

ANALYSIS
on the operation of Komercijalna Banka AD Skopje
in the II quarter of 2007

I. BALANCE SHEET

In the period 01.01-30.06.2007, Komercijalna Banka realized positive financial results in the amount of MKD 640.1 million, and only *in the second quarter – MKD 435.8 million*, which is for 113% more than the positive financial results realized in the first quarter of the current year. This higher amount realized, compared to the first quarter, arises from the increased net interest income, income from fees and commissions and the increased amount of extraordinary income realized.

Review of the main positions in the Balance Sheet:

(in 000 MKD)

	Realized 01.01- 31.03.2007	Realized 01.01- 30.06.2007	Realized II quarter 2007 (3-2)	Index 4:2
1	2	3	4	5
Net interest income	357,465	741,338	383,873	107
Net income from fees and commissions	210,154	471,107	260,953	124
Net FX differences	31,354	80,522	49,168	157
Income from capital investments and capital gain	15,807	8,597	(7,210)	/
Other and extraordinary income	89,682	310,116	220,434	246
Administrative costs and amortization	281,336	576,326	294,990	105
Other and extraordinary expenses	58,662	112,251	53,589	91
Correction of value, risk provisioning and capital loss	159,033	280,641	121,608	76
Income taxes and contributions	1,174	2,358	1,184	101
Profit before taxation	204,257	640,104	435,847	213

The analysis of the structure of the Balance Sheet lead to conclusion that, according to the results realized in the second quarter, the dominant is the income from regular operations, where the largest participation therein belongs to the *net interest income*, reaching the amount of MKD 383.9 million, or 7% more than the net interest income realized in the first quarter.

The interest income, which in the second quarter of 2007 amounts in MKD 666.4 million, is for 7.3% higher than the one realized in the first quarter. This dynamics of interest income increase mainly due to the increased volume of lending activities, as a result of the decreased loan interest rates for legal entities and citizens for the denar

loans and deposit secured FX loans. Thus, all types of interest income under loans approved show an increase in regards to the first quarter.

Interest expenses, which in the second quarter amount in MKD 282.5 million, show similar dynamics of increase as the interest income, or 7.3% increase in regards to the first quarter. The dynamics of increase of the interest expenses is determined by the increase of the total deposits, as a result of the increased deposit interest rates for long-term time savings deposits and the introduction of the stimulative interest rate for savings deposits of the individuals.

The net income from fees and commissions for the period 01.04.-30.06.2007 amount in MKD 260.9 million and is for 24.0% higher than the one realized in the first quarter of the current year.

During the reported period, *the Bank realized FX gains in the amount of MKD 49.2 million* (under planned effect from FX differences equal to zero), which, compared to the previous quarter, are for 57% higher.

The total administrative expenses and amortization for the period 01.04.-30.06.2007 amount in MKD 294.9 million and are for 5% higher in regards to the previous quarter. The largest participation of 58.5% within these expenses belongs to the employees salaries and other expenses, which, compared to the previous quarter, are increased for 4.5%. The coverage of the employees salaries and other expenses is 168%, compared to the one of 141% in the first quarter. Material expenses, which have participation of 25.8%, showed an increase of 4.5%. Administrative expenses and amortization, having the smallest participation in the total administrative expenses, are for 6.8% higher.

For the period 01.04.-30.06.2007, *the correction of value, special reserve for potential losses and capital loss* amount in MKD 121.6 million, or 24% less in regards to the first quarter.

II. BALANCE SHEET

The total resources of the Bank as at 30.06.2007, reached the amount of MKD 53.7 billion (MKD 53.0 billion without commission operations), which compared to 31.03.2007, shows an increase of 9%. This increase mainly due to the increase of the citizens deposits and the deposits from legal entities, as well as of the commission operations.

Review of the liabilities main positions in the Balance Sheet:

(in 000 MKD)

	Statement 31.03.2007	Statement 30.06.2007	Index 3:2
1	2	3	4
Citizens deposits	26.488.134	27.998.152	106
Deposits from legal entities	12.462.862	14.898.165	120

Own assets (Funds)	4.132.046	4.132.046	100
Special reserve for potential losses	3.448.388	3.526.348	102
Liabilities under long-term FX loans (credit lines)	661.580	483.414	73
Other liabilities	1.688.416	2.002.227	119
Assets on behalf of and for the accounts of legal entities and citizens (commission operations)	371.237	681.302	184
Total resources	49.252.663	53.721.654	109

Citizens deposits, which have the largest participation in the total resources, show an increase of 6%, compared to 31.03.2007. Within these frames, an increase is noted with the denar demand savings deposits, denar short-term time savings deposits, current accounts, FX and denar long-term time deposits, while decrease is noted with the FX demand savings deposits.

The deposits from legal entities showed an increase of 20.0%. Within these frames, only the FX demand deposits from legal entities are decreased for 20%, while the other deposits from legal entities (denar demand deposits and denar short-term and long-term time deposits) show an increase.

