MACEDONIAN BANK FOR DEVELOPMENT PROMOTION

ANNUAL REPORT
2015

Skopje, April 2016

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I. BUSINESS ENVIRONMENT

Due to the slowdown of the deposits growth, the banks' assets increased with a slower pace. At the same time, typically for the third quarter of 2015 is that the increase of the deposit potential in a whole is due to the deposit growth of households, while the corporate deposits showed drop. The commercial banks assets showed movement in the same direction: credit support to the households increased, while the corporate loans minimally decreased. The deposit growth was result mostly of the demand deposits and foreign currency deposits.

At the end of the third quarter of 2015, the share of non-performing loans in total loans was 11.7%, thus remaining within the normal level over the past two years, ranging between 11% and 12%. Signals for potential risks of households were observed due to the continuous growth of consumption loans and easing credit standards. However, the risk to the own funds of the banks from any materialization of credit risk, i.e. fulfilment of the assumption for non-recovery of the non-performing loans, is neutralized with the high coverage of these loans with impairment.

The faster growth of credits compared to deposits in the third quarter of 2015, generated minimal decrease of liquid assets at the level of the banking system, but they are still at satisfying level, i.e. provide sufficient coverage to the short-term liabilities and household deposits. Other risks have low significance in the range of risks to which the commercial banks in the Republic of Macedonia are exposed.

Solvency of the banking system is high. In the third quarter of 2015, the capital adecuacy ratio was twice higher than the legal minimum and it equaled 16.1%. Profitability of the banking system continues to strengthen. The reason for the increased profits are the growth of the net interest income, as well as the growth of other regular income.

The National Bank of the Republic of Macedonia Council adopted the Decision on amending the Decision on the methodology for determining the capital adequacy, introducing measures to slow the high growth of long-term consumer loans. In the last two years, quite rapid growth is registered in consumer loans, primarily consumer loans with maturity of over ten years, whose annual growth rate in September 2015 amounted to 47.5%. In practice, almost always, after rapid growth in lending, usually in conjunction with eased lending conditions, a period of difficult collection of claims follows. So far, the portfolio of consumer loans of Macedonian banks do not show performance of the risks of rapid growth and eased lending conditions. The growth of non-performing consumer loans is moderate, but in the last months it accelerates. However, under the influence of the accelerated credit growth, the share of non-performing consumer loans to total consumer loans is at a relatively low level (5.2%). The measures are introduced in order to limit the potential risks of the accelerated growth of long-term consumer loans, i.e. to influence preventively on signals for potential future growing risks of these loans, and not only for the quality of the banks' loan portfolio, but also for the level of indeptedness of the population, since the indebtidness of the existing borrowers, rather than new borrowers, grow. The measure increases capital requirement for banks on long-term consumer loans

with a term equal to or longer than eight years. In order not to cause major shocks in the market of consumer lending, yet the growth rates to be reduced to a moderate level, this measure is aimed only at newly approved long-term consumer loans, i.e. approved loans after 1.1.2016 with a term equal to or longer than eight years, whereby prolongations and restructurings are covered. This measure does not mean that banks will stop giving consumer loans with longer terms, but it is realistic to expect that banks will follow the signal of the National Bank and will contribute to slowing the rapid growth of these loans.

The NBRM Council also adopted the Decision on amending the Decision on credit risk management, according to which, as of June 30, 2016,banks will perform write-offs of all claims which are fully booked for more than two years, i.e.

The Council adopted the Decision on amending the Decision on credit risk management, according to which, as of June 30, 2016, banks will perform write-offs of all claims which are fully booked for more than two years, in which the bank determined and fully covered the credit risk of non-collection at least two years before. According to existing regulations, banks are obliged to fully reserve requirements where the client failed to pay at least 1 up to 5 years if there is a specific security, and with the new measure, after two years when fully booked, is required to write them off. In addition, banks will continue to have the opportunity and obligation to take actions for collection of these claims, although they are written off. It is particularly important that this measure does not cause additional costs for banks because claims which are fully booked are written off, at least two years ago.

Due to the positive effects on the lending activity of the banks and the overall domestic economy, the Council decided to extend the application of non-standard measure to reduce the reserve requirement base in denars of commercial banks for the amount of newly approved loans to net exporters and domestic producers of electricity for additional two years. Consequently, banks are expected to continue active lending support to these companies through a wide range of new loan products and more favorable interest rates for further growth in the contribution of this lending in the expansion of loans to the corporate sector as a whole.

