

## Central Cooperative Bank AD Skopje

Delyan Pehlivanov, Lead Financial Analyst  
[d.pehlivanov@bcra-bg.com](mailto:d.pehlivanov@bcra-bg.com)

Vesela Velichkova, Financial Analyst  
[v.velichkova@bcra-bg.com](mailto:v.velichkova@bcra-bg.com)

Nikoleta Koleva, Financial Analyst  
[n.koleva@bcra-bg.com](mailto:n.koleva@bcra-bg.com)

<b>FINANCIAL STRENGTH RATING</b>	<b>Initial Rating</b> <b>17.03.2015</b>
<b>Long-term Rating :</b>	<b>BB</b>
<b>Outlook :</b>	<b>Stable</b>
<b>Short-term Rating :</b>	<b>B</b>

BCRA – CREDIT RATING AGENCY AD (BCRA) is the third fully qualified rating agency in the EU, registered in accordance with Regulation No. 1060/2009 of the European Parliament and the Council. The ratings assigned by the BCRA are valid throughout the EU and are with equal validity with those of the other agencies, acknowledged by the European Securities and Markets Authority, without any territorial or other limitations.

BCRA used information which was provided by the rated bank, the Bulgarian National Bank, the National Statistical Institute, BCRA's database, consultants and other sources of public information for the preparation of the report and credit rating assignment.

**BCRA – CREDIT RATING AGENCY AD assigns to Central Cooperative Bank Skopje AD a financial strength rating – long-term rating “BB”, outlook „stable“; short-term rating “B”. The methodology for assigning financial strength ratings to banks, officially adopted by the BCRA was used ([http://www.bcra-bg.com/files/file\\_66.pdf](http://www.bcra-bg.com/files/file_66.pdf)).**

According to the studies of the World Bank regarding to the Global Sovereign Government Indicators, Republic of Macedonia marked an improvement in 2013 in half of its positions, compared to the respective values in 2012. By criterion **Political stability and Absence of Violence and Terrorism**, the country improved by 4 positions reaching the 138<sup>th</sup> place among the 213 countries studied. Regarding **the Governmental Efficiency and Rule of Law** the Republic of

Macedonia improved its standing by three positions in 2013 to reach the 99<sup>th</sup> position among 211 countries with respect to its **Governmental Efficiency** and 108<sup>th</sup> position of 213 countries regarding the **Rule of Law**. Regarding the **Quality of the Regulatory Framework and the Corruption Control**, the country preserved its position it occupied in 2012 – respectively 82<sup>nd</sup> position and 86<sup>th</sup> position among 211 countries. The **Voice and Accountability** reported a *negative change* – a 5 positions drop from the 108<sup>th</sup> to the 113<sup>th</sup> position.

The economy of the country is less influenced by the global crisis compared to the economies of the other European countries. As a result of the negative effects of the crisis, the growth trend of GDP in 2009 was interrupted and the GDP dropped by 0.9% compared to that in the previous year, while the average GDP decrease in the EU-member states was 4.5%. After applying a number of anti-crisis measures, in order to support the economic growth, the GDP in the country increased in the next years, with the exception of 2012, where the positive trend was briefly interrupted. The unemployment levels are permanently high. The youth unemployment rate was extremely high. The income per capita were much lower than the EU average. The trade balance of the country was characterized by an increasing deficit between 2010 (2.1% of GDP) and 2012 (3.1% of GDP). During 2013, the disbalance registered a decline - the deficit was 1.8% of the GDP as of end of 2013. Considering the quarterly preliminary data, the descending

	<b>FINANCIAL STRENGTH RATING</b> <b>Central Cooperative Bank Skopje AD</b> <b>BB (outlook: stable)</b> <b>17.03.2015</b>
<b>95, Evlogi Georgiev, fl.1</b> 1142 Sofia	<b>phone: (+359-2) 987 6363</b> <b>www.bcra-bg.com</b>

dynamics will probably remain the same in 2014, which will have a favourable influence upon the trade country balance. The Foreign Direct Investments (FDI) marked a growth in 2013, reaching EUR 263.8 million (or 3.3% of the GDP), after a significant drop in 2012. During the period 2009-2011 the country maintained a relatively low budgetary deficit (on average 2.6%), significantly lower than EU-member states (on average 5.3%). As of 2012 the deficit amounted to EUR 288 million or 3.8% of the GDP – a high level, compared to the 3% limit, adopted by the EU which was, however, close to the EU average (3.7%). In 2013, this level increased a bit – EUR 313 million or 3.9% of the GDP. Issues, resulting from non-collectability of taxes and other liabilities, and the high corruption levels in public agencies and institutions obstruct the limitation of the account disbalance. The poor diversification in the structure of the revenues, poses a risk to the government budget. Although gradually increasing since 2009, the public debt remained below the 60% limit of the EU. In this respect, the country is considered to be in a favorable state. A risk factor here is the amount of the debt, denominated in EUR, but the MKD/EUR exchange rate has displayed a minimum volatility since 2009, which reduces this risk to low levels.

