

**PROGRAM  
OF BUSINESS POLICY MEASURES AND ACTIVITIES  
AND FINANCIAL PLAN OF  
KOMERCIJALNA BANKA AD SKOPJE FOR 2021  
(Summary)**



**komercijalna banka  
ad skopje**

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## **POLICY STATEMENT OF KOMERCIJALNA BANKA AD SKOPJE**

According to the Policy Statement, Komercijalna Banka AD Skopje shall perform its activities on the basis of sound banking principles and shall undertake the necessary steps to provide maximum profit for the shareholders in the long run.

The key strategic objectives of Komercijalna Banka AD Skopje are:

1. To develop into a leading, independent, privately owned bank which operates and provides services on the entire territory of the Republic of North Macedonia.
2. Komercijalna Banka shall strive to be a universal bank, by which the Bank will strengthen its significant position in the banking sector.
3. Komercijalna Banka shall strive to achieve the highest standards in providing carefully selected quality products and services to its clients.
4. Komercijalna Banka shall strive to achieve timely compliance of its operational policies and working procedures in line with the best international practices.
5. Komercijalna Banka is committed to the basic principle of equal treatment of clients that are shareholders and those that are not shareholders of the Bank.



## **I. MACRO-ECONOMIC CONDITIONS IN WHICH THE BANK IS GOING TO PERFORM ITS ACTIVITIES IN 2021**

The macro-economic conditions in which the Bank will realize its activities in 2021 are conditioned by the effects of the health and economic crisis that started at the beginning of 2020. Namely, during March 2020 the World Health Organization (WHO) issued a global pandemic warning due to the intensity of the spread of the COVID-19 virus and its associated health effects. In such circumstances, as a result of the COVID-19 pandemic, the Bank realized its operations under nationwide state of emergency declared by the Government, starting from 18.03.2020 and ending on 22.06.2020. During this period the Bank undertook intensive activities and adjusted its entire operations in accordance with the Government's recommendations and regulations issued for the purpose of protecting the employees and clients' health, as well as with the amendments made to credit risk management related regulations and other decisions enacted by the National Bank, issued, above all, for protection of the banks' clients that were directly impacted by the crisis. Furthermore, in order to protect its employees and clients' health, the Bank undertook numerous organizational and technical activities that enabled continuity in business operations and availability of its products in a safe manner. In spite of the abolition of the state of emergency and the withdrawal of most of the restrictive measures, the negative effects pertaining to COVID-19 persist within the next period. Therefore, according to issued data and indicators of the performance of the real sector, the negative effects on GDP are visible by the end of the second quarter of 2020, while the effects on the financial system will be effective with a certain time delay. In line with current realization of the predictions for an increased number of infections during the autumn period, part of the European countries have reintroduced restrictive measures which will result in an additional negative impact on economic growth. As a consequence, the Government introduced further economic measures designed to alleviate the crisis, and also issued a Decision on prolonging the state of crisis deadline in the country until 30.06.2021.

In addition to the significantly unfavorable impact of the health crisis, the macroeconomic conditions in which the Bank will realize its activities are also conditioned by the geopolitical affairs, the blockade by the Eastern neighbor regarding the Euro-integration processes and the domestic political environment.

The high level of uncertainty within the domestic economy and internationally requires a more conservative approach in shaping the expectations for 2021, taking into consideration the assumptions of the Ministry of Finance, the National Bank of the Republic of North Macedonia, the IMF and the World Bank.

Conditioned by the significant degradation of the international economic environment and the negative implications due to the measures undertaken towards reducing the spread of the Coronavirus within the country, economic activity is expected to fall by around -5.4% to -4.9%, under the assumption that the shock due to the pandemic continues into 2021. The unfavorable global conditions will impact the activity of domestic export companies, the FDI inflow and the investment activities of the companies. A reduction in private transfers from abroad is anticipated, while the restrictive measures are expected to have a certain impact on the labor market as well as disposable household income. The economic recovery is expected to continue with a more moderate rate during 2021, with a projected GDP growth of 3.9% to 4.8%.

Macroeconomic stability in the Republic of North Macedonia is expected to be maintained by preserving price stability and the stability of the nominal Denar – Euro exchange rate.

The average annual inflation rate, measured according to the Consumer Price Index, in 2020 is 1.2%, as a result of declining import prices and domestic demand. Furthermore, in 2021, the inflation rate would remain low and predictable, hovering around 1.5% per year. Price stability will be determined by the further application of the monetary strategy of targeting the nominal Denar – Euro exchange rate by the National Bank.