Source: National Bank of the Republic of Macedonia

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), anticipating that the 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.

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 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 2015, 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. risk 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.

IV. REPORT ON CORPORATE GOVERNANCE

1. Management Bodies

The corporate governance of MBDP in 2015 was carried out in conformity with the Banking Law (Official Gazette of RM no. 67/07, 90/09, 67/10, 26/13 and 15/15), 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 Assembly 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 2015, the Bank carried out its operations through the following bodies:

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

During 2015, 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. Assembly

The Republic of Macedonia is a sole shareholder of the Bank.
The sole shareholder manages the Bank through the Assembly 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 Assembly. Bank's Assembly in the reporting year held four regular meetings.

1.2. Supervisory Board

In the course of 2015, the Supervisory Board carried out its function with the following members:

- **Mrs. Romela Popovikj Trajkova**, Chairperson 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,

- **Ms. Marina Blazhekovikj**, member of the MBDP Supervisory Board, BA in economics, MBA – MBA Management, employed at the Faculty of Administration and Management of Information Systems – Bitola,

- **Mr. Armir Sadiki**, member of the MBDP Supervisory Board, BA in law, Adviser in the Cabinet of the Minister of Education of the Republic of Macedonia.

- **Ms. Natasha Stojmanovska**, member of the MBDP Supervisory Board, BA in economics, State Adviser at the Ministry of Finance in 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 Assembly 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 Assembly,
- 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 Assembly,
- discusses the report of the auditing company and submits written opinion thereon to the Assembly,
- provides written opinion on the annual report of the Internal Audit Department to the Assembly,
- 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 Assembly.

The Supervisory Board approved, i.e. adopted the reports, information and other proposed documents related to the Bank's operations in 2015.

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 there 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 2015, 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.

Auditing Committee at its sessions discussed the financial statements of the Bank, assessed the objectivity of the disclosed financial information on the Bank's operations, as well as their compliance to the regulations related to the accounting regulations and the international accounting standards.
Auditing Committee followed the work of the Internal Audit Department and assessed the work of the independent auditing company that conduced the audit of the financial statements of the Bank for the business year 2015.

Auditing Committee discussed the risk profile of the Bank at its meetings, analyzing each risk to which the Bank is exposed during operations respectively.

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 there 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 Assembly 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, pronunciation 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.

During 2015, the Risk Management Committee performed 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 2015, the Credit Committee performed its 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.

In the course of 2015, the Credit Committee held meetings at which they discussed and approved credit applications submitted by the intermediary banks participants in the MBDP credit programmes.

The 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.

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 2015, 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:

