Central Cooperative Bank (4CF)

Central Cooperative Bank (CCB) was established in 1991 and became public listed in March 4, 1999. At the beginning of 2002, the share of Bank Consolidation Company 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 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.

During the last several years CCB has acquired six commercial banks in Bulgaria that were declared bankrupt, as well as it has acquired the major stake in Macedonian banks.

52-weeks price high BGN 1.86

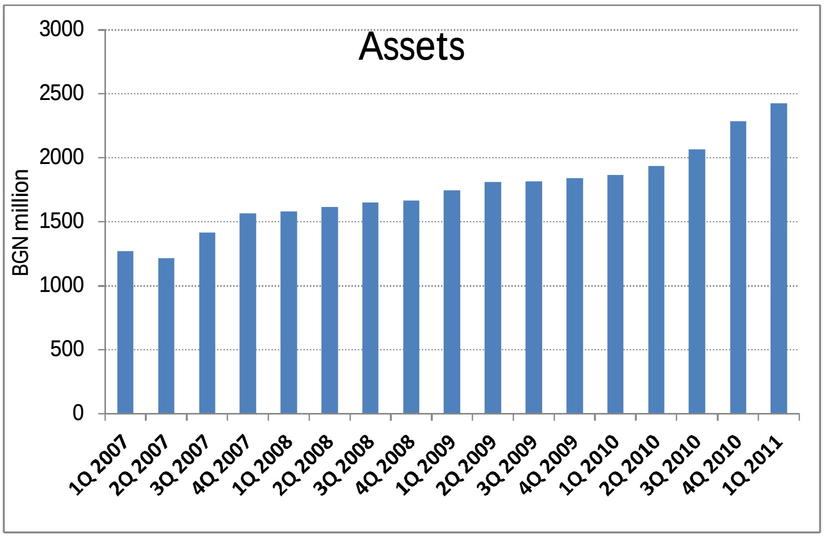
52-weeks price low BGN 0.96

52-weeks price change +30.50%

YTD price change +64.50%

The share of Central Cooperative Bank is among the best performers since the beginning of the year. This was mainly due to the lower valuation ratios than other banks and the lag behind the main SOFIX's components during the previous year. The strong growth was supported by individual investors as well as by institutional participants. The stock entered a period of consolidation after the middle of February and received support at BGN 1.60. However, trading volumes decreased and the position fell below the support line. It won't be a surprise if the share continued to fall in near term.

Graph 1

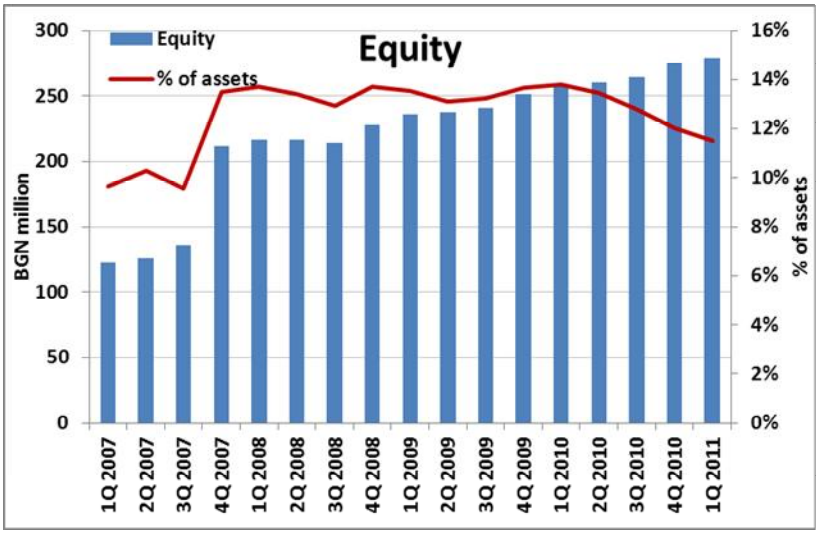


Source: Bulgarian National Bank

Solid assets growth

The total amount of assets posted 24% increase in 2010 due to new deposits. Moreover, assets accelerated their growth to 30% during the first quarter of 2011 as compared to the same period last year. This is above the average for the banking system, which assets' grew 4% in 2010.

