



**ANNUAL REPORT OF
THE DEVELOPMENT BANK OF NORTH MACEDONIA OPERATIONS
IN 2019**

Version no.1		Number of pages: 43	
Prepared by:	Approved by:	Adopted by:	
Management Board	Supervisory Board	General Meeting of Shareholders	

March, 2020

TABLE OF CONTENTS

I	Business environment	4
II	Bank's profile	6
III	Business policy and objectives	7
IV	Report on corporate governance	8
V	Organizational structure	22
VI	Shareholder's structure	24
VII	Corporate governance code	24
VIII	Conflict of interest protection policy	24
IX	Information on use of outsourcing	25
X	Financial performance of the bank during 2018	25
XI	Lending activities	28
XII	Trade credit insurance	32
XIII	Risk management	35
XIV	Planning and analysis	40
XV	Compliance of the bank's operations with the regulations	41
XVI	Activities pursuant to the law on prevention of money laundering	41
XVII	Information system security	42
XVIII	Information technology	43
XIX	Internal audit	43

BASIC INDICATORS OF THE BANK

in thousand Denars		2019	2018	annual difference
Assets		10,312,560	10,051,726	2.6%
Net-loans		9,407,635	9,221,409	2.0%
Capital and reserves		2,619,460	2,601,093	0.7%
Net-Interest income		84,201	99,769	-15.6%
Net-profit		18,367	46,512	-60.5%
ROAA		0.18%	0.41%	
ROAE		0.70%	1.82%	
Capital adequacy		32.63%	32.37%	
Credit risk exposure by risk category	A	99.73%	99.62%	
	B	0.09%	0.24%	
	C	0.02%	0.06%	
	D	0.00%	0.01%	
	E	0.16%	0.07%	
Number of employees (at the end of the year)		40	41	-1

ABBREVIATIONS

GDP – gross domestic product

DZS – State Statistics Office of the Republic of North Macedonia

EIB –European Investment Bank

MBDP – Macedonian Bank for Development Promotion

NBRNM – National Bank of the Republic of North Macedonia

DBNM – Development Bank of North Macedonia

RNM – Republic of North Macedonia

On the basis of Article 18, paragraph 3 of the Law on Macedonian Bank for Development Promotion (“Official Gazette of RM” no.105/09), Article 93 of the Banking Law (“Official Gazette of RM” no. 67/07, 90/09, 67/10, 26/13, 15/15, 153/15, 190/16, 7/19 и 101/19), and Article 352 of the Law on Companies (“Official Gazette of RM” no. 28/04, 84/05, 71/06, 25/07, 87/08, 17/09, 23/09, 42/10, 48/10, 8/11, 21/11, 24/11, 166/12, 70/13, 119/13, 120/13, 187/13, 38/14, 41/14, 138/14, 88/15, 192/15, 217/15, 6/16, 30/16, 61/16, 64/18, 120/18, 195/18, 239/18), and Article 62 of the Statute of the Development Bank of North Macedonia JSC Skopje, the Management Board submits the following:

ANNUAL REPORT OF THE DEVELOPMENT BANK OF NORTH MACEDONIA OPERATIONS IN 2019

I. BUSINESS ENVIRONMENT

1. Macroeconomic environment

In 2019 the gross domestic product registered a growth rate of 3.6%, which represents recovery in regard to 2017 when it equaled 2.7%. The growth is largely due to the positive results in trade and to some extent in agriculture and construction.

The annual inflation rate was registered to 0.8%, which is a decrease of 0.7 percentage points compared to the previous year. The economy operated in conditions of stable prices and the absence of significant inflationary pressures.

The unemployment rate at the end of the fourth quarter of 2019 was 16.6% which represents decline of 2.8 percentage points compared to the same period last year.

During 2019, the NBRNM conducted policy of monetary loosening, thus towards the end of the first quarter did downward correction of the basic interest rate for 25 basic points and by the end of the year it fell to 2.25%. Decision on decrease of the basic interest rate was adopted 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 2019 has shown moderate deficit of 0.3% from GDP. The gross-foreign currency reserves increased for 0.39 billion euros and at the end of the year were EUR 3.26 billion - enough to cover four-month import of goods. The total gross external debt at the end of the third quarter of 2019 amounted to 77.1% of GDP.

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. Government bonds were traded in the secondary securities market, and the realized transactions registered lower yields, while in the capital market the value of MBI-10 had growing tendency with oscillatory trading volume.

With regard to public finance, deficit was realized in the Republic of Macedonia Budget of Denar 13.6 billion, which represents 2.0% of the projected GDP. Public debt-to-GDP ratio was estimated at 48.5%.

During 2019, Fitch Ratings upgraded the international credit rating of the Country from BB with positive outlook to BB+ with stable outlook. Standard & Poor's Ratings kept unchanged the rating to BB- with stable outlook.

The global economy in 2019 was strongly affected by the downward risks after the growth associated with the escalation of trade tensions between the world's largest economies. ECB during the whole year maintained the level of interest rates of basic operations to 0,0%, and from November renewed the Quantitative Facilitation Program (TLTRO-II) with a monthly purchase of EUR 20 billion. In such conditions, 3 month EURIBOR ended the 2019 at the level of -0,39%, compared to -0,37% a year earlier.

In general, 2019 was year of 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 2019, the number of banks in RN Macedonia was fifteen, of which eleven were predominantly foreign-owned. Total assets of the banking system were Denar 528.9 billion, 9.0% more than the same period in the previous year.

The banks' liquid assets amounted to Denar 167.6 billion, with annual growth of 15.5%. 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 2019 oscillates around 16,5%. 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 16.9% to 11.5% and does not fall below the regulatory minimum.

