



JSE COMPANY SPOTLIGHT

FIRST CARIBBEAN INTERNATIONAL BANK (FCIB)

FCIB net profit grows 13%...

Analysis of the results for the six months ended April 30, 2009

FCIB Stock Highlights as at July 6 2009

Recommendation:	HOLD
Fiscal Year End:	October
Shares in Issue ('000):	1,525,086
Industry:	Financial
Current Stock Price:	\$118.89
Current P/E:	11.78X
Last 4 Qtrs EPS:	US\$0.12
Book Value per Share:	US\$0.88
52 week high/low:	\$139.00/\$100.00
Fair Value:	\$134.94

Balance Sheet:

- Total assets for FCIB fell 10% to \$10.6 billion as a result of all major components with the exception of loans and advances which grew 9% to \$6.88 billion from \$6.29 billion.
- Shareholders' equity now stands at \$1.34 billion versus the \$1.38 billion due to the 28% deterioration in reserves. This 3% fall in shareholders' equity led to a 2 cent increase in book value per share from \$0.88 to \$0.90.
- Total liabilities amounted to \$9.20 billion, 11% under the \$10.3 billion for the first six months of 2008 on account of the 12% fall-off in customer deposits from \$9.94 billion to \$8.70 billion.

FINANCIAL SUMMARY (All amounts expressed in US \$)

Profit and Loss:

- For the six months ended April 30, 2009, **First Caribbean International Bank (FCIB)** reported net interest income of \$222 million as oppose to \$218 million, increasing a mere 2% over 2008.
- Both interest income and interest expenses for the half year were down, the former by 13% and the latter by 34%.
- Operating income came in 107% higher at \$68.0 million (Q2 2008: \$33.8 million) due mainly to lower losses on the Group's trading portfolio, gains garnered from the repurchasing of issued debt and hedge accounting. Accordingly, total revenues amounted to \$38.4 million more at \$290 million.
- Operating expenses amounted to \$161 million up from \$152 million on account of elevated staff costs arising from salary increases and higher pension expenses.
- With total operating expenses up only 6%, operating profit rose 17% to \$102 million from \$87 million. However, the increase in operating profits was partly offset by substantially higher loan provisions. Loan provisions for the period totaled \$25.7 million versus \$10.4 million previously.
- After taxes and minority interest, net profits turned out at \$84.7 million or 6 cents per share, relative to the \$74.6 million or 5 cents per share at Q2 2008, translating to a year on year increase of 13%.

COMPANY OUTLOOK

FCIB, the foremost ranking company in market capitalization on the Jamaica Stock Exchange successfully recorded an increase in net profits for the first half of the 08/09 fiscal year. This is quite the opposite to the latter half of the 07/08 fiscal year when the Bank saw profits decline 28%. Particularly, FCIB performance for that entire year reflected a 31% downturn in net profits as the ongoing financial turmoil triggered excess volatility in local and regional markets and has caused the demise in earning capabilities for many industries including the financial sector. One chief contributing factor to the FCIB underperformance last year was related to the outturn of the Bahamas subsidiary. Group profits diminished as both the US and Bahamas economies weakened. This was further compounded by narrowing interest spreads due to the decline in US interest rates and the Bank's investment portfolios being negatively affected by the global widening of credit spreads.

In recent times however, the economic environment have shown little signs of improvement in particular, global capital markets. Coupled with prudent management, the Group is expected in the months ahead to be positively impacted. In addition, the Jamaican subsidiary continues to exceed previous years' performances reporting profits for the period 70% higher that contributed favorably to the Group's bottom-line. Notably, loans and deposits for FCIBJ grew 33% and 27% respectively over the period as the bank continues to aggressively grow its loan portfolio. The Jamaican arm is also expected to reap further benefits in the near term from widened interest spreads due to the relatively high interest rate environment in the country of operation.

FCIB's loan portfolio has performed creditable in the past and continues to do so. Loan balances strengthened 9% to just under \$7 billion at the first half of year. However, one shortfall

for the Group is its vulnerability to interest income from loans. Loans represent a sizable 78% of earning assets for the Bank. Though revenue generation occurs in a number of countries, it is vastly concentrated in loan income. Therefore an unexpected fall-off in loan demand or further increases in non-performing loans could impact FCIB's performance adversely, in particular revenues derived from loan interest and fees. For the review period, FCIB financials showed a 13% fall in interest income from \$366 million to \$319 million. This is in addition to loan loss provisions which were twofold that of the previous comparable period and came as a result of the ongoing uncertainty in the global financial sector. Moreover, the driving factor of loans, customer deposits at the latest balance sheet date reflected a 12% year-on-year decline and if this were to persist will hinder FCIB's ability to lend which can be devastating to its loan portfolio.

