WOOD & COMPANY

Komercijalna Banka ad Skopje

Buy

Initiation of coverage

Price: MKD 6,565
Price target: MKD 7,953

A sizeable growth story in the Balkans

We initiate coverage of Komercijalna Banka ad Skopje with a BUY recommendation and a price target (PT) of MKD 7,953/share, offering upside of c.21.2%. The bank is a leader in the local, nearly oligopolistic, market, and we appreciate its best-in-class C/I ratios, the conservative structure of its balance sheet and its sound capital levels. On the negative side, we highlight the bank's FX exposure and that its financial reporting is under the local GAAP. We still see upside for the current share price levels, especially on the back of the balance sheet liquidity, which is a lot higher than the market average and could offer enough ammunition for NIM and top-line growth, even in times of falling rates. The bank trades at 1.0x and 0.9x on our 2021E and 2022E P/BVs, respectively.

Liquid balance sheet could support the top line, as well as the NIMs. While the market average L/D ratio is just below 80%, the bank's ratio is around 50% currently. In our view, this gives it the much needed ammunition to fight the market environment of falling rates, which could support the top line and, especially, the NIMs, which we see remaining above 2% in our forecast period. In 2020E, we believe that the NIMs could show a slight pick-up, mostly on the back of sizable loan growth. Similarly, such a conservative balance sheet structure should prove to be resistant during the current economic crisis. As of 1H20, loans accounted for c.44% of total assets, while cash took up 36%.

Top-notch C/I ratios likely to continue going forward. The bank's profitability is likely to be supported by its best-in-class cost efficiency. The ratio bottomed out in 2017, at 35%, but grew to 42% in 2019, only to drop again, to 36%, in 1H20. While we see a certain pick-up in the ratio going forward, it should not reach higher than 39.7%. Such efficiency results in ROEs above what we see for most of its peers in our coverage universe, despite the economic crisis and the conservative balance sheet structure.

The bank is likely to remain well-capitalised, even with the expected growth rates and payouts. The bank is a dividend story and has offered a yield north of 10% in its past two payments. Even though we expect dividends to decline due to the current crisis, payouts should not fall below 45%, on our numbers. At the same time, we note that we have taken a rather conservative approach towards our dividend estimates, and there may be upside.

Komercijalna is a market leader in North Macedonia. The local banking industry is skewed heavily towards the largest banks in the country. The three-largest banks, in terms of assets, hold a market share of c.57%. The top-five banks hold a market share of 75%. In the terms of assets, Komercijalna Banka has a 22% market share and is the largest bank.

FX exposure remains, but as a result of the economy's structure. While the net FX exposure is relatively small, in gross terms, both the liabilities and asset sides of the balance sheet are exposed heavily to the EUR, and we note it remains a risk, despite the economy's slow shift towards the local currency.

Valuation-wise, the bank trades at record levels, but we still see room for growth. The bank now trades at 1.0x and 0.9x on our 2021E and 2022E book values. While these are at its historically highest levels, we believe there is still upside for the share price, even after the stellar performance of the past couple of years, mostly on the back of the bank's growth prospects, its sound capital levels, decent dividend potential, and higher ROEs vs. the peers in our coverage universe.

Expected events

3Q20 results	26 October (TBC)

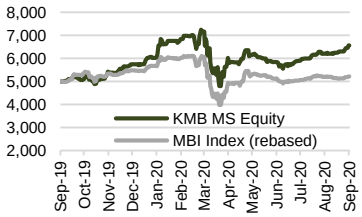
Key data

Market Cap	USD 286m
Free float	87.14%
3M ADTV	USD 0.1m
Shares outstanding (m)	2.28
Major Shareholder	Adora Engineering (12.86%)
Bloomberg Code	KMB MS
MBI Index	4,276.7

Price performance

52-w range	MKD 4,800-7,244
52-w performance	31.53%
Relative performance	26.95%

Komercijalna Banka 12M share price performance



Year	NII (MKD m)	Net Profit (MKD m)	EPS (MKD)	PE (x)	BVPS (RON)	P/BV (x)	ROE (%)	DPS (RON)	Dividend yield
2017	3,070	845	371	5.9	4,859	0.5	7.9%	180	8.2%
2018	2,472	1,806	793	4.1	5,473	0.6	15.3%	420	12.9%
2019	2,405	1,827	802	6.4	5,846	0.9	14.4%	550	10.7%
2020E	2,556	1,456	639	10.3	6,176	1.1	10.6%	288	4.4%
2021E	2,667	1,606	704	9.3	6,593	1.0	11.0%	317	4.8%
2022E	2,878	1,900	834	7.9	7,110	0.9	12.2%	375	5.7%

EQUITY RESEARCH

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Closing Prices as of 08 September 2020

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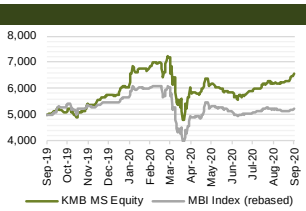
Company snapshot – BUY, PT MKD 7,953

Komercijalna Banka ad Skopje

BUY

Bloomberg ticker	KMB MS
Closing price (MKD)	6,565
Price target (MKD)	7,953
Upside to PT	21.2%
Shares outstanding (m)	2.28
MCap (MKD m)	14,962
Free float	87%
3M ADTV (USD ths)	1.9
52 Week Range (MKD)	4,800-7,244



COMPANY DESCRIPTION

The bank was established in 1955, with its headquarters based in Skopje, North Macedonia. Beginning as a communal bank (Komunalna Banka), the house specialised in mortgages and business loans. In 1971, the top three local banks integrated under the name of Stopanska Banka. In 1990, the banks were transformed significantly, into the first joint stock company in the country, carrying the name of Komercijalna Banka. In 2009, KB Publikum Invest was established and Komercijalna holds a 64.29% stake in the company currently. Other shareholders include Ljubljana Publikum Holding LLC, Pom-INVEST DD Maribor and Forleks S.R.L. Today. the company operates in many areas, including retail banking services, commercial banking, savings and deposits, and investments.

FINANCIALS (MKD m)

	2017	2018	2019	2020E	2021E	2022E
Net interest income	3,070	2,472	2,405	2,556	2,667	2,878
Net fee and commission income	862	923	999	998	1,082	1,176
Other operating income	1,215	1,571	943	1,435	965	996
Net operating income	**5,147**	**4,965**	**4,347**	**4,990**	**4,714**	**5,051**
Total operating expenses	**-1,810**	**-2,213**	**-1,809**	**-1,883**	**-1,871**	**-1,890**
Profit before provisions, impairmen	**3,337**	**2,752**	**2,539**	**3,107**	**2,843**	**3,161**
Impairment of financial assets	-2,452	-794	-589	-1,556	-1,127	-1,117
Results after provisions	**885**	**1,958**	**1,950**	**1,551**	**1,716**	**2,044**
Associates	55	64	61	61	61	61
Income tax	-95	-216	-184	-155	-172	-204
Net result for the period	**845**	**1,806**	**1,827**	**1,456**	**1,606**	**1,900**
Cash and cash equivalents	37,209	48,796	48,733	53,201	52,963	52,376
Financial assets	11,220	12,682	13,681	15,290	16,680	18,246
Due from banks	5,834	2,516	4,693	2,726	2,979	3,265
Loans and advances to customers	**45,366**	**46,407**	**50,791**	**54,518**	**59,584**	**65,295**
Other assets	2,333	1,146	2,320	942	966	992
Intangible assets	40	39	56	56	56	56
Property, plant and equipment	2,866	2,808	2,756	2,540	2,490	2,440
Total assets	**104,869**	**114,394**	**123,032**	**129,274**	**135,716**	**142,670**
Deposits from banks	449	351	449	472	495	519
Deposits from customers	**91,229**	**99,037**	**107,112**	**112,552**	**117,994**	**123,717**
Other liabilities	881	1,604	1,311	1,611	1,611	1,611
Borrowings	1,238	929	837	563	590	619
Total liabilities	**93,797**	**101,920**	**109,709**	**115,197**	**120,689**	**126,465**
Retained earnings	845	1,820	2,177	2,380	3,330	4,508
Other equity	10,228	10,654	11,146	11,697	11,697	11,697
Total shareholders' equity	**11,073**	**12,474**	**13,323**	**14,077**	**15,027**	**16,205**
Total liabilities and equity	**104,870**	**114,394**	**123,032**	**129,274**	**135,716**	**142,670**

Growth rates

	2017	2018	2019	2020E	2021E	2022E
Loans and advances to customers	0.2%	2.3%	9.4%	7.3%	9.3%	9.6%
Deposits	4.7%	8.6%	8.2%	5.1%	4.8%	4.9%
Equity	4.8%	12.7%	6.8%	5.7%	6.8%	7.8%
Assets	4.1%	9.1%	7.6%	5.1%	5.0%	5.1%
Net income	6.8%	113.7%	1.1%	-20.3%	10.3%	18.4%
Net interest income	-0.3%	-19.5%	-2.7%	6.3%	4.3%	7.9%

RATIOS & VALUATIONS

	2017	2018	2019	2020E	2021E	2022E
Net loans to deposits	49.7%	46.9%	47.4%	48.4%	50.5%	52.8%
Deposits to assets	87.0%	86.6%	87.1%	87.1%	86.9%	86.7%
Net loans to assets	43.3%	40.6%	41.3%	42.2%	43.9%	45.8%
Equity to assets	10.6%	10.9%	10.8%	10.9%	11.1%	11.4%
Net interest margin	3.2%	2.4%	2.1%	2.1%	2.1%	2.1%
Net interest income to average assets	3.0%	2.3%	2.1%	2.0%	2.0%	2.1%
NII to avg assets adj. for prov. [WOOD]	0.6%	1.5%	1.5%	0.8%	1.2%	1.3%
Costs to average assets	-1.8%	-2.0%	-1.5%	-1.5%	-1.4%	-1.4%
Cost to income	35.2%	44.6%	41.6%	37.7%	39.7%	37.4%
Pre-tax income to average assets	0.9%	1.8%	1.7%	1.3%	1.3%	1.5%
Effective tax rate	-10.1%	-10.7%	-9.1%	-10.0%	-10.0%	-10.0%
ROA	0.8%	1.7%	1.6%	1.2%	1.2%	1.4%
ROE	7.9%	15.3%	14.4%	10.6%	11.0%	12.2%
ROTE	8.0%	15.3%	14.5%	10.7%	11.1%	12.2%
P/E	5.9x	4.1x	6.4x	10.3x	9.3x	7.9x
P/BV	0.5x	0.6x	0.9x	1.1x	1.0x	0.9x
P/Tangible BV	0.5x	0.6x	0.9x	1.1x	1.0x	0.9x
Dividend yield	8.2%	12.9%	10.7%	4.4%	4.8%	5.7%

LOANS AND ADVANCES TO CUSTOMERS

	2017	2018	2019	2020E	2021E	2022E
Non-financial companies	77.6%	74.3%	71.2%	70.6%	69.4%	64.7%
Government	2.5%	2.6%	2.9%	3.1%	3.0%	2.6%
Non-profit institutions	0.1%	0.1%	0.3%	0.4%	0.4%	0.3%
Financial companies excl banks	0.0%	0.0%	0.0%	0.1%	0.1%	0.0%
Households	19.4%	22.6%	25.4%	25.9%	26.5%	31.9%
Other	0.3%	0.4%	0.2%	0.0%	0.7%	0.4%

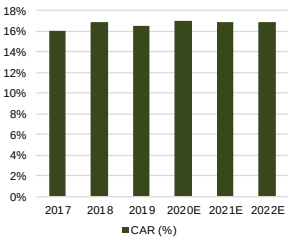
CAPITALIZATION

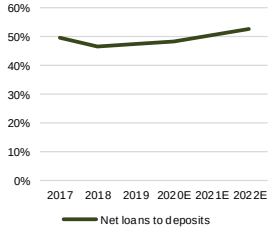
	2017	2018	2019	2020E	2021E	2022E
Tier 1 ratio (%)	16.0%	16.9%	16.6%	17.0%	16.9%	16.9%
CAR (%)	16.0%	16.9%	16.6%	17.0%	16.9%	16.9%
CAR (%, standalone)	16.0%	16.9%	16.6%	n.a.	n.a.	n.a.
Equity to total assets	10.6%	10.9%	10.8%	10.9%	11.1%	11.4%

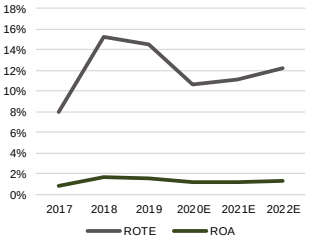
DUPONT ANALYSIS

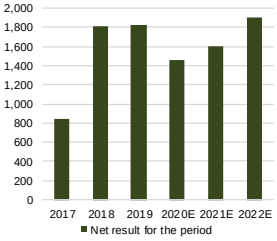
	2017	2018	2019	2020E	2021E	2022E
Net interest income		2.3%	2.0%	2.0%	2.0%	2.1%
Net fee and commission income		0.8%	0.8%	0.8%	0.8%	0.8%
Other operating income		1.4%	0.8%	1.1%	0.7%	0.7%
Net operating income		4.5%	3.7%	4.0%	3.6%	3.6%
Total operating expenses		**-2.0%**	**-1.5%**	**-1.5%**	**-1.4%**	**-1.4%**
Profit before provisions, impairments		2.5%	2.1%	2.5%	2.1%	2.3%
Impairment of financial assets		-0.7%	-0.5%	-1.2%	-0.9%	-0.8%
Gross result		**1.8%**	**1.7%**	**1.3%**	**1.3%**	**1.5%**
Tax expense		1.5%	1.4%	1.0%	1.1%	1.2%
Net result for the period		**1.6%**	**1.5%**	**1.1%**	**1.2%**	**1.4%**

CHARTS









Source: Bank data, Bloomberg, WOOD Research

Investment case

We initiate on Komercijalna Banka with a BUY rating and a price target (PT) of MKD 7,953/share, offering upside of c.21.2%. We appreciate the bank's strong position in the local, almost oligopolistic, market, coupled with its conservative balance sheet structure and best-in-class cost efficiency, with C/I ratios below 40%. Its liquid balance sheet, in our view, could help it to weather the current storm, and offers growth potential that could support the currently falling NIMs amid the recent interest rate cuts. Despite offering quite substantial payouts in the past, the bank remains well-capitalised and, on our numbers, should remain so over the course of the crisis, as well as for the rest of our forecast period. FX exposure is an issue, but is a function of the overall Euronisation of the economy, and the bank is managing to offset these exposures well. We also note that our COR and dividend assumptions may be too conservative.

