

Central Cooperative Bank (Bloomberg:4CF BU)

Central Cooperative Bank (CCB) was created in 1991 and became public listed in March 4, 1999. At the beginning of 2002 the share of Bank Consolidation Company AD amounting to 32.77% was acquired through bidding by Chimimport JSC, which became the main shareholder of Central Cooperative Bank. Currently, Chimimport holds 75.80% of the shares of the bank through its subsidiary CCB Group Assets Management. CCB has registered capital of BGN 83 155 thousand.

CCB is a universal commercial bank licensed to perform all banking operations. Central Cooperative Bank operates also as an investment intermediary and has been approved by the Bulgarian National Bank to be the primary dealer of government securities.

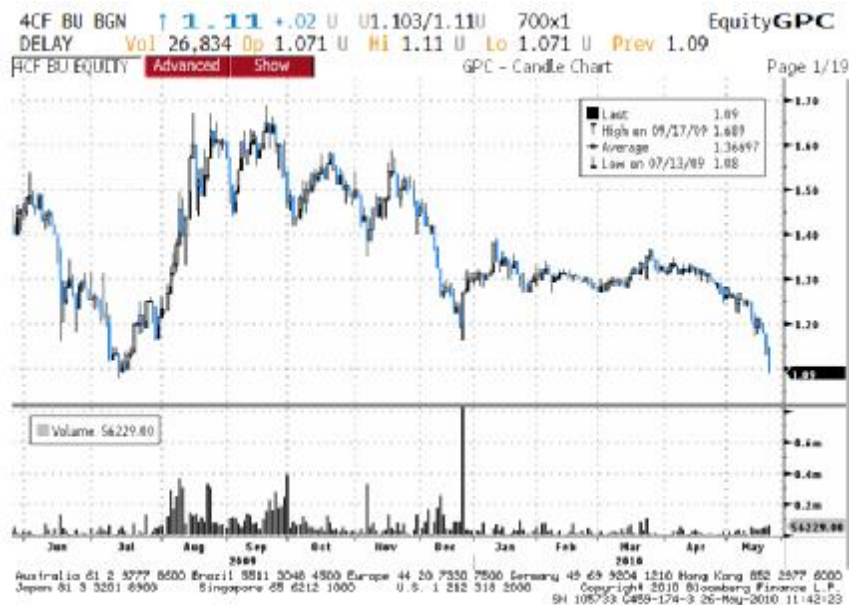
According to the latest information, the interest of minority shareholders in CCB is 23.99%. In the last three years CCB has acquired six commercial banks in Bulgaria that were declared bankrupt, as well as it has acquired the major stake in two Macedonian banks.

