

**First Caribbean International Bank (FCIB)**

*All figures quoted in USD unless otherwise stated*

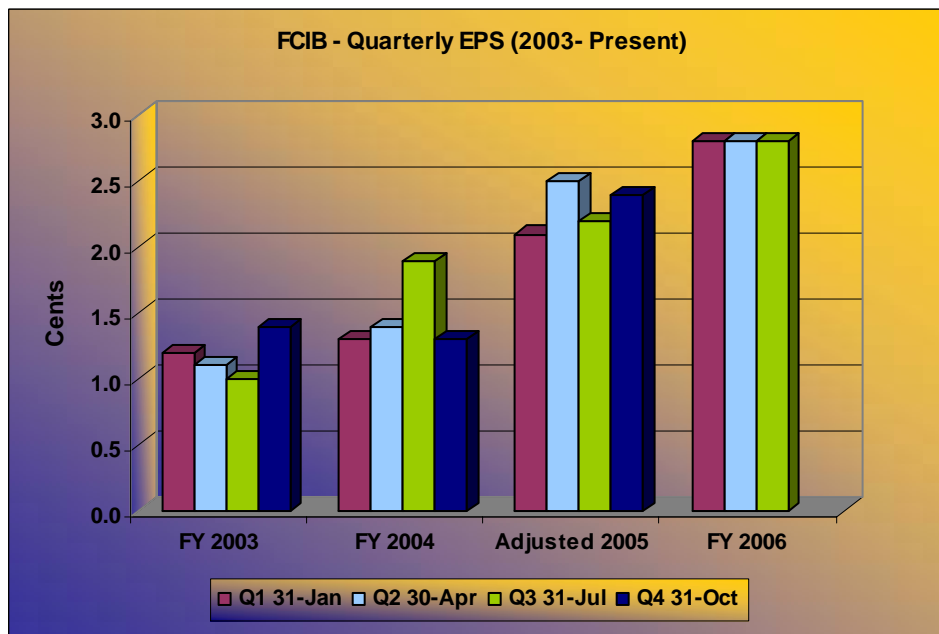
	<u>FCI</u>
<b>RECOMMENDATION</b>	<b>BUY</b>
<b>Current Price</b>	<b>TT\$10.85</b>
<b>Running EPS</b>	<b>US 8.4 cents; TT\$0.68</b>
<b>Projected EPS</b>	<b>TT\$0.70</b>
<b>P/E at Projected EPS</b>	<b>15.50 times</b>
<b>Dividend Yield</b>	<b>1.31%</b>
<b>Return on Assets</b>	<b>1.26%</b>
<b>Return on Equity</b>	<b>11.41%</b>

***Results for the Nine Months Ended July 31, 2006***

***Earnings Per Share***

For the Nine Months Ended July 31, 2006 First Caribbean International Bank (FCIB) reported a Diluted Earnings Per Share (EPS) of 8.4 cents. This is the result of a consistent EPS of 2.8 cents in all three quarters for the 2006 financial year. The comparable EPS for the nine months ended July 31, 2005 was 14.5 cents, but included an exceptional gain of \$117 million. Excluding the gain, the EPS for the comparable period in 2005 would have been 6.9 cents, which represents an improvement of 21.74 %. Q3 2005 on Q3 2006, there was an increase of 27.27 % in EPS (2.2 cents vs. 2.8 cents). See **Graph 1**.

**Graph 1**





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### ***Financials***

Although, the Bank's Interest Expenses continue to rise considerably, the revenue from its Interest Income (driven principally by increases in loan balances) was more than enough to offset this increase. As such, Net Interest Income for the nine month period amounted to \$272.99 million an increase of \$37.48 million or 15.92%. Where, Interest Income, which continues to be the Bank's main revenue driver, amounted to \$461.74 million, 29.73% higher than the corresponding period in 2005. Interest Expense ended the nine months at \$188.75 million, up 56.75%. However, it should be noted, that Interest Expenses for the period ended July 31, 2005 only included four and a half months of interest expenses on debt securities which were issued in March 2005 to replace the Bank's preference shares.

Operating Income for the nine months stood at \$99.93 million and if compared to the Operating Income adjusted for the exceptional gain in 2005, increased by 12.73% or \$11.29 million. Q3 2005 on Q3 2006, this figure increased by an exceptional 32.56% or \$8.33 million. Additionally, the comparative period ended July 31, 2005 includes income based on an agreement whereby FCIB would receive \$10 million a year as an incentive to keep deposit placements with Barclays Capital. This agreement expired on December 31, 2005 and is therefore not included in the period under review.

Operating Expenses increased by 7.59% on the nine months and 12.77% for the three months (2005/2006). The Chairman has attributed part of this increase to the acquisition in Curacao. He has also pointed out that the Efficiency Ratio of the Bank, that is, the ratio of Costs to Revenues was 57.44%, which represented a marked improvement over the prior year of 61.42% (excluding one off gain on RBL shares).

Loan Loss Expense increased by a significant 54.71% on the comparable nine month period in 2005, from \$4.91 million to \$7.60 million. The percentage increase was even higher in the third quarter comparison, which showed a change of 133.59% or \$1.54 million.