Graph 2

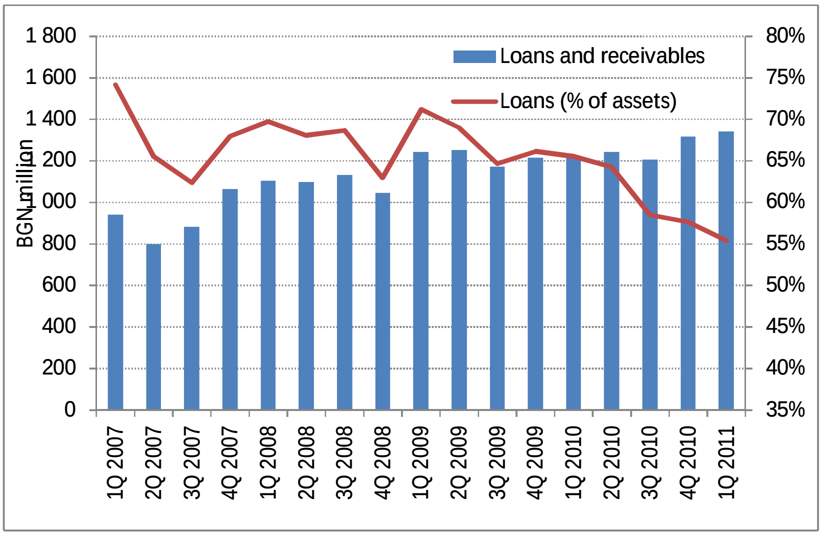


Source: Bulgarian National Bank

The profit boosted CCB's equity

The equity gradually improved during the last year due to the profit. The increase was 8.4% and lag behind the assets' growth. Because of this, the equity-to-assets ratio decreased to 11.5%, which is the lowest level since end of 2007 when the bank increased its capital. The ratio is lower as compared to the average for the banking system of 13.68%. CCB didn't announce its capital adequacy ratio as of 2010, but the equity is enough to maintain credit growth in 2011. There is no sign of forthcoming capital increase but the bank don't need additional capital at the moment. Even modest increase of the deposits will allow further gain of the market share in terms of credits during the next several quarters.

Graph 3

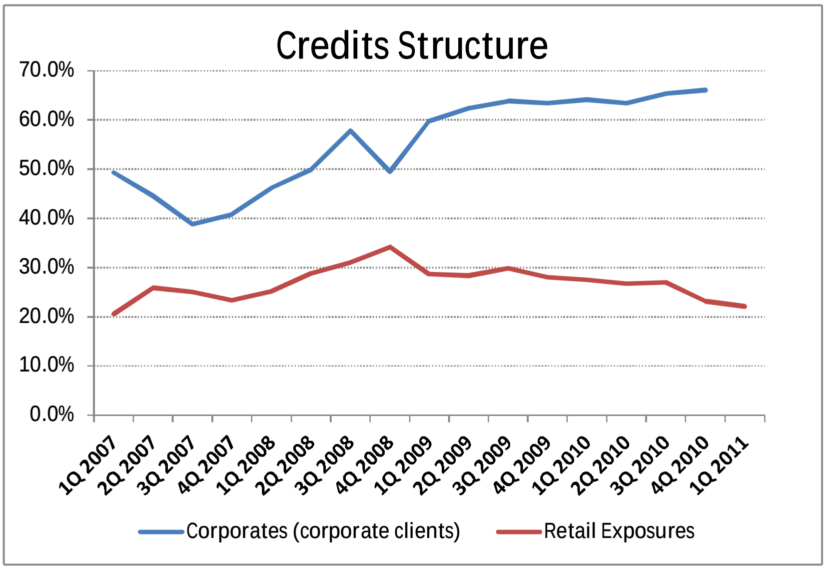


Source: Bulgarian National Bank

Credits have small share in total assets

The credits of CCB set up 55.4% of the total assets. This is the lowest level among the public listed banks and is far below the average for the banking system of 79.2%. The ratio constantly decreases because of the tightened credit policy. We expect gradual improvement of the loans this year due to the improved economy and the constant increase of deposits.

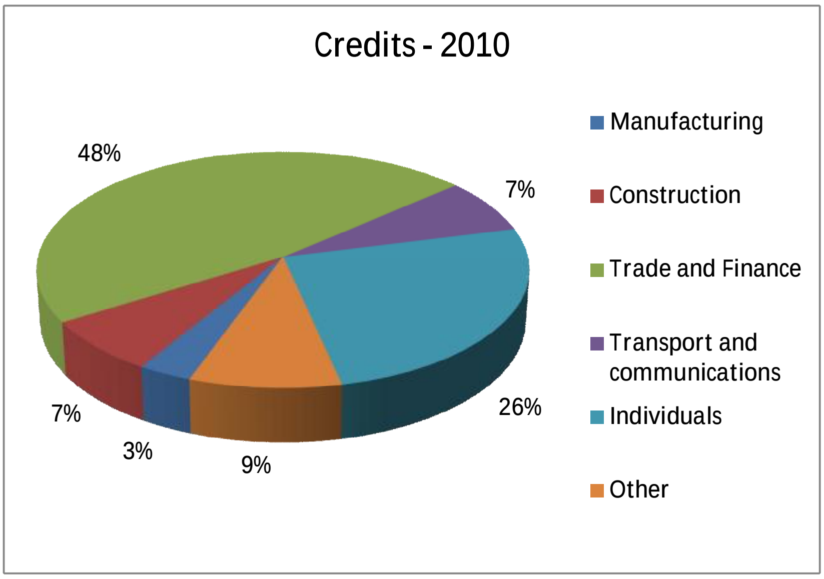
Graph 4



Source: Bulgarian National Bank

The retail exposures decreased during the last two years while the credits to corporate clients increased, mainly because of the worsened quality of the consumer loans. Around 80% of the bank's impairments are on retail exposures, mainly consumer loans. The corporate loans remained with high quality, but CCB has policy to sale some of its bad loans.

