



**Macedonian Bank for Development Promotion**

A 3D illustration of a bar chart with a line graph overlaid. The bars are light blue and show an overall upward trend. A thin line graph is drawn over the bars, showing fluctuations. A small, stylized human figure is positioned at the end of the chart, pointing towards the data.

**ANNUAL REPORT  
2010**

**Skopje, April 2011**

## Contents:

I	BUSINESS ENVIRONMENT.....	3
II	ABOUT THE BANK.....	3
III	BUSINESS POLICY AND OBJECTIVES .....	3
IV	REPORT ON CORPORATE GOVERNANCE .....	4
	1. Management bodies .....	4
	2. Organizational structure .....	13
	3. Shareholder's structure.....	15
	4. Corporate Governance Code.....	<b>Error! Bookmark not defined.</b>
	5. Conflict of Interest Protection Policy .....	<b>Error! Bookmark not defined.</b>
V	FINANCIAL RESULTS OF	
	OPERATION IN 2010 .....	Error! Bookmark not defined.
	1. Balance sheet.....	16
	2. Income statement .....	17
VI	CREDIT ACTIVITIES.....	19
	1. Credit lines from MBDP own funds.....	19
	2. Credit lines by foreign financial institutions and bilateral creditors.....	<b>Error! Bookmark not defined.</b>
	3. Credit portfolio .....	<b>Error! Bookmark not defined.</b>
VII	TRADE CREDIT INSURANCE .....	34
	1. Trade credit insurance instruments (export credit and domestic insurance).....	34
	2. Reinsurance agreement .....	<b>Error! Bookmark not defined.</b>
	3. Scope of work .....	35
VIII	RISK MANAGEMENT .....	38
	1. Credit risk.....	39
	2. Country risk.....	40
	3. Risk of concentration of exposure .....	40
	4. Liquidity risk.....	40
	5. Managing interest rate risk in the Banking book .....	<b>Error! Bookmark not defined.</b>
	6. Currency Risk.....	41
	7. Operational risk .....	41
	8. Legal risk .....	42
	9. Reputation risk .....	42
	10. Strategic risk.....	42
	11. Capital adequacy .....	42
IX	COMPLIANCE OF THE BANK'S OPERATIONS WITH THE REGULATIONS .....	Error! Bookmark not defined.
X	ACTIVITIES PURSUANT TO THE LAW ON PREVENTION OF MONEY LAUNDERING.....	Error! Bookmark not defined.
XI	INFORMATION TECHNOLOGY .....	44
XII	INTERNAL AUDIT .....	44

## I BUSINESS ENVIRONMENT

The last year, 2010, was characterised by improvement of the economic environment for companies' operations. The positive trends on a global level were felt in the domestic economy, too. As a result of the improved economic environment the Fitch Agency has raised the Macedonian rating to stable. In 2010, an agreement was made between the Government of the Republic of Macedonia and IMF for Precautionary Credit Line.

The business environment in Macedonia in 2010 was characterised by low increase of prices as a result of the electric power price increase and the import price of oil. The import is 60.6% covered by export, and the industrial production showed light decrease.

In regard with the monetary policy in 2010, it was less intense in relation to 2009. The interest rate of treasury bills of the National Bank of the Republic of Macedonia was diminished on several occasions. As of December 31, 2010 the gross currency reserves were EUR 1,714.5 million.

Due to the impact of the world financial crisis, on request of the economy, the Government of the Republic of Macedonia adopted anti crisis measures on several occasions targeting tax, credit and land policy, property matters, agriculture, construction, and social policy, as well as measures encompassing regulatory policy. In this context the EIB credit line was implemented of EUR 100 million.

## II ABOUT THE BANK

Macedonian Bank for Development Promotion (MBDP) is the only development bank in the Republic of Macedonia established with a special Law on Establishing the Macedonian Bank for Development Promotion (Official Gazette of RM no. 24/98, 6/2000, 109/2005 and 130/2008). A new Law on the Macedonian Bank for Development Promotion was adopted in 2009 (Official Gazette of RM no. 105/2009) in order to improve its position as a development bank, i.e. its specific role in the banking industry and in the Macedonian economy. The Law envisaged that to MBDP apply provisions of the Banking Law, unless otherwise regulated by the Law on MBDP. The Law on MBDP regulates that the National Bank performs the supervision on MBDP operations within its competences. The Ministry of Finance supervises operations of the MBDP performed on behalf of and for the account of the Republic of Macedonia. MBDP is responsible with all its assets for its liabilities.

MBDP's strategic orientation is to provide support to small- and medium-sized enterprises by offering wide spread of financial products (credit lines, guarantees and export credit insurance) tailored to the needs of final beneficiaries.

## III BUSINESS POLICY AND OBJECTIVES

MBDP's Business Policy is based on the Law on MBDP, the Banking Law, and other applicable regulations. Business Policy sets the Bank's objectives, Bank's operation elements, risk management, fund resources management, control of expenses, credit policy, insurance policy, personnel policy, etc.

During 2010, by taking appropriate measures and activities, MBDP was focused on implementation of set goals defined with the Business Policy, such as:

- Providing credit lines for small and medium sized enterprises with favourable interest rates,
- Facilitating access to credits,

- Introducing efficient credit approval procedures,
- Providing export credit insurance,
- Increasing the Macedonian products competitiveness by introducing new technologies.

Bank's Business Policy is based on the grounds of compliance with the legal regulations, respect of principle of liquidity, stability, solvency, profitability and low costs, professionalism and operating efficiency, flexibility toward borrower's needs, etc.

## IV REPORT ON CORPORATE GOVERNANCE

### 1. Management Bodies

The MBDP management in 2010 was carried out in conformity with the Banking Law, the Law on MBDP, the best corporate governance rules prescribed by the National Bank of the Republic of Macedonia Council and the code of corporate governance adopted by the General Meeting of Shareholders of the Macedonian Bank for Development Promotion. The particularity of MBDP as development bank, being in complete ownership by the Republic of Macedonia, should be taken into consideration in making assessment of the Bank management. In 2010, the Bank has carried out its operations through the following bodies:

1. General Meeting of Shareholders
2. Supervisory Board
3. Risk Management Committee
4. Auditing Committee
5. Board of Directors
6. Credit Committee
7. Insurance Committee

#### 1.1. General Meeting of Shareholders

The Republic of Macedonia is a sole shareholder of the Bank. The sole shareholder manages the Bank through the General Meeting of Shareholders represented by five persons – representatives of the state capital.

Members of the Supervisory Board are also representatives of the state capital in the Bank's General Meeting of Shareholders.

Bank's General Meeting of Shareholders in the reporting year held two regular meetings.

At the meeting held on 10.05.2010, the General Meeting of Shareholders adopted:

- Annual Report on the Bank's operations in 2009,
- Report on Supervisory Board operations with assessment of each board member performance and of the Board collective performance,
- Annual Report on Internal Audit operations in 2009,
- Report on the Audit Committee operations in 2009,
- Bank's annual account and financial statements for 2009 audited by an independent auditor of the Bank,
- Decision on use and allocation of the profit for 2009,
- Decision on adopting the list of Bank's net debtors for 2009,
- Financial Plan of the Bank for 2010,
- Business Policy of the Bank for the period 2010 – 2012, and
- Bank's Strategy for taking and managing risks.

At the session held on 22.10.2010, the General Meeting of Shareholders adopted the Decision for electing Grant Thornton DOO Skopje to be auditor of the financial statements of the Bank for the year ending on December 31, 2010.

## 1.2. Supervisory Board

During 2010, in conformity with the Banking Law and the Statute of MBDP, the Supervisory Board consisted of:

1. **Mr. Oliver Kosturanov**, Chairman of the Supervisory Board, MBA, Manager of SPMG CAPITAL, Director of SEAF – representative office Skopje, Manager of SEAF Macedonia LLC USA,
2. **Mr. Vladimir Cvetinovski**, Vice-chairman of the Supervisory Board, B.A. in economics, Manager of MARKET VISION – Skopje,
3. **Mrs. Jasminka Vaskova Taskova**, member of the Supervisory Board, B.A. in English Philology, Head of Department at the Government of the R. Macedonia,
4. **Mr. Armir Sadiki**, member of the Supervisory Board, B.A. in law, Head of Department at the Secretariat for implementation of the Ohrid Agreement in the Government of the Republic of Macedonia.

Supervisory Board members are at the same time representatives of the state capital in the Bank's General Meeting of Shareholders.

Bank's Supervisory Board has obligation to meet at least once a month in compliance with the Banking Law. The Supervisory Board supervise the operations of the Board of Directors, approve the policies for conducting financial activities and supervise their implementation. The Supervisory Board is responsible for ensuring good practice and management and bank stability, as well as timely and accurate financial reporting to the National Bank of the Republic of Macedonia.

The Supervisory Board has the following rights and obligations:

- Approves the Bank's business policy, development and financial plan,
- Appoints and dismisses members of the Bank's Board of Directors, and Risk Management Committee,
- Approves the establishment and the organization of the internal control system,
- Organizes Internal Audit Department and appoints and dismisses the employees in this department, approves the annual plan and provides written opinion on the annual report of the Internal Audit Department to the General Meeting of Shareholders,
- Approves the internal acts of the Bank: information security system policy, risk management policy, code of conduct, rules and procedures for the operations of the Auditing Committee, internal audit policy and procedures, etc.,
- Approves the annual account and the financial statements, the list of net debtors of the Bank, the plans and programs of activities, and general acts of the Bank,
- Discusses the supervisory reports, other reports submitted by the National Bank, the Public Revenue Office and other competent institutions and proposes, i.e. undertakes measures and activities for addressing the identified shortcomings in the Bank' operations,

- Discusses the reports on the activities of: the Board of Directors, Risk Management Committee, Auditing Committee, Internal Audit Department, Compliance Officer/Department,
- Approves exposure to individual entity exceeding 10% of the Bank's own funds,
- Approves exposure to individual bank exceeding 25% of the Bank's own capital,
- Approves the transactions with persons related to the Bank exceeding Denar 1,000,000.00,
- Approves the acquiring equity holdings and purchase of securities higher than 5% of the Bank's own funds, except purchase of securities issued by the National Bank and the Republic of Macedonia,
- Approves the proposal of the Auditing Committee for appointment of auditing company,
- discusses the report of the auditing company and submits written opinion thereon to the General Meeting of Shareholders,
- Approves the annual report on the Bank's operations and submits written opinion thereon to the Bank's General Meeting of Shareholders,
- Proposes the amount of the security reserves, makes decision for setting up special reserves and funds in the Bank, and for their amount,
- Sets the general conditions for trade credit insurance against commercial and political risk, establishes the total limit up to which the Bank may perform trade credit insurance against commercial and political risks,
- Provides consent for entering reinsurance agreements within the overall obligations of the Bank on the basis of the insurance operations,
- Approves agreements with the R. Macedonia,
- Performs other activities in compliance with the Banking Law and the Bank's Law and Statute.

Supervisory Board Members are entitled to a monthly compensation for the engagement in the Board on the grounds of the Decision adopted by the Bank's General Meeting of Shareholders.

During 2010, the Supervisory Board held 14 regular sessions and adopted the following acts:

- Financial plan of the Bank for 2010,
- Decision on approval of reinsurance agreement,
- Decision on the Bank's annual account and financial statements for 2009,
- Draft – Proposal for use and allocation of the Bank's profit for 2009,
- Decision on approval of list of net debtors as of 31.12.2009,
- Decision on amendment of the financial plan of MBDP operations in 2010,
- Decision on operational risk assessment adopted by the Risk Management Committee,
- Decision on setting limits for intermediary banks taking part in the Bank's credit lines,
- Decision on amendment of the Credit Policy no.02-1391/1 dated 09.07.2003,

- Decision on amendment of the Decision for interest rates of MBDP, no.02-1391/3 dated 09.07.2003,
- Decision on amendment of the Insurance Policy against short term commercial risk,
- Plan of operations of the Internal Audit Department for 2010,
- Decision on approval of the Policy for identification of potential conflict of interest and determining measures and activities to be undertaken in case of conflict of interest occurrence,
- Decision for approval of the Policy for liquidity risk management,
- Decision on establishing limits for intermediary banks,
- Bank's Public Purchase Plan for 2010,
- Decision for approval of the Accounts Receivable Insurance Policy (domestic and export credit insurance), no. 02-2856/4 dated 19.08.2010,
- Decision on approval of the Policy for identification, assessment, monitoring and currency risk control,
- Decision on approval of the proposal for designating an independent audit company by the Auditing Committee,
- Decision on approval of Risk Management Policy, no. 02-3483/1 dated 01.10.2010,
- Decision on approval of the Policy for identification and monitoring Bank's connected clients and persons/entities connected to the, no. 02-4385/6 dated 18.11.2010,
- Decision on establishing limit to Eurostandard Bank AD Skopje,
- Decision on amendment of a provision in the credit agreements from the GMF credit line, phase 1, 2, and 3,
- Decision on approval of the Country Risk Management Policy, no. 02-4997/5 dated 17.12.2010,
- Decision on approval of the Strategic Risk Management Policy, no. 02-4997/6 dated 17.12.2010,
- Decision on approval of the Country Risk Management Policy, no. 02-4997/5 dated 17.12.2010,
- Decision on approval of the Policy for determining impairment and allocation of special reserve by the Macedonian Bank for Development Promotion, no. 02-4997/7 from 17.12.2010,
- Decision on approval of Internal limits of exposure, no. 02-4997/8 dated 17.12.2010,
- Decision on approval of Policy for risk concentration management, no. 02-4997/9 dated 17.12.2010,
- Decision on approval of Reputation Risk Management Policy, no. 02-4997/10 dated 17.12.2010,
- Decision on approval of Credit Risk Management Policy, no. 02-4997/11 dated 17.12.2010,
- Decision on approval of Operational Risk Management Policy, no. 02-4997/12 dated 17.12.2010,
- Decision on approval of Policy for maintenance of adequate level of own funds, no. 02-4997/13 dated 17.12.2010,

- Credit Policy of the Macedonian Bank for Development Promotion AD Skopje (cleared version),
- Action Plan for launching direct financing and financial projections for the direct financing made on the basis of three scenarios, i.e. essential scenario, scenario with 50% repayment of the SMEs credit line realized through intermediary banks, and scenario with increased impairment.

