



**MACEDONIAN BANK FOR DEVELOPMENT PROMOTION**

**ANNUAL REPORT  
2018**

**Skopje, March 2019**

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## ***I. BUSINESS ENVIRONMENT***

### **1. Macroeconomic environment**

The business environment in 2018 was under certain influence of the political instability since the last year. However, in the second quarter of the year certain stabilization was felt, which led to increased optimism of the economic entities.

In 2018 the gross domestic product registered a growth rate of 2.7%, which represents certain recovery in regard to 2017 when it equaled 0.9%. This GDP growth rate represents deviation from the expected growth rate projected by the National Bank of the R.N. Macedonia (NBRNM) at the beginning of the year. For the most part it is a consequence of the weaker investment activity, but it is considered to be of temporary nature and it is expected to be revitalized in one part during the next year by the announced start of the temporarily deferred public infrastructure projects.

The annual inflation rate in 2018 was registered to 1.5%, which is an increase of 0.1 percentage points compared to the previous year. Risks related to inflation projections for the next year, at the moment are assessed as balanced.

The unemployment rate at the end of the fourth quarter of 2018 was 19.4% which represent decline of 2.5 percentage points compared to the same period last year.

During 2018, the NBRNM conducted policy of monetary loosening, thus on three occasions did downward correction of the basic interest rate, which fell from 3.25% at the beginning of the year to 2.50 at the end of the year. Decision on decrease of the basic interest rate was brought in circumstances of maintained healthy economic ground and absence of disbalances, which was visible through existing favorable movements on the foreign exchange market, solid external position, favorable shifts in the deposit base and credit activity of the banks, as well as the stable expectations of the economic entities.

The current account balance for 2018 has shown moderate deficit of 0.3% from GDP, while the gross-foreign currency reserves at the end of the year were EUR 2.8 billion and were enough to cover four-month import of goods.

In regard with the movement on the financial markets, the tendency to redirect due amounts of short-term securities in securities with longer maturities has continued on the primary government securities market, as well as orientation towards issuance of securities in domestic currency, without foreign exchange clause.

On the secondary securities market the value of MBI-10 had growing tendency with oscillatory trading volume. Macedonian Eurobond yields registered decline, contributing to narrowing of spreads relative to yields on German government bonds, which remained relatively stable.

With regard to public finance, deficit was realized in the Republic of Macedonia Budget of Denar 9.5 billion in the period January – November 2018, which represents 1.44% of the projected GDP. Predominately, the budget deficit was financed from inflows of the eurobond issued in the beginning of the year, and for a smaller part

from domestic sources and emission of new government securities. Public debt-to-GDP ratio was estimated at 48.7%.

At the end of 2018, the country's international credit rating according to Fitch Ratings stood at BB with positive outlook, and BB- with stable outlook according to Standard & Poor's Ratings. At the end of 2017, the rating was BB with negative outlook and BB- with stable outlook, respectively.

The global economy in 2018 was characterized with favourable accomplishments, but in the foreground the protectionist measures in trade emerged between the two largest world economies. Expectations indicate that favorable global economic movements will continue in the coming period, but in the medium term there will be an economic slowdown.

In December 2018, ECB decided to keep the interest rate level of basic operations at 0.0% and as of the end of 2018 to stop the net-purchase of bank securities within the programme for quantitative easing. The Bank has also announced slower normalization of the monetary policy than previously anticipated, i.e. keeping the interest rates at the same level until the end of 2019. In such circumstances, one-month EURIBOR ended in 2018 at -0.37%, whereas expectations are that in 2019 it will be -0.25%.

In general, the latest macroeconomic projections indicate healthy and solid foundations of domestic economy, with potential for solid growth, supported by the lending activities of banks, and in absence of inflationary pressures and maintenance of favorable external position.

## 2. Banking sector

As of the end of third quarter 2018, the number of banks in RN Macedonia was fifteen, of which eleven were predominantly foreign-owned. Total assets of the banking system were Denar 485.3 billion, 10.1% more than the same period in the previous year.

NBRNM assessment is that the banking system liquidity level in 2018 was satisfactory, reflected through the relatively stable share of liquid assets in the total assets and the adequate coverage of short-term liabilities and deposits with liquid assets. The regulatory liquidity rates continue to be above the prescribed level of 1, which confirms the satisfactory volume of liquidity enabling the banks to continuously perform their obligations.

Solvency and capitalization of the banking system are high and stable and capital adequacy rate in 2018 oscillates around 16%. The risk level of banking lending activities, measured through the ratio of the credit risk-weighted assets and the total balance sheet and off-balance sheet exposure in the last year ranged between 54.0% and 54.5%. Results of the conducted stress testing of the resistance of the banking system to hypothetical shocks show that in conditions of worst-case scenario, the capital adequacy ratio may fall from 16.3% to 10.8% and does not fall below the regulatory minimum of 8%.

During the first nine months of 2018, the banks made profit of Denar 7.65 billion, which is close to 70% better financial result compared to the same period last year. The growth is mostly due to one-time factors, i.e. collection of larger amount of non-performing claims from one larger non-financial company, but also improved operational efficiency. The increased profit positively influenced the basic indicators of the profitability of the banking system and is undoubtedly a positive indicator of the efficiency of domestic banks.

As of 31 December 2018, the amount of loans to nonfinancial entities amounted to Denar 322.1 billion or 7.3% more compared to the same period previous year. Moreover, the increased credit support of the households had a larger contribution to the growth of the credits in relation to the lending to corporate clients. With the banks, still there is a greater tendency for lending to households, whereas in the last few years there have been divergent movements and constant approximation of their share to the share of corporate loans in total loans. On the other hand, the demand for loans by the corporate sector is relatively with low quality, reflected through the continuously weak indicators of liquidity and efficiency of companies, as well as the lack of quality projects that would receive adequate credit support from banks.

Further stabilization of the expectations of the economic entities is evident also through changes in the deposit base of the banks. As of the end of 2018, the amount of deposits of nonfinancial entities amounted to Denar 375.0 billion or 10.5% more compared to the same period last year.

In the course of 2018, in circumstances of loosening of the monetary policy by the NBRNM, the trend of moderate downward trend in the interest rate spreads continued caused by the larger decrease of active versus the deposit interest rates, which can be seen from the table below:

<b>Interest rates (%)</b>		<b>12/2017</b>	<b>12/2018</b>
Total	Loans	5,73	5,33
	- corporate loans	5,14	4,63
	Deposits	1,51	1,41
	- corporate loans	1,76	1,69
	Interest spread (pp)	4,22	3,92
	- corporate loans (pp)	3,38	2,94
Newly approved/ Newly received	Loans	4,88	4,49
	- corporate loans	4,72	4,30
	Deposits	1,29	1,40
	- corporate loans	1,02	1,04
	Interest spread (pp)	3,59	3,09
	- corporate loans (pp)	3,70	3,26

Source: National Bank of the R.N. Macedonia, State Statistical Office, Ministry of Finance

## ***II. BANK'S PROFILE***

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

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

## ***III. BUSINESS POLICY AND OBJECTIVES***

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

During 2018, by taking appropriate measures and carrying out diversified activities, the MBDP was focused on implementation of set goals defined with the Business Policy, such as:

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

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

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

#### ***IV. REPORT ON CORPORATE GOVERNANCE***

##### **1. Management Bodies**

The corporate governance of the MBDP in 2018 was carried out in conformity with the Banking Law (Official Gazette of RM no. 67/07, 90/09, 67/10, 26/13, 15/15, 153/15 and 190/16), the Law on the MBDP (Official Gazette of RM no. 105/09), the rules of good Corporate Governance prescribed by the National Bank of the Republic of North 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 North Macedonia, should be taken into consideration in making assessment of the Bank governance. During 2018, the Bank carried out its operations through the following bodies:

- General Meeting of Shareholders
- Supervisory Board
- Audit Committee
- Management Board
- Risk Management Committee
- Credit Committee
- Insurance Committee

During 2018, the persons with special rights and responsibilities in the Bank (natural person who is member of Supervisory Board, Management Board, Audit Committee, Risk Management Committee and other managing persons in the Bank according to the Statute of the Bank) have neither declared conflict of interests nor relation to third party in accordance with the Banking Law.

