-4,080	261	3,013	-4,022	-80	2,137	-1	518	7	-57	-177
	Growth (%)	0.7%	6.2%	-54.0%	0.2%	10.6%	-55.5%	-0.4%	4.2%	-13.6%	0.6%	0.2%	-18.7%	-5.2%
	Structure of growth		385.3%	-304.8%	19.5%	225.2%	-300.5%	-6.0%	159.6%	-0.1%	38.7%	0.5%	-4.3%	-13.2%

Annex 5

Newly Approved Loans

	Extended amount in period (in million of Denars)		Average maturity		Average interest rate		Number of credit files	
	Q2 2010	Q3 2010	Q2 2010	Q3 2010	Q2 2010	Q3 2010	Q2 2010	Q3 2010
Enterprises	**16,956**	**16,742**	**911**	**939**	**8.5%**	**8.5%**	**5,278**	**4,527**
Natural persons	**5,849**	**5,320**	**2,918**	**2,664**	**11.1%**	**10.3%**	**37,890**	**33,028**
Residental real estate loans	1,199	1,087	5,655	5,111	7.8%	7.7%	1,078	992
Commercial real estate loans	108	63	7,264	4,017	7.2%	7.1%	12	7
- consumer loans	3,841	3,657	2,094	2,016	12.4%	11.3%	20,376	19,889
- overdrafts	115	82	348	342	11.9%	9.6%	7,454	5,459
- credit cards	165	126	746	729	13.0%	11.3%	8,169	6,104
- car loans	266	188	2,042	2,067	7.9%	7.9%	509	367
- other loans	155	117	4,849	4,124	8.4%	9.6%	292	210
Sole proprietors	**408**	**326**	**1,176**	**1,181**	**12.3%**	**10.7%**	**1,742**	**1,271**
Total	**23,212**	**22,387**	**1,421**	**1,353**	**9.2%**	**9.0%**	**44,910**	**38,826**

Annex 6

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

in millions of Denars

	A				B				C				D				E				Total			
	Credit risk exposure		Calculated impairment and special reserves		Credit risk exposure		Calculated impairment and special reserves		Credit risk exposure		Calculated impairment and special reserves		Credit risk exposure		Calculated impairment and special reserves		Credit risk exposure		Calculated impairment and special reserves		Credit risk exposure		Calculated impairment and special reserves	
	06.2010	09.2010	06.2010	09.2010	06.2010	09.2010	06.2010	09.2010	06.2010	09.2010	06.2010	09.2010	06.2010	09.2010	06.2010	09.2010	06.2010	09.2010	06.2010	09.2010	06.2010	09.2010	06.2010	09.2010
ENTERPRISES AND OTHER CLIENTS	**103,286**	**106,632**	**1,027**	**1,099**	**16,108**	**15,946**	**1,690**	**1,716**	**7,904**	**6,517**	**2,387**	**1,954**	**1,328**	**2,384**	**717**	**1,266**	**8,039**	**7,963**	**7,587**	**7,571**	**136,665**	**139,442**	**13,408**	**13,606**
Agriculture, hunting and forestry	2,640	2,894	24	25	810	737	82	77	64	42	18	11	169	169	85	85	348	364	313	333	4,030	4,207	522	531
Fishing	66	67	1	1	6	4	1	1	25	0	6	0	0	0	0	0	1	1	1	1	97	72	9	3
Industry	38,586	38,567	373	396	4,704	4,482	502	476	3,666	3,133	1,203	972	703	1,260	392	689	4,425	4,278	4,240	4,134	52,083	51,720	6,711	6,667
Construction	12,809	12,678	101	136	1,156	1,589	127	210	255	161	68	42	42	59	22	31	564	574	522	648	14,826	15,060	840	1,068
Wholesale and retail trade	31,949	34,938	347	358	6,198	4,835	642	459	1,141	984	310	301	242	213	126	112	1,972	1,954	1,841	1,770	41,502	42,923	3,265	3,001
Hotels and restaurants	2,536	2,150	41	26	291	327	30	34	892	837	303	289	56	52	31	27	102	104	91	97	3,876	3,470	496	473
Transport, storage and	7,107	7,614	55	64	681	551	69	55	436	536	112	125	102	50	53	26	343	375	303	285	8,670	9,126	593	555
Financial intermediation	57,801	62,954	46	37	63	494	7	59	220	216	101	100	2	20	1	11	226	220	225	219	58,311	63,904	380	426
Real estate, renting and business activities	4,234	4,272	50	51	2,008	3,133	210	373	1,251	630	321	162	9	563	5	287	137	182	133	175	7,639	8,780	719	1,048
Public administration and defense; compulsory social security	13,846	13,135	3	2	0	2	0	0	1	2	0	1	0	0	0	0	0	0	0	0	13,848	13,139	4	3
Education	1,171	1,054	8	8	4	61	0	0	7	4	2	1	0	1	0	1	1	2	1	2	1,182	1,122	11	11
Health and social work	856	892	7	8	84	6	9	7	25	35	7	10	1	9	0	5	12	6	10	6	977	948	32	35
Other community, social and personal service activities	1,327	1,502	19	25	167	222	17	24	143	155	37	40	5	8	2	4	94	85	93	82	1,736	1,973	169	176
Households employing staff	6	3	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	6	3	0	0
Extraterritorial organizations and bodies	0	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	40	38	40	38	40	40	40	38
HOUSEHOLD	**66,740**	**68,010**	**669**	**552**	**6,899**	**6,825**	**762**	**743**	**1,982**	**1,960**	**541**	**558**	**1,910**	**1,884**	**1,035**	**1,022**	**3,042**	**3,379**	**2,854**	**3,207**	**80,573**	**82,059**	**5,860**	**6,083**
- residential and commercial real estate loans	14,492	14,921	116	105	632	633	67	66	357	383	93	99	186	238	94	122	199	236	176	203	15,866	16,411	545	595
- consumer loans	20,076	20,987	196	175	3,178	3,137	350	345	1,106	1,089	297	312	979	939	530	512	1,319	1,576	1,196	1,478	26,657	27,727	2,568	2,821
- overdrafts	7,192	7,466	93	56	1,150	1,158	118	118	29	39	8	10	40	41	22	22	301	315	295	313	8,712	9,019	535	519
- credit cards	20,129	20,118	225	174	1,636	1,653	183	185	295	298	91	97	625	585	343	321	916	987	902	974	23,601	23,641	1,744	1,752
- car loans	4,027	3,857	34	34	227	200	37	23	109	119	28	32	53	70	30	40	118	131	98	108	4,533	4,378	227	237
- other loans	824	661	7	8	76	43	8	4	87	32	24	9	27	12	16	6	189	134	186	132	1,203	882	241	159
SOLE PROPRIETORS	**2,860**	**2,693**	**34**	**33**	**189**	**192**	**22**	**22**	**165**	**157**	**48**	**46**	**86**	**88**	**44**	**50**	**138**	**147**	**132**	**125**	**3,437**	**3,276**	**280**	**276**
TOTAL	**244,532**	**253,423**	**1,779**	**1,723**	**23,259**	**23,459**	**2,481**	**2,539**	**10,272**	**8,853**	**3,077**	**2,659**	**3,326**	**4,375**	**1,797**	**2,349**	**11,445**	**11,710**	**10,797**	**11,122**	**292,834**	**301,820**	**19,931**	**20,393**

