

STOPANSKA BANKA AD – SKOPJE

ANNUAL REPORT

2016

Skopje, April 2017

Dear Shareholders,

2016 was the most successful year of Stopanska Banka AD Skopje (Bank) since its privatization, achieving its record profitability of **€40.7m profit before taxes**. The excellent results were delivered in an environment full of challenges coming from the global and regional markets as well as the domestic political environment. The strong underlying performance across all business lines is based on a well-defined and implemented strategy, a successful business and operating model and a sound and prudent management, allowing the Bank to achieve not only a remarkable profitability but to keep all key ratios at excellent levels. Specifically, its **Return on Equity stands at 18%, Return on Assets at 2.9%, Cost to Income ratio at 41.4%**, while its capital strength remains at very high levels with **16.04% CAR**.

Passing through the challenges caused by the political turbulence in the country, the Bank continued to experience real stress-test scenarios, proving that is able to cope successfully with adverse situations, remaining the most stable, sound and profitable bank in the country with remarkable “fortress balance sheet”. As a result, it succeeded not just to recover fully the deposit outflow that took place in the whole banking sector in April and May 2016, but achieved a **deposit growth of 2%**, compared to 2015, allowing the Bank to finance its assets fully by domestic deposits and to keep the Loans to Deposits ratio at 90.7%.

The Bank certainly is perceived by all as one of the key pillars of the economy supporting effectively the needs of corporations and individuals in all segments. Specifically, its corporate lending function supports all companies and well-structured projects and other business initiatives that satisfy the credit criteria set by the Bank’s prudent risk framework. SB also continued with offering new corporate products, apart from tailor-made deposit products, such as discounting and prepayment of LCs and Factoring, being among the first banks in the country launching this particular product.

In addition, the Bank is, by far, the dominant player in Retail banking and is always pioneer of modern banking offers in the country. In 2016, apart from the **annual growth of 6.4% of the retail loan portfolio**, SB focused mainly on achieving certain significant breakthroughs that paved the way for further growth and improvements. Novelties in customer service are constantly introduced, such as the unifying application process and proxy template allowing the opening of transactional and savings accounts much faster, the contactless payment of cards and the new platform for youth, branded TOPSI, as a means of rejuvenating and reinventing the overall SB brand.

As known, SB has delivered excellent profits in all last years; having such a strong profitability, liquidity and capital position, in 2016 was able to disburse, after many years, a significant gross **dividend to its shareholders, amounting to €45m.**

Stopanska Banka, will continue its successful course being supportive to the economy as a key element in the financial sector and satisfying all stakeholders expectations by creating added value for all.

At the end, we would like to express a gratitude to our clients for their trust and confidence in Stopanska Banka, and to the management and our employees for their professionalism, perseverance and commitment towards the mission of our Bank. Together, we have built first-rate organization that is one of the most trusted and respected financial institution in the country, that will be here to support the needs of its clients and the whole society in the future.

Skopje, ____05.2017

Diomidis Nikolettopoulos

Chief Executive Officer &
Chairman of the Board of Directors

Marinis Stratopoulos

Chairman of the Supervisory
Board

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Note: All figures in this report referring to Stopanska Banka AD Skopje are based on the Financial Statements prepared in accordance with accounting regulations applied in the country and the regulation of NBRM

Income Statement indicators	2015	2016	change %
Income Statement indicators			
Net Interest Income	54,7	59,2	8,2%
Net Commissions Income	15,2	15,5	2,0%
Total Income	75,3	83,1	10,4%
Operating expenses	-32,3	-34,4	6,5%
Personnel Expenses	-12,9	-12,9	0,0%
Net Operating Income	43,1	48,7	13,0%
Impairment losses	-8,3	-8,0	-3,6%
Pre Tax Profit	34,8	40,7	17,0%
Net Profit	31,1	36,4	17,0%
Balance Sheet indicators	2015	2016	change %
Total Assets	1.378,1	1.401,3	1,7%
Equity	229,2	222,4	-3,0%
Regulatory capital	167,8	169,7	1,1%
Loans to customers (net)	902,3	954,0	5,7%
Total loans (gross)	1.007,0	1.007,3	0,0%¹
Retail loans	597,9	635,9	6,4%
Corporate Loans	409,1	371,4	-9,2%
Provisions	104,7	53,2	-49,2%
Total Deposits	1.089,4	1.110,8	2,0%
Retail deposits	855,0	865,7	1,3%
Corporate Deposits	234,5	245,2	4,6%
Financial ratios	2015	2016	change (bp)
Net Interest Margin	4,57%	4,79%	22,0
Cost income ratio	42,9%	41,4%	-149,9
ROA	2,5%	2,9%	38,8
ROE	16,3%	18,0%	174,8
Loans to Deposits ratio (gross)	92,4%	90,7%	-175,4
Capital Adequacy ratio	17,01%	16,04%	-97,0
Operational Indicators	2015	2016	change
Number of Units	64	66	2
Number of Personnel (eop)	1038	1052	14

¹ The growth without the effect from the mandatory write off is 5.3%.

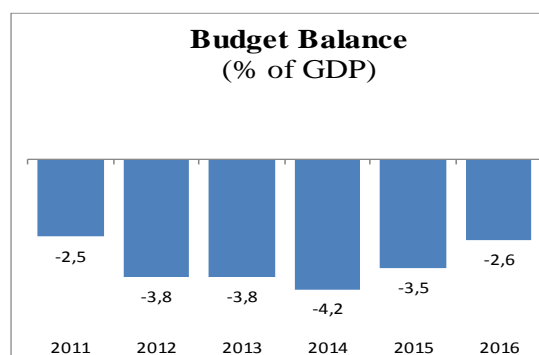
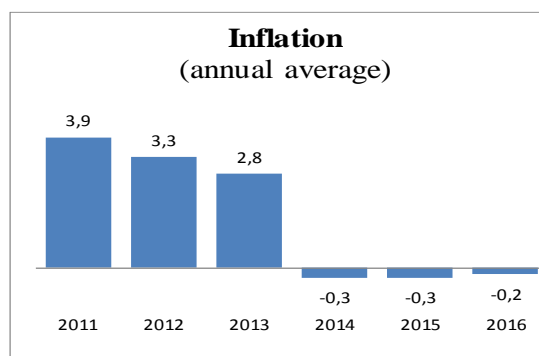
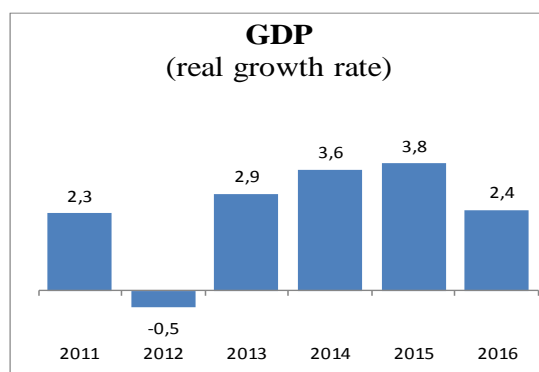
Economic Environment

The domestic political crisis amplified throughout 2016. However, the sound macroeconomic fundamentals and strong banking system prevented significant imbalances in the economy. The impact from the crisis was mainly reflected in moderate weakening of GDP growth. The banking sector maintained its low risk profile, sufficient liquidity and adequate capital position. Anyhow, geopolitical tensions and domestic political uncertainty remain on the top of the risk agenda for 2017.

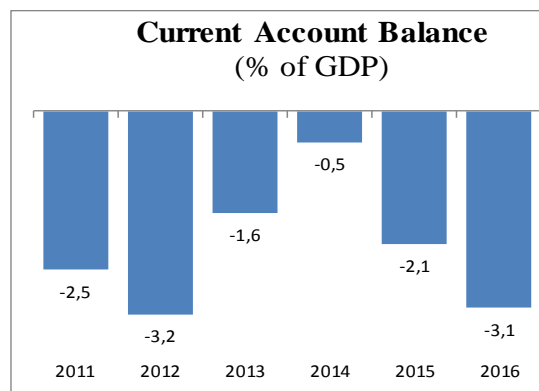
In 2016 the domestic economy was operating in conditions of political instability. This resulted in slower pace of the economic activity. **Hence, according to the preliminary data, real Gross Domestic Product (GDP) registered an annual growth of 2.4%.** Considered by the expenditure approach point of view, exports and household consumption had the highest individual contribution to growth, whereas investments depleted. From the production approach point of view, the growth was driven by the construction sector.

The Consumer Price Index in 2016 remained in the negative area for third consecutive year. **Thus, the average deflation was 0.2%, driven mostly by low food and energy prices.** Counter force was the core inflation (without food and energy) which maintained positive track.

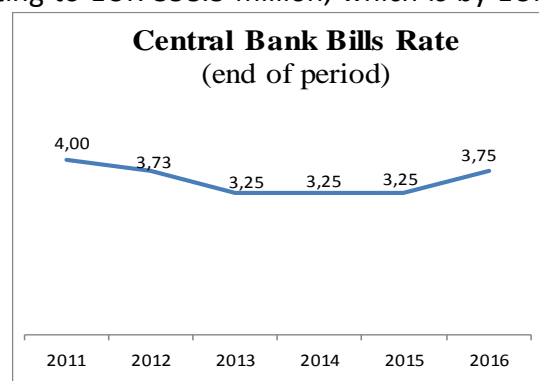
The **budget deficit** was reduced compared to the previous year, reaching the level of 2.6% of GDP. However, the **public debt** remains on an upward trend, which is mainly a result of the fifth Eurobond in amount of EUR 450 million, issued in July 2016. According to the information disclosed by the Government, the funds from the Eurobond are intended for the State budget needs in fiscal 2016 and 2017 as well as for repaying maturing debts.



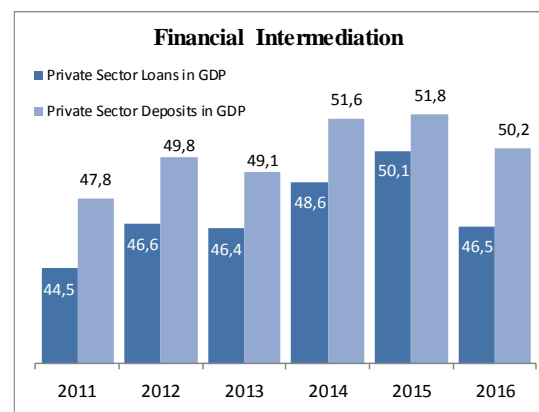
The external sector in 2016 maintained relatively stable position. The current account balance recorded higher deficit compared to the previous year, however fully covered by foreign direct investment. CAD amounted to EUR 303.3 million or 3.1% of GDP, mainly stemming from the higher deficit in the primary income. On the financial account side, the significant net inflows enabled growth of the foreign reserves reaching five months coverage of imports. FDIs increased as well, amounting to EUR 358.5 million, which is by EUR 141.7 million higher than 2015.



The escalation of the political situation in the first half of the year provoked speculative crisis which further produced pressures on the banking system and the foreign exchange reserves. Consequently, NBRM tightened the monetary policy by increasing the key interest rate by 75 b.p. Since June, the gradual stabilization of both segments (the deposit base and the official reserves) allowed loosening of the monetary policy at the end of 2016 and beginning of 2017.



