

**„Central Cooperative Bank”
AD Skopje
April 2020**

Ventseslav Petrov, Lead Financial Analyst
v.petrov@bcra-bg.com
Silvia Gergovska, Financial Analyst
s.gergovska@bcra-bg.com
Ivailo Cholakov, Financial Analyst
i.cholakov@bcra-bg.com
Radostina Stamenova, Economic Analyst
stamenova@bcra-bg.com
Kalina Dimitrova, Economic Analyst
k.dimitrova@bcra-bg.com

FINANCIAL STRENGTH RATING*	Review	Review	Review	Review
Date of Rating Committee:	31.03.2017	20.04.2018	25.04.2019	30.04.2020
Date of Publication:	03.04.2017	23.04.2018	30.04.2019	30.04.2020
Long-term Rating:	BB-	BB-	BB-	BB-
Outlook:	Negative	Negative	Stable	Positive
Short-term Rating:	B	B	B	B

***Notes:**

- 1) To see the full rating history, please see the chart at the bottom of the document;
- 2) Prior to the present publication the credit rating and rating outlook was disclosed to the rated entity or related third party. Following that disclosure amendments in the credit rating and rating outlook have not been executed;
- 3) During the last 2 years, BCRA Credit Rating Agency AD has not provided ancillary services to the rated entity or a related third party.

BCRA – Credit Rating Agency (BCRA) is the third qualified rating agency in the EU, registered under Regulation (EC) No. 1060/2009 of the European Parliament and the Council. The credit ratings, assigned by BCRA, are recognized throughout the EU and are entirely equal with the other ratings, recognized by European Securities and Markets Authority (ESMA), without any territorial or other limitations.

At a session of the Rating Committee, held on April 30, 2020, a report of the review of the credit rating of the **Central Cooperative Bank AD Skopje** was discussed. The session was run by D.Sc. (Econ.) Kiril Grigorov, in his capacity as a Chairman of the Rating Committee. The members of the Rating Committee discussed the grades of numerous credit rating factors and **took the following decision:**

„BCRA – Credit Rating Agency“ (BCRA) **affirms** the financial strength rating of **Central Cooperative Bank AD Skopje** – long-term: **BB-**, short-term: **B**, and **upgrades** the outlook to **“positive”**,

taking its stand on the continued improvement and stabilization of financial results, profitability indicators and high asset quality during the review period.

The officially adopted by BCRA Methodology for assigning of a rating to a bank has been used: (https://www.bcra-bg.com/files/bank_methodology_2018_en.pdf)

The users of the rating can find information on the meaning of each rating category, including the definition of default in the published Global rating scale on the BCRA’s website: (https://www.bcra-bg.com/files/global_scale_en.pdf)

The report has been prepared and the rating - assigned, based on information made available by the rated bank, National Bank of the Republic of North Macedonia (NBRNM), BCRA’s database, consultants and other public sources.

A Rationale of the assigned Sovereign Rating of the Republic of North Macedonia is available on the official website of BCRA: (https://www.bcra-bg.com/files/rating_macedonia_feb_2020_en.pdf)

 <p>BCRA CREDIT RATING AGENCY</p>	<p>FINANCIAL STRENGTH RATING „Central Cooperative Bank” AD Skopje Long-term/Short-term Rating: BB- / B (positive) April 2020</p>
<p>95, Evlogi & Hristo Georgievi Blvd., floor 1 1142 Sofia</p>	<p>phone:(+359-2) 987 6363 www.bcra-bg.com</p>

Political Situation

At the very beginning of 2020, the Parliament of the Republic of North Macedonia approved the composition of the country's new technical government following the resignation of ZaeV's cabinet. The government should organize fair and democratic elections as well as make progress in the Euro-Atlantic integration process of North Macedonia.

In the conditions of a pandemic and a state of emergency in the country from 18th of March 2020, North Macedonia became the 30th NATO member state on the 27th of March 2020. A key event on the European path of North Macedonia was the release of this year's European Commission progress report on the country. The EU Council referring to it appraised the country's demonstrated determination to advance the EU reform agenda and decided to open accession negotiations with the Republic of North Macedonia on the 25th of March 2020.