Annex 7

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

in millions of Denars

	Denar				Denar with FX clause				FX				Total			
	Credit risk exposure		Calculated impairment and special reserves		Credit risk exposure		Calculated impairment and special reserves		Credit risk exposure		Calculated impairment and special reserves		Credit risk exposure		Calculated impairment and special reserves	
	06.2010	09.2010	06.2010	09.2010	06.2010	09.2010	06.2010	09.2010	06.2010	09.2010	06.2010	09.2010	06.2010	09.2010	06.2010	09.2010
ENTERPRISES AND OTHER CLIENTS	**50,342**	**51,900**	**6,259**	**6,297**	**37,302**	**37,812**	**2,957**	**3,240**	**49,021**	**49,730**	**4,192**	**4,068**	**136,665**	**139,442**	**13,408**	**13,606**
Agriculture, hunting and forestry	1,251	1,212	258	256	1,482	1,331	122	119	1,297	1,664	143	156	4,030	4,207	522	531
Fishing	6	6	1	0	18	16	1	1	73	49	7	2	97	72	9	3
Industry	17,623	17,206	3,212	3,192	11,695	11,599	1,195	1,219	22,765	22,914	2,304	2,256	52,083	51,720	6,711	6,667
Construction	6,777	7,057	312	316	4,329	4,392	377	413	3,720	3,611	152	152	14,826	15,060	840	881
Wholesale and retail trade	15,389	16,463	1,541	1,489	12,852	12,637	845	858	13,261	13,822	880	765	41,502	42,923	3,265	3,112
Hotels and restaurants	950	880	155	147	1,324	1,245	55	53	1,602	1,344	286	273	3,876	3,470	496	473
Transport, storage and communication	3,318	3,738	244	243	2,659	2,703	154	189	2,693	2,685	195	197	8,670	9,126	593	629
Financial intermediation	24,784	28,840	37	63	4,434	4,550	60	64	29,093	30,513	284	298	58,311	63,904	380	426
Real estate, renting and business activities	3,737	4,108	422	551	1,406	2,335	145	308	2,496	2,337	151	191	7,639	8,780	719	1,050
Public administration and defense; compulsory social security	1,272	3,830	3	3	12,082	8,811	0	0	494	498	0	0	13,848	13,139	4	3
Education	431	415	6	9	414	351	4	4	337	355	2	4	1,182	1,122	11	17
Health and social work	269	230	13	10	294	316	14	15	415	402	6	4	977	948	32	28
Other community, social and personal service activities	590	581	97	85	830	886	45	61	316	506	27	31	1,736	1,973	169	177
Households employing staff	1	2	0	0	0	0	0	0	5	1	0	0	6	3	0	0
Extraterritorial organizations and bodies	0	2	0	0	0	0	0	0	40	38	40	38	40	40	40	38
HOUSEHOLD	**51,220**	**52,639**	**4,305**	**4,465**	**24,897**	**24,748**	**1,158**	**1,167**	**4,456**	**4,672**	**397**	**451**	**80,573**	**82,059**	**5,860**	**6,083**
- residential and commercial real estate loans	1,587	1,610	128	125	12,329	12,712	316	344	1,950	2,090	100	126	15,866	16,411	545	595
- consumer loans	16,981	18,318	1,763	1,970	8,527	8,221	645	666	1,150	1,188	161	184	26,657	27,727	2,568	2,821
- overdrafts	8,712	9,019	535	519	0	0	0	0	0	0	0	0	8,712	9,019	535	519
- credit cards	23,209	23,248	1,706	1,718	0	0	0	0	392	393	38	34	23,601	23,641	1,744	1,752
- car loans	292	276	64	55	3,667	3,543	108	118	575	559	55	64	4,533	4,378	227	237
- other loans	439	168	109	78	375	273	89	39	389	441	43	42	1,203	882	241	159
SOLE PROPRIETORS	**1,501**	**1,401**	**132**	**133**	**1,741**	**1,608**	**132**	**126**	**196**	**267**	**16**	**16**	**3,437**	**3,276**	**280**	**276**
TOTAL	**129,119**	**138,610**	**10,735**	**10,961**	**80,456**	**77,529**	**4,306**	**4,598**	**83,260**	**85,681**	**4,890**	**4,834**	**292,834**	**301,820**	**19,931**	**20,393**

Annex 8

Indicators for the degree of credit risk exposure by currency structure

Indicator	Denar exposure			Denar exposure with FX clause			FX exposure		
	30.09.2009	30.06.2010	30.09.2010	30.09.2009	30.06.2010	30.09.2010	30.09.2009	30.06.2010	30.09.2010
Share of total credit risk exposure	43.5%	44.1%	45.9%	26.7%	27.5%	25.7%	29.8%	28.4%	28.4%
Average level of risk	8.9%	8.3%	7.9%	5.7%	5.4%	5.9%	4.3%	5.9%	5.6%
% of „C“, „D“ and „E“ in total credit risk exposure	10.3%	10.1%	9.5%	7.3%	7.2%	7.6%	5.6%	7.4%	6.9%
% of „E“ in total credit risk exposure	5.2%	5.0%	4.8%	2.8%	3.0%	3.2%	2.0%	3.1%	3.0%
Coverage of „C“, „D“ and „E“ with calculated impairment and special reserves	86.2%	82.1%	83.2%	75.4%	74.2%	78.0%	77.0%	79.3%	82.4%
Coverage of nonperforming credits with calculated impairment and special reserves	n.a.	109.3%	101.4%	n.a.	103.1%	104.1%	n.a.	110.3%	80.2%
Nonperforming credits / Total credits	11.2%	13.0%	14.2%	5.8%	5.7%	6.6%	11.8%	11.5%	10.1%