Within the current global and local economic circumstances, the low level of reference interest rates of the central banks is expected to be maintained in the next period as well, which is aimed at achieving the measures towards economic recovery. Thereby, no increase in the reference interest rate of the National Bank is expected, nor in the interest rates of the banks in general.

Given that the effects of the pandemic are projected to be temporary, in 2021, the contribution of domestic demand to economic growth is expected to move to the positive zone, amid a recovery in investment activity and private consumption. A significant impact on the expected growth of investments is expected to have the return of confidence of business entities, planned investments of the public sector and government measures to encourage private investment, the more intense inflow of FDI, stimulated by the country's NATO membership and the decision of the European commission for starting EU membership negotiations. Favorable developments are foreseen in the private consumption as a result of the expectations for improvement of the situation on the labor market, increased inflow of private transfers from abroad, but also greater credit support from the banks. Public consumption in 2021 is projected to decline by 0.5% on a real-time basis, as opposed to the expected growth in 2020 as a result of increased spending related to combatting the health crisis.

The increased expenditures for financing the crisis management measures projected in the latest budget rebalance will cause the budget deficit to increase to 8.4% of GDP at the end of 2020, with the expected rapid recovery halving the budget deficit at the end of 2021, after which it will return towards an acceptable level of below 3% of GDP (according to the Maastricht agreement).

Based on the above, the expected annual increase in total loans by the banking system in 2021 will reach about 6.0%. The growth of loans would be financed primarily by the banks' deposit base, and it is also expected that the growth of the total deposits of the non-financial sector will reach around 6.2% in 2021.

The realization of macroeconomic projections is accompanied by risks related to the longevity and consequences of the health crisis, the intensity of the effects on the economy and the results of the economic measures for its mitigation. In addition, there are present risks related to the European integration processes and maintaining political stability in the country, which are a key precondition for achieving the projected economic growth.



## II. AIMS AND OBJECTIVES OF THE BANK'S BUSINESS POLICY

The priority aims and objectives of Komercijalna Banka AD Skopje are based on the Policy Statement of the Bank, realized results from operation and the level of realization of its strategic goals.

**The priority aims and objectives of the Bank's Business Policy for 2021 are as follows:**

1. Maintenance of the capital value and its increase through a policy of further allocation of a significant proportion of the net profit into reserves, thus providing a capital adequacy ratio that would correspond to the planned activities;
2. Profit maximization by undertaking acceptable risks;
3. Maintaining of and eventual increase of the Bank's share at the banking market of the Republic of North Macedonia, in conditions of increased competition;
4. Full compliance with the legal framework on financial reporting and managing the operational risks;
5. Digitalization and permanent development of the information technology in all segments of operation;
6. Continuous improvement of the organization of the Bank's operation and human resources management in a manner that will provide higher quality of services;
7. In 2021, the Bank shall continue following its commitment that, if the Bank's shareholders provide a control package of shares and set proper parameters, the Bank's management shall take proper measures and activities for possible attraction of potential strategic foreign investor that should fulfill the conditions defined by the consortium of shareholders of the Bank, as follows: to be a bank whose name is a renowned international brand; the offer should reflect the real value of shares of Komercijalna Banka and to submit a strategic plan for future development of the Bank.

Besides aims deriving from the policy statement, Komercijalna Banka AD Skopje also anticipates the following **aims and objectives**:

1. Undertaking activities for minimizing and dealing with the negative effects of the health crisis on the Bank's loan portfolio;
2. Introducing new or modified banking products and services according to customers' demands, development of new non-traditional banking functions, conquering new market segments;
3. Further improvement of the e-banking and mobile banking and promoting the possibilities they offer;
4. Practicing banking marketing in creating adequate offer in accordance with the current market needs, informing the target groups and improving the perceptions of the Bank's brand, as well as in accordance with the Corporate Social Responsibility Strategy;
5. Improvement of the entire risk management process and improvement of the process of determining the internal capital and internal liquidity of the Bank, etc.



