

# PROGRAM OF BUSINESS POLICY MEASURES AND ACTIVITIES AND FINANCIAL PLAN OF KOMERCIJALNA BANKA AD SKOPJE FOR 2023 (Summary)

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#### INTRODUCTION

The Program of Business Policy Measures and Financial Projections for 2023 of Komercijalna Banka AD Skopje represents a principal document in the annual planning process which is harmonized with the Development Plan of the Bank for the period 2021-2023 and it corresponds to the nature, type and scope of financial activities performed by the Bank and activities it plans to perform in the future conditioned by anticipated changes within the business and macroeconomic environment. During the preparation of the business policy and the financial projections, the Bank has taken into account the acceptable level of risk determined by the Risk Management Strategy of the Bank.

Within the frames of its business policy, the Bank's mission, corporate values, as well as key strategic and business goals with measures and activities for their realization are defined, taking into account the adopted Sustainability Policy of the Bank.

During the year, the Bank monitors the fulfillment of the business policy on a regular monthly, quarterly and semi-annual basis and assesses the need for its revision.

#### MISSION

To be a highly profitable institution, recognized as a leading independent, privately owned Macedonian bank that offers a universal range of services, with a well-founded international reputation, professionally supported by a strong market-oriented, well-trained management personnel and employees with a high degree of expertise and integrity.

#### **CORPORATE VALUES**

As a bank, we are responsible to our customers, shareholders, society and ourselves. Our corporate values express our company's corporate culture and the priorities set by our mission.

Our corporate values are:

- ≻ Trust
- > Tradition
- > Efficiency
- > Transparency
- Innovation
- Social responsibility
- > Team work

#### MAIN STRATEGIC GOALS OF KOMERCIJALNA BANKA AD SKOPJE

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 North 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.

# I. ANALYSIS OF THE CURRENT AND ASSUMPTIONS FOR THE FUTURE MACROECONOMIC ENVIRONMENT

# 1. ANALYSIS OF MACROECONOMIC DEVELOPMENTS IN THE REPUBLIC OF NORTH MACEDONIA IN 2022

During 2022, the global uncertainty caused by the pandemic, as well as the risks linked with it were still ever present. Additionally, the military escalation between Russia and Ukraine from the end of February and the imposed sanctions towards Russia severely impacted and contributed to the deterioration of the global economic environment, shrinking the dynamic of economic growth, causing strong and upward growth of the prices of the primary products, accelerating and strengthening the energy crisis and burdening the supply channels. In the context of these circumstances, additional uncertainties and risks were created on the international financial markets, which had impact over the investors' mood. The central banks began to undertake measures for tightening of the monetary policies, with the goal of stabilizing the price increase, to curb further decrease of the population's purchasing power and to enable higher predictability when making corporate decisions at the economic subjects. **The economic environment** is characterized by the following indicators<sup>1</sup>:

Table 1: Key economic indicators <sup>1</sup>	2021	Q3 2022
Industrial production volume index	1.4%	1.1%
External Trade of RNM (%)	27.6%	14.4%
Real GDP growth (%)	4.0%	2.0%
Central Government Budget surplus/deficit (% of GDP)	-5.4%	-1,9%
Inflation (CPI%) av.	3.2%	14.2*
Current Account Balance (EUR mill.)	-366.4	-566.4
Gross External Debt (EUR mill.)	9,576.6	11.077,3
FX Reserves (EUR mill.)	3,643.3	3,862.9*
Foreign direct investment (EUR mill.)	387.5	450,5
Unemployment Rate (%)	15.7%	14,3%

\* as at 31.12.2022

In 2022, the Fitch Credit Rating Agency confirmed the credit rating of the Republic of North Macedonia as "BB +", with a negative outlook. The confirmed rating is the result of the implementation of sound governance policies, as well as the credible and coherent macroeconomic and financial policies consistent with the country's long-standing fixed exchange rate. The Standard & Poor's Credit rating agency also reaffirmed the credit rating of the Republic of North Macedonia as "BB- with a stable outlook" due to the stable banking system and the stability of the domestic currency and the increased foreign currency reserves.

