



MACEDONIAN BANK FOR DEVELOPMENT PROMOTION

**ANNUAL REPORT
2014**

Skopje, April 2015

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I. STATEMENT OF THE CHIEF EXECUTIVE OFFICER

Dear Ladies and Gentlemen,

In the course of 2014, with the slow recovery of the foreign demand the Macedonian economy has also achieved positive economic growth. A conjuncture of factors such as the foreign investments, certain economic measures and similar, had influence on the increase in the industrial production and improvement of the foreign trade balance. Domestic banks carefully monitored the developments in the business sector this year as well, applying strengthened criteria for lending and conservative approach especially with the corporate lending.

In such economic conditions, the role of the Macedonian Bank for Development Promotion AD Skopje (MBDP) as the only development Bank in the Republic of Macedonia was particularly emphasized. In that regard, adequate measures were undertaken and new credit products were introduced in order to respond to the challenges the SMEs as well the country in a whole were facing with. In this process MBDP was guided by the core principles of non-competition with commercial banks, nondiscrimination of beneficiaries, transparency, efficiency, and economic justification of the financed investments.

2014 was a successful year for MBDP. This year as well, the Bank managed to fulfill the objectives and tasks laid down by the law of its founding, i.e. to provide financial support to small- and medium-sized enterprises and municipalities, encourage exports, improve infrastructure and regional development and give contribution to environment protection and renewable energy sources. The Bank reached stable level of liquidity with capital adequacy rate of 22.38%. Total assets increased by 6.26%, and loans by 2.51%.

In the past year, there was significant use of the funds from the four phases of the loan arrangement with the European Investment Bank (EIB), which due to the favourable conditions caused great interest within the business community. We are glad to point out that the funds of the I, II, and III arrangement with EIB were disbursed and fully used. MBDP started withdrawing the funds from the IV arrangement of 100 million euros in September 2014, and its utilization reached 32% by the end of the year.

Direct credit support to export oriented companies was an important contribution in the range of MBDP loan products, which helped domestic companies accomplish their business objectives.

During 2014, factoring and export credit insurance also proved to be useful instruments for the clients, enabling insurance and purchase of the accounts receivable of our clients from the buyers. Those instruments represent serious support for the solvency of our companies and decrease of the operational risk.

In the following period, MBDP will continue to perform its development function in the business environment, through developing appropriate measures and financial instruments in order to facilitate and support clients who are facing difficult working conditions in the economic environment.

Yours faithfully,

Dragan Martinovski
Chief Executive Officer

II. BUSINESS ENVIRONMENT

Business environment, in which MBDP accomplished its strategic objectives and tasks during 2014, was estimated as more stable, i.e. as a period in which the consequences of the past global crisis diminished gradually. However, uncertainty continuous to be present in regard to the global recovery, potential vulnerability in certain segments, as well as negative risks of economic and non-economic nature. Namely, irrespective of the gradual stabilization of the economic and financial flows upon the fiscal and monetary measures taken by the National Bank of RM, dynamics of the economic recovery globally remains uncertain and accompanied with risks as a result of the vulnerability of the financial sector and the public finances in large number of countries.

Export sector remains main driving force of the economic growth in the Republic of Macedonia, mostly as a result of the utilization of the new export capacities. In general, investment activity provided high impulse, and the private consumption continued its rise supported by the available income, replenished with the enhanced credit flows by the domestic banks allocated in the retail sector. Structure of the growth of the third quarter in 2014 was more favourable, with higher contribution to the investment rather than private consumption.

Inflation data in December 2014 shows unchanged level of prices compared to the previous month. On annual basis and in total, inflation is negative and represents 0.5% and 0.3%, respectively. The average annual decrease of prices in 2014 is mainly result of the lower prices of food component and prices of energy. At the same time, it is noticeable that in the last quarter there is gradual exhaustion of the negative contribution of food prices, while adverse effect of energetic prices becomes more expressive, which corresponds with the rigid fall of the oil prices at the world market. With the existing transferred effects from the fall down of food and energy prices, the core inflation had also declining movements. The core inflation was in the zone of negative annual changes four months in a row, even though in average it stayed in a positive zone of 0.6% for the whole 2014. Last developments for 2014 pointed out to realization of an inflation rate which was in compliance with the expectations of October projections. Regarding the external assumptions, estimations of the world prices of oil were corrected downwards, while food prices were corrected in opposite direction. Having in mind the changes in the expectations for oil price, currently there are declining risks in regard with the projected inflation for 2015. However, it should be taken into consideration that there is high uncertainty about the future movement of world oil prices and possibility for sudden changes in this category.

Preliminary ten-day period data on the credit market in December 2014 registered further acceleration of the credit growth on monthly basis. As in November 2014, larger portion of the new lending was again directed to corporate sector. Loans disbursed to corporate sector participated with 87% in the total loan growth. Thus, the annual rate of total loan growth in December 2014 was 10%, which is above the National Bank projections. In relation to the deposit potential, there was significant acceleration of the monthly growth dynamics during 2014 (equally supported by the deposit growth of households and deposit growth of corporate sector), thus the deposits surpassed the October projection of the National Bank for the last quarter of

2014. Credit market movements give signal for more stable expectations and transfer effects to the hitherto monetary easing of credit activities.

Banks' liquidity has increased under influence of autonomous factors which contributed to further relatively high bank interest for the available deposits with the National Bank. At the money markets, in circumstances of relatively high liquidity, market players have slowed down the trading on the unsecured market segment as well as on the secondary security market. On the foreign exchange market there were relatively positive movements as a result of the seasonal increased offer and, at the same time, moderate slow down of the foreign currency demand. In such circumstances, the National Bank intervened by purchasing foreign currencies from the banks-supporters.

The interest rate of treasury bills remained unchanged of 3.25%. Within the external sector, in the third quarter of 2014, current and capital account noted surplus of EUR120.4 million, or 1.4% of GDP, which is better position for the current account compared to expectations in case of better trade balance. Borrowing abroad was the main source of foreign currency inflow in the country, and the favourable conditions were used to provide financing of the future Budget requirements in advance. According to the last available data on the fourth quarter of 2014, foreign currency reserves were almost equal on quarterly basis, and their dynamics was slightly more favourable than the projected one within the October forecast.

During the last quarter of 2014, the lending activity continued to increase, thus the contribution of the corporate sector lending increased in the total lending compared to the average contribution in the first three quarters. At the end of December 2014, total loans were higher by 10% on annual basis, and the loan growth in 2014 was higher 1.6 times in respect to the previous year growth.

Everything considered, last developments indicate further maintenance of the foreign currency reserves at appropriate level, diminished inflation pressure and strengthened financial support for economic growth by the banking sector. Exiting from the zone of adjustable monetary policy in the following period will depend on the changes in the external economy position and the effects upon the foreign currency reserves.

The latest economic indicators for the eurozone are favourable and indicate growth of the economic activities in 2014 with intention to expand in 2015. It is expected that the economic recovery will be slow, while the downward risks continue to be present and related to the uncertain movements of the financial markets, especially in the fast growing economies, the possibility for lower domestic and export demand than the estimated one, as well as the slow and inappropriate implementation of the structural reforms in the member countries in the eurozone.

