



## ANNUAL REPORT 2002

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## **DEAR SHAREHOLDERS,**

Immediately after NBG became the majority shareholder of Stopanska Banka AD -Skopje in 2000, we started the overall restructuring of the Bank. After almost three years it may be said that we are on the right path. Although the restructuring of the Bank was partly conducted during a period of serious security problems in the country which exerted a negative effect on the performance of the economy, the reorganization of the Bank continued with significant success.

In an environment of high economic and political risk, the credit policy of SB in 2002 was to grant new loans to well structured and promising companies under prudent banking criteria. At the same time, the Bank continued the policy of cleaning up its credit portfolio from non-performing loans of the past through their full provisioning. Thereby, the structure of the credit portfolio was substantially improved as evidenced by the increased share of the low-risk category of loans "A" from 22% in 2001 to 31% at the end of 2002, and decreased share of all other risk categories, especially of the most risky one "E", from 12% to 6%.

The process of creation of a new and healthy credit portfolio is long and difficult. However, the first phase, the phase of cleaning up the problematic loan portfolio of the past and centralizing the process of credit approvals and administration has almost been completed. It is worth mentioning that after several years of decreasing volumes of the credit portfolio of Stopanska Banka, at the end of 2002 a new cycle of credit growth has commenced. Thereby the second phase, the phase of creating a new credit portfolio consisting of first class creditworthy clients, is now on the way.

Obviously, the expansion of the Bank's credit activity would have been deferred if in September 2002 the capital was not increased by EUR 17 million. Through the injection of new capital the shareholders of Stopanska Banka have re-affirmed their long-term commitment to the Bank and to the country at large.

At the end of 2002 the capital adequacy ratio amounted to 21.25%, which is substantially higher than the legally prescribed minimum of 8%. This figure indicates that the Bank has potential for further expansion of its activities in the years to come.

The strategic goal of the Bank to invest in human resources was intensively implemented during the whole 2002. Stopanska Banka organized or sponsored

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113 seminars for its employees at which 1,223 participants extended their knowledge and skills in the areas of banking operation, foreign languages, and new IT systems.

I must also point out that in the process of organizational restructuring of the Bank attention was given to the reduction of operating costs. In 2002, this process was strengthened through the establishment of two Committees (Operating Expenses Committee and Capital Expenditures Committee) and by adoption of standard purchasing procedures. As a result of the efficient utilization of resources, the Bank decreased its operating costs by 11%.

During 2002, Stopanska Banka proceeded to the rationalization of its human resources through the implementation of a technological redundancy scheme. This process was conducted in cooperation with the Trade Union and in compliance with the domestic legal regulations, thus all employees who left the Bank received the appropriate severance pay.

Without doubt, after three turbulent years Stopanska Banka enters into a most productive period. Thanks to the understanding and patience of the shareholders and devotion and professionalism of the management and the employees, Stopanska Banka is rapidly turning into a successful example of a wholly restructured and profitable modern financial institution.

Through our actions we aim primarily to extend our appreciation to the Bank's clients by ensuring them that we will continue to be at the forefront of developments, offering them always the best corporate and retail financial products and services.



Sincerely yours,

**Theodoros B. Karatzas**

Chairman of the Board of Directors

of Stopanska Banka AD - Skopje

Skopje, 14.05.2003



## **DEAR SHAREHOLDERS,**

In the year 2002 the Macedonian economy was under prolonged negative impact of the security crisis from 2001 and the global recession in the world economy. The overall uncertainty that prevailed in the domestic economy, the weakness of the real sector and the restrictive monetary policy influenced the slower recovery of the Macedonian economy than expected.

Due to the unfavourable conditions in the economy and the fragile post-conflict political situation, the credit risk remained high. Therefore, Stopanska Banka AD - Skopje followed a prudent and selective credit policy. By implementing a policy of efficient risk management, Stopanska Banka AD - Skopje strengthened its long-term competitive position at the market.

Stopanska Banka entered into significant credit expansion close to the end of 2002, after strengthening the stability of the country, the partial relaxation of the monetary policy, and enlivening of the economic activity. As a result of that, in November 2002 the Bank's credit portfolio started growing on a solid base.

Despite the economic slowing down and the political instability, Stopanska Banka succeeded to increase the number of legal entities' giro accounts by 23%, and of households' deposit accounts by 16%. Especially high expansion was achieved in the card operation where the Bank strengthened its leading position at the market. The number of issued payment cards increased by 90% in 2002 reaching a number of 43,000 on 31 December 2002. As a result of the increased number of cardholders, the total income from the card operation increased by 32%.

At the end of December 2002 the stocks of household deposits exceeded the projections, indicating to the high confidence of the households in Stopanska Banka as a reliable bank. Approximately 50% of the household foreign currency deposits inflow due to the conversion of IN currencies into EUR remained in the Balance Sheet of the Bank, which represents an increment of two and half times in relation to the amount of deposits prior to conversion.

During 2002 the Bank launched two new products in the household operation: housing loans and consumer loans. Due to the competitive terms and conditions of the both products, there is a big interest among the citizens and they are expected to have fast expansion in 2003.

In 2002 continued the organizational restructuring, modernization of the Bank's information system and the policy of rationalization of the expenses that are

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part of the strategic goals of Stopanska Banka. In April 2002, Stopanska Banka put into operation the new GLOBUS software. Despite the occasional problems, the first cycle was successfully completed. Without any doubt, the entire implementation of the GLOBUS system shall be an additional competitive advantage of Stopanska Banka.

The measures for rationalization of expenses included efficient utilization of resources, closure of 12 unprofitable sub-branches, reorganization of the branch network, sale of the excessive motor vehicles and of Bank's business premises that were not necessary for its operation. This policy resulted into reduction of operating costs by 11%.

The operative restructuring did not mean only closing of unprofitable sub-branches. On the contrary, in 2002 six new modern sub-branches were opened, one in Prilep, one in Kumanovo, and four in Skopje

After a careful preparation, in November 2002 the Bank in cooperation with the Trade Union implemented the redundancy scheme according to which 191 employees left the Bank. The whole procedure was carried out with respect of their rights in compliance with the domestic legal regulations. Although painful, this measure was necessary for strengthening of the Bank's position at the market and better perspectives of other employees.

The net interest income after allocation of provisions for non-performing interest was by 40% higher than in 2001. That influenced the increment of the net interest margin from 0.88% in 2001 to 1.22% in 2002. The growth of the net interest margin was mostly a result from the better management of the credit claims and improved collection of the interest.

As a result of that even in a year of recession Stopanska Banka succeeded to reduce the loss from EUR 21.8 million in 2001 to EUR 1.2 million in 2002.

At the end, please allow me to ascertain that 2002 was a year in which Stopanska Banka still felt the consequences of the succeeded bad loan portfolio. However, that was also the first year in which the outlines of the new, strong, European like Stopanska Banka started to be visible.



Sincerely yours,

**Gligor Bishev,**

First General Manager

Stopanska Banka AD - Skopje

Skopje, 14.05.2003



## BOARD OF DIRECTORS

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## MANAGEMENT

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### MACROECONOMIC DEVELOPMENTS IN 2002

Domestic economy in 2002 was under prolonged negative impact of the security crisis in the country in 2001 and global recession in the world economy. The general uncertainty prevailing in the domestic economy, poor performance of the real sector and high interest rates caused by the tight monetary policy resulted in a much slower than expected recovery of the domestic economy. Instead of the expected growth of 4%, real GDP grew by a negligible 0.7% (first official estimation); industrial production slumped for another 5.3% (after it already declined by 3.1% in 2001).

Trade deficit surged to historically the highest level of US\$ 850 million (20% of GDP) as a result of declining export and rising import. Export of the two most important products (textiles and steel sheets) suffered the most. Because of the lost contracts during the domestic security crisis, export of textiles was halved in the first half of the year. Steel was severely hit by the world recession and disturbed world market after USA imposed protective import taxes.