52-weeks price high BGN 1.69

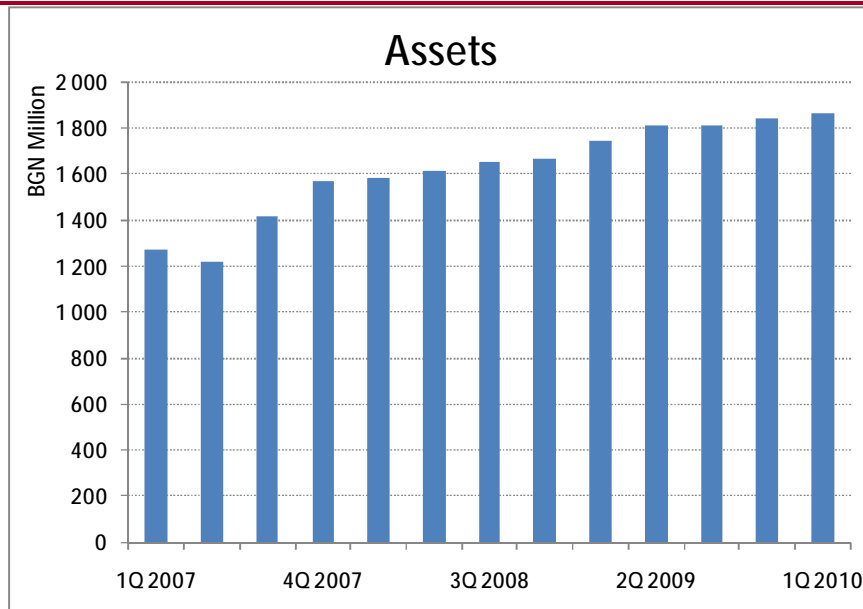
52-weeks price low BGN 1.08

52-weeks price change -22.70%

YTD price change -16.09%



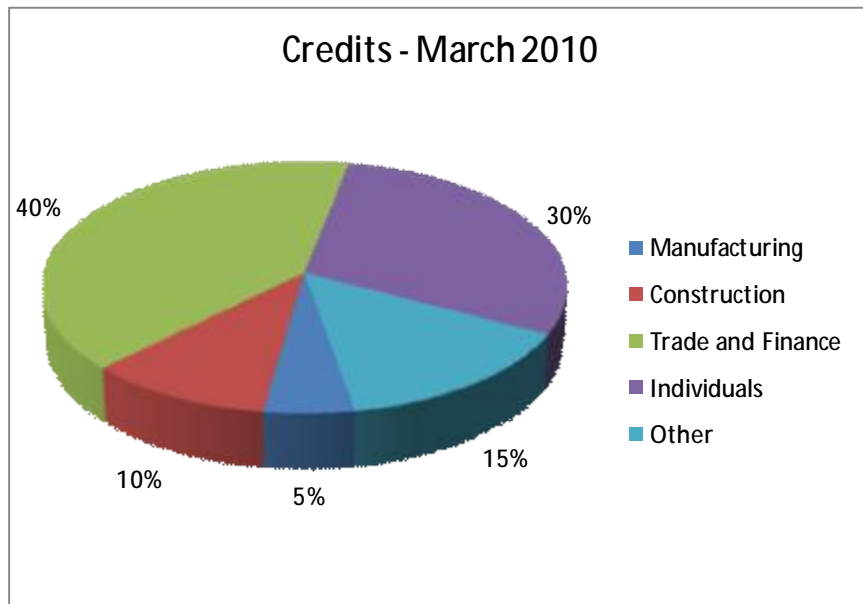
The bank broke the support of BGN 1.30 in mid-April after holding this level from the beginning of the year. The recent market weakness affected seriously the position and it fell to the lows of July 2009. The bank's shares are among the most traded due to the low multiples and large free-float.



Source: Bulgarian National Bank

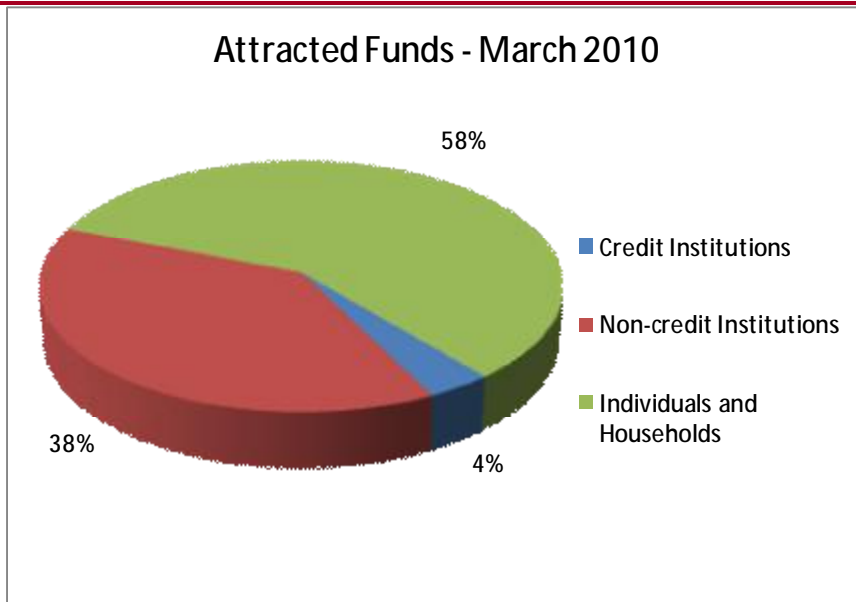
CCB is the eleventh largest bank in Bulgaria

The total amount of assets reached 1.744 billion during the first quarter of 2010, which is a 6.95% increase as compared to the same period of last year. Central Cooperative Bank was ranked 11 among Bulgarian commercial banks by assets. The liquidity ratio was 23.81%, while the average for the period from March 2009 to March 2010 was 24.56%.



