S T O P A N S K A B A N K A AD – S K O P J E

ANNUAL REPORT

2013

Skopje, May 2014

Note: All figures in this report referring to SB are based on Statutory Financial Statements

Financial highlights
in EUR million

	2012	2013	change %
Income Statement			
Net Interest Income	41.8	45.5	8.9%
Net Commissions Income	15.3	14.8	-3.4%
Total Income	63.2	67.0	6.1%
Operating Expenses	-33.3	-36.4	9.2%
Personnel Expenses	-11.6	-11.9	2.7%
Net Operating Income	29.9	30.7	2.6%
Impairment Losses	-16.9	-14.5	-14.2%
Pre Tax Profit	13.0	16.2	24.5%
Net Profit	**12.9**	**16.1**	**24.4%**

Balance Sheet	**2012**	**2013**	**change %**
Total Assets	**1,225.2**	**1,282.7**	**4.7%**
Equity	**158.1**	**173.8**	**9.9%**
Total Loans	**823.0**	**872.9**	**6.1%**
Retail Loans	484.1	519.2	7.3%
Corporate Loans	338.9	353.7	4.4%
Provisions	(81.6)	(91.7)	12.4%
Net Loans	**741.4**	**781.3**	**5.4%**
Total Deposits	**963.5**	**1,026.9**	**6.6%**
Retail Deposits	765.3	793.0	3.6%
Corporate Deposits	198.2	234.0	18.1%

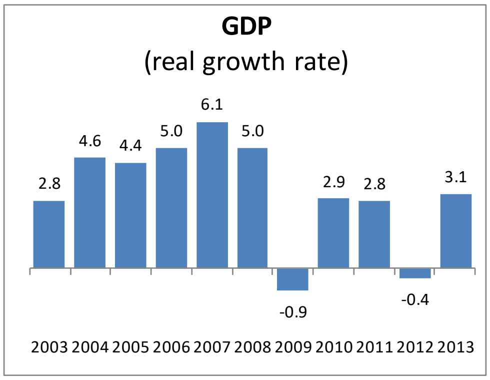
Ratios	**2012**	**2013**	**change (bp)**
Net Interest Margin	3.76%	3.83%	6.8
Cost to Income Ratio	52.7%	54.2%	155.5
ROA	1.1%	1.3%	19.2
ROE	8.6%	9.8%	117.9
Loans to Deposits Ratio (gross)	85.4%	85.0%	-41.3
Regulatory Capital	170.2	160.9	-5.5%
Capital Adequacy Ratio	19.43%	18.06%	-137.0

Operational Indicators	**2012**	**2013**	**change**
Number of Branches	64	64	0
Number of Personnel (eop)	1023	1051	28

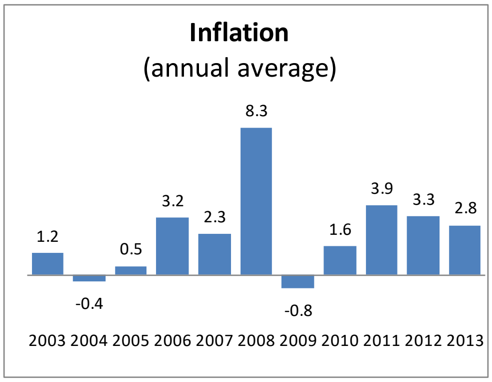
Economic Environment

Despite risks and challenges in 2013, the European Union exited the economic recession. This inevitably triggered the domestic export which together with the additional support of the fiscal stimulus contributed to positive economic growth. Similarly as in the previous years, the banking sector remained sound, self-funded and well capitalized.

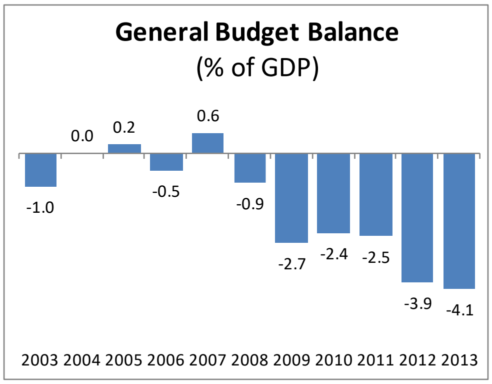
The economic slow-down in the European Union (EU) that lasted 18 months, returned to modest growth, starting from the second quarter of 2013. However, further solving of the problems continues to be very important challenge for EU policy makers with an aim to further boost the economic growth having in mind that some of the member states still have unacceptably high unemployment rates and significant fiscal problems.



Real GDP growth of the country for 2013 reached 3.1%, primarily as a result of the increased export (majotity relates to the export from the free economic zones) as well as the increased activity in the construction sector mostly driven by the public investments. Hence, after the slight contraction of 0.4% in the previous year, domestic economy recorded solid export driven growth from the rebound of the foreign demand and additionally the fiscal stimulus contributed to positive domestic demand. From economy's production point of view, the construction and the manufacturing industry were main factors of the GDP growth.

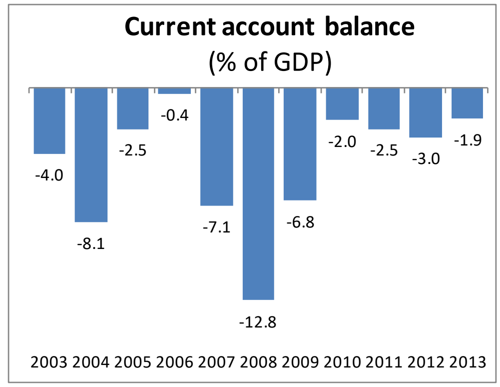


In terms of increased economic activity, the inflation rate increased moderately. In 2013, the inflation rate (Consumer Price Index) decelerated to 2.8%, compared to 2012 when it was 3.3%. Declining food and energy (especially heating and oil derivatives) prices were the main drivers of the overall inflation rate slow down.

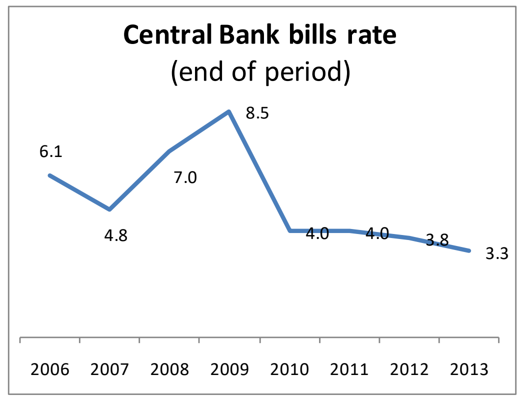


The continuance with loosened fiscal policy with increased volume of public investments resulted in widening of the fiscal deficit in 2013 to level of -4.1% of GDP. The government debt reached level of 35.8%, slightly higher than 34.1% from 2012.