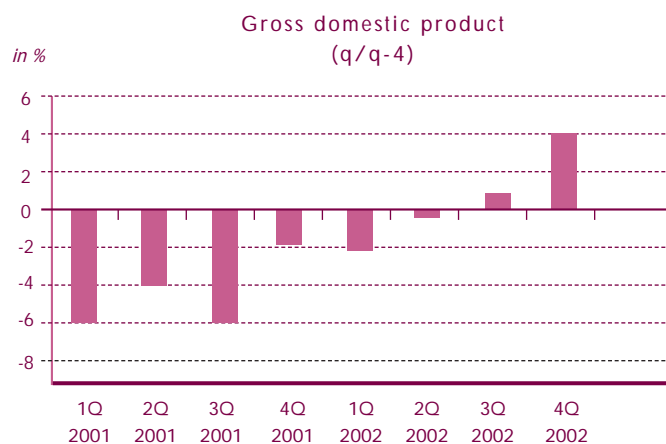
Fiscal consolidation did not take the predicted path due to low fiscal discipline in the year of parliamentary elections, which was a major obstacle in reaching agreement with the IMF for a new Stand-by arrangement. Apart of the still high security expenses, major part of the budget deficit of 3.2% of GDP was caused by pre-election increase of salaries by 14% in the government sector and increase of pensions by 6%. In the first quarter the deficit was financed by external sources (loans and official grants) in the amount of approximately MKD 3.3 billion. Later, after the Government did not reach agreement with IMF about macroeconomic policies, the inflow of external funds was stopped. Therefore, from May until the end of the year the budget deficit was financed by government deposits with the Central Bank. In the same period the country serviced significant foreign debt in the amount of US\$ 140 million. As a consequence of the fiscal gap and net external financial outflow only in the third quarter the government deposits with the Central Bank decreased by MKD 5 billion and for the whole year by MKD 6.7 billion (2.8 % of GDP).

The low fiscal discipline and lack of foreign financing of the high current

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account deficit (8.8% of GDP) put the exchange rate of MKD under strong pressure in the second half of the year. Therefore, the Central Bank continued to run very tight monetary policy in order to keep the exchange rate of MKD at the targeted level. As a result of the recession and tight monetary policy inflation remained at the lowest level in the last three years (1.8% p.a.).

In the second half of 2002 emerged the first very weak signs of recovery. After six consecutive quarters with negative annual growth rates, in the third quarter of 2002 GDP grew by 1 % (compared to the same quarter of 2001). It was a result of recovery in construction and services.



Agriculture had another bad year caused by unfavourable weather. Close to the end of the year manufacturing recorded first positive annual growth rates in two consecutive months (November and December). However, the index of new orders in manufacturing, although improved compared to the first half of the year, was still quite low. Such trends in the real sector combined with poor liquidity of non-financial companies, historically the highest trade deficit and higher than expected fiscal gap in 2002 does not leave room for great optimism regarding short-term growth prospects of the Macedonian economy.

## BANKING SECTOR

Banks' lending to private sector increased by 6% in 2002. The growth came after the standstill during the security crisis in 2001 when the banks' lending increased by only 1%. The increment is mainly a result of the long-term denar lending despite still high interest rates.

All monetary indicators show very low level of intermediation of the banking system in the Republic of Macedonia. Lending to private sector as a percentage of GDP (16%) is few times lower than the corresponding figures for Greece (53%) and the Euro zone (100%). Especially unfavourable is the situation with household lending where housing and consumer loans have shares of negligible 0.2% and 0.1% of GDP compared to the corresponding figures for Greece of 12% and 6% respectively. Having in mind these small figures, there is a large room for intensive growth of banks' credit activities in the Republic of Macedonia.

Total deposits decreased by 16.6% as a result of the expected withdrawal of foreign currency deposits after conversion of IN currencies into EUR. Nevertheless, denar deposits recorded a sizable growth of 13.6%. At the end of 2002, total deposits in the banking system were equal to 18.1% of GDP, which is significantly lower than in Greece (109%) and Euro zone (96.5%). Obviously, still important amount of savings are kept out of the banking system despite existence of the Deposit Insurance Fund. The only way of attracting them into the banks is to work on elimination of political risks in the country. Moreover, downsizing of the political risks will encourage domestic banks to withdraw their funds from foreign banks and place them in the form of loans to private sector. During 2002, Macedonian banks' foreign currency deposits held with foreign banks equalled to 12% of GDP. It is a huge potential for increasing the bank mediation that is currently idle.

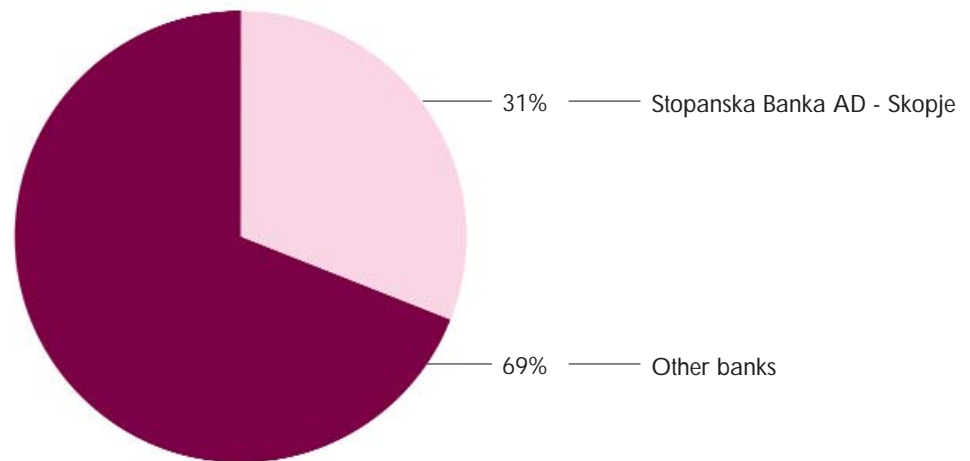
Financial mediation measured as a ratio of money stock M2 to GDP is equal to 26.9%. It is an indication of very shallow financial market in Macedonia compared to other countries in transition.

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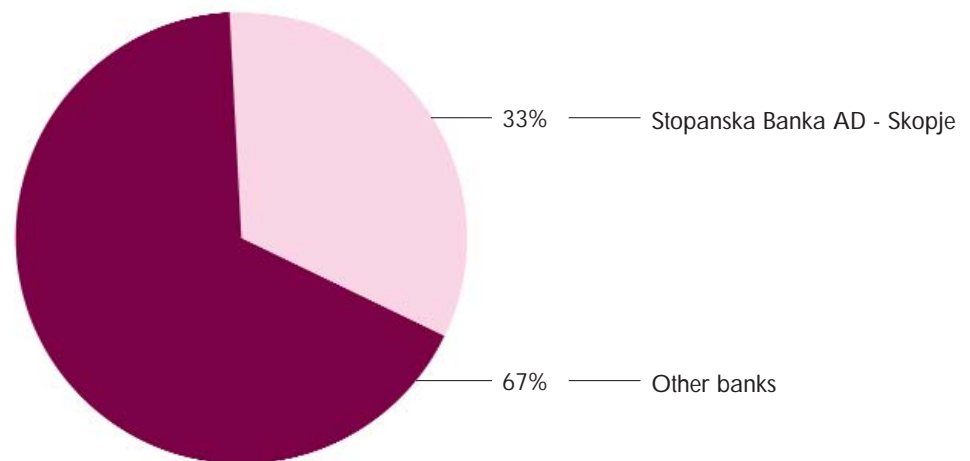
## SHARE OF STOPANSKA BANKA AD - SKOPJE IN THE TOTAL BANKING SYSTEM

With a share of 26% in the total banking system SB remained the leading bank in the country according to assets size. Despite the experienced withdrawal of public sector deposits on non-banking criteria, the Bank's share in total banks' deposits was 31% as at December 31, 2002. The Bank's position is even stronger in the segment of household deposits with a market share of 33%.