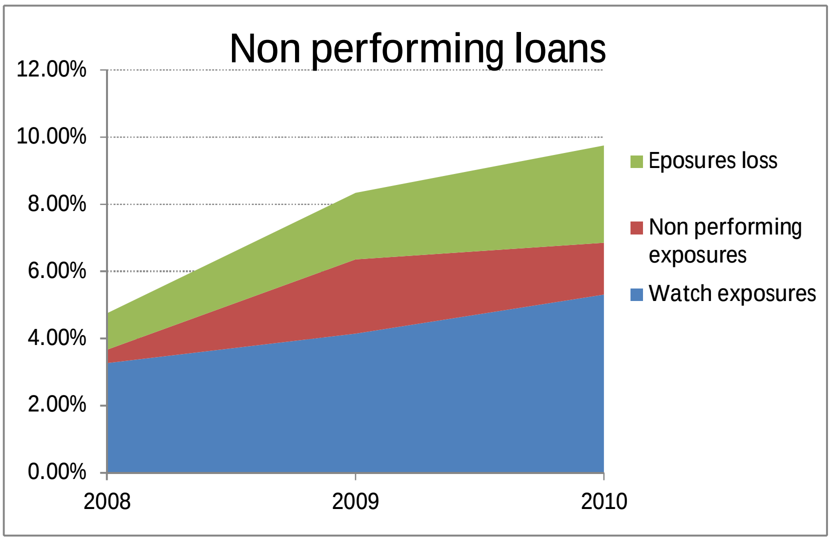
Graph 5



Source: Central Cooperative Bank

The companies in trading and finance industries received the largest part of CCB's total credits. These sectors posted the highest increase during 2010 – 22.5%. Credits to companies of the manufacturing and construction sectors shrunk in nominal value as well as a percentage of total loans, respectively by 34% and 26%.

Graph 6



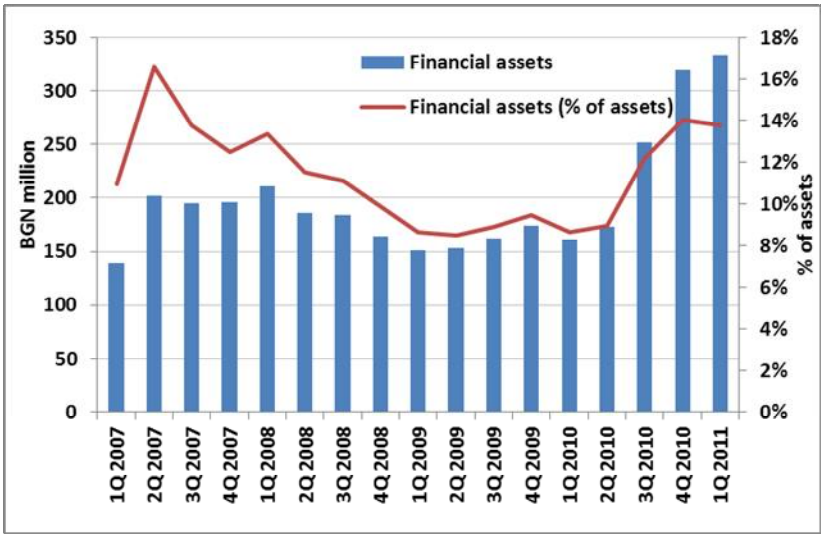
Source: Central Cooperative Bank

The bad credits increased slowly

The level of non-performing loans increased in 2010 but in lower rate as compared to 2009. The NPLs are around 10% of gross credits. The watch exposures or past due between 31 and 90 days continued to increase and didn't show signs for any improvement of the loan quality. From the public banks, only Corporate Commercial Bank has lower stake of non-performing loans as compared to CCB.

The impairments are 1.67% of the total loans. This is significantly lower than the average for the banking system, which at end-2010 stood at 5.03%.

Graph 7

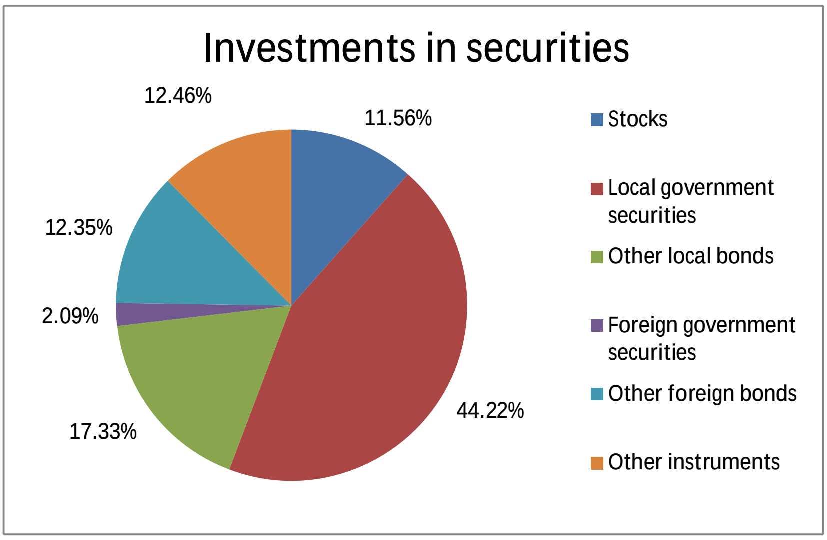


Source: Bulgarian National Bank

Financial assets growth

The conservative credit policy of the bank reflected in increase of the financial assets as a percentage of the total at the end of 2010. At the end of 1Q 2011 the ratio stood at 13.74%. CCB is investing its rising deposits in securities as a protection measure against bad loans. The bank is not forced by insufficient capital adequacy ratio to invest in securities like the case of First Investment Bank.

