

**„Central Cooperative  
Bank” AD Skopje**  
**March 2017**

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РЕЙТИНГ НА ФИНАНСОВА СИЛА*	Update	Update
Date of Rating Committee:	07.03.2016	31.03.2017
Date of Publication:	08.03.2016	03.04.2017
Long-term rating:	BB-	BB-
Outlook:	stable	negative
Short-term rating:	B	B

\*to become familiar with the full rating history, please, see the chart at the bottom of the document.

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 of 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.

**„BCRA – Credit Rating Agency“ (BCRA) affirms the financial strength rating assigned to „Central Cooperative Bank” AD Skopje – long-term rating: BB-, short-term rating: B, changing the outlook from “stable” to “negative” \*\*.**

\*\*The change in the outlook from „stable“ to „negative“ is not a result from deterioration of the indicators of Central Cooperative Bank AD Skopje, and as a result of the applied rating ceiling and outlook of the Former Yugoslav Republic of Macedonia (as of the time of updating, the assigned by BCRA sovereign rating to the Former Yugoslav Republic of Macedonia is long-term rating BB- (ns), short-term rating B (ns), outlook „negative“ - [http://www.bcra-bg.com/files/archive\\_622.pdf](http://www.bcra-bg.com/files/archive_622.pdf) ).

**BCRA’s officially adopted Bank Financial Strength Rating Methodology has been applied ([http://www.bcra-bg.com/files/file\\_66.pdf](http://www.bcra-bg.com/files/file_66.pdf)).**

For elaboration of the report and awarding ratings, information from the bank, the National Bank of the FYROM, the BCRA database, consultants and other sources of public information is used.

The political situation in the FYROM continues to be characterized by uncertainty and instability for a second consecutive year. Although, at the end of 2016, the postponed multiple times early elections were held, the leading political party VMRO-DPMNE failed to form a government. The possible coalition between the opposition and the Albanian parties raises tension in the country, which has a strong resonance in global aspect as well. The president refuses to hand over the mandate of the country to the second largest party, the SDUM, due to considerations for external interference in the political process endangering the sovereignty of the country. The positions of leading economies and international unions are not synonymous - part of them support the president's position, while others insist on continuing with handing over the mandate and forming a government from the opposition.

The geopolitical situation also creates risks for the FYROM, mainly stemming from migration flows; tension in the EU (main trade partner of the country) in which the members stand firmly on their positions on issues where consensus is needed; the British exit from the union. Relations between Russia, Turkey and recent US events also pose a threat as these are key global economies and strengths.

Despite the negative events of geopolitical nature, the main economic indicators of the country have improved. The growth in the economy is slowing down mainly due to a faster rise in imports as a result of a real increase in income and a slowdown in the growth in government consumption. All other groups of

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indicators are improving compared to a year earlier.

The deficit on the current account is growing as a result of the dynamics in goods and primary income but is met by a higher capital inflows through the financial account (direct and portfolio investment). The investor interest rises by increasing the direct investment in equity (equity and reinvested profit) supported by the development of free economic zones and tax cuts.

The improvements in the labor market are sustained as the unemployment rate reaches its lowest level in the last 10 years. The income for most sectors report a growth, as the income on average for the economy is rising in real terms since 2014. The changes in the price level remain low, but in a descending direction (measured by the CPI), as a change in deflation contributions among the components of the index is observed - the importance of food products and beverages increases for determination the direction of change in the overall price level.

There has been some improvement in the state budget, as the deficit on the balance sheet decline over the last two years as a result of an improvement in the tax collection. The costs continue to increase, as for the last year the capital costs reduce at the expense of support to the population affected by natural disasters (floods) in August. The government deposits rise after a more substantial decline in 2015.

In July 2016, fifth issue of Eurobond is realized (third for the last 3 years) with a substantial size (EUR 450 million), which leads to an increase in the leverage of the country. The assessment of the investors is to increase the risk in the economy over the past 2 years, according to the higher interest rate for the last issue compared to similar one in 2014. The gross external debt, increase substantially for the analyzed economy, as besides a motive force, represents the debt of the public sector, supplemented by in-house lending as a result of increased activity of the foreign investors during the year.

The banking system faces some difficulties early in 2016 - processes of de-denarization and asset quality adjustment, but the sector participants continue to improve their performance. The asset quality (in particular, loans) improves as a result of regulatory changes in the first half of 2016, as this results in changes in a number of indicators for the sector. The assets, loans and deposits, totally for the system, continue to grow, with some fluctuations in the second quarter of 2016. The capital and profit in the system also rise and contribute for favorable levels of capital

adequacy and profitability. The provisions and liquidity in the system also change, but their values remain at favorable levels.

Overall, the state and development in the banking system can be defined as sustainable and favorable, despite the obstacles in the past year. The rapid response and support from the NBRM also contribute to stability and confidence in the sector.

The banking sector in the FYROM is well regulated. At the end of 2016, the banking system consists of 15 banks, divided into 3 groups, by size of assets and is characterized by a high share of foreign capital; an uptrend in the amount of borrowings and a high share of deposits of individuals and households and institutions, different than credit institutions in the resource structure; relatively stable rates in growth of lending; stable but relatively weak growth rate of non-performing loans; an uptrend of assets and positive net financial result.

Central Cooperative Bank AD Skopje is registered in the FYROM. The bank was established in 1992 as Sileks Bank AD. In 2001, it was joined by Zemedelska bank AD, Skopje. In 2008, the majority share package was purchased by Central Cooperative Bank AD Sofia, and the bank changed its name to Central Cooperative Bank AD Skopje. In the beginning of 2011, the Stater Bank AD Kumanovo (which was acquired a year earlier) merged into the Bank.

