BSCEE

Review

2009

INTRODUCTION

The Group of Banking Supervisors from Central and Eastern Europe (the BSCEE Group) was established in 1991. The Agreement of the BSCEE Group was signed during the Stockholm International Conference of Banking Supervisors (ICBS) in 1996. The BSCEE Group is operating according to its Agreement and Operational Bylaws that determine its organizational structure and the rules governing its operations. As of today it is signed by twenty two member institutions from twenty one member countries: Albania, Austria, Republic of Belarus, Bosnia and Herzegovina (Banking Agency of the Federation of Bosnia and Herzegovina and Banking Agency of Republika Srpska of Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Moldova, Montenegro, Poland, Romania, Russia, Serbia, Slovakia, Slovenia and Ukraine. The Chairmanship of the BSCEE Group rotates on annual basis. In 2009 Mr. Pavel V. Kallaur, First Deputy Chairman of the Board of the National Bank of the Republic of Belarus, chaired the Group.

In 1996 the BSCEE Group entered into an agreement setting out a framework for cooperation and coordination in organizing common events. The primary role of the BSCEE Group Secretariat is to provide technical assistance in organizing conferences, leader's meetings, workshops and training seminars. The Secretariat also facilitates cooperation among the member countries, the Basel Committee on Banking Supervision (BCBS) and other international institutions and organizations in the sphere of banking supervision. The permanent Secretariat of the Group until 2005 was located at the premises of the Hungarian Financial Supervision Authority(HFSA) and as of January 2006 is located in Poland, at the Polish Financial Supervision Authority (PFSA).

According to the previous years practice the Annual Review of the BSCEE Group summarizes the developments of the member countries in 2009. This publication gives an overview of the macroeconomic circumstances in the twenty-one member states, and it describes the banking sector as well as the supervisory activities. It was prepared on the basis of the information given by the member countries. The Annual Review also summarizes the main events of the BSCEE Group, including the workshops co-organized by the Financial Stability Institute (FSI) and other regional seminars. The 22nd Annual Members Conference was organized by the National Bank of the Republic of Belarus in Minsk, Belarus on May 26-28, 2009.

This Annual Report intends to provide in-depth information reflecting the mission of the BSCEE Group in a detailed and accurate manner regarding the banking sector of the member countries.

I hope that you will find this publication informative and useful. I am sure that this will help you become acquainted with our supervisory job in the Central and Eastern European region, the cooperation among the supervisory authorities of the member countries and with the Basel Committee.

BSCEE Secretariat

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2009 DEVELOPMENTS IN THE ALBANIAN BANKING SYSTEM

MACROECONOMIC ENVIRONMENT

The Albanian economy recorded a positive growth of 3.3 percent in 2009. However, analysis of various indicators suggests that the growth rate was characterized by a continued slowdown in the year. Slowdown of domestic demand, in the presence of a relatively tight liquidity situation and financing constraints, the reduction of foreign demand and the reduction of fiscal stimulus - in the third and fourth quarters of the year - contributed to reducing the economic growth rate in 2009.

In sectoral terms, the sectors that benefited most from economic growth are those of services and construction, while the industry sector revealed a more problematic performance. The decline in demand and economic activity contributed to a slight increase in the unemployment level, to about 13.8 percent. These developments were accompanied by reduced inflationary pressures reflected in the low level of annual and base inflation. However, although annual inflation remained at low levels compared with a year ago, it showed an upward trend from one quarter to the next during 2009, driven primarily by a more complete transmission of the effect of depreciation of the exchange rate in consumer prices.

During 2009, both imports and exports of goods and services have decreased annually, by respectively 6.3 and 5.2 percent. These developments contributed to shrinking the trade and current account deficit over the year.

Developments in the public sector proved that the budget deficit experienced a high expansion rate, especially after the first quarter, reaching about 7 percent of GDP at the end of 2009. The main sources of financing the deficit were the proceeds from privatizations and the syndicated loan.

Financial intermediation in the economy was influenced by the shrinking of financial resources in 2009. The withdrawal of deposits during the first months of the year resulted in the reduction of banking system deposits, slowing the growth of the monetary stock in the economy, to an average 6.0 percent, compared to the average rate of 12.3 percent in 2008. Deposit contraction materialized in slowing the pace of lending to the private sector of the economy, especially during the first half of 2009. In the second half of the year, decline of financial intermediation was accompanied by the slowdown of economic activity and a lower demand for money in the economy, further bolstering the contraction of lending activity growth rates.

Uncertainty that accompanied market developments in late 2008, gradually diminished during 2009. The unlimited supply of liquidity by the Bank of Albania, meeting all the requirements of the banking system, and measures taken to boost lending activity and to reassure market participants, have been reflected in the performance of interest rates and in the volumes exchanged on the interbank market. Short-term interest rates in the interbank market have decreased and demonstrated a lower volatility compared to last year. On the other hand, the last quarter of the year confirmed the restoration of public confidence in the banking system reflected in the increase of deposits.

DEVELOPMENT IN THE BANKING SYSTEM (INCLUDING THE ASSETS TOTAL / GDP)

2009 was marked by rather stable developments, even though a number of main indicators reflected a trend toward less favorable and/or less desirable levels as compared to a year ago. Developments in the banking system have generally followed the expectations, without surprise events and conditioned by the domestic economic environment, and negative developments in the economies of our main partners, thus stimulating increased insecurity, a more prudent lending approach, cautious investments and a fall in consumption. Nevertheless, the adaptation of the regulatory capital level to the degree of risks, mainly credit risk, has been generally balanced as a result of the maintenance of obviously higher levels than the minimum regulatory ratio of capital adequacy, or the evaluation of a relatively high degree of regulatory capital coverage of aggregate risks, including market risk. On the other hand, the regulatory capital adequacy to absorb potential losses from further deterioration of the loans portfolio in the future, has been evaluated as inferior compared to the previous year.

By the end of 2009, the banking system was still relying on public deposits as its main source of financing, while being concentrated in lending, mainly to businesses. The system's resources and its assets including deposits and loans increased, albeit at a lower rate compared to previous years. The increase in deposits, as a testimony of the resurgence of public confidence and the stabilization of the situation, appears to have recovered from the last quarter of 2008 slump. Meanwhile, the analysis determines that the considerable depreciation of lek against other currencies has had an important impact on increasing the deposits volume as the foreign currency ones have a significant portion in the overall deposits base. These developments, combined with the increasing intensity of Bank of Albania operations with commercial banks, the relaxation of financing terms, as well as the sustainability of credit lines from parent companies for a considerable part of banks in the system, have contributed to a more stable liquidity situation.

The developments indicate an increase in the banking system's exposure to credit risk as an expression of the increasing weight of the loans portfolio to total assets, inter alia. Problem loans have experienced a rapid increase and the loan portfolio quality has further deteriorated. As a result, the banking system's rentability evaluated through the ROA indicator has deteriorated, due to a large increase in provision expenses for loan losses. Judging from the evaluation of these levels and their dynamics, we deem that they have entered an unsteady territory. The 2010 figures confirm a slower trend of deterioration. As a consequence, developments in the loan portfolio must be intensively and closely monitored in the future.

By the end of 2009, the banking system's financial condition as compared to the end of 2008, exhibits the following characteristics and trends:

- Total assets/GDP1 reached at 77.3 at end of year 2009 percent versus the level of 75.7 percent of the previous year.
- The net financial result is 52 percent lower than a year ago, while the RoAA indicator is estimated at 0.42 percent, thus being much lower compared to the end of 2008 level of 0.91%;

[1] As of IMF April 2010 outlook

- The assets have increased by about 6.3 percent as compared to 12 percent; the loans portfolio increased by 13.2 percent vs 35.7 percent, while deposits increased by 7.9 percent compared to 2.4 percent a year ago, as a result of the significant drop experienced during the fourth quarter;
- The 'gross problem loans/gross loans portfolio' has deteriorated reaching 10.48 percent compared to 6.64 percent of a year ago;
- A satisfactory exposure towards the top ten largest borrowers, their exposure weight being less than 10 percent of the total loans portfolio and the quality of their portfolio being much better than the average quality of the whole banking system's loan portfolio.
- Capital adequacy remains steady, at 16.2 percent compared to 17.2 percent a year ago, while being far from the minimum required level;
- The 'assets/shareholder's equity' ratio for the system, or the system's financial leverage has continued to gradually decrease during 2009 as well. An annual drop from 11.7 to 10.4 in the financial leverage indicator, shows that the system has relied less on debt to finance its assets;
- Slightly better levels of concentration indicators for the assets, deposits, and loans, evaluated through the Herfindahl indicator;

THE LEGAL AND INSTITUTIONAL FRAMEWORK OF THE OPERATION AND SUPERVISION OF FINANCIAL INSTITUTIONS, NEW DEVELOPMENTS. LEGAL COMPETENCE OF THE BANKING SUPERVISORY AUTHORITY IN ALBANIA

Bank of Albania is the supervisory authority of banks, branches of banks and non-bank financial institutions. It carries out its supervisory role, pursuant to the Law "On banks in the Republic of Albania", through licensing, issuing of by-laws, conducting financial analyses of financial data received periodically, on-site inspections, corrective actions and cooperation agreements with other supervisory authorities abroad.

During 2009, several new regulations were introduced as well as amendments made to other regulations of banking supervision. This process has constantly considered compliance with the provisions of the Albanian Banking Law, the principles and standards of the Basel Committee for effective supervision, the European Council directives and best practices in the field of regulation and supervision of financial institutions licensed by the Bank of Albania, and in particular taking impetus from developments in the Albanian banking system and financial markets worldwide, especially from the recent financial crisis.

New regulatory acts relevant to banking supervision include:

- Regulation "On consumer loans and mortgage loans to individuals". The regulation specifies the requirements on the contents and method of providing precontractual and contractual information for the borrower before the signing and execution of consumer loans and individual mortgage loans contracts, and the regulation of consumer loans.

- Regulation "On the licensing and conduct of business by non-bank financial entities". The regulation is a comprehensive review of the previous regulation "On licensing non-bank entities".
- Regulation "On the licensing and conduct of business of banks and branches of foreign banks in the Republic of Albania." The regulation is a comprehensive review of the previous regulation "On granting the license to conduct banking activities in the Republic of Albania".
- Regulation "On the basic principles of management of banks and branches of foreign banks and the criteria for the approval of their administrators." The regulation was developed pursuant to the Albanian Banking Law and in the context of convergence of the national legislation with the EU framework in the field of financial services, considering compliance with the Basic Principles for Effective Supervision of the Basel Committee, and the experience of EU countries regarding best practices on governance and the conditions and criteria for the administrators of banking institutions.
- Regulation "On the prevention of money laundering and terrorist financing". This is a review of the previous regulation in accordance with new legal requirements of the law "On prevention of money laundering and terrorist financing" and the Albanian Banking Law.
- Regulation "On foreign exchange operations". It is a comprehensive review of the previous regulation "On foreign exchange operations", which sets rules for the conduct of transactions that are recorded in the current and capital account in the form of payments and transfers from and to the Republic of Albania.
- Regulation "On liquidity risk management". The regulation sets minimum standards and requirements for the effective management of liquidity risk by banks and branches of foreign banks in order to prevent systemic risks stemming from liquidity risk as well as providing a more effective process in performing the banking supervision function, to ensure a healthy and stable banking system.
- Changes in regulations during 2009 include the following:
- Regulation "On the management of risks from large exposures of banks".
- An amendment to the regulation "On credit risk management".

MAIN STRATEGIC OBJECTIVES OF THE SUPERVISORY AUTHORITY IN 2009

Main strategic objectives of the Supervision Department during 2007 have been as following:

- Ensure a safe and sound banking system in compliance with laws and by-laws with the final aim of protecting depositors.
- Safeguarding the banking system stability through the monitoring of the market developments and taking appropriate and timely measures to address weaknesses and adverse trends.
- The consequences of global economic crisis and the liquidity hardness, which affected our banking system during the second quarter of 2009, were reflected in the measures taken regarding the frequency and range of indicators reported by banks. An expanded reporting spectrum was required associated with increased surveillance activities and analysis.

- Promoting the market discipline by demanding a higher transparency of the banks activity as well as a higher transparency of the banks relative to their clients. But not only that. The other side has been very important, which means increasing transparency of the credit exposure of the borrowers to the banking industry, in order to penalize bed ones and rendering a safe and efficient credit process through the set up of the Credit Registry.
- Promoting a fair competition and providing equal treatment of market operators as well as holding close contacts and open lines of communications with the banking industry and other stakeholders in order to contribute to a better functioning of the banking system and to precede adverse developments.
- Promote a more effective supervision strategy of in view of market developments in order to anticipate expected future developments.

THE ACTIVITIES OF THE BANKING SUPERVISORY AUTHORITY IN 2009

During 2009, considering the situation ensuing the financial crisis that took place in the last quarter of 2008, supervisory attention and the resources involved have been primarily oriented toward the examination of banks, including full and partial or topical examinations due to their weight and significance in the domestic financial system, while non-bank financial institutions have not been neglected either. In the meantime, no examinations of exchange bureaus were conducted.

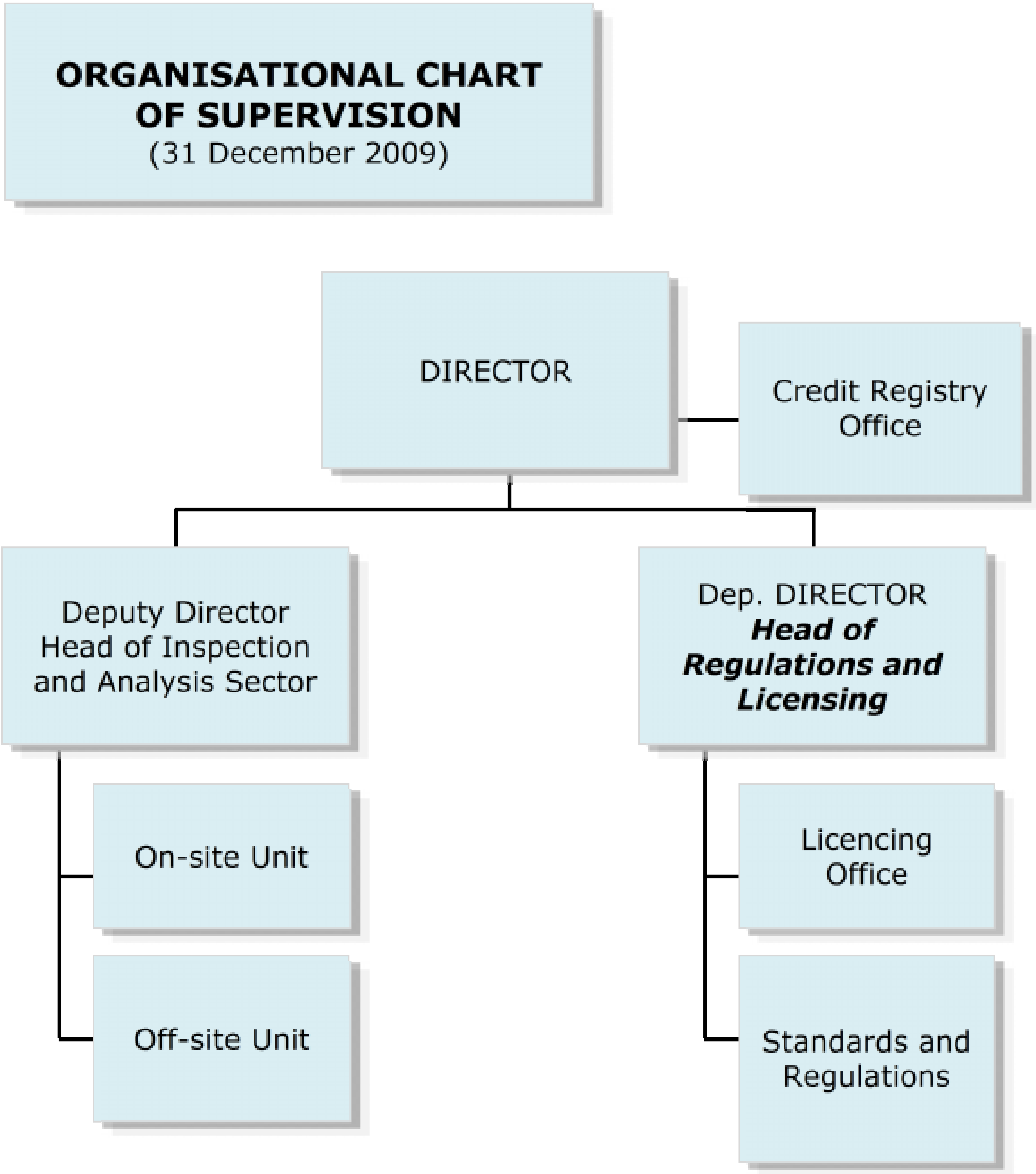
During 2009 the banking system experienced a difficult situation in terms of liquidity needs and the deteriorating quality of the loans portfolio. In the first part of the year a specific analyses of the liquidity situation for all banks in the system was conducted; while meetings with the top executives of all banking entities in the country were organized with the purpose of taking all the necessary information on the liquidity situation of banks, the measures undertaken by each of them to cope with the situation and readiness to deal with emergency situations.

In particular, banks were required to continuously support the Albanian economy with a sustainable credit flow to maintain the loan growth in order to avoid procyclical effects. The examinations provided a special focus on the liquidity management approaches against the background of customer deposit withdrawals. Analyses of the underlying causes of loans quality deterioration received significant attention as well. The level of capitalization, and forecasts on the needs for financing sources in the conditions of capital erosion due to problem loans and the expectations for adverse economic conditions in the domestic market and the region also constituted an important object of examination.

Activities of the Credit Registry Office during 2009 included the continuous monitoring of reporting by commercial banks to ensure completeness and accuracy in the data contained in the Credit Register, monitoring the use of data by commercial banks, testing the supervision reports generated by the Register and employing them for the Supervision Department purposes, reviewing the existing regulatory framework, following up the project for the inclusion of non-bank financial institutions, credit and savings institutions and their unions in the

Credit Registry as well as initiating a project for including subjects involved in financial leasing in the Credit Registry.

ORGANIZATIONAL CHART OF THE BANKING SUPERVISORY AUTHORITY



INTERNATIONAL ACTIVITIES OF THE AUTHORITY

The international activities of Bank of Albania during 2009 have been focused on developing mutual collaboration of with home or host authorities for the supervision of banking groups present in Albania. As such, it has continuously exchanged information with authorities whether a formal a formal memorandum is in place. It has also performed joint examination with a host authority of a banking group established in Albania, in the host country.

In addition to extending cooperation with other supervisory bodies, the Bank of Albania is finalising the signing of a memorandum of bilateral cooperation with the Bank of Italy. It is also at an advanced stage of negotiating a memorandum with the Austrian supervisory authority. Recently, contacts are being established with the French supervisory authority, through exchange of letters.

During 2009, Bank of Albania has been part of the process of signing Cooperation Agreements in the framework of establishing supervisory colleges for major banking groups, an initiative of the European Central Bank. Currently, this type of agreement was signed with a home authority for one bank only; while it is at the final stage the signing of such agreements under these colleges for three other major banking groups. Notwithstanding the signature of the said agreements, the Bank of Albania has participated in meetings organized by the respective supervisory colleges of the four above banking groups.

Under Article 72 of the banking law, the Bank of Albania exercises its supervisory authority also through cooperation agreements with foreign banks operating their branches or subsidiaries in Albania. For this purpose a Cooperation Agreement has been drafted and thoroughly discussed with the banking industry. Presently, it is in the final phase of signing the said agreements with the respective counterparties.

COOPERATION WITH OTHER SUPERVISORY BODIES IN ALBANIA

Cooperation with various institutions which monitor activities specific financial market has continued to function efficiently during 2009 as well. Bank of Albania has continued to exchange information with the Competition Authority for the activity of banks and their products. With the Financial Supervisory Authority, Bank of Albania has exchanged information and has carried out joint inspections in order to verify the activity of the insurance companies with their banking accounts.

There was a close collaboration with the Directorate General of Prevention of Money Laundering. Supervision Department has been attending meetings organized under the twinning project with German counterpart and funded by the European Community. Its Role has been very important especially in the drafting of the Strategy National Financial Crime Investigation, an important part of which is and institutional work to prevent money laundering and financing terrorism.

OTHER RELEVANT INFORMATION AND DEVELOPMENTS

The growing challenges and dynamics of the banking system in Albania, sought the establishment of appropriate mechanisms to ensure further improvement of the supervisory system. In this regard, the Medium Term Development Strategy of the Supervision Department was designed. It sets the primary targets that the department intends to achieve during this time frame. The implementation of the supervisory strategy implied the necessity of change of the organizational structure of the Supervision Department towards greater flexibility, through the implementation of the risk based supervision approach. In this context, an evaluation of the effectiveness of existing organizational structure considering the current developments in the banking market was conducted. The process was finalized with a organizational model based on risk types intended to correct previous structure anomalies, and increase communication throughout the department. The new structure is applied from January 2010.

STATISTICAL TABLES

Number of financial institutions
(at year-ends)

Type of financial institution	2007	2008	2009
Commercial Banks	16	16	16
Non-bank Financial Institutions	6	7	13
Exchange bureau	110	189	221
Saving&Credit Associations (SCAs)	130	133	135
Unions of SCAs	2	2	2
Representative Offices of Foreign Banks	1	1	1
Financial institutions, total	**265**	**348**	**388**

Ownership structure of the financial institutions (banks)
on the basis of registered capital (%)
(at year-ends)

Item	2007	2008	2009
Public sector ownership	1.26	1.11	0
Other domestic ownership	7.41	6.97	6.88
Domestic ownership total	8.67	8.08	6.88
Foreign ownership	91.33	91.92	93.12
Financial institutions, total	**100.0**	**100.0**	**100.0**

Ownership structure of the financial institutions on the basis of assets total

Item	2007	2008	2009
Public sector ownership	0.28	0.23	0
Other domestic ownership	5.86	5.86	6.74
Domestic ownership total	6.14	6.09	6.74
Foreign ownership	93.86	93.91	93.26
Financial institutions, total	**100.0**	**100.0**	**100.0**

Concentration of asset by the type of financial institutions

Type of institutions	The first three largest (%)	The first five largest (%)
Bank	55.69	72.56
Credit Cooperatives		
Financial Institutions		
Savings Cooperatives		
Specialized Credit Institutions		

Return on Asset (ROA) by type of financial institutions

Type of financial institution	2007	2008	2009
Bank	1.57	0.91	0.42
Non-bank Financial Institutions	n/a	6.8	3.8
Saving&Credit Associations (SCAs)	n/a	6.8	4.2

Return on Equity (ROE) by type of financial institutions

Type of financial institution	2007	2008	2009
Bank	20.74	11.35	4.58
Non-bank Financial Institutions	n/a	n/a	n/a
Saving&Credit Associations (SCAs)	n/a	n/a	n/a

Distribution of market shares in balance sheet total (%)*

Type of financial institution	2007	2008	2009
Banks			
G1 (< than 2% of total banks assets)	3.4 %	3.8%	4.7%
G2 (2% - 7% of total banks assets)	31.6 %	31.0%	22.7%
G3 (> 7% of total banks assets)	65.0 %	65.1%	72.6%
Financial institutions, total	**100.0**	**100.0**	**100.0**

The structure of assets and liabilities of the banking system (%) (at year-end)

Type of financial institution	2007	2008	2009
Treasury operations and interbank transactions	39.45	30.14	28.69
Operations with costumers	39.11	47.25	50.32
Securities transactions	17.95	19.99	20.05
Other assets	1.30	1.01	0.92
Fixed assets	1.49	1.82	1.66
Total accrued interest	1.32	1.30	1.18
Liabilities	**2007**	**2008**	**2009**
Treasury operations and interbank transactions	5.67	11.84	10.15
Operations with costumers	83.71	75.98	77.16
Securities transactions	0.00	0.00	0.00
Other assets	1.03	1.14	0.64
Fixed assets	8.45	9.64	10.84
Total accrued interest	1.14	1.40	1.22

Development of off-balance sheet activities (%) (off balance sheet items / balance sheet total)

Type of financial institution	2007	2008	2009
Banks	54.84 %	88.90%	94.04%

Solvency ratio of financial institutions

Type of financial institution	2007	2008	2009
Banks	17.08 %	17.23%	16.17%

Asset portfolio quality of the banking system

Type of financial institution	2007	2008	2009
Standard	91.9	87.3	83.2
Special mention	4.8	6.0	6.4
Substandard	1.7	4.0	4.7
Doubtful	0.8	1.4	2.7
Loss	0.8	1.3	3.0
Overdue loans/Total loans	**3.3**	**6.7**	**10.4**
Classified total	**100**	**100**	**100**
Specific reserves	**1.58**	**2.84**	**5.37**

The structure of deposits and loans in 2009 (%) (at year-end)

	Deposits	Loans
Households	85.37	32.11
Government sector	3.50	4.41
Corporate	11.13	63.48
Foreign	45.81	70.25
Other	1.45	7.87
Total	**100.0**	**100.0**

The structure of deposits and loans in 2009 (%) (at year-end)

Maturity of deposits		Loans	
At sight	22.54	Long term loans	46.75
Within one year	74.96	Medium-term loans	19.85
Over one year	2.50	Short-term loans	33.40
Total	**100.0**	**Total**	**100.0**

Proportion of foreign exchange assets and liabilities * (at year-ends)

Type of the financial institutions	FOREX assets / Total assets			FOREX liabilities / Total liab.		
	2007	2008	2009	2007	2008	2009
Banks	46.75	48.92	50.21	46.92	48.54	48.90

Structure of revenues and expenditures of financial institutions (at year-ends) (in ALL million)

Revenues	2007	2008	2009
Total Interest Income	48,642.55	60,159.25	62,892.89
Treasury and Interbank Transactions	6,334.47	5,961.44	2,568.50
Interest Received from Customers	23,415.69	32,787.89	37,235.76
Interest Received from Securities	18,791.08	21,310.63	22,860.71
Other Interest Received	101.31	99.29	227.93
Total Interest Expense	21,222.44	29,380.91	31,530.11
Interest Expense on Treasury and Interbank Transactions	1,266.95	3,184.17	2,329.65
Interest Paid to Customers	19,057.11	25,494.19	27,191.56
Interest Expense on Securities	842.87	619.18	1,919.89
Other Interest Expense	55.51	83.36	89.01
Net Interest Income (Total Int. Inc. minus Total Int. Exp.)	27,420.11	30,778.34	31,362.78
Other Income	6,704.55	9,963.06	45,643.70
Other Expense	1,068.75	3,388.08	38,932.02
Net Result - Other Income and Expense	5,635.80	6,574.99	6,711.68
Provisioning Expenses	3,466.10	8,454.13	11,841.48
Gross Income	29,589.82	28,899.21	26,232.98
Gross Expenses	16,244.42	20,123.72	21,770.48
of which: Personnel Expenses	6,264.79	7,696.70	8,363.65
Net Income	13,345.39	8,775.49	4,462.50
Net Extraordinary Income (Loss)	209.56	28.33	136.02
Taxes Other Than Income Taxes	47.75	94.94	111.72
Income Before Taxes	13,507.21	8,708.88	4,486.80
Income Tax	2,940.54	1,373.20	942.30
Net Income after taxes	**10,566.67**	**7,335.68**	**3,544.50**

Structure of registered capital and own funds of financial institutions in 2009

Type of financial institution	Registered capital	/Total assets	Own funds	/Total liab.
	EUR	%	EUR	%
Banks	392,600,321.08	6.11%	589,408,375	9.17%

2009 DEVELOPMENTS IN THE AUSTRIAN BANKING SYSTEM

MACROECONOMIC ENVIRONMENT

The Austrian economy is recovering from its recession. A combination of trade and financial shocks and a related sharp contraction of investment resulted in a fall in GDP by 3.5 percent in 2009, in spite of consumption remaining resilient. In line with the recovery in world trade, growth picked up in the second half of 2009 and is projected to be around 1.5 percent in 2010 and 2011. While quarterly data have been volatile, growth picked up in the second half of 2009 and leading indicators point to a continued strengthening of economic activity. Austria is at this stage benefitting from the Euro effective depreciation and from low financing costs. However, uncertainties are high and mainly center on developments in the international environment and financial markets. Inflation is forecasted to be 1.7% in 2010 and will only slightly inch up in 2012 to 1.8%.

Austria's recession has been deep, but with limited effects on unemployment. Supported by tax cuts and various labor market measures, together with dynamic real wages, consumption helped cushion the recession. Investment, however, dropped by about 10 percent, largely as a consequence of depressed demand prospects. The crisis affected mainly the manufacturing sector, while domestically-oriented activities fared better. The resulting rise in unemployment by 1 percent, to 4.8 percent was muted, partly thanks to subsidized short-time working schemes and a strong increase in training programs.

DEVELOPMENT IN THE BANKING SYSTEM (INCLUDING THE ASSETS TOTAL / GDP)

In 2009, Austrian banks registered a slight recovery in profitability compared to 2008. The consolidated return on assets after taxes rose to 0.2% in 2009 (2008: 0.1%) which remains considerably lower than pre-2008 levels. Net interest income – with a share of 51.4% of operating income the largest contributor to revenues - almost stagnated by rising only 0.7% yoy. Fee-based income, down by -15.5% yoy, had a dampening impact on operating income. Other income rose by 8.4% yoy. Income from trading, though accounting for only 6.8% of operating income, strongly recovered after a loss in 2008. Regarding the subsidiaries in CESEE, their RoA after taxes fell to 0.7% (2008: 1.7%), giving evidence of their relatively higher profitability and their contribution to the profits of their parent banks.

The capitalization of Austrian banks has steadily improved since late 2008, as the decreased leverage and the increased Tier 1 and Capital Adequacy Ratios for the consolidated Austrian banking sector indicate. Part of the increases resulted from the capital injections and asset guarantees provided by the Republic of Austria on the legal basis of the Austrian banking support package. In addition, the deleveraging process was fuelled by a decrease in consolidated total assets by -3.0% and in risk-weighted assets by -6.6% during 2009. The Tier 1 and Capital Adequacy Ratios reached 9.3% and 12.8% respectively at year-end 2009. Similarly, the Austrian banks' leverage decreased from 22.4 to 19.4 during 2009. Total assets to GDP stood at approximately 420%.

Loan-to-deposit ratios improved in all segments in 2009 (with the minor exception of subsidiaries outside the CESEE region). In consequence, the deposit gap of subsidiaries in CESEE almost halved and parent banks were able to reduce their funding support by about 6 bn EUR to 49 bn EUR, keeping their share in subsidiaries' interbank liabilities stable at 79%. This development can be traced back to a shrinking loan portfolio and a stable deposit base. Currency mismatches decreased in absolute as well as relative terms, due to a changed depositor behavior and a shrinking deposit gap, but still remain considerable.

Credit risk has up to now materialized to a larger extent in CESEE than in Austria: for Austrian nonbank customers, the loan-loss provision ratio has risen from 2.25% as of end of 2008 to 2.82% as of end of 2009. For lending to non-bank customers by subsidiaries, mainly in CESEE, the loan-loss provision ratio has almost doubled from 3% at the end of 2008 to up to 5.3% at the end of 2009. From a regional perspective, the increase in loan-loss provisioning by the subsidiaries in CIS already consumed all regional operating profits as of end of 2009.

Downside risks to profitability mainly consist of three factors: a further increase in credit risk, a flattening of the steep term structure of interest rates in combination with higher funding cost for the banks, and a weak recovery of new lending and the non-sustainability of strong trading results.

THE LEGAL AND INSTITUTIONAL FRAMEWORK OF THE OPERATION AND SUPERVISION OF FINANCIAL INSTITUTIONS, NEW DEVELOPMENTS. LEGAL COMPETENCE OF THE BANKING SUPERVISORY AUTHORITY IN AUSTRIA

The Austrian Financial Market Authority (FMA) is an independent, autonomous and integrated supervisory authority for the Austrian Financial Market, established as an institution under public law. It is responsible for the supervision of credit institutions („banks”), insurance undertakings, pension funds, staff provision funds, investment funds, investment service providers, companies listed on the stock exchange as well as stock exchanges themselves.

In accordance with its statutory mandate, the tasks of the Banking Supervision Department of the FMA include in particular the performance of licensing, authorisation and notification procedures, the performance of supervisory procedures, the official supervision of intra-bank models, commissioning the OeNB to carry out on-site inspections, officially monitoring action taken by the credit institution to remedy shortcomings, the interpretation of the law with regard to banking supervision, collecting and analysing qualitative information, evaluating analysis results with respect to official measures and the involvement in legislation related to banking supervision, sending departmental representatives to international bodies, supervising branches and representative offices of foreign credit institutions as well as cross-border supervision within the scope of the Consolidating Supervision concept.

In Austria, the reform of the supervisory framework in 2008 helped lay the foundation for keeping in step with the rapid evolution of financial markets. One of the primary aims of the supervisory reform was to establish clear responsibilities and to optimize the communication interfaces between the Oesterreichische Nationalbank (OeNB) and the FMA. The reform ensures that supervisory reviews are quick, effective and well-documented. The OeNB and the FMA are assured of having the same level of information at all times, which also reinforces both institutions' cooperative partnership in supervising the Austrian financial market.

The supervisory reform has resulted in further improvements in joint action and enabled closer supervisory collaboration, which has made it possible to take even more timely and efficient prudential measures to strengthen financial stability in Austria since beginning of 2008.

MAIN STRATEGIC OBJECTIVES OF THE SUPERVISORY AUTHORITY IN 2009

The FMA’s main strategic objects in the field of banking supervision for 2009 were:

- Adaptation of internal procedures and structures to new tasks and responsibilities in the sense of an efficient and risk-based supervision
- Availability of adequate resources necessary for professional supervision in quantitative and qualitative regard
- Internal processes and relation to the OeNB (Oesterreichische Nationalbank) are adapted to the new regulatory framework; the single point of contact (SPOC) system is well established and contributes to an increase in the quality of supervision
- Prompt, technically competent and consistent answers to questions regarding legal issues are given
- Efficient handling of national and cross-border IRB- and AMA-approval processes
- Legislative contributions on national and international level
- Further improvement of crisis management
- Further intensifying of cross-border cooperation with foreign supervisory authorities in the context of consolidating supervision

THE ACTIVITIES OF THE BANKING SUPERVISORY AUTHORITY

In 2009, the banking supervisory authority made use of its right to demand information from credit institutions in about 307 cases. Apart from these formal ad-hoc information request the FMA based its decisions on various sources such as the credit institution’s financial statements, the reports of auditors and state commissioners, as well as on standardized meetings with the management of numerous credit institutions, the so called management talks. Another important source of information is the on-site inspections and analyses conducted by the OeNB. In 2009, the OeNB conducted 49 on-site inspections on behalf of the FMA.

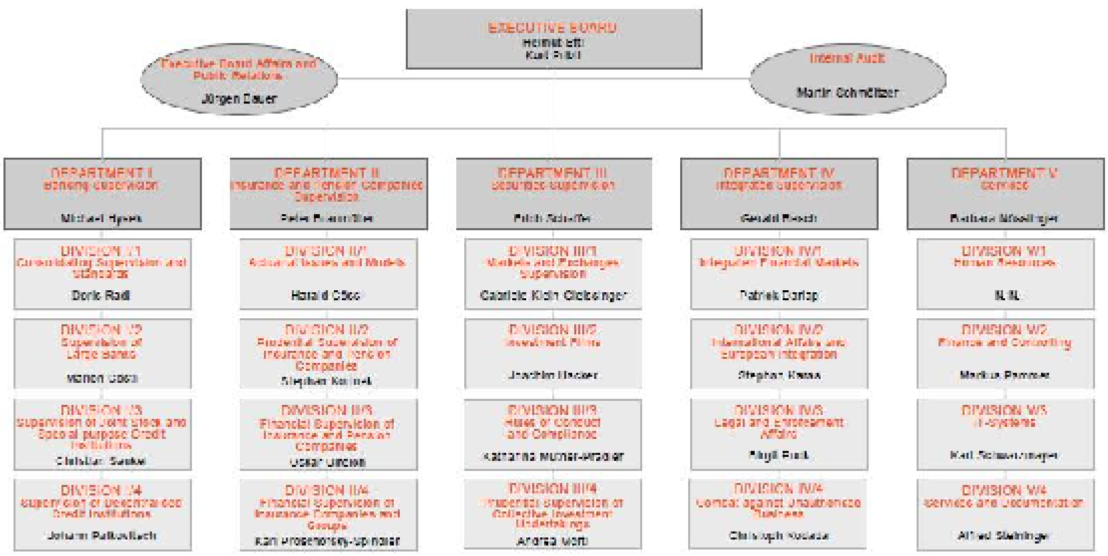
As banking supervisor the FMA is also responsible for granting, extending or withdrawing licenses. In 2009 the FMA granted three new licenses, enlarged ten existing and revoked five licenses.2 Five license applications had to be refused or rejected due to formal or material deficiencies.

As mentioned above the FMA may take supervisory measures if there is danger to the fulfillment of a credit institution's obligations (danger of insolvency) or if a credit institution persistently breaches the law. In 2009 these measures had to be taken in three instances.

Other activities include inter alia in 2009:

- 26 models approvals relating to the Austrian market
- 16 anti-money laundering company visits at credit institutions
- Consolidating Supervision: In the course of 2009, the FMA worked on further institutionalising the supervisory colleges. Negotiations were held in this context with the other supervisory authorities towards concluding cooperation agreements ("Article 131 agreements") aimed at defining rules and procedures as well as the flow of information for each college. The first two agreements were signed in February 2010. Furthermore, the FMA in the capacity of home supervisor held a total of six supervisory colleges devoted to cross-border groups of credit institutions and one central cooperation meeting as part of ongoing approval processes.

ORGANIZATIONAL CHART OF THE BANKING SUPERVISORY AUTHORITY



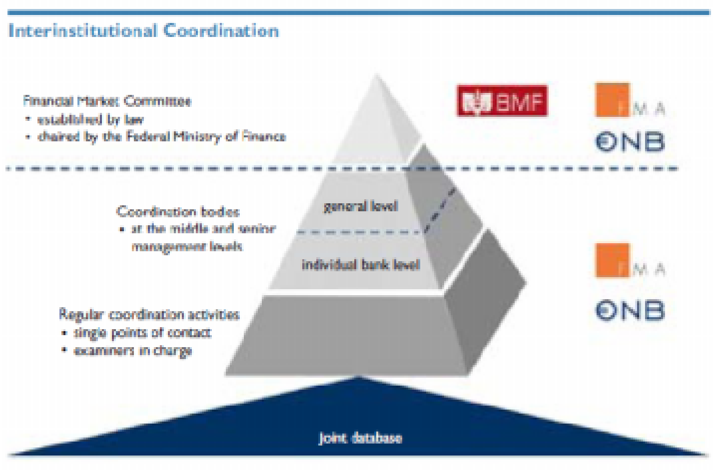
[2] Extending a license means to allow an existing credit institution to conduct additional banking business.

INTERNATIONAL ACTIVITIES OF THE AUTHORITY AND COOPERATION WITH OTHER SUPERVISORY BODIES

The FMA endeavours to further improve the cooperative dialogue and the existing contacts with the supervisory authorities of Central and Eastern and South Eastern Europe in particular. To this end, within the scope of strategic partnerships, it focuses its operative cooperation on regulators from those countries where the Austrian financial industry has a particularly strong presence.

Accordingly, bilateral meetings were held as part of strategic partnerships and continued cooperation in the various areas of supervision and at various different levels. One focus of these meetings was, inter alia, the exchange of information on supervised institutions and groups engaging in cross-border activities (cooperation meetings, supervisory colleges in the banking sector, as well as coordination committees in the insurance sector).

In 2009, meetings were held with banking supervisors from Bosnia and Herzegovina, Bulgaria, Croatia, Germany, Kosovo, Romania and Russia, and with insurance supervisors from Albania, Montenegro and Serbia. Together with the World Bank and the Joint Vienna Institute, the FMA organised a workshop from 16 to 19 March 2009 entitled "Cross-border regulation and supervision", in which representatives from numerous Eastern and South-Eastern European countries participated. The workshop dealt with the current developments in the financial markets, the financial crisis, the challenges associated with cross-border regulation and supervision, as well as ways and means to overcome these challenges. Furthermore, representatives of the FMA attended the XXII Conference of the Group of Banking Supervisors from Central and Eastern Europe (BSCEE Group) in Minsk. The conference particularly addressed the issue of banking supervision in times of financial crisis as well as implementation of Basel II. During 2009 the FMA was also represented at the Integrated Financial Supervisors' Conference, the annual forum for the exchange of information and experience among the integrated supervisory authorities.



Based on the relevant provisions of the supervisory laws, bilateral and multilateral cooperation agreements, i.e. Memoranda of Understanding (MoUs), may be concluded between the FMA and foreign supervisory authorities in the banking, insurance and securities sectors. In 2009, one MoU was concluded in the banking sector with Liechtenstein, with further MoUs being entered into with Albania, Montenegro and Serbia in the insurance sector.

COOPERATION WITH OTHER SUPERVISORY BODIES IN AUSTRIA

In handling official activities related to supervision, the FMA must, as far as possible, draw on analysis and inspection results as well as the results of the expert opinions prepared by the OeNB during model approval procedures, in addition to using information from third parties or from the respective bank. This collaborative setup calls for intensive, timely coordination between the two institutions. To this end, the FMA and the OeNB each appoint a single point of contact (SPOC) for every bank and for every banking sector. These SPOCs exchange information frequently and are thus a key communication bridge between the two authorities.

For their part, banks are also required to appoint a SPOC as a first contact and communication partner for the FMA and the OeNB and as a hub for prudential issues. Every supervised bank was requested to provide the supervisory authorities with the name of a SPOC and of a deputy SPOC for the SPOC's absence.

The SPOC's tasks include harmonizing internal positions and obtaining authorizations, clearing relevant documentation for release, scheduling appointments, naming contacts for special issues, and coordinating investigations and national as well as international research. Moreover, the SPOC serves as the first contact for urgent matters related to supervision.

To fulfill his or her responsibilities effectively, a bank's SPOC must exhibit a basic knowledge of supervisory matters (risk management, accounting, supervisory law) and must be authorized to provide information about supervisory issues. If the SPOC is not a management executive, he or she should nevertheless be authorized to consult senior management and if necessary the supervisory board to agree on a joint course of action on important issues.

Also, the established forums in which basic prudential issues are harmonized between the FMA and the OeNB, namely the middle management-level forum and the senior management-level coordination forum, were supplemented by a bank forum (Einzelbankforum – EBF) which is in charge of handling issues at the individual bank level and ensuring that all relevant facts and perspectives will be taken care of in the decision making process. The new forum also ensures that broad agreement is reached on the approach chosen (at the middle or senior management level, depending on the issue). This reconciliation process is supported by a database, the joint information system. Various reporting data, relevant information available from the FMA's supervisory activities as well as data and results of OeNB analyses are filed in this database.

Moreover, a Financial Market Committee was established at the Federal Ministry of Finance to foster cooperation and the exchange of views, and to provide advice on financial market and financial stability issues. The committee has one member each from the FMA, the OeNB and the Federal Ministry of Finance and meets at least once every quarter. The committee discusses national legal and overall financial market policy issues, and discusses the Austrian position on drafts of European legislation. Moreover, the Financial Market Committee also coordinates action during financial crises; in this function, it acts as the domestic standing group established in line with the 2008 Memorandum of Understanding.[3]

OTHER RELEVANT INFORMATION AND DEVELOPMENTS

Extension of the FMA Minimum Standards for Granting and Managing Foreign Currency Loans and Loans with Repayment Vehicles

Owing to the risks inherent in and the systemic relevance of foreign currency loans and loans with repayment vehicles, the FMA believes that there must be a more significant reduction in the risks arising from banking transactions with regard to the total volume of foreign currency loans granted to households. To this end, the FMA was working on an extension of the related Minimum Standards FMA-FX-MS and FMA-TT-MS with respect to limiting business risks in banking in the course of 2009. This extension is in line with its statutory remit to act, when carrying out its duties, in consideration of the national economic interest in a functioning banking system and the stability of the financial market. One of the core aims is to achieve a sustained reduction in the Austria-wide total volume of foreign currency loans to consumers; foreign currency loans must lose their status as a standardised mass product. The amendment to the FMA Minimum Standards for Granting and Managing Foreign Currency Loans and Loans with Repayment Vehicles (FMA-FXTT-EMS) was finally published on 22 March 2010 and can be found at www.fma.gv.at > providers > banks > minimum standards > FMA-FXTT-EMS.

[3] *Memorandum of Understanding on Cooperation between the Financial Supervisory Authorities, Central Banks and Finance Ministries of the European Union on Cross-Border Financial Stability agreed in April 2008 (entry into force: June 1, 2008).*

STATISTICAL TABLES

Number of financial institutions (head offices/branches) (at year-ends)

Type of financial institution	2007	2008	2009
Joint stock banks and private banks	51	52	51
Savings banks	56	55	55
State mortgage banks	11	11	11
Raiffeisen credit cooperatives	558	551	545
Volksbank credit cooperatives	69	68	68
Building and loan associations	4	4	4
Special purpose banks	121	126	121
Financial institutions, total	**870**	**867**	**855**

Source: OeNB

Ownership structure of the financial institutions[4] on the basis of registered capital (%) (at year-ends)

Item	2007	2008	2009
Public sector ownership	4.48	4.07	10.49
Other domestic ownership	65.44	66.28	68.26
Domestic ownership total	69.92	70.35	78.75
Foreign ownership	30.08	29.65	21.25
Financial institutions, total	**100.00**	**100.00**	**100.00**

Source: : OeNB. Only stakes above 50% are included. Core Tier I capital on a consolidated basis.

[4] Financial institutions are credit institutions which are reported at OeNB.

Ownership structure of the financial institutions on the basis of assets total (%)

Item	2007	2008	2009
Public sector ownership	3.94	3.84	11.06
Other domestic ownership	65.36	66.51	64.85
Domestic ownership total	69.30	70.35	75.91
Foreign ownership[5]	30.70	29.65	24.09
Financial institutions, total	**100.0**	**100.0**	**100.0**

Source: OeNB. Only stakes above 50% are included. Total assets based on consolidated data.

Concentration of asset by the type of financial institutions (within type of institution)

Type of institutions	The first three largest (%)	The first five largest (%)
Joint stock banks and private banks	70.01	81.52
Savings banks	69.96	79.13
State mortgage banks	57.41	76.22
Raiffeisen credit cooperatives	55.57	61.62
Volksbank credit cooperatives	65.05	70.46
Building and loan associations	91.19	100.0
Special purpose banks	59.41	68.80

Source: OeNB. Unconsolidated data.

Return on Asset (ROA) by type of financial institutions[6] (%)

Type of financial institution	2007	2008	2009
Joint stock banks and private banks	0.81	0.26	0.51
Savings banks	0.77	0.2	0.48
State mortgage banks	0.32	-0.42	-1.72
Raiffeisen credit cooperatives	0.99	0.35	0.44
Volksbank credit cooperatives	0.46	0.53	-1.40
Building and loan associations	0.31	-0.47	0.23
Special purpose banks	0.28	0.15*	0.69

Source: OeNB. Consolidated data.
* adjusted by one reclassification

[5] Includes also subsidiaries from foreign credit institutions.
[6] ROA = Profits after taxes/Total assets

Return on Equity (ROE) by type of financial institutions[7] (%)

Type of financial institution	2007	2008	2009
Joint stock banks and private banks	16.74	5.61	10.09
Savings banks	21.84	5.24	10.13
State mortgage banks	7.88	-8.78	-37.75
Raiffeisen credit cooperatives	17.28	6.05	7,29
Volksbank credit cooperatives	10.55	8.86	-22.41
Building and loan associations	6.2	-14.53	6.60
Special purpose banks	18.57	10.51*	17.16

Source: OeNB. Consolidated data.
* adjusted by one reclassification

Distribution of market shares in balance sheet total (%)

Type of financial institution	2007	2008	2009
Joint stock banks and private banks	28.32	28.76	27.77
Savings banks	17.24	16.51	16.35
State mortgage banks	9.94	9.05	9.25
Raiffeisen credit cooperatives	23.95	24.89	26.97
Volksbank credit cooperatives	7.59	7.39	7.55
Building and loan associations	2.4	2.08	2.19
Special purpose banks	10.56	11.32	9.93
Financial institutions, total	**100.0**	**100.0**	**100.0**

Source: OeNB. Unconsolidated data.

[7] ROE = Profits before taxes/Core capital

The structure of assets and liabilities of the banking system (%) (at year-ends)

Assets	2007	2008	2009
Cash Reserve	2.46	3.01	2.35
Claims against Credit Institutions	19.67	n.a.	n.a.
Claims against Customers	51.29	n.a.	n.a.
Total Claims	n.a.	69.53	70.22
Bonds, Stocks, debt instrument	6.77	16.35	18.19
Shares in affiliated enterprises	11.32	1.38	1.51
Other Assets	6.27	9.73	7.74
Total Assets	**100.0**	**100.0**	**100.0**
Liabilities	**2007**	**2008**	**2009**
Amounts owed to credit institutions	22.35	20.02	19.61
Amounts owed to customers (nonbanks)	41.05	40.62	42.05
Debt evidenced by certificates	21.08	21.03	20.91
Supplementary capital	3.24	n.a.	n.a.
Equity	5.17	5.41	6.51
Other Liabilities	7.11	12.92	10.92
Total Liabilities	**100.0**	**100.0**	**100.0**

Source: OeNB. Consolidated data.
*In 2008 structural break due to change in consolidated financial reporting.

Development of off-balance sheet activities (%) (off balance sheet items / balance sheet total)

Type of financial institution	2007	2008	2009
Joint stock banks and private banks	426.29	322.20	339.97
Savings banks	257.54	314.51	323.91
State mortgage banks	84.4	83.64	93.18
Raiffeisen credit cooperatives	142.61	147.81	140.78
Volksbank credit cooperatives	182.6	184.32	212.64
Building and loan associations	23.19	17.29	11.44
Special purpose banks	77.53	73.00	103.97
Financial institutions, total	**228.56**	**211.16**	**220.56**

Source: OeNB. Unconsolidated data. Off-balance sheet items including derivatives.

Solvency ratio of financial institutions (%)

Type of financial institution	2007	2008	2009
Joint stock banks and private banks	11.68	10.05	11.63
Savings banks	10.6	9.58	12.73
State mortgage banks	11.7	12.2	11.50
Raiffeisen credit cooperatives	12.34	12.09	13.91
Volksbank credit cooperatives	11.92	11.95	12.92
Building and loan associations	11.97	10.46	13.05
Special purpose banks	23.52	12.9*	18.0
Financial institutions, total	**11.59**	**11.02**	**12.81**

Source: OeNB. Consolidated data.
*Decline due to reclassification in banking sample.

Asset portfolio quality of the banking system[8]

Asset classification	2007	2008	2009
Non performing loans	1.7	2.0	n.a.
Specific loan loss provisions	2.4	2.3	2.8

Source: OeNB.

The structure of deposits and loans in 2009 (%) (at year-end)

	Deposits	Loans
Households	72.22	40.02
Government sector	3.82	8.04
Corporate	16.97	42.93
Other[9]	6.98	9.01
Total	**100.0**	**100.0**

Source: OeNB. Unconsolidated data for domestic customers (nonbanks) in local and foreign currency.

[8] All data are in percent of total claims.
[9] Including (among others) nonbanks, financial intermediaries

The structure of deposits and loans in 2009 (%)
(at year-end)

Maturity of deposits		Loans	
At sight	25.66	Long term loans[10]	27.92
Within one year	41.40	Medium-term loans[11]	27.12
Over one year	32.95	Short-term loans[12]	44.96
Total	**100.0**	**Total**	**100.0**

Source: OeNB. Unconsolidated data for banks and nonbanks.

Proportion of foreign exchange assets and liabilities (%): (at year-ends)

Type of the financial institutions	FOREX assets / Total assets			FOREX liabilities / Total liab.		
	2007	2008	2009	2007	2008	2009
Joint stock banks and private banks	17.93	23.59	22.50	13.52	19.91	15.69
Savings banks	23.69	23.77	21.16	21.87	19.40	13.54
Raiffeisen credit cooperatives	19.61	17.19	14.04	17.36	13.72	12.37
Volksbank credit cooperatives	16.71	18.58	16.52	9.42	9.52	8.12
Building and loan associations	-	-	-	-	-	-
Special purpose banks	10.75	9.57	7.41	31.64	30.76	29.78
State mortgage banks	15.63	16.5	15.20	18.81	19.81	18.31
Financial Institutions, total	**17.79**	**19.78**	**16.91**	**17.73**	**18.32**	**14.97**

Source: OeNB. Unconsolidated data.

[10] Including loans with maturity above five years.
[11] Including loans with maturies between one and five years.
[12] Including at sight, undefined and below one year loans.

Structure of revenues and expenditures of financial institutions (at year-ends) (in Mio EUR)

Revenues	2007	2008	2009
Interest and similar income	37,656	45,845	32,771
Income from securities and participations	3,521	7,193	3,327
Fee-based income	6,658	6,036	5,651
Net profit or loss on financial operations	289	-812	486
Other operating income	1,592	1,710	1,653
Expenditures	**2007**	**2008**	**2009**
Interest payable and similar charges	30,256	37,597	23,993
Total fees payable	1,948	1,818	2,048
General administrative expenses	9,171	9,727	9,462
Depreciation and amortization	614	641	559
Other Operating expenses	1,063	1,047	1,056

Source: OeNB. Unconsolidated data.

Structure of registered capital and own funds of financial institutions in 2009

Type of financial institution	Registered capital	/Total assets	Own funds	/Total liab.
	EUR	%	EUR	%
Joint stock banks and private banks	3,040,997	0.95%	20,913,214	6.52%
Savings banks	2,519,594	1.25%	15,774,600	7.82%
State mortgage banks	1,227,841	1.36%	6,282,598	6.96%
Raiffeisen credit cooperatives	810,126	0.24%	28,469,585	8.39%
Volksbank credit cooperatives	589,586	0.77%	6,002,628	7.89%
Building and loan associations	103,388	0.54%	1,092,672	5.69%
Special purpose banks	789,738	0.98%	2,039,017	2.54%
Financial institutions, average	**9,081,270**	**0.81%**	**80,574,314**	**7.15%**

Source: OeNB. Consolidated data.

2009 DEVELOPMENTS IN THE BANKING SYSTEM OF THE REPUBLIC OF BELARUS

MACROECONOMIC ENVIRONMENT

The macroeconomic situation in 2009, compared with 2008 was characterized by decreasing business and investment activity, slower growth of the households' monetary incomes, deteriorating current account balance, that was largely due to the adverse impact of the global financial crisis on the economy of the Republic of Belarus.

In 2009, GDP increased by 0.2 % on the previous year (in 2008 – by 10.2 %).

Inflation in the consumer market was 10.1 %, compared with 13.3 % in 2008.

DEVELOPMENT OF THE BANKING SYSTEM (INCLUDING THE ASSETS TOTAL / GDP)

As at January 1, 2010, the banking sector of the Republic of Belarus included 32 operating banks and 264 branches. Eight representative offices of foreign banks were operating in the Republic of Belarus.

Foreign capital participated in the authorized capital of 26 banks, including nine wholly-foreign owned banks. As at January 1, 2010, the share of non-residents in the aggregate authorized capital of the Belarusian banks amounted to 27.25 %. In three banks the share of the state (the State Committee on Property of the Republic of Belarus) exceeded 50% of the authorized capital.

In 2009, the banks' aggregate authorized capital grew by 10.1 %, amounting to BYR9,555.8 billion as at January 1, 2010 (EUR2.3 billion in equivalent).

In the year under review, the assets (liabilities) of the banking sector increased by 30.9%, amounting to BYR82,943 billion (EUR20.2 billion in equivalent), and "assets/GDP ratio" rose from 39.4 to 53.4%.

The banks' profits in 2009 amounted to BYR1,084.2 billion, exceeding 1.5 times the profit obtained in 2008. Profitability indicators13 of the banking sector were as follows:

-"profit/assets ratio" – 1.43 % (as at January 1, 2009 – 1.37 %); and

-"profit/own capital ratio" – 8.93 % (as at January 1, 2009 – 9.6 %).

[13] Profit after taxation is used in the calculation of the indicator.

THE LEGAL AND INSTITUTIONAL FRAMEWORK OF THE OPERATION AND SUPERVISION OF FINANCIAL INSTITUTIONS, NEW DEVELOPMENTS

In 2009, the work aimed at simplifying the procedures for state registration of banks and licensing of banking activities was carried out. In particular, the procedures for issuing a consent and granting a permission of the National Bank to purchase shares in the authorized capital of a bank were simplified, the amount of the regulatory capital required to obtain the right to conduct banking operations involving opening and maintaining of accounts in precious metals was lowered, and the list of the data submitted to the National Bank for opening of the organizational units of the bank was reduced.

The comprehensive approach to the classification of assets and contingent liabilities and formation of special reserves was implemented, the single procedure for the classification of the restructured debt was introduced, the period of time given to write-off bad debts at the expense of the created special reserve was shrunk, and the amount of the contributions to the special provisions on debt classified under Risk Group I was increased, with the simultaneous reduction in the minimum reserves to cover potential losses on the portfolios of homogeneous loans.

In order to improve risk management the banks continued to implement the systems of evaluation and limitation of individual risks related to banking. All banks were informed about the liquidity risk management principles, that makes it possible to create efficient integrated systems of liquidity and liquidity risk management at the banks.

The work on the institutional development of the banking sector continued:

- the works on the legal regulation of the State Credit Bureau (Credit Register), established under the National Bank were completed; and
- the state agency "The Agency on the Guaranteed Compensation of the Natural Persons' Bank Deposits" was granted the authorities of a specialized agency working with the banks under crisis with respect to the functions of the interim bank management administration to prevent its bankruptcy, and the functions of the anti-crisis manager when implementing the procedures for bankrupting a bank.

LEGAL COMPETENCE OF THE BANKING SUPERVISION AUTHORITY IN THE REPUBLIC OF BELARUS

In the Republic of Belarus the supervisory functions are entrusted to the central bank of the country - the National Bank, which incorporates a special supervisory unit - the Banking Supervision Directorate.

In carrying out banking supervision in the Republic of Belarus the National Bank performs the following functions:

- state registration of banks and licensing of banking activity;
- development of the corresponding economic standards with a view to maintaining stability and soundness of the banking system;
- development of rules and procedures for banking operations;

- on-site inspection of a bank and evaluation of risks related to its functioning;
- revealing infringements of banking legislation and application of corresponding sanctions;
- execution of foreign exchange control;
- specification of the rules of publication and contents of information which is published to assess the degree of reliability of banks and non-bank financial institutions;
- analyses of banks' reports;
- regulation of the foreign capital access to the banking system of the country;
- monitoring and analysis of trends in indicators of financial stability, scenario analysis, stress testing and the use of early warning systems; and
- regulation of banks' reorganization and liquidation.

Besides, the system of guaranteeing the repayment of funds attracted by banks from natural persons is used in the Republic of Belarus. It is governed by the regulatory legal acts of the Republic of Belarus and is formed at the expense of the monthly irrevocable payments of banks licensed to accept deposits from natural persons that are accumulated with the Agency on the Guaranteed Compensation of the Natural Persons' Deposits.

MAIN STRATEGIC OBJECTIVES OF THE SUPERVISORY AUTHORITY IN 2009

In 2009, the primary objective of the National Bank was to ensure stability of the banking system of the Republic of Belarus and protect the interests of the banks' creditors and depositors. The above-mentioned objective was achieved by:

- setting up prudential limits with respect to banking risks and capital and reserves adequacy requirements which comply with the international practice and take into account the economic situation in the country;
- execution of the efficient day-to-day supervision over banks by analyzing their official reports and inspecting them;
- timely application of remedial measures which ensure the banks' paying capacity, liquidity, and soundness.

THE ACTIVITIES OF THE BANKING SUPERVISORY AUTHORITY IN 2009

The National Bank carries out a three-way supervision of banks: off-site supervision, inspections of banks, and macroprudential supervision.

Off-site supervision is part of the ongoing supervision over a bank and is based on the analysis of the balance sheet and prudential reports provided by banks, inspection materials, and other relevant information related to the banks' activities.

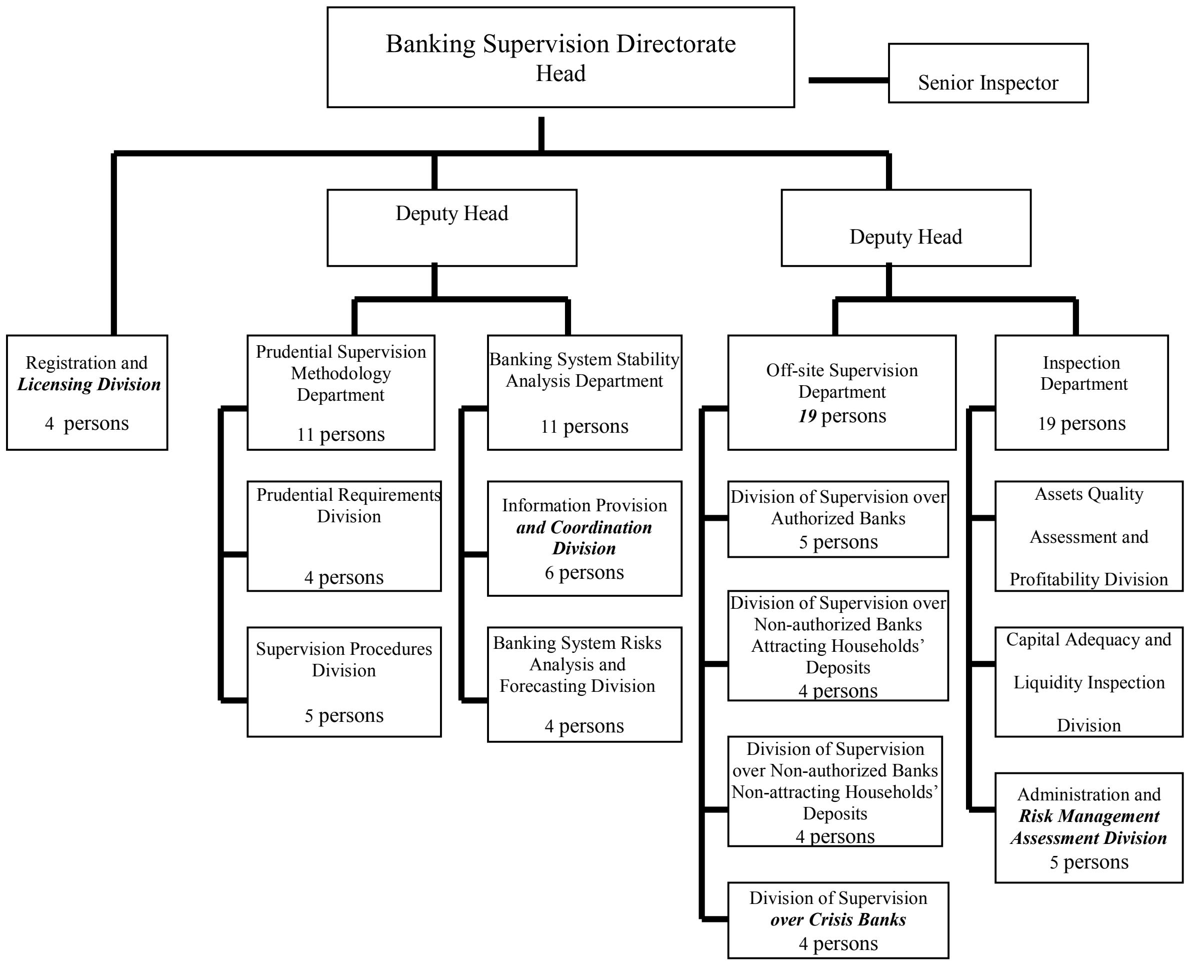
The banks' compliance with the secure functioning requirements was constantly followed throughout the year. Efforts directed towards discontinuation of granting preferences regarding banks' compliance with the prescribed prudential regulations and limitations continued. The National Bank was engaged in strengthening supervision in the area of an in-depth analysis of performance indicators, early identification of negative trends and crisis situations, and implementation of the entire range of supervisory response measures.

The National Bank inspects banks in order to reveal on-site their real financial situation and to assess the risks assumed by the bank, the state of the internal control system, organization of management, compliance with the prescribed prudential requirements, accuracy of transactions in book-keeping, and validity of reports.

In 2009, the National Bank conducted 14 comprehensive and thematic inspections in the banks, and inspected eight representative offices of the non-resident banks.

In 2009, the National Bank continued macroprudential oversight, whose key tools, along with monitoring and analyzing of trends in the financial stability indicators, are the scenario analysis, stress testing, and early warning systems.

ORGANIZATIONAL CHART OF THE BANKING SUPERVISORY AUTHORITY



INTERNATIONAL ACTIVITIES OF THE AUTHORITY

The National Bank is endeavoring to establish and develop contacts and exchange of information with foreign banking supervision agencies. Of particular interest is cooperation with those countries in which the representative offices of the Belarusian banks are located and whose banks have set up subsidiaries and representative offices in the Republic of Belarus.

In 2009, were agreed and signed the Memorandums with the Bank of Lebanon, the Central Bank of Montenegro, the Central Bank of the Islamic Republic of Iran, the Georgian Financial Supervisory Agency and the Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Market and Financial Organizations. By end-2009, 15 bilateral agreements with foreign banking supervision agencies were in force.

In April 2009, the technical mission from the IMF's Monetary and Capital Markets Department worked at the National Bank of the Republic of Belarus in order to hold consultations on the classification of amounts owed under credits and creation of special provisions.

The International Monetary Fund was regularly provided with documents within implementation of the credit agreement under the stand-by arrangement and the World Bank in the course of development of a new program of provision of financial support to the Republic of Belarus.

The National Bank of the Republic of Belarus in concert with the Group of Banking Supervisors from Central and Eastern Europe (BSCEE) held on May 25-28, 2009 in Minsk (Republic of Belarus) the 22nd Annual BSCEE's Conference.

COOPERATION WITH THE OTHER SUPERVISORY BODIES IN THE REPUBLIC OF BELARUS

In carrying out banking supervision functions, the National Bank of the Republic of Belarus cooperates on a regular basis with the Ministry of Internal Affairs of the Republic of Belarus, the Office of Public Prosecutor of the Republic of Belarus, the Committee of State Control of the Republic of Belarus, financial investigation bodies, and tax authorities.

OTHER RELEVANT INFORMATION AND DEVELOPMENTS

More detailed information on the developments in the banking system and the banking supervision in the Republic of Belarus may be obtained at the official website of the National Bank of the Republic of Belarus (www.nbrb.by/engl/publications/regulrep/).

