

STOPANSKA BANKA AD – SKOPJE

ANNUAL REPORT

2014

Skopje, May 2015

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 Republic of Macedonia and the regulation of the National Bank of the Republic of Macedonia

Financial highlights
in EUR million

	2013	2014	change %
Income Statement indicators			
Net Interest Income	45.5	50.9	11.9%
Net Commissions Income	14.8	15.7	6.0%
Total Income	67.0	72.0	7.4%
Operating expenses	-36.4	-34.2	-5.9%
Personnel Expenses	-11.9	-12.3	3.2%
Net Operating Income	30.7	37.8	23.1%
Impairment losses	-14.5	-10.3	-29.1%
Pre Tax Profit	16.2	27.5	69.8%
Net Profit	16.1	24.6	52.8%

Balance Sheet indicators	2013	2014	change %
Total Assets	1,282.7	1,361.4	6.1%
Equity	173.8	198.5	14.2%
Total loans	872.9	936.1	7.2%
Retail loans	519.2	558.0	7.5%
SBB loans	22.5	30.1	33.5%
Corporate Loans	331.2	348.0	5.1%
Provisions	91.7	99.9	9.0%
Loans to customers (net)	781.3	836.2	7.0%
Total Deposits	1,026.9	1,072.0	4.4%
Retail deposits	793.0	851.5	7.4%
SBB deposits	49.4	60.2	21.7%
Corporate Deposits	184.6	160.3	-5.8%

Financial ratios	2013	2014	change (bp)
Net Interest Margin	3.83%	4.22%	38.7
Cost income ratio	54.2%	47.5%	-671.4
ROA	1.3%	2.1%	81.7
ROE	9.3%	14.8%	545.6
Loans to Deposits ratio (gross)	85.0%	87.3%	231.8
Regulatory capital	160.9	152.0	-5.5%
Capital Adequacy ratio	18.06%	16.36%	-170.0

Operational Indicators	2013	2014	change
Number of Branches	64	65	1
Number of Personnel (eop)	1051	1046	-5

Economic Environment

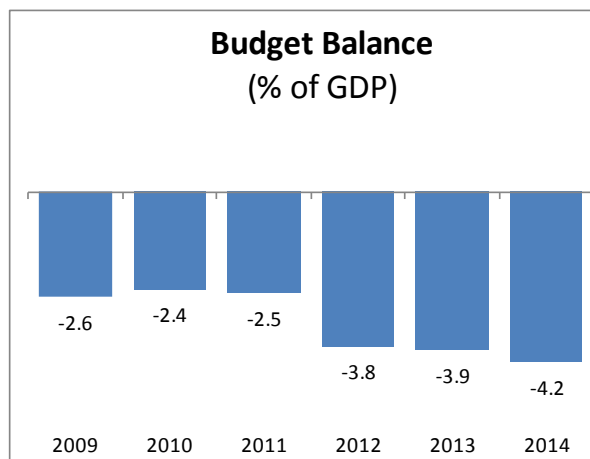
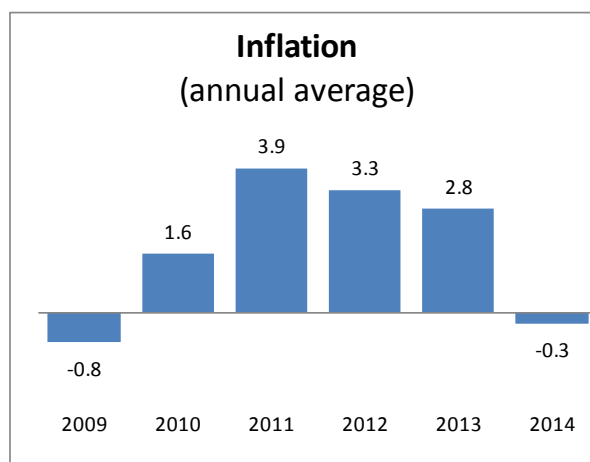
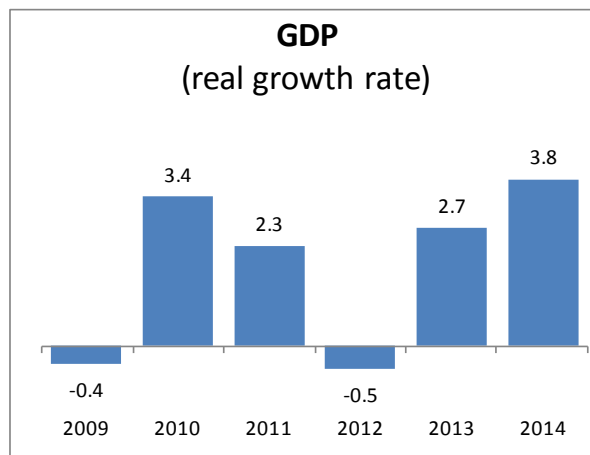
The macroeconomic stability has been successfully maintained in 2014. Therefore, the positive economic growth driven by the public infrastructure projects, higher private consumption and dynamic export has continued in the year under review. Within this macroeconomic environment, the banking sector maintained its low risk profile, sound liquidity and strong capital position.

The positive economic growth has continued in 2014 supported by the capital projects and the private consumption. **Thus, real Gross Domestic Product (GDP) recorded annual growth rate of 3.8%.** Such economic activity is mainly result of the continuance of the public infrastructure projects as well as the higher private consumption induced by the credit growth, pensions and real wages. The net exports stil have negative contribution, but on the positive note the export has become very dynamic due to the high export contribution by the firms in the free economic zones.

The consumer prices level declined in 2014 by 0.3%. Declining food and energy prices were the main drivers of the overall deflation rate reflecting the impact of the drop of the global oil prices and global food prices.

During 2014, the fiscal policy has continued to deliver strong impulse in the domestic economy and back up the public investment projects and the private consumption. Therefore, the budget deficit reached 4.2% of GDP and the public debt reached level of 45.8% of GDP.

