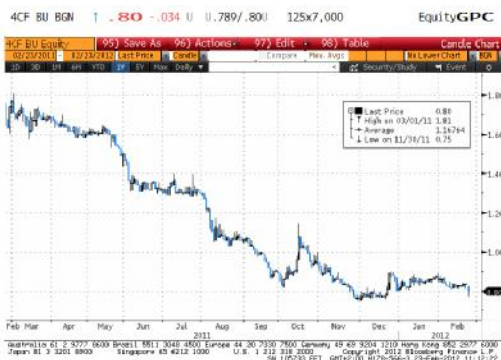


Stock Price of Central Cooperative Bank



- The fourth quarter of 2011 was a negative surprise for the market. The expectations for the net profit of Central Cooperative Bank (CCB) were much positive due to the usual better profit in the quarter for the last four years. Moreover, the net income from financial operations during the quarter exceeded substantially all previous records. Net profit declined 42% to BGN 13.41 million or BGN 0.1185 per share. The stock price weakened a bit following the report.

- Decreased profitability had its explanation. Net interest margin fell substantially from 7.31% to 6.24% during the quarter. Credits jumped 30% to BGN 1.876 billion but interest income remained unchanged at BGN 40 million per quarter. Behind the sudden increase of loans stands the years-long trend of stable growth of deposits. The bank managed to maintain growth of deposits that averaged 30% on yearly for five consecutive quarters. It attracted large resources. The growth of deposits of individuals was 94% for the last two years, whereas deposits of corporate clients jumped 36%. Although attracted funds from other financial institutions also increased substantially, their share of total deposits was 3%.

- Gross loans of Central Cooperative Bank to other financial institutions soared four times in Q4 and topped BGN 422 million. Loans to corporate clients jumped 14.6%, whereas retail exposures contracted by 6%. This increase in loans resulted in much lower share of cash in the balance sheet – huge decline from 27.6% to 15.3% of total assets. However, financial assets added another percentage point to 16% of total assets. Central Cooperative Bank invested in low-risk assets, including credits to other financial institutions, due to the conservative credit policy. CCB increased its capital in Q4 to 11% of assets, thus creating room for additional growth. The bank did not yet disclose its capital adequacy ratio at the end of 2011.

- Net income from financial instruments exceeded BGN 25.5 million as compared to BGN 21.5 million during Q4 of 2010. This compensated the solid decline of net interest income as percentage of assets, along with the stable level of income from fees and commissions.

- The capital increase of CCB had negative impact on the stock price. It went to very low levels under the influence of small but steady supply from individual investors, whereas demand faded away. The stock is undervalued but investors would like to see improvement in the profit from banking operations. We think that this will come as early as the second half of the year as CCB will focus to increase its credit portfolio.

Valuation

We used two multiples for the valuation of CCB when comparing to banks in Eastern Europe. Price-to-earnings and price-to-book are calculated with trailing results and adjusted with the forthcoming capital increase. In addition we present the valuation of the other two liquid Bulgarian banks that announced profits for 2011.

*Table 1
Multiples
valuation*

	Central Cooperative Bank	Corporate Commercial Bank	First Investment Bank
Number of Shares	113 155 092	6 000 000	110 000 000
Price-to-earnings of peers	12.65	12.65	12.65
Net Profit (ttm)	13 409 000	60 951 000	36 503 000
Target price	1.50	128.50	4.20
Price-to-book of peers	0.86	0.86	0.86
Equity	333 566 000	383 098 000	477 044 000
Target price	2.54	55.07	3.74
Fair Price	2.02	91.79	3.97
Current Price	0.83	76.00	1.88
Premium (Discount)	142.60%	20.77%	111.13%

Source: CCB, Bloomberg
Calculations: ELANA Trading

CCB is the most undervalued among Bulgarian public listed banks. Corporate Commercial Bank (6C4) according to the model is traded at 20% discount to the fair value, whereas First Investment Bank's fair value is 110% above the current market price. The capital increase of CCB had negative impact on the market sentiment. P/B is currently 0.28 and P/E is 7.03. The decline of profit increased the P/E ratio but we expect improvement of net interest margin. We consider the low price as a consequence of the stock's liquidity and the large share of financial profits in the total result of the bank.