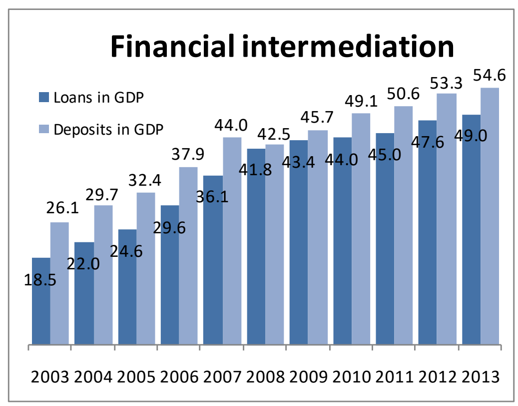
The solid export performance in 2013 and weak import demand contributed to lower current account (CA) and trade balance (TB) deficits of 1.9% of GDP and 19.5% of GDP, respectively, unlike the previous year performances of 3% of GDP for CA deficit and 23.5% of GDP for TB deficit. The persistent large trade deficits were mostly covered by private transfers, which amounted to 19.4% of GDP in 2013, slightly lower than in 2012. Also, foreign direct investments (FDIs) increased from EUR 72 million or 1% of GDP in 2012 to level of EUR 251 million, or 3.3% of GDP in 2013, contributing to financing of the current account imbalances.



In 2013, the encouraging movements in the macroeconomic indicators allowed the Central Bank to decrease the reference interest rate at level of 3.25%. The solid developments in the export sector, the increased FDIs and slightly decreased but stable private transfers, the low inflation as well as the need to promote stronger credit growth encouraged NBRM to decrease the Central Bank Bills rate from level of 3.75% in 2012 to level of 3.25% in 2013.



As in the previous years, in 2013, the banking sector remained sound, self-funded and well capitalized. The deposits continuously rose throughout the whole year and recorded annual growth of 6.1% compared to 4.9% in the previous year. The loans also increased in the same period ending with growth rate of 6.4% resulting in loans to deposits ratio well below 100% i.e. it stood at 88.8%, similarly as in the previous year. Non-Performing loans (NPLs) also increased throughout 2013 to 11.3% at the end of the year. However, the provision coverage remains adequately above 100% (103.3%) and taking into account the high level of the capital adequacy ratio of 16.8%, it is clear that the banking sector has very good performances i.e it remained stable and maintained low risk profile.



Basic macroeconomic indicators

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Output											
Gross Domestic Product (real growth rate)	2.8	4.6	4.4	5.0	6.1	5.0	-0.9	2.9	2.8	-0.4	3.1
Industrial Production (real growth rate)	4.7	-2.2	7.0	2.5	3.7	5.5	-7.7	-4.3	3.3	-6.6	3.2
Prices, wages and productivity											
CPI (annual average)	1.2	-0.4	0.5	3.2	2.3	8.3	-0.8	1.6	3.9	3.3	2.8
CPI (year-end)	2.6	-1.9	1.2	2.9	6.1	4.1	-1.6	3.0	2.8	4.7	1.4
PPI (annual average)	-0.3	0.9	3.2	3.2	1.7	5.6	-6.5	8.3	11.1	4.6	0.4
PPI (year-end)	-0.2	1.3	4.0	3.2	4.2	-1.8	3.2	9.0	8.3	5.3	-2.1
Real wages (annual growth rate)	3.6	4.2	2.0	4.0	5.5	1.9	25.0	1.4	-2.4	-2.9	-1.6
Government finance											
General government balance (% of GDP)	-1.0	0.0	0.2	-0.5	0.6	-0.9	-2.7	-2.4	-2.5	-3.9	-4.1
External sector											
Current account balance (% of GDP)	-4.0	-8.1	-2.5	-0.4	-7.1	-12.8	-6.8	-2.0	-2.5	-3.0	-1.9
Export of goods (in million US$)	1,363	1,675	2,041	2,411	3,392	3,983	2,702	3,345	4,473	3,993	4,260
Import of goods (in million US$)	2,214	2,814	3,104	3,671	5,030	6,573	4,871	5,264	6,757	6,255	6,364
Export of goods (annual growth rate)	22.5	22.9	21.8	18.1	40.7	17.4	-32.2	23.8	33.7	-10.7	6.7
Import of goods (annual growth rate)	15.4	27.1	10.3	18.3	37.0	30.7	-25.9	8.1	28.4	-7.4	1.7
Gross external debt (in million US$)*		2,830	2,983	3,297	4,174	4,658	5,420	5,452	6,271	6,818	
Foreign reserves (in million US$)	893	975	1,325	1,866	2,240	2,108	2,291	2,277	2,677	2,892	2,747
Exchange rate MKD/EUR (average)	61.26	61.34	61.30	61.19	61.18	61.27	61.27	61.51	61.53	61.53	61.58
Monetary agregates											
M1 growth (dec./dec.)	2.8	2.0	6.4	17.9	30.7	14.5	-3.5	9.8	6.8	7.6	6.2
M2 growth (dec./dec.)	18.8	17.1	15.5	24.8	28.1	7.1	3.9	8.3	7.5	0.5	0.2
M2 denar growth (dec./dec.)	15.4	12.6	11.7	31.7	41.1	0.8	-5.5	10.8	10.1	3.2	2.9
M4 growth (dec./dec.)	16.0	16.5	15.0	25.0	29.3	11.2	6.0	12.2	9.7	4.4	5.3
M4 denar growth (dec./dec.)	12.1	16.2	15.0	24.5	29.1	8.9	-4.4	16.0	14.4	9.6	8.7
Credit to private sector (dec./dec.)	15.4	25.7	21.7	30.5	39.2	34.4	3.5	7.1	8.5	5.4	6.4
Interest rates											
Money market interest rate (annual average)	9.9	6.9	8.6	5.5	3.7	4.4	6.3	3.7	2.2	2.2	2.0
CB bills rate (annual average)	8.2	7.7	9.5	6.0	5.1	6.5	8.5	5.5	4.0	3.8	3.4
Money market interest rate (end of period)	5.8	7.9	8.7	4.9	3.1	5.3	6.1	2.7	2.2	2.1	2.2
CB bills rate (end of period)	6.2	9.0	8.5	5.7	4.8	7.0	8.5	4.0	4.0	3.8	3.3
Capital markets											
Macedonian Stock Exchange index-MBI (growth rate-eop)	7.7	14.7	69.58	61.54	109.07	-72.92	23.8	-16.1	-13.3	-12.3	0.4

