

Stopanska Banka AD – Skopje

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# **ANNUAL REPORT 2021**

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Skopje, May 2022

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## REVIEW OF 2021 ACTIVITIES

The Covid 19 Pandemic for the second year in a row is still present in the everyday life, highly impacting the health of the population, the economic and the social life. The world has globally faced with something new and unpredictable, with high level of uncertainty for the duration and the consequences. The banking sector showed high level of capacity for dealing with the crisis, undertaking measures and activities for amortizing the shocks, thus supporting the clients and securing the business continuity in the new environment. However, the new operating conditions imposed increased costs for operation and adjustment of the business model of all economic entities, including the banks.

With the undertaken measures for coping with the crises, the last year resulted in the increase of the GDP to app. 4%, which also statistically presents the recovery of the economy. But the new challenges that occurred, especially in the second half of the year, such as the uncertainty related with the continuation of the EU integration processes, the increase of the prices of energy and raw materials, the high level of inflation that will completely attribut to the higher production costs of the businesses, decrease the overall profitability and the purchasing power of the population. This is expected to affect the regular servicing of the lending obligations toward the banks.

In the mentioned circumstances, the Bank's management and all its employees were actively engaged in providing the business continuity of the whole Bank's infrastructure, the clients' needs, the economy and the society as the whole. The main focus was put on the improvement of the digital infrastructure, which in the given period is more than a necessary way of communication, and a road to the future.

**THE BANK REMAINS COMMITTED AND CLOSELY CONNECTED WITH ITS CLIENTS, ALWAYS TRYING TO PREDICT AND ASSES THEIR NEEDS BY OFFERING REASONABLE AND SUSTAINABLE SOLUTIONS AND FINANCIAL ADVICE. THE BANK CONTINUES TO MONITOR THE DEVELOPMENT OF THE CRISIS AND UNDERTAKE WHATEVER MEASURES NEEDED.**

As one of the systemically important banks, Stopanska Banka continued to achieve successful results in 2021, similar to the previous years. So, the profit before tax is MKD 2.729 million, which is 25% higher than the previous year. The total assets of the Bank was increased for 8% and amounts to MKD114.103 million. With total capital and reserves of MKD19.792 million, Stopanska Banka remains the highest capitalized bank with capital adequacy ratio of 16.5%.

## FINANCIAL HIGHLIGHTS

| INCOME STATEMENT INDICATORS     | 2020           | 2021           | change %     |
|---------------------------------|----------------|----------------|--------------|
| Net Interest Income             | 60.2           | 62.4           | 3.7%         |
| Net Commissions Income          | 12.0           | 13.5           | 12.5%        |
| Total Income                    | 79.6           | 85.2           | 7.0%         |
| Operating Expenses              | -28.6          | -29.4          | 2.8%         |
| Net Operating Income            | 50.9           | 55.7           | 9.4%         |
| Impairment Losses               | -15.6          | -11.5          | -26.8%       |
| Pre Tax Profit                  | 35.3           | 44.3           | 25.5%        |
| <b>Net Profit</b>               | <b>32.1</b>    | <b>40.0</b>    | <b>24.6%</b> |
| BALANCE SHEET INDICATORS        | 2020           | 2021           | change %     |
| Total Assets                    | 1,718.3        | 1,851.5        | 7.8%         |
| <b>Equity</b>                   | <b>281.7</b>   | <b>321.2</b>   | <b>14.0%</b> |
| Regulatory Capital              | 225.4          | 241.8          | 7.3%         |
| Loans to Customers (net)        | 1,150.8        | 1,266.3        | 10.0%        |
| <b>Total Loans (gross)</b>      | <b>1,195.9</b> | <b>1,309.4</b> | <b>9.5%</b>  |
| Retail Loans                    | 801.3          | 850.2          | 6.1%         |
| Corporate Loans                 | 394.6          | 459.2          | 16.4%        |
| Provisions                      | 45.0           | 43.2           | -4.0%        |
| <b>Total Deposits</b>           | <b>1,404.1</b> | <b>1,455.1</b> | <b>3.6%</b>  |
| Retail Deposits                 | 1,071.8        | 1,077.4        | 0.5%         |
| Corporate Deposits              | 332.3          | 377.7          | 13.7%        |
| FINANCIAL RATIOS                | 2020           | 2021           | change (bp)  |
| Net Interest Margin             | 4.2%           | 4.1%           | -15.6        |
| Cost Income Ratio               | 35.9%          | 34.5%          | -142.3       |
| ROA                             | 1.9%           | 2.2%           | 31.9         |
| ROE                             | 12.1%          | 13.3%          | 115.1        |
| Loans to Deposits Ratio (gross) | 85.2%          | 90.0%          | 481.5        |
| Capital Adequacy Ratio          | 16.8%          | 16.5%          | -34.4        |
| OPERATIONAL INDICATORS          | 2020           | 2021           | change       |
| Number of Units                 | 64             | 64             | 0            |
| Number of Personnel (eop)       | 1008           | 983            | -25          |

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

## ECONOMIC ENVIRONMENT

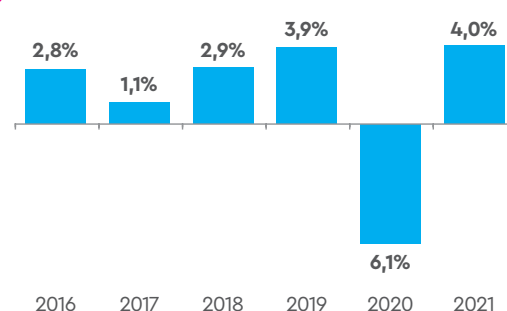
THE COVID-19 PANDEMIC CONTINUED TO TORMENT THE WORLD IN 2021. THE EFFECTS OF THE VACCINATION PROCESS WERE NOT AS STRONG AS EXPECTED SINCE NEW VARIANTS OF THE VIRUS EMERGED. ON A POSITIVE NOTE, NEW LOCKDOWNS WERE AVOIDED, WHICH ENABLED GRADUAL RECOVERY OF THE GLOBAL ECONOMY. HOWEVER, THE DISRUPTED SUPPLY CHAINS RESULTED IN SIGNIFICANTLY HIGHER PRICES WORLDWIDE, ESPECIALLY IN THE ENERGY AND FOOD COMPONENT. HAVING IN MIND THE CURRENT POLITICAL TENSIONS, THE UNCERTAINTY IS EXPECTED TO CONTINUE.

**AFTER A 6.1% DECLINE IN 2020, THE DOMESTIC ECONOMY SHOWED SIGNS OF RECOVERY WITH AN INCREASE OF 4.0% IN 2021, MOSTLY DRIVEN BY PRIVATE CONSUMPTION AND INVESTMENT.** Diaspora travel boosted remittances, contributing to higher demand. The largest GDP rebound was evident in the second quarter (13.4%), not forgetting the lower comparative basis. However, the current global political instability does not give a positive outlook for 2022.

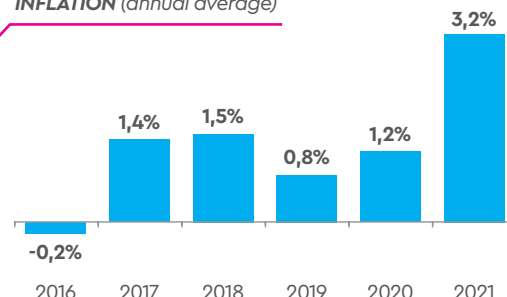
The disrupted global supply chains and the mismatch of supply and demand caused by the pandemic, resulted in high inflation worldwide that hasn't been recorded in the last two decades. Many countries registered inflation rates of above 5%, mostly driven by energy and food prices. **THE AVERAGE CPI IN THE DOMESTIC ECONOMY FOR 2021 INCREASED BY 3.2%, HAVING IN MIND THAT THE ANNUAL RATE WAS 4.9%.** Considering the ongoing political tensions globally, the upward risks are in place.

The **FISCAL BALANCE** has improved in 2021 due to a rebound in revenues. The sizeable support to the economy in the wake of the pandemic brought a deficit of 8.2% of GDP in 2020. Driven by a strong revenue performance (15.3% increase), the budget deficit in 2021 has reduced to 5.4% of the GDP. At the end of 2021, the public debt amounted to EUR 7,135.3 million or 60.9% of the GDP. In March, Republic of North Macedonia has issued the eight Eurobond in an amount of EUR 700 million with a 7-year maturity period and at a historically lowest interest rate of 1.625%. Its aim was to refinance the third Eurobond issued in 2014, amounting to EUR 500 million. In line with the Public Debt Management Strategy, it remains the endeavor to reduce the public debt well below the Maastricht criterion of 60% until 2026.

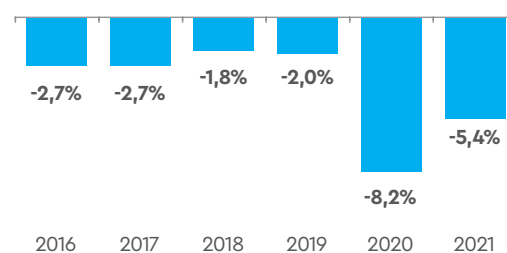
GDP (real growth rate)



INFLATION (annual average)



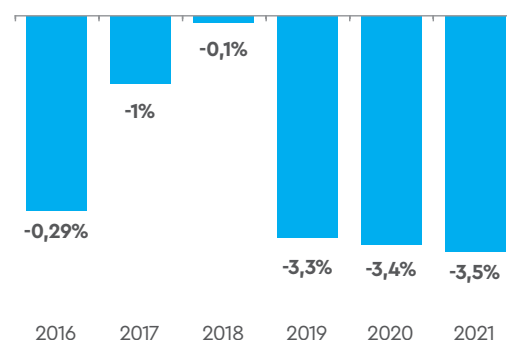
BUDGET BALANCE (% of GDP)



**THE EXTERNAL POSITION IN 2021 REMAINED STEADY, RESULTING IN CURRENT ACCOUNT DEFICIT OF EUR 415.7 MILLION OR 3.5% OF THE GDP, SLIGHTLY HIGHER THAN IN 2020.**

Private transfers significantly rebounded, reaching EUR 1,889.9 million, which is 43.9% higher than the previous year, covering 100.8% of the trade deficit. With regards to the financial account, the foreign direct investment also expanded, reaching EUR 512 million, compared to EUR 201.4 million in 2020. The adequate level of gross foreign reserves (EUR 3,643.3 million or 4.5-months import coverage) enabled sufficient buffers against potential unforeseen shocks.

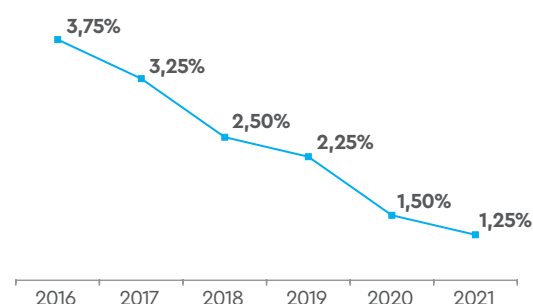
**CURRENT ACCOUNT BALANCE (% of GDP)**



**ACCORDING TO THE NBRNM, THE CURRENT MONETARY POLICY STANCE IS APPROPRIATE AS IT SUPPORTS SOLID CREDIT GROWTH, WHILE THE INFLATION IS IN LINE WITH THE EURO AREA.**

Foreign reserves are at a comfortable level and the foreign currency liquidity in the banking system remains suitable. In March 2021, the Central Bank reduced the key interest rate on CB bills to a historic low of 1.25%. However, given the uncertainty regarding the future path of the inflation and the tensions in Ukraine, the NBRNM states that it will continue to closely monitor developments and potential risks, emphasizing its readiness to act as needed to support the currency peg.