III. 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 and incite development of the Macedonian economy through supporting the small- and medium-sized enterprises by offering wide range of financial products (credit lines, guarantees and export credit insurance) tailored to the needs of final beneficiaries. The Bank operates in accordance with the strategic policies, objectives and priorities of the Republic of Macedonia.

IV. BUSINESS POLICY AND OBJECTIVES

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

During 2014, by taking appropriate measures and carrying out diversified activities, MBDP was focused on implementation of set goals defined with the Business Policy, such as:

- Efficient use of the Bank total credit potential,
- Enlarging the credit insurance volume of export and domestic short-term receivables against commercial and political risks,
- Development of factoring,
- Growing the client base,
- Finding new and favourable sources of funding,
- Introducing new financial products,
- Establishing efficient internal risk management systems, i.e. their identification, assessment, monitoring and control,
- Maintaining the capital value and increasing it, through the policy for appropriating the net profit for reserves and additional increase of the initial capital,
- Permanent maintaining of an adequate level of own funds in order to maintain the internally defined capital adequacy ratio,
- Continuous improvement of work organization and promoting the business processes,
- Human resources management and continuous building of their knowledge and capabilities,
- Harmonization of the Bank's operations with the legal and subordinate legislation,
- Continually taking activities to prevent money laundering and financing of terrorism,

- Development and improvement of information technology and implementation of new software solutions in order to achieve complete and integrated system for registration, analysis and reporting which will encompass all phases and organizational units in the Bank,
- Conducting cost effective management policy,
- Deepening the cooperation with similar institutions from the country and abroad, etc.

Bank's Business Policy is based on the ground of harmonization with the legal regulations, adherence to the liquidity principle, stability, solvency, profitability and costs effectiveness, professionalism and operational efficiency, flexibility toward borrower's needs, etc.

V. REPORT ON CORPORATE GOVERNANCE

1. Management Bodies

The corporate governance of MBDP in 2014 was carried out in conformity with the Banking Law (Official Gazette of RM no. 67/07, 90/09, 67/10 and 26/13), the Law on MBDP (Official Gazette of RM no. 105/2009), 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 governance. During 2014, the Bank carried out its operations through the following bodies:

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

During 2014, the persons with special rights and responsibilities in the Bank (natural person who is member of Supervisory Board, Board of Directors, Auditing Committee, Risk Management Committee and other managing persons in the Bank according to the Statute of the Bank) have neither declared conflict of interests nor relation to third party in accordance with the Banking Law.

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.

1.2. Supervisory Board

In the course of 2014, the Supervisory Board carried out its function in conformity with the Banking Law and the Statute of MBDP with the following members:

- **Mr. Oliver Kosturanov**, Chairman of the MBDP Supervisory Board, BA in economics, MBA, General Manager of SEAF Macedonia, General Manager of Small Investment Fund (SIF) and Regional Manager of the SEAF South Balkan Fund,
- **Ms. Marina Blazhekovikj**, Vice-chairman of the MBDP Supervisory Board, BA in economics, MBA – MBA Management, employed at the Faculty of Administration and Management of Information Systems – Bitola,
- **Mrs. Romela Popovikj Trajkova**, member of the MBDP Supervisory Board, BA in economics, MBA – MBA Management, Head of Department for Economic Policies and Regulatory Reforms at the Government of the Republic of Macedonia,
- **Igor Dimitrov**, member of the MBDP Supervisory Board, BA in law, State Adviser for Normative, Legal and Administrative Affairs,
- **Mr. Armir Sadiki**, member of the MBDP Supervisory Board, BA in law, Adviser in the Cabinet of the Minister of Environment and Physical Planning of the Republic of Macedonia.

Government of the Republic of Macedonia appoints the members of the Supervisory Board and at the same time they are representatives of the state capital in the Bank's General Meeting of Shareholders in accordance with the Law on the Macedonian Bank for Development Promotion.

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

The Supervisory Board of the Bank also performs the following activities:

- approves the Bank's Business Policy and Development Plan,
- appoints and dismisses members of the Bank's Board of Directors,
- appoints and dismisses members of the Risk Management Committee,
- approves the Bank's Financial Plan,
- 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 of the Internal Audit Department,
- approves the information security system policy,

- approves the risk management policy of the Bank,
- approves the Bank's plans and programs of activities, and general acts, other than acts adopted by the Bank's General Meeting of Shareholders,
- discusses the reports on the activities of the Bank's Board of Directors,
- discusses the reports of the Risk Management Committee,
- discusses the reports of the Auditing Committee,
- discusses the reports of the Compliance Officer/Department,
- approves the annual account and the financial statements of the Bank,
- approves the list of net debtors of the Bank,
- 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 transactions with persons related to the Bank exceeding Denars 3,000,000.00,
- 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 of the Republic of Macedonia and the Republic of Macedonia,
- approves the proposal of the Auditing Committee for appointment of auditing company and is responsible for ensuring appropriate audit,
- approves the internal audit policy and procedures, supervises the appropriateness of the procedures and the efficiency of the operations of the Internal Audit Department and reviews its reports,
- discusses the supervisory reports, other reports submitted by the National Bank, the Public Revenue Office and other competent bodies and proposes, i.e. undertakes measures and activities for addressing the identified shortcomings and weaknesses in the Bank's operations,
- approves the annual report on the Bank's operations and submits written opinion thereon to the Bank's General Meeting of Shareholders,
- discusses the report of the auditing company and submits written opinion thereon to the General Meeting of Shareholders,
- provides written opinion on the annual report of the Internal Audit Department to the General Meeting of Shareholders,
- approves the Bank's Code of Conduct,
- approves the Rules and Procedures for the operations of the Auditing Committee,
- proposes the amount of the security reserves,
- makes decision for setting up special reserves and funds in the Bank, and for their amount,
- provides consent for entering reinsurance agreements within the overall obligations of the Bank on the basis of the insurance operations,
- sets the aggregate limit up to which the Bank may provide credit insurance against commercial and political risks,
- lays down the general conditions for credit insurance against commercial and political risk,
- provides consent for agreements with the R. Macedonia.

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.

The Supervisory Board approved, i.e. adopted the reports, information and other proposed documents related to the Bank's operations in 2014.

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, i.e. by way of e-mail communication had insight in the quarterly reports on transactions with related parties and made decisions related to the proposed material.

Members of the Supervisory Board and the persons/entities connected thereto are neither employed nor are persons with special rights and responsibilities at the Bank, do not work, i.e. in the past three years did not work in the auditing company which performed the audit of the Bank's operations in that period and in the past three years did not have material interest or business relation with the Bank in an amount that exceeds 3,000,000.00 denars.

1.3. 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.

In the course of 2014, the Auditing Committee performed its activities comprised of the following members:

1. **Miov Nikolaki** – President, BA in economics, certified auditor, partner and employee in the auditing company Efekt plus
2. **Klimentina Poposka** – BA in economics, associated professor of finance at the Institute of Economics-Skopje, Ss Cyril and Methodius University-Skopje
3. **Romela Popovikj Trajkova**
4. **Marina Blazhekovikj**
5. **Armir Sadiki**

The Auditing Committee performs the following activities:

- 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 Audit Department,
- 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 Audit Department and the audit company as to the identified non-compliances with the regulations and weaknesses in the Bank's operations,
- discuss the reports of the Risk Management Committee,
- propose an audit company, and
- report to the Bank's Supervisory Board on its operations at least once quarterly.

