

**National Commercial Bank (Jamaica)**

*All figures quoted in Jamaica Dollars unless otherwise stated*

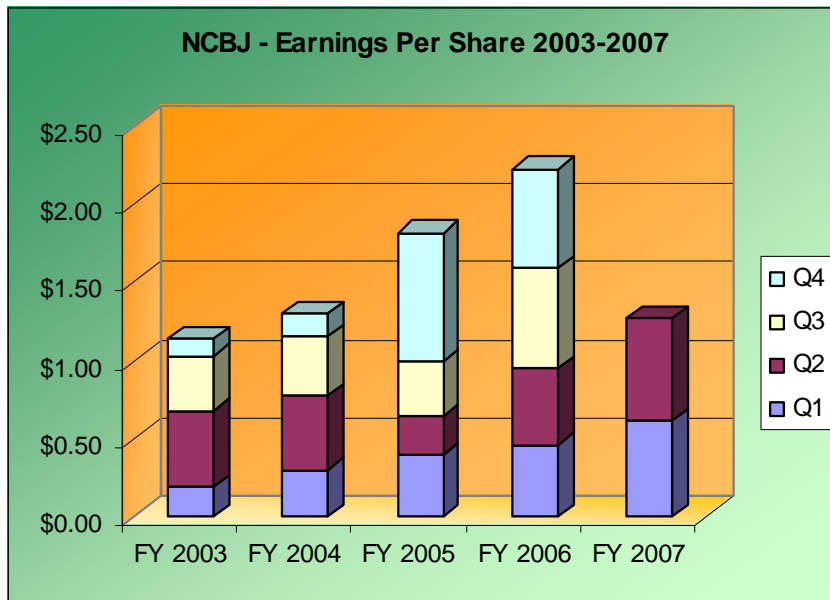
	<b>NCBJ</b>
<b>RECOMMENDATION</b>	<b>BUY</b>
<b>Current Price</b>	<b>TT\$1.95</b>
<b>Running EPS</b>	<b>TT\$0.24 (JMD2.54)</b>
<b>Projected EPS</b>	<b>TT\$0.26 (JMD2.74)</b>
<b>P/E at Projected EPS</b>	<b>7.5 times</b>
<b>Projected Dividend</b>	<b>TT\$0.06</b>
<b>Dividend Yield at Estimated Dividend</b>	<b>3.08 per cent</b>
<b>Return on Assets</b>	<b>2.73 per cent</b>
<b>Return on Equity</b>	<b>23.97 per cent</b>

***Results for the Half Year Ended March 31, 2007***

**Earnings Per Share**

National Commercial Bank (Jamaica) (NCBJ) has had another successful quarter for FY07. The Bank reported Earnings Per Share (EPS) of \$0.66 for the second quarter which brought the Half Year EPS to \$1.27 for FY07. Half Year 07 on Half Year 06, this was a substantial increase of \$0.31 or 32.29 per cent; while Q207 on Q206 the EPS grew by an outstanding 34.69 per cent or \$0.17 (See Figure 1).

**Figure 1**





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## **Financials**

For the Half Year under review the Bank's Interest Income from Loans amounted to \$3.85 billion, an increase of \$253.04 million or 7.03 per cent. Loans and Advances, net of provision, totaled \$48.62 billion as at March 31, 2007 compared to \$38.78 billion as at March 31, 2006- an increase of \$9.84 billion or 25.37 per cent. The aggregate amount of non- performing loans stood at \$1.7 billion and represented 3.49 per cent of the gross loans compared to 3.66 per cent at September 30, 2006 and 4 per cent as at March 31, 2006. Additionally, Interest Income from Securities saw an increase of 12.29 per cent or \$924.93 million to end the period at \$8.45 billion. This resulted in Total Interest Income of \$12.31 billion for HY07 compared to \$11.13 billion for HY06- an increase of 10.59 per cent.