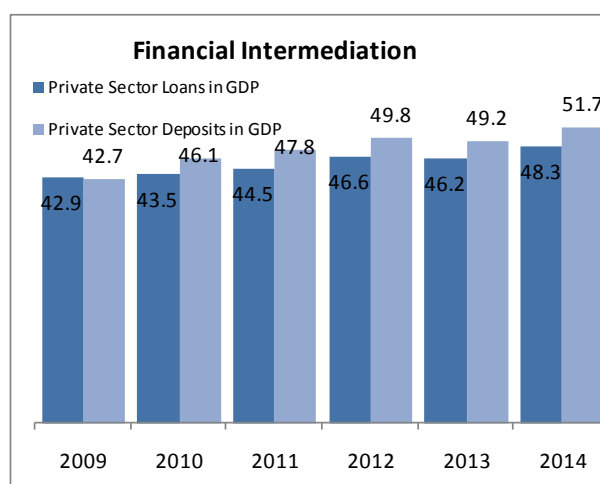
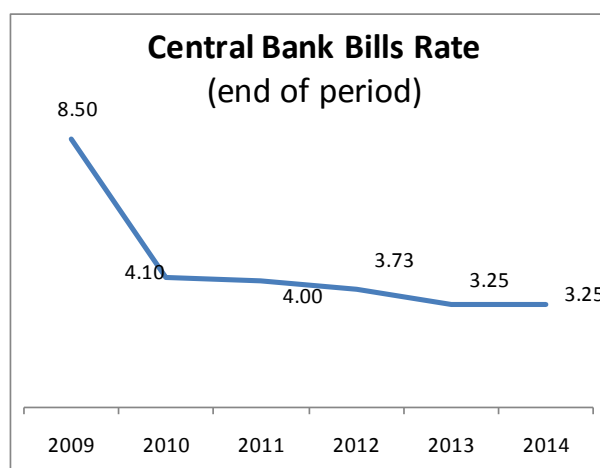
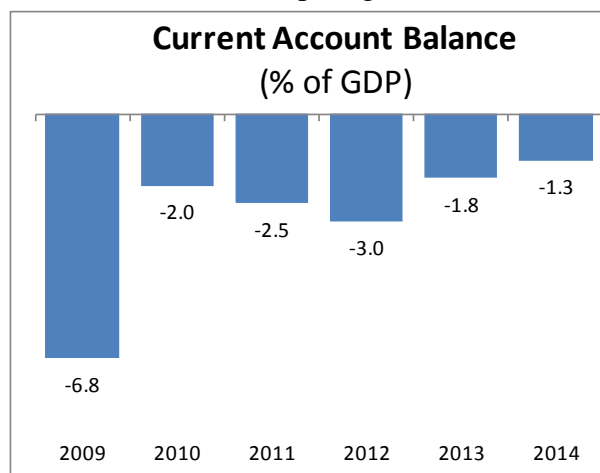
The more dynamic export growth contributed to lower current account (CA) deficit of 1.3% of GDP in 2014. The export companies from the free economic zones, especially in the automotive



industry and electrical machinery, were key drivers of export growth. The overall annual export growth rate was 15.6% and was higher compared to the overall annual import growth rate of 10.9%. The foreign direct investments (FDIs) reached to a level of EUR 262 million, or 3.1% of GDP in 2014 and the private transfers amounted to EUR 1,525.8 million or 18% of GDP.

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

The domestic banking sector remained well-capitalized, deposit-funded, maintained low risk profile and was backed up by the stable macroeconomic stance. During 2014, the growth of the deposit base was relatively strong reaching 10.4% on annual basis. Herein, the corporate deposits grew by 15.7%, while household deposits increased by 8.9%. The credits to the private sector followed the dynamic of the deposits. On annual basis the credit growth reached 10%. The credits to households and enterprises realized annual growth rates of 11.8% and 8.6% respectively. In such environment the loans to deposits ratio was 89.4%. Non Performing Loans (NPLs) slightly decreased from 11.5% in 2013 to 11.3% at the end of the 2014 and the provision coverage remains above 100% (104.7%). Also, taking into account the level of the capital adequacy ratio of 15.7%, it is clear that the banking sector has very good performances i.e it remained stable and maintained low risk profile.



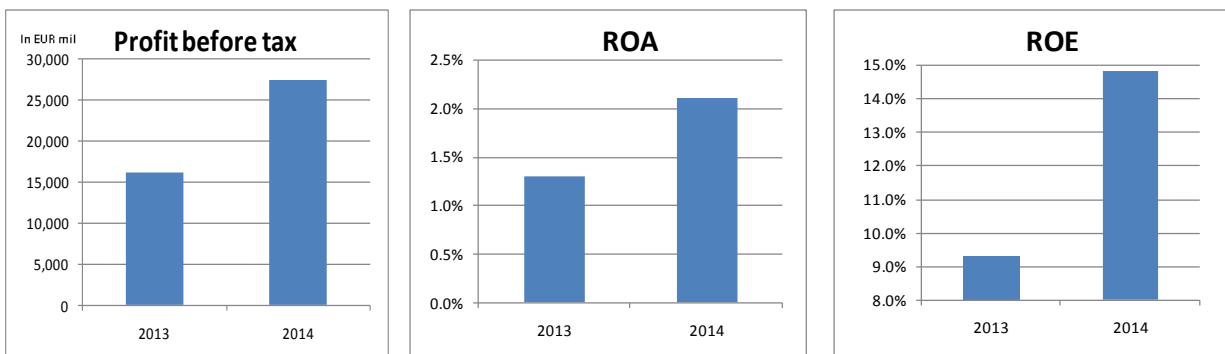
Review of 2014 Activities

Financial Performance

The prudent risk management secured the stability and soundness of the Bank while the rational expansion of the loan portfolio accompanied by the efficient management of the funding sources and operational excellence ensured profitability of Stopanska Banka AD Skopje.

The positive performance in 2014 confirms the strategic choices and highlights the comparative strengths of the Stopanska Banka AD Skopje (hereinafter referred to as The Bank or SB). The distinguished performance was supported by the Bank strategy: driving organic growth, serving the financial needs of the customers, managing risk and maintaining strong capital and liquidity position and to operate efficiently and reduce costs. Thus, throughout the uncertainty that prevailed, SB continue to build a solid balance sheet by strengthening liquidity, asset quality and overall capital levels, which enabled delivering of high quality products, clients' satisfaction and adequate reward for employees and shareholders. 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 27.5 million. The Bank's total assets reached EUR 1,361.4 million, exceeding the corresponding 2013 figure by 6.1%. Consequently, ROA equaled 2.1%, while ROE reached 14.8%, indicating stable returns for shareholders. With the capital strength, which ensured high capital adequacy ratio of 16.4%, SB ensures to be the most trustworthy financial partner in the country.