In 2019, economic activity accelerated, with a real GDP growth averaging to 3.6%, according to preliminary data. Consumption remained the key growth driver on the expenditures side, followed by the expansion of gross investments. The unemployment rate shrank to 17.3% albeit remaining high, based on the positive developments in the real sector. Following the slight acceleration in 2018, annual consumer price inflation eased to 0.8% in 2019, with moderate positive contribution from food and tobacco prices, while inflationary pressures from the domestic demand remained subdued.

The real growth of exports slightly weakened while those of imports remained almost unchanged in 2019. Foreign direct investment dynamics also slowed down after it had surged to a 10-year high of 5.6% of GDP in 2018. Gross external debt remained elevated (72.2% of GDP at end-2019). Along with the effect of NBRNM repo transactions, the increase was prompted by the private sector and intercompany lending.

North Macedonia has a de facto stabilized exchange rate arrangement. The sustained minimum volatility of the MKD/EUR exchange rate improves the soundness of the country's economic state but makes it necessary to maintain a secure level of foreign reserves. Official reserves recorded a solid annual increase, reaching 28.8% of GDP as of end-2019. The level of reserves remains broadly adequate, providing about 4 months coverage of imports.

General government budget deficit picked up from 1.1% of GDP in 2018 to 2.1% of GDP in 2019, but remained lower than the envisaged target, mostly due to spending underexecution. The government planned to implement

a medium-term fiscal consolidation, but the extraordinary situation completely changed the targets. By the end of 2019, public debt retained its moderate growth.

The banking sector of the Republic of North Macedonia is well regulated. It consists of 15 banks, divided into 3 groups according to the size of the assets, and is characterized by a high share of foreign capital.

In 2019, **the banking system** stood sound, liquid, with upheld credit growth to the non-financial sector and a ratio of non-performing loans standing at 4.8% at end 2019 - the lowest value ever reached. The local currency prevails both deposits of and lending to the non-financial sector. In 2019, for the second consecutive year, foreign currency-denominated loans continued to increase at a higher rate than the local currency-denominated due to the preferences of enterprises. Growth rates in households' loans agreed in denar and euro were similar.

The total capital adequacy ratio of the system amounted to 16.3% as the rate of increase of the risk-weighted assets exceeded those of the own funds at the end of 2019. At the background of sustained growth in the total assets and equity, the contraction in the financial result in 2019 led to lowered figures of ROA (to 1.27%) and ROE (to 11.66%) on an annual basis. As opposed to 2018, the last year saw new rises in net impairments losses, yet below the previously accounted. The latter was particularly pronounced with the medium-sized banks, which were the group that generated a loss for the year.

The policy rate was lowered several times in 2018 and 2019, while the central bank stood sound in complying with its price stability target. On the 16th of March 2020, the NBRNM held an extraordinary meeting given the economic impact of the worldwide COVID-19 spreading at which it decided to further loosen monetary policy and cut its policy rate by another 0.25 pp. to 1.75%. The expected risks of adverse external effects have been taken into account, amid stable domestic inflation and adequate foreign reserves.

Central Cooperative Bank Skopje AD

Shareholding Structure and Management

Central Cooperative Bank AD Skopje is registered in the Republic of North Macedonia. The bank was incorporated in 1992, named Silex Bank AD. In 2001, the banks merged in Agricultural Bank AD, Skopje. In 2008, the majority stake was purchased by Central

	FINANCIAL STRENGTH RATING „Central Cooperative Bank” AD Skopje Long-term/Short-term Rating: BB- / B (positive) April 2020
95, Evlogi & Hristo Georgievi Blvd., floor 1 1142 Sofia	phone:(+359-2) 987 6363 www.bcra-bg.com

Cooperative Bank AD Sofia and the bank changed its name to Central Cooperative Bank AD Skopje. At the beginning of 2011, the Stater Bank AD Kumanovo, which was acquired a year earlier, was merged into the bank.

In 2019, no changes occurred in the shareholding structure and the share capital of Central Cooperative Bank AD Skopje. In the review period, there were no changes either in the composition of the Supervisory and Management Boards. The Bank has no participation in subsidiaries and operates through 5 branches and 20 offices (no change in the reviewing period). The bank is a full member of MasterCard Europe, an associate member of Visa International and an agent of the Western Union International Money Transfer System.

