



Macedonian Bank for Development Promotion

**ANNUAL REPORT
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STATEMENT OF THE CHIEF EXECUTIVE OFFICER

Dear Ladies and Gentlemen,

In the course of 2012 the consequences of the global crisis continued to be felt and the Macedonian economy was not left behind by its effects. Economy was adversely affected by the diminished opportunities of export due to occurrences in the EU (as significant trade market), as well as the question of the euro's existence. Industrial production continually showed decline, whereas the average rate of inflation in the previous year was 3.1%. This caused deepening of the companies' insolvency. In such circumstances, domestic Banks cautiously followed the occurrences in the business sector, by tightening up the credit approval criteria and application of conservative approach. Despite such measures, bad loans increased from 9.9% at the end of 2011 to 10.9% at the end of 2012.

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

2012 was successful year for MBDP. Like past years this year too, the Bank managed to fulfill the objectives and tasks laid down by the law of its founding, i.e. to provide financial support to small- and medium-sized enterprises, encourage exports, improve infrastructure and regional development and give contribution to the environment protection and renewable energy sources. The Bank reached stable level of liquidity with capital adequacy rate of 23.1%. Total assets increased for 20.5%, and loans for 21%. The recorded net profit was 66,421 thousand denars.

In the past year, there was significant utilization of the funds of the three phases of the loan arrangements with the European Investment Bank (EIB), which due to the favourable conditions caused great interest within the business community. We are glad to point out that funds of the I and II arrangement with EIB were disbursed and utilized. That created conditions for carrying out the III arrangement with EIB in an amount of 100 million euros out of which several tranches were disbursed by the end of 2012.

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

During 2012 factoring, as relatively new service of MBDP, has also proved to be useful instrument for the clients, enabling purchase of the accounts receivable of our clients from the buyers. At this moment, MBDP as a development Bank is the only financial institution providing such service which represents a serious support for the solvency of our companies.

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

Yours faithfully,

Dragan Martinovski
Chief Executive Officer

I BUSINESS ENVIRONMENT

The past 2012, despite the expectations and hopes for better performance of the economic operating environment of the companies, they did not come true. Having this in mind, significant impact had the movements in the European Union as main trade market of the Macedonian legal entities. The economic as well as the political crisis in the EU affected the Macedonian economy causing slowdown in exports and trade exchange. Denar exchange rate was stable.

The business environment in Macedonia during 2012 showed recessive characteristics, i.e. drop of industrial production and increasing insolvency of domestic companies. Average inflation rate was 3.1% due to increase of electricity price, import price of oil and partially the import price of food.

From a viewpoint of the monetary policy, in 2012, it monitored the occurrences in the real sector. Central Bank currency reserves have grown over the last year. At the same time, the intensity of borrowing loans increased in 2012, thus increasing the debt to 2.5 billion euros (for 21.8%). The National Bank also introduced amendments in the field of monetary instruments in order to diminish the reference rate. Also, in accordance with the National Bank recommendations, amendments in the regulation of credit risk management were adopted. Despite those measures, insolvency of the domestic companies has continued to deepen, which resulted in tightening up of the credit approval criteria and application of conservative approach by Banks.

Due to the impact of the world financial crisis, on request of the business sector, the Government of the Republic of Macedonia has continued the reform in the economic sphere through adopting measures targeting tax, credit and land policy, property matters, agriculture, construction, social policy, as well as measures regarding regulatory policy.

II BANK'S PROFILE

Macedonian Bank for Development Promotion AD Skopje (MBDP) is the only development Bank in the Republic of Macedonia established with a special Law on Establishing the Macedonian Bank for Development Promotion (Official Gazette of RM no. 24/98, 6/2000, 109/2005 and 130/2008). A new Law on the Macedonian Bank for Development Promotion was adopted in 2009 (Official Gazette of RM no. 105/2009). According to this Law provisions of the Banking Law apply to MBDP, unless otherwise regulated by the Law on MBDP, and the National Bank within its competences performs the supervision on MBDP operations. The Ministry of Finance supervises operations of the MBDP performed on behalf of and for the account of the Republic of Macedonia. MBDP is responsible with all its assets for its liabilities.

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

III BUSINESS POLICY AND OBJECTIVES

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

During 2012, by taking appropriate measures and carrying out diversified activities, MBDP was focused on implementation of set goals defined with the Business Policy, such as:

- Providing credit lines for small and medium sized enterprises with favourable interest rates,
- Facilitating access to credits,
- Introducing efficient credit approval procedures,
- Providing export credit insurance,
- Enhancing the Macedonian products' competitiveness by introducing new technologies.

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

IV REPORT ON CORPORATE GOVERNANCE

1. Management Bodies

The MBDP management in 2012 was carried out in conformity with the Banking Law, the Law on MBDP, the best Corporate Governance Rules prescribed by the National Bank of the Republic of Macedonia Council and the Code of Corporate Governance adopted by the General Meeting of Shareholders of the Macedonian Bank for Development Promotion. The particularity of MBDP as development Bank, being in complete ownership by the Republic of Macedonia, should be taken into consideration in making assessment of the Bank management. During 2012, the Bank carried out its operations through the following bodies:

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

During 2012, the persons with special rights and responsibilities of the Bank have not declared conflict of interests or relation to third party in accordance with the Banking Law.

1.1. General Meeting of Shareholders

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

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

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

At the meeting held on 30 May 2012, the General Meeting of Shareholders adopted the following acts:

- Annual Report on the Bank's operations in 2011,
- Report on Supervisory Board operations in 2011 with assessment of each board member performance and of the Board collective performance,
- Annual Report on Internal Audit operations in 2011,
- Report on the Auditing Committee operations in 2011,

- Report on the auditing company operations (Grand Thornton Ltd. Skopje) in 2011
- Bank's annual account and financial statements for 2011 audited by an independent auditor of the Bank,
- Decision on use and allocation of the profit for 2011,
- Decision on adopting the list of Bank's net debtors for 2011,
- Financial Plan of the Bank for 2012,
- Strategy (Business Policy and Development Plan of the Bank for the period 2012 – 2014,
- Corporate Governance Code, and
- Bank's Strategy for taking and managing risks for the period 2012 – 2014.

At the meeting held on 14 August 2012, the General Meeting of Shareholders adopted the following:

- Decision on amendment of the MBDP Statute of 24 December 2009,
- Decision on dismissal of Elizabeta Cingarovska as member of the Auditing Committee.

At the meeting held on 27 December 2012, the General Meeting of Shareholders adopted the following:

- Decision on appointment of Klimentina Poposka as member of the Auditing Committee of MBDP ad Skopje.

1.2. Supervisory Board

During 2012, the Supervisory Board carried out its function in conformity with the Banking Law and the Statute of MBDP with the following members:

1. **Mr. Oliver Kosturanov**, Chairman of the Supervisory Board, MBA, Manager of SPMG CAPITAL DOOEL Skopje, Director of SEAF – representative office Skopje, Manager of SEAF Macedonia LLC USA,
2. **Ms. Marina Blazekovic**, Vice-chairman of the Supervisory Board, B.A. in economics, Master of Business Administration – MBA Management, Assistant at the Faculty of Administration and Management of Information Systems – Bitola,
3. **Mrs. Romela Popovic Trajkova**, member of the Supervisory Board, B.A. in economics, Master of Business Administration – MBA Management, Head of Department for Economic Policies and Regulatory Reforms at the Government of the Republic of Macedonia,
4. **Igor Dimitrov**, member of the Supervisory Board, B.A in law, Head of Legal Department at the Ministry of Finance of the Republic of Macedonia,
5. **Mr. Armir Sadiki**, member of the Supervisory Board, B.A. in law, Advisor in the Office of the Minister of Environment of the Republic of Macedonia.

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

Bank's Supervisory Board has obligation to meet at least once a month in compliance with the Banking Law. The Supervisory Board supervises the operations of the Board of Directors, approve 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 has the following rights and obligations:

- Approves the Bank's Business Policy and Development Plan,
- Appoints and dismisses members of the Bank's Board of Directors, and Risk Management Committee,
- Approves the Bank's Financial Plan,
- Approves the establishment and the organization of the internal control system,
- Organizes Internal Audit Department and appoints and dismisses the employees in this department,
- Approves the annual plan of the Internal Audit Department,
- Approves the information security system policy,
- Approves the risk management policy of the Bank,
- Approves the Bank's plans and programs of activities, and general acts, other than acts adopted by the Bank's General Meeting of Shareholders,
- Discusses the reports on the activities of the Bank's Board of Directors,
- Discusses the reports on the activities of the Risk Management Committee,
- Discusses the reports on the activities of the Auditing Committee,
- Discusses the reports on the activities 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 the transactions with persons related to the Bank exceeding Denar 1,000,000.00,
- Approves the acquiring equity holdings and purchase of securities higher than 5% of the Bank's own funds, except purchase of securities issued by the National Bank and the Republic of Macedonia,
- Approves the proposal of the Auditing Committee for appointment of auditing company and is responsible for ensuring appropriate audit,
- Approves the internal audit policy and procedures, supervises the appropriateness of the procedures and the efficiency of the operations of the Internal Audit Department and reviews its reports,
- Discusses the supervisory reports, other reports submitted by the national Bank, the Public Revenue Office and other competent bodies and proposes, i.e. undertakes measures and activities for addressing the identified shortcomings and weaknesses in the Bank's operations,
- Approves the annual report on the Bank's operations and submits written opinion thereon to the Bank's General Meeting of Shareholders,
- discusses the report of the auditing company and submits written opinion thereon to the General Meeting of Shareholders,

- Provides written opinion on the annual report of the Internal Audit Department to the General Meeting of Shareholders,
- Approves the Bank's Code of Conduct,
- Approves the Rules and Procedures for the operations of the Auditing Committee,
- Proposes the amount of the security reserves,
- Makes decision for setting up special reserves and funds in the Bank, and for their amount,
- Provides consent for entering reinsurance agreements within the overall obligations of the Bank on the basis of the insurance operations,
- Sets the aggregate limit up to which the Bank may provide credit insurance against commercial and political risks,
- Lays down the general conditions for credit insurance against commercial and political risk,
- Provides consent agreements with the R. Macedonia.

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

During 2012, the Supervisory Board held 13 regular meetings and 1 extraordinary meeting and adopted the following acts:

- Plan of operations of the Internal Audit Department for 2012,
- Bank's Public Purchase Plan for 2012,
- Annual account and the financial statements of the Bank for 2011,
- Draft – Proposal for use and allocation of the Bank's profit for 2011,
- Financial plan of the Bank for 2012,
- Strategy (Business Policy and Development Plan) of the Bank for the period 2012-2014,
- Decision for amendment of the Decision on Bank's fees and charges for the services it provides,
- Decision on borrowing a credit from the European Investment Bank,
- Decision on approval of exposure limit to ProKredit Banka AD Skopje,
- Decision on establishing supervisory board of the IT activities of the Bank,
- Decision for approval of the Credit Risk Management Policy,
- Decision on approving the Methodology for assessing factoring client,
- Decision on approving the Methodology for assessing buyers,
- Annual report on Bank's operations for 2011,
- Draft-Decision on amendment of the Bank's Statute of 24 December 2009,
- Approved the list of net debtors of the Bank as at 31.12.2011,
- Decision on approval of borrowing a loan from EIB in an amount of EUR 100.000.000, pursuant to the terms and conditions of the Contract no. FIN 81.668 (MK) Serapis No 2011-0480,

- Decision on issuing consent to MBDP for concluding an agreement with the Republic of Macedonia for transferring the obligation for management and disposal of the funds from compensation funds from foreign aid and compensation funds from other foreign aid,
- Amendment to the Public Purchase Plan,
- Draft-Decision on amendment of the Bank's Statute of 24 December 2009,
- Decision on amendment of the Bank's Credit Policy,
- Decision on establishing exposure limits to Komercijalna Banka AD Skopje, Ohridska Banka AD Ohrid, Stopanska Banka AD Bitola and NLB Tutunska Banka AD Skopje,
- Cleared version of the Bank's Statute,
- Adopted the report about the list of net debtors of the Bank as at 30.06.2012,
- Decision on establishing exposure limits to ProKredit Banka AD Skopje and Sparkasse Banka Macedonia AD Skopje,
- Decision on approval Credit Risk Management Policy,
- Decision on verification of the Policy for reporting corruption and other unlawful and unethical activities by the Bank's employees no. 02-2698/3 of 06.08.2010,
- Decision on approval of the liquidity risk management plan in extraordinary conditions no. 02-2230/2 of 09.07.2010,
- Decision on renewal of a reinsurance contract for 2013,
- Decision for approval of the Decision on approval of exposure against Artadius Re, Nationale Borg and SID-PKZ,
- Decision on approval of the Risk Management Policy no. 02-5350/5 of 05.10.2012,
- Decision on surpassing the approved exposure limits of on-lending Banks in the credit lines of MBDP AD Skopje in an amount of 1.5% of the approved exposure limit for a single on-lending Bank,
- Decision on establishing limits to on-lending Banks (TTK Banka AD Skopje, UNI Banka AD Skopje, Halk Banka AD Skopje,),
- Decision on establishing limits to on-lending Banks (Centralna Kooperativna Banka AD Skopje, Stopanska Banka AD Skopje,
- Decision on modification of MBDP interest rate for factoring,
- Decision on amending the Bank's fees and charges for the services it provides,
- Decision on verification of the Accounting policies no. 02-6685/6 of 28.12.2011,

During 2012, the Supervisory Board revised the following acts:

- Corporate Governance Code
- Accounting Policy
- Code of Conduct
- Country Risk Management Policy
- Country Risk Management Methodology
- Methodology for Assessing Buyers

- Methodology for evaluation of banks
- Liquidity Risk Management Policy
- Policy for identifying potential conflict of interest and laying down measures and activities to be undertaken in case conflict of interest occurs
- Compliance Policy of MBDP registered under no. 11-2594/2 of 23.09.2009
- Policy for identification, assessment, monitoring and control of currency risk registered under no.02-3241/3 of 17.09.2010
- Credit Insurance Policy (domestic and export insurance) registered under no. 02-4198/4 of 02.09.2011

The Supervisory Board approved, i.e. adopted the reports, policies and other proposed documents related to the Bank's operations in 2012.