##### **1.1. General Meeting of Shareholders**

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

The Bank's General Meeting of Shareholders shall perform the following activities:

- adopts the Statute and the amendments to the Bank Statute,
- reviews and adopts the annual report on the Bank's operations, including the written opinion thereon, prepared by the Supervisory Board,
- discusses and adopts the report of the auditing company and the written opinion thereon prepared by the Supervisory Board,
- adopts the annual account and the financial statements of the Bank,
- decides on the use and allocation of the profit, or loss coverage,
- decides on new issue of shares of the Bank,
- decides on status changes of the Bank,
- appoints and dismisses the members of the Supervisory Board,
- elect an audit company and decide on the proposal for terminating the contract with the audit company and;
- decides on other issues of relevance to the operations of the Bank specified by the Bank Statute.

The Bank's General Meeting of Shareholders may not appoint a member of the Bank's Supervisory Board without prior approval of the Governor. The Bank's General Meeting of Shareholders works at sessions that are held as needed, and at least once a year. The Annual General Meeting of Shareholders of the Bank must be held not later than six months of the calendar year for the previous year.

During 2018, the General Meeting of Shareholders held 2 (two) regular meetings.

At the meeting held on January 10<sup>th</sup>, 2018, the General Meeting of Shareholders discussed/adopted the following acts:

- Decision on election of audit company to audit the financial statements and accounts of the Bank for the years ended 31.12.2017 and 31.12.2018 and
- Decision on determining compensation to members of the Supervisory Board and Audit Committee.

At the meeting held on May 29<sup>th</sup>, 2018, the General Meeting of Shareholders discussed/adopted the following acts:

- Annual Report on the Bank's operations in 2017,
- Annual Report on Supervisory Board operations in 2016 with assessment of each board member performance and of the Board collective performance,
- Report of the independent auditors Grant Thornton LLC Skopje related to the financial statements of the Bank for the year ended 31.12. 2017 and the written opinion thereon prepared by the Supervisory Board,
- Annual account and financial statements of the Bank in 2017,
- Decision on use and allocation of the profit in 2017.

## **1.2. Supervisory Board**

Pursuant to the Law on the Macedonian Bank for Development Promotion Official Gazette of RM no. 105/2009), The Bank's Supervisory Board consists of 5 (five) members.

Government of the Republic of North Macedonia appoints the members of the Supervisory Board, three on proposal of the Minister of Finance, one on proposal of

the Deputy Prime Minister and Minister of Economic Affairs and one on proposal of the Minister of Economy. Government of the Republic of North Macedonia appoints the members of the Supervisory Board upon prior consent of the Governor of the National Bank of RN Macedonia. The Government of RN Macedonia dismisses the members of the Supervisory Board. Members of the Supervisory Board are representatives of the state capital in the Bank's General Meeting.

In accordance with the decision of the Government of the Republic of North Macedonia for appointing members of the Supervisory Board of the Macedonian Bank for Development promotion AD Skopje no. 24-4133/1 dated 25.07.2017, registered at MBDP on 01.08.2017 under no.03-2072/1 and decision no.24-2719/1 of 27.02.2018, as well as the decisions of the Governor of the National Bank of the Republic of North Macedonia for issued consent for appointment of members of the Supervisory Board of MBDP, no. 15-35225/2 dated 15.11.2017, 15-35226/2 dated 15.11.2017, 35227/2 dated 15.11.2017, 535/1 dated 05.01.2018 and 15-11938/9 dated 17.05.2018, the Supervisory Board worked with the following members in 2018:

- Sofche Jovanovska – Chairman
- Nikola Popovski – Member
- Veland Ramadani – Member
- Kiril Kolemishovski – Member
- Burim Kadriu – Member.

During 2018, the Supervisory Board held 14 (fourteen) meetings, of which 3 (three) meetings were held electronically. Government of the R.N. Macedonia appoints the members of the Supervisory Board and at the same time they are representatives of the state capital in the Bank's General Meeting of Shareholders in accordance with the Law on the Macedonian Bank for Development Promotion.

The Supervisory Board supervises the operations of the Management Board, approves the policies for conducting financial activities and supervises their implementation. The Supervisory Board is responsible for ensuring good practice, management and stability of the Bank, as well as timely and accurate financial reporting to the NBRNM.

The Supervisory Board of the Bank performs the following activities:

- Adopts the Bank's business policy and development plan,
- Appoints and dismisses members of the Bank's Management Board,
- Appoints and dismisses members of the Risk Management Committee,
- Appoints and dismisses members of the Auditing Committee
- Approves the Bank's financial plan,
- Establishes internal audit department,
- Approves the annual plan of the Internal Audit Department,
- Adopts the information security policy,
- Adopts the Bank's risk management policies,

- Adopts a policy of avoiding conflict of interest to identify any conflict of interest and prevention measures and actions;
- Adopts a remuneration policy in accordance with the business policy, development plan, financial plan and policy to avoid conflicts of interests of the Bank;
- Adopts and implement policies for the method of selection, monitoring of operations and dismissal of members of the Supervisory Board, Risk Management Board, Audit Committee and Management Board;
- Discusses the reports on the activities of the Bank's Management Board,
- Discusses the reports of the Risk Management Committee,
- Discusses the reports of the Audit Committee,
- Discusses the reports of the Internal Audit,
- Discusses the reports of the Compliance Officer/Department,
- Approves the annual account and the financial statements of the Bank,
- approves the exposure to a person of more than 20% of the Bank's own funds, with the exception of exposure based on purchase of securities issued by the NBRNM,
- approves the transactions with persons related to the Bank exceeding Denar 6,000,000,
- approves the acquiring equity holdings and purchase of securities higher than 5% of the Bank's own funds, other than purchase of securities issued by the NBRNM,
- approves the proposal of the Audit Committee for appointing audit company or the proposal for terminating the agreement with the audit company and is responsible for ensuring appropriate audit,
- adopts the internal audit policy,
- 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 Bank's General Meeting of Shareholders,
- adopt the Corporate Governance Code which regulates the rules for Bank's management and supervision,
- adopts the Bank's Code of Conduct,
- Provides consent for concluding reinsurance agreements within the overall obligations of the Bank on the basis of the insurance operations,
- Sets the general conditions for trade credit insurance against commercial and political risk,
- Provides consent of agreements with the R.N. Macedonia,
- Provides consent for business trips abroad, in case more than three employees travel,
- Adopts the report for inventory of assets and the sources of assets,
- Makes decision on writing off claims,

- Discusses the reports on rescheduled debts and debts with extended maturity period,
- Monitors the implementation of the decisions, conclusions, guidelines adopted by the General Meeting of Shareholders of the Bank,
- Makes decision in second instance upon complaint of unsatisfied employees against decision of the Management Board of the Bank or upon objection for reconsideration of the decision,
- Approves the limits of exposure of certain types of risk,
- Approves introduction of new products which significantly affect the risk profile of the Bank,
- Approves the policy for publishing reports and data by the Bank,
- Makes self-assessment of its operations from the aspect of individual members and jointly at least once a year, and notifies the General Meeting of Shareholders thereon,
- Performs other activities in compliance with this Statute, general acts of the Bank and legal and subordinate regulations.