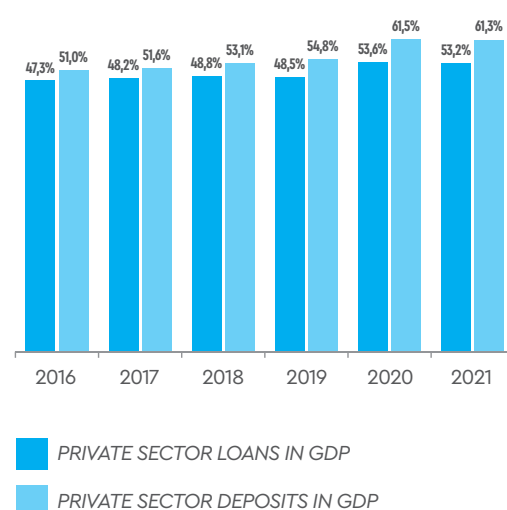
**CENTRAL BANK BILLS RATE (end of period)**



**DURING THE CORONA CRISIS, THE BANKING SYSTEM SUCCEEDED IN REMAINING WELL CAPITALIZED, LIQUID AND PROFITABLE.**

It showed an ability to support the economy in complex conditions and to further meet the requirements of its clients. At the end of 2021, the total deposit growth reached 7.8% on annual level. Herein, corporate deposits recorded a stronger growth of 11.6%, while retail deposits increased by 7.1%. The credit growth at the end of the year reached 8.3%. The retail loans grew by 7.8%, while corporate loans were higher by 8.7%. NPE level continued its downward trend reaching 3.2% as of 31.12.2021. The loans to deposits ratio at the end of the year stood at 82.6%. The capital adequacy ratio of the banking sector as of 31.12.2021 was 17.3%. The profitability ratios ROA and ROE were somewhat higher than the previous year, reaching 1.5% and 12.9% respectively. Overall, the banking system continues to be healthy, but the risks need to be closely monitored.

**FINANCIAL INTERMEDIATION**



## BASIC MACROECONOMIC INDICATORS

|   | 2017  | 2018  | 2019  | 2020  | 2021   |
|---|-------|-------|-------|-------|--------|
| <b>OUTPUT</b>   |       |       |       |       |        |
| Gross Domestic Product (real growth rate)             | 1.1   | 2.9   | 3.9   | -6.1  | 4.0    |
| Industrial Production (annual growth rate)            | 0.2   | 5.4   | 3.7   | -9.5  | 1.4    |
| <b>PRICES, WAGES AND PRODUCTIVITY</b>                 |       |       |       |       |        |
| CPI (annual average)                                  | 1.4   | 1.5   | 0.8   | 1.2   | 3.2    |
| CPI (year-end)  | 2.4   | 0.9   | 0.4   | 2.3   | 4.9    |
| PPI (annual average)                                  | 0.5   | -0.3  | 0.9   | 0.8   | 8.5    |
| PPI (year-end)  | 1.4   | -0.8  | 1.1   | 1.8   | 15.0   |
| Real wages (annual growth rate)                       | 1.2   | 4.4   | 3.1   | 6.5   | 2.3    |
| <b>GOVERNMENT FINANCE</b>                             |       |       |       |       |        |
| General government balance (% of GDP)                 | -2.7  | -1.8  | -2    | -8.2  | -5.4   |
| <b>EXTERNAL SECTOR</b>                                |       |       |       |       |        |
| Current account balance (% of GDP)                    | -1    | -0.1  | -3.3  | -3.4  | -3.5   |
| Export of goods and services (in million eur)         | 5,509 | 6,463 | 6,972 | 6,264 | 7,738  |
| Import of goods and services (in million eur)         | 6,921 | 7,828 | 8,585 | 7,642 | 9,613  |
| Export of goods and services (annual growth rate)     | 12.0  | 17.3  | 7.9   | -10.2 | 23.5   |
| Import of goods and services (annual growth rate)     | 8.3   | 13.1  | 9.7   | -11.0 | 25.8   |
| Gross external debt (in million eur)                  | 7,372 | 7,844 | 8,154 | 8,536 | 9,547  |
| Foreign reserves (in million eur)                     | 2,336 | 2,867 | 3,263 | 3,360 | 3,643  |
| Exchange rate MKD / EUR (average)                     | 61.6  | 61.51 | 61.52 | 61.69 | 61.632 |
| <b>MONETARY AGREGATES</b>                             |       |       |       |       |        |
| M1 growth (dec/dec.)                                  | 10.7  | 18.7  | 17.2  | 16.4  | 8.7    |
| M2 growth (dec/dec.)                                  | 4.1   | 11.8  | 9.9   | 11.2  | 10.3   |
| M2 denar growth (dec/dec.)                            | 5.4   | 14.5  | 12.7  | 10.6  | 5.5    |
| M4 growth (dec/dec.)                                  | 5.3   | 11.8  | 9.3   | 6.9   | 7.0    |
| M4 denar growth (dec/dec.)                            | 6.4   | 14.0  | 11.4  | 5.5   | 1.7    |
| Credit to private sector (dec/dec.)                   | 5.7   | 7.3   | 6.0   | 4.7   | 8.3    |
| <b>INVEST RATES</b>                                   |       |       |       |       |        |
| Money market interest rate (annual average)           | 1.10  | 1.07  | 1.10  | 1.07  | 1.02   |
| CB bills rate (annual average)                        | 3.30  | 2.92  | 2.29  | 1.64  | 1.29   |
| Money market interest rate (end of period)            | 1.10  | 1.09  | 1.13  | 1.10  | 1.09   |
| CB bills rate (end of period)                         | 3.25  | 2.50  | 2.25  | 1.50  | 1.25   |
| <b>CAPITAL MARKETS</b>                                |       |       |       |       |        |
| Macedonian Stock Exchange index-MBI (growth rate-eop) | 18.9  | 36.6  | 34.0  | 1.2   | 30.8   |

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

## BANKING SECTOR & SB

| POSITION/INDICATOR     | Banking Sector | SB        | Market Share |
|------------------------|----------------|-----------|--------------|
| Total Assets           | 638,665.8      | 114,102.7 | 17.9%        |
| Total Loans            | 383,626.7      | 78,315.2  | 20.4%        |
| Total Deposits         | 468,844.2      | 86,860.5  | 18.5%        |
| Loans growth-retail    | 8.2%           | 6.4%      |              |
| Loans growth-corporate | 9.0%           | 16.5%     |              |
| Deposits Growth        | 8.8%           | 3.4%      |              |
| ROA                    | 1.5%           | 2.2%      |              |
| ROE                    | 12.9%          | 13.3%     |              |
| C:I                    | 47.4%          | 34.5%     |              |
| NIM                    | 2.6%           | 4.1%      |              |
| NPE                    | 3.2%           | 3.9%      |              |
| CAR                    | 17.3%          | 16.5%     |              |

**Source:** The data and reports for the banking sector are from NBRNM

**STOPANSKA BANKA AD SKOPJE ACCOUNTS 18% OF THE TOTAL BANKING SECTOR ASSETS AND ALMOST 1/5TH OF BOTH DEPOSITS AND LOANS.**

In 2021, the realized growth rate of loans was 8.9% and 3.4% of deposits. During 2021, the performance of the Bank was in many aspects higher compared to the total banking sector as shown above. Namely, ROA 2.2% vs. 1.5%, ROE 13.3% vs. 12.9%, NIM 4.1% vs. 2.6% and the cost-to income ratio well below the banking sector with remarkable 34.5% vs. 47.4%. The capital adequacy ratio was 16.5%.



## FINANCIAL PERFORMANCE

The most important aspects of the financial performance of the Bank are as follows:

### INTEREST INCOME

During 2021, the interest income from the retail loans amounted to EUR 48.7 million, having the biggest participation within the total interest income of 72.9%. At the same time, the interest income from corporate and other activities (investments in securities, interbank placements and other) amounted to EUR 18.1 million i.e. increased by 2.8% compared to the previous year. In the environment of the continuing trend of interest rates decline, the total interest income amounted to EUR 66.8 million.

|                        | 2020        | 2021        | % change     |
|------------------------|-------------|-------------|--------------|
| <b>Interest Income</b> | <b>67.0</b> | <b>66.8</b> | <b>-0.3%</b> |
| Retail Loans           | 49.3        | 48.7        | -1.2%        |
| Corporate Loans        | 12.6        | 13.3        | 5.6%         |
| Other                  | 5.0         | 4.8         | -4.0%        |

### INTEREST EXPENSE

Due to the decreased trend of the interest rates and even the negative rates in the EU area, the Bank realized decrease in the interest expenses on average by app. 35%.

|                          | 2020        | 2021       | % change      |
|--------------------------|-------------|------------|---------------|
| <b>Interest Expenses</b> | <b>6.80</b> | <b>4.4</b> | <b>-35.3%</b> |
| Retail Deposits          | 5.20        | 3.3        | -36.5%        |
| Corporate Deposits       | 0.60        | 0.3        | -50.0%        |
| Other Liabilities        | 1.10        | 0.9        | -18.2%        |

## NET INTEREST INCOME

Net interest income amounted to EUR 62.4 million and increased by 3.7% mainly due to the lowered interest expenses, partly as a result of lowered interest rates at the repricing of the deposits and partly due to the change of the maturity structure of the deposits and the shift in shorter term tenors. The trend of dropping interest rates is noticeable in the interest income, where even with increased loan balances, the Bank realized almost the same interest income as last year.

|                            | 2020        | 2021        | % change    |
|----------------------------|-------------|-------------|-------------|
| <b>Net Interest Income</b> | <b>60.2</b> | <b>62.4</b> | <b>3.7%</b> |
| Interest Income            | 67.0        | 66.8        | -0.3%       |
| Interest Expenses          | 6.8         | 4.4         | -35.3%      |

## FEE AND COMMISSIONS INCOME

In 2021, net fees and commission income reached EUR 13.5 million. Within this, the most significant part (43.7% of the Bank's total fee and commission income) relates to fees from transfer of funds in amount of EUR 5.9 million, recording a decrease of 15.7% compared to the same period last year. The net income from lending activities is the second largest fee item, which at the end of 2021 amounted to EUR 3.8 million, representing 28.1% of the total fee and commission income.

|  | 2020        | 2021        | % change     |
|--|-------------|-------------|--------------|
| <b>Net Fees and Commissions Income</b> | <b>12.0</b> | <b>13.5</b> | <b>12.5%</b> |
| Loans                                  | 3.8         | 3.8         | 0.0%         |
| Letters of Guarantee                   | 0.7         | 0.8         | 14.3%        |
| Transfer of Funds                      | 5.1         | 5.9         | 15.7%        |
| Others                                 | 2.4         | 3.0         | 25.0%        |

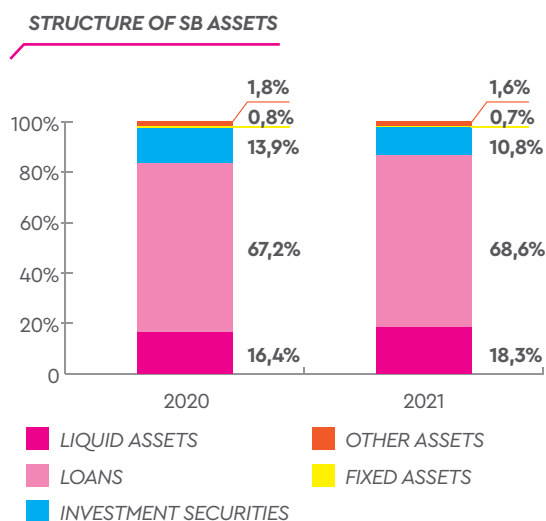
## OPERATING EXPENSE

During 2021, the Bank continued to pursue operational excellence in both cost efficiency and risk management, resulting in keeping the costs in line with the budgeted figure and maintaining excellent credit quality results. The total operating expense amounted to EUR 29.4 million and has remained on the same level as last year. Because of its effective cost containment policy in place accompanied by the growing revenues, the Bank succeeded to maintain the relatively low cost to income ratio of 34.5%, far below the banking sector average.

