

**STOPANSKA BANKA AD – SKOPJE**

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**ANNUAL REPORT**

**2017**

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**Skopje, April 2018**

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<i>in EUR million</i>	<b>2016</b>	<b>2017</b>	<b>change %</b>
<b>Income Statement indicators</b>			
Net Interest Income	59,2	59,8	1,1%
Net Commissions Income	15,5	16,0	3,2%
Total Income	83,1	86,1	3,6%
Operating expenses	-34,4	-33,8	-1,7%
Personnel Expenses	-12,9	-13,0	0,8%
Net Operating Income	48,7	52,3	7,4%
Impairment losses	-8,0	-15,2	90,0%
Pre Tax Profit	40,7	37,1	-8,8%
<b>Net Profit</b>	<b>36,4</b>	<b>33,2</b>	<b>-8,8%</b>
<b>Balance Sheet indicators</b>			
	<b>2016</b>	<b>2017</b>	<b>change %</b>
<b>Total Assets</b>	<b>1.401,3</b>	<b>1.404,3</b>	<b>0,2%</b>
<b>Equity</b>	<b>222,4</b>	<b>221,7</b>	<b>-0,3%</b>
Regulatory capital	169,7	171,7	1,2%
Loans to customers (net)	954,0	986,4	3,4%
<b>Total loans (gross)</b>	<b>1.007,3</b>	<b>1.044,6</b>	<b>3,7%</b>
Retail loans	635,9	685,3	7,8%
Corporate Loans	371,4	359,3	-3,3%
Provisions	53,2	58,1	9,2%
<b>Total Deposits</b>	<b>1.110,8</b>	<b>1.152,7</b>	<b>3,8%</b>
Retail deposits	866,3	900,2	3,9%
Corporate Deposits	244,4	252,5	3,3%
<b>Financial ratios</b>			
	<b>2016</b>	<b>2017</b>	<b>change (bp)</b>
Net Interest Margin	4,8%	4,8%	1,1
Cost income ratio	41,4%	39,3%	-213,9
ROA	2,6%	2,4%	-25,3
ROE	16,1%	15,0%	-116,9
Loans to Deposits ratio (gross)	90,7%	90,6%	-6,0
Capital Adequacy ratio	16,04%	15,42%	-62,1
<b>Operational Indicators</b>			
	<b>2016</b>	<b>2017</b>	<b>change</b>
Number of Units	66	66	0
Number of Personnel (eop)	1052	1047	-5

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

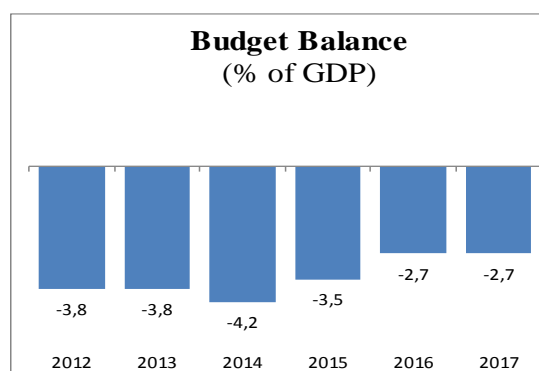
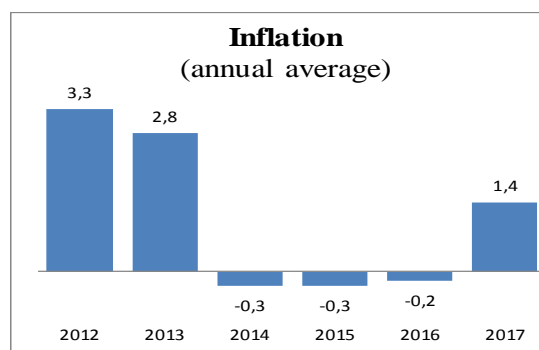
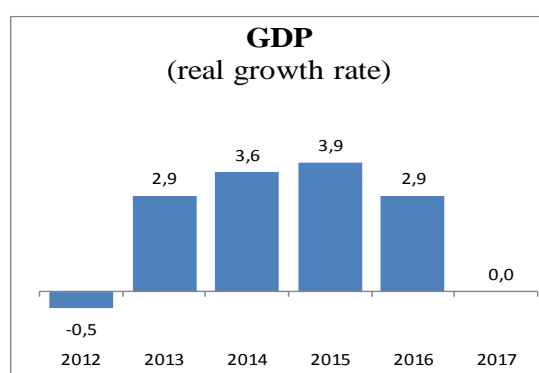
## Economic Environment

*In 2017, the domestic economy was still influenced by the prolonged political crisis in the country. The result was restrained investment and diminished corporate credit growth, which ultimately led to negative GDP growth in the first half of the year. Anyhow, the formation of the new government at the end of May was perceived by the economic agents as an opportunity to rebuild policy space and revive reforms. Consequently, gradual recovery of the economic activity started in the second half of 2017, which, however, is expected to be more tangible in 2018.*

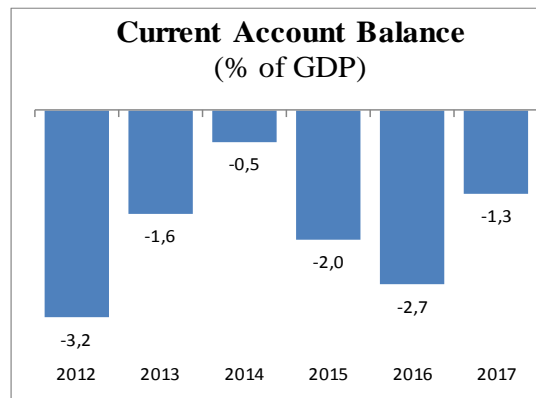
The domestic political instability which extended in the first half of 2017, has contributed to depletion of investment and hence to a negative economic growth for this period. However, **the formation of the new government in the mid-year, has returned the affirmative perception in the economy, leading to positive zero-growth for the whole year.** The exports, as a growth engine with additional impetus from private consumption and investment activity, remain fundamental factors of the growth which should be more visible in 2018.

After three consecutive years of deflationary trend, **in 2017 the Consumer Price Index (CPI) increased by 1.4%, mainly driven by the core inflation and to a lesser extent by the energy prices.** In conditions of moderately positive output gap, CPI is expected to slightly accelerate in 2018.

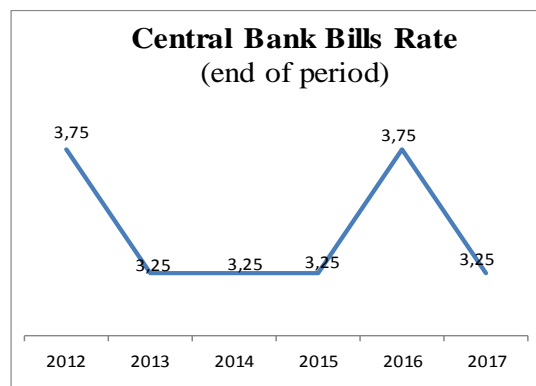
The **fiscal deficit** for 2017 amounted to EUR 274.8 million or 2.7% of GDP, similar like the previous year. The **public debt** at the end of the year amounted to EUR 4.786,9 million or 46.7% of GDP. The public finances remain a field where cautiousness is needed. The recommendations from the international financial institutions are that the fiscal consolidation should rely on durable measures.



