



**Macedonian Bank for Development Promotion**

**ANNUAL REPORT**  
**2009**

## **HISTORY**

Macedonian Bank for Development Promotion (MBDP) is the only development bank in the Republic of Macedonia. The Bank was established with a special Law on establishing the Macedonian Bank for Development Promotion (Official Gazettee 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 Gazettee of RM no. 105/2009) in order to improve its position as a development bank, i.e. its specific role in the banking industry and in the Macedonian economy. The Bank operates in compliance with the banking regulations under the supervision of the National Bank of the Republic of Macedonia. The Ministry of Finance supervises operations of the MBDP performed on behalf of and for the account of the Republic of Macedonia. MBDP is responsible with all its assets for its liabilities.

MBDP's strategic orientation is to provide support to small- and medium-sized enterprises by offering wide spread of financial products (credit lines, guarantees and export credit insurance) tailored to the needs of final beneficiaries. Credit lines are implemented through selected commercial banks (intermediary banks) that MBDP has concluded cooperation agreements with.

## **BUSINESS POLICY AND OBJECTIVES**

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

During 2009, by taking appropriate measures and activities, MBDP was focused on implementation of set goals defined with the Business Policy, such as:

- Providing credit lines for small and medium sized enterprises with favourable interest rates,
- Easier acces to credits,
- Export credit insurance,
- Increasing the Macedonian products competitive position by introducing new technologies.

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

## **REPORT ON CORPORATE GOVERNANCE**

### **1. Management Bodies in the Mcedonian Bank for Development Promotion**

The MBDP management in 2009 was carried out in conformity with the Banking Law, the Law on establishing the MBDP, the best corporative governance rules

prescribed by the National Bank Council and the code of corporate governance adopted by the General Meeting of Shareholders of the Macedonian Bank for Development Promotion. The particularity of MBDP as development bank, being in complete ownership by the Republic of Macedonia, should be taken into consideration in making assessment of the Bank management. The management of the Bank was carried out by the following management bodies:

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

### **1.1. Supervisory Board**

The Law on Establishing the Macedonian Bank for Development Promotion prescribes that representatives of the state capital, nominated by the Government of the Republic of Macedonia, represent the Republic of Macedonia in the Bank's General Meeting of Shareholders. The Law also states that the nominated representatives of the state capital are, at the same time, members of the Bank's Supervisory Board and for their nomination, approval by the Governor of the National Bank is not required. The new Law on MBDP that entered into force on 29 August 2009 sets forth that the Bank's Supervisory Board consists of five members and that the Government of the Republic of Macedonia upon receiving of prior consent appoints the members of the Supervisory Board, three on proposal of the Minister of Finance, one on proposal of the vice-president of the Government of the Republic of Macedonia responsible for economic matters, and one on proposal of the Minister of Economy. In compliance with the provisions of this Law, appointed Supervisory Board members are also members of the state capital in the Bank's General Meeting of Shareholders.

Members of the Bank's Supervisory Board in 2009 were as follows:

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

In compliance with the Banking Law, the Supervisory Board is obliged to meet at least once a month. The Supervisory Board supervises the work of the Board of Directors, approves policies on financial operations and supervises their

implementation. The Supervisory Board is responsible for providing good working, management and stability of the Bank, as well as timely and accurate financial reporting to the National Bank of the Republic of Macedonia.

Supervisory Board has the following rights and responsibilities:

- Approves the Bank's business policy, development and financial plan,
- Appoints and dismisses members of the Bank's Board of Directors and Risk Management Committee,
- Approves the establishment and the organization of the internal control system,
- Organizes Internal Audit Department and appoints and dismisses the employees in this department, approves the annual plan and provides written opinion to the Bank's General Meeting of Shareholders upon the annual report of the Internal Audit Department,
- Approves the Bank's internal acts: information security system, risk management policies, Code of Conduct, the Rules and Procedures for the operations of the Auditing Committee, approves the internal audit policy and procedures, etc.
- Approves the annual account and the financial statements of the Bank, list of net debtors of the Bank, plans and programs of activities, and general acts of the Bank,
- Discusses the supervisory reports, other reports submitted by the National Bank, the Public Revenue Office and other competent bodies and proposes, i.e. undertakes measures and activities for addressing the identified shortcomings and weaknesses in the Bank's operations,
- Discusses the reports on the activities of the Bank's Board of Directors, Risk Management Committee, Auditing Committee, Internal Audit Department, Compliance Officer/Department,
- Approves exposure to individual entity exceeding 10% of the Bank's own funds,
- Approves exposure to individual bank exceeding 25% of the Bank's guarantee fund,
- Approves the transactions with persons related to the Bank exceeding Denar 1,000,000,
- Approves the acquiring equity holdings and purchase of securities higher than 5% of the Bank's own funds, except purchase of securities issued by the National Bank and the Republic of Macedonia,
- Approves the proposal of the Auditing Committee for appointment of auditing company, discusses the report of the auditing company and submits written opinion thereon to the General Meeting of Shareholders,
- Approves the annual report on the Bank's operations and submits written opinion thereon to the Bank's General Meeting of Shareholders,
- Proposes the amount of the security reserves, makes decision for setting up special reserves and funds in the Bank, and for their amount,
- Sets the general conditions for trade credit insurance against commercial and political risk, establishes the total limit up to which the

- Bank may perform trade credit insurance against commercial and political risks,
- Provides consent for entering reinsurance agreements within the overall obligations of the Bank on the basis of the insurance operations,
  - Approves of agreements with the R. Macedonia,
  - Performs other activities in compliance with the Banking Law and the Bank's Law and Statute.

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

## 1.2. 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 and who have minimum three-year experience in the area of finances and banking.

Members of the Risk Management Committee are:

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

The Risk Management Committee has the following rights and responsibilities:

- 1) permanently monitors and assesses the risk level of the Bank, and identifies the acceptable level of exposure to risk in order to minimize the losses as a result of the Bank's risk exposure,
- 2) establishes risk management policies and monitors their implementation,
- 3) follows the regulations of the National Bank pertaining to the risk management and the Bank's compliance with such regulations,
- 4) analyzes the reports on the Bank's risk exposure developed by the Bank's risk assessment units,
- 5) determines short- and long-term risk management strategies, measures and instruments for managing certain types of risk the Bank is exposed to, and analyzes the effects of the proposed risk management strategies, measures and instruments,
- 6) monitors the efficiency of the internal control systems in the risk management,
- 7) 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,
- 8) reviews the transactions with the persons related to the Bank on a quarterly basis, and submit report to the Supervisory Board.

### 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. The following members of the Auditing Committee are appointed by the Decision of the General Meeting of Shareholders dated 18 December 2008:

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

Auditing Committee has the following rights and responsibilities:

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

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

### 1.4. Guarantee Committee

The Guarantee Committee consists of three members of the Bank's Supervisory Board as follows:

1. **Oliver Kosturanov**
2. **Armira Sadiki**

### 3. Jasminka Vaskova Taskova

The Guarantee Committee has ceased its operations when the new Law on MBDP was adopted, i.e. when the Guarantee Committee that was operating separately from Bank's activities was terminated.

