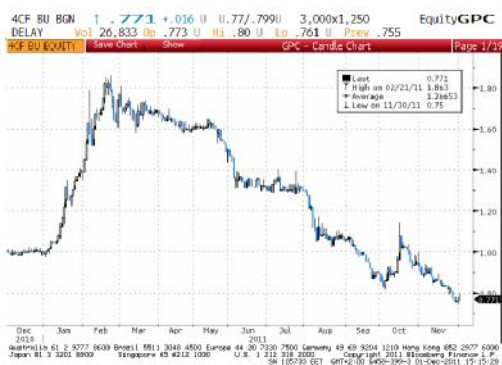


Stock Price of Central Cooperative Bank



- The third quarter of 2011 for Central Cooperative Bank could be explained at best as continuation of the recent trends. Assets of the bank increased 36% on yearly basis, which is acceleration from the previous quarter and is the fastest for the last five years. This has substantial effect on the profitability of the bank due to the lower growth of credits. Loans and receivables decreased to 51% of total assets. At the same time deposits are rising to 89% of assets, pushing down loans-to-deposits ratio to 0.57.

- Net interest income as percentage of assets fell below 0.5%. The ratio was above 1% at the end of 2008. Moreover, net interest income is declining in absolute value to the lowest level for the last five years. It was BGN 12.6 million during the quarter. Central Cooperative Bank posted net income of BGN 1.155 million during the quarter, BGN 0.5 million of which were profits from operations with securities. The bank is usually announcing large financial profits during the fourth quarter.

- The trend of faster increase of deposits than credits sent financial assets and cash to absolute records. Their combined level of assets jumped to 42.6% with cash solely representing 27.6% of assets. This is the main reason for the lower profitability of the bank. Still, the trend is not changing so far.

- Equity-to-assets ratio declined to 0.10 before the current capital increase. We expect that the majority owner of Central Cooperative Bank will subscribe the whole issue and the capital will be increased by BGN 45 million and bank's equity will jump above 11.5% of assets. Return-on-equity should improve when CCB expands its credit portfolio with the free cash. However, there is not yet a sign for change in the aggressive policy of attracting deposits or increasing loans.

- 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 next year as CCB will focus to increase its credit portfolio, while the big inflows of deposits in the banking sector will suppress interest rates further.

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. The table represents the change in the valuation after the capital increase. It is significant but both price targets by this method are well above the current market price.

Table 1
Multiples
valuation

	Before Capital Increase	After Capital Increase
Number of Shares	83 155 092	113 155 092
Market Cap	64 029 421	87 129 421
Price-to-earnings of sector	11.83	11.83
Net Profit (ttm)	21 281 000	21 281 000
Price	3.03	2.22
Price-to-book of sector	0.84	0.84
Equity	284 665 000	329 665 000
Price	2.88	2.45
Fair Price	2.95	2.34
Current Price	0.77	0.77
Premium (Discount)	283.32%	203.38%

Source: CCB, Bloomberg
Calculations: ELANA Trading

CCB is the most undervalued among Bulgarian public listed banks. We compared CCB to the other two liquid Bulgarian banks in their reports without adjustment to the capital increase. Corporate Commercial Bank (6C4) according to the model is traded at 15% 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 despite that it is traded at P/B of 0.26 and P/E of 4.09, adjusted to the capital increase. We consider this imbalance as a consequence of the stock's liquidity and the large share of financial profits in the total result.

Table 2, Forecasts

	2008	2009	2010	2011E	2012E	2013E	2014E	2015E
Total Assets	1 663 314	1 839 424	2 285 083	3 084 862	3 701 834	4 257 110	4 767 963	5 244 759
Loans and Receivables	1 047 549	1 216 543	1 316 797	1 580 156	1 975 196	2 330 731	2 680 340	3 001 981
<i>As Percentage of Assets</i>	63.0%	66.1%	57.6%	51.2%	53.4%	54.7%	56.2%	57.2%
Total Liabilities	1 435 009	1 587 774	2 010 250	2 751 099	3 341 881	3 863 451	4 336 607	4 770 397
<i>As Percentage of Assets</i>	86.3%	86.3%	88.0%	89.2%	90.3%	90.8%	91.0%	91.0%
Total Equity	228 305	251 650	274 833	333 763	359 954	393 659	431 356	474 363
Net Profit	21 453	22 342	23 245	21 594	33 317	44 700	52 448	60 315
Return on Equity	9.40%	8.88%	8.46%	6.47%	9.26%	11.35%	12.16%	12.71%
Return on Assets	1.29%	1.21%	1.02%	0.70%	0.90%	1.05%	1.10%	1.15%

Calculations: ELANA Trading

We downgraded again the expectations for the profitability margin of CCB due to the rising assets and the forthcoming capital increase. This change in the forecast is substantial. We also use in the model the assumption that the peak in the growth will be in 2011 and will be followed by cooled increase of assets and credits as percentage of assets.

