

Republic Bank Limited.

	<u>RBL</u>
RECOMMENDATION	SELL
Current Price	\$85.35
Running EPS	\$4.01
Projected EPS	\$5.30
P/E at Projected EPS	16.10
Dividend Yield (FY 2006)	2.91 per cent
Return on Assets	1.92 per cent
Return on Equity	14.79 per cent

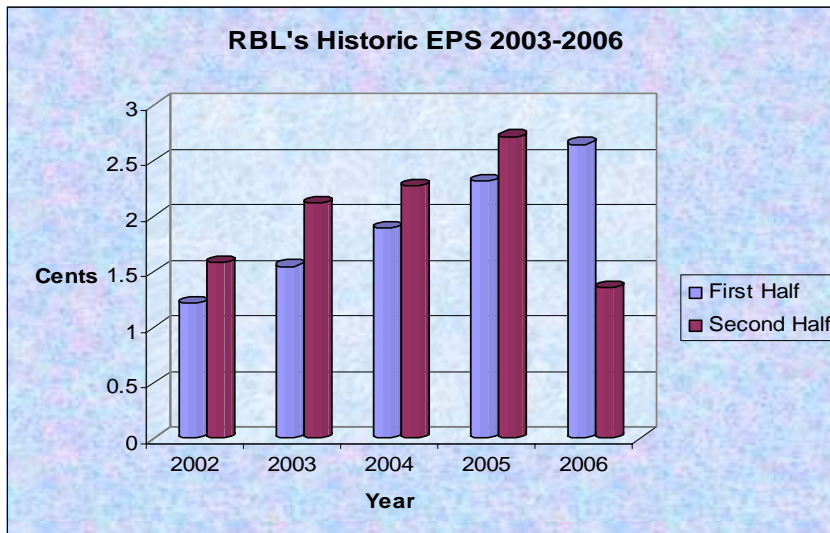
Audited Results for the Year Ended September 30, 2006

Earnings Per Share

Republic Bank Limited (RBL) reported Earnings Per Share (EPS) of \$4.01 for the year ended September 30, 2006. This was a disappointing 25.67 per cent less than 2005's EPS of \$5.04. In addition, this was the first financial year in the last five years in which the Second Half has not bettered the EPS of the first (see Figure 1).

One of the major reasons for this is the fact that the Group recorded a notable unrealized loss in the second half (2006) as a result of the fall in the price of First Caribbean International Bank Limited (FCIB). The first half of the year saw the price fall 4 cents or 0.30 per cent to \$13.45. The second half saw the FCIB share falling \$2.60 from \$13.45 at the end of the first half to \$10.85 at the end of RBL's financial year.

Figure 1





Financials

Though the bottom line was down, the Group's core operations recorded an impressive 18.34 per cent increase in profit to \$1,139.355 million up from \$962.745 million in 2005. Profit Before Tax was affected by an Unrealized Loss of \$175.428 million on the value of the Group's holding in First Caribbean International Bank (FCIB) shares as discussed before. This was a sharp contrast to the corresponding period for 2005 which had seen an Unrealized Gain of \$236.301 million as FCIB climbed 42.00 per cent from \$9.50 to \$13.49.

In addition, in 2005, the Group also had to contend with two non-recurring charges; A Goodwill write-off of \$124.119 million from its operations in the Dominican Republic and an Impairment of Grenada Government Debt of \$70.184 million.

In actuality, Profit Before Tax was down 4.06 per cent to \$963.927 million while Profit After Tax fell 14.37 per cent to \$736.661 million. The Effective Tax Rate moved from 14.38 per cent in 2005 to 23.58 per cent in 2006. Profit Attributable to Shareholders fell 20.32 per cent to \$640.257 million.