Members of the Supervisory Board in compliance with article 51 of the Statute of the Macedonian Bank for Development Promotion AD Skopje, without holding a session, i.e. by way of e-mail communication had insight in the quarterly reports on transactions with related parties.

1.3. Risk Management Committee

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

During 2012, the Risk Management Committee worked with the following members:

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

The Risk Management Committee has the following rights and responsibilities:

- permanently monitors and assesses the risk level of the Bank, and identifies the acceptable level of exposure to risk in order to minimize the loss of Bank's risk exposure,
- establishes risk management policies and monitors their implementation,
- follows the regulations of the National Bank pertaining to the risk management and the Bank's compliance with such regulations,
- 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.

In 2012, the Risk Management Committee made decisions on meetings held at least once a week. During the reported period 52 meetings were held. Each month, the Risk Management Committee reported to the Bank's Supervisory Board on its operations pursuant to the Banking Law.

1.4. Auditing Committee

The Auditing Committee consists of five members with a 4-year term of office. Three members of the Auditing Committee are elected from among the members of the Supervisory Board, two are independent members, and at least one Auditing Committee member should be an authorized auditor.

Members of the Auditing Committee during 2012 were as follows:

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

Elizabeta Cingarovska was released from her duties of a member of the Auditing Committee by Decision of the General Meeting of Shareholders of 14 August 2012. Klimentina Poposka was appointed as a new member of the Committee by Decision of the General Meeting of Shareholders of 27 December 2012.

The Auditing Committee has the following rights and responsibilities:

- discuss the financial statements of the Bank and make sure that the disclosed financial information on the Bank's operations are accurate and transparent as specified by the accounting regulations and international accounting standards,
- review and make assessment of the internal control systems,
- monitor the operations and assess the efficiency of the Internal 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 conducted the audit of the financial statements of the Bank for the business year 2012.

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

1.5. Board of Directors

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

Members of the Board of Directors are:

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

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

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

- establish the internal organization and systematization of work and work tasks in the Bank, decides upon employment, promotion, redeployment, professional upgrade, determining salary and salary allowances, acknowledgement of exceptional commitment to work, pronouncement of disciplinary measures, material liability of employees and termination of employment;
- perform duties other than those the Supervisory Board is competent for.

The Board of Directors within its competences acquired by the Law and the Statute adopted all necessary internal acts that regulate the working conditions of the Bank in compliance with the legal regulations and subordinate acts. The Board of Directors reported to the Supervisory Board on its operations at least once a month.

In the course of 2012, the Board of Directors adopted/revised procedures and manuals of significance to the Bank's operations such as:

- Factoring Procedures number 02-5084/1 of 25.10.2011,
- Procedures for system upgrade, installation and implementation of applicative modules to the Bank application,
- Procedures for access of external party to the information system of the Bank,
- Procedures for identification, assessment, monitoring, and control of credit risk no. 02-805/1 of 18.02.2011,
- Factoring procedures no. 02-1187/1 of 27.02.2012,
- Manual for accounting records of available deposits with the National Bank of the Republic of Macedonia,
- Procedures for identification, assessment, monitoring, and control of operating risk,
- Book of Rules for preparing meeting materials no. 02-1144/1 of 9.6.2005,
- Procedures on defining the relationship with the Bank suppliers in the field of information technology, no. 02-1906/1 of 15.6.2010,
- Programme on prevention of money laundering and financing terrorism, no. 03-2635/2 of 9.6.2011,
- Procedures on liquidity risk management, no.02-2230/1 of 9.7.2010 and the decisions on amendment and modification of the Procedures,
- Manual for stress testing of liquidity risk, no.02-3503/2 of 12.07.2011,
- Procedures on reception, processing, and administration of loan applications of the EIB credit line III phase (EUR 100.000.000) and EIB revolving funds,
- Procedures on reception, processing, and administration of loan applications of the credit line for loans for processing and export of agricultural products,
- Operating manual on insurance of account receivables, no.02-4343/1 of 13.9.2011,
- Procedures on credit risk weighted assets,
- Fundamental thesis for strategic directions of MBDP, no.02-2319/3 of 1.10.2007,
- Procedures on receiving and depriving the employees of the right to access the information system of the Bank,
- Procedures on reception, processing, and administration of loan applications of the EIB credit line III phase (EUR 100.000.000) and EIB revolving funds, no.02-4064/2 of 23.7.2012,

- Procedures on risk management, no.02-6412/2 of 19.12.2011,
- Manual for accounting records of extended loans, commission loans, and guarantees (assets), no. 02-6843/1 of 30.12.2011 and the decisions for modification of the Manual, no. 02-3550/2 of 25.06.2012 and no. 02-4801 of 3.9.2012,
- Manual for accounting records of the taken loans and, commission loans (liabilities), no. 02-6844/1 of 30.12.2011 and the decisions for modification of the Manual, no. 02-3550/3 of 25.06.2012.

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. In 2012, the Credit Committee was composed of:

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

The Credit Committee has the following rights and responsibilities:

- decide on the investments and credit debts, guarantees and other exposures to a borrower up to 10% of the Bank's own funds;
- approve exposure to an individual Bank up to 25% of the Bank's own funds;
- discuss and approve loans 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 2012, the Credit Committee held meetings at which 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.

During the reported year 2012, the Credit Committee held 64 meetings.

1.7. Insurance Committee

The Insurance Committee has 3 members. The members of the Board of Directors are members of the Bank's Insurance Committee pursuant to the Bank's Statute. The third member of the Insurance Committee is appointed by the Supervisory Board of the Bank. In 2012, the Insurance Committee was composed of:

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

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

The Insurance Committee held 28 meetings during 2012.

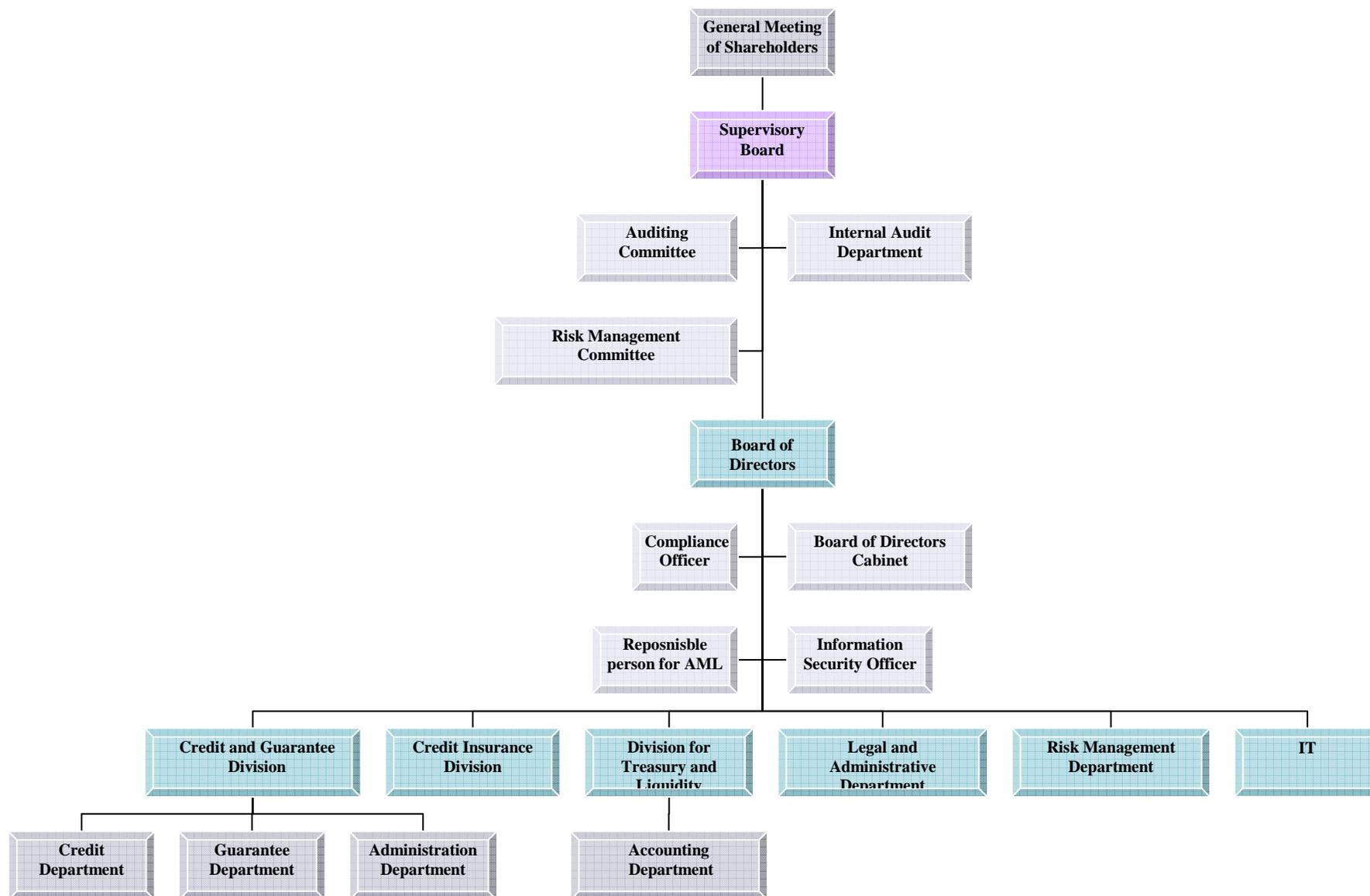
2. Organizational Structure

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

MBDP does not have branch offices.

As of 31 December 2012 MBDP has 39 employees.

In the reported year the Board of Directors and the persons with special rights and responsibilities were paid MKD 14,312,568.00 on the grounds of gross salary, allowances, bonuses, insurance and other rights. The members of the Bank's Supervisory Board on the grounds of compensation for taking part at meetings were paid MKD 713,846.00, and the Auditing Committee on the grounds of compensation for their work at the meetings of the Committee were paid MKD 318,618.00.



3. Shareholder's Structure

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

4. Corporate Governance Code

The MBDP General Meeting of Shareholders at its session held on 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 General Meeting of the Bank. The Code is prepared in compliance with the Decision of the National Bank Council on basic principles of corporate governance in a Bank.

Macedonian Bank for Development Promotion, i.e. the Bank's management bodies and employees during 2012 in a whole adhered to the principles of corporate governance adopted in the Corporate Governance Code, such as:

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

5. Conflict of Interest Protection Policy

Basic postulates for the Bank's conflict of interest protection policy are 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 of 09.06.2010. At least once a year, the Code of Conduct is reviewed by the Bank's Supervisory Board.

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

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

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

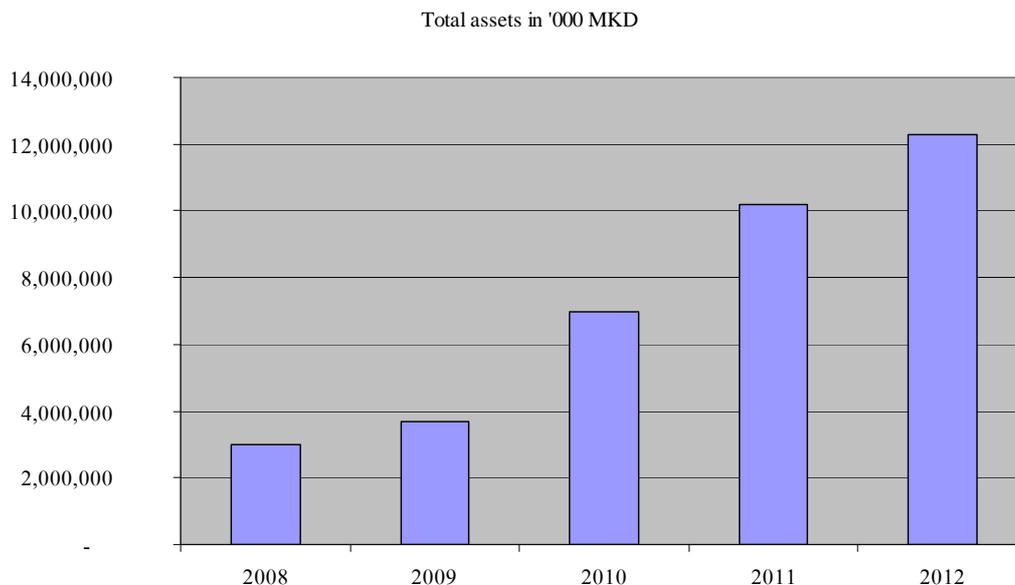
V FINANCIAL RESULTS OF OPERATIONS IN THE COURSE OF 2012

In its financial operations in the period between 01.01.2012 till 31.12.2012, the Bank reached net profit of 66,421 thousand denars. At the same time the total balance amounts to 12,275,918 thousand denars, and has increased for 20.5% in comparison to the previous year.