Members of the Supervisory Board and the persons/entities connected thereto are neither employed nor are persons with special rights and responsibilities at the Bank, do not work, i.e. in the past three years did not work in the auditing company which performed the audit of the Bank's operations in that period and in the past three years did not have material interest or business relation with the Bank in an amount that exceeds 3,000,000.00 denars.

1.4. Board of Directors

The Bank's Board of Directors consists of two members, appointed by the Supervisory Board on a prior consent by the Governor of the National Bank. Members of the Board of Directors are appointed as Chief Executive Officer and Chief Operating Officer. The Chief Executive Officer is appointed for a mandate of 6 (six) years, and the Chief Operating Officer for a mandate of 2 (two) years.

Members of the Board of Directors are as follows:

- **Dragan Martinovski** – Chief Executive Officer, BA in economics
- **Besim Bilali** – Chief Operating Officer, MA in economics

The Board of Directors of the Bank performs the following activities:

- manage the Bank;
- represent the Bank;
- enforce the decisions of the General Meeting of Shareholders and the Supervisory Board of the Bank, i.e. make sure that they are implemented;
- take initiatives and give proposals for promoting the Bank's operations;
- appoint and dismiss the individuals with special rights and responsibilities pursuant to the provisions under this Law and the Bank's Statute;
- develop the Bank's business policy and development plan;
- develop financial plan of the Bank,
- compile a list of net debtors of the Bank;
- develop a Bank's information security policy;
- prepare an annual report on the Bank's operations and submit it to the Supervisory Board;
- develop Code of Conduct of the Bank;
- decide upon investment of the credit insurance funds against commercial and political risks;

- decide upon lending and borrowing liquidity loans irrespective of the amount and term within the limits laid down by the Banking Law and the acts of the Bank;
- establish the internal organization and systematization of work and work tasks in the Bank, decides upon employment, promotion, redeployment, professional upgrade, determining salary and salary allowances, acknowledgement of exceptional commitment to work, pronouncement of disciplinary measures, material liability of employees and termination of employment;
- perform duties other than those the Supervisory Board is 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.

1.5. 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.

As of 29 May 2014, the Risk Management Committee worked with the following members:

- **Besim Bilali** – Chief Operating Officer
- **Aleksandar Stanojkovski** – Credit and Guarantee Division Manager
- **Frosina Josifovska** – Head of Treasury and Liquidity Division

The Supervisory Board dismissed Frosina Josifovska from the function member of the Risk Management Committee and appointed Qenan Idrizi.

Since 29.05.2014 the Risk Management Committee continue performing its activities comprised of the following members:

- **Besim Bilali** – Chief Operating Officer, MA in economics
- **Aleksandar Stanojkovski** – Credit and Guarantee Division Manager, BA in economics
- **Qenan Idrizi** – Manager of Treasury and Liquidity Division, PhD in economics

The Risk Management Committee performs the following activities:

- 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,

- assesses the Bank's risk management systems,
- determines short- and long-term strategies for managing certain types of risks the Bank is exposed to,
- analyzes the reports on the Bank's risk exposure developed by the Bank's risk assessment units and proposes risk hedging strategies, measures and instruments,
- monitors the efficiency of the internal control systems in the risk management,
- analyzes the risk management effects on the Bank's performances,
- analyzes the effects of the proposed risk management strategies, as well as the proposed risk hedging strategies, measures and instruments,
- 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 by 15th in the month following the reporting period.

Each month, the Risk Management Committee reported to the Bank's Supervisory Board on its operations pursuant to the Banking Law.

1.6 Credit Committee

The Credit Committee consists of three 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. In 2014, the Credit Committee performed its current activities and was composed of three members as follows:

- **Dragan Martinovski**
- **Besim Bilali**
- **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 within the credit policy, the Bank Statute, and in accordance with the principles of Banking operations laid down by the Law on MBDP,
- manage existing loans by providing current assessment on the borrower's creditability at least once a year,
- terminate agreement of an existing loan due to threat of non-payment of the credit liabilities and, if possible, requires additional collateral in case of loss threat,
- adopt Book of procedure,

- perform other duties stated in the credit policy established in compliance with the Law on Macedonian Bank for Development Promotion, the Banking Law and the Statute.

1.6. Insurance Committee

The Insurance Committee has three 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. In 2014, the Insurance Committee performed its activities with the following members:

- **Dragan Martinovski**
- **Besim Bilali**
- **Toni Petroski**

The Insurance Committee has the following rights and responsibilities:

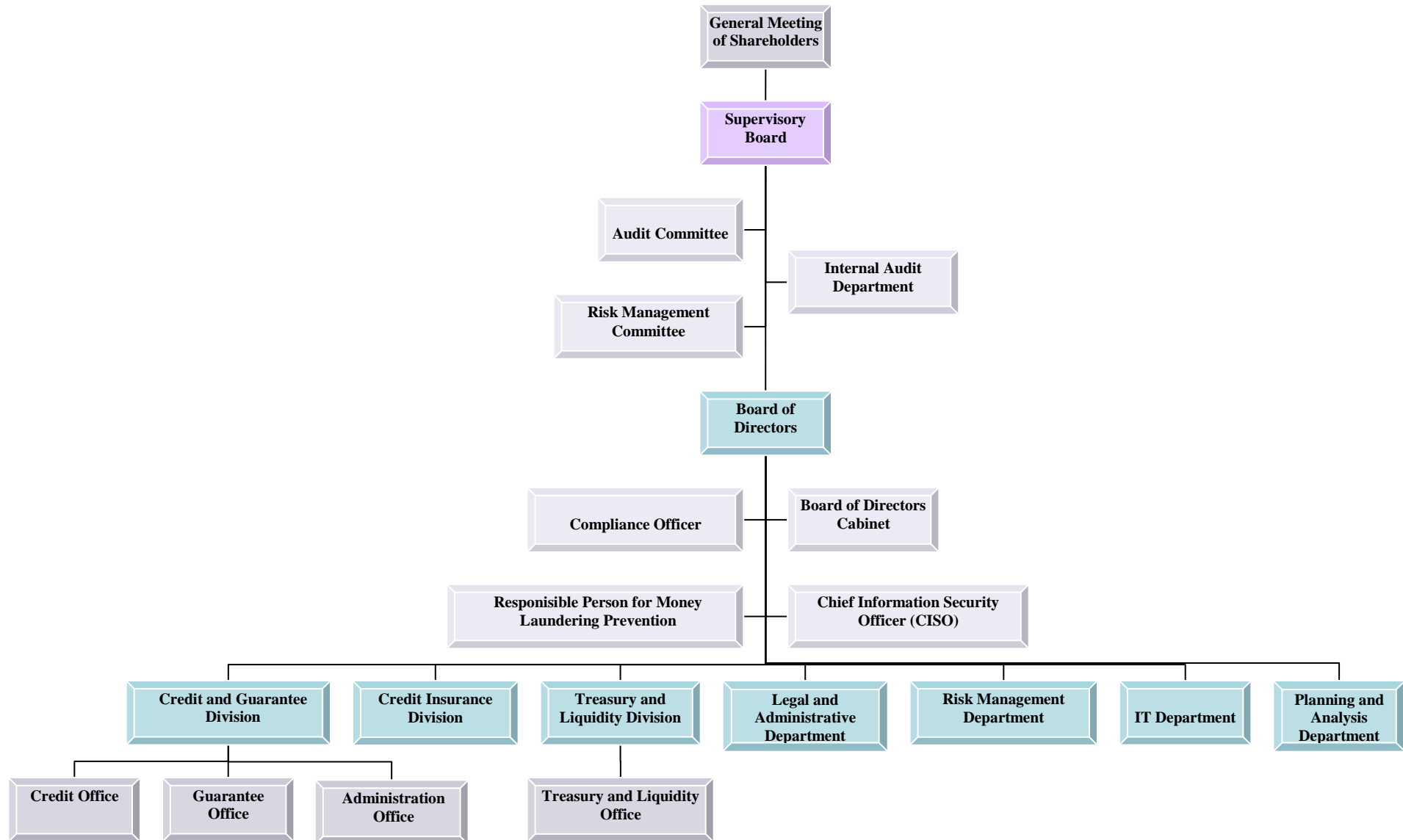
- lay down the necessary conditions for trade credit insurance against commercial and political risk,
- discuss and approve concluding an insurance agreement,
- assess risks of insurance operations,
- manage insurance policies by making current assessments of the insurance risk, at least once a year.

