



## Comment on the unconsolidated unaudited Income Statement and Balance Sheet of Komerцијална Банка АД Скопје as at 01.01 - 30.06.2019

### 1. Income Statement

In the period 01.01-30.06.2019, Komerцијална Банка АД Скопје realized a **net profit for the financial year** in the amount of MKD 675.1 million compared to the **positive net profit** from the previous year in the amount of MKD 1,314.7 million. The lower realized financial result in the current period is due to two events that had a key influence on the structure of the Bank's income in the same period last year. Namely, during the first quarter of 2019, the intensive activities of the Bank for resolving the status of the debtor FENI - Kavadarci were finalized, and a contract was concluded for sale of the claims from FENI, which resulted in release of the provisioning in the Bank's accounts with consequent effect on the realized financial result. In the last year, an additional effect was realized by the high capital gain from sale of the foreclosed property. On the other side, income from regular activities was predominant in the current period, when stabilization of the level of impairment of financial assets as well as of the special reserve for off-balance sheet exposures was noted.

The profit realized before provisioning, which is an indicator of the Bank's operational capability to cover the operating expenses, is for 36.9% lower than in the previous year. The decrease in the profit before provisioning is mainly derived from the smaller amount of other income, primarily income from capital investments and capital gains. Namely, in the same period last year, the Bank sold the property taken over from the debtor Brilliant Shtip, on which basis it realized capital gain in total amount of MKD 411 million.

The **total income** realized is in the amount of MKD 1,920.7 million and notes a decrease of 24.7% relative to the same period last year.

The **net interest income** realized represents a basic component in the formation of the total operating income and as at 30.06.2019 it notes a decrease of 8% relative to the same period last year which arises mainly from the reduced interest income from loans given to non-financial legal entities due to a reduction of the balance statement of corporate loans, as well as from reduced interest income from state and financial sectors due to reduced interest rates on government and treasury bills, and to a lesser extent from reduced interest income from the household sector on the basis of lowering the active interest rates. The plan for the period is realized by 92.3%.

The **net income from fees and commissions**, as at 30.06.2019, amounted in MKD 468.1 million and compared to the same period last year have been increased for 13.9%. The plan is realized by 101.4%.

The **net FX gains** as at 30.06.2019 amounted to MKD 58.3 million and compared to the same period last year, noted a decrease of 31.2%. The plan is realized by 83.9%.

The **other operating income of the Bank** as at 30.06.2019 amounts in MKD 209.6 million and note a decrease as a result of more realized income from capital investments and capital gains from the sale of foreclosed property in the first quarter of last year.

**Operating expenses** for the period 01.01-30.06.2019 are in the amount of MKD 816.6 million and compared to the same period last year have increased for 1.8% on the basis of increased premium for insurance of deposits and other expenses for mortgage objects. The plan is realized by 101.1%.

**Impairment losses of non-financial assets on net basis** as at June, 2019 amounted in MKD 3.9 million and are mostly due to the impairment of the property whose net value is reduced to zero in accordance with the NBRNM regulations.

In the reporting period, the Bank allocated **provisioning of financial assets and special reserve for off-balance sheet exposures on net basis** in the amount of MKD 425.1 million. In the same period last year, an agreement was signed for sale of the claims from FENI, due to which the provisioning was in the amount of MKD 64.4 million.



## 2. Balance Sheet

The **total assets** of the Bank as at 30.06.2019 amounted in MKD 114,210.6 million and compared to December 2018 it decreased by 0.2%, mainly due to the decrease of cash assets. Meanwhile, the structure of assets shows a moderate increase in the share of loans to customers and investments in securities, and at the expense of that, the cash assets are decreasing. The change was prompted by the strengthening of the capital position, which enabled the Bank to offer on the market modified credit products for individuals and legal entities with more favorable conditions compared to the competition. Also, the abolition of the regulations for investing in securities at foreign markets enabled the Bank to place funds in debt securities that bear favorable returns and accordingly restructure the assets by diverting some of the funds that were placed in foreign banks with negative interest rates. The plan is realized by 97.9%.

**Cash and cash equivalents** note a decrease of 12.4% as a result of the decreased balance statement of current accounts and term deposits abroad with maturity of up to 3 months. The plan is realized by 85.2%.