The positive developments in the external sector in 2017 influenced moderate level of deficit in the current account and maintenance of the stable position. In environment of increased private transfers (6.9% higher than 2016), stronger growth of exports vs. imports and adequate level of gross foreign reserves (4-months import coverage) enabling sufficient buffers against potential unforeseen shocks, the CA deficit amounted to EUR 133.7 million, or 1.3% of GDP, considerably lower than in the previous year.

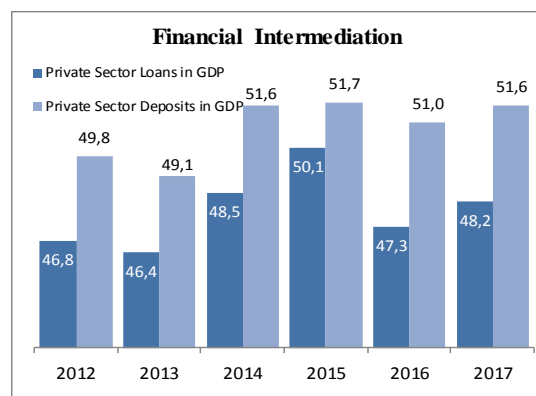


After returning of the CB bills rate to the level of 3.25% in February 2017, there were no additional changes of the monetary policy stance by the National Bank of the Republic of Macedonia (NBRM). According to the institution, the current economic and financial conditions as well as the existing risks suggest that the current monetary



setup so far is appropriate. The banking sector is liquid, sound and resilient. There is also a clear trend towards increased denar savings illustrating the growing trust in the domestic currency.

The prolonged political instability which was still present in the first half of the year, had a certain effect on the banking sector too, mainly expressed through diminishing of corporate credit growth. However, the resolving of the crisis brought stabilization of the banking activities in the second half of the year. The outcome was slight moderation of profitability compared to 2016 and deposit and credit growth of 5.4% and 5.7% respectively.



Herein, retail deposits increased by 6.1%, while corporate deposit were higher by 2.1%. The retail credit growth reached 9.2%, while corporate loans grew by 2.7%. NPLs were stable and fully provisioned. In such environment the loans to deposits ratio at the end of the year was 88%. The capital adequacy ratio on 31.12.2017 reached 15.7%. Overall, the banking sector in 2017 remained well capitalized, highly liquid and profitable.

## Basic Macroeconomic Indicators

	2012	2013	2014	2015	2016	2017
<b>Output</b>						
Gross Domestic Product (real growth rate)	-0,5	2,9	3,6	3,9	2,9	0,0
Industrial Production (annual growth rate)	-6,6	3,2	4,8	4,9	3,4	0,2
<b>Prices, wages and productivity</b>						
CPI (annual average)	3,3	2,8	-0,3	-0,3	-0,2	1,4
CPI (year-end)	4,7	1,4	-0,5	-0,3	-0,2	2,4
PPI (annual average)	4,6	0,4	-1,2	-3,9	-0,1	0,5
PPI (year-end)	5,3	-2,1	-3,8	-0,8	-0,6	1,4
Real wages (annual growth rate)	-2,9	-1,6	1,5	2,7	2,2	1,2
<b>Government finance</b>						
General government balance (% of GDP)	-3,8	-3,8	-4,2	-3,5	-2,7	-2,7
<b>External sector</b>						
Current account balance (% of GDP)	-3,2	-1,6	-0,5	-2,0	-2,7	-1,3
Export of goods and services (in million eur)	3.374	3.530	4.088	4.425	4.866	5.525
Import of goods and services (in million eur)	5.072	5.018	5.560	5.899	6.327	6.925
Export of goods and services (annual growth rate)	-2,0	4,6	15,8	8,2	10,0	13,5
Import of goods and services (annual growth rate)	1,7	-1,1	10,8	6,1	7,3	9,4
Gross external debt (in million eur)	5.172	5.220	5.992	6.291	7.217	7.403
Foreign reserves (in million eur)	2.193	1.993	2.436	2.262	2.613	2.336
Exchange rate MKD/EUR (average)	61,52	61,57	61,63	61,6	61,6	61,6
<b>Monetary aggregates</b>						
M1 growth (dec./dec.)	7,6	6,2	22,2	18,4	9,9	10,7
M2 growth (dec./dec.)	0,5	0,2	7,2	7,6	6,1	4,1
M2 denar growth (dec./dec.)	3,2	2,9	12,3	8,5	5,2	5,4
M4 growth (dec./dec.)	4,4	5,3	10,5	6,8	6,1	5,3
M4 denar growth (dec./dec.)	9,6	8,7	15,3	7,2	5,0	6,4
Credit to private sector (dec./dec.)	5,4	6,4	10,0	9,5	1,0	5,7
<b>Interest rates</b>						
Money market interest rate (annual average)	2,20	2,01	1,85	1,12	1,14	1,10
CB bills rate (annual average)	3,80	3,38	3,25	3,25	3,73	3,30
Money market interest rate (end of period)	2,10	2,17	1,46	1,20	1,04	1,10
CB bills rate (end of period)	3,80	3,25	3,25	3,25	3,75	3,25
<b>Capital markets</b>						
Macedonian Stock Exchange index-MBI (growth rate-eop)	-12,3	0,4	6,1	-0,6	16,5	18,9

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

## **Review of 2017 Activities**

### **Financial Performance**

*In 2017, the Bank continued the rational expansion of the loan portfolio accompanied by the efficient management of the funding sources and operational excellence. These combined with the prudent risk management secured the stability and soundness of the Bank and ensured SB profitability.*

The distinguished performance in the year under review was supported by the Bank strategy over the past several years. At the core of our strategy is the commitment we made to a clear purpose - to make financial lives better by connecting those we serve to the resources and expertise they need to achieve their goals, combined with driving organic growth, managing risk and maintaining strong capital and liquidity position and operating efficiently with reduced costs. Accordingly, throughout the uncertainty that prevailed, SB succeeded in delivering slightly lower than previous year, but still great 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 37.1 million that is by 8.8% below the same indicator in 2016. However, it should be noted that such result is due to the increased needs for provisions for one specific case that occurred in Q4, 2017, but was fully resolved during the Q1, 2018. If the Bank exclude this impact, which was of temporal nature, than the achieved profit in 2017 is higher than the one realized in 2016 by EUR 3.1 million, or 8.5%. Analyzing the performance review in other segment, improvement can be noticed in the area of net interest income, net fee and commission income and other operating income. In addition, the Bank was focused in continuing process of operating costs rationalization that can be noticed this year.

The Bank's total assets reached EUR 1,404.3 million; ROA equaled 2.4%, while ROE reached 15.0%, indicating stable returns for shareholders. With the capital strength, which ensured capital adequacy ratio of 15.42%, SB confirms to be one of the most trustworthy financial partners in the country.

### ***Interest income***

During 2017, the interest income from the retail loans amounted to EUR 47.8 million, having the biggest participation within the total interest income of 66.3%. In the same time, corporate and



other activities amounted to EUR 24.3 million i.e. decreased by 14.5% compared to the previous year. The total interest income amounted to EUR 72.1 million, which is almost on the same level compared to the previous year, in the environment of the continuing trend of interest rates decline.