Interest income

During 2014, the interest income from the retail loans amounted EUR 43.1 million, having the biggest participation within the total interest income of 56.7%. From the corporate loans, the Bank earned interest income of EUR 19.2 million and this item increased by 1.4% compared to 2013. The interest income from the other activities amounted to EUR 13.7 million or 1.4% annual growth.

Interest income

in EUR million

	2013	2014	% change
Interest income	75.2	76.0	1.1%
Retail loans	42.8	43.1	0.8%
Corporate loans	18.9	19.2	1.4%
Other	13.5	13.7	1.4%

Interest expense

The Bank's interest expense decreased by 15.6% compared to 2013. Specifically, the interest expense related to retail deposits registered an annual decline of 16.2%, whereas the interest expense for corporate deposits decreased by 14.7%.

Interest expenses

in EUR million

	2013	2014	% change
Interest expenses	29.7	25.1	-15.6%
Retail deposits	23.1	19.4	-16.2%
Corporate deposits	3.9	3.4	-14.7%
Other liabilities	2.6	2.3	-11.3%

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 2014, recording additional amount of EUR 5.4 million compared to 2013 or above 11.9%. The net interest margin improved in 2014 by approximately 0,4 p.p. reaching to 4.22%.

Fee and Commissions Income

Increased volume of activities in 2014 contributed the net fees and commission income to reach EUR 15.7 million, exceeding the 2013 figure by 6%. Within this, the most significant part (47.1% of the Bank's total fee and commission income) relates to lending activities in amount of EUR 7.4 million. The income from transfer of funds is the second largest item, which at the end of 2014 totaled EUR 5.9 million representing 37.5% of total fee and commission income.

Net fees and commissions income

in EUR million

	2013	2014	% change
Net fees and commissions income	14.8	15.7	6.0%
loans	7.2	7.4	3.0%
letters of guarantee	1.1	1.1	-1.6%
transfer of funds	5.4	5.9	9.4%
others	1.1	1.3	16.0%

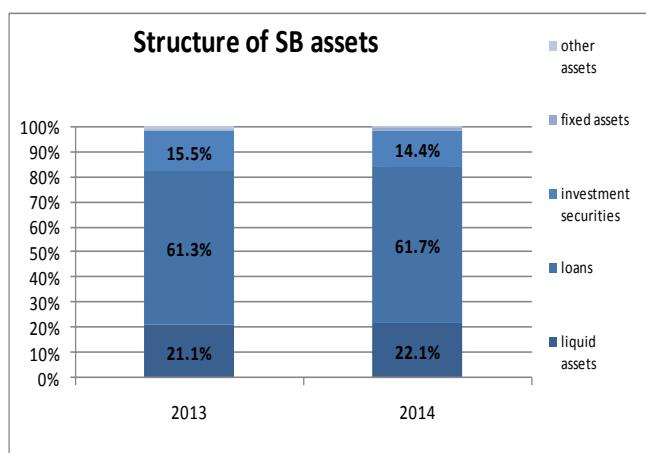
Operating expense

The Bank is pursuing operational excellence in both cost efficiency and risk management resulting in reducing the operating costs and maintaining excellent credit quality results. Despite the organic growth in 2014, with its effective cost containment policy in place, the Bank reduced the total operating expenses by 5.9% and thus reached the cost to income ratio of 47.5%.

Assets and Liabilities

Assets

The Bank's total assets at the end of 2014 amounted to EUR 1,361.4 million, which is EUR 78.7 million or 6.1% above 2013. 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 22% of the total assets. The credit activities increased apart from covering the regular repayments made during the year, thus recording an increase of 7.2%, perceiving the quality of the loan portfolio compared to the market movements. Accordingly, by the end of 2014 the total loan portfolio reached EUR 936.1 million, out of which EUR 378.1 million were extended to corporate (EUR 348.0 million) and Small Banking Business (SBB) (EUR 30.1 million) customers, while retail exposures amounted to EUR 558.0 million.

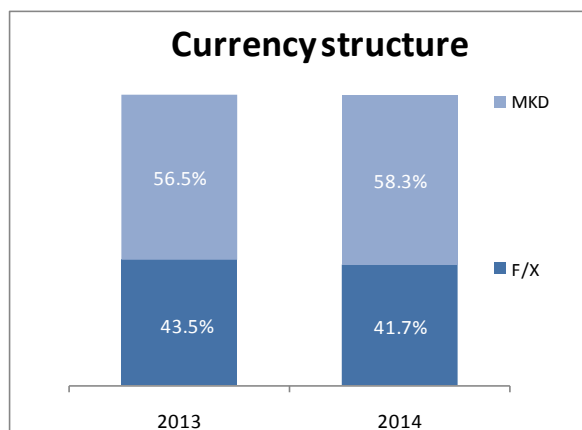
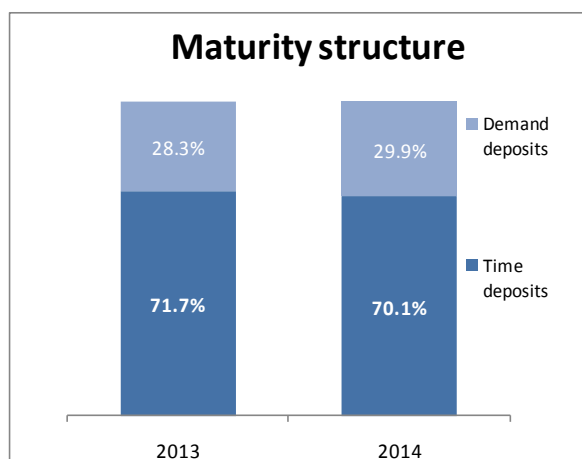
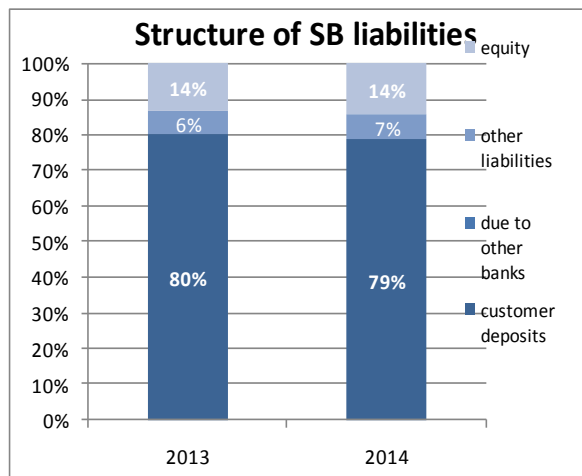


Deposits and Equity

At the end of 2014 the Bank's total liabilities (deposit and non-deposit) reached EUR 1,163.0 million, thus reaching annual growth of 4.9%. Deposits continued to be the main funding source of the Bank closing the year with EUR 1,072.0 million or annual growth rate of 4.4%. As a result, at the end of 2014, the loans to deposits ratio increased to 87.3% 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 58.3% up from 56.5% in 2013, which reflects the confidence to the local currency.

