

KOMERCIJALNA BANKA AD SKOPJE

CODE
OF CORPORATE GOVERNANCE
OF KOMERCIJALNA BANKA AD SKOPJE

April, 2010

CONTENT

- I. GENERAL PROVISIONS
- II. PRINCIPLES OF THE CORPORATE GOVERNANCE
- III. PROCEDURE OF CONVENING THE MEETING OF THE BANK'S ASSEMBLY, VOTING PROCEDURE AND SHAREHOLDERS' RIGHTS
- IV. COOPERATION BETWEEN SUPERVISORY BOARD AND BOARD OF DIRECTORS, MODES, PERIODS AND CONTENT OF THE INFORMATION AND DOCUMENTS PREPARED BY THE BOARD OF DIRECTORS TO THE SUPERVISORY BOARD AND MODE OF ACTING IN THE SITUATIONS OF CONFLICT OF INTERESTS
- V. OBLIGATIONS, RESPONSIBILITIES AND THE PRINCIPLE OF OPERATION OF THE SUPERVISORY BOARD, BOARD OF DIRECTORS AND OTHER BANK'S BODIES
- VI. CRITERIA AND RULES FOR APPOINTING MEMBERS OF THE SUPERVISORY BOARD AND THE MANNER IN WHICH THEY RECEIVE THEIR REMUNERATION
- VII. CRITERIA AND RULES FOR APPOINTING MEMBERS OF THE BOARD OF DIRECTORS AND THEIR REWARDING, APPOINTING MEMBERS OF AUDIT COMMITTEE, APPOINTING MEMBERS OF RISK MANAGEMENT COMMITTEE AND OTHER BANK BODIES
- VIII. THE ROLE, THE MEANING AND THE OPERATING AREA OF THE INTERNAL AUDIT, THE EXTERNAL AUDIT AND THE ORGANIZATIONAL PART COMPETENT FOR PERFORMING COMPLIANCE FUNCTION
- IX. CORPORATE GOVERNANCE REPORT
- X. CLOSING PROVISIONS

Pursuant to article 4 of the Decision on amendments and supplements to the Code of Corporate Governance of Komercijalna Banka AD Skopje No. 02-1600-133308 of 24.03.2010, the Supervisory Board of the Bank, at its 26th regular meeting held on 27.04.2010, prepared a revised text of the Code of Corporate Governance of Komercijalna Banka AD Skopje, which incorporates the Code of Corporate Governance of Komercijalna Banka AD Skopje No. 02-1600-12614 of 25.03.2009 and the Decision on amendments and supplements to the Code of Corporate Governance of Komercijalna Banka AD Skopje No. 02-1600-133308 of 24.03.2010, indicating the date of their entering into force.

CODE OF CORPORATE GOVERNANCE OF KOMERCIJALNA BANKA AD SKOPJE

I. GENERAL PROVISIONS

The Code of Corporate Governance of the Bank regulates the basic principles for Corporate Governance in the Bank, as a set of mutual relations between the Board of Directors, other persons with special rights and responsibilities who perform management function in the Bank, the Supervisory Board, shareholders of the Bank and other interested entities.

In terms of this Code, interested entities means depositors, other creditors of the Bank, investors, regulatory and auditing authorities, credit rating agencies, Deposit Insurance Fund, audit companies and other entities having interest in the Bank's operation.

Good Corporate Governance in the Bank is provided through:

- clear organizational structure of the Bank with precisely defined rights and responsibilities of the members of supervision and management and of other employees of the Bank;
- efficient procedures for identification, measuring, follow up and control of the risks the Bank is exposed to;
- efficient mechanisms of internal control, including detailed administrative and accounting procedures;
- transparency of the Bank's operation in terms of all interested entities, in accordance with the regulations and Business Policy of the Bank;
- systems of supervision and control established through supervision of the Supervisory Board, control and monitoring of the operation by the Board of Directors, systems of internal control, system of integrated risk management, permanent control of compliance with the regulations and independent internal audit.

II. PRINCIPLES OF THE CORPORATE GOVERNANCE

1. Realization of the rights and interests of the shareholders

Each shareholder, regardless of the type and class of shares shall have the right to take part in the operation and discussions of the General Meeting of the Assembly, to give proposals, to ask questions and to receive answers to the asked questions. Each shareholder, holder of voting shares shall have the right to take part in the decision-making at the general Meeting of the Assembly. Shareholders shall have the right to be informed on the activities and operation of the Bank.

2. Transparency of the ownership structure

Pursuant to the law provisions, the Bank shall submit notices and information on the changes in its shareholders structure. Information referring the securities issued by the Bank shall be published on the web site of the Bank.

3. Social responsibility

The Bank supports the principles of corporative social responsibility and accepts the responsibility for its corporate activities towards shareholders, clients, business partners, society and the country. The Bank takes part in the work of financial organizations, associations and other non-profitable institutions.

4. Efficient Corporate Governance

The Bank has a long-term strategy for efficient Corporate Governance. The Supervisory Board and Board of Directors permanently monitor its realization and provide improvement of operation in terms of achieving the objectives set by the strategy. The general acts of the Bank passed by the Supervisory Board and Board of Directors lay down the qualitative and quantitative indicators for achievement of the objectives of the strategy.

There is special unit in the Bank established, which takes care of support and organization of activities related to the Corporate Governance, organization of meetings of the supervising and managing bodies and provides proper application of the law regulations.

5. Division of duties

The Bank has clearly set the organizational structure with precisely defined rights and responsibilities of the supervising and managing bodies for successful implementation of the Corporate Governance system.

6. Regular and efficient control and audit of the Bank's operation

The Bank's Assembly shall select an audit company out of the independent professional audit institutions and considers the report of the Audit Company. The Bank's Assembly shall select members of the Audit Committee, which takes care of accuracy and transparency of the disclosed financial information on the Bank's operation. The Supervisory Board of the Bank shall establish an independent organizational unit for internal audit, whose employees exclusively perform activities from the domain of internal audit. The Bank's Board of Directors shall establish an independent organizational unit for control of compliance of the Bank's operation with the applicable regulations.