VI. ORGANIZATIONAL STRUCTURE

The Bank is organized in three divisions: Credit and Guarantee Division, Credit Insurance Division, Division for Treasury and Liquidity and five departments: Internal Audit Department, Risk Management Department, IT Department, Legal and Administrative Department, and Planning and Analysis Department. The Bank has also appointed Compliance Officer, Information Systems Security Officer, and Anti-Money Laundering Officer.

MBDP does not have branch offices.

As of 31 December 2014 MBDP has 42 employees.



VII. SHAREHOLDER'S STRUCTURE

Pursuant to the Law on 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 3,108.00 Denars per share.

VIII. CORPORATE GOVERNANCE CODE

Macedonian Bank for Development Promotion, i.e. the Bank's management bodies and employees during 2014 adhered to the principles of corporate governance in a whole 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 adviser.

IX. CONFLICT OF INTEREST PROTECTION POLICY

Basic postulates for the Bank's conflict of interest protection policy are laid down 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 27.01.2011 and the Policy on identification of potential conflict of interest and determining measures and activities undertaken in case of conflict of interest dated 09.06.2010. Code of Conduct is reviewed by the Bank's Supervisory Board at least once a year.

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 and 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 and 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 including the grounds of the conflict of interest.

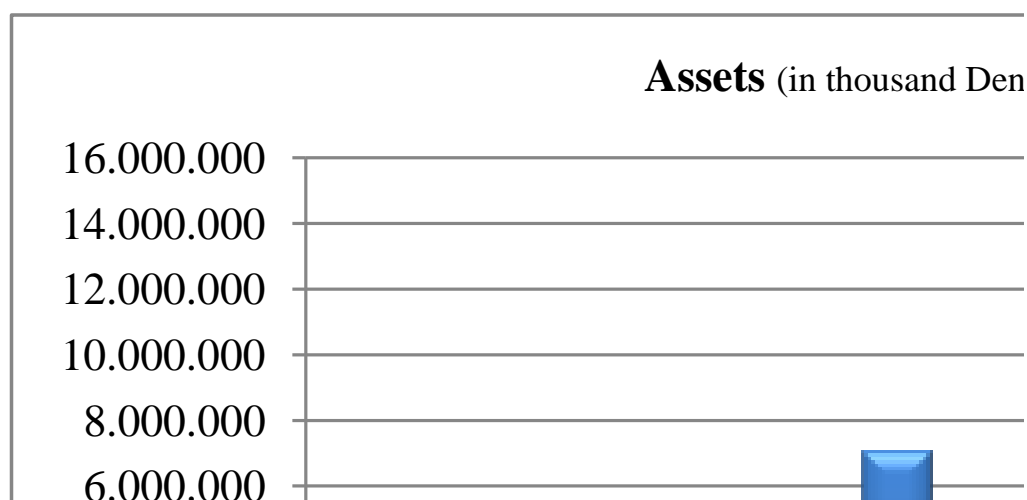
X. FINANCIAL PERFORMANCE OF THE BANK DURING 2014

In its financial operations in the period between 01.01.2014 till 31.12.2014, the Bank reached net profit of 107,511 thousand Denars. At the same time, the total balance of 15,093,864 thousand Denars has increased by 6.26% 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 chart:



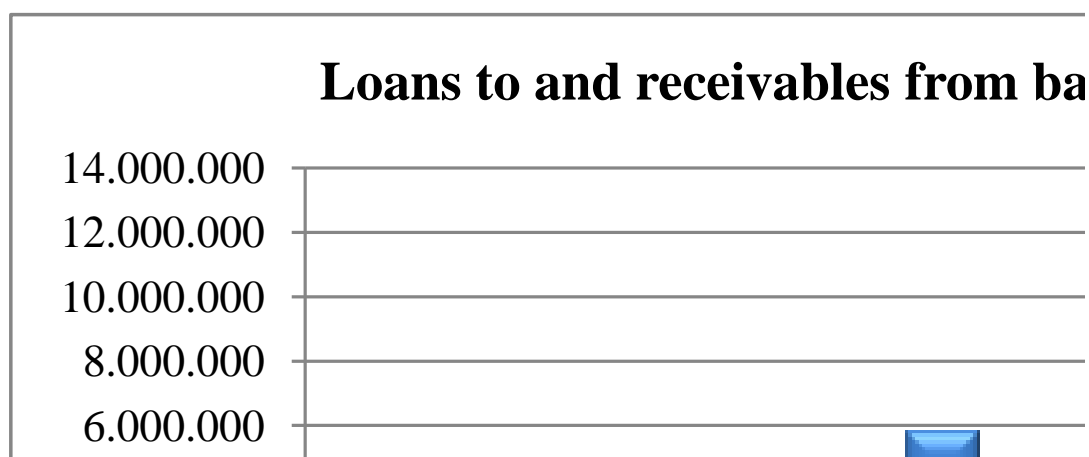
1.1.1. Cash and Cash Equivalents

As of 31 December 2014 the cash and cash equivalents amount to 2,195,710 thousand Denars, representing 14.55% of the Bank's total assets.

1.1.2. Loans to and Receivables from Banks

As at 31 December 2014, total loans to and receivables from banks amount to 12,636,788 thousand Denars, representing 83.72% of the total assets. Total loans to and receivables from banks have increased by 2.67% in comparison to the previous year.

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



1.2. Sources of Funding

1.2.1. Total Liabilities

As at 31 December 2014, the Bank's total liabilities amounted to 12,844,879 thousand Denars, and have achieved increase of 6.47% in comparison to the end of 2013. As at 31.12.2014, the credit liabilities increased for 6.39% comparing to 31.12.2013.