Graph 8



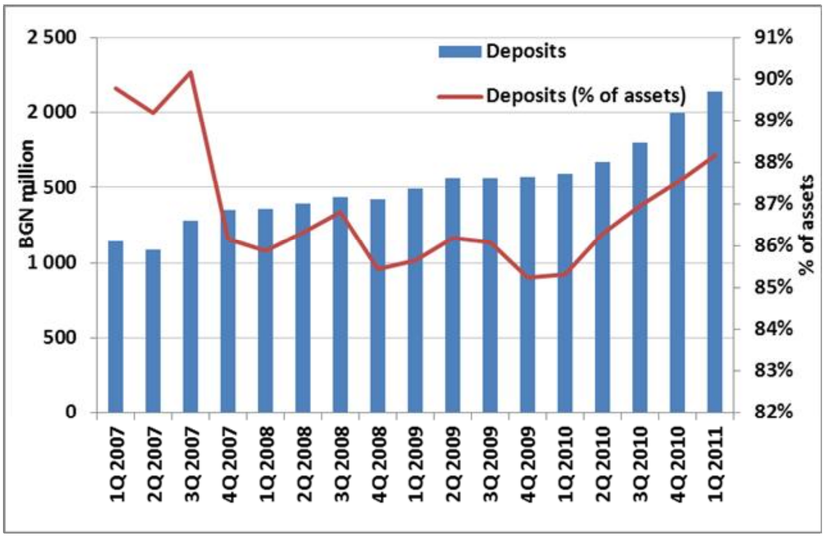
Source: Bulgarian National Bank as of March 31, 2011

The Government Bonds predominated

The government bonds represented the largest part of the bank's portfolio, followed by exposures in Bulgarian corporate and other private debt securities. CCB has large stake of investments in stocks in contrast to the rest of the public banks and the banking system, which have more conservative policy in terms of the riskier securities. Around 13% of the total portfolio constitutes of subsidiaries of the bank.

The stake of the government bonds decreased to 64% at the end of 2009 to 44% recently. At the same time, the bank increased its investments in foreign fixed-income securities, shares and other Bulgarian bonds.

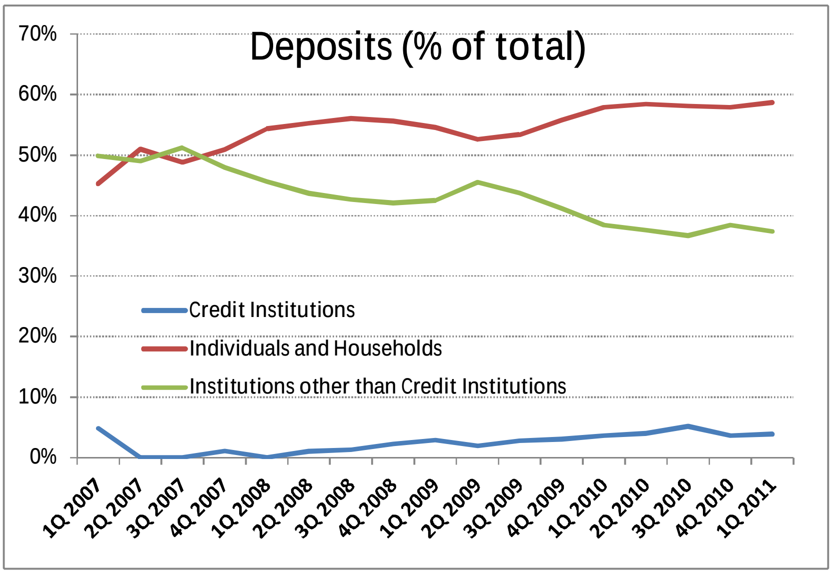
Graph 9



Source: Bulgarian National Bank

The bank attracted deposits **The deposits growth was 34% for a year. The solid increase was due to wide office network and the still higher interest rates, which stimulated the saving rate of individuals and households.**

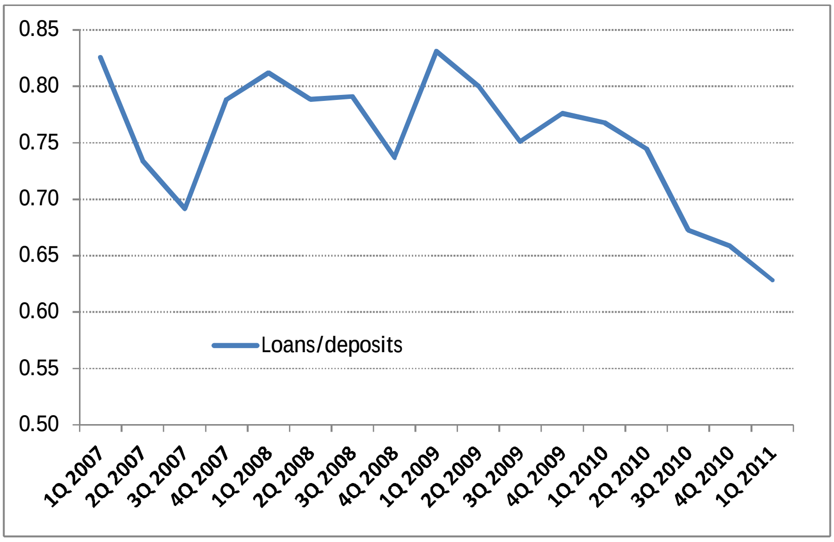
Graph 10



Source: Bulgarian National Bank

Deposits of corporate clients increased faster **The share of deposits of households remained almost unchanged and was close to 60% of total during the last year. The increase of the attracted funds from corporate clients accelerated in 4Q 2010, but their stake continued to decrease during the last three years. They reached historical peak of BGN 799 million. CCB has low stake of attracted funds from other credit institutions. We expect the recovery of Bulgarian economy to have positive influence on the companies' deposits and their stake as a part of the total CCB's deposits to remain on the upside. The deposits of households will increase in small rate due to the inflation and the rising cost of leaving. However, households will remain reluctant to spend for durable goods.**