### III. THE BANK'S BUSINESS MODEL<sup>1</sup>

From the business model aspect, Komercijalna Banka AD Skopje is classified in the group of **commercial banks financed by deposits from the non-financial sector (mainly from the household sector)**, having fulfilled the following coefficients: dominant participation of total loans in the structure of total assets (12.2020: 38.3%), minimum participation of the trading portfolio in the total assets (12.2020: 0.03%), participation of total deposits with more than 2/3 in total liabilities (12.2020: 87.9%) and minor participation of the long-term borrowings in total liabilities (12.2020: 0.43%). The structure of total loans (on a gross basis) has a ratio of 65% of loans to non-financial legal entities and 32% loans to households, whereas the structure of total deposits has a ratio of 71% deposits of households and 24% deposits of non-financial legal entities. This structure determines the dominant income and expenses that are generated by the Bank and which affect the operation results and the realization of the planned growth.

The business model of the Bank is consisted of the following key and auxiliary (supportive) business processes:

1. **Key business processes:**
  - 1.1. Corporate lending
  - 1.2. International payment operations for legal entities
  - 1.3. Collection of problem loans
  - 1.4. Liquidity and financial market
  - 1.5. Domestic payment operations for legal entities
  - 1.6. Retail operations
  - 1.7. Branch network management
  - 1.8. Vault operations
  
2. **Auxiliary (supportive) business processes:**
  - 2.1. HR and general affairs
  - 2.2. Legal affairs
  - 2.3. IT
  - 2.4. Marketing
  - 2.5. Finance
  - 2.6. Risk management and planning
  - 2.7. Compliance and ALM
  - 2.8. Internal Audit

In the course of 2021, no changes in the business model of the Bank are planned to be made.

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<sup>1</sup> The business model of the Bank is defined on the basis of researches made by the Bank for International Settlements: [https://www.bis.org/publ/qtrpdf/r\\_qt1412g.pdf](https://www.bis.org/publ/qtrpdf/r_qt1412g.pdf) and the definition from the Decision on the Rules of good corporate bank management (Official Gazette of RM No.24/2018).



#### **IV. GENERAL APPROACH IN RISK MANAGEMENT**

In realization of the priority aims and objectives for 2021, Komercijalna Banka AD Skopje will continue with risk management through identifying, measuring and grading, control and monitoring thereof, in order to eliminate or minimize their impact on the Bank's operation. The risk management shall be based on the Risk Management Strategy and the defined policies for managing respective risks, through strict adherence to the risk exposure limits, pursuant to the legal framework and internal risk exposure limits.

#### **V. QUANTIFICATION OF THE INDEXES**

Realization of the aims and objectives of the Business Policy of the Bank for 2021 presumes fulfillment of specific financial effects expressed in quantified indexes.

##### **1. Basic assumptions when outlining the indexes**

###### **1.1. Macroeconomic assumptions for 2021<sup>1</sup>:**

- stable denar exchange rate,
- inflation rate of around 1.5% (measured by the consumer price index),
- real GDP growth around 3.9%-4.8%,
- growth of private sector loans of around 6.0%,
- growth of deposits of around 6.2% and
- budget deficit of around 4% of GDP.

###### **1.2. Internal banking principles for 2021:**

- Planned profitability: ROE of minimum 10% and ROA of minimum 1%,
- Targeted net interest margin (NIM) of minimum 2.0%-2.5% per annum,
- Growth of deposits to a level that will enable a share of over 85% in the total liabilities of the Bank,
- Increase of the interest bearing placements in accordance with the movement of the open f/x position and by taking into consideration the ratio between the denar and the f/x component of the Bank's assets, as well as maintaining the Bank's exposure to foreign currency risk within the legally prescribed limit,
- Allocation of part of the net profit into reserves in order to maintain capital value stability and increase the capital adequacy rate,
- Liquidity that will ensure minimum liquidity prescribed by NBRNM and creating an appropriate securities portfolio, as an instrument for providing secondary liquidity,
- Planned expenses ratio calculated as a proportion between operating expenses and total income in the range between 45% and 55%.

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<sup>1</sup> Source: NBRNM – Macroeconomic projections, MF- Fiscal Strategy of the Republic of N. Macedonia 2021-2023, projections by IMF and World Bank.