# ASSETS AND LIABILITIES

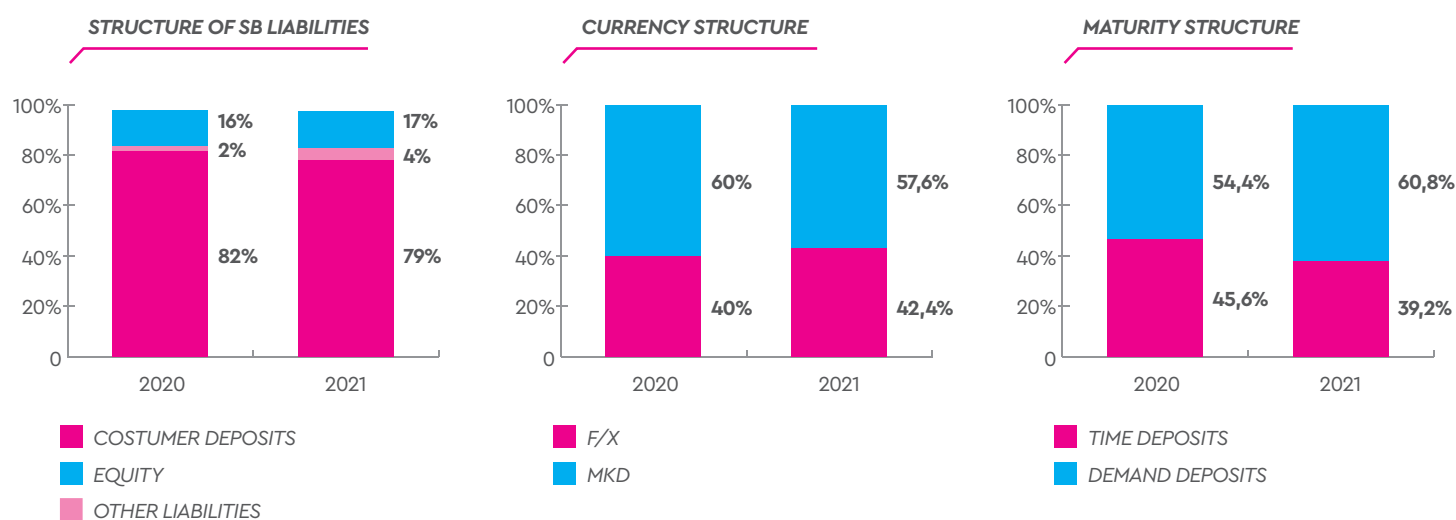
## ASSETS

The Bank's total assets at the end of 2021 amounted to EUR 1,851.5 million, which is EUR 133.2 million or 7.8% higher in comparison to 2020. The Bank continued to enhance its prudent approach with balanced growth, adequate liquidity and strong capital base. The share of liquid assets in the total assets of the Bank is 25.13%. The total loan portfolio reached EUR 1,309.4 million, out of which EUR 459.2 million were extended to corporate customers, while retail exposures amounted to EUR 850.2 million



## DEPOSITS AND EQUITY

The Bank's deposit base increased by 3.6% or EUR 51.0 million. Deposits continue to be the main funding source of the Bank, amounting to EUR 1,455.1 million and as a result, at the end of 2021, the loans to deposits ratio reach 90.0% on gross basis, still sufficient to enable the Bank's strong credit potential. Furthermore, a change of the maturity structure of the deposits and shift in shorter term tenors can be noticed in the year under review, still indicating stable sources of funds for the Bank's further credit expansion.



The currency composition of the deposits' base indicates stable share of domestic currency denominated deposits of 58% (60% in 2020).

The Bank's equity amounted to EUR 321.2 million at the end of 2021 and as such, it is still the highest within the banking sector in the country, ensuring sufficient capital adequacy and quality source of long-term funding.

## RETAIL BANKING

The year 2021 was again severely impacted by the covid pandemic. However, with the strong vaccination efforts, societies began the arduous return to the normal way of life, which is still ongoing.

From a retail banking perspective, following 2020, a year of severe lockdowns and restrictions, 2021 brought in a sense of relief and, mostly after Q1, clients began relaxing and becoming more consumer-oriented in the sense of shopping, investing and experiencing more. The Government support for delayed repayment was complete with the end of Q1 and in the following three quarters, the retail lending started to grow gradually.

Throughout the entire 2021, branch locations remained with adjusted working hours and with more regulated accesses to the facilities, which, naturally, drew more clients to seek digital solutions and increase both the frequency and the amount of transactions executed online. The Bank also became more open to clients online, offering extended services for both retail and SBB clients.

The Contact center, challenged with the limitation to the working spaces, remained distributed on several locations and yet, it consistently provided premium customer care 24/7, increasing the workload multiple times compared to the pre-covid years.

**SBB CLIENTS ALSO REINVENTED THEMSELVES IN 2021 AND BEGAN INVESTING IN THE PROMISING FUTURE BY ADJUSTING THEIR OFFER TO SUITE THE CHANGING MARKET AND NARRATIVE.**

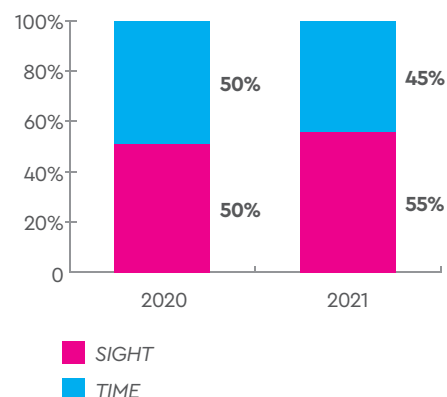
## RETAIL DEPOSITS

The retail deposit base grew in 2021, reaching the 1.08 billion mark and continuing to reflect the trust the customer base has in the Bank.

The sight vs. time deposit ratio remain balanced, slightly in favor of the sight deposits, considering that clients still preferred to have liquid funds during the covid crisis, in addition to deposits having low interest rates.

The ratio between FCY and LCY is pretty much balanced, as it seems clients have rather balanced preference for one or the other.

SIGHT/TIME STRUCTURE OF DEPOSITS



## RETAIL LENDING

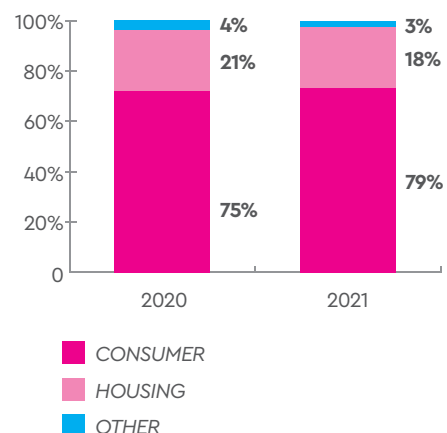
At the beginning of March 2021, all retail lending activities were re-established and activated and modestly promoted according to the mood of the market.

Time restricted promotional offers delivered solid results and a 6.1% increase in retail lending was achieved, compared to 2020, with higher percentage in the secured loans category.

The **HOUSING LOAN** portfolio noted a substantial increase of more than 14% compared to 2020, reflecting once more how stalemate the situation in real estate was in 2020 and how invigorating 2021 felt among consumers. The Bank continued supporting the Government's project "Kupi kukja, kupi stan", subsidizing clients purchase of their first home while maintaining the core business – new construction or secondary purchase of real estate.

**CONSUMER LOANS** grew by 8.6% compared to 2020, demonstrating the mood among clients to invest, rather than to spend.

STRUCTURE OF RETAIL PORTFOLIO



## CARDS BUSINESS

The Cards portfolio continued to generate higher card transactional volumes, especially considering debit cards, since many clients during the pandemic were encouraged to shift from cash to card payments. The growth of the debit cards transactions continued this year as well, and this was sufficient to offset the lower transactional volume of the credit cards, resulting in cumulative annual growth of 22% in POS volume for both SB debit and credit cards.

## BANCASSURANCE AND COOPERATION WITH THE PENSION FUND

SB Bancassurance continued to develop and several novelty products were introduced with benefits for our clients, our employees and our core business. SB lending products continue to be bundled with insurance products and the Bank is now also offering Unit Link life insurance (with investment options) and credit protection insurance (CPI) for certain products.

Travel insurance continues to be offered to loyal clients, users of credit cards for free, which significantly influences the sale of this product to retail clients. For SB this activity has become a stable and growing revenue stream.

## CONTACT CENTER AND IBANK SERVICES

**THE CONTACT CENTRE**, with its 24/7 availability, established itself as the key client service point following the pandemic and the strict restrictions to branch access. SB Contact Centre customer interactions continued to grow, exceeding 50.000 direct interactions on a monthly level and providing significant contribution in sales of SB retail products and services.

## 2021 CONTINUED WITH THE NOTICEABLE INCREASE IN USERS OF STOPANSKA BANKA'S DIGITAL AND DIRECT BANKING PLATFORMS AVAILABLE UNDER THE I-BANK BRAND.

Considering **DIGITAL BANKING FOR INDIVIDUALS**, in 2021, Stopanska noted a 20% annual growth of i-bank transactions, 10% growth of active i-bank transactors, and there were more than 110.000 customers that digitally accessed their accounts in 2021. This growth was supported with digital banking novelties that were introduced in 2021 in order to push online enrollment to SB i-bank service.

Considering **DIGITAL BANKING FOR SMALL BUSINESSES AND OTHER LEGAL ENTITIES**, we also witness significant growth in 2021, which led to having 80% of transactions of the legal entities in 2021 processed through SB digital banking, while only 20% still use branches for processing their transactions. Growth of SB digital banking for legal entities in 2021 was also supported with digital banking novelties such as: m-banking for legal entities, issuance of new digital certificates, and other enhancements.

## SBB SEGMENT

The SBB segment, in its core specifics is very adaptable, very versatile and entrepreneurial, which contributes to fast responses to the crisis as it is easier for some of them to diversify and overcome the economic instability and focus again on growth afterwards.

We were witnessing exactly that in 2021, when a solid growth of 16% of SBB lending occurred, mostly because clients were asking for working capital loans, but also for investments and diversification loans.

Recognizing a strong, reliable financial partner and consultant in our SBB team, the companies were able to find products and negotiate customized terms, and this type of partnership continues, mostly based on the fact that the Bank offers a broad variety of products suitable for small businesses: deposits, payment operations, payrolls processing, POS acquiring etc.

## CORPORATE BANKING

Marked as a second pandemic year, 2021 brought many challenges and uncertainties in businesses and everyday lives of people. However, as in the previous years, the overall market trend of rising banking competition continued in 2021, contributing to the environment of low interest rates and further declining of pricing of other banking services.

Stopanska Banka AD Skopje continued with the implementation of the defined strategy for corporate lending market share increase. The achieved annual corporate credit growth is 16,1% or net increment of the portfolio in amount of € 63,95m. As a result of this growth, the corporate portfolio market share of SB as of Dec. '21 reached 15,4%. The overall adjustments in corporate banking made by SB and the successfully implemented market strategy resulted in effective and competitive market demand, enriching the client base and increasing the market share. As in the initial period of the pandemic, the Bank continued with the activities for intensified monitoring of the quality of the corporate portfolio and detailed analysis of corporate clients in order to design an appropriate solution, depending on the needs and requirements of each corporate client.