*in EUR million*

	<b>2016</b>	<b>2017</b>	<b>% change</b>
<b>Interest income</b>	<b>73,6</b>	<b>72,1</b>	<b>-2,1%</b>
Retail loans	45,2	47,8	5,6%
Corporate loans	18,2	16,4	-9,8%
Other	10,2	7,9	-22,9%

### ***Interest expense***

The Bank's interest expense decreased by 15.3% compared to 2016. Specifically, the interest expense related to retail deposits registered an annual decline of 16.7%, whereas the interest expense for corporate deposits decreased by 8.8%.

*in EUR million*

	<b>2016</b>	<b>2017</b>	<b>% change</b>
<b>Interest expenses</b>	<b>14,5</b>	<b>12,3</b>	<b>-15,3%</b>
Retail deposits	11,7	9,7	-16,7%
Corporate deposits	1,4	1,3	-8,8%
Other liabilities	1,3	1,2	-9,8%

With reference to the interest rates of the deposits, it is important to be noted that the Bank fully implemented the recommendation of the Central Bank for abandoning the adjustable interest rates and in its products are used only fixed and variable interest rates. By this, the Bank is further improving its transparency in front of the clients.

### ***Net Interest Income***

The growth in the core activities in combination with a prudent approach in assets/liabilities management had a slight positive effect on net interest income in 2017, recording additional amount of EUR 0.65 million compared to 2016 or 1.1% increase. The net interest margin increased in 2017 by 1.1 b.p. reaching to 4.80%.

*in EUR million*

	<b>2016</b>	<b>2017</b>	<b>% change</b>
Interest income	<b>73,6</b>	<b>72,1</b>	<b>-2,1%</b>
Interest expenses	14,5	12,3	-15,3%
Net Interest income	59,2	59,8	1,1%

### ***Fee and Commissions Income***

In 2017, net fees and commission income reached a level of EUR 16.0 million. Within this, the most significant part (55.6% of the Bank's total fee and commission income) relates to fees connected to lending activities in amount of EUR 8.9 million, recording additional amount of EUR 0.6 million compared to 2016 or an increase of 7.4%. The net income from transfer of funds is the second largest item, which at the end of 2017 amounted to EUR 5.0 million representing 31.6% of the total fee and commission income.

*in EUR million*

	<b>2016</b>	<b>2017</b>	<b>% change</b>
<b>Net fees and commissions income</b>	<b>15,5</b>	<b>16,0</b>	<b>3,2%</b>
loans	8,3	8,9	7,4%
letters of guarantee	0,9	0,8	-16,7%
transfer of funds	5,2	5,0	-2,3%
other	1,1	1,3	13,3%

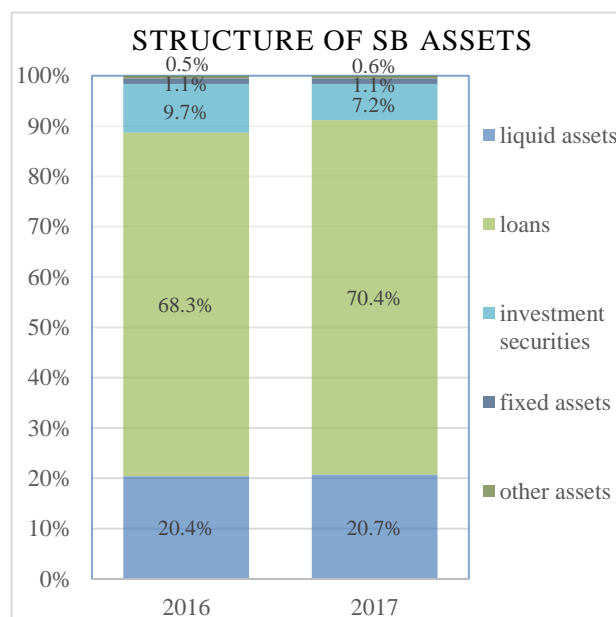
### ***Operating expense***

During 2017, the Bank continued to pursue operational excellence in both cost efficiency and risk management, resulting in keeping the costs in line with the budgeted figure and maintaining excellent credit quality results. The total operating expense amounted to EUR 33.8 million representing a decrease of 1.7% compared with the corresponding 2016 figure. The personnel costs, as well as other operating costs, remained unchanged. Because 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 39.3% from 41.4% last year, continuously reducing for several years in a row.

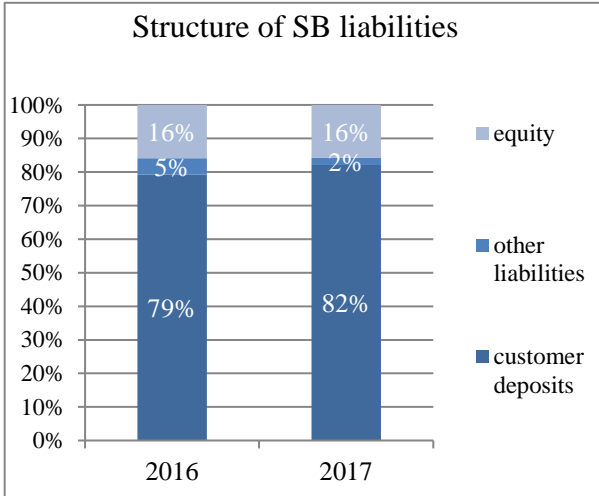
## Assets and Liabilities

### Assets

The Bank's total assets at the end of 2017 amounted to EUR 1,404.3 million, which is EUR 3.0 million or 0.2% above 2016. 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 1.34. The credit activities by the end of 2017 for the total loan portfolio reached EUR 1,044.6 million, out of which EUR 359.3 million were extended to corporate customers, while retail exposures amounted to EUR 685.3 million.



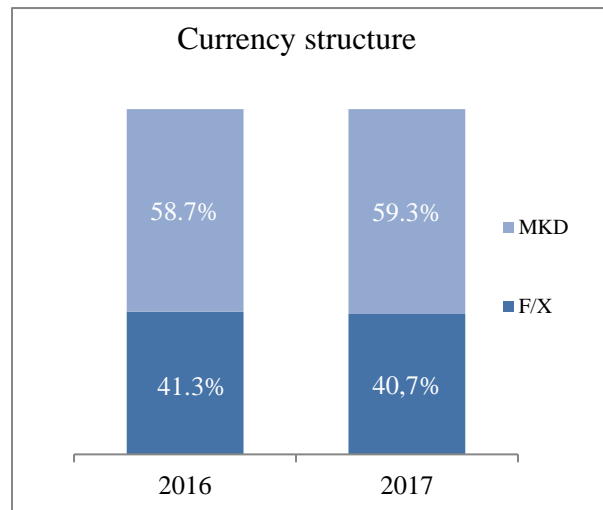
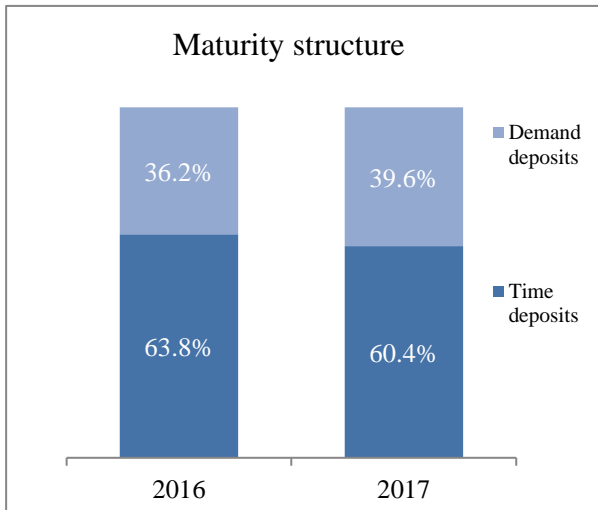
### Deposits and Equity



Despite the external environment's uncertainties during 2017, Bank's deposit base increased for 3.8%. Deposits continue to be the main funding source of the Bank, amounting to EUR 1,152.7 million. As a result, at the end of 2017, the loans to deposits ratio amounted to 90.6% 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 59.3% (58.7% in 2016).