### TOTAL DEPOSITS AS AT DECEMBER 31, 2002



### HOUSEHOLD DEPOSITS AS AT DECEMBER 31, 2002



With 30% market share SB is still the major player in the segment of customer loans and securities. The Bank retained this position although it followed very prudent credit policy due to the high political and economic uncertainty prevailing in 2001 and major part of 2002 that substantially reduced its lending activities. In the same period, and especially in 2002 the other banks expanded their lending to private sector by more than 10%. By avoiding risky lending during the last two years SB has strengthened its competitive position on long-term.

### MAIN DEVELOPMENTS AND ACHIEVEMENTS IN 2002

In 2002, SB achieved significant results in retail banking. The amount of household deposits as at December 31, 2002 exceeded projections, thus indicating the high confidence of citizens in SB as a sound bank. Around 50% of the inflow of household foreign currency deposits due to conversion of IN currencies into Euros remained in the Bank, that is two and half times more than the amount of the same deposits before conversion of IN currencies. Thus, household deposits as at end-December 2002 account for 46% in total liabilities.

In accordance with prudent policy and supervision standards the major part of the collected foreign currency deposits was invested in low-interest bearing, highly liquid, and low risky placements with foreign banks. The share of highly liquid assets reached 38% of total assets as at December 31, 2002. Together with government securities whose share in the total assets was 26%, the risk-free assets reached 64% of SB's total assets. Such policy of holding highly liquid assets in foreign currency, followed by further contraction of the loan portfolio whose share in the total assets remained at a low level of 24%, had negative implications on interest income and operational profitability of the Bank. Interest income decreased due to contracted loan portfolio. However, the net interest income after allocation of provisions for non-performing interest was 40% higher than in 2001. This was reflected in increasing of net interest margin after allocation of provisions for non-performing interest from 0.88% in 2001 to 1.22% in 2002. The growth of net interest margin was mainly a result from better loan management practices and improved collection of interest. In September 2002 the seventh issue of shares was realized. The total amount of capital was increased by EUR 17 million. At the end of 2002 the capital



adequacy ratio was 21.25% that is significantly higher than the legal minimum (8%). SB also fulfils all other operational ratios and limits established by the Central Bank.

#### **BASIC STRATEGIC POINTS**

Because of recession and very fragile post-conflict political situation, the credit risk remained exceptionally high. Therefore, SB followed very prudent and selective policy of extending new loans. Instead of projected expansion, SB experienced significant contraction of the high interest bearing loan portfolio.

The recovery started in the fourth quarter of 2002 after parliamentary elections in September 2002, which was followed by increased political stability. SB entered into credit expansion focusing on stable companies particularly those with strategic foreign investors. As a result, 40% of all new loans extended in 2002 were realized in the last two months. Thus, after a long period of declining, in November 2002 SB's loan portfolio started rising.

During 2002, the Bank launched two new products in retail banking: housing loans and consumer loans. Because of the competitive terms for both products there is a great interest among households and they are expected to take strong market position in 2003.

SB continued with cleaning of its portfolio through better assets management.

SB improved its organization and IT system and conducted a cost reduction policy. Cost management policy aimed to control all types of costs resulted in reduction of operating costs by 11%. The measures of costs reduction included efficient utilization of resources, closure of 12 sub-branches, reorganization of branch network, sale of excess vehicles and premises of the Bank that reduced maintenance costs. The whole process was strengthened by setting up two Committees (Operating Expenses Committee and Capital Expenditure Committee) and adopting standard procurement procedures.

On April 19, 2002 SB put into operation the new GLOBUS software. Despite some occasional problems, the first phase was successfully completed. The second phase of GLOBUS implementation is in progress.

## **BRANCH NETWORK**

SB conducted a thorough review of the effectiveness of branches and sub-branches. On that base it was decided to open two new branches in Prilep and Kumanovo, and four new sub-branches in Skopje, while 12 sub-branches throughout the country were closed.

## **PERSONNEL**

During 2002 SB reduced its personnel by 224 employees that will have a cost cutting effect of EUR 0.2 million in 2003 and around EUR 1 million in 2004 and onward. After a careful preparation, in November 2002 the Bank implemented a redundancy scheme for 191 employees. The whole process was fully in compliance with domestic legal regulations. Total number of employees was 1,311 as at December 31, 2002. Of the total number of employees, 64 were officers on managerial positions.

Training and Development Department of the Bank was very active in enhancing the skills of the employees through organizing courses and seminars in banking operations, foreign languages and new software familiarization. A total of 113 seminars with 1,223 participants were organized or sponsored by the Bank, out of which 18 seminars with 228 participants for banking operations, 18 seminars with 120 participants in English and Greek language, and 77 seminars with 875 participants for familiarization of employees with newly introduced software GLOBUS and SAP.

## **BALANCE SHEET**

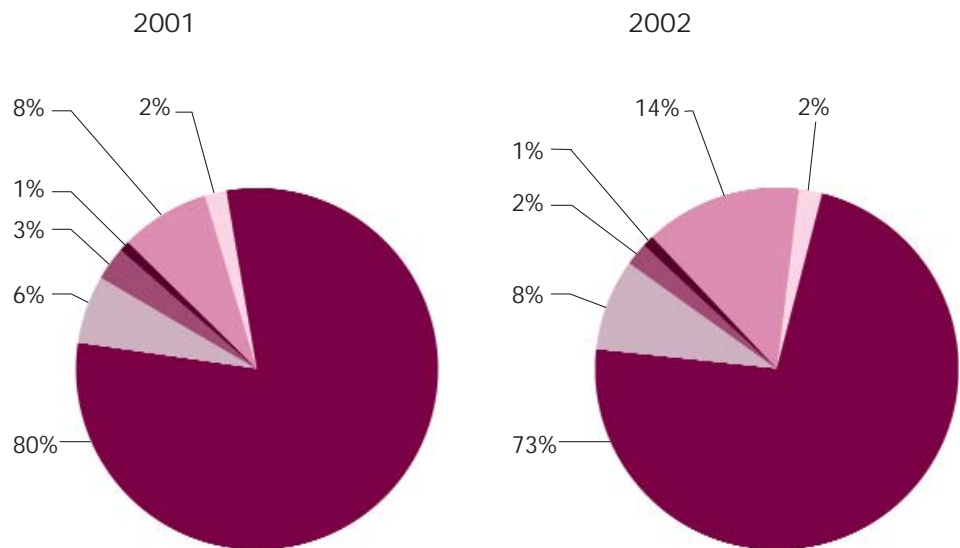
The Balance Sheet of SB as at the end of 2002 amounted to EUR 405.8 million compared to EUR 545.9 million a year ago. The decline of 26% is fully attributed to expected partial withdrawal of foreign currency deposits after conversion of IN currencies into EUR. Nevertheless, approximately 50% of the inflow of foreign currency deposits due to conversion of IN currencies into EUR remained in the Balance Sheet of SB, that is two and half times more than the amount of the same deposits before conversion of IN currencies.

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## LIABILITIES

As a result of the injection of new capital by the shareholders in the amount of EUR 17 million and partial withdrawal of foreign currency deposits there was a substantial change in the structure of liabilities. The share of equity increased from 8% in 2001 to 14% in 2002, while the deposits reduced its share in the total liabilities from 79% in 2001 to 73% in 2002. The shares of other liabilities items remained broadly unchanged.

### STRUCTURE OF THE LIABILITIES



2%	Due to banks and other financial institutions	2%
79%	Amounts owed to depositors	73%
6%	Loans payable	6%
3%	Other liabilities and interest payable	3%
1%	Provision for commitments and contingencies	1%
8%	Capital	8%

Despite the economic slowdown and political instability, SB succeeded to increase the number of giro accounts of legal entities from 16,875 as at December 31, 2001 to 20,682 as at December 31, 2002, which is an increment of 23%.

