Macedonian Bank for Development Promotion

ANNUAL REPORT

2011

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STATEMENT OF THE CHIEF EXECUTIVE OFFICER

Dear Ladies and Gentlemen,

It was a year in which we went to enormous trouble to recover from the global financial crisis arising from the previous period. A year of uncertainty in which investors restrained themselves from investing, the banks from extending finance, and the consumers from spending. In time of crisis, restraint is a logical and reasonable short-term policy, but it can leave serious consequences for the economy in the long run.

In such unpredictable circumstances, the Macedonian Bank for Development Promotion AD Skopje (MBDP) as a sole development bank in the Republic of Macedonia made effort and fully succeeded in realization of its objectives for which it was founded, i.e. responded to the economic challenges faced by the small- and medium-sized enterprises, and by the entire country. Also, MBDP conducted the entire working process adhering to the core principles of non-competition with commercial banks, nondiscrimination of beneficiaries, transparency, efficiency, and provided finance to economically justifiable investments.

The achieved GDP growth of 3% and the measures for economic recovery in the European Union and the euro zone give us hope that the coming year will bring possibility for consolidation and possible expanding of the Macedonian entities' operation, and by that of MBDP as well. However, we have to take into consideration that the risk of insolvency of the real sector is still present and may have influence on the slowdown of the economic and financial activities.

2011 was exceptionally successful year for MBDP. Like past years, this year too the Bank managed to fulfill the principal mission of its existence, i.e. provided support for financing the development of small- and medium-sized enterprises, encouraged exports, promoted infrastructure and regional development and gave contribution to the environment protection and renewable energy sources. We showed stable level of liquidity with capital adequacy rate of 16.5%, which is 8.5 percentage points above the minimum rate defined by law. Lending activity in comparison to 2010 has grown for 54.5% (6 times more comparing to the growth of lending in the business sector – 8.7), assets for 45.5%, while the net profit of 105.2 million denars was allocated in the Bank's reserves under the Law on MBDP.

This year will be remembered for the successful realization of the credit line from the second credit arrangement with the European Investment Bank (EIB) in an amount of EUR 50 million and the introduction of two new products – direct support of export oriented companies and factoring. We are glad to say that with the Government of the Republic of Macedonia help, in a time of "drought of credits" we managed to enrich the credit market with the funds from EIB new credit line extended in full to small and medium enterprises through the commercial banks. These funds in combination with the first arrangement with EIB of EUR 100 million and the announced third arrangement of new EUR 100 million represent strong financial support for the small and medium businesses in Macedonia.

Introduction of direct support to export oriented companies was fulfillment of another promise we made. As a small strategically export oriented economy, and in the circumstances of narrowed offer of credit funds by the commercial banks, a need of additional financial support for export oriented companies was inevitably imposed. MBDP put effort into responding to this need, not as competition to the commercial banks, but as complementary institution which incite cooperation between the export oriented entities and the banking sector.

Factoring as a service which encompasses purchase of receivables from buyers, is a product of which we are especially proud. MBDP as a development bank at this moment is the only financial institution providing such service which represents a serious support for the liquidity of our companies.

At the end, I would like to emphasize that MBDP in the following period will continue to be open to new challenges. Main priority will be to enlarge and strengthen the credit portfolio and to introduce new financial services, by strengthening the Bank's capacities and improving the operational efficiency. In this way only, MBDP will play its role of catalyst of exports and pillar of the Macedonian economy growth.

Yours faithfully,

Dragan Martinovski
Chief Executive Officer

I BUSINESS ENVIRONMENT

The last year, 2011, was generally characterized by improvement of the economic environment for the companies' operations. In the first half of the year the positive trends on a global level were felt in the domestic economy, too. The Macedonian economy has recovered and realized GDP growth of 3%, which was almost double the growth rate in comparison to the previous year. Nevertheless, in the second half of the year a certain slowdown was felt in the global as well as in the Macedonian economy, primarily as a result of the "overheating" of the fast growing economies and escalation of the debt crisis in the countries of the PIIGS group. Such conditions have decreased the aggregate demand for our goods and slowdown the exports and by that the economic growth. As a result of the stable economic environment the credit rating agency Fitch has confirmed the Macedonian rating, BB+ with stable perspectives, and in the report Doing Business of the World Bank Macedonia has reached the 34th place.

The business environment in Macedonia during 2011 was relatively favourable and stable. The average inflation rate reasonably increased and was on the level of 3.9%, mainly due to the increase of electricity price, the import price of oil and partially the import price of food. The gross investments grew for 22.7%, mainly as a result of the low comparative base of the previous two years. Export increased for 11.3%, whereas the import for 14.1%, and the import coverage by export was 63.6%.

The monetary policy in 2011 was less intense in relation to 2010. The interest rate of treasury bills of the National Bank of the Republic of Macedonia dropped on several occasions, and at the end of the year it was on the level of 4%. The domestic currency maintained its stability due to the monetary policy measures, and as of 31 December 2011 the gross currency reserves exceeded 2 billion euros, i.e. EUR 2.07 billion.

Due to the impact of the world financial crisis, on request of the economy, the Government of the Republic of Macedonia continued the reform in the economic sphere through adopting measures targeting tax, credit and land policy, property matters, agriculture, construction, social policy, as well as measures regarding regulatory policy. In this context the EIB credit line of EUR 50 million was implemented.

II BANK'S PROFILE

Macedonian Bank for Development Promotion AD Skopje (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). According to this Law provisions of the Banking Law apply to MBDP, unless otherwise regulated by the Law on MBDP, and the National Bank within its competences performs the supervision on MBDP operations. 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 2011, 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 introduction of new technologies.

Bank's Business Policy is based on the grounds of compliance with the legal regulations, respect of liquidity principle, 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 2011 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. During 2011, the Bank 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 20 May 2011, the General Meeting of Shareholders adopted:

- Annual Report on the Bank's operations in 2010,
- 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 2010,
- Report on the Audit Committee operations in 2010,
- Bank's annual account and financial statements for 2010 audited by an independent auditor of the Bank,
- Decision on use and allocation of the profit for 2010,
- Decision on adopting the list of Bank's net debtors for 2010,
- Financial Plan of the Bank for 2011,
- Business Policy of the Bank for the period 2011 – 2013,
- Bank's Development Plan for the period 2011 – 2013,
- Corporate Governance Code, and
- Bank's Strategy for taking and managing risks for the period 2011 – 2013.

At the meeting held on 31 August 2011, 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 years ending on 31 December 2011 and 31 December 2012.

1.2. Supervisory Board

During 2011, the Supervisory Board carried out its function in conformity with the Banking Law and the Statute of MBDP with the following members:

1. **Mr. Oliver Kosturanov**, Chairman of the Supervisory Board, MBA, Manager of SPMG CAPITAL DOOEL Skopje, Director of SEAF – representative office Skopje, Manager of SEAF Macedonia LLC USA,

2. **Ms. Marina Blazekovic**, Vice-chairman of the Supervisory Board, B.A. in economics, Master of Business Administration – MBA Management, Assistant at the Faculty of Administration and Management of Information Systems – Bitola,

3. **Mrs. Romela Popovic Trajkova**, member of the Supervisory Board, B.A. in economics, Master of Business Administration – MBA Management, Head of Department for Economic Policies and Regulatory Reforms at the Government of the Republic of Macedonia,

4. **Igor Dimitrov**, member of the Supervisory Board, B.A in law, Head of Legal Department at the Ministry of Finance of R.M.,

5. **Mr. Armir Sadiki**, member of the Supervisory Board, B.A. in law, Advisor in the Office of the Minister of Environment 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 to the General Meeting of Shareholders on the annual report of the Internal Audit Department,
- 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 2011, the Supervisory Board held 13 regular sessions and adopted the following acts:

- Financial plan of the Bank for 2011,
- Plan of operations of the Internal Audit Department for 2011,
- Bank's Public Purchase Plan for 2011,
- Decision on interest rates of MBDP,
- Decision on Bank's fees and charges for the services it provides,
- Decision on setting limits for intermediary banks taking part in the Bank's credit lines,
- Decision on approval of the Decision adopted by the Risk Management Committee for modification of the internal exposure limits, no. 02-4997/8 dated 17.12.2010,
- Decision on borrowing a credit from the European Investment Bank,
- Reviewed financial plan of the Bank for 2011,
- Decision on the Bank's annual account and financial statements for 2010,
- Draft – Proposal for use and allocation of the Bank's profit for 2010,
- Decision for approval of an amendment to the Credit Risk Management Policy,
- Decision for approval of a Risk Management Strategy for the period 2011 – 2013,
- Decision on establishing exposure limits to NLB Tutunska Bank AD Skopje, ProCredit Bank AD Skopje, and TTK Bank AD Skopje,
- Decision on amending the Bank's Credit Policy,
- Decision on amending the Decision on interest rates of MBDP,
- Decision on amending the Bank's fees and charges for the services it provides,
- Decision on approving the of list net debtors of the Bank as of 31.12.2010,
- Decision on approving the Methodology for evaluation of banks number 02-1154/3 dated 11.03.2011,
- Decision on approval of the Decision on amending the Methodology for evaluation of banks,
- Decision on approval of exposure limits per country under the reinsurance agreement,
- Decision on recording impairment/special reserve no. 02-2451/3 dated 27.05.2011, under the Internal methodology for determining impairment/reserve number 02-1523/2 dated 01.04.2011,
- Decision on establishing exposure limit to Eurostandard Bank AD Skopje,
- Approving the Policy for identification of potential conflict of interest and determining measures and activities to be undertaken in case of conflict of interest occurrence,
- Confirming the Policy on managing the interest rate risk in the banking book number 02-2698/6 dated 06.08.2010,

- Confirming the Policy on reporting corruption and other illegal and unethical activities by the Bank's employees number 02-2698/3 dated 06.08.2010,
- Decision on approving the Methodology for assessing client,
- Decision on commencing the financial activity – factoring,
- Methodology for assessing factoring client,
- Decision on establishing limits for intermediary banks,
- Policy on obtaining services from outsourcing company number 02-6256/5 dated 09.12.2011,
- Policy on maintenance of Bank's own funds number 02-6461/3 dated 20.12.2011,
- Methodology for internal determining and assessing the necessary capital adequacy of the Bank number 02-6412/1 dated 19.12.2011,
- Decision on amending the Bank's Credit Policy,

The Supervisory Board approved, i.e. adopted the reports, policies and other proposed documents regarding the Bank's operations in 2011.