The Bank equity amounted at EUR 221.7 million at the end of 2017 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

With political disturbance stretching over the past few years, the consequences on the business climate and the overall client behavior was evident across all industries. Nevertheless, during

2017, Stopanska Banka remained focused and customer oriented providing services and products along with reliable advice to its clients.

Thus, in 2017, the Bank built on its broad retail portfolio, analyzing profoundly the client segments to better understand and respond to their expectations. Being present through various channels, the Bank was able to improve response and processing times and provide a more reliable service to the customer. As a Bank with a wide branch network, Stopanska Banka invested extensively in the renovation and modernization of the branches, transforming them into client service oriented locations with improved overall performances.

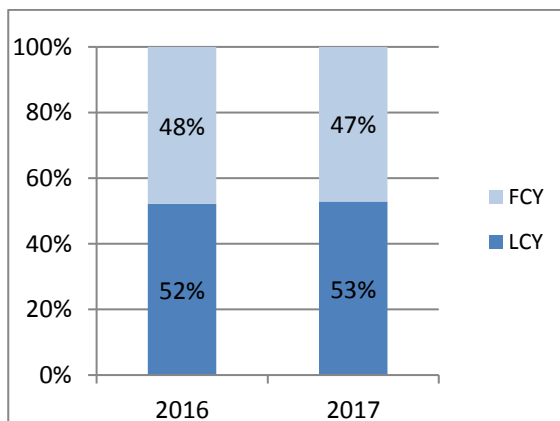
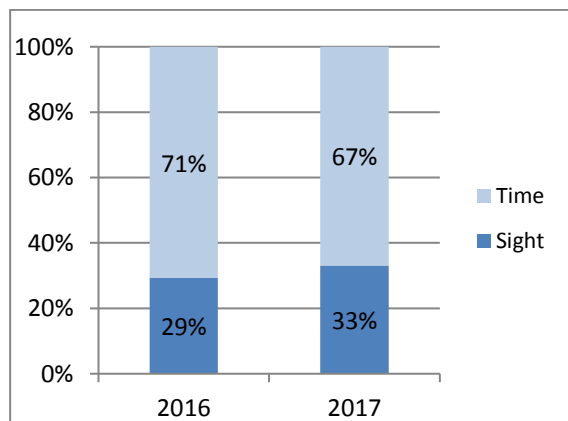
At the segment level, the Bank provided biggest extension for the TOPSI segment during 2017 both with offers and with services for this youth segment, including the first on the market peer-to-peer direct payments branded TOPSI Pay.

The competition on the market was consolidated, active with variety of products and offers and competition came from loan service companies that flooded the market during the year. Regardless, Stopanska Banka maintained its leading position on the market through all parameters.

### ***Retail deposits***

Within the expectations, the retail deposits remain unwavering with moderate growth accumulating at the end of the year EUR 900.2 million which again proves that Stopanska Banka AD – Skopje is perceived as stable, strong and reliable partner preferred by customers.

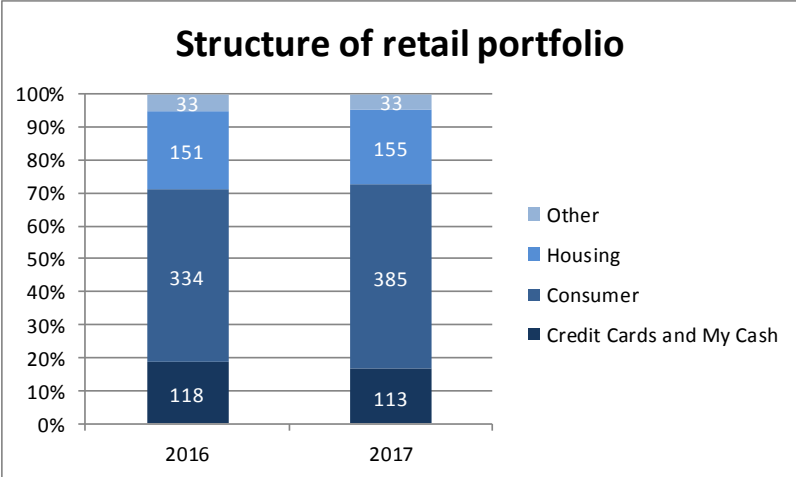
In terms, of maturity structure, in the last couple of years there is a shift towards sight deposits growth. As result of this, there is a slight downward trend in time deposit, reaching the share of 67% in total retail deposits (individuals), still keeping the dominant position.



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 53%. This trend is stimulated by the higher yields still available for the domestic currency and the established trust in its long-term stability.

**Retail lending**

The strategy for 2017 in retail lending was to be in line with the market trends without deteriorating the portfolios’ high quality. The ending balances of EUR 685.3 million testify for a growth of 7.8% 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 products, with the greatest contribution in total lending portfolio, were present with offer throughout the year, and in combination with the fast approval process, they provide high quality client’s service. Permanent improvement of client centric product offers in combination with better process, effectively will contribute for increasing customer retention and portfolio growth.

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 price competitive. In 2017, as a part of the efforts for service improvement to the clients, it was enabled Housing loans, as well as Consumer secured loans, to be part of the application process through Telesales channel.

The careful maintaining of a low NPL ratio continues throughout the year. The Bank continued applying the Programs for retention, thus making efforts to keep the portfolio in addition to the efforts for new production.

Within the **credit cards** portfolio, in 2017 SB managed to maintain a dominating market share of 40.9%, recorded a growth of 6.2% in number of credit card transactions on POS as well as 4% growth in transaction volume. The new VISA Zero credit card, with a novel approach attracted attention among the targeted mass segment already achieving excellent performances considering its usage and customer satisfaction.

The growth strategy for the credit card portfolio includes continuous activities that from one side drive credit card activation and utilization and on the other side customer retention.

**Debit cards** portfolio also continued its growth and expansion concluding 2017 with:

- 5% Growth in number of the Debit Cards in circulation
- 18% market share in the volume of POS transactions on the market

During 2017 the bank has been focused in further segmentation of the debit card portfolio with appropriate debit card product allocation, positioning MasterCard TOPSI debit card for youth, MasterCard GO and Visa Electron for mass customers and Visa Gold debit card for premium customer segment

Stopanska Banka ATM Network continues to be one of the largest ATM network with competitive set of additional (non-cash) ATM functionalities, such as: ATM mobile Top-ups, ATM cashless transfers, ATM Utility Payments and ATM PIN change and card activation. SB ATM network in 2017 achieved annual growth of 3.7% in number of transactions and 6.3 % growth in volume of transactions

### ***Contact center and i-bank services***

The **24/7 contact centre** of Stopanska Banka has asserted its position as a reliable contact point for clients servicing 382.000 customer telephone interactions (5% more than 2016) and 16.000 electronic (e-mail) interactions (19% more than in 2016).