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

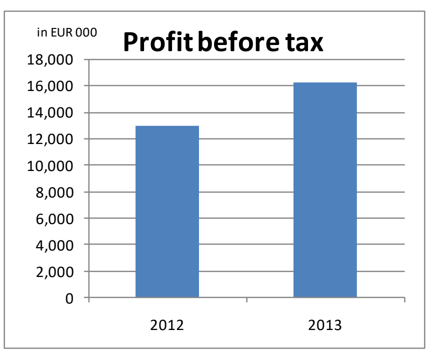
Review of 2013 Activities

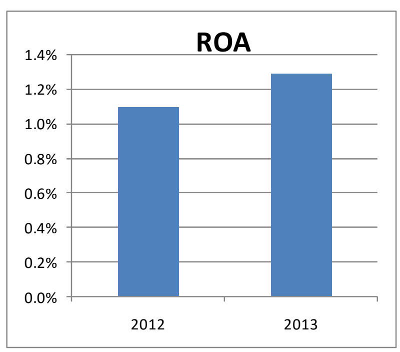
Financial Performance

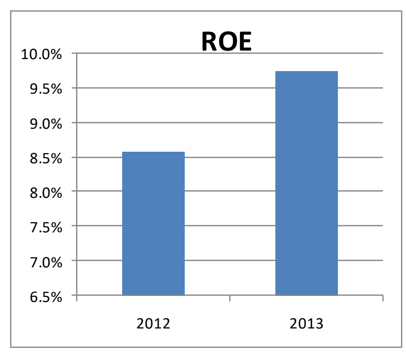
The rational expansion of the loan portfolio accompanied by the efficient management of the funding sources and operational excellence, combined with the prudent risk management, consist the main priority of the Bank, securing the stability and soundness of the Stopanska Banka (SB, the Bank) and ensuring its profitability.

Despite the challenges in the business environment, 2013 was very successful for the bank since it has reached profit after taxes of EUR 16.1 million, noting an increase of 24.4%. 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. The Bank places great importance on strengthening its financial position in order to put itself in the best position to facilitate its clients, the shareholders and the economy as a whole.

The Bank's total assets amounted to EUR 1,283 million, 4.7% above the previous year figure. Accordingly, ROA and ROE reached 1.3% and 9.8% respectively, indicating stable returns for shareholders. With the capital strength, which ensured high capital adequacy ratio of 18.1%, SB ensures to be the most trustworthy financial partner in the country.







Interest income

During 2013, the interest income from the retail loans amounted EUR 42.8 million, having the biggest participation within the total interest income of 56.9%. From all other activities the Bank earned total interest income of EUR 32.4 million, decreased by 1.5% compared to 2012.

Interest income
in EUR million

	2012	2013	% change
Interest income	**75.4**	**75.2**	**-0.2%**
Retail loans	42.5	42.8	0.7%
Corporate loans	19.9	18.9	-4.7%
Other	13.0	13.5	3.7%

Interest expense

The Bank's interest expense decreased by 11.6% compared to 2012. Specifically, the interest expense related to retail deposits registered an annual decline of 13.4%, whereas the interest expense for corporate deposits increased by 1.8%.

Interest expense
in EUR million

	2012	2013	% change
Interest expense	**33.6**	**29.7**	**-11.6%**
Retail deposits	26.7	23.1	-13.4%
Corporate deposits	3.9	3.9	1.8%
Due to banks and other liabilities	3.0	2.6	-12.6%

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 2013, recording additional amount of EUR 3.7 million compared to 2012 or above 8.9%. The net interest margin improved in 2013 by approximately 7 b.p. reaching to 3.8%.

Fee and Commissions Income

Due to the increased competition as well as the lowering of the fees and commission charging rates, the net fees and commission income decreased by EUR 0.5 million in 2013, amounted in total EUR 14.8 million. The most significant part (42% of the Bank's total fee and commission income) relates to lending activities in amount of EUR 6.2 million. The income from transfer of funds is the second largest item, which at the end of 2013 totaled EUR 5.4 million representing 36.4% of total fee and commission income.

Net fees and commissions income
in EUR million

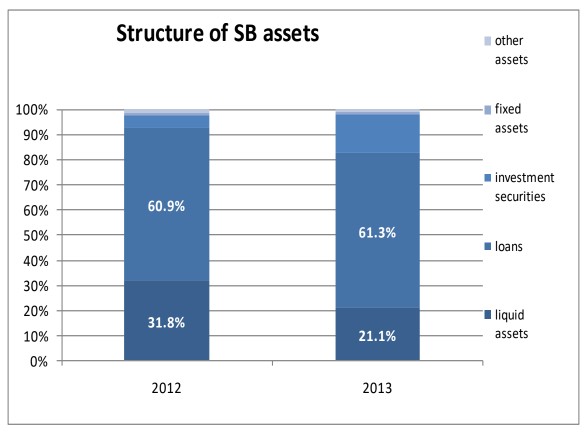
	2012	2013	% change
Net fees and commissions income	**15.3**	**14.8**	**-3.4%**
Loans	7.9	6.2	-21.9%
Letters of guarantee	1.1	1.1	-0.6%
Transfer of funds	5.0	5.4	6.8%
Others	1.2	2.1	71.6%

Operating expense

The cost base of the Bank remains at the same level as previous year; however the increased amount of EUR 3.1 million or 9.2% that the Bank recorded is due to the impairment of foreclosed assets regarding the Decision of the Central Bank. The efforts of controlling and managing the cost base effectively have positive results since the cost to income ratio remains at approximately 53% or at the same level as last year if we exclude the above mentioned amount.

Assets and Liabilities

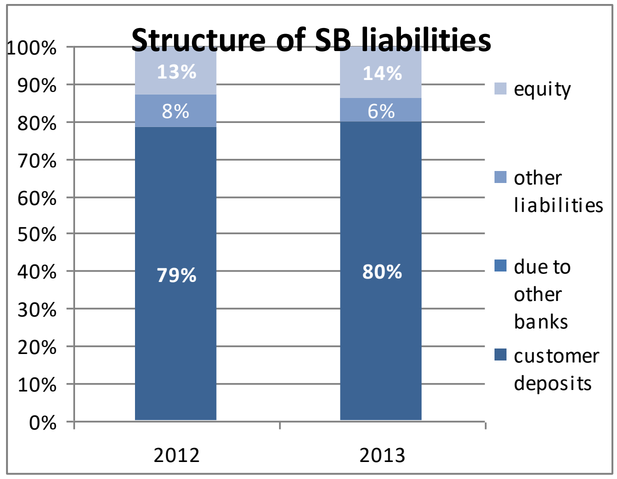
Assets

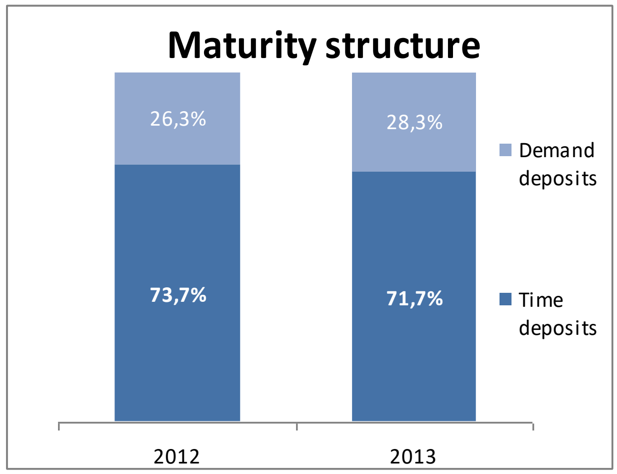


The Bank's total assets at the end of 2013 amounted to EUR 1,282.7 million, which is EUR 57.5 million or 4.7% above 2012. The Bank continued to enhance its' prudence with the balance growth, adequate liquidity and strong capital base. In this aspect, the liquid assets amount to 21% of the total assets. The credit activities increased apart from covering the regular repayments made during the year, thus recording an increase of 6.1%, perceiving the quality of the loan portfolio compared to the market movements. Accordingly, by the end of 2013 the total loan portfolio reached EUR 872.9 million, out of which EUR 353.7 million were extended to corporate customers, while retail exposures amounted to EUR 519.2 million.