The Supervisory Board adopted the reports, policies and other proposed documents regarding the Bank's operations in 2010.

Members of the Supervisory Board in compliance with article 51 of the Statute of the Macedonian Bank for Development Promotion, without holding a session, and for discussion and approval of credit applications primarily from the Programme for SMEs and priority lending from the EIB credit line of EUR 100,000,000, made decisions upon the credit proposals send by e-mail.

By the active work of the Bank Supervisory Board and pursuant to the Programme for SMEs and priority lending from the EIB credit line of EUR 100,000,000, financial support was extended to 235 projects as of 31.12.2010 and 5 (five) tranches were withdrawn from this credit line.

### **1.3. Risk Management Committee**

Risk Management Committee consists of three members. One of the members of the Board of Directors compulsory is a member of the Risk Management Committee, and the other members are persons with special rights and responsibilities employed in the Bank who have minimum three-year experience in the area of finance and banking.

Members of the Risk Management Committee during 2010 were:

- 1. Qenan Idrizi**
- 2. Aleksandar Stanojkovski**
- 3. Frosina Josifovska**

The Risk Management Committee has the following rights and responsibilities:

- permanently monitors and assesses the risk level of the Bank, and identifies the acceptable level of exposure to risk in order to minimize the loss of Bank's risk exposure,
- establishes risk management policies and monitors their implementation,
- follows the regulations of the National Bank pertaining to the risk management and the Bank's compliance with such regulations,
- analyzes the reports on the Bank's risk exposure developed by the Bank's risk assessment units,
- determines short- and long-term risk management strategies, measures and instruments for managing certain types of risk the Bank is exposed to, and analyzes the effects of the proposed risk management strategies, measures and instruments,
- monitors the efficiency of the internal control systems in the risk management,

- informs, at least once a month, the Supervisory Board, and at least once every three months the Auditing Committee on the changes in the Bank's risk positions, the changes in the risk management strategies, the risk management effects on the bank's performances as well as the undertaken measures and instruments for hedging risks and the effects thereof,
- reviews the transactions with the persons related to the Bank on a quarterly basis, and submits report to the Supervisory Board.

In 2010, the Risk Management Committee made decisions on sessions held at least once a week. During the reporting period 54 sessions were held. Each month, the Risk Management Committee reported to the Bank's Supervisory Board on its operations pursuant to the Banking Law.

#### 1.4. Auditing Committee

The Auditing Committee consists of five members with a 4-year term of office. Three members of the Auditing Committee are elected from among the members of the Supervisory Board, two are independent members, and at least one Auditing Committee member should be an authorized auditor. The following members of the Auditing Committee are appointed by the Decision of the General Meeting of Shareholders dated 18 December 2008:

1. **Miov Nikolaki** – President, B.A. in economics, authorised auditor, partner and employee in the auditing company Efekt plus
2. **Oliver Kosturanov**
3. **Armira Sadiki**
4. **Vladimir Cvetinovski**
5. **Elizabeta Cingarovska** – B.A. in economics, employee of Vip Operator Macedonia as tax expert

The Auditing Committee has the following rights and responsibilities:

- discuss the financial statements of the Bank and make sure that the disclosed financial information on the Bank's operations are accurate and transparent as specified by the accounting regulations and international accounting standards,
- review and make assessment of the internal control systems,
- monitor the operations and assess the efficiency of the Internal Auditing Department,
- discuss the reports of the Risk Management Committee,
- propose an audit company, monitor the Bank's audit process and assess the work of the auditing company,
- adopt the Bank's accounting policies,
- monitor the compliance of the Bank's operations with the regulations related to the accounting standards and the financial statements,
- hold meetings with the Board of Directors, the Internal Auditing Department and the auditing company as to the identified non-compliances with the regulations and weaknesses in the Bank's operations,
- report to the Bank's Supervisory Board on its operations at least once quarterly.

In 2010, the Auditing Committee held 6 sessions, at which the 2009 Bank's financial statements audited by KPMG – Skopje were adopted, and also information on credit risk, reports on operations of the Risk Management Committee, and reports of the Internal Audit Department on the audits performed in 2010 were reviewed.

Auditing Committee Members are entitled to a quarterly compensation for the operations of the Committee on the grounds of the Decision adopted by the Bank's General Meeting of Shareholders. The compensation was paid on regular basis.

### 1.5. Board of Directors

The Bank's Board of Directors consists of two members, appointed by the Supervisory Board with a decision from May 16, 2007, on a prior consent by the Governor of the National Bank. Members of the Board of Directors are appointed for a mandate of 6 years, and with application of the new Banking Law on MBDP's operations, the members of the Board of Directors are appointed as Chief Executive Officer and Chief Operating Officer.

Members of the Board of Directors are:

1. **Dragan Martinovski** – Chief Executive Officer
2. **Qenan Idrizi** – Chief Operating Officer

The Board of Directors of the Bank has the following rights and responsibilities:

- manage and represent the Bank;
- enforce the decisions of the General Meeting of Shareholders and the Supervisory Board of the Bank;
- take initiatives and give proposals for promoting the Bank's operations;
- appoint and dismiss the individuals with special rights and responsibilities;
- develop the Bank's business policy and development plan, financial plan of the Bank, information security policy, Bank's Code of Conduct, etc.;
- compile a list of net debtors of the Bank;
- prepare an annual report on the Bank's operations and submit it to the Supervisory Board;
- establish the internal organization and systematization of work and work tasks in the Bank;
- decide upon investment of funds obtained by trade credit insurance against commercial and political risks;
- perform other duties that the Bank Supervisory Board is not competent for.

The Board of Directors within its competences acquired by the Law and the Statute adopted all necessary internal acts that regulate the working conditions of the Bank in compliance with the regulations.

The Board of Directors reported to the Supervisory Board on its operations at least once a month.

In 2010, the Board of Directors adopted/reviewed the following procedures and manuals:

- Procedures on maintenance of adequate level of Bank's own funds, no. 11-3705/1 dated 30.12.2009,
- Procedures for determining impairment and allocation of special reserve by the Macedonian Bank for Development Promotion, no.11-3705/2 dated 30.12.2009,

- Procedure for preparing financial plan, no. 08-3699/1 dated 30.12.2009,
- Procedure on identification and monitoring Bank's connected clients and persons/entities connected to the Bank, no. 03-3722/1 dated 31.12.2009,
- Risk Management Procedures, no. 02-4961/1 dated 16.12.2010,
- Manual on record keeping of investments in securities, no. 08-3687/1 dated 30.12.2009,
- Manual on record keeping of liquidity credits traded on the money market, no. 08-3690/1 dated 30.12.2009,
- Manual on record keeping of fixed-term foreign currency deposits with domestic and foreign banks, no. 08-3692/1 dated 30.12.2009,
- Manual on record keeping of extended credits, net commission relations, and collateral (assets), no. 07-3721/1 dated 31.12.2009,
- Manual on record keeping of doubtful and contested claims, from banks in bankruptcy, no. 07-3721/4 dated 31.12.2009,
- Manual for making and updating of MBDP internal policies, procedures and instructions, no. 07-2709/1 dated 05.10.2009, (the revised manual has title: Manual on making and reviewing internal acts of MBDP).

The Board of Directors made decision the following procedures and manuals to remain in effect without additional amendments and modifications:

- Procedure for reception and payment of invoices, no. 08-3693/1 dated 30.12.2009,
- Procedure for operation and control of treasury, no. 08-3694/1 dated 30.12.2009,
- Procedure on estimation and payment of salary, no. 08-3695/1 dated 30.12.2009,
- Procedure on estimation of depreciation of intangible assets, property and equipment, no. 08-3696/1 dated 30.12.2009,
- Accounting procedures, no. 08-3697/1 dated 30.12.2009,
- Procedure for transfer of funds on an interim account, no. 08-3698/1 dated 30.12.2009,
- Procedure on managing denar and foreign currency liquidity, no. 08-3700/1 dated 30.12.2009,
- Procedure on investments in securities, no. 08-3701/1 dated 30.12.2009,
- Manual on salary record keeping, no. 08-3686/1 dated 30.12.2009,
- Manual on record keeping of the commitment for board members' compensation, no. 08-3688/1 dated 30.12.2009,
- Manual on record keeping of depreciation of intangible assets, property and equipment, no. 08-3689/1 dated 30.12.2009,
- Manual on record keeping of liabilities to suppliers, no. 08-3691/1 dated 30.12.2009,
- Manual for keeping accounting records on disbursed credits and deposits (liabilities), no. 07-3721/2 dated 1.12.2009,
- Manual on entries connected to micro credit line for SMEs - EAR , no. 07-3721/3 dated 31.12.2009,

The Board of Directors monitored the realization rate of the Bank's Action Plan for launching direct financing.

### **1.6. Credit Committee**

The Credit Committee consists of 3 members. The members of the Board of Directors are members of the Bank's Credit Committee pursuant to the Bank's Statute. The third member of the Credit Committee is appointed by the Supervisory Board of the Bank. The Credit Committee is composed of:

- 1. Dragan Martinovski**
- 2. Qenan Idrizi**
- 3. Toni Petroski**

The Credit Committee has the following rights and responsibilities:

- decide on the investments and credit debts, guarantees and other exposures to a borrower up to 10% of the Bank's own funds;
- approve exposure to an individual bank up to 25% of the Bank's own funds;
- discuss and approve loans, manage existing loans by providing current assessment on the borrower's creditability at least once a year, and terminate an agreement for an existing loan due to threat of non-payment of the credit liabilities;
- perform other duties stated in the credit policy established in compliance with the Law on Macedonian Bank for Development Promotion, Banking Law and this Statute.

In the course of 2010, the Credit Committee had meetings at which discussed and approved credit applications submitted by the intermediary banks participants in the MBDP credit programmes.

During the reported 2010, the Credit Committee held 25 meetings.

### **1.7. Insurance Committee**

The Insurance Committee consists of 3 members. The members of the Board of Directors are members of the Bank's Insurance Committee pursuant to the Bank's Statute. The third member of the Insurance Committee is appointed by the Supervisory Board of the Bank. The Credit Committee is composed of:

- 1. Dragan Martinovski**
- 2. Qenan Idrizi**
- 3. Toni Petroski**

The Insurance Committee has the following rights and responsibilities:

- set the necessary conditions for trade credit insurance against commercial and political risk;
- discuss and approve concluding an insurance agreement;
- assess risks of insurance operations;
- manage insurance policies by making current assessments of the insurance risk, at least once a year.

Above mentioned persons, i.e. the persons with special rights and responsibilities in the Bank have reported neither conflict of interest nor connection to third parties in compliance with the Banking Law.

The Insurance Committee held 16 meetings in 2010.

