

**STOPANSKA BANKA AD – SKOPJE**

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**ANNUAL REPORT**

**2015**

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**Skopje, April 2016**

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

**Financial highlights**  
*in EUR million*

	2014	2015	change %
<b>Income Statement indicators</b>			
Net Interest Income	50.9	54.7	7.5%
Net Commissions Income	15.7	15.2	-3.1%
Total Income	72.0	75.3	4.7%
Operating expenses	-34.2	-32.3	-5.6%
Personnel Expenses	-12.3	-12.9	4.9%
Net Operating Income	37.8	43.1	14.0%
Impairment losses	-10.3	-8.3	-19.4%
Pre Tax Profit	27.5	34.8	26.5%
<b>Net Profit</b>	<b>24.6</b>	<b>31.1</b>	<b>26.5%</b>

<b>Balance Sheet indicators</b>	2014	2015	change %
<b>Total Assets</b>	<b>1,361.4</b>	<b>1,378.1</b>	<b>1.2%</b>
<b>Equity</b>	<b>198.5</b>	<b>229.2</b>	<b>15.5%</b>
Regulatory capital	152.0	167.8	10.4%
Loans to customers (net)	836.2	902.3	7.9%
<b>Total loans (gross)</b>	<b>936.1</b>	<b>1,007.0</b>	<b>7.6%</b>
Retail loans	558.0	597.9	7.2%
Corporate Loans	378.1	409.1	8.2%
Provisions	99.9	104.7	4.8%
<b>Total Deposits</b>	<b>1,072.0</b>	<b>1,089.4</b>	<b>1.6%</b>
Retail deposits	851.5	856.1	0.5%
Corporate Deposits	220.5	233.3	5.8%

<b>Financial ratios</b>	2014	2015	change (bp)
Net Interest Margin	4.22%	4.57%	35.0
Cost income ratio	47.5%	42.8%	-468.1
ROA	2.1%	2.5%	45.9
ROE	14.8%	16.3%	149.2
Loans to Deposits ratio (gross)	87.3%	92.4%	511.1
Capital Adequacy ratio	16.36%	17.01%	65.0

<b>Operational Indicators</b>	2014	2015	change
Number of Units	65	64	-1
Number of Personnel (eop)	1046	1038	-8

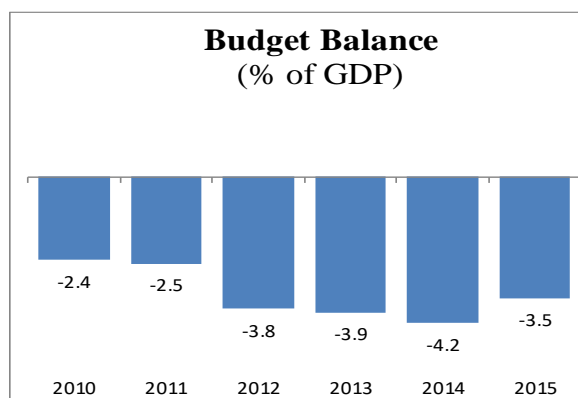
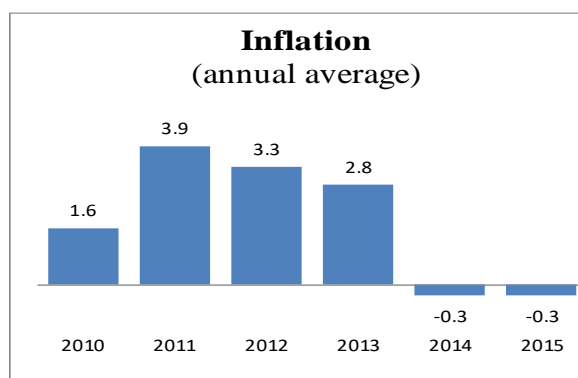
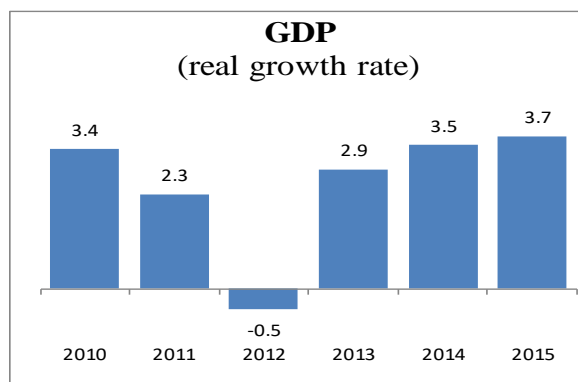
## Economic Environment

*The fundamental factors of the economic growth remained broadly unchanged in 2015. However, the global uncertainty as well as the domestic political instability has influenced the growth of the economy to be slightly lower than expected. Within these macroeconomic surroundings, the banking sector maintained its low risk profile, sound liquidity and strong capital position.*

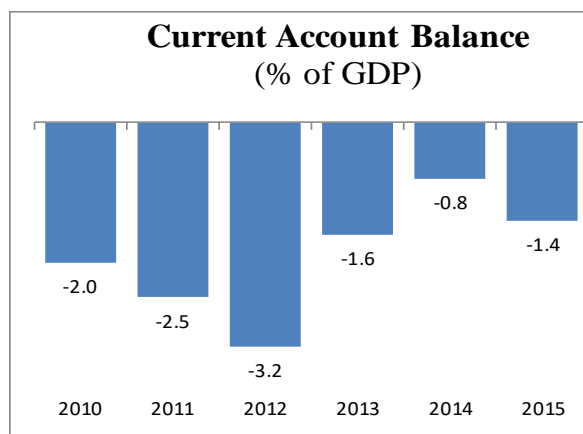
In 2015 the domestic economy continued to grow at a solid pace without inflationary pressures. **Hence, according to the preliminary data, real Gross Domestic Product (GDP) registered an annual growth of 3.7%.** Such economic activity is mainly result of the continuance of the public infrastructure projects as well as the higher private consumption induced by the credit growth, pensions and real wages. The net exports remain with negative contribution. However, the export-oriented facilities in the free economic zones are influencing strong dynamic of exports.

The global environment of generally low prices of primary products in 2015 was reflected on the domestic consumer prices of energy and food, and hence on the inflation rate which remained in the negative area second consecutive year. **Thus, the average deflation in 2015 was -0.3%, same like the previous year.**

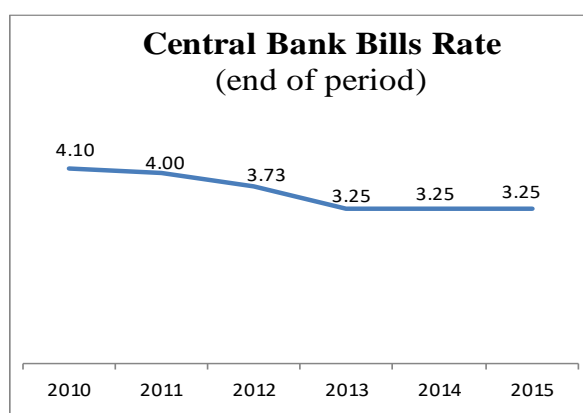
**The fiscal policy in 2015 mainly achieved reasonable balance between maintaining macroeconomic stability and encouraging economic activity.** Thus, the budget deficit was reduced to 3.5% of GDP compared to 4.2% in 2014. The public debt moderately increased to 46.5% of GDP due to the fourth Eurobond issued in November. However, considering the debt dynamic in recent years, the necessity for caution in public debt management still stands.



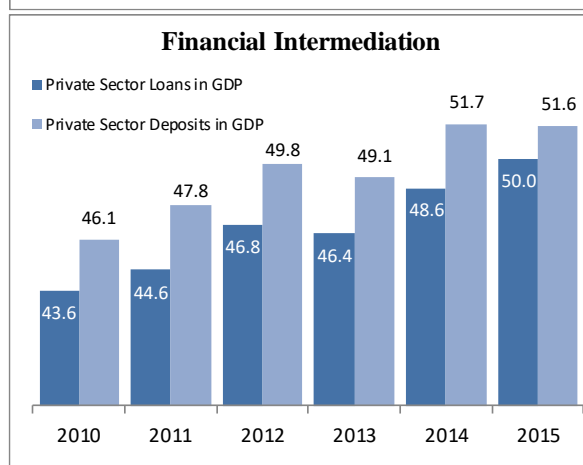
The positive developments in the external sector in 2015 influenced moderate level of deficit in the current account and maintenance of the stable position. In environment of increased and diversified export portfolio on behalf of the new facilities in TIDZ (Technological Industrial Development Zones), stable private transfers and adequate level of gross foreign reserves enabling sufficient buffers against potential unforeseen shocks, the CA deficit amounted to 1.4% of GDP.



