

KOMERCIJALNA BANKA AD SKOPJE

COMMUNICATION ON PROGRESS

2014



This is our **Communication on Progress** in implementing the principles of the **United Nations Global Compact** and supporting broader UN goals.

We welcome feedback on its contents.

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About Us

Komercijalna Banka AD Skopje is one of the leading banks in the Republic of Macedonia.

Our mission is to be a highly profitable institution, recognized as a leading independent, privately-owned Macedonian bank, offering a universal range of services and having strong international reputation, supported by a strongly market-oriented, well trained management and staff of the highest expertise and integrity.

Founded in 1955 as Komunalna Banka of the city of Skopje, the Bank began its journey as a reliable and responsible financial institution with very important role in society. This year the Bank marks 60 years from its establishment and we can proudly say that Komercijalna Banka AD Skopje firmly stands and grows on the same ideals it was founded upon – uncompromised stability, ethics, cooperation and utmost efficiency.

Komercijalna Banka AD Skopje offers a wide range of banking products and services. The offering includes collecting deposits, loaning to legal entities and citizens, services in international and domestic payment operations, forfeiting, mediation in purchase of foreign currency, stock exchange services etc.

Our objective is to make our Bank and its services close and relevant to our valued customers, both in Macedonia and worldwide. The Bank has a widespread network throughout the country, consisted of city branches, branches, ATMs and POS terminals. For the purpose of performing fast and efficient international services for its clients, the Bank has established correspondent banking relations with 870 banks in 79 countries and maintains nostro and vostro accounts with 41 bank.

Komercijalna Banka AD Skopje is one of the founding members of the Macedonian Global Compact Network and actively participates in its activities. Together with the rest of the members and the network Secretariat, we continue to work on promoting the ten principles of the Global Compact and building a growing base of socially responsible companies.

The Bank has been recognized as one of the domestic leaders in CSR practices and has received several annual awards for integrated approach towards corporate social responsibility by government institutions and NGOs.

Statement of Continued Support by the Chief Executive Officer Mr. Hari Kostov



Komercijalna Banka AD Skopje is proud of its long-lasting and continuous corporate social responsibility. The devotion to improvement of our society is embedded into our culture and is already among the first associations when we mention the Bank's "traditional" behavior.

In those terms, 2014 was by all means a traditional year. Komercijalna Banka continued to tackle the challenges surrounding us as a society on daily basis, strived to shape its impact to be as positive and productive as possible, all while producing exceptional value for the benefit of all stakeholders.

Continuing the implementation of the Bank's CSR strategy for the period from 2012 to 2016, in 2014, we maintained the guiding principles and stayed within the defined priorities in terms of CSR action. On the other hand, the dynamic, ever-changing environment made us keep vigilance and stay constantly open to new ideas and opportunities to help us in fulfillment of the set goals. This report will show you how Komercijalna Banka provided aid to important community projects, continued its support to marginalized groups, cultural events, the employees, the youth, and many other steps we took in order to give our best in the efforts of contributing to a better society.

As an active member of the Macedonian Global Compact Network, in 2014 we continued to participate in various initiatives aimed to improvement of the climate for corporate and individual social responsibility, promotion of the Ten Principles and advancement of companies' role in society. We continued to cooperate with many acclaimed NGOs on their proven projects and gave equal attention to new promising ideas with great potential and vigor.

With CSR being an integral part of our culture, one of our main priorities for these past few years has been to ensure constant employee engagement in the Bank's CSR activities and to include them in as many segments as possible. We can safely say that we are successful at this task, mainly due to the work of the Bank's Coordination Body for Corporate Social Responsibility, which continued to be a key element in organization and execution of CSR actions. The Body ensured that goals and tactics are well communicated throughout the company and there are high levels of awareness and involvement maintained by all organizational units.

