



**SPARKASSE BANK AD SKOPJE**

**CONSOLIDATED**

**Annual Report 2023**

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## 1. MACROECONOMIC ENVIRONMENT

### 1.1. Global and Regional Trends

In 2023, the global macroeconomic landscape was marked by both challenges and subtle improvements. The Organization for Economic Co-operation and Development (OECD) has forecast global GDP to grow by 2.7 percent in 2023, with a modest improvement to 2.9 percent in 2024. Namely, this year's growth rate was the lowest since the global financial crisis (without the pandemic). Inflation in OECD countries was projected to decline from 9.4% in 2022 to 6.6% in 2023 and further to 4.3% in 2024. However, core inflation (excluding energy and food prices) remained persistent due to rising service costs.

High inflation and modest wage increases have caused real wages to fall for many people in 2022. This trend was expected to reverse in 2023, providing some relief to households. While the global economy showed signs of improvement, the recovery remained fragile. The International Monetary Fund (IMF) also projected weak global growth in 2023. Key issues include high inflation, tightening central bank policies, geopolitical tensions and the lingering effects of the Covid pandemic. Despite speculation about the end of globalization due to the pandemic and the Russian invasion of Ukraine, international flows (trade, capital and people) have not shown a steady decline. While there was a broad pattern of disengagement between the US and China, countries aligned with these superpowers did not indicate a wider divide between the rival blocs. Globalization has not given way to regionalization, emphasizing the importance of global strategies for companies. The threat of geopolitical instability and conflict will persist in 2024 and policy makers and businesses need to carefully address these challenges.

Despite initial fears of a recession, the US economy has defied these expectations. Growth has advanced at a significant pace, with real GDP projected to increase by 2.6% in 2023. Manufacturing investment reached historic highs and the labor market remained strong, with unemployment rates below 4% for 22 consecutive months. However, high inflation rates and geopolitical energy shocks pose challenges. Despite various challenges, including rising interest rates to fight inflation, instability in federal budget policy, and growing geopolitical tensions, the US economy has managed to continue growing. The labor market has remained tight, and there are no signs that the wage and price spiral will spiral out of control. Geopolitical tensions have escalated, and US allies have been involved in two wars, but this has not significantly hindered job growth, real wage increases and overall economic expansion.

Total inflation in the Eurozone in 2023 was 5.4%. However, it is predicted to decrease over the next few years. By 2024, inflation is expected to fall to 2.7% and further to 2.1% in 2025, finally reaching 1.9% in 2026. Economic growth has faced challenges due to tight financing conditions and low export growth. Despite these headwinds, as inflation subsides, household incomes recover and foreign demand strengthens, the European economy is projected to grow by 0.6% in 2023 and 0.8% in 2024, as well as achieving rates of growth of 1.5% in both 2025 and 2026. The European economy showed resilience, but short-term growth remained modest. Policymakers closely monitored inflation trends and adjusted monetary policies accordingly.

While challenges persisted, the European economy aimed for gradual recovery and stability. Geopolitical tensions had a significant impact on Europe's economy in 2023. Initially, there were concerns that the pandemic and the Russian invasion of Ukraine would lead to a retreat from globalization. Europe faced risks of recession, especially in the winter months. In 2023, the EU's

economic policy agenda included responding to the US's large-scale subsidy plan for green technologies, addressing fiscal rules, trade policy, reconstruction efforts in Ukraine and financial stability. Geopolitical tensions have affected trade, investment, and economic policies in Europe, requiring careful navigation and strategic adjustments.

2023 was a year of growth for most major stock indexes driven by factors such as technological advances, monetary policy, and investor confidence. The Dow Jones had a strong year, closing at \$12,460,225.30. It marked its 11th consecutive year of new all-time records, surpassing the record set between 1989 and 2000. The S&P 500 hit a daily record of 5,000 points, reflecting strong gains throughout the year. The NASDAQ 100 index, which includes technology companies, also had a positive year. The Euro Stoxx 50 index, which represents the biggest companies in the Eurozone, closed at \$4,452,659.08. Although it experienced fluctuations throughout the year, it remained resilient. The DAX, Germany's benchmark stock index, had a solid performance driven by factors such as economic growth and corporate earnings.

In 2023, the exchange rate of the euro against the US dollar (EUR/USD) experienced some fluctuations. Overall, the euro strengthened slightly against the US dollar in 2023, with a positive change of approximately +3.6%.

**Chart no. 1 Movement of the euro / dollar exchange rate in 2023**



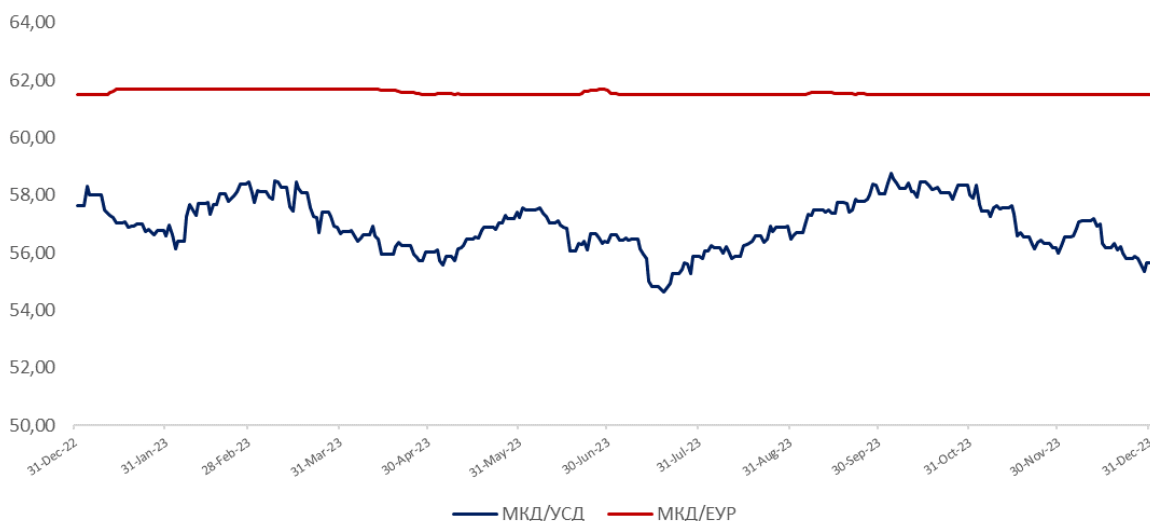
## 1.2. Macroeconomic trends in the Republic of North Macedonia

The economic growth of North Macedonia in 2023 slowed down to 2.1%, compared to the previous year. Moderation continued in the first half of 2023, with growth of 1.6% on an annual basis. Household consumption growth slowed despite rising inflation. Net exports became more favorable due to the decrease in imports and strong electricity production.

North Macedonia entered into a two-year Prudential and Liquidity Agreement (PLL) with the International Monetary Fund (IMF). The structural conditions under the arrangement focused on the energy sector and the fiscal impact of a major infrastructure project. Renewable energy sources were deployed at an increasing rate. Expectations for 2024 are aimed at continued fiscal consolidation, which is necessary under the new fiscal rules. The authorities should follow up on the commitments made under the PLL arrangement to reduce the budget deficit in the medium

term. Public investments need enhanced evaluation, implementation, and monitoring. In the domain of the energy sector and infrastructure, the establishment of a public investment management assessment unit (PIMA) within the Ministry of Finance is of crucial importance. Public investment in the transmission network should complement private sector investment in renewable energy sources, while high electricity subsidies should be increasingly targeted at vulnerable groups. Investments in the transmission network and flexible systems are essential to integrate renewable energy capacity into the electricity grid. Monetary policy in 2023 underwent significant adjustments in response to economic developments. The prime rate rose from an all-time low of 1.25% in April 2022 to 6.3% by September 2023. Investment recovery is forecast to be a key driver of economic growth in 2024 with GDP growth projected at 3.0%, while inflation is expected to average 4.5% in 2024. The monetary policy of North Macedonia responded to the dynamics of inflation and global economic conditions, while expectations for 2024 focus on investments and moderation of inflation.

**Chart no. 2 Exchange rate against EUR and USD in 2023**



## 2. THE GROUP ACTIVITIES

In 2023, Sparkasse Bank carried out many significant activities in terms of taking care of its customers.

Sparkasse Bank, guided by its corporate strategy, strongly advocates for the support of young people, and invests in their future, prosperity and financial stability. With the new campaign "My vibe my way" and the "Vibe on" youth package, Sparkasse Bank confirms its commitment to investing in young people - today's youth need financial freedom and an energetic lifestyle to achieve their goals. The free "Vibe on" youth package is tailored to meet the needs of new generations and their unique aspirations. The package is intended for all young people between the ages of 15 and 25, and includes free monthly maintenance of a transaction account, a free Visa debit card, free use of the S-Group mobile application and all services that are available through the application, i.e. payment, use of the Pay a Friend and Split Bill service, as well as 2 free ATM cash withdrawals from any ATM in the country (outside the Sparkasse Bank network).

As a socially responsible company together with the Ministry of Education, Sparkasse Bank provided a subsidized student meal. Realizing the subsidized student meal as a systemic solution means realizing the commitment of the Government and the Ministry of Education and Science for greater financial support for young people.

Sparkasse Bank AD Skopje, following current market trends and working in the interest of its customers, to provide them with smooth mobility and availability of a wide range of Grouping services, has introduced numerous novelties in its S-Bank mobile application. The new version of the mobile application S-Bank, with the new modern design created for an improved user experience, has new functionalities for individuals, and for the first time it is also available for legal entities, clients of Sparkasse Bank.

At a time of increased uncertainty and a growing trend of interest rates, the Group, with the introduction of the offer for a fixed interest rate for 10 years for a home loan - "Fix your home" and a fixed interest rate for the entire repayment period for a consumer loan - "Fixed is fixed", aims to offer customers precise planning of personal finances and monthly expenses, by providing a fixed installment for their credit.

Sparkasse Bank, guided by the needs of its customers, has prepared a consumer loan for pensioners with special conditions. "It is about a consumer loan tailored to the needs of every pensioner. The loan for pensioners is free of administrative costs and without application costs, with a repayment term of up to 95 months and an amount of up to MKD 750,000. The loan has a fixed interest rate of 7.2% for the entire repayment period, and the offer includes a life/non-life insurance policy.

2023 was also significant in terms of savings, in addition to growing and guaranteed interest rates, the Group also introduced new deposits in Denars and Euros. "Save even when you pay" is the new service that allows customers to save even when they pay, in such a way that with every payment transaction online or at a POS with a debit card, the transactions are rounded up to the nearest 100 and the rounded amount is transferred to a separate dedicated deposit.

The Group successfully finished this year with prudent management of the imposed risks and achieved a return on capital (RoE) of 12.8% and a cost-to-income ratio of 47.7%.

## 2.1 SPARKASSE LEASING DOO Skopje

In the face of global supply channel disruptions that have led to a lack of a series of parts for the production of vehicles and equipment as well as rising prices (inflation) and an increase in reference interest rates, Sparkasse Leasing Doo Skopje management has adapted its market strategy to continue its successful operation and strong growth, 2023 is the historically most successful year since the existence of Sparkasse Leasing Doo Skopje. The total gross realization (TIC) of 49,720,000 euros (2022: 42,861,000 euros) allowed the portfolio to grow up to 78,442,000 euros (2022: 63,415,000 euros) representing a growth of +23.7% compared to 2022.

Strong growth was also seen in the number of leases with 1,274 contracts during 2023, with the total number of active contracts reaching 4,326 (2022: 3,971) representing an increase of +8.9%. All segments of the portfolio had a positive trend in the increase in the amount financed.

With the above results, Sparkasse Leasing Ltd. Skopje grew faster than budgeted for 2023 in conditions where the market was still recovering at a slower pace than expected, under the influence of still-existing problems in supply channels globally as well as increased market prices of vehicles and double-digit inflation.

Pressure on the interest margin increased in 2023 through a significant increase in refinancing costs caused by the growth of 6M EURIBOR and the increased margin. However, Sparkasse Leasing Ltd. Skopje managed to maintain and even increase the average interest margin to a height of 6.67% on the newly placed portfolio (2022: 4.90%). The average interest margin of the entire portfolio was 5.78% concluded with 31.12.2023 (2022: 4.93%). The average interest margins of the newly placed portfolio as well as the overall portfolio are some of the highest in the SEE region of the Group.

Excellent development during 2023 also had a success balance, making 2023 the most successful in the history of Sparkasse Leasing LTD Skopje, with a 29.0% increase in net interest income compared to 31.12.2022. The pre-tax profit for 2023 is 2,050,000 euros (2022: 1,779,000 euros), and net profit reached 1,788,000 euros (2022: 1,649,000 euros).

All major indicators for 2023 are stable and under control: CIR 38.23% (lowest in see group region), ROE 24.01% (highest in see group region), and NPL ratio of 1.91%. As of 31.12.2023, Sparkasse Leasing LTD Skopje has a total of 14 employees.

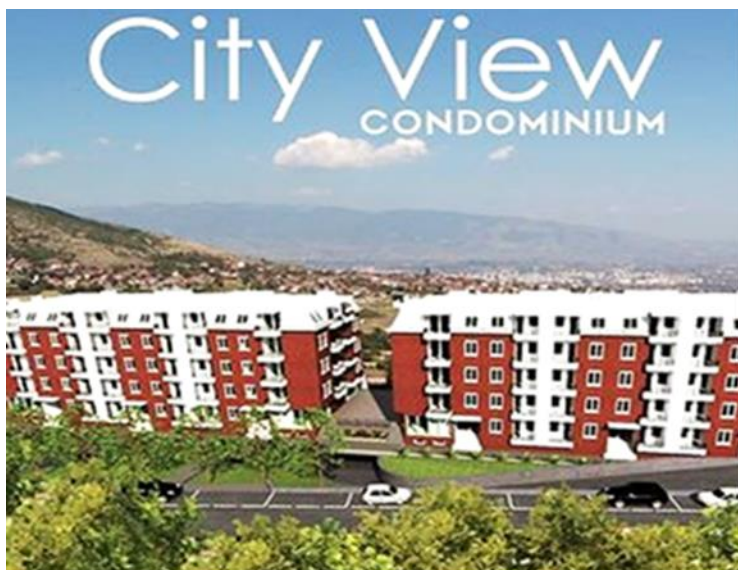
During 2023, a number of campaigns were organised with the main dealers of vehicles and trucks. The focus was on increasing brand awareness, increasing market participation and the possibility of cross-sale with the Group.