Despite the speculative crisis in H1 2016 which brought pressures on the deposit base and the official reserves, the banking sector remained well capitalized, highly liquid and deposit-funded, while non-performing loans were stable and fully provisioned. Although in slight moderation, the deposit growth in 2016 was still solid reaching 6% annual rate at the end of the year. Herein, corporate deposits increased by significant 13.4%, while household deposits were higher by 2.5%. The credits



to the private sector also recorded diminished dynamic. On annual basis the credit growth slowed down to 0.9% with considered effect from the write-offs². The credits to households and enterprises realized annual growth rates of 7% and -3.8% respectively. Without the effect from the write-offs, the total credit growth would have been 6.5%. In such environment the loans to

² On 17 December 2015, the NBRM Council adopted the Decision amending the Decision on credit risk management that requires that banks write off by 30 June 2016 (and to continue to write off regularly) all claims that have been fully provisioned for more than two years, i.e. where the bank has identified and fully covered the credit risk of default at least the last two years. Despite the write-off of these claims, i.e. their transfer to the off-balance sheet record, banks keep all the legal rights for their collection.

deposits ratio declined to 87.5%. As of 31.12.2016 non-performing loans (NPLs) were at the level of 6.6% and the provision coverage remained well above 100% (114.9%). Also, taking into account the level of the capital adequacy ratio of 15.2%, it can be concluded that the banking sector remained stable and maintained low risk profile.

Basic Macroeconomic Indicators

	2012	2013	2014	2015	2016
Output					
Gross Domestic Product (real growth rate)	-0,5	2,9	3,6	3,8	2,4
Industrial Production (annual growth rate)	-6,6	3,2	4,8	4,9	3,4
Prices, wages and productivity					
CPI (annual average)	3,3	2,8	-0,3	-0,3	-0,2
CPI (year-end)	4,7	1,4	-0,5	-0,3	-0,2
PPI (annual average)	4,6	0,4	-1,2	-3,9	-0,1
PPI (year-end)	5,3	-2,1	-3,8	-0,8	-0,6
Real wages (annual growth rate)	-2,9	-1,6	1,5	2,7	2,2
Government finance					
General government balance (% of GDP)	-3,8	-3,8	-4,2	-3,5	-2,6
External sector					
Current account balance (% of GDP)	-3,2	-1,6	-0,5	-2,1	-3,1
Export of goods (in million US\$)	4.332	4.689	5.417	4.891	5.348
Import of goods (in million US\$)	6.523	6.666	7.380	6.533	6.961
Export of goods (annual growth rate)	-9,6	8,2	15,5	-9,7	9,3
Import of goods (annual growth rate)	-5,9	2,2	10,7	-11,5	6,5
Gross external debt (in million US\$)	6.818	7.194	7.287	6.873	7.646
Foreign reserves (in million US\$)	2.892	2.747	2.963	2.471	2.755
Exchange rate MKD/EUR (average)	61,52	61,57	61,63	61,6	61,6
Monetary aggregates					
M1 growth (dec./dec.)	7,6	6,2	22,2	18,4	9,9
M2 growth (dec./dec.)	0,5	0,2	7,2	7,6	6,1
M2 denar growth (dec./dec.)	3,2	2,9	12,3	8,5	5,2
M4 growth (dec./dec.)	4,4	5,3	10,5	6,8	6,1
M4 denar growth (dec./dec.)	9,6	8,7	15,3	7,2	5,0
Credit to private sector (dec./dec.)	5,4	6,4	10,0	9,5	1,0
Interest rates					
Money market interest rate (annual average)	2,2	2,0	1,9	1,1	1,1
CB bills rate (annual average)	3,8	3,4	3,3	3,3	3,7
Money market interest rate (end of period)	2,1	2,2	1,5	1,2	1,0
CB bills rate (end of period)	3,8	3,3	3,3	3,3	3,8
Capital markets					
Macedonian Stock Exchange index-MBI (growth rate-eop)	-12,3	0,4	6,1	-0,6	16,5

Source: Ministry of Finance, State Statistical Office, National Bank of RM

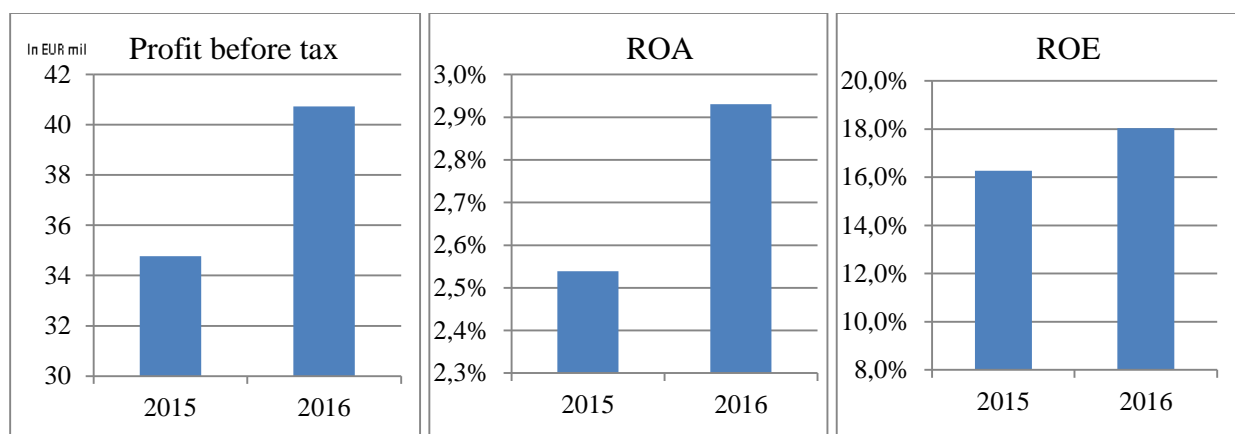
Review of 2016 Activities

Financial Performance

In the year under review, SB primarily focused to preserve and further improve the advantages created in previous years such as: sound credit portfolio, high capital adequacy ratio and strong liquidity, on one side, and on the other side the Bank was focused in identifying and supporting creditworthy businesses that would mark new model of economic growth.

Throughout the uncertainty that prevailed, SB succeeded in delivering results that demonstrate once again the resilience of its business model and successful management. Thus, the positive performance in 2016 indicates the strategic choices of SB to continue to rise to the challenges and seize the opportunities of the times. SB remains a dynamic bank, determining to further fortify its balance sheet and provide a solid stimulus to local economy. The distinguished performance was supported by the Bank strategy: driving organic growth, client-centric approach for satisfying different financial needs of the customers, managing risk and maintaining strong capital and liquidity position and to operate efficiently and reduce costs. Accordingly, throughout the uncertainty that prevailed, SB succeeded in delivering impressive results that demonstrate once again the resilience of its business model and successful management. Its powerful brand name remained symbol for extraordinary services, trust and safety.

Consequently, at the end of the year, the Bank recorded profit before taxes of EUR 40.7 million which is by 17.0% above the same indicator in 2015. The result is due to higher net interest income, net fee and commission income and other operating income. The net interest income in 2016, recorded additional amount of EUR 4.5 million compared to 2015 or 8.2% increase. The Bank's total assets reached EUR 1,401.3 million, exceeding the corresponding 2015 figure by 23.2 million. Consequently, ROA equaled 2.9%, while ROE reached 18%, indicating stable returns for shareholders. With the capital strength, which ensured high capital adequacy ratio of 16.04%, SB confirms to be the most trustworthy financial partner in the country.



Interest income

During 2016, the interest income from the retail loans amounted EUR 45.2 million, having the biggest participation within the total interest income of 61.4%. In the same time, corporate and other activities amounted to EUR 28.4 million i.e. decreased by 4.1% compared to the previous year. The total interest income amounted to EUR 73.6 million, which is an increase of 0.7% compared to the previous year.

in EUR million

	2015	2016	% change
Interest income	73,1	73,6	0,7%
Retail loans	43,5	45,2	3,9%
Corporate loans	19,2	18,2	-5,2%
Other	10,4	10,2	-1,9%

Interest expense

The Bank's interest expense decreased by 21.2% compared to 2015. Specifically, the interest expense related to retail deposits registered an annual decline of 19.9%, whereas the interest expense for corporate deposits decreased by 30.0%.

in EUR million

	2015	2016	% change
Interest expenses	18,4	14,5	-21,2%
Retail deposits	14,6	11,7	-19,9%
Corporate deposits	2,0	1,4	-30,0%

Other liabilities	1,8	1,3	-27,8%
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Net Interest Income

The growth in core activities in combination with a prudent approach in assets/liabilities management had a positive effect on net interest income in 2016, recording additional amount of EUR 4.5 million compared to 2015 or 8.2% increase. The net interest margin increased in 2016 by 22.0 b.p. reaching to 4.79%.

<i>in EUR million</i>			
	2015	2016	% change
Interest income	73,1	73,6	0,7%
Interest expenses	18,4	14,5	-21,2%
Net Interest income	54,7	59,2	8,2%

Fee and Commissions Income

Activities in 2016 contributed the net fees and commission income to reach EUR 15.5 million. Within this, the most significant part (53.5% of the Bank's total fee and commission income) relates to lending activities in amount of EUR 8.3 million, recording additional amount of EUR 0.4 million compared to 2015, representing an increase of 5.1%. The net income from transfer of funds is the second largest item, which at the end of 2016 amounted to EUR 5.2 million representing 33.5% of the total fee and commission income.

<i>in EUR million</i>			
	2015	2016	% change
Net fees and commissions income	15,2	15,5	2,0%
loans	7,9	8,3	5,1%
letters of guarantee	1,0	0,9	-10,0%
transfer of funds	5,1	5,2	2,0%
others	1,1	1,1	0,0%

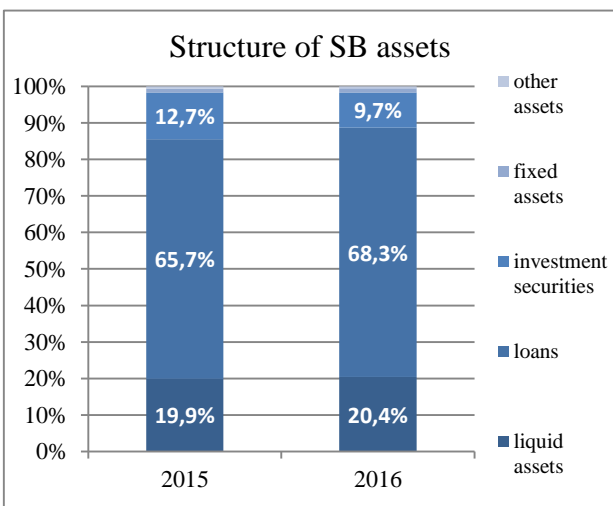
Operating expense

During 2016 the Bank continued to pursue operational excellence in both cost efficiency and risk management, resulting in keeping the costs in line with budgeted figure and maintaining excellent credit quality results. The total operating expense amounted EUR 34.4 million and exceeds the corresponding 2015 figure mainly due to increased Impairment losses on non-financial assets and depreciation. The personnel costs as well as other operating costs remained unchanged. As a result of its effective cost containment policy in place followed by simultaneous increasing of the net operating income, the Bank succeeded to achieve cost to income ratio of 41.4% from 42.9% last year, continuously reducing for several years in a row.