The prolonged Covid-19 crisis, the energy crisis, the inflationary pressures, as well as the latest serious events related to the Ukrainian crisis, remain high on the agenda of the most important issues for daily management of the Bank's portfolio, for the sake of careful planning and intensive monitoring of market conditions and the broader environment.

**HOWEVER, DESPITE THE UNSTABLE GLOBAL MARKET ENVIRONMENT AND THE STRONG COMPETITION, STOPANSKA BANKA WILL CONTINUE THE UPWARD TREND OF THE CORPORATE PORTFOLIO AND INCREASE OF THE MARKET SHARE IN THIS SEGMENT, ALWAYS IN ACCORDANCE WITH ITS CREDIT POLICIES, APPLYING THE BEST PRUDENTIAL STANDARDS.**

As in the previous period, every corporate client will be able to benefit from the Bank credit and deposit products, which fit their needs and business interests. By this, the SB clients will be able to more successfully face the challenges of the new environment in which we live and work, as well as to create opportunities for their further development, boosting the greater production, new projects and more newly created jobs.

## RISK MANAGEMENT

**AS ONE OF THE COUNTRY'S LARGEST FINANCIAL INSTITUTIONS OFFERING BANKING SERVICES, STOPANSKA BANKA AD SKOPJE IS EXPOSED TO A VARIETY OF RISKS. WITHOUT TAKING RISKS, PROFITABLE BANKING ACTIVITIES ARE IMPOSSIBLE, WHICH IS WHY SB ACCEPTS A CERTAIN DEGREE OF RISK AS DEFINED IN OUR RISK APPETITE FRAMEWORK (RAF).**

The Bank manages these risks through a comprehensive risk management framework that integrates risk management into daily business activities and strategic planning. The main objective of the Risk Management function of the Bank is to protect the interest of its customers and shareholders through prudent management of risk supported by strong risk culture, as well as abundant liquidity and a strong capital base

Effective risk management requires Bank-wide risk governance. SB's risk and control structure is based on the 'three lines of defense' governance model, introduced in 2019. Each line has a specific role and defined responsibilities, with the execution of tasks being distinct from the control of these same tasks. The three lines work closely together to identify, assess and mitigate risks. First and foremost, the business (including support functions) has ownership of the risks, which it manages and takes responsibility for (first line).

The Bank's risk management framework is provided by the Risk Management and Compliance function (second line). Both functions challenge risk taking and monitor the risk profile. Internal Audit (third line) provides independent assurance, advice and insights on the quality and effectiveness of internal control, risk management, compliance and governance of the Bank.

The risk management function of SB supports the Board of Directors in formulating the risk appetite, strategies, policies and limits. It provides review, oversight and support functions throughout SB on risk-related items. SB's main financial risks exposures are to credit risk, funding and liquidity risk and market risk. In the current complex business conditions, SB is also exposed to non-financial risks such as operational, IT and compliance risks.

The primary role of the independent Risk Management function of the Bank is to properly and timely identify, measure and manage risks in normal and specific economic conditions and to oversee whether the business activities are consistent with the Bank's strategy and risk appetite. In order to maintain an adequate risk profile, the Bank uses tools such as prudent risk criteria, risk assessments, rating and scoring models, which are constantly reviewed, validated and enhanced in accordance with the banking industry's best practices.



SB has a framework of risk management policies, procedures, and minimum standards in place to create consistency throughout the organization and to define requirements that are binding for all business units. Senior management is responsible for the implementation of and adherence to policies, procedures and standards. Policies, procedures and standards are regularly reviewed and updated via the relevant risk committees to reflect changes in requirements, markets, products and practices.

The Covid-19 pandemic has disrupted lives across all countries and communities and negatively affected global economic growth in 2020 beyond anything experienced in nearly a century. The global economy shrank in 2020 as demand and supply, trade, and finance were severely disrupted. 2021 was unquestionably marked by the unpredictable character of the Covid-19 pandemic as well, including the emergence of new variants of the virus and the resulting restrictive measures. Worldwide supply chain challenges and increasing inflation were also part of the economic uncertainty. However, despite these challenges, worldwide economy recover quickly and better than expected. In line with the global trends' gradual recovery for the local economy was noted as well.

***THE COVID-19 PANDEMIC CRISIS INTRODUCED THE NEED TO INTENSELY MONITOR DEVELOPMENTS RELATING TO CREDIT AND LIQUIDITY RISKS. THE BANK ALSO PERFORMED SEVERAL TYPES OF STRESS TESTS AND SECTORAL REVIEWS TO ASSESS THE POTENTIAL IMPACT ON ITS FINANCIAL POSITION, WHICH HELPED SB TO GET FURTHER INSIGHTS INTO THE POTENTIAL IMPACT AND TO DEFINE APPROPRIATE MITIGATING ACTIONS.***

Even in these challenging times, the Bank still strives to continuously improve the risk management framework in line with the coming regulatory requirements and international standards, the best practices and the changing market conditions. The Risk culture is an important integral component of risk management and the Bank has an active approach of increasing the risk awareness and strengthening the risk culture on all levels of operations, through adequate trainings and workshops.

## CREDIT RISK MANAGEMENT

Being one of the most relevant risks the Bank is exposed to, the credit risk is the risk of economic losses the bank suffers if a counterparty cannot fulfil its contractual or other financial obligations arising from a credit contract. Therefore, it is crucial for the Bank to rely on thorough knowledge and understanding of the customer's business, sector, management, goals, financials, opportunities and challenges in order to undertake an informed decision. For that purpose, SB credit policies of prudent lending include a detailed risk assessment prior to any credit decision and a common set of minimum standards for credit limit evaluation, approval, renewal and monitoring of credit exposures. The performed credit assessments are supported by risk rating systems and statistical scoring models that, based on various quantitative and qualitative data inputs, provide quantification of the credit risk levels. Finally, Authorized Credit Approval Committees with experienced and professional members are established for approval and renewal of the credit facilities.

After credit relationship is established, SB applies an intensive monitoring process that allows early identification of any deterioration of the risk profile of a customer or a group of customers. The monitoring process consists of regular credit reviews throughout the life cycle of the product facility, internal risk classification and Early Warning Systems, system for assessment of Significant Increase of Credit Risk (SICR) and Unlikeness To Pay (UTP), that all together aim to ensure timely undertaking of necessary actions in order to minimize the credit loss. The credit exposure is also continuously monitored against the established concentration limits based on sector, collateral type, obligor rating, etc. in line with Risk Appetite Framework of the Bank.

***IN LINE WITH THE INTERNATIONAL BEST PRACTICES, FOLLOWING THE ENHANCED IMPAIRMENT METHODOLOGY AND PROCESS, THE BANK PROVIDES ADEQUATE LEVEL OF PROVISIONS FOR POTENTIAL CREDIT LOSSES.***

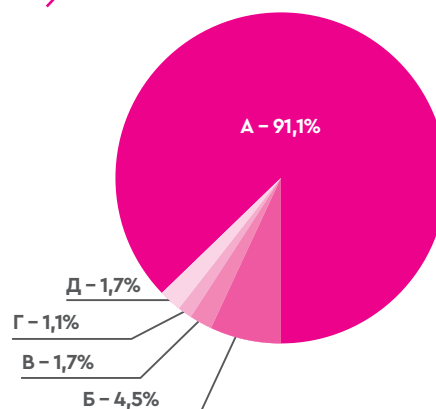
Despite the impact that the pandemic had on the world and the local economy, during 2021, the Bank continued the current prudent credit policy and the balanced growth of the credit portfolio that suits its strategy and reputation. All its credit risk objectives, tools and a clear governance structure of the risk management process are incorporated in the Bank's Credit Policies and the Risk Appetite Framework of the Bank, approved by the Supervisory Board of the Bank.

## QUALITY OF CREDIT PORTFOLIO

Within the implemented solid credit risk management framework, SB managed to maintain a sound and well-diversified credit portfolio. Growth of the credit portfolio, along with maintaining a low and controlled NPE ratio is one of the Bank's main strategic objectives, which the Bank managed to achieve in 2021, despite decreased economic activity in the domestic economy, caused by the Covid-19 pandemic.

According to the NBRNM Methodology, each credit risk exposure is classified in one of the five risk categories (A, B, C, D and E). The exposure within the best credit risk category i.e. the "A" credit risk category, has increased from 88,1% in 2020 to 91,1% in 2021, mostly due to exposure classified in "B" category that decreased from 7,2% in 2020 to 4,5% in 2021. High-risk debt exposures classified in "D" and "E" categories are lower by 0.2 percentage points in comparison with 2020 and compose 2,8% of the Bank's loan portfolio.

SB BANKING BOOK BY RISK CATEGORIES 2021

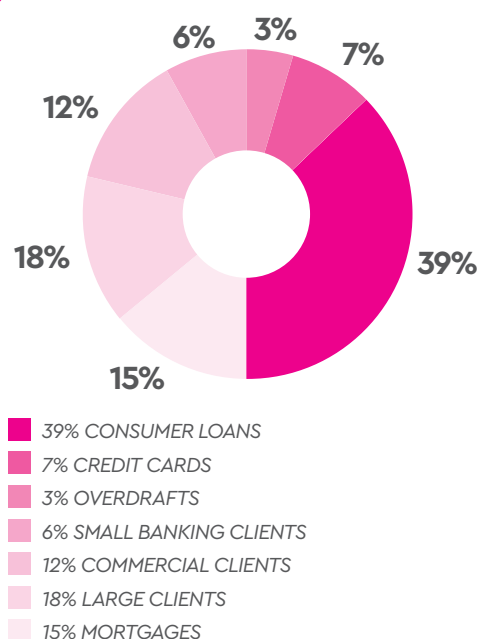


## CONCENTRATION STRUCTURE

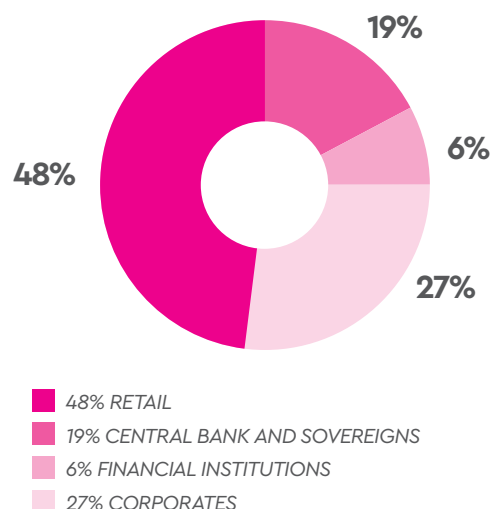
Credit concentration risk is a risk of loss due to insufficient diversification of risks within a portfolio caused by relatively large concentrations of exposures to positively and highly correlated counterparties. To avoid excessive credit risk concentrations, SB aims to diversify the credit risk and establishes limits towards single clients and groups of related clients (obligor concentration), exposure within certain industry sector (industry concentration), type of collateral, 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.

DISTRIBUTION BY LOAN TYPE 2021



DISTRIBUTION BY SECTOR/CUSTOMER 2021



## LIQUIDITY RISK MANAGEMENT

The Bank continuously maintains the liquidity position at a high level, thus enabling performance of all business activities and regulatory requirements. The Bank's liquidity originates mostly from its own funding sources- clients' deposits, out of which 60% are transactional accounts and sight deposits, which is characterized with higher fluctuations. In such conditions, the liquidity management requires adequate set of liquidity instruments, grouped according to term and currency structure. The Bank's liquidity position consists of: cash in vaults and branches (6%), accounts in domestic and foreign banks, including mandatory reserves held with the Central Bank (52%) and securities (43%).