Interest Expense for the six months stood at \$6.01 billion and was up by 14.30 per cent or \$751.60 million on the comparable period in FY06. Thus, Net Interest Income ended the period at \$6.30 billion up by 7.26 per cent or \$426.37 million.

Net Fee and Commission Income was up by a healthy margin of 25.64 per cent as Fee & Commission Income rose 24.58 per cent to \$2.21 billion while Fee & Commission Expense rose 20.53 per cent to \$443.27 million. Net Trading Income increased by a substantial 55.52 per cent to \$1.58 billion on the corresponding Half Year in FY06. Dividend Income however continued to fall in the second quarter which resulted in a HY figure of \$47.38 million a considerable decrease of 33.90 per cent or \$24.30 million. Conversely, Other Operating Income rose by a significant 642.27 per cent or \$360.00 million to \$416.05 million. As a result, Operating Revenue increased 20.01 per cent or \$1.68 billion to \$10.10 billion.

Operating Expenses for the period amounted to \$6.12 billion, up by 14.79 per cent on the corresponding period for HY06. While Provision for Credit Losses was the smallest Operating Expense, it saw the largest increase moving from \$66.70 million to \$112.26 million (68.32 per cent). As at March 31, 2007, the Accumulated Provision for Credit Losses determined under Bank of Jamaica regulatory requirements of \$2.31 billion, represented an overall coverage of 132 per cent of non-performing loans. At the end of the half year period the Loan Loss Reserve was \$251.3 million. Staff Costs was the largest Operating Expense for the period and stood at \$3.46 billion, up 15.07 per cent or \$452.55 million. This was mainly due to negotiated salary and allowances for the current financial year. Depreciation and Amortization was the only expense to decrease and stood at \$455.48 million, after falling 11.76 per cent or \$60.71 million on the corresponding figure for HY06. Additionally, the Bank had an Impairment Loss on Investment Securities of \$30.38 million for the Half Year under review while there was no such loss in the comparable period in FY06. Other Operating Expenses totaled \$2.06 billion, an increase of 14.79 per cent or \$788.41 million on the figure for HY06.

Accordingly, Operating Profit was up by a significant 29.03 per cent or \$895.83 million to \$3.98 billion. Profit Before Taxation ended the period at \$4.09 billion up by 30.49 per cent or \$956.55 million on the comparable Half Year for FY06. The Effective Tax Rate for the period under review was 23.81 per cent compared to a Rate of 24.86 per cent for HY06. Thus, Net Profit ended the period at \$3.12 billion up by an outstanding 32.33 per cent or \$762.05 million on HY06.



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Table 1 shows NCBJ Financials for the Half Year over the period 2006-2007.

Table 1

National Commercial Bank (Jamaica) - Half Year Results for (FY 2006-FY 2007)				
	HY 2007 JMD \$'000	HY 2006 JMD \$'000	\$ Change	% Change
Interest Income from Loans	3,853,322	3,600,285	253,037	7.03%
Interest Income from Securities	8,451,997	7,527,070	924,927	12.29%
<b>Total Interest Income</b>	12,305,319	11,127,355	1,177,964	10.59%
Interest Expense	(6,006,842)	(5,255,243)	(751,599)	14.30%
<b>Net Interest Income</b>	6,298,477	5,872,112	426,365	7.26%
Fee and Commission Income	2,206,511	1,771,188	435,323	24.58%
Fee and Commission Expense	(443,274)	(367,767)	(75,507)	20.53%
Net Fee and Commission Income	1,763,237	1,403,421	359,816	25.64%
<b>Net Trading Income</b>	1,575,160	1,012,808	562,352	55.52%
Dividend Income	47,378	71,676	(24,298)	-33.90%
Other Operating Income	416,052	56,051	360,001	642.27%
<b>Operating Revenue</b>	10,100,304	8,416,068	1,684,236	20.01%
Staff Costs	3,455,288	3,002,739	452,549	15.07%
Provision for Credit Losses	112,264	66,696	45,568	68.32%
Depreciation and Amortisation	455,482	516,190	(60,708)	-11.76%
Impairment Loss on Investment Securities	30,380	0	30,380	0.00%
Other Operating Expenses	2,064,906	1,744,284	320,622	18.38%
<b>Operating Expenses</b>	6,118,320	5,329,909	788,411	14.79%
<b>Operating Profit</b>	3,981,984	3,086,159	895,825	29.03%
Profit Before Taxation	4,094,084	3,137,531	956,553	30.49%
Taxation	(974,645)	(780,144)	(194,501)	24.93%
<b>Net Profit</b>	3,119,439	2,357,387	762,052	32.33%
<b>Earnings Per Share</b>	\$1.27	\$0.96	\$0.31	32.29%



