

**STOPANSKA BANKA AD – SKOPJE**

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**ANNUAL REPORT**

**2018**

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**Skopje, April 2019**

## **Table of contents:**

<b>Financial Highlights</b> .....	1
<b>Economic Environment</b> .....	2
<b>Basic Macroeconomic Indicators</b> .....	4
<b>Review of 2018 Activities</b> .....	5
Financial Performance.....	5
Assets and Liabilities .....	8
<b>Retail Banking</b> .....	9
<b>Corporate Banking</b> .....	12
<b>Risk Management</b> .....	12
Credit Risk Management.....	12
Liquidity Risk Management.....	12
Interest Rate Risk Management .....	12
Foreign Exchange Risk Management.....	12
Operational Risk Management.....	18
Capital Adequacy, Internal Capital Adequacy Assessment Process and Stress Test.....	20
<b>Compliance, Anti-Money Laundering and Combat Terrorist Financing Activities</b> .....	21
<b>Personal Data Protection</b> .....	21
<b>Corporate Governance Report 2018</b> .....	23

<i>in EUR million</i>	<b>2017</b>	<b>2018</b>	<b>change %</b>
<b>Income Statement indicators</b>			
Net Interest Income	59,8	62,2	4,0%
Net Commissions Income	16,0	16,3	1,9%
Total Income	85,4	89,4	4,7%
Operating expenses	-32,1	-32,8	2,2%
Personnel Expenses	-13,0	-14,1	8,5%
Net Operating Income	53,3	56,6	6,2%
Impairment losses	-14,3	-8,6	-39,9%
Pre Tax Profit	37,1	49,9	34,5%
<b>Net Profit</b>	<b>33,2</b>	<b>44,7</b>	<b>34,6%</b>
<b>Balance Sheet indicators</b>			
	<b>2017</b>	<b>2018</b>	<b>change %</b>
<b>Total Assets</b>	<b>1.404,3</b>	<b>1.472,3</b>	<b>4,8%</b>
<b>Equity</b>	<b>221,7</b>	<b>210,3</b>	<b>-5,1%</b>
Regulatory capital	171,7	194,8	13,5%
Loans to customers (net)	986,4	1.035,3	5,0%
<b>Total loans (gross)</b>	<b>1.044,6</b>	<b>1.087,0</b>	<b>4,1%</b>
Retail loans	685,3	733,9	7,1%
Corporate Loans	359,3	353,1	-1,7%
Provisions	58,1	51,8	-10,8%
<b>Total Deposits</b>	<b>1.152,7</b>	<b>1.235,9</b>	<b>7,2%</b>
Retail deposits	900,2	968,0	7,5%
Corporate Deposits	252,5	267,9	6,1%
<b>Financial ratios</b>			
	<b>2017</b>	<b>2018</b>	<b>change (bp)</b>
Net Interest Margin	4,8%	4,9%	18,3
Cost income ratio	37,6%	36,7%	-89,9
ROA	2,4%	3,1%	74,1
ROE	14,9%	20,7%	574,6
Loans to Deposits ratio (gross)	90,6%	88,0%	-267,0
Capital Adequacy ratio	15,42%	16,28%	86,0
<b>Operational Indicators</b>			
	<b>2017</b>	<b>2018</b>	<b>change</b>
Number of Units	66	65	-1
Number of Personnel (eop)	1047	1027	-20

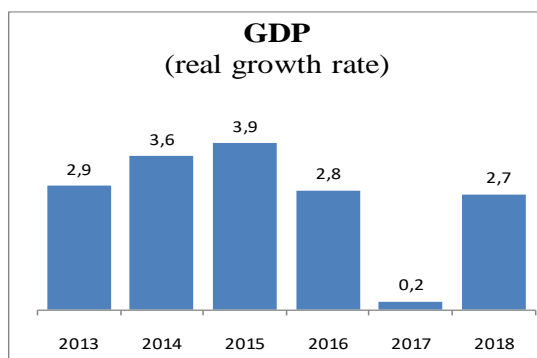
Note: All figures in this report referring to Stopanska Banka AD Skopje are based on the Financial Statements prepared in accordance with accounting regulations applied in the country and the regulation of NBRNM

## Economic Environment

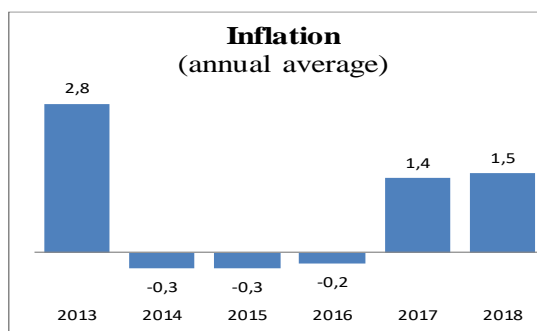
After the stagnating 2017 for the domestic economy, 2018 brought revival of reforms following the restoration of political stability, which has resulted in renewed confidence and gradual recovery of the economic activity. The modest growth is expected to strengthen throughout 2019 under the assumptions of stable political context and conducive external environment. The financial system remains stable, continuing to be strong support for the economy as a whole.

**After nearly stalling in 2017, real GDP growth experienced a moderate rebound of 2.7% in 2018.**

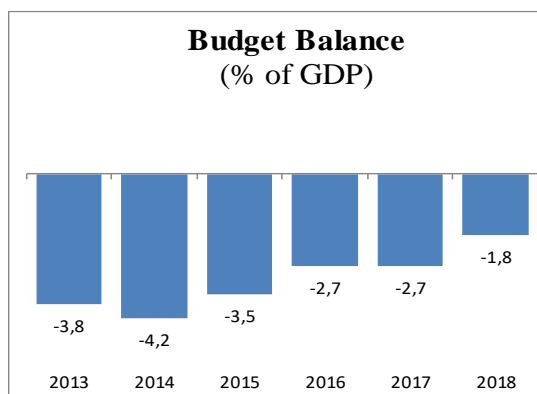
Private consumption and robust exports growth, boosted by solid foreign demand and revived metal sector, were the main supporters of the economic activity. However, investment continued to contract due to the postponement of large infrastructure projects, falling construction and lingering uncertainties. Domestic demand together with reinforced investment should drive GDP growth above 3% in 2019.



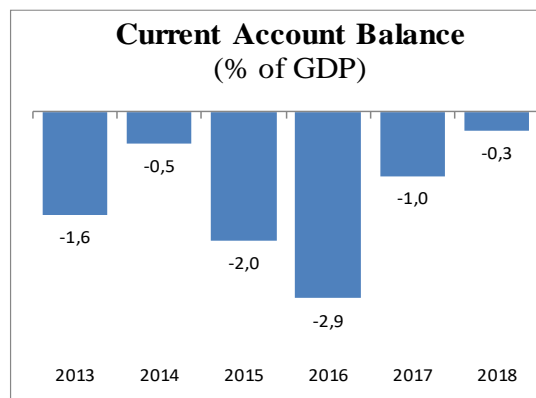
**In environment of negative output gap, the Consumer Price Index (CPI) in 2018 increased by 1.5%, mostly reflecting rising international oil prices.** In the following period the inflation is expected to rise slightly at the level of 2% due to strengthening domestic demand and improved confidence ahead of the country's commencement of EU membership talks and admission to NATO.