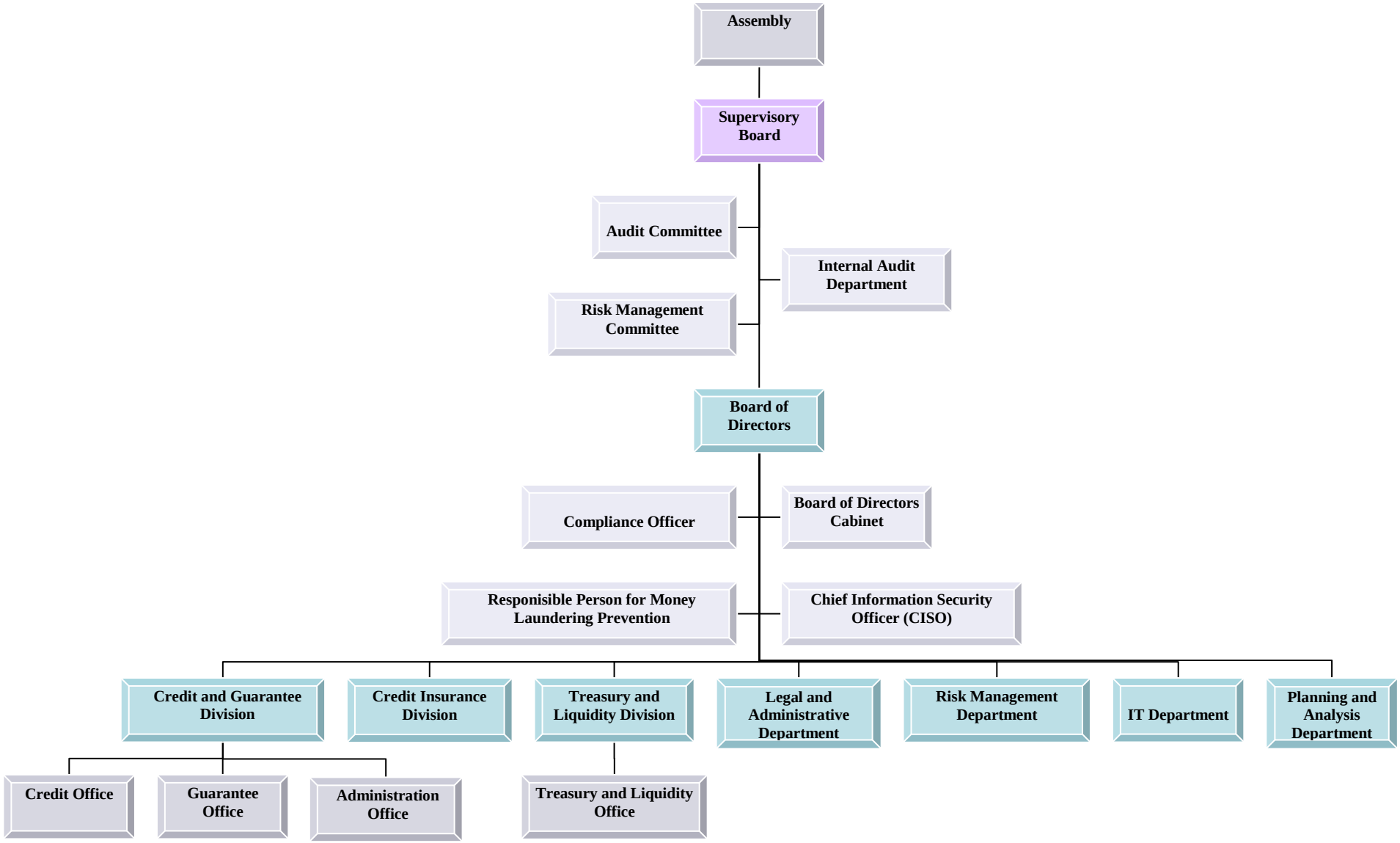
- lay down the necessary conditions for trade credit insurance against commercial and political risk,
- discuss and approve concluding an insurance agreement,
- assess risks of insurance operations,
- manage insurance policies by making current assessments of the insurance risk, at least once a year.

V. 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 2015 MBDP has 40 employees.


Assembly
Supervisory Board
Audit Committee
Internal Audit Department
Risk Management Committee
Board of Directors
Compliance Officer
Board of Directors Cabinet
Responisible Person for Money Laundering Prevention
Chief Information Security Officer (CISO)
Credit and Guarantee Division
Credit Insurance Division
Treasury and Liquidity Division
Legal and Administrative Department
Risk Management Department
IT Department
Planning and Analysis Department
Credit Office
Guarantee Office
Administration Office
Treasury and Liquidity Office

VI. 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.

VII. CORPORATE GOVERNANCE CODE

The MBDP Assembly at its session held on 29.12.2010 adopted the Corporate Governance Code of MBDP. Once a year, the Corporate Governance Code is subject of discussion and revision by the Bank's Supervisory Board and subject of approval by the Assembly 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 2015 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.

VIII. 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.

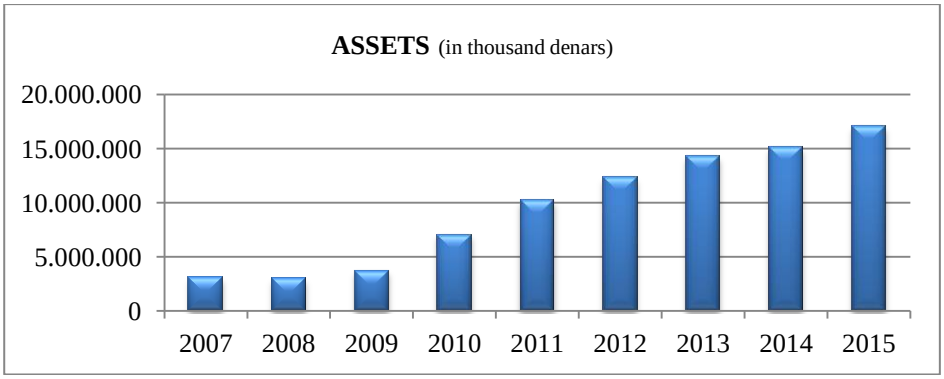
IX. FINANCIAL PERFORMANCE OF THE BANK DURING 2015