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Table 2 shows NCBJ Audited Year End Financials over the period 2004 – 2006.

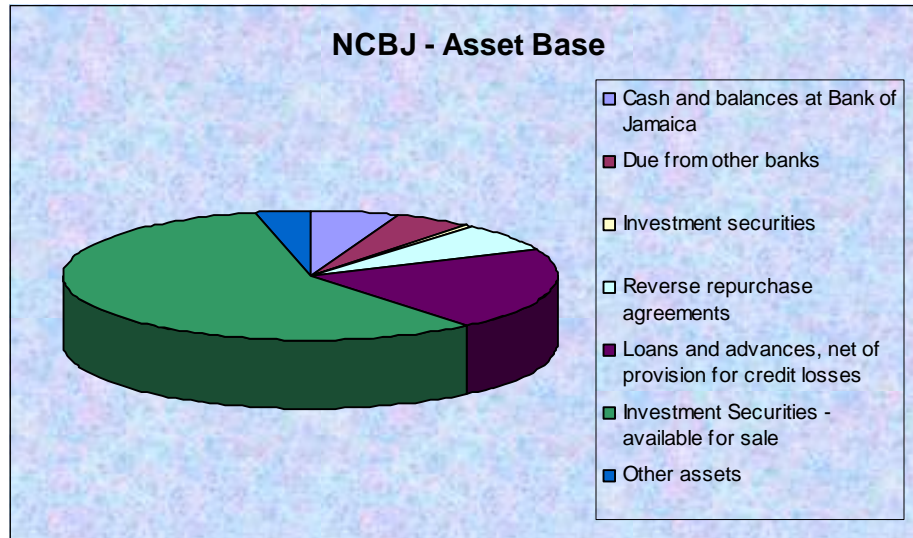
Table 2

National Commercial Bank (Jamaica) - Audited Year End Financials (FY 2004-FY 2006)					
	YE 2006 JMD \$'000	% Change '05-'06	YE 2005 JMD \$'000	% Change '05-'04	YE 2004 JMD \$'000
Interest Income from Loans	7,345,494	15.38%	6,366,474	27.86%	4,979,253
Interest Income from Securities	15,669,297	7.32%	14,600,558	-11.15%	16,433,184
<b>Total Interest Income</b>	<b>23,014,791</b>	<b>9.77%</b>	<b>20,967,032</b>	<b>-2.08%</b>	<b>21,412,437</b>
Interest Expense	(11,236,655)	7.78%	(10,425,519)	-11.72%	(11,809,339)
<b>Net Interest Income</b>	<b>11,778,136</b>	<b>11.73%</b>	<b>10,541,513</b>	<b>9.77%</b>	<b>9,603,098</b>
Net Fee and Commission Income	3,174,605	29.44%	2,452,546	38.33%	1,772,921
<b>Net Trading Income</b>	<b>2,356,046</b>	<b>1.27%</b>	<b>2,326,485</b>	<b>74.02%</b>	<b>1,336,873</b>
Dividend Income	98,768	-26.11%	133,672	31.65%	101,539
Loan Provision Recovered	0	-100.00%	609,716		
Other Operating Income	565,215	1.73%	555,630	195.64%	187,940
<b>Operating Income</b>	<b>17,972,770</b>	<b>8.14%</b>	<b>16,619,562</b>	<b>27.82%</b>	<b>13,002,371</b>
Staff Costs	5,955,835	5.14%	5,664,701	22.09%	4,639,585
Provision for Credit Losses	155,786	153.75%	61,393	-85.46%	422,341
Depreciation and Amortisation	1,028,085	-4.02%	1,071,135	9.74%	976,029
Impairment Loss on Investment	244,257	3.34%	236,359		0
