

DEVELOPMENT PLAN
OF KOMERCIJALNA BANKA AD SKOPJE
WITH FINANCIAL PROJECTIONS FOR THE PERIOD
2021-2023
(Summary)



komercijalna banka
ad skopje

Skopje, February 2021



Contents

INTRODUCTION.....	2
I. MACROECONOMIC CONDITIONS IN WHICH THE BANK WILL REALIZE ITS ACTIVITIES	3
II. KEY STRATEGIC OBJECTIVES OF KOMERCIJALNA BANKA	6
III. PRIORITY AIMS AND OBJECTIVES.....	6
IV. THE BANK'S BUSINESS MODEL	7
V. GENERAL APPROACH IN RISK MANAGEMENT	8
VII. TARGETS AND OPERATIONAL PLANS OF THE DIVISIONS AND BRANCHES... 	12



INTRODUCTION

Komercijalna Banka AD Skopje, as an institution in the banking sector of the Republic of N. Macedonia is obliged to prepare and adopt a Development Plan in accordance with the Law on Banks and the bylaws in this domain, the Law on Trade Companies, and the Statute of the Bank.

For the preparation of the Development Plan for the period 2021-2023, the organizational parts of the Bank have provided Programs of activities along with dynamics of their realization.

Also, the Bank has determined the macroeconomic assumptions and the internal balance sheet proportions for the preparation of the financial projections for the period 2021-2023.

Thereby, the long-term strategic goals and directions of development of the Bank remain the defined goals and tasks within the Policy Statement of Komercijalna Banka AD Skopje.

The implementation of the Development Plan of the Bank will be regularly monitored on an annual basis, in accordance with the Decision on the Methodology for Risk Management, Annex No. 4: Strategic Risk Management, adopted by the National Bank. The Bank also prepares a Program of Measures and Activities of the Business Policy on an annual basis, which will be a more detailed elaboration of the activities for achieving the set out medium-term goals in accordance with the Development Plan.



I. MACROECONOMIC CONDITIONS IN WHICH THE BANK WILL REALIZE ITS ACTIVITIES

During 2020, significant changes occurred within the Bank's operational environment, which will have a significant impact on the macroeconomic conditions in which the Bank will realize its activity in the next medium-term period. Namely, in March 2020, the World Health Organization (WHO) declared a world pandemic due to the intensity of the spread of the COVID-19 virus and its associated health implications. In such circumstances, due to the COVID-19 pandemic, the Bank realized its operations within a declared state of emergency in the country by the Government, starting from March 18, 2020, until June 22, 2020. During this 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 employees and customers, as well as with the amendments to the regulations related to credit risk management and other decisions made by the National Bank, which were created primarily to protect the banks' clients that were directly affected by the crisis. Also, in order to protect the health of employees and customers, the Bank undertook a number of organizational and technical activities, which also ensured the continuity of business operations and enabled availability of its services in a safe manner. Despite the abolition of the state of emergency and the cessation of most of the restrictive measures, the unfavorable situation with regards to COVID-19 remains within the next period, so according to published data and indicators of real sector performance, the negative effects on GDP are visible by the end in the second quarter of 2020, while the consequences on the financial system will be experienced with a certain time delay. In line with the current realization of the forecasts for further growth of the number of infected, some European countries have reintroduced restrictive measures that will have an additional negative impact on economic growth. Therefore, at the end of the year, the Government adopted additional economic measures to alleviate the crisis and adopted a Decision to extend the state of crisis within the country until 30.06.2021.