Income before Tax and Minority Interests for the nine months amounted to \$149.62 million an increase of 24.54 % on the comparable period (excluding one off gain). The Effective Tax Rate for the period ended July 31, 2006 was 11.37% while the comparative Tax Rate in 2005 was 9.62%. After deducting taxes and minority interests, the Bank's Net Income for the period was \$128.31 million, which excluding the gain on sale of RBL shares, represents an increase of 22.37%, nine months on nine months.



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Table 1 Shows a Financial Data Comparison for Nine Months (2005/2006) and Q3 (2005/2006)

Table 1

FCIB Financial Data Comparison for Nine Months (2005/2006) and Q3 (2005/2006)								
	Nine Months 2006 USD'000	% Change '05-'06	Nine Months 2005 USD'000	% Change '05(Adj) -'06	Adjusted Nine Months 2005 USD'000	Q3 2006	Q3 2005	% Change Q3 05 - Q3 06
Interest Income	461,735	29.73%	355,922	29.73%	355,922	167,403	123,095	35.99%
Interest Expense	188,747	56.75%	120,415	56.75%	120,415	72,431	44,332	63.38%
Net Interest Income	272,988	15.92%	235,507	15.92%	235,507	94,972	78,763	20.58%
Operating Income	99,930	51.41%	205,645	12.73%	88,645	33,910	25,581	32.56%
Operating Expenses	214,217	7.59%	199,099	7.59%	199,099	73,814	65,455	12.77%
Loan Loss Expense	7,598	54.71%	4,911	54.71%	4,911	2,698	1,155	133.59%
Intangibles Amortization	1,479	***	-	***	-	1,479	-	***
Income before Tax and Minority Interest	149,624	36.91%	237,142	24.54%	120,142	50,891	37,734	34.87%
Taxation	17,018	47.29%	11,554	47.29%	11,554	6,818	2,342	191.12%
Income before Minority Interest	132,606	41.22%	225,588	22.12%	108,588	44,073	35,392	24.53%
Minority Interest	4,297	15.05%	3,735	15.05%	3,735	1,442	1,199	20.27%
Net Income for the Period	128,309	42.16%	221,853	22.37%	104,853	42,631	34,193	24.68%
Earnings Per Share (USD)	\$0.084	42.07%	\$0.145	21.74%	\$0.069	\$0.028	\$0.022	27.27%
Earnings Per Share (TT\$)	\$0.521	42.39%	\$0.904	21.07%	\$0.430	\$0.174	\$0.137	26.57%

\*\*\*Currency Conversions were done through the use of [www.oanda.com](http://www.oanda.com) as at July 31, 2005 and July 31, 2006.



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Table 2 Shows a Financial Data Comparison for the Year End (2003-2005)

Table 2

FCIB Financial Data Comparison for Year End (2003-2005)					
	YE 2005 USD'000	% Change '04 -'05	YE 2004 USD'000	% Change '03 -'04	YE 2003 USD'000
Interest Income	479,415	19.80%	400,167	3.82%	385,436
Interest Expense	168,664	33.00%	126,816	-2.61%	130,218
Net Interest Income	310,751	13.68%	273,351	7.10%	255,218
Operating Income	235,817	110.48%	112,039	-2.23%	114,594
Operating Expenses	262,172	0.18%	261,706	6.28%	246,232
Loan Loss Expense	7,308	-50.92%	14,889	25.40%	19,958
Intangibles Amortization	-	***	-	***	-
Income before Tax and Minority Interest	277,088	154.69%	108,795	4.99%	103,622
Taxation	13,973	-17.45%	16,926	32.07%	12,816
Income before Minority Interest	263,115	186.40%	91,869	22.57%	74,950
Minority Interest	5,180	55.70%	3,327	13.58%	3,850
Net Income for the Period	257,935	191.31%	88,542	24.53%	71,100
Diluted Earnings per Share (USD)	\$0.169	186.44%	\$0.059	25.53%	\$0.047
Diluted Earnings per Share (TT\$)	\$1.065	189.66%	\$0.368	27.16%	\$0.29
Market Price @ Financial Year End (TT\$)	\$13.50	37.06%	\$9.85	25.48%	\$7.85
P/E Ratio @ Financial Year End	12.68		30.40		31.13
Dividend (TT\$)	\$0.27	68.75%	\$0.16	6.67%	\$0.15
Dividend Payout Ratio (%)	25.36%		49.39%		59.49%
Dividend Yield	2.00%		1.62%		1.91%
Net Asset Value (TT\$)	\$4.66	-6.43%	\$4.98	10.91%	\$4.49
Market to Book Ratio	2.90		1.98		1.75
Return on Equity	22.24%		7.64%		6.74%
Return on Assets	2.83%		1.03%		0.81%
Shares Outstanding '000	1,525,176		1,527,189		1,544,097

\*\*\*Currency Conversions were done through the use of [www.oanda.com](http://www.oanda.com) as at October 31, 2003-2005.



