

Market Overview

The **SOFIX index** of the Bulgarian Stock Exchange lost 3,64% in October as the parliament elections at the beginning of the month did not bring any substantial change in the sentiment. The complicated situation around drawing up a coalition government dominated the political environment in Bulgaria.

Broader BGTR30 index slipped 5.09%, with 25 out of its 30 constituents in the red. Banks were the biggest fallers among the most traded stocks – both First Investment Bank [5F4] and Central Cooperative Bank [4CF] lost more than 11% of their market value throughout.

The fate of Corporate Commercial Bank [6C9] remained in the spotlight. The auditors' report revealed that more than BGN 4 bn of the bank's loans should be written off. Meanwhile, speculations about a possible bailout funded by a consortium of investors and the state continued circulating in full force. Eventually, after four and a half months of indecisiveness, the central bank decided to revoke the license of Corporate Commercial Bank at the beginning of November. Meanwhile, the caretaker government released a forecast, envisaging GDP growth of 1.5% in 2014 and 1.2% in 2015, while the budget deficit target was widened to 3 % for the next year.

Q3 corporate results did not have a substantial impact on Bulgaria's equity market performance. For blue chip car battery maker Monbat [5MB] the month of September was better than expected and the company reported a 13% increase in earning compared to a year ago. Net profit of Biovet [53B] jumped by 38% y-o-y in 9M'2014. On the negative side, adverse weather conditions and political tension in Ukraine affected the performance of the biggest tourism company on BFB – Albena [6AB] which revenues slumped by 10% y-o-y in January – September, while the earnings plummeted more than 20%. Chemical fertilizers producer Neochim [3NB] also had one of its worst quarters for the last few years and reported a loss of BGN 12.3 mln for 9M'2014. Share prices of both Albena and Neochim are down YTD, by 11.9% and 16%, respectively.

Continues on page 4

Monthly Newsletter 10'2014

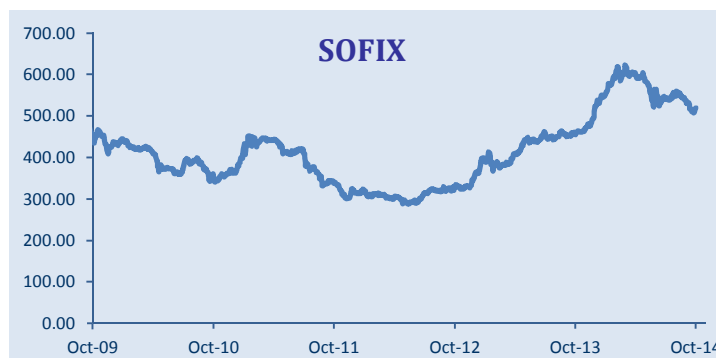
Bulgarian Stock Exchange | Trends

	Value	Monthly change	Year-to-date
SOFIX	520.31	-3.64%	5.86%
BGBX 40*	104.27	-3.75%	3.86%
BG REIT	96.78	-1.59%	9.16%
BGTR 30	406.85	-5.09%	16.57%

*BGBX 40 replaces BG40 starting on January 1, 2014

BSE Turnover	BGN	EUR
Equities (BGN/EUR'000)	27 672.85	14 148.90
Bonds (BGN/EUR'000)	1 771.54	905.77
Other (BGN/EUR'000)	2 388.37	1 221.15
Total-Regulated market (BGN/EUR'000)	31 832.75	16 275.83
OTC market (BGN/EUR'000)	33 794.77	17 278.99
Market Cap (BGN/EUR'000 000)	7 943.37	4 061.38
Market Cap/GDP	9.2%	