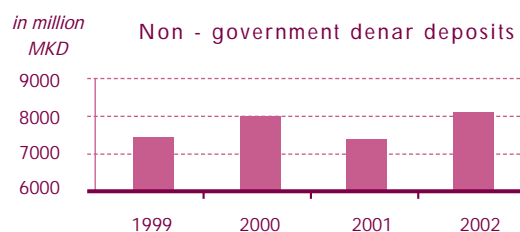
SB has achieved progress in retail banking where it increased the number of deposit accounts from 600,332 at the end of 2001 to 696,628 at the end of 2002, or growth of 16%. Especially high expansion was achieved in payment card operations where SB has strengthened its leading position by gaining 66% of the market share. The number of issued cards grew by 90% in 2002 thus reaching 43,000 as at December 31, 2002. The number of Bank's active ATMs was doubled from 6 to 12, that is 50% of all active ATMs in the country. As a result of increased number of card holders, total income of SB from card operations grew by 32%.

#### Number of Accounts

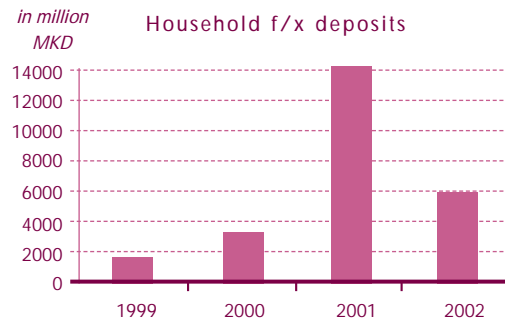
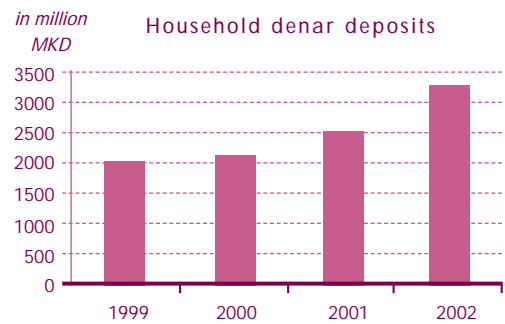
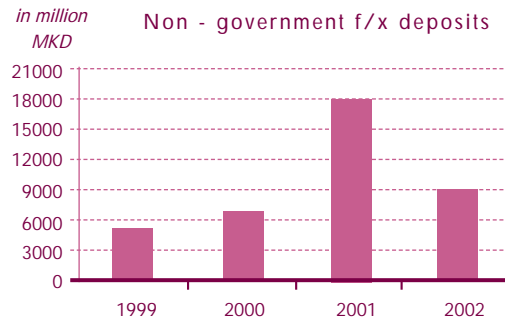
	31.12.2001	31.12.2002
Denar saving deposits	286,464*	317,239
Current accounts	164,727	169,845
F/x saving accounts	116,563	162,121
VISA cards	23,998	43,148
Package +	640	908
Euro bonus	7,940	3,367
<b>Total deposits</b>	<b>600,332</b>	<b>696,628</b>

\*Data refer to April 20, 2002, after implementation of new GLOBUS software package

The reduction of total deposits from EUR 445 million at the end of 2001 to EUR 304 million at the end of 2002 was due to withdrawal of foreign currency deposits that recorded the highest level at the beginning of 2002. However, denar deposits in a recession year mainly remained at the same level.



Denar deposits of legal entities did not record any substantial changes. Such movements were mainly affected by the tax on financial transactions, which was in force in 2002. This tax reduced companies' demand for deposits and led to increment of money in circulation by 50%.



Household denar deposits recorded significant growth of 27% and climbed up to EUR 53.3 million indicating high confidence of the citizens in SB as a sound bank. Foreign currency deposits decreased by 44% that was wholly in line with the projection in the budget for 2002. Such trends have doubled the share of household denar deposits in the total household deposits in the Bank from 15% at the end of 2001 to 29% at the end of 2002.

Public sector and government deposits also recorded significant decline caused by transformation of the payment system and political criteria dominating the choice of a bank in some public enterprises. As at December 31, 2002 they amounted to EUR 11.2 million, which is a decline of 30%.

**ASSETS**

Expected withdrawal of foreign currency deposits after conversion of IN currencies into EUR changed the structure of assets. While cash, foreign currency deposits with foreign banks, and deposits with the Central Bank diminished its share from 52% in 2001 to 37% in 2002, all other items increased their share in the assets. Loans to customers enlarged its share from 18% in 2001 to 24% in 2002, and long-term securities from 21% in 2001 to 26% in 2002.

**STRUCTURE OF ASSETS**



53%	Cash, nostros and balances with the NBM	37%
1%	Placements with, and loans and advances to banks	1%
18%	Loans to customers	24%
21%	Long term securities	26%
5%	Fixed assets	8%
3%	Other assets and interest receivable	4%

Cash, foreign currency deposits with foreign banks, and deposits with the Central Bank recorded a decline of 46% and amounted to EUR 155.3 million. The basic reason for such a large drop was the withdrawal of foreign currency deposits after the conversion of IN currencies into EUR.

Bank's investments in short-term securities were reduced from EUR 1.9 million at the end of 2001 to EUR 1.1 million at the end of 2002.

SB's policy adjustment to the high economic and political uncertainty prevailing in the country over the major part of the year, led to contraction of Bank's loan portfolio from EUR 98.9 million at the end of 2001 to EUR 96.1 million at the end of 2002. Household loans registered sharp growth of 23% as a result of new products in retail banking. However, their share of 9% in total loans is still negligible. Corporate loans decreased by 5% in 2002.

Investments in long-term securities, mainly consisting of domestic government bonds, decreased by 8%, in accordance with the terms of redemption. On December 31, 2002 they amounted to EUR 104.4 million.

Bank's intensive investments in new software led to 9% growth of fixed assets. As at December 31, 2002 SB owned fixed assets in the amount of EUR 31.5 million.

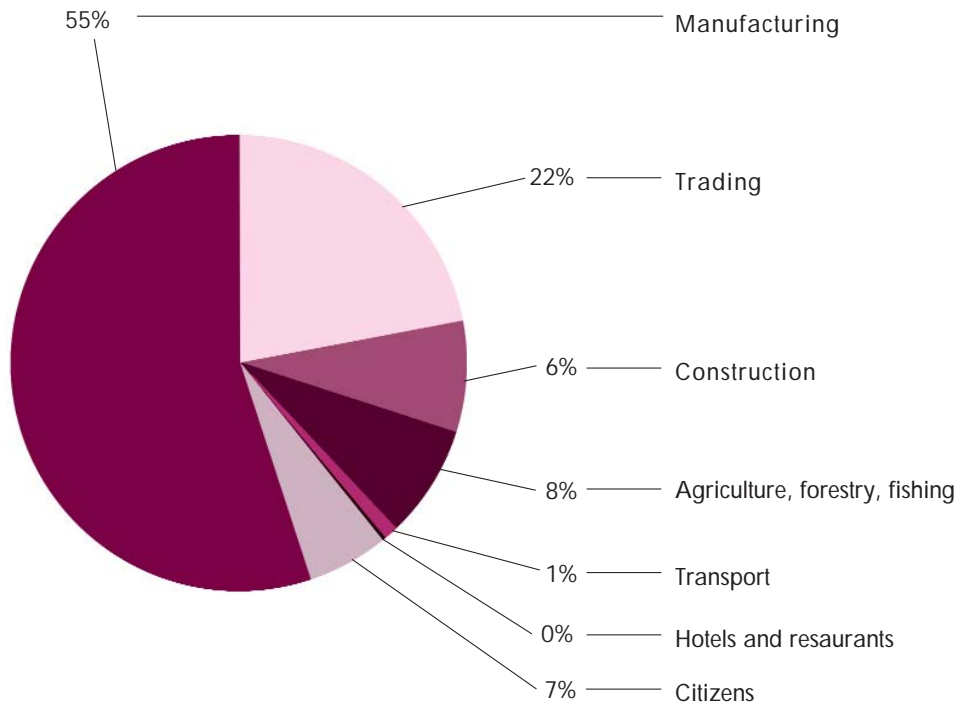
#### **LOAN PORTFOLIO AND PROVISIONING POLICY**

SB's loan portfolio as at December 31, 2002 amounted to EUR 158.5 million. Out of that number, EUR 146.6 million were regular Balance Sheet portfolio and EUR 11.9 million non-cash covered L/C and L/G. Compared to the end of 2001, the loan portfolio was lower by EUR 42.5 million (EUR 23.9 million decline of regular loan portfolio, and EUR 18.6 million decline of off-balance sheet portfolio).