During 2022, the IMF conducted a mission in which the setting of the practices and the processes of the NBRNM were examined in detail in terms of the operating, communicating of the policies, activities, results, as well as an insight of the corporate relations, whereby, in its report, it graded the Central Bank as highly transparent bank which enjoys high confidence among the public, thanks to the leading of consistent policies which enable macroeconomic stability.

In 2022, North Macedonia received a grant from the European Commission, in the value of 225.6 million euros for the support of infrastructural and energy projects, received access

<sup>&</sup>lt;sup>1</sup> Source: NBRNM and State Statistical Office

to use 530 million euros under favorable conditions from The Precautionary and Liquidity Line from IMF, signed the third liquidity amendment of the five-year Agreement for grant for partnership and development with the US Agency for International Development (USAID) through which additional 10.3 million US dollars were provided, and three interest-free credit lines through NBRNM were announced that will be at disposal for support of the private sector for coping with the energy crisis. Furthermore, for the purpose of financing of the budget deficit, the Republic of North Macedonia indebted itself with a short-term loan in the total amount to 50 million euros at Sparkasse Banka AD Skopje, and a decision was made for issuance of securities on the German market, a bond known as "Namensschuldverschreibungen", i.e. NSV, in the amount of 250 million euros. In 2022 the State issued the twenty-first bond issue for denationalization in the total amount of 6 million euros.

At the **Capital Market** in the Republic of North Macedonia, the total value of the realized turnover on the Macedonian Stock Exchange as at 31.12.2022, reached around 120.8 million euros and noted a decrease of 42.1% in comparison with the same period the previous year. The negative economic consequences as a result of the beginning of the military conflict in Ukraine had significant impact on the level of trade. Consequently, on 24.02.2022 MBI10 index noted a one-day sharp fall, after which the trading during the course of the day was temporarily ceased. At the end of December, MBI10 index decreased for 8.14%, compared to December 2021. Analyzed in terms the number of transactions, in the course of the period analyzed, the most traded securities were the shares issued by Komercijalna Banka AD Skopje, followed by the shares issued by Alkaloid AD Skopje, NLB Banka AD Skopje, Makpetrol AD Skopje and Granit AD Skopje.

# 2. ANALYSIS OF THE PERFORMANCE OF THE BANKING SECTOR IN 2022

As at 30.09.2022<sup>2</sup>, the banking system of the Republic of N. Macedonia consists of 13 banks divided into three groups (large, medium and small) according to their assets' volume<sup>3</sup> and two savings houses. Compared to the end of 2021, the number of banks and savings houses remains unchanged, and as at 30.09.2022 there are: 5 large banks, 5 medium banks and 3 small banks. As at 30.09.2021, the group of large banks is comprised of: Komercijalna Banka AD Skopje, Stopanska Banka AD Skopje, NLB Banka AD Skopje, Halk Banka AD Skopje and Sparkasse Banka AD Skopje.

In the third quarter of 2022, besides the new challenges imposed by the military conflict between Russia and Ukraine which piled up on the problems derived by the post pandemic opening of the economies and the energy crisis, the banking sector remained stable and marked a growth of the activities. On the liabilities side, after the initial fall in March that was a result of psychological factors linked with the conflict in Ukraine, in the second and third quarter the deposits mark a growth. The credit obligations have increased, as well as the income in the current year. The banks' lending activity also registered solid growth equally directed towards not only the households, but the enterprises as well.

<sup>&</sup>lt;sup>2</sup> Latest available data according to NBRNM.

<sup>&</sup>lt;sup>3</sup> According to the latest correction of the assets volume criteria by the NBRNM on 31.12.2021, the bottom assets limit volume is MKD 11 billion, and the upper assets volume limit is MKD 44.1 billion.