Members of the Supervisory Board in compliance with article 51 of the Statute of the Macedonian Bank for Development Promotion AD Skopje, without holding a session, and for the purpose of discussing and approving credit applications primarily from the Programme for SMEs and priority lending from the EIB credit line of EUR 100,000,000, and from the Programme for SMEs and priority lending from the EIB credit line of EUR 50,000,000, made decisions upon the credit proposals sent 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 50,000,000, financial support was extended to 109 projects as of 31 December 2011,
- Also, due to active engagement 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 205 projects as of 31 December 2011.

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.

During 2011, the Risk Management Committee worked with the following members:

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 2011, the Risk Management Committee made decisions on meetings held at least once a week. During the reported period 52 meetings 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, certified auditor, partner and employee in the auditing company Efekt plus
2. **Elizabeta Cingarovska –** B.A. in economics, Director of the State Market Inspectorate
3. **Oliver Kosturanov**
4. **Armir Sadiki**
5. **Vladimir Cvetinovski**

Since 20 May 2011, Oliver Kosturanov and Vladimir Cvetinovski were relieved from the Auditing Committee by a Decision of the General Meeting of Shareholders, and as their replacement Romela Popovic Trajkova and Marina Blazekovic were appointed, thus the members of the Committee in 2011 were as follows:

1. **Miov Nikolaki –** President, B.A. in economics, certified auditor, partner and employee in the auditing company Efekt plus
2. **Elizabeta Cingarovska –** B.A. in economics, Director of the State Market Inspectorate
3. **Romela Popovic Trajkova**
4. **Marina Blazekovic**
5. **Armir Sadiki**

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 audit 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 quarterly at a minimum.

In the course of 2011, the Auditing Committee held 6 sessions, at which the Bank's financial statements 2010 audited by Grant Thornton DOO Skopje were adopted. At its sessions the Auditing Committee discussed the information on credit risk, reports on operations of the Risk Management Committee, and reports of the Internal Audit Department on the audits performed in 2011.
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 16 May 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 legal regulations and subordinate acts. The Board of Directors reported to the Supervisory Board on its operations at least once a month.

In the course of 2011, the Board of Directors adopted/reviewed the number of procedures and manuals. More important for the Bank's operations are the following:

- Modifications and amendment to the Procedures on liquidity risk management,
- Procedures on prevention of money laundering and financing terrorism,
- Procedures on strategic risk management,
- Reputation risk management procedures,
- Procedures for identification, assessment, monitoring, and control of country risk,
- Procedures on legal risk management,
- Programme on prevention of money laundering and financing terrorism,
- Incident management and reporting procedures,
- Procedures for identification, assessment, monitoring, and control of operating risk,
- System and standards development methodology,
- Factoring procedures,
- Procedures on EIB II – EUR 50,000,000,
- Guidelines on record keeping of factoring,
- Continuity of operations plan,
- Risk Management Procedures
- Procedures for denar and foreign currency liquidity management.

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 and the Statute on Macedonian Bank for Development Promotion and the Banking Law.

In the course of 2011, the Credit Committee held meetings at which discussed and approved credit applications submitted by the intermediary banks participants in the MBDP credit programmes.

During the reported year 2011, the Credit Committee held 24 meetings.

1.7. Insurance Committee

The Insurance Committee has 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.

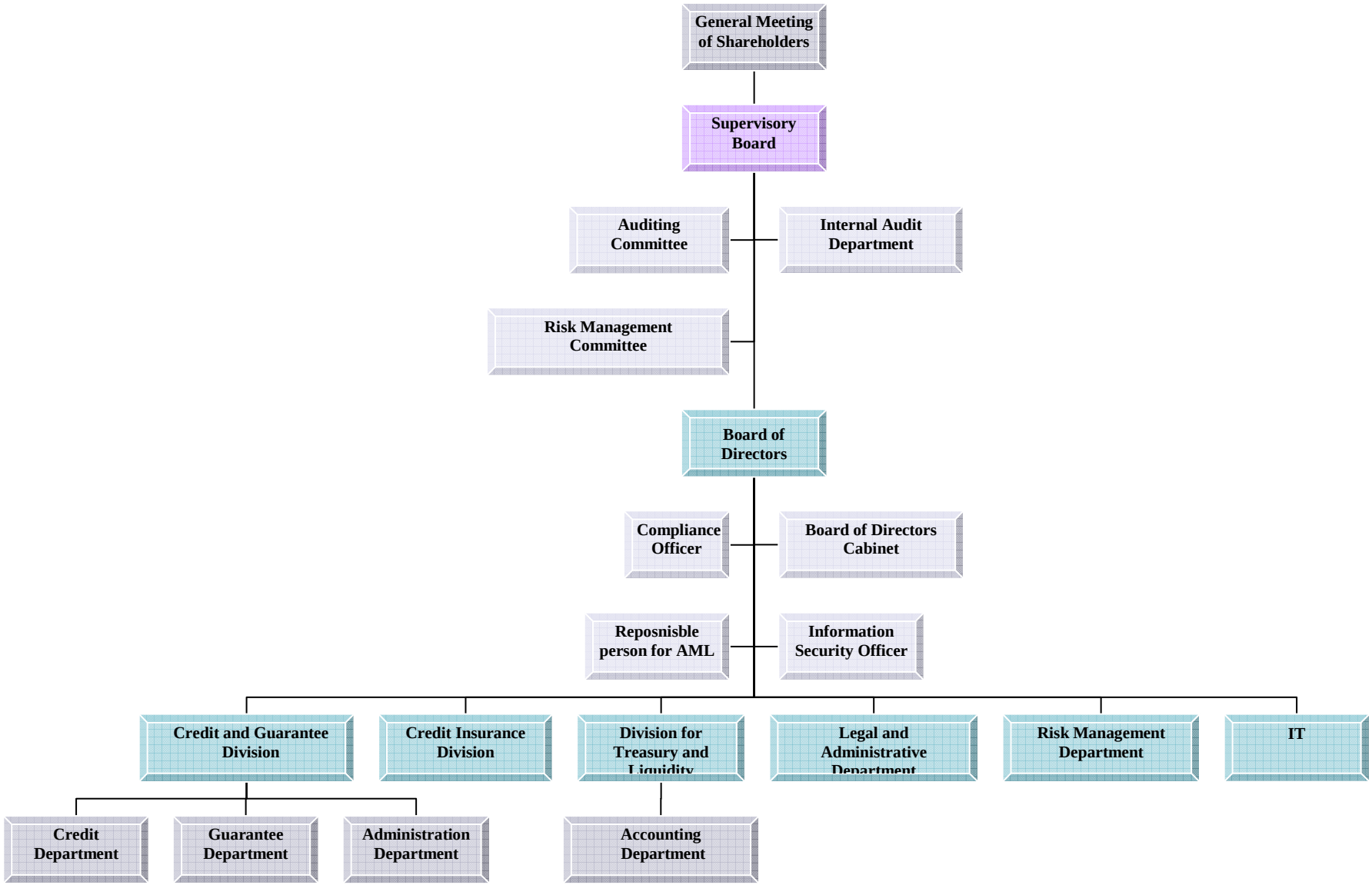
The Insurance Committee held 25 meetings during 2011.

2. Organizational Structure

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

MBDP does not have branch offices.
As of 31 December 2011 MBDP has 36 employees.

In the reported year the Board of Directors were paid MKD 14,312,568.00 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 676,670.00, and the Auditing Committee on the grounds of compensation for their work at the meetings of the Committee were paid MKD 327,222.00.


General Meeting of Shareholders
Supervisory Board
Auditing Committee
Internal Audit Department
Risk Management Committee
Board of Directors
Compliance Officer
Board of Directors Cabinet
Reposnisble person for AML
Information Security Officer
Credit and Guarantee Division
Credit Insurance Division
Division for Treasury and Liquidity
Legal and Administrative Department
Risk Management Department
IT
Credit Department
Guarantee Department
Administration Department
Accounting Department

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 2011 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 control 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 segregation 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 for the conflict of interest.

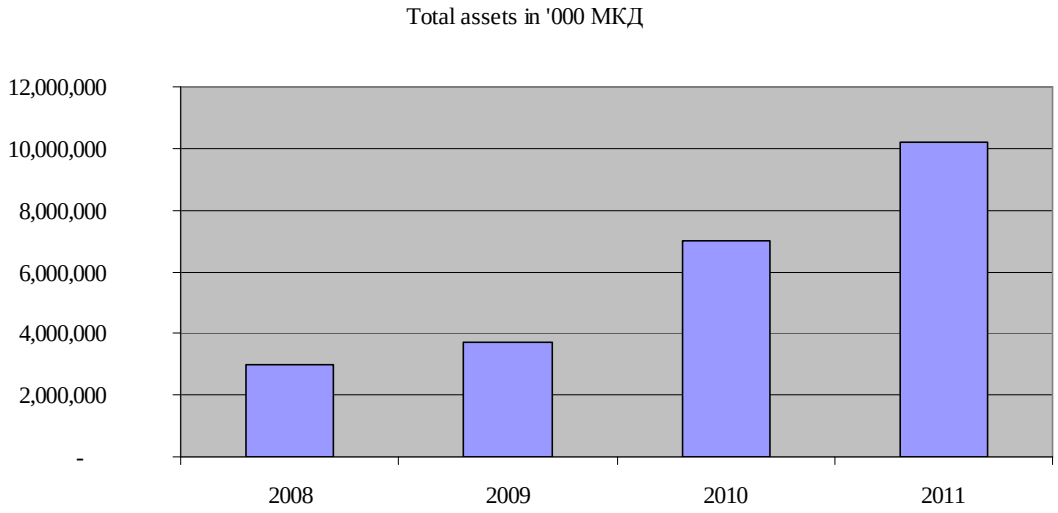
V FINANCIAL RESULTS OF OPERATIONS DURING 2011

In its financial operations in the period between 01.01.2011 till 31.12.2011, the Bank reached net profit of 105,172 thousand denars. At the same time the total balance amounts to 10,182,024 thousand denars, and has increased for 45.5% 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:



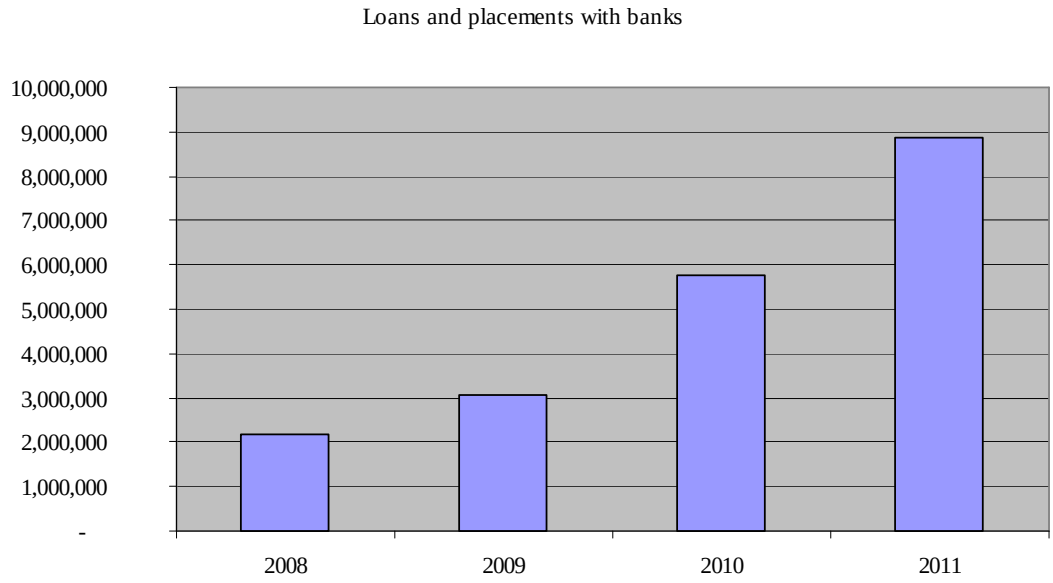
1.1.1. Cash and Cash Equivalents

As of 31 December 2011 the cash and cash equivalents amount to 1,121,181 thousand denars, representing 11% of the Bank's total assets.