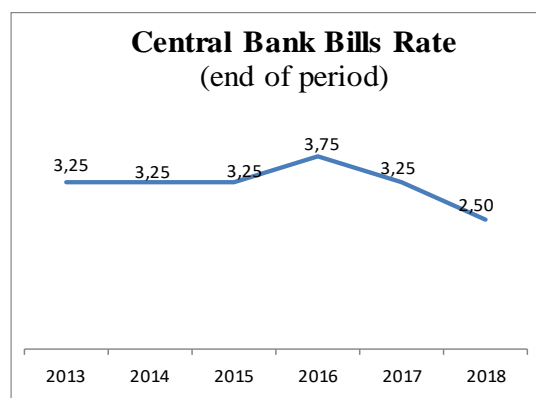
The **budget deficit** in 2018 has been reduced to 1.8% of GDP resulting from solid revenue performance and under-execution of capital expenditure on large infrastructure projects. The **public debt** at the end of the year stood at 48.5% of GDP, anchored by improved maturity structure i.e. increased reliance on long term borrowing. Hereby, it should be noted that on 11<sup>th</sup> January, 2018 the Republic of North Macedonia has successfully issued the sixth Eurobond with historically lowest interest rate of 2.75%, in the amount of EUR 500 million and maturity of 7 years. On a negative note, nearly three quarters of the public debt is FX-denominated. Anyhow, gradual fiscal consolidation has started, with a need for endurance in the reforms.



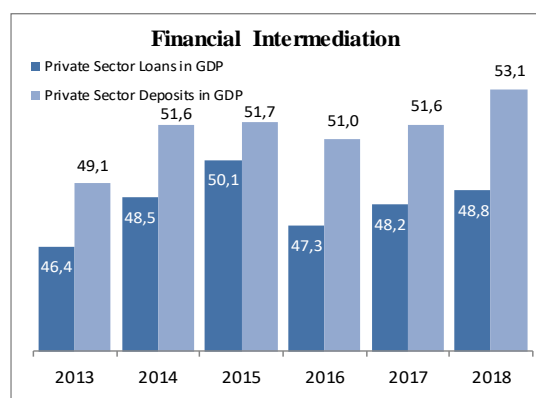
**The external position in 2018 could be assessed as favorable.** The increased exports and private transfers contributed to further narrowing of the current account deficit to the level of 0.3% of GDP. With regards to the financial account, foreign direct investment has increased more than three times compared to 2017, reaching historically highest EUR 624.5 million. In addition, the adequate level of gross foreign reserves (4-months import coverage) enabled sufficient buffers against potential unforeseen shocks.



**The accommodative monetary policy stance during the entire 2018 has been maintained on the backdrop of the favorable foreign exchange market, somewhat negative output gap, strong deposit growth and moderate inflation.** In such environment the NBRNM cut the key policy rate in three occasions, bringing it to the level of 2.50% at the end of the year. The monetary policy easing, along with higher demand from households, supported private sector credit growth.



**The banking sector in 2018 remained well-capitalized, liquid and profitable.** Banks comfortably meet Pillar I capital adequacy requirements and maintain sound aggregate liquidity and capital buffers. Credit risks are contained due to high provisioning. At the end of the year, total deposit growth reached 10.5% on annual level, compared to 5.4% in the previous year. Herein, retail and corporate deposits increased simultaneously by 9.5%. The credit growth at the end of 2018 stood at 7.3% compared to 5.7% in 2017. The retail loans grew by 10.3%, while corporate loans were higher by 4.5%. NPLs continued to decline reaching a level of 5.2%. In such environment, the loans to deposits ratio at the end of the year was 85.9%. The capital adequacy ratio on 31.12.2018 reached 16.5%. Furthermore, the profitability ratios ROA and ROE increased to the levels of 1.7% and 16.0% respectively. Overall, the banking system continue to be healthy, however risks need to be closely monitored. Additional efforts to gradually increase deposit denarization, coupled with carefully calibrated macro-prudential measures to reduce foreign currency lending to households, would help strengthen financial system resilience.



## Basic Macroeconomic Indicators

	2013	2014	2015	2016	2017	2018
<b>Output</b>						
Gross Domestic Product (real growth rate)	2,9	3,6	3,9	2,8	0,2	2,7
Industrial Production (annual growth rate)	3,2	4,8	4,9	3,4	0,2	5,4
<b>Prices, wages and productivity</b>						
CPI (annual average)	2,8	-0,3	-0,3	-0,2	1,4	1,5
CPI (year-end)	1,4	-0,5	-0,3	-0,2	2,4	0,9
PPI (annual average)	0,4	-1,2	-3,9	-0,1	0,5	-0,3
PPI (year-end)	-2,1	-3,8	-0,8	-0,6	1,4	-0,8
Real wages (annual growth rate)	-1,6	1,5	2,7	2,2	1,2	4,4
<b>Government finance</b>						
General government balance (% of GDP)	-3,8	-4,2	-3,5	-2,7	-2,7	-1,8
<b>External sector</b>						
Current account balance (% of GDP)	-1,6	-0,5	-2,0	-2,7	-1,3	-0,3
Export of goods and services (in million eur)	3.530	4.088	4.425	4.919	5.513	6.446
Import of goods and services (in million eur)	5.018	5.560	5.899	6.391	6.924	7.825
Export of goods and services (annual growth rate)	4,6	15,8	8,2	11,2	12,1	16,9
Import of goods and services (annual growth rate)	-1,1	10,8	6,1	8,4	8,3	13,0
Gross external debt (in million eur)	5.220	5.992	6.291	7.217	7.372	7.908
Foreign reserves (in million eur)	1.993	2.436	2.262	2.613	2.336	2.867
Exchange rate MKD/EUR (average)	61,57	61,63	61,6	61,6	61,6	61,51
<b>Monetary aggregates</b>						
M1 growth (dec./dec.)	6,2	22,2	18,4	9,9	10,7	18,7
M2 growth (dec./dec.)	0,2	7,2	7,6	6,1	4,1	11,8
M2 denar growth (dec./dec.)	2,9	12,3	8,5	5,2	5,4	14,5
M4 growth (dec./dec.)	5,3	10,5	6,8	6,1	5,3	11,8
M4 denar growth (dec./dec.)	8,7	15,3	7,2	5,0	6,4	14,0
Credit to private sector (dec./dec.)	6,4	10,0	9,5	1,0	5,7	7,3
<b>Interest rates</b>						
Money market interest rate (annual average)	2,01	1,85	1,12	1,14	1,10	1,07
CB bills rate (annual average)	3,38	3,25	3,25	3,73	3,30	2,92
Money market interest rate (end of period)	2,17	1,46	1,20	1,04	1,10	1,09
CB bills rate (end of period)	3,25	3,25	3,25	3,75	3,25	2,50
<b>Capital markets</b>						
Macedonian Stock Exchange index-MBI (growth rate-eop)	0,4	6,1	-0,6	16,5	18,9	36,6

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

## **Review of 2018 Activities**

### **Financial Performance**

*Implementation of the Bank's strategy continued to gain positive momentum during 2018, underlined by significantly improvement in the key strategic focus areas of revenue diversification, funding profile, and operational and cost efficiency; supported by enhancements to the Bank's human capital, information technology and governance infrastructure. 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 SB profitability.*

Given the current economic climate and challenging market conditions, SB succeeded in delivering once again impressive results, testing the new threshold that demonstrate again the resilience of its business model and successful management with all business aspects of operations in both- regular and extraordinary economic circumstances. 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 49.9 million that is by 34.5% above the same indicator in 2017. One of the reasons that has a significant impact on the increased outcome is attributable to the effect of settled status referring to the debtor Feni Kavadarci, which faced worsening situation in the course of 2017, due to which SB needed to allocate significant amount for impairment. For the purpose of resolving the debtor status, SB entered into a contract for sale of its claims, which was realized in March 2018, after which the allocated impairment in 2017 was released.

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 as well, i.e. the operating costs decreased by 2.2% compared to the previous year.