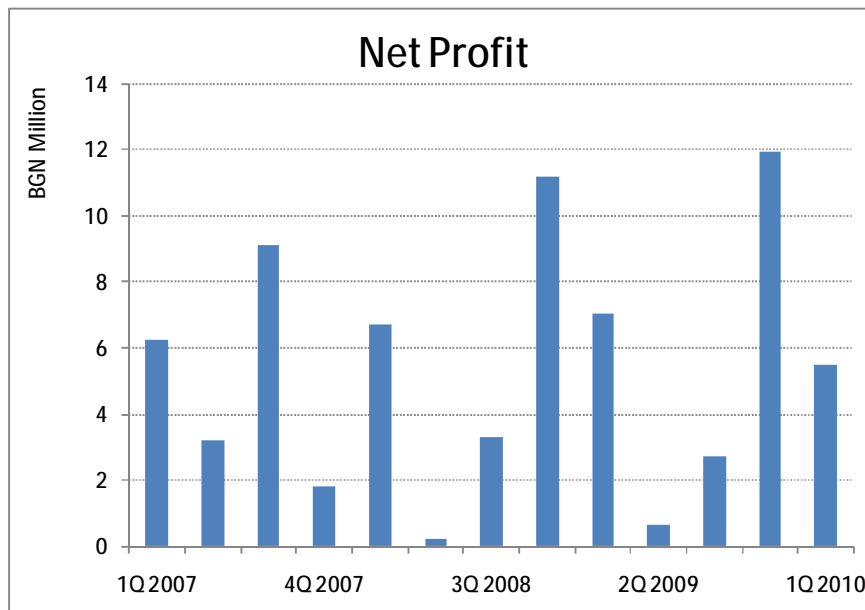
Source: Central Cooperative Bank

The retail segment represented 30% of credits at the end of 2009. CCB is lending mainly to companies in trading and finance industries, whereas construction is holding 10% of the total loans. The interest income was unchanged during the last quarter but declined substantially as comparing to the previous period.



Source: Bulgarian National Bank

Deposits contributed to 95% of total liabilities and amounted BGN 1.5 billion. In comparison to 1Q 2009, the increase is 5.73%. Deposits of households represented the major source of financing for CCB, whereas deposits of other credit institutions are 4% of total. The interest expenses increased substantially since the beginning of 2009 due to the competitive market conjuncture.



Source: Bulgarian National Bank

Central Cooperative Bank announced BGN 5.5 million net profit for the 1Q 2010, which is 21.78% lower than 1Q 2009 (when the profit exceeded BGN 7 million). The net interest income of the bank decreased on a yearly basis from BGN 16.8 to BGN 15.1 million, whereas the revenues from taxes and commissions gained 10.62%. Administration costs shrunk by 14% y-o-y due to the cost cutting program for optimisation. The financial results of 2007 and 2009 were influenced by the gains on financial assets but the net loss for the first quarter

of 2010 was insignificant. CCB's portfolio is including capital instruments but the largest parts are Bulgarian government securities.

Corporate News

- 02 Feb 2010** Central Cooperative Bank announced its 4Q 2009 financial report.
- 04 March 2010** On March 01 2010, the Supervisory and the Management Board of Central Cooperative Bank have adopted a decision Central Cooperative Bank to acquire 100% of the equity of Stater Banka - Kumanovo, Republic of Macedonia.
- 06 April 2010** The tender offer of Central Cooperative Bank addressed on March 16 2010 to the shareholders of Stater Banka AD-Kumanovo, Republic of Macedonia, has been successfully accomplished.
Central Cooperative Bank has made a tender offer for the acquisition of 339 178 common voting shares of Stater Banka at the price of MKD 1 070 per share. As a result of the tender offer, Central Cooperative Bank has acquired 317 864 common voting shares i.e. 93.72% of the voting shares issued by Stater Banka.
- 30 April 2010** CCB submitted its 1Q 2010 consolidated report.
- 18 May 2010** The Management Board of Central Cooperative Bank has adopted on 13.05.2010 a decision to propose to the General Meeting of Shareholders of the bank, the 2009 profit to be set aside as reserves. The Board has further decided to appoint the GMS on June 06, 2010.