1. Balance Sheet

1.1. Assets

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



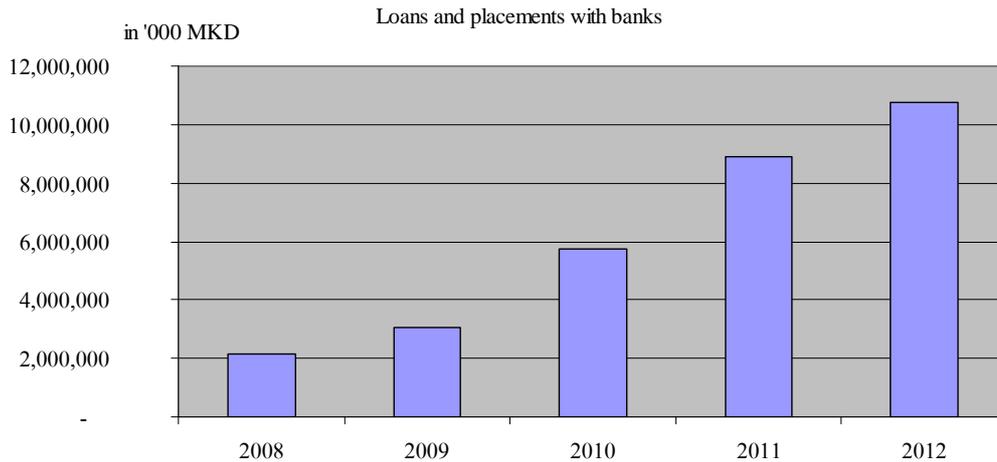
1.1.1. Cash and Cash Equivalents

As of 31 December 2012 the cash and cash equivalents amount to 1,206,532 thousand denars, representing 9.8% of the Bank's total assets.

1.1.2. Credits to and Receivables form Banks

The total net loans as at 31 December 2012 amount to 10,773,373 thousand denars, representing 87.8% of the total assets. The total net loans increased for 21.2% in comparison to the previous year. Increase in total loan placements is mainly due to increase in placements of the credit line for financing small and medium sized enterprises and the credit lines provided by the European Investment Bank.

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



1.2. Bank Fund Sources

1.2.1. Total Liabilities

Bank's total liabilities as at 31 December 2012 reached an amount of 10,250,370 thousand denars, and achieved increase of 24.6% in comparison to the end of 2011. The increase in the total fund sources is mainly result of the increase in loan liabilities arising from disbursement of the European Investment Bank credit line. Credit liabilities for the period between 01.01.2012 till 31.12.2012 increased for 24.6% comparing to 2011.

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

1.2.2. Capital and Reserves

The share capital and reserves represent 16.5% of the total fund sources. The total Bank share capital as of 31 December 2012 was on a level of 2,025,548 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 2012 and 31 December 2012 MBDP reached total income amounting to 357,982 thousand denars, expenses amounting to 291,485 thousand denars and positive financial result of 66,421 thousand denars.

In the reported period the total interest income amounted to 327,846 thousand denars and the total interest expense amounted to 178,481 thousand denars. The net interest income amounted to 149,365 thousand denars which represented an increase of 5.8% comparing to the previous year.

Net fee and commission income was 14,490 thousand denars for 2012.

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 2012-2011 the Macedonian denar maintained the same level in regard to euro, and as at 31 December 2012 the official exchange rate for 1 euro was 61.50 denars. In the reported period the net expenses of foreign currency differences amount to 170 thousand denars, and in the

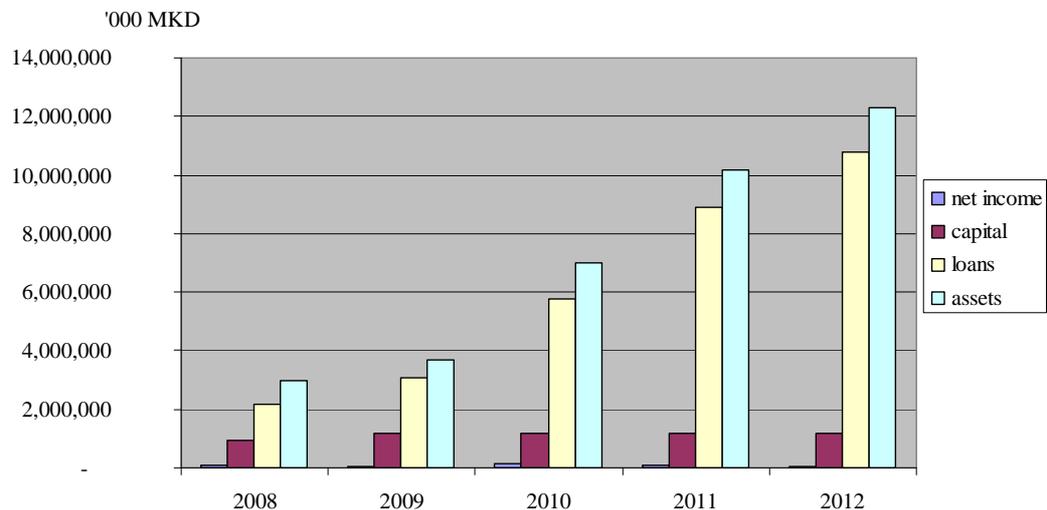
same period previous year the net income of foreign currency differences amount to 81 thousand denars.

The Bank in compliance with the regulations and adopted acts sets the percentage that determines the impairment and maintaining of provisions to cover possible credit risks. In 2012 the Bank released additional impairment amount on financial assets and showed net expenses of 26,579 thousand denars.

Other expenses contain depreciation and amortization, overall and administrative costs and other operating expenses totaling 71,383 thousand denars, i.e. 28.8% higher than the same period pervious year.

According to the changes in the Income Tax Law made on 1 January 2009, MBDP calculates and pays income tax on non-deductible expenses at rate of 10%. The income tax in 2012 amounted to 76 thousand denars, which was a decrease of 3.8% comparing to 2011 when it amounted to 79 thousand denars.

The Chart below shows the movement of several balance items between 2008 and 2012.



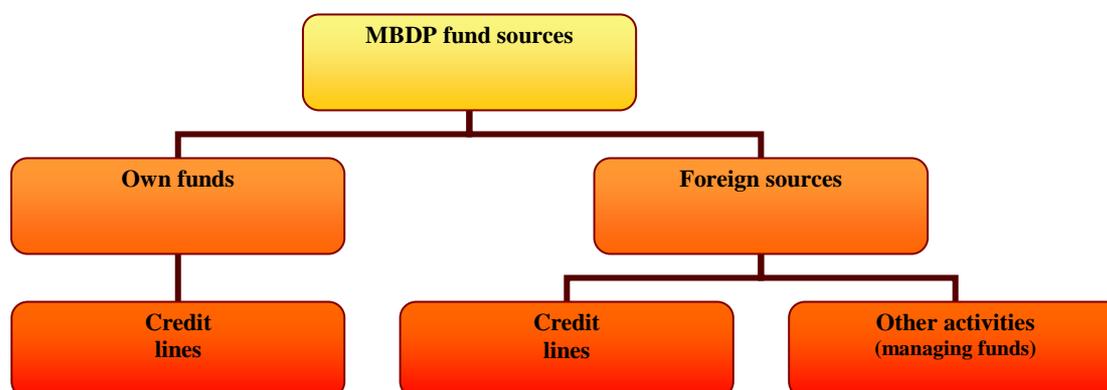
VI CREDIT ACTIVITIES

In the course of 2012, MBDP carried out its credit activities through commercial banks that it entered into agreement with:

- ❖ 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 Ohrid
- ❖ 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

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

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



1. Credit Lines from MBDP Own Funds

MBDP created several credit lines of own sources which terms and conditions are shown below:

Credit line	Amount in EUR	Repayment period	End user interest rate
Financing small and medium sized enterprises	from 15,000 to 500,000	up to 8 years, grace period of up to 1 year included	8% p.a.
Financing export oriented production	from 15,000 to 2,000,000	up to 2 years	6% p.a.
Direct lending to export oriented companies	from 15,000 to 1,000,000	up to 2 years	6% p.a.
Financing permanent working capital	from 30,000 to 300,000	up to 3 years	8% p.a.

1.1. SME Credit Line

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

In the course of 2012, 65 credit applications were approved out of this credit line, in amount of EUR 4,431,715, used for financing projects from the food industry, textile industry, transportation, construction, etc.

1.2. Financing of Export Oriented Production

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

The export arrangements should provide net positive foreign exchange effect, thus contributing to the improvement of the trade and payment balance of the Republic of Macedonia. During 2012, 7 loans were extended out of this credit line funds in a total amount of 1,228,400 euros. It is worth mentioning that majority of the export arrangements in 2012 were supported by the EIB credit line, which was very attractive to the export oriented companies due to the favourable interest rate and repayment period.

1.3. Credit Line for Financing Permanent Working Capital

This credit line was introduced to complement the permanent working capital credit line of the Italian commodity credit line revolving fund (point 2.3.). This credit line was targeted to providing permanent working capital to small- and medium-sized enterprises. In the course of 2012, three loans were approved of EUR 259,000.

1.4. Direct Support to Export Oriented Companies

Pursuant to the Law on MBDP and directions by the Government of the Republic of Macedonia, in the course of 2011, MBDP commenced direct lending to export oriented companies, i.e. provided finance for working capital intended for pre-shipment and post-shipment export finance.

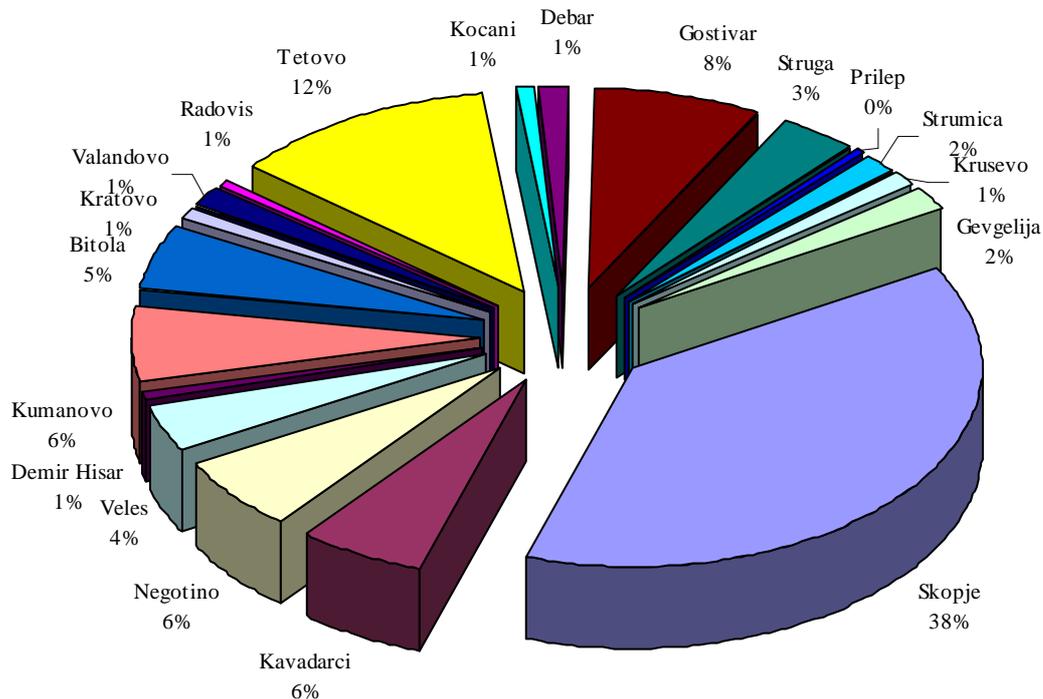
Accordingly, activities in relation to this credit line continued to be carried out during 2012, and 19 loans were approved in an amount of EUR 1,541,500.

