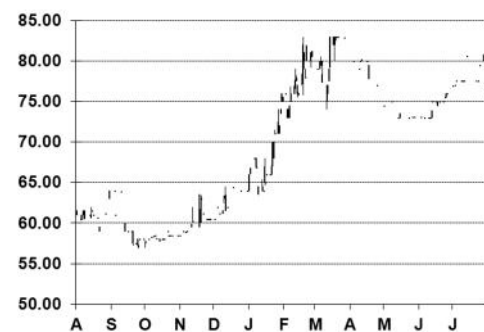


### Stock Price of Corporate Commercial Bank



- The net profit of Corporate Commercial Bank for the second quarter improved a bit q-o-q but was again below the last year's result. Nevertheless, the bank posted negative result from trading with securities which means that the contribution of core banking operations is much higher than a year ago. It published its unconsolidated report.

- Administrative costs remained at the lows as percentage of assets despite the 15% increase y-o-y to BGN 9 million during the second quarter.

- Corporate Commercial Bank announced 5% increase of net interest income y-o-y. However, assets jumped significantly and the net interest income-to-assets ratio declined to its lowest level for the last four years. Assets increased 46% for one year, whereas the loan portfolio jumped 40%. The bank is usually very conservative in its credit policy and it will improve its profitability only when assets start to rise slower.

- At the same time financial assets are rising solidly to 14.45% of total. The bank is investing more in foreign corporate and sovereign bonds, whereas Bulgarian government bonds in the portfolio declined to 44% of total. Corporate Commercial Bank also increased its investments in stocks to 7% of the portfolio or BGN 32.5 million.

- Equity jumped 25% for the last reported twelve months. This is below the growth of assets and pushed down the equity-to-assets ratio to 11%. This is close to the average since the beginning of 2007 and is not signal for the necessity of capital increase. Tier I capital adequacy stood at 11.86%

- The bank announced 16.8% increase of non-performing loans since the beginning of 2011. This is below the rise of loans by 18%, which maintained the ratio of bad loans to regular exposures to 3.4%. The main increase came from the watch and non-performing exposures, which were past due between 30 and 180 days.

- The slow change in the structure of deposits continued – corporate clients lost share due to the fast increase of household deposits and the nearly doubling of attracted funds from other financial institutions.

- The liquidity of Corporate Commercial Bank's stocks declined after the peak in March. Afterwards, the correction was due to small sell-offs. We see potential for moderate gains until the end of 2011 if the market jumps again.

#### Valuation

We used two multiples for the valuation of Bulgarian banks when comparing to banks in Eastern Europe.

*Table 1  
Multiples*

	Bulgarian American Credit Bank	Central Cooperative Bank	Corporate Commercial Bank	First Investment Bank
Last Price	4.65	1.21	77.25	2.95
Number of Shares	12 624 725	83 155 092	6 000 000	110 000 000
Market Capitalization	58 704 971	100 617 661	463 506 000	324 500 000
Net Profit (ttm)	-44 672 000	23 784 000	66 900 000	36 046 000
P/E	-1.31	4.23	6.93	9.00
Assets (ttm)	723 025 000	2 583 565 000	3 227 339 000	5 478 364 000
P/Assets	0.08	0.04	0.14	0.06
Equity	172 329 000	283 013 000	354 076 000	459 846 000
P/B	0.34	0.36	1.31	0.71
RoE	-25.92%	8.40%	18.89%	7.84%
RoA	-6.18%	0.92%	2.07%	0.66%

Data exclude the forthcoming capital increases of Bulgarian American Credit Bank and Central Cooperative Bank

Price-to-earnings and price-to-book are calculated with trailing results. The recent data were weaker than a year ago but P/E of Corporate Commercial Bank is still very low. The stock is trading above book value and has solid RoE.