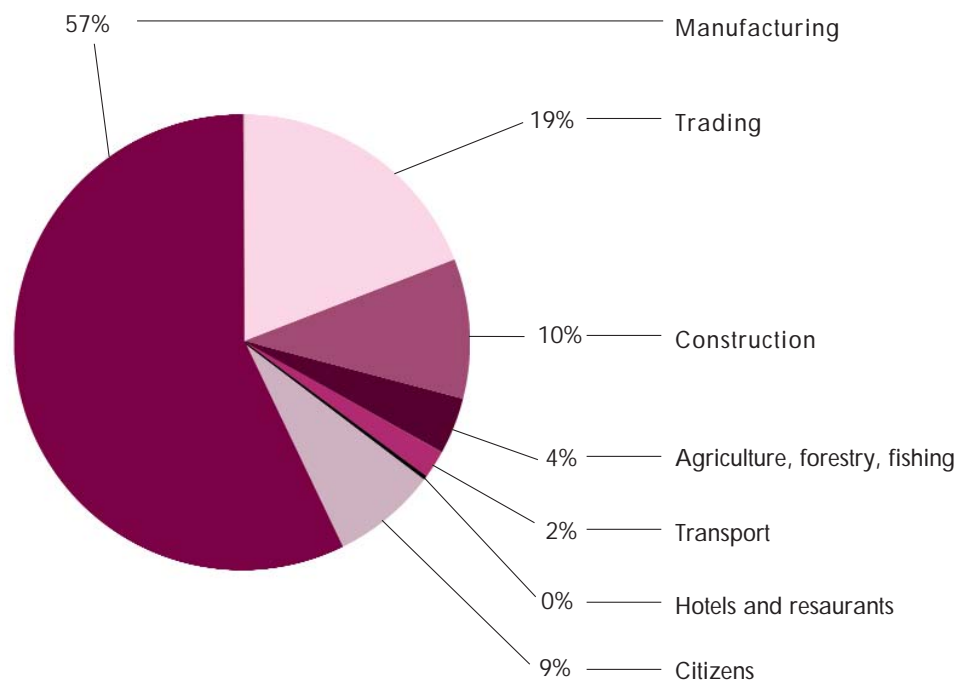
SB's policy in 2002 was to extend new loans exclusively to high creditworthy customers with valuable and marketable collateral. At the same time, the Bank continued its policy of cleaning its loan portfolio from non-performing loans through their full provisioning and transferring to memorandum accounts. That has substantially improved the structure of its loan portfolio with increased share of low risk category "A" from 22% in 2001 to 30.8% at the

end of 2002, and diminished share of all other risk categories.(the largest decrement was realized with the highest risk category "E", from 11.7% to 6%).

