

To: **Stopanska Banka AD Skopje**

- To the attention of the Supervisory Board of SB

Subject: Proposal for including items for review and deciding at the regular annual Shareholders Assembly of Stopanska Banka AD Skopje in 2024

Skopje, 29.03.2024

Distinguished Chairman and members of the Supervisory Board,

We are hereby addressing the Supervisory Board (SB) of Stopanska Banka AD Skopje (Bank) as shareholders, based on Article 390 paragraph (3) of the Law on Trading Companies, and in relation to:

- The Law on Banks, Article 82 (3), 89 (3), 18),
- The Law on Trading Companies, Article 36, 277, 278, 279, 287 (1) 4), 321, 329, 361 (1), 478 (1),
- The Law on Securities, Article 5,
- The Law on Obligations, Article 5, 10 91), 11 910, 223 and 224 (1) 4),
- The Decisions on the second and third, i.e. fourth issue of shares of the Bank, item 11 and 12 i.e. 12 and 13,
- The Statute of the Bank, Articles 16 and 18,
- The Code of Corporate Governance of the Bank, SHAREHOLDERS ASSEMBLY (1. Rights of shareholders item 1.1) and Rights and obligations of members of the bodies of SB (30. Duties items 30.1, 30.2, 30.3 and 30.5) and shareholders item 40,
- The Decision of NBRNM on the rules of good corporate governance of banks, item 5,
- The Code of Ethics of the Bank, Chapter II item 7 and 8, and Chapter VI, and
- The Code of Corporate Governance of joint stock companies listed in the Macedonian Stock Exchange Market, Part 1: Rights of shareholders and relations with shareholders – Rights of shareholders “The Company is recognizing and obeying the legally guaranteed rights of shareholders and is establishing efficient mechanisms for protection of the rights of shareholders in its internal acts” and Part 2: Supervisory Board – Principles, Provisions and Recommendations “ The Supervisory Board acts in the interests of the company , but it is also taking into consideration the interests of shareholders and other involved parties.”

At submitting the proposal to SB, we also had in mind the fiduciary function of SB, determined in accordance with Article 361 of the LTC (Law on Trading Companies) (1): “A member of the management body, i.e. of the Supervisory Board, is obliged to execute the authorization provided to him/ her in accordance with this Law and the Statute to the best of interest of the company and in the interest of all shareholders with due diligence of an orderly and conscientious trader...” and in accordance with the Law on Banks, Article 82 93): “The management of the bank must act in accordance with the provisions of this Law and the rules of good corporate governance, prescribed by the Council of the National Bank, passed in accordance with the international standards.”

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We believe that the S.B. of the Bank shall review and accept the proposal that is subject to this letter and which is in accordance with the Macedonian laws and regulations and the acts of the Bank. SB, as per item 5 of the Rules of NBRNM on good corporate governance of banks, “has ultimate responsibility to create conditions for good operations and management of the banks, as well as for its stability. **At performing its competences, the Supervisory Board is taking into consideration the interests of all involved parties and**”.

It is our request, in accordance with the mentioned valid legal regulations and internal acts of the Bank, S.B. to propose to the Shareholders Assembly, at the annual session that shall be convened and held in 2024, for the following decisions to be adopted:

1. Decision on distribution of the profit of the Bank for 2023 and the undistributed profit from the previous years, in which, in case there is a stipulated amount that shall be distributed as type of a dividend, for that amount to be proportionally divided between the two types of shares.

Reason and grounds for the initiative of this Decision at the annual session of the Assembly of the Bank is to exercise the right under the second and the third paragraph of Article 18 of Chapter VI. DISTRIBUTION OF PROFIT AND ALLOCATION OF PROVISIONS from the Statue of the Bank:

"SB shareholders shall have the right to a share of the profits, unless, according to the decision of the Shareholders Assembly on utilization of profits, adopted pursuant to law, relevant bylaw, or this Statute, the profit is excluded from distribution to shareholders" and

"The shareholders share of the profit shall be determined in accordance with the laws, this Statute and the internal acts of SB"; as well as by obeying the legal provision that defines the essence of each trading company (LTC, Article 18 (1)):

“The Trading Company is a legal entity in which one or several subjects invest money, goods and rights into a property that is used for mutual operations and they mutually share the profit and loss from operations.”