SOFIX



P/E	P/B	EPS growth	Market Cap	Turnover
12.43	0.59	-33.0%	2 869	7.063

Annual trailing EPS growth; Market cap and turnover in BGN'000 000

CEE and Global Markets

Country /	Index	Value	Monthly	Year-to-
Bulgaria	SOFIX	520.31	-3.64%	5.86%
Greece	ASE	915.83	-13.73%	-21.23%
Macedonia	MBI-10	1 854.23	8.22%	6.63%
Poland	WIG20	2 463.68	-1.46%	2.61%
Romania	BET	7 034.90	-3.14%	8.33%
Russia	MICEX	1 091.44	-2.73%	-24.32%
Slovakia	SAX	215.07	2.32%	8.75%
Slovenia	SBITOP	811.12	-3.17%	23.71%
Serbia	BELEX15	702.21	6.17%	25.85%
Turkey	ISE-100	80 579.66	7.53%	18.85%
Ukraine	PFTS	437.23	3.20%	45.49%
Hungary	BUX	17 320.32	-3.16%	-6.70%
Croatia	CROBEX	1 838.75	-4.13%	2.48%
Montenegro	NEX20	12 278.98	7.76%	24.66%
Czech Republic	PX	981.43	-1.01%	-0.77%
Morgan Stanley	MSCI EE (€)	355.25	-2.13%	-11.80%
USA	S&P 500	2 018.05	2.32%	9.18%
Germany	DAX	9 326.87	-1.56%	-2.36%
Japan	NIKKEI	16 413.76	1.49%	0.75%

Sector: banking

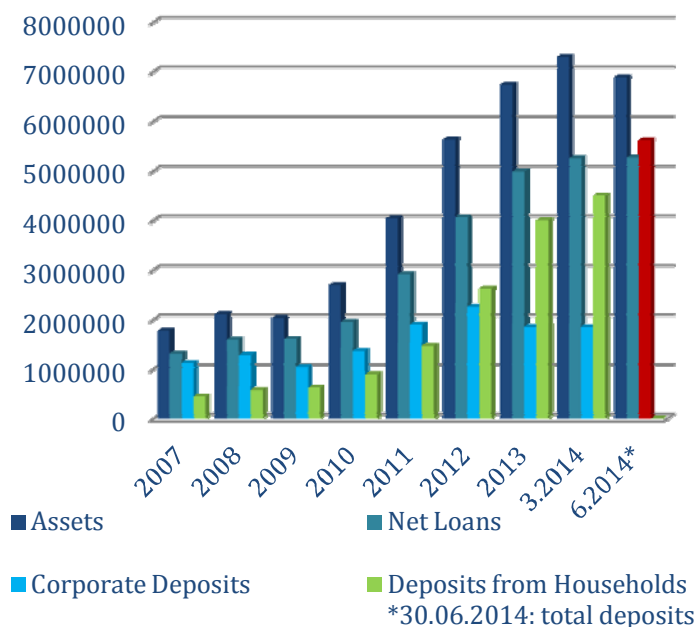
Bulgaria's central bank stripped Corporate Commercial Bank (Corpbank) of its license on November 6, 2014, paving the way for bankruptcy proceedings and the liquifying of the bank's assets.

The decision came after the Bulgarian National Bank (BNB) found evidence that Corpbank does not meet the capital requirements under Regulation (EU) № 575/2013 as its own equity turned negative to BGN - 3.745 bn and the bank's total capital adequacy ratio slipped to -180% as of the end of October. The conclusions were based on Corpbank's Q3 financial statements, prepared by the conservators of the bank, and came after an audit commissioned by BNB found out that the bank needs to write off nearly 63% of its total assets. According to Bulgarian law, the central bank has five days to revoke a bank's licence, shut its operations and ask a court to open bankruptcy proceedings once its capital turns negative.

The bankruptcy odds kept climbing in October, in line with the findings in the auditors' report, the negative vote on legislative amendments which would have allowed the government to bail out the bank, and the collapse of the negotiations with investors who had previously expressed interest to rescue the bank. The audit said that Corpbank, Bulgaria's fourth largest lender, needed to write off BGN 4.2 bn, or nearly 63% of its total assets of BGN 6.7 bn. The bulk of the write-off, some BGN 4.06 bn, is related to the bank's BGN 5.9 bn loan portfolio. The audit also said that only 13% of the loans were properly backed by collateral. Auditors found out major failings in the way the bank was run – for example, most of the companies to which Corpbank lent money had little or no business activities, and have used the money to lend it to third parties.

Meanwhile, the Bulgarian National Bank committed its own investigation on Corpbank, which pointed to evidence that Corpbank's exposure to related parties had substantially exceeded the lending limits, and that the bank raised its capital and attracted subordinated term debt using funds, which came from loans given out by the bank itself to ostensibly unrelated companies. On the grounds of these findings, the Bulgarian National Bank revoked its permission from March this year, which allowed Corpbank to include EUR 35 mln subordinated term debt in its capital, further widening the capital gap in the bank. The central bank also said that BGN 1.18 bn of deposits in the bank were transferred under cession agreements as of October 31, offsetting BGN 779 mln of liabilities to the bank.