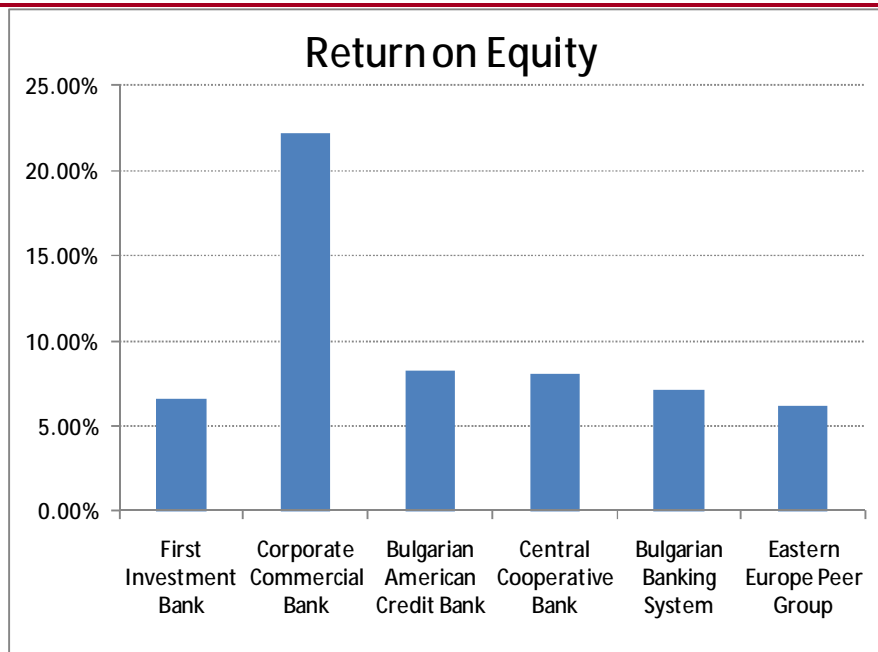
VALUATION

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.

Graph 26



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

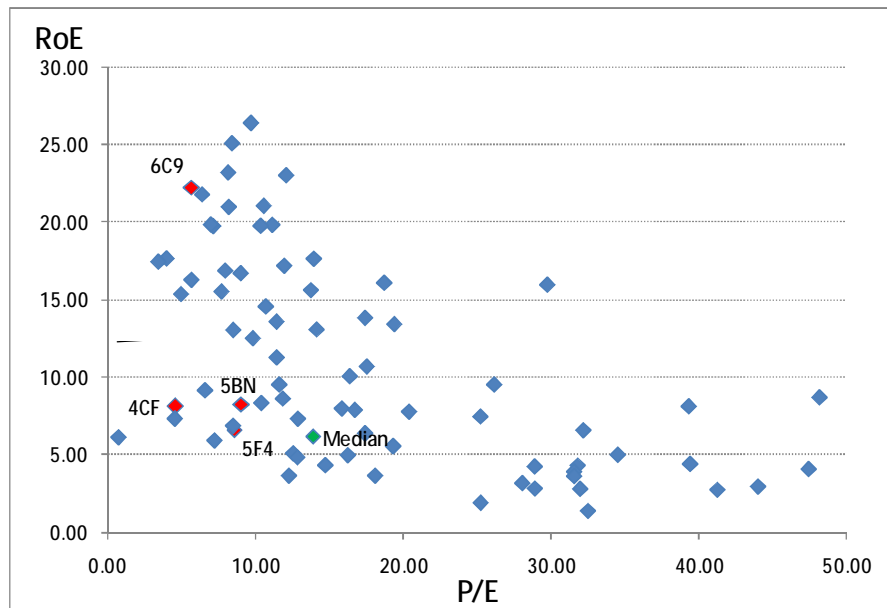
| | Bulgarian American Credit Bank | Central Cooperative Bank | Corporate Commercial Bank | First Investment Bank |
|--------------------|--------------------------------|--------------------------|---------------------------|-----------------------|
| Number of Shares | 12 624 725 | 83 155 092 | 6 000 000 | 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

All banks are undervalued

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%.