CCB Skopje aims at retail banking and to introduce new products and services, thereby attract new customers from the group of citizens and households. The bank also offers a full range of corporate products for financial support to both existing and start-ups businesses and projects focusing on small- and medium-sized enterprises.

Capital Adequacy

During the period of review, there were no changes in the share capital, which remained at the amount of MKD 1,397,967 thousand (EUR 22,791,000).

In 2019, there was a significant increase in the capital base (27.09%), which at the end of 2019 amounted at MKD 1,511,515 thousand. The growth of the capital base provided **total capital adequacy** of 18.15%, which is an increase of 2.12 pp, hence preserving the upward trend from the previous year. The increase in the capital base resulted in a growth of additional capital (issued long-term debt securities), while the increase of the equity is less (1.24%, MKD 14,745 thousand). There is more substantial growth in the capital base compared to the risk-weighted assets (12.2%, or 905 195 thousand MKD). The slight increase in the share capital on an annual basis compared to risk-weighted assets resulted in the decrease by 1.57 pp of the capital adequacy of the Tier 1 capital. At the end of 2019, total capital adequacy (18.15%) was already above the average of the banking system (16.31%) and the group of medium-sized banks (16.47%), while the capital adequacy of the initial capital (14.46%) was lower than the average of the banking system (14.81%) and higher than the average of the group of medium-sized banks (14.37%).

The year under review is marked by the increase of the **risk-weighted assets** by 12.2%, without significant

change in their structure and maintaining the highest share of those for credit risk - 82.2% (81.0% for 2018).

The ratio, net **classified exposures to the capital base**, is remarkably weaker compared to the average levels of the banking system, albeit in 2019 the ratio rose to 2.15% (1.82% as of the end of 2018), while remained below 1% in the previous three years. The ratio of the group of medium-sized banks, where CCB Skopje AD is positioned, registered an increase to 32.2% at the end of 2019 (compared to 17.4% at the end of 2018). The group of big banks followed a similar trend of that of the banking system, decreasing to 22.6% in 2019 (30.2% in 2018). The retained growth of total assets for the fourth consecutive year affected the continuing increase of the **unadjusted and adjusted leverage** indicators. The first remained below the average of the banking system, while the second remained higher than the average of the system for a third consecutive year

At the end of 2019, the ratio *Return on Equity* declined to 0.81% (0.91% in 2018) due to the decrease of the financial result by 2.3% and the growth of 1.0% of the equity.

Resources

In the review period, CCB AD Skopje maintained an upward trend of the **resource base**, a sound rate of 13.3% compared to 9.3% in 2018. The growth exceeded by 4.1 pp the average increase of the attracted funds of the banking system in 2019. The deposits of individuals traditionally grew by 7.2% following a similar rate of 8.3% in 2018. The attracted deposits from non-bank institutions registered the soundest increase at a rate of 102.2%. The share of the attracted funds accounted for 18.5% share (10.4%) in the resources. The corporate deposits registered a decline of 11.0%. The attracted funds from financial institutions are of negligible value and account for 0.1% share of the total attracted funds.

The share of term deposits was slightly decreasing to 72.6% (73.2% and 76.5% in the previous two years) In the period under review, the changes in the maturity structure of the attracted funds were marked by a decline of the share of term deposits of individuals (in local and foreign currency), which is partly offset by the increased value of term deposits of financial institutions. The ratio between funds in local and foreign currency is maintained, with an increased prevalence of the local currency (63/36 compared to 59/41 in the previous year). The feature of relatively low concentration in the deposit base is preserved. The bank has not entered into new **credit line** agreements and as of the end of the period, the

liabilities due were relatively low and are repayable in 2020.

Assets Quality

Total assets recorded a steady accelerating growth of 14.7% (6.7% in 2018). Thus, the bank outpaced the total average growth of the banking system - 9.2% in 2019, as well as the average growth of the middle-sized banks (8.2%) and, is no longer the smallest bank according to the assets in the group and moved two positions ahead in the ranking.

The asset structure retains the trend from the previous period, to transform the conservative structure (a dominant share of investments in low-risk assets - receivables from financial institutions and government securities) to a structure with dominating and increasing share of loans. The share of loans (net amount) in the assets (64.2% at the end of 2019) for the fourth consecutive year remained higher than the average level of the banking system (58.5% for 2019), recording a constant increase over the past five years.