We like the bank's strong position in the local market. Komercijalna Banka is one of the largest banking institutions in the country and, in terms of assets, it is the largest house, with a 22% market share. The bank's market share in gross loans to non-financial corporate clients is 21%; also the highest in the market. Komercijalna holds the largest amount of deposits as well, from both local households, as well as corporates. With the almost oligopolistic banking sector being quite concentrated amongst the five-largest banks, Komercijalna Banka is one of the market leaders. The bank serves clients all across North Macedonia with 62 branches (as of March 2020) and the largest ATM network in the country.

We appreciate the quality cost efficiency, which results in very low C/I ratios. The C/I ratios bottomed out in 2017, when they reached 35.2%, and have grown to 40-45% since then. The majority of the bank's expenses are personnel costs and, with a declining number of employees over time and low salary inflation, upward pressure, if any, is likely to come from other expenses. At the same time, we believe the potential for a further improvement in the bank's cost efficiency is rather limited, especially as the C/I ratio fell to 35% in 1H20. We see this reversing, and expect the bank to report 37.7% by the year-end. We then anticipate the ratio at 39.7% and 37.4% for 2021E and 2022E, respectively, and believe these levels are sustainable going forward.

Liquidity higher than the market average shows potential for top-line growth. The majority of the frontier banks in our universe are highly liquid, but Komercijalna Banka is a real outlier. The bank's L/D ratio stood at 50.4% vs. levels just below 80% for the overall market. The bank decided to take a more conservative stance, mostly as a result of the recent macroeconomic and political risks in the country, diversified its loan book and increased the liquidity of its balance sheet. The share of loans has declined continuously, to 41-44%, from 51% in 2014. Investment securities account for c.10% of the balance sheet. While this may seem counterproductive, we believe it gives Komercijalna a large amount of ammunition, to be used once it deems circumstances have improved. Once this happens and the liquidity is placed into loans, the bank's NIMs, which we anticipate to decline in the near term, could see upside in the mid-term. We expect net loans to grow by 7.3% in 2020E, 9.3% in 2021E and 9.6% in 2022E.

Sound capital levels allow for high dividend payouts and yields. Despite paying out 69% of its 2019 profit in 2020, the bank remains well capitalised. Not only have the capital levels been improving in the past, but its stand-alone CAR increased to 17.62% for 1H20, from 16.59% as of the end of 2019. As the group's subsidiaries are small, we expect a similar development on the consolidated level. We also believe that the CAR should not fall below 16.86% in our forecast period. While we note that the bank is committed to paying out dividends, capital adequacy takes a higher priority now, according to the bank, especially amid the current macroeconomic backdrop. We thus model lower payouts for 2020-22E than we have seen in the past. There may be upside for our dividend estimates, however, mostly on the back of our conservative approach to our COR and dividend payout assumptions.

FX exposure on the balance sheet remains, but Komercijalna manages to offset it. Despite the quite high Euronisation of the local economy, the bank manages its net total FX exposure quite well, matching its levels of FX loans with FX deposits. FX loans now account for c.44% of net loans. The bank issues FX loans mostly in EUR, but also carries MKD 525m worth of USD loans. In 2019, the net FX exposure was only MKD 40m. Despite the inherent risks coupled with such a high FX position, we note that the central bank's policy calls for a fixed EUR/MKD rate (see page 21 for more details). Despite the decline of FX credit (to c.42% in 1Q20, from c.60% in 1Q12), as well as FX deposits (to c.41%, from c.50% in 1Q12) in the country's banking system, foreign currency continues to be used frequently.

The bank trades currently at 1.0x and 0.9x on our 2021E and 2022E P/BVs, respectively. Despite these multiples being at historically high levels, we do not see the multiples as too stretched. Our view is based on multiple factors, including the higher growth potential, given the bank's balance sheet, high profitability, the conservative risk profile of the balance sheet and the good capitalisation. Our PT of MKD 7,953/share offers upside of c.21.2%. In terms of our PT, the company would trade at 1.2x and 1.1x 2021E and 22E book value, respectively.

Valuation

We set our price target (PT) for Komercijalna Banka ad Skopje at MKD 7,953/share, offering upside of c.21.2% to the closing price on 8 September. We arrive at our PT using a combination of our excess return valuation model, giving us a PT of MKD 8,625/share, and our three-stage DDM, which yields a PT of MKD 7,282/share. The difference between the two methods is 18%.

Komercijalna Banka: valuation summary

KMB MS Equity	
Excess return valuation (50%)	8,625
3-stage DDM (50%)	7,282
Weighted average PT	**7,953**
Current price	6,565
Potential upside	**21.2%**

Source: WOOD Research

Cost of equity estimate

To estimate Komercijalna Banka's cost of equity, we use a risk free rate of 5% for North Macedonia, a market risk premium of 6.0% and a beta of 1.1x. All this yields a COE of 11.6%.

Komercijalna Banka: cost of equity estimate

KMB MS Equity	
Risk free rate	5.0%
Market risk premium	6.0%
Market return	11.0%
1Y monthly beta	1.10
Cost of equity	**11.6%**

Source: WOOD Research

Excess return valuation model

Komercijalna Banka: three-stage excess return valuation model

	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	+
Net profit (MKD m)	1,827	1,456	1,606	1,900	2,158	2,375	2,551	2,691	2,800	2,884
growth yoy		*-20.3%*	*10.3%*	*18.4%*	*13.6%*	*10.0%*	*7.4%*	*5.5%*	*4.1%*	*3.0%*
Dividend distribution (MKD m)	957	1,253	655	723	855	929	1,377	1,759	2,073	2,155
growth yoy		*31.0%*	*-47.7%*	*10.3%*	*18.4%*	*8.6%*	*48.2%*	*27.8%*	*17.9%*	*3.9%*
Shareholders' equity (MKD m)	13,323	14,077	15,027	16,205	17,508	18,954	20,128	21,060	21,787	22,516
growth yoy		*5.7%*	*6.8%*	*7.8%*	*8.0%*	*8.3%*	*6.2%*	*4.6%*	*3.5%*	*3.3%*
Cost of equity (MKD m)	1,545	1,589	1,688	1,811	1,955	2,115	2,267	2,389	2,485	2,570
growth yoy		*2.8%*	*6.2%*	*7.3%*	*7.9%*	*8.2%*	*7.2%*	*5.4%*	*4.0%*	*3.4%*
Excess return (MKD m)	281	-133	-82	89	203	260	284	302	315	3,656
ROE		10.6%	11.0%	12.2%	12.8%	13.0%	13.1%	13.1%	13.1%	13.0%
Payout ratio		68.6%	45.0%	45.0%	45.0%	43.0%	58.0%	68.9%	77.0%	77.0%
Time adjustment for the valuation date		0.31	1.31	2.31	3.31	4.31	5.31	6.31	7.31	8.31
Discount factor		**97%**	**87%**	**78%**	**70%**	**62%**	**56%**	**50%**	**45%**	**40%**
Discounted excess return per share		**-56**	**-31**	**30**	**62**	**71**	**70**	**66**	**62**	**644**
Implied P/BV										1.17x
Book value per share implied at P/BV										**6,811**
Number of shares (m)	2.28									
Fair value of Komercijalna's share	7,728									
Target price	**8,625**									
Upside	**31.38%**									
Valuation date	8 September 2020									
Fiscal year end	31 December 2020									
Time adjustment	0.31									

Source: WOOD Research

To calculate the fair value of Komercijalna Banka's shares, we sum up the present value of excess returns per share until 2027E, the present value of the excess return in the terminal period beyond 2027E and the current capital invested in the bank at the implied P/BV ratio of 1.17x (P/BV = (LT ROE – g)/(COE – g)), based on a long-term ROE of 13.0%, a COE of 11.6% and a long-term growth rate of 3%. The fair value of an individual share then lands at MKD 7,728, giving us a 12M PT of MKD 8,625/share.

The sensitivity of our excess return model for Komercijalna Banka to the cost of equity and long-term growth rate estimates is presented below.

Komercijalna Banka: sensitivity of our excess return valuation model

		Long term growth rate				
		2.0%	**2.5%**	**3.0%**	**3.5%**	**4.0%**
Cost of equity	**9.6%**	12,447	12,990	13,582	14,246	15,008
	10.6%	10,098	10,433	10,786	11,167	11,590
	11.6%	8,224	8,424	8,625	8,833	9,056
	12.6%	6,690	6,798	6,899	6,997	7,094
	13.6%	5,406	5,451	5,485	5,509	5,525

Source: WOOD Research

Three-stage dividend discount model

In our dividend discount model, we assume a 45% payout ratio from 2020E earnings, which more or less continues for the four following years. In the second stage of our model, we assume that the payouts could increase gradually, to 77%, which we calculate as a sustainable level of payouts in the long term. The lower payout ratios in the early stages of our model are the result of the pandemic-caused crisis, as well as the higher growth rates assumed after the pandemic has run its course, as the bank could use its excess liquidity for growth.

Komercijalna Banka: three-stage dividend discount valuation model

	2019	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**	**2026E**	**2027E**	**+**
Net profit (MKD m)	1,827	1,456	1,606	1,900	2,158	2,375	2,551	2,691	2,800	2,884
growth yoy		*-20.3%*	*10.3%*	*18.4%*	*13.6%*	*10.0%*	*7.4%*	*5.5%*	*4.1%*	*3.0%*
EPS (MKD)	802	639	704	834	947	1,042	1,119	1,181	1,229	1,265
growth yoy		*-20.3%*	*10.3%*	*18.4%*	*13.6%*	*10.0%*	*7.4%*	*5.5%*	*4.1%*	*3.0%*
Shareholders' equity (MKD m)	13,323	14,077	15,027	16,205	17,508	18,954	20,128	21,060	21,787	22,516
growth yoy		*5.7%*	*6.8%*	*7.8%*	*8.0%*	*8.3%*	*6.2%*	*4.6%*	*3.5%*	*3.3%*
BVPS (MKD)	5,846	6,176	6,593	7,110	7,682	8,316	8,832	9,241	9,559	9,879
growth yoy		*5.7%*	*6.8%*	*7.8%*	*8.0%*	*8.3%*	*6.2%*	*4.6%*	*3.5%*	*3.3%*
DPS paid (MKD)	420	550	288	317	375	408	604	772	910	945
growth yoy		*31.0%*	*-47.7%*	*10.3%*	*18.4%*	*8.6%*	*48.2%*	*27.8%*	*17.9%*	*3.9%*
ROE		10.6%	11.0%	12.2%	12.8%	13.0%	13.1%	13.1%	13.1%	13.0%
Payout ratio		68.6%	45.0%	45.0%	45.0%	43.0%	58.0%	68.9%	77.0%	77.0%
Time adjustment for the valuation date		0.64	1.64	2.64	3.64	4.64	5.64	6.64	7.64	8.64
Discount factor		**93%**	**84%**	**75%**	**67%**	**60%**	**54%**	**48%**	**43%**	**39%**
Discounted DPS			**240**	**237**	**252**	**245**	**325**	**372**	**393**	
Terminal value per share estimate										11,510
Discounted terminal value per share estimate										**4,460**
Implied P/BV (x)	1.17									
Fair value of Komercijalna's shares	6,525									
Price target	**7,282**									
Upside	**10.93%**									
Valuation date	8 September 2020									
Dividend payment day	29 April 2021									
Time adjustment	0.64									

Source: WOOD Research

To calculate our price target, we sum up the present value of the dividend cash flow received by investors in the first stage of our model (2020-22E), the present value of the dividends in the seconds stage (2023-27E) and the book value of equity in the terminal value multiplied by the implied P/BV of 1.17x. Putting two and two together, we arrive at a fair value MKD 6,525/share, or a 12M PT of MKD 7,282/share.

Below, we present the sensitivity analysis of our dividend discount model to the cost of equity estimate and the long-term growth rate, which we assume at 3%.

Komercijalna Banka: sensitivity of our excess return valuation model

		Long term growth rate				
		2.0%	**2.5%**	**3.0%**	**3.5%**	**4.0%**
Cost of equity	**9.6%**	9,830	9,878	9,927	9,976	10,024
	10.6%	8,345	8,384	8,423	8,463	8,502
	11.6%	7,217	7,250	7,282	7,315	7,347
	12.6%	6,335	6,362	6,389	6,416	6,443
	13.6%	5,627	5,650	5,673	5,696	5,719

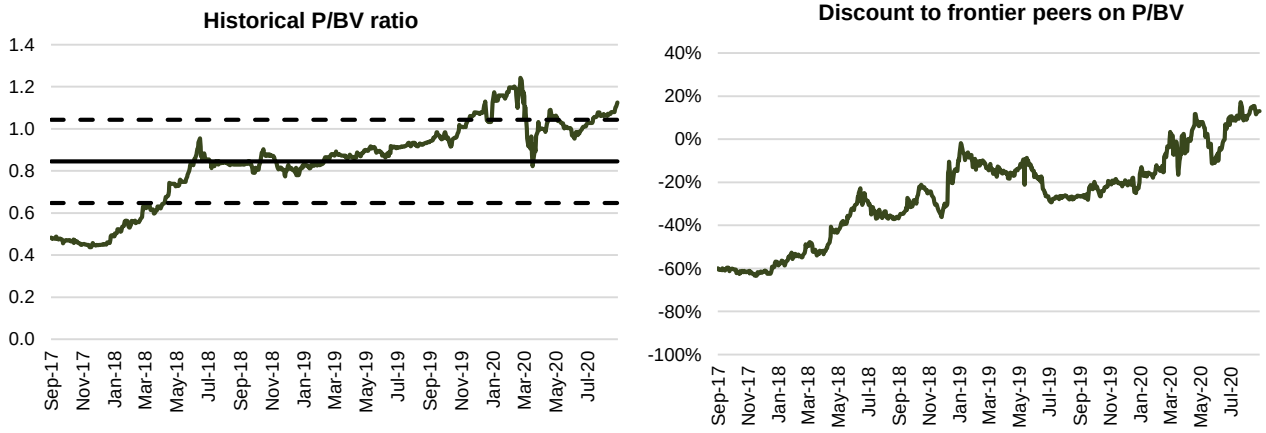
Source: WOOD Research

Peer comparison and multiples valuation

The ever-increasing P/BV ratio and the narrowing discount vs. its peers is the result of the stellar performance of the share price in the past, which has grown from levels between MKD 1,200 and MKD 2,400/share in the 2014-17 period, to the current MKD 6,500/share.

The stock is trading currently above +1 standard deviation from its average price-to-book multiple and at a premium to other frontier banks under our coverage (we note these are based on historical financials, due to the lack of any consensus estimates for Komercijalna Banka). We believe the stock still has room to grow, however. We base our assumptions on its superior profitability, ROEs and dividend payouts, as well as yields, prior to COVID-19, which we assume could return in the second stage of our valuation model.