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

Within its competences set by law, the Supervisory Board undertook many activities and adopted the following acts related to the regular operation:

- Decision for approval of Bank unaudited financial statements for the year ended 2017, prepared in accordance with the Law on trade companies and the NBRNM regulations,
- Decision for adoption of the Financial Plan on operations of the Macedonian Bank for Development Promotion in 2018,
- Decision for approval of exposure limits to Intermediary banks,
- Draft Decision on use and allocation of the Bank's profit for 2017,
- Decision on approval of annual account for 2017,
- Decision for approval of the Plan of activities of the Internal Audit Department in 2018,
- Decision on tariff of charges for services rendered by the Bank,
- Decision on abolishing the Board for monitoring of IT,
- Insurance Policy against short-term commercial risks,
- Analysis of the possibilities/strategy for increasing funding capacities of macedonian companies with more competitive prices and services and improvement of conditions for export insurance of macedonian products,
- Decision on borrowing from the European Investment Bank (EIB),
- Decision on modification of the MBDP Financial Plan in 2018,
- Decision on approval of the Annual Report of MBDP operations for 2017,
- Decision on approval of the MBDP audited financial statements for the year ended 31.12.2017,
- Decision for approval of modification of the Plan of activities of the Internal Audit Department no. 02-3317/1 dated 29.12.2017,

- Decision on amendment and modification of the Insurance policy against short-term commercial risks,
- Decision on amendment and modification of MBDP credit policy,
- Decision on modification and amendment of the Decision on interest rates of MBDP,
- Decision on adopting the information on possibilities for introducing of credit product for direct support of beneficiaries within the Special credit guarantee scheme (PKF), no. 02-2474/1 of 04.10.2018,
- Decision on granting consent for the conclusion of the Annex to the Agreement for administration of the Special credit guarantee scheme,
- Decision on adopting the financial plan of the Bank in 2019,
- Decision on signing a reinsurance agreement for 2019,
- Decision on signing an agreement with European Investment Fund (EIF).

The Supervisory Board approved, i.e. adopted the reports, information and other proposed documents related to the Bank's operations in 2018.

### **1.3. Audit Committee**

The Audit Committee consists of 5 (five) members. The Supervisory Board appoints and dismisses the members of the Audit Committee. Three members in the Audit Committee are elected from among the members of the Supervisory Board, and two members are independent members. At least one Audit Committee member is an authorized auditor. The Audit Committee members elect a President from amongst their ranks, responsible for the organization of the work of the Audit Committee.

In the first half of 2018, the Audit Committee performed its activities comprised of the following members:

- Nikola Popovski – President
- Klimentina Poposka – Member
- Sofche Jovanovska – Member
- Veland Ramadani - Member

The Audit Committee performs the following activities:

- 1) 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,
- 2) review and make assessment of the internal control systems,
- 3) monitor the operations and assess the efficiency of the Internal Audit Department,
- 4) monitor the Bank's audit process and assess the work of the audit company,
- 5) adopt the Bank's accounting policies,
- 6) monitor the compliance of the Bank's operations with the regulations related to the accounting standards and the financial statements,
- 7) hold meetings with the Management Board, the Internal Audit Department and the audit company as to the identified non-compliances with the regulations and weaknesses in the Bank's operations,

- 8) discuss the reports of the Risk Management Committee,
- 9) proposes the appointment of audit company and termination of agreement with an audit company, and
- 10) report to the Bank's Supervisory Board on its operations at least once quarterly.

Audit 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.

Audit Committee monitored the work of the Internal Audit Department and assessed the work of the independent audit company, which conducted the audit of the financial statement of the Bank for the business year 2018.

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

#### **1.4. Management Board**

The Bank's Management Board consists of two members, appointed by the Supervisory Board upon a prior consent of the Governor of the NBRNM.

Members of the Management Board are appointed as Chief Executive Officer and Chief Operating Officer. The Chief Executive Officer is appointed for a mandate of 6 (six) years, and the Chief Operating Officer for a mandate of 4 (four) years.

Members of the Management Board are as follows:

- Dragan Martinovski – Chief Executive Officer, BA in economics (appointed with the Decision of the Supervisory Board no. 02-1764 dated 01.04.2013),
- Besim Bilali – Chief Operating Officer, MA in economics (appointed with the Decision of the Supervisory Board no. 02-489/9 dated 29.01.2015)

The Management Board of the Bank performs the following activities:

- manage the Bank,
- represent the Bank,
- enforce the decisions of the General Meeting of Shareholders and the Supervisory Board of the Bank, i.e. ensures their implementation,
- 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 the Law on MBDP and the Bank's Statute,
- develop the Bank's business policy and development plan,
- develop financial plan 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
- 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 development, 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 Management Board 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 Management Board reported to the Supervisory Board on its operations.

On 22 December 2016 the Supervisory Board adopted a decision on separation of the responsibilities between the members of the Management Board of the Bank according to specific segments of the Bank's operations as follows:

1. Chief Executive Officer shall be responsible for the business policy and planning, financial reports of the Bank and human resources, lending and credit insurance, general and legal matters, the cabinet of the Management Board, financial operations and accounting,
2. Chief Operating Officer shall be responsible for risk management, IT, compliance to regulations, anti-money laundering and financing of terrorism, information security system, treasury, liquidity, payment operation in the country and abroad.

### **1.5. Risk Management Committee**

The Risk Management Committee in the Bank consist of three members. The members of the Risk Management Committee are elected from among the persons with special rights and responsibilities employed in the Bank, primarily from among the ranks of the managers of the organizational units: finance, credit insurance and lending. The members of the Risk Management Committee, in addition to the requirements for appointing persons with special rights and responsibilities, shall have minimum three-year experience in the area of finance or banking, shall be knowledgeable in bank's operations, its products and services and shall understand the Bank's risks. The Supervisory Board appoints and dismisses the members of the Risk Management Committee, except the Chief Operating Officer who as a member of the Management Board by function is member and president of the Risk Management Committee in accordance with the Bank's Statute.

During 2018, the Risk Management Committee performed its activities comprised of the following members:

- Besim Bilali – President
- Aleksandar Stanojkovski – Member
- Qenan Idrizi – Member

The Risk Management Committee performs the following activities:

- permanently monitors and assesses the risk level of the Bank, and identify the acceptable level of exposure to risk in order to minimize the losses as a result of the 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,
- assess the Bank's risk management systems,
- determines short- and long-term strategies for managing certain types of risk 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,
- assessment of compliance of the prices of products and services offered by the Bank with the levels of risk taken, in accordance with the Bank's business policy and development plan,
- informs the Supervisory Board quarterly 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,
- approves exposure to a person/entity from 10% to 20% of the Bank's own funds.

The Risk Management Committee makes self-assessment of its operations from the aspect of individual members and jointly at least once a year and submits it to the Bank Supervisory Board. In the course of 2018, the Risk Management Committee made decisions on meetings held at least once a week. The Risk Management Committee reported to the Bank's Supervisory Board on its operations pursuant to the Banking Law.

### **1.6 Credit Committee**

The Credit Committee consists of three members. The members of the Management Board are members of the Bank's Credit Committee pursuant to the Bank's Statute. The third member of the Credit Committee is appointed and dismissed by the Supervisory Board of the Bank. In 2018, the Credit Committee performed its activities and was composed of three members as follows:

- Dragan Martinovski - President
- Besim Bilali – Member
- Toni Petroski – Member

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,
- 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 loan 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 2018, the Credit Committee held meetings at which they discussed and approved credit applications and applications for factoring submitted by the intermediary banks which participated in the MBDP loan programmes.

Pursuant to Decision of the MBDP Supervisory Board on making agreement with the Republic of Macedonia for transferring the competence on managing and disposing of the funds from the Compensation Fund from foreign aid and the Compensation Fund from other foreign aid, the Supervisory Board of the Bank has authorised the Credit Committee to make decisions upon the credit applications for using funds from the Compensation Fund from foreign aid and the Compensation Fund from other foreign aid which value is above EUR 150,000 in Denar countervalue calculated according to the middle exchange rate of the NBRNM valid on the day of its approval.

Credit Committee pursuant to the Credit Committee Rules of Procedure, without holding a session, processed the credit applications and made decisions thereon.

The above mentioned persons, i.e. persons with special rights and responsibilities have neither reported conflict of interest nor connection to third party pursuant to the Banking Law.

### **1.7 Insurance Committee**

The Insurance Committee has three members. The members of the Management Board are members of the Bank's Insurance Committee pursuant to the Bank's Statute. The third member of the Insurance Committee is appointed and dismissed by the Supervisory Board of the Bank. In 2018, the Insurance Committee performed its activities with the following members:

- Dragan Martinovski – President
- Besim Bilali – Member
- Toni Petroski – Member

The Insurance Committee has the following rights and responsibilities:

- lay down the special conditions for trade credit insurance against commercial and political risk as well as insurance limits,
- discuss and approve conclusion of insurance agreements,
- assess risks of insurance operations,
- manage insurance policies by making current assessments of the insurance risk, at least once a year.