STATISTICAL TABLES

Number of financial institutions *

Type of financial institution	2007	2008	2009
Commercial banks	27	31	32

Ownership structure of the financial institutions on the basis of registered capital (%) (at year-ends)

Type of financial institution	2007	2008	2009
Public sector ownership	86,27	80,58	70,03
Other domestic ownership	3,89	2,46	2,72
Domestic ownership total	90,16	83,04	72,75
Foreign ownership	9,84	16,96	27,25
Financial institutions, total	**100,00**	**100,00**	**100,00**

Ownership structure of the financial institutions on the basis of assets total (%)

Type of financial institution	2007	2008	2009
Public sector ownership	76,50	77,88	72,31
Other domestic ownership	3,84	1,56	1,21
Domestic ownership total	**80,34**	**79,44**	**73,52**
Foreign ownership	19,66	20,56	26,48
Financial institutions, total	**100,00**	**100,00**	**100,00**

Concentration of asset by the type of financial institutions

Type of the financial institutions	FOREX assets / Total assets			FOREX liabilities / Total liab.		
	2007	2008	2009	2007	2008	2009
Bank	69,79	63,83	71,88	85,95	85,09	83,98

Return on Asset (ROA) by type of financial institutions (%)

Type of financial institution	2007	2008	2009
Bank	1,70	1,37	1,43

Return on Equity (ROE) by type of financial institutions (%)

Type of financial institution	2007	2008	2009
Bank	10,70	9,60	8,93

Distribution of market shares in balance sheet total (%) (groupage of acting banks according to capital)

Type of financial institution	2007		2008		2009	
	Quantity of banks	market share	Quantity of banks	market share	Quantity of banks	market share
Bank's capital	27	100,00%	31	100,00%	31	100,00%
incl.						
negative capital	0	0,00%	0	0,00%	0	0,00%
to 10 bln. roubles	0	0,00%	0	0,00%	0	0,00%
from 10 to 30 bln. roubles	8	1,01%	5	0,28%	3	0,22%
from 30 to 70 bln. roubles	8	3,80%	14	3,41%	9	1,72%
from 70 to 500 bln. roubles	9	35,34%	7	11,22%	12	8,91%
from 500 to 1000 bln. roubles	0	0,00%	3	21,26%	5	23,36%
more than 1000 bln. roubles	2	59,85%	2	63,83%	2	65,79%

The structure of assets and liabilities of the banking system (%) (at year-end)

Assets	2007	2008	2009
Cash assets, gold, precious metals	2,6%	2,9%	2,6%
Assets in the National Bank of the Republic of Belarus	1,9%	2,6%	3,0%
Accounts in other banks	7,7%	7,4%	6,7%
Required reserves	2,4%	1,7%	0,9%
Securities	7,1%	6,8%	4,2%
Credit to individuals and enterprises	73,4%	74,1%	78,1%
Permanent assets and intangibles	3,4%	2,9%	2,8%
Other assets	1,5%	1,6%	1,7%
Total Assets	**100,0%**	**100,0%**	**100,0%**
Liabilities	**2007**	**2008**	**2009**
Own capital	15,8%	17,5%	16,1%
Settlement and current accounts	12,5%	12,8%	12,7%
Correspondent accounts of other banks	0,8%	0,3%	0,3%
Deposits and credit resources of other banks	14,0%	12,2%	12,9%
Deposits of individuals and enterprises	48,1%	47,2%	43,7%
Credit resources of the National Bank of the Republic of Belarus	3,8%	4,9%	10,0%
Other liabilities	5,0%	5,1%	4,3%
Total Liabilities	**100,0%**	**100,0%**	**100,0%**

Development of off-balance sheet activities (off balance sheet liabilities / balance sheet total) (%)

Type of financial institution	2007	2008	2009
Commercial banks	154,07%	143,19%	140,91%

Solvency ratio of financial institutions

Type of financial institution	2007	2008	2009
Commercial banks	19,3%	21,8%	19,8%

Asset portfolio quality of the banking system

Asset classification	2007	2008	2009
Loans, total	33765,92	51894,33	71089,17
Non-performing loans	649,04	873,20	3013,73
Substandard (categories III)	459,06	680,74	1721,52
Doubtful (categories IV)	34,14	69,69	856,24
Loss (categories V)	155,84	122,77	435,96
Special reserves (provisions)	399,46	611,08	1352,73

The structure of deposits and loans in 2009 (%) (at year-end)

	Deposits	Loans
Commercial organizations	9,1%	25,3%
Households	55,4%	25,1%
Noncommercial organizations	32,8%	48,6%
Nonbank financial institutions	2,7%	1,0%
Total	**100,0%**	**100,0%**

The structure of deposits and loans in 2009 (%) (at year-end)

Types of deposits		Types of loans	
Demand deposits	37,98%	Long-term lending	72,00%
Time deposits	62,02%	Short-term lending	28,00%
Total	**100,00%**	**Total**	**100,00%**

Proportion of foreign exchange assets and liabilities (at year-ends)

Type of the financial institutions	FOREX assets / Total assets			FOREX liabilities / Total liab.		
	2007	2008	2009	2007	2008	2009
Commercial banks	36,45%	29,70%	30,66%	36,45%	29,71%	30,67%

Structure of revenues and expenditures of financial institutions (at year-ends)

Revenues	2007	2008	2009
Interest revenues	3 215,1	4 776,5	8 615,3
Commission	1 060,7	1 481,3	1 774,3
Other revenues	422,3	1 035,2	1 829,3
Other operational revenues	140,5	96,6	180,3
Reserve settlement	178,2	252,1	446,7
Unanticipated revenues	-	11,5	27,9
Total revenues	**5 016,8**	**7 653,2**	**12 873,9**
Expenditures	**2007**	**2008**	**2009**
Interest expenses	1 980,9	3 182,2	5 865,9
Commission	162,2	233,1	335,2
Other expenses	63,8	511,2	1 138,5
Other operational expenses	1 914,3	2 413,1	3 023,5
Allocation to reserve	311,0	582,9	1 426,4
Unanticipated expenses	-	1,0	0,1
Total expenses	**4 432,2**	**6 923,5**	**11 789,7**
Economic revenue	**584,6**	**729,8**	**1 084,2**

Excluding banks under liquidation

Structure of registered capital and own funds of financial institutions in 2009

Type of financial institution	Registered capital	/Total assets	Own funds	/Total liab.
	EUR mln	%	EUR mln	%
Banks	2327,2	11,02%	3 265,5	15,46%

2009 DEVELOPMENTS IN THE BANKING SYSTEM OF THE FEDERATION OF BOSNIA AND HERZEGOVINA

MACROECONOMIC ENVIRONMENT

According to the preliminary estimates[14], the nominal value of the GDP for Bosnia and Herzegovina (B&H) in 2009 was KM 23,9 bn, which represents a nominal decrease of 3,2 %, compared to the year 2008. According to the preliminary estimates[15], GDP for the Federation of Bosnia and Herzegovina (FB&H) for the year 2009 amounted to KM 15.168 mil, while GDP/capita amounted to KM 5.322.

According to annual report published by the World Bank (Doing Business), business environment in B&H has slightly improved during year 2009 and it shows a very modest step forward, unlike the other countries in the region.

Industrial production volume index in BH shows that in 2009 industrial production volume is lower by 3.3% compared to 2008. The production volume achieved in December 2009 decreased by 4.5% of the production volume recorded in the same month of the previous year. Considering December 2009 in relation to December 2008, the analysis of the structure of industrial production index shows that production volume growth by 1.6% was recorded in the field of mining in B&H, while production volume decrease in amount of 5.3% and 5.4% was recorded in the areas of manufacturing and supply of electricity, gas and water, respectively.

In FB&H, industrial production volume was lower by 11.6% in 2009 than in 2008. Industrial production volume increased by 3.4% in FB&H in the fourth quarter compared to third quarter of 2009. The analysis of monthly trend of the industrial production index in 2009 shows that in FB&H industrial production volume recorded an average rate of decrease of by 0.9%. In the fourth quarter in FB&H the value of construction is by 7.8% less than in the third quarter of 2008, while in December 2009 compared to the previous month, the value of construction works increased by 15%, and compared to December 2008 it reduced by 36.1%.

Observed at the annual level, the consumer price index in B&H was 100 (inflation rate 0.0%) in December 2009, which means that prices in December 2009 are at the same level as in December 2008; observed at the monthly level, the prices increased by 0.1% in December of 2009. Although the fourth quarter of 2009 recorded price growth of 0.9% compared to the third quarter, the prices in 2009 compared with 2008 are lower by 0.4%.

The Consumer Price Index structure indicates that the largest price decline on an annual basis (December 2009/ December 2008) was recorded in clothing and footwear industry (4.3%), the prices of food and beverages fell by 3.1%, the

[14] Estimates of Central Bank of Bosnia and Herzegovina which are in use as preliminary data till publishing of BH Agency of statistics official GDP
[15] Estimates of Federal office of Statistics (first results)

prices of furniture, devices and regular household maintenance by 0.8% and the cost of communication by 0.2%.

The annual inflation rate recorded in December 2009 in B&H is lower than the annual rate of inflation in the Euro zone by 0.9%, while compared to the EU 27 it is lower by 1.4 percentage points. Annual inflation in B&H for the year 2009 is 99.62 – deflation of 0.38% – compared to the year 2008.

Observed annually, in December 2009 FB&H recorded a deflation of 0.3%, with prices increased by 0.1% in December, observed at a monthly level. Although FB&H recorded price increase by 0.8% in the fourth quarter compared to third quarter, the prices went down by 0.3% in 2009 compared to 2008.

The average net wage in the year 2009 amounted to KM 790 (an increase of 1.3% compared with the same period of the previous year) and in the fourth quarter of 2009 in B&H amounted to KM 794, which constituted an increase of 0.9% compared to the previous quarter.

The labor force survey for the year 2009 indicates that unemployment rate in B&H during 2009 was 24.1% (number of unemployment persons during 2009 in B&H is around 272.000 persons). According to administrative data, excluding the grey economy, the number of employees in B&H in December 2009 amounted to 694,410 persons; out of that number 426.197 are employed in the FB&H, 252.026 in RS and 16.187 people in the Brcko District. According to these data in December 2009 there were 22.038 persons or 5.6% less employed in B&H than in December 2008. A total of 30 commercial banks were operating in B&H (20 based in FBH and 10 based in RS) during the fourth quarter of 2009. Looking at the ownership structure of banks in B&H, there were no changes comparing with the previous quarter. Therefore, out of the total number of banks, 21 banks are in foreign ownership, seven in local private ownership and two in majority state ownership.

According to the data of the Deposit Insurance Agency figures in the fourth quarter of 2009, 24 commercial banks in B&H are members of the insurance scheme. Maximum amount of insured deposit is KM 20.000 and refers to the deposits of natural persons.

Total deposits with commercial banks at the end of 2009 amounted to KM 2.19 billion, which, compared to the third quarter of 2009, represents the increase of KM 215.7 million or 1.8%, and the increase by KM 249.8 million or 2.1% at the annual level.

In the last quarter of 2009, the lending rates of commercial banks in BH had a decreasing trend after a long period of growth in interest rates. The weighted average of all active interest rates was 8.44% in December, which is lower by 32 base points compared to September 2009.

Following the trend of reduced interest rates in the Euro zone in the earlier periods of 2009, the interest rates remained stable, and in the fourth quarter the twelve-month EURIBOR ranged from 1.26 to 1.24%. In December, the difference between active interest rates and twelve-month EURIBOR amounted to 7.2 percentage points.

DEVELOPMENT IN THE BANKING SYSTEM (INCLUDING THE ASSETS TOTAL/GDP)

The impact of the global economic crisis and its negative effects on the overall economy of B&H from the last quarter of 2008 continued in 2009, especially over the second six months, resulting by further deterioration of the condition of the real sector. Previously described conditions also adversely affected the banking sector and the key performance indicators.

General characteristic of the banking sector's performance under strong effect of the crisis is growth stagnation as the result of the restricted access to funding sources, both deposit and credit, while structural changes in the assets are only due to banks' new business strategies that are adopted for more difficult performance conditions and the state of the environment characterized by restricted or minimum growth, strengthened focus on liquidity and credit risk, implementation of restrictive credit policies resulting in decrease of credit portfolio and has as a goal a decrease of risk assets and maintenance of adequate levels of capital. On the other hand, the result is an increase in liquid funds and good liquidity of the banking sector.

However, in spite to all difficulties, banks were quite successful in managing the crisis. They have realized the performance that enabled a solid stability of this sector and preserved confidence of their customers, along with the increased concern and focus on liquidity and credit risk. In this process, along with decreasing overall number of organizational units, and increasing number of ATMs, number of employees in banks decreased by over 4%.

With an aim to hinder the adverse effects of the economic crisis, the Management board of Federation Banking Agency (FBA) adopted the Decision on temporary renegotiation of citizens and legal entities' credit liabilities in the banks, in order to extend the final maturity date for credit repayment and resulting decrease of credit installments.

Encourages the fact that majority of banks in B&H, that are in the ownership of the foreign groups, are implementing the "Vienna Initiative" (the agreement for the continuation of financing the citizens and economy of B&H, maintained their financial support on the level as of 31.12.2008); this is of a great importance for the overall performance security of the banking sector in the FB&H.

At the end of 2009, there were 20 banks with banking license issued in the FB&H (the same amount as stated in 2008), out of which 18 banks were majorly privately owned and 2 commercial banks majority were state owned. Among these banks, 2 banks are under provisional administration.

As a continuation from the previous year, domination of five largest banks in the system is still present, holding approximately 80% of the market, loans, deposits and capital. Fourteen banks have higher assets when compared to the end of 2008, while the remaining 6 banks recorded a downfall.

The assets of banks recorded an insignificant growth of 1% or 163 million KM, reaching the amount of 15,2 billion KM. Over the past five years (the period since the beginning of 2005 to the end of 2009), the aggregate balance sheet of the system increased by more than 2 times.

Total capital of banks amounted to 1,7 billion KM (shareholders' was 1,17 billion KM), representing an increase of 2%, compared to the year 2008; the core capital growth is primarily based on a distribution of the 2008 profit to the capital. Furthermore, the capital increase was also caused by the inflow of new, green capital – additional capitalization in six banks of KM 43,5 million, which is 20% increase, if compared to 2008.

Capitalization rate of banks, expressed as a capital to assets ratio, as of 31.12.2009, was 13,1%, representing a decrease of 0,2 per cent compared to the end of 2008.

Banks have established loan loss provisions in accordance with the regulations and level of the estimated credit risk. Based on an analysis of the established provisions, in total amount and by classification categories, if compared to the end of 2008, general loan risk and potential loan loss provisions have increased by 16%, amounting to 535 million KM, while relative ratio of risky assets and off-balance sheet items have increased from 3,47% to 4,25%, if compared to the end of 2008.

The asset quality analysis, that is, the loan portfolio analysis of individual banks, as well as onsite examinations at banks, indicate loan risk as still dominant risk with majority of banks, raising a concern that some banks still have inadequate management practices, such as: evaluation, measuring, monitoring, and control of loan risk and assets classification in place, which was determined in on-site examinations through significant amount of insufficient loan loss reserves that banks have established, based on the orders/decisions issued by the FBA.

The banking system in the FB&H in 2009 generated minimum profit in amount of nine thousand KM (final non-audited data for 2009), while the profit in 2008 was 50 million KM. Positive financial result of 52.975 thousand KM was generated by 13 banks, which is lower by 41% (36 million KM) than in 2008, and the loss of 52.966 thousand KM was reported by seven banks, that is 36% (14 million KM) higher than reported in 2008.

Reasons of declining the entire sector's success in 2009 were credit activities deterioration along with unemployed cash funds increase, as well as the significant increase of loan loss provisioning due to asset quality deterioration. High oscillations in the reported financial result at the sector level, if compared to the periods over the past three years, were mainly under influence of the events in stock exchanges related to price changes in securities trading, such as high income in 2007, that is, high expenses in 2008, while in 2009, the main reason of such bad financial result, as already mentioned, was decline in loan portfolio quality and consequently increased loan loss provisions.

However, in 2009 adverse movements from the last quarter of 2008 were stopped in the segment of liquidity risk, while the general liquidity indicators were improved. Liquidity of the banking system in the FB&H is still sound, with a satisfactory participation of liquid assets in total assets, and coverage of short term liabilities by liquid assets. Consolidation, development and stabilization of the banking sector of the FB&H during reform implementation has reached an enviable level, so the upcoming activities should be aimed at preserving its stability as priority task in the current stressing conditions, and its further progress and development. These goals require continuous and vigilant engagement of all parts of the system, legislative and executive authorities, which is a prerequisite to create the most favorable economic environment that would be stimulating to both banks and consequently to the real sector of the economy and citizens.

In developed, industrialised countries, assets are two times or even more higher than their GDP, while in transition countries this indicator is below 100%.

The banking sector of the FB&H has solid performance, and according to the data for the year 2008, the assets reached 99.93% of the GDP for the FB&H.

THE LEGAL AND INSTITUTIONAL FRAMEWORK OF THE OPERATION AND SUPERVISION OF FINANCIAL INSTITUTIONS, NEW DEVELOPMENTS. LEGAL COMPETENCE OF THE BANKING SUPERVISORY AUTHORITY IN BOSNIA AND HERZEGOVINA

A) LAWS (new developments in 2009):

1. Law on Leasing ("Official Gazette of the F B&H", number 39/09),
2. Law on Prevention of Money Laundering ("Official Gazette of B&H", number 53/09),
3. Law on Deposit Insurance in B&H („Official Gazette of B&H", number 75/09),
4. Law on Competition („Official Gazette of the FB&H", number 80/09),
5. Law on Opening Balance Sheet of Enterprises and Banks ("Official Gazette of the FB&H",
6. number 65/09),
7. Law on Accounting and Audit in the FBiH ("Official Gazette of the FB&H", number 83/09),
8. Law on Determination and Fulfillment Method of Internal Liabilities of the FB&H ("Official
9. Gazette of the FB&H", number 65/09),
10. Law on Determination and Fulfillment of Citizen Claims from Privatization Process ("Official Gazette of the FB&H", number 65/09),
11. Law on Executive Proceeding ("Official Gazette of the FB&H", number 39/09),
12. Law on Criminal Proceeding ("Official Gazette of the FB&H", number 9/09),
13. Law on Registration of Business Entities in the Federation of B&H ("Official Gazette of the FB&H", number 43/09).

B) PRUDENTIAL REGULATIONS ISSUED BY FBA - Federal Banking Agency (new developments in 2009):

1. Decision on Minimum Standards for Market Risks Management in Banks ("Official
2. Gazette of the Federation of B&H", number: 55/07, 81/07, 6/08, 52/08 and 79/09),
3. Decision on Unified Accrual and Declaration of Effective Interest Rate on Loans and
4. Deposits ("Official Gazette of the Federation of B&H", number 27/07 and 46/09),
5. Decision on Minimum Standards for Operating Risk Management in Banks
6. („Official Gazette of the FBiH", number: 6/08 and 40/09),
7. Decision on Determining Level of Fees to Conduct Supervision of Development Bank
8. of the Federation of B&H ("Official Gazette of the FB&H", 65/09).

Legal competences of FBA:

1. Issuance of license for establishment and work of banks, micro-credit organizations and leasing companies, issuance of license for changes of organizational system of banks, micro-credit organizations and leasing companies, type of activity and approvals for appointment of their managing staff;
2. Supervision of banks, micro-credit organizations and leasing companies, undertaking of measures in accordance with law;
3. Revoking work license from banks, micro-credit organizations and leasing companies in accordance with law;
4. Administration or supervision of bank rehabilitation and liquidation process and initiation of bank bankruptcy procedure;
5. Adoption of sub-legislation regulating work of banks, micro-credit organizations and leasing companies;
6. Evaluation of conditions and issuance of approval to banks for the next issue of shares;
7. Implementation of actions in the support of anti-terrorist activities related to banks;
8. Taking all such actions as may be appropriate, which may include the blocking of customer accounts in any bank or banks within the jurisdiction of the Federation Banking Agency, in order to prevent the funding of activities which are, or which threaten to be, obstructive of the peace implementation process as pursued under the aegis of the General Framework Agreement for Peace in Bosnia and Herzegovina and requiring the Central Bank of Bosnia and Herzegovina to open a special reserve account; requiring the banks in which accounts are blocked under item, aforesaid and transfer criminal funds to the safe keeping of the Central Bank of Bosnia and Herzegovina, or one of its main units and undertake numerous actions related to above mentioned issues including revocation of banking licenses and other kinds of authorizations.

MAIN STRATEGIC OBJECTIVES OF THE SUPERVISORY AUTHORITY IN 2009

FBA set up the following priorities for the year 2009:

1. to take measures and activities within FBA’s jurisdiction to cope with and mitigate the negative effects of the global financial crisis on the banking sector in the FB&H;
2. to continue the implementation of activities under its jurisdiction and to improve the efforts of creating the banking supervision at the state level;
3. to continue the process of permanent monitoring of banks, primarily those with systemic significance to development of credit activities with the highest concentration of savings and other
4. deposits in order to protect depositors,
5. to continue the process of amending and developing of regulation based on the Basle Principles, the Basle Capital Accord, and the European Banking Directives, as part of B&H’s preparation to join the European Union,

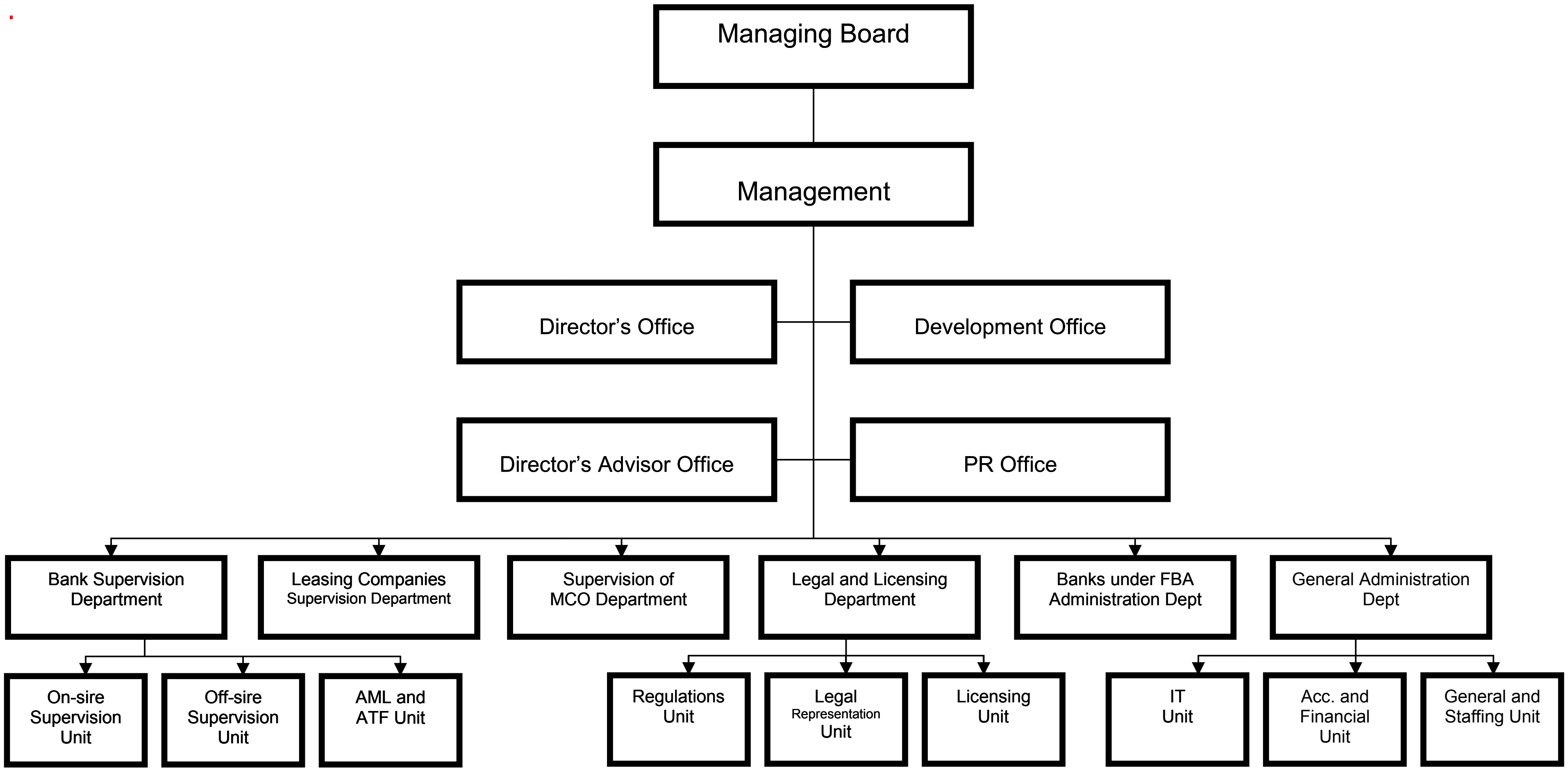
6. to establish and expand cooperation with home country supervisors of the investors present in the banking sector of the FB&H, and other countries in order to have more effective supervision,
7. to continue the process of implementation of Basel II requirements in the FB&H;
8. to continue the operational improvements of information system that will enable early warning system and preventive action to resolve weaknesses in business operations of banks;
9. to continue work on permanent education of the FBA's staff.

THE ACTIVITIES OF THE BANKING SUPERVISORY AUTHORITY IN 2009

The FBA, in 2009, among other things, implemented the following activities:

1. Continuous monitoring through reports (off-site examination), monitoring of financial condition of banks and MCOs, as well as conducting of on-site examination in banks and MCOs;
2. Taking measures anticipated by laws and other regulations within the scope of its authority;
3. Further implementing of the Strategy to Introduce Basel II - "International Convergence of Capital Measurement and Capital Standards";
4. Development and advancement of the regulatory framework in accordance with the law, development trends of generally acceptable international principles and standards, as well as recommendations made by the international bank supervision institutions;
5. Strengthening of banks' capital, enhancement of their lending policies and their consistent implementation in practice, raising prudency to the highest possible level in credit risk management that is still dominant in BiH and liquidity risk, as well as strengthening of the capacities for potential crisis situation management;
6. further cooperation with domestic and foreign global and other institutions, as as the International Monetary Fund, the World Bank, Group of Banking Supervisors of Central and Eastern Europe and others, as well as with supervisory authorities from home countries of parent banks that in the FBiH have their banks-subsidiaries with whom the FBA, together with the Central Bank of BiH and Banking Agency of RS, has signed Memorandums of Understanding;
7. initiating a special form of concrete working cooperation through so called „colleges" regarding performance issues and condition of parent banks and their „daughter-banks" that is subsidiaries.

ORGANIZATIONAL CHART OF THE BANKING SUPERVISORY AUTHORITY



INTERNATIONAL ACTIVITIES OF THE AUTHORITY

In June 2009, the FBA signed the Memorandum of Understanding with the Banking Regulation and Supervisory Agency of Turkey.

Realization of the idea to form an Initiative for coordination of the European banks, often quoted as „Vienna Initiative, took place in June 2009. „The Vienna Initiative" represents a partnership among the international financial institutions (IMF, EU, EBRD, IFC), the western-European banking groups and the authorities of host countries with responsibilities being assigned to overcome the crisis period. Based on „the Vienna Initiative", banks in BiH have exclusively committed themselves to maintain the level of financing and capital at the level that corresponds to the condition as of certain date, and in that way help their subsidiaries to continue implementing their business activities. As support to such decision made by banks, other three international financial institutions (European Bank for Reconstruction and Development, European Investment Bank, and IFC World Bank) prepared specific financial support to banks to raise capital level and ensure adequate financing during the crisis. The Agreement, that is, the Vienna Initiative was signed by nine banking groups that operate in Bosnia and Herzegovina. Monitoring of commitments undertaken by signing the Vienna Initiative will be performed through stress tests and monitoring of exposure level in terms of financing and capital.

In the previous period, as especially intensified during 2009, as one of types of cross-border supervisory cooperation, there were established and regularly maintained supervisory colleges organized by regulatory authorities in the headquarters of the parent companies of (parent) banks with participation of regulatory authorities of the countries where the mentioned banks have their subsidiary-banks. The FBA employees, during 2009, actively participated in 6 supervisory colleges and one working meeting organized by the regulatory authorities of Italy, Austria, Germany and Slovenia.

COOPERATION WITH OTHER SUPERVISORY BODIES IN BOSNIA AND HERZEGOVINA

The FBA has established cooperation with many supervisory bodies and other institutions in our country (e.g. Memorandum of Understanding with: Central Bank of Bosnia and Herzegovina, Deposit Insurance Agency of B&H, Insurance Companies Supervision Agency, Intelligence-Security Agency of B&H and other domestic institutions).

OTHER RELEVANT INFORMATION AND DEVELOPMENTS

The FBA, during 2009, participated in the activities regarding preparation of the Project called „Strengthening macro and micro-prudential supervision in EU candidates and potential candidates". The program was created by the European Central Bank 13 national central banks of the Eurosystem. From BiH, the Project involves joint activities of the CBBiH, FBA and BARS (Banking Agency of Republic Srpska) in cooperation with regulatory authorities of 7 EU candidates and potential candidates (apart from BiH, participants of the project are: Albania, Montenegro, Croatia, Kosovo, Macedonia, Serbia, Turkey).

STATISTICAL TABLES

Number of financial institutions (head offices/branches) (at year-ends)

Type of financial institution	2007	2008	2009
Banks	22	20	20
Microcredit Organizations (MCOs)[16]	N/A	20	19
Financial institutions, total	**22**	**40**	**39**

Ownership structure of the financial institutions on the basis of registered capital (%) (at year-ends)

Type of financial institution	2007	2008	2009
Public sector ownership	12,8	4,1	3,6
Other domestic ownership	13,0	12,8	13,1
Domestic ownership total	25,8	16,9	16,7
Foreign ownership	74,2	83,1	83,3
Financial institutions, total	**100.0**	**100.0**	**100.0**

Ownership structure of the financial institutions on the basis of assets total (%)

Type of financial institution	2007	2008	2009
Public sector ownership	2,7	1,3	1,1
Other domestic ownership	4,9	4,4	5,0
Domestic ownership total	7,6	5,7	5,61
Foreign ownership	92,4	94,3	93,9
Financial institutions, total	**100.0**	**100.0**	**100.0**

[16] Microcredit organization (MCO) is a non-deposit financial institution whose main activity is provision of microcredits (MCOs cannot take deposits). MCO is a legal entity which may be founded and operate as a microcredit company - MCC (for-profit MCO) or as a microcredit foundation - MCF (nonprofit MCO). Of these 20 MCOs, 19 are registered as MCFs, and 1 as an MCC.

Concentration of asset by the type of financial institutions

Type of the financial institutions	The first three largest (%)	The first five largest (%)
Bank	65%	78%
Credit Cooperatives		
Financial Institutions		
Savings Cooperatives		
Specialized Credit Institutions / MCOs	60 %	84 %

Return on Asset (ROA) by type of financial institutions (%)

Type of financial institution	2007	2008	2009
Bank	0,85	0,36	0,00
Credit Cooperatives			
Financial Institutions			
Savings Cooperatives			
Specialized Credit Institutions/ MCOs-AROA[17]		3,1%	-5,20 %

Return on Equity (ROE) by type of financial institutions (%)

Type of financial institution	2007	2008	2009
Bank	11,64	5,22	0,00
Credit Cooperatives			
Financial Institutions			
Savings Cooperatives			
Specialized Credit Institutions/ MCOs-AROE[2]		16.1%	-25.02 %

[17] MCOs are obliged to report on the Adjusted Return on Assets and Equity (ARO and AROE) that include adjustments for inflation, market cost of capital and non-cash donations. According to the FBA regulation, MCO's AROA must be positive.

Distribution of market shares in balance sheet total (%)*

Type of financial institution	2007	2008	2009

[2] *MCOs are obliged to report on the Adjusted Return on Assets and Equity (AROA and AROE) that include adjustments for inflation, market cost of capital and non-cash donations.*

The structure of assets and liabilities of the banking system (%) (at year-end)

Assets	2007	2008	2009
Cash and securities	34,8	28,1	32,2
Placements to other banks	0,5	0,6	0,7
Loans- net value	60,2	66,6	61,3
Premises and other fixed assets	2,9	3,1	3,4
Other assets	1,6	1,6	2,4
Liabilities	**2007**	**2008**	**2009**
Deposits	71,8	69,4	72,5
Borrowings from banks	0,0	0,0	0,0
Loans payables	13,1	14,4	11,6
Other liabilities	4,5	5,3	4,90
Capital	**10,6**	**10,9**	**11,0**

The structure of assets and liabilities of the microcredit system (%) (at year-end)

Assets	2007	2008	2009
Cash		3%	13 %
Net loans		90%	77 %
Business premises and other fixed assets		5%	7 %
Long-term investments and other assets		2%	3 %
Liabilities	**2007**	**2008**	**2009**
Short-term loans		19%	16 %
Long-term loans		77%	81 %
Other liabilities		4%	3 %

Development of off-balance sheet activities (off balance sheet liabilities / balance sheet total) (%)

Type of financial institution	2007	2008	2009
Banks	19,54%	19,33%	16,62%
Microcredit organizations		1,9%	10,3 %
Financial institutions, total	**19,54%**	**21,23%**	**26,92%**

Solvency ratio of financial institutions

Type of financial institution	2007	2008	2009
Banks	89,4	89,1	89

Asset portfolio quality of the banking system

Asset classification	2007	2008	2009
Category A	89,8	90,2	87
Category B	8,7	8,0	10
Category C	0,8	0,9	2
Category D	**0,7**	**0,9**	**1**
Category E	-	-	-
Classified total	**100**	**100**	**100**
Specific reserves	**11,9**	**13,1**	**14,18**

Asset portfolio quality of the microcredit system

Asset classification	2007	2008	2009
PAR (over 30 days)[18]		4%	8,6 %
Non-risk portfolio		96%	91,4 %
Classified total		**100**	**100**
Specific reserves			

[18] MCOs are obliged to maintain $PAR_{(30)} < 5\%$.

**The structure of deposits and loans in 2009 (%)
(at year-end)**

	Deposits	Loans
Households	40,8	48,6
Government sector	7,6	0,8
Corporate	25,4	49,8
Foreign	-	-
Other	**26,2**	**0,8**
Total	**100.0**	**100.0**

**The structure of deposits and loans in 2009 (%)
(at year-end)**

Types of deposits		Types of loans	
At sight	40,66	Long term loans	74,3
Within one year	10,46	Medium-term loans	-
Over one year	48,88	Short-term loans	25,7
Total	**100.0**	**Total**	**100.0**

**Proportion of foreign exchange assets and liabilities
(at year-ends)**

Type of the financial institutions	FOREX assets / Total assets			FOREX liabilities / Total liab.		
	2007	2008	2009	2007	2008	2009
Banks	15,6	13,5	17,13	60,3	65,0	63,7

Structure of revenues and expenditures of financial institutions/ banking system (at year-ends)

Revenues	2007	2008	2009
Interest income and similar type of income	73,5	74,8	75,8
Operating income	26,5	25,2	24,2
Expenditures	**2007**	**2008**	**2009**
Interest- and similar expenses	32,1	36,0	33,0
General loan risk and potential loan losses provisioning	17,6	13,1	18,7
Other business and direct expenses	5,8	5,4	5,6
Operating expenses	44,5	45,5	42,7

Structure of revenues and expenditures of financial institutions/MCOs (at year-ends)

Revenues	2007	2008	2009
Interest income and similar income		95%	96 %
Operating income (service fees 91 %, other operating income 9 %)		5%	4 %
Expenditures	**2007**	**2008**	**2009**
Interest expenses and similar expenses		32%	21 %
Operating expenses (Salaries and contributions 54 %, business premises, other fixed assets and utilities expenses 23 % and other operating expenses 23 %)		48%	34 %
Expenses for loan loss reserves and other expenses		20%	45 %

Structure of registered capital and own funds of financial institutions in 2009

Type of financial institution	Registered capital	/Total assets	Own funds	/Total liab.
	EUR	%	EUR	%
Banks	598.546	7,7	238.364	3,4

2009 DEVELOPMENTS IN THE BANKING SYSTEM IN REPUBLIKA SRPSKA OF BOSNIA AND HERZEGOVINA

MACROECONOMIC ENVIRONMENT

The main feature of the year 2009 was the global financial and economy crisis, which indirectly influenced also economy of Republika Srpska (hereinafter: RS). RS entered the year fiscally stable, with privatization process and structural reforms successfully implemented, with a small share of both public consumption and public debt in gross domestic product (hereinafter: GDP), and also direct taxes reforms implemented, with a goal to decrease burdens on economy. Putting into realization RS Development Program, the Government of Republika Srpska has started a large investment cycle, and at the same time the program of RS Investment-Development Bank additionally supported lending activities of financial sector and maintaining of economy activities. Also, RS Government has timely defined and developed the Program of Measures to Alleviate Negative Effects of Global Economy Crisis in Republika Srpska. Additionally, thanks to start-up of previously prepared investment works and infrastructure projects, as well as results given by incentive policy in other programs, RS Government significantly supported economy activity and preservation of employment.

In 2009 a Stand-by Arrangement with IMF was concluded at the level of Bosnia and Herzegovina (hereinafter: BH), with a goal of establishing terms for further growth and EU convergence.

Although Republika Srpska started the year 2009 with agreements EU SAA ratified and CEFTA fully implemented, effects of applying those agreements were undermined by the global economy crisis.

Notwithstanding all measures undertaken the crisis has diminished economy and investment activities decreasing employment as well (by 6.5 thousand persons or 2.8% in comparison with the previous year), mainly in industry and construction, slowing down GDP growth (2009 GDP nominal growth rate was 0.1% - an evaluation), while in the period from 2006 to 2008 GDP in Republika Srpska kept growing at real rate of 5.8% to 6.7%.

In 2009 GDP at current prices amounted to EUR 4,344 million, while GDP/capita amounted to EUR 3,039 million, which in comparison to the average in EU member countries and also in candidate countries were very low values.

RS economy is characterized by a low share of processing industry in the total GDP (9%) i.e. the business activity which should generate technological improvement and products for export, on one hand, and on the other that is a type of production with a low level of final production processes.

The fact that RS disposes of considerable agriculture and forestry resources gives a large share of this type of production in GDP (12%). Export deficit, however, indicates that there is a quality based deficiency in those production activities.

In 2010 basic goals of the RS Government's policy are positive economy growth, safeguarding and continuation of employment, protection of socially jeopardized categories of population, maintaining stability in funding public needs, economy liquidity support, continuation of putting into realization infrastructure projects, savings in public consumption of Republika Srpska, and preservation of financial sector stability.

DEVELOPMENT IN THE BANKING SYSTEM

Nevertheless RS banking sector in 2009 faced negative consequences of the global financial and economy crisis, parameters of its operation indicate that it remained stable, and preserved, even additionally strengthened, citizens' and companies' confidence into banks. Banks' reaction to the financial crisis was even more restrictive and prudent lending policy, stricter classification of credit and other receivables, and a special emphasis was directed to maintenance and planning of liquidity positions.

As of 31.12.2009 balance sheet amount (balance and off-balance sheet) of RS banking sector was smaller by 7%, and balance sheet assets decreased by 6% in comparison with the end of 2008.

Total gross loans increased by 3% in comparison with 31.12.2008, and loans to citizens decreased by 1%. Relatively low lending growth rate was a result of, primarily, much more prudent lending policy applied when extending new placements and decrease in citizens' demand. Additionally, limiting factor for growth of lending was aggravated access to adequate sources, and increasing negative impact of crisis made on the overall economy, thus in the future period it is realistic to expect further deterioration of assets quality, i.e. increase of both poor placements and receivables due.

Share of loans-due in total loans increased from 2.6% to 4.1% in comparison with 2008. Nominal amounts of NPLs were not of concern yet, although additional attention and caution should be paid to their trend of growth in 2009, and anticipation for the trend to continue in 2010 as well. Total reserves to cover potential credit and other loss increased by 36%, and coverage rate of total risk assets by reserves increased from 3.7% to 5.0% as of 31.12.2009.

Deposits are basic source for financing banks' operation having a share of 77%. In 2009 maturity structure of deposits improved. Short-term deposit share decreased from 71% to 59% with a rate of decrease of 26%, while long-term deposit share increased from 29% to 41% out of total deposits with a growth rate of 25% in comparison with the end of the previous year.

All banks were in possession of certificates on their membership in the Deposit Insurance Program. Increasing the limit of citizens' deposit insurance from EUR 3.8 thousand to EUR 10.2 thousand early 2009 was an important event under the crisis providing for depositors additional safety, which resulted in increase of citizens' deposits of 11% in 2009.

Shareholders' capital (equity) was larger by 4% in comparison with 31.12.2008. RS banking sector was liquid and able to meet all obligations in due term. All banks complied with liquidity maintenance requirements prescribed.

As of 31.12.2009 profit before tax amounted to EUR 14.3 million. Banking Agency of Republika Srpska (hereinafter: the Agency) persisted in requesting from banks to allocate their profit in their capital base instead of paying out dividends.

Banks kept adjusting their operations to requirements of the Law on Prevention of Money Laundering and Financing Terrorism, reaching systematization in that segment and improved their cooperation with other regulatory authorities.

In 2009 one of significant banks' activities was rationalization of their unit networks from the aspect of profitability in their operation, and improvement in non-cash payment transactions by increasing the number of ATMs and services in e-banking.

THE LEGAL AND INSTITUTIONAL FRAMEWORK OF THE OPERATION AND SUPERVISION OF FINANCIAL INSTITUTIONS, LEGAL COMPETENCE OF THE BANKING SUPERVISION IN RS AND BH

Laws regulating supervision, scope of business activities, and operation of financial institutions are the following:

- Law on Banking Agency of Republika Srpska ("Official Gazette of Republika Srpska", no. 67/07) - revised text,
- Law on Banks ("Official Gazette of Repubika Srpska", nos. 44/03 and 74/04),
- Law on Micro-Credit Organizations ("Official Gazette of Republika Srpska", no. 64/06),
- Law on Saving-Credit Organizations ("Official Gazette of Republika Srpska", no. 93/06),
- Law on Leasing ("Official Gazette of Republika Srpska", no.70/07).
- Law on Insurance of Deposits in Banks of Bosnia and Herzegovina ("Official Gazette of Republika Srpska", nos. 20/02, 18/05, 100/08 and 75/09).
- Law on Prevention of Money Laundering ("("Official Gazette of BiH", nos. 29/04 and 53/09).

Basic tasks of the Agency, as an independent non-profit institution, under the Law on Banking Agency of Republika Srpska (hereinafter: the Law) are issuing and revoking operation licenses of banks, microcredit organization, saving-credit organization and leasing providers (hereinafter: financial organizations), issuing approvals on changes of organizational capacity and types of business activities performed by financial organizations, passing sub-legal enactments to regulate operation of financial organizations, supervision of financial organizations' operation and undertaking appropriate measures pursuant to the Law and the Agency's Decisions, managing and supervising processes of rehabilitation and liquidation of financial organizations, granting approvals for issuance of shares, undertaking activities to assist anti-terrorist measures related to financial organizations under request of authorities in charge, etc.

Within the scope of its authority, the Agency has passed a series of sub-legal enactments (decisions) regulating supervision and operation of financial organizations, as well as instructions defining in more detail manners and methods for applying decisions stated.

In 2006 IMF and the World Bank, within the Financial Stability Assessment Program for BiH (FSAP), carried out a detailed assessment of compliance of the Agency's operation with Basel core principles for effective banking supervision, where it was confirmed that the Agency's operation was in a great measure consistent with Basel core principles for effective banking supervision.

Legal and sub-legal framework for operation of banks in Republika Srpska is on a large scale adjusted to the International Accord on Capital Measurement and Standards – Basel I, and in the area of market and operational risk management, it is partly adjusted to Basel II, since the Agency continuously harmonizes current regulation under recommendations by the Basel Banking Supervision Committee.

The Agency supervises and examines banks' operation primarily by monitoring solvency, liquidity and profitability of individual banks as well as of the overall banking sector, with a main goal to timely detect and prevent risk events in the banking sector.

Fully applying complete legal regulation prescribed, the Agency supervises financial organizations by means of four departments (off-site department examines prescribed reports submitted by financial organizations; on-site department examines each bank's operation in the very bank; department in charge of micro-credit organizations, saving-credit organizations, and leasing providers performs on-site examinations of those organizations; and anti-money laundering department carries out both on-site and off-site examinations of financial organizations).

Under the Law on RS Banks in cases of irregularities and incompliances found during examinations, the Agency is authorized to undertake a series of measures against financial organizations (to issue written warnings, convene Assembly of Shareholders or other bank's owners to discuss and consider rehabilitation measures to be carried out, issue a written order requesting the bank to stop and to restrain itself from violating the Agency's law and sub-legal enactments, and to undertake rehabilitating measures, impose special request for prudent operation, charge fines, revoke the bank's operating license, etc.)

MAIN STRATEGIC OBJECTIVES OF THE SUPERVISORY AUTHORITY IN 2009

The Agency's main strategic objective is to maintain sound and stable banking system of Republika Srpska, as well as to improve its safe, quality and legal operation. That is why the Agency focused on undertaking activities and measures from its scope of authority to alleviate negative effects of the global financial and economy crisis on RS banking system, enhanced supervision of banks' credit risk, primarily in the sense of adequacy of reserves to cover potential credit loss, as well as banks' capital adequacy, stricter off-site examination of banks' current liquidity, playing an active role in protecting financial service users' rights, augmenting transparency in operation of banks and other financial organizations to maintain confidence in the banking system, and other.

The Agency's strategic preference is full compliance of its banking regulation with EU provisions and international standards for banking operation, which are reflected primarily in EU Directives 48/2006 and 49/2006, as well as in International Accord on Capital Measurement and Standards – Basel II. Therefore the Agency focused its activities related to regulation improvement, system strengthening, and staff education in the following areas:

- Introduction of „International Accord on Capital Measurement and Standards„ – Basel II through the project of technical assistance to BiH financial sector - Partnership for Advancing Reforms in Economy – PARE, under auspices of USAID. In 2009 a working group, consisting of representatives of entity banking agencies and CBBH, started drafting a new legal and regulatory framework based on implementation of fundamental approaches to Basel II (standardized approach for credit and market risk, and basic indicators and standardized approach for operational risk), developing new action plans in accordance with precisely determined deadlines for activities in each segment and staff education on continuous basis, etc.

- Strengthening Macro and Micro-Prudential Supervision Project in Candidate and Potential Candidate Countries under auspices of European Central Bank and funded by EU with a goal to familiarize users of the program with EU banking regulation and good supervisory practices (with emphasis on Home-Host Supervision), as well as with development of European legislation and improvements planned in bank supervision.
- Establishment and development of international cooperation with bank supervision authorities in other countries.
- Cooperation with supervisors of EU mother banks whose subsidiaries are operating in RS.
- Carrying out stress tests (in cooperation with CBBH, Banking Agency of Federation BiH - FBA and IMF Technical Mission in BiH, the Agency carried out a series of stress tests applied to soundness of banking sector, the last one using financial data as of 31.03.2010. Based on IMF parameters for the region, those tests indicated a solid soundness and stability of RS banking sector).
- International Accounting Standards (IAS) implementation (as of 01.01.2010 RS banks have completely harmonized their financial reporting with IAS).

ACTIVITIES OF THE RS BANKING AGENCY IN 2009

Through its off-site department and fully applying complete legal regulation prescribed the Agency in continuity supervised and analyzed financial organizations' operations based on decade, monthly and quarterly reports complying with the law, international accounting standards, and provisions of the Agency. Also, in accordance with the 2009 Supervision Plan the Agency performed overall and targeted on-site examinations of financial organizations.

Based on its analyses of each individual bank, off-site department identified key risks and ability of each institution to absorb such risks. Applying early warning system the department prevented deterioration of institutions' condition and occurrence of new risks in operation. In the course of 2009 the Agency issued 20 warnings to financial organizations (17 banks and 3 saving-credit organizations), in which corrective measures were to be applied within prescribed deadlines. Additionally off-site department identified fields of operation in individual institutions where special supervisory attention should be paid during targeted and overall on-site examination.

In the course of 2009 on-site department performed 6 overall examinations based on CAMEL system, and 12 targeted bank examinations. Department for supervision of micro-credit (MCO) and saving-credit organizations (SCO), and leasing providers performed 7 overall and 5 targeted examinations of MCOs, and 3 overall examinations of SCOs. Department for prevention of money laundering and financing terrorism performed 8 overall and 3 targeted examinations of headquarters in RS, and 3 examinations of branches of banks having their headquarters in Federation of BiH.

Based on examinations carried out the Agency issued a total of 244 orders to remove irregularities found within specific deadlines (160 orders to banks, 42 orders to MCOs and 42 orders to SCOs). Orders mostly requested capital strengthening, improvements in lending policy and their consequent implementation, and improvements in credit and liquidity risk management.

Within its regular activities Legal and General Administration Division issued various permits, approvals to financial organizations under the Licensing Guidelines, and other approvals in accordance with the Agency's provisions (total of 129 rulings).

In 2009 Division for Bank Provisional Administration and Liquidation and technical Assistance continued liquidation procedure of one state-owned bank which had started in 2006.

Under the RS Government's Decision no. 04/1-012-2-990/09 dated May 27 2009, and within its scope of authority the Agency carried out on-site examinations of calculation and recording effective interest rates in banks and micro-credit associations from Republika Srpska, after which decisions were issued ordering institutions to remove irregularities and discrepancies within specified deadlines. All banks were given instructions and recommendations for minimum contents of credit agreements in which changeable interest rate is stipulated depending on bank's business policy modified or modifications in interest margin.

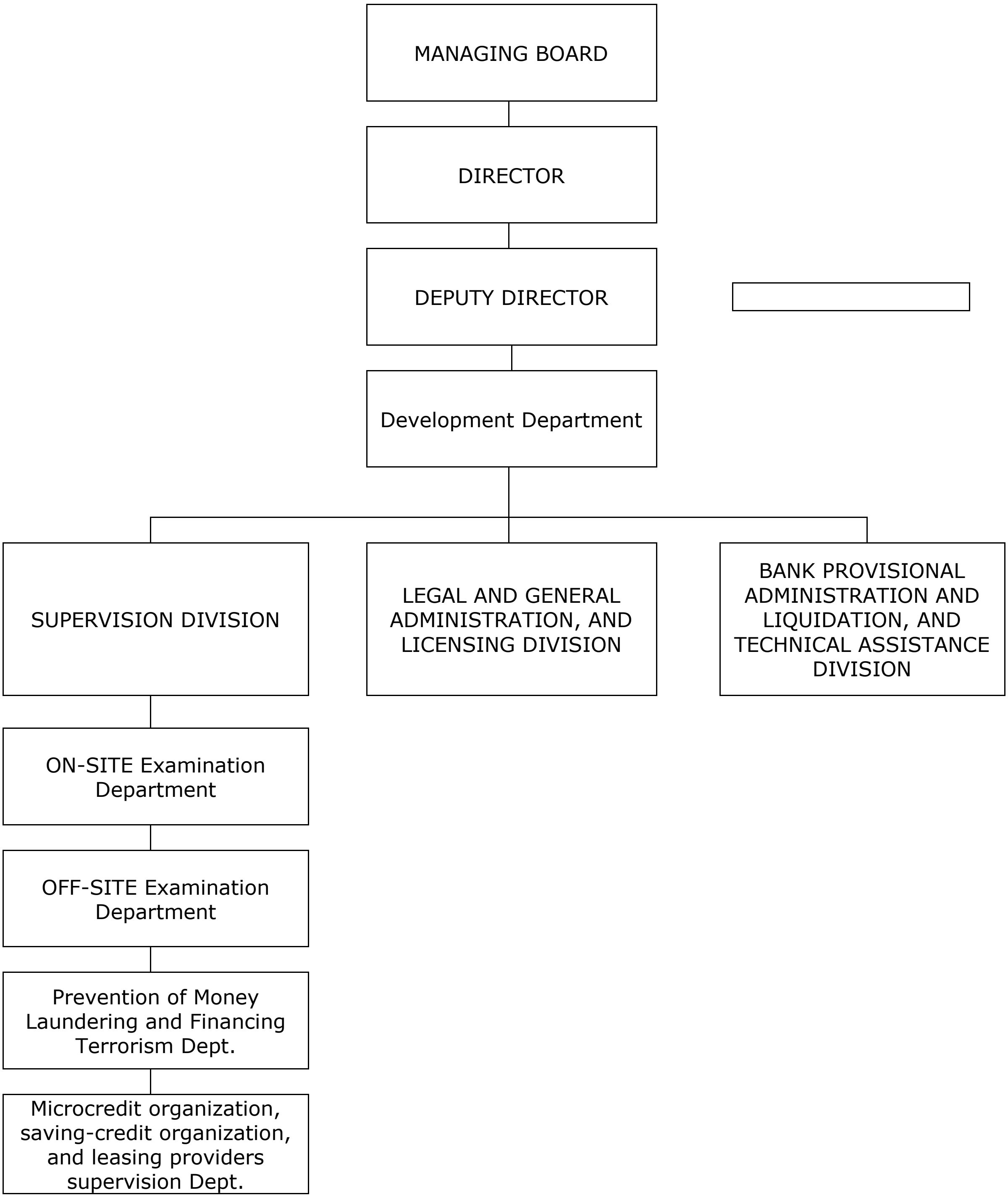
In cooperation with IMF and Central Bank of BiH the Agency continued developing methodology for collecting and analyzing FSI indicators (indicators of financial soundness), which is a precondition of efficient supervision over banking system. In 2009 also in cooperation with IMF and Central Bank of BiH the Agency started developing methodology for applying stress tests in RS banks.

At the end of December 2009 and in order to alleviate negative effects of the global financial crisis, the Agency passed the Decision on Temporary Measures for Rescheduling Credit Obligations of Physical and Legal Persons in Banks (physical and legal persons can apply for credit rescheduling in the course of 2010). The Decision facilitated banks to reschedule credit obligations of both citizens and companies, and at the same time not to jeopardize banking sector stability and safety.

In order to strengthen supervision over banks' operation and to monitor current liquidity in October 2008 the Agency temporarily introduced additional reporting requirements (which continued through 2009 and the first quarter of 2010) as follows:

- Daily report on condition and currency structure of cash funds,
- Daily report on citizens' savings,
- Monthly report on sector and maturity structure of loans,
- Monthly report on sector and maturity structure of deposits,
- Monthly report on maturity adjustment of financial assets and liabilities.

ORGANIZATIONAL CHART OF THE BANKING SUPERVISORY AUTHORITY



INTERNATIONAL ACTIVITIES OF THE RS BANKING AGENCY

The Agency has established cooperation with bank supervision authorities from countries whose banks have equity share in banks of Republika Srpska and Bosnia and Herzegovina. Up to now the Agency has signed Memoranda on Understanding (MOUs) with bank supervisory authorities of: Macedonia, Romania, Bulgaria, Serbia, Montenegro, Cyprus, Croatia, Slovenia, Albania, Greece and Turkey. Among other issues, such Memoranda prescribe exchange of information on change of ownership and managing structures, policies and procedures, capital, assets quality, levels of profitability, liquidity and corrective measures.

The Agency developed cooperation with "Home Supervisors" of those banks having subsidiaries in Republika Srpska, as follows:

- National Bank of Republic of Austria (OENB) and Financial Market Agency (FMA), related to supervision of Hypo Alpe-Adria-Bank and Volksbank;
- National Bank of Slovenia (Bank of Slovenia) related to supervision of Nova Ljubljanska Bank (joint examinations and reporting on such examinations carried out by supervisors);
- National Bank of Italy (Banca d'Italia) related to supervision of UniCredit Bank.

The cooperation with institutions mentioned above includes primarily active participation of the Agency in Supervisory Colleges organized by „Home Supervisors‟, dynamic coordination of examination of subsidiaries, and, when needed, mutual exchange of quarterly information on developments within the group. Currently supervisory cooperation is being established with the National Bank of Serbia related to supervision of Komercijalna Banka.

The Agency is also involved in activities lead by IMF and other relevant financial institutions related to signing MoUs with mother banks from EU countries having equity shares in banks from Republika Srpska and Bosnia and Herzegovina ("Vienna Initiative").

The Agency has also established cooperation with IMF, World Bank, ECB, European Committee, USAID, Joint Vienna Institute, National Banks of Serbia, Slovenia, Croatia, Montenegro, Macedonia, etc.

COOPERATION WITH OTHER SUPERVISORY BODIES IN REPUBLIKA SRPSKA (RS) AND BOSNIA AND HERZEGOVINA (BH)

The Agency has signed Memorandum on Cooperation with Central Bank of Bosnia and Herzegovina, Deposit Insurance Agency of Bosnia and Herzegovina, and Banking Agency of Federation of BiH. The cooperation is regulated by legal and sub-legal provisions becoming more and more intensive. In December 2009 a permanent Financial Stability Committee was established by multilateral signing of MoU among Fiscal Council BiH, CBBH, the Agency, Banking Agency of FBH, and Deposit Insurance Agency.

In order to have a better coordination of institutions at the level of BiH, and more efficient supervision in anti-money laundering and combat against financing terrorism in the course of 2008 BiH Minister Council set up a BiH Institutions' Working Group for prevention of money laundering and financing terrorism, which in the first quarter of 2009 drafted a Law on prevention of money laundering and financing terrorism (in accordance with international standards – the EU Third Directive and FATF Recommendations). The Law was adopted by the Representatives House of BiH Parliamentary Assembly in June 2009.

Current international financial crisis, its negative impact, and increased risks require efficient cooperation and coordination of activities by authorities supervising RS financial sector, with a goal of preservation of its efficiency and stability. Up to establishment of organizationally unique supervisory system of financial sector, which is a final goal, a more efficient cooperation and coordination of supervisory authorities has been set up by passing the Law on Committee for Coordination of Supervision of Financial Sector of Republika Srpska. The Law regulates establishment, method of acting, and scope of authority of the Committee for Coordination of Supervision of Financial Sector of Republika Srpska, and defines cooperation, mutual relationships and obligations of Securities Commission of Republika Srpska, Banking Agency of Republika Srpska, and Insurance Agency of Republika Srpska. Under the Law, individual rights and responsibilities of supervisory authorities, previously stipulated by positive legal provisions, have remained unchanged.

STATISTICAL TABLES

Number of financial institutions (at year-ends)

Type of financial institution	2007	2008	2009
Banks	10	10	10
Micro-Credit Organizations	-	7	7
Saving-Credit Organizations	-	-	3
Leasing Providers	-	-	1
Financial institutions, total	**10**	**17**	**21**

Note:
- Micro-Credit Organizations (MCOs) have started to be supervised by Banking Agency of Republika Srpska since the second half of 2007.
- In Republika Srpska there are four saving-credit organizations (SCO) which started operating in the second half of 2008, and they are currently still in the phase of organizing their business activities.
- Leasing Providers (1) have started to be supervised by Banking Agency of Republika Srpska since the fourth quarter of 2008.

Ownership Structure of the Financial Institutions on the Basis of Registered Capital (%) (at year-ends)

Item	2007	2008	2009
Public sector ownership	0,7	0,7	0,3
Other domestic ownership	17,1	22,1	22,0
Domestic ownership total	17,8	22,8	22,3
Foreign ownership	82,2	77,2	77,7
Financial institutions, total	**100.0**	**100.0**	**100.0**

Ownership structure of the financial institutions on the basis of assets total

Item	2007	2008	2009
Public sector ownership	0,7	0,7	0,3
Other domestic ownership	17,1	22,1	22,0
Domestic ownership total	17,8	22,8	22,3
Foreign ownership	82,2	77,2	77,7
Financial institutions, total	**100.0**	**100.0**	**100.0**

Concentration of asset by the type of financial institutions

Type of the financial institutions	FOREX assets / Total assets	FOREX liabilities / Total liab.
Bank	66,5	84,8
Credit Cooperatives		
Financial Institutions	99,4	-
Savings Cooperatives	100,0	-
Specialized Credit Institutions	100,0	-

Return on Asset (ROA) by type of financial institutions (%)

Type of financial institution	2007	2008	2009
Bank	0,78	0,55	0,32
Credit Cooperatives			
Financial Institutions (MCO)	3,7	2,8	-
Savings Cooperatives			
Specialized Credit Institutions			

Return on Equity (ROE) by type of financial institutions (%)

Type of financial institution	2007	2008	2009
Bank	8,62	6,48	3,40
Credit Cooperatives			
Financial Institutions (MCO)	17,6	14,3	-
Savings Cooperatives			
Specialized Credit Institutions			

Distribution of market shares in balance sheet total (%)*

Type of financial institution	2007	2008	2009
Banks	95,5	94,9	94,5
Micro-Credit Organizations	4,5	5,1	5,4
Saving-Credit Organizations	-	-	-
Leasing Providers	-	-	0,1
Financial institutions, total	**100.0**	**100.0**	**100.0**

The structure of assets and liabilities of the banking system (%) (at year-end)

Assets	2007	2008	2009
Cash Funds	39,3	32,7	28,0
Net Loans	50,6	61,9	65,1
Office Space and Other Fixed Assets	3,4	3,5	3,8
Other Assets	6,7	1,9	3,1
Total:	**100.0**	**100.0**	**100.0**
Liabilities	**2007**	**2008**	**2009**
Deposits	81,5	77,6	77,3
Obligations per Loans Taken	7,3	10,2	10,4
Capital	8,9	9,7	9,9
Other Liabilities	2,3	2,5	2,4
Total:	**100.0**	**100.0**	**100.0**

Development of off-balance sheet activities (off balance sheet liabilities / balance sheet total) (%)

Type of financial institution	2007	2008	2009
Banks	8,9	11,1	9,8
Saving-Credit Organizations	0,3	0,5	3,1
Leasing Providers			
Financial institutions, total	**8,5**	**10,6**	**9,4**

Solvency ratio of financial institutions

Type of financial institution	2007	2008	2009
Banks	16,5	15,7	15,8
Micro-Credit Organizations	-	-	-
Saving-Credit Organizations			
Leasing Providers			
Financial institutions, average	**16,5**	**15,7**	**15,8**

* Law on Banks of Republika Srpska stipulates capital adequacy rate of 12%.
** Adequacy rate has not been stipulated for MCOs, SCOs, LPs.

Asset portfolio quality of the banking system

Asset classification	2007	2008	2009
Category A	1.427,9	1.893,0	1.757,4
Category B	188,2	243,3	323,3
Category C	31,3	40,2	110,2
Category D	18,9	26,5	42,2
Category E	0,0	0,0	0,0
Classified total	**1.666,3**	**2.202,8**	**2.233,0**
Specific reserves	**59,3**	**81,9**	**111,7**

The structure of deposits and loans in 2009 (%)
(at year-end)

	Deposits	Loans
Households	30	41
Government sector	30	9
Corporate	40	49
Foreign	-	-
Other	1	1
Total	**100.0**	**100.0**

The structure of deposits and loans in 2009 (%)
(at year-end)

Types of deposits		Types of loans	
At sight	33	Long term loans	77
Within one year	26	Medium-term loans	-
Over one year	41	Short-term loans	33
Total	**100.0**	**Total**	**100.0**

Proportion of foreign exchange assets and liabilities (at year-ends)

Type of the financial institutions	FOREX assets / Total assets			FOREX liabilities / Total liab.		
	2007	2008	2009	2007	2008	2009
Banks*	57,9	57,8	61,1	57,3	57,3	61,3
Micro-Credit Organizations**						
Saving-Credit Organizations**						
Leasing Providers**						
Financial Institutions, average						

*Off-balance assets and liabilities included.
** Reporting on assets foreign currency structure of MCOs, SCOs, and LPs is not required.

Structure of revenues and expenditures of financial institutions (at year-ends)

Revenues	2007	2008	2009
Banks	91,5	90,3	90,0
Micro-Credit Organizations	8,5	9,7	9,9
Saving-Credit Organizations	-	-	-
Leasing Providers	-	-	-
	100,0	100,0	100,0
Expenditures	**2007**	**2008**	**2009**
Banks	264,2	364,7	450,9
Micro-Credit Organizations	-	27,1	42,2
Saving-Credit Organizations	-	-	-
Leasing Providers	-	-	-

Structure of registered capital and own funds of financial institutions in 2009

Type of financial institution	Registered capital	/Total assets	Own funds	/Total liab.
	000 EUR	%	000 EUR	%
Banks	272,2	94,5	217,8	95,0
Micro-Credit Organizations	29,8	5,4	25,3	4,9
Saving-Credit Organizations	0,1	0,0	0,1	0,0
Leasing Providers	0,6	0,1	0,7	0,1
Financial institutions, average	**302,7**	**100,0**	**243,9**	**100,0**

2009 DEVELOPMENTS IN THE BULGARIAN BANKING SYSTEM

MACROECONOMIC ENVIRONMENT

In 2009 real GDP decreased by 5 per cent.[19] The global financial and economic crisis impacted all sectors, affecting consumer and business confidence and eroding export opportunities and capital inflows.

Investment was most strongly affected by the crisis. In 2009, growing uncertainty, declining demand, and restricted finance drove fixed capital investment down by 27 per cent in real terms, capital formation contributing by 12.5 percentage points to real GDP decline. Imports decreased by 22 per cent. The decline in exports was smaller, leading to a positive balance of trade contribution to real GDP.

Unemployment reached 7.9 per cent by the end of the year according to the Labour Force Survey. Nominal wage growth decreased to 9.4 per cent in 2009 from 22 per cent in 2008. In 2009 average annual inflation decreased to 2.5 per cent.[20]

Foreign direct investment was EUR 3.2 billion[21] (9,5 per cent of GDP) and covered the balance of payments' current and capital account deficits by 118.1 per cent. The overall current and capital account deficits declined to EUR 2.7 billion in 2009 (8 per cent of GDP) against EUR 7.9 billion (23.2 per cent of GDP) in 2008. The current account was in deficit by EUR 3.2 billion (9.4 per cent of GDP) against EUR 8.2 billion (24 per cent of GDP) in 2008. All other current account components (alongside trade deficit) improved on 2008. The balance of trade deficit fell to EUR 4.1 billion (12.1 per cent of GDP), down by EUR 4.5 billion on 2008.

In 2009 Bulgaria's foreign indebtedness pattern stabilised following rapid increases over recent years. Private non-guaranteed external debt increased during the year by EUR 348.9 million. Public and publicly guaranteed debt rises of EUR 256.9 million mostly reflected a World Bank financial loan.

The world financial market crisis hit capital market trading and in 2009 the SOFIX and BG40 indices fluctuated considerably. SOFIX and BG40 annual growth was 18.8 per cent and 8.3 per cent respectively.

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[19] The 5 per cent annual GDP decline in Bulgaria echoed the 4.2 per cent average fall in EU trading. Concerns by a number of international analysts that the crisis would hit Bulgaria considerably more, and of some 7 per cent decline in its economy, did not materialise.

[20] The analysis is based on HICP data.

[21] Data on foreign direct investment are subject to regular revisions upon additional information from companies. Recent years have witnessed systematic upward revisions of first-release data on foreign direct investment inflows; therefore, a mechanical comparison of 2009 data with 2008 data revised several times may be misleading.

DEVELOPMENT IN THE BANKING SYSTEM

In 2009 Bulgaria's banking system remained stable. Major financial indicators reflected both the anti-cyclical measures taken by the BNB in recent years and actions by institutions to offset the crisis. Over the year Bulgarian banks preserved their potential for making profit, retained good liquidity, and increased their capital position. Despite the deterioration of quality of loans credit institutions managed to allocate adequate provisions, strengthening their protection against credit risk. Management's main challenges were on tackling loan quality, attracting core deposits and optimising costs. As a result the Bulgarian banking system has maintained good performance ratio for 2009.

Asset quality

Compared to the end of 2008 the total amount of classified assets grew almost 2.5 times, while for the period 2007-2008 it grew with 71%. Deterioration of the quality of loans was observed throughout the entire year (2009). At the end of 2009 the share of Loans to customers (other than credit institutions) past due more than 90-days reached 6.4%. The conservative approach towards acceptable collateral (recommended by BNB and applied by the banks during the years before the crisis) was a factor of further protection for the credit institutions.

As a part of the consistent anti-cyclical policy BNB amended the mandatory regulation on classification of banks' risk exposures and the allocation of provisions allowing banks to allocate specific provisions for credit risk in accordance to Basel II standardized approach rules. These provisions are not part of bank's accounting expenses. They are in addition to the impairments as prescribed by the IFRS and are directly deductable from bank's capital base when capital adequacy ratio is calculated. At the end of 2009 the aggregated amount of specific provisions for credit risk for the banking system reached EURO 330 million. The formed total provisions (impairments and specific provisions) at the end of the year covers 81% of the loans past due more than 90 days.

Profitability

The banks made profits of EUR 384 million (after tax) despite worsening of the business environment. The gross operating income for 2009 is EUR 971 million, a 2.35 per cent higher than 2008, though with the deteriorating loan quality it was subject to a strong pressure of the increased impairments. Net interest income remained the major profitability driver, its amount by the end of 2009 practically matching that of 2008. Revenues successfully withstood the pressure of increased risk on portfolios and helped generate capital and liquidity. A lower financial result, however, depressed return on assets and return on investment. ROA went down from 2.12 to 1.08 per cent for the year and ROE from 20.26 to 8.95 per cent, with the significant growth of equity adding to the downward effect. The returns were nevertheless higher than in many EU banking systems.

Solvency

The system's regulatory capital is sound and in line with the risk profile. Banks continued strengthening their capital potential to absorb shocks. In 2009 the capital base benefited from the capitalisation of 2008 profit and increased paid up equity and tier two capital. The slowdown in lending and correspondingly slower growth of capital requirements for credit risk also contributed to the stability of banks' capital position. By the end of 2009 the total capital adequacy ratio rose to 17.04 against 14.93 per cent in late 2008 and the system's capital surplus over the 12 per cent regulatory minimum was EUR 1.4 billion. BNB recommendations for 10 per cent minimum tier-one capital drove the Tier one adequacy ratio up to 14.03 per cent at the end of 2009. Leverage also improved. While at the end of 2008 a unit of tier-one capital supported 11 units of assets, by 2009 it supported 8.9.

Liquidity

The bank system's liquid assets ratio improved compared to 2008 and reached 21.9 per cent by the end of 2009. All banks had sufficient liquidity for normal functioning. They followed BNB recommendations on liquidity minimum relative to corporate and individual deposits as an additional guarantee of adequate coverage of attracted funds. By the end of 2009 the system liquid assets reached EUR 6.9 billion, covering 31 per cent of funds attracted from corporate customers, individuals, and households.

Market structure

In 2009 the number of credit institutions remained 30 which reflects the strict criteria of BNB in respect to issuing a license to new banks. For end 2009 the total amount of assets for the Bulgarian banking sector is EUR 36.3 billion (a growth of 1.9% compared to end 2008). The top five largest banks increase their market share for the year with almost one percentage point to 58% of the total assets for the banking system. Public sector ownership (state or municipal) remains insignificant at 1.3%.

The ratio of banking sector assets to GDP for 2009 is 107%.

Foreign presence

At end 2009 the eight domestically controlled institutions maintained their market share of 16% in terms of total assets compared to 2008. The market share of total assets of the EU institutions operating in Bulgaria slightly rises from 81.21% in 2008 to 81.33 % in 2009. Banks and branches under the control of Greek shareholders have a market share of 29 %.

Products and distribution channels

The Bulgarian banking system consists of banks that are licensed as universal credit institutions that offer a broad range of products and services to corporate and household clients. For end 2009 there were 79 points of sale (branches, offices, representative offices and remote workstations), 72 ATMs and 783 POS terminals per 100 000 population.

THE LEGAL AND INSTITUTIONAL FRAMEWORK OF THE OPERATION AND SUPERVISION OF FINANCIAL INSTITUTIONS. NEW DEVELOPMENTS. LEGAL COMPETENCE OF THE BANKING SUPERVISORY AUTHORITY IN BULGARIA

Framework

The supervision over financial institutions is mainly based on the Law on Credit Institutions (LCI) and relevant BNB ordinances in its enactment. Banks that act as investment companies apply the respective supervisory regulations applicable to them and controlled by the Financial Supervision Commission. Law on Deposit Guaranty Fund guarantees bank deposits, it has implemented Directive 2009/14/EO completely. Furthermore, banks shall comply their business with the Law on Anti Money Laundering and newly adopted Consumer Credit Act (introducing full list of requirements of Directive 2008/48/EC), as well as with the new Payment Services and Payment Systems Act (transposing Directive 2007/64/ EC) when acting as a payment institution.

