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Unofficial translation from the original Macedonian Independent Auditors' report to the shareholders of Komercijalna Banka AD Skopje

We have audited the accompanying consolidated annual account of Komercijalna Banka AD Skopje ("the Bank"), which comprise the consolidated balance sheet as at 31 December 2018 and the consolidated income statement for the year then ended.

Management's Responsibility for the Annual Account

Management is responsible for the preparation and fair presentation of this consolidated annual account in accordance with the recognition and measurement principles as determined by the National Bank of the Republic of North Macedonia (NBRNM) and presented in accordance with the Rulebook on the form and content of the annual account for banks and other financial institutions, and for such internal control as management determines is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on this consolidated annual account based on our audit. We conducted our audit in accordance with Standards on Auditing adopted and published in the Official Gazette of the Republic of North Macedonia no. 79 from 11 June 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated annual accounts. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated annual account, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated annual account in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated annual account.



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report to the shareholders of Komercijalna Banka AD Skopje***

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated annual account gives a true and fair view of the consolidated financial position of the Bank as at 31 December 2018, and of its consolidated financial performance for the year then ended in accordance with the recognition and measurement principles as determined by NBRNM and presented in accordance with the Rulebook on the form and content of the annual account for banks and other financial institutions.

Other matter

The consolidated annual account of the Bank for the year ended 31 December 2017 was audited by another auditor, who expressed an unmodified opinion on this consolidated annual account on 1 March 2018.

Skopje, 1 March 2019

CERTIFIED AUDITOR
Gordana Nikushevska

KPMG Macedonia
Managing Director
Gordana Nikushevska



KOMERCIJALNA BANKA AD SKOPJE

**CONSOLIDATED ANNUAL REPORT
OF KOMERCIJALNA BANKA AD SKOPJE
for the period from 01.01. to 31.12.2018**

Skopje, February 2019

CONSOLIDATED BALANCE SHEET

as at 31.12.2018

No.	ITEM	Amount	
		Previous year	Current year
1	2	3	4
	ASSETS		
1.	Cash and cash equivalents	30.255.030.693	42.038.625.108
2.	Investments in debt securities that can be used for refinancing in NBRM	14.809.040.534	14.366.164.341
2a.	Treasury bills	6.124.553.189	5.616.762.394
2b.	Government securities	8.684.487.345	8.749.401.947
2c.	Impairment	-	-
3.	Loans and advances to banks	5.834.393.539	2.515.918.600
3a.	Loans	49.056.214	50.521.239
3b.	Deposits	5.781.140.353	2.461.754.412
3c.	Other receivables	5.811.568	5.870.374
3d.	Impairment	1.614.596	2.227.425
4.	Loans and advances to other customers	45.366.240.834	46.406.938.000
4a.	Loans	52.549.992.309	52.325.681.305
4b.	Other receivables	206.410.548	23.460.849
4c.	Impairment	7.390.162.023	5.942.204.154
5.	Debt securities	2.085.442.414	3.504.915.915
5a.	Treasury bills	-	-
5b.	Government securities	2.085.442.414	3.496.149.881
5c.	Other debt securities	-	8.766.034
5d.	Impairment	-	-
6.	Investments in equity instruments	450.418.581	95.949.026
7.	Investments in associates	235.163.623	274.036.651
7a.	Investments in banks	-	-
7b.	Other investments in associates	235.163.623	274.036.651