The Bank equity increased by 14.2% in 2014 and reached an amount of EUR 198.5 million. This creates capital base that is the highest within the banking sector in the country and ensures sufficient capital adequacy as well as quality source of long-term funding.



Retail Banking

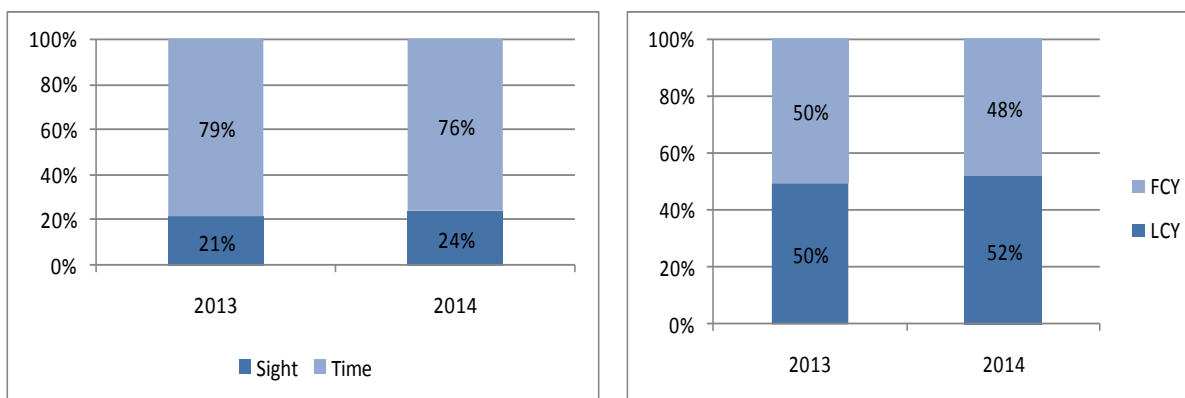
Positioned as the market leader, SB continued to enrich its retail portfolio and pioneered the market with several innovations and new services and products that comply with the modern way of life of the clients who remain at the center of our interest

During the year 2014, SB reconfirmed its leading position in innovations and technology investing in 3D security standard for Visa and MasterCard cards issued by SB, and in launching i-bank store, the first concept branch in the country.

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 851.5 million at the end of 2014. In terms, of maturity structure, there was a shift towards sight deposits growth, although in the deposits portfolio structure, time deposits remain pretty stable prevailing with 76% over sight deposit with 24%. 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.

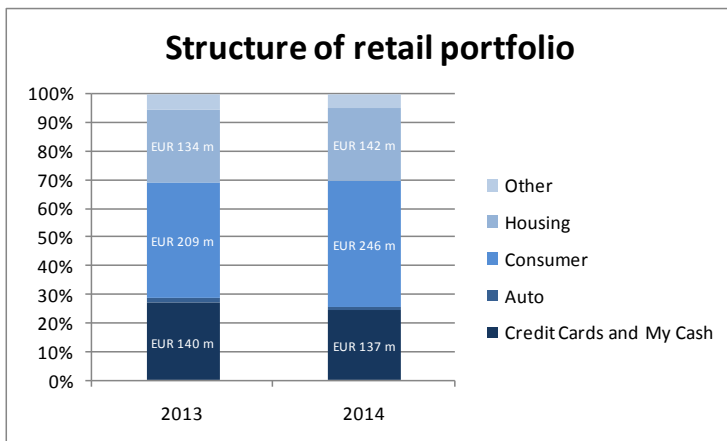


As a trend for the past years, there is continuously growing demand for local currency (LCY) deposits with ratio of LCY and foreign currency (FCY) constantly changing in favour of LCY deposits. Retail deposits in the past years have achieved balance between LCY and FCY and further continued with stronger growth of LCY deposit generating prevailing LCY balances with 52% and FCY balances with 48% of the total retail deposit base. This trend is stimulated by the higher yields still available for the domestic currency and the established trust in its long term stability.

Our constant strategy for appropriate client base segmentation provides establishment of good relation and proper communication with our clients, elevated customer service, improved efficiency in daily operations, different package product offers customized to specific client segments' needs and constant increasing of the existing portfolios performance.

Retail lending

The strategy for 2014 in retail lending was to follow the market trends while maintaining the portfolios' high quality. The ending balances of EUR 558 million testify for a growth of 7.5% 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.

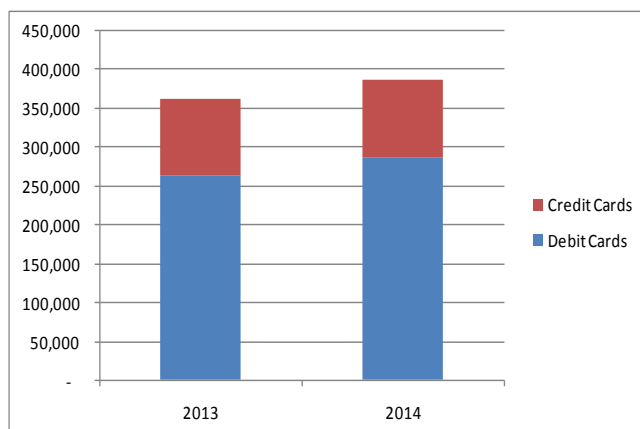


In the structure of the portfolio unsecured lending slightly increase vs. secured lending with slowdown growth in housing portfolio. During 2014, the Bank maintained very low NPL ratio and a market share of 33.5%.

The various consumer loans, with the growth of 7,5% on annual basis, have recorded and reached balances of EUR 356 million, with slowdown growth in housing portfolio, which ensured high market share at the end of 2014.