During 2023, Sparakase Leasing Ltd. Skopje extended its financing agreement with the EBRD, leaving it the first leasing company in the region and within the Group using the EBRD's competitiveness line for SMEs. Additional efforts were also made to digitize processes by introducing e-invoices and e-archives, as well as improvements to the website by including an adjustable leasing calculator and the possibility of online delivery and downloading application documentation.

The 2024 plans go in the direction of launching new products in the mobility section, digitizing sales channels, improving organizational efficiency, and creating a mobile application in coordination with the Group.

## 2.2 S-AMC 1 DOOEL Skopje

With regard to S-AMCS 1 and the achievement of the goal for which the building was formed, the construction and sale of the apartment complex and the completion of all property legal obligations, activities for liquidation-closure of the society began during 2022, which continued throughout 2023. We expect the entire liquidation-closure procedure of SAMC-1 to be completed during the first half of 2024.



**Table No 1 Key financial indicators of the Group**

In million MKD	2022	2023
<b>Income Statement</b>		
Net interest income	1,979.2	2,579.3
Net fee and commission income	643.1	691.1
Net FX gains/losses	364.6	346.8
Net operating income	86.6	74.6
Share of the profits of the indebted societies	49.7	53.9
Impairment loss	-477.5	-355.6
Personnel expenses	-700.9	-782.2
Depreciation	-153.2	-181.1
Material, services and administrative expenses	-460.5	-543.0
Other operating expenses	-152.8	-220.3
Profit before tax	1,178.2	1,662.0
Net profit	1,082.8	1,514.8
<b>Balance Sheet</b>		
Total assets	83,256.0	94,343.3
Total equity	10,805.1	12,470.3
<b>Assets structure and quality</b>		
Liquid assets/Total assets	24.3%	24.4%



High liquid assets/Total assets	15.4%	15.9%
Loans / Deposits	104.6%	104.6%
Corporate loans/Gross loans	53.9%	54.5%
Retail loans/Gross loans	46.1%	45.5%
Share of fixed assets in total assets	1.5%	1.3%

**Financial indicators**

Capital Adequacy Ratio	18.5%	18.4%
Own funds	12,477.9	13,615
Return on average assets (ROAA)	1.4%	1.7%
Return on average equity (ROAE)	11%	13%

**Profitability ratios**

Net interest income/Total operating income	73.9%	68.9%
Net interest margin (net interest income/average interest-bearing assets)	2.7%	3.2%
Salary expenses/Total operating income	26.2%	20.9%
Operating expenses/Total operating income (Cost-to-income)	47.8%	47.7%
Impairment loss on assets/Net interest income	24.1%	13.8%
Provisions/Gross loans	-0.7%	-0.5%

**Other indicators**

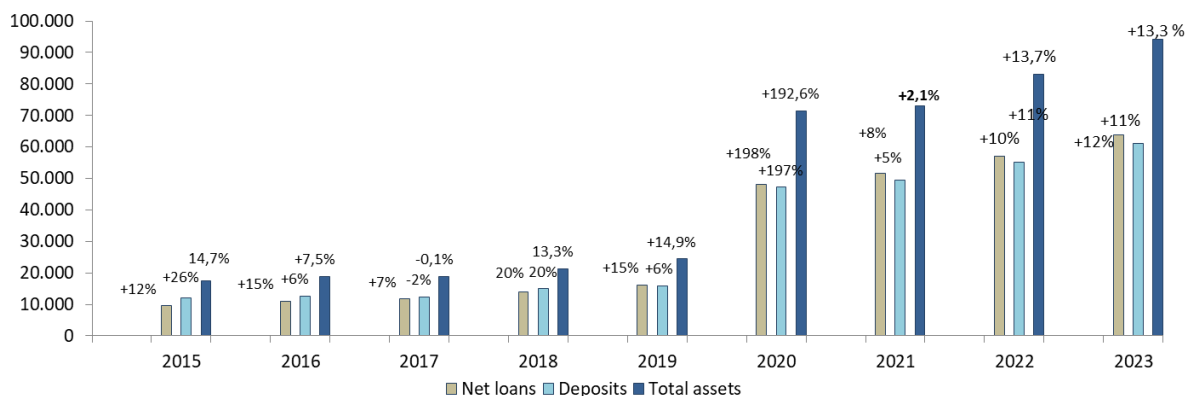
Number of employees	662	656
Average number of employees	683	667
Assets per average number of employees	121.7	141.1
Gross loans per average number of employees	88.5	100.9
Deposits per average number of employees	80.6	91.5

**3. FINANCIAL PERFORMANCES OF THE GROUP**

**3.1. Assets and liabilities of the Group**

The total assets of the Group at the end of 2023 amount to MKD 94,343 million, which is an 11.8% increase compared to last year.

**Chart No. 4 Balance sheet items per years and annual growth trend**



\* The balances from 2020 is integrated data from both Groups

**Cash and cash equivalents** on 31.12.2023 amount to 20,014.6 million denars and have increased compared to last year by 16.9% as a result of the optimization of funding sources and the increase in the credit portfolio.

**Investments in securities** at the end of 2023 amount to MKD 8,153 million and show an increase of 8.6% compared to last year.

**Loans and receivables** from other customers in the total amount of 63,829.5 million denars compared to the past year recorded an increase of 10.7%. The Group continued its successful cooperation with large companies that dominated credit growth and this one year but supported more accelerated and more pronounced growth in cooperation with small and medium-sized legal entities.

**Table No 2 Loan structure by debtors**

In million MKD	2022	2023	change %
Corporate	32,554.8	36,675.6	11.2%
Households	27,888.7	30,643.3	9%
<b>Total loans and advances to customers</b>	<b>60,443.5</b>	<b>67,318.9</b>	<b>10.2%</b>
<b>Reduced by: impairment loss-related provisions</b>	<b>-3,449.6</b>	<b>-3,489.4</b>	<b>1.1%</b>
<b>Net loans and advances to customers</b>	<b>56,993.9</b>	<b>63,829.5</b>	<b>10.7%</b>

*\*Including Sectors State and Other Financial Institutions*

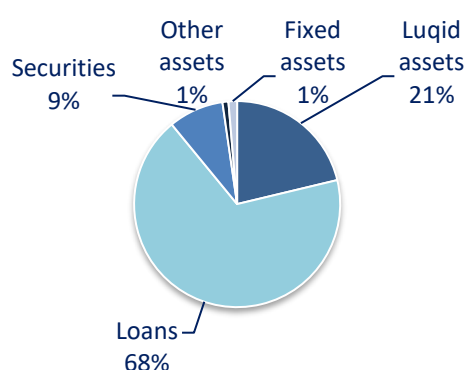
**Other receivables** in the amount of MKD 738 million include the claims for commissions and fees, other claims from buyers, prepaid expenses, and claims on other grounds.

In 2023, the Group has **Foreclosed assets** in the amount of 75.7 million denars and recorded a decrease compared to 2022 of -24.5%.

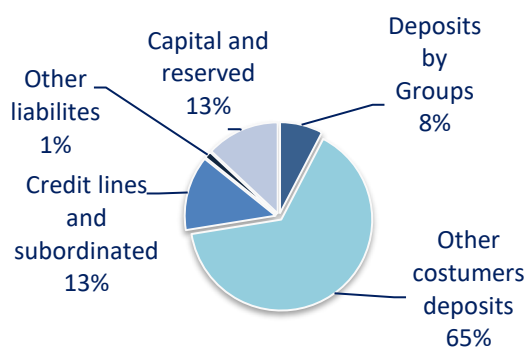
**Intangible assets** amount to 345.3 million denars and have increased by 8.4%, i.e. by 28.8 million denars.

**Immovable Property and Equipment** to 924.9 million denars and have increased by 0.5%, i.e. by 4.9 million denars.

**Chart No. 5 Asset structure**



**Chart No. 6 Liabilities structure**



**The total liabilities** of the Group on 31.12.2023 amount to MKD 81,873 million. Together with the share capital of 12,470.2 million denars, the total sources of funds of the Group amount to 94,343 million denars.

**Deposits by Groups and credit lines** on the analyzed date amount to MKD 17,280 million.

**Deposits of legal entities** amount to MKD 31,207.5 million and show an increase of 6.9% compared to the previous year due to the increased balance of the companies' transaction accounts. Their participation in total customer deposits is 51.1%. The share of household deposits in total deposits is 48.9%, and they amount to 29,830.6 million denars and show an increase of 12.8% compared to the previous year.

**Table No. 3 Customer deposits**

<b>Customer deposits</b>				
In million MKD	2022	2023	change %	share
Legal entities	29,050.0	31,207.5	6.9%	51.1%
Households	26,016.0	29,830.6	12.8%	48.9%
<b>Total customer deposits</b>	<b>55,066.0</b>	<b>61,038.1</b>	<b>9.8%</b>	<b>100%</b>

*\*\*Including Sectors State and Other Financial Institutions*

### 3.2 Equity

**The share capital** together with share premiums, reserves, and profit for the year on 31.12.2023 total to MKD 12,470.2 milion. Its amount shows an increase of 13.4% compared to the previous year and it participates in the total sources of funds of the Group with 15%.

**Subordinated debts** for the period ending 31.12.2023 total to MKD 2,430.5 million.

The Group continuously maintains a high capital position of 18.38% at the end of 2023, following its long-term strategy of maintaining a high capital adequacy ratio above the regulatory minimum of 16.25%.

### 3.3 Income and expenses of the Group

In 2023, the Group achieved the following results from its operations in the analyzed period:

**Table No. 4 Interest income**

In million MKD	2022	2023	% change
Non-financial companies	932.6	1,520	63%
State	156.7	203.9	30.1%
Banks	36.2	192.8	432.1%
Other financial companies	22.9	57.7	152.3%
Retail	1,319.7	1,523.3	15.4%
<b>Total interest income</b>	<b>2,468</b>	<b>3,497.6</b>	<b>41.7%</b>

**Interest income** from lending at the end of 2023 total to MKD 3,497.6 million and recorded an increase from last year as a result of the increase in the loan portfolio and the increase in interest rates on loans.

In total income, the share of interest realized from retail increased by 15.4%, while in the case of non-financial companies, we recorded an increase of 63%.

**Table No. 5 Interest expenses**

In million MKD	2022	2023	% change
Non-financial companies	30.7	103.3	236.6%
State	0.1	0.3	107.7%
Banks	216.6	318.4	47.0%
Other financial companies	145.5	308.6	112.1%
Retail	96	187.7	95.7%
<b>Total interest expenses</b>	<b>488.8</b>	<b>918.4</b>	<b>87.9%</b>

**Expenses based on interest** at the end of 2023 amount to 918.4 million denars and record an increase of 87.9% on an annual basis. Interest paid for deposits of financial and non-financial companies has the largest share in interest expenses.

According to the above, **the net interest income** on 31.12.2023 amounts to 2,579.2 million denars and shows an increase of 23.3% compared to last year.

**Fee and commission incomes** at the end of the year amounted to MKD 1,208.6 million and recorded an increase of 11.2% compared to last year.

**Fee and commission expenses** totalling MKD 517.5 million denars and increased by 16.9% compared to last year.

**Net fee and commission income** for provision of Grouping services at the end of the year was 691.1 million denars and increased by 7% compared to last year.

**Net FX gains/losses** realized for the period ending 31.12.2023 amounts to MKD 346.7 million. The position of net exchange rate differences compared to 2022 decreased by -5.1% or by -17.8 million denars.

**Other operating income** as of 31.12.2023 amounted to 74.6 million denars and decreased by -15.9% compared to last 2022.

**Net impairment loss** of the financial assets is 335.1 million denars. Compared to last year, it decreased by -36.8%.

**Personnel expenses** are MKD 782.2 million. Their amount increased from 2022 by 10.4%. The number of employees at the end of 2023 was 656 employees.

The amount of **depreciation** calculated on 31.12.2023 is 181.1 million denars and increases from 15.4% year-on-year.

**Other operating expenses** for the period for the period ending 31.12.2023 total to MKD 764.7 million and increased by 19.8% compared to 2022.

The Group ended 2023 with a positive financial result of 1,661.9 million denars before tax, with profit tax amounting to MKD 147.2 million.

**Net profit** of the Group as of 31.12.2023 is MKD 1,514.8 million (2022: MKD 1,082.8 million).

#### 4. RISK MANAGEMENT

The focus of risk management in 2023 was primarily effective risk management, which allows the Group to use available capital efficiently and support healthy and long-term sustainable businesses and creditworthy households. The geopolitical crisis was the focus of risk management primarily from the credit risk and liquidity risk aspect, but active management of these risks and the Group's ability to maintain a stable level of portfolio quality and maintain the desired level of liquidity. The expected negative effects of portfolio quality did not materialise to the extent provided for in the budget, with the rate of dysfunctional loans falling compared to the previous year. The liquidity situation is in line with expectations that are also supported by market movements in conditions of increased interest rates, with the Group achieving solid growth on the deposit side.

The Group applies a prudential risk management policy to maintain the level of dysfunctional loans at as low a level as possible. Also, this way of addressing risks is to ensure as much charge as possible for placements, maintain an adequate level of capital adequacy, manage other risks in operation and protect against contingencies and possible threats of failure to achieve the planned policy.

##### 4.1. Implementation of the Group Risk Management Standards

Great support in risk management processes for the Group is the implementation of a large part of Group practices, documents, and policies in the field of risk management. Under the Risk Government project, new Group Documents, and revised versions of already adopted documents were adopted during 2023, which are in line with Group Standards.

Regular monitoring of the degree of compliance with Group Standards and implementation of established measures was constantly carried out.