As we go through 2015, we stay determined to continue the Bank's tradition in being a fully involved and aware company that always keeps notice and stays on top of issues that concern our society. We will keep this vision alive, hoping to report on many successful examples of acknowledging the Global Compact and its principles.

Sincerely,



Hari Kostov

*Chief Executive Officer of
Komerijalna Banka AD Skopje*

The Ten Principles of the United Nations Global Compact

The UN Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with the following ten universally accepted principles:

HUMAN RIGHTS

- Principle 1:* Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principle 2:* make sure that they are not complicit in human rights abuses.

LABOUR

- Principle 3:* Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4:* the elimination of all forms of forced and compulsory labour;
- Principle 5:* the effective abolition of child labour; and
- Principle 6:* the elimination of discrimination in respect of employment and occupation.

ENVIRONMENT

- Principle 7:* Businesses should support a precautionary approach to environmental challenges;
- Principle 8:* undertake initiatives to promote greater environmental responsibility; and
- Principle 9:* encourage the development and diffusion of environmentally friendly technologies.

ANTI-CORRUPTION

- Principle 10:* Businesses should work against corruption in all its forms, including extortion and bribery.

Human Rights

Assessment, Policy and Goals

Human rights protection has the highest priority within the CSR activities of Komercijalna Banka. Improvement in this area is a crucial issue for any society, and our bank has always been ready to take immediate and concrete action to help marginalized groups.

Careful analysis of the conditions in the community allows us to detect crucial pain points and prepare appropriate actions. Having in mind the complexities of these issues, especially in a developing society like ours, aside from our constant vigilance we also use the insights of NGO partners that are competent in respective areas. As a structured organization that leans on strict criteria and procedures, we strive to detect and address the most urgent and vital issues, in a manner that is efficient as is effective.

Nevertheless, we are aware that no company or individual can change the course of these problems on its own. Thus, we try to make our actions as vocal and public as possible in order to raise awareness and stir public debate about the issues that we find neglected for far too long.

The priorities in 2014 were divided in several areas which have had our attention for some years now – women that are victims of domestic violence, people with visual impairment, children with developmental disabilities, and children from the streets.

Implementation

The Bank takes action in the area of human rights through sponsorships, donations, voluntarism, education and internal operative processes. Projects and separate actions were mostly jointly planned and executed with partner organizations, but in some cases were independently realized by Komercijalna Banka.

Most of the major activities in 2014 were some form of continuation of projects that the Bank has undertaken on a mid or long-term basis.

One of those traditional projects is *“Women for women”*, which began in 2011 as a combined initiative of Komercijalna Banka and the Macedonian Platform Against Poverty (MPPS) aimed at providing psychological support to women-victims of domestic violence and their social inclusion. After two years of continuous

psychological treatment, in 2013 the initial form of the project was brought to a higher level in which Komercijalna Banka with its financial contribution (along with the Swiss Agency for Development and Cooperation and the cooperation of MPPS, the Association for Health Education and Research HERA and the City of Skopje) helped in opening the first Center for Victims of Domestic Violence in Skopje, which threatens the victims, the perpetrators, and the affected children as well. After that crucial step which broadened the scope of professional help to the concerned families as a whole and significantly raised public awareness, in 2014, we completed the final task which we set at the project initiation – publishing of the first Guidelines for group treatment of women who are victims of domestic violence. The Handbook which was a result of the two-year work of two psychotherapists supported by Komercijalna Banka, describes the methodology for group treatment of victims, individual experiences and the progress they had achieved as a result of the work with the psychotherapists. The methodology can be used only by educated professionals / psychotherapists working with vulnerable categories within the state institutions and non-governmental organizations.

In another cooperation with the Macedonian Platform Against Poverty (MPPS), employees of Komercijalna Banka donated food for many socially disadvantaged families on the occasion of the World Food/End Hunger Day. The food donation carried out by the employees of Komercijalna Banka resulted in many collected food packages which were later delivered to families living in very bad conditions, struggling with unemployed, and having children that are not included in the education system. Similar activities were performed by the employees of the Bank's branches and city-branches throughout the country where the food donation was delivered to the Red Cross organizations of Republic of Macedonia, the social work centers, soup kitchens and women organizations to divide to the ones that need it the most.