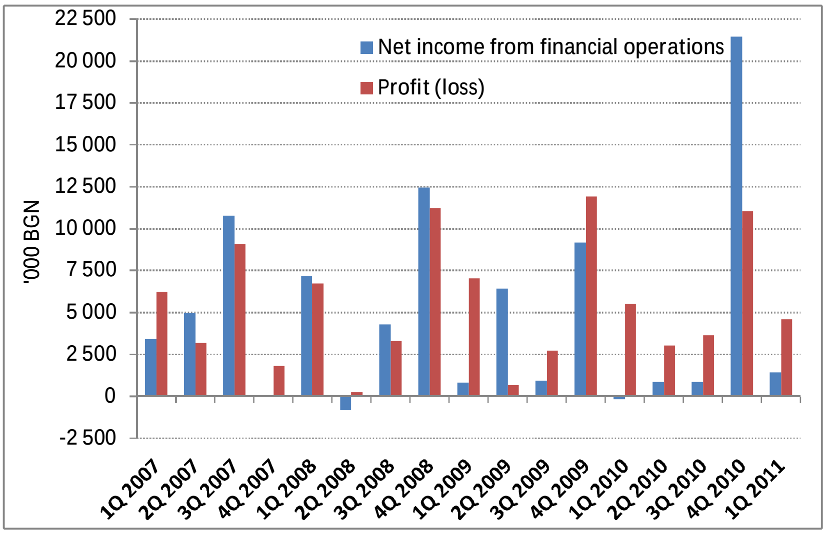
Graph 11



Calculations: ELANA Trading

Loans-to-deposits ratio decreased last years, and there are no signs that the picture will be change in the near future. CCB has solid deposit growth along with conservative credit policy. The bank has the lowest ratio as compared to the rest of the public banks, and is far below the average for the banking system of 0.97.

Graph 12

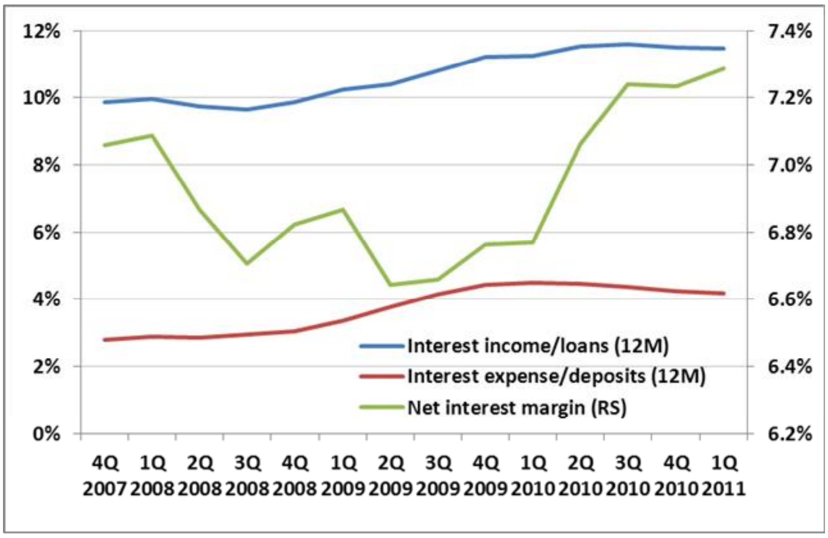


Source: Bulgarian National Bank

The income from financial operations set up the entire financial result

The net income from financial operations set up large part of the bank's profit. The income for the 4Q 2010 is double as compare to the total quarterly profit of CCB. The financial result varies on quarterly basis. The weak profits from operations with securities had small contribution to the total profit during the first quarter of 2011, which was the case during the previous two years.
This factor reflected the investors' confidence in terms of the ability of the bank to grant steady profits from its core business and is fundament for the trading of bank's shares at low multiples.

Graph 13

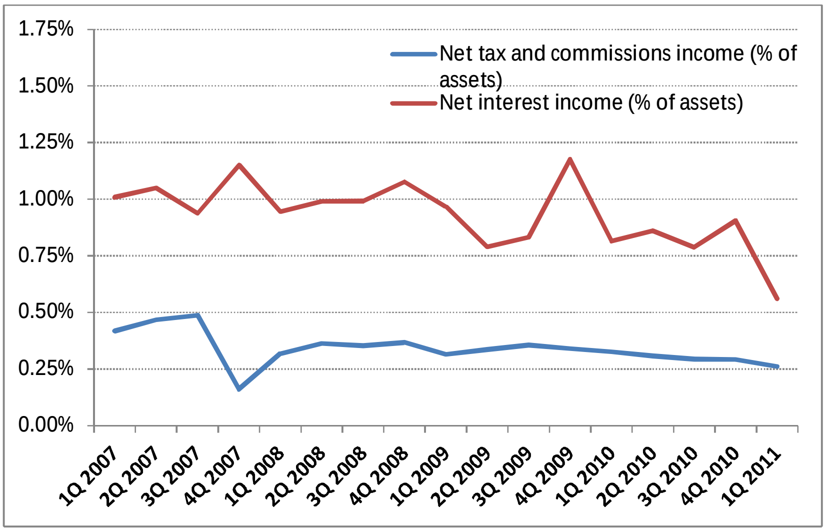


Calculations: ELANA Trading

The interest margin improved

The net interest margin of CCB significantly improved last year and is on its highest level for the last four years. This is mainly due to the steady increase of interest income, while the rates on attracted funds of the bank declined. This trend will persist and we don't expect the improvement of the interest margin to remain.