No.	ITEM	Amount	
		Previous year	Current year
1	2	3	4
8.	Investments in subsidiaries	-	-
8a.	Investments in banks	-	-
8b.	Other investments in subsidiaries	-	-
9.	Joint ventures	-	-
9a.	Joint ventures in banks	-	-
9b.	Other joint ventures	-	-
10.	Intangible assets	40.421.408	38.573.876
10a.	Founding expenditures	-	-
10b.	Expenditures for research and development	-	-
10c.	Concessions, patents, licences, trademarks and similar rights	1.635.051	6.754.625
10d.	Goodwill	-	-
10e.	Other intangible assets	38.786.357	31.819.251
11.	Tangible assets	2.865.784.035	2.807.552.518
11a.	Land	88.735.481	88.735.481
11b.	Property and equipment	2.747.515.632	2.674.115.001
11c.	Other tangible assets	29.532.922	44.702.036
12.	Other assets/receivables	2.915.754.364	2.325.464.905
12a.	Restricted deposits	829.190.807	1.140.940.608
12b.	Derivative assets held for risk management	-	-
12c.	Embedded derivatives	-	-
12d.	Non - current assets held - for - sale and disposal group	267.913	-
12e.	Executed collateral	776.851.344	179.522.098
12f.	Assets pledged as collateral	-	-
12g.	Advances for intangible assets	174.216	-
12h.	Advances for tangible assets	8.140.264	3.622.379
12i.	Income tax receivable	498.286	-
12j.	Deferred tax assets	-	-
12k.	Financial assets at fair value through profit or loss upon initial recognition	-	331.829.239
12l.	Other receivables	1.407.926.238	747.465.310
12m.	Impairment	107.294.704	77.914.729
13.	Deferred incomes and prepaid expenses	11.840.617	19.593.293
14.	TOTAL ASSETS	104.869.530.642	114.393.732.233

No.	ITEM	Amount	
		Previous year	Current year
1	2	3	4
	LIABILITIES AND EQUITY AND RESERVES		
15.	LIABILITIES	93.796.573.208	101.919.924.619
16.	Liabilities to banks	1.570.849.975	1.164.678.661
16a.	Current accounts	67.452.061	107.611.971
16b.	Deposits	191.781.233	242.923.813
16c.	Restricted deposits	189.763.851	-
16d.	Borrowings	1.121.852.830	814.142.877
16e.	Other liabilities	-	-
17.	Liabilities to other customers	91.344.550.911	99.151.516.913
17a.	Current accounts	35.867.930.051	41.786.811.940
17b.	Deposits	52.856.257.989	54.376.667.086
17c.	Restricted deposits	2.504.392.774	2.873.255.590
17d.	Borrowings	115.970.097	114.782.297
17e.	Other liabilities	-	-
18.	Issued debt securities liabilities	-	-
18a.	Issued instruments on money market	-	-
18b.	Issued deposit certificates	-	-
18c.	Bonds issued	-	-
18d.	Other issued debt securities	-	-
19.	Other liabilities	628.749.038	1.093.247.854
19a.	Derivative liabilities held for risk management	-	-
19b.	Embedded derivatives	-	-
19c.	Trading liabilities	-	-
19d.	Liabilities related to disposal group	-	-
19e.	Income tax payable	9.527.705	127.300.528
19f.	Deferred tax liabilities	-	-
19g.	Financial liabilities at fair value through profit or loss	-	-
19h.	Other liabilities	619.221.333	965.947.326
20.	Deferred income and expenses payment in the future periods	8.996.073	7.560.492
21.	Risks and liabilities provisions	243.427.211	502.920.699
21a.	Provisions for off - balance credit exposure	183.395.426	437.559.543
21b.	Provisions for pensions and other employee benefits	60.031.785	65.361.156
21c.	Other provisions	-	-
22.	Subordinated debt	-	-
23.	EQUITY AND RESERVES	11.072.957.434	12.473.807.614
24.	Subscribed capital	2.279.067.000	2.279.067.000
25.	Share premium	771.526.243	771.526.243

