



Comment on the unconsolidated unaudited Income Statement and Balance Sheet of Komercijalna Banka AD Skopje as of 31.12.2016

1. Income Statement

In the period 01.01-31.12.2016, Komercijalna Banka AD Skopje realized **net profit for the financial year** in the amount of MKD 779.4 million compared to the net profit of MKD 525.1 million from the previous year. The profit realized before impairment, which represents an indicator for the operational capability of the Bank to cover its operational expenses is 4.4% higher than the one from the previous year, which mainly is a result of the increase of the other operating income category and the net FX gains, by simultaneously decreasing the other operating expenses category and amortization.

The realized **total income** is in the amount of MKD 4,686.1 million and notes an increase of 2.7% relative to the last year.

The **realized net interest income** represents a basic component in the formation of the total operating income and the same notes a decrease of 3.1% relative to the same period last year. The plan is realized by 97.2%.

The **net income from fees and commissions** as at 31.12.2016 amounted to MKD 864.3 million and compared to last year's realization have been decreased for 3.7%. The plan is realized by 95.6%.

The **net FX gains** as at 31.12.2016 amount to MKD 133.3 million and compared to the same period last year, note an increase of 21.6%. The plan is realized by 122.3%.

The **other operating income of the Bank** as at 31.12.2016 amounts to MKD 552.1 million and compared to the same period last year notes an increase of 66.4% mainly due to the increase in collected written-off claims and capital gains from the sale of the foreclosed property. The plan is realized by 85%.

Operating expenses for the period 01.01 - 31.12.2016 are in the amount of MKD 1,712.4 million and compared to the same period last year have been decreased by 0.2%, mainly as a result of decreased amortization and other operating expenses category. The plan is realized by 96.5%.

The **impairment of financial assets on net basis** on 31.12.2016 reached an amount of MKD 1,753.5 million and compared to the same period last year noted an increase of 1.5%. Despite the planned worsening of the loans placed to legal entities, the net-impairment of the financial assets for 2016 has also been increased due to the unexpected worsening of the financial condition with some of the corporate clients.

Impairment losses on non-financial assets on net basis reached an amount of MKD 347.8 million and noted a decrease of 34.7% versus the previous year. The largest part of the registered impairment loss refers to the property foreclosed after 01.01.2010, the other part relates to impairment loss for foreclosed property until 01.01.2010, which net value, according to the regulation, has been reduced to zero. The plan has been realized by 88.5%, due to the realized sales of foreclosed property during the year.



2. Balance Sheet

The **total assets** of the Bank as at 31.12.2016 reached the amount of MKD 100,737 million, and compared to December 2015, they have increased for 3.7%. The growth in the total assets is mainly due to the increase of money in cash and cash equivalents, trading securities, placements in and loans to other banks and investments in associates. The plan is realized by 99.8%.

The growth of the **cash and cash equivalents** arises from the increased balance of the Bank's accounts and its deposits placed in NBRM, as well as from the term deposits with maturity period up to 3 months. The Plan has been realized by 113.9%.

The growth of **placements in and loans to other banks**, is a result of the time deposits in domestic and foreign banks, taking into consideration the required maturity and acceptable interest rates with the FX deposits. Compared to last year, the placed short-term deposits in foreign banks noted a decrease as a result of the negative trends with the interest rates on the international financial markets, thus part of the due deposits have been placed in foreign banks with higher maturity in order to get more affordable interest rates and part of them were placed with NBRM according to the Decision for FX deposits, aimed to realize higher interest. The Plan has been realized with 95.4%.

The **investment in associates** noted an increase of 11.11% in regards to December 2015, as a result of the Bank's share in the profit of KB Prvo Penzisko drustvo AD Skopje - Company for management of mandatory and voluntary pension funds in the amount of MKD 43.6 million and correction of the book value by applying "the principal method" on the basis of paid dividend from the company in the amount of MKD 22.6 million. The plan is realized by 100.1%.

The **loans to and claims from other clients** in the reporting period note a decrease of 5% as a result of payments as well as restricted approval of new exposures due to the unfavourable conditions of the corporate portfolio. In the course of the year the Bank conducted write-offs of claims classified in risk category D in the period larger than 2 years, according to the amendments in the Decision for credit risk management. The Plan has been realized with 93.4%.

The decrease of **foreclosures** relative to December 2015 is a result of recorded impairment of the existing foreclosed assets, in accordance with the regulation of NBRM, additional impairment loss in respect to reappraisals, as well as on the basis of foreclosures which have been sold. As at 31.12.2016 the Bank has reduced the net-value of the property taken over until 01.01.2010 to zero, within the deadline determined by the NBRM.

The growth of total assets in 2016 is supported by proper increase of the clients' deposits and the increase of the Bank's share capital and reserves.

Deposits from customers reached the amount of MKD 87,179.7 million, which represents an increase of 4%, despite the larger withdrawn amount by the clients in April, that was initiated by non-economic factors. The plan is realized by 99.9%.

As at 31.12.2016, **share capital and reserves** reached the amount of MKD 10,544.9 million which is an increase of 5%, as a result of increased amount of retained earnings and increased reserves during 2016 for MKD 240.2 million, as a result of allocation of part of the profit from 2015 into reserves. The Bank will continue with increasing the amount of capital and strengthening its capital position. The plan is realized by 100.1%.



3. Expectations for the forthcoming period

In 2017 the macroeconomic conditions in which the Bank will realize its activity are expected to be more stable and with lower extent of uncertainty, relative to 2016. The growth of the Macedonian economy is expected to note faster dynamic, in comparison with the slowdown of 2016. Also, a stabilization of the political situation which will provide better foresight for the future economic prospects is expected.

The Bank will undertake all necessary measures and activities in order to realize its goals and assignments in accordance with the Program of Business Policy Measures and Activities for 2017. First of all, the Bank will be focused on improving the quality of the loan portfolio. The growth of the loan portfolio is expected to have a moderate level, whereas significant changes in total assets and Bank's resources structure are not planned. The non-financial sector deposits will continue to retain their dominant share in the total resources of Komercijalna Banka, since the Bank does not plan any significant changes in the financing structure. The Program of Business Policy Measures and Activities for 2017 has been developed in accordance with the Development Plan of Komercijalna Banka for the period 2017-2021 and both will be accepted by the Assembly of shareholders of the Bank.

During 2017 additional activities for credit risk exposure are expected to be implemented. Those activities include additional reservations for exposures towards clients which in the last couple of years have continuously noted a trend of worsening of their financial standing and default payments of the liabilities; additional impairment of the foreclosed assets in accordance with the NBRM regulation and complete compliance with the regulation limits.

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

There were no changes in the accounting policies and evaluation methods in 2016.

5. Dividends paid

Pursuant to the Decision on appropriation and allocation of unallocated profit gained up to 31.12.2015 and the Decision for determining data for dividend payment for 2015, in the reporting period the Bank has made a dividend payout to the shareholders (owners of ordinary shares) in total amount of MKD 284.9 million, out of which MKD 177.7 million to legal entities and MKD 107.2 million to individuals. The dividend per share was MKD 125.

6. Investments in or sale of material 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 2016 noted a decrease of 3.2% mainly due to calculated amortization.

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

In 2016, liabilities under loans noted decrease of 23.8% in regards to 2015 mainly due to higher amount of regular repayment of loan installments compared to the amount of new withdrawals under loans agreements.

Skopje, 30.01.2017