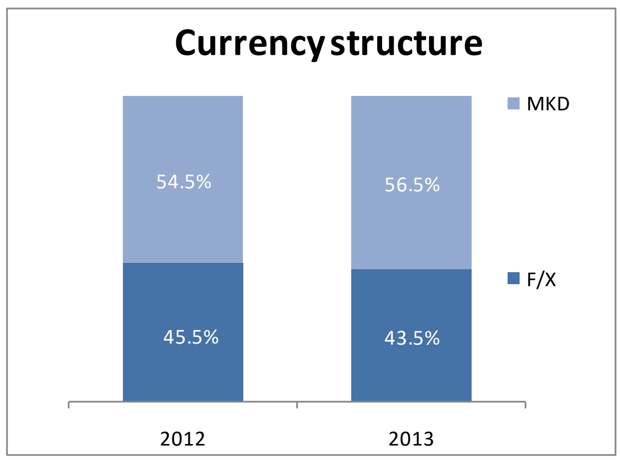
Deposits and equity

At the end of 2013 the Bank's total liabilities (deposit and non-deposit) reached EUR 1,108.9 million, thus reaching nominal annual growth of 3.9%. Deposits continue to be the main funding source of the Bank having overpassed the threshold of 1 billion EUR closing the year with EUR 1,026.9 million or annual growth rate of 6.6% and EUR 63.4 million absolute increase in comparison to 2012. As a result, at the end of 2013, the loans to deposits ratio slightly decreased to 85.0% 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 significant increase in the share of local currency denominated deposits to 56.5% up from 54.5% in 2012, which reflects the confidence to the local currency.



The Bank equity increased by approximately 10% in 2013, amounting in total balance of EUR 173.8 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

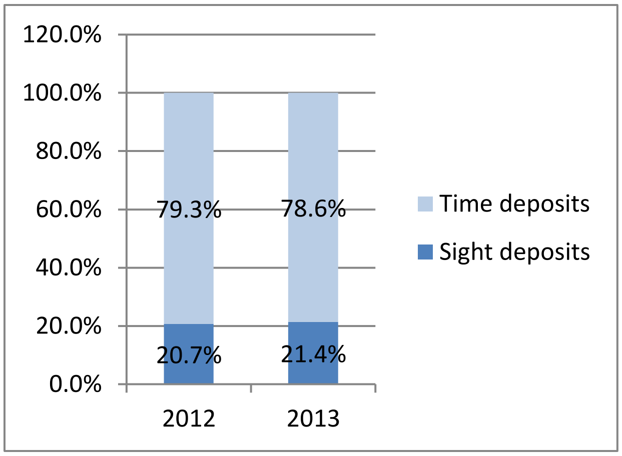
Positioned as the market leader, SB continued to enrich its retail portfolio and pioneered the market with several new services and products that comply with the modern way of life of the clients who remain at the center of our interest

The year 2013 for SB's retail segment was marked by the introduction of the m-banking platform and the migration towards a simplified, multi-platform unified group of alternative channels: phone banking, e-banking, m-banking and ATM banking.

Reasonably, the basis for investment in this significant research and innovation is the outperforming lending and deposits portfolio of the Bank. The in-depth understanding of the market and appropriately developed product management strategies contributed to the high market share position in both deposit and lending during the year.

Retail deposits

At the core of the business the retail deposits strategy was met successfully as the Bank reached EUR 793 million at the end of 2013. Structure wise, the retail deposits portfolio remains stable with over 20% sight deposits and over 78% in time deposits.



The time deposits continued growing compared to the previous year 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.

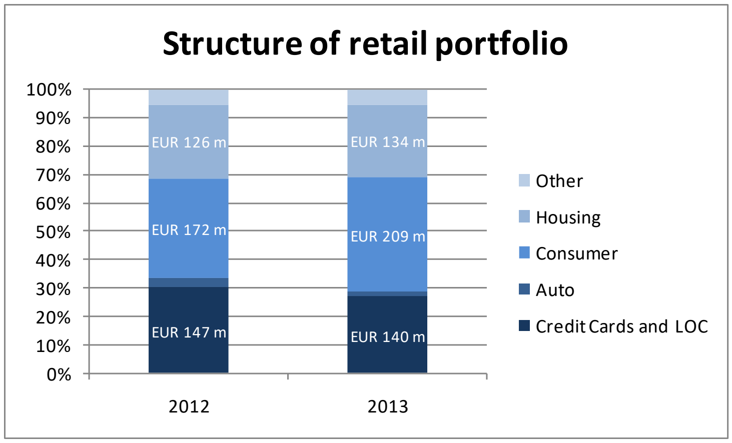
As a trend for the past years, retail deposits have almost achieved balance between local and foreign currency as the FCY ending balances were 50.4% and the LCY balances ended with 49.6% of the total base. This trend is stimulated by the higher yields still available for the domestic currency and the established trust in its long term stability.

Segmentation of the client base as a strategy has been in constant consideration when running daily business objectives and results in increasing performance of the existing portfolios, thus, providing appropriate service level and different package offers, better efficiency and customer centric approach.

From the segments that the Bank identifies it mainly focuses on the payroll category as a solid ground for continuous cross sales and improvement of the products and services.

Retail lending

The strategy for 2013 in retail lending was to follow the market trends while maintaining the portfolios' high quality. The ending balances of EUR 519 million testify for a growth of 7.3% 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 projected growth.