Development

In March 2009 amendments and supplements to the primary supervisory law (LCI) have been adopted as well as the corresponding changes to the BNB ordinances considering the new developments of the law. The most significant of which are as follows:

Registration regime has been introduced with the BNB in order for a company to operate as a non-banking financial institution. The new Ordinance № 26 on FI has been adopted by Governing Council of BNB. Financial institutions register is public.

In relation to the transposition of Directive 2007/44/EC, amending Directive 2006/48/EC with regard to acquisitions of qualifying holdings in banks, corresponding changes in the LCI have been adopted. Also CEBS guidelines for implementation of the criteria for approving participation in a bank have been introduced in the BNB Ordinance № 2 and thus became mandatory.

In 2009, the BNB Governing Council adopted a new Regulation № 20 for the conditions, documents and procedures for approval of persons to be elected to the Managing and Supervisory boards of a bank.

Also in 2009, the BNB has adopted amendments to Ordinance No 9 on the evaluation and classification of banks' risk exposures and the allocation of provisions to cover credit risk, and to the BNB Ordinance No 8 on capital adequacy of credit institutions. These amendments continued the anti-cyclical policy in regulating credit institutions' activities in Bulgaria.

Moreover, the amendments to the BNB Ordinance No 9 aim to ease credit institutions in negotiating the credit conditions and in converging with the international practices of the more conservative approach applied so far for the classification and loan loss provisions. The Ordinance No 9 introduces a minimum threshold of BGN 100 000, above which a risk exposure or a pool of risk exposures shall be evaluated and classified individually; and below that threshold they may be separated in portfolios by similar characteristics. The amendments also expand the range of collateral so that the new regime would fully comply with the credit protection provided in the BNB Ordinance No8.

Also in the beginning of 2010 the BNB formalised its requirements for bank auditors reports submitted to the BNB by issuing Ordinance No.14 on Content of the Audit Report for Supervisory Purposes. This ordinance was first applied to the 2009 audit reports.

Access to the Central Credit Register maintained by BNB has been enlarged so that any FI whose primary business is connected with providing credits and financial leasing has been legally guaranteed rights and obligations (a new BNB Ordinance № 22 on Central Credit Register was adopted).

MAIN STRATEGIC OBJECTIVES OF THE SUPERVISORY AUTHORITY IN 2009

At the macro level the major objective remained maintaining the main pillar of the financial system – the banking sector – stable. Growing external influence on the system increased its sensitivity to operational risks, calling for continuous improvement of stress testing. This sensitivity was analysed using scenarios assuming diverse risks and acuities.

Special surveys provided important information on particular parameters and risk areas, and on bankers' views on the effectiveness of measures. Assessments of major financial parameters and the results of stress tests and surveys were published in various BNB titles to advise the public on banking performance.

Expert opinions were prepared on issues for deliberation within EU bodies. The Bank exchanged information with the ECB, other international financial institutions, and supervisory bodies under bilateral and multilateral memoranda of understanding.

THE ACTIVITIES OF THE BANKING SUPERVISORY AUTHORITY

Banking supervisors initiated actions in several major directions in response to the global economic crisis and its effects on Bulgaria's economy.

At the policy level effort was made to reinforce the basis of a flexible and stable banking market by improving national legislation and formulating measures adequate to current market conditions and trends.

New quarterly and annual report forms provide more information on local and foreign bank financial stability for ESCB purposes. The Bank acknowledged the decisions of the Committee of European Banking Supervisors (CEBS) on bank and investment company manager remuneration and issued instructions on linking remuneration to risks and sustainable results within a medium term.

Expert capacity was provided for the increased requirements of intersupervisory cooperation in the context of glum regional forecasts. With international relations intensifying since early 2009, a new Banking Supervision Department division was to coordinate operational supervision with foreign bodies.

Structural and functional changes in 2009 synchronised off-site and on-site supervision better. Supervision frequency, intensity, and efficiency increased within available resources. Ongoing reviews and assessments provided material for on-site inspections and alerts about underestimated risks and heightened risk to solvency.

In 2009, 36 supervisory inspections were carried out. They focused on credit and liquidity risk management and capital adequacy. Operational risk levels and management were assessed at some institutions.

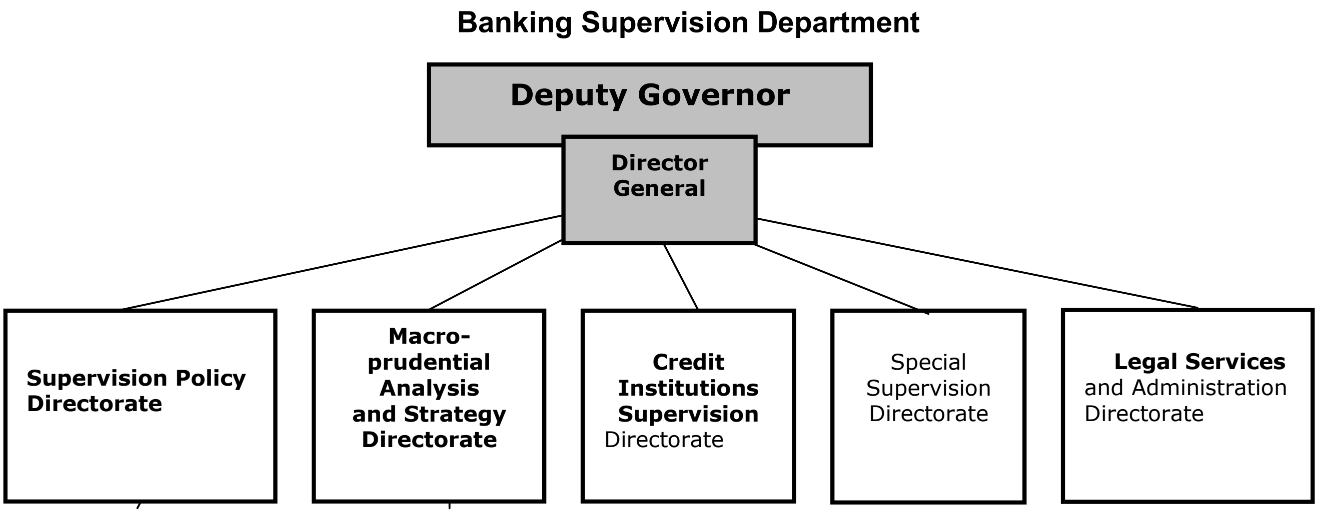
The BNB participated actively in joint supervision of cross-border bank groups operating in Bulgaria, exchanging experience and supervisory information.

Neutralising risks stemming from banks' equity structures was a major special supervision priority. The objective was to obtain settled and clear equity holder patterns, to assess the financial standing of equity holders in a timely and unbiased manner, and to survey their capacity to offer support if necessary. The year saw no deviation from good banking practice on equity holder structure clarity and fund origin.

Consistently combating money laundering, terrorist financing, and fraud was also a 2009 priority. European supervisory cooperation involved converging supervisory practices against money laundering and terrorist financing. The

Council of Europe Committee of Experts on the Evaluation of anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) assessed positively BNB action to prevent the use of banks for fraud and money laundering.

ORGANIZATIONAL CHART OF THE BANKING SUPERVISORY AUTHORITY



INTERNATIONAL ACTIVITIES

As part of the European supervisory cooperation BNB participates in international fora dedicated to the development of the banking system and supervision in EU and dealing with the consequences of the crisis and ways for enhancing the European supervisory regulations. Recent highlight is the discussion on the draft text of the regulation based on the "De Larosière" report, which introduces the new European supervisory structures and mechanisms, which aim is to increase the ability to tackle crisis situations and facilitating the coordination among the national supervisory and regulatory authorities.

BNB participates in a program for technical cooperation between the Central Bank of Egypt, the European Central Bank (ECB) and seven partner central banks from Bulgaria, Romania, Italy, Germany, France, Greece and the Czech Republic, focused on the implementation of the international capital requirements framework - Basel II, together with the recent amendments to the framework. BNB is also a project leader of a twinning project between the Central Bank of Montenegro, Montenegrin Securities and Exchange Commission, Montenegrin Insurance Supervision Agency, Dutch Central Bank, Financial Supervision Commission (Bulgaria) and BNB. The project aims to introduce the EU acquis communautaire in field of financial sector regulation, anti-money laundering, payment services, as well as to provide training and capacity building for the experts of the Central Bank of Montenegro.

Concerning the supervision on cross-border banking groups, BNB participates in 10 supervisory colleges and have 11 bilateral MoUs signed with foreign supervisory authorities. BNB is also a member of the Memorandum of understanding on cooperation between the financial supervisory authorities, central banks and finance ministries of the European Union on cross-border financial stability.

COOPERATION WITH OTHER SUPERVISORY BODIES IN BULGARIA

In 2009 BNB continued developing supervisory cooperation with the Financial Supervision Commission mainly through exchange of information and views related to their participations in EU committees and working groups, dealing with the preparation of common supervisory standards, aiming at enhancing convergence of practices in the field of supervision on banking and financial sector.

Within the Interministerial Group on Financial and Budgetary Matters to the Council for European Affairs, where BNB participates together with the Ministry of Finance, number of discussions were performed and agreed positions and made statements on range of proposed amendments and additions to financial regulation and program initiatives.

STATISTICAL TABLES

Number of financial institutions (at year-ends)

Type of financial institution	2007	2008	2009
Commercial Banks	29	30	30
of which:			
Large banks*	5	5	5
Small and medium-sized banks	19	19	19
Foreign bank branches	5	6	6
Financial Institutions (**Financial houses)**	82	80	136
Leasing companies	**63**	**66**	**60**

Ownership structure of the banking sector on the basis of registered capital (%) (at year-ends)

Item	2007	2008	2009
Public sector ownership	1.71	7.56	16.46[22]
Other domestic ownership	25.48	20.72	16.69
Domestic ownership total	27.19	28.29	33.15
Foreign ownership	72.81	71.71	66.85
Banks, total	**100.0**	**100.0**	**100.0**

Ownership structure of the banking sector on the basis of assets total (%) (at year-ends)

Item	2007	2008	2009
Public sector ownership	0.39	0.62	1.27
Other domestic ownership	17.31	15.47	14.60
Domestic ownership total	17.70	16.09	15.87
Foreign ownership	82.10	83.91	84.13
Banks, total	**100.0**	**100.0**	**100.0**

[22] Increased public sector ownership in 2009 because of the increase of capital of Bulgarian Development Bank.

Ownership structure of the financial institutions (financial houses) on the basis of registered capital (%) (at year-ends)

Item	2007	2008	2009
Public sector ownership			
Other domestic ownership	94.3	92.35	15
Domestic ownership total	94.3	92.35	15
Foreign ownership	5.70	7.65	85
Financial houses, total	**100.0**	**100.0**	**100.0**

Ownership structure of the financial institutions (financial houses) on the basis of assets total (%) (at year-ends)

Item	2007	2008	2009
Public sector ownership			
Other domestic ownership	94.3	92.35	15
Domestic ownership total	94.3	92.35	15
Foreign ownership	5.7	7.65	85
Financial houses, total	**100.0**	**100.0**	**100.0**

Since the beginning of 2009 BNB has introduced a registration regime for financial institutions performing activities under LCI. This has lead to an increased number of institutions subject to overview by the Central bank. The ownership structure of financial institutions has changed due to the newly registered institutions with parent companies settled outside Bulgaria, operating in the Bulgarian financial market by subsidiaries. BNB receives periodic information on the financial status of financial institutions including detailed data on risk exposures and on specific positions of the balance sheet. It resulted in presenting the information structured in compatible way with the information for the banking sector which allows comparison between both sectors

Concentration of asset by the type of financial institutions

Type of the financial institutions	The first three largest (%)	The first five largest (%)
Banks	40%	58%
Financial Institutions (Financial houses)	37 %	49%

Return on Average Asset (ROAA) by type of financial institutions

Type of financial institution	2007	2008	2009
Banks	2.37%	2.12%	1.09%
Financial Institutions (Financial houses)	2.9%	-0.2%	8.38%

Return on Equity (ROE) by type of financial institutions (%)

Type of financial institution	2007	2008	2009
Banks	23.89%	20.26%	9.0%
Financial Institutions (Financial houses)	59.31%	-9.31%	1.29%

Distribution of market shares in balance sheet total (%)*

Item	2007	2008	2009
Banks	87.2%	85.3%	86.7%
Financial Institutions (Financial houses)	5.9%	6.0%	5.6%
Leasing companies	6.8%	8.7%	7.7%
Financial institutions, total	**100.0**	**100.0**	**100.0**

The structure of assets and liabilities of the banking sector (%)
(at year-end)

Assets	2007	2008	2009
Cash in hand, balances with central banks	12.16	9.67	9.02
Loans and advances to credit institutions	13.41	9.71	10.45
Loans and advances to customers	62.55	70.46	69.59
Financial assets at fair value through profit or loss, held-to-maturity investments, available-for sale assets and investments in associates, subsidiaries and joint ventures	9.36	7.49	6.68
Tangible assets and Intangible assets	2.16	2.19	2.23
Residual assets	0.36	0.47	2.03
Total assets	**100.00**	**100.00**	**100.00**
Liabilities	**2007**	**2008**	**2009**
Amounts owed to credit institutions	18.25	21.98	20.33
Amounts owed to customers	66.00	60.33	61.31
Debts evidenced by certificates	1.98	1.35	0.98
Residual liabilities	0.98	2.16	1.41
Provisions	0.17	0.14	0.10
Subordinated liabilities	2.10	2.64	2.56
Equity (including valuation adjustments)	8.57	9.42	12.25
Profit or loss for the financial year	1.95	1.98	1.06
Total liabilities and equity	**100.00**	**100.00**	**100.00**

The structure of assets and liabilities of the financial houses (%) (at year-end)

Assets	2009
Cash and cash equivalent	12.41
Financial assets at fair value through profit or loss, held-to-maturity investments, available-for sale assets and investments in associates, subsidiaries and joint ventures	2.27
Loans	75.33
Tangible and Intangible assets	1.82
Other assets	8.17
Liabilities	**2009**
Amounts owed to credit institutions	70.26
Amounts owed to customers	10.17
Debt evidenced by certificates	0.01
Provision	0.06
Equity	15.45

Development of off-balance sheet activities of the banking sector (%) (off balance sheet items / balance sheet total)

Type of financial institution	2007	2008	2009
Banks, total	21.4	16.16	14.8
Financial institutions, total	14.93	11.60	34.78

Solvency ratio of financial institutions

Type of financial institution	2007	2008	2009
Large banks	13.32	14.89	16.82
Small and medium-sized banks	14.75	14.99	17.39
Banks, average	**13.86**	**14.93**	**17.04**

Asset portfolio quality of the banking system

Asset classification	2007	2008	2009
Total **Loans and Advances** - gross value in mln. EURO	23 455	29 109	30 603
Standard loans and advances %	96.4	94.9	88.0
Total adversely Classified loans and advances %	3.6	5.1	12.0
-Including NPL>90 days %	**1.7**	**2.2**	**5.6**
Impairments on loans and advances %	2.1	2.1	3.5

The structure of deposits and loans in 2009 (%) (at year-end)

	Deposits	Loans
Households	41.1	36.7
Government sector	2.5	0.4
Corporate	20.3	59.2
Foreign	28.1	1.1
Other	8.1	2.6
Total	**100.0**	**100.0**

The structure of deposits and loans in 2009 (%) (at year-end) Monetary statistic data

Maturity of deposits		Loans	
At sight	23.9	Long term loans	52.7
Within one year	61.4	Medium-term loans	22.1
Over one year	14.7	Short-term loans	25.3
Total	**100.0**	**Total**	**100.0**

Proportion of foreign exchange assets and liabilities (at year-ends)

Type of the financial institutions	FOREX assets / Total assets			FOREX liabilities / Total liab.		
	2007	2008	2009	2007	2008	2009
Large banks	50.8	54.7	57.3	55.2	55.9	63.53
Small and medium-sized banks	59.3	57.9	60.9	61.5	64.6	65.19
Foreign bank branches	74	73.0	70.68	72.8	69.3	67.38
Banks, average	**55.2**	**56.9**	**59.28**	**58.6**	**60.0**	**64.36**

Structure of revenues and expenditures of the banking sector (at year-ends) EUR'000

Assets	2007	2008	2009
Net interest income	1 111 439	1 427 440	1 450 042
Dividends and other income from variable yield securities	1 308	2 638	494
Commissions (net)	345 235	396 582	375 734
Trading and foreign exchange results	70 193	52 593	85 333
Other operating income	51 601	23 078	27 205
Total operating income	1 579 775	1 902 331	1 938 808
Expenditures	**2007**	**2008**	**2009**
Staff costs	276 439	360 987	358 587
General administrative expenses and Value adjustments in respect of tangible and intangible assets	473 252	594 515	617 802
Total operating expenses	749 691	955 502	976 409
Impairment losses (net) on financial assets and provisioning	179 527	174 681	540 924
Profit or loss from discontinued operations and from consolidated entities	1 698	5 896	7 038
Profits before taxes	652 255	778 044	428 514
Tax charges	63 815	75 638	44 039
Profits after taxes	588 440	702 406	384 475

Structure of revenues and expenditures of financial institutions (financial houses) (at year-ends) EUR'000

Assets	2009
Net interest income	193,396
Dividends and other income from variable yield securities	12,630
Commissions (net)	-1,102
Trading and foreign exchange results	4,863
Other operating income	9,694
Total operating income	219,480
Expenditures	**2009**
Staff costs	39,015
General administrative expenses and Value adjustments in respect of tangible and intangible assets	50,419
Total operating expenses	89,434
Impairment losses (net) on financial assets and provisioning	91,793
Profit or loss from discontinued operations and from consolidated entities	0

Structure of registered capital and own funds of the banking sector in 2009

Type of financial institution	Registered capital	/Total assets	Own funds	/Total liab.
	EUR mln	%	EUR mln	%
Large banks	779 927	3.72	2 892 664	16.01
Small and medium-sized banks	919 291	6.86	1 876 605	16.27
Banks, average	1 699 218	4.69	4 769 269	15.19

Structure of registered capital and own funds of financial institutions in 2009

Type of financial institution	Registered capital	/Total assets	Own funds	/Total liab.
	EUR mln	%	EUR mln	%
Large banks	779 927	3.72	2 892 664	16.01
Small and medium-sized banks	919 291	6.86	1 876 605	16.27
Banks, average	1 699 218	4.69	4 769 269	15.19

2009 DEVELOPMENTS IN THE CROATIAN BANKING SYSTEM

MACROECONOMIC ENVIRONMENT

Because of the spillover of the adverse effects of the financial crisis into the real economy, 2009 in Croatia saw, for the first time since 1999, a real fall in GDP, which amounted to 5.8%. The adverse trends in the real economy were the result of a significant reduction in the exports of goods and services, a consequence of the fall in the volume of world trade, in other words, of a reduction of demand from abroad. Also observable was a fall in total gross fixed capital formation in consequence of the reduction in the investment activities of both private and public sectors. In addition, an annual-level contraction in personal consumption was recorded, the result of pronounced consumer pessimism and more difficult conditions of household consumption financing. The adverse trends in the economy had a negative effect on the indicators in the labour market. During 2009, then, the number of employed fell, while at the same time increasing numbers of unemployed were registered. The growth in real gross wages slowed down, and real net wages were reduced.

During 2009, the CNB ensured price stability, in other words it fulfilled its fundamental statutorily-determined objective. The average annual rate of inflation in Croatia fell from its 2008 level of 6.1% to 2.4%. Price stability was to a large extent achieved thanks to the stability of the kuna-euro exchange rate, the main anchor of inflationary expectations. Thanks to its high levels of foreign currency reserves, formed during the period of strong capital inflows, the central bank, through changes to the existing instruments of monetary policy, had by the end of 2008 successfully alleviated depreciation pressures on the kuna exchange rate and maintained the foreign currency liquidity of the country, continuing to act in the same manner at the beginning of 2009 as well. Modifications to monetary policy instruments freed up considerable foreign currency resources and facilitated the financing of domestic sectors, particularly central government.

Under the impact of the reduced volume of international trade in goods and the considerably narrowed opportunities for financing, in 2009 there was a sharp contraction in the current account deficit, from the 9.2% of GDP recorded in 2008 to 5.2% of GDP. The gross foreign debt of the Republic of Croatia increased during 2009 by EUR 3.6bn, a considerably smaller rise than in the previous year (EUR 5.9bn), reaching EUR 43.1bn in total at the end of December (95.0% of GDP).

The deceleration in overall economic activity in 2009 had a strong effect on the trends in monetary and credit aggregates. For the first time after 1999, an annual fall in bank placements to the private sector was observed, affected by the effects of both supply and demand for loans. Faced with a rise in non-performing loans as a proportion of total loans and with a greater degree of insecurity, commercial banks were more cautious in taking on new risks, at the same time raising interest rates and intensifying the other conditions for granting loans. During the year, in addition, the banks were highly oriented towards the financing of central government, which, because of the adverse effects of the crisis, was confronted with a reduction in budgetary revenue and considerably deteriorated conditions of financing on the foreign capital market. On the other hand, corporates and households reduced their demand for new loans, under the pressure of the downward trends and adverse expectations in the real economy and the increased burden of servicing existing loans.

DEVELOPMENTS IN THE BANKING SYSTEM

At the end of 2009 there were 39 credit institutions operating in the Republic of Croatia: 32 banks, two saving banks and five housing savings banks. In the total assets of credit institutions, the assets of the banks, including savings banks, accounted for 98.3% and the assets of the housing savings banks for 1.7%. Total assets of credit institutions came to HRK 385.1bn and represented 115.6% of GDP.

At the end of 2009, there were 19 credit institutions that were majority owned by foreign shareholders; their assets constituted 91.0% of total assets of all credit institutions. Three credit institutions were majority owned by the government, and their assets constituted 4.1% of the assets of all the institutions. The remaining 17 credit institutions were in majority domestic ownership, their assets coming to 4.9% of the assets of all credit institutions. At the end of 2009, credit institutions had a labour force of 22,121, a fall of 1.6% from the end of the previous year.

The assets of banks rose by 2.2% from the end of 2008. The deterioration of the economic and financial situation at home and in the environment in 2009 resulted in a slow-down in assets growth as compared with the previous year, as well as a sluggish tempo in bank credit activity. The lower level of credit activity was the consequence of bank aversion to increase exposure to credit risk in conditions of a downturn in economic trends as well as of a weakening of demand for loans, mainly of household demand. Loans issued rose by 3.4% in 2009, an increase in loans to units of government of 46.7% being observable, while loans to households declined for the first time in the past 12 years. The annual rate of reduction in loans made to households came to 3.0%, and was primarily the result of a reduction in cash and any-purpose loans and loans for car purchases. Housing loans alone rose, although much more slowly than in the previous year. The growth of loans to corporates also slowed down considerably in the last year, to no more than 2.2%. At the end of 2009, loans constituted 66.7% of bank assets. The reduction in the amount of loans granted notwithstanding, the bulk of all loans at the end of 2009 still consisted of loans made to households, amounting to 46.7% of the total.

The rise in total placements and contingent liabilities of the banks slowed down the third year running, the rise coming to only 1.0% from the end of 2008. But the rise in bad placements and contingent liabilities (partially recoverable or irrecoverable placements and contingent liabilities) was much greater than this, coming to 63.2%. Such a sharp rise in bad placements led to a rise in their proportion in total placements and contingent liabilities from 3.3% at end 2008 to 5.3% at the end of 2009. Reduced capacities to service bank loans, particularly in corporates, had a strong effect on these trends; this is why there was a considerable rise in the proportion of partially recoverable or unrecoverable loans, reaching at the end of the year 7.8% of all bank loans (by way of comparison, in 2008 the equivalent figure was 4.8%).

A deterioration in the quality of loans brought about a high rise in expenses on loss provisions, which had a negative effect on performance, banks' profit falling by 28.9%. This financial performance was inevitably reflected in the considerable deterioration in all indicators of bank profitability and as against the end of 2008 both main indicators of profitability, return on average assets (ROAA) and return on average equity (ROAE) took on lower values in 2009. ROAA fell by 0.5 percentage points, to 1.1%, and ROAE by 3.5 percentage points to 6.4%. The banks increased their net income by 6.4% over 2008, and thanks to the simultaneous stagnation of general administrative costs and depreciation, net operating income before reduction for loss provisions increased by 13.1%. The rise in net income was due to the growth in net non-interest income, while net interest income declined, suggesting above all the rise in the costs of banks' sources of funds.

The high capitalisation of the banking system achieved in the previous years was retained during 2009 and the capital adequacy ratio remained high, coming to 16.43%. As against the end of 2008 the capital adequacy ratio increased, in spite of the lower growth of equity and the lower profit achieved during the current year. A positive effect on the capital adequacy ratio was exerted by greater retained earnings in 2008 in the capital and reserves of the banks, and a slower credit activity of the banks, which was reflected in a reduction of the capital requirement.

Bank financing sources in 2009 were far more meagre and expensive than in 2008. In 2009, total deposits received rose by 3.6%, and the rise in loans received amounted to 1.6%. Domestic deposits stayed at almost the same level as at the end of 2008, and the banks relied more on the sources of their foreign majority owners and at the end of 2009, such sources constituted 19.3% of all sources of bank financing. In the second half of 2009 banks stepped up their liquidity reserves, investing in less risk-attendant and highly liquid forms of assets.

THE LEGAL AND INSTITUTIONAL FRAMEWORK OF THE OPERATION AND SUPERVISION OF FINANCIAL INSTITUTIONS, NEW DEVELOPMENTS

LEGAL COMPETENCE OF THE BANKING SUPERVISORY AUTHORITY IN CROATIA

The Croatian National Bank carries out supervision of credit institutions in order to maintain the stability and security of their operations and for the creation of confidence in the banking system, particularly among savers and depositors. The tasks of the CNB in the purview of the supervision of credit institutions includes the adoption of subordinate legislation in which there is a more detailed definition of the regulations concerning the management of the risks to which credit institutions are exposed in their operations, examining the lawfulness of the operations of credit institutions and credit unions and risk management carried out by on-site controls and analysis of the prescribed financial reports and other reports that credit institutions must submit to the CNB on demand. Also conducted are matters of issuing and revoking authorisations for the work of these institutions, giving consent for the chairpersons and members of boards of management to hold their offices in credit institutions, and other authorisations and consents prescribed by the Credit Institutions Act, the public announcement of data and information about the operations of credit institutions so as to enhance the transparency of their operations, the CNB reporting system and the procedures and measures that the CNB can undertake to compel credit institutions to abide by the regulations and the improvement of the methods, procedures and techniques in risk management.

Other supervisory bodies in the Republic of Croatia that work in the financial services control domain are the Ministry of Finance and the Croatian Financial Services Supervisory Agency (HANFA). Their competence relates to the regulation and supervision of non-banking financial services.

MAIN STRATEGIC OBJECTIVES OF THE SUPERVISORY AUTHORITY IN 2009

For the purpose of harmonising Croatian legislation in the area of banking with the acquis, during 2009, very vigorous supervision activities were related to the elaboration of a new legislative background for the operations of banks and other financial institutions that the CNB supervises. The conclusion of the process of drawing up the Credit Institutions Act meant that the objective of supervision in the introduction of the new regulations regarding risk management, including all three pillars of Basel II, was met. In so doing, the CNB completely adapted the legislative framework for the area of operations of credit institutions (banks, savings banks and housing savings banks) to the acquis. The Credit Institutions Act, the fundamental law regulating the founding and operations of credit institutions, came into force on January 1, 2009, credit institutions being given time until July 1, 2009, to harmonise the way they do business.

Because of changes in the acquis in the area of financial services during 2009, it was essential to launch a process in which to harmonise legislation already passed with these modifications, and during 2009, amendments to the Credit Institutions Act were passed twice. The whole of the subordinate legislation has also been changed, and the amended regulations will come into force on March 21, 2010.

THE ACTIVITIES OF THE BANKING SUPERVISORY AUTHORITY IN 2009

Modifications to the whole of the subordinate legislation in order to adopt it to the legislative framework for the operations of credit institutions were preceded by a number of supervision activities during 2009. In order to impart the greatest possible transparency to the provisions of the Credit Institutions Act and the subordinate legislation passed pursuant to this Act, before the final acts were composed, a public discussion was carried out, within the context of which all proposals were published on the Web site of the CNB and present to the interested public. The final proposals of the regulations were adjusted according to the comments and proposals assembled during the debate. For the sake of providing familiarisation with the new legislation and for it to be successfully implemented, the CNB organised seminars for credit institutions on several occasions. The representatives of CNB supervision took part not only in making these regulations, but also in the working groups of other bodies in the procedures for the adoption of legislation from their purview.

Possible effects of the new regulatory rules were analysed with a series of ad hoc analyses in the framework of activities of analysis and monitoring trends in the banking system. The objective of these analyses was to determine the sensitivity of the banking system to changes in certain regulatory conditions and to predict the effects of these changes on the earnings and capital adequacy of the banking system.

Planned tasks that derive from the strategic guidelines of CNB work for the area of on-site supervision were carried out during 2009. The emphasis was placed on the basic tasks that comprehend on-site supervision of credit institutions, and within this framework, a high degree of banking system coverage with on-site supervision was attained. During 2009 the priority was on-site supervisions of medium-sized and large credit institutions, all banks from these two groups being comprehended by diverse specialist supervisory activities.

In 2009 the continued monitoring of the operations of credit institutions was carried out, together with assessment of operational risk, verification of the lawfulness of credit institution operations, and monitoring and ordering supervisory measures. These obligations were conducted by an analysis of the legally prescribed monthly and quarterly reports that the credit institutions supply to the CNB, by continuous communication with credit institutions and by additional information that the credit institutions supplied at CNB request. Analysis of additional data and information that the credit institutions supply at the request of the CNB in 2009 referred in particular to liquidity, claims that had fallen due but were not collected, extending deadlines for collection and the restructuring of placements, as well as the quality of credit risk management.

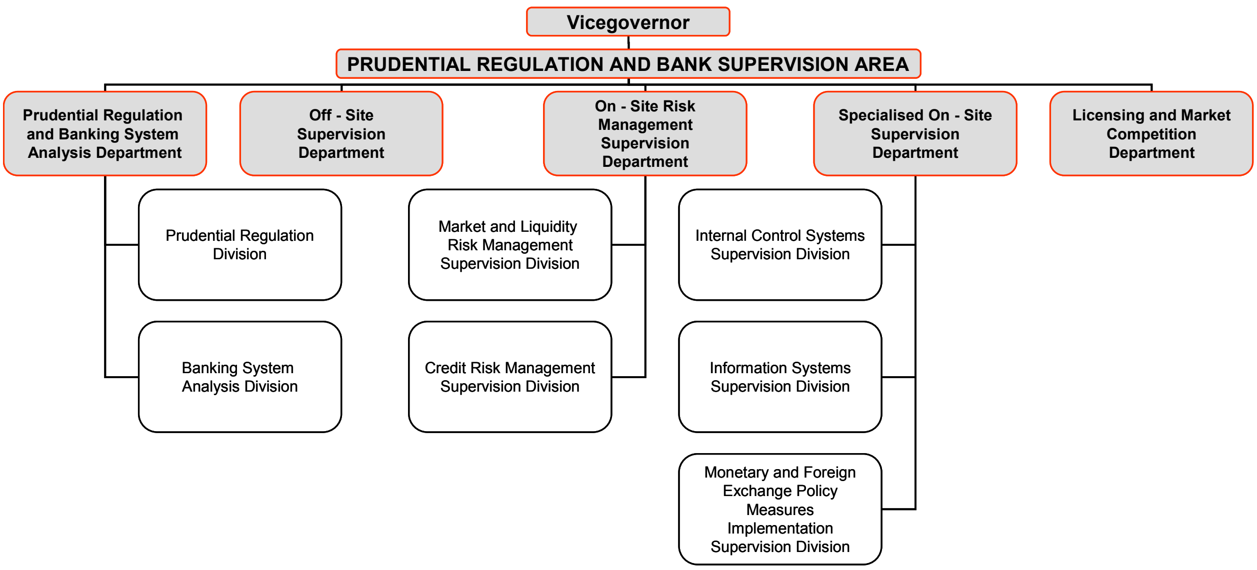
In 2009, on-site supervision and prudential analysis of credit unions were carried out for the first time, for the Credit Unions Act had newly placed these institutions under the jurisdiction of the CNB. A high degree of coverage of the system of credit unions was achieved within the implementation of on-site supervisions of credit unions; this involved the engagement of considerable human resources necessary for the preparation of the supervision methodology and for the implementation of direct supervisions.

Within the framework of matters in the domain of licensing, a number of applications were considered and rulings issued pursuant to the relevant legislation and subordinate legislation. During 2009 as part of the activities from the area of the protection of market competition an examination was made of the behaviour of commercial banks in given sectors of operations with households. The objective of these examinations was to determine the actual circumstances and to make an appropriate decision concerning potential intervention into the conduct of the commercial banks.

ORGANISATIONAL CHART OF THE BANKING SUPERVISORY AUTHORITY

Credit institution supervision activities are organised within the prudential regulation and bank supervision sector. At the end of 2009, the prudential regulation and bank supervision area comprised 117 employees.

The organisation diagram of the prudential regulation and bank supervision area is as follows:



INTERNATIONAL ACTIVITIES OF THE BANKING SUPERVISORY AUTHORITY

The CNB continued its activities related to bilateral co-operation with foreign authorities in the area of credit institution supervision. During 2009, for instance, the CNB signed a Memorandum of Understanding with the Central Bank of the Republic of San Marino and a Memorandum of Understanding with the Central Bank of Montenegro. The fundamental principles and substance of the memoranda are founded on documents of the Basel supervision committee concerned with this topic.

In order to be able to co-operate with consolidating supervisors in previous years the CNB signed a number of co-operation agreements the primary topic of which was the area of internal capital and the application of advanced approaches to risk measurement. On the basis of these memoranda and in order to improve co-operation with consolidating supervisors, CNB representatives took part during 2009 in a number of colleges of supervisors related to the supervision of the banking groups to which domestic credit institutions belong.

During 2009 the CNB committed major resources to the establishment of contacts with the chief international credit rating agencies, to defining the methodology and process for their recognition as external credit assessment institutions as well as the operational implementation of this recognition. In accordance with the above, during 2009 the CNB recognised Moody's and Fitch Ratings as external credit assessment institutions, and thus the implementation of the rules of Basel II for the application of the standardised approach for the calculation of capital requirements for credit risk was enabled.

COOPERATION WITH OTHER SUPERVISORY BODIES IN CROATIA

The CNB has entered into the following agreements with other supervisory bodies in the country:

- Agreement on co-operation with the Croatian Financial Services Supervisory Agency (HANFA)
- Agreement on co-operation with the Office for the Prevention of Money Laundering
- Agreement on co-operation in the area of the protection of market competition in the market for financial and financial services with the Protection of Market Competition Agency
- Agreement on co-operation and Exchange of Information agreement in the area of preventing and detecting money laundering and the prevention of the financing of terrorism with the Ministry of Finance
- Crisis Management Memorandum with the Ministry of Finance and HANFA.

OTHER RELEVANT INFORMATION AND DEVELOPMENTS

Further information concerning the supervisory activities of the CNB, the legislation pursuant to which the supervision of the CNB works and the relevant regulations can be found on the Web site of the CNB (www.hnb.hr).

STATISTICAL TABLES

Number of financial institutions (at year-ends)

Type of financial institution	2007	2008	2009
Banks	33	33	32
Savings banks*	-	1	2
Housing savings banks	5	5	5
Financial Institutions, total	**38**	**39**	**39**

* included in *Banks* in all tables

Ownership Structure of the Financial Institutions on the Basis of Registered Capital* (%) (at year-ends)

Item	2007	2008	2009
Public sector ownership	3,2	2,9	3,2
Other domestic ownership	6,0	6,5	6,7
Domestic ownership total	9,2	9,4	9,9
Foreign ownership	90,8	90,6	90,1
Financial Institutions, total	**100,0**	**100,0**	**100,0**

Ownership Structure of the Financial Institutions on the basis of assets total (%) (at year-ends)

Item	2007	2008	2009
Public sector ownership	4,6	4,4	4,1
Other domestic ownership	4,8	4,8	4,9
Domestic ownership total	9,4	9,2	9,0
Foreign ownership	90,6	90,8	91,0
Financial Institutions, total	**100,0**	**100,0**	**100,0**

Concentration of asset by the type of financial institutions*

Type of the financial institutions	The first three largest (%)	The first five largest (%)
Banks	54,7	75,4
Housing savings banks	78,3	100,0

Return on Asset (ROA) by type of financial institutions (%)

Type of financial institution	2007	2008	2009
Banks	1,6	1,6	1,1
Housing savings banks	-0,7	0,3	0,8

* ROAA

Return on Equity (ROE) by type of financial institutions* (%)

Type of financial institution	2007	2008	2009
Banks	10,9	14,0	6,4
Housing savings banks	-20,5	4,7	13,5

* ROAE

Distribution of market shares in balance sheet total (%)

Type of financial institution	2007	2008	2009
Banks	98,1	98,1	98,3
Housing savings banks	1,9	1,9	1,7
Financial institutions, total	**100,0**	**100,0**	**100,0**

The structure of assets and liabilities of the banking system* (%)
(at year-end)

Assets	2007	2008	2009
Money assets and deposits with the CNB	14,9	11,5	12,6
Money assets and deposits with the CNB	1,3	1,5	1,4
Deposits with the CNB	13,6	10,1	11,2
Deposits with banking institutions	10,2	9,6	8,7
MoF treasury bills and CNB bills	2,5	2,7	2,5
Securities and other financial instruments held for trading	2,5	1,8	1,5
Securities and other financial instruments available for sale	3,3	3,4	3,7
Securities and other financial instruments held to maturity	1,0	1,3	1,1
Securities and other financial instruments not traded in active markets but carried at fair value	0,2	0,2	0,4
Derivative financial assets	0,1	0,0	0,1
Loans to financial institutions	2,0	1,6	1,6
Loans to other clients	60,7	65,1	65,1
Investments in subsidiaries and associates	0,5	0,5	0,5
Foreclosed and repossessed assets	0,1	0,1	0,2
Tangible assets (net of depreciation)	1,3	1,2	1,2
Interest, fees and other assets	1,6	1,8	1,8
Less: Specific reserves for unidentified losses	0,8	0,8	0,8
Total Assets	**100,0**	**100,0**	**100,0**

Liabilities	2007	2008	2009
Loans from financial institutions	6,0	5,2	5,6
Short-term loans	3,3	2,2	2,7
Long-term loans	2,7	3,0	2,9
Deposits	0,0	0,0	0,0
Giro account and current account deposits	13,1	11,2	9,1
Savings deposits	7,8	6,9	6,5
Time deposits	46,6	48,9	52,3
Other loans	0,0	0,0	0,0
Short-term loans	1,6	2,1	1,6
Long-term loans	7,6	6,7	6,8
Derivative financial liabilities and other financial liabilities held for trading	0,1	0,4	0,1
Debt securities issued	1,0	0,9	0,0
Short-term debt securities issued	0,0	0,0	0,0
Long-term debt securities issued	1,0	0,9	0,0
Subordinate instruments issued	0,1	0,0	0,1
Hybrid instruments issued	0,2	0,6	0,8
Interest, fees and other liabilities	3,4	3,6	3,2
TOTAL LIABILITIES	87,5	86,5	86,1
TOTAL CAPITAL	12,5	13,5	13,9
Total Liabilities	**100,0**	**100,0**	**100,0**

Development of off-balance sheet activities (off balance sheet liabilities / balance sheet total) (%)

Type of financial institution	2007	2008	2009
Banks	20,0	18,8	16,1
Savings banks	1,8	1,6	0,5
Financial institutions, total	**19,6**	**18,5**	**15,8**

Solvency ratio of financial institutions

Type of financial institution	2007	2008	2009
Banks	16,4	15,2	16,4
Savings banks	14,5	13,2	16,3
Financial institutions, total	**16,3**	**15,1**	**16,4**

* Capital adequacy ratio

Asset portfolio quality of the banking system*

Asset classification	2007	2008	2009
1. Fully recoverable placements (category A)	96,9	96,7	94,7
2. Partly recoverable placements (category B)	2,0	2,3	4,0
3. Irrecoverable placements (category C)	1,1	1,0	1,3
Classified total	**100,0**	**100,0**	**100,0**
Specific Reserves**	2,5	2,4	3,2

*specific reserves / classified total (%)

The structure of deposits and loans* in 2009 (%) (at year-end)

	Deposits	Loans
Households	55,0	46,8
Government sector	1,7	12,1
Corporate	17,6	37,9
Foreign	17,9	0,7
Other**	8,0	2,6
Total	**100,0**	**100,0**

The structure of deposits and loans in 2009 (%)
(at year-end)

Types of deposits		Types of loans	
At sight	13,4	Long term loans	65,0
Within one year*	58,3	Medium-term loans	13,5
Over one year	28,2	Short-term loans	21,5
Total	**100,0**	**Total**	**100,0**

** total savings deposits are included

Proportion of foreign exchange assets and liabilities*
(at year-ends)

Type of the financial institutions	FOREX assets / Total assets			FOREX liabilities / Total liab.		
	2007	2008	2009	2007	2008	2009
Banks	57,5	60,7	65,5	51,2	53,0	58,6
Housing savings banks	93,0	90,0	86,9	92,5	90,3	86,3
Financial Institutions, average	**58,2**	**61,3**	**65,9**	**51,9**	**53,7**	**59,1**

Type of the financial institutions	FOREX off balance sheet items / total liabilities		
	2007	2008	2009
Banks	7,1	6,4	5,5
Housing savings banks	0,5	0,8	0,3
Financial Institutions, average	**7,0**	**6,3**	**5,4**

* include items denominated in foreign currency and items with a currency clause

Structure of revenues and expenditures of financial institutions* (at year-ends)

Revenues	2007	2008	2009
Interest income	74,4	76,6	62,4
Income from fees and commissions	17,2	15,3	19,5
Other non-interest income	8,5	8,1	18,1
Expenditures	**2007**	**2008**	**2009**
Interest expenses	49,9	52,1	50,5
Expenses on fees and commissions	7,0	6,0	5,0
Other non-interest expenses	4,1	3,8	2,4
General administrative expenses and depreciation	34,0	33,2	28,8
Loss provision expenses	5,0	4,8	13,4

Structure of registered capital and own funds of financial institutions in 2009

Type of financial institution	Registered capital	/Total assets	Own funds	/Total liab.
	EUR mln	%	EUR mln	%
Banks	3 939	7,6	44 592	86,1
Housing savings banks	67	7,2	865	93,8
Financial Institutions, average	**4 006**	**7,6**	**45 457**	**86,2**

* share capital
** in millions of EUR

2009 DEVELOPMENTS IN THE CZECH BANKING SYSTEM

MACROECONOMIC ENVIRONMENT

The global financial and economic crisis affected the macroeconomic situation in the Czech Republic in 2009. The adverse economic trends impacted on the financial performance of institutions operating in the domestic financial market and the ability of businesses and individuals to repay their obligations. Following several years of buoyant economic growth, and after stagnating in 2008, the economy fell into recession in 2008 Q4. GDP decreased by more than 4% in 2009.

The decrease in GDP in 2009 was affected mainly by reduced export opportunities, as global trade recorded a considerable contraction. The small and open Czech economy is very vulnerable in this respect. Both exports and imports of goods recorded declines of almost 10% in 2009 as a whole, while investment saw an even more substantial fall. A slight improvement was fostered by an increase in exports at the end of 2009, following a gradual recovery of the euro area economy and the introduction of car-scrapping incentives in some neighbouring countries. By contrast, household consumption started to decline in 2009 H2 owing to rising unemployment and slower wage growth.

Inflation recorded a sharp decline compared to 2008. The average inflation rate in 2009 was 1.0%, down by 5.3 percentage points from a year earlier.

The depreciation of the exchange rate of the koruna against both the euro and the dollar, which started in 2008 Q3, continued into the start of 2009. Import prices thus recorded an annual increase at the beginning of 2009. However, the koruna's exchange rate started to appreciate gradually against the euro in March and import prices switched to a relatively large annual decline in the remainder of 2009. Nevertheless, the average CZK/EUR exchange rate depreciated from 24.9 in 2008 to 26.4 in 2009. The average koruna-dollar exchange rate showed an even more marked annual depreciation, from an average of CZK/USD 17.0 in 2008 to CZK/USD 19.1 in 2009.

The current account deficit increased slightly to 1.0% of GDP. In absolute terms it reached CZK 37.0 billion. The trade surplus increased significantly, thus reducing the current account deficit during 2009. As in previous years, the financial account showed a surplus in 2009. It amounted to CZK 95.1 billion, up by about CZK 35 billion on a year earlier. This was due mainly to inflows of portfolio and direct investment. The other financial account items recorded an outflow of funds abroad.

The labour market situation deteriorated in 2009 owing to economic recession. The labour market trend copied the decline in economic activity with the usual lag. The number of vacancies was very limited. The number of unemployed persons steadily increased during 2009. The average registered unemployment rate rose by 2.5 percentage points to 8.0% under current MLSA[23] methodology. At 4.0%, growth in the average gross monthly nominal wage in 2009 was 4.3 percentage points lower than in 2008. Average real wages

[23] Ministry of Labour and Social Affairs

increased by 3.0% year on year, a rise of 1.1 percentage point compared to 2008. Aggregate labour productivity recorded an annual decline of 3.1%.

The economic recession and the anti-crisis measures adopted generated an increase in the government deficit in 2009. The deficit under ESA95 methodology amounted to CZK 213.7 billion, or 5.9% of GDP, in 2009. The government debt-to-GDP ratio increased in 2009, totalling 35.4% at the end of the year.

The Czech National Bank responded to the economic developments by continuing to lower its key interest rates. It changed its key interest rates four times in 2009 (in February, May, August and December), which resulted in a decline in the repo rate of 1.25 percentage points compared to the end of 2008. Monetary policy decisions were based on forecasts drawn up for the Czech economy. The two-week repo rate was lowered from 2.25% to 1.00%, the discount rate from 1.25% to 0.25%, and the Lombard rate from 3.25% to 2.00%.

DEVELOPMENT IN THE BANKING SYSTEM

As of 31 December 2009, the Czech banking sector consisted of 39 banks and foreign bank branches. The assets of the banking sector rose by 1.2% in 2009, to CZK 4,094.8 billion, or 112.9% of GDP, at the end of 2009.

Of all the standard risks, the banking sector is still most exposed to credit risk in terms of the structure of transactions. Lending to individuals recorded the most dynamic growth although the growth rate declined to 11.1%. The total value of these loans was close to CZK 900 billion at the end of 2009. Loans for house purchase accounted for more than 76% of all loans provided to individuals at the end of 2009. Mortgage loans to households to finance house purchases totalled CZK 558.3 billion at the end of 2009.[24] The growth rate of consumer credit, which amounted to CZK 185.6 billion, slowed to 9.8%. Loans to non-financial corporations declined by 7.8% to CZK 782.2 billion in 2009. By contrast, default receivables rose by CZK 45.5 billion (65.3%) to CZK 115.1 billion, mainly because of lower economic growth and the reduced ability of non-financial corporations and individuals to repay their obligations. The share of default receivables in total investment portfolio liabilities was still relatively low at the end of 2009 (at 4.6%), but is steadily increasing.

Domestic banks are mostly local in nature and their activities are mostly focused on domestic clients. The share of transactions with non-residents and the share of foreign currency activities are relatively low. The exposure of the banking sector to territorial and foreign exchange risks was assessed as limited in 2009, too. Operations on foreign markets are usually executed by other entities from the financial group to which the domestic bank belongs. Transactions with non-residents are significant mainly in the interbank market, particularly as regards derivatives transactions.

The banking sector still has enough liquid funds and the liquidity sub-indicators were stable in 2009. Quick assets increased by 11.1% year on year, to CZK 1,036.3 billion. Sufficient primary funds are available to finance the loans of the banking sector.

[24] The stock of mortgage loans as of the end of 2009 is reported in compliance with a new (wider) mortgage loan definition as laid down in the Act on Bonds. The data are not comparable from the time perspective due to the change in methodology.

The capital adequacy of the Czech banking sector is sufficient. In 2009, capital adequacy increased to 14.1%, owing mainly to a 14.7% rise in the total regulatory capital of the banking sector to CZK 264.7 billion. Tier 1 increased to CZK 237.6 billion thanks to retained earnings. Part of Tier 2 capital was affected by an increase in subordinated debt and partial repayment thereof in several banks. Tier 1 traditionally has a dominant position in the sector's capital, accounting for roughly 90% of total regulatory capital. The capital requirements of the banking sector were broadly flat, increasing by just CZK 102.0 million.

The banking sector generated a net profit of CZK 60.0 billion in 2009. The main source of the growth in net profit was an increase in profit from financial activities. Interest profit rose further by 5.4% in 2009 and accounted for more than 61% of profit from financial activities. Profit from fees and commissions rose by less than 1%, to CZK 36.4 billion. Profit from financial transactions, amounting to CZK 11.9 billion, was a significant contributor. A loss had been reported the previous year. Total administrative expenses decreased slightly by CZK 1.3 billion, to CZK 60.4 billion. At CZK 11.0 billion, aggregate income tax increased by CZK 2.7 billion year on year.

THE LEGAL AND INSTITUTIONAL FRAMEWORK OF THE OPERATION AND SUPERVISION OF FINANCIAL INSTITUTIONS, NEW DEVELOPMENTS. LEGAL COMPETENCE OF THE BANKING SUPERVISORY AUTHORITY IN THE CZECH REPUBLIC

The Czech National Bank exercises financial market supervision in its areas of competence. This activity falls within the responsibilities of the Financial Market Regulation and Analyses Department, Licensing and Enforcement Department and Financial Market Supervision Department. Financial market supervisory activities are governed by a single supervisory concept. The CNB, as the integrated regulatory and supervisory authority, focused on unifying its licensing, authorisation and supervisory procedures. When implementing the single supervisory concept and conducting supervision, the CNB takes into account the individual risk profiles of the supervised institutions.

At the end of 2009, the CNB was supervising 16 banks, 5 building societies, 17 credit unions, 35 insurance undertakings, 10 pension funds, 8 depositories, 139 open-end mutual funds, 28 non-bank investment firms and about 2,500 non-bank foreign exchange entities. To a limited extent only, the CNB was also supervising 18 branches of foreign banks and monitoring the activities of 16 branches of insurance undertakings from the EU and 1 branch of an insurance undertaking from outside the EU/EEA. Regulated markets (the Prague Stock Exchange, RM-Systém, česká burza cenných papírů a.s. and Power Exchange Central Europe, a.s.) were also subject to CNB supervision. The CNB was also supervising electronic money institutions, partly branches of foreign electronic money institutions, small-scale electronic money issuers, payment institutions and small-scale payment service providers. The CNB approved bond issuance conditions and securities prospectuses and granted consents to takeover bid announcements and squeeze-outs. Keeping lists and documentation, and the publication thereof, especially in a manner allowing remote access, are also part of CNB regulation and supervision. The CNB also administers the Central Credit Register, which allows banks and foreign bank branches operating in the Czech Republic to exchange information on the credit commitments and payment discipline of their clients (legal entities).

MAIN STRATEGIC OBJECTIVES OF THE SUPERVISORY AUTHORITY IN 2009

The changes made to the legislation in 2009 mostly related to the transposition of European directives regulating this area. Changes were made, for example, to the Act on Banks, the Insurance Act, the Act on Private Pension Insurance, the Payment System Act, the Capital Market Undertakings Act, the Act on Credit Unions and the Act on Collective Investment.

In 2008, the CNB was also vested with the authority to supervise compliance with the consumer protection rules pursuant to the relevant regulations by entities subject to its supervision.

Owing to the financial crisis in 2009, off-site surveillance was focused more intensively on the performance of domestic financial institutions. In this context, the portfolios of the supervised institutions were analysed in more detail and their exposure to risky entities or instruments was determined. The risk exposure was relatively low and so its impacts on institutions' financial results were only limited. Considerable attention is also being paid to the liquidity of key financial institutions. In this context, the supervisory authority communicated intensively with the supervised financial market institutions and introduced extraordinary reporting of selected indicators and information, which was gradually discontinued in the second half of 2009.

On-site inspections, which are focused on checking compliance with the regulatory rules under the legal and implementing regulations, were in 2009 based on an annual inspection plan compiled with due regard to the risk levels of individual institutions, the latest developments in global financial markets and the time elapsed since the last examination.

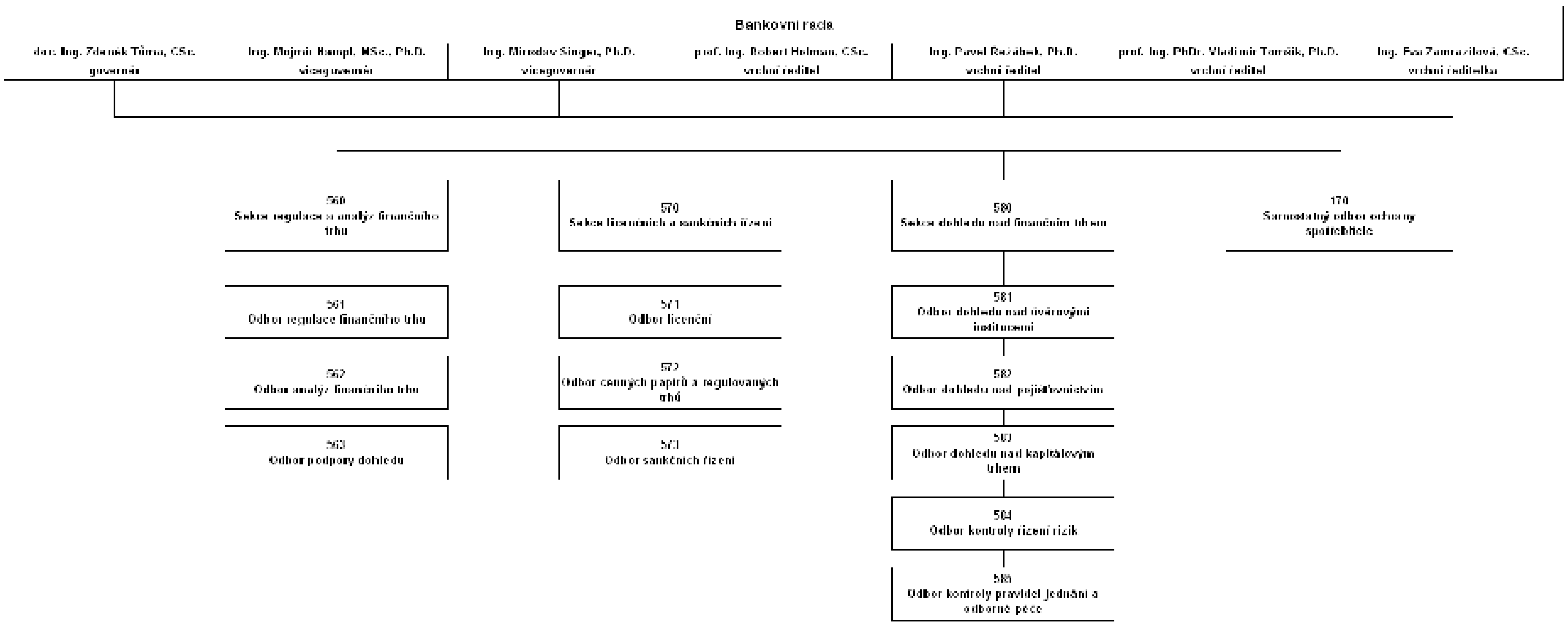
THE ACTIVITIES OF THE BANKING SUPERVISORY AUTHORITY IN 2009

In 2009, the CNB continued to implement the EU's rapidly changing regulations in the financial market area and to improve the regulatory framework in the Czech Republic. The CNB's activities in this area included working with the Czech Ministry of Finance and other state administration bodies on the preparation of new laws. In addition, the CNB prepared a number of decrees, provisions and official information documents for the individual sectors of the financial market and explanatory opinions on the application of regulatory requirements by financial market participants. Within the working committees and their working groups operating within EU structures it was involved in the creation of EU regulatory measures for the financial market.

Numerous foreign supervisory authorities had to deal with problems in banks during the financial crisis. Although the Czech banking sector was not seriously hit by the financial crisis, the CNB was involved in the preparation of an amendment to the Act on Banks containing new instruments for addressing any future negative developments. The new Insurance Act was also very important as regards the CNB's activities as a supervisory authority. The principal changes to the regulations in 2009 with respect to the implementation of European law were an amendment of the legislation and related implementing regulations connected with the transposition of Directives 2004/109/EC (on transparency), 2007/44/EC (on qualifying holdings) and 2007/16/EC (on eligible assets of standard funds) and a new Payment System Act transposing Directive 2007/64/EC (on payment services in the internal market).

ORGANIZATIONAL CHART OF BANKING AUTHORITY

Organizační schéma dohledu nad finančním trhem České národní banky k 31. 12. 2009



INTERNATIONAL ACTIVITIES OF THE CZECH NATIONAL BANK

The CNB is actively involved in international cooperation. It has been participating in activities related to the new supervisory set-up in the EU. The CNB's employees are actively involved in CEBS, CESR, CEIOPS and JCFC. Within ECB structures, the CNB is actively involved in the work of the BSC and its working groups. The CNB engages in cooperation within the BCBS.

Within other international organisations, cooperation is being developed within IOSCO, IOPS and IAIS. Cooperation with partner supervisory authorities on the basis of MoUs is a chapter of its own.

COOPERATION WITH OTHER SUPERVISORY BODIES IN THE CZECH REPUBLIC

The CNB's activities include cooperation with the Czech Ministry of Finance and other state administration bodies. The CNB works in close cooperation with the Czech Ministry of Finance, which has primary responsibility for preparing laws in the financial market area. It thus acts in accordance with the agreement on cooperation in the preparation of draft national legislation concerning the financial market and other regulations concluded between the CNB and the Ministry of Finance in May 2006.

OTHER RELEVANT INFORMATION AND DEVELOPMENTS

Numerous other changes to the regulations were under preparation in 2009, mostly in order to transpose EC regulations. Completion of the legislative process for these amendments is expected in 2010.

In 2009, the CNB played an active role in the negotiations on the future financial market supervisory set-up in the EU. It conducted an analysis of potential impacts of the new arrangements, primarily with respect to the proposed introduction of the European System of Financial Supervisors (ESFS). In September 2009, the European Commission published the relevant draft regulations. Following a detailed analysis, the CNB expressed its opinions at CEBS, CESR and CEIOPS meetings and – via the Ministry of Finance – also at meetings of the Council's working bodies.

Throughout the debate on the reorganisation of regulation and supervision in the EU, the CNB's stance on the proposed structure has been active and generally critical. Among other things it has expressed concerns about the separation of the new powers of European authorities from responsibility for supervision of financial entities. The CNB has criticised above all the provisions giving the new European authorities direct powers over individual financial entities in EU countries. This would mean a circumvention of national supervisory authorities, which are by law responsible for the due exercise of supervision. In this regard the CNB has emphasised the need to address in parallel the issue of cost sharing among EU Member States in the event of insolvency of a cross-border financial group.

STATISTICAL TABLES

Number of financial institutions
(at year-ends)

Type of financial institution	2007	2008	2009
Banks	37	37	39
Credit unions	19	17	17
Insurance companies	52	53	51
Pension funds	10	10	10

Ownership structure of the financial institutions on the basis of registered capital (%) (at year-ends)

Type of financial institution	2007	2008	2009
Public sector ownership	4.2	4.3	5,0
Other domestic ownership	13.2	14.7	14,7
Domestic ownership total	17.4	19.0	19,7
Foreign ownership	82.6	81.0	80,3
Credit institutions, total	**100.0**	**100.0**	**100.0**

Ownership structure of the financial institutions on the basis of assets total (%)

Type of financial institution	2007	2008	2009
Public sector ownership	2.4	2.9	2,7
Other domestic ownership	0	0	0
Domestic ownership total	2.4	2.9	2,7
Foreign ownership	97.6	97.1	97,3

Note: Direct or indirect control

Concentration of asset by the type of financial institutions

Type of the financial institutions	The first three largest (%)	The first five largest (%)
Banks	51,2	62,4
Credit unions	75,7	87,6

Return on Asset (ROA) by type of financial institutions

Type of financial institution	2007	2008	2009
Banks	1.34	1.16	1,46
Credit unions	0.92	0.63	0,13

Return on Equity (ROE) by type of financial institutions

Type of financial institution	2007	2008	2009
Banks	24.5	21.6	25,9
Credit unions	5.5	5.7	1,4

Distribution of market shares in balance sheet total (%)

Type of banks	2007	2008	2009
Banks	99.8	99.7	99,6
Credit unions	0.2	0.3	0,4
Banks, total	**100.0**	**100.0**	**100.0**

Balance sheet statement of the Czech banking sector
Assets
(for banks with licences as of 31.12.2009)

	in CZK millions			in %		
	2007	2008	2009	2007	2008	2009
Assets, total	**3 750 649**	**4 044 477**	**4 094 662**	**100,0**	**100,0**	**100,0**
1. Cash and cash balances with central banks	344 521	351 256	424 415	9,2	8,7	10,4
2. Financial assets held for trading	366 309	360 081	249 943	9,8	8,9	6,1
3. Financial assets designated at fair value through profit or loss	66 247	62 068	46 735	1,8	1,5	1,1
4. Available-for-sale financial assets	284 554	335 496	394 529	7,6	8,3	9,6
5. Loans and receivables	2 215 545	2 471 780	2 487 234	59,1	61,1	60,7
6. Held to maturity investments	326 844	286 845	315 345	8,7	7,1	7,7
7. Derivatives - hedge accounting (positive fair value)	10 914	20 621	21 960	0,3	0,5	0,5
8. Fair value changes of the hedged items in portfolio hedge of interest rate risk	0	0	0	0,0	0,0	0,0
9. Tangible assets	33 376	32 946	31 622	0,9	0,8	0,8
10. Intangible assets	12 979	13 535	13 431	0,3	0,3	0,3
11. Investments in associates, subsidiaries and joint ventures	66 488	71 211	67 524	1,8	1,8	1,6
12. Tax assets	3 712	3 870	2 123	0,1	0,1	0,1
13. Other assets	18 190	34 218	38 943	0,5	0,8	1,0
14. Noncurrent assets and disposal groups classified as held for sale	969	550	858	0,0	0,0	0,0

Development of off-balance sheet activities (off balance sheet liabilities / balance sheet total) (%)

Type of banks	2007	2008	2009
Banks	290.2	297.0	169.4
Credit unions	90.8	82.1	2.7

Capital adequacy ratio of financial institutions

Type of banks	2007	2008	2009
Banks	11,55	12,32	14,11
Credit unions	24,56	17,39	14,81

Asset portfolio quality of the banking system

Assets quality of the Czech banking system (in CZK millions)	2007	2008	2009
Receivables of investment portfolio by default and types	2 191 041	2 481 223	2 520 242
1. Receivables without delay	2 139 192	2 411 613	2 405 973
1.1 Standard	2 075 966	2 323 564	2 293 157
1.2 Watch	63 226	88 049	112 816
2. Receivables with default	51 275	68 701	113 730
2.1 Substandard	15 749	21 401	43 432
2.2 Doubtful	8 734	9 973	23 119
2.3 Loss	26 792	37 327	47 178
Allowance and changes (loss) or fair value, total	36 110	46 403	64 859

The structure of deposits and loans in 2009 (%) (at year-end)

	Deposits	Loans
Households	57,5	44.7
Government sector	11.3	3.2
Corporate	22.6	37.2
Foreign	2.8	7.1
Other	5.8	7.8
Total	**100.0**	**100.0**

The structure of deposits and loans in 2009 (%)
(at year-end)

Types of deposits		Types of loans	
At sight	54.6	Long term loans	66.5
Within one year	37.5	Medium-term loans	15.1
Over one year	7.9	Short-term loans	18.5
Total	**100.0**	**Total**	**100.0**

Proportion of foreign exchange assets and liabilities
(at year-ends)

Type of the financial institutions	FOREX assets / Total assets			FOREX liabilities / Total liab.		
	2007	2008	2009	2007	2008	2009
Banks	21.1	17.8	16.1	18.02	15.4	13.8

Structure of revenues and expenditures of financial institutions
(at year-ends)

Revenues	2007	2008	2009
Interest income	156 436	191 917	174 606
Fees and commissions income	44 830	46 779	46 755
Dividend income	5 886	3 730	9 623
Other operating income	2 218	3 062	2 797
Exchange differences, net	7 760	11 938	8 016
Expenditures	**2007**	**2008**	**2009**
Interest expenses	71 738	93 874	71 316
Fees and commissions expenses	8 989	10 658	10 314
Other operating expenses	3 789	3 971	3 947
Administrative costs	59 673	61 676	60 340
Impairment	6 525	15 221	29 378
Tax expenses	12 213	8 345	11 053

Structure of registered capital and own funds of financial institutions in 2009

Type of financial institution	Registered capital	/Total assets	Own funds	/Total liab.
	EUR mln	%	EUR mln	%
Banks	2 84.8	1.84	12 073.7	7.8
Credit unions	10.4	1.7	52.4	7.9

* Exchange rate as of 31 December 2009: CZK/EUR 26.47

2009 DEVELOPMENTS IN THE ESTONIAN BANKING SYSTEM

MACROECONOMIC ENVIRONMENT

The end of 2009 brought along positive news on the future prospects of world economy. IMF raised its forecast for the global economic growth in 2010 by 0.8 percentage points and in 2011 by 0.1 percentage points (to 3.9% and 4.3%, respectively). During the last months of 2009 the prospects for economic growth increased to some extent also for Estonia's main trade partners. According to the Estonian Statistical Office, Estonia's GDP decreased by 14.1% compared to the previous year. The biggest drop in economy occurred in the second quarter when GDP decreased by 16.1%. After that the drop in economy started to gradually slow down. In the last quarter the GDP decreased by 9.5%. GDP was mainly influenced by the decrease in the value added by processing industry as well as by whole and retail business. The economic decrease is expected to slow down in 2010 and the economic growth to recover in the second half of 2010 supported by export. Current account balance improved due to significantly decreased domestic demand. In 2009, current account experienced a sudden surplus estimated by the Bank of Estonia to be about 5 percent of GDP. Current account surplus was supported by the fact that the decrease in import was considerably faster than in export in the context of decreased private consumption and small investment activity. Consumer price index decreased in 2009 by 0.1% compared to the average in 2008, driven by lowering prices of fuel and food. In 2008, the average annual growth in consumer prices was 10.4%. Deflation started to fall back at the beginning of 2010 due to the growth in global fuel prices and measures implemented for the improvement of budgetary position. According to the economic forecast of the Ministry of Finance, the downward price trend will probably come to an end in March 2010 and consumer prices are expected to grow in 2010 by about 0.4%. Unemployment rate increased to 13.8% by the end of 2009. In 2008, the unemployment rate was 5.5% in Estonia. The biggest growth in unemployment occurred in the first quarter, thereafter the growth slowed down quarter by quarter. At the end of 2009, almost one third of all unemployed persons had been unemployed for at least a year. The average number of employed people was 596,000 in 2009, being 61,000 or 9.2% less than a year ago. As to further development in labour market, Ministry of Finance has estimated that the halt in employment decrease and declining numbers of unemployed persons can be expected from the second half of 2010.

DEVELOPMENT IN THE BANKING SYSTEM (INCLUDING THE ASSETS TOTAL / GDP)

As at 31 December 2009, there were seven locally authorized credit institutions and twelve branches of foreign credit institutions operating in Estonia. The ratio of banking sector's total assets to GDP was 150%. One of the branches – Siemens Financial Services AB Estonian Branch – is being subjected to liquidation process. In 2009, the Financial Supervision Authority issued an activity licence to a new credit institution and AS LHV Pank entered the banking market. Business names of 2 credit institutions were changed. The new business name of AS Hansapank, the biggest bank of Estonia, is Swedbank AS since 16 March 2009. Balti Investeeringute Grupi Pank changed its business name to BIGBANK AS since 23 January 2009.

Estonian banking market is still very concentrated. The aggregate market share of 4 major banks – Swedbank AS, AS SEB Pank, Nordea Bank Finland Plc Estonian Branch and Danske Bank A/S Estonian Branch – by loan volumes totalled 93% (94% in 2008). Nordea Bank Finland Plc Estonian Branch and some of the smaller branches of foreign credit institutions – UniCredit Bank Estonian Branch and Bank DnB NORD A/S Estonian Branch – had increased their market share in loans. Nordea Bank Finland Plc Estonian Branch was able to increase its market share by 1.45 percentage points up to 14.71% of the total market volume. Market share was increased on the account of major banks – Swedbank AS, AS SEB Pank and Danske Bank A/S Estonian Branch. As the fast recovery in loan demand concerning major banks is not expected in the nearest future, the increase in the market share of foreign banks' branches will probably continue also in 2010.

Total assets of banks decreased by 5% in 2009 and totalled 322.6 billion kroons as at 31 December 2009. Asset volume decrease was mostly driven by amortization in loan portfolio causing the balance of banks' combined loan portfolio to decrease by 6% by the end of the year (increase of 9% in 2008). The combined loan portfolio of banks amounted to 245.4 billion kroons at the end of 2009, accounting for 76% of total assets. This share remained unchanged compared to 2008.

