

„Central Cooperative Bank” AD Skopje April 2018	Ventseslav Petrov, Lead Financial Analyst v.petrov@bcra-bg.com
	Ivailo Cholakov, financial Analyst i.cholakov@bcra-bg.com
	Radostina Stamenova, Financial Analyst stamenova@bcra-bg.com

FINANCIAL STRENGTH RATING*	Update	Update	Update
Date of Rating Committee:	07.03.2016	31.03.2017	20.04.2018
Date of Publication:	08.03.2016	03.04.2017	23.04.2017
Long-term Rating:	BB-	BB-	BB-
Outlook:	Stable	Negative	Negative
Short-term Rating:	B	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 of Central Cooperative Bank AD Skopje – long-term: BB-, short-term B, “negative” outlook.

BCRA’s officially adopted Bank Financial Strength Rating Methodology has been applied (https://www.bcra-bg.com/files/BFSR_Methodology_2015_bg.pdf).

Information from the bank, the National Bank of the FYROM, the BCRA database, consultants and other sources of public information have been used for the of the report and awarding the rating.

The Political situation in Macedonia indicates signs of stabilization after a prolonged political crisis period, which has been started in 2015. The new cabinet is formed with the mandate of the SDSM and the support of some of the Albanian parties represented in the parliament. Among the concessions that Prime Minister Zoran Zaev made to ethnic Albanian parties in return was the adoption of the Law on the Use of Languages¹ to recognize Albanian as the second official in the country and to regulate its use in public sphere. The debate on the law raises some tensions

¹ Adopted at first reading in January 2018.

in society, affecting the delicate balance of interethnic relations in Macedonia.

The efforts on the new course of the SDSM-led government especially in foreign policy are aimed precisely at the beginning of the negotiation process with the European Union. Macedonia got EU candidate status in 2005, but Greece has been blocking the start of negotiations since then. This is largely result of ongoing disputes over the country's official name. The NATO membership of Macedonia is blocked by the same reasons.

Hence, the main challenges Macedonia is facing, include affirmation of the democratic principles in country's governing as well as further stabilization of relations among the Balkan countries. European institutions' assess positively the aforementioned actions of the government. According to the European Commission, “Macedonia is making significant progress on their European path and the Commission is ready to prepare recommendations to open accession negotiations”². The 2019-th year was mentioned as a possible starting date for the process.

The whole intense political environment has left its mark on the **economy development** in the last two years. Following a slowdown to 2.9% in 2016, while in 2017 the GDP marks zero growth. The poor investment climate and the limited government spending result in 4.5 % drop in gross capital formation in 2017. The economic activity of 0.2% is

² Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, Strasbourg, 06.02.2018.

registered in the third quarter of the year. The economic activity is supported by private consumption and exports. The private consumption increases by 2.9% on a yearly basis supported by the growth in incomes. The export growth rate accelerates to 9.2 %, while the import rate significantly decelerates to 7.3% (11.6% in 2016).³

The Macedonian economic structure is dominated by the services (62.5% of GVA), agriculture (10.9% of GVA) and the construction (7.1% of GVA). In 2017, most sectors mark decline in GVA value. The manufacturing sector decelerates by 2.5%, most affected is the construction sector, which marks a real decline of 13.7%, compared with an increase of 11.9% in 2016. Positive contribution to the GVA growth have the agriculture, commerce and the IT sector.

The balance of the country's current account improves and the deficit is reduced from EUR 265 million (2.7% of GDP) in 2016, down to 134 million (1.3% of GDP) as of the end of 2017. The improvement is due to the higher surplus value of the secondary income account and the increased surplus of the services account, while the deficit on the primary income account is increasing.

At the end of September 2017, the gross external debt stands at EUR 7 710 million, or 75.5% of the projected GDP, which is an increase of 6.8 percentage points against the end of 2016. The share of public external debt in total gross debt increases by 0.4%, but private external debt still prevails with 51.9%. The maturity structure remains favourable, with 72.7% of the total debt being long-term debt.

The gross reserves assets amount to EUR 2 336 million (22.6% of GDP) as of the end of 2017. The sustained minimum volatility of the MKD/EUR exchange rate improves the soundness of the country's economic state, but makes it necessary for the country to maintain a high level of foreign reserves. The current level of reserves ensures more than 4 months coverage over imports and the coverage of liabilities based on short-term external debt is still above the 100% threshold for adequacy.