### 2001 LOANS BY SECTORS

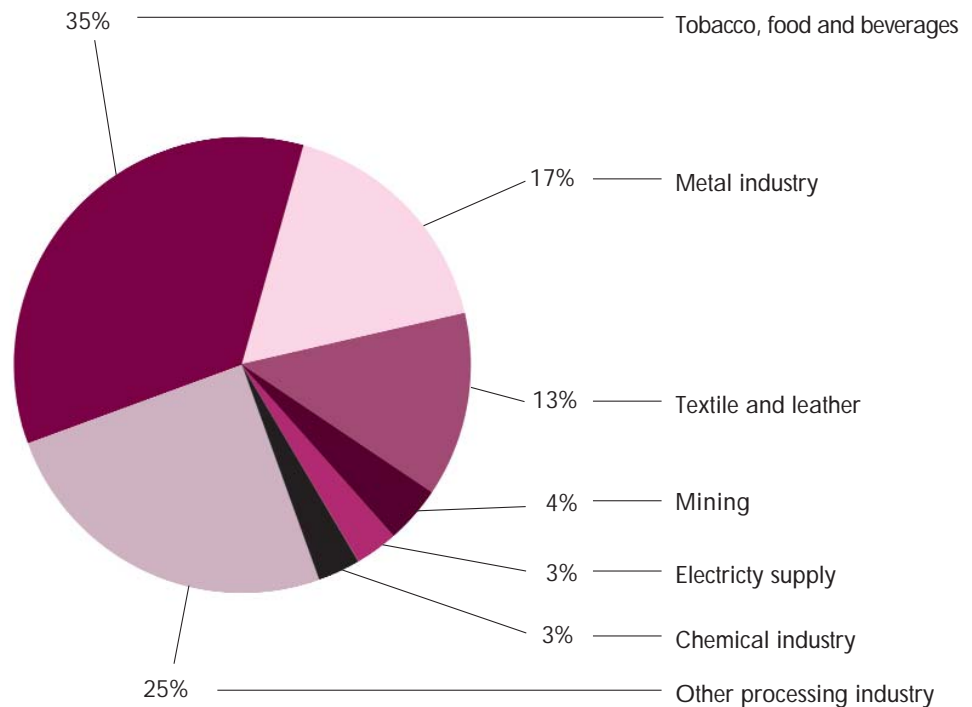


### 2002 LOANS BY SECTORS

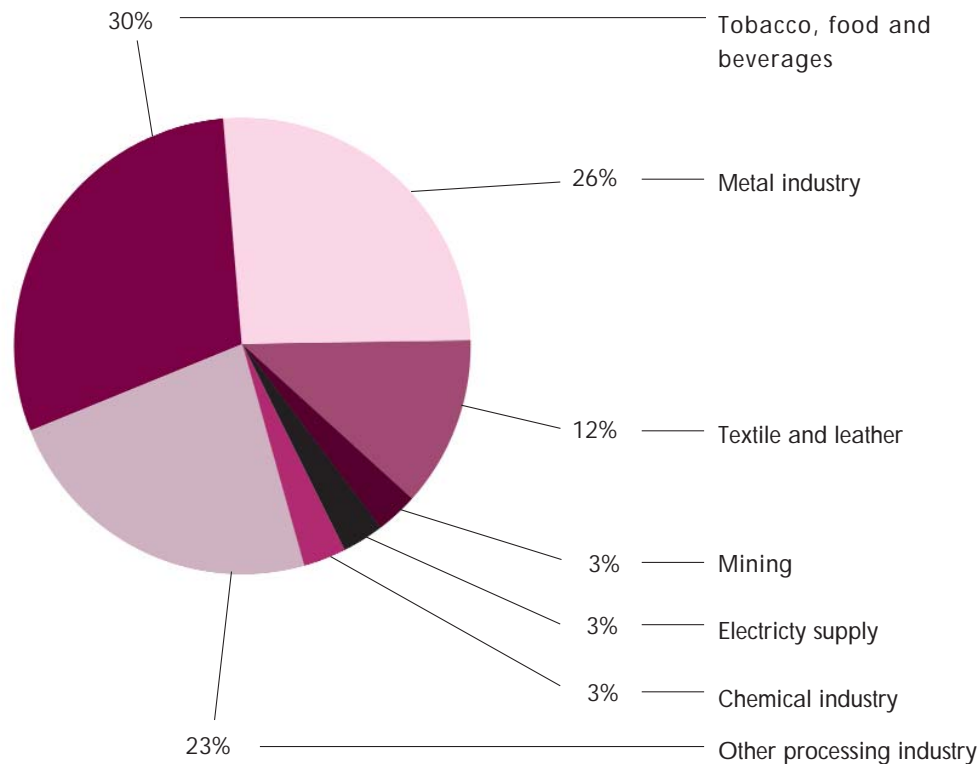


Prudent and selective credit policy of SB in extending new loans resulted in substantial changes in the structure of the Bank's loan portfolio. Due to a very poor performance of agriculture in the two successive years (2001 and 2002) its share in SB's loan portfolio was halved, from 8% in 2001 to 4% in 2002. Similarly, the share of trade decreased from 22% in 2001 to 19% in 2002. In the same period, despite the conservative credit policy, SB increased the amounts of loans to prosperous sectors of the economy. Thus, the share of construction grew from 6% in 2001 to 10% in 2002, and of households from 7% in 2001 to 9% in 2002. Loans to manufacturing were only slightly reduced in absolute terms, but due to the larger decline of the total loan portfolio their share grew from 55% in 2001 to 57% in 2002. Decline of the loans in mining and tobacco, food and beverage industries was offset by growth of loans in metal industry. The other industries in the manufacturing kept their shares in the total loans to manufacturing.

#### 2001 STRUCTURE OF LOANS TO MANUFACTURING



## 2002 STRUCTURE OF LOANS TO MANUFACTURING



## INCOME STATEMENT

In the year of recession SB succeeded to reduce the loss from EUR 21.8 million in 2001 to EUR 1.2 million in 2002.

Low operating profitability was compensated with significantly better collection of regular claims, more active collection of non-performing loans, providing of good collateral through loan rescheduling, sale of Bank's property, as well as cost cutting measures.

On the income side, SB recorded a significant decline of interest income (34%) as a result of lower interest rates and reduced loan portfolio. Lower interest rates contributed to 16% decline of interest expenses as well. Net interest income before allocating provisions for non-performing interest in 2002 declined to the amount of EUR 5.3 million. However, net interest margin after allocation of provisions for non-performing interest increased by EUR 1.5 million or 40% and reached EUR 5.2 million. It climbed up to 1.22% compared to 0.88% in 2001.

---

While fees and commissions income remained the same, f/x trading income and net f/x gain declined by 83%. Other operating income which consists of collections of non-performing loans, rents and provision recovery, increased by 104% in 2002 and amounted to EUR 20.6 million.

On the expenditure side, there was a significant decrement (65%) of provisions for potential losses from EUR 31.6 million in 2001 to EUR 11 million in 2002. While gross salaries remained almost the same, cost saving measures resulted in reduction of operating expenses by 11%, or by EUR 1 million.





## THE STRATEGIC GOALS

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The main strategic goals of the Bank (increase of the loans, L/Cs and L/Gs; increase of the profitability; creation of a modern customer oriented bank) will be achieved with systematic development of all banking activities. However, special attention will be put to the corporate banking and retail banking, maintenance of the liquidity and solvency, domestic and international payment operations, human resources, investment banking and other activities.

### **CORPORATE BANKING**

Corporate banking activities of SB will be focused on the following:

- To keep the current sound and creditworthy companies and to attract new sound and prospective companies including those with foreign strategic investors;
- To develop and improve the existing and to create and launch new products targeted to some specific peer groups like small and medium size enterprises and big companies;

SB, as a member of the prestigious, the largest and strongest financial group in Greece and in the Balkans - NBG, will use its advantages to establish business relations between its clients in the country and the Greek companies interested to invest in the Republic of Macedonia. Significant opportunities in this direction lie in the co-operation with the companies in Northern Greece where NBG has a wide network of banking units. SB and NBG will also cooperate in joint financing of infrastructure projects of interest for both countries.

In order to broaden its customer base and the quality of services offered to the first class clients SB will introduce new products such as financing through overdrafts on deposit accounts, framework revolving loans, short-term and long-term loans for commercial activities, working capital and project financing in all three forms: denar loans, denar loans with f/x clause, and f/x loans.

SB will use the possibility given by the new Law on f/x operations that banks

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can extend f/x loans from domestic f/x deposits. Therefore, SB will shift substantial f/x assets from its deposits with foreign banks into f/x loans to the private sector. This policy will increase the growth rates of corporate loans in 2003 and 2004 on the level necessary to rebuild the loan portfolio of a size that can generate enough income to pull the Bank profitability above the breakeven point.

## **RETAIL BANKING**

With the new IT platform GLOBUS, the existing and the new products, and increased confidence of the households it is expected SB to materialize its competitive advantages in the next three-year period. That means SB will realize a dynamic growth of retail banking in both deposit and loan operations.

In the past two years, especially with the conversion of IN currencies into EUR, SB achieved significant results in broadening the household deposit base that imply high confidence of households in SB. It is expected that this trend will continue in the following years and SB will keep the market share of 35% in total retail banking.

More remarkable achievements are expected in the household lending through further improvement of the existing and launching of new customer tailored products and introduction of Internet banking.

In order to support the growth of retail banking further organizational and functional improvement of SB's branch network is planned, as well as appropriate IT support and further training of teller desk employees in customer communication and marketing of SB's products and services.

SB will introduce e-banking in the retail banking operations. It will offer to the households a possibility of making payments for products and services through electronic banking. This possibility will keep the competitiveness of SB and will give new possibilities for generating income.

## INVESTMENT BANKING AND OTHER ACTIVITIES

In order to enrich the range of offered products and meet the customers' needs, apart of the classical banking products, SB will develop and implement new forms of financing like factoring, forfaiting, leasing, insurance and investment banking.

After the organizational and functional strengthening of corporate and retail banking, SB will introduce investment banking as well. For that purpose, an appropriate infrastructure will be established for offering of this service.

With the development of the domestic capital market it is planned to increase the further brokerage operations, especially in privatization of the remaining state capital, trading with government bonds (issued for old frozen deposits and denationalization), corporate stocks and mutual funds.

Development of private banking is a strategic goal. SB has a widespread network of branches and sub-branches all over the country that can be used to offer private banking services to wealthy individuals. Within the framework of this activity services for designing special deposit schemes, portfolio management, as well as access to international capital markets will be offered to interested wealthy individuals.

## DEVELOPMENT OF SB'S INFORMATION TECHNOLOGY

By the end of 2003 SB will complete the second and third phase of GLOBUS project, with brand new IT platform and improved overall information services within the Bank.

## HUMAN RESOURCES

The policy for development of human resources will remain in the focus of SB's interest. It will be fulfilled through:

- Permanent and occasional staff training program through seminars organized within SB, participation at the seminars organized by NBG and other external institutions (Investments for the three years training program are projected to amount to EUR 475 thousand).



- Staff reallocation and promotion according to the needs of SB and the inclination, capability and results of the employees in fulfilling the Bank's assignments.
- Strengthening the managerial structure with skilled, capable and creative managers who are tying their carrier with the Bank's development.
- Implementing the system of remuneration for the most productive and creative individuals in accordance with their individual efforts and results shown in the Bank, and the financial result of the Bank as a whole.

The staff number, their qualification, managerial structure and organizational changes as well, will be reassessed along with the necessity of the further Bank development.



## HISTORY OF THE BANK

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**1944** On 29th December 1944, upon a Decision of Antifascist Assembly of the National Liberation of Macedonia, Makedonska Stopanska Banka was founded.

**1945** On 18th March, the Bank Board of Directors passed the first statute of Makedonska Stopanska Banka,

**1954** With the establishment of self-management in 1954, the banking apparatus was decentralized, with the National Bank remaining only an issue bank, and the functions in the commercial banking being shifted to the new formed communal banks.