No.	ITEM	Amount	
		Previous year	Current year
1	2	3	4
26.	Treasury shares repurchased	-	-
27.	Reserves	7.146.302.928	7.556.651.426
27a.	Statutory reserve	455.813.400	455.813.400
27b.	Other reserves	6.690.489.528	7.100.838.026
28.	Revaluation reserves and other valuation differences	9.771.235	17.638.131
29.	Profit for the financial year	836.477.658	1.795.029.837
30.	Loss for the financial year	-	-
31.	Retained earnings	8.940.750	24.837.491
32.	Accumulated loss	-	-
33.	Minority interest	20.871.620	29.057.486
34.	TOTAL LIABILITIES AND EQUITY AND RESERVES	104.869.530.642	114.393.732.233
	OFF - BALANCE RECORDS		
35.	Off – balance records - assets	67.577.386.686	67.495.600.125
36.	Off – balance records - liabilities	67.577.386.686	67.495.600.125

CONSOLIDATED INCOME STATEMENT

for the period from 01.01. to 31.12.2018

No	ITEM	Amount	
		Previous year	Current year
1	2	3	4
1.	Interest income	3.562.263.777	2.993.064.870
2.	Interest expense	491.891.269	521.526.303
3.	Fee and commission income	1.162.629.042	1.281.973.146
4.	Fee and commission expense	300.583.549	359.182.016
5.	Income from investments in associates, subsidiaries and joint ventures	55.128.053	64.186.428
6.	Net gains from securities operations	29.264.275	18.363.777
7.	Net losses from securities operations	-	-
8.	Net foreign exchange gains	119.459.130	139.860.693
9.	Net foreign exchange losses	-	-
10.	Other operating income	1.066.201.062	1.412.534.067
11.	Personnel expenses	872.243.290	986.986.081
11a.	Salaries	541.326.530	621.422.132
11b.	Expenses for taxes and compulsory contributions for social insurance	263.115.802	293.377.837
11c.	Other employees benefits	67.800.958	72.186.112
12.	Amortization and depreciation of intangible assets and tangible assets	179.022.936	166.718.298
13.	Impairment of intangible assets and tangible assets	102.456.029	413.039.724
14.	Impairment, special reserve and provisions	2.462.541.624	802.392.817
14a.	Impairment of assets	2.381.267.052	539.580.489
14b.	Special reserve for off – balance credit exposure	70.826.523	254.275.492

No	ITEM	Amount	
		Previous year	Current year
1	2	3	4
14c.	Other provisions	10.448.049	8.536.836
15.	Expense from investments in associates, subsidiaries and joint ventures	-	-
16.	Other operating expenses	646.266.688	637.978.584
17.	Profit from continuing operations	939.939.954	2.022.159.158
18.	Loss from continuing operations	-	-
19.	Profit from discontinuing operations	-	-
20.	Loss from discontinuing operations	-	-
21.	Profit before tax	939.939.954	2.022.159.158
22.	Loss before tax	-	-
23.	Income tax expense (part of the Tax balance)	94.632.223	215.943.815
24.	Profit for the financial year	845.307.731	1.806.215.343
25.	Loss for the financial year	-	-
26.	Average number of employees based on working hours during the financial year (in an absolute amount)	1.027	1.008
27.	Number of working months	12	12

Appendix on Income Statement of Consolidated Annual report

No	ITEM	Amount	
		Previous year	Current year
1	2	3	4
1.	Profit/Loss for the financial year	845.307.731	1.806.215.343
2.	Profit attributable to Bank's shareholders	836.477.658	1.795.029.837
3.	Profit attributable to non-controlling interests	8.830.073	11.185.506
4.	Loss attributable to Bank's shareholders	-	-
5.	Loss attributable to non-controlling interests	-	-

EXPLANATION
of the Consolidated Income Statement of
Komercijalna banka AD Skopje
for the period from 01.01. - 31.12.2018

The consolidated annual report is made according to the law legislation in the Republic of Macedonia, by – law legislation prescribed by National Bank of the Republic of Macedonia, as well as according to the Regulations on the form and content of the annual report of banks and other financial institutions.

