



Comment on the unconsolidated unaudited Income Statement and Balance Sheet of Komercijalna Banka AD Skopje as at 01.01 - 30.09.2019

1. Income Statement

In the period 01.01-30.09.2019, Komercijalna Banka AD Skopje realized a **net profit for the financial year** in the amount of MKD 1,300.6 million compared to the **positive net profit** from the previous year in the amount of MKD 1,728.9 million. The lower realized financial result in the current period is due to two events that had a key influence on the structure of the Bank's income in the same period last year. Namely, during the first quarter of 2019, the intensive activities of the Bank for resolving the status of the debtor FENI - Kavadarci were finalized, and a contract was concluded for sale of the claims from FENI, which resulted in release of the provisioning in the Bank's accounts with consequent effect on the realized financial result. In the last year, an additional effect was realized by the high capital gain from sale of the foreclosed property. On the other side, income from regular activities was predominant in the current period, when stabilization of the level of impairment of financial assets as well as of the special reserve for off-balance sheet exposures was noted.

The profit realized before provisioning, which is an indicator of the Bank's operational capability to cover the operating expenses, is for 20,1% lower than in the previous year. The decrease in the profit before provisioning is mainly due to the smaller amount of other income, primarily income from capital investments and capital gains. Namely, in the same period last year, the Bank sold the property taken over from the debtor Brilliant Shtip, on which basis it realized capital gain in total amount of MKD 411 million.

The **total income** realized is in the amount of MKD 3,067.6 million and notes a decrease of 13.3% relative to the same period last year.

The **net interest income** realized represents a basic component in the formation of the total operating income and as at 30.09.2019 it notes a decrease of 5.3% relative to the same period last year which arises mainly as a result of the reduced interest income from loans given to non-financial legal entities due to a reduction of the balance statement of corporate loans, as well as from reduced interest income from state and financial sectors due to reduced interest rates on government and treasury bills. On the other hand, the income from the household sector notes a minimal increase due to the increase in loans, compared to the same period last year even with the decrease of the loan interest rates. The plan for the analyzed period is realized by 93.4%.

The **net income from fees and commissions**, as at 30.09.2019, amounted in MKD 705.4 million and compared to the same period last year have been increased for 13.0%. The plan is realized by 101.9%.

The **net FX gains** as at 30.09.2019 amounted to MKD 82.7 million and compared to the same period last year, noted a decrease of 22.7%. The plan is realized by 79.3%.

The **other operating income of the Bank** as at 30.09.2019 amounts in MKD 480.8 million and notes a decrease as a result of more realized income from capital investments and capital gains from the sale of foreclosed property in the first quarter of last year.

Operating expenses for the period 01.01-30.09.2019 are in the amount of MKD 1,202.2 million and compared to the same period last year have slightly decreased for 0.1%% as a result of reduced amortization. The plan is realized by 99.3%.

The **non-financial asset impairment loss on net basis** as at September 2019, amounted in MKD 3.9 million and is mostly due to the impairment of the property whose net value is reduced to zero in accordance with the NBRNM regulations.



In the reporting period, the Bank allocated **provisioning on financial assets and special reserve for off-balance sheet exposures on net basis** in the amount of MKD 560.8 million. In the same period last year, an agreement was signed for sale of the claims from FENI, due to which the provisioning was in the amount of MKD 234.8 million.

2. Balance Sheet

The **total assets** of the Bank as at 30.09.2019 amounted in MKD 118,119.3 million and compared to December 2018 it increased for 3.3%. The plan is realized by 100.3%. The increase in total assets is largely due to the increase in loans to and claims to banks, loans and claims to customers and the increase in investments in securities. The change was prompted by the strengthening of the capital position, which enabled the Bank to offer on the market modified credit products for individuals and legal entities with more favorable conditions compared to the competition. Also, the abolition of the regulations for investing in securities at foreign markets enabled the Bank to place funds in debt securities that bear favorable returns and accordingly restructure the assets by diverting some of the funds that were placed in foreign banks with negative interest rates.

Loans to and claims from other banks, noted a double increase as a result of the matured assets placed in foreign banks with a maturity over 3 months, in order to minimize the adverse effects of negative interest rates.

Loans to and claims from other clients noted an increase of 3.6% mainly as a result of increased gross loans to individuals (consumer and housing loans with EUR clause), as a result of the offered low and competitive interest rates. The plan is realized by 99%.

Investments in securities are increased for 15.9% as a result of a purchased Eurobond issued by the RSM Ministry of Finance, purchased corporate bonds issued by foreign banks, as well as due to purchased continuous government bonds in MKD. By repealing the Decision of the NBRNM for the conditions that should be fulfilled by the securities abroad in which an authorized bank may invest, the Bank is allowed to invest in securities issued for foreign markets, which currently offer a satisfactory yield, in conditions where there is lack of acceptable lending projects in the domestic real sector.