7. Adherence to the laws, ethic standards and practices

The Bank shall perform its activities in accordance with the law regulation and by-laws regulating the banking operation, as well as in accordance with the principles of corporative and business ethics. The Code of Ethics of the Bank defines the professional standards and corporative values, which shall be equally applied for all members of the supervising and managing bodies, persons with special rights and responsibilities and other employees in the Bank.

8. Independence and objectivity

The members of the supervising and managing bodies, persons with special rights and responsibilities and employees in the Bank are obliged, while performing its obligations, to act with honesty and integrity, to avoid conflict of interests and to put interests of the Bank before their personal interests.

9. Informing and public relations

The Bank shall publish the annual accounts and financial statements upon their adoption by the Bank's Assembly. The Bank shall, in due time, provide easy accessible, complete, relevant, clear and documented information regarding its operation to its shareholders, investors and other interested entities in need thereof.

At publishing the information, the Bank shall keep reasonable balance between the need of transparency of the information and the commercial interests of the Bank. When determining the information to be published, the Bank shall take care of the obligation for protection of confidential data, the data being business secret, price sensitive data, etc.

The Bank has policies and procedures that enable minimization of the possibility for occurrence of conflict of interests and misuse of internal information.

10. Protection of confidential data

The Bank's employees are obliged to keep as confidential all the data acquired while performing their duties. The confidential data may be disclosed or published only in case and in the way prescribed by the law.

11. Protection of personal data

The Bank's employees, who have access to personal data of citizens in their operation, shall obey the law regulations proving of personal data protection.

III. PROCEDURE OF CONVENING THE MEETING OF THE BANK'S ASSEMBLY, VOTING PROCEDURE AND SHAREHOLDERS' RIGHTS

1. Procedure of convening the General Meeting of the Bank's Assembly

The Bank's Assembly works on sessions, held when necessary, at least once a year.

The Board of Directors decides on convening the Assembly's meetings and proposes the agenda and decisions regarding items on the agenda, based previously obtained approval of the Supervisory Board, upon completion of the annual accounts, financial statements and the annual report on operation of the Bank in the previous business year, within six months of the calendar year, for the previous year.

A meeting of the Assembly, between two General Meetings, may be convened by the Board of Directors, upon previously obtained approval from the Supervisory Board, or by the Supervisory Board at its initiative or at request of shareholders.

Requests for convening meetings of the Assembly may be submitted by the shareholders having at least 1/10 of the voting shares. The purpose and reasons for convening the meeting, the matters to be decided on and data on shareholders shall be stated in the request. Attached to the request, the shareholders shall submit statement of account for securities issued by the Central Securities Depository, having the number of voting shares stated therein.

Based on the opinion of the Supervisory Board, the Board of Directors shall respond within 8 days from the date of receipt of the request.

The shareholders shall realize their rights connected with convening the Assembly's meeting in accordance with the Companies Act.

The Assembly's meeting is convened upon an invitation to shareholders in the way that shall provide a confirmation that the invitation had been received by the shareholder or upon an announcement to the shareholders published in at least one daily newspaper and on the web site of the Bank. The way of convening the General Meeting is determined by the Bank's Decision on convening the General Meeting.

The invitation or the announcement shall contain data on the company and Head Office of the Bank, place and date of holding the General Meeting, other procedural formalities of significance for presence at the General Meeting and the way of voting, agenda under which the General Meeting will be run, way of making the materials under items of the agenda available, possibility of appointing a proxy of the shareholder and the way of his/her appointment and other information depending on the agenda.

The period from the invitation date or from the announcement date until the Assembly's meeting date, must neither be shorter than 21 days, nor longer than 50 days. Materials for the meeting of the Shareholders Assembly shall be made available for the shareholders as from the date of sending the invitation, or publishing the announcement, in the Bank's premises determined therefore and on the web site of the Bank, both in Macedonian and in English.

Each shareholder has the right to participate at the Assembly's meeting and the right to vote.

Each share provides the voting right of one vote per share at the Shareholders Assembly.

Each shareholder may authorize a proxy at the General Meeting, with a written notarized power of attorney.

Each shareholder shall report its participation at the General Meeting before beginning of the convened Meeting. The list of the reported shareholders of paragraph 1 of this article shall be available for inspection in the Head Office of the Bank and it shall be compared to the statement of the shareholder register obtained from the Central Securities Depository 48 hours before the Meeting of the Assembly. The list shall be signed by each present shareholder or proxy, thus verifying presence at the Meeting of the Assembly.

2. Voting procedure

The decisions made at the Shareholders Assembly shall be considered passed if voted by the majority of voting shares represented at the General Meeting.

The voting under all issues listed at the Agenda, including the appointment and dismissal of the members of the Supervisory Board and the Audit Committee, shall be open.

At request of one or more shareholders holding at least 1/10 of the total number of voting shares the voting may be secret, in a way as prescribed by the law.

The decisions made at the Shareholders Assembly shall become valid as of the date of their adoption, unless, depending on the nature of the decision made at the Shareholders Assembly, another date of its entering into effect is determined.

The results from the voting under the draft-decisions at the general meeting of the Assembly, as well as the amendments to the Bank's Statute, shall be published at the web site of the Bank.

3. Shareholders' rights, including the right of the small shareholders

Shareholders realize their rights in the Bank at the General Meeting of the Assembly and they have equal treatment in accordance with the rights arising from the class and type of their shares. The Bank shall protect the rights and interest of the small shareholders providing them to realize their rights, especially the right to convene General Meeting of the Assembly, propose items of the agenda, ask questions regarding items of the agenda, to take part in the discussion, to make comments in the course of the meeting of the Assembly and to require recording them in the Minutes from the meeting of the Assembly, and especially when making decisions of significance for the Bank by qualified majority of votes.

IV. COOPERATION BETWEEN SUPERVISORY BOARD AND BOARD OF DIRECTORS, MODES, PERIODS AND CONTENT OF THE INFORMATION AND DOCUMENTS PREPARED BY THE BOARD OF DIRECTORS TO THE SUPERVISORY BOARD AND MODE OF ACTING IN THE SITUATIONS OF CONFLICT OF INTERESTS

The Bank's bodies for supervision and managing are cooperating in order to insure transparent and documentary procedure for decision-making.