Annex 9

Transitional matrix for enterprises and household

in millions of Denars

Risk category	Credit risk exposure as of 30.09.2009	Closed during the period 30.09.2009-30.09.2010	Credit risk exposure as of 30.09.2010	A	B	C	D	E
A	97,417	49,234	48,183	43,033	2,093	2,505	373	180
B	15,539	8,673	6,866	866	4,831	727	316	127
C	6,244	3,074	3,170	137	185	1,194	664	990
D	1,555	565	989	11	2	18	51	907
E	6,818	1,560	5,258	0	0	2	169	5,086
Total for enterprises	***127,573***	***63,106***	***64,467***	***44,048***	***7,110***	***4,447***	***1,573***	***7,289***
A	64,613	11,409	53,204	50,087	1,426	931	580	180
B	7,234	1,579	5,655	1,051	3,805	428	249	122
C	2,337	673	1,664	302	172	382	388	420
D	1,807	400	1,406	75	15	45	96	1,176
E	1,957	631	1,326	26	1	7	19	1,273
Total for household	***77,947***	***14,693***	***63,255***	***51,540***	***5,418***	***1,793***	***1,332***	***3,171***

Risk category	Number of credit party as of 30.09.2009	Closed during the period 30.09.2009-30.09.2010	Number of credit party as of 30.09.2010	A	B	C	D	E
A	30,281	17,968	12,313	10,515	551	730	308	209
B	3,393	1,686	1,707	346	983	232	85	61
C	2,344	1,002	1,342	121	54	337	209	621
D	679	226	453	13	2	22	48	368
E	2,453	843	1,610	8	0	9	12	1,581
Total for enterprises	***39,150***	***21,725***	***17,425***	***11,003***	***1,590***	***1,330***	***662***	***2,840***
A	738,964	112,927	626,037	597,955	9,562	8,149	7,089	3,282
B	135,202	18,413	116,789	16,989	92,136	3,494	2,295	1,875
C	21,133	6,390	14,743	2,924	1,661	3,414	2,371	4,373
D	25,144	6,242	18,902	1,491	327	603	1,369	15,112
E	36,151	8,688	27,463	715	142	159	427	26,020
Total for household	***956,594***	***152,660***	***803,934***	***620,074***	***103,828***	***15,819***	***13,551***	***50,662***

Annex 10

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

in millions of Denars

	C		D		E		TOTAL			
	Credit risk exposure		Credit risk exposure		Credit risk exposure		Credit risk exposure		Calculated impairment and special reserves	
	06.2010	09.2010	06.2010	09.2010	06.2010	09.2010	06.2010	06.2010	06.2010	09.2010
ENTERPRISES AND OTHER CLIENTS	**3,349**	**3,345**	**1,133**	**2,197**	**7,330**	**7,241**	**11,812**	**12,783**	**8,514**	**9,054**
Agriculture, hunting and forestry	31	36	10	10	311	324	352	370	289	308
Fishing	21	0	0	0	1	1	22	1	6	1
Industry	1,611	1,345	694	1,250	3,840	3,676	6,145	6,271	4,539	4,653
Construction	152	79	33	54	575	571	760	704	589	576
Wholesale and retail trade	367	356	231	205	1,923	1,919	2,522	2,480	2,008	2,003
Hotels and restaurants	646	784	54	51	98	99	798	934	358	395
Transport, storage and communication	222	170	100	48	336	366	657	585	404	400
Financial intermediation	34	30	1	19	116	115	151	164	125	133
Real estate, renting and business activities	242	511	8	561	132	173	382	1,245	193	583
Public administration and defense; compulsory social security	1	1	0	0	0	0	1	1	0	0
Education	2	1	0	1	1	2	3	4	1	2
Health and social work	22	28	1	9	12	6	34	43	16	18
Other community, social and personal service activities	33	35	3	7	75	82	111	124	84	92
Households employing staff	0	0	0	0	0	0	0	0	0	0
Extraterritorial organizations and bodies	0	0	0	0	26	24	26	24	26	24
HOUSEHOLD	**1,424**	**1,490**	**1,880**	**1,861**	**2,864**	**3,187**	**6,168**	**6,538**	**4,067**	**4,441**
- residential and commercial real estate loans	295	341	186	237	197	233	678	811	343	409
- consumer loans	832	896	977	937	1,306	1,559	3,116	3,392	1,930	2,227
- overdrafts	22	27	40	41	292	307	354	374	314	333
- credit cards	131	113	602	566	841	910	1,574	1,589	1,196	1,243
- car loans	81	100	52	69	117	130	250	300	148	173
- other loans	62	14	23	10	110	48	196	72	138	56
SOLE PROPRIETORS	**74**	**61**	**85**	**88**	**137**	**146**	**296**	**294**	**196**	**191**
TOTAL	**4,882**	**4,928**	**3,100**	**4,164**	**10,446**	**10,689**	**18,429**	**19,781**	**12,903**	**13,819**

