



**Comment on the unconsolidated unaudited
Income Statement and Balance Sheet
of Komercijalna Banka AD Skopje
for the period 01.01 - 31.12.2020**

1. Income Statement

In the period 01.01-31.12.2020, Komercijalna Banka AD Skopje realized a **net profit** from its operations in the amount of MKD 1,912.0 million compared to the realized **net profit** from the same period last year in the amount of MKD 1,806.8 million, which represents an increase of 5.8%. The planned gross profit for 2020 is realized by 105.4%.

The profit realized before provisioning is increased by 33.4% compared to the same period of the previous year. The significant increase in profit before provisioning is mainly derived from the increase in other income, i.e. income from capital gains from the sale of foreclosed assets from the clients Prototip DOOEL Skopje, Tehnometal Vardar AD Skopje and FKN Negotino.

The increase of profit is realized in conditions of a more significant increase in the additional impairment of the value of financial assets due to the deterioration of the quality of the corporate loan portfolio caused by the Covid-19 crisis. Namely, the impairment of the value of financial assets and the special reserve for off-balance sheet exposure on a net basis reached MKD 1,369.7 million as at December 31, 2020, compared to MKD 588.5 million in 2019, whereby we assess that the Bank made certain anticipation of the expected deterioration of the loan portfolio for 2021 as well, especially in catering and tourism sectors.

The Bank achieved the positive result from its operations in conditions of a declared state of emergency in the country due to the Covid-19 pandemic in the period March-July and the declared state of crisis in the period after. In the past period, the Bank undertook intensive activities and fully adjusted its operations with the recommendations and decrees adopted by the Government in order to protect the health of its employees and clients, as well as with the amendments to the regulations related to credit risk management and other decisions adopted by the Central Bank that were created primarily to protect the banks' clients directly affected by the crisis. In addition, in order to protect the health of its employees and clients, the Bank undertook a number of organizational and technical activities, which ensured continuity of business operations and enabled availability of services in a safe manner. Despite the fact that the state of emergency was terminated and the validity of many restrictive measures ceased, the unfavorable situation with Covid-19 continues in the next period, due to which the Government made a Decision to extend the state of crisis in the country until June 30, 2021.

The **total income** realized is in the amount of MKD 5,384.3 million and notes an increase of 23.2% compared to the same period last year.

The **net interest income** notes an increase of 0.7% relative to the same period last year, as a result of the increase in interest income from the households and government sectors. This is realized in conditions of a continuous trend of reduction in loan interest rates, as well as a reduction in the offer of and interest rates on the Treasury Bills, as one of the measures related to the health crisis. The plan for the period is realized by 99.2%.

The **net income from fees and commissions**, as at 31.12.2020 notes a decrease of 5.8% compared to the same period last year. This reduction is due to several contributing factors: reduced economic activity of clients, increased use of e-banking channels where fees are lower than traditional counter services, as well as the cessation of fee charging for electronic and mobile banking as one of the measures to mitigate the negative effects for retail clients during the state of emergency. The plan for the analyzed period is realized by 92.4%.

The **net FX gains** as at 31.12.2020 amount to MKD 165.1 million and note an increase of 39.8% due to activities related to the FX market, as well as exchange rate valuation of the balance sheet positions due to changes in the middle exchange rates of the US dollar and EUR. The plan for the analyzed period is realized by 139.9%.



Other operating income of the Bank as at 31.12.2020 amounts to MKD 1,830.4 million and note a multiple increase as a result of increased income from capital gains from the sale of foreclosed assets, as well as a larger amount of collected previously written-off claims. The plan for the reporting period has been tripled.

Operating expenses for the period 01.01-31.12.2020 are in the amount of MKD 1,943.1 million and compared to the same period last year note an increase of 8.5% as a result of increased deposit insurance premiums, increased costs for PC equipment needed for remote work, hygiene and costs for hiring guards in accordance with the Covid measures, increased depreciation costs and increased sponsorships and donations. In conditions of a pandemic, the Bank made multiple payments to help the health system in time of crisis. Also, the Bank invested a significant amount of funds for sponsorships in sports based on vouchers issued by the Agency of Youth and Sports, thus acquiring the right for a reduction of the income tax amount due for the total amount of donated funds. The plan is realized by 117.7%.

In the period 01.01-31.12.2020, the Bank has recorded **impairment losses on non-financial assets** in the amount of MKD 4.4 million, i.e. 20% of the net value of the foreclosed assets in accordance with the NBRNM regulations.

2. Balance Sheet

The **total assets** of the Bank, as at 31.12.2020, amount in MKD 132,583.6 million and compared to December 2019 note an increase by 7.8%. The increase in total assets is mostly due to the increase in cash, loans to clients and investments in securities. The plan is realized by 103.9%.

Cash and cash equivalents note an increase by 1.9% as a result of the increase in denar and foreign currency deposits with NBRNM and increased assets on current accounts in foreign banks. The plan is realized by 94.1%.