	BANKING SYSTEM			LARGE BANKS			
	31.12.2021	30.9.2022	Index	31.12.2021	30.9.2022	Index	
Assets	638,666	657,256	102.9	517,037	534,648	103.4	
Capital and reserves	73,779	82,731	112.1	60,325	68,464	113.5	
Deposits of non-financial entities	468,844	469,603	100.2	398,500	398,425	100.0	
- Deposits of companies	135,339	127,057	93.9	113,997	105,556	92.6	
- Household deposits	300,922	309,182	102.7	258,171	266,265	103.1	
- Deposits of other clients	32,583	33,364	102.4	26,332	26,604	101.0	
Loans to non-financial entities	367,111	394,057	107.3	296,677	321,648	108.4	
- Loans to companies	168,483	181,436	107.7	131,288	143,505	109.3	
- Household loans	190,753	202,250	106.0	158,536	168,657	106.4	
- Net profit	9,150	8,051	88.0	8,285	7,388	89.2	

# Table 2 – A list of major Balance Sheet positions (in MKD million)

In the course of 2022, the **monetary policy** noted tightening as a result of the expressed inflationary pressures caused by the escalation of the geopolitical tensions between Ukraine and Russia, as well as the still present uncertainty and risks linked with the pandemic. The National Bank used wider array of monetary instruments for maintaining the stability of the exchange rate and the mid-term price stability. In that direction:

- Starting from April, NBRNM was increasing the basic interest rate in eight occasions (by 0.25 percentage points in April, May and June, by 0.5 percentage points in July, September, October and December and by 0.75 percentage points in November, so that it increased from 1.25% to 4.75%), while the offer of treasury bills was held to the same level of 10 billion denars;
- Changes were made of the interest rates of the overnight and of seven days deposits and they increased in five occasions: in June by 0.25 and 0.15 percentage points, respectively, in September, October and December increased by 0.5 percentage points and in November by 0.75 percentage points and reached 2.65% and 2.70%, respectively;
- Changes were made with the obligatory reserve instrument for the purpose of supporting the denarization of the domestic economy, and because the noticed propensity of saving in foreign currencies and the ungrounded speculations for the stability of the denar, which increased the room for changes in the interest rates policy of the banks in favor of saving in the domestic currency. The package of changes of the system of obligatory reserve includes: increasing on the part of the obligatory reserve in foreign currency which the banks fulfill in euros (from the current 70% to 75%, and in November from 75% to 77%), increase on the part of the obligatory reserve in euros which the banks fulfill on average basis (from 5% to 10%), reduction in the basis for allocation of the obligatory reserve in denars for the sum of newly approved loans for financing projects for domestic production of electricity from renewable sources, the obligatory reserve rate in foreign currency was increased on two occasions in the course of the second half of the year and from 15% reached 18%, while in January 2023 it was increased to 19%;
- An introduction of countercyclical protective capital layer of 0.5% was announced for 2023;

 In the course of 2022, NBRNM introduced one more additional preventive measure for protection of the exchange market i.e. it provided the licensed exchange offices the opportunity that in case of eventual shortage of foreign currencies cash – euros, to supply themselves from the banks, by concluding an agreement with the bank, thus avoiding fictitious pressures at the exchange market at the exchange offices.

The solvency of the banking system remained on a stable level and the solvency and capitalization indicators of the banking system note improvement. On 30.09.2022, the capital adequacy ratio was 17.7% and is higher in comparison with the end of 2021 which mainly arises from the increase of the own funds as a result of the retained earnings. The banking system has quality capital positions, which enable it to have satisfactory resilience to potential stress scenarios. The domination in the total own funds belongs to the highest quality layer of the banking system's own funds (Common Equity Tier 1 Capital – CET1), while the Additional Tier 1 Capital and the Tier 2 Capital have lower participation. The realized stress testing of the banking system on the simulated shocks showed satisfactory resilience, which is especially significant taking into account the new challenges for the banks and their clients.