During the first nine months of 2019, the banks made profit of Denar 5.79 billion, which is 24% lower financial result compared to the same period last year, and is

mainly due to the depletion of the effects of one-time factors that caused profit growth a year earlier. The decreased profit caused downward correction of the basic profitability indicators of the banking system.

As of 31 December 2019, the amount of loans to nonfinancial entities amounted to Denar 341.4 billion or 6.0% more compared to the same period previous year. On the other hand, the growth of corporate sector loans amounted to moderate 1.9%. It is obvious that 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, there is still 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.

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 2019, the amount of deposits of nonfinancial entities amounted to Denar 410.8 billion or 9.5% more compared to the same period last year.

In the course of 2019, 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 passive interest rates, which can be seen from the table below:

Interest rates (%)		12/2018	12/2019
Total	Loans	5.33	4.94
	- corporate loans	4.63	4.17
	Deposits	1.41	1.26
	- corporate loans	1.69	1.53
	Interest spread (pp)	3.92	3.68
	- corporate loans (pp)	2.94	2.64
Newly approved/ Newly received	Loans	4.49	4.15
	- corporate loans	4.30	3.80
	Deposits	1.40	1.14
	- corporate loans	1.04	1.11
	Interest spread (pp)	3.09	3.01
	- corporate loans (pp)	3.26	2.69

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

II. BANK'S PROFILE

Development Bank of North Macedonia JSC Skopje (DBNM 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 DBNM, unless otherwise regulated by the Law on the MBDP, and the National Bank within its competences performs the supervision on the DBNM operations. The Ministry of Finance supervises operations of the DBNM performed on behalf of and for the account of the Republic of North Macedonia. MBDP is responsible with all its assets for its liabilities. In 2019 the name of the Macedonian Bank for Development Promotion JSC Skopje was changed to Development Bank of North Macedonia JSC Skopje.

DBNM'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 country.

III. BUSINESS POLICY AND OBJECTIVES

DBNM'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 2019, by taking appropriate measures and carrying out diversified activities, the DBNM 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,
- Other activities in function of the Bank's strategic objectives.

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 and other bodies in the Bank

The corporate governance of the DBNM in 2019 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, 190/16, 7/19 and 101/19), the Law on the Macedonian Bank for Development Promotion (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 Development Bank of North Macedonia JSC Skopje. The particularity of DBNM 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 2019, the Bank carried out its operations through the following bodies:

- 1.1. General Meeting of Shareholders
- 1.2. Supervisory Board
- 1.3. Audit Committee
- 1.4. Management Board
- 1.5. Risk Management Committee
- 1.6. Credit Committee
- 1.7. Insurance Committee

During 2019, 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 managerial personnel 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 performs 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,
- 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 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 2019, the General Meeting of Shareholders held 3 (three) regular meetings.

At the meeting held on May 30th, 2019, the General Meeting of Shareholders discussed/adopted the following acts:

- Annual account and financial statements of the Bank in 2018,
- Decision on use and allocation of the profit in 2018.
- Annual Report on the Bank's operations in 2018,
- Annual Report on Supervisory Board operations in 2018 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. 2018 and the written opinion thereon prepared by the Supervisory Board,
- Decision for approval of the Decision of the Management Board for for calculating the gross salary of the employees in the Bank.

At the meeting held on July 2nd, 2019, the General Meeting of Shareholders discussed/adopted the following acts:

- Decision on amending the Statute of the Bank,
- Decision on change of the Bank's name.

At the meeting held on September 24nd, 2019, 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 31.12.2019 and 31.12.2020 and

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 responsible for 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

NBRNM. The Government of the Republic of North 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.

The Supervisory Board of until July 17th, 2019, pursuant to the Decision of the Government of the Republic of North Macedonia for appointment of members of the Supervisory Board of the Development Bank of North Macedonia JSC Skopje, no. 24-4133/1 dated 25.7.2017, registered at DBNM on 1.8.2017 under no 03-2072/1 and the Decision no. 24-2719 dated 27.2.2018, as well as the Decisions of the Governor of the NBRNM for issued consent for appointment of members of the Supervisory Board of DBNM, no. 15-35225/2 dated 15.11.2017, 15-35226/2 dated 15.11.2017, 35227/2 dated 15.11.2017, 535/1 dated 5.1.2018 and 15-11938/9 dated 17.5.2018, the Supervisory Board worked with the following members:

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

On 17.7.2019, the Government of the Republic of North Macedonia adopted a Decision to dismiss Kiril Kolemishovski from the office member of the Supervisory Board of the Development Bank of North Macedonia JSC Skopje.

On 24.7.2019, the Government of the Republic of North Macedonia adopted a Decision to appoint Sonja Petrusheva as member of the Supervisory Board of the Bank. The Governor of NBRNM with Decision no.15-25768/6 dated 12.9.2019 issued consent for appointing Sonja Petrusheva as member of the Bank Supervisory Board for a 4 (four) year term of office.

According to the amendment, the Supervisory Board of the Bank from 13.9.2019 worked in the following composition:

- Sofche Jovanovska – Chairman
- Nikola Popovski – Member
- Veland Ramadani – Member
- Burim Kadriu – Member
- Sonja Petrusheva – Member

During 2019, the Supervisory Board held 17 (seventeen) meetings. Government of the Republic of North 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 MBDP.

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 implements policy 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,
- adopts 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 Republic of North 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 a number of acts related to the Bank's regular operation.

