



Comment on the unconsolidated unaudited Income Statement and Balance Sheet of Komercijalna Banka AD Skopje as at 31.03.2018

1. Income Statement

In the period 01.01-31.03.2018, Komercijalna Banka AD Skopje realized a **net profit for the financial year in the amount of MKD 966.6 million** compared to the **positive net profit** from the previous year in the amount of MKD 39 million. The multiple increase of the financial result is due to the intensive activities of the Bank to solve the status of the debtor FENI – Kavadarci, which had a substantial impairment provision as a result of the worsened state during 2017. Taking into account the potential of the plant, as well as the interests of all stakeholders, in the first quarter of 2018 the Bank concluded a contract for the sale of its claims from "FENI INDUSTRI AD Kavadarci in bankruptcy" in the total amount of MKD 1,495,913,713.00. In accordance with the terms of the contract, its full realization and payment of the total amount of claims were realized by the end of March, after which the release of provisioning was recorded in the balance sheets of the Bank and it had an adequate effect on the realized financial result.

The realized profit before provisioning, which is an indicator of the Bank's operational capability to cover the operating expenses, is 60.3% higher than in the previous year. This is mostly due to the increase in the other income, and above all on the income from capital gains from the sale of foreclosed property from the debtor Brilliant Shtip, which was realized through the conclusion of contracts for sale of real estate, movable property and industrial property rights with "Vitaminka AD Prilep" with total contracts value of EUR 7,300,000.00.

The **total income** realized is in the amount of MKD 1,437.2 million and notes an increase of 34.7% relative to same period last year.

The **net interest income** realized represents a basic component in the formation of the total operating income and as at 31.03.2018 it notes a decrease of 8.4% relative to the same period last year, which arises mainly from the non-financial legal entities. The plan for the period is realized by 95.6%.

The **net income from fees and commissions**, as at 31.03.2018, amounted in MKD 200.4 million and compared to the same period last year have been increased for 0.3%. The plan is realized by 101.6%.

The **net FX gains** as at 31.03.2018 amounted to MKD 48.4 million and compared to the same period last year, noted an increase of 59.3%. The plan is realized by 162.8%.

The **other operating income of the Bank** as at 31.03.2018 amounts in MKD 517.3 million and note an increase of five times more than the realized income in the same period last year, mainly due to income from equity investments and capital gain from the sale of a foreclosure. The plan is realized by 188%.

Operating expenses for the period 01.01 - 31.03.2018 are in the amount of MKD 375 million and compared to the same period last year have decreased for 7.3%. The plan is realized by 92.3%.



Impairment losses on non-financial assets on net basis as at March, 2018, amounted in MKD 367.3 million and is mostly due to the impairment of the property foreclosed after 01.01.2010 whose net value, according to NBRM's regulation, has been reduced to zero.

In the reporting period, the Bank realized a **release of provisioning on financial assets on net basis** in the amount of MKD 271.7 million, compared to the realized additional provisioning of the financial assets in the amount of MKD 606.6 million in the same period last year, which is due of the activities undertaken to resolve the status of the debtor FENI – Kavadarci, taking into account the potentials of the plant and the interests of all stakeholders.

2. Balance Sheet

The **total assets** of the Bank as at 31.03.2018 amounted in MKD 105,451.2 million and compared to December 2017 it increased by 0.6%. The increase in total assets is mostly due to an increase in cash and cash equivalents. The plan was realized with 99.7%.

Starting from 01.01.2018, the new NBRM's Decision on methodology for recording and valuation of the accounting items and preparation of financial reports came into force, according to which the Bank adopted a Business Model Policy, Classification and Measuring of Financial Instruments of Komerцијална Banka AD Skopje and based on the same, reclassified the financial instruments within the balance sheets. Therefore, certain balance sheet items are not comparable with the statement as at 31.12.2017.

Cash and cash equivalents increased by 15% as a result of the increased state of the MKD deposits placed with NBRM and the increased state of the term deposits abroad with maturity of up to 3 months. The plan was realized by 112.6%.

Financial securities at fair value through the Income Statement designated as such at the initial recognition in the amount of MKD 326.5 million consist of investments in stakes in investment funds that according to the old methodology were classified in the position securities held for trading.