By item 11 of the Decision on issue of shares from the second and third issue of shares, and item 12 of the Decision on issue of shares from the fourth issue of shares, it is determined that “based on Decision of the Assembly, holders of priority shares may acquire a right to participate in the distribution of the profit of the Bank as variable part in an amount as determined by the Assembly, but not in higher amount than the amount which holders of ordinary shares shall receive.” **This provision should be interpreted in accordance with the Law on Obligations**, Article 224 (1) item 4: “A security must contain essential elements among which also the accurately pronounced obligation of the issuer resulting from the security.” This provision in the LO is existing ever since 1978 (Article 234 and 235, Official Gazette of SFRY 29/78), as well as at the validity period of the Law on Securities and the Law on banks and financial organizations from 1989, in accordance to which ordinary and priority shares were issued from the second issue of shares of the Bank. In accordance with Article 10 (1) of the same law, and Article 5 of the Law on securities (obligations of issuers): “The issuer of securities is obliged to execute the obligations arising from the securities, stipulated by this or another law.”

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In 2001, the Bank has stipulated participation in the profit for the priority shares, which is presented in the Decision on interest rates from December 2001 (attached herein), in which in item 15.3 an amount of guaranteed dividend is stipulated for the priority shares: “To the issued priority shares, the Bank is paying a guaranteed dividend in the amount of the interest rate referred to in item 18.6 (10.5%) plus 2.45 percentage points, but not in lower amount than the dividend for ordinary shares.”

Attachment: Decision on interest rates of Stopanska Banka AD Skopje (revised text) from December 2001.

By the previous provision it was clearly determined that the priority shares should receive a dividend that shall not be lower than the dividend the ordinary shares receive, in case there is allocation of dividend from the profit. This dividend included one part as percentage of the nominal amount (guaranteed dividend), i.e. 12.95% x MKD 400.00, and a second part that would be added in case dividend to ordinary shares was disbursed and in case it exceeded the first part (i.e. the guaranteed dividend).

Note: There are unclear circumstances as to why the formulation “not lower than the dividend of ordinary shares” is not appearing in the later decisions on interest rates. According to Article 403 of the LTC, each amendment referring to the priority shares must be passed by the Assembly and adopted by the holders of priority shares. But, **the Bank has not passed a Decision on deleting this formulation.**

The proposal we are providing is also supported by the explanation and the example from the digital platform for financial professionals in financial reporting as per IFRS and the national FRS of PwC (Viewpoint)¹ of participating priority shares, according to which it is a share that participates in dividends with the ordinary shares in accordance with at in advance determined formula, which in the case of the Bank is determined as “up to the amount that holders of ordinary shares shall receive”.

The purpose of including the Decision on the Agenda at the annual session of the Assembly of the Bank is **for SB to provide for realization of the right of the priority shares to participate in the profit as per legal regulations and the Statue of the Bank**, thereby proceeding **in accordance with item 1. Right of shareholders** of the Code of Corporate Governance of the Bank, according to which “the Bank is guaranteeing all rights to shareholders in accordance with the Law, the Statute of the Bank, the Rulebook of the Shareholders Assembly and the Decisions on issue of shares.”

¹ PwC (2021) Viewpoint Chapter 7: Preferred stock 7.4 Basic EPS 7.4.2 Participating securities and the two-class method is referring to the definition of ASC 260-10-20 of a participating share:

“Participating Security: **A security that may participate in undistributed earning with common stock, whether that participation is conditioned upon the occurrence of a specified event or not.** The form of such participation does not have to be dividend – that is, any form of participation in undistributed earnings would constitute participation by that security, regardless of whether the payment to the security holder was referred to as a dividend.”

and gives example for such share:

“Securities that participate in dividends with common stock according to a predetermined formula (ex. two for one) with, at times, an upper limit on the extent of participation (ex. up to, but not beyond, a specified amount per share).”

SOURCE: VIEWPOINT PWC internet link

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2. Decision on amending and supplementing the Statute of the Bank, according to which amendments are made in Article 18 of the Statute:

- after paragraph 4, a new (fifth) paragraph shall be added, as follows: “Priority shares have a right to guaranteed fixed dividend in the amount of 1 (one) euro for one share in MKD equivalent according to the middle exchange rate of the National Bank.”
- after the new fifth paragraph, a new (sixth) paragraph shall be added, as follows: “Priority shares have the right to cumulative dividend, i.e. the right to collect the accumulated unpaid dividend prior to collection of any type of dividend on part of the owner of ordinary shares.”
- after the new sixth paragraph, a new (seventh) paragraph shall be added, as follows: “Priority shares may acquire a right to participate in the distribution of profits of the Bank as variable part, in the amount as determined by the Assembly, but not in a higher amount than the one which the holders of ordinary shares shall receive.”
- after the new seventh paragraph, a new (eight) paragraph shall be added, as follows: “Priority shares participate equally in the distribution of the remaining part of the bankrupt’s, i.e. liquidation estate of the Bank.”

