
Sparkasse Bank AD Skopje

CORPORATE GOVERNANCE CODE

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Author	Hristina Cucurska		
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Distribution list

Technical control	Name and surname	Responsibility
General Secretariat Directorate	Olgica Spasevska	Director of General Secretariat Directorate - General Secretary
AML and Compliance Department	Ana Dimoska Jankulovska	Head of AML and Compliance Department
HR Directorate	Biljana Sanev	Director of HR Directorate
Finance Directorate	Milka Rataikoska Joleska	Director of Finance Directorate
Internal Audit Directorate	Ognjen Blazhevski	Director of Internal Audit Directorate
Strategic Risk Management Directorate	Biljana Momirovska	Director of Strategic Risk Management Directorate
Marketing and communication Directorate	Ivana Petrevska	Director of Marketing and communication Directorate
Digital channels and organization Directorate	Elena Stamenkovska	Director of Digital channels and organization Directorate
Sustainability officer	Maja Stavreva-Stojanova	Sustainability officer
Unit/Function	Name	Responsibility
Corporate Clients Division	Blagoja Ustijanovski	Director of Corporate Clients Division
Retail Division	Katerina Jankovic	Director of Retail Division
Trading and financial market Directorate	Marko Savovski	Director of Trading and financial market Directorate
Banking operations Directorate	Elena Taneska	Director of Banking Operations Directorate
IT Directorate	Milka Ristikj	Director of IT Directorate
Property, Logistics and	Igor Bojkovski	Director of Property, Logistics and Security

Security Directorate		Directorate
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1. GENERAL PROVISIONS

The Corporate Governance Code in Sparkasse Bank (hereinafter: the Bank), denote the basic principles of corporate governance in the Bank, as sum of mutual relations between the Supervisory Board, Management Board, other persons with special rights and responsibilities and the Bank's shareholders, thus establishing appropriate organizational structure and adequate mechanisms for defining the Bank's goals and for their achievement and monitoring. This implies defining the rights and responsibilities of these persons, and particularly how the Supervisory Board and the Management Board:

- define the business policy of the Bank;
- conduct supervision of the Bank's operations, i.e. manage the Bank's everyday operations;
- protect the depositors' interests, fulfill the obligations to shareholders and take into consideration the interests of other interested entities;
- establish corporate culture and values;
- select employees and monitor their operations;
- establish the control functions in the Bank.

Corporate culture and values established by the Supervisory Board and Management Board of the Bank denote rules and standards that enable responsible and ethical action in the process of the communication with the interested entities, in the allocation of the resources for the purpose of implementing the Bank's business policy, in the development of human resources and in the decision-making process in the Bank's everyday operations.

Interested entities, under this Code shall mean the depositors, other Bank trustees, shareholders, the regulatory and supervisory authorities, external credit rating institutions, the Deposit Insurance Fund, the audit company and other persons having an interest in the Bank's operations.

The Corporate Governance Code in the Bank encompass the supervision and management rules in the Bank and shall enable the establishment of a clear organizational structure, with clearly defined and transparent lines of responsibility.

It covers the standards of good corporate management common in international business practice as well as the most important provisions of Trade Company Law that are of relevance in this context.

The Code also contains rules which are considered common international practice. Non-compliance with these rules must be explained and the reasons stated. The Code also contains rules that go beyond these requirements and should be applied on a voluntary basis. The Code defines the following categories of rules:

1. Legal requirement (L): This rule refers to mandatory legal requirements stipulated in the Trade Company Law, Banking Law and the Decision on good corporate governance rules for banks issued by NBRNM. Certain legal provisions in accordance to the Trade Company Law and Macedonian Stock Exchange (hereinafter: MSE) regulation, apply only to companies listed on the stock exchange or the companies which in accordance with the Law on Securities has special reporting obligations. Hence in case when the Bank is not meeting the requirements for identifying as the company with special notification obligation and is not listed these rules are to be interpreted as a C rule.

The wording of the L-Rules does not necessarily match the exact wording of the respective laws and by-laws, but has been adapted to match the terminology of the Code. It is not the intention of the authors to change the interpretation of statutory provisions.

2. Comply or explain (C): This rule is to be followed; any deviation must be explained and the reasons stated in order to be in compliance with the Code.

3. Recommendation (R): The nature of this rule is a recommendation; non-compliance with this rule requires neither disclosure nor explanation.

2. THE STRUCTURE OF THE BANK AND STRUCTURE OF BANK'S PARENT GROUP

Sparkasse Bank is a joint-stock company with a two-tier model of management. Bodies of the Bank are: Shareholders Assembly, Supervisory Board, Risk Management Committee, Audit Committee, Management Board, IT Steering Committee and Remuneration and Nomination Committee.

The organizational structure of the Bank consists of divisions and directorates in which, depending on the complexity of the processes, separate departments and units are formed, respectively.

Sparkasse Bank AD Skopje, according to its business model, is a retail bank with a focus on working with individuals and small and medium-sized companies, which also serves large corporate clients, offering a full range of banking products and services for all groups of clients. Another peculiarity of the business model of Sparkasse Bank AD Skopje is the moderate appetite for taking risks and the determination for stable and sustainable growth in the long run. The Bank offers, first of all, credit and deposit products created according to the needs of clients, which are completed with domestic and FX payment operations for legal entities and individuals, trading and custody securities services for clients, etc. On 16 July 2021, the status change – accession of Ohridska bank AD Skopje to Sparkasse Bank Makedonija AD Skopje was finalized, which resulted in positioning the Bank to the group of large banks, with expanded client base and enlarged market share in retail and corporate clients segment.

Sparkasse Bank AD Skopje is part of the banking Group Steiermärkische Bank und Sparkassen AG Graz from the Republic of Austria. Steiermärkische Bank und Sparkassen AG was founded in 1825 as a savings association and thus becomes the first financial institution in Styria. It is a universal bank that offers a wide range of services for individuals, small and medium-sized enterprises, large companies, institutional clients and the public sector. As one of the strongest banking group in Southeast Europe, it involves more banks in Austria and the Western Balkans region.

3. SHAREHOLDERS, SHAREHOLDERS ASSEMBLY AND THE GENERAL MEETING

- L All shareholders are to be treated equally under the same conditions. The requirement to treat all shareholders equally shall apply, in particular, to institutional investors, on the one hand, and to private investors, on the other hand.**
- L Each shareholder registered in the shareholders list shall have, from the day of the entry, the right to participate in the operations of the assembly and the right to vote, unless otherwise**

determined by the Law.