Annex 11

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

in millions of Denars

	Large banks						Medium size banks						Small size banks					
	Credit risk exposure		Calculated impairment and special reserves		"C", "D" and "E" credit risk exposure		Credit risk exposure		Calculated impairment and special reserves		"C", "D" and "E" credit risk exposure		Credit risk exposure		Calculated impairment and special reserves		"C", "D" and "E" credit risk exposure	
	06.2010	09.2010	06.2010	09.2010	06.2010	09.2010	06.2010	09.2010	06.2010	09.2010	06.2010	09.2010	06.2010	09.2010	06.2010	09.2010	06.2010	09.2010
ENTERPRISES AND OTHER CLIENTS	**97,925**	**99,516**	**10,519**	**10,639**	**12,208**	**11,706**	**36,330**	**37,416**	**2,343**	**2,490**	**4,434**	**4,585**	**2,409**	**2,510**	**545**	**477**	**628**	**574**
Agriculture, hunting and forestry	2,712	2,860	368	382	303	320	1,241	1,266	142	138	261	241	77	81	12	11	16	15
Fishing	22	17	3	2	5	1	76	54	6	1	21	0	0	0	0	0	0	0
Industry	40,689	39,886	5,619	5,514	6,935	6,670	10,707	11,163	929	1,008	1,661	1,822	687	670	163	145	197	179
Construction	10,883	11,319	609	674	552	544	3,739	3,523	178	154	252	191	204	218	53	53	57	59
Wholesale and retail trade	27,996	28,758	2,432	2,283	2,217	1,973	12,608	13,236	566	612	834	925	898	929	268	218	304	252
Hotels and restaurants	2,420	2,041	344	328	573	565	1,398	1,372	145	139	470	421	58	57	6	6	7	7
Transport, storage and communication	4,531	5,060	363	371	438	507	3,990	3,840	210	229	419	415	149	226	20	28	25	38
Financial intermediation	35,272	38,110	235	280	293	301	14,512	22,116	50	134	68	149	8,527	3,677	95	11	87	7
Real estate, renting and business activities	5,923	6,673	577	884	934	899	1,495	1,870	131	161	459	472	221	237	10	6	5	4
Public administration and defense; compulsory social security	10,668	9,857	1	1	2	2	2,587	2,717	1	0	0	0	592	566	2	2	0	0
Education	1,047	1,019	8	13	2	0	121	100	2	3	3	3	14	3	1	1	3	3
Health and social work	514	470	16	11	9	9	443	460	13	14	21	31	20	18	3	3	8	10
Other community, social and personal service activities	1,145	1,374	139	140	200	180	510	528	21	30	35	63	81	71	8	7	7	6
Households employing staff	4	0	0	0	0	0	1	2	0	0	0	0	1	1	0	0	0	0
Extraterritorial organizations and bodies	40	38	40	38	40	38	0	2	0	0	0	0	0	0	0	0	0	0
HOUSEHOLD	**59,880**	**61,046**	**3,882**	**4,060**	**3,979**	**4,321**	**18,750**	**19,061**	**1,781**	**1,818**	**2,720**	**2,659**	**1,943**	**1,952**	**197**	**205**	**235**	**243**
- residential and commercial real estate loans	11,379	11,621	330	343	385	455	4,458	4,765	213	250	355	398	29	26	2	2	1	4
- consumer loans	17,195	18,089	1,455	1,601	1,683	1,830	8,225	8,357	1,031	1,107	1,622	1,642	1,237	1,281	82	113	99	132
- overdrafts	7,339	7,351	451	423	273	287	1,009	1,307	45	54	54	64	364	361	39	42	43	44
- credit cards	20,855	20,967	1,453	1,500	1,462	1,548	2,492	2,424	253	214	328	269	254	251	38	38	46	53
- car loans	2,974	2,902	122	121	103	127	1,557	1,473	105	116	177	193	2	2	0	0	0	0
- other loans	137	117	70	72	73	74	1,009	735	134	78	185	93	57	31	36	9	46	10
SOLE PROPRIETORS	**473**	**448**	**89**	**88**	**98**	**92**	**2,942**	**2,807**	**187**	**184**	**287**	**294**	**22**	**21**	**3**	**4**	**4**	**6**
TOTAL	**204,219**	**208,977**	**14,726**	**15,068**	**16,581**	**16,422**	**75,121**	**84,117**	**4,363**	**4,626**	**7,509**	**7,687**	**13,495**	**8,726**	**842**	**699**	**954**	**830**
Denar	**93,590**	**99,998**	**7,749**	**7,996**	**8,233**	**8,308**	**29,602**	**32,717**	**2,434**	**2,411**	**4,215**	**4,242**	**5,927**	**5,894**	**551**	**555**	**621**	**622**
Denar with FX clause	**51,849**	**48,821**	**2,965**	**3,163**	**3,621**	**3,654**	**25,628**	**27,103**	**1,128**	**1,301**	**1,922**	**2,043**	**2,979**	**1,605**	**214**	**133**	**260**	**198**
FX	**58,781**	**60,158**	**4,012**	**3,909**	**4,726**	**4,459**	**19,890**	**24,296**	**801**	**914**	**1,372**	**1,401**	**4,589**	**1,227**	**77**	**11**	**72**	**10**

Annex 12

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

in millions of Denars

	Large banks				Medium size banks				Small size banks			
	Nonperforming credits		Calculated impairment and special reserves for nonperforming credits		Nonperforming credits		Calculated impairment and special reserves for nonperforming credits		Nonperforming credits		Calculated impairment and special reserves for nonperforming	
	06.2010	09.2010	06.2010	09.2010	06.2010	09.2010	06.2010	09.2010	06.2010	09.2010	06.2010	09.2010
ENTERPRISES AND OTHER CLIENTS	**8,405**	**8,864**	**6,702**	**7,066**	**2,838**	**3,395**	**1,326**	**1,556**	**569**	**525**	**486**	**431**
Agriculture, hunting and forestry	270	284	240	257	70	76	42	44	11	11	7	6
Fishing	1	1	1	1	21	0	5	0	0	0	0	0
Industry	4,983	4,901	3,925	3,981	985	1,208	464	541	178	162	150	131
Construction	485	474	410	423	226	181	131	105	49	48	48	48
Wholesale and retail trade	1,593	1,518	1,397	1,373	640	715	362	423	289	246	249	207
Hotels and restaurants	544	523	278	276	248	405	74	113	6	6	5	5
Transport, storage and communication	301	260	236	209	339	289	153	168	17	35	15	23
Financial intermediation	7	20	6	13	59	138	34	113	85	6	85	6
Real estate, renting and business activities	121	794	118	446	257	447	72	133	4	4	3	3
Public administration and defense; compulsory social security	1	1	0	0	0	0	0	0	0	0	0	0
Education	2	0	1	0	1	3	1	2	0	0	0	0
Health and social work	8	7	6	5	18	28	9	11	8	8	2	2
Other community, social and personal service activities	71	77	64	71	33	42	13	16	7	6	7	5
Households employing staff	0	0	0	0	0	0	0	0	0	0	0	0
Extraterritorial organizations and bodies	26	24	26	24	0	0	0	0	0	0	0	0
HOUSEHOLD	**3,496**	**3,898**	**2,446**	**2,764**	**2,480**	**2,442**	**1,464**	**1,516**	**191**	**198**	**157**	**160**
- residential and commercial real estate loans	360	442	186	218	317	367	156	190	1	3	1	2
- consumer loans	1,476	1,690	959	1,138	1,563	1,586	913	1,002	77	116	58	87
- overdrafts	263	278	245	254	50	53	33	39	40	43	36	40
- credit cards	1,267	1,333	959	1,047	279	228	210	172	29	28	26	24
- car loans	100	124	68	77	151	175	81	95	0	0	0	0
- other loans	31	30	31	30	121	33	72	18	44	8	35	8
SOLE PROPRIETORS	**96**	**89**	**66**	**66**	**197**	**202**	**127**	**123**	**3**	**4**	**3**	**3**
TOTAL	**12,005**	**12,871**	**9,221**	**9,909**	**5,575**	**6,177**	**2,951**	**3,309**	**849**	**733**	**731**	**601**
Denar	**6,302**	**7,289**	**4,968**	**5,630**	**2,957**	**3,270**	**1,577**	**1,655**	**563**	**560**	**489**	**488**
Denar with FX clause	**2,543**	**3,009**	**1,918**	**2,156**	**1,410**	**1,613**	**778**	**948**	**222**	**164**	**178**	**104**
FX	**3,160**	**2,572**	**2,334**	**2,123**	**1,207**	**1,294**	**597**	**706**	**64**	**9**	**64**	**8**