Among the most important are:

- Decision for approval of the unaudited financial statements of the Development Bank of North Macedonia JSC Skopje, prepared in accordance with the Law on trade companies and the NBRNM regulations, for the year ended at 31.12.2018,
- Decision for approval of the Plan of activities of the Internal Audit Department in 2019,
- Decision on approval of the annual plan for IT audit in 2019,
- Decision on approval of annual account for 2018,
- Draft Decision on use and allocation of the Bank's profit in 2018,

- Decision for approval of exposure limits to Intermediary banks,
- Decision on the change of name of the Macedonian Bank for Development Promotion,
- Decision on amendment of the Statute of the Macedonian Bank for Development Promotion,
- Decision on approval of the Annual Report of Macedonian Bank for Development Promotion operations in 2018,
- Decision on election of a member of MBDP's Auditing Committee,
- Decision on approval of the MBDP audited financial statements for the year ended 31.12.2018 with written opinion thereon,
- Decision for adopting amendments to the Financial Plan of the Bank no. 02-3250/1 dated 25.12.2018,
- Decision on determining cleared version of the text of the Bank's Statute,
- Decision on appointment of a member of the Management Board of the DBNM JSC Skopje – Chief Executive Officer,
- Decision on approval of the Audit Committee proposal for appointing audit company to conduct audit on the financial statements of the Bank for the year ended 31.12.2019 and 31.12.2020,
- Decision on selection of the Bank's logo,
- Decision on appointment of a member of the Management Board of the DBNM JSC Skopje – Chief Operating Officer,
- Decision on amendment of the Bank's Credit policy,
- Catalog of acceptable collateral,
- Decision on signing a reinsurance agreement for 2020.

The Supervisory Board approved, i.e. adopted the reports, information and other proposed documents related to the Bank's operations in 2019.

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 2019, the Audit Committee performed its activities comprised of the following members:

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

By Decision of the Supervisory Board no. 02-1109/9 dated 23.4.2019, Lenin Prculovski was appointed member of the Audit Committee .

The Audit Committee performs the following activities:

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

In the course of 2019, the 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 2019.

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.

Besim Bilali performed the function member of the Management Board – Chief Operating Officer until end of his term of office, i.e. 12.2.2019, while **Dragan Martinovski** performed the function member of the Management Board – Chief Executive Officer until end of his term of office, i.e. 14.5.2019.

Upon expiration of the term of office of the Chief Operating Officer **Besim Bilali**, **Veljand Ramadani**, member of the Supervisory Board, was appointed acting Chief Operating Officer of the Bank by Decision of the Supervisory Board no. 02-454/3 dated 13.2.2019.

Upon expiration of the term of office of the Chief Executive Officer Dragan Martinovski, **Kiril Kolemishovski**, member of the Supervisory Board, was appointed acting Chief Executive Officer of the Bank by Decision of the Supervisory Board no. 02-1268/1 dated 15.5.2019.

By Decision no. 24-5531/1 dated 17.7.2019 registered in the Bank under no. 03-1860/1 dated 23.7.2019, Kiril Kolemishovski was dismissed from the position member of the Supervisory Board and consequently from the function of a member of the Management Board of the Bank.

By Decision of the Supervisory Board no. 2043/8 dated 13.8.2019, the member of the Bank Supervisory Board **Nikola Popovski** was appointed acting Chief Executive Officer.

By Decision of the Supervisory Board no. 02-2254/1 dated 16.9.2019 **Kire Naumov** was appointed member of the Management Board – Chief Executive Officer. The CEO's term of office is 6 (six) years. The Governor of the NBRNM by Decision no. 15-30669/12 dated 20.11.2019 issued consent for appointment of Kire Naumov a member of the Management Board – Chief Executive Officer. The consent is issued for a period of two years.

By Decision of the Bank Supervisory Board no. 02-2516/2 dated 10.10.2019 **Faruk Ismaili** was appointed member of the Management Board – Chief Operating Officer. The COO's term of office is 6 (six) years. The Governor of the NBRNM by Decision no. 15-32455/7 dated 06.12.2019 issued consent for appointment of Faruk Ismaili a member of the Management Board – Chief Operating Officer. The consent is issued for a period of two years.

According to the above changes, the Management Board of the Bank continued to work with the following members:

- **Kire Naumov** – Chief Executive Officer
- **Faruk Ismaili** – Chief Operating Officer

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 2019, the Risk Management Committee performed its activities comprised of the following members:

- **Besim Bilali** (until 12.2.2019) **Veljand Ramadani** (13.2.2019-6.12.2019)
Faruk Ismaili (7.12.2019 – onwards) - 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 2019, 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 2019, the Credit Committee performed its activities and was composed of three members as follows:

- **Dragan Martinovski** (until 14.5.2019), **Kiril Kolemishovski** (5.5.2019-17.7.2019), **Nikola Popovski** (14.8.2019-20.11.2019), Kire Naumov (21.11.2019-onward) - President
- **Besim Bilali** (until 12.2.2019), **Veljand Ramadani** (13.2.2019-6.12.2019), **Faruk Ismaili** (7.12.2019 – onwards) – 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 2019, 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 DBNM loan programmes and insurds.

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.

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 2019, the Insurance Committee performed its activities with the following members:

- **Dragan Martinovski** (until 14.5.2019), **Kiril Kolemishovski** (5.5.2019-17.7.2019), **Nikola Popovski** (14.8.2019-20.11.2019), **Kire Naumov** (21.11.2019-onwad) - President
- **Besim Bilali** (until 12.2.2019), **Veljand Ramadani** (13.2.2019-6.12.2019), **Faruk Ismaili** (7.12.2019 – onwards) – 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 2019 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 2019, 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 2,888,688.00
Membership in other supervisory bodies	Supervisory Board of KIBS
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 686,128.00
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	Salary Denar 70,225.00 Honorarium EUR 2030 annually
Membership in other supervisory bodies	/
Membership in other management bodies	/