In the last year of the review period, relatively slighter annual changes are observed compared to the previous two years and trends and ratios retained. The share of net loans dominates the assets structure by negligible growth rate as the one registered in the previous years.



The investment portfolio increased significantly by over 60% on an annual basis, after three years of slight changes, and its relative share in assets increased to 8.7% compared to 6.2% in 2018. It consists almost fully (97.4%) of government securities of the Federal Republic of Macedonia and a small share of equity instruments.

The internal structure of the loan portfolio has not changed significantly. The dominant (and slightly increased) share of retail exposures (loans to households and individuals) has been preserved - reaching 83.1% (78.4% in 2018), which to a large extent is a prerequisite for dominance of long-term loans in the portfolio. The loans with an above five-year term increased their share to 49.8% (47.0% in 2018).

Despite the growth of the loan portfolio, in the last years of the analysed period, the quality of the portfolio is stable, retaining the good quality. The amount of gross classified loans has been increasing in the last two years, after a registered steady downward trend since the beginning of the period. The ratio of classified loans /gross/ compared to the gross loan portfolio, even with the increase of 1.14% (compared to 0.80% for 2018) remained low both as an absolute value and in comparison with the system's average.



Income Quality

In 2019, the CCB AD – Skopje proved the good results from the past period, reporting similar financial

indicators at the background of strong volatility that was typical for the previous years. The bank registered a net profit of 9,838 thousand MKD (a profit of 10,997 thousand MKD for 2018), and the operating profit amounted to 70,293 thousand MKD, almost similar to the amount recorded in 2018.

The financial result is registered at the background of an increase of net interest income by 2.1% (6.5% growth for 2018), despite the slighter growth of interest income - 3.3% (6.0% for 2018) compared to the growth of interest expenses - 5.9% (4.8% for 2018) and the rise of the net income from fees and commissions by 7.3%.

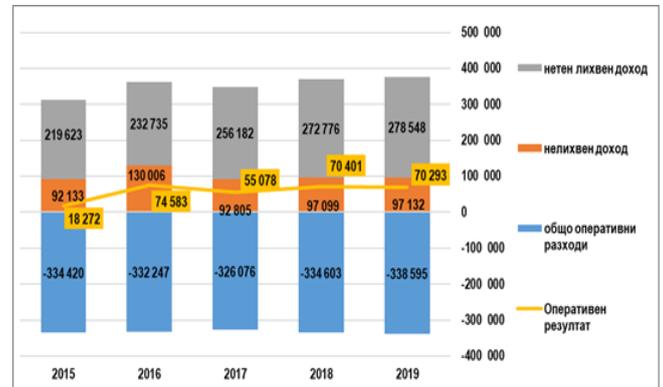
The improved profitability allowed the bank to reach a higher amount of impairments (mainly on its loan portfolio), amounting to a net of MKD 27,255 thousand as of the end of 2019, compared to MKD 24,316 thousand as of the end of 2018.

In the period of review, CCB AD Skopje achieved higher than the average levels of *return on interest-bearing assets* - 4.51% (4.19% for the system) compared to the levels of the system and the reference group of banks. Due to the higher *price of interest-bearing liabilities* 1.55 % (0.95% on average for all banks and 1.37% for the group of medium-sized banks), the bank reported slightly lower *gross and net interest margin* indicators - 2.97 % and 3.09%, respectively (compared to 3.25% and 3.27% for the system average).

The positive net financial result for the second consecutive year retained the positive return indicators (negative in 2017). The return on assets ratio of 0.10% (0.12% for 2018) is significantly lower than the average level reported by the banking system - 1.28% (1.75% for 2018) and higher than the average level of the group of medium-sized banks.

The review period is characterized by steady high levels of net interest income and non-interest income compared to previous periods, which covered the growth in operating expenses and resulted in higher operating profit.

Structure of Operating Result:



Liquidity

The high increase of current assets (by 44.7% on an annual basis at the end of 2019) resulted in increasing liquidity ratios for the reviewing period. At the end of 2019, the *Current assets* ¹(*Total liabilities* - *Equity*) ratio recorded an increase of 3.9 pp to 19.9%. The values reported by the banking system are stable during the analysed years, at around 25-28% (for the group of medium-sized banks over 30%), which can be considered as a good reference value at which the bank should aim. The Cash recorded the most significant increase in 2019 (a growth of 149.5%), accounting for a share of 45.0% in the current asset structure. After the end of 2018, the value of government securities decreased by 8.6%, while in 2019, they increased by 4.9%, accounting for a share of 28.9% of the current assets (second largest position).