Assets and Liabilities

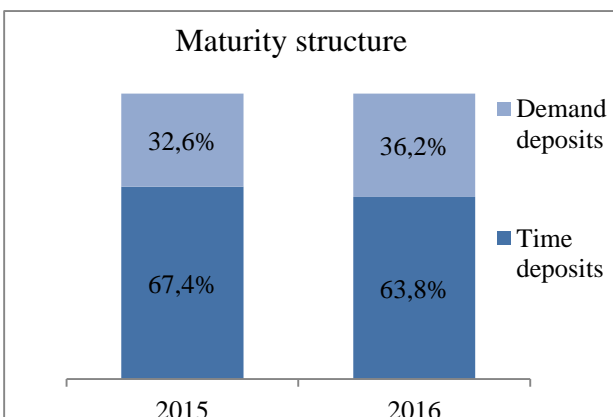
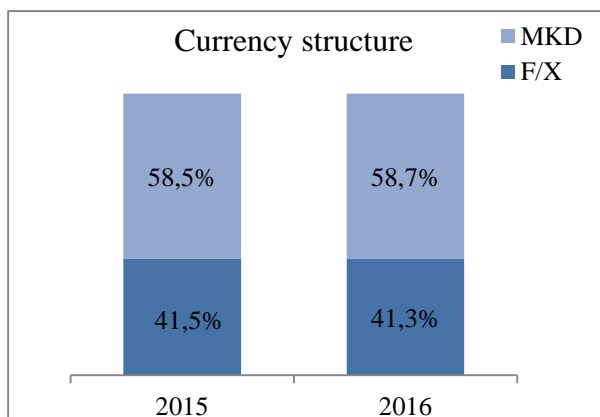
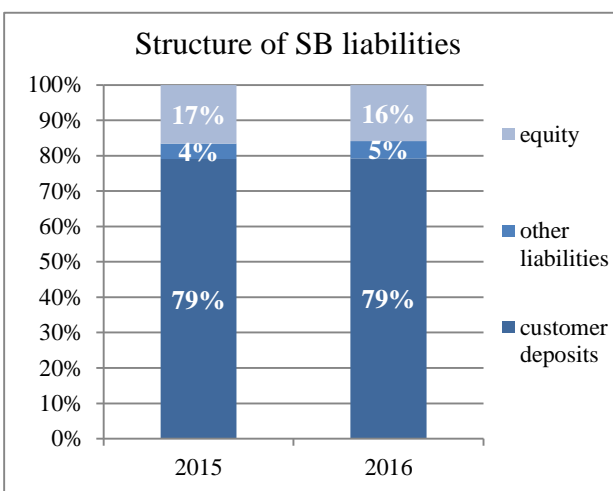
Assets

The Bank's total assets at the end of 2016 amounted to EUR 1,401.3 million, which is EUR 23.2 million or 1.7% above 2015. The Bank continued to enhance its' prudence with the balance growth, adequate liquidity and strong capital base. In this aspect, the liquidity ratio up to 180 days reached 1.54. The credit activities by the end of 2016 for the total loan portfolio reached EUR 1,007.3 million, out of which EUR 371.4 million were extended to corporate customers, while retail exposures amounted to EUR 635.9 million.



Deposits and Equity

Despite the external environment's risks' materialization during 2016, Bank's deposit base increased for 2%. Deposits continue to be the main funding source of the Bank, amounting to EUR 1,110.8 million which represents growth of 2% compared to 2015. As a result, at the end of 2016, the loans to deposits ratio amounted to 90.7% on gross basis, implying the Bank's strong credit potential. Furthermore, the Bank maintained



the dominant position of the time deposits in the year under review and thus indicating stable sources of funds for the Bank's further credit expansion.

The currency composition of the deposits' base indicates stable share of domestic currency denominated deposits of 58.7% (58.5% in 2015).

The Bank equity amounted at EUR 222.4 million at the end of 2016 and as such it is still the highest within the banking sector in the country, ensuring sufficient capital adequacy and quality source of long-term funding.

Retail Banking

2016 by all markings was a complex year for the country reflecting the daily business operations across all industries. Despite the surrounding, Stopanska banka focused its efforts on building relationships with the clients and enriching the multi-channel offer to provide grounds for further growth and expansion of the client base.

With the political instability peaking during Q2, the business generating was affected across the sector. However, the level of organization and readiness helped Stopanska banka go through the period with fast and steady reinstatement of business operations in full.

Thus, during 2016, using its extensive retail portfolio, the Bank offered online application initiating process, grew the telesales potential, introduced brand new designs for the fresh contactless card portfolio and as a point to become segment oriented, introduced the TOPSI platform for young adults 18<>28 years of age.

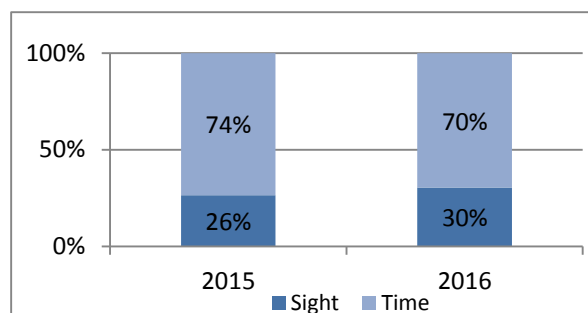
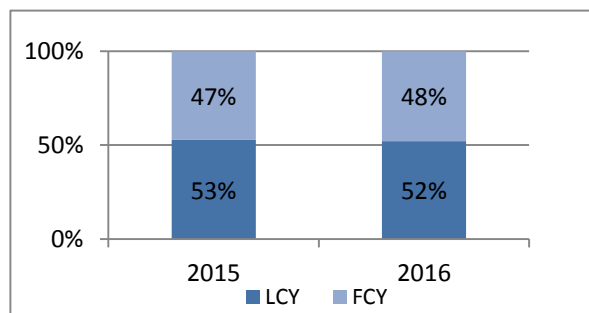
The in-depth understanding of the market and appropriately developed strategies contributed to the maintenance of the high market share position in both deposit and lending regardless of the growing competition.

Retail deposits

Despite the challenges arising from various uncertainties, locally and regionally, after the generated fluctuations of the Bank deposit base in the first half of the year 2016, the Bank record continuous stabilization and moderate growth in the last months of the year with total retail balances reaching the amount of EUR 865.7M.

Generated growth in deposits mainly derives by high net-worth customers, regular monthly payments of salaries and pensions, payment of agricultural subsidies and incoming remittances.

In terms, of maturity structure, in the last couple of years there is a shift towards sight deposits growth, although in the structure of the deposits portfolio, time deposits remain pretty stable and prevailing with 70%. The time deposits continued growing which is only sustainable as a result of the Banks' image of a strong, trustworthy and innovative Bank that looks after the best interests of its clients.

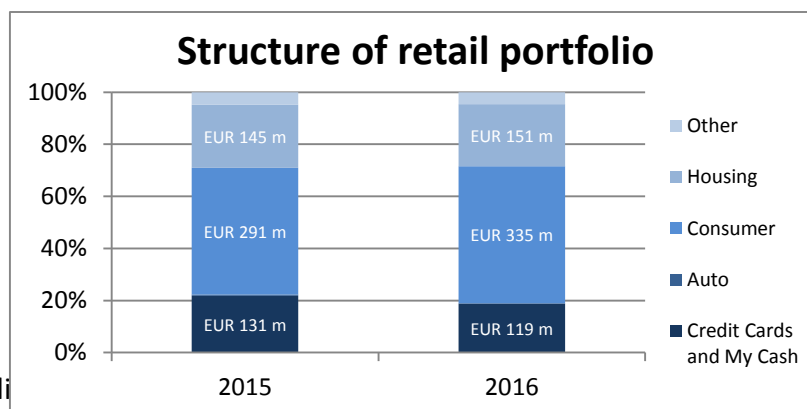


As a trend for the past years, there is continuously growing demand for local currency (LCY) deposits with a more balanced ratio between the two and the LCY participating with 52%. This trend is stimulated by the higher yields still available for the domestic currency and the established trust in its long term stability.

Our constant strategy for appropriate client base segmentation and relevant product package offers, customized to specific client segments' needs, as well as improved processes efficiency and shortened time for transaction processing provide establishment of good relation and proper communication with our clients as well as improved users experience.

Retail lending

The strategy for 2016 in retail lending was to follow the market trends without deteriorating the portfolios' high quality. The ending balances of EUR 635.9 million testify for a growth of 6.4% on annual basis. Considering the size of the existing portfolio and the burden of regular repayments on the said portfolio, SB regular production is increasing, thus, maintaining substantial portfolio and providing the projected growth.



Consumer lending portfolio, having the consumer loan with a greatest contribution in total lending portfolio, continued with fast approval process as a main advantage on the market, providing high quality client's service, provided constant offer throughout the year, and thus increasing customer satisfaction.

The **Housing loan** portfolio, extended in its complexity and variety providing clients the option to apply for the loan with the subsidized government program, buy property under construction and at the same time opted for making the LCY clause option more price competitive.

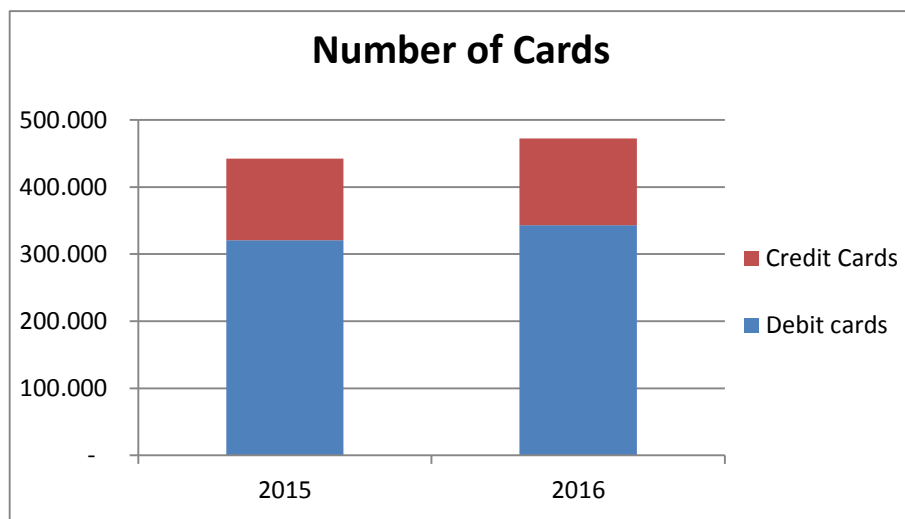
The significant market share was achieved with careful maintaining of a very low NPL ratio. The Bank continued applying the Programs for retention, thus making efforts to keep the portfolio in addition to the efforts for new production.

The **credit cards** portfolio continued its growth in 2016 despite growing competition, maintaining highest market share of 41.97% in 2016 and in many aspects exceeded initial projections and 6.7% growth in number of credit cards in circulation.

The growth strategy includes continuous activities that from one side drive credit card activation and utilization and on the other side customer retention with appropriate anti-attrition tools.

Debit cards portfolio also continued its growth and expansion concluding 2016 with:

- 7% Growth in number of the Debit Cards in circulation
- 9% Growth in the number of active debit cards



Considering the expanded Stopanska banka ATM Network, the Bank measured annual growth of 5% in number of ATM transactions and 4% growth in volume of ATM transactions.

During 2016 SB introduced innovations and new technology remaining step ahead of clients' needs and expectations. The Bank continued the investment in Contactless technology and promoted e-commerce transactions with SB cards. Migration of contactless cards and POS terminals helped close 2016 with the biggest number of contactless card on the market. This trend is expected to provide multiple benefits for the Bank and increase attractiveness and usage of SB card products.

During 2016 SB maintains market share in POS terminals (16.7% in POS Acquiring) and continues to promote the interest free instalment purchases for credit card holders. During 2016, the Bank renovated its POS Network with 1.500 new POS devices which resulted with 16% annual growth of the acquired POS volume, compared with the previous year.