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

1.2.2. Capital and Reserves

The capital and reserves represent 14.90% of the total sources of funding. The total Bank capital as of 31 December 2014 was on a level of 2,248,985 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 2014 and 31 December 2014 MBDP reached total income amounting to 408,579 thousand Denars, expenses amounting to 301,068 thousand Denars and positive financial result of 107,511 thousand Denars.

In the reporting period the total interest income amounted to 367,178 thousand Denars and the total interest expense amounted to 208,283 thousand Denars. The net interest income amounted to 158,895 thousand Denars and are lower for 2.75% comparing to the previous year.

Net fee and commission income was 20,010 thousand Denars for 2014 and represent an increase of 20.42% in comparison to the previous year.

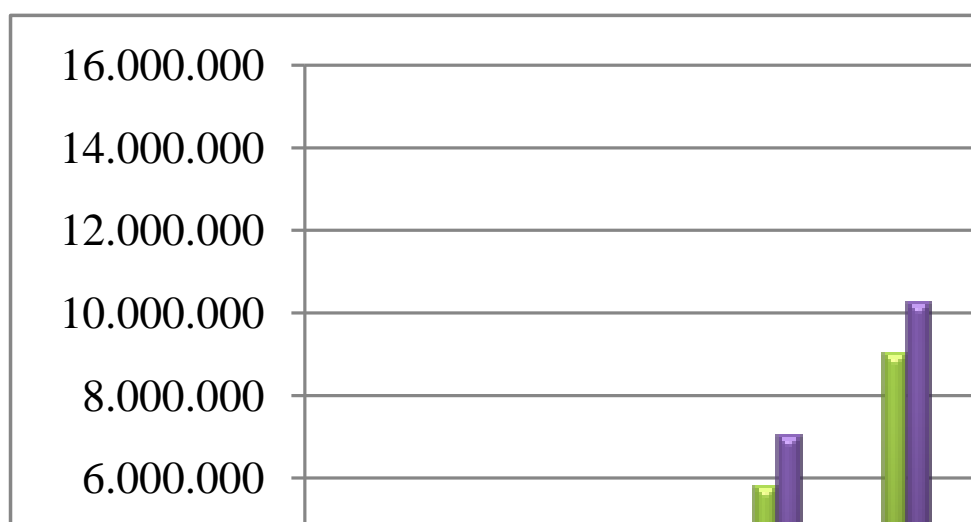
Income and expenses and sources of funding in foreign currency or denominated in currency clause are presented in the income statement translated to Denars at the exchange rate of the National Bank in the Republic of Macedonia on net base.

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 2014, the impairment amount on financial assets showed net income of 5.135 thousand Denars, and 363 thousand Denars on the basis of loss due to paid indemnification of non-financial assets on net base.

Other business expenses contain depreciation and amortization, overall and administrative costs and other operating expenses totaling 64,343 thousand Denars, i.e. 14.40% higher than the same period previous year.

The calculated tax for 2014 amounted to 12,057 thousand Denars.

The Chart below shows the movement of several balance sheet items between 2007 and 2014. ('000 mkd)



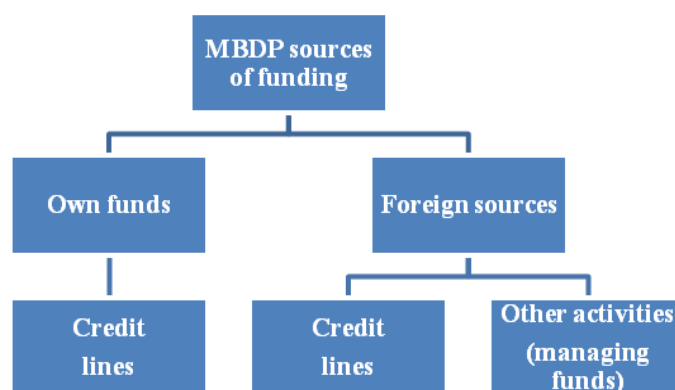
XI. CREDIT ACTIVITIES

As in the previous years, in 2014 also, MBDP carried out its credit activities mainly through the commercial banks that it entered into agreement with as follows:

- Halk Banka AD Skopje
- Sparkasse Banka Macedonia AD Skopje
- Eurostandard Banka AD Skopje
- Komercijalna Banka AD Skopje
- NLB Tutunska Banka AD Skopje
- Ohridska Banka AD Skopje
- ProKredit Banka AD Skopje
- Stopanska Banka AD Bitola
- Stopanska Banka AD Skopje
- TTK Banka AD Skopje
- UNI Banka AD Skopje
- Centralna Cooperativna Banka AD Skopje

The Bank, small part of its lending activities carried out directly to the end beneficiaries without mediation of the intermediary banks.

MBDP used two sources of funding for financing its lending activities, its own funds and foreign sources (funds provided by foreign financial institutions, bilateral creditors and other).



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
Credit line for development of small and medium sized enterprises	from 15,000 to 500,000	up to 11 years, grace period of up to 1 year included	6.5% p.a.
Financing of export oriented production	from 15,000 to 2,000,000 through banks and up to 1.000.000 direct lending	up to 2 years	6% p.a.
Permanent working capital financing	from 30,000 to 300,000	up to 3 years	6.5% p.a.
Financing of municipalities for implementation of projects financed under EU IPA Component	from 10,000 to 300,000	up to 2 years	5.75% p.a.

Credit Lines by Foreign Financial Institutions, Bilateral Creditors and Other Sources

In the course of 2014, MBDP continued to utilize and carry out the credit lines from foreign creditors and donors.

Besides disbursing credits from the EIB I, EIB II, and EIB III credit lines, the Bank has begun disbursing the funds from EIB IV credit line, thus enabling continuity in the use of this credit line.

Conditions of the credit products from EIB as well as from the rest of the international institutions 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 8 years with up to 24 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 and Mid Cap companies	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
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 up to 7,000 EUR, depending on person's status	up to 7 years with 18 months grace period included	1 % p.a., interest not paid during grace period

	and age		
Agricultural Credit Discount Fund OKF (ZKDF)	up to 100,000 EUR for primary agricultural production up to 300,000 EUR for processing agricultural products and up to 300,000 EUR for export trade of primary agricultural products and their manufactured products	agreed with the financial institution	from 4% up to 6.5% p.a.
Credit line for production, processing, and export of agricultural products (Compensation funds)	up to 300,000 EUR (500,000 EUR for purchase of grape, wheat, fruits and vegetables)	up to 5 years with grace period of 1 year included for fixed assets, and 1.5 years with grace period of 3 months included for working capital	3% p.a.

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.

Funds were targeted for financing fixed assets, permanent working capital and priority projects and Mid Cap companies. The following credit programs were initiated from the funds of this credit line:

Investment Loans from EIB

Single credit amount intended to final beneficiaries:	From EUR 10,000 up to EUR 3,500,000
Repayment period:	Up to 8 years
Grace period included:	Up to 2 years
Purpose:	Support of identified projects: <ul style="list-style-type: none"> • Purchasing fixed assets: <ul style="list-style-type: none"> ○ Real estate (except land)

	<ul style="list-style-type: none"> ○ Equipment ○ Working capital (not exceeding 30% of the loan value) ● Investment in intangible assets
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Loans for Permanent Working Capital from EIB

Single credit amount intended to final beneficiaries:	From EUR 5,000 up to EUR 666,700
Repayment period:	Up to 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

Loans for Priority Projects and Mid Cap from EIB

Single credit amount intended to final beneficiaries:	Up to EUR 6,000,000
Repayment period:	Up to 8 years
Grace period included:	Up to 2 years
Purpose:	Providing support to priority projects in the area of industry, education, culture, ecology, etc.