A positive effect on the rating of CCB AD Skopje remains the opportunity for the bank of being supported by its owner – the financial institution, CCB AD Sofia.

The ratio *total loans/total deposits* decreased to 76.9% at the end of 2019 after the recorded relatively constant levels of about 82% in the previous three years. Thus, the bank is positioned below the average of the banking system (84.0%) and the medium-sized banks (106.9%). The level is closer to the level of big-sized banks (78.7%), which was decreasing as well. From the rating point of view, the relatively low liquidity level continues to gain an advantage to the rated bank in the comparison.

¹ Cash and cash balances at Central Banks + receivables from financial institutions

Size and Systems

CCB AD Skopje is one of the 15 banks operating on the banking market in the Republic of North Macedonia and is part of the Group II (medium-sized banks) according to the classification of the Central Bank. At the end of 2019, the group of medium-sized banks managed 21.9% of the banking system's assets, while the total assets owned by the five largest banks amounted to 74.7%.

During the review period, Central Cooperative Bank AD Skopje moved two positions ahead, to 10th place in the overall ranking of assets held, outpacing the Macedonian Development Bank, which reported slight annual growth, and Eurostandard Bank AD Skopje, which reported a decline. In terms of the loans granted, Central Cooperative Bank AD Skopje moves two positions forward, to 9th place in the overall ranking of gross loans, ahead of Stopanska Bank AD Bitola and Eurostandard Bank AD Skopje, as both banks reported annual declines of gross loans. In terms of the number of attracted deposits from non-financial institutions, the bank returns to its position from 2017, 11th place, and

moved one place back compared to 2018, outpaced by the Stopanska Banka AD Bitola.

In the review period, there were no changes in the software and operating systems, client applications and the central banking system.

The following improvements could result in upgrade the rating: the levels of the profitability and the return on assets and equity, the maintenance of moderate growth of assets and loans, strengthening the bank's position in the reference group of banks, as well as retaining the good quality of loan portfolio despite the current situation and the effects of the COVID 19 pandemic.

Changes in the opposite course would result in downgrading the rating.

Main Financial Indicators

(000'MKD; %)	2019	2018	2017	2016	2015	2014
Balance Sum	10 568 398	9 213 599	8 635 864	8 414 112	8 136 562	8 422 639
Gross loans	6 853 587	6 382 867	5 873 214	5 231 974	4 465 238	3 677 786
Equity	1 223 636	1 211 937	1 201 076	1 206 176	1 204 915	1 253 605
Total Interest Income	406 394	393 518	371 352	331 841	329 470	337 610
Net Financial Result	9 838	10 997	-5 100	1 261	-48 305	-48 974
Total Capital Adequacy	18.15%	16.03%	14.71%	16.18%	19.88%	25.98%
Net Interest Margin	3.52%	3.78%	3.15%	3.20%	2.83%	3.03%
Return on Assets	0.10%	0.12%	-0.06%	0.02%	-0.56%	-0.60%
Gross Classified Exposures / Total Loans	1.14%	0.80%	0.42%	0.53%	0.62%	0.83%
Net Ratio of Impairments	0.43%	0.45%	-0.06%	0.01%	-0.08%	-0.83%
Current Assets / (Total Liabilities – Equity)	19.9%	16.0%	16.2%	22.4%	18.0%	19.6%

	FINANCIAL STRENGTH RATING „Central Cooperative Bank” AD Skopje Long-term/Short-term Rating: BB- / B (positive) April 2020
	95, Evlogi & Hristo Georgievi Blvd., floor 1 1142 Sofia

***Rating History:**

The ratings in the table below have been assigned according to the preceding Methodology for Bank Financial Strength and are not directly comparable with the ratings assigned after the entry into force of the updated methodology as of September 2015.

FINANCIAL STRENGTH RATING	Initial Rating	Monitoring	Review
	17.03.2015	08.09.2015	08.03.2016
Long-term Rating :	BB	BB (under review)	BB-
Outlook :	<i>stable</i>	-	<i>stable</i>
Short-term Rating :	B	B (under review)	B