1.1.2. Credits to and Receivables form Banks

The total net loans as at 31 December 2011 amount to 8,886,738 thousand denars, representing 87.3% of the total assets. The total net loans increased for 54.5% in comparison to the previous year. Increase in total loan placements is mainly due to increase in placements of the credit line for financing small and medium sized enterprises and the credit line provided by the European Investment Bank.

Analysis of the Bank credit portfolio related to currency structure show dominant participation of denar credits with foreign currency clause.



1.2. Bank Fund Sources

1.2.1. Total Liabilities

Bank's total liabilities as at 31 December 2011 reached an amount of 8,222,895 thousand denars, and achieved increase of 59.8% in comparison to the end of 2010. The increase in the total fund sources is mainly result of the increase in loan liabilities arising from disbursement of the European Investment Bank credit line. Credit liabilities for the period between 01.01.2011 till 31.12.2011 increased for 59.6% comparing to 2010.

Credit liabilities in foreign currency dominate in the currency structure of the total loan fund sources, whereas according the maturity structure pursuant to maturity date they are regarded as long-term liabilities.

1.2.2. Capital and Reserves

The share capital and reserves represent 19.2% of the total fund sources. The total Bank share capital as of 31 December 2011 was on a level of 1,959,127 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

In the period between 1 January 2011 and 31 December 2011 MBDP reached total income amounting to 311,420 thousand denars, expenses amounting to 206,169 thousand denars and positive financial result of 105,172 thousand denars.

In the reported period the total interest income amounted to 268,050 thousand denars and the total interest expense amounted to 126,862 thousand denars. The net interest income amounted to 141,188 thousand denars which represented an increase of 23.3% comparing to the previous year.
Net fee and commission income was 7,633 thousand denars for 2011.
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 2011-2010 the Macedonian denar maintained the same level in regard to euro, and as at 31

December 2011 the official exchange rate for 1 euro was 61.50 denars. In the reported period the net income of foreign currency differences amount to 81 thousand denars, and in the same period previous year the net expenses of foreign currency differences amount to 8,740 thousand denars.

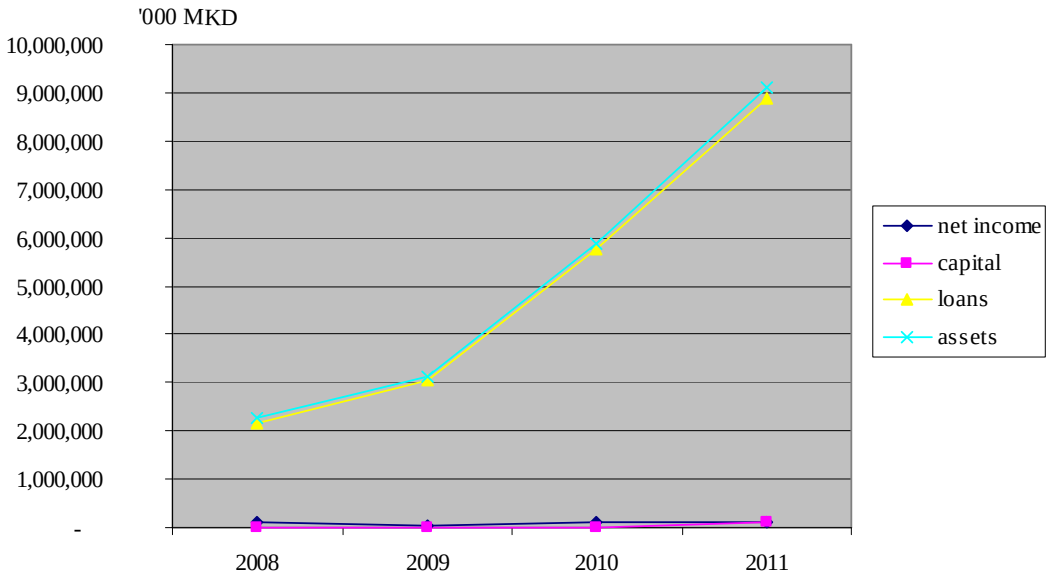
The Bank in compliance with the regulations and adopted acts sets the percentage that determines the impairment and maintaining of provisions to cover possible credit risks. In 2011 the Bank released the impairment amount on financial assets and showed net income of 10,018 thousand denars.

Other expenses contain depreciation and amortization, overall and administrative costs and other operating expenses totaling 55,420 thousand denars, i.e. 17.4% higher than the same period pervious 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 2011 amounted to 79 thousand denars, which was a decrease of 23.3% comparing to 2010 when it amounted to 103 thousand denars.

The Diagram below shows the movement of several balance items between 2008 and 2011.

(in '000 denars)

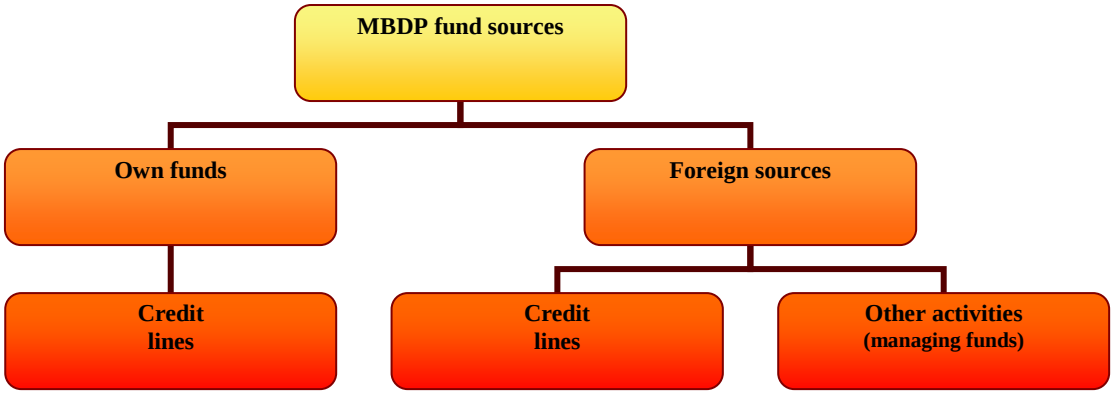


VI CREDIT ACTIVITIES

In the course of 2011, MBDP carried out its credit activities through commercial banks that it entered into agreement with:

- Halk Bank AD Skopje
- Sparkasse Bank Macedonia AD Skopje
- Eurostandard Bank AD Skopje
- Komercijalna 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 (funds provided by foreign financial institutions, bilateral creditors and other).



1. Credit Lines from MBDP Own Funds

MBDP created several 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 15,000 to 2,000,000	up to 2 years	6% p.a.
Financing permanent working capital	from 30,000 to 300,000	up to 3 years	8% p.a.
Direct lending to export oriented companies	from 15,000 to 1,000,000	up to 2 years	6% p.a.

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. Priority in obtaining funds from this credit line have projects that provide higher technological development, create jobs, etc.

In the course of 2011, 25 credit applications were approved out of this credit line, in amount of EUR 2,769,100, used for financing projects from the food industry, textile industry, printing, etc.

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 2011, the financial support from this credit line of 605,000 euros provided export support of EUR 1,230,000. It is worth mentioning that majority of the export arrangements in 2011 were supported by the EIB credit line, which was very attractive to the companies due to the favourable interest rate and repayment period.

1.3. Credit Line for Financing Permanent Working Capital

This credit line was introduced to complement the permanent working capital credit line of the Italian commodity credit line revolving fund (point 2.3.) which prompt a great deal of interest among the clients and was a possible solution for working capital credit applications which were not supported by the EIB credit line. The permanent working capital credit line was targeted to providing permanent working capital to SMEs in compliance with the needs of credit beneficiaries and their businesses. In the course of 2011, one credit was approved for permanent working capital of EUR 32,500.

1.4. Direct Support of Export Oriented Companies

Pursuant to the Law on MBDP and the directions by the Government of the Republic of Macedonia regarding the demand of additional finance to export-oriented companies, this year MBDP fulfilled all administrative, operational and technical pre-conditions for commencing direct lending to export oriented companies. Direct support is intended for pre-shipment and post-shipment export finance.
Accordingly, at the end of the year the first two credit applications were received in a total amount of EUR 240,000 which were approved and disbursed in the beginning of 2012.