- L** Shares are to be construed in accordance with the principle of one share – one vote.
- L** The members of the Management and Supervisory Board may participate in the operation of the assembly without having the right to vote, unless they are shareholders.
- L** **A general meeting shall be convened by the management body, no later than three months after the composition of the annual account, the financial statements and the annual report on operation of the Bank for the previous business year, but not later than six months after the end of the calendar year or 14 months from the last held annual assembly.**
- R** The Bank supports its shareholders in participating in general meetings and in exercising their rights as far as possible. This is to be considered when planning the venue and time of the general meeting, when defining the requirements of participation and the exercising of voting rights, and with respect to the right to be heard and receive information.
- L** The request for convening the session of the Shareholder's Assembly can be submitted by the shareholders representing at least one tenth of the shares with voting rights. In the request submitted in writing, the shareholders requesting the convening of the assembly have to state the purpose and reasons for convening the assembly and personal data for the shareholders. Together with the request the shareholders shall enclose an excerpt from the shareholders book, issued by the Central Securities Depository, stating the number of voting shares they own in the Bank.
- L** In a time period of eight days upon the receipt of the shareholders' request for convening an assembly, the Supervisory Board adopts a decision on acceptance or rejection of the request. Should the decision be rejection of the request it must indicate the reasons due to which such a decision was adopted. The Supervisory Board of the Bank is obligated upon the request of the shareholders who have a majority of all voting shares, to convene an assembly in a time period of 24 hours calculated from the day of submission of the request.
- L** Assembly is convened by sending an invitation to the shareholders in a manner that allows confirmation that the invitation has been received by the shareholder or by posting an announcement to the shareholders which is printed in half page in at least one daily newspaper published the entire territory of the country, and on the front page Internet-site of the Bank.
- L** The manner of convening the Assembly is determined by a decision on convening the Assembly.
- L** Period which runs from the date of submission or publication of the invitation to participate in the Assembly until the day of the same cannot be shorter than 30 days.
- L** The Shareholders exercise their rights related to convening assembly, participating and voting, power of attorney, manners of operating of the assembly and voting, etc, in accordance with the Trade Company Law and the Rules of Procedure for the Assembly.

4. COOPERATION BETWEEN THE SUPERVISORY BOARD AND THE MANAGEMENT BOARD

- L** The Management Board shall provide the Supervisory Board periodically and in a timely manner with comprehensive information on all relevant issues of business developments including an assessment of the risk situation and the risk management in place at the Bank and at group level in which it has major shareholdings. If an event of major significance occurs, the Management Board shall immediately inform the President of the Supervisory Board.

Furthermore, the Supervisory Board shall be immediately informed of any circumstances that may have a material impact on the profitability or liquidity of the Bank (special report).

- L** Ensuring that the Supervisory Board is supplied with sufficient information is a joint task of the Management Board and the Supervisory Board.
- L** Members of the boards and the staff members involved are obliged to maintain strict confidentiality.
- L** Supervisory Board reviews and approves certain acts adopted and developed by the Management Board, which include business policy and development plan of the Bank, the financial plan of the Bank, policies for risk management, policy for identifying conflicts of interests, the ethical code of the Bank, annual Report of the Bank which shall be submitted to the Assembly, and other acts determined by legislation, the Statute and other internal regulations of the Bank.
- L** Management and the Supervisory Board hold regular meetings at least once per quarter. Board members attend meetings of the Supervisory Board and, according to their defined responsibilities, provide explanations for the materials delivered to the members of the Supervisory Board. Each member of the Supervisory Board is entitled to receive further explanation and the right to make an inquiry into the overall documentation of the work of the Board and other authorities in the Bank.
- C** Under the principles of good corporate governance, the Bank's governing is conducted through open discussions between the management board and the supervisory board as well as within these bodies themselves.
- R** At least once a year the Management Board shall evaluate its own effectiveness and that of its individual members and shall report the conclusions of the evaluations to the Supervisory Board.
- L** **The Management Board shall agree on the strategic direction of the Bank with the Supervisory Board and shall periodically discuss the progress made on implementing the strategy.**
- R** The materials and documents required for a Supervisory Board meeting are to be made available generally at least one week before the respective meeting.

In order to achieve the objectives of good corporate governance, the Supervisory Board and Management Board collaborate on a permanent basis and documented. Cooperation between the Supervisory Board and Management Board refers to:

- ✓ defining business objectives and development plan of the Bank

- ✓ strategies for taking and managing risks to which the Bank is exposed
- ✓ risk profile of the Bank
- ✓ policies for achieving business goals and objectives regarding profile of the Bank's risk

L If a member of the Supervisory Board considers that the decisions adopted by the Supervisory Board conflict the long-term goals, business policy and the regulations, or the competences of this body, stipulated in the Banking Law and the bank's internal regulations, s/he shall be required to state his/her opinion in written together with appropriate explanation, which is enclosed in the minutes from the meeting of the Supervisory Board.

5. MANAGEMENT BOARD

Scope of Competence and Responsibilities of the Management Board

- L** The Management Board shall have sole responsibility for managing the Bank and shall endeavour to take into account the interests of the shareholders, of the employees and the public good.
- L** The Management Board and the Supervisory Board shall determine and monitor the fulfilment of the strategic objectives and corporate values of the Bank, informing all their employees thereof.
- L** The Management Board decides on issues of its scope determined by the legal regulations, the Statute and other internal acts of the Bank. The Management Board operates on meetings that are held at least once per month, and can also adopt a decision without holding a meeting by providing a written consent by all members of the Management Board.
- L** Fundamental decisions shall be reached by the entire Management Board. Such decisions shall include, in particular, the concrete formulation of goals of the enterprise and the definition of the enterprise's strategy. In the case of significant deviations from projected figures, the Management Board shall immediately inform the Supervisory board.
- L** The Management Board shall establish appropriately defined responsibilities and reporting lines among all Bank employees.
- L** The Management Board shall be responsible for the implementation of the decisions it takes. The Management Board shall take the appropriate measures to secure compliance with any laws of relevance to the Bank.
- L** The Management Board is consisted of four members with mandate of five years, where one member is acting as the President of the Management Board and one is acting as Deputy President. By the Decision approved by the Supervisory Board, the allocation of responsibilities among the members of the Management Board in certain segments of the Bank's operations is performed as follows:
- President of the Management Board is responsible for retail activities, marketing and communications activities, the human resources and for coordination of the General Secretariat and the internal audit. In reference to the coordination of the internal audit, the President enables uninterrupted operation of the internal audit, i.e. ensures that the

internal audit has access to the documentation and employees of the Bank in order to conduct its activities undisturbed;

- Deputy President of the Management Board is responsible for corporate activities, finance activities, trading and financial market activities and property, logistics and safety activities;
- The third Member of the Management Board is responsible for the strategic risk management activities, credit risk management and workout activities and banking operations activities;
- The fourth member of the Management Board is responsible for activities related to information technology and digital channels and organization activities.

R Names, date of birth, date of initial appointment and the end of the current period of tenure of the members of the Management Board as well as assignments of competence in the Management Board must be reported in the Corporate Governance Report. Furthermore, any Supervisory Board mandates and comparable functions of members of the Management Board in other domestic and/or foreign companies must be disclosed in the Corporate Governance Report unless these are included in the consolidated financial statements.

R The Management Board shall have overall responsibility for communications tasks that significantly impact the image of the Bank as perceived by stakeholders and may receive support in carrying out these tasks from the relevant departments of the Bank.

L The Management Board reports to the Supervisory Board at least once per quarter for its operations.

L The Management Board is obliged to immediately notify the Supervisory Board about: 1) the deteriorated liquidity or solvency of the Bank; 2) the existence of a basis for cancellation of the license for establishment and operation or a prohibition on conducting a certain financial activity pursuant to the law; 3) the decrease in the own assets below the prescribed level in compliance with the law; 4) the supervision findings and the supervision of the National Bank and 5) the Public Revenue Office findings and the findings of other inspection bodies.

Any member of the Management Board is obliged to immediately notify the Supervisory Board provided that he/she or any other related persons to him/her gain control over another legal person.