Annex 13

Credit risk exposure by risk category

in millions of denars

Date	Risk category	Risk percent	Undue credits	Due credits	Nonperforming credits	Regular interest	Nonperforming interest	Other claims	Off-balance sheet items	Total credit risk exposure	Calculated impairment and special reserves
30.09.2009	A0	0.0	53,271	198	0	245	0	21,894	14,958	90,565	0
	A	1.3	109,188	1,422	0	766	0	1,090	20,300	132,766	1,680
	B	10.8	19,834	1,066	1	258	0	74	1,789	23,020	2,491
	C	26.5	3,115	945	4,406	108	176	45	184	8,803	2,337
	D	60.1	0	0	3,416	0	372	22	18	3,456	2,079
	E	95.4	0	0	8,429	0	3,663	1,136	118	9,682	9,236
	Total		**185,407**	**3,631**	**16,250**	**1,377**	**4,211**	**24,260**	**37,367**	**268,292**	**17,823**
30.06.2010	A0	0.0	49,981	288	0	212	0	37,826	16,342	104,648	1
	A	1.3	115,956	1,399	0	752	0	729	21,049	139,884	1,778
	B	10.7	20,768	700	0	234	0	68	1,489	23,259	2,481
	C	30.0	4,734	297	4,882	103	201	104	152	10,272	3,077
	D	54.0	0	0	3,100	0	233	198	29	3,326	1,797
	E	94.3	0	0	10,446	0	3,636	859	140	11,445	10,797
	Total		**191,438**	**2,685**	**18,429**	**1,300**	**4,070**	**39,782**	**39,200**	**292,834**	**19,931**
30.09.2010	A0	0.0	51,798	134	0	189	1	40,792	17,177	110,089	1
	A	1.2	119,313	1,253	0	751	0	715	21,300	143,333	1,722
	B	10.8	20,952	659	0	255	0	83	1,510	23,459	2,539
	C	30.0	3,442	155	4,928	59	227	96	174	8,853	2,659
	D	53.7	0	0	4,164	0	259	190	21	4,375	2,349
	E	95.0	0	0	10,689	0	3,790	893	128	11,710	11,122
	Total		**195,505**	**2,201**	**19,781**	**1,254**	**4,276**	**42,768**	**40,311**	**301,820**	**20,393**

Annex 14

Liquidity indicators

Indicator	09.2009	10.2009	11.2009	12.2009	01.2010	02.2010	03.2010	04.2010	05.2010	06.2010	07.2010	08.2010	09.2010
Liquid assets / total assets	23.3%	24.8%	25.0%	25.7%	25.8%	25.9%	25.6%	26.4%	27.8%	27.6%	27.1%	27.4%	27.6%
Liquid assets / total liabilities	26.9%	28.6%	28.8%	29.5%	29.3%	29.5%	29.2%	30.0%	31.6%	31.4%	30.8%	31.2%	31.5%
Liquid assets / short-term liabilities	33.8%	35.8%	36.5%	37.5%	37.8%	38.1%	38.2%	39.4%	41.5%	41.3%	40.7%	41.1%	41.5%
Liquid assets / total deposits of non-financial entities	32.0%	33.9%	34.3%	35.9%	35.8%	36.1%	35.4%	36.2%	38.2%	38.0%	38.0%	38.0%	38.3%
Liquid assets / deposits of households	50.2%	53.0%	53.3%	53.8%	53.3%	52.8%	51.5%	53.3%	56.9%	56.2%	54.6%	55.2%	56.0%
Loans / deposits	92.6%	91.4%	91.6%	92.5%	91.7%	92.1%	91.6%	90.7%	89.5%	89.9%	92.7%	91.5%	91.0%

Annex 15

CONTRACTUAL MATURITY STRUCTURE OF THE ASSETS AND LIABILITIES AS OF 30.09.2010

in millions of Denars

Number	Description		up to 7 days	from 8 to 30 days	from 31 to 90 days	from 91 to 180 days	from 181 to 365 days	TOTAL
	Assets							
1	Cash, cash equivalents, gold and precisious metals		24,619	0	1	0	6	24,627
2	Financial intruments held for trading		9	436	0	0	9	453
		Money Market instruments	0	100	0	0	0	100
		other debt instruments	1	336	0	0	9	346
		equity instruments	8	0	0	0	0	8
3	Derivatives for trading		0	0	2	0	0	2
4	Embeded derivtives and derivatives held for hedging		0	0	0	0	0	0
5	Financial instruments at fair value through profit and loss, identified as such at initial recognition		0	0	0	0	0	0
		Money Market instruments	0	0	0	0	0	0
		other debt instruments	0	0	0	0	0	0
		equity instruments	0	0	0	0	0	0
		credits	0	0	0	0	0	0
6	Financial instruments held to maturity		1,399	3,973	262	132	395	6,162
		Money Market instruments	1,324	3,973	50	0	0	5,348
		other debt instruments	74	0	212	132	395	814
7	Financial instuments available for sale		4,001	18,413	4,719	3,606	170	30,909
		Money Market instruments	3,921	18,413	4,719	3,606	0	30,660
		other debt instruments	26	0	0	0	161	186
		equity instruments	55	0	0	0	9	64
		other instruments	0	0	0	0	0	0
8	Credits and claims		17,427	11,281	16,251	22,001	32,664	99,624
		interbank transactions	14,280	4,363	329	393	92	19,458
		deposits	5	0	0	0	0	5
		financial leasing	0	0	0	0	0	0
		credits	3,134	6,847	15,890	21,593	32,542	80,005
		other claims	9	70	31	15	30	155
9	Interest receivables		797	414	58	19	378	1,666
10	Commission and fees receivables		113	30	0	4	0	147
11	Other on-balance sheet assets		1,401	160	65	18	28	1,671
12	**Total Assets (1+2+3+4+5+6+7+8+9+10+11)**		**49,765**	**34,707**	**21,358**	**25,780**	**33,651**	**165,261**
	Liabilities							
13	Transaction accounts		61,534	0	0	0	0	61,534
14	Financial liabilities at fair value through profit and loss		0	0	0	0	0	0
		Money Market instruments	0	0	0	0	0	0
		other debt instruments	0	0	0	0	0	0
		equity instruments	0	0	0	0	0	0
		deposits	0	0	0	0	0	0
		liabilities from credits	0	0	0	0	0	0
		subordinated intruments	0	0	0	0	0	0
15	Derivatives for trading		0	0	0	5	0	5
16	Embeded derivatives and derivatives held for hedging		0	0	0	0	0	0
17	Deposits		19,318	19,314	34,847	28,197	37,364	139,039
		sight deposits	11,589	0	0	0	0	11,589
		term deposits	7,729	19,314	34,847	28,197	37,363	127,450
18	Liabilities from credits		126	436	228	1,189	5,451	7,430
19	Issued debt securities		0	0	300	0	0	300
20	Interest payable		592	322	368	169	160	1,611
21	Commissions and fees payable		3	6	0	0	0	10
22	Financial leasing		4	0	0	0	1	5
23	Other on-balance sheet liabilities		2,060	680	13	4	4	2,762
24	**Total Liabilities (13+14+15+16+17+18+19+20+21+22+23)**		**83,636**	**20,757**	**35,757**	**29,565**	**42,979**	**212,694**
	Off-Balance sheet items							
25	Off-balance sheet assets		478	2	76	82	1,190	1,828
26	Off-balance sheet liabilities		6,242	936	3,318	4,193	4,816	19,504
27	**Net off-balance sheet items (25-26)**		**-5,764**	**-934**	**-3,241**	**-4,112**	**-3,625**	**-17,676**
28	**Gap (12-24+27)**		**-39,635**	**13,016**	**-17,641**	**-7,896**	**-12,954**	**-65,110**
29	**Cummulative gap**		**-39,635**	**-26,619**	**-44,260**	**-52,156**	**-65,110**	

