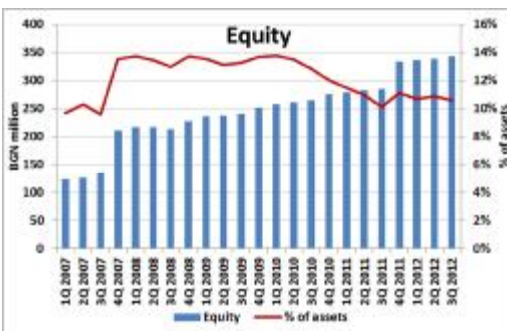
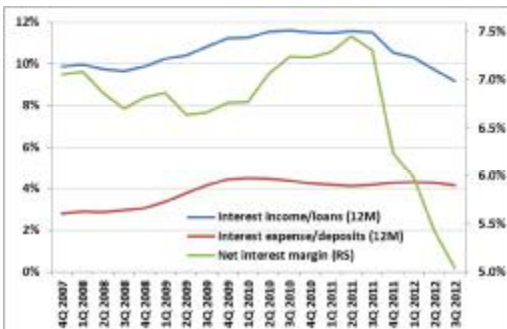


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- Central Cooperative Bank (4CF) renewed its asset growth and has reached the highest historical level at BGN 3.25 billion. However, this should not be counted as a benefit for shareholders due to the deterioration of profit margins. The operations with financial instruments contributed the most to the positive profits for the quarter.

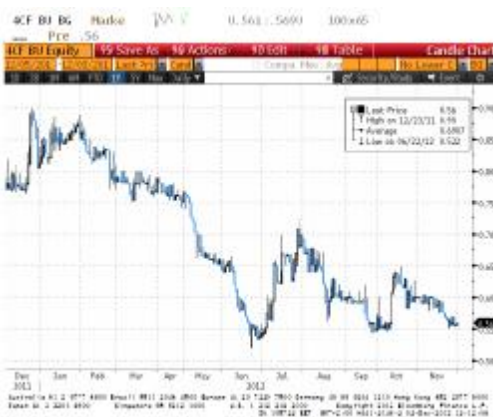
- Bulgarian Government bonds appreciated during the third quarter, which was earlier than the usual seasonal increase in prices before year-end. Moreover, the potential for additional gains is limited. We expect that the fourth quarter profit will be lower as compared to the previous year, mainly due to the smaller contribution of profit from operations with securities.

- CCB has reported considerably lower net interest margin for the last 12 months, due to the decline in interest rate profits as a percentage of loans. On the other hand there is a tendency for improvement during Q3 of 2012, as there is a slight gain in the net interest income and a rise in profits from fees and commissions. This should contribute to the improvement of profits next year, although it is too early to predict a stable trend of growth.

- The bank has a very low level of credit-to-asset ratio, which is at 0.55 at the end of Q3. 25% of assets are in cash and 13% are invested in financial instruments. This accounts for the low interest income, which leads to low profitability and increases the weight of securities in the bank's portfolio.

- The equity maintained its level as a percentage of assets, due to the weaker growth of the balance sheet and the accumulation of profits. CCB increased its equity at the end of 2011, but that did not lead to an increase in lending and to improvement of the profitability. On the contrary, the credit portfolio of the bank has decreased by 4% since the beginning of 2012 and gained only during the fourth quarter of 2011. This creates an impression on investors that the bank planned equity raise to cover capital requirements before certain large loans, rather than an expansion in the credit market. The decrease in earnings per share has a negative effect on the stock price, which again traded at a historical minimum.

Stock Price of Central Cooperative Bank



Valuation

We compare the multiples of the three largest public listed banks in Bulgaria with the medians for Eastern Europe. The price-to-earnings ratios of the three banks with positive profits are calculated based on the unconsolidated results for the last twelve months. We give 40% weight of P/B and P/E ratios, whilst price-to-assets have a weight of 20%, which accounts for the lower importance of the size of the financial institution compared to the profitability.