The quality of banks' loan portfolio continued to deteriorate in 2009. The volume of overdue loans increased, both in absolute figures and as a share of the whole loan portfolio. Still, the growth rate of loans overdue somewhat slowed down compared to 2008. As in 2008, the growth was especially strong in long-term loans overdue, i.e. loans overdue for more than 90 days. Such loans formed 2.1% of banks' combined loan portfolio at the end of 2008, but by the end of 2009 this percentage had reached to 5.5%. As at 31 December 2009, 77% of banks' combined loan portfolio was classified as non-problem loans (83% in 2008). Non-recoverable loans increased considerably in 2009. These are the loans in case of which it is not possible or economically useful for a bank to implement measures in order to recover the loan. Such loans formed only 1% of the banks' combined loan portfolio at the end of 2008, but by the end of 2009 their share had already reached to 5%. This has caused banks to establish several new valuation reserves: valuation reserves increased by almost 8.1 billion kroons in 2009. Based on economic prospects and high level of valuation reserves, the deterioration in the quality of loans is expected to slow down in 2010.

At the end of 2009, the total volume of resources in the banking sector totalled 290.6 billion kroons, decreasing by 4% in 2009. Resources decreased mostly due to the redemption of debt instruments and amortization of loans received from parent banks. Therefore, also the share of external institutional borrowing has decreased. While these loans accounted for 48% of total resources at the end of 2008, their share had decreased to 44% by the end of 2009. Nevertheless, the volume of deposits increased considerably – by 6% in 2009. The share of client deposits increased and accounted for 54% of total resources of banks at the end of 2009. Due to the amortization of composite loan portfolio and significant increase in the volume of deposits, the ratio of loans to deposits has improved considerably: from 175% at the end of 2008 to 156% at the end of 2009.

Banks earned on solo basis a net loss of 8.9 billion kroons in 2009. In 2008 they had earned a net profit of 3.9 billion kroons. Banking groups earned on consolidated basis a loss of 15.1 billion kroons. In 2008 they had earned a profit of 7.1 billion kroons. Big losses both on solo and consolidated basis were caused by significantly higher costs for establishing additional valuation reserves. As to economic results of banks and banking groups in 2009, it is important to notice that the profit before provisioning remained positive both on solo and consolidated basis. However, the earning capacity of banks and banking groups decreased compared to 2008: profits earned before provisioning were smaller than a year ago both on solo and consolidated basis.

As at 31 December 2009, the composite capital adequacy of banks on solo basis was 22.31% (18.86% in 2008). Consolidated capital adequacy of banking groups was 15.72% at the end of 2009 (13.32% in 2008). Also the Tier 1 ratio remained on an adequate level both on solo and consolidated basis: Tier 1 ratio was on solo basis 16.03% and on consolidated basis 11.74% at the end of 2009 (13.11% and 10.4% respectively at the end of 2008). As in previous years, owners took no proprietary income from banks with foreign shareholders in 2009.

THE LEGAL AND INSTITUTIONAL FRAMEWORK OF THE OPERATION AND SUPERVISION OF FINANCIAL INSTITUTIONS, NEW DEVELOPMENTS. LEGAL COMPETENCE OF THE BANKING SUPERVISORY AUTHORITY IN ESTONIA

Pursuant to Article 6(1)(5) of the Financial Supervision Authority Act, one of the tasks of the Financial Supervision Authority in developing the legal environment is to make proposals for the establishment and amendment of Acts and other legislation concerning the financial sector and related supervision, and participate in the drafting of such Acts and legislation. According to the Financial Supervision Authority Act, draft legislation regulating supervised entities or the activities of the Financial Supervision Authority or having otherwise an effect on the achievement of objectives of financial supervision must be approved by the Financial Supervision Authority.

On 10 July 2009 the Act amending the Investment Funds Act, the Insurance Activities Act, the Securities Market Act, the Credit Institutions Act and the Estonian Central Register of Securities Act entered into force. The draft was initiated by the Ministry of Finance in 2008 and it was completed in cooperation with the Financial Supervision Authority by spring 2009. The draft was aimed at harmonizing the Estonian national law with procedural rules and evaluation criteria for the prudential assessment of acquisitions and increase of holdings in the financial sector.

On 22 January 2010 the Payment Authorities and Electronic Money Institutions Act entered into force. The draft was aimed at transposing into Estonian law the Directive 2007/64/EC of the European Parliament and of the Council on payment services in the internal market, including the supervisory regime on payment intermediaries, operational requirements, the list of authorized activities, etc. The current regulations on electronic money institutions were also amended.

The Draft Act amending the Financial Supervision Authority Act, the Investment funds Act, the Insurance Activities Act, the Credit Institutions Act and the Securities Market Act was submitted for approval to the Financial Supervision Authority. Riigikogu accepted the Draft Act on 17 November 2009. Estonia has applied for the membership of the Organization for Economic Cooperation and Development (OECD) in order to become a full member in 2010. When joining the OECD, the Estonian regulation on banking, investment and insurance sector must comply with the Code of Capital Movements and the Code of Current Invisible Operations of OECD. Pursuant to these Codes and on the basis of the principle of equal treatment, the markets of OECD (future) member countries must be opened up to operators of all other member countries. In addition, Estonia has taken a commitment before the World Trade Organization (WTO) to harmonize its special provisions covering the financial sector with the General Agreement on Trade in Services (GATS). This means an obligation to open up the market to operators of other WTO member countries. Thus, Estonia is required under these agreements to allow operators of WTO member countries, including those from the financial sector of OECD member countries, to operate in Estonian market on cross-border basis.

The purpose of preparing the Draft Act amending the Financial Supervision Authority Act, the Investment funds Act, the Insurance Activities Act, the Credit Institutions Act and the Securities Market Act is to harmonize the special provisions covering the financial sector with above mentioned commitments.

The draft extends the possibilities to offer cross-border financial services to banking and investment services and to insurance activities and mediation, both for operators of the Estonian financial sector in countries that are not members of the European Economic Area and for operators of such countries to provide cross-border services in Estonia. Investment firms and fund management companies of third countries are already able to provide cross-border services in Estonia.

The Ministry of Finance and the Financial Supervision Authority have prepared the Draft Act amending the Financial Supervision Authority Act, the Credit Institutions Act and the Guarantee Fund Act. This draft is aimed at improving the responsiveness and effectiveness of financial supervision in crisis. The draft eliminates restrictions provided by current legislation that do not allow the Financial Supervision Authority to receive necessary information from supervised entities as a matter of urgency in case of emergencies or crises. It also entitles the state to consider the expropriation of a credit institution in case of specific reasons, if this action is necessary for ensuring the financial stability and only in case this could not be ensured through the application of other relevant measures. Such an additional legal framework established by the draft is necessary in cases where it is inevitable for the financial supervision authority to intervene immediately or to make a quick decision on the acquisition of a holding in a credit institution by the state, in order to maintain the financial stability.

As to the Credit Institutions Act, the draft amended requirements for improving the liquidity management of credit institutions and extended the Authority’s powers in order to improve the efficiency of supervisory activities. It added new provisions on the expropriation procedure of credit institution’s shares. This procedure must be considered as a potential measure for restructuring the credit institution in order to ensure financial stability and restore the sustainable functioning of market without implementing direct state aid measures.

Furthermore, the draft harmonizes Estonian national legislation with recent amendments in the Directive 94/19/EC: the Directive 2009/14/EC of the European Parliament and of the Council amending Directive 94/19/EC on deposit-guarantee schemes as regards the coverage level and the payout delay. Pursuant the latter Directive, the deposit guarantee limit is raised from the current 50,000 EUR to 100,000 EUR per each depositor in a single credit institution. This new limit will enter into force from the beginning of 2011.

In addition, the Financial Supervision Authority submitted to the Ministry of Finance its recommendation to regulate by law the remuneration issue of managers of listed public limited companies because there has been no improvement in the area of market discipline and awareness. The Financial Supervision Authority recommended also regulating by law the requirement for independent Management Board members of listed public limited companies.

MAIN STRATEGIC OBJECTIVES OF THE SUPERVISORY AUTHORITY IN 2009

The Financial Supervision Authority's strategy for 2007–2010 sets the following main objectives for the Authority's activities: to improve cross-border supervisory capabilities; to increase the share of preventive supervisory methods; to raise the awareness level of financial services customers; to promote an open communication and working culture and to increase the effectiveness and minimize red tape through ensuring the competitiveness of Estonia's financial sector at the international level.

THE ACTIVITIES OF THE BANKING SUPERVISORY AUTHORITY IN 2009

In 2009, the Financial Supervision Authority granted authorizations to three new fund management companies, one new credit institution and one new investment firm. Credit institution licence was granted to AS LHV Pank, investment firm licence to Admiral Markets AS and fund management licences were granted to BPTAM Eesti AS, EfTEN Capital AS and Kobe Asset Management AS (the licence of the latter one was revoked in January 2010). Swedbank Elukindlustus AS received from the Financial Supervision Authority a supplementary activity licence for sickness insurance in 2009.

In 2009, the risk analysis of credit institutions was based on traditional monthly and quarterly reports. Major risk areas of credit institutions – credit risk, operational risk, liquidity risk, market risk, etc. – are evaluated during such an analysis based both on quantitative and qualitative information. Profitability and adherence to standards is also monitored. Results of this analysis provide an important input for planning supervisory activities and are regarded as a primary source of information for planning and performing on-site inspections. In 2009, in the light of developments in global and local economic environment, the Financial Supervision Authority focused its attention primarily on the quality of banks' loan portfolios, the adequacy of capital buffers (due to deteriorating quality of loan portfolios) and the supervision of liquidity risk.

Besides regular analyses the Financial Supervision Authority performed also a risk assessment of credit institutions in 2009, assessing various risk realization possibilities and the adequacy of internal risk control processes for all major risk areas. The Authority uses internal risk assessment system primarily for assessing bank's risk profile and also for planning supervisory activities and resources. Risk assessment showed that during the global financial crisis the banks have been challenged primarily by adequate management of credit and liquidity risks. Still, internal control mechanisms of banks for major risk categories were sufficient as a rule and they had been adequately implemented.

Under the Pillar 2 (one of the components of the Basel II capital adequacy framework), the Financial Supervision Authority performed the Supervisory Review Evaluation Process (SREP) in 2009. One of the main goals of SREP is to evaluate the reliability of bank's Internal Capital Adequacy Assessment Process (ICAAP) and its capital need. As a result of SREP, the Authority is able to set an additional capital requirement above the minimum capital requirement or to implement other supervisory measures.

In order to identify the need for supervisory intervention, the Financial Supervision Authority performed also credit risk stress-testing in 2009, where banks had to submit to the Authority for further analyses several calculations that had been done on the basis of prescribed scenarios. The Authority elaborated separate tests for individuals and companies, testing thus the behaviour of individuals' mortgage loans and banks' corporate loan portfolios in case these scenarios should occur, as well as effects to the adequate capital level of banks. Stress testing revealed that major potential risks might occur primarily in the real estate sector and related sectors.

In 2009, the Financial Supervision Authority conducted on-site inspections in six credit institutions.

These on-site inspections covered the following areas:

- Credit activities (incl. leasing activities) and management of credit risk;
- Reporting on credit activities;
- General risk management;
- Liquidity management;
- Organization of IT function and ensuring its business continuity;
- Management of changes to IT and incidents related to IT;
- Organization of operational risk management, internal reporting and relevant databases;
- Application of Advanced Measurement Approach in measuring operational risk and calculating capital requirements;
- Separation of functions and internal procedures for the avoidance of conflicts of interests;
- Conformity of procedures for the prevention of money laundering and terrorist financing with the provisions of the new Money Laundering and Terrorist Financing Prevention Act and international practices;
- Due diligence measures applied to clients registered in low tax regions and efficiency of respective control mechanisms;
- Internal audit actions related to the credit area;
- Organization of outsourcing services;
- Activities of the management and reporting to the management;
- Life cycle of a transaction order made by a client through telephone, respective IT-systems, intra-bank rules and procedures related to this

process, possibility of the occurrence of failures and data loss in various stages of this cycle;

- Performance of the risk notification obligation when giving investment advise in selling financial instruments and pension fund units during the investment.

One of the tasks of the Financial Supervision Authority is to identify existing risks for consumers and to give them information and support for making the right choice of financial services. A competent consumer enters into a contract with higher level of awareness, limiting thus the possibility of subsequent disputes with financial service providers. In the light of these objectives, the Authority launched and developed further its online portal www.minuraha.ee addressed to consumers. In 2009, significant efforts were made in this area for reaching different social groups: sub-sites for debt advisors and students were completed. Consumer portal was developed further and improved; several calculators and tests were added and also a dictionary explaining financial terms was presented.

ORGANISATIONAL STRUCTURE OF THE ESTONIAN FINANCIAL SUPERVISION AUTHORITY

The activities of the EFSA are managed and organized by the Management Board, which consists of four members (Mr. Raul Malmstein, Mr. Andres Kurgpõld, Mr. Kaido Tropp and Mr. Kilvar Kessler) and is simultaneously the management body and the administrative body. The Management Board has competence over the organization of all activities of the EFSA and making decisions related to the financial supervision.

INTERNATIONAL ACTIVITIES OF THE AUTHORITY

As Estonia is one of the EU Member States, its financial sector forms a part of the European integrated financial services market. Estonia's financial stability is directly dependent on efficient and operational information exchange with other EU Member States, especially with Nordic countries. The Financial Supervision Authority is able to influence the shaping of international supervision practices and policies by participating in the work of the EU financial sector supervisory committees: the Committee of European Securities Regulators (CESR), the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) and the Committee of European Banking Supervisors (CEBS).

Besides sectoral working groups, there are several cross-sectoral (called 3L3) working groups where the positions of all three above mentioned supervisory committees are represented. The Financial Supervision Authority participated in 2009 in the work of one of these working groups: the Anti Money Laundering Task Force (AMLTF).

In 2009, the efficiency of supervisory convergence was also increased by organizing fixed-term exchange of employees, educational trips and joint trainings. Procedures for the exchange of employees between the supervisory authorities of Member States and supervisory committees as well as for organizing training have been developed.

In 2009, an agreement regulating the cooperation framework for crisis management between Baltic and Nordic countries was signed by Baltic and Nordic central banks, ministries of finance and financial supervisory authorities.

STATISTICAL TABLES

Number of financial institutions (head offices/branches) (at year-ends)

Type of financial institution	2007	2008	2009
Banks	7	6	7
Branches of foreign credit institutions	8	10	12
Financial institutions, total	**15**	**16**	**19**

Ownership structure of the financial institutions on the basis of registered capital (%) (at year-ends)

Item	2007	2008	2009
Public sector ownership	0.0	0.0	0.0
Other domestic ownership	4.3	5.9	3.4
Domestic ownership total	4.3	5.9	3.4
Foreign ownership	95.7	94.1	96.6
Financial institutions, total	**100.0**	**100.0**	**100.0**

Ownership structure of the financial institutions on the basis of assets total (%)

Item	2007	2008	2009
Public sector ownership	0.0	0.0	0.0
Other domestic ownership	1.3	1.8	1.8
Domestic ownership total	1.3	1.8	1.8
Foreign ownership	98.7	98.2	98.2
Financial institutions, total	**100.0**	**100.0**	**100.0**

Concentration of asset by the type of financial institutions

Type of the financial institutions	FOREX assets / Total assets	FOREX liabilities / Total liab.
Bank	82.2	93.7

Return on Asset (ROA) by type of financial institutions

Type of financial institution	2007	2008	2009
Bank	2.6	1.2	-2.8

Return on Equity (ROE) by type of financial institutions

Type of financial institution	2007	2008	2009
Bank	30.0	13.5	-31.7

Distribution of market shares in balance sheet total (%)

Type of financial institution	2007	2008	2009
Bank	100.0	100.0	100.0

The structure of assets and liabilities of the banking system (%) (at year-end)

Assets	2007	2008	2009
Cash	0.75	0.68	0.65
Claims on central bank	5.47	8.23	8.31
Claims on credit institutions	11.29	10.27	8.10
Claims on customers	74.60	76.24	76.07
Allowance for uncollectible claims	-0.39	-0.91	-3.47
Securities	6.36	5.02	9.43
Intangible assets	0.13	0.13	0.02
Tangible assets	0.19	0.20	0.20
Other assets	1.60	0.14	0.69
Total assets	**100.00**	**100.00**	**100.00**
Liabilities	**2007**	**2008**	**2009**
Amounts owed to credit institutions and central bank	34.88	37.55	34.54
Amounts owed to customers	44.70	43.60	48.76
Government lending funds and counterpart funds	0.02	0.05	0.04
Issued debt securities	5.31	4.39	3.94
Other liabilities	2.69	2.43	0.76
Subordinated liabilities	3.70	3.13	3.39
Provisions	0.06	0.06	0.12
Equity capital	8.64	8.79	8.45
Total liabilities and capital	**100.00**	**100.00**	**100.00**

Development of off-balance sheet activities (off balance sheet liabilities / balance sheet total) (%)

Type of financial institution	2007	2008	2009
Banks	26.87	27.40	27.14

Solvency ratio of financial institutions

Type of financial institution	2007	2008	2009
Banks	14.78	18.86	22.25

Asset portfolio quality of the banking system

Asset classification %	2007	2008	2009
Standard loans	87.37	82.54	76.87
Watch loans	9.61	11.41	9.48
Doubtful loans	2.36	3.28	3.98
Insecure loans	0.36	1.30	4.43
Uncollectible loans	0.30	1.47	5.24
Classified total	**100.00**	**100.00**	**100.00**
Specific reserves	**0.36**	**0.96**	**3.67**

The structure of deposits and loans in 2009 (%) (at year-end)

	Deposits	Loans
Households	36.72	47.26
Government sector	8.77	2.46
Corporate	31.98	43.72
Foreign	16.05	3.54
Other	6.48	3.02
Total	**100.0**	**100.0**

The structure of deposits and loans in 2009 (%) (at year-end)

Types of deposits		Types of loans	
At sight	45.38	Long term loans	47.28
Within one year	50.52	Medium-term loans	46.38
Over one year	4.10	Short-term loans	6.34
Total	**100.0**	**Total**	**100.0**

Proportion of foreign exchange assets and liabilities (at year-ends)

Type of the financial institutions	FOREX assets / Total assets			FOREX liabilities / Total liab.		
	2007	2008	2009	2007	2008	2009
Banks (balance sheet items only)	72.7	75.0	80.6	68.1	61.6	50.0

Structure of revenues and expenditures of financial institutions (at year-ends)

Revenues	2007	2008	2009
Interest income	987.62	1285.52	826.52
Income from financial investments	154.00	11.35	8.31
Commission income	201.02	204.04	174.04
Profit on financial operations	153.19	64.53	50.54
Other operating income	66.55	68.71	69.28
Expenditures	**2007**	**2008**	**2009**
Interest expenses	598.69	872.50	557.40
Commission expenses	52.41	51.90	49.14
Administrative expenses	266.60	274.81	245.69
Value adjustments of claims and off-balance sheet commitments (+/-)	38.45	125.65	797.51
Other operating expenses	31.51	33.71	31.42
Profit/loss for the reporting period	**472.47**	**251.34**	**-578.94**

Structure of registered capital and own funds of financial institutions in 2009

Type of financial institution	Registered capital	/Total assets	Own funds	/Total liab.
	EUR mln	%	EUR mln	%
Banks	701,251,517.9	3.4	1,742,196,643.4	10.4

2009 DEVELOPMENTS IN THE HUNGARIAN BANKING SYSTEM

MACROECONOMIC ENVIRONMENT

The Hungarian economy went through a major recession in 2009. GDP fell by 6.2%, due in the main to weak external demand from the European economy. A negative contribution to growth was also made by procyclical fiscal policy, as the Hungarian government made strong efforts to contain its deficit. As a result, domestic demand also weakened sharply, the unemployment rate and the corporate bankruptcy ratio rose to 11% and an annual 3%, respectively, and a major softening took place on domestic assets markets (property, cars, etc.) However, the pace of weakening was slowing down progressively after a very bad first half of the year, and the economy came marginally out of recession by Q4.

At the same time, macroeconomic stability improved in some fundamentally important respects. The fiscal deficit was contained at 4% of GDP, the external current account turned into a small surplus on weak imports, and official currency reserves doubled compared to pre-crisis levels. At the same time, the sovereign risk spread on Hungarian assets fell sharply, the 10-year government bond yield falling from 14% to 7% between March and December, and the central bank base rate also fell from 10% to 6.25% during the year. In addition to prudent fiscal policy, important contributors to this improvement were the global upswing by capital markets from March 2009 and an EUR 20bn financing package from the IMF and the EU.

DEVELOPMENTS IN THE BANKING SYSTEM

The banking sector weathered out the crisis period successfully and maintained its overall good business performance in 2009. Asset growth slowed down to 2% during the year, but the assets to GDP ratio still rose from 115% to 120%, due to a shrinking level of domestic income. Customer loans fell by 5% on a significant tightening of lending conditions, while liquid asset ratios rose substantially, as banks decided to hoard liquidity amidst difficult market circumstances. Asset quality proved to be an increasing problem, as the NPL ratio (90-day past due items to the total loan book) rose from 2.9% to 6.2%. Yet, profitability was maintained at relatively high levels, with an average return on equity of 10.1% in 2009 after 13.1% in the previous year, as banks made savings on operating expenses, managed to widen interest margins and made substantial profits on trading and exchange rates.

While significant vulnerabilities remain, a number of important stability indicators improved in 2009. Most importantly, the average capital adequacy ratio rose from 11.2% to 13.5%, the loan to deposit ratio (estimated for customer loans and deposits of banks) fell by 9% points to 146%, and the extent of maturity transformation as well as the overall size of FX swap requirements both decreased. The latter was connected to banks' discontinuation of lending to retail customers in CHF, which proved to be a key element of instability in the worst days of the global crisis in October 2008. The share FX-denominated loans in new disbursements also fell sharply, though the currency structure changed much less in stock data, and previously extended long term FX loans will still remain on the balance sheet for several years to come.

LEGAL AND INSTITUTIONAL FRAMEWORK OF THE OPERATION AND SUPERVISION OF FINANCIAL INSTITUTIONS, NEW DEVELOPMENTS. LEGAL COMPETENCE OF THE BANKING SUPERVISORY AUTHORITY IN HUNGARY

In Hungary the Hungarian Financial Supervisory Authority (HFSA) as an integrated authority is responsible for the authorization and supervision of the financial institutions from 2000.

The HFSA is not a regulatory authority, but according to the Act CXXXV of 2007 on the Hungarian Financial Supervisory Authority (hereinafter referred to as "Act on HFSA") it has the right to deliver its opinion when decisions and laws affecting the financial system or the institutions and persons under its control as well as its task and scope are being made or prepared, and it shall make proposals concerning legislation.

In 2009 the HFSA was a government office, but from 2010, according to the modified Act it is a self-regulatory publicly financed body operated and managed independently, funded through an independent chapter vested by the Parliament in the central budget. The Parliament has exclusive jurisdiction to revise the principal amounts of the Authority's expense and revenue accounts.

While in 2009 the Chairman of the Board had to report to the Government - via the minister of supervisory competence - by 31 May concerning the Authority's operations, from 2010 the President of the HFSA shall give account of the Authority's activities to the Parliament by 31 May of each year and, upon request, shall provide information to the competent committee of the Parliament. The HFSA shall draw up a risk report quarterly concerning the institutions under its control, the financial markets and the financial intermediation system.

With exceptions set out in the Act of HFSA, the court shall have powers to reverse the Authority's decisions. In the event of any infringement by the Authority, at the client's request the Municipal Court of Budapest shall instruct the Authority to conduct the proceedings.

The tasks and duties of the Authority are prescribed by the Act on HFSA, and on the strength of an act or other legal regulation adopted by authorization of an Act.

The purpose of this Act is to establish a regulatory regime for the supervision of market participants with a view to ensure the smooth and successful functioning of the money and capital markets, to provide a clear and accurate picture of market conditions, to facilitate fair market competition, and to improve confidence in the financial markets in accordance with the relevant legislation of the European Communities.

The most important Hungarian pieces of legislation relevant to the HFSA and the supervised sectors and institutions:
http://www.pszaf.hu/en/topmenu/legislation/national_legislation

The mayor changes in the legal framework of the financial institutions in 2009:

- Act LXXXV of 2009 on the pursuit of the Business of Payment Services and modification of Act CXII of 1996 on Credit Institutions and Financial Enterprises.
- Modification of Act CXXXV of 2007 on the Hungarian Financial Supervisory Authority in force as of January 2010.

MAIN STRATEGIC OBJECTIVES OF THE HFSA IN 2009

Priorities of supervision announced by the HFSA for 2009

When designing the priorities for 2009, the HFSA focused on the financial crisis and the management thereof, even though the depth and duration of the crisis was not known at the time. Therefore, in order to serve the interests of all players on Hungary's financial markets (including service providers, intermediaries and customers), the HFSA had to employ all supervisory means at its disposal to assess the already occurred and potential threats and risks arising from the crisis. Furthermore, the HFSA had to use the right tools at the right time to mitigate these risks and to prevent their occurrence if possible.

The HFSA's priorities announced for 2009 were as follows:

Liquidity

With a view to the fact that around the turn of 2008/2009 the financial crisis basically manifested in a liquidity crisis, the HFSA continues to take liquidity risk as a priority. The main reason is that as a combined effect of the global economic slowdown and the continued crisis of the financial sector, risk premiums are expected to remain significantly higher than usual while liquidity and financing opportunities will remain tight over a long period of time, especially as far as foreign exchange and long-term funding are concerned. The repeated quick and significant evaporation of confidence on financial and capital markets from time to time is also possible especially in case a service provider that plays a significant role in global systemic risks falls into crisis. A decisive factor in these situations is whether the intervention of central banks and governments can be counted on as such action can significantly mitigate the disturbance caused to financial markets and make major downturns temporary. These disturbances and downturns, however, may put the shock resistance of Hungarian financial service providers to a thorough test.

Strategy (sustainability of business model, growth, profitability, capital budgeting)

Amidst the crisis we had to examine the sustainability of the former business models of financial institutions along with the changes that are necessary in the strategy of individual institutions. As liquidity problems influence profitability and capital adequacy, the appropriateness of the strategy is of outstanding importance in a crisis.

Therefore, business risk and planned, institution-wide risk management must be integral parts of any strategy. As the number and size of institutions with foreign parent organizations are significant on the Hungarian financial market, the parent institutions must also be monitored on an ongoing basis regarding liquidity and the sustainability of their business models. Similarly, attention must be paid to the extent and nature of their intervention into trends that have a direct impact on Hungarian markets.

Credit risk

In the current situation, increased credit risks had to be expected in the Hungarian financial sector with market risks remaining high. In this respect, the high rate and fast-paced growth of retail debt service rate, the setback of demand on the real estate market, the lasting shift of foreign currency exchange rates, the extremely quick growth of interbank lending in Central-Eastern Europe to date and dangerously low economic growth in Hungary are the main warning signs. Amidst these circumstances, lending conditions must be made stricter, credit eligibility checks must be made more thorough and the standards of responsible lending must be complied with upheld.

Enforcement of fair market conduct (operational risk)

In the case of market turbulences, the risks associated with unfair market behaviour increase. The threat of violation of laws (e.g. competition law), fraud, and misuse of information, insider trading and the misleading of consumers (e.g. unethical deposit collection campaigns) is growing. What causes a further problem in the current situation is that the financial knowledge of Hungarians is still rather limited. This way, efforts to improve the overall financial culture is an increasingly important element of the HFSA's consumer protection responsibilities.

THE ACTIVITIES OF THE BANKING SUPERVISORY AUTHORITY IN 2009

Risk assessment

The risk-based supervision shapes the entire supervisory process - on-site and off-site – to the risks. The basis of achieving the supervision attentive to risks is the exploration of the factors jeopardizing the supervisory aims, and operation of the procedures ensuring the continuity of this exploration.

Supervision of institutions

Financial groups and banks:

In accordance with the HFSA's priorities announced for 2009, the Board of the HFSA ordered targeted investigations at the eight largest Hungarian banking groups in its 11 December 2008 resolution.

The investigations covered all significant financial enterprises, fund managers, pension, healthcare and self support funds and insurers. The investigations were accompanied by consumer protection and market supervision audits.

The HFSA regarded the investigations as a project and set up a project organization for implementation. With a view to the fact that the investigations called for significant HFSA resources, human resources were reassigned and allocated to specific investigation tasks while associates who had no previous experience in banking supervision were sent to training.

One main finding of investigations was the deterioration of asset quality at banks caused by the significant increase of credit risk. Although the extent of this deterioration differed institution by institution, it was a general trend. Therefore, each related resolution included the relevant calls.

Cooperation between (home / host) supervisors

Due to the globalisation of the financial sector, close collaboration between supervisory authorities is an indispensable precondition to the successful fulfillment of their supervisory roles. As part of this trend, a convergence process has been going on in supervision for years. In this process,

- as home supervisor, the HFSA organized the supervisory college of the OTP group for the fourth time in 2009, enabling the 8 supervisory authorities involved to review the current position of the banking group; discuss investigation findings and the risks associated with individual subsidiaries,
- as host supervisor, the HFSA is an active participant of supervisory colleges organized by foreign partner authorities where risk assessments, investigation findings, methodology issues, etc. are discussed,
- on invitation by the HFSA, associate of home supervisors participated in the investigation of certain banking groups and HFSA associates could join investigations organized by home supervisors,
- in addition to supervisory college efforts, bilateral meetings were organized (e.g. with the representatives of the Austrian and the Italian supervisory authority),
- in relation to European banking groups, the HFSA participated in EU-wide risk assessments and group-level multilateral MOUs were also signed for these banking groups in 2009,
- in order to foster the extensive exchange of information, the majority of supervisors (including the HFSA) set up protected IT platforms which enable the quick and accurate flow of information between supervisors regarding specific banking groups.
- the banking supervision MOU between the National Bank of Ukraine and the HFSA was signed in Kiev on 9 October 2009, enabling the exchange of information and on-site investigations regarding OTP Bank and its Ukrainian subsidiary, JSC OTP Bank.

Credit cooperatives

With a view to the large number of institutions to be reviewed, the HFSA carried out the SREP of the internal capital adequacy assessment process of institutions in this sector in three phases both in 2008 and in 2009.

Financial enterprises

Annex 1 which forms part of the SREP guidelines was published by the HFSA on 8 May 2008. The document reviewed assumed risks and risky portfolios for which the HFSA required the allocation of additional capital upon the internal capital calculation of institutions in 2008-2009 and for which all this would be enforced in particular under the SREP. As a result of this information and based on feedback received from market players, the risks assumed in this market segment have decreased. Institutions make an ongoing effort to meet requirements by offering products that comply with the related reference schemes.

Investment enterprises and fund managers, insurance companies, pension, healthcare and self-support funds

In 2009, the handling of the financial crisis which reached capital market institutions after September 2008 continued in the supervision of investment enterprises and investment fund managers as well.

Pursuant to the methodology of risk-based supervision, institution-type assessments are also prepared for insurance companies. The existing structure of analyses (a summary encompassing risk assessments, financial statements, auditor reports, actuarial reports and MVLI reports) provided the HFSA with great multi-purpose assessment documents. The implementation of various audits is a key element of supervision.

In 2009, the HFSA's pension, healthcare and self-support fund area also joined the focused investigation of the 8 banking groups and investigated their pension funds, healthcare funds and self support funds (11 funds in total). The errors and deficiencies identified during the investigation were brought to the attention of the funds concerned in resolutions and investigation letters.

Supervision of market procedures

Licensing

In 2009, the HFSA among others licensed the market entry of a new bank, SPE Bank Zrt. and the transformation of a savings cooperative, Siklós és Vidéke Takarékszövetkezet into a bank (new name: Dél-Dunántúli Regionális Bank Zrt.). At the same time, on the institution's own request, the HFSA revoked the operating license of Premier Bank Zrt. and initiated the final settlement proceedings of the bank.

During 2009, two banks (OTP Bank Nyrt., FHB Kereskedelmi Bank Zrt.) decided to establish branch offices in Germany based on the mobility rights set out in European Union guidelines.

In the credit institutions sector, the list of entities possessing a qualified equity stake changed either completely or in part at several institutions (e.g. ERSTE Bank Nyrt., FHB Jelzálogbank Nyrt, HBW Express Bank Zrt.). One outstanding example is the change of ownership over WestLB Hungaria Bank Zrt.

The HFSA licensed the foundation of one credit cooperative (Egy Egészség Takarékszövetkezet) in 2009. Yet this license was revoked as a sanction by the HFSA later in the year and final settlement procedures were initiated regarding the institution.

Consumer protection

The HFSA's consumer protection efforts focus on encouraging responsible service provider conduct and conscious consumer behaviour.

Efforts to encourage responsible service provider conduct encompass the following: a) implementation of consumer protection investigations and surveys as the supervisory sanctioning of the violation of laws potentially detected during investigations helps spur the institution to follow sound practices, b) issue of management circulars and recommendations in order to promote the implementation of "sound practices" and c) support of the self-regulation of institutions.

The HFSA undertook significant role in wording the Code of Conduct on the fair behaviour of financial institutions providing retail loans to customers, and the related negotiations.

Complaint handling

Due to the unfolding global economic crisis, the number of complaints within the competence of the HFSA went up significantly in 2009.

In 2009, the total number of complaints reflected a considerable increase (+27.8%) compared to 2008. Year-through growth mainly related to the financial market sector (to 203.2%).

Customer service

In 2009, the HFSA's customer service received a total of 33,630 calls, 3,430 personal and 4,697 written inquiries.

The growth on the related 2008 figures was 22% for calls, 142% for personal inquiries and 35% for written inquiries.

Supervision regarding issuers of securities

The investigations encompass the examination certain public financial statements, focusing primarily on compliance with the publication requirements set out in applicable standards (IFRS). The issuers subjected to investigation were selected based on their stock exchange capitalization and capital market impact.

Market supervision

In the framework of market supervision, the HFSA examines the activities and market behaviour of market players in order to ensure the transparency, fairness and security of the market and to prevent and halt any developments that may threaten these objectives.

Actions against money laundering and financial fraud

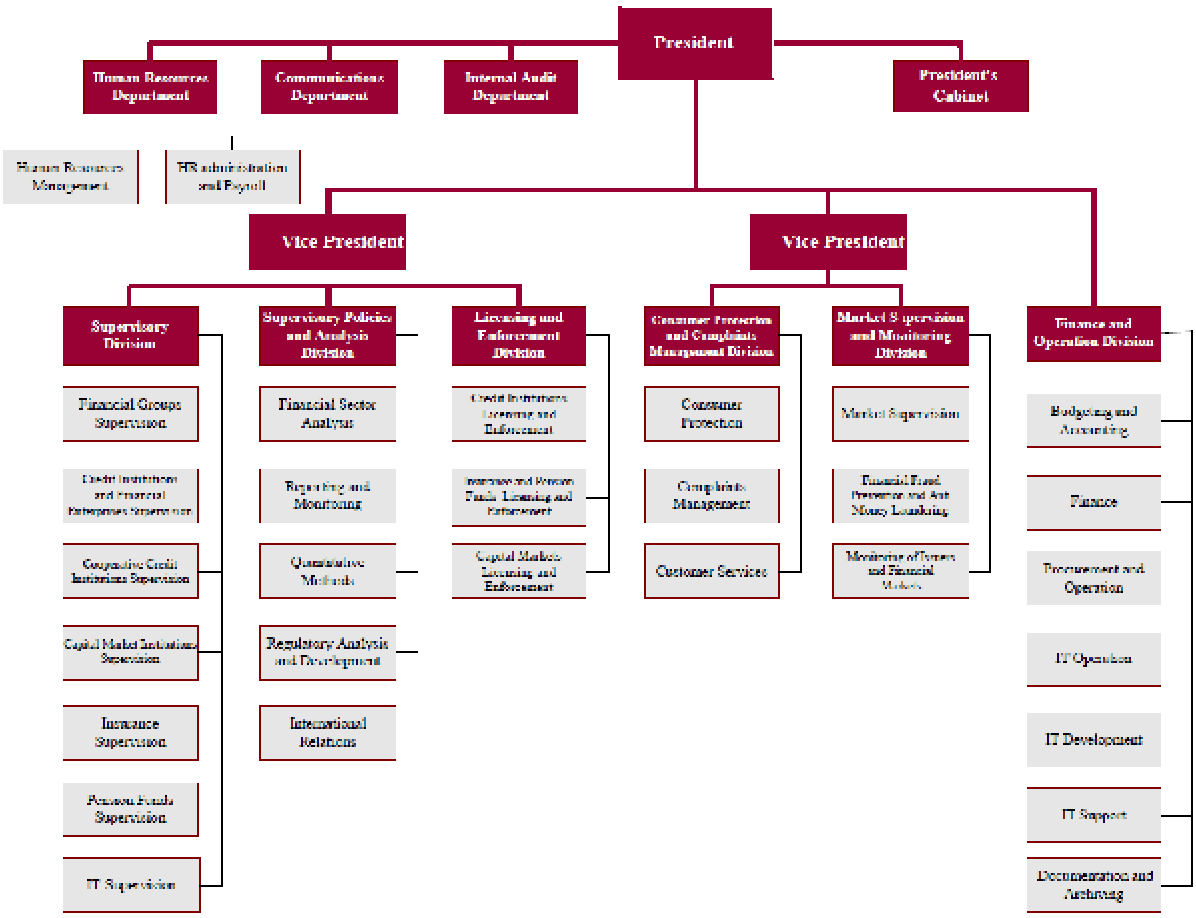
The combating against financial fraud, money laundering and the financing of terrorism was a key priority for the HFSA. Participation in the related domestic and international efforts a major element of the HFSA's operations and the enforcement of the related objectives was part of authority procedures. The HFSA checks the actions taken to prevent and handle financial fraud and to combat against money laundering for compliance with legal provisions and supervisory requirements during the investigations carried out at the supervised institutions.

Regulatory tools

During 2009 the HFSA issued a recommendation on internet-safety risks and more management letters, methodology and other guides.

The HFSA contributed to the preparation for the modification of the Act on it. Therewith elaboration of the comments for the draft on the modification of certain financial laws was a pregnant work, as well.

ORGANIZATIONAL CHART OF THE HFSA



INTERNATIONAL ACTIVITY OF THE HFSA

The HFSA has extensive international involvement including key elements like participation in the work of European Union institutions, working in the international organizations of financial supervisors and other international organizations, plus bilateral relations that are to foster the efficiency of supervision. Besides, there is a regular exchange of experiences with foreign partner organizations and regular consultation with market players.

The majority of the HFSA's international activities relate to work done in EU institutions, in particular in 3L3 committees. Pursuant to the Act on the HFSA, the supervisory authority is a member of the Committee of European Securities Regulators, the Committee of European Banking Supervisors and the Committee of European Insurance and Occupational Pensions Supervisors.

In 2009, 389 participants from the HFSA took part in a total of 360 meetings and working group sessions of EU relevance. Most of these were level 3 committee meetings.

Furthermore the HFSA participated in the work of the international organizations (IAIS, IOSCO, IOPS, BSCEE, OECD, BCBS, Moneyval, INFE).

The HFSA concluded a bilateral cooperation agreement with Ukraine in that year on the banking sector.

COOPERATION WITH OTHER SUPERVISORY BODIES

Cooperation agreements

In order to develop financial culture, a cooperation agreement for indefinite term was signed by Hungarian Competition Authority, MNB (National Bank of Hungary) and the HFSA in April 2009. Having a joint interest in improving financial culture, the three institutions will set up a joint standing work group and elaborate a joint annual work schedule. Implementation will also be financed jointly by the three organizations.

In September 2009, Hungarian National Police and the HFSA signed a cooperation agreement for an indefinite period in order to combat and prevent crimes that may hazard confidence in financial institutions and markets. The key objectives of this cooperation are to bring a new approach to combating financial fraud in the course of criminal proceedings and supervisory investigations, to organize the related training and participate therein, joint dissemination of information to change consumer thinking and behaviour.

Main events and conferences

Organized by the HFSA on 2-3 December 2009, the 2nd Integrated Financial Conference was attended by 350 finance professionals. Titled "Challenges after the financial crisis", the meeting addressed topics like changed financial responsibility in a changed financial system, the macroeconomic and monetary policy expectations of regulatory, monetary and supervisory authorities and the role and regulation of financial intermediaries. Organised by the HFSA and the College of Police Officers for the fourth time, the conference titled "New challenges in the financial sector, combating and preventing financial fraud, joint action" took place on 23 November 2009. Now traditional event, conference was organized for senior finance sector professionals, leaders of legal, internal audit, security and compliance areas and for the specialists in charge of the Police, the Hungarian Customs and Finance Guard, prosecutor offices, courts and other partner authorities.

For several years now, the HFSA and the Chamber of Hungarian Auditors stages a joint conference in each November. The conference held in November 2009 was attended by more than 300 auditors. The featured presentations addressed experiences drawn from auditor reports submitted to the HFSA, capital requirement calculation of financial and capital market organizations, Ministry of Finance and Government Decrees issued pursuant to the CRD and the efforts of the HFSA and National Police to combat money laundering and the financing of terrorism.

STATISTICAL TABLES

Number of financial institutions
(at year-ends)

Type of financial institution	2007	2008	2009
Credit institutions	203	198	190
Banks	37	36	35
Savings and credit cooperatives	157	148	140
Branches of non-resident credit institutions	6	11	12
Specialized state financial institutions	3	3	3
Financial enterprises	249	262	268
Investment companies	21	24	27
Investment companies	17	21	25
Branches of non-resident investment companies	4	3	2
Asset managers	31	35	36
Insurance companies and associations	76	75	73
Insurance companies	30	32	32
Insurance associations	35	30	30
Branches of non-resident insurers	11	13	11
Pension, health & mutual self-assistance funds	158	141	132
Total	**738**	**735**	**726**

Ownership structure of banks by registered capital
(at year-ends)

Type of financial institution	2007	2008	2009
Domestic ownership	12,3	12,4	12,7
Public sector	0,1	0,1	0,1
Private sector	12,2	12,3	12,6
Foreign ownership	82,0	86,4	86,8
Other/*	5,7	1,2	0,5
Total	**100,0**	**100,0**	**100,0**

*/ Other = preferred and repurchased shares, unidentified ownership

Ownership structure of banks by assets total (at year-ends)

Type of financial institution	2007	2008	2009
Domestic ownership	0,2	0,2	0,2
Public sector	0,0	0,0	0,0
Private sector	0,2	0,2	0,2
Foreign ownership	1,6	1,3	1,5
Other/*	0,1	0,0	0,0
Total	**1,8**	**1,6**	**1,7**

Concentration of asset by the type of financial institutions

Type of financial institution	The first three largest (%)	The first five largest (%)
Banks	43,2%	62,2%
Credit cooperatives	78,1%	100,0%
Financial enterprises	21,9%	30,9%
Saving Cooperatives	11,0%	16,6%
Specialized credit institutions	100,0%	100,0%

Return on Asset (ROA) by type of financial institutions (%)

Type of financial institution	2007	2008	2009
Banks	1,48%	1,17%	0,75%
Credit cooperatives	0,71%	0,17%	-1,29%
Financial enterprises	2,04%	1,04%	-0,55%
Saving Cooperatives	0,75%	0,66%	0,60%
Specialized credit institutions	1,04%	0,72%	0,29%

Return on Equity (ROE) by type of financial institutions (%)

Type of financial institution	2007	2008	2009
Banks	17,88%	11,20%	9,25%
Credit cooperatives	7,65%	2,03%	-17,20%
Financial enterprises	24,30%	13,40%	-8,00%
Saving Cooperatives	10,96%	9,65%	8,28%
Specialized credit institutions	7,97%	4,97%	2,42%

Distribution of market shares in balance sheet total (%)

End-period data		2007	2008	2009	2007	2008	2009
		HUF bn	HUF bn	HUF bn	Percent	Percent	Percent
By institutions							
Banks	total assets	24376	29222	28996	60,9	66,5	61,3
	assets in management/*/**	2211	1578	3780	5,5	3,6	8,0
	total	**26587**	**30690**	**32776**	**66,4**	**69,9**	**69,3**
Investment companies	assets in management/*/**	841	706	705	2,1	1,6	1,5
Asset managers	assets under mgmt/**	3353	2747	3333	8,4	6,3	7,0
Leasing & factoring companies	total assets	2675	3370	3011	6,7	7,7	6,4
Insurers	total assets	2259	2206	2389	5,6	5,0	5,1
Pension & health care funds	asset value/**	2807	2618	3467	7,0	6,0	7,3
Cooperative credit institutions	total assets	1505	1577	1603	3,8	3,6	3,4

The structure of assets and liabilities of the banking system (%)
(at year end)

	2007	2008	2009	2007	2008	2009
	HUF bn	HUF bn	HUF bn	%	%	%
Cash & deposits at banks	**2428**	**2041**	**2184**	**10,0**	**7,0**	**7,5**
Cash & current accounts	803	605	535	3,3	2,1	1,8
Deposits at central bank	446	500	310	1,8	1,7	1,1
Interbank deposits	1179	936	1340	4,8	3,2	4,6
Securities	**3390**	**4672**	**6574**	**13,9**	**16,0**	**22,6**
Loans (net value)	**16439**	**19873**	**18198**	**67,5**	**68,0**	**62,7**
Non-financial companies	6419	7019	6340	26,4	24,0	21,8
Households	5358	7130	6719	22,0	24,4	23,1
Government	428	363	389	1,8	1,2	1,3
Domestic MFIs	841	822	790	3,5	2,8	2,7
Other domestic FIs	1788	2088	1675	7,3	7,1	5,8
Nonresidents	1506	2432	2272	6,2	8,3	7,8
Others	98	18	13	0,4	0,1	0,0
Investments	**542**	**629**	**640**	**2,2**	**2,2**	**2,2**
Other assets	**1556**	**2007**	**1438**	**6,4**	**6,9**	**5,0**
Total assets	**24356**	**29222**	**29035**	**100,0**	**100,0**	**100,0**

The structure of assets and liabilities of the banking system (%)
(at year end)

	2007	2008	2009	2007	2008	2009
	HUF bn	HUF bn	HUF bn	%	%	%
Liabilities to domestic banks	**2769**	**2740**	**3301**	**11**	**9**	**11**
Deposits by banks	1449	1111	1706	6	4	6
Loans from banks	1320	1629	1594	5	6	5
Debt securities	**2441**	**3024**	**3118**	**10**	**10**	**11**
Domestic customer deposits	**10088**	**11192**	**11156**	**41**	**38**	**38**
Non-financial companies	3377	3465	3253	14	12	11
Households	5173	6022	6252	21	21	22
Government	447	577	602	2	2	2
Other domestic FIs	764	930	847	3	3	3
Others	327	199	202	1	1	1
Liabilities to nonresidents	**5049**	**7315**	**6914**	**21**	**25**	**24**
Deposits by banks	2566	3715	3491	11	13	12
Deposits by others	658	1019	779	3	3	3
Loans from banks	1825	2582	2644	7	9	9
Other liabilities	**1978**	**2655**	**2081**	**8**	**9**	**7**
Own capital	**2030**	**2296**	**2465**	**8**	**8**	**8**
Total liabilities	**24356**	**29222**	**29035**	**100,0**	**100,0**	**100,0**

Off-balance sheet positions of banks (at year-end)

	Items HUF bn 2007	Items HUF bn 2008	Items HUF bn 2009
Off-balance sheet items, total	11454	7704	5767
Ratio of off-balance sheet items to total assets	**65,2%**	**26,4%**	**19,9%**

Solvency ratio of financial institutions (at year-end, %)

Type of financial institution	2007	2008	2009
Banks	11,60%	11,24%	13,51%
Savings and credit cooperatives	15,82%	14,87%	15,22%
Insurance companies /*	**13,7%**	**13,1%**	**14,4%**

Asset portfolio quality of the banking system

Asset classification (billion HUF)	2007	2008	2009
Problem-free	18 316,55	22 350,66	19 619,94
Watchlisted	1 087,86	924,89	2 632,19
Substandard	134,42	256,15	486,85
Doubtful	131,08	198,27	425,83
Bad	209,54	236,99	443,67
Classified total	**19 879,45**	**23 966,96**	**23 608,47**
Specific reserves	**-292,00**	**-387,00**	**-742,00**

The structure of deposits and loans in 2009 (%)
(at year-end)

	Deposits	Loans
Households	52%	37%
Government sector	5%	2%
Corporate	27%	36%
Foreign	7%	12%
Other	9%	13%
Total	**100%**	**100%**

The structure of deposits and loans in 2009 (%)
(at year-end)

Types of deposits		Types of loans	
At sight	22%	Long term loans	61%
Within one year	56%	Medium-term loans	15%
Over one year	22%	Short-term loans	24%
Total	**100%**	**Total**	**100%**

Proportion of foreign exchange assets and liabilities
(at year-ends)

Type of the financial institutions	FOREX assets / Total assets			FOREX liabilities / Total liab.		
	2007	2008	2009	2007	2008	2009
Banks	**49%**	**55%**	**53%**	**39%**	**42%**	**43%**
Credit cooperatives	5%	10%	9%	3%	7%	6%
Investment companies	7%	6%	6%	6%	5%	5%
Savings cooperatives	4%	6%	6%	4%	6%	6%
Specialized financial inst.	33%	36%	38%	80%	79%	81%
Financial institutions, average	**20%**	**23%**	**23%**	**26%**	**28%**	**28%**

* Net values

Structure of revenues and expenditures of banks
(at year-end)

	HEF billion				
	2005	2006	2007	2008	2009
Net interest revenue	**622,8**	**706,9**	**718,1**	**713,9**	**753,2**
- Interest revenue	1387,9	1520,7	1848,4	2196,5	2441,2
- Interest expenditure	765,1	813,8	1130,4	1482,6	1688,0
Net non-interest revenue	**303,3**	**368,2**	**390,3**	**339,2**	**539,9**
- Fees and commissions	207,2	232,9	245,9	242,6	259,5
- Trading and other	96,2	135,2	144,4	96,5	280,4
Operating expenses	**-469,0**	**-526,2**	**-588,3**	**-642,3**	**-587,9**
Net operating income	**457,1**	**548,9**	**520,1**	**410,8**	**705,3**
Loan losses and provisions	-77,5	-142,4	-129,7	-144,4	-427,7
Extraordinary revenue	1,3	27,6	4,6	14,8	-21,9
Corporate tax	-66,7	-71,5	-68,8	-44,6	-38,1
Profit after tax	**314,2**	**362,6**	**326,1**	**236,6**	**217,6**

Structure of registered capital and own funds of financial institutions
(at year-end)

	Registered Capital (EUR)	/Total assets	Own funds (EUR)	/Total assets
Banks	1 888 660 292	1,76%	9 102 200 642	8,49%
Savings and credit cooperatives	73 070 462	1,23%	428 114 533	7,23%
Financial enterprises	270 668 072	2,26%	795 117 779	6,64%
Financial institutions, average	**2 232 398 826**	**1,75%**	**10 325 432 954**	**7,46%**

2009 DEVELOPMENTS IN THE LATVIAN BANKING SYSTEM

MACROECONOMIC ENVIRONMENT

In 2009, the global slowdown and tight financial market conditions have weighed heavily on economic development in Latvia. Thus, GDP fell by 18.0% in 2009, partly reflecting contraction of foreign demand and a fall in exports, as well as retrenchment of domestic demand as a result of the collapse of private consumption and investment. Severe economic recession has negatively influenced Latvian labour market situation; the number of job seekers has reached record high of 19.7% by the end of the year. As a result of collapsing tax revenues and increasing social payments, the fiscal situation deteriorated, with state consolidated budget deficit reaching 9.0% of GDP in 2009. In order to contain the increase of the budget deficit, a fiscal consolidation package was implemented in the middle of 2009; among other measures it included the public sector wage cuts and reduction in the number of employees.

Overall, domestic demand was depressed by deteriorating labour market prospects, together with tight financing conditions and the direct impact of fiscal consolidation. Hence and also taking into account falling global energy and food prices, the consumer prices in Latvia decreased. Even though average annual inflation in 2009 was 3.5%, during the last quarter of 2009 deflation was observed.

Notwithstanding the deterioration of Latvia's macroeconomic environment in 2009, as a whole in the second half of the year signs of improvement emerged in several export oriented branches of manufacturing, owing to revival of foreign demand and to a notable progress in restraint of unit labor costs aimed at improvement of external competitiveness. Recovery in exports in a large number of product groups and growing Latvia's export market shares reflected gains in competitiveness. Moreover, current account imbalances corrected swiftly, resulting in positive current account balance (9.4% of GDP).

Given the ongoing gradual improvement of economic sentiment and taking into account significant efforts made to improve competitiveness, the outlook for future economic developments in the medium term is positive, while uncertainties regarding the external developments are still high.

DEVELOPMENT IN BANKING SYSTEM

In the reporting year, banks continued strengthening their capital base, increasing both their share capital and subordinated capital, as well as reserve capital. Total banks paid-up share capital in 2009 grew by 82% and at end of the year accounted for 1,617 million lats, including the share of foreign capital amounting to 71.8% (compared to 77.3% on 31 December 2008).

In 2009, the amount of banking sector assets contracted by 1.6 billion lats, or 6.7%, and their amount at the end of December were 21.7 billion lats (in 2008 the amount of assets rose by 1.3 billion lats or by 6.1%). At end-2009, loans constituted the major share in the structure of banking assets, 71.2%, while the share of banking claims on monetary financial institutions (MFI) was 12.4% and investments in securities were 6% (compared to 71.4%, 10.7% and 8.9%, respectively, on 31 December 2008). At the end of reporting year, the share of resident deposits in the banking liabilities structure constituted 27.3%, non-resident deposits – 16.7%, while the banking liabilities to MFI and the Bank of Latvia (BoL) – 36.5% (compared to 25.7%, 16.3% and 44.7% on 31 December 2008).

In 2009, continuing repayment of syndicated loans (six banks had already repaid their syndicated debts in the amount of 490 million lats) and following a decrease in financing from parent banks, total bank liabilities to MFI shrank by 20.2%. At the end of the reporting year, financing of foreign banks to their subsidiaries and branches in Latvia still constituted the major share – 76.5% of total banking liabilities to MFI (compared to 73.8% on 31 December 2008). The remaining amount of syndicated loans in the banking sector by the end of the year made up less than 3% of total banking sector's assets (compared to 5% at end-2008).

In 2009, the balance of total banking loan portfolio started reducing month-on-month by 0.6% on the average as from February, attesting to the banks' prudential lending policy and a significant decrease in loan demand. In total, the loan portfolio of banks shrank by 1.2 billion lats or 7% over the year and by the end of December totalled 15.4 billion lats (in comparison with 2008 when it grew by 1.7 billion lats or 11.2%).

In 2009, in times of economic downturn, increasing unemployment and spreading economic uncertainty the borrowers' creditworthiness was still declining. The share of loans without delayed payments (principal amount and/or interest payment) in total loans decreased from 85% at end-2008 to 74.5% end of the year, whereas the proportion of borrowers incapable to meet their liabilities for a lengthy period of time grew and the share of loans with payments overdue more than 90 days in the loan portfolio made up 16.4% or 2.5 billion lats (compared to 3.6% at end-2008). Upon deterioration in the loan portfolio quality, provisioning for loans in the reporting year grew by 1 billion lats and at end-December totaled 1,328 million lats. At end-2009, provisioning for loans made up 8.6% of banking loan portfolio (compared to 1.9% at end-2008).

In 2009, total volume of deposits in the banking sector contracted by 210 million lats, or 2.2%, of which the amount of resident deposits – by 53 million lats, or 0.9%, whereas the amount of non-resident deposits – by 157 million lats, or 4.2%. Though till end-September of 2009 deposits monthly shrank by 0.9% on the average (with slight increase of 1.1% in March and 0.8% in April), since October deposits in the banking sector began increasing, i.e. in October – by 0.5%, in November – by 0.8% and in December – by 4.7%. In 2009, the banking sector overall ended the year with a 773.4 million lats loss (after tax), though nine banks (with market share of 16.2% in total banking assets) operated with profit earning the total of 19.6 million lats. Banks suffered significant losses mainly because of the loan loss provisioning. Operational profit of the banking sector (profit before provisioning and taxes) totalled 322 million lats in 2009, or by 21% down from 2008.

THE LEGAL INSTITUTIONAL FRAMEWORK OF THE OPERATION AND SUPERVISION OF FINANCIAL INSTITUTIONS, NEW DEVELOPMENTS

In 2009, the changes in the regulatory requirements for the financial market participants have been made considering the circumstances of the global financial crises, as well as to ensure the implementation of the directives, guidelines of European Union institutions and best international practice.

In the reporting year the Payment Services Law has been developed and adopted as well as amendments to the Consumer Protection Law, the Deposit Guarantee Law, the Credit Institution Law and the Law on the Financial and Capital Market Commission. FCMC has developed/amended several regulations (Regulations on the Internal Capital Adequacy Assessment Process, Regulations on Assets Quality Assessment and Provisioning, Regulations on Underlying Principles of Remuneration Policies, Regulation on the Credit Risk Management, Regulations on Liquidity Requirements, Compliance Procedures and Liquidity Risk Management, Regulations on Preparing Reports on Guaranteed Deposits and Determining Adjusted Rates Applicable to Payments into the Guarantee Fund and made the Amendments to Regulations on the Preparation of Public Quarterly Reports of Banks. In the reporting year the FCMC developed two guidelines mandatory to the financial market participants - Principles and guidelines for out of court consumer mortgage workouts and Guidelines for determining the value of separable assets.

LEGAL COMPETENCE OF THE BANKING SUPERVISORY AUTHORITY (THE FCMC)

The FCMC is an autonomous public institution, which carries out the supervision of Latvian banks, credit unions, insurance companies and insurance brokerage companies, investment management companies, participants of financial instruments market, as well as private pension funds.

The FCMC ensures enhancing stability, competitiveness and development of the financial and capital markets as well as protection of the interests of investors, depositors and insured persons.

The competence of the FCMC is set forth in the Law on the Financial and Capital Market Commission and the Credit Institution Law.

As regards the banking sector, the FCMC has authority to issue regulations and guidelines governing activities of banks; to request and receive information necessary for the execution of its functions from banks; to set forth restrictions on the activities of banks; to examine compliance of the activities with the legislation, and regulations and directives of the FCMC; to apply sanctions set forth by the regulatory requirement on banks and their officials in case said requirements are violated.

MAIN STRATEGIC OBJECTIVES OF FCMC IN 2009

Main strategic objectives - to continue performing the stabilization programme of the Latvian economy as approved by the Saeima in the areas within FCMC's competence.

The FCMC's objectives are to take responsibility for the following:

- ensuring the stability of the banking system, boosting depositor confidence;
- protecting the interests of depositors;
- protecting the interest of borrowers;
- stabilizing the performance of the JSC "Parex banka".

In relation with the global financial crisis – to maintain public confidence in the Latvian financial system, to identify essential risks for banking management maximum precisely and to take immediate measures for reducing the impact of these risks and for market stabilization.

Continuing the implementation of the EU directives in the Latvian financial and capital market in 2009, the FCMC planned to improve legislative enactments and prepare amendments to several national regulations and laws, in accordance with the recommendations of international financial supervisory authorities and the best international practices in this field.

Strengthen the supervision of the banking sector, ensure a sufficient capital base and liquidity of the banking sector, strengthen the supervision power for realization intervention in the banks and improve the problem solving framework in banks.

THE ACTIVITIES OF THE BANKING SUPERVISORY AUTHORITY

In 2009, two branches of Member State banks were registered with the Commercial Register of the Republic of Latvia, i.e. Pohjola Bank Plc Latvia branch at the beginning of the year and the branch of the joint stock company SNORAS in 3Q, however, both branches are planning to commence their financial activities in 2010. At end-2009 there were still 21 banks and six branches of foreign banks operating in the Republic of Latvia.

Changes in the names of several banks and branches of the Member State banks took place in 2009. AS "Hansabanka" accomplished the process of the change of brand that was launched in the autumn of 2008 and as of 17 March 2009 changed its name to "Swedbank" AS. Also, the branch of "Balti Investeeringute Grupi Pank AS" registered the change of name with the Commercial Register of the Republic of Latvia, and as from 27 March 2009 it is the Latvian branch of BIGBANK AS and joint stock company "Latvijas Tirdzniecības banka" – registered as AS LTB Bank as from 24 April 2009.

In year 2009 the supervision of the credit institutions was based on the following factors:

- the enduring global financial crisis significantly impacted the operations of the Latvian banks. Wherewith the banks had to take tighten notice of the liquidity maintenance.

- Banks had significant losses because of the problems in real estate market and it was necessary to maintain capital at the level that ensures the coverage of the losses.
- Banks had to effectively operate on the recovery of bad loans, because of the rapid deterioration in the borrower's solvency and social problems related with it.

The FCMC's activities were focused on improving the operativeness and effectiveness of the preventive measures, ensuring sufficient bank's capital base and liquidity, promoting effective loan restructuring, improving borrower's rights protection and strengthening the societies confidence to the banking sector.

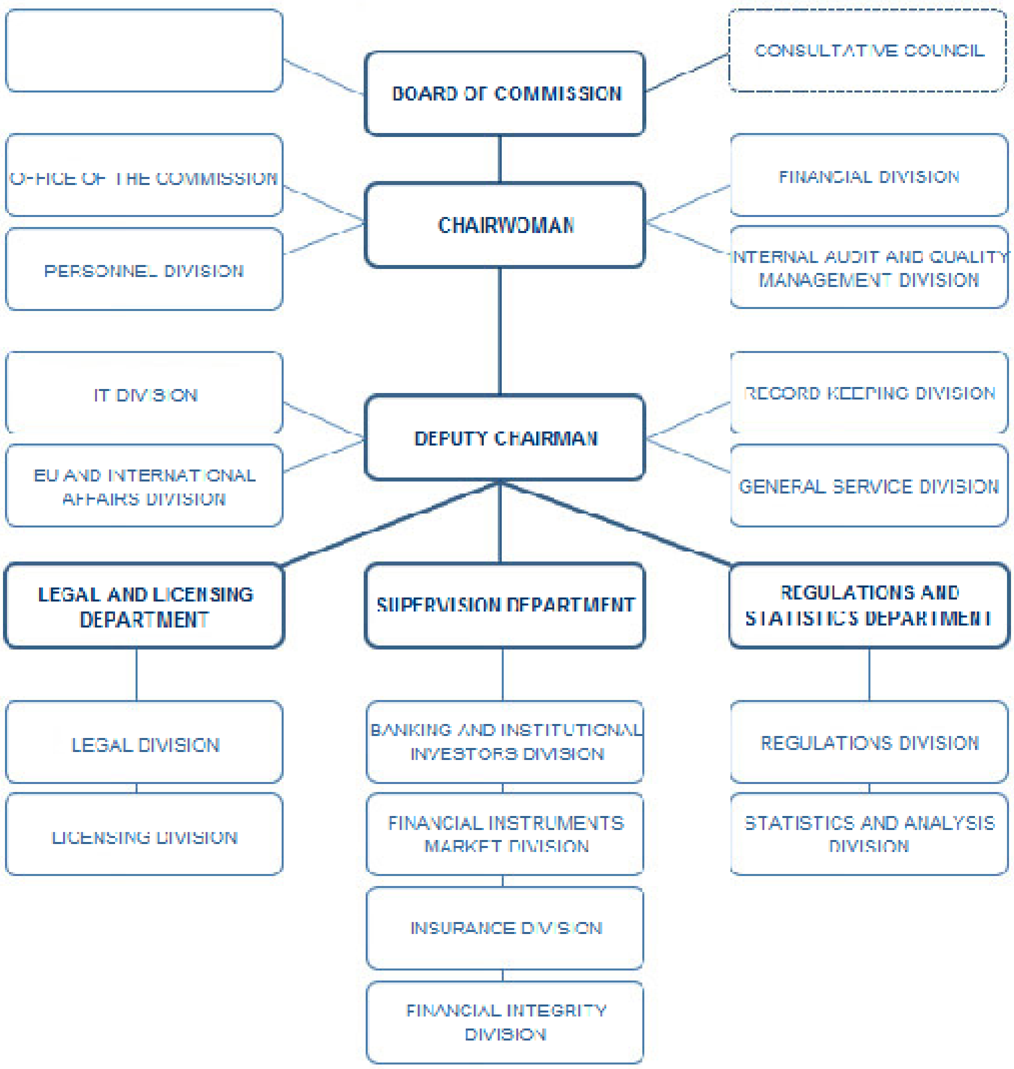
In year 2009 the supervision methods were based on the risk assessment of the market participant's operations using monitoring of the banking operational results, analyses of the financial statements and on-site inspections. The FCMC carried out external inspections as well, to ensure prompt operational information acquisition and the ability to respond rapidly to the sharp changes in the financial market. The FCMC strengthened the banking control and enforced new requirements for the submission of the reports.

The FCMC has been continuing close monitoring of banking sector based on increased frequency of reporting from banks, including daily and weekly reports. Stress testing is incorporated in supervisory toolkit. Top-down stress tests conducted by the Bank of Latvia have been analyzed on a regular basis and form the basis for a dialog with banks. In addition the banks were asked to carry out bottom-up stress tests based on the unified macroeconomic scenario. Intensified cooperation with banks' management and shareholders is taking place. Minutes of the banks' Management Board meetings and internal audit reports are submitted to the FCMC. On-site inspections were carried out according to the inspection plan approved by the FCMC Board.

In the reporting year, the FCMC conducted 44 bank inspections, in particular focusing on the assessment of the capital adequacy, crediting process, as well as risk management process – the management of the credit risk, operational risk, interest rate risk, foreign exchange risk and liquidity risk and the compliance control function.

ORGANIZATIONAL CHART OF THE BANKING SUPERVISORY AUTHORITY

http://www.fktk.lv/en/commission/about_us/structure_new/



INTERNATIONAL ACTIVITIES OF FCMC

Cooperation with parent banks' supervisors has been intensified. The coordination and cooperation agreements regarding supervision of banking groups are in place for almost all cross-border banking groups. During the year 2009 the FCMC and supervisory authorities of other member states have signed the agreements regarding supervision of Skandinaviska Enskilda Banken (SEB), Swedbank, Unicredit, Danske Bank, SNORAS and Latvijas Biznesa Banka groups. The agreement regarding Nordea group is still in the signing process. In the end of the year 2009, the negotiations on the conclusion of the regional Nordic-Baltic cooperation agreement on cross-border financial stability, crisis management and resolution between respective finance ministries, central banks and financial supervisory authorities has been finished. Signing of this agreement is foreseen in the year 2010. Information exchange on cross-border banking groups' performance indicators takes place on a regular basis. The representatives of the FCMC regularly take part in the meetings of supervisory colleges to discuss group supervision issues.

To ensure the expression of the Latvian position in the different European Union institutional forums – European Council, European Union Council of Ministers (economic and financial issues), Economic and Finance Committee and Financial Service Committee, FCMC has developed about 100 national positions and instructions, participated in 54 committees under Lamfalussy framework and working groups of European Union.

COOPERATION WITH OTHER SUPERVISORY BODIES IN LATVIA

The FCMC is a unified supervisory authority for the financial sector in Latvia.