Trading assets in the amount of MKD 45.1 million note a decrease by 77.1% as a result of sale of shares of TIRANA BANK SH.A. Albania. The plan is realized by 123.6%.

Financial securities at fair value through the Income Statement designated as such at the initial recognition in the amount of MKD 344.5 million consist of investments in stakes in investment funds.

The loans to and claims from other banks note a decrease of 78.2% mainly due to the maturity of foreign currency term deposits from 3 months to one year and their placement on shorter terms. In addition, the decrease, to a lesser extent, is due to the continuation of the activities for restructuring of foreign currency assets that started last year, in order to provide higher returns by placing funds in debt securities. The plan is realized by 22.3%.

The loans to and claims from other clients note an increase by 0.3% as a result of increased lending to the households, non-financial legal entities and the government sector, whereas loans to households have increased with a smaller intensity compared to loans to non-financial legal entities. During this period, the Bank and five other banks participated in lending to the Ministry of Finance for budget financing needs, which was repaid in December in accordance with the agreed terms. The plan is realized by 96.5%.

Investments in securities have increased by 91%, mainly as a result of a larger amount of purchased continuous government bonds in denars and purchased Macedonian Eurobonds. The plan is realized by 192.9%.

Foreclosed assets have decreased by 40.1% and represent an insignificant position in the Bank's Balance Sheet.

Total deposits (deposits from customers and from banks) reached the amount of MKD 116.773,7 million and note an increase of 8.5%. The plan is realized by 104.8%.



The Bank's borrowings amounted to MKD 576.4 million and have decreased compared to December 2019 as a result of paid installments due under the credit lines. The plan is realized by 95.9%.

Share capital and reserves of the Bank as at 31.12.2020 reached the amount of MKD 13,899.1 million and have increased compared to 31.12.2019 by 5.0%. In the period reported, the Bank increased the reserve fund by 6.9% based on the distribution of net profit for 2019, thus strengthening the capital base and ensuring full compliance with regulatory requirements.

3. Expectations for the forthcoming period

The macroeconomic conditions in which the Bank will realize its activity in 2021 are expected to be conditioned by the effects of the health and economic crisis that began in 2020. Apart from the negative effects of the health crisis, the macroeconomic conditions in which the Bank will perform its activities are also conditioned by the geopolitical situation, the blockade of the country's European integration processes and domestic political developments.

In conditions of significant deterioration of the international economic environment and negative economic implications from the implementation of measures to prevent the spread of the coronavirus in the country, the economic activity in 2020 is expected to decline from -5.4% to -4.9%, assuming that the pandemic shock is prolonged in 2021. The economic recovery is expected to continue at a more moderate pace during 2021, with projected economic growth ranging from 3.9% to 4.8%.

Macroeconomic stability in the Republic of N. Macedonia is expected to be preserved by maintaining price stability and the stability of the nominal exchange rate of the Denar against the Euro. The average annual inflation rate, measured according to the Consumer Price Index, is expected to be around 1% in 2020, as a result of declining import prices and domestic demand. Then, in 2021, the inflation rate would remain at a low and predictable level of around 1.5% per year.

The credit growth dynamics marked slowdown in 2020, while the annual growth of total loans in the banking system in 2021 is projected at about 6.0%. The growth of loans would be financed primarily from the banks' deposit base, whereby the growth of total deposits of the non-financial sector is expected to around 6.2% in 2021.

The realization of macroeconomic projections is accompanied by risks related to the duration and consequences of the health crisis, the intensity of the effects on the economy and the results of the economic mitigation measures, as well as risks related to European integration processes and maintaining the political stability in the country.

The Bank will undertake all necessary activities to adjust to the new situation while focusing primarily on maintaining the quality of the portfolio in the next period and finding flexible solutions to meet the requirements of the clients who will be most affected by the health and economic crisis.

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

In the reporting period there were no changes in the accounting policies and evaluation methods.

5. Dividends paid out

In accordance with the Decision on appropriation and allocation of the unallocated profit gained up to 31.12.2019 and the Decision on determining the amount and dates for payout of the dividend for 2019, the Bank realized the dividend payout on April 29, 2020 to shareholders of ordinary shares that are recorded in the Shareholders Register as at April 23, 2020. Out of the total calculated dividend for 2019 in the amount of MKD 1,253,486,850.00, a dividend in the amount of MKD 720,755,200.00 was paid to legal entities and MKD 532,731,650.00 to individuals. The amount of dividend per share is MKD 550.00, or 55.0% of the nominal value of the share.



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 as at 31.12.2020 note an increase of 0.1% compared to December 2019. The increase is due to the net-effect of new purchases and calculated depreciation for the period.

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

As at 31.12.2020, the borrowings note a decrease of 31.1% compared to December 2019, mainly as a result of the larger amount of regular repayment of loan instalments compared to the new withdrawals under the loan agreements.

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