Assets and Liabilities of Corpbank, BGN'000



Under Bulgarian law, deposits of up to EUR 100,000 are guaranteed and payments should start within 20 days once a bank's licence is revoked. Paying off the guaranteed deposits (with an estimated amount of BGN 3.6 bn) should start on December 4, 2014, but it proves to be a challenging task given the estimated BGN 1.6 bn shortage of the funds required in the Deposit Insurance Fund.

In June, Corpbank was hit by a bank run. It stopped operations because of a liquidity drain on June 20. The bank was put under special supervision by the Bulgarian National Bank. Meanwhile, the stock exchange decided to stop Corpbank's shares from trading until November 25. The bank's main shareholder, local businessman Tsvetan Vasilev, who is out of the country, has been charged with embezzlement, which he denies. In October, a consortium of investors including Vienna-based consultancy EPIC, an Omani sovereign wealth fund (which owns a 30% stake in Corpbank) and London-based emerging market fund Gemcorp proposed to rescue the bank under certain conditions - such as BGN 2.3 bn capital support from the government and haircut of all non-guaranteed deposits. The proposal found no support from BNB and among the major political

Main Economic Indicators

	2011	2012	2013	2014
GDP, in BGN bn	75.3	78.089	78.1	20.0
GDP, real annual growth (%)	1.8	0.6	0.9	2.1
Inflation (%)	4.2	3	-1.5	-0.8
Jobless rate (%)	10.4	11.4	11.8	10.5
Fiscal balance, %GDP	-2	-0.8	-0.1	0.3
Gross public debt, %GDP	16.3	18.5	17.1	20.9
Gross external debt, %GDP	94.3	94.9	92.1	94.3
Current account, %GDP	0.1	-1.3	2.8	2.0
FDI, %GDP	3.5	3.7	3	3
Prime interest rate (%)	0.22	0.03	0.04	0.02

For 2014 latest available official data is used. GDP data is for Q2'2014. Data for inflation and unemployment are at end-September 2014. Fiscal balance and Gross public debt data is for Q2'2014. Gross external debt, current account and FDI data is at end-August 2014. Data for the prime interest rate is for November 2014.

Market Overview (cont.)

from page 1

October proved to be dramatic for investors worldwide, as in the first half of the month world markets, led by the US S&P500 (which at one moment was 7.6 % in red), saw massive sell-offs. In the second part of October, on the other hand, positive sentiment dominates developed equity markets as investors' mood flipped 180 degrees after solid Q3 corporate results in the US, better than expected economic growth in China and positive manufacturing expectations in Germany. At the very end of the month FED expectedly announced the end of QE3 but not the QE concept I that spurred bullish sentiment. Investors also cheered the Bank of Japan's unexpected announcement that it had increased its target for monetary stimulus. Finally, the S&P500 completely erased the losses and even topped its previous historical highs from September. Emerging markets were facing more challenges and their performance was not so convincing.

News of the Past Month | Corporate Sector

- Shareholders of Enemona AD [E4A] will vote on a proposal for the distribution of a partial dividend of BGN 0,3514 per share (or a total of BGN 387 th, which is equal to the company's 2013 earnings) for 2012 on its preferred shares at a general meeting scheduled for November 12, 2014. The full dividend is set at BGN 0.992 per preferred share but in 2013 the company made only a partial payment of BGN 0.58164/share due to insufficiency of funds. The company will not be able to pay the entire dividend due for 2012 (BGN 0.41036 per share, or a total of BGN 452 586), as well as the dividend due for 2013 (BGN 0.992 per share, or a total of BGN 1.1 mln) as its net income totaled as little as BGN 387 000 in 2013.
- Advance Terrafund REIT [6A6] sold 6 771 da of farmland in September, the fund announced in its monthly bulletin. It also bought 3 270 da at an average price of BGN 800/da.