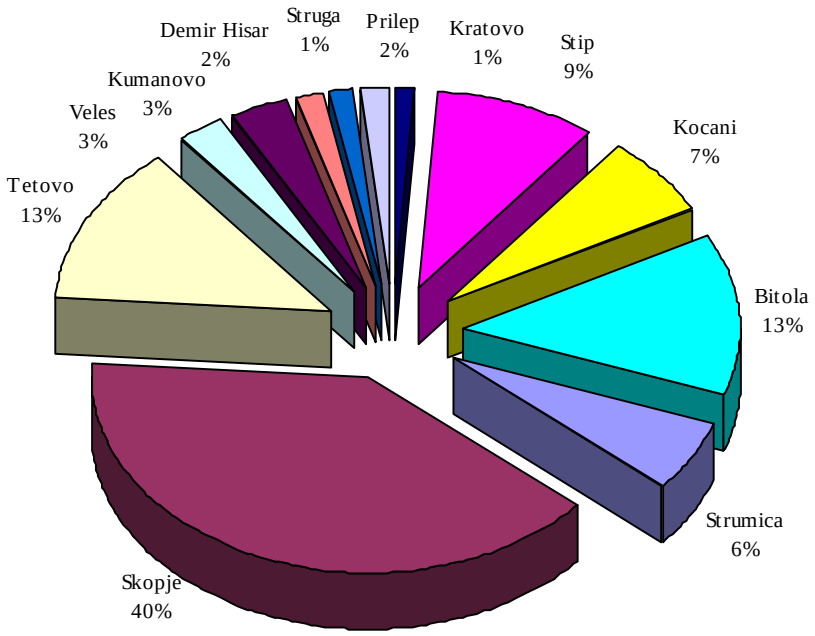
1.4. Extended Credits of Internal Funds

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

No.	Industry	in EUR		Index 2011/2010
		31.12.2010	31.12.2011	
1	Food production and textile	1,846,950	1,184,600	64.1
2	Wood processing and other wood products, paper, chemical and metal products	350,000	260,000	74.3
3	Other processing industries	1,026,000	240,000	23.4
4	Construction	127,000	230,000	181.1

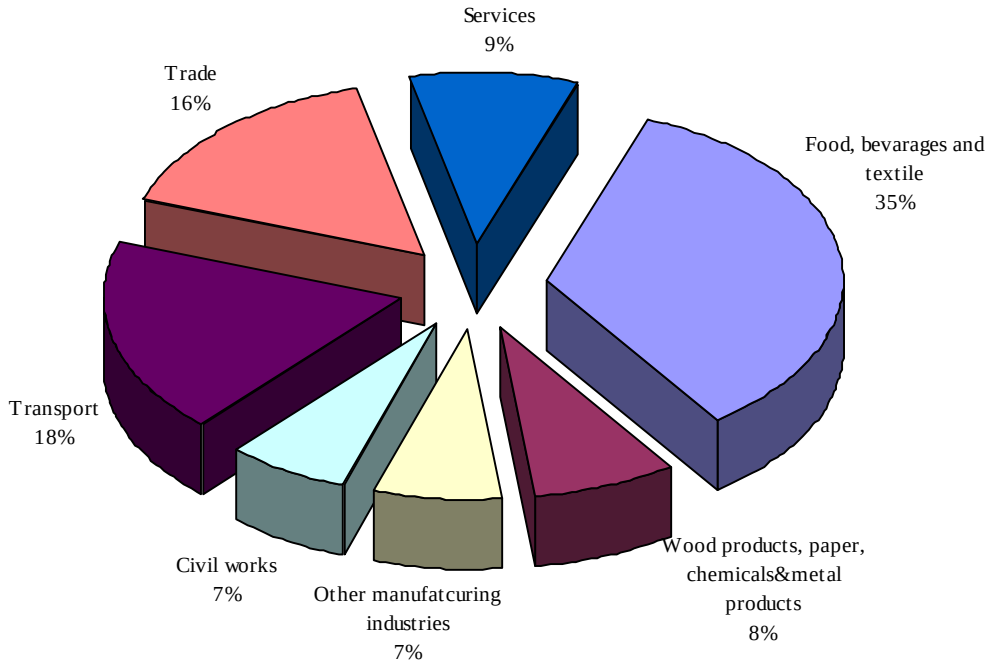
5	Transportation	154,000	628,000	407.8
6	Trade	-	549,020	-
7	Services	500,000	315,000	63.0
	Total	**4,003,950**	**3,406,620**	**85.1**

Graph: Extended funds of own sources by city in 2011.



It is shown that for the most part the credits are disbursed in Skopje (40%), Bitola (13%), and Tetovo (13%), and the other towns take part with less percentage.

Disbursed credits by industry in 2011 are presented in the Graph below:



Majority of the financed projects belong to food and textile production (35%), transportation (18%) and trade (16%). Other disbursed credits are in services (9%), furniture manufacturing (8%), construction industry (7%) and other processing industry (7%).

If comparing 2010 and 2011, the utilization of credit lines of MBDP own funds continues to drop in 2011. This dropping trend is primarily caused by the availability of the EIB funds of EUR 100 million and EIB funds of EUR 50 million intended for SMEs support through investment credits and permanent working capital with end interest rate of 5.5% p.a. and with longer repayment periods (See description in 2.1.).

2. Credit Lines by Foreign Financial Institutions, Bilateral Creditors and other sources

In the course of 2011 MBDP continued to utilize the credit lines from foreign creditors and donors. The scope of credit products during 2011 was diversified with new 50 million euros from the European Investment bank (EIB) as a second phase of the cooperation with EIB.

These credit lines are detailed in the Table 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.

EIB II credit line for investment credits	from 10,000 up to 3,500,000 EUR	up to 8 years with up to 12 months grace period included	5.5% p.a.
EIB II credit line 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 II credit line for priority projects	up to 6,000,000 EUR	up to 8 years with up to 24 months grace period included	5.5% p.a.
Commodity Credit Line from the Republic of Italy Revolving Fund	from 50,000 up to 400,000 EUR	up to 6 years with 1 year grace period included	6% p.a.
Credit Line for financing 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 8.5% 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 4 years with 1 year grace period included	1 % p.a., interest not paid during grace period
Agricultural Credit Discount Fund OKF (ZKDF)	up to EUR 100,000 for primary agricultural production up to EUR 300,000 for processing agricultural products and up to EUR 300,000 for export trade of primary agricultural products	agreed with the financial institution	from 4% up to 6.5% p.a.

2.1. EIB Credit Line

EIB credit line of EUR 100 million commenced its realization in 2009 as part of the Government of the Republic of Macedonia package of measures to mitigate the effects of the global financial crisis. In the course of 2011, MBDP continued to utilize this funds and to disburse them to final beneficiaries through the intermediary banks. During the year funds were fully disbursed by EIB and utilized.

Pursuant to the credit line terms and conditions funds were utilized for financing fixed assets and permanent working capital.

The following credit programs were 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 EUR 45,000 Small enterprises credit up to EUR 450,000 Medium enterprises credit up to EUR 3,500,000
Repayment period:	Up to 5 years
Grace period included:	Up to 12 months
Purpose:	Support of identified projects: • Purchasing fixed assets: o Real estate (except land) o Equipment o Working capital (not exceeding 30% of the loan value) • Investment in intangible assets (development, planning and financing in the construction phase, salary and other related to the phase of research and development)

2.1.2. Loans for Permanent Working Capital from EIB

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

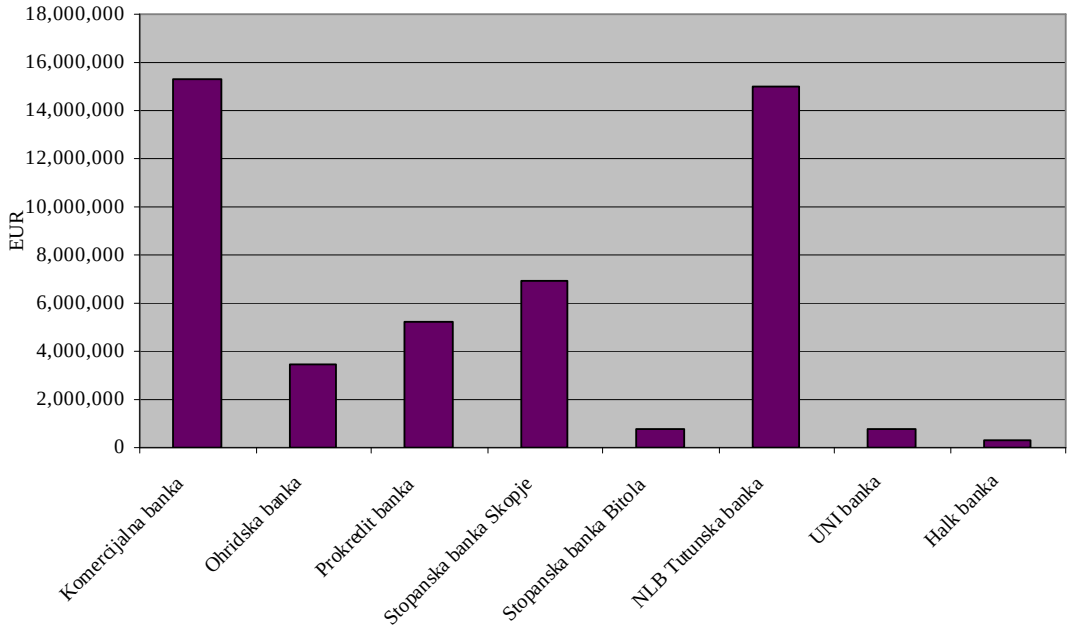
2.1.3. Loans for Priority Projects from EIB

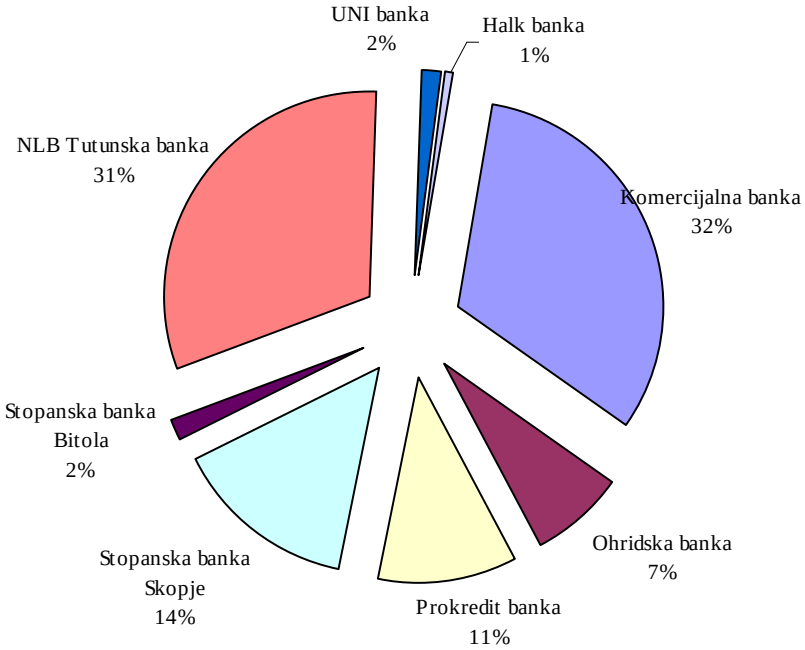
Single credit amount intended to final beneficiaries:	Up to EUR 12,500,000
Repayment period:	Up to 15 years
Grace period included:	Up to 3 years
Purpose:	Support to priority projects in the area of industry, education, culture, ecology, etc.