#### 1.5. Board of Directors

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

Members of the Board of Directors are:

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

The Board of Directors of the Bank:

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

#### 1.6. Credit Committee

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

1. **Dragan Martinovski**
2. **Qenan Idrizi**
3. **Toni Petroski** – Head of Legal Department

The Credit Committee performs the following activities and competencies:

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

### **1.7. Insurance Committee**

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

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

The Insurance Board has the following rights and responsibilities:

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

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

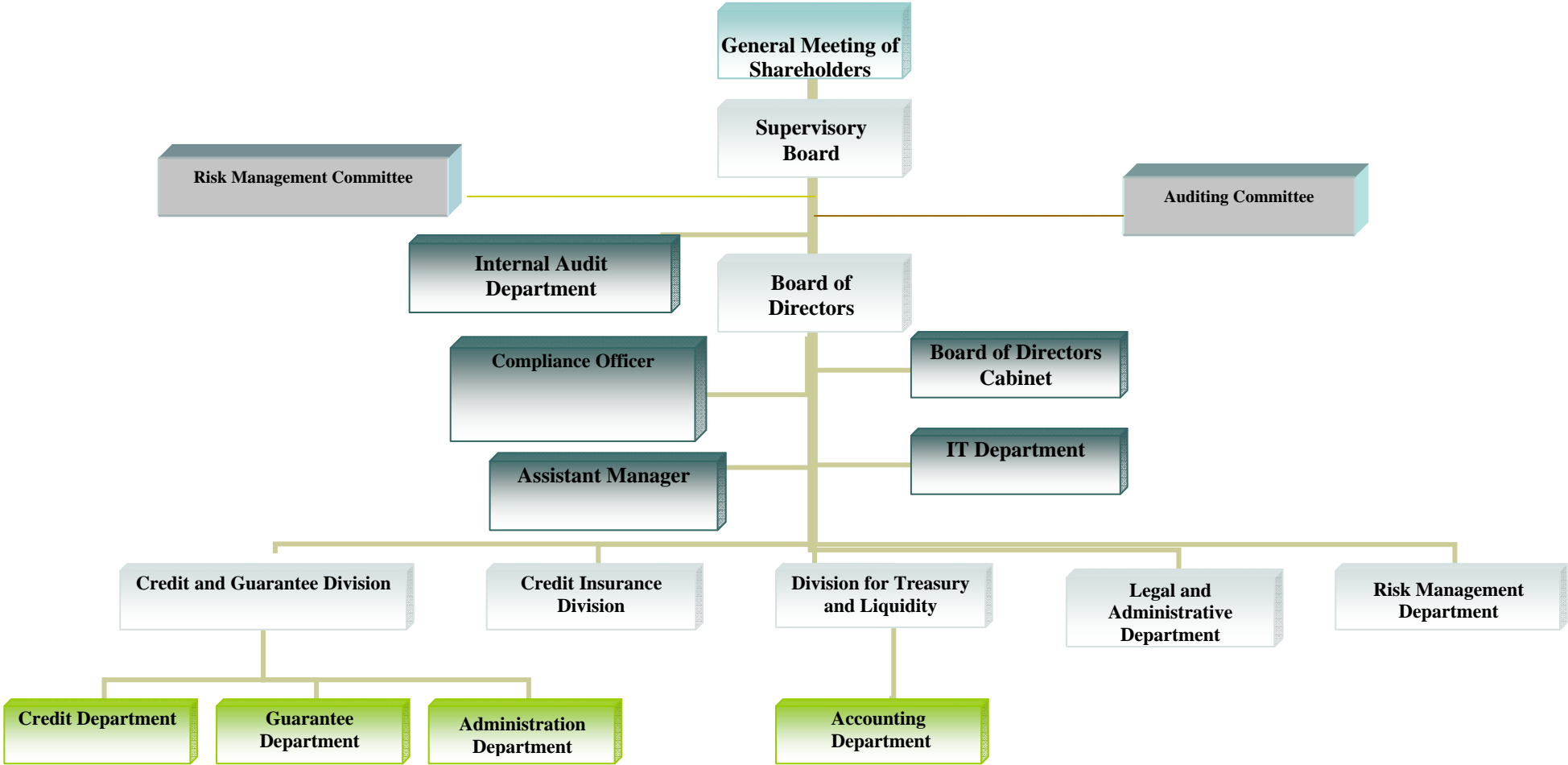
## **2. Organizational Structure**

The Bank is organized in three divisions: Credit and Guarantee Division, Export Credit Insurance Division, Division for Treasury and Liquidity and four departments: Internal Audit Department, Risk Management Department, IT Department and Legal and Administrative Department. A compliance officer was appointed in the Bank. MBDP does not have branch offices.

As of December 31, 2010, MBDP has 32 employees.



**MACEDONIAN BANK FOR DEVELOPMENT PROMOTION**



### **3. Shareholder's Structure**

The Government of the Republic of Macedonia until 01.10.2009 was subscribed as 100% owner of 300.000 shares issued by the Macedonian Bank for Development Promotion.

Increase in the Bank's initial capital was made and additionally 84,103 ordinary voting shares at par value of Denar 3,108.00 were issued on the basis of the new Law on MBDP which states that the Republic of Macedonia is the sole shareholder in the Bank and the General Meeting of Shareholders Decision dated 24.09.2009.

Shares are registered at the Republic of Macedonia, i.e. 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.

### **4. Other Information and Data in regard with the Corporate Governance Code**

The MBDP General Meeting of Shareholders at its session held on 18.12.2008 adopted the Corporate Governance Code in MBDP. The Bank's Supervisory Board at its session held on 24.12.2009 discussed the Corporate Governance Code and concluded that there is no need for its revision. 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 2009 in a whole adhered to the principles of corporate governance adopted in the Corporate Governance Code, such as:

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

### **5. Information and Data on Bank's Conflict of Interests Protection Policy**

Basic postulates for the Bank's conflict of interest protection policy are set forth in the Bank's Code of Conduct adopted by the Board of Directors and confirmed by the Bank's supervisory Board at the session held on 18.12.2008. The Bank's Supervisory

Board at its session held on 24.12.2009 discussed the Code of Conduct and concluded that in that moment there is no need for its revision.

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, Bord 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, Bord of Directors and the persons with special rights and responsibilities before making decision on matters regarding their conflict of interest, leave the meeting and provide written statement stating the grounds causing the conflict of interest.

## **FINANCIAL RESULTS ON OPERATIONS IN 2009**

As of 31 December 2009 the total balance amounts to 3,691.2 thousands denars, and has increased for 23.45% in comparison with the previous year.

### **1. BALANCE SHEET**

#### **ASSETS**

##### **Cash and Cash Equivalents**

As of 31.12.2009 the cash and cash equivalents amount to 501,5 million denars, representing 13.58% of the total assets.

##### **Credits to and Receivables form Banks**

The total net loans as at 31.12.2009 amount to 3.062,6 million denars, representing 82.97% of the total assets. The total net loans have increased for 41% in comparison to the previous year. Increase in total loan placements is mainly due to increase in placements of the credit line for small and medium sized enterprises provided by the European Investment Bank.

Long term loans take part with 69.55% in the total placements and show increase of 23.69% in comparison to 2008.

## **BANK FUND SOURCES**

### **Total Liabilities**

Bank's total liabilities at 31 December 2009 reached an amount of 1,967.3 million denars, and achieved increase of 48.3% in comparison to the end of 2008. The increase in the total fund sources is mainly result of the increase in loan liabilities, i.e. disbursement of 762.89 million denars from the European Investment Bank credit line.

In the structure of the total loan fund sources, long term loan-fund sources show increase of 5.35% and in the total loan sources take part with 95.63% compared to 90.28% at the end of 2008.

### **Capital and Reserves**

The share capital and reserves take part with 46.71% in the total fund sources. Total Bank share capital comprises the initial capital, reserves established from the realised profit in the previous years and the profit in the current period.

In the reporting period according to the Law on establishing the MBDP, the guarantee fund managed by MBDP, was transferred into the founding capital, thus increasing the share capital for 261.39 million denars and at 31 December 2009 it amounted to 1,193,79 million denars.

## **2. INCOME STATEMENT**

Irrespective of the economic crisis and increased operating risks caused by the crisis, MBDP maintained stable condition and successfully concluded 2009.

In the period between 1 January 2009 and 31 December 2009 MBDP reached total income amounting to 159,34 million denars, expenses amounting to 100,23 million denars and positive financial results of 59,15 million denars.