The macroeconomic environment characterized by stable economic growth, moderate deflation caused by external factors, solid government budget and balance of payments position, was perceived by the National Bank of RM (NBRM) as suitable for maintaining the key interest rate at same level as in the previous year. In this respect, the key interest rate on Central Bank Bills issued by NBRM remained at level of 3.25%.



The domestic banking sector remained well capitalized, highly liquid and increasingly funded by domestic deposits, while non-performing loans are stable and fully provisioned. Although in moderation, the deposit growth in 2015 was still solid reaching 6.5% annual rate at the end of the year. Herein, corporate deposits increased by significant 13%, while household deposits were higher by 4.1%. The credits to the private sector followed a stronger dynamic. On annual basis the credit growth reached 9.5%. The credits to households and enterprises realized annual growth rates of 12.9% and 7.1% respectively. In such environment the loans to deposits ratio was 91.9%. As of 31.12.2015 non-performing loans (NPLs) were at the level of 10.8% compared to 11.3% at the end of 2014 and the provision coverage remained above 100% (108.4%). Also, taking into account the level of the capital adequacy ratio of 15.5%, it can be stated that the banking sector remained stable and maintained low risk profile.



## Basic Macroeconomic Indicators

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Output</b>											
Gross Domestic Product (real growth rate)	4.7	5.1	6.5	5.5	-0.4	3.4	2.3	-0.5	2.9	3.5	3.7
Industrial Production (real growth rate)	7.0	2.5	3.7	5.5	-7.7	-4.3	3.3	-6.6	3.2	4.8	4.9
<b>Prices, wages and productivity</b>											
CPI (annual average)	0.5	3.2	2.3	8.3	-0.8	1.6	3.9	3.3	2.8	-0.3	-0.3
CPI (year-end)	1.2	2.9	6.1	4.1	-1.6	3.0	2.8	4.7	1.4	-0.5	-0.3
PPI (annual average)	3.2	3.2	1.7	5.6	-6.5	8.3	11.1	4.6	0.4	-1.2	-3.9
PPI (year-end)	4.0	3.2	4.2	-1.8	3.2	9.0	8.3	5.3	-2.1	-3.8	-0.8
Real wages (annual growth rate)	2.0	4.0	5.5	1.9	25.0	1.4	-2.4	-2.9	-1.6	1.5	2.7
<b>Government finance</b>											
General government balance (% of GDP)	0.2	-0.5	0.6	-0.9	-2.6	-2.4	-2.5	-3.8	-3.9	-4.2	-3.5
<b>External sector</b>											
Current account balance (% of GDP)	-2.4	-0.4	-6.9	-12.7	-6.8	-2.0	-2.5	-3.2	-1.6	-0.8	-1.4
Export of goods (in million US\$)	2,093	2,546	3,612	4,257	2,996	3,606	4,794	4,332	4,689	5,377	4,891
Import of goods (in million US\$)	3,187	3,772	5,200	6,820	5,132	5,463	6,935	6,523	6,666	7,373	6,532
Export of goods (annual growth rate)	21.8	21.6	41.9	17.9	-29.6	20.4	32.9	-9.6	8.2	14.7	-9.0
Import of goods (annual growth rate)	10.3	18.4	37.9	31.1	-24.7	6.5	26.9	-5.9	2.2	10.6	-11.4
Gross external debt (in million US\$)*	2,983	3,297	4,174	4,658	5,420	5,452	6,271	6,818	7,194	7,287	6,982
Foreign reserves (in million US\$)	1,325	1,866	2,240	2,108	2,291	2,277	2,677	2,892	2,747	2,963	2,471
Exchange rate MKD/EUR (average)	61.28	61.17	61.19	61.28	61.27	61.53	61.53	61.52	61.57	61.63	61.6
<b>Monetary aggregates</b>											
M1 growth (dec./dec.)	6.4	17.9	30.7	14.5	-3.5	9.8	6.8	7.6	6.2	22.2	18.4
M2 growth (dec./dec.)	15.5	24.8	28.1	7.1	3.9	8.3	7.5	0.5	0.2	7.2	7.6
M2 denar growth (dec./dec.)	11.7	31.7	41.1	0.8	-5.5	10.8	10.1	3.2	2.9	12.3	8.5
M4 growth (dec./dec.)	15.0	25.0	29.3	11.2	6.0	12.2	9.7	4.4	5.3	10.5	6.8
M4 denar growth (dec./dec.)	15.0	24.5	29.1	8.9	-4.4	16.0	14.4	9.6	8.7	15.3	7.2
Credit to private sector (dec./dec.)	21.7	30.5	39.2	34.4	3.5	7.1	8.5	5.4	6.4	10.0	9.5
<b>Interest rates</b>											
Money market interest rate (annual average)	8.6	5.5	3.7	4.4	6.3	3.7	2.2	2.2	2.0	1.9	1.1
CB bills rate (annual average)	9.5	6.0	5.1	6.5	8.5	5.5	4.0	3.8	3.4	3.3	3.3
Money market interest rate (end of period)	8.7	4.9	3.1	5.3	6.1	2.7	2.2	2.1	2.2	1.5	1.2
CB bills rate (end of period)	8.5	5.7	4.8	7.0	8.5	4.0	4.0	3.8	3.3	3.3	3.3
<b>Capital markets</b>											
Macedonian Stock Exchange index-MBI (growth rate-eop)	69.58	61.54	109.07	-72.92	23.8	-16.1	-13.3	-12.3	0.4	6.1	-0.6

\* Latest data with Q3 2015

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

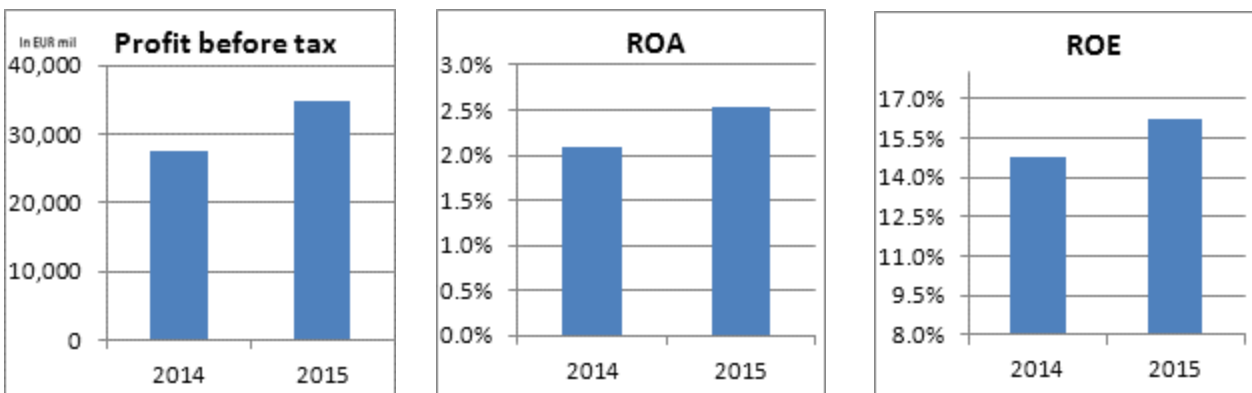
## Review of 2015 Activities

### Financial Performance

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

The positive performance in 2015 vindicates the strategic choices of SB to continue to rise to the challenges and seize the opportunities of the times. SB remains a dynamic bank, determining to further fortify its balance sheet and provide a solid stimulus to local economy. The distinguished performance was supported by Bank strategy: driving organic growth, serving the core financial needs of the customers, managing risk and maintaining strong capital and liquidity position and to operate efficiently and reduce costs. Thus, throughout the uncertainty that prevailed, SB succeeded in delivering 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 34.8 million. The Bank's total assets reached EUR 1,378.1 million, exceeding the corresponding 2014 figure by 17 million. Consequently, ROA equaled 2.5%, while ROE reached 16.3%, indicating stable returns for shareholders. With the capital strength, which ensured high capital adequacy ratio of 17.0%, SB ensures to be the most trustworthy financial partner in the country.



### Interest income

During 2015, the interest income from the retail loans amounted EUR 43.5 million, having the biggest participation within the total interest income of 59.5%. From all other activities the Bank earned total interest income of EUR 29.6 million, decreasing by 10% compared to 2014.

