

## Central Cooperative Bank AD Skopje

Ventseslav Petrov, Lead Financial Analyst  
[v.petrov@bcra-bg.com](mailto:v.petrov@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)

FINANCIAL STRENGTH RATING	Update* 07.03.2016
Long-term Rating :	BB-
Outlook :	стабилна
Short-term Rating :	B

\* To become familiar with the full rating history, please, see the table 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 assigns to Central Cooperative Bank AD Skopje a financial strength long-term rating “BB-”, outlook „stable“; short-term rating “B”.**

**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)), approved and entered into force since 03.09.2015.** The update of the methodology introduces the implementation of advanced practices for assigning a global financial strength rating of the bank consistent with the sovereign rating. In September 2015, BCRA assigned a rating to the Republic of Macedonia - a long-term rating BB-, a short-term rating B, stable outlook. The political situation in the country in the recent years in the Republic of Macedonia is unstable. The political crisis escalated at the end of 2014 and at the beginning of 2015 as a result of announcement of massive illegal eavesdropping. The content of the records reveals serious violations against law and democracy, deep structural problems in the country, a merger between the country and the ruling party, dependencies and political appointments in the

judiciary, almost complete absence of independent media, corruption, a conflict of interests, etc.

The political crisis is partially suppressed, as the problems in the political environment of the country are expected to be addressed after the early elections in the current (2016) year.

At the same time in the country still exists the danger of ethnic and / or religious confrontation between majorities and minorities. The complicated international situation also affects the security and stability of the country, mainly due to the fact that the Republic of Macedonia is one of the main routes of refugees from Syria to Central Europe. The separatist sentiment in some regions (populated with ethnic Albanian) also strengthen the nationalist and xenophobic attitudes in the past year and further destabilize the political system.

Despite the negative events with a geopolitical nature, the economy of the Republic of Macedonia continues to show a stable growth of over 3.0% year on year in the first three quarters of 2015. The main factor is household consumption, which is expected to remain high during the next year complemented by the government consumption and growth in exports of goods and services. On the other hand, imports of goods and services also reports delays during the year.

The trade balance of the country remains negative, but marks some contraction compared to a year earlier. The country continues to report a surplus in the services balance and the current account continues to be characterized by a deficit that has grown considerably in 2015. More significant

changes in the financial account were observed in the portfolio investments, the group of other investments and reserve assets. Net FDI (foreign direct investments) decrease gradually in 2015, prompted by the uncertain political situation.

The unemployment rate reports a slight decline but remains high. The long-term unemployment is also a problem since its share in the overall unemployment is considerable. The incomes report a real increase as a result of their nominal increase and a decline in the price level of the country. The main reasons for deflationary processes during the past year are the low economic activity and low price levels in its main trade partners, low petroleum prices at the international markets, as well as the decline in the prices of the transport and communication services within the country.

The government budget deficit as a ratio to GDP decreased in 2015, as the European Commission forecasts it remains above 3% by 2017. At the end of 2015 and at the beginning of 2016, the government takes certain changes in the fiscal sector. The costs increase due to growth in pensions and benefits, and growth in capital expenses to improve the infrastructure in the country. With revenues, there is an increase in the revenues from profit tax and excise duty, while the VAT revenues report lower collection rate compared to a year earlier.

The government debt marks a slight increase during the year, but remains considerably below 60% of the GDP, which is a favorable factor for assessing the leverage level of the country.

The banking sector is well regulated. At the end of 2015, the banking system of the Republic of Macedonia consists of 15 banks, divided into 3 groups by size of assets. During the analyzed period (2009-2015) it is characterized by a high share of foreign capital; a trend of growth 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 the growth of lending; stable but relatively weak growth rate of non-performing loans; a trend of asset growth and positive net financial result. During the entire analyzed period (2009 - 2015) the Macedonian banking system remains stable, highly liquid and well capitalized, regardless of the negative external environment.

Central Cooperative Bank AD Skopje is registered in 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 of MasterCard Europe, an associated member of Visa International and an agent of Western Union International Money Transfer System.

The registered shareholding capital of CCB AD Skopje is in the size of 1 397 967 thousand MKD. During the analyzed period the capital base is stable (with an exception of the capital increase in 2011), marking a low decrease, influenced by the financial result and accumulated loss for the years of the period. The level of the capital adequacy of the Bank reported a sustainable decline /from very high levels at the beginning of the period/ reaching 19.88% at the end of 2015. Despite the decline, its level exceeded the regulatory required, as well as average for the banking system in the country.