The three-year deflation period (2014-2016) is overcome and inflation rate, measured by CPI, is picking up reaching 1.4% annual average in 2017. Inflation pace in medium term will be influenced by the

trends of global prices of primary commodities, price trends in the EU, and partially by the economic activity in the national economy.

The unemployment rate decreases from 23.7% in 2016 to 21.9% in the fourth quarter of 2017. The unemployment rate, however, remains at alarmingly high levels, much higher than representative EU-members, thus implying the presence of serious structural problems and obstacles standing before the economy.

Central government budget deficit in 2017 stands at 2.8% of the GDP. In the last year the low economic activity leads to a breach of the revenues and expenditures side of the budget.

Budget deficit for 2018 is planned in the amount of EUR 296 million or 2.7% of GDP. The budget envisages 5% higher salaries in healthcare and education and 10% increase of the wages in the army, in line with harmonization to NATO standards. Despite repeated announcements of introducing progressive taxation rates, the proposed personal tax regime change remains on standby.

Although it has been gradually growing since 2009, general government gross debt of Macedonia is still below the limit of 60% of GDP adopted by the EU. General government debt stands at EUR 3 958 million at the end of 2017 or 38.7% of the projected GDP. The public debt stands at EUR 4 787 million or 46.7% of the projected GDP. Guaranteed debt has a share of 17.3% in total public debt.

The banking system is stable with positive growth of indicators during the year under review. The assets growth is sustained, although by descending paces in line with the decreased economic activity. The capital and reserves of the banking system are also growing by accelerated pace compared to the previous year. The upward trends of the attracted funds in the form of deposits (excluding credit institutions) are also preserved by 5% rate. In 2017 the gross value of the credits to the non-financial sector registers growth of 5.9% (1.2% in 2016) with main drives the households loans (by 9.7%), supported by the accelerating income of the population. The size of the non-performing loans continues to decrease, reaching a share of 6.3% in the portfolio. The favourable levels of the provisions are sustained, achieving 110.7% coverage of the non-performing loans as of the end of 2017.

In 2017, the profit increase of the banking system is decelerating, and the group of the small banks even

³ The BCRA's report on credit rating of the Republic of Macedonia can be found at: https://www.bcra-bg.com/files/rating_macedonia_mar_2018_en.pdf

	FINANCIAL STRENGTH RATING „Central Cooperative Bank” AD Skopje Long-term/Short-term Rating: BB- / B (negative) April 2018
95, Evlogi Georgiev, fl.1 1142 Sofia	phone: (+359-2) 987 6363 www.bcra-bg.com

registers negative result. Despite all, the profitability and return indicators remain at competitive levels. The liquidity indicators mark decrease on an annual basis, but still retain at levels contributing for the resilience of the system. As of the end of 2017, the liquid assets liquid assets accounted for 27.1% of total assets and covered 46.3% of short-term liabilities, a year earlier the ratios were slightly higher, or 28.9% of assets covering 50.1% of short-term liabilities.

The capital adequacy indicator of the banking system registers descending trend during the period 2013-2016 and total capital ratio declines from 16.8% to 15.2% at the end of 2016. In 2017 the capital ratio improved owing to the faster acceleration of regulatory capital (own funds) to risk-weighted assets. As of the end of 2017, the total capital adequacy ratio increases to 15.7% and the Tier 1 Capital reaches 14.2% (13.9% in 2016). All capital adequacy indicators retain at favourable levels, above the regulation requirements of a minimum 8%.

The banking sector of Republic of Macedonia is well regulated. As of the end of 2017 fifteen banking institutions divided into three groups in terms of their assets size are operating in the market with prevailing share banks with foreign capital.

Central Cooperative Bank Skopje is registered in Republic of Macedonia. The bank original registration name is Silx Bank AD. In 2001, Agriculture Bank has been merged in the latter bank. In 2008, the majority share package is 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 2017 the Central Cooperative Bank AD Skopje has not changed its two-tier management system – Supervisory Board (SB) and Management Board (MB) or in its management body. The functions, rights and obligations at all levels are strictly defined – General Assembly of Shareholders, SB, MB, Internal Control Department, Internal Councils and departments, structure bodies in the Central Office and branches. The bank carries out its activities in 5 branches and 20 offices (expanding by one office during the review period). The bank has full membership for MasterCard Europe, and is an associate member of Visa International and agent of the Western Union International Money Transfer System.

In 2017, the National Bank of Republic of Macedonia performed a current review control of the bank's operations for the period April 2016 – April 2017 and found out that bank's activities in the inspected areas are in compliance with the regulatory requirements.