**Interest income***in EUR million*

	2014	2015	% change
<b>Interest income</b>	<b>76.0</b>	<b>73.1</b>	<b>-3.8%</b>
Retail loans	43.1	43.5	0.8%
Corporate loans	19.2	19.2	-0.2%
Other	13.7	10.4	-23.8%

**Interest expense**

The Bank's interest expense decreased by 26.8% compared to 2014. Specifically, the interest expense related to retail deposits registered an annual decline of 24.8%, whereas the interest expense for corporate deposits decreased by 41.9%.

**Interest expenses***in EUR million*

	2014	2015	% change
<b>Interest expenses</b>	<b>25.1</b>	<b>18.4</b>	<b>-26.8%</b>
Retail deposits	19.4	14.6	-24.8%
Corporate deposits	3.4	2.0	-41.9%
Other liabilities	2.3	1.8	-22.4%

**Net Interest Income**

The growth in core activities in combination with a prudent approach in assets/liabilities management had a positive effect on net interest income in 2015, recording additional amount of EUR 3.8 million compared to 2014 or above 7.5%. The net interest margin improved in 2015 by approximately 35 b.p. reaching to 4.57%.

**Net Interest Income***in EUR million*

	2014	2015	% change
Interest income	76.0	73.1	-3.8%
Interest expenses	25.1	18.4	-26.8%
<b>Net Interest Income</b>	<b>50.9</b>	<b>54.7</b>	<b>7.5%</b>

**Fee and Commissions Income**

Activities in 2015 contributed the net fees and commission income to reach EUR 15.2 million. Within this, the most significant part (51.8% of the Bank's total fee and commission income) relates to lending activities in amount of EUR 7.9 million, recording additional amount of EUR 0.5 million compared to 2014 representing increase of 6.5%. The income from transfer of funds

is the second largest item, which at the end of 2015 totaled EUR 5.1 million representing 33.7% of total fee and commission income.

### Net fees and commissions income

*in EUR million*

	2014	2015	% change
<b>Net fees and commissions income</b>	<b>15.7</b>	<b>15.2</b>	<b>-3.1%</b>
loans	7.4	7.9	6.5%
letters of guarantee	1.1	1.0	-5.9%
transfer of funds	5.9	5.1	-13.0%
others	1.3	1.2	-10.8%

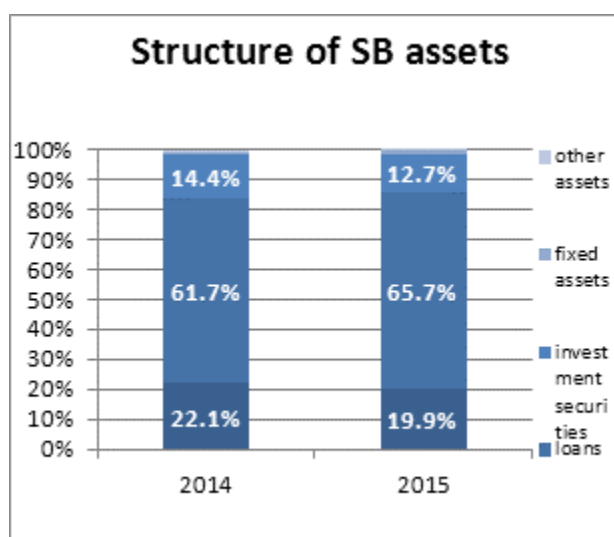
### Operating expense

During 2015 the Bank continued to pursue operational excellence in both cost efficiency and risk management resulting in reducing the operating costs and maintaining excellent credit quality results. Despite the organic growth in 2015, with its effective cost containment policy in place, the Bank succeeded to further reduce the total operating expenses by 5.6% and thus reached the cost to income ratio of 42.8%.

## Assets and Liabilities

### Assets

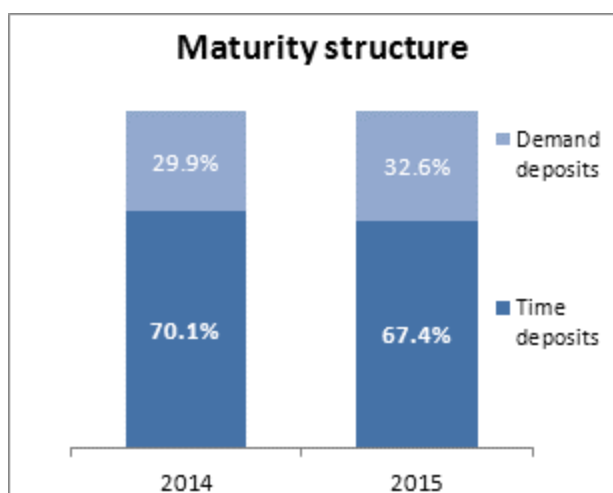
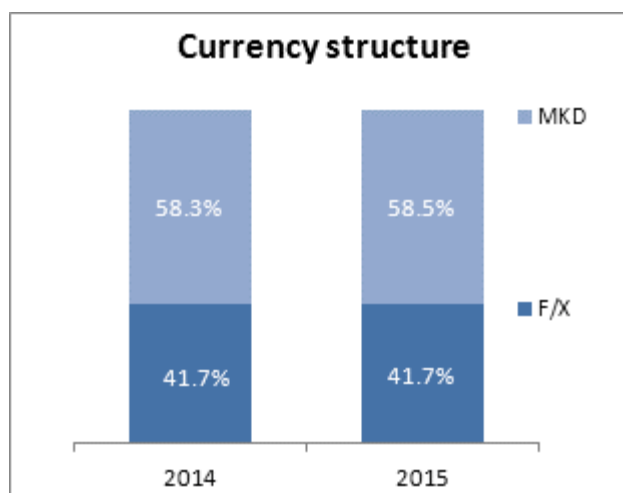
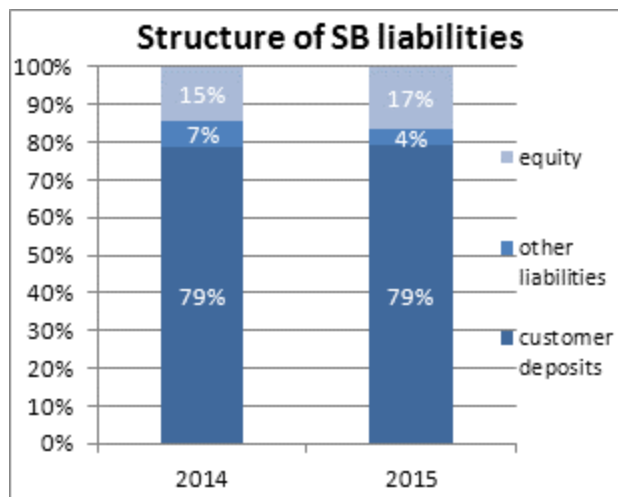
The Bank's total assets at the end of 2015 amounted to EUR 1,378.1 million, which is EUR 16.7 million or 1.2% above 2014. The Bank continued to enhance its' prudence with the balance growth, adequate liquidity and strong capital base. In this aspect, the liquidity ratio reached 1.63%. The credit activities increased apart from covering the regular repayments made during the year, thus recording an increase of 7.6%, perceiving the quality of the loan portfolio compared to the market movements. Accordingly, by the end of 2015 the total loan portfolio reached EUR 1,007.0 million, out of which EUR 409.1 million were extended to corporate customers, while retail exposures amounted to EUR 597.9 million.





## ***Deposits and Equity***

Deposits continue to be the main funding source of the Bank having overpassed the threshold of 1 billion EUR closing the year with EUR 1,082.4 million or annual growth rate of 1.6% and EUR 17.5 million absolute increase in comparison to 2014. As a result, at the end of 2015, the loans to deposits ratio increased to 92.4% 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 further increase in the share of local currency denominated deposits to 58.5% up from 58.3% in 2014, which reflects the confidence to the local currency.

The Bank equity increased by approximately 15.5% or EUR 30.8 million in 2015 and reached an amount of EUR 229.2 million. This creates capital base that is the highest within the banking sector in the country that ensures sufficient capital adequacy and quality source of long-term funding.

## Retail Banking

*As the market leader, SB overcame the challenges of 2015 by empowering its retail portfolio and by introducing several innovations that comply with the modern way of life of the clients who remain at the center of our interest.*

During the year 2015, SB invested in adding the contactless technology to its card portfolio as a trendy new age technology used widely, telesales channel, the new platform for the *m-banking* mobile app as well as many other product / service enhancements and procedure simplifications.