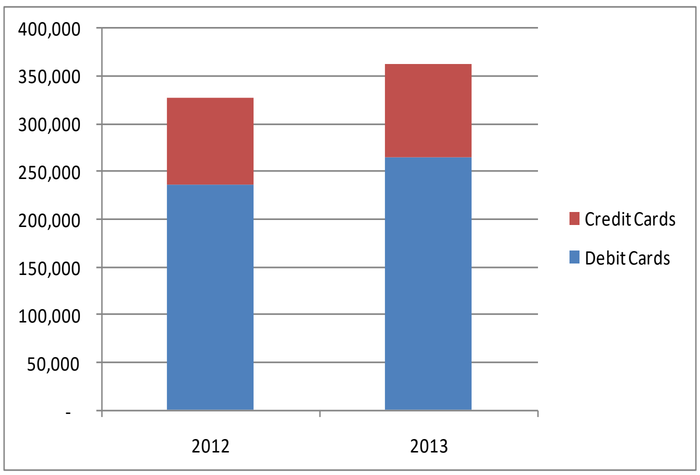


The structure of the portfolio continues to perform at the same ratio of secured vs. unsecured lending having housing loans prevailing in the secured portfolio structure. During 2013, the Bank maintained very low NPL ratio and a market share of 35%.

The unsecured consumer lending is available for clients in amounts up to EUR 10.000 with local or foreign currency clause, and loan tenors up to 10 years. On top of this the seasonal promotional offers provide the clients with abundance of choices how to finance their plans and needs throughout the year.

The various Consumer loans have recorded and reached balances of EUR 331 million, which ensured high market share of this segment at the end of 2013.

The cards portfolio performed according to the business plan for 2013 and concluded the year with a total number of 288.057 active cards after an extensive and deliberate portfolio cleansing performed to close inactive cards.



Regarding the credit cards balances the Bank increased the market share to 42.4% and total EUR 53.3 million outstanding balances. This increase is due to the variety of programs that the Bank offered for credit cards such as: "interest free installments" available at a growing merchant network, the acquiring programs with lower interest rates and opening of all the payment cards for e-commerce trading in the country. Consequently the number of credit card transactions grew 15% compared to 2012.

SBB Segment

As part of the Retail Banking portfolio the SBB segment has become increasingly important and regained confidence within the Bank structure. The product and services portfolio as well as the staff supporting the field work of the Branch network has been extended and enhanced in such a manner that will allow appropriate market positioning of SB for stronger expansion in this segment.

Alternative channels

After introducing all modern alternative channels under the umbrella brand ***i-bank***, Stopanska Banka continued investing in them during 2013 and was able for the first time on the market to launch m-banking solution over the a smart phone mobile application.

This novelty feature of the already active mobile application was publicly promoted and easily attracted number of users and downloads of the app on the iOS i-store and the Android Play Store. It was also the base for investment into migration to a generic platform for use of alternative channels which was completed by the end of the year. Basically, all i-bank channels (e-banking, m-banking, phone banking) are available without software installations or restrictions with the same OTP token device unique for each customer.

The improved i-bank set of services ultimately contribute to enhanced efficiency of our products and ultimately generates customer satisfaction especially for the clients which demand more flexibility to choose when, where and how they will use our basic banking services.

Looking forward, the alternative channels will become strongly connected to the corporate social responsibility of the Bank in the sense that they have a significant positive impact on the eco effect that the Bank and the clients generate. Additionally, the i-bank channels will serve as channels for more direct communication with the client base and opportunity for customization of services.

Corporate Banking

Further to the EU exit from the economic recession in 2013, triggering increased export, as well as contributing to the positive growth of the domestic economy, SB focused constantly on the needs of its clients to achieve their potential for growth through providing a whole set of corporate banking products and services including various types of loans and trade finance activities.

During 2013, in the area of corporate banking, the Bank maintained its focus on recognizing potential investments and seeking optimal solutions with the customers, while at the same time proactively managing the risk. SB’s corporate banking business provided the clients with strategic financial advice, presenting them a wide range of corporate credit facilities, including investment and working capital loans, as well as trade finance facilities. The strength of such client-focused model lies in the ability of the Bank to direct its actions towards fulfilling the clients’ needs, while helping them improve their performance and realize their growth potential. Furthermore, SB maintained its focus toward proactive promotion of the trade finance banking products, specially designed to facilitate the growth of export oriented companies. In that regard, the Bank is a member of the programs led by the International Financial Corporation (IFC) and the European Bank for Reconstruction and Development (EBRD) aimed to facilitate the foreign trade.

Supported by diverse integrated solutions that draw expertise from across the NBG Group, SB’s corporate banking business continued to take a prudent lending approach. By the end of 2013, the credit portfolio in the corporate segment rose totaling to EUR 353.7 million. Furthermore, through improvement of the underwriting, monitoring and collection processes SB remained to be strongly focused on maintaining the assets’ quality.

The client-focused model taken by SB’s employees appeared to be the main driver of SB’s competitive advantage in dealing with the corporate clients. Through this personalized approach, SB sustained and deepened the existing business relations with the important, creditworthy large businesses. Moreover, since the Bank continued to actively implement its strategy for diversifying the risk, again through the personalized approach, it managed to provide active support to Small and Medium-Sized companies as well.

As result, during 2013, SB approved 5,851 corporate loans, while the total volume of newly approved loans reached EUR 388.7 million. In addition to the loan activity, in the area of trade finance SB issued 1,248 letters of guarantee and letters of credit. Total volume of newly issued trade and finance instruments reached EUR 67.9 million.

Risk Management

The Bank builds, maintains and develops a reliable risk management system which ensures the timely identification, estimation and management of risks inherent to its activity. The framework for risk management comprises of written policies and procedures which produce mechanisms for identification, measurement, monitoring and control of risks as well as mitigation. The fundamental principles set in SB's risk management framework are: to make every employee aware that there is indisputable value in timely taken actions for preventing various risks to occur, centralized management control, separation of duties and clearly defined authority levels. Furthermore, the Bank continuously invests in human resources, more advanced process and sophisticated IT infrastructure. Also, SB regularly reviews and adjusts the risk management framework in accordance with its overall risk appetite and profile, internal and external norms and best banking practices.

In 2013, SB continued to work towards improvement and development of its risk management system for preventing, assessment and management of various risks according to the internal conditions and best banking practices and in the same time maintaining the flexibility and adaptability to the market needs. Consequently, the Bank accomplished to manage its general risk profile and maintained well balance between risk, return and capital.

Credit risk management

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 is continuously focused on building and maintaining an effective credit risk management process, based on identification, assessment, measuring, mitigating and monitoring of credit risk.

SB manages its credit risk through customized lending to its corporate counterparties, whereby the risk assessment is based on an individual basis, and through standardised products and processes, whereby risk criteria are assigned on pooled basis, for its retail and small banking Business clients.

The whole credit risk is assessed qualitatively and quantitatively in detail before approval. Information must be provided on matters such as the purpose, details and structure of the proposed credit facility, information about the obligor and other counterparties, the industry, 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.

Based on the credit risk assessment and measurement, the approval committees take a credit decision on different authorization levels, according to the credit exposure and the type of consumer.