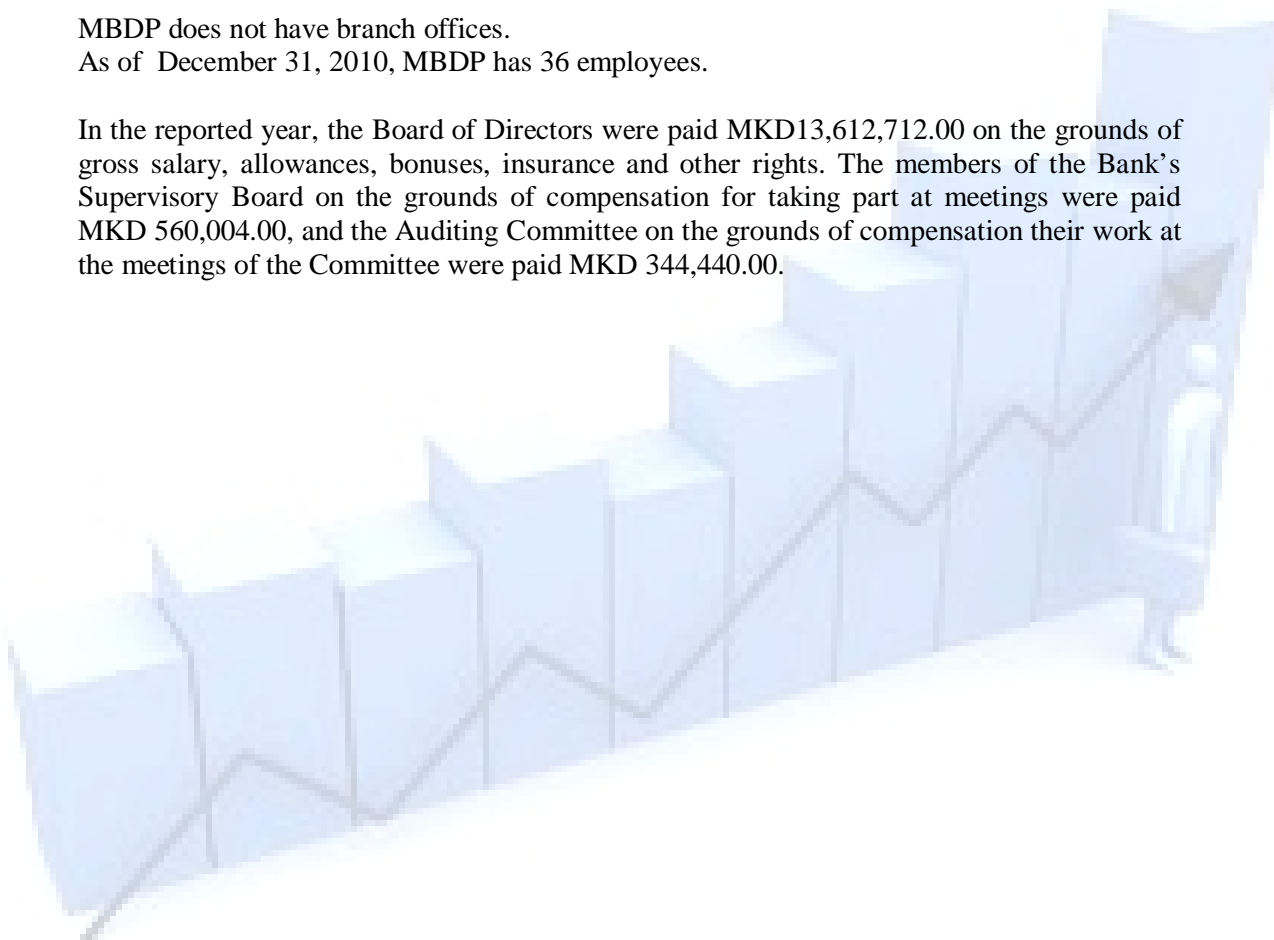
## **2. Organizational Structure**

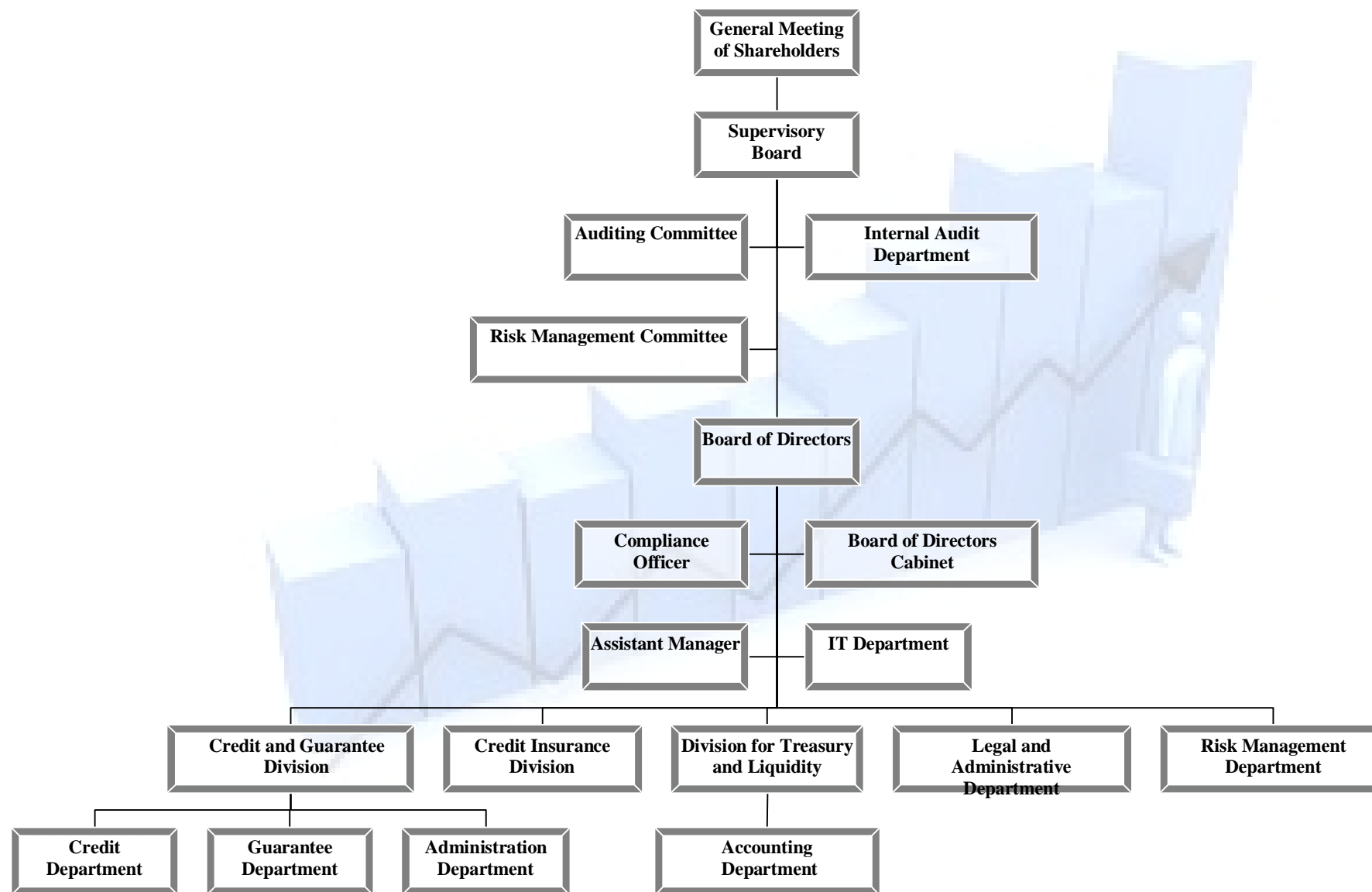
The Bank is organized in three divisions: Credit and Guarantee Division, Export Credit Insurance Division, Division for Treasury and Liquidity and four departments: Internal Audit Department, Risk Management Department, IT Department and Legal and Administrative Department. A compliance officer and anti-money laundering officer were appointed in the Bank.

MBDP does not have branch offices.

As of December 31, 2010, MBDP has 36 employees.

In the reported year, the Board of Directors were paid MKD13,612,712.00 on the grounds of gross salary, allowances, bonuses, insurance and other rights. The members of the Bank's Supervisory Board on the grounds of compensation for taking part at meetings were paid MKD 560,004.00, and the Auditing Committee on the grounds of compensation their work at the meetings of the Committee were paid MKD 344,440.00.





### 3. Shareholder's Structure

Pursuant to the Law on the Macedonian Bank for Development Promotion (Official Gazette no.105/2009), MBDP is a joint stock company and the Republic of Macedonia is the sole shareholder in the Bank. The Government of the Republic of Macedonia is subscribed in the Bank's Book of Shareholders with a total number of 384,103 ordinary voting shares at par value of Denar 3,108.00 per share.

### 4. Corporate Governance Code

The MBDP General Meeting of Shareholders at its session held on 18.12.2008 adopted the Corporate Governance Code of MBDP. Once a year, the Corporate Governance Code is subject of discussion and review by the Bank's Supervisory Board and subject of approval by the General Meeting of the Bank. The Code is prepared in compliance with the Decision of the National Bank Council on basic principles of corporate governance in a bank.

Macedonian Bank for Development Promotion, i.e. the Bank's management bodies and employees during 2010 in a whole adhered to the principles of corporate governance adopted in the Corporate Governance Code, such as:

- principle of protecting the rights and interests of the sole shareholder,
- principle of efficient governance,
- principle of efficient controll of financial and economic activities,
- principle of transparent and objective disclosure of information on MBDP,
- principle of legality and ethics,
- principle of social responsibility,
- principle of split of responsibilities,
- policy of solving corporate conflicts,
- principle of joint action with the employees and fair compensation,
- principle of industry and responsibility,
- personal data protection, and
- corporate advisor.

### 5. Conflict of Interest Protection Policy

Basic postulates for the Bank's conflict of interest protection policy are set forth in the Bank's Code of Conduct adopted by the Board of Directors and confirmed by the Bank's Supervisory Board at the session held on 18.12.2008 and the Policy on identification of potential conflict of interest and determining measures and activities undertaken in case of conflict of interest, no. 23-1837/1 dated 09.06.2010. At least once a year, the Code of Conduct is reviewed by the Bank's Supervisory Board.

Persons with special rights and responsibilities in the Bank provide written statement, bi-annually, on existence, i.e. non-existence of a conflict of their personal interest with the Bank's interests in compliance with the legal provisions and the provisions of the Bank's conflict of interest protection policy.

Members of the Bank's Supervisory Board, Board of Directors and the persons with special rights and responsibilities are not present when adopting decisions that question their

objectivity due to existence of conflict of interest between their personal and the Bank's interest on the grounds of the contents of the decision which is subject of adoption by a competent body. Members of the Bank's Supervisory Board, Board of Directors and the persons with special rights and responsibilities before making decision on matters regarding their conflict of interest, leave the meeting and provide written statement stating the grounds causing the conflict of interest.

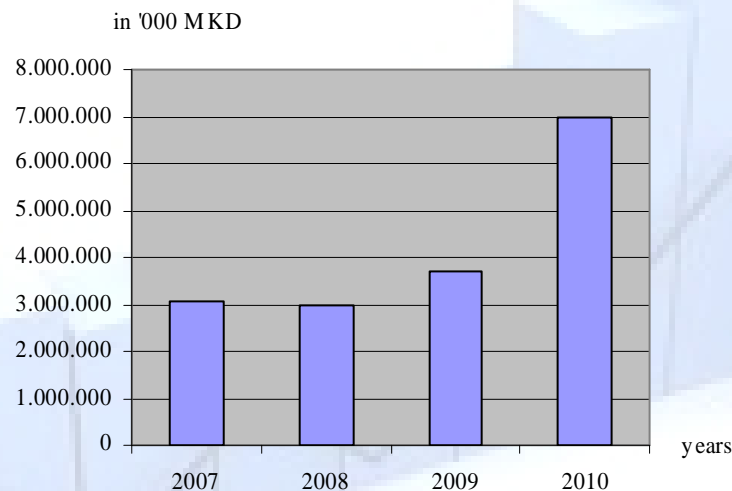
## V FINANCIAL RESULTS OF OPERATIONS IN 2010

As of 31 December 2010 the total balance amounts to 6,998,618 thousand denars, and has increased for 52.7% in comparison to the previous year.

### 1. Balance Sheet

#### 1.1. Assets

The movement of the balance sheet assets per year is shown on the following diagram:

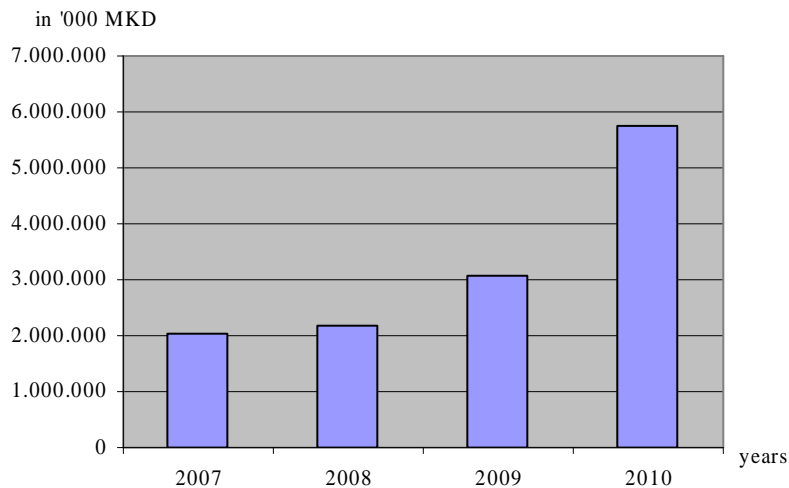


##### 1.1.1. Cash and Cash Equivalents

As of 31.12.2010 the cash and cash equivalents amount to 1,119,101 thousand denars, representing 16% of the Bank's total assets.

##### 1.1.2. Credits to and Receivables from Banks

The total net loans as at 31.12.2010 amount to 5,750,584 thousand denars, representing 82.2% of the total assets. The total net loans have increased for 87.7% in comparison to the previous year. Increase in total loan placements is mainly due to increase in placements of the credit line for small and medium sized enterprises and the credit line provided by the European Investment Bank.



## 1.2. Bank Fund Sources

### 1.2.1. Total Liabilities

Bank's total liabilities at 31 December 2010 reached an amount of 5,144,665 thousand denars, and achieved increase of 161.5% in comparison to the end of 2009. The increase in the total fund sources is mainly result of the increase in loan liabilities, i.e. disbursement of 3,231,957 thousand denars from the European Investment Bank credit line.

In the structure of the total loan fund sources, long term loan-fund sources show increase of 162.5% and in the total loan sources take part with 99.8% compared to 99.4% at the end of 2009.

### 1.2.2. Capital and Reserves

The share capital and reserves represent 26.5% of the total fund sources. The total Bank share capital as of 31 December 2010 was 1,853,953 thousand denars, composed of the initial capital, reserves established from the gained profit in the previous years and the profit in the current period.

## 2. Income Statement

Irrespective of the increased operational risks caused by the economic crisis, MBDP maintained stable condition and successfully concluded 2010.

In the period between 1 January 2010 and 31 December 2010 MBDP reached total income amounting to 239,524 thousand denars, expenses amounting to 109,474 thousand denars and positive financial results of 130,050 thousand denars.

In the reported period the total interest income amounted to 163,513 thousand denars and the total interest expense amounted to 49,050 thousand denars. The net interest income amounted to 114,463 thousand denars which was an increase of 28.8% comparing to the previous year. Net fee and commission income increased from 18,364 thousand denars in 2009 to 21,009 thousand denars in 2010, which is growth of 14.4%. The increase was result of the increased premium income due to the increased amount of insured export receivables against commercial and political risks.

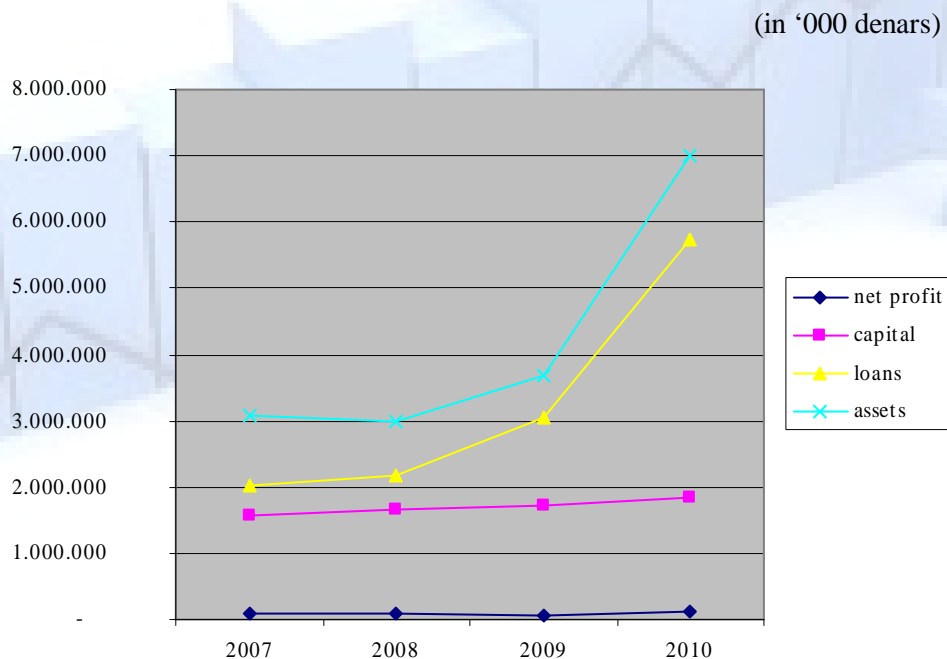
Income and expenses and fund resources in foreign currency or denominated in currency clause are presented in the income statement translated to denars at the exchange rate of the National Bank in the Republic of Macedonia on net base. Annually, on cross-section periods 2010-2009 the macedonian denar devaluated 0.5% in regard to euro, and as of 31 December 2010 the official exchange rate for 1 euro was 61.50 denars. In the reported period the net income of foreign currency differences amount to 8,740 thousand denars, and in the same period previous year the net expenses of foreign currency differences amount to 6.153 thousand denars.