The Insurance Committee during 2018 discussed and adopted insurance limits on its sessions. The Insurance Committee, pursuant to the Rules of Procedure of the Insurance Committee, without holding a meeting, discussed the proposal credit applications and made decision upon them.

The above mentioned persons, i.e. persons with special rights and responsibilities have neither reported conflict of interest nor connection to third party pursuant to the Banking Law.

### **3. Information on membership in other bodies of supervision and/or management of the members of the Supervisory Board, Risk management Committee, Audit Committee and the Management Board**

In 2018, information on membership of the members of the Supervisory Board, Risk management Committee, Audit Committee and the Management Board in other bodies of supervision and/or management are shown in the table below:

Sofche Jovanovska	President of the Supervisory Board Member of the Audit Committee
Term of office	16.11.2017-16.11.2021
Employer	Government of RN Macedonia
Gross annual income	Denar 1,565,650.00
Membership in other supervisory bodies	KIBS, Denar 1,323,038.00
Membership in other management bodies	/

Nikola Popovski	Member of the Supervisory Board President of the Audit Committee
Term of office	16.11.2017-16.11.2021
Employer	FON University, Faculty of Economics
Gross annual income	Denar 753,321.00
Membership in other supervisory bodies	/
Membership in other management bodies	/

Veljand Ramadani	Member of the Supervisory Board Member of the Audit Committee
Term of office	16.11.2017-16.11.2021
Employer	South East European University, Faculty of Business and Economics
Gross annual income	Denar 1,373,317.00
Membership in other supervisory bodies	Denar 116,217.00
Membership in other management bodies	/

Kiril Kolemishovski	Member of the Supervisory Board
Term of office	15.01.2018-15.01.2022
Employer	Law Company "Kolemishovski and Partners"
Gross annual income	Denar 353,291.00
Membership in other supervisory bodies	Automakedonija AD Skopje – Supervisory Board, gross amount for 6 months – Denar 53,334.00
Membership in other management bodies	/

Burim Kadriu	Member of the Supervisory Board
Term of office	21.05.2018-21.05.2022
Employer	Municipality Kichevo
Gross annual income	Denar 545,535.00
Membership in other supervisory bodies	/
Membership in other management bodies	/

Klimentina Poposka	Member of the Audit Committee
Term of office	27.12.2012 -
Employer	Institute of Economics – Skopje, Ss. Cyril and Methodius University
Gross annual income	Denar 1,365,845.00 (MBDP excluded)
Membership in other supervisory bodies	/
Membership in other management bodies	Microcredit Foundation "Horizonti" – Management Board

Qenan Idrizi	Member of the Risk Management Board
Term of office	29.05.2014 -
Membership in other supervisory bodies	/
Membership in other management bodies	/

Aleksandar Stanojkovski	Member of the Risk Management Board
Term of office	18.12.2008 -
Membership in other supervisory bodies	/
Membership in other management bodies	/

Besim Bilali	Management Board President of the Risk Management Board
Term of office	12.02.2015-12.02.2019
Membership in other supervisory bodies	/
Membership in other management bodies	/

Dragan Martinovski	Management Board President of the Credit Committee
Term of office	14.05.2013-14.05.2019
Membership in other supervisory bodies	/

Membership in other management bodies	/
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#### **4. Information and data regarding implementation of the Bank's reward policy**

On 18 December 2018, the Supervisory Board adopted the Bank's reward policy. It contains clear and transparent rules and criteria for determining the amount of total compensation and particularly clear determination and distinction between the fixed and variable portion of the total compensation. The reward policy determines that the variable portion of the compensation may not exceed 25% of the fixed part of the total remuneration paid to each employee or member of the Bank body on an annual basis. In accordance with this Policy, the Supervisory Board approves the amount of the total remuneration for the members of the Management Board by signing a management contracts. The Supervisory Board approves the amount of total compensation for persons in charge of control functions, only if there is variable portion of the compensation to be determined. The Management Board determines the total compensation for the persons with special rights and responsibilities and the employees in the Bank.

The reward policy does not anticipate payment in form of shares and other rights which provide opportunity to acquire shares.

The Bank Supervisory and Management Board have not made Decision on determining a variable part of the compensation for the members of the Management Board of the Bank, i.e. persons with special rights and responsibilities.

In the reported year, the members of the Supervisory Board were paid off gross amount of Denar 1,334.267,00 on the grounds of compensation for membership and the Audit Committee members gross amount of Denar 438.144,00. Compensation was not envisaged and paid for taking part in other Bank's bodies.

In the reported period, Denar 4,505,738.00 were paid off to the Management Board on the grounds of gross salary, compensation on salary, bonus, insurance and other rights, and Denar 13,918,993.00 to 13 persons with special rights and responsibilities in the Bank.

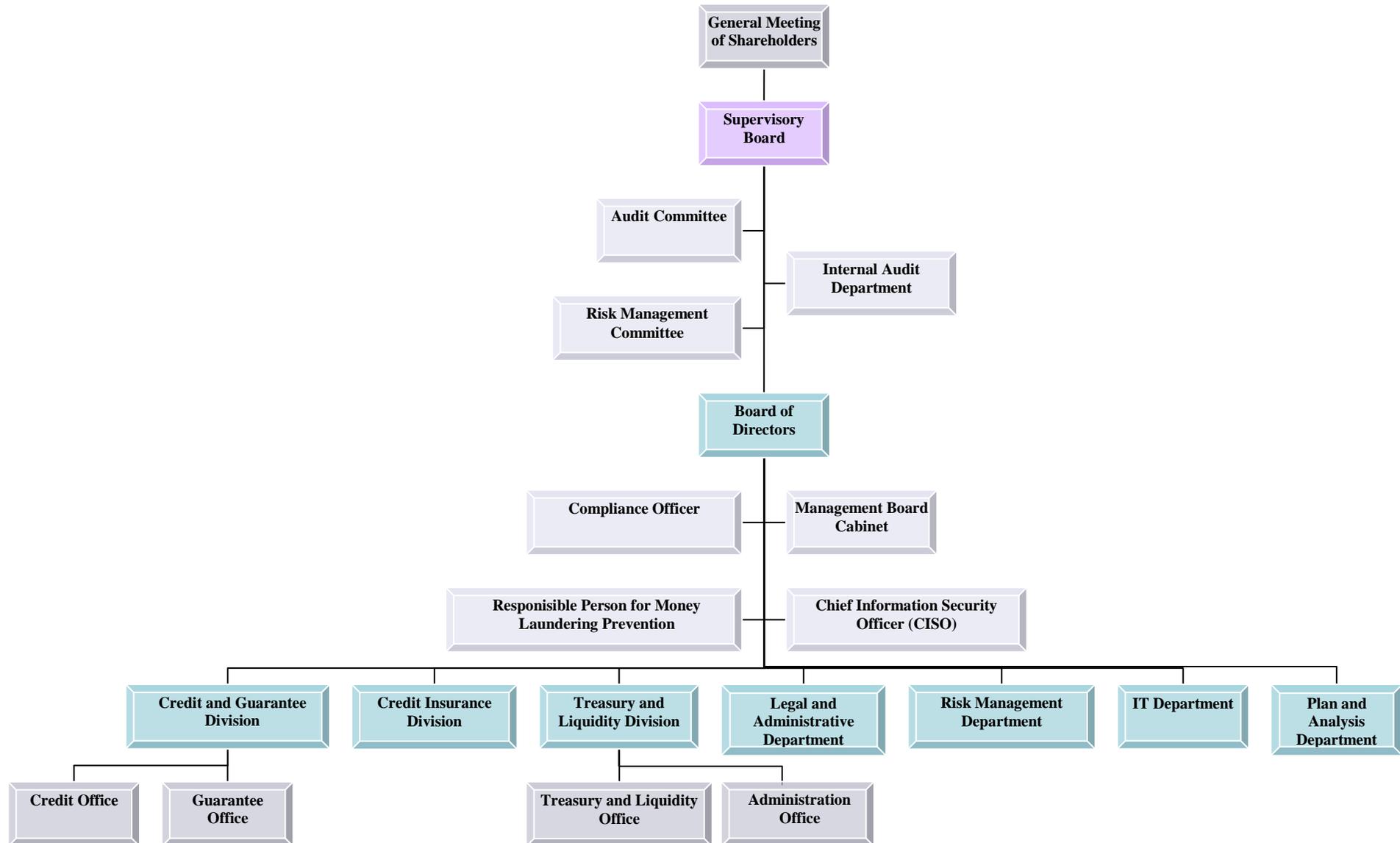
#### **V. ORGANIZATIONAL STRUCTURE**

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

MBDP does not have branch offices.