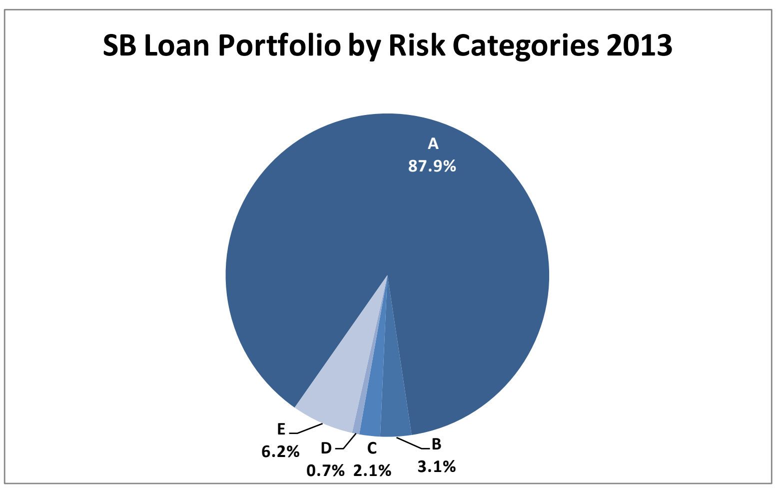
The thorough monitoring process allows SB to identify at an early stage any development in the counterparty's or portfolio's position that might trigger an increase in its risk profile. The monitoring process consists of credit reviews, from the moment the credit facility has been provided throughout its life cycle and the 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

During 2013 SB managed to maintain a sound and well diversified credit portfolio despite the volatile macroeconomic circumstances and the moderate economic growth of the country.

The Bank's effective risk management model and efficient collection procedures was reflected in a controlled NPL ratio that was lower by approximately 190 b.p. than the level of the overall banking sector.

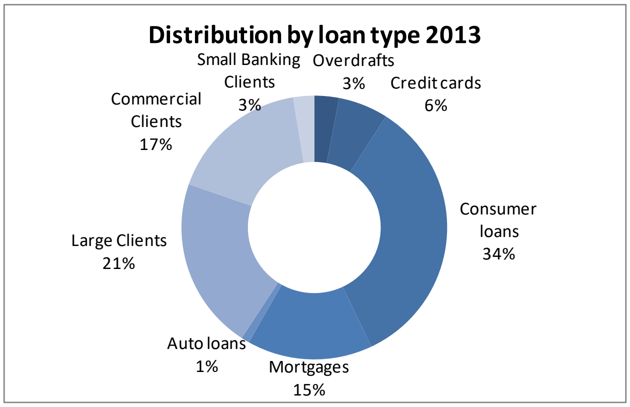


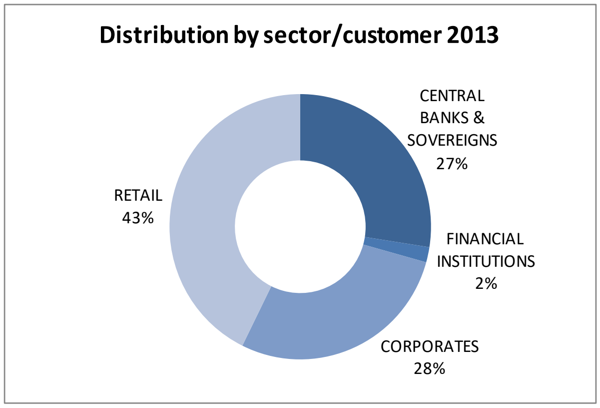
According to the NBRM Methodology, each credit risk exposure is classified in one of the five risk categories (A, B, C, D and E). The Bank maintained 91.0% of the exposure within the low credit risk categories i.e. A and B credit risk categories, while high risk debt classified in "D" and "E" categories 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) 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 concentration limits on regular basis, supporting the conclusions by adequate corrective actions.





Liquidity risk management

High level of liquidity continued during 2013, mainly originating from the constant growth of corporate deposits (7% in 2013 vs. 2012), that are the prime funding sources. The liquidity management framework is designed to identify measure and manage the liquidity risk position. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding requirements therefore meeting business goals and targets set in terms of the overall strategy. The liquidity risk is constantly supervised through an internal system for monitoring and daily liquidity management, themaintenance ofsufficient amount of cash in line with the maturity and currency structure of assets and liabilities, a monthly gap analysis of inflowsand outflows, maintaining a low risk portfolio of assets to meet current liabilities, and operations on the interbank market.

The Framework main pillars for managing liquidity risk rest on:

- policies, procedures and resources for controlling and limiting liquidity risk
- maintenance of a stock of liquid assets which can be readily converted into cash
- measurement, control and scenario testing of funding requirements, as well as access to funding sources

- monitoring of liquidity risk limits and ratios taking into account SB's risk appetite and profile, as well as regulatory requirements for the minimum level of liquidity

Stress testing and scenario analysis plays significant role in the liquidity risk management framework. This incorporates assessment of liquidity under different scenarios which results are used for calibration of the optimal business needs and on the other side are key tool for compliance with liquidity risk tolerance.

Interest rate risk management

The Bank is exposed to effects of fluctuation in the market interest rates relevant for its financial positions and cash flows. 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 2013 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.

The Bank has established a framework for managing this 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, 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.

Foreign exchange risk management

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

SB manages the currency risk 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.

The 2013 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

SB operational risk management framework is consisted of four basic components: Risk control and self assessment (RCSA), Loss data collections, Action plans, Key Risk Indicators (KRI).

Taking into consideration the previous experience of Operational risk management framework implementation, during 2013 were established 3 general and 23 specific key risk indicators for operational risk management in order to indicate timely the negative trends and increase of operational risk exposure.

The effective operational risk management (ORM) in SB is facilitated through utilization of the Group software solution for operational risk management (AlgoOpVar). This software enables efficient management of the operational risk (OR), greater 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.

The crucial function of SB operational risk management process is to identify, assess, and control the potential operational risk losses and to minimize the possibility the potential operational risk losses to occur. Accordingly, in 2013 SB successfully completed the sixth cycle of Risk Control Self and Assessment (RCSA) process and further improved the Loss Data Collection process. During this process the OR correspondents revised the Bank’s internal processes and the associated potential loss events, gathered and reported operational risk losses in order to mitigate the Bank’s OR exposure. The Risk Management Division controlled this process which enabled greater perspective when identifying the cause and the impact of a specific potential or realized loss event, and ensured that the ORM Framework is effective, appropriate and implemented with integrity.

Based on the above mentioned, the 2013 operational risk management process was accomplished with high proficiency in the assessment process, with an aim to have an accurate presentation of the Bank’s operational risk exposure, and construct a quality database of potential risks and loss data as well as to undertake corrective actions in order to mitigate or avoid the negative effect on the financial results and capital position.

Capital adequacy

SB’s capital adequacy goals are set to:

● ensure that SB’s capital strength is sufficient given the chosen risk appetite and to meet the risks in the operations

● support the decided business strategy

● maintain capital ratios above the minimum levels established by the Board and the regulators.