In course of the period from 01.01 to 31.12.2018, the financial result is achieved, as follows:

	<u>(in thousand denars)</u>
1. Total income	5.909.983
2. Total expenses	3.887.824
3. Profit before tax	2.022.159
4. Income tax expense	215.944
5. Net profit	1.806.215

1. Income

The total income in the Consolidated Income Statement at the end of 2018 is decreased for 1,4% compared to 2017 (Table 1).

Table 1 (in 000 denars)

I T E M	Realization		Structure 31.12.2018	Index 3:2
	2017	2018		
1	2	3	4	5
1 Interest income	3.562.264	2.993.065	50,6	84,0
2 Fee and commission income	1.162.629	1.281.973	21,7	110,3
3 Income from investments in associates, subsidiaries and joint ventures	55.128	64.187	1,1	116,4
4 Net profit from securities transactions	29.264	18.363	0,3	62,7
5 Net foreign exchange gains	119.459	139.861	2,4	117,1
6 Other operating income	1.066.201	1.412.534	23,9	132,5
TOTAL:	5.994.945	5.909.983	100,0	98,6

In the structure of the total income, the interest income from loans and other placements approved participate with 50,6%. The total interest income is decreased for 16,0% compared to 2017, as a result of a decrease of the interest income on loans granted to banks for 20,8%, decrease of the interest income from loans approved to non - financial companies for 12,3%, decrease of the interest income from loans approved to government for 4,4%, as well as decreased interest income from loans approved to households for 3,4%. At the same time, there is a significant increase of the interest income from loans approved to other financial companies, increase of interest income of non-residents for 88,6%, as well as an increase of the interest income from approved loans granted to non-profit institutions that serve households for 28,5%. (Table 2).

Table 2

(in 000 denars)

ITEM	Realization		Structure 31.12.2018	Index 3:2
	2017	2018		
1	2	3	4	5
1 Interest income from loans and other placements approved to non - financial companies	1.715.873	1.504.442	50,2	87,7
2 Interest income from loans and other placements approved to government	258.415	246.927	8,2	95,6
3 Interest income from loans and other placements approved to non - profit institutions in service of households	9.325	11.983	0,4	128,5
4 Interest income from loans and other placements approved to banks	241.073	191.013	6,4	79,2
5 Interest income from loans and other placements approved to other financial companies	868	1.911	0,1	220,2
6 Interest income from loans and other placements approved to households	876.602	846.738	28,3	96,6
7 Interest income from loans and other placements approved to non - residents	61.641	116.240	3,9	188,6
8 Impairment of interest income, on net basis	(91.732)	(33.589)	1,1	36,6
9 Collected previously written - off interests	490.199	107.400	3,6	21,9
TOTAL:	3.562.264	2.993.065	100,0	84,0

The fees and commission income is increased for 10,3% compared to 2017, as a result of increase of the income under fees and commissions

from banking card transactions in the country and abroad, an increase of the income under fees and commissions under payment operations in the country and abroad, as well as an increase of the income from fees and commissions on the basis of keeping current accounts of citizens.

The income from investments in associates, subsidiaries and joint ventures in the structure of the total income participates with 1,1%, shows an increase of 16,4% compared to 2017 which refers to participation in the net profit of the associate company KB First Pension Company AD Skopje.

In the structure of the total income, net gains from securities operations participate with 0,3%, and compared to 2017 it has decreased for 37,3%.

In the structure of the total income, net foreign exchange gains participate with 2,4%, and compared to 2017 it has increased for 17,1%.

The other operating income in the structure of the total income participates with 23,9%, and shows a increase of 32,5% compared to 2017, which is mostly due to the increased income under capital gain from the sale of foreclosed property and equipment, and from the debtor Brilliant Group, a part of the property was sold to the buyer Vitaminka AD Prilep and part of the property was sold to the buyer Embassy of the Republic of China, from the debtor Tehnometal Vardar to the buyer Anamark MK, from the debtor AMAK SP Ohrid to the buyer Andros Farm Ohrid, from the debtor Ful Tajm Company to the buyer Feniks 93 Kumanovo, and other smaller companies. Also, there is an increase of the income under collected previously written off claims.