Annex 16

ANTICIPATED MATURITY STRUCTURE OF THE ASSETS AND LIABILITIES AS OF 30.09.2010

in millions of Denars

Number	Description		Anticipated maturity (on-balance sheet and off-balance sheet items)			Anticipated maturity (future activities)		
			up to 7 days	from 8 to 30 days	from 31 to 90 days	up to 7 days	from 8 to 30 days	from 31 to 90 days
	Assets							
1	Cash, cash equivalents, gold and precisious metals		22,534	1	1	0	0	0
2	Financial intruments held for trading		9	436	0	0	0	0
		Money Market instruments	0	100	0	0	0	0
		other debt instruments	1	336	0	0	0	0
		equity instruments	8	0	0	0	0	0
3	Derivatives for trading		0	0	2	0	0	2
4	Embeded derivtives and derivatives held for hedging		0	0	0	0	0	0
5	Financial instruments at fair value through profit and loss, identified as such at initial recognition		0	0	0	0	0	0
		Money Market instruments	0	0	0	0	0	0
		other debt instruments	0	0	0	0	0	0
		equity instruments	0	0	0	0	0	0
		credits	0	0	0	0	0	0
6	Financial instruments held to maturity		1,337	3,731	225	0	-450	0
		Money Market instruments	1,263	3,731	13	0	-450	0
		other debt instruments	74	0	212	0	0	0
7	Financial instuments available for sale		3,237	17,866	4,245	1,517	-1,460	-4,570
		Money Market instruments	3,171	17,866	4,245	1,517	-1,460	-4,570
		other debt instruments	26	0	0	0	0	0
		equity instruments	40	0	0	0	0	0
		other instruments	0	0	0	0	0	0
8	Credits and claims		15,948	10,484	13,451	-3	-2,709	-2,311
		interbank transactions	13,623	4,362	260	0	0	0
		deposits	0	0	0	22	20	31
		financial leasing	0	0	0	0	0	0
		credits	2,316	6,052	13,160	-24	-2,730	-2,341
		other claims	9	70	31	0	0	0
9	Interest receivables		559	524	332	25	141	177
10	Commission and fees receivables		110	31	3	4	13	31
11	Other on-balance sheet assets		1,128	141	66	1	0	0
12	**Total Assets (1+2+3+4+5+6+7+8+9+10+11)**		**44,861**	**33,213**	**18,326**	**1,543**	**-4,465**	**-6,671**
	Liabilities							
13	Transaction accounts		11,986	3,604	755	3,260	759	1,024
14	Financial liabilities at fair value through profit and loss		0	0	0	0	0	0
		Money Market instruments	0	0	0	0	0	0
		other debt instruments	0	0	0	0	0	0
		equity instruments	0	0	0	0	0	0
		deposits	0	0	0	0	0	0
		liabilities from credits	0	0	0	0	0	0
		subordinated intruments	0	0	0	0	0	0
15	Derivatives for trading		0	0	0	0	0	0
16	Embeded derivatives and derivatives held for hedging		0	0	0	0	0	0
17	Deposits		5,557	6,570	13,063	1,473	3,258	6,897
		sight deposits	2,533	45	40	196	38	83
		term deposits	3,024	6,526	13,024	1,277	3,220	6,814
18	Liabilities from credits		74	436	221	7	261	323
19	Issued debt securities		0	0	300	0	0	0
20	Interest payable		300	316	366	0	2	25
21	Commissions and fees payable		3	6	0	0	0	2
22	Financial leasing		4	0	0	0	0	0
23	Other on-balance sheet liabilities		1,675	694	10	1	0	0
24	**Total Liabilities (13+14+15+16+17+18+19+20+21+22+23)**		**19,598**	**11,626**	**14,716**	**4,741**	**4,279**	**8,271**
	Off-Balance sheet items							
25	Off-balance sheet assets		478	4	45	0	1	40
26	Off-balance sheet liabilities		811	411	1,649	-6	-53	-131
27	**Net off-balance sheet items (25-26)**		**-333**	**-408**	**-1,604**	**6**	**54**	**171**
28	**Gap (12-24+27)**		**24,929**	**21,179**	**2,006**	**-3,191**	**-8,689**	**-14,771**
29	**Cummulative gap**		**24,929**	**46,108**	**48,114**	**-3,191**	**-11,881**	**-26,652**

Annex 17

Structure of on-balance sheet assets and off-balance sheet assets in foreign currency and in Denars with FX clause, as of 30.09.2010