Those credit products were disbursed through the commercial banks that MBDP concluded framework agreement with. Due to favourable lending conditions the credit funds were completely employed. As at 31 December 2011, 222 credits were disbursed in an amount of EUR 47,8 million creating the following structure of credit products:

Credit product	No. of credit applications	Amount in EUR
Investment credits	136	20,481,953
Permanent working capital	73	8,555,658
Priority projects	13	18,756,150
Total	222	47,793,762

The structure of the disbursed credits by banks is presented in the Diagram below, showing that majority credits were disbursed through Komercijalna Bank AD Skopje, NLB Tutunska Bank AD Skopje, and Stopanska Bank AD Skopje.

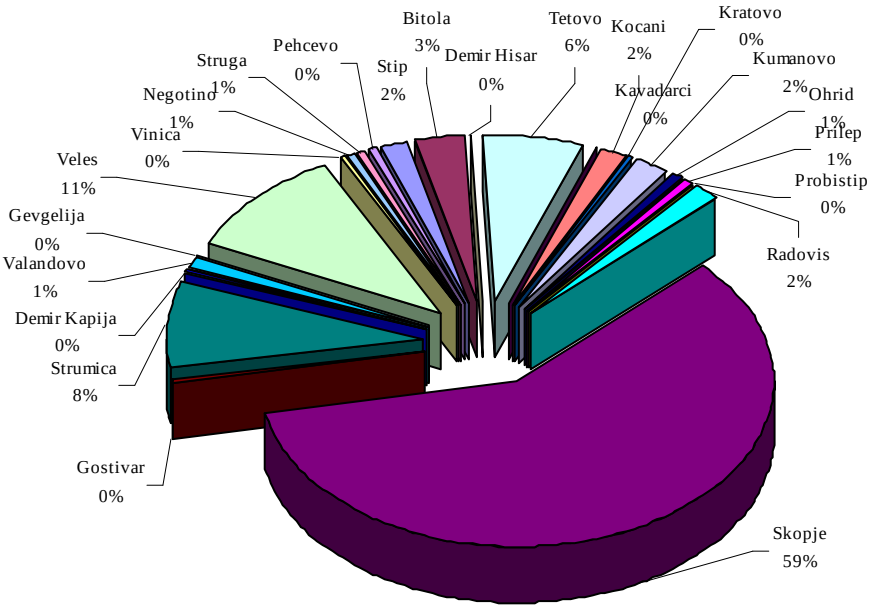




In the course of 2011, the EIB funds were used to finance projects from various industries such as textile industry, food production, transportation, construction, etc.

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

No.	City	Amount
1	Skopje	28,311,593
2	Bitola	1,398,650
3	Strumica	3,956,833
4	Tetovo	3,057,855
5	Stip	809,763
6	Kumanovo	1,000,369
7	Vlandovo	587,500
8	Kocani	778,950
9	Veles	5,052,533
10	Ohrid	378,750
11	Sv. Nikole	231,000
12	Struga	255,000
13	Gostivar	187,500
14	Radovis	752,500
15	Prilep	292,611
16	Vinica	125,000
17	Kavadarci	81,750
18	Kratovo	125,000
19	Negotino	297,250
20	Gevgelija	20,750
21	Demir Kapija	38,605
22	Demir Hisar	24,000
23	Probistip	30,000
	Total	**47,793,762**



2.2. EIB II Credit Line (EUR 50 million)

Credit funds were provided by the second phase of the EIB credit line of EUR 50 million intended for financing fixed assets, permanent working capital and priority projects.

The following credit programmes were supported out of these funds:

2.2.1. Investment Credits from EIB II

Repayment period:	Not less than 2 years and not more than 8 years
Grace period included:	Up to 2 years
Purpose:	Support of identified projects: • Purchasing fixed assets: o Real estate (except land) o Equipment o Working capital (not exceeding 30% of the loan value) • Investment in intangible assets (development, planning and financing in the construction phase, salary and other related to the phase of research and development)

2.2.2. Permanent Working Capital from EIB

Repayment period:	Not less than 2 years & not more than 3 years
Grace period included:	Up to 6 months
Purpose:	To fulfill the requests for permanent increase of working capital within expansion of company business operations

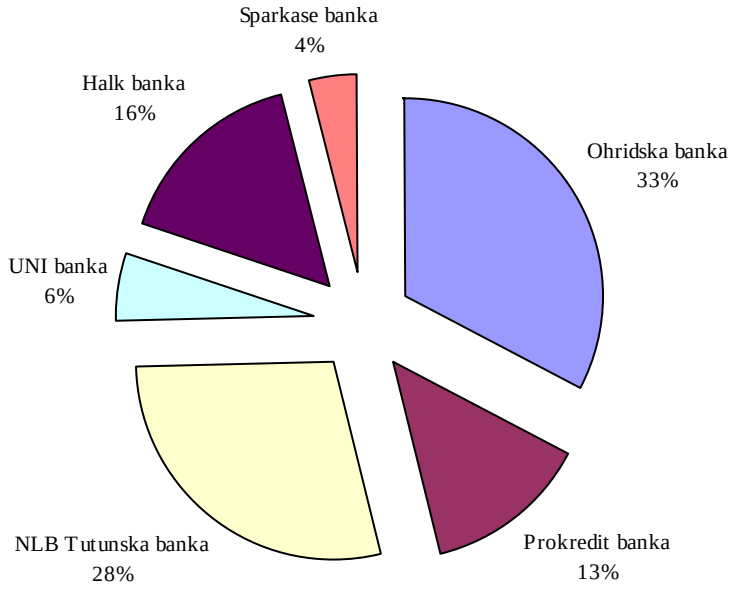
2.2.3. Credits for Priority Projects from EIB

Single credit amount intended to final beneficiaries:	Up to EUR 6,000,000
Repayment period:	Not less than 2 years and not more than 8 years
Grace period included:	Up to 2 years
Purpose:	Support to priority projects in the area of industry, education, culture, ecology, etc.

At the end of 2011 the first tranche of this credit line was disbursed of EUR 23,275,440 supporting 112 projects.

First tranche credit funds were intended for long term investments in an amount of EUR 16,823,629 (73.35%) and for permanent working capital of EUR 6,451,811 (26.65%).

Structure of the disbursed credits by bank is shown below:



2.3. 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 line was implemented through the commercial banks and funds were fully employed.

The revolving fund was created from the repaid funds for financing investments and permanent working capital. In 2011, ten credit applications were approved from this fund in an amount of 1,464,000 euros.

2.4. 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 with a purpose 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.

2.5. SME Credit Line from KfW (KMB 1)

Macedonian Bank for Development Promotion AD Skopje was appointed as an Agent of the Fund established with the funds from KfW credit line. The credit line funds were disbursed through Halk Bank AD Skopje, NLB Tutunska Bank AD Skopje, ProCredit Bank AD Skopje and savings house Moznosti. The credit line is fully utilized.

Credit beneficiaries were as follows:

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

Amounts withdrawn by intermediary banks as of 31.12.2011

Intermediary bank	EUR
Halk Bank AD Skopje	-
NLB Tutunska Bank AD Skopje	-
ProCredit Bank AD Skopje	-
Savings House Moznosti DOO Skopje	275,750
Total	**275,750**

2.6. SME Credit Line from KfW (KMB 2)

This credit line in total amount of EUR 6.2 million was used for financial support of micro-, small-, and medium-sized companies in the Republic of Macedonia. The credit line was completely implemented through NLB Tutunska Bank, Halk Bank and ProCredit Bank.

Amounts withdrawn by Intermediary Banks as of 31.12.2011

Intermediary bank	EUR
Halk Bank AD Skopje	1,900,000
NLB Tutunska Bank AD Skopje	1,300,000
ProCredit Bank AD Skopje	1,900,000
Total	**5,100,000**

2.7. 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 Halk Bank AD Skopje, Sparkasse Macedonia AD Skopje, and ProCredit Bank AD Skopje as follows:

Amounts withdrawn by Intermediary banks as of 31.12.2011

Intermediary	EUR
Halk Bank AD Skopje	-
Sparkasse Macedonia AD Skopje	125,000.00
ProCredit Bank AD Skopje	5,500,961.98
Total	**5,625,961.98**

2.8. 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 small and medium sized enterprises in the Republic of Macedonia. Potential final beneficiaries are companies with 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 trough three selected commercial banks (Komercijalna Bank AD Skopje, Ohridska Bank, AD Ohrid and Stopanska Bank, AD Bitola) that frame agreements were concluded with.

The exposure by intermediary bank with this credit line as of 31.12.2011 is as follows:

Intermediary Bank	EUR
Komercijalna Bank AD Skopje	276,280.17
Ohridska Bank AD Ohrid	1,012,557.77
Total	**1,288,837.94**

2.9. 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 of USD 1.5 million.

Under the concluded agreements between the Ministry of Finance of RM and IBRD, MBDP takes part in the Project with its own funds of USD 1.5 million, i.e. ratio 50:50. Sustainable Energy Project provide finance:

- Up to USD 500,000 for energy efficiency projects
- Up to USD 4,000,000 for renewable energy projects

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

In the course of 2011, disbursement of a credit approved in 2010 in an amount of EUR 1,830,000 for building a Photovoltaic Power Plant was completed. The credit facility was disbursed through Ohridska Bank AD Ohrid.

2.10. Other Credit Lines and Projects

2.10.1. 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 at supporting 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:, Ohridska Bank AD Ohrid, NLB Tutunska Bank AD Skopje and Sparkasse Macedonia 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 2011, MBDP by implementing this project provided support to unemployed persons in total value of EUR 9,317,305.

2.10.2. Agricultural Credit Discount Fund (ACDF)

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

In order to facilitate access to funds of the target group and improve the credit conditions by increasing the competition, MBDP undertook activities to increase the number of financial institutions involved in this credit line.

MBDP received Letter of interest from three banks to carry out the ACDF credit line. On the basis of the due diligence of banks operations, pursuant to the defined eligibility criteria for taking part in the implementation of the ACDF credit line, MBDP in the course of 2011, on behalf and for the account of the Ministry of Finance signed on-lending agreements with Ohridska Bank AD Ohrid, ProCredit Bank AD Skopje, TTK Bank AD Skopje, thus including them in the realization of the ACDF credit line.

At the moment twelve financial institutions are taking part in the implementation of ACDF, out of which 10 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.