In the period April – June, *the liabilities under long-term loans in foreign currency* showed a decrease as a result of repaid installments due under credit lines.

Special reserve for potential losses, having participation of 6.6%, showed an increase of 2%, compared to 31.03.2007. Thus, the additional provisioning refer to legal entities and citizens as a result of the increased credit exposure with certain clients, as well as the deterioration of the classification with other clients.

The assets on behalf of and for the accounts of legal entities and citizens (commission operations) showed an increase of 84%, as a result of increased volume of operations with custodian accounts of non-residents for trading at the Macedonian Stock Exchange.

The total placements of the Bank realized under all bases as at 30.06.2007, realized volume and dynamics adequate to the resources.

Review of the main assets positions in the Balance Sheet:

(in 000 MKD)

	Statement 31.03.2007	Statement 30.06.2007	Index 3:2
1	2	3	4
Placements with non-financial legal entities and public sector	18.040.678	20.474.626	113
Placements with citizens	4.718.859	5.147.988	109
Deposits with NBRM and money in cash	4.020.978	5.764.596	143
Assets on special deposit with	2.105.175	2.160.145	103

NBRM			
Time FX assets with foreign banks	16.942.695	16.651.845	98
Fixed assets and placements from funds	1.678.742	1.700.655	101
Other assets	1.374.299	1.140.497	83
Placements on behalf of and for the accounts of legal entities and citizens (commission operations)	371.237	681.302	184
Total placements:	49.252.663	53.721.654	109

The qualitative changes in the structure of the assets noted since the end of 2006, were also manifested in the second quarter of 2007, where the dominant participation of 35.0% is shown with the placements with non-financial legal entities, while the second place belongs to the time foreign currency assets with foreign banks by 31.0%. When taken into consideration the total placements with non-financial sector (public sector, legal entities and citizens), they are total 47.7% of the total Bank's assets, compared to their participation with 46.2% as at 31.03.2007, which means that there is continuous trend of increase of the high-interest bearing placements in accordance with the projections for 2007.

The placements with non-financial legal entities and public sector show an increase of 13% as a result of the higher amount of subscribed treasury bills government bonds, while for the placements with non-financial legal entities it is as a result of the increase of the performing loans due to the increased amount of newly approved long-term denar loans; an increase is also noted with the short-term denar and foreign currency loans.

The placements with citizens showed an increase of 9%, and it arises from the increased amount of long-term placements (especially the loans without purpose identified), as well as from the increased amount of overdraft facilities on citizens' checking accounts.

Deposits with NBRM and money in cash are increased for 43% as a result of the increased amount of subscribed treasury bills.

Assets on special deposit with NBRM, arising from the obligation for allocation of obligatory reserve in foreign currency, in accordance with the Decision of NBRM, which are non-interest bearing, show an increase of 3%, compared to 31.03.2007.

Compared to this, during the first quarter, *time foreign currency assets with foreign banks* show a decrease of 2% in regards to 31.03.2007.

As at 30.06.2007, *other assets* showed a decrease of 17%, which mainly arises from the negative amount of other placements included in this position, as a result of the negative balance of the Bank's account used as suspended account for inflows and outflows between the branches and the Bank.

III. PARTICIPATION OF THE BRANCHES IN THE BALANCE SHEET AND INCOME STATEMENT OF THE BANK

The Profit and Loss Account of Komercijalna Banka AD Skopje reflects the effects of the operation of the Bank's branches. Thus, in the second quarter of 2007, all Bank's branches realized positive financial results from operation.

Review of the financial results realized in the second quarter of 2007 and the participation of the Bank's branches

(in 000 MKD)

	01.01- 31.03.2007	01.01- 30.06.2007	Net increase	Participation
1	2	3	4(3-2)	5
Prilep	3,908	34,883	30,975	7.1%
Ohrid	1,951	4,322	2,371	0.5%
Veles	1,932	5,053	3,121	0.7%
Strumica	9,069	19,533	10,464	2.4%
Kocani	4,625	8,106	3,481	0.8%
Stip	5,864	19,092	13,228	3.0%
Kumanovo	2,397	11,297	8,900	2.0%
KB Total	204,257	640,104	435,847	

Thus, the financial result realized in the second quarter by all branches, except for Kocani Branch, is higher than the financial results realized in the first quarter of 2007.

The total resources, as well as the total placements in *the Balance Sheet* of the Bank include the assets and placements of the Bank's branches in Prilep, Ohrid, Strumica, Kocani, Stip and Kumanovo, respectively, and they show an increase in regards to 31.03.2007.

Review of the participation of the branches in the total potential of Komercijalna Banka AD Skopje as at 30.06.2007

(in 000 MKD)

	Total	Prilep	Ohrid	Veles	Strumica	Kocani	Stip	Kumanovo
Amount	53,721,654	3,481,110	1,166,557	720,801	837,900	618,324	797,563	1,124,989
Participation		6.5%	2.2%	1.3%	1.6%	1.2%	1.5%	2.1%