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

#### ANNUAL REPORT

#### 2022

#### Skopje, April 2023

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Pursuant to Article 352 of the Law on Trade Companies, the members of the Board of Directors of Stopanska banka AD - Skopje (hereinafter: "SB" and/or "the Bank") are submitting the attached Annual Report on the operations of Stopanska banka AD - Skopje for the year 2022. The report is submitted to the Supervisory Board, which reviews it, decides on it ("prior adoption") and prepares a written opinion and submits them to the Assembly of Shareholders for consideration and approval.

Pursuant to Article 384, paragraph 7 of the Law on Trade Companies, the Annual Report objectively presents and explains the main factors and circumstances that had an impact on the Bank's operations, as well as all other mandatory elements that are important to the investing public and all other stakeholders.

 **STOPANSKA BANKA AD - SKOPJE**

**BOARD OF DIRECTORS**

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Diomidis Nikoletopoulos

Chief Executive Officer

Toni Stojanovski

Chief Corporate Officer

Milica Chaparovska-Jovanovska

Chief Retail Officer

Bojan Stojanoski

Chief Risk Officer

## Review of 2022 Activities

Last year was marked with continuation of the uncertainty on global level, which apart from the post-Covid effects was supplemented by the start of Russia-Ukraine crisis, causing growth of inflation and increase of the prices of food, energy and production inputs. All of those factors have worsened the prospects of global economic growth during the past year. Faced with global inflation, which has reached a multi-decade maximum, central banks around the world have been focusing on tightening the monetary policy. The focus was on increasing the interest rates, which tightens the financial conditions and increases the cost of funding. Even in these conditions, banking sector showed high level of capacity in dealing with the crisis, undertaking measures and activities for amortization of 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.

In general, domestic economic activity was and remains in line with the projections and expectations for a further slowdown in growth, mainly related to energy crisis, supply constraints and increased costs of living, which has imposed a tightening of financial conditions globally. Even in these conditions on global level, credit support of domestic economy continued by the commercial banks, which accelerated in the last quarter of 2022, as a characteristic trend for the end of the year. The external position of the economy is allowing foreign exchange reserves to maintain properly in the safe zone throughout the whole year. However, uncertainty and risks for global and domestic economy in short and medium term remain high, and Russia - Ukraine crisis remains as a major source of disruption, particularly in energy and food markets.

In such business environment, the Bank management and all employees were actively engaged in providing the business continuity of the whole Bank’s infrastructure, clients’ needs, economy and society as a whole. The main focus was put in the improvement of the digital infrastructure, which in the given period is more than necessary as a way of communication, and not just now but for future perspectives as well. 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 advices. 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 with its successful results in 2022, similar as in the previous years i.e. the profit before tax reached EUR 42.6 million, where the total assets of the Bank noted 8% increment, amounting EUR 1,996.7 million. With total capital and reserves of EUR 361.0 million, Stopanska Banka remains among the highly capitalized banks with capital adequacy ratio of 16.6%.

## Financial Highlights

|  |  |  |  |
| --- | --- | --- | --- |
| *in EUR million* | **2021** | **2022** | **change %** |
| **Income Statement indicators** |  |  |  |
| Net Interest Income | 62.4 | 68.4 | 9.6% |
| Net Commissions Income | 13.5 | 14.6 | 8.1% |
| Total Income | 85.2 | 95.2 | 11.7% |
| Operating expenses | -29.4 | -32.1 | 9.2% |
| Net Operating Income | 55.7 | 63.1 | 13.3% |
| Impairment losses  | -11.5 | -20.5 | 78.3% |
| Pre Tax Profit | 44.3 | 42.6 | -3.8% |
| **Net Profit** | **40.0** | **38.6** | **-3.5%** |
|  |  |  |  |
| **Balance Sheet indicators** | **2021** | **2022** | **change %** |
| **Total Assets** | **1,851.5** | **1,996.7** | **7.8%** |
| **Equity**  | **321.2** | **361.0** | **12.4%** |
| Regulatory capital | 241.8 | 273.0 | 12.9% |
| Loans to customers (net) | 1,266.3 | 1,396.8 | 10.3% |
| **Total loans (gross)** | **1,309.4** | **1,449.1** | **10.7%** |
|  Retail loans | 850.2 | 908.2 | 6.8% |
|  Corporate loans | 459.2 | 540.9 | 17.8% |
| Provisions | 43.2 | 52.3 | 21.0% |
| **Total Deposits** | **1,455.1** | **1,535.0** | **5.5%** |
|  Retail deposits |  1,079.0 | 1,139.5 | 5.8% |
|  Corporate deposits | 376.1 | 395.5 | 4.7% |
|  |  |  |  |
| **Financial ratios** | **2021** | **2022** | **change (bp)** |
| Net Interest Margin | 4.1% | 4.1% | 0.1 |
| Cost income ratio | 34.5% | 33.8% | -78.2 |
| ROA | 2.2% | 2.0% | -23.5 |
| ROE | 13.3% | 11.3% | -195.5 |
| Loans to Deposits ratio (gross) | 90.0% | 94.4% | 441.7 |
| Capital Adequacy ratio | 16.5% | 16.6% | 14.5 |
|  |  |  |  |
| **Operational Indicators** | **2021** | **2022** | **change**  |
| Number of Units | 64 | 62 | -2 |
| Number of Personnel (eop) | 983 | 979 | -4 |

***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

*In 2022, the banking system was operating under increased risks due to Russia – Ukraine crisis and inflationary pressures related to the energy crisis. Uncertainty from the prolonged geopolitical crisis and the growth of inflation, especially in the area of ​​food and energy prices, are causing a slowdown in global economic activity with potential negative economic spillovers. All this, has contributed to an increase of interest rates by the banks all over the world. It is expected that all these issues will remain relevant in 2023.*

**On average, the domestic economy achieved a real growth of 2.1% on an annual basis, for the entire year 2022, which represents a slowdown compared to the growth of 3.9% in the previous year, mainly due to the unfavorable effects of the energy crisis and the growth of costs on certain sectors of the economy.** The biggest positive contribution to growth had trade activities, while a negative effect was recorded by industry and construction. Despite the decrease in real wages and personal consumption, at the end of the year the economy recorded growth, mainly supported by the increase in private transfers. However, the current global political instability will continue to impose challenges in 2023.

****The disrupted global supply chains and the mismatch of supply and demand caused by Russia – Ukraine crisis, resulted in high inflation worldwide that hasn’t been evidenced in the last two decades, especially in the area of food and energy. **The average CPI in the domestic economy for 2022 was 14.2%, having in mind that the annual rate was 18.7%.** There is still high uncertainty of the movement of prices of primary products in the next period.

**In the Budget of RNM, for the entire year 2022, a deficit in the amount of EUR 577 million was realized**. Driven by a stronger revenue performance (11.5% increase) compared to expenses (8.4% increase), budget deficit in 2022 has narrowed to 4.5% of GDP. Budget deficit is fully financed through borrowings by the state on foreign and domestic markets, as well as by the state's deposits with the National Bank. Realized budget deficit for 2022 represents 83% of the planned budget deficit for 2022. As of the end of 2022 the **public debt** amounted to EUR 7,702.9 million or 59.7% of GDP. 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.

**External position in 2022 increased, resulting with current account deficit of EUR 772.4 million or 6.0% of GDP.** Private transfers rebounded, reaching EUR 2,444.5 million, which is 29.3% higher than the previous year, covering 90.1% of the trade deficit. With regards to the financial account, foreign direct investment also expanded by 60% compared to 2021, reaching EUR 754 million. The adequate level of gross foreign reserves (EUR 3,862.9 million or 3.7-months import coverage) enabled sufficient buffers against potential unforseen shocks.

**During 2022, the NBRNM continued with tightening of the monetary policy, which began at the end of 2021, including active liquidity management through interventions on FX market, as well as through increase of the interest rates.** Foreign reserves are at a comfortable level and foreign currency liquidity in the banking system remains suitable. After multiple increase, at the end of 2022, the key interest rate of CB bills reached the level of 4.75%. However, given the uncertainty regarding the future path of inflation and the tensions in Ukraine, NBRNM states that it will continue to closely monitor the developments and potential risks, emphasizing its readiness to act as needed to support the currency peg.