In its financial operations in the period between 01.01.2015 till 31.12.2015, the Bank reached net profit of 113,435 thousand Denars. At the same time, the total balance of 16,992,085 thousand Denars has increased by 12.58% 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:



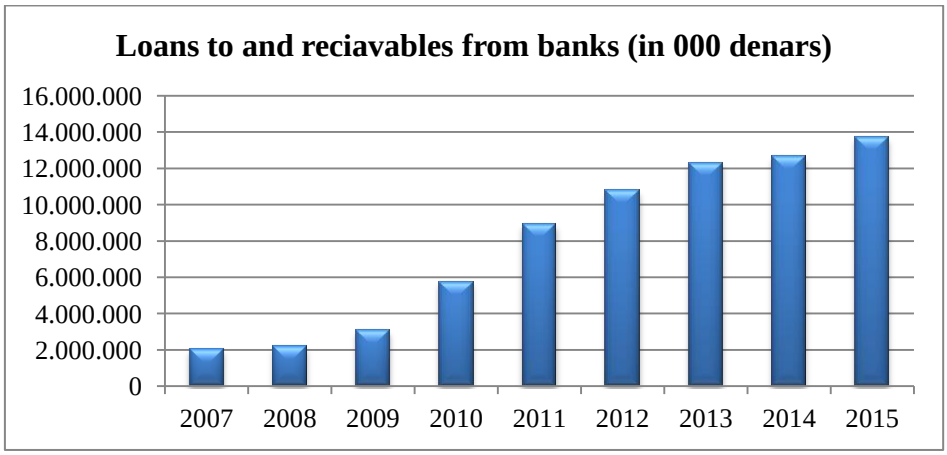
1.1.1. Cash and Cash Equivalents

As of 31 December 2015 the cash and cash equivalents amount to 3,033,016 thousand Denars, representing 17.85% of the Bank's total assets.

1.1.2. Loans to and Receivables from Banks

As at 31 December 2015, total loans to and receivables from banks amount to 13,696,974 thousand Denars, representing 80.61% of the total assets. Total loans to and receivables from banks have increased by 8.39% 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 2015, the Bank's total liabilities amounted to 14,616,955 thousand Denars, and have achieved increase of 13.8% in comparison to the end of 2014. As at 31.12.2015, the credit liabilities increased for 13.92% comparing to 31.12.2014.

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 13.98% of the total sources of funding. The total Bank capital as of 31 December 2015 was on a level of 2,375,130 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 2015 and 31 December 2015 MBDP reached total income amounting to 399,631 thousand Denars, expenses amounting to 286,196 thousand Denars and positive financial result of 113,435 thousand Denars.

In the reporting period the total interest income amounted to 347,049 thousand Denars and the total interest expense amounted to 193,046 thousand Denars. The net interest income amounted to 154,003 thousand Denars and are lower for 3.08% comparing to the previous year.

Net fee and commission income was 12.562 thousand Denars for 2015 and represent an increase of 37.22% in comparison to the previous year.