Also, ACDF Policy Committee on its session held on 19 October 2011 adopted a Decision for modification of the criteria for refinancing from ACDF credit line, in order to improve the final beneficiaries accessibility to funds. The modifications were in direction of:

- full compliance of the criteria for refinancing from ACDF credit line with the criteria for financing investments supported by the IPARD Programme 2007 – 2013,
- increasing the credit limit from EUR 200,000 to EUR 300,000 for financing processing facilities of cereal crops (mills) within the second credit category,
- diversifying the purpose of the third credit category, besides export of primary agricultural products with export of processed agricultural products,
- increasing the credit limit of the third credit category (purchase of agricultural products for export) from EUR 200,000 to EUR 300,000,
- extension of the term from 30 to 90 days for refinancing of credits extended for previously carried out investments by the final beneficiaries, and credits already disbursed by the intermediary financial institution to final beneficiaries.

As a result of the above mentioned, the realization of ACDF credit line had markedly increased dynamics in the course of 2011 compared to the previous year. During 2011, 386 credits were disbursed in total amount of EUR 11.4 million out of which 9.1 million were ACDF funds, whereas the rest 2.3 million were participation of the financial institutions. Compared to the previous year (EUR 3.8 million) number of extended credits exceeds 139%. In the reported period the average amount of credit was EUR 29,483.

Implementation of the ACDF credit activities commenced in 2003, and as of 31 December 2011, 5,212 credits were disbursed in total amount of EUR 61.0 million, of which EUR 47.1 million were ACDF funds (total of all sources of funds IFAD 1, IFAD 2, PSDL 1, PSDL 2, and EIB). The average credit amount is EUR 11,709.

Realization of the ACDF credit line by year

Year	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**Total**
Number of disbursed credits	18	400	761	1,131	435	1,183	513	385	386	**5,212**
Amount of approved refinancing (in million EUR)	0.3	2.1	2.6	4.5	2.0	12.2	10.5	3.8	9.1	**47.1**

Structure of the refinanced credits in the period
01.01.2011 – 31.12.2011

According to the number of approved credits by financial institution, in the realization of the ACDF credit line during 2011 most actively were involved Sparkasse Bank Macedonia AD Skopje and NLB Tutunska Bank AD Skopje, with 148, i.e. 132 disbursed credits respectively, or 39%, i.e. 34% of the total disbursed credits. In respect of the disbursed credit amount the condition differs. The biggest participation of 29% had ProCredit Bank AD Skopje, followed by NLB Tutunska Bank AD Skopje and Komercijalna Bank AD Skopje with 21%, Sparkasse Bank Macedonia AD Skopje with participation of 19% in the total amount of disbursed credits and Ohridska Bank AD Ohrid with 9%. The involvement of other financial institutions was insignificant.

In the course of 2011, 83% of the total disbursed ACDF credits were for primary agricultural production, 14% were credits for small and medium sized enterprises for processing agricultural products, whereas 3% were for export of agricultural products. Structure by value shows that credits for primary agricultural production had the majority participance of EUR 5.7 million or 51% of total disbursed funds. Credits for processing agricultural products followed with EUR 4.8 million (42%) as well as credits for export of agricultural products with EUR 0.8 million (7%).

	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	322	83	5,743,488.76	51	4,591,226.12
2	Processing of agricultural products	52	14	4,789,012.92	42	3,830,794.67
3	Export of agricultural products	12	3	848,269.38	7	678,613.72
	Total	***386***	***100***	***11,380,771.06***	***100***	***9,100,634.51***

Structure of the funds managed within ACDF as of 31 December 2011

Source of funds	**Liquid assets (EUR)**	**Receivables (EUR)**
IFAD 1	17,932.36	708,133.31

IFAD 2	1,658,067.86	4,308,626.62
PSDL 1	116,133.86	3,198,711.68
PSDL 2	26,742.85	8,838,952.99
EIB	8,347.47	10,250,781.76
Total	**1,827,224.40**	**27,305,206.36**

Total available funds of the Renewable credit fund which provides funds for ACDF as of 31 December 2011 was EUR 1.8 million, of which EUR 0.9 million were reserved for disbursement of already approved applications for refinancing.

Pursuant to the detailed calculation for the expected inflows and outflows, and having in mind the present balance of EUR 1.8 million, total projected available funds of all sources of funds for 2012 for new ACDF credits is EUR 4.4 million.

Projections for disbursement of ACDF funds during 2012 submitted by the intermediary financial institutions are EUR 14.9 million in total:

- for primary agricultural production EUR 6.7 million,
- for processing agricultural products EUR 5.9 million,
- for export of agricultural products EUR 2.3 million.

It is important to mention that the available funds for new placements show tendency of dropping, due to the fact that the credit lines which are source of these funds (IFAD 1, IFAD 2, PSDL 1, PSDL 2, and EIB) are in a period of loan repayment to the creditors, i.e. the collected funds in great deal are used to repay the debt to the creditors.

Having all these in mind, we emphasize the necessity for providing additional funds in order to diversify the ACDF funds for continuous functioning in future and providing finance to agro investments as well as beneficiaries of the financial support from IPARD Programme 2007 – 2013.

2.10.3. EAR Credit Line - Special Credit Guarantee Scheme

EAR credit line was utilized for financing SMEs. During 2011, the credit line was redesigned and a new agreement was concluded between the Government of the Republic of Macedonia and the MBDP for managing the Special credit guarantee scheme for SMEs. The credit line provides finance for purchasing fixed assets, with a possibility for financing working capital up to 30%. The minimum amount per credit was EUR 10,000, and the maximum was EUR 300,000. Credits were placed through commercial banks (that MBDP concluded framework agreement with), and in the structure of the credit they participate with minimum of 30% own funds.

As at December 31st 2011, exposure regarding the Special credit guarantee scheme was EUR 49,000, and in regard with EAR was EUR 390,145.

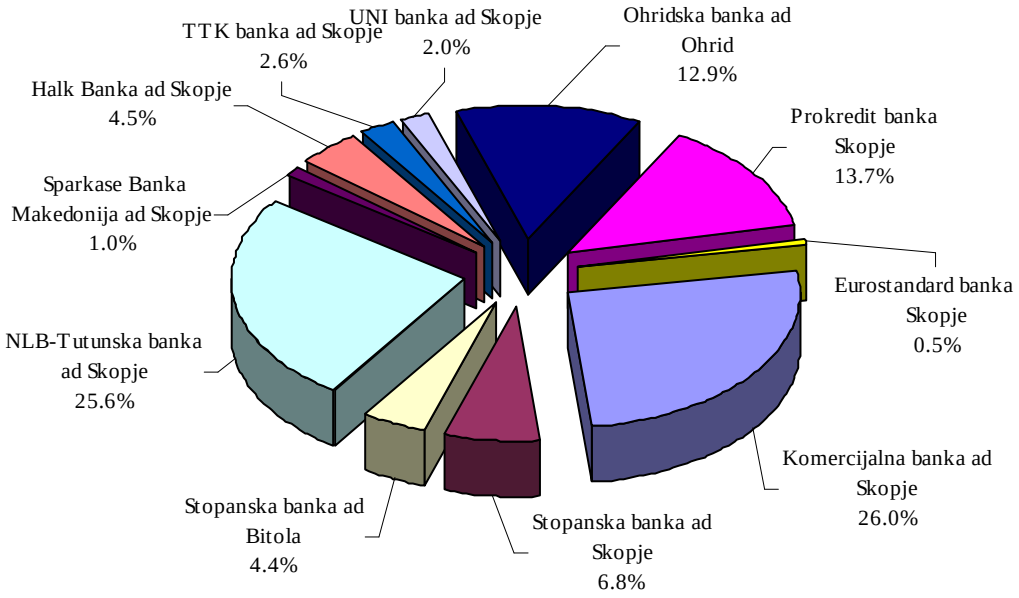
3. Credit Portfolio

At the end of 2011 MBDP Credit portfolio showed similar trend as the previous year reflecting the significant credit activities in relation to employing of the funds from both EIB credit lines (EIB 100 million euros and EIB 50 million euros). As of 31 December 2011 the total exposure of MBDP (without managing funds operations) amounted to EUR 145.5 million (31.12.2010: 95.6 million euros) as a result of using the final portion of EIB credit line of EUR 100 million and withdrawal of the first tranche of EIB EUR 50 million. During 2010, 253 credits were extended, and in 2011 that number increased to 358 disbursed credits as a result of the increased MBDP credit activity.

Credits classified in risk category A were predominant in the credit structure from risk viewpoint with 98.6%, and the rest of the credits fell in category D with 1.2% (mostly credits to Export Import Bank, in bankruptcy).

3.1 Commission relations excluded from Credit Portfolio

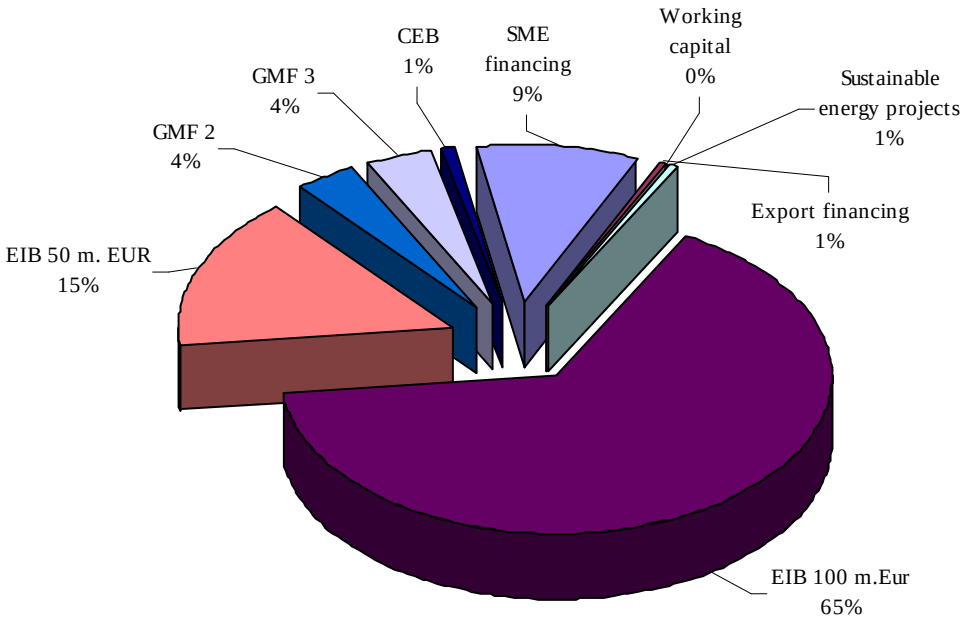
Structure of the credit portfolio by intermediary bank (not taking into consideration the credit lines where MBDP acts as an Agent) is shown below:



The diagram shows that Komercijalna Bank with 26% and NLB Tutunska Bank with 25.6% take the largest portion in the MBDP credit portfolio. Follow ProCredit Bank with 13.7%, Ohridska Bank Ohrid 12.9% and Stopanska Bank Skopje with 6.8%. Smaller portion of the portfolio belongs to Halk Bank (4.5%), Stopanska Bank Bitola (4.4%), TTK Bank (2.6%), Uni Bank (2.0%), Sparkasse Bank (1.0%) and Eurostandard Bank (0.5%).