**During the Russian-Ukrainian crisis the banking system succeeded to remain well capitalized, liquid and profitable.** It showed an ability to support the economy in complex conditions and further meet the requirements of its clients. At the end of 2022, total deposit growth reached 4.9% on annual level. Herein, corporate deposits recorded growth of 3.7%, while retail deposits increased by 5.8%. The credit growth at the end of the year reached 9.4%. The retail loans grew by 7.3%, while corporate loans were higher by 11.5%. NPE level continued its downward trend reaching the level of -2.9% as of 31.12.2022. The loans to deposits ratio at the end of the year was 86.1%. The capital adequacy ratio of the banking sector as of 31.12.2022 was 17.7%. The profitability ratios ROA and ROE were at the level of 1.5% and 12.2% respectively. Despite the strong shocks that our economy faced, stability was preserved, but the risks require further vigilant monitoring and caution.

## Basic Macroeconomic Indicators



## Banking sector & SB

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| in EUR million |  |  |  |  |  |  |
| **Position/Indicator** |  | **Banking sector** |  | **SB** |  | **Market share** |
| Total assets  |  | 11,127.3 |  | 1,996.7 |  | 17.9% |
| Total loans  |  | 6,776.0 |  | 1,449.1 |  | 21.4% |
| Total deposits  |  | 7,573.4 |  | 1,535.0 |  | 20.1% |
| Loans growth-retail |  | 7.5% |  | 6.8% |  |  |
| Loans growth-corporate |  | 11.4% |  | 17.8% |  |  |
| Deposits growth |  | 5.1% |  | 5.5% |  |  |
|  |  |  |  |  |  |  |
| ROA |  | 1.5% |  | 2.0% |  |  |
| ROE |  | 12.2% |  | 11.3% |  |  |
| C:I  |  | 47.8% |  | 33.8% |  |  |
| NIM |  | 2.7% |  | 4.1% |  |  |
| NPE |  | 2.9% |  | 3.9% |  |  |
| CAR |  | 17.7% |  | 16.6% |  |  |

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

Stopanska Banka AD Skopje participates with 18% of the total banking sector assets and almost 1/5of both deposits and loans. In 2022, the realized growth rate of gross loans was 10.7% and 5.5 % of deposits. During 2022, the performance of the Bank was in many aspects higher compared to the total banking sector as shown above. Namely, ROA 2.0% vs. 1.5%, NIM 4.1% vs. 2.7% and the cost-to income ratio well below the banking sector with remarkable 33.8% vs. 47.8%. The capital adequacy ratio was 16.6%.

## Financial Performance

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

***Interest income***

During 2022, the interest income from the retail loans amounted to EUR 50.2 million, having the biggest participation within the total interest income of 69.8%. At the same time, the interest income from corporate and other activities (investments in securities, interbank placements and other) amounted to EUR 21.8 million i.e. increased by 20.4% compared to the previous year. In the environment of high and fast-growing inflation and tightening of monetary policy by the central bank, which focuses on increasing interest rates, the total interest income amounted to EUR 71.9 million.

|  |  |  |  |
| --- | --- | --- | --- |
| *in EUR million* |  |  |  |
|   | **2021** | **2022** | **% change** |
| **Interest income** | **66.8** | **72.0** | **7.6%** |
|  Retail loans | 48.7 | 50.2 | 3.1% |
|  Corporate loans | 13.3 | 15.5 | 16.5% |
|  Other | 4.8 | 6.3 | 31.3% |

***Interest expense***

The Bank realized decrease in the interest expenses on average by 18%.

|  |  |  |  |
| --- | --- | --- | --- |
| *in EUR million* |  |  |  |
|   | **2021** | **2022** | **% change** |
| **Interest expenses** | **4.4** | **3.6** | **-18.2%** |
|  Retail deposits | 3.3 | 2.2 | -33.3% |
|  Corporate deposits | 0.3 | 0.4 | 33.3% |
|  Other liabilities | 0.8 | 0.9 | 12.5% |

***Net Interest Income***

Net interest income amounted to EUR 68.4 million and increased by 9.6% primarily as a result of intensive credit activities and increase of the credit portfolio.

|  |  |  |  |
| --- | --- | --- | --- |
| *in EUR million* |  |  |  |
|   | **2021** | **2022** | **% change** |
| **Net Interest income** | **62.4** | **68.4** | **9.6%** |
|  Interest income | 66.8 | 72.0 | 7.8% |
|  Interest expenses | 4.4 | 3.6 | -18.2% |

***Fee and Commissions Income***

In 2022 net fees and commission income reached EUR 14.6 million. Within this, the most significant part (43.8% of the Bank’s total fee and commission income) relates to fees from transfer of funds in amount of EUR 6.4 million, recording an increase of 8.5% compared to the same period last year. The net income from lending activities is the second largest fee item, which at the end of 2022 amounted to EUR 3.9 million representing 26.7% of the total fee and commission income.

|  |  |  |  |
| --- | --- | --- | --- |
| *in EUR million* |  |  |  |
|   | **2021** | **2022** | **% change** |
| **Net fees and commissions income** | **13.5** | **14.6** | **8.1%** |
|  loans  | 3.6 | 3.9 | 8.3% |
|  letters of guarantee | 0.8 | 0.8 | 0.0% |
|  transfer of funds | 5.9 | 6.4 | 8.5% |
|  others | 3.2 | 3.5 | 9.4% |

***Operating expense***

During 2022, the Bank continued to pursue operational excellence in both cost efficiency and risk management, resulting in keeping the costs in line with the expectations and maintaining excellent quality of the credit portfolio. Faced with enormously uncertain environment caused by the global energy crisis as well as the huge inflationary growth supplemented by the effect of the Russian invasion over Ukraine, the total operating expense of the Bank reached EUR 32.1 million. Because of its effective cost containment policy in place accompanied by the growing revenues, the Bank succeeded to maintain extremely low cost to income ratio of 33.8%, far below the banking sector average.

## Assets and Liabilities

***Assets***

|  |  |
| --- | --- |
| The Bank’s total assets at the end of 2022 amounted to EUR 1,996.7 million, which is EUR 145.2 million or 7.8% higher in comparison to 2021. The Bank continued to enhance its prudent approach with balanced growth, adequate liquidity and strong capital base. The share of cash and cash equivalents in the total assets of the Bank is 18.3%. The total loan portfolio-gross reached EUR 1,449.1 million, out of which EUR 540.9 million were extended to corporate customers, while retail exposures amounted to EUR 908.2 million. |  |

***Deposits and Equity***

The Bank’s deposit base increased by 5.5% or EUR 79.9 million. Deposits continue to be the main funding source of the Bank, amounting to EUR 1,535.0 million and as a result, at the end of 2022, the loans to deposits ratio reach 94.4% on gross basis, still sufficient to enable the Bank’s strong credit potential. The currency composition of the deposits’ base indicates stable share of domestic currency denominated deposits of 57.2% (57.6% in 2021).The Bank equity amounted to EUR 361.0 million at the end of 2022 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

In 2022 the retail segment following the long-term pandemic shows signs of normalization. However, the start of the conflict in Ukraine, the hike of energy prices and the rapidly growing inflation inevitably affected the purchasing power of the citizens, also their appetites for the upcoming period.

The National Bank of the Republic of North Macedonia increased the reference interest rate on several occasions during the year, thus giving clear guidelines to slow growth of lending, with the ultimate goal of curbing the inflationary effects. These trends continued with the end of the year and the effects will undoubtedly spill over into the next year.

Stopanska Banka devoted the year 2022 to strengthening its position in the retail segment through further optimization of its network of branches, investment in new modern ATM devices, expanded offer of i-bank digital services as well as improving its retail and SBB loans and deposits offer.

***Deposits***

The base of retail deposits grew during 2022 reaching the level of 1.255 billion, reflecting, in continuity, the high confidence the clients have with the Bank.

This base also includes the deposits deriving from the SBB segment and their contribution significantly grows thanks to the focus of the Bank to this segment and the increase in number of active clients.

On-demand deposits in relation to time deposits remain balanced, slightly on the side of on-demand deposits, if we take into account that clients still prefer to have liquid assets following the Covid crisis, and in addition, the low interest rates of deposits made them less appealing for the clients.