In the reporting period the total interest income amounted to 126,93 million denars and the total interest expense amounted to 24,45 million denars. The net interest income amounted to 102,48 million denars which was a decrease of 21.2% comparing to the previous year. Diminished interest income was a result of the decreased EURLIBOR interest rate taken as basis for calculating loans interest rate of the micro credit lines KfW2 and KfW3 and CEB credit line. The average EURLIBOR rate in 2009 was 1.08% and in 2008 it was 4.14%. Diminished EURLIBOR rate had negative impact on the interest income of foreign currency term deposits in the banks abroad.

Net fee and commission income has increased from 8.81 million denars in 2008 to 18.36 million denars in 2009, which was growth of 208.48%. The increase is result of the increased number of loan placements from the commodity credit line from the Republic of Italy and the premium income as a result of the increased amount of insured receivables against commercial and political risks.

Income and expenses and fund resources in foreign currency or denominated in currency clause are presented in the income statement translated to denars at the

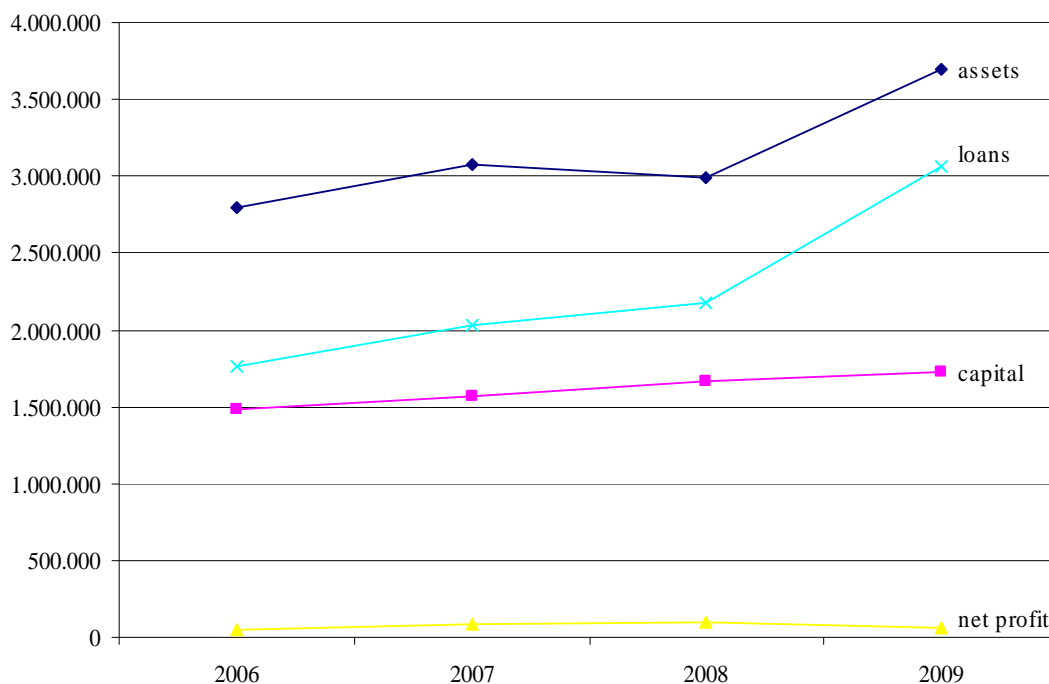
exchange rate of the National Bank in the Republic of Macedonia on net base. Annually, on cross-section periods 2009-2008 the macedonian denar devaluated in regard to euro for 0.4%, and regarding the US dollar for 2.1%. In the reporting period the net expenses of foreign currency differences amount to 6,153 thousands denars, and in the same period previous year the net expenses of foreign currency differences amount to 5,067 thousands denars.

The Bank in compliance with the regulations and adopted acts sets the percentage that determines the impairment and maintaining of provisions to cover possible credit risks. In 2009 the net impairment loss on financial assets amounts to 6,603 thousands denars, i.e. 69.2% higher than the previous reporting year. The appropriated impairment is not a result of the increased credit portfolio at risk, but of the increased credit potfolio in 2009.

Other expenses contain depreciation and amortization, overall and administrative costs and other operating expenses totaling 50,566 thousands denars, i.e. 25.3% higher than the same period pervious year. The increase in total expenses is caused by the costs related to the European Investment Bank disbursement of credit funds and their placement.

According to the changes in the Income Tax Law made on 1 January 2009, MBDP calculates and pays income tax on non-deductible expenses at rate of 10%. The income tax in 2009 amounts to 111 thousand denars, which is a decrease of 99% comparing to 2008 when it was amounting to 11.359 thousand denars.

Diagram: movement of several balance items between 2006 and 2009.



## CREDIT ACTIVITIES

The implementation of individual credit lines is made through eleven selected commercial banks in the Republic of Macedonia that MBDP has cooperation agreements concluded with, as follows:

- Export - Credit Bank AD Skopje
- Investbank AD Skopje
- Commercial Bank AD Skopje
- NLB Tutunska Bank AD Skopje
- Ohridska Bank AD Ohrid
- ProCredit Bank AD Skopje
- Stopanska Bank AD Bitola
- Stopanska Bank AD Skopje
- TTK Bank AD Skopje
- UNI Bank AD Skopje
- Central Cooperative Bank AD Skopje

MBDP credit activities are financed out of 2 (two) sources of funds:

- MBDP own funds, and
- Foreign sources, i.e. credit lines provided by foreign financial institutions and bilateral creditors

### 1. Credit Lines from MBDP Own Funds

MBDP implements credit lines from internal funds as shown in the Table below:

Credit line	Amount in EUR	Repayment period	Final interest rate
Credit line for financing SMEs	from 15,000 up to 500,000	up to 8 years, 1 year grace period included	8% p.a.
Credit line for export credit promotion	from 30,000 up to 2,000,000	up to 1 year, no grace period included	8% p.a. /-0.5%*
Credit line for permanent working capital	from 30,000 up to 300,000	up to 3 years, no grace period included	8% p.a.

\*-0.5% if the export is insured in MBDP

#### 1.1. Credit Line for Financing of SMEs

The purpose of the credit line is to finance existing small- and medium-sized enterprises and start-ups. Improvement of the competitive advantage and job creation are key objectives of the credit line. Loans are intended for purchasing fixed assets and working capital. At least 50% of the loan funds should be used for fixed assets. Projects that provide higher technological development, jobs creating projects, etc., are considered to be priority projects. Loan amount of 6,898,969 was disbursed out of this credit line in 2009, i.e. 9.54% growth in respect to previous year. The most frequently financed industries with this credit line funds are: food and beverages (39.07%), hotels and restaurants (11.60%), wholesale and retail (11.07%), health and social care (8.70%) and production of basic metals (7.81%).

## 1.2. Financing of Export Oriented Production

Credit line funds are intended for financing working capital for export oriented production. Credits are approved upon identified inflow from exports (concluded export agreement with clearly defined ways and conditions for debt collection upon made export). The export arrangements should provide net positive foreign exchange effect, thus contributing to the improvement of the trade and payment balance of the Republic of Macedonia.

During 2009, loans in an amount of 3,300,000 euros were disbursed out of this credit line, which is 49.66% increase in respect to the previous year when loans in amount of 2,204,998 euros were approved.