*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	9.31	9.31	9.31
Net Profit (ttm)	10 413 000	45 545 000	28 837 000
Target price	0.86	70.68	2.44
Price-to-book of peers	0.58	0.58	0.58
Equity	343 424 000	414 939 000	499 034 000
Target price	1.76	40.10	2.63
Price-to-assets of peers	0.07	0.07	0.07
Assets	3 250 417 000	5 069 752 000	6 772 376 000
Target price	1.87	55.11	4.02
Fair Price	1.42	55.34	2.83
Current Price	0.56	80.00	1.33
Premium (Discount)	153.83%	-30.83%	112.93%

Source: Unconsolidated reports, Bloomberg
Calculations: ELANA Trading

CCB is usually an undervalued position, when it is compared to banks from Eastern Europe. The last report shows that the significant difference between current share price and the fair value is still there. The lowest value per share is derived from the P/E ratio, which is due to the deteriorating rate of return of the bank. However the fair price compared to equity and assets is considerably higher. It is obvious that investors take the rate of return of the bank more seriously compared to the value according to the other two multiples.

Table 2, Forecasts

	2009	2010	2011	2012E	2013E	2014E	2015E	2016E
Total Assets	1 839 424	2 285 083	3 003 354	3 303 689	3 634 058	4 179 167	4 680 667	5 148 734
Loans and Receivables	1 216 543	1 316 797	1 875 860	1 932 136	2 125 349	2 550 419	2 932 982	3 284 940
<i>As Percentage of Assets</i>	66.1%	57.6%	62.5%	58.5%	58.5%	61.0%	62.7%	63.8%
Total Liabilities	1 587 774	2 010 250	2 669 788	2 965 297	3 280 548	3 798 220	4 263 946	4 690 823
<i>As Percentage of Assets</i>	86.3%	88.0%	88.9%	89.8%	90.3%	90.9%	91.1%	91.1%
Total Equity	251 650	274 833	333 566	338 392	353 510	380 947	416 721	457 911
Net Profit	22 342	23 245	13 409	9 250	18 170	33 433	46 807	56 636
Return on Equity	8.88%	8.46%	4.02%	2.73%	5.14%	8.78%	11.23%	12.37%
Return on Assets	1.21%	1.02%	0.45%	0.28%	0.50%	0.80%	1.00%	1.10%

Calculations and estimations: ELANA Trading

The asset growth rate is still higher compared to the growth in loans. The explanation that the credit policy of the bank is conservative and this leads to lower impairment losses actually leads to worsening profitability and shareholders' confidence.

Interest rates in Bulgaria are gradually adapting to the stable rise in deposits

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and the low demand for loans. The tendency is the same due to the crisis in Europe and we revise our estimates downwards for the growth of loans and improvement if the profitability of the bank. CCB's assets continue to grow quickly compared to the increase in loans. The value per share according to estimated profits shows that the fair price is substantially higher than the current market price. Taking into account our conservative expectations for the development of the bank during the next few years there is reason to believe that the position is undervalued. On the other hand the absence of a positive trend in the multiples of the bank is a reason for the lack of long-term buying interest from investors and the fundamentally undervalued price may remain on its current level as can be seen throughout the past few years.

Discounted cash to equity value:	
NPV five year free cash flow	34 661
NPV terminal value	244 736
Value of shareholders' funds	279 397
Shares issued (thousand)	113 155
Value per share	2.47
Share price	0.56
<i>Premium/(discount)</i>	<i>340.92%</i>

Residual income valuation:	
Opening shareholders' funds	338 392
PV five year residual income	(60 319)
PV terminal value (ex incremental investment)	1 324
PV terminal value (incremental investment)	0
Value of shareholders' funds	279 397
Shares issued (thousand)	113 155
Value per share	2.47
Share price	0.56
<i>Premium/(discount)</i>	<i>340.92%</i>

Recommendation and Price Target

Recommendation: CCB is an undervalued investment according to the valuation methods used. However the stock is not favored by investors due to the pressure from the offers for packages. The worsening of results also has a negative effect on investors' sentiment. This makes CCB very hard to recommend as long-term investment, as there are doubts for the entry points.

HOLD

Target price: BGN 1.42

Upside: 153%

The fair value per share is very high compared to the current one. The beginning of long-term growth has to be confirmed not only by technical break on the upside but also with fundamental factors – growth in loans and an increase in profitability, together with the change in minority ownership, that will eliminate the constant supply on the market.