**Liquidity indicators remained at a satisfactory level.** In spite of the reduction of the liquid assets, the liquidity risk was held in acceptable frames and significant liquidity pressures over the banks were not noticed. The banking system has a solid capacity and sufficient liquid assets to respond adequately to the individual simulated cash outflows.

The indicators of the banking system profitability noted an improvement, which is a result of the higher earning realized, in comparison with the same period from the previous year. The higher financial result mainly arises from the decrease of the impairments costs (mainly for the financial assets), but significant contribution for the growth of the profit derives from the higher net interest income and the net income from fees and commissions. The growth of the profit in the first three quarters in 2022 contributed for improvement of the principal profitability indicators of the banking system. The indicators for the operational efficiency of the banking system note variable movements due to the rise of the operational costs.

# 3. MACROECONOMIC PROJECTIONS FOR 2023

The macroeconomic conditions in which the Bank will perform its activity in the course of 2023 are conditioned by the prolonged geopolitical tensions from the military invasion of Russia on Ukraine, possible deepening of the energy crisis, the slow post pandemic recovery, as well as the domestic political events. This environment unfavorably affects the outlooks for the growth of the domestic economy.

The high level of uncertainty in the domestic economy and internationally, point towards the need for a more conservative approach in shaping expectations for 2023, taking into account the projections published by the Ministry of Finance, the National Bank of the Republic of North Macedonia, the International Monetary Fund and the World Bank.

Amid extremely high volatility of assumptions and high uncertainty, GDP growth rates are expected to be 2.3% and 2.6% for 2022 and 2023, respectively, supported by domestic factors related to announced investments in infrastructure and investment for the expansion of the capacities of part of the export sector. If this support turns out to be weaker than the expectations, taking into account unfavorable external surrounding, the economic outlooks

will be 2.0% and 1.8% for 2022 and for the next year. The risks surrounding the projected growth track are downward and would depend mainly from the external surrounding.

The macroeconomic stability in the Republic of North Macedonia is expected to be maintained through the maintenance of the price stability and the stability of the nominal exchange rate of the denar in relation to the euro. For 2022, average annual inflation is 14.3%, while for 2023, a lowering of the import prices (according to the projections from the international financial institutions) is expected, by which the pressures on the domestic inflation would decrease as well. With these expectations, as well as with assessment for absence of bigger pressures from the demand, it is expected that in 2023 the average inflation rate would be more moderate and would range from 8% to 9%, in accordance with the rise of the electricity prices at the regulated market. It is expected that the measures for subsidizing the price of the electricity for the food industry by the State would have impact on the inflation movement, as well as the gradual tightening of the monetary policy.

The deteriorated exchange conditions, and especially the rise of the prices of the energy products are causing expansion and widening of the deficit on the current account on the balance of payments. According to the latest assumptions and calculations, it is expected that the deficit in the current account of the balance of payments would be 7.4% from the GDP for 2022. The deterioration is mainly a reflection of the significant widening of the energy deficit, while with all remaining components shifts in a positive direction are expected, especially at the private transfers which in the first half of the year achieved growth of around 30%. With the assessments for less favorable external surrounding in 2023, but a more modest price pressure, it is predicted that the current account deficit would be reduced to 5.6% of the GDP, mainly because of the tightening of the negative balance in the goods and services exchange. The financing of the current deficit, like before, would be enabled from the inflows through the direct investments and the country's indebtedness, whereby the foreign currency reserves in the entire period of projections are maintained on the adequate level, as a guarantee for the stability of the domestic's currency exchange rate.

The growth of the loans in 2022 is 9.4% on annual basis, while in 2023 it is expected to be 7.1%. Despite the war in Ukraine, the measures undertaken by the National Bank enabled further deposit growth that at the end of 2022 is 4.9%. With the stabilization of the flows and the measures taken by the National Bank for incentivizing denar savings, deposit growth is expected to be 6.5% in 2023.