In addition to the significantly unfavorable impact of the health crisis, the medium-term forecast of macroeconomic conditions in which the Bank will operate is also conditioned by turbulent geopolitical movements, the announced blockade of the European integration process by the eastern neighbour and domestic political developments. According to IMF's forecast from October, the global economy will contract by -4.4% in 2020, while the expected recovery in 2021 will be represented by a GDP growth rate of 5.2%. Furthermore, future developments within the EU remain crucial for the medium-term development of the Macedonian economy, since the EU remains the largest trading partner of the country and a market which absorbs approximately 80% of total Macedonian exports. Uncertainty within the EU will continue in the next medium-term period as a result of the negative economic consequences caused by the health crisis, the population vaccination dynamics, the actualization of Brexit, tensions related to the refugee crisis, frequent terrorist attacks, concerns about climate change, etc. The IMF projections for economic activity within the Eurozone area are particularly unfavourable, with an estimated end of the year retraction of GDP at -8.3%, while the expected recovery in 2021 is 5.2%. The reduction of economic activity of Italy and Spain, which exceeds 10% in both cases, is of great concern, while for Germany, N. Macedonia's largest trading partner, GDP for 2020 is projected to decline by -6.0%, followed by a rate of recovery of 4.2% in 2021.

The high level of uncertainty within the domestic economy and internationally, indicates the need for a more conservative approach in shaping expectations for the next medium-term period. In determining the macroeconomic indicators for the period 2021-2023, the forecasts of the Ministry of Finance, the National Bank of the Republic of N. Macedonia, the IMF and the World Bank were all taken into account.

Basic macroeconomic indicators*

	Indicator	2019	2020	2021	2022	2023
1	GDP (real growth rate)	3.6%	from -5.4% to -4.9%	from 3.9% to 4.8%	from 3.6% to 4.2%	4.2%
2	Inflation (based on average annual change of CPI)	0.8%	1.2%	1.5%	2.0%	2.0%
3	Exports (nominal growth)	9.4%	-20,4%	24.0%	10.1%	10.9%
4	Imports (nominal growth)	9.9%	-19.4%	22.5%	9.3%	10.2%
5	Current account balance (% of GDP)	-2.8%	-2.6%	-2.2%	-2.0%	-2.0%
6	Exchange rate Denar/Euro	61.5	61.5	61.5	61.5	61.5
7	Net-wages (nominal growth)	3.9%	-0.2%	2.9%	3.7%	3.9%
8	Unemployment rate	17.3%	17.4%	16.4%	15.4%	14.5%

* Source: State Statistical Office, Ministry of Finance, National Bank, the International Monetary Fund and the World Bank

In the period 2021-2023, macroeconomic stability in the Republic of N. Macedonia is expected to be sustained by maintaining price stability and the stability of the nominal Denar – Euro exchange rate. The average annual inflation rate measured in 2020 according to the Consumer Price Index is 1.2%. Within the following three years, the inflation rate would remain low and predictable, ranging from 1.5% to 2.0% annually. Price stability will be determined by a continuous application of the monetary strategy by the National Bank of targeting the nominal Denar – Euro exchange rate.

Within the current global and local economic circumstances, the low level of reference interest rates by the central banks for the purpose of economic recovery is expected to be maintained in the next period. Thereby, it is safe to assume that there will be no interest rate increases by the National Bank, or increase in interest rates by other banks.

In conditions of significant deterioration within the international economic environment and negative economic implications from the implementation of restrictive measures to prevent the spread of the Coronavirus in the country, economic activity in 2020 is expected to decline from -5.4% to -4.9%, assuming the shock from the pandemic will continue into 2021. The unfavourable global environment will affect the activity of domestic export companies, the inflow of FDI and the investment activity of businesses. The amount of foreign private remittances from abroad are expected to decline, while restrictive measures are expected to have an impact on the labour market and household disposable income. Economic recovery is expected to continue at a more moderate pace during 2021, with projected economic growth of 3.9% to 4.8%, as well as a more stable projected growth rate at around 4.2% within the following two years. As the situation normalizes during 2021, as well as due to the low comparison basis, economic activity within the EU is expected to register high growth, followed by increased external demand and export activity of domestic companies.

