

CORPORATE COMMERCIAL BANK IPO

General Information

Corporate Commercial Bank (CCB) will increase its capital on the 10th of May and is the first IPO of Bulgarian bank this year. From the 7th to the 18th of May is planned the IPO of First Investment Bank, which will be larger. The banking sector is usually attracting broad investment interest as it is representative for the development of the economy and the consumer demand. We expect significant demand for the shares of both banks. Although its three times smaller balance, Corporate Commercial Bank should not be ignored in FIB's favor due to its specialization toward corporate clients, the perspectives for growth in the segment and the potential for profits. The IPO is planned for May 10 and has some specifics as shares will be allocated by auction and not by the popular and creative book-building like the already completed IPO of Kaolin.

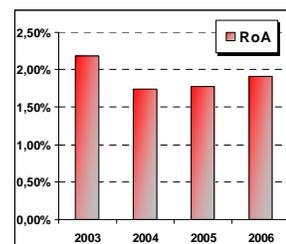
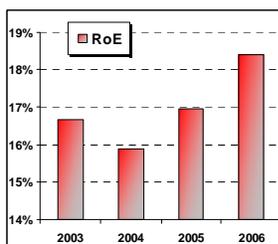
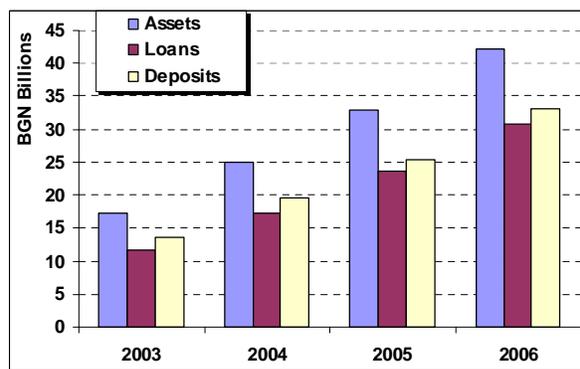
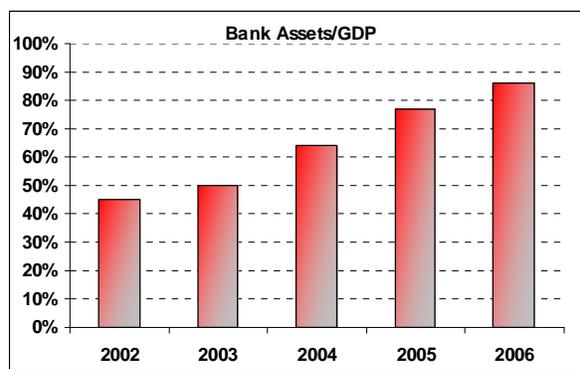
Bulgarian Banking Sector

The banking sector's assets are rising faster than the nominal GDP, thus moving to 86% of GDP last year. This ratio is still low as compared to EU countries and is the main reason for the strong growth in the sector.

2006 brings two interesting observations. The first is the decelerating growth of loans to non-financial institutions (NFI), which fell below the growth rates of total loans, assets and deposits. At the same time, deposits rose faster than assets and more important, faster than loans to NFI.

The new tendency of faster growth of deposits is changing the banking environment. The credit boom is cooling and banks should seek additional ways to attract clients and to support their profit margins as excess deposits will pressure down the net interest income margins. Banks with faster credit growth and popularity among new clients have better perspectives in mid-term. In addition, the banking system could face difficulties if the credit quality worsens due to the credit expansion under severe competition and lower requirements for the new clients.

The banking sector enjoyed a long period of rising profits and revenues from interest and fees. This won't continue indefinitely. The average RoE for Bulgarian banks is 18.40% and the indicator is close to the sector average in Central and Eastern Europe. The jump of assets in 2004 (44%) resulted to decrease of RoE and RoA but the following years showed solid improvement.



IPO Procedure and Timeframe

The number of shares offered is 1 million at the price range between BGN 45 and BGN 58.50. The nominal value of each share is BGN 10 and the capital will be increased from BGN 50m to 60m. Shares will be allocated through auction in proportion of 70% and 30% for market and limited orders, respectively. The oversubscription will lead to different ratios of executions for market and limit orders if the orders received at the minimum execution price exceed the remaining amount of shares. The date for orders is May 10, 2007, between 9.00 and 16.00 local time. For every participant is allowed no more than one market and ten limit orders. The cumulative volume of orders could not exceed 250 000 shares. This will limit the oversubscription but the number is large enough to allow flexible participation in the tender. The price for market orders is the average-weighted price from all approved limited orders. Thus, the IPO of Corporate Commercial Bank will be the first large public offering with different price of execution for limit orders in the short market history in Bulgaria.