## 1.3. Credit Lines for Financing Permanent Working Capital

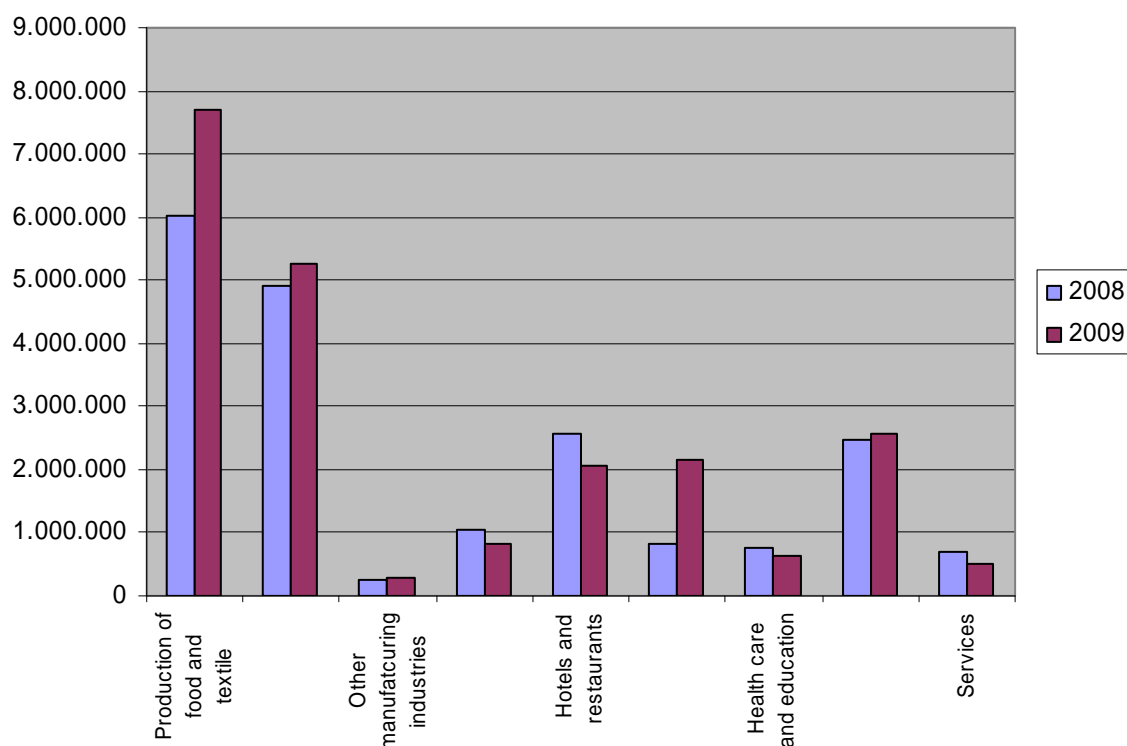
Purpose of this credit line is financing of SMEs projects in industries set as priority in the macroeconomic policy of the Republic of Macedonia, job creating projects, projects that provide higher technological development, etc. Loans are used for financing permanent working capital.

## 1.4. Loans Disbursed from MBDP Own Funds

The following table shows the extended loans from internal funds by industry:

No.	Industry	in EUR		Index 2009/2008
		31.12.2008	31.12.2009	
1	Food production and textile	6,024,064	7,687,653	1.28
2	Wood processing and other wood products, paper, chemical and metal products	4,926,434	5,272,827	1.07
3	Other processing industries	258,752	293,947	1.14
4	Construction	1,057,804	827,564	0.78
5	Hotels and restaurants	2,581,192	2,046,847	0.79
6	Transportation	836,933	2,166,816	2.59
7	Health and education	760,999	632,850	0.83
8	Trade	2,487,385	2,552,069	1.03
9	Services	684,021	495,855	0.72
	<b>Total</b>	<b>19,617,584</b>	<b>21,976,428</b>	<b>1.12</b>

Chart: Disbursed loans from Bank's own funds by industry.



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

MBDP uses (i.e. manages and administers) funds from several foreign credit lines for financing SMEs development projects in the Republic of Macedonia, provided by international financial institutions and bilateral creditors. Credit lines are shown in the following table:

Credit Line	in EUR	Repayment period	Final interest rate
EIB credit line	from 10,000 up to 2,666,700 EUR	up to 5 years, up to 12 months grace period included	6% first year and 3m. EURLIBOR +5% but not less than 6% in the following years
Commodity Credit Line from the Republic of Italy	from 50,000 up to 2,000,000	up to 7 years, 1.5 years grace period included	7% p.a.
Commodity Credit Line from the Republic of Italy Revolving Fund	from 50,000 up to 500,000	up to 3 years, grace period up to 6 months included	7%*, 8% p.a.
German-Macedonian Fund for returnees from Germany DEG	from 10,000 up to 150,000	up to 10 years, 2-year grace period included	8% p.a.



Credit line for development of SMEs from EAR**	up to 100,000	up to 5 years, 12 months grace period included	9% p.a.
Credit Line for financing of micro, small and medium sized enterprises from KfW (KMB1, KMB2, KMB3)	up to 50,000	up to 4 years	set by intermediary bank
Credit Line from the Council of the European Development Bank - CEB	up to 400,000	up to 7 years, up to 2 years grace period included	around 9% p.a.
Sustainable Energy Project (energy efficiency)	up to 60% of project value, from 20,000 up to 500,000 USD	up to 6 years	set by intermediary bank
Sustainable Energy Project (renewable energy sources)	up to 60% of project value, from 50,000 up to 4,000,000 USD	up to 10 years, up to 3 years grace period included	set by intermediary bank
Project "Financial support for self employment"	for 1 unemployed person-3,000, maximum 15,000; for 1 unemployed redundant person-4,000 maximum-20,000	up to 4 years, 1 year grace period included	1 % p.a., during grace period interest is not paid

\*7% in case the Borrower has used commodity credit line funds previously

\*\* EAR - European Agency for Reconstruction

## 2.1. EIB Credit Line

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

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

### 2.1.1. SMEs and Priority Investment Loans from EIB

Single credit amount intended to final beneficiaries, MBDP's part:	<ul style="list-style-type: none"> <li>• Micro enterprises, credit up to 26,700 EUR</li> <li>• Small enterprises credit up to 266,700 EUR</li> <li>• Medium enterprises credit up to 2,666,700 EUR</li> </ul>
Repayment period:	up to 5 years
Repayment manner:	quarterly
Grace period included:	up to 12 months
IB's partaking in the credit	Minimum 25% of the credit amount to the final

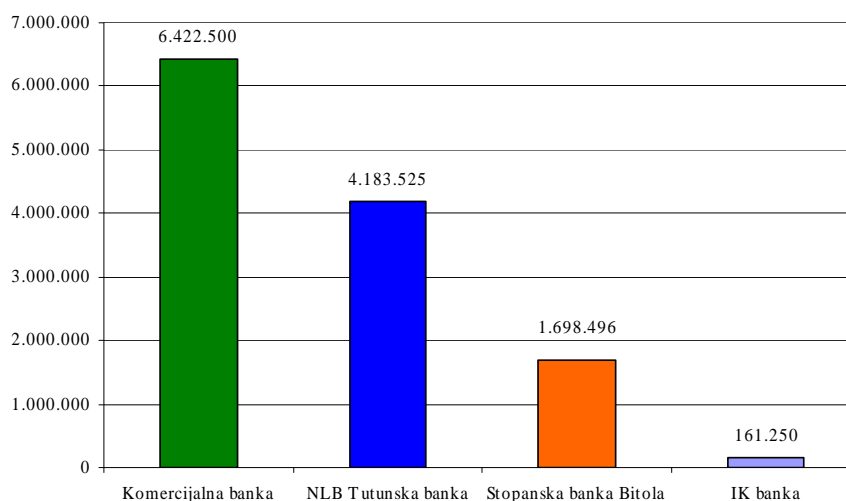
support:	beneficiary for SMEs, and 50% for priority projects
Purpose:	Support of identified projects: <ul style="list-style-type: none"> <li>• Purchasing fixed assets: <ul style="list-style-type: none"> <li>○ Real estate (except land)</li> <li>○ Equipment</li> <li>○ Working capital (not exceeding 30% of the project value)</li> </ul> </li> <li>• Investment in intangible assets (development, planning and financing in the construction phase, and salary and other related to the phase of research and development)</li> </ul>