As of 31 December 2018 MBDP has 41 employees.





## ***VI. SHAREHOLDER'S STRUCTURE***

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

## ***VII. CORPORATE GOVERNANCE CODE***

The MBDP Supervisory Board at its session held on 15.12.2018 adopted the Corporate Governance Code of MBDP. 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 2018 fully 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 adviser.

## ***VIII. CONFLICT OF INTEREST PROTECTION POLICY***

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

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

Members of the Bank's Supervisory Board and Management Board and the persons with special authorisations are not present when adopting decisions that question their objectivity due to existence of conflict of interest between their personal and the

Bank's interest on the grounds of the contents of the decision which is subject of adoption by a competent body. Members of the Bank's Supervisory Board and Management Board and the persons with special authorisations before making decision on matters regarding their conflict of interest, leave the meeting and provide written statement including the grounds of the conflict of interest.

### ***IX. INFORMATION ON USE OF OUTSOURCING***

MBDP uses outsourcing services that are significant for the Bank's operation, i.e.

- Maintenance of software for factoring
- Maintenance of software for the Integrated banking system (IBIS)
- Maintenance of software for anti-money laundering and financing of terrorism

Pursuant to the policy for use of outsourcing services, the Bank has concluded maintenance agreements with competent entities which are eligible for providing such services to the Bank.

### ***X. FINANCIAL PERFORMANCE OF THE BANK DURING 2018***

In its financial operations in the period between 01.01.2018 till 31.12.2018, the Bank reached net profit of Denar 46,512 thousand. At the same time, the total balance of Denar 10,051,726 thousand has decreased by 19% in comparison to the previous year.

#### **1. Balance Sheet**

##### **1.1. Assets**

##### **1.1.1. Cash and Cash Equivalents**

As of 31 December 2018, the cash and cash equivalents amount to Denar 698,074 thousand, representing 6.9% of the Bank's total assets.

##### **1.1.2. Loans to and Receivables from Banks**

As at 31 December 2018, total loans to and receivables from banks amount to Denar 9,160,044 thousand, representing 91.1% of the total assets. Total loans to and receivables from banks have decreased by 18.1% in comparison to the previous year.

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

## **1.2. Sources of Funding**

### **1.2.1. Total Liabilities**

As at 31 December 2018, the Bank's total liabilities amounted to Denar 7,450,633 thousand and have fallen for 25.0% in comparison to the total liabilities at the end of 2017. As at 31.12.2018, the credit commitments amounted to 7,435,704 thousand and comparing to 31.12.2017 decreased for 24.9%. Loans payable account for 99.8% of the total liabilities of the Bank.

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

### **1.2.2. Capital and Reserves**

The capital and reserves represent 25.9% of the total sources of funding. As of 31 December 2018 the Bank capital was on a level of Denar 2,601,093 thousand, composed of 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 2018 and 31 December 2018 MBDP reached total income amounting to Denar 249,830 thousand, expenses amounting to Denar 197,895 thousand and gross positive financial result of Denar 51,935 thousand.

In the reporting period the total interest income amounted to Denar 203,190 thousand and the total interest expense amounted to Denar 103,421 thousand. The net interest income amounted to Denar 99,769 thousand and is lower than the previous year for 25.3%.

Net fee and commission income was Denar 15.358 thousand in 2018 and represent an increase of 2.0% in comparison to 2017.

Income and expenses and sources of funding in foreign currency or denominated in currency clause are presented in the income statement translated to Denar at the exchange rate of the NBRNM on net base.

The Bank in compliance with the regulations and adopted acts sets the percentage that determines the impairment and maintaining of provisions to cover possible credit risks. In 2018, the impairment amount on financial assets showed net-expenses of Denar 1,899 thousand and Denar 1,466 thousand on the basis of expense due to paid indemnification of non-financial assets on net base.

Other business expenses contain depreciation and amortization, overall and administrative costs and other operating expenses totaling Denar 65,646 thousand, i.e. 2.1% higher than the same period previous year.

The calculated tax for 2018 amounted to Denar 5,423 thousand.

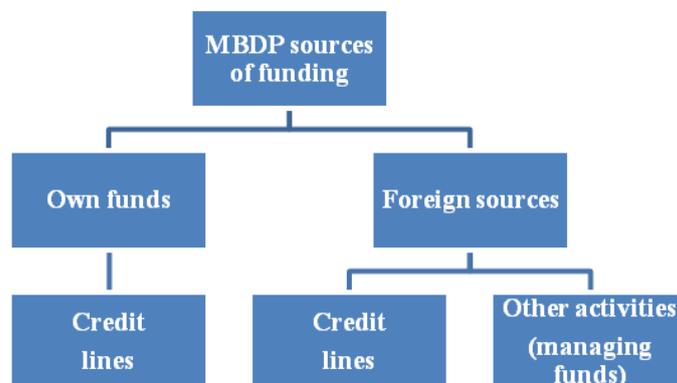
## ***XI. CREDIT ACTIVITIES***

As in the previous years, in 2018 also, MBDP carried out its credit activities mainly through the commercial banks that it entered into agreement with as follows:

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

The Bank carried out part of its lending activities (agricultural loans, financing projects for processing of agricultural products, as well as financing of export and municipalities for projects from the IPA Component) directly to the end beneficiaries without mediation of the intermediary banks.

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



### **Credit Lines from MBDP Own Funds**

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

<b>Credit line</b>	<b>Amount in EUR</b>	<b>Repayment period</b>	<b>End user interest rate</b>
Credit line for development of small and medium sized enterprises	from 15,000 to 500,000	up to 11 years, grace period of up to 1 year included	fixed up to 6.5% p.a. and/or variable up to 3M EURIBOR +3.75%

Financing of export oriented production	from 15,000 to 2,000,000 through banks and up to 1,000,000 direct lending	up to 2 years	fixed up to 6% p.a. and/or variable up to 3M EURIBOR +3.75%
Permanent working capital financing	from 30,000 to 300,000	up to 3 years	fixed up to 6.5% p.a. and/or variable up to 3M EURIBOR +3.75%
Financing of municipalities for implementation of projects financed under EU IPA Component	from 10,000 to 300,000	up to 2 years	fixed 5.75% p.a.

In the course of 2018, the above lines of credit provided support to projects of small and medium-sized enterprises in the field of manufacturing, construction, transport as well as export oriented companies and municipalities in total amount of EUR 3.2 million, thereby supporting 19 projects.

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

In the course of 2018, MBDP continued to utilize and carry out the credit lines from foreign creditors and donors. At the same time, during 2018, MBDP continued to extend loans from the revolving fund of EIB I, EIB II, EIB III and EIB IV credit lines. Conditions of the credit products from EIB as well as from the rest of the international institutions are detailed in the Table below:

<b>Credit Line</b>	<b>Amount in EUR</b>	<b>Repayment period</b>	<b>End user interest rate</b>
EIB credit line for investment credits	from 10,000 up to 3,500,000	up to 8 years with up to 24 months grace period included	up to 5.5% p.a.
EIB credit line for permanent working capital (TOS)	from 5,000 up to 666,700	up to 3 years with up to 6 months grace period included	up to 5.5% p.a.
EIB credit line for priority projects and Mid Cap companies	up to 6,000,000	up to 8 years with up to 24 months grace period included	up to 5.5% p.a.
Commodity Credit Line from the Republic of Italy Revolving Fund	from 50,000 up to 400,000	up to 6 years with 12 months grace period	6% p.a.

included			
Credit Line for financing micro, small and medium sized enterprises from KfW (KMB1, KMB2, KMB3)	up to 300,000	up to 11 years	determined by the intermediary bank
Project "Financial support for self employment"	for 1 unemployed person up to 7,000, depending on person's status and age	up to 7 years with 18 months grace period included	1 % p.a., interest not paid during grace period
Agricultural Credit Discount Fund OKF (ZKDF)	up to 100,000 for primary agricultural production up to 300,000 for processing agricultural products and up to 300,000 for export trade of primary agricultural products and their manufactured products	agreed with the financial institution	from 4% up to 6.5% p.a.
Credit line for production, processing, and export of agricultural products (Compensation funds)	up to 300,000 (500,000 for purchase of grape, wheat, fruits and vegetables)	up to 5 years with grace period of 1 year included for fixed assets, and 1.5 years with grace period of 3 months included for working capital	2% p.a.