Participation of foreign credit lines prevails in the total portfolio with 89%, and credits from MBDP own funds participate in the portfolio with 11%.

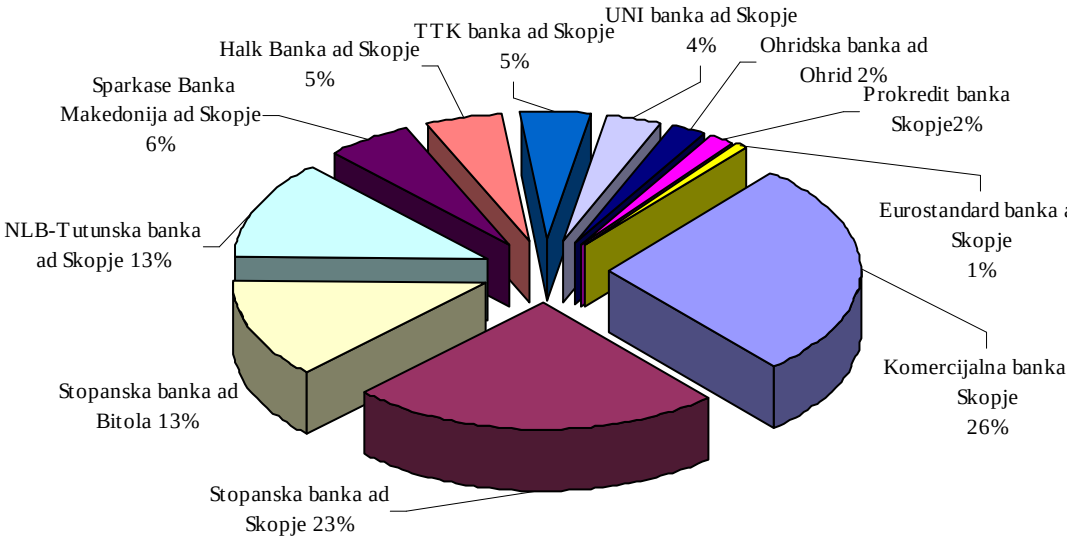
Structure of the MBDP credit portfolio by credit line (without commission relations) is shown below:

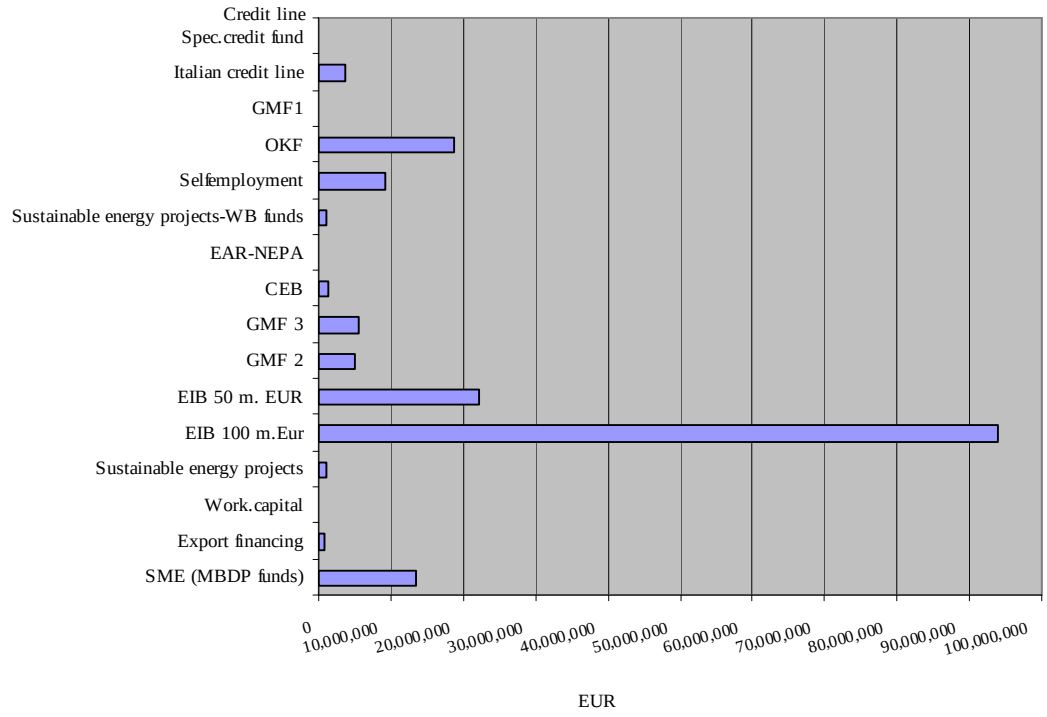


3.2 Commission relations included in Credit Portfolio

The MBDP credit portfolio including the credit lines where MBDP acts as an Agent as of 31 December 2011 was EUR 176.2 million.

The MBDP structure of the credit portfolio by intermediary bank (together with the credit lines where MBDP acts as an Agent) is shown below:





As of 31 December 2011, the EIB credit line of EUR 100 million prevailed in the MBDP total portfolio taking 53.2% thereof, followed by the EIB credit line of EUR 50 million with 12.6%.

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 2011:

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
- License canceling risk
- Breach of contract

2. Reinsurance Agreement

In 2011, 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 reinsures Atradius RE, Nationale Borg and SID-PKZ.

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

The risk share of 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 2011, MBDP signed short term export credit insurance policies against commercial risk with 61 insureds, and insurance policy of domestic receivables against commercial risk with 16 insureds.

3.2. Insured Exports

In the course of 2011, the Macedonian Bank for Development Promotion insured export in an amount of EUR 21,621,264 representing increase in respect of 2010 of 51.3%.

During 2011, MBDP insured domestic receivables against short term commercial risk in an amount of EUR 8,142,718 (230% rise than in 2010), and collected premium in an amount of EUR 73,108 which is growth of 244% compared to 2010.

Export credit insurance and insurance of domestic receivables against commercial risk showed significant growth in the last year compared to previous years, which enabled a number of Macedonian exporters to place their products and services at international markets.

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

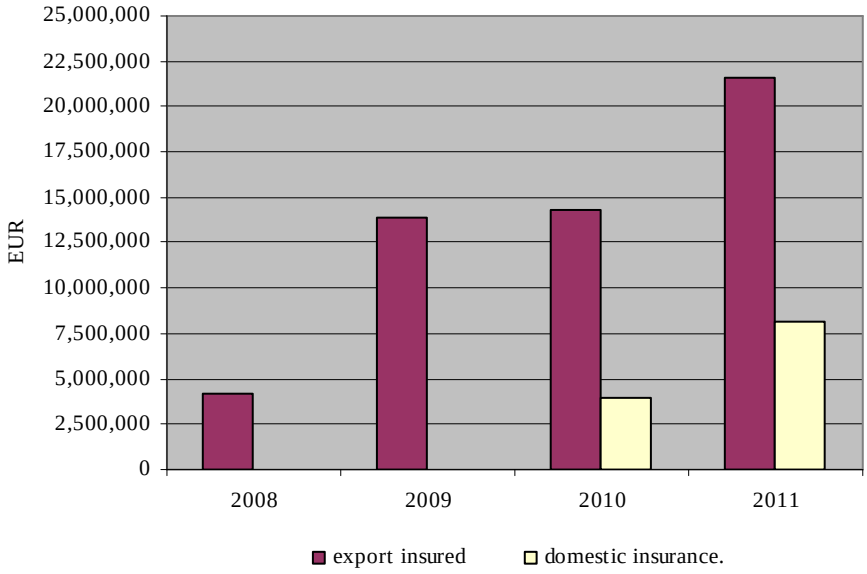


Chart: Premium gained (export – domestic) per year

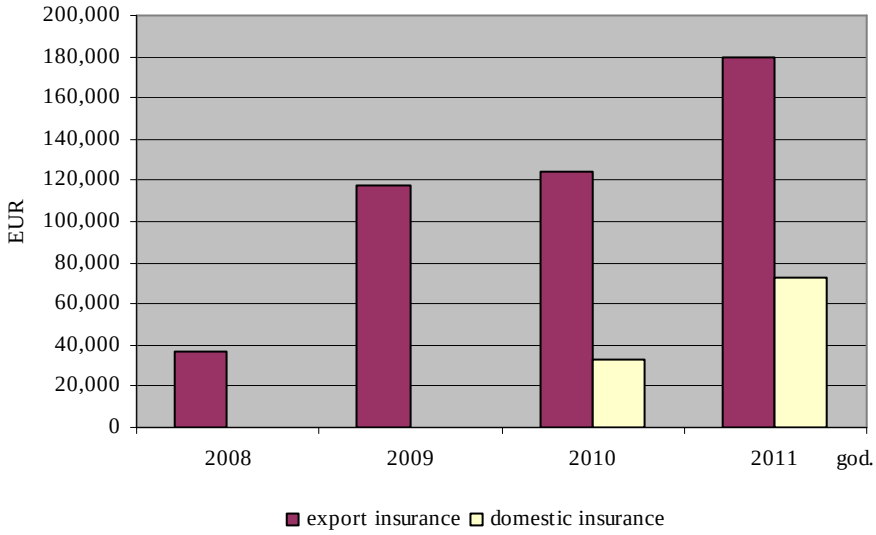


Table below presents export credit insurance and collected premium data by quarters in 2011.

Quarter	Insured exports in euros	Premium in euros
01.01-31.03.2011	3,465,831	29,183
01.04-30.06.2011	6,745,771	51,936
01.07-30.09.2011	6,376,414	53,506
01.10-31.12.2011	5,033,248	44,013
Total	**21,621,264**	**179,435**

Table below presents the insured domestic receivables and collected premium by quarters in 2011.