### 2.1.2. SMEs and Priority Projects for Permanent Working Capital from EIB

Single credit amount intended to final beneficiaries, part of MBDP:	<ul style="list-style-type: none"> <li>• Micro enterprises credit up to 20,000 EUR</li> <li>• Small enterprises credit up to 200,000 EUR</li> <li>• Medium enterprises credit up to 666,700 EUR</li> </ul>
Repayment period:	Not less than 2 years & not more than 3 years
Grace period included:	Up to 6 months
IB's partaking in the credit support:	Minimum 25% of the credit amount to the final beneficiary for SMEs, and 50% for priority projects
Purpose:	<ul style="list-style-type: none"> <li>• To fulfill the requests for permanent increase of working capital within expansion of company business operations</li> </ul>

The first tranche was disbursed on 18 December 2009 in amount of EUR 12,465,771. The funds provided financial support to 35 projects with accounting value of EUR 34,605,036. It is expected that implementation of these projects will create 313 new jobs. Mostly, or precisely 69% of credit funds are used as investment credits with 5 years repayment period, and the other 31% are credits for permanent working capital with 3-year repayment period.

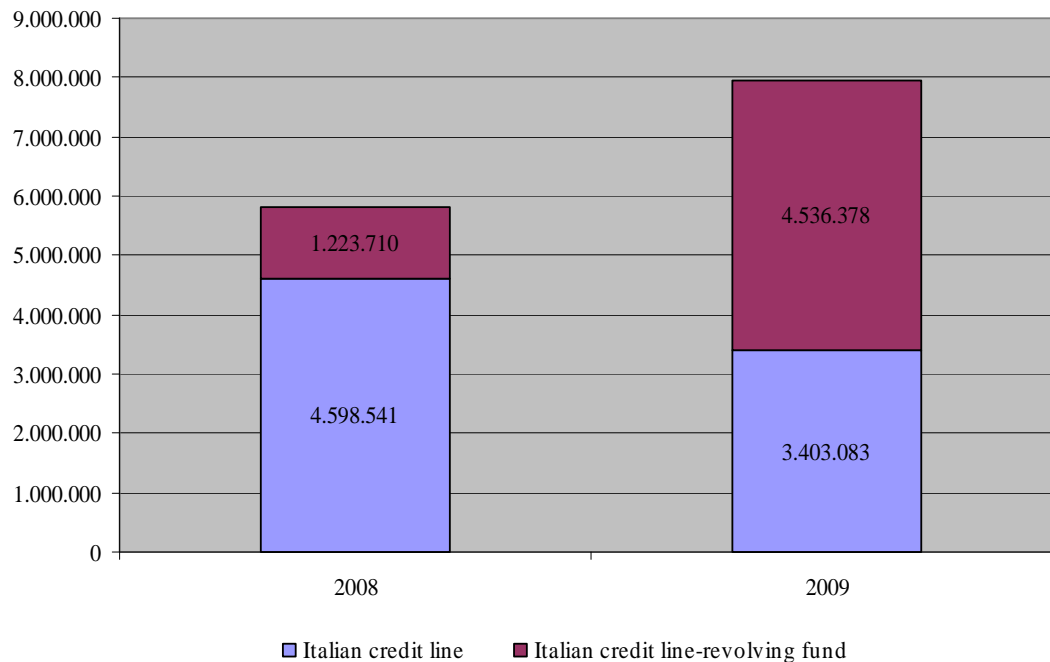
1st Tranche of EIB by banks in EUR



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

Within the bilateral cooperation between the Republic of Macedonia and the Republic of Italy, the governments of these two countries in May, 1999, have signed the Financial Convention for granting a Commodity Credit Line in an amount of EUR 12.7 million to be used for purchasing machines, equipment, and technology from Italian origin. Funds are granted for projects that will provide new production, modernization, completion of the production process and overcoming of bottle necks. The credit fund is fully utilized.

The revolving fund was created from the repaid funds for financing permanent working capital with 3-year repayment period. The following Chart shows the condition of the extended credits as at 31 December 2008 and 31 December 2009:



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

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

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

## 2.4. Credit Line from EAR for SMEs Development

EAR credit line that in the past was operated by NEPA is used for financing SMEs. In this credit program MBDP acted as a commissioner until 31 December 2007 (date until the Agreement was in force).

As at 31<sup>st</sup> December, 2009 the amount of active credits from the EAR credit line amounted to EUR 1,112,723.

## 2.5. Credit Line from KfW (KMB 1) for Financing of Micro, Small, and Medium Sized Enterprises

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

Credit beneficiaries are as follows:

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

### *Amounts withdrawn by intermediary banks as of 31.12.2009*

<b>Intermediary Bank</b>	<b>Withdrawals in EUR</b>
Izvozna and Kreditna Banka	2,000,000
NLB Tutunska Banka	1,000,000
ProCredit Banka	2,000,000
Saving house Moznosti	1,488,500
<b>Total</b>	<b>5,488,500</b>

## 2.6. Credit Line from KfW (KMB 2) for Financing of Micro, Small, and Medium Sized Enterprises

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

### *Amounts withdrawn by Intermediary Banks as of 31.12.2009*

<b>Intermediary Bank</b>	<b>Withdrawals in EUR</b>
--------------------------	---------------------------

Izvozna and Kreditna Banka AD Skopje	2,500,000
NLB Tutunska Banka AD Skopje	1,300,000
Prokredit Banka AD Skopje	1,900,000
<b>Total</b>	<b>5,700,000</b>

## 2.7. Credit Line from KfW (KMB 3) for Financing of Micro, Small, and Medium Sized Enterprises

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

### *Amounts withdrawn by Intermediary Banks*

<b>Intermediary Bank</b>	<b>Withdrawals in EUR</b>
Izvozna and Kreditna Banka AD Skopje	2,650,000
Investbanka AD Skopje	1,500,000
Prokredit Banka AD Skopje	3,518,962
<b>Total</b>	<b>7,668,962</b>

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

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

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

The exposure to intermediary banks with this credit line as of 31.12.2009 is as follows:

<b>Intermediary Bank</b>	<b>in EUR</b>
Komercijalna Banka	549,200
Ohridska Banka	2,012,800
<b>Total</b>	<b>2,562,000</b>

## 2.9. Sustainable Energy Project

In February 2007, the International Bank for Reconstruction and Development (IBRD) and the Ministry of Finance of the Republic of Macedonia signed an agreement for implementation of the Project for Sustainable Energy. The Project disposes of US\$ 2,5 million credit fund and a guarantee fund in an amount of US\$ 1,2 million. MBDP takes part in the Project with its own funds of US\$ 2,5 million. The purpose of the funds is to provide finance to projects which value does not exceed:

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

In the implementation of the Project MBDP cooperates with the Agency for Energy of the Republic of Macedonia, MEPSO, ESKO, the Ministry of Economy and the Ministry of Finance of the Republic of Macedonia. The credit line funds are disbursed through commercial banks that MBDP signed cooperation agreements with, such as: Komercijalna Banka ad Skopje, Uni Banka ad Skopje, IK Banka a.d. Skopje and Ohridska Banka a.d. Ohrid.