The banking sector is highly regulated. At the end of the first half of 2014, the banking system of the Republic of Macedonia included 16 banks, distributed in three groups by asset size. During the analyzed period (2009-6.2014), the banking sector in the Republic of Macedonia was characterized by a high share of foreign capital; a trend for a growth in the amount of the borrowings and a high share of deposits of individuals, households and institutions, different than the credit ones in the resource structure; relatively stable growth rates of loans; a permanent, but relatively slow growth of the non-performing loans; uptrend of the assets and a positive net financial result. During the analyzed period (2009 – 6.2014) the banking system in the Republic of Macedonia remained stable, high liquid and well-capitalized, irrespective of the negative external environment.

Central Cooperative Bank AD is registered in Skopje, the Republic of Macedonia. 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. Central Cooperative Bank AD Skopje is an universal trade bank, offering a full range of products and services in the area of financial mediation, as the main focus is at the financial support of small and middle-sized companies and retail banking. The Bank has no participations in subsidiaries. The mission of Central Cooperative Bank Skopje AD is to establish sustainable relations with its clients, with deeper penetration on the Macedonian market through financing of small and medium-sized companies and individuals, as well as offering modern financial services, which meet the highest professional standards. The bank has a two-tier management system, with clearly defined functions, rights and responsibilities at all levels – General Meeting of the Shareholders (GMA), Supervisory Board, Management Board, Internal Control Unit, internal councils and services, structures at the headquarters and branches. Central Cooperative Bank Skopje AD have 23 branches and offices throughout the country. The Bank is a full member is of MasterCard Europe, an associated member of Visa International and an agent of Western Union International Money Transfer System.

The registered share capital of Central Cooperative Bank Skopje AD amounted to MKD 1 397 967 thousand. During the analyzed period, the capital base was stable (with the exception of the capital increase during 2011), with only minor changes, due to the the financial result and the accumulated loss in the years of the analyzed period. The level of the capital adequacy of the Bank exceeded the level required by law, as well as the average in the banking system in the country.

The total resource base of Central Cooperative Bank Skopje AD during the analyzed period registered a sustainable considerable growth. The deposit base has a relatively low concentration, it is dominated by funds of non-financial institutions, with a majority of deposits in local currency. The borrowings from financial institutions increased gradually during the period as volume and share in the resource base.

During the analyzed period (2009–6.2014) the value of the total assets of Central Cooperative Bank Skopje AD increased compared with the

banking system. The structure of the assets was conservative, with a prevailing share of the investments in low-risk assets – receivables from financial institutions and government securities. The share of the loans was low, but with a clear trend to increase. During the analyzed period, the size of credit portfolio of the Bank increased more than 8 times. Its structure changed significantly – the exposures to enterprises dominated by 2011, then retail exposures, with a considerable majority of long-term loans. During the period 2010-06.2014 the amount of the gross classified loans marked a constant downtrend, as their share in Gross credit portfolio was significantly lower than the average in the banking system.

During the analyzed period, a permanent trend of reduction on the level of return on interest-bearing assets of Central Cooperative Bank Skopje AD. In general, through all the analyzed years the Bank maintained lower levels of this indicator compared to the banking system and the medium-sized banks in the country. The levels of gross interest spread and net interest margin were also unfavourable in a comparative aspect. Due to the generated in 2013 and at the end of the first half of 2014 net loss, the return of the assets for these two periods was negative.

Even though part of the liquidity ratios of the bank had unfavourable levels in a comparative aspect,

the Bank was characterized with relatively high liquidity, considering the circumstance that due to specifics of the accounting method, the relatively high liquid investments of the Bank in government securities and treasury bonds, traded on the secondary market occupying a high share in the assets were not included in the calculation of the indicators.

Central Cooperative Bank Skopje AD is among the 16 banks, operating on the banking market in the Republic of Macedonia and it is positioned in the 2<sup>nd</sup> group – that of the medium-sized banks – according to the classification of the Central Bank. As of 6.2014 the Bank occupied the tenth position by amount of the assets and the thirteenth position by amount of the gross loans and the attracted deposits from individuals, households and institutions, different than the credit ones. The Bank has an integrated banking system with several modules. The main modules are combined in an operating module and reports modules. For each module there is a person in charge appointed by decision of the Management Board. This person carries out the control and monitoring. Scoring centre is in use – a data system, rules and procedures of assessment, approval, preservation and monitoring of the consumer loans.

Main indicators	6.2014	2013	2012	2011	2010	2009
Balance Sum (thousand MKD)	8 031 124	8 207 976	6 827 115	5 354 022	2 167 459	1 616 152
Gross Loans (thousand MKD)	2 949 915	2 455 860	1 434 042	901 009	563 289	318 752
Equity (thousand MKD)	1 243 668	1 304 835	1 351 611	1 393 876	844 897	824 042
Total Interest Income (thousand MKD)	168 765	285 642	228 060	141 753	75 463	86 776.53
Net Financial Result (thousand MKD)	-61 552	-49 417	-34 685	1 277	5 928	5 356
Total Capital Adequacy	32.96%	33.60%	43.47%	60.04%	61.71%	74.22%
Net Interest Margin	2.84%	2.39%	2.18%	2.08%	4.00%	6.32%
Return on Assets	-0.03%	-0.66%	-0.59%	0.03%	0.32%	0.33%
Current Assets/(Total Assets)	6.62%	13.65%	12.25%	16.23%	15.37%	20.95%