Komercijalna Banka: historical P/BV multiples and discount vs. frontier peers



Source: WOOD Research. Bloomberg

Finally, we also look at the bank's multiples to compare them with the current market multiples and also to cross-check where Komercijalna Banka trades at our PT. On our numbers, the bank trades currently at multiples similar to its peers. However, we expect superior ROEs in our forecast period than what we expect for most other banks in our coverage universe for the period, which results in what may seem rather an expensive P/BV multiple. On the other hand, the P/E multiples are near the median. We expect a mediocre dividend yield in the first stage of our forecast period, but this should improve in the second stage. Similarly, we have taken rather a conservative stance towards payouts, and believe that there may be upside for our dividend estimates.

Komercijalna Banka: current peer valuation table as of 8 September 2020

Bank	Last price	Market Cap	P/E			P/BV			ROE			Div yield		
	lcl	USD m	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
Macedonia														
Komercijalna Banka ad Skopje	6,565.0	286	10.3	9.3	7.9	1.1	1.0	0.9	10.6%	11.0%	12.2%	8.4%	4.4%	4.8%
Czech Republic														
Komercni	530.0	4,473	12.4	11.7	9.3	0.9	0.9	0.9	7.4%	7.7%	9.7%	11.1%	11.4%	7.5%
Moneta	54.0	1,225	12.2	16.1	8.3	1.0	1.0	1.0	8.8%	6.4%	12.1%	6.5%	5.0%	9.6%
Georgia														
TBC Bank	935.0	2,692	4.1	3.5	n/a	0.7	0.6	n/a	18.3%	18.3%	n/a	5.7%	6.1%	n/a
Bank of Georgia	925.0	2,356	4.1	3.6	n/a	0.8	0.7	n/a	19.9%	19.9%	n/a	7.3%	8.3%	n/a
Hungary														
OTP	10,290.0	9,495	16.2	11.5	7.8	1.2	1.1	1.0	7.6%	10.1%	13.6%	2.8%	3.3%	4.0%
Lithuania														
Siauliu Bankas	0.4	305	10.0	7.4	5.8	0.8	0.7	0.7	8.0%	10.0%	11.8%	3.3%	4.7%	6.0%
Poland														
PKO BP	20.8	6,884	13.2	10.4	7.0	0.6	0.6	0.6	4.6%	5.6%	8.1%	3.6%	9.1%	13.6%
Santander Bank	140.1	3,783	14.6	12.6	6.9	0.5	0.5	0.5	3.8%	4.3%	7.5%	3.4%	7.9%	14.5%
Pekao	49.8	3,455	14.2	9.7	6.4	0.5	0.5	0.5	3.8%	5.4%	8.0%	3.5%	9.8%	14.8%
ING BSK	131.4	4,522	19.1	15.1	10.1	1.1	1.0	0.9	5.7%	6.8%	9.5%	0.8%	2.0%	3.0%
mBank	169.1	1,895	28.3	14.5	7.1	0.4	0.4	0.4	1.6%	3.0%	5.8%	0.0%	6.9%	13.9%
Handlowy	35.5	1,227	20.2	17.3	10.3	0.6	0.6	0.6	3.2%	3.7%	6.1%	5.0%	5.8%	9.8%
Millennium	2.8	902	22.6	20.8	6.2	0.4	0.4	0.4	1.7%	1.8%	5.8%	0.0%	5.0%	16.0%
Alior Bank	13.3	461	n/m	n/m	5.5	0.3	0.3	0.3	-4.4%	-0.7%	4.8%	0.0%	0.0%	0.0%
Romania														
Banca Transilvania	2.4	3,029	12.8	12.1	10.0	1.5	1.4	1.3	11.5%	12.1%	13.5%	5.1%	5.4%	6.5%
BRD-GSG	12.6	2,125	12.0	11.5	9.5	1.1	1.1	1.0	9.0%	9.3%	10.8%	5.8%	6.1%	7.3%
Patria Bank	0.1	65	n/m	n/m	16.4	n/m	n/m	0.9	-1.7%	2.6%	5.5%	0.0%	0.0%	0.0%
Slovenia														
NLB (GDRs)	39.0	918	15.0	7.3	7.3	0.5	0.4	0.4	3.1%	6.2%	6.1%	4.7%	9.6%	9.6%
Komercijalna Banka ad Skopje est.	**6,565.0**	**286**	**10.3**	**9.3**	**7.9**	**1.1**	**1.0**	**0.9**	**10.6%**	**11.0%**	**12.2%**	**8.4%**	**4.4%**	**4.8%**
Komercijalna Banka ad Skopje PT	**7,953.5**		**12.4**	**11.3**	**9.5**	**1.3**	**1.2**	**1.1**	**10.6%**	**11.0%**	**12.2%**	**6.9%**	**3.6%**	**4.0%**
Mean [region]			14.4	11.9	7.5	0.6	0.6	0.6	4.2%	5.9%	8.0%	3.5%	5.6%	8.6%
Mean [Frontier]			12.0	11.5	9.8	1.1	1.1	0.9	8.5%	9.6%	11.3%	4.2%	5.0%	6.3%
Current premium/(discount) to peers			**-14%**	**-19%**	**-19%**	**-2%**	**-6%**	**-2%**	**2.1pts**	**1.4pts**	**0.9pts**	**4.2pts**	**-0.7pts**	**-1.4pts**

Source: WOOD Research, Bloomberg

Komercijalna Banka: price target peer review table as of 8 September 2020

Bank	PT	Mkt Cap (PT)	P/E			P/BV			ROE			Div yield		
	lcl	USD m	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
Macedonia														
Komercijalna Banka ad Skopje	7,953.5	346	12.4	11.3	9.5	1.3	1.2	1.1	10.6%	11.0%	12.2%	6.9%	3.6%	4.0%
Czech Republic														
Komercni	746.0	6,296	17.4	16.5	13.1	1.2	1.3	1.3	7.4%	7.7%	9.7%	7.9%	8.1%	5.3%
Moneta	69.7	1,582	15.8	20.8	10.7	1.3	1.3	1.2	8.8%	6.4%	12.1%	5.0%	3.9%	7.5%
Georgia														
TBC Bank	1,710.0	4,923	7.5	6.5	n/a	1.3	1.1	n/a	18.3%	18.3%	n/a	3.1%	3.3%	n/a
Bank of Georgia	1,580.0	4,025	7.1	6.2	n/a	1.3	1.1	n/a	19.9%	19.9%	n/a	4.3%	4.9%	n/a
Hungary														
OTP	11,623.0	10,725	18.3	12.9	8.8	1.4	1.3	1.1	7.6%	10.1%	13.6%	2.5%	2.9%	3.5%
Lithuania														
Siauliu Bankas	0.6	403	13.2	9.8	7.7	1.0	0.9	0.9	8.0%	10.0%	11.8%	2.5%	3.6%	4.6%
Poland														
PKO BP	31.6	10,448	20.0	15.8	10.6	0.9	0.9	0.8	4.6%	5.6%	8.1%	2.4%	6.0%	9.0%
Santander Bank	221.1	5,970	23.1	19.9	10.9	0.9	0.8	0.8	3.8%	4.3%	7.5%	2.2%	5.0%	9.2%
Pekao	82.8	5,748	23.7	16.2	10.7	0.9	0.9	0.8	3.8%	5.4%	8.0%	2.1%	5.9%	8.9%
ING BSK	161.8	5,568	23.6	18.6	12.4	1.3	1.2	1.1	5.7%	6.8%	9.5%	0.6%	1.6%	2.4%
mBank	189.1	2,119	31.7	16.2	8.0	0.5	0.5	0.5	1.6%	3.0%	5.8%	0.0%	6.1%	12.4%
Handlowy	34.9	1,206	19.8	17.0	10.1	0.6	0.6	0.6	3.2%	3.7%	6.1%	5.1%	5.9%	9.9%
Millennium	3.4	1,078	27.0	24.9	7.4	0.4	0.4	0.4	1.7%	1.8%	5.8%	0.0%	4.2%	13.4%
Alior Bank	13.8	477	n/m	n/m	5.7	0.3	0.3	0.3	-4.4%	-0.7%	4.8%	0.0%	0.0%	0.0%
Romania														
Banca Transilvania	2.5	3,161	13.4	12.7	10.4	1.6	1.5	1.3	11.5%	12.1%	13.5%	4.9%	5.1%	6.2%
BRD-GSG	13.5	2,281	12.9	12.3	10.2	1.2	1.1	1.1	9.0%	9.3%	10.8%	5.4%	5.7%	6.8%
Patria Bank	0.1	64	n/m	n/m	16.1	n/m	n/m	0.9	-1.7%	2.6%	5.5%	0.0%	0.0%	0.0%
Slovenia														
NLB	58.0	1,366	22.3	10.8	10.8	0.7	0.7	0.7	3.1%	6.2%	6.1%	3.1%	6.5%	6.5%
Komercijalna Banka ad Skopje PT	**7,953.5**	**346**	**12.4**	**11.3**	**9.5**	**1.3**	**1.2**	**1.1**	**10.6%**	**11.0%**	**12.2%**	**6.9%**	**3.6%**	**4.0%**
Mean [region]			19.9	16.2	10.5	0.9	0.9	0.9	4.2%	5.9%	8.0%	2.4%	5.1%	6.7%
Mean [Frontier]			13.2	12.3	10.3	1.2	1.1	1.0	8.5%	9.6%	11.3%	3.7%	4.3%	5.4%
Current premium/(discount) to peers			**-6%**	**-9%**	**-8%**	**10%**	**7%**	**15%**	**2.1pts**	**1.4pts**	**0.9pts**	**3.2pts**	**-0.7pts**	**-1.4pts**

Source: WOOD Research, Bloomberg

Risks

- ✓ **Political risks.** The country changed its name to North Macedonia recently, to be able to join NATO and apply to join the European Union. While Mr. Zaev, who was the Prime Minister during the name change, is usually seen as a statesman abroad, his decision to change the country's name, due to a long-standing dispute with neighbouring Greece, angered some of his voters, which resulted in snap elections, which took place only recently. During his tenure, the quality of democracy improved somewhat, according to the ratings by Freedom House, but it still scores only 63/100 points and is considered to be a "Partly Free" country.
- ✓ **COVID-19.** North Macedonia has not been spared from the COVID-19 pandemic. The government introduced certain measures, and announced a state of emergency between 18 March and 22 June. The country is currently relaxing the containment measures progressively. In some localised clusters, however, it is still coping with an increasing number of daily confirmed cases. Should the government fail to contain the local outbreaks, which could, consequently, spread nationally, there are risks that reopening could slow down or even reverse. In such a case, the economy would be struck harder than expected initially, which could have a negative impact on our estimates.
- ✓ **High unemployment rate and other economic factors.** High unemployment remains a large problem in North Macedonia, especially amongst the younger generation, which faces an unemployment rate of c.34.9%, according to the State Statistical Office of North Macedonia. A large number of North Macedonians are thus moving abroad, seeking jobs, which has negative effects on the local economy. The overall unemployment rate declined to 17.3% in 2019 from 26.1% in 2015. If the outflux of the local population increases, the economic potential of the country will fall, which could affect our long-term estimates and assumptions negatively. With the crisis triggered by the COVID-19 pandemic, the odds of this may have increased slightly.
- ✓ **High rate of Euronisation of the local banking system and economy.** The local population is still demanding the Euro, and transacts with the currency quite frequently. FX loans, as well as FX deposits account, for more than 40% of their respective totals. Despite the evident downward trend, the demand for foreign loans from North Macedonia remains elevated. On the one hand, this is positive, as the local banking sector may easily offset the large amount of FX deposits it carries on the aggregate balance sheet, but it also creates an inherent risk, especially if the central bank decides to leave its fixed exchange rate policy, or if the factors influencing the exchange rate become too strong for the central bank to handle. While we do not see these risks as imminent, they are present and, should they increase, such levels of Euronisation may prove to be dangerous.
- ✓ **Valuation based on local GAAP; not IFRS.** Komercijalna Banka used to report under IFRS, but this changed in 201, when the bank reported its last financials under IFRS. Our estimates and valuation are thus based on the financials reported under local GAAP. While some items are reported similarly, under the local standards, there are some differences, such as the treatment of foreclosed assets, interest income on NPLs or credit losses. We explain the differences, especially the treatment of credit losses and impairments, later in this report. While we note that the local GAAP is based on IFRS, it does not cover all the details applicable under, e.g., IFRS 9. We emphasise here that the treatment of credit losses and impairments under the local GAAP increases the volatility of the underlying results.
- ✓ **Management is open to a strategic investor, which could result in a change of voting rights, strategy, etc.** Komercijalna Banka has openly stated it is open to an entry of a strategic investor. Currently, the largest owner is Adora ENGINEERING, which, together with other related parties, holds 12.86% of the bank's total capital. The rest is in free float. While we believe that a strategic investor could certainly have a positive and beneficial impact on the bank's development, especially if it is a larger international bank, with a clear and successful model, which could be replicated in North Macedonia, we also caution that the current *status quo* would be likely to be broken and the interests of the minorities might not necessarily be aligned with that of the incoming larger strategic shareholder. According to our understanding, there are no imminent offers or deals on the table currently.
- ✓ **Trading turnover (relatively) low.** In USD terms, Komercijalna Banka's 3M ADTV remains only c.USD 100,000. This increases the overall risk of the investment, should a higher stake be acquired. On the other hand, we note that the free float of the company's shares is quite large.