The Bank in compliance with the regulations and adopted acts sets the percentage that determines the impairment and maintaining of provisions to cover possible credit risks. In 2010 the Bank released the impairment amount on financial assets and showed net income of 29,256 thousand denars.

Other expenses contain depreciation and amortization, overall and administrative costs and other operating expenses totalling 47,193 thousand denars, i.e. 6.8% lower than the same period previous year.

According to the changes in the Income Tax Law made on 1 January 2009, MBDP calculates and pays income tax on non-deductible expenses at rate of 10%. The income tax in 2010 amounted to 103 thousand denars, which was a decrease of 7.2% comparing to 2009 when it amounted to 111 thousand denars.

The Diagram below shows the movement of several balance items between 2007 and 2010.

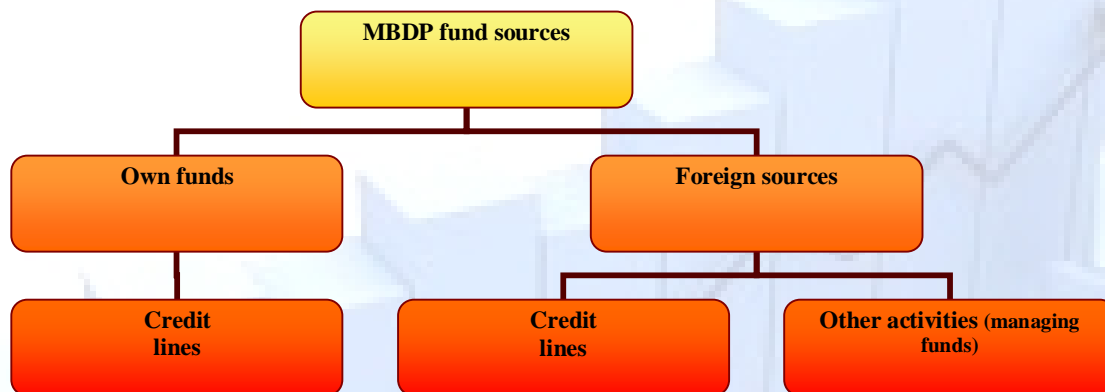


## VI CREDIT ACTIVITIES

In the course of 2010, MBDP carried out its credit activities through the twelve selected commercial banks:

- ❖ Export Credit Bank AD Skopje
- ❖ Sparkasse Bank Macedonia AD Skopje
- ❖ Eurostandard Bank AD Skopje
- ❖ Commercial Bank AD Skopje
- ❖ NLB Tutunska Bank AD Skopje
- ❖ Ohridska Bank AD Ohrid
- ❖ ProCredit Bank AD Skopje
- ❖ Stopanska Bank AD Bitola
- ❖ Stopanska Bank AD Skopje
- ❖ TTK Bank AD Skopje
- ❖ UNI Bank AD Skopje
- ❖ Central Cooperative Bank AD Skopje

MBDP used two sources of funds for financing its lending activities, its own funds and foreign sources, i.e. credit lines provided by foreign financial institutions and bilateral creditors.



### 1. Credit Lines from MBDP Own Funds

MBDP within its credit activities carries out credit lines of own sources which terms and conditions are shown below:

Credit line	Amount in EUR	Repayment period	End user interest rate
Financing small and medium sized enterprises	from 15,000 to 500,000	up to 8 years, grace period of up to 1 year included	8% p.a.
Financing export oriented production	from 30,000 to 2,000,000	up to 1 year without grace period	7% p.a. -0,5%*
Financing permanent working capital	from 30,000 to 300,000	up to 3 years without grace period	8% p.a.

\*-0.5% in case the export is insured with MBDP

### 1.1. SME Credit Line

The credit line is targeted to finance existing small- and medium-sized enterprises and start-ups. Improvement of the competitive advantage and job creation are key objectives of the credit line. Loans are intended for purchasing fixed assets and working capital. At least 50% of the loan funds should be used for fixed assets. Projects that provide higher technological development, jobs creating projects, etc., are considered to be priority projects.

In the course of 2010, 14 credit applications were approved out of this credit line, in amount of EUR 2,337,000. The most frequently financed industries with this credit line funds are: processing industry (44%), services (21%), furniture manufacturing (15%), food industry (9%), construction industry (6%), and transportation (5%).

### 1.2. Financing of Export Oriented Production

Credit line funds are intended for financing working capital for export oriented production. Credits are approved upon identified inflow from exports.

The export arrangements should provide net positive foreign exchange effect, thus contributing to the improvement of the trade and payment balance of the Republic of Macedonia. During 2010, the terms and conditions of the credit line were amended in order to diminish the end user interest rate from 8% to 7% p.a., as well as simplifying the application procedure. In the course of 2010, 4 credit applications were approved of this credit line in amount of EUR 1,606,950, and export was supported with around EUR 5,5million.

### 1.3. Credit Line for Financing Permanent Working Capital

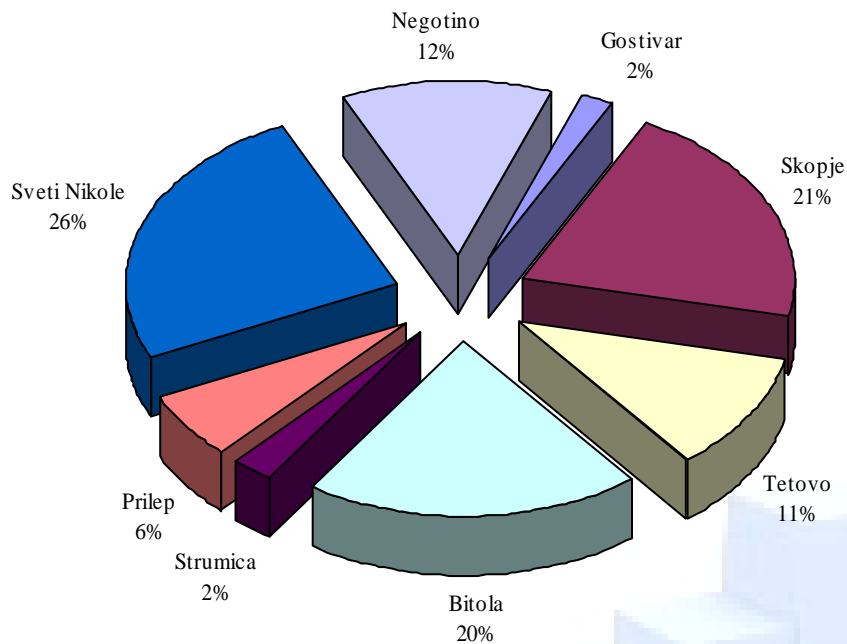
This credit line was designed to complement the permanent working capital credit line of the Italian commodity credit line revolving fund (point 2.2.). It was targeted to providing permanent working capital to SMEs in compliance with the needs of credit beneficiaries and their businesses. In 2010, two credits were approved from this credit line of EUR 60,000.

### 1.4. Extended Credits of Internal Funds

The extended credits out of MBDP own funds as per supported industry are shown below:

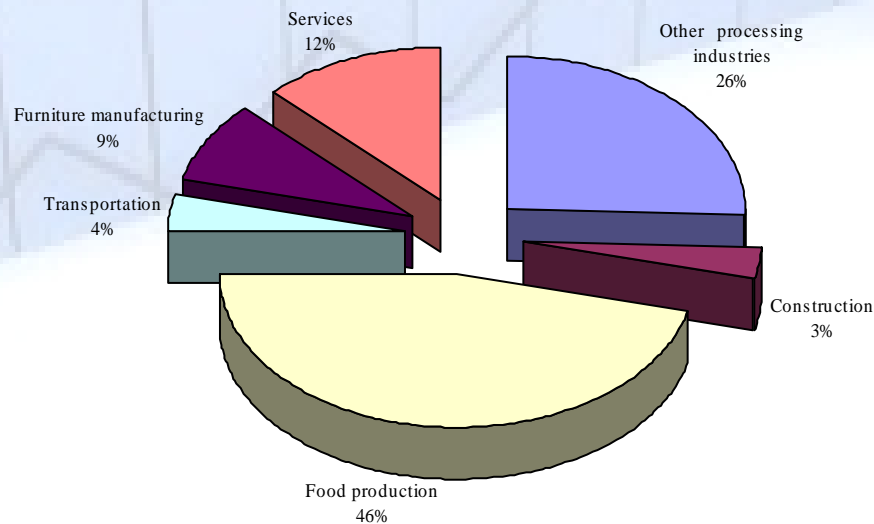
No.	Industry	in EUR		Index 2010/2009
		31.12.2009	31.12.2010	
1	Food production and textile	7.687.653	1.846.950	24,0
2	Wood processing and other wood products, paper, chemical and metal products	5.272.827	350.000	6,6
3	Other processing industries	293.947	1.026.000	349,0
4	Construction	827.564	127.000	15,3
5	Hotels and restaurants	2.046.847	-	0,0
6	Transportation	2.166.816	154.000	7,1
7	Health and education	632.850	-	0,0
8	Trade	2.552.069	-	0,0
9	Services	495.855	500.000	100,8
	<b>Total</b>	<b>21.976.428</b>	<b>4.003.950</b>	<b>18,2</b>

Graph: Extended funds of own sources by city in 2010.



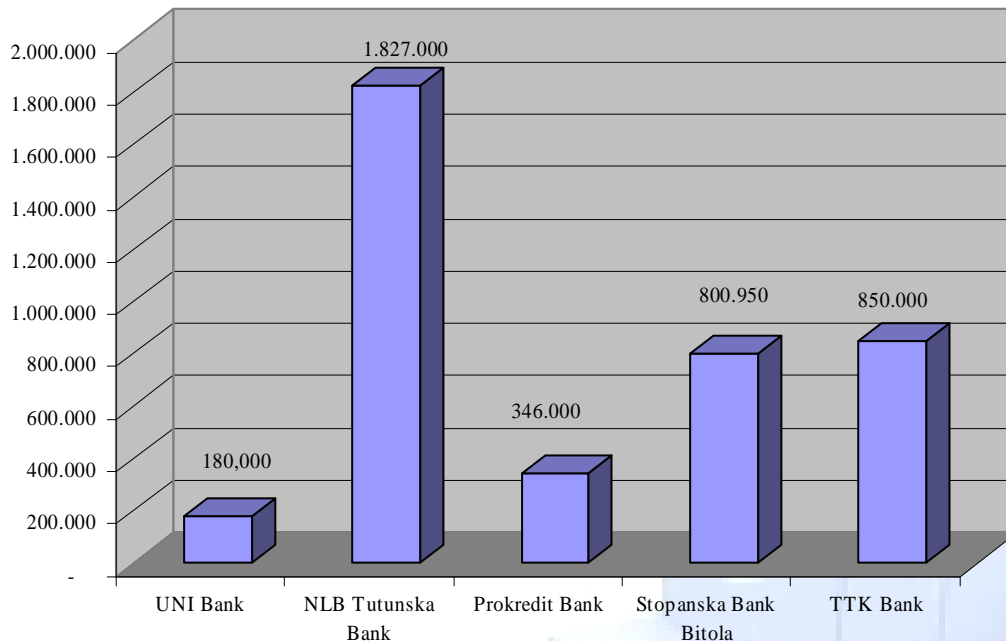
It is shown that the most part of the credits are disbursed in Sveti Nikole (25%), Skopje (21%), and Bitola (19%), and less number are approved in Negotino, Tetovo, Prilep and Strumica.

Disbursed credits by industry in 2010 are presented in the Graph below:



Regarding the credit structure by industry financed by Bank's own funds, most of the financed projects are in the area of food production (46%), other processing industry (26%), services (13%), furniture manufacturing (9%), and transportation and construction industry (3% each).

Utilization of credit programmes of own funds by intermediary banks in 2010 are presented in the Graph below. The most of the funds were disbursed through NLB Tutunska Bank and TTK Bank, followed by Stopanska Bank Bitola, ProCredit Bank and Uni Bank.



If comparing 2009 and 2010, it can be seen a trend of lower use of the MBDP credit lines of own funds, primarily due to the emphasis of the EIB credit line of EUR 100 million. Investment credits and working capital credits of this credit line with interest rate of 5.5% and longer repayment period were attractive to SMEs. (more in point 2.2.).

## 2. Credit Lines by Foreign Financial Institutions and Bilateral Creditors

MBDP as a development bank, in order to enlarge the scope of financial instruments, use sources of funds from domestic and foreign financial institutions and bilateral creditors. These credit lines are shown below:

Credit Line	Amount	Repayment period	End user interest rate
EIB credit line for investment credits	from 10,000 up to 3,500,000 EUR	up to 5 years with up to 12 months grace period included	5,5% p.a.
EIB credit line for permanent working capital (TOS)	from 5,000 up to 666,700 EUR	up to 3 years with up to 6 months grace period included	5,5% p.a.
EIB credit line for priority projects	up to 12,500,000 EUR	up to 15 years with up to 36 months grace period included	5,5% p.a.
Commodity Credit Line from the Republic of Italy Revolving Fund	from 50,000 up to 500,000 EUR	up to 3 years with up to 6 months grace period included	7%*, 8% p.a.

Credit Line for financing of micro, small and medium sized enterprises from KfW (KMB1, KMB2, KMB3)	up to 50,000 EUR	up to 4 years	determined by the intermediary bank
Credit Line from the Council of the European Development Bank - CEB	up to 400,000 EUR	up to 7 years with up to 2 years grace period included	around 9% p.a.
Sustainable Energy Project (energy efficiency)	up to 60% of the project value from 20,000 up to 500,000 USD	up to 6 years	determined by the intermediary bank
Sustainable Energy Project (renewable energy sources)	up to 60% of project value from 50,000 to 4,000,000 USD	up to 10 years with up to 3 years grace period included	determined by the intermediary bank
Project "Financial support for self employment"	for 1 unemployed person – 3,000 EUR, maximum 15,000 EUR; for 1 unemployed redundant person – 4,000 EUR, maximum -20,000 EUR	up to 3 years with 1 year grace period included	1 % p.a., interest not paid during grace period
Agricultural Credit Discount Fund – Revolving OKF (ZKDF)	up to EUR 100,000 for primary agricultural production up to EUR 300,000 for processing agricultural products (except for mills) and up to EUR 200,000 for export trade of primary agricultural products	agreed with the financial institution	from 4,5% up to 5,5% p.a.