## 2. Quantification of the Balance Sheet and Income Statement indexes

### 2.1. Balance Sheet

**Table No. 1: Forecast of the Balance Sheet of Komercijalna Banka AD Skopje for 2021**

(in MKD million)

1	2	31.12.2020		Plan 31.10.2021		Planned increase (5-3)	Index 5:3
		Amount 3	Structure 4	Amount 5	Structure 6		
	<b>LIABILITIES</b>						
1	Borrowings	575	0.5%	461	0.3%	-114	80.2
2	Deposits from customers	116,604	87.9%	122,409	88.0%	5,805	105.0
3	Other liabilities	1,506	1.1%	1,682	1.3%	176	111.8
4	Share capital and reserves	11,987	9.0%	12,531	9.0%	544	104.5
5	Unallocated profit	1,912	1.5%	0	0.0%	-1,912	0.0
6	Gross profit	0	0.0%	1,970	1.4%	1,970	0.0
	<b>Total liabilities:</b>	<b>132,584</b>	<b>100.0%</b>	<b>139,053</b>	<b>100.0%</b>	<b>6,469</b>	<b>104.9</b>
	<b>ASSETS</b>						
1	Cash and cash equivalents with NBRNM	49,686	37.5%	51,046	36.7%	1,360	102.7
2	Assets held for trading	45	0.03%	43	0.03%	-2	95.6
3	Placements with and short-term loans to other banks	1,021	0.8%	1,020	0.7%	-1	99.9
4	Loans to customers (net)	50,740	38.3%	52,147	37.5%	1,407	102.8
5	Investments	25,582	19.3%	29,264	21.1%	3,682	114.4
6	Fixed assets	2,838	2.1%	2,881	2.1%	53	101.5
7	Other assets	2,672	2.0%	2,652	1.9%	-30	99.3
	<b>Total assets:</b>	<b>132,584</b>	<b>100.0%</b>	<b>139,053</b>	<b>100.0%</b>	<b>6,469</b>	<b>104.9</b>

#### The planned growth of the Bank's liabilities is a result of the following trends:

- **Short-term and long-term borrowings** are planned with a net decrease. The short-term liabilities are planned in accordance with their maturity expected by the end of 2021. Within the long-term liabilities, a decrease is planned on the basis of a greater amount of paid due installments under credit lines used by the Bank, relative to the funds which are planned to be withdrawn from the credit lines from EIB through MBDP and the IPA grant through EBRD, whereas the net effect would be negative.
- Total **deposits from customers** are planned to increase by 5%, while changes of the maturity and currency structure of the total deposits are not planned in the course of 2021. The total deposits have been planned in such a manner, so that their share would remain above 85% of the total liabilities.
- The Bank's **share capital and reserves** are planned to increase by MKD 544 million as a result of partial allocation of the net-profit for 2020. This increase will additionally strengthen the Bank's capital, while simultaneously fulfilling the NBRNM capital requirements and the layers of capital. When planning this position, maintaining a capital



adequacy ratio of minimum 16.5% in relation to the total risk weighted assets is taken into account.

**The total assets of the Bank in 2021 are planned to increase by 4.9%.**

**The dynamics of certain items of the Bank's assets is projected as follows:**

- **Cash and cash equivalents with NBRNM** are planned with an increase, as a result of expected increase of the MKD and f/x mandatory reserve of the Bank in accordance with the forecasted growth of deposits, with simultaneously planned investment in treasury bills held to maturity, as well as keeping the f/x assets in foreign and domestic banks depending on the surplus of liquid assets during the year and in accordance with the movement of interest rates of assets placed on a short-term basis, up to 3 months.
- Within the position **assets held for trading**, which has a minimum share in the total assets, the Bank records shares planned for future sales, as well as f/x derivatives.
- **Placements with and short-term loans to other banks** are almost at 2020 level. This planned situation is a result of the planned retention of time based deposits in foreign banks from 3 months to 1 year, which are also the position with the largest share.
- **Total net loans to customers** are planned with a moderate increase of about 2.8%. Gross regular loans to legal entities are planned to increase by about 3.6%, and gross regular loans to individuals with an increase of 4.9%. Thereby, no change is planned in the maturity and currency structure of the gross loans of clients. This position includes additional impairment of loans, as well as the effect of planned write-offs on the amount of bad and doubtful claims and the impairment in accordance with NBRNM regulations.
- **Investments** of the Bank refer to investments in securities available for sale, securities held to maturity, investments in securities at fair value through the Income Statement determined as such at initial recognition and investments in associates.
  - The investments in securities available for sale are planned to increase as a result of the planned higher amount of purchased as opposed to written-off treasury bills available for sale with maturity over 3 months, which have the largest share in this position. In 2021, the Bank plans to keep the investments in available-for-sale securities recorded in this position.
  - The investments in securities held to maturity are planned with an increase as a result of a larger amount of funds placed in government bonds. At the same time, within this position, the Bank is planning purchasing treasury bills with a maturity of over 3 months within the amount due.
  - The investments in associate companies are planned to increase based on included net-effect from the planned profit and planned dividend of the associate company recorded by the method of the principal amount.
  - The investments in securities at fair value through the Income Statement include the stakes in KB Publikum Invest-Open investment fund Balanced and KB Publikum Invest-Open investment fund-cash, whereby the effect of their market valuation is taken into account.
- **Fixed assets** are planned to increase due to the procurement of operating assets according to the needs of the organizational units and parts of the Bank. The planned amount does not exceed the legally prescribed limit multiplier for fixed assets.



