



DEVELOPMENT BANK OF NORTH MACEDONIA JSC SKOPJE

**ANNUAL REPORT
OF THE DEVELOPMENT BANK OF
NORTH MACEDONIA OPERATIONS IN
2020**

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MAIN ACHIEVEMENTS OF THE BANK IN 2020

- **81** million EUR in total loans to the economy
- **13.5** million EUR placed interest-free loans “Covid”
- **67.5** million EUR placed loans from other sources under favorable shares and low capital rates for companies
- **13%** increased volume of lending
- **34%** increased volume of insured claims
- **16%** growth of assets
- **Low** non-performing loans rate of 0.1%
- **The first** development bank in the region with the introduction of anti-crisis measure "interest-free loans" to deal with the consequences of the Covid-19 pandemic
- **Exceeding** the basic balance sheet items vs. the projections from the financial plan for the year
- **Realization** of the main planned goals and tasks from the development plan and the business plan
- **Retained** profitability, solvency, liquidity and high quality of the loan portfolio

FUNDAMENTAL INDICATORS OF THE BANK

In thousands MKD	2019	2020	Index 2020/2021
Balance Sheet Indicator			
Total Assets	10.312.560	11.997.154	116,3
Net Loans	9.407.635	10.628.474	113,0
Equity and reserves	2.619.460	2.651.217	101,2
Net-loans/Total Assets (%)	91,2	88,6	
Equity adequacy(%)	32,63	30,97	
Income statement indicators			
Net interest income	84.201	85.454	99,1
Total net income	100.961	111.217	110,2
Operating expenses	62.461	68.572	109,8
Net profit	18.367	31.756	172,9
Net income from interest/total net income (%)	83,4	75,0	
Net interest margin (%)	0,82	0,70	
Profitability and efficiency indicators			
ROAA (%)	0,18	0,28	
ROAE (%)	0,70	1,21	
Operating expenses/total net income (%)	61,9	61,7	
Liquidity indicators			
Liquid assets / total assets (%)	7,5	10,5	
Liquid assets / total liabilities (%)	10,1	13,4	
Quality of the loan portfolio(%)			
Credit line exposure by risk categories	A	99,73	99,39
	B	0,09	0,11
	C	0,02	0,00
	D	0,00	0,00
	E	0,16	0,10
Number of employees(at the end of the year)		40	39

ABBREVIATIONS

GDP	—	Gross-domestic product
SSO	—	State Statistics Office
EIB	—	European Investment Bank
EU	—	European Union
IPA	—	Instrument for Pre-Accession
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

Pursuant to Article 18 paragraph 3 of the Law on Development Bank of North Macedonia ("Official Gazette of RM" no.105/09 and "Official Gazette of RNM no.77/21), Article 93 of the Law on Banks ("Official Gazette of RM" no. 67/07, 90/09, 67/10, 26/13, 15/15, 153/15, 190/16 and 7/19 and "Official Gazette of RNM" no. 101/19), Article 352 of the Law on Trade Companies ("Official Gazette of the 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, 6/16, 64/18, 120/18, 195/18, 239/18) and Article 62 of the Statute of the Development Bank of North Macedonia AD Skopje, the Board of Directors hereby delivers the following:

ANNUAL REPORT OF THE DEVELOPMENT BANK OF NORTH MACEDONIA OPERATIONS IN 2020

INTRODUCTION

As one of the most exposed institutions in the country and an active stakeholder in the implementation of some of the anti-crisis measures of the Government of RNM related to dealing with the economic consequences caused by the Covid-19 pandemic, DBNM had an extremely difficult year. The Bank demonstrated solid capacity and ability for fast transformation, but also social responsibility by applying the measures and recommendations of the competent institutions for the protection and safety of the clients and employees' health. Loans in the amount of EUR 81 million were placed in the economy, of which: EUR 13.5 million in the form of interest-free loans from the credit lines Covid 1 and Covid 2 on behalf of the state, designed according to the needs of the companies and the new circumstances from the health crisis; EUR 56 million worth of loans from the EIB credit line under extremely favorable credit conditions with lower interest rates from the markets and EUR 11.5 million worth of loans from other sources of funds of the Bank. In a situation of health and economic shock that caused liquidity problems to domestic companies, the volume of credit insurance and factoring increased. At the end of the year, the Bank announced a public call for a third interest-free credit line with a grant component - Covid 3, financed by EU funds through the EU Resistance from the IPA program and the Government of the PNM, in a total value of EUR 31 million which will be placed towards the target group at the beginning of next year. At the same time, the preparations for the introduction of two new products are in the final stage: Customs Guarantee and Guarantee Fund.

I. BUSINESS ENVIRONMENT

1. Macroeconomic environment

In 2020, the domestic and world economies were under strong negative impact caused by the Covid-19 pandemic. The economic measures taken domestically by the Government of RNM and NBRNM enabled some mitigation of the consequences, but the gross domestic product (GDP) still achieved a negative growth rate of -4.5%, as opposed to 3.2% in 2019. The annual inflation rate was 1.2%, i.e. it was 0.4 p.p. higher than the previous year. The unemployment rate at the end of the fourth quarter was 16.1%, which is a decrease of 0.5 p.p, compared to the same period in 2019 (source: SSO). The NBRNM on several occasions eased the monetary policy so that at the end of the year the key interest rate remained at 1.50%, i.e. 75 basis points lower than at the end of 2019. The current account balance showed a moderate deficit of 0.3% of GDP, and gross foreign exchange reserves increased by EUR 0.10 billion and at the end of 2020 amounted to EUR 3.36 billion.

As a result of the health crisis, the RNM Budget realized a deficit of MKD 56.5 billion, which is 8.5% of the projected GDP, and the public debt is positioned at 60.2% of GDP. During 2020, Fitch

Ratings maintained the international credit rating of the country at BB +, lowering the outlook from "stable" to "negative", while Standard & Poor's Ratings maintained the rating at BB- with a stable outlook.

Within Europe, almost all RNM's foreign trade partners have experienced negative growth rates. Throughout the year, the ECB maintained the level of interest rates on core operations at 0.0%, while 3M EURIBOR ended 2020 at a level of -0.545%, compared to -0.383% a year earlier.

2. Banking sector

As of December 31, 2020, the banking system of North Macedonia is composed of fourteen banks, ten of which are predominantly in foreign ownership. In the current year, a predominantly foreign-owned bank lost its operating license and was removed from the system. The total assets of the banking system amounted to MKD 585.5 billion, 6.5% more compared to the same period last year. According to the NBRNM, the level of liquidity of the banking system, reflected in the movement of liquidity indicators, is solid. Regulatory liquidity rates throughout the year are above the prescribed minimum, which allows banks to perform their obligations smoothly. The solvency and capitalization of the banking system is still high and stable, i.e. the capital adequacy ratio at the end of the year is 16.6%. During 2020, the banks achieved a positive net financial result of MKD 7.25 billion or 8.5% more compared to 2019.

In conditions of extremely unpredictable environment caused by the Covid-19 pandemic, the operations of the banking sector in 2020 were under a certain influence of regulatory measures taken to maintain its stability: moving the threshold of days of delay from 90 to 150 days and introducing the possibility of temporary deferral of credit repayment. These measures in combination with the measures for satisfactory write-off of fully reserved non-performing loans and the exit of one bank from the banking system contributed to reducing the rate of non-performing loans from 4.8% on 31.12.2019 to 3.4% on 31.12.2020 year. In any case, the results of the conducted testing of the regulator confirm the resistance of the banking system to the simulated hypothetical shocks of liquidity, solvency and increase of credit risk (Source: NBRNM).

As of 31.12.2020, the amount of gross loans to nonfinancial entities was MKD 353.5 billion or 4.7% more compared to the same period last year. Loans to non-financial corporations amounted to MKD 168.4 billion, increasing by 1.0% on annual basis. At the end of 2020, the amount of deposits and non-financial corporations amounted to MKD 430.9 billion or 6.0% more compared to the same period last year, which indicates the retained confidence of depositors in the domestic banking sector.

In conditions of easing of the monetary policy by the NBRNM, in 2020 the trend of moderate downward trend of interest rates will continue.

Structure of gross-loans

50,4%	51,8%	Household loans
49,6%	48,2%	Non-financial corporations loans

In %	31.12.2019	31.12.2020
Total loans	4,94	4,63
Total deposits	1,26	0,95
Interest rate spread (p.p)	3,68	3,68
Newly approved loan	4,15	3,78
Newly received deposits	1,14	0,68
Interest rate spread (p.p)	3,01	3,10
Total loans (corp.)	4,17	3,73
New loans (corp)	3,80	3,42

Sources: NBRNM

II. PROFILE AND POSITION OF NBRNM IN THE BANKING SECTOR

The Development Bank of North Macedonia JSC Skopje (DBNM or "the Bank") is the only development bank in the Republic of North Macedonia established by a special Law on the Establishment of the Macedonian Bank for Development Promotion (Official Gazette of RM No. 24/98, 6/2000, 109/2005 and 130/2008). In 2009, a new Law on Development Bank was adopted in North Macedonia (Official Gazette of RM no. 105/2009 and Official Gazette of RNM no. 77/21) which stipulates that the provisions of the DBNM are appropriately applied. This Law on Banks, unless otherwise regulated by the Law on MBDP, and the supervision of the operation of DBNM within its competencies is performed by the NBRNM. In the part of the operations that DBNM performs on behalf and for the account of the Republic of North Macedonia, supervision is performed by the Ministry of Finance. DBNM is responsible for its obligations with all its property. DBNM belongs to the group of medium-sized banks with 100% domestic capital, where the sole shareholder of the Bank is the Republic of North Macedonia,

The Bank operates in accordance with the strategic policies, goals and priorities of its shareholder - the state. The Bank's mission is to create an environment for improving domestic competitiveness, export support and economic development by promoting and offering favorable financial products tailored to the needs of micro, small and medium-sized enterprises (credit lines, guarantees, factoring, and credit insurance). DBNM uses two sources of funds to accomplish its mission: own funds and credit lines from international financial institutions. The Bank's strategy is to be guided by the principle of providing long-term high-quality sources of funds under the most favorable financial conditions. At the same time, it plans and monitors the concentration of exposure by sources of funds and makes constant efforts to diversify it, taking into account the maintenance of profitability, optimal liquidity and solvency, minimizing risks and preserving the interests of its major shareholder. DBNM should legally accept deposits from legal entities and individuals, but only if they serve as collateral for the payments, i.e. the deposits are excluded as a possible source in locating support funds.