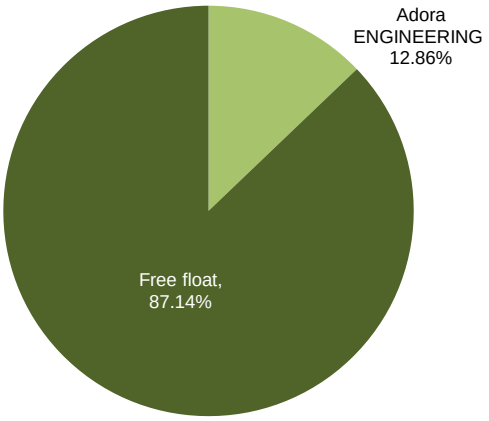
Komercijalna Banka ad Skopje

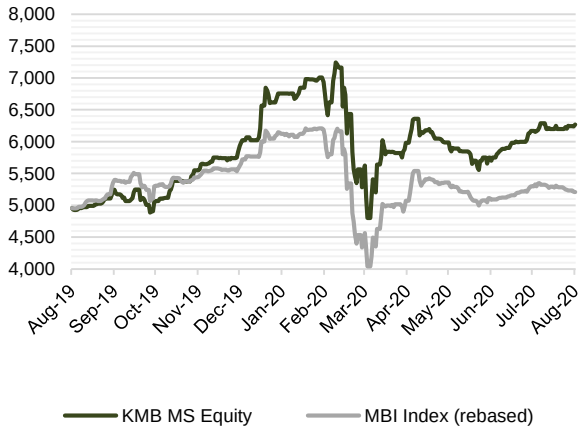
Overview of Komercijalna Banka and its history

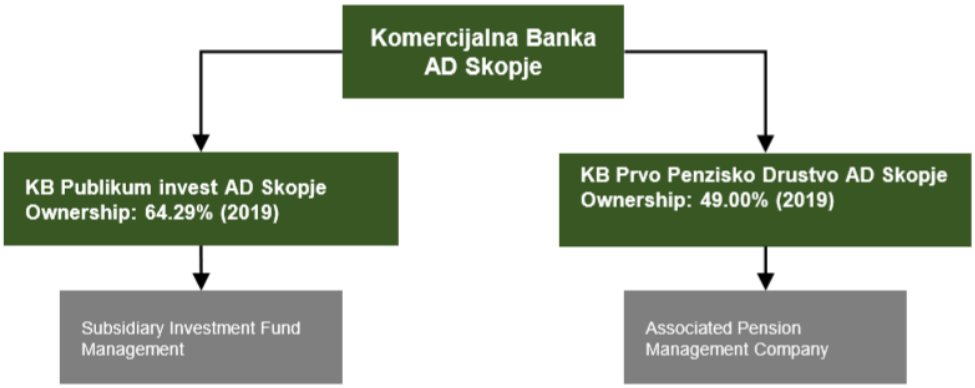
The bank was established in 1955, with its headquarters based in Skopje, North Macedonia. Beginning as a communal bank (Komunalna Banka), it specialised in mortgages and business loans, primarily in construction operations. Over the decades, the bank has gone through various transformations and now operates as a commercial bank. In 1971, the top-three local banks integrated under the name of Stopanska Banka. In 1990, the banks were transformed significantly into the first joint stock company in the country, under the name of Komercijalna Banka AD Skopje. In 2009, a new subsidiary, KB Publikum Invest AD Skopje, was established and Komercijalna holds a 64.29% stake in the company currently. Other shareholders include Ljubljana Publikum Holding LLC, Pom-INVEST DD Maribor and Forleks S.R.L.

Now, the company operates in many areas, including retail banking services, commercial banking, savings and deposits, and investments.

KMB MS: organisational chart, ownership structure and share price performance







Source: Wood Research, Bloomberg, Komercijalna Banka AD Skopje

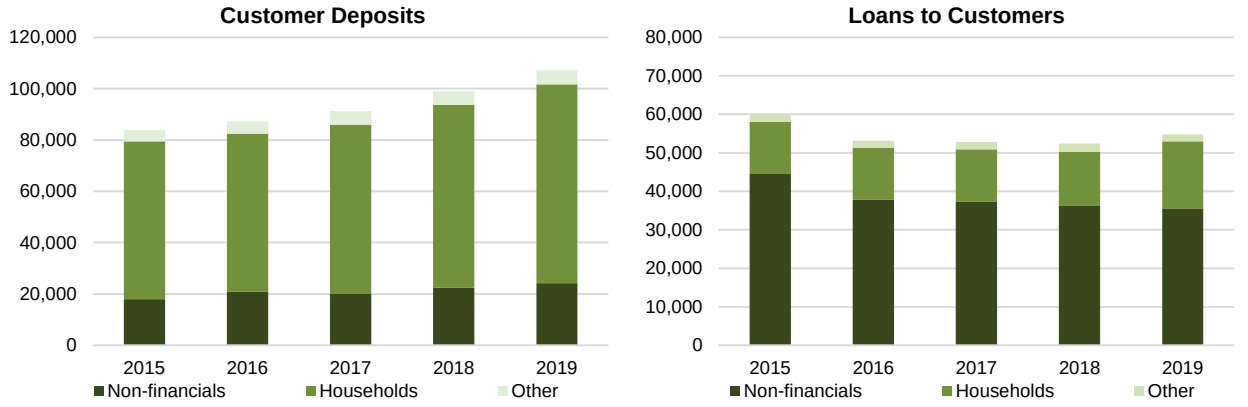
The majority of the bank's shares are free float. Adora ENGINEERING (12.86%) is the largest shareholder of Komercijalna Banka, which itself holds an ownership stake in two subsidiaries: i) KB Publikum Invest (a 64.29% stake); and ii) KB Prvo Penzisko Druzstvo (a 49.00% stake).

There is a clear positive trend in the bank's deposits growth. Over the past four years, total deposits have increased, lifted by deposits from non-financial corporates (+8.1% yoy) and households (+8.6% yoy) in 2019. Deposits from households account for 72% of the total, while non-financial corporates account for 23%. Other deposits include government institutions, non-profit organisations, as well as financial corporates other than banks. The total deposit book stood at MKD 107,112m as of 2019.

On the other hand, Komercijalna Banka's loan book structure is skewed towards corporate organisations, representing about 65% of the total loan book. The second-largest portion is allocated to households, c.32% of the total. The share of households in the overall loan portfolio has been increasing continuously, to the current levels, from c.19.4% in 2014. This is also a result of the decline in the absolute amount of

the bank's corporate loan book over the same period (a CAGR of c.-4.7%). Approximately 51% of the household loans is consumer credit and c.37% is housing loans. As of 2019, net loans reached MKD 50,791m, giving a net loans to deposits ratio of 47.42%.

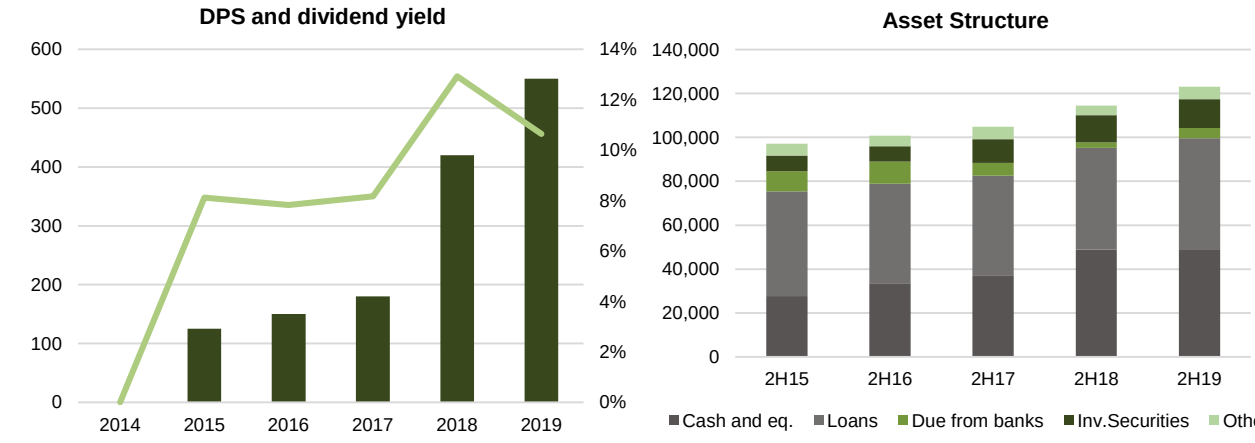
Komercijalna Banka: loan book structure (MKD m)



Source: Wood Research, Komercijalna Banka AD Skopje

Komercijalna has been a dividend paying story too. Over the past five years, it has paid out dividends consistently. The dividend per share has increased every year, resulting in a dividend yield of 9% in fiscal year 2019 (we have used the end of the year price for our calculations). The company has a very liquid balance sheet, with strong capital and a large position of cash and cash equivalents, allowing for such high dividend payments.

Komercijalna Banka: dividend history and asset composition



Source: Wood Research, Komercijalna Banka AD Skopje, Bloomberg

Board of Directors

- ✓ **Mr. Hari Kostov, CEO, President of the Board of Directors.** Mr. Kostov joined the bank in 1996 as the general manager. Following a few years in the government, he returned to the bank in 2004 as the first general manager. Since 2008, he has been the CEO and the President of the Board of Directors. Prior to Komercijalna Banka, Mr. Kostov served as a Vice-Minister of Finance, the Minister of the Interior, and the Prime Minister of North Macedonia. He also served as an Expert Associate in the Cabinet of the President of the Republic of Macedonia. He graduated from the Faculty of Economics at St. Cyril and Methodius University in Skopje. He has over 36 years of experience, 20 years of which spent at financial institutions.
- ✓ **Ms. Maja Stevkov Sterieva. Ph.D., CFO, Member of the Board of Directors.** Ms. Sterieva joined the company in 1993 as an officer of the International Divisions, and later became a Senior Coordinator of Business Policy. She was then promoted over the years to become the Head of Risk Management in 2002, and then CFO in 2008. She is also a Member of the Supervisory Board of KB Prvo Penzisko Drushstvo, a pension fund management firm, in which the bank holds 49% of the shareholder capital. In 2019, Ms. Sterieva was elected as the President of the Macedonian Banking Association. She graduated from the Faculty of Economics at St. Cyril and

Methodius University, and received her Ph.D. in Economics from the same university in 2012. She has more than 26 years of experience, all of which at the bank.

- ✓ **Mr. Ilija Iloski, COO, Member of the Board of Directors.** Mr. Iloski joined the bank in 2006 as a general manager and was promoted to COO in 2008. Prior to joining Komercijalna Banka, he worked at EMO Ohrid (1984), in numerous positions. He also worked at the Customs Administration of the Republic of Macedonia (1995), and in parliament as a member of the Finance and Budget Commission. In addition, Mr. Iloski became the general manager of the Macedonian Bank for Development Promotion (2003). He graduated from the Faculty of Economics at St. Cyril and Methodius University in Skopje and has 34 years of professional experience, 13 years of which spent at financial institutions.

Financial forecasts

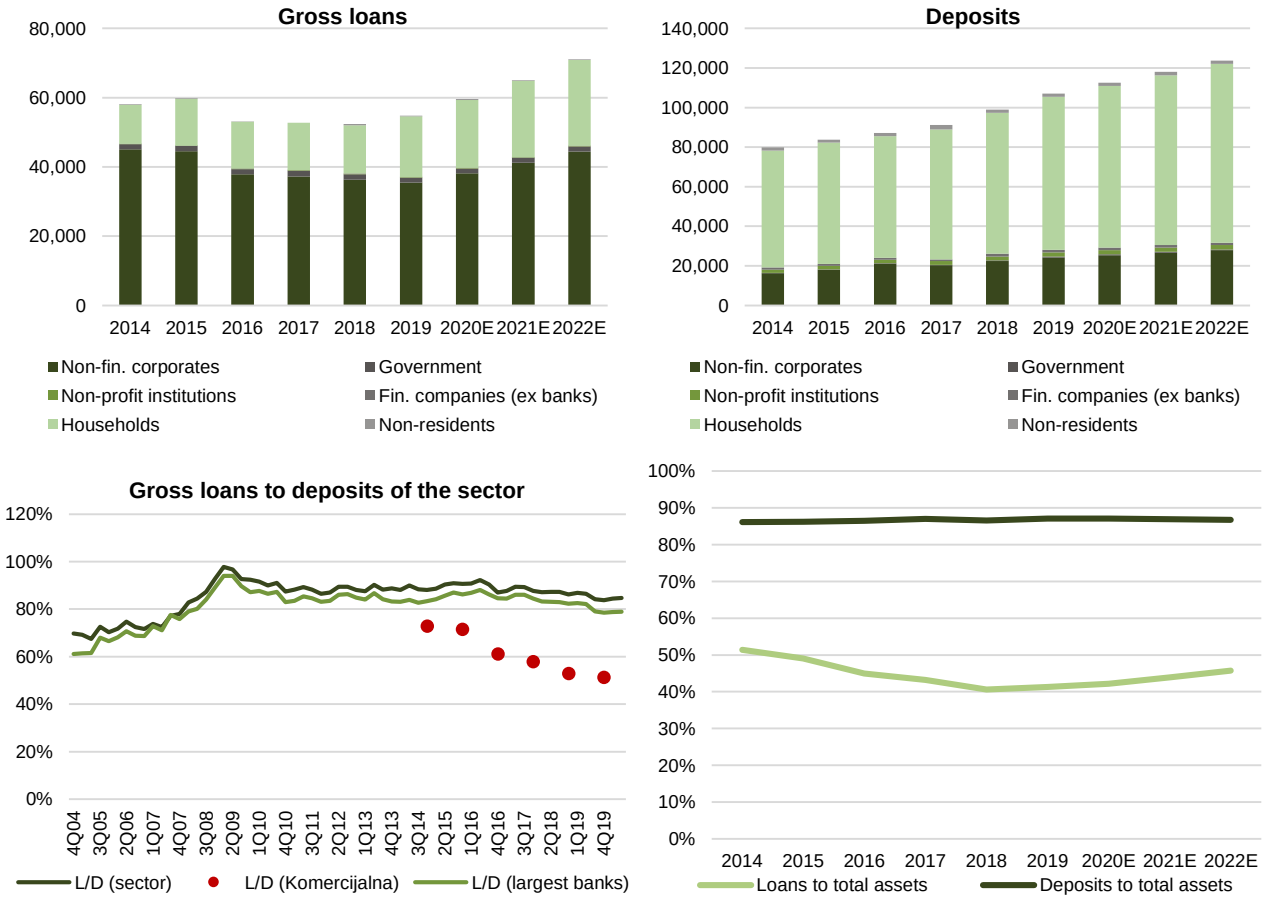
Loans and deposits

Despite the current circumstances in North Macedonia and globally, the country remains a growth story and our forecasts for Komercijalna Banka reflect that. In the first half of 2020, the bank reported strong growth of net loans (9.6% vs. end-2019 and c.17% yoy). While we expect these rates to subside going forward, they should remain in mid- to high-single digits. On the net level, we expect loan growth to be weaker in 2020E, as we expect higher loss-given default rates, as well as greater movement of non-performing loans off balance sheet. We assume gross loans grow by 8.7%, 9.2% and 9.3% annually in 2020E, 2021E and 2022E, respectively. At the same time, our expected growth rates for net loans are 7.3%, 9.3% and 9.6%, respectively.

While we do not expect the structure of the loan portfolio to alter materially, we expect the share of consumer loans to grow, at the expense of loans to non-financial corporates. Exposure to the local entrepreneurial segment should remain key, in our view, with its share of the total loan book not falling below 62% by 2022E.

Loans should show better growth dynamics than deposits, in our view, and we expect total deposits to grow by 5.1% annually in 2020E, 4.8% in 2021E and 4.9% in 2022E. As deposits are growing visibly from a higher base, the higher growth rates of loans should only have a minimal impact on the bank's liquidity. On our numbers, the gross loans to deposits ratio increases from 51.2% in 2019 to 57.5% by 2022E. On the other hand, we expect the net loans to deposits ratio to remain mostly flat, around the 49-53% level. This is well below the sector average, which, as we argue above, only reflects the bank's conservative positioning in the market, as well as the growth potential and ammunition to fight the low interest rate environment going forward.