STATISTICAL TABLES

Number of financial institutions (head offices/branches) (at year-ends)

Type of financial institution	2007	2008	2009
Banks	21	21	21
Credit Unions	35	35	34
Foreign bank branches	4	6	6
Financial institutions, total	**60**	**62**	**61**

Ownership structure of the financial institutions on the basis of registered capital (%) (at year-ends)

Item	2007	2008	2009
Public sector ownership	5.5	12.8	21.7
Other domestic ownership	16.3	9.9	6.5
Domestic ownership total	21.8	22.7	28.2
Foreign ownership	78.2	77.3	71.8
Financial institutions, total	**100.0**	**100.0**	**100.0**

Ownership structure of the financial institutions on the basis of assets total (%)

Item	2007	2008	2009
Public sector ownership	4.2	19.5	17.1
Other domestic ownership	29.2	12.6	13.7
Domestic ownership total	33.4	32.1	30.7
Foreign ownership	66.6	67.9	69.3
Financial institutions, total	**100.0**	**100.0**	**100.0**

Concentration of asset by the type of financial institutions (within type of institution)

Type of institutions	The first three largest (%)	The first five largest (%)
Bank (incl. foreign bank branches)	49.0	68.2
Credit Unions	78.8	83.6

Return on Asset (ROA) by type of financial institutions (%)

Type of financial institution	2007	2008	2009
Bank (incl. foreign bank branches)	2.0	0.3	-3.5
Credit Unions	1.1	0.5	0.6

Return on Equity (ROE) by type of financial institutions (%)

Type of financial institution	2007	2008	2009
Bank	24.2	3.6	-41.6
Credit Unions	4.6	2.2	2.7

Distribution of market shares in balance sheet total (%)

Type of financial institution	2007	2008	2009
Banks	90.90	88.46	88.00
Foreign bank branches	9.06	11.50	11.95
Credit Unions	0.04	0.04	0.05
Banks	90.90	88.46	88.00
Financial institutions, total	**100.0**	**100.0**	**100.0**

The structure of assets and liabilities of the banking system (%) (at year-ends)

Assets	2007	2008	2009
Cash and balances with the Bank of Latvia	7.5	5.7	6.0
Claims on credit institutions	16.0	10.7	12.4
Loans	68.1	71.4	71.2
Bonds and other fixed interest securities	5.6	8.7	5.7
Shares and other variable yield securities	0.3	0.2	0.3
Participating interest and other financial investments	0.5	0.6	1.1
Other assets	2.0	2.7	3.3
Liabilities	**2007**	**2008**	**2009**
Amounts owed to the Bank of Latvia	0.0	2.8	0.6
Amounts owed to credit institutions	40.1	41.9	35.9
Deposits	46.5	42.0	44.1
Other liabilities	4.9	4.3	4.9
Provisions	0.6	1.7	7.1
Total equity	7.9	7.3	7.4

Development of off-balance sheet activities (%) (off balance sheet items / balance sheet total)

Type of financial institution	2007	2008	2009
Banks (incl. foreign bank branches)	13.2	10.6	8.5

Solvency ratio of financial institutions (%)

Type of financial institution	2007	2008	2009
Banks	11.1	11.8	14.6

Loan portfolio quality of the banking sector (%)

Asset classification	2007	2008	2009
Not yet due for repayment	93.2	85.0	74.5
Up to 30 days overdue	4.9	7.2	5.2
31 – 90 days overdue	1.1	4.2	3.9
91 – 180 days overdue	0.4	1.5	3.3
More than 180 days overdue	0.4	2.1	13.1
Classified total	**100.0**	**100.0**	**100.0**
Loan loss provisions/loan portfolio	**0.5**	**1.9**	**8.6**

The structure of deposits and loans in 2009 (%) (at year-end)

	Deposits	Loans
Households	29.4	39.2
Government sector	8.1	1.0
Corporate	23.9	48.2
Foreign	38.0	11.4
Other	0.6	0.2
Total	**100.0**	**100.0**

The structure of deposits and loans in 2009 (%) (at year-end)

Maturity of deposits		Loans	
At sight	45.0	Long term loans	60.2
Within one year	48.7	Medium-term loans	25.3
Over one year	6.3	Short-term loans	14.5
Total	**100.0**	**Total**	**100.0**

Proportion of foreign exchange assets and liabilities (at year-ends) (%)

Type of the financial institutions	FOREX assets / Total assets			FOREX liabilities / Total liab.		
	2007	2008	2009	2007	2008	2009
Banks (incl. foreign bank branches)	79.7	80.5	82.7	75.2	75.2	77.6

Structure of revenues and expenditures of financial institutions (at year-ends) (in Mio EUR)

Revenues	2007	2008	2009
Interest income, incl.:	72.5	76.4	64.5
interest on loans	57.6	61.3	51.1
interest on deposits with credit institutions	9.1	9.1	4.1
interest on bonds and other fixed income securities	4.4	4.5	5.2
Dividends	1.1	1.2	0.6
Commission received	13.9	12.5	12.5
Profit/loss from securities and currencies trading	7.3	6.4	8.3
Other	5.2	3.5	14.1
Expenditures	**2007**	**2008**	**2009**
Interest expense	52.4	47.9	27.9
Commission paid	4.9	3.6	2.7
Operating expenses	30.0	22.6	14.8
Depreciation	2.5	2.0	1.6
Loans loss provision expenses	3.9	19.0	54.0
Other	6.3	4.9	-1.0

Structure of registered capital and own funds of financial institutions in 2009 (in thousand of EUR)

Type of financial institution	Registered capital	/Total assets	Own funds	/Total liab.
	in 1000 EUR	in %	in 1000 EUR	in %
Banks	2,300,606	7.5	2,917,516	9.5

2009 DEVELOPMENTS IN THE LITHUANIAN BANKING SYSTEM

MACROECONOMIC ENVIRONMENT

In 2009 Lithuania's real GDP contracted significantly, private consumption and, in particular, investment decreased. Such a shift was driven by a deteriorating environment in the labour market, tighter lending conditions, higher debt servicing costs, and curtailment of foreign demand. Investment slashed due to a significant drop of demand, higher level of unused industrial capacity and uncertainty surrounding further economic development.

In 2009 Lithuania's nominal GDP made up LTL 92.4 billion (EUR 26.76 billion), and real GDP was 15% smaller than in 2008. Following an abrupt drop in the first two quarters, economic activity stabilized in the second half of the year and the annual GDP shrinkage slackened to 12.8% in the fourth quarter. The strongest impact on the GDP drop was driven by weaker private consumption.

Real investment remained on a decreasing trend. Over the year, real expenses for investment slashed by approximately 40%. The fall in investment was mainly driven by a drop of domestic and external demand, uncertainty surrounding their further development, unfavourable credit conditions, and weak industrial capacity utilization, due to a smaller number of orders.

In January 2009, annual core inflation jumped after the increase of a standard VAT rate and abolishment or increase of reduced VAT rates applied to particular goods and services. Afterwards annual core inflation was gradually shrinking, excluding September, when the standard VAT rate was raised again. To compare with 2008, the average annual inflation based on the Harmonised Index of Consumer prices more than halved in 2009, it shrank by 6.9 percentage points to 4.2%. In the first quarter, annual inflation stood at about 8.5%, because in January it jumped after the rise of VAT, excise duties and administered prices. In the fourth quarter, annual inflation accounted for only about 1%. Changes in the prices of food products, beverages and tobacco had a significant effect on the decrease of annual inflation.

The situation in the labour market started to deteriorate from mid-2008. In 2009, unemployment rose further, while the employment and job vacancies were shrinking. The average level of unemployment in 2009 made up 13.7% (in 2008 - 5.8 %).

DEVELOPMENT OF THE BANKING SYSTEM

At the end of 2009, 9 commercial banks holding a banking licence issued by the Bank of Lithuania (BoL), 8 foreign bank branches and 5 representative offices operated in Lithuania.

The economic downturn has quite considerably influenced the results and qualitative indicators of the Lithuanian banking system; however, close banking supervision and active actions of the banks' managing bodies and shareholders by increasing the capital base and improving risk management contributed to ensuring the stability of both individual banks and the entire banking system. It should be noted that stability of banks and the banking system was ensured without any financial aid of the State and the BoL.

The assets and loan portfolio of the banking system kept decreasing throughout 2009. Its assets fell by 6.1% to LTL 84.2 billion (EUR 24.39 billion) on 1 January 2010, while loans issued to bank customers went down by 13.8% to LTL 61.4 billion (EUR 17.78 billion).

Banks managed quite successfully to attract deposits in the domestic market, although at a high cost. Over the year, deposits grew by 7.4% to LTL 41.1 billion (EUR 11.9). In 2009, the deposit growth was observed in all depositor groups.

With an unfavourable turn in the market conditions, banks incurred losses. This was mainly driven by higher costs as a result of loan impairment. Weaker economic activity and lower wages, a decline in real estate prices, lower exports, an increase in the number of enterprise bankruptcies, higher unemployment and conservative estimation of bank loans resulted in a significant impairment of bank loans not only due to incurred losses but also potential losses.

Seeking to assess the impact of the economic downturn, last year the banking sector conservatively reassessed the loan portfolio; and, therefore, historically large amounts of provisions were formed. The loan portfolio quality indicators impaired especially as a result of loans granted to businesses.

In an attempt to enhance their resilience to potential losses, many banks increased their capital base in 2009 using various capital instruments. Despite the huge losses incurred, the capital base of domestic banks changed very little over the year.

The compliance of prudential requirements as well as the resistance to shocks have been improving. The prudential capital adequacy of banks against their operational risk increased by more than 1 percentage point over the year and made up 14.2%. Liquidity in the domestic banking system continued to improve during 2009. The liquidity ratio of the Lithuanian banking system continued to be above 40%, while on 1 January 2010, it went up as high as 49.9%

The data available on 1 January 2010 show that banks without breaching the capital adequacy ratio were capable of withstanding credit risk losses in the amount of LTL 2.4 billion (EUR 0.69 billion), i.e. they were able to raise special provisions by 50% or to increase the volume of special provisions by LTL 26.0 billion (EUR 7.53 billion).

The Bank of Lithuania reduced reserve requirement ratio to 4% in 2009, the volume of required reserves of the banking system changed only marginally. At the end of January 2010 required reserves totalled LTL 1.934 billion (EUR 0.56 billion), a decrease of 3% compared to the end of 2008.

LEGAL AND INSTITUTIONAL FRAMEWORK OF THE OPERATION AND SUPERVISION OF FINANCIAL INSTITUTIONS IN LITHUANIA

As stated in the Law on the Bank of Lithuania, the BoL supervises the activities of credit institutions holding a licence of the BoL. The supervision of the activities of credit institutions consists of licensing, off-site monitoring and on-site inspection.

Following the Directive 2007/64/EC of the European Parliament and of the Council of 13 November 2007 on payment services in the internal market amending Directives 97/7/EC, 2002/65/EC, 2005/60/EC and 2006/48/EC and repealing Directive 97/5/EC the BoL will carry out the supervision of payment institutions. In 2009 the main preparatory work for its implementation was made.

When exercising the supervision of credit institutions, the Bank of Lithuania continues to pursue a targeted policy on credit institutions supervision with a main goal to maintain the sustainability and development of credit institutions sector, and to achieve its transparency and competitiveness on the international markets. It also monitors credit institutions' compliance with laws and requirements laid down by legal acts of the Bank of Lithuania, the International Accounting Standards and recommendations of the Basel Committee on Banking Supervision regarding safe and sound banking practices. It submits proposals on preventive measures designed to allow effective and reliable functioning of individual banks and the entire banking system.

When preparing to implement provisions of the EU directive on payment services in the internal market and following the approval by the Seimas of the Law of the Republic of Lithuania on Payments (recast) and amendments and supplements to other laws, the Board of the Bank of Lithuania adopted legal acts regulating the issuance of licences to payment institutions, their operations, calculation of equity capital, internal control and risk management, reorganisation and winding-up procedures, as well as other requirements to be met by payment institutions to ensure that their operations are stable, reliable and secure. Also, financial statement forms for payment institutions, such as balance sheet, profit (loss) statement, protection of incoming funds and capital calculation, have been prepared.

In performing supervision of the activities of credit institutions, the BoL has the right to:

(1) receive information necessary for the performance of the supervisory function from state institutions, credit institutions, their subsidiaries, as well as from other enterprises, institutions and organisations;

(2) examine credit institutions holding a licence issued by the Bank of Lithuania, and, in the cases established by laws, other persons as well;

(3) in the cases and manner established by laws, apply enforcement measures against credit institutions and other persons holding a licence issued by the BoL;

(4) take measures in order to ensure efficient operation of the credit system.

In July 2009, the Seimas of the Republic of Lithuania adopted the Republic of Lithuania Law on Financial Sustainability. The Law provides for the following possibilities:

- to issue state guarantees,
- to buy out bank assets,
- for the state to acquire a stake in banks, and
- to takeover of bank shares for public needs.

It provides for the measures of intervention into the banking sector that could be taken by the state to enhance the financial stability and credibility of the banking system, where appropriate. The intervention measures specified therein shall be applied taking into account the Bank of Lithuania's provided assessment of the financial position of banks and the proposals regarding the applicable measures for enhancing financial stability.

MAIN STRATEGIC OBJECTIVES OF THE BANKING SUPERVISORY AUTHORITY IN 2009

Conducting the supervision of credit institutions, the Bank of Lithuania paid special attention to the preventive measures for the risks management and strengthening of capital base.

With this aim in view, additional requirements for strengthening the internal control and risk management processes in banks and other credit institutions were set. Particular attention was given to the management of credit and liquidity risks. All banks completed an Internal Capital Adequacy Assessment Process (ICAAP). During it, they assessed significant underlying risks and calculated additional capital requirement to cover them. The Bank of Lithuania, in its turn, conducted each bank's Supervisory Review and Evaluation Process (SREP) determining whether the banks manage their risks properly and have adequate capital against them.

Main objectives in 2009 were:

- seek to ensure the reliability, transparency and competitiveness of the national credit institutions system;
- to improve risk management in the banks and other credit institutions;
- ensure consistent implementation of Directive 2007/64/EC of the European Parliament and of the Council of 13 November 2007 on payment services in the internal market amending Directives 97/7/EC, 2002/65/EC, 2005/60/EC and 2006/48/EC and repealing Directive 97/5/EC; Directive 2007/44/EC of the European Parliament and of the Council of 5 September 2007 amending Council Directive 92/49/EEC and Directives 2002/83/EC, 2004/39/EC, 2005/68/EC and 2006/48/EC as regards procedural rules and evaluation criteria for the prudential assessment of acquisitions and increase of holdings in the financial sector;
- guarantee proper representation of the national credit institutions supervision at relevant structures of the EU, to expand and develop contacts with credit institutions supervision authorities of foreign countries.

THE ACTIVITIES OF BANKING SUPERVISORY AUTHORITY IN 2009

To improve risk management in banks and other credit institutions, extra requirements for boosting internal control and risk management processes were put in place in 2009 focusing on credit and liquidity risks management, setting new requirements regarding the management of previously unregulated risk types and additional requirements for the management of operational risk. Banks had to take commitment to revise their risk management process and limits of trading operations, and implement other requirements.

During 2009, banks put in place the Internal Capital Adequacy Assessment Process (ICAAP) to assess the underlying risks and calculate capital requirement to cover them. Along with the ICAAP results they submitted to the Bank of Lithuania their plans on how they were going to boost their capital.

The Bank of Lithuania in turn conducted the Supervisory Review and Evaluation Process – SREP to determine whether banks can properly manage their risks and whether their capital holdings are sufficient to cover these risks. Both during off-site monitoring, when an initial ICAAP review is conducted in an individual bank, and on-site inspections, the analysis of the assumptions that are used to identify the underlying risks in all fields of banking activities and decide upon the risk assessment and management methods, as well as risk mitigation measures in banks was done.

Along with SREP, the central bank once a year carries out full-scope and target on-site inspections in all banks. During target inspections special focus was given to the management of individual risks, certain fields of bank activities, as well as other issues. During general on-site inspections the highest risk bearing areas of banking operations were a matter of primary interest, as well as the control of credit and liquidity risks, market and operational risks, and internal control.

In order to objectively assess liquidity problems faced by banks, the latter are requested to send basic additional information on structural changes in their assets and liabilities on a daily basis. The Bank of Lithuania holds on a regular basis individual meetings with top level management of all the banks operating in our country.

After considering unfavourable and fast developments in financial markets and based on the data available on 1 July 2009, banks performed stress testing for all types of risks. The exercise revealed that capital adequacy ratio would not be breached both in case of a standardised scenario and extreme stress scenario in the entire banking system.

The approval of the Financial Crises Prevention and Management Plan by the Government of the Republic of Lithuania at the end of 2008 was followed by the approval of the Procedure for Setting Financial Crises Prevention and Management Stages and for Information Exchange by the Bank of Lithuania.

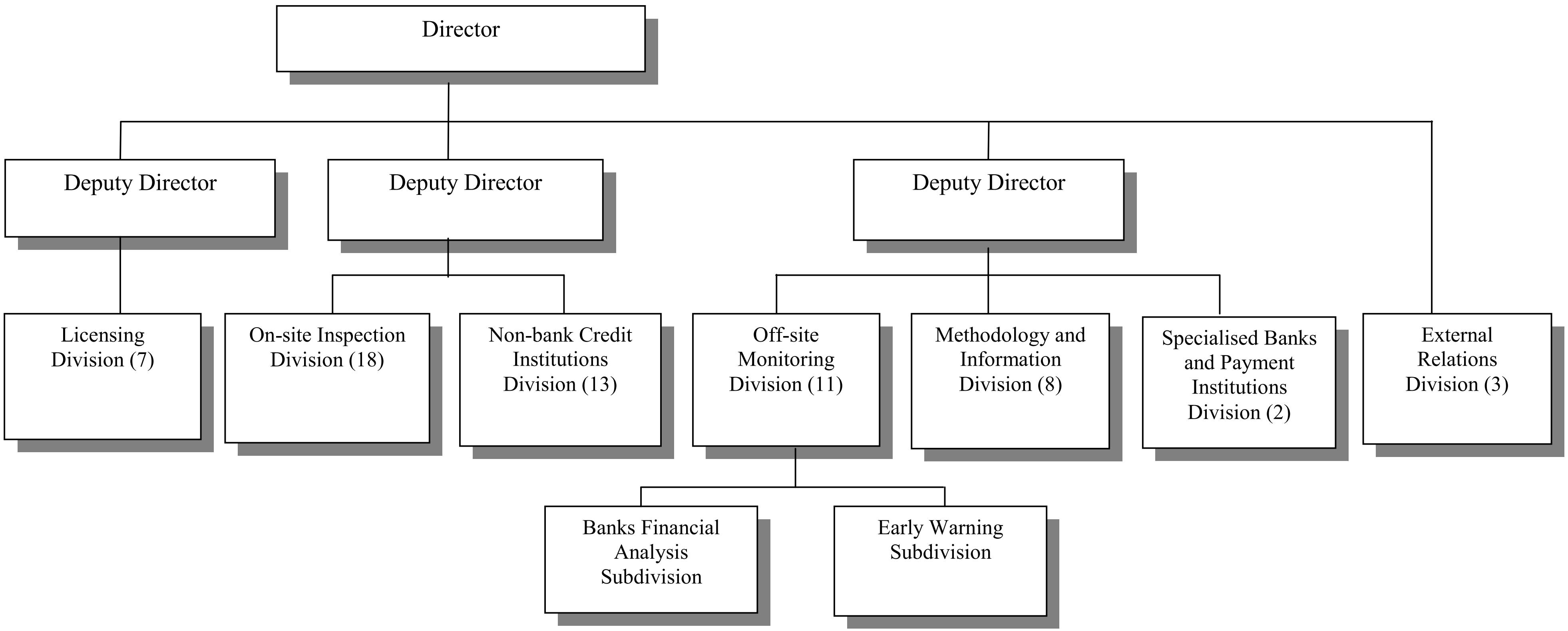
In view of the economic situation within the country and revised Law of the Republic of Lithuania on Credit Unions, the Bank of Lithuania worked out the following legal acts that regulate operations of credit unions: new financial statements, rules for calculating prudential and loan assessment requirements. The recast of the law provides for the new credit union membership requirements, a wider circle of potential debtors of credit unions and higher credit risk. The Loan Assessment Requirements have laid down major principles to be followed by credit unions when calculating changes in the loan value. Also, the rules for calculating liquidity and capital adequacy ratios have been tightened, as well as requirements for loans the payment of which considering the developments in real estate market must be secured by real estate. The extension of the range of services provided by credit unions was followed by the revision of the balance sheet positions, specification of information about deposits, loans and changes in their value, as well as different disclosure of equity components.

When preparing to implement provisions of the EU directive on payment services in the internal market and following the approval by the Seimas of the Law of the Republic of Lithuania on Payments (recast) and amendments and supplements to other laws, the Board of the Bank of Lithuania adopted legal acts regulating the issuance of licences to payment institutions, their operations, calculation of equity capital, internal control and risk management, reorganisation and winding-up procedures, as well as other requirements to be met by payment institutions to ensure that their operations are stable, reliable and secure. Also, financial statement forms for payment institutions, such as forms for balance sheet, profit (loss) statement, protection of incoming funds and capital calculation, have been prepared.

In implementing the EU directive as regards procedural rules and evaluation criteria for the prudential assessment of acquisitions and increase of shareholdings in the financial sector, amendments and supplements have been made to the Law on Banks in Lithuania.

ORGANIZATIONAL CHART OF THE BANKING SUPERVISORY AUTHORITY

THE STRUCTURE OF CREDIT INSTITUTIONS SUPERVISION DEPARTMENT OF THE BANK OF LITHUANIA AT THE END OF 2009*



* Total staff 66 (including Chief Lawyer, Assistant to the Director)

INTERNATIONAL ACTIVITIES

The BoL is a part of the ESCB and participates in the preparation and adoption of decisions of the ESCB and EU institutions. It cooperates with international and foreign financial organisations in all major areas of its activity.

In Lithuania, over 80% of the banking market is controlled by foreign banks via their branches and subsidiaries operating in our country. Therefore the Bank of Lithuania, in implementing the supervision of banks operating in different countries within different bank groups closely cooperates with the financial sector supervisory authorities of the EU Member States. Cooperation is intensified through establishing colleges with the participation of representatives of the financial supervisory authorities of all parties concerned.

One of our local banks has establishments abroad, therefore the Bank of Lithuania, as the authority, which conducts the supervision of the former, has initiated the establishment of a college. A multilateral cooperation agreement with the Estonian and Latvian financial supervisory authorities on the establishment of a college was signed, the purpose of which is to conduct the supervision of a bank's group.

A regional Baltic-Nordic Memorandum of Understanding on crisis management was prepared in 2009 and signed in early 2010. It enhances cooperation in financial crises prevention, management and resolution and increases preparedness of public authorities to handle problems in cross-border banks.

The Bank of Lithuania exchanged information on a regular basis with the supervisory authorities of other countries, organised joint inspections. Meetings took place with the representatives of the Danish, Estonian, Finnish, Latvian, Norwegian and Swedish financial supervisory authorities, with whom the results of the supervisory review and evaluation process and the situation in the banking sector of Lithuania and of the said countries, as well as the economic situation in those countries were discussed.

In 2009, the Bank of Lithuania continued to work on the approval of internal ratings based (IRB) credit risk assessment approach for one of the banks. Its employees participated in meetings between representatives of supervisory institutions from Estonia, Latvia, Sweden, and representatives of the applicant bank to discuss the countries' attitudes towards requirements for IRB approach and documents to be submitted. The submission of the application for approval to use this was followed by the document check-up and a target on-site inspection.

In 2009, the Bank of Lithuania, in observance of the regulations for the provision of technical support and of the provisions of the development co-operation policy of the Republic of Lithuania for 2006–2010, provided technical support to the national central bank of Belarus. Employees of the Bank of Lithuania introduced the representatives of the said bank to the supervision of the Lithuanian banking system, stress testing, implementation of the new requirements for the calculation of capital adequacy requirement, crisis prevention and preparation for the management of financial crises, credit risk management, problem credits, calculation of financial stability ratios, monetary and financial statistics and external sector statistics, risk management, internal audit, and the accounting policy of the Bank of Lithuania.

COOPERATION WITH OTHER SUPERVISORY BODIES

Supervision in the financial sector in Lithuania is performed by three different authorities: the Bank of Lithuania, the Securities Commission and the Insurance Supervisory Commission.

All three institutions cooperate and exchange information under the terms of MoU. This co-operation is coordinated by the Commission for Co-ordination of Regulation and Supervision of the Activities of Financial Institutions and Insurance Undertakings. The Commission, in consultation with the representatives of banks, other financial institutions and insurance undertakings, seeks to ensure a more efficient coordination and improvement of the supervisory processes in individual sectors of the Lithuanian financial market, development of a supervisory strategy and identification of its priorities.

In order to maintain stability of the financial sector in December 2009 the Ministry of Finance, the Bank of Lithuania, the Securities Commission and the Insurance Supervisory Commission signed an agreement for cooperation and information exchange in the area of prevention and management of financial crises.

STATISTICAL TABLES

Number of financial institutions (head offices/branches) (at year-ends)

Type of financial institution	2007	2008	2009
Commercial banks	9	9	9
Foreign bank branches	5	7	8
Credit Cooperatives*	68	68	68
Financial institutions, total	**82**	**84**	**85**

Ownership structure of the financial institutions on the basis of registered capital (%) (at year-ends)

Type of financial institution	2007	2008	2009
Public sector ownership			
Other domestic ownership	14.3	17.2	14.8
Domestic ownership total	14.3	17.2	14.8
Foreign ownership	85.7	82.8	85.2
Financial institutions, total	**100,0**	**100,0**	**100,0**

Ownership structure of the financial institutions on the basis of assets total (%)

Type of financial institution	2007	2008	2009
Public sector ownership			
Other domestic ownership			
Domestic ownership total	85.3	88.3	85.2
Foreign ownership	14.7	11.7	14.8
Financial institutions, total	**100.0**	**100.0**	**100.0**

* Equivalent in Lithuania – Credit Unions

Concentration of asset by the type of financial institutions

Type of the financial institutions	FOREX assets / Total assets	FOREX liabilities / Total liab.
Bank	64.2	81.5
Credit unions	26.9	35.4
Financial Institutions		
Savings Cooperatives		
Specialized Credit Institutions		

Return on Asset (ROA) by type of financial institutions (%)

Type of financial institution	2007	2008	2009
Bank	1.71	1.01	-4.23
Credit unions	0.5	0.1	-0.6
Financial Institutions			
Savings Cooperatives			
Specialized Credit Institutions			

Return on Equity (ROE) by type of financial institutions (%)

Type of financial institution	2007	2008	2009
Bank	25.93	13.54	-48.42
Credit unions	4.3	0.8	-5.2
Financial Institutions			
Savings Cooperatives			
Specialized Credit Institutions			

Distribution of market shares in balance sheet total (%)

Type of financial institution	2007	2008	2009
Commercial banks	90.9	81.3	80.9
Foreign bank branches	8.1	17.7	17.8
Credit Cooperatives	1.0	1.0	1.3
Financial institutions, total	**100,0**	**100,0**	**100,0**

The structure of assets and liabilities of the banking system (%) (at year-end)

Assets	2007	2008	2009
Cash in hand	1.7	1.7	1.6
Claims on banks and other financial institutions	16.4	10.0	13.7
Securities	9.8	7.1	9.8
Loans granted	70.1	79.5	72.9
Other assets	2.0	1.7	2.0
Liabilities	**2007**	**2008**	**2009**
Liabilities to banks and other financial institutions	36.1	43.1	38.1
Deposits and L/C	45.9	42.9	49.1
Other liabilities	10.7	6.3	6.8
Bank capital	7.3	7.6	6.0

Development of off-balance sheet activities (off balance sheet liabilities / balance sheet total) (%)

Type of financial institution	2007	2008	2009
Commercial banks	18.9	16.4	12.5
Foreign bank branches	32.9	16.5	13.8
Credit Cooperatives	1.4	1.6	1.0
Financial institutions, total	**19.8**	**16.3**	**12.5**

Solvency ratio of financial institutions

Type of financial institution	2007	2008	2009
Commercial banks	10.9	12.9	14.15
Credit Cooperatives	16.3	16.8	18.6
Financial institutions, average	**11.22**	**12.78**	**14.23**

Asset portfolio quality of the banking system

Asset classification	2007	2008	2009
Commercial banks	180.43	953.1*	12792
Classified total	**180.43**	**953.1***	**12792**
Specific reserves	**130.33**	**252.2**	**1374.8**

* From 1 July 2008, the quality of loan portfolio is evaluated on the basis of anew method that was developed in view of new requirements set by the 7th International Financial Reporting Standard and the EU common reporting. While calculating the indicators instead of a previously used loan net value the total value of loan portfolio is assessed. In addition, the loans are divided into the loans overdue, which are non-impaired, and the impaired loans

The structure of deposits and loans in 2009 (%) (at year-end)

	Deposits	Loans
Households	60.3	43.8
Government sector	5.3	2.0
Corporate	27.8	50.5
Foreign	5.3	3.1
Other	6.6	3.7
Total	**100.0**	**100.0**

The structure of deposits and loans in 2009 (%) (at year-end)

Types of deposits		Types of loans	
At sight	40.9	Long term loans	55.8
Within one year	57.5	Medium-term loans	17.2
Over one year	1.6	Short-term loans	27.0
Total	**100.0**	**Total**	**100.0**

Proportion of foreign exchange assets and liabilities (at year-ends)

Type of the financial institutions	FOREX assets / Total assets			FOREX liabilities / Total liab.		
	2007	2008	2009	2007	2008	2009
Commercial banks	55.8	61.0	70.5	49.4	58.5	52.9
Foreign bank branches	74.3	80.4	8.4	82.5	83.5	80.8
Credit unions	0.83	2.6	16.7	2.2	8.2	22.1
Financial Institutions, average	**47.8**	**63.8**	**72.2**	**51.6**	**62.8**	**57.5**

Structure of revenues and expenditures of financial institutions (at year-ends)

Revenues	2007	2008	2009
Interest income	73.3	80.9	76.4
Profit from operations in foreign exchange	3.3	2.3	3.4
Income from services and commissions	17.5	14.4	15.5
Other bank income	5.9	2.4	4.7
Total	**100.0**	**100.0**	**100.0**
Expenditures	**2007**	**2008**	**2009**
Interest expenses	50.4	58.5	30.4
Operational expenses	30.5	23.3	11.6
Expenses for specific provisions	2.6	0.3	51.9
Other expenses	16.5	17.9	6.1
Total	**100.0**	**100.0**	**100.0**

Structure of registered capital and own funds of financial institutions in 2009

Type of financial institution	Registered capital	/Total assets	Own funds	/Total liab.
	EUR mln	%	EUR mln	%
Commercial banks	1318.5	6.6	1585.1	8.6
Credit unions	34.1	10.3	36.7	12.5
Financial institutions, average	**17.6**	**6.7**	**21.1**	**8.7**

2009 DEVELOPMENTS IN THE BANKING SYSTEM OF THE REPUBLIC OF MACEDONIA

MACROECONOMIC ENVIRONMENT

The Macedonian economy could not stay immune to the global developments in 2008 and 2009. The decrease in the export demand and the decrease in the capital inflows were the first transmission channels of the global crisis, followed by the deteriorated expectations of the economic agents. In the first three months of the year, the trade deficit significantly widened, while it contracted in the remaining part of the year, parallel to the downward adjustment of the domestic demand and contraction of the negative energy balance. Until the end of 2009, the external misbalances reduced parallel to the stabilization in the expectations and reduced pressures on the imports. The current account deficit of 13.1% of the GDP in 2008 reduced to 7.3% of GDP in 2009.

The global crisis influenced on significant rise in the negative expectations of the domestic economic agents, especially at the beginning of the year when the crisis staggered the confidence, thus resulting in the increased demand for foreign exchange on the currency exchange market. These tendencies, together with the widened negative gap in the foreign trade and low capital inflows, conditioned significant deepening of the gap between the supply of and the demand for foreign exchange in the first months of the year. In conditions of fixed foreign exchange rate, this gap was supplemented through foreign reserves, with the interventions on the foreign exchange market until May reaching 5.1% of GDP on cumulative basis. Parallel to the interventions on the foreign exchange market, the NBRM responded to the pressures on the foreign exchange rate also with monetary policy contraction. Thus in March the core interest rate went up from 7% to 9%, while in May the NBRM increased the reserve requirement rate in foreign currency (from 10% to 13%), and banks' liabilities with FX clause (from 10% to 20%).

The undertaken monetary measures and improved perceptions for the global economy stabilized the expectations significantly and contributed to trade deficit contraction. Until the end of the year, the level of foreign reserves went up thus exceeding the expectations in the NBRM projections. This together with the more favorable forecasts for the global economy created better environment for the monetary policy. In such conditions, already from the end of November, the NBRM commenced with gradual relaxation of the monetary policy.

The global recession interrupted the "price boom" phenomenon relating primarily to the food and energy prices, stirring up significant downward correction of the global inflation in 2009. The fall in import prices triggered the disinflation process in the Macedonian economy as well, typical for both the overall and the core inflation. Thus, after the high average inflation of 8.3% registered in the preceding year, in 2009, the consumer prices went down by 0.8%.

The favorable developments registered on the labor market in 2009, continued the uptrend of the employment rate and the downtrend of the unemployment rate which started in 2004. Thus, in 2009, the employment rate equaled 38.4%, compared to 37.3% in the preceding year, whereas the unemployment rate reduced from 33.8% in 2008 to 32.2%.

DEVELOPMENT OF THE BANKING SYSTEM (INCLUDING THE ASSETS TOTAL/GDP) STRUCTURE OF THE BANKING SYSTEM

During the first half of 2009, the level and dynamics of activities of the domestic banking system were under the influence of the contraction of the domestic economic activity and the still present uncertainty regarding the final effect of the international financial crises on the overall economic movements and the operation of banks in the Republic of Macedonia. During the second half of the year, more significant stabilization was registered in the activities in the global and domestic economy and decreased impact of psychological pressures in the decision-making by business entities. During the entire year, there was a relevant influence of the changes in the crediting conditions by the banks, as a prudent response to the deteriorated economic conditions, and as a measure for harmonization with the macro-prudent measures undertaken by the National Bank. In such conditions, at the end of 2009 a growth was accomplished in the three basic balance categories on the banking system level (total assets, total credits and total deposits), but with a significantly slower dynamics compared to the preceding years.

Information on the performances of the banking system of the Republic of Macedonia (as of December 31, 2009)

As of December 31, 2009, the banking system of the Republic of Macedonia is comprised of eighteen banks and ten saving houses. Relative to the end of 2008, the number of banks remains the same, while the number of saving houses is reduced by one. Banks maintained the dominant position in the banking system, as opposed to the insignificant role of the saving houses in the overall activities of the banking system (their share in the total credits, total deposits and total assets of the banking system remains below 2% in each of these categories).

The level of financial intermediation of the banking system at the end of 2009 registered an increase and from the viewpoint of the share of total assets, lending activity and deposit activity, equaled 66.0%, 46.2% and 42.7% of GDP, respectively. The group of large banks has a dominant position in the financial intermediation.

The total assets of the banking system continued to grow in 2009, but with lesser intensity, where for the first time in the last seven years, it registered a single digit growth. On the 31.12.2009, the total assets equaled Denar 268,543 million, whereas the annual growth rate (7.1%) was almost reduced by half relative to 31.12.2008. The significant slowdown of growth of the deposit core of banks was the main factor for the decline of the growth of the total assets, which in spite of such dynamics managed to retain the role of a dominant source of assets for financing the banks' activities. At the end of 2009, although at a much slower pace compared to the end of 2008, the deposits of the banking system registered a growth of 3.8%. Denar deposits registered a decrease by 12.3% for the first time in the last seven years, while the foreign currency deposits reached an annual growth rate of 21.3%. Observing the deposit structure by sector, household deposits are still dominant (67% from the total deposits) and registered a growth rate of over 3.4 percentage points compared to 2008.

Credits to non-financial entities are the dominant category in the banking system assets. They continued to grow in 2009, but at a much slower pace compared to 31.12.2008 (the annual growth rate of total credits for 2009 is 3.5%, while at the end of 2008 was 34.4%). This slowdown of the credit activity of the banking system to a large extent occurs as a prudent response of banks to the deteriorated economic conditions, which involve more rigorous crediting conditions, and partially for the purposes of harmonization with the macro-prudent measures undertaken by the National Bank. In 2009, the banks demonstrated much lower risk appetite which was reflected in the more prudential approach to their lending activity and the efforts to increase liquid assets, which mainly bears insignificant credit risk. However, the trend of deterioration of the credit portfolio intensified, primarily due to the worsened business conditions of domestic borrowers. Combined with the modest annual growth of the credit risk exposure, the exposure classified in higher risk categories (C, D and E) registered a significantly high relative growth of 29.0%. Intensified migration of credit risk exposure to categories with higher risk in 2009 caused deterioration of the credit risk indicators for the banking system. Thus the share of exposure classified in C, D and E risk categories in the total exposure of credit risk increased by 1.5 percentage points and on December 31, 2009 equaled 7.9%. Indirect credit risk arising from the transfer of the interest rate risk and currency risk from banks to their client, makes it highly important for the banks risk profile.

Foreign capital remained dominant in the total shareholders capital. As of December 31, 2009, the share of the foreign capital in the total shareholders' capital of banks equals 68.6% (74.3% at the end of 2008). The number of banks with predominant foreign ownership (fourteen banks), as well as the number of banks that are branch offices of foreign banks (eight), remained unchanged. Banks predominantly owned by foreign shareholders, during 2009 retained their domination in the market (with their share of 93.3% in the total assets and 84.8% in the total capital). Regarding the country of origin of the dominant bank owners, the majority of the assets of the banking system are concentrated with the banks with dominant ownership by shareholders from the EU countries (in most part by Greece and Slovenia).

At the end of 2009, improvement in the liquidity of the banking system has been registered, where the volume of the liquid assets is significantly higher than the level observed in 2008.The conservative liquidity management in the past enabled the banks to accumulate a satisfactory level of liquid assets, which had direct influence towards stability maintenance and overcoming the tightened market conditions. Great contribution for the qualitative enhancement of the banks' liquid position has had the prudent-regulatory measure taken by the NBRM. After the first short-term liquidity pressures with banks at the end of 2008, NBRM immediately enforced obligation for banks for maintaining minimal liquidity ratio, as well as for Denars and for foreign currency positions.[25] Since implementation of this measure the banks' liquid assets registered upward trend,

[25] Pursuant to the Decision on managing the banks' liquidity risk ("Official Gazette of RM" no. 163/08, 66/09 and 144/09) the banks shall be required, according to the prescribed dynamics, starting from March 2009, to reach the liquidity ratio for assets and liabilities in Denars and foreign currency up to 30 and 180 days, equal to 1.

thus at the end of 2009 the liquid assets rose by 38.1%. On December 31, 2009, the volume of the banks' liquid assets[26] reached the level of Denar 67,461 million, which is far beyond the level of the liquid assets registered at the end of 2008. The share of liquid assets in total assets equaled 25.7%, which is by 2.7 percentage points higher relative to the end of 2008 and by 10.2 percentage points lower compared to the level at the end of 2007. The level of coverage of the households' deposits with liquid assets equaled 53.7%, which is lower by roughly 30 percentage points than at the end of 2007. The indicator for the correlation between the banks' total credits and total deposits equaled 92.5%, which proves the dominance of the deposits in the sources of funds. Such a structure of the sources reduces the sensitivity of the banking system of the Republic of Macedonia to external liquidity shocks, which was one of the reasons for maintenance of its stability during the crisis.

Banks maintained a relatively high solvent position, in conditions of slower increase in the risk weighted assets against the increase in own funds. On December 31, 2009 the capital adequacy ratio at the level of the banking system reached 16.4% (twice higher than the legally prescribed minimum of 8%). According to the conducted stress-test simulations by the National Bank, the banking system and individual banks are relatively resilient to the influence of possible external shocks.

In 2009, the total profit realized by the banking system equaled Denar 1.7 billion, which is a 50.9% decrease relative to 2008. The lower rise in the banks activities, the worsened quality of their credit portfolio, as well as the limited possibilities for the banks to decrease the operational costs were identified as the main reasons for the lower profitability and efficiency of the banking system. ROAA and ROAE equaled 0.6% and 5.6%, respectively.

In 2009, the banks have been managing with the currency risk generally within the prescribed limits for aggregate foreign currency position. According to the analysis of the foreign currency component (in foreign currency and in Denars with FX clause), the banks have long position in Denars with FX clause and a relatively short position in foreign currency. On December 31, 2009 the assets with foreign currency component registered an annual increase of 15.9%, while the liabilities with foreign currency component went up by 19.6%. Opposite to such movements, Denar assets and liabilities decreased by 2.5% and 4.9%, respectively.

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

THE LEGAL AND INSTITUTIONAL FRAMEWORK OF THE OPERATION AND SUPERVISION OF FINANCIAL INSTITUTIONS, NEW DEVELOPMENTS. LEGAL COMPETENCE OF THE BANKING SUPERVISORY AUTHORITY IN MACEDONIA

The National Bank of the Republic of Macedonia (NBRM) is responsible for licensing and supervision of banks and savings houses in the Republic of Macedonia. Within the National Bank of the Republic of Macedonia, the Supervision, Banking Regulations and Financial Stability Division perform the supervisory function. The General Manager of this Division is directly liable to the Governor of the National Bank of the Republic of Macedonia.

The Supervision, Banking Regulations and Financial Stability Division includes three Departments: 1) Off-site Supervision and Licensing, 2) On-site Supervision, and 3) Financial Stability, Banking Regulations and Methodology. In addition, a Supervisory Committee chaired by the Division's General Manager, reviews the major supervisory and regulatory issues, for the purpose of uniform implementation of the legal framework and the internal supervisory methodology.

The competence of the National Bank of the Republic of Macedonia is regulated with the Law on the National Bank of the Republic of Macedonia and the Banking Law. The Banking Law and relevant by-laws follow the provisions of the Capital Requirements Directive, as well as the principles and standards developed by the Basel Committee on Banking Supervision and the Committee of European Banking Supervisors.

The legal framework for banks was completed in 2008. However, for adequately preventing and addressing the effects of the global financial crisis, as well as for the purpose of following the international regulatory changes, the National Bank of the Republic of Macedonia has put together several changes to the current banking regulation, such as:

- Introduction of two liquidity ratios with the aim of ensuring adequate liquidity of banks and saving houses in the period of 30 and 180 days;
- Implementation of higher risk-weights on a certain portion of the consumer lending of banks (credit cards, overdrafts);
- Stricter rules for determining exposure limits to first-rated banks;
- Imposing a compulsory deposit for higher then regulated credit growth to households (abandoned at end-2009);
- Development of a separate regulation on management of the interest rate risk in the banking book.

MAIN STRATEGIC OBJECTIVES OF THE SUPERVISORY AUTHORITY IN 2009

The main focus of the National Bank of the Republic of Macedonia supervision in 2009 was:

1. Strengthening the banks liquidity position by introduction of the liquidity scale and obligation for banks to maintain minimal level of liquidity ratio,

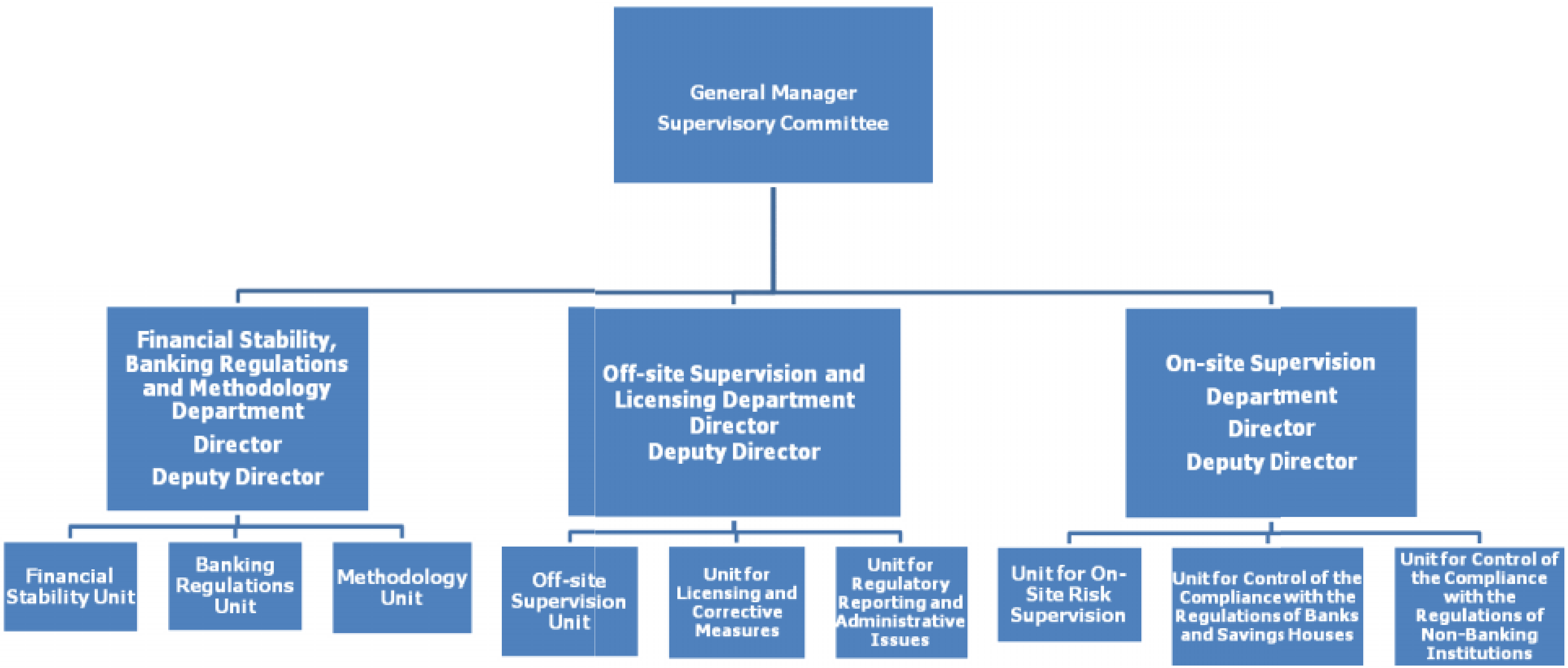
2. Assessing the effectiveness and appropriateness of the implementation of the IFRS. Namely, as of January 1st 2009 started the implementation of the Macedonian accounting regulation for banks based on IFRS
3. Assessing the appropriateness of the implementation of the regulation on credit risk management that is based on the IFRS. During 2009 the implementation of this regulation was assessed in all the banks in the country.

THE ACTIVITIES OF THE BANKING SUPERVISORY AUTHORITY IN 2009

The supervisory function of the National Bank of the Republic of Macedonia is carried out through 3 main activities: licensing (issuing licenses and approvals to banks and savings houses), supervision of the operations of the banks and the savings houses and undertaking corrective actions. Within this framework, during 2009 the National Bank of the Republic of Macedonia has performed the following activities:

- 12 different types of licenses and approvals were issued, among which the main activities were related to issuing approvals for: appointment of members of Board of Directors, amending and/or supplementing the Statute of the banks, appointment of members of Supervisory Board, etc.
- There were thirty nine on-site examinations of banks and saving houses in the Republic of Macedonia. Thirteen of them were risk examinations, whereas twenty six were examinations of the compliance of the operation with the regulations. The goal of the conducted on-site risk examinations was to determine the safety, stability, level of risk and compliance of the banks and saving houses with the regulations, through assessment of the system of established internal controls, the adequacy of the established risk management systems, as well as the effectiveness of the corporate governance system. The goal of the targeted risk examinations was to assess the established systems for credit risk measurement and monitoring and the risk management of inadequate banks' information systems.
- Within its legal authorization, and in order to maintain the stability and the safety of certain banking institutions and the whole banking system, National Bank of the Republic of Macedonia undertook corrective actions towards banks and saving houses where illegitimacies, irregularities and incorrectness in their operation were found. Depending on the severity of the determined irregularities, the National Bank of the Republic of Macedonia undertook two written warnings, three recommendations, two memorandums, five decisions with measures, as well as it conducted eight procedures for intermediation. The aim of the bulk of the undertaken measures was the improvement of certain elements of the risk management systems of banks. In addition to these measures, in 2009 the National Bank of the Republic of Macedonia issued a prior consent for termination of operation of one saving house, i.e. its founding license was revoked and it was determined that the conditions for conducting liquidation procedure were fulfilled.

ORGANIZATIONAL CHART OF THE BANKING SUPERVISORY AUTHORITY



INTERNATIONAL ACTIVITIES OF THE AUTHORITY

For the purpose of strengthening the cooperation with foreign supervisory bodies, in previous years National Bank of the Republic of Macedonia has signed Memorandum of Understanding on a bilateral basis with the supervisory bodies of Albania, Slovenia, Bulgaria, Russia, Montenegro, Serbia and Greece. Within the regional cooperation, a multilateral Memorandum of Understanding and coordination between the supervisory bodies of South-East Europe was signed. This multilateral Memorandum of Understanding was signed by the supervisory bodies of Macedonia, Albania, Greece, Bulgaria, Cyprus, Romania, Serbia, Bosnia and Herzegovina, Republic of Srpska, Montenegro and Bosnia and Herzegovina.

On the basis of the indications of the EC Peer Assessment Mission, the NBRM initiated signing of the Memoranda of Understanding also with the supervisory bodies of Italy, France, Bosnia and Herzegovina, Turkey, Austria and Holland.

In 2009 NBRM has signed two multilateral cooperation and coordination agreements for supervision on a consolidated basis (supervisory colleges). The agreements relate to operation of the supervisory college responsible for the supervision of the National bank of Greece Group (NBG Group) and the Alpha Bank Group. The establishment of these multilateral supervisory colleges follows the CRD provisions, as well as the CEBS’s recommendations. The colleges should provide for an enhanced home-host cooperation, effective sharing of information, views and assessments of the involved supervisors, more efficient and effective consolidated and solo supervision and timely actions in going concern and emergency situations.

COOPERATION WITH OTHER SUPERVISORY BODIES IN MACEDONIA

The National Bank of the Republic of Macedonia collaborates with other domestic financial supervisory authorities. The National Bank of the Republic of Macedonia has signed Memorandum of Understanding with the Security Exchange Commission and the Agency for Supervision of Fully Funded Pension Insurance. According to this MoU's, contractual parties exchange information and data related with the licensing process, examination reports and findings, uncovered irregularities and non-compliances and other relevant issues.

At the end of 2009 the National bank has signed a Memorandum of Understanding with the Ministry of Finance for maintenance of financial stability and management of financial crisis in the Republic of Macedonia. The National Bank has also signed Memorandum of Understanding with the Office for prevention of Money Laundering and Terrorism Financing.

OTHER RELEVANT INFORMATION AND DEVELOPMENT

In 2010 and 2011 National Bank of the Republic of Macedonia will take participation in the programme developed by the European Central bank as a crises response package: "Strengthening macro and micro prudential supervision in EU candidates and potential candidates". This package is tailored to the eight EU candidates and potential candidates (Croatia, Macedonia, Albania, Bosnia and Herzegovina, Montenegro, Turkey, Serbia, Kosovo) to help them reform, adapt and strengthen their public institutions and capacities in order to consistently apply the EU rules and procedures. The programme will have duration of a two-year (2010 and 2011) and it is composed of three interconnected components: regional training courses (2010), national measures (first half of 2011) and technical simulation exercises focusing on cross-border cooperation (second half of 2011).

STATISTICAL TABLES

Number of financial institutions (head offices/branches) (at year-ends)

Type of financial institution	2007	2008	2009
Banks	18	18	18
Savings houses	12	11	10
Brokerage firms	16	20	18
Deposit insurance fund	1	1	1
Insurance companies	12	12	13
Insurance brokers	0	8	12
Insurance agents	0	5	5
Stock Exchange	1	1	1
Money Market	0	0	0
Leasing companies	5	8	9
Pension funds	2	2	2
Pension fund management companies	2	2	2
Investment funds	3	8	8
Investment fund management companies	2	5	5
Private fund management companies	4	4	n.a.
Clearing House KIBS AD Skopje	1	1	1
Central Securities Depository	1	1	1
Financial Institutions, total	**80**	**107**	**106**

Ownership structure of the financial institutions** on the basis of registered capital (%) (at year-ends)

Type of financial institution	2007	2008	2009
State ownership	5.8	6.5	8.0
Other domestic ownership	20.9	19.2	23.4
Domestic ownership total	26.7	25.7	31.4
Foreign ownership*	73.3	74.3	68.6
Financial institutions, total	**100.0**	**100.0**	**100.0**

Note: Savings Houses are not included due to their marginal share in the total registered banks and savings house capital
'* Foreign owned banks are considered banks with foreign capital exceeding 50% of their capital structure
** The ownership structure is calculated on the basis of participation of the total capital of the each financial institution in the total capital of the banking system

Ownership structure of the financial institutions on the basis of assets total (%)

Type of financial institution	2007	2008	2009
State ownership	1.4	1.2	1.4
Other domestic ownership	12.7	6.1	5.3
Domestic ownership total	14.1	7.3	6.7
Foreign ownership	85.9	92.7	93.3
Financial institutions, total	**100.0**	**100.0**	**100.0**

Note: The table includes data for the ownership structure of the banks.

Concentration of asset by the type of financial institutions

Type of the financial institutions	FOREX assets / Total assets	FOREX liabilities / Total liab.
Banks	67.5	77.4
Saving Houses	92.2	95.7
Insurance companies	n.a.	71.7
Brokerage houses	63.2	77.3
Investment funds	55.2	82.3

*Source: On the basis of data obtained from the supervisory bodies of each type of financial institution

Return on Asset (ROA) by type of financial institutions (%)

Type of financial institution	2007	2008	2009
Banks	1.8	1.4	0.6

Return on Equity (ROE) by type of financial institutions (%)

Type of financial institution	2007	2008	2009
Banks	15.2	12.5	5.6

Distribution of market shares in balance sheet total (%)

Type of financial institution	2007	2008	2009
Banks	98.7	98.6	98.8
Savings houses	1.3	1.4	1.2
Financial institutions, total	**100,00**	**100,00**	**100,00**

The structure of assets and liabilities of the banking system (%) (at year-end)

Assets	2007 (%)	2008 (%)	2009 (%)
Cash and balance with nbrm	6.9	10.8	12.0
Nbrm bills	9.4	7.0	5.9
Debt securities	5.9	4.0	5.2
Placements to other banks	20.9	10.8	12.6
Placements to clients	50.9	61.5	58.5
Accrued interest and other assets	2.2	2.1	2.3
Securities investments	0.6	0.5	0.4
Fixed assets	3.2	3.3	3.2
Non allocated reserves for potential losses	0.0	0.0	-
Total assets	**100.0**	**100.0**	**100.0**
Liabilities	**2007 (%)**	**2008 (%)**	**2009(%)**
Deposits of banks	4.7	4.8	6.7
Sight deposits	31.2	29.1	25.2
Short-term deposits up to one year	36.6	36.4	36.2
Short-term borrowings up to one year	1.3	0.3	1.2
Other liabilities	3.1	3.0	2.7
Long-term deposits over one year	3.9	6.7	8.6
Long-term borrowings over one year	7.5	7.8	7.7
Provisions for off-balance sheet liabilities	0.4	0.4	0.3
Owned funds	11.4	11.5	11.4
Total liabilities	**100.0**	**100.0**	**100.0**

Development of off-balance sheet activities (off balance sheet liabilities / balance sheet total) (%)

Type of financial institution	2007	2008	2009
Banks	17.8	17.8	17.5
Financial Institutions, total	17.8	17.8	17.5

Solvency ratio of financial institutions

Type of financial institution	2007	2008	2009
Banks	17.0	16.2	16.4
Financial institutions, average	**17.0**	**16.2**	**16.4**

Asset portfolio quality of the banking system in million denars

Asset Classification	2007	%	2008	%	2009	%
A	198,617	83.6	215,278	81.3	231,166	83.6
B	25,484	10.7	32,467	12.3	23,395	8.5
C	4,469	1.9	6,531	2.5	8,721	3.2
D	3,219	1.4	3,884	1.5	3,010	1.1
E	5,867	2.5	6,517	2.5	10,117	3.7
Classified Total	**237,656**	**100.0**	**264,677**	**100.0**	**276,409**	**100.0**
Provisions	**12,690**		**15,341**		**17,996**	

The structure of deposits and loans in 2009 (%) (at year-end)

	Deposits	Loans
Households	60.9	37.9
Public sector	0.6	0.07
Corporate	26.6	58.7
Domestic Banks	0.6	2.1
Foreign banks	6.0	0,6
Other	5.2	0.7
Total	**100,0**	**100,0**

The structure of deposits and loans by time at year-end in 2009 (%)

Maturity of Deposits		Maturity of Loans	
At sight	33.7	Long term loans*	76.0
Within one year	53.2	Medium term loans	
Over one year	13.0	Short term loans**	24.0
Total	**100,0**	**Total**	**100,0**

* In the amount of Long term loans, the amount of Non-performing loans is included
** In the amount of Short term loans, the amount of Past-due but still performing loans is included

Proportion of foreign exchange assets and liabilities (%) (at year-ends)

Type of the financial institutions	FOREX assets / Total assets			FOREX liabilities / Total liab.		
	2006	2007	2008	2006	2007	2008
Banks	52.0	52.3	56.5	47.4	49.0	54.7
Financial Institutions, average	52.0	52.3	56.5	47.4	49.0	54.7

Structure of revenues and expenditures of financial institutions (at year-ends)

Revenues	2007	2008	2009
Interest income	12,688	16,641	19,131
Other income	5,985	6,433	5,717
Expenditures	**2007**	**2008**	**2009**
Interest expenses	5,125	7,542	8,436
Provisions for potential loan losses	2,190	2,489	4,408
Other expenses	7,425	9,162	10,278
Income tax	284	470	50

Structure of registered capital and own funds of financial institutions in 2008

Type of financial institution	Registered capital	/Total assets	Own funds	/Total liab.
	EUR mln	%	EUR mln	%
Banks	500	11.4%	574	13.1%
Financial Institutions, average	500	11.4%	574	13.1%

2009 DEVELOPMENTS IN THE BANKING SYSTEM OF THE REPUBLIC OF MOLDOVA

MACROECONOMIC ENVIRONMENT

Compare to 2008, the GDP in 2009 decreased in real terms by 6.5 %. The gross value added from agriculture in this period diminished by 10.9 % and has been one of the main determinants of the GDP fall. Other sources which contributed significantly to the economic decline in 2009 were the decrease of the gross value added from industry by 19.4 % and construction by 27.6 % compare to 2008. Other decreases of a less magnitude were recorded by the gross value added from trade (-2.3 %) and transportation and telecommunication services (-7.0 %). In 2009 positive evolutions have been recorded only in the case of the gross value added from the component "other services", which increased by 1.0 % compare to 2008. The net taxes on products have diminished by 7.0 % compare to 2008.

In the GDP structure, the weight of services has increased from 61.7 % in 2008 to 64.2 % in 2009. On the other hand, the weight of industry has diminished by 0.9 p.p., reaching 13.0 % in 2009. The weight of agriculture has diminished by 0.3 p.p. reaching 8.5 % in 2009.

In 2009 the final consumption of households has decreased by 7.9 % compare to 2008, providing a significant contribution to the GDP fall, mostly due to the decrease of the remittances and the negative expectations of the population. On the other side, the consumption of the public administration has increased by 1.9 %, but due to its small weight, it hasn't determined major changes in the GDP dynamics. The most significant negative contribution has been caused by the gross capital formation, which has diminished by 37.2 % compare to 2008. The decrease of the final consumption and the major fall of the gross capital formation have determined the decrease of the imports by 19.3 %. Due to the fall of demand for domestic goods determined by the economic crises in European Union and Russian Federation, the main trading partners of Moldova, the volume of exports in 2009 has decreased by 7.8 % compare to 2008.

In the GDP structure, the weight of final consumption recorded a small decrease of 0.8 p.p., reaching 112.8 % in 2009, while the weight of gross capital formation has diminished from 39.2 % in 2008 to 23.8 % in 2009.

The unemployment rate in 2009 was 6.4 %, being 2.4 p.p. higher compare to 2008. At the same time, the rate of employment has decreased by 2.5 p.p. and the active population has diminished by 2.9 % compare to 2008. The average monthly wage of an employee in the national economy in 2009 amounted 2747.6 MDL which represents a 8.6 % increase in real terms compare to 2008. The total labor cost amounted 17662.8 mil. MDL.

The annual CPI inflation rate in December 2009 amounted 0.4 % compare to 7.3 % recorded in December 2008. The highest increase was recorded for non-food items (2.5 %), prices of services increased by 2.2 % while prices of food items recorded a decrease of 3.8 %.

DEVELOPMENT IN THE BANKING SYSTEM

Within the territory of Republic of Moldova as of December 31, 2009 were activating 15 commercial banks, including 4 subsidiaries of foreign banks, authorised by the National Bank of Moldova.

The total number of banking offices included 1161 units, out of which: 15 head offices of banks (placed in the city of Chisinau), 288 branches and 858 agencies.

Total assets of the banking sector rose by 869.4* million lei (2.2%) and as of 31.12.2009 amounted 39936.4 million lei. At the same time, their weight in GDP increased from 62.2% to 66.5%.

The larger value of assets was mainly due to increases in the balances of banking liabilities by 924.7 million lei (2.9%). Simultaneously, equity capital has decreased by 55.4 million lei (0.8%).

Some of the components of assets' structure displayed upward evolution. Increases were recorded as follows: cash - by 306.8 million lei (16.4%); money means due from banks and overnight – by 2731.2 million lei (99.9%); net securities – by 3590.4 million lei (145.8%); and other net assets – by 1428.0 million lei (54.5%). Additionally, loan portfolio (net) has decreased – by 3278.9 million lei (13.9%) and money means due to NBM – by 3908.1 million lei (66.8%).

Net credits form the maximum weight in total assets with about 50.7 %, thus decreasing by 9.5 p.p. as against December 31, 2008. Within the context of distribution of risks and targeting of investment operations, the largest weight in total credit portfolio as at 31.12.2009 hold the credits lend to industry and trade – 51.6 %, followed by credits lend to agriculture and food industry – 15.9 %, credits lend to real estate, construction and development – 12.5 % and consumer credits – 8.7 %. The structure of the credit portfolio has changed in comparison to the beginning of the year due to increase of the weight of the credits lend to agriculture and food industry by 2.6 p. p. This fact contributed to rank the agriculture and food industry on the second place after the credits lend to industry and trade.

In the reported period, the weight of nonperforming loans (substandard, doubtful and loss) in total credit increased by 10.5 p.p. in comparison with the 2008 year-end amounting 16.4 % as on 31.12.2009 and, respectively, it was registered an increase by 4.7 p.p. of credit loss provisions that as at 31.12.2009 represented 9.7 % of credit portfolio.

Liquid assets as of 31.12.2009 amounted 15273.7 million lei, increasing over the year by 3289.9 million lei (27.5%). The liquidity indicators of banking system show the banks' capacity to pay both current liabilities as well as long-term liabilities.

Thus, long-term liquidity as of 31.12.2009 (assets with a term over 2 years / financial resources with a term over 2 years ≤ 1) constituted 0.6. The level of this indicator shows the available resources that can be used for long-term investment.

Current liquidity (liquid assets (expressed in cash, deposits with the NBM, state securities, net interbank credits with a term up to 1 month) / total assets ≥ 20%) accounted for 38.3% as at the 2008 year-end, increased by 7.6 p.p. in comparison with the 2008 year-end.

* as of December 31, 2009, 1USD = 12.3017 MDL

Tier-1 Capital as of 31.12.2009 amounted 6426.4 million lei, decreasing by 185.2 lei (2.8%). The decrease of capital was due to withdrawal of the licence of one bank and the loss recorded by some other banks. It is necessary to mention that during the year 2009 there were performed issue of shares in 4 banks at the cost of additional subscription of the shareholders in sum of 290.3 million lei.

The average of risk-weighted capital sufficiency (total regulated capital to risk-weighted assets) for the banking sector as at 31.12.2009 accounted for a high value of 32.1% (as against 12% set as minimum level in the Republic of Moldova).

In this period the banking system maintained its attractiveness for foreign investors, fact that is confirmed by significant interest of foreign investments in banks' capital. As of 31.12.2009 the share of foreign investments in the banking capital accounted for 77.6%, increased by 3.5 p.p. in comparison with the beginning of the year, as a result of the share capital increase at the cost of non-resident shareholders' investments.

Within banking liabilities deposits held the largest share of 80.0% as of 31.12.2009, their weight decreased by 4.8 p.p. as against December 31, 2008. Out of total deposits: deposits by individuals accounted for 49.9%; deposits by legal entities – for 24.3%; and deposits by banks – for 5.9%, other loans and other liabilities constituted 17.9% and 2.0%, respectively.

Net loss for the banking sector for year 2009 amounted 172.5 million lei. The loss recorded for the system was determined by the loss recorded at some banks due to the performance of breakdowns for losses reductions on assets related to the interest and to the reflection of losses of acquired material assets in return for repayment of loans.

It is to mention that in the previous year the banking system has recorded a net income amounted 1219.2 million lei.

The indicators of return on assets and return on equity recorded negative values. Thus, the return on assets [27] as at 31.12.2009 accounted for (-0.5)% and return on equity [28] - (-2.5)%.

LEGAL AND INSTITUTIONAL FRAMEWORK OF BANKING OPERATION AND SUPERVISION, NEW DEVELOPMENTS. LEGAL COMPETENCE OF THE BANKING SUPERVISORY AUTHORITY IN MOLDOVA

The banking system in Republic of Moldova consists of two levels: the National Bank of Moldova and 15 licensed banks.

The activity of the National Bank of Moldova, as an institution authorised to regulate and supervise the activity of the banks is based on the Law on the National Bank of Moldova, which provide the competence, main objective, basic attributions of the National Bank and its relationship with financial institutions.

National Bank of Moldova is authorised to issue regulations, recommendations and other normative acts as to regulate the activity of financial institutions in order to protect the depositor' interests and to maintain the stability of the banking sector. The basic requirements are provided directly by the Law on financial institutions.

[27] Return on assets = annualized net income / average assets
[28] Return on equity = annualized net income / average equity capital

As in accordance with banking legislative provisions, the National Bank established the mechanism of banking activity supervision and regulation through a number of requirements stipulated in the regulations worked out by the National Bank of Moldova. These regulations are under permanent revision and updating with the view to complying them with new legislative provisions, international general principles, especially recommendations of the Basel Committee on Banking Supervision and EU Directives. The prudential regulations issued by the National Bank of Moldova are available (in official language, as well as in English) on the NBM official web page at www.bnm.md.

During the year 2009 the Law on financial institutions was amended. The respective amendments provide the insolvability procedure and forced liquidation of a licensed bank. Thus, according to the nominated modifications, the National Bank of Moldova has the right to revoke the license and to nominate a liquidator for bank's liquidation in the case when the financial institution is in insolvency or over-indebted situation, or whose capital is determined to be less than two-thirds of the regulatory capital and that are likely to face insolvency situation, or there exists the risk of potential loss of major part of assets or substantial infringement of depositors' interests.

MAIN STRATEGIC OBJECTIVES OF THE BANKING AUTHORITY IN 2009

In order to support the financial stability of banking system, the National Bank of Moldova promoted the development on a continuous basis of the methods for minimizing the risks related to active operations of the banks, increase the level of coverage those risks with equity, improve the management of banks' assets and liabilities, as well as developing the internal control systems and improving the performance of the banks' management bodies.

Over 2009 the National Bank of Moldova promoted a coherent policy aimed at ensuring the stability and consolidation of the banking sector by:

a. maintaining the minimum required capital as to ensure the compliance of the capital of banks conducting international transactions with UE standards;
b. supervising the implementation by commercial banks of adequate and efficient internal control systems for the purpose of contributing to the increase of banks' competitiveness and mitigating risks, including through increase of transparency level of banks' shareholders;
c. supporting the security of the banking system by promoting requirements related to the diversification of risks of active transactions of banks, establishment of provisions to cover these risks, establishment of maximum limits on exposures to risks related to agreements concluded with affiliated persons and provision of "large" credits in accordance with best international practice;
d. regular examination of data disclosed by banks and, if required, implementation of measures to ensure data completeness, timeliness, and correctness with the view to consolidate the market discipline and credibility of the banking sector.

ACTIVITY OF THE BANKING SUPERVISORY AUTHORITY IN 2009

The banking regulation and supervision improving was still promoted during 2009.

Thus, to ensure the consumer's right to complete information regarding the banking services field provided by the national law, changes were made to the Regulation on disclosure of information by the licensed banks from Moldova regarding their financial activity (the Decision of the Council of administration of the National Bank of Moldova no. 167 of 02.07.2009) by which the banks were required to use on their official web-page a cost simulator to determine the total cost of loan granted to the individual. This contributes to enhancing the information disclosure requirements related to the issue of loan for individuals, offering consumers full information on the total cost of loan.

In order to decrease the level of risks related to assumed exposures by banks, by the Decision of the Council of administration of the National Bank of Moldova no. 201 of 13.08.2009 on completion and amendment of normative acts of the NBM were made amendments to the Regulation nr.3/09 on "large" exposures to review the limits related to the net exposures assumed by the bank against a person or group of inter-related persons (from 25 to 15 percent of capital) and Net Credit Exposures granted to ten people (from 50 to 30 percent of total loan portfolio).

Also, as a result of generalization supervisory practice, the concepts of inter-related persons and net exposure have been refined. Simultaneously, there was established that the banks should have internal policies and procedures for identification, evaluation, monitoring and verification of exposure concentrations from the exposure portfolio, including the knowledge of data on inter-related activity of the person to whom the bank is exposed, with others.

