



## Comment on the unconsolidated unaudited Income Statement and Balance Sheet of Komercijalna Banka AD Skopje as at 31.12.2018

### 1. Income Statement

In the period 01.01-31.12.2018, Komercijalna Banka AD Skopje realized **net profit for the financial year in the amount of MKD 1.780,3 million** compared to the net profit of MKD 820.6 million from the previous year which is an increase of more than twice. The Plan for the gross profit for 2018 is realized with 120.7%. 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 for which a substantial provisioning was allocated 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". Pursuant to 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 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", had an additional positive effect on the realized profit.

The profit realized before provisioning, which represents an indicator for the operational capability of the Bank to cover its operational expenses, decreased by 7.7% compared to the previous year, which mainly is a result of the decreased lending to non-financial legal entities, as well as the continuing decrease of interest rates.

The realized **total income** is in the amount of MKD 4,988 million and notes a decrease of 3.4% relative to the last year.

The **realized net interest income** represents a basic component in the formation of the total operating income and as at 31.12.2018 the same note a decrease of 19.5% relative to the same period last year, which is mainly due to the decreased loans to the non-financial legal entities sector, as well as the continuing decrease of interest rates. The plan is realized by 94.4%.

The **net income from fees and commissions** as at 31.12.2018 amounted to MKD 876.9 million and compared to the realization last year, has been increased by 6.2%. The plan is realized by 111.1%.

The **net FX gains** as at 31.12.2018 amounted to MKD 139.9 million and compared to the same period last year, noted an increase of 17.1%. The plan is realized by 117.5%.

The **other operating income of the Bank** as at 31.12.2018 amounts to MKD 1,424.4 million and compared to the same period last year notes an increase of 32.8%, mainly due to equity investment and capital gains from the sale of the foreclosed property. The plan is realized by 116.4%.

**Operating expenses** for the period 01.01 - 31.12.2018 are in the amount of MKD 1,788.4 million and compared to the same period last year have been increased for



5.3%, as a result of increased employee expenses, in particular salaries paid upon business success. The plan is realized by 112.9%.

**Impairment losses on non-financial assets on net basis** reached an amount of MKD 413 million and are mainly comprised of impairment of foreclosed property according to NBRM regulations.

On 31.12.2018, the **impairment of financial assets and the special reserve for off-balance sheet exposures on net basis** reached an amount of MKD 793.8 million compared to the realized additional provisioning of the financial assets and special reserve in the amount of MKD 2,452.1 million in the same period last year, which is due to 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. According to changes in the Methodology for recording and valuating accounting items and preparation of financial statements by NBRM, there has been an alignment of the data for 2017 with the one for 2018 in order to be comparable.

## 2. Balance Sheet

The **total assets** of the Bank as at 31.12.2018 reached the amount of MKD 114.390,4 million, and compared to December 2017, they have increased for 9.1%. The growth in the total assets is mainly due to the increase of money in cash and cash equivalents. The plan is realized by 105.5%.

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 Komercijalna Banka AD Skopje and based thereon, reclassified the financial instruments within the Balance Sheet. Therefore, certain Balance Sheet items are not comparable with the statement as at 31.12.2017.

**Cash and cash equivalents** increased by 31.1% as a result of the increased state of the MKD deposits placed with NBRM and the increased statement of the short-term time deposits abroad. The Plan has been realized by 120.3%.

**Financial securities at fair value through the Income Statement designated as such at the initial recognition** in the amount of MKD 331.8 million consist of investments in stakes in investment funds that according to the old methodology were classified in the position securities held for trading.

The **securities available for trading** decreased by 93.8% as a result of the reclassification of stakes.

**The placements in and loans to other banks** noted a decrease of 56.9% as a result of the matured assets placed in foreign banks with a maturity over 3 months. Part of these assets is placed in foreign banks with a maturity of up to 3 months. The Plan was realized by 42.8%.