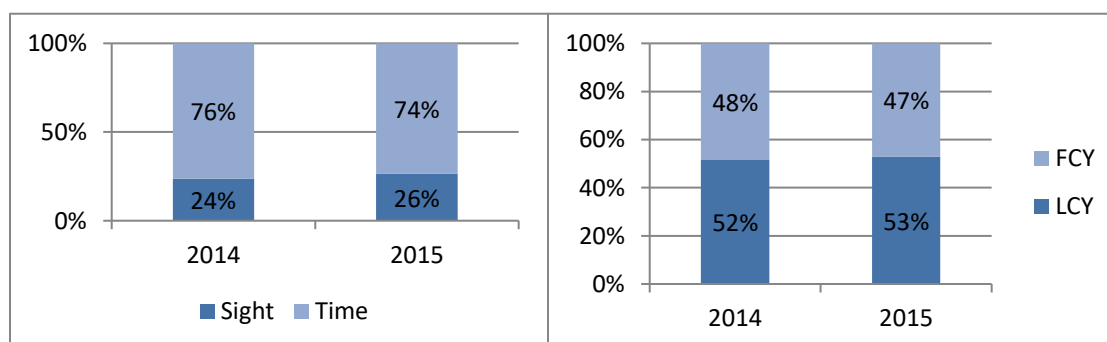
The in-depth understanding of the market and appropriately developed product management strategies contributed to the maintenance of the high market share position in both deposit and lending during despite the growing competition.

### Retail deposits

Despite the challenges arising from various uncertainties, locally and regionally, the generated fluctuations of the Bank deposit base, the Bank record slight increase in the portfolio, especially in the last 4 months of the year, reaching total deposit base of EUR 854M at the end of 2015.

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

In terms, of maturity structure, in the last couple of years there is a shift towards sight deposits growth, although in the deposits portfolio structure, time deposits remain pretty stable prevailing with 74% over sight deposit with 26%. The time deposits continued growing which is only sustainable as a result of the Banks' image of a strong, trustworthy and innovative Bank that looks after the best interests of its clients.

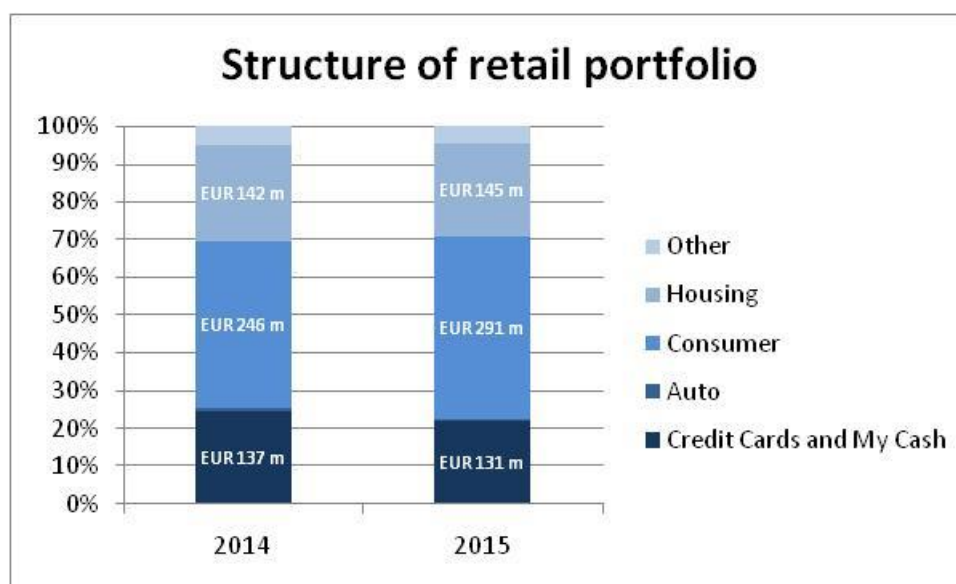


As a trend for the past years, there is continuously growing demand for local currency (LCY) deposits with ratio of LCY and foreign currency (FCY) constantly changing in favour of LCY deposits. Retail deposits in the past years have achieved balance between LCY and FCY and further continued with stronger growth of LCY deposit generating prevailing LCY balances with 53% and FCY balances with 47% of the total retail deposit base. This trend is stimulated by the higher yields still available for the domestic currency and the established trust in its long term stability.

Our constant strategy for appropriate client base segmentation and different package product offers, customized to specific client segments' needs, provide establishment of good relation and proper communication with our clients, improved customer satisfaction, users experience improvement through constant determination for improved efficiency and shortened time for transaction processing at the same time promoting SB brand consistency across all Bank products and channels and fully exploiting and increasing of the existing portfolios performance.

### ***Retail lending***

The strategy for 2015 in retail lending was to follow the market trends without deteriorating the portfolios' high quality. The ending balances of EUR 598 million testify for a growth of 7.2% on annual basis. Considering the size of the existing portfolio and the regular repayments that diminish it significantly, SB regular production is increasing with much more aggressive rate, hence, maintaining substantial portfolio and providing the projected growth.



Consumer lending products, with highest growth in the total SB lending portfolio, having the consumer loan with a greatest contribution in total lending portfolio, continued with fast

approval process as a main advantage on the market, providing high quality client’s service and thus increasing customer satisfaction.

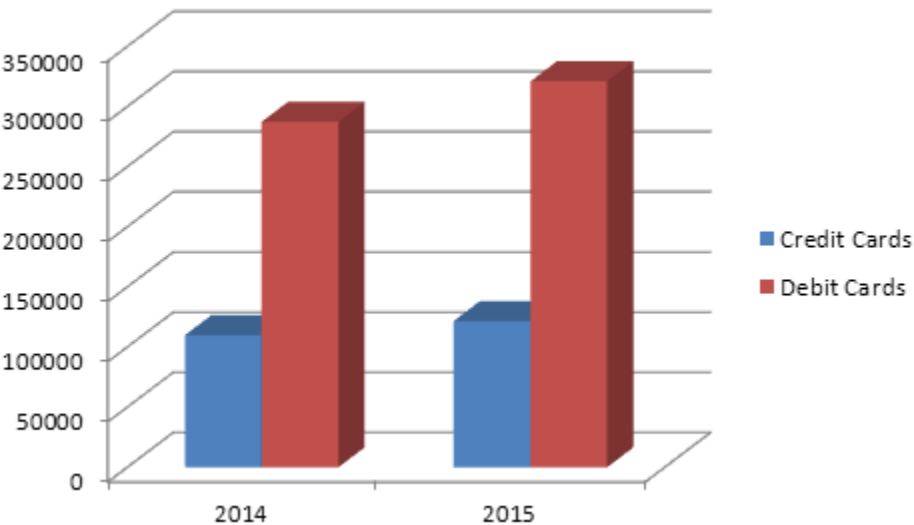
The **Housing loan** portfolio, in its complexity and variety recorded a market share of 31.6%, while maintaining the very low NPL radio. The product offer was extended with a top-up feature enabling the Bank to further expand on the existing client base.

The **credit cards** portfolio continued its growth in 2015 in accordance with the planned business objectives, having recorded market share of 42.25%, and in many aspects exceeded the initial projections by achieving:

- 7.3% growth of credit cards portfolio balances reaching 63.9 million EUR outstanding balances
- 10.7% growth in number of credit cards in circulation

Although the competition on the credit card market increased during 2015, SB retained its leading market position in credit card business with the highest market share in outstanding balances. Moreover, the Bank is engaged in undertaking continuous activities that from one side drive credit card activation and utilization and on the other side customer retention with appropriate anti-attribution tools.

Debit cards portfolio also continued its growth in 2015 and in many aspects initial projections have been achieved by growth of 9% of the issued debit cards in circulation.



During 2015 SB reconfirmed its leading position in innovations and technology investing in Contactless technology and invested in promoting the e-commerce

transactions with SB cards which resulted with almost 100% increase in number of transactions compared to 2014.

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

The 24/7 contact centre of Stopanska banka during 2015 further strengthened its position as the most developed contact centre among all banks in the country with biggest service capacity and widest list of banking services. Moreover, during 2015 the contact centre continue to enlarge its service potential, adding more services and increase by 11% agents contact during the year.

In the same business line, the Telesales unit integrated unit within SB Contact centre since 2014 continued expanding its activities becoming a crucial driver of further growth in retail lending products. Consequently, SB contact centre is becoming the most important touch point for our customers, further enhancing competitive position of the bank.

The i-bank services that incorporate ATM payments, phone banking, e-banking and m-banking are rapidly growing and the acceptance rate among clients is constantly on the rise. By the of the year the introduction of the new version of the m-banking application SB achieved approximately 17% growth of i-bank transactions of retail banking clients.

The new m-banking application along with the new modern layout allows for easier login, faster payments, payment order sharing, creation of readymade payment orders etc. Considering the fast pace of innovative new technologies Stopanska banka is focused on providing clients with modern solutions that are in line with their needs.

