

## First Investment Bank (Bloomberg:5F4 BU)

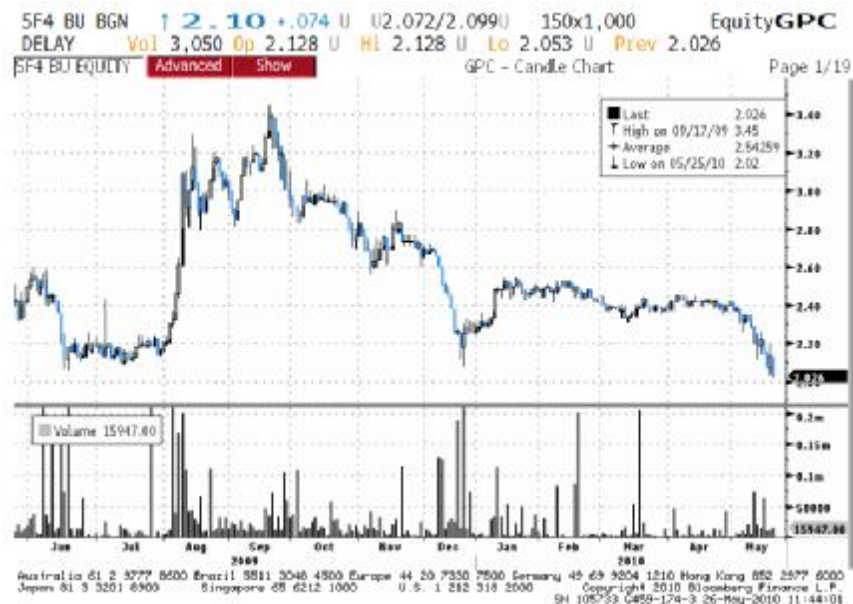
First Investment Bank (FIB) was founded in 1993. Initially specialized in offering complex services to corporate clients, over the years the bank has developed into a universal bank, providing a range of corporate and retail banking services. In recent years, the focus of the bank's operations has been the expansion of its retail banking business. The FIB's IPO was in June 2007 with the issuance of 16 500 000 ordinary shares at a nominal value of BGN 1 each. The bank's strategic goals include the increase of its loan portfolio and market share through continuing expansion in Bulgaria and in the Balkan region. In order to expand its domestic presence and cope with competition from banks currently operating in Bulgaria as well as new entrants, the bank plans to build up its relations with existing customers and to attract new customers by expanding the lines of services, refining its existing products, and improving customer service.