**1960-1970** The Bank participated in financing large facilities in the economy of the Republic of Macedonia such as the Steelworks "Skopje", "OHIS", "Alumina", Lead and zinc Mines "SASA", the hydro plants "Tikvesh" and "Globochica"...1967 - The Bank extended its activity also in the field of foreign exchange operations, thus satisfying the requirements in respect of forming its own credit fund in foreign exchange as well as in necessary professional staff.

**1973** Komercijalno-Investiciona Banka of Bitola and Komercijalno-Investiciona Banka of Skopje merged with Stopanska Banka.

**1977** Stopanska Banka, adjusting itself to the new Law on the Bank and Credit Systems, grew into a system of 25 basic banks and one Associated Bank headquartered in Skopje.

**1986** The Stopanska Banka system made an internal enlargement and organized itself into 9 basic banks and one Associated Bank located in Skopje. It was this year that the Investment Appraisal Centre was established for the purpose of improving the quality of channeling investments in accordance with the international standards.

**1990** On 31st January 1990, the Bank was transformed into a joint stock company with a basic objective of earning operating profit. The bank was organized as a unique entity, with a head office in Skopje, 8 branches and 19 sub branches. The Basic Bank Skopje was separated from Stopanska Banka and registered as Komercijalna Banka - Skopje.

**1994** In 1994, the bank issued the first payment card in Macedonia.

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- 1995** The branches of Stopanska Banka in Ohrid, Prilep, Tetovo, Bitola, and Kumanovo were spun off the Bank.
- 1998** Stopanska Banka entered the international VISA network and acting as a sole agent obtained an authorization to issue all types of VISA cards in the Republic of Macedonia.
- 1999** On 21st December 1999 The Bank successfully completed the process of its privatization, signed it with the renowned foreign strategic investors - The National Bank of Greece (NBG), the International Finance Corporation (IFC) and the European Bank for Reconstruction and Development (EBRD), the Share Purchase Agreement and the Share Subscription Agreement. On 29th December 1999 The Bank celebrated a very rare jubilee - 55 years of successful work and existence. Stopanska Banka is the oldest and according to many criteria the largest bank in the Republic of Macedonia.
- 2000** On 04th April 2000 a block transaction was accomplished at the Macedonian Stock Exchange, by which NBG, IFC, and EBRD became owners of 85% of the voting package of the ordinary shares of Stopanska Banka. On 5th April 2000 the First Regular Shareholders Assembly of The Bank was held, which legalized and officialized the new management shareholders structure of Stopanska Banka, where the NBG has a stake of 65%, each of the IFC and the EBRD 10% and the shareholders headquartered in the Republic of Macedonia 15% of the share capital of Stopanska Banka. In July, additional capital increase of Stopanska Banka was completed, by payment of supplementary capital in an amount of DEM 50 million. With this transaction the strategic investors' participation in the share capital was 91.8% (NBG 70.2%, IFC and EBRD 10.8%).
- 2001** The process of internal organizational and functional restructuring of Stopanska Banka AD - Skopje was initiated in terms of a thorough orientation towards the Bank's clients, by intensive staff training, development of the informational technology, transformation of the branch network etc. On 31st July 2001 Stopanska Banka AD - Skopje started executing denar payment operations in the country. In November, the sixth issue of shares of Stopanska Banka AD - Skopje in the amount of Denar 300 million was realized.
- 2002** The Bank continued with its intensive restructuring. On April 19, SB launched the new GLOBUS software which was a crucial step forward into the modernization of the Bank's IT system. In September 2002 the seventh issue of shares of SB was realized in the amount of EUR 17 million.





## FOREIGN CORRESPONDENT BANKS

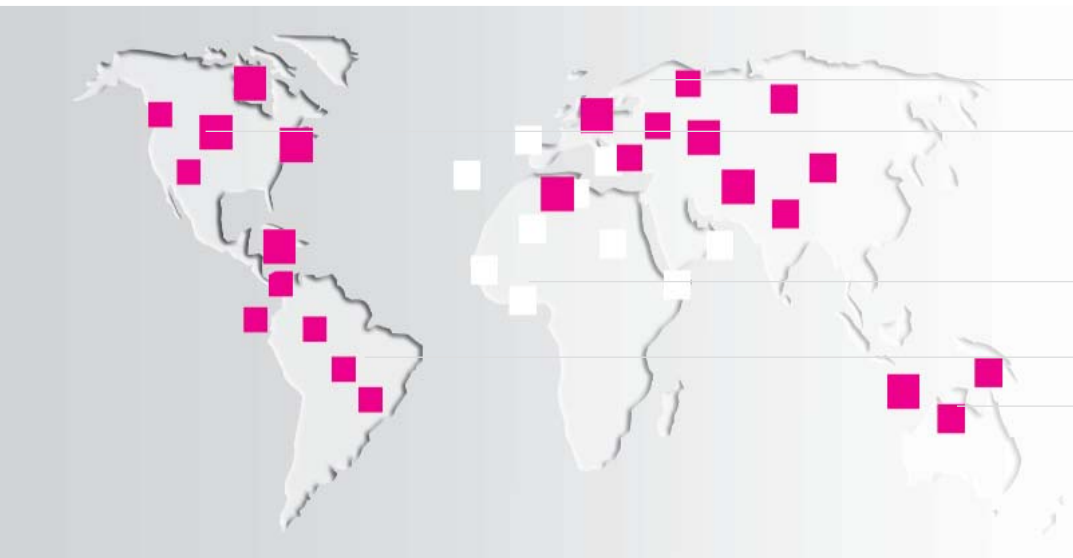
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During its long years of tradition Stopanska Banka AD - Skopje has been permanently maintaining the widespread network of correspondent banks which enables reputation and strong position within the international banking community.

With the present network of 1.600 foreign correspondent banks and number of accounts, which after the reduction with introduction of the EURO currency is 56 nostro accounts with 43 first class foreign banks and 166 loro accounts of 32 foreign banks, Stopanska Banka AD - Skopje provides quick, efficient, high quality and less expensive services to its clients in the international operations.

COMMONWEALTH BANK OF AUSTRALIA, SYDNEY  
ANZ BANKING GROUP LIMITED, MELBOURNE  
NATIONAL AUSTRALIA BANK LTD, MELBOURNE  
BANK AUSTRIA AG, VIENNA  
BANK FUER ARBEIT UND WIRTSCHAFT, VIENNA  
ING BELGIUM NV/SA , BRUSSELS  
FORTIS BANK NV/SA, BRUSSELS  
UNITED BULGARIAN BANK, SOFIA  
THE BANK OF MONTREAL, MONTREAL  
CANADIAN IMPERIAL BANK OF COMMERCE, TORONTO  
SPLITSKA BANKA D.D., SPLIT  
KOMERCNI BANKA A.S., PRAGUE  
DANSKE BANK A/S, COPENHAGEN  
NORDEA BANK FINLAND LTD., HELSINKI  
BNP PARIBAS S.A., PARIS  
SOCIETE GENERALE, PARIS  
BRED BANQUE POPULAIRE, PARIS  
DEUTSCHE BANK AG, FRANKFURT/MAIN  
DRESDNER BANK AG, FRANKFURT/MAIN  
COMMERZBANK AG, FRANKFURT/MAIN  
LHB INTERNATIONALE HANDELSBANAG AG,FRANKFURT/MAIN  
BAYERISCHE HYPO-UND VEREINSBANK AG, MUENCHEN