Reaching out to clients online with the web apply option available for all retail products, increased the number of applications per campaign and increased the traffic of the Contact centre.

The powerful growth of clients going online has enabled grounds for further expansion and improvement of the **i-bank alternative channels** introduced by the Bank almost 15years ago. The Bank introduced the TOPSI Pay service mid-2017. It enables clients to seamlessly use the m-

banking app for peer-to-peer transactions available 24/7 and adds value to the existing i-bank portfolio. Consequently, with the end of 2017, i-bank transactions are participating with 15% of total number of retail banking transactions.

As a physical representation of the digital possibilities offered by Stopanska banka AD – Skopje, the **i-bank store** celebrated 4 years of existence with 70 events during the year of educational, inspirational and creative nature. Closely following digital trends in retail banking, SB is focused on providing digital banking services, which will satisfy existing and future customer needs thus boosting their digital banking experience.

### **SBB Segment**

The main goal of the Small Banking Business segment of SB in 2017 was to grow the portfolio while maintaining a high quality level. The challenging political and economic conditions on the market, have directed activities towards acquiring and retaining good clients, building and nurturing close mutually beneficial relationships with the clients based on understanding of their needs, providing advice and adequately structuring the loan products. SB recognizes that the Small Banking Business segment is of essential importance to the national economy in terms of generating employment and growth, contribution to the GDP as well as motivating the entrepreneurial spirit on the market, and thus continues with the approach of systematic and consistent work and constant on-field activity which lead to a risk balanced growth of the portfolio by 12% in 2017.

The high quality of the Small Banking Business portfolio of SB is maintained by well-structured and defined set of risk criteria as well as custom-based analysis of the individual characteristics and needs of each clients, established system of close monitoring and early identification and addressing of issues. SB considers the close communication and relationship with the SBB clients as one of its major advantages.

### **Corporate Banking**

*Stopanska Banka AD Skopje is pleased to report another successful year, remaining to be trustworthy, respected, and reliable partner of the business sector. The Bank continued to build strong, fair, honest and transparent relationship with its clients, offering full package of banking services, combined with expertise in proposing financial solutions for client's business strategies and challenges, hence satisfying their needs through personal, confident interactions.*



The Bank has managed to successfully balance the relation between the challenging business environment in the country and the clients' needs, by actively supporting the business growth through recognizing viable and prospective projects. The quality level of corporate portfolio remained strong by applying prudent credit risk assessment in all stages (approval, review and monitoring stage) as well as by following efficient collection practices. The well-established early warning system together with tight risk control has enabled the Bank to deal successfully 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.

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, thus maintaining the trend of delivering long-term value for customers and shareholders. Main priority of the Corporate Function within the Bank remains to be the high quality service and maintaining clients' satisfaction, trust and loyalty, which is supported with the well-established organizational mechanism, the latest software solutions, codified policies, procedures and processes.

In 2017, SB maintained the focus in further improvement of the customer service. In line with modern banking activities, the Bank continues to be a leader in offering innovative products and services, making the banking simple, easy and efficient. Understanding the importance of the export oriented companies, the Bank continues to assist the foreign trade activities through offering wide range of trade and finance facilities. In addition, apart of traditional financing of working capital, the Bank is developing domestic factoring with recourse, as another modern area of banking solutions for improvement of liquidity and cash flow management of the companies.

Corporate Function within the Bank remains to be committed to the ideal of being recognized as the most trusted financial partner. Always upholding the highest standards, SB will continue encouraging and supporting the business growth, supporting the economy, in order promoting more quality and modern way of living.

## **Risk Management**

*The Risk Management function of Stopanska Banka AD Skopje focuses on managing the risks in line with the Bank's risk appetite and continuous strengthening of the overall risk management framework front to back. Even within the challenging conditions of 2017, the Bank managed to achieve balanced growth and adequate quality of the loan portfolio, sufficient provision coverage for the impaired loans, abundant liquidity and a strong capital base.*

The Bank operations are supported 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 protect the interest of the stakeholders. Tools such as prudent risk criteria, risk assessments and models are used for that purpose and they are constantly reviewed, validated and enhanced towards the banking industry best practices. The Bank also focuses on continuous improvement of the risk culture of its employees that are encouraged to carefully consider the interests of all stakeholders, to always be honest and reliable, and to take responsibility for their actions.

The risk function ensures that the risk management framework is implemented in adequate manner and is in compliance with the NBRM regulatory requirements as well as best standards and practices adopted by NBG Group. Throughout 2017, the risk function of the Bank completed all the needed activities to ensure full compliance with the IFRS9 standard, in line with the timelines set for the European Banks.

### ***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 many quantitative and qualitative tools developed within the risk framework. It allows the Bank to successfully manage the portfolio and avoid undesired concentration of credit risk.

SB's credit policies of prudent lending includes a detailed risk assessment prior to any credit decision and common set of minimum standards for credit limit evaluation, approval, renewal and monitoring of credit exposures. Its prudent credit risk principles and practices were proven by the fact that the Bank managed to maintain an adequate quality of the loan portfolio during a period of high political turmoil and hindered economy.

The credit risk assessment process for corporate and retail borrowers is standardized and facilitated by the use of special risk rating systems and statistical scoring models. The application of these risk management tools, based on various quantitative and qualitative data inputs and analysis, has contributed to systematization of the risk identification process and a risk-balanced growth of specific sub-portfolios. Authorized Credit Approval Committees are established for the approval and renewal of the credit exposures. For the corporate clients, the Bank provides customized lending according to the relevant estimation of their financing needs and repayment

capabilities. The Bank performs thorough credit risk assessment for these clients on individual case-by-case basis.

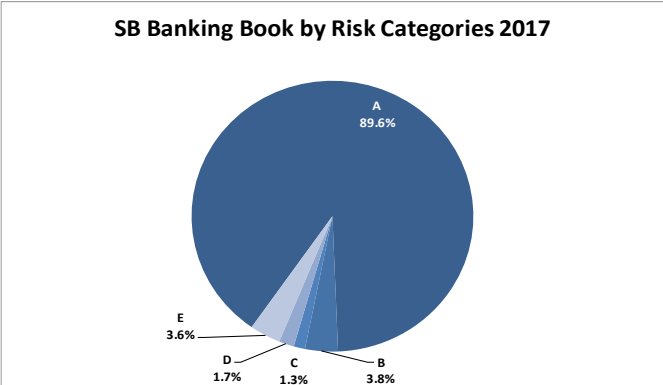
SB has introduced an intensive monitoring process that allows early identification of any developments in the counterparty or portfolio’s position that might trigger an increase in its risk profile or credit losses for the Bank. The monitoring process consists of regular credit reviews, from the moment 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 provides adequate level of provisions for potential credit losses at any time.

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 manner, in compliance with the NBRM regulations and NBG standards.

*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 2017. 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 almost on identical level with the overall banking sector and lower by approximately 90 b.p. compared to the peer group of large banks in the country.