### ***SBB Segment***

The overall market structure and significance of small companies positively influenced the importance of the SBB segment within the Bank. The products offered during 2015 were customized to the needs of this segment, and the Bank invested in enhancing the work force focused solely on the SBB clients, all in favor of supporting of market expansion of the Bank in this segment.

However, growth of this segment in 2015 was mostly influenced by the challenging local market conditions, and even under these circumstances SB managed to increase its portfolio balance for 22% while keeping the portfolio quality at a high level.

## **Corporate Banking**

*The essential values of the corporate banking function in Stopanska Banka remain the promotion and respect of the reliability, responsibility and transparency in building strong relationship with its clients. The Bank's main goal in 2015 continued to be maintaining high level of client satisfaction, through understanding their needs and supporting their growth, thus creating loyal client base.*

Through its wide spread branch network, the Bank continued to provide financial services to its corporate clients, supporting their daily operations. The credit and trade finance facilities, as well as financial advice was offered to the clients through the specialized corporate units located in Skopje, Bitola and Strumica.

Within 2015 the Bank had successfully responded to the challenge of aligning its business activities towards attracting new, viable clients on the market, while at the same time maintaining successful relationship with the existing ones. The key to the success lies in the ability of the Bank to manage and allocate appropriately the critical resources in a way that will provide added value to the clients, the Bank and the overall economy. Furthermore, with highly qualified and experienced personnel, through clearly defined policies, procedures and processes, and by investing in high-end software solutions, the corporate banking function, in the frame of the Bank, has built recognizable identity, reputation and brand on the local market.

As result, at the end of 2015 the corporate loan portfolio amounted to EUR 373 million, compared to EUR 348 million at the end of 2014, thus noticing an increase of 7.2%.

In the past period the Bank has maintained high quality level of the corporate portfolio, through applying prudent methodology framework for credit analysis, having in mind the clients' request, needs, viability prospects and potential, as well as the strong relationship of confidence they have in the Bank. Furthermore, the Bank has continued to apply its early warning procedure, being able to identify the clients with potential difficulties, and undertaking suitable work out solutions which will support them to overcome these difficulties and improve their performance.

While still offering its wide range of trade finance facilities, within 2015, the Bank was working on the implementation of factoring, which will be available to its clients in 2016. With this the Bank will strengthen its position of the market leader, and will prove that its main focus is identifying the clients' needs and acting in line with these needs. In addition, through the factoring implementation, the Bank shall participate in improving the liquidity of the companies, and through this the liquidity of the overall economy.

## **Risk Management**

*Undertaking measured risks is the main objective of Stopanska Banka AD Skopje. There is no such thing as risk-free banking. Therefore, Stopanska Banka AD Skopje operates through a thorough and comprehensive risk management framework which ensures that the risks are identified, understood, accurately measured, controlled and pro-actively mitigated at all levels of the organization so that the Bank's decisions are adequate and in line with the risk appetite.*

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

### **Credit Risk Management**

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

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

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

The credit risk is assessed qualitatively and quantitatively in detail before approval, by the approval committee with the adequate authorization level. The responsible business units provide relevant information regarding the purpose, the structure of the proposed credit facility,

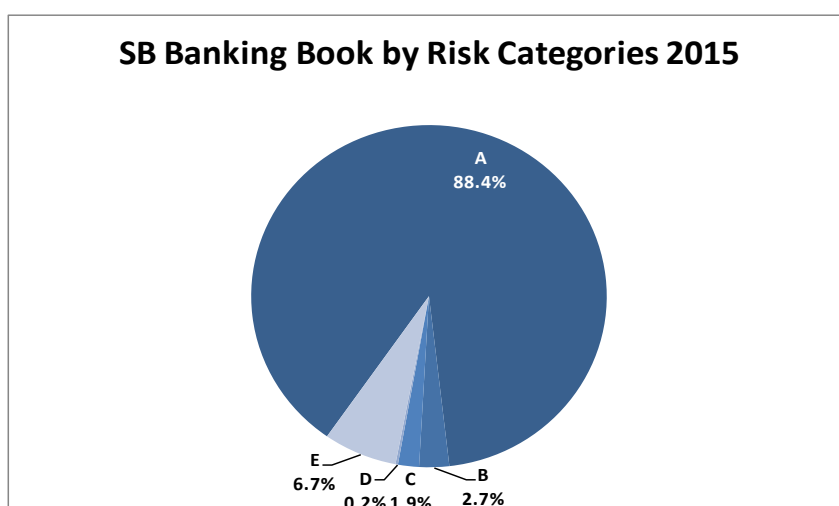
information about the obligor and other counterparties, assessment of the industry and the market, management and owners, and a financial and non-financial analysis. The quantitative assessment and measuring of credit risk is facilitated by the use of sophisticated internal risk rating systems and statistical scoring models validated on regular basis. The organizational structure of the bank enables more independent levels of credit risk assessment.

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

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

#### *Quality of Credit Portfolio*

Within the implemented strong and integrated credit risk management framework, SB managed to maintain a sound and well diversified credit portfolio in 2015. Maintaining a low and controlled NPL ratio is one of the Bank's main strategic objectives. As a result, the NPL ratio of the Bank was lower by approximately 160 b.p. compared to the level of the overall banking sector.



According to the NBRM Methodology, each credit risk exposure is classified in one of the five risk categories (A, B, C, D and E). The Bank maintained 88.4% of the exposure within the

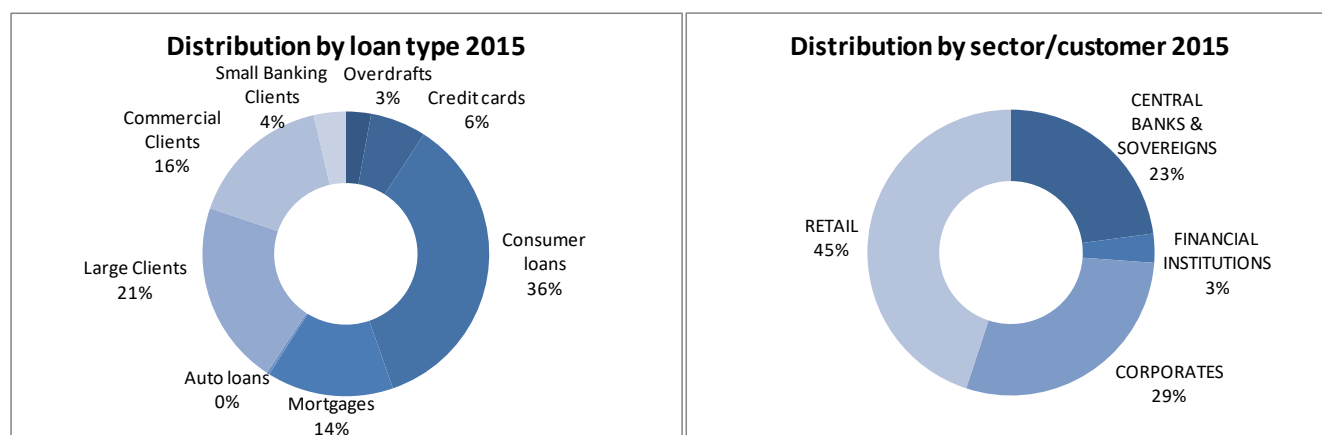


lowest credit risk category i.e. a credit risk category, while high risk debt classified in “D” and “E” categories compose only 6.9 % of the Bank’s loan portfolio.

### *Concentration Structure*

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

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



### *Liquidity Risk Management*

The year 2015 was marked with two significant shocks: the events in Kumanovo from May 2015 that caused the decrease of the deposit base of the whole banking sector, and the economic reforms and tough austerity measures in Greece during summer 2015, that also affected SB deposit base. Under the mentioned circumstances, which may be considered as real stress test scenario, the Bank succeeded to preserve the high liquidity position and the deposit base, without affecting or postponing any of the lending activities, as a result of the very sound fundamentals of the Bank, close monitoring and undertaking appropriate actions. It is worth mentioning that during 2015 the deposit base of the Bank, which is dominant funding and liquidity source, noted increase of Euro 17 million, despite the volatility that due to abovementioned affected the whole banking sector and SB, as a part of it.

The focus of the attention was compliance with the regulatory requirements, regular servicing the customer's expectations and securing the fulfillment of determinate business goals.