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NATIONAL BANK OF GREECE S.A., ATHENS  
HUNGARIAN FOREIGN TRADE BANK LTD, BUDAPEST  
INTESABANCI S.P.A., MILANO  
BANCA NAZIONALE DEL LAVORO S.P.A., ROMA  
THE BANK OF TOKYO-MITSUBISHI LTD., TOKYO  
ABN AMRO BANK N.V., AMSTERDAM  
DEN NORSKE BANK ASA, OSLO  
BANCO COMERCIAL PORTUGUES SA, LISBON  
BANCO SANTANDER CENTRAL HISPANO S.A., MADRID  
SKANDINAVISKA ENSKILDA BANKEN AB, STOCKHOLM  
SVENSKA HANDELSBANKEN AB, STOCKHOLM  
UBS AG, ZURICH  
CREDIT SUISSE, ZURICH  
RUSSIAN COMMERCIAL BANK LTD., ZURICH  
TURKIYE IS BANKASI A.S., ISTANBUL  
BARCLAYS BANK PLC, LONDON  
HSBC BANK PLC, LONDON  
NATIONAL WESTMINSTER BANK PLC, LONDON  
CITIBANK N.A., NEW YORK  
JP MORGAN CHASE BANK, NEW YORK  
DEUTSCHE BANK TRUST COMPANY AMERICAS, NEW YORK



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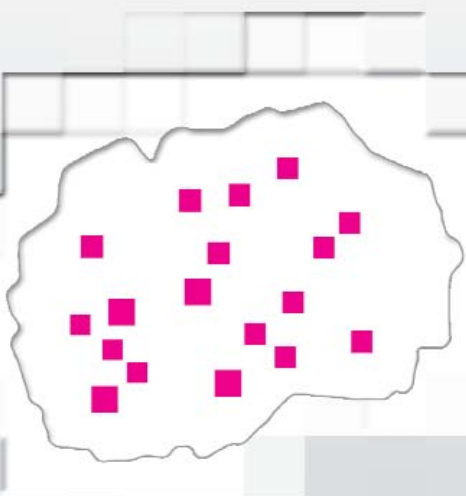
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## INDEPENDENT AUDITORS' REPORT

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### TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF STOPANSKA BANKA AD - SKOPJE

We have audited the accompanying balance sheets of Stopanska banka AD - Skopje (further referred to as "the Bank") as of 31 December 2002 and 2001, and the related statements of income, changes in equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with International Standards on Auditing. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of 31 December 2002 and 2001 and the results of its operations, changes in equity and cash flows for the years then ended, in accordance with International Accounting Standards.

Without qualifying our opinion, we draw attention to the matter discussed in Note 9 to the accompanying financial statements. In 2002, the Bank obtained additional collateral for loan exposures overdue for longer than one year that were not fully provided for or performed additional appraisal of such collateral. In most cases, the estimated market value of collateral exceeds the amount of unprovided balance of the loan exposures and such exposures are treated by management as fully recoverable. As a result, loan loss provisions charged against those loan exposures in prior periods at the amount of Denar 384,400 thousands were released during 2002.

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However, the ultimate recoverability of these exposures is dependent on the ability of the management to realize such collateral at its estimated value in case of default of the borrowers.

*Deloitte & Touche*

Deloitte & Touche  
Skopje, 10 March 2003

## BALANCE SHEETS

At 31 December 2002 and 2001(Expressed in thousands of Denars)

	2002	2001
<b>ASSETS</b>		
Cash and cash equivalents, nostros and balances with the Central Bank	9,313,023	17,521,996
Placements with, and loans and advances to, banks	335,441	312,591
Loans and advances to customers	5,887,812	5,936,880
Investments available for sale	86,897	119,177
Investments held to maturity	6,289,598	6,801,391
Other assets and interest receivable i	1,014,371	834,013
Fixed assets	1,921,093	1,753,722
<b>TOTAL ASSETS</b>	<b>24,848,235</b>	<b>33,279,770</b>
<b>LIABILITIES</b>		
Amounts owed to banks and other financial institutions	473,379	749,390
Amounts owed to depositors	18,089,483	26,347,899
Loans payable	1,977,646	2,073,124
Other liabilities and interest payable	580,643	1,105,489
Provisions	198,293	436,894
<b>TOTAL LIABILITIES</b>	<b>21,319,444</b>	<b>30,712,796</b>

	2002	2001
<b>EQUITY</b>		
Shareholders' capital	3,602,220	3,783,042
Statutory reserves	-	87,202
Special fund	1,083	23,096
Loss for the year	(74,512)	(1,326,366)
<b>TOTAL EQUITY</b>	<b>3,528,791</b>	<b>2,566,974</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>24,848,235</b>	<b>33,279,770</b>
<b>OFF BALANCE SHEET LIABILITIES</b>	<b>1,386,124</b>	<b>3,615,052</b>

Approved by,

Gligor Bishev  
First General Manager



Konstantinos Bratos  
Second General Manager



## STATEMENTS OF INCOME

Years Ended 31 December 2002 and 2001 (Expressed in thousands of Denars)

	2002	2001
Interest income	1,089,949	1,647,017
Interest expense	(765,997)	(914,002)
<b>NET INTEREST INCOME</b>	323,952	733,015
Fee and commission income	550,701	522,909
Fee and commission expense	(62,169)	(89,180)
Foreign exchange gains (net)	45,366	266,140
Other operating income	881,585	615,548
<b>OPERATING INCOME</b>	1,739,435	2,048,432
Loss on impairment and uncollectability	(861,734)	(3,040,665)
Release of provisions	570,312	1,114,729
Other operating expenses	(1,522,525)	(1,448,862)
<b>LOSS FOR THE PERIOD</b>	(74,512)	(1,326,366)

## STATEMENTS OF CHANGES IN EQUITY

Years ended 31 December 2002 and 2001 (Expressed in thousands of Denars)

	SHAREHOLDERS' CAPITAL	STATUTORY RESERVES	SPECIAL FUND	ACCUMULATED PROFITS/LOSSES	TOTAL EQUITY
<b>BALANCE AS OF 1 JANUARY 2001</b>	3,483,042	87,202	23,096	-	3,593,340
Loss for the year	-	-	-	(1,326,366)	(1,326,366)
New shares issued during the year	300,000	-	-	-	300,000
<b>BALANCE AS OF 31 DECEMBER 2001</b>	3,783,042	87,202	23,096	(1,326,366)	2,566,974
Loss for the year	-	-	-	(74,512)	(74,512)
New shares issued during the year	1,036,329	-	-	-	1,036,329
Loss coverage	(1,217,151)	(87,202)	(22,013)	1,326,366	-
<b>BALANCE AS OF 31 DECEMBER 2002</b>	3,602,220	-	1,083	(74,512)	3,528,791

## STATEMENTS OF CASH FLOWS

Years ended 31 December 2002 and 2001 (Expressed in thousands of Denars)

	2002	2001
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Loss for the year	(74,512)	(1,326,366)
<i>Adjustment to reconcile net income to net cash provided by operating activities:</i>		
Depreciation	119,789	104,688
Provision for losses on impairment	861,734	3,040,665
Decrease/(increase) in accrued interest and other receivable	(1,280,693)	(2,159,127)
(Decrease)/increase in accrued interest and other liabilities	(524,846)	455,683
Income taxes paid	-	(3,098)
<b>TOTAL ADJUSTMENTS</b>	<b>(824,016)</b>	<b>1,438,811</b>
<i>Net cash provided by/(used in) operating activities</i>	<b>(898,528)</b>	<b>112,445</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Decrease in loans to banks and customers	26,218	1,622,546
Decrease/(increase) in long term securities and investments	544,073	(2,855)
Purchase of equipment, net of disposals	(287,160)	(450,939)
<i>Net cash provided by investing activities</i>	<b>283,131</b>	<b>1,168,752</b>

	2002	2001
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
(Decrease)/ increase in deposits	(8,534,427)	4,760,045
(Decrease) in borrowings	(95,478)	(173,038)
Increase in share capital	1,036,329	300,000
<i>Net cash provided by/(used in) financing activities</i>	(7,593,576)	4,887,007
<i>Net increase/(decrease) in cash and cash equivalents</i>	(8,208,973)	6,168,204
<i>Cash and cash equivalents at 1 January</i>	17,521,996	11,353,792
<i>Cash and cash equivalents at 31 December</i>	9,313,023	17,521,996



Stopanska Banka AD - Skopje  
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english edition

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Publicis - Skopje

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