Maintaining the bank's liquidity is based on the preparation of several scenarios and projections of the cash flows and matching these movements with the maturities of the obligations. The planning and managing of the liquidity is performed on a daily basis, with real time monitoring of those positions that have the greatest impact. During a pandemic and global uncertainty, the Bank successfully dealt with all the shocks, which proves the Bank's competence and capacity to handle uncontrollable events.

**THE BANK CONTINUOUSLY REVIEWS AND IMPROVES THE SYSTEM OF INTERNAL CONTROLS AND INFRASTRUCTURE COMPOSED OF POLICIES, PROCEDURES AND MECHANISMS FOR DEFENSE, SET AT THREE LEVELS- THE FIRST ONE, OPERATIONAL LEVEL OF LIQUIDITY MANAGEMENT RUN BY THE TREASURY DIVISION, THE SECOND LEVEL, MONITORING RUN BY RISK DIVISION AND THE THIRD LEVEL OF DEFENSE IN CHARGE OF THE INTERNAL DIVISION.**

### REGULATORY REQUIREMENTS

The average fulfillment of the denar mandatory reserve in 2021 was 100,19%, which shows that the Bank has successful and qualitative liquidity management. The new Decision on the methodology for liquidity risk management, introduced in 2021, gives an obligation to the banks for maintaining a certain minimum level of the so called liquidity exposure rate.

This Basel-based indicator is designed to secure the banks in the country to maintain sufficient level of high liquid assets that will enable resilience of significant liquidity shock for a period of 30 days. Stopanska Banka fulfills this obligation with a much higher level than the minimum required level of 100%. The participation of the top ten biggest deponents in the total funding sources as of 31.12.2021 is 12.3%, which is a low level of concentration and dependence i.e. wide client diversification.

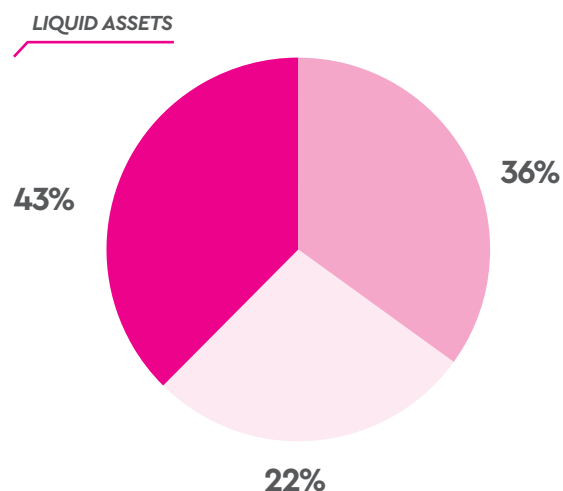
The aggregate foreign currency position is also monitored on a daily basis and its movement is within the prescribed range of +/- 30% vs. the Bank own funds.

## THE STRUCTURE OF THE LIQUID ASSETS

The Bank maintains the optimal liquid structure according to its needs and the wider prospects of asset and liability management.

In 2021, the Bank had the following average structure of liquid assets:

- Cash and funds with the Central Bank  
**36%**
- Interbank placements  
**22% of the liquid assets**
- Securities  
**43% of the liquid assets**



The level of the high liquid assets as presented above represents approximately 29% of the Bank's total assets.

## FINANCIAL MARKET OPERATIONS

Stopanska Banka continues to be a significant market maker and supporter of the companies and retail customers, intermediating among supply and demand of foreign exchange currencies, covering the gap mainly from its own sources and providing only a small part by other banks. The market share increased in 2021, with total market turnover of 1.14 billion euros, of which 43% were buying transactions and 57% were selling transactions by the Bank. From a currency structure perspective, 83% were euro related, 14% US dollar and only 3% in other currencies.

## INTEREST RATE RISK MANAGEMENT

Interest rate risk is the possibility that changes in interest rates could adversely affect the value of the financial instrument, the portfolio or the Bank as a whole.

Interest rate risk management process reflects the Bank's risk strategy, risk tolerance, business activities and the overall operating environment and market conditions, considering the potential changes of interest rates and their impact on Bank's earnings and economic value of equity.

SB acknowledges its exposure to Interest Rate Risk in the Banking Book (IRRBB) and the need for its effective management, as an integral part of the Bank's commitment to protect the interests of its clients and shareholders. On that note, SB recognizes the importance of IRRBB management in effectively managing its balance sheet, its capital and its earnings stream.

The Bank analyses the sensitivity of its net interest income and equity value to changes in interest rates. This sensitivity arises from differences in maturity dates and interest rate repricing gaps in the various balance sheet items. The assessment of the interest rate risk is conducted through monitoring of exposures arising from the banking book activities, taking into consideration the fact that there is no rate sensitive trading portfolio in SB balance sheet.

The Bank has established a framework for managing interest rate risk in order to minimize the effects of adverse changes in the 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, to ensure that this risk is appropriately measured, monitored and controlled.

**THE MAIN OBJECTIVE OF INTEREST RATE RISK MANAGEMENT IS TO MITIGATE THE RISK OF INCURRING LOSSES ARISING FROM MARKET INTEREST RATE CHANGES TO AN ACCEPTABLE LEVEL BY APPROPRIATE MODELLING OF THE STRUCTURE OF RATE SENSITIVE BALANCE SHEET POSITIONS AND OFF-BALANCE SHEET ITEMS.**

At the end of 2021, the ratio of total net weighted position to the regulatory capital was well below the regulatory maximum of 20% and resulted in insignificant exposure to IRRBB.

SB continues to manage the IRRBB exposure by establishing an appropriate structure of the rate sensitive positions, in order for those rate sensitive assets and liabilities to be highly correlated, resulting in insignificant repricing/maturity gap and a low level of interest rate risk exposure as well.

## FOREIGN EXCHANGE RISK MANAGEMENT

As part of its day-to-day market risk management, the Bank also takes care of currency risk management, i.e. open foreign exchange position. The currency risk represents the risk of loss due to a change in the cross-currency exchange rates and/or change of the value of the Denar relative to the value of other foreign currencies. The primary objective of managing the Bank's currency exposure structure is to reduce the impact of exchange rate fluctuations.

**THE SYSTEM FOR IDENTIFICATION, MEASURING, MONITORING AND CONTROLLING THE CURRENCY RISK OR F/X RISK ENCOMPASSES ALL ACTIVITIES AND TRANSACTIONS OF THE BANK THAT INCLUDE ON-BALANCE AND OFF-BALANCE POSITIONS, REGISTERED IN FOREIGN CURRENCIES AND IN MKD INDEXED WITH F/X CLAUSE. SB BALANCE SHEET STRUCTURE CONSISTS OF ASSETS AND LIABILITIES IN DIFFERENT CURRENCIES, BUT DOMINANTLY IN MKD AND EUR CURRENCY.**

SB manages the currency risk by monitoring the open foreign exchange position on a real-time basis, ensuring compliance with the regulatory and internal limits of exposure in main currencies separately, as well as on aggregate level. The Bank maintains the aggregate foreign exchange position i.e. the exposure to currency risk within the legally prescribed limit, which is 30% of the Bank's own funds.

In 2021, the currency risk management process was implemented within the prescribed legal and internal limits, similar to currency risk exposure.

## OPERATIONAL RISK MANAGEMENT

SB applies the comprehensive Operational risk management framework (ORMF) to identify, manage and prevent operational risks resulting from inadequate or failed systems, internal processes, human errors or external events.

SB has a consistent and high-quality ORMF in order to:

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

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

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

According to the definition in the Basel Framework adopted by Stopanska Banka, operational risk includes legal risk, risk of non-compliance, risk of money laundering and terrorist financing, as well as risk of inadequacy of information systems.

**BY ENHANCING THE ORMF, STOPANSKA BANKA PROVIDES THE FOUNDATIONS, PRINCIPLES AND GOVERNANCE ARRANGEMENTS FOR DESIGNING, IMPLEMENTING, MONITORING, REVIEWING AND CONTINUALLY STRENGTHENING OPERATIONAL RISK MANAGEMENT THROUGHOUT THE BANK.**



The SB's new ORM approach consists of the following key framework components and their respective internal governance policies:

- Internal Events Management Policy (IEM Policy)
- Key Risk Indicators Policy (KRI Policy)
- Risk and Control Self-Assessment Policy (RCSA Policy)
- Scenario Analysis Policy (SA Policy)

During the last quarter of 2021, in accordance with the regular update, SB upgraded the Decision on Establishing Key Risk Indicators for Operational Risk Management in Stopanska Banka, as one of the four key components that constitute the Operational Risk Management Framework (ORMF).

***THE KEY INDICATORS FOR OPERATIONAL RISK MANAGEMENT IN STOPANSKA BANKA IN 2021 WERE SUPPLEMENTED WITH 15 NEW INDICATORS: 1 ANNUAL, 1 QUARTERLY, 8 SEMI-ANNUAL AND 5 MONTHLY INDICATORS.***

The overall focus of the 2021 ORM process was aimed at further strengthening the Operational risk management function within the entire Bank by paying significant attention to reporting adverse events, mitigation measures and defining operational risks in all segments. Raising the culture of operational risk and awareness of operational risk issues, as well as the enhanced monitoring of operational risk exposure are achieved by an intensive proactive role by the Risk Management Division, with the intention of eliminating or mitigating operational risk exposure in compliance with the Bank's risk profile, risk strategy and business objectives.

The SB's ORMF provides a structured approach for managing operational risk. It applies consistent standards and techniques for evaluating operational risks.

During the year 2021, all of the main ORMF fundamental components were fully implemented in accordance with NBG Group, Stopanska Banka's Operational Risk Management Policy and Methodologies and the regulatory standards, and, consequently, the ORM process was accomplished with high expertise, avoiding the negative effects on the financial results and capital position and ensured that the ORMF is effective, appropriate and implemented with integrity.

Within the annual stress test of the Bank, stress testing of the operational risk is performed in order to assess the Bank's ability to mitigate the main losses arising from inadequate or unsuccessful internal processes, people and systems or external events.

## **CAPITAL ADEQUACY, INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS AND STRESS TEST**

Maintaining a strong capital base as a precondition for business growth and absorbing all possible risks is a priority and the main focus of the Bank. The total regulatory capital of the Bank as of 31.12.2021 amounted to EUR 241.8 million, out of which the Tier 1 capital (the base capital) amounted to EUR 240.3 million and the Tier 2 capital, the additional capital, amounted to EUR 1.5 million, which resulted in a capital adequacy ratio of 16.5% as of 31.12.2021.

As part of the prudently established risk management framework, the Bank regularly performs an Internal Capital Adequacy Assessment Process (ICAAP) and assesses the resilience of its capital adequacy by conducting stress testing, taking into account the updated circumstances and risks that prevail at the moment of stress-testing, while forecasting the expected risks.

The Bank's ICAAP ascertains that SB's capital is sufficient to cover all the material risks to which is exposed, and that the identified excess of capital is more than sufficient to cover all other risks that cannot be adequately quantified, but which the Bank is exposed to in the regular business activities. As prescribed, the stress test exercises are also an integral part of the risk management framework, especially needed to provide estimates and trigger attention of the size of financial losses and its impact on the overall business, including the capital adequacy.