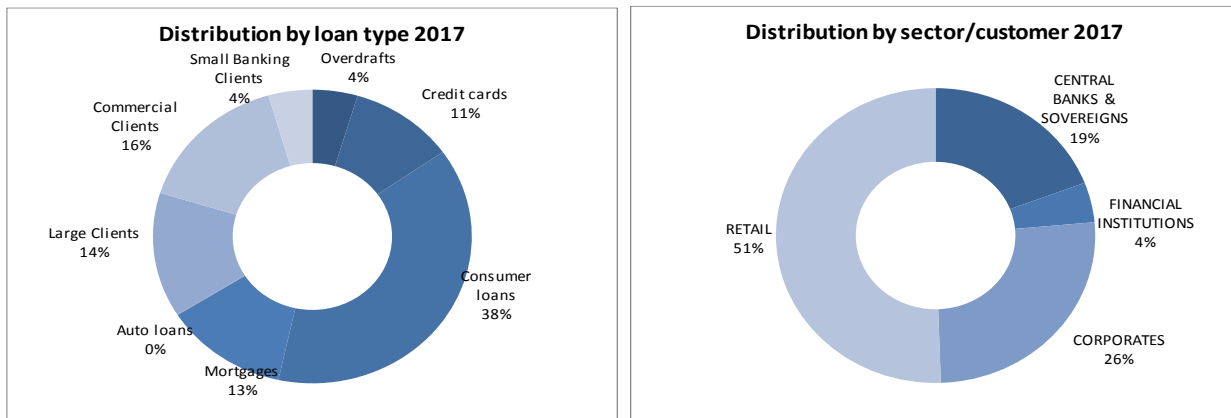


According to the NBRM Methodology, each credit risk exposure is classified in one of the five risk categories (A, B, C, D and E). The Bank maintained 89.6% of the exposure within the best credit risk category i.e. “A” credit risk category, while high-risk debt classified in “D” and “E” categories is higher by 1.1 percentage points in comparison with 2016 and compose 5.3% of the Bank’s loan portfolio. The main reason for this increase is the default of one corporate obligor that was adequately classified and provisioned as of the end of 2017 but has been fully resolved within the first quarter of 2018.

**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**

The high level of liquidity of Stopanska Banka AD Skopje continued in the course of 2017, which enabled the realization of the business goals outlined in the Bank's business policy. The conditions in the environment, the macroeconomic surroundings faced with different types of challenges both domestically and internationally, political instability and low level of interest rates did not affect the clients to entrust their funds to the management of the Bank, which

directly influenced the liquidity to hold high level. The liquidity management system consists of established policies, procedures and rules for daily as well as for longer-term liquidity risk management and optimal balancing of cash flows. In addition, the Bank's priorities are focused on monitoring the daily movements of client and bank transactions, observing the regulatory requirement, establishing an early warning system in case of unexpected events and undertaking appropriate measures and activities depending on the needs.

Throughout the entire 2017, Stopanska Banka kept the reserve requirement at an optimal level of around 100%, adjusted to the needs and cash movements, and the surplus of funds over the required levels was placed in more profitable liquidity instruments.

The Bank's structural liquidity is distributed in liquidity instruments that correspond to the maturity and currency structure of liabilities, and it is subject to regular revaluations and adjustments in order to be consistently harmonized with the needs of the Bank.

Liquidity rates as another regulatory requirement are above the required minimum of 1, where liquidity risk management also involves reevaluations and undertaking appropriate activities to maintain these coefficients.

Given the fact that the liquidity of the Bank arises from domestic sources, primarily from customer deposits, part of the liquidity management process is monitoring and designing the cash flows of client deposits and monitoring their concentration in the deposit base of SB. The Bank's deposit base is broadly diversified, and the concentration level of the largest 20 depositors is below 10%.

### ***Interest Rate Risk Management***

The main 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 because of adverse movements in the interest rates within the banking book positions.

The assessment of the interest rate risk is conducted through monitoring of exposures arising from the banking book activities, taking into consideration the fact that there is no rate sensitive trading portfolio in SB balance sheet.

At the end of 2017, 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***

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 that 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.

The main mechanism to manage foreign exchange risk is the application of Bank's Risk Strategy and risk appetite framework of which the limit structure is a key component, in order the risk management function to ensure that the currency risk exposure is within the approved risk limits and appetite.

SB manages the currency risk by hedging and monitoring the open currency position on a daily basis, 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 2017 currency risk management process was accomplished with high proficiency and the open currency position was constantly well below the regulatory limit and consequently there was no breach of regulatory limit at any time.

### ***Operational Risk Management***

The overall focus of 2017 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 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 SB operational risk management framework provides a structured approach for managing operational risk. It applies consistent standards and techniques for evaluating operational risks.

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,
- Structured Scenario Analysis (SSA), 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 2017 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 continuous and sustainable growth of its overall banking operations. The Bank's total regulatory capital as of 31.12.2017 amounted to EUR 171.7 million (Tier 1 - EUR 170.2 million and Tier 2 - EUR 1.5 million) resulting in a capital adequacy ratio of 15.42% as at 31.12.2017.

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. In addition, 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 2017, 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 2017, 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 comply 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; regular reporting to the US IRS in accordance with the FATCA law; 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 2017, 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 2017, CD also realized the following main activities:

- prepared Anti-Fraud Policy and provided relevant guidance to the Staff;
- assisted the Product Management Division in implementation of new alternative service – Social pay;
- 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. The Bank has two Officers for Personal Data Protection and the whole team comprising legal and IT experts that are helping them the said information to be:

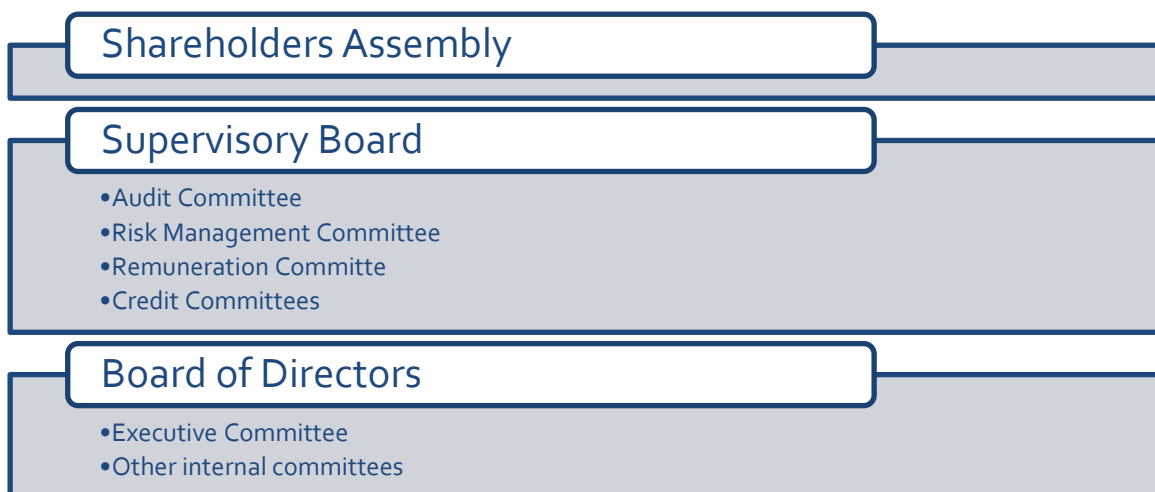
- collected in an ethical and lawful manner,
- collected for specific, explicit and legal purposes, and
- kept securely and only for the time period provided for the fulfilment of the purposes of collection and processing.