**Trading assets** are increased for more than seven times as a result of investment in foreign financial companies (purchased 49,610 shares from Tirana Bank Sh.A) in amount of EUR 2.5 million or MKD 154.6 million.

**Financial securities at fair value through the Income Statement designated as such at the initial recognition** in the amount of MKD 335.8 million consist of investments in stakes in investment funds.

**Loans to and claims from other banks**, noted a double increase as a result of the matured assets placed in foreign banks with a maturity over 3 months, in order to minimize the adverse effects of negative interest rates.

**Loans to and claims from other clients** noted an increase of 2.5% mainly as a result of increased consumer loans to individuals with a currency clause. The plan is realized by 99.4%.

**Investments in securities** are increased for 17.1%, as a result of a purchased Eurobond issued by the RSM Ministry of Finance, purchased corporate bonds issued by foreign banks, as well as due to purchased continuous government bonds in MKD. By abolishing the Decision of the NBRNM for the conditions that should be fulfilled by the securities abroad in which an authorized bank can invest, the Bank is allowed to invest in securities issued for foreign markets, which currently offer a satisfactory yield, in conditions where there is lack of acceptable lending projects in the domestic real sector.

**Foreclosed assets** have decreased for 1.7% as a result of recorded impairment of the foreclosed property in accordance with the regulations of the NBRNM, as well as from sale of foreclosed property.

**Total deposits (deposits from customers and from banks)** reached the amount of MKD 99,886.5 million and note an increase of 0.4%. The plan is realized by 98.6%.

**The Bank's borrowings** as at 30.06.2019 amounted in MKD 887.4 million and have decreased compared to December 2018 as a result of paid installments due under the credit lines. The plan is realized by 108%.

**Equity capital and reserves of the Bank** as at 30.06.2019 reached the amount of MKD 12,115.9 million and note a decrease of 2.3% compared to 31.12.2018 as a result of dividend payment to the shareholders from the realized profit for 2018. The dividend payment was made in accordance with the regulations of the NBRNM, whereby the Bank simultaneously strengthened its own funds by increasing the reserve fund by MKD 500 million and recording retained earnings in the amount of MKD 323 million, in accordance with the Decision of the Shareholders Assembly held on 04.04.2019.



### **3. Projections**

Macroeconomic conditions in which the Bank will realize its activities in 2019 are based on expectations for moderate acceleration of the economic growth compared to 2018, driven by the improved political environment and increased optimism among business entities. Nevertheless, there are still risks remained associated with process of the country's accession to NATO and the EU, as well as external risks.

The improved political environment is expected to give a positive impulse to the growth of the investments and the private consumption. Based on these assumptions and in line with the assessment that the GDP growth for 2018 will be about 2.3%, it is expected to accelerate in 2019 to 3.5%. 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 currency. 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 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 for realization of its goals and assignments in accordance with the Program of Business Policy Measures and Activities for 2019, focusing 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**

In the first half of 2019, there were no changes in the accounting policies and valuation methods.

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

On 04.03.2019, the Bank published a Public Call for participation in the Annual General Meeting of Shareholders held on 04.04.2019. Constituent part of the materials for the Assembly are the Decision on the use and distribution of the undistributed profit until 31.12.2018 and the Decision on determining the amount of the dividend and the dates for payout of dividends for 2018.

In accordance with the Decision for usage and distribution of undistributed profits until 31.12.2018 and the Decision for determining the dates for the payment of the dividend for 2018, the Bank, starting from 07.05.2019, shall pay dividend for 2018 to the shareholders holding ordinary shares that are registered in the book of shares on 19.04.2019. Out of the total calculated dividend for 2018 in the amount of MKD 957,208 thousand, a dividend paid to legal entities is in the amount of MKD 536,520 thousand and to individuals in the amount of MKD 420,688 thousand. The amount of dividend per share is MKD 420,00, or 42.0% of the nominal value of the shares.



**6. Investments in or sale of tangible 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 half of 2019 noted a decrease of 1.2%, compared to December 2018, mainly due to calculated amortization.

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

In the first half of 2019 the borrowings noted a decrease of 4.5% compared to December 2018, mainly as a result of the higher amount of regular repayment of loan installments compared to the new withdrawals under the loan agreements.

Skopje, 31.07.2019