***DURING 2021, THE BANK CONDUCTED VARIOUS STRESS TEST SCENARIOS, INCLUDING A SCENARIO SPECIFIC TO THE COVID 19 ADVERSE CONDITIONS, TO TEST ITSELF ON THE SENSITIVITY TO A PREDETERMINED SET OF EXTREME BUT PLAUSIBLE SHOCKS.***

The stress tests included effects from various scenarios concerning the credit risk, interest rate risk in the banking book, liquidity risk, currency risk and operational risk, as well as scenarios that involved combination of all risks.

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

## COMPLIANCE, ANTI-MONEY LAUNDERING AND COMBATING TERRORIST FINANCING ACTIVITIES

During 2021, the 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 an efficient system for controlling SB activities that comply with the applicable domestic and international regulations.

Such activities included:

- Establishing efficient internal procedures and organizational structures for identifying, monitoring and managing the possible risks related to SB's compliance with current regulations;
- Continuous training of Bank employees;
- regular, at least monthly and semi-annually, reporting to the Board of Directors and the Supervisory Board;
- Continuous cooperation with the relevant external institutions in accordance with the Banking Law;
- Regular reporting to the US IRS in accordance with the FATCA law etc.,

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

Considering Anti-Money Laundering (AML) and Combating Terrorist Financing (CTF) Activities, during 2021, CD realized a series of activities for implementation of measures and activities prescribed in the AML and CTF Law (Law), as well as for improvement and further upgrade of internal systems and processes used by the CD on a daily basis. Moreover, in 2021, the number of staff employed in CD was maintained accordingly in accordance with the requirements of the Law.

**THE COMPLIANCE DIVISION CONTINUES TO CARRY OUT ITS REGULAR ACTIVITIES IN ORDER TO SUSTAIN AND BOLSTER OVERALL COMPLIANCE CULTURE WITHIN SB AS WELL AS TO ACHIEVE OVERALL COMPLIANCE OF THE BANK'S OPERATIONS WITH THE RELEVANT REGULATIONS AS ITS MAIN OBJECTIVE.**

## PERSONAL DATA PROTECTION

The privacy and the confidentiality of its clients is of utmost importance for Stopanska Banka, having in mind the nature of the banking business and the data that the banks are collecting for their daily operations. The Bank has re-appointed the Officer for Personal Data Protection and the whole network of dedicated employees per organizational unit that are ensuring that the personal data are:

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

**IN AUGUST 2021, THE NEW LAW ON PERSONAL DATA PROTECTION, WHICH TRANSPOSED THE EU GENERAL DATA PROTECTION REGULATION, ENTERED INTO FORCE.**

Thus, the Bank initiated a set of activities in order to fully align with the new regulatory requirements and the highest standards in data protection, such as:

- Regular communication and activities related to raising awareness and training of the employees of the Bank in order to ensure secrecy and protection of the confidentiality of the data of SB customers;
- Revision of the Personal Data Protection Policy as a highest policy-level act passed by the Supervisory Board; Update of the video-surveillance internal act and implementing stronger control mechanisms for personal data processing via video-surveillance;
- Adoption of Privacy Policy available on the SB's website that is aligned with the Privacy Notice by the Group and the Law on Personal Data Protection;
- Activities that ensure that the direct marketing of the Bank may be performed only if the targeted client gave prior explicit consent for this purpose (system check as an obligatory step in the process);
- Update of the cookie policy on SB's website;
- Re-appointment of a Personal Data Protection Officer that coordinates the process of compliance with the Law on Personal Data;
- Revised Application for registering clients of the Bank, which is the main and initial document that collects personal data of SB clients; etc.

Moreover, a representative of SB is appointed as Chairman of the newly established Committee for Personal Data Protection within the Macedonian Banking Association, which serves as a body that promotes unified and full implementation of the data protection and privacy standards within the banking industry.

# CORPORATE GOVERNANCE REPORT FOR 2021

Stopanska Banka AD – Skopje (SB) is one of the largest, most profitable and solid systemic banks in the country with highly sophisticated and effective system of corporate governance established by following the best practices, the NBG Group standards, the relevant regulation and the strategic needs of the Bank and its stakeholders. Responsible corporate governance is the highest priority for the Bank that supports the full implementation of its business plan with operational excellence and integrity.

The following Report is being presented to the shareholders of SB and the public in accordance with the Decision on good corporate governance rules for banks and Law on Trade Companies.

## 1. SB BODIES

### 1.1. SUPERVISORY BOARD

The Supervisory Board of Stopanska Banka AD – Skopje consists of 7 members, out of which 2 are independent ones, with the term of office to four years, appointed by the Shareholders Assembly.

The composition of the Supervisory Board in 2021 is as follows:

1. Marinis Stratopoulos, **Chairman**, CEO of NBG Cyprus Ltd.;
2. Christodoulou Christodoulos, **member**, Chief Financial Officer, National Bank of Greece S.A. Athens;
3. Dimitra Gkountoufa, **member**, Director in the Group's Strategy Division, National Bank of Greece S.A. Athens;
4. Ioannis Kagioulis, **member**, Head of Group Risk Culture and Risk PMO Division, National Bank of Greece S.A. Athens;
5. Vladimir Filipovski, **independent member**, Professor, Faculty of Economics at "SS. Cyril and Methodius" University, Skopje;
6. Sasho Kjosev, **independent member**, Professor, Faculty of Economics at "SS. Cyril and Methodius" University, Skopje; and
7. Anastasios Lizos, **member**.

The latest self-assessment of the Supervisory Board confirms that the current composition of the Supervisory Board is such that its members have the collective and individual knowledge, skills and specialized experience, as well as the integrity and reputation suitable for a systemic bank as SB. In addition, all members of the Supervisory Board dedicate appropriate time and focus on their supervisory and strategic responsibilities.

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

**The responsibilities** of the Supervisory Board are determined in article 89 of the Law on Banks and these responsibilities are also incorporated in the SB Statute, as follows:

1. adopts the SB business policy and development plan and follows its implementation;
2. appoints and dismisses members of the SB Board of Directors;
3. appoints and dismisses members of the SB Risk Management Committee;
4. appoints and dismisses members of the Audit Committee;
5. adopts SB financial plan/ Budget;
6. organizes the Internal Audit Division, appoints and dismisses Internal Audit Division Manager and follows hers/his operations;
7. approves the annual plan of the Internal Audit Division;
8. adopts the information security policy;
9. adopts SB risk management policies;
10. adopts conflict of interest policy that identifies the potential conflict of interest and the measures and activities for its avoidance;
11. in accordance with the business plan, development plan, the financial plan / Budget and the policy for avoiding conflict of interest, adopts the remuneration policy;
12. adopts and implements the policy for selection, monitoring the operation and dismissal of members of Supervisory Board, Risk Management Committee, Audit Committee and Board of Directors;
13. reviews the reports on the activities of SB Board of Directors;
14. reviews the reports of SB Risk Management Committee;
15. reviews the reports of the Audit Committee;
16. reviews the reports of the Internal Audit Division;
17. reviews the reports of the Compliance Officer/Division;
18. approves the annual financial statement and the financial statements of SB;
19. approves the exposure to individual entity exceeding 10% of SB own funds or EUR 10,000,001, with the exception of exposure based upon purchasing securities issued by the National Bank of the Republic of North Macedonia and the Government of the Republic of North Macedonia;
20. approves the transactions with persons related to SB exceeding MKD 6,000,000;
21. approves the acquiring equity holdings and purchase of securities higher than 5% of SB's own funds, other than purchase of securities issued by the National Bank of the Republic of North Macedonia and the Government of the Republic of North Macedonia;
22. approves the proposal of the Audit Committee for appointment of the external audit company, or the proposal for termination of the agreement with the external audit company and is responsible for ensuring that an appropriate audit is conducted;
23. adopts the Internal Audit Policy/Charter;
24. reviews the supervisory reports, other reports submitted by the National Bank, the Public Revenue Office and other competent bodies and proposes, i.e. undertakes measures and activities for addressing the identified non-compliances and weaknesses in SB operations;
25. approves the annual report on the SB operations and submits written opinion thereon to the SB Shareholders Assembly;
26. reviews the report of the external audit company and submits written opinion thereon to the Shareholders Assembly;
27. adopts SB Code of Ethics;
28. adopts the Code of Corporate Governance; and
29. decides upon partial or full write-off of credit exposure based on an analysis for performed write-off prepared by the competent Bank division
30. reviews the report on transactions with the entities related to the bank, as well as on the amount of approved loans and other forms of exposure to the persons with special rights and responsibilities in the bank, at least once quarterly; and
31. performs other duties in compliance with the applicable legislation and the National Bank's relevant decisions.

\*\*\*More details are presented in the Annual Report on the Operations of the Supervisory Board in 2021, submitted to the SB Shareholders Assembly.

## 1.2. THE SUPERVISORY BOARD' COMMITTEES IN THE YEAR UNDER REVIEW

The Supervisory Board has established committees with the aim to improve the efficiency of its work by dealing with complex matters in smaller groups and preparing them for the whole Supervisory Board. Additionally, the Supervisory Board has delegated individual decision-making powers to the Committees, to the extent that this is legally permissible according to the relevant legislation and the internal regulations of the Bank.

There are no significant changes in the Supervisory Board's committees' structure, i.e. the Supervisory Board of SB had three committees in the reporting period: Audit Committee, Risk Management Committee and Remuneration Committee.

### A) AUDIT COMMITTEE

The Audit Committee of Stopanska Banka AD – Skopje consists of five members, appointed by the Supervisory Board, with two years term of office. Majority of the members (3) are members of the Supervisory Board, while the remaining two members are independent out of which one member is authorized auditor. Members of the Audit Committee in 2021 were:

1. Antonio Veljanov, Chairman of the Audit Committee (independent member and chartered auditor);<sup>1</sup>
2. Anastasios Lizos, member (representative of the Supervisory Board);
3. Dimitra Gkountoufa, member (representative of the Supervisory Board);
4. Vladimir Filipovski, member (representative of the Supervisory Board); and
5. Zorica Bozinovska-Lazarevska, member (independent member).

The Audit Committee's responsibilities are defined strictly in the Law on Banks, which are transposed in the SB Statute. In brief, the Audit Committee is responsible to oversee the integrity of the accounting and financial reporting, to oversee the internal control systems and other similar activities that provide support to the Supervisory Board in its control function. More precisely, among other items, during 2020, the Audit Committee:

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

In conclusion, the Audit Committee followed its Annual Plan for operations and executed its duties in full compliance with the relevant legislation and corporate governance standards.

### B) RISK MANAGEMENT COMMITTEE

The Risk Management Committee of Stopanska Banka AD – Skopje consists of 9 members, appointed and/or dismissed by the Supervisory Board (although the positions of the members of the Risk Management Committee are defined in the Statute). As of 31 December 2021, 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 Corporate Officer and member of the Board of Directors, member;
3. Bojan Stojanoski – Chief Risk Officer and member of the Board of Directors, member;
4. Milica Chaparovska-Jovanovska – Chief Retail Officer and member of the Board of Directors, member;
5. Ilias Papadopoulos – Senior Manager for Credit Risk, member;
6. Mirjana Trajanovska – Senior Manager for Treasury and Finance, member;<sup>2</sup>
7. Vlado Treneski – Senior Manager of Corporate Banking Division, member;
8. Mirko Avramovski – Manager of Collection Division, member;
9. Vesna Nencheva – Manager of Risk Management Division, member.

<sup>1</sup> Mr. Antonio Veljanov is also member of the Institute of Chartered Auditors of Republic of N. Macedonia, on voluntary basis.