Contact center and i-bank services

The **24/7 contact centre** of Stopanska banka strengthened its position as a wide service capacity of the Bank during 2016 achieving more than 25.000 inbound customers interactions monthly as well as up to 10.000 other types of interactions (outbound, e-mails and telesales).

In the same business line, the Telesales unit integrated within the SB Contact centre since 2014 continued expanding its activities delivering significant surge to the growth in retail lending products this year, as well. An important positive impact on the Telesales acquisitions in 2016 was the newly established online application form with a special landing page for each product.

As the global trends show, the **i-bank services** (*ATM payments, phone banking, e-banking and m-banking*) are also becoming more familiar and matter of preference for clients. As a means to emphasize mobility and accessibility the m-banking and e-banking applications are being constantly revisited and improved throughout the year. Considering the fast pace of innovative new technologies, Stopanska banka is focused on providing clients with modern solutions that are in line with their needs.

In order SB to build on the existing client segmentations that are in place, in 2016 the Bank introduced the **TOPSI** platform for young adults 18<>28 years of age. This platform includes: TOPSI mobile application where ID card is self-designed by the TOPSI client and when produced can be used among a selection of retail partners locations to receive special discount rates; a simple transaction account without any fees, 24/7 access through i-bank services, blog; social media communication, challenges and education platform etc.

SBB Segment

The main goal of SBB segment in 2016 was to retain the pace of growth in previous year and at the same time to achieve quality and sustainable portfolio with low NPL ratio. Mainly, activities were focused towards attracting new good clients and strengthening the collaboration with current clients that have shown potential for growth.

During 2016, the segment was influenced by challenging economic and political conditions. Despite the uncertainties, the systematical and consistent work approach and constant activity on field have contributed towards achievement of positive results. The SBB portfolio has noticed growth of 23.7%. Great part of the increment, 71%, is in investment/long-term loans. SBB portfolio structure at the end of 2016 is balanced in terms of currency structure.

Corporate Banking

Stopanska Banka AD Skopje has proudly celebrated another successful year, remaining a respected and reliable partner to the business community in the country, offering a full package of standardized products and services combined with customized financial business solutions. With a well-established organization, combined with an excellent work ethic, the corporate banking function within the Bank has emphasized the importance of a strong, reliable relationships with the clients, developed through personal interactions and established relations of confidence.

The Bank has managed to successfully balance the relation between the economic flows in the country and the clients' needs, by actively supporting the business growth through recognizing potential viable and prospective projects. The high quality level of corporate portfolio was effectively maintained through understanding and following the clients' requests and needs, applying prudent credit risk assessment in the approval, review and monitoring stage, as well as by applied efficient collection practices. Through tightened risk control in coordination with the well-established early warning system, the Bank made great efforts to deal with the problematic assets, further supporting the corporate clients with recognized difficulties to overcome the hard times, by undertaking suitable work out solutions in order to improve their performance.

With highly qualified, experienced, friendly and enthusiastic personnel, the corporate banking function has created a culture of sharing, spreading and transferring knowledge, placing people above everything. The established infrastructure for knowledge sharing practices was actively supported by the latest software solutions, codified policies, procedures and processes.

The well-known strong brand, reputation and established relations of confidence in the society, are constant drivers in the management of the corporate loan portfolio, in terms of planned growth and expected portfolio quality.

Finally, important to say is that the Bank continues to be a leader in offering innovative products and services in line with modern banking activities, supporting the businesses through the widely spread branch network, providing high quality, secure, fast, smooth and easy access to all banking operations. After the successfully established trade and finance facilities for assisting the foreign trade transactions, in 2016 the Corporate Function entered into another modern area of banking solutions through offering domestic factoring facilities to the companies on the market. Through factoring, the Bank is providing financing of assigned receivables, collection of receivables, assessing of debtor's credit risk, as well as administration and management solutions. With the factoring implementation, the Bank is directly improving the liquidity of the companies, and through this the liquidity of the overall economy.

With the clever deployment of its strategic resources, the corporate banking area is sustainably improving the financing efficiency in order to serve the real business sector, and upgrade the economy, further upholding the modern way of living. Safeguarding the values of sharing high standard goals, SB's corporate banking function can promise even more in the future.

Risk Management

There is no such thing as risk-free banking. Hence, it is important to be fully aware of all risks the Bank is exposed to and to measure it and manage it appropriately. Having this in mind, undertaking measured and controlled risks is the main objective of Stopanska Banka AD Skopje. The Bank operates through a thorough and comprehensive risk management framework which ensures that the risks are identified, understood, accurately measured, controlled and pro-actively mitigated at all levels of the organization so that the Bank's decisions are adequate and in line with the risk appetite.

Stopanska Banka AD Skopje uses detailed risk assessment and measurement models to come to thoroughly considered decisions on risk in its lending operations. To ensure the quality of the risk models, there is a governance process for approval of risk models, methodologies and parameters. An extensive system of limits and internal controls is in place in order to enable the risk profile of Stopanska Banka AD Skopje to be monitored and managed. The risk function ensures that the risk management is implemented correctly and is in compliance with the NBRM regulatory requirements and best standards and practices adopted by NBG Group.

Credit Risk Management

Credit risk is the risk that the bank will suffer economic losses if a counterparty cannot fulfil its contractual or other financial obligations arising from a credit contract. The credit risk management framework of SB is based on a deep understanding of the credit risk and the Bank's exposure towards it, as well as the effectiveness of the internal controls aimed at adequate identification, assessment, measuring, mitigating and monitoring of credit risk. It allows the Bank to manage the portfolio and avoid undesired concentration of credit risk.

The credit risk management within SB is governed by the bank-wide central credit risk policies and further detailed in underlying specific credit risk procedures. SB tends to embed and continuously improve the credit risk governance framework which enables the Bank to operate in a safe and sound manner, in compliance with the NBRM regulations and NBG standards.

SB prudent policy of accepting new customers is based on careful assessment of the customer's ability to repay any credit that is granted. The aim is to have long term relationships with customers that are beneficial for both the client and the Bank. That is enabled by customized lending to its corporate counterparties, whereby the risk assessment is based on an individual basis, and the approval of exposure is decided by committees, and through standardised products and processes, whereby risk criteria are assigned on pooled basis, for its retail and small banking Business clients.

The credit risk is assessed qualitatively and quantitatively in detail before approval, by the approval committee with the adequate authorization level. The responsible business units provide relevant information regarding the purpose, the structure of the proposed credit facility, information about the obligor and other counterparties, assessment of the industry and the market, management and owners, and a financial and non-financial analysis. The quantitative assessment and measuring of credit risk is facilitated by the use of sophisticated internal risk rating systems and statistical scoring models validated on regular basis. The organizational structure of the bank enables more independent levels of credit risk assessment.

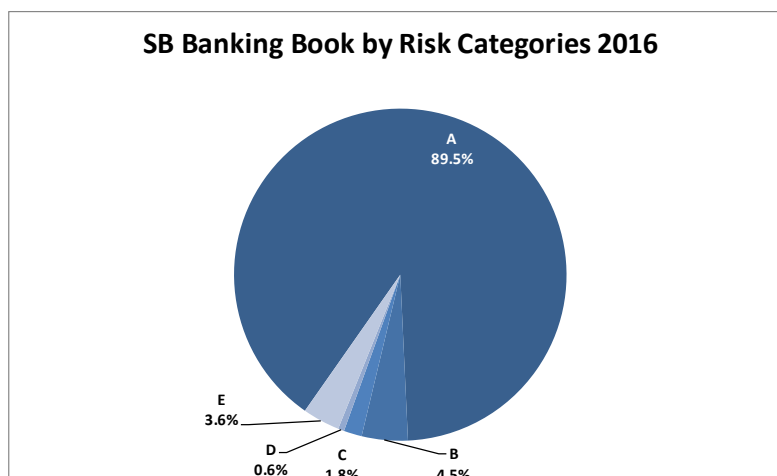
SB has introduced an intensive monitoring process that allows early identification of any developments in the counterparty's or portfolio's position that might trigger an increase in its risk profile. The monitoring process consists of regular credit reviews, from the moment the credit facility has been provided throughout its life cycle, internal risk classification and the monthly Early Warning System that identifies early signals of deterioration of the creditworthiness of the clients and aims to ensure undertaking of necessary actions. The credit exposure is also monitored against the established concentration limits on regular basis.

In line with the international best practices and following the enhanced impairment methodology and process, the Bank provided adequate level of provisions for potential credit losses.

Quality of Credit Portfolio

Within the implemented strong and integrated credit risk management framework, SB managed to maintain a sound and well diversified credit portfolio in 2016. Maintaining a low and controlled NPL ratio is one of the Bank's main strategic objectives. As a result, the NPL ratio of

the Bank was lower by approximately 130 b.p. compared to the level of the overall banking sector.

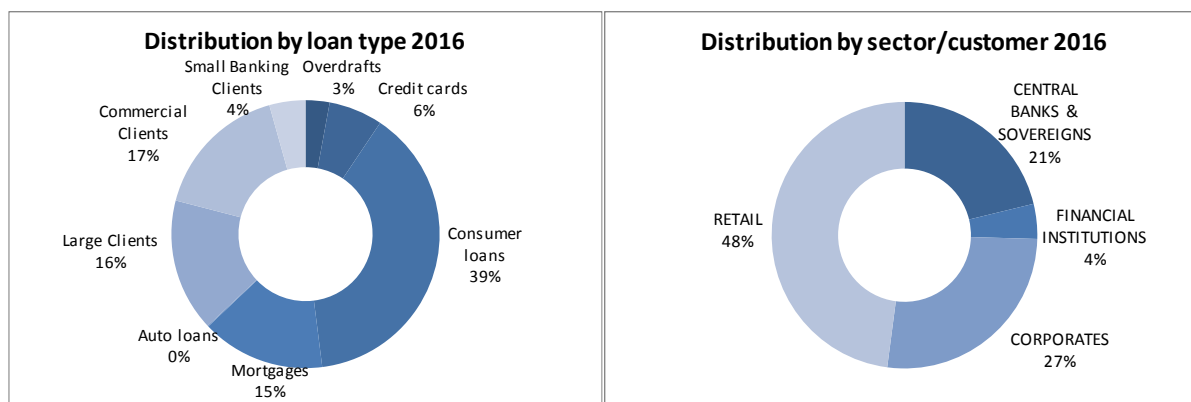


According to the NBRM Methodology, each credit risk exposure is classified in one of the five risk categories (A, B, C, D and E). The Bank maintained 89.5% of the exposure within the lowest credit risk category i.e. a credit risk category, while high risk debt classified in “D” and “E” categories compose only 4.2% of the Bank’s loan portfolio.

Concentration Structure

Credit concentration risk is a risk of loss due to insufficient diversification of risks within a portfolio caused by relatively large concentrations of exposures to positively and highly correlated counterparties. To avoid excessive credit risk concentrations, SB aims to diversify the credit risk and establishes limits towards: Single clients and groups of related clients (obligor concentration), exposure within certain industry sector (industry concentration), type of collateral, geographical area, etc. The set limits are reviewed at least on annual basis as part of the credit risk policies and procedures.

SB monitors the credit exposure against the set of concentration limits on regular basis, supporting the conclusions by adequate corrective actions.