Komercijalna Banka: loans and deposits forecasts and structure (MKD m)



Source: WOOD Research, Komercijalna Banka, National Bank of the Republic of North Macedonia

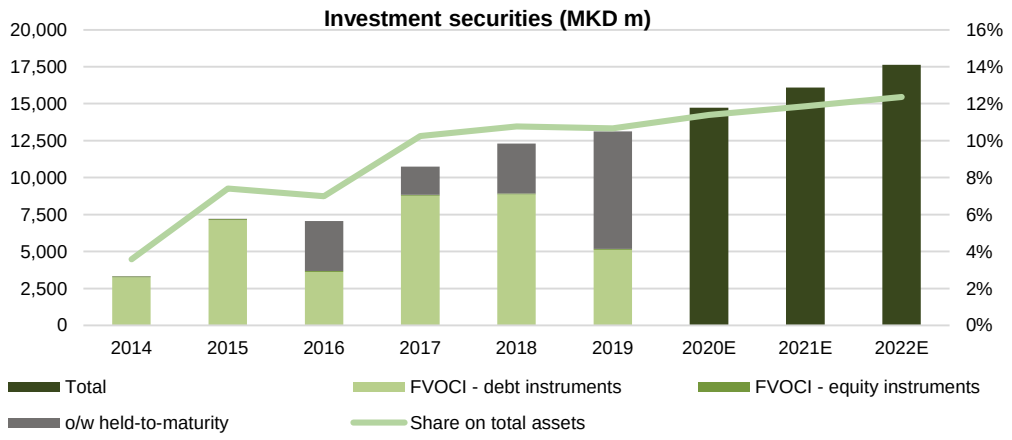
Investment securities

The bank's securities portfolio is not as large as could be expected, given its liquidity. Investment securities took up 10% of total assets as of the end of 2019. Less than 40% of these were debt securities carried at fair value through OCI and, according to our understanding, all these are North Macedonian

government bonds. Around 60% is paper held to maturity and the rest, a very small portion, is invested in equity instruments.

On our numbers, the level of investment of securities could increase gradually to as much as MKD 17.8bn, and their share of total assets is likely to increase slightly, to c.12%, reflecting the bank's risk-averse profile, with loans and cash taking up the majority of the total balance sheet. The structure of investment securities will not alter too much either, in our view.

Komercijalna Banka: investment securities portfolio



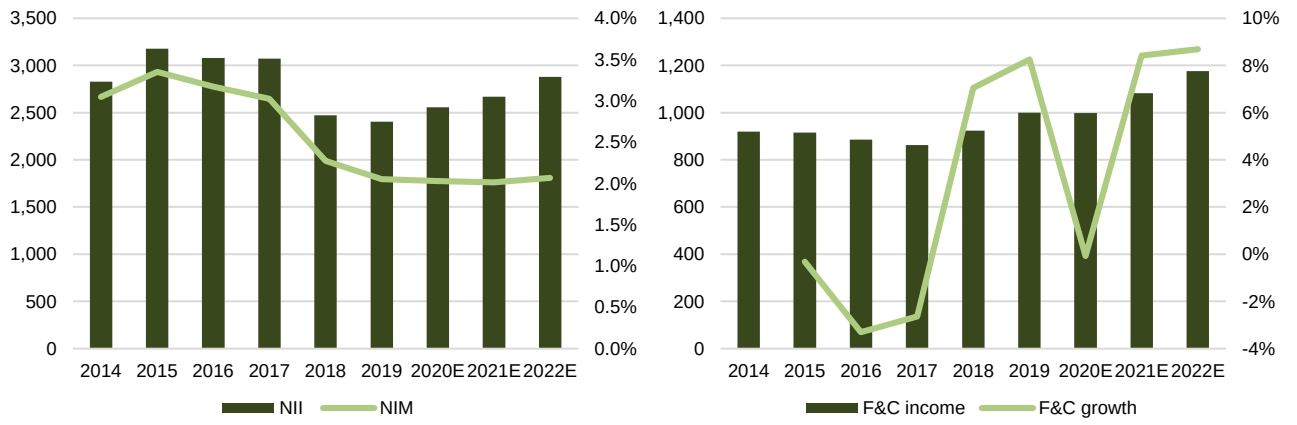
Source: WOOD Research, Komercijalna Banka

Net interest income and F&C

We adopt the view that the growth rates of the sector's aggregate net interest income will be weaker than that of gross loans. The central bank's decision to cut its key rate, the interest rate on central bank bills sold at auction, to 1.5% from 2% within two months, and the prevailing low interest rate environment kept by the ECB supports our view, and we believe that this environment is now likely to remain for longer than we imagined initially. We assume such a development for Komercijalna Banka as well. On our numbers, its net loans CAGR between 2019 and 2022E is c.8.7%, while its net interest income CAGR is approximately 6.2%. We expect NII of MKD 2,556m in 2020E. In the following years, we expect the bank to report MKD 2,667m and MKD 2,878m in NII for 2021E and 2022E, respectively.

In terms of NIMs, we believe the bank should be successful in stopping the downward trend, and we see a trend reversal in 2022E, mostly on the continued higher growth rates reported for net loans compared to deposits. NIMs will continue to feel the pressure of low yields on the newly-issued loans. We see this pressure subsiding slightly in 2022E, however, when we expect to see yields on new loans fall to a lesser extent than we have seen in the past, or expect for 2020E and 2021E.

Komercijalna Banka: net interest income and NIMs, and fees and commission income



Source: WOOD Research, Komercijalna Banka

For net fees and commissions, we expect the bank to report flat numbers in 2020E, mostly on the back of the regulatory measures introduced as economic support for the local population during the COVID-19 pandemic and the related economic crisis. Throughout the duration of the state of emergency, the banks could not charge fees for a number of services, for example.

For the rest of our forecast period, we anticipate the net F&C line to return to the growth rates we saw prior to the pandemic. The bank has the potential to not only charge higher fees for its services but, at the same time, to introduce new fees as well. We understand that Komercijalna Banka has not been charging fees for all the services that other banks on the market do. With the market being more or less used to being charged these fees, their introduction by Komercijalna should not be too demanding. We expect a 0% growth rate in 2020E, 8.4% in 2021E and 8.7% in 2022E, when it should reach MKD 1,176m.

Operating costs

We do not expect much pressure on the costs side of the business. With the quite high unemployment rate in the country currently, elevated salary inflation is not too large a risk presently and, in addition, the bank is getting more efficient in terms of its employee count – from 1,110 employees in 2014, the stand-alone entity managed to reduce the number of employees to 1,012 in 2019, a c.9% decline. This could offset any salary inflation in the coming periods as well. Personnel expenses could thus increase by a mere 1% annually from 2020E through to 2022E.

We expect some upward pressure, albeit small, on the other expenses lines. We believe that this will be mostly the result of modest general inflation, as well as increased expenses for marketing and similar costs. We have pencilled in an increase of 3.3% in 2020E, mostly as a result of the steps taken and measures implemented during the pandemic. These are, however, only one-off costs, and we do not expect them to recur in the following two years of our forecast period.

Our expected CAGR for total operating expenses between 2019 and 2022E, in our model, is 1.5%.

Komercijalna Banka: cost efficiency forecast and the FY19 cost structure

Source: WOOD Research, Komercijalna Banka

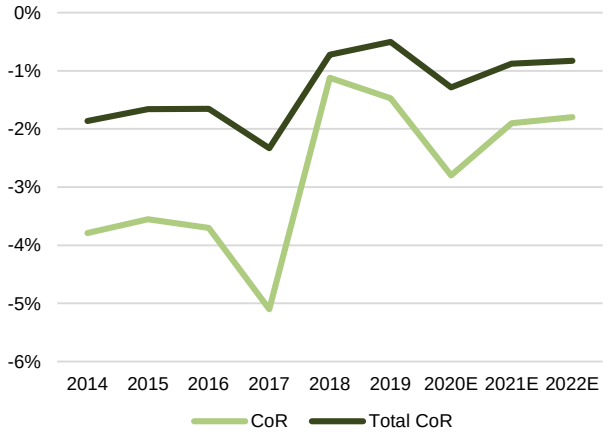
Asset quality and cost of risk

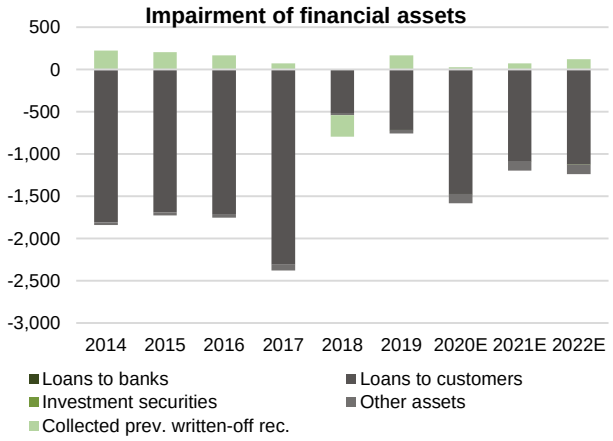
Komercijalna Banka's asset quality remains good, as the Group 1 loan ratio was 0.8% as of the end of 2019, the Group 2 loan ratio stood at 1.3%, and the ratio for Group 3 was at 5.3%. We explain the asset quality accounting under the local GAAP below. Group 3 loans can serve as a good proxy for the bank's NPL exposure. Unfortunately, NPLs are reported only on the aggregate, sector level in North Macedonia.

Lower cost of risk levels are unlikely to continue going forward, especially on the back of lower economic activity, increasing unemployment and other macroeconomic risks, which are elevated currently. We assume that the cost of risk (i.e., impairment charges over average total net loans) could increase to as much as 2.8% in 2020E, after the bank reported a COR of 1.5% in 2019 and, subsequently, to 1.9% in 2021E. In 2022E, we expect the COR to start falling again, down to 1.8%. Even though we believe the actual impact of the crisis could be felt in 2021E, rather than in 2020E, we expect the COR to decline in 2021E as it could be offset partially by recoveries of loans and receivables, which were already impaired in 2020E. We admit that the anticipated levels of cost of risk are rather elevated compared to the levels seen elsewhere in the region, even post 2021E. As these are accounted for under the local GAAP, under which the COR levels are usually higher and more volatile, we approach our modelling with a more conservative stance.

The total COR, i.e., the total impairment charge over the total financial asset exposure (including loans, securities, etc.), is likely to increase from 0.5% in 2019 to 1.3% in 2020E, and then to decline slightly, to 0.9%, in 2021E. From them on, the loan COR, which is the main driver of total provisioning activity, will decline and could be reported at around 0.8% in 2022E, on our numbers.

Komercijalna Banka: cost of risk





Source: WOOD Research, Komercijalna Banka

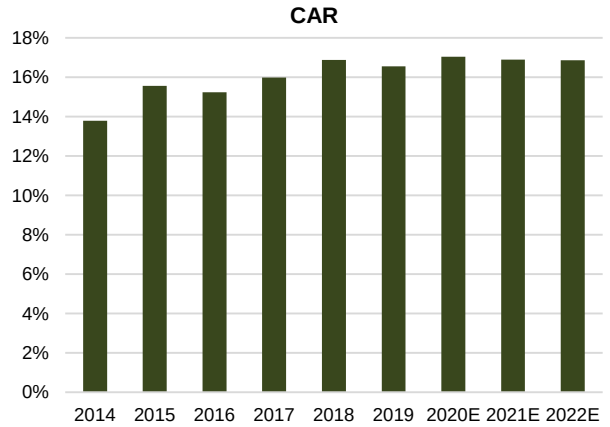
Capital and dividends

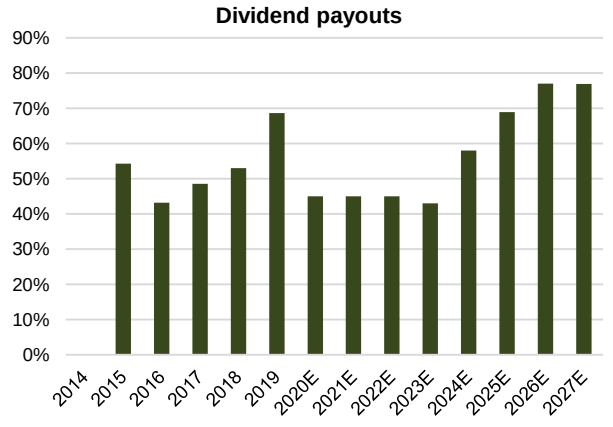
Currently, the capital adequacy requirement of the group stands at 16.5%. With a CAR of 16.59% on a stand-alone basis, and 16.56% at the consolidated level, as of the end of 2019, this may seem rather tight. We note, however, that this is the result of the most recent payout, which was around 69%. The bank's capital base has been growing continuously, something that continues to this day, and the CAR stood at c.17.62% on a stand-alone level as of 1H20. We note that the group is relatively small; thus, the difference between the stand-alone and consolidated capital levels is rather insignificant. This supports the bank's ability to reward its investors with rich payouts, while keeping its capital at safe levels.

Going forward, we assume that the payouts will decline; however, mostly on the back of the uncertainty caused by the macroeconomic circumstances. This should support the bank's capital adequacy ratios going forward, giving it a certain cushion against the current period. However, we calculate the sustainable long-term payout ratio in our forecast scenario at around 77%, to which the payouts start converging gradually in the second phase of our valuation. In addition, we note that we see our profit distribution assumptions as rather too conservative, and believe there may be upside to the dividend yields we anticipate currently.

For the time being, we assume a 45% payout ratio from the 2020E profit, and we leave this largely unchanged until the payout from the 2023E profit. On our numbers, the capital adequacy ratio for 2020E will land at c.17.04%. From then onwards, we see the figure declining slightly, to 16.89% in 2021E, and then remaining mostly flat, at 16.86%, in the following year. We assume the capital levels remain largely flat, mostly on the back of a growing loan book and the bank's commitment to paying dividends.

Komercijalna Banka: capital adequacy ratios and dividend payouts





Source: WOOD Research, Komercijalna Banka

Banking in North Macedonia

A brief introduction to the Macedonian macroeconomic backdrop…

Prior to the crisis caused by the COVID-19 pandemic, the country's economy showed mixed and volatile growth rates, with the GDP expanding by 0.2% in 2017, followed by somewhat better results of 5.4% and 3.7% growth in 2018 and 2019, respectively. The unemployment rate in the country remains very high, despite the recent decline from 26.1% in 2015 to 17.3% in 2019. We believe the COVID-19 pandemic could reverse the current trend, especially as the government put forward measures to contain the spread of the disease. This will be further reinforced as c.20% of the North Macedonian population lives and works abroad. The fears are that a notable portion of these people could return if/when they lose their employment in their current country of residence, meaning that the labour market conditions deteriorate further.

A state of emergency was called on 18 March 2020, initially for only 30 days, but this was later extended and was called off only on 22 June. The elections were postponed and the government, following the global trend, shut down the economy. As of 8 May, some shops were allowed to open for business, under strict conditions; and, on 13 May, the government authorised the opening of local shopping malls. A gradual reopening followed.