Business Description

Corporate Commercial Bank is the 13th largest Bulgarian bank in terms of assets. The institution was created in 1994 and managed to survive the financial crisis in 1996-1997. Its main focus is corporate clients but the bank doesn't have large exposures toward one or several clients. As a result, the bank is maintaining relatively small number of offices compared to other commercial banks.

- Structure of deposits by clients: 30% - individuals, 30% - private companies and 35% - state-owned companies. The share of state-owned companies' deposits is large but is decreasing as the banks client base is expanding. The increase of deposits during 2006 was 93.5%.
- Structure of deposits by maturity and currency: Less than 1 year – 80%. Half of deposits are denominated in BGN, one third in EUR and the rest in USD.
- Average rate paid on deposits – 3.99%. The average interest for time deposits in the banking system for 2006 was 3.47.
- Structure of assets: Claims on Financial Institutions – 42.7%, Commercial Loans – 37.8%, Consumer and Residential Mortgage Loans to Individuals – less than 1%, Securities – 5%, Cash – 12%.
- Structure of loans by clients: 88.9% private firms, 2% individuals.
- Structure of loans by sectors: retail – 44.7%, manufacturing – 21.6%, construction – 12.8%, real estate – 5%.
- Structure of loans by maturity and currency: Less than 1 year – 49%, between 1 and 5 years - 48%, more than 5 years – 3%. BGN 60%, EUR 32%, USD 8%.
- 91.5% of credits have collateral.
- Average yields from loans – 6.94%. The banking system averages for 2006 are 9.65% for long-term and 8.82% for short-term loans. The yield of bank's credit portfolio was 10.24% in 2006 and 10.58 in 2005.

The rapid growth of deposits and the lower increase of commercial loans in 2006 resulted into abnormal structure of assets and low interest margin. The net profit and the return on equity were depressed to very low levels as compared to the average for the Bulgarian banking system. The CCB' deposits in financial institutions are 90% in foreign-owned banks with investment credit rating.

Shareholders' Structure

The majority shareholder is Bromak Ltd. with 69.34% of the capital. The majority shareholder is not planning to decrease its stake in addition to the capital increase. No lock-up agreement is included in the memorandum but no further supply of shares is planned or discussed. The second primary shareholder is Technology Centre – Institute for Microelectronics with 29.06%.

Liquidity

The bank's liquidity and solvency require special attention. The liquid assets cover more than 45% of total deposits and 65% of demand deposits. Corporate Commercial Bank has only 1% of bad credits and the quality of its credit portfolio is far better than those of First Investment Bank or the average for the banking sector. CCB is maintaining conservative approach for new credits and this is the reason of the low rate of bad credits. Moreover, the majority of loans are short-term credits with adequate collateral.

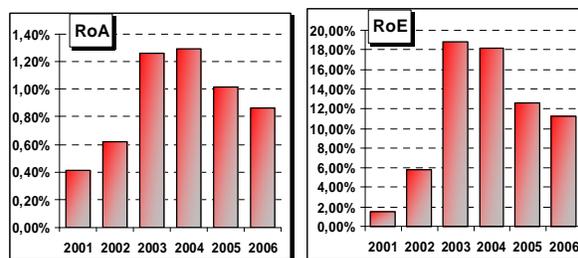
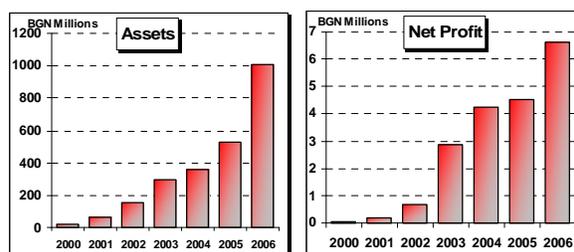
The capital adequacy ratio for 2006 is 13.27% or an increase from the 12.30% for 2005. The average for the banking system in 2006 is 14.50%.

Financial Situation and Growth Perspectives

The net profit for 2006 is far from being attractive but we look at the growth perspectives to justify the participation in the IPO and even to expect solid performance of shares this year. The bank's assets increased faster than the average for the sector and the net profit remained subdued under the higher interest rate paid on deposits and the low revenues from loans to financial institutions.

This should change in 2007 as the bank's management is projecting 48-50% commercial loans to total assets (38% for 2006). Moreover, the preliminary financial results will show an improvement from last year's situation (we expect the complete statement before the IPO). The net profit for 1Q'07 is BGN 5.25m, or almost the total profit after tax for 2006 of BGN 6.61million.

The management is expecting slower assets' growth and net profit of BGN 20 million for 2007. This should put the end of the period of falling return on assets and equity. CCB is working in very specialized and profitable niche and the bank will widen its focus toward small and medium-sized enterprise. The bank is not planning any significant increase of offices that will pressure the profit margins. CCB will invest in e-banking services for SME.