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### *Assets*

The Asset Portfolio of FCIB has grown by 12.46% from its year end in 2005 , this is mainly due to the acquisition of ABN AMRO Bank Curacao N.V. and its subsidiary ABN AMRO Asset Management (Curacao) N.V; in addition to the increase in Loans and Advances of \$0.8 billion to \$5.4 billion.

In accordance with International Financial Reporting Standards (IFRS) 3 (Business Combinations) and International Accounting Standards (IAS) 38 (Intangible Assets), the Bank is required to assess the fair value of any Intangible Assets from acquisitions and their economic lives. As a result, during the quarter, the Group concluded its assessment of the assets of the ABN AMRO Offshore and Wealth Management business in Curacao. This assessment resulted in the identification of specific intangible assets related to customer relationships, with a remaining estimated economic life of six years. This had the effect of a year to date amortization charge on Intangible Assets of \$1.48 million.

Intangible Assets for the period therefore included goodwill in the amount of \$334 million and customer relationship intangible assets in the amount of \$17 million (ABN AMRO). FCIB continues to maintain a large Cash position, with the nine month balance closing at \$2.87 billion. This asset continues to be a great resource from which the loan book can be enhanced.

### *Pending Transactions*

On June 28, 2006, Barclays and CIBC executed a purchase and sale agreement with respect to the sale by Barclays of its 43.7% interest in FCIB. FCIB is currently working with Regulatory bodies to obtain all required approvals and it is expected that such approvals will be received in the near term. Additionally, on August 9, 2006, the Special Committee of the Board met to continue its ongoing review of the transaction. The Chairman has advised that shareholders will receive the appropriate documentation in due course in respect of the transaction.

### *Share Price*

Over the period July 01, 2006 to May 02, 2006 the share price of FCIB traded within a very tight range, reaching a high of TT\$13.51 and a low of TT\$13.28. Although the price began to gradually fall after this period, it was expected, due to the speculation in the market on the transaction between Barclays Plc and Canadian Imperial Bank of Commerce (CIBC). This was due to the fact that the proposed price for the transaction was approximately TT\$10.24 per share, while the market price at the time of announcement was TT\$13.50. Thus, we projected that the price would have fallen at a slow rate as the transaction date drew closer. The price currently stands at \$10.85 and we do not expect to see any large trades at this low price as supply would be thin.

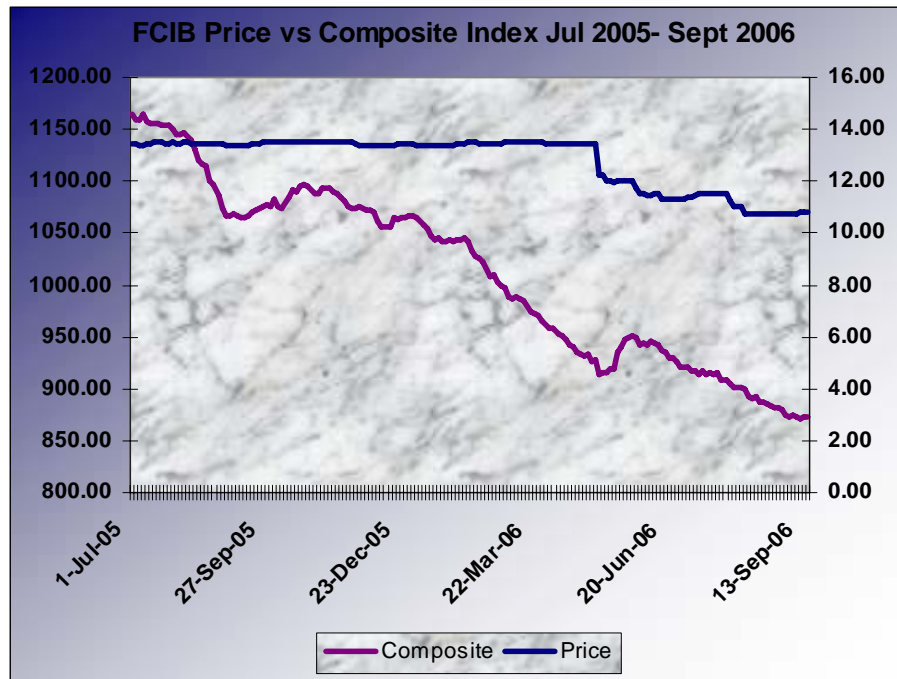
While FCIB has the largest market capitalization value on the local market, the shares are tightly held and as such volumes traded are not enough to have a significant impact on the Composite Index. This can be seen clearly in **Graph 2**, where the Index is falling at a rapid rate while FCIB maintained its position for almost a year before slowly declining.



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Graph 2



### Recommendation

FCIB continues to perform consistently well and should continue to deliver strong earnings in the last quarter of the year. Thus, we maintain our Forecasted EPS of TT\$0.70 which at the current price of TT\$10.85 translates into a P/E multiple of 15.50 times. The shares of FCIB have traditionally traded at 20+ times (2003-2005, based on core- operational results) and for the current year have traded in the band of 16 to 19 times. Thus, based on this analysis, we recommend a BUY on this share at the price of \$10.85. Although, it should be noted that supply would be very thin at this price.

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