Fiscal responses to the crisis include state support for salaries and firm liquidity, credit support in the form of the modification of the National Bank's methodology for credit risk management, promoting more favourable credit standards for companies affected by the outbreak, as well as the issuance of interest-free loans to local SMEs, state guarantees for commercial loans, support for the tourism sector and many others, e.g., an unemployment insurance system for employees who lose their jobs due to the pandemic.

The local economy is profoundly dependent on trade with EU member states and investments from them. According to an OECD report, as much as 50% of exports are intended for Germany.

North Macedonia: key macroeconomic indicators

	2015	2016	2017	2018	2019
Real GDP growth (%)	3.9	2.8	1.1	2.7	3.6
Inflation (CPI, %)	-0.3	-0.2	1.4	1.5	0.8
Unemployment Rate (%)	26.1	23.7	22.4	20.7	17.3
Industrial production volume index	104.9	103.4	100.2	105.4	103.7
Foreign direct investment (EUR m)	202.8	316.9	180.0	603.7	290.6
External Trade of North Macedonia (%)	-10.7	6.7	14.8	19.1	4.2
Current Account Balance (% of GDP)	-1.9	-2.9	-0.9	-0.2	-2.8
Central Government Budget surplus/deficit (% of GDP)	-3.5	-2.6	-2.7	-1.8	-2.1
Central Government Debt (% of GDP)	38.0	39.9	39.5	40.6	40.2
Gross External Debt (EUR m)	6,290	7,217	7,373	7,844	8,191
FX Reserves (EUR m)	2,262	2,613	2,336	2,867	3,263
MKD/EUR year end	61.61	61.6	61.57	61.51	61.51

Source: WOOD Research, Komercijalna Banka ad Skopje, Ministry of Finance, State Statistical Office of North Macedonia, National Bank of North Macedonia, World Bank, CEIC

With regards to the financial market, the country's benchmark index (MBI10), lost 9% in the period between 10 January and 14 April. Government bond spreads increased by c.6% between 1 January and 31 March.

… and a quick overview of the central bank's macroeconomic forecasts

The Central Bank of North Macedonia expects the GDP to contract -3.5% in 2020E, followed by a recovery of 4.7% in 2021E and 4% in 2022E. These estimates were published in May 2020. Despite the quite high expected recovery, it is likely to take more time than the central bank's current forecast horizon for the country's GDP to return the previous growth trajectory.

North Macedonia: central bank's macroeconomic forecasts

(yoy %)	Real GDP	Private consumption	Gross general formation	Exports	Imports	Public consumption	Domestic demand
2019	3.6	3.6	6.5	8.6	9.2	4.4	5.2
2020E	-3.5	-4.3	-10.4	-17.1	-15.4	6.6	-5.5
2021E	4.7	6.1	9.8	25.0	21.6	-1.5	6.9

Source: WOOD Research, National Bank of the Republic of North Macedonia

These GDP forecasts are based on expectations for all the GDP components to decline in 2020E, with the exception of public consumption. The central bank expects private consumption to decline by

approximately 4.3%, due mostly to declining disposable income, while gross investment is expected to decline as much as 10% on the back of both domestic and foreign investment, reflecting higher risk aversion and weaker than previously expected credit growth. Exports are also expected to decline amid the drop of international supply chains. Imports are also expected to deteriorate.

The central bank also revised down its inflation forecasts recently. Now, it expects an inflation rate of 0% in 2020E, vs. the 1.5% expected in October last year. For 2021E, the bank's forecast is now lower than the October 2019 estimate as well, as it expects inflation of 1.5% vs. 2% previously. The forecasts have been revised due to the lower-than-expected inflation during the first quarter of 2020, as well as a downward revision of demand for export and import prices. The current account deficit could increase to 3.2% in 2020E vs. 2.8% in 2019, and then narrow gradually to 1.5% by 2022E, according to the bank.

Credit and deposit growth

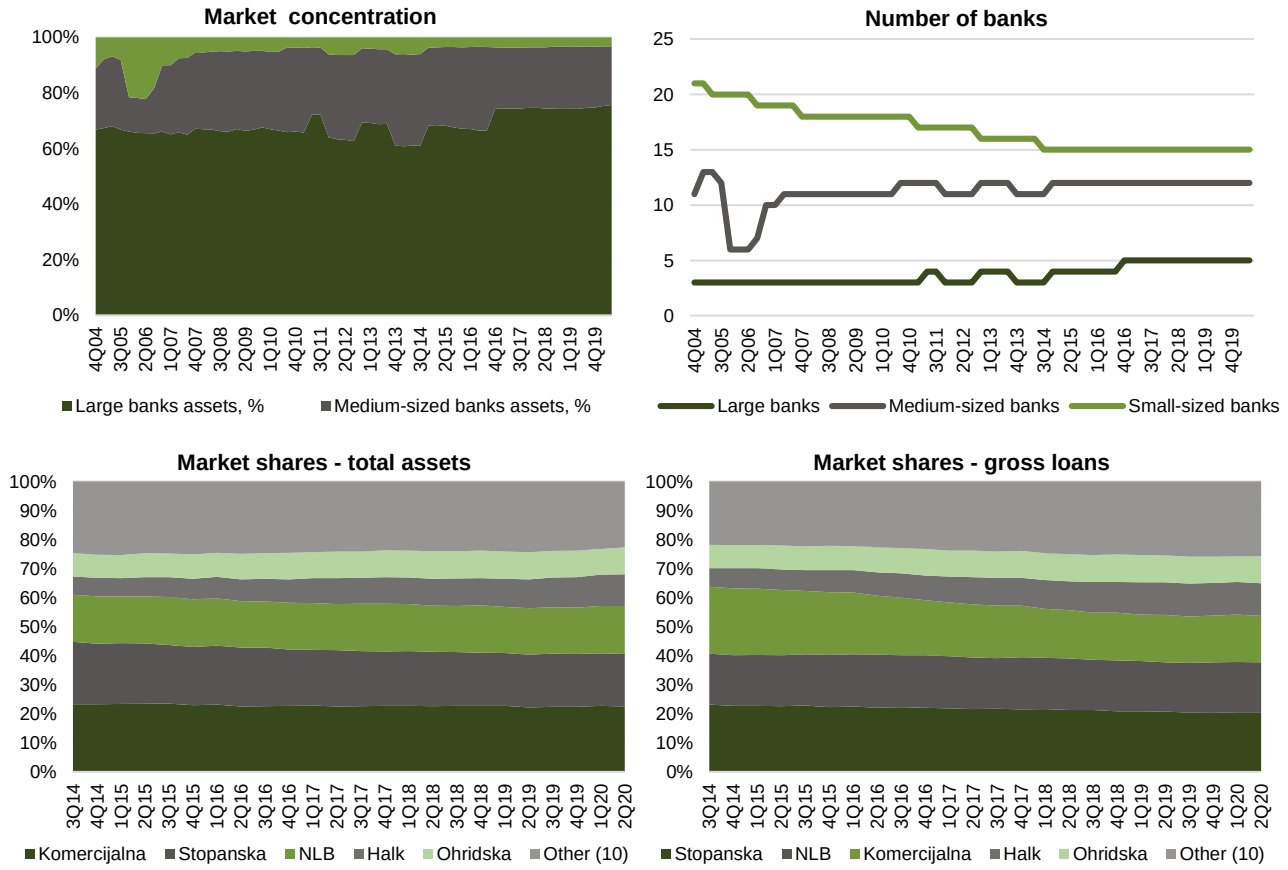
The local central bank expects credit and deposits growth rates to slow down to 3% and 2.3%, respectively, in 2020E. In 2021E, credit is likely to grow 6% while deposits are expected to grow 6.5%. A year later, the growth of credit increases further to 7% and deposits are expected to grow faster too, namely 7.7%.

We note that Komercijalna Banka's net loans book grew 17% yoy in the first half 2020 and by 9.6% vs. the end of 2019. As the aggregate numbers in the sector showed solid growth in the first quarter, we expect the slowdown, predicted by the central bank, to happen in the second half of the year. We reflect this in our model and expect Komercijalna's net loan book to remain largely flat as at end-2020E vs. 1H20.

An overview of the banking sector

The banking sector in Macedonia is a highly concentrated one. Most of the banking business in the country is done via the largest players operating in the market. Currently, there are five large banks, with assets of over MKD 37.95bn each, seven medium-sized banks, with assets between MKD 9.45bn and MKD 37.95bn, and three small-sized banks, whose assets are below MKD 9.45bn each.

Market concentration of the banking sector in North Macedonia



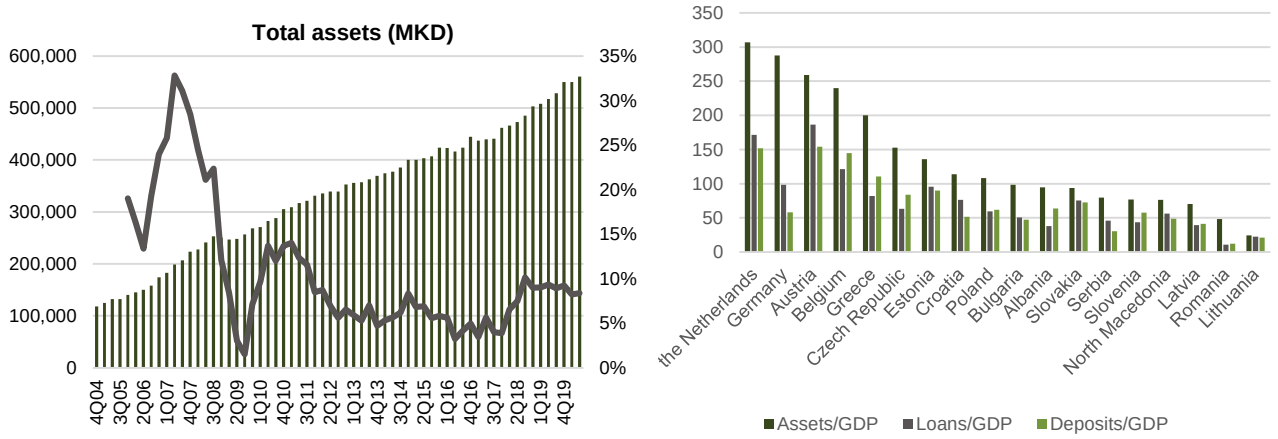
Source: WOOD Research, National Bank of the Republic of North Macedonia

The three largest banks, in terms of assets, hold a market share of c.57%. The top-five banks hold a market share of 75%. The number of banks and the structure of the market has barely changed for the past three years, or so. While there is continuous growth of participation of foreign capital in the local banking sector, we do not expect any large changes in its structure in the foreseeable future.

While the structure of the playing field in North Macedonia has remained mostly the same, concentrated substantially towards the larger banks in the country, the asset base has shown a good growth path historically. Total assets, as measured by the local central bank, have grown from just below MKD 400bn to as much as MKD 648bn by the end of 1Q20. Furthermore, the asset growth seems to have been robust enough prior to the COVID-19 crisis, and the economic headwinds related to it, that the asset growth of the sector could continue going forward, albeit to a lesser degree than in the past.

Despite such a strong growth rate, the level of financial intermediation remains quite low. While it is close to the levels of North Macedonia's peer countries, the increase of financial intermediation should go hand-in-hand with the economic development of the country, supporting the further growth of the sector's asset base.

Growth of the banking sector in North Macedonia and the level of financial intermediation

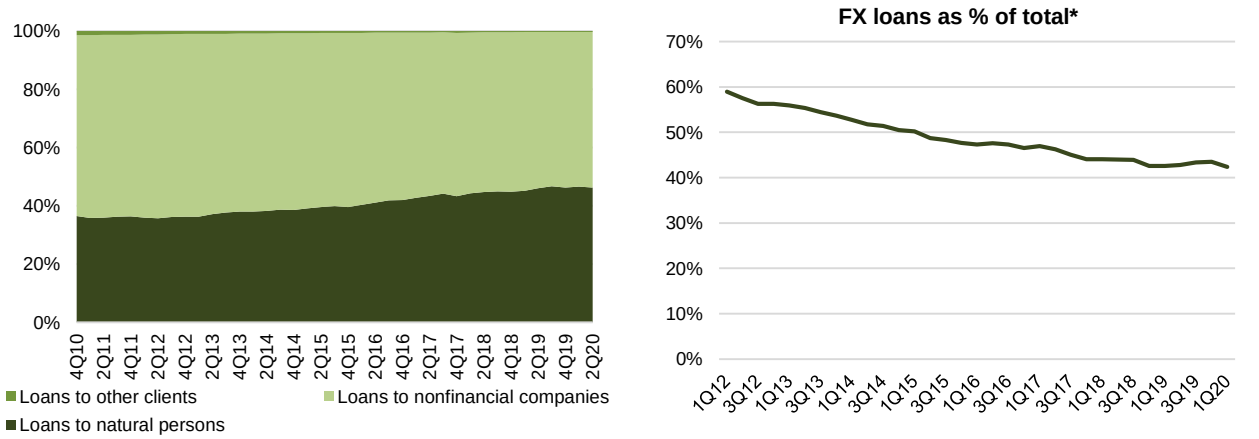


Source: WOOD Research, National Bank of the Republic of North Macedonia, central banks of all the respective countries, statistical offices of the respective countries, CEIC

In the past, the Macedonian banks financed the corporate sector predominantly, with loans to non-financial corporations taking up approximately 62% of the total and 37% allocated to consumers. The structure of the sector's loan book has changed over the years, however; and, by the end of 2Q20, the share of loans to consumers has increased to as much as 46.3%, while the share of corporate has declined to 53.4%.

There is an increased risk in the form of quite a high share of loans denominated in foreign currency. Despite the decline from c.60% at the beginning of 2012 to the current 42.4%, its share remains quite high. Most of the FX loans are denominated in EUR. Deposits include a large share of foreign currency as well, standing at 40.8% currently. Their share on the total has declined continually, to the current levels, from the c.49% reported at the beginning of 2012.