Kiril Kolemishovski	Member of the Supervisory Board
Term of office	15.01.2018-17.7.2019
Employer	Law Company “Kolemishovski and Partners”
Gross annual income	Net Salary Denar 30,000.00 Monthly fee as member of the Supervisory Board Denar 8,000 (until 31.8.2019)
Membership in other supervisory bodies	Automakedonija AD Skopje – Supervisory Board, monthly fee – Denar 8,000.00
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 465,008.00
Membership in other supervisory bodies	/
Membership in other management bodies	/

Sonja Petruseva	Member of the Supervisory Board
Term of office	12.9.2019 -
Employer	
Gross annual income	Denar 908,768.00
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
Membership in other supervisory bodies	/
Membership in other management bodies	Microcredit Foundation “Horizonti”– Management Board

Lenin Prculovski	Member of the Audit Board
Term of office	23.4.2019 -
Employer	Winner Vienna Insurance Group Skopje
Membership in other supervisory bodies	/
Membership in other management bodies	/

Qenan Idrizi	Member of the Risk Management Board
Term of office	18.12.2008 -
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	/

Kire Naumov	Management Board
Term of office	21.11.2019
Employer	Development Bank of North Macedonia JSC Skopje
Membership in other supervisory bodies	/
Membership in other management bodies	/

Faruk Ismaili	Management Board
Term of office	7.12.2019
Employer	Development Bank of North Macedonia JSC Skopje
Membership in other supervisory bodies	/
Membership in other management bodies	/

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 2,794,840.00 on the grounds of compensation for membership and the Audit Committee members gross amount of Denar 497,777.00. Compensation was not envisaged and paid for taking part in other Bank's bodies.

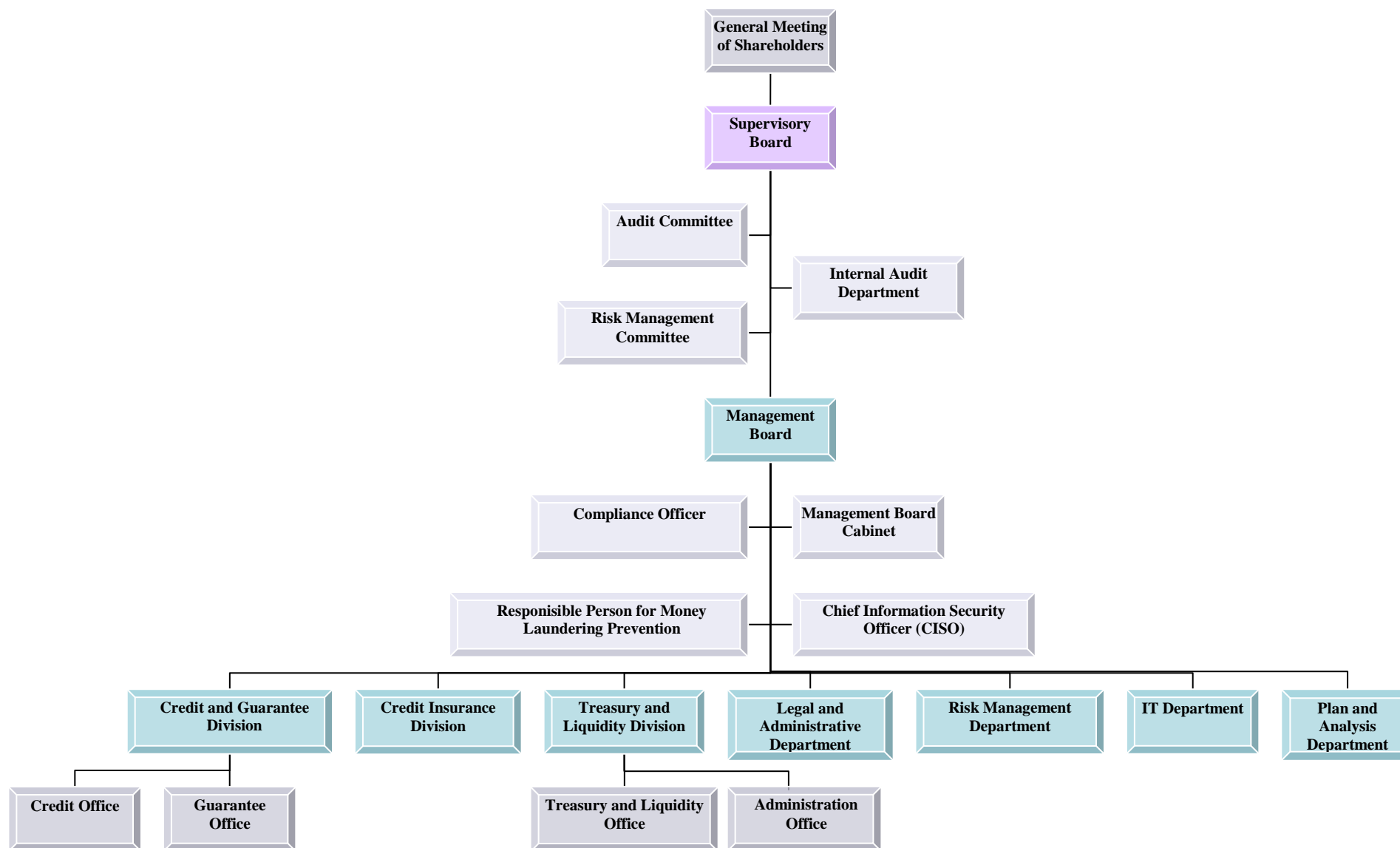
In the reported period, Denar 1,662,722.00 were paid off to the current Management Board on the grounds of gross salary, compensation on salary, bonus, insurance and other rights, and Denar 13,986,929.00 to 13 persons with special rights and responsibilities in the Bank.

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 2019 DBNM has 40 employees.