## 2.10. Project "Financial support for self-employment"

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

MBDP, acting as an Agent, signed agreements with three intermediary banks for implementation of this Project including:

- Investbanka AD Skopje
- Ohridska Banka AD Ohrid
- NLB Tutunska Banka AD Skopje

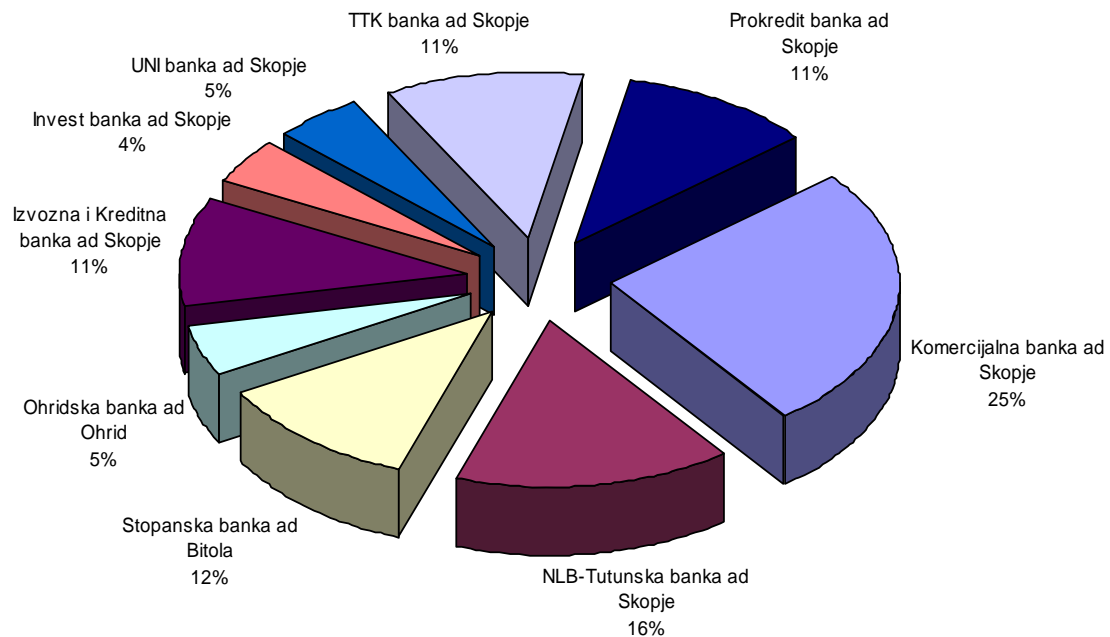
In 2009, MBDP continued to carry out the activities connected with this Government project and as of 31 December 2009 credits in amount of EUR 10,250,538.09 were disbursed. 3,156 persons are beneficiaries of this project, and 3,567 persons got self-employed.

## 3. Credit Portfolio

As at 31<sup>st</sup> December 2009 the MBDP total exposure (without managing funds operations), amounted to EUR 64,1 million.

Credits classified in category A are predominant in the credit structure with 96%, and the rest of the credits belong to category D with 4% (credits to banks in bankruptcy,

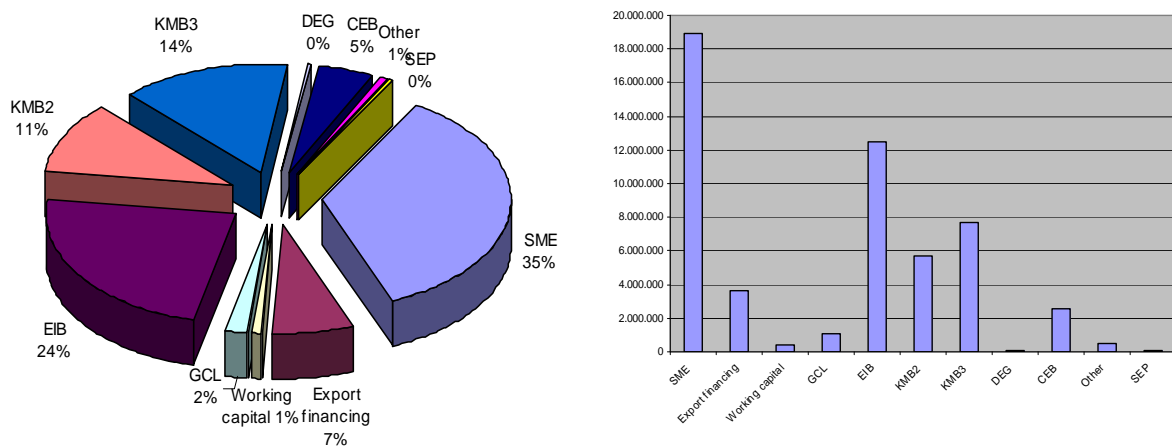
Export Import Banka and Radobank). The MBDP credit portfolio structure by intermediary bank is presented in the diagram below:



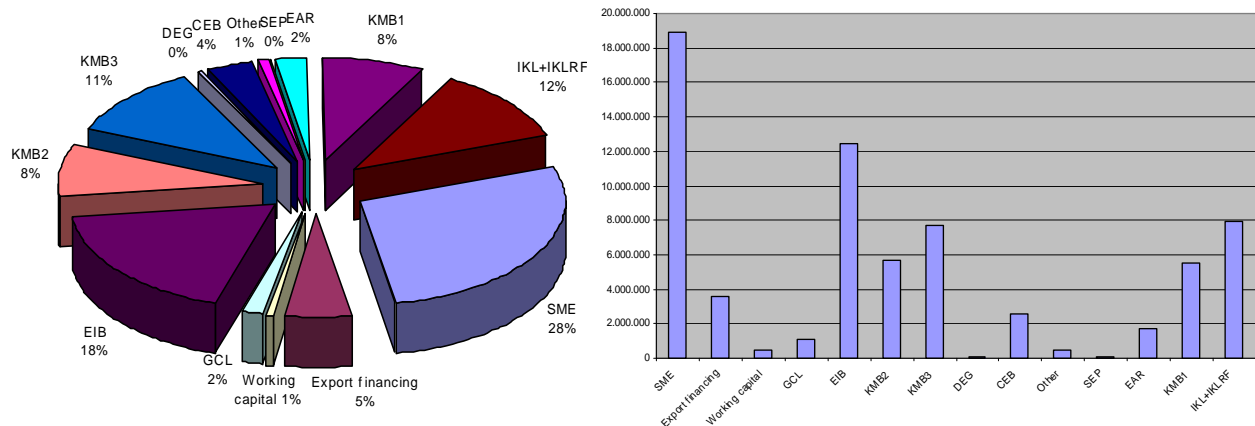
The diagram shows that Komercijalna Banka with 25% takes the largest portion in the MBDP credit portfolio, follows NLB Tutunska Banka with 16% and Stopanska Banka Bitola with 12%. Procredit Banka, IK Banka and TTK Banka take part with 11%. Smaller portion of the portfolio belongs to Investbanka (4%), Uni Banka (5%) and Ohridska Banka Ohrid (5%).

Utilization of foreign credit lines prevails in the total portfolio with 66%, and credits from MBDP own funds participate in the portfolio with 34%.

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



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



Diagrams show that the credit line for SMEs financing from Bank's internal resources prevails in the MBDP credit portfolio together with the EIB credit line of EUR 100 million.

## GUARANTEE FUND

MBDP was authorized to issue guarantees from the Guarantee Fund in compliance with the Project by the Government of the Republic of Macedonia. MBDP could guarantee up to 1/3 of the credits which value was up to EUR 150,000, with the amount of the guarantee not exceeding EUR 35,000.

In 2009, one guarantee was issued in an amount of EUR 20,000 for approved credit by Investbanka AD Skopje.

Due to low interest the Guarantee Fund was closed in 2009. The funds were transferred in the MBDP capital.