The Bank's bodies for supervision and managing make decisions in accordance with the respective Rules of Procedures, where the obligations of the bodies are defined with clear and consistent division of their rights and responsibilities.

For realization of the purposes of the good Corporate Governance, the Supervisory Board and Board of Directors of the Bank cooperate on constant and documented basis. The cooperation between the Supervisory board and Board of Directors refers especially to:

- defining the business purposes and Bank's Development Plan;
- strategies for undertaking and managing the risks the Bank is exposed to;
- risk profile of the Bank;
- the policies for realization of the business aims and the aims regarding the risk profile of the Bank.

The Supervisory Board nominates the members of the Board of Directors with the majority votes of the total number of members of the Supervisory Board. With the Decision on nomination of the Board of Directors, the CEO - Chief Executive Officer (President of the Board of Directors), COO - Chief Operative Officer and CFO - Chief Financial Officer have been elected. The division of the competences between the members of the Board of Directors and the act, made by the Board of Directors, regulating the representation and signing of the Bank's acts is made by separate decisions made by the Supervisory Board.

The Board of Directors, for its work, is reporting to the Supervisory Board.

The Supervisory Board reviews the reports on the Bank's operation prepared by the Board of Directors on monthly basis, at least.

The Supervisory Board consider and approve certain acts made by the Board of Directors, which include the Business Policy and Development Plan, Risk Management Policies, Policy for identification of conflict of interests, the code of ethics of the Bank, Annual Report of the Bank, as well as other acts prescribed by the law regulations, Statute and other internal acts of the Bank.

The Board of Directors and Supervisory Board have meetings on monthly basis. The members of the Board of Directors are present at the sessions of Supervisory Board and give explanations for the materials for the Supervisory Board sessions. At the sessions of the Supervisory Board other present persons, in role of internal legal advisers, are the managers of the organizational divisions responsible for maintenance and support of the bodies for supervision and management and take care about the regular usage of the law regulation and internal acts from the side of banks bodies. The manager of the Internal Audit Department is present on the sessions too, give explanations of the reports and answer the questions from the aspects of internal auditing. Each member of the Supervisory Board has right to get explanations and right to have inspection to the whole documentation for the working of the Board of Directors and other Bank's bodies.

The Board of Directors informs the Supervisory Board, on regular basis, on the relevant issues connected with the development of events in the business area including the estimation of Bank's risks and risks in the companies where the Bank has shares.

The Board of Directors, without any delay, informs the Supervisory Board for event with a high priority for the Bank, in cases prescribed by the law

regulations and internal acts of the Bank, and for the other circumstances that may cause material influence on the Bank's liquidity or solvency.

According to the Principle for good Corporate Governance, the managing with the Bank is organized through open discussions in the Bank's bodies, as well as between Board of Directors and Supervisory Board.

Board of Directors and Supervisory Board are working in the way for realization of the strategic directions of Bank and periodically made revision of the developing processes of the Bank, its business plan, strategy and system of internal control. The Board of Directors, once a year, reports to the Supervisory Board for the efficiency of the system of internal auditing and control.

The Board of Directors of the Bank, once a year, prepares Report on its operation and submits it for consideration to the Supervisory Board of the Bank.

The Supervisory Board, once a year, makes assessment of the work of the Board of Directors with the business policy and operational plans of the Bank as starting point, in which it gives its own opinion for accomplishment of the respective plans.

If an individual member of the Supervisory Board thinks that decisions made by the Supervisory Board are in contradiction with the Bank's aims, strategy and policies, and with the responsibilities of the Supervisory Board and its duties and mission, it puts written notice opinion with appropriate explanation which is contained in the Minutes from the Supervisory Board sessions.

If an individual member of the Board of Directors thinks that the decisions of Board of Directors are incompatible with the business aims, strategies and policies of Bank, and incompatible with the responsibilities and duties of the Board of Directors, it puts written notice opinion with appropriate explanation.

The Supervisory Board, at least quarterly, revises the report for transactions with the related entities with the Bank and the total amount of approved loans and other forms of exposures. The reports contain data for the type and amount of the transactions, as well as category of risk.

The members of the Supervisory Board and Board of Directors, when passing the decisions, vote without influence from personal interests or interests of some groups of shareholders but according to the objective states, facts, and in favor of good Bank's operations in compliance with the law regulations.

The Supervisory Board approves the Policy made by the Board of Directors with which are identified the potential conflicts of interests and which define the measures and activities undertaken in case of that kind of conflicts.

The members of the Supervisory Board and Board of Directors, twice a year, gave written statement for existing or non-existing of conflict of its own interest with the Bank's interest.

The members of the Supervisory Board and Board of Directors should not be present at the sessions when passing a decision if their objectivity is threatening because of conflict of interest. For any existing conflict of interest, the member of the Supervisory Board or Board of Directors shall give written statement before the actual session and this written consent shall be given to the Boards.

The Supervisory Board prepares annual reports to the Bank's Assembly, which include data for the way of execution of the supervisory function, cooperation with the Board of Directors, internal organization and structure of the Supervisory Board, existing of the eventual conflict of interest, and the methods for its solution, results from its own work, collectively and separately for each member, the presence of each member on the sessions, and execution of the other matters, according to the law.

V. OBLIGATIONS, RESPONSIBILITIES AND THE PRINCIPLE OF OPERATION OF THE SUPERVISORY BOARD, BOARD OF DIRECTORS AND OTHER BANK'S BODIES

1. Obligations, responsibilities and the principle of operation of the Supervisory Board

The Supervisory Board shall be responsible for ensuring good practice and management and Bank stability, as well as timely and accurate financial reporting to the National Bank of the Republic of Macedonia.

The Supervisory Board is a body of the Bank that supervises the operations of the Board of Directors, approves the policies for conducting financial activities and supervises their implementation.