News of the Past Month | Economy and Politics

- IMF has lowered its outlook for Bulgaria's economic growth in 2014 and 2015. The forecast for 2014 has been cut to 1.4% from 1.6% previously anticipated. The 2015 GDP is expected to grow by 2%, down from 2.5% forecasted in April. The Fund projects deflation of 1.2% in 2014 and inflation of 0.7% in 2015. Also the anticipated rate of unemployment for 2014 is 12.5% and 11.9% in 2015. IMF projects economic growth of 3% in 2019 and inflation of 2.2%, while the current account deficit is expected to widen to 3.2% of the GDP.
- Bulgaria's government debt totaled EUR 9.572 bn as of the end of September, which accounted for 23.2% of GDP, the monthly bulletin of the Ministry of Finance showed. In nominal terms, the government debt increased by EUR 85.1 mln compared to the end of August, mainly due to the issuance of government securities. The domestic debt amounted to EUR 4.044 bn and accounted for 9.8% of GDP, while the external debt reached EUR 5.528 bn, or 13.4% of GDP. By the end of August the share of debt denominated in EUR was 58.0%, in BGN - 31.5%, in USD - 9.6% and in other currencies - 0.9%.
- Net income of Bulgarian banks increased 43.07% y-o-y to BGN 613.380 mln (all data excluding Corpbank and Victoria) in Q3'2014, data by BNB showed. Net interest income rose by an annual 4.85% to BGN 1.909 bn. The net loan portfolio of the banks expanded by 3.74% YTD, reaching BGN 60.279 bn at the end of September, while accumulated credit provisions increased by 8.24% YTD to BGN 5.370 bn. Impairment charges decreased 7.46% on the year to BGN 675.839 mln (excluding Corpbank and Victoria). The total assets of the banks amounted to BGN 81.71 bn at the end of September, up from BGN 79.006 bn at the end of 2013.

News of the Past Month | Economy and Politics

- The budget balance on a cash basis under the Consolidated Fiscal Program (CFP) as of September 30, 2014 is negative, amounting to BGN 1 483.1 mln vs. BGN 1 472.3 mln planned deficit for 2014. The faster growth of the expenditures and the delay in the collection of the planned tax revenue are the main factors for the CFP deficit. The shortage is also influenced by the suspended payments by the European Commission under the OP Environment and under two axes of OP Regional Development. When the payments are resumed it is expected that certified expenditures will be reimbursed. The deficit of the budget balance under CFP expanded by 1.3 p.p. of the GDP on the year or with BGN 1 121.6 from BGN 361.5 mln in September 2013.

- Bulgaria's current account surplus amounted to EUR 415.5 mln in August 2014, down from EUR 858.8 mln a year earlier, data by BNB showed. The country's cumulative C/A surplus totaled EUR 808.8 mln (2% of GDP) for January – August 2014 vs. EUR 1 257.7 mln (3.1% of GDP) for the same period of 2013. The trade balance was negative at EUR 157.7 mln in August vs. a surplus of EUR 107.9 mln a year earlier. Cumulative trade balance for the first 8 months of 2014 was negative at EUR 1 861.2 mln (4.6% of GDP) vs. a deficit of EUR 1 399.4 mln (3.5% of GDP) a year earlier. Cumulative exports for January – August 2014 decreased 2.9% y-o-y to EUR 14 264.4 mln and imports increased by 0.2% on the year to EUR 16 125.5 mln. In August alone, exports dropped by 3.4% y-o-y to EUR 1 935.3 mln, while imports jumped by an annual 10.5% to EUR 2 093 mln. Foreign direct investment (FDI) reached EUR 235.3 mln in August 2014, up from EUR 103.1 mln a year earlier. Cumulative FDI amounted to EUR 1 221.4 mln (3% of GDP) for January – August 2014, up from EUR 1 173.9 mln (2.9% of GDP) for the same period of 2013.

- Gross written premium (GWP) earned by Bulgaria's insurance companies increased by 5.65% y-o-y to BGN 1.038 bn for January-July, a report by the Financial Supervision Commission (FSC) showed. GWP earned by the general insurance companies increased by 5.1% on the year to BGN 841.048 mln. GWP earned by local life insurance companies rose by 8.3% y-o-y to BGN 197.136 mln through July, the report also showed. Motor vehicle insurance policies accounted for the largest share in GWP, 69.8%, followed by property insurance policies with 17.3%. Paid claims in general insurance increased by 2.43% on an annual basis to BGN 413.714 mln, while claims paid by the life insurance companies jumped by 15.9% y-o-y to BGN 75.039 mln.

News of the Past Month | Corporate Sector

from page 4

- Stara Planina Hold [5SR] met the forecast for its September sales and its consolidated revenue reached BGN 15.685 mln vs. BGN 15.324 mln initially forecasted. Cumulative sales increased by 3.26% on the year to BGN 138.910 mln for the first 9 months of 2014. The company projects 3.15% annual growth in its cumulative consolidated sales through October, expecting them to reach BGN 154.127 mln. Forecasted consolidated revenues for October alone are BGN 15.217 mln.