The reason for proposing the amendment of item 18 of the Statute of the Bank is its reconciliation with LTC Article 278 92) and 287 (1) item 4.

By the proposed fifth paragraph of Article 18 of the Statute, a fixed amount of dividend is determined in cash amount, as regulated by LTC. So far the Bank disbursed dividend to priority shares “in the amount of the interest rate of savings deposits and citizens deposits with maturity of 1 (one) year, increased by the appropriate percentage point as determined by the Decision on interest rates of the Bank.”, which is not in accordance with paragraph 2 of Article 278 of LTC, which stipulates “a right to a dividend **at in advance determined cash amount** or in percentage of the nominal share amount”, a provision dating from the amendment of LTC in 2004. The Securities and Exchange Commission is with the same attitude, which, in the Request to the National Bank No. 08-517/1 dated 10.05.2019 ascertained “.....is sufficient analysis of the amount of dividend of the priority shares which the bank disbursed for years in the past period, according to which one may observe that this amount is neither determined in advance nor fixed.” In the same request, SEC pointed out that “.....in accordance with the transitional provisions of Article 606 paragraph 2 of the valid Law on Trading Companies, statutes of companies that are not reconciled with the provisions of this law, as at the starting day of implementation of this law, shall not be applicable to the parts that are not reconciled with the new provisions, except the amount of the core capital. From the abovementioned it can be concluded that the Statute of Stopanska Banka AD Skopje is an outdated concept and a model of determining the right to disbursement of dividend to owners of priority shares.”

The proposal for the amount of guaranteed fixed dividend is determined in the amount providing a fair market value of the priority share, a possibility for its trading and a liquidity at the market of long-term securities, which in the last five years is at a dramatically low level.

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By the proposed sixth and seventh paragraph of Article 18 of the Statute, **rights and privileges are registered** of priority shares, in a manner in which they are determined by item 11 and 12 of the Decisions on the second and fourth issue of shares, which were not contained therein so far, although LTC in item 4 of Article 287 (1) stipulated that the Statute should contain a provision on “the nominal value of shares, the number of shares of each type and class, the rights, obligations, limitations and privileges.”

By the proposed eight paragraph of Article 18 of the Statute, rights of priority shares are registered, in a manner as they are determined by Article 17 paragraph h2 and Article 24 of the Law on Securities (Official Gazette of SFRY No. 64/89), valid at the time of issuing the ordinary and priority shares from the second issue of shares of the Bank:

Article 17: The holder of the share has the right to a part of the realized profit (dividend).

In bankruptcy proceedings, the holder of shares has the right to a part of the bankrupt's estate.

The holder of the share, depending on the type of shares, may have a voting right at the Assembly of the issuer of shares, may participate in the selection of the management and surveillance bodies and a right to make surveillance and determine the business policy.

Article 24: **The holder of priority (privilege) share in relation to the holder of ordinary (common) share has the right to priority** at the collection of dividend, a right to collection within bankruptcy proceedings of the issuer of shares, as well as other privileges as determined by the Decision referred to in Article 20 of this law.

The purpose of including the Decision on the agenda at the annual session of the Assembly of the Bank is for SB to reconcile the Statute and the guaranteed “fixed” dividend with the legal regulations, therein proceeding in accordance with item 1. Rights of shareholders from the Code of Corporate Governance of the Bank, according to which “the Bank is guaranteeing all rights to shareholders in accordance with the Law, the Statute of the Bank, the Rulebook of the Shareholders Assembly and the Decisions on issue of shares.”

1. Decision on revoking the priority right of priority shares issued by Stopanska Banka AD - Skopje and conversion of the priority into ordinary shares at a ratio of the nominal value of the shares i.e. to convert one priority share into two ordinary shares.

The reason for proposing this Decision at the annual meeting of the Bank Assembly is that the guaranteed “fixed” dividend of the priority shares was not disbursed at fixed but at variable amounts, in decline in the past years, in continuity, from the issuing of the shares until today and there was no disbursement of the part of profit for the priority shares, as determined by the Decisions on the issue of shares. This resulted in dramatic loss of the value of the priority shares on aspect of the minimum return from the invested money and a significant drop of the price of the priority shares, which does not even trade at the market, as illustrated within item 2 on page 3, by which **the value of the investment of the holders of priority shares in the Bank was significantly degraded.**

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By converting the priority shares into ordinary ones, the Bank shall recognize and correct the injustice caused to the holders of priority shares and the damage they suffer. The ratio for the conversion was discussed at the meeting with representatives of the National Bank and SEC, and it is their attitude that conversion can accurately be made only by not changing in due course the core capital of the Bank.