VI. SHAREHOLDER'S STRUCTURE

Pursuant to the Law on Macedonian Bank for Development Promotion (Official Gazette of the RM 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 Corporate Governance Code of Development Bank of North Macedonia JSC Skopje no. 02-1602/5 dated 29.06.2018 and the Decision for modifications and amendment of the Corporate Governance Code no. 02-2043/13 dated 13.08.2018 were prepared in compliance with the Decision of the National Bank Council on basic principles of corporate governance in a Bank.

Development Bank of North Macedonia, i.e. the Bank's management bodies and employees during 2019 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 DBNM,
- 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 no. 02-1470/8 dated 12.06.2018, Decision on modification and amendment of the Code of Conduct no. 02-1424/9 od 06.06.2019 and the Policy on avoiding conflict of interest no. 02-1401/8 dated 06.06.2018. 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 policy.

Members of the Bank's Supervisory Board and Management Board and the persons with special authorizations 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

DBNM 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
- Maintenance of ICT infrastructure

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 2019

In the course of 2019 the Bank has operated pursuant to the adopted Development plan and Business policy, adopting the current operations to the economics, market and non-market conditions in the country. The Bank has mainly met the planned operations and financial objectives, while keeping the high liquidity, stability and solvency.

1. Balance Sheet

The total balance amount in 2019 amounts to Denar 10,312,560 thousand and in comparison to previous year was increased for 2,6%.

Balance Sheet (in thousand MKD Denars)	31.12.2019		2019/2018
Cash and cash equivalents	698.074	773.636	10,8%
Bank loans and bank receivables	9.160.044	9.328.142	1,8%
Loans and receivables from other clients	61.365	79.493	29,5%
Investments in securities	0	0	нп
Income tax receivables	5.203	3.653	-29,8%
Other receivables	8.997	11.060	22,9%
Forclosed assets due to outstanding receivables	5.864	4.496	-23,3%
Intangible assets	290	923	318,3%
Real estate and equipment	111.889	111.157	-0,6%
TOTAL ASSETS	10.051.726	10.312.560	2,6%
Liabilities for loans	7.435.704	7.673.211	31,9%
Special reserve and reservations	5.784	9.303	60,8%
Other liabilities	9.145	10.586	15,8%
TOTAL LIABILITIES	7.450.633	7.693.100	3,2%

Registered capital	1.193.792	1.193.792	0,0%
Other reserves	1.360.789	1.407.301	3,4%
Retained earnings/Accumulated loss	46.512	18.367	-60,5%
TOTAL CAPITAL AND RESERVES	2.601.093	2.619.460	0,7%
TOTAL LIABILITIES AND CAPITAL AND RESERVES	10.051.726	10.312.560	2,6%

Cash and cash equivalents as at 31.12.2019 were Denar 773.636 thousand which represents 7,5% of the Bank's total assets.

Bank loans and bank receivables as at 31.12.2019 were Denar 9,328,142 thousand which represents 90.4% of the total assets and show increase of 1.8% with respect to the previous year. This entry has the largest part in the assets due to the Bank's specific principle of work which is characteristic for the development banks in the world.

Analysis of the Bank's credit portfolio related to currency structure shows dominant participation of foreign currency loans.

Loans and receivables from other clients which predominantly refer to loans to municipalities and factoring as at 31 December 2019, amounted to Denar 79,493 thousand and show increase for 29.5% in comparison to the previous year.

Foreclosed assets due to outstanding receivables were managed pursuant to the NBRNM regulations referring to allocation of impairment loss of the foreclosed property.

Intangible assets, real estate and equipment were sufficient for the basic operation of the Bank.

Regarding the sources of funds, total liabilities of the Bank as at 31.12.2019 amounted to Denar 7,693,100 thousand thus making increase of 3.2% in comparison to end of 2018. Dominant entry in the total liabilities continued to have liabilities for loans taking part of 99.7% in the Bank's total liabilities.

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

The total capital and reserves represent 25.4% in the Bank's liabilities. As of 31 December 2019 it has an increase of 0,7% in regard to previous year and is Denar 2,619,460 thousand. It was 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 01.01-31.12.2019 DBNM reached total income amounting to Denar 200,978 thousand, total expenses amounting to Denar 180,192 thousand, gross positive financial result of Denar 20,786 thousand and net positive financial result in

the amount of Denar 18,367 thousand. The calculated income tax for 2019 is Denar 2,419 thousand. The financial result at the end of 2019 was under certain negative influence of one-time effect of financial asset impairment, on a net basis which will be annul in the financial statement for the next year.

INCOME STATEMENT (in thousand Denars)	01.01.2018- 31.12.2018	01.01.2019- 31.12.2019	2019/2018
Interest income	203.190	157.640	-22,4%
Interest expense	-103.421	-73.439	-29,0%
Net interest income	99.769	84.201	-15,6%
Fee and commission income	40.821	38.439	-5,8%
Fee and commission expense	-25.463	-26.335	3,4%
Net fee and commission income	15.358	12.104	-21,2%
Foreign exchange gains/(losses), net	75	-243	-424,0%
Other operating income	5.744	4.899	-14,7%
Impairment losses of financial assets, net	-1.899	-16.345	860,7%
Impairment losses of non-financial assets, net	-1.466	-1.369	-6,6%
Personnel expenses	-35.246	-34.215	-2,9%
Depreciation and amortization	-10.026	-4.781	-52,3%
Other operating expenses	-20.374	-23.465	15,2%
General and administrative expense and depreciation	-65.646	-62.461	-4,9%
Profit before tax	51.935	20.786	-60,0%
Income tax	-5.423	-2.419	-55,4%
PROFIT FOR THE YEAR	46.512	18.367	-60,5%

In the reporting period the net interest income amounted to Denar 984,201 thousand showing decrease for 15.6% compared to the previous year. The decrease is mainly result of the repeal of the interest subsidies by the state for the EIB-5 credit line, as opposed to the subsidies for EIB 1-4 credit lines, as well as downward change of the price policy with the Bank's products and low interest rate at the domestic money market.