Credit product	No. of credit applications	Amount in EUR
Investment credits	279	46,305,151
Permanent working capital	145	22,500,701
Priority projects and Mid Cap	9	2,922,750
Total	433	71,728,602

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 machinery, equipment, and technology from Italian origin to satisfy the needs of Macedonian companies. 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.

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 Banka AD Skopje, NLB Tutunska Banka AD Skopje, ProCredit Banka AD Skopje and savings house Mozhnosti doo Skopje. Loan beneficiaries were micro and small enterprises, individual entrepreneurs, craftsman, sole traders, vendors, other micro and small entities.

SME Credit Line from KfW (KMB 2)

This credit line was used for financial support of micro-, small-, and medium-sized companies in the Republic of Macedonia. The credit line was completely implemented through Halk Banka AD Skopje, NLB Tutunska Banka AD Skopje, and ProCredit Banka AD Skopje. In the course of 2014, Ohridska Banka AD Skopje joined as intermediary bank for this credit line.

SME Credit Line from KfW (KMB 3)

This credit line is assigned for financial support of micro-, small- and medium-sized companies from the Republic of Macedonia. The credit line is carried out through Halk Banka AD Skopje, Sparkasse Banka Macedonia AD Skopje, and ProCredit Banka AD Skopje.

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 additional own funds of USD 1.5 million, i.e. ratio 50:50. Sustainable Energy Project provides 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 Banka AD Skopje, UNI Banka AD Skopje, Halk Banka AD Skopje, and Ohridska Banka AD Skopje.

Other Credit Lines and Projects

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. Loan beneficiaries are obliged to stay out of the unemployment list at least until the repayment of the loan.

MBDP acting as an Agent, signed agreements with six intermediary banks for implementation of this Project including: Ohridska Banka AD Skopje, NLB Tutunska Banka AD Skopje, Sparkasse Banka Macedonia AD Skopje, Komercijalna Banka AD Skopje, Stopanska Banka AD Bitola, and Halk Banka AD Skopje.

Renewable Loan Fund (RLF)/Agricultural Credit Discount Fund (ACDF)

Since 1 July 2010, the administration of the ACDF credit line was transferred to the Macedonian Bank for Development Promotion under the name, administration of the credit line Renewable Loan Fund (pursuant to the Administration Agreement made between the Ministry of Finance and MBDP).

In 2014, Halk Banka AD Skopje and MBDP signed agreement for utilization of the loan funds from RLF/ACDF credit line, so now 13 financial institutions are taking part in the implementation of ACDF, out of which 11 are commercial banks and 2 are saving houses.

In the course of 2014, out of the total disbursed RLF/ACDF loans, 87% were for primary agricultural production, 9% were loans for small and medium sized enterprises for processing agricultural products, whereas 4% were for export of agricultural products. Structure by value shows that loans for primary agricultural production had the majority participance of 66% of the total disbursed funds. Loans for processing agricultural products followed with 25% and loans for export of agricultural products with 9%.

EAR Credit Line - Special Credit Guarantee Scheme

The credit line from the European Agency for Reconstruction (EAR) was used 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 loan was EUR 10,000, and the maximum was EUR 300,000. Loans were extended through commercial banks (that MBDP has concluded framework agreement with), and they participate with minimum 30% own funds in the loan structure.

Credit line for production, processing and export of agricultural products

The purpose of the credit line funding was to provide finance to produce, process and export agricultural products. Its realization began in 2012. The credit line was established with a purpose of supporting the companies which main activity was production, processing and export of agricultural products.

XII. TRADE CREDIT INSURANCE

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 2014:

Short Term Insurance against Commercial Risks

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

Insurance against Political Risk

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

Reinsurance Agreement

In 2014, MBDP reinsured the total insured export credit and domestic portfolio. The reinsurance was conducted in compliance with the concluded Quota Share Reinsurance Agreement (compulsory) with the reinsurers Atradius RE, and Nationale Borg.

More favourable conditions were reached with the Quota Share Reinsurance Agreement, in regard with the risk undertaken, premium rates, insured risks, etc., in comparison to the previous years.

Scope of Work

Short Term Export Credit Insurance Policy against Commercial Risk

In the course of 2014, MBDP signed short term export credit insurance policies against commercial risk with 49 insureds, and insurance policy of domestic receivables against commercial risk with 10 insureds.

Insured Exports

In the course of 2014, the Macedonian Bank for Development Promotion insured export representing increase of 34% in respect of 2013 and collected premium representing increase of 3.6%.

During 2014, MBDP insured domestic receivables against short term commercial risk 7% less than 2013, and collected premium which is drop of 5.5% compared to 2013.

Chart: Insured exports and domestic receivables against commercial risk per year (in EUR)

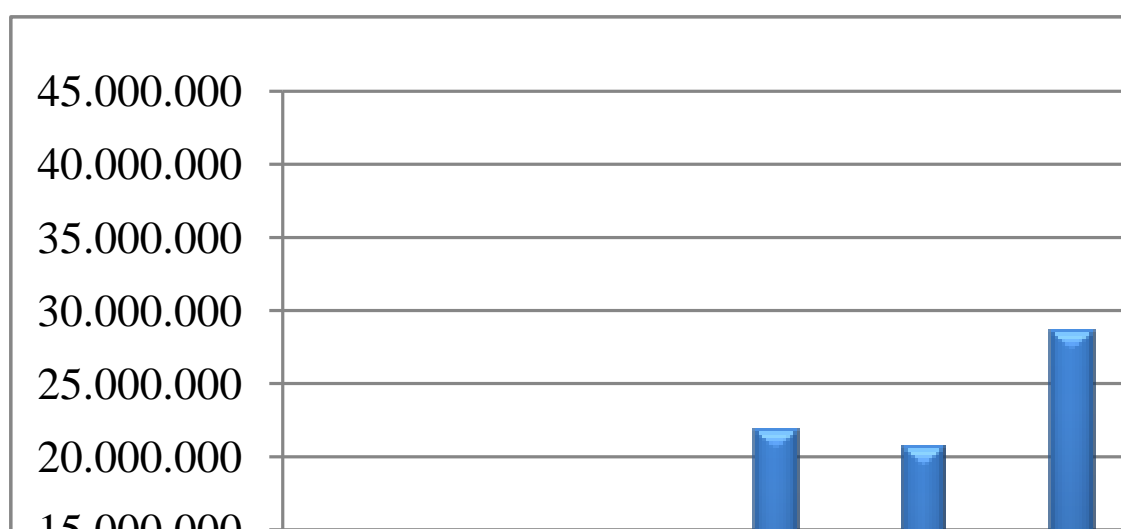
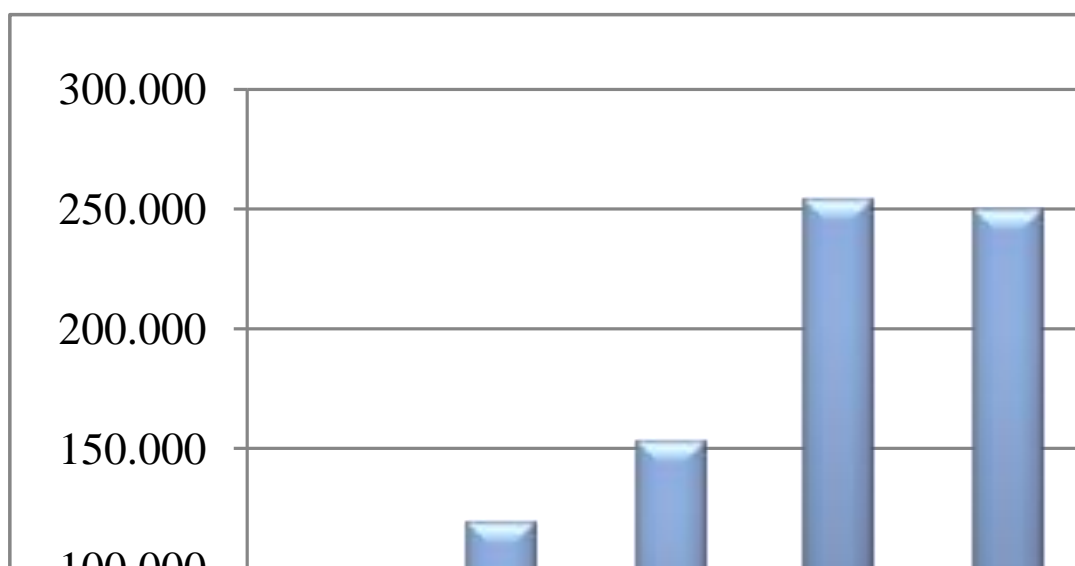


