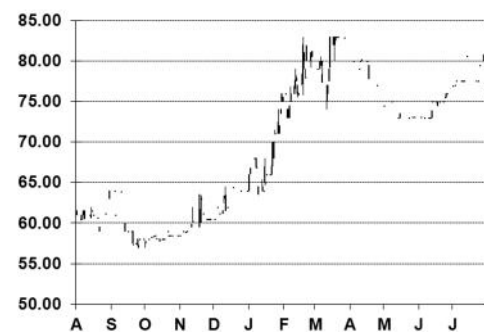


Stock Price of Corporate Commercial Bank



- 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.

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

| Residual income valuation: | |
|---|----------------|
| 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 |
| Value of shareholders' funds | 759 576 |
| Shares issued (thousand) | 6 000 |
| Value per share | 126.60 |
| 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%

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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 |
| Total Assets | 1 565 351 | 1 663 314 | 1 839 424 | 2 699 427 | 3 227 339 |
| 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 |
| Total Liabilities | 1 353 779 | 1 435 009 | 1 587 774 | 2 379 024 | 2 873 263 |
| 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 |
| Total equity | 211 572 | 228 305 | 251 650 | 320 403 | 354 076 |



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| 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 |
| Profit or loss attributable to equity holders of the parent | 20 321 | 21 453 | 22 342 | 74 367 | 30 530 |



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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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