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 real income of households is decreasing;
- Large share of the net result from operations with securities in the profit.

Discounted cash to equity value:	
NPV five year free cash flow	44 000
NPV terminal value	206 911
Value of shareholders' funds	250 911
Shares issued (thousand)	113 155
Value per share	2.22
Share price	0.77
<i>Premium/(discount)</i>	<i>187.98%</i>

Residual income valuation:	
Opening shareholders' funds	333 763
PV five year residual income	(53 080)
PV terminal value (ex incremental investment)	(29 771)
PV terminal value (incremental investment)	0
Value of shareholders' funds	250 911
Shares issued (thousand)	113 155
Value per share	2.22
Share price	0.77
<i>Premium/(discount)</i>	<i>187.98%</i>

Recommendation and Price Target

Recommendation: The residual income valuation is pointing to fair value of BGN 2.22, which is close to the valuation by multiples. The changes in the assumption had relatively small impact on the model's result and main postulate remains that the bank could improve its profit substantially when growth of credits accelerates above the increase of assets. However, it is less probable to see significantly improvement of the financial result this year. The bank is well positioned to increase credits to corporate clients, which will be the next year's source of growth.

BUY

Target price: BGN 2.22

Upside: 188%

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.

Central Cooperative Bank 3Q 2011 Report

1 December 2011

Financial data

Assets	2007	2008	2009	2010	9M 2011
Cash and cash balances with central banks	244 048	303 183	310 524	486 644	777 856
Financial assets held for trading	34 776	21 719	26 971	49 127	42 431
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	231 781
Loans and receivables	1 063 794	1 047 549	1 216 543	1 316 797	1 437 449
Held-to-maturity investments	84 458	101 598	91 720	138 969	146 612
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	46 181
Intangible assets	5 997	9 999	371	1 122	809
Investments in subsidiaries	0	34 881	34 881	46 217	46 216
Tax assets	172	181	355	323	952
Other assets	6 311	50 586	45 500	63 823	82 286
Non-current assets and disposal groups classified as held for sale	0	335	335	1 034	1 633
Total Assets	1 565 351	1 663 314	1 839 424	2 285 083	2 814 206
Deposits from central banks	0	0	0	0	0
Financial liabilities held for trading	0	9 252	12 106	6 916	9 048
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	2 518 022
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	2 262
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	2 529 541
Issued capital	83 155	83 155	83 155	83 155	83 155
Share premium	64 445	64 445	64 445	64 445	64 445
Other equity	0	0	0	0	0
Revaluation reserves and other valuation differences	-764	-5 257	-4 445	-4 259	-3 792
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	10 224
Interim dividends	0	0	0	0	0
Minority interest	0	0	0	0	0
Total equity	211 572	228 305	251 650	274 833	284 665

Central Cooperative Bank 3Q 2011 Report

1 December 2011

Continuing operations	2007	2008	2009	2010	9M 2011
Financial & operating income and expenses	94 889	1 12 465	123 577	120 557	68 411
Interest income	90 982	107 922	136 738	143 610	116 234
Interest expenses	34 099	42 707	68 826	74 829	73 830
Expenses on share capital repayable on demand	0	0	0	0	0
Dividend income	685	227	45	20	278
Fee and commission income	23 764	26 163	28 088	28 525	21 878
Fee and commission expenses	3 362	3 337	3 785	3 769	3 061
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	1 610
Gains (losses) on financial assets and liabilities held for trading, net	17 385	-1 720	7 447	14 675	3 710
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	254
Gains (losses) on derecognition of assets other than held for sale, net	14	-63	13 507	-172	-107
Other operating income	447	566	912	2 776	1 445
Other operating expenses	0	0	0	0	0
Administration costs	56 959	73 843	80 464	78 789	53 585
Depreciation	6 204	7 891	9 285	9 419	6 695
Provisions	0	0	0	0	0
Impairment	9 147	6 895	9 005	6 521	-3 229
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	11 360
Tax expense (income) related to profit or loss from continuing operations	2 258	2 383	2 481	2 583	1 136
Total profit or loss after tax from continuing operations	20 321	21 453	22 342	23 245	10 224
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	10 224
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	10 224



Central Cooperative Bank

3Q 2011 Report

1 December 2011

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