The obligations and responsibilities of the Supervisory Board of the Bank are determined by the law and by-law regulation, Statute of the Bank and the other Bank's acts:

- approves the Bank's Business Policy and Development Plan, approves the Bank's Financial Plan and Bank's Annual Report; approves the information security policy; approves the Bank's risk management policies, approves the Bank's Code of Conduct; organizes the Internal Audit Department, approves the Bank's plans and programs of activities, and general acts, other than acts adopted by the Bank's Assembly,
- appoints and dismisses members of the Bank's Board of Directors, appoints and dismisses members of the Risk Management Committee, Credit Committee and IT Security Committee,

- approves the establishment and the organization of the Internal Audit Department and appoints and dismisses the employees of this Department, approves the annual plan of the Internal Audit Department; approves the internal audit policy and procedures; supervises the appropriateness of the procedures and the efficiency of the operations of the Internal Audit Department and reviews its reports, provides written opinion on the annual report of the Internal Audit Department to the Bank's Assembly and submits the annual report of the Internal Audit Department to the National Bank of the Republic of Macedonia,
- considers the reports on the activities of the Bank's Board of Directors, Risk Management Committee, Audit Committee, the Department for control of the compliance of Bank's operations with the law regulations,
- approves the exposure to individual entity exceeding 10% of the Bank's own funds, approves the transactions with persons related to the Bank exceeding MKD 1,000,000, approves the list of net debtors of the Bank, approves the acquiring equity holdings and purchase of securities higher than 5% of the Bank's own funds, other than purchase of securities issued by the National Bank and Republic of Macedonia,
- approves the Rules and Procedures for the operation of the Audit Committee and the proposal of the Audit Committee for appointment of auditing company and is responsible for ensuring appropriate audit,
- considers the supervisory reports, other reports submitted by the National Bank, the Public Revenue Administration and other competent bodies and proposes, i.e. undertakes measures and activities for addressing the identified incompliance and weaknesses in the Bank's operations,
- decides on issuance of securities, except for shares and other securities convertible into shares, determines the way and conditions for issuance of financial derivatives,
- decides on the Bank's indebtedness and borrowing activities over 5 % of the Bank's own resources, except for indebtedness for the Bank's liquidity purposes, decides on write-offs of problem claims, decides on credit exposure towards a single borrower and entities related thereto within the limits set by the Bank's acts, makes decisions on purchase, sale and rent of the Bank's fixed assets over EUR 250,000, makes decisions on acquiring and disposal of property on the basis of uncollected claims of the Bank, in accordance with the Bank's acts, passes general by-laws for more specific rules governing different types of loans, rescheduling of claims, loan conversion, availing and avails of bills of exchange and other claims and guarantees,
- decides on membership in financial and other institutions, on concluding contracts, agreements etc., monitors the implementation of the decisions, conclusions and directions adopted by the Bank's Assembly,
- approves the essential internal organizational changes in the Bank regarding foundation of new divisions or independent departments, and

- carries out other activities in accordance with the Statute, other general by-laws of the Bank and the law regulations.

The Supervisory Board makes decisions at its sessions, being held at least once a month. Members of the Supervisory Board may participate and decide at a session arranged by using conference telephone connection or using another audio or visual communication equipment, without having meeting, giving consent for the decisions that are going to be passed. The decisions of the Supervisory Board made with a written consent shall be notified in the minutes available for evidence to the members of the Supervisory Board on the next session.

Specific provisions for convening of sessions, mode of operation and decisions making procedures are prescribed by the Supervisory Board's Rules of Procedures.

The Supervisory Board of the Bank is obliged to notify the National Bank immediately on the deteriorated liquidity of solvency of the Bank, ground for withdrawal of the foundation license or ban for performing certain financial activity, decrease of own resources under the prescribed level, as well as the findings of the Public Revenue Administration and other controlling authorities, if those findings have significant influence on the financial statement of the Bank.

The Supervisory Board shall assess its performance at least once a year from the aspect of its individual members and collectively as well and shall notify the Bank's Assembly thereof.

2. Obligations, responsibilities and the principle of operation of the Board of Directors

The Board of Directors is responsible for managing the Bank, compliance of the Bank's operations with the regulations and the best interest of all shareholders, employees and other interested entities.

The Bank's Board of Directors shall be responsible for providing working conditions for the Bank in compliance with the regulations, risk management and monitoring, achievement and maintenance of proper level of own funds, functioning of the internal control system in all areas of the Bank operations, smooth operating of the Internal Audit Department of the Bank and Department for control of compliance of the Bank's operations with the regulations, i.e. make sure that they have an access to the documentation and to the employees of the Bank for the purposes of smooth conduct of its activities, maintenance of commercial and other books and business documentation of the Bank, compiling of financial statements and other reports in accordance with the regulations governing the accounting and accounting standards, timely and accurate financial reporting, regularity and accuracy of the reports submitted to the National Bank in line with the law and the regulations adopted on the basis

of law and other activities in accordance with the law.

The Board of Directors shall:

- manage the Bank and represent the Bank,
- enforce the decisions of the Bank's Assembly and the Supervisory Board, i.e. make sure they are implemented, take initiatives and give proposals for promoting the Bank's operations, appoint and dismiss the persons with special rights and responsibilities pursuant to the provisions under the Banking Law and the Bank's Statute, organized a Compliance Department;
- develop the Bank's Business Policy and Development Plan, develop a financial plan of the Bank, prepare annual report on the Bank's operations and submit it to the Supervisory Board, develop Code of Conduct of the Bank, develop the Bank's Information Security Policy;
- prepare a list of net debtors, decide on purchasing and selling securities within the limits determined by the Bank's acts, decide on the Bank's indebtedness within the limits determined by the Bank's acts, decide on approving loans within the limits determined by the regulations and acts of the Bank, decide on purchase, sale and rent of the Bank's fixed assets and approve funds for other purposes to the extent of EUR 250,000 in denar counter-value, for each contract; decide on acquiring and disposal of property on the basis of uncollected Bank's claims up to the extent determined by the Bank's acts, decide on lending and borrowing, for liquidity purposes, regardless the amount and maturity, within the limits determined by the Banking Law and acts of the Bank;
- take care of delivery of information to the Bank's shareholders;
- direct and organize the operation of the Bank's parts especially in terms of punctual and professional performance, conclude collective Agreement with the Union of the Bank, pass an act on internal organization and systematization of posts, decide on employment, assignment and salaries in compliance with the law regulations;
- define draft-decisions and other acts that are to be passed by the Supervisory Board, make general and individual acts of the Bank and guidelines under its competence;
- establish commissions for inventory of assets and resources and commission for writing-off and selling of the fixed assets and stationery and other commissions, decide on distribution of assets for sponsorships, advertising, promotion and representation;
- perform other activities in accordance with the Law, the Statute and other general by-laws of the Bank.