Liquidity Risk Management

Stopanska Banka AD Skopje has implemented effective and efficient process of planning and managing of the liquidity and liquidity risk that corresponds to the risk management strategy of the Bank and its overall risk profile, size and scope of performed activities. The organizational and operational framework of liquidity management, monitoring and control of liquidity risk exposure is designed in compliance with regulatory requirements and in accordance with best banking practices, and is under permanent surveillance by ALCO, Risk Management Committee, Board of Directors and Supervisory Board.

During 2016, the Bank has fulfilled all statutory and internal limits prescribed in the area of liquidity risk management.

The Bank has continuously fulfilled the regulatory reserve requirement in local and in foreign currency and during 2016, the fulfillment was 100.2% on average, which represents an optimal level compared to the fulfillment of the banking sector which was 101.1%.

As part of the liquidity risk management process, the Bank calculates and monitors the level of concentration and the participation of the largest depositors in its average deposit base. The participation of total deposits of the 20 largest depositors, as at the end of the year, was 10.29%, indicating low concentration level.

The liquid assets, during 2016, have remained at high levels. The surplus funds were placed in instruments of the NBRM and in securities issued by the State that can be traded on the secondary market and serve as collateral when conducting repo-transactions with the NBRM and with other banks.

The high level of liquidity of the whole banking system in 2016 can be seen through the volume of transactions of banks on the domestic interbank money market, where trading slightly increased compared to the previous year and amounted to MKD 141 million daily average, compared to MKD 82 million in 2015. More intensive trading on the domestic money market was seen in the second and the third quarter of the year due to unfavorable political

developments in the country and rising distrust among depositors in the domestic currency that resulted in withdrawal and converting deposits in euros.

Even in such conditions, the Bank managed to maintain the deposit base and the liquidity at an adequate level without disrupting the planned lending activities, as a result of the strong fundamentals of the Bank, vigilant monitoring and appropriate measures taken in the management of funds and resources.

In 2016, Stopanska Banka AD Skopje paid dividend to the holders of ordinary shares in total gross amount of 45 million euros, that was financed by the surplus liquidity invested in securities.

Interest Rate Risk Management

The objective of interest rate risk management is to mitigate the risk of incurring losses arising from market interest rate changes to an acceptable level by appropriate modelling the structure of balance sheet positions and off-balance sheet items.

SB Interest rate risk management process reflects the Bank's risk strategy, risk tolerance, business activities and the overall operating environment and market conditions, considering the potential changes of interest rates and their impact on Bank's earnings and economic value of equity.

The Bank has established a framework for managing interest rate risk in order to minimize the effects of adverse changes in future interest rates and to ensure timely identification, measurement, monitoring and mitigation of the interest rate risk exposures. The framework encompasses risk factors and their estimation, measurement methodologies, stress testing methodology, interest rate risk in the banking book (IRRBB) metrics and limits as to ensure that this risk is appropriately measured, monitored and controlled. Furthermore, the Bank established appropriate limits and utilizes techniques in order to measure the Bank's exposure as a result of adverse movements in the interest rates within the banking book positions.

The Bank is exposed to effects of fluctuation in the market interest rates relevant for its financial positions and cash flows since the interest bearing assets and liabilities have different maturity dates (for fixed-rate positions) and different periods of interest rate changes (re-pricing for floating-rate positions). Taking into consideration the relatively minor portion of the Bank's interest bearing assets that are allocated to the trading portfolio which consists of government securities, the assessment of the interest rate risk is conducted through monitoring of exposures arising from the banking book activities.

In order to manage the interest rate risk appropriately, the Bank is conducting the process of identification, assessment, mitigation and monitoring of interest rate risk on regular basis, separately for all significant currencies the Bank deals with. At the end of 2016, the ratio of total net weighted position to the regulatory capital was well below the regulatory maximum of 20% and resulted with insignificant exposure to IRRBB.

Foreign Exchange Risk Management

The primary objective for managing the Bank foreign exchange exposure is to stabilize the effects of fluctuations in exchange rates in order to avoid volatility in the capital adequacy ratio from the aspects of impact over currency risk weighted assets and capital level of the Bank.

SB has developed an overall strategic approach to currency risk management, addressing the core issues regarding its fundamental attitude towards currency risk management and currency risk exposure expressed through adequate and comprehensive policies, procedures and standards, and appropriate segregation of duties and responsibilities under the authorities of different organizational units.

The system for identification, measuring, monitoring and controlling the currency risk or f/x risk encompasses all activities and transactions of the Bank which include on-balance and off-balance positions, registered in foreign currencies and in MKD indexed with f/x clause. SB balance sheet structure consists of assets and liabilities in different currencies, but dominantly in MKD and EUR currency.

SB manages the currency risk on two levels, i.e firstly by monitoring and hedging the open currency position on a daily basis by the Treasury Division and secondly by monitoring of the OCP by the Risk Management Division, thus ensuring compliance with the regulatory and internal limits of exposure in main currencies individually, as well as on aggregate level and thus, SB calculates the open currency position for every foreign currency present in its balance-sheet.

The 2016 currency risk management process was accomplished with high proficiency and the open currency position constantly was lower than the regulatory limit and consequently there was no breach of regulatory limit at any time.

Operational Risk Management

The overall focus of 2016 operational risk management process was on further strengthening the operational risk management function and enhancing monitoring of operational risk exposure, accomplished through intensive proactive role by Risk Management Division, with particular intention, operational risk exposure to be eliminated or mitigated in line with Stopanska Banka's risk profile, risk strategy and business goals.

The SB ORM governance structure is based on the three lines of defense model, which has been designed to effectively manage operational risk

The SB has a firm-wide and high quality Operational Risk Management Framework in order to:

- Promote a Bank wide operational risk awareness and risk culture further contributing to process efficiency and control effectiveness
- Establish a set of fundamental standards for operational risk management across the Bank leading to the avoidance of unexpected and catastrophic losses and the minimization of expected losses
- Ensure that business objectives are pursued in a risk-controlled manner
- Ensure the cost-effectiveness of operations by reducing extensive overlaps and avoiding excessive or obsolete controls
- Ensure consistency with relevant best practices and compliance with regulatory (quantitative and qualitative) requirements
- Improve regulatory capital consumption, regarding operational risk

The main fundamental components of Stopanska Banka Operational Risk Management Framework are:

Key Risk Indicators (KRIs), Risk and Controls Self-Assessment (RCSA) process, Loss Data Collection (LDC) process and Action Plans (AP).

The effective operational risk management (ORM) in SB is facilitated through utilization of the NBG Group software solution for operational risk management (AlgoOpVar), that enables efficient management of the operational risk (OR), comprehensive overview of the Bank's OR exposure, high quality monitoring and recording process of the realized losses, efficient monitoring of the Key Risk Indicators and effective action plan initiation and follow-up.

During 2016 all of the main operational risk management framework fundamental components were fully implemented and consequently, operational risk management process was accomplished with high expertise, avoiding the negative effects on the financial results and

capital position and ensured that the ORM Framework is effective, appropriate and implemented with integrity.

Capital Adequacy, Internal Capital Adequacy Assessment Process and Stress Test

SB maintains strong and high quality capital adequacy that provides for continuous and sustainable growth of its overall banking operations. The Bank's total regulatory capital as of 31.12.2016 amounted to EUR 169.7 million (Tier 1 - EUR 166.6 million and Tier 2 - EUR 3.1 million) resulting in a capital adequacy ratio of 16.04% as at 31.12.2016.

As a part of the prudently established risk management framework, the Bank regularly performs the Internal Capital Adequacy Assessment Process (ICAAP) and assesses the resilience of its capital adequacy by conducting stress testing. The Bank's ICAAP ascertains that SB's capital is sufficient to cover all the material risks to which it is exposed to, and that the identified excess of capital is more than sufficient to cover all other risks that cannot be adequately quantified but to which the Bank is exposed to in the regular business activities. Also, stress test exercises are integral part of the risk management framework providing estimates of the size of financial losses and its impact on the capital adequacy. During 2016, the Bank conducted various stress tests in order to analyze its sensitivity to a predetermined set of extreme but plausible shocks. The stress tests included effects from various scenarios regarding credit risk, interest rate risk in the banking book, liquidity risk, currency risk and operational risk, as well as scenarios that involved combination of the risks.

The stress test results proved the Bank's resilience even under very pessimistic assumptions. Such resilience mainly reflects the prudent risk management, strong capital base, as well as the high liquidity position of the Bank.

Compliance, Anti-Money Laundering and Combat Terrorist Financing activities

During 2016, Compliance Division (CD) undertook vast number of activities for monitoring of the implementation of all relevant novelties in the domestic and international regulations related to banking operations by continuous implementation of efficient system for controlling SB activities that are in compliance with the applicable domestic and international regulations. Such activities included establishing efficient internal procedures and organizational structures for identifying, monitoring and managing the possible risks related to SB's compliance with current regulations; continuous training of Bank employees; regular, at least monthly and quarterly, reporting to the Board of Directors and Supervisory Board; continuous cooperation

with the relevant external institutions in accordance with the Banking Law; ensuring good reputation and credibility of SB before NBG Group, before its shareholders, clients, investors, regulatory and supervisory authorities and other relevant stakeholders; developing Compliance Culture among SB employees as a model of corporate conduct and basis for strengthening the corporate identity etc.

Considering Anti-Money Laundering (AML) and Combat Terrorist Financing (CTF) Activities, during 2016, there were realized series of activities for harmonizing the internal enactments with the modifications of the Law, as well as for improvement and upgrade of internal systems and processes used by the CD on a daily basis.

According to the Annual Compliance and AML Plans for 2016, CD also realized the following main activities:

- Prepared an update of the Policies for Whistleblowing and for Anti-bribery and provided relevant guidance to the Staff;
- Prepared and appropriately communicated an update of the Code of Ethics and presented updated principles for ethical and moral principles and values as well as the relevant rules that frame the actions of the staff and the Management;
- undertook on-site and off-site supervisions regarding implementation of Compliance and AML/CTF requirements over the divisions, departments and branches;
- Prepared and updated internal enactments (Policies and Procedures) related to Compliance and AML/CTF activities etc.

Compliance Division continues to carry out its regular activities in order to sustain and bolster overall Compliance Culture within SB as well as to achieve overall compliance of Bank's operations with the relevant regulations as its main objective.

Personal Data Protection

Privacy and the confidentiality of our clients is of utmost importance for Stopanska banka, having in mind the nature of the banking business and the data that the banks are collecting for their daily operations. Therefore, the Bank has two Officers for Personal Data Protection and the whole team that is helping them the said information to be:

- ✓ collected in an ethical and lawful manner,
- ✓ collected for specific, explicit and legal purposes, and

- ✓ kept securely and only for the time period provided for the fulfilment of the purposes of collection and processing.