- September sales of M+S Hydraulic [5MH] amounted to BGN 7.450 mln, while the cumulative revenue for the first 9 months of 2014 increased by 5.60% on the year, reaching BGN 69.711 mln, the company said in a statement. EBT was BGN 910 000 in September and reached BGN 10.921 mln for the first 9 months of the year. The company's projected sales for October are BGN 7.450 mln, and cumulative revenue is expected to arrive at BGN 77.161 mln for January - October.

- September sales of Sopharma Trading AD [S05] increased 16% on the year to BGN 47.110 mln, while the cumulative revenue for the first 9 months of 2014 increased also by almost 16% y-o-y, reaching BGN 427.544 mln, the company said in a statement. EBT arrived at BGN 887 000 in September down from BGN 1.191 mln a year earlier. Cumulative EBT jumped 22% on the year to BGN 9.955 mln.

- Consolidated September sales of Monbat AD [5MB] increased by 10.80% y-o-y to BGN 21.042 mln, the company announced in a statement. Consolidated revenues fell by 7.50% on the year, to BGN 159.127 mln for January – September 2014. Consolidated EBITDA for September jumped up by 9.80% y-o-y to BGN 4.898 mln. Cumulative consolidated EBITDA inched up by 5% y-o-y to BGN 30.279 mln.

- Net income of Fazerles AD [4F6] reached BGN 1.280 mln in January - September 2014 vs. BGN 629 000 a year earlier, the Q3 financial statement of the company showed. Revenue increased by 6.14% on the year to BGN 13.971 mln as a result of an undergoing investment program aimed at improving the efficiency of the production.

- Net consolidated income of Speedy AD [0SP] plunged 24.60% on the year to BGN 6.039 in 9M'2014, showed the consolidated financial statement of the courier. Revenue jumped by 16.78% to BGN 54.635 mln while operating costs increased faster, by 24.09% to BGN 44.129 mln. The increase in the expenses is due to a change in the business model which involves outsourcing the transportation services to subcontractors.