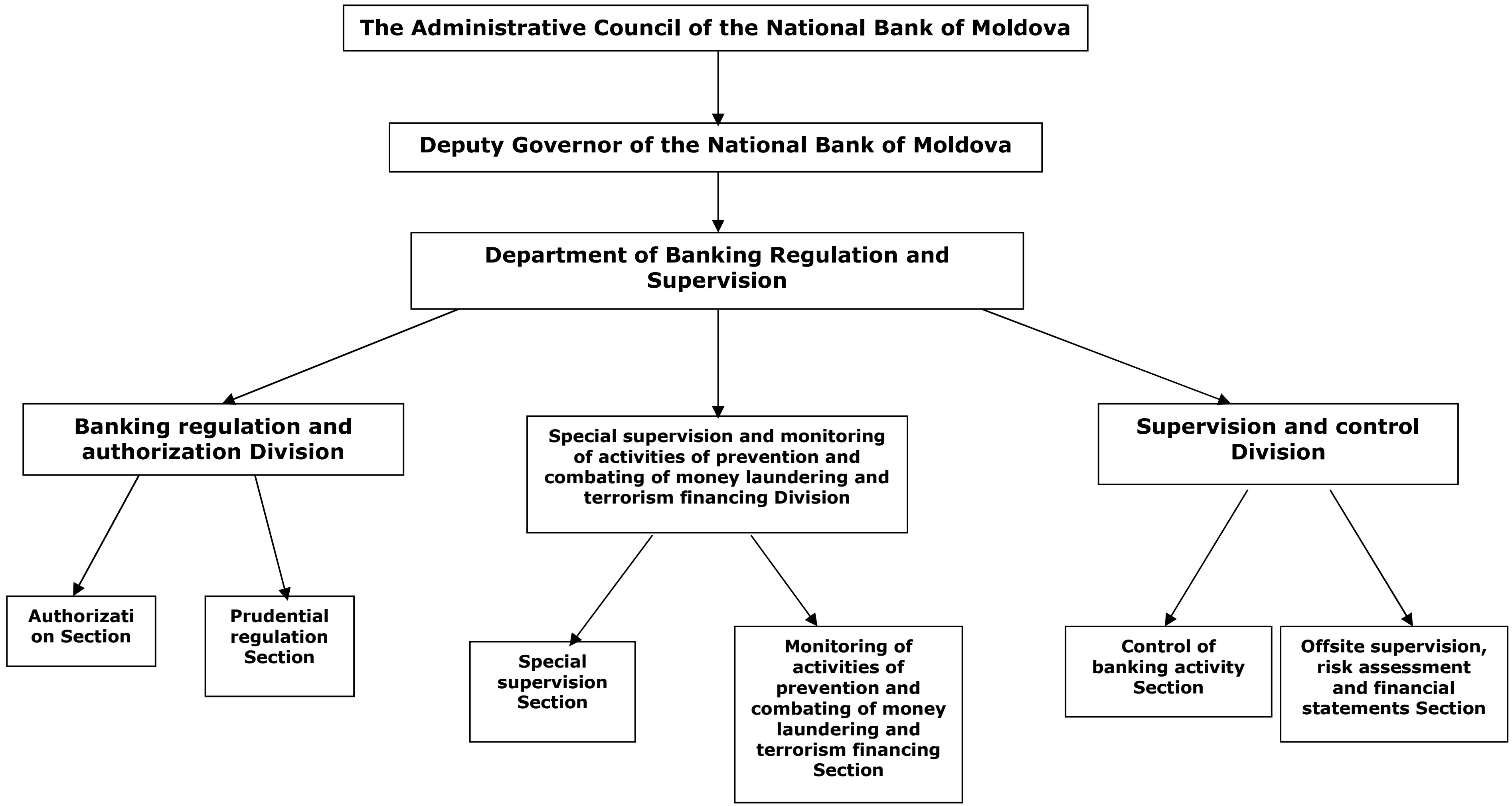
In order to minimize the risks of bank exposure to affiliated persons by the Council of administration of the National Bank of Moldova no. 297 of 30.12.2009 on the approval, amendment and repeal of normative acts of the NBM in the Regulation on bank transactions with its affiliated persons has been amended the maximum limit of bank exposure to an affiliated person or group of persons inter-related (from 20 to 10 percent of capital).

Simultaneously, it was stipulated that banks should have policies and procedures to identify the bank's exposure to affiliated persons and should carry out their monitoring and reporting through a separate process for managing exposure. It has also been refined the concept of bank exposure to an affiliated person and the requirement related to the submission of a list of affiliated persons with a detailing description of affiliation criteria, conditions for obtaining loans / issuing placements to persons affiliated to the bank, to indicate in the Transactions Register the persons affiliated to the bank of insurance and insurer of transaction.

In order to direct the banks to effectively manage their liquidity and therefore to reduce the risk of failure in maintaining the level of liquidity within the banking activity by the Council of administration of the National Bank of Moldova no. 265 of 17.12.2009 were made amendments and additions to the Regulations on bank liquidity by which the banks were obligated to have adequate internal policies and procedures for identifying, monitoring, controlling and limiting the risk regarding the liquidity. Also, in order to avoid a different treatment of the term "liquid securities" and “Net Interbank Resources”, the concepts in question were disclosed as well as the requirements related to inclusion of these items in the calculation of liquid assets were determined.

The report on the National Bank's activity containing a section on supervision and regulation of the banking activity, including financial indicators of the banking system is published annually and is available on www.bnm.md.

ORGANIZATIONAL STRUCTURE OF THE BANKING SUPERVISORY AUTHORITY



INTERNATIONAL COOPERATION OF THE BANKING SUPERVISORY AUTHORITY

In 2009, the National Bank of Moldova has collaborated with a number of international bodies such as the World Bank (WB), IMF, European Bank for Reconstruction and Development (EBRD) and Group of Banking Supervisors from Central and Eastern Europe (BSCEE) to providing information relating to the development of the national banking system.

To ensure consolidated banking supervision, the National Bank of Moldova concluded cooperation agreements in the filed of banking supervision with the supervision authorities of central banks of Romania, Russia and Belarus, as well as a relevant agreement on cooperation in the filed of exchange of information and research in the financial and banking sector with the National Bank of the Republic of Kazakhstan. Conclusion of these agreements permitted further maintenance of bilateral relationships.

Additionally, during year 2009 the National Bank of Moldova has negotiated with the supervision authorities from Austria, Italy and France the drafts of cooperation agreements that were sent to these authorities at the year-end 2008.

In 2009, the National Bank of Moldova has continued its collaboration with the foreign central banks. Within the process of authorization, an exchange of relevant information was performed for authorization of banks activity (confirming banks managers and acquiring of substantial interest).

COOPERATION WITH OTHER SUPERVISORY AUTHORITIES OF MOLDOVA

Under the scope of further monitoring of risks related to banking activity in the Republic of Moldova, the National Bank cooperates with other supervision authorities of Moldova.

In order to monitor and supervise banks’ activity in the securities’ market and related risks, the National Bank collaborates with the National Commission of Financial Market, in the domain of regulation of the conditions and procedure of issuance and circulation of securities issued by banks. The National Commission of Financial Market establishes the procedure of elaboration, submission and publication of specialised reports, as well as of public offer prospectuses of professional participants of securities’ market. Simultaneously, in 2009 the National Bank has concluded a collaboration agreement with the National Commission of Financial Market.

To confirm the nominees for the position of administrator according to the “fit and proper” principle, the National Bank of Moldova cooperates with the relevant authorities with the view to obtaining information of possible criminal records, civil actions against individuals, sanctions applied by regulators of similar industries, implication in doubtful activities, etc.

Under the scope of provided intensification of banking monitoring in the field of anti-money laundering and combating of terrorism financing, the National

Bank cooperates with a series of relevant state authorities through informing and provision of respective materials to law establishments.

OTHER INFORMATION AND RELEVANT TRENDS IN 2009

In 2009 the National Bank of Moldova has received technical assistance from the International Monetary Fund.

Thus, as a result of the recommendations made by the International Monetary Fund mission in June 2009, the National Bank of Moldova asked banks to make studies by the independent audit companies, and to examine the findings of these companies to include them later in the strategies and policies related to the financial activity of the banks in the future. Also, within the mission of August 2009 which purpose was to analyze the Moldovan legislation and practice regarding the regulation of problematic banks, the International Monetary Fund presented a number of proposals for improvement in this respect the domestic banking legislation.

A seminar on banking supervision in combating money laundering and terrorist financing, with the participation of experts from the National Bank of Ukraine was organized, with the support of the Project against corruption, money laundering and terrorist financing in Moldova (MOLICO), within the National Bank of Moldova during 13 – 14 of July 2009. The seminar aimed to enhance the knowledge and to exchange experience on banking supervision in combating money laundering and terrorist financing and regulatory framework in this context.

During September 28 to October 2, 2009 the IMF technical assistance mission on combating money laundering and terrorist financing was at the National Bank of Moldova. Within this mission, on September 29, 2009 there was a seminar with experts from the NBM and licensed banks. The seminar aimed to enhance the knowledge in combating money laundering and terrorist financing and to approach practical issues based on risk assessment of money laundering and terrorist financing. Also, there were discussions held with employees of the National Bank of Moldova in combating money laundering and terrorist financing on September 28, 1 - 2 October 2009.

An international seminar on "Banking supervision in preventing and combating money laundering and terrorist financing" was organized by the Euro-Asian Group and the International Center for Training and Methodology of Financial monitoring of the Russian Federation during 2 - 3 November 2009. This seminar was attended by representatives of central banks, law enforcement agencies, and financial investigation institutions members of the Euro-Asian Group and from Moldova. The seminar aimed to covering topics related to combating money laundering and terrorist financing, such as transparent conduct of combating activity of money laundering by banks in order to minimize the risks, undertaking appropriate precautionary measures in the implementation of new information technologies; risk based approach to customers; at the seminar were presented the main modalities of finding out the operations that have to be controlled, etc.

STATISTICAL* TABLES

Number of financial institutions (head offices/branches) (at year-ends)

Type of financial institution	2007	2008	2009
Banks including:	16	16	15
Subsidiaries of foreign banks	3	3	3

Ownership structure of the financial institutions on the basis of registered capital (%) (at year-ends)

Type of financial institution	2007	2008	2009
Public sector ownership	2.0	2.2	1.7
Other domestic ownership	26.1	23.7	20.7
Domestic ownership total	28.1	25.9	22.4
Foreign ownership	71.9	74.1	77.6
Financial institutions, total	**100.0**	**100.0**	**100.0**

Ownership structure of the financial institutions on the basis of assets total (%)

Type of financial institution	2007	2008	2009
Public sector ownership	5.6	5.3	7.3
Other domestic ownership	42.0	46.0	47.9
Domestic ownership total	47.6	51.3	55.2
Foreign ownership	52.4	49.2	44.7
Financial institutions, total	**100.0**	**100.0**	**100.0**

Concentration of asset by the type of financial institutions

Type of the financial institutions	FOREX assets / Total assets	FOREX liabilities / Total liab.
Commercial Banks	47.4	67.9

* As on 2007, 2008, 2009 the data is adjusted due to amendments done by some banks related to the results of external audit.

Return on Asset (ROA) by type of financial institutions (%)

Type of financial institution	2007	2008	2009
Commercial Banks	3.91	3.35	-0.46

Return on Equity (ROE) by type of financial institutions (%)

Type of financial institution	2007	2008	2009
Commercial Banks	23.97	19.13	-2.51

Distribution of market shares in balance sheet total (%)

Type of financial institution	2007	2008	2009
Commercial Banks	78.80	75.13	77.83
Subsidiaries of foreign banks	21.20	23.87	22.17
Total banks	**100.0**	**100.0**	**100.0**

The structure of assets and liabilities of the banking system (%) (at year-end)

Assets	2007	2008	2009
Cash	5.26	4.79	5.46
Due from banks and NBM, net	19.08	21.98	18.55
Net loans and financial leasing	62.12	60.22	50.69
Total securities, net	7.08	6.30	15.16
Other, net	6.46	6.71	10.14
Cash	**100**	**100**	**100**
Liabilities	**2007**	**2008**	**2009**
Deposits by natural persons	44.07	43.76	41.23
Deposits by legal persons	22.66	19.55	20.06
Others	15.94	18.82	21.37
Shareholder capital	17.33	17.87	17.34
Total liabilities and shareholder capital	**100**	**100**	**100**

Development of off-balance sheet activities (off balance sheet liabilities / balance sheet total) (%)

Type of financial institution	2007	2008	2009
Total banks	23.28	9.22	12.10

Solvency ratio of financial institutions

Type of financial institution	2007	2008	2009
Average of risk-weighted capital sufficiency for the banking system (≥ 12%)	29.07	32.06	32.10

Asset portfolio quality of the banking system (%)

Loan classification	2007	2008	2009
Standard	65.32	63.33	47.82
Supervised	30.98	31.01	36.82
Substandard	2.73	4.09	9.01
Doubtful	0.91	1.44	6.05
Bad	0.06	0.13	0.30
Classified total	**100**	**100**	**100**
Specific Reserves/Total Loans	**4.2**	**5.0**	**9.73**

The structure of deposits and loans in 2009 (%) (at year-end)

	Deposits		Loans
Individuals' deposits	62.33	Credits to industry / trade	51.60
Legal persons' deposits	30.06	Consumer credits	8.73
State and local budgets' deposits	0.27	Credits to agriculture and food industry	15.87
Banks' deposits	7.34	Credits for real estate, construction and development	12.54
		Other credits	6.41
		Credits for road construction and transportation	1.42
		Credits for energy and fuel industry	3.31
		Credits to banks	0.05
		Credits to Government	0.07
Total	**100.0**	**Total**	**100.0**

The structure of deposits and loans in 2009 (%) (at year-end)

	Deposits	Loans
Households	63.2	19.1
Central Government	1.2	0.0
Local Government	0.1	0.1
Legal persons (public sector)	2.3	1.3
Legal persons (private sector)	20.7	71.9
Foreign	8.12	0.04
Other	4.5	7.6
Total	**100**	**100**

The structure of deposits and loans in 2009(%) (at year-end)

Maturity of Deposits		Maturity of Loans	
At sight	29.2	Long term loans	22.4
Term deposits	70.8	Short term loans	77.6
Total	**100.0**	**Total**	**100.0**

Proportion of foreign exchange assets and liabilities (at year-ends)

Type of the financial institutions	FOREX assets / Total assets			FOREX liabilities / Total liab.		
	2007	2008	2009	2007	2008	2009
Banks	43.44	42.07	43.62	51.34	50.89	53.78

Structure of off-balance items as of December 31, 2009

	Deposits		Loans
Acquisitions to current operations	6.50	Sales to current operations	8.09
Acquisitions to time operations	0.26	Sales to time operations	0.35
Acquisition of loans and securities	3.29	Sale of loans and securities	6.62
Total conditional assets	**10.06**	**Total conditional liabilities**	**15.07**

Structure of revenues and expenditures of financial institutions (at year-ends), million lei

Revenues	2007	2008	2009
Total Interest Income inclusive:	3242.88	4440.67	3936.38
interest income on credits and financial leasing	2717.37	3873.22	3543.77
interest income from securities	353.91	416.05	285.79
interest income from other assets	171.61	151.38	106.82
Total Income non-interest	1344.09	1781.81	1543.54
Expenditures	**2007**	**2008**	**2009**
Total interest expenditure	1630.3	2671.15	2603.3
Total non-interest expenditure	1494.59	1781.81	1543.54
Provision for Loan Losses	190.69	447.95	1120.58
Total net income	1086.66	1219.19	-172.54

Structure of registered capital and own funds of financial institutions in 2009

Type of financial institution	Registered capital	/Total assets	Own funds	/Total liab.
	EUR mln	%	EUR mln	%
Commercial banks	127.25	5.62	392.94	17.34

As at December 31, 2009 1 EUR = 17.6252 lei.

2009 DEVELOPMENTS IN THE MONTENEGRIN BANKING SYSTEM

MACROECONOMIC ENVIRONMENT

Montenegro had a very rapid economic growth in a three-year period before the crisis and the estimated average rate of economic growth in that period was about 8%. As the crisis had affected the decline in the level of economic activity, we had a deterioration of almost all macroeconomic indicators. Namely, 2009 was characterised by the decline in the level of GDP, the difficulties in business in almost all economic activities, the growth of illiquidity of the economy, the emergence of budget deficits, as well as the record inflows of FDI, the decline in the level of inflation and the deficit of current account deficit.

- According to estimates of the Ministry of Finance, the GDP in 2009 declined by 5.3%. The high level of decline was the result of a demands` fall, both domestic and foreign, as well as the high fixed costs of companies and it's unable to cover regular operations in these conditions.
- As the global financial crisis has affected the decline in the level of aggregate demand, both domestically and internationally, result was in a low inflation rate around the world. Annual inflation measured by consumer price index amounted to 1.5% in December 2009, and it was at the same level as inflation per 2004 measured by the cost of living index. The annual rate of basic inflation rate is 0.04%.
- Industrial production is one of the branches of the hardest hit by the crisis. In 2009 the decline in that activity amounted to over 30%. The crisis has mostly hit metal industry of Montenegro, as well as it's related the mining. These branches, in addition to its inherited problems, were faced with the problem of international marketing of products.
- In relation to the previous year, the number of tourists who visited Montenegro was higher by 1.6% in 2009, but the number of overnight stays was lower by 3.1%. Therefore, the tourist season can be characterized as "better than expected."
- Transportation is an extremely important branch of the Montenegrin economy due to its direct relation with tourism and the geographical location in transit of goods. Negative growth rates were achieved in almost all forms of transport in 2009, with the exception of road freight transport, which achieved an increase of 30.8%. The decline in forestry in 2009 compared to 2008 amounted to about 23%, while the construction achieved a decrease of 19.2% measured by effective hours at the work. These are branches that, beside the industrial production, were severely affected by the crisis and are faced with an extremely complex business challenges these days.
- The global financial crisis has resulted in a significant decline in the level of economic activity, which was, of course, reflected in the movement of public funds, as well as in the public expenditures. Therefore, fiscal policy in 2009. was focused on fiscal adjustment in terms of recession, both the revenue and the expenditure side of the budget. The budget deficit this year was inevitable, and amounted to 69.06 million or 2.3% of GDP.

- Under the influence of the crisis there was a significant decline and exports (36.6%) and imports (34.6%) of goods. The deficit has been made in sub-balances of foreign trade; a surplus was achieved in the sub-balances of services, incomes and current transfers. The deficit of current account deficit amounted to EUR 896.3 million and it is 42.7% lower comparing to the previous year.
- Net inflow of foreign direct investment in 2009, according to preliminary data, amounted to EUR 910.9 million, which is a 65.1% increase compared to the previous year. The structure of FDI inflow has been improved, and the investment in companies and banks was significantly increased, but the investment in real estate was reduced.
- The number of employees on average was higher by 4.8% in relation to the previous year. The number of unemployed in 2009 was lower on average by 3.9% compared to 2008, bearing in mind that an increase in unemployment occurs only in the last quarter of 2009. It is obvious that it was a belated adjustment, as well as the fact that the first to "attack" was the working force.

DEVELOPMENT IN THE BANKING SYSTEM (INCLUDING THE ASSETS TOTAL / GDP)

The banking system largely reflected the difficulties faced by the real sector and the households sector. The effects of the crisis were evident through the significant decrease in the depositary potential of banks, difficulties for banks in accessing external financing, lower inflow from repayment of loans caused by the deterioration in the financial position of borrowers as well as almost completely stopped lending activity.

- Banks' total assets amounted to EUR 3,025 million, as of 12/31/2009, and in relation to the same comparative period of 2008 recorded the nominal decrease of EUR 284.4 million, i.e. the decrease at the rate of 8.59%. Eight banks in the system recorded the growth of the balance sum in one year period. Total assets' share in GDP amounted to 98.12%. Four large banks incorporate 73.73% of total assets of the banking sector.
- The most important item in the aggregate balance of banks was bank loans amounting to EUR 2,397.7 million or 79.26%. Total loans in one year period recorded the decrease by the rate of 14.29%. Total loans' share in GDP amounted to 77.78%. In the loan portfolio structure long-term loans (over one year) make up 74.76% of overall granted loans in the system. The most important loan users are private companies (56.05%) as well as natural persons (36.63%). From the aspect of granted loans classification by sectors, besides of households, trade sector was also a significant user of loans (22.8%).
- Non-performing assets of banks (C, D and E) accounted for 11.39% in overall assets. Percentage of past due loans above 30 days at system level amounted to 22.86% as of 12/31/2009. In the structure of past due loans, loans with maturity from 31 to 90 days made up 59.06%. The structure of total past due loans shows the highest share of loans granted to private companies 69.84% and loans to households 26.73%.
- Total depositary potential of banks as of 12/31/2009 amounted to EUR 1,824.7 million. Due to the global financial crisis, there was the significant

decrease of deposits so that at the annual level they decreased by 8.33%. Total deposits' share in GDP amounted to 59.2%. The most important depositors of banks were natural persons with the share of 46.2% as well as private companies with 29.2% of the share. Of total deposits in the system, 36.6% referred to demand deposits. Besides households' sector, significant concentration of deposits was evident in finance, trade, services and transport sectors, which made up 30.15% of total deposits.

- Total capital of banks as of 12/31/2009 amounted to EUR 331.7 million. Capital growth rate in the one-year period amounted to 18.74%. The dominant share in the structure of total capital had foreign capital with 81.33%, then follows private capital with a share of 16.08%, and state with 2.59% of the share. As of 12/31/2009 two banks were majority private owned, while other nine banks were majority (five banks) or 100% foreign owned (four banks). Banks with majority foreign capital controlled 85% of the banking market in Montenegro.
- The banking system liquidity as of 31.12.2009 was characterized by increase of key liquidity ratios in relation to the same period in 2008. The liquid assets to total assets ratio amounted to 15.26% and it recorded the growth by 4,1 p.p. in relation in one-year period.
- Banking sector profitability significantly decreased at end-2009 .The loss on aggregate level amounted to EUR 21.5-million. Four banks in the system reported loss at the end of the business year. Profitability of the banking system was affected by the increased share of non performing assets, high level of reserves for the potential credit losses, high level of overhead expenses etc. Profitability indicators, ROA and ROE were negative as well, and declined in relation to the same period of the previous year. Aggregate interest rate spread fluctuated in one year period and it amounted to 3.73% as of 31/12/2009
- As of 12/31/2009 banks in Montenegro operated with an expanded network of 206 organisational units and 2.293 employees.

THE LEGAL AND INSTITUTIONAL FRAMEWORK OF THE OPERATION AND SUPERVISION OF FINANCIAL INSTITUTIONS, NEW DEVELOPMENTS. LEGAL COMPETENCE OF THE BANKING SUPERVISORY AUTHORITY IN MONTENEGRO

Activities of the Central Bank of Montenegro in the field of supervision and regulation of the banking sector in 2009 were aimed at reducing the negative impact of the global financial crisis on the stability and security of the banking sector. In that regard, key regulatory activities referred to the drafting of bylaws for the execution of the Law on banks, improvement of existing solutions in the Law on Banks and the Law on Bankruptcy and Liquidation of Banks, as well as the creation of a regulatory framework that defines the temporary measures for maintaining stability of the banking system in the global financial crisis. In the first quarter of 2009, a regulatory framework was completed, which was required from the Central bank of Montenegro on the basis of the new Law on banks. During that period, the following decisions were adopted and prepared:

- Decision on methods for preparation of the consolidated financial reports of the banking group,
- Decision on minimum standards for operational risk management in banks,
- Decision on minimum standards for risk management in the micro-credit financial institutions,
- Decision on banking ombudsman,
- Decision on minimum standards for the banks investments in the premises and fixed assets

Starting from the obvious need to improve existing solutions in the Law on Banks, which was adopted in February 2008, in the year 2009 the drafting of Law on Amendments and Supplements to the Law on Banks was initiated and proceeded in the direction of:

- More precisely defining the conditions for the imposition of measures against banks,
- Providing additional powers to the Central bank of Montenegro, etc intern administrator, to create a legal basis for the implementation of effective measures for rehabilitation banks in crisis,
- Providing efficient mechanisms to eliminate illegal acquirers of qualified participation,
- Clearer defining of authorities of the Central bank of Montenegro to, as in accordance with the international standards, apply so called fit and proper test on deciding on issuing approvals for the members of the board of directors and of executive directors of banks,
- Harmonization of law relevant to the new EU directives

Council of the Central bank of Montenegro has adopted a set of measures whose implementation can provide favorable conditions for the restructuring of loans, the classification of assets and lower billing reservation for credit losses, which has considerably "relaxed" the banking sector, and ensured the stability of the banking system.

MAIN STRATEGIC OBJECTIVES OF THE SUPERVISORY AUTHORITY IN 2009

Key steps of the regulatory and supervisory actions of CBM in 2009 referred to decrease of the negative impact of the global financial crisis on the stability and security of the banking sector. They were realized through:

- increased supervisory activities, with special focus on the banks of systemic importance, and creating counter cyclical measures and decisions where the capacities of the Central Bank, for the actions to the banks in the crisis, will be coordinated with international standards. Those measures significantly "relaxed" position of banks and their debtors, and provided safety and soundness of the banking system.

THE ACTIVITIES OF THE BANKING SUPERVISORY AUTHORITY IN 2009

In 2009, supervision of the banking sector intensified through the continuous monitoring of operations of all banks in the system with the special focus on the systemically important banks. In addition, the banks against which the Central Bank imposed measures were placed under special monitoring, and the assessment of banks' acts upon the imposed measures was performed through the supervision or on-sight examination of implementation of imposed measures by authorized persons from the Central Bank. Priority in on-site examination was given to systemically important banks. Small banks, with low market share and lower risk profile level were monitored through off-sight examinations and analysis of the reports which banks submitted to the Central Bank.

In the second half of 2009, due to worsening of the macroeconomic conditions and negative forecasts for the national economy, it was urgent to diagnose the condition of the banking sector aiming to assess key risks and vulnerabilities of banks to negative occurrences which might have or already had impact on position of capital, solvency and liquidity, as well as to assess the ability of banks to service their due liabilities on time.

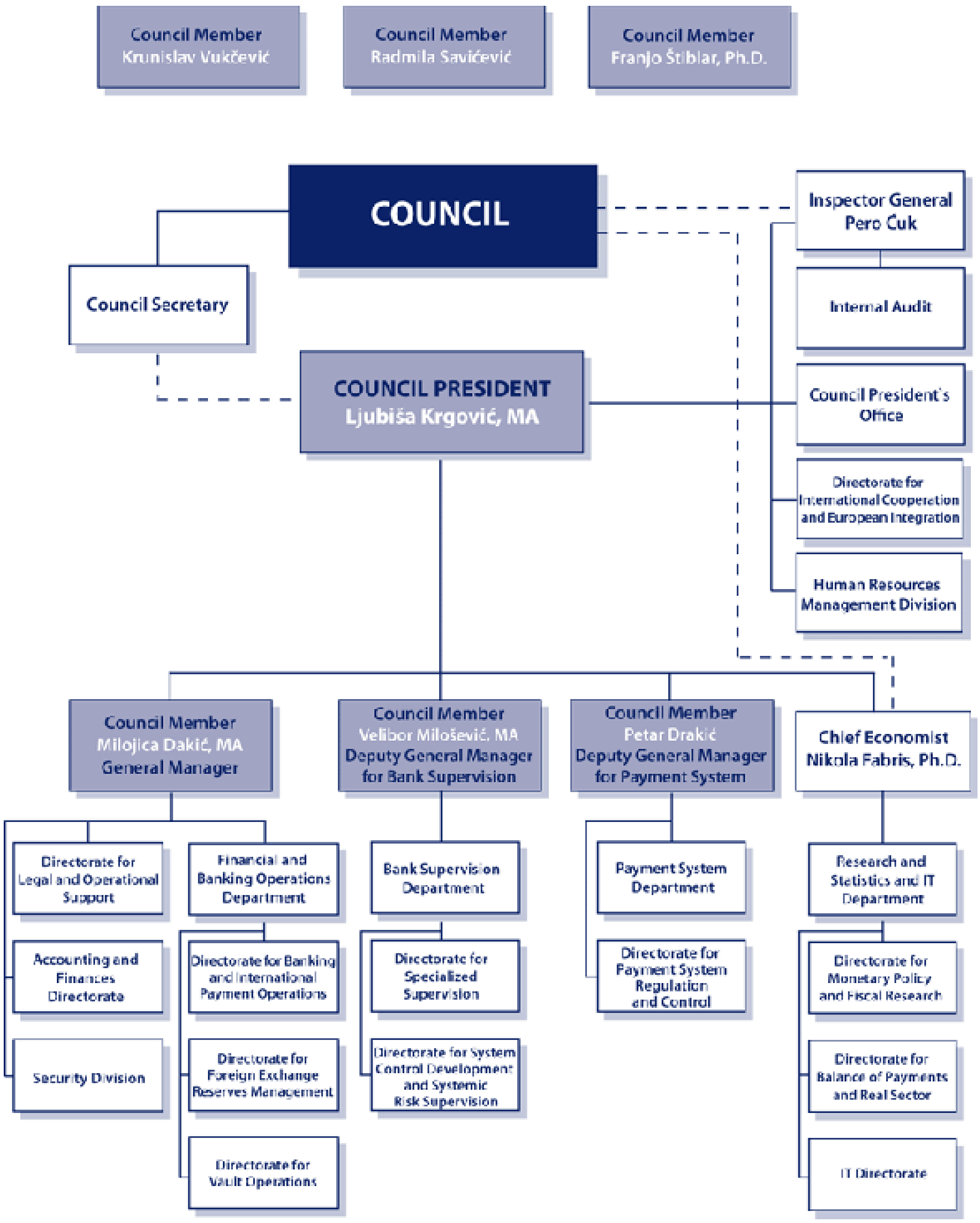
With the aim of executing supervision and competences regarding the financial stability of the Central Bank, extraordinary on-site examinations, that is, diagnostic assessment of 10 banks in the systems were performed over the period September 2009 - March 2010. Diagnostic assessment of one bank was entrusted to the external auditor and it would be finished during 2010. In brief, specificity of a diagnostic assessment represents the fact that it consists of the combination of on-site examination and stress testing which are conducted by the bank as well by the Central Bank on the basis of unique projection of key macroeconomic variables in two scenarios: real scenario and "the worst case" scenario. Diagnostic assessment resulted in assessment of the financial condition of the bank and quantification of sensitivity to the events that significantly influenced the position of capital, incomes and liquidity. Results of the diagnostic assessment and forecast of key macroeconomic variables represented basic inputs for the bank's stress testing, performed by the Central Bank, aimed at the assessment of the banking sector sustainability and defining needs for capital in individual banks as well as in the system as a whole. At the same time, banks were obliged to conduct internal stress testing based on projections of key macro variables (inputs), according to the Central Bank's methodology. The adequacy of conducted internal stress testing was the subject of the special analysis of authorized supervisors from the Central Bank.

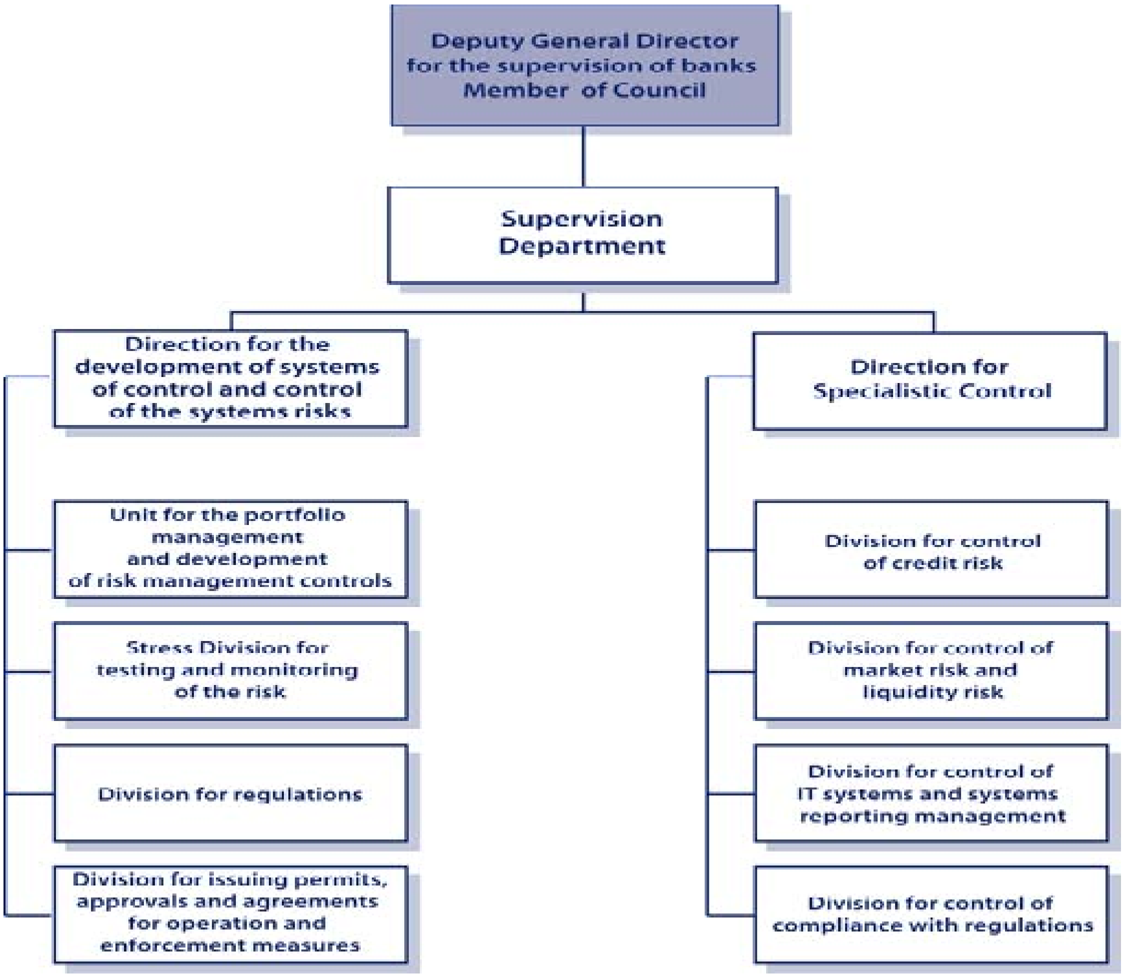
Supervisory strategy for the bank was created according to the diagnostic assessment report on stress testing of the bank performed in the Central Bank. The strategy contains the amount of required capital and time line for its provision, as well as the request for the creation of the strategic plan for capital restoration and bank's strategy in the forthcoming period.

Supervisory strategies for banks resulting from the Central Bank's assessment of the risk profile of banks represent the base for the Central Bank's actions in the forthcoming period, aiming to maintain safe and sound banking system and to provide assumptions for the protection of banks' depositors and creditors.

ORGANIZATIONAL CHART OF THE BANKING SUPERVISORY AUTHORITY

Organizational Scheme of Central Bank





INTERNATIONAL ACTIVITIES OF THE AUTHORITY

In the attaining of the regulatory and supervisory function of the Central Bank of Montenegro, cross-border cooperation occupies an important place both from the stand point of supervision on consolidated basis, as well as from the standpoint of improvement of information exchange and supervision methods. Also, globalization and diversification of financial markets has affected to the CBM intensive cooperation with other central banks and financial authorities in the area of bank supervision. In line with above started, the Central Bank of Montenegro signed the Memorandum of Understanding with Croatian National Bank and National Bank of Belarus, in the area of bank supervision, on bilateral level in 2009.

On a multilateral level (which is still in the phase of development) the Central Bank of Montenegro in 2009, signed Memorandum of Understanding with Hungarian Financial Supervisory Authority.

COOPERATION WITH OTHER SUPERVISORY BODIES IN MONTENEGRO

Central Bank of Montenegro cooperates, not only with foreign supervisors, but also with organizations and institutions from Montenegro, which takes place on the basis of signed agreements. Central bank of Montenegro has signed cooperation agreements with Securities and Exchange Commission, as the supervisor. Also, the Central bank of Montenegro has signed cooperation agreements with Administration for the Prevention of Money Laundering and Deposit protection fund.

In cooperation with the European Commission a project "Strengthening the regulatory and supervisory capacity of financial regulators" was prepared of, in which also participate the Securities and Exchange Commission and Insurance Supervisory Agency. Implementation of the project began in the fourth quarter of 2009. And it is realized through "twinning" program and consortium of partners is the National Bank of Bulgaria and the National Bank of Netherlands. Within this project, representatives of the three supervisory authorities will work in a joint effort on preparation of the Law where the Directive 2002/47 EU will be implemented on financial collateral arrangements.

STATISTICAL TABLES

Number of financial institutions (head offices/branches)
(at year-ends)

Type of financial institution	2007	2008	2009
Banks	11	11	11
Financial Institutions, total	**11**	**11**	**11**

Ownership structure of the financial institutions
on the basis of registered capital (%)
(at year-ends)

Type of financial institution	2007	2008	2009
Public sector ownership	2	3	3
Other domestic ownership	22	17	16
Domestic ownership total	24	20	19
Foreign ownership	76	80	81
Financial Institutions, total	**100.0**	**100.0**	**100.0**

Ownership structure of the financial institutions on the basis of assets total (%)

Type of financial institution	2007	2008	2009
Public sector ownership	-	-	-
Other domestic ownership	21	15	13
Domestic ownership total	21	15	13
Foreign ownership	79	85	87
Financial institutions, total	**100.0**	**100.0**	**100.0**

Concentration of asset by the type of financial institutions

Type of institutions	The first three largest (%)	The first five largest (%)
Banks	61.26	81.34

Return on Asset (ROA) by type of financial institutions (%)

Type of financial institution	2007	2008	2009
Banks	0.72	-0.62	-0.68

Return on Equity (ROE) by type of financial institutions (%)

Type of financial institution	2007	2008	2009
Banks	6.17	-6.90	-7.77

Distribution of market shares in balance sheet total (%)

Type of financial institution	2007	2008	2009
1 bank	34	34	28
3 banks	64	64	61
5 banks	84	84	81
7 banks	94	91	93
Financial institutions, total	**100.0**	**100.0**	**100.0**

The structure of assets and liabilities of the banking system (%)
(at year-end)

Assets	2007	2008	2009
Cash Funds & Deposit Accounts with Depository Institutions	22.32	14.30	17.48
Trading and Available for Sale Assets		0.17	0.71
Loans and Lease Operations	75.48	84.53	79.26
Securities Held to Maturity	0.01	0.07	1.01
Factoring and Forfeiting			0.18
Receivable from Custody Operations			0.00
Business Premise and Other Fixed Assets	1.37	1.47	1.58
Acquired Assets	0.07	0.14	1.65
Equity Investments	1.08	0.89	1.00
Other Assets	1.39	2.05	2.31
Less: Reserves for Losses	-1.72	-3.45	-5.18
Total Assets	**100.0**	**100.0**	**100.0**
Liabilities	**2007**	**2008**	**2009**
Deposits	70.25	60.14	60.32
Liabilities for Custody Operations			0.04
Obligations on Taken Loans and Borrowings	17.50	25.36	23.24
Obligations to Government	0.75	2.29	1.28
Derivative financial liabilities as Security Instruments			0.03
Reserves	0.26	0.30	0.22
Other Obligations	2.37	2.34	2.03
Subordinate debt	0.91	1.12	1.88
Total Liabilities	**92.04**	**91.56**	**89.03**
Total Capital	7.96	8.44	10.97
Total Liabilities and Capital	**100.0**	**100.0**	**100.0**

Development of off-balance sheet activities
(off balance sheet liabilities / balance sheet total) (%)

Type of financial institution	2007	2008	2009
Banks	109.4	298.5	439.5
Financial Institutions, total	**109.4**	**298.5**	**439.5**

Solvency ratio of financial institutions

Type of financial institution	2007	2008	2009
Banks	17.12	15.04	15.75
Financial institutions, average	**17.12**	**15.04**	**15.75**

Asset portfolio quality of the banking system

Asset Classification	2007	2008	2009
Pass (A)	60.32	59.53	48.36
Special Mention (B)	22.42	22.92	26.68
Substandard (C)	2.88	5.71	7.31
Doubtful (D)	0.13	0.45	2.76
Loss (E)	0.14	0.25	1.32
Classified total (000)	**2.302**	**2.941**	**2.615**
Specific reserves	**2.32**	**4.00**	**6.27**

The structure of deposits and loans in 2009 (%)
(at year-end)

	Deposits	Loans
Government sector	7.73	1.40
Municipalities	0.96	1.12
State Owned Companies	3.72	1.88
Private Companies	29.23	56.05
Banks	4.40	0.00
Financial Institutions	5.76	0.30
Natural person	46.25	38.34
Other	1.95	0.91
Total	**100.0**	**100.0**

The structure of deposits and loans in 2009 (%)
(at year-end)

Maturity of Deposits		Maturity of Loans	
At sight	36.6	Long term loans	74.76
Within one year	51.1	Short- term loans	25.24
Over one year	12.3		
Total	**100.0**	**Total**	**100.0**

Proportion of foreign exchange assets and liabilities (at year-ends)

Type of the financial institutions	FOREX assets / Total assets			FOREX liabilities / Total liab.		
	2007	2008	2009	2007	2008	2009
Banks	1.47	5.11	5.78	4.19	5.41	5.71
Fin. institution, average	**1.47**	**5.11**	**5.78**	**4.19**	**5.41**	**5.71**

Structure of revenues and expenditures of financial institutions (at year-ends)

Revenues	2007	2008	2009
Interest Income	66.27	77.87	79.99
Fee Income	25.51	20.13	16.64
Other Operating Income	8.19	1.54	3.10
Extraordinary Income	0.03	0.46	0.27
Expenditures	**2007**	**2008**	**2009**
Interest Expense	33.28	40.41	36.67
Provision for losses	20.66	24.42	25.41
Fee Expenses	5.82	4.72	5.21
Operating Expenses	38.87	29.80	31.83
Extraordinary Expenses	0.13	0.09	0.08
Taxes	1.23	0.56	0.80
Net Profit / Loss (000 EUR)	**13,907**	**-19,687**	**-21,569**

Structure of registered capital and own funds of financial institutions in 2009

Type of financial institution	Registered capital	/Total assets	Own funds	/Total liab.
	000 EUR	%	000 EUR	%
Banks	323.6	10.69	341.4	11.29
Financial institutions, average	**323.6**	**10.69**	**341.4**	**11.29**

2009 DEVELOPMENTS IN THE POLISH BANKING SYSTEM

MACROECONOMIC ENVIRONMENT

In 2009, the rate of economic growth slowed down drastically, the labour market was significantly weakened and the situation in the public finance sector deteriorated. Unfavourable trends were the consequence of the collapse of the global economy, which, as a result of the financial crisis started in 2007, went into the deepest recession since the end of World War II.

Despite the slowdown, the condition of the Polish economy was better than the economies of other EU countries. Poland turned out to be the only EU country which managed to maintain a positive growth rate in spite of the crisis, while the remaining countries slipped into recession.

According to GUS, the Gross Domestic Product increased in 2009 by 1.7% in real terms, which meant a significant decrease in comparison to the growth rate observed in the years 2006-2008 (6.2%, 6.8%, 5.0%). The main reason for the slowdown was the decline in external demand and general deterioration of atmosphere, which led to restrictions of production and private investment. On the other hand, very high gross fixed investment made by the public sector had a stabilising effect on the economy, as well as the PIT reform and high indexation of pension benefits. The adverse impact of global recession on the Polish economy was also to some extent mitigated by the weakening of zloty. Despite the difficult external conditions, the Polish economy managed to avoid recession, and in the second half of the year, the signs of improvement appeared.

DEVELOPMENT IN THE BANKING SYSTEM (INCLUDING THE ASSETS TOTAL / GDP)

A strong decline in economic activity, combined with the persistent uncertainty about future development of the situation and aversion to excessive risk-taking translated into decreased activity of the banking sector. As a result banks have reduced their expansion and concentrated on adjusting business models to the difficult external conditions.

However, despite the strong deterioration in financial performance, the situation of the banking sector in 2009 remained stable, and the capital position of banks was strengthened.

The elevated risk of the sector activity resulted in measures to increase liquidity on the one hand, and on the other, measures aiming at reducing risk exposure (by tightening credit policy, among other things), and increasing the capital buffer. Reduction of exposition to financial sector entities was observed, as well as the increase of safe debt security portfolio (treasury and the NBP) as well as the emphasis on the acquisition of deposits and the increase of the capital base.

The banking structure did not change significantly where at the end of 2009 there were 643 banks and branches of credit institutions. Share of commercial banks in the banking sector remained stable at 89.1% from 89.2% in

2008. Assets of the banking sector were positioned at 79.1% of the GDP – meaning a 2.8% fall from previous year. The state controlled 4 banks (of which 2 state had direct control) representing 20.2% of banking sector assets. The share of foreign capital in the banking sector was 68.1%.

In 2009, the balance sheet total of the banking sector increased only by 2.1% (in comparison with 30.6% in 2008). It should be added however, that apart from the negative impact of external conditions, a significant impact on reducing the dynamics was exerted by the decline in the value of balance sheet items related to valuation of derivative instruments held for trading (by PLN 32.5 billion), which was caused by maturity (also due to the restructuring) and the lack of revolving of some of these transactions.

Consequently, changes in the balance sheet structure of the banking sector occurred, the most important of which consisted in:

- slight increase in the share of receivables from the non-financial sector (from 56.6% at the end of 2008 to 57.7% at the end of 2009), with the simultaneous strong increase in the share of liabilities to this sector (from 48.7% to 53.9%.) Reducing the negative gap of financing the non-financial sector by half (from PLN 81.5 billion to PLN 41.3 billion) and the increased coverage of loans by deposits (from 83.3% to 89.2%) was a positive consequence of the lending slowdown and the strong growth of the deposit base;
- reducing the share of receivables from the financial sector (from 10.3% to 6.9%), while reducing the share of liabilities to this sector (from 23.3% to 21.3%);
- increasing the share of the security portfolio (from 17.4% to 19.9%);
- increasing the share of equity (funds) (from 7.9% to 9.9%).

It should be added that the low growth dynamics of the balance sheet total concerned commercial banks (increase by 2.0%) and branches of credit institutions (decrease by 3.0%), while the cooperative banking sector reported significant increase (by 9.2%).

THE LEGAL AND INSTITUTIONAL FRAMEWORK OF THE OPERATION AND SUPERVISION OF FINANCIAL INSTITUTIONS, NEW DEVELOPMENTS. LEGAL COMPETENCE OF THE BANKING SUPERVISORY AUTHORITY IN POLAND

The main objective of regulatory policy implemented in 2009 was continuation of measures aimed at improvement of risk management of banks. There were works on Recommendation T defining best practices in credit risk management for household loans and implementation of customer creditworthiness assessment standards. The draft document was subject to broad consultations with banking environment and the process itself resulted in adequate self-regulatory reactions of banks. In the opinion of banking supervision authority, introduction of the rules described in Recommendation T will improve risk management and thus banking sector safety. Because of the situation in 2009 being not stable, the PFSA decided to put the implementation on hold the recommendation during this period. The main goal of this recommendation is to cut down the number of "bad loans" and eventual losses with them related by improvement of risk identification process. Recommendation T, should supplement recommendation S(II) in reduction of foreign exchange exposition. There should also be improvements in the cyclical changes in the lending policy of banks and increase the risk awareness of the clients.

The initiative of improving recommendation A and recommendation I, was a reaction of the PFSA to weaknesses in the process of foreign exchange risk management. Therefore the amendments of these recommendations aim, to:

- Minimize credit risk involved with derivative transactions and, in the way, not increasing dramatically the costs to the client;
- Diminish the credit risk involved in foreign exchange transactions;
- Improve the process of foreign exchange risk management;
- Improve the stability and safety of the banking sector.

MAIN STRATEGIC OBJECTIVES OF THE SUPERVISORY AUTHORITY IN 2009

Because the global crisis had a direct effect on the polish financial system, the main objectives where linked with the main generic goal which is to assure the stability of the polish financial system. Both in the Banking and Insurance sector, key steps where to increase capital of such institutions. As a result, in the banking sector 90% of the profits were retained in comparison of the 65% of the retained profits in the insurance sector. The PFSA has closely followed the possibility of outflow of capital to mother companies but, no such actions were observed. Some institutions were obliged to report liquidity levels in a daily basis. During the crisis, the insurance sector was the main liquidity provider for banks so, the PFSA wanted to limit the concentration of long-term deposits in certain banks.

THE ACTIVITIES OF THE BANKING SUPERVISORY AUTHORITY IN 2009

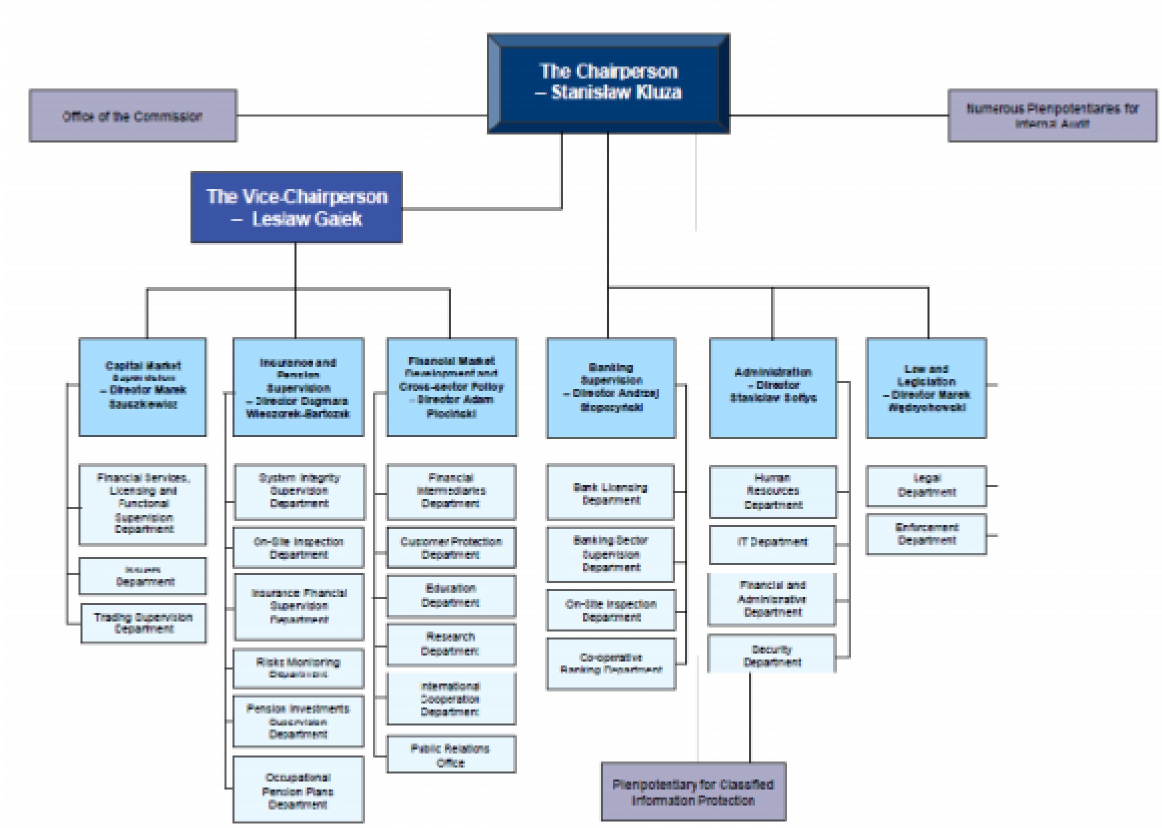
The aim of financial market supervision is to ensure regular operation of this market, its stability, security and transparency, confidence in the financial market, as well as to ensure that the interests of market actors are protected. Because of the increased risk of many economies (not only in Poland) due to the crisis, the PFSA has had an important role in order to protect the financial system from the negative impacts of the crisis. Measures undertaken by the PFSA inclined the management and supervisory boards of practically all banks to recommend to their shareholders the retention of the profits for 2009. There were improvements performed in recommendation A concerning risk management of derivatives transactions and recommendation I related with FX risk management. While these steps are more regulation oriented, the PFSA has also been very dynamic in supervision activities. These, included: the control of liquidity levels, capital adequacy level and the verification of the implementation of MiFID directive. On a more cyclical basis the PFSA, has monitored the financial and economic condition of banks and given them ratings according to CAEL system.[29]

Work has also been performed on operational country-specific areas such as the creation of quarterly and monthly reports based on specific databases (SIS). Close attention has been paid to banks that required restructuring – which have been monitored in the way they realized the restructuring programs, financial condition, etc.

[29] C – Capital Adequacy; A – Quality of assets; E – banks earnings; L - Liquidity

ORGANIZATIONAL CHART OF THE SUPERVISORY AUTHORITY

Organisational chart of the PFSA



INTERNATIONAL ACTIVITIES OF THE AURHORITY

Working groups by the *Basel Committee on Banking Supervision (BCBS),* work in process by the *Standard Implementation Group on Operational Risk (SIGOR)* on operational risk and advanced methods […], capital adequacy ratios are discussed by the *Standard Implementation Group – Validation (SIGV),* at the BSCEE countries express their experiences in the various areas of supervision. The PFSA is also present at the meeting of the IOPS as what regards the risk in pension funds. Similar meetings take place with IAIS as insurance supervisions are concerned. Of much importance is the membership in working groups in IOSCO for the cooperation of supervision authorities. PFSA is also active at the OECD in the Steering Group on Corporate Governance, Insurance and Private Pensions Committee, Taskforce on Funded Pension Statistics. The PFSA has requested the IMF and WB for support as to international supervision is concerned. MONEYVAL is an important body for countries/institutions that are not member of the FATF, where work is done in order to fight money laundry schemes. As to strictly European institutions are concerned, the PFSA is in constant contact with such institutions as the ECB (where the PFSA acts as an expert in different bodies: e.g. CEBS, European Commission, etc.). Employees of the PFSA are also members of working groups like: *Working Group on Macro-Prudential Analysis, Working Group on Developments in Banking, GDB Task Force on The Future Evolution of the EU Financial Sector, Joint Task Force on the Impact of the new Capital Framework.* The presence in other groups or task forces is also a part of the PFSA work. These groups may be more task-oriented and less strategic as the ones previously mentioned but are of no less importance: *Groupe de Contact, Stress Test Task Force, Pillar 2 Convergence Network, Expert Group on Prudential Regulations, Task Force on Liquidity Risk Management, Expert Group on Financial Information, External Credit Assessment Institutions Working Group, Working Group on Supplementary Measures.*

COOPERATION WITH OTHER SUPERVISORY BODIES IN POLAND

PFSA provides cooperation with such institutions as the National Bank of Poland (NBP), The Polish Bank Association (ZBP), Ministry of Finance (MF), Commission of Financial Stability (KSF), Bank Guarantee Fund (BFG), Office of Competition and Consumer Protection (UOKiK), and many others.

In response to the escalation of crisis phenomena the PFSA has undertaken a number of necessary preventive and adjustment actions in relation to the supervised entities. The banking supervision has immediately responded to signals about problems of capital groups that could be reflected in a situation of their subsidiaries operating in Poland. Supervisory activities focused on several areas: additional guidelines and recommendations, monitoring activities, meetings with Boards of banks, contacts with home country supervisions, involvement in the work of the Financial Stability Committee (together with Ministry of Finance and National Bank of Poland). These activities included i.a.:

- recommendation to take actions aiming at increasing own funds by adding all gains to banks' capitals and not paying dividends,
- continued monitoring of the involvement of banks significantly exposed to foreign financial entities (information about balance sheet and off-balance sheet amounts),
- continued duty relating to monthly reporting on currency liquidity,
- conducting monitoring and analysis of foreign exchange derivative transactions concluded with non-financial sector entities;
- conducting problem-related and comprehensive inspections and monitoring implementation of post-inspection recommendations,
- continued monitoring related to the implementation of reorganization proceedings programs,
- analysing and giving opinions on assumptions concerning bank merger processes,
- undertaking necessary individual actions against selected banks within the above mentioned areas, in some cases also system solutions were applied, i.e. FSA communicated a set of recommendations relating to standards of banks' information policy and the sales process of advanced OTC financial products as well as requirements associated

with managing by banks risks arising from derivative transactions concluded with non-financial entities.

STATISTICAL TABLES

Number of financial institutions

Type of financial institution	2007	2008	2009
Commercial banks	50	52	49
Branches of Credit Institutions	14	18	18
Co-operative banks	581	579	576
Financial institutions total	**645**	**649**	**643**

Ownership structure of the financial institutions on the basis of registered capital (%) (at year-ends)

Type of financial institution	2007	2008	2009
Public sector ownership	16,06	15,15	30,11
Other domestic ownership	11,23	10,56	8,46
Domestic ownership total	27,29	25,71	38,56
Foreign ownership	72,71	74,29	61,44
Financial institutions total	**100,00**	**100,00**	**100,00**

Ownership structure of the financial institutions on the basis of assets total (%)

Type of financial institution	2007	2008	2009
Public sector ownership	18,39	17,32	20,84
Other domestic ownership	10,76	10,32	11,09
Domestic ownership total	29,15	27,63	31,93
Foreign ownership	70,85	72,37	68,07
Total commercial banks	**100,00**	**100,00**	**100,00**

Concentration of asset by the type of financial institutions

Type of the financial institutions	The first three largest (%) 2009	The first five largest (%) 2009
Bank	33.7	44.5
Credit Cooperatives		
Financial Institutions		
Savings Cooperatives		
Specialized Credit Institutions		

Return on Asset (ROA) by type of financial institutions (%)

Type of financial institution	2007	2008	2009
Bank	1.7	1.6	0.9
Credit Cooperatives			
Financial Institutions			
Savings Cooperatives			
Specialized Credit Institutions			

Return on Equity (ROE) by type of financial institutions (%)

Type of financial institution	2007	2008	2009
Bank	22.5	21.1	11.3
Credit Cooperatives			
Financial Institutions			
Savings Cooperatives			
Specialized Credit Institutions			

Distribution of market shares in balance sheet total (%) (groupage of acting banks according to capital)

Type of financial institution	2007	2008	2009
Total banking sector	100.0	100.0	100.0

Structure of revenue and expenditures of financial institutions (at year-end)

Revenues	2007	2008	2009
Commercial banks (mEUR)	16,66	20,90	23,25
Cooperative banks (mEUR)	1,05	1,33	1,32
Branches of foreign credit institutions (mEUR)	0,56	1,03	1,11
Expenditures	**2007**	**2008**	**2009**
Commercial banks (mEUR)	13,49	17,84	21,28
Cooperative banks (mEUR)	0,88	1,11	1,15
Branches of foreign credit institutions (mEUR)	0,58	0,98	1,13

Structure of registered capital and own funds of financial institutions in 2009 (million)

Type of financial institution	Registered capital	/Total assets	Own funds	/Total liab.
	000 EUR	%	000 EUR	%
Commercial banks	5 021,42	2,06	20 457,11	8,93
Cooperative banks	167,47	1,11	1 481,20	9,86

31.12.2009 EUR = 4,1082 PLN

2009 DEVELOPMENTS IN THE ROMANIAN BANKING SYSTEM

MACROECONOMIC ENVIRONMENT

With an average annual real GDP growth of 6.8% between 2004 and 2008, Romania was one of the fastest growing EU Member States. Growth was driven by a domestic demand boom for both consumption and investment, which was fuelled by a rapid expansion of credit and steadily increasing income expectations. Negative balance sheet effects and a sharp drop in export demand led to a 7.1%[30] contraction of real GDP in 2009. The decline of domestic demand contributed to the reduction of the current account deficit to a more sustainable level in 2009 (4% of GDP). HICP inflation was smaller in 2009 (5.6%) than that of the previous year (7.8%). Romania's budget deficit increased from 5.4% of GDP in 2008 to 8.3% in 2009. As a result, the government debt-to-GDP ratio reached 23.7% of GDP in 2009, up from 13.3% the year before.

Romania received the support of the EU, IMF, WB and EBRD through a stand-by agreement for a period of 24 months (May 2009 - May 2011) in an amount equivalent to EUR 19.95 billion. This amount includes EUR 12.95 billion from IMF, EUR 5 billion balance of payments financing facility from EU and other multilateral commitments of EUR 2 billion from World Bank and EBRD. Among the conditionality are **fiscal policy strengthening**: i) gradual reduction of the fiscal deficit from 7.3% (2009), 6.8% (2010), 4.4% (2011) to 2.9% (2012); **monetary and financial sector policy enhancement**: i) bring inflation within the NBR's target range and keep it there; ii) improve safety net; iii) continue to improve the banking supervisory and regulatory framework; iv) ensure sufficient resources to cover any potential shortfalls revealed by the stress tests, maintain adequate bank capitalization (above 10% over the program) and liquidity.

DEVELOPMENT IN THE BANKING SYSTEM

At end-2009, there were 42 credit institutions operating in Romania (41 banks and one credit cooperative organisation). As for banking system composition by equity ownership, 2 banks were state-owned, 5 had majority domestic private capital (including credit cooperative organisation), and 35 had majority privately-owned foreign capital (including branches of foreign banks). Majority privately-owned banks held 92.7 percent of total assets in the Romanian banking system, the remaining 7.3 percent being accounted for majority state-owned banks. Moreover, the share of assets owned by banks with majority foreign capital, including branches of foreign banks, ran at 85.3 percent of total. Due to the contraction of the GDP from 515 billion lei in 2008 to 491 billion lei in 2009, the banking assets and non-government loans in GDP added 6.1 percentage points and 3.9 percentage points respectively, amounting to 67.2% and 44.6% respectively at December-end 2009.

[30] Figures for macroeconomic environment development in 2009 are estimative.

In terms of capital requirements, the Romanian banking system remains adequately capitalised. At the end of 2009, the capital adequacy ratio stood at 14.67%, well above the regulatory threshold of 8%. At the individual level, there are no banks under the 10% level; moreover about 20 banks are above the system average. Also, the liquidity indicator remained at a reassuring level in 2009, respectively 1.38 which is higher than 1 regulatory level).

However, the economic downturn has increasingly impacted the quality of loan portfolios and credit demand. Non-performing loans (loans classified in loss category with debt service over 90 days) increased in 2009 and reached roughly 8% at December-end 2009. During the peak of the crisis the largest parent banks involved in the European Bank Coordination Initiative have broadly maintained their exposure to Romania in order to ensure a viable and stable financial sector, in particular by putting in place sufficient buffers in the banking system to face direct and indirect credit risks.

After a solid financial performance during the boom years, mainly due to large profits generated by intense credit activity, the Romanian banking sector was put under stress in 2009. Although the banking sector has been resilient to the crisis so far, the financial results are significant lower comparing with the similar period of the previous year. The banking system ended 2009 with profit (net profit of 816 million lei) and despite the unfavourable context on the global and local market, the Romanian banking system succeeded to preserve the positive trend in terms of profitability even in the first quarter of 2010 (net profit of 440 million lei). Thus, the two profitability ratios, ROA and ROE, exceed the level of December 2009 being 0.55% comparing with 0.25% in first case and 5.96% comparing with 2.89% in second case.

THE LEGAL AND INSTITUTIONAL FRAMEWORK OF THE OPERATION AND SUPERVISION OF FINANCIAL INSTITUTIONS, NEW DEVELOPMENTS. LEGAL COMPETENCE OF THE ROMANIAN BANKING SUPERVISORY AUTHORITY

With regard to the primary legislation applicable to the banking system, Government Emergency Ordinance No.99/2006 has been amended by Government Emergency Ordinance No.25/2009 in order to ensure the transposition of the Directive No.2007/44/EC which introduced identical procedural rules and strict evaluation criteria for the prudential assessment of acquisitions and increases holdings in the financial sector among Member States of EU.

Measures have also been taken to strengthen the National Bank of Romania’s remedial powers with provisions allowing it, after assessing the financial condition of the credit institution, to request that significant shareholders financially support the bank in distress, and/or to prohibit or limit profit distributions until the financial condition of the credit institution is restored.

The deposit guaranty scheme was amended in order to provide an explicit mechanism for declaring the unavailability of deposits by the supervisory competent authority, National Bank of Romania.

MAIN STRATEGIC OBJECTIVES OF THE SUPERVISORY AUTHORITY IN 2009

In the international context, the first objective of NBR from the supervision point of view was to limit the impact of the international crisis on the local banking market. At that time the most likely way to affect domestic credit institutions condition appeared to be the liquidity channel. Thus, the NBR has taken a number of important measures to manage developments in this field. Also, measures to strengthen banks capital positions and to maintain access to external finance have had a high priority.

THE ACTIVITIES OF THE BANKING SUPERVISORY AUTHORITY IN 2009

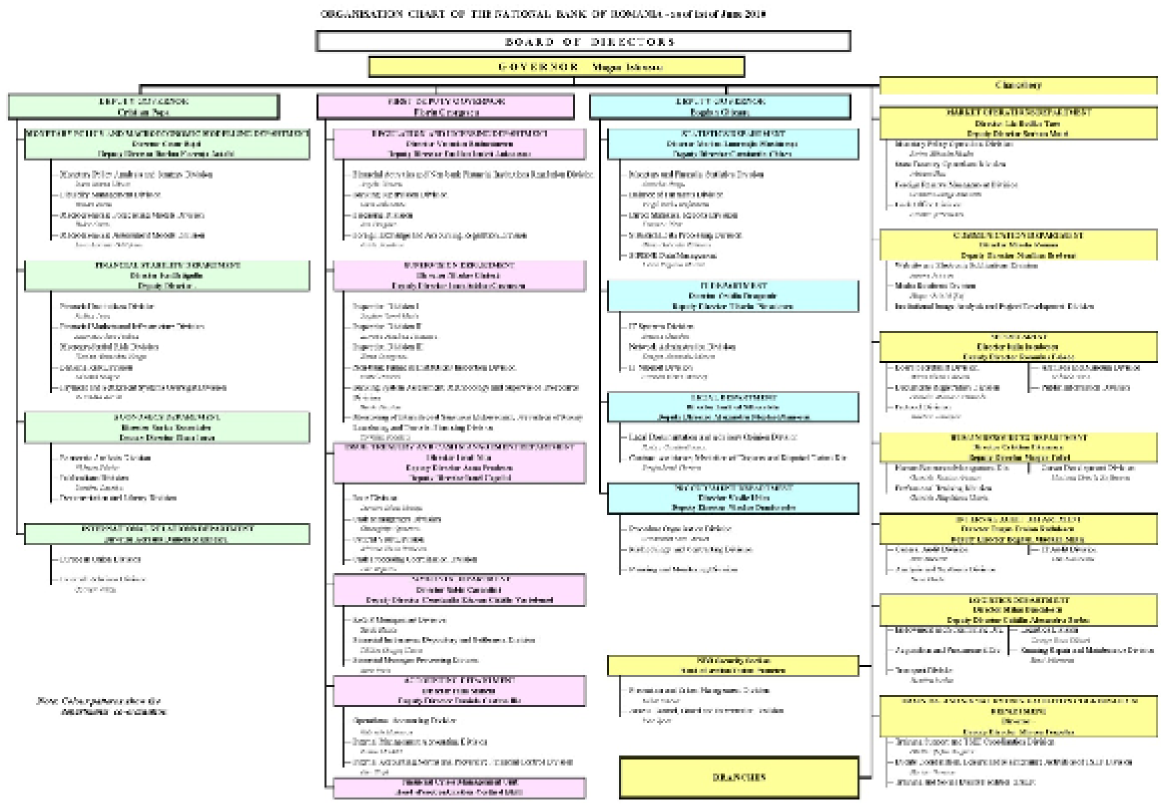
The NBR measures aimed on those changes needed to make a more flexible framework for banks activities and to support banks in dealing with the crisis implication. Some of than were related to the own funds structure (April 2009), banks have being allowed to include in own funds the following items: interim profits obtained during the year until the end of the current financial year and profits at the end of the financial year until the approval of the balance sheet (January-May of the following year). The situation also required i) an adjustment in the provisioning regime (starting April 2009) that allowed banks to deduct 25% (instead of 0%) of the collateral from the gross value of the loans with debt service of over 90 days and/or judicial proceedings initiated, and ii) changes in the regime of restructured loans, new approach allowing banks to rank these loans in a better loan classification category and, implicitly, to reduce provisioning level. In the field of liquidity regulation, NBR increased the adjustment coefficients for fixed income securities, from 90% to 95% in case of maturities less than one year and from 70% to 90% in case of maturities over one year, and applied a 40% adjustment coefficient on demand deposits, instead of 100%.

With regard to closely monitoring of the soundness of the credit institutions, NBR paid a lot of attention to monitor inter-bank market developments and to optimize the management of liquidity imbalances at the level of individual banks. Based on the individual assessments and case by case basis, Supervision Department required banks to put in place alternative financing agreements and/or to diversify the financial resources; to purchase a portfolio of treasury bills representing in some cases at least 3% of the balance sheet liabilities; to purchase T bills to at least 2% of bank assets; to set up liquidity risk management scenarios; to diversify financing resources in order to decrease high levels of concentration against any single counterparty; to improve the credit/deposits ratio.

The NBR also strengthen capital adequacy monitoring system and has requested some banks to submit solvency ratio on monthly basis instead of quarterly as rule provides; to increase share capital or to reach and maintain a certain level of solvency ratio. In conjunction with its supervisory measures to ensure bank capital adequacy, the NBR has also used stress testing techniques to assess the potential vulnerability of bank capital positions, with a view to ensuring that all banks remain adequately capitalized even in the event of adverse developments.

In this context, the NBR has conducted stress tests on the Romanian banking system based on macroeconomic scenarios. The stress test results were used to assess potential ex ante capital needs for individual banks to maintain a minimum solvency ratio of 10 percent.

ORGANISATIONAL CHART OF THE BANKING SUPERVISORY AUTHORITY



INTERNATIONAL ACTIVITIES OF NBR

NBR considered that the co-operation enhancement among the central banks is essential for the future development and stability in the region. Also, looking to the importance of the international financial groups and their large presence on the Romanian market, NBR acted to enhance cooperation and coordination with foreign supervisory, especially with those from EU, both on bilateral and multilateral level.

In this respect, the NBR formalized the bilateral cooperation with eleven foreign supervisory authorities (National Bank of Moldova, Supervision and Regulation Agency from Turkey, Central Bank of Cyprus, Bank of Italy, Bank of Greece, Federal Office for Banking Supervision from Germany, Nederlandsche Bank N.V., Banking Commission from France, Austrian Financial Market Authority, Hungarian Financial Supervisory Authority, and Bank of Portugal). In June 2010 a new Memorandum of Understanding with Bank of Spain was added to these.

Cooperation and coordination within the Supervisory Colleges started to receive an increasingly importance for the NBR activity. Up to now, NBR concluded multilateral cooperation agreement at the level of 14 groups (Crédit Agricole, Unicredit, Intesa Sanpaolo, Erste Bank, Raiffeisen Zentralbank, Volksbank, Société Générale, ING Bank, Banco Comercial Portugues, OTP, Alpha Bank, RBS, National Bank of Greece, Marfin Popular Bank).