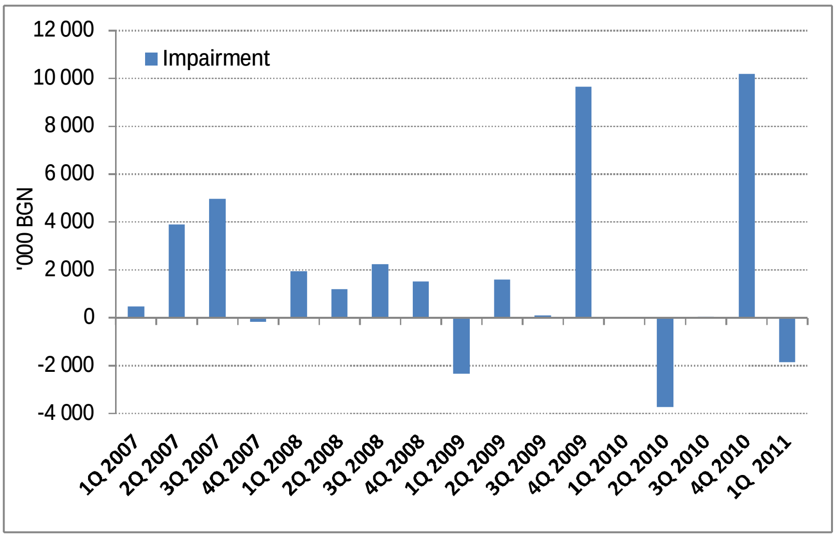
Graph 14



Calculations: ELANA Trading

The net interest income is on its lowest level for the last four years due to the increased deposits and their weight on the CCB balance sheet. The net tax and commissions income also decreased as a percentage of assets. These factors have negative effect on the bank's profit and are the main reason for the lower financial result. The administrative costs of CCB posted significant volatility, but as a whole, they declined during the last year.

Graph 15



Source: Bulgarian National Bank

Impairment costs are large at the end-year

CCB posted above BGN 10 million impairment at the end of 2010 as well as during the last quarter of 2009. Thus, the bank relies on the operations with securities to compensate for the increased costs. Impairment costs were negative during several quarters, including 1Q 2011. This distorts the bank's results on quarterly basis.

Corporate News

January 5, 2011

Central Cooperative Bank announced transformation of its subsidiaries in the Republic of Macedonia through the merger of Stater Banka-Kumanovo, Republic of Macedonia into CCB, Skopje. After the transformation, Central Cooperative Bank holds 87.35% of the capital of CCB, Skopje.

January 11, 2011

The Bank announced that it acquired 9.15% of Investment company Galata.

February 11, 2011

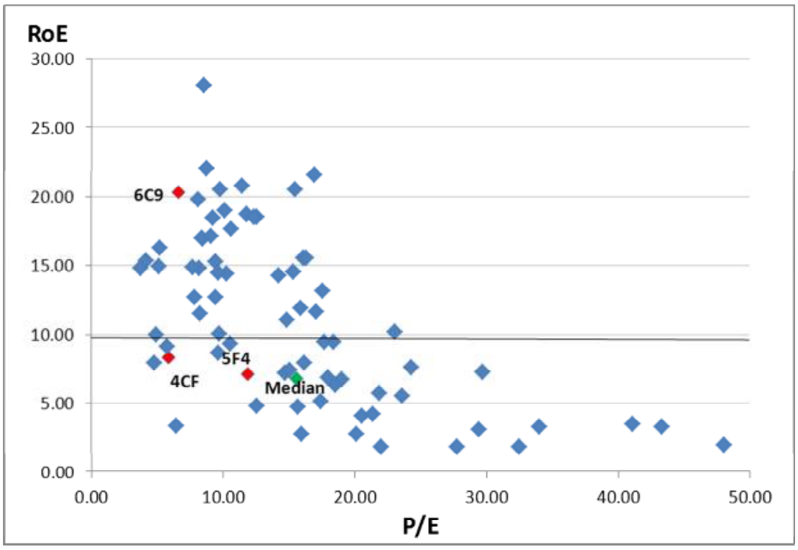
CCB acquired 18% of Bulgaria On Air's capital. The company's main activity is broadcasting and transmission of radio and TV signal.

VALUATION

Public listed banks in Bulgaria are traded at low multiples when comparing to the averages in Eastern Europe. We expect that the level on non-performing loans will stabilize this year, which will improve the profitability of banks. We consider three of the four banks to be undervalued in terms of multiples.

Return on equity

Graph 16



Source: Bloomberg

Bulgarian banks have an advantage

The graph is including the banks in Eastern Europe. Some of them are traded at low price-to-earnings ratio and have very good return on equity. Among the best positions is Corporate Commercial Bank (6C9), which has very attractive multiples and is among the exceptions in the region. The other two banks with positive financial results – Central Cooperative Bank (4CF) and First Investment Bank (5F4) are also traded at better than the median multiples. The graph include only banks with net profits but the median is calculated by all financial results, including negative ratios. Among them is the fourth Bulgarian public listed bank – Bulgarian-American Credit Bank (5BN), but the total number of unprofitable companies is low.
The return on equity of the Bulgarian banking system was 6.15% in 2010, which is above the average in Eastern Europe.