\* 7% in case the Borrower used funds from the commodity credit line from R. Italy

## 2.1. EIB Credit Line

Funds are provided by the European Investment Bank credit line in amount of 100,000,000 EUR. Funds are utilized for financing fixed assets and permanent working capital.

The following credit programs are initiated from the funds of this credit line:

### 2.1.1. Investment Loans from EIB

Single credit amount intended to final beneficiaries:	Micro enterprises, credit up to 45,000 EUR Small enterprises credit up to 450,000 EUR Medium enterprises credit up to 3,500,000 EUR
Repayment period:	up to 5 years
Grace period included:	up to 12 months
Purpose:	Support of identified projects: <ul style="list-style-type: none"> <li>• Purchasing fixed assets: <ul style="list-style-type: none"> <li>○ Real estate (except land)</li> <li>○ Equipment</li> <li>○ Working capital (not exceeding 30% of the loan value)</li> </ul> </li> </ul>

	<ul style="list-style-type: none"> <li>Investment in intangible assets (development, planning and financing in the construction phase, and salary and other related to the phase of research and development)</li> </ul>
--	--

### 2.1.2. Loans for Permanent Working Capital from EIB

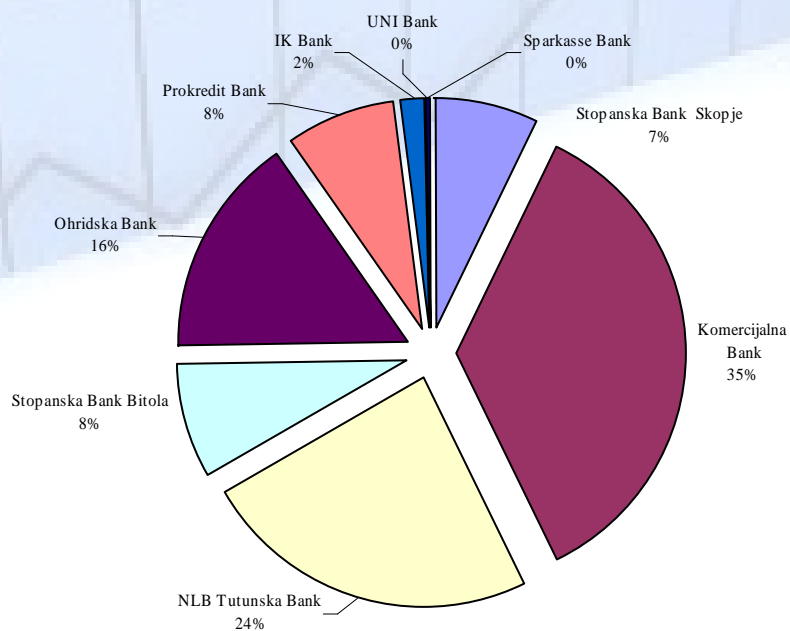
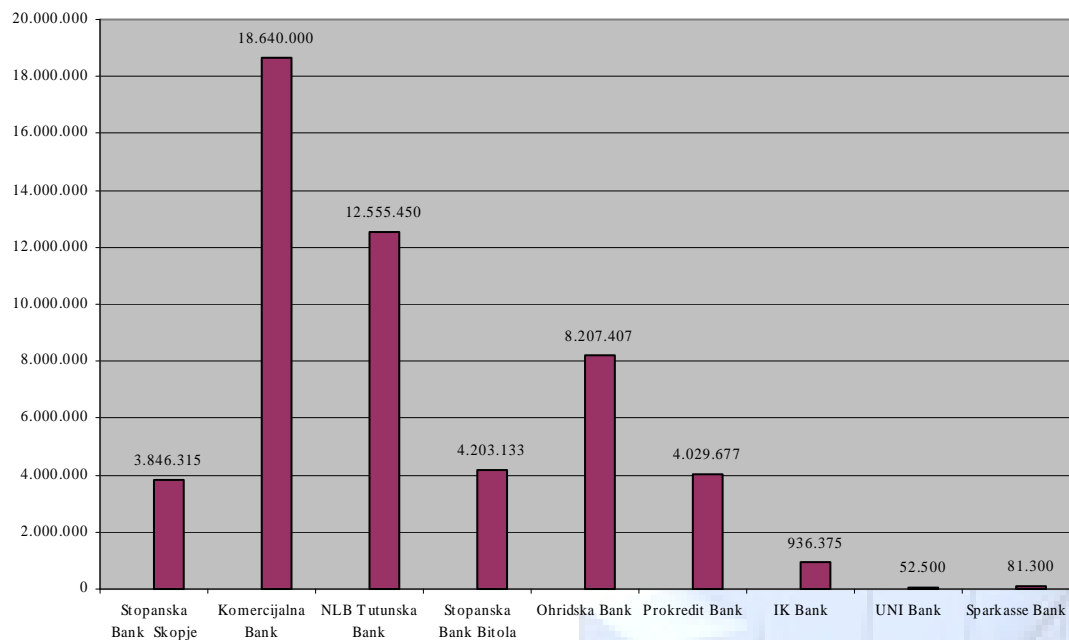
Single credit amount intended to final beneficiaries:	Micro enterprises credit up to 20,000 EUR Small enterprises credit up to 200,000 EUR Medium enterprises credit up to 666,700 EUR
Repayment period:	Not less than 2 years & not more than 3 years
Grace period included:	Up to 6 months
Purpose:	To fulfil the requests for permanent increase of working capital within expansion of company business operations

### 2.1.3. Loans for Priority Projects from EIB

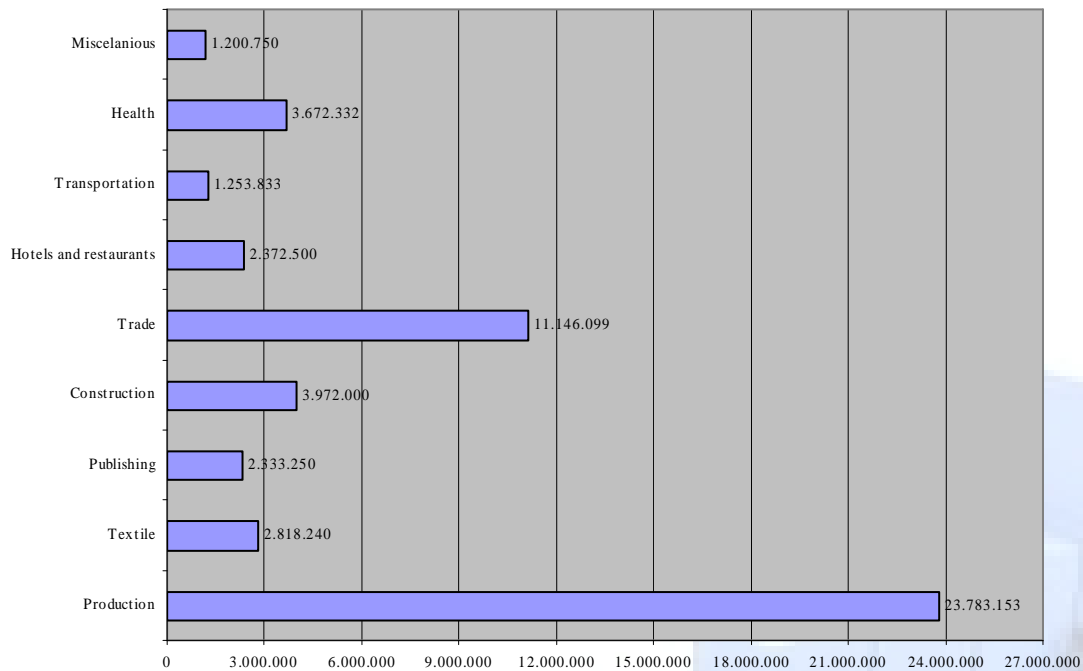
Single credit amount intended to final beneficiaries:	Up to 12,500,000 EUR
Repayment period:	Up to 15 years
Grace period included:	Up to 3 years
Purpose:	Support to priority projects in the area of industry, education, culture, ecology, etc.

The first tranche was disbursed at the end of 2009 in amount of EUR 12,465,771. The funds provided financial support to 35 projects. In 2010, 5 more tranches were withdrawn of EUR 52,552,157 out of which 234 credits were approved. It should be taken into consideration that in 2010 this credit line become very attractive due to decrease of the interest rate from 6% to 5.5% p.a. and increase of the MBDP participation from 75% to 100%.

The structure of the disbursed credits by banks is presented below. It can be seen that the largest number of credits are disbursed through Komercijalna Bank, NLB Tutunska Bank, and Ohridska Bank.

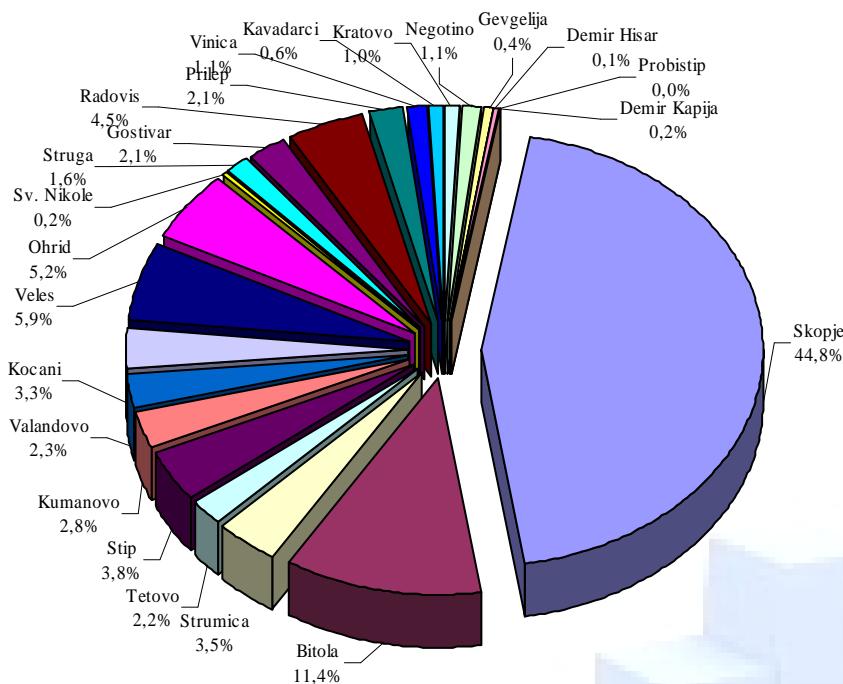


In 2010, project from various industries were financed with the funds of the EIB credit line, see below:



The geographic dispersion of disbursed credits from the EIB credit line by cities is shown below:

No.	City	Amount
1	Skopje	23,544,225
2	Bitola	5,974,090
3	Strumica	1,814,500
4	Tetovo	1,144,549
5	Stip	2,010,500
6	Kumanovo	1,445,878
7	Vlandovo	1,227,875
8	Kocani	1,712,500
9	Veles	3,076,000
10	Ohrid	2,711,500
11	Sv. Nikole	108,840
12	Struga	825,000
13	Gostivar	1,124,325
14	Radovis	2,343,750
15	Prilep	1,078,250
16	Vinica	576,375
17	Kavadarci	333,750
18	Kratovo	535,000
19	Negotino	564,750
20	Gevgelija	189,750
21	Demir Kapija	122,250
22	Demir Hisar	75,000
23	Probistip	13,500
<b>Total</b>		<b>52,552,157</b>



## 2.2. Commodity Credit Line from the Republic of Italy - Revolving Fund

Within the bilateral cooperation between the Republic of Macedonia and the Republic of Italy, the governments of these two countries in May, 1999, have signed the Financial Convention for granting a Commodity Credit Line in an amount of EUR 12.7 million to be used for purchasing machines, equipment, and technology from Italian origin. Funds were granted for projects that will provide new production, modernization, completion of the production process and overcoming of bottle necks. The credit fund is fully utilized. The credit line was implemented through the commercial banks. The revolving fund was created from the repaid funds for financing permanent working capital with 3-year repayment period. In 2010, two credit applications were approved from this fund in an amount of 112,500 euros. The total amount of disbursed credits as of 31 December 2010 for this credit line together with the revolving fund is 4,761,450 euros.

## 2.3. German – Macedonian Fund for Returnees from Germany – DEG

In November 2003, the fund which was established with the contribution of the Government of the Federal Republic of Germany, and which purpose was to provide finance to returnees from FR Germany was prematurely closed.

In March 2004, the contribution of the Ministry of Finance was restructured and transformed in credit relation between MBDP and the Ministry of Finance (MF). The funds of this credit line in an amount of EUR 3.5 million, in compliance with the agreement with the Ministry of Finance, were directed to MBDP credit programs, i.e. to support the SMEs and the export oriented production.

#### 2.4. SME Credit Line from KfW (KMB 1)

Macedonian Bank for Development Promotion was appointed as an Agent of the Fund established with the funds of this credit line. The credit line funds are disbursed through Izvozna and Kreditna Bank ad Skopje, NLB Tutunska Bank ad Skopje, ProCredit Bank ad Skopje and savings house Moznosti. The credit line is fully utilized.

Credit beneficiaries are as follows:

- micro and small enterprises,
- individual entrepreneurs,
- craftsman,
- sole traders,
- vendors,
- other micro and small entities.

##### *Amounts withdrawn by intermediary banks as of 31.12.2010*

Intermediary bank	EUR
Izvozna and Kreditna Bank AD Skopje	1,500,000
NLB Tutunska Bank AD Skopje	500,000
Prokredit Bank AD Skopje	2,000,000
Savings House Moznosti DOO Skopje	1,394,750
<b>Total</b>	<b>5,394,750</b>

#### 2.5. SME Credit Line from KfW (KMB 2)

This credit line in total amount of EUR 6,2 million is used for financial support of micro-, small-, and medium-sized companies in the Republic of Macedonia. The credit line is completely implemented through NLB Tutunska Banka, Izvozna and Kreditna Banka and Procredit Banka.