Having in mind that the effects of the pandemic are projected to be temporary, the impact of domestic demand to economic growth is expected to move to the positive zone in 2021, amid a recovery in investment activity and private consumption. A significant impact on the expected growth of investments is expected as a result of return of confidence within businesses, planned investments by the public sector and government measures to encourage private investment, the more intense inflow of FDI stimulated by the Country's

NATO membership, and the decision of the European commission in terms of starting EU membership negotiations.

Projections in relation to private consumption in the period 2021-2023 are more favourable, as a result of expectations for improvements within the labour market, increased inflow of personal cash transfers from abroad, but also greater lending support from the banks.

In terms of public consumption, after the expected growth in 2020 as a result of increased expenditures meant for tackling the effects of the health crisis, a slight downward adjustment is expected next year, with a projected decline of 0.5% in real value terms, before moving into the positive zone in 2022 and 2023, with an average real growth projection of 1.5%.

The effects of the pandemic on the labour market during 2020 are expected to have a limited impact, primarily due to government measures to mitigate its effects. Employment growth is expected to continue within the coming period, amid improved outlooks for businesses, increased investment and economic activity driven by active employment measures and programs, and the contribution of domestic and foreign companies towards creating new jobs. These outlined developments within the labour market are expected to contribute towards reducing the average unemployment rate in 2023 to 14.5%. The nominal growth rate of the average net wage in this period is expected to be 3.9% year-on-year.

The current account deficit within the next medium-term period is expected to shrink, and is projected at 2% of GDP in 2022 and 2023. This improvement stems from a projected increase in personal remittances from abroad, following a significant estimated decline for 2020, as well as an increase in income from services rendered abroad, while the balance of trade deficit is projected to deteriorate slightly. FDI inflows are expected to overcome the current account deficit in this period, which will have a favourable impact in maintaining foreign currency reserves at an adequate level.

The increased expenditures for financing the crisis management measures planned within the latest budget rebalancing will cause the budget deficit to increase to 8.4% of GDP at the end of 2020, with the expected rapid recovery halving the budget deficit at the end of 2021, after which it will return to an acceptable level of below 3% of GDP (in line with the Maastricht Agreement).

The Government of the Republic of N. Macedonia has undertaken a number of economic measures to limit the social and economic impact of the health crisis by protecting the liquidity of companies, preserving jobs and providing social security for households and the unemployed. The realization of the macroeconomic projections is dependent on risks related to the longevity and consequences of the health crisis, the intensity of the effects on the economy, and the results of economic measures for its mitigation. In addition, risks related to the European integration processes are also present, while the political stability in the country is also a key precondition for achieving the projected economic growth and achieving the defined long-term development goals of the Country, followed by the macroeconomic conditions in which the Bank will realize its activity.



II. KEY STRATEGIC OBJECTIVES OF KOMERCIJALNA BANKA

According to the Policy Statement, Komercijalna Banka AD Skopje shall perform its activities on the basis of sound banking principles and shall undertake the necessary steps to provide maximum profit for the shareholders in the long run.

The key strategic objectives of Komercijalna Banka AD Skopje are:

1. To develop into a leading, independent, privately owned bank which operates and provides services on the entire territory of the Republic of N. Macedonia.
2. Komercijalna Banka shall strive to be a universal bank, by which the Bank will strengthen its significant position in the banking sector.
3. Komercijalna Banka shall strive to achieve the highest standards in providing carefully selected quality products and services to its clients.
4. Komercijalna Banka shall strive to achieve timely compliance of its operational policies and working procedures in line with the best international practices.
5. Komercijalna Banka is committed to the basic principle of equal treatment of clients that are shareholders and those that are not shareholders of the Bank.

III. PRIORITY AIMS AND OBJECTIVES

The priority aims and objectives of the development of Komercijalna Banka AD Skopje in the period 2021-2023 are based on: The Bank's Policy Statement which defines its basic operational framework based on solid banking principles and taking specific measures to ensure maximum long-term profitability to the shareholders, achieved operational results, and basic macroeconomic projections.