52-weeks price  
high BGN 3.45

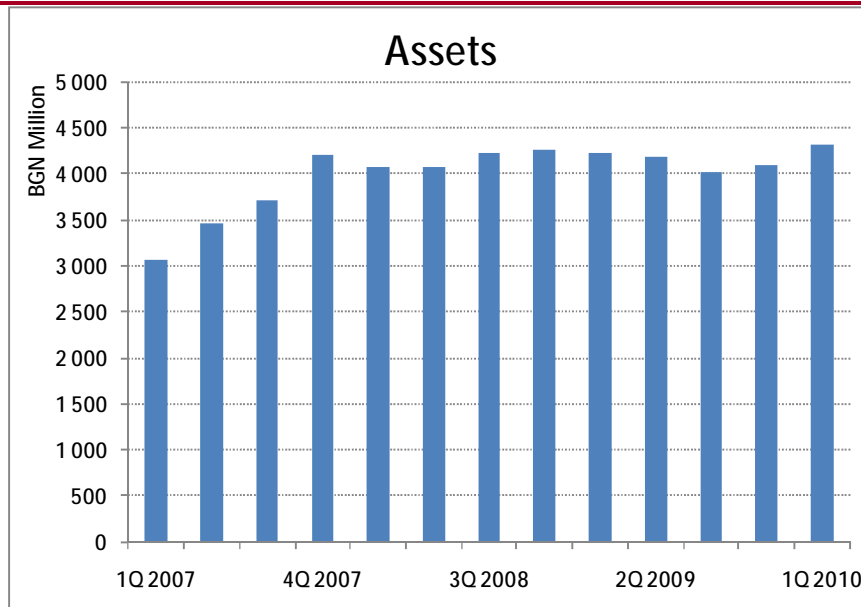
52-weeks price  
low  
BGN 2.06

52-weeks price  
change  
-16.45%

YTD price  
change  
-11.14%

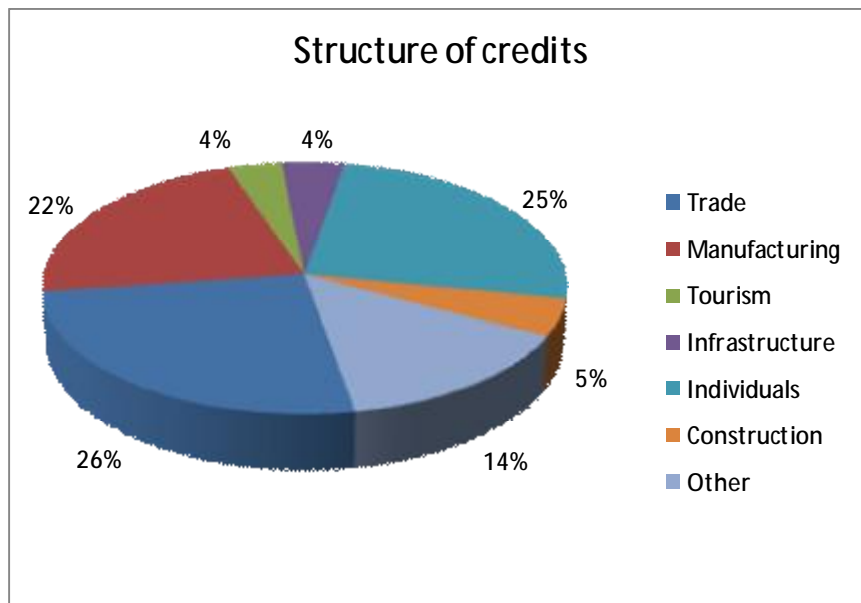


The position remained in the price range between BGN 2.00- BGN 2.50 in volatile trading. The share of First Investment Bank continued to be among the most traded on BSE, despite that the traded volumes decreased. Main shareholders of the bank are physical persons. The position is moving in accordance with the main index SOFIX. Since the beginning of the year FIB lost 11% and SOFIX declined by 6%.



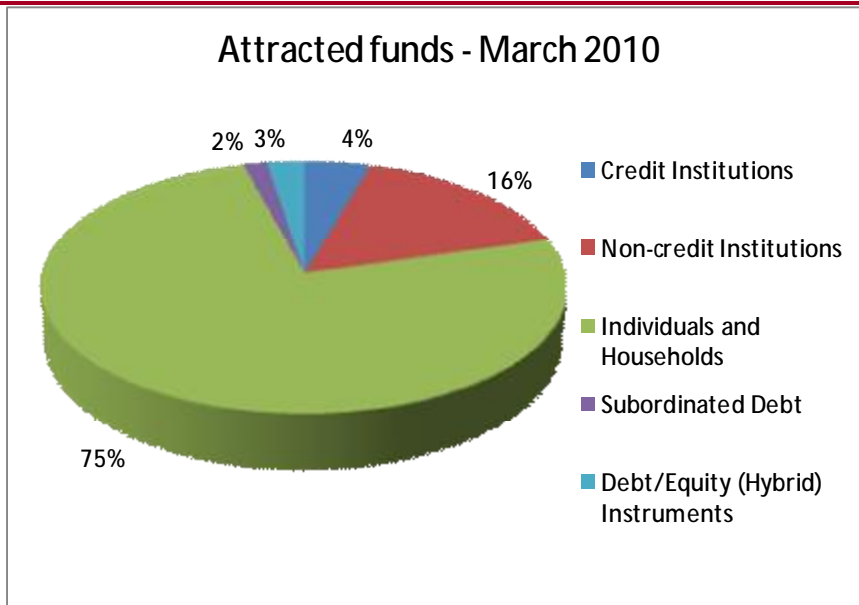
Source: Bulgarian National Bank

Assets of FIB increased slightly on quarterly basis to BGN 4.3 billion and are mainly held in euro. On yearly basis the assets improved by 1.94%. The performance of FIB is very close to the average of the banking system.