To timely recognise losses due to portfolio damage, the Group is applying the so-called Stage Overlay methodology to raise the level of special reserve in the rankings in the most affected industries. The Group also uses forward looking information to measure expected credit losses. The most significant assumptions in the Forward-looking information concept and correlated

with the level of expected credit losses are related to macroeconomic variables: GDP growth, inflation rate and unemployment rate.

#### **4.2. Credit risk**

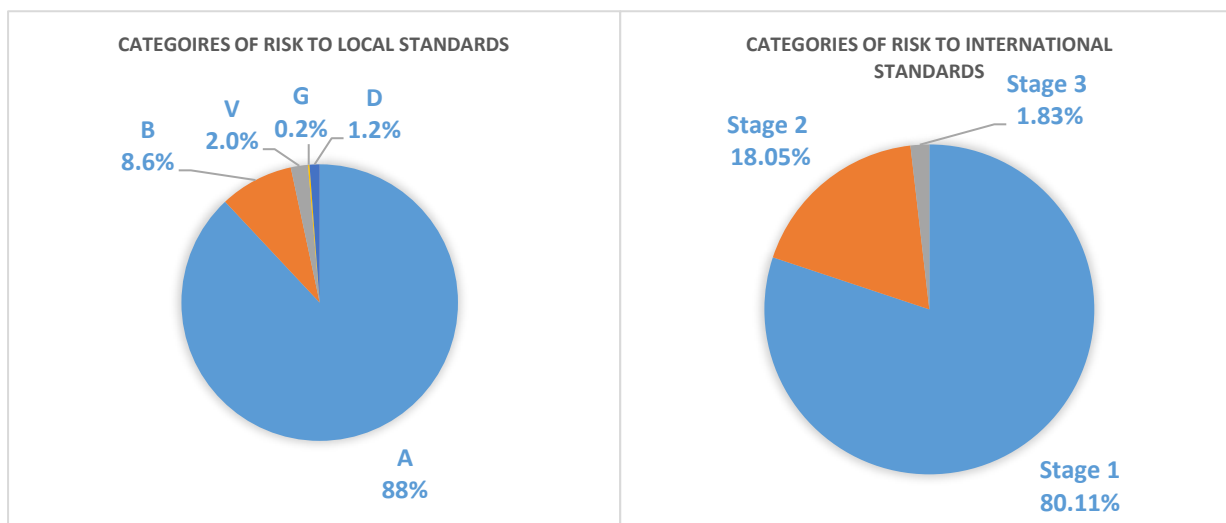
The focus of Credit Risk Management in 2023 was to maintain a stable portfolio quality in conditions of a deteriorating macroeconomic environment influenced by the Geopolitical Crisis, interrupted or aggravated supply chains that affected growth in inflationary pressures. In such conditions, the Group managed to maintain the quality of the portfolio at an adequate level and achieve a dysfunctional ranking rate at a level of 2.25% which also decreased compared to the end of 2022 when it was 2.86%. The year marked a steady portfolio growth, a controlled low influx of dysfunctional rankings, significantly lower than planned. On the side of the implementation of the collection of dysfunctional rankings, the expected results were fully achieved, which also positively affected the rate of dysfunctional rankings.

In 2023, the Group did not fully achieve the planned cost of value correction and special reserve, i.e. the achievement is at a level of only 60.7%. This positive trend is the result of a lower level of expected influx of dysfunctional rankings in conditions of full implementation of the expected collection. On the other hand, in 2023, the annual reassessment of risk parameters almost had no material impact on the booking cost, and on the other hand the effects of the applied Stage Overlay methodology as a result of geopolitical crisis showed a net release of bookings from this mothers segment given that the negative expected effects in the portfolio did not materialize to the expected measure, and the portfolio reserved in Stage 2 showed a positive effect (release) of bookings as a result of regular repayments.

Credit risk management includes a continuous analysis of the Group's credit portfolio, in terms of the participation of dysfunctional rankings, portfolio coverage with the appropriate level of reservations, concentration of the largest rankings, sectoral diversification, analysis and assessment of customer financial performance, monitoring regularity in meeting customer obligations.

The Group also managed to achieve a significantly higher level of coverage of dysfunctional loans with reservations of 227% significantly higher than the level of late 2022, primarily as a result of a low rate of dysfunctional placements achieved under the conditions of additional allocation of value correction.

**Chart No. 7 Total exposure to credit risk by risk category**



#### 4.3. Collateral management

Within the risk management function, the Group has established a collateral management function that is responsible for the overall collateral management process in terms of credit risk. During 2023, collateral management activities were in the direction of maintaining and adequate monitoring of the quality of the Group's collateral, maintaining Basel II level the relevant collateral at an adequate level to optimise the use of the Group's capital by providing regular portfolio reassessments.

#### 4.4. Liquidity risk

During 2023, the Group actively monitored, managed, and controlled liquidity risk exposure, which included asset management and liability sources according to financial and cash flows as well as their concentration. Exposure to liquidity risk was measured through externally and internally established limits, i.e. the Group's compliance with them.

In 2023, until the period before integration, the Group fully met all group liquidity indicators that complied with Basel III methodology and indicators were constantly within the established total limit.

#### 4.5. Interest rate risk

Interest risk, as part of market risk, was under constant monitoring and control during 2023 to enable efficient management of it and achieve the planned financial results, as well as to increase the economic and market value of the Group's assets and capital. During 2023, an active interest rate policy was pursued, based on the Group's strategic plan, as well as the competitive position of other Groups in the market.

#### 4.6. Currency risk

Currency risk management during 2023 was achieved in conditions of stable exchange rate of the denar. The Group actively undertook activities to adequately identify, measure, monitor and

control exposure to currency risk that included determining sources of currency risk, methods of measuring it, establishing limits and other control mechanisms.

#### **4.6.1 Court proceedings against the Group**

As of 31.12.2023, a total of 26 active proceedings are being conducted against the Group with a total value of MKD 144.3 million.

#### **4.7. Operational risk**

To reduce and maintain operational risk at an acceptable level, during 2023 the Group managed it through the identification, assessment, measurement, mitigation, monitoring, and control of exposure to this risk. The Group carried out operational risk identification by monitoring risk events, implemented internal control system, system of monitoring key risk indicators, assessing key risks through the RCSA method, while measuring this risk was carried out by applying a baseindicator approach.

#### **4.8. Internal Capital Adequacy Assessment Process (ICAAP)**

In accordance with the applicable regulation requiring the establishment of internal capital adequacy, the Group also monitored the internal adequacy of capital based on group standards during 2023. Internal capital adequacy and provides the Group with support in the risk management process as well as maintaining the potential of coverage that is consistent with the risk profile, size, and complexity of the financial activities of it.

### **5. CORPORATE BANKING**

The corporate client sector as a significant carrier of the Group's revenue includes offering credit products to legal entities, issuing guarantees and credentials, accepting deposits, taking in paid change in the country and abroad, transfer and storage of cash, foreign exchange market services and other conditions.

Corporate lending has been a function of supporting the Macedonian economy to recover it. That is, the sector has continued to realise its strategy for growing corporate lending and increasing its market participation in the local environment.

Sparkasse BANK AD Skopje grew the functional portfolio by 14% and reduced the participation of dysfunctional rankings to 2%. Despite the impact of the crisis, the group supported successful and sustainable companies within its credit and funding standards, of all acceptable activities.

The Group continued its successful co-operation with large companies that dominated credit growth this year but supported faster and more pronounced growth in co-operation with small and medium-sized legal entities. Such a trend is in line with the group's strategic determination to further expand the activities and customer base in this market segment, which dominates the total balance of functional loans in legal entities by over 50%.

The Group has also had increased activity in the project financing part in the past year, where after integration it is an absolute market leader, providing this type of financing for more than 10 years. The two main segments for which we specialize are real estate financing, as well as financing energy projects (from renewable sources).

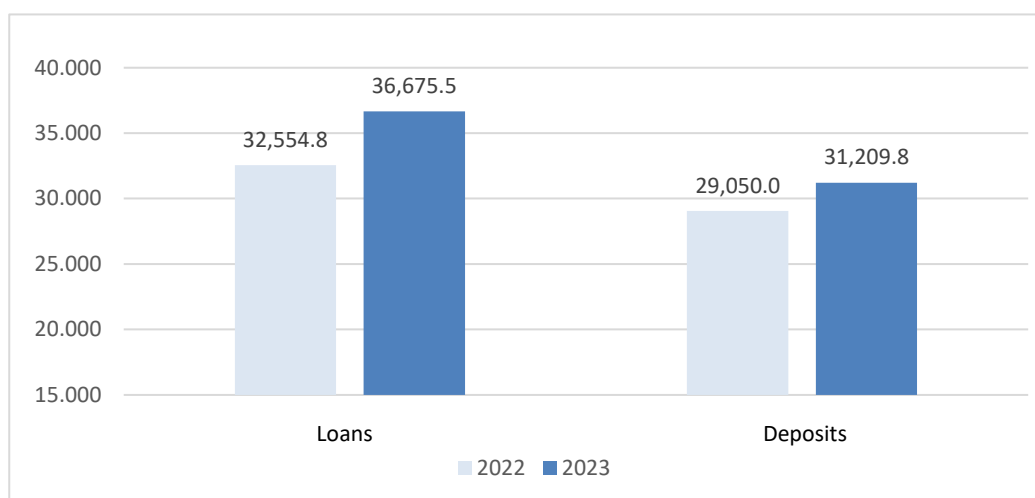


In the future, we are closely monitoring the development of EURIBOR, whose positive movements have meant an increase in interest rates for a significant part of the corporate clients' credit portfolio during 2023. This development does not encourage us to consider expanding the range of credit products to approach our customers and the continuity of our support for them.

The Group is continuously enriching its credit offer with new credit lines that allow for greater competitiveness for its customers.

From the perspective of the potential for offering services, the group, as a member of a large Grouping group, will continue to support domestic legal entities in its operations in the country and abroad. With the presence of central and southeast European markets, customers will continue to be able to access foreign markets quickly and economically in the part of financial services, but also in the part of business contacts in the region. At the same time, the group, through joint funding with the other members of the Group, will continue to support larger-scale investment projects.

**Chart No. 8 Loans and deposits of legal entities (in millions of denars)**



## 6. RETAIL BANKING

Sparkasse Bank AD Skopje also worked in 2023 to strengthen relationships with existing customers as well as increase its customer portfolio and market participation. To this end, the focus has been on improving customer experience and customer satisfaction, taking significant activities to adapt its offer according to customer needs, introducing new services and functionalities, strengthening sales channels, and increasing efficiency in operation.

The Branch Network, as a significant channel of sales and services to customers, has continuously modernised in line with the modern trends of the Grouping model of operation in the Erste Group and Sparkasse. The new branch model, already proven accepted by customers and employees due to its modern concept and adapted to the needs for efficient and confidential service, significantly separates the Group into the market. Recreations have also been carried out at several Branches to ensure better positioning and in Skopje with the opening

of a new Branch in us. Dracevo also provided greater territorial coverage. These activities are also followed by the digitization of the Branches themselves, where creating a separate digital corner allows customers to quickly and simply complete most of the cash transactions. At the same time, 24/7 zones in Skopje and Ohrid allow constant availability of services.

In 2023, the biggest challenge in working was related to inflation growth, which led to an increase in living costs on the one hand, but also the search for ways to invest in real estate to protect capital. Additionally, corrective measures by the Central Group to limit and reduce consumption followed by the same measures by the European Groups have led to significant growth in credit prices, wherever there was no fixed interest rate. The Group, however, managed to maintain the stability of its portfolio and in 2023 to realize growth in both the deposit and credit portfolios. By investing in the level of employee knowledge, applying an advisory role, support and offer that ensures stability, security and predictability, deepening co-operation with existing clients and attracting new ones has been achieved.

Given the needs and expectations of customers, a project activity was carried out to centralise and optimize processes in the Branches, which led to an increase in efficiency. A new automated lending tool has been implemented. Thus, the response time for consumer credit claimants has decreased significantly. In addition, the way employees work, and the necessary engagement are facilitated. In 2023, the Group also made significant improvements in the mobile application for customers in the direction of new functionalities and improving the user experience. The "pay a friend" and "share account" options were introduced, a biometric announcement was made and the token was integrated. The Group's branches continued to be an equally accessible channel for customer support and service through a fast and easily accessible service, in new and improved conditions.

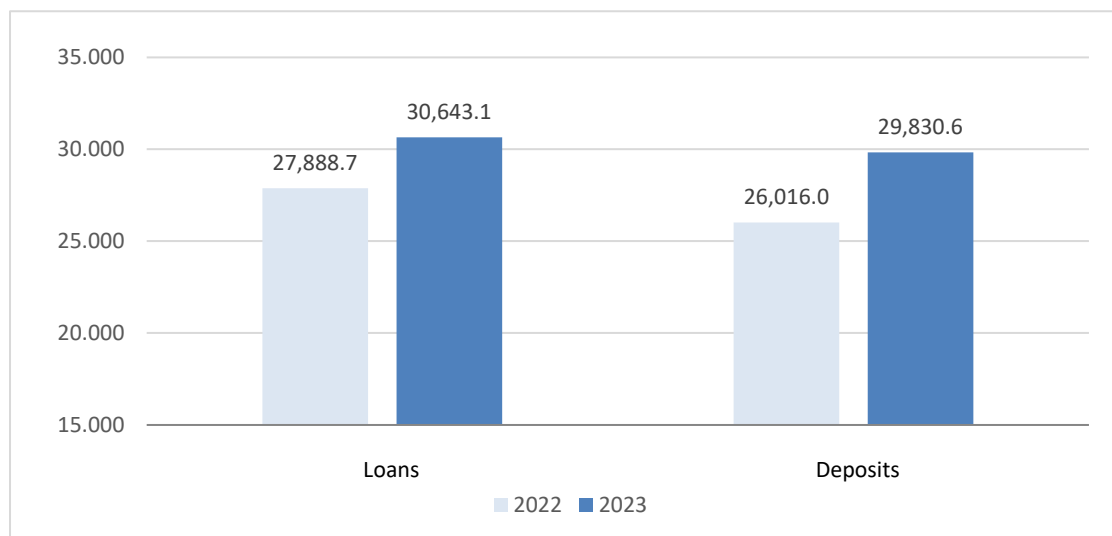
During 2023, Sparkasse Bank also applied targeted sales of products by creating direct offers to certain groups of kientas and to meet their needs using alternative channels for sale. The acquisition of new clients has also intensified by exploiting the potential in the existing corporate portfolio but also with the Mobile Groupers Programme. This Programme allows the sale of products and services intended for individuals through credit intermediaries, thereby intensifying field activities and field sales, and ensuring a greater presence of the Group's products on the market because of direct contact with customers.