- **Other assets** are planned to decrease as a result of planned sale of foreclosed property and planned impairment of 20% of the newly foreclosed property in accordance with the regulations.

## 2.2. Income statement

**Table No. 2: Projections of the Income Statement of Komercijalna Banka AD Skopje for 2021**

(in MKD million)

		31.12.2020	Plan 2021	Index (4:3)
1	2	3	4	5
1	NET INTEREST INCOME	2,380	2,505	105.3
2	OTHER INCOME	2,599	1,384	53.3
3	COLLECTED WRITTEN-OFF CLAIMS	415	628	151.3
4	OTHER EXPENSES	1,943	1,686	86.8
5	PROFIT BEFORE IMPAIRMENT (1+2+3-4)	3,451	2,831	82.0
6	IMPAIRMENT PROVISION OF CLAIMS	3,088	3,256	105.4
7	RELEASE OF IMPAIRMENT PROVISION	1,708	2,400	140.5
8	NET IMPAIRMENT PROVISION OF CLAIMS (6-7)	1,380	856	62.0
9	IMPAIRMENT PROVISION OF FORECLOSURES (NET)	4	5	125.0
10	<b>GROSS PROFIT BEFORE TAXATION/LOSS (5-8-9)</b>	<b>2,067</b>	<b>1,970</b>	<b>95.3</b>

- **Gross profit before taxation** is planned to reach MKD 1,970 million.
- **Net-interest income** is planned to increase by about 5.3% compared to 2020, with planned moderate growth of loans and deposits and lowered deposit interest rates, whereas the Net Interest Margin (NIM) will be maintained at the targeted level.
- **Other income** (comprised of net fee and commission income, net f/x gains, net gains from operation with securities, income upon capital investments and capital gain, income from previous years, income upon f/x operations, other and extraordinary income) are planned with a reduction of about 46.7%, primarily due to a reduction in planned capital gains from the sale of foreclosed property. Within this position a reduction in commission income is also planned. This is due to the fact that, because of the COVID-19 pandemic, many of the transactions that were previously performed through the Bank's counters were redirected on-line. This situation is planned to continue in 2021.
- **Other expenses**, which are comprised of salaries and other personnel costs, deposit insurance premiums, material expenses, business trips, representations, advertising, amortization and other expenses are planned with a decrease of 13.2% compared to 2020, mainly as a result of decreased material and other expenses and reduced salary costs due to the decreased number of employees.
- **Impairment provision of claims** (gross) is planned to increase by approximately 5.4% as a result of the larger amount of additional allocation of impairment of the loan portfolio compared to 2020 due to the economic conditions related to the COVID-19 pandemic. The planned additional impairment for balance and off-balance exposure for 2021 amounts to MKD 1.086 million.



- **Impairment provision of foreclosures** is planned in accordance with regulations in the amount of MKD 5 million and includes a 20% impairment of the foreclosed property value, after the new Decision was enacted, as well as reducing property value to zero for properties held on the books for 5 years or more. Impairment provision on the basis of reappraisals of foreclosures has not been planned.

## **VI. MEASURES AND ACTIVITIES FOR ACHIEVING THE AIMS AND OBJECTIVES OF THE BANK'S BUSINESS POLICY**

In order to achieve successful realization of the priority aims and objectives and positive effects from the operation in 2021, the Bank shall undertake specific measures and activities within all segments of its operation, which cover all business processes (main and auxiliary) and are in accordance with the adopted Strategy for Corporate Social Responsibility of Komercijalna Banka AD Skopje.

**BOARD OF DIRECTORS**