Besides having the deposits overview on the digital channels, during 2022 the Bank enabled opening of certain term deposits through the e-banking service for its existing active clients. This goes to show that the deposit products continue to be more accessible to clients.



***Lending products***

Retail secured loans – consumer and housing loans were most sought after during the past year and were accordingly supported with promotional offers leading to an increase of 6.6% in retail lending compared to 2021.



The **housing loans** portfolio continued to grow rapidly, reaching over 19% growth compared to 2021, while remaining lending products maintained a sustainable growth.

The Bank continued to develop and nurture its card portfolio and the largest family of payment cards on the market, with various promotions and campaigns for new clients and activation of existing ones. This contributed to the increase in the number of transactions at merchants by almost 16% which is in support of the global trend of reduced cash transactions.

A complementary effect here is that of merchant partners which besides using POS terminals and installment payments, more frequently choose to sell their services and products online, so these transactions also increasingly participate in the overall increase in POS transactions. Thanks to the trust in the established process 13.5% more merchant clients joined the platform.

***Bank insurance and cooperation with the Pension fund***

As part of the expanded services available through the Bank's branches and Contact Center, the sale of bancassurance is increasing constantly, and the wide array of insurance products are becoming a significant pillar in the Bank activities.

In addition to the sale of insurance policies bundled with lending products and expanding the product offer, clients were stimulated with vouchers for additional insurance products that the clients can use to purchase various insurance products. A significant part of total sales were the stand alone products from the life and non-life insurance gamma especially with the expanded offer, and the penetration from the cooperation with Stopanska leasing and the small business segment.

The Bank additionally expanded its offer by activating the cooperation with Triglav Pension Fund during the second half of 2022, making a very solid start for the cooperation that continues to deepen.

***Digital i-bank services and Contact Center***

Globally, the **digital and direct banking platforms** are continuously growing, and our clients are following this trend. Under the i-bank brand, Stopanska Banka offers its clients rich variety of digital solutions available 24/7 via computer, mobile device or phone. In parallel, the offer is enriched with new functionalities in accordance with the needs of clients on the market, and this process continued in 2022, when the following activities have been introduced: the distribution of foreign exchange, the option to block and unblock payment cards, as well as the establishment of personalized card controls (according to the transaction type, source, channel and similar), term deposits, mobile banking for legal entities, etc.

In 2022, we note an increase in the total number of i-bank users, in the number of clients completing transactions through i-bank channels and an 8% increase in the number of transactions realized through these channels compared to 2021.

Legal entities also continue to use i-bank channels with increased intensity, and with the availability of m-banking and for legal entities, the number of users paying through this channel has grown significantly.

The Contact Center, available 24/7, continues to be a channel for clients interaction on various grounds and the increased (calls and e-mail messages) during the Covid pandemic continues in 2022 for information, sales, transactions and complaints. The Contact Center team continues to expand his activities in the direction of sales, advisory services for customers and of course 24/7 support for cards, merchants and users of i-bank services.

***Small Banking Business***

Beside all the challenges that the economy was facing during 2022, and even before, in the years of the Covid pandemic, we can conclude that the activity of micro and small companies was still aimed at the development and expansion of operations. In this direction, a significant increase in lending in this segment was observed compared to 2021 and it reached 22%, with clients dominantly demanding loans for working capital, and due to the rising energy prices, we observed an increased investment cycle among our clients in the production of electricity for own needs from renewable sources of energy, whereby the Bank offers appropriate loan solutions.

Our team continued to support the companies regardless of their size and life cycle stage, offering them personalized advice, products, services and solutions. The possibility of using the Bank's digital services to an increased extent for companies means reduced operations and increased savings in resources and finances, and of course deeper cooperation with the Bank.

## Corporate Banking

Following a period of two years disturbance of the global economic activities due to the Covid pandemic, the macroeconomic environment in 2022 continued to deliver serious challenges in both the real and the financial sector. The year started with a military escalation of geopolitical uncertainties from the Russian-Ukrainian conflict, which spilled over into the entire world economy, resulting in energy crisis, market turbulence and rising inflation. The inflationary pressures on the global economy caused tightening of the monetary policies of central banks around the world, creating an environment of interest rates that are at historical highs in the last ten years period.

Within the given market environment with numerous uncertainties, Stopanska Banka AD Skopje in 2022 continued with the implementation of the defined growth strategy of corporate lending and increasing its market share in this segment of the banking market. The wide range of products and services that the Bank provides daily to companies from all sectors of the economy, tailor-made for each company specifically according to its needs and characteristics of the business model, generate demand and production of corporate loans that bring growth to the Bank's corporate portfolio. Thus, the achieved annual growth of the Bank's corporate credit portfolio in 2022 amounts to 16.85%, i.e. 64.32 million euros in denar equivalent value. As a result, the Bank's market share in corporate lending, as of December 2022, reached the level of 16.26%, which is an increase of 0.84 pp. in relation to the previous year 2021.

During 2022, the Bank continued to increase the offer of products and services for companies. In addition to the traditional banking products and services for working capital and investment financing in 2022, the Bank, through its newly founded company, Stopanska Leasing DOOEL Skopje, enriched the offer of products in the area of financial and operational leasing. Additionally, the Bank's corporate clients have the means to apply for the financing opportunities through the Bank's open credit lines with the Development Bank of North Macedonia and the European Investment Bank, as well as with the European Bank for Reconstruction and Development.

Furthermore, along with the credit growth, the Bank continuously monitors and analyzes the quality of the corporate portfolio, in order to maintain its quality and performances.

In the global unstable and unpredictable market environment, as well as in the strong competition in the market, Stopanska Banka AD Skopje continues to achieve its strategic goal - increasing market share through the growth of the credit portfolio while simultaneously maintaining its quality and maximizing profitability. In the following period, in addition to continuous support in financing the needs for working capital and new investments of existing and new corporate clients, Stopanska Banka will focus on financing large infrastructure and energy projects that are of high importance for energy stability and future economic development of the country.

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# **Consolidation**

The Bank prepares consolidated financial reports that include its company SB Leasing DOEL Skopje. The company is legal entity, fully controlled by the other entity - the Bank, known as mother bank.

The financial statements of SB Leasing DOEL Skopje are included in the consolidated financial reports.

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| --- | --- | --- | --- | --- | --- |
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|  |  |  |  |  |  |
|  |  |  |  |  |  **in 000 mkd**  |
|  | **Note** |  | **2022** |  | **2021** |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
| Interest income |  |  |  4.423.517  |  |  4.113.872  |
| Interest expense |  |  |  (218.776) |  |  (269.831) |
| **Net interest income (expense)** | **6** |  |  **4.204.741**  |  |  **3.844.041**  |
|  |  |  |  |  |  |
| Fee and commission income |  |  |  1.521.304  |  |  1.439.240  |
| Fee and commission expense |  |  |  (622.666) |  |  (607.750) |
| **Net fee and commission income (expense)**  | **7** |  |  **898.638**  |  |  **831.490**  |
|  |  |  |  |  |  |
| Trading income/(losses), net | 8 |  |  26  |  |  (696) |
| Trading income from other financial instruments recorded at fair value, net | 9 |  |  |  |  -  |
| Foreign exchange gains/(losses), net | 10 |  |  157.425  |  |  110.078  |
| Other operating income | 11 |  |  594.926  |  |  463.221  |
| Share in the profit of associates | 24 |  |  |  |  -  |
| Impairment losses on financial assets, net  | 12 |  |  (1.234.098) |  |  (772.417) |
| Impairment losses on non-financial assets, net | 13 |  |  (27.112) |  |  65.774  |
| Personnel expenses | 14 |  |  (962.641) |  |  (890.490) |
| Depreciation and amortization | 15 |  |  (130.520) |  |  (123.372) |
| Other operating expenses | 16 |  |  (887.545) |  |  (798.796) |
| Share in the loss of associated companies | 24 |  |   |  |  -  |
| **Profit before tax**  |  |  |  |  |  |
|  |  |  |  **2.613.840**  |  |  **2.728.833**  |
|  |  |  |  |  |  |
| Income tax | **17** |  |  **(242.162)** |  |  **(262.877)** |
|  |  |  |  |  |  |
| **Net profit for the year** |  |  |  **2.371.678**  |  |  **2.465.956**  |

