



## Comment on the unconsolidated unaudited Balance Sheet and Income Statement of Komercijalna Banka AD Skopje as of 01.01 - 30.09.2017

### 1. Income Statement

In the period 01.01-30.09.2017, Komercijalna Banka AD Skopje realized **a positive financial result** from its operations in the amount of MKD 106 million compared to the realized **positive financial result** of MKD 526.2 million for the same period in the previous year.

The realized profit before provisioning, being an indicator for the operational ability of the Bank to cover its operating expenses is for 8.1% lower compared to the previous year, mainly as a result of the decline of net interest income.

The largest negative effect over the financial result has the increase of the provisioning of the corporate loans, which overcomes the expectations in the reporting period.

**The realized total income** is in the amount of MKD 3,311.6 million and note a decrease of 4.9% compared to the same period last year.

The **realized net interest income** are the basic item in the formation of the total income and as at 30.09.2017 noted a decrease of 7.4%, compared to the same period last year as a result of deterioration of the corporate loans quality of the, withholding from more intense lending and reduction of the interest rates in accordance with the competitive market conditions. The Plan for the analyzed period is realized by 90.6%.

The **net income under fees and commissions** as at 30.09.2017 amounted to MKD 623.7 million and compared to the realization in the previous year, note a decrease of 1.8% due to the more intense growth of the fee and commission expenses related to card operations and simultaneous smaller dynamic of growth of the fees and commission income. The reason for the decline of the income are the reduced activities of some of the clients as a result of the political situation in the country, the decline in the fees in accordance with market conditions and the more intense use of e-banking by the clients. The Plan is realized by 100.1%.

The **net FX gains** as at 30.09.2017 are in the amount of MKD 89.1 million and compared to the same period last year, note a decrease of 13.2%. The Plan is realized by 91.4%.

The **other operating income of the Bank** as at 30.09.2017 amounted in MKD 424.7 million and compared to the same period last year noted an increase of 2.5% as a result of the increased amount of realized capital gains from sale of foreclosures. The Plan is realized by 118.9%.

**Operating expenses** for the period 01.01-30.09.2017 are in the amount of MKD 1,266.2 million and have increased for 0.8%. The Plan is realized with 96.8%.

**Impairment loss on non-financial assets on net basis** as at September 2017 reached the amount of MKD 18.3 million and has decreased by 88.8% relative to the same period last year.

The **provisioning on financial assets on net basis** as at 30.09.2017 reached the amount of MKD 1,921.1 million and compared to the same period last year notes an increase of 25.1%.



## 2. Balance Sheet

The **total assets** of the Bank as at 30.09.2017 reached the amount of MKD 95,514.1 million, and compared to December 2016, they have decreased for 1.2%. The decrease in the total assets is mainly due to the decrease of the cash and cash equivalents and the loans to banks and other clients. The plan is realized by 96.2%.

The **cash and cash equivalents** noted a decrease of 2.4% and realization of the Plan of 82.6%. The largest influences in the decline of this position are the decreased assets on current accounts in foreign banks, which, due to the unfavorable negative interest rates, are partially termed in longer period and part are placed in low-risk government securities.

The **loans to banks** have been decreased by 22.2%. The Plan has been realized by 117.1%. The decrease of this position is mostly a result of the matured f/x deposit placed in NBRM in May 2016 as a response to the shock that destabilized the banks' deposit base and conditioned an increased demand for f/x cash, where part of the matured assets are placed in short-term deposits in foreign banks due to the inability to place them in NBRM again and part are placed in low-risk government securities.

The **loans to other clients**, as an item with the largest participation of 44% in the Bank's assets, have been decreased by 2.9% as a result of deterioration of the loan portfolio and constraints from further lending until the portfolio is stabilized. The Plan has been realized with 96%.

**Investments in securities** are mostly consisted of government bills and government bonds and the same are increased by 41.1% in order to realize a more favorable financial effect in conditions of further deterioration of the quality of the loan portfolio and the nonexistence of more economical alternatives to place the excess liquidity that the Bank has. The Plan is realized with 144.5%.

The decrease in **real estate, equipment and intangible assets** is the result of calculated amortization. The Plan is realized by 96%.

The **securities held for trading** note an increase of 20.8% compared to December 2016 mainly due to increased investments in structured government bonds for denationalization and equity securities. The Plan is realized by 117.6%.

The **foreclosures** note an increase of 27.2% compared to December 2016 on the basis of newly foreclosed assets from a debtor who was not completely impaired at the moment of foreclosure.

The **liabilities** noted a decrease in the most part as a result of decreased deposits from customers for MKD 0.6 million or 0.7%. The plan is realized by 96.4%. The decrease in deposits from customers mainly arises from the decreased denar deposits from non-financial entities, whereas the deposits from households note an increase. From maturity aspect, the demand deposits note a decrease, whereas from the currency aspect the denar deposits are the reason for the decline.

As at 30.09.2017, **Bank's reserves** noted an increase of 6.6%, as a result of the distribution of part of the profit for 2016 into reserves, by which the Bank keeps on increasing the amount of capital and strengthening its capital position, which will enable the fulfillment of the prescribed capital buffers in accordance with NBRM regulations. The plan is realized by 101.6%.



### **3. Expectations for the forthcoming period**

In 2017, it is expected that the macroeconomic conditions in which the Bank performs its activities will be more stable and with a smaller amount of uncertainty compared to 2016.

The Bank will undertake all necessary measures and activities in order to realize its goals and objectives in accordance with the Program of Business Policy Measures and Activities for 2017 and will mainly be focused on improving the quality of the loan portfolio. The growth of the loan portfolio of the Bank is expected to be moderate in the area of lending activities towards non-financial legal entities, as well as in the retail segment in accordance with the adopted regulation by NBRM, thus no significant structural changes on the asset side are planned. The same refers to the liability side; therefore the non-financial sector deposits will continue to retain their dominant share in the total liabilities of Komercijalna Banka.

During 2017, additional activities for extra provisioning for the credit exposures to clients are expected to be implemented, referring to clients who in the previous years noted negative trends in their financial state and irregularity in the repayment of their liabilities, further impairment of foreclosed assets in accordance with the regulation of NBRM and total compliance with the regulatory limits, as well as regular implementation of write-offs of claims that are completely reserved for more than two years. However, the Bank does not give up on the possibility to collect the written-off claims and will endeavor to collect them until all legal manners are exhausted.

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

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

### **5. Dividends paid**

Pursuant to the Decision on appropriation and allocation of unallocated profit gained up to 31.12.2016 and the Decision for determining data for dividend payment for 2016, in the first half of 2017 the Bank made dividend payout to the shareholders (owners of ordinary shares) in total amount of MKD 341,860 thousand, out of which MKD 210.401 thousand to legal entities and MKD 131.459 thousand to individuals. The dividend per share was MKD 150.

### **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)**

As at 30.09.2017, real estate and equipment noted a decrease of 2.9% compared to December 2016 due to calculated amortization.

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

As at 30.09.2017, the borrowings noted a decrease of 20% in regards to 2016 mainly due to higher amount of regular repayment of loan installments compared to the amount of withdrawals under loans agreements.

Skopje, 25.10.2017