The credit cards portfolio continued its growth in 2014 in accordance with the planned business objectives and in many aspects exceeded the initial projections by achieving:

- 11.8% growth of credit cards portfolio balances reaching 59.6 million EUR outstanding balances
- 11.5% growth in number of credit cards in circulation



Although the competition on the credit card market increased during 2014, SB retained its leading market position in credit card business with the highest market share in outstanding balances. Moreover, the Bank is engaged in undertaking continuous activities that from one side

drive credit card activation and utilization and on the other side customer retention with appropriate anti-attrition tools.

Debit cards portfolio also continued its growth in 2014 and in many aspects initial projections have been achieved by growth of 9% of the issued debit cards in circulation.

During 2014, SB has reconfirmed its leading position in innovations and technology investing in 3D security standard for Visa and MasterCard cards issued by SB. Implementation of 3D Secure (VbV and MC SecureCode) made SB debit and credit cards the only cards on the market that have this well-known standard for security in internet (e-commerce) payments. Thus, this functionality has become one of the unique values of SB card characteristics, becoming important competitive advantage.

SBB Segment

SBB segment has become increasingly important and regained importance of its position within the Bank. The products and services portfolio have been diversified and the staff supporting the field work has been extended, as well, in such a manner that allowed appropriate market positioning of SB for stronger expansion in this loan portfolio that reached an amount of EUR 30.1 million and recorded growth by 33.5%.

Alternative channels

By introducing one platform with the same OTP token device, unique for each customer for all i-bank alternative channels (e-banking, m-banking, phone banking), SB shows strong dedication for achieving main goals which are multi-channel access to all retail products and services, more user friendly, rich functionality and go-green concept.

In January 2014, the Bank opened the first i-bank store where new and advanced approach for offering banking services via alternative channels was introduced to our market in one state-of art, comfortable, technologically innovative, eco-friendly and customer welcoming space.

I-bank store concept is to demonstrate leadership in banking technology and services, strengthen customer view of the innovative side of the Bank, educate and create a completely new customer-experience for all i-bank alternative channels.

The number of active i-bank clients has increased by 40% in 2014 in comparison with 2013 and the number of i-bank transactions has increased by 50% compared to 2013. This makes the Bank recognizable as a leader in making innovations on the market.

Corporate Banking

Within 2014, Stopanska Banka remained a reliable partner to the companies from all segments of the economy, through providing client focused products and high quality services. At the same time, the Bank followed prudent credit risk policies, emphasizing the importance of the underwriting process.

The Bank offered its services for the corporate entities through its wide spread branch network, providing fast and easy access for all clients to perform their daily operations. However, the credit and trade finance facilities for the large corporate and SMEs were available to the clients through the Bank's specialized and well structured head office, together with the business centers located in Skopje, Bitola and Strumica. Thus, with its highly qualified staff, the Bank managed to provide for its clients high value service, through being their reliable partner and through helping them with financial advice to improve their performance and realize their growth potential.

The Bank in 2014 aimed towards expanding its corporate loan portfolio, through attracting the viable and prospective clients and providing them with well structured credit facilities. The focus remained on increasing the number of customers, through financing the best companies from different industrial sectors on the market, while at the same time participating in financing viable projects, thus diversifying the portfolio and mitigating the risk. Furthermore, SB participated in the large investment projects in the country, providing financial support to the companies through offering syndicate loans. Therefore, the corporate loan portfolio noticed an increase of 5.1% compared to 2013, amounting to EUR 348.0 million at the end of 2014.

Furthermore, the Bank managed to maintain the corporate portfolio quality through applying prudent credit risk assessment in the approval and review stage, as well as through the established early warning system including the design and implementation of innovative business solutions for the companies with identified difficulties.

The Bank continued to offer its range of innovative trade finance facilities, facilitating the smooth operations of the companies through supporting their daily activities. Realizing the importance of the export oriented companies, SB aimed to assist the foreign trade, participating in the programs led by the International Financial Corporation (IFC) and the European Bank for Reconstruction and Development (EBRD).

Risk Management

The Bank continues to pursue a prudent risk management by promoting a balanced approach to risk and return based on a moderate risk profile. The key objective of the risk management of the Bank is to make sure that all risks are managed in the best possible way and thus providing conditions for safe growth and contributing towards effective allocation of Bank capital and higher profitability.

Credit Risk Management

The credit risk management framework of SB is based on a deep understanding of the credit risk and the Bank's exposure towards it, as well as the effectiveness of the internal controls aimed at adequate identification, assessment, measuring, mitigating and monitoring of credit risk.

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

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.

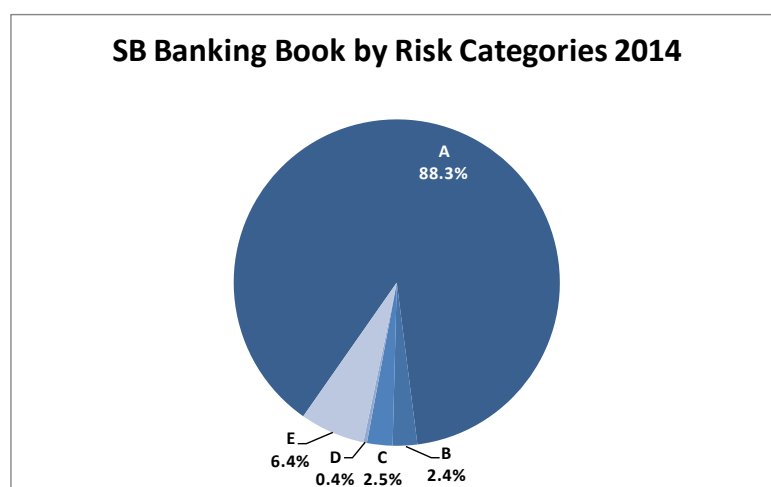
The credit risk is assessed qualitatively and quantitatively in detail before approval, by the approval committee with the adequate authorization level. The responsible business units provide relevant information regarding the purpose, the structure of the proposed credit facility, information about the obligor and other counterparties, assessment of the industry and the market, management and owners, and a financial and non-financial analysis. The quantitative assessment and measuring of credit risk is facilitated by the use of sophisticated internal risk rating systems and statistical scoring models validated on regular basis. The organizational structure of the bank enables more independent levels of credit risk assessment.

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

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

Quality of Credit Portfolio

Within the implemented strong and integrated credit risk management framework, SB managed to maintain a sound and well diversified credit portfolio in 2014. Maintaining a low and controlled NPL ratio is one of the Bank’s main strategic objectives. As a result, the NPL ratio of the Bank was lower by approximately 200 b.p. compared to the level of the overall banking sector.