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| | 2007 | 2008 | 2009 | 2010E | 2011E | 2012E | 2013E | 2014E |
|--------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Total Assets | 1 565 351 | 1 663 314 | 1 839 424 | 1 913 001 | 2 008 651 | 2 169 343 | 2 494 745 | 2 993 693 |
| Loans and Receivables | 1 063 794 | 1 047 549 | 1 216 543 | 1 259 122 | 1 315 782 | 1 407 887 | 1 604 991 | 1 893 890 |
| <i>As Percentage of Assets</i> | 68,0% | 63,0% | 66,1% | 65,8% | 65,5% | 64,9% | 64,3% | 63,3% |
| Total Liabilities | 1 353 779 | 1 435 009 | 1 587 774 | 1 645 768 | 1 722 881 | 1 862 904 | 2 163 043 | 2 630 109 |
| <i>As Percentage of Assets</i> | 86,5% | 86,3% | 86,3% | 86,0% | 85,8% | 85,9% | 86,7% | 87,9% |
| Total Equity | 211 572 | 228 305 | 251 650 | 267 233 | 285 770 | 306 439 | 331 701 | 363 584 |
| Net Profit | 20 321 | 21 453 | 22 342 | 22 956 | 26 112 | 29 286 | 34 926 | 43 409 |
| Return on Equity | 9,60% | 9,40% | 8,88% | 8,59% | 9,14% | 9,56% | 10,53% | 11,94% |
| Return on Assets | 1,30% | 1,29% | 1,21% | 1,20% | 1,30% | 1,35% | 1,40% | 1,45% |

Estimations: ELANA Trading

Return on equity of CCB remained stable during the last two years as impairment costs in 2009 did not exceeded the level of 2007. The bank had very low level of impairment costs during the first quarter of 2010, which is the main reason for us to expect stable profit for the year. We expect faster growth of assets and loans for CCB as compared to BACB as the bank is more retail oriented and is creditor to broader range of industries. We also think that CCB will have improved profitability ratios over two years due to the expected moderate expansion as compared to 2007-2008.

| Discounted cash to equity value: | |
|---|----------------|
| NPV five year free cash flow | 31 724 |
| NPV terminal value | 124 165 |
| Value of shareholders' funds | 155 889 |
| Shares issued (thousand) | 83 155 |
| Value per share | 1,87 |
| Share price | 1,15 |
| <i>Premium/(discount)</i> | 63,16% |

Calculations: ELANA Trading

| Residual income valuation: | |
|---|----------------|
| Opening shareholders' funds | 267 233 |
| PV five year residual income | (63 618) |
| PV terminal value (ex incremental investment) | (47 726) |
| PV terminal value (incremental investment) | 0 |
| Value of shareholders' funds | 155 889 |
| Shares issued (thousand) | 83 155 |
| Value per share | 1,87 |
| Share price | 1,15 |
| <i>Premium/(discount)</i> | 63,16% |

Calculations: ELANA Trading

Rating: The intrinsic value of CCB is BGN 1.87 per share. This is almost 70% higher than the current market prices. The average 5-year return on equity of CCB was the lowest among the four banks. It is 10.25% and the calculated price with this value is closer to the fair price by comparison to peers. It is probable that the market will require lower rate of return in the future but we prefer to stick to more conservative approach. The price target is BGN 2.62 or the average from the both methods. This is 130% higher than the market price. CCB is the most undervalued bank and the main reasons are the very low P/E and P/B ratios. We give buy recommendation, despite the huge difference between the market price and the target that could justify more aggressive stance. Any negative news regarding losses from NPLs are already priced in and the low multiples are consequence of the stock liquidity, rather than negative expectations. However, liquidity will limit the price gains and this is the reason for buy recommendation instead of strong buy.