Exchange of information focused on the groups and their subsidiaries financial condition, groups risk profile, their business strategy, main findings of the supervisory teams, coordination between foreign supervisory authorities and setting up of the on-site inspections plans, as well as other specific issues related to Basel II implementation. The regular exchange of information, both quantitative and qualitative, facilitated the reduction of overlapping and contributed to the co-ordination between supervisors.

The area in which co-operation needs progress to be made is the new task on Joint Risk Assessment, an essential instrument in the process of reviewing and evaluation the capital adequacy at the consolidated and solo level. It is recognized that different supervisory authorities will use different types of evaluation process and that there may be differences in the emphasis on qualitative versus quantitative judgments. A set of certain common minimum standards for the Supervisory Review and Evaluation Process (SREP) is needed in order to foster consistency across colleges.

Moreover, on 26 March 2009, nine large international banks signed a memorandum to support their subsidiaries in Romania in order to: (i) confirm that these affiliates' good financial standing will be preserved throughout the period of market turbulences and economic slowdown; (ii) demonstrate the long-term commitment to the development of the Romanian economy; and (iii) signal their readiness to contribute to the efforts of the international community to put in place comprehensive and well-coordinated measures to counter the effects of the financial crisis.

COOPERATION WITH OTHER SUPERVISORY BODIES IN ROMANIA

In 31 July 2007, an agreement on the co-operation in the field of financial stability and financial crisis management between the Ministry of Public Finance, National Securities Commission, National Bank of Romania, Insurance Supervisory Commission, Private Pension Supervision Commission, had been concluded. The parties undertake to co-operate in view to exchange and disseminate the information among them on this issue, both in normal and in crisis time. As a result, the National Committee for Financial Stability was established (NCFS). During its meetings, the participants examined the key measures that have been taken with a view to strengthening financial stability at national and international level. In this context, discussions focused on the terms of the multilateral precautionary arrangement agreed between Romania and the International Monetary Fund, the European Union, the World Bank, and the European Bank for Reconstruction and Development.

The authorities assessed the latest developments in the field of financial sector supervision and financial crisis management in the context of ECOFIN Council (9 June 2009) and European Council (18-19 June 2009) conclusions regarding the improvement of the framework for financial supervision in the European Union. At the same time, talks focused on the main issues of financial regulation and supervision system reform proposed by the US government, as well as the European rules regarding state aid and their implications on financial institutions restructuring.

STATISTICAL TABLES

Number of financial institutions (head offices/branches) (at year-ends)

Type of financial institution	2007	2008	2009
Commercial Banks	31	32	31
Branches of Foreign Banks	10	10	10
Credit cooperatives	1	1	1
Financial Institutions, total	**42**	**43**	**42**

Ownership structure of the financial institutions on the basis of registered capital (%) (at year-ends)

Type of financial institution	2007	2008	2009
Public sector Ownership	12.7	11.4	12.2
Other Domestic Ownership	8.7	11.4	11.3
Domestic Ownership, Total	21.4	22.8	23.5
Foreign Ownership	78.6	77.2	76.5
Financial Institutions, total *	**100**	**100**	**100**

*) excluding Credit cooperatives

Ownership structure of the financial institutions on the basis of assets total (%)

Type of financial institution	2007	2008	2009
Public sector Ownership	5.4	5.2	7.3
Other Domestic Ownership	6.9	6.6	7.4
Domestic Ownership, Total	12.3	11.8	14.7
Foreign Ownership	87.7	88.2	85.3
Financial Institutions, total *	**100**	**100**	**100**

*) excluding Credit cooperatives

Concentration of assets by type of financial institutions as of December 2009(%)

Type of the financial institutions	FOREX assets / Total assets	FOREX liabilities / Total liab.
Credit institutions*	39.7	52.4
Financial institutions	-	-
Savings cooperatives	-	-
Specialized credit institutions	-	-

*) Banks, foreign banks branches and credit cooperatives

Return on Asset (ROA) by type of financial institutions (%)

Type of financial institution	2007	2008	2009
Credit institutions*	1.01	1.56	0.25
Financial institutions	-	-	-
Savings cooperatives	-	-	-
Specialized credit institutions	-	-	-

*) Banks, foreign banks branches and credit cooperatives

Return on Equity (ROE) by type of financial institutions (%)

Type of financial institution	2007	2008	2009
Credit institutions*	1.01	1.56	0.25
Financial institutions	-	-	-
Savings cooperatives	-	-	-
Specialized credit institutions	-	-	-

*) Banks, foreign banks branches and credit cooperatives

Distribution of market shares in balance sheet total (%) (groupage of acting banks according to capital)

Type of financial institution	2007	2008	2009
Commercial Banks	94.8	94.2	92.4
Branches of Foreign Banks	5.0	5.6	7.4
Credit cooperatives	0.2	0.2	0.2
Financial Institutions, total	**100**	**100**	**100**

The structure of assets and liabilities of the banking system (%) (at year-end)

Assets	2007	2008	2009
Cash and Claims on Banks	33.1	25.3	18.9
Net Loans	59.6	66.6	66.3
Securities	3.9	3.9	11.2
Fixed Assets and Other Assets	3.4	4.2	3.6
Total Assets	**100**	**100**	**100**
Liabilities	**2007**	**2008**	**2009**
Due to Other Banks and Financial Institutions	29.4	31.7	30.5
Due to Clients	56.3	52.7	55.3
Other Liabilities	3.6	6.5	5.6
Own Capital	10.7	9.1	8.6
Total Liabilities and Capital	**100**	**100**	**100**

*) including Credit cooperatives

Development of off-balance sheet activities (off balance sheet liabilities / balance sheet total) (%)

Type of financial institution	2007	2008	2009
Commercial Banks	18.0	17.0	13.6
Branches of Foreign Banks	20.5	27.1	21.6
Credit cooperatives	0.8	1.2	0.0
Financial Institutions, total	**18.1**	**17.6**	**14.2**

* commitments in favor of banking and non-banking customers

Solvency ratio of financial institutions

Type of financial institution	2007	2008	2009
Commercial Banks	13.7	13.7	14.6
Branches of Foreign Banks	-	-	-
Credit cooperatives	34.0	31.7	31.4
Financial Institutions, average	**13.8**	**13.8**	**14.7**

Asset portfolio quality of the banking system
Mill EUR

Asset Classification	2007	2008	2009
Standard	21,618	32,106	28,625
Watch	17,619	11,887	10,205
Substandard	2,303	3,489	3,994
Doubtful	575	1,002	1,567
Loss	1,035	2,153	5,422
Classified Total	43,150	50,637	49,813
Specific Reserves	370.5	335.7	310.7

According to the classification statement of Commercial Banks

The structure of deposits and loans in 2009 (%)
(at year-end)

	Deposits	Loans
Households	35.3	15.7
Government Sector	-	19.0
Corporate	21.8	15.9
Foreign	35.6	48.7
Other	7.3	0.7
Total	**100**	**100**

The structure of deposits and loans in 2009 (%)
(at year-end)

Maturity of Deposits		Maturity of Loans	
At sight	32.6	Short-term	37.6
Within one year	63.6	Medium-term	16.2
Over one year	3.8	Long-term	46.2
Total	**100**	**Total**	**100**

Proportion of Foreign Exchange Assets and Liabilities* (at year-ends)

Type of the financial institutions	FOREX assets / Total assets			FOREX liabilities / Total liab.		
	2007	2008	2009	2007	2008	2009
Commercial Banks	50.6	Na	Na	42.7	Na	Na
Branches of Foreign Banks	53.1	Na	Na	37.2	Na	Na
Credit cooperatives	0.1	Na	Na	0.1	Na	Na
Financial Institutions, average	**50.6**	**Na**	**Na**	**42.3**	**Na**	**Na**

*From January 1st 2008 the figures are computed from FINREP and COREP reports and are not available in requested shape

Structure of revenues and expenditures of financial institutions (at year-ends)

Revenues	2008	2009
Total operating income	**100.0**	**100.0**
Net interest income	44.8	44.1
Net fees and commissions	24.2	20.9
Net income from securities	0.5	0.6
Net gains (losses) on financial operations	26.6	22.1
Other operating income	3.9	12.3
Total operating expenses	**100,0**	**100,0**
Personnel expenses	42.0	31.8
Depreciation	7.1	6.4
Other administrative expenses	36.0	25.2
Other operating expenses	14.9	36.6

Structure of registered capital and own funds of financial institutions in 2009

Type of financial institution	Registered capital	/Total assets	Own funds	/Total liab.
	Mill. EUR	%	Mill. EUR	%
Commercial Banks	3,243.0	4.5	6,866.5	9.5
Branches of Foreign Banks	130.5	2.3	252.9*	4.4
Credit cooperatives	28.8	15.5	51.2	27.6
Financial Institutions, total	**3,402.3**	**4.4**	**7,170.6**	**9.2**

** own capital*

2009 DEVELOPMENTS IN THE RUSSIAN BANKING SYSTEM

MACROECONOMIC SITUATION IN RUSSIA

The situation in the Russian economy remained tense in 2009 amid the global crisis, especially in the first half of the year. Output in most types of economic activity was observed to decline amid a contraction in external and domestic demand while unemployment was on the rise. However, as the global economic situation stabilised, world oil prices started to grow again and the government's anti-crisis measures had their positive effect on the Russian economy, production decline slowed down considerably by the end of the year.

Russia's GDP shrank by 7.9% in 2009 year on year (it grew by 5.6% in 2008) while fixed capital investment fell by 16.2% (it increased by 9.9% in 2008).

Russia's external debt decreased in 2009 for the first time since 2002 largely due to the reduction of banks' foreign liabilities. However, the debt burden on the Russian economy[1] increased over the year to 38.0% of GDP from 28.7% of GDP. Net private capital outflow decreased by a factor of 2.4 to $56.9 billion. Russia's international reserves grew by $12.8 billion in 2009 to $439 billion as of 1 January 2010.

The number of people employed in the Russian economy contracted in 2009 for the first time in the past six years. The number of jobless increased by 31.7% over the year. The total number of unemployed increased to 8.4% of the economically active population in 2009 (6.4% in 2008).

Government support measures contributed to certain increase in household income. Real household disposable money income grew by 2.3% in 2009 (1.9% in 2008). Pensions were raised four times in 2009; their real size increased by 10.7% over the year. At the same time, the tense economic situation, the growth in the number of unemployed, the contraction of real wages caused a decrease in household consumer spending. Household expenses on final consumption fell by 7.7% in 2009 (they grew by 10.8% in 2008). As a result, the public propensity for organised savings[2] registered 14.5% in 2009 as against 5.3% in 2008.

As in 2008, fixed capital investment was financed mostly by raised funds in 2009.

There was a slowing of growth in working assets due to organisations' reduced production activity. The organisations' opportunities to borrow funds also narrowed. The restructuring by banks of a part of organisations' liabilities provided certain support to organisations in the economic conditions prevailing at that time.

The economic decline caused by the global crisis was accompanied by a contraction in consumer demand, which was a major factor restraining price growth on the consumer market. Consumer price inflation decreased by 4.5 percentage points in 2009 year on year to 8.8% (December on December). As a

[1] External debt to GDP ratio.
[2] Organised savings to income ratio.

result, the prices of foodstuffs and paid services provided to the public grew slower in 2009 than in 2008.

BANKING SECTOR DEVELOPMENT

Despite some turbulence in the banking sector in 2009, the ratios between most key indicators characterising its role in the economy and GDP increased. First of all, this was attributable to a considerable reduction in GDP nominal value. The ratio of banking sector assets to GDP increased by 7.7 percentage points in 2009 year on year to 75.3%. The banking sector capital to GDP ratio grew by 2.6 percentage points in 2009 from 2008 to 11.8%.

Household deposits were the main source of credit institutions' resource base in 2009. The ratio of household deposits to GDP increased by 4.9 percentage points to 19.2% (their proportion in the banking sector's liabilities measured 25.4% in 2009 as against 21.1% in 2008). The ratio of non-financial organisations' deposits to GDP grew by 2 percentage points to 14.0%.

As in 2008, loans prevailed in the structure of banking sector assets in 2009. The ratio of aggregate bank loans to GDP grew by 2.8 percentage points to 50.8%. At the same time, their share in the banking sector's total assets decreased by 3.5 percentage points to 67.4%. The ratio of loans to non-financial organisations and households to GDP grew by 1.4 percentage points to 41.3%. Investment in equities demonstrated the fastest growth; however, its value relative to GDP remained low (at about 1%).

LEGISLATIVE AND INSTITUTIONAL FRAMEWORKS FOR THE ACTIVITY OF CREDIT INSTITUTIONS AND BANKING SUPERVISION, MAIN CHANGES. SUPERVISORY AUTHORITY'S LEGAL COMPETENCE

In accordance with Federal Law No. 86-FZ of July 10, 2002, "On the Central Bank of the Russian Federation (the Bank of Russia), the Bank of Russia is the body of banking regulation and supervision whose main objectives are to maintain the stability of the national banking system and protect the interests of creditors and depositors. For these purposes, the Bank of Russia carries out ongoing supervision of compliance by credit institutions and banking groups with banking laws, anti-money laundering and counter-terrorist financing legislation, Bank of Russia regulations and required ratios.

To tighten control over the use by credit institutions of government funds allocated for the support of the Russian financial system amid the global crisis, Federal Law No. 317-FZ of December 30, 2008, "On Amending Articles 46 and 76 of Federal Law No. 86-FZ of July 10, 2002, on the Central Bank of the Russian Federation (the Bank of Russia)," introduced in 2009 the institution of Bank of Russia authorised representatives.

In the follow-up of this Law, the following documents were prepared and issued:

- Bank of Russia Ordinance No. 2182-U of February 9, 2009, "On the Procedure for Appointing Bank of Russia Authorised Representatives, Fulfilling and Terminating their Duties" (endorsed by the Russian Government), which sets requirements for Bank of Russia employees who could be appointed as Bank of Russia authorised representatives, and establishes the procedures for appointing them, fulfilling and terminating their activities, including their powers to participate on a non-voting basis in the meetings of credit institutions' chief executives, as well as bodies of credit institutions responsible for making decisions regarding lending and asset and liability management;

Bank of Russia Ordinance No. 2181-U of February 9, 2009, "On the Procedure for Presenting by Credit Institutions Information and Documents to Bank of Russia Authorised Representatives," which sets the procedure for a credit institution to provide information to a Bank of Russia authorised representative about its plans to strike deals (operations) as stipulated by the Law, as well as other information defined by the Law that could be provided by the credit institution at the request of a Bank of Russia authorised representative.

To introduce the internationally accepted Pillar 1 of Basel II[31] to its regulatory framework, Bank of Russia issued Ordinance No. 2324-U of November 3, 2009, "On Amending Bank of Russia Instruction No. 110-I of January 16, 2004, on Banks' Required Ratios." This set a procedure for implementing Basel II simplified standardised approach towards credit risk assessment. At the same time, Bank of Russia Regulation No. 346-P, dated November 3, 2009, "On the Procedure for Calculating Operational Risk," established a procedure for measuring operational risk using Basel II basic indicator approach, for the purpose of calculating capital adequacy (N1) ratio.

In view of the use of country ratings in the prudential regulation system (within the framework of Basel II simplified standardised approach), the Bank of Russia issued Ordinance No. 2321-U of November 3, 2009, 'On Amending Bank of Russia Regulation No. 313-P, Dated November 14, 2007, on the Procedure for Calculating Market Risk by Credit Institutions,' Ordinance No. 2322-U of November 3, 2009, 'On Amending Bank of Russia Regulation No. 283-P, Dated March 20, 2006, on the Loss Provision Procedure for Credit Institutions,' and Ordinance No. 2323-U of November 3, 2009, 'On Amending Bank of Russia Regulation No. 254-P, Dated March 26, 2004, on the Procedure for Making by Credit Institutions Provisions for Possible Losses on Loans, Loan and Similar Debts.' This made the necessary changes connected with the transition, within the framework of the capital adequacy calculation system, to country ratings, from an approach based on the categorisation of countries as 'the group of developed nations.'

To settle the problem of the additional capitalisation of the banking sector, the possible sources of Tier 1 capital (core capital) of a credit institution were expanded to include:

- a new kind of subordinated instruments, such as a subordinated loan with additional terms and conditions. The term of the loan is at least 30 years, and the instrument also provides for the non-repayment and non-accrual of interest (coupon) income and loss coverage in the event of the implementation of bankruptcy prevention measures against the credit institution. An early repayment of this subordinated loan may take place no sooner than 10 years after it was extended, under the simultaneous condition that the interest rate may be raised if the early repayment does

[31] International Convergence of Capital Measurement and Capital Standards. A Revised Framework. Comprehensive version, Basel Committee on Banking Supervision, June 2006.

not take place (Bank of Russia Ordinance No. 2241-U of June 1, 2009, 'On Amending Bank of Russia Regulation No. 215-P, dated February 10, 2003, on the Methodology of Determining Credit Institutions' Capital');

- a part of the authorised capital of credit institutions in the form of a joint-stock company, created as a result of the issue and placement of preferred shares pursuant to the Federal Law on Using Russian Federal Government Securities to Increase the Capitalisation of Banks (Bank of Russia Ordinance No. 2329-U of November 11, 2009, 'On Amending Bank of Russia Regulation No. 215-P, dated February 10, 2003, on the Methodology of Determining Credit Institutions' Capital').

In addition, other amendments were made to the regulatory framework for credit institutions' activities aimed at developing risk-based supervision, improving corporate governance, assessing the operations of credit institutions, the systems of compiling and analysing reports.

MAIN STRATEGIC OBJECTIVES OF THE SUPERVISORY AUTHORITY IN 2009

The Bank of Russia's principal activities aimed at improving banking supervision in 2009 were as follows:

- - further developing risk-based supervision;
- - raising the quality of assessing the financial soundness of credit institutions;
- - preparing amendments to legislation and making changes in regulations to introduce international approaches defined within the framework of Basel II towards assessing credit institutions' capital adequacy;
- - upgrading approaches towards the procedure of making provisions for possible losses, in particular, specifying the methodology of making provisions for the portfolio of homogeneous loans, proceeding from the priority of content over form, liberalisation of the requirements for the assessment of the quality of loans extended to microfinance organisations and used for the provision of loans to small businesses and individuals;
- - improving approaches towards the regulation and supervision of liquidity risk and the methodology of calculating corresponding ratios;
- - upgrading approaches towards the assessment of risk assumed by credit institutions in lending to a group of economically related borrowers and related borrowers;
- - improving approaches towards assessing the quality of interest rate risk management at credit institutions, including the issues of organising the system of interest rate risk management at credit organisations in relation both to trading and bank (non-trading) portfolios of financial instruments sensitive to interest rate fluctuations;
- - improving consolidated reports and analysis of the risks of banking groups and banking holding companies on a consolidated basis;
- - improving approaches towards assessing the quality of corporate governance at credit institutions and managing all existing banking risks taking account of higher level of automation of banking activities, the development of information analytical systems and banking services technologies;

- - further improving the early warning system that prevents possible problems faced by credit institutions and the banking system as a whole;
- - upgrading the methodology and the tools of monitoring the financial stability of the banking sector, including the compilation of the IMF-coordinated financial soundness indicators on the banking sector.

THE ACTIVITIES OF THE BANKING SUPERVISORY AUTHORITY IN 2009

In 2009, the Bank of Russia issued regulations aimed at improving banking regulation and supervision, including the state registration of credit institutions, the licensing of banking activities, the organisation of off-site supervision, on-site inspection, financial rehabilitation and liquidation of credit institutions, and anti-money laundering and counter-terrorist financing.

In the field of off-site supervision, work was carried out in 2009 to continue developing substantive approaches towards the supervision of credit institutions' activities, which were oriented to identify risks really assumed by banks. The global crisis exposed the hitherto hidden risks in the activities of some credit institutions. The work to analyse the volume and the concentration of risks assumed by banks was significantly intensified, and the supervisory response to the development of unfavourable developments was accelerated.

In 2009, off-site supervision of credit institutions was exercised taking account of the crisis lessons and the external environment. Therefore, the Bank of Russia paid enhanced attention to the transparency of banks, and when necessary, it examined their large-scale operations (transactions) deprived of any economic sense and creating a real threat to the interests of creditors and depositors.

Off-site supervision focused on analysing the adequacy of credit risk assessments by banks. The supervisors examined virtually all aspects of the lending process, including the financial position of borrowers, ascertained whether they were really engaged in material production and/or the provision of services, established the sources of funds for the servicing and repayment of loans, the adequacy of risk assessment and provisions, and also the reliability of financial statements.

In 2009, special attention was paid to analysing the concentration of banking risks in various aspects. When measuring credit risk concentration levels, including those associated with real owners and affiliated persons, off-site supervisors used the principles of a substantive (informal) approach.

In 2009, they paid special attention to the amount of non-core and non-current assets, whose share of credit institutions' balances had grown considerably during the crisis. Therefore, supervisors carried out to further develop the assessment of the state of corporate governance in banks. In addition, they closely watched significantly increased volumes of operations conducted by banks with non-market securities, especially the shares of closed unit investment funds, to which banks had transferred their bad assets in some cases.

Control of interest rates on household deposits was raised to a new level in 2009: in the period under review, a system was created to monitor on a 10-day basis interest rates on household deposits denominated in the national currency, while work with banks for cutting unjustified deposit rates became more effective and substantive. Final results of the monitoring the highest interest rates of the top ten credit institutions in terms of the value of household deposits were regularly posted on the Bank of Russia's website.

Supervisors paid special attention to large, systemically important credit institutions of federal and regional significance. In this respect, they developed a "second line" of banking supervision, in accordance with which supervision of large banks is exercised by both the Bank of Russia regional branches and head office. To support the "second line" of supervision, an information system was developed to promptly inform the Bank of Russia management and the management and senior officials of supervisory divisions about the situation in credit institutions.

In 2009, the Bank of Russia head office and regional branches expanded contacts and operational interaction in supervising systemically important banks. This allowed them to expedite supervisory responses and make them more efficient whenever risk levels in credit institutions changed or banks launched operations requiring special attention. The Bank of Russia head office held in 2009 regular meetings with the managers and owners of banks that experienced financial difficulties and management problems.

The placement of Bank of Russia authorised representatives became a major step forward in expanding a range of tools used by bank supervisors to make credit institutions more transparent. As of the end of the year, Bank of Russia authorised representatives worked at 42 banks. These authorised representatives supplied the Bank of Russia with additional information on banks using government aid, including information characterising their financial standing and the quality of risk management. This practice created conditions for accelerating supervisory decision-making process. In addition to studying how banks were using government aid, authorised representatives with supervisors collected and analysed information on bank asset quality, including credit portfolios, securities portfolios, the liquidity level and other aspects of banking, implementing risk-based approaches. The participation of the Bank of Russia authorised representatives in the meetings of bank managers made it possible to better assess the decision-making system and procedures in credit institutions.

The Bank of Russia continued in 2009 to appoint curators to credit institutions in line with Bank of Russia Regulation No. 310-P of September 7, 2007, "On the Curators of Credit Institutions." As for international cooperation and the supervision of foreign credit institutions' subsidiaries, Bank of Russia supervisors continued to participate in the work of international supervisory colleges.

ORGANIZATIONAL STRUCTURE OF BANKING REGULATION AND SUPERVISION IN RUSSIA

The supervisory divisions of the Bank of Russia head office include the Banking Regulation and Supervision Department, Credit Institutions Licensing and Financial Rehabilitation Department, Financial Monitoring and Foreign Exchange Control Department and the Chief Inspection of Credit Institutions. The main tasks of these structural units are to provide methodological and organisational support for the Bank of Russia's legislatively-sealed functions in the sphere of banking regulation and supervision within the framework of the entire "supervisory cycle:" from the licensing of credit institutions, current supervision over their activities and inspection to financial rehabilitation and the implementation of measures, if necessary, to liquidate financially unstable credit institutions.

The supervisory divisions are run by the Bank of Russia's Banking Supervision Committee headed by the Bank of Russia First Deputy Chairman who is responsible for this area. The Committee is responsible for the drafting of decisions on the implementation of policies in the sphere of banking regulation and supervision.

The Bank of Russia implements its policy in the field of banking regulation and supervision over the activities of credit institutions through its regional branches (national banks and main territorial branches). As of 1 January 2010, there were 20 national banks and 59 main territorial branches operating within the Bank of Russia system.

INTERNATIONAL ACTIVITIES OF THE BANKING SUPERVISORY AUTHORITY

As a member of the Basel Committee on Banking Supervision (BCBS) since 2009, the Bank of Russia has been involved in the development of approaches towards regulation and supervision of credit institutions. The approaches adopted by the international community are to be implemented in Russia's banking regulation practices. In this connection, Bank of Russia representatives have joined the Financial Stability Council working group on cross-border crisis management, the BCBS (the Standards Implementation Group, the Accounting Task Force, the high-level group on macroprudential supervision, the microfinance group and the group on corporate governance) along with 17 sub-groups of the BCBS working groups.

As part of cooperation with the International Monetary Fund (IMF), Bank of Russia specialists took part in 2009 in meetings with a mission of the IMF European Department to discuss Article IV of the IMF's Articles of Agreement (from May 20 to June 2, 2009), and the IMF mission on the assessment of the current economic and financial situation in Russia (from November 30 to December 4, 2009) to discuss issues relating to the Russian banking sector and banking regulation and supervision.

The Bank of Russia also continued its participation in the IMF-Coordinated Compilation Exercise for the Financial Soundness Indicators (FSIs). Since 2009, the Bank of Russia has been compiling the FSIs on the banking sector and the government securities market on a semi-annual basis.

In 2009, the Bank of Russia took part in discussions of the concept of the World Bank's programme by sending its representatives to the Russian Finance Ministry's inter-agency working group to draft a project entitled "The Advancement of Financial Education and Financial Literacy in the Russian Federation."

In the year under review, the Bank of Russia specialists and experts with the European Central Bank (ECB) continued to work together within the framework of the European Union-financed "Banking Supervision (Basel II)" project. In accordance with the cooperation plan approved within the framework of the project, the Bank of Russia composed, jointly with Eurosystem experts, questionnaires for pilot banks geared at self-assessment of the compliance of their internal approaches to credit risk management with the contents and minimum requirements of the IRB-approach, and also the compliance of their risk management, internal control and capital planning systems with the provisions of Pillar 2 of Basel II. The Bank of Russia Work contacted the banks to get acquainted with the approaches, which they use for risk and capital management, including their assessment techniques.

In 2009, in line with an agreement (a Memorandum of Understanding) between them, the Bank for International Settlements (BIS) and the Bank of Russia implemented a project to translate into Russian and integrate 53 instruction courses of the computer-based teaching programme FSI Connect; these courses relate to banking regulation and supervision, and were developed by the BIS Financial Stability Institute. As of the end of 2009, 18 training courses were completed.

In addition, the Bank of Russia prepared information and analysis materials on the compatibility of Russian legislation and law enforcement practices with the core principles of the Organisation for Economic Cooperation and Development (OECD), in context of Russia's accession to this organisation. In July and November 2009, Bank of Russia representatives took part in consultations with OECD Secretariat's experts on issues relating to the regulation of the Russian financial services market.

The Bank of Russia continued bilateral interaction with foreign supervisors, including within the framework of agreements (memorandums) on cooperation in the field of banking supervision. By now, 29 bilateral agreements (memorandums) have been signed. In 2009, the Bank of Russia signed a Memorandum of Cooperation with the Central Bank of the Argentine Republic and continued to discuss draft memorandums of understanding with the supervisors of six countries. Information on the cooperation agreements (memorandums of understanding) and their texts are posted on the Bank of Russia's website at: www.cbr.ru.

The Bank of Russia also carried out interaction with foreign banking and financial supervisors by holding meetings on issues relating to banking regulation and banking supervision with representatives of foreign central (national) banks and banking (financial) supervisory authorities. In 2009, the Bank of Russia held consultations with representatives of the Austrian National Bank and the Austrian Financial Market Authority, the Netherlands Bank and the National Bank of Ukraine.

In the year under review, the Bank of Russia also cooperated with the supervisors of individual foreign states on a multilateral basis, within the framework of 'supervisory colleges', set up to improve interaction between supervisors in cross-border supervision. These included cooperation within the framework of fulfilling by the international community the G20-elaborated anti-crisis measures.

Supervisory colleges operate on a multinational basis as structures ensuring coordination of supervisory activities in relation to specific international banking groups and organise their work, including in compliance with multilateral agreements on cooperation and coordination signed by supervisors of home and host countries.

In 2009, the Banks/Financial Services subgroup operating under the aegis of the Russian-German Working Group on the Strategy of Economic and Financial Cooperation continued its work. It held its regular sessions in May 2009 in the city of Tula to discuss the issues relating to small and medium-sized businesses and banks in a market economy and the pension system. In December 2009, the subgroup convened in Berlin to discuss the creation of an international financial centre in Moscow, the effect of the financial crisis and G20 decisions on regulation in the sphere of banking supervision.

In addition, in 2009, the Bank of Russia took an active part in preparing analysis materials and reference information for meetings held within the framework of cooperation between the integrated bodies of the Eurasian Economic Community (EurAsEC) and the Council of the Central (National) Bank Governors of EurAsEC Member States. These included measures taken to support the the EurAsEC countries' banking sectors and financial markets amid the global crisis. It drafted bilateral agreements on information support for the participants in the EurAsEC integrated foreign exchange market, between the Central Bank of the Russian Federation and the supervisory authorities of the Republic of Belarus, the Republic of Kazakhstan and the Republic of Tajikistan.

In the period under review, the Bank of Russia also prepared comments and proposals on draft agreements to create a legal framework for the single economic space between the Russian Federation, the Republic of Belarus and the Republic of Kazakhstan (from October 2009 to January-February 2010).

COOPERATION WITH OTHER SUPERVISORY BODIES

In 2009, work was continued to expand interaction with executive authorities responsible for surveillance over financial and insurance companies.

In 2009, the Bank of Russia signed an Agreement on Information Exchange with the Federal Insurance Supervision Service.

Work is under way to sign an Agreement on Information Exchange with the Federal Financial Markets Service.

STATISTICAL TABLES

Number of financial institutions (head offices/branches) (at year-ends)

Type of financial institution	2007	2008	2009
Banks	1092	1058	1007
Non-bank credit institutions	44	50	51
Banking sector total	**1136**	**1108**	**1058**

Share in Aggregate Banking Sector Registered Authorized Capital (%) (at year-ends)

Type of ownership	2007	2008	2009
Russian credit institutions	79,9	76,0	78,8
including			
public sector ownership	22,6	23,7	23,1
other domestic ownership	57,3	52,4	55,7
Foreign-controlled banks (banks with non-resident interest in excess of 50%)	20,1	24,0	21,2
Banking sector total	**100,0**	**100,0**	**100,0**

Share in Aggregate Banking Sector Assets (at year-ends, %)

Type of ownership	2007	2008	2009
Russian credit institutions	82,8	81,3	81,7
including			
public sector ownership	36,3	37,5	39,2
other domestic ownership	46,5	43,8	42,6
Foreign-controlled banks (banks with non-resident interest in excess of 50 %)	17,2	18,7	18,3
Banking sector total	**100,0**	**100,0**	**100,0**

Credit Institutions Asset Concentration
(Share in assets, %)

Type of credit institutions	Three largest credit institutions (by assets)			Five largest credit institutions (by assets)		
	2007	2008	2009	2007	2008	2009
Banks	37,3	40,8	41,9	42,5	46,5	48,1
Non-bank credit institutions	88,4	93,4	87,3	91,5	95,2	90,1
Banking sector total	37,1	40,5	41,7	42,3	46,2	47,9

Return on Asset (ROA) by type of financial institutions (%)

Type of credit institutions	2007	2008	2009
Banks	3,0	1,8	0,7
Non-bank credit institutions	1,6	1,9	2,2
Banking sector total	**3,0**	**1,8**	**0,7**

Return on Capital (ROE) of credit institutions*
(at year-ends, %)

Type of credit institutions	2007	2008	2009
Banks	22,7	13,3	4,8
Non-bank credit institutions	57,2	57,6	50,8
Banking sector total	**22,7**	**13,3**	**4,9**

* Calculated as the ratio of the current years balance sheet profit to the average chronological value of assets (capital) over the accounting period.

Share in Aggregate Banking Sector Assets
(at year-ends, %)

Type of credit institutions	2007	2008	2009
Banks	99,53	99,32	99,64
Non-bank credit institutions	0,47	0,68	0,36
Banking sector total	**100,00**	**100,00**	**100,00**

Structure of Credit Institutions' Assets (at year-ends, %)

Asset	2007	2008	2009
Money, precious metals and gemstones	2,5	3,0	2,7
Accounts with the Bank of Russia	6,4	7,4	6,0
Correspondent accounts with banks	2,1	4,4	2,9
Securities acquired by banks	11,2	8,4	14,6
Of which:			
Russian government debt obligations	2,9	0,9	0,9
Loans	71,0	71,2	67,5
Other assets	6,8	5,6	6,3
Total assets	**100,0**	**100,0**	**100,0**

Structure of Credit Institutions' Liabilities (at year-ends, %)

Liabilities	2007	2008	2009
Banks' funds and profits	14,0	11,1	12,8
Loans received by banks from the Bank of Russia	0,2	12,0	4,8
Bank accounts	1,0	1,2	0,9
Loans, deposits and other funds received from other banks - total	13,9	13,0	10,6
Customer funds	60,9	52,6	58,2
Of which:			
Deposits of legal entities	35,0	31,3	32,5
Individuals deposits	25,6	21,1	25,4
Debt obligations issued	5,5	4,0	3,9
Other liabilities	4,5	6,0	8,7
Total liabilities	**100,0**	**100,0**	**100,0**

Development of Off-balance Operations (off-balance sheet positions/balance sheet assets (liabilities)) (at year-ends, %)

Type of credit institutions	2007	2008	2009
Banks	33,47	21,52	17,96
Non-bank credit institutions	124,61	2,63	0,00
Banking sector total	**33,90**	**21,39**	**17,90**

Capital Adequacy Indicator (at year-ends, %)

Type of credit institutions	2007	2008	2009
Banks	15,5	16,8	20,9
Non-bank credit institutions	117,3	37,2	103,8
Banking sector total	**15,5**	**16,8**	**20,9**

Quality of Banking Sector Loan Portfolio (at year-ends, as % of total loans)

Loan quality	2007	2008	2009
Standard loans	53,2	51,3	42,5
Non-standard loans	35,8	35,2	38,0
Doubtful loans	8,8	9,9	9,8
Problem loans	1,0	1,8	3,5
Bad loans	1,2	1,8	6,2
Loan loss provisions	**3,4**	**4,5**	**9,3**

Calculations are made according to Form 0409115 Section 1 "Information on the Quality of Loans, Loan and Similar Debts" (Bank of Russia Ordinance No, 1376-U, dated January 16, 2004, "On the List, Forms and Procedure of Compiling and Presenting by Credit Institutions Statements to the Central Bank of the Russian Federation").

Deposit and Loan Structure in 2009
(at year-ends, %)

	Loans, deposits and other funds raised by credit institutions	Loans, deposits and other funds provided by credit institutions
Government financial authorities and extra-budgetary funds*	9,3	1,2
Legal entities	25,4	60,6
Individuals	40,6	18,4
Banks	6,8	5,9
Non-residents **	18,0	13,9
Total	**100,0**	**100,0**

* Including the Bank of Russia,
** Including banks and other legal entities and individuals

Deposit and loan structure in 2009*
(at year-ends, %)

Loans, deposits and other funds raised by credit institution		Loans, deposits and other funds provided by credit institutions	
On demand	1,4	Long-term (over 3 years)	39,9
Less than 1 year	37,7	Mid-term (1-3 years)	25,7
Over 1 year	60,9	Short-term (less than 1 year)	34,4
Total	**100,0**	**Total**	**100,0**

* Excluding overdue debt,

Share of Foreign Currency Assets and Liabilities in Aggregate Banking Sector assets and liabilities
(at year-ends, %)

Type of credit institution	Foreign currency assets/ aggregate assets			Foreign currency liabilities/aggregate liabilities		
	2007	2008	2009	2007	2008	2009
Banks	23,2	32,3	27,7	23,0	28,4	25,3
Non-bank credit institutions	3,4	29,4	4,3	1,6	27,0	4,2
Banking sector total	**23,1**	**32,3**	**27,6**	**22,9**	**28,4**	**25,3**

Structure of Incomes and Expenses of Operating Credit Institutions (at year-ends, %)

	2007	2008	2009
1. Incomes, total	**100,0**	**100,0**	**100,0**
1.1. Interest income on funds provided to legal entities (without income on securities)	11,13	8,36	6,00
1.2. Interest income on loans to individuals	4,24	3,13	1,86
1.3. Incomes on securities	8,11	3,48	3,32
1.4. Incomes on operations with foreign exchange	36,90	62,27	71,96
1.5. Commissions received	4,51	2,85	1,50
1.6. Loss provisions recovery	25,78	12,84	11,45
1.7. Other incomes	9,33	7,07	3,91
Of which:			
1.7.1. penalties, fines, forfeits	0,19	0,16	0,17
2. Expenses, total (without income tax)	**100,0**	**100,0**	**100,0**
2.1. Interest expenses on funds raised from legal entities (without expenses on securities)	4,16	3,68	3,01
2.2. Interest paid to individuals	3,40	2,02	1,45
2.3. Expenses on operations with securities	6,21	3,55	2,17
2.4. Expenses on operations with foreign exchange	38,64	62,37	71,93
2.5. Commissions paid	0,48	0,38	0,18
2.6. Expenses on loss provisions	29,43	15,82	14,87
2.7. Management expenses (including personnel expenses)	6,12	3,91	1,98
2.8. Other expenses	11,56	8,28	4,41
Of which:			
2.8.1. Penalties, fines, forfeits	0,02	0,01	0,00

Structure of the Registered Authorized Capital and Equity Capital of Credit Institutions in 2009

Type of credit institution	Registered capital	/Total assets	Own funds	/Total liab.
	Mill. EUR	%	Mill. EUR	%
Banks	28 639,2	4,2	106 304,5	15,7
Non-bank credit institutions	40,5	1,7	189,1	7,8
Banking sector total	**28 679,7**	**4,2**	**106 493,6**	**15,7**

2009 DEVELOPMENTS IN THE SERBIAN BANKING SYSTEM

MACROECONOMIC ENVIRONMENT

Serbia suffered real economic downturn in 2009 largely in response to the global economic and financial crisis. GDP contracted by 3% in 2009 mainly due to a real drop in domestic demand that induced a fall in imports. Contraction in GDP was, however, softened by solid agricultural performance. The services sector rose by 1%. Trading volumes declined in real terms, whereas transport, telecommunications, financial intermediation and real estate activities recorded an increase. Government projections place GDP growth for 2010 at 1.5%.

On 1 January 2009, the National Bank of Serbia (NBS) started implementing inflation targeting as its official monetary policy strategy. To this effect, the NBS and the Government of the Republic of Serbia concluded the Agreement on Inflation Targeting. Owing to the new regime, inflation in 2009 was lowered relative to 2008 – consumer price growth reached 6.6%. In the second half of 2009, Serbia recorded deflation of 0.3%. Core inflation was lower than headline inflation, equalling 4.1%. The NBS continues to implement monetary policy under a managed floating exchange rate regime. In terms of the analytical basket of currencies, the dinar depreciated by 7.2% and 2.3% in nominal and real terms respectively.

Average wage growth slowed substantially from a year earlier – it reached 8.8% in nominal and mere 0.2% in real terms. Public sector wage bill increased nominally by 3.1% and declined by 5.1% in real terms. The recession also reflected in the jobless rate that rose from 13.6% (on average) in 2008 to 16.1% in 2009.

Serbia's public revenue reached RSD 1,111.7 billion (38.9% of GDP) while RSD 1,231.7 billion (43.1% of GDP) were recorded on the expenditure side. Fiscal deficit equalled RSD 120 billion (4.2% of GDP) and was in its major part financed via borrowing in the domestic financial market. End-2009 public debt came at EUR 9.8 billion with its share in GDP rising to 32%. Total external debt increased by EUR 2,940 million, of which two tranches under the IMF's Stand-By Agreement accounted for EUR 1,590 million.

Current account deficit declined appreciably to EUR 1.7 billion. Sharp balance of payments adjustment reflected in a lower current account deficit to GDP ratio (5.7% in 2009).

In 2009, NBS foreign exchange reserves rose by EUR 2.4 billion as a result of the disbursement of the IMF loan of EUR 1,132 million, SDR allocation of EUR 422 million and increased allocation of bank FX required reserves.

Dinar-denominated reserve money reached RSD 254.3 billion by end-2009, down by RSD 65.5 billion from end-2008. At end-2009, money supply M1 reached RSD 258.4 billion, up by 7.4% in nominal terms from end-2008 (0.7% in real terms). Money supply M2 equalled RSD 436.8 billion, up by 10.6% in nominal terms (3.7% in real terms).

The NBS key policy rate stood at 17.75% p.a. from 1 January to 21 January 2009, only to be gradually lowered to 9.50% until end-2009.

The main challenges in 2010 relate to unemployment and foreign trade deficit.

DEVELOPMENT IN THE BANKING SYSTEM (INCLUDING THE ASSETS TOTAL / GDP)

The financial system in the Republic of Serbia has been kept in a stable state during 2009 when a more intensive spill-over of the effects of the global financial crisis began. As a consequence, the banking sector, as the largest portion of the financial system of Serbia, has been facing blows against liquidity and portfolio quality since October 2008, which it has been resisting successfully, with an adequate and timely support from the central bank and the state. In 2009, the main support for a more serious threat to the stability of banks in Serbia were their strong capitalization and solid liquidity position, which were additionally strengthened by the support program rendered by the Government of the RS and the NBS.

The number of banks operating in the Republic of Serbia at the end of 2009 remained the same as in the previous year (34). Among 34 banks with banking license given by the NBS, 20 were foreign banks, 9 state controlled and 5 private banks. Share of foreign banks in total balance sheet assets was 74.3%, in total credit activity 75.7% and in total deposits 70.4%.

Banking sector total balance sheet assets growth rate was 21.6% in 2009 together with RSD depreciation rate of 8.2%.

Slowdown in credit activity during 2008, partly caused by the first effects of financial crises, continued in 2009 (14.9% v. 20.8% in 2008). To a significant extent, the growth of lending activity is a result of the government's stimulatory program (which is implemented through subsidized loans for liquidity and consumer loans, offered by banks) and several measures introduced by NBS (mainly through relaxation of rules for classification banks' receivables).

Slowdown in lending was one of the reasons for worsening of banks' credit portfolio. At the end of 2009 the share of NPL's in total loans granted was 8.53% net, while in absolute terms, their level reached EUR 1,032.8 million net. The most important sector both in terms of the volume of loans approved and its share in total NPLs is the sector of other enterprises, which share in total NPLs at the end of December 2009 is 76.4%.

Deposits recorded growth of 27.0% in 2009, mostly because of a growth in households' deposits (34.4% in 2009), whose share in the total bank funding sources amounts to 29.0% at the end of 2009. Namely, building up of FX household saving has been interrupted only in March 2009, so before-crisis level of 5,7 bill. EUR has been achieved in November 2009. At the end of 2009 total FX household saving reached 6.0 bills. EUR.

Also, banks recorded growth in own funding sources (6.5% in 2009) which resulted in still high proportion of own fund to total liabilities side of balance sheet (21%).

THE LEGAL AND INSTITUTIONAL FRAMEWORK OF THE OPERATION AND SUPERVISION OF FINANCIAL INSTITUTIONS, NEW DEVELOPMENTS. LEGAL COMPETENCE OF THE BANKING SUPERVISORY AUTHORITY IN SERBIA

Most of the measures that were taken in the last quarter of 2008, aiming to prevent or mitigate disturbances and preserve stability of Serbian banking and overall financial system, the NBS continued to implement during the 2009.

Some of the most important measures were defined by Financial Sector Support Program. Namely, in relation to the arrangement with the IMF, the National Bank of Serbia drew up special facilities tending to enable continuous access to sources of dinar and foreign exchange liquidity, to stabilize the forex market and maintain the quality of bank assets, as well as to reduce the outflow of foreign exchange and alleviate depreciation pressures. Parent banks assumed the obligations of maintaining the level of exposure of their groups towards the Republic of Serbia in 2009 and 2010 at the 31 December 2008 level, as well as maintaining the capital adequacy ratio and liquidity ratio in the prescribed level. If they comply with these obligations and meet other prescribed requirements, banks:

- can use short - term dinar loans which offer NBS,
- can use foreign exchange swap transaction with the NBS,
- do not need to calculate required reserves for loan and deposits collected from abroad by the end of 2010,
- for the classification of the receivables and instead of original maturity date, can use subsequently agreed maturity date.

And other prudential measures of the National Bank of Serbia, were mostly aimed at supporting liquidity, i.e. the solvency of banks (e.g. the possibility of including subordinated liabilities to the extent of 75% of the tier 1 capital, in calculation of regulatory capital) and to encourage credit growth (the limit of 200% of gross loans to households to tier 1 capital was abolished, the rules for classification were relaxed - banks are not obliged to take into account the effects of FX induced credit risk in the classification of claims or to calculate a special reserves for claims classified in category A).

MAIN STRATEGIC OBJECTIVES OF THE SUPERVISORY AUTHORITY IN 2009

The NBS has sought to ensure safety of banks' operations through enhanced supervision activities and to preserve high level of public confidence in banking sector in order to provide return of FX savings in banks' balance sheets.

The activities of the National bank of Serbia have been focused on an intensive monitoring of banks' liquidity and solvency. The one of the main goals was to encourage credit activity that slowed significantly. The NBS has continued to improve communication with commercial banks and Association of Serbian Banks, especially in the process of implementation Strategy for the Introduction of Basel II Standards.

The process of supervision is continuously adjusted to the recommendations and good practice of relevant international professional organizations. There is continues process of employee's training and education.

THE ACTIVITIES OF THE BANKING SUPERVISORY AUTHORITY IN 2009

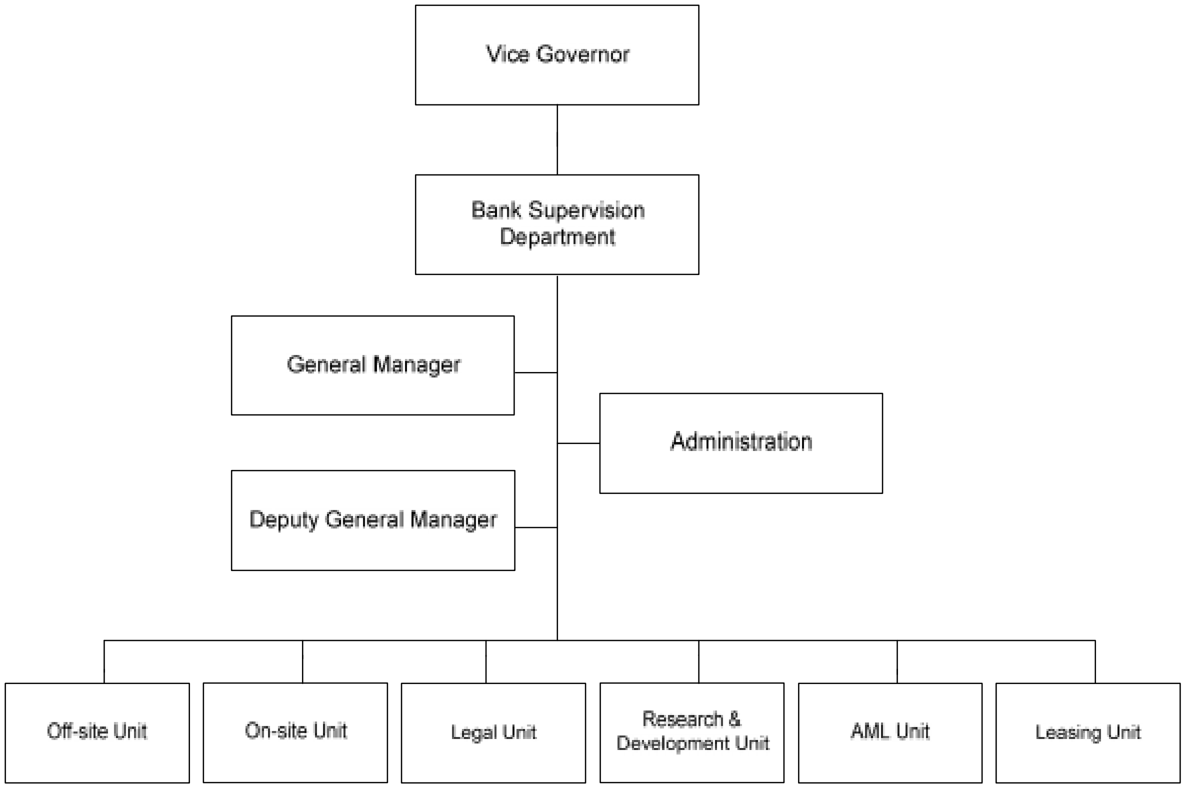
Within the FSSP and under the IMF Stand-by arrangement, the NBS has performed diagnostic studies in 31 banks, assessing the credit risk and its influence to capital adequacy. To estimate banking system's capability to preserve adequate solvency level in case of adverse macroeconomic trends, and based on results of diagnostic studies, the NBS has conducted stress tests developed in cooperation with the IMF. Stress tests have shown that in the case of adverse scenario materialization, no emergency recapitalization is needed for any of the banks in the program.

The IMF-World Bank FSAP Update mission conducted (during September 2009) review of NBS' measures being taken as a response to the previous FSAP mission's recommendations. Recommendations relating banking operating and banking supervision are largely implemented. Also, stress tests conducted within FSAP mission, showed that banking sector was highly resistant to projected negative trends in macroeconomic surroundings.

In accordance with amendments to the Operational Plan from February 2009, the Working group responsible for the implementation of Basel II framework, in addition to completing the first draft regulations from 2008, prepared the first drafts of the new set of decisions. The first draft of Guidelines on reporting on capital adequacy and capital requirements of banks has also been completed.

The activities on the development of rating systems and quantitative studies of influence of Basel II standards on capital adequacy of banks have also been continued. Within the scope of the quantitative impact studies, the Working group prepared a set of reports together with instruction for their filling. The second questionnaire on the implementation of Basel II standards at banks was conducted and, based on it, an analysis of the results for the entire banking sector was prepared. The main objective of the second questionnaire was an assessment of current situation, future development, identifying advantages and difficulties in introducing Basel II standards, as well as updating the data obtained by the first questionnaire and providing information relevant to the implementation of quantitative impact studies.

ORGANIZATIONAL CHART OF THE BANKING SUPERVISORY AUTHORITY



INTERNATIONAL ACTIVITIES OF THE AUTHORITY

The National Bank of Serbia has signed ten Memorandums of Understanding with foreign supervisory authorities and two multilateral agreements. The NBS is in the process of negotiating MoU-s with FMA (Austrian supervisory authority), BaFin (Germany) and Commission Bancaire (France), but has already established very successful cooperation with those supervisory authorities, since those authorities supervise parent banks that have its subsidiaries in Serbia.

Beyond signing Memorandums of Understandings, cooperation extended through:

- Participation at Supervisory Colleges organized by competent authority in Italy, Austria, Slovenia, Hungary, Greece and Belgium,
- Cooperation with foreign supervisory bodies (Croatian National Bank and Bank of Slovenia in preparation of Basel II related regulations),
- Participation in joint on-site exams,
- Sharing of information connected with granting the consent on appointment of members of Board of Directors and Executive Board of banks.

COOPERATION WITH OTHER SUPERVISORY BODIES IN SERBIA

In 2009, the NBS has signed Memorandum of Understanding with the Deposit Insurance Agency and the Administration for the Prevention of Money Laundering. The cooperation with the Securities Commission is carried out through periodic meetings and participation at round tables, especially during preparation of relevant regulations.

OTHER RELEVANT INFORMATION AND DEVELOPMENTS

The NBS was beneficiary of the „European System of Central Banks (ESCB) needs analysis for the National Bank of Serbia", which assessed the current regulatory and operational framework of the NBS, as well as its policies and practices against the standards of the EU. In the final report the technical mission of ESCB, gave the positive assessment of compliance and procedures that the NBS applies in the filed of banking regulations, as well as the recently implemented self assessment of compliance with the Basel Core Principles for Effective Supervision on the basis of which was determined „largely compliant" rating.

STATISTICAL TABLES

Number of financial institutions (head offices/branches)
(at year-ends)

Type of institution	2007	2008	2009
Banks	35	34	34
Financial leasing companies	17	17	17
Voluntary pension funds	7	10	10
Financial institutions, total	**59**	**61**	**61**

Ownership structure of the financial institutions
on the basis of registered capital (%)
(at year-ends)

Item	2007	2008	2009
Public sector ownership	11.5	10.3	12.0
Other domestic ownership	11.2	10.6	10.3
Domestic ownership total	22.7	20.9	22.3
Foreign ownership	77.3	79.1	77.7
Financial institutions, total	**100.0**	**100.0**	**100.0**

Ownership structure of the financial institutions on the basis of assets total (%)

Item	2007	2008	2009
Public sector ownership	14.9	15.0	16.7
Other domestic ownership	9.5	9.5	9.0
Domestic ownership total	24.4	24.5	25.7
Foreign ownership	75.6	75.5	74.3
Financial institutions, total	**100.0**	**100.0**	**100.0**

Concentration of asset by the type of financial institutions

Type of institutions	The first three largest (%)	The first five largest (%)
Bank	32.7	45.9
Financial leasing companies	53.1	65.9
Voluntary pension funds	81.8	96.1

Return on Asset (ROA) by type of financial institutions (%)

Type of institution	2007	2008	2009
Bank	1.7	2.1	1.0
Financial leasing companies	1.8	0.4	1.8
Voluntary pension funds	11.8	-7.0	15.5

Return on Equity (ROE) by type of financial institutions (%)

Type of institution	2007	2008	2009
Bank	8.5	9.3	4.6
Financial leasing companies	30.6	7.8	27.1
Voluntary pension funds	-	-	-

Distribution of market shares in balance sheet total (%)

Type of financial institution	2007	2008	2009
Banks	93.8	93.1	94.7
Financial leasing companies	6.0	6.6	5.0
Voluntary pension funds	0.2	0.3	0.3
Financial institutions, total	**100.0**	**100.0**	**100.0**

The structure of assets and liabilities of the banking system (%)
(at year-end)

Assets	2007	2008	2009
CASH AND CASH EQUIVALENTS	5.1	15.0	12.0
CALLABLE DEPOSITS AND LOANS	35.3	15.5	20.3
RECEIVABLES IN RESPECT OF INTEREST, FEES, SALE, CHANGE IN FAIR VALUE OF DERIVATIVES AND OTHER RECEIVABLES	0.4	0.6	0.6
GRANTED LOANS AND DEPOSITS	49.5	60.1	55.6
SECURITIES (EXCLUDING OWN SHARES)	1.2	1.1	4.2
INTERESTS (STAKES)	0.4	0.3	0.3
OTHER PLACEMENTS	2.9	2.1	2.0
INTANGIBLE ASSETS	0.4	0.4	0.3
FIXED ASSETS AND INVESTMENT PROPERTY	3.7	3.7	3.1
FIXED ASSETS FOR SALE AND ASSETS FROM DISCONT. OPER.	0.0	0.0	0.0
DEFERRED TAX ASSETS	0.2	0.2	0.1
OTHER ASSETS	0.9	1.0	1.5
Liabilities	**2007**	**2008**	**2009**
TRANSACTION DEPOSITS	19.2	15.3	14.0
OTHER DEPOSITS	42.2	42.4	46.3
LOANS RECEIVED	10.8	10.7	11.5
LIABILITIES IN RESPECT OF SECURITIES	0.2	0.0	0.0
LIABILITIES IN RESPECT OF INTEREST, FEES AND CHANGE IN FAIR VALUE OF DERIVATIVES	0.2	0.1	0.1
OTHER RESERVES	0.8	0.8	0.6
TAX LIABILITIES	0.0	0.0	0.0
LIABILITIES FROM PROFIT	0.0	0.1	0.0
DEFERRED TAX LIABILITIES	0.0	0.0	0.0
OTHER LIABILITIES	5.6	7.0	6.8
CAPITAL	21.0	23.6	20.7

Development of off-balance sheet activities
(off balance sheet liabilities / balance sheet total) (%)

Type of financial institution	2007	2008	2009
Banks	101.0	121.4	106,7
Financial leasing companies	0.8	2.8	4.1
Voluntary pension funds	-	-	-
Financial institutions, total			

Solvency ratio of financial institutions

Type of financial institution	2007	2008	2009
Banks	27.9	21.9	21.4
Financial leasing companies	15.1x	18.7x	11.4x
Voluntary pension funds	-	-	-
Financial institutions, total			

Asset portfolio quality of the banking system

Asset Classification	2007	2008	2009
A	353,572	550,834	596,173
B	287,040	297,251	279,295
C	159,122	133,472	175,561
D	32,302	81,334	111,879
E	102,422	114,639	187,617
Classified total	**934,458**	**1,177,531**	**1,350,525**
Specific reserves	**120,614**	**142,633**	**209,927**

* Because of changes in methodology, data of 2007 are not comparable with data of 2008 and 2009

The structure of deposits and loans in 2009 (%)
(at year-end)

	Deposits	Loans
Households	48.2	32.5
Government sector	5.9	5.3
Corporate	22.5	48.2
Foreign	14.3	0.8
Other	9.1	13.2
Total	**100.0**	**100.0**

The structure of deposits and loans in 2009 (%)
(at year-end)

Maturity of Deposits		Maturity of Loans	
At sight	36.1	Long term loans (over 1 year)	25.4
Within one year	59.7		28.2
Over one year	4.2	Short-term loans	46.4
Total	**100.0**	**Total**	**100.0**

Proportion of foreign exchange assets and liabilities
(at year-ends)

Type of the financial institutions	FOREX assets / Total assets			FOREX liabilities / Total liab.		
	2007	2008	2009	2007	2008	2009
Banks	28.2	21.5	24.0	53.6	55.0	60.2
Financial leasing companies	12.0	14.1	17.6	82.8	85.3	85.3
Voluntary pension funds	38.8	36.3	30.3	-	-	-
Financial Institutions, average	**27.2**	**21.1**	**23.7**	**55.3**	**57.0**	**61.4**

Structure of revenues and expenditures of financial institutions (at year-ends) %

Revenues	2007	2008	2009
INTEREST INCOME	16.2	14.7	21.3
FEE AND COMMISSION INCOME	5.3	3.7	5.3
GAINS ON SECURITIES	0.5	0.1	0.1
GAIN ON FOREIGN EXCHANGE RATE	58.5	54.3	37.7
DIVIDEND AND STAKE INCOME	0.2	0.1	0.0
OTHER OPERATING INCOME	9.2	7.6	13.6
INCOME FROM PROPERTY AND OBLIGAITONS VALUE CHANGE	10.1	19.5	22.0
Expenditures	**100.0**	**100.0**	**100.0**
INTEREST EXPENSES	7.1	6.0	8.8
FEE AND COMMISSION EXPENSES	1.2	0.9	1.4
LOSS ON SECURITIES	0.0	0.0	0.0
LOSS ON FOREIGN EXCHANGE RATE	59.4	61.2	44.0
EXPENSES FOR INDIRECTLY WRITE-OFF OF PLACEMENT AND PROVISIONS	10.7	10.0	18.2
OTHER OPERATING EXPENSES	11.4	8.5	12.1
EXPENSES FROM PROPERTY AND OBLIGAITONS VALUE CHANGE	10.2	13.4	15.5

Structure of revenues and expenditures of financial leasing companies (at year-ends) %

Type of financial institution	2007	2008	2009
Revenues	**100.0**	**100.0**	**100.0**
Operating income	2.7	1.8	2.9
Financial income	94.8	96.0	91.3
Other income	2.5	2.2	5.8
Extraordinary income	0.0	0.0	0.0
Expenditures	**100.0**	**100.0**	**100.0**
Operating expenses	8.8	5.9	9.3
Financial expenses	87.2	90.5	79.5
Other expenses	4.0	3.6	11.2
Extraordinary expenses	0.0	0.0	0.0

Structure of revenues and expenditures of voluntary pension funds (at year-ends) %

Type of financial institution	2007	2008	2009
Revenues	**100.0**	**100.0**	**100.0**
Profit from selling securities	2.6	0.3	0.9
Profit from impairment on the value of the securities	77.8	64.4	62.5
Positive exchange rate differentials	7.5	17.7	12.5
Profit from selling real property	0.5	0.0	0.0
Profit from impairment on the value of the real property	0.0	0.8	0.8
Interest income	9.1	15.7	22.4
Dividend income	2.5	0.9	0.7
Lease income	0.0	0.2	0.2
Other revenues	0.0	0.0	0.0
Expenditures	**100.0**	**100.0**	**100.0**
Loss from selling securities	2.6	1.8	0.6
Loss from impairment on the value of the securities	81.3	84.3	72.5
Negative exchange rate differentials	9.6	9.6	14.2
Loss from selling real property	0.0	0.0	0.0
Loss from impairment on the value of the real property	0.0	0.1	1.2
Expenses of fees to management companies	6.5	4.2	11.5
Other expenditures	0.0	0.0	0.0

Structure of registered capital and own funds of financial institutions in 2009

Type of financial institution	Registered capital	/Total assets	Own funds	/Total liab.
	000 EUR	%	000 EUR	%
Banks*	2,796,201	12.4	4,666,732	26.1
Financial leasing companies	93,308	7.9	-	-
Voluntary pension funds	-	-	-	-
Financial institutions, average	**2,889,509**	**12.2**	**4,666,732**	**26.1**

* Liabilities=Assets – own funds, registered capital=share capital, own fund= equity from balance sheet

2009 DEVELOPMENTS IN THE SLOVAKIAN BANKING SYSTEM

MACROECONOMIC ENVIRONMENT

In 2009, the global economy faced its deepest recession of the post-war era – the result of a sequence of events that began in 2007 with the US subprime mortgage crisis and then snowballed into a global financial crisis in the second half of 2008. World gross domestic product fell by 1.1% year-on-year, with the heaviest slump in output coming in the first quarter. Later in the 2009, the situation began to stabilise under the effect of a wide range of anti-crisis measures, and in the third quarter of the year a modest recovery began to take place. By the end of the year, however, economic activity had still not returned to its pre-recession level. Industry recorded a relatively deeper cyclical downturn, though it also made a quicker return to recovery. Exports of industrial goods were hit particularly hard, while the situation in services was somewhat more stable. Although the economic downturn touched almost all parts of the world, it differed sharply in extent from country to country and from region to region. In a departure from their historical development, advanced countries recorded a deeper slump. By contrast, the emerging market countries of South America and Asia – led by Brazil, India and, above all, China – made a quick return to rapid growth following the initial negative shock, and they thereby contributed significantly to a partial improvement in the situation in other parts of the world. The severe negative developments were felt also in central and Eastern Europe.

In Slovakia, too, the economic situation deteriorated. In 2008, the domestic economy posted growth of 6.2%, but in 2009 it contracted by a severe 4.7 %. Largely because it was heavily dependent on exports at a time of plunging external demand, the Slovak economy recorded compounded by its substantial exposure to the crisis-hit motor industry. But as the situation began to turn for the better, especially in the euro area, demand for Slovak exports also started to pick up, and in the third quarter of the year the domestic economy's quarter-on-quarter growth was among the highest recorded among euro area countries.

DEVELOPMENT IN THE BANKING SYSTEM

In terms of balance sheet position, the year 2009 can be considered with certainty to be a turning point for the banking sector. While the previous years had seen dynamic growth, the year under review can be characterised as one of disappointment. The economic crisis hit Slovakia with full force. Its adverse effects were also felt in sectors to which domestic banks have significant credit exposures. Banks reacted by restricting their investment activities in sectors with a worsening financial position, while investing more in conservative assets.

Lending to the corporate sector was restricted to a relatively significant extent. Reduced financing was observed in almost all of the sectors. Banks completely redefined the parameters of a recoverable loan.

Credit standards were tightened throughout 2009, mainly because of the worsening economic situation and the negative outlook for economic growth. On the other hand, the economic crisis also squeezed demand in the corporate sector, mainly for investment loans.

Compared with the corporate sector, lending to households was affected by the financial and economic crisis with a certain lag. Household loans, unlike corporate loans, still showed relatively strong growth in 2009. The supply of and demand for loans in this sector was influenced by numerous factors. The most crucial were uncertainty in the labour market, the rising unemployment, the tightening of credit standards accompanied by a fall in interest rates, the declining property prices and, to some extent, the adoption of the single currency. The aforementioned strong growth in loans continued in some of the banks only, while other banks were more cautious in their lending activities.

In the interbank market, banks' activities underwent a marked change in comparison with 2008. In 2008, banks mostly received deposits from foreign banks and then conducted sterilization operations with NBS. In 2009, however, after the euro changeover, these operations lost their previous significance.

Developments in 2009 were influenced first and foremost by refinancing operations with the Eurosystem. Banks borrowed mainly at one-year maturities. The funds borrowed were invested predominantly in government bonds, and, in some cases, in the interbank market, mainly in transactions with parent banks.

The year under review saw a marked increase in investment in government bonds on a year-on-year basis. Compared with the previous periods, numerous banks made increased investments in foreign government bonds, mainly from neighbouring countries. In the case of certain banks, the growth in refinancing operations was directly connected with investment in securities, as funds from the ECB were used for investment in government bonds.

THE LEGAL AND INSTITUTIONAL FRAMEWORK

In exercising supervision of the financial market – in banking, the capital market, the insurance industry and pension saving – Národná Banka Slovenska follows general procedural rules laid down in Act No. 747/2004 Coll. on Financial Market Supervision and amendments to certain acts as amended. This Act entered into force on 1 January 2006, the date when Národná Banka Slovenska assumed the competences of an integrated financial market regulator. Until 31 December 2005, the said powers with respect to the insurance sector, capital market and pension saving had been exercised by the Financial Market Authority. The aim of financial market supervision, which falls with under the authority of a Deputy Governor of Národná Banka Slovenska, is to support both the stability of the financial market as a whole and its secure and smooth operation. Based on this fact, the financial market supervision unit conducts financial market regulation, involving mainly the activities below:

- Rulemaking activities (it drafts the generally binding legal regulations of Národná Banka Slovenska in the financial market field, in particular, prudential regulation, operational security rules and other requirements for the conduct of business by supervised entities, participates in preparing generally binding legal regulations issued by central government bodies and, in addition, issues methodological guidelines for supervising entities in the financial market);

- Licensing activities (it conducts proceedings, takes first-instance decisions, issues authorizations, approvals and prior approvals, and imposes sanctions and corrective measures);
- Supervision activities (it supervises financial market entities through onsite and offsite supervision);
- Analytical activities (it produces analyses regarding the overall financial market as well as about individual financial entities).

The consumer protection department, as part of the financial market supervision unit (tasked with consumer protection in accordance with the Act on the NBS and the Act on Supervision) handles petitions from the customers of financial institutions that Národná Banka Slovenska supervises by virtue of the above Acts and the organizational rules of Národná Banka Slovenska.

The financial market comprises four sectors: the banking sector (principally represented by banks and branches of foreign banks); the capital market (principally represented by investment firms, management companies, the stock exchange, the central securities depository, issuers and investment service intermediaries); the insurance sector (principally represented by insurance companies and branches of foreign insurance companies); and the pension savings market (principally represented by pension fund management companies and supplementary pension companies).

Slovakia's membership in the European Union means foreign-regulated entities may operate in the country without a license from Národná Banka Slovenska, provided they are authorized to conduct such activities in another EU Member State (the single passport principlege bond issues).

MAIN STRATEGIC OBJECTIVES IN 2009

In the area of financial market regulation, numerous laws, regulations, methodological instructions and recommendations governing the legal environment of regulated entities were adopted in 2009. In this chapter, we do not provide a complete list of these measures, but rather point to those which have had the greatest impact on the activities of regulated entities in the individual financial market sectors of Slovakia.

One of the most significant preventive measures taken in response to the global financial and economic crisis was the adoption of the so-called 'anti-crisis law' (Act No. 276/2009 Coll.), which provides a legal framework for the granting of stabilisation aid to banks and amends numerous laws pertaining to the financial market. On the basis of this law, stabilisation aid to a bank can be granted in the form of a contribution of financial funds to the bank's registered capital for a countervalue in the form of equity or priority shares (recapitalisation), or a special guarantee for bonds issued by the bank or a loan provided to the bank. Further areas addressed by the 'anti-crisis law' are provisions relating to 'subordinated bonds' in the Commercial Code, the law on bankruptcy and restructuring, and the Securities Act; provisions of the Banking Act concerning reporting of large exposures vis-à-vis other persons or groups of persons; and provisions of the Insurance Act which now enable NBS to start proceedings against a responsible actuary for the breach of duties laid down in the Insurance Act and to suspend a natural person's authorisation to act as an actuary until the end of proceedings (the authorisation's suspension being recorded in the list of actuaries).

Another significant legal regulation prepared by the mutual working group of Financial Market Supervision Unit in collaboration with the Slovak Ministry of Finance was Act No. 186/2009 Coll. on Financial Intermediation and Financial Counselling and on amendments and supplements to certain laws. This Act was designed to regulate financial mediation and financial counselling throughout the financial market and to introduce the same rules for the conduct of intermediating and advisory activities in the insurance/reinsurance sectors, the capital market, the supplementary pension saving sector, and the market for loans and deposits. Národná Banka Slovenska will supervise the providers of financial intermediation and financial counselling services on the basis of this law.