The Bank's total assets reached EUR 1,472.3 million; RoA equaled 3.1%, while RoE reached 20.7%, far above the banking sector average, indicating self- growing potentials for the business and stable returns for shareholders. With the capital strength, which ensured capital adequacy ratio of 16.3%, SB confirms to be one of the most trustworthy financial partners in the country.

### ***Interest income***

During 2018, the interest income from the retail loans amounted to EUR 49.4 million, having the biggest participation within the total interest income of 67.4%. In the same time, corporate and other activities amounted to EUR 24.0 million i.e. slightly decreased by 1.2% compared to the previous year. In the environment of the continuing trend of interest rates decline, the total interest income amounted to EUR 73.3 million.

*in EUR million*

	<b>2017</b>	<b>2018</b>	<b>% change</b>
<b>Interest income</b>	<b>72,1</b>	<b>73,3</b>	<b>1,7%</b>
Retail loans	47,8	49,4	3,3%
Corporate loans	16,4	14,8	-9,8%
Other	7,9	9,2	16,5%

### ***Interest expense***

The Bank's interest expense decreased by 9.8% compared to 2017. Specifically, the interest expense related to retail deposits registered an annual decline of 9.3%, whereas the interest expense for corporate deposits decreased by 23.1%.

*in EUR million*

	<b>2017</b>	<b>2018</b>	<b>% change</b>
<b>Interest expenses</b>	<b>12,3</b>	<b>11,1</b>	<b>-9,8%</b>
Retail deposits	9,7	8,8	-9,3%
Corporate deposits	1,3	1,0	-23,1%
Other liabilities	1,2	1,2	0,0%

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

The growth in the core activities in combination with a prudent approach in assets/liabilities management had a positive effect on net interest income in 2018.



*in EUR million*

	<b>2017</b>	<b>2018</b>	<b>% change</b>
<b>Net Interest income</b>	<b>59,8</b>	<b>62,2</b>	<b>4,0%</b>
Interest income	72,1	73,3	1,7%
Interest expenses	12,3	11,1	-9,8%

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

In 2018 net fees and commission income reached EUR 16.3 million. Within this, the most significant part (56.4% of the Bank's total fee and commission income) relates to fees connected to lending activities in amount of EUR 9.2 million, recording additional amount of EUR 0.3 million compared to 2017 or an increase of 3.4%. The net income from transfer of funds is the second largest fee item, which at the end of 2018 amounted to EUR 4.7 million representing 28.8% of the total fee and commission income.

*in EUR million*

	<b>2017</b>	<b>2018</b>	<b>% change</b>
<b>Net fees and commissions income</b>	<b>16,0</b>	<b>16,3</b>	<b>1,9%</b>
Loans	8,9	9,2	3,4%
Letters of guarantee	0,8	0,7	-12,5%
Transfer of funds	5,0	4,7	-6,0%
Others	1,3	1,7	30,8%

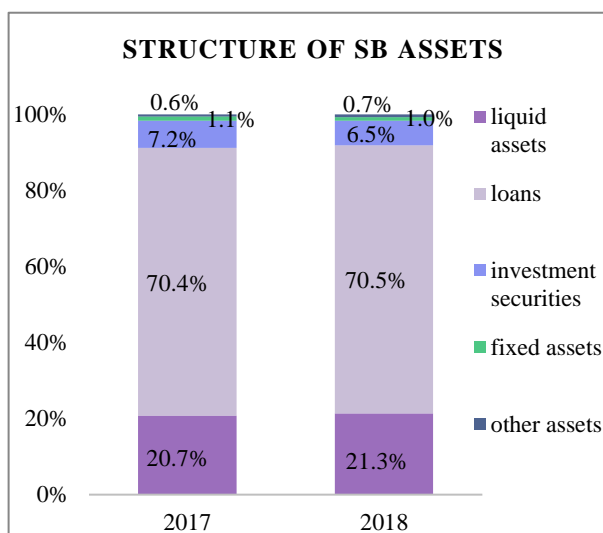
### ***Operating expense***

During 2018, 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 32.8 million representing a decrease of 2.2% compared with the corresponding 2017 figure. Because of its effective cost containment policy in place followed by simultaneous increasing of the net operating income, the Bank succeeded to maintain the relatively low cost to income ratio of 36.7% (37.6% last year), significantly reduced compared to the same ratio from the past several years.

## Assets and Liabilities

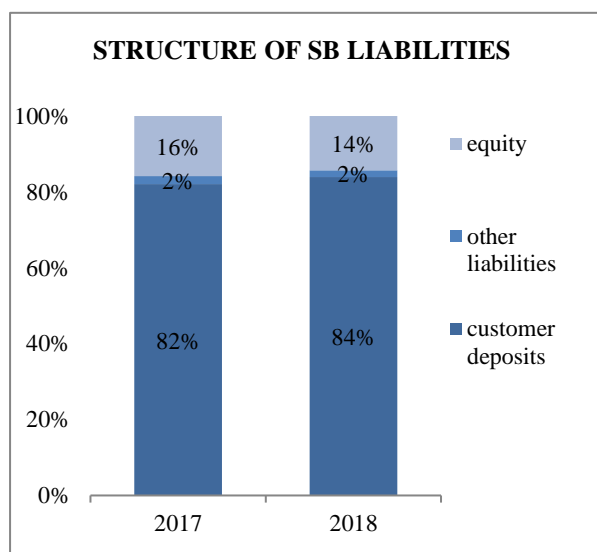
### Assets

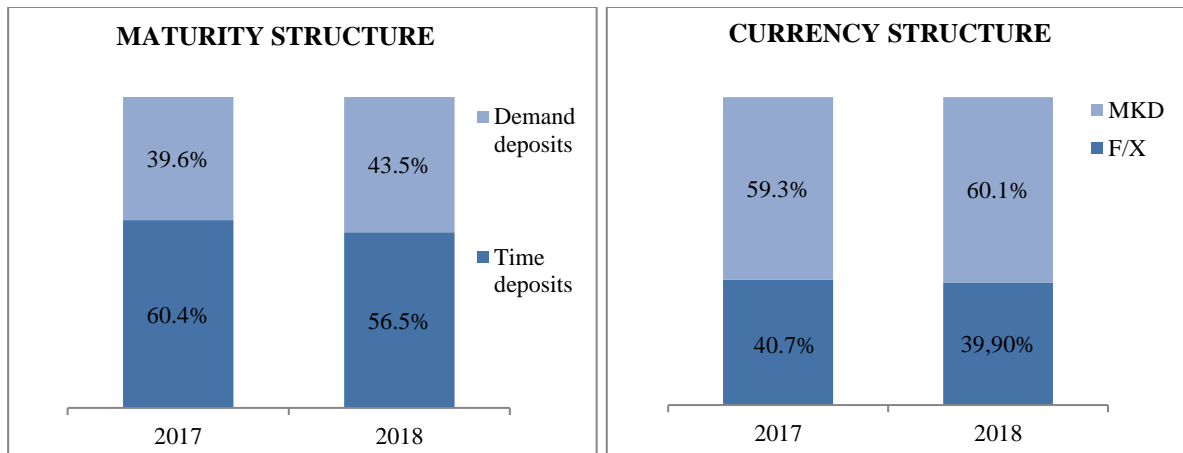
The Bank's total assets at the end of 2018 amounted to EUR 1,472.3 million, which is EUR 68.0 million or 4.8% above 2017. The Bank continued to enhance its' prudence with the balance growth, adequate liquidity and strong capital base. In this aspect, the liquidity ratio up to 180 days reached 1.36. The credit activities by the end of 2018 for the total loan portfolio reached EUR 1,087.1 million, out of which EUR 353.1 million were extended to corporate customers, while retail exposures amounted to EUR 733.9 million.