In 2016, "Central Cooperative Bank" AD Skopje has not made any changes in the management system (two tier - Supervisory and Management Board) and in the composition of its management, as functions, rights and responsibilities of all levels are clearly defined - General Meeting of Shareholders (GMS), Supervisory Board (SB), Board of Directors (BoD), Internal control service, internal boards and services, structures in the headquarters and affiliates. The bank develops its activities in five affiliates and 19 offices - without any changes in the analyzed period. The bank is a full member of MasterCard Europe, associated member of Visa International and agent of Western Union International Money Transfer System.

During the period of updating, there were not changes in share capital - MKD 1 397 967 thousand and substantial changes in the shareholder structure. The Bank has no participations in subsidiaries. The capital base is stable, with a slight increase compared to the previous year - as a result of the reported positive financial result (after a high size of accumulated losses from transition periods). The Bank's capital adequacy level reports a constant decline (compared

to a beginning of very high levels in a five-year period) to 16.41% at the end of 2016. Despite the reductions, its level exceeds both the normative required and the average for the banking system in the country. In the structure of risk-weighted assets there were not substantial changes, as with the largest share are those for credit risk.

The net classified exposures compared to the capital base is extremely low compared to the average for the banking system in the country - below 1% over the last three years, compared to 37.2% for the banking system at the end of 2016 and is due to the extremely low amount of classified exposures.

In the resource base of CCB AD Skopje, there are not substantial moves during the year – a low growth (3.9%, lower than in the banking system by 6.0%) after a slight decrease (3.4%) in the previous year. The predominant deposit financing is maintained, as main and growing is the share of those of physical persons, at expense of a decline of the attracted resources from credit institutions. In 2016, the bank does not have new negotiated credit lines for use of borrowing funds. Among the deposits from non-financial institutions, the deposits in local currency continue to prevail - about 64%, while among the funds of financial institutions – the funds in foreign currency prevail - 87%.

The size of total assets of CCB Skopje AD reported growth in the last year of 3.41% after a decline of 3.4% for 2015.

In the structure of assets, a decline in the share of investments in low-risk assets continues to be observed (receivables from financial institutions and government securities), at the expense of an increase in the share of loans. A share of the latter as of 31.12.2016. - 61.8% (54.5% in 2015), which is already above the average for the banking system - 58%.

The credit portfolio of the bank continues to follow the upward trend but with decreasing growth rates - 17.3% in 2016 (21.5% - 2015). The share of retail exposures is kept predominant - an average of about 74%, which is practically the same as the previous year. Despite the growth in the loan portfolio and the reported increase in the amount of new loans classified in the last year, the size of gross classified loans remain at very low levels, as their share in the

gross credit portfolio is insignificant and much lower than the average for the banking system.

In 2016, the unfavorable trend (from 2012) of reporting a negative financial result has been stopped, which leads to positive changes in the values of indicators for return on assets and equity, however, remaining substantially lower than the banking system. The levels of gross interest spread and net interest margin are also more unfavorable compared to other banks, but during the past year, the rated bank under review moves towards narrowing the gap. The downtrend in the price of interest-bearing liabilities is positive, but the banking sector and medium-sized banks end in 2016 with levels of the indicator below that of CCB AD Skopje. The Bank has a stable indicator return on interest-earning assets in the last years (and a slight increase to 4.56% in 2016), with a slight decrease in the banking sector from 5.18% to 5.08% in the banking sector.

The period of updating is characterized by achieving a value of the indicator Operating result / Average assets, higher than Costs for depreciations/ Average assets that is an indicator for the possibility of the bank to realize a positive financial result.

Liquidity ratios of the Bank improve during the year of credit rating update, but in a comparative aspect remain under the levels for the banking sector and average banks.

CCB AD Skopje is one of the 15 banks operating in the banking market in the FYROM and is part of the second group (of average banks) according to the classification of the Central Bank. At the end of 2016, it ranks the 12<sup>th</sup> place by size of assets and the 11<sup>th</sup> by gross loans and deposits from individuals and households and institutions, different than credit institutions, without any change for 2015.

The Bank has an integrated banking system with modules, with fixed responsible persons on each of the modules. In lending, a Scoring center is in use - data system, rules and procedures for assessment, approval, storage and monitoring of the consumer loans.

Main Indicators	2016	2015	2014	2013	2012	2011
Balance Sum (thousand MKD)	8 414 111	8 136 562	8 422 639	8 207 976	6 827 115	5 354 022
Gross loans (thousand MKD)	5 231 974	4 465 238	3 677 786	2 455 860	1 434 042	901 009

 <b>BCRA</b> CREDIT RATING AGENCY	<b>FINANCIAL STRENGTH RATING OF BANKS</b> <b>„Central cooperative bank” АД Скопје</b> Long-term /short-term rating: <b>BB- / B (negative)</b>	
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Equity (thousand MKD)	1 206 176	1 204 915	1 253 605	1 304 835	1 351 611	1 393 876
Total Interest Income (thousand MKD)	331 841	329 470	337 610	285 642	228 060	141 753
Net Financial Result (thousand MKD)	1 261	-48 305	-48 974	-49 417	-34 685	1 277
Total Capital Adequacy	16.41%	19.88%	25.98%	33.60%	43.47%	60.04%
Net Interest Margin	3.20%	2.83%	3.03%	2.39%	2.18%	2.08%
Return on assets	0.02%	-0.56%	-0.60%	-0.66%	-0.59%	0.03%
Current Assets/(Total Assets)	19.20%	15.36%	16.71%	13.65%	12.25%	16.23%

*\*Rating history:*

The ratings showed in the chart are assigned under the preceding Methodology for assigning a financial strength rating to banks, and are not directly comparable with the ratings assigned after the entry into force of the current methodology as of September 2015.

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