*Table 2  
Peers  
comparison*

	Valuation
Number of Shares	6 000 000
Current Price	77.25
Market Cap	463 500 000
Peers price-to-earnings	15.04
Net Profit (ttm) of CCB	66 900 000
Calculated price by peers P/E	167.70
Peers price-to-book	1.01
Equity of CCB	354 076 000
Calculated price by peers P/B	59.60
Fair Price	113.65
Premium (Discount)	47.12%

Source: Bloomberg  
Calculations: ELANA Trading

Comparison to the median multiples of peers in Eastern Europe (P/E of 15.04 and P/B of 1.01) gives nice premium of fair price to the current market price. It is solely due to the large profit of Corporate Commercial Bank as it is trading above book value. However, stability in profits and the prospect for further expansion of credits are creating the low-risk environment that is combined with strong return on equity.

**Table 3, Forecasts**

	2008	2009	2010	2011E	2012E	2013E	2014E	2015E
Total Assets	2 105 879	2 035 862	2 699 427	3 374 284	4 049 141	4 656 512	5 354 988	5 997 587
Loans and Receivables	1 597 270	1 612 080	1 961 897	2 354 276	2 942 846	3 472 558	4 097 618	4 589 332
<i>As Percentage of Assets</i>	75.8%	79.2%	72.7%	69.8%	72.7%	74.6%	76.5%	76.5%
Total Liabilities	1 891 266	1 759 966	2 379 024	2 964 462	3 561 710	4 079 393	4 671 236	5 198 167
<i>As Percentage of Assets</i>	89.8%	86.4%	88.1%	87.9%	88.0%	87.6%	87.2%	86.7%
Total Equity	214 613	275 896	320 403	409 822	487 430	577 119	683 753	799 420
Net Profit	40 298	60 382	74 367	89 419	113 376	135 039	160 650	179 928
Return on Equity	18.78%	21.89%	23.21%	21.82%	23.26%	23.40%	23.50%	22.51%
Return on Assets	1.91%	2.97%	2.75%	2.65%	2.80%	2.90%	3.00%	3.00%

Calculations: ELANA Trading

We downgraded the expectations for the profitability margin of the bank due to the rising assets that surpass the increase of credits. Our forecasts remain conservative in terms of profitability as compared to 2008 and 2009 but we prefer to retain them low due to:

- Lower level of bad loans, which may begin to increase as domestic economy is still under pressure from low demand;
- Large share of investment in securities and cash, which are less profitable than credits. However, we expect this to change.

<b>Discounted cash to equity value:</b>	
NPV five year free cash flow	142 331
NPV terminal value	617 245
<b>Value of shareholders' funds</b>	<b>759 576</b>
Shares issued (thousand)	6 000
<b>Value per share</b>	<b>126.60</b>
Share price	75.00
<i>Premium/(discount)</i>	68.79%

<b>Residual income valuation:</b>	
Opening shareholders' funds	409 822
PV five year residual income	156 419
PV terminal value (ex incremental investment)	193 335
PV terminal value (incremental investment)	0
<b>Value of shareholders' funds</b>	<b>759 576</b>
Shares issued (thousand)	6 000
<b>Value per share</b>	<b>126.60</b>
Share price	75.00
<i>Premium/(discount)</i>	68.79%

#### Recommendation and Price Target

**Recommendation:** The valuation methods showed average intrinsic value of BGN 120.12 per share, which is more than 55% above the market price. The bank is well positioned to increase credits to corporate clients and don't need to raise additional capital. This is big plus when comparing to other public listed Bulgarian banks. However, liquidity remains the biggest hurdle for long positions as large investors are not offering decent volumes.