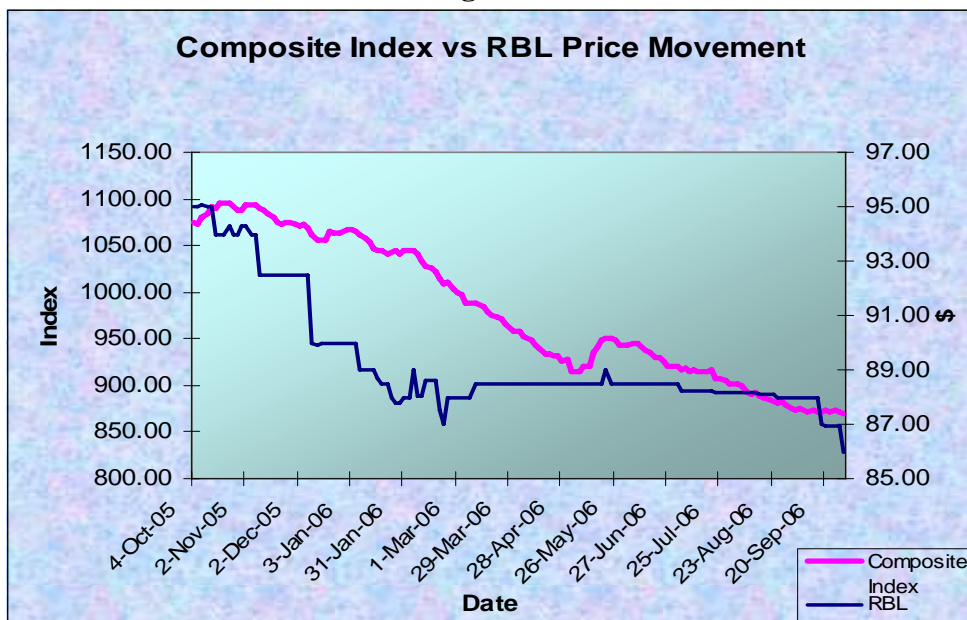
Dividends

The Board of Directors has declared a final dividend of \$1.73, bringing the total dividend for FY 2006 to \$2.50. The final dividend will be paid on December 1, 2006.

Share Price

The past year has seen the price of RBL registering several sharp drops before settling at \$88.50 for while the Composite Index continued on its general decline (Figure 2). The price of RBL further slipped in September to end FY 2006 at \$85.95. The share traded as high as \$95.05 and as low as \$85.95 during FY 2006.