Other Operating Expenses	3,776,238	0.39%	3,761,474	18.60%	3,171,532
<b>Operating Expenses</b>	<b>11,160,201</b>	<b>3.38%</b>	<b>10,795,062</b>	<b>17.22%</b>	<b>9,209,487</b>
<b>Operating Profit</b>	<b>6,812,569</b>	<b>16.96%</b>	<b>5,824,500</b>	<b>53.56%</b>	<b>3,792,884</b>
Profit Before Taxation	6930554	21.32%	5,712,706	47.99%	3,860,114
<b>Net Profit</b>	<b>5,486,625</b>	<b>27.98%</b>	<b>4,286,981</b>	<b>33.27%</b>	<b>3,216,738</b>
EPS cents	2.23	28.16%	1.74	33.85%	1.30
Price at Year End (TT)	1.65	-8.33%	1.80	-23.40%	2.35
Price/Earnings Multiple	7.64	-28.48%	10.69	-42.77%	18.67
Dividend (cents)	50	31.58%	38	-2.56%	39
Dividend Payout Ratio %	22.42%		21.84%		30.00%
Dividend Yield %	3.03%		2.11%		1.66%
Net Asset Value	9.96	16.76%	8.53	29.05%	6.61
Market to Book Ratio	1.66		2.11		3.56
Return on Assets	2.65		2.44		2.00
Return on Equity	23.96		23.83		22.05
Shares Outstanding	2,466,762,828		2,466,762,828		2,466,762,828

**Asset Base**

The total asset base of the Group increased 15.80 per cent to \$233.83 billion. The two major contributors to this growth were Investment Securities, up 28.14 per cent to \$133.59 billion and Loans and Advances (net of provision for credit losses), up 25.37 per cent to \$48.62 billion. Reverse Repurchase Agreements fell 35.73 per cent to \$16.49 billion. The growth in assets was mainly funded by increases in core customer deposits of 19.81 per cent and additional funding from securitisation arrangements of 34.30 per cent (See Figure 2).