Source: First Investment Bank

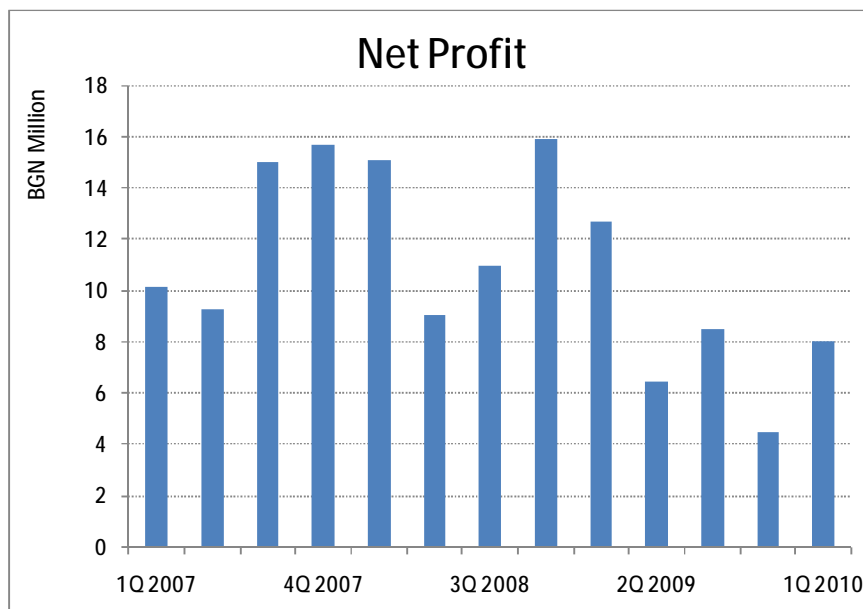
Credit portfolio of the bank continued to increase at slow rate. Corporate clients represented the largest part of the credit portfolio and exceeded 70% of the total loans. The Retail segment have 25% stake with almost equal share of consumer loans and mortgages. For 2009, the bank held 5.8% share of credits of the banking system.



Source: Bulgarian National Bank

FIB's deposits amounted 7.6% of all deposits in the banking system. The largest share of attracted funds came from households – 75% of total, which made the bank one of the largest in terms of retail services. During the first quarter of 2010, the deposits continued to increase, supported mainly by the retail segment.

FIB is also relying to subordinated debt and hybrid instruments and is one of the few Bulgarian banks that use that source for financing. They totaled 5% of attracted funds.



Source: Bulgarian National Bank

The net profit of the bank continued to decline on yearly basis and reached BGN 8 million as compared to BGN 12.6 million for the 1Q 2009. The volatility of the quarterly data was due to the changes in impairment costs and the negative

effect of the interest rates changes in the beginning of 2009. Net income from fees and commissions also posted significant volatility on quarterly basis in 2008 but stabilised in 2009.

#### **Corporate News**

- 01 March 2010** First Investment Bank submitted its 2009 annual report.
- 13 April 2010** FIB appointed a GMS on May 14, 2010 under the following agenda:
- report of the management bodies on the company's activity in 2009
  - adoption of the 2009 annual financial statement of the company
  - report of the certified accountant on the 2009 audit
  - report of the Investor Relations Director
  - election of a certified accountant
  - exemption from liability of the members of the management bodies for their activity in 2009
  - profit allocation decision
  - changes within the Internal Audit Department
- 30 April 2010** First Investment Bank presented a financial report for the 1Q 2010.
- 15 May 2010** The GMS of First Investment Bank voted to set the 2009 net profit as reserves.