Structure of the sector's loan book

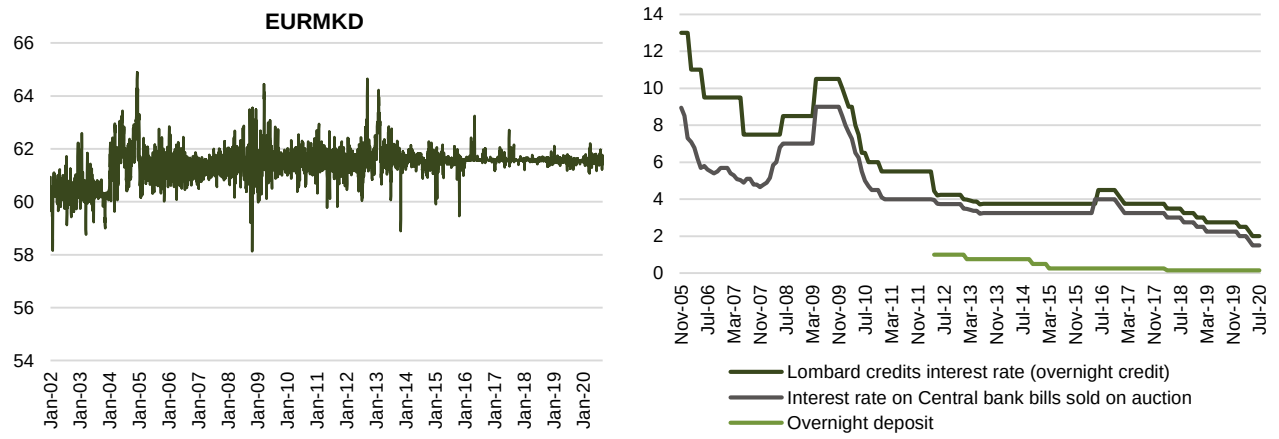


*Source: WOOD Research, National Bank of the Republic of North Macedonia; *this calculation includes savings banks in North Macedonia (there are currently two savings houses in the country)*

Historically, this has not been a major problem, as the exchange rate has remained quite stable, remaining between the EUR/MKD 58-63.5 bound. In October 1995, the country's central bank started implementing a monetary policy of targeting the exchange rate of the MKD to the Deutsche Mark, which changed to EUR in January 2002. The high level of Euronisation is one reason for such a monetary policy. Other reasons include the openness of such a small economy and the maintenance of credibility.

Interest rates have been falling all across the world, and North Macedonia is no exception. The banks in the country have had to muddle through such an environment since the beginning of the Great Recession of 2008/09, and the current macroeconomic backdrop is likely to only intensify this. Currently, the interest rate achieved at the central bank's bills auctions is considered to be the key interest rate of the National Bank. The key rate has remained quite stable, at 2%, declining from the high of 9% in 2009. As a result of the COVID-19 pandemic, and the declining interest rates across Europe and rest of the world, the central bank pushed the key rates down further recently, to the current levels of 1.5%.

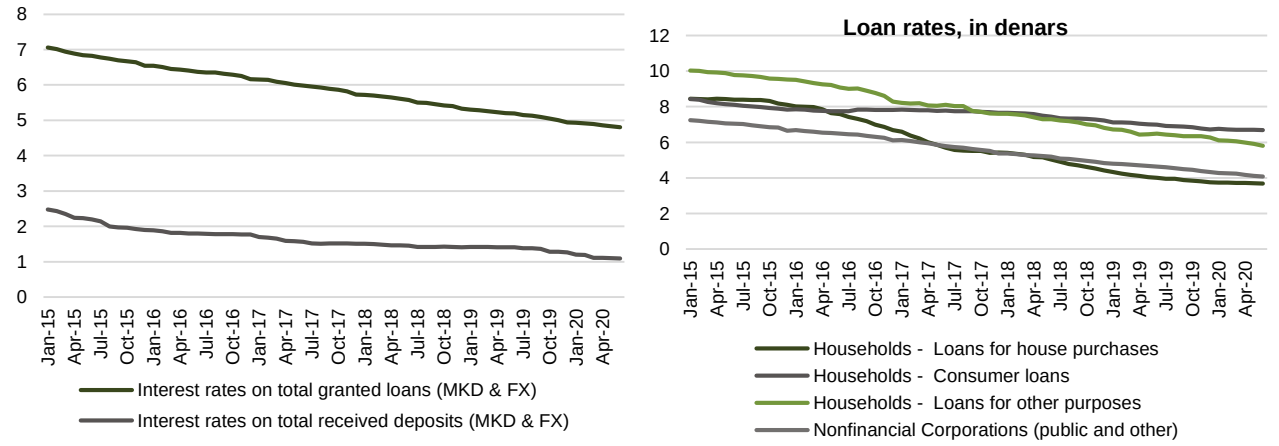
Central Bank's policy exchange rate of EUR/MKD & policy rates



Source: WOOD Research, Bloomberg, National Bank of the Republic of North Macedonia

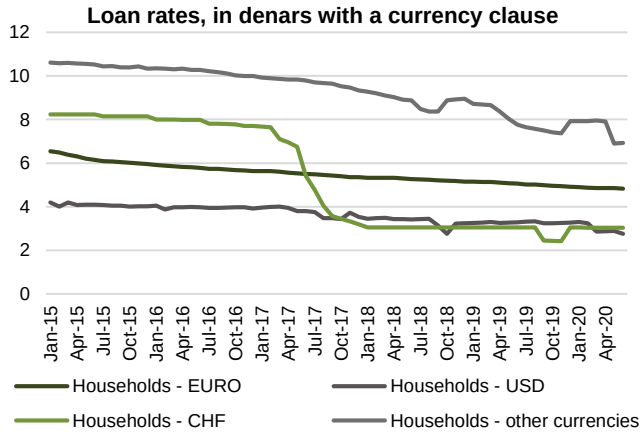
Such a policy has, clearly, created an environment in which the local banks, despite the high market concentration, have been forced to reduce their rates as well. The loan rates that the sector offers to the local market have been declining continuously, both the loans denominated in local currency and those denominated in EUR and other foreign currencies.

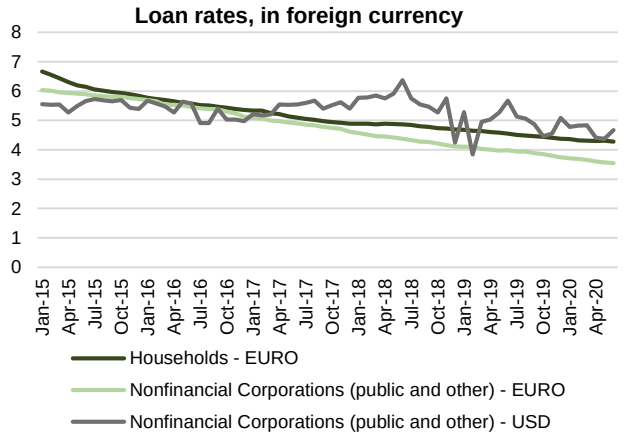
Loan rates in the country keep falling



Source: WOOD Research, Bloomberg, National Bank of the Republic of North Macedonia

Loan rates in the country keep falling *(continued)*



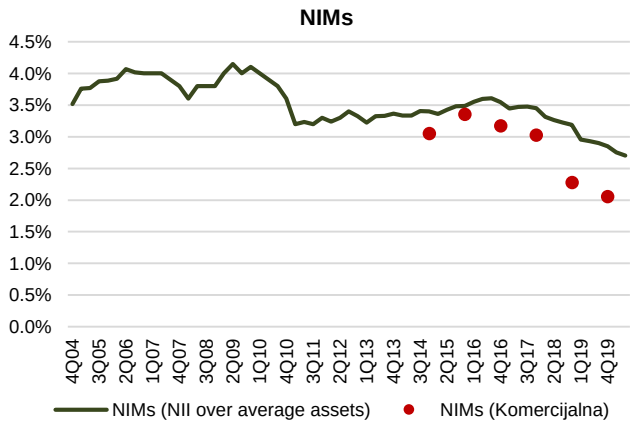


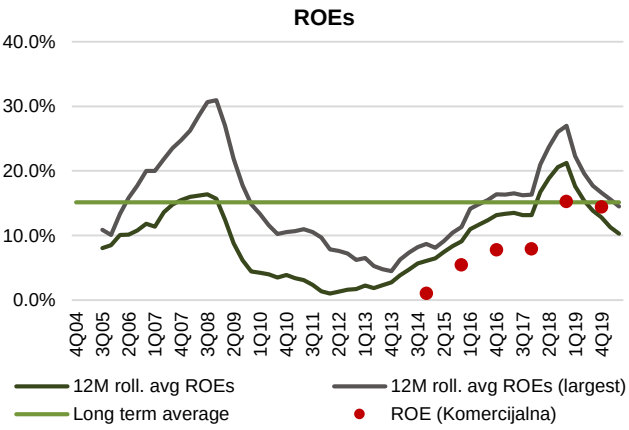
Source: WOOD Research, Bloomberg, National Bank of the Republic of North Macedonia

The profitability of the North Macedonian banks, in terms of NIMs, calculated as NII over average assets, follows the same trend as that of the central bank's key rates, albeit at a slower pace. The NIMs expanded prior to 2017, when the tides turned once again and the declines that followed have been further intensified by the recent cuts.

In terms of ROEs, the profitability of the local banks has fallen recently, but this is not only a factor of the recent macroeconomic developments. The 12-month rolling average ROEs saw their recent highs of more than 28% in the first quarter of 2018 and have been declining since, to more normalised levels of around 15-16%, levels that we calculate as the long-term average, in the first quarter of 2020. The largest banks', of which Komercijalna Bank is a member, ROEs are bigger than the rest of the market. We attribute this mostly to their larger scale of operations, as the NIMs are higher at the smaller players, focused usually on a rather specialised type of client or a niche segment of the market.

North Macedonian banks' profitability over time

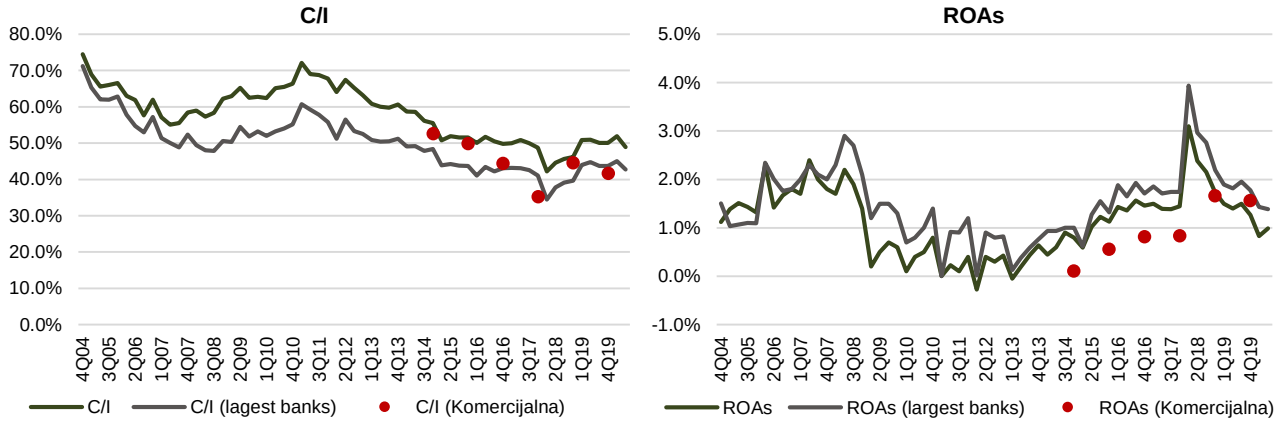




Source: WOOD Research, National Bank of the Republic of North Macedonia

The recently declining ROEs and ROAs are not the result only of the declining NIMs, but also the increasing cost-to-income ratios, which began their upward trend in late-2017, almost at the same time as the NIMs started to decline. The negative impact on the ROEs of the local banks has thus been even more pronounced.

Cost-to-income ratios and ROAs of the North Macedonian banks



Source: WOOD Research, National Bank of the Republic of North Macedonia

Asset quality under local GAAP and capital

As we are working with local reporting standards, loan quality does not follow the contemporary custom of splitting loans into three stages, but into risk categories ranging from A to E, which are then combined into three different groups.

Risk categories under the NBRNM reporting standards

Risk category	Percentage
A	0.01% - 5.00%
B	5.01% - 20.00%
C	20.01% - 45.00%
D	45.01% - 70.00%
E	70.01% - 100.00%

Source: WOOD Research, Komercijalna Banka ad Skopje

The methodology the local banks use is based on IFRS, but does not cover all the provisions and details applicable for IFRS 9. The main difference versus IFRS 9 stems from the NBRNM-defined classification of credit risk exposure into the five categories mentioned above, with pre-defined levels of impairment, e.g., in the Risk Category A, percentages (potential losses) are limited from 0.01% to 5.00%. The three different groups then work similarly to Stages 1-3 under IFRS:

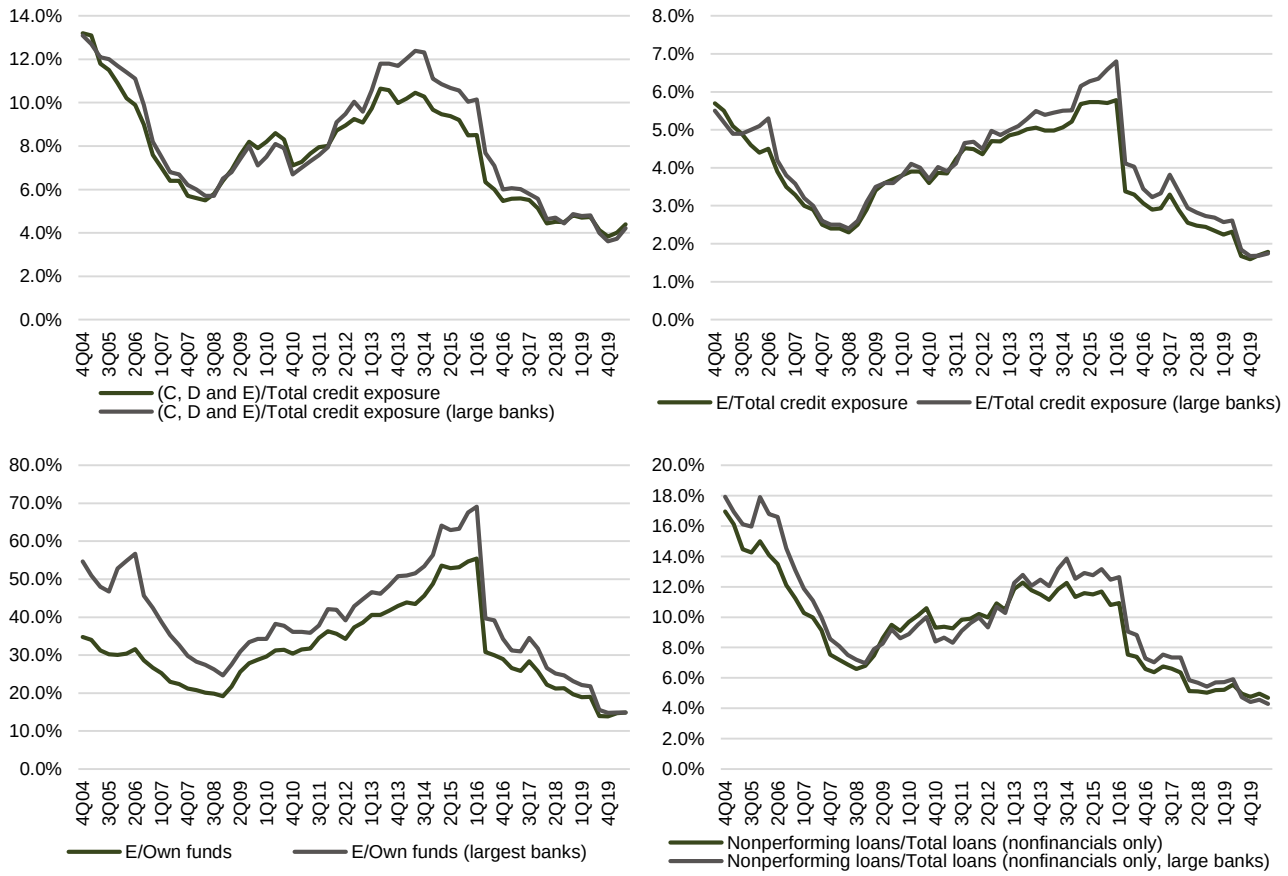
- ✓ Group 1 includes credit risk exposure classified as risk category “A”.
- ✓ Group 2 includes all the credit risk exposure classified as risk categories “B” and “C”, and still bears the performing credit exposure status.
- ✓ Group 3 includes credit risk exposures with non-performing status, exposures classified under the risk category “D” and “E”, as well as a part of risk category “C”, with non performing status.