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

SB 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 2017

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 good corporate governance rules for banks (Official Gazette of RM n. 24/2018).

## 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 2017 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. Dimitrios Christopoulos, **Deputy Chairman of the Supervisory Board of SB**, Manager of International Activities Division of National Bank of Greece S.A. Athens;<sup>1</sup>
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.

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<sup>1</sup> This is the only change in the composition of the Supervisory Board, i.e. the appointment as of 14.08.2017 of Mr. Christopoulos on the position of Mr. Konstantinos Bratos.

The latest self-assessment of the Supervisory Board confirms that 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. In addition, all members of the Supervisory Board allocate appropriate time and focus on their supervisory and strategic responsibilities. In this context, the members of the Supervisory Board are not members of other supervisory or executive body in organizations outside of NBG Group, with exception of Prof. Kjosev who is non-executive member at the Institute for research of economic policies IZINEP Skopje (on voluntary basis) and in the Advisory Board of the Balkan Economic Forum (on voluntary basis).

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, 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 account 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 are presented in the Annual Report on the Operations of Supervisory Board in 2017, submitted to the SB Shareholders Assembly.*

## **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 Supervisory Board, 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 2017 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. Dimitrios Christopoulos, member (representative of the Supervisory Board); and
5. Jadranka Mrshikj, member (independent member).<sup>2</sup>

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*, during 2017 the Audit Committee:

- reviewed the (quarterly) reports of the Internal Audit Division and its other reporting and planning documents, including the Internal Audit Division Charter,
- reviewed the (monthly) reports of the Risk Management Committee,
- reviewed the (quarterly) review of the financial statements for consolidation purposes,
- approved the decision for determining proposal for election of external audit company, and
- started to review the Compliance Reports and plans before submitting to Supervisory Board.

*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 2017, 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 and member of the Board of Directors, member;
3. Theodoulos Skordis - Chief Corporate Officer and member of the Board of Directors, member;

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<sup>2</sup> Ms. Jadranka Mrshikj is also member of the Board of Directors of the European Movement in RM, on voluntary non-remunerative basis.

4. Milica Chaparovska-Jovanovska – Chief Retail Officer and member of the Board of Directors, member;
5. Mirjana Trajanovska – Senior Manager for Treasury and Finance, member;<sup>3</sup>
6. Vlado Treneski - Manager of Corporate Banking Division, member;<sup>4</sup>
7. Mirko Avramovski - Manager of Collection Division, member;
8. Vesna Nencheva - Manager of Risk Management Division, member; and
9. Chief Economist, 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**

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<sup>3</sup> Ms. M. Trajanovska is also Chairman of the Supervisory Board of the Clearing House KIBS AD Skopje.

<sup>4</sup> Mr. V. Treneski is also independent non-executive member of the Board of Directors of Euroins AD Skopje.



Since November 2013, the Remuneration Committee is assisting the Supervisory Board in implementation of the Remuneration Policy of SB that is adopted on the 33<sup>rd</sup> meeting of the Shareholders Assembly held on 19<sup>th</sup> 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, appointed by the Supervisory Board. Thus, during 2017, 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.

In the year under review, the Remuneration Committee had two meetings, on which issues related with the scope of operations of the said committee were reviewed.

### **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. There are no changes in the Board of Directors composition since the prior Annual Report, i.e. the Board of Directors members are:

1. Diomidis Nikolettopoulos, Chief Executive Officer and Chairman of Board of Directors;<sup>5</sup>
2. Toni Stojanovski, Chief Risk Officer and member of the Board of Directors;<sup>6</sup>
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 strong record at SB and in the banking sector on senior positions (~30years experience in the finance industry) and expert knowledge of the business and the banking regulation.

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<sup>5</sup> Mr. Nikolettopoulos is also member of the Board of Directors of the Academy for Banking and Information Technology.

<sup>6</sup> Mr. Stojanovski is member in the following organizations:

- Macedonian Stock Exchange, non-executive member of the Board of Directors;
- Banking Association, Deputy Chairman (on voluntary basis);
- Macedonian Chamber of Commerce, Chairman (on voluntary basis);
- Academy for Banking and Information Technology, member of the Academic Council.

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 write offs 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 Chief officers, it includes the Senior Manager for Treasury and Finance (Mirjana Trajanovska) and the Senior Manager for Operations (Radmila Maksimovic), assisted by the Bank Secretary.

#### **1.4. CREDIT COMMITTEES**

Other SB bodies, determined with the Statute, are Credit Committees with the following, structure, and authorities, as at December 31, 2017:

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, member
4. Theodoulos Skordis - Chief Corporate Officer of SB and member of the Board of Directors, member

5. Elias Papadopoulos - 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 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 and member of the Board of Directors of SB, member;
3. Theodoulos Skordis - Chief Corporate Officer and member of the Board of Directors of SB, 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 and member of the Board of Directors, Chairman;
2. Theodoulos Skordis - Chief Corporate Officer and member of the Board of Directors, member;
3. Vlado Treneski - Manager of Corporate Banking Division, member;
4. Lidija Rumenovska – Manager of Underwriting Division, 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 (HSBCC)**: it consists of 4 members, without limitation of the term of office, as follows:

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

The HSBCC decides on credit exposure toward single subject – legal entity from EUR 100.001 up to EUR 350.000. HSBCC 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 (SBCC)**: it consists of 4 members, without term of office limitation, as follows:

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

The SBCC decides on credit exposure toward single subject – legal entity in the amount up to EUR 100.000. SBCC 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 and member of the Board of Directors, Chairman;
2. Dragan Mihajlov – Deputy Manager of Product Management Division, member;
3. Emilija Stojanova - Ivanovska - Manager of Retail Credit Risk Division, member;

4. Tatjana Kalajdzieva - Manager of Sales and Branch Network Division, member;
5. Violeta Zatenko - Manager of Retail Underwriting Department, 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.