In order to achieve the basic mission and goals, while following the principles of non-competition of commercial banks, non-discrimination of users, transparency, profitability, efficiency and economic justification of the financed investments, DBNM performs its activities through commercial banks participating in fireworks and projects and/or directly to the end users. DBNM's reasons for building such a business model lie in the need for:

- Direct or indirect support to important sectors which the need for additional funding has been identified for;
- Establishing a partnership with commercial banks to overcome the differences in the supply and demand of loans, especially loans with favorable conditions;
- Supporting economic stability, growth and development;
- Improving standards by respecting social and human rights, insisting on environmental protection, avoiding tax evasion etc.

As of December 31, 2020, DBNM participates with 2.0% in the total assets of the banking sector and is the ninth bank in the country according to the volume of assets. At the same time, 6.3% of the total loans of the banking sector to non-financial corporations are placed with funds from DBNM.

In millions MKD	31.12.2019	%	31.12.2020	%
Total Assets	549,803	100.0	585,501	100.0
Assets of Medium Banks	120,845	22.0	119,069	20.3
Assets of DBNM	10,313	1.9	11,997	2.0

In millions MKD	31.12.2019	%	31.12.2020	%
Total banks' loans to non-financial companies	166,721	100.0	168,420	100.0
DBNM's loans to banks, intended for non-financial companies	9,328	5.6	10,547	6.3

In %	31.12.2019			31.12.2020		
	Banking sector	Medium banks	DBNM	Banking sector	Medium banks	DBNM
ROAA	1,3	-0,1	0,2	1,3	0,7	0,3
ROAE	12,2	-0,6	0,7	11,3	6,8	1,2
Efficiency indicator	50,1	72,6	61,9	48,2	63,9	61,7
Net-interest margin	2,9	2,4	0,8	2,7	2,3	0,7
Equity adequacy	16,3	16,5	32,6	16,7	17,6	31,0
Non-functional loans	4,8	6,0	0,2	3,4	1,6	0,1

Source of banking sector data: NBRNM

III. ACHIEVING THE GOALS FROM THE DEVELOPMENT PLAN AND BUSINESS POLICY FOR 2020

The operations of DBNM are based on the principles of compliance with the legislation, following the principles of liquidity, stability, solvency, profitability, efficiency and professionalism in the operation as well as flexibility to the needs of loan applicants. The measures and activities that DBNM undertakes in order to achieve the projected business goals and objectives are defined in the Development Plan and Business Policy of the Bank, having in mind the following: the nature, type and scope of financial activities; risk management; resource management; cost control; conducting the credit policy; insurance policy; personnel policy; the business and macroeconomic environment and the expectations for the movements in the economy.

During 2020, the Bank fully fulfilled the main planned objectives of the Development Plan and business policy, which relate to the following:

- Efficient utilization of the total credit potential of the Bank, i.e. the plan was exceeded by 0.3%, and the realization by 13% compared to 2019;
- Increase in the volume of credit insurance, i.e. the plan was exceeded by 27%, and the realization by 34% compared to 2019;
- The increase of the client base, i.e. the client base was increased more than 10 times, mostly as a result of the placed "Covid" credit lines;
- Examining new and favorable sources of financing - in 2020, 4 tranches from the EIB 5 credit line in the amount of EUR 56 million were withdrawn and negotiations for a new credit arrangement with the EIB were started;
- Establishment of an effective internal risk management system, i.e. for their identification, assessment, monitoring and control - risk management systems are established and continuously improved;
- Maintaining the value of capital and increasing it through the policy of allocating the net profit for reserves and further increasing the initial capital, i.e. the net-profit realization is distributed in the equity and reserves of the Bank;

- Continuous maintenance of adequate level of own funds in order to maintain the internally defined rate of capital adequacy, i.e. the rate of capital adequacy is continuously maintained above the legally prescribed level by and within the values defined internally;
- Continuous improvement of the organization of operations and improvement of business processes, i.e. the Bank continuously improves the organization of operations and improvement of business processes in order to adequately and timely fulfill business goals and tasks;
- Human resource management and continuous upgrade of their knowledge and expertise - in order to fulfill this goal, the Bank has established a new organizational unit, the Human Resources Department;
- Ensuring compliance of the Bank's operations with the laws and bylaws, i.e. the Compliance Control Service of the Bank continuously monitors the relevant legislation and ensures compliance of the Bank's operations with it;
- Continuous undertaking of activities in order to prevent money laundering and financing of terrorism, i.e. the Bank continuously undertakes activities in this direction in order to comply with the legal regulations, standards and measures for risk management of money laundering and financing terrorism;
- Development and implementation of information technology and implementation of new software solutions, i.e. changes have been made in IBIS in accordance with the regulatory requirements; optimization of part of processes according to the needs for "Covid" credit lines; procurement of hardware and software on higher technological level, etc.;
- Conducting a policy for efficient cost management, i.e. operating costs are 7% lower than the adopted financial plan for 2020;
- Deepening the cooperation with related institutions from the country and abroad, i.e. the Bank continuously maintains the cooperation with the related institutions from the country and abroad and actively participates in the work of the international organizations and associations in which it is a member.

IV. CORPORATE GOVERNANCE REPORT

1. Management bodies and other bodies in the Bank

The corporate governance of DBNM in 2020 was carried out in accordance with the Baking 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 Development Bank of North Macedonia (Official Gazette of RM No. 105/09 and Official Gazette of PNM No. 77/21), the Decision on the rules for good corporate governance adopted by the Council of the NBRNM and the Code of Corporate Management adopted by the General Meeting of the Development Bank of

North Macedonia JSC Skopje. The assessment of the Bank's management should reflect the uniqueness of the Bank as a development bank fully owned by the Republic of North Macedonia.

During 2020, DBNM carried out its activities through the following bodies of the Bank:

- 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

Entities with special rights and responsibilities in the Bank (natural person who is a member of the Supervisory Board, member of the Management Board, member of the Audit Committee, member of the Risk Management Committee and other managers in the Bank, in accordance with the Statute of the Bank) did not report any conflict of interest or affiliation with third parties in accordance with the Banking Law, during 2020.

1.1 General Meeting of Shareholders

The Republic of North Macedonia is the sole shareholder of DBNM. The sole shareholder manages the Bank through the General Meeting of Shareholders, i.e. the members of the Supervisory Board who are representatives of the state capital in the General Meeting of the Bank in accordance with the Law on Development Bank of North Macedonia. The Bank's General Meeting performs the following activities:

- adopts the Statute and the amendments to the Bank Statute;
- discusses and adopts the Annual Report on the Bank 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 a new issue of shares of the Bank;
- decides on the status changes of the Bank;
- selects an audit company and decides on a proposal to terminate the contract with

the audit company;

- decides on other issues of importance for the Bank's operations provided 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 must be held not later than six months of the calendar year for the previous year. During 2020, the General Meeting of Shareholders held 1 (one) regular meeting.

At the meeting held on April 29th, 2020, the General Meeting Shareholders adopted the following acts:

- Annual Report on the Bank's operations in 2019;
- Annual report on the work of the Supervisory Board of the Bank in 2019, with an evaluation of its own work in terms of individual members and collectively;
- Report from the Audit Company Grant Thornton DOO Skopje for performed audit of the Bank's financial statements for the year that ended 31.12.2019 and the written opinion thereon prepared by the Supervisory Board of the Bank;
- Decision on adoption of the annual account of the Bank for 2019;
- Decision on the use and allocation of the realized profit for 2019.

1.2. Supervisory Board

Pursuant to the Law on Development Bank of North Macedonia (Official Gazette of RM No. 105/09 and Official Gazette of RNM No. 77/21), the Supervisory Board of the Bank consists of 5 (five) members.

The 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 in charge of economic affairs and one on proposal of the Minister of Economy. The 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.

During 2020, the Supervisory Board of the Bank, pursuant to the decision of the Government of the Republic of Macedonia for appointing members of the Supervisory Board of the Development Bank of North Macedonia AD Skopje, number 24—4133/1 from 25.7.2017, registered in DBNM on 1.8.2017 number 03-2072/1, Decision number 24— 2719/1 from 27.2.2018 and Decision number 235926/1 from 24.6.2019, as well as the Decisions by the Governor of the NBRNM for issued consent

for appointment of members of the Supervisory Board of DBNM AD Skopje, number 15—35225/2 from I 5.11.2017, 15—35226/2 from 15.11.2017, 15—35227/2 from 15.11.2017, 15—11938/9 from 17.5.2018 and 15—25768/6 from 12.9.2019, worked in the following composition:

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

The Supervisory Board supervises the operation of the Management Board, adopts the policies for performing the financial activities and supervises their implementation. The Supervisory Board is in charge of ensuring good operation, governance and stability of the Bank, as well as timely and accurate financial reporting of the NBNM. The Supervisory Board of the Bank also performs the following tasks:

- adopts the Bank’s Development Plan and Business Policy;
- appoints and dismisses members of the Management Board;
- appoints and dismisses members of the Risk Management Committee;
- appoints and dismisses members of the Audit Committee;
- adopts the Bank’s financial plan;
- organizes the Internal Audit Department;
- approves the annual plan of the Internal Audit Department;
- adopts the information system security policy;
- adopts the Bank’s risk management policies;
- adopts a policy of avoiding conflict of interest to identify any conflicts of interest and prevention measures and actions;
- adopts a remuneration policy in accordance with the business policy, development plan, financial plan and the policy to avoid conflicts of interests of the Bank;
- adopts and implements a policy for the method of selection, monitoring of operations and dismissal of the members of the Supervisory Board, the Risk Management Committee, 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 financial statements of the Bank;
- approves exposure to a person of more than 20% of the Bank's own funds, with the exception of exposure based on hedging of securities issued by the NBRNM;
- approves transactions with related parties to the Bank exceeding MKD 6,000,000 MKD;
- approves the acquisition of capital shares and the 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 termination of the contract with the audit company and is responsible for ensuring the 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 institutions 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 a written opinion thereon to the Bank's General Meeting of Shareholders;
- discusses the Audit Report and submits a written opinion thereon to the General Meeting of Shareholders;
- adopts the code for corporate governance which regulates the rules for management and supervision of the Bank;
- adopts the Bank's Code of Conduct;
- gives consent for concluding reinsurance agreements within the overall obligations of the Bank on the basis of insurance operations;
- sets the general conditions for credit insurance against commercial and political risks;
- gives consent of agreements within the Republic of North Macedonia;
- gives consent for business trips abroad, in case more than three employees travel;

- adopts the Report on assets inventory and sources of assets;
- decides on writing off claims;
- discusses the reports on rescheduled debts and debts with extended maturity period;
- monitors the implementation of the decisions, conclusions and guidelines adopted by the General Meeting of Shareholders of the Bank;
- decides in second instance upon complaint of unsatisfied employees against the decision of the Management Board or upon objection for reconsideration of the decision;
- approves the limits of exposure to certain types of risks;
- approves the introduction of new products which significantly affect the risk profile of the Bank;
- approves the policy for publishing reports and data by the Bank;
- at least once a year, makes self-assessment of its operations from the aspect of individual members and jointly; and notifies the General Meeting of Shareholders;
- performs other activities in accordance with this Statute, the general acts of the Bank and the laws and bylaws.