1.4. Extended Credits of Internal Funds

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

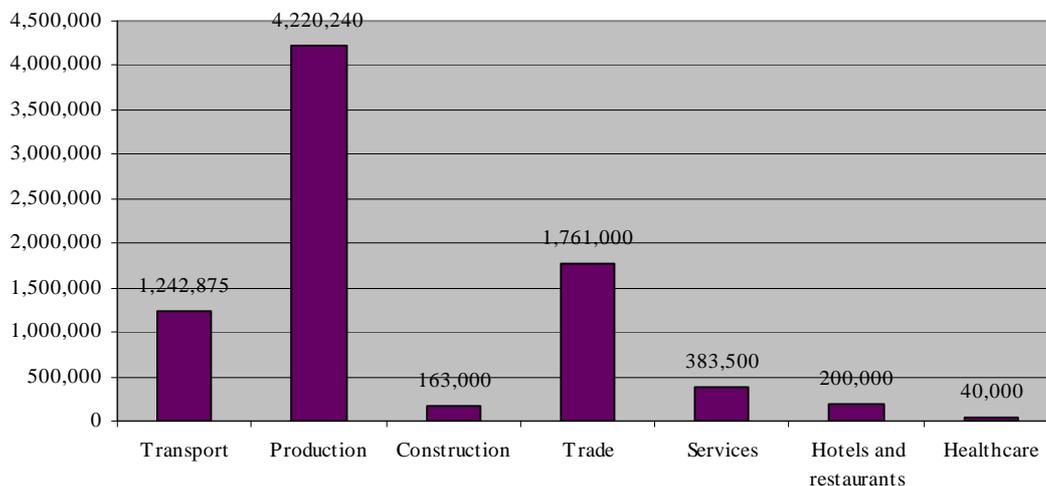
No.	Industry	in EUR		Index 2012/2011
		31.12.2011	31.12.2012	
1	Production	1,684,600	4,220,240	250.5
2	Construction	230,000	163,000	70.9
3	Transportation	628,000	1,242,000	197.9
4	Trade	549,020	1,761,000	320.8
5	Services	315,000	383,500	121.7
6	Hotels and Restaurants	-	200,000	-
7	Health care	-	40,000	-
Total		3,406,620	8,010,615	235.1

Graph: Extended funds of own sources by city in the course of 2012.



It is shown that for the most part the credits are disbursed in Skopje (38%), Tetovo (12%), and Kumanovo (6%), and the other cities take part with less percentage.

Disbursed credits by industry in the course of 2012 are presented in the chart below:



Majority of the financed projects belong to production (food, textile and other) (53%), trade (22%), and transportation (16%). Other disbursed credits are in services, hotels and restaurants and health care making insignificant contribution in the total number of credits financed by the Bank's own funds.

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

In the course of 2012 MBDP continued to utilize and carry out the credit lines from foreign creditors and donors. Besides disbursing credits from the EIB I credit line of EUR 100 million, MBDP also fully withdraw and disburse the funds of the EIB II credit line of EUR

50 million. At the same time, the range of credit products during 2012 was supplied with new 100 million euros from the European Investment Bank (EIB) as a third phase of the cooperation with EIB.

These credit lines are detailed in the Table below:

Credit Line	Amount	Repayment period	End user interest rate
EIB credit line for investment credits	from 10,000 up to 3,500,000 EUR	up to 5 years with up to 12 months grace period included	5.5% p.a.
EIB credit line for permanent working capital (TOS)	from 5,000 up to 666,700 EUR	up to 3 years with up to 6 months grace period included	5.5% p.a.
EIB credit line for priority projects up to 12,500,000 EUR		up to 15 years with up to 36 months grace period included	5.5% p.a.
EIB II credit line for investment credits	from 10,000 up to 3,500,000 EUR	up to 8 years with up to 12 months grace period included	5.5% p.a.
EIB II credit line for permanent working capital (TOS)	from 5,000 up to 666,700 EUR	up to 3 years with up to 6 months grace period included	5.5% p.a.
EIB II credit line for priority projects	up to 6,000,000 EUR	up to 8 years with up to 24 months grace period included	5.5% p.a.
EIB III credit line for investment credits	from 10,000 up to 3,500,000 EUR	up to 8 years with up to 24 months grace period included	5.5% p.a.
EIB III credit line for permanent working capital (TOS)	from 5,000 up to 666,700 EUR	up to 3 years with up to 6 months grace period included	5.5% p.a.
EIB III credit line for priority projects	up to 6,000,000 EUR	up to 8 years with up to 24 months grace period included	5.5% p.a.
Commodity Credit Line from the Republic of Italy Revolving Fund	from 50,000 up to 400,000 EUR	up to 6 years with 1 year grace period included	6% p.a.
Credit Line for financing micro, small and medium sized enterprises from KfW (KMB1, KMB2, KMB3)	up to 50,000 EUR	up to 4 years	determined by the intermediary Bank
Credit Line from the Council of the European Development Bank - CEB	up to 400,000 EUR	up to 7 years with up to 2 years grace period included	around 8.5% p.a.
Sustainable Energy Project (energy efficiency)	up to 60% of the project value from 20,000 up to 500,000 USD	up to 6 years	determined by the intermediary Bank

Sustainable Energy Project (renewable energy sources)	up to 60% of project value from 50,000 to 4,000,000 USD	up to 10 years with up to 3 years grace period included	determined by the intermediary Bank
Project "Financial support for self employment"	for 1 unemployed person – 3,000 EUR, maximum 15,000 EUR; for 1 unemployed redundant person – 4,000 EUR, maximum -20,000 EUR	up to 4 years with 1 year grace period included	1 % p.a., interest not paid during grace period
Agricultural Credit Discount Fund OKF (ZKDF)	up to EUR 100,000 for primary agricultural production up to EUR 300,000 for processing agricultural products and up to EUR 300,000 for export trade of primary agricultural products and their manufactured products	agreed with the intermediary financial institution	from 4% up to 6.5% p.a.
Credit line for production, processing, and export of agricultural products (Compensation funds)	up to 300,000 EUR (500,000 EUR for purchase of grape, wheat, fruits and vegetables)	up to 5 years with grace period of 1 year included for fixed assets, and 1.5 years with grace period of 3 months included for working capital	3% p.a.

2.1. EIB Credit Line

EIB credit line of EUR 100 million commenced its realization in 2009 as part of the Government of the Republic of Macedonia package of measures to mitigate the effects of the global financial crisis. In the course of 2011, credit line funds were fully disbursed by EIB. The revolving fund was created out of the collected funds of which credits were extended during 2012 according to the terms and conditions of the credit line.

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

2.1.1. Investment Loans from EIB

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

	salary and other related to the phase of research and development)
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2.1.2. Loans for Permanent Working Capital from EIB

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

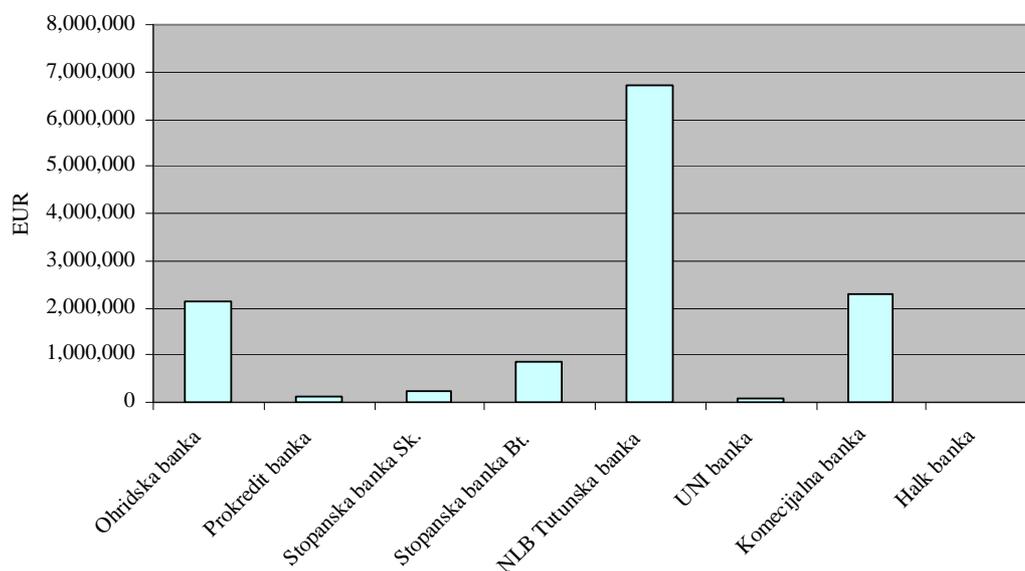
2.1.3. Loans for Priority Projects from EIB

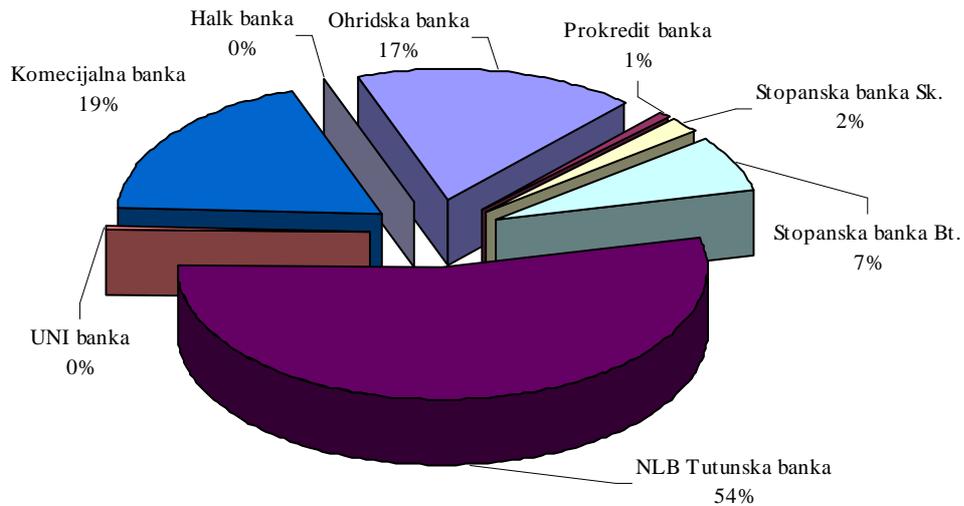
Single credit amount intended to final beneficiaries:	Up to EUR 12,500,000
Repayment period:	Up to 15 years
Grace period included:	Up to 3 years
Purpose:	Support to priority projects in the area of industry, education, culture, ecology, etc.

Those credit products were disbursed through the commercial banks that MBDP concluded framework agreement with. As at 31 December 2012, 47 credits were disbursed in an amount of EUR 12.4 million creating the following structure of credit products:

Credit product	No. of credit applications	Amount in EUR
Investment credits	10	1,818,065
Permanent working capital	35	7,145,375
Priority projects	2	3,445,000
Total	47	12,408,440

The structure of the disbursed credits by banks is presented in the chart below, showing that majority credits were disbursed through NLB Tutunska Banka AD Skopje, Komercijalna Banka AD Skopje, and Ohridska Banka AD Ohrid.



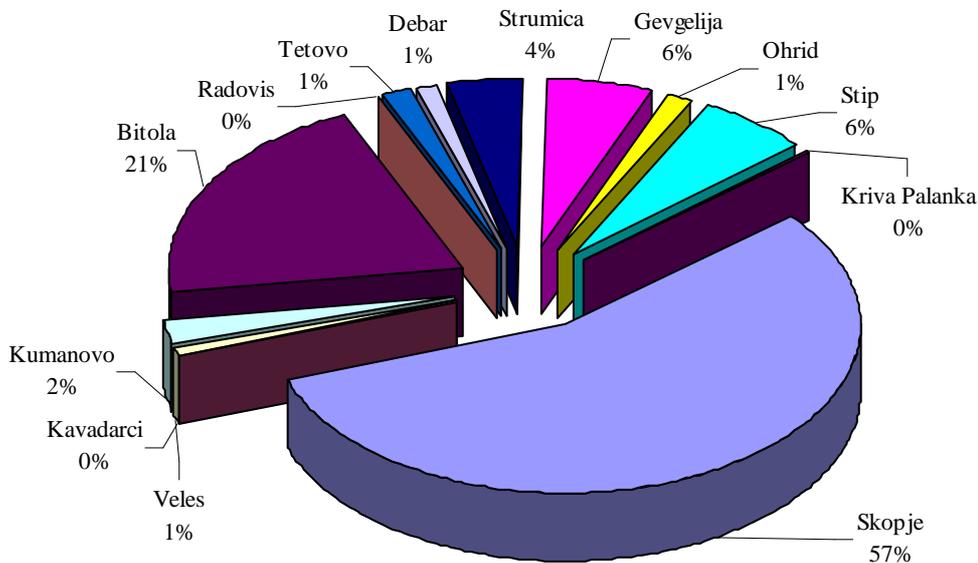


In the course of 2012, the EIB funds were used to finance projects from various industries such as textile industry, food production, transportation, construction, etc.

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

No.	City	Amount
1	Skopje	6,917,375
2	Bitola	2,546,716
3	Strumica	500,000
4	Tetovo	180,000
5	Stip	750,000
6	Kumanovo	300,000
7	Gevgelia	729,349
8	Ohrid	180,000
9	Debar	160,000
10	Veles	100,000
11	Kriva Palanka	40,000
12	Kavadarci	5,000
Total		12.408.440

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



2.2. EIB II Credit Line of EUR 50 million (second phase)

Credit line of the European Investment Bank (EIB) in an amount of EUR 50 million began its realization in 2011 as a second phase of the cooperation with EIB and the package of measures of the Government of the Republic of Macedonia for alleviation of the global financial crisis. During 2012, funds of this credit lines were disbursed by EIB in a whole and on-lent to the final beneficiaries.