The priority aims and objectives are as follows:

1. Maintenance of the capital value and its increase through a policy of further allocation of a significant proportion of the net profit into reserves, thus providing a capital adequacy ratio that would correspond to the planned activities;
2. Profit maximization by undertaking acceptable risks;
3. Maintaining of and eventual increase of the Bank's share of the banking market of the Republic of N. Macedonia, in conditions of increased competition;
4. Full compliance with the legal framework on financial reporting and managing the operational risks;
5. Digitalization and improvement of the information technology in all segments of operations;
6. Continuous improvement of the organization of the Bank's operation and human resources management in a manner that will provide higher quality of services;
7. If the Bank's shareholders provide a control package of shares and set proper parameters, the Bank's management shall take appropriate measures and activities for possible attraction of potential strategic foreign investor that should fulfill the following conditions: to be a bank with a renowned international brand name; the offer should reflect the real value of the shares of Komercijalna Banka and to submit a strategic plan for future development of the Bank.



In addition to the objectives outlined in the Policy Statement, Komercijalna Banka AD Skopje also anticipates the following aims and objectives:

1. Undertaking activities for minimizing and dealing with the negative effects of the health crisis on the Bank's loan portfolio;
2. Introducing new or modified banking products and services according to customers' demands, development of new non-traditional banking functions, conquering new market segments;
3. Further improvement of the e-banking and mobile banking and promoting the possibilities they offer;
4. Practicing banking marketing in creating an adequate offer in accordance with the current market needs, informing the target groups and improving the perceptions of the Bank's brand, and in accordance with the Corporate Social Responsibility Strategy;
5. Improvement of the entire risk management process, improvement of the process of determining the internal capital and internal liquidity of the Bank, etc.

IV. THE BANK'S BUSINESS MODEL ¹

From the business model aspect, Komercijalna Banka AD Skopje is classified in the group of **commercial banks financed by deposits from the non-financial sector (mainly from the household sector)**, having fulfilled the following coefficients: dominant participation of total loans in the structure of total assets (12.2020: 38.3%), minimum participation of the trading portfolio in the total assets (12.2020: 0.03%), participation of total deposits with more than 2/3 in total liabilities (12.2020: 87.9%) and minor participation of the long-term borrowings in total liabilities (12.2020: 0.43%). The structure of total loans (on a gross basis) has a ratio of 65% of loans to non-financial legal entities and 32% loans to households, whereas the structure of total deposits has a ratio of 71% deposits of households and 24% deposits of non-financial legal entities. This structure determines the dominant income and expenses that are generated by the Bank and which affect the operation results and the realization of the planned growth.

The business model of the Bank consists of the following key and auxiliary (supportive) business processes:

1. **Key business processes:**
 - 1.1. Corporate lending
 - 1.2. International payment operations for legal entities
 - 1.3. Collection of problem loans
 - 1.4. Liquidity and financial market
 - 1.5. Domestic payment operations for legal entities
 - 1.6. Retail operations
 - 1.7. Branch network management
 - 1.8. Vault operations

¹ The business model of the Bank is defined on the basis of research made by the Bank for International Settlements: https://www.bis.org/publ/qtrpdf/r_qt1412g.pdf and the definition from the Decision on good corporate governance rules for banks (Official Gazette of RM No.24/2018).



2. Auxiliary (supportive) business processes:

- 2.1. HR and general affairs
- 2.2. Legal affairs
- 2.3. IT
- 2.4. Marketing
- 2.5. Finance
- 2.6. Risk management and planning
- 2.7. Compliance and ALM
- 2.8. Internal Audit

In the course of the 2021-2023 medium-term period, no changes in the business model of the Bank are planned to be made.