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

During January - December 2020, the Supervisory Board held a total of 14 (fourteen) meetings. Within the competencies established by law, the Supervisory Board undertook a number of activities and adopted several acts related to the regular operations of the Bank, the most important of which are:

1. Decision on amendments to the Short-Term Commercial Risk Insurance Policy No. 02-593/18 dated 26 March 2018 and Decision on Amendments to the Short-Term Commercial Risk Insurance Policy No. 02-1602/2 dated 29 June 2018 year;
2. Decision on adoption of the Report on performed inventory of assets, claims and liabilities on 31.12.2019;
3. Decision on adoption of the financial plan for operation of the Development Bank of North Macedonia JSC Skopje in 2020;
4. Decision on approval of the unaudited financial statements of the

- Development Bank of North Macedonia JSC Skopje, prepared in accordance with the Law on Other Companies and the regulation of the NBRNM, for the year which ended 31.12.2020;
5. Decision on approval of the Plan and work program of the Internal Audit Department for 2020;
 6. Decision on approval of the annual account and financial statements for 2019;
 7. Draft-Decision for use and allocation of the profit for 2019;
 8. Decision for adoption of the Development Plan and Business Policy of DBNM JSC Skopje for the period 2020 - 2022;
 9. Decision on change of the Bank's Credit Policy;
 10. Decision on amendment of the Decision on interest rates;
 11. Decision on amendment of the compensation fee for services performed by the Bank;
 12. Individual and collective evaluation of the Supervisory Board Members;
 13. Decision on approval of the Annual Report on the operations of the Development Bank of North Macedonia JSC Skopje in 2019, with a written opinion thereon;
 14. Decision on approval of the audited financial statements of the Development Bank of North Macedonia JSC Skopje for the year ending 31.12.2019, with a written opinion thereon;
 15. Decision on approving the exposure limit to banks - participants;
 16. Decision on issuing a consent for concluding an Agreement for administration of a fund of micro and small-sized enterprises with the Government of the Republic of North Macedonia and an Agreement for transfer of funds with the Ministry of Economy;
 17. Decision on concluding a reinsurance contract for 2021;
 18. Decision on borrowing funds from the European Investment Bank - EIB 6;
 19. Decision on determining the termination of the mandate and appointing a member of the Credit Committee;
 20. Decision on determining the termination of the mandate and appointment of a member of the Insurance Committee.

The Supervisory Board approved i.e. adopted the reports, information and other proposed materials for the Bank's operations in 2020.

1.3. Audit Committee

The Audit Committee consists of 5 (five) members. The Audit Committee Members are appointed and dismissed by the Supervisory Board. Three members in the Audit Committee are elected from among the members of the Supervisory Board, and two are independent members. At least one member of the Audit Committee should be an authorized auditor. The members of the Audit Committee elect from amongst their ranks a chairman, responsible for the organization of the operations of the Audit Committee.

The Audit Committee of DBNM, during 2020 worked in the following composition:

- **Nikola Popovski** – President
- **Klimentina Poposka** - member
- **Sofche Jovanovska** – member
- **Veland Ramadani** – member
- **Lenin Prculovski** - member

The Audit Committee performs the following activities:

- discusses the financial statements of the Bank and takes care of the accuracy and transparency of the published financial information for the Bank's operations in accordance with the accounting regulations and international accounting standards;
- discusses and evaluates internal control systems;
- monitors the work and evaluates the efficiency of the Internal Audit Department;
- monitors the Bank's audit process and evaluates the work of the audit company;
- adopts the accounting policies of the Bank;
- monitors the compliance of the Bank's operations with the regulations related to the accounting standards and financial statements;
- maintains a relationship with the Management Board, the Internal Audit Department and the audit company regarding the identified non-compliances with the regulations and weaknesses in the Bank's operations;
- discusses the Risk Management Committee's reports;
- proposes the appointment of an audit company and termination of agreement

with an audit company; and

- reports to the Bank's Supervisory Board on its operations at least once quarterly.

During 2020, at the meetings of the Audit Committee, the financial statements of the Bank were reviewed and the objectivity of the disclosed financial information on the Bank's operations was determined, as well as their compliance with the accounting regulations and the international accounting standards. The Audit Committee monitored the work of the Internal Audit Department and evaluated the work of the audit company, which as an independent auditor audited the financial statements of the Bank for 2020. The Audit Committee discussed the risk profile of the reports, analyzing each risk separately to which the Bank is exposed during its operations.

1.4. Management Board

The Management Board of the Bank consists of 2 (two) members, appointed by the Supervisory Board of the Bank, based on the previously issued consent by the Governor of the NBRNM. The members of the Board are appointed as: Chief Executive Officer and Chief Operating Officer.

During 2020, the Management Board of the Bank worked in the following composition:

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

Kire Naumov, as a member of the Management Board - Chief Executive Officer of the Bank was appointed by Decision of the Supervisory Board no. 02—2254/1 dated 16.9.2019. The Chief Executive Officer has been appointed for a term of 6 (six) years. The Governor of the NBRNM calling upon Decision number 15—30669/12 from 20.11.2019, issued a consent for the appointment of Kire Naumov as a member of the Board - Chief Executive Officer for a period of two years.

Faruk Ismaili, as a member of the Management Board - Chief Operating Officer of the Bank was appointed with Decision no. 02—2516/2 dated 10.10.2019, by the Bank's Supervisory Board. The Chief Operating Officer has been appointed for a term of 6 (six) years. The Governor of the NBRNM, calling upon Decision no. 15-32455/7 dated 6.12.2019, issued consent for the appointment of Faruk Ismaili as a member of the Board - Chief Operating Officer for a period of two years.

The Board is performing the following activities:

- manages the Bank;
- represents the Bank;
- enforces the decisions of the General Meeting of Shareholders and the Supervisory Board of the Bank, i.e. ensures their implementation;
- takes initiatives and gives proposals for promoting the Bank's operations;
- appoints and dismisses individuals with special rights and responsibilities, in accordance with the provisions of the Law on MBDP and the Statute of the Bank;
- prepares the development plan and business policy of the Bank;
- prepares a financial plan of the Bank;
- prepares a information security policy;
- prepares an annual report on the Bank's operations and submits it to the Supervisory Board;
- prepares a Code of Conduct;
- decides on the placement of credit insurance funds against commercial and political risks;
- decides on granting and borrowing liquidity loans irrespective of the amount and terms within the limits set by the Banking Law and the acts of the Bank;
- determines the internal organization and systematization of works and tasks in the Bank and decides on the establishment of employment, promotion, redeployment, professional development, determination of salary and salary remuneration, remuneration for special engagement, pronouncement of disciplinary measures for material liability of employees and termination of employment;
- performs other activities that are not under the jurisdiction of the Supervisory Board of the Bank.

The Management Board, within its competencies determined by Law and the Statute, has adopted all necessary internal acts that provide the working conditions for the Bank in compliance with the laws and bylaws. For its activities, the Management Board submitted reports on its work to the Supervisory Board.

With a decision adopted by the Supervisory Board of the Bank on December 22, 2016, the competencies of the members of the Management Board were divided into separate segments of operations of the Bank, as follows:

- The Chief Executive Officer shall be responsible for business policy and planning, the Bank's financial statements and human resources, lending and

credit insurance, general and legal affairs, the Management Board, financial and accounting operations;

- The Chief Operating Officer shall be responsible for risk management, information technology, regulatory compliance, prevention of money laundering and financing of terrorism, information system security, treasury operations, liquidity, and payment operations in the country and abroad.

1.5. Risk Management Committee

The Risk Management Committee consists of 3 (three) members. The members of the Risk Management Committee are elected from among the persons with special rights and responsibilities in the Bank, and primarily among the managers of the organizational units for assets and liquidity, credit insurance and lending. The members of the Risk Management Committee, in addition to the requirements for appointment of persons with special rights and responsibilities, must have at least three-years experience in the field of finance or banking; to be knowledgeable about the Bank's operations, its products and services and about the risks to which the Bank is exposed. The Supervisory Board appoints and dismisses the members of the Risk Management Committee, except for the Chief Operating Officer who in accordance with the Bank's Statute, as a member of the Management Board, is a member and chairman of the Risk Management Committee.

During 2020, the Risk Management Committee operated in the following composition:

- **Faruk Ismaili** – President
- **Aleksandar Stanojkovski** – member
- **Qenan Idrizi** - member

The Risk Management Committee performs the following activities:

- permanently monitors and assesses the level of risk of the Bank and identifies the acceptable level of risk exposure in order to minimize the Bank's losses as a result of the Bank's risk exposure;
- establishes risk management policies and monitors their implementation;
- follows the NBRNM regulations related to risk management and the Bank's compliance with these regulations;
- evaluates the risk management systems in the Bank;
- determines short-term and long-term strategies for dealing with certain types of risks which the Bank is exposed to;
- analyzes the Bank's risk exposure reports prepared by the Bank's units that perform risk assessment and proposes strategies, measures and instruments for

- risk protection;
- monitors the efficiency of the functioning of internal control systems in risk management;
- analyzes the effects of risk management on the Bank's performance;
- analyzes the effects of the proposed risk management strategies, as well as the proposed strategies, measures and instruments for risk protection;
- assesses the compliance of the prices of the products and services offered by the Bank with the level of risk taken, in accordance with the Bank's business policy and the development plan;
- quarterly reports to the Supervisory Board on the changes in the risk positions of the Bank, the changes in the risk management strategy, the risk management effects on the performance of the Bank, as well as the undertaken measures and instruments for hedging risks and effects thereof;
- approves exposure to a person/entity from over 10% to 20% of own funds of the Bank.