The following credit programmes were supported out of these funds:

2.2.1. Investment Credits from EIB II

Single credit amount intended to final beneficiaries:	From EUR 10,000 to EUR 3,500,000
Repayment period:	Not less than 2 years and not more than 8 years
Grace period included:	Up to 2 years
Purpose:	<p>Support of identified projects:</p> <ul style="list-style-type: none"> • Purchasing fixed assets: <ul style="list-style-type: none"> ○ Real estate (except land) ○ Equipment ○ Working capital (not exceeding 30% of the loan value) • Investment in intangible assets (development, planning and financing in the construction phase, salary and other related to the phase of research and development)

2.2.2. Permanent Working Capital from EIB

Single credit amount intended to final beneficiaries:	From EUR 5,000 to EUR 666,700
Repayment period:	Not less than 2 years & not more than 3 years
Grace period included:	Up to 6 months
Purpose:	To fulfill the requests for permanent increase of working capital within expansion of company business operations

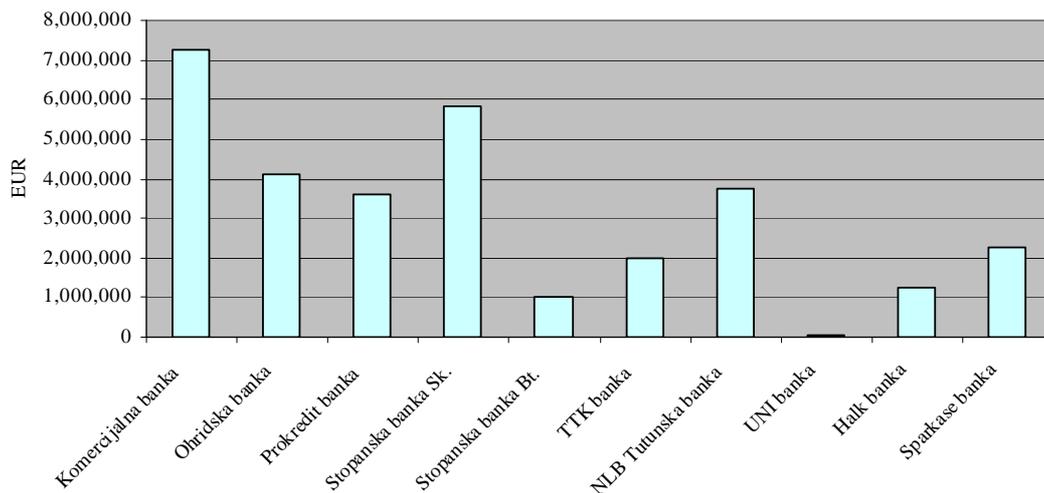
2.2.3. Credits for Priority Projects from EIB

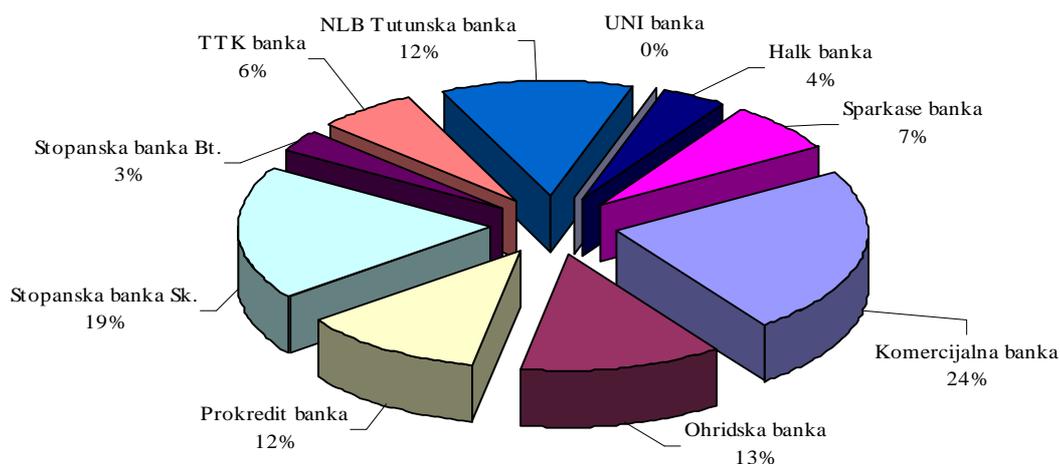
Single credit amount intended to final beneficiaries:	Up to EUR 6,000,000
Repayment period:	Not less than 2 years and not more than 8 years
Grace period included:	Up to 2 years
Purpose:	Support to priority projects in the area of industry, education, culture, ecology, etc.

As of 31 December 2012, 111 credit applications were approved by this credit line in a total amount of EUR 31,176,060.

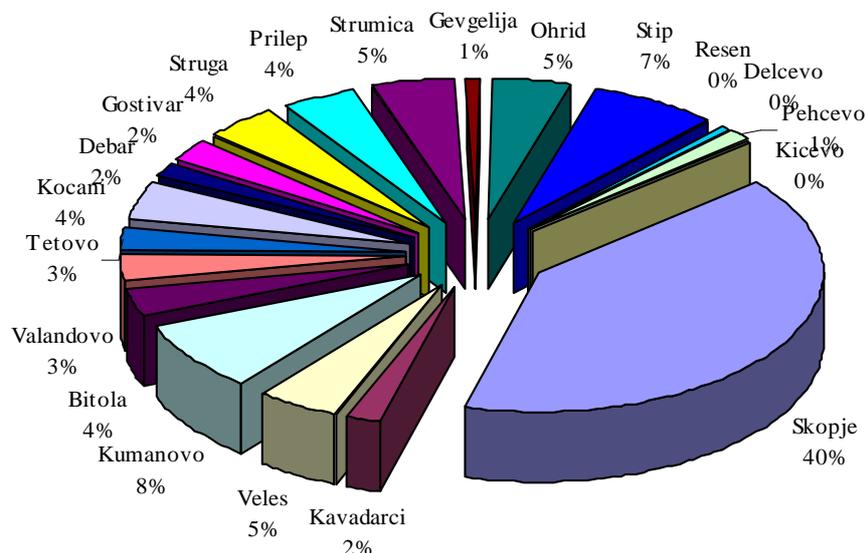
Credit product	No. of credit applications	Amount in EUR
Investment credits	74	22,452,972
Permanent working capital	25	4,698,088
Priority projects	12	4,025,000
	111	31,176,060

Structure of the disbursed credits by Bank is shown in the following chart, showing that majority credits were disbursed through Komercijalna Banka AD Skopje, Stopanska Banka AD Skopje, NLB Tutunska Banka AD Skopje, and Ohridska Banka AD Ohrid.





The geographic dispersion of disbursed credits from the EIB II credit line by city is shown in the following diagram, showing that 40% of the credits are on-lent in Skopje:



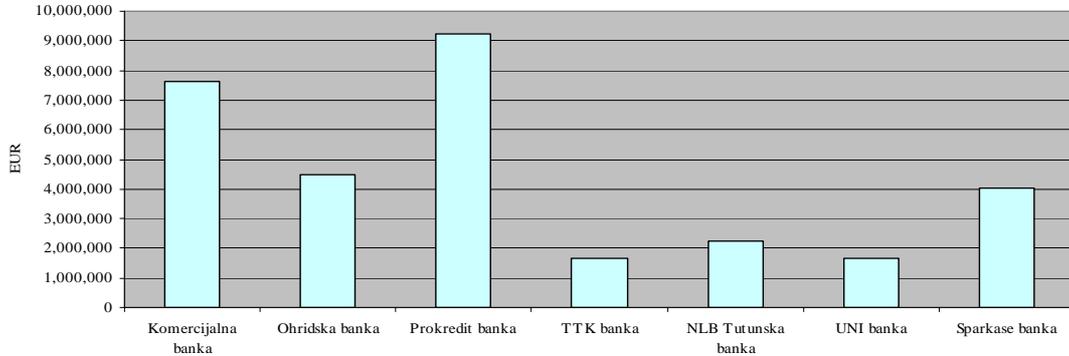
2.3. EIB III Credit Line of EUR 100 million (third phase)

Upon carrying out the credit lines EIB I of 100 million euros and EIB II of 50 million euros, in the course of 2012, MBDP began implementing the third phase, i.e. concluding the Credit Agreement for new 100 million euros.

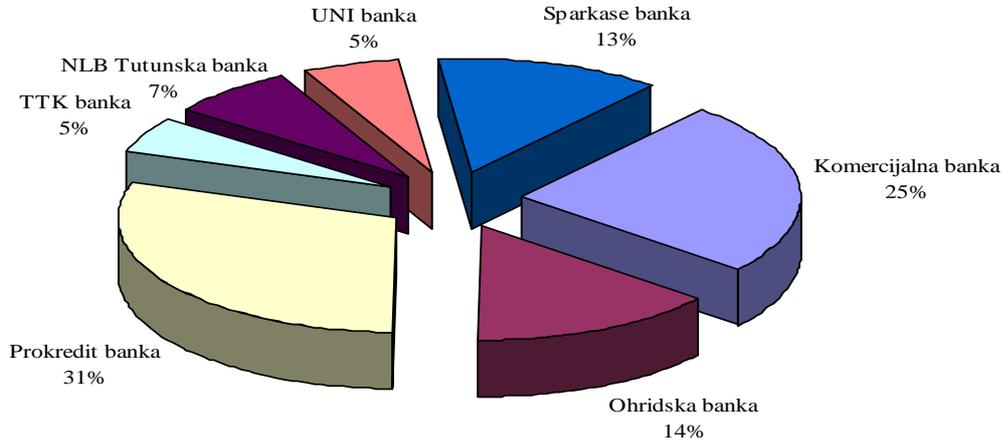
This credit line, like the credit lines before, was carried out through the commercial banks that MBDP has concluded a framework agreement with. Credits were approved under the same conditions as for the EIB II credit line of 50 million euros. During 2012, 129 credits were on-lent in a total amount of EUR 30,968,575 of which 86 credits in an amount of EUR 23,841,267 were investment credits.

Credit product	No. of credit applications	Amount in EUR
Investment credits	86	23,841,267
Permanent working capital	38	5,217,308
Priority projects	5	1,910,000
Total	129	30,968,575

Structure of the extended credits by Bank from the third phase, i.e. EIB III credit line is presented in the following chart showing that majority credits were disbursed through ProKredit Banka AD Skopje, Komercijalna Banka AD Skopje, and Ohridska Banka AD Ohrid.



The diagram below shows the percentage share of the commercial banks in the EIB III credit line.



The geographic dispersion of disbursed credits from the EIB III credit line by city is shown in the following diagram:

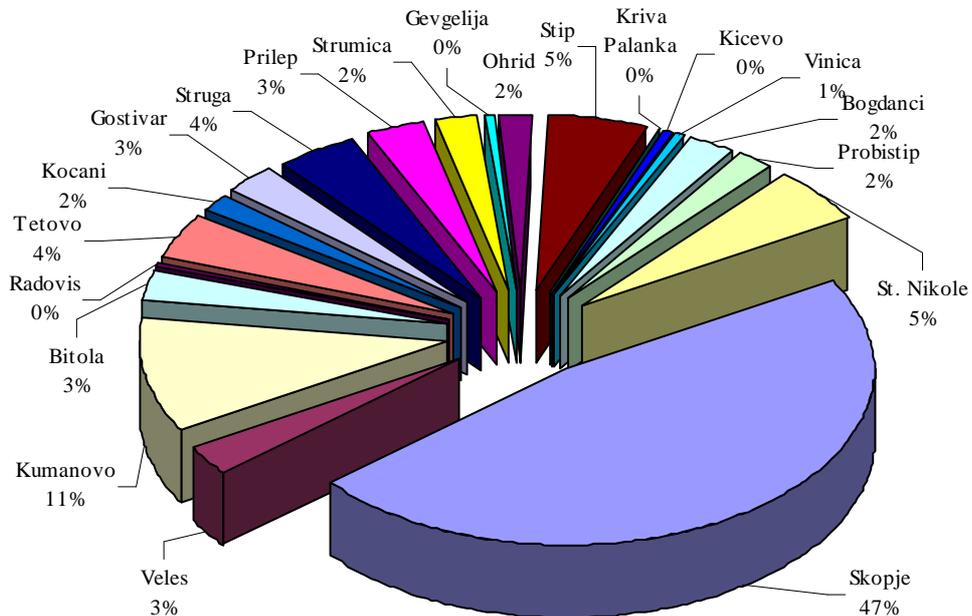
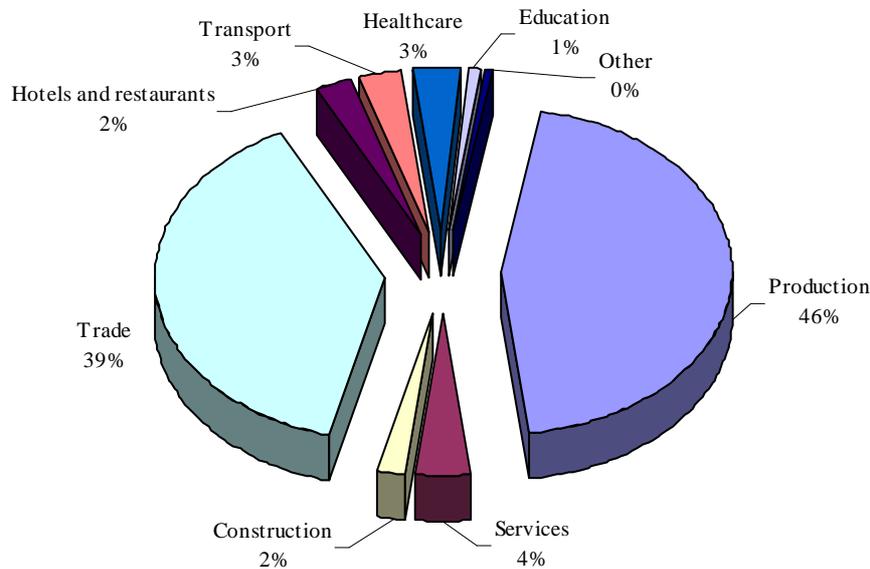


Diagram shows that 47% of the credits are on-lent in Skopje. On the other hand, credits are dispersed geographically throughout the country.