Company	Ticker	Sector	Market Cap (BGN'000)	Price*	Monthly change	YTD change	Turnover (BGN'000)	P/E	P/B	P/S	EV/ EBITDA	EV/ Sales
Advance Equity Holding AD	6A8	conglomerate	19 770	0.55	-8.3% ▼	-38.2% ▼	1.04	-	0.5	-	-	-
Advance Terrafund REIT	6A6	REITS	208 520	2.45	1.7% ▲	23.3% ▲	879.50	5.6	1.0	2.4	4.4	1.8
Agria Group Holding AD-Varna	A72	agribusiness	55 760	8.20	-6.3% ▼	65.7% ▲	176.93	6.4	0.9	0.5	8.7	1.1
Albena AD	6AB	tourism	224 766	52.60	-2.9% ▼	-11.9% ▼	785.82	15.6	0.7	2.2	10.2	3.0
Albena Invest Holding AD-Albena	5ALB	conglomerates	34 650	6.30	-6.0% ▼	5.9% ▲	224.23	34.3	0.3	4.6	24.6	4.3
Biovet AD	53B	chemicals	70 208	10.35	-13.0% ▼	5.1% ▲	20.50	5.8	0.7	0.4	4.7	0.6
Bulgarian Real Estate Fund REIT	5BU	REITS	32 945	0.55	-2.7% ▼	2.4% ▲	303.49	29.0	0.5	11.6	57.4	10.6
Bulgarian Stock Exchange-Sofia	BSO	fin.services	21 921	3.33	-5.8% ▼	-4.9% ▼	43.75	28.4	1.9	7.4	27.7	5.7
CB Central Cooperative Bank AD	4CF	banks	120 396	1.06	-11.3% ▼	4.3% ▲	722.05	13.3	0.3	-	-	-
CEZ Distribution Bulgaria AD	3CZ	utilities	279 583	145.01	-3.0% ▼	-7.0% ▼	139.99	neg	0.2	0.2	5.4	0.7
Chimimport AD	6C4	conglomerates	273 356	1.81	-11.2% ▼	16.9% ▲	1 035.82	3.5	0.2	0.5	-16.9	2.4
Doverie Obedinen Holding AD	5DOV	conglomerates	17 331	0.93	-8.4% ▼	11.4% ▲	131.40	neg	0.2	0.1	45.0	0.6
Enemona AD	E4A	energy	21 361	1.79	-10.5% ▼	-37.3% ▼	78.45	neg	0.4	0.1	25.6	0.8
Eurohold Bulgaria AD	4EH	conglomerates	119 450	0.94	0.9% ▲	6.6% ▲	90.46	neg	0.6	0.2	-1193.6	0.4
Fazerles AD	4F6	industrials	25 879	50.25	-5.2% ▼	33.5% ▲	29.13	19.4	1.1	1.3	7.7	1.1
First Investment Bank AD	5F4	banks	297 000	2.70	-8.5% ▼	11.1% ▲	634.78	12.4	0.4	-	-	-
Industrial Capital Holding AD	4I8	conglomerates	60 653	3.90	-6.3% ▼	104.2% ▲	77.05	23.5	1.7	0.4	2.3	0.3
Industrial Holding Bulgaria PLC	4ID	conglomerates	67 979	1.00	-4.9% ▼	19.2% ▲	275.17	neg	0.3	0.8	13.3	2.1
M+S Hydraulic AD	5MH	machinery	198 400	5.08	-3.2% ▼	60.8% ▲	114.86	12.4	2.2	1.6	10.3	2.2
Monbat AD	5MB	machinery	319 761	8.20	-2.8% ▼	21.6% ▲	820.61	11.9	2.0	1.4	8.7	1.7
Neochim AD	3NB	chemicals	118 172	44.52	1.2% ▲	-16.0% ▼	34.94	neg	1.3	0.5	-15.4	0.6
Sopharma AD	3JR	pharmaceuticals	505 949	3.99	-1.2% ▼	1.9% ▲	240.64	26.8	1.3	0.6	9.5	0.9
Sopharma Properties REIT-Sofia	6S6	REITS	47 839	3.05	-0.8% ▼	25.1% ▲	212.24	39.7	1.5	5.0	12.9	9.3
Sopharma Trading	SO5	pharma trading	180 978	5.50	0.0% -	86.1% ▲	15 353.91	16.3	3.0	0.3	18.1	0.5
Sparky Eltos AD-Lovech	SL9	machinery	15 062	0.90	-10.0% ▼	61.9% ▲	167.56	-	0.3	-	-	-
Stara Planina Hold AD	5SR	conglomerates	88 179	4.20	-6.5% ▼	40.4% ▲	56.59	13.3	1.2	0.5	2.4	0.4
Synergon Holding AD	6S7	conglomerates	24 784	1.35	-12.8% ▼	5.5% ▲	136.97	neg	0.1	0.1	8.4	0.3
Toplivo AD	3TV	commerce	31 959	5.90	-1.7% ▼	75.5% ▲	27.12	-	0.3	-	-	-
Trace group Hold AD	T57	infrastructure	159 720	6.60	0.0% -	66.2% ▲	251.08	7.8	1.7	0.4	4.5	0.4
Yuri Gagarin PLC-Plovdiv	4PX	industrials	43 168	43.00	-2.3% ▼	-34.0% ▼	28.52	neg	0.7	0.5	12.6	0.6

The composition of BG30 was changed in September in accordance with a decision of the Board of Directors of the Bulgarian Stock Exchange. Agro Finance REIT [6AG], Sila Holding AD [6S5], Himsnab Bulgaria AD [58E] and Holding Varna AD [5V2] were replaced by CEZ Distribution Bulgaria [3CZ], Fazerles AD-Silistra [4F6], Advance Equity Holding AD [6A8], and Toplivo AD [3TV], effective

CEE and Global Markets

Advance Terrafund REIT	6A6	+ 1.70%	Synergon Holding AD	6S7	-12.80%
Neochim AD	3NB	+ 1.20%	CB Central Cooperative Bank AD	4CF	-11.30%
Eurohold Bulgaria AD	4EH	+ 0.90%	Chimimport AD	6C4	-11.20%

g Among all stocks with turnover of at least BGN 100 000 for the past month

DISCLAIMER: This newsletter is for informational purpose only and does not represent a proposal for buying or selling securities. The material is based on publicly available information. KAROLL accepts no liability for the content either partially or integrally in this newsletter.

KAROLL AD
1 Zlatovrah Str., Sofia, Bulgaria
tel.(fax): +359 2 4008 300
www.karollbroker.bg | research@karoll.net