2. Expenses

The total expenses in consolidated Income Statement show an decrease of 23,1% compared to 2017 (Table 3).

Table 3 (in 000 denars)

ITEM	Realization		Structure 31.12.2018	Index 3:2
	2017	2018		
1	2	3	4	5
1 Interest expense	491.892	521.526	13,4	106,0
2 Fee and commission expense	300.583	359.182	9,3	119,5
3 Net losses from securities operations	-	-	-	-
4 Personnel expenses	872.243	986.986	25,4	113,2
5 Amortization and depreciation of intangible assets and tangible assets	179.023	166.718	4,3	93,1
6 Impairment of intangible assets and tangible assets	102.456	413.040	10,6	403,1
7 Impairment, special reserve and provisions	2.462.542	802.393	20,6	32,6
8 Expense from investments in associates, subsidiaries and joint ventures	-	-	-	-
9 Other operating expenses	646.266	637.979	16,4	98,7
TOTAL	5.055.005	3.887.824	100,0	76,9

In the structure of total expenses, interest expenses participates with 13,4% and show an increase for 6,0% compared to 2017. This increase is a result of an increase of the interest expenses from non-residents for 93,9%, an increase of interest expenses from non-financial companies for 2,2%, as well as an increase of interest expenses from households for 0,2%. At the same time, there is a decrease of the interest expenses from government for 53,0%, a decrease of interest expenses from banks for 15,4%, a decrease of interest expenses from non-profit institutions in service of households for 10,9%, as well as a decrease of interest expenses other financial companies for 1,9%. (Table 4).

Table 4

(in 000 denars)

ITEM	Realization		Structure 31.12.2018	Index 3:2
	2017	2018		
1	2	3	4	5
1 Interest expense from non - financial companies	47.719	48.762	9,3	102,2
2 Interest expense from government	964	453	0,1	47,0
3 Interest expense from non - profit institutions in service of households	7.481	6.664	1,3	89,1
4 Interest expense from banks	12.618	10.681	2,0	84,6
5 Interest expense from other financial companies	9.916	9.726	1,9	98,1
6 Interest expense from households	379.839	380.547	73,0	100,2
7 Interest expense from non - residents	33.355	64.693	12,4	193,9
TOTAL:	491.892	521.526	100,0	106,0

The fee and commission expenses in the structure of the total expenses participates with 9,3% and is higher for 19,5% compared to 2017.

The personnel expenses in the structure of the total expenses participate with 25,4%, and show an increase for 13,2% compared to 2017.

The amortization and depreciation of the intangible and tangible assets in the structure of total expenses participates with 4,3% and shows a decrease of 6,9% compared to 2017.

The expenses under impairment of intangible and tangible assets, i.e. impairment of foreclosed assets, in the structure of total expenses participate with 10,6%, and shows a significant increase compared to 2017.

The expenses under impairment of intangible and tangible assets (foreclosed assets) for this reporting period are in the amount of 413,040 thousand denars of which 331,731 thousand denars refer to performed total impairment (making their carrying value zero,) of the assets foreclosed in the period from 01.01.2010 until the date of entry into force of the Decision of the NBRM (11.04.2013), and 81.309 thousand denars refer to performed subsequent impairment of foreclosed assets.

The expenses under impairment, special reserve and provisions, i.e. impairment loss of receivables (loans and placements, interests, commissions,

other receivables and securities), special reserve for off – balance credit exposure and the other provisions, shows a decrease of 67,4%, and in the structure of the total expenses participate with 20,6%.

The other operating expenses in the structure of the total expenses participate with 16,4%, and show a decrease of 1,3% compared to 2017, and mainly refer to expenses under deposits insurance premiums.

In 2018 the Group realized gross profit recognized in the consolidated income statement of 2.022.159 thousand denars, i.e. net profit of 1.806.215 thousand denars.

**BANK'S BOARD OF
DIRECTORS**