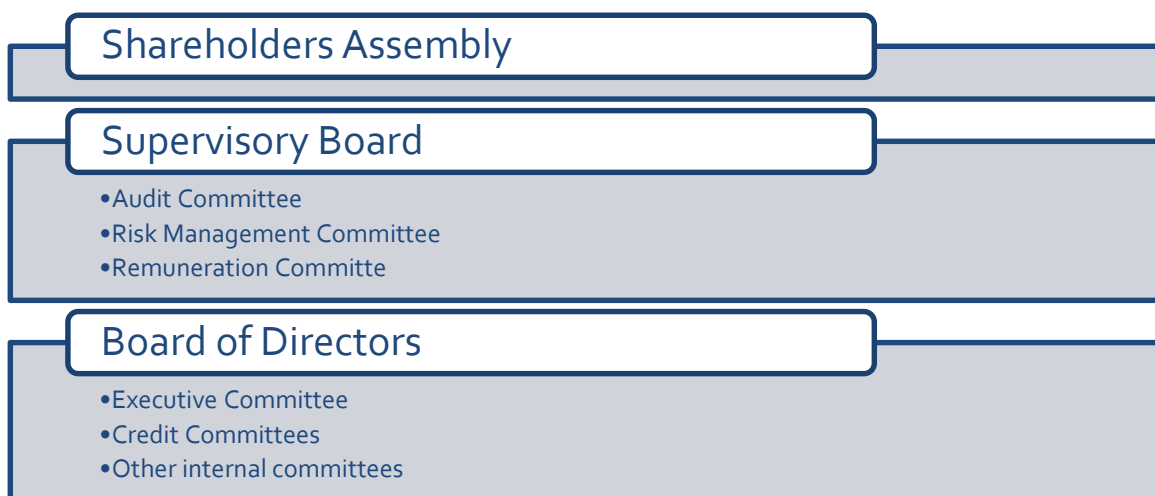
Accordingly, the Bank has introduced procedures and implemented systems which enable the controlled flow of information so that:

- ✓ it is disclosed to the competent individuals and only to the extent deemed necessary within the context of their duties. In the event that the Bank needs to enable access to Confidential Information to a larger number of individuals, every measure shall be taken, including the execution of a relevant confidentiality agreement, to ensure that the third parties to whom such information is exceptionally disclosed are made aware of the confidential nature and the restrictions on the use of such information,
- ✓ access to classified information by unauthorized personnel shall be prevented.

Our employees fully understand that they shall observe secrecy and protect confidentiality of all data or information related to the Bank and its customers against intentional or unintentional disclosure to unauthorized individuals even following the termination of their access to such information and/or the termination of their employment contract with the Bank.

CORPORATE GOVERNANCE REPORT 2016

Stopanska Banka AD – Skopje is one of the largest, most profitable and sound systemic banks in the country with highly sophisticated and effective system of corporate governance established by following the best practices, NBG Group standards, the relevant regulation and the strategic needs of the Bank and its stakeholders. Responsible corporate governance is the highest priority for the Bank that supports the full implementation of its business plan with operational excellence and integrity.



The following Report is presented to the shareholders of SB and the public in accordance with the Decision on the Basic Principles of the Corporate Governance in a Bank (Official Gazette of RM n. 159/2007).

1. SB bodies

1.1. SUPERVISORY BOARD

The Supervisory Board of Stopanska Banka AD – Skopje consists of 7 members, out of which 2 are independent ones, with the term of office determined to four years, appointed by the Shareholders Assembly. The composition of the Supervisory Board in 2016 is as follows:

1. Marinis Stratopoulos, **Chairman of the Supervisory Board of SB**, General Manager of International Activities Division, National Bank of Greece S.A. Athens;
2. Konstantinos Bratos, **Deputy Chairman of the Supervisory Board of SB**, Assistant General Manager of Corporate Workout and Remedial Management, National Bank of Greece S.A. Athens;
3. Anastasios Lizos, **member of the Supervisory Board of SB**, Head of Sector of International Activities Division, National Bank of Greece S.A. Athens;
4. Ioannis Kagioulis, **member of the Supervisory Board of SB**, Head of International Corporate Credit Division, National Bank of Greece S.A. Athens;

5. Dimitra Gkountoufa, **member of the Supervisory Board of SB**, Manager of Group Strategy Division, National Bank of Greece S.A. Athens;
6. Vladimir Filipovski, **independent member of the Supervisory Board of SB**, Professor, Faculty of Economics at University “St. Cyril and Methodius” Skopje; and
7. Sasho Kjosev, **independent member of the Supervisory Board of SB**, Professor, Faculty of Economics at University “St. Cyril and Methodius” Skopje.

The current composition of the Supervisory Board is such that its members have the collective and individual knowledge, skills and specialist experience as well as the integrity and reputation appropriate for a systemic bank as SB, and which are necessary to duly carry out their role and to support the management in realization of the Bank’s strategy. In addition, all **criteria for independence** are followed and no conflict of interest was reported by any member of the Supervisory Board during the reporting period.

The responsibilities of the Supervisory Board are determined in article 89 of the Law on Banks and the same are incorporated in the SB Statute. Thus, the responsibilities of the Supervisory Board are as follows:

1. adopts the SB business policy and development plan;
2. appoints and dismisses members of the SB Board of Directors, Risk Management Committee and the Audit Committee;
3. adopts SB financial plan/ Budget;
4. organizes the Internal Audit Division and appoints and dismisses Internal Audit Division Manager; approves the annual plan of the Internal Audit Division;
5. adopts the information security policy;
6. adopts SB risk management policies;
7. adopts conflict of interest policy that identifies the potential conflict of interest and the measures and activities for its avoidance;
8. adopts the remuneration policy;
9. adopts and implements the policy for selection, monitoring the operation and dismissal of members of Supervisory Board, Risk Management Committee, Audit Committee and Board of Directors;
10. reviews the reports on the activities of SB Board of Directors, Risk Management Committee, the Audit Committee, the Internal Audit Division and Compliance Division;
11. approves the annual financial statement and the financial statements of SB;
12. approves the exposure to individual entity exceeding 20% of SB own funds, with the exception of exposure based upon purchasing securities issued by the National Bank and the Government of RM;

13. approves the transactions with persons related to SB exceeding MKD 6,000,000;
14. approves the acquiring equity holdings and purchase of securities higher than 5% of SB own funds, other than purchase of securities issued by the National Bank and the Government of RM;
15. approves the proposal of the Audit Committee for appointment of the external audit company, or the proposal for termination of the agreement with the external audit company and is responsible for ensuring that an appropriate audit is conducted;
16. adopts the Internal Audit Policy/Charter;
17. reviews the supervisory reports, other reports submitted by the National Bank, the Public Revenue Office and other competent bodies and proposes, i.e. undertakes measures and activities for addressing the identified non-compliances and weaknesses in SB operations;
18. approves the annual report on the SB operations and submits written opinion thereon to the SB Shareholders Assembly;
19. reviews the report of the external audit company and submits written opinion thereon to the Shareholders Assembly;
20. adopts SB Code of ethics and the SB Code of Corporate Governance.

More details about the operations of the Supervisory Board are presented in the Report on the Operations of Supervisory Board in 2016.

1.2. The Supervisory Board' Committees in the year under review

The Supervisory Board has established committees with the aim to improve the efficiency of its work by dealing with complex matters in smaller groups and preparing them for the full Supervisory Board. Additionally, the Supervisory Board has delegated individual decision-making powers to the Committees, to the extent that this is legally permissible according to the relevant legislation and the internal regulations of the Bank.

There are no significant changes in the Supervisory Board's committees structure, i.e. the Supervisory Board of SB had three committees in the reporting period: Audit Committee, Risk Management Committee and Remuneration Committee.

A) AUDIT COMMITTEE

The Audit Committee of Stopanska Banka AD – Skopje consists of five members, appointed by the Shareholders Assembly, with two years term of office. Majority of the

members (3) are members of the Supervisory Board, while the remaining two members are independent out of which one member is authorized auditor. The composition of the Audit Committee in 2016 was as follows:

1. Antonio Veljanov, Chairman of the Audit Committee (independent member and chartered auditor);
2. Anastasios Lizos, Deputy Chairman of the Audit Committee (representative of the Supervisory Board);
3. Dimitra Gkountoufa, member (representative of the Supervisory Board);
4. Konstantinos Bratos, member (representative of the Supervisory Board); and
5. Jadranka Mrshikj, member (independent member).

The Audit Committee responsibilities are defined strictly in the Law on Banks, which are transposed in the SB Statute. In brief, the Audit Committee is responsible to oversee the integrity of the accounting and financial reporting, to oversee the internal control systems and other similar activities that provide support to the Supervisory Board in its control function. More precisely, among other items, the Audit Committee reviewed the (quarterly) reports of the Internal Audit Division and its other reporting and planning documents, the (monthly) reports of the Risk Management Committee, and the (quarterly) review of the financial statements for consolidation purposes; policy-wise, it reviewed the Code of Ethics for Financial Professionals and the Policy for avoiding conflict of interest for senior executives. In addition, on 26th of October, 2016 the Audit Committee approved the proposal for re-appointment of the Manager of Internal Audit Division for another 3-years term.

In conclusion, the Audit Committee followed its Annual Plan for operations and executed its duties in full compliance with the relevant legislation and corporate governance standards.

B) RISK MANAGEMENT COMMITTEE

The Risk Management Committee of Stopanska Banka AD – Skopje is consisted of 9 members, appointed and/or dismissed by the Supervisory Board. The term of office of the Risk Management Committee members is two years. As at 31 December 2016, the members of the Risk Management Committee are as follows:

1. Diomidis Nikolettopoulos – Chief Executive Officer and Chairman of the Board of Directors, Chairman;
2. Toni Stojanovski - Chief Risk Officer of SB and member of the Board of Directors of SB, member;

3. Theodoulos Skordis - Chief Corporate Officer of SB and member of the Board of Directors, member;
4. Milica Chaparovska-Jovanovska – Chief Retail Officer of SB and member of the Board of Directors, member;
5. Mirjana Trajanovska – Senior Manager for Treasury and Finance of SB, member;
6. Vlado Treneski - Manager of Corporate Banking Division, member;
7. Mirko Avramovski - Manager of Collection Division, member;
8. Dejan Stamatov - Manager of Risk Management Division, member; and
9. Chief Economist of SB, member.

Members of the Risk Management Committee, in addition to the requirements stipulated with the Banking Law, have minimum three-year experience in the area of finance or banking. The responsibilities of RMC are as follows:

1. permanently monitors and assesses the risk level of SB, and identifies the acceptable level of exposure to risks in order to minimize the losses as a result of the SB risk exposure;
2. establishes risk management policies and monitors their implementation;
3. follows the regulations of the National Bank pertaining to the risk management and SB compliance with such regulations;
4. assesses SB risk management systems;
5. determines short and long-term strategies for managing certain types of risks SB is exposed to;
6. analyses the reports on SB risk exposure developed by SB risk assessment units and proposes risk hedging strategies, measures and instruments;
7. monitors the efficiency of the internal control systems in the risk management;
8. analyses the risk management effects on SB performances;
9. analyses the effects of the proposed risk management strategies, as well as the proposed risk hedging strategies, measures and instruments;
10. assesses whether the pricing of the bank's products and services is aligned with the level of undertaken risks and in accordance with the business policy and the development plan of the bank;
11. informs, at least once per quarter, the SB Supervisory Board, on the changes in SB risk positions, the changes in the risk management strategies, the risk management effects on SB performances as well as the undertaken measures and instruments for hedging risks and the effects thereof; and
12. approves any exposure to an entity exceeding 10% and up to 20% of SB's own funds.

C) REMUNERATION COMMITTEE

On its 172th meeting held on 29th of November, 2013, the Supervisory Board established the Remuneration Committee in accordance with the best corporate governance practices. The Remuneration Committee is assisting the Supervisory Board in implementation of the Remuneration Policy of SB that is adopted on the 33rd meeting of the Shareholders Assembly held on 19th of July, 2013.

In accordance with the Remuneration Policy of SB, the committee is composed of three Supervisory Board members, majority of whom should be the independent ones, including its Chairman. Thus, during 2016, members of the Remuneration Committee are as follows:

1. Vladimir Filipovski, independent member of the Supervisory Board, Chairman;
2. Sasho Kjosev, independent member of the Supervisory Board, member; and
3. Anastasios Lizos, member of the Supervisory Board, member.