Fifth year in a row, Komercijalna Banka actively and with great honor participates in the project of the Red Cross of the Republic of Macedonia *"Better Socialization of Children and Youth with Special Needs"* as General Sponsor, helping this particularly vulnerable and marginalized social group. The Bank also continued to bring holiday happiness to the dear children from the Center for Fostering Children from the Streets located in Shuto Orizari with the project *"New Year Hope"*, donating gifts and clothes and organizing screening of educative cartoons.

One of the dire moments in 2014 was the major flooding in Serbia and Bosnia and Hercegovina. The humanitarian crises that struck the people of these countries sparked a large aiding action in Macedonia in which Komercijalna Banka joined with immediate and significant financial donation.



"New Year Hope" – the children from the Center for Fostering Children from the Streets watched cartoons and performed holiday songs to the Bank's employees, before opening their New Year's presents

Apart from the efforts targeted at specific vulnerable groups, the Bank continued implementing its policies and procedures that concern rightful and respectful treatment of clients. The Bank has established policy of handling clients' complaints, which defines the basic principles and general rules for establishment of an appropriate framework that enables receiving feedback from clients and other stakeholders (opinions and suggestions, including complaints) as well to organize, establish and implement the process of handling received complaints and other opinions. Continuous client feedback is ensured through various channels (call center, e-mail, complaints and suggestions box etc.) and adequate behavior of employees is guided and monitored through the implementation of the Code of Conduct and the programs for continuous training.

The Bank's Supervisory Board and the Board of Directors, the management and all employees are committed to implement concepts and ideas of quality complaints handling.

Measurement of outcomes

In 2014, Komercijalna Banka participated in more than 15 different projects concerned with improvement of rights and living conditions of marginalized social groups. The projects were subjected to internal procedures for feasibility and outcome evaluation. Having in mind the specifics of the area, outcomes from

many of the projects are difficult to be quantified, but are continuously monitored and evaluated in cooperation with partner institutions.

In 2014, a total of 59 complaints and suggestions from customers were noted and accordingly resolved.

In spite of the specific, intangible nature of the goals and the issues they address, we feel that the Bank has met all its marks regarding the 2014 objectives related to human rights protection. This assessment will surely be driving the planning in this area in 2015 and the years that follow.



"Better Socialization of Children and Youth with Special Needs"

Goals for 2015

- To continue our business practices which unconditionally and permanently require fair, moral and honest relation and respecting the human rights of the existing and potential clients, as well as of those that are not and do not have potential to be clients of the Bank.
- To mark the 60 year jubilee of the Bank's existence with activities that emphasize its past, current and future connection with society.
- To initiate and support projects and activities that would be of benefit to marginalized groups and to the society in general.
- To practice and support volunteering activities of the Bank's employees aimed towards improved welfare in the society.
- To inspire clients, suppliers and competition to follow and apply social responsibility principles.

Labour

Assessment, Policy and Goals

Komercijalna Banka considers its employees to be the most valuable resource in creating superior value for the rest of the stakeholders.

The Bank's Labour Policy strives for continuous improvement of employees' capabilities through life-long learning, while insisting on protection of employee rights and ensuring high motivation. These remain to be the main pillars around which the CSR activities aimed at our employees are focused on.

Implementation

All of the Bank's formal procedures related to labour are fully complied with the domestic legislation and follow the international trends on security and protection of workers.

The education process includes internal and external trainings and various forms of professional qualification (seminars, conferences, workshops etc.), conducted both in our country and abroad. The process is designed to fit the specific areas of expertise needed for operational improvements and keeping pace with the latest trends in different areas of banking operation. The Bank maintains constant relations with multiple education institutions and participates in education programs for students and potential employees.