## 2.1. EIB Credit Line

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

### Investment Loans from EIB

Single credit amount intended to final beneficiaries:	From EUR 10,000 up to EUR 3,500,000
Repayment period:	Up to 8 years

Grace period included:	Up to 2 years
Purpose:	Support to identified projects: <ul style="list-style-type: none"> <li>• Purchasing fixed assets: <ul style="list-style-type: none"> <li>○ Real estate (except land)</li> <li>○ Equipment</li> <li>○ Working capital (not exceeding 30% of the loan value)</li> </ul> </li> <li>• Investment in intangible assets</li> </ul>

### Loans for Permanent Working Capital from EIB

Single credit amount intended to final beneficiaries:	From EUR 5,000 up to EUR 666,700
Repayment period:	Up to 3 years
Grace period included:	Up to 6 months
Purpose:	To fulfill the requests for permanent increase of working capital within expansion of company business operations

### Loans for Priority Projects and Mid Cap from EIB

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

In 2018, 85 loans were disbursed out of the revolving funds from this credit line in the total amount of EUR 20.2 million.

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

Within the bilateral cooperation between the Republic of North Macedonia and the Republic of Italy, the governments of these two countries signed Financial Convention for granting a Commodity Credit Line in an amount of EUR 12.7 million to be used for purchasing machinery, equipment, and technology from Italian origin to satisfy the needs of Macedonian companies. Funds were granted for projects that will provide new production, modernization, completion of the production process and overcoming of bottle necks. The credit line was implemented through the intermediary banks and funds were fully employed. Investments from this credit line are made only from the revolving fund. As of 31.12.2018 the exposure of this credit line is EUR 24.2 thousand.

### **2.3. SME Credit Line for financing micro, small and medium sized enterprises from KfW (KMB 1, 2, and 3)**

Credit line funds are composed of three phases, and Macedonian Bank for Development Promotion AD Skopje was appointed as an Agent of the Fund established with the funds from KfW 1 credit line, whereas in the second and third phase MBDP was also in the role of a borrower. The credit line funds were disbursed through Halk Banka AD Skopje, Ohridska Banka AD Skopje, ProCredit Banka AD Skopje, and savings house Mozhnosti doo Skopje. Loan beneficiaries were micro and small enterprises, individual entrepreneurs, craftsman, sole traders, vendors, other micro and small entities. In regard to this credit line, in 2018, MBDP invested EUR 14.1 million.

### **2.4. Other Credit Lines and Projects**

#### **2.4.1 Project "Financial support for self employment"**

The project "Financial support for self-employment" started in 2008 (holder of the project is the Employment Bureau of RNM). 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 country. The credit programme is targeted at supporting the long time unemployed people, unemployment compensation beneficiaries and first time employed young people. Loan beneficiaries are obliged to stay outside of the unemployment list at least until the repayment of the loan.

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

As of 31 December 2018, the credit line balance was EUR 8.5 million.

#### **2.4.2. Renewable Loan Fund (RLF)/Agricultural Credit Discount Fund (ACDF)**

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

Implementation of the RLF/ACDF credit activities commenced in 2003 and as of 31 December 2018, 6,259 loans were approved in the total amount of EUR 80.5 million, of which EUR 62.7 million were ACDF funds (total of all sources of financing IFAD-1, IFAD-2, PSDL-1, PSDL 2, and EIB) whereas the financial intermediary institutions took part with EUR 17.8 million. In the reporting period the average loan amount was EUR 12,872.

In total, 12 financial institutions are taking part in the implementation of ACDF, out of which 10 are commercial banks and 2 are saving houses.

In circumstances of limited funds, during 2018, 89 credits were disbursed in total amount of EUR 934.6 thousand of which EUR 747.7 thousand were RLF/ACDF funds, whereas the rest EUR 186.9 thousand were participation of financial institutions. In the monitored period the average credit amount was EUR 10,502.

In the course of 2018, the purpose of all disbursed loans was primary agricultural production.

### **2.4.3. Special Credit Guarantee Scheme**

The credit line from the European Agency for Reconstruction (EAR) was used for financing SMEs. During 2011, the credit line was redesigned and a new agreement was concluded between the Government of the Republic of Macedonia and the MBDP for managing the Special credit guarantee scheme for SMEs. Loans were extended through commercial banks (that MBDP has concluded framework agreement with) or directly.

As at 31 December 2018, exposure regarding the Special credit guarantee scheme was EUR 321.6 thousand.

### **2.4.4. Credit line for production, processing and export of agricultural products**

The purpose of the credit line funding was to provide finance to produce, process and export agricultural products. Its realization began in 2012. The credit line was established with the purpose to directly support the companies which main activity was production, processing and export of agricultural products. As of 31 December 2018, loan applications totaling EUR 22.6 million were approved.

## ***XII. TRADE CREDIT INSURANCE***

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

MBDP is a development institution which provides short term insurance of foreign and domestic receivables against commercial and political risk.

MBDP offered the following insurance products during 2018:

#### **Short Term Insurance against Commercial Risks**

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

## Insurance against Political Risk

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

### **1.1. Reinsurance Agreement**

In 2018, MBDP reinsured the total insured export credit and domestic portfolio. The reinsurance was conducted in compliance with the concluded Quota Share Reinsurance Agreement (compulsory) with the reinsurers Atradius RE, and Nationale Borg. More favourable conditions were reached with the Quota Share Reinsurance Agreement, in regard with the risk undertaken, premium rates, insured risks, etc., in comparison to the previous years. MBDP undertakes 35% of the insured risk of export credit insurance according to the Quota Share Reinsurance Agreement and the reinsurers undertake 65% of the MBDP insured risk for approved credit limits up to EUR 1,500,000. In case of approved credit limits for buyers exceeding EUR 1,500,000, MBDP undertakes 20% of the insured risk, whereas the reinsurers undertake 80% of the insured risk.

The risk share of individual reinsurer is as follows:

Atradius RE, Ireland – 66.67%

Nationale Borg, Netherlands – 33.33%

## **2. Scope of Work**

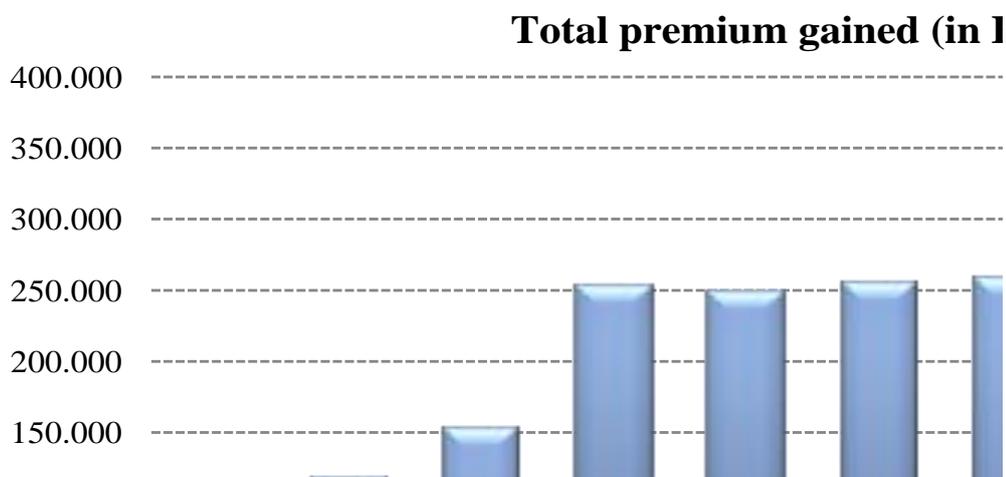
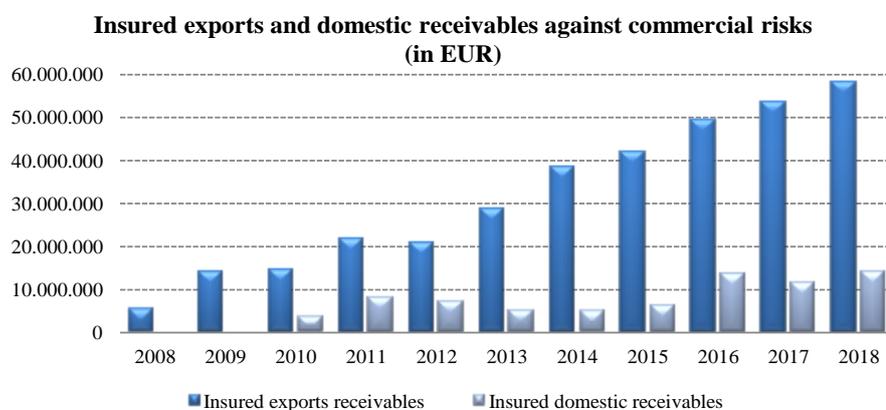
### **2.1. Short Term Export Credit Insurance Policy against Commercial Risk**

In the course of 2018, MBDP signed short term export credit and domestic insurance policies against commercial risk with 57 insureds, and under the policies credit limits were approved for domestic and foreign buyers.

### **2.2. Insured Exports**

In the course of 2018, the Macedonian Bank for Development Promotion made insurance in an amount of EUR 72.1 million, of which EUR 58.2 million was export credit insurance, representing increase of 7.7% in respect of 2017 and collected premium of EUR 264,908. The rest EUR 13.9 million were from insured domestic receivables against short term commercial risk, and the Bank collected premium in an amount of EUR 73,066.

The amount of premium that MBDP pays to the reinsurers is 65% of the total collected premium. In this respect, reinsurers participate with 65% in undertaking risk, i.e. in payment of indemnity, and MBDP with 35%.



### 2.3. Indemnity

In the course of 2018, Macedonian Bank for Development Promotion paid indemnity to the insureds in the amount of EUR 193,000, due to occurrence of insured event (bankruptcy, protracted default).

### International Cooperation

MBDP is a full member of the International Union of Export Credit Agencies – Prague Club since 1999 (Part of Berne Union). MBDP as a full member in 2018 took active participation in Berne Union operations, thus making contribution to achieving of and respecting the Club's goals: mutual cooperation, exchange of information,

international standards acceptance, promotion of credit insurance, providing international support and exchange of information. MBDP attended both regular semiannual meetings of members of the Prague Club and Berne Union.

### **Factoring**

Factoring service is a specific type of short-term financing, where MBDP in the role of “Factor”, on the grounds of a contract concluded in a written form, assigns-purchases the foreign receivables of another domestic entity with a right of recourse. Contractual parties in factoring are as follows:

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

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

MBDP provides with-recourse factoring of export receivables. In this way, MBDP contributes 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. Clearly defined factoring procedures and their consistent application provide:

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

MBDP pays special attention to the creditworthiness of the buyer/debtor in the process of with-recourse factoring of export receivables. Advantages for companies-clients using the factoring instrument are:

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

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

In the course of 2018, MBDP through factoring supported the exports of the Macedonian exporters. MBDP supported the export of Macedonian products and services to buyers located in 4 countries of the region and EU.

Factoring provided in 2018

in EUR	01.01.2018-31.12.2018
Purchased receivables	1,655,929
Finance	1,324,743
Interest	7,079
Fee	3,589

### ***XIII. RISK MANAGEMENT***

Macedonian Bank for Development Promotion AD Skopje has established risk management system and continually manages the risks pursuant to the nature, the type and the scope of the financial activities it performs. Risk management system encompasses strategy, policy, procedures and other internal acts of risk management, appropriate organizational layout (clear organizational structure, efficient risk management process and efficient internal control and audit system) and Bank capital adequacy assessment process for covering risks.

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

Risk represents the probability of certain activity or event to have direct adverse influence on the profit and/or on the own funds, or to impede the fulfillment of the Bank's objectives. Risk is properly managed when it is identified, understood, assessed, monitored and controlled. Appropriate risk management is primarily based on internal acts for identification, assessment, control and monitoring of individual risks, stress testing rules, rules on introducing new products, rules on using external services, as well as internal information system. In addition, risks are not identified and assessed in isolation, since one transaction may cause several risks and one type of risk may influence the increase of other risks.

Bank's risk management system includes at least:

- Credit risk
- Country risk
- Credit risk, arising from currency risk
- Risk of concentration of Bank's exposure
- Liquidity risk
- Currency risk
- Interest rate risk in the portfolio of Banking activities
- Operational risk
- Legal risk

- Reputation risk
- Strategic risk

## 1. Credit Risk

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

The Bank controls the credit risk by adopting credit policy and procedures which determine the internal control system in order to prevent risk occurrence. The Bank operates on the basis of defined criteria for new credit risk exposures, as well as dispersion of the current credit risk exposures. Prior to approval of any activity which may influence the credit risk exposure, the Bank assesses the risk profile on individual basis (client/transaction) which includes: assessment (quantitative and qualitative) of the creditworthiness of the client/contractual party, the regularity of the debtor's liabilities settlement based on history data, and collateral quality. At least once a month, the Bank makes assessment whether there is objective evidence that financial assets are impaired and calculates the impairment loss on individual basis. In case of impairment indicators, the Bank assesses the compensable amount of the asset. The impairment loss is determined as a difference between the accounting value of a claim and its present value, i.e. the financial asset is determined as damaged if its accounting value is higher than its estimated compensable amount. Thus, the Bank on the basis of indicators showing that the accounting value is higher than the compensable amount estimates the compensable amount of the asset and recognizes impairment loss.

As of 31.12.2018, the credit risk exposure by risk category is as follows:

- A category – 99.62%
- B category – 0.24%
- C category – 0.06%
- D category – 0.01%
- E category – 0.07%

The Bank has not determined impairment for 98.62% of the total credit risk exposure. As of 31 December 2018, the total amount of the impairment / special reserve was 0.13% of the total credit risk exposure which represents a low risk level.

## 2. Country Risk

Country risk is the risk that the economic, social, and political environment and events in certain foreign country may impact the Bank's operations. In order to manage country risk, the Bank establishes adequate system for identification, assessment, monitoring and control, having in mind that the country risk is not

limited to exposure to entities which domicile country is other than the Republic of Macedonia, but it considers the factors that may influence the exposure to domestic entities if the creditworthiness of the entity is significantly influenced by the events in another country. Country risk management is integrated with the credit risk management process.

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

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

### **3. Credit risk arising from foreign exchange risk**

Credit risk arising from foreign exchange risk the resident-loan beneficiary is exposed to is an integral part of the credit risk and is integrated in the risk management system. Credit risk arising from foreign exchange risk the resident-loan beneficiary is exposed to is current or prospective risk to the capital and profit arising from resident-loan beneficiary ability to regularly settle its liabilities pursuant to the loan agreement because changes in the exchange rate adversely affect, i.e. increase the liabilities of the loan beneficiary. The risk is connected to the currency the loan or other placements are approved in. Credit risk arising from foreign exchange risk arises when there is mismatched currency position (mismatched structure of foreign currency claims and liabilities) of the loan beneficiary according to currency and maturity. The currency induced credit risk is characteristic for the Bank, because portion of the assets and liabilities are stated in foreign convertible currency or in domestic currency, but indexed to a foreign currency.

### **4. Concentration Risk**

The concentration risk is determined as every individual exposure or group of 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 the Macedonian Bank for Development Promotion AD Skopje and other subordinate regulations obliging the Bank to perform its operations.