Quarter	Insured receivables in EUR	Premium in EUR
01.01-31.03.2011	867,518	7,300
01.04-30.06.2011	1,615,245	14,400
01.07-30.09.2011	2,180,109	19,510
01.10-31.12.2011	3,520,161	31,898
Total	**8,142,718**	**73,108**

The structure of the insured exports in 2011 by group of country according to the reinsurer's classification is shown below:

Classification group	Exports	% of exports participance	Exported to
A	3,020,867	13.97	Germany, Sweden, Italy, Finland, France
B	1,875,880	8.67	Poland, Slovenia, Czech Republic
C	15,890,979	73.49	Croatia, Bosnia and Herzegovina, Bulgaria, Greece, Serbia, Russia, Romania
D	833,538	3.855	Albania, Montenegro, Belarus, Ukraine
Total	**16,989,620**	**100.00**	

MBDP pays 85% of the total collected premium to the reinsurers. Consequently, reinsurers participate with 85% in undertaking risk, i.e. in the amount of indemnity, and MBDP with 15%.

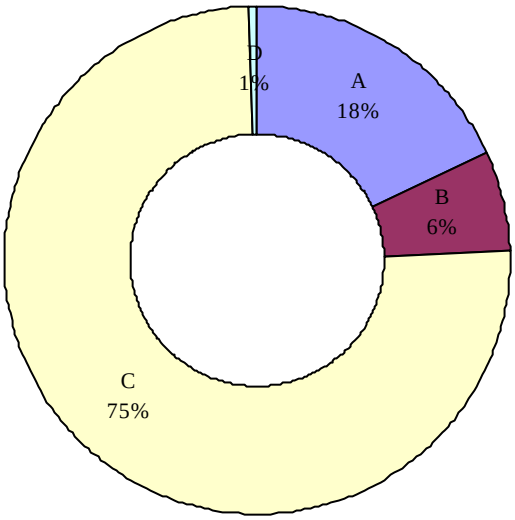
3.3. Insurance Limits and Credit Reports

In 2011, 507 credit limit applications were submitted for foreign and domestic buyers. The total amount of requested insurance limits by the insureds and the potential insureds was EUR 31,137,451 and the approved insurance limits amounted to EUR 24,810,714.

Approved insurance limits by country group classification in 2011 are shown below.

Classification group	Requested amount in EUR	Approved amount in EUR	% of approved limits
A	5,610,130	4,488,630	18.08
B	2,049,324	1,563,584	6.2
C	22,967,997	18,634,497	75.07
D	510,000	135,000	0.54
Total	**31,137,451**	**24,821,711**	**100.00**

Diagram: Proportionate participation of approved insurance limits by country group classification in 2011



During 2011, 65 credit reports were prepared for Macedonian companies.

3.4. Indemnity

In the course of 2011, the Macedonian Bank for Development Promotion paid indemnity of EUR 162,558 to the insureds, due to occurrence of insured event (bankruptcy, protracted default). Out of the total indemnity paid, indemnity paid due to insurance of domestic receivables amounted to EUR 40,985 and indemnity paid due to export credit insurance amounted to EUR 121,573.

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 2011 took active participance in Prague Club operations contributing to achievement of and respecting the Club's goals: mutual cooperation, exchange of information, international standards acceptance, promotion of credit insurance, providing international support and exchange of information. MBDP attended both twice-yearly regular meetings of the Prague Club members.

In November 2011, MBDP took active part at the International Conference on Export Promotion held in Muscat, Oman. Main topics were economic developments and new areas of ECAs operations, as well as their role in promotion of innovative entrepreneurship. MBDP, during the meeting of the Prague Club, presented its model for calculation of premium for insurance of receivables.

VIII RISK MANAGEMENT

Pursuant to the Banking Law (Official Gazette no. 67, dated 01.06.2007), the Macedonian Bank for Development Promotion AD Skopje permanently manages the risks pursuant to the

nature, the type and the scope of the financial activities it performs. The Bank specifies the criteria, manner, and methods of risk management, as well as the capital adequacy assessment according to its risk profile, in the internal acts. The internal acts include all material risks the Bank is exposed to in the performance of financial activities.

Risk represents the probability of certain activity or event to have direct adverse influence on the profit and/or on the own funds, or to impede the fulfillment of the Bank's objectives. Risk is properly managed when it is identified, understood, assessed, monitored and controlled.

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

- *Risks that can be eliminated or evaded by simple business practices.* 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, etc.
- *Risks that should be actively managed.* It is 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, thus covering all aspects of risk. 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 adherence to policy and procedures in all institutional levels. 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 mitigation,
- 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:

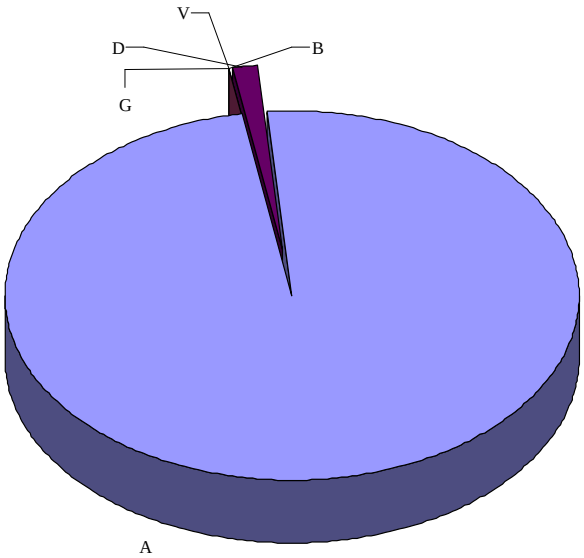
- Credit risk (including country risk)
- Risk of concentration of Bank's exposure
- Liquidity risk
- Currency risk
- Interest rate risk in the portfolio of banking activities
- Operational risk
- Legal risk
- Reputation risk
- Strategic risk

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 the biggest and the most obvious sources of credit risk. There are other sources of credit risk arising from Bank's operations 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 approval of any activity which may influence the credit risk exposure, the Bank assesses the risk profile 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 of indemnity pursuant to 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 31 December 2011, the total amount of the impairment / special reserve was 1.33% 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. Country risk management is integrated with the credit risk management process. The Bank incorporates transfer risk as a significant risk in the country risk, i.e. does not set separate limits for transfer risk.

The objective 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. Concentration Risk

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

Besides management of the concentration risk pursuant to the Law on MBDP and other positive legal regulations, the objective of the concentration risk management policy is to ensure that the Bank adjusts the level of concentration risk 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 liquid 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.

Treasury and liquidity division 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. 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 established a system for managing the interest rate risk that corresponds to the nature and the volume of financial activities it performs, as well as with the level of exposure to the interest rate risk.

6. Currency Risk

The currency risk denotes 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 operations, thus encompassing 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 enable 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 inadequate or weak internal systems, inadequate personnel, inadequate or failed systems of the Bank, as well as external events that may cause loss.

Operational risk, compared to the credit and market risk, can not generate higher income. Operational risk also includes:

- Legal risk – 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,
- Money laundering and terrorist financing risk – deliberate or unintentional involvement of the Bank in activities which by the present regulation or international standards represent money laundering or financing terrorism,
- Risk of inappropriate information system – denotes a risk of Bank's loss arising from loss, unauthorized use or unavailability of information, information tools and/or services offered by the Bank.

Strategic and reputational risk are excluded from the operational risk definition.

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 facilitated through continuous training of personnel, monitoring the frequency and prevention of mistakes.

8. Legal Risk

The objective 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 a level acceptable to the Bank from financial viewpoint and from aspect of the Bank's reputation.

9. Reputational 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 every employee.
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 for 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 higher than the legally defined rate in order to ensure that the Bank will retain solvent in long run.

As of 31 December 2011, the MBDP capital adequacy rate was 16.51%, which is above the legal rate of 8%.

IX COMPLIANCE OF THE BANK'S OPERATIONS WITH THE REGULATIONS

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

During 2011, 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.

Macedonian Bank for Development Promotion AD Skopje, in 2011, introduced number of new internal acts (policies, procedures, manuals, methodologies, books of rules, etc.) pursuant to the requirements of the new regulations of the National Bank of RM.

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

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, 57/10 and 35/2011), and pursuant to the amendments in the Law, was obliged to harmonize the Programme of the Bank on prevention of money laundering and financing of terrorism. The new Programme, pursuant to the Law, was harmonized, 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,
- Measures and actions for detecting and preventing money laundering and financing of terrorism,
- 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 2011, the responsible person of the Bank for prevention of money laundering and terrorist financing 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.

The responsible person of the Bank for prevention of money laundering and terrorist financing attended the trainings organized by the Office.

During 2011, trainings for the employees were held in order to get acquainted with the legal regulations, indicators for determining suspicion of money laundering and financing terrorism, and the manner of application of the MBDP Programme on prevention of money laundering and financing terrorism.

XI INFORMATION SYSTEM SECURITY

Information System Security Policy regulates the application of security standards and protective mechanisms for diminishing the risk of causing damages and for minimizing loss. The Policy should provide confidentiality, integrity, availability and giving value to the assets, to ensure continuity in providing services and to protect employees.

The Bank established Manual on risk assessment. This Manual on risk assessment represents the foundation for implementation of successful and detailed risk assessment of the information system. The qualitative method is applied in the assessment procedure.

Business continuity plan of the Bank ensures establishing procedures for business continuity in cases of business process disruption when the Bank is incapable of meeting the undertaken business obligations. The continuity plan includes strategies, activities and procedures for continuity of business operations and functions related to restoration of communications and information assets. Catastrophe renewal plan is integral part of the business continuity plan.

The Bank has secondary location.

The Bank also regulated the information security with other policies, manuals and procedures, anticipated in the Decision on the Bank's information system security (Official Gazette of the Republic of Macedonia no 31/2008) by the National Bank, as well as with the Supervisory circular no. 9 by administrative, technical and physical controls for providing security.

XII INFORMATION TECHNOLOGY

In the course of 2011, 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.

More important activities performed in the area of information technology in 2011 were as follows:

- Continuous activities for stabilization of the application Bank3000, as well as adding new solutions for supporting the new business activities pursuant to the new regulations by the National Bank and the obligations of the Bank. Undertaken activities are primarily in regard with the:
    - Lending activities
    - Credit insurance activities
    - Providing support to the risk management department
- Preparations were commenced for implementation of an applicative solution regarding the requirements of the department for prevention of money laundering and financing of terrorism (creation of functional and technical documents, selection of provider, completing the required equipment and providing test environment)
- Applicative solution for archive operations was implemented and set in function
- Applicative module for factoring was implemented. It fully satisfies the needs of the Bank, i.e. the department, and it is fully integrated with the existing applicative solution (automatic booking, joint client base, providing date for generating joint reports, etc.)
- Successful migration to the new version of SWIFTNet 7.0. was done. The required equipment was purchased and set in function.
- A device for keeping audit trail was successfully implemented. It was configured so as to satisfy the necessary measures for the Bank's information system security.
- A new web site was created, i.e. content management system (CMS) was implemented.

XIII 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 2011, Internal Audit Department conducted 18 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