Net fee and commission income for 2019 was Denar 12,104 thousand showing decrease in comparison to 2018 for 21.2%.

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 2019, the impairment amount on financial assets showed net-expenses of

Denar 16,345 thousand and Denar 1,369 thousand on the basis of expense due to paid indemnification of non-financial assets on net base.

General and administrative expense and depreciation totaling Denar 62,461 thousand, i.e. 4.9% less than the same period previous year.

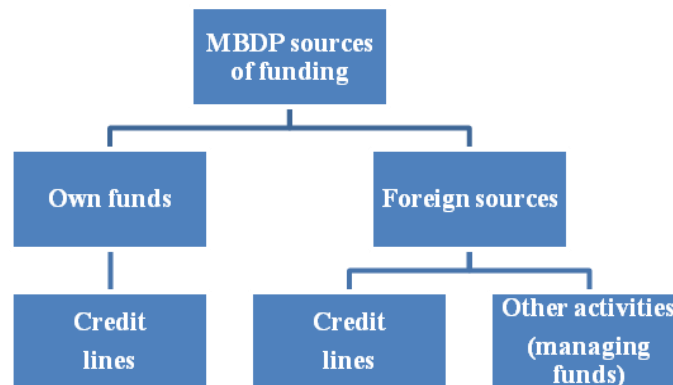
XI. CREDIT ACTIVITIES

As in the previous years, in 2019 also, DBNM 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 (financing of agricultural, projects for processing of agricultural products, export and municipalities for projects from the IPA Component) directly to the end beneficiaries without mediation of the intermediary banks.

DBNM 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).



1. Credit Lines from DBNM Own Funds

DBNM created several credit lines of own sources in order to meet its development objectives:

- Credit line for development of small and medium sized enterprise – amount: up to to EUR 500,000; repayment period : up to 1 year; interest rate: fixed up to 6.5% or variable up to 3M EURIBOR +3.75%,

- Financing of export oriented production – amount: up to EUR 2,000,000; repayment period: up to 2 years, interest rate: fixed up to 6% or variable up to 3M EURIBOR +3.75%,
- Permanent working capital financing – amount: up to EUR 300,000; repayment period: up to 3 years; interest rate: fixed up to 6% or variable up to 3M EURIBOR +3.75%,
- Financing of municipalities for implementation of projects financed under EU IPA Component – amount: up to EUR 300,000; repayment period: up to 2 years; interest rate: fixed 5.75%.

As of 31.12.2019, the Bank’s exposure on the basis of these credit lines is total EUR 28.7 million.

2. Credit Lines of Foreign Financial Institutions, Bilateral Creditors and Other Sources

In the course of 2019, DBNM continued to utilize and carry out the credit lines from foreign creditors and donors. At the same time, DBNM particular emphasis was placed on extending of loans from the revolving fund of EIB I, EIB II, EIB III and EIB IV credit lines, as well as withdrawal and extension of new funds from EIB.

2.1. EIB 5 Credit Line

EIB credit line funds were targeted for financing fixed assets, permanent working capital and priority projects and Mid Cap companies and were placed with fixed interest rate up to 3.2% p.a. The following credit programs were supported from the funds of this credit line:

Investment Loans from EIB 5

Single credit amount intended to final beneficiaries:	from EUR 10,000 up to EUR 3,500,000
Repayment period:	up to 12 years
Grace period included:	up to 2 years
Purpose:	Support to identified projects for: <ul style="list-style-type: none"> ▪ purchasing fixed assets: real estate (except land), equipment, working capital (not exceeding 30% of the loan value), and ▪ investment in intangible assets

Loans for Permanent Working Capital from EIB 5

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 5

Single credit amount intended to final beneficiaries:	up to EUR 6,000,000
Repayment period:	up to 12 years
Grace period included:	up to 2 years
Purpose:	Providing support to priority projects in the area of industry, education, culture, ecology, etc.

In 2019, 123 loan applications were supported with the EIB 5 credit line in the total amount of EUR 44.0 million, and from the revolving funds from the previous four EIB phases, additionally 105 loan applications were supported totaling EUR 14.4 million.

2.2 SME Credit Line for financing micro, small and medium sized enterprises from the German Development Bank - KfW

Credit line funds are composed of three phases, and DBNM AD Skopje was appointed as an Agent of the Fund established with the funds from the first phase KfW 1 credit line, whereas in the second and third phase (KfW2 and KfW3) DBNM was also in the role of a borrower. The credit line funds were disbursed through Halkbank AD Skopje, Ohridska Banka AD Skopje, ProCredit Banka AD Skopje, and savings house Mozhnosti doo Skopje. The loan amount is up to EUR 300,000, repayment period is up to 11 years, and the interest rate is determined by each bank individually. Loan beneficiaries were micro and small enterprises, individual entrepreneurs, craftsman, sole traders, vendors, other micro and small entities. In regard to this credit line, as of the end of 2019, DBNM has total exposure of EUR 14.5 million.

2.3. Other Credit Lines and Projects

2.3.1 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. Loans were approved under fixed interest rate of 1%p.a., interest is not paid during grace period, and the loan beneficiaries were obliged to stay outside of the unemployment list at least until the repayment of the loan. Loans were approved to the following categories:

- Unemployed persons who want to be self-employed – amount: for each newly created job from EUR 5,000 up to EUR 10,000 (at the choice of the borrower), and for each additional newly created job additional EUR 5,000, but the most up to 5 jobs (including the borrower), i.e. not exceeding EUR 30,000 irrespective of the volume of activity; repayment period: up to 7 years; grace period: up to 1.5 years;

- Legal entities that want to hire – amount: EUR 5,000 for each newly created job, without restrictions on the number of people it can employ; repayment period: up to 4 years; grace period: up to 1 year.