In the period of updating there are no changes in the shareholder's capital – MKD 1 397 967 thousand or substantial changes in the shareholding structure. The Bank has no participations in subsidiaries.

The capital basis is stable, registers a decline compared to the previous year – due to the negative financial result in a report, approved by the NBRM, and results in a capital adequacy ratio of 14.65% (the total and of the primary capital), which is lower than the comparable group of banks and for the total banking system, but exceed significantly the required regulatory minimum.

In the structure of risk-weighted assets a general growth is observed, with largest share of those for credit risk– 77.4% (81.3%). The upward growth of risk-weighted assets outpaces the general increase in bank assets over the last five years (2013-2017), which is a result of the increase in the share of loans in the Bank's assets structure. Thus, the risk-weighted assets to total assets ratio from substantially low level compared to the average for the banking system is on a steady rise and in 2015 is closer to the average levels. In next two years – 2016 and 2017 it outpaces the average, reaching 67.6% at the end of 2017, compared to the average of 59.8% for the banking system. The non-adjusted and adjusted leverage levels register gradual increase, with the first one below the average for the banking system, while the adjusted is above the average for the system for a second consecutive year. The return on equity is negative and does not sustain the positive change in the indicator achieved in the last year.

The net classified exposures compared to capital basis remain significantly below the average for the banking system – below 1 % in last four years compared to 34.8% for the banking system at the end of 2017 due to the extremely low amount of classified exposures.

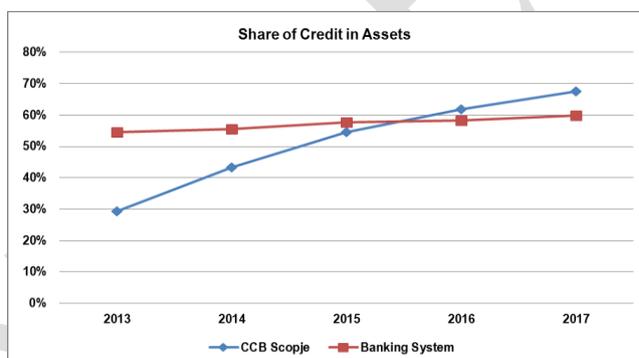
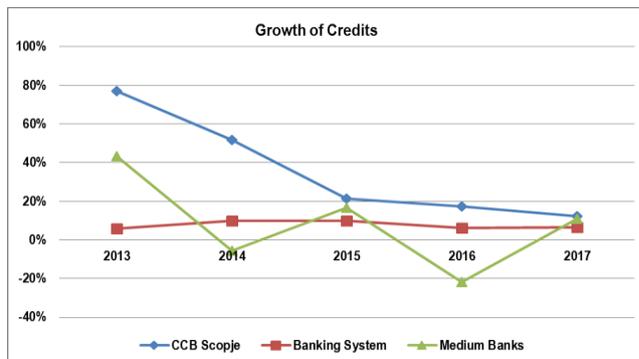
The resource basis of Central Cooperative Bank AD Skopje for a second consecutive year registers upward trend, although it is lower compared to the level of the banking system. In 2017, the registered increase is of 1.0% (3.9%), while for the sector is 5.1% (6.0%). The total growth is a result of the significant increase of attracted funds from natural persons, while the corporate deposits decrease. The

attracted resources from financial institutions has a relatively small share (descending one), while the funds in local and foreign currency remain unchanged, slightly prevail of local currency. The largest 15 deposits in the bank (excluding the majority owner's funds) remain relatively unchanged (17.2-17.6%), with a relatively low concentration. At the end of 2017 the funds of the majority owner in the total deposit basis report a significant decrease (from 10.0% to 1.4%).

During the updating period the Bank has negotiated and received a short-term financing from local financial institutions at the amount of MKD 137 million.