Multiples comparison

Bulgarian banks are traded at low valuation multiples. The deterioration of the credit portfolio of Bulgarian-American Credit Bank resulted to loss but the other three banks were profitable in 2010. At the same time, the three are increasing their equity and assets, which is creating the opportunity to improve their credit activity in the near future.
Stock prices of all banks weakened during the second half of May, which improved the valuation as investors grew worries about the debt problems in Greece.

Multiples comparison

	Bulgarian American Credit Bank	Central Cooperative Bank	Corporate Commercial Bank	First Investment Bank
Last Price	6.92	1.63	75.00	3.45
Number of Shares	12 624 725	83 155 092	6 000 000	110 000 000
Market Capitalization	87 363 097	135 542 800	450 000 000	379 500 000
Net Profit (ttm)	-28 401 000	23 245 000	68 297 000	32 019 000
P/E	**-3.08**	**5.83**	**6.59**	**11.85**
Assets (ttm)	685 522 000	2 423 455 000	2 960 108 000	5 267 436 000
P/Assets	**0.13**	**0.06**	**0.15**	**0.07**
Equity	179 375 000	278 672 000	335 985 000	448 829 000
P/B	**0.49**	**0.49**	**1.34**	**0.85**
RoE	-15.83%	8.34%	20.33%	7.13%
RoA	-4.14%	0.96%	2.31%	0.61%

Calculations: ELANA Trading

The best performing positions during the rally in January-February 2011 were banks. Their gains increased the valuation ratios. However, Central Cooperative Bank and Corporate Commercial Bank are currently traded at very low price-to-earnings ratios. First Investment Bank also has higher ratio as its profit improved 10% whereas the price had much stronger gains.
The reasons for the low multiples of the two banks are different for each case. Investors are not satisfied by the financial profits of Central Cooperative Bank as operations with securities had higher effect on the total result than the operating profit. Corporate Commercial Bank had Low P/E due to the absence of speculators to support the price per share as they consider the bank to be investment for mutual funds and other institutions. The number of deals is significantly lower as comparing to the other banks.
Corporate Commercial Bank is the only liquid bank that is traded above the book value.

We compare the banks to the median of the ratios in Eastern Europe to eliminate the extreme values. Data for the price-to-earnings ratio exclude the negative results of the regional banks. This is the reason to underestimate the fair value of banks' shares. The median P/E is 15.50, whereas the median P/B is 1.11. Both ratios are higher than a year ago, which is clear sign for the rising risk appetite.

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	15.56	15.56	15.56	15.56
Net Profit (ttm)	-28 401 000	23 245 000	68 297 000	32 019 000
Price	0.00	4.35	177.09	4.53
Price-to-book	1.03	1.03	1.03	1.03
Equity	179 375 000	278 672 000	335 985 000	448 829 000
Price	14.66	3.46	57.76	4.21
Fair Price	7.33	3.90	117.43	4.37
Current Price	6.92	1.63	75.00	3.45
Premium (Discount)	5.89%	139.44%	56.57%	26.63%

Calculations: ELANA Trading

Three of the four Bulgarian banks are undervalued according to the comparison to peers in eastern Europe. Only shares of Bulgarian-American Credit Bank are close to their fair value when comparing to the sector's multiples. Central Cooperative Bank's shares have the largest premium of the fair value above the current price as it is traded at very low multiples.

The differences between the fair values by multiples comparison and the current prices are shrinking during the last year. This is due to the strong increase of stock prices in Bulgaria. However, the fair prices of all banks except BACB are higher than year ago and First Investment Bank is the leader with 40% improvement.

Central Cooperative Bank (4CF)

	2008	2009	2010	2011E	2012E	2013E	2014E	2015E
Total Assets	1 663 314	1 839 424	2 285 083	2 627 845	2 890 630	3 121 880	3 496 506	4 020 982
Loans and Receivables	1 047 549	1 216 543	1 316 797	1 448 477	1 593 324	1 720 790	1 892 869	2 129 478
As Percentage of Assets	63.0%	66.1%	57.6%	55.1%	55.1%	55.1%	54.1%	53.0%
Total Liabilities	1 435 009	1 587 774	2 010 250	2 333 091	2 573 184	2 779 026	3 123 541	3 611 601
As Percentage of Assets	86.3%	86.3%	88.0%	88.8%	89.0%	89.0%	89.3%	89.8%
Total Equity	228 305	251 650	274 833	294 755	317 446	342 855	372 965	409 381
Net Profit	21 453	22 342	23 245	27 592	31 797	35 902	41 958	50 262
Return on Equty	9.40%	8.88%	8.46%	9.36%	10.02%	10.47%	11.25%	12.28%
Return on Assets	1.29%	1.21%	1.02%	1.05%	1.10%	1.15%	1.20%	1.25%

Forecasts: ELANA Trading

The reason for conservative expectations

The lower profitability of CCB in 2010 as compared to our previous forecasts brings the necessity of downgrading our expectations for near term. The level of impairment remains low. CCB increased its credit portfolio due to the retail banking and the synergy with the companies of Chimimport Group.