L The Management Board shall be obliged to regularly notify the Supervisory Board of all activities and changes in operations that are significant for the competences of the Supervisory Board, as follows: 1) changes in the risk management; 2) changes in the bank's solvency and liquidity position and its financial standing; 3) exceeding of the exposure limits and non-compliance of the operations with the regulations; 4) weaknesses in the internal control system and the manner of functioning of the control functions; 5) cases that may cause non-compliance with the legal or regulatory requirements; 6) cases related to the protected whistleblowing by a whistleblower in the bank.

Rules for conflict of interests and assessment of adequacy of the Management Board Members

L The Management Board shall take its decisions without being influenced by its own interests or the interests of controlling shareholders, on the basis of the facts and in compliance with

applicable laws.

- L** The members of the Management Board must disclose to the Supervisory Board any material personal interests in transactions of the company and group companies as well as any other conflicts of interest. Furthermore, they shall also immediately inform the other members of the Management Board of this.
- L** **All transactions between the Bank or a group company and the members of the Management Board or any persons or companies with whom the Management Board members have a close relationship must be in line with common business practice. The transactions and their conditions must be approved in advance by the Supervisory Board with the exception of routine daily business transactions.**
- L** **The members of the Management Board shall not be permitted to run an enterprise or assume a mandate on the Supervisory Board of another company unless such company is part of the group, or it is associated by a business interest in such company. Neither shall members of the Management Board be permitted without the approval of the Supervisory Board to engage in business dealings in the same branch of the Bank for their own account or for the account of third parties or to own other business enterprises as a personally liable partner.**
- R** Any side-line business of senior management staff, especially any functions in bodies of other companies shall require the approval of the Management Board unless such company is part of the group or it is associated by a business interest in such company.

Statutory non-competition clauses applicable to Management Board members and senior management staff are not repealed.

- L** The Supervisory Board performs an assessment of the adequacy of the candidate for a member, i.e. the member of the Management Board in accordance with the Policy on the manner of selection, monitoring the performance and dismissal of members of the Supervisory Board, Risk Management Committee, Audit Committee and Management Board at least prior to appointing of new member of management Board, prior to re-appointing existing member of Management Board or in case significant changes occur, regarding the business model of the Bank.
- L** Supervisory Board approves the policy proposed by the Management Board, which identify potential conflicts of interest and define the measures and activities undertaken in the event of a conflict of interest.
- L** The Management Board Members are obliged to provide a written statement about the existence or absence of conflict of interest with their personal interest of the Bank according to local legislation.
- L** The Members of the Management Board do not participate in the discussion and decision making on the meetings of this body if their objectivity is in doubt because of a conflict or potential conflict between their personal interest and the interest of the Bank. In case of a conflict of interest the members of the Management Board will inform the Supervisory and Management Board by submitting a written statement prior the meeting stating the grounds of the conflict between personal interests and the interest of the Bank.

Remuneration of Members of the Management Board

R When concluding management board contracts, the following principles shall be observed:

The remuneration of the Management Board shall be oriented on the Management Board member's scope of work, responsibility and personal performance as well as on the attainment of the corporate goals, the size and the economic situation of the company. The remuneration contains fixed and variable components. The variable remuneration components shall be linked, above all, to sustainable, long-term and multi-year performance criteria, shall also include non-financial criteria and shall not entice persons to take unreasonable risks. For the variable remuneration components, measurable performance criteria shall be fixed in advance as well as maximum limits for amounts or as percentage of the fixed remuneration components. Precautions shall be taken to ensure that the company can reclaim variable remuneration components if it becomes clear that these were paid out only on the basis of obviously false data.

R When concluding contracts with Management Board members, it should be agreed on that severance payments – in the case of premature termination of a contract with a Management Board member without a material breach – will be determined based on applicable law, as well as internal acts for remuneration.

R Any agreements reached on severance payments on the occasion of the premature termination of Management Board activities shall take the circumstances under which said Management Board member left the Bank as well as the economic situation of the Bank into consideration.

L The fixed and variable performance-linked annual remunerations of the Management Board are to be disclosed in the Corporate Governance Report for each financial year, in accordance with the applicable law and internal regulations.

Persons with special rights and responsibilities

L Persons with special rights and responsibilities in the Bank are: the members of the Supervisory Board of the Bank, the members of the Management Board of the Bank, the members of Audit Committee, the members of the Risk Management Committee and other persons with special rights and responsibilities defined as such with the Job Catalogue of the Bank approved by the Management Board of the Bank.

L As other persons with special rights and responsibilities, defined as persons with special rights and responsibilities in the job catalogue of the Bank approved by the Management Board, are mandatory considered heads of division and directorates who are directly responsible to the Management Board. Other persons with special rights and responsibilities are also the Chief of Cabinet of the Management Board, as well as the Director of the organizational part responsible for the internal audit function.

6. SUPERVISORY BOARD

Scope of Competence and Responsibilities of the Supervisory Board

- L** The Supervisory Board shall be responsible for overseeing the Management Board and shall provide support to the Management Board in governing the Bank and, in particular, shall assist in making decisions of fundamental significance.
- L** The Supervisory Board approves the policies for performing financial activities and monitors their implementation. At the same time, it is responsible for ensuring good performance of the Bank and management and stability of the Bank, as well as timely and accurate financial reporting to the National Bank
- L** The Supervisory Board appoints the members of the Management Board and has the right to terminate their employment.
- C** The Supervisory Board shall adopt internal Rules of procedure for its work, which shall contain stipulations regarding the disclosure and reporting obligations of the Management Board, including subsidiaries, unless these obligations are defined in articles of incorporation or the internal Rules of procedure of the Management Board. The Supervisory Board shall formulate in concrete terms a list of business transactions that are subject to its approval, and depending on the size of the bank, shall define the appropriate limits on amounts.
- R** The Bank shall appoint a General Secretary who shall assist the Supervisory Board to ensure its effective operation and be responsible for the implementation and improvement of Company's corporate governance practices.

The role of the General Secretary shall be to:

- 1) provide organizational and professional support to the SVB President, the Supervisory Board and the committees;
- 2) advise the Supervisory Board and committees on their responsibilities and legal requirements;
- 3) attend and minute the proceedings of Supervisory Board and committee meetings;
- 4) ensure the proper implementation of procedures laid down in the Rules of Procedure;
- 5) assist the Supervisory Board and, if requested, the Management Board in order to improve the efficiency and quality of their work, including by organizing training for members;
- 6) organize Shareholders' General Meetings and ensure there is clear communication with shareholders about how they can exercise their rights and
- 7) to perform other administrative tasks related to the Company's corporate governance.

The Bank shall allocate resources for General Secretary's training to ensure their knowledge remains up to date.

- R** At least once a year, the Remuneration and Nomination Committee shall evaluate the support given to the Supervisory Board, including the work of the General Secretary and the quality and timeliness of materials received.
- L** **The statutory provisions according to which the Supervisory Board must meet at least once every quarter shall be understood as a minimum requirement.** Additional meetings must be held as required. The members of the Supervisory Board can also decide without holding a meeting by giving written consent to the proposals by all members of the

Supervisory Board. If necessary, the items on the agenda may be discussed and decided by the Supervisory Board and its committees without the participation of the Management Board members. The number of meetings of the Supervisory Board must be reported in the Corporate Governance Report. The Supervisory Board shall discuss the efficiency of its activities annually, in particular, its organization and work procedures (self-evaluation).