The liquidity risk management takes into consideration the gaps between assets' & liabilities' cash flows, and provides necessary funding/ placement accordingly. The liquidity management infrastructure is consisted of:

- Enacted policies, procedures and operating standards,
- Fulfillment of regulatory requirements, internal limits and ratios,
- Management of the liquidity position on a real time basis, that enables the Bank to fill the gaps in the liquidity mismatches,
- Monitoring of the deposit concentration and undertaking actions towards more diversified clients' base,
- Monitoring the cash flows and activities of the selected sample of the most important clients,
- Monitoring of the early detection risk indicators on short time intervals,
- Monitoring and up-dating the assumptions for contingency plan activation.

It should be noted that the year 2015 is remarkable by the fact that the Bank prematurely returned the both subordinated debts, originated in 2006 and 2008, in total amount of Euro 45 million. At the same time the shareholders decided to transform Euro 35 million from the retain earnings into the permanent capital, thus significantly improving the capital position and creating sufficient liquidity sources for supporting the business activities in the years to come.

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

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 from adverse movement in interest rates within the banking book positions.

The Bank is exposed to effects of fluctuation in the market interest rates relevant for its financial positions and cash flows since the interest bearing assets and liabilities have different maturity dates (for fixed-rate), periods of interest rate changes (re-pricing for floating-rate).

Taking into consideration the relatively minor portion of the Bank's interest bearing assets that are allocated to the trading portfolio which consists of government securities, the assessment of the interest rate risk is conducted through monitoring of exposures arising from the banking book activities.

In order to manage the interest rate risk appropriately, the Bank is conducting the process of identification, assessment, mitigation and monitoring of interest rate risk on regular basis, separately for all significant currencies the Bank deals with. At the end of 2015 the ratio of total net weighted position to the regulatory capital was well below the regulatory maximum of 20% and resulted with insignificant exposure to IRRBB.

### ***Foreign Exchange Risk Management***

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

SB 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.

SB manages the currency risk by managing 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 2015 currency risk management process was accomplished with high proficiency and the Open Currency position constantly was lower than the regulatory limit and consequently there was no breach of regulatory limit at any time.

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

The overall focus of 2015 Operational risk management process was on 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 SB risk profile, risk strategy and business goals.

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

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

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

SB Operational risk Management Framework consists of four fundamental components: Key Risk Indicators (KRIs), Risk and Controls Self-Assessment (RCSA) process, Loss Data Collection (LDC) process and Action Plans (AP). The effective operational risk management (ORM) in SB is facilitated through utilization of the 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.

SB has established structure of 27 KRIs as a measure of current exposure of operational risk. During whole 2015 KRI values were subject of regular review in order to evaluate the present operational risk exposure and to indicate the negative trends and movements of identified operational risk exposure. In general, during 2015, all of the KRI values were within the expected values and below the defined triggers, based on which the ORM process resulted with low level of operational risk exposure, at whole.

Throughout 2015, SB has implemented the 8th cycle of RCSA process, in order to identify, assess and evaluate every potential operational risk loss event with aim to decrease the possibility those potential operational risk loss events to occur in future. In general, 2015 RCSA implementation was accomplished with high efficiency and accuracy resulted with precise presentation of the Bank's potential operational risk exposure.

In accordance with the efforts of the Risk Management Division for proactive role in LDC Collection process, the following systematic activities were performed during 2015: enhancement of the loss data collection process through establishing and constantly following

of general key risk indicators that refer to the number of loss events per division on monthly basis; establishing and improving regular obligatory reporting system for materialized operational risk loss events by every Organizational unit; enrichment of high level description of any occurred loss event in order the loss database to indicate the place of risk occurrence and source of risk on more analytical level; strengthening of the loss data management information process by risk management function; Enhancement of operational risk event data collection process regarding operational events without financial impact but with considerable effect on bank daily business activities;

During 2015 all of the ORMF fundamental components were fully implemented and consequently, operational risk management process was accomplished with high expertise, avoided the negative effects on the financial results and capital position and ensured that the ORM Framework is effective, appropriate and implemented with integrity.

### ***Capital Adequacy, Internal Capital Adequacy Assessment Process and Stress Test***

SB maintains strong and high quality capital adequacy that provides for continuous and sustainable growth of its overall banking operations. The Bank's total regulatory capital as of 31.12.2015 amounted to EUR 167.8 million (Tier 1 - EUR 166.3 million and Tier 2 - EUR 1.5 million) resulting with capital adequacy ratio of 17.01% as at 31.12.2015.

As a part of the prudently established risk management framework, the Bank regularly assesses the Internal Capital Adequacy Assessment Process (ICAAP) and 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 as well as the identified excess of capital is more than sufficient to cover all other risks that cannot be adequately quantified but to which the Bank is exposed to in the regular business activities. Also, stress test exercises are integral part of the risk management framework providing estimates of the size of financial losses and the impact on capital adequacy. During 2015, 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 encompassed 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**

In the course of 2015, Compliance Division (CD) undertook vast number of activities for monitoring of the implementation of all relevant novelties in the domestic and international regulations related to banking operations by continuous implementation of efficient system for controlling SB activities that are in compliance with the applicable domestic and international regulations; establishing efficient internal procedures and organizational structures for identifying, monitoring and managing the possible risks related to SB's compliance with current regulations; implementation of the US FATCA (Foreign Account Tax Compliance Act); continuous training of Bank employees; regular, at least monthly and quarterly, reporting to the Board of Directors and Supervisory Board; continuous cooperation with the relevant external institutions in accordance with the Banking Law; active participation in the operation of AML & Compliance Committee organized within the Banking Association at the Chamber of Commerce; ensuring good reputation and credibility of SB before NBG Group, before its shareholders, stakeholders, clients, investors, regulatory and supervisory authorities and other relevant institutions; 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 2015, there were realized a 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 Division on a daily basis.

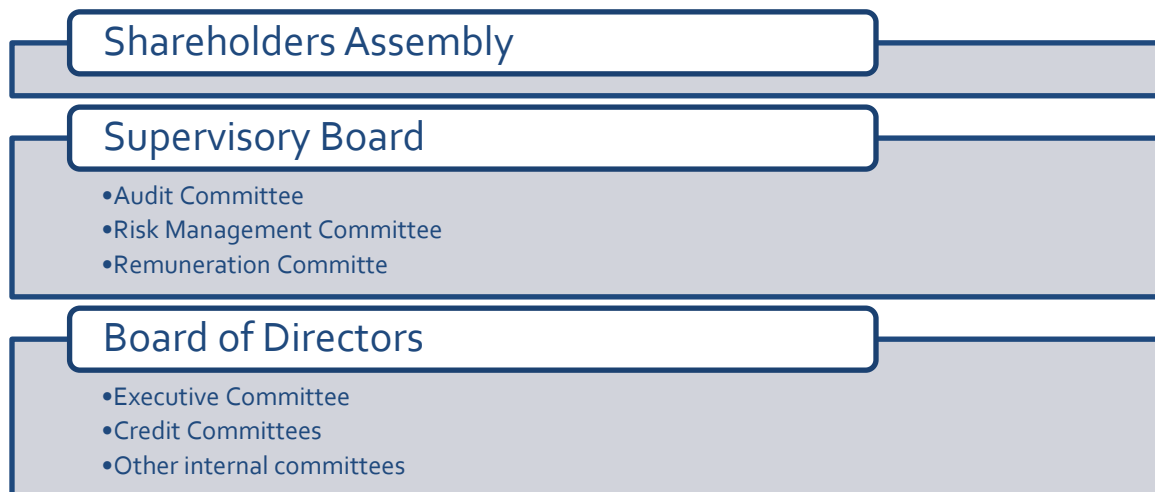
According to the Annual Compliance and AML Plans for 2015, the Division also realized the following main activities:

- Utilization of the Moodle platform for E-learning at Bank's level, which offers many possibilities for introducing and conducting regular on-line staff training and testing related to Compliance and AML&CTF issues;
- on-site and off-site supervisions regarding implementation of Compliance and AML/CTF requirements over the divisions, departments and branches;
- Preparation and update of several internal enactments (Policies and Procedures) related to Compliance and AML/CTF activities;
- Compliance Officer took active involvement in the Project "National Money Laundering/Terrorist Financing Risk Assessment of the country", organized jointly by the World Bank, the European Commission – TAIEX, the Organization for Security and Co-operation in Europe (OSCE) and the Financial Intelligence Office in the Country etc.

Compliance Division will continue 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.

## CORPORATE GOVERNANCE REPORT 2015

Stopanska Banka AD – Skopje (SB) is one of the largest, most profitable and sound systematic bank 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 a highest priority for the Bank that supports the full implementation of its business plan with operational excellence and integrity.