|  |
| --- |
| **Balance sheet -consolidated** |
|  | **Note** |  | 2022 |  | 2021 |
|  |  |  |  |  |  |
| **ASSETS** |  |  |  |  |  |
| Cash and cash equivalents | 18 |  |  22.469.444  |  |  20.867.797  |
| Trading financial assets  | 19 |  |  2.021  |  |  1.999  |
| Financial assets at fair value through Income Statement determined as such at initial recognition | 20 |  |  |  |  -  |
| Derivative assets held for risk management | 21 |  |  |  |  -  |
| Placements with, and loans to banks | 22.1 |  |  297.437  |  |  278.118  |
| Loans to customers | 22.2 |  |  85.916.705  |  |  78.037.088  |
| Investments in securities | 23 |  |  10.386.884  |  |  12.297.667  |
| Investments in associates  | 24 |  |  -  |  |  -  |
| Income tax receivable (current) | 30.1 |  |  |  |  |
| Other receivables | 25 |  |  2.582.596  |  |  1.562.418  |
| Collateralized assets | 26 |  |  |  |  -  |
| Assets acquired through foreclosure proceedings | 27 |  |  93.408  |  |  127.048  |
| Intangible assets | 28 |  |  136.870  |  |  111.435  |
| Property and equipment | 29 |  |  907.733  |  |  819.129  |
| Deferred tax assets | 30.2 |  |  |  |  -  |
| Non-current assets held for sale and disposal group  | 31 |  |  |  |  -  |
| **Total assets** |  |  |  **122.793.098**  |  |  **114.102.699**  |
|  |  |  |  |  |  |
| **LIABILITIES** |  |  |  |  |  |
| Trading financial liabilities | 32 |  |  |  |  -  |
| Financial liabilities at fair value through Income Statement determined as such at initial recognition | 33 |  |  |  |  -  |
| Derivative obligations held for risk management | 21 |  |  |  |  -  |
| Deposits from banks and financial institutions | 34.1 |  |  2.902.315  |  |  1.425.335  |
| Deposits from customers | 34.2 |  |  94.379.647  |  |  89.673.439  |
| Issued debt securities | 35 |  |  |  |  -  |
| Borrowings | 36 |  |  1.930.696  |  |  1.686.298  |
| Subordinated debt | 37 |  |  |  |  -  |
| Special reserve and provisions | 38 |  |  111.922  |  |  107.431  |
| Income tax payable (current) | 30.1 |  |  892  |  |  72.595  |
| Deferred tax liabilities | 30.2 |  |  |  |  -  |
| Other liabilities | 39 |  |  1.269.287  |  |  1.345.262  |
| Liabilities directly related to disposal group of assets  | 31 |  |  |  |  -  |
| **Total liabilities** |  |  |  **100.594.759**  |  |  **94.310.360**  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
| **EQUITY AND RESERVES** |  |  |  |  |  |
| Subscribed capital | 40 |  |  3.511.242  |  |  3.511.242  |
| Share premium |  |  |  |  |  -  |
| Treasury shares |  |  |  |  |  -  |
| Other equity instruments |  |  |  |  |  -  |
| Revaluation reserves | 40 |  |  147.155  |  |  112.832  |
| Other reserves | 40 |  |  831.373  |  |  831.373  |
| Retained earnings |  |  |  17.708.569  |  |  15.336.892  |
| **Total equity and reserves** |  |  |  **22.198.339**  |  |  **19.792.339**  |
| **Total liabilities and equity and reserves** |  |  |  **122.793.098**  |  |  **114.102.699**  |

## Consolidated supervision

The Group is not subject to consolidated supervision by the Central Bank in accordance with the Decision of the consolidated supervision due to the fact that connected company has assets lower than 1% of the assets of the Bank.

## Capital adequacy

In accordance with the Decision of the consolidated supervision, if the total assets of the subordinated company is below 1% of the assets of the mother company, the subordinated company is not included in the consolidated financial reports for the consolidated supervision. Based on the above, the capital adequacy ratio is not defined on the consolidated basis.

## Consolidated annual accounts

The Group prepares the consolidated annual account in accordance with the Law on trading companies. The financial information are disclosed in the Annual Report, they are consistent in all aspects with the consolidated annual account of the Group and with all other financial information disclose in the audited consolidated statements of the Group.

## Percentage of participation

The Bank participates with 100% in the ownership in SB Leasing DOEL Skopje.

## Risk Management

*The Risk Management function of Stopanska Banka AD Skopje focuses on maintaining the risk profile within the established risk appetite, while ensuring balanced growth and adequate quality of the loan portfolio.* *The Bank’s Risk Management mission is to ensure that all types of risk are managed so that the Bank remains safe for its depositors and other stakeholders while producing sound returns for its shareholders over time, in line with SB’s business strategy, consistent with best practices and fully compliant with regulatory requirements.*

Stopanska Banka AD Skopje is one of the country’s largest financial institutions, offering banking services, undertaking and managing risks as part of the daily activities. The main objective of the Bank’s Risk Management function is to protect the interest of its customers and shareholders through prudent management of risks, supported by strong risk culture, as well as well managed liquidity and strong capital base. The Bank manages the risks through a comprehensive risk management framework that integrates risk management into daily business activities and strategic planning. Risk Appetite Framework (RAF) is being developed and set in place in order to be used as a key management tool to better align business strategy, financial targets and risk management and it constitutes an essential mechanism to support the oversight of the strategy execution within the risk boundaries that the Bank is willing to operate.

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

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.

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 are credit, liquidity and market risk. In the complex current business conditions, SB is also exposed to non-financial risks such as operational, IT and compliance risks.

SB has a framework of risk management policies, procedures, and minimum standards in place, which are creating consistency throughout the organization, and defining the 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 to reflect changes in requirements, markets, products and practices.

In 2022, the banking system was operating under increased risks due to the Russia-Ukraine crisis and inflationary pressures related to energy crisis. Uncertainty by the prolonged geopolitical crisis and the growth of inflation, especially in the area of food and energy, are causing a slowdown in global economic activity, with potential negative economic spillovers. The uncertainty is expected to continue in 2023 as well.

The Russian-Ukrainian crisis has introduced the need of intensive monitoring of developments related to credit and liquidity risks. In that manner SB performed several types of stress tests and sectoral reviews in order to assess the potential impact on its financial position, which helped the Bank to get further insights into the potential impact and to define appropriate mitigating actions.

It has remained an objective of the Bank, even in these challenging times, to strive for continuous improvement of 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 on which Bank is exposed to, credit risk is the risk of economic losses for the Bank if a counterparty cannot fulfil its contractual or other financial obligations arising by 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 appropriate decision. For that purpose, SB credit policies of prudent lending are including a detailed risk assessment prior to any credit decision and common set of minimum standards for credit limit evaluation, approval, renewal and monitoring of credit exposures.The performed credit assessments are supported by risk rating systems and statistical scoring models that, based on various quantitative and qualitative data inputs, provide quantification of the credit risk levels. Finally, Authorized Credit Approval Committees with experienced and professional members are established for the approval and renewal of the credit facilities.

After the credit relationship is established, SB applies an intensive monitoring process that allows early identification of any deterioration of the risk profile of a customer or group of customers. The monitoring process consists of regular credit reviews throughout the life cycle of the product facility, internal risk classification and Early Warning Systems, 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 through established concentration limits based of sectorial type, 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.

In 2022, the Bank navigated the persistent effects of the pandemic while also confronting new challenges in the form of inflation and its widespread impact on the economy. The Bank worked diligently and in close collaboration with its clients and relevant stakeholders to effectively overcome these unprecedented challenges. Despite the adverse effects of the pandemic on global economies as well as inflation and the energy crisis stemming mainly by the Russia-Ukraine crisis, SB sustained its robust growth trajectory from 2021 while also fortifying the credit quality of its corporate portfolio.

All its credit risk objectives, tools and a clear governance structure of the risk management process is 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 in 2022. Growth of 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 last year, despite increased inflationary pressures, energy crisis and challenges in supply chains.