No.	Item	Amount (in millions of Denars)	Structure (in %)
1	Cash, cash equivalents, gold and precious metals	**21,349**	**13.7%**
2	Financial instruments held for trading	**405**	**0.3%**
3	Derivatives held for trading	**2**	**0.0%**
4	Embedded derivatives and derivatives held for risk management	**0**	**0.0%**
5	Financial instruments at fair value through profit and loss, as such at initial recognition	**0**	**0.0%**
5.1	in foreign currency	0	0.0%
5.2	in Denars with FX clause	0	0.0%
6	Financial instruments held to maturity	**3,102**	**2.0%**
6.1	in foreign currency	0	0.0%
6.2	in Denars with FX clause	3,102	100.0%
7	Financial assets available for sale	**7,948**	**5.1%**
7.1	in foreign currency	201	2.5%
7.2	in Denars with FX clause	7,748	97.5%
8	Credits and claims in foreign currency	**61,053**	**39.3%**
8.1	deposits	20,614	33.8%
8.2	financial leasing	0	0.0%
8.3	credits	44,340	72.6%
8.4	other claims	109	0.2%
8.5	impairment	-4,009	-6.6%
9	Credits and claims in Denars with FX clause	**58,217**	**37.5%**
9.1	deposits	308	0.5%
9.2	financial leasing	0	0.0%
9.3	credits	60,257	103.5%
9.4	other claims	4	0.0%
9.5	impairment	-2,353	-4.0%
10	Interest receivables in foreign currency	**304**	**0.2%**
10.1	accrued interest	504	165.6%
10.2	impairment	-200	-65.6%
11	Interest receivables in Denars with FX clause	**457**	**0.3%**
11.1	accrued interest	795	173.9%
11.2	impairment	-338	-73.9%
12	Commissions and fees receivables	**16**	**0.0%**
12.1	accrued commissions and fees	18	112.3%
12.2	impairment	-2	-12.3%
13	Investments	**0**	**0.0%**
14	Other not mentioned on-balance sheet assets	**447**	**0.3%**
15	**Total on-balance sheet assets (1+2+3+4+5+6+7+8+9+10+11+12+13 +14)**	**153,301**	**98.7%**
16	Off-balance sheet assets	**2,021**	**1.3%**
17	**Total on-balance sheet assets and off-balance sheet assets in foreign currency and in Denars with FX clause (15+16)**	**155,322**	**100.0%**

Annex 18

Structure of on-balance sheet liabilities and off-balance sheet liabilities in foreign currency adn in Denars with FX clause, as of 30.09.2010

No.	Items	Amount (in millions of Denars)	Structure (in%)
1	Current accounts	**24,225**	**16.4%**
2	Financial liabilities at fair value through profit and loss	**0**	**0.0%**
2.1	in foreign currency	0	0.0%
2.2	in Denars with FX clause	0	0.0%
3	Derivatives for trading	**5**	**0.0%**
4	Embedded derivatives and derivatives held for risk management	**0**	**0.0%**
5	Deposits in foreign currency	**92,424**	**62.5%**
5.1	financial institutions	1,285	1.4%
5.2	nonfinancial institutions	9,642	10.4%
5.3	individuals	75,809	82.0%
5.4	nonresidents	5,675	6.1%
5.5	other clients	13	0.0%
6	Deposits in Denars with FX clause	**4,023**	**2.7%**
6.1	financial institutions	665	16.5%
6.2	nonfinancial institutions	3,190	79.3%
6.3	individuals	4	0.1%
6.4	nonresidents	51	1.3%
6.5	other clients	112	2.8%
7	Liabilities from credits	**18,288**	**12.4%**
7.1	in foreign currency	15,299	83.7%
7.2	in Denars with FX clause	2,989	16.3%
8	Issued debt securities	**635**	**0.4%**
9	Interest payables in foreign currency	**876**	**0.6%**
10	Interest payables in Denars with FX clause	**33**	**0.0%**
11	Commissions and fees payables	**0**	**0.0%**
12	Financial leasing	**2**	**0.0%**
13	Hybrid and subordinated instruments in foreign currency	**6,896**	**4.7%**
14	Hybrid and subordinated instruments in Denars with FX clause	**0**	**0.0%**
15	Other not mentioned on-balance sheet liabilities	**1,062**	**0.7%**
16	**Total on-balance sheet liabilities (1+2+3+4+5+6+7+8+9+10+11+12+13+14+15)**	**148,469**	**100.3%**
17	Off-balance sheet liabilities	**-481**	**-0.3%**
18	**Total on-balance sheet liabilities and off-balance sheet liabilities in foreign currency and in Denars with FX clause (16+17)**	**147,988**	**100.0%**

Annex 19

Capital adequacy ratio, by group of banks

in millions of Denars

No	Description	30.06.2010				30.09.2010			
		Large banks	Medium-size banks	Small-size banks	Total	Large banks	Medium-size banks	Small-size banks	Total
I	**CREDIT RISK WEIGHTED ASSETS**								
1	On-balance sheet credit risk weighted assets	121,787	51,454	8,727	181,967	124,206	57,161	4,985	186,352
2	Off-balance sheet credit risk weighted assets	22,109	4,298	498	26,905	22,543	4,522	356	27,420
3	**Credit risk weighted assets (1+2)**	**143,896**	**55,752**	**9,224**	**208,872**	**146,749**	**61,682**	**5,341**	**213,772**
4	Capital requirement for credit risk	11,512	4,460	738	16,710	11,740	4,935	427	17,102
II	**CURRENCY RISK WEIGHTED ASSETS**								
5	Aggregate currency position	8,780	2,135	2,418	13,332	9,063	4,092	670	13,825
6	Net-position in gold	0	0	0	0	0	36	0	36
7	**Currency risk weighted assets (5+6)**	**8,780**	**2,135**	**2,418**	**13,332**	**9,063**	**4,128**	**670**	**13,861**
8	Capital requirement for currency risk	702	171	193	1,067	725	327	54	1,106
III	**RISK WEIGHTED ASSETS (3+7)**	**152,676**	**57,887**	**11,642**	**222,205**	**155,812**	**65,775**	**6,011**	**227,597**
9	Capital requirement for risks (4+8)	12,214	4,631	931	17,776	12,465	5,262	481	18,208
IV	**OWN FUNDS**	**21,893**	**9,794**	**5,053**	**36,740**	**22,302**	**11,453**	**3,548**	**37,303**
V	**CAPITAL ADEQUACY RATIO (IV/III)**	**14.3%**	**16.9%**	**43.4%**	**16.5%**	**14.3%**	**17.4%**	**59.0%**	**16.4%**