The Risk Management Committee makes self-assessment of its operations at least once a year in regards of the individual members and jointly and submits it to the Supervisory Board of the Bank. During 2020, the Risk Management Committee made decisions at meetings that were held at least once a week and in accordance with the Banking Law, and submitted reports on its operations to the Bank's Supervisory Board.

1.6. Credit Committee

The Credit Committee is composed of 3 (three) members, of which the Management Board Members are members of the Credit Committee in accordance with the Bank's Statute, while the third member is appointed and dismissed by the Bank's Supervisory Board. The Credit Committee of the Bank in 2020 operated in the following composition:

- **Kire Naumov** - President
- **Faruk Ismaili** – Member
- **Toni Petroski** - Member

The Credit Committee has the following tasks and responsibilities:

- decides on investments and credit debts, guaranties and other exposures to a borrower up to 10% of the Bank's own funds;
- discusses and approves loans within the credit policy, the Statute, as well as in accordance with the principles of banking operations determined by the Law

- on MBDP;
- manages the existing loans by providing estimates on the borrower's creditability at least once a year;
- terminates an existing loan agreement due to the risk of non-payment of the loan liabilities and if possible, requires additional collateral in case of loss threat;
- adopts Rules of procedure;
- performs other activities of the credit policy determined in accordance with the Law on DBNM, the Banking Law and the Statute of the Bank.

During 2020, the Credit Committee held meetings at which they discussed and approved credit and factoring applications submitted by the banks - participants (intermediary banks) in the loan programs of DBNM and the insured persons were reviewed and approved.

Pursuant to the Decision of the Supervisory Board on concluding an 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 Compensation Fund from other foreign aid, the Supervisory Board authorized the Credit Committee to decide upon submitted credit applications for using funds from the foreign aid Compensation Fund and the Compensation Funds from the other foreign aid, worth over EUR 150,000 in MKD, according to the middle exchange rate of the NBRNM on the day of approval.

1.7. Insurance Committee

The Insurance Committee is composed of 3 (three) members. Pursuant to the Statute of the Bank, the members of the Management Board are also members of the Insurance Board, while the third member is appointed and dismissed by the Bank's Supervisory Board. The Insurance Committee in 2020 worked in the following composition:

- **Kire Naumov** – President
- **Faruk Ismaili** – member
- **Toni Petroski** - member

The Insurance Board has the following tasks and responsibilities:

- Lay down the special conditions for trade credit insurance against commercial and political risks, including insurance limits;
- discusses and approves the conclusion of insurance contracts;
- examines the risks within insurance;

- manages insurance policies by providing assessments, at least once a year for the insurance risk.

In 2020, the Insurance Committee made decisions on meetings at which insurance limits were reviewed and approved. The Insurance Committee, pursuant to the Rules of Procedure and without holding a meeting, discussed the proposals for approval/determination of limits and decided accordingly.

2. 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 2020, 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 given in the following table:

Sofche Jovanovska	Chairman of the Supervisory Board Member of the Audit Board
Term of office	16.11.2017 - 16.11.2021
Name of employer	SKEIL FOCUS DOOEL Skopje
Gross annual income	Confidential - Managerial agreement
Membership in other supervisory bodies	KIBS Supervisory Board
Membership in other governing bodies	

Veland Ramadani	Member of the Supervisory Board Member of the Audit Board
Term of office	16.11.2017 - 16.11.2021
Name of employer	University of South East Europe; Faculty of Business and Economy
Gross annual income	1.488.102,00 (gross)
Membership in other supervisory bodies	/
Membership in other governing bodies	/

Nikola Popovski	Member of the Supervisory Board Chairman of the Audit Board
Term of office	16.11.2017 - 16.11.2021
Name of employer	FON university (Jan-Sept.)//International Slavic University (Oct-Dec.)
Gross annual income	644,880
Membership in other supervisory bodies	/

Membership in other governing bodies	/
Burim Kadriu	Chairman of the Audit Board
Term of office	21.05.2018-21.05.2022
Name of employer	Municipality of Kichevo
Gross annual income	722,660.00
Membership in other supervisory bodies	/
Membership in other governing bodies	/
Sonja Petrusheva	Member of the Supervisory Board
Term of office	12.09.2019-12.09.2023
Name of employer	Law Firm PETRUSHEVA
Gross annual income	1,200,000.00 (gross)
Membership in other supervisory bodies	
Membership in other governing bodies	
Klimentina Poposka	Member of the Audit Board
Term of office	27.12.2012-
Name of employer	Institute of Economics – Skopje University Ss Cyril and Methodius in Skopje, Institute for Business and Economy
Gross annual income	/
Membership in other governing bodies	HorizontiMikrokreditiranje – Board of Directors
Lenin Prculovski	Member of the Audit Board
Term of office	23.04.2019-
Name of employer	National Group for Insurance AD OsiguritelnaPolisa - Skopje
Membership in other supervisory bodies	/
Membership in other governing bodies	/
Qenan Idrizi	Member of the Risk Management Board
Term of office	18.12.2008-
Membership in other supervisory bodies	/
Membership in other governing bodies	/
Aleksandar Stanojkovski	Member of the Risk Management Board
Term of office	18.12.2008-

Membership in other supervisory bodies	/
Membership in other governing bodies	/

Kire Naumov	Member of the Board of Directors
Term of office	21.11.2019-
Name of employer	Development Bank of North Macedonia AD Skopje
Membership in other supervisory bodies	/
Membership in other governing bodies	/

Faruk Ismaili	Member of the Board of Directors
Term of office	07.12.2019-
Name of employer	Development Bank of North Macedonia AD Skopje
Membership in other supervisory bodies	/
Membership in other governing bodies	/

3. Information and data related to the implementation of the Bank's reward policy

The Supervisory Board of the Bank on December 18, 2018 adopted the reward policy of the Development Bank of North Macedonia JSC Skopje. The remuneration policy contains clear and transparent rules and criteria for determining the amount of the total compensation, and especially for clearly defining and distinguishing between the fixed and the variable part of the total compensation. The reward policy stipulates that the variable portion of the fee must not exceed 25% of the fixed part of the total fee paid to each employee or member of the Bank's body on an annual basis. In accordance with this policy, the Supervisory Board approves the amount of the total fee for the members of the Management Board by concluding the mining agreements. For the persons in charge of the control functions, the Supervisory Board approves the amount of the total fee only in case of determination of a variable part of the fee. The Management Board determines the total compensation for the persons with special rights and responsibilities and for the employees of the Bank.

The reward policy does not provide for the payment of compensation in the form of shares or other rights that enable the acquisition of shares,

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

In the reported year, the gross amount of MKD 1,453.3 thousand was paid to

the members of the Supervisory Board on the grounds of membership fees, and gross amount of MKD 533.3 thousand was paid to the members of the Audit Committee. There is no compensation for membership in the other bodies of the Bank planned or paid.

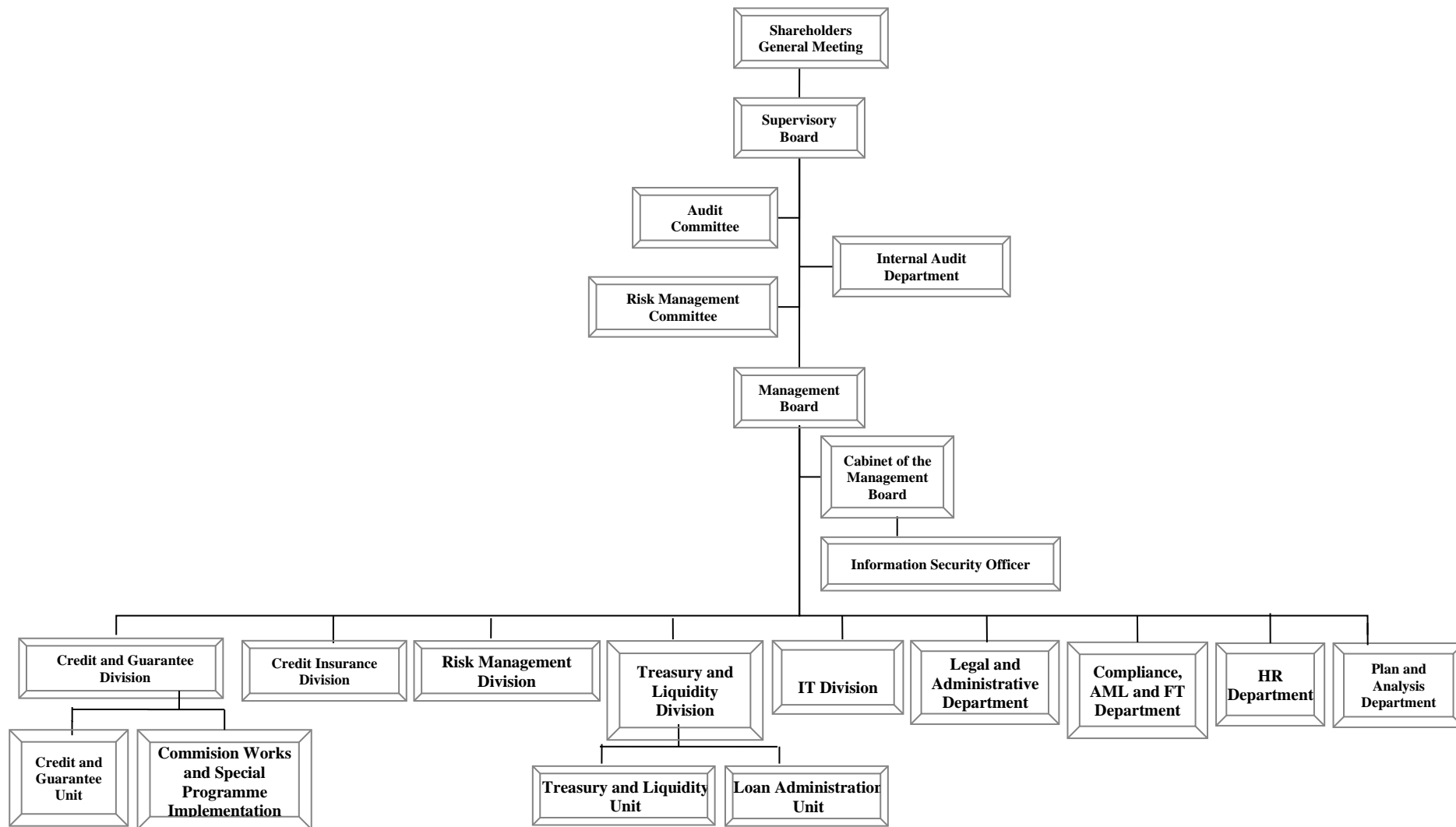
In the reported period, on the grounds of gross salary, salary allowances, bonus, insurance and other rights, the current members of the Board of Directors were paid an amount of 4,167.9 thousand MKD, and 13 persons with special rights and responsibilities were paid an amount of 14,497 , 2 thousand MKD.