- L** The President of the Supervisory board shall prepare the meetings of the Supervisory Board and shall regularly communicate with the Management Board in particular, and discuss the strategy, the course of business and the risk management of the Bank.
- L** Depending on the size of the Bank, a separate organizational part is formed for internal auditing which is reporting to the Supervisory Board. The conducting internal audits should not be contracted out. At least once a year, a report on the auditing plan and any material findings are to be presented to the Audit Committee. The Internal Audit Directorate shall be obliged to perform regular audit on the application of the professional standards and corporate values of the Bank.
- L** The Internal Audit Directorate shall develop annual plan of activities of the directorate, endorsed by the Supervisory Board. The Internal Audit Directorate shall prepare semi-annual and annual report on its operations and submit them to the Supervisory Board, Management Board and Audit Committee of the Bank.

Appointment of the Management Board

- C** The Supervisory Board shall define a profile for the Management Board members that takes into account the Bank's business focus and its situation, and shall use this profile to appoint the Management Board members in line with a predefined appointment procedure.
- L** The Supervisory Board shall take care that no member of the Management Board has been convicted by law for a criminal act that would compromise the professional reliability as a Management Board member.
- L** Furthermore, the Supervisory Board shall also give due attention to the restrictions that are stipulated by the law regarding the persons with special rights and responsibilities. A person with special rights and responsibilities may not be:
 1. member of the Council of the National Bank;
 2. employee of the National Bank;
 3. person who was imposed a misdemeanour measure or ban on performing a profession, activity or duty;
 4. person without reputation, thus compromising the safe and sound bank operations
 5. person who fails to comply with the provisions of this Law and the regulations adopted on the basis of this law and/or failed or has failed to implement and/or acted or has been acting contrary to the measures stated by the Governor, that compromised or have been compromising the safety and soundness of the bank,
 6. member of Supervisory Board, Risk Management Committee, Auditing Committee and Management Board of another bank, or employee in another bank, or
 7. person who performed function of a person with special rights and responsibilities in a bank or another legal entity in which administration has been initiated, or against which a bankruptcy or liquidation procedure have been initiated, unless unambiguously determined on the basis of the available documentation and data that the person was not involved in any action that led to the introduction of administration, a bankruptcy or

liquidation procedure or performed such function immediately prior or after the occurrence of the reasons that led to the introduction of administration, initiation of a bankruptcy or implementation of a liquidation procedure;

A person who does not have a reputation shall also denote a person who has been convicted for unconditional imprisonment of more than six months by an effective court decision, in the period of duration of the legal consequences.

A member of the Management Board of a bank shall not have a reputation even when he/she has an associate subject to the circumstances referred to in the previous paragraph.

Member of a Management Board of a bank may at the same time be a member of not more than two supervisory bodies i.e. non-executive member of a board of directors of not more than two non-banking financial institutions and non-financial institutions.

Member of a Management Board of a bank may not be a person who is a manager, a member of a board or executive member of a board of directors at any domestic or foreign company.

The limitations of the previous two paragraphs and item 6) above shall not apply to membership in:

- 1) bodies of nonprofit organizations on a voluntary basis, without remuneration and
- 2) bodies of companies that belong to the same banking group in the Republic of North Macedonia or abroad.

Committees

- C** The Supervisory Board shall set up expert committees from among its members depending on the specific circumstances of the enterprise and the number of supervisory board members. These committees shall serve to improve the efficiency of the work of the Supervisory Board and shall deal with complex issues. However, the Supervisory Board may discuss the issues of the committees with the entire Supervisory Board at its discretion. Each president of a committee shall report periodically to the Supervisory Board on the work of the committee. The Supervisory Board shall ensure that a committee has the authorization to take decisions in urgent cases.
- C** The majority of the committee members shall meet the criteria for independence. The Corporate Governance Report shall state the names of the committee members and the name of the President. The Corporate Governance Report must disclose the number of meetings of the committees and discuss the activities of the committees.
- R** The Supervisory Board shall adopt Rules of Procedure for each committee. These shall indicate the tasks and functions of the committee concerned, its composition and the manner in which it discharges its tasks and functions. The Rules of Procedure shall be made available on the company's website.
- R** The Supervisory Board shall report in the Annual Report on the committees, including their composition and activities, the number of meetings held and how many were attended by each committee member, and the main items discussed.
- L** Irrespective of the size of the Supervisory Board, the Bank shall set up an Audit Committee. The Audit Committee of the Bank consists of six (six) members appointed by the Supervisory Board with a term of office of four years. The majority of members of the Audit Committee are

elected from among the members of the Supervisory Board, whereas the other members are independent members. At least one member of the Audit Committee is a certified auditor.

- C** The Audit Committee shall also monitor the group accounting procedures, audit any consolidated financial statements and prepare a proposal for the selection of an auditor for the financial statements and shall report on this to the supervisory board.
- L** Furthermore, the Audit Committee shall monitor the effectiveness of the company-wide internal control system, of the internal audit system and of the risk management system of the company.
- L** The President of the Audit Committee or financial expert may not be a person who in the past three years has served as a member of the Management Board or as management-level staff or auditor of the Bank or has signed an auditor's opinion or for any other reason is not independent and free of prejudice.
- L** The Risk Management Committee is legally prescribed committee which is consisted of 6 (six) members elected from among persons with special rights and responsibilities employed in the Bank and appointed by the Supervisory Board with term of office of four years. Members of the Committee are:
 - Member of the Management Board responsible for risk management, who is President of the Committee;
 - President of the Management Board, as Vice President of the Committee;
 - the responsible person within the organizational part responsible for strategic risk;
 - the responsible person for the organizational part for legal affairs;
 - the responsible person within the organizational part responsible for credit risk management and workout;
 - the responsible person for the organizational part for compliance.
- L** The Risk Management Committee permanently monitors and evaluates the level of risk of the Bank and ascertains the acceptable level of exposure to risks for the purpose of minimizing the losses which derive from the exposure of the Bank to risks; establishes risk management policies and monitors their implementation; monitors the rules and regulations of the National Bank which refer to the risk management and compliance of the Bank with these regulations; performs evaluation of the risk management systems in the Bank; determines short-term and long-term strategies for management of certain types of risks to which the Bank is exposed and performs other activities in accordance with the law, by-laws and Bank's internal acts.
- L** The Supervisory Board establishes the IT Steering Committee as a body of the Bank. The IT Steering Committee is consisted of 9 members with mandate of 4 years. Committee members are:
 - member of the Management Board responsible for organizational part - Organization and IT as President of the Committee,
 - responsible person for finance,
 - responsible person for banking operations,
 - responsible person for digital channels and organization,
 - responsible person for IT,
 - CISO,
 - two representatives from the Group,
 - the representative of the Internal Audit without voting right.

- L** IT Steering Committee shall submit reports on the status of the information technology and

open issues to the Supervisory Board and the Management Board of the Bank; gives recommendations regarding strategies, policies and major expenditures in the field of information technology that are approved by the Supervisory Board or Management Board; provides effective information technology planning and monitoring capacity of the system of information technology and its performance; monitors the development of strategic plans of information technology; approves suppliers in regarding the information technology and monitor their financial condition; approves and monitors the major projects, the information technology budget, priorities, standards, procedures and system performance and performs other activities in accordance with the law, by-laws and Bank's internal acts.