# II. AIMS AND OBJECTIVES OF THE BANK'S BUSINESS POLICY

The priority aims and objectives of Komercijalna Banka AD Skopje are based on the realized results from operations and the level of realization of its strategic goals.

# The priority aims and objectives of the Bank's Business Policy for 2023 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 in the banking market of the Republic of North Macedonia, in conditions of increased competition;
- 4. Full compliance with the legal framework on financial reporting and managing of the operational risks;

- 5. Digitalization and development of the information technology in all segments of operation;
- 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. Modernization of the Bank's branch network;
- 8. In 2023, the Bank shall continue following its commitment that, if the Bank's shareholders provide a controlling package of shares and set proper parameters, the Bank's management shall take proper measures and activities for possible attraction of a potential strategic foreign investor that should fulfill the following conditions: to be a bank whose name is a renowned international brand, the offer should reflect the real value of shares of Komercijalna Banka and to submit a strategic plan for future development of the Bank.

Besides the priority aims, Komercijalna Banka AD Skopje also determines the following aims and objectives:

- 1. Undertaking activities for minimizing and dealing with the negative effects of the health and energy crisis on the Bank's loan portfolio;
- 2. Undertaking activities for timely and efficient compliance of the working processes with the new Law on Payment Services and Payment Systems with appliance of the cutting-edge technologies and preparation for the expected increase of the competition in the upcoming period;
- Introducing new or modified banking products and services according to customers' demands, development of new non-traditional banking functions, conquering new market segments;
- 4. Further improvement of e-banking and mobile banking and promoting the possibilities they offer;
- 5. Practicing banking marketing in creating an adequate offer in accordance with current market needs, informing the target groups and improving the perceptions of the Bank's brand, as well as in accordance with the Corporate Social Responsibility Strategy;
- 6. Improvement of the entire risk management process and improvement of the process of determining the internal capital and internal liquidity of the Bank;
- 7. Improving good corporate governance of the Bank as well as sustainable development practices related to environmental protection and community involvement, etc.

# III. THE BANK'S BUSINESS MODEL<sup>4</sup>

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 (12.2022: 39.5%), minimum participation of the trading portfolio in the total assets (12.2022: 0.07%), participation of total deposits with more than 2/3 in total liabilities (12.2022: 88.3%) and minor participation of the long-term borrowings in total liabilities (12.2022: 0.46%). The structure of total loans (on a gross basis) has a ratio of 64% of loans to non-financial legal entities and 33% loans to households, whereas the structure of total deposits has a ratio of 71% in deposits of households and 24% in deposits of non-financial legal entities. This structure determines the dominant income and expenses

<sup>&</sup>lt;sup>4</sup> The business model of the Bank is defined on the basis of researches made by the Bank for International Settlements: <u>https://www.bis.org/publ/qtrpdf/r\_qt1412g.pdf</u> and the definition from the Decision on good corporate governance rules for banks (Official Gazette of RM No.24/2018).

that are generated by the Bank which affect the operation results and the realization of the planned growth.

With the goal of timely response to the challenges that are stemmed by the implementation of the new Law on Payment Services and Payment Systems, the Bank will, starting from the beginning of 2023, undertake activities for integrating the working processes in the scope of the domestic and international payment operations. In accordance with the planned integration, the business model of the Bank in 2023 will be comprised by the following basic and auxiliary (supporting) business processes:

### 1. Key business processes:

- 1.1. Corporate lending
- 1.2. Payment operations and international trade finance
- 1.3. Collection of problem loans
- 1.4. Liquidity and financial market
- 1.5. Retail operations
- 1.6. Branch network management
- 1.7. Vault operations

#### 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 2023, no changes in the business model of the Bank are planned to be made, from the aspect of the dominant shares of the revenues in the total operational revenues.