##### *Amounts withdrawn by Intermediary Banks as of 31.12.2010*

Intermediary bank	EUR
Izvozna and Kreditna Bank AD Skopje	2,050,000
NLB Tutunska Bank AD Skopje	1,300,000
Prokredit Bank AD Skopje	1,900,000
<b>Total</b>	<b>5,250,000</b>

## 2.6. SME Credit Line from KfW (KMB 3)

This credit line in a total amount of EUR 7.6 million is assigned for financial support of micro-, small-, and medium-sized companies in the Republic of Macedonia. The credit line is carried out through IK Bank ad Skopje, Sparkasse Macedonia ad Skopje, and ProCredit Bank ad Skopje as follows:

*Amounts withdrawn by Intermediary banks as of 31.12.2010*

Intermediary	EUR
Izvozna and Kreditna Bank AD Skopje	662,500
Sparkasse Macedonia AD Skopje	750,000
Prokredit Bank AD Skopje	1,630,462
<b>Total</b>	<b>3,042,962</b>

## 2.7. Credit Line from the Council of the European Development Bank – CEB

The purpose of the credit line is to preserve the existing and create new jobs with the small and medium sized enterprises in the Republic of Macedonia. Potential final beneficiaries should have up to 250 employees, total assets up to EUR 11 million and capital held by non SME less then 1/3 of the total capital.

The credit line is carried out through three selected commercial banks (Komerцијална Bank ad Skopje, Ohridska Banka, ad Ohrid and Stopanska Banka, ad Bitola) that frame agreements were concluded with.

The exposure to intermediary banks with this credit line as of 31.12.2010 is as follows:

Intermediary Bank	EUR
Komerцијална Bank AD Skopje	413,897
Ohridska Bank AD Ohrid	1,516,920
<b>Total</b>	<b>1,930,817</b>

## 2.8. Sustainable Energy Project

In February 2007, the International Bank for Reconstruction and Development (IBRD) and the Ministry of Finance of the Republic of Macedonia signed an agreement for implementation of the Project for Sustainable Energy. In the course of 2010, some amendments to the Project were made, i.e. the credit fund was decreased from US\$3,7 to US\$1,5 million. Portion of the funds was redirected to the Ministry of Economy for implementation of energy efficiency projects on public buildings.

Pursuant to the concluded agreements among the Ministry of Finance of RM and IBRD, MBDP takes part in the Project with its own funds of US\$ 1,5 million, i.e. ratio 50:50. The purpose of the funds is to provide finance to projects which value does not exceed:

- US\$ 500,000 for energy efficiency projects
- US\$ 4,000,000 for renewable energy projects

The funds are placed through the commercial banks that MBDP has concluded cooperation agreements with, Komercijalna Bank AD Skopje, UNI Bank AD Skopje, IK Bank AD Skopje, and Ohridska Bank AD Ohrid.

In 2010, one credit application was disbursed in amount of EUR 1,830,000 for building of a Photovoltaic Power Plant. The credit facility was disbursed through Ohridska Bank AD Ohrid.

## **2.9. Other Credit Lines and Projects**

### **2.9.1. Project "Financial support for self employment"**

The project "Financial support for self-employment" of the Government of the Republic of Macedonia started in 2008 (through the Employment Bureau of RM). The aim of the Project is to create an efficient system of economic and social support and productive involvement of the unemployed category of people in the Republic of Macedonia. The credit programme is aimed to support the long time unemployed people, unemployment compensation beneficiaries and first time employed young people. Credit beneficiaries are obliged to stay out of the unemployment list at least until the repayment of the credit.

MBDP, acting as an Agent, signed agreements with three intermediary banks for implementation of this Project including: Sparkasse Macedonia AD Skopje, Ohridska Bank AD Ohrid, and NLB Tutunska Bank AD Skopje.

An unemployed person may submit credit application up to EUR 3,000, and if the person is redundant, he/she may submit application of maximum EUR 4,000. As of 31 December 2010, MBDP by implementing this project provided support to unemployed persons in total value of EUR 9,527,968.

### **2.9.2. Agricultural Credit Discount Fund (ACDF)**

Pursuant to the Decision of the Government of the Republic of Macedonia, beginning from July 1st, 2010, the ACDF credit line was managed by MBDP, regulated by the Administration Agreement made between the Ministry of Finance and MBDP.

Essential amendments on the manner of implementation of the credit line by changing the institution-administrator were not made, and MBDP has undertaken all necessary activities for further successful implementation of the credit line.

Nine financial institutions are taking part in the implementation of ACDF, out of which 7 are commercial banks and 2 are saving houses, which facilitate the access to funds through their network of branches on the territory of the Republic of Macedonia.

In order to increase the accessibility to funds and improve the credit conditions by increasing the competition, MBDP undertakes activities to increase the number of financial institutions involved in this credit line. In the last quarter of 2010, MBDP received letters of interest for inclusion in the implementation of this credit line by Ohridska Bank AD Ohrid and ProCredit Bank AD Skopje. On the basis of the due diligence of both banks operations, pursuant to the defined eligibility criteria for taking part in the implementation of the ACDF credit line, MBDP required a consent by the Ministry of Finance to include Ohridska Bank AD Ohrid and ProCredit Bank AD Skopje in this credit line.

The implementation of the ACDF credit line had slower dynamics in 2010 compared to the previous period, due to the economic crisis that resulted in application of more restrictive credit policy by the financial institutions involved, and postponing of the planned investments by the potential credit beneficiaries.

Implementation of the ACDF credit activities commenced in October, 2003, and as of December 31, 2010, 4,832 credits were disbursed in total amount of EUR 49,7 million, i.e. EUR 38,0 refinanced through ACDF (total of all sources of funds IFAD 1, IFAD 2, PSDL 1, PSDL 2, and EIB). The average credit amount is EUR 10,302.

Year	2003	2004	2005	2006	2007	2008	2009	2010	Total
Number of disbursed credits	18	400	761	1,131	435	1,183	513	391	4,832
Amount of approved refinancing (in million EUR)	0.3	2.1	2.6	4.5	2.0	12.2	10.5	3.8	38.0

There is an appropriate balance in the structure of the number of disbursed credits between the banks and saving houses. The most active in the implementation of the credit line are NLB Tutunska Bank AD Skopje (1,520 disbursed credits or 36% of the total refinanced amount), Sparkasse Bank Macedonia AD Skopje (1,221 disbursed credits or 28% of the total refinanced amount) and savings house Moznosti (1,517 disbursed credits or 12% of the total refinanced amount). The involvement of other financial institutions is equally important.

Financial institution - Intermediary	Number of disbursed credits	% of the total number of disbursed credits	Total amount of disbursed credits (EUR)	% of the total amount of disbursed credits	Total amount of approved refinancing (EUR)
1 Komercijalna Bank AD Skopje	111	3	7,59,066.21	15	5,923,699.22
2 Sparkasse Bank Macedonia AD Skopje	1,221	25	14,001,104.35	28	10,830,277.23
3 UNI Bank AD Skopje	4	0	444,000.87	1	355,200.00
4 NLB Tutunska Bank AD Skopje	1,520	31	17,812,304.97	36	13,621,914.24
5 Stopanska Bank AD Bitola	33	1	1,337,800.68	3	1,069,927.60
6 Stater Bank AD Kumanovo	185	4	1,926,684.46	4	1,468,201.56
7 Savings House FULM	241	5	563,497.19	1	419,753.72
8 Savings House MOZNOSTI	1,517	31	6,001,750.97	12	4,338,337.54
9 Stopanska Bank AD Skopje	0	0	0	0	0
<b>Total</b>	<b>4,832</b>	<b>100</b>	<b>49,680,209.70</b>	<b>100</b>	<b>38,027,311.11</b>

Out of the total number of disbursed credits, 94% are credits for primary production up to EUR 100,000, 5% are SMEs credits for agricultural products processing of up to EUR 300,000, and 1% are credits for export of agricultural products up to EUR 200,000. The structure by value shows that the participation of the primary agricultural production credits is the highest EUR 28.6 million or 58% of the total disbursed funds. Follow credits for agricultural products processing 18.8 million (38%) and credits for agricultural products export in amount of EUR 2.3 million (4%).

Credit category	Number of disbursed credits	% of the total number of disbursed credits	Total amount of disbursed credits (EUR)	% of the total amount of disbursed credits	Total amount of approved refinancing (EUR)
1 Primary agricultural production credits	4,541	94	28,570,397.63	58	21,576,576.23
2 Credits for agricultural products processing	252	5	18,800,159.65	38	14,684,478.37
3 Credits for agricultural products export	39	1	2,309,652.42	4	1,766,256.51
<b>Total</b>	<b>4,832</b>	<b>100</b>	<b>49,680,209.70</b>	<b>100</b>	<b>38,027,311.11</b>

### 2.9.3. EAR Credit Line

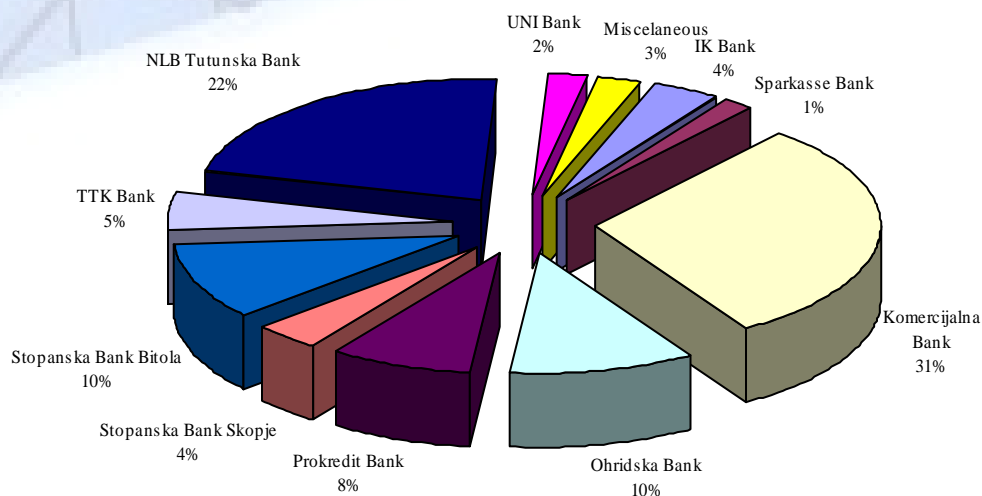
EAR credit line was used for financing SMEs. In this credit program MBDP acted as an Agent and pursuant to the conditions stipulated in the contract, the Bank since 01.01.2008 only collects the disbursed funds.

As at 31<sup>st</sup> December, 2010 exposure to this credit line is EUR 1,316,119.

### 3. Credit Portfolio

Having in mind the above mentioned, credit activities reflected on the credit portfolio, and at the end of 2010 it shows a different picture relative to 2009. As of December 31, 2011 the total exposure of MBDP (without managing funds operations) amounted to EUR 95.6 million. The increased exposure compared to 2009 is primarily due to the placements of the EIB credit line of EUR 100 million.

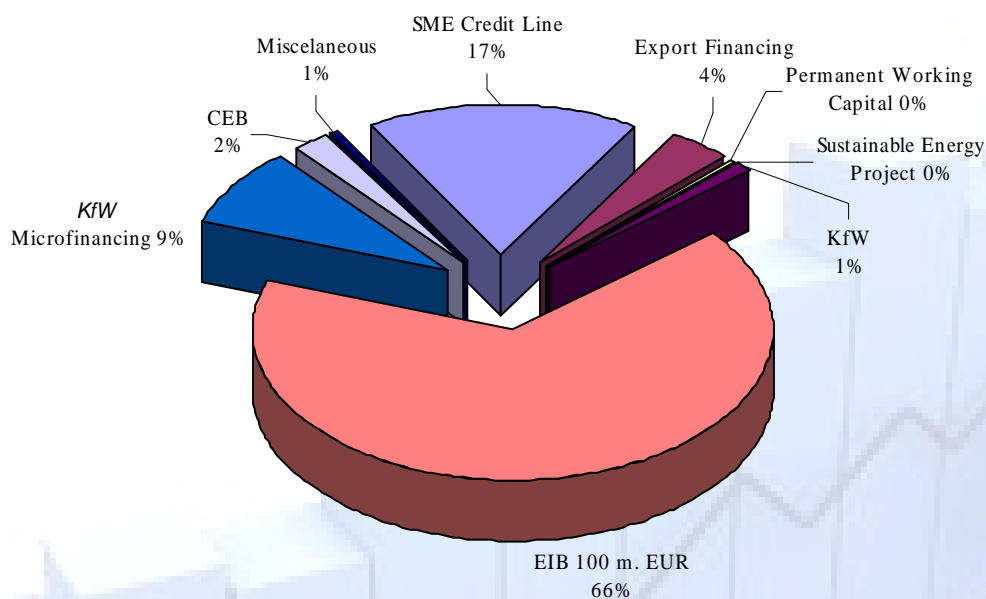
Credits classified in risk category A are predominant in the credit structure from risk viewpoint with 98%, and the rest of the credits belong to category D with 2% (most are credits to Export Import Bank, in bankruptcy). The MBDP credit portfolio structure by intermediary bank is presented in the diagram below:



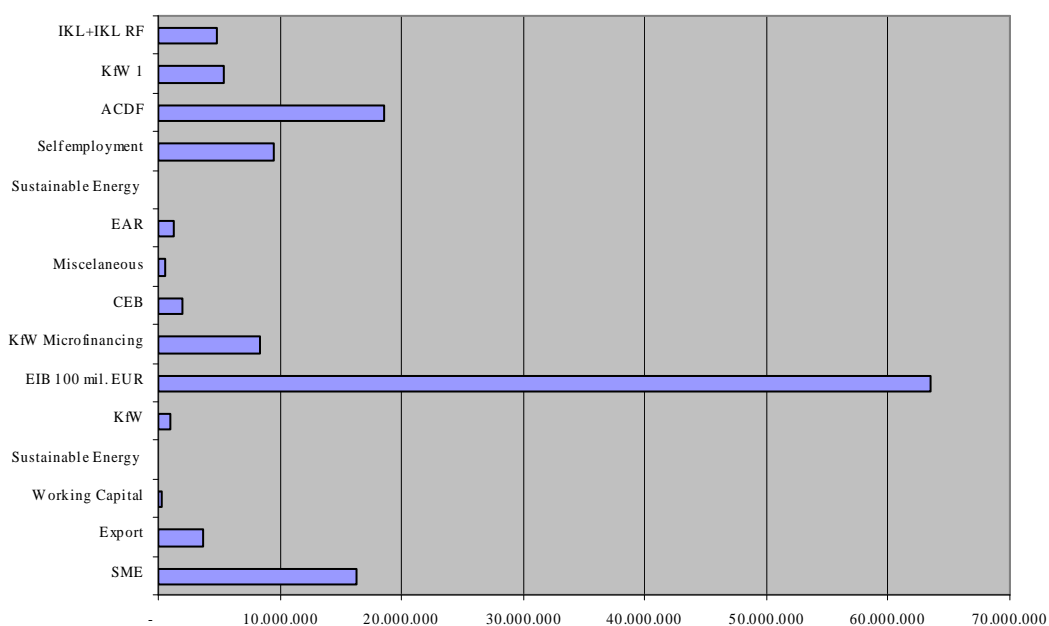
The diagram shows that Komercijalna Bank with 31% takes the largest portion in the MBDP credit portfolio, follows NLB Tutunska Bank with 22% and Ohridska Bank Ohrid 10.5%. Stopanska Bank Bitola with 10.2%. Procredit Bank with 8%, and TTK Bank takes part with 5%. Smaller portion of the portfolio belongs to IK Banka (4%), Stopanska Bank Skopje (4%), Sparkasse Bank (1%) and Uni Bank (2%).