| Assets | 2007 | 2008 | 2009 |
|---|------------------|------------------|------------------|
| Cash and cash balances with central banks | 279 748 | 273 164 | 186 063 |
| Financial assets held for trading | 39 875 | 16 344 | 12 178 |
| Financial assets designated at fair value through profit or loss | 0 | 0 | 0 |
| Available-for-sale financial assets | 95 902 | 77 954 | 80 882 |
| Loans and receivables | 1 316 299 | 1 597 270 | 1 612 080 |
| Held-to-maturity investments | 0 | 75 643 | 76 027 |
| Derivatives – hedge accounting | 0 | 0 | 0 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | 0 | 0 | 0 |
| Tangible assets | 37 393 | 60 419 | 61 770 |
| Intangible assets | 381 | 554 | 476 |
| Investments in subsidiaries | 161 | 161 | 165 |
| Tax assets | 1 126 | 3 277 | 5 193 |
| Other assets | 1 238 | 1 093 | 1 028 |
| Non-current assets and disposal groups classified as held for sale | 0 | 0 | 0 |
| Total Assets | 1 772 123 | 2 105 879 | 2 035 862 |
| 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 | 1 608 728 | 1 881 902 | 1 748 612 |
| Financial liabilities associated with transferred financial assets | 0 | 0 | 0 |
| Derivatives – hedge accounting | 0 | 0 | 0 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | 0 | 0 | 0 |
| Provisions | 194 | 361 | 532 |
| Tax liabilities | 3 687 | 7 505 | 10 059 |
| Other liabilities | 3 402 | 1 498 | 763 |
| Share capital repayable on demand | 0 | 0 | 0 |
| Liabilities included in disposal groups classified as held for sale | 0 | 0 | 0 |
| Total Liabilities | 1 616 011 | 1 891 266 | 1 759 966 |
| Issued capital | 60 000 | 60 000 | 60 000 |
| Share premium | 48 500 | 48 500 | 48 500 |
| Other equity | 0 | 0 | 0 |
| Revaluation reserves and other valuation differences | 4 998 | 23 230 | 24 186 |
| Reserves (including retained earnings) | 19 437 | 42 585 | 82 828 |
| Treasury shares | 0 | 0 | 0 |
| Income from current year | 23 177 | 40 298 | 60 382 |
| Interim dividends | 0 | 0 | 0 |
| Minority interest | 0 | 0 | 0 |
| Total equity | 156 112 | 214 613 | 275 896 |

Source: Bulgarian National Bank

| Continuing operations | 2007 | 2008 | 2009 |
|--|---------------|---------------|---------------|
| Financial & operating income and expenses | 51 452 | 76 752 | 104 585 |
| Interest income | 81 061 | 115 618 | 147 102 |
| Interest expenses | 43 509 | 66 153 | 81 455 |
| Expenses on share capital repayable on demand | 0 | 0 | 0 |
| Dividend income | 5 | 14 | 2 |
| Fee and commission income | 7 181 | 9 881 | 14 768 |
| Fee and commission expenses | 952 | 1 353 | 1 172 |
| Realised gains (losses) on financial assets & liabilities not measured at fair value through profit or loss, net | -88 | 2 462 | 8 228 |
| Gains (losses) on financial assets and liabilities held for trading, net | 4 762 | 5 712 | 9 889 |
| 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 | 2 851 | 7 540 | 6 194 |
| Gains (losses) on derecognition of assets other than held for sale, net | 299 | 98 | 26 |
| Other operating income | 514 | 3 887 | 2 300 |
| Other operating expenses | 672 | 954 | 1 297 |
| Administration costs | 20 975 | 26 984 | 28 429 |
| Depreciation | 2 310 | 3 355 | 4 346 |
| Provisions | 0 | 0 | 397 |
| Impairment | 2 344 | 1 584 | 4 197 |
| 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 | 25 823 | 44 829 | 67 216 |
| Tax expense (income) related to profit or loss from continuing operations | 2 646 | 4 531 | 6 834 |
| Total profit or loss after tax from continuing operations | 23 177 | 40 298 | 60 382 |
| Profit or loss after tax from discontinued operations | 0 | 0 | 0 |
| Total profit or loss after tax and discontinued | 23 177 | 40 298 | 60 382 |
| Profit or loss attributable to minority interest | 0 | 0 | 0 |
| Profit or loss attributable to equity holders of the parent | 23 177 | 40 298 | 60 382 |

Source: Bulgarian National Bank



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

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