# IV. GENERAL APPROACH IN RISK MANAGEMENT

In realization of the priority aims and objectives for 2023, Komercijalna Banka AD Skopje will continue managing risk through identifying, measuring and assessing, 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.

# V. QUANTIFICATION OF THE INDEXES

Realization of the aims and objectives of the Business Policy of the Bank for 2023 presumes fulfillment of specific financial effects expressed in quantified indexes.

# 1. Basic assumptions when outlining the indexes

### 1.1. Macroeconomic assumptions for 2023<sup>5</sup>:

- stable Denar exchange rate,
- inflation rate in the range of 8% to 9% (measured according to the CPI),
- real GDP growth of 2.6% (according to the basic scenario),
- growth of private sector loans of around 7.1%,
- growth of deposits of around 6.5% and
- Current account budget deficit of around 5.6% of GDP.

# 1.2. Internal banking principles for 2023:

- Planned profitability: ROE of minimum 10% and ROA of minimum 1%,
- Targeted net interest margin (NIM) at a minimum of 2% to 2.5% p.a.,
- 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,
- Liquidity that will ensure minimum liquidity set by NBRNM 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%,
- Continuous allocation of part of the net profit in reserves in order to maintain capital value stability and increase the capital adequacy rate for supporting planned growth of loans and assets, as well as meeting prescribed capital requirements. While doing so, the NBRNM's Decree for introducing a rate of 0.5% of countercyclical protective layer of the Banks' capital is taken into consideration and,
- Shareholder dividend payment policy, to be calculated based on a percentage of the realized annual net profit, taking into account compliance to the total capital requirements set by the National Bank. The calculated dividend payout ratio will range from 40% to 70% of the annual net profit.

The Bank has set up its internal operating principles for 2023 based on the results of:

- The process for determining internal liquidity for 2022, according to which the Bank operates with high internal liquidity and, conditioned by a consistent maturity and currency structure of deposits as the main source of financing, does not need to undertake any additional measures to maintain it; and

- The process of determining the internal capital, according to which the Bank has excess capital and there is no need to prepare a capital plan, i.e. it can distribute the net profit in accordance to the fulfillment of the capital requirements.

<sup>&</sup>lt;sup>5</sup> Source: Revision of macroeconomic projections by the NBRNM published in November 2022.

# 2. Quantification of the Balance Sheet and Income Statement indexes

#### 2.1. Balance Sheet

#### Table No. 3: Forecast of the Balance Sheet of Komercijalna Banka AD Skopje for 2023

				(In MKD million)			
						Planned	
		31.12		Plan 2023		increase	Index
		Amount	Structure	Amount	Structure	(5-3)	5:3
1		3	4	5	6	7	8
4		C 0 0 0	0.5	500 F	0.2	470.7	75.0
1	Borrowings	696.2	0.5	523.5	0.3	-172.7	75.2
2	Deposits from customers	133,379.3	88.3	138,255.0	87.7	4,875.7	103.7
3	Liabilities held for trading	0.0	0.0	0.0	0.0	0.0	0.0
4	Other liabilities	1,347.7	0.9	1,347.4	0.9	-0.3	100.0
5	Share capital	3,050.6	2.0	3,050.6	2.0	0.0	100.0
6	Reserves	9,881.9	6.6	10,731.5	6.8	849.6	108.6
7	Retained profit	470.0	0.3	630.0	0.4	160.0	134.0
8	Unallocated profit	2,304	1.4	0.0	0.0	-2,149.2	0.0
9	Gross profit	0.0	0.0	3,050.0	1.9	3,050.0	0.0
	Total liabilities	150,974.9	100.0	157,588.0	100.0	6,613.1	104.4
	ASSETS						
1	Cash and cash equivalents with NBRNM	57,405.8	38.0	59,973.0	38.1	2,567.2	104.5
2	Assets held for trading	105.6	0.1	63.5	0.0	-42.1	60.2
3	Placements with and short- term loans to other banks	584.3	0.4	582.0	0.4	-2.3	99.6
4	Loans to customers (net)	59,714.9	39.6	62,116.0	39.4	2,401.1	104.0
5	Investments	27,551.7	18.2	29,087.5	18.4	1,535.8	105.6
6	Fixed assets	2,789.5	1.8	2,839.0	1.8	49.5	101.8
7	Other assets	2,823.1	1.9	2,927.0	1.9	103.9	103.7
	Total assets	150,974.9	100.0	157,588.0	100.0	6,613.1	104.4