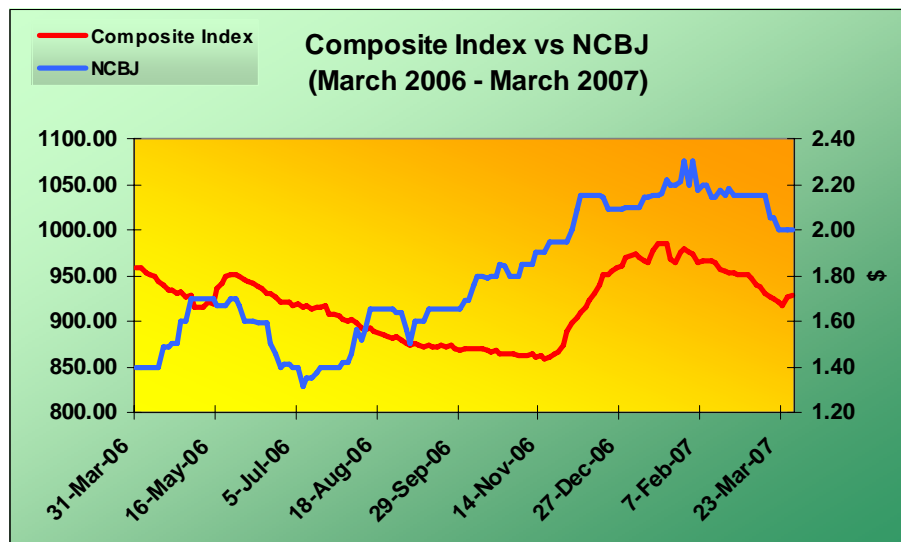
**Figure 2**



**Share Price**

While the Composite Index was on a downward trend over the period March 2006 to November 2006, NCBJ's share price fluctuated before beginning its ascent. On January 30, 2007, the share price reached its high of TT\$2.30 and again on February 2, 2007. The share price subsequently started to fall to end the 52 week period at TT\$2.00 (See Figure 3). In Jamaica, the share price closed at \$21.09 though it traded as high as \$25.00.

**Figure 3**





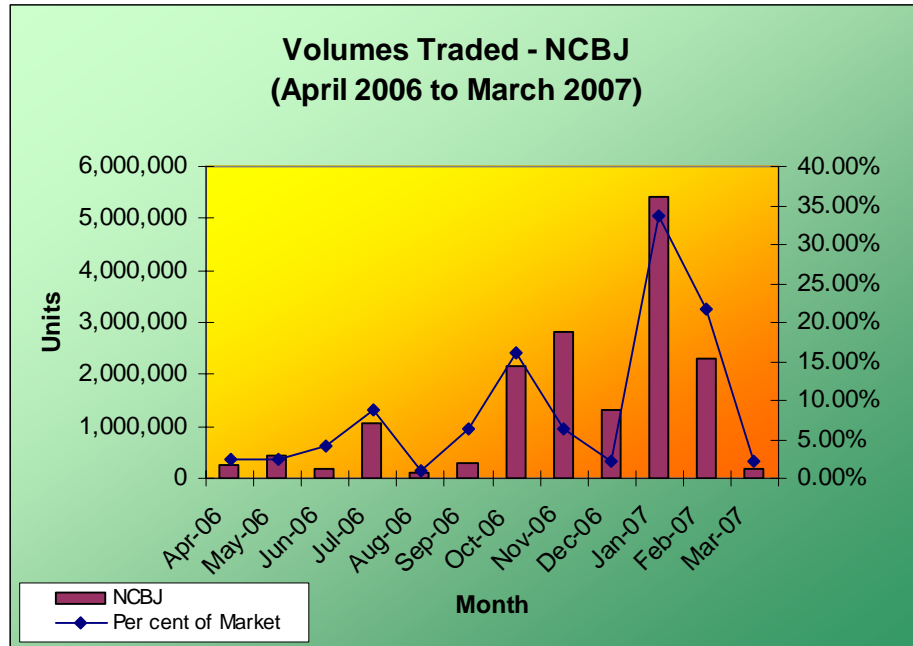
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**Volumes Traded**

Over the last year, August 2006 recorded the lowest volume traded with 92,031 shares or 0.92 per cent of the market while January 2007 saw the highest volume traded with 5,404,362 shares changing ownership or 33.57 per cent of all trades. Additionally, for the first quarter of 2007, NCBJ was the volume leader, trading a total of 7,900,885 shares or 22.25 per cent of the market (See Figure 4).

**Figure 4**



**Dividends**

The Board has declared an Interim Dividend of \$0.29 per share payable on May 25, 2007 for shareholders on record as at May 11, 2007. The financial statements for the quarter ended March 31, 2007 do not reflect this resolution which will be accounted for in Shareholders Equity as an appropriation of Retained Earnings in the quarter ended June 30, 2007.

**Recommendation**

NCBJ’s last close on the Trinidad and Tobago Stock Exchange was TT\$1.95. Given these commendable results WISE is maintaining a forecasted EPS of TT\$0.26. At the current price and forecasted EPS, NCBJ is trading at an attractive price to earnings multiple of 7.5 times. Additionally, using a multiple of 10 times we estimate a Target Price of TT\$2.60 or a return of approximately 33 per cent at the current price of TT\$1.95. As such, we continue to recommend a **BUY** on this share.

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