- L** The Supervisory Board establishes a Remuneration and Nomination Committee as body of the Bank. The Remuneration and Nomination Committee is consisted of 3 (three) members from the ranks of the Supervisory Board members who are appointed and discharged with a decision of the Supervisory Board. The President of the Supervisory Board and at least one independent member of the Supervisory Board are mandatory members of the Remuneration and Nomination Committee. In some cases, the function may be exercised by all members jointly. The Remuneration and Nomination Committee reviews and regularly updates the Remuneration Policy; present proposals for appointment and/or dismissal of the members of the Supervisory Board, Management Board and the legally prescribed committees, defining the criteria and the rules for appointing those members, pre-approves the remunerations of Supervisory and Management Board Members, as well as the identified control functions and decides on other issues in compliance with the law, the Statute and other rules and regulations.
- R** The Committee deals with the issues relating to successor planning.
- R** When the proposals for appointing members of the Supervisory Board are submitted, especially the personal and professional qualifications of the members and a balanced composition of expert knowledge must be taken into account. Furthermore, the aspects of diversity of the Supervisory Board with respect to the internationality of the members, the representation of both genders, and the age structure shall be reasonably taken into account.
- C** At least one member of the committee shall be required to have knowledge and experience in the area of remuneration policy. If the Committee uses the services of a consultant, it must be ensured that said consultant does not at the same time provide services to the Management board in matters relating to remuneration.
- C** The Remuneration and Nomination committee can be established separately as a Remuneration Committee and Nomination Committee.

Rules for conflict of interests and assessment of adequacy of the Supervisory Board Members

- L** Members of the Supervisory Board cannot be members of the Management Board or permanent representatives of Management Board members of the Bank or its subsidiaries at the same time. Neither are they permitted to manage the Bank as employees. No person can be a member of the Supervisory Board of a company who is the legal representative of another company whose Supervisory Board includes a member of the Management Board of the company unless such company is part of a group or it is associated by a shareholding in such company.

- L** When reaching decisions, Supervisory Board members must not act in their own interests or in the interests of persons or enterprises, with whom they have close relationships, i.e. are related persons, if such behaviour conflicts with the interests of the enterprise or serves to attract business opportunities to the said member that otherwise would have gone to the bank.
- L** The Supervisory Board Members are obliged to provide a written statement about the existence or absence of conflict of interest of the Bank with their personal interest, according to local legislation.
- L** The Members of Supervisory Board do not participate in the discussion and decision making on the meetings of this body if their objectivity is in doubt because of a conflict or potential conflict between their personal interest and the interest of the Bank. In case of a conflict of interest the members of the Supervisory Board will inform the Supervisory Board by submitting a written statement prior the meeting stating the grounds of the conflict between personal interests and the interest of the Bank.
- C** Before the elections, the persons proposed as members of the Supervisory Board must present to the Shareholders Assembly their expert qualifications, their professional or similar functions and all circumstances that could give rise to cause for concern of partiality.
- C** Supervisory Board members may not assume any functions on the boards of other enterprises which are competitors of the Bank.
- C** If a Supervisory Board member finds himself or herself in a conflict of interest, he or she shall immediately disclose this to the President of the Supervisory Board.

If the President of the Supervisory Board finds himself or herself in a conflict of interest, he or she shall immediately disclose this to his or her deputy.
- L** The granting of loans by the Bank to members of the Supervisory Board shall not be permitted outside the scope of its ordinary business activity and shall be approved by appropriate level of authorization.
- L** The conclusion of contracts with members of the Supervisory Board in which such members are committed to the performance of a service outside of their activities on the Supervisory Board for the Bank or a subsidiary for a remuneration not of minor value shall require the consent of the Supervisory Board. This shall also apply to contracts with companies in which a member of the Supervisory Board has a considerable economic interest.
- L** The company shall disclose in the Corporate Governance Report the object and remuneration of contracts subject to approval. A summary of contracts of the same kind shall be permitted.
- L** **The compensation of Supervisory Board members shall be fixed by the Shareholders Assembly or shall be set out in the articles of incorporation, and shall be commensurate with the responsibilities and scope of work of the members as well as with the economic situation of the enterprise.**
- L** The remuneration for the financial year to Supervisory Board members is to be reported in the Corporate Governance Report for each individual member of the Supervisory board.
- L** The Supervisory Board is obliged to perform evaluation of eligibility of the candidate for member, or of member of Supervisory Board according to the Policy on the manner of selection, monitoring the performance and dismissal of members of the Supervisory Board,

Risk Management Committee, Audit Committee and Management Board. The evaluation is conducted prior to every appointment of new Supervisory Board member; prior to reappointment of existing member of Supervisory Board and annually, according law.

Qualifications of Members, Composition and Independence of the Supervisory Board

When appointing the Supervisory Board, the Shareholders Assembly shall take due care to ensure a balanced composition of the supervisory board with respect to the structure and the business of the Bank as well as the personal and professional qualifications of the Supervisory Board members. When determining the composition of the Supervisory Board it is also taken into account the representation, the inclusiveness in terms of gender, age, education and other personal characteristics of the members. The Assembly shall pay attention that no member of the Supervisory Board is considered for appointment who has been convicted by law for a criminal act that would compromise the professional reliability as a Supervisory Board member. The Supervisory Board consists of 7 (seven) members with mandate of four years, where two members are independent members. A member of the Supervisory Board may not be the person who is not in compliance with the requirements and/or restrictions stipulated with the Banking Law for the persons with special rights and responsibilities.

- L** Supervisory Board members shall have the appropriate knowledge and skills required for the execution of their competencies, avoid conflicts of interest, and dedicate sufficient time to fulfilling their obligations resulting from the competencies prescribed by Law.
- R** In order to enable the Shareholders' General Meeting to make the right choice, Shareholders shall be supplied with the following relevant information on the candidates proposed as Supervisory Board members in addition to the information specified in law:
 - whether there is a conflict of interest with the Company;
 - if they are already a Supervisory Board member, a summary of the most recent evaluation of their performance; and
 - for candidates nominated by the Supervisory Board rather than by a shareholder, the report by the Selection and Appointment Committee or Supervisory Board (if no committee has been established) on the analysis performed and verification of candidate's compliance with the criteria, internal acts and board profile, and whether the candidate is considered to be independent.
- R** In order to ensure continuity and quality of its functioning, the Remuneration and Nomination Committee or Supervisory Board shall prepare a succession plan for the Board which shall be included in the Annual Report.
- R** The Bank shall take action to ensure that it has at least 25% female members of the Supervisory and Management Boards by 2025. The Annual Report shall include a summary of the actions taken to meet this target.
- R** New members of a Supervisory Board must inform themselves adequately of the organization and activities of the company as well as of the tasks and responsibilities of the Supervisory Board members.
- R** The Bank shall provide training to new Supervisory Board Members for their successful

induction into their duties. The Bank shall organize continuous training and education for all Supervisory Board Members, including training in the issues identified in the board profile as ones on which the Board shall have adequate knowledge.