The principle of working and making decisions of the Board of Directors is determined in details in the Statute of the Bank and other internal acts.

3. Obligations, responsibilities and the principle of operation of the Risk Management Committee

The Risk Management Committee permanently monitors and assesses the risk level of the Bank, and identify the acceptable level of exposure to risks in order to minimize the losses as a result of the Bank's risk exposure, establishes risk management policies and monitors their implementation, follows the regulations of the National Bank related to the risk management and the Bank's compliance with such regulations, analyzes the risk management effects on the Bank's performances, determines short- and long-term strategies for managing certain types of risks the Bank is exposed to, analyzes the reports on the Bank's risk exposure developed by the Bank's risk assessment units and proposes risk hedging strategies, measures and instruments monitors the efficiency of the internal control systems in the risk management, analyzes the effects of the proposed risk management strategies, as well as the proposed risk hedging strategies, measures and instruments.

Risk Management Committee, for its work, informs the Supervisory Board at least once a month, and at least once every three months to the Audit Committee.

Risk Management Committee reviews the transactions with the persons related to the Bank on a quarterly basis, and submits report to the Supervisory Board not later than the 15th in the month following the reporting period.

Risk Management Committee convenes meetings at least once a week. Risk Management Committee can pass decisions without having meeting, giving consent by the majority of the members for the decisions that are going to be passed. All the decisions passed with written consent are contained in minutes.

More specific provisions for convening meetings, way of operation, decision, making procedure and other, are regulated by the Rules of Procedures of the Risk Management Committee.

The Risk Management Committee shall assess its performance at least once a year from the aspect of its individual members and collectively as well and shall notify the Bank's Supervisory Board thereof.

4. Obligations, responsibilities and the principle of operation of the Audit Committee

Audit Committee establish accounting procedures and control the compliance of the procedures with the laws and by-laws, discuss the financial statements of the Bank and make sure that the disclosed financial information on the Bank's operations are accurate and transparent as specified by the accounting regulations and international accounting standards, review and make assessment of the internal control systems, monitor the Bank's audit process and assess the work of the audit company, adopt the Bank's

accounting policies, monitor the compliance of the Bank's operations with the regulations related to the accounting standards and the financial statements, hold meetings with the Board of Directors, the Internal Audit Department and the audit company as to the identified non-compliances with the regulations and weaknesses in the Bank's operations, discuss the reports of the Risk Management Committee, propose an audit company and perform other activities according to the laws and by-laws.

The Audit Committee convenes meetings at least once in three months. On the meetings of the Audit Committee are present the Chief Finance Officer, Manager of the Internal Audit Department and Manager of the Finance Department.

The Audit Committee shall assess its performance at least once a year from the aspect of its individual members and collectively as well and shall notify the Bank's Supervisory Board and the Assembly thereof.

More specific provisions for convening meetings, way of operation, decision-making procedure and other, are regulated by the Rules of Procedures of the Audit Committee.

5. Obligations, responsibilities and the principle of operation of the Credit Committee

Credit Committee is founded by the Supervisory Board, and decides upon approval of loans upon loan applications within the limits determined by the regulations and the Bank's acts, capital investments within the limits determined by the Bank's by-laws; purchasing and selling securities, except for securities issued by NBRM and government securities, within the limits set in the Bank's acts; Bank's indebtedness within the limits determined by the Bank's by-laws, Initiation of a court procedure against the Bank's debtors in accordance with the Bank's internal acts; acquiring and disposal of property, on the basis of uncollected Bank's claims up to the extent determined by the Bank's by-laws, and performs other operations determined by the regulations and Bank's by-laws.

The Credit Committee proceeds at sessions convened by the Chairman of the Credit Committee once a week. The Credit Committee can pass decisions without having meeting, giving consent by the majority of the members for the decisions that are going to be passed. All the decisions passed with written consent are contained in minutes.

The specific provisions on the Bank's Credit Committee's proceedings are prescribed by the Credit Committee's Rules of Procedures.

6. Obligations, responsibilities and the principle of operation of the Committee for Supervision of the Information Technology

Committee for Supervision of the Information Technology as a body of the Bank shall be established by the Supervisory Board of the Bank and shall perform the activities connected with the Information Technology.

Committee for Supervision of the Information Technology submit reports on the status of the Information Technology in the Bank and on the opened issues to the Bank's Supervisory Board and Board of Directors, make recommendations to the Supervisory Board and to the Board of Directors regarding strategies, policies and bigger expenses from the domain of the Information Technology that are to be approved by the Supervisory Board or by the Board of Directors; provide effective planning of the Information Technology and following the capacity of the Information Technology system and its performances; monitor the development of the strategic plans of the Information Technology; approve the selected suppliers in regards of the Information technology and monitor their financial statement; approve and monitor the main projects, budget for the Information Technology, priorities, standards, procedures and performances of the system; coordinate the priorities between the IT Division and other organizational units of the Bank; monitor the adequacy of IT resources in terms of people, equipment, contracts with service providers etc.

The Committee for Supervision of the Information Technology shall work at sessions held at least quarterly.

More specific provisions for operation of the Committee for supervision of the Information Technology are set out by the Rules of Procedures for the Committee for Supervision of the Information Technology.

VI. CRITERIA AND RULES FOR APPOINTING MEMBERS OF THE SUPERVISORY BOARD AND THE MANNER IN WHICH THEY RECEIVE THEIR REMUNERATION

1. Criteria and rules for appointing members of the Supervisory Board

The members of the Supervisory Board are appointed by the Bank's Assembly having in mind the expert knowledge and adequate personal qualification. The Decision for appointing the members comes into effect upon obtaining consent from the National Bank.