Table 2, Forecasts

	2009	2010	2011	2012E	2013E	2014E	2015E	2016E
Total Assets	1 839 424	2 285 083	3 003 354	3 453 857	4 144 629	4 766 323	5 338 282	5 872 110
Loans and Receivables	1 216 543	1 316 797	1 875 860	2 438 618	3 170 203	3 962 754	4 557 167	5 104 027
As Percentage of Assets	66.1%	57.6%	62.5%	70.6%	76.5%	83.1%	85.4%	86.9%
Total Liabilities	1 587 774	2 010 250	2 669 788	3 103 992	3 768 445	4 353 418	4 882 384	5 368 061
As Percentage of Assets	86.3%	88.0%	88.9%	89.9%	90.9%	91.3%	91.5%	91.4%
Total Equity	251 650	274 833	333 566	349 865	376 184	412 905	455 897	504 049
Net Profit	22 342	23 245	13 409	20 723	33 157	47 663	58 721	67 529
Return on Equity	8.88%	8.46%	4.02%	5.92%	8.81%	11.54%	12.88%	13.40%
Return on Assets	1.21%	1.02%	0.45%	0.60%	0.80%	1.00%	1.10%	1.15%

Calculations: ELANA Trading

Our main scenario is faster increase of loans-to-assets to a target of 87%. Moreover, this will improve the profitability of CCB but we downgraded our previous forecasts to remain conservative as financial income remains substantial part of total profit. We also use in the model the assumption that the peak in the growth of assets will be in 2013.

Our forecasts remain conservative in terms of profitability as compared to 2009 and 2010 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;

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- Large share of the net result from operations with securities in the profit.

Discounted cash to equity value:	
NPV five year free cash flow	46 721
NPV terminal value	231 660
Value of shareholders' funds	278 381
Shares issued (thousand)	113 155
Value per share	2.46
Share price	0.84
<i>Premium/(discount)</i>	<i>194.63%</i>

Residual income valuation:	
Opening shareholders' funds	349 865
PV five year residual income	(53 319)
PV terminal value (ex incremental investment)	(18 164)
PV terminal value (incremental investment)	0
Value of shareholders' funds	278 381
Shares issued (thousand)	113 155
Value per share	2.46
Share price	0.84
<i>Premium/(discount)</i>	<i>194.63%</i>

Recommendation and Price Target

Recommendation: The residual income valuation is pointing to fair value of BGN 2.46, which is above the valuation by multiples. This is improvement as compared to the previous report. The increase of loans is expected to have positive effect on the profitability, although we remain conservative in the forecasts of return-on assets. The bank is well positioned to increase credits to corporate clients, which will be the source of growth.

BUY

Target price: We use the lower price from both methods to define one-year price target but we don't see the catalyst for large gains in the current market activity.

BGN 2.02

Upside:

