



Comment on the unconsolidated unaudited Income Statement and Balance Sheet of Komercijalna Banka AD Skopje as at 31.12.2017

1. Income Statement

In the period 01.01-31.12.2017, Komercijalna Banka AD Skopje realized **net profit for the financial year in the amount of MKD 820.6 million** compared to the net profit of MKD 779.4 million from the previous year which is an increase of 5.3%. The Plan for the gross profit is realized with 98.3%. The profit realized before impairment, which represents an indicator for the operational capability of the Bank to cover its operational expenses is for 14.2% higher than the one from the previous year, which mainly is a result of the increase of the other operating income category (realized capital gains from sale of foreclosed assets and collected previously written-off claims). This profit is realized in conditions of further worsening of the quality of the loan portfolio, whereas the negative events connected with the operation of several larger clients contributed to the impairment loss significantly to overcome the yearly projections. For that reason, the Bank made efforts to overcome these conditions through prudential asset managing, conducting organizational changes in order to increase the payment of problematic loans and continued with more intensive activities for sale of foreclosed assets.

The realized **total income** is in the amount of MKD 5,165.8 million and notes an increase of 10.2% 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 0.3% relative to the same period last year. The plan is realized by 89.6%. The movement of the interest income and expenses in the last quarter of the year was influenced by the changes with the interest rate policy which excludes the adjustable interest rates and appliance of fixed and variable interest rates with the new loan agreements, deposits and credit cards, in accordance with the recommendations of NBRM for minimization of legal and reputational risk, larger transparency in the operations and clients protection.

The **net income from fees and commissions** as at 31.12.2017 amounted to MKD 825.7 million and compared to last year's realization have been decreased for 4.5% due to more intensive growth of fee expenses related with the card operations and simultaneously lowered dynamic of the fee income growth as a result of the decreased activities with part of the clients due to the political situation in the country, decrease of the fees accordingly with competitive conditions and more intensive usage of e-banking by the clients. The plan is realized by 99.4%.

The **net FX gains** as at 31.12.2017 amounted to MKD 119.5 million and compared to the same period last year, noted a decrease of 10.4%. The plan is realized by 91.9%.

The **other operating income of the Bank** as at 31.12.2017 amounts to MKD 1,073 million and compared to the same period last year notes an increase of nearly twice, mainly due to realized larger capital gain from the sale of the foreclosed property from the debtor Skopski saem AD Skopje and larger amount of collected previously written-off claims relative to last year. The plan is realized by 312.9%.

Operating expenses for the period 01.01 - 31.12.2017 are in the amount of MKD 1,769.7 million and compared to the same period last year have been increased for



3.3%, as a result of increased employee expenses and other operating expenses category. The plan is realized by 98.3%.

The **impairment of financial assets on net basis** on 31.12.2017 reached an amount of MKD 2,381.3 million and compared to the same period last year noted an increase of 35.8%. Despite the planned worsening of the loans placed to legal entities, the net-impairment of the financial assets for 2017 has significantly been increased relative to the Plan due to the unexpected worsening of the financial condition with several larger corporate clients.

Impairment losses on non-financial assets on net basis reached an amount of MKD 102.5 million and noted a decrease of 70.5% relative to the previous year. In 2017 the Bank has recognized 20% impairment of the property foreclosed after 01.01.2010 which net value, according to the regulation, should be reduced to zero until 01.01.2018 the latest, and part of the impairment refers to foreclosed assets which in the moment of their takeover were not totally impaired. The plan has been realized by 26.8% as a result of adopted Conclusion from the Risk Management Board for reducing the net value to zero of the property taken over after 01.01.2010 on 01.01.2018, taking into consideration the financial burden of the Income Statement with unplanned additional impairment of value for the loans of several larger clients.

2. Balance Sheet

The **total assets** of the Bank as at 31.12.2017 reached the amount of MKD 104.860 million, and compared to December 2017, they have increased for 4.1%. The growth in the total assets is mainly due to the increase of money in cash and cash equivalents, investment in securities, other claims and foreclosed assets. The plan is realized by 100.5%.