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



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

1. Permanently monitors and assesses the risk level of SB, and identifies the acceptable level of exposure to risks in order to minimize the losses as a result of the SB risk exposure;
2. Establishes risk management policies and monitors their implementation;
3. Follows the regulations of the National Bank pertaining to the risk management and SB compliance with such regulations;
4. Assesses SB risk management systems;
5. Determines short-term and long-term strategies for managing certain types of risks SB is exposed to;
6. Analyses the reports on SB risk exposure developed by SB risk assessment units and proposes risk hedging strategies, measures and instruments;
7. Monitors the efficiency of the internal control systems in the risk management;
8. Analyses the risk management effects on SB performances;
9. Analyses the effects of the proposed risk management strategies, as well as the proposed risk hedging strategies, measures and instruments;
10. Assesses whether the pricing of the bank's products and services is aligned with the level of undertaken risks and in accordance with the business policy and the development plan of the bank;
11. Informs, at least once per quarter, the SB Supervisory Board, on the changes in SB risk positions, the changes in the risk management strategies, the risk management effects on SB performances as well as the undertaken measures and instruments for hedging risks and the effects thereof; and
12. Approves any exposure to an entity exceeding 10% and up to 20% of SB's own funds.

### **C) REMUNERATION COMMITTEE**

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

In accordance with the Remuneration Policy of SB, the committee is composed of three Supervisory Board members, majority of whom should be the independent ones, including its Chairman, appointed by the Supervisory Board.

Thus, during 2021, members of the Remuneration Committee are as follows:

1. Vladimir Filipovski, independent member of the Supervisory Board, Chairman;
2. Sasho Kjosev, independent member of the Supervisory Board, member;
3. Anastasios Lizos, member of the Supervisory Board, member.

The term of office of the members of the Remuneration Committee is one year, with an unlimited right for re-appointment of the members as long as they are members of the Supervisory Board. The Remuneration Committee's responsibilities are regulated in the Remuneration Policy of Stopanska Banka and the Rules of Operations of the Remuneration Committee, following the relevant provisions of the Central Bank's Decision on good corporate governance rules in banks. In brief, RC assists the Supervisory Board in setting and following the remuneration policy and practices of the Bank.

During 2021, the Remuneration Committee held two regular meetings, as required by the local legislation and in accordance with its Rules of Operations and Remuneration Policy.

Following its Annual Operational Plan, the Committee passed the following main items:

- Reviewed and approved the Remuneration Report for 2020, including the self-evaluation of the Remuneration Committee members and the Risk Management Committee Opinion on the Remuneration Policy;
- Reviewed its Rules of Operations and the Remuneration Policy;
- Reviewed and approved the List of risk-takers covered by the Remuneration Policy;
- Regularly reviewed the staff cost and employer turnover trends of the Bank, ensuring that the management keep the staff cost and headcount within the Budget framework;
- Approved the proposal for variable remuneration rewarded to SB management and the employees for achieving excellent results;
- Reviewed and discussed the regular annual Internal Audit Report on implementation of the Remuneration Policy.



### 1.3. BOARD OF DIRECTORS

The Board of Directors of Stopanska Banka AD – Skopje consists of four members, appointed and/or dismissed by the Supervisory Board, with term of office of four years.

Thus, the composition of the Board of Directors during 2021 was:

1. Diomidis Nikolettopoulos, Chief Executive Officer and Chairman of the Board of Directors;
2. Toni Stojanovski, Chief Corporate Officer and member of the Board of Directors;<sup>3</sup>
3. Milica Chaparovska-Jovanovska, Chief Retail Officer and member of the Board of Directors;
4. Bojan Stojanoski, Chief Risk Officer and member of the Board of Directors.

The members of the SB Board of Directors, in addition to the requirements stipulated with the Banking Law, have a strong record at SB and in the banking sector on senior positions and possess expert knowledge of the business and the banking regulation.

The Board of Directors' responsibilities are as follows:

1. Manages SB;
2. Represents SB;
3. Enforces the decisions of the Shareholders Assembly and the Supervisory Board of SB, i.e. makes sure that they are implemented;
4. Takes initiatives and gives proposals for promoting SB operations;
5. Appoints and dismisses the persons with special rights and responsibilities pursuant to the provisions under the Banking Law and this Statute;
6. Prepares SB business policy and development plan;
7. Prepares SB financial plan / Budget;
8. Prepares SB information security policy;
9. Prepares an annual report on the SB operations and submits it to the Supervisory Board;
10. Prepares a Code of Ethics of the bank;
11. Gives previous consent and submits proposals for write-off of claims to the Supervisory Board;
12. Passes decision on sale of claims; and
13. Performs other activities, in accordance with the Law, this Statute and SB's enactments.

In order to assist the Board of Directors in executing the business plan of the Bank, SB has established Executive Committee that, besides the Chief officers, includes:

- The Senior Manager for Treasury and Finance (Mirjana Trajanovska),
- The Senior Manager for Operations (Radmila Maksimovic),
- The Senior Manager for Corporate Banking (Vlado Treneski),
- The Senior Manager for Sales and Branch Network (Tatjana Kalajdzieva), and
- The Chief Credit Officer (Ilias Papadopoulos).

<sup>3</sup> Mr. Stojanovski is member in the following organizations:

- Macedonian Stock Exchange, Chairman (non-executive member) of the Board of Directors;
- Banking Association, Deputy Chairman (on voluntary basis).

## 1.4. CREDIT COMMITTEES

Other SB bodies, determined with the Statute, are Credit Committees with the following, structure and authorities, as of December 31, 2021:

**1. Executive Corporate Credit Committee (ECCC):** it consists of 6 members as follows:

- Diomidis Nikolettopoulos, CEO and Chairman of the Board of Directors of SB, Chairman,
- Ioannis Kagioulis, NBG Group executive appointed by the NBG Group Chief Credit Officer, member,
- Toni Stojanovski, Chief Corporate Officer of SB and member of the Board of Directors, member,
- Bojan Stojanoski, Chief Risk Officer of SB and member of the Board of Directors, member,
- Ilias Papadopoulos, Chief Credit Officer of SB, member, and
- Ioannis Bourmpakis, Representative of NBG International Activities Sector, member.

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

The ECCC decides on the credit exposure towards single subject – legal entity for financing in the amount from EUR 5.000.001 up to EUR 10.000.000. All financing that exceeds EUR 10.000.001 shall be approved by SB's 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 with a written consent, 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:

- Diomidis Nikolettopoulos – CEO and Chairman of the Board of Directors of SB, Chairman
- Bojan Stojanoski – Chief Risk Officer of SB and member of the Board of Directors, member
- Toni Stojanovski, Chief Corporate Officer of SB and member of the Board of Directors, member
- Ilias Papadopoulos, Chief Credit Officer of SB, member
- Vladimir Treneski – Senior Manager of Corporate Banking of SB, member.

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

The CC, decides on the credit exposure towards a single subject – legal entity in the amount from EUR 2.000.001 up to EUR 5.000.000. 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 a written consent, 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 5 members as follows:

- Bojan Stojanoski – Chief Risk Management Officer of SB and member of the Board of Directors, Chairman
- Toni Stojanovski, Chief Corporate Officer of SB and member of the Board of Directors, member
- Ilias Papadopoulos, Senior Manager of Credit Risk at SB, member
- Vladimir Treneski, Senior Manager of Corporate Banking, member
- Lidija Rumenovska Sazdova or Mihaela Atanasovska Stoickovska – Manager or Deputy Manager of Underwriting Division, member.

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

The CCCC decides on the credit exposure towards a single subject – legal entity up to EUR 2.000.000. 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 a written consent, when needed, with a quorum of all of its members and the decisions are passed unanimously;

#### 4. Higher Small Banking Business Credit Committee (HSBBCC): it consists of 5 members, as follows:

- Bojan Stojanoski – Chief Risk Officer of SB and member of the Board of Directors, Chairman
- Milica Chaparovska – Jovanovska – Chief Retail Officer of SB and member of the Board of Directors, member
- Ilias Papadopoulos – Senior Manager of Credit Risk at SB, member
- Dejan Krstevski – Manager of SB Client Segment Business Department, member
- Emilija Stojanova Ivanovska – Manager of Risk Management of Retail Credit Division, member

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

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

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

- Milica Chaparovska – Jovanovska – Chief Retail Officer of SB and member of the Board of Directors, Chairman
- Dejan Krstevski – Manager of the Client Segment Business Department, member
- Barbara Brezovska Ponjavic or Dragan Mihailov -Manager or Deputy Manager of Product Management Division, member
- Vesna Nencheva and/or Emilija Stojanova Ivanovska – Manager of Risk Management Division, and/or Manager of Retail Credit Division member.

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

The SBBCC decides on the credit exposure towards a 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 a written consent, when needed, with a quorum of all of its members and the decisions are passed unanimously.

Lower approval levels can be determined with a decision of the Supervisory Board or with an approval of the relevant credit policy.

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

- Milica Chaparovska – Jovanovska – Chief Retail Officer of SB and member of the Board of Directors, Chairman
- Barbara Brezovska Ponjavic or Dragan Mihailov -Manager or Deputy Manager of Product Management Division, member
- Emilija Stojanova – Ivanovska – Manager of Retail Credit Division of SB, member
- Tatjana Kalajdzieva – Senior Manager of Sales and Branch Network, member
- Violeta Zatenko – Manager of Retail Credit Department of SB, member.

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

The RCC decides on the credit exposure towards a 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 a written consent, when needed, with a quorum of all of its members and the decisions are passed unanimously;

Lower approval levels can be determined with decision of the Supervisory Board or by approval of the relevant credit policy.

\* The Credit Committees operate in accordance with the relevant credit policy adopted by the Supervisory Board. Members of the Credit Committees are persons with special rights and responsibilities in SB, or other employees of SB, or other persons which are evaluated as sufficiently knowledgeable and experienced in the credit area in question.

## 2. ORGANIZATIONAL STRUCTURE

The organizational structure of the Bank is following the best corporate governance standards and requirements and is tailored to optimize its business processes in order to be faster, cheaper and safer for all the involved stakeholders. According to SB Statute, the organizational structure of the Bank is determined with a decision by the Supervisory Board, after a proposal by the management. The Bank is organized in 21 divisions and 64 branches. The Bank has no subsidiaries.

The organizational structure is published and regularly reviewed on the following link:  
[https://www.stb.com.mk/media/3064/stb-org\\_chart-march-2022.pdf](https://www.stb.com.mk/media/3064/stb-org_chart-march-2022.pdf).

## 3. SHAREHOLDER STRUCTURE

During 2021, there are no significant changes in the shareholder structure: National Bank of Greece S.A. – Athens (NBG) owns 94.6% of the ordinary shares, while 5.4% of the shares are held by other minority shareholders. NBG are represented with 5 members in the Supervisory Board of SB, while the other 2 members are independent.

As of 31 December 2021, the initial capital (basic capital) consisted of 17,460,180 common 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. These are registered at the Central Securities Depository of RM. The shares of the Bank quoted at the Official Market of the Macedonian Stock Exchange, sub segment Mandatory Listing, and the code under which they are quoted is: STB (common share) ISIN number MKSTBS101014 and STB (preferred cumulative share) ISIN number MKSTBS120014.

## 4. DIVIDEND DISBURSEMENT & DIVIDEND POLICY

After the acquisition of Stopanska Banka in year 2000, the primary objective of the main shareholders was to restructure the Bank into a stable, solid and reliable factor in the economy that will be a pillar and a counterparty of the clients. After a long period of restructuring and cleaning the losses from the past, the Bank started creating profit, which was re-invested for growth in the years to come that secured its leading position today.