The term of office of the members of the Remuneration Committee is one year.

1.3. BOARD OF DIRECTORS

The Board of Directors of Stopanska Banka AD – Skopje consists of four members, appointed and/or dismissed by the Supervisory Board, with term of office of four years. As at 31 December 2016, the Board of Directors members are:

1. Diomidis Nikolettopoulos, Chief Executive Officer and Chairman of the Board of Directors;
2. Toni Stojanovski, Chief Risk Officer and member of the Board of Directors;
3. Milica Chaparovska-Jovanovska, Chief Retail Officer and member of the Board of Directors; and
4. Theodoulos Skordis, Chief Corporate Officer and member of the Board of Directors.

Members of the SB Board of Directors, in addition to the requirements stipulated with the Banking Law, have university degree, at least 6-year successful work experience in finance or banking and expert knowledge of the banking regulation.

The Board of Directors responsibilities are as follows:

1. manages SB;
2. represents SB;
3. enforces the decisions of the Shareholders Assembly and the Supervisory Board of SB, i.e. makes sure that they are implemented;
4. takes initiatives and gives proposals for promoting SB operations;
5. appoints and dismisses the persons with special rights and responsibilities pursuant to the provisions under the Banking Law and this Statute;

6. prepares SB business policy and development plan;
7. prepares SB financial plan / Budget;
8. prepares SB information security policy;
9. prepares an annual report on the SB operations and submits it to the Supervisory Board;
10. prepares a Code of Ethic of the bank;
11. gives previous consent and submits proposals for partial or write off in full of claims to the Supervisory Board;
12. passes decision on sale of claims; and
13. performs other activities, in accordance with Law, this Statute and SB's enactments.

In order to assist the Board of Directors in executing the business plan of the Bank, SB have established Executive Committee that besides the general managers, it includes the Senior Manager for Treasury and Finance (Mirjana Trajanovska) and the Senior Manager for Operations (Radmila Maksimovic).

1.4. CREDIT COMMITTEES

Other SB bodies, determined with the Statute, are Credit Committees with the following, structure, and authorities, as at December 31, 2016:

1. **Executive Corporate Credit Committee (ECCC)**: it consists of 5 members without limitation of the term of office, as follows:

1. Diomidis Nikolettopoulos - CEO and Chairman of the Board of Directors of SB, Chairman;
2. Ioannis Kagioulis – Head of NBG Group International Credit Division, member;
3. Toni Stojanovski - Chief Risk Officer of SB and member of the Board of Directors of SB, member
4. Theodoulos Skordis - Chief Corporate Officer of SB and member of the Board of Directors, member
5. Theodore Saidanis - Head of Sector, NBG International Activities Division, member.

The ECCC decides on credit exposure towards single subject (legal entity or individual) for financing in the amount from EUR 3.000.001 up to EUR 10.000.000. All financing that exceeds EUR 10.000.001 OR 10% of SB own funds shall be approved by SB Supervisory Board. ECCC also approves restructuring of claims and regulating of claims in accordance with applicable credit policies and performs other activities determined with decisions of the Supervisory Board. The

meetings are held by teleconference or written statement when needed with a quorum of all of its members and the decisions are passed unanimously;

2. **Credit Committee (CC)**: it consists of 5 members without limitation of the term of office, as follows:

1. Diomidis Nikolettopoulos - CEO and Chairman of the Board of Directors of SB, Chairman;
2. Toni Stojanovski - Chief Risk Officer of SB and member of the Board of Directors of SB, member;
3. Theodoulos Skordis - Chief Corporate Officer of SB and member of the Board of Directors, member;
4. Vlado Treneski - Manager of Corporate Banking Division of SB, member.
5. Konstantinos Choudalakis – representative of NBG Group International Credit Division, member with a decision-making authority determined in accordance with the applicable credit policy.

The CC, decides on credit exposure toward single subject (legal entity or individual) in the amount from EUR 500.001 up to EUR 3.000.000. CC also approves restructuring of claims and regulating of claims in accordance with applicable credit policies and performs other activities determined with decisions of the Supervisory Board. The meetings are held by teleconference or written statement when needed with a quorum of all of its members and the decisions are passed unanimously;

3. **Commercial Clients Credit Committee (CCCC)**: it consists of 4 members, without limitation of the term of office, as follows:

1. Toni Stojanovski - Chief Risk Officer of SB and member of the Board of Directors of SB, Chairman;
2. Theodoulos Skordis - Chief Corporate Officer of SB and member of the Board of Directors, member;
3. Vlado Treneski - Manager of Corporate Banking Division of SB, member;
4. Mihaela Atanasova Stoichovska – Deputy Manager of Underwriting Division of SB, member.

The CCCC decides on credit exposure toward single subject - legal entity from EUR 350.001 up to EUR 500.000 and toward single subject – individual from EUR 100.001 up to EUR 500.000. CCCC also approves restructuring of claims and regulating of claims in accordance with applicable credit policies and performs other activities determined with decisions of the

Supervisory Board. The meetings are held by teleconference or written statement when needed with a quorum of all of its members and the decisions are passed unanimously.

4. Higher Small Banking Business Credit Committee (HSBBCC): it consists of 4 members, without limitation of the term of office, as follows:

1. Toni Stojanovski, Chief Risk Officer of SB and member of the Board of Directors of SB, Chairman
2. Milica Chaparovska-Jovanovska, Chief Retail Officer of SB and member of the Board of Directors of SB, member
3. Dejan Krstevski, Manager of SBB Client Segment Business Department, member
4. Dejan Stamatov, Manager of Risk Management Division, member

The HSBBCC decides on credit exposure toward single subject – legal entity from EUR 100.001 up to EUR 350.000. HSBBCC also approves restructuring of claims and regulating of claims in accordance with applicable credit policies and performs other activities determined with decisions of the Supervisory Board. The meetings are held by teleconference or written statement when needed with a quorum of all of its members and the decisions are passed unanimously;

5. Small Banking Business Credit Committee (SBBCC): it consists of 4 members, without term of office limitation, as follows:

1. Milica Chaparovska-Jovanovska - Chief Retail Officer of SB and member of the Board of Directors of SB, Chairman;
2. Dejan Krstevski - Manager of SBB Department, member;
3. Dragan Mihajlov – Deputy Manager of Product Management Division, member;
4. Dejan Stamatov - Manager of Risk Management Division, member.

The SBBCC decides on credit exposure toward single subject – legal entity in the amount up to EUR 100.000. SBBCC also approves restructuring of claims and regulating of claims in accordance with applicable credit policies and performs other activities determined with decisions of the Supervisory Board. The meetings are held by teleconference or written statement when needed with a quorum of all of its members and the decisions are passed unanimously.

Lower approval levels can be determined with decisions of the Supervisory Board.

6. Retail Credit Committee (RCC): consists of 5 members, without limitation of the term of office, as follows:

1. Milica Chaparovska-Jovanovska - Chief Retail Officer of SB and member of the Board of Directors of SB, Chairman;
2. Dragan Mihajlov – Deputy Manager of Product Management Division, member;
3. Emilija Stojanova Ivanovska - Manager of Retail Credit Risk Division of SB, member;
4. Tatjana Kalajdzieva - Manager of Sales and Branch Network Division, member;
5. Violeta Zatenko - Manager of Retail Underwriting Department of SB, member.

The RCC decides on credit exposure toward single subject – individual in the amount up to EUR 100.000. RCC also approves restructuring of claims and regulating of claims in accordance with applicable credit policies and performs other activities determined with decisions of the Supervisory Board. The meetings are held by teleconference or written statement when needed with a quorum of all of its members and the decisions are passed unanimously. Lower approval levels can be determined with decision of the Supervisory Board.

The Credit Committees shall operate in accordance with the relevant credit policy adopted by the Supervisory Board.

Members of the Credit Committees shall be persons with special rights and responsibilities in SB or other persons or employees of SB, which are evaluated as sufficiently knowledgeable and experienced in the credit area in question.

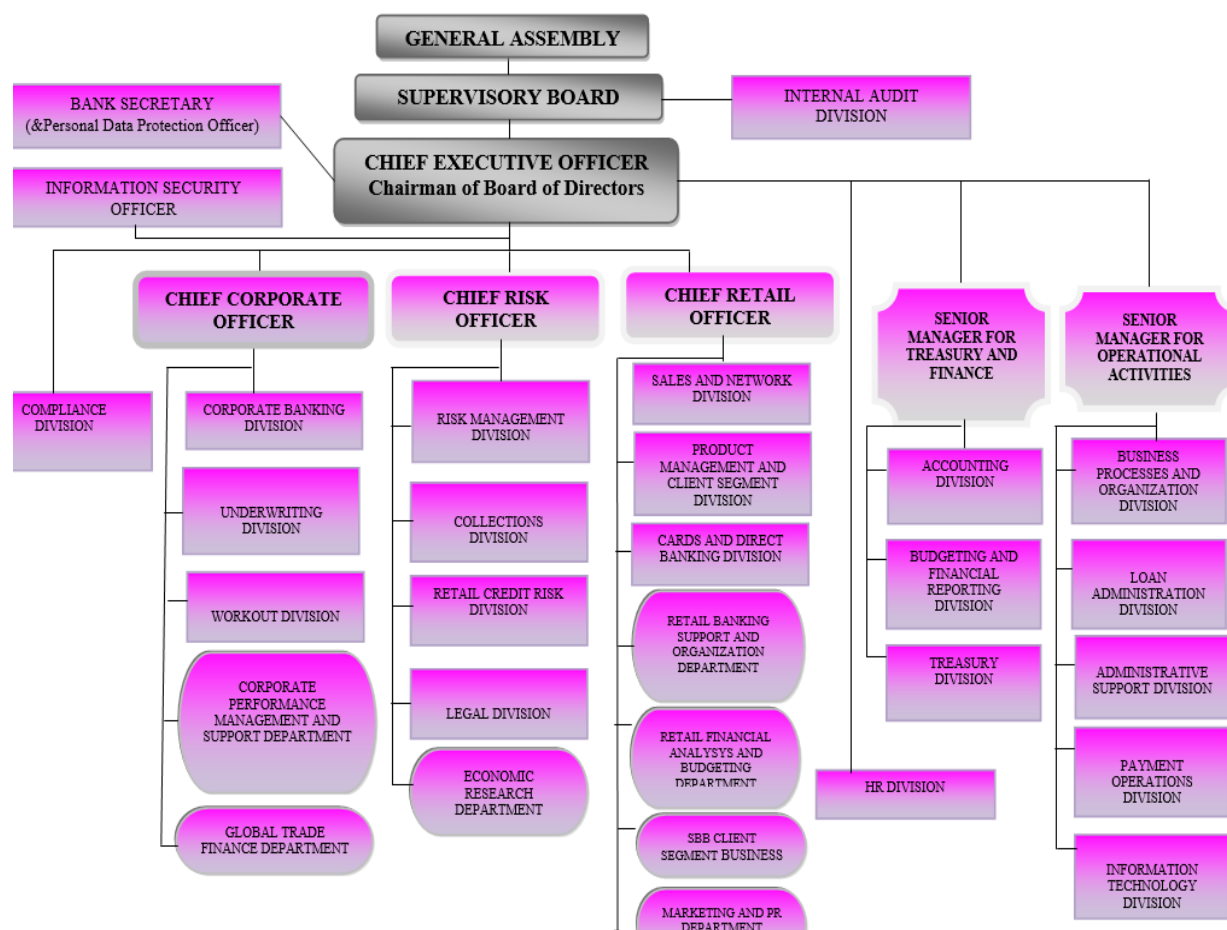
2. Organizational Structure

The organizational structure of Stopanska banka is following the best corporate governance standards and requirements and is tailored to optimize its business processes in order to be faster, cheaper and safer for all involved stakeholders. Although the organizational structure of the Bank is well-defined, still it is an ongoing process of development in order to find the best-fit for ourselves and our clients.