DBNM, 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 2019, the exposure to this credit line was EUR 7.0 million.

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

Starting on 1 July 2010, by the Administration Agreement entered into between the Ministry of Finance and the MBDP, 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.

Implementation of the RLF/ACDF credit activities commenced in 2003 through twelve financial participant institutions, out of which ten are commercial banks and two are saving houses. The repayment period and grace period are arranged with the participant financial institution, while the loans are approved for the following categories:

- Primary agricultural production: - amount: up to EUR 100.000, interest rate: fixed up to 4% p.a. (through banks) or fixed up to 6% p.a. (through saving houses);
- Processing of agricultural products: - amount: up to EUR 300.000, interest rate: fixed up to 5% p.a. (through banks) or fixed up to 6.5% p.a. (through saving houses);
- Export of primary and processed agricultural products – amount: up to EUR 300.000, interest rate: fixed up to 5% p.a. (through banks) or fixed up to 6.5% p.a. (through saving houses);

As of 31 December 2019, 6,318 loans were approved in the total amount of EUR 81.3 million, of which EUR 63.3 million were ACDF funds, whereas the financial intermediary institutions took part with EUR 18.0 million. As of 31.12.2019 the active balance of the Fund was EUR 2.1 million.

2.3.3. Special Credit Guarantee Scheme

During 2019, the credit line from the European Agency for Reconstruction (EAR) which was designed to finance SMEs was redesigned by concluding an Agreement for Administration of the Special credit guarantee scheme to support micro, small and medium size companies, between the Government of the Republic of Macedonia and the MBDP. Loans were extended through commercial banks that DBNM has concluded framework agreement with or directly.

As of 31 December 2019, exposure regarding the Special credit guarantee scheme was EUR 194 thousand.

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

This credit line began its realization in 2012 and was established to directly support companies that produce, process and export agricultural products. Loans were extended under the following terms: amount: up to EUR 300.000 (i.e. up to EUR 500.000 for purchase of grapes, wheat, fruits and vegetables); repayment period and grace period: up to 5 years with included 1 year grace period for fixed assets and up to 1.5 years with 3 months grace period for working capital; interest rate: fixed 2% p.a.

As of 31 December 2019, loan applications totaling EUR 23.6 million were approved from this credit line.

XII. TRADE CREDIT INSURANCE

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

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

DBNM offered the following insurance products during 2019:

➤ 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 2019, DBNM 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. DBNM undertakes 35% of the insured risk of export credit insurance according to the Quota Share Reinsurance Agreement and the reinsurers undertake 65% of the DBNM 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, DBNM 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, Kingdom of the Netherlands – 33.33%

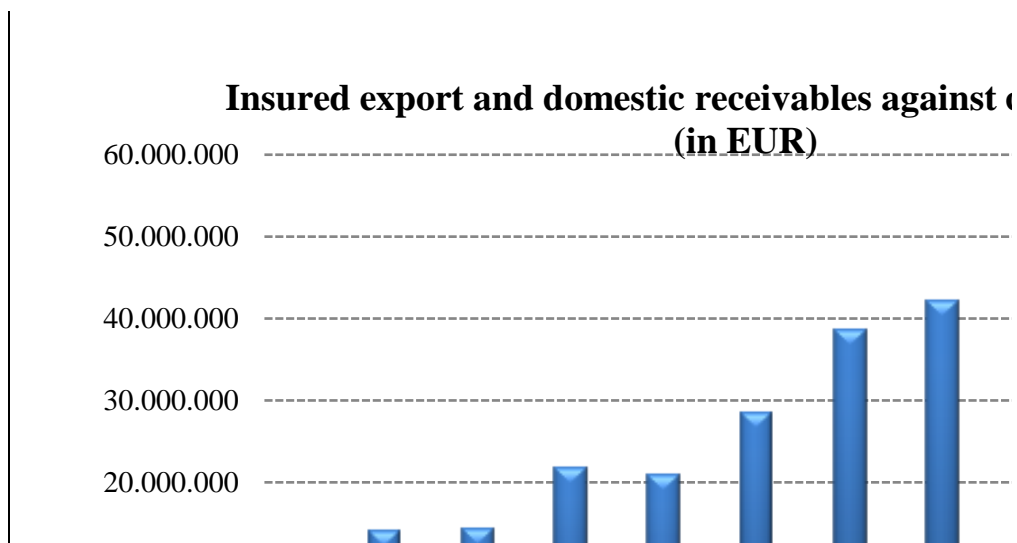
2. Scope of Work

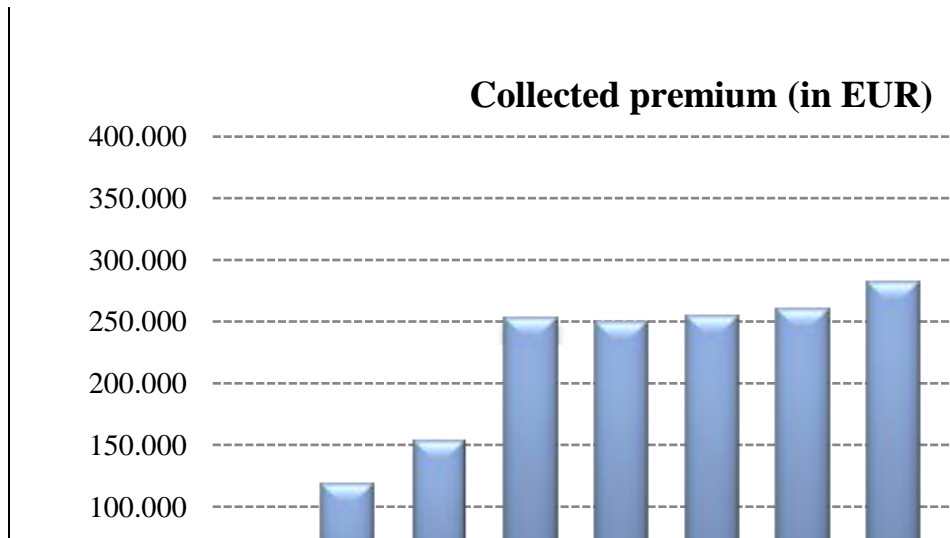
2.1. Short Term Export Credit Insurance Policy against Commercial Risk

In the course of 2019, DBNM signed short term export credit and domestic insurance policies against commercial risk with 55 insureds, and under the policies credit limits were approved for domestic and foreign buyers.