V. ORGANIZATIONAL STRUCTURE

DBNM is organized in five divisions and five departments. The sectors in the Bank are as follows: Credit and Guarantee Division; Credit Insurance Division; Treasury and Liquidity Division; Risk Management Division, and Information Technology Division. The Bank's Departments are as follows: Internal Audit Department; Legal and General Affairs Department; Department for Compliance Control of the Bank's operations with the regulations and prevention of money laundering and financing terrorism; Planning and Analysis Department and HR Department. The Bank has also appointed a person responsible for information system security.

The Bank doesn't not have branch offices.

As of December 31, 2020, DBNM has had 39 employees.



VI. SHAREHOLDERS STRUCTURE

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

VII. OTHER INFORMATION AND DATA IN RELATION TO THE CODE OF CORPORATE GOVERNANCE

The Code of Corporate Governance of the Development Bank of North Macedonia JSC Skopje no. 02-1602/5 from 29.6.2018 and the Decision on amending the Code of corporate governance no. 02-2043/13 from 13.8.2019 have been prepared in accordance with the Decision on rules on good corporate governance by the Council of NBRNM.

DBNM, i.e. the management bodies of the Bank and the employees during 2020, fully adhered to the principles of corporate governance accepted in the Code of Corporate Governance, as follows:

- Principle of protection of the rights and interests of the sole shareholder;
- Principle of efficient governance;
- Principle of effective control of financial and economic activities;
- Principle of transparency and objectivity in publishing information about DBNM;
- Principle of legality and ethics;
- Principle of social responsibility;
- Principle of segregation of responsibilities;
- Principle of solving corporate conflicts;
- Principle of effective interaction with employees and fair compensation;
- Principle of diligence and responsibility;
- Protection of personal data;
- Corporate adviser.

VIII. INFORMATION AND DATA ON THE BANK'S CONFLICT OF INTERESTS PROTECTION POLICY

The basic postulates of the policy are laid down in the Bank's Code of Conduct no. 02-1470/8 dated 12.6.2018, the Decision on modification and amendment of the Code of Conduct no. 02—240/4 from 23.1.2019 and 02—1424/9 from 6.6.2019 and

the Policy on avoiding conflict of interests no. 02—1401/8 dated 6.6.2018. The Code of Conduct is reviewed by the Bank's Supervisory Board at least once a year.

Pursuant to the legal provisions and the provisions of the Bank's conflict of interests policy, persons with special rights and responsibilities in the Bank shall regularly give a written statement every six months on existence, i.e. non-existence of conflict of their personal interest with the Bank's interest. The members of the Supervisory Board and the Management Board of the Bank, and the persons with special authorizations are not present in making decisions that bring their objectivity, due to a conflict between their personal interest and the interest of the Bank through the content of the decision to be made by the relevant authority. Members of the Supervisory Board and the Management Board, and the persons with special authorizations prior to deciding on matters regarding their conflict of interest, leave the meeting and give a written statement stating the grounds on which the conflict of interest arises.

IX. INFORMATION ON USE OF OUTSOURCING

DBNM uses outsourcing services that are relevant to the Bank's operations, i.e.:

- maintenance of factoring software;
- maintenance of software for integrated banking system IBIS;
- maintenance of ICT infrastructure;
- maintenance of anti-money laundering and anti-terrorism financing software.

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

X. FINANCIAL PERFORMANCE OF THE BANK OPERATIONS IN 2020

During 2020, DBNM JSC Skopje has operated in accordance with the adopted Development Plan and Business Policy for the year, adjusting the current operations with the market, and economic and non-economic conditions in the country. The Bank mainly achieved the planned operational goals and exceeded the projected financial goals, while maintaining a high level of liquidity, stability and solvency.

BALANCE SHEET (in thousands MKD)	Plan 31.12.2020	Status 31.12.2020	Index
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Cash	1.037.991	1.256.699	121,1
Net loans	10.592,431	10.628.474	100,3
Fixed assets	115.151	108.029	93,8
TOTAL ASSETS	11.756.900	11.997.154	102,0
Liabilities for loans	9.106.242	9.132.768	100,3
Total liabilities	9.127.108	9.345.937	102,4
Total cash and reserves	2.629.792	2.651.217	100,8
Contingent liabilities (credit insurance)	456.000	578.312	126,8

INCOME STATEMENT (in thousands MKD)	Plan	Realization	Index
	01.01.2020 31.12.2020	01.01.2020 31.12.2020	
Net income/interest expense	76.161	83.454	109,6
Net income/expenses from commissions and fees	16.215	20.017	123,4
Total net income	96.394	III.237	115,7
General and administrative costs and depreciation	73.799	68.572	92,9
PROFIT/LOSS FOR THE FINANCIAL YEAR	10.332	31.756	307,4

1. Balance sheet

The total net balance amount on 31.12.2020 is 11,997,154 thousand MKD, with dominant share in the structure of assets of 88.6% being credit activities in the amount of 10,628,474 thousand MKD. The growth of assets by 16.3% and net loans by 13.0% compared to the previous year are generally due to placement of the remaining tranches of the EIB 5 credit line. The status of cash and cash equivalents satisfy the regulatory and intern liquidity indicators, and the management of the foreclosed assets on the basis of uncollected receivables takes place in accordance with the NBRNM regulations, which refers to the allocation of loss for impairment of foreclosed property. The net asset value of the real estate, equipment and intangible assets is within the needs for satisfying the operational operations of the Bank.

The total liabilities of the Bank on 31.12.2020 reached the amount of MKD 9,345,937 thousand. The dominant item continues to be the liabilities for loans with a share of 97.7% in the total liabilities of the Bank, most of which refer to liabilities for loans from the EIB. The paid, but unregistered capital in the amount of MKD 185,070 thousand, until the fulfillment of the condition for registering it, is kept on the position of other liabilities. The special reserve for potential losses for off-balance sheet items on 31.12.2020 amounted to MKD 16,853 thousand, and its value arises from the classification of credit exposure to off-balance sheet assets and provisions for potential liabilities based on litigation.

Total capital and reserves participate with 22.1% in the Bank's liabilities.

Compared to the previous year, they increased by 1.2% and on 31.12.2020 are positioned at MKD 2,651,217 thousand. It consists of the founding capital, the reserves formed from the realized profits in the previous years and the profit from the current period.

The total potential liabilities arising from the issued policies for insurance of claims of the insured persons from commercial and non-commercial risks and which are covered by reinsurance agreements, at the end of 2020 amounted to MKD 578,312 thousand and increased by 49.7%.

Assets Structure	Liabilities Structure
2019	2019
Assets Structure:	Liabilities Structure:
Fixed and other assets: 1.3%	Reserves and Current Profit:
13.8%	
Liquid assets: 7.5%	Registered capital: 11.6%
Net-loans: 91.2%	Liabilities: 74.6%
2020	2020
Fixed and other assets: 0.9%	Reserves and Current Profit:
12.1%	
Liquid assets: 10.5%	Registered capital: 10%
Net-loans: 88.6%	Liabilities: 77.9%

BALANCE SHEET (in thousands MKD)	Plan 31.12.2019	Status 31.12.2020	Index 2019/2020
Cash and cash equivalents	773.636	1.256.699	162,4
Loans and receivables from banks	9.328.142	10.546.581	113,1
Loans and receivables from other entities	79.493	81.893	103,0
Investments in securities	0	0	
Income tax receivables	3.653	202	5,5
Other receivables	11.060	3.649	33,0
Foreclosures based on uncollected receivables	4.496	101	2,2
Intangible assets	923	755	81,8
Real estate and equipment	111.157	107.274	96,5
TOTAL ASSETS	10.312.560	11.997.154	116,3
Liabilities for loans	7.673.211	9.132.768	119,0
Special reserve and off-balance exposure reserves	9.303	16.853	181,2
Income tax liabilities (current)	0	296	
Other liabilities	10.586	196.020	1851,7
TOTAL LIABILITIES	7,693.100	9,345.937	121,5
Registered capital	1.193.792	1.193.792	100,0
Other reserves	1.407.301	1.425.669	101,3

Retained earnings/accumulated losses	18.367	31,756	172,9
TOTAL EQUITY AND RESERVES	2.619.460	2.651.217	101,2
TOTAL LIABILITIES AND EQUITY AND RESERVES	10.312.560	11.997.354	116,3

Potential assets	0	0	
Potential liabilities	386.275	578.312	149,7

2. Income statement

In the period from 01.01-31.12.2020, DBNM achieved a net positive financial result in the amount of MKD 31,756 thousand, i.e. 72.9% higher than the previous year. The dominant influence on the profit has the following: increased net income from the regular operations which are a result of the increased volume of loans and insurance activities of the Bank; the release of impairment of financial assets with a one-time effect from the previous year, as well as the Government's decision to temporarily ban the purchase of fixed assets and reduce the current expenditures of state-owned joint stock companies due to the health and economic crisis caused by Covid virus – 19, which caused reduced realization of the planned operating costs,

Net interest income is stable despite the increased amount of net loans. This is mainly due to: the current market conversion of the loan portfolio with higher margin to lower margin loans; the constant pressure on the domestic banking sector to reduce interest rates and narrow the interest rate spread and the trend of low interest rates on the international and domestic capital markets. In such conditions, the Bank achieved an increase of the net-income from commissions and compensations which generally come from credit insurance operations and commission work on behalf of the state. The Bank also had increased net income from exchange rates.