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

### 1. Bank bodies

#### 1.1. SUPERVISORY BOARD

The Supervisory Board of Stopanska Banka AD – Skopje consists of 8 members, out of which 2 are independent ones, with the term of office determined on four years, appointed by the Shareholders Assembly. The composition of the Supervisory Board in 2015 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;<sup>1</sup>
2. Konstantinos Bratos, **Deputy Chairman of the Supervisory Board of SB**, Assistant General Manager of International Activities Division, National Bank of Greece S.A. Athens;

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<sup>1</sup> Mr. Stratopoulos was appointed by the Shareholders Assembly on 28.05.2015. With Decision n. 30632 as of 21.09.2015 NBRM approved his appointment.



3. Constantinos Vossikas, **member of the Supervisory Board of SB**, Assistant General Manager and Chief Credit Officer, National Bank of Greece S.A. Athens;<sup>2</sup>
4. Anastasios Lizos, **member of the Supervisory Board of SB**, Head of Sector of International Activities Division, National Bank of Greece S.A. Athens;
5. Spyridon Stavros Mavrogalos Fotis, **member of the Supervisory Board of SB**, Chief Executive Officer at Ethniki Insurance Co., S.A. Athens;
6. Dimitra Gkountoufa, **member of the Supervisory Board of SB**, Manager of Group Strategy Division, National Bank of Greece S.A. Athens;
7. Vladimir Kandikjan, **independent member of the Supervisory Board of SB**, Professor, Faculty of Law “Iustinianus Primus” at University “Cyril and Methodius” Skopje; and
8. Blagoja Nanevski, **independent member of the Supervisory Board of SB**, Professor, Institute for Business and Economics – Skopje.

#### **a) PROFILE of the Supervisory Board members**

As it is legally prescribed and incorporated formally in the Bank’s requirements through the article 26 of the SB Statute, all members of the Supervisory Board must have the appropriate qualifications (university degree, knowledge of the relevant legislation and knowledge of the banking system and the financial industry, relevant experience, etc.), understands the role of the Supervisory Board in the corporate governance model of the banks, as well are persons with high integrity and reputation appropriate for a systematic bank as Stopanska Banka AD – Skopje.

The current composition of the Supervisory Board is such that its members have the collective and individual knowledge, skills and specialist experience as well as the integrity and reputation needed to duly carry out their role and to support the management in realization of the Bank’s strategy.

All Supervisory Board members must respect the appropriate criteria for independency and to avoid and appropriately report any conflict of interest.

Moreover, the Law on Banks stipulates that at least ¼ of the members of the Supervisory Board should be independent while the others are representative of the shareholders. In SB’ case this is followed by having two independent members out of total eight.

In addition, the Law on Banks determines that the independent member of the supervisory board of a bank (and persons related to him/her) should not be employed or a person with special rights and responsibilities in the bank, nor a shareholder with qualified holding in the

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<sup>2</sup> Mr. Vossikas submit his resignation to the Shareholders Assembly on 19.10.2015.

bank or to represent a shareholder with qualified holding in the bank, and not to work or to have been working in an audit company over the last three years, which at that time audited the operations of the Bank. Moreover, he/she should not have any financial interest or business relation with the bank in an amount exceeding an average of MKD 3,000,000 annually, over the last three years.

All criteria for independence were followed in the reporting period and no conflict of interest was reported by any member of the Supervisory Board.

#### **b) RESPONSIBILITIES of the Supervisory Board**

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

1. approves SB business policy and development plan,
2. appoints and dismisses members of SB Board of Directors,
3. appoints and dismisses members of SB Risk Management Committee,
4. approves SB financial plan/ Budget,
5. approves the establishment and organization of the internal control system,
6. organizes the Internal Audit Division and appoints and dismisses the employees of this Division,
7. approves the annual plan of the Internal Audit Division,
8. approves the information security policy,
9. approves SB risk management policies,
10. approves SB plans and programs of activities, and general acts, other than acts adopted by the Shareholders Assembly,
11. reviews the reports on activities of SB Board of Directors,
12. reviews the reports of SB Risk Management Committee,
13. reviews the reports of the Audit Committee,
14. reviews the reports of the Compliance Officer/Department,
15. approves the annual balance sheet and the financial statements of SB,
16. approves the list of net debtors of SB,
17. approves the exposure to individual entity exceeding 10% of SB own funds,
18. approves the transactions with persons related to SB exceeding MKD 3,000,000,
19. approves the acquiring equity holdings and purchase of securities higher than 5% of SB own funds, other than purchase of securities issued by the NBRM,
20. approves the proposal of the Audit Committee for appointment of audit company and is responsible for ensuring that an appropriate audit is conducted,
21. approves the internal audit policy and procedures, supervises the appropriateness of procedures and the efficiency of operations of the Internal Audit Division and reviews its reports,
22. reviews the supervisory reports, other reports submitted by the NBRM, 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,

23. approves the annual report on SB operations and submits written opinion thereon to SB Shareholders Assembly,
24. reviews the report of the audit company and submits written opinion thereon to the Shareholders Assembly,
25. provides written opinion on the annual report of the Internal Audit Division to the Shareholders Assembly of SB,
26. approves SB Code of ethics, and
27. approves the Rules and Procedures for operations of the Audit Committee.

## **1.2. The Committees of Supervisory Board of SB 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.

The Supervisory Board of SB had three committees in the reporting period: Audit Committee<sup>3</sup>, Risk Management Committee and Remuneration Committee.

### **A) Audit Committee**

The Audit Committee of Stopanska Banka AD – Skopje consists of five members, appointed or dismissed by the Shareholders Assembly, where majority are members of the Supervisory Board and the remaining are independent ones. The term of office of the Audit Committee members is determined on two years.

As at December 31, 2015 the Audit Committee members are:

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. Vladimir Kandikjan, member (representative of the Supervisory Board); and
5. Vladimir Filipovski, member (independent member).

The Audit Committee responsibilities are as follows:

1. to review the financial statements of SB and make sure that the disclosed financial information on SB operations is accurate and transparent as specified by the accounting regulations and international accounting standards,
2. to review and make assessment of the internal control systems,

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<sup>3</sup> The Audit Committee is established by and its members are appointed by the Shareholders Assembly.

3. to monitor the operations and assess the efficiency of the Internal Audit Division,
4. to monitor SB audit process and assess the work of the audit company,
5. to adopt SB accounting policies,
6. to monitor the compliance of SB operations with the regulations related to the accounting standards and financial statements,
7. to hold meetings with the Board of Directors, the Internal Audit Division and the audit company as to the identified non-compliances with the regulations and weaknesses in the Bank operations,
8. to review the reports of the Risk Management Committee,
9. to propose an audit company, and
10. to report to SB Supervisory Board on its operations at least once quarterly.

#### **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 2015, the members of the Risk Management Committee are as follows:

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

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

1. permanently monitors and assesses the risk level of SB, and identifies the acceptable level of exposure to risks in order to minimize the losses as a result of SB risk exposure,
2. establishes risk management policies and monitors their implementation,
3. follows the regulations of the NBRM pertaining to the risk management and SB compliance with such regulations,
4. assesses SB risk management systems,

5. determines short-term and long-term strategies for managing certain types of risks SB is exposed to,
6. analyzes 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. analyzes the risk management effects on SB performances and analyzes the effects of the proposed risk management strategies, as well as the proposed risk hedging strategies, measures and instruments,
9. informs, at least once a month, SB Supervisory Board, and at least once every three months, SB Audit Committee, on the changes in SB risk positions, changes in the risk management strategies, the risk management effects on SB performances, as well as the undertaken measures and instruments for hedging the risks and the effects thereof, and
10. reviews the transactions with the persons related to SB on a quarterly basis, and submits report to the Supervisory Board by 15th day in the month following the reporting period.

### **C) Remuneration Committee**

On its 172<sup>th</sup> meeting held on 29<sup>th</sup> of November, 2013, the Supervisory Board established the Remuneration Committee in accordance with the best corporate governance practices. The Remuneration Committee is assisting the Supervisory Board in implementation of the Remuneration Policy of SB that is adopted on the 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. Thus, during 2015, members of the Remuneration Committee are as follows:

1. Vladimir Kandikjan, independent member of the Supervisory Board, Chairman;
2. Blagoja Nanevski, independent member of the Supervisory Board, member; and
3. Dimitra Gkountoufa, member of the Supervisory Board, member.<sup>4</sup>

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

During the reporting period, the Remuneration Committee held two meetings on which reviewed and discussed various items that are falling under its responsibility.

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<sup>4</sup> On October 26<sup>th</sup>, 2015 the Supervisory Board appointed Mr. Anastasios Lizos (member of the Supervisory Board) on the position of Ms. Gkountoufa.