The following diagram represents the credits disbursed from EIB III credit line by industry:



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

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

The revolving fund was created from the repaid funds for financing investments and permanent working capital. In 2012, 24 credit applications were approved from this fund in an amount of EUR 4,180,500.

2.5. German – Macedonian Fund for Returnees from Germany – DEG

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

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

2.6. SME Credit Line from KfW (KMB 1)

Macedonian Bank for Development Promotion AD Skopje was appointed as an Agent of the Fund established with the funds from KfW credit line. The credit line funds were disbursed

through Halk Banka AD Skopje, NLB Tutunska Banka AD Skopje, ProKredit Banka AD Skopje and savings house Moznosti. The credit line is fully utilized.

Credit beneficiaries were as follows:

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

Amounts withdrawn by intermediary Banks as of 31.12.2012

Intermediary Bank	EUR
Halk Banka AD Skopje	-
NLB Tutunska Banka AD Skopje	-
ProKredit Banka AD Skopje	-
Savings House Moznosti DOO Skopje	2,000,000
Total	2,000,000

2.7. SME Credit Line from KfW (KMB 2)

This credit line in total amount of EUR 6.2 million was used for financial support of micro-, small-, and medium-sized companies in the Republic of Macedonia. The credit line was completely implemented through Halk Banka AD Skopje, NLB Tutunska Banka Skopje, and ProKredit Banka Skopje. In the course of 2012, new EUR 3,000,000 were approved to ProKredit Banka AD Skopje.

Amounts withdrawn by Intermediary Banks as of 31.12.2012

Intermediary Bank	EUR
Halk Banka AD Skopje	-
NLB Tutunska Banka AD Skopje	-
ProKredit Banka AD Skopje	3,000,000
Total	3,000,000

2.8. SME Credit Line from KfW (KMB 3)

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

Amounts withdrawn by Intermediary Banks as of 31.12.2012

Intermediary	EUR
Halk Banka AD Skopje	-
Sparkasse Banka Macedonia AD Skopje	-

ProKredit Banka AD Skopje	4,750,240
Total	4,750,240

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

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

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

The exposure by intermediary bank with this credit line as of 31.12.2012 is as follows:

Intermediary Bank	EUR
Komercijalna Bank AD Skopje	124,403,45
Ohridska Bank AD Ohrid	504,801,51
Total	629,204,96

2.9. Sustainable Energy Project

In February 2007, the International Bank for Reconstruction and Development (IBRD) and the Ministry of Finance of the Republic of Macedonia signed an agreement for implementation of the Project for Sustainable Energy of USD 1.5 million.

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

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

The funds are extended through the commercial Banks that MBDP has concluded cooperation agreements with, Komercijalna Banka AD Skopje, UNI Banka AD Skopje, Halk Banka AD Skopje, and Ohridska Banka AD Ohrid. Credit line funds are fully utilized.

2.11. Other Credit Lines and Projects

2.11.1. Project "Financial support for self employment"

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

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

An unemployed person may submit credit application up to EUR 3,000, and if the person is redundant, he/she may submit application of maximum EUR 4,000. During 2012, the credit line was redesigned in order to enhance its efficiency.

As of 31 December 2012, the credit line balance was EUR 7,309,576.

2.11.2. Agricultural Credit Discount Fund (ACDF)

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

By changing the institution-administrator, fundamental changes were not made in the method of realization of this credit line. MBDP continued to implement all necessary activities for future successful realization of this credit line.

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

At the moment twelve financial institutions are taking part in the implementation of ACDF, out of which 10 are commercial banks and 2 are saving houses, which facilitate the access to funds through their network of branches on the territory of the Republic of Macedonia.

Since the available funds of the ACDF credit line, to be on-lent to the eligible target groups, were limited and inadequate to the expressed needs of the involved financial institutions, and in order to be able to plan the volume of their activities, MBDP on 02.04.2012 informed the involved financial institutions that MBDP shall start to determine quarterly quotas at disposal of the financial institutions. Upon their full utilization, new applications for refinancing shall not be admitted until the end of the respective quarter.

In a condition of limited funds, during 2012, 294 credits were disbursed in total amount of EUR 6.4 million out of which 5.1 million were ACDF funds, whereas the rest 1.3 million were participation of the financial institutions. Compared to the previous year (EUR 8.8 million) the extended credits diminished for 42%. In the reported period the average amount of credit was EUR 21,723.

Implementation of the ACDF credit activities commenced in 2003, and as of 31 December 2012, 5,501 credits were disbursed in total amount of EUR 67.0 million, of which EUR 51.9 million were ACDF funds (total of all sources of funds IFAD 1, IFAD 2, PSDL 1, PSDL 2, and EIB). The average credit amount was EUR 12,184.

Realization of the ACDF credit line per year

Year	2009	2010	2011	2012
Number of disbursed credits	513	385	381	294
Amount of approved refinancing (in million EUR)	10.5	3.8	8.8	5.1

Structure of the refinanced credits
in the period 01.01.2012 – 31.12.2012

According to the number of approved credits by financial institution, in the realization of the ACDF credit line during 2012 most actively were involved ProKredit Banka AD Skopje having 99 disbursed credits, saving house Moznosti having 87 disbursed credits and NLB Tutunska Banka AD Skopje with 60 credits.

In respect of the disbursed credit amount the condition differs. The biggest participation of 40% had ProKredit Banka AD Skopje, followed by NLB Tutunska Banka AD Skopje with 26% and Komercijalna Banka AD Skopje with 9%. Significant is the share of the saving house Moznosti and Ohridska Banka AD Ohrid with 7%, TTK Banka AD Skopje with 6% and Sparkasse Banka Macedonia AD Skopje with 4% share in the total amount of disbursed credits. Involvement of Uni Banka AD Skopje with 1% was insignificant.

Due to failure to fulfill criteria for determining and monitoring the eligibility of the financial institutions for taking part in the utilization of the funds of ACDF credit line, the lending through Stopanska Banka AD Bitola was temporarily interrupted, whereas lending through Stater Banka AD Kumanovo, that merged to Centralna kooperativna Banka AD Skopje, was completely ceased.

	Financial institution	Number of disbursed credits	% of the total number of disbursed credits	Total amount of disbursed credits (EUR)	% of the total amount of disbursed credits	Total amount of approved refinancing (EUR)
1	Komercijalna Banka AD Skopje	14	5	561,775.00	9	449,420.00
2	Sparkasse Banka Macedonia AD Skopje	24	8	264,199.15	4	211,228.67
3	Uni Banka AD Skopje	3	1	56,719.12	1	45,375.29
4	NLB Tutunska Banka AD Skopje	60	20	1,675,635.23	26	1,340,497.46
5	Ohridska Banka AD Ohrid	5	2	426,156.17	7	340,924.94
6	saving house Moznosti	87	30	438,958.60	7	351,166.88
7	ProKredit Banka AD Skopje	99	34	2,563,028.08	40	2,045,129.25
8	TTK Banka AD Skopje	2	1	400,000.00	6	320,000.00
9	Saving house FULM	0	0	0	0	0
10	Stopanska Banka AD Bitola	0	0	0	0	0
11	Stater Banka AD Kumanovo	0	0	0	0	0
12	Stopanska Banka AD Skopje	0	0	0	0	0
	Total	294	100	6,386,471.35	100	5,103,742.49

In the course of 2012, out of the total disbursed ACDF credits, 86% were for primary agricultural production, 10% were credits for small and medium sized enterprises for processing agricultural products, whereas 4% were for export of agricultural products. Structure by value shows that credits for primary agricultural production had the majority participance of EUR 2.4 million or 47% of total disbursed funds. Credits for processing agricultural products follow with EUR 1.9 million (38%) and credits for export of agricultural products with EUR 0.8 million (15%).

Credit category	Number of disbursed credits	% of the total number of disbursed credits	Total amount of disbursed credits (EUR)	% of the total amount of disbursed credits	Total amount of approved refinancing (EUR)
1 Primary agricultural production	254	86	3,020,669.42	47	2,411,111.67
2 Processing of agricultural products	29	10	2,389,529.00	38	1,911,623.20
3 Export of agricultural products	11	4	976,272.93	15	781,007.62
Total	294	100	6,386,471.35	100	5,103,742.49

Structure of the funds managed within ACDF as of 31 December 2012

Source of funds	Liquid assets (EUR)	Receivables (EUR)
IFAD 1	54,131.96	608,819.38
IFAD 2	76,041.11	5,645,557.34
PSDL 1	191,017.53	2,452,823.82
PSDL 2	118,788.98	7,370,398.69
EIB	146,423.51	7,615,580.95
Total	586,403.09	23,693,180.18

Approved applications for refinancing which still are not disbursed (in EUR):

Sources of funds	Amounts
IFAD 2	49,786.44
EIB	65,817.06
Total	115,603.50

Total available funds of the Renewable credit fund which provides funds for ACDF as of 31 December 2012 was EUR 586 thousand.

2.11.3. EAR Credit Line - Special Credit Guarantee Scheme

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

As at December 31st 2012, exposure regarding the Special credit guarantee scheme was EUR 4,104,409.71, and in regard with EAR was EUR 353,042.

2.11.4. Credit line for production, processing and export of agricultural products

The purpose of the credit line funds was to provide finance to produce, process and export agricultural products. Its realization began in 2012. The credit line was established with a purpose of supporting the companies which main activity is production, processing and export of agricultural products. More detailed data related to the realization of the credit line for production, processing and export of agricultural products (compensation funds) as of 31 December 2012 is presented in the table below:

Received applications	Number	25	100%
	Amount in EUR	6,767,237	
Approved applications	Number	10	46%
	Amount in EUR	3,097,798	
Disbursed credits	Number	8	39%
	Amount in EUR	2,637,798	
Returned/incomplete applications	Number	10	42%
	Amount in EUR	2,839,439	
Applications in procedure	Number	5	12%
	Amount in EUR	830,000	

In regard with the approved applications, 8 credits have repayment period of 18 months and are working capital credits for processing of agricultural products, and 2 have repayment period of 60 months and are credits for fixed assets for finishing the construction of mill for production of livestock feed and meat processing equipment.

In regard with the purpose of the funds, for the approved applications, the structure is as follows:

- 3 projects for processing of grape in an amount of EUR 1,487,798 (48%),
- 3 projects for processing of vegetables in an amount of EUR 550,000 (17%),
- 2 projects for processing of cereal crops in an amount of EUR 460,000 (15%),
- 1 project for processing of industrial cultures in an amount of EUR 300,000 (10%),
- 1 project for processing of meat in an amount of EUR 300,000 (10%).

3. Credit Portfolio

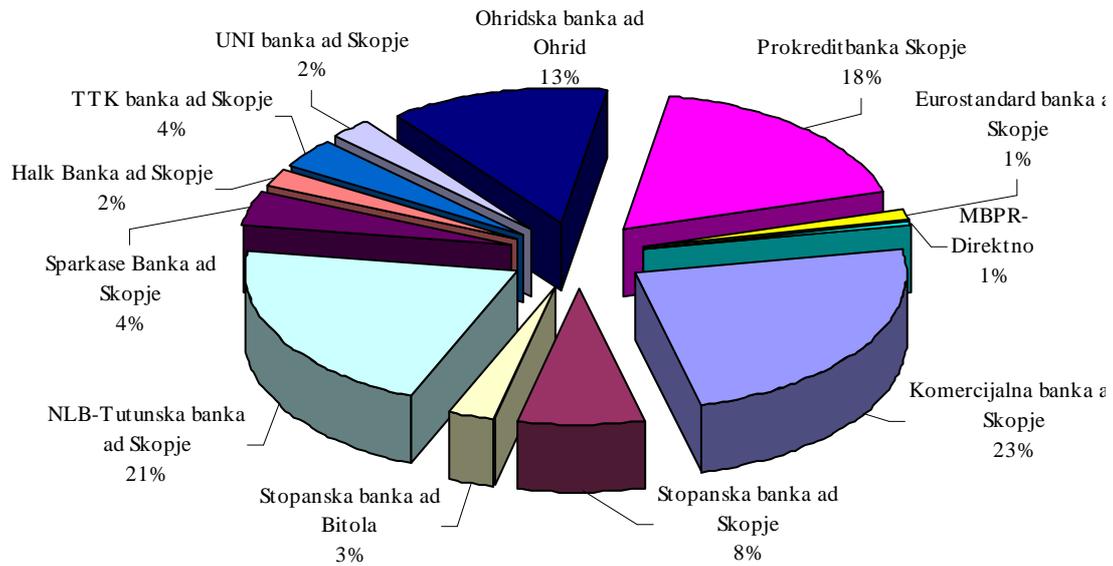
At the end of 2012, the MBDP Credit portfolio showed similar trend as the previous year reflecting the significant credit activities in relation to employing of the funds of the three EIB credit lines (EIB I-100 million euros, EIB II-50 million euros and EIB III-100 million euros).