Criteria and qualifications for appointing members of the Supervisory Board:

- University degree, at minimum,
- Knowledge in the regulations in banking and/or finance area and knowledge in financial industry and environment the bank operates in;
- Experience contributing to stable, safe and efficient management and surveillance of the bank operations;

- Honest, competent, capable of giving independent assessment and have strong personal integrity,
- Know the bank's risk profile;
- Understand his/her role in the corporate governance and fulfill his/her supervisory role efficiently;
- Know the regulations and take care of establishing and maintaining professional relations with the National Bank and other competent supervisory and regulatory institutions;
- Demonstrate loyalty and care for the Bank;
- Avoid conflict of interest or possible conflict of interest.

Member of the Supervisory Board may not be a person who does not fulfill the criteria for person with special rights and responsibilities in accordance with the Banking Law and by-laws. Member of the Supervisory Board may not be a person who is employed in the Bank, who is connected with legal entity the Bank has share, who is a net-debtor of the Bank, who acquired shares in a way contrary to the provisions of the Banking Law, who is member of supervisory board, risk management committee, audit committee or board of directors of another bank registered in the Republic of Macedonia or employed with other bank registered in the Republic of Macedonia.

Besides the abovementioned criteria, the independent members of the Supervisory Board, together with the related persons, must fulfill additional criteria:

- Is not employed or a person with special rights and responsibilities in the Bank,
- Is not a shareholder with qualified holding in the Bank or does not represent a shareholder with qualified holding in the Bank,
- Does not work, or has not been working in an audit company over the last three years, which at that time audited the operations of the Bank,
- Has not got any financial interest or business relation with the Bank in amount not exceeding MKD 3,000,000 annually on average, over the last three years

The mandate of the Supervisory Board's member may terminate before expiry of the mandate period if the Bank's Assembly does not approve the Report on the operation of the Supervisory Board, if there are conditions disabling appointing a member of the Supervisory Board, if the Governor of the National Bank withdraws the consent for appointing a member of the Supervisory Board, if the member of the Supervisory Board is net debtor of the Bank or the member works in favor of other competitive banks. The mandate of the Supervisory Board's member may also terminate if the member has, by a final judgment, been convicted a penalty of imprisonment, in accordance with the law, if the member resign from its membership, at his/her personal written request and in other cases stipulated by the Law. The mandate of the Supervisory Board's members may terminate before expiry of the mandate period due to their operation opposite to the Law, the Statute and the good business practice.

2. Compensations to the members of the Supervisory Board

The members of the Supervisory Board will be compensated for their participation at the meetings, as well as compensation for their costs and per diem payments for the meetings to the extent determined by the act for expenses and the Decision on assignment. The Assembly may, by a Decision, approve part of the profit to be distributed to the members of the Supervisory Board for their work therein.

3. Commissions of the Supervisory Board

The Commissions are established by decisions of the Supervisory Board. The members of the Commissions are the members of the Supervisory Board and other persons who have professional knowledge in the spheres the Commissions are established for. The Supervisory Board passes the decisions based on the proposals of the Commissions, and approves the decisions of the Commissions.

In the Decision on establishing the Commission, the Supervisory Board determines the rules for the operations of the Commissions, responsibilities, tasks, number of members, mandate of the members and appoints the members, having in mind the knowledge, competence and independence of the members.

Members of the Commissions should obligatory be the independent members of the Supervisory Board.

The mandate of the Commission members may not exceed the mandate of the members of the Supervisory Board. The Commission has quorum to pass decisions, if at least half of the members are present at the Commission meeting. With prior approval from the Supervisory Board, the Commissions may use outsource professional advice from independent experts

The annual report on the performance of the Bank contains information for the Commissions' activities, their members, number of meetings, main issues decided or discussed by the Commissions, as well as the compensation for the members.

The Supervisory Board establishes the following Commissions:

- The Commission for nomination and appointment shall, among other competences defined by the Decision on establishing of this Commission, submit proposals to the Supervisory Board for complementing vacant mandates with the Supervisory Board, Board of Directors and Audit Committee.

- Remuneration Commission, prepares the decision for compensation and remuneration and submits it for approval to the Supervisory Board. The Commission determines the compensation and remuneration based on the criteria contained in the Remuneration Policy.

VII. CRITERIA AND RULES FOR APPOINTING MEMBERS OF THE BOARD OF DIRECTORS AND THEIR REWARDING, APPOINTING MEMBERS OF AUDIT COMMITTEE, APPOINTING MEMBERS OF RISK MANAGEMENT COMMITTEE AND OTHER BANK BODIES

1. Criteria and rules for appointing members of Board of Directors and their remunerating

The Supervisory Board of the Bank appoints the members of Board of Directors with a Decision, which enters into force upon obtaining approval from the National Bank of R.M. The Board of Directors is selected by majority votes from all the members of Supervisory Board.

The Supervisory Board concludes managerial contract with the members of Board of Directors, which determine the obligations of the member, his/her rights, salary, participation in the profit, extent of the personal insurance premium and reimburse in case of canceling the managerial contract without guilt of the member of the Board of Directors, etc.

Criteria and qualifications for nomination of members of Board of Directors:

- university degree, at minimum;
- minimum 6 years working experience in the domain of finance or banking or 3 years working experience as a person with special rights and responsibilities in a bank with activities appropriate for the Bank;
- know the Bank's risk profile;
- having good knowledge in the domain of banking regulation;
- active knowledge of one of the world languages;
- to be honest, to have good reputation, professionalism, capacity for organization in work, capable of giving independent assessment, strong personal integrity,
- to have will and capacity for high ethical standards of behavior;
- to work with honor, independence and to be impartial;
- to have qualities for loyalty to the Bank;
- to take care of the reputation and successful work of the Bank and
- to avoid conflict of interests or possible conflict of interests.

Member of Board of Directors may not be a person who is member of Board of Directors or Supervisory Board of any other legal entity, or a person who do not fulfill the conditions for person for special rights and responsibilities appointed in the Banking law and by-laws.

The members of Board of Directors of the Bank are in the constant working relation with the Bank. At least one of the members should know the Macedonian language and Cyril letter and to have permanent residence in the Republic of Macedonia.