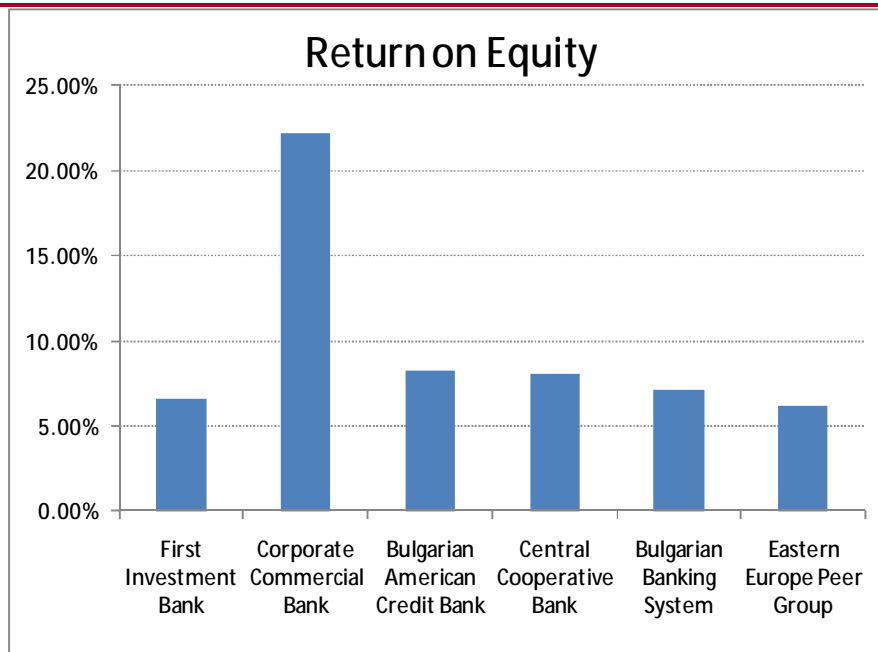
## **VALUATION**

Bulgarian public listed banks are traded at very low multiples. We consider all four shares undervalued when comparing to the median of multiples of banks in Eastern Europe. All negative news are priced in and the weakness of stock prices in May is due to the overall market decline in very low volumes.

#### **Multiples comparison**

Bulgarian banks are traded at very low price multiples. All four liquid banks have profits and positive P/E ratios. Although the decline of banking profits was significant, multiples were supported by the larger decline of stock prices. We consider banks at very attractive levels and we expect that their shares will appreciate with high double-digit percentages annually during the next several years.

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Calculations: ELANA Trading

*RoE of banks is close to the sector average*

Two banks have broad branch networks and are retail oriented – Central Cooperative Bank (CCB) and First Investment Bank (FIB). Both their stocks are trading at the lowest price-to-assets ratios of 0.05, which is due to the calculated risks of defaulting consumer and corporate loans. The other two banks has much higher ratios – Bulgarian-American Credit Bank (BACB) and Corporate Commercial Bank (CORP) are specialized in corporate credits and have small branch networks. Return on equity of CORP exceeds 20%, whereas BACB had even higher ratios before the decline of profit in 2009. When comparing to the average ratios of the domestic banking system and the median of Eastern European peers, Bulgarian public listed banks are in better shape with the exception of FIB that was influenced by impairment costs.

*Multiples comparison*

	Bulgarian American Credit Bank	Central Cooperative Bank	Corporate Commercial Bank	First Investment Bank
Last Price	12.60	1.15	62.45	2.13
Number of Shares	12 624 725	83 155 092	6 000 000	110 000 000
Market Capitalization	159 071 535	95 545 201	374 700 000	234 300 000
Net Profit (ttm)	17 554 000	20 811 000	65 974 000	27 400 000
P/E	9.06	4.59	5.68	8.55
Assets (ttm)	898 375 000	1 865 322 000	2 210 492 000	4 310 678 000
P/Assets	0.18	0.05	0.17	0.05
Equity	212 049 000	257 202 000	296 643 000	417 217 000
P/B	0.75	0.37	1.26	0.56
RoE	8.28%	8.09%	22.24%	6.57%
RoA	1.95%	1.12%	2.98%	0.64%

Calculations: ELANA Trading

*P/E ratios are below 10*

Public listed banks vary substantially by assets and market capitalization. All banks have P/E ratios below 10 and only CORP's P/B ratio exceeds 1 due to its high return on equity and the low stock trading. The profits of all banks are from their core banking operations and are not influenced significantly by one-time items.