In 2014 the Bank maintained the excellent relations with the employees' Union.

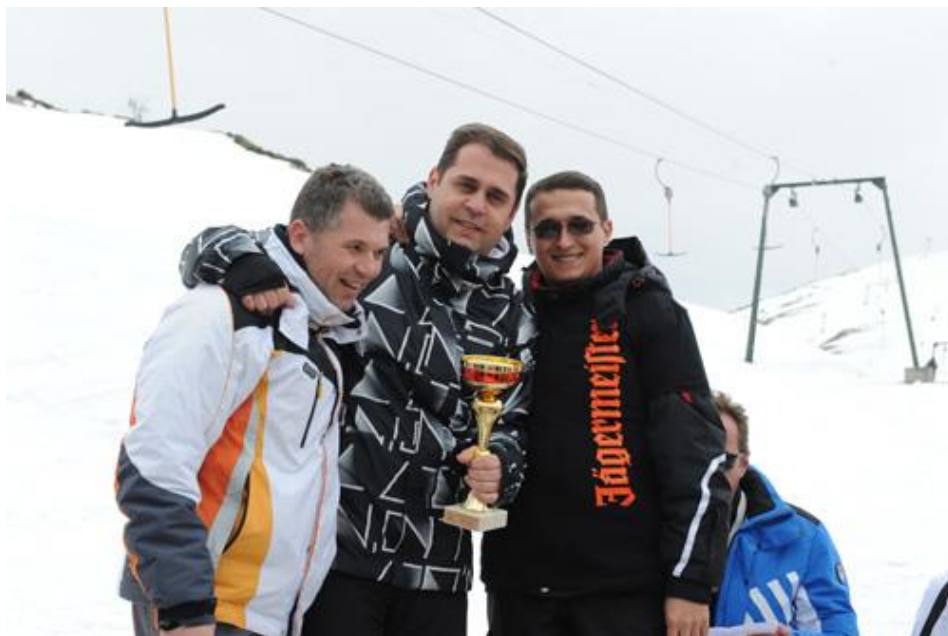


Employees at the 10th Skopje Marathon

Employee motivation was ensured through various means, including socialization and participation in charity events. Employees were included in the planning and execution of CSR activities, such as the projects *"Women for women"*, *"New Year Hope"* and the food donation for socially disadvantaged families on the occasion of the World Food/End Hunger Day.

For third year in a row the employees of Komercijalna Banka participated at the well-known Skopje Marathon. The employees took part in all categories – 20 employees run the 5km humanitarian race and 11 were participants at the half marathon (21km). The humanitarian character of the Marathon was supported by our employees, confirming their solidarity in the care for socially vulnerable categories of citizens by their participation and successful completion of the respective races.

Our employees also continued their participation in the annual humanitarian ski tournament at Ski Center "Zare Lazarevski" in Mavrovo. This time the ski team of Komercijalna Banka won the second place among the 47 teams registered for the team competition, marking its best result so far. The event was characterized by the participation of about twenty socially responsible companies, institutions and organizations from the country, while a total MKD 500,000 were donated for the treatment of the five years old Maksim Dimovski.



Employees at the humanitarian ski tournament at Ski Center "Zare Lazarevski" in Mavrovo

Measurement of outcomes

In 2014, 185 employees participated in various seminars and courses in the country and abroad, which is 16.67 percent of the total number of employees.

At the same time, 292 students conducted short-term internships with the Bank as part of their education process at universities.

The employee structure in 2014 reflected the policy for diversified workforce with equal rights and zero discrimination:

<i>Number of employees</i>	1,110
<i>Gender structure</i>	Female 72.89%; Male 27.12%
<i>Age structure</i>	<ul style="list-style-type: none"> • up to 35: 27.53% • 36 to 45: 24.69% • 46 or above: 47.78%
<i>Education structure</i>	<ul style="list-style-type: none"> • High school degree: 39.73% • Advance school degree: 4.33% • Bachelor degree: 45.59% • Master degree: 9.82% • Doctoral degree: 0.54%

All of the goals regarding labor rights set for 2014 were duly accomplished. The ongoing commitments regarding employee rights protection and ensuring high level of employee motivation are accordingly translated into the goals for 2015.