SB’s capital adequacy ratio amounted 18.06% as at 31.12.2013 and it is significantly above the regulatory prescribed minimum of 8% and the internal limit of 12%. The Bank’s total regulatory capital as of 31.12.2013 amounted to EUR 160.9 million (Tier 1 - EUR 131.4 million and Tier 2 - EUR 29.5 million), lower by EUR 9 million compared to the total regulatory capital of the previous year mainly due to the amortization of the subordinated debts for EUR 9.0 million.

The Bank’s Internal Capital Adequacy Assessment Process (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.

Stress test

As a part of the prudently established risk management framework, the Bank regularly assesses the resilience of its capital adequacy by conducting stress testing. Therefore, SB has developed a comprehensive and integrated stress testing framework, covering all main risks and with particular focus on analyzing the effects on the Bank’s solvency position. Thus, thorough stress sensitivity analysis is made, based on a predetermined set of extreme but plausible shocks with regards to the following risks: credit risk, interest rate risk in the banking book, liquidity risk, currency risk, equity risk and operational risk. Also, the scenario stress testing aims to assess the capital adequacy based on scenario analysis based on assumptions for potential decline in the macroeconomic environment and consequent deterioration of the credit risk, liquidity risk and interest rate risk in the banking book. Regarding the scenario stress testing, SB developed an econometrical model to predict the effect of the assumed deterioration of the macroeconomic trends to the expected losses of the Bank, and consequently on the Bank’s capital adequacy ratio.

The stress test results proved the Bank’s resilience under various scenarios and sensitivity assumptions applied. Hence, such resilience mainly reflects the prudent risk management, the strong capital and the high liquidity of the Bank.

Compliance, Anti-Money Laundering and Combat Terrorist Financing activities

In the course of 2013, 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 facing with and managing the possible risks related to SB's compliance with current regulations; continuous cooperation with the relevant external institutions in accordance with the Banking Law; regular, at least monthly and quarterly, reporting to the Board of Directors and Supervisory Board; active participation in the operation of AML & Compliance Committee, as well as in the Legal 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 2013, part of AML and CTF IT platform and Mantas system were additionally upgraded and their functionality further improved.

According to the Annual Compliance and AML Plans for 2013, the following main projects and activities were also realized:

- 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 related to Compliance and AML&CTF issues as well as conducting regular Staff Trainings related to Compliance and AML/CTF;

- on-site and off-site supervisions regarding implementation of Compliance and AML/CTF requirements over the divisions, departments, branches and sub-branches;

- Preparation and update of several internal enactments (Policies and Procedures) related to Compliance and AML/CTF activities etc.

Compliance Division will continue to carry out its regular activities in order to achieve overall compliance of SB operations with the relevant regulations as its main objective.

CORPORATE GOVERNANCE REPORT 2013

In accordance with the NBRM regulation in reference to the Corporate Governance the Shareholders of Stopanska Banka AD - Skopje are hereby informed regarding the following:

1. Bank Bodies

1.1. Supervisory Board

The Supervisory Board of Stopanska Banka AD – Skopje consists of 8 members, out of which 2 independent ones, with the term of office of the members determined on four years. With the cut of date 31 December 2013 members of the Supervisory Board are as follows:

1. Konstantinos Bratos, **Chairman of the Supervisory Board of SB,** Assistant General Manager of International Activities Division, National Bank of Greece S.A. Athens;

2. Panagiotis Karandreas, **Deputy Chairman of the Supervisory Board of SB,** Head of Sector “B” of International Activities Division, National Bank of Greece S.A. Athens;

3. Constantinos Vossikas, **member of the Supervisory Board of SB**, Assistant General Manager and Chief Credit Officer at National Bank of Greece S.A. Athens;

4. Anastasios Lizos, **member of the Supervisory Board of SB,** Head of Section “A” 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 International Activities at National Bank of Greece S.A. Athens;

7. Vladimir Kandikjan, **Independent member of the Supervisory Board of SB,** Professor, Faculty of Law “Iustinianus Primus” - University “Cyril and Methodius” Skopje; and

8. Blagoja Nanevski, **Independent member of the Supervisory Board of SB,** Professor, Integrated Business Faculty – Skopje.

During 2013, Mr. Dimitrios Frangetis resigned from the position of a member of the Supervisory Board of SB and Mr. Constantinos Vossikas was appointed on the respected place.

As stipulated with the relevant legislation and also with Article 26 of the Statute of SB, the Shareholders Assembly appoints and dismisses the members of the Supervisory Board. The appropriate qualifications for a Supervisory Board member are:

- university degree, at minimum;
- knowledge of the regulations in banking and/or finance area;
- knowledge of the financial industry and environment the bank operates in,
- experience contributing to stable, safe and efficient management and supervision of the bank operations.

The member of the Supervisory Board should:

- be honest, competent, and capable of giving independent assessment and have strong personal integrity;
- understand his/her role in the corporate governance and fulfill his/her supervisory role efficiently;
- know the SB risk profile;
- know the regulations and take care of establishing and maintaining professional relations with the NBRM and other competent supervisory and regulatory institutions;
- demonstrate loyalty and care for SB;
- avoid conflict of interest, or possible conflict of interest;
- devote enough time for active fulfillment of his/her obligations;
- estimate the functioning of the Bank's Board of Directors at least once a year, with the Bank's business policy and operating plans being the initial basis.
- assess the efficiency of own operating, identify the weaknesses in the Supervisory Board activities and propose amendments on a periodical basis;
- hold regular meetings with the Board of Directors, Risk Management Committee, Audit Committee and SB Internal Audit Division.;
- give proposals for good corporate governance;
- take no participation in everyday management of SB.

Appropriate criteria for independency, apart from the ones prescribed by Law, mean:

- not being an executive or managing director of the Bank or an associated company, and not having been in such a position for the previous three years;
- not being an employee of the Bank or an associated company, and not having been in such a position for the previous three years;
- not receiving, or having received, significant additional remuneration from the Bank or an associated company apart from a fee received as independent member;
- not being a controlling shareholder or a shareholder with a shareholding of more than 5%, or a director or executive officer of such a shareholder;
- not having, or having had within the last year, a significant business relationship with the Bank or an associated company, either directly or as a partner, shareholder, director or senior employee of a body that has such a relationship;
- not being or having been within the last three years, a partner or employee of the current or former external auditor of the Bank or an associated company;
- not being a close family member (relative in first level in vertical or horizontal line) of an executive or managing director of persons in the situations described above.

- as well as not having any other relationship with the Bank and/or the associated companies that could interfere with the exercise of independent judgment in carrying out their responsibilities.

When appointing members of the Supervisory Board and other Bank bodies, the relevant nominating authority considers, apart from the legal requirements, that the proposed member has appropriate qualifications, personal characteristics, experience and integrity to contribute in the best possible manner to successful operations of the Supervisory Board and other relevant bodies.

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.

None of the Supervisory Board members reported any conflict of interest.