Chart: Premium gained (export – domestic) per year (in EUR)



Insurance Limits and Credit Reports

In 2014, 304 credit limit applications were submitted for foreign (209) and domestic (95) buyers.

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 2014 took active participation in Prague Club operations contributing to achievement of and respecting the Club's goals: mutual cooperation, exchange of information, international standards acceptance, promotion of credit insurance, providing international support and exchange of information. MBDP attended both regular semiannual meetings of the Prague Club members.

Factoring

Factoring service is a specific type of short-term financing, where MBDP in the role of "Factor", on a ground of a contract concluded in a written form, assigns-purchases the foreign receivables of another domestic entity with a right of recourse.

Contractual parties in factoring are as follows:

- Seller/exporter of goods and services, the one who issues invoice,
- Debtor/buyer of the goods and services,
- Factor (legal person/MBDP, party that provides factoring, i.e. purchases the account receivables).

At the beginning MBDP have provided with-recourse factoring of export receivables and in near future may provide with-recourse factoring of domestic receivables.

Factoring is flexible financial instrument which provides improvement of the company cash flow and liquidity.

Implementing the factoring service, MBDP shall contribute to providing easier short-term finance to the companies in order to satisfy their current needs, thus becoming a type of accelerator of the business cycles implemented in the companies especially the export oriented ones.

The clearly defined Factoring procedures and their consistent application shall provide:

- establishment of clearly defined principles and procedures of operation,
- application of standard forms and models in factoring service implementation.

MBDP pays special attention to the creditworthiness of the buyer/debtor in the process of with-recourse factoring of export receivables.

Factoring provides many benefits to companies/clients. Some of these include the following:

- improvement of cash flow,
- acceleration of business cycles,
- increase of working capital,
- growth and development of business.

Factoring fully confirms its role as alternative and specific method of finance, which gradually shall become more popular and used, having in mind the international experience and the Macedonian companies' needs of working capital.

In the course of 2014, MBDP through providing factoring service supported exports of 9 Macedonian exporters. MBDP supported the export of Macedonian products and services to 12 buyers located in 6 countries of the region and EU.

XIII. RISK MANAGEMENT

Pursuant to the Banking Law (Official Gazette no. 67/2007, 90/2009, 67/2010, 26/2013 and 15/2015) and the subordinate acts adopted pursuant to this Law, the Macedonian Bank for Development Promotion AD Skopje has established risk management system and continually manages the risks pursuant to the nature, the type and the scope of the financial activities it performs. Risk management system encompasses strategy, policy, procedures and other internal acts of risk management, appropriate organizational layout (clear organizational structure, efficient risk management process and efficient internal control and audit system) and Bank capital adequacy assessment process for covering risks.

MBDP has established system on management of all material risks the Bank is exposed to. Material risks are determined pursuant to internal methodology including qualitative assessment, i.e. assessment of the influence of an individual risk on operations, as well as history data on the loss amount which can be related to an individual risk.

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. Appropriate risk management is primarily based on internal acts for identification, assessment, control and monitoring of individual risks, stress testing rules, rules on introducing new products, rules on using external services, as well as internal information system. In addition, risks are not identified and assessed in isolation since one transaction may cause several risks and one type of risk may influence the increase of other risks.

Bank's risk management system includes at least:

- Credit risk
- Country risk
- Credit risk, arising from currency 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 changes of the macroeconomic indicators 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, also, 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. At least once a month, the Bank makes assessment whether there is 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 is as follows:

- A category – 98.56%
- B category – 0.10%
- C category – 0.18%
- D category –
- E category – 1.16%

The Bank has not determined impairment for around 97% of the total credit risk exposure. As of 31 December 2014, the total amount of the impairment / special reserve was 1.26% 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 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.

Exposure to country risk is calculated individually for each credit risk exposure. For each country group classification loss % is envisaged in accordance with the country risk management policy. Country risk is calculated as percentage of the net credit exposure.

3. Credit risk arising from foreign exchange risk

Credit risk arising from foreign exchange risk the resident-loan beneficiary is exposed to is an integral part of the credit risk and is integrated in the risk management system. Credit risk arising from foreign exchange risk the resident-loan beneficiary is exposed to is current or prospective risk to the capital and profit arising from resident-loan beneficiary ability to regularly settle its liabilities pursuant to the loan agreement because changes in the exchange rate adversely affect, i.e. increase the liabilities of

the loan beneficiary. The risk is connected to the currency the loan or other placements are approved in. Credit risk arising from foreign exchange risk arises when there is mismatched currency position (mismatched structure of foreign currency claims and liabilities) of the loan beneficiary according to currency and maturity, in the financial reports of the loan beneficiary. The currency induced credit risk is characteristic for the Bank, because portion of the assets and liabilities are stated in foreign convertible currency or in domestic currency, but indexed to a foreign currency.

4. 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.

The Bank performs the concentration risk management by laying down exposure limits, as well as defining and monitoring the large exposures to certain persons in accordance with the criteria defined in the Law on Macedonian Bank for Development Promotion AD Skopje and other subordinate regulations obliging the Bank to perform its operations.

5. 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 Denars 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.

6. 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.

7. 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 Denars 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 usually grants the 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 Denars 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.

8. 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 risks 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.

9. 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.

10. 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 each 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.

The Bank has established proactive approach to the reputation risk management process, having in mind 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 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.

11. 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. 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.