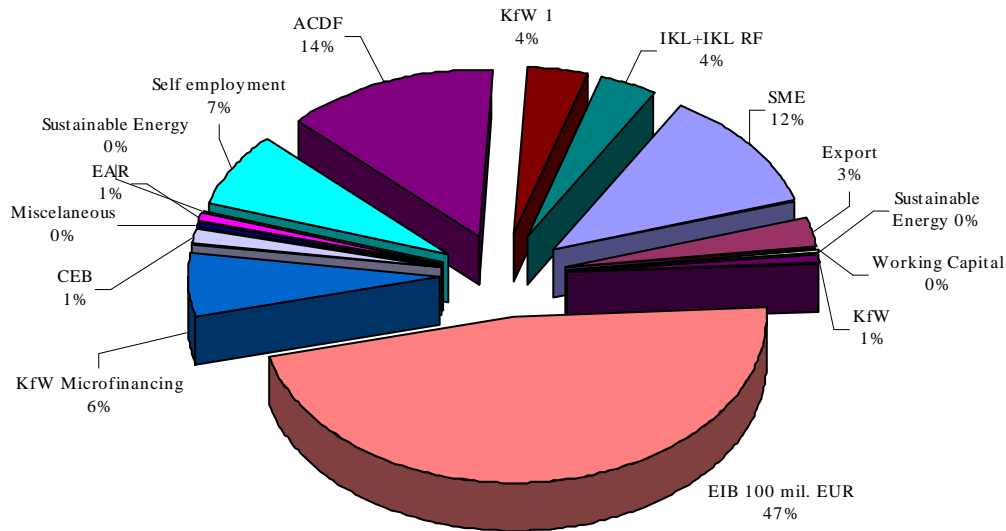
Utilization of foreign credit lines prevails in the total portfolio with 78%, and credits from MBDP own funds participate in the portfolio with 21%.

The MBDP structure of placements by individual credit line (not taking in consideration credit lines where MBDP acts as an Agent) is shown below:



The MBDP structure of placements by individual credit line (together with the credit lines where MBDP acts as an Agent) is shown below:





As of 31 December 2010, the EIB credit line of EUR 100 million prevails in the MBDP total portfolio taking 47% thereof.

## VII TRADE CREDIT INSURANCE

### 1. Trade Credit Insurance Instruments (export credit and domestic insurance)

MBDP is the only financial institution in the Republic of Macedonia that provides short term insurance of foreign and domestic receivables against commercial and political risk.

MBDP offered the following insurance products during 2010:

#### 1.1 Short Term Insurance against Commercial Risks

- Pre-shipment
  - Bankruptcy
- Post-shipment
  - Bankruptcy
  - Protracted default

#### 1.2 Insurance against Political Risk

- War risk or similar events
- Licence canceling risk
- Breach of contract

## 2. Reinsurance Agreement

In 2010, MBDP reinsured the total insured export credit and domestic portfolio. The reinsurance was conducted in compliance with the concluded Quota Share Reinsurance Agreement (compulsory) with the reinsurers Atradius RE, Nationale Borg and SID-PKZ.

Quota Share Reinsurance Agreement offers, in relation to previous years, more favourable conditions in regard to risk undertaken, premium rates, insured risks, etc. MBDP undertakes 10% of the insured risk of export credit insurance according to the Quota Share Reinsurance Agreement and the reinsurers undertake 90% of the MBDP insured risk. In regard with the domestic receivables insurance MBDP undertakes 15% of the risk and the reinsurers undertake 85% of the MBDP insured risk.

The risk undertaking by individual reinsurer is as follows:

Atradius RE, Ireland – 58.34%  
Nationale Borg, Netherlands – 25.00%  
SID-PKZ, Slovenia – 16.66%

## 3. Scope of Work

### 3.1. Short Term Export Credit Insurance Policy against Commercial Risk

In the course of 2010, MBDP signed short term export credit insurance policies against commercial risk with 40 insureds, and insurance policy of domestic receivables against commercial risk with 11 insureds.

### 3.2. Insured Exports

In the course of 2010, the Macedonian Bank for Development Promotion insured export in an amount of EUR 14,293,883.49 and calculated and collected premium of EUR 123,451.

In 2010, MBDP insured domestic receivables against short term commercial risk in an amount of EUR 3,542,038.35, and collected premium in an amount of EUR 29,713.57.

Export credit insurance against commercial risk shows significant growth in the last year compared to previous years, which enhanced the capability of larger number of Macedonian exporters to place their products and services at international markets.

Chart: Insured exports and domestic receivables against commercial risk per year

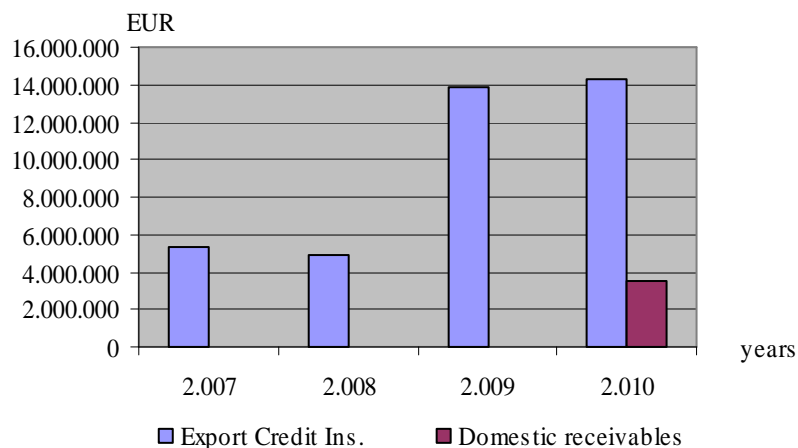
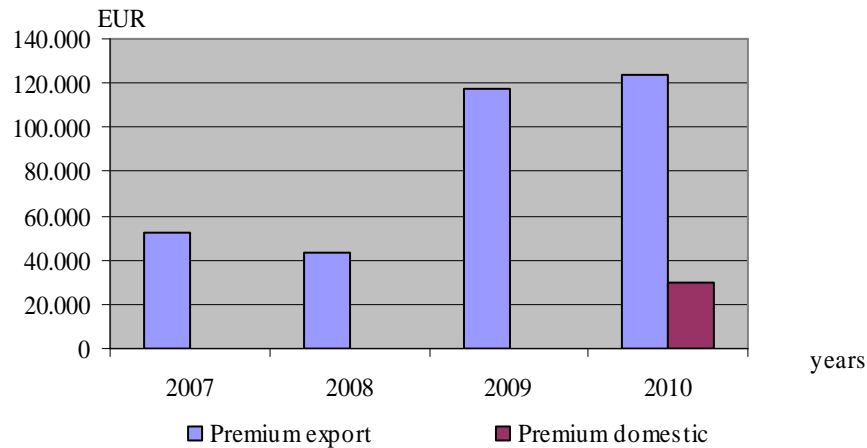


Chart: Obtained premium (exports – domestic) per year



The Table below presents export credit insurance and collected premium data by quarters in 2010.

Quarter	Insured exports in euros	Premium in euros
01.01-31.03.2010	1,820,345.03	15,939.58
01.04-30.06.2010	3,366,113.46	27,203.72
01.07-30.09.2010	3,665,775.00	33,705.60
01.10-31.12.2010	5,441,650.00	46,602.00
<b>Total</b>	<b>14,293,883.49</b>	<b>123,451</b>

The Table below presents the insured domestic receivables and collected premium by quarters in 2010.

Quarter	Insured receivables in EUR	Premium in EUR
01.01-31.03.2010	186,154	1,560
01.04-30.06.2010	336,887	2,655
01.07-30.09.2010	1,616,504	13,847
01.10-31.12.2010	1,402,493	11,651
<b>Total</b>	<b>3,542,038</b>	<b>29,713</b>

The structure of the insured exports in 2010 by country groups according to the reinsurer's classification is shown below:

Classification group	Exports	% of exports participance	Exported to
A	2,386,621	16.70	Germany, Sweden, Italy, Finland, France
B	915,014	6.40	Greece, Poland, Slovenia, Czech Republic
C	10,639,124	74.4	Croatia, Bosnia and Herzegovina, Bulgaria,

			Ukraine, Serbia, Russia, Romania
D	353,124	2.47	Albania, Montenegro, Belarus
<b>Total</b>	<b>14,293,883</b>	<b>100.00</b>	

MBDP pays 90% of the collected premium to the reinsurers. Consequently, reinsurers pay 90% of the indemnity and MBDP 10%.

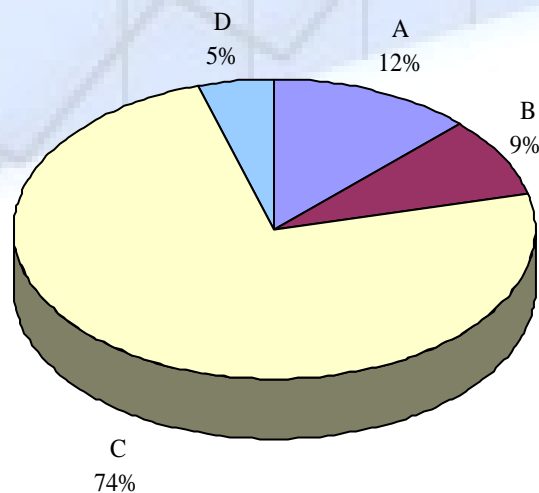
### 3.3. Insurance Limits and Credit Reports

In 2010, 405 credit limit applications were submitted for foreign buyers. The total amount of requested insurance limits by the insureds and the potential insureds was EUR 27,295,000 and the approved insurance limits amounted to EUR 16,621,000.

Approved insurance limits by country classification groups in 2010 are shown below.

Classification group	Requested amount in EUR	Approved amount in EUR	% of approved limits
A	3,257,000	2,055,000	12.36
B	1,815,000	1,450,000	8.72
C	1,893,000	12,340,000	74.24
D	2,330,000	776,000	4.66
<b>Total</b>	<b>27,295,000</b>	<b>16,621,000</b>	<b>100.00</b>

Diagram: Proportionate participation of approved insurance limits by classification country groups in 2010



In 2010, 73 credit reports were prepared for Macedonian companies.

### 3.4. Indemnity

In the course of 2010, the Macedonian Bank for Development Promotion paid indemnity of EUR 111,876.26 to the insureds, due to occurrence of insured event (bankruptcy, protracted default) with the insured risks (foreign buyers).

### 3.5. Agreements with Foreign Institutions

MBDP and EOS Matrix doo Macedonia, entered into agreement for debt collection in the area of trade credit insurance.

### 3.6. International Cooperation

MBDP is a full member of the International Union of Export Credit Agencies – Prague Club since 1999. MBDP as a full member in 2010 took active participation in Prague Club operations contributing to achievement of and respecting the Club's goals: mutual cooperation, exchange of information, international standards acceptance, promotion of export credit insurance, providing of international support and exchange of information. MBDP attended both twice-yearly meetings of the Prague Club members.

MBDP took active part at the International Conference on Export Promotion organized by HBOR in Zagreb Croatia in September 2010. Main topics were economic developments and new areas of ECAs operations, as well as their role in promotion of innovative entrepreneurship.

## VIII RISK MANAGEMENT

Pursuant to the Banking Law (Official Gazette no. 67, dated 01.06.2007), The Macedonian Bank for Development Promotion permanently manages the risks, adequately to the nature, the type and the scope of the financial activities it performs. The Bank specifies the criteria, the manner, and the methods of risk management, as well as the capital adequacy assessment, in accordance with its risk level, by the internal acts. The internal acts include all material risks the Bank is exposed to in the performance of financial activities.

Bank's management bodies categorize the risks into three categories:

- *Risks that can be eliminated or evaded by simple business practises.* In this context, management bodies continually take activities for standardization of processes, agreements, procedures, diversification of portfolio, if possible, etc.
- *Risks that can be transferred.* In this context, management bodies, upon its assessment, transfer the risk in a way such as sale of receivables, establishing trading portfolio, etc.
- *Risks that should be actively managed.* It is a Bank's policy to absorb and appropriately manage risks that arise from the Bank's main activity.

The risk management system is related to an integrated framework of responsibilities and functions from the level of management bodies to the operational level, covering all aspects of the risk. The risk management is a process included in the internal controls, influenced by the Supervisory Board, Board of Directors and all levels of employees. The process does not only encompass the policy and the procedures applied in a defined period, but it means permanent application of the policy and procedures in the performance at each institutional level. The risk management process includes determining the actively managed risks, risk management procedures, as well as the role and responsibilities of each employee in the risk management process. Thus, the established risk management system includes:

- Policies, procedures and instruments on risk protection and risk decrease,
- Organizational structure with clearly defined responsibilities in undertaking and management of risks,
- Information system,
- Risk management systems, policies and procedures reviewing mechanism,
- Internal control and internal auditing system.