#### The planned growth of the Bank's liabilities is a result of the following trends:

- **Short-term and long-term borrowings** are planned with a net decrease on the basis of a greater amount of paid due installments, relative to the funds which are planned to be withdrawn from the credit lines used by the Bank.
- **Total deposits from customers** are planned to increase by 3.7%, while changes of the maturity and currency structure of the total deposits are not planned in the course of 2023. The total deposits have been planned in such a manner, so that their share would remain above 85% of the total liabilities.
- No changes are planned in terms of the Bank's share capital, while the reserves are planned to increase by MKD 849.6 million and the retained profit, which is intended for reinvestment purposes, is planned to increase by MKD 160 million based on the distribution of part of the net profit for 2022. This increase will further strengthen the Bank's capital, which will ensure compliance with the capital requirements of the

NBRNM as well as the capital buffers (including the announced countercyclical protective capital buffer). The Bank plans to maintain a capital adequacy rate of at least 16.75% until 31.07.2023 and over 17.25% starting from 01.08.2023.

The total assets of the Bank in 2023 are planned to increase by 4.4%. The Bank has implemented a prudent approach in planning its projections taking into account the deteriorated global environment and the expected increased risks and the uncertainty due to the military conflict in Ukraine, the continuing energy crisis and the increased inflation.

# Thereby, the dynamics of selected positions within the Bank's assets are planned as follows:

- Cash and cash equivalents with NBRNM are planned with an increase, as a result of expected increase of the denar and foreign currency mandatory reserve of the Bank in accordance with the forecasted growth of deposits, with simultaneously planned investment in treasury bills held to maturity, as well as maintaining foreign currency assets in foreign and domestic banks depending on the surplus of liquid assets during the year and in accordance with the movement of interest rates of assets placed on a short-term basis, up to 3 months.
- Within the position **assets held for trading**, which has a minimum share in the total assets, the shares intended for trading are recorded. In 2023 this position is planned to decrease as a result of the planned sale of the part of the shares.
- Placements with and short-term loans to other banks are planned similarly on the level with the realization as at December 2022, whereby the management with time deposit in the foreign banks will be predetermined by the interest rates movements and the expectations for stabilization of the international financial markets where, in the course of previous year, a significant uncertainty and volatility existed due to the continuous increase of the referent interest rates by the central banks.
- **Total net loans to customers** are planned with a moderate increase of about 4.0%. Gross regular loans to legal entities are planned to increase by about 4.0% and gross regular loans to individuals with an increase of 6.3%. No change is planned in the maturity and currency structure of the gross loans to clients. This position includes additional impairment of loans, as well as the effect from planned write-offs in accordance with NBRNM regulations.
- **Investments of the Bank** refer to investments in securities available for sale, securities held to maturity, investments in securities at fair value through the Income Statement determined as such at initial recognition and investments in subsidiaries.
  - The investments in securities available for sale are planned to decrease as a result of the maturity of government bills available for sale with maturity over 3 months. In 2023, the Bank plans to retain 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 the subscription of government bills that are recorded in the portfolio
    held to maturity. Simultaneously, all amounts of continuous government bonds
    that are maturing will be used for subscribing of government bills recorded until
    maturity, while the sum of Eurobonds that mature in 2023 is planned to be placed
    again in Eurobonds.
  - The investments in subsidiaries are planned to increase based on the anticipated net-effect from the planned profit and planned dividend of the subsidiary company recorded according to the principal amount method.
  - 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.