2.2. Insured Exports

In the course of 2019, the DBNM has insured EUR 51.6 million in total, of which EUR 38.4 million was export credit insurance, and collected premium of EUR 140,708. The rest EUR 13.2 million resulted from insurance of domestic receivables against short term commercial risk, and the Bank collected premium in an amount of EUR 57,739.





The amount of premium that DBNM 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 DBNM with 35%.

2.3. Indemnity

In the course of 2019, DBNM paid indemnity to the insureds in the amount of EUR 219,615, due to occurrence of insured event (bankruptcy, protracted default).

International Cooperation

DBNM is a full member of the International Union of Export Credit Agencies – Prague Club since 1999 (Part of Berne Union). DBNM 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. DBNM attended a regular semiannual meeting of members of the Prague Club and Berne Union.

Factoring

Factoring is a flexible financial instrument which enables improvement of the company's cash flow and liquidity.

Factoring service is a specific type of short-term financing, where DBNM 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/DBNM, party that provides factoring, i.e. purchases the account receivables).

DBNM provides with-recourse factoring of export receivables. In this way, DBNM 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 carried out 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.

DBNM 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 2019, DBNM through factoring supported the exports of the Macedonian exporters. DBNM supported the export of Macedonian products and services to buyers located in 5 countries of the region and EU.

Factoring provided in 2019

in EUR	01.01.2019-31.12.2019
Purchased receivables	4,072,706
Finance	3,258,165
Interest	16,783
Fee	8,146

XIII. RISK MANAGEMENT

DBNM 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.

DBNM 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 credit exposure
- Liquidity risk
- Currency risk
- Interest rate risk in the portfolio of Banking activities
- Operational 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 policies and procedures which determine the internal control system in order to prevent risk occurrence. The Bank performs its activities 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 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 and the regularity of the debtor's liabilities settlement. The Bank assesses the need and performs impairment of the active balance receivables, i.e. allocates special reserves for the off-balance items which arise of each concluded agreement for credit exposure by determining the current value of the future cash flows that will occur based on those

receivables. Bank determines the amount of expected credit loss at least once a month, on an individual basis for all credit exposures.

As of 31.12.2019, the credit risk exposure by risk category is as follows:

- A category – 99.73%
- B category – 0.09%
- C category – 0.02%
- D category – 0.00%
- E category – 0.16%

The Bank has not determined impairment for 6.6% of the total credit risk exposure. As of 31 December 2019, the total amount of the impairment / special reserve was 0.28% 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 North 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 percentage 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 MBDP 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, DBNM 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 RNM, 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.

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. The Bank 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.

DBNM 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. 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, 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.

10. Strategic Risk

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

11. Capital Adequacy

The Bank has established policy for maintaining of own funds in order to provide and continually ensure adequate level of own funds, depending of the type and 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 2019, the MBDP capital adequacy rate was 32.63%.

XIV. PLANNING AND ANALYSIS

In the course of 2019, 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 DBNM is exposed through its clients,
- Analysis of the banking sector in RNM,
- Analysis of the development banks in the region,
- Analysis of the financial operations of the Bank,
- Cooperation with international financial institutions,
- Taking part in various government working bodies and committees,
- Developing Bank's Annual Report for 2018,
- Developing the financial plan for 2019 and modification of the financial plan of Bank's operations in 2019,
- Monthly monitoring of the realization of the financial plan,

- Developing the Strategy (Business policy and development plan) of MBDP 2019-2021.

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 2019, 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/amended 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 2019, the compliance officer by giving recommendations took active part in the creation and modification of the Bank's internal acts in order to harmonize them with the new legal and subordinate acts.

During 2019, 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 2019, 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 legal regulations, etc.

The Management Board and the Supervisory Board were regularly informed though monthly and semi annual 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.120/2018 and 275/2019), the Programme on prevention of money laundering and financing of terrorism and procedures of DBNM, 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 publicly exposed persons,
- 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.

In the course of 2019, the responsible person of the Bank for prevention of money laundering and terrorist financing cooperated with the Financial Intelligence Office and other competent institutions and attended the trainings organized by them.

During this period, a number of working meetings were held with the Financial Intelligence Office and the Commission on money laundering prevention and compliance with the regulation related to the practical implementation of the modifications and amendments of the Law. 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 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 2019, 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 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 as well as fulfillment of the regulatory requests,
- 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,
- new secondary location was established with a cloud provider, thus using the newest international practices for business continuity and recovery from incidents,
- in accordance with the needs for improvement of the risk resilience degree in the digital space, as well as SWIFT requirements for implementation of safe mechanisms, activities were taken in the Bank for their implementation.

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 2019 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 2019, Internal audit department conducted 13 regular audits, monitored the implementation of the presented recommendations, reported to the Bank's Supervisory Board on regular basis and cooperated with the Management Board, Audit Committee, the National Bank and the independent auditor of the Bank.

Management Board

SIGNED

Kire Naumov
Chief Executive Officer

SIGNED

Faruk Ismaili
Chief Operating Officer