We compared Bulgarian banks to multiples of banks in Eastern Europe, using median values of their multiples to eliminate the distortions of extremes. The data for the price-to-earnings ratio exclude the effect of losses of certain percentages of banks under consideration. This is understating the fair value of stocks that are compared to the peer group. The median price-to-earnings ratio is 13.91, whereas median price-to-book is 1.05.

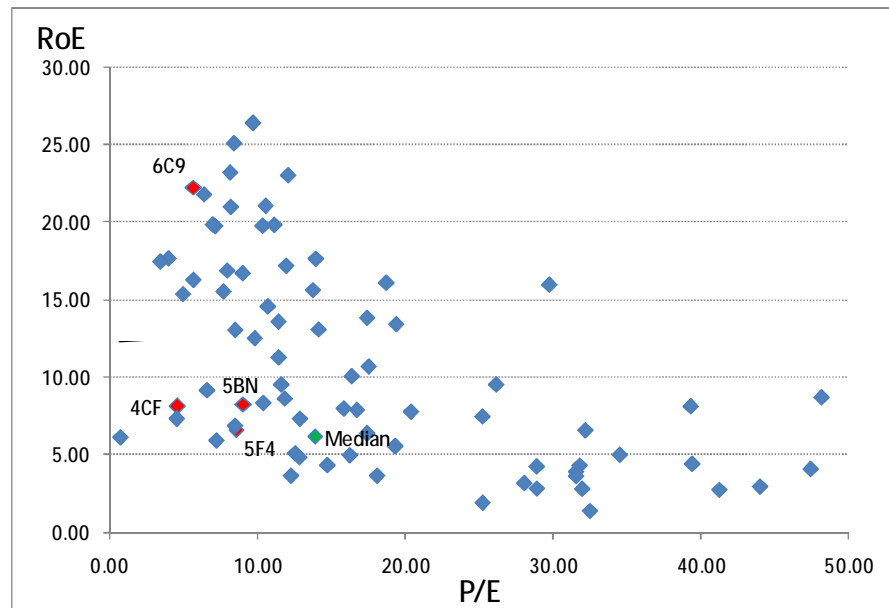
*Valuation*

	Bulgarian American Credit Bank	Central Cooperative Bank	Corporate Commercial Bank	First Investment Bank
Number of Shares	12 624 725	83 155 092	6 000 000	110 000 000
Price-to-earnings	13.91	13.91	13.91	13.91
Net Profit (ttm)	17 554 000	20 811 000	65 974 000	27 400 000
Price	19.34	3.48	152.97	3.47
Price-to-book	1.05	1.05	1.05	1.05
Equity	212 049 000	257 202 000	296 643 000	417 217 000
Price	17.62	3.24	51.86	3.98
Fair Price	18.48	3.36	102.42	3.72
Premium (Discount)	46.68%	192.71%	64.00%	74.75%

Calculations: ELANA Trading

According to the comparison to regional peers, all Bulgarian banking stocks are undervalued. CCB is currently trading more than 200% below the fair price, calculated by comparing P/E and P/B with equal weight. Both multiples had fair prices that are close to each in CCB, FIB and BACB. The large profit of CORP contributed for higher fair price, whereas the bank's book value was a negative factor for the valuation.

We do not expect that Bulgarian public listed banks will be subject of acquisition deals at the current low prices. Price-to-assets ratio is confirming also the attractive valuation but supply is the main restrain of such deals – it is highly unlikely that majority owners will sell any stakes at current prices.