Our forecasts are more conservative in terms of profitability as compared to 2008 and 2099 but we prefer to retain them low due to:

- **Lower level of bad loans, which may begin to increase as real income of households is decreasing;**
- **Large share of the net result from operations with securities in the profit.**

Discounted cash to equity value:	
NPV five year free cash flow	39 805
NPV terminal value	172 426
Value of shareholders' funds	**212 231**
Shares issued (thousand)	83 155
Value per share	**2.55**
Share price	1.63
Premium/(discount)	*56.58%*

Residual income valuation:	
Opening shareholders' funds	294 755
PV five year residual income	(45 943)
PV terminal value (ex incremental investment)	(36 581)
PV terminal value (incremental investment)	0
Value of shareholders' funds	**212 231**
Shares issued (thousand)	83 155
Value per share	**2.55**
Share price	1.63
Premium/(discount)	*56.58%*

Source: ELANA Trading

Recommendation: BUY
Target price: BGN 2.55
Upside: 57%

The valuation methods showed intrinsic value of BGN 2.55, which is more than 57% above the market price. This is significantly lower as compared to the difference between the fair value and the price calculated by multiple comparison, but reflected the conservative expectations for the assets' and credits' growth. We don't exclude any positive surprises as the operations with securities contributes a lot to the profit. However, it is less probable to see significantly improvement of the financial result.

We use the price from the residual income valuation method to define one-year price target due to the necessity of CCB to increase its profitability from banking operations instead of revaluation of securities. The share price may continue to outperform the market as the financial report is not well known in depth by individuals and they emphasize on low multiples.

Assets	2007	2008	2009	2010
Cash and cash balances with central bank	244 048	303 183	310 524	486 644
Financial assets held for trading	34 776	21 719	26 971	49 127
Financial assets designated at fair value through profit or los	0	0	0	0
Available-for-sale financial assets	76 520	40 943	55 380	131 825
Loans and receivables	1 063 794	1 047 549	1 216 543	1 316 797
Held-to-maturity investments	84 458	101 598	91 720	138 969
Derivatives – hedge accounting	0	0	0	0
Fair value changes of the hedged items in portfolio hedge of interest rate risk	0	0	0	0
Tangible assets	49 275	52 340	56 844	49 202
Intangible assets	5 997	9 999	371	1 122
Investments in subsidiaries	0	34 881	34 881	46 217
Tax assets	172	181	355	323
Other assets	6 311	50 586	45 500	63 823
Non-current assets and disposal groups classified as held for sal	0	335	335	1 034
Total Assets	**1 565 351**	**1 663 314**	**1 839 424**	**2 285 083**
Deposits from central banks	0	0	0	0
Financial liabilities held for tradin	0	9 252	12 106	6 916
Financial liabilities designated at fair value through profit or los	0	0	0	0
Financial liabilities measured at amortised cos	1 348 891	1 421 383	1 567 824	2 000 245
Financial liabilities associated with transferred financial asse	0	0	0	0
Derivatives – hedge accounting	0	0	0	0
Fair value changes of the hedged items in portfolio hedge of interest rate risk	0	0	0	0
Provisions	0	0	0	0
Tax liabilities	1 624	12	1 013	0
Other liabilities	3 264	4 362	6 831	3 089
Share capital repayable on deman	0	0	0	0
Liabilities included in disposal groups classified as held for sal	0	0	0	0
Total Liabilities	**1 353 779**	**1 435 009**	**1 587 774**	**2 010 250**
Issued capital	83 155	83 155	83 155	83 155
Share premium	64 445	64 445	64 445	64 445
Other equity	0	0	0	0
Revaluation reserves and other valuation difference	-764	-5 257	-4 445	-4 259
Reserves (including retained earnings	44 415	64 509	86 153	108 247
Treasury shares	0	0	0	0
Income from current yea	20 321	21 453	22 342	23 245
Interim dividends	0	0	0	0
Minority interest	0	0	0	0
Total equity	**211 572**	**228 305**	**251 650**	**274 833**

Source: Bulgarian National Bank

Continuing operations	2007	2008	2009	2010
Financial & operating income and expense	94 889	112 465	123 577	120 557
Interest income	90 982	107 922	136 738	143 610
Interest expenses	34 099	42 707	68 826	74 829
Expenses on share capital repayable on demand	0	0	0	0
Dividend income	685	227	45	20
Fee and commission income	23 764	26 163	28 088	28 525
Fee and commission expenses	3 362	3 337	3 785	3 769
Realised gains (losses) on financial assets & liabilities not measured at fair value through profit or loss, net	1 774	24 823	9 889	8 314
Gains (losses) on financial assets and liabilities held for trading, net	17 385	-1 720	7 447	14 675
Gains (losses) on financial assets and liabilities designated at fair value through profit or loss, net	-600	0	0	0
Gains (losses) from hedge accounting, net	0	0	0	0
Exchange differences, net	-2 101	591	-438	1 407
Gains (losses) on derecognition of assets other than held for sale, net	14	-63	13 507	-172
Other operating income	447	566	912	2 776
Other operating expenses	0	0	0	0
Administration costs	56 959	73 843	80 464	78 789
Depreciation	6 204	7 891	9 285	9 419
Provisions	0	0	0	0
Impairment	9 147	6 895	9 005	6 521
Negative goodwill immediately recognised in profit or loss	0	0	0	0
Share of the profit or loss of associates and joint ventures accounted for using the equity method	0	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	0
Total profit or loss before tax from continuing operations	22 579	23 836	24 823	25 828
Tax expense (income) related to profit or loss from continuing operations	2 258	2 383	2 481	2 583
Total profit or loss after tax from continuing operations	20 321	21 453	22 342	23 245
Profit or loss after tax from discontinued operations	0	0	0	0
Total profit or loss after tax and discontinued	20 321	21 453	22 342	23 245
Profit or loss attributable to minority interest	0	0	0	0
Profit or loss attributable to equity holders of the parent	**20 321**	**21 453**	**22 342**	**23 245**

Source: Bulgarian National Bank

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Neutral	Market performance, +/-5% as compared to SOFIX and BG40
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