V. GENERAL APPROACH IN RISK MANAGEMENT

In realization of the priority aims and objectives for the period 2021-2023, Komercijalna Banka AD Skopje will continue with risk management through identifying, measuring and grading, control and monitoring thereof, in order to eliminate or minimize their impact on the Bank's operation. The risk management shall be based on the Risk Management Strategy and the defined policies for managing respective risks, through strict adherence to the risk exposure limits, pursuant to the legal framework and internal risk exposure limits.

VI. FINANCIAL PROJECTIONS FOR THE PERIOD 2021-2023

1. Macroeconomic assumptions

In determining the macroeconomic indicators for the period 2021-2023, the Bank has taken into consideration the projections of the Ministry of Finance of the Republic of N. Macedonia, the National Bank, the IMF and the World Bank (outlined in the section Macroeconomic conditions in which the Bank will realize its activity).

The focus of monetary policy will continue to be maintaining a stable Denar - Euro exchange rate in order to achieve price stability as an ultimate monetary goal, as well as to maintain foreign exchange reserves at an adequate level.

2. Internal banking assumptions

- Planned profitability: ROE of minimum 10% and ROA of minimum 1%,
- Targeted net interest margin (NIM) of minimum 2.0%-2.5% per annum,
- Growth of deposits to a level that will enable a share of over 85% in the total liabilities of the Bank,
- Increase of the interest bearing placements in accordance with the movement of the open f/x position and by taking into consideration the ratio between the denar and the f/x component of the Bank's assets, as well as maintaining the Bank's exposure to foreign currency risk within the legally prescribed limit,

- Allocation of part of the net profit into reserves in order to maintain capital value stability and increase the capital adequacy ratio,
- Liquidity that will ensure minimum liquidity prescribed by the National Bank and creating an appropriate securities portfolio, as an instrument for providing secondary liquidity,
- Planned expenses ratio calculated as a proportion between operating expenses and total income in the range between 45% and 55%.

3. Balance sheet

Table No. 1: Projections of the Balance Sheet of Komercijalna Banka AD Skopje for the period 2021-2023 (in MKD million)

	As at 31.12.2020		Plan 31.12.2021		Plan 31.12.2022		Plan 31.12.2023		Index 2021 / 2020	index 2022 / 2021	Index 2023 / 2022	Average three year growth	
	Amount	%	Amount	%	Amount	%	Amount	%	5:3	7:5	9:7	(11+12+13)/3	
1	2	3	4	5	6	7	8	9	10	11	12	13	14
LIABILITIES													
1	Borrowings	575	0.4%	461	0.3%	315	0.2%	197	0.1%	80.2	68.3	62.5	70.3
2	Deposits from customers	116,604	87.9%	122,409	88.0%	127,827	88.2%	132,791	88.3%	105.0	104.4	103.9	104.4
3	Other liabilities	1,506	1.1%	1,682	1.2%	1,681	1.2%	1,680	1.1%	111.7	100.0	99.9	103.9
4	Share capital and reserves	11,987	9.0%	12,531	9.0%	13,081	9.0%	13,631	9.1%	104.5	104.4	104.2	104.4
5	Unallocated profit	1,912	1.4%	0	0.0%	0	0.0%	0	0.0%	-	-	-	-
6	Gross profit	0	0.0%	1,970	1.4%	1,996	1.4%	2,142	1.4%	0.0	101.3	107.3	69.5
	Total liabilities	132,584	100.0%	139,053	100.0%	144,900	100.0%	150,441	100.0%	104.9	104.2	103.8	104.3
ASSETS													
1	Cash and cash equivalents with NBRNM	49,686	37.5%	51,046	36.7%	55,099	38.0%	58,975	39.2%	102.7	107.9	107.0	105.9
2	Assets held for trading	45	0.0%	43	0.0%	43	0.0%	44	0.0%	95.6	100.0	102.3	99.3
3	Placements with and short-term loans to other banks	1,021	0.8%	1,020	0.7%	1,020	0.7%	1,020	0.7%	99.9	100.0	100.0	100.0
4	Loans to customers (net)	50,740	38.3%	52,147	37.5%	53,379	36.8%	55,013	36.6%	102.8	102.4	103.1	102.7
5	Investments	25,582	19.3%	29,264	21.0%	29,834	20.6%	29,842	19.8%	114.4	101.9	100.0	105.5
6	Fixed assets	2,838	2.1%	2,881	2.1%	2,825	1.9%	2,747	1.8%	101.5	98.1	97.2	98.9
7	Other assets	2,672	2.0%	2,652	1.9%	2,700	1.9%	2,800	1.9%	99.3	101.8	103.7	101.6
	Total assets	132,584	100.0%	139,053	100.0%	144,900	100.0%	150,441	100.0%	104.9	104.2	103.8	104.3