## REPORT ON TRADE CREDIT INSURANCE (EXPORT CREDIT INSURANCE AND DOMESTIC POLICIES)

### 1. MBDP Products

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 2009:

#### 1.1 Short Term Insurance against Commercial Risks

- Pre-shipment
- Bankruptcy



- Post-shipment
  - Bankruptcy
  - Protracted default

## **1.2 Insurance against Political Risk**

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

## **2. Reinsurance Agreement**

In 2009, MBDP reinsured the total insured export credit and domestic portfolio. The reinsurance was conducted in compliance with the concluded Quota Share Reinsurance Agreement (compulsory) with the reinsurers Atradius RE, Nationale Borg and SID-PKZ.

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

Individual risk undertaking by the reinsurers is as follows:

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

## **3. Scope of Work**

### **3.1.1 Short Term Export Credit Insurance Policy against Commercial Risk**

In 2009, MBDP signed short term export credit insurance policy against commercial risk with 54 insurers, and with 4 insurers signed domestic policy against commercial risk.

### **3.1.2 Insured Exports**

In the course of 2009, the Macedonian Bank for Development Promotion insured export in an amount of EUR 13,883,991, and calculated and collected premium of EUR 117,534.

In the last quarter of 2009 when the domestic insurance was introduced, MBDP provided insurance of EUR 51,561.

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

Chart: Export credit insurance against commercial risk per year

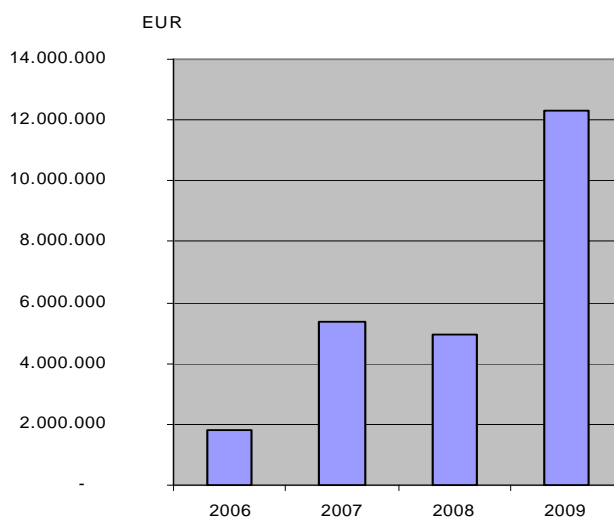


Chart: Export credit insurance premium per year

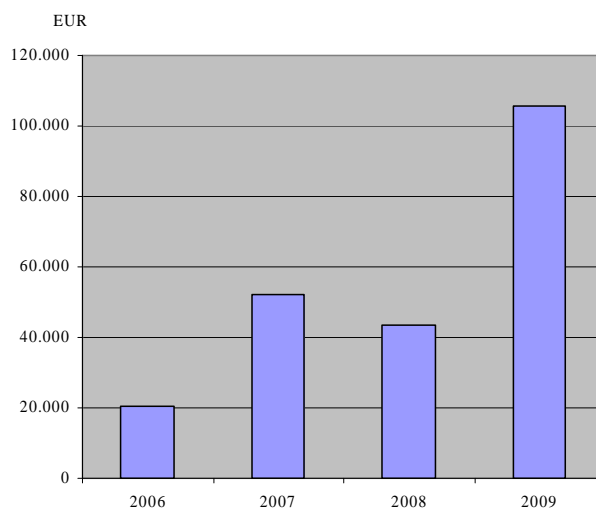


Table 1. Export credit insurance and collected premium quarterly in 2009

Quarter	Insured exports in euros	Premium in euros
01.01-31.03.2009	3,350,585	27,814
01.04-30.06.2009	3,190,366	27,482
01.07-30.09.2009	3,365,887	27,950
01.10-31.12.2009	3,976,991	34,288
<b>Total</b>	<b>13,883,829</b>	<b>117,534</b>

Table 2. Structure of insured exports in 2009 by country groups according to the reinsurer's classification

Classification group	Exports	% of exports participance	Exported to
A	980,448	7.07	Germany, Sweden, Italy, Finland, France
B	1,410,859	10.18	Greece, Poland, Slovenia, Czech Republic
C	11,347,922	81.86	Croatia, Bosnia and Herzegovina, Bulgaria, Ukraine, Serbia, Russia, Romania
D	123,742	0.89	Albania, Montenegro, Belarus
<b>Total</b>	<b>13,862,977</b>	<b>100.00</b>	

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

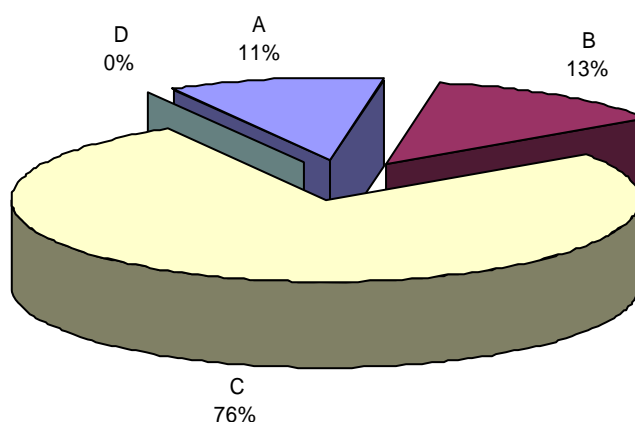
### 3.1.3 Insurance Limits

In 2009, 193 credit limit applications were submitted for foreign buyers. The total amount of requested insurance limits by the insureds and the potential insureds was EUR14,958,120 and the approved insurance limits amounted to EUR 10,630,000.

Table 4: Approved insurance limits by classification groups in 2009

Classification group	Requested amount in EUR	Approved amount in EUR	% of approved limits
A	2,108,120	1,139,000	10.71
B	1,350,000	1,361,000	12.8
C	10,840,000	7,930,000	74.6
D	660,000	200,000	1.89
<b>Total</b>	<b>14,958,120</b>	<b>10,630,000</b>	<b>100.00</b>

Diagram: Proportionate participance of approved insurance limits by group of countries in 2009



In 2009, 55 credit reports were prepared.

Table 5. Credit reports that were ordered and prepared

Customer	No. of ordered credit reports	Invoiced amount in euros for prepared credit reports
BAEZ	11	550
AOFI	44	2200
<b>Total</b>	<b>55</b>	<b>2,750</b>

### 3.1.4. Indemnity

In the course of 2009, the Macedonian Bank for Development Promotion paid indemnity of EUR 50,955.62 to the insureds, due to occurrence of insured event (bankruptcy, protracted default) with the insured risks (foreign buyers).

### 3.1.5. Agreements with Foreign Institutions

MBDP and Atradius debt agency from France entered into agreement for debt collection from buyers whose money they owe were insured by MBDP against commercial risk.

### 3.1.6. International Cooperation and Conference Attendance

MBDP is a full member of the International Union of Export Credit Agencies – Prague Club since 1999. MBDP as a full member in 2009 took active participance in Prague Club operations contributing to achievement of and respecting the Club's goals: mutual cooperation, exchange of information, international standards

acceptance, promotion of export credit insurance, providing of international support and exchange of information. MBDP attended both twice-yearly meetings of the Prague Club members.

MBDP took active part at the International Conference on Export Promotion organized by HBOR in Zagreb Croatia in September 2009. Main topics were economic developments and new areas of ECAs operations, as well as their role in promotion of innovative entrepreneurship.

## **RISK MANAGEMENT**

According to the Banking Law, MBDP is obliged to minimize the operating risks in compliance with the banking regulations. In the process of risk management MBDP continuously measures, assesses and manages the risks that it is exposed to.

MBDP established a risk management policy in order to identify, measure, monitor and control certain types of risks.

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

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

The Bank has established management system including all material risks it is exposed to. The risk management system includes:

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

Bank's risk management system includes at least:

- Credit risk
- Liquidity risk
- Valute risk
- Interest rate change risk in the portfolio of banking activities
- Operating risk
- Strategic risk
- Reputation risk

The Bank establishes individual policies for management of certain types of risks, as well as procedures for identification, assessment, monitoring and control of the individual risk.