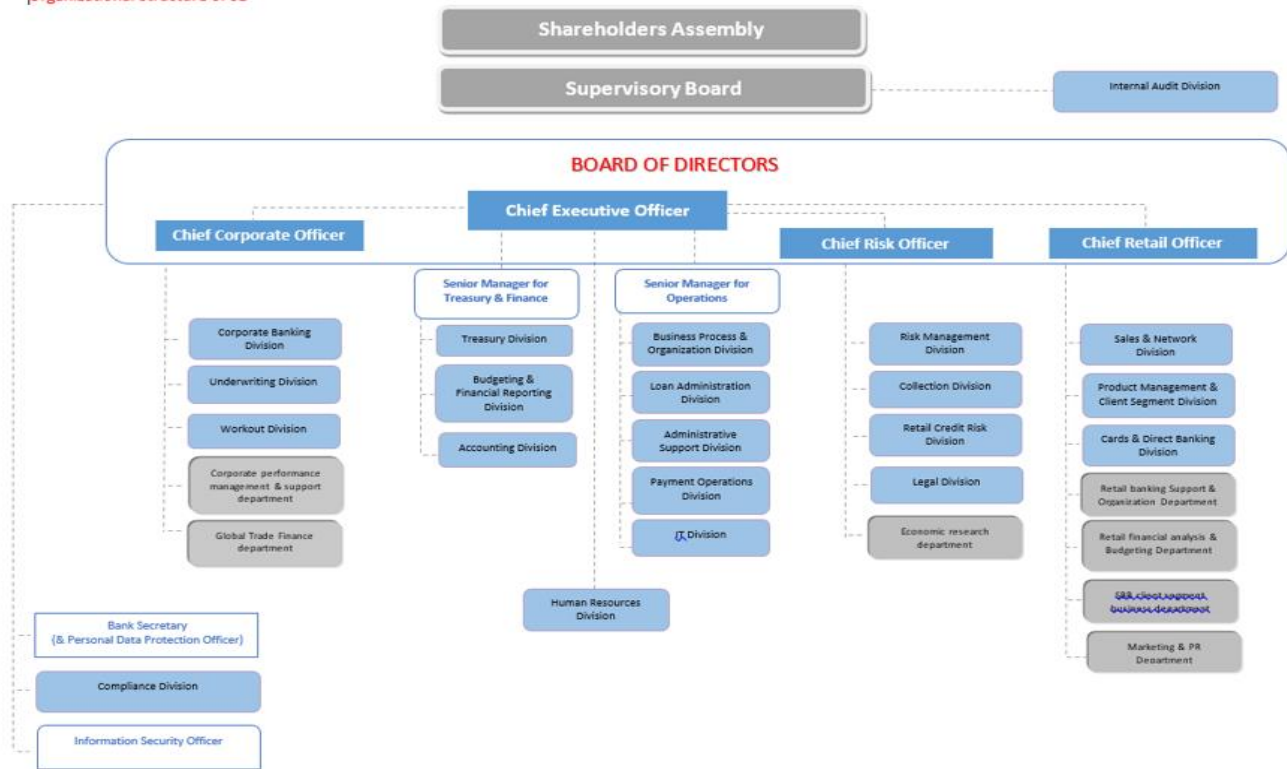
\*\*\*The Credit Committees operates in accordance with the relevant credit policies adopted by the Supervisory Board.

## **2. Organizational Structure**

The organizational structure of the Bank 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 22 divisions and a branch network with 66 branches. The Bank has no subsidiaries. The total number of employees with the reporting date 31.12.2017 is 1047.



### 3. Shareholder Structure

During 2017 there are no significant changes in the shareholder structure: National Bank of Greece S.A. – Athens (NBG) 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 2017, 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. The same are registered and lead by the Central Securities Depository of RM. The shares of the Bank quoted at the Official Market of the Macedonian Stock Exchange, sub segment Mandatory Listing, and the code under which they are quoted is: STB (common share) ISIN number MKSTBS101014 and STB (preferred share) ISIN number MKSTBS120014.

#### **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. After long period of restructuring and cleaning the losses from the past, the Bank started creating profit, which was re-invested in the Bank and used to secure its leading position today.

Having satisfied all regulatory and business requirement, especially in terms of capital, the Shareholder's Assembly on its regular shareholders meeting, passed a decision on distribution of dividend on ordinary shares in total gross amount of MKD 2,217,442,860.00 or MKD 127.00 gross dividend per share and decision on distribution of dividend on preferred shares in total amount of MKD 2,501,884.00 or gross amount of MKD 11.00 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 20<sup>th</sup> 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 26<sup>th</sup>, 2016. No major changes were proposed.

At the moment of writing this Report, the Bank initiated a process of reviewing the CG Code in order to align the code with the new Decision on good corporate governance in the banks that was adopted by the Central Bank on Feb. 14, 2018.

#### **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.

## **7. Remuneration Policy**

On the 33<sup>rd</sup> Shareholders Assembly held on July 19<sup>th</sup>, 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, beside the amendments related to the List of employees that falls under the scope of the policy, that more appropriately reflect the business operations and the corporate governance model of the Bank.

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 their participation in the Supervisory Board and amount of EUR 100 net (for the chairman) and EUR 50 net (for the members) per meeting for their participation in the Remuneration Committee.

On basis of salary and salary allowances Prof. Filipovski received MKD 1.800.364 gross (annually) as employed in the Faculty of Economics at University "Cyril and Methodius" Skopje.

On the basis of 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 2017, total gross amount of MKD 22.055.838 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 2017 SB had 35 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 2017, the total gross amount of MKD 62.394.446 was paid to the other persons with special rights and responsibilities.

\*At the end of 2017 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 2017 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:

- **Vozi pravo, vozi zdravo, Vol. 3** The already recognizable and attractive event for Skopje “Vozi pravo, vozi zdravo” was initiated in 2015 as a proprietary CSR concept developed and organized by the Bank employees which ended with a donation for the City of Skopje – a bike track for kids to learn traffic rules and riding a bike safely. The idea behind the project is to promote and encourage the culture of biking as a transportation model for the citizens in Skopje and the whole country as well as emphasize the importance of a healthy lifestyle.
  - Due to the positive reactions of the wider public, the Bank continued the project (Vol.2) in 2016 and (Vol.3) in 2017 with an even larger scope – nearly 4,000 participants, many companies joined the event with their own representation transforming the finish line area into a picnic area. The donation from the third edition is yet to be negotiated with the City of Skopje;
- **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 take part in it and help the Bank again execute this unique event. SONUVAME.MENUVAME emphasizes the advantages from the differences that exist in our world, but also points out the options available to create equal possibilities for all. The second edition of the event was again organized at the Opera & Ballet however with 5 performances within 3 days so as to reach a broader public. At the center of the project was the most popular kids music/theatre show 5+ which incorporated within the play various children from the associations, thus including them as performers and presenting them in front of the public. The project will again be finalized with the donation of SB that will be covering 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;
- **Mudrosti, Radosti (Wisdom. Joy)** – was the third proprietary event created and organized by the Bank again focused on the children and their wellbeing. The event matched the beginning of the school year and campaigned towards increased awareness of the importance of education, exploration, curiosity and reading. At the Opera and Ballet outside stage, we incorporated stage performances and several creative workshops for children of different ages. The event concluded with the announcement of a donation towards the city library, creating a creative space for kids to collaborate, mentor each other, do research and present their projects. At the same time, as an inspiration, a special picture book was produced with local writer and illustrator with the purpose of intriguing children to read more and feel empowered by doing so. The book

was distributed to all visitors of the event and to libraries and schools;

- **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;
- **Supporting the Microsoft Specialist Competition 2017.** Microsoft Specialist Competition is a qualification competition for the participants in the World competition for Microsoft. The national qualifications were held at the i-bank premises of the Bank for the second time. Again, 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 California USA, in August 2017;
- **Annual sponsorship of MOB (Macedonian Opera and Ballet)** - The National Institution Macedonian Opera and Ballet marked significant premieres and very important events during 2017, and is important to have the Bank as an official partner of the institution. The cooperation began with the 2016 event "Sonuvame.Menuvame". As part of the sponsorship, SB employees had 50% discount for tickets for all MOB events and performances which was of added value to them;
- The Bank supported many other important projects as well, such as sponsorship of the Novel of the Year 2017 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.

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