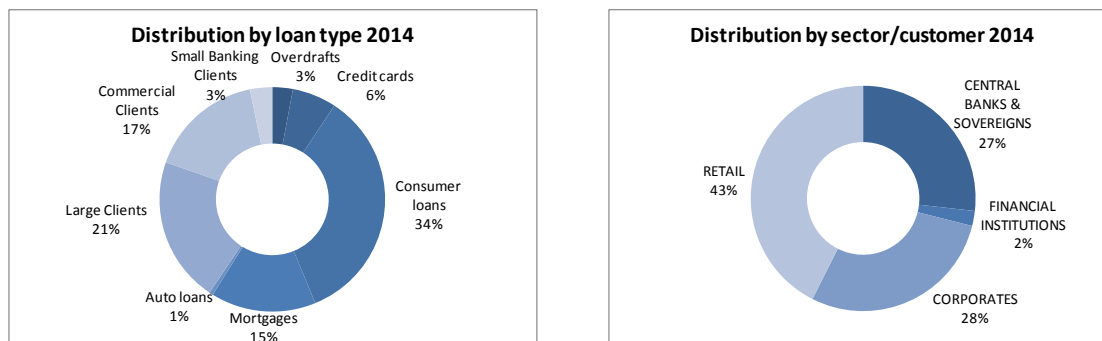


According to the NBRM Methodology, each credit risk exposure is classified in one of the five risk categories (A, B, C, D and E). The Bank maintained 88.3% of the exposure within the lowest credit risk categories i.e. A credit risk category, while high risk debt classified in “D” and “E” categories compose only 6.8 % 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 of concentration limits on regular basis, supporting the conclusions by adequate corrective actions.



Liquidity Risk Management

SB conducted liquidity management in a manner that preserved and enhanced funding stability, flexibility and diversity. High level of liquidity continued during 2014. SB liquidity profile reflects its strategy, risk appetite, business activities, the markets and the overall operating environment. The liquidity policy is designed to ensure that funding is available to meet all obligations when they come due without incurring unacceptable losses. This is achieved by prudent asset/liability management strategy aimed at maintaining a funding structure with stable deposits and on the other hand high liquid assets including cash and easily converted in cash assets which compose sizeable part of SB assets.

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 managed through an internal system for monitoring and daily liquidity management, the maintenance of sufficient amount of cash in line with the maturity and currency structure of assets and liabilities, a monthly gap analysis of inflows and outflows, maintaining a low risk portfolio of assets to meet current liabilities, and operations on the interbank market.

The Framework for managing liquidity risk encompasses:

- Operating standards relating to SB's liquidity risk, including appropriate policies, procedures and resources for controlling and limiting liquidity risk
- Maintenance of a stock of liquid assets appropriate for the cash flow profile of SB which can be readily converted into cash without incurring undue capital losses
- Measurement, control and scenario testing of funding requirements, as well as access to funding sources
- Management information and other systems which identify, measure, monitor, and control liquidity risk

- Contingency plans of SB for handling liquidity disruptions by means of the ability to fund some or all activities in a timely manner and at a reasonable cost
- Liquidity risk limits (e.g. maturity mismatch ratio, liquid asset ratio) taking into account SB's risk appetite and profile
- Liquidity ratios, established by either regulatory authorities and internally and monitored on daily and monthly basis

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 has established a framework for managing interest rate risk in order to minimize the effects of adverse changes in future interest rates and to ensure timely identification, measurement, monitoring and mitigation of the interest rate risk exposures. The framework encompasses risk factors and their estimation, measurement methodologies, stress testing methodology, Interest rate risk in the banking book (IRRBB) metrics and limits as to ensure that this risk is appropriately measured, monitored and controlled. Furthermore, the Bank established appropriate limits and utilizes techniques in order to measure the Bank's exposure from adverse movement in interest rates within the banking book positions.

The Bank is exposed to effects of fluctuation in the market interest rates relevant for its financial positions and cash flows since the interest bearing assets and liabilities have different maturity dates (for fixed-rate), periods of interest rate changes (re-pricing for floating-rate). Taking into consideration the relatively minor portion of the Bank's interest bearing assets that are allocated to the trading portfolio which consists of government securities, the assessment of the interest rate risk is conducted through monitoring of exposures arising from the banking book activities.

In order to manage the interest rate risk appropriately, the Bank is conducting the process of identification, assessment, mitigation and monitoring of interest rate risk on regular basis, separately for all significant currencies the Bank deals with. At the end of 2014 the ratio of total net weighted position to the regulatory capital was well below the regulatory maximum of 20% and resulted with insignificant exposure to IRRBB.

Foreign Exchange Risk Management

The system for identification, measuring, monitoring and controlling the currency risk or f/x risk encompasses all 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 and thus, SB calculates the Open Currency Position for every foreign currency present in its balance-sheet.

The 2014 currency risk management process was accomplished with high proficiency and the Open Currency position constantly was lower than the regulatory limit and consequently there was no breach of regulatory limit at any time.

Operational Risk Management

The overall focus of 2014 Operational risk management process was on strengthening the Operational risk management function, accomplished through intensive proactive role by Risk Management Division, with particular intention, operational risk exposure to be eliminated or mitigated in line with SB risk profile, risk strategy and business goals.

SB Operational risk Management Framework consists of four fundamental components: Key Risk Indicators (KRI), Risk and Controls Self Assessment (RCSA) process, Loss Data Collection (LDC) process and Action Plans (AP). The effective operational risk management (ORM) in SB is facilitated through utilization of the Group software solution for operational risk management (AlgoOpVar), that enables efficient management of the operational risk (OR), comprehensive overview of the Bank's OR exposure, high quality monitoring and recording process of the realized losses, efficient monitoring of the Key Risk Indicators and effective action plan initiation and follow-up.

Starting from 1st of January 2014 SB has implemented 27 defined KRI. During whole 2014 KRI values were subject of regular review in order to measure the current operational risk exposure and to indicate the negative trends and movements of identified operational risk exposure. In general, during 2014, all of the KRI values were within the expected values and below the defined triggers, based on which the ORM process resulted with low level of operational risk exposure, at whole.

During 2014, SB has implemented the 7th cycle of RCSA process, in order to identify, assess and evaluate every potential operational risk loss event with aim to eliminate the possibility those potential operational risk loss events to occur in the future. In general, 2014 RCSA implementation was accomplished with high efficiency and accuracy, with highly proactive role by Risk Management Division.