3.1. Total assets of the Bank are planned to increase from MKD 132,584 million on December 31, 2020, to MKD 150,441 million in 2023, whereby the average annual growth rate would be around 4.3%.

3.2. Long-term borrowings are planned to decrease as a result of a larger amount of paid due installments on credit lines used by the Bank regarding withdrawal of funds from the EIB credit lines via the DBNM, as well as the IPA grant via the EBRD, whereby the net effect is negative.

3.3. Total Bank deposits are planned to increase, reaching MKD 132,791 million at the end of 2023. The average annual growth rate is 4.4%.

3.4. The Bank's share capital and reserves are planned to increase from MKD 11,987 million to MKD 13,631 million, with an average annual growth rate of 4.4% due to the distribution of the Bank's realized financial result in respective years. This increase will further strengthen the Bank's capital, which will ensure the fulfillment of capital requirements by the National Bank, all the while providing protective capital layers.



3.5. Cash and cash equivalents with the National Bank, which include the Bank's mandatory reserve in MKD and in foreign currency, CB bills and cash, are planned to reach MKD 58,975 million by the end of 2023, with annual increase at an average rate of 5.9%. Here, the Bank will invest in Treasury bills and will place foreign currency funds in foreign and domestic banks depending on excess liquidity based assets during the year and in accordance with interest rate movements on short-term assets with maturity of up to 3 months, while the increase of assets within the specific deposit with the National Bank (mandatory F/X reserve) is planned in accordance with the increase of foreign currency deposits within the liabilities.

3.6. The Bank plans to keep trading assets, which have a minimal share within total assets, at approximately the same level.

3.7. The placements in and short-term loans of other banks at the end of 2023 are planned to remain unchanged compared to 2020.

3.8. Total net loans to customers are planned to reach MKD 55,013 million by the end of 2023, with an average annual growth rate of 2.7%.

3.9. The Bank's investments refer to investments in securities available for sale, securities held to maturity, investments in securities at fair value through the Income Statement designated as such at initial recognition and investments in associates.

- The investments in securities available for sale are planned to increase as a result of the planned higher amount of purchased compared to the amount due of treasury bills available for sale with maturity over 3 months, which have the largest share in this position. In 2021, the Bank plans to keep the investments in available-for-sale securities recorded in this position.
- The investments in securities held to maturity are planned with an increase as a result of a larger amount of funds placed in government bonds. At the same time, within this position, the Bank is planning purchasing treasury bills with a maturity of over 3 months within the amount due.
- The investments in associate companies are planned to increase based on included net-effect from the planned profit and planned dividend of the associate company recorded by the method of the principal amount.
- The investments in securities at fair value through the Income Statement include the stakes in KB Publikum Invest-Open investment fund Balanced and KB Publikum Invest-Open investment fund-cash, whereby the effect of their market valuation is taken into account.

3.10. In the period 2021-2023, fixed assets are planned to decrease as a result of the net effect of new purchases of equipment and other assets, as well as recorded depreciation, reaching MKD 2,747 million by the end of 2023. The planned amount is within the legally prescribed fixed assets multiplier.