### Deposits and Equity

The Bank's deposit base increased for 7.2%. Deposits continue to be the main funding source of the Bank, amounting to EUR 1,235.9 million. As a result, at the end of 2018, the loans to deposits ratio amounted to 88.0% 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 60.1% (59.3% in 2017).

The Bank equity amounted at EUR 210.3 million at the end of 2018 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

The year 2018 left us with meaningful and important milestones for the society, for the individuals and for the business as well. Stopanska banka AD – Skopje remained vigilant and reacted according to the market opportunities and the clients' demands completing yet another successful year in business terms.

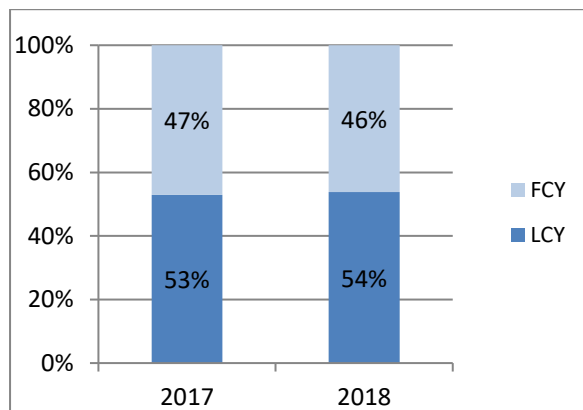
From the retail perspective the Bank strategy remained focused on the customer, providing improved services and products, sound financial advice and wider accessibility. Completing the circle around the client and being ready for each of the client journey phase with product offers, prompt responses and a wide array of contact points the Bank was able to remain the market leader and improve its image on the market.

2018 will be marked by the introduction of a new portfolio of bundled bankassurance products and also sales of stand-alone insurance products through the Banks' existing channels. The bank continued with the renovation and modernization of the branches, transforming them into client service oriented locations with improved overall performances.

### *Retail deposits*

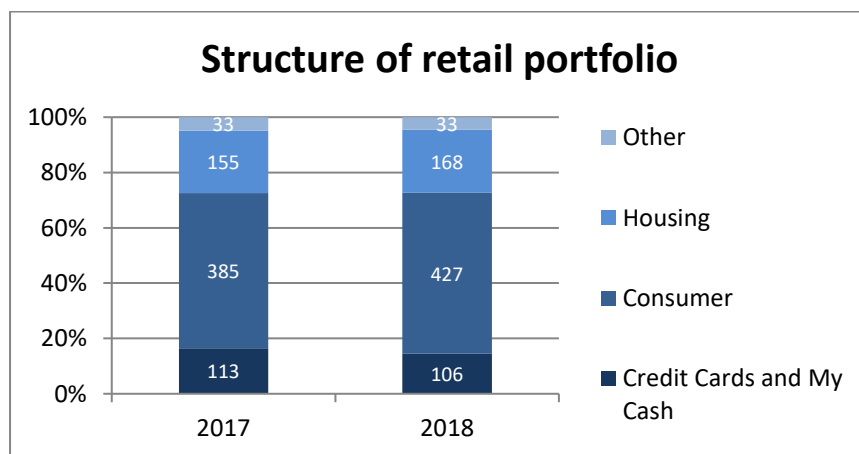
The retail deposit base grows moderately during 2018 reaching at the end of the year a total of EUR 968 million which can be perceived as recognition of stability, reliability and soundness of the Bank.

As in previous years, the sight vs. time deposit ratio remains balanced and the currency ratios are at the same levels as previously, with the local currency deposits overpassing balances of deposits in foreign currency.



### *Retail lending*

As a rule, the quality and sustainability of the portfolio is paramount and the Bank adjusts its annual budgets accordingly. The growth in lending of 7.1% and the ending balances of EUR 733.9 million was a result of substantial effort made by every party involved: from product development to all available communication lines (front office, contact center, online services etc.), and more importantly in a year full of challenges for the society.



The **Housing loan** portfolio noted an increase of 8% on annual basis. The market is ripe, the real estate offer is growing, retention is vital as the competition is narrow, however with proper

customer analysis and product offers that match the seasonality the Bank succeed in expanding its' portfolio while carefully maintaining a low NPL ratio.

Typically, largest portion of the lending portfolio belongs to the variety of **Consumer loans** offered by the Bank, reaching **11% growth year-to-year**. With the gradual development and growth of the product over the years, introducing the opportunity to refinance, reprogram and top-up, the Bank actually managed to expanded its portfolio, relying on a client base that has experience with the product and is ready to use it frequently.

Within the **credit cards** portfolio, in 2019 SB managed to maintain dominating market share of 39% as the Bank was continuously active with credit card activities and campaign aimed to drive activation and utilization of the portfolio from one side and customer retention from other side.

**Debit cards** portfolio also continued its growth and expansion concluding 2019 with:

- 24% annual growth in volume of POS transactions with SB Debit Cards
- 9% annual growth in volume of ATM transactions with SB Debit Cards

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.

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

The **24/7 contact centre** of Stopanska Banka remains to be leading contact center in the country, providing non-stop customer care and annually expanding its operations with new services. Through 2019, Contact Centre increased further its service capacity servicing more than 35.000 customer interaction per month. Those customers' interactions are being effectively utilized for cross sale of SB retail banking products.

Stopanska banka AD – Skopje remains oriented towards becoming available digitally to clients for majority of its retail services and has focused the development and improvement of the **i-bank alternative channels** in that direction. During 2018 the bank implemented unique capability to enable 24/7 execution of digital banking transactions for individual clients of the bank. Stopanska continued to promote its m-banking P2P payment service “TOPSI Pay” targeting mainly youth clients and rejuvenation of the customer base.

During 2018, Stopanska Banka active digital banking users was increased by 35%, evidencing growth in all services except phone banking. Same as in 2017, m-banking transactions continued to grow with the highest pace, evidencing 50% annual growth rate.

## ***SBB Segment***

The SBB portfolio has recorded an increase of 16.8% in 2018 compared to 2017 due to high quality relationship management and valuable interactions with clients which is a result of front office activation and onsite visits.

At the same time, while the portfolio grew, its quality remained stable proving that the business model works and delivers results. Understanding the market, close cooperation with the clients, examining their needs and potentials and finding the proper solution under a framework of risk parameters that enable early reactions and adjustments, were the prerequisite for the accomplished growth.

## **Corporate Banking**

*Stopanska Banka AD Skopje within 2018 continued to support the corporate sector, balancing between risk appetite and viable, sustainable and perspective corporate projects. With a strong, professional and fully engaged management, the Bank remains to be reliable and trustworthy partner to the business community in the country, through offering a full package of modern banking products and services, combined with customized and personally shaped financial business solutions.*

In a year full of uncertainty and unpredictable events, the corporate teams, with their knowledge and dedication, managed to keep the corporate portfolio, in terms of volume and quality, on satisfactory level. The experienced and expertized corporate teams remained focused on understanding and matching the clients' needs, applying different models and approaches for assessing the performance, and adopting relative business solutions. The priority of the Corporate Function remains to be the high quality service of the clients, through developing strong, fair, long-lasting and confidential relationships.

Furthermore, the Bank successfully continues to deal with the problematic assets, through applying well-established early warning system together with efficient collection practices. In coordination with the tightened credit risk assessment and control, the Bank is able to identify on time clients with potential difficulties in order to undertake suitable workout solutions, help them in overcoming hard times and improve their performance.

Remaining as one of the most trusted financial partner, upholding the highest standards in line with modern banking activities, the Bank continues in offering innovative products and services through providing solutions to its customers. Additionally, the Bank continues successfully to assist the export-oriented companies, through offering wide range of trade and finance facilities, making the foreign trade transactions, simple and efficient. Furthermore, through supporting the companies with factoring facilities, the Bank continues directly improving the companies'

liquidity, thus encouraging and supporting the business growth, and the liquidity of the overall economy.