The impairment of financial assets shows a net expense in amount of MKD 2,748 thousand and it corresponds to the volume, structure and quality of the Bank's placements, and the loss due to impairment of non-financial assets on a net basis amounts to MKD 4,394 thousand.

General and administrative assets and depreciation were realized in MKD 68,572 thousand.

INCOME STATEMENT (in thousands MKD)	01.01.2019 31.12.2020	01.01.2020 31.12.2020	Index 2019/2020
Interest income	157,640	138,458	87,8
Interest expenditures	- 73,439	-55,004	74,9
Net interest income/expenditures	84,201	83,454	99,1
Income from commissions and compensations	38,439	29,796	77,5
Expenditures for commissions and compensations	-26,355	-9,779	37,1

Net income/expenditures from commissions and compensations	12,104	20,017	165,4
Net income/expenditures from exchange differences	-243	6,606	2718,5
Other income from the activity	4,899	1,140	23,3
Correction of value of cash, net-basis	-16,345	-2,748	16,8
Loss due to impairment of non-financial assets, net basis	-1,369	-4,394	321,0
Expenditures for employees	-34,215	-37,941	110,9
Depreciation	-4,781	-5,328	111,4
Other expenditures from the activity	-23,465	-25,303	107,8
General and administrative expenditures and depreciation	-62,461	-68,572	109,8
Profit/Loss before tax	20,786	35,503	170,8
Income tax	-2,419	-3,747	154,9
PROFIT/LOSS FOR FINANCIAL YEAR	18,367	31,756	172,9

2019

Net-income structure:
structure:

Other income: 7.0%

From commissions and compensations: 18.0%

From interest: 75.0%

2020

Net-income structure:
structure:

Other income: 4.6%

From commissions and compensations: 13.0%

From interest: 83.4%

2019

Operating expenditures

Other expenditures: 36.9%

Depreciation: 7.8%

For the employees: 55.3%

2020

Operating expenditures

Other expenditures: 37.6%

Depreciation: 7.7%

For the employees: 54.8%

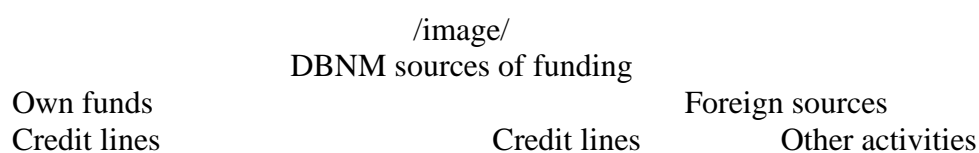
XI. CREDIT ACTIVITIES

In 2020, the lending activities of DBNM were realized through commercial banks and directly. Commercial banks which DBNM has concluded agreements with for the realization of credit activities are as follows:

- Halk Bank AD Skopje
- Sparkasse Banka AD Skopje
- Komercijalna Banka AD Skopje
- NLB Banka AD Skopje
- Ohridska Banka AD Skopje
- CentralnaKooperativna Banka AD Skopje
- Prokredit Banka AD Skopje
- Stopanska Banka AD Bitola
- Stopanska Banka AD Skopje
- TTK Banka AD Skopje
- UNI Banka AD Skopje
-

Part of its credit activities (loans to agriculture, projects for processing of agricultural products, exports, municipalities for the project of IPA component and lending to entities affected by the Covid-19 pandemic), were realized by DBNM directly without the mediation of commercial banks.

The credit activities of DBNM are financed by using two sources of funds, i.e. own sources of funds and liquid sources of funds (funds provided by international financial institutions, bilateral creditors and other creditors and donors).



2019

Loans structure:

Commission operations: 9,9%

KW: 5.5%

EIB: 67.6%

Own funds: 17.1%

2020

Commission operations: 15.4%

KW: 5.5%

EIB: 70.5%

Own funds: 19.6%

1. Credit lines from DBNM's own funds

From DBNM's own funds, several credit lines have been created in order to meet the development goals of the Bank, as follows: credit line for development of micro, small and medium-sized enterprises (amount up to EUR 500,000 with a repayment period of up to 1 year); credit line for financing production intended for export (amount up to EUR 2,000,000 with a repayment period of up to 2 years); credit line for financing of fixed working capital (amount up to EUR 300,000 and a repayment period of up to 3years) and credit line for financing municipalities for implementation of projects financed under the EU IPA component (amount up to EUR 300,000 with

a repayment period up to 2 years).

2. Credit lines from foreign financial institutions, bilateral creditors and other sources

2.1.EIB 5 Credit line

In 2020, DBNM continued to use and realize the credit lines from foreign creditors and donors, with special emphasis on the credit placements from the revolving fund of the credit lines EIB 1, EIB 2, EIB 3 and EIB 4, as well as on withdrawal and placement of new funds from the EIB 5 credit line. The loans from the EIB 5 credit line are intended for financing fixed assets, permanent working capital, priority projects and mid cap companies and they are placed with a fixed interest rate of up to 3.2% per annum (for the initial withdrawal and deposit of EUR 50 million) and up to 1.6% (for additionally withdrawn and placed EUR 50million). The funds from this credit line support the following credit programs:

Name of credit program from EIB 5	Amount of separate credit to the end users	Repayment period	Grace period included	Intention
Investment loans	From EUR10.000 to3.500.000	Up to 12 years	Up to 2 years	Support for identified projectson: <ul style="list-style-type: none"> • purchase of tangible assets: real estate (except land); equipment; working capital (not exceeding 30% of the loan value) and • investments in intangible assets
Loans for permanent operating assets	From EUR5.000 to666.700	Up to 3 years	Up to 6 months	Support for requests for permanent increase of the working capital inconditions of expansion of business activities for the company
Loans for priority projects and mid-caps	To EUR 6.000.000	Up to 12 years	Up to 12 years	Support for priority projects in areas of Industry, education, culture, ecology, etc.

2.2.Credit loan for financing micro, small and medium-sized enterprises from the German Development Bank –KfW

The funds from this credit line consist of three phases in total. DBNM is appointed as the Agent of the Fund formed from the funds of the credit line from the first phase (KfW1), while in the second and third phase (KfW2 and KfW3), DBNM also appears in the role of a borrower. The funds were placed through commercial banks and saving houses. The amount of loans is up to EUR 300,000, the repayment

period is up to 11 years, and the interest rate is determined by each single bank individually. Beneficiaries of the loans are: micro and small-sized enterprises, individual entrepreneurs, craftsmen, private traders, market stalls and other micro and small business entities.

2.3. Other credit lines and projects

2.3.1. Project entitled "Financial support for self-employment"

In 2008, the implementation of the project "Financial support for self-employment " started (the project has been carried out by the Employment Agency of the Republic of North Macedonia). The aim of the project is to create an efficient system of economic and social support and productive engagement of the unemployed people in the country. The credit program is aimed at supporting the long-term unemployed beneficiaries and first-time young people. The loans are approved with a fixed interest rate of 1% per year, during which the interest is not paid in the period, and the beneficiaries of funds from this program are obliged not to be able to return to the register of unemployed at least during the loan repayment period.

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

Starting from the middle of 2010, the administration of ACDF credit transfer was transferred from the Ministry of Finance to DBNM with an Administration Agreement concluded with the Ministry of Finance, under the name "Renewable Loan Fund Administration". This credit line has been implemented since 2003 through twelve participating financial institutions (FIs), of which ten commercial banks and two savings houses. The repayment period and the grace period are negotiated with FI, and the loans are approved for primary agricultural production, processing of agricultural products, export of primary agricultural products and their products. The ACDF credit line also supports individual farmers registered in the respective register.

2.3.3. Special Credit Fund (SCF): SCF credit line and Covid 1 credit line

The SCF credit line was established with free funds from the European Agency for Reconstruction (EAR). In that regard, DBNM and the Government, i.e. the Ministry of Finance, have concluded an Administration Agreement of a Special Credit Fund together with several annexes which determine the procedures and ways for realization of this credit line, i.e.: via banks-participants (SCF-credit line) and directly (Covid 1 credit line). The direct financing from this fund was introduced in 2020 in order to reduce the consequences of the Covid-19 through the realization of an

interest-free credit line intended for the most affected sectors: transport, catering and tourism. Covid 1 credit line was previously placed with a repayment period of up to 2 years and included grace period of up to 6 months, but due to the prolonged impact of the pandemic, borrowers were given the opportunity to request an extension of the grace period for an additional 3 months.

2.3.4. Compensation Funds: Credit line for production, processing and export of agricultural products and Covid 3 credit line

The credit line for production, processing and export of agricultural products (Credit Line from Compensation Funds) started its implementation in 2012 and was established in order to directly support companies engaged in the production, processing and export of agricultural products. Loans are placed at a fixed annual interest rate of 2%; repayment period is up to 10 years with included grace period of up to 18 months for fixed assets, i.e. up to 24 months with included grace period of up to 6 months for working capital.

In order to support the private sector to reduce the negative effects of the Covid-19 pandemic, during 2020 part of the free funds from this credit line will be transferred directly to the companies through Covid 2 credit line, under conditions that include: 0% interest rate and repayment period of up to 3 years including grace period of up to 12 months,

XII. TRADE CREDIT INSURANCE

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

The Development Bank of North Macedonia is a development institution that insures export and domestic demand against commercial and political risks in the short term. The Bank offers the following insurance instruments:

- Short-term insurance against commercial risk:
 - Pre-shipment of the goods, i.e. services (bankruptcy);
 - Post-shipment of the goods, i.e. services (bankruptcy, protracted default)
- Insurance against political risks:
 - Risk of war or similar events;
 - Risk of canceling licenses;
 - Termination of agreements.

1.1 Reinsurance agreement

In 2020, the Bank reinsured its comprehensive insured export credit and domestic portfolio. The reinsurance was made in accordance with the Quota Share Insurance Agreement (mandatory) with the reinsurers: Atradius RE and Liberty Mutual Insurance SE. With the quota reinsurance agreement, more favorable conditions were achieved in terms of the undertaken risk, premium rates, insurance risks and other conditions compared to the previous years. According to the quota agreement for reinsurance, DBNM assumes 35%, and the reinsurers assume 65% of the insured risk of DBNM for approved credit limits up to EUR 1,500,000. For approved credit limits for buyers over EUR 1,500,000, DBNM assumes 20% of the insured risk, and the reinsurers assume 80% of the insured risk. The individual risk assumption by the reinsurers is as follows:

- Atradius RE, Republic of Ireland - 60%;
- Liberty Mutual Insurance SE - 40%;

2. Scope of work

2.1. Short-term risk insurance policies against commercial risk

During 2020, DBNM signed insurance policies for export and domestic claims, short-term commercial risk claims with 64 policyholders and approved credit limits for domestic and foreign buyers.