- L** Independent member is a natural person and natural persons connected thereto, who:
 - is not employed or a person without special rights and responsibilities in the bank,
 - is not a shareholder with qualified holding in the bank or does not represent a shareholder with qualified holding in the bank,
 - does not work, or has not been working in an audit company over the last three years, which at that time audited the operations of the bank,
 - does not have any financial interest or business relation with the bank in an amount exceeding Denar 3,000,000 annually, on average, over the last three years;

- L** The same person may not be an independent member of the supervisory board in the same bank for more than three consecutive terms.

- R** According to the criteria defined, it shall be the responsibility of every member of the Supervisory Board to declare its independence vis-à-vis the Supervisory Board. The Corporate Governance Report shall clearly explain which members are deemed independent according to this assessment.

- R** The President of the Supervisory Board shall not be a former member of the Management Board unless a period of two years has expired between the termination of the function as member of the Management Board and the start of the function as President of the Supervisory Board.

- C** The Corporate Governance Report shall state the President and Deputy President as well as the name, year of birth, the year of the first appointment of every Supervisory Board member and the end of the current period of office. Furthermore, other Supervisory Board mandates or similar functions in Austrian or foreign listed companies shall be published in the Corporate Governance Report or on the website of the company for every Supervisory Board member. If a member of a Supervisory Board fails to personally attend more than half of the meetings of the Supervisory Board, this fact shall be stated in the Corporate Governance Report.

7. INTERNAL CONTROLS SYSTEM AND CONTROL FUNCTIONS

- L** The Supervisory and the Management Board of the Bank are obliged to establish internal controls system that ensures:
 - efficient banking operations;
 - activities according legislation;
 - appropriate identification, measuring and control/reducing of risks;
 - evaluation of efficiency and suitability of control functions and of entire corporate governance, including evaluation of quality and reporting system to Supervisory and Management Board and efficiency of internal control system;
 - accuracy of information and data and timely submission to Bank's bodies, to interested parties and general public;
 - appropriate operative and accounting procedures.

- L** The established internal controls system ensures that the Bank monitors and meet all legal

requirements in general, as well as policies, internal rules and procedures, defined plans and budgets, as well as to reduce the risk of unforeseen losses or disruptions of reputation, especially the preventive function the controls for early detection of existing weaknesses and operating problems that can cause loss, limiting the possible adverse effects.

The main risks in the regular business activities are comprised in a broader set of internal procedures, manuals and guidelines, whereby acceptable levels of risk are being determined, ensuring that all necessary steps for timely identification, monitoring and control are undertaken within the whole organization and structure.

- L** The Supervisory and the Management Board of the Bank are obliged to ensure total independence of the control functions by:
- establishing appropriate organizational structure of control functions with their individual separation and separation from activities that are subject of their control;
 - appointing persons competent for control functions that are not subordinated to persons competent for activities that are subject of their control;
 - ensuring sufficient human and material resources for independent, objective and efficient performing of control functions;
 - configuration of functions that should enable avoiding conflict of interests;
 - ensuring uninterrupted access to all employees in the Bank and to information needed for efficient implementation of the specific control function;
 - establishing manner of remuneration of persons included in performing individual control functions which is not related to the success of activities subject of their control;
 - establishing mechanism for uninterrupted cooperation between persons included in performing individual control functions and remaining employees in the Bank.

The Strategic Risk Management Directorate is responsible for implementing and/or coordinating the activities and processes related to the strategic risk management system. This Directorate is independent of the other persons and organizational units of the Bank, especially those who take risks, that is, it has access to all organizational units whose operations the Bank can expose to material risks. The Strategic Risk Management Directorate is in charge of the Member of the Management Board of the Bank who is responsible for risk management activities.

The AML and Compliance Department is responsible for monitoring the compliance with the regulations regarding the Bank's operations, identifying and monitoring the risks of non-compliance with the Bank's operations with the regulations, as well as for other activities in accordance with the applicable regulations. The President of the Management Board of the Bank is responsible for the coordination of the General Secretariat, including AML and Compliance Department, as part of it.

The Internal Audit Directorate of the Bank performs constant and complete control of the legality, regularity and promptness of the Bank's operations. The internal audit acts proactively and in the performance of its work is independent. The organizational structure, rights and responsibilities and relations with the other organizational parts of the Bank, as well as the responsibility and conditions for appointing a Responsible person for the internal audit function shall be regulated by the Supervisory Board of the Bank.

- L** The Supervisory Board and the Management Board of the Bank shall be obliged to provide efficiency of the internal audit in the Bank, at least through: 1/ full access of the employees in the Internal Audit Directorate (hereinafter: the IAD) to all documents, information, property and reports of all bodies of the bank, as well as possibility of direct communication with any

employee of the bank; 2/ engaging human resources in the IAD, that together have the knowledge and experience appropriate to the activities performed by the Bank and the risks it is exposed to; 3/ full and timely information to the IAD on the significant developments in the Bank, the introduction of new products, activities and systems, and other changes; 4/ timely and appropriate training of the employees in IAD; 5/ timely acceptance of the findings and implementation of the recommendations of the internal audit; 6/ objectiveness and neutrality in the implementation of the internal audit, by excluding the possibility for engagement of the employees of the IAD in other activities in the Bank; 7/ application of the national and international professional standards for internal audit.

- L** Besides the requirements under the previous paragraph, the Supervisory Board and the Management Board of the Bank shall be obliged to ensure independence of the IAD also through: 1/ submission of the IAD reports to the Supervisory Board and/or the Audit Committee without any corrections made by the Management Board or other employees of the Bank that are not accepted by IAD; 2/ direct access of the employees in IAD to the Supervisory Board and/or the Audit Committee; 3/ appointment, monitoring of operations and dismissal of the person responsible for internal audit from the Bank's Supervisory Board.
- L** Persons competent for control functions should have unlimited access to Supervisory Board members in the Bank and to be able to report to them on significant weaknesses, shortcomings or risks they identified in performing of their function.

8. TRANSPARENCY AND AUDITING

Transparency of Corporate Governance

- L** At least once a year, the Bank shall be obliged to prepare a corporate governance report and disclose it as an integral part of the annual report on the Bank operations that contains at least the following information:
 - information and data on the composition, the competences and the functioning of the Supervisory Board, the Risk Management Committee, the Audit Committee, other committees of the Supervisory Board (if established in accordance with the Statute of the bank) and the Management Board;
 - information on the manner of selection, appointment and dismissal of members of the Supervisory Board, Risk Management Committee, Audit Committee and Management Board;
 - information on memberships in other supervisory and/or management bodies of the members of the Supervisory Board, Risk Management Committee, Audit Committee and Management Board;
 - information and data on the organizational structure of the Bank, including its subsidiaries;
 - information and data on the Bank's shareholders structure - the name of the shareholders with qualified participation and their share in the total number of shares and the total number of issued voting shares and their representatives in the Bank's Supervisory Board;
 - information and data related to the implementation of the Bank's remuneration policy;
 - information and data on the Bank's policy on avoiding conflict of interests;
 - information on the use of outsourcing services that are significant for the Bank's entire operations.