### **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 two years.

As at 31 December 2015, the Board of Directors members are:

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

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

1. to manage SB,
2. to represent SB,
3. to enforce the decisions of the Shareholders Assembly and the Supervisory Board of SB, i.e. make sure that they are implemented,
4. to take initiatives and give proposals for promotion of SB operations,
5. to appoint and dismiss the persons with special rights and responsibilities pursuant to the provisions under the Banking Law and SB Statute,
6. to prepare SB business policy and development plan,
7. to prepare SB financial plan / Budget,
8. to compile a list of net debtors,
9. to prepare SB information security policy,
10. to prepare an annual report on SB operations and submit it to the Supervisory Board,
11. to prepare a Code of Ethic of the Bank, and
12. to perform other activities, in accordance with Law, SB Statute and acts.

### **A) EXECUTIVE COMMITTEE**

In order to assist the Board of Directors in executing the business plan of the Bank, SB have established Executive Committee that besides the general managers, it includes the following persons:

1. Mirjana Trajanovska, Senior Manager for Treasury and Finance,
2. Radmila Maksimovic, Senior Manager for Operations; and
3. \_\_\_\_\_, the Bank Secretary.

## **B) CREDIT COMMITTEES**

Other SB bodies, determined with the Statute, are Credit Committees with the following, structure, and authorities, as at December 31, 2015:

### **1. Executive Corporate Credit Committee (ECCC):** it consists of 5 members as follows:

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

The members are elected without limitation of the term of office. The ECCC decides on credit exposure towards single subject (legal entity or individual) for financing in the amount from EUR 3.000.001 up to EUR 10.000.000. All financing that exceeds EUR 10.000.001 OR 10% of SB own funds shall be approved by SB Supervisory Board. ECCC also approves restructuring of claims and regulating of claims in accordance with applicable credit policies and performs other activities determined with decisions of the Supervisory Board. The meetings are held by teleconference or written statement when needed with a quorum of all of its members and the decisions are passed unanimously.

### **2. Credit Committee (CC):** it consists of 5 members as follows:

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

The members are elected without limitation of the term of office. 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 as follows:

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

The members are elected without limitation of the term of office.

The CCCC decides on credit exposure toward single subject - legal entity from EUR 100.001 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. Small Banking Business Credit Committee (SBBCC): it consists of 4 members as follows:

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

The members are elected without limitation of the term of office. The SBBCC decides on credit exposure toward single subject – legal entity in the amount up to EUR 100,000. SBBCC also approves restructuring of claims and regulating of claims in accordance with applicable credit policies and performs other activities determined with decisions of the Supervisory Board. The meetings are held by teleconference or written statement when needed with a quorum of all of its members and the decisions are passed unanimously.

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



5. Retail Credit Committee (RCC): consists of 5 members as follows:

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

The members are elected without limitation of the term of office. 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 decisions of the Supervisory Board.

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

## **2. Organizational Structure**

The organizational structure of Stopanska Banka represents the Bank's focus to protect client's interest, shareholders' funds, employee's interest, other stakeholders, and the community it serves. The current structure will support the Bank in optimizing its business, create competitive advantages and ensuring future of more profitable growth.

The Bank is organized in 20 divisions and a branch network with 64 branches. The Bank has no subsidiaries.

The organizational structure of the Bank is published on its website ([www.stb.com.mk/organizaciona-struktura.nsp](http://www.stb.com.mk/organizaciona-struktura.nsp)).

## **3. Shareholders Structure**

As of 31 December 2015 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, distributed as follows: National Bank of Greece S.A. – Athens with 94.4%, and 6.6% of the total number of shares held by other shareholders. One ordinary share bears the right to one vote in the Shareholders Assembly of SB and preferred shares do not bear the right to vote in the Shareholders Assembly. The major shareholder of SB – National Bank of Greece is represented by the total of 6 members in the SB Supervisory Board.

#### **4. Dividend Policy**

In accordance with the Decision on allocation of profit for 20015, it is proposed the Shareholders assembly to adopt a Decision on the manner of calculating and disbursing dividend under the preferred shares of Stopanska Banka AD – Skopje for the year 2015. As per the referred Decision the Bank shall disbursed dividend under the preferred shares for the year 2015 in the total amount of MKD 2,729,328.00 or gross amount of MKD 12.00 per share.

#### **5. Corporate Governance Code**

The Corporate Governance Code was prepared in accordance with the NBRM Decision on the best principles of Corporate Governance in a Bank and international practices. The Shareholders Assembly adopted the Code on the 20<sup>th</sup> meeting held on December 23, 2008 and in accordance with the referred NBRM Decision, last annual review of the same was done on 35<sup>th</sup> Shareholders Assembly held on May 28, 2015.

#### **6. Conflict of Interest Policy**

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

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

## 7. Remuneration Policy

On the 33<sup>rd</sup> Shareholders Assembly, 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.

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

For participation in the Supervisory Board of SB during 2015, the independent members (prof. Kandikjan and prof. Nanevski) received MKD 325.243 gross (annually).

For salary and salary allowances prof. Kandikjan received MKD 1.054.186 gross (annually) as employed in Faculty of Law “Iustinianus Primus” at University “Cyril and Methodius” Skopje.

For salary and salary allowances prof. Nanevski received MKD 464.025 gross (annually) as employed in the Institute for Business and Economics – Skopje.

### II. Board of Directors

In 2015, total gross amount of MKD 26.211.743 (salary of MKD 22.055.513 and rewards MKD 4.156.230) 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 2015 SB had 29 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 2015, the total gross amount of MKD 61.968.492 (salary of MKD 54.909.443 and rewards MKD 7.059.049) was paid to the other persons with special rights and responsibilities.

\*At the end of 2015 the total credit exposure to persons with special rights and responsibilities amounts to MKD 77.924.000 which represent 0.75% of the Bank's own funds (significantly below the regulatory limit of 3% of the Bank's own funds).

## 8. Corporate Social Responsibility

Stopanska Banka AD – Skopje represents one of the key companies that consistently plays leading role in the overall economic and social progress of the country. During 2015 the Bank continued to support the economic growth, strengthen the communities and address critical social issues in the places it does business.

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

### **1. Public awareness campaign / event for promoting ecofriendly means of transportation + donation of kids bicycle polygon in Skopje**

Thinking outside of the regular framework of CSR activities, the Bank's major project for 2015 included an awareness raising campaign aimed at inspiring people (especially children) in using ecofriendly means of transportation in the city of Skopje. By organizing a sport event – informal race from the Bank HQ to the nearby park and a musical family event afterwards, the Bank interacted with nearly 10.000 people thus increasing awareness about the need to use ecofriendly means of transport and improvement of the quality of city life. The entire event was crowned with a donation of a kids bicycle polygon in the center of the City where kids can learn to ride bikes, drive scooters, rollerblades and read simple traffic signs and maps. This donation adds recreational content to the City and provides long term promotion of biking and traffic safety.

### **2. Donation of food for festive meals of socially endangered families**

Three years in a row, the Bank extends its help to socially endangered families by providing basic food items during the New Year holiday season. This year, in cooperation with the Red Cross, the Bank provided 500 families in Skopje and 6

other cities with food packages. Bank employees volunteered in the delivery of the packages which added value to the entire project.

### **3. 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.

### **4. Sponsorship of the Strumica Carnival**

As a result of the century long tradition of the Strumica Carnival, the city of Strumica during the past years has become a recognizable location in the Country and the region. Since 1994, the Strumica Carnival is a member of FECC – Federation European Carnival Cities. Carnival activities are related to the religious holiday Trimeri, and in 2013 were realized in the period from 14.03 - 20.03.2013. Traditionally, the Bank is a sponsor of the carnival thus showing respect and providing support to the local community and tradition.

### **5. Sponsorship of the Ohrid Summer Festival**

Traditionally, every year Stopanska Banka AD – Skopje is one of the sponsors of the Ohrid Summer Festival. This festival as one of the most popular and most visited summer cultural manifestations in the Country is also the most famous in the region, with respectable foreign guests and art performers. Concurrently, it is the oldest cultural event in the country. Being a sponsor of cultural events in the country is one of the corporate social responsibility strategies of the Bank.

The Bank supported many other important projects as well, such as the help to the flood affected regions in the country, the regular annual donation of food packages to the socially vulnerable families, the Tetovo Summer Festival, the Prilep Beer Festival, AIESEC Career days, etc. The Bank is especially proud of the mini-events organized in the 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. Additionally, the i-bank store has been the home of many other CSR projects such as the TEDx conference on #TheInternetofThings, NASA bootcamp Space App Challenge, International Savings Day etc.

Taken together, these efforts reflect our dedication to invest in the local communities across the country and the Bank shall continue its commitment in the years ahead.