### **5. Liquidity Risk**

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

The basic principles for liquidity risk management are set forth in the policy and procedures for liquidity risk management. In order to manage the liquidity risk, MBDP maintains an appropriate level of liquid assets, continually monitors the present liquidity, provides sufficient amount of 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 deposits up to 7 days with the National Bank of RM, in short-term loans to commercial banks in Macedonia and in deposits with foreign banks.

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

## **6. Interest Rate Risk in the Banking Book**

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

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

## **7. Currency Risk**

The currency risk denotes a risk of loss due to a change in cross-currency exchange rates and/or change in the value of the 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 Denar indexed with FX clause.

MBDP usually grants the foreign credit funds in the same currency or in Denar 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.

## **8. Operational Risk**

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

events that may cause loss. Operational risk, compared to the credit and market risk, can not generate higher income. Operational risk also includes:

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

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

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

## **9. Legal Risk**

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

## **10. Reputational Risk**

Reputation risk is current or prospective risk to the Bank’s profit and own funds, arising from the adverse assessments of the Bank’s operations by the customers, creditors, shareholders, investors and supervisors. Protecting the Bank’s reputation is responsibility of each employee. The Bank has established a system of regular monitoring of Bank’s activities for reputation risk management, as well as activities for decreasing the probabilities for occurrence of any of the reputation risk sources.

The Bank has established proactive approach to the reputation risk management process, having in mind the current shareholders structure, i.e. the Bank’s sole shareholder (the Republic of Macedonia), as well as the fact that the reputation risk is a risk of losing trust in the Bank, affecting the earnings and capital due to adverse opinion for the business operations irrespective whether real basis exists for such opinion, i.e. impossibility to predict this risk on the basis of real indicators, non-

existence of database, and non-existence of possibility for appropriate quantification of the risk.

### **11. Strategic Risk**

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

### **12. Capital Adequacy**

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

As of 31 December 2018, the MBDP capital adequacy rate was 32.37%.

## ***XIV. PLANNING AND ANALYSIS***

In the course of 2018, Planning and analysis department within the strategic business objectives of the Bank, performed activities related to designing of reports and providing data and information referring to:

- Macroeconomic analysis and research as base for introduction of new and development of the existing products of the Bank,
- Country and business analysis in the countries where MBDP is exposed through its clients,
- Analysis of the banking sector in Macedonia,
- Analysis of the financial operations of the Bank,
- Developing Bank's Annual Report for 2017,
- Developing the financial plan for 2018,
- Developing the Strategy (Business policy and development plan) of MBDP 2018-2020.

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

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

During 2018, the compliance officer continually followed the adopting of draft-regulations, publishing of new legal and subordinate acts, modifications and amendments to the positive legal regulation and assessed their influence on the Bank's operations. The members of the Supervisory Board, Management Board and the Bank employees were timely informed for the modifications of the legal and subordinate regulation and were advised about application of the regulations. The necessary activities and measures were continuously undertaken in order to harmonize the Bank's operations to the new regulation.

The compliance officer monitored the adherence to the regulations that apply to Bank's operations and internal acts, and informed the members of the Supervisory Board and management Board thereon.

In the course of 2018, the compliance officer by giving recommendations took active part in the creation and modification of the Bank's internal acts in order to harmonize them with the new legal and subordinate acts. In the course of 2018, there was a revision of the Policy and Procedures for managing the risk of non-compliance and implementation of the control of the compliance of the MBDP AD Skopje with the regulations in order to harmonize them with the Decision on the rules for good corporate governance in a bank published in "Official Gazette of RM" no. 24/18.

During 2018, trainings were carried out and employees were informed in regard with the manner of implementation of the new legal regulations and the Bank's internal acts in the everyday work.

Also, during 2018, the compliance officer controlled the fulfillment of the Bank's obligations related to timely delivery of reports to institutions and internal reports, gave opinion and recommendations related to present activities of the divisions/departments in order to ensure consistent application and adherence to the regulations.

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

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

Pursuant to the Law on Prevention of Money Laundering and Other Proceeds of Crime and Financing of Terrorism (Official Gazette of RM No.130/2014 and 192/2015), the Programme on prevention of money laundering and financing of terrorism and procedures of MBDP, as entity which has obligation to undertake measures and activities for prevention of money laundering and financing of terrorism has undertaken the following activities:

- Procedures on client's acceptance,
- Procedures on client due diligence,
- Procedures on risk analysis and risk analysis indicators,
- Procedures on assessing the risk of holders of public function,

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

In the course of 2018, the responsible person of the Bank for prevention of money laundering and terrorist financing cooperated with the Financial Intelligence Office and other institutions. The responsible person of the Bank for prevention of money laundering and terrorist financing attended the trainings organized by the Office and other institutions.

In 2018, new Law on Prevention of Money Laundering and Financing of Terrorism (Official Gazette of RM No.120/2018) was adopted. During this period, a number of working meetings were held with the Financial Intelligence Office, Commission on money laundering prevention and compliance with the regulation related to the practical implementation of the new Law. In accordance with the new Law, a new Programme on prevention of money laundering and financing of terrorism was developed. The Law applies from 2019. The employees were acquainted with the provisions and practical application of the new Law at the regular trainings in the course of the year.

## ***XVII. INFORMATION SYSTEM SECURITY***

Information System Security Policy regulates the implementation of international security standards and protective mechanisms for diminishing the risk of causing damages and minimizing the loss as well as managing the operational risk. The Policy was created to provide confidentiality, integrity, and availability of the information system assets, to ensure continuity in providing information, data, and services and protect employees from human mistake. Information System Security Policy was amended accordingly to include the threats in the digital space. The Bank follows the world trends and is capable to respond appropriately.

The Bank established Manual on risk assessment. This Manual on risk assessment represents the foundation for implementation of successful and detailed risk assessment of the information system risks. The Bank also considers the threats coming from the digital space. The qualitative method is applied in the assessment procedure.

Risk analysis and risk assessment of the Information System Security is submitted to the management bodies on a yearly basis, and at least two reports related to

information system security. At least once a year the Bank conducts self assessment of the risks arising from the threats in the digital space.

The business continuity plan of the Bank ensures that the plan for continuity of work will be implemented in cases of operations and business process disruption in moments 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 takes activities to strengthen the information security system controls on regular basis. It follows the world trends in the area of cybercriminal and takes administrative, organizational and technical measures for their diminishing.

Additionally, the Bank successfully implemented the measures, recommendations, steering, requirements, controls of the SWIFT service where the above mentioned were introduced in order to strengthen the reliability of the local computer network as a point where the hacker attacks are concentrated, which in fact became a global problem. At the same time, the Bank changed the way of connecting to the SWIFT network which contributed to simplifying and optimizing the SWIFT service.

### ***XVIII. INFORMATION TECHNOLOGY***

In the course of 2018, the information technology department successfully followed the development of the Bank, continually providing IT support to the business processes, such as:

- Up-grading activities to the existing integrated banking information system and to the other business software solutions were continually taken. They included implementation of new functions for more efficient execution of the business activities in the Bank at all levels and achieving higher degree of confidentiality, integrity and availability of data they provide,
- activities which provide greater availability of the ICT resources to the Bank employees were continually undertaken, and considerable emphasis was placed for providing greater security when using the ICT resources pursuant to the good practice recommended for bank operations,
- in accordance with the needs for improvement of the risk resistance degree in the digital space, activities were taken in the Bank for implementation of modern technologies and ICT assets for protection of the information infrastructure (equipment, data, etc.).

### ***XIX. INTERNAL AUDIT***

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

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

Internal audit department during 2018 performed its activities in accordance with the Annual plan of operations, created on a basis of preliminary analysis of the core business processes of the Bank and potential risks those business processes were exposed to. The Annual plan of operations was approved by the Bank Supervisory Board.

In the course of 2018, Internal audit department conducted 12 regular audits, monitored the implementation of the presented recommendations, reported to the Bank's Supervisory Board on regular basis and cooperated with the Management Board, Audit Committee, the National Bank and the independent auditor of the Bank.

#### **Management Board**

SIGNED

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Dragan Martinovski  
Chief Executive Officer

SIGNED

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Veland Ramadani  
Acting Chief Operating Officer