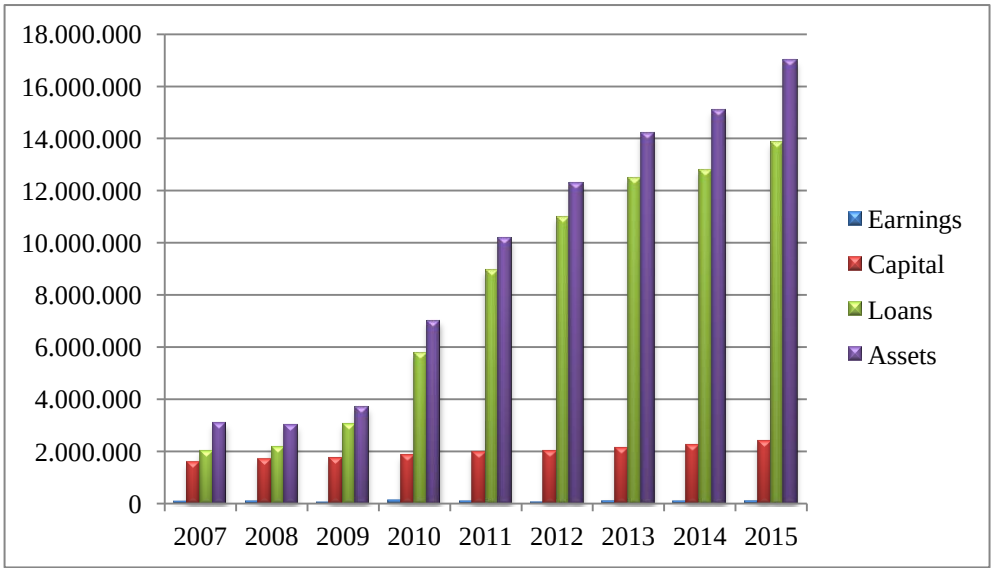
Income and expenses and sources of funding in foreign currency or denominated in currency clause are presented in the income statement translated to Denars at the exchange rate of the National Bank in the Republic of Macedonia on net base.

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 2015, the impairment amount on financial assets showed net expence of 195 thousand Denars, and 2.289 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 62,582 thousand Denars, i.e. 2.74% less than the same period previous year.

The calculated tax for 2015 amounted to 12,711 thousand Denars.

The Chart below shows the movement of several balance sheet items between 2007 and 2015. (‘000 mkd)



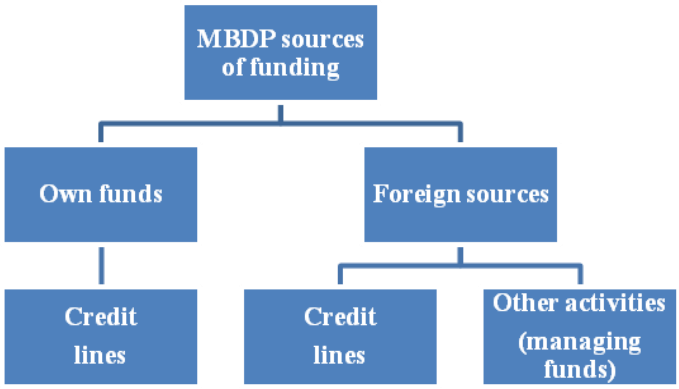
X. CREDIT ACTIVITIES

As in the previous years, in 2015 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 carried out part of its lending activities 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 creditors and donors).



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	from 10,000 to 300,000	up to 2 years	5.75% p.a.

projects financed under EU IPA Component

In the course of 2015, the above credit lines provided support to projects of small and medium-sized enterprises in the field of manufacturing, construction, transport as well as export oriented companies and municipalities.

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

In the course of 2015, MBDP continued to utilize and carry out the credit lines from foreign creditors and donors.

At the same time, during 2015, MBDP continued to extend loans from EIB IV credit line as well as loans from the revolving fund of EIB I, EIB II, EIB III and EIB IV credit lines. 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	up to 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	up to 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	up to 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 12 months 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
Project “Financial support for self employment"	for 1 unemployed person up to 7,000 EUR, depending on person’s status and age	up to 7 years with 18 months grace period included	1 % p.a., interest not paid during grace period

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	2% p.a.

EIB Credit Line

EIB credit line of is 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 supported 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: • Purchasing fixed assets: o Real estate (except land) o Equipment o Working capital (not exceeding 30% of the loan value)

	• Investment in intangible assets

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.

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 signed 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 intermediary banks and funds were fully employed.

SME Credit Line from KfW (KMB 1, 2, and 3)

Credit line funds are composed of three phases, and Macedonian Bank for Development Promotion AD Skopje was appointed as an Agent of the Fund established with the funds from KfW 1 credit line, whereas in the second and third phase MBDP was in the role of borrower. The credit line funds were disbursed through Halk Banka AD Skopje, Ohridska 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.