According to NBRNM Methodology, each credit risk exposure is classified in one of five risk categories (A, B, C, D and E). The exposure within the best credit risk category i.e. “A” credit risk category is 86.1% in 2022, mostly due to exposure classified in “B” category, that has reached 9.9% in 2022 by applying a more prudent overlay approach (post-model adjustments) in the impairment calculation in order to anticipate the uncertainty caused by the geopolitical and energy crisis. High-risk debt exposures classified in “D” and “E” categories compose 3.0% of the Bank’s loan portfolio.

*Concentration Structure*

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

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

|  |  |
| --- | --- |
|  |  |

##

## *Liquidity Risk Management*

The Bank in continuity maintains the liquidity position at the appropriate level in relation to its own size and capacity and thus enabling performance of all business activities and fulfillment of the regulatory requirements from the liquidity risk management area. Basic source of funds i.e. the liquidity of Stopanska are clients’ deposits, in which 65% are from payment accounts and sight deposits. This part of deposit base is characterized with daily movements. Hence, the liquidity management imposes the need to maintain quality liquid assets composed of various instruments by type, term and currency, carefully and appropriately structured to the Bank’s liquidity needs.

Managing with the liquidity is based on the preparation of projections of the cash flows and matching these movements with the maturities of the obligations. The planning and managing of the liquidity is based on a daily basis, with real time monitoring of those positions that impact the most. In terms of international economic and energy crisis, the Bank successfully dealt with all shocks that proves its competence and resistance against unfavorable influences.

The Bank in continuity reviews and improves the system of internal controls and infrastructure composed of policies, procedures and mechanisms for defense set at three levels - the first level which is operational level of liquidity management run by the Treasury Division, the second level – identification, measurement and control of liquidity risk by the Risk Management Division and the third level of defense - the Internal Audit Division, with advices and insight into the quality and effectiveness of the internal controls.

*Regulatory requirements*

Average level of the denar mandatory reserve during 2022 was 100.22%, at prescribed regulatory minimum of 100%, showing Bank’s successful management of the available liquidity and its investment in profitable liquid assets.

The liquidity coverage ratios (LCR) represents Basel based indicator designed to secure the banks in the country to maintain sufficient level of high liquid assets that will enable resilience of significant liquidity shock in period of 30 days. Stopanska Banka maintained on an average level of 180%, compared with the minimum required level of 100%.

The internal liquidity indicators reported to the NBRNM, were also maintained above the established internal limits.

*The structure of the liquid assets*

The Bank maintains the optimal structure of liquid assets according the liquidity needs and the purposes of the asset and liability management.

At the end of 2022 the Bank had the following structure of liquid assets:

* Cash and balances with the Central Bank- 45%
* Due from other banks - 24%
* Securities - 31%.

The level of high liquid assets composed of cash and cash equivalents, trading and investment securities represents 11% of the total Bank’s assets.

*Financial market operations*

The Bank continued to successfully serve companies and individuals with the purchase and sale of foreign currencies, achieving a higher turnover in 2022, compared to the previous year. The largest part of foreign exchange funds SB thus provided by its own sources, and a smaller part is provided by the other banks – market makers and the NBRNM. The total volume of the foreign exchange market amounted to 1.5 billion euros, out of which 45% were foreign exchange purchase transactions, and 55% were foreign exchange transactions on the sales side. From the aspect of the currency structure, 85% were transactions in euros, 13% were transactions in US dollars and only 2% were transactions in other currencies.

## *Interest Rate Risk Management*

Interest rate risk is the possibility that changes in interest rates could adversely affect the value of a financial instrument, a 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 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 metrics and limits as 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 2022, the ratio of total net weighted position to the regulatory capital was below the regulatory maximum of 20% and resulted with insignificant exposure to IRRBB.

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

## *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 through 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 2022, 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.

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

• Promote a Bank wide operational risk awareness and risk culture further contributing to process efficiency and control effectiveness

• Establish a set of fundamental standards for operational risk management across the Bank leading to the avoidance of unexpected and catastrophic losses and minimization of expected losses

• Ensure that business objectives are pursued in a risk-controlled manner

• Ensure the cost-effectiveness of operations by reducing extensive overlaps and avoiding excessive or obsolete controls

• Ensure consistency with relevant best practices and compliance with regulatory (quantitative and qualitative) requirements

• Improve regulatory capital consumption, regarding operational risk

* Improve quality of operational risk information leading to more informed risk

 decision-making and capital allocation

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

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

According to the definition in 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)

The overall focus of the 2022 ORM process was aimed at further strengthening the Operational risk management function within 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 enhanced monitoring of operational risk exposure is 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.

Within the annual stress test of the Bank, stress testing of the operational risk is performed with purpose 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 main focus of the Bank. The total regulatory capital of the Bank as at 31.12.2022 amounted to EUR 272.1 million, out of which the Tier 1 capital amounted to EUR 270.6 million and the Tier 2 capital amounted to EUR 1.5 million, which resulted in a capital adequacy ratio of 16.65% as of 31.12.2022.

As a part of the prudently established risk management framework, the Bank regularly performs the Internal Capital Adequacy Assessment Process (ICAAP) and assesses the resilience of its capital adequacy by conducting stress testing, by taking into account the up-dated circumstances and risks prevailing and the moment of stress-testing and forecasting the expected ones. The Bank’s ICAAP ascertains that SB’s capital is sufficient to cover all the material risks to which it is exposed to, and that the identified excess of capital is more than sufficient to cover all other risks that cannot be adequately quantified but to which the Bank is exposed to in the regular business activities. As prescribed, the stress test exercises are also an integral part of the risk management framework, especially needed to provide estimates and trigger attention of the size of financial losses and its impact on the overall business, including the capital adequacy. During 2022, the Bank conducted various stress test scenarios, including a scenario specific to the Russian-Ukrainian crisis 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 is resilient even under very pessimistic assumptions. Such resilience mainly reflects the prudent risk management, well-established business model, strategy, systems and procedures that enables self-generating strong capital base and high liquidity position, as a strong shield against all possible risks and shocks.

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

During 2022, Compliance Division (CD) undertook vast number of activities for monitoring of the implementation of all relevant novelties in the domestic and international regulations related to banking operations by continuous implementation of efficient system for controlling SB activities that comply with the applicable domestic and international regulations. Such activities included:

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

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

Considering Anti-Money Laundering (AML) and Combat Terrorist Financing (CTF) Activities, during 2022, CD realized 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 2022 the number of staff employed in CD was maintained accordingly in accordance with the requirements from the Law.

Compliance Division continues to carry out its regular activities in order to sustain and bolster overall compliance culture within SB as well as to achieve overall compliance of Bank’s operations with the relevant regulations as its main objective.

##

## Personal Data Protection

Privacy and the confidentiality of its clients is of utmost importance for Stopanska Banka, having in mind the nature of the banking business and the data that the banks are collecting for their daily operations.

In accordance with the Law on Personal Data Protection, the Bank has appointed Officer for Personal Data Protection and is undertaking various ongoing activities that are ensuring that the personal data are:

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

SB has a wide range of technological, administrative, organizational and physical security measures designed to safeguard the confidentiality, integrity and availability of personal information. In this respect, to be responsive to the client’s needs, the Bank has established complaints resolution protocol and data incident protocol wherein it reviews all data protection complaints or data subject rights requests by its clients and are resolving any issue within reasonable timeframe, ensuring the data subjects that the Bank is keeping secure and using their data lawfully.

More information on how SB collects, processes, uses, shares and disposes personal information, as well as rights that individuals have with respect to their personal information, is available on SB website within the Privacy Policy and upon request through multiple channels.

# **CORPORATE GOVERNANCE REPORT 2022**

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

The following Report is presented to the shareholders of SB and the public in accordance with the Law on Trade Companies, the Decision on good corporate governance rules for banks issued by National Bank of Republic of North Macedonia and Corporate Governance Code for listed companies on the Macedonian Stock Exchange.