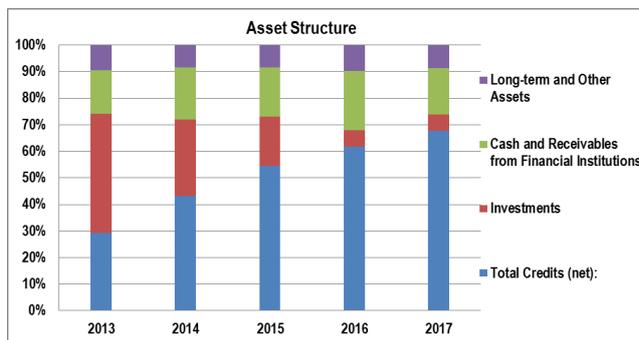
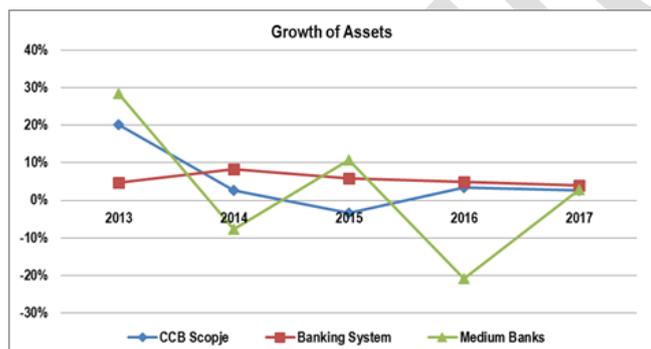
The size of total assets of CCB Skopje AD registers descending growth of 2.6% (3.4%) in the year under review (2017) which positions the Bank below the average level for the banking system of 3.9% and for the middle group of banks.

The assets structure sustains the trend of transformation from definite conservative structure (with a prevailing share of investments in low-risk assets – receivables from financial institutions and government securities) towards a structure of prevailing and higher share of loans – 68.0% at the end of 2017 (62.2% as of the end of 2016). The latter, for a second consecutive year is above the average for the banking system (59.8% for 2017 и 58.3% for 2016), as well for the middle group of banks (58.8% - 2017 и 54.6% for 2016).



The above charts clearly illustrate the overall convergence trend of these key indicators and ratios for the bank with those of the banking system observed over a longer period of analysis.

The assets basis is characterised by the increase of the credit portfolio at expense of decrease of monetary resources and receivables from financial institutions and unchanged investments and long-term and other assets.



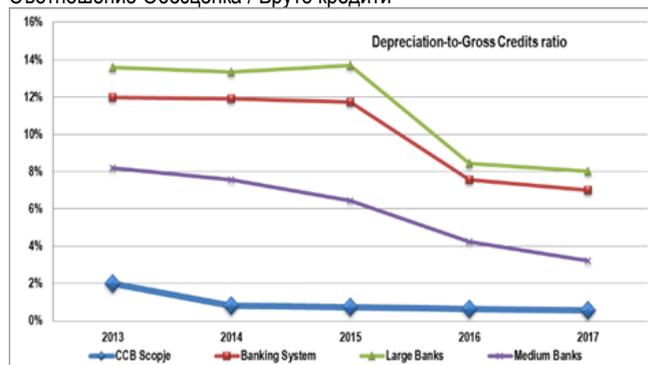
The growth of net loans continues to slowdown – at 12.3% to 17.3% in 2016 and 21.5% in 2015, remains above the average for the banking system – 6.6% (6.1%) and for the middle group of banks – 10.8%. The prevailing share of the retail exposures is maintained (loans to households and citizens) – 75.6% (73.9%), which to a great extent is a

prerequisite of clearly defined predominance of the long-term loans in the portfolio, and those of above five years increase their share from 38.6% to 40.6%.

Despite the growth of credit portfolio, *the impairments on credits to gross credits* (loan exposures before depreciation) ratio is unchanged for the last three years. On one hand, it is a positive sign for improvement of credit portfolio and is of significant importance in view of its structure with weight on the retail and natural person's exposures. On other hand, the steady growth in the amount of gross loan portfolio and the new loans increase the risk and the amount of the write-offs, compared to their extremely low levels achieved in recent years, without posing a certain threat for deterioration of the overall credit quality.

Comparing the value of the said indicator of the rated bank with the average for the banking system is to a great extent in favor of CCB Skopje JSC.

Съотношение Обезценка / Бруто кредити



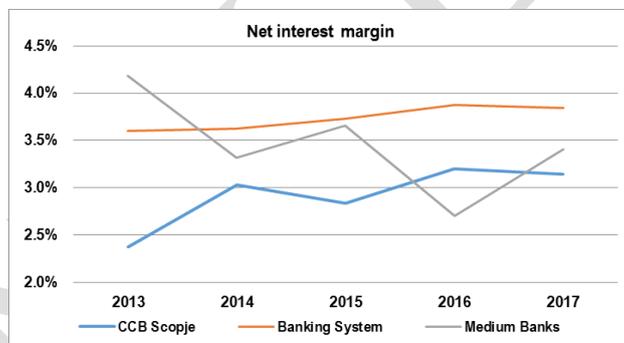
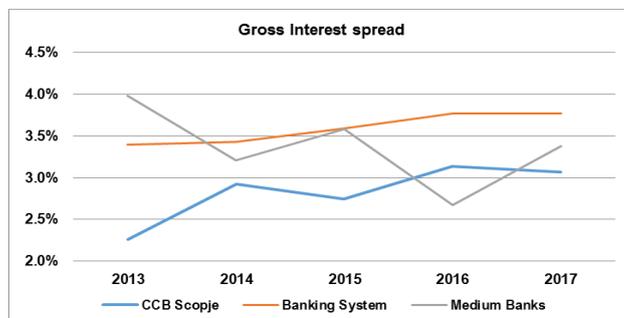
In 2017, the amount of gross classified loans decreases substantially as non-performing loans and write-offs.