Figure 2

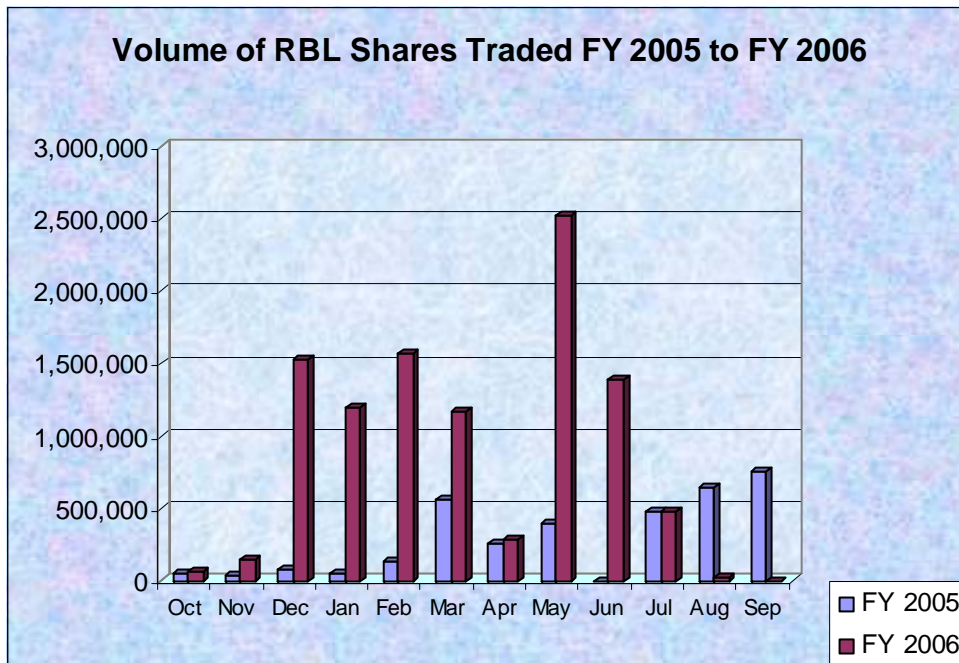




Volumes Traded

Republic Bank Limited is a tightly held share with over 85 per cent of its shares held by substantial interests (September 2005). Because of this fact, this share is not as frequently traded as other shares listed on the Stock Exchange. FY 2006 however, saw more activity in this share than FY 2005 (See Figure 3). It is interesting to note though that within the period of March 14, 2006 to June 30, 2006 in which over 5 million shares traded, the share price held at \$88.50. Subsequent to that, sharper declines in its price took place over the trading of smaller volumes.

Figure 3



Chairman's Comments on FCIB

The Chairman commented that the decline in the FCIB share price for the period under review was driven by the impending sale by Barclays to Canadian Imperial Bank of Commerce (CIBC) of its FCIB shareholding. He further noted that CIBC has indicated its intention to make the mandatory purchase offer to the remaining FCIB shareholders. Should the Group accept this offer, it would result in a significant realized gain to the Group and shareholders in the coming year.

Recommendation

Given that the Bank's core operations were strong coupled with the fact that the Unrealised Loss as a result of the Bank's holding in FCIB shares is not expected to recur next year, we are forecasting year end earnings of \$5.30. At this forecast and the current price of \$85.35, RBL is trading at a price/earnings ratio of 16.10. This multiple is considered high for this Company given the current state of the market and as such we recommend a SELL on this share.



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News Highlights (FY 2006)

- June 2006 - US Credit Rating Agency, Fitch Ratings upgraded Republic Bank's Issuer Default rating (IDR) from BBB- to BBB and raised the support rating from 3 to 2. Fitch also reaffirmed its stable rating outlook.
- May 2006 - RBL acquired Dextra Bank & Trust in the Cayman Islands in a bid to expand in the offshore banking arena.
- January 2006 - RBL saw the appointment of Thomas Evans to its Board of Directors which was effective January 25, 2006.

Figure 5

Republic Bank Limited - Half Year Results (2005-2006)					
	HY(2) 2006 \$'000	Change HY 2 - HY 1 2006	HY(1) 2006 \$'000	Change HY(2) 06- HY(2) 05	HY(2) 2005 \$'000
Income Before Taxation	441,021	-15.66%	522,906	-3.46%	456,838
Income After Taxation	320,335	-23.06%	416,326	22.04%	410,909
Profit Attributable to Shareholders	268,986	-27.55%	371,271	29.49%	381,471
EPS (cents)	1.69	-27.16%	2.32	29.29%	2.39
Dividend (cents)	1.73	124.68%	0.77	16.89%	1.48
Republic Bank Limited - Audited Year End Financials (2004-2006)					
	YE 2006	% Change '05-'06	YE 2005	% Change '05-'04	YE 2004
Profit Before Taxation	963,927	-4.06%	1,004,743	13.20%	887,570
Taxation	227,266	57.33%	144,452	18.60%	177,449
Profit After Tax	736,661	-14.37%	860,291	21.15%	710,121
Profit Attributable to Shareholders	640,257	-20.32%	803,500	21.06%	663,747
EPS	\$4.01	-20.44%	\$5.04	21.15%	\$4.16
Market Price @ Financial Year End (TT\$)	\$85.95	-9.53%	\$95.00	19.18%	\$79.71
P/E Ratio @ Financial Year End	21.43		18.85		19.16
Dividend	\$2.50	11.11%	\$2.25	12.50%	\$2.00
Dividend Payout Ratio (%)	62.34		44.64		48.08
Dividend Yield (%)	2.91		2.37		2.51
Net Asset Value	\$30.74	7.90%	\$28.49	11.86%	\$25.47
Market to Book Ratio	2.80		3.33		3.13
Return on Equity (%)	14.79		20.39		18.93
Return on Assets (%)	1.92		2.67		2.44
Shares Outstanding	159,993,680		159,393,680		159,032,318

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