2.2. Insured exports

During 2020, DBNM insured a total of EUR 68.9 million, of which export insurance in the amount of EUR 52.8 million, while insuring domestic receivables against short-term corporate risks in the amount of EUR 16.1 million.

Amount of insured claims (in millions EUR)

2019

Domestic claims: 13.2

Export claims: 38.4

2020

Domestic claims: 16.1

Export claims: 52.8

2.3. Indemnity

During 2020, due to occurrence of insured claims (bankruptcy and protracted default), DBNM paid indemnity in favor of the insured in the amount of EUR 11,561.

3. Factoring

Factoring is a flexible financial instrument that enables improvement of the cash flow and liquidity of the company. Factoring is a specific form of short-term financing where DBNM in the role of "factor" and on the basis of a contract concluded in writing assigns/purchases foreign receivables of another domestic entity (creditor) entitled to recourse. The contracting parties in factoring are: Seller/Exporter of goods and services who issues an invoice; Debtor/Buyer of the goods or services and factor - entity/DBNM that performs the factoring, i.e. the purchase of the claim.

DBNM operates factoring with the right to demand export claims, and since March 2020, it has started with factoring in domestic claims. Thus, the Bank contributes to beneficial short-term financing of companies for their needs, which is a kind of an accelerator of business cycles implemented in companies, especially export-oriented companies. Clearly defined factoring procedures and their consistent application enable:

- establishment of clearly defined principles and procedures of operation and
- application on standard forms and models when conducting factoring

Although DBNM does factoring of export and domestic claims with the right to recourse, in the factoring process, emphasis is placed on the creditability of the buyer/debtor. The advantages for the client companies from using the factoring tool are:

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

Factoring fully confirms its role as an alternative and specific way of financing that will be more and more popular and used, given the experiences abroad and the needs of Macedonian companies for working capital in order to finance their needs. During 2020, DBNM through factoring supported the export of Macedonian products and services to customers located in five countries in the region and EU.

Realized factoring (in million EUR)

2019

Domestic factoring: 0.00

Export factoring: 4.07

2020

Domestic factoring: 0.13

Export factoring: 5.12

XIII. RISK MANAGEMENT

Development Bank of North Macedonia JSC Skopje has a well-established risk management system and continuously manages risks in accordance with the nature, type and scope of financial activities it performs. The established risk management system includes efficient risk management process that is based on the defined acceptable level of risk and the established risk culture, appropriate organizational set-up of risk management, process of determining the internal capital and process of determining the internal liquidity.

DBNM has established a system for managing all material risks to which it is exposed. Material risks are determined in accordance with the internal methodology according to which a qualitative assessment is used, i.e. assessment of the impact of a certain operating risk, as well as historical data on the amount of losses that can be associated with a particular risk. Risk is the probability that a certain activity or event will have a direct negative impact on the profit and/or own funds or cause difficulties in achieving the bank's goals. Risk is properly managed when it is identified, understood, assessed, monitored and controlled. Appropriate risk management is based on internal acts for identification, assessment, control and follow-up of individual risks, rules for stress testing, rules for introducing a new product, rules for using outsourced services, as well as an appropriate information system. Additionally, risks are not identified and assessed in isolation, therefore one transaction may carry several types of risks and one type of risk may have the effect of increasing other risks. The Bank's risk management system covers at least the following:

- Credit risk;
- Country risk;
- Credit risk, risk arising from currency risk;
- Risk of concentration of Bank's credit exposure;
- Liquidity risk;
- Currency risk;
- Interest rate risk in the banking portfolio;
- Operational risk;

- Reputation risk;
- Strategic risk.

1. Credit risk

Credit risk is a risk of loss for the bank, due to the inability of the client or another contracting party to settle its liabilities in the agreed amount and/or agreed deadlines. Given the fact that all changes in macroeconomic indicators in a country lead to qualitative changes in customers, in addition to credit risk, the bank includes the risk of the country. Loans are the largest and most obvious source of credit risk. However, there are other sources of credit risk that exist from the performance of the bank's activities and are included in the balance sheet and off-balance sheet records.

The Bank controls credit risk by establishing policies and procedures that establish a system of internal controls with a risk-taking effect. Namely, the bank performs the activities on the basis of defined criteria for new credit risk exposures, as well as for the distribution of the existing credit risk exposures. Before approving any activity that has an impact on credit exposure, the bank shall assess the risk profile on an individual basis (client/transaction) which includes: assessment (quantitative and qualitative) of the creditworthiness of the client/other party and neatness of the client in settling their obligations. The Bank assesses the need and appropriate final impairment of the active balance sheet claims, i.e. it allocates a special reserve for the off-balance sheets items arising from each credit agreement by determining the present value of future cash flows arising from those claims. The Bank determines the amount of the expected credit loss at least once on an individual basis for all credit exposures.

As of December 31, 2020, the total amount of impairment/special reserve is 0.22% of the total credit risk exposure, which is a low level of risk.

2. Country risk

Country risk is the risk that economic, social and political environment and events in a particular foreign country will affect the bank's operations. In order to address this risk, the bank establishes an adequate system of identification, assessment, monitoring and control, taking into account that the country's risk is not limited only to exposure to persons which domicile country is other than the Republic of North Macedonia, but also considers the factors which may affect the exposure to domestic entities, if the creditworthiness of the entity is under significant impact of events in another country. Country risk management is integrated with the credit risk management process. The purpose of the Bank's risk management policy is to provide the necessary preconditions for identifying the bank's risk exposure to the country and limiting the exposure according to the level of risk. Country risk exposure is calculated

individually for each credit risk exposure. For each classification of the country, a percentage of loss is predicted in accordance with the Credit Risk Management Policy. Country risk is calculated as a percentage of net credit exposure.

3. Credit risk arising from the foreign exchange risk

Credit risk arising from foreign exchange risk to which the resident-loan beneficiary is exposed to is an integral part of the credit risk and is integrated into the risk management system. Credit risk arising from the exchange rate risk to which the resident-loan user is exposed is the current or potential risk to equity and profit arising from the inability of the resident-loan user to perform their obligations regularly in accordance with the loan agreement, and therefore, changes in the exchange rate negatively reflect, i.e. increase the borrower's liabilities. This risk is related to the currency in which loans or other placements are granted. Namely, credit risk arising from the exchange rate risk occurs in a non-adjusted foreign exchange position (non-compliant structure of foreign currency receivables and liabilities) of the borrower according to the currency and maturity. Currency induced credit risk is inherent in the bank because part of the assets and liabilities are denominated in foreign currency or in domestic currency, but indexed to a foreign currency.

4. Concentration risk

Exposure concentration risk is any individual exposure or group of exposures that could potentially cause a sufficiently large loss and may affect the financial position of the Bank or the regular performance of its activities. The risk management is done by the Bank with establishment of exposure limits, as well as definition and monitoring of large 'exposure' to certain persons, in accordance with the criteria defined in the Bank Law and other bylaws according to which the bank is obliged to perform its activities.

5. Liquidity risk

Liquidity risk is a current or future risk, when the Bank is not able to provide sufficient funds to settle its short-term liabilities at the time of their maturity or to provide the necessary funds at much higher costs. The basic principles and rules for liquidity risk management are set out in the Liquidity Risk Management Policy and Procedures. In order to manage liquidity, the bank maintains the required level of liquid assets, continuously monitors the current liquidity, and provides sufficient MKD and foreign currency funds for timely settlement of liabilities and payment of approved loans. The current surpluses of liquid assets are placed in liquid securities, in deposits up to 7 days in the NBRNM, in short-term loans of commercial domestic

banks and in deposits with foreign banks.

The monitoring of the bank's liquidity is performed by the Treasury and Liquidity Department, which adjusts the inflows and/or outflows by currencies, undertakes activities for maintaining a portfolio of highly liquid assets, monitors the residual and expected maturity in order to achieve the bank's goals defined in the bank's strategy.

6. Interest rate risk in the banking portfolio

Interest rate risk in the portfolio of banking activities is a risk of loss arising from adverse changes in interest rates, which affect the items in the portfolio of the Bank's banking activities. The management of this risk, which has a direct impact on the income and the economic value of the bank's portfolio of banking activities, is part of the integrated risk management system in the bank. DBNM establishes a system for managing risk of interest rate risk in accordance with the scope and type of activities it performs, as well as the degree of exposure to interest rate risk.

7. Currency risk

Currency risk is a risk of loss due to changes in cross-currency exchange and/or changes in the value of the MKD in relation to the value of other foreign currencies. The Bank establishes a system of identification, measurement, monitoring and control of currency risk which is exposed in its operations, which covers all activities, and transactions that are recorded in the balance sheet and off-balance sheet records in foreign currency and MKD indexed in foreign clause.

DBNM usually grants funds from foreign sources in the same currency or in MKD with FX clause in the currency of the origin of the funds. The policy of the Bank is to manage the positions in foreign currency or in MKD with foreign currency deposit in a way that enables monitoring, controlling and mitigating the negative impacts of the exchange rate changes on the stability of the financial position of the bank.

8. Operational risk

Operational risk is the possibility of loss for the bank and a negative effect on the Bank's capital as a result of inadequate or weak internal processes, inadequate entities and inadequate or weak systems in the bank, as well as external events that may cause a loss. Compared to credit and market risks, this risk cannot generate higher returns. Operational risk includes:

- Legal risk - current or future risk on the Bank's profit and own funds, caused by breach or non-compliance with laws and bylaws, contracts, prescribed practices, ethical standards or as a result of misinterpretation of regulations, rules, contracts and other documents;
- Money laundering and terrorism financing risk - the bank intentionally or unintentionally engages in activities that in accordance with existing legislation and international standards, constitute money laundering or terrorism financing;
- Risk of inappropriate information systems - is a risk of loss for the Bank due to loss, unauthorized use or unavailability of information, information assets and/or services offered by the Bank.

Strategic and reputational risks are not included in the definition of operational risk.