1.2. 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, 2013 the Audit Committee members are:

1. Antonio Veljanov, Chairman of the Audit Committee;
2. Panagiotis Karandreas, Deputy Chairman of the Audit Committee;
3. Anastasios Lizos, member;
4. Vladimir Kandikjan, member; and
5. Vladimir Filipovski, 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,
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.

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, as follows: Chief Executive Officer and Chairman of the Board of Directors, Chief Corporate Officer, Chief Retail Officer and Chief Risk Officer. The term of office of the Board of Directors members is two years.

As at 31 December 2013, the Board of Directors members are:

1. Diomidis Nikoletopoulos, 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.

On the Supervisory Board meeting held 28th of May 2013, Diomidis Nikoletopoulos was appointed as Chief Executive Officer and Chairman of the Board of Directors, being previously Chief Retail, Financial and Operations Officer of SB for more than three year. Additionally, the top executive management was strengthened on the 168thmeeting of the Supervisory Board, held on 6th of August 2013, whereas Mrs. Milica Chaparovska-Jovanovska was appointed as Chief Retail 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 the following qualifications:

- university degree,
- at least 6-year successful work experience in finance or banking or 3-year work experience as a person with special rights and responsibilities in a bank with activities corresponding to those in the bank in which they are appointed.
- knowledge of laws and other regulations related to banking.

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.

1.4. 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 2013, the members of the Risk Management Committee are as follows:

1. Diomidis Nikoletopoulos – 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.

1.5. Remuneration Committee

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

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. Panagiotis Karandreas, Deputy Chairman of the Supervisory Board, member.

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

1.6. Other SB Bodies

Other SB bodies, determined with the Statute, are Credit Committees with the following, structure, and authorities, as at December 31, 2013:

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

    1. Diomidis Nikoletopoulos - CEO and Chairman of the Board of Directors of SB, Chairman;
    2. Constantinos Vossikas - Assistant General Manager and Chief Credit Officer at NBG, 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 Section, 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 Nikoletopoulos - 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. Ioannis Tzimos, - Assistant Director in Group International Credit Division, member with a decision-making authority determined in accordance with the applicable credit policy.[1]

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. Goce Vangelovski - Manager of Underwriting Division of SB, member.[2]

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.

[1]During 2013, Mr. Ioannis Tzimos was appointed to different function in the NBG Group. In order to uphold the operation of the referred committee, Mr. Dimitrios Papadopoulos – Senior Credit Officer at Group International Credit Division was appointed to participate in the operation of the Credit Committee, although the decision for his appointment shall be valid after the SB Statute is amended on the following General Assembly.

[2] Mr. Goce Vangelovski resigned from the position of Underwriting Division Manager during August, 2013.

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. Tatjana Kalajdzieva - Manager of Sales and Branch Network Division, member;
3. Dragan Mihajlov – Assistant 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 – Assistant Manager of Product Management Division, member;
3. Emilija Stojanova Ivanovska - Assistant 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.

The Credit Committees operate in accordance with the Procedures for operation of each of the Committees.

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 optimizingits business, create competitive advantages and ensuring future of more profitable growth.

The Bank is organized in 20 divisions, as follows: Internal Audit, Treasury, Human Resources, Corporate Banking, Underwriting, Workout, Product Management, Sales and Branch Network, Risk Management, Collections, Retail Credit Risk, Legal, Information Technology, Accounting, Budgeting and Financial Reporting, Payment Operations, Loan Administration, Administrative Support, Business Processes and Organization, and Compliance Division and independent units directly accountable to the Board of Directors performing the Information Security function. By the end of 2013 Stopanska Banka branch network was reorganized thus the same is represented through 64 branches. SB has no subsidiaries.

3. Shareholders Structure

As of 31 December 2013 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 94.6%, and 5.4% 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 represented by the total of 6 members and other two independent members constitute SB Supervisory Board.

4. Dividend Policy

1. In accordance with the Decision on allocation of profit for 20013, 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 2013. As per the referred Decision the Bank shall disbursed dividend under the preferred shares for the year 2013 in the total amount of MKD 4,548,880.00 or gross amount of MKD 20.00 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 20th meeting held on December 23, 2008 and in accordance with the referred NBRM Decision, last annual review of the same was doneon 32ndShareholders Assembly held on May 22, 2013.

6. Conflict of Interest Policy

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

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

7. Remuneration Policy

On the 33rd Shareholders Assembly, 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.

All Supervisory Board members are entitled to reimbursement for their participation in the operations of the Supervisory Board, in accordance with the Shareholders Assembly Decision on determining remuneration of the members of the Supervisory Board of Stopanska Banka AD – Skopje (A.D. No. 249/12.12.2012), the remuneration is set to EUR 400 net per month. In accordance with NBG Board of Directors Decision passed at the meeting held on September 28th2006, all officers of NBG S.A. Athens, who participate in the Boards of banks or companies within NBG Group, in this case Greece based members of the Supervisory Board of SB, did not receive any remuneration for their participation as Supervisory Board members.

In 2013, total gross amount of MKD 257.866.741 (salary of MKD 256.152.283 and rewards MKD 1,714,458) was paid to total of 246 persons with special rights and responsibilities including the members of the Board of Directors as remuneration package.

At the end of 2013 the total credit exposure to persons with special rights and responsibilities amounts to MKD 54.070.150.

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.

Being a member of the Global Compact Network since November 2004, SB constantly cultivates the concept of corporate social responsibility (CSR) and supports the Ten Principles of the Global Compact, pertaining to human and labor rights, environmental standards and fight against corruption. During 2013 the Bank continued to support the economic growth, strengthen the communities and address critical social issues in the places it does business.

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

1. **Donation to the Children's Clinic and raising awareness for the importance of this institution for the healthcare of the children**

   One of the most significant CSR activities of the Bank for 2013 is the donation of the new portable color Doppler (echo tomography equipment) for the Children's Clinic. This equipment is used for early diagnostics of brain damages in infants and will provide care for 100 infants annually who otherwise would have either been treated abroad or misdiagnosed. With this donation, the Clinic is elevated as one of the top healthcare institution in the region for these types of issues. In addition, the Bank organized raising awareness social media campaign for the importance of this Clinic and asked the community to participate in improving and beautifying the area where the children are hospitalized.

2. **Donation to the public kitchens**

   Per decision of the Board of Directors of SB, the Bank reallocates the funds for end-of-the-year corporate gifts into a Christmas' spirit donation to the public kitchens in the Country. With this donation the Bank secured over 5.000 hot meals in 11 public kitchens around the Country for a warmer celebration of the New Year's holidays. The entire project was executed with the assistance of the Ministry of Labor;

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 construction of the church St. Konstantin and Elena in Skopje, the Football Federation of Macedonia, Prilep Beer Festival, AIESEC Career days, etc.

Taken together, these efforts reflect our dedication to invest in our communities across the country and we are committed to doing more in the years ahead.