## 1. Credit Risk

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

The Bank establishes credit policies and procedures to control credit risk, thus establishing the internal control system.

The Bank assesses all its activities, guarantees and collateral that should be taken into consideration when undertaking and managing credit risk. The Bank established internal rating model and index score model in the process of analyzing/approval of credit risk exposure, which has impact on determining the credit risk, the process of risk measurement and consequently, on determining the amount and quality of collateral.

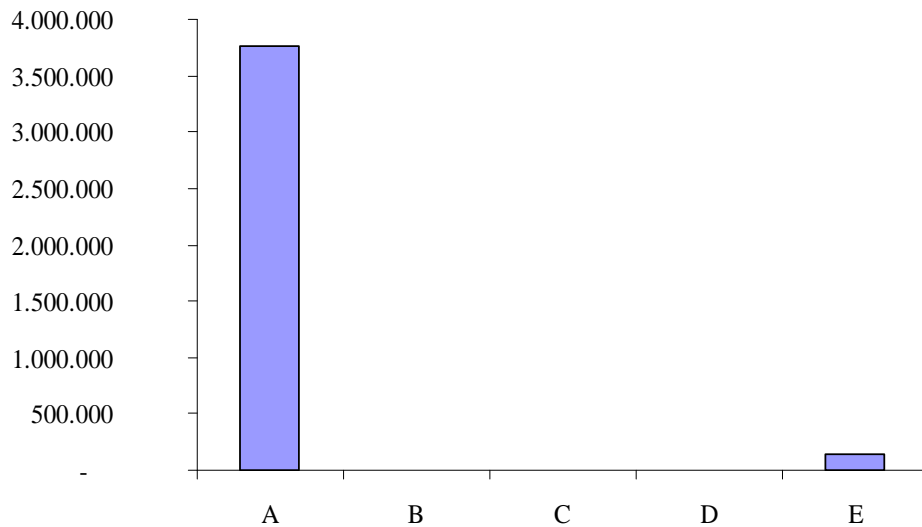
Internal rating system helps the management body determine whether there is objective evidence for indemnity, complying with the IAS 39 on the grounds of the following criteria:

- Analysis of the economic conditions and reduction of the client's competitiveness
- Recognition of impairment loss of the asset in the previous financial reporting period
- Information on client's financial difficulties

At least once a month the Bank makes assessment whether there is objective evidence that financial assets are impaired and calculates the impairment losses 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 MBDP credit risk assessment includes assessment of commercial banks operations that MBDP has concluded cooperation agreements with, i.e. agreements for implementation of credit lines. MBDP makes the assessment of the banks operations in compliance with the Methodology for banks assessment, amended and new methodology adopted in 2009. At least once a year MBDP makes assessment of banks that MBDP cooperates with according to the Methodology. In that regard intermediary banks were assessed in 2009.

Credit risk exposure by risk category in 000 denars – 31.12.2009



## 2. Liquidity Risk

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

The basic principles for liquidity risk management are set forth in the policy and procedures for liquidity risk management. In order to manage the liquidity risk, MBDP maintains an appropriate level of liquidity assets, continually monitors the present liquidity, provides sufficient amount of denar and foreign currency assets for timely settlement of liabilities and for disbursement of loans. Present surplus of liquid assets are placed in highly liquid securities, in short-term loans to commercial banks in Macedonia and in deposits in high credit rating foreign banks.

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

## 3. Managing Interest Rate Risk in the Banking Book

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

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

financial activities it performs, as well as with the level of exposure to the interest rate risk.

#### **4. Currency Risk Management**

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

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

#### **5. Operational Risk Management**

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

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

#### **6. Reputation Risk Management**

The Bank has proactive approach to the reputation risk management process, since it has assessed that it is economically unjustifiable to establish reputation risk capital. Additional reasons are the Bank's shareholders structure, as well as the fact that the reputation risk is risk of losing trust in the Bank which makes influence on the profit and capital due to adverse opinion on operations, regardless whether there is realistic grounds for such opinion, i.e. improbability to anticipate such risk on the basis of realistic indicators and to appropriately quantify it. The Bank establishes 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.



## 7. Strategic Risk Management

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

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

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

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

In 2009, the MBDP Supervisory Board adopted a policy for control of the compliance of the Bank's operations with the regulations, and the MBDP Board of Directors established procedures for control of the compliance of the Bank's operations with the regulations and Rule Book for preparing and updating the Bank's internal policies, procedures and rule books. The Bank provided training of the personnel related to the previously mentioned internal acts.

The compliance officer has continually monitored and informed the members of the Board of Directors and personnel for the new regulations and modifications and/or amendments to the regulations in 2009.

In 2009, MBDP established number of new internal policies, procedures, rule books and methodologies. In 2009, the following acts were also developed:

- Bank's development plan for 2010-2012
- Bank's business policy for 2010-2012, and
- Bank's strategy for undertaking of and risk management in 2010-2012

MBDP has modified and amended, i.e. reconciled the current internal acts pursuant to the new regulations of the National Bank.

Also, in 2009, trainings were continually organized and employees were informed in regard with the new regulations and internal policies, procedures and rule books of the Bank.

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

MBDP in compliance with the Law on Prevention of Money Laundering and Other Proceeds of Crime and Financing of Terrorism (Official Gazette of RM No.04/08) and the National Bank Decision on the manner and the procedure for implementation and application of the bank's programme for prevention of money laundering and terrorist financing (Official Gazette of RM No. 83/09) during 2009 updated the programme for prevention of money laundering and obtained approval by the Office for prevention of money laundering and terrorist financing.

MBDP personnel was informed and obliged to adhere to the Law and the Bank's Programme on Prevention of Money Laundering and Other Proceeds of Crime and Financing of Terrorism.

In 2009, MBDP cooperated with the Office for prevention of money laundering and terrorist financing in regard with the establishment of the Bank and its obligations towards the Office according to the Law on MBDP and its activities.

## **INFORMATION SYSTEM SECURITY**

During 2009, the information technology department implemented the following activities:

- Developed and implemented new software solution according to the National Bank Decision on new advanced Credit Registry and implemented an improved manner of electronic transfer and exchange of data with the National Bank,
- Adjusted the Bank's integrated system in compliance with the National Bank Decision on implementation of Methodology for recording and valuation of the accounting items and for preparation of the financial statements,
- Adjusted the Bank's integrated system in order to respond to the National Bank requirements for the project "Regulator's electronic reports",
- New export credit insurance application was developed. The new application provides the necessary operations for performing of credit insurance and automatic entry in the ledger,
- In the Division for treasury and liquidity were implemented:
  - automated procedure for calculation of exchange rate differentials on each account,
  - automatic entry of credit reserve per account,
  - automatic entry of time deposit and liquidity credits, and securities.

In 2009, the information technology department commenced projects for; SWIFT automatization, automatic preparation of financial statements and AML.

Also, the Bank's hardware was upgraded, besides the regular servicing.

The IT Department made a market research for providers of integrated bank software, and several home and foreign companies made presentation of their work. Due to the economic crisis, and having in mind the expected high prices for purchasing and maintaining of software, the Bank decided to postpone purchasing new software

and to direct its activities on upgrading and improving the present integrated information system.

## INTERNAL AUDIT

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

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

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

In 2009, Internal Audit Department conducted 19 regular audits, monitored the implementation of its recommendations, reported to the Bank's Supervisory Board on regular basis and cooperated with the Board of Directors, Auditing Board, the National Bank and the external auditor of the Bank.

Board of Directors



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Dragan Martinovski  
Chief Executive Officer



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Qenan Idrizi  
Chief Operating Officer