The total credit portfolio of the population at the end of 2023 was 30,643.1 million denars and grew by 9% compared to the credit portfolio at the end of 2022. In 2023, compared to 2022, the credit portfolio in consumer loans increased by 16%, while residential loans saw an 10% increase.

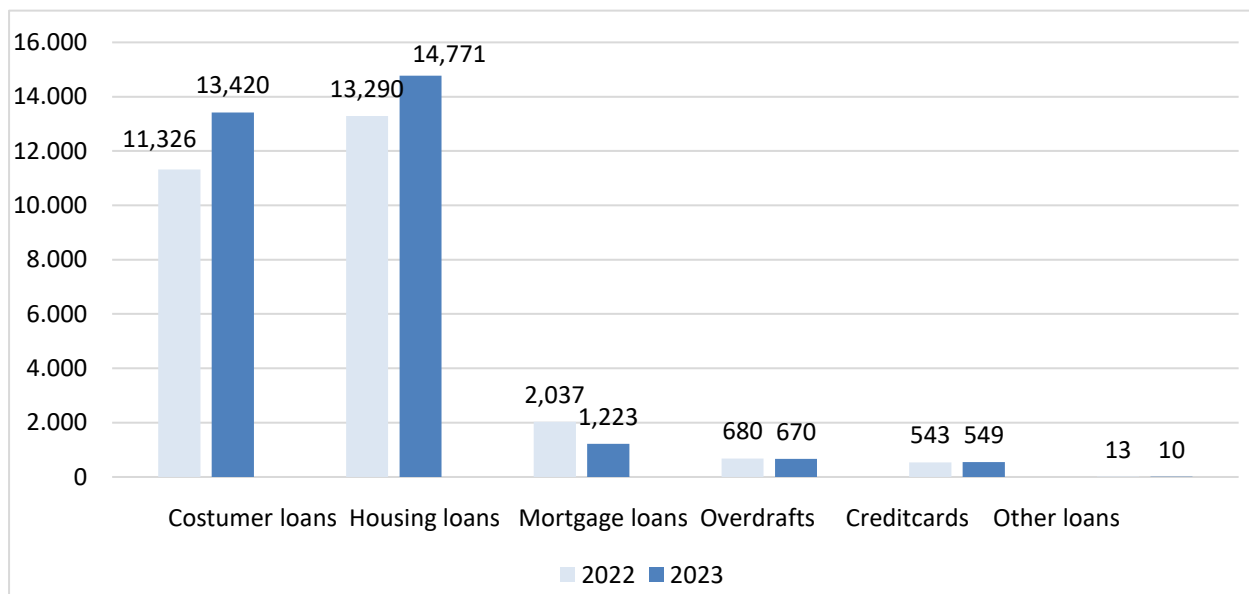
In the share of deposits of individuals, the emphasis was placed on maintaining the stability of the deposit portfolio and accelerated growth. We continued to stimulate good austerity habits, promoting our long-standing tradition of stability and trust. The deposit balance of individuals at the end of the year is 29,830 million denars and has increased by 13% compared to the deposit portfolio in the previous year.

Of particular importance is the realization of the project with the Ministry of Education and Science, where the Group managed to create a suitable product for a student meal in a very short time and organize the delivery of nearly 30,000 cards for students who became our clients. Social responsibility was confirmed by a special offer of a fully free Vibe on package, adapted to the needs of the generation.

**Chart No. 9 Loans and deposits of individuals (in millions of denars)**



**Chart No. 10 Structure of regular loans to the population (in millions of denars)**



## 7. ACTIVITIES IN SECURITIES MARKETS AND LIQUIDITY MANAGEMENT

In 2023, Sparkasse Bank AD Skopje continued the continuity of positive results from activities related to financial markets and further strengthened its market position. At the same time, the Group prudently managed its denominated and foreign exchange liquidity, considering regulatory and customer needs.

In the foreign exchange trading section, the Group increased turnover in the corporate segment by 6% compared to the previous year and improved its market share in foreign exchange paid turnover by legal and physical, now at 19.7%. Also in the foreign exchange trading section, the

Group held a high market share in interbank foreign exchange trading and exchange trading at 23.77% and 22.66%, respectively.

Given the securities services, in the trading segment of international capital markets, the Group has a leadership position in the Country again, achieving a market share of about 40%. Sparkasse remains the guardian Group of the country's largest fund, the KB First Pension Fund, with an asset of over EUR 1.1 billion.

During 2023, the Directorate of Trade and Financial Markets, in coordination with the Operational Liquidity Management Committee, allowed for the maintenance of an optimal level of liquidity. This allowed the financial transactions of customers to be conducted smoothly, the execution of credit and deposit activities and the achievement of the Group's business goals.

The established liquidity management system has enabled effective measurement, monitoring, control and management of operational liquidity and consistency in the Implementation of the Group's liquidity risk management policies.

Liquidity surpluses, the Group marketed money, treasury records, state records and domestic and international bond markets, in currencies and maturities depending on the need for early compliance of the asset and balance sheet liability. Given the high level of liquidity, deposits in treasury records were constantly maintained to the maximum allocated level, according to the proportional distribution of the offer of treasury records defined by the NBRSM. Investments in domestic government securities and foreign securities with investment ratings were in line with the Group's strategy for placing liquidity surpluses in financial instruments.

## **8. MARKETING ACTIVITIES**

In 2023, Sparkasse Bank directed its vision and strategy towards securing a place among the top 3 Groups on the Macedonian market. In line with this vision, marketing initiatives for the year were dedicated to strengthening the Group's image, characteristic product positioning as opposed to competitors and promoting the brand through all media channels in a modern, modern, and creative way.

In the upcoming 2023, our marketing strategy aimed to actively engage in achieving sales goals, strengthen market share through influential marketing campaigns, foster a special and recognizable identity for the Group to improve market positioning, raise the quality of services and customer satisfaction, speed up complaint resolution, and at the same time minimize the incident of complaints.

"Believe in the Future" is a broader regional campaign conducted in 2023 by Sparkasse Bank and the other members of the Erste and Staermekise Sparkasse group. Under the universal platform "Believe in the Future", all the Group's projects (events, campaigns, corporate culture, social responsibility projects, internal communication) were communicated, and the platform was recognizable by its own visual identity.

The beginning of the year marked the change in corporate colors and the rebranding of the logo, after which it approached changing all internal documents and producing new printed materials.

In 2023, Sparkasse Bank continued to co-operate with its ambassador brand, a trademark of the Group which, with its emergence and engagement, directly represents the values of the Group, the values it believes in and which it advocates. Vlatko Stefanovski, a successful and proven artist, is a brand ambassador for the Group in 2023. He is an established top musician and is a great blend of values that Sparkasse Bank wants to promote.

The brand ambassador was also part of a new image campaign that ideally conveyed the message that Sparkasse Bank believes in brave and dedicated people, who aim for higher values and push boundaries.

In 2023, the Group signed an agreement with the popular characters of "Yesterday's news" which provided the product to the campaigns for loans, deposit, and mobile Grouping, which the audience took excellently.

In the third quarter of 2023, Sparkasse Bank, in co-operation with the Ministry of Education, implemented one of the largest projects for students – a co-branded student meal card. A project that provides students with financial support for a 140-denars meal and much greater additional benefits. Students received two cards, one for buying a meal and the other a Vibe on payment card, making them part of the Premium Club. With this project, Sparkasse Bank has allowed more than 30,000 new young customers to enter, which are the future of Sparkasse Bank.

In 2023 we were the first Group to open a Spotify channel with playlists entertaining audiences of all ages. Because the channel is quite active, we believe that with additional activations and "campaigns" related to this channel we can reach the target – young people.

Advertising campaigns for the Group's offers throughout the year were represented through the most influential television and digital media, as well as through the realization of numerous events, social responsibility projects, donations and sponsorships, which also achieved the objectives of the marketing strategy – maintaining fourth position in the Grouping sector according to Top of mind, as well as high awareness of the SPARKASSE brand, second place in the industry (Brand awareness by brand) (source: FMDS research).

### **Promotion of new products**

2023 was characterized by several changes in communication for product promotion due to the change in overall visual identity in line with changes at group level. With the new corporate design adapted to the digital world we live in, the Sparkasse family has become more accessible and flexible for its clients.

In 2023, the Group campaign continued with the brand ambassador of Vlatko Stefanovski, which was implemented under the new corporate slogan "Believe in the Future", followed by two product campaigns promoting offers for housing and consumer credit.

The start and end of 2023 marked the "Transfer salary and get a bonus" campaign in collaboration with Visa. Due to the success of the 2022 campaign and the high interest in potential clients, which has come on a positive basis and its continuation in 2023.

Sparkasse Bank continued to support green loans, i.e. Eco loans that help customers invest in new energy-efficient technologies and receive a refund of up to 20% of the investment value.

To continuously promote all campaigns and competitive market advantage, packages for individuals were modified according to the financial needs of customers.

With the "Transfer Salary – Fix the Payment" campaign, which began in the first quarter of 2023, users were given the opportunity to fix the housing, consumer and mortgage loan payment at 10 years to refinance their obligations or new needs.

Amid increased uncertainty and a growing trend in interest rates, with the introduction of a fixed interest rate offer at 10 years, Sparkasse Bank offered customers precise planning of personal finances and monthly expenses. This campaign gained great visibility due to the interesting and creative message sent to the target group, the way it was created and devised and the participation of the characters from "Yesterday's news".

In 2023, a major focus was on providing a quality and attractive deposit offer for individuals, as well as appropriate media presentation of it.

The latest deposit service for gradual "Save and When You Pay" consists in the fact that each transaction made with a debit card at a POS terminal or online in the country, rounds the amount spent to the nearest 100th of the amount, then transfers to a special savings account after seeing where the customer receives the interest. This allowed customers to save smaller amounts of deposit after sight, with the funds from the deposit at any time, through the mobile application or by visiting a branch.

Additionally, within the framework of austerity services, Sparkasse Bank as a Group with 200 years of tradition in saving with the Product Deposit Plus allows customers to save long term in denars or in euros at attractive fixed interest rates to make a good savings plan in the long term.

In February, Sparkasse Bank created the 15-25-year-old Vibe on youth package. The free youth package from 15 to 25 years includes the possibility of opening a transaction account without commission for its maintenance, visa debit card and S-Group mobile Grouping without compensation, additional school loan opportunities, as well as numerous discounts from the Vibe on youth program. As part of its strategy, Sparkasse Bank continues to work to strengthen the perception of an urban-image institution that supports young people and continues to develop products that fully monitor their current financial needs. In the last quarter of 2023, Sparkasse Bank in co-operation with Visa, did a CASHBACK campaign for all those who had a "Vibe on" package, to promote the youth package more, attract more young people to join the Family of Sparkasse Bank and the possibility of receiving a one-time return of 500 denars in their Vibe on transaction account. With this campaign, Sparkasse Bank motivated and educated students and young people who additionally received a Vibe on orange card by obtaining a co-branded student meal card, starting using the Vibe on card and gaining financial irrelevance from an early age. The Vibe on-CASHBACK campaign was implemented under the slogan "My Weib My Way". As part of this campaign, included in its promotion were young and well-known Instagram characters – Aleksandar Dinev and Macedonian and hopeful pop singer Lara Ivanova.

In May, Sparkasse Bank created a special offer intended for patients at the Denitsa Eye Hospital, which applies exclusively to paying for services in the hospital. In addition, with this offer, customers also receive additional benefits for other credit products from the Group: no membership fee for the first year for a credit card and no compensation for managing overdrafts for the first year. Sparkasse Bank continues to act in the interest of lasting values such as the

health and general well-being of customers. At the same time, the Group is working most professionally to deepen cooperation with business partners and associates, building stable relationships in the long term, for the future that all our customers deserve.

In the second quarter of 2023, Sparkasse Bank, in co-operation with AMSM, signed a co-operation agreement and we launched a new co-branded Visa cash back credit card for individuals. It is a VISA AMSM co-branded revolving credit card, which provides users with security when travelling through AMSM services for free roadside assistance in the event of a vehicle defect in the country and in Europe and free annual passenger insurance. The launch of the Visa AMSM card was implemented as part of the "Card Moving You Forward" campaign.

Sparkasse Bank launched a campaign for all pensioners in July – "Wishes have no age". As part of the "Wishes Have No Age" campaign, he prepared a consumer loan for pensioners with special conditions. Each pensioner who applies for a consumer loan is followed by additional benefits during the promotional period: a debit card and a mobile Group for free for the first 6 months, without a membership fee for the first year of a credit card, as well as an overdraft without management compensation for the first year.

In September of 2023, Sparkasse Bank launched new attractive offers for all customers. With the Fix Home campaign for housing loan, and Fixed-term consumer loan, Sparkasse Group confirmed the care of its customers to offer precise planning of personal finances and monthly costs, by providing a fixed payment for their loan.

September is also characterized by one of the largest campaigns for 2023, which is the campaign in collaboration with the Ministry of Education – Visa co-branded student meal card, which allows students to access a healthy meal of 140 denars. Along with the co-branded student meal card, all students with their consent received a Vibe on orange card and became part of the Sparkasse family. Sparkasse Bank affirmed the pledge for young people and students with this project – they are our future.

In December, Sparkasse Bank also created a special offer intended for patients of Promedica Ophthalmology, which applies exclusively to the payment of services in the hospital. Customers can apply for a fixed-rate consumer loan for the entire repayment period, including credit life/non-life insurance and the possibility of non-transfer of salary to Sparkasse Bank.

