

Analysis of the financial results of STOPANSKA BANKA AD - Skopje for the period 01.01.2018 - 31.12.2018

In the period from 01.01.2018 to 31.12.2018, Stopanska banka AD - Skopje (hereinafter referred to as SB) achieved financial results in the amount of MKD 2,746,346 thousand, which is an increase by 34.4% compared with the same indicator in 2017.

The increased outcome is due to the successful regular operation, primarily to the increased net interest income/(expense) as well as net fees and commissions income/(expense). One of the reasons that has a significant impact on the increased outcome is attributable to the effect of settled status referring to the debtor Feni Kavadarci, which faced worsening situation in the course of 2017, due to which SB needed to allocate impairment. For the purpose of resolving the debtor status, SB entered into a contract for sale of its claims, which was positively realized in March 2018.

Income Statement

Net interest income amounted to MKD 3,827,100 thousand, i.e. it increased by 4.1% referring to the same in comparison with 2017, with recorded interest income increase by 1.8%, while interest expenses decreased by 9.4%.

Net fee and commission income amounted to MKD 1,004,159 thousand being higher by 2.3% than the same in 2017 as a result of the achieved increase in net fees and commissions from operations.

Net foreign exchange gains amounted to MKD 105,173 thousand and they decreased by 2.3% compared to the previously analyzed period, primarily as a result of the reduced margins in this segment.

Other operating income recorded an increase by 16.6% and the **other operating expenses** recorded a decrease by 2.6%.

The expenses for SB employees amounted to MKD 869,802 thousand.

During the analyzed period, SB recorded **Impairment gains/losses of financial assets, net** in the amount of MKD 531,646 thousand and represent an decrease of 39.7% mostly as a result of settling successfully the status of the debtor Feni Kavadarci.

As a result of selling foreclosed assets, SB recorded revenues in the amount of MKD 117,038 thousand in the item **Impairment gains/losses on non-financial assets, net**.

Balance Sheet

Total assets of SB amounted to MKD 91,816,180 thousand, which is higher by MKD 5,465,004 thousand or 6.3% compared to the end of 2017. The assets increase results from the increase in **Placements with, and loans to customers** that amounted to MKD 63,664,180 thousand and are higher by MKD 3,006,982 thousand or 5.0% compared with the last year end, as well as the increase of **Cash and cash equivalents**, which compared to the end of 2017 were higher by MKD 1,395,012 thousand or by 7.8%.

Placements with, and loans to banks amounted to MKD 197,089 thousand and recorded an increase of MKD 37,550 thousand compared with the end of 2017.

Investments in securities amounted to MKD 5,869,943 thousand being lower by MKD 360,578 thousand or 5.8% mostly as a result of the dividend payment.

The foreclosed assets amounted to MKD 68,969 thousand.

In the same period, the item **Total deposits (deposits from customers and deposits from banks)** amounting to MKD 76,161,878 thousand recorded increase in relation to the end of 2017 by MKD 5,198,970 thousand or 7.3%.

Equity and reserves amounted to MKD 14,204,243 thousand, whereby an increase of 4.2% was recorded in relation to the end of 2017.

Investments or sale of tangible assets (real estates, installations and equipment) or significant write-off (higher than 30% of the asset value compared to the latest annual audited financial statements)

Property and equipment, as of 31 December 2018, recorded a decrease in relation to the end of 2017 by MKD 23,569 thousand, or 2.6%, as a result of calculated amortization.

Changes in credit indebtedness (decrease or increase higher than 30% compared to the latest annual audited financial statements)

Borrowings amounted to MKD 296,455 thousand and are lower referring to the end of 2017 by 27.6% mainly due to paid installments of credit lines.

Stopanska banka AD - Skopje will continue its operations within the projected business policy, focused primarily on providing an offer of products and services for its clients, while simultaneously working on introduction of innovations following the global processes and trends. At the same time, the Bank will continue its socially beneficial activities by organizing events and manifestations of value and importance for the wider social community.