In accordance with the efforts of the Risk Management Division for proactive role in LDC process, the following systematic activities were performed during 2014: enhancement of the loss data collection process through establishing general key risk indicators that refer to the number of loss events per division on monthly basis; establishing regular obligatory reporting system for materialized operational risk loss events by every Organizational unit; enrichment of high level description of any occurred loss event in order the loss database to indicate the place of risk occurrence and source of risk on more analytical level; strengthening of the loss data management information process by risk management function;

At overall, the number of loss events expressed through frequency, and the amount of operational risk losses expressed through severity, are insignificant and inconsequential for Bank's business activities and goals, considering the Bank segment orientation, profile, size, assets, capital and scope of processes within entire Bank operations.

Based on 2014 KRI values escalation triggers, RCSA results, and LDC process, several action plans have been initiated during 2014, whose implementation is properly followed in accordance with SB operational risk management framework. In general, all of the preventive and mitigation measures were undertaken in order to mitigate the current and potential operational risk exposure and to avoid occurrence of loss events, with accomplishing best practices expressed through proactive strengthened role of operational risk management function.

With regards to the additional operational risk management activities related to Bank's operational risk management process, and with an aim of the operational risk management function to be progressive and forward looking, at the end of 2014 SB has implemented Scenario Analysis for operational risk management purposes in order to estimate the exposure to high severity risk as a result of hypothetical event with unexpected disaster losses. Based on 2014 Scenario Analysis results the appropriate actions have been initiated in order the potential operational risk exposure to be mitigated.

Based on the above mentioned, all of the ORMF fundamental components were fully implemented, and consequently, the 2014 operational risk management process was accomplished with high expertise, avoided the negative effects on the financial results and capital position and ensured that the ORM Framework is effective, appropriate and implemented with integrity.

Capital Adequacy, Internal Capital Adequacy Assessment Process and Stress Test

SB maintains strong and high quality capital adequacy that provides for continuous and sustainable growth of its overall banking operations. The Bank's total regulatory capital as of 31.12.2014 amounted to EUR 152.0 million (Tier 1 - EUR 131.5 million and Tier 2 - EUR 20.5 million)resulting with capital adequacy ratio of 16.36% as at 31.12.2014.

As a part of the prudently established risk management framework, the Bank regularly assesses the Internal Capital Adequacy Assessment Process (ICAAP) and the resilience of its capital adequacy by conducting stress testing. The Bank's ICAAP ascertains that SB's capital is sufficient to cover all the material risks to which it is exposed as well as the identified excess of capital is more than sufficient to cover all other risks that cannot be adequately quantified but to which the Bank is exposed to in the regular business activities. Also, stress test exercises are integral part of the risk management framework providing estimates of the size of financial losses and the impact on capital adequacy. During 2014, the Bank conducted various stress tests in order to analyze its sensitivity to a predetermined set of extreme but plausible shocks. The stress tests included effects from various scenarios regarding credit risk, interest rate risk in the banking book, liquidity risk, currency risk and operational risk, as well as scenarios that encompassed combination of the risks.

The stress test results proved the Bank's resilience even under very pessimistic assumptions. Such resilience mainly reflects the prudent risk management, strong capital base, as well as the high liquidity position of the Bank.

Compliance, Anti-Money Laundering and Combat Terrorist Financing activities

In the course of 2014, 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 2014, part of AML and CTF IT platform and Mantas system were additionally upgraded and their functionality further improved.

In addition, as a member of the NBG Group, in the course of 2014, SB has registered itself with the US IRS (Internal Revenue Service) as Participating Foreign Financial Institution not covered by an IGA under the US FATCA act, and it started implementing this Act's provisions in accordance with the NBG Group specifications.

According to the Annual Compliance and AML Plans for 2014, 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 and branches;
- Preparation and update of several internal enactments (Policies and Procedures) related to Compliance and AML/CTF activities;

- Compliance Officer took active involvement in the Project "National Money Laundering/Terrorist Financing Risk Assessment of the country", organized jointly by the World Bank, the European Commission – TAIEX, the Organization for Security and Co-operation in Europe (OSCE) and the Financial Intelligence Office in the Country etc.

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

CORPORATE GOVERNANCE REPORT 2014

Stopanska Banka AD – Skopje is one of the largest, most profitable and sound banks in the country with **highly sophisticated and effective system of corporate governance** established by following the best practices, the relevant regulation and the strategic needs of the bank. Therefore, **special attention** to the corporate governance function is set on the highest management level by the Executive Committee that consists of the Board of Directors members, the Senior Managers and the Bank Secretary.

The following Report is presented to the shareholders of SB in accordance with the Decision on the basic principles of the corporate governance in a bank (Official gazette of RM n. 159/2007).

1. Bank Bodies

1.1. Supervisory Board

The Supervisory Board of Stopanska Banka AD – Skopje consists of 8 members, out of which 2 independent ones, with the term of office of the members determined on four years, appointed by the Shareholders Assembly. During 2014 there were no changes in the composition of the Supervisory Board of SB, reflecting the trust and the reliability of the shareholders in the experience and expertise of the current members.

Thus, the composition of the Supervisory Board is 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**, Director of Special Assets Control and Operational Support 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, 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, 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.

As it is legally prescribed and regulated in the art. 26 of the Statute of SB, all members of the Supervisory Board have the appropriate qualifications and expertise (university degree, knowledge of the relevant regulation, relevant experience etc.), understands the role of the Supervisory Board in the corporate governance of a bank, as well are persons with integrity and reputation.

The Supervisory Board members must respect the appropriate criteria for independency. Apart from the ones prescribed by the law, the criteria for independency 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.

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, 2014 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, with term of office of two years.

As at 31 December 2014, the Board of Directors members were:

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

During 2014, the Supervisory Board re-appointed three members of the Board of Directors: Mr. Nikolettopoulos, Mr. Stojanovski and Mr. Skordis, to manage the Bank for additional two years period.

Members of the 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. Executive Committee

The Executive Committee of SB is established as an advisory body of the Board of Directors. As of 31.12.2014, it consist of 7 members, namely:

1. Diomidis Nikolettopoulos, Chief Executive Officer and Chairman of the Board of Directors;
2. Toni Stojanovski, Chief Risk Officer and member of the Board of Directors;
3. Milica Chaparovska-Jovanovska, Chief Retail Officer and member of the Board of Directors;
4. Theodoulos Skordis, Chief Corporate Officer and member of the Board of Directors;
5. Mirjana Trajanovska, Senior Manager for Treasury and Finance;
6. Radmila Maksimovic, Senior Manager for Operations, and
7. _____, Bank Secretary.