As per IFRS 9, the expected losses percentage is calculated using a model. As the local regulations define the aforementioned limits for each risk category from A through E, the input parameters for the calculation of impairment are set differently under the local GAAP. The resulting value thus gives, most of the time, a higher value and percentage for impairment.

In terms of asset quality, the trends in the country have been improving continuously, at least from late-2015, when risk category E loans saw quite sharp a drop. This is mostly the result of a change in regulations (see below). The effects of the crisis resulting from the COVID-19 pandemic have not been felt yet, even though a small increase in the C, D and E loans can be seen on the charts below.

Unfortunately, North Macedonian banks are not required to report the size of their NPL book. NPLs are reported only by the local central bank at the sector level.

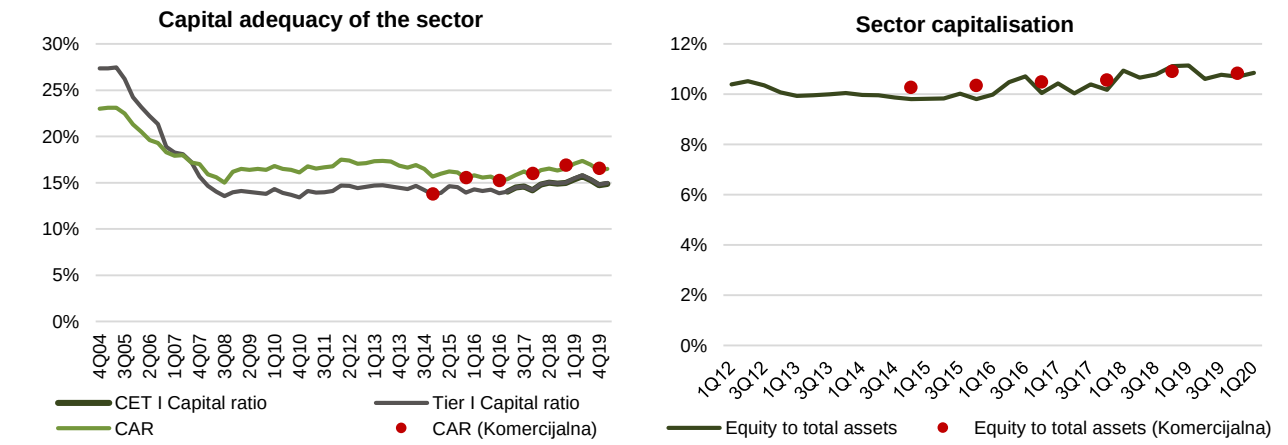
Asset quality in North Macedonia



Source: WOOD Research, National Bank of the Republic of North Macedonia

The sector is well-capitalised, in our view, with equity to assets at 10.8% by the end of 1Q20 and the capital adequacy ratio at 16.5%. The Tier I ratio landed at 15.0% at the end of the quarter. Thus, in our view, the local banks, at least at the sector level, were quite well-capitalised at the beginning of the economic crisis, caused by coronavirus.

North Macedonian banking sector capitalisation



*Source: WOOD Research, National Bank of the Republic of North Macedonia; *these data include the two savings houses operating in the country*

In our view, the highly liquid system, with quite a safe level of capitalisation, should be able to absorb the negative effects of the COVID-19 crisis. This is coupled with the low levels of Risk Category E loans in the system currently, which gave the banks a good starting point before the crisis.

ROEs and COR under local GAAP

The decline in E-categorised loans in 2016 compared to previous years is the result of a change in the local regulation. According to our understanding, the banks need to move exposures that are non-performing for more than two years off balance sheet. When these off-balance sheet non-performing

exposures are at least partly recovered, the bank in question reports an income, which increases the ROEs consequently. The increase in ROEs in 2018 and 2019 is the result of exactly this, at least partially.

On the other hand, when the provisioning cycle turns and more exposures are moved off the balance sheet and less is recovered, the bottom line declines. This all results in volatile sector ROEs, as illustrated in the charts above, and the reason for the banks' results being chiefly dependent on the provisioning cycle.

Financials

Income statement

(MKD m)	2017	2018	2019	2020E	2021E	2022E
Interest income	3,562	2,993	2,916	3,093	3,224	3,460
Interest expense	-492	-522	-512	-537	-557	-582
Net interest income	**3,070**	**2,472**	**2,405**	**2,556**	**2,667**	**2,878**
Fee and commission income	1,163	1,282	1,439	1,459	1,557	1,665
Fee and commission expense	-301	-359	-440	-461	-475	-489
Net fee and commission income	**862**	**923**	**999**	**998**	**1,082**	**1,176**
FX gains net	119	140	118	118	118	118
Net trading income	23	6	15	13	15	16
Net income from other financial assets at FV through P&L	0	7	7	7	7	7
Other income	1,072	1,418	803	1,296	825	855
Net operating income	**5,147**	**4,965**	**4,347**	**4,990**	**4,714**	**5,051**
Personnel expenses	-872	-987	-989	-998	-1,007	-1,017
Depreciation and amortisations expense	-179	-167	-164	-162	-159	-156
Other operating expenses	-759	-1,060	-656	-723	-705	-717
Total operating expenses	**-1,810**	**-2,213**	**-1,809**	**-1,883**	**-1,871**	**-1,890**
Profit before provisions and impairments of fin assets	**3,337**	**2,752**	**2,539**	**3,107**	**2,843**	**3,161**
Net impairment losses on financial assets	-2,452	-794	-589	-1,556	-1,127	-1,117
Results after provisions	**885**	**1,958**	**1,950**	**1,551**	**1,716**	**2,044**
Share of profit of associates accounted for using the equity method	55	64	61	61	61	61
Result before tax	**940**	**2,022**	**2,011**	**1,611**	**1,777**	**2,105**
(Expenses)/income with current profit tax	-95	-216	-184	-155	-172	-204
Net result for the period	**845**	**1,806**	**1,827**	**1,456**	**1,606**	**1,900**
Net result attributable to shareholders	**836**	**1,795**	**1,814**	**1,444**	**1,593**	**1,888**
Minorities	9	11	13	13	13	13

Source: WOOD Research, Komercijalna Banka

Balance sheet

(MKD m)	2017	2018	2019	2020E	2021E	2022E
Cash and cash equivalents	37,209	48,796	48,733	53,201	52,963	52,376
Financial assets held for trading	482	40	215	231	253	277
Financial assets available for sale	0	332	339	339	339	339
Investment securities	10,738	12,310	13,127	14,720	16,088	17,630
Due from banks	5,834	2,516	4,693	2,726	2,979	3,265
Loans and advances to customers	**45,366**	**46,407**	**50,791**	**54,518**	**59,584**	**65,295**
Investments in associates	235	274	290	251	274	301
Property and equipment	2,866	2,808	2,756	2,540	2,490	2,440
Intangible assets	40	39	56	56	56	56
Other assets	2,098	872	2,030	691	691	691
Total assets	**104,869**	**114,394**	**123,032**	**129,274**	**135,716**	**142,670**
Due to Banks	449	351	449	472	495	519
Due to Other Customers	**91,229**	**99,037**	**107,112**	**112,552**	**117,994**	**123,717**
Borrowings	1,238	929	837	563	590	619
Other liabilities	881	1,604	1,311	1,611	1,611	1,611
Total liabilities	**93,797**	**101,920**	**109,709**	**115,197**	**120,689**	**126,465**
Share capital	2,279	2,279	2,279	2,279	2,279	2,279
Retained earnings (Accumulated deficit)	845	1,820	2,177	2,380	3,330	4,508
Other equity	7,928	8,346	8,834	9,385	9,385	9,385
Non-controlling interest	21	29	33	33	33	33
Total shareholders' equity	**11,073**	**12,474**	**13,323**	**14,077**	**15,027**	**16,205**
Total liabilities and shareholders' equity	**104,870**	**114,394**	**123,032**	**129,274**	**135,716**	**142,670**

Source: WOOD Research, Komercijalna Banka

DuPont analysis

(%)	2017	2018	2019	2020E	2021E	2022E
Net interest income	**3.0%**	**2.3%**	**2.0%**	**2.0%**	**2.0%**	**2.1%**
Net fee and commission income	**0.8%**	**0.8%**	**0.8%**	**0.8%**	**0.8%**	**0.8%**
Other operating income	1.2%	1.4%	0.8%	1.1%	0.7%	0.7%
Net operating income	**5.0%**	**4.5%**	**3.7%**	**4.0%**	**3.6%**	**3.6%**
Personnel expenses	-0.8%	-0.9%	-0.8%	-0.8%	-0.8%	-0.7%
Depreciation and amortisations expense	-0.2%	-0.2%	-0.1%	-0.1%	-0.1%	-0.1%
Other operating and administrative expenses	-0.7%	-1.0%	-0.6%	-0.6%	-0.5%	-0.5%
Total operating expenses	**-1.8%**	**-2.0%**	**-1.5%**	**-1.5%**	**-1.4%**	**-1.4%**
Profit before provisions and impairments	**3.2%**	**2.5%**	**2.1%**	**2.5%**	**2.1%**	**2.3%**
Impairment of financial assets	-2.4%	-0.7%	-0.5%	-1.2%	-0.9%	-0.8%
Results after provisions	**0.9%**	**1.8%**	**1.6%**	**1.2%**	**1.3%**	**1.5%**
Share of profit of associates accounted for using the equity method	0.1%	0.1%	0.1%	0.0%	0.0%	0.0%
Results before tax	**0.9%**	**1.8%**	**1.7%**	**1.3%**	**1.3%**	**1.5%**
(Expenses)/income with current profit tax	-0.1%	-0.2%	-0.2%	-0.1%	-0.1%	-0.1%
Net result for the period	**0.8%**	**1.6%**	**1.5%**	**1.2%**	**1.2%**	**1.4%**
Net result attributable to shareholders	**0.8%**	**1.6%**	**1.5%**	**1.1%**	**1.2%**	**1.4%**

Source: WOOD Research, Komercijalna Banka

KPIs & multiples

Growth rates (%)	2017	2018	2019	2020E	2021E	2022E
Loans and advances to customers	0.2%	2.3%	9.4%	7.3%	9.3%	9.6%
Deposits	4.7%	8.6%	8.2%	5.1%	4.8%	4.9%
Equity	4.8%	12.7%	6.8%	5.7%	6.8%	7.8%
Assets	4.1%	9.1%	7.6%	5.1%	5.0%	5.1%
Net income	6.8%	113.7%	1.1%	-20.3%	10.3%	18.4%
Net interest income	-0.3%	-19.5%	-2.7%	6.3%	4.3%	7.9%
Balance sheet ratios (%)						
Net loans to deposits	49.7%	46.9%	47.4%	48.4%	50.5%	52.8%
Deposits to assets	87.0%	86.6%	87.1%	87.1%	86.9%	86.7%
Net loans to assets	43.3%	40.6%	41.3%	42.2%	43.9%	45.8%
Equity to assets	10.6%	10.9%	10.8%	10.9%	11.1%	11.4%
Capital adequacy ratio	16.0%	16.9%	16.6%	17.0%	16.9%	16.9%
Tier 1 capital ratio	16.0%	16.9%	16.6%	17.0%	16.9%	16.9%
Profitability (%)						
Net interest margin	3.2%	2.4%	2.1%	2.1%	2.1%	2.1%
NII to average assets	3.0%	2.3%	2.1%	2.0%	2.0%	2.1%
NII to average assets adj. for provisions [WOOD calculation]	0.6%	1.5%	1.5%	0.8%	1.2%	1.3%
Costs to average assets	-1.8%	-2.0%	-1.5%	-1.5%	-1.4%	-1.4%
Cost to income	35.2%	44.6%	41.6%	37.7%	39.7%	37.4%
Cost of Risk	-5.1%	-1.1%	-1.5%	-2.8%	-1.9%	-1.8%
Pre-tax income to average assets	0.9%	1.8%	1.7%	1.3%	1.3%	1.5%
Effective tax rate	-10.1%	-10.7%	-9.1%	-10.0%	-10.0%	-10.0%
ROA	0.8%	1.7%	1.6%	1.2%	1.2%	1.4%
ROE	7.9%	15.3%	14.4%	10.6%	11.0%	12.2%
ROTE	8.0%	15.3%	14.5%	10.7%	11.1%	12.2%
Per share data (x*)						
Number of shares outstanding (m)	2	2	2	2	2	2
Average price per share (MKD)	2,205	3,249	5,164	6,565	6,565	6,565
EPS (MKD)	371	793	802	639	704	834
BVPS (RON)	4,859	5,473	5,846	6,176	6,593	7,110
Tangible BVPS (RON)	4,841	5,456	5,821	6,152	6,569	7,085
P/E	5.9x	4.1x	6.4x	10.3x	9.3x	7.9x
P/BV	0.5x	0.6x	0.9x	1.1x	1.0x	0.9x
P/Tangible BV	0.5x	0.6x	0.9x	1.1x	1.0x	0.9x
DPS (RON)	180	420	550	288	317	375
Dividend yield (%)	8.2%	12.9%	10.7%	4.4%	4.8%	5.7%

Source: WOOD Research, Komercijalna Banka

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Date	Rating	Date	PT
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BRD	5
Bucharest Stock Exchange	5
Santander Bank Polska	5
CCC	5
CD Projekt	5
CEZ	5
CME	5
Dino	5
DO&CO	5
Electrica	5
Erste Group Bank	5
Eurobank	4
Eurocash	4, 5
Fortuna	5
Fondul Proprietatea	4, 5
Graphisoft Park	5
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Orange PL	5
Pekao	4, 5
PGE	5
PGNiG	5
Philip Morris CR	5
PKN Orlen	5
PKO BP	4, 5

Purcari Wineries	**1,2, 3, 4**
PZU	**4, 5**
Romgaz	**5**
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