Average yearly data for assets and equities

The projected financial result for 2007 looks achievable after the solid performance in the first quarter. The main driving force should be the low assets growth (although it may be exceeded) and 50% credit/assets that will sent RoA and RoE to the average for the banking system for 2006. Even our more conservative approach (based on faster assets growth, higher interest payment on deposits and competitive pressure upon interest margins) is supporting the management's expectations for net profit of BGN 21 million.

BGN '000	2004	2005	2006	2007f	2008f	2009f
Assets - end of period	359 498	523 860	1 005 555	1 171 069	1 698 050	2 207 465
Average Assets	341 787	463 903	810 197	1 086 357	1 520 901	2 053 217
Equity - end of period	28 544	43 012	74 894	146 893	184 830	239 331
Average Equity	26 257	39 087	56 952	126 201	175 346	225 706
Net Profit	4 251	4 497	6 607	21 733	37 937	54 500
RoE	16,19%	11,51%	11,60%	17,22%	21,64%	24,15%
RoA	1,24%	0,97%	0,82%	2,00%	2,49%	2,65%

Average data from 2004 to 2006 for assets and equities are calculated from quarterly reports

Valuation

The minimum price for Corporate Commercial Bank's IPO is determined by the lead manager through comparison with Central and Eastern European banks by P/E, P/B and RoE. The weight in the price calculation for this method is 70% and the excess return method accounted the rest 30%. Thus the minimum price was set at BGN 48 and the higher price band is 30% higher. The average ratios of CEE banks are 27 for P/E and 4.12 for P/B, whereas the RoE is 15.47%. The averages for the three public listed Bulgarian banks are significantly higher.

The capital raised will be between BGN 45m and 58.5m that will lead to book value per share in the range between BGN 20 and 22. The P/B should be between 2.25 and 2.63 after the IPO. This is an improvement from the P/B of 3, calculated by the minimum price and the capital before the IPO and also a very attractive number as compared to other publicly traded Bulgarian banks. The P/E ratio (with the profit of 2006 and the number of shares after the capital increase) is relatively high but the expected net profit of BGN 21m is pushing the forward P/E below 17 at the maximum price.

Number of New Shares	1 000 000	
Number of Existent Shares	5 000 000	
Capital After the IPO	60 000 000	
Issue Price Band	45,00	58,50
Capital Raised	45 000 000	58 500 000
Equity After the IPO	119 894 000	133 394 000
Market Capitalization	270 000 000	351 000 000
Net Profit - 2006	6 607 000	
P/E	40,87	53,13
Book Value	19,98	22,23
P/B	2,25	2,63
Assets	1 005 555 000	1 005 555 000
P/Assets	0,27	0,35
Net Profit - 2007	21 000 000	
Forward P/E	12,86	16,71

The tentative figures for the auction are based on expectations for higher assets' growth (25% for 2007 or the banking system's trend) and lower RoA as a result of the accelerated assets' growth. However, the net profit is above BGN 20m. This figure is used for the calculation of the market capitalization through forward P/E. The sensitivity analysis showed a range of prices, mainly above BGN 50. This is the reason to expect that the average price on the auction will be in the upper half of the price band between BGN 45 and 58.50.

Valuation Based on Forward P/E

BGN '000	
Asset Growth	25,00%
Assets - end of period	1 256 944
Average Assets	1 131 249
RoA	1,80%
Expected Net Profit	20 362
Expected <i>Forward P/E</i>	16,00
Calculated Market Cap	325 800
Number of Shares	6 000 000
Price per Share (BGN)	54,30

Sensitivity Analysis

		RoA				
		1,60%	1,70%	1,80%	1,90%	2,00%
Forward P/E	13	39,22	41,67	44,12	46,57	49,02
	14	42,23	44,87	47,51	50,15	52,79
	15	45,25	48,08	50,91	53,73	56,56
	16	48,27	51,28	54,30	57,32	60,33
	17	51,28	54,49	57,69	60,90	64,10
	18	54,30	57,69	61,09	64,48	67,87
	19	57,32	60,90	64,48	68,06	71,65
	20	60,33	64,10	67,87	71,65	75,42

One Year Price Target

The one year price target is calculated through the P/E of 25 and the expected net profit from the management, as well as the P/B of 4 and the equity of BGN 145 million that is the sum of 2007 net profit and the equity raised at the median of the price band between BGN 45 and 58.5 for the IPO. Both targets are above the IPO price band and will provide significant return.

BGN '000	
Net Profit	21 000
P/E	25,00
Calculated Market Cap	525 000
Price per Share (BGN)	87,50
Equity	145 000
P/B	4,00
Calculated Market Cap	580 000
Price per Share (BGN)	96,67

P/E of 25 and P/B of 4 are lower than the current for listed Bulgarian banks. Moreover, the liquid Bulgarian stocks are traded at levels of 25 P/E or above for the last several quarters and we expect that similar values for multiples will be common for the market in mid-term perspective.

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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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