- **Fixed assets** are planned to increase due to the procurement of operating assets according to the needs of the organizational units of the Bank. The planned amount does not exceed the legally prescribed fixed assets multiplier limit.

#### 2.2. Income statement

#### Table No. 4: Projections of the Income Statement of Komercijalna Banka AD Skopje for 2023

		(In MKD million)					
		31.12.2022	Plan 2023	Index (4:3)			
1	2	3	4	5			
1	NET INTEREST INCOME	3,041.8	3,505.0	115.2			
2	OTHER INCOME	1,856.2	1,651.0	88.9			
3	COLLECTED WRITTEN-OFF CLAIMS	631.3	583.0	92.3			
4	OTHER EXPENSES	2,203.2	2,091.4	94.9			
5	PROFIT BEFORE IMPAIRMENT (1+2+3-4)	3,326.1	3,647.6	109.7			
6	IMPAIRMENT PROVISION OF CLAIMS	2,989.5	2,894.0	96.8			
7	RELEASE OF IMPAIRMENT PROVISION	1,984.1	2,300.0	115.9			
8	NET IMPAIRMENT PROVISION OF CLAIMS (6-7)	1,005.4	594.0	59.1			
9	IMPAIRMENT PROVISION OF FORECLOSURES (NET)	9.7	3.6	37.1			
10	GROSS PROFIT BEFORE TAXATION/LOSS (5-8-9)	2,311.0	3,050.0	132.0			

- **Gross profit before taxation** is planned to reach MKD 3,050.0 million.
- Net-interest income is planned to increase by about 15.2%, compared to 2022, with anticipated growth of loans and, as well as in accordance with the planned investments in treasury bills, government bills and bonds. The planned increase of the deposits will have adequate impact over interest net-income, as well as the higher level of the average weighted interest rates in accordance with the monetary policy signals, whereby the net interest margin will be maintained at the level of the targeted net interest margin.
- 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 upon f/x operations, other and extraordinary income) are planned with a reduction of about 11.1%, primarily due to a reduction in planned capital gains from the sale of foreclosed property.
- **Collected written-off claims** are planned with a reduction of 7.7%.
- **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 a decrease of 5.1% compared to 2022.
- Impairment provision of financial assets (gross) is planned to decrease by approximately 3.2% as a result of the improvement of the corporate loan portfolio compared to 2022 because it is expected that in the course of 2023, the temporary measures towards certain companies will be called off, and also there will be favorable

prices for the energy products, that will have impact on reactivation of the production capacities. The planned additional impairment for balance and off-balance sheet exposures for 2023 amounts to around 594 million denars.

- Pursuant to the law regulations, **impairment provision of non-financial assets** is planned in the amount of around MKD 3.6 million and includes a 20% impairment of the foreclosed property value, according to NBRNM regulations.

# VI. MEASURES AND ACTIVITIES FOR ACHIEVING THE AIMS AND OBJECTIVES OF THE BANK'S BUSINESS POLICY

In order to achieve successful realization of the priority aims and objectives, and positive results from operations in 2023, the Bank shall undertake specific measures and activities within all segments of its operation, which cover all business processes (main and auxiliary) and are in accordance with the adopted Strategy for Corporate Social Responsibility of Komercijalna Banka AD Skopje for the period 2022-2026 and taking into account the adopted Sustainability Policy of the Bank. The proposed measures and activities take into account the expected further continuation of the global pandemic, prolonged influence of the increased inflation and increased interest rates due to monetary policy tightening, as well as the decreased economic growth dynamics. The proposed measures and activities will obtain optimal solutions for clients while ensuring continuity of business operations, and active support of the domestic economy.

**BOARD OF DIRECTORS**