The fundamental role of the corporate function continues, in the frame of the Bank's strategy to maintain its position as the trusted and reliable business partner, committed in helping the clients with their plans and driving positive transformations in the economy and society, striving to build and secure the future for the overall community.

## **Risk Management**

*The Risk Management function of Stopanska Banka AD Skopje focuses on maintaining its risk profile within the established risk appetite, while ensuring balanced growth and adequate quality of the loan portfolio. The main objective of the Risk Management function of the Bank is to protect the interest of its customers and shareholders through a comprehensive risk management framework supported by strong risk culture, as well as abundant liquidity and a strong capital base.*

Undertaking and managing risks is part of the daily banking activities. The primary role of the independent Risk Management function of the Bank is to properly identify, measure and manage risks in normal and stressed economic conditions, and to oversee whether the business activities are consistent with the Bank's strategy and risk appetite. The Bank monitors its capacity to take risks through its Risk Strategy, which includes a range of financial and non-financial risk metrics to ensure that the risk profile of the Bank is in line with the risk appetite.

In order to maintain an adequate risk profile, the Bank uses tools such as prudent risk criteria, risk assessments, rating and scoring models which are constantly reviewed, validated and enhanced towards the banking industry best practices. The Bank continuously performs various stress tests exercises that confirmed its liquidity and capital resilience to unfavourable market conditions of shock scenarios.

It has remained an objective of the Bank to strive for continuous improvement of the risk management framework in line with the coming regulatory requirements and international standards, the best practices and the changing market conditions. In 2018, in line with the international standards, the Bank introduced a comprehensive Recovery Plan that includes a developed set of detailed recovery options and activities that the Bank can apply in certain adverse market conditions.

The Risk culture is an important integral component of risk management. Senior management are the starting point for setting the bank's core values and risk culture, communicated throughout all levels of the organisation.

## *Credit Risk Management*

Being one of the most relevant risks the Bank is exposed to, the credit risk is the risk of economic losses the bank suffers if a counterparty cannot fulfil its contractual or other financial obligations arising from a credit contract. Therefore, it is crucial for the Bank to rely on thorough knowledge and understanding of the customer's business, sector, management, goals, financials, opportunities and challenges in order to undertake an informed decision.

For that purpose, SB credit policies of prudent lending include 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. The performed credit assessments are supported by risk rating systems and statistical scoring models that, based on various quantitative and qualitative data inputs, provide quantification of the credit risk levels. Finally, Authorized Credit Approval Committees with experienced and professional members are established for the approval and renewal of the credit exposures.

After credit relationship is established, SB applies an intensive monitoring process that allows early identification of any deterioration of the risk profile of a customer or group of customers. The monitoring process consists of regular credit reviews throughout the life cycle of the product facility, internal risk classification and Early Warning Systems that all together identify early signals of deterioration of the creditworthiness of the clients and aims to ensure timely undertaking of necessary actions in order to minimize the credit loss. The credit exposure is also continuously monitored against the established concentration limits based of sector, collateral type, geographical, obligor rating, etc.

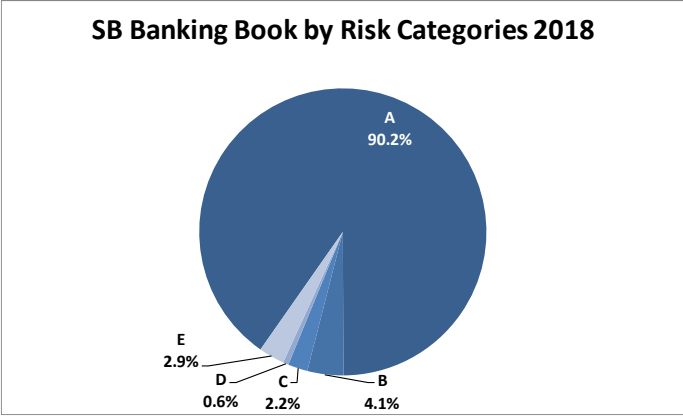
In line with the international best practices and following the enhanced impairment methodology and process, the Bank provides adequate level of provisions for potential credit losses at any time.

Throughout 2018, the Bank continued the current prudent credit policy and a balanced growth of the credit portfolio that suits its strategy and reputation. All its credit risk objectives, tools and a clear governance structure of the risk management process is incorporated in the Bank's internal Policies, approved by the Supervisory Board of the Bank.

## *Quality of Credit Portfolio*

Within the implemented solid credit risk management framework, SB managed to maintain a sound and well-diversified credit portfolio in 2018. Maintaining a low and controlled NPL ratio is one of the Bank's main strategic objectives, which the Bank managed to achieve in 2018.



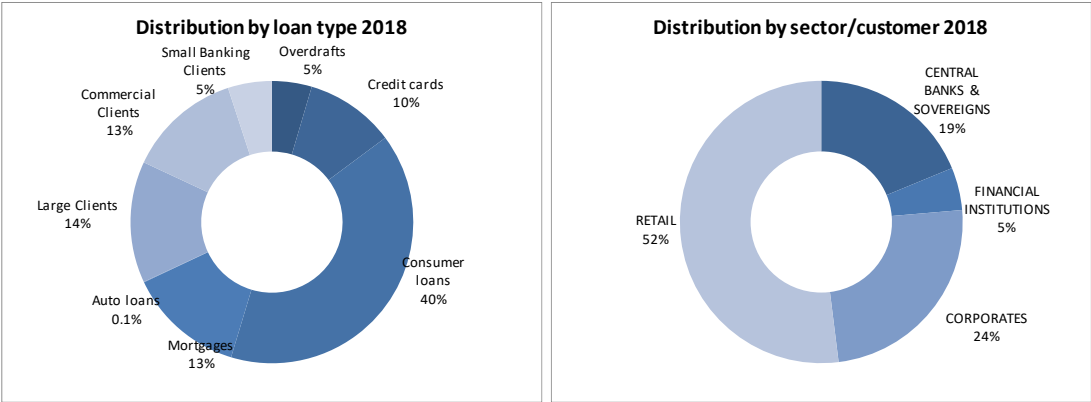


According to the NBRNM Methodology, each credit risk exposure is classified in one of the five risk categories (A, B, C, D and E). The Bank maintained 90.2% of the exposure within the best credit risk category i.e. “A” credit risk category, while high-risk debt classified in “D” and “E” categories are lower by 1.8 percentage points in comparison with 2017 and compose 3.5% 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 main objective in managing the liquidity risk is to respond to all expected or unexpected cash flows, while supporting our business projects and clients in given economic conditions. In order to achieve this goal, the Bank analyzes and monitors the liquidity risk under expected and stressful conditions, while maintaining liquidity and access to various sources of financing at the required level, primarily relying on our stable deposit base.

Liquidity and liquidity risk management in the course of 2018 was realized in environment of continuous liquidity surplus that in conditions of fulfilment of the established budget projections in the field of credit activities, was placed in the available instruments on the domestic financial markets. Hereby, priority in the management of liquidity was the adherence to the prescribed regulatory requirements and the optimal allocation of funds in high quality liquid instruments.

### **Regulatory obligations**

The average fulfilment of the denar reserve requirement reached 100.1%. Within this obligation, the Bank regularly monitored and adjusted the amount of necessary funds for the reserve guarantee fund intended for insurance against possible liquidity difficulties in the settlement of small interbank payments. The foreign currency reserve requirement was maintained in accordance with the prescribed methodology and the required rates of separation from foreign currency deposits, including the part for executing the foreign currency payment operations in euros through the account in the Central Bank. The liquidity ratios were maintained above the prescribed minimum thresholds, i.e. on 31.12.2018 they were 1.83 for the 30-day rate and 1.36 for the 180-day rate.