**BUY**

**Target price:** BGN 120.12

**Upside:** 55%

## Corporate Commercial Bank (6C9)

### 1H 2011 Report

4 August 2011

#### Financial data

Assets	2007	2008	2009	2010	1H 2011
Cash and cash balances with central banks	244 048	303 183	310 524	339 764	298 658
Financial assets held for trading	34 776	21 719	26 971	61 773	132 302
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	176 290	257 563
Loans and receivables	1 063 794	1 047 549	1 216 543	1 961 897	2 389 152
Held-to-maturity investments	84 458	101 598	91 720	76 425	76 596
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	64 257	63 212
Intangible assets	5 997	9 999	371	365	339
Investments in subsidiaries	0	34 881	34 881	8 984	165
Tax assets	172	181	355	7 948	826
Other assets	6 311	50 586	45 500	1 724	8 526
Non-current assets and disposal groups classified as held for sale	0	335	335	0	0
<b>Total Assets</b>	<b>1 565 351</b>	<b>1 663 314</b>	<b>1 839 424</b>	<b>2 699 427</b>	<b>3 227 339</b>
Deposits from central banks	0	0	0	0	0
Financial liabilities held for trading	0	9 252	12 106	324	24
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	2 366 331	2 869 469
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	384	532
Tax liabilities	1 624	12	1 013	11 482	2 819
Other liabilities	3 264	4 362	6 831	503	419
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
<b>Total Liabilities</b>	<b>1 353 779</b>	<b>1 435 009</b>	<b>1 587 774</b>	<b>2 379 024</b>	<b>2 873 263</b>
Issued capital	83 155	83 155	83 155	60 000	60 000
Share premium	64 445	64 445	64 445	48 500	48 500
Other equity	0	0	0	0	0
Revaluation reserves and other valuation differences	-764	-5 257	-4 445	24 358	27 331
Reserves (including retained earnings)	44 415	64 509	86 153	113 178	187 715
Treasury shares	0	0	0	0	0
Income from current year	20 321	21 453	22 342	74 367	30 530
Interim dividends	0	0	0	0	0
Minority interest	0	0	0	0	0
<b>Total equity</b>	<b>211 572</b>	<b>228 305</b>	<b>251 650</b>	<b>320 403</b>	<b>354 076</b>



## Corporate Commercial Bank (6C9) 1H 2011 Report

4 August 2011

Continuing operations	2007	2008	2009	2010	1H 2011
Financial & operating income and expenses	94 889	1 12 465	123 577	121 356	57 151
Interest income	90 982	107 922	136 738	172 146	101 539
Interest expenses	34 099	42 707	68 826	95 332	63 280
Expenses on share capital repayable on demand	0	0	0	0	0
Dividend income	685	227	45	2 972	1 221
Fee and commission income	23 764	26 163	28 088	15 338	6 457
Fee and commission expenses	3 362	3 337	3 785	927	470
Realised gains (losses) on financial assets & liabilities not measured at fair value through profit or loss, net	1 774	24 823	9 889	1 300	3 547
Gains (losses) on financial assets and liabilities held for trading, net	17 385	-1 720	7 447	19 715	-3 529
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	6 698	11 695
Gains (losses) on derecognition of assets other than held for sale, net	14	-63	13 507	-223	5
Other operating income	447	566	912	920	480
Other operating expenses	0	0	0	1 251	514
Administration costs	56 959	73 843	80 464	31 430	16 528
Depreciation	6 204	7 891	9 285	4 318	2 115
Provisions	0	0	0	127	253
Impairment	9 147	6 895	9 005	3 052	4 409
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	82 429	33 846
Tax expense (income) related to profit or loss from continuing operations	2 258	2 383	2 481	8 062	3 316
Total profit or loss after tax from continuing operations	20 321	21 453	22 342	74 367	30 530
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	74 367	30 530
Profit or loss attributable to minority interest	0	0	0	0	0
<b>Profit or loss attributable to equity holders of the parent</b>	<b>20 321</b>	<b>21 453</b>	<b>22 342</b>	<b>74 367</b>	<b>30 530</b>



# Corporate Commercial Bank (6C9) 1H 2011 Report

4 August 2011

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<b>HOLD</b>	Market performance, +/-5% as compared to SOFIX and BG40
<b>SELL</b>	More than 5% lower as compared to SOFIX and BG40 performance

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