As of the end of 2017 the 15-th largest credit exposures to non-financial institutions decrease their share compared to the total credit portfolio down to 13.5% (15.5% at the end of last year).

In 2017, the Bank incurred a net loss of MKD 5 100 thousand based on annual reports approved by the NBRM, which has a negative impact on some income quality indicators.

In the period under review CCB Skopje AD retains the trend of the previous year to stabilize the *Return on interest-bearing assets* indicator and, similarly to the group of medium-sized banks, reports an increase in the value of the *Price of interest-bearing liabilities indicator*. As a result of these changes, a slight decrease in the *Gross Interest Spread* and *Net Interest Margin* is registered, placing the Bank in a position

below the average for the banking sector and medium-sized banks.⁴



The review period is characterized by a continuing increase in net interest income, insignificant decrease in non-interest income (after significant growth in the previous year, driven by increased net income from fees and commissions) and a continuing reduction in operating expenses (excluding staff costs). The operating result from activity retains positive, while on the final negative most significant impact have the reported losses from revaluations of financial assets.

As of the end of 2017 *Current assets*⁵ / (*Total Liabilities – Equity*) ratio as one of the most important indicators for the assessment of liquidity reports decline of 6.2 p.p. down to 16.2% (against an increase of 4.4 p.p. in the previous year), mainly as a result of the depreciation of current assets by 25.5% (after 29.3% growth in 2016), while the liabilities increase by 2.6 % (3.4%). The reported by the banking system indicators are stable during the analysed period at levels 25-27% (even above 30% for the group of middle banks), which can be considered as a good benchmark to be pursued by the rated bank.

⁴ When considering the dynamics of the indicators for the group of medium-sized banks, it should be taken into account that the effect on the serious deviations for 2016 is the transfer of Halk Bank AD from this group to the group of large banks.

⁵ Monetary Funds and Cash Balances in Central Banks + receivables from financial institutions.

The possibility for support from the majority shareholder (a share slightly below 92%) – the financial institution Central Cooperative Bank AD Sofia is positively assessed.

CCB AD 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 middle-sized banks) according to the classification of the Central Bank.

As at end of 2017 CCB Skopje AD it ranks the 12th place by size of assets and the 11th by gross loans and deposits from individuals and households and institutions, different than credit institutions.

In the period under review no changes have been carried out in the Bank's software and operational systems, customer applications and central bank system.

Main Financial Indicators	2017	2016	2015	2014	2013
Balance Sum (MKD thousand)	8 635 864	8 414 112	8 136 562	8 422 639	8 207 976
Gross Loans (MKD thousand)	5 873 214	5 231 974	4 465 238	3 677 786	2 455 860
Equity (MKD thousand)	1 201 076	1 206 176	1 204 915	1 253 605	1 304 835
Total Interest Income (MKD thousand)	352 728	331 841	329 470	337 610	285 642
Net Financial Result (MKD thousand)	-5 100	1 261	-48 305	-48 974	-49 417
Total Capital Adequacy	14.65%	16.18%	19.88%	25.98%	33.60%
Net Interest Margin	3.15%	3.20%	2.83%	3.03%	2.39%
Return on Assets	-0.06%	0.02%	-0.56%	-0.60%	-0.66%
Current Assets / (Total Liabilities – Equity)	16.2%	22.4%	18.0%	19.6%	17.4%

***Rating History:**

The ratings in the table below have been assigned according to the 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. Рейтингите в таблицата са присъдени по предходната Методология за присъждане на кредитен рейтинг на финансова сила на банка и не са директно сравними с рейтингите, присъдени след влизането в сила на актуалната методология от септември 2015г.

FIANCIAL STRENGTH RATING	Initial Rating	Monitoring
	17.03.2015	08.09.2015
Long-term Rating :	BB	BB
Outlook :	Stable	Under Review
Short-term Rating :	B	B (under review)