Bank's risk management system includes at least:

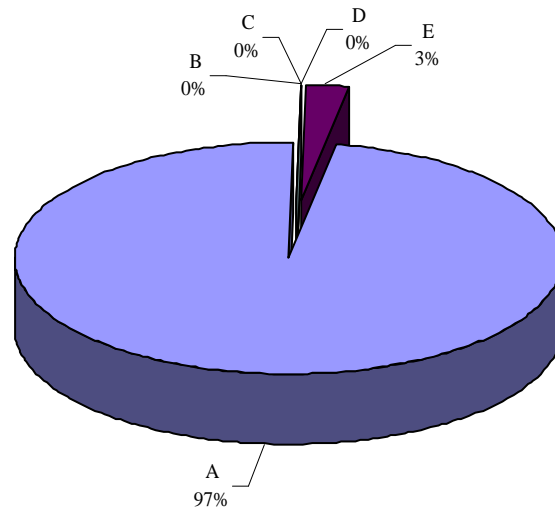
- Credit risk (including country risk)
- Risk of concentration of Bank's exposure
- Liquidity risk
- Currency risk
- Interest rate risk in the portfolio of banking activities
- Operational risk
- Legal risk
- Reputation risk
- Strategic risk

## 1. Credit Risk

Credit risk is a Bank's risk of loss stemming from client's or other contractual party failure to settle its liabilities in the agreed amount and/or terms. Having in mind that all macroeconomic indicator's change in a country lead to qualitative changes of the clients, besides credit risk the Bank, also, includes the country risk. Loans are biggest and most obvious sources of credit risk. There are other sources of credit risk arising from Bank's operation which are included in the balance sheet and off-balance evidence.

The Bank controls the credit risk by adopting credit policy and procedures which determine the internal control system in order to prevent risk occurrence. The Bank operates on the basis of defined criteria for new credit risk exposures, as well as dispersion of the current credit risk exposures. Prior to the approval of any activity which may have influence on the credit risk exposure, the Bank assesses the risk level on individual basis (client/transaction) which includes: assessment (quantitative and qualitative) of the creditworthiness of the client/contractual party, the regularity of the debtor's liabilities settlement based on history data, and collateral quality. Internal rating system helps the management body determine whether there is an objective evidence for indemnity, complying with the IAS 39. At least once a month the Bank makes assessment whether there is an objective evidence that financial assets are impaired and calculates the impairment loss on individual basis. In case of impairment indicators, the Bank assesses the compensable amount of the asset. The impairment loss is determined as a difference between the accounting value of a claim and its present value, i.e. the financial asset is determined as damaged if its accounting value is higher than its estimated compensable amount. Thus, the Bank on the basis of indicators showing that the accounting value is higher than the compensable amount estimates the compensable amount of the asset and recognizes impairment loss.

Credit risk exposure by risk category



The Bank has not determined impairment for around 98% of the total credit risk exposure. As of December 31, 2010, the total amount of the impairment / special reserve was 1.97% of the total credit risk exposure which represents a low risk level.

## 2. Country Risk

Country risk is the risk that the economic, social, and political environment and events in certain foreign country may impact the Bank's operations. In order to manage country risk, the Bank establishes adequate system for identification, assessment, monitoring and control, having in mind that the country risk is not limited to exposure to entities which domicile country is other than the Republic of Macedonia, but it considers the factors that may influence the exposure to domestic entities if the creditworthiness of the entity is significantly influenced by the events in another country. The country risk management is integrated with the credit risk management process. The transfer risk as a significant risk, the Bank incorporates it in the country risk, i.e. does not set separate limits for transfer risk. Aim of the Bank's policy of country risk management is to provide necessary preconditions for identification of Bank's exposure to country risk and to limit the exposure according to risk level.

## 3. Risk of concentration of Bank's exposure

The risk of concentration of exposure is determined as each individual exposure or total exposures which potentially may result in considerable losses that may impact the Bank's financial state or the regularity of performing Bank's operations.

Besides management of the risk of concentration of exposure pursuant to the Law on MBDP and other positive legal regulations, aim of the concentration risk management policy is to ensure that the Bank adjusts the level of risk of concentration of exposure to the business policy and the development plan,.

## 4. Liquidity Risk

Liquidity risk is determined as current or future risk of the Bank failing to provide sufficient funds for settlement of its short-term liabilities at the moment those liabilities fall due, or to provide the funds needed at much higher costs.

The basic principles for liquidity risk management are set forth in the policy and procedures for liquidity risk management. In order to manage the liquidity risk, MBDP maintains an appropriate level of liquidity assets, continually monitors the present liquidity, provides

sufficient amount of denar and foreign currency assets for timely settlement of liabilities and for disbursement of loans. Present surplus of liquid assets are placed in highly liquid securities, in short-term loans to commercial banks in Macedonia and in deposits in high credit rating foreign banks.

Division for treasury and liquidity monitors the Bank's liquidity, matches all inflows and outflows in every currency, takes activities for maintaining highly liquid portfolio, and monitors the residual and expected maturity structure in order to meet Bank's objectives defined in the Bank's strategy.

## **5. Managing Interest Rate Risk in the Banking Book**

Interest rate risk in the banking book denotes the risk of loss arising from the adverse movements in the interest rates, and which have influence on the items in the bank's banking book. Interest rate risk is determined as the most significant market risk which has influence not only in the trading book, but also in the banking book.

Managing of interest rate risk, which has direct influence on the income and the economic value of the banking book, is determined as part of the Bank's risk management integrated system. MBDP establishes a system for managing the interest rate risk in the banking book that corresponds to the nature, the volume of the financial activities it performs, as well as with the level of exposure to the interest rate risk.

## **6. Currency Risk**

The currency risk means a risk of loss due to a change in cross-currency exchange rates and/or change in the value of the Denar relative to the value of other foreign currencies. The bank establishes a system for identification, measuring, monitoring and controlling the currency risk it is exposed to in its operating. The Bank encompasses all the activities and transactions which, in the balance and off-balance records are registered in foreign currencies and in denars indexed with FX clause.

MBDP establishes policy for placing foreign credit funds in the same currency or in denars with FX clause in the currency of funds' origin. Bank's policy is to manage the foreign currency positions or denar positions with FX clause in a manner that makes possible monitoring, controlling and mitigating the adverse impact from the foreign exchange on the stability of Bank's financial position.

## **7. Operational Risk**

Operational risk management represents the probability of Bank loss and adverse influence on the Bank capital as a result of inappropriate or weak internal systems, procedures, personnel, control, non-adherence to the legal framework or illegal activities, as well as external events that may cause loss.

Operational risk management is part of the integrated approach for management of all risks the Bank is exposed to. Operational risk management is implemented at each level within the organizational structure and at the same time is integrated in the day-to-day activities of the Bank. In this way probabilities for occurrence of loss events are minimized, improvement of Bank's operating process and services quality is achieved, as well as increase in efficiency of performance. Decrease of operational risk exposure is made through continuous training of personnel, monitoring the frequency and prevention of mistakes.

## 8. Legal Risk

Legal risk is current or prospective risk to the Bank's profit and own funds, caused by violation or non-adherence to the legal framework, agreements, prescribed practices, ethics standards, or as a result of misinterpretation of the regulations, rules, agreements and other legal documents.

The aim of the legal risk management is to determine the grounds of the legal risk management system in order to minimize and eliminate the factors causing this type of risk, i.e. to eliminate and decrease the consequences of legal risk occurrence at level acceptable to the Bank from financial viewpoint and from aspect of the Bank's reputation.

## 9. Reputation Risk

Reputation risk is current or prospective risk to the Bank's profit and own funds, arising from the adverse assessments of the Bank's operations by the customers, creditors, shareholders, investors and supervisors. Protecting the Bank's reputation is responsibility of all employees. The Bank established a system of regular monitoring of Bank's activities for reputation risk management, as well as activities for decreasing the probabilities for occurrence of any of the reputation risk sources.

Having assessed that it is economically unjustifiable to allocate capital for reputation risk, the Bank has established proactive access to the reputation risk management process. Additional reasons are the current shareholders structure, i.e. the Bank's sole shareholder (the Republic of Macedonia), as well as the fact that the reputation risk is a risk of losing trust in the Bank, affecting the earnings and capital due to the adverse opinion for the business operations irrespective whether real basis exists for such opinion, i.e. impossibility to predict this risk on the basis of real indicators, non-existence of database, and non-existence of possibility for appropriate quantification of the risk.

## 10. Strategic Risk

Strategic risk is a current or perspective risk to the Bank's profit, or own funds, arising from the changes in the business environment, adverse business decisions, improper implementation of the decisions or lack of bank responsiveness to the changes in the business environment. Bank's policy is to make the strategic decision making process rational and objective, which will contribute to the strategic risk management, resulting with the same result irrespective who is implementing it.

Having in mind that it is economically unjustifiable to establish strategic risk capital, the Bank establishes system of regular monitoring of Bank's activities for strategic risk management, as well as activities for decreasing the probabilities for occurrence of any of the strategic risk sources.

## 11. Capital Adequacy

The Bank has established policy for maintaining of own funds in order to provide and continually ensure adequate level of own funds, depending of the type and the scope of financial activities and the level of risks arising from the conduct of such activities. The Bank policy is maintaining of own funds to contribute to maintaining of internally defined capital adequacy rate, which is above the legally defined rate in order to ensure that the Bank will retain solvent in long run.

As of December 31, 2010, the MBDP capital adequacy rate is 20.4%, which is above the legal rate of 8% and the internally determined adequacy rate of 12%.

## **IX COMPLIANCE OF THE BANK'S OPERATIONS WITH THE REGULATIONS**

The compliance officer solely and independently identifies and monitors the risks arising from the non-compliance of the Bank's operations with the regulations.

In 2010, the compliance officer, permanently followed and informed the members of the Board of Directors and the Bank employees for the new regulations and for all amendments and/or modifications thereto.

MBDP, in 2010, introduced number of new internal acts (policies, procedures, manuals, methodologies, books of rules, codes, etc.)

In 2010, were also prepared:

- Development Plan for 2011-2013,
- Business Policy for 2011-2013, and
- MBDP Strategy for assuming and managing risks for 2011-2013.

In 2010, MBDP made amendments and modifications, i.e. harmonization of the existing internal acts of the Bank to the new legal regulations of the National Bank of the Republic of Macedonia.

Also, trainings were continually carried out and employees were informed in regard with the new regulations and the Bank's internal acts.

## **X ACTIVITIES PURSUANT TO THE LAW ON PREVENTION OF MONEY LAUNDERING**

MBDP, in compliance with Article 40, of the Law on Prevention of Money Laundering and Other Proceeds of Crime and Financing of Terrorism (Official Gazette of RM No.04/08 and 57/10), was obliged to create new Programme of the Bank on prevention of money laundering and financing of terrorism by the end of May, 2010. The Programme, pursuant to the Law, was accepted and adopted by the Office for prevention of money laundering and terrorist financing.

The Bank's Programme on prevention of money laundering and financing of terrorism includes the following:

- Centralization of data on client's identity, holders of rights, proxies, authorized representatives and suspicious transaction data,
- Determining the rights and responsibilities of the responsible person for implementation of the provisions of the Law and MBDP Programme,
- Plan for training of employees and the responsible person in the area of prevention of money laundering and terrorist financing,
- Internal control and audit of the Programme implementation.

In the course of 2010, MBDP held several work meetings with representatives of the Office for prevention of money laundering and terrorist financing, where the manner of cooperation was agreed due to the Bank uniqueness and its role in the financial sector.

MBDP reported to the Office on regular basis.

In 2010, trainings for the employees were held in order to get acquainted with the legal regulations and with the manner of application of the MBDP Programme on prevention of money laundering and financing of terrorism.

## **XI INFORMATION TECHNOLOGY**

In the course of 2010, the information technology department successfully followed the improvement of the Bank in offering quality and up-to-date services to its clients. This provided solid grounds for good business operations, as well as timely harmonization to the amendments of the legal regulations. The support to the EIB credit line was especially important as Government anti-crisis measure successfully carried out.

More important activities performed in the area of information technology in 2010 were as follows:

- In the course of the year, activities for stabilization of the support software to the implementation of the National Bank Decision on implementation of the Methodology for record keeping and assessment of accounting items, and preparation of financial reports were performed. Technological support was created for the whole set of supervisory reports which were electronically transferred to the National Bank, on a daily, monthly, and quarterly basis;
- In regard with the credit insurance, separation of the reports for domestic and foreign buyers was made, and also, client's data importing was mitigated;
- Reports were submitted to the Risk Management Department;
- ACDF database was successfully transferred to the core banking system;
- Web access to the Office for prevention of money laundering and terrorist financing was created;
- Test and development server was purchased and installed to which the software supplier has on-line access;
- Two hard discs of the HP Intel Xeon servers were replaced;
- The system room was equipped with automatic fire extinguishing system;
- Adjustment of the DMZ zone in the network infrastructure was made and development server was built in, to increase the security in remote VPN access to the Bank by the main applied software supplier in order to provide support for development and maintenance of the Bank3000 application.

## **XII INTERNAL AUDIT**

Internal Audit Department is an independent organizational unit, separated from the rest of the Bank's organizational units and solely determines the manner of conducting its activities, reporting, findings, opinions and recommendations.

The Internal Audit Department is directly responsible to the Bank's Supervisory Board and the Auditing Board for its operations.

Main goal of the internal audit operations is to provide impartial and independent assessment of the internal audit system adequacy and efficiency, accuracy of the accounting records and

financial statements, compliance of the Bank's internal policies and procedures with the legal regulations, as well as the general efficiency of the Bank's operations.

In 2010, Internal Audit Department conducted 23 regular audits, monitored the implementation of its recommendations, reported to the Bank's Supervisory Board on regular basis and cooperated with the Board of Directors, Auditing Board, the National Bank and the external auditor of the Bank.

Board of Directors



---

Dragan Martinovski  
Chief Executive Officer



---

Qenan Idrizi  
Chief Operating Officer