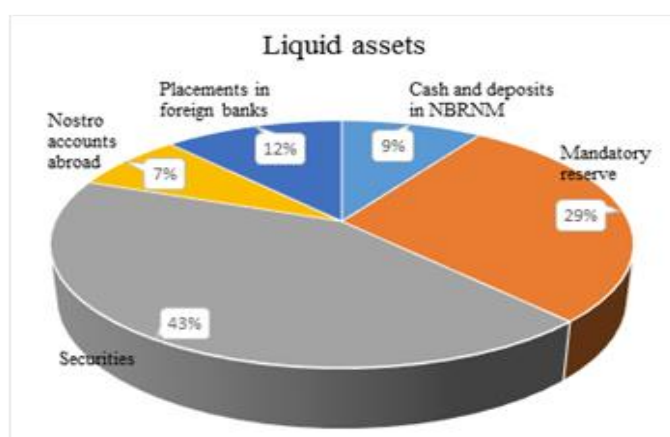
The open currency position was monitored on a daily basis, and its movement was within the permissible regulatory thresholds.

### **Structure of liquid assets**

Balance of liquid assets as of 31.12.2018

The bulk of the funds is placed in securities, which are more profitable instruments, while the rest of the liquidity is kept in cash and on transaction accounts that is needed for operative functioning.

In determining the structure of placements of liquid assets, the Bank takes into account: the available surplus, sources of funds, maturity and currency structure, interest rates, as well as the alternative possibilities for early



withdrawal of funds in case of need. Within the framework of regular stress tests as well as in the preparation of the Recovery Plan for a systematically important bank, Stopanska Banka AD Skopje devotes special focus and attention to the management and maintenance of liquidity, while determining the adequate amounts of liquid assets and tolerance thresholds for liquidity risk.

#### *F/X market*

The realized turnover on the foreign exchange market in the course of 2018 amounted to EUR 873 million, most of which related to transactions between the Bank and its clients. From the aspect of the currency structure, most of the transactions were euro-denominated. The Bank was also active in the segment of interbank transactions with realized turnover in the amount of over EUR 60 million.

#### *Brokerage and custodian services*

During 2018, compared to the previous year, the Bank recorded an increase of 72% on the turnover of traded securities on the Macedonian Stock Exchange, out of which turnover with shares increased by 58%, while the number of orders increased by 30%. Realized income from customer orders increased by 76%.

In the securities storage segment, the Bank provides custodian services to several foreign institutional investors, who maintain their portfolio in a relatively stable amount over the past years. Revenues from custodian services increased by 14% compared to the previous year.

#### ***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.

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.

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 of the structure of rate sensitive balance sheet positions and off-balance sheet items.

SB constantly manages the IRRBB exposure through establishing of appropriate structure of the rate sensitive positions, with purpose those asset and liability rate sensitive positions to be highly correlated, resulting with insignificant repricing/maturity gap and with that, low level of interest rate risk exposure.

At the end of 2018, the ratio of total net weighted position to the regulatory capital was well below the regulatory maximum of 20% and resulted with insignificant exposure to IRRBB.

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

The primary objective for managing of Bank's structural foreign exchange exposure, is the effects of fluctuations in exchange rates to be minimized.

The Bank's core mechanism to manage foreign exchange risk is the application of Bank's Risk Strategy and Currency risk management framework, in order to be ensured that the currency risk exposure is within the approved risk limits and in line with Bank's risk appetite.

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.

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 separately, as well as on aggregate level and thus, SB calculates the Open Currency Position for every foreign currency present in its balance sheet.

The 2018 currency risk management process was accomplished with high proficiency in conditions of stable MKD exchange rate 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***

SB has in place a comprehensive Operational risk management framework (ORMF) to consistently manage and prevent operational risks that result from inadequate or failed systems, internal processes, human error or external events.

The SB has a firm-wide and high quality ORMF 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

This framework is aimed at keeping operational risks within the moderate/low risk profile and is in line with the NBG Group and Bank's Risk appetite.

The SB Operational Risk Management governance model is based on the “three lines of defense model”, which has been designed to effectively manage operational risk (OR). Operational Risk Management process (ORM process) is strongly embedded in daily business processes of the Bank.

The overall focus of 2018 ORM process was on further strengthening the Operational risk management function within entire Bank, raising the OR culture and awareness on OR issues 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 risk profile, risk strategy and business goals. In parallel, one of the biggest challenges during 2018 in the ORM process was also adequately to establish the new comprehensive advanced software system solution for management of OR – “IBM OpenPages GRC platform” and with that, effectively to implement the ORMF components within it, which was fulfilled successfully.

This new software system solution enables more efficient and effective management of the OR, comprehensive overview of the Bank's Operational risk exposure and potential risks, high quality monitoring and recording process of the realized losses and considerable events without financial impact, efficient monitoring of the Key Risk Indicators and effective action plans initiation and follow-up.

The SB's ORMF 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 ORMF are: Key Risk Indicators (KRIs) values, Risk and Controls Self-assessment (RCSA) process, Loss data collection (LDC) process and Action Plans (AP).

During 2018, all of the main ORMF fundamental components were fully implemented in accordance with NBG Group and Stopanska Banka Operational Risk Management Policy and Methodologies and in compliance with regulatory standards and consequently, ORM process was accomplished with high expertise, avoiding the negative effects on the financial results and capital position and ensured that the ORMF is effective, appropriate and implemented with integrity.

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

Maintaining strong capital base as a precondition for the business growth and absorber of all possible risk is priority and main focus of the Bank. The Bank's total regulatory capital as of 31.12.2018 amounted to EUR 195 million, after capital increase of EUR 25m, realized only in 2018. Thus, the Tier 1 amount EUR 193.5 million and Tier 2 is EUR 1.5 million, resulting in a capital adequacy ratio of 16.3% as at 31.12.2018.

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, by taking into account the up-dated circumstances and risks prevailing and the moment of stress-testing and forecasting the expected ones. 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. As prescribed, the stress test exercises are also an integral part of the risk management framework, especially needed to provide estimates and trigger attention of the size of financial losses and its impact on the overall business, including the capital adequacy. During 2018, the Bank conducted various stress test scenarios to test itself on the sensitivity to a predetermined set of extreme but plausible shocks. The stress tests included effects from various scenarios concerning the credit risk, interest rate risk in the banking book, liquidity risk, currency risk and operational risk, as well as scenarios that involved combination of all risks.

The stress test results proved the Bank can cope and is resilient even under very pessimistic assumptions. Such resilience mainly reflects the prudent risk management, well-established business model, strategy, systems and procedures that enables self-generating strong capital base and high liquidity position, as a strong shield against all possible risks and shocks.

## **Compliance, Anti-Money Laundering and Combat Terrorist Financing activities**

During 2018, 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 semi-annually, reporting to the Board of Directors and Supervisory Board;
- continuous cooperation with the relevant external institutions in accordance with the Banking Law;
- regular reporting to the US IRS in accordance with the FATCA law etc.,

thus ensuring good reputation and credibility of SB before NBG Group, its shareholders, clients, investors, regulatory and supervisory authorities and other relevant stakeholders as well as developing Compliance Culture among all SB employees.

Considering Anti-Money Laundering (AML) and Combat Terrorist Financing (CTF) Activities, during 2018, CD realized series of activities for harmonizing the internal enactments with the requirements prescribed in the new AML and CTF Law (Law), as well as for improvement and further upgrade of internal systems and processes used by the CD on a daily basis. Moreover, in 2018 the number of staff employed in CD was increased accordingly in accordance with the requirements from the new Law.