**1. SB Bodies**

**1.1. SUPERVISORY BOARD**

The Supervisory Board of Stopanska Banka AD – Skopje consists of 7 members, out of which 2 are independent ones, with the term of office determined to four years, appointed by the Shareholders Assembly. The composition of the Supervisory Board in 2022 is as follows:

1. Marinis Stratopoulos, **Chairman,** CEO of NBG Cyprus Ltd.;
2. Christodoulou Christodoulos, Chief Financial Officer, National Bank of Greece S.A. Athens;
3. Dimitra Gkountoufa, **member,** Director in CEO Office, 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 University “St. Cyril and Methodius” Skopje;
6. Sasho Kjosev, **independent member,** Professor, Faculty of Economics at University “St. Cyril and Methodius” 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 appropriate for a systemic bank as SB. In addition, all members of the Supervisory Board allocate appropriate time and focus on their supervisory and strategic responsibilities.

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

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

1. adopts the SB business policy and development plan 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 Bankof the Republic of North Macedonia and 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 own funds, other than purchase of securities issued by the National Bank 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 study for performed write off prepared by the competent Bank division
30. review 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 National Bank relevant decisions.

\*\*\**More details are presented in the Annual Report on the Operations of Supervisory Board in 2022, submitted to the SB Shareholders Assembly.*

**1.2. The Supervisory Board’ Committees in the year under review**

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

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

1. **AUDIT COMMITTEE**

The Audit Committee of Stopanska Banka AD – Skopje consists of five members, appointed by the Supervisory Board, with two years term of office. Majority of the members (3) are members of the Supervisory Board, while the remaining two members are independent out of which one member is authorized auditor. The composition of the Audit Committee in 2022 was as follows:

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

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

More precisely, *among other items*, during 2022 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 to 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.

1. **RISK MANAGEMENT COMMITTEE**

The Risk Management Committee of Stopanska Banka AD – Skopje is consisted of 9 members, appointed and/or dismissed by the Supervisory Board (although the positions of the members of the Risk Management Committee are defined in the Statute). As at 31 December 2022, the members of the Risk Management Committee are as follows:

1. Diomidis Nikoletopoulos – Chief Executive Officer and Chairman of the Board of Directors, Chairman;
2. Toni Stojanovski - Chief 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 – Chief Credit Officer, member;
6. Mirjana Trajanovska – Senior Manager for Treasury and Finance, member;[[2]](#footnote-2)
7. Vlado Treneski –Senior Manager of Corporate Banking Division, member;
8. Mirko Avramovski - Manager of Collection Division, member;
9. Emilija Stojanova - Manager of Risk Management Division, member.

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

1. permanently monitors and assesses the risk level of SB, and identifies the acceptable level of exposure to risks in order to minimize the losses as a result of the SB risk exposure;
2. establishes risk management policies and monitors their implementation;
3. follows the regulations of the National Bank pertaining to the risk management and SB compliance with such regulations;
4. assesses SB risk management systems;
5. determines short and long-term strategies for managing certain types of risks SB is exposed to;
6. analyses the reports on SB risk exposure developed by SB risk assessment units and proposes risk hedging strategies, measures and instruments;
7. monitors the efficiency of the internal control systems in the risk management;
8. analyses the risk management effects on SB performances;
9. analyses the effects of the proposed risk management strategies, as well as the proposed risk hedging strategies, measures and instruments;
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.
13. **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 2022, members of the Remuneration Committee are as follows:

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

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

During 2022, the Remuneration Committee held **three 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 following main items were passed:

* Review and approval of the Remuneration Report for 2022, including the self-evaluation of the Remuneration Committee members and the Risk Management Committee Opinion on the Remuneration Policy;
* Review 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 2022 was:

1. Diomidis Nikoletopoulos, Chief Executive Officer and Chairman of Board of Directors;
2. Toni Stojanovski, Chief Corporate Officer and member of the Board of Directors;[[3]](#footnote-3)
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.

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

The Board of Directors responsibilities are as follows:

1. manages SB;
2. represents SB;
3. enforces the decisions of the Shareholders Assembly and the Supervisory Board of SB, i.e. makes sure that they are implemented;
4. takes initiatives and gives proposals for promoting SB operations;
5. appoints and dismisses the persons with special rights and responsibilities pursuant to the provisions under the Banking Law and this Statute;
6. prepares SB business policy and development plan;
7. prepares SB financial plan / Budget;
8. prepares SB information security policy;
9. prepares an annual report on the SB operations and submits it to the Supervisory Board;
10. prepares a Code of Ethic of the bank;
11. gives previous consent and submits proposals for partial or write off in full of claims to the Supervisory Board;
12. passes decision on sale of claims; and
13. performs other activities, in accordance with Law, this Statute and SB’s enactments.

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

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

**1.4. CREDIT COMMITTEES**

Other SB bodies, determined with the Statute, are Credit Committees with the following, structure, and authorities, as at December 31, 2022:

1. **Executive Corporate Credit Committee (ECCC):** it consists of 6 members as follows:
* Diomidis Nikoletopoulos, 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 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 OR 10% of SB own funds shall be approved by SB Supervisory Board. ECCC also approves restructuring of claims and regulating of claims in accordance with applicable credit policies and performs other activities determined with decisions of the Supervisory Board. The meetings are held by teleconference or written statement when needed with a quorum of all of its members and the decisions are passed unanimously;

1. **Credit Committee (CC):** it consists of 5 members as follows:
* Diomidis Nikoletopoulos - 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 credit exposure toward 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 written statement when needed with a quorum of all of its members and the decisions are passed unanimously.

1. **Commercial Clients Credit Committee (CCCC):**it consists of 5 members as follows:
* Bojan Stojanoski - Chief Risk 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, Chief Credit Officer of SB, member
* Vladimir Treneski, Senior Manager of Corporate Banking, member
* Lidija Rumenovska Sazdova - Manager of Underwriting Division, member.

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

The CCCC decides on credit exposure toward single subject - legal entity 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 written statement when needed with a quorum of all of its members and the decisions are passed unanimously;

1. **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 – Chief Credit Officer of SB, member
* Dejan Krstevski - Manager of Small Banking Business Division, member
* Emilija Stojanova - Ivanovska - Manager of Risk Management Division, member

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

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

1. **Small Banking Business Credit Committee** (SBBCC): it consists of 5 members as follows:
* Milica Chaparovska - Jovanovska - Chief Retail Officer of SB and member of the Board of Directors, Chairman
* Dejan Krstevski - Manager of Small Banking Business Division, member
* Barbara Brezovska - Ponjavic or Dragan Mihajlov -Manager or Deputy Manager of Product Management and Clients Segment Division, member
* Mihaela Atanasovska Stoicovska - Manager of Credit Division
* Maja Rusovska – Manager of SBB Credit Department.

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

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

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

1. **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 Mihajlov -Manager or Deputy Manager of Product Management Division, member
* Mihaela Atanasovska Stoicovska - Manager of 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 credit exposure toward single subject – individual in the amount up to EUR 100.000. RCC also approves restructuring of claims and regulating of claims in accordance with applicable credit policies and performs other activities determined with decisions of the Supervisory Board. The meetings are held by teleconference or written statement when needed with a quorum of all of its members and the decisions are passed unanimously;

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

**1.5. Succession Policy**

Succession planning is an essential component for the development of any corporation. The planning of this segment is a tool for good management of the organization in order to ensure continuous effective operation through continuity of leadership. A good succession planning program aims to identify employees/individuals with high potential and ambition, train them and ensure available talent for future operations.

The Bank recognizes the importance of a succession planning process to ensure continuity in a sustainable, highly successful operation. There are certain positions in the Bank that are crucial for its current and future growth. Therefore, it is important that these positions are awarded to appropriately qualified and the best possible individuals. It is critical that such positions are filled in a timely manner to avoid any leadership gap.

During 2022, the Bank undertook preparatory activities for adoption of the Succession Policy of the NBG Group, including its adaptation to the Bank's model and needs as well as to domestic legislation.

The Policy will be applied from 2023.

**2. Organizational Structure**

The organizational structure of the Bank is following the best corporate governance standards and requirements and is tailored to optimize its business processes in order to be faster, cheaper and safer for all involved stakeholders. According to SB Statute, the organizational structure of the Bank is determined with a decision by the Supervisory Board, on proposal by the management. As of 31.12.2022, the Bank is organized in 21 divisions and 62 branches.

The organizational structure is published on SB website.

**2.a. Stopanska Leasing DOOEL Skopje**

In accordance with the ambitious business strategy, Stopanska banka decided to invest in the establishment of a non-banking financial institution - a provider of financial leasing, thereby enriching the offer of financial services for customers and obtaining an additional source of income.