- L** The Supervisory Board shall submit annual report on its operating to the Bank's General Assembly. The Report contains the data on the following:
- the manner the competences are performed in;
 - the cooperation with the Management Board;
 - the structure of the Supervisory Board;
 - the existence of conflict of interests and undertaken measures;
 - the results of the individual and collective assessment of the adequacy of the members of the Supervisory Board;
 - the regularity of each member at the meetings of the Bank's Supervisory Board and performing other operations, according to law.
- R** Every shareholder shall have the right at the annual general meeting to request information on the Corporate Governance Report.
- R** The Management Board shall be responsible for reporting on implementation and compliance with the Code of Corporate Governance
- R** The individual bodies that are the addressees of the respective rules are responsible for compliance with the principles of corporate governance and for giving explanations on deviations therefrom.

Audit of the Financial Statements

- L** The Supervisory Board shall include in the contract on the audit of the (consolidated) financial statements the stipulation that the audit is to be conducted according to international standards on auditing; Code of ethics for professional accountants prescribed by the International Federation of accountants and with other regulations which regulate conducting of external audit.
- L** The independence of the (group) auditor is essential for conducting a thorough and unbiased audit; in particular, no grounds for exclusion or risk of partiality exist. The auditors shall ensure that any additional business relationships with the Bank to be audited, such as consulting contracts, do not constitute a hindrance to their economic independence.
- L** **The Audit Committee shall monitor the independence of the (group) auditor, especially with respect to the additional services provided to the Bank being audited (audit-related and non-audit-related services).**
- R** The (group) auditor shall immediately inform the President of the Supervisory Board and the President of the Audit Committee of any reasons potentially constituting grounds for exclusion or risk of partiality that may become evident in the course of the audit. Any protective measures taken to ensure an independent and impartial audit shall be reported to the Audit Committee.

An auditor or an auditing firm who is to be included in a proposal for appointment must furnish a written report on the matters listed below before the Supervisory board approve the AC proposal and before the election by the shareholders assembly:

- ✓ Valid registration in the public registry as proof of inclusion in the statutory quality assurance system;

- ✓ No reasons for exclusion;
 - ✓ Presentation of all circumstances that may indicate the risk of partiality and of measures taken to protect against such risk in order to ensure an independent audit;
 - ✓ A list of the total fees broken down by category of services that were received from the Bank in the preceding financial year.
- R** Immediately after the vote, the Bank shall conclude the agreement with the (group) auditor elected on the execution of the audit of the financial statements and on the fees to be paid. The fees must be commensurate with the tasks of the (group) auditor and the expected scope of the audit. The audit agreement and the amount of the fees agreed on shall not be made contingent on any requirements or conditions and shall not depend on whether the (group) auditor provides additional services to the audited Bank besides the auditing activities.
- L** The Bank shall appoint an auditing company notifying the National Bank thereon within 15 days from the appointment date.
- R** The President of the Audit Committee (group) must invite the auditor in addition to the cases stipulated by law to a further meeting. At this meeting, the mode of communication between the (group) auditor and the audit committee shall be defined. Within the scope of these meetings, it must be possible for the Audit Committee to exchange views with the (group) auditor without the presence of the members of the Management Board. If necessary, the President of the Audit Committee shall invite the (group) auditor to further meetings of the Audit Committee.
- R** The Supervisory Board will be informed on the results of the (group) final audit in the form of the audit report stipulated by law and the mandatory oral report of the (group) auditor as well as by the report of the Audit Committee.
- R** In addition, the auditor shall make an assessment of the effectiveness of the Bank's risk management based on the information and documents presented and shall report the findings to the Management Board. This report shall also be brought to the notice of the President of the Supervisory Board. The President shall be responsible for ensuring that the report is dealt with by the Audit Committee and reported on to the Supervisory Board.

Criteria for selection and monitoring of operations of the audit company

- R** Despite the need to meet the legal criteria prescribed by the Banking Law, additional criteria for the selection of an audit company are as follows:
- the audit company is one of the so-called "big four" audit companies (PWC, E&Y, Deloitte, KPMG);
 - the experience of the company in audit of banks in the Macedonian banking sector;
 - acceptance of the program of work of the audit company according to the deadlines stipulated by the Bank;
 - amount of compensation for conducting the audit and
 - directions and recommendations given by the Group.

9. CORPORATE GOVERNANCE AT THE LEVEL OF A BANKING GROUP IN THE COUNTRY

- L** If the Bank is a parent entity of a banking group in the Republic of North Macedonia, the Bank's Supervisory Board shall have full responsibility for the operations of the group and for providing a framework for good corporate governance appropriate to the structure, the activities and the risk profile of the group and the persons involved in it. The Supervisory Board and the Management Board of the Bank should know the organizational structure of the group and the risks arising from it.
- L** The Supervisory Board of the Bank shall be obliged to perform appropriate surveillance of the subsidiaries taking into consideration the legal and regulatory requirements that apply to the members of the management and supervisory bodies of the subsidiaries.
- L** In order to carry out its competences, the Supervisory Board of the Bank shall be obliged:
- to establish corporate governance that will include clearly defined lines of responsibility at the level of the parent entity and at the level of the subsidiary;
 - to establish relevant internal regulations and control mechanisms for identifying and dealing with possible conflict of interests within the group;
 - to approve policies and strategies for establishing new structures and legal entities (e.g. a new subsidiary, a new subgroup etc.) that are consistent with the policies and interests of the group;
 - to assess if an efficient system for exchange of information and data among different persons in the group has been established;
 - to provide resources for monitoring the compliance of the operations of the subsidiaries with the regulations;
 - to maintain regular relations with the domestic supervisory authority and the supervisory authority of the subsidiaries;
 - to provide an internal control system and a risk management system at the level of the entire group, as well as at the level of a subsidiary.

10. OTHER ELEMENTS OF CORPORATE GOVERNANCE

Rules for outsourcing

The Decision for using outsourcing for parts of the Bank's activities must be in accordance with the business strategy and business targets of the Bank and the Decision is adopted by the relevant body of the Bank. The process of selecting and deciding on the use of outsourcing is carried out, in accordance with the Policy on procurement of assets and services and the Procedure for procurement of assets and services.

When the selection and decision for use a particular service from third parties are made, it is mandatory to detect and take into consideration the legal/regulatory limitations for conducting the service.

The Bank has to define the possibility in the contracts, for conducting the requirements of the local legislation, as well as other further demands in accordance with the laws valid for the performer of the particular services, that will enable the National Bank of the Republic of North Macedonia, as Bank's regulator, to have fully and unlimited access to the performer's activities under supervision.

When considering the needs for outsourcing, but before concluding the contract, the organizational unit that initiates the use of outsourcing for parts of the business process, should conduct the process for initiating the supply / purchase for using outsourcing services, in accordance with the Procedure for procurement of assets and services.

In terms when outsourcing is used for performing of financial activity, the organizational unit-initiator of the request, in cooperation with the other organizational units, conducts an analysis which covers:

- evaluation of the risks related with the outsourcing of their business process;
- evaluation of the activities, subject to outsourcing, in material manner;
- during the evaluation, the organizational units should explicitly consider the potential effects from the outsourcing of specific functions which means consistency and compliance with the legislation, as well as permanent supervision of the conducting of services;
- to ensure that the relations between the Bank and the service provider are acceptable from the risk perspective, and at the same time to be in accordance with the Bank's business goals;
- Adequate measures for protection and control to be conducted in order to decrease the identified risks and
- Providing permanent monitoring of the related changes and risks with proper notification to the Risk Management Business Unit as responsible for providing permanent monitoring of the risks exposure.

Code of Ethics

The purpose of the Code of Ethics of the Bank is to promote and encourage a system of desired corporate values in the Bank.