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 its 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 personal data 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.

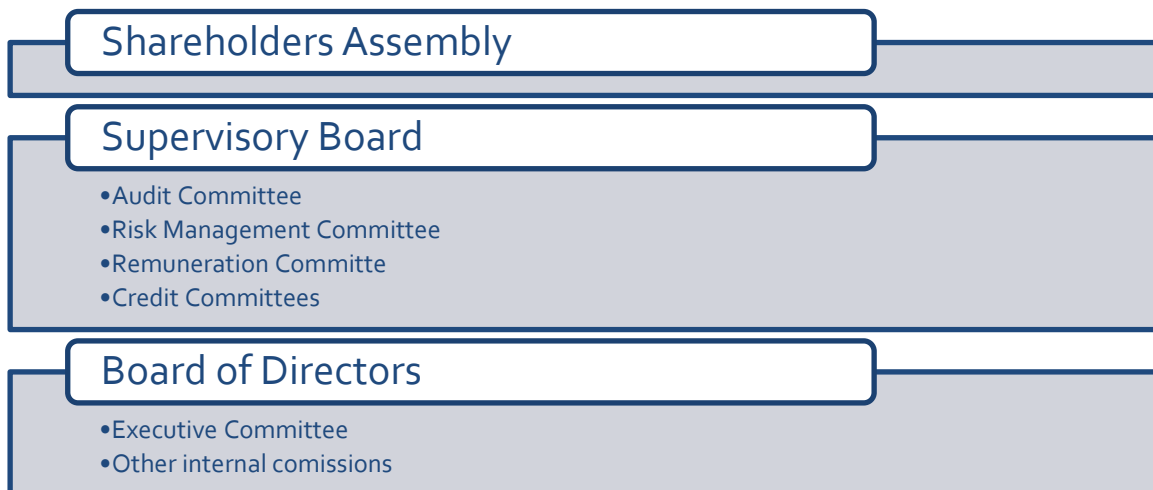
Accordingly, the Bank has introduced procedures and implemented systems which enable the controlled flow of information. In addition, the Bank has adopted a new Personal Data Protection Policy that is aligned with the EU GDPR.

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 2018

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 2018 is as follows:

1. Marinis Stratopoulos, **Chairman of the Supervisory Board of SB**, General Manager of Group Real Estate and 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;
3. Anastasios Lizos, **member of the Supervisory Board of SB**, Head of Sector of International Activities Division, National Bank of Greece S.A. Athens;
4. Ioannis Kagioulis, **member of the Supervisory Board of SB**, Head of International Corporate Credit Division, National Bank of Greece S.A. Athens;
5. Dimitra Gkountoufa, **member of the Supervisory Board of SB**, Manager of Group Strategy Division, National Bank of Greece S.A. Athens;
6. Vladimir Filipovski, **independent member of the Supervisory Board of SB**, Professor, Faculty of Economics at University “St. Cyril and Methodius” Skopje; and
7. Sasho Kjosev, **independent member of the Supervisory Board of SB**, Professor, Faculty of Economics at University “St. Cyril and Methodius” Skopje.

The 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 Founder, President and Chairman of the Board of Directors of the NGO Balkan Economic Forum (on voluntary basis, no remuneration).

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 2018, 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 2018 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>1</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 2018 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
- reviewed the Compliance Reports and plans before submitting to Supervisory Board.

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<sup>1</sup> Ms. Jadranka Mrshikj is also member of the Board of Directors of the European Movement in RM, on voluntary no-remunerative basis.

*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 2018, 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;
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>2</sup>
6. Vlado Treneski - Manager of Corporate Banking Division, member;<sup>3</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;

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<sup>2</sup> Ms. M. Trajanovska is also Chairman of the Supervisory Board of the Clearing House KIBS AD Skopje.

<sup>3</sup> Mr. V. Treneski is also independent non-executive member of the Board of Directors of Euroins AD Skopje.

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

Since November 2013, the Remuneration Committee is assisting the Supervisory Board in implementation of the Remuneration Policy of SB.

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 2018, 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.

The Remuneration Committee' responsibilities are regulated in the Remuneration Policy of Stopanska Banka and the Rules of Operations of the Remuneration Committee, following the relevant provisions of the Central Bank' Decision on good corporate governance rules in banks (Feb.2018). In brief, RC assists the Supervisory Board in setting and following the remuneration policy and practices of the Bank.

During 2018, the Remuneration Committee held **two regular meetings**, as required by the local legislation and in accordance with its Rules of Operations and Remuneration Policy. During these meetings, and following its Annual Operational Plan, the following main items were passed:

- Prepared Remedial Plan for implementation of the Remuneration Policy and regularly followed the fulfilment of the agreed activities. The Remedial Plan is responding to the Central Bank' audit recommendations concerning the remuneration policies of the Bank;
- Regularly reviewed the staff cost and employer turnover trends of the Bank, ensuring that the management keep the staff cost and headcount within the Budget framework;
- Verified the proposal for variable remuneration rewarded to SB management and the employees for achieving extraordinary results;

- Reviewed and discussed the regular annual Internal Audit Report on implementation of the Remuneration Policy; and
- Reviewed its Rules of Procedure.

### **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 as of 31.12.2018 are:

1. Diomidis Nikolettopoulos, Chief Executive Officer and Chairman of Board of Directors;
2. Toni Stojanovski, Chief Risk Officer and member of the Board of Directors;<sup>4</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.

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

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<sup>4</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).

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, 2018:

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

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

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

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

1. Milica Chaparovska-Jovanovska - Chief Retail Officer 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.

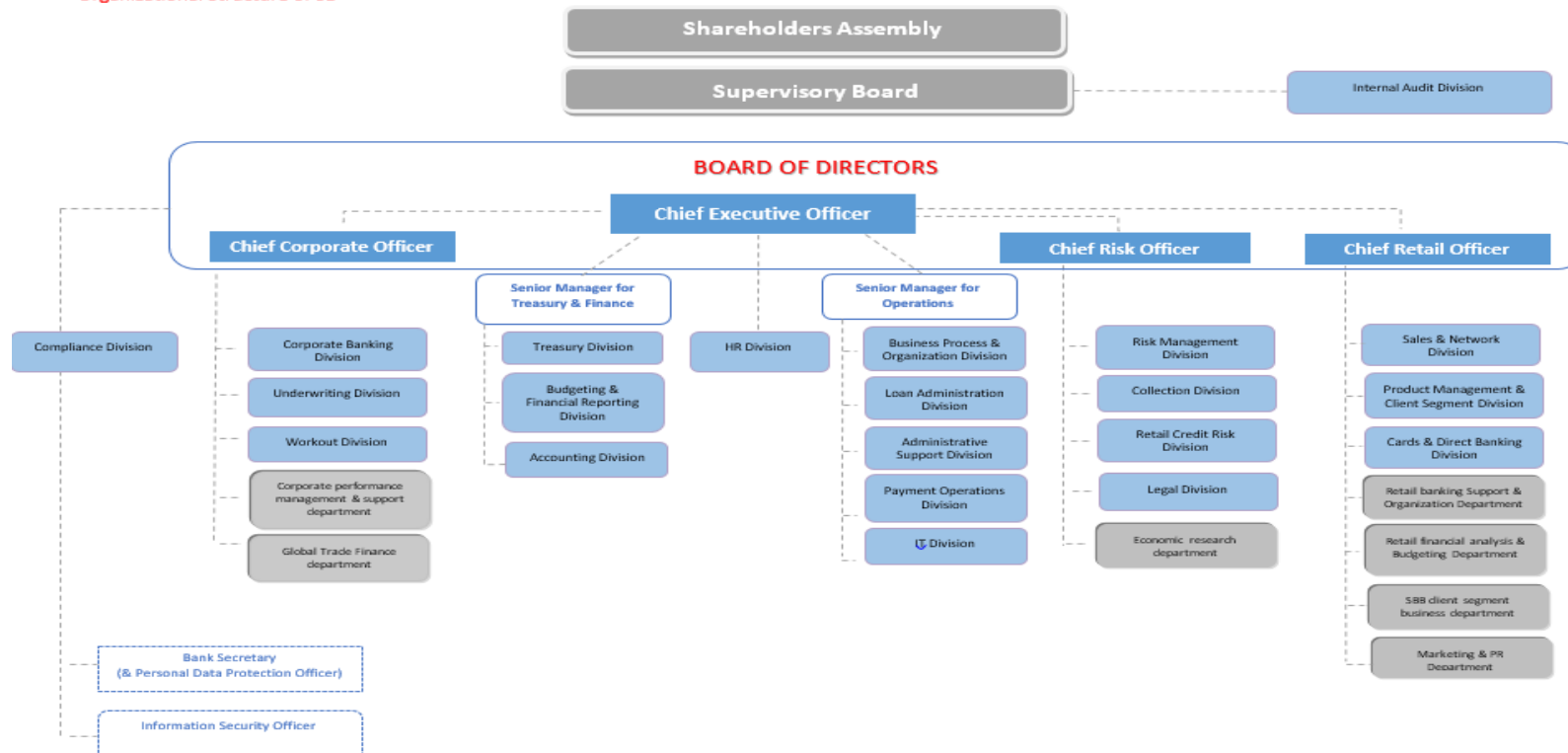
\*\*\*The Credit Committees operates in accordance with the relevant credit policies adopted by the Supervisory Board.