Trading assets are increased for more than six times as a result of investment in foreign financial companies (purchased 49,610 shares from Tirana Bank Sh.A) in amount of EUR 2.5 million or MKD 154.6 million.

Financial securities at fair value through the Income Statement designated as such at the initial recognition in the amount of MKD 337.5 million consist of investments in stakes in investment funds.

Investments in associate companies have decreased compared to December 2018 for 16.5%, as a result of correction of the accounting value in the amount of MKD 45.2 million of the investment in KB First Pension Fund AD Skopje, due to the dividend payment for 2018, which is in accordance with the Methodology of NBRNM for accounting records of these investments using the "equity method".

Cash and cash equivalents note a decrease of 4.6% as a result of the decreased balance statement of current accounts and term deposits abroad with maturity of up to 3 months. The plan is realized by 93.6%.

Foreclosed assets have decreased for 95.7% as a result of recorded impairment of the foreclosed property, as well as due to sale of foreclosed property, in accordance with the regulations of the NBRNM.



Total deposits (deposits from customers and from banks) reached the amount of MKD 103,121.9 million and note an increase of 3.7%. The plan is realized by 100.8%.

The Bank's borrowings amounted in MKD 878.6 million and have decreased compared to December 2018 as a result of paid installments due under the credit lines. The plan is realized by 114.4%.

Equity capital and reserves of the Bank as at 30.09.2019 reached the amount of MKD 12,737.8 million and note an increase of 2.7% compared to 31.12.2018 as a result of increasing the reserve fund by MKD 500 million, in accordance with the Decision of the Shareholders Assembly held on 04.04.2019.

3. Projections

Macroeconomic conditions in which the Bank will realize its activities until the end of 2019 are based on expectations for achieving the economic growth of 3.5% as a result of the favorable trends in the real sector in the past period. Nevertheless, the new circumstances related to Euro-Atlantic integration process of the country and the risks related to the global growth will be watched carefully.

As a result of the positive impulse realized in the real sector in the course of the first half, the GDP growth is expected to reach 3.5%. The forecast is also affirmed with the latest country growth assessments by the IMF. Continuation of the stable macroeconomic conditions will rely on low and predictable inflation and stable nominal f/x exchange rate of the Denar versus the Euro currency. The average annual inflation rate, measured through the Consumer Price Index, is expected to reach around 2% in 2019. This means a slight acceleration of inflation compared to 2018.

The annual growth of total loans of the banking system in 2019 is expected to reach 8.5%. The increase in the loans would be financed primarily from the deposit base of the banks, whereby the growth of the total deposits of the non-financial sector is expected to reach 7.7% in 2019.

The Bank will undertake all necessary measures and activities for realization of its goals and assignments in accordance with the Program of Business Policy Measures and Activities for 2019, focusing on improving the quality of the loan portfolio. The growth of the loan portfolio of the Bank is expected to be moderate in the part of lending to non-financial legal entities, as well as the part of the retail loans in accordance with NBRNM's regulations, where no significant changes are planned in the structure of the assets. The deposits from the non-financial sector will continue to retain their dominant share in the total resources, since the Bank does not plan any significant changes in the structure of liabilities.

4. Information on changes in the accounting policies and evaluation methods

In the reporting period of 2019, there were no changes in the accounting policies and valuation methods.

5. Dividends paid out

In accordance with the Decision for usage and distribution of undistributed profits until 31.12.2018 and the Decision for determining the dates for the payment of the dividend for 2018, as from 07.05.2019, the Bank started to pay dividend for 2018 to the shareholders holding ordinary shares that are registered in the book of shares on 19.04.2019. Out of the total calculated dividend for 2018 in the amount of MKD 957,208 thousand, a dividend paid to legal entities is in the amount of MKD 536,520 thousand and to individuals in the amount of MKD 420,688 thousand. The amount of dividend per share is MKD 420,00, or 42.0% of the nominal value of the shares.



6. Investments in or sale of tangible assets (real estate, plants and equipment) or significant write-off (exceeding 30% of the assets value, compared to the last audited financial statements)

The real estate and equipment in the first half of 2019 noted a decrease of 2.2% compared to December 2018, mainly due to calculated amortization.

7. Changes in the credit indebtedness (decrease or increase exceeding 30%)

In the second half of 2019 the borrowings noted a decrease of 5.4% compared to December 2018, mainly as a result of the higher amount of regular repayment of loan installments compared to the new withdrawals under the loan agreements.

Skopje, 24.10.2019