Overall, the resource base of CCB AD Skopje for the past three years /2013-2015/ marks stagnation after the large increase referring to the year prior of this period. The deposit base of individuals, however, increased, at the expense of a decline in borrowings from credit institutions. With the

deposits from individuals and companies deposits in local currency prevail - about 67%, while with the funds of financial institutions - those in foreign currency – over 90%.

The total amount of assets of CCB AD Skopje after the large increase in 2013 remains at the same level and at the end of 2015 / after growth of 2.6 % for 2014 and a decline of 3.4% for 2015/.

In the asset structure changes are observed with regard to reducing the share of investments in low-risk assets - receivables from financial institutions and government securities and increasing the share of loans. The starting point for comparison is relatively low over the past years and the increase of the share of loans in total assets / nearly 55% in CCB AD Skopje for 2015 / leads to reaching average levels which are peculiar to the banking system - 58%.

Permanently, for the period the size of the credit portfolio of the bank reports steady and gradually decreasing growth rates - 21.5% for 2015, as its structure stabilizes in the past three years: a predominant share of the retail exposures - average about 75%, at the expense of a declining share of the loans to companies. Despite the growth of the credit portfolio, the size of the gross classified loans follows a steady downtrend, as their share in gross credit portfolio is insignificant and much lower than the average for the banking system.

An unfavorable factor in assessment of the bank is the continuing trend reporting a negative financial result for the year since 2012. Thereupon,

observed indicators such as return on assets and return on equity deteriorate permanently.

Overall, in all of years the bank has had lower values of the indicator compared to the banking system and medium banks in the country. The levels of gross interest spread and net interest margin are also less favorable in comparative perspective. The trend of reducing the cost of the interest liabilities is positive, and the comparison to average levels in the banking system is in favor of CCB AD Skopje.

Although some of the liquidity ratios of the bank hold negative values in comparative perspective, the bank is characterized by relatively high liquidity, given the fact that due to the specifics of accounting in calculation of the indicators are not included relatively highly liquid investments of the bank in government securities and treasury bonds traded in the secondary market and occupying a high share in assets.

CCB Skopje is one of the 15 banks operating in the banking market in the Republic of Macedonia and is part of the second group (of average banks) according to the classification of the Central Bank. At the end of 2015, 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. The Bank has an integrated banking system with modules, the main are grouped in an operational module and an inquiry module. In lending, a Scoring center is in use - data system, rules and procedures for assessment, approval, storage and monitoring of consumer loans.

Main Indicators	2015	2014	2013	2012	2011	2010	2009
Balance Sum (thousand MKD)	8 136 562	8 422 639	8 207 976	6 827 115	5 354 022	2 167 459	1 616 152
Gross Loans (thousand MKD)	4 465 238	3 677 786	2 455 860	1 434 042	901 009	563 289	318 752
Equity (thousand MKD)	1 204 915	1 253 605	1 304 835	1 351 611	1 393 876	844 897	824 042
Total Interest Income (thousand MKD)	329 470	337 610	285 642	228 060	141 753	75 463	86 777
Net Financial Result (thousand MKD)	-48 305	-48 974	-49 417	-34 685	1 277	5 928	5 356
Total Capital Adequacy	19.88%	25.98%	33.60%	43.47%	60.04%	61.71%	74.22%
Net Interest Margin	2.83%	3.03%	2.39%	2.18%	2.08%	4.00%	6.32%
Return on Assets	-0.56%	-0.60%	-0.66%	-0.59%	0.03%	0.32%	0.33%
Current Assets/(Total Assets)	15.36%	16.71%	13.65%	12.25%	16.23%	15.37%	20.95%

	<b>FINANCIAL STRENGTH RATING</b> <b>Central Cooperative Bank AD Skopje</b> <b>BB- (outlook: stable)</b> <b>07.03.2016</b>
<b>95, Evlogi Georgiev Blvd., fl. 1</b> 1142 Sofia	<b>phone: (+359-2) 987 6363</b> <b>www.bcra-bg.com</b>

**\*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.*

<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>

RATINGS AVAILABLE