On a more positive note, FCIB continues to rack up accolades, winning the Bank of the Year Award for 2008 for two of the subsidiaries, Barbados and the Bahamas from the magazine, 'The Banker'. In light of this, to uphold performance levels, First Caribbean is expected to continue deepening customer relations by introducing innovative financial services and implementing new and diversified products. Recently the Bank in conjunction with British Airways launched the Visa Platinum and Business credit cards. As an incentive the cards offer fantastic rewards and should meet the high expectations of customers. Similarly, the risk-sharing deal with the Inter-American Development Bank, to provide a US\$200 million credit facility for infrastructure development, tourism and mid-size businesses, should furnish FCIB with the liquidity to boost corporate lending in this time of tightened credit and given banks disinclination to lend.

RECOMMENDATION

Consistent with a net interest margin of 60%, FCIB a year from now is likely to earn net interest income of \$483 million. Total revenue should region \$617 million, justified by the expectation

that operating revenues will show some improvements in the coming months. Assuming an efficiency ratio of just about 57%, FCIB is projected to incur operating costs of \$355 million thereby rendering net profits of \$180 million or 12 cents per share. Applying forward P/E of 12X, the fair value of the FCIB share could approach J\$134.94. With capital appreciation gains of only 13% to be expected given the current share price of J\$118.89, we continue to recommend FCIB as a **HOLD**.

PROS

- FCIB achieved growth in its core operation, loans. Loans and advances grew 9% over the one year.
- Geographically diversified, FCIB has five major subsidiaries and is located throughout the Caribbean.
- Has a market cap of about J\$181 billion on the JSE and is listed on all three main regional exchanges.
- FCIB's efficiency ratio improved from 61% at Q2 2008 to 56% at Q2 2009, indicating a lower level of operating expenses.

CONS

- The potential for future growth appears uncertain as FCIB's balance sheet waned amid current economic pressures.
- Cash position weakened when compared to the same period of 2008. Cash holdings at the end of April 2009 reflect 47% decline to \$1.13 billion when compared to \$2.12 billion for 2008.
- The economic climate, intensified competition from other market players and bearish stock markets may impede growth going forward.

VOLUME/SHARE PRICE TREND



FINANCIAL SUMMARY

US\$'000	Year Ended Oct 31					Six months ended Apr 30		% Change	Projections for 12 months to Apr-2010
	2004	2005*	2006*	2007	2008	2008	2009		
Income Statement									
Interest Income	400,167	479,415	648,016	784,857	722,971	365,712	319,455	-13%	710,550
Interest Expense	-126,816	-168,664	-261,913	-359,876	-264,684	-147,316	-97,775	-34%	-227,376
Net Interest Income	273,351	310,751	386,103	424,981	458,287	218,396	221,680	2%	483,174
Non-Interest Income	112,039	232,489	105,627	181,048	92,256	32,836	67,993	107%	133,784
Expenses	-261,706	-262,172	-294,864	-301,607	-313,592	-152,376	-161,025	6%	-354,465
Loan Loss Expenses	-14,889	-7,308	-10,369	-17,029	-32,015	-10,381	-25,676	147%	-52,041
Amortisation of intangible assets	-	-	-2,219	-2,960	-2,963	-1,481	-1,474	0%	-2,956
Operating Profit	108,795	273,760	184,278	284,433	201,973	86,994	101,498	17%	207,495
Taxation	-16,926	-13,483	-20,005	-23,092	-22,220	-10,694	-15,295	43%	-22,824
Minority Interest	-3,327	-5,100	-5,181	-5,674	-4,477	-1,654	-1,547	-6%	-4,150
Net Income attributable to shareholders	88,542	255,177	159,092	255,667	175,276	74,646	84,656	13%	180,521
Balance Sheet									
Total Shareholders' Equity	1,207,103	1,080,179	1,183,731	1,335,993	1,310,741	1,379,339	1,344,629	-3%	
Total Assets	8,648,720	9,572,461	12,411,660	11,855,675	10,940,154	11,748,308	10,565,985	-10%	
Total Liabilities	7,423,184	8,472,157	11,205,100	10,494,855	9,604,359	10,343,159	9,196,883	-11%	
Deposits	7,359,646	7,729,395	9,135,950	9,275,685	9,196,049	9,936,972	8,702,748	-12%	
Per Share Data									
Book Value per Share	0.79	0.71	0.78	0.88	0.86	0.90	0.88		
EPS (in US cents)	0.06	0.17	0.10	0.17	0.11	0.05	0.06		0.12
Key Ratios									
Net Interest Margin	68%	65%	60%	54%	63%	60%	69%		68%
Net Profit Margin	22%	53%	25%	33%	24%	20%	27%		25%
Annualised ROE	8%	22%	14%	20%	13%	16%	14%		
Annualised ROA	1%	3%	1%	2%	2%	2%	2%		
Efficiency Ratio	68%	48%	60%	50%	57%	61%	56%		57%
Total Debt to Equity	6.15	7.84	9.47	7.86	7.33	7.50	6.84		
Price/Book	2.05	2.70	2.31	2.25	1.86	2.18	1.53		
Annualised P/E	27.91	11.42	17.16	11.74	13.89	13.99	11.10		12.00
Share Price	1.62	1.91	1.79	1.97	1.60	1.97	1.35		1.42
Share Price (JA\$)	100.00	122.04	118.75	140.00	120.02	140.00	120.00		134.94

* restated