1.5. 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 2014, the members of the Risk Management Committee are as follows:

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

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

1. permanently monitors and assesses the risk level of SB, and identifies the acceptable level of exposure to risks in order to minimize the losses as a result of SB risk exposure,
2. establishes risk management policies and monitors their implementation,
3. follows the regulations of the NBRM pertaining to the risk management and SB compliance with such regulations,
4. assesses SB risk management systems,
5. determines short-term and long-term strategies for managing certain types of risks SB is exposed to,
6. analyzes the reports on SB risk exposure developed by SB risk assessment units and proposes risk hedging strategies, measures and instruments,
7. monitors the efficiency of the internal control systems in the risk management,
8. analyzes the risk management effects on SB performances and analyzes the effects of the proposed risk management strategies, as well as the proposed risk hedging strategies, measures and instruments,
9. informs, at least once a month, SB Supervisory Board, and at least once every three months, SB Audit Committee, on the changes in SB risk positions, changes in the risk management strategies, the risk management effects on SB performances, as well as the undertaken measures and instruments for hedging the risks and the effects thereof, and
10. reviews the transactions with the persons related to SB on a quarterly basis, and submits report to the Supervisory Board by 15th day in the month following the reporting period.

1.6. 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.

During 2014, members of the Remuneration Committee were 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. On the 186th meeting of the Supervisory Board the independent members of the Remuneration Committee were re-appointed for additional term of office, while Ms. Dimitra Gkountoufa was appointed on the place of Mr. Karandreas.

1.7. Other SB Bodies

Other SB bodies, determined with the Statute, are Credit Committees with the following, structure, and authorities, as at December 31, 2014:

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

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

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

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

1. Diomidis Nikolettopoulos - CEO and Chairman of the Board of Directors, 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. Vlado Treneski - Manager of Corporate Banking Division, member.
5. Konstantinos Choudalakis – representative of NBG Group International Credit Division, member with a decision-making authority determined in accordance with the applicable credit policy.

The members are elected without limitation of the term of office. The CC, decides on credit exposure toward single subject (legal entity or individual) in the amount from EUR 500.001 up to EUR 3.000.000. CC also approves restructuring of claims and regulating of claims in accordance with applicable credit policies and performs other activities determined with decisions of the Supervisory Board. The meetings are held by teleconference or written statement when needed with a quorum of all of its members and the decisions are passed unanimously.

3. Commercial Clients Credit Committee (CCCC): it consists of 4 members as follows:

1. Toni Stojanovski - Chief Risk Officer 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. Mihaela Atanasova Stoichovska– Deputy Manager of Underwriting Division, member.

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

The CCCC decides on credit exposure toward single subject - legal entity from EUR 100.001 up to EUR 500.000 and toward single subject – individual from EUR 100.001 up to EUR 500.000 CCCC also approves restructuring of claims and regulating of claims in accordance with applicable credit policies and performs other activities determined with decisions of the Supervisory Board. The meetings are held by teleconference or written statement when needed with a quorum of all of its members and the decisions are passed unanimously.

4. Small Banking Business Credit Committee (SBBCC): it consists of 4 members as follows:

1. Milica Chaparovska-Jovanovska - Chief Retail Officer and member of the Board of Directors, Chairman;
2. Dragan Pehcevski - Manager for marketing of SBB segment and portfolio development, member;
3. Dragan Mihajlov – Deputy Manager of Product Management Division, member;
4. Dejan Stamatov - Manager of Risk Management Division, member.

The members are elected without limitation of the term of office. The SBBCC decides on credit exposure toward single subject – legal entity in the amount up to EUR 100,000. SBBCC also approves restructuring of claims and regulating of claims in accordance with applicable credit policies and performs other activities determined with decisions of the Supervisory

Board. The meetings are held by teleconference or written statement when needed with a quorum of all of its members and the decisions are passed unanimously.

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

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

1. Milica Chaparovska-Jovanovska - Chief Retail Officer 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 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 optimizing its 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 2014 Stopanska Banka branch network was reorganized thus the same is represented through 65 branches. SB has no subsidiaries.

3. Shareholders Structure

As of 31 December 2014 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

In accordance with the Decision on allocation of profit for 2014, 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 2014. As per the referred Decision the Bank shall disburse dividend under the preferred shares for the year 2014 in the total amount of MKD 3,639,104.00 or gross amount of MKD 16.00 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 done on 34th Shareholders Assembly held on May 29, 2014.

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 2014, total gross amount of MKD 78.117.854 (all in salaries) was paid to total of 29 persons with special rights and responsibilities, including the members of the Board of Directors as remuneration package.

At the end of 2014 the total credit exposure to persons with special rights and responsibilities amounts to MKD 80.655.410.

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 2014 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 supported during 2014 are presented below:

1. Give with a smile – humanitarian project for the 70th anniversary campaign

Celebrating its 70th anniversary, Stopanska Banka initiated a big humanitarian project under the motto “GIVE WITH A SMILE” inviting the citizens and its clients to participate in the projects simply by “donating” a smile. The project consisted of various events for different groups of people (kids, middle-aged, seniors) and ended with large celebration together with public officials, including the President of the country, VIP clients and the Bank’s employees. In the end of the project, the Bank donated sophisticated medical equipment to the national clinics that would be used for better medical care of the children around the country.

2. Donation for the socially vulnerable families

Meeting the holiday season in December and the date of establishing the Bank – 29th of December, SB in cooperation with the Red Cross of RM donated packages of food and hygienic materials to 250 socially vulnerable families in 7 municipalities across the country: Skopje, Bitola, Strumica, Valandovo, Kocani, Gevgelija and Struga.

3. Sponsorship of the Ohrid Summer Festival

Traditionally, every year SB 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.

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. Traditionally, the Bank is a sponsor of the carnival thus showing respect and providing support to the local community and tradition.

The Bank supported many other important projects for the community as well, such as the construction of the church St. Konstantin and Elena in Skopje, Prilep Beer Festival, various environmental projects, the career days organized by AIESEC, the annual tuition fees of selected students of JIE University, 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.