3.1 Commission relations excluded from Credit Portfolio

As of 31 December 2012 the total exposure of MBDP (without managing funds operations) amounted to EUR 176.4 million (31.12.2011: 145.5 million euros) as a result of using the EIB credit line of EUR 100 million (revolving fund), employment of the last funds of the EIB credit line of EUR 50 million and withdrawal of the tranches of the third phase of EIB, i.e. EIB III credit line of EUR 100 million. During 2012, 382 credits were extended, (in 2011: 358 credits) in a total amount of EUR 85.5million, as a result of the increased interest of the clients and the favourable credit conditions of the credit lines.

Credits classified in risk category A were predominant in the credit structure from risk viewpoint with 98.85%, and the rest of the credits fell in category D with 1.15% (mostly credits to Export Import Banka, in bankruptcy).

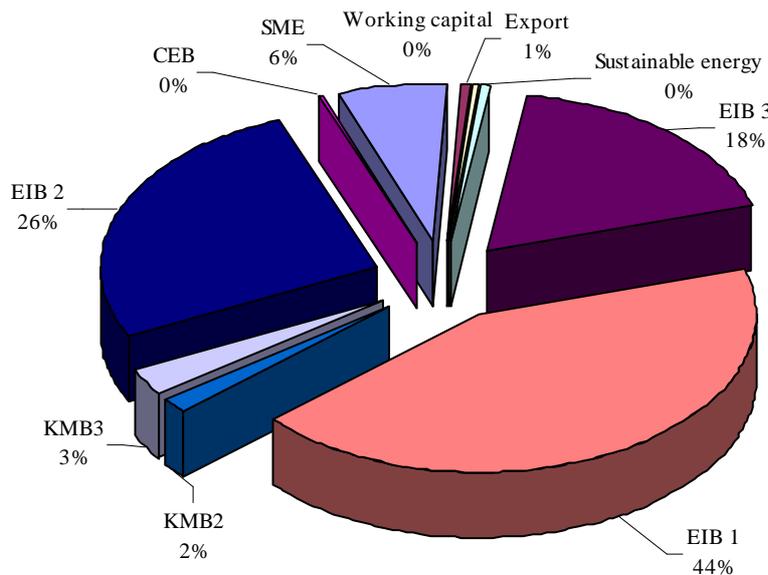
Structure of the credit portfolio by intermediary bank (not taking into consideration the credit lines where MBDP acts as an Agent) is shown below:



The diagram shows that Komercijalna Banka with 23% and NLB Tutunska Banka with 21% take the largest portion in the MBDP credit portfolio. Follow ProKredit Banka with 18%, Ohridska Banka Ohrid 13% and Stopanska Banka Skopje with 8%. Smaller portion of the portfolio belongs to Halk Banka, Stopanska Banka Bitola, TTK Banka, Uni Banka, Sparkasse Banka and Eurostandard Banka (0.5%).

Participation of foreign credit lines prevails in the total portfolio with 93%, whereas credits from MBDP own funds participate in the portfolio with 7%.

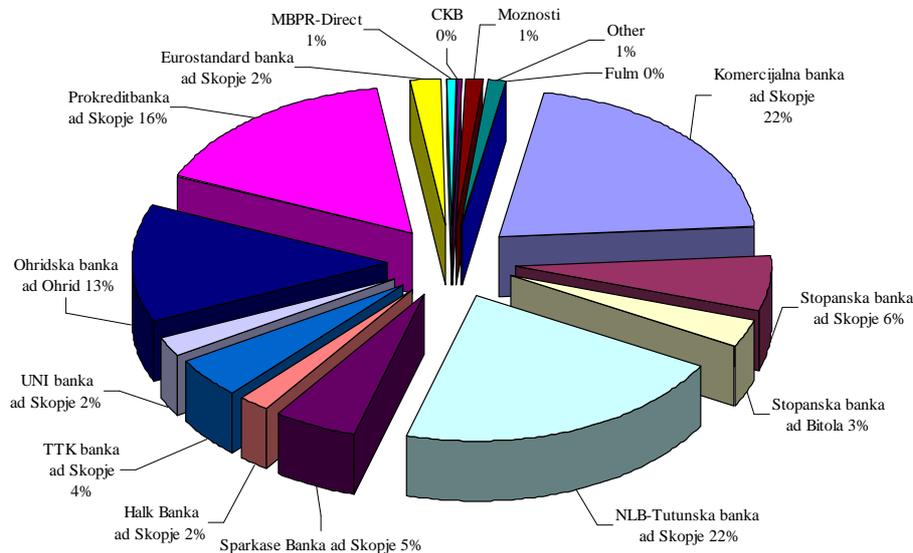
Structure of the MBDP credit portfolio by credit line (without commission relations) is shown below:



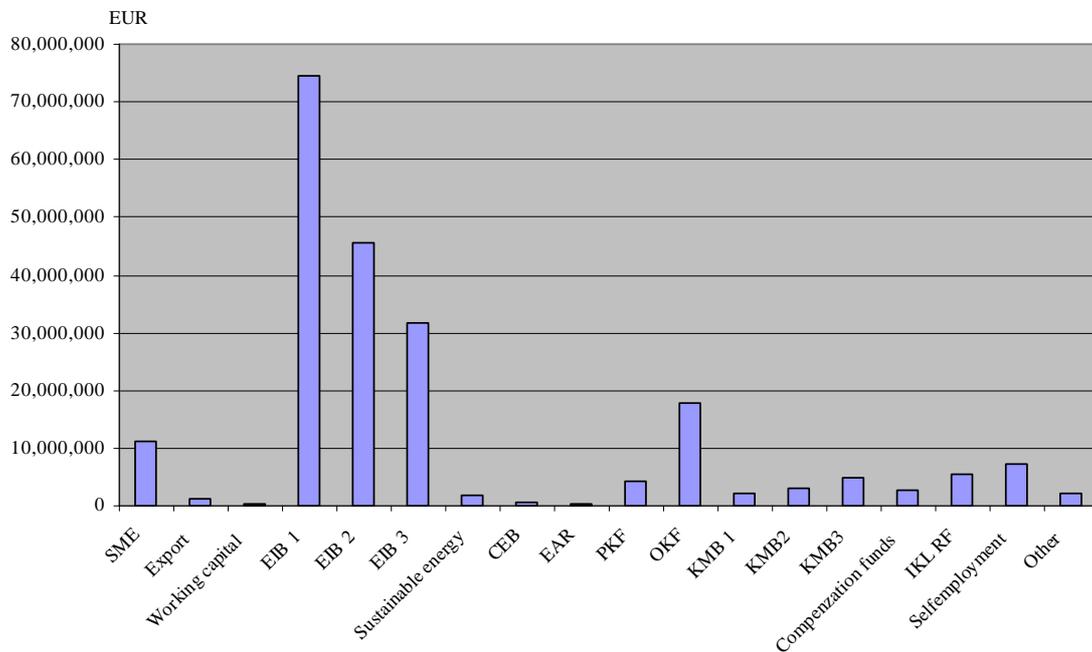
3.2 Commission relations included in Credit Portfolio

The MBDP credit portfolio including the credit lines where MBDP acts as an Agent as of 31 December 2012 was EUR 216.3 million.

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



Structure of the credit portfolio by credit line (together with the credit lines where MBDP acts as an Agent) is shown below:



As of 31 December 2012, the EIB credit lines prevailed in the MBDP total portfolio.

VII TRADE CREDIT INSURANCE

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

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

MBDP offered the following insurance products during 2012:

1.1 Short Term Insurance against Commercial Risks

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

1.2 Insurance against Political Risk

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

2. Reinsurance Agreement

In 2012, 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.

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. MBDP undertakes 15% of the insured risk of export credit insurance according to the Quota Share Reinsurance Agreement and the reinsurers undertake 85% of the MBDP insured risk.

The risk share of individual reinsurer is as follows:

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

3. Scope of Work

3.1. Short Term Export Credit Insurance Policy against Commercial Risk

In the course of 2012, MBDP signed short term export credit insurance policies against commercial risk with 66 insureds, and insurance policy of domestic receivables against commercial risk with 16 insureds.

3.2. Insured Exports

In the course of 2012, the Macedonian Bank for Development Promotion insured export in an amount of EUR 20,625,553 representing decrease in respect of 2011 of 4.68% and collected premium of EUR 182,391 representing increase of 1.55%.

During 2012, MBDP insured domestic receivables against short term commercial risk in an amount of EUR 7,259,887 (10.84% less than 2011), and collected premium in an amount of EUR 65,860 which is drop of 9.91% compared to 2011.

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

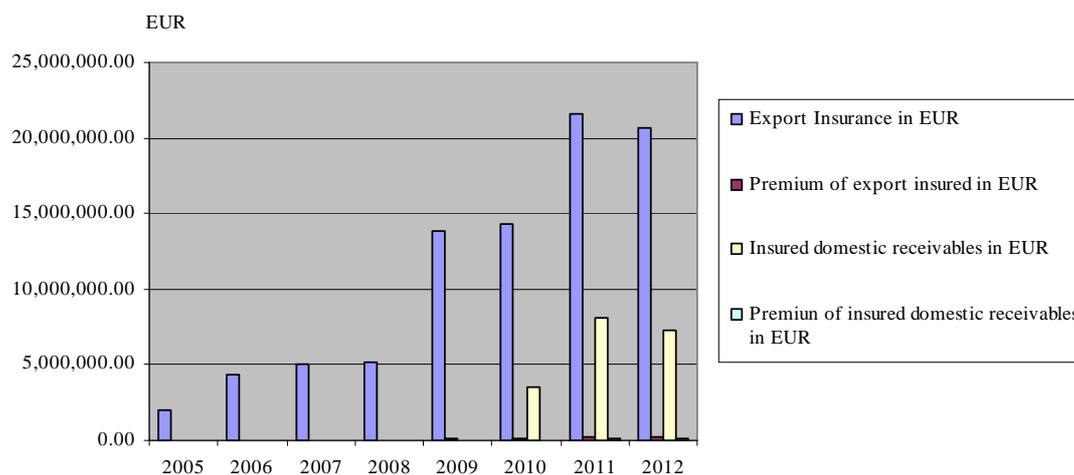


Chart: Premium gained (export – domestic) per year

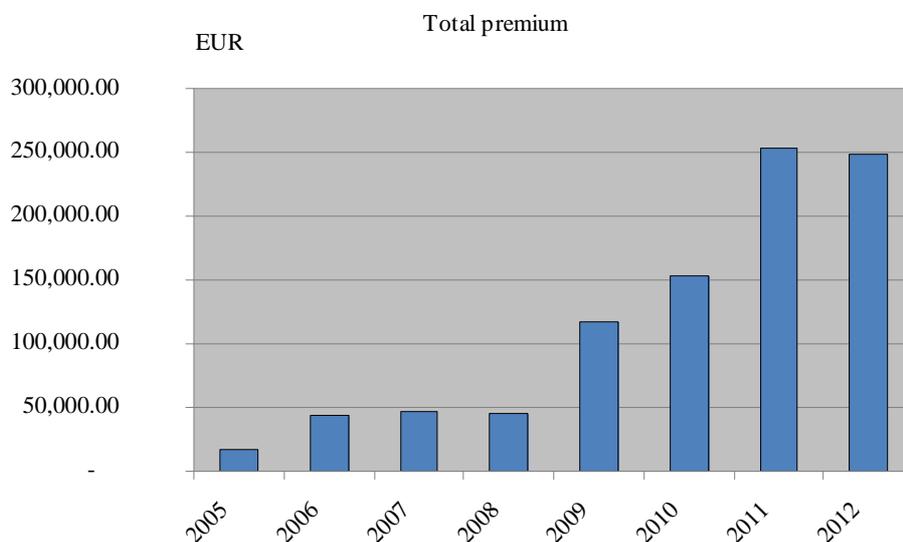


Table below presents export credit insurance and collected premium data by quarters in 2012.