142%

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Financial data

Assets	2007	2008	2009	2010	2011
Cash and cash balances with central banks	244 048	303 183	310 524	486 644	460 036
Financial assets held for trading	34 776	21 719	26 971	49 127	71 777
Financial assets designated at fair value through profit or loss	0	0	0	0	0
Available-for-sale financial assets	76 520	40 943	55 380	131 825	261 088
Loans and receivables	1 063 794	1 047 549	1 216 543	1 316 797	1 875 860
Held-to-maturity investments	84 458	101 598	91 720	138 969	148 246
Derivatives – hedge accounting	0	0	0	0	0
Fair value changes of the hedged items in portfolio hedge of interest rate risk	0	0	0	0	0
Tangible assets	49 275	52 340	56 844	49 202	59 132
Intangible assets	5 997	9 999	371	1 122	767
Investments in subsidiaries	0	34 881	34 881	46 217	49 416
Tax assets	172	181	355	323	1 239
Other assets	6 311	50 586	45 500	63 823	73 967
Non-current assets and disposal groups classified as held for sale	0	335	335	1 034	1 826
Total Assets	1 565 351	1 663 314	1 839 424	2 285 083	3 003 354
Deposits from central banks	0	0	0	0	0
Financial liabilities held for trading	0	9 252	12 106	6 916	6 098
Financial liabilities designated at fair value through profit or loss	0	0	0	0	0
Financial liabilities measured at amortised cost	1 348 891	1 421 383	1 567 824	2 000 245	2 660 347
Financial liabilities associated with transferred financial assets	0	0	0	0	0
Derivatives – hedge accounting	0	0	0	0	0
Fair value changes of the hedged items in portfolio hedge of interest rate risk	0	0	0	0	0
Provisions	0	0	0	0	0
Tax liabilities	1 624	12	1 013	0	209
Other liabilities	3 264	4 362	6 831	3 089	3 134
Share capital repayable on demand	0	0	0	0	0
Liabilities included in disposal groups classified as held for sale	0	0	0	0	0
Total Liabilities	1 353 779	1 435 009	1 587 774	2 010 250	2 669 788
Issued capital	83 155	83 155	83 155	83 155	113 155
Share premium	64 445	64 445	64 445	64 445	79 444
Other equity	0	0	0	0	0
Revaluation reserves and other valuation differences	-764	-5 257	-4 445	-4 259	-3 074
Reserves (including retained earnings)	44 415	64 509	86 153	108 247	130 633
Treasury shares	0	0	0	0	0
Income from current year	20 321	21 453	22 342	23 245	13 409
Interim dividends	0	0	0	0	0
Minority interest	0	0	0	0	0
Total equity	211 572	228 305	251 650	274 833	333 566

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Continuing operations	2007	2008	2009	2010	2011
Financial & operating income and expenses	94 889	1 12 465	123 577	120 557	1 17 069
Interest income	90 982	107 922	136 738	143 610	156 130
Interest expenses	34 099	42 707	68 826	74 829	103 054
Expenses on share capital repayable on demand	0	0	0	0	0
Dividend income	685	227	45	20	283
Fee and commission income	23 764	26 163	28 088	28 525	29 068
Fee and commission expenses	3 362	3 337	3 785	3 769	4 214
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	15 142
Gains (losses) on financial assets and liabilities held for trading, net	17 385	-1 720	7 447	14 675	15 731
Gains (losses) on financial assets and liabilities designated at fair value through profit or loss, net	-600	0	0	0	0
Gains (losses) from hedge accounting, net	0	0	0	0	0
Exchange differences, net	-2 101	591	-438	1 407	769
Gains (losses) on derecognition of assets other than held for sale, net	14	-63	13 507	-172	4 278
Other operating income	447	566	912	2 776	2 936
Other operating expenses	0	0	0	0	0
Administration costs	56 959	73 843	80 464	78 789	83 376
Depreciation	6 204	7 891	9 285	9 419	8 766
Provisions	0	0	0	0	0
Impairment	9 147	6 895	9 005	6 521	10 028
Negative goodwill immediately recognised in profit or loss	0	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	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	0
Total profit or loss before tax from continuing operations	22 579	23 836	24 823	25 828	14 899
Tax expense (income) related to profit or loss from continuing operations	2 258	2 383	2 481	2 583	1 490
Total profit or loss after tax from continuing operations	20 321	21 453	22 342	23 245	13 409
Profit or loss after tax from discontinued operations	0	0	0	0	0
Total profit or loss after tax and discontinued	20 321	21 453	22 342	23 245	13 409
Profit or loss attributable to minority interest	0	0	0	0	0
Profit or loss attributable to equity holders of the parent	20 321	21 453	22 342	23 245	13 409

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