Securities available for trading decreased by 87.6% as a result of the reclassification of stakes.

The loans to and claims from other banks, noted a decrease of 45.2% as a result of the matured assets placed in foreign banks with a maturity over 3 months. Part of these assets are placed in foreign banks with a maturity of up to 3 months due to the more favorable weighting in the calculation of the capital adequacy. The Plan was realized by 54.7%.

In the period reported **the loans to and claims from other clients** noted a decrease of 3.5% as a result of the sale of claims from the debtor FENI Kavadarci. The Plan has been realized by 96.3%.

Investments in securities decreased by 3.1% as a result of matured government bills and government bonds. The Plan was realized by 96.3%.

Foreclosures were reduced by 52.2% mostly as a result of recorded impairment of property acquired after January 1, 2010, whose net value is reduced to zero within the term prescribed by the NBRM's regulation.



Total deposits (deposits from customers and from banks) reached the amount of MKD 91,039.6 million, which represents a decrease of 0.7%. The plan is realized by 98.6%.

The Bank's borrowings as at 31.03.2018 amounted in MKD 1,158.2 million and have decreased, compared to December 2017, as a result of paid installments due under the credit lines. The Plan was realized by 98.7%.

As at 31.03.2018, **equity and reserves** reached the amount of MKD 11,995.9 million and noted an increase of 8.8% as a result of the realized current profit and the included undistributed profit for 2017. The Plan is realized by 99%.

3. Expectations for the forthcoming period

In 2018 the macroeconomic conditions in which the Bank will realize its activity are expected to be similar to 2017. 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. The average annual inflation rate is expected to range between 1.5% and 2%. The price stability will be supported by the further application of the monetary strategy of targeting the nominal exchange rate of the Denar against the Euro by the National Bank of the Republic of Macedonia.

Despite the continuity of macroeconomic stability, no dramatic accelerations of the growth of the Macedonian economy is expected in 2018, so the real growth of the GDP is expected between 2.5% and 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 the banks' deposit base.

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 2018, where the Bank will 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 part of lending to non-financial legal entities, as well as the part of the retail loans in accordance with NBRM'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 the liabilities.

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

From 01 January 2018, the Bank applies new accounting policies.

The National Bank of the Republic of Macedonia adopted a new Decision on the Methodology for registration and evaluation of the accounting items and for the preparation of the financial statements, applicable as of 01.01.2018 as published in the Official Gazette No. 83 of 2017. The largest change in the new Methodology refers to changes in the conditions and criteria for classification, measurement and evaluation of financial instruments, as well as changes in the method of impairment of financial assets for the purpose of the process of IFRS 9 implementation.

IFRS 9 - Financial Instruments Replaces IAS 39 - Financial Instruments: Recognition and Measurement, whereby, the new standard is expected to simplify the accounting for financial instruments and resolve the reported inadequacies of IAS 39.



In order to have successful and effective implementation of the changes arising from IFRS 9, the Bank started applying new Accounting Policies, so that everyday activities related to accounting records and accounting valuation are consistent and appropriately presented in the financial statements.

According to the new Accounting Policies, the Bank made reclassification on part of the securities portfolio, but the reclassification did not change the measurement bases or the financial effect of the reclassification, except for the following:

Previous category (IAS 39)	New category (IFRS 9)	Effects of reclassification
Financial instruments at fair value through the Income Statement - debt instruments	Financial instruments at amortized purchase value	The fair value at the date of reclassification is the new amortized value

5. Dividends paid

Pursuant to the Decision on determination of the dividend amount and payment dates for the dividend for 2017, adopted at the General Meeting of Shareholders on 04.04.2018, the amount of dividend per ordinary share is MKD 180,00 or 18% of its nominal value of MKD 1.000,00. The last day of trading with the right to a dividend for 2017 is 17.04.2018, while the payment of dividend for 2017, in accordance with the above mentioned Decision, will start on 30.04.2018.

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 the first quarter of 2018 noted a decreased of 0.5% compared to December 2017, mainly due to calculated amortization.

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

In the first quarter of 2018, the borrowings noted a decrease of 6.4% compared to December 2017, mainly as a result of the higher amount of regular repayment of loan installments compared to the new withdrawals under the loan agreements.

Skopje, 26.04.2018