The growth of the **cash and cash equivalents** arises from the increased balance of the treasury bills available for sale on the secondary market and term deposits with maturity period up to 3 months. The Plan has been realized by 88.8%.

The **securities available for trading** note an increase as a result of larger amount of purchased government bonds. The Plan is realized with 109.9%.

The placements in and loans to other banks, noted decrease of 42% and realization of the Plan with 104.7%. The decrease of this position is mainly due to the decrease of the deposit in foreign currency placed with NBRM in May 2016 as a response to the shock which destabilized the deposit base of the banks and conditioned increased demand for fx cash, thus part of the due deposit was placed in short-term deposits in foreign banks due to the inability of re-placement in NBRM and part was placed in low-risk government bills.

The loans to and claims from other clients in the reporting period noted an increase of 0.2% and the Plan has been realized with 98.7%. As a result of further worsening of the loan portfolio, the Bank during the whole year carefully managed the credit growth.



The **investment in associates** noted an increase of 11.9% in regards to December 2016, as a result of the net-effect from the Bank's share in the profit of KB Prvo Penzisko drustvo AD Skopje in the amount of MKD 55.1 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 30.1 million. The plan is realized by 102.2%.

The **other claims category** is increased more than twice in comparison with last year which mainly is a result of the recorded other claims on other basis in denars and foreign currency.

The increase of **foreclosures** of 36.8% relative to December 2016 is a result of foreclosed assets taken over from the debtors Brillijant - Shtip and Agrfruktus - Strumica which claims were not totally impaired in the moment of performed collection. Despite that, the Bank in the reporting period has sold foreclosed assets for which has realized capital gain.

The **immovable property and equipment** in 2017 noted a decrease of 3.5%, mainly as a result of calculated amortization.

The growth of total assets in 2017 is supported by proper increase of the clients' deposits and the increase of the Bank's equity capital and reserves.

Deposits from customers reached the amount of MKD 91,266.7 million, which represents an increase of 4.7%, result of the increase of short-term and long-term deposits of the household sector. The plan is realized by 100.6%.

As at 31.12.2017 the Bank's **liabilities under loans** noted a decrease of 25% relative to 2016, as a result of the higher amount of regular payment of these liabilities in terms of the amount of new withdrawals with the loan arrangements.

As at 31.12.2017, **equity capital and reserves** reached the amount of MKD 11,119.1 million and the Plan is realized by 99.9%. The Bank's reserves note an increase of MKD 437.5 million as a result of allocation of part of the profit for 2016 into reserves in order to fulfill the regulatory capital requirements and newly prescribed protective capital buffers which the Bank has accomplished completely.

3. Expectations for the forthcoming period

In 2018, the macroeconomic conditions are expected to be stable and will rely on low and predictable inflation (in the interval of 1.5%-2%) and stable fx exchange rate of the denar relative to euro. Despite the continuity of the macroeconomic stability no dramatically increase of the economic growth is expected of the Macedonian economy and the same for 2018 is predicted on a level between 2.5%-3%. The annual growth of the total loans on the level of banking system is expected to be from 5%-6% and it will primarily be financed by banks' deposit base.

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 2018. The Bank will be focused on improving the quality of the loan portfolio, compliance with the accounting standard IFRS 9 and the capital requirements prescribed by NBRM. 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 structure of financing sources.



In the course of 2018 the Bank will calculate additional reservations for exposures towards clients which in the recent years continuously noted a trend of worsening of their financial standing and default payments of their liabilities, as well as additional impairment of the foreclosed assets in accordance with the NBRM regulation. Thereby, Bank does not give up its claims and will continue with its efforts for collection and will insist on their payment until exhaustion of all legal possibilities.

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

There were no changes in the accounting policies and evaluation methods in 2017.

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 has made a 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 150.00.

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 2017 noted a decrease of 3.5% mainly due to calculated amortization.

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

In 2017, liabilities under loans noted decrease of 25% in regards to 2016 mainly due to higher amount of regular repayment of loan installments compared to the amount of new withdrawals under loans agreements.

Skopje, 30.01.2018