12. 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 scope of financial activities and the level of risks arising from the conduct of such activities. The Bank policy is the maintaining of own funds to contribute to the maintaining of capital adequacy rate in order to ensure that the Bank will retain solvent in long run.

As of 31 December 2014, the MBDP capital adequacy rate was 22.38%, which is above the legal rate of 8%.

XIV. PLANNING AND ANALYSIS

In the course of 2014, Planning and analysis department within the strategic business objectives of the Bank, performed activities related to designing of reports and providing data and information referring to:

- Analysis and review of the banking sector in the country and making analysis on each bank respectively,
- Macroeconomic analysis and research as base for introduction of new and development of the existing products of the Bank,
- Country and business analysis in the countries where MBDP is exposed through its clients,
- Analysis of the financial activities of the Bank,
- Making the financial plan for 2015,
- Making the Strategy (Business plan and development) of MBDP 2015-2017.

XV. 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 2014, the compliance officer continually followed the adopting of draft-regulations, publishing of new legal and subordinate acts, modifications and amendments to the positive legal regulation and assessed their influence on the Bank's operations. The Board of Directors and the Bank employees were informed for the modifications of the legal and subordinate regulation and the necessary activities were undertaken in order to harmonize the Bank's operations to the new regulation.

In the course of 2014, the compliance officer by giving recommendations took active part in the creation and modification of the Bank's internal acts in order to harmonize them with the new legal and subordinate acts.

During 2014, trainings were continually carried out and employees were informed in regard with the manner of implementation of the new legal regulations and the Bank's internal acts in the everyday work.

Also, during 2014, the compliance officer controlled the fulfillment of the Bank's obligations related to timely delivery of reports to institutions, gave opinion and recommendations related to present activities of the divisions/departments in order to ensure consistent application and adherence to the regulations.

The Board of Directors and the Supervisory Board were regularly informed though monthly and quarterly reports for the performed activities related to fulfillment of the compliance function.

XVI. ACTIVITIES PURSUANT TO THE LAW ON PREVENTION OF MONEY LAUNDERING

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.04/2008, 57/2010, 35/2011 and 44/2012), MBDP is obliged to create and harmonize the internal acts to the Law. In 2014, MBDP harmonized its Programme on prevention of money laundering and financing of terrorism pursuant to the Law. The Programme was adopted by the Financial Intelligence Office.

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

- Procedures on client's acceptance,
- Procedures on client due diligence,
- Procedures on risk analysis and risk analysis indicators,
- Procedures on assessing the risk of holders of public function,
- Procedures on identification of unusual transactions and suspicion for money laundering and terrorist financing,
- Procedures for keeping data and documents of unusual transactions and suspicion for money laundering and terrorist financing,
- Procedures for keeping data and documents and submission of reports to the Financial Intelligence Office,
- Permanent training plan for the Bank's employees in the area of prevention of money laundering and terrorist financing,
- Manner of cooperation with the Financial Intelligence Office,
- Procedure and plan for performing internal control and audit on the implementation of the measures and activities,
- Appointment of responsible person.

In the course of 2014, the responsible person of the Bank for prevention of money laundering and terrorist financing held several work meetings with representatives of the Financial Intelligence Office, related to the implementation of the new MBDP products and the future cooperation with the Office having in mind the Bank uniqueness and its position in the financial sector.

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

During 2014, trainings for the employees were held where the latest recommendations of the Office were presented as well as the manner of their use in practice.

In 2014, a new Law on Prevention of Money Laundering and Other Proceeds of Crime and Financing of Terrorism was adopted (Official Gazette of RM no. 130/14). The Bank started harmonizing the existing internal acts pursuant to the new Law.

XVII. INFORMATION SYSTEM SECURITY

Information System Security Policy regulates the application of security standards and protective mechanisms for diminishing the risk of causing damages and minimizing loss and operational risk. The Policy should provide confidentiality, integrity, and availability of the information system assets, ensure continuity in providing information, data, and services and protect employees from human mistake.

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 risks. The qualitative method is applied in the assessment procedure. Risk analysis and risk assessment of the Information System Security is submitted to the management bodies on a yearly basis.

The business continuity plan of the Bank ensures that plan for continuity of work will be established in cases of operations and business process disruption whereas 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 communication and information assets. Catastrophe renewal plan is an 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 through administrative, technical and physical controls for providing security.

In 2013, the Department of off-site supervision of the National Bank made an off-site control on the information system security of the Bank and gave positive assessment, and the license then renewed is still valid.

The Bank takes activities to strengthen the information security system controls on regular basis.

XVIII. INFORMATION TECHNOLOGY

In the course of 2014, the information technology department successfully followed the development of the Bank, continually providing IT support to the business processes. More important activities performed in the area of information technology in 2014 were as follows:

- Upon publishing the announcement for selection of supplier for a new integrated banking information system (IBIS), the received offers were evaluated, and the most favourable supplier was chosen. Within the period April-November 2014, the Bank worked intensively on implementation of the new solution for IBIS. All employees in the Bank took active part in the

implementation of the new solution. All activities related to the implementation of the new IBIS were finalized with implementation of a completely functional IBIS pursuant to the published specification in November 2014,

- The Bank started a procedure for procurement of a new solution for consolidation of ICT infrastructure in November 2014. Pursuant to the positive regulation, an appropriate technical specification of the solution was made according to the Bank's needs. Upon received consent by the Public Procurement Council, the Bank published the announcement for procurement and implementation of a new solution for consolidation of the ICT infrastructure at MBDP. It is expected that the process together with the implementation of the solution will finish in the first half of 2015,
- Activities for up-grading the application Bank3000 were continually conducted (up until November 2014), Asseba IBIS (November 2014 onwards), Euronetkom AML, E-correspondence register. They include implementation of new functions for more efficient execution of the business activities, stabilization of the applicative solutions in order to achieve higher degree of confidentiality and integrity of the data they provide,
- Activities related to maintaining of the existing ICT equipment were taken continuously in order to provide high level of confidentiality, integrity and availability of the applied ICT services in the Bank,
- Part of the existing PCs was replaced with new ones in compliance with the development plan of the Bank.

XIX. INTERNAL AUDIT

Internal audit department is an independent organizational unit, functionally and organizationally separated from the rest of the Bank's organizational units, in the hierarchy positioned above the operating organizational units, and closely below the Supervisory Board and the Auditing Committee.

Main goal of the internal audit operations is to provide impartial and independent assessment of the internal control system adequacy and efficiency, accuracy of the accounting records and financial statements, harmonization of the Bank's internal policies and procedures with the legal regulations, as well as the general efficiency of the Bank's operations.

Internal audit department during 2014 performed its activities in accordance with the Annual plan of operations, created on a basis of preliminary analysis of the core business processes of the Bank and potential risks those business processes were exposed to. The Annual plan of operations was approved by the Bank Supervisory Board.

In the course of 2014, Internal audit department conducted 13 regular audits, monitored the implementation of the presented recommendations, reported to the Bank's Supervisory Board on regular basis and cooperated with the Board of Directors, Auditing Committee, the National Bank and the external auditor of the Bank.

Board of Directors

SIGNED

Dragan Martinovski
Chief Executive Officer

SIGNED

Besim Bilali
Chief Operating Officer