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 outside 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 total, 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 2015, out of the total disbursed RLF/ACDF loans, 91% were for primary agricultural production, 7% were loans for small and medium sized enterprises for processing agricultural products, whereas 2% were for export of agricultural products.

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).

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 the purpose to directly support the companies which main activity was production, processing and export of agricultural products.

XI. 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 2015:

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 2015, 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, 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 2015, MBDP signed short term export credit and domestic insurance policies against commercial risk with 39 insureds.

Insured Exports

In the course of 2015, the Macedonian Bank for Development Promotion made export credit insurance, representing increase of 4% in respect of 2014 and collected premium representing increase of 4%, also. The insured domestic receivables against short term commercial risk, represents an increase of 29% in comparison to 2014, and the Bank collected premium which is an increase of 22% compared to 2014.

Insurance Limits and Credit Reports

In 2015, 386 credit limit applications were submitted for foreign (203) and domestic (183) 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 2015 took active participation in Prague Club operations, thus making contribution to achieving 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 the grounds 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).

MBDP provides with-recourse factoring of export 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 implementation of factoring.

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

Following are advantages of factoring to the companies:

- 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 2015, MBDP through factoring supported exports of 4 Macedonian exporters. MBDP supported the export of Macedonian products and services to 5 buyers located in 4 countries of the region and EU.

XII. 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.

The Bank has not determined impairment for around 96.54% of the total credit risk exposure. As of 31 December 2015, the total amount of the impairment / special reserve was 1.11% 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 deposits up to 7 days with the National Bank of RM, in short-term loans to commercial Banks in Macedonia and in deposits with 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 has 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 2015, the MBDP capital adequacy rate was 22.16%, which is above the legal rate of 8%.

XIII. PLANNING AND ANALYSIS

In the course of 2015, 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.

XIV. 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 2015, 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 2015, 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 2015, 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 2015, 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.

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

Pursuant to the Law on Prevention of Money Laundering and Other Proceeds of Crime and Financing of Terrorism (Official Gazette of RM No.130/2014 and 192/2015), MBDP is obliged to create new internal acts. In 2014, MBDP created new

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.

Also, new Procedures for implementation of the Programme on prevention of money were adopted.

In the course of 2015, the responsible person of the Bank for prevention of money laundering and terrorist financing cooperated with the Financial Intelligence Office and other institutions. The responsible person of the Bank for prevention of money laundering and terrorist financing attended the trainings organized by the Office and other institutions.

During 2015, 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.

XVI. INFORMATION SYSTEM SECURITY

Information System Security Policy regulates the implementation of security standards and protective mechanisms for diminishing the risk of causing damages and minimizing the loss as well as managing the 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. Information System Security Policy was amended accordingly to include the threats in the digital space. The Bank follows the world trends and is capable to respond appropriately.

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 Bank also considers the threats coming from the digital space. 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, and at least two reports related to information system security. At least once a year the Bank conducts self assessment of the risks arising from the threats in the digital space.

The business continuity plan of the Bank ensures that plan for continuity of work will be implemented 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 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.

The Bank takes activities to strengthen the information security system controls on regular basis. It follows the world trends in the area of cybercriminal and takes administrative, organizational and technical measures for their diminishing.

XVII. INFORMATION TECHNOLOGY

In the course of 2015, 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 2015 were as follows:

- The purchased solution for integrated banking information system (IBIS), Some smaller adjustments and parameterizations were done, as expected. The new solution for IBIS was well accepted by the employees. The Bank may take a stand that the decision of the Board of Directors was right and well-founded.

- An important part of the work of the ICT department is implementation of consolidated ICT infrastructure. The substance of this modern ICT technology is that when a failure occurs on one server in a cluster, resources are redirected and the workload is redistributed to the other server (in parts of 1 ms). Thus, the employees can not notice disruption in their work.

- Up-grading activities of the applicative solutions AML and E-correspondence register were continually taken pursuant to legal amendments. They included 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,

- All PCs were replaced with new ones in compliance with the development plan of the Bank and the regulations of the National Bank of RM for availability of PC (EOL – end-of-life). The existing hardware was upgraded to 64 bit Windows 7, pursuant to the recommendations of ISO 27 001.

XVIII. 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 objective 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 2015 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 2015, Internal audit department conducted 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