The holders of priority shares paid an investment in Stopanska Bank, as did the holders of ordinary shares, with which funds the Bank operated and realized income from its start of operations until today. To the priority shares, as replacement for the revoked voting right, within the Decisions on issue of shares, the Bank determined a right to guaranteed dividend, a right to priority at disbursement of this dividend and priority at liquidation of the company, a right to cumulative disbursement of the unpaid guaranteed dividends from the previous years and a right to participate in the distribution of the profit. However, the Bank disbursed variable dividend constantly in decrease instead of fixed guaranteed dividend, and it did not pay part of the profit to these shares, thus directly influencing the ruin of the value and the price of the priority shares. **By no legal act is it allowed for the ordinary shares**, because they have a voting right, **to pass decisions contrary to the essence of each trading company** (Article 19 (1)), by which the obligations to holders of priority shares are not fulfilled (contrary to Article 5, 10 (1) and 11 (1) of the Law on Obligations and Article 5 of the Law on securities², thus directly causing damage to them. **This proceeding is contrary to the ethical behavior and the good corporate governance, which is a responsibility of the Supervisory Board.**

Purpose for including the Decision on the Agenda at the annual session of the Assembly of the Bank is to proceed in accordance with item 40 – The Board of Directors provides an effective mechanism for identification of the principal interested parties of the Bank and for understanding their interests in relation to issues of material importance to them.

We would like to believe and we expect that the Bank shall accept the proposals presented in this letter, and that it shall proceed in accordance with current legal regulations and as per its obligations as issuer of priority shares. It shall thus apply in practice its commitments and principles of good corporate governance of banks and the Code of corporate governance of listed companies, adopted by the Board of Directors of the Macedonian Stock Exchange Market, the Chairman of which and signatory of the Code is BoD member of Stopanska Banka AD Skopje.

² Article 5 of Law on Obligations (Principle of conscientiousness and honesty): At establishing obligations relations and at realizing the rights and obligations from those relations, the participants are obliged to obey the principle of conscientiousness and honesty.

Article 10 of the Law on Obligations (Duty for fulfillment of obligations): (1) Participants in obligations relations are obliged to perform their obligation and are responsible for its fulfillment.

Article 11 of the Law on Obligations (Behavior at the fulfillment of obligations and at realization of the rights): (1) The participant in obligations relations is obliged in the fulfillment of its obligation to proceed with due diligence as required in the appropriate type of obligations relations (due diligence of a good businessman, i.e. due diligence of a good host).

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Looking forward to your notification in relation to the decision regarding the Request, not later than prior to the announcement of the public call for the annual session of the Shareholders Assembly,

Yours truly,

Coordinative body undertaking activities for realization of the rights of
Priority shares of Stopanska Banka AD Skopje
President, Vlatko Tashkovski

Attachment:

- Decision on interest rates of Stopanska Banka AD Skopje (revised text) from December 2001

Sent to the attention of:

- The National Bank of RNM
- The Securities and Exchange Commission

Received in SB: 29.03.2024

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STOPANSKA BANKA AD SKOPJE
Assets and Liabilities Management Committee

CONFIDENTIAL

DECISION
On interest rates
Of Stopanska Banka AD Skopje

(revised text)

Skopje, December 2001

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In case there are no conditions to apply
The provisions referred to in paragraph 1
Of this item, including those deposits
Held as cover for vostro L/Cs,
the Bank is paying interest

per agreement, but not
In higher amount than
EURIBOR decreased by 20%

12. For State deposits

the interest rate is determined

by agreement

13. For special-purpose funds invested

per agreement, contract or regulation,
the interest rate is determined

by agreement

14. For loans from the country and abroad

The interest rate is determined

by agreement

15. For Securities the Bank issues

In its name and for its behalf
the following interest rates are determined:

15.1 Treasury bills

by agreement

15.2 Certificate deposits

by agreement

15.3 To Issued priority shares

The Bank is paying
Guaranteed dividend

In the amount of the interest rate

item 18.6
Plus 2.45 percentage points
Not in lower amount than
The dividend for ordinary shares

B. Individuals

16. MKD funds deposited in demand savings deposits

In current accounts and other demand deposits
And to demand MKD funds of foreign individuals,
The Bank is paying interest rates of

3.0%

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