Annex 20

Own funds by group of banks

in millions of Denars

No	Description	30.06.2010				30.09.2010			
		Large banks	Medium-size banks	Small-size banks	Total	Large banks	Medium-size banks	Small-size banks	Total
	CORE CAPITAL								
1	Paid in and subscribed common and non-cumulative preference shares and premiums based on these shares	8,763	7,007	5,822	21,591	8,763	8,508	4,734	22,005
1.1	Nominal value	6,379	5,738	5,819	17,936	6,379	7,239	4,731	18,349
1.1.1	Nominal value of common shares	6,379	5,734	5,819	17,932	6,379	7,235	4,731	18,346
1.1.2	Nominal value of non-cumulative preference share	0	4	0	4	0	4	0	4
1.2	Premium	2,383	1,269	3	3,656	2,383	1,269	3	3,656
1.2.1	Premium based on common shares	2,383	1,269	3	3,655	2,383	1,269	3	3,655
1.2.2	Premium based on non-cumulative preference shares	0	0	1	1	0	0	1	1
2	Reserve and retained profit/loss	9,204	1,582	-407	10,378	9,204	1,959	-776	10,387
2.1	Reserve fund	5,924	1,094	470	7,488	5,924	1,471	101	7,496
2.2	Retained profit restricted to distribution to shareholders	3,279	698	12	3,990	3,279	698	12	3,990
2.3	Accumulated loss from previous years	0	-211	-889	-1,099	0	-211	-889	-1,099
2.4	Current profit	0	0	0	0	0	0	0	0
2.5	Unrealized loss on equities available for sale	0	0	0	0	0	0	-0.346	-0.346
3	Positions arising from consolidation	0	0	0	0	0	0	0	0
3.1	Minority interest	0	0	0	0	0	0	0	0
3.2	Reserves from exchange rate differentials	0	0	0	0	0	0	0	0
3.3	Other differentials	0	0	0	0	0	0	0	0
4	Deductions	68	383	154	605	66	635	227	929
4.1	Loss at the end of the year, or current loss	0	224	136	360	0	378	209	587
4.2	Own shares	0	0	0	0	0	0	0	0
4.3	Intangible assets	68	51	17	136	66	59	18	143
4.4	Net negative revaluation reserves	0	4	0	4	0	2	0	2
4.5	Difference between the amount of required and made impairment/special reserve	0	0	0	0	0	0	0	0
4.6	Amount of unallocated impairment and special reserve as a result of accounting time lag	0	105	1	106	0	196	0	196
5	Common shares, reserves and retained profit and deductions	17,898	8,202	5,260	31,360	17,900	9,828	3,730	31,458
6	Amount of other positions that may be included in the core capital	0	4	1	4	0	4	1	4
I	**CORE CAPITAL**	**17,898**	**8,205**	**5,261**	**31,364**	**17,900**	**9,832**	**3,731**	**31,463**
	SUPPLEMENTARY CAPITAL 1								
7	Paid-in and subscribed cumulative preference shares and premium on such shares	91	51	0	142	91	51	0	142
7.1	Nominal value	91	16	0	107	91	16	0	107
7.2	Premium	0	35	0	36	0	35	0	36
8	Revaluation reserves	35	2	0	38	44	6	0	50
9	Hybrid capital instruments	0	185	0	185	0	185	0	185
10	Subordinated instruments	4,100	1,846	55	6,002	4,498	1,911	79	6,489
11	Amount of subordinated instruments that may be included in the additional capital I	4,100	1,368	55	5,523	4,498	1,397	79	5,975
II	**SUPPLEMENTARY CAPITAL 1**	**4,227**	**1,605**	**56**	**5,887**	**4,633**	**1,638**	**80**	**6,352**
	DEDUCTIONS FROM CORE CAPITAL AND SUPPLEMENTARY CAPITAL 1								
12	Capital investments in other banks or financial institutions of over 10% of the capital of such institutions	49	16	256	321	49	16	256	321
13	Investments in subordinated and hybrid capital instruments and other instruments of institutions referred to in 12	0	0	0	0	0	0	0	0
14	Aggregate amount of investments in capital, subordinated and hybrid instruments and other instruments exceeding 10% of (I+II)	0	0	0	0	0	0	0	0
15	Direct capital investments in insurance and reinsurance companies and pension fund management undertakings	183	0	7	191	183	0	7	191
16	Investments in financial instruments issued by the insurance and reinsurance companies and pension fund management undertakings	0	0	0	0	0	0	0	0
17	Amount of excess of limits on investments in nonfinancial institutions	0	0	0	0	0	0	0	0
18	Positions arising from consolidation (negative amounts)	0	0	0	0	0	0	0	0
III	**Deductions from the core capital and supplementary capital 1**	**232**	**17**	**263**	**512**	**232**	**17**	**263**	**512**
IV	**CORE CAPITAL AFTER DEDUCTIONS**	**17,715**	**8,189**	**5,053**	**30,956**	**17,717**	**9,815**	**3,547**	**31,079**
V	**SUPPLEMENTARY CAPITAL 1 AFTER DEDUCTIONS**	**4,178**	**1,605**	**0**	**5,783**	**4,585**	**1,638**	**0**	**6,224**
	SUPPLEMENTARY CAPITAL 2								
19	Subordinated instruments of supplementary capital 2	0	0	0	0	0	0	0	0
20	Supplementary capital 1 and 2	4,178	1,605	0	5,783	4,585	1,638	0	6,224
21	Allowed amount of supplementary capital 1 and 2	4,178	1,605	0	5,783	4,585	1,638	0	6,224
21.1	Supplementary capital 1	4,178	1,605	0	5,783	4,585	1,638	0	6,224
21.2	Supplementary capital 2	0	0	0	0	0	0	0	0
22	Core capital	5,501	3,558	4,122	13,180	5,252	4,553	3,066	12,871
22.1	Excess core capital (150%)	8,251	5,337	6,182	19,770	7,877	6,830	4,599	19,307
22.2	Excess core capital (250%)	13,752	8,895	10,304	32,950	13,129	11,383	7,666	32,178
VI	**Allowed amount of supplementary capital 2**	0	0	0	0	0	0	0	0
	OWN FUNDS								
VII	Core capital	17,715	8,189	5,053	30,956	17,717	9,815	3,547	31,079
VIII	Supplementary capital 1	4,178	1,605	0	5,783	4,585	1,638	0	6,224
IX	Supplementary capital 2	0	0	0	0	0	0	0	0
X	**OWN FUNDS**	**21,893**	**9,794**	**5,053**	**36,740**	**22,302**	**11,453**	**3,548**	**37,303**

Annex 21

Groups of banks as of 30.09.2010

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

* Banks are in alphabetical order