Sparkasse Bank AD Skopje, following current market trends and working in the interest of its customers, to provide unhindered mobility and availability of a wide range of Grouping services, has introduced numerous innovations in its S-Group mobile application. The new version of the S-Group mobile app, with a new modern design designed for improved user experience, has new functionalities for individuals, and is available for the first time to legal entities, clients of Sparkasse Bank. The new version of Sparkasse Bank's mobile Grouping once again confirms the Group's strategy for digitising and modernising its services and providing top user experience for its customers.

## **9. CORPORATE SOCIAL RESPONSIBILITY**

Within the framework of a corporate social responsibility platform – Sparkasse Life, the Group and in 2023 continued the activities to expand and develop the areas covered by this platform.

The main segments of support include culture and art, health, sports, financial education, and the community in which we belong.

### **Sponsorships, Donations and Events**

In 2023, we supported 45 different projects and events from several areas from the sponsorship and donation budget: sport, culture, education, social inclusion.

Sparkasse Group continued the tradition of supporting events that enrich cultural life and affirm art in 2023. Within the Sparkasse Life platform, we have continued our corporate strategy to support events and projects relevant to Macedonian art and culture, to strengthen perception of the Group as an institution with an urban image that shows community care and nurtures cultural values.

Sparkasse Group supported various festivals during 2023, and sponsored Ohrid Water Festival for the first time.

Sparkasse Group has traditionally supported another spectacular edition of Ohrid Summer, very important for the domestic cultural art scene. In the field of culture and art, we also supported the Jazz Factory Festival as well as the Vienna Ball.

Sparkasse Group traditionally sponsored Strumica carnival, the cult event in Strumica Municipality and the international art colony "Vevcanvisions" held for the 12th time in the picturesque Vevcani.

The Group continued to support the development of the sporting spirit among its employees, while encouraging them to create healthy habits and make recommendations for leading a healthy life. Our employees traditionally joined the sports manifestations "Skopje Marathon", "First to the Top", "Ohrid Run", "Business Run", Women's Race, Chupino Trail, and for the first time this year the race "Color Ran".

Among the major projects and events supported by Sparkasse Bank during 2023 are: support for Days of Austrian Culture in Northern Macedonia; support for the development of social companies, sponsor of the second Balkan Economic Forum conference, sponsor of the MARES Conference, Open4Business, EOS MATRIX, Generalka weekend, sponsor of the Blue Economy Summit, the Group awarded the first prize to the winners of the Climathon hackathon, which was held for the first time in Skopje, etc. This year we continued our co-operation with the Golden Nightingale Children's Festival after a three-year break.

We supported three sports clubs through the realization of sports vouchers: RK Europharm Pelister, FC Shkendija and Aquatica Yachting.

We also supported a project dedicated to persons with disabilities "Love, Force, Liberty", initiated by Gare Tripkov and the Ikualiti and ZEN Association, which aims to expand human perception and positively influence acceptance of differences.

We also donated to the Clinic for Autism, to open the first private hospital for gynecology and obstetrics in Stip with a center for marital infertility and in vitro fertilization – Dr. Organic, Japanese cherries in Stip, as well as an anti-resentful vehicle in Resen.

Traditionally, Austerity Month - October, was dedicated to austerity and the importance of austerity as one of the biggest investments we can make for us and our loved ones. Sparkasse



Group's team, along with mascot Medo Stedo, visited 4,000 children in 26 kindergartens and 33 schools across the republic and educated the smallest that the austerity habit needed to be created from the smallest legs. With these financial educations, children have learned what money means, how to have the right relationship with them and why it is important to save.

As part of austerity month activities, for the first time this year we have awarded 105 appreciation certificates with a gift business book to customers who have the largest term deposits at Sparkasse Bank.

Organization of events: Concert of Vlatko Stefanovski at the Macedonian Philharmonic, Esterte Investors Breakfast, Media Breakfast, Corporate Entertainment for Employees, as well as smaller events that are of a sold/activation character (Daily entertainment for MON cards, daily amsm card party, career without barrier events, etc.).

### SUSTAINABILITY AND ESG

Sustainable operation in accordance with ESG principles is the basis of the Grouping operation of Sparkasse Bank, with responsibility to society, to nature, to employees, customers, shareholders. Sparkasse Bank's corporate and social responsibility materializes through the Sustainability Strategy and through the Sparkasse Life platform. Through the motto of the Sparkasse Life Platform #BELIEVE IN THE FUTURE, all socially responsible activities of the Group for the Support of the Local Community, environmental protection, culture development, art, education, health, and sport are united. The platform provides an integral and systemic approach in meeting the strategic objectives of sustainability, construction, strengthening and maintaining the reputation that Sparkasse Bank AD Skopje enjoys as a socially responsible company.

Sparkasse Bank's sustainability strategy is based on groupstandards and best practices in the Group, and on the 2030 Agenda for Sustainable Development, an agenda adopted by all United Nations member states in 2015. The agenda includes 17 Sustainable Development Goals (SDGs), which are a call for urgent action and global partnership of all countries, both developed and developing countries.

Sparkasse Bank AD Skopje recognizes and respects the value and meaning of all 17 goals, and in its work focuses on 9 of them recognizing that they are most compatible with the Group's operation and with the greatest potential for influence:

1. No poverty
2. Good health and wellbeing
3. Quality education
4. Gender equality
5. Decent work and economic growth
6. Industry, innovation, and infrastructure
7. Reducing inequalities
8. Sustainable cities and communities
9. Climate action



During 2023, Sparkasse Bank continued to develop its Sustainability Strategy. The document was redacted and received a new formal version, and its communication version adapted to readers. The Sustainability Team has also expanded, and the changes include the directors of all sectors

and directorates at the Group, the head of the marketing and communications department, and the sustainability officer. The sustainability team meets once a month and closely monitors the implementation of approved projects and measures, proposes new initiatives, consults, supports sustainability ideas from other organizational units, develops and proposes the Annual Sustainability Report and, together with responsible marketing associates, proposes a communication strategy. For its activities, the Team regularly informed the Group's Board of Directors.

Through the four pillars of the Sustainability Strategy, during 2023 Sparkasse Bank implemented the following activities:

Corporate governance and social responsibility – this pillar covers the Sustainability Strategy through the promotion and support of innovation, sports and cultural activities undertaken throughout the year. Financial education is an important part of the first pillar where activities related to raising financial literacy and educating different groups of interested parties, both external and internal, are united. 3 hackathons, 1 climate, 1 educational event for circular economics at the Faculty of Economics in Skopje and 1 event at American College Skopje University were supported on "To be responsible in the work". The first pillar of the Sustainability Strategy unites the Group's continued efforts to raise awareness and promote sustainability as a way of living and working.

Clients – The second pillar covers activities that nurture long-term relationships with the Group's wedges. And during 2023, Sparkasse Bank intensively financed the construction and improvement of energy production capacities from renewable sources as well as improving energy efficiency. A measurement of customer satisfaction was carried out to better understand their needs and models how best the Group can respond. The Group retained the element of fixation in credit products for the population, providing greater stability in financial planning in this segment.

Environment – During 2023, Sparkasse Bank improved its environmental mobility by increasing its fleet of 2 electric vehicles, 4 electric scooters and 10 bicycles for employees. Also, 2 power stations for electric vehicles were installed in Central 1 and Central 2.

Employees – the fourth pillar of the Sustainability Strategy was treated with particular attention because it is the most important resource of the Group, its employees. During 2023, numerous educational activities were undertaken to continuously improve and upgrade the competences of employees. In this column, it is particularly important to note ESG basic training completed by almost all employees of the Group, which allowed for a better understanding of why ESG is an important element in work and daily living. Taking care of the well-being of its employees and as a good basis for financial education, Sparkasse Group opened savings deposits to 50 first graders, children of Group employees.

During 2023, the following activities related to the Strategy were significant for the Group:

## **Environment**

The energy crisis as the biggest challenge for the European continent starting in 2022, which was still actively reflected in 2023, which emerged because of military activities between Ukraine

and Russia, have caused great volatility and uncertainty in the energy sector and energy prices in 2023, thus imposing the need to take appropriate measures to save energy and consumption. This situation was managed by the Group at a high level, achieving the targets set for electricity savings and optimal resource management.

According to an analysis of electricity consumption for 2022/2023, savings of 218,639 kWh or 11.42% lower electricity consumption, i.e. environmental protection by reducing CO2 emissions by approximately 45,274 kg/ per year, were made.

The measures to save electricity were as following:

- Setting branches according to defined standards for sustainable construction facilities that include energy savings, energy-efficient technologies, digital advertising elements, eco floors and the like,
- Change of lighting with LED (in most branches is 100% implemented), installation of light sensors in technical spaces,
- Installation of photovoltaic systems and all
  - Central 1 Skopje – the headquarters of the Group,
  - Central 3 Ohrid - the administrative building in Ohrid,
  - Prilep Branch
  - Gevgelija Branch

Of particular importance in the past period, i.e. during 2022 and 2023, the investment of photovoltaic systems installed on the Business Buildings of Sparkasse Bank in Skopje and Ohrid, prilep branch and Gevgelija branch is highlighted.

In terms of the available area of the business buildings, a total of 305 pieces of photovoltaic panels were installed, expected to power supply with a total power of 137.79 kW and installation of 9 inverters in support of photovoltaic panels.

The average annual electricity production from renewable sources would ideally be ~182,035 kW, i.e. approximately EUR 21,850 at an assumed price of electricity on the 120 eur/ MWh stock exchange.

The cost of installing photovoltaic systems on all four facilities is a total of EUR 107,899 with an expected return on the investment of approximately 4 to 5 years.

The expected electricity produced from the four photovoltaic systems will directly affect environmental protection by reducing CO2 emissions by approximately 87,135 kg/ per year equal to 3,273 planted trees.



Also, by introducing digitization and removing paper in business communication in 2023, reduced the use of savings paper by more than 10% in total paper procurement and consumption, i.e. realized reduced CO2 emissions by approximately 3,078 kg/ per year.

E-mobility/ To monitor global trends to reduce emissions of harmful gases in the atmosphere using electric vehicles and a tendency to reduce motor fuel costs, The Group enriched its fleet with 2 (two) electric-powered vehicles, installed two chargers to charge electric vehicles, distributed in the Central Buildings in Skopje and Ohrid 4 (four) e-scooters for shorter destinations. The total participation of electric and hybrid vehicles in the total number of vehicles owned by the Group is approximately 10%. Additionally, the Group plans to purchase an additional 2(two) electric vehicles and vehicles and 4 (four) e-scooters in the future.



Vehicles have a capacity of 58 kWh and can average 250 to 350 km depending on the conditions. Electric vehicle chargers have a delivery capacity of a maximum of 22 kWh of electricity and use energy from photovoltaic systems, which the Group has installed on the two Central Buildings in Skopje and Ohrid.

The expected savings on motor fuel and CO2 emissions savings would be approximately 12,900.00 kg/year. The use of e-scooters contributes to their smooth use by employees as well as facilitated and faster execution of short relationship obligations, while saving in the fuel consumption and parking costs. Electric trottinetes monthly average 1,200 km, allowing fuel savings and CO2 emissions of gases of 3,600.00 kg/year.

## **10. HUMAN RESOURCES**

The Directorate of Human Resources throughout 2023 provided support and played a significant role as a strategic business partner, both for top management and our employees.

In open labour markets, locally and globally, one of our challenges was to keep our employees, understand what motivates and inspires them, to work hard to promote our brand image, company values and opportunities and attract the best candidates on the market, and to provide support to processes, support management staff through workforce planning, recruitment of staff, taking into account the continuity of work, as well as training of employees.

The Human Resources Directorate also played an essential role in the selection of the new staff this year, implementation of internal mobility, implementation, and administrative implementation of all legal requirements as well as internally established requirements by managers and employees, the Group's demands, and ensuring continuity and stability in wage payments and other compensation and benefits for employees. During the year, in large part of the activities, the Directorate of Human Resources actively participated in the process of

reorganizing certain organizational units and changes in job systematization, considering the continuity of work.

Considering that each of our employees is important and essential is the opinion of our employees, in co-operation with the Ipsos consultancy, for the second time we conducted a survey to measure the satisfaction and engagement of employees. Through the survey, employees were allowed to express their opinion on improving the work environment, make their significant contribution to identifying the priitive actions that need to be implemented and participate in achieving our corporate values. Through the results of the survey and the comparative indicators of the previous survey, we get a picture of the current situation and the challenges faced by employees. The results of the survey are a significant indicator for us to look at areas where development and improvement is needed and to prepare action plans to improve employee satisfaction, engagement, and retention.

In accordance with our determination to provide competitive award conditions, we are monitoring the current trends in the labour market, and during the year we have carried out a multiple revision of salaries and their increase, as well as payment of regression allowance for annual leave and New Year's compensation, in a significantly larger amount than the minimums legally established. During the year, there was a pay increase in more than 60% of the population of employees. And this year we continued with collective insurance and private health insurance packages for all our employees.

During the year we introduced motivational packages for our employees whose children are entering the education system for the first time in a year.

The Group's commitment is aimed at constantly investing in employees by creating learning opportunities and investment in knowledge as a key resource and booster of the Group's development, The Human Resources Directorate organises, coordinates and implements the process of orientation of new employees, supporting the process of professional development of employees, and meeting legal requirements in relation to employee training, for which during 2023 we have provided training to our employees over a period of 12,600 hours of training or 20 average hours per employee.

At the Sparkasse Training Centre multifunction allotment that we opened during 2022, We constantly add new values by enriching content related to educating our employees, working introduction, coaching sessions, simulations of meetings to improve negotiating and sales skills, as well as a wellness floor, where employees will be able to take a break and relax. We also continued the practice of organizing HR Caffee events with guests – lecturers where employees are given the opportunity to hear useful information on current topics, but also to socialize in an informal atmosphere.

This year, the project "Employee of the Month" continued, which selects employees who have achieved significant results each month and are rewarded and promoted as a positive example. Through this, recognition is given for the achievements of employees (employee recognition) on the one hand and promotes the Group as a coveted employer on the other.

To recognise the work and motivation of employees, the practice of "having lunch with the members of the MA" continued, where every month employees who particularly emphasized themselves, they were invited to a joint lunch with MA members where they had the

opportunity to talk and exchange ideas and hear about the Group's future plans and strategies directly from top management.