Source: Bloomberg

Bulgarian banks are mainly situated in the P/E and RoE lows. Notable exception is CORP due to its high return on equity. Most positions are having low P/E ratios and high return on equity. The data are not a surprise as Bulgarian stock

market is lagging the recovery since September 2009, which explains the low P/E of domestic banks. Moreover, losses from NPL increased in 2009 that also has negative impact on the profits with lag as compared to other European countries. Those factors are main reasons for bank stocks to be undervalued.

The 5-year average return on equity of the four banks is 16.70%. We will use this value as discount factor for the residual income valuation of the four banks. The expected long-term growth rate is 3.5%, whereas the payout ratio is 33%.

	2007	2008	2009	2010E	2011E	2012E	2013E	2014E
Total Assets	4 205 076	4 256 134	4 095 287	4 197 669	4 407 553	4 760 157	5 331 376	6 131 082
Loans and Receivables	3 019 043	3 103 821	3 163 298	3 226 564	3 371 759	3 590 924	4 003 880	4 564 423
As Percentage of Assets	71,8%	72,9%	77,2%	76,9%	76,5%	75,4%	75,1%	74,4%
Total Liabilities	3 879 762	3 885 664	3 686 477	3 774 239	3 952 766	4 261 339	4 782 100	5 518 843
As Percentage of Assets	92,3%	91,3%	90,0%	89,9%	89,7%	89,5%	89,7%	90,0%
Total Equity	325 314	370 470	408 810	423 430	454 786	498 818	549 275	612 239
Net Profit	50 065	50 931	32 019	25 186	39 668	57 122	69 308	85 835
Return on Equity	15,39%	13,75%	7,83%	5,95%	8,72%	11,45%	12,62%	14,02%
Return on Assets	1,19%	1,20%	0,78%	0,60%	0,90%	1,20%	1,30%	1,40%

Estimations: ELANA Trading

The net profit of FIB was under pressure from the rising losses from NPLs. We expect this trend to continue in 2010 and probably in early 2011. Some reintegration of provision could boost the financial result for the next year but we expect that the bank will return in normal conditions in 2012. FIB has excellent retail services and broad branch network that will support its growth during the next phase of expansion of the banking system. Moreover, FIB will be positioned at better place in terms of attracting deposits. Gradual change in the structure of liabilities toward deposits at lower interest rates than hybrid capital instruments will improve the return on assets.

<b>Discounted cash to equity value:</b>	
NPV five year free cash flow	53 997
NPV terminal value	245 521
<b>Value of shareholders' funds</b>	<b>299 518</b>
Shares issued (thousand)	110 000
<b>Value per share</b>	<b>2,72</b>
Share price	2,13
<i>Premium/(discount)</i>	<i>27,84%</i>

Calculations: ELANA Trading

<b>Residual income valuation:</b>	
Opening shareholders' funds	423 430
PV five year residual income	(88 147)
PV terminal value (ex incremental investment)	(35 765)
PV terminal value (incremental investment)	0
<b>Value of shareholders' funds</b>	<b>299 518</b>
Shares issued (thousand)	110 000
<b>Value per share</b>	<b>2,72</b>
Share price	2,13
<i>Premium/(discount)</i>	<i>27,84%</i>

Calculations: ELANA Trading

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**Rating:** FIB is currently traded 30% below the value of shares according to our model  
**BUY** for valuation. This is significantly lower than 75% below the fair price that is  
**Target price:** calculated through multiples of Eastern European peers. Both price levels are  
**BGN 3.22** BGN 2.72 and BGN 3.72, respectively. The average price from both methods is  
**Upside:** BGN 3.22 and is our target for one year. It is 50% above the current market  
**51%** price and is justifying the buy recommendation on FIB's shares.