The Code of Ethics is part of the internal rules system of SBS and violation of the provisions, principles and values of the Code of Ethics will be considered as violation of the rules applying to the workplace.

Internal regulations (Policies, Procedures and/or Guidelines) related to the Code of Ethics are:

- Internal and external regulation related to the regulation of conflicts of interest,
- Internal and external regulation related to data security and personal data protection – Code of Conduct.

The Code of Ethics of the SBS also considers the Code of good operation of banks and savings houses in the Republic adopted by the Banking Association at the Chamber of Commerce of NM.

The basic elements of the Code are the vision and mission of the Bank, as well as the whole operation of Sparkasse Bank, which is based on the defined corporate values: excellence, agility, passion, trust and partnership, as well as the professional principles on which the system of desired corporate culture of the Bank is based and developed. The Bank's Code of Ethics is approved by the Supervisory Board and published on the Bank's website.

Policy for conflict of interests

The Policy for identifying, monitoring and dealing with conflicts of interest was adopted by Sparkasse Bank AD Skopje as a result of the commitment of the Bank's management to introduce the principles of modern banking operations and the application of the Basel standards in the corporate governance system in the Bank.

The main reasons for adopting of this policy are:

- a description of situations where there might be conflicts of interest and proper handling of them by all employees and managers;
- establishment of a monetary limit on nominal gifts and gratitude and establishment of a reporting system and
- the need to report conflicts to competent bodies and written disclosures of business interests.

Remuneration Policy

The aim of the Remuneration Policy is to define a clear and transparent rules and criteria for determining the amount of the total remuneration, and in particular for defining rules for clear determination and distinction between the fixed and variable part of the total remuneration. Established elements of the principles of remuneration in the Bank are fully in compliance with the business policy, financial plan and long-term goals of the Bank; remuneration does not encourage employees and persons with special rights and responsibilities to take a higher level of risk from the level that is established as acceptable and contains mechanisms for avoiding conflict of interests.

In the process of developing and approving the Bank's Remuneration policy, all relevant competent bodies should consider the Bank's business policy, financial plan and long-term objectives, taking into account not encouraging employees or members of the Bank's bodies to take a risk higher than the established acceptable level, as well as preventing a possible conflict of interest in the remuneration process.

Policy on protection of the whistleblowers

The Policy on protection of the whistleblowers defines the following aspects:

- the process of receiving information by a responsible person from a whistleblower about the behavior of an employee of the Bank or employees of the Bank that violates the public interest or poses a threat to it;
- defining the areas from which inappropriate behavior could arise or a process that would or effects the public interest (financial crime, theft, conflict of interest, money laundering, terrorism financing, abuses of the Law on Banks and others);
- principle of anonymity for the pointers;
- guaranteed protection of the anonymity of the whistleblowers by the Bank;
- manner of protected whistleblowing (internal, external and public);
- defining the independence of the responsible person for receiving information from the whistleblowers, as well as the obligation to check the appropriateness of the received information and the appropriate follow-up of the information;
- managing conflict of interests and
- protection of the personal data of the whistleblowers.

11. FINANCIAL REPORTING AND DISCLOSURE

- L** The Bank shall disclose – as soon as it gains knowledge thereof – any changes in the shareholder structure, if, as a consequence of the acquisition or disposal of shares in the

company, the percentage of shares representing voting rights held by a shareholder reaches, exceeds or falls below the thresholds.

- L** The Bank shall disclose on its website and in the annual report – if it has knowledge thereof – the current shareholder structure broken down by geographical origin and type of investor, any cross-holdings, the existence of syndicate agreements, restrictions on voting rights, registered shares and their related rights and restrictions. Current changes in voting rights shall be disclosed without delay on the website of the Bank.
- L** The articles of incorporation of the Bank shall be disclosed on the website of the Bank.
- L** The Bank shall prepare the consolidated financial statements and the condensed set of financial statements contained in the half-yearly financial report in accordance with International Financial Reporting Standards (IFRS), as adopted in RNM.
- L** Annual financial reports shall be published at the latest four months after the end of the reporting period, half-yearly financial reports at the latest two months after the end of the reporting period, and shall be publicly available for at least five years.
- R** The Management Board shall explain in the annual and interim reports the reasons for and effects of any material changes or deviations affecting the current and/or subsequent business year as well as any material deviations from previously released sales revenues, earnings and strategy targets.
- R** The Bank shall establish external communication structures beyond legal mandatory requirements to meet information demands timely and adequately, in particular, by use of the Bank's website. The company shall disclose any new facts that it communicates to financial analysts and similar users to all of its shareholders at the same time.
- L** The Bank shall publish annual financial reports, half-yearly financial reports in Macedonian and English, and shall make these available on the Bank's website.
- C** The Bank shall present an adequate analysis in the consolidated management report on the course of business and shall describe the essential financial and non-financial risks and uncertainties the Bank is exposed to as well as the most important features of the internal control system and of the risk management system with respect to the accounting process.
- C** The Bank shall describe the main risk management instruments used with respect to non-financial risks in the management report.

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- L** The company shall immediately disclose any inside information that directly relates to it as well as any substantial changes to such information (ad hoc disclosure). It shall also immediately disclose any relevant circumstances or occurrence of an event – even if not yet formally ascertained.
- C** The company shall display all inside information, which it is under the obligation to disclose to the public, on its website for an appropriate period of time. A listed company or company with special reporting obligations may postpone the disclosure of inside information if such disclosure would be damaging to its legitimate interests, but only if the suppression of such

inside information would not be misleading to the public and the listed company or company with special reporting obligations is in a position to guarantee the confidentiality of the information.

- C** The appropriate authority must be informed immediately of any postponement of the disclosure of inside information.
- R** The Bank shall appoint a contact person for shareholders and investor relations and shall disclose this person's name and contact numbers and address on the Bank's website. The appointed person shall be responsible for ensuring a timely and adequate response to questions or provision of information to shareholders and investors. The Bank shall ensure that there is a procedure for escalating these questions to the Supervisory and Management Boards where appropriate.
- R** The Bank shall disclose simultaneously on its website all financial information on the enterprise that has been published through other media (e.g. printed reports, press releases, ad hoc reports).
- R** If additional information is available only on the Internet, this fact must be specifically pointed out. If only excerpts of published documents are made available on the website, this fact must also be stated and the source where the full document can be obtained must be indicated. The documents shall bear the date on which they were posted on the Internet.

12. SUSTAINABILITY

The Supervisory and Management Boards shall cultivate a corporate culture that encourages a responsible attitude towards the environment and social issues; approve a strategy to promote sustainability; and ensure that its business model and risk management systems take account of the potential environmental and social impact of its activities.

- R** The Bank shall have internal acts relating to its responsibilities for environmental and social issues and policies and procedures that enable it to identify material factors and assess the impact on the company's activities. These policies shall be reviewed at least annually by the Supervisory and Management Boards, and shall be published on the company's website.
- R** In the Annual Report, the Bank shall report on issues related to environmental and social issues based on the principle of transparency and in accordance with relevant legal requirements and good international practices.

13. CLOSING PROVISIONS

This Code of Corporate Governance shall become effective after receiving approval by Supervisory Board.

The Code of Corporate Governance will be reviewed and amended if required taking relevant national and international developments into consideration.