Namely, according to the Decision of the Ministry of Finance no. 13-11054/2 of 11.2.2022, the Bank successfully established the company for financial leasing, Stopanska Leasing DOOEL Skopje, fully (100%) owned by SB. The company started operating on July 1, 2022.

The operation of the Company is controlled by a Supervisory Board consisting of four members:

* Toni Stojanovski, Chief Corporate Officer and member of the Board of Directors of Stopanska Banka AD - Skopje - Chairman,
* Milica Chaparovska – Jovanovska, Chief Retail Officer and member of the Board of Directors of Stopanska banka AD – Skopje – member,
* Theodoros Spyropoulos – Chief Executive Officer of NBG Leasing – member, and
* Evangelia Kalouptsi – Deputy Director of NBG International Activities Division - member.

In accordance with the Law on Trade Companies, the Supervisory Board audits the Company's annual account and other financial reports, the proposal for the distribution of profit, reviews the annual report regarding the operations in the business year and performs other activities in accordance with the law.

In addition, Stopanska Leasing is managed by a manager appointed by the Management Board of Stopanska Banka AD - Skopje. We are talking about Zharko Krzhalovski, who has been working in the leasing business in management positions for more than 13 years and has a reputation as one of the best sellers in the country.

In addition to the financial implications, a systemically important bank with a tradition and a brand like Stopanska banka AD - Skopje, as well as its operational, managerial and financial capacity, is expected to have a wide range of financial services on the market in the country. The offering of financial leasing through a separate company for this financial activity has enriched the Bank's offer for its customers and will have a positive impact on the balance sheets of SB and on the overall leasing market in the Republic of S. Macedonia.

**3. Shareholder Structure**

During 2022, there are no significant changes in the shareholder structure: National Bank of Greece S.A. – Athens (NBG) owns 94.6% of the ordinary shares, while 5.4% of the shares are held by other minority shareholders. NBG are represented with 5 members in the Supervisory Board, while the other 2 members are independent.

As of 31 December 2022, no member of Supervisory Board or Board of Directors hold any common shares with right to vote of Stopanska Banka AD – Skopje. Concerning priority cumulative shares without the right to vote, one member of the Supervisory Board and one member of Board of Directors hold small insignificant amount of shares (less than 0.1%).

As of 31 December 2022, the initial capital (basic capital) consisted of 17,460,180 ordinary shares at the nominal value of MKD 201.1 per share and 227,444 preferred shares at the nominal value of MKD 400.00 per share. The same are registered and lead by the Central Securities Depository. 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 objectives of the main shareholders were to restructure the Bank into stable, solid and reliable factor in the economy that will be pillar and counterparty of the clients. After long period of restructuring and cleaning the losses from the past, the Bank started creating profit, which was re-invested for growth in the years to come that secured its leading position today.

Stopanska Banka has issued two types of shares:

* Ordinary shares with right to vote: 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 share 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 has a right to guaranteed cumulative dividend, thus the Bank is in compliance with the same.

The Bank has 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 to the shareholders information in advance for the dividend that they will receive.

Regarding the dividend policy related to the ordinary 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 2022, Stopanska Banka withdraw from any decision on dividend disbursement for the common shareholders. In addition, as strategic priority, during the distribution of the profit, the Bank prioritizes the provision of capital needed to cover all risks, so during 2022, at the Assembly of Shareholders, a decision was made to redistribute the accumulated profit from 2019 or an amount of 307,500 .000 denars in accumulated profit that will not be available for the payment of dividends to shareholders in the future, as well as the distribution of an amount of 1,543,456 thousand denars from the profit realized in 2021, also intended for regulatory capital, i.e. a total of 1,850,956 thousand denars (~ 30 million euros), in order to ensure a high level of capital adequacy of 16.6% and to support the Bank's Business Plan in the coming period.

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 1.137.220 or gross dividend of MKD 5 per share.

This approach of the Bank concerning the dividend policy is highly prudential, approaching cautiously the next period, and following the guidelines and recommendations of the Central Bank concerning the dividend disbursement, thus protecting the entire banking system from more serious consequences of the crisis.

**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 website.

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

During 2022 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.

1. **Outsourced services**

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 on 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 outsourced for which special care is undertaken. 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
* Conduct of legal proceedings for collection of debts before the competent authorities.
1. **Remuneration Disclosure for 2022**

## 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. The same incorporates measures to avoid or minimize conflicts of interest or any possible negative impact on the sound, prudent and good management of risks assumed by the Bank, discourages excessive risk-taking and contributes to safeguarding the capital position of the Bank.

Тhe remuneration approach of SB is straight-forward, effective and focused on meritocracy while fully compliant with the regulatory requirements and the principles of the Remuneration Policy. The remuneration is primarily comprised of fixed remuneration; the variable part is smaller part of the total compensation and is given as reward for the individual contribution in the excellent overall results and governance of the Bank.

Fixed remuneration is comprised of competitive base gross salary paid monthly, which provides a measure of certainty and predictability to all of SB employees. When fixed remuneration is determined the Bank has ascertain key performance indicators for every position that takes into consideration various financial and non-financial parameters. It primarily reflects the relevant professional experience and organizational responsibility of the staff. Fixed salary is also assessed and determined in the context of the banking market in order to set the levels on competitive levels.

Variable remuneration is smaller part of the overall remuneration of the management and SB employees (14%). More important, the Bank has clearly defined credit policies and risk appetite (approved on highest levels: the NBG Group and the Supervisory Board of the Bank). In addition, all the credit risks are undertaken on level of committees, i.e. not by a single officer. Therefore, the risk-taking on individual level is minimized and framed in strict policies. However, when variable remuneration is paid, the Remuneration Policy prescribes that the remuneration is not determined based on automatic procedure (“formulaic approach”) but should take into account the performance of the employee, unit concerned and the overall results of the Bank. No guaranteed variable remuneration is allowed, i.e. any variable remuneration is dependent on the overall success of the Bank and is usually approved only after the year-end results are confirmed, thus it takes into consideration the overall health and success of the Bank before approving any rewards to the management and its employees.

Due to the strong adherences of the Bank to the Code of Ethics and the full compliance with the legislation and the internal policy, any failure of employee to comply with the Bank’s internal acts cannot be offset by any of his/hers financial performance.

In relation to the control functions, the Supervisory Board, through the Policy of Remuneration and the key performance indicators, has successfully established the manner of remuneration that is not dependent from the activities and performance of the units that are subject of their control.

## Latest review and amendment of the Remuneration Policy is done 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 it is disclosed the remuneration in Stopanska Banka as required by the laws.

There are no significant changes in the remuneration approach during 2022. No remuneration is paid in 2022 in shares or other rights that gives right to acquire SB shares.

1. **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.

1. *representatives of the shareholders*

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

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

1. *independent members*

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

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

* prof. Filipovski receives MKD 1.668.809 gross (annually) while
* prof. Kjosev receives MKD 1.337.946 gross (annually).
1. **Board of Directors**

In 2022, total gross amount of MKD 29.742.392 (fixed remuneration of MKD 24.697.401 and variable remuneration of MKD 5.044.991) was paid to 4 members of the Board of Directors.

*Table: Remuneration of members of Board of Directors, per member, 2022, gross MKD*



1. **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. 26 employees are included in this category.

Total gross amount of MKD 67.630.706 (fixed remuneration of MKD 59.339.697 and variable remuneration of MKD 8.291.009) was paid to the Officers with material impact on the risk profile.

1. **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.

Total gross amount of MKD 35.119.452 (fixed remuneration of MKD 31.432.643 and variable remuneration of MKD 3.686.809) 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 2022 amounts to MKD 75.864,6 thousands which represent 0.45% 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.

2022 continued to be under the sign of perseverance, persistence and the need to heal the economy, as well as the military and energy crisis, so the Bank continued to be a trusted financial partner of companies and citizens in 2022 by offering financial solutions, products and services and their adaptation to the needs and appetites of customers. The Bank successfully continued to implement all these business activities, because since the beginning of the COVID-19 crisis, it successfully dealt with preventing the spread of the virus in the organizational units and helping employees who were infected by the virus.