The managerial contracts concluded with the members of the Board of Directors may be canceled in the following cases:

- If the member, during its work brake the law, by-laws and regulations related to the banking operations, or brake the Statute or others Bank's acts.
- If during his/her work make loss or damage to the Bank;
- If the Bank's Assembly does not accept the annual report for the results of working, whereupon the Supervisory Board is obliged to initiate a procedure for determination the responsibility for non-realization of the business results and profit,
- Cause legal consequences during working,
- If the members of the Board of Directors require cancellation of the contract, and
- If the supervisory Board made an appraisal, without any guilty of the member of the Board of Directors, and in that case he has a right for reimburse according to the managerial contract.

The Supervisory Board approves the Policy for remunerating the members of the Board of Directors, other persons for special rights and obligations in the Banks and the other employees.

In the Policy for remunerating, the Supervisory Board approve the rules and criteria for determination of variable price of the compensation, including also the approval of annual bonuses and other non-monetary income as form of compensation.

When defining the structure of the Policy for remunerating, the members of the Board of Directors, the Supervisory Board follows these criteria:

- The scope of competences of each member of Board of Directors;
- The success in performing the function – member of Board of Directors;
- The scope of operation and Bank's financial standing;
- The complexness in the Bank management;
- The implementation of strategy and the annual plan of activities;
- The influence of economic conditions the Bank acts under.

The remuneration policy shall be approved by the Bank's Assembly if it envisages receiving compensation in the form of shares or other rights enabling acquiring shares.

The Decision on rewarding shall be adopted by the Commission for compensation, and approved by the Supervisory Board.

2. Criteria and rules for appointing members of the Risk Management Committee

The Supervisory Board appoints the members of Risk Management Committee from the persons with special rights and obligations, employees in the Bank. One of the members of the Board of Directors compulsorily is member of the Risk Management Committee.

Criteria and rules for appointing members of Risk Management Committee are:

- working experience in the banking and finance at least 3 years;
- appropriate high education;
- good knowledge of the banking law and regulation and laws and regulations from the area of finance;
- capability of giving independent assessment, strong personal integrity,
- capability for putting the Bank's interests above personal interests and to avoid conflict of interests.

3. Criteria and rules for appointing members of Audit Committee

The majority of members of Audit Committee are nominated from the members of the Supervisory Board and the rest of the members are independent. At least one member from Audit Committee shall be authorized auditor.

The members of Audit Committee beside the condition to be a persons with special rights and obligations, should have excellent knowledge for Bank's operations, Bank's products and services, Risks the Bank is exposed to, systems of internal control and Policies of the Bank for the risk management, accounting and audit.

4. Criteria and rules for appointing members of Credit Committee

The Supervisory Board appoints the members of Credit Committee from amongst the persons with special rights and obligations employed in the Bank. One of the members of the Board of Directors compulsorily is member of the Credit Committee.

Criteria and qualifications for nomination of members of Credit Committee are:

- working experience in the banking and finance at least 3 years;
- appropriate high education;
- good knowledge of the banking law and regulation and laws and regulations from the area of finance;
- capability of giving independent assessment, strong personal integrity,

- capability for putting the Bank's interests above personal interests and to avoid conflict of interests.

5. Criteria and rules for appointing members of Committee for Supervision of the Information Technology

The members of Committee for Supervision of the Information Technology are selected from the employers, which have a good knowledge of the basic toponyms of the information technology as well as procedures and guidelines for the informative technology. One of the members of the Committee for Supervision of the Information Technology is an independent expert who is not employed in the Bank. One of the members of the Board of Directors compulsorily is member of the Committee for Supervision of the Information Technology.

Criteria and qualifications for nomination of members of Committee for Supervision of the Information Technology are:

- working experience in the banking and finance of at least 2 years;
- appropriate high education;
- good knowledge of the banking law and regulations
- good knowledge of the policies and procedures from the area of information technology and information security;
- capable of giving independent assessment , strong personal integrity,
- capability for putting the Bank's interests above personal interests and to avoid conflict of interests.

Member of the Bank's Body and/or person with special rights and responsibilities may not be:

- person sentenced to imprisonment for crime in the area of banking and finance;
- person who was imposed a security measure ban on performing a profession, activity or duty;
- person without reputation, thus compromising the safe and sound Bank operations;
- person who fails to implement and acted contrary to the measures stated by the Governor that compromised or have been compromising the safety and soundness of the Bank;
- member of supervisory Board, Risk Management Committee, Auditing committee, Board of Directors of another bank or employee in another bank or in a legal entity which is related to a Bank;
- person who performed function of a person with special rights and responsibilities in a bank on other legal entity in which administration has been initiated or against which a bankruptcy of liquidation procedure has been initiated.

VIII. THE ROLE, THE MEANING AND THE OPERATING AREA OF THE INTERNAL AUDIT, THE EXTERNAL AUDIT AND THE ORGANIZATIONAL PART COMPETENT FOR PERFORMING COMPLIANCE FUNCTION

1. Internal Audit Department

The Supervisory Board organizes the Internal Audit Department, which is an independent organizational unit of the Bank. The Internal Audit Department officers shall be employed with the Bank and shall only perform the function of the Department. At least one of the persons employed in the Internal Audit Department shall be an authorized auditor.

The Internal Audit Department shall conduct constant and full-scope audit of the legitimacy, accuracy and promptness of the Bank's operations through determination of the accuracy and authenticity of the commercial books and financial accounts, compliance with the internal acts and procedures, laws and regulations.

The Internal Audit Department performs its operations in accordance with the standards for integrity, objectivity, confidence, independence, knowledge and professional competence. The Internal Audit Department shall carry out its activities in conformity with the internal audit principles and standards, the Bank's Code of Conduct and the operating policy and procedures of the Department.

The Internal Audit Department shall develop annual plan of activities of the department, endorsed by the Supervisory Board. The Internal Audit Department shall prepare semi-annual and annual report and shall submit them to the Supervisory Board, Board of Directors and Audit Committee of the Bank. The Supervisory Board submits the annual report to the Bank's Assembly and to the National Bank.