## 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 21 divisions and a branch network with 65 branches. The Bank has no subsidiaries. The total number of employees with the reporting date 31.12.2018 is 1027.

Organizational Structure of SB



### **3. Shareholder Structure**

During 2018 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 2018, 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 in mind the fulfillment of all regulatory and business pre-conditions, especially in terms of capital adequacy, during 2018 Stopanska Banka held two Shareholders Assembly (SA) – on May 30 and on December 12. During the regular session in May, the SA approved disbursement of dividend for 2017 on ordinary shares in total gross amount of MKD 2,042,841,060.00 (117 denars per share) and dividend on priority shares in total gross amount of MKD 2,274,440.00 (10 denars per share). During the extraordinary session held on December 12, 2018, the SA approved disbursement of dividend for the first half of 2018 on ordinary shares in total gross amount of MKD 1.274.593.140,00 (73 denars per share) and dividend on priority shares in total gross amount of MKD 1.137.220,00, (5 denars 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.

## **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 Disclosure for 2018**

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

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

In accordance with the Law on Trade Companies and the Decision on good corporate governance rules in banks, below it is disclosed the remuneration in Stopanska Banka paid by groups.

### **I. Supervisory Board**

In accordance with the best practices, the Supervisory Board members are compensated only with fixed remuneration, approved by the Shareholders Assembly, in order to minimize any conflict of interest between the control and the management of the Bank.

#### *a) representatives of the shareholders*

In accordance with the decision by the NBG Board of Directors, no officers of NBG Group who participate in the Supervisory Board of SB as representatives of the shareholders receive any remuneration. The remuneration of the employees of NBG Group is considered as confidential and could not be disclosed in this Report.

*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 allowances as employed in the Faculty of Economics at University Cyril and Methodius – Skopje, prof. Filipovski receives MKD 1.874.372 gross (annually) while prof. Kjosev receives MKD 1.928.574 gross (annually).

## **II. Board of Directors**

In 2018, total gross amount of MKD 32.591.932 (fixed remuneration: MKD 25.627.182; variable remuneration: MKD 6.964.750) was paid to the members of the Board of Directors.

## **III. Officers with material impact on the risk profile and profitability of the Bank**

The employees included in the category “Officers with material impact on the risk profile and profitability of the Bank” are determined in the Remuneration Policy of SB. The category includes the management responsible for material business units, risk management and for the control functions in Stopanska Banka AD – Skopje. 18 employees are included in this category.

During 2018, total gross amount of MKD 42.971.948 (fixed remuneration: MKD 37.833.956; variable remuneration: MKD 4.957.992) was paid to the 18 officers with material impact on the risk profile and profitability of the Bank.

## **IV. Other persons with special rights and responsibilities**

The employees included in the category “Other persons with special rights and responsibilities” are the division managers, deputy division managers and the managers for specific issues of Stopanska Banka AD – Skopje that are not covered in the prior category. 18 employees are included in this category.

In 2018, the total gross amount of MKD 35.508.732 (fixed remuneration: MKD 31.885.789; variable remuneration: MKD 3.622.943) was paid to the other persons with special rights and responsibilities.

\*The total credit exposure to persons with special rights and responsibilities at end of 2018 amounts to MKD 68.247 thousands which represent 0.57% 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

Being driven by the significance that the Bank has had historically over the economic, social and cultural growth and development of the country, 2018 was again a year where Stopanska Banka supported the community, created added value together with the selected groups and remained at the forefront of CSR activities among large companies.

The Bank is proud to have found and secured two significant messages that can be nurtured in the future – protection of the environment in parallel to healthy way of life are tackled 4 years in a row with the now very popular and recognizable “Vozi pravo, vozi zdravo” event in Skopje and the campaign to promote inclusion of children with disability especially focused on children has gained momentum with the third edition of the “Sonuvame. Menuvame.” Concerts. These proprietary events that the Bank organizes provide room for employees to be included as volunteers which is an additional benefit, on a smaller scale.

The activities performed during 2018 under the veil of Corporate Social Responsibility are listed below in more details:

- **Vozi pravo, vozi zdravo, Vol. 4** 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, (Vol.3) in 2017 and (Vol.4) in 2018 with an even larger scope – over 5,000 participants, many companies joined the event with their own representation transforming the finish line area into a picnic area. The donation from the third and the fourth edition is a pump track area close to the City Park in Skopje, and bike repair stations for several cities in the country;
- **We Dream, We Change – event for children with special needs.** SONUVAME.MENUVAME is a very special and important CSR project, mainly 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 third edition of the event was again organized at the Opera & Ballet however with 5 performances within 2 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 with the New Year theme. 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;

- **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 2018.** 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 third 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 Florida USA, in August 2018.
- **TOPSI Bus** – During the most polluted period of the year, the Bank by promoting its TOPSI brand, promoted as well the usage of public transport during that period. By branding bus stations and several buses in Skopje, interaction with clients on the social media, the Bank provided over 200 bus tickets for its clients, advising them to use the public transport during the polluted period, thus, protecting the environment.
- **Annual sponsorship of MOB (Macedonian Opera and Ballet)** - The National Institution Macedonian Opera and Ballet marked significant premieres and very important events during 2018, 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;
- Other smaller but significant **CSR activities of SB during 2018** are:
  - Sponsorship of **North Western Chamber of Commerce**
  - Annual sponsorship of the **Faculty of Economics** at the University of Ss. Cyril and Methodius
  - Traditional sponsor of **Strumica Carnival**
  - Traditional sponsor of **Ohrid Summer Festival**
  - Sponsorship of **D-festival, Dojran**
  - Sponsorship of **Galichnik Wedding**

In conclusion, the CSR strategy of the Bank aims to achieve excellence beyond the core business and thus develop internal potential, provide assistance to the community on delicate issues and support traditional events of cultural importance to various target groups. All of these activities



complement our customer centricity and adding significantly to the image and the value of the company.

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