Quarter	Insured exports in euros	Premium in euros
01.01-31.03.2012	3,928,754.20	30,918.75
01.04-30.06.2012	4,560,364.23	38,795.18
01.07-30.09.2012	6,269,228.76	55,919.72
01.10-31.12.2012	5,867,206.62	56,757.86

Total **20,625,553.81** **182.391.51**

Table below presents the insured domestic receivables and collected premium by quarters in 2012.

Quarter	Insured receivables in EUR	Premium in EUR
01.01-31.03.2012	3,387,464.19	30,733.96
01.04-30.06.2012	1,355,254	12,561.63
01.07-30.09.2012	1,107,940.26	10,048.67
01.10-31.12.2012	1,409,047.11	12,516.62
Total	7,259,887.60	65,860.88

The structure of the insured exports in 2012 by group of country according to the reinsurer's classification is shown below:

Classification group	Exports	% of exports participation	Exported to
A	2,255,252	10.03	Germany, Sweden, Italy, Netherlands, France, Switzerland, Austria
B	2,011,598	9.75	Italy, Poland, Slovenia, Czech Republic
C	15,620,305	75.73	Croatia, Bosnia and Herzegovina, Bulgaria, Greece, Serbia, Russia, Romania
D	738,398	3.58	Albania, Montenegro, Belarus, Ukraine
Total	20,625,553	100.00	

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

3.3. Insurance Limits and Credit Reports

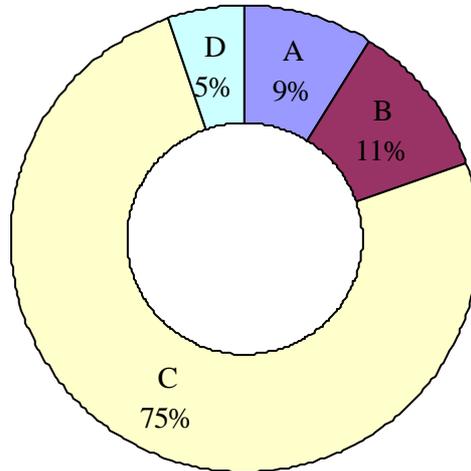
In 2012, 517 credit limit applications were submitted for foreign (324) and domestic (195) buyers. The total amount of requested insurance limits by the insureds and the potential insureds was EUR 25,898,857 and the approved insurance limits amounted to EUR 16,123,041.

Approved insurance limits by country group classification in 2012 are shown below.

Classification group	Requested amount in EUR	Approved amount in EUR	% of approved limits
A	3,071,000	1,421,000	8.81
B	2,669,500	1,775,000	11.01
C	18,633,357	12,067,041	74.84

D	1,315,000	860,000	5.33
Total	25,898,857	16,123,041	100.00

Diagram: Proportionate participation of approved insurance limits by country group classification in 2012



During 2012, 86 credit reports were prepared for Macedonian companies.

3.4. Indemnity

In the course of 2012, the Macedonian Bank for Development Promotion paid indemnity of EUR 29,193 to the insureds, due to occurrence of insured event (bankruptcy, protracted default). Out of the total indemnity paid, indemnity paid due to insurance of domestic receivables amounted to EUR 20,534 and indemnity paid due to export credit insurance amounted to EUR 8,658.

3.5. Agreements with Foreign Institutions

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

3.6. International Cooperation

MBDP is a full member of the International Union of Export Credit Agencies – Prague Club since 1999. MBDP as a full member in 2012 took active participation in Prague Club operations contributing to achievement of and respecting the Club's goals: mutual cooperation, exchange of information, international standards acceptance, promotion of credit insurance, providing international support and exchange of information. MBDP attended both regular semiannual meetings of the Prague Club members.

In November 2012, MBDP took active part at the International Conference on Export Promotion held in Almaty in Kazakhstan and in Belgrade Serbia. Main topics were economic developments and new areas of ECAs operations, as well as their role in promotion of innovative entrepreneurship. MBDP, during the meeting of the Prague Club, presented its model for calculation of premium for insurance of receivables.

3.7. Factoring

In order to facilitate the access of the Macedonian companies to short term working capital, MBDP started implementing the factoring service as new financial activity of the Bank.

Factoring service is a specific type of short-term financing, where MBDP in the role of the “Factor”, on a 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:

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

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

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

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 practice of operation,
- application of standard forms and models in factoring service implementation.

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

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

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

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

In the course of 2012, MBDP through providing factoring service supported exports of 18 Macedonian exporters. MBDP supported the export of Macedonian products and services to 25 buyers located in 10 countries of the region and EU.

Factoring service provided in 2012

Period	01.01-31.12.2012 in EUR
Purchased receivables	3,610,698
Finance	2,888,559
Interest	68,562
Fee	11,902

VIII RISK MANAGEMENT

Pursuant to the Banking Law (Official Gazette no. 67, dated 01.06.2007) 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.

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

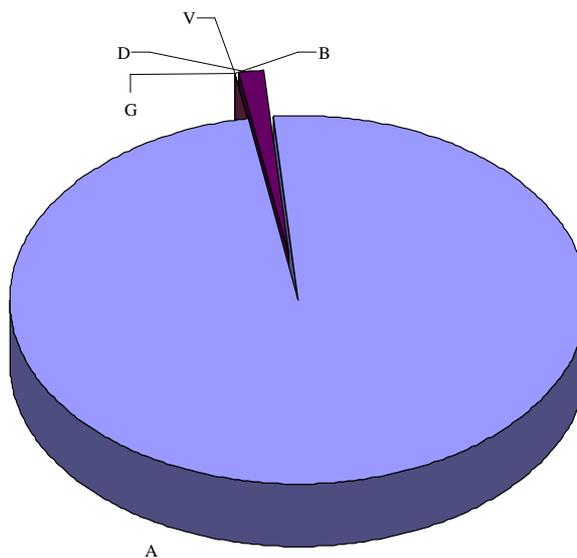
1. Credit Risk

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

The Bank controls the credit risk by adopting credit policy and procedures which determine the internal control system in order to prevent risk occurrence. The Bank operates on the basis of defined criteria for new credit risk exposures, as well as dispersion of the current credit risk exposures. Prior to approval of any activity which may influence the credit risk exposure, the Bank assesses the risk profile on individual basis (client/transaction) which

includes: assessment (quantitative and qualitative) of the creditworthiness of the client/contractual party, the regularity of the debtor's liabilities settlement based on history data, and collateral quality. Internal rating system helps the management body determine whether there is an objective evidence of indemnity pursuant to the IAS 39. At least once a month, the Bank makes assessment whether there is an objective evidence that financial assets are impaired and calculates the impairment loss on individual basis. In case of impairment indicators, the Bank assesses the compensable amount of the asset. The impairment loss is determined as a difference between the accounting value of a claim and its present value, i.e. the financial asset is determined as damaged if its accounting value is higher than its estimated compensable amount. Thus, the Bank on the basis of indicators showing that the accounting value is higher than the compensable amount estimates the compensable amount of the asset and recognizes impairment loss.

Credit risk exposure by risk category



The Bank has not determined impairment for around 94% of the total credit risk exposure. As of 31 December 2012, the total amount of the impairment / special reserve was 1.46% of the total credit risk exposure which represents a low risk level.

2. Country Risk

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

The objective of the Bank's policy of country risk management is to provide necessary preconditions for identification of Bank's exposure to country risk and to limit the exposure according to risk level.

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. 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.

4. Liquidity Risk

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

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

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

5. Interest Rate Risk in the Banking Book

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

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

6. Currency Risk

The currency risk denotes a risk of loss due to a change in cross-currency exchange rates and/or change in the value of the denar relative to the value of other foreign currencies. The Bank establishes a system for identification, measuring, monitoring and controlling the currency risk it is exposed to in its operations, thus encompassing all the activities and

transactions which in the balance and off-balance records are registered in foreign currencies and in denars indexed with FX clause.

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

7. Operational Risk

Operational risk management represents the probability of Bank loss and adverse influence on the Bank capital as a result of inadequate or weak internal systems, inadequate personnel, inadequate or failed systems of the Bank, as well as external events that may cause loss.

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

- Legal risk – current or prospective risk to the Bank's profit and own funds, caused by violation or non-adherence to the legal framework, agreements, prescribed practices, ethics standards, or as a result of misinterpretation of the regulations, rules, agreements and other legal documents,
- Money laundering and terrorist financing risk – deliberate or unintentional involvement of the Bank in activities which by the present regulation or international standards represent money laundering or financing terrorism,
- Risk of inappropriate information system – denotes a risk of Bank's loss arising from loss, unauthorized use or unavailability of information, information tools and/or services offered by the Bank.

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

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

8. Legal Risk

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

9. Reputational Risk

Reputation risk is current or prospective risk to the Bank's profit and own funds, arising from the adverse assessments of the Bank's operations by the customers, creditors, shareholders, investors and supervisors. Protecting the Bank's reputation is responsibility of each employee. The Bank established a system of regular monitoring of Bank's activities for

reputation risk management, as well as activities for decreasing the probabilities for occurrence of any of the reputation risk sources.

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

10. Strategic Risk

Strategic risk is a current or perspective risk to the Bank's profit, or own funds, arising from the changes in the business environment, adverse business decisions, improper implementation of the decisions or lack of Bank responsiveness to the changes in the business environment. Bank's policy is to make the strategic decision making process rational and objective, which will contribute to the strategic risk management, resulting with the same result irrespective who is implementing it. The Bank establishes system for regular monitoring of Bank's activities for strategic risk management, as well as activities for decreasing the probabilities for occurrence of any of the strategic risk sources.

11. Capital Adequacy

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

As of 31 December 2012, the MBDP capital adequacy rate was 23.07%, which is above the legal rate of 8%.

IX COMPLIANCE OF THE BANK'S OPERATIONS WITH THE REGULATIONS

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

During 2012, the compliance officer continually followed the adopting of draft-regulations and publishing of new legal and subordinate acts by the regulators 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 2012, 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 every day work.

Also, during 2012, 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 divisions/departments in order to ensure consistent application and adherence to the regulations, identified the risk against non-harmonization and for determined non-harmonization the competent divisions/departments of the Bank took measures to harmonize, and monitored implementation of the same.

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

X ACTIVITIES PURSUANT TO THE LAW ON PREVENTION OF MONEY LAUNDERING

In compliance with Article 40, of the Law on Prevention of Money Laundering and Other Proceeds of Crime and Financing of Terrorism (Official Gazette of RM No.04/08, 57/10, 35/2011 and 44/2012), MBDP is obliged to create and harmonize the internal acts to the Law. Pursuant to the latest modifications of the Law in 2012, MBDP created new Programme on prevention of money laundering and financing of terrorism. The new Programme adopted by the Financial Intelligence Office.

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

- Procedures on client's acceptance,
- Procedures on client due diligence,
- Procedures on risk analysis and risk analysis indicators,
- Procedures on assessing the risk of holder 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,
- Appointing of responsible person.

In the course of 2012, the responsible person of the Bank for prevention of money laundering and terrorist financing held several work meetings with representatives of the Financial Intelligence Office, related to the establishment of the new MBDP products and the future cooperation with the Office having in mind the Bank uniqueness and its position in the financial sector.

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

During 2012, trainings for the employees were held in order to get acquainted with the modifications in the legal regulations, indicators for determining suspicion of money laundering and financing terrorism, recommendations of FATF related to Banks, and the manner of modification of the MBDP Programme on prevention of money laundering and financing terrorism.

XI INFORMATION SYSTEM SECURITY

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

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

Risk analysis and risk assessment of the Information System Security is submitted to the management bodies on a yearly basis.

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

The Bank has secondary location.

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

XII INFORMATION TECHNOLOGY

In the course of 2012, the information technology department successfully followed the improvement of the Bank in offering quality and up-to-date services to its clients. This provided sound grounds for good business practice, as well as timely harmonization to the amendments of the legal regulations.

More important activities performed in the area of information technology in 2012 were as follows:

- Continuous activities were conducted for stabilization of the application Bank3000, as well as adding new solutions for supporting the new business activities pursuant to the new regulations and the obligations of the Bank toward the regulators in the Republic of Macedonia. Undertaken activities were primarily related to:
 - Lending activities
 - Credit insurance activities
 - Providing support to the risk management department
- Implementation of the applicative solution regarding the requirements of the department for prevention of money laundering and financing of terrorism were successfully completed and, according to the positive regulation in the Republic of Macedonia, it generates reports for the business activities in the lending division and factoring department,

- Migration to a newer version of the applicative solution for office and archive operations was successfully implemented,
- Documenting of business activities was performed for preparation of functional and technical specification for Integrated Banking information system which is expected to fully satisfy the Bank's needs.

XIII 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 Board.

Main goal of the internal audit operations is to provide impartial and independent assessment of the internal control system adequacy and efficiency, accuracy of the accounting records and financial statements, compliance 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 2012 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 2012, Internal audit department conducted 15 regular audits, monitored the implementation of its present recommendations, reported to the Bank's Supervisory Board on regular basis and cooperated with the Board of Directors, Auditing Board, the National Bank and the external auditor of the Bank.

Board of Directors

Dragan Martinovski
Chief Executive Officer

Besim Bilali
Chief Operating Officer