Národná Banka Slovenska supported the measures taken to mitigate the effects of the global financial crisis also by amending other legal regulations, e.g. the Banking Act (No. 492/2009 Coll.). With effect from 1 December 2009, the amended Banking Act prescribes credit risk calculation arisen from holding of assets by bank. The Banking Act was also amended in connection with the enactment of a law on payment services. The amendment contains important provisions concerning the register of bank loans and guarantees, which is kept by Národná Banka Slovenska.

An important law governing pension savings was Act No. 137/2009 Coll., amending Act No. 43/2004 Coll. on Retirement Pension Saving. The amendment contains new provisions concerning fees that a pension fund management company is entitled to charge for asset management for savers. At the end of 2009, similar changes were made in the supplementary pension saving sector, through Act No. 557/2009 Coll., amending Act No. 650/2004 Coll. on supplementary pension saving.

At the level of by-laws, a major contribution to the implementation of anti-crisis measures on the part of Národná Banka Slovenska in banking sector was the issuance of NBS Decree No. 5/2009, amending Decree No. 18/2008 on the liquidity of banks and branches of foreign banks and on process of liquidity risk management at banks and branches of foreign banks. Regarding cash flows in banks and branches of foreign banks in relation to the financial market situation, this decree was designed to strengthen the requirement to provide loans to enterprise entities, with the aim of mitigating the effects of the global financial crisis on the Slovak economy. Hence, the parameters of the indicator of liquid assets were reassessed.

During 2009, Národná Banka Slovenska issued several decrees concerning collective investment of capital market, including Decree No. 3/2009 providing a method for determining the value of mutual fund assets. Regarding the absence of adequate regulations, the aim of this decree was to regulate the valuation of securities, money market instruments, derivatives, current accounts and deposit accounts, receivables and liabilities, equity participations and precious metals held by mutual funds. The Supervision Unit also issued a methodological guideline (ÚDFT NBS No. 1/2009) for the conduct of activities in the area of collective investment on the basis of a single European license. This methodological guideline was designed to implement the changes made in the Collective Investment Act in regard to the notification of European funds after its amendment by Act No. 552/2008 Coll., and to implement the provisions of the CESR guideline for the simplification of notification procedures for undertakings for collective investment in transferable securities (UCITS).

For the regulation of insurance sector, Národná Banka Slovenska issued two decrees over the course of 2009. NBS Decree No. 1/2009 concerning the activity reports and plans of internal audit units of insurance companies, branches of foreign insurance companies, reinsurance companies and branches of foreign reinsurance companies specifies the formal form and contents of the activity reports of internal audit units and their plans for the next calendar year. NBS Decree No. 12/2009 is an amendment to Decree No. 25/2008 concerning the solvency and minimum guarantee funds of insurance and reinsurance companies, branches of foreign insurance and reinsurance companies, in connection to the revaluation of amounts for the calculation of solvency by the European Commission.

In the area of pension savings, the most important decrees approved in 2009 were NBS Regulation No. 74/2009 Coll. on the submission of reports on the exceeding of limits and compliance with limits concerning the assets of pension funds or supplementary pension funds, and NBS Regulation No. 75/2009 Coll. on the submission of information about the net asset values of supplementary pension funds, with the aim of obtaining and monitoring daily information on the net asset value in the individual supplementary pension saving funds created and managed by supplementary asset management company. In June 2009, the Bank Board of NBS approved Regulation No. 267/2009 Coll. on the reference values of conservative pension funds and the composition of the reference values of balanced pension funds and growth pension funds. The aim of adopting this regulation was to set the minimum yield that a conservative pension fund is obliged to achieve over the period under review.

In the area of financial intermediation, NBS approved and issued Decree No. 11/2009, which specifies the due form of a proposal for registration, a change in registration or the cancellation of registration; the amounts of fees charged for a proposal for registration, a change in registration or the cancellation of registration; the specimen certificate; the structure of the registration number and other particulars of the register.

THE ACTIVITIES OF THE BANKING SUPERVISORY AUTHORITY IN 2009

In 2009, the Financial Market Supervision Unit of NBS issued 829 decisions concerning licences. Most of them related to the capital market and the banking sector. A breakdown by individual sector is presented in Table 2:

Table 2 Number of decisions issued by the Financial Market Supervision Unit of Národná Banka Slovenska in 2009

	Number of decisions
Banking sector and investment firms	166
Capital market	357
Insurance sector	155
Pension savings sector	124
Foreign exchange activities	24
Payment services	3
Total	**829**

Source: NBS.

In 2009, on the basis of the terms and conditions set, the following credit institutions commenced operations through their local branches: Citibank Europe plc, branch of a foreign bank (from 1 January 2009), and Oberbank AG, branch of a foreign bank (from 1 April 2009).

In 2009, Národná Banka Slovenska registered 22 credit institutions (including electronic money institutions and foreign financial institutions) and 140 investment firms, which informed NBS of their intention to provide cross-border banking and investment services in Slovakia.

Apart from issuing mentioned decisions, the Supervision Unit in 2009 received, from all sectors of the financial market, number of notifications from supervised entities, approved securities prospectuses and takeover bids, and issued other 24 decisions concerning foreign exchange activities.

The Financial Market Supervision Unit is the competent body of NBS to conduct proceedings and decide in the first instance. Within these activities, in 2009 45 proceedings against supervised financial market entities were conducted by the Supervision Unit. In the year under review, 33 of them were opened and 14 concluded (on the basis of the Supervision Unit's resolution in 2009). The proceedings related mainly to the insurance sector, the capital market and the foreign exchange sector.

One of the most important roles of the Financial Market Supervision Unit of Národná Banka Slovenska is to supervise financial market entities through on-site and off-site supervision. When exercising supervision, NBS ascertains important facts about the entities under supervision and their activities, especially shortcomings, their causes and consequences, and the persons responsible for these shortcomings. Supervision is exercised on an individual or consolidated basis, as supervision of individual entities or consolidated groups of entities and special-purpose asset pools, including the entities under supervision, and supplementary supervision of financial conglomerates.

In 2009, the Supervision Unit conducted a total of 65 on-site supervisions at financial market supervised entities (Table 3).

Table 3 Number of on-site supervisions conducted at supervised financial market entities in 2009

	Comprehensive	Thematic	Follow-up	Total
Banks	0	11	2	13
Non-bank investment firms	6	0	0	6
Asset management companies	2	0	2	4
Pension fund management companies and supplementary pension asset management companies	5	1	1	7
Insurance companies	5	1	3	8[1)]
Insurance, reinsurance and investment service intermediaries	18	1	0	19
Entities subject to foreign exchange supervision	8	0	0	8
Supervisions in total	**44**	**14**	**8**	**65**[1)]

1) One on-site supervision was a combination of comprehensive and follow-supervision.
Source: NBS.

Analytical activities in 2009 were influenced to a great degree by the ongoing financial and economic crisis. During 2009, when the financial crisis was changing into an economic crisis, the analytical activities focused on the evaluation of negative trends in the real economy and their effects on the banking sector's stability. Increased attention was paid to stress testing, the task of which is to quantify the sensitiveness of the financial sector to negative developments in the real economy and in the financial markets. During stress testing, numerous econometric models were used. Special efforts were made to improve the models and the risk assessment system. A new VaR model was introduced for market risk assessment.

The analytical activities included numerous meetings with banks of the Slovak banking sector. The main items on the agenda in 2009 were the exposure of banks to credit risk, and changes in the credit standards and lending policies of banks.

ORGANISATIONAL CHART OF THE BANKING SUPERVISORY AUTHORITY

Financial Market Supervision Unit

LICENSING AND ENFORCEMENT DEPARTMENT

Licensing Section

Cross-border Cooperation Section

Enforcement Section

Clients' Protection Section

REGULATORY AND RISK MANAGEMENT METHODOLOGY DEPARTMENT

Insurance Regulatory Section

Pension Savings Regulatory Section

Collective Investment Regulatory Section

Markets Regulation Section

Banking Sector and Securities Dealers Regulatory Section

Financial Market Risks Analyses Section

Risk Measurement Regulatory Models Section

SUPERVISORY DEPARTMENT

- Quantitative Analyses Section
- Banking Groups Supervisory Section 1
- Banking Groups Supervisory Section 2
- Insurance Groups Supervisory Section
- Capital Market Entities Supervisory Section
- Insurance and Reinsurance Mediation and Foreign Exchange Supervisory Section

INTERNATIONAL ACTIVITIES

In connection with Národná Banka Slovenska's commitments to the European Central Bank, to bodies and committees of the European Union and to international organisations, staff of the Financial Market Supervision Unit regularly attend meetings of the respective committees and working groups. In addition, the Supervision Unit is heavily involved in cooperation with foreign supervisory and regulatory authorities, especially in relation to the exercise of supervision over banking and insurance groups.

The Banking Supervision Committee (BSC) of the European System of Central Banks (ESCB) has the following tasks: to monitor and evaluate developments in the European financial sector in terms of financial stability; to analyse regulatory requirements for financial system stability; to strengthen cooperation and the sharing of information between central banks and Member States' supervisory authorities; and to cooperate in the drafting of ECB opinions on European Commission proposals. During 2009, the information shared between the committee's members mainly concerned how the financial crisis was affecting their respective countries and the measures being taken by governments to support the financial system. The committee's analyses (produced at the subgroup level), as well as its discussions, were focused on the vulnerability of the EU financial system and on the system's resilience to various shocks. They also addressed the tasks and role of the BSC within the new supervision architecture for the EU financial market, especially in relation to the proposed European Systemic Risk Board (ESRB).

Národná Banka Slovenska is actively involved in the work of the so-called Lamfalussy Level 3 Committees, a group of committees established by the European Commission, which include: the Committee of European Banking Supervisors (CEBS), the Committee of European Securities Regulators (CESR), and the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS).

The principal tasks of the CEBS include giving advice to the European Commission, implementing European Union directives, and enhancing cooperation and the sharing of information between banking supervisors. It focuses mainly on capital requirements rules for financial institutions, the purpose being to ensure that financial institutions have a closer link between their capital and the risks they are exposed to. Working groups and expert groups are established under the CEBS, and they produce specialist documents on specific topics which are submitted to the committee for approval. There is also the Groupe de Contact (GdC), an expert group of the CEBS which focuses on the harmonisation of supervisory procedures and the sharing of information.

The task of the CESR is to improve coordination among securities regulators across the European Union, to act as an advisory group to assist the European Commission, and to work to ensure more consistent and timely implementation of European Union legislation in Member States. The CESR's plenary meetings take key decisions on the regulation and supervision of this area, and they approve guidelines and other important documents concerning the activities of the committee and of financial institutions operating in the markets of its members. Most of the specialist materials submitted to the CESR's plenary meetings for approval are prepared by permanent working and expert groups established under the CESR.

The principal tasks of the CEIOPS include: providing advice on implementation measures for framework directives (Level 2 activities of the Lamfalussy process); issuing standards, recommendations and guidelines to ensure the uniform interpretation of regulations and guidelines; and facilitating cooperation and the sharing of information between supervisors. At present, the priority task of the CEIOPS is the Solvency II project. The aim of the project is to introduce a new harmonised, risk-oriented regime of supervision and capital requirements for insurance companies and reinsurance companies operating in EU Member States, and to re-codify the 13 existing directives that regulate the activities of insurance companies and reinsurance companies. Working groups and expert groups are established under the CEIOPS, and they produce specialist documents on specific topics which are submitted to the committee for approval.

In 2009, all three of the Level 3 Committees paid particular attention to key questions concerning the establishment of a European System of Financial Supervisors, which include a European Securities and Markets Authority (ESMA), a European Banking Authority (EBA) and a European Insurance and Occupational Pensions Authority (EIOPA), in accordance with the recommendations of the European Council of 19 June 2009 regarding a new European supervisory architecture for the financial sector.

The process of establishing colleges of supervisors in accordance with EU legislation continued during 2009. The supervision of cross-border banking groups in the EU is exercised at the consolidated level by the "home supervisor". Národná Banka Slovenska, operating at the consolidated level as the "host supervisor", is a member of colleges of supervisors where the supervisors are designated for banking groups that include entities falling under NBS's supervision in the Slovak Republic. Within the framework of the colleges, and in accordance with CEBS requirements, multilateral agreements on cooperation between the supervisory authorities were signed before the end of 2009, and meetings were held with the supervisors of banking groups that have banks operating in the territory of the Slovak Republic.

Národná Banka Slovenska is also a member of globally operating international organisations that bring together supervisory authorities in different sectors of the financial market: the International Organization of Securities Commissions (IOSCO), where it is signatory to a Multilateral Cooperation Agreement; the International Association of Insurance Supervisors (IAIS); and the International Organisation of Pension Supervisors (IOPS).

STATISTICAL TABLES

Number of financial institutions (head offices/branches)
(at year-ends)

Type of institution	2007	2008	2009
Banks	**16**	**17**	**15**
- Joint stock companies	13	14	12
- State financial institutions	-	-	-
- Building savings banks	3	3	3
Branches	**10**	**11**[1)]	**13**[1)]
Financial Institutions, total	**26**	**28**	**28**

1) As of 31 December 2009 two branches had not begun banking activities

Ownership structure of the financial institutions
on the basis of registered capital (%)
(at year-ends)

Item	2007	2008	2009
Public sector ownership	1,7	3,8	5,8
Other domestic ownership	6,4	2,9	3,4
Domestic ownership total	**8,1**	**6,7**	**9,2**
Foreign ownership	**91,9**	**93,3**	**90,8**
Financial Institutions, total	**100,0**	**100,0**	**100,0**

Ownership structure of the financial institutions on the basis of assets total (%)

Item	2007	2008	2009
Public sector ownership	1,0	0,8	0,9
Other domestic ownership	0,0	0,2	0,3
Domestic ownership total	**1,0**	**1**	**1,2**
Foreign ownership	**99,0**	**99**	**98,8**
Financial Institutions, total	**100,0**	**100,0**	**100,0**

Concentration of asset by the type of financial institutions

Type of the financial institutions	FOREX assets / Total assets	FOREX liabilities / Total liab.
Banks	56,16	72,06

Return on Asset (ROA) by type of financial institutions (%)

Type of institution	2007	2008	2009
Banks	1,12%	0,96%	0,53%

Return on Equity (ROE) by type of financial institutions (%)

Type of financial institution	2007	2008	2009
Banks	16,57%	14,08%	6,53%

Distribution of market shares in balance sheet total (%)

Type of financial institution	2007	2008	2009
Bank	100,00	100,00	100,00
Financial institutions, total	**100,00**	**100,00**	**100,00**

The structure of assets and liabilities of the banking system (%) (at year-end)

Assets	2007	2008	2009
Deposits and credits with banks	48,22%	48,72%	57,29%
Granted credits	28,92%	31,28%	13,33%
Securities and other operations	19,17%	16,64%	25,48%
Fixed assets	3,69%	3,36%	3,90%
Total assets	100,00%	100,00%	100,00%
Liabilities	**2007**	**2008**	**2009**
Deposits and credits from banks	64,67%	64,72%	71,00%
Received deposits	18,65%	18,16%	10,51%
Securities and other operations	9,03%	8,73%	8,55%
Permanent founds	7,64%	8,39%	9,93%
Total liabilities	100,00%	100,00%	100,00%

Development of off-balance sheet activities (off balance sheet liabilities / balance sheet total) (%)

Type of financial institution	2007	2008	2009
Banks*	73,57%	59,41%	57,32%
Financial institutions, total	73,57%	59,41%	57,32%

* share of off-balance assets to total assets

Solvency ratio of financial institutions

Type of financial institution	2007	2008	2009
Banks	12,44%	11,09%	12,57%
Financial institutions, average	12,44%	11,09%	12,57%

Asset portfolio quality of the banking system in %

Asset Classification	2007	2008	2009
Defaulted	2,77%	3,21%	5,50%
Classified Total	x	x	x
Specific Reserves	x	x	x

The structure of deposits and loans in 2009 (%) (at year-end)

	Deposits	Loans
Households	59,51%	43,80%
Government sector	5,26%	2,70%
Corporate	30,82%	49,76%
Foreign	3,69%	3,47%
Other	0,71%	0,26%
Total	**100,00**	**100,00**

The structure of deposits and loans in 2009 (%) (at year-end)

Maturity of Deposits		Maturity of Loans	
At sight	44,99%	Long term loans	49,41%
Within one year	38,35%	Medium-term loans	17,15%
Over one year	16,66%	Short-term loans	33,44%
Total	**100,00%**	**Total**	**100,00%**

Proportion of foreign exchange assets and liabilities (at year-ends)

Type of the financial institutions	FOREX assets / Total assets			FOREX liabilities / Total liab.		
	2007	2008	2009	2007	2008	2009
Banks	16,38%	15,76%	2,48%	24,09%	20,03%	2,57%
Banks*	15,13%	15,01%	1,91%	19,04%	17,22%	1,05%
Financial institutions, average	**16,38%**	**15,76%**	**2,48%**	**24,09%**	**20,03%**	**2,57%**
Financial institutions, average*	**15,13%**	**15,01%**	**1,91%**	**19,04%**	**17,22%**	**1,05%**

* share of off-balance FX assets/liabilities to total off-balance assets/liabilities

Structure of revenues and expenditures of financial institutions (at year-ends)

in th. EUR

Revenues	**2007**	**2008**	**2009**
Interest income	2 698 105	3 103 796	2 338 752
Non interest income	516 586	593 354	554 958
Income from banking operations	70 120	148 913	127 206
Other income	9 749	11 949	6 615
Other operational income	69 748	81 664	110 884
Expenditures	**2007**	**2008**	**2009**
Interest expenses	1 377 827	1 558 513	776 377
Non interest expenses	99 665	114 843	123 792
Expenses from banking operations	85 234	136 309	141 070
Other expenses	11 292	12 145	6 852
Other operational expenses	1 284 402	1 393 743	1 368 821
Income taxes	119 205	160 638	90 450
Other profit/loss (balance)	**2007**	**2008**	**2009**
Foreign exchange operations	291 961	311 928	71 754
Futures and options	-38 040	-39 304	-26 582
Provisions and reserves	-66 192	-312 044	-426 522
Other	772	1 406	428

Structure of registered capital and own funds of financial institutions in 2009

Type of financial institution	Registered capital	/Total assets	Own funds	/Total assets
	In mil. EUR	%	In mil. EUR	%
Bank	1 616 984	3,05%	4 183 665	7,89%
Financial institutions, average	1 616 984	3,05%	4 183 665	7,89%

2009 DEVELOPMENTS IN THE SLOVENIAN BANKING SYSTEM

MACROECONOMIC ENVIRONMENT

The financial and economic crisis continued in 2009, crippling the global economy and international trade. As a result, the Bank of Slovenia operated in an environment where domestic and foreign demand decreased sharply, lending activity almost ceased and the labour market conditions deteriorated considerably. As a consequence, GDP in Slovenia contracted by 7.8% in 2009. The active use of fiscal policy instruments helped to mitigate the fall in GDP, but the cost of this policy was a high general government deficit and a large increase in general government debt.

The largest decline among the components of domestic consumption was recorded by gross fixed capital formation, which plummeted by over 30%. As a result, the imports fell disproportionately, helping to close the current account deficit. This decreased from 6.2% of GDP in 2008 to around 1% of GDP in 2009. The decrease in fiscal revenues combined with government stimulus measures significantly worsened the balance of public finances. The government deficit increased from 1.8% of GDP in 2008 to around 5.5% in 2009, while the public debt soared from 22.5% of GDP to 35.9% of GDP. Tighter financial conditions significantly reduced the liabilities of the private sector abroad which, combined with a large issue of government bonds, altered the term structure of external debt. The private sector's short term debt has been more than compensated by longer term government debt. However, the net external debt remained approximately unchanged in 2009 and stood at around 10 billion EUR.

The economic downturn was the most pronounced in the most export oriented sector – the production of industrial goods. Industrial output last year fell by approximately one fifth. In the first half of 2009, the large drop in manufacturing activity came as a result of the massive reduction in international trade. The recovery later in the year was encouraged by fiscal measures of larger euro area members and by accelerating growth in demand from Asia. Manufacturing output increased by over 3% compared to the first half of the year, but mainly due to the growth in the third quarter. The significant slowing of recovery in the fourth quarter of 2009 illustrates the fragile nature of the recovery and the importance of country-specific factors in determining economic growth in Slovenia and abroad.

The fall in domestic demand also led to a deterioration in other sectors of the economy, which had a broad effect on the labour market. The most immediate effect of the slowdown was a sharp rise in the unemployment. The registered unemployment rate at the end of 2009 was 10.3%, the survey unemployment rate was 6.4%, and the number of unemployed persons stood at around one hundred thousand. Employment decreased by 2.2% in 2009, with job losses concentrated in manufacturing, by where employment has fallen over 15% since its peak in the first half of 2008. The effects of the recession on moderating wage growth, however, were much more muted, particularly due to strong growth in public sector wages. As a result, economy-wide unit labour costs increased by nearly 10 percent, among the highest among euro area members.

The fall in economic activity and demand and lower commodity prices in the first half of 2009 led to a sharp decline in inflation. HICP inflation fell to 0.9% last year from 5.5% compared in 2008. Inflationary pressures have increased somewhat, with the increases in commodity price in late 2009, but the continued low core inflation dynamics combined with weak domestic demand mean that inflation risks remain low in 2010. These will be largely dependant on the price of raw materials on international markets.

The growth of loans declined rapidly during 2009, primarily as a result of the greater difficulty in accessing funding from the rest of the world, the rise in real interest rates and a base effect from the previous year, when growth in loans was extremely high. Stricter collateral requirements for loans to clients and higher premiums over the reference interest rates were also factors in the continuing decline in lending in 2009, particularly to corporate sector.

Having borrowed heavily on international wholesale financial markets in previous years, Slovenian banks were forced to step up their efforts to secure long-term funding from the rest of the world and from more stable domestic sources in 2009. The maturity of this funding shortened significantly, while the price of the funding simultaneously rose as a result of the uncertainty on the financial markets. An important factor in the maintenance of bank balance sheets was government borrowing, and the resulting depositing of the money by the government to provide lending potential.

Projections by domestic and international institutions indicate that the Slovenian economy will continue to operate in an environment of weak domestic demand and a slow recovery in the euro zone in 2010 and 2011. As a result, prospects for robust growth stem from indirect import demand from fast-growing Asian markets and emerging markets in Central and Southern Europe. With a high deficit and increasing public debt (albeit one that is still below the euro zone average), Slovenia is faced with the urgency of fiscal consolidation. Having gone through a spending and investment cycle that was above a sustainable level before the onset of the crisis, the next medium-term period will be one of a weak economic growth, with important structural reforms playing a key role in determining the speed of the eventual recovery.

STRUCTURE AND OWNERSHIP OF THE BANKING SECTOR

At the end of 2009 there were 19 banks operating in Slovenia, of which eight were subsidiaries, three branches of foreign banks, and three savings banks. The banks accounted for 99.2% of the sector at the end of 2009. The number of credit institutions was up one on a year earlier. At the end of 2009 there were eight subsidiaries and three branches of foreign banks that were under majority foreign ownership, one bank under full domestic ownership, and nine banks under majority domestic ownership. The proportion of the banking system's equity accounted for by non-residents in 2009 was down 1.6 percentage points on 2008 at 36.6%. Counting only non-residents that hold more than 50% of the equity in an individual bank, the figure is 26.8%. The proportion held by non-residents as measured by total assets was 2.9 percentage points higher than the proportion held by non-residents as measured by equity as at 31 December 2009. Government ownership as measured by equity rose slightly last year, to reach 20.5% by the end of the year.

The ratio of the banking system's total assets to GDP rose relatively sharply in 2009 to end the year at 147%. This was the result of an increase in total assets, and a real fall in GDP last year.

BANK PERFORMANCE IN 2009

Average growth in the banking system's **total assets** in 2009 was less than half that recorded in 2008, the rate standing at 8.4% at the end of the year. In the context of a decline in funding from the rest of the world, a small increase in household deposits and a large fall in bank lending activity, the main factors in the growth in total assets in 2009 were the increase in government deposits, bond issues and increased bank borrowing at the ECB. The increase in government deposits in 2009 accounted for almost three-quarters of the total net increase in deposits by non-banking sectors. At the same time the banks made almost continuous net reductions in their borrowings from the rest of the world. The increase in total assets in the amount of EUR 3.8 billion in 2009 was not reflected in the net increase in lending to non-banking sectors, which last year amounted to just EUR 0.2 billion, but primarily in increases in claims against banks in the amount of EUR 1.7 billion and investments in securities in the amount of EUR 1.6 billion. The banking system's secondary liquidity thus increased.

Growth in bank loans ceased in 2009. Growth in loans had declined rapidly during the previous year, primarily as a result of the greater difficulty in accessing funding from the rest of the world, the rise in real interest rates and a base effect from the previous year, when growth in loans was extremely high. Stricter collateral requirements for loans to clients and higher premiums over the reference interest rates were also factors in the continuing decline in lending in 2009, particularly to corporates.

The decline in growth in loans was most pronounced last year for corporate loans (loans to non-financial corporations): year-on-year growth in loans was negative at the end of the year (-1.5%), as in other countries of the EMU. Growth in loans to households declined by less, and stood at 6.8% at the end of the year. The majority of loans to households were long-term. Year-on-year growth in housing loans was still relatively high at the end of the year at 15.7%. The banks primarily approved short-term loans to corporates, but not in a sufficient amount to make the year-on-year growth positive, and the stock of such loans therefore recorded a net decline. The proportion of loans accounted for by long-term loans increased as a result.

The deterioration in the economic situation and the deepening of the economic crisis began to be reflected last year in the banking system's performance. The risks that were already discernible in the previous year began to be realised. As growth in bank loans stalled and interest rates fell, the banking system's net interest income last year was lower than in the previous year, although the banks compensated for this with higher non-interest income. The deterioration in the economic situation primarily affected banks via an increase in credit risks. They were forced to increase impairments and provisioning, which significantly reduced profits.

According to audited figures, the banking system's **pre-tax profit** amounted to EUR 160.5 million in 2009, down almost a half on 2008. The decline in profit was mostly the result of increased impairments and provisioning, and a decline in net interest income. The banks were unable to compensate for this loss of income by raising non-interest income and by cutting operating costs. The contraction in net interest income was the result of low growth in loans. Loans yield higher interest than other investments. The main factor in last year's growth in net non-interest income was gains on financial assets and liabilities held for trading, the banks having recorded a loss on these in the previous year. The banking system's gross income thus increased.

Operating costs last year were lower than in 2008. Growth in labour costs declined in particular. The banks created EUR 496 million of impairments and provisioning last year, 78% more than in 2008. The impairment and provisioning costs are a reflection of the deterioration of the bank portfolios and the economic situation, and have had a profound impact on the banking system's profits since the final quarter of 2008. The proportion of the disposal of gross income accounted for by impairment and provisioning costs was close to 35% last year, having stood at just over a fifth the previous year. The figure was just 11.4% before the crisis.

Credit risk rose relatively rapidly last year as a result of the increasing arrears in clients' settlement of liabilities to banks, an increase in the proportion of non-performing assets, downgradings from the A (standard) and B (watch) ratings to the C (substandard) rating, and higher coverage of classified assets by impairments.

The banking system's **income risk** rose as a result of the increase in impairments and provisioning and the stagnation in lending activity. However, **interest-rate risk** declined as a result of the increase in short-term loans with a fixed interest rate and government deposits with a maturity of up to 1 year. The risk of a change in the exchange rate remained small, while the banking system's liquidity risk was also relatively low last year. The banks had relatively high liquidity ratios, and increased secondary liquidity. However, the banks have become more exposed to refinancing risk since last year. Slovenia's banking system has maintained an adequate **level of solvency**, despite the difficult situation. The banks had a solvency ratio of 11.6%, and a Tier 1 capital adequacy ratio of 9.3%.

LEGAL AND INSTITUTIONAL FRAMEWORK FOR SUPERVISION OF FINANCIAL INSTITUTIONS

In Slovenia three supervisory authorities are responsible for supervision and surveillance of financial institutions.

Slovenia's central bank, the Bank of Slovenia, is an independent institution that carries out the tasks conferred upon it by the Bank of Slovenia Act. The responsibility for the implementation and enforcement of the Bank of Slovenia's supervisory function is conferred upon the Banking Supervision Department. The Bank of Slovenia supervises credit institutions, electronic money institutions, payment institutions and clearing companies.

The Securities Market Agency was established as an independent institution by the Securities Market Act which entered into force on 13 March 1994 (the new Securities Market Act entered into force on 28 July 1999, and the Market in Financial Instruments Act entered into force on 11 August 2007). The Securities Market Agency supervises investment firms, management companies, investment funds, mutual pension funds and their managers, as well as some other institutions (the Central Securities Clearing Corporation and the Ljubljana Stock Exchange).

The Insurance Supervision Agency was established as an independent entity pursuant to the Insurance Act. Its responsibility is supervision of insurance undertakings, reinsurance undertakings, insurance agents and brokers, insurance agencies and insurance brokerage companies, pension companies, as well as some other institutions (the Slovenian Nuclear Insurance and Reinsurance Pool, the Slovenian Insurance Association and the Pension Fund Management).

ACTIVITIES OF THE BANKING SUPERVISION DEPARTMENT IN 2009

Licensing

In 2009 the Bank of Slovenia issued authorisations to provide mutually recognised and additional financial service, to develop and operate a payment system and to hold office as a member of a bank's management board. The decision to grant or refuse an authorisation is taken by the Governing Board of the Bank of Slovenia based on the opinion of the License Committee, except in the case of authorisations to hold office as a member of a management board, where the decision is based on the opinion of the Committee of the Governing Board of the Bank of Slovenia for the Preparation of Opinions for the Issue of Authorisation to Hold Office as a Member of a Bank's Management Board.

In 2009 the Bank of Slovenia issued a total of 22 authorisations to provide various types of financial services and to hold office as a member of a bank's management board. The majority of authorisations (15) issued in 2009 were to hold office as a member of a bank's management board. Four authorisations were issued to provide additional financial services and one to provide mutually recognised financial services. In 2009 the Bank of Slovenia also issued one authorisation to develop and operate a payment system. There were more authorisation issued in 2009 to hold office as a member of a bank's management board than in the previous year (2008: 8 authorisations), and fewer authorisation to provide mutually recognised and additional financial services (2008: 10 authorisations). In 2009 there were no authorisations issued to provide basic banking services, to acquire a qualifying holding or for the merger of banks.

In 2009 the Bank of Slovenia received 28 notifications of the direct provision of banking or other mutually recognised financial services (compared to 66 notifications in 2008) and one notification of the expansion of mutually recognised financial services via an already functioning branch. A list of banks of EU Member States that have carried out the notification procedure for the provision of banking services and other financial services in Slovenia via their home banking supervisors is available on the Bank of Slovenia’s website. Different arrangements apply to the banks of third countries. Banks of third countries may only provide banking and other (mutually recognised) financial services via a branch, Bank of Slovenia authorisation being required to establish the branch. The Bank of Slovenia may request that the bank of a third country deposit a specific sum of cash or other eligible collateral in Slovenia, or provide other appropriate collateral as a guarantee for the settlement of liabilities from transactions concluded in Slovenia.

On-site examinations of banks and savings banks

In 2009 the Banking Supervision Department continued to conduct regular on-site examinations of banks and savings banks according to its internal risk assessment methodology, RAS (Risk Assessment System) which is based on assessing the risks and quality of the control environment. Examinations of specific areas of risk were prevalent among the examinations conducted, practice having shown that shorter and thus more frequent and more detailed examinations of specific areas are more significant and more needed than comprehensive examinations (full-scope examinations). The greatest emphasis was placed on credit, liquidity and operational risks, in line with the development of macroeconomic conditions. Follow-ups of the implementation of measures and recommendations were also frequent.

In 2009 the Banking Supervision Department continued to follow-up and monitor the implementation of the new capital framework at banks and savings banks (as a continuation of activities from 2007 and 2008), and the related calculation of capital requirements in the scope of Pillar 1 and the internal capital adequacy assessment process in the scope of Pillar 2 of Basel II. Examinations of banks' readiness for the introduction of advanced approaches for calculating capital requirements for credit risk (IRB) and operational risk (AMA) were carried out. Primarily banks under majority foreign ownership opted for one of the aforementioned approaches. Banks that have chosen to begin using an advanced approach (IRB and/or AMA) for the calculation of capital requirements in the near future are included in a joint decision-making process and are a part of a joint application, which the parent bank submits to its supervisor. In such cases, the Bank of Slovenia is included in the process of issuing a joint decision as host supervisor. Cooperation with foreign supervisors, who are responsible for activities relating to joint decisions, is intensive in such cases. With regard to the internal capital adequacy assessment process, in force for a second year, the Bank of Slovenia focused on the quantitative part of the process and on those banks that use methods for the calculation of internal capital requirements that differ and are typically more complex than those prescribed in Pillar 1.

In addition, the Banking Supervision Department also carried out specific examinations, primarily with regard to compliance with legislation relating to the prevention of money laundering and terrorist financing, the readiness of banks to use bank loans as collateral for Eurosystem claims and the recognition of the eligibility of credit ratings from external credit assessment institutions used by banks in the calculation of capital requirements for credit risk using the standardised approach.

In 2009 the Banking Supervision Department continued to examine banks and other financial organisations abroad that are owned by Slovenian banks. On the basis of memoranda of understanding (the Bank of Slovenia has a total of 12 memoranda of understanding with foreign supervisory institutions), the Banking Supervision Department participated in four examinations of the operations of foreign banks in cooperation with supervisors in the countries where the subsidiaries operate.

Based on authorisations from the Governor of the Bank of Slovenia, 46 examinations of operations of greatly varying scope (in terms of content and duration) were initiated in 2009. The Banking Supervision Department carried out the following activities in the scope of examinations initiated in 2009 and in previous years:

- 19 on-site examinations by individual area of risk and the control

environment,
- 25 specific examinations, of which:
  - 6 examinations of the readiness of banks to use banks loans as collateral for Eurosystem claims,
  - 6 examinations of the implementation of the new capital framework,
  - 5 examinations of the prevention of money laundering and terrorist financing,
  - 3 examinations of external credit assessment institutions, and
  - 5 examinations in other areas (examination of a currency option pricing model, examination of the accuracy of transaction account statements, etc.).
- several examinations of the implementation of measures and a number of one-day examinations or monitoring of a specific area of operations.

The Bank of Slovenia approved 12 requests for authorisation in 2009 with regard to the characteristics of components for the calculation of capital.

Secondary legislation

The majority of changes to secondary legislation in 2009 were the result of changes in the amended Banking Act (Official Gazette of the Republic of Slovenia, No. 19/09; hereinafter: the ZBan-1C), published in March. Some of these changes entail the Bank of Slovenia's response to the financial turmoil and its impact on banks and savings banks.

The amended *Regulation on the assessment of credit risk losses of banks and savings banks* was adopted in January. It calls on banks to assess whether there exists objective evidence of impairment of financial assets or the possibility of losses arising from off-balance sheet items on a monthly rather than quarterly basis, and to disclose the associated impairments and provisions and report them to the Bank of Slovenia on a monthly basis.

The new *Regulation on the holders of qualifying holdings of banks and savings banks* was also published in March. The implementation of procedures for licensing qualifying holders required adapting to the changes in the amended ZBan-1C, by which the provisions of Directive 2007/44/EC were transposed into Slovenian law. The new regulation defines in greater detail the assessment criteria and documentation a prospective qualifying holder must submit to the Bank of Slovenia. A significant new feature is that a natural person may also be a qualifying holder of a bank’s shares. Also, in addition to the reputation of a prospective qualifying holder, it must also be determined whether reasons to suspect money laundering or terrorist financing exist for an intended transaction.

Also adopted in March was the *Regulation amending the regulation on the books of account and annual reports of banks and savings banks*, which was prepared on the basis of the new International Accounting Standard 1, Presentation of Financial Statements, and other associated changes to the International Financial Reporting Standards. Other changes derive from the amended ZBan-1C and the Financial Instruments Market Act (hereinafter: the ZTFI).

Further changes to implementing regulations deriving from the amended ZBan-1C were published in June. Pursuant to the amended *Regulation on the minimum scope and content of the additional audit of compliance with risk management rules at banks and savings banks*, a certified auditor must, in addition to the auditor’s report on the auditing of the annual report pursuant to the Companies Act (hereinafter: the ZGD-1), prepare an additional auditor's report on compliance with risk management rules, which was previously an integral part of the auditor's report on the auditing of the annual report. The additional report will not be published, but will be submitted solely to the Bank of Slovenia. The first submission will be for the 2009 financial year. The auditor will present its findings in an additional report regarding compliance with organisational requirements and the appropriateness of a bank's treatment of specific risks and its associated information support.

Consequently, the *Regulation on disclosures by banks and savings banks* was also amended. In accordance with the amended ZBan-1C, disclosures pursuant to the third pillar of the capital framework will no longer be the subject of an audit by a certified auditor. Verification of the credibility of disclosures will be the responsibility of a bank's internal audit department, as is the practice in the majority of other Member States.

The *Regulation on the reporting of individual facts and circumstances of banks and savings banks* was also amended owing to changes brought about by the amended ZBan-1C and the amended Regulation on the books of account and annual reports of banks and savings banks. Due to the shortening of the deadline for the submission of the audited annual report and the audited consolidated annual report to the Bank of Slovenia, the deadline for the submission of the auditor's corrections, which are reported on new forms, was also shortened.

The amended *Regulation on electronic money issuing companies entails* changes to the auditing of and the auditor's report on electronic money issuing companies. The changes are the same as those introduced for banks.

The *Regulation amending the regulation on the diligence of members of management boards and supervisory boards of banks and savings banks* was published in September**.** The amended ZBan-1C introduced the mandatory appointment of an audit committee for all banks and savings banks (previously, this only applied to the parent bank of a banking group and to a bank that provides financial services via a foreign branch). Both the composition of the committee and the attributes of its members, which must be verified by the supervisory board prior to their appointment, are set out in the ZGD-1 and the ZBan-1, and thus do not require repeating in an implementing regulation.

The *Amended instructions for implementing the regulation on the minimum requirements for ensuring an adequate liquidity position at banks and savings banks* were published in October, and are linked to the amendment to the instructions from November 2008 that permitted banks to calculate the Category 1 liquidity ratio until 31 December 2009 without taking into account a decrease in the pool of eligible collateral due to longer-term refinancing operations at the ECB.

Adopted in December was the amended Regulation on c*redit protection* , by which the definition of an independent real estate appraiser was amended. The definition is no longer based on defining the appropriate types of real estate appraisers, but on the requirement that real estate appraisals must be fully in line with the International Valuation Standards (ISV), as adopted by the International Valuation Standards Council.

On the basis of the Mortgage Bond and Municipal Bond Act (Official Gazette of the Republic of Slovenia, No. 58/09), the following secondary legislation was adopted at the end of December: the *Regulation on the conditions for acquiring authorisation to issue mortgage bonds and municipal bonds*, the *Regulation on the conditions for acquiring authorisation to act as the custodian of a collateral register*, the *Regulation on the harmonisation of the eligible collateral pool with issued Mortgage bonds and municipal bonds* and the *Regulation on the* *conditions for the inclusion of derivatives in the eligible collateral pool*. The previously valid regulations were replaced with new regulations to bring them in line with changes to regulations adopted in the interim period and linked to the provision of financial services by banks and, to a lesser degree, owing to the adoption of the amended Mortgage Bond and Municipal Bond Act.

The *Regulation on the amounts of annual fees for supervision and fees for decisions regarding requests for the granting of authorisation* and the *Regulation on the amounts of annual fees for supervision and fees for decisions regarding requests for the granting of Bank of Slovenia authorisation pursuant to the Payment Services and Systems Act* were amended in 2009 due to changes to the ZBan-1 and the entry into force of the Payment Services and Systems Act.

COOPERATION WITH OTHER DOMESTIC SUPERVISORY AUTHORITIES

Co-operation with the other two Slovenian supervisory institutions (the Securities Market Agency and the Insurance Supervision Agency) took the form of an exchange of views and information between the institutions. Co-operation between the supervisory authorities is regulated by the Rules on Co-operation between Supervisory Authorities and the signed Memoranda of Understanding (MoUs). The MoUs set out the form and content of co-operation and information exchange in more detail.

The Steering Committee was founded on the basis of the rules, presided over by the minister for finance, with cooperation from the Governor of the Bank of Slovenia, the presidents of the councils of experts at the Securities Market Agency and Insurance Supervision Agency. There is also the Committee for Co-operation between Supervisory Authorities (hereinafter: the Committee), which is in charge of implementing the tasks passed by the Steering Committee. The Committee comprises the Vicegovernor, responsible for the Banking Supervision Department, the Director of the Banking Supervision Department, the Director of the Securities Market Agency and the Director of the Insurance Supervision Agency.

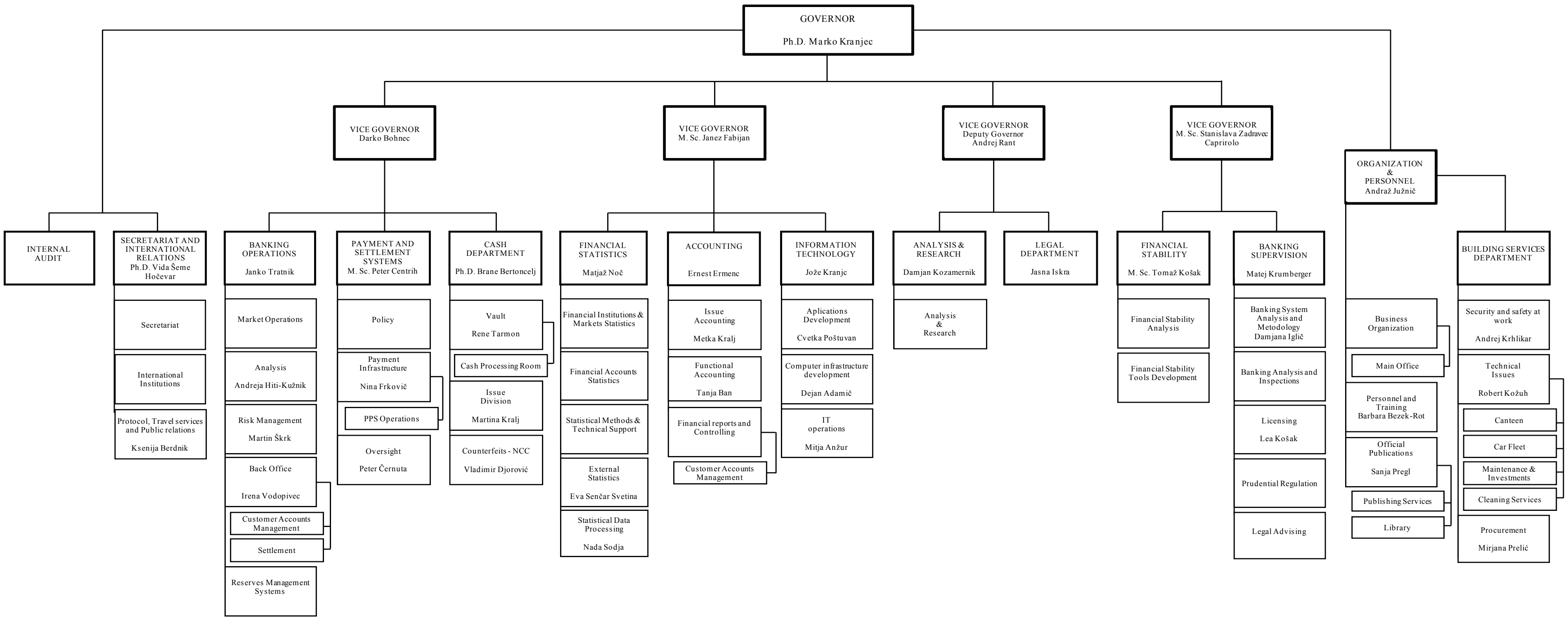
Supervisory institutions are required to inform the relevant supervisory institution if they identify any infringements that fall under the auspices of other institutions.

COOPERATION WITH FOREIGN SUPERVISORY AUTHORITIES

The Bank of Slovenia thus participates in six supervisory colleges. In addition, the Bank of Slovenia is responsible for the organisation and management of the supervisory college for the Slovenian banking group Nova Ljubljanska banka. The second annual meeting was held in October 2009 and attended by representatives of all supervisory institutions of the countries where the bank has subsidiaries.

BANKA SLOVENIJE
BANK OF SLOVENIA
EUROSYSTEM

ORGANISATIONAL CHART OF THE BANKING SUPERVISION DEPARTMENT



Legend:

= Department

= Section

= Division

Organization & Personnel
6 April 2010

STATISTICAL TABLES

Number of financial institutions (head offices/branches) (at year-ends)

Type of credit institution	2007	2008	2009
Banks	24	21	22
Savings banks	3	3	3
Credit institutions, total	**27**	**24**	**25**

Ownership structure of banks on the basis of shareholders' equity (%) (at year-ends)

Type of ownership	2007	2008	2009
Central Government	15,1	17,7	20,5
Other domestic ownership	47,2	44,1	42,9
Domestic ownership total	62,3	61,8	63,4
Foreign ownership	37,7	38,2	36,6
Bank, total	**100,0**	**100,0**	**100,0**

Ownership structure of the financial institutions on the basis of assets total (%)

Item	2007	2008	2009
Central Government	15,1	17,7	20,5
Other domestic ownership	47,2	44,1	42,9
Domestic ownership total	62,3	61,8	63,4
Foreign ownership	37,7	38,2	36,6
Bank, total	**100,0**	**100,0**	**100,0**

Concentration of assets by the type of credit institutions (at year-end)

Type of credit institution	The first three largest (%)	The first three largest (%)
Banks	48,1	60,3
Savings banks	100,0	

Return on Asset (ROA) by type of financial institutions (%)

Type of credit institution	2007	2008	2009
Banks	1,4	0,7	0,3
Savings banks	1,0	0,7	0,4

Return on Equity (ROE) by type of financial institutions (%)

Type of credit institution	2007	2008	2009
Banks	16,3	8,1	3,9
Savings banks	15,5	10,9	8,5

Distribution of market shares in balance sheet total (%) (groupage of acting banks according to capital)

Type of credit institution	2007	2008	2009
Banks	99,4	99,3	99,2
Savings banks	0,6	0,7	0,8
Credit institutions, total	**100,0**	**100,0**	**100,0**

The structure of assets and liabilities of the banking system (%) (at year-end)

Assets	2007	2008	2009
Cash and balances with CB	1,4	2,6	2,8
Loans to banks	9,6	8,5	11,1
Loans to customers	66,8	70,4	65,7
Securities	17,2	14,2	15,6
Other assets	4,9	4,4	4,9
Liabilities	**2007**	**2008**	**2009**
Deposits from banks	37,6	38,1	30,9
Deposits from customers	45,8	43,3	45,7
Liabilities from securities	2,3	2,6	6,7
Capital and subordinated liabilities	11,9	11,7	11,3
Other liabilities	2,5	4,2	5,5

Development of off-balance sheet activities (off balance sheet liabilities / balance sheet total) (%)

Type of credit institution	2007	2008	2009
Banks	16,6	13,7	12,7
Savings banks	3,0	1,5	1,0

Solvency ratio of financial institutions

Type of credit institution	2007	2008	2009
Banks, average	11,2	11,7	11,6
Savings banks, average	9,7	11,7	11,7

Assets Portfolio Quality of the Banking System in EUR thousands

Asset Classification	2007	2008	2009
A	29 942 739	34 454 540	34 404 229
B	9 324 671	10 581 758	12 168 840
C	550 088	494 284	1 259 145
D	286 353	467 389	715 362
E	437 731	382 159	387 909
Classified Total	**40 541 582**	**46 380 130**	**48 935 485**
Specific Provisions	1 313 061	1 406 854	1 818 465

The structure of deposits and loans in 2008 (%) (at year-end)

	Deposits	Loans
Households	58,6	23,3
Government sector	16,9	2,2
Corporate	16,2	59,5
Foreign	2,3	6,9
Other	6,0	8,2
Total	**100,0**	**100,0**

The structure of deposits and loans in 2009 (%) (at year-end)

Maturity of Deposits		Maturity of Loans	
At sight	31,8	Long-term loans	68,3
Within one year	45,5	Medium-term loans	
Over one year	22,6	Short-term loans	31,7
Total	**100,0**	**Total**	**100,0**

Proportion of foreign exchange assets and liabilities (at year-ends)

Type of the financial institutions	FOREX assets / Total assets			FOREX liabilities / Total liab.		
	2007	2008	2009	2007	2008	2009
Banks	6,0	6,1	5,0	5,0	4,9	3,5
Savings banks	0,1	0,1	0,0	0,1	0,1	0,0

Profit and Loss Account of Banks

	2007	2008	2009
	EUR thousands	EUR thousands	EUR thousands
Net interest income	816 357	944 562	932 185
Net fees and commissions	336 333	339 658	335 539
Net income from FI held for trading	135 747	-114 596	41 502
Net other	144 582	190 532	116 085
Gross income	**1 433 019**	**1 360 156**	**1 425 311**
Operating expenses	755 894	775 992	765 153
- labour costs	401 808	412 086	415 465
Net income	**677 125**	**584 164**	**660 158**
Net provisions and impairments	-162 954	-277 853	-499 635
Profit before taxation	**514 171**	**306 311**	**160 523**

Structure of registered capital and own funds of credit institutions in 2009

Type of credit institution	Registered capital	/Total assets	Own funds	/Total liab.
	EUR thousands	%	EUR thousands	%
Banks	871 256	1,7	4 590 454	9,0
Savings banks	9 169	2,3	25 698	6,5

2009 DEVELOPMENTS IN THE UKRAINIAN BANKING SYSTEM

MACROECONOMIC ENVIRONMENT

Due to the influence of the world financial crisis, in 2009 Ukraine saw a marked decline in the external demand for domestic products, foreign investment cuts, considerable complications with access to the external financial funds necessary for economic reforms, resulting in production and export downturn, reduction in all types of earnings, especially foreign exchange ones, created difficulties for budget replenishment as well as excess of demand for foreign currency over its supply.

In 2009, real GDP declined by 15.1% (in 2008 augmented by 2.1%) as industrial output fell by 21.9% to UAH 669.0 billion as of January 1, 2010, the decrease in real effective household income during the year making up 8.5% (in 2008 - 9.6% growth).

In 2009, foreign investments in fixed assets totaled UAH 6.9 billion which was 9.2% less than the previous year.

The inflation rate in 2009 equaled 12.3% (in 2008 - at 22.3%).

DEVELOPMENT IN THE BANKING SYSTEM

As of January 1, 2010, 182 banks had the banking license of the National Bank of Ukraine. Out of them: 176 banks (96.7% of the total number of banks licensed to perform banking operations) were joint stock companies, including 76 banks (41.8%) the open joint stock companies, 1 bank (0.5%) – the closed joint stock company, 99 banks (54.4%) – public companies, 6 banks (3.3%) – limited liability companies.

51 banks were established with foreign capital participation (in 2009, the number of banks with foreign capital went down from 53 to 51), out of them 18 banks had 100% foreign capital.

In 2009, the foreign capital in the registered authorized capital of Ukrainian banks augmented by 41%, its portion retreating to 35.8% in comparison with 36.7% as of January 1, 2009.

The foreign capital in Ukraine is represented by 24 countries. The largest share in the total foreign capital is presented by the capital of Russia (22.7%), Cyprus (13.2%), Austria (12.3%), France (12.0%), the Netherlands (7.3%), Hungary (6.7%), Sweden (5.9%) and Poland (5.5%).

The banks' activity in 2009 was characterized by asset shrinking, funding base reduction, increase in the share of problem loans and losses incurred by one third of banks.

The loan portfolio of Ukrainian banks decreased by 5.7% (in 2008 enlarged by 63.2%), equaling UAH 747 billion as of January 1, 2010.

The liabilities of Ukrainian banks shrank by 5.2% (in 2008 rose by 52.3%) and amounted to UAH 765 billion as of January 1, 2010.

In 2009, the total outflow of corporate and households' funds reached UAH 43.3 billion.

At the same time, positive trends in banks' activities also took place:

- the regulatory capital of banks increased by 10.3% in 2009 (in 2008 by 70.3%) to almost UAH 136 billion as of January 1, 2010;
- the regulatory capital adequacy (CAR) went up from 14.01% to 18.08%;
- the banks' total assets increased by 3% (by 57.2% in 2008), equaling UAH 1,002 billion as of January 1, 2010. Total banks' assets to GDP ratio made up 110%;
- lending in the domestic currency to corporates grew by 23% from UAH 221 billion to UAH 272 billion.

THE LEGAL AND INSTITUTIONAL FRAMEWORK OF THE OPERATION AND SUPERVISION OF FINANCIAL INSTITUTIONS, NEW DEVELOPMENTS. LEGAL COMPETENCE OF THE BANKING SUPERVISORY AUTHORITY IN UKRAINE

Banking activity in Ukraine is regulated by the following fundamental laws:

- On Banks and Banking;
- On the National Bank of Ukraine;
- On the Individuals Deposit Insurance Fund;
- On Economic Companies;
- On Joint Stock Companies;
- On Prevention and Counteraction to the Legalization (Laundering) of the Proceeds from Crime.

Pursuant to the Laws On the National Bank of Ukraine and On Banks and Banking, banking regulation and supervision in Ukraine are conducted by the National Bank of Ukraine.

MAIN STRATEGIC OBJECTIVES OF THE SUPERVISORY AUTHORITY IN 2009

In 2009, the National Bank of Ukraine took steps to stabilize the situation in the banking system of Ukraine, gradually slow down the funds outflow from banks, support bank liquidity, increase the capital, improve the legal framework and ensure appropriate supervision over banks' activities.

The National Bank of Ukraine made amendments to its regulatory and legal framework with the view of facilitating and speeding up banking system capitalization, maintaining banks' stable operations, improving provisional administrators' work, perfecting the procedure of liquidation and reorganization of the problem banks, renewal of lending and creating conditions for repayment of loans granted by banks.

THE ACTIVITIES OF THE BANKING SUPERVISORY AUTHORITY IN 2009

With a view to facilitate and expedite capitalization of the banking system, rules and regulations of the National Bank of Ukraine were amended along the following lines:

1) simplification of the procedure and reduction of time for bank statutory documents approvals and registration procedures, introduction of simplified procedures for authorized capital increase at the expense of shareholders (participants) of a bank and investors and reorganization of banks by owners' decision; determination of the procedures for capitalization of banks with participation of the state and the measures for financial recovery of the banks under provisional administration;
2) review for the period up to January 1, 2011 of the procedure of including the subordinate debt into the bank capital and the procedure of inclusion to the Core capital of paid-in but not registered contributions to the authorized capital;
3) providing banks with an opportunity to take into account the funds attracted as the subordinate debt for calculation of the regulatory capital, in the amount of 100% of the additional capital;
4) allowing banks that operate less than one year to attract funds on the terms of subordinate debt according to the requirements of the National Bank of Ukraine.

In order to resolve the issue of liquidity support loans to be provided by the National Bank of Ukraine in the event of an actual threat to stable activity of banks, the Temporary Regulation on the Liquidity Support Loans to be provided by the National Bank of Ukraine to banks in the event of a real threat to stability of the banking system was developed.

In April 2009, the Regulation on the Liquidity Support Loans to be provided by the National Bank of Ukraine to banks in the event of a real threat to stability of the banking system was approved.

In order to reduce the adverse effects of the financial and economic crisis on operations of Ukrainian banks, ensure their stable activity and stimulate lending to the economy of Ukraine, the Regulation On refinancing and extending loans to the Ukrainian banks by the National Bank of Ukraine was approved, which provided for the opportunity for banks to obtain funds from the National Bank of Ukraine, on the condition that the funds are further lent to the domestic manufacturers, and stimulated banks to revive lending for long-term economic programs of domestic manufacturers of the industries which are considered to be the priority for the state, taking into account their role and importance for the Ukrainian economy.

The measures were also taken to improve the procedure of liquidation and reorganization of problem banks:

1) in 2009, the National Bank of Ukraine introduced amendments to the Special Procedure for Financial Rehabilitation of Banks, approved at the end of 2008, concerning improvement of procedures for financial rehabilitation of banks through engagement of the bank shareholders (participants), third parties and the state to forming and increasing bank capital (capitalization) or through bank reorganization.
2) To meet the requirements of Law of Ukraine No. 1617-VI dd. July 24, 2009 "On Amendments to Some Legislative Acts as to Peculiarities of

Bank Financial Rehabilitation Measures" (Anti-Crisis Law) that was initiated by the National Bank of Ukraine, the following amendments were introduced:

the Regulation On application by the National Bank of Ukraine of the enforcement measures for violation of the banking legislation was amended in the part related to broadening the powers of the provisional administrator and improving the bank financial rehabilitation procedures;

the Regulation On Peculiarities of Bank's Reorganization upon Decision of a Bank Owners was amended to provide for changes in the procedure of bank reorganization through transformation without applying the procedure of legal entity winding-up.

3) in order to assist the provisional administrator in his/her activities and to ensure performance of his/her tasks, the National Bank of Ukraine compiled and introduced the Provisional Administrator Manual.
4) the bank liquidation procedure was improved, in particular with regard to empowering the liquidator to alienate assets and/or liabilities of the bank in order of priority of satisfying claims of creditors, improving forms of control of the liquidator's activities and the activities of a legal entity that has taken management of the unsold assets of the bank to be liquidated, etc.

In order to maintain stable operations of banks:
1) the calculation of liquidity ratios was improved;
2) a special control regime over banks' activities was introduced through appointment of a bank curator by the National Bank of Ukraine.

In order to improve lending procedures and establish conditions for repayment of loans granted by banks:
1) banks were given recommendations as to restructuring loan debts in order to create favourable conditions for borrowers in fulfillment of their obligations under loans; and the measures were introduced that encourage banks to reschedule loan debts and help in avoiding sharp decrease in their regulatory capital;
2) Recommendations were approved regarding banks' treatment of borrowers that have debts under consumer loans and face financial difficulties, as well as Memos for such borrowers with the aim to create acceptable conditions for ensuring fulfillment of obligations under consumer loans by individual borrowers.

ORGANIZATIONAL STRUCTURE OF THE BANKING SUPERVISORY AUTHORITY

In 2009, the following structural subdivisions within the National Bank of Ukraine were responsible for banking supervision:
- Bank Registration and Licensing Department;
- Department of Legal and Methodological Support of Banking Regulation and Supervision;
- Department of Off-Site Banking Supervision;
- Banks Inspection Department;
- Department for Prevention of Using the Banking System for Legalization of Proceeds from Crime and Financing of Terrorism

- Department for Crisis Management and Control of Open Market Operations;
- Banks Liquidation Division;
- Division of Legal Support for Banking Supervision

The general management of the above-mentioned subdivisions was effected by the Direction of Banking Regulation and Supervision and Deputy Governor of the National Bank of Ukraine who was in charge of banking supervision.

INTERNATIONAL ACTIVITIES OF THE BANKING SUPERVISION SERVICE

During 2009, the National Bank of Ukraine continued to work on establishing and deepening the cooperation with foreign supervisory authorities in the area of banking supervision. Particular attention was given to supervisory authorities of the countries whose banks have subsidiaries on the territory of Ukraine.

In 2009, the National Bank of Ukraine signed Bilateral Memoranda of Understanding on cooperation in supervision over credit institutions with the Commission for supervision over financial sector of Luxemburg, Polish Financial Supervision Authority (new version due to the change of regulator) and Hungarian Financial Supervision Authority, as well as a Multilateral Agreement on Cooperation and Coordination of the Supervision of OTP Group.

COOPERATION WITH OTHER SUPERVISORY AUTHORITIES

The National Bank of Ukraine, exercising the function of banking supervision, coordinates its activities and exchange of information with other domestic supervisory authorities, in particular the State Commission for Regulation of Financial Services Markets, the State Commission for Securities and Stock Market.

OTHER RELEVANT INFORMATION AND DEVELOPMENTS

With a view to assess the current and perspective solvency of banks and their viability in crisis, as well as determination of required amount of additional banks' capital, in the end of 2008 and in the beginning of 2009 a diagnostic study of banks was held according to the methodology and the procedure developed by the National Bank of Ukraine jointly with IMF experts.

The diagnostic study defined the banks that required additional capital, as well as possible ways and sources of capital increase (at the expense of current shareholders, engagement of new investors or capitalization with participation of the state).

STATISTICAL TABLES

Number of financial institutions (head offices/branches) (at year-ends)

Type of financial institution	2007	2008	2009
Banks	175	184	182
Financial institutions, total			

Concentration of asset by the type of financial institutions

Type of institution	The first three largest (%)	The first three largest (%)
Banks	23,1	34,5
Credit Cooperatives		
Financial Institutions		
Savings Cooperatives		
Specialized Credit Institutions		

Return on Asset (ROA) by type of financial institutions (%)

Type of institution	2007	2008	2009
Banks	1,50	1,03	-4,38
Credit Cooperatives			
Financial Institutions			
Savings Cooperatives			
Specialized Credit Institutions			

Return on Equity (ROE) by type of financial institutions (%)

Type of institution	2007	2008	2009
Banks	12,67	8,51	-32,52
Credit Cooperatives			
Financial Institutions			
Savings Cooperatives			
Specialized Credit Institutions			

The structure of assets and liabilities of the banking system (%) (at year-end)

Assets	2007	2008	2009
High liquidity assets	10,3	8,2	9,6
Credit portfolio	78,4	81,4	74,6
Investments in securities	4,6	4,2	3,9
Accounts receivable	0,3	0,3	2,7
Fixed and intangible assets	4,5	4,0	4,0
Accrued income	0,9	1,4	3,8
Other assets	1,0	0,5	1,4
Assets in total	**100,0**	**100,0**	**100,0**
Liabilities	**2007**	**2008**	**2009**
Funds of the NBU	0,3	7,5	11,0
Correspondent accounts of other banks	2,4	1,4	1,3
Budgetary and off-budget funds	0,8	0,3	1,1
Inter-bank credits and deposits	29,1	30,9	25,3
Funds of economic entities	21,1	17,8	15,1
Funds of natural persons	30,9	26,4	27,5
Funds of non-banking financial institutions	2,7	2,3	1,6
Credits from international and other financial organizations	3,7	6,4	5,5
Own debt securities	3,7	1,3	0,6
Subordinated debt	1,5	2,0	3,9
Accounts payable on transactions with banks and bank customers	0,5	0,6	0,4
Other liabilities	3,3	3,1	6,7
Liabilities in total	**100,0**	**100,0**	**100,0**

Solvency ratio of financial institutions

Type of credit institution	2007	2008	2009
Banks	13,92	14,01	18,08
Financial institutions, average			

Proportion of foreign exchange assets and liabilities (at year-ends)

Type of the financial institutions	FOREX assets / Total assets			FOREX liabilities / Total liab.		
	2007	2008	2009	2007	2008	2009
Banks	45,6	54,6	48,8	51,6	61,1	59,7

Structure of revenues and expenditures of financial institutions (at year-ends)

Revenues	2007	2008	2009
	74,6	72,1	84,7
Interest earned	18,3	16,2	11,3
Income from commissions	4,2	9,4	2,0
Performance of trade transactions	2,3	1,9	1,5
Other operating income	0,6	0,4	0,4
Other income	0,00	0,0	0,1
Recovery of written off assets	74,6	72,1	84,7
Unexpected income		-	-
Expenditures	**2007**	**2008**	**2009**
	46,5	44,1	36,7
Interest paid	2,3	1,9	1,7
Commission paid	5,5	5,4	4,9
Other operating costs	30,6	24,9	15,5
General administration expenditures	11,8	20,9	41,6
Allocation to reserves			
Extraordinary expenditures	3,3	2,8	-0,4
Income tax	46,5	44,1	36,7

Loans of the banking system of Ukraine

Type of credit institution	2007	2008	2009
Standard	47,31	44,07	29,59
Under control	39,51	38,50	30,17
Substandard	10,65	13,66	27,16
Doubtful	1,59	2,47	7,59
Loss	0,94	1,30	5,49
Total	**100,0**	**100,0**	**100,00**

MAIN GROUP EVENTS OF THE YEAR 2009

22nd Annual BSCEE Members' Conference

Minsk, Republic of Belarus, May 26 – 28, 2009

The Chairmanship of the BSCEE Group in 2009 was held by the National Bank of the Republic of Belarus and Mr. Pavel Kallaur, First Deputy Chairman of the Management Board of the National Bank of the Republic of Belarus was entrusted the position of the Chairman. Therefore, the 22nd Annual BSCEE Members' Conference was hosted by the National Bank of the Republic of Belarus, on May 26 - 28, 2009 in Minsk.

The first day of the two day's conference was devoted to *Banking supervision in the context of the world financial crisis*.

Presentations were made by the representatives of the following institutions:

- National Bank of the Republic of Belarus, *Banking supervision and banking sector of the Republic of Belarus in the context of world financial crisis*.
- Austrian Financial Market Authority, *Crisis related activities of the Austrian FMA and first lessons learned*
- National Bank of Slovakia, *Banking supervision in the context of the world financial crisis*
- Central Bank of Montenegro, *Banking supervision situation in Montenegro*

The second day focused both on the banking supervision in the context of the world financial crisis and the implementation of New Capital Accord (Basel II), on its practical issues, experiences and further improvement.

Presentations were made by the representatives of the following institutions:

- Polish Financial Supervision Authority, *Polish banking supervision in the context of the world financial crisis*
- Basel Committee on Banking Supervision, *Banking Supervision in the Context of the Global Financial Crisis* and *Implementation of the New Capital Accord (Basel II)*
- Bank of Italy, *Italian banking system in the context of the financial crisis*
- BSCEE Secretariat, *Report of the Secretariat*

According to the decision taken by the BSCEE Members in voting, the National Bank of the Republic of Macedonia was appointed for the BSCEE Chairmanship in 2010. Therefore, the 23rd Annual BSCEE Conference would take place in Macedonia.

FSI – BSCEE Regional Seminar

Bratislava, Slovakia, September 2 – 4, 2009

The National Bank of Slovakia in cooperation with the Financial Stability Institute and BSCEE Secretariat organized a regional seminar for BSCEE member countries on "Pillar II Implementation".

BSCEE Contact Persons' Meeting

Bratislava, Slovakia, January 20, 2009

On January 20, 2009 the BSCEE contact persons' meeting was hosted by the National Bank of Slovakia, Bratislava. The meeting was dedicated, among others, to discussing the possibility of benefiting from the BSCEE founds and to the subject of *Impact of the financial crisis on member countries*.

BSCEE CONTACT LIST

Supervisory Authorities of the Member Countries	Address	Web-site address
Bank of Albania	*Sheshi Skënderbej No. 1 Tirana, Albania*	www.bankofalbania.org
Austrian Financial Market Authority	*Otto-Wagner-Platz 5 1090 Wien Austria*	www.fma.gv.at
National Bank of the Republic of Belarus	*Fr. Skorina Av. 20 Minsk 220008 Republic of Belarus*	www.nbrb.by
Federal Banking Agency of Bosnia and Herzegovina	*Kosevo 3, Sarajevo Bosnia and Herzegovina*	www.fba.ba
Banking Agency of Republika Srpska of Bosnia and Herzegovina	*Vase Pelagića 11 A 78000 Banja Luka Republika Srpska*	www.abrs.ba
Bulgarian National Bank	*1, Alexander Blattenberg Square Sofia 1000, Bulgaria*	www.bnbank.org
Croatian National Bank	*TRG Hrvatskih velikana 3 Zagreb 10002, Croatia*	www.hnb.hr
Czech National Bank	*Prague 1,Na Prikope 28 115 03 Czech Republic*	www.cnb.cz
Estonian Financial Supervision Authority	*Sakala 4, Tallin 15030, Estonia*	www.fi.ee
Hungarian Financial Supervisory Authority	*Krisztina krt. 39. 1013 Budapest, Hungary*	www.pszaf.hu
Financial and Capital Market Commission	*2A Kr. Valdemara str. Riga, LV-1050, Latvia*	www.fktk.lv
Bank of Lithuania	*Jogailos str. 14 Vilnius, 2629 Lithuania*	www.lbank.lt
National Bank of Macedonia	*Post Box 401, Kompleks banki bb Skopje, 1000 Macedonia*	www.nbrm.gov.mk

National Bank of Moldova	*Renasterii Ave. 7, Chisinau MD-2006 Moldova*	www.bnm.org
Central Bank of Montenegro	*Bulevar Svetog Petra Cetinjskog 7 Podgorica, Montenegro*	www.cb-cg.org
Polish Financial Supervision Authority	*Plac Powstańców Warszawy 1 00-950 Warsaw, Poland*	www.knf.gov.pl
National Bank of Romania	*25, Lipscani str. Bucharest 1, Romania*	www.bnro.ro
Central Bank of the Russian Federation (Bank of Russia)	*12 Neglinnaya str. Moscow, 103016, Russia*	www.cbr.ru
National Bank of Serbia	*Kralja Petra 12, 11000 Belgrade, Serbia*	www.nbs.rs
National Bank of Slovakia	*Imricha Karvasa 1, 813 25 Bratislava, Slovakia*	www.nbs.sk
Bank of Slovenia	*Slovenska 35 1505 Ljubljana , Slovenia*	www.bsi.si
National Bank of Ukraine	*Institutskaya Str. 9. 252007, Kiev, Ukraine*	www.bank.gov.ua
Secretariat BSCEE	*Plac Powstańców Warszawy 1, 00-950 Warsaw, Poland*	www.bscee.org