**The loans to and claims from other clients** in the reporting period noted an increase of 2.3% as a result of increased loans to households and non-resident legal entities. Additionally, the sale of claims from the debtor FENI - Kavadarci and consequently decrease of the impairment, had a significant influence on this position as well. The Plan has been realized by 101.5%.

**Investments in securities** increased by 14.6% so, the Plan for the period analyzed was realized by 112%.



**Foreclosures** were reduced by 76.9% mostly as a result of recorded impairment of property acquired after January 1, 2010, as well as of the sales thereof realized.

**Total deposits (deposits from customers and banks)** reached the amount of MKD 99,455.8 million, which represents an increase of 8.4%. The plan is realized by 105.4%.

As at 31.12.2018 the Bank's **liabilities under loans** amounted in MKD 928.9 million and have decreased compared to December 2017, as a result of paid installments due under the credit lines. The Plan was realized by 94.8%.

As at 31.12.2018, **equity capital and reserves** reached the amount of MKD 12,405.2 million and noted an increase of 12.5% as a result of allocation of part of the profit realized for 2017 in reserves, in accordance with the Decision on distribution of profit of 04.04.2018 adopted at the General Assembly of the Bank. Additionally, the realized profit for 2018 also has significant influence on total capital and reserves. The Plan is realized by 101.0%.

### 3. Expectations for the forthcoming period

The macroeconomic conditions<sup>1</sup> in which the Bank will realize its activity in 2019 rely on the expectations for moderate acceleration of economic growth compared to 2018, driven by the improved political environment and increased optimism among business entities. Nevertheless, the risks associated with the renewal of the country's accession processes to NATO and the EU, as well as external risks, shall remain present.

The enhanced political environment is expected to give a positive impact to the growth of investment and private consumption. Based on these assumptions and in line with the assessment that the GDP growth for 2018 will be about 2.3%, in 2019, it is expected to accelerate to 3.5%. The stable macroeconomic conditions will rely on stable and predictable inflation and the stable nominal exchange rate of the Denar against the Euro. The average annual inflation rate, measured through the Consumer Price Index, is expected to reach around 2% in 2019. This means a slight acceleration of the inflation, compared to 2018.

The annual growth of total loans of the banking system in 2019 is expected to reach 8.5%. The increase in the loans would be financed primarily from the deposit base of the banks, whereby the growth of the total deposits of the non-financial sector is expected to reach 7.7% in 2019.

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 2019, where it will mostly be focused on the improvement of the quality of the portfolio. The Bank expects accelerated growth in the segment of lending to non-financial legal entities, as well as moderate growth in the segment of retail lending, with no significant changes in the structure of the assets planned. Also, there will be no significant changes in the structure of the sources of financing, so the non-financial sector deposits will continue to retain their dominant share in the total sources of funds.

<sup>1</sup> Sources: NBRM – Macroeconomic projections revision, November, 1 2018; World Bank – Western Balkans Regular Economic Report No. 14, autumn 2018; IMF – Staff Concluding Statement of the 2018 Article IV Mission, 19.11.2018.



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

Starting from January 1, 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:

<b>Previous category (IAS 39)</b>	<b>New category (IFRS 9)</b>	<b>Effects of reclassification</b>
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 purchase value.

#### **5. Dividends paid**

Pursuant to the Decision on appropriation and allocation of unallocated profit gained up to 31.12.2017 and the Decision on determining the dates of dividend pay-out for 2017, starting from 30.04.2018, the Bank makes dividend payment for 2017 to shareholders holding ordinary shares that are registered in the Shareholders Register on 19.04.2018. Out of the total calculated dividend for 2017 in the amount of MKD 410,232 thousand, dividend paid to legal entities is in the amount of MKD 227,402 thousand and to individuals in the amount of MKD 182,830.

#### **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 as at 31.12.2018 noted a decrease of 2% compared to December 2017, mainly due to calculated amortization.



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

As at 31.12.2018, the liabilities under loans noted a decrease of 25% 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, 29.01.2019