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Assets	2007	2008	2009
Cash and cash balances with central banks	540 344	587 396	398 874
Financial assets held for trading	13 529	9 681	9 023
Financial assets designated at fair value through profit or loss	0	0	0
Available-for-sale financial assets	374 203	286 624	285 110
Loans and receivables	3 019 043	3 103 821	3 163 298
Held-to-maturity investments	104 706	60 393	30 018
Derivatives – hedge accounting	823	274	0
Fair value changes of the hedged items in portfolio hedge of interest rate risk	0	0	0
Tangible assets	111 282	149 010	127 683
Intangible assets	429	5 164	18 115
Investments in subsidiaries	22 965	24 920	28 876
Tax assets	862	2 047	3 270
Other assets	11 960	20 796	20 926
Non-current assets and disposal groups classified as held for sale	4 930	6 008	10 094
<b>Total Assets</b>	<b>4 205 076</b>	<b>4 256 134</b>	<b>4 095 287</b>
Deposits from central banks	0	0	0
Financial liabilities held for trading	0	0	0
Financial liabilities designated at fair value through profit or loss	0	0	0
Financial liabilities measured at amortised cost	3 870 326	3 877 460	3 677 884
Financial liabilities associated with transferred financial assets	0	0	0
Derivatives – hedge accounting	1 924	1 336	248
Fair value changes of the hedged items in portfolio hedge of interest rate risk	0	0	0
Provisions	0	0	0
Tax liabilities	4 116	2 683	2 901
Other liabilities	3 396	4 185	5 444
Share capital repayable on demand	0	0	0
Liabilities included in disposal groups classified as held for sale	0	0	0
<b>Total Liabilities</b>	<b>3 879 762</b>	<b>3 885 664</b>	<b>3 686 477</b>
Issued capital	110 000	110 000	110 000
Share premium	97 000	97 000	97 000
Other equity	0	0	0
Revaluation reserves and other valuation differences	-350	-6 467	-146
Reserves (including retained earnings)	68 599	119 006	169 937
Treasury shares	0	0	0
Income from current year	50 065	50 931	32 019
Interim dividends	0	0	0
Minority interest	0	0	0
<b>Total equity</b>	<b>325 314</b>	<b>370 470</b>	<b>408 810</b>

Source: Bulgarian National Bank

Continuing operations	2007	2008	2009
Financial & operating income and expenses	192 478	209 635	192 987
Interest income	269 669	333 421	359 724
Interest expenses	138 918	189 069	234 823
Expenses on share capital repayable on demand	0	0	0
Dividend income	32	69	386
Fee and commission income	59 253	69 656	55 993
Fee and commission expenses	9 637	9 046	7 174
Realised gains (losses) on financial assets & liabilities not measured at fair value through profit or loss, net	-231	-1 581	600
Gains (losses) on financial assets and liabilities held for trading, net	2 762	-3 773	8 365
Gains (losses) on financial assets and liabilities designated at fair value through profit or loss, net	0	0	0
Gains (losses) from hedge accounting, net	0	0	0
Exchange differences, net	7 626	5 619	-565
Gains (losses) on derecognition of assets other than held for sale, net	0	0	0
Other operating income	2 770	4 710	10 613
Other operating expenses	848	371	132
Administration costs	98 922	139 556	130 267
Depreciation	11 541	16 796	17 822
Provisions	0	0	0
Impairment	26 408	-2 742	8 615
Negative goodwill immediately recognised in profit or loss	0	0	0
Share of the profit or loss of associates and joint ventures accounted for using the equity method	0	0	0
Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	0	0	0
Total profit or loss before tax from continuing operations	55 607	56 025	36 283
Tax expense (income) related to profit or loss from continuing operations	5 542	5 094	4 264
Total profit or loss after tax from continuing operations	50 065	50 931	32 019
Profit or loss after tax from discontinued operations	0	0	0
Total profit or loss after tax and discontinued	50 065	50 931	32 019
Profit or loss attributable to minority interest	0	0	0
Profit or loss attributable to equity holders of the parent	50 065	50 931	32 019

Source: Bulgarian National Bank



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<b>Outperform</b>	More than 5% higher as compared to SOFIX and BG40 performance
<b>Market Perform</b>	Market performance, +/-5% as compared to SOFIX and BG40
<b>Underperform</b>	More than 5% lower as compared to SOFIX and BG40 performance

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