During the year we set the concept career without a barrier, where we included programs for Young Grouper, Certification, Practice and Educational Events and Workshops.

In cooperation with our colleagues from the Marketing Directorate, we participated and coordinated activities for social responsibility, promotion of healthy habits and environmental protection, such as blood donation, sports activities, and activities to clean up our immediate environment.

To build potential employment candidates, The Human Resources Directorate continued cooperation with educational institutions by awarding scholarships to the best students, participating in employment fairs, attending lectures as lecturers, analyzing students in paid practice, participating in career fairs, etc.

All the activities carried out by the Directorate of Human Resources were followed by social media posts, to promote the benefits, the Group offers for its employees and thus positioning the labour market and building the image of a desired employer.

We remain committed to all our activities to foster a healthy work environment, increase the engagement of our employees with a focus on high ethical standards, reaching a high level of corporate values, and keeping our employees safe, healthy, and satisfied.

## **11. INTERNAL AUDIT**

The function of the Internal Audit at the Group and during 2023 played an essential role in ensuring an independent assurance of the effectiveness of risk management and internal controls, contributing to the protection of the Group's strategic objectives, and supporting its long-term success.

The internal audit carried out all planned audits of business processes in the Group's organisational units, actively participating in the Group Audits as well as other activities in accordance with the 2023 annual plan.

It was prepared since a Methodology for identifying, analysing, assessing, and prioritizing risk categories in accordance with local and Group Regulation. The main priorities according to the strategic plan's assessment for 3 years 2023-2025 were risks in the areas of lending, financial reporting, IT operations and AML. The internal audit in the process of prioritising audit entities for 2023 considers the Group's ongoing key projects for automation, optimization, and process redesign, to achieve significant compliance with Group and Local Regulation.

A significant aspect of the audit cycle was the process of systematically monitoring progress in implementing the identified measures. There is still a trend of successful realisation of recommendations. In addition to the measures of the audits carried out, the Internal Audit provided continuous monitoring of the implementation process of measures issued by the Group Audit as well as the Group's responsiveness to measures issued by all other regulatory bodies. On progress in the implementation process, the Internal Audit shall report to the Management Board, Supervisory Board and Risk Board in a defined time dynamic.

As a result of the Group Determination for Continuous Improvement and Compliance with Group Standards during 2023, a GRC tool for automating the full audit process – Bwise was implemented. Implementation has achieved a significant improvement in the existing concept in terms of monitoring recommendations and automating the complete risk-based audit cycle, as well as improving and complying with the Group Standards of the Internal Audit Report on the activities carried out.

This year, as in the past, the Internal Audit continued to support the process of professional development of its employees, through participation in training and programmes to improve knowledge and skills.

## **12. REGULATORY COMPLIANCE CONTROL AND ANTI-MONEY LAUNDERING AND COMBATING THE FINANCE OF TERRORISM**

The Grouping sector is considered one of the most regulated sectors in the country. Grouping operations are under continued control by several regulators from a different segment. In proportion to the regulation and modification of it, the obligations of constant monitoring and analysis, timely information, and reasoned views that the collective can rely on in a Group are also increasing. The challenge of managing the risk of compliance with regulations is a dynamic obligation, with numerous factual states, where the goal is always to make the right choice and satisfy the customer, while not crossing the line of compliance with the regulations.

Also globally, the world faces new threats to peace and security daily, resulting in certain bans and sanctions against certain natural and legal entities, as well as states. Bans and sanctions are imposed and updated daily by the competent international institutions, and the Group as part of the Group, as well as in accordance with local regulation, is obliged to coordinate its operation and to introduce appropriate procedures and mechanisms that will allow consistent and efficient execution of its operations in accordance with these prohibitions and sanctions. This increases the range of controls the Group needs to implement in terms of volume and complexity, sensitivity and possible negative material and reputational consequences that the Group and its customers may face.

During 2023, the Department for the Prevention of Money Laundering and Financing of Terrorism and Compliance worked on the following:

Activities for the implementation of measures in accordance with the Law on The Prevention of Money Laundering and Terrorist Financing, the Law on the Implementation of Restrictive Measures, Group Policy and Standards in the Sanctions and Embargo section, as well as activities to improve processes within the Department;

Improving existing solutions or introducing new more advanced solutions in the SPFT section that will allow consistent and timely compliance with local regulations and group policies and standards;

- Notification of any relevant legal and by-laws that have an impact on the Group's operation (legal and bylaws, rules
- and standards). A particular impact on the Group's operation was the Payment Services and Payment Systems Act and the related bylaws, for which implementation with a view to major

changes to the previous regulation was led by a separate project together with other organisational units;

- Preparing an opinion on agreements with outsiders;
- Control of the preparation of internal acts of the Group, procedures and rules of operation;
- Coordination of obligations during external controls, as well as control of action plans;
- Control of the conflict-of-interest management process;
- Immunisation of the Group Policy on Fraud Risk Management (Internal and External);
- Regular submission of reports to management bodies.

The department carried out its obligations in a timely, up-to-date and responsible direction for the Group to adapt to the changes that have arisen in both local and Group regulation.

As before and during the coming period, the Department's priorities will be to highlight the importance of coordinated work, through constant controls, consultations, and training.

### **13. INFORMATION SECURITY**

The Group's established system of organisational and technical measures to address risks in the information system is in line with domestic regulation, but also best practices and standards. This contributed to building trust with customers and ensuring a high degree of protection, confidentiality, and availability of information in the execution of business operations and services.

The focus of work in 2023, in addition to regularly maintaining a stable and secure information system, in accordance with positive legal provisions (Decision on security of the information system, National Group) and internal regulation, the activities related to completing the formalisation of the Group's policies and procedures, related to the finalisation of system consolidation and security controls after the integration of the two Groups.

In doing so, a particular emphasis was placed on constant and regular information to employees about all the risks associated with remote operation and the new digital "cyber" threats in general.

The Group maintains employee awareness of information security and threats in the digital space through regular annual training, as well as through periodic current reports.

The Group remains on its strategic goal and determination to continuously improve the system of internal controls and align them with Group Standards and Policies.

In 2023, the Group successfully tested the Continuity and Reconstruction Plan of IT systems, confirming that it has adequate mechanisms to ensure continuity of the work processes related to the main Grouping operations.



## 14. CORPORATE GOVERNANCE REPORT

Corporate governance at the Group is a set of mutual relations between the Supervisory Board, the Board of Directors, other persons with special rights and responsibilities and shareholders of the Group, through which an appropriate organisational structure and appropriate mechanisms have been established to define the Group's objectives and to achieve and monitor them.

In 2023, the Office of the Management Board achieved all activities within its competences in accordance with applicable regulation, internal acts, and best practices in the corporate governance segment.

### Shareholders Assembly

On May 26, 2023, the Annual Shareholders' Assembly was held, which made decisions of material importance to the Group. The Shareholders' Assembly reviewed and adopted the Group's 2022 Financial Statements, revised by Pricewaterhousecoopers Audit Company DOO Skopje and opinion of the Supervisory Board; Consolidated financial statements for 2022, revised by the Audit Society PricewaterhouseCoopers Audit LTD Skopje and Opinion of the Supervisory Board; Annual account and financial statements for the period 01.01.-31.12.2022; Consolidated annual account and financial statements for the period 01.01.-31.12.2022; Annual Report on the Group's operations in 2022 and Opinion of the Supervisory Board of the Group; Consolidated Annual Report on the Operation of the Group in 2022 and Opinion of the Supervisory Board of the Group; Decision on the use and allocation of the profit achieved from 2022; Decision amending and supplementing the Statute of Sparkasse Bank AD Skopje and adopting a purified text of the Statute, as well as an Annual Report on the Work of the Supervisory Board in 2022, collectively and from the point of view of individual members.

During the period referred to in this Report, three extraordinary sessions of the shareholders' assembly were also held.

On 24 May 2023, the first extraordinary Shareholders' Assembly was held to adopt a Decision amending and supplementing the Statute of Sparkasse Bank AD Skopje and the Decision to appoint a member of the Supervisory Board of Sparkasse Bank AD Skopje.

On 10.10.2023, the second extraordinary Shareholders' Assembly was held, which adopted a Decision on the selection of the audit company of Sparkasse Bank AD Skopje for 2023.

On 19.12.2023, the third extraordinary Shareholders' Assembly was held, which adopted a Decision amending and supplementing the Statute of Sparkasse Bank AD Skopje.

### Supervisory Board

The Supervisory Board oversees the work of the Management Board, approves policies for carrying out financial activities and oversees their implementation. This body of the Group is responsible for ensuring good operation, governance, and stability, as well as timely and accurate financial reporting to the National Group.

To successfully achieve its function, the Supervisory Board works towards building a balanced composition, making sure that its members have the necessary knowledge, ability, and expertise. The Supervisory Board has an appropriate number of members with long-term and international experience in its fields of operation. At least one quarter of the Supervisory board members should be independent members. In this regard, two members out of seven are independent members. Their independence is determined in accordance with the independence criteria laid down in the Groups Act.

During 2023, in accordance with local regulation, the Group's Supervisory Board decided in a total of six sessions held in the Group's business premises or held via video conference. In addition, ten sessions were held through written correspondence, because of the need to support the Group's operational functions.

The Supervisory Board worked in accordance with the Official Journal of the Organization and Work of the Supervisory Board of the Group and decisions were made in accordance with the applicable regulation. All members of the Supervisory Board, whose individual contribution is of great importance for the effective implementation of the activities and duties of this body of the Group.

During the reporting period, the term of office of existing independent member Christian Polenak expired on 21 September 2023. At the Shareholders' Assembly held on 24.07.2023, Tatyana Shishkovska was appointed a new independent member of the NO, for whom consent was issued by the Governor of the National Group of RSM on 01.11.2023.

The table below is a representation of the active memberships of the members of the Supervisory Board.

**Table No. 6 Members of the Supervisory Board of the Group**

<b>Member:</b>	<b>Georg Bucher</b>
<b>Position:</b>	Member of the Management Board
<b>Company:</b>	<a href="#">Steiermärkische Group und Sparkassen AG</a>
<b>Date of birth:</b>	1962
<b>First appointment:</b>	08.2019
<b>Mandate:</b>	11.2024
<b>Member of the Supervisory Board and other memberships</b>	<ul style="list-style-type: none"> <li>• President of the Supervisory Board of Sparkasse Bank AD Skopje (representative of the majority shareholder)</li> <li>• President of the Risk Board of Sparkasse Bank AD Skopje</li> <li>• Member of the Commission for the Award and Appointment of Sparkasse Bank AD Skopje</li> <li>• Supervisory Board member at Kerntner Sparkasse AG</li> <li>• Deputy President of the Supervisory Board at Erste Digital GmbH</li> <li>• President of the Supervisory Board at Sparkasse IT Holding AG</li> <li>• Deputy President of the Supervisory Board at Bank Sparkasse d.d. Ljubljana</li> <li>• Deputy President of the Supervisory Board at Erste Group a.d. Novi Sad.</li> <li>• Deputy President of the Supervisory Board in Erste and Steiermarkische Bank d.d.</li> <li>• Deputy President of the Supervisory Board of SKB Industries Holding GmbH Austria</li> <li>• Manager of Kristine Kunz Gezelshaft mbh Austria</li> <li>• Manager of SKV Privatstiftung</li> </ul>

<b>Award for membership of the Group's boards</b>	Members of the Supervisory Board who are nominated by the shareholder and are in a working relationship with Erste member entities the Erste group does not pay compensation for the work in the authorities of Sparkasse Bank AD
<b>Reward from a based working relationship with another employer</b>	All members of the Supervisory Board who are nominated by the shareholder and are in a working relationship at Steiermärkische Bank und Sparkassen AG of Graz, Austria paid a total of EUR 1,600,408.47 in gross compensation, i.e. a gross amount of EUR 1,323,130.55 as a fixed reward for 2023 and a gross amount of EUR 277,277.92 as a variable reward paid in 2023.
<b>Attendance of sessions in 2023</b>	President of the Supervisory Board attended 6 sessions in 2023
<b>Member:</b>	<b>Walburga Seidl</b>
<b>Position:</b>	Member of the Management Board
<b>Comapny:</b>	<a href="#">Steiermärkische Group und Sparkassen AG</a>
<b>Date of birth:</b>	1973
<b>First appointment:</b>	11.2008
<b>Mandate:</b>	11.2024
<b>Member of the Supervisory Board and other memberships</b>	<ul style="list-style-type: none"> <li>• Deputy President of the Supervisory Board of Sparkasse Bank AD Skopje (representative of the majority shareholder)</li> <li>• Deputy President of the Board of Audit of Sparkasse Bank AD Skopje</li> <li>• Deputy President of the Supervisory Board of Sparkasse Bank dd Sarajevo</li> <li>• Member of the Supervisory Board of Erste and Steiermarkische dd</li> <li>• Member of the Advisory Board of The S -Leasing Sud GmbH</li> </ul>
<b>Award for membership of the Group's boards</b>	Members of the Supervisory Board who are nominated by the shareholder and are in a working relationship with the entities of members of the Erste Group are not paid compensation for the work in the authorities of Sparkasse Bank AD Skopje
<b>Reward from a based working relationship with another employer</b>	All members of the Supervisory Board who are nominated by the shareholder and are in a working relationship at Steiermärkische Bank und Sparkassen AG of Graz, Austria paid a total of EUR 1,600,408.47 in gross compensation, i.e. a gross amount of EUR 1,323,130.55 as a fixed reward for 2023 and a gross amount of EUR 277,277.92 as a variable reward paid in 2023
<b>Attendance of sessions in 2023</b>	Deputy President of the Supervisory Board attended 6 sessions in 2023
<b>Member:</b>	<b>Hans Ludwig Dixer</b>
<b>Position:</b>	Director of Finance
<b>Company:</b>	<a href="#">Steiermärkische Group und Sparkassen AG</a>
<b>Date of birth:</b>	1967
<b>First appointment:</b>	05.2012
<b>Mandate:</b>	11.2024
<b>• Member of the Supervisory Board and other memberships</b>	<ul style="list-style-type: none"> <li>• Member of the Supervisory Board of Sparkasse Bank AD Skopje (representative of the majority shareholder)</li> <li>• Member of the Board of Audit of Sparkasse Bank AD Skopje</li> </ul>
<b>Award for membership of the Group's boards</b>	Members of the Supervisory Board who are nominated by the shareholder and are in a working relationship with the entities of members of the Erste Group are not paid compensation for the work in the authorities of Sparkasse Bank AD Skopje
<b>Reward from a based working relationship with another employer</b>	All members of the Supervisory Board who are nominated by the shareholder and are in a working relationship at Steiermärkische Bank und Sparkassen AG of Graz, Austria paid a total of EUR 1,600,408.47 in gross compensation, i.e. a gross amount of EUR 1,323,130.55 as a fixed reward for 2023 and a gross amount of EUR 277,277.92 as a variable reward paid in 2023
<b>Attendance of sessions in 2023</b>	Supervisory Board member attends 6 sessions in 2023
<b>Member:</b>	<b>Slavisa Kojic</b>