In the course of 2022, the main CSR activities were implemented as follows:

* Donation of medical equipment for the "8th of September" City Hospital in Skopje
* Sponsorship of "Strumica Carnival" 2022
* Sponsorship of "Ohrid Summer" 2022
* Sponsorship of "Skopje Summer" 2022
* Sponsorship of "Galician Wedding" 2022
* Main sponsor of the Skopje Triathlon 2022
* Sponsorship for the Faculty of Economics Skopje at the University of St. Cyril and Methodius - Skopje
* Sponsorship of the Chamber of Commerce of North Macedonia
* Sponsorship of the Northwest Chamber of Commerce of North Macedonia
* Sponsorship of the Skopje Economic and Financial Forum
* Sponsorship of the Balkan Economic Forum
* Annual sponsorship of the Macedonian Olympic Committee
* Valuable sports donations through the vouchers issued by the Sports and Youth Agency.
* Organized activities for planting flower arrangements on urban areas in Skopje on the occasion of Savings Day and Women's Day - March 8
* Sponsorship for publishing books of eminent professors and professionals
* Donation from the mass event "Ride Right, Ride Healthy" to bicycle parking spaces in 15 high schools
* The project that we repeat every year with 70 new planted evergreen trees - procurement of large seedlings of natural Christmas trees for the branches and their planting in nature after the New Year holidays.
* Initiation of a large green project "Green Wall" with planting of 350 perennial trees along the Vardar Quay in a length of 14 km. The "Green Wall" project continues for the next two years and it is planned to have a total of around 2000 perennial trees planted: oak, Japanese cherry, maple, red maple and others.

In conclusion, the CSR strategy of the Bank in 2022 is to play a significant role in the community where it originates and operates and to constantly expand the support of projects from different segments and activities. All these activities add significantly to the name and value of the company. The bank will continue in the following years to recognize and support projects that are of interest to the wider population.

**9.а. Gender equality and inclusiveness**

The governance and operation model of Stopanska banka AD - Skopje is based primarily on a diversity of talents who have the skills, experience and corporate culture to respond to the challenges of banking operations and the needs of customers and all stakeholders of the Bank. Through various programs and activities, the Bank continuously encourages an inclusive working environment where every employee gets an equal chance for career progress and self-development, without discrimination on any basis. Such principles the Bank continuously incorporates and promotes in all processes, including in the recruitment, training, development and retention of employees.

In this direction, from the aspect of gender equality and inclusiveness, the Bank has a **well-balanced gender structure at all levels**. Any "imbalance" at a certain level, including within the Bank's bodies, is due to the specific circumstances (existing staff gender composition, available candidates for new jobs, the Bank's needs, etc.), regulatory requirements and commitment to promoting the best talent in the given period regardless of gender or other type of affiliation.

Consequently, at the level of the entire Bank, i.e. from the total number of 942 employees in Stopanska banka AD - Skopje as of 31.12.2022:

- 306 are men, ie 32%, and 636 are women, ie 68%.

The Bank has the same gender structure in relation to persons with special rights and responsibilities (so-called senior management), excluding the bodies listed below, that is:

* 20 managers/deputy managers of divisions are women (63%).
* 12 managers/deputy managers of divisions are men (37%).

In relation to the bodies of the Bank, i.e. in the context of the recommendation of the Corporate Governance Code for listed companies on the Macedonian Stock Exchange for gender equality by 2025, which promotes at least 30% of women in the bodies of listed companies, in 2022 the Bank has the following situation:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Statutory body** | **Total members** | **Members – woman** | **%** | **Measures for implementation of the recommendation for 30% gender equality**  |
| Supervisory Board | 7 | 1 | 15% | During the future appointments of members of Supervisory Board, the Bank will take into consideration the current structure of the board, and the gender composition will be one of the criteria in the profiling of the future members.  |
| Audit Committee | 5 | 2 | 40% | **The recommendation is implemented.** The Bank will strive to maintain the current gender balance in the future.  |
| Remuneration Committee | 3 | - | 0% | The members of the Remuneration Committee are determined by the Statute of the Bank and the regulation requires the majority of the members to be independent members - representatives of the Supervisory Board as well as members with specific experience relevant to the operation of the Committee.  |
| Risk Management Committee | 9 | 3 | 33% | **The recommendation is implemented.** The Bank will strive to maintain the current gender balance in the future. |
| Board of Directors | 4 | 1 | 25% | **The recommendation is mostly implemented.** No additional / special activities are planned. |

**9.b. Summary of the Bank's cooperation with stakeholders**

As one of the largest organizations in the country, Stopanska banka AD - Skopje recognizes the influence it has on a large number of stakeholders - the Bank's shareholders, employees, customers, depositors, relevant regulators as well as the general population whose lives are inevitably affected by the Bank's operations.

In this direction, in the past year the Bank continued to prioritize cooperation with all stakeholders in order to build even stronger relationships and promote joint success and well-being for all.

* Starting with the shareholders, as owners of the Bank, the Bank had continuous and active communication with the investing public throughout 2022. In particular, it should be emphasized the continuous provision of legal and other type of support for securing appropriate channels and form for the resolution of any issue that the shareholders have in relation to their requests to the bodies of the Bank and the Shareholders Assembly;
* The employees of the Bank represent one of the most important stakeholders and the Bank continuously invests in the development career of the employees and their competitive remuneration. Furthermore, in 2022 the Bank continued to build a safe working environment primarily in the context of the still existing risks of the Covid-19 pandemic (introduction of the concept of working from home, rotations, employee testing, etc.), a culture of open communication and equal treatment to all employees, etc.;
* Customers remain the Bank's main focus and the Bank continues to focus on providing high-quality services and products that meet their specific needs in various manners;
* The Bank, guided by the principle of full compliance of its operations with the laws and ethical standards, also values and promotes professional relations with regulators and continued to cooperate closely with institutions and work on implementation and acceptance of all regulatory requirements. It proactively engages with regulatory bodies to ensure a thorough understanding of the new extensive regulations and continuously took a number of steps to appropriately adapt the Bank's operations to the changing regulatory framework.

Overall, the Bank's cooperation with all stakeholders is an important part of the overall success achieved in 2022. Stopanska banka AD - Skopje remains committed to building strong relationships with all stakeholders, all with one goal - that the Bank's success is the success of the entire community.

Appendix 1

**S T A T E M E N T O F C O N F O R M I T Y**

**with the Corporate Governance Code of Stopanska Banka AD - Skopje** In accordance with the Article 384-a of the Law on Trade Companies, the Board of Directors of Stopanska banka AD - Skopje, gives the following:

**STATEMENT**

We, the undersigned members of the Board of Directors of Stopanska banka AD - Skopje, (hereinafter: Bank) declare that Stopanska banka AD - Skopje applies the Corporate Governance Code.

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 aspect with the Corporate Governance Code of SB for the year ended December 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 is upholding 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 Nikoletopoulos

Chief Executive Officer

Toni Stojanovski

Chief Corporate Officer

Milica Chaparovska-Jovanovska

Chief Retail Officer

Bojan Stojanoski

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) issue the following:

**S T A T E M E N T O F C O N F O R M I T Y**

**with the Corporate Governance Code for companies listed on the**

**Macedonian Stock Exchange**

In accordance with the Article 384-a of the Law on Trade Companies, the Board of Directors of Stopanska banka AD - Skopje, gives the following:

**STATEMENT**

We, the undersigned members of the Board of Directors of Stopanska banka AD - Skopje, (hereinafter: Bank) declare that Stopanska banka AD - Skopje applies the Corporate Governance Code. 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 Nikoletopoulos

Chief Executive Officer

Toni Stojanovski

Chief Corporate Officer

Milica Chaparovska-Jovanovska

Chief Retail Officer

Bojan Stojanoski

Chief Risk Officer

STOPANSKA BANKA AD - SKOPJE

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1. Mr. Antonio Veljanov is also member of the Institute of Chartered Auditors of Republic of N. Macedonia, on voluntary basis. [↑](#footnote-ref-1)
2. Ms. M. Trajanovska is also Chairman of the Supervisory Board of the Clearing House KIBS AD Skopje. [↑](#footnote-ref-2)
3. 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). [↑](#footnote-ref-3)