The Internal Audit Department shall conduct constant and full-scope audit of the legitimacy, accuracy and promptness of the Bank's operations through:

- control and assessment of the adequacy and efficiency of the internal control systems ;
- inspection and assessment of the implementation of the risk management policies;
- inspection and assessment of the design of the information system;
- inspection and assessment of the accuracy and authenticity of the commercial books and financial accounts;
- inspection and assessment of the systems of the Bank on evaluation of the capital position adequacy in regards to the assessed risks;
- assessment of the economical and efficient operation of the Bank;
- testing of certain transactions and of functioning of the respective internal control procedures;
- check of the accuracy, reliability and the timeliness in the reporting in

- accordance with the regulations;
- monitoring of the compliance with the regulations, the Code of Conduct, policies and procedures;
- assessment of the money laundering prevention systems;
- assessment of the outsourcing services provided to the Bank

Internal Auditors employed in the Internal Audit Department have the right to access to all information and documentation. The employees of the Bank shall provide the Internal Audit department staff an access to the available documentation and render all necessary information.

The Board of Directors provides conditions according to which the Internal Audit Department is fully and timely informed on the developments in the Bank of higher importance, on the introduction of new products and other operational changes. The Manager of Internal Audit Department is present at the sessions of the Supervisory Board and at the meetings of the Supervisory Board and the Board of Directors.

The Supervisory Board, the Board of Directors and the other persons with special rights and responsibilities performing management in the Bank contribute to enhanced efficiency of the internal audit in the Bank through providing total independence, objectiveness and neutrality in the implementation of the internal audit, providing environment for access to all documents and information, timely and efficient recognition of the finding and implementation of the internal audit recommendations, engagement of the internal audit in estimating the effectiveness of the internal control systems.

2. External audit

The Bank's Assembly shall select an Audit Company from amongst the independent professional auditing companies. The external audit of the financial statement and the Bank's operations should be performed in conformity with the International Audit Standards, the Code of Ethics for Professional Accountants set by International Federation of Accountants and with other regulations setting the operations of the audit company.

Prior to nomination by the Bank's Assembly, the Audit Company shall submit written statement certifying that there are no legal reasons for its exclusion.

The external Audit company performs objective and independent audit of the balance sheet, the income statement, cash flow statement, the changes in the amount of the own funds and the assessment of the capital adequacy, the level and changes in the value adjustment level and the allocated special reserve and the write-offs, the amount of assumed potential liabilities, the functioning of the internal control systems and the performance of the internal audit function, the bookkeeping, the information security, the accuracy and completeness of the statements submitted to the National Bank, the adequacy of the accounting policies and procedures of the Bank, valuation of the

balance sheet and off-balance sheet assets and liabilities, the compliance of the Bank with the regulations, and the Bank's risk management systems.

The Internal Audit Department cooperates with the Audit Company, exchanges information for operations of mutual interest, opinions on the audit techniques, methods and terminology. The audit reports of Internal Audit Department are available to the Audit Company.

The Audit Company submits letter to the Board of Director for the find weaknesses during the audit.

The Bank shall publish the audit report and annual financial statements including the notes, at least in one daily newspaper and the web site of the Bank, within 15 days after the adoption of the report by the Assembly of the Bank.

3. Control of the compliance of the Bank's operations with the regulations

The Board of Directors organizes a Department for control of compliance of the Bank's operations with the regulations, as an independent organizational unit. The compliance function shall denote identification and monitoring of the possible risks from non-complying the bank operations with the regulations.

The Board of Directors prepares and implements written policy for control of the Bank's compliance with the law regulations. The Supervisory Board approves the policy and monitors the management of the risk from the Bank's incompliance with the regulations.

The Department for control of compliance of the Bank's operations with the regulations has access to all information needed for their operation.

The Department submits monthly report for its operations to the Board of Directors and quarterly report to the Supervisory Board.

The employees in the Department responsible for performing compliance function are required for the following operations:

- follow and comply with the regulations pertaining to the Bank's operations,
- identify and monitor the risk from non-compliance of the Bank's operations with the law regulations,
- monitor and test the compliance function and report to the Board of Directors, for the determined incompliance and undertaken corrective actions for their overcoming;
- advise the members of the Board of Directors constantly and efficiently on the application of the regulations;
- report to the members of the Board of Directors in due time on the amendments and supplements to the law regulations;

- assess the potential influence of the amendments on the Bank's operations and the environment the Bank operates in;
- assess the harmonization of the new products and business processes in the Bank with the by-laws,
- provide training and information of the employees for the manners the appropriate laws and by-laws can be implemented in their daily operating;
- money laundering prevention activities,
- cooperation with other institutions,
- other obligations according to the law regulations.

The activities carried out by the Compliance Department shall be subjected to the regular audit executed by the Bank's Internal Audit Department according to the annual audit plan.

IX. CORPORATE GOVERNANCE REPORT

The Bank shall be obliged to prepare a corporate governance report on an annual basis, as an integral part of the annual report on the Bank's operations.

The report on the corporate governance shall contain:

- information and data on the composition and the functioning of the Supervisory Board and the Board of Directors and other Bank's bodies (information on the number and the composition of the Bank's bodies, the procedure for appointing and dismissing members, their qualifications, the criteria for independence for a member of the Supervisory Board and the Audit Committee, defining of the material interest and business relations with the Bank, the obligations and the responsibilities of the members of both Supervisory and Board of Directors, the functions of the members of the Supervisory Board outside the Bank, etc.);
- information and data on the organizational structure of the Bank, including its subsidiaries;
- Bank's shareholders structure - the title of the shareholders with qualified share and their share in total number of shares and the total number of issued voting shares and their representatives in the Bank's Supervisory Board;
- information and data related to the application of the Corporate Governance Code, as well as explanation of the compliance i.e. reasons for the non-compliance of the corporate governance of the Bank with certain provisions or guidelines of the CGC;
- information and data on the Bank's conflict of interests prevention policy.

X. CLOSING PROVISIONS

The Corporate Governance Code shall come into effect from the date of its adoption by the Assembly of the Bank.

The Corporate Governance Code shall be subject to revision at least once a year. The amendments and supplements of the Corporate Governance Code shall come into effect from the date of its adoption by the Assembly of the Bank.

SUPERVISORY BOARD
VICE-PRESIDENT
Taki Fiti, Ph.D.