<b>Position:</b>	Deputy Director of strategy at JIE and business development
<b>Company:</b>	<a href="#">Steiermärkische Group und Sparkassen AG</a>
<b>Date of birth:</b>	1978
<b>First appointment:</b>	05.2015
<b>Mandate:</b>	11.2024
<b>Member of the Supervisory Board and other memberships</b>	<ul style="list-style-type: none"> <li>• Member of the Supervisory Board of Sparkasse Bank AD Skopje (representative of the majority shareholder)</li> <li>• Member of the Board of Audit of Sparkasse Bank AD Skopje</li> <li>• President of the Commission for the Award and Appointment of Sparkasse Bank AD Skopje</li> <li>• Manager of KoKoma OG, Graz</li> <li>• President of the Supervisory Board of Sparkasse Leasing DOO Skopje</li> </ul>
<b>Award for membership of the Group's boards</b>	Members of the Supervisory Board who are nominated by the shareholder and are in a working relationship with the entities of members of the Erste Group are not paid compensation for the work in the authorities of Sparkasse Bank AD Skopje
<b>Reward from a based working relationship with another employer</b>	All members of the Supervisory Board who are nominated by the shareholder and are in a working relationship at Steiermärkische Bank und Sparkassen AG of Graz, Austria paid a total of EUR 1,600,408.47 in gross compensation, i.e. a gross amount of EUR 1,323,130.55 as a fixed reward for 2023 and a gross amount of EUR 277,277.92 as a variable reward paid in 2023
<b>Attendance of sessions in 2023</b>	Supervisory Board member attends 6 sessions in 2023
<b>Member: Gligor Bishev</b>	
<b>Position:</b>	President of the RSM Fiscal Council
<b>Company:</b>	Independent body for monitoring the country's macroeconomic and fiscal policies
<b>Date of birth:</b>	1958
<b>First appointment:</b>	01.2023
<b>Mandate:</b>	11.2024
<b>Member of the Supervisory Board and other memberships</b>	<ul style="list-style-type: none"> <li>• Member of the Supervisory Board of Sparkasse Bank AD Skopje (representative of the majority shareholder)</li> <li>• Member of the Supervisory Commission of Finance Think</li> </ul>
<b>Award for membership of the Group's boards</b>	Annual fixed net compensation of EUR 6,000, paid proportionally for the period of execution of the term of office in the Supervisory Board, and an additional EUR 300 net amount for attendance per session (in denomination at the median nbrsm exchange rate on the day of payment)
<b>Reward from a based working relationship with another employer</b>	Regular net income from pension 839,518 denars and other variable net income totalling 5,722,450 denari.
<b>Attendance of sessions in 2023</b>	Supervisory Board member attends 5 sessions in 2023
<b>Member: Cristian Pollenak</b>	
<b>Position:</b>	Managing Partner
<b>Company:</b>	Law firm "Pollenak"
<b>Date of birth:</b>	1970
<b>First appointment:</b>	05.2011
<b>Mandate:</b>	09.2023
<b>Member of the Supervisory Board and other memberships</b>	<ul style="list-style-type: none"> <li>• Independent member of the Supervisory Board of Sparkasse Bank AD Skopje</li> <li>• Member of the Commission for the Award and Appointment of Sparkasse Bank AD Skopje</li> </ul>
<b>Award for membership of the Group's boards</b>	Annual fixed net compensation of EUR 6,000, paid proportionally for the period of execution of the term of office in the Supervisory Board, and an additional EUR 300

	net amount for attendance per session (in denomination at the median nbrsm exchange rate on the day of payment)
<b>Attendance of sessions in 2023</b>	Supervisory Board member attends 5 sessions in 2023
<b>Member: Goran Petrevski</b>	
<b>Position:</b>	Professor
<b>Company:</b>	Faculty of Economics University of St. Cyril and Methodius Skopje
<b>Date of birth:</b>	1970
<b>First appointment:</b>	12.2021
<b>Mandate:</b>	11.2024
<b>Member of the Supervisory Board and other memberships</b>	<ul style="list-style-type: none"> <li>Independent member of the Supervisory Board of Sparkasse Bank AD Skopje</li> </ul>
<b>Award for membership of the Group's boards</b>	Annual fixed net compensation of EUR 6,000, paid proportionally for the period of execution of the term of office in the Supervisory Board, and an additional EUR 300 net amount for attendance per session (in denomination at the median nbrsm exchange rate on the day of payment)
<b>Reward from a based working relationship with another employer</b>	Total net income from salary 992,840 denars and other net income 481,255 denari
<b>Attendance of sessions in 2023</b>	Supervisory Board member attends 6 sessions in 2023
<b>Member: Tatyana Shishkovska</b>	
<b>Position:</b>	Partner
<b>Company:</b>	Law firm "Polenak"
<b>Date of birth:</b>	1980
<b>First appointment:</b>	11.2023
<b>Mandate:</b>	11.2024
<b>Member of the Supervisory Board and other memberships</b>	<ul style="list-style-type: none"> <li>Independent member of the Supervisory Board of Sparkasse Bank AD Skopje</li> <li>Member of the Commission for the Award and Appointment of Sparkasse Bank AD Skopje</li> </ul>
<b>Award for membership of the Group's boards</b>	Annual fixed net compensation of EUR 6,000, paid proportionally for the period of execution of the term of office in the Supervisory Board, and an additional EUR 300 net amount for attendance per session (in denomination at the median nbrsm exchange rate on the day of payment)
<b>Reward from a based working relationship with another employer</b>	Total gross fixed income of 2,946,240 denari gross salary income, gross income k15 of 15,959, total other dividend income of 1,388,979 and gross income from work - voluntary pension fund of 95,274 denars)
<b>Attendance of sessions in 2023</b>	Supervisory Board member attends 1 sessions in 2023

## Audit Committee

The Group's audit committee consists of six members, four of whom come from the order of the members of the Supervisory Board and two members are independent. Their independence is determined in accordance with the independence criteria laid down in the Group Act and the Statute of the Group. According to the legal regulation, at least one member of the Audit Committee should be an authorized auditor.

The Audit Committee held a total of six sessions during 2023. They are held in the Group's business premises or via video conference. The Audit Committee monitors financial accounting, including the accounting process and efficiency of the internal control system, risk management, and the efficiency of the internal audit system, compliance with regulations and revision of annual financial statements.

During the reporting period, there were no changes in the membership of the Group's Audit Committee.

**Table No. 7 Members of the Group's Audit Committee**

Member	Primary function	Function on the Group's Board of Audit and other supervisory and/or management bodies*
<b>Georg Bucher</b> First appointment: 08.2019 Expiration date: 11/2024	Member of the Board of Directors of Staermekise Sparkasse, Graz	• President of the Board of Audit of Sparkasse Bank AD Skopje
<b>Valburga Siddle</b> First appointment: 11.2008 Expiration date: 11/2024	Member of the Board of Directors of Staermekise Sparkasse, Graz	• Deputy President of the Board of Audit of Sparkasse Bank AD Skopje
<b>Hans Ludwig Dixer</b> First appointment: 05.2012 Expiration date: 11/2024	Director of Finance at Staermekise Sparkasse, Graz	• Member of the Board of Audit of Sparkasse Bank AD Skopje
<b>Slavisa Kojic</b> First appointment: 05.2015 Expiration date: 11.2024	Director – Group Management, JIE Strategy and business development Sector in Štaermekise Sparkasse, Graz	• Member of the Board of Audit of Sparkasse Bank AD Skopje
<b>Nikica Moissoska Blazevski</b> First appointment: 05.2015 Expiration date: 11.2024	Chief Executive Officer, Macedonia2025	<ul style="list-style-type: none"> <li>• Independent member of the Board of Audit of Sparkasse Bank AD Skopje</li> <li>• Member of the Management Board at the Chamber of Commerce of Northern Macedonia</li> <li>• Member of the Board of Guardians of the Macedonian Development Foundation for Companies (MRFP)</li> </ul>
<b>Dragan Dimitrov</b> First appointment: 09.2021 Expiration date: 11.2024	Manager and authorized auditor, BDO DOO Skopje	<ul style="list-style-type: none"> <li>• Independent member of the Board of Audit of Sparkasse Bank AD Skopje</li> <li>• Member of the Board of Directors of the Ping-Pongar Federation of The Republic of Macedonia</li> </ul>

\* Memberships in other supervisory and/or management bodies of the members of the Audit Committee, who are also members of the Group's Supervisory Board, are listed in the previous review (Table 6).

## Management Board

Management Board is a body representing and representing the Group and managing its operations in accordance with the Group Law, the Statute, and the Group's Corporate Governance Code. This board is involved in the implementation of the Group's business policy and development plan, establishing, and promoting corporate culture and values, establishing an acceptable level of risk, establishing, and implementing the internal control system, and in providing conditions for the Group's operations in accordance with applicable regulation and grouping standards. The Management Board is responsible for implementing the decisions of the Shareholders' Assembly and the Supervisory Board of the Group, i.e. ensuring their implementation. In addition to the above activities, The Management Board is launching initiatives and making proposals for improving the Group's operations; names and dismisses persons with special rights and responsibilities, establishes proposals for decisions and other acts decided by the Group's Supervisory Board, with a special look at the policies, strategies and risk management systems in cooperation with the Risk Management Board and performs other matters established by the legal regulations, the Statute and other acts of the Group. Management Board held a total of 32 sessions in 2023.

The Group's Board of Directors concluded on 19.12.2023 consisted of three members, with clearly defined and distinguished competences and responsibilities. Based on consent from the National Group, amendments have been made to the Statute of the Group, with the number of Members of the Management Board increasing from three to four members.

Due to the expiry of the importance of consent for a member of the Management Board for Sanel Kusturica, the procedure for his re-licensing was initiated and by a decision by the Governor of the National Group of RSM obtained on 23.02.2023, Kusturica's term of office was extended by five years.

Also due to the expiry of the importance of consent for a member of the Management Board for Nina Nedanoska, the procedure for its re-licensing was initiated and by a decision by the Governor of the National Group of rsm obtained on 10.07.2023, Nedanoska's term was extended by five years.

On 05.10.2023, Management Board member Alvin Alicevic resigned from his post, which took effect in 2024.

In December 2023, procedures were initiated to obtain prior consent to the appointment of Zlatica Civkaroski and Aleksandar Djordjevic as new members of the Bank's Board of Directors.

**Table No. 8 Members of the Management Board of the Group**

Member	Primary function	Competences	Memberships in other supervisory and/or management bodies
<b>Sanel Kusturica</b> First appointment: 03.2021 Expiration Date: 02.2028	President of the Management Board	<ul style="list-style-type: none"> <li>• activities related to working with the population;</li> <li>• product marketing and development;</li> <li>• human resources;</li> <li>• coordination of the General Secretariat and</li> <li>• coordination of Internal audit.</li> </ul>	<ul style="list-style-type: none"> <li>• Member of the Supervisory Board of KIBS AD Skopje</li> </ul>
<b>Nina Nedanoska</b> First appointment: 07.2021 Expiration Date: 07.2028	Deputy President of the Management Board	<ul style="list-style-type: none"> <li>• activities related to working with corporate clients;</li> <li>• finance-related activities,</li> <li>• trading and financial markets;</li> <li>• property management, logistics and security activities;</li> <li>• information technology and</li> <li>• digital channels and organisation.</li> </ul>	<ul style="list-style-type: none"> <li>• Member of the Supervisory Board of Sparkasse Leasing DOO Skopje</li> <li>• Member of the Board of Directors of CDHV AD Skopje</li> <li>• Member of the Board of Directors of the Macedonian Stock Exchange AD Skopje</li> </ul>
<b>Alvin Alicevic</b> First appointment: 11,2017 Expiration Date: 11.2027	Member of the BOARD	<ul style="list-style-type: none"> <li>• activities related to strategic risk management,</li> <li>• credit risk and collection management and</li> <li>• activities related to Grouping operations.</li> </ul>	<ul style="list-style-type: none"> <li>• Member of the Supervisory Board of Sparkasse Leasing DOO Skopje</li> </ul>

Management Board shall notify the Supervisory Board of its work at least once a quarter. In addition to regular notification, the Management Board maintains a high level of direct communication with the Supervisory Board and its individual members.

## Risk Management Committee

The Risk Management Committee consists of six members, from the order of persons with special rights and responsibilities employed by the Group appointed by the Supervisory Board.