According to SB Statute, the organizational structure of the Bank is determined with a decision by the Supervisory Board, on proposal by the management.

The Bank is organized in 21 divisions and a branch network with 66 branches. The Bank has no subsidiaries.

Organizational Chart of SB



Source: <http://stb.com.mk/organizational-chart.nspix>

3. Shareholder Structure

During 2016 there are no significant changes in the shareholder structure: National Bank of Greece S.A. – Athens owns 94.6% of the ordinary shares, while 5.4% of the shares are held by other minority shareholders. NBG are represented with 5 members in the Supervisory Board, while the other 2 members are independent.

As of 31 December 2016 the initial capital (basic capital) consisted of 17,460,180 ordinary shares at the nominal value of MKD 201.1 per share and 227,444 preferred shares at the nominal value of MKD 400.00 per share.

4. Dividend Disbursement

After the acquisition of Stopanska Banka in year 2000, the primary objectives of the main shareholders were to restructure the Bank into stable, solid and reliable factor in the economy that will be pillar and counterparty of the clients. This process included many activities in the basic infrastructural fundamentals of the Bank, such as IT technology, branch network, alternative channels, creation of innovative and competitive products and much more than that. And after many years of restructuring and cleaning the losses from the past, the Bank started creating profit, which was re-invested in the Bank, needed for securing its future, which resulted in improving its performance, evident from all financial indicators.

Having satisfied all regulatory and business requirement, especially in terms of capital, much above the minimum levels, the Shareholder's Assembly passed a decision for distribution of dividend in total gross amount of MKD 2.776.168.620 or MKD 159 gross dividend per share, which is almost 80% dividend per share.

5. Corporate Governance Code

The Corporate Governance Code is prepared in accordance with the relevant regulatory requirements as well as the NBG standards that incorporates the best international practices. The Shareholders Assembly adopted the Code on the 20th meeting held on December 23, 2008 and since then it is regularly reviewed on annual level.

The last review of the CG Code was performed by the Shareholders Assembly on May 26th, 2016. No major changes were proposed.

6. Conflict of Interest Policy

The conflict resolution policy is determined in accordance with the Banking Law and SB Statute and stipulates that the persons with special rights and responsibilities shall give a written statement on the existence, if any, of a conflict of their personal interest with the interest of SB, every six months. The personal interest shall also include interests of the related parties connected thereto, as defined by the Banking Law. Conflict between the personal and the Bank's interest shall exist when financial, or any other type of business or family interests of the persons are concerned by the adoption of decisions, concluding agreements or performing other business activities. Financial, business and family interest shall imply generation of monetary or other type of benefit, directly or indirectly, by the persons. The persons shall not attend the discussion and adoption of decisions, conclude agreements, or perform other business activities if their objectivity is questionable due to the existence of a conflict between their personal interest and the interest of SB. Statement on existence of a conflict of interests shall also be given before the meeting for discussing and adopting decisions, concluding agreements, or

performing other business activity. The written statement shall be submitted to SB Supervisory Board and Board of Directors, indicating the reason underlying the conflict between the personal and SB interest.

If the person conceals the existence of a conflict of interests, the NBRM and any other party which has legal interest may require annulment of the legal matter to the competent court in accordance with the law.

7. Remuneration Policy

On the 33rd Shareholders Assembly held on July 19th, 2013, Stopanska Banka adopted the Remuneration Policy, which is aligned with the operational policy and business strategy of the Bank, its values, goals and long term interests. The same incorporates measures to avoid or minimize conflicts of interest or any possible negative impact on the sound, prudent and good management of risks assumed by the Bank, discourages excessive risk-taking and contributes to safeguarding the capital position of the Bank.

No major amendments of the Remuneration Policy are made in the reporting period.

In accordance with the Law on Trade Companies, below it is disclosed the remuneration (salary, salary allowances, bonuses, membership compensation, insurance and other rights) of the persons with special rights and responsibilities of Stopanska Banka:

I. Supervisory Board

a) representatives of the shareholders

In accordance with NBG Board of Directors decision, all officers of NBG S.A. Athens who participate in the Supervisory Board of SB as representatives of the shareholders *did not receive any remuneration* ("membership compensation"). The remuneration that they are receiving as employed in NBG S.A. Athens is considered as confidential and could not be disclosed.

b) independent members

The independent members are entitled on remuneration in amount of EUR 400 net on monthly basis. For participation in the Supervisory Board of SB during 2016 they received remuneration in amount of MKD 218,928 gross (annually).

For salary and salary allowances prof. Filipovski received MKD 1.809.312 gross (annually) as employed in the Faculty of Economics at University "Cyril and Methodius" Skopje.

For salary and salary allowances prof. Kjosev received MKD 1.633.206 gross (annually) as employed in the Faculty of Economics at University “Cyril and Methodius” Skopje.

II. Board of Directors

In 2016, total gross amount of MKD 28.194.417 (salary of MKD 22.052.886 and rewards MKD 6.141.531) was paid to the members of the Board of Directors.

III. Other persons with special rights and responsibilities

Besides the members of the Supervisory Board and Board of Directors, during 2016 SB had 30 other persons with special rights and responsibilities (according to the Statute of SB, other employees with special rights and responsibilities are: Senior Managers, Division Managers and Deputy Division Managers, and Managers for specific issues).

In 2016, the total gross amount of MKD 63.619.396 (salary of MKD 56.548.120 and rewards MKD 7.071.276) was paid to the other persons with special rights and responsibilities.

*At the end of 2016 the total credit exposure to persons with special rights and responsibilities amounts to MKD 62.568.060 which represent 0.60% of the Bank's own funds (significantly below the regulatory limit of 3% of the Bank's own funds per person with special rights and responsibilities and the persons related to him/her).

8. Corporate Social Responsibility

Most large companies in the country are playing very important role in their society besides the business services that they are providing. They compensate their people fairly, they are supporting various social activities and citizens' organizations, etc. Significant efforts are invested by most of the large companies in the last period and we are proud to play substantial part of this development.

Stopanska Banka represents one of the key companies that consistently plays significant role in the overall economic and social progress of the country. During 2016 the Bank continued

to support the economic growth, strengthen the communities and address critical social issues in the places it does business.

Part of the projects evaluated as highly beneficial for the broader community and/or employees of the Bank are presented below:

1. Donation of public parking spaces and repair stations for bikes

One of the largest CSR event in the country, the project “Vozi pravo, vozi zdravo” (Vol.1) was initiated in 2015 as fresh CSR concept organized by the Bank itself that ended with a donation of bike polygon for the City of Skopje. The idea behind the project is to promote and encourage the citizens in Skopje and across the whole country about the bike culture and healthy lifestyle.

Due to the positive reactions of the wider public, the Bank continued the project (Vol.2) in 2016 with larger scope and longer ceremonial race, which finished with a music event in the City Park enriched with famous musicians. The last phase of the project will be the donation of public bike-parking spaces and bikes-repair stations across the country, in coordination with the municipalities and the officials. The project will be completed during 2017.



Participants are preparing to start the ceremonial race with bikes, roller-blades and by-walk from the bike-polygon that SB donated to City of Skopje in 2015 during “Vozi pravo, vozi zdravo” vol.1



*Participants are relaxing in the City Park after the ceremonial race, waiting for the music event to begin;
The popular children band “5+” with their recognizable act entertains the children*

2. We Dream, We Change – event for children with special needs

SONUVAME.MENUVAME is a very special and important CSR project, not because of the organizers but because of the children that took part of it and helped the Bank realize this unique event. SONUVAME.MENUVAME has the tendency to emphasize the advantages from the differences that exist in our world, but also to point the options to create equal possibilities for all. The event was organized in the Opera & Ballet with creative music, dance and acting acts performed by the children and the citizens' associations that are working in this area. The project was finalized with the donation of SB that covers costs for selected associations for children with special needs, their projects and basic requirements for continuous operations and improving the services they are offering to the children.



*Set of pictures from the beginning of the event.
The citizens' associations and the children had prepared exhibitions at the entrance hall in MOB.
The event had excellent attendance and support by the people.*



Various dance, music and acting acts were performed by the children

3. Donation for the families from the flooded region in Skopje

Stopanska Banka is supporting and will continue to support its community not just in good times but in hard times as well. The Bank donated food and other necessary products for the people that were seriously affected by the floods in the Skopje region. The Bank also provided certain financial support for the families of the victims in the floods. Last but not least, it provided financial and other support for its employees that were living in the affected areas.

4. Sponsorship of SB's employees for participation at the Annual Banking Sport games

Each year's bankers from the Country gather for a week of sport tournaments. Stopanska Banka takes successful participation on these games for many years. This activity strengthens the team spirit among employees, the connection with the Bank and of course promotes across the employees the values of healthy life. The sponsorship covers for the transportation and accommodation costs, as well as for the training facilities of the teams during the year.

5. Supporting the Microsoft Specialist Competition 2016

Microsoft Specialist Competition is a qualification competition for the participants in the World competition for Microsoft. The national qualifications were held in the i-bank premises of the Bank. All participants – finalists were awarded by the Bank with the transactional account with symbolic amount of 5.000 MKD. The winner was supported by the Bank to travel the final competition in Orlando, Florida in August 2016.



Mr. Diomidis Nikolettopoulos, CEO of SB is giving opening speech for the event; after which the participants in the national qualifications are preparing for the start of the contest in the SB i-bank premises



6. Sponsorship for the D-Festival

Besides the regular sponsorship of the Strumica Carnival, Prilep Beer Festival and the Ohrid Summer Festival, this year Stopanska Banka supported the D-Festival as well. Open-air music festival, D FESTIVAL organized its seventh edition with a three-day program, i.e. from 14 – 16th July in Dojran where many young people (in age and spirit) were participating. D FESTIVAL is not only a festival, but an event with a strong message and movement for positive social changes, using the creative industries and top global art movements for sending the universal message for freedom and love.



Employees-volunteers of SB promoting the TOPSI product during the festival



The Bank supported many other important projects as well, such as sponsorship of the Novel of the Year 2016 organized by “Utrinski Vesnik”; sponsorship of various books on economy; sponsorship to partner universities; donation of computer equipment to FINKI; and various other smaller sponsorship and donations. The Bank is especially proud of the mini-events organized in its i-bank store (over 70 during the year) that covered target groups from kindergarten to pensioners and help educate the population about the basic and modern banking services.

In conclusion, we believe that being a systemic bank does not mean just having excellent financial results, but being socially responsible in every aspect of our operations, and, thus, we devotedly reflect the CSR principles in how we treat our employees and how we care for our clients and communities. Stopanska Banka AD – Skopje have accomplished significant amount

and energy in its Corporate Social Responsibility efforts. We are proud to be significant part not just of the financial system, but also of the overall community.

STOPANSKA BANKA AD - SKOPJE

11 OKTOMVRI, 1000 SKOPJE

phone: +389 (0)2 3295-295

E-mail: sbank@stb.com.mk

[http:// www.stb.com.mk](http://www.stb.com.mk)