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Financial data

Assets	2008	2009	2010	2011	9M 2012
Cash and cash balances with central banks	303 183	310 524	486 644	460 036	815 296
Financial assets held for trading	21 719	26 971	49 127	71 777	72 184
Financial assets designated at fair value through profit or loss	0	0	0	0	0
Available-for-sale financial assets	40 943	55 380	131 825	261 088	209 021
Loans and receivables	1 047 549	1 216 543	1 316 797	1 875 860	1 795 156
Held-to-maturity investments	101 598	91 720	138 969	148 246	146 519
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	52 340	56 844	49 202	59 132	64 135
Intangible assets	9 999	371	1 122	767	702
Investments in subsidiaries	34 881	34 881	46 217	49 416	59 716
Tax assets	181	355	323	1 239	1 063
Other assets	50 586	45 500	63 823	73 967	83 966
Non-current assets and disposal groups classified as held for sale	335	335	1 034	1 826	2 659
Total Assets	1 663 314	1 839 424	2 285 083	3 003 354	3 250 417
Deposits from central banks	0	0	0	0	0
Financial liabilities held for trading	9 252	12 106	6 916	6 098	6 167
Financial liabilities designated at fair value through profit or loss	0	0	0	0	0
Financial liabilities measured at amortised cost	1 421 383	1 567 824	2 000 245	2 660 347	2 897 796
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	12	1 013	0	209	209
Other liabilities	4 362	6 831	3 089	3 134	2 821
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	1 435 009	1 587 774	2 010 250	2 669 788	2 906 993
Issued capital	83 155	83 155	83 155	113 155	113 154
Share premium	64 445	64 445	64 445	79 444	79 444
Other equity	0	0	0	0	0
Revaluation reserves and other valuation differences	-5 257	-4 445	-4 259	-3 074	341
Reserves (including retained earnings)	64 509	86 153	108 247	130 633	143 257
Treasury shares	0	0	0	0	0
Income from current year	21 453	22 342	23 245	13 409	7 228
Interim dividends	0	0	0	0	0
Minority interest	0	0	0	0	0
Total equity	228 305	251 650	274 833	333 566	343 424

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Continuing operations	2008	2009	2010	2011	9M 2012
Financial & operating income and expenses	112 465	123 577	120 557	117 069	67 521
Interest income	107 922	136 738	143 610	156 130	121 477
Interest expenses	42 707	68 826	74 829	103 054	86 026
Expenses on share capital repayable on demand	0	0	0	0	0
Dividend income	227	45	20	283	796
Fee and commission income	26 163	28 088	28 525	29 068	22 167
Fee and commission expenses	3 337	3 785	3 769	4 214	3 221
Realised gains (losses) on financial assets & liabilities not measured at fair value through profit or loss, net	24 823	9 889	8 314	15 142	8 126
Gains (losses) on financial assets and liabilities held for trading, net	-1 720	7 447	14 675	15 731	3 887
Gains (losses) on financial assets and liabilities designated at fair value through profit or loss, net	0	0	0	0	0
Gains (losses) from hedge accounting, net	0	0	0	0	0
Exchange differences, net	591	-438	1 407	769	-167
Gains (losses) on derecognition of assets other than held for sale, net	-63	13 507	-172	4 278	12
Other operating income	566	912	2 776	2 936	470
Other operating expenses	0	0	0	0	0
Administration costs	73 843	80 464	78 789	83 376	52 815
Depreciation	7 891	9 285	9 419	8 766	5 935
Provisions	0	0	0	0	0
Impairment	6 895	9 005	6 521	10 028	740
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	23 836	24 823	25 828	14 899	8 031
Tax expense (income) related to profit or loss from continuing operations	2 383	2 481	2 583	1 490	803
Total profit or loss after tax from continuing operations	21 453	22 342	23 245	13 409	7 228
Profit or loss after tax from discontinued operations	0	0	0	0	0
Total profit or loss after tax and discontinued	21 453	22 342	23 245	13 409	7 228
Profit or loss attributable to minority interest	0	0	0	0	0
Profit or loss attributable to equity holders of the parent	21 453	22 342	23 245	13 409	7 228

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BUY	More than 5% higher as compared to SOFIX and BG40 performance
HOLD	Market performance, +/-5% as compared to SOFIX and BG40
SELL	More than 5% lower as compared to SOFIX and BG40 performance

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For more information, please contact:

Research analyst
Tsvetoslav Tsachev
Tamara Becheva

Phone:
+359 2 810 00 23
+359 2 810 00 27

E-mail:
tsachev@elana.net
becheva@elana.net

Internet:
www.elana.net
www.elana.net