4. Income statement

Table No. 2:

Projections of the Income Statement of Komercijalna Banka AD Skopje for the period 2021-2023

(in MKD million)

		31.12.2020	Plan 2021	Plan 2022	Plan 2023	Index (4:3)	Index (5:4)	Index (6:5)	Index (7+8+9)/3
1	2	3	4	5	6	7	8	9	10
1	NET INTEREST INCOME	2,380	2,505	2,609	2,700	105.3	104.2	103.5	104.3
2	OTHER INCOME	2,599	1,384	1,566	1,622	53.3	113.2	103.6	90.0
3	COLLECTED WRITTEN – OFF CLAIMS	415	628	399	390	151.3	63.5	97.7	104.2
4	OTHER EXPENSES	1,943	1,686	1,675	1,670	86.8	99.4	99.6	95.3
5	PROFIT BEFORE IMPAIRMENT (1+2+3-4)	3,451	2,831	2,898	3,042	82.0	102.4	105.0	96.5
6	IMPAIRMENT PROVISION OF CLAIMS	3,088	3,256	3,200	3,200	105.4	98.3	100.0	101.2
7	RELEASE OF IMPAIRMENT PROVISION	1,708	2,400	2,300	2,300	140.5	95.8	100.0	112.1
8	NET IMPAIRMENT PROVISION OF CLAIMS (6-7)	1,380	856	900	900	62.0	105.1	100.0	89.1
9	IMPAIRMENT PROVISION OF FORECLOSURES (NET)	4	5	2	0.1	125.0	44.0	4.1	57.7
10	GROSS PROFIT BEFORE TAXATION/LOSS (5-8-9)	2,067	1,970	1,996	2,142	95.3	101.3	107.3	101.3

4.1 **Profit before tax** is planned to reach from MKD 1,970 million in 2021, to MKD 2,142 million at the end of 2023.

4.2 **Net interest income** is expected to increase by about 4.3% on average per year, as a result of projected growth of loans and deposits and reduced passive interest rates, with an expected net interest margin within targetet limits.

4.3 **Other income** (comprised of net fee and commission income, net f/x gains, net gains from operation with securities, income upon capital investments and capital gain, income from previous years, income under f/x operations, and other extraordinary income) are planned with a reduction of about 46.7%, primarily due to a reduction in planned capital gains from the sale of foreclosed property and planned reduction of commission income. In the next two years, this position is expected to increase as a result of the return of net commission income at pre-crisis levels, as well as expected capital gain from foreclosed property sales.

4.4 **Other expenses**, which are comprised of salaries and other personnel costs, deposit insurance premiums, material expenses, business trips, representations, advertising, amortization and other expenses are planned with an average annual decrease of 4.7%, mainly as a result of decreased material and other expenses and reduced salary costs due to the decreased number of employees.

4.5 **Impairment provision of claims** (gross) is planned to increase by approximately 5.4% in 2021 as a result of the larger amount of additional allocation of impairment of the loan portfolio compared to 2020 due to the economic conditions related to the COVID-19 pandemic, with an expected normalization to pre-crisis levels within the next two years. Average annual net impairment provision is expected to reach nearly MKD 900 million in the period 2021-2023.



4.6 **Impairment provision of foreclosures** within the period 2021-2023 is at minimal levels and includes a 20% impairment of the foreclosed property value after the new Decision was enforced, as well as reducing property value to zero for properties held on the books for 5 years or more. Impairment provision on the basis of reappraisals of foreclosures has not been planned.

VII. TARGETS AND OPERATIONAL PLANS OF THE DIVISIONS AND BRANCHES

For successful realization of the goals and tasks set out, as well as in terms of achieving positive overall operational effects within the following medium-term period, the Bank's organizational units will adhere to their defined targets and operational plans, which are proposed in accordance with the Strategy for Corporate Social Responsibility of Komercijalna Banka AD Skopje.

BOARD OF DIRECTORS