**Table No. 9 Members of the Risk Management Board of Sparkasse Bank AD Skopje**

Member	Professional engagement	Memberships in other supervisory and/or management bodies
<b>Alvin Alicevic</b> Mandate until: 07.2027	Member of the BOARD responsible for risk management	<ul style="list-style-type: none"> <li>• President of the Group's Risk Management Board</li> <li>• President of the Group's IT Monitoring Board</li> <li>• Member of the Supervisory Board of Sparkasse Leasing DOO Skopje</li> </ul>
<b>Sanel Kusturica</b> Mandate until: 07.2027	President of the Management Board	<ul style="list-style-type: none"> <li>• Deputy President of the Group's Risk Management Board of 24.07.2023</li> <li>• Member of the Supervisory Board of KIBS AD Skopje</li> </ul>
<b>Biljana Momirovska</b> Mandate until: 07.2027	Director of the Directorate for Strategic Risk Management	<ul style="list-style-type: none"> <li>• Member of the Group's Risk Management Board</li> </ul>
<b>Zlatica Civkaroski</b> Mandate until: 07.2027	Director of the Credit Risk and Collection Sector	<ul style="list-style-type: none"> <li>• Member of the Group's Risk Management Board</li> <li>• Member of the S-AMC 1 DOOEL Skopje</li> </ul>
<b>Dimitar Georgievski</b> Mandate until: 07.2027	Head of Legal Service	<ul style="list-style-type: none"> <li>• Member of the Group's Risk Management Board</li> <li>• President of the No of S-AMC 1 DOOEL Skopje</li> </ul>
<b>Anna Dimoska Jankulovska</b> Mandate until: 07.2027	Head of AML and Compliance Department	<ul style="list-style-type: none"> <li>• Member of the Group's Risk Management Board</li> </ul>
<b>Ivan Stojanovic</b> Mandate until: 07.2025	Director of the Directorate for Credit Risk Management	<ul style="list-style-type: none"> <li>• Member of the Group's Risk Management Board concluded on 07.07.2023</li> </ul>

During the notification period, the following changes were made to the Membership of the Group's Risk Management Board: termination of office due to termination of the working relationship of former member Ivan Stojanovic and the appointment of Sanel Kusturica as the new Deputy President of the Board based on amendments to the Statute of the Group.

In the reporting period, the Risk Management Board held 46 sessions to carry out the activities in accordance with Article 90 of the Groups Act.

The Risk Management Board quarterly informed the Group's Supervisory Board of changes in risk positions, changes in risk management strategies, the effects of risk management on the Group's performance, and the measures and instruments taken to protect against risks and the effects of them.

## IT Steering Committee (ITSC)

The IT Steering Committee consists of nine members appointed by the Group's Supervisory Board. Members of the IT Steering Committee are: The member of the Management Board under whose jurisdiction is the Organisational Part for IT as President of the Board; The responsible person of the organisational part for finance; The responsible person of the organisational part for Grouping operations; The responsible person of the organizational part for digital channels and organization; The responsible person of the IT organisational part; OSIS;



two representatives from the Group and a representative from the internal audit without the right to vote.

During the notification period, there were changes in the OnIT membership of the Group due to personnel changes, as well as changes to the Statute of the Group, i.e. supplementing membership. The mandate of the members of the Information Technology Monitoring Board lasts 4 (four) years.

The activities carried out by this Board include the submission of reports on the status of the Group's information technology to the Supervisory and Management Board, recommending strategies, policies, and greater expenditure in the field of information technology, ensuring effective planning of information technology, and monitoring the capacity of the information technology system and its performance. IT Steering Committee also carries out other activities enacted by the Statute of the Group.

In 2023, the Information Technology Monitoring Board held a total of five sessions.

#### **Remuneration and Nomination Committee**

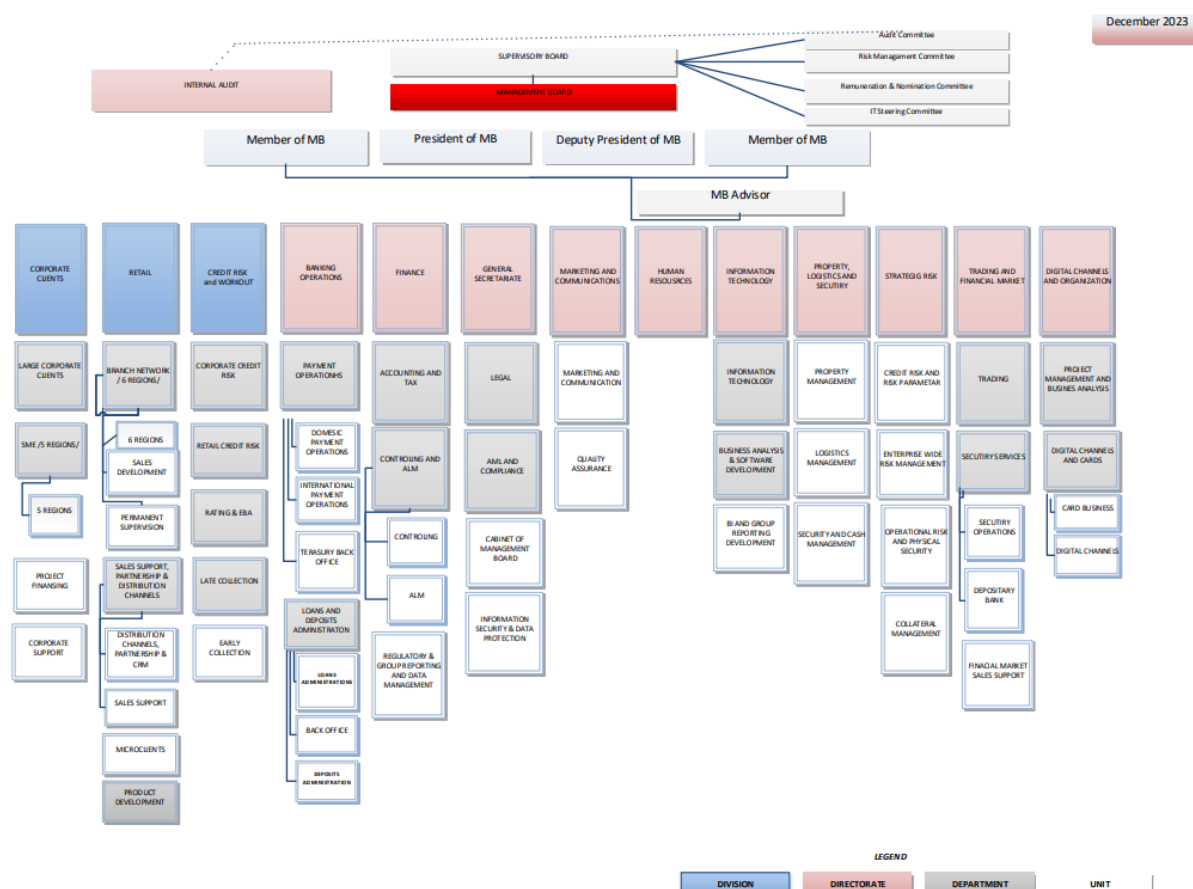
The Remuneration and Nomination Committee was formed by the Supervisory Board and consists of three members of the Supervisory Board. The President of the Group's Supervisory Board and at least one independent member of the Supervisory Board shall be members of the Award and Appointment Commission. The mandate of the members of the Award and Appointment Commission shall be in accordance with the mandate of the relevant members of the Supervisory Board of the Group.

During the reporting period, the term of office of existing independent member Christian Polenak expired on 21 September 2023, and Tatiana Shishkovska, an independent member of the Group's Supervisory Board of 01.11.2023, was appointed in his place.

The Committee is responsible for establishing the general principles of the Award Policy and their regular monitoring and implementation, as well as proposals for the appointment of board members and their award, which are subject to the approval of the relevant bodies of the Group in accordance with the Statute. The Commission's competence includes reviewing reports on the evaluation of board members and managing conflicts of interest among board members, in accordance with the Conflict-of-Interest Policy.

In 2023, the Award and Appointment Commission held a total of nine sessions, seven of which were held by written decision.

## Organizational structure of Sparkasse Group AD Skopje



### Shareholder structure of Sparkasse Group AD Skopje

The Group's share capital on 31.12.2023 consists of 2,095,415 ordinary shares with a nominal value of 2,670 denars per share. The shares are registered and are held at the Central Securities Depository of the Republic of North Macedonia. The dominant shareholder of the Group is Stahermekise Sparkasse of Graz, Republic of Austria with a 96.55% share holding. As of 31 Dec 2023, the number of shareholders in the Group is 454, of which 319 are natural persons, 131 are legal entities, 2 are custody accounts and 2 are unidentified.

### Remuneration Policy of Sparkasse Bank AD Skopje

Sparkasse Bank AD Skopje, the award policy aligns it with the Group's business strategy, objectives, values, and long-term interests, considering the application of domestic regulation as well as the requirements of the group standards of the Staermekise Sparkasse Group.

Essential in the Group's strategy is the creation of motivated and competent employees, nurturing corporate values, Excellence, Agility, Passion, Trust, and Partnership, as well as nurturing and rewarding individual responsibility and good performance of Group employees, through a carefully built reward system, while considering the risks. The Group considers the maintenance of an appropriate balance between fixed and variable reward, whereby the fixed part of the award is determined at the appropriate level and is high enough not to create an incentive to take excessive risks at an individual or collective level.

Through these principles, the Group sought to maintain its long-term reward policy in accordance with business strategy, long-term objectives, and interests, as well as solid and effective risk management, considering the application of statutory and supervisory legal provisions in accordance with a well-established system of self-assessment.

Through its network of branches, through employee loyalty and commitment, it nurtures long-term Grouping relationships with its customers and is a recognizable market factor that successfully aligns the Sparkasse Bank's expertise with its team's experience in the country. In its own interest and responsibility to customers and institutions belonging to the Group, the Group attaches great importance to the appropriate structure of risks, their solid sustainability and appropriate structure of risks and capital.

The reward system at the Group is organized in accordance with the following key principles:

- a. Fixed reward in accordance with market competitive conditions, which will allow the Group to retain the competent employees and attract a competent staff to work,
- b. Variable – variable performance and performance-based reward,
- c. Requirements of the legal regulation,
- d. Additional benefits for employees

According to internal award acts, the variable part must not exceed 100% of the fixed part of the total compensation paid to each employee or member of a Group body on an annual basis.

The Group's award is based on internal comparisons and comparisons made in the labour market, business strategy and long-term interests of the Group, and will ensure long-term employee retention.

The Group monitors risk, conservative business, and investment strategy. In addition to profits, preserving a high degree of risk sustainability and sufficient basic capital, as well as adequate liquidity, are a basic criterion for measuring the variable compensation of Group employees.

According to the existing Award Policy, no compensation in the form of shares is provided for, nor are other rights envisaged that give the opportunity to acquire shares.

In 2023, the following compensations were paid:

**Table No. 10 Compensation paid**

Membership	fixed gross income	variable gross income	number of members
Supervisory Board*	4,036,888	0	4
Audit Committee	656,690	0	2
Board of Directors**	29,321,767	8,611,397	3
Persons with special rights and responsibilities	45,916,319	13,168,963	22
other employees	592,994,718	32,401,625	712
<b>TOTAL</b>	<b>672,926,382</b>	<b>54,181,985</b>	<b>743</b>

\* employment allowances from another employer are listed in Table 6.

\*\* fees from memberships in other societies are published in the Annual Reports of KIBS AD Skopje, CDHV AD Skopje and Macedonian Stock Exchange AD Skopje and they have award treatment in accordance with the decision of the Supervisory Board of the Group to regulate rewards from external memberships. These allowances are awarded to the Group for donations and sponsorships.

The structure of the total compensation (fixed and variable) according to the amount and number of persons to whom the corresponding amount of total compensation during the year is shown in the following chart:

**Chart No. 13 Total compensation structure (fixed and variable) paid in 2023 in mkd**



**Policy of identification, monitoring and dealing with conflict of interest**

The policy on identifying, monitoring, and managing conflicts of interest was adopted by the Group as a result of management's commitment to introducing the principles of modern

Grouping operations and applying Basel standards to the corporate governance system at the Group. The main objective of the adoption of this policy is to describe situations where there could be a conflict of interest and proper management of them by all employees and managers; establishing a monetary limit on nominal gifts and establishing a system of notifications and obligations to report conflicts of interest to the competent and written disclosures of business interests. The Group also acts on an internal act that includes standards for the protection of the Group's interests when identified conflicts of interest of members of the Group's Management and Supervisory Board. The Act defines the Conflict-of-Interest Management Process between the members of the Management and Supervisory Board and the Group.

### **Policy on the method of selection, monitoring of operations and dismissal of the members of the Supervisory Board, the Risk Management Board, the Audit Board and the Management Board of Sparkasse Bank AD Skopje**

The Group, as part of the Staermerkissche Sparkasse Bank, complies with the group and local regulatory requirements in the process of selection, suitability evaluation and appointment of the Group's board members.

The policy on the method of selection, monitoring of operations and dismissal of the members of the Supervisory Board, the Risk Management Board, the Audit Committee and the Management Board is a sublimation of the branched process of selection of the members of the Management Board, the Supervisory Board and the legally prescribed boards of the Group and its main goal is to standardize and harmonize all processes in one clearly defined document that provides an answer to all requirements related to the appointment of members.

### **Outsourcing services important for the entire operation of the Group**

Outsourcing services for part of the Group activities are compulsory performed in accordance with the Group's business strategy and objectives, and they are approved by the competent body of the Group. The procedure for selection and decision making for use of outsourcing services is implemented pursuant to the following applicable internal acts of the Group: Procurement Policy and Procurement Procedure of goods and services. In the process of selection and decision making for use of a relevant service provided by third parties, all relevant regulatory and Group requirements for implementation thereof are compulsory determined and taken into consideration.

**Statement on application of Code of Corporate Governance given by the Management Board of Sparkasse Bank AD Skopje**

1/ The valid version of the Corporate Governance Code of Sparkasse Bank AD Skopje 8.0 applicable to the Group is publicly available on the Group's website [www.sparkasse.mk](http://www.sparkasse.mk), in the Group Data section;

2/ The corporate governance in Sparkasse Bank AD Skopje is based on implementation of top corporative and regulative standards, where appropriate organizational structure is established and appropriate mechanisms for defining Group's goals are defined, applicable also for their achievement and measurement. Beside the legal regulation, the bylaws that regulate this area are applied, including the Decision on the rules for good corporate governance in Group and

3/ Deviations from the rules of the Code of corporate governance of Sparkasse Bank AD Skopje 8.0 are not identified in the reporting period.

Sparkasse Bank AD Skopje  
Management Board



*A. D.*  
*Li.*  
*Мерант*  
*С. В. Килиј*