Goals for 2015

- To establish corporate culture based on honour, openness and prosperity.
- To inspire activism and active participation of the employees in CSR activities.
- To support personal education and advancement of employees.
- To motivate the employees to give their maximum and reward their best efforts.

Environment

Assessment, Policy and Goals

Environmental issues have notably moved upscale on the list of humanity's priorities. The challenges are more evident with each passing year, as they show us their true severity and thereby the need for urgent change in both perception and attitudes.

Due to the specifics of its area of business, Komercijalna Banka is concerned with environmental issues both directly, with its own operation and impact, and indirectly, through the distribution of financial resources towards projects that might be or might not be environmentally justified. This position bears great responsibility and requires our outmost commitment and vigilance.

Having in mind the scale and scope of activities that are financed through the Bank's lending operation (mainly in form of loans to other companies), our policies are greatly concerned with compliance with environmental standards. Environment protection is incorporated in the Bank's Credit Policy, on the basis of which the Bank defines the level of the environmental risk in accordance with the Environmental and Social Policy passed by the European Bank for Reconstruction and Development.

Implementation

On that basis and in cooperation with the Macedonian Bank for Development Promotion (through the funds of the European Investment Bank and the Italian credit line), our Bank participates in financing of projects in the field of energetic efficiency, renewable sources of energy, and loans granted directly for supplying the company with new equipment as well as replacing the old one, which meant elimination of pollution and air emissions, as well as credit support to clients for improvement of the existing technologies and equipment.

At the same time, day-to-day operative decisions keep constant regard of rational consumption of resources, energy efficiency and use of eco-friendly materials. Considering our operational specifics, special attention is paid to rational use of paper and recycling.

Measurement of outcomes

In 2014, regarding this kind of projects, Komercijalna Banka granted several loans through the abovementioned credit lines from the Macedonian Bank for Development Promotion and from the Bank's own funds, amounting approximately 12 million euros.

Approximately 16 tons of office paper was recycled, and all of the purchased electronic equipment was in compliance with current environmental standards.

Thus, all of the annual environment-related goals have been met and fulfilled accordingly.

Goals for 2015

- To apply environmentally friendly operative processes, pursuant to the law regulations, directives of the international organizations and the latest trends in the world.
- To ensure use and promotion of use of recycled materials.
- To support projects related to environmental protection and improvement of public consciousness.

Anti-Corruption

Assessment, Policy and Goals

The corporate governance of Komercijalna Banka AD Skopje is based on the rules for managing and management monitoring with the Bank defined by its Code of Corporate Governance.

As a large financial institution with vast influence on the financial stability of our state and society, Komercijalna Banka is led by the highest standards, with special regard on transparency, ethics and anti-corruption.

Implementation

The Code of Corporate Governance of the Bank represents 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 (stakeholders). In its regular operations the Bank shows strict adherence to the principles of corporate governance, which includes guaranteeing the rights and interests of the shareholders, transparency in the ownership structure, division of duties, regular and efficient control and audit, adherence to the laws, ethic standards and practices, independence and objectivity and all other principles defined.

Measurement of outcomes

No cases of corruption were reported in 2014.

The impeccable records in 2014, as well as the recognitions awarded for transparency in the previous years from Transparency– Zero Corruption, confirm the Bank's high standards in the field of anti-corruption and the fulfillment of the goals set in this area.

Goals for 2015

- Full adherence to the Bank's Code of Corporate Governance.
- Nurturing utmost transparency and ethics in all aspects of operation.

Please consider the environment and do not print this document unless necessary. Thank you.