Stopanska Banka has issued two types of shares:

- Common shares with a voting right: 17.460.180 with a nominal value of MKD 201.1;
- Priority shares without voting right: 227.444 with a nominal value MKD 400.

The right to dividend for the priority shares is determined in the Decision on issuing shares of the second issue AD No. 32/20.06.1991 and the Decision on issuing shares of the Fourth issue AD No. 102/30.05.1996. In accordance with these decisions adopted by the Shareholders Assembly, the dividend on the priority shares is determined in the amount of the interest on retail MKD time deposits for a period of 1 (one) year, increased by the appropriate percentage point. In accordance with these decisions on issuance of the shares and the Law on Trade Companies, the priority shareholders have a right to a guaranteed cumulative dividend and the Bank completely respects this.

The Bank has a stable and predictable dividend policy for the priority shares i.e. determinable fixed interest rate based on the defined market-based interest rate that serve as a reference that provides the shareholders with information in advance for the dividend that they will receive.

Regarding the dividend policy related to the common shares, the Bank is taking into account the capital and other regulatory requirements that should support the business needs and growth aspects. After securing the mentioned priorities, whatever remains is subject to discretion of the shareholders based on a decision passed by the Shareholders Assembly.

Considering the uncertainties in the macro-economic environment during 2021, Stopanska Banka withdrew from any decision on dividend disbursement for the common shareholders. In addition, the Bank redistributed part of the realized profit in 2020 in amount of MKD 1.045.500.000 into earnings restricted for distribution to the shareholders, further strengthening the high capital adequacy ratio of the Bank.

Concerning the dividend for the priority shares, and following the Decisions on issuance of shares, the Shareholders Assembly approved disbursement of dividend for the priority shares in total amount of MKD 1,364,664 or gross dividend of MKD 6 per share.

## 5. CORPORATE GOVERNANCE CODE

SB is fully committed to ensuring a corporate governance framework in accordance with the statutory provisions and the international standards.

Thus, the Corporate Governance Code of SB is prepared in accordance with the relevant regulatory requirements as well as the NBG Group corporate governance standards and is adopted by the Supervisory Board. The governance structure, shareholders rights, duties and responsibilities, the manner of operations of the bodies of the Bank, etc. that are determined in the Corporate Governance Code are implemented, respected and promoted by the members of the bodies of the Bank.

Furthermore, as a listed company on the Macedonian Stock Exchange, Stopanska Banka is following the Corporate Governance Code for the listed companies that was adopted in October 2021. For more details on the implementation of this Code, please see the self-assessment Questionnaires published on SB's website.

As an integral part of this Report, and in respect of article 384-a of the Law on Trade Companies and article 42-a of the Listing Rules on the Macedonian Stock Exchange, the Board of Directors signs their Statements on Implementation of the Corporate Governance Code of SB and the Statement on Implementation of the Corporate Governance Code for companies listed on the Macedonian Stock Exchange. Both Statements are integral part of this Report (please see appendix 1 below).

## 6. CONFLICT OF INTEREST POLICY

The conflict resolution policy is determined in accordance with the Banking Law and the 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. A 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 for the conflict between the personal and the SB's interest.

During 2021, no conflict of interest was reported by the members of the Supervisory Board, Board of Directors or by any other member of the bodies of SB.

## 7. OUTSOURCED SERVICES

The Supervisory Board of Stopanska Banka adopts the Outsourcing Policy that is aligned with the NBG Group standards and the national legislation, including the relevant by-laws of the National Bank of Republic of N. Macedonia.

In accordance with the Outsourcing Policy, the Risk Management Committee reviewed the List of outsourced activities and determined the critical/important functions by an outsourcer for which special care is taken. More precisely, the following services are determined as critical/important functions:

- IT services (Hosting, maintenance and operational support of the core system T24, SAP, SWIFT, card management systems and other systems of SB, Software development in SAP and Software development in T24);
- Cash transport;
- Cards services (card processing center, e-commerce acquiring processor, personalization of cards, back-up access point, etc.);
- Early collection activities for retail claims; and
- Conducting legal proceedings for collection of debts before the competent authorities.

## 8. REMUNERATION POLICY FOR 2021

On the 33rd Shareholders Assembly held on July 19, 2013, Stopanska Banka adopted the Remuneration Policy, which is aligned with the operational policy and business strategy of the Bank, its values, goals and long-term interests. It 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.

The latest review and amendment of the Remuneration Policy was performed by the Shareholders Assembly on 29.06.2021.

In accordance with the Law on Trade Companies and the Decision on Good Corporate Governance Rules in Banks, below is disclosed the remuneration in Stopanska Banka paid by groups. There are no significant changes in the remuneration approach during 2021.

### I. SUPERVISORY BOARD

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

#### a) representatives of the shareholders

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

Mr. Lizos, representative of the shareholders of a Supervisory Board, no longer employed in NBG Group, is remunerated in the same manner as the independent members below.

#### b) independent members

The independent members are entitled to remuneration in amount of EUR 400 net per month for their participation in the Supervisory Board and an amount of EUR 100 net (for the chairman) and EUR 50 net (for the members) per meeting for their participation in the Remuneration Committee. Mr. Filipovski also receives EUR 100 net monthly for his participation in the Audit Committee.

On the basis of salary and allowances, as employees of the Faculty of Economics at Cyril and Methodius University – Skopje:

- prof. Filipovski received MKD 1.605.958 gross (annually), while
- prof. Kjoshev received MKD 1.263.258 gross (annually).

### II. BOARD OF DIRECTORS

In 2021, a total gross amount of MKD 29.164.214 (salary of MKD 24.464.600 and rewards MKD 4.699.614) was paid to 4 members of the Board of Directors.

### III. OFFICERS WITH MATERIAL IMPACT ON THE RISK PROFILE AND PROFITABILITY OF THE BANK

The employees included in the category "Officers with material impact on the risk profile and profitability of the Bank" are determined in the Remuneration Policy of SB. The category includes the management responsible for material business units, risk management and for the control functions in Stopanska Banka AD – Skopje. 23 employees are included in this category.

A total gross amount of MKD 55.693.790 (salary of MKD 49.210.484 and rewards MKD 6.483.306) was paid to the Officers with material impact on the risk profile.

#### IV. OTHER PERSONS WITH SPECIAL RIGHTS AND RESPONSIBILITIES

The employees included in the category "Other persons with special rights and responsibilities" are the division managers, deputy division managers and the managers for specific issues of Stopanska Banka AD – Skopje that are not covered in the prior category. 15 employees are included in this category.

A total gross amount of MKD 33.281.736 (salary of MKD 30.035.009 and rewards MKD 3.246.727) was paid to the other persons with special rights and responsibilities.

\* The total credit exposure to persons with special rights and responsibilities at end of 2021 amounts to MKD 64.407 thousands which represents 0.43% of the Bank's own funds (significantly below the regulatory limit of 3% of the Bank's own funds per person with special rights and responsibilities and the persons related to him/her).

#### 9. CORPORATE SOCIAL RESPONSIBILITY

Stopanska Banka AD – Skopje is one of the most active socially responsible companies in the country, constantly taking care of the community from which it originates. By supporting sustainable projects for the promotion of culture, education, sports and health, the Bank is involved in almost every sphere of life and activity.

2021 continued to be marked by the global COVID-19 pandemic, but also marked by perseverance, persistence and the need for economic recovery, so in 2021, the Bank continued to be a financial partner of trust of companies and citizens by offering financial solutions, products and services and their adaptation to the needs and appetites of customers. All these business activities were successfully implemented by the Bank because from the very beginning of the crisis, it intensively helped the team through implemented protection measures, prevention of the spread of the virus in the organizational units and assistance to the employees who were infected with the virus.

Stopanska Banka was the first company to support the plan for mass immunization by purchasing the special refrigerators needed to store vaccines in the central vaccination point in February 2021, followed by numerous other socially responsible activities during the year, such as:

- Donation of medical equipment for the Surgery Clinic "St. Naum Ohridski" in Skopje
- Sponsorship of "Ohrid Summer" 2021
- Sponsorship of "Galichnik Wedding" 2021
- Donation for equipping the new national emergency center 112
- Sponsorship for procurement of special software for the Faculty of Economics Skopje for teaching in COVID-19 conditions
- Sponsorship of the Economic Chamber of North Macedonia
- Intervention supply of food for the participants in the fight against fires in the eastern region
- Valuable sports donations through vouchers issued by the Agency of Youth and Sports. Among the athletes who received support from the Bank were the Olympians who represented the country at the Tokyo Olympics, including Dejan Georgievski, who won a historic silver medal.
- Organized activities for planting flower arrangements on urban areas in Skopje on the occasion of Savings Day
- The project that we repeat every year and that means 70 newly planted evergreen trees – procurement of large seedlings of natural firs for the branches and in nature.

We can conclude that, again, the Bank's CSR strategy in 2021 is to play a significant role in the fight against the virus and the COVID-19 pandemic. All of these activities complement our customer commitment and significantly add to the company's name and value.



## STATEMENT OF CONFORMITY

with the Corporate Governance Code of Stopanska Banka AD – Skopje

In accordance with article 384-a of the Law on Trade Companies, the Board of Directors of Stopanska Banka AD – Skopje (hereinafter: SB) confirms the following:

**SB has applied all the principles and complied, in all material aspects, with the Corporate Governance Code of SB for 2021.**

The Corporate Governance Code of SB has been developed in accordance with the domestic legislation and the NBG Group governance standards. It provides a clear delineation of the Bank's corporate governance system, rights and responsibilities of its bodies, the role of the control functions etc., as well as to uphold the Bank's interests on a long-term basis for the benefit of depositors and customers, shareholders and other investors, employees and all other stakeholders. The Corporate Governance Code sets out a framework that promotes continuity, consistency and effectiveness in the way the Bank is supervised and managed and is a necessary component of good governance in supporting and promoting the Bank's business and reputation.


The Corporate Governance Code of Stopanska Banka AD – Skopje is available on the Bank's website.

### BOARD OF DIRECTORS

  
**Diomidis Nikolettopoulos**  
 Chief Executive Officer

  
**Toni Stojanovski**  
 Chief Corporate Officer

  
**Milica Chaparovska-Jovanovska**  
 Chief Retail Officer

  
**Bojan Stojanovski**  
 Chief Risk Officer



In accordance with article 42-a of the Listing Rules on the Macedonian Stock Exchange AD Skopje, the Board of Directors of Stopanska Banka AD – Skopje (hereinafter: SB) issues the following:

### **STATEMENT OF CONFORMITY**

with the Corporate Governance Code for companies listed on the  
Macedonian Stock Exchange

We, the undersigned members of the Board of Directors of Stopanska Banka AD Skopje, confirm that SB applies the Corporate Governance Code for companies listed on the Macedonian Stock Exchange, published on [www.mse.mk](http://www.mse.mk).

SB applies the principles and best practices of corporate governance provided in the Code according to the approach "apply or explain why it was not applied", by filling out questionnaires whose form and content are prescribed by the Code.

With this Statement, we confirm that the questionnaires are published on SEI-NET and on the SB website and that the answers in them are correct and true and reliably reflect the application of the principles and best practices of corporate governance by SB prescribed by the Code.

### **BOARD OF DIRECTORS**



**Diomidis Nikolettopoulos**

Chief Executive Officer



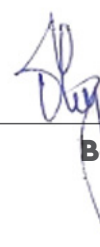
**Toni Stojanovski**

Chief Corporate Officer



**Milica Chaparovska-Jovanovska**

Chief Retail Officer



**Bojan Stojanoski**

Chief Risk Officer



**STOPANSKA BANKA AD - SKOPJE**  
member of NBG group

On your side

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