Expectations for the upcoming period

After the stagnating 2017 and the slow recovery in the last year, 2019 is expected to bring stronger economic growth of above 3% under the assumptions of stable political context and conducive external environment. Domestic demand is projected to be the major growth driver supported by public and foreign investment. In conditions of small positive output gap, inflation of around 2% is expected. The external position should remain stable with current account deficit below 2% of GDP. In addition, the gradual fiscal consolidation in line with the Fiscal Strategy should proceed. Banks' lending activity will continue to support the economic growth. The banking system remains stable, liquid and highly capitalized. However, the domestic political environment remains a key risk factor. The Bank will undertake all necessary activities for achieving the set goals and tasks within its Business Policy, focusing on maintenance of portfolio quality by controlled credit growth, whereby no changes are planned in the structure of assets. The projected increase in loans would be fully funded from the Bank deposit base. On liabilities (sources of funding) side, the structure is also planned to be retained so that the deposits of non-financial sector will remain dominant in the total liabilities (sources of funds).

Notification on changes in accounting policies and assessment methods

Data in the attached financial statements of the Bank have been prepared in accordance with the Trade Companies Law, the Banking Law, the by-laws and regulations issued by the National Bank of the Republic of Macedonia (hereinafter referred to as "NBRM"), as well as in compliance with the Decision on the Methodology for recording and assessment of accounting items and preparation of financial statements (hereinafter referred to as the "Methodology") ("Official Gazette of the Republic of Macedonia" No. 83/2017) and the Decision on the types and contents of financial statements of banks ("Official Gazette of the Republic of Macedonia" No. 83/2017), prescribed by NBRM and applied since 1 January 2018.

In accordance with the requirements of the Methodology for its initial application, the Bank has reassessed the classification of financial assets and financial liabilities as at 31 December 2017 and 1 January 2018. The effect, i.e. the differences arising from the reassessment of all financial assets and financial liabilities, was/were recorded by the Bank as adjustment of the opening balance on 1 January 2018 of Retained earnings/Accumulated loss.

The Methodology stipulates the liability for calculating the credit risk impairment that the Bank is obliged to determine or assess and to recognize adjustment/impairment for expected credit losses of financial assets in accordance with the Decision on the methodology for credit risk management, prescribed by NBRM.

In August 2018, the National Bank of the Republic of Macedonia adopted a new Decision on the methodology for credit risk management ("Official Gazette of the Republic of Macedonia" no.149/18), which will start to be applied from 1 July 2019. However, in relation to the securities

portfolio, the Bank has started to apply the new IFRS 9 standard, and introduced the risk classification and assessment from 01.01.2018.

Paid dividends

Pursuant to the Decision on distribution of SB profits for 2017, as well as the Decision on determining the amount and manner of dividend payment, it was determined to pay dividend to the holders of ordinary shares in the total gross amount of MKD 2,042,841,060.00, i.e. the gross dividend amount was MKD 117.00 per share. In addition, it was determined to pay dividend to the holders of preference shares in the total gross amount of MKD 2,274,440.00 i.e. the gross dividend per share amounted to MKD 10.00. The right to dividend was achieved by all holders who acquired SB shares according to the share book cut-off date, until 14 June 2018.

Besides dividend payment from the profit realized in 2017, the Bank adopted a Decision on determining the amount and manner of payment of advance dividend for the first half of 2018, which determines payment of dividend to holders of ordinary and preference shares. Thus, it was determined to pay dividend to the holders of ordinary shares in the total gross amount of MKD 1,274,593,140.00 i.e. the gross dividend per share amounted to MKD 73.00 while total gross amount of MKD 1,137,220.00 i.e. the gross dividend per share of MKD 5.00 was paid to the holders of preferred shares. The right to dividend was achieved by all holders who acquired SB shares according to the share book cut-off date, until 26 December 2018.

Skopje, 28 February 2018