Operational risk management is part of an integrated approach to manage all the risks to which the bank is exposed. Operational risk management is implemented at every level within the organizational structure and at the same time it is integrated in the daily activities of the bank. In this way it is possible to minimize the possibilities for the occurrence of loss events, to improve the quality of the work processes and the services of the bank, as well as the increase of the efficiency in performing the activities. Through constant training and education of employees, monitoring the frequency and prevention of errors, efforts are made to reduce the exposure to operational risk.

9. Reputation risk

Reputation risk is a current or future risk to the Bank's profit or own funds arising from unfavorable customer perceptions, creditors, shareholders, investors and regulators of the bank's operations. It is the responsibility of all employees to protect the bank's reputation. A system of regular monitoring of the Bank's activities for reputation risk management has been established, as well as activities for reducing the probability for occurrence of some of the sources of this risk. Given the shareholder structure, as well as the fact that reputational risk is a risk of losing confidence in the bank that affects profits and equity due to unfavorable business opinion regardless of whether there is a real basis for such an opinion, the impossibility of predicting this risk based on real indicators, as well as the lack of possibility for adequate quantification of this risk; the Bank establishes a proactive approach to the reputation risk management process.

10. Strategic risk

Strategic risk is the current or future risk to the Bank's profit or own funds, which arises from changes in the business environment, adverse business decisions, improper implementation of decisions or insufficient response of the bank to changes in the business environment. The Bank's policy is the adoption of strategic decisions to be a rational and objective process in function of strategic risk management, which will result in the same result regardless of who implements it. The Bank has established a system of regular monitoring of the Bank's activities for strategic risk management, as well as the activities for reduction of the probability of occurrence of some of the sources of this risk.

11. Capital adequacy

The Bank has established a policy for maintaining own funds in order to provide and continuously ensure an adequate level of own funds depending on the type and scope of financial activities and the amount of risks to which the bank is exposed as a result of those activities. The Bank's policy is to maintain its own funds in order to maintain the capital adequacy ratio in order to ensure that the bank will remain solvent in the long run.

As of December 31, 2020, the capital adequacy ratio of DBNM is 30.97%.

XIV. PLAN AND ANALYSIS

The Planning and analysis department, as part of the strategic business goals of the Bank, in 2020 realized activities related to creating reports, providing data and information related to:

- Macroeconomic analysis and research as a basis for introduction of new and development of permanent products in the Bank;
- Analyzes of countries and activities in which DBNM has exposure through its own products;
- Analyzes of the banking system in the Republic of North Macedonia;
- Analyzes of the development banks from the region;
- Analysis of the financial operations of DBNM;
- Cooperation of the Bank with international financial institutions and associations;
- Participation in various government working bodies and Boards;
- Preparation of Annual Reports of the Bank;
- Preparation of a Financial Plan and monitoring of its implementation;
- Preparation of the Development Plan and business policy of the Bank.

XV. COMPLIANCE OF DBNM'S OPERATIONS WITH THE LEGAL REGULATIONS

The compliance officer independently performs identification and monitoring of the risks of non-compliance of the bank's operations with the regulations. In the course of 2020, the Office continuously monitored the adoption of the draft regulations, the adoption of new laws and bylaws, amendments to the assessment of their impact on the Bank's operations. The members of the Supervisory Board, the Management Board and the employees of the Bank were promptly informed about the changes in the laws and bylaws and were advised about their application. The necessary measures and activities were continuously undertaken, in order to harmonize the Bank's operations with the new/amended regulations. Also, obeying the regulations related to the Bank's operations and the Bank's internal acts was monitored and the members of the Supervisory Board and the Board of Directors were informed about it.

In 2020, the Bank's Department for Compliance, by making recommendations, actively participated in the preparation and revision of the Bank's internal acts in order to harmonize them with the new laws and regulations. During 2020, internal trainings were conducted to inform the employees of the ways of implementation of the new legal regulations and internal acts of the Bank in their daily operation. Also, the fulfillment of the Bank's obligations in relation to the timely delivery of the reports to the external institutions and the internal reports was continuously monitored, giving opinions and recommendations in performing the current activities of the departments/services for consistent application and compliance with the lawsetc. The Management Board and the Supervisory Board were regularly informed about the undertaken activities through monthly and semi-annual reports in order to exercise the function of control over the compliance of the Bank's operations with the regulations.

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

Pursuant to the Law on Prevention of Money Laundering and Financing of Terrorism (Official Gazette of RM No. 120/2018 and Official Gazette of PNM No. 275/2019 and 154/20), the Program for Prevention of Money Laundering and Financing of Terrorism and the DBNM's Procedures, the Bank, as an entity that has an obligation to take measures and actions to prevent money laundering and terrorism financing, has undertaken the following measures:

- Client's acceptance procedures;
- procedures on client due diligence;
- risk analysis procedures and risk analysis indicators;

- procedures for risk analysis of public office holders;
- procedures for recognizing unusual transactions and conspiracies against money laundering and financing of terrorism;
- procedures for storing data and recipients of unusual transactions and suspicion of money laundering and financing of terrorism;
- procedures for storing data and documents and submitting them to the Financial Intelligence Unit (FIU);
- Plan for further training of DBNM employees in the areas of prevention of money laundering and financing of terrorism;
- manner of cooperation with FIU;
- procedures for a plan for performing internal control and audit of the implemented measures and actions for prevention of money laundering and financing of terrorism.

During 2020, the person in charge in the Bank of Prevention of Money Laundering and Financing of Terrorism cooperated with the FIU and other relevant institutions and attended trainings organized by them. During this period, several working meetings were held with the FIU and the Commission for Prevention of Money Laundering and compliance with the regulations for practical application of the amendments to the Law. The employees of the Bank were familiar with the provisions and the practical application of the amendments to the Law which refer to the cash payments in the regular trainings that took place during the year.

XVII. INFORMATION SYSTEM SECURITY

The information system security policy defines the application of international security standards and protective measures to diminish the risk of damage and minimize losses as well as operational risk management. It is designed to ensure the confidentiality, integrity and availability of information system assets, to ensure the continuity of information, data and services, and to protect employees from human mistake. The information system security policy has been extended to cover the threats posed by the digital space. The Bank follows the world trends and is able to give an appropriate response.

The Bank has developed a Risk Assessment Manual. The risk assessment manual is the basis for conducting a successful and accurate risk assessment on the information system. The bank also considers the threats as a risk come from the digital space. The qualitative method is applied in the evaluation stage. The management bodies shall annually submit an analysis and assessment of the risks to the security of the information system as well as at least two reports related to the security of the information system. At least once a year, the Bank conducts a self-assessment of the

risks arising from digital world

The plan for continuity of the Bank's operations provides for the establishment of a plan for continuation of operations in cases when a critical interruption of the business processes is caused, during which the Bank is not able to fulfill its business obligations. The plan includes strategies, activities and procedures for the continuation of business operations and functions related to the restoration of communications and information assets. The Disaster Recovery Plan is an integral part of the Continuity Plan. The Bank has also a backup data center,

In the Bank, on a regular basis, the controls in the field of information system security are strengthened. It follows the world trends in the field of crime in the digital space (cybercrime) takes administrative, organizational and technical measures to reduce these threats. Additionally, the Bank successfully implements measures, recommendations, managements, requirements, SWIFT controls, that have been introduced in order to strengthen the security of the local computer network as a point where hacker attacks are concentrated, which is in fact a global problem.

XVIII. INFORMATION TECHNOLOGY

During 2020, i.e. during the Covid pandemic, the Information Technology Department provided continuous ICT support to the business processes in the Bank. Significant activities that have been successfully implemented are:

- upgrading and modification of the existing Integrated Banking Information System (IBIS). They refer to the implementation of new functionalities for more efficient execution of business activities as well as to satisfy the regulatory requirements;
- successful implementation of procedures for procurement of computer equipment and thus are part of the obsolete equipment;
- Improvement, digitalization and automation of the work processes for "Covid" interest-free credit lines was performed, thus optimizing the time for performing work tasks from an administrative-technical aspect, as well as enabling full electronic communication of the Bank with the end clients;
- in accordance with the needs for raising the level of risk resistance in the digital space as well as the SWIFT requirements for implementation of security mechanisms, the Bank undertook activities aimed at their implementation.

XIX. INTERNAL AUDIT

The Internal Audit Department is an independent organizational unit, which is

functionally and organizationally separated from the other organizational units in the Bank, hierarchically located above the operational organizational days, and directly under the Supervisory Board and the Audit Committee. The main purpose of it is to provide impartial and independent assessment of the adequacy and effectiveness of the internal control system, assessment of the implementation of risk management policies, assessment of the accuracy of accounting records and financial statements, compliance with internal policies and procedure of the Bank with the legislation, as well as the general efficiency in the operation of the Bank.

The internal audit during the 2020 performed its activities in accordance with the Annual work plan and program, prepared on the basis of a preliminary analysis of the Bank's basic business processes and the potential risks to which all business outflows are exposed. The annual work plan and program are approved by the Supervisory Board of the Bank. During 2020, the Internal Audit Department performed 13 regular audit audits, currently monitored the implementation of the given recommendations, regularly reported to the Bank's Supervisory Board and cooperated with the Board of Directors, the Audit Board, the NBRNM and the Bank's independent auditor.

XX. INTERNATIONAL COLLABORATION

DBNM has been a full member of the International Association of Export Credit Agencies - Berne Union since 1999. In 2020, the Bank actively participated in the work of the Berne Union, contributing to the achievement and fulfillment of the goals of the association: mutual cooperation, exchange of experiences, acceptance of international standards, promotion of credit insurance, provision of mutual assistance and exchange of information.

DBNM has been a full member of the China- Inter-bank Association and the countries of Central and Eastern Europe since 2017.

DBNM is a full member of the Interbank Banking Association of China and the countries of Central and Eastern Europe () since 2017. The association was established within the framework of the "17 + 1" initiative and unites the China Development Bank and the respective development financial institutions of the countries of Central and Eastern Europe. The purpose of the Association is to promote the development of economic, social, trade and investment relations through the cooperation of the financial sector.

DBNM has been a full member of the European Association of Public Banks since 2010 and actively participates in its work. The main goal of the Association is to represent the interests of national and regional development support banks, municipal financing agencies and state-owned commercial banks in Europe.

Management Board

Chief Executive Officer

Kire Naumov /personal handwriting/

Chief Operating Officer

Faruk Ismaili /personal handwriting/