

Jamaica, West Indies

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National Commercial Bank – NCB

Review of Half Year, First Quarter & Annual Results-- Plus Sector Outlook

→ HALF YEAR RESULTS

Half Year ended March 2009 compared with Half Year ended March 2008

- Net Profit of \$4,626 million, increased by \$120 million or 3%.
- Earnings per Stock Unit of \$1.88 grew by \$0.05 or 3%.
- Operating Revenue of \$12,959 million, increased by 8%
- Cost to Income Ratio of 51.7% vs. 50.8%.
- Risk-Based Capital Ratio of 13.16% vs. 15.53%.
- Net Loans of \$88.1 billion, grew by 40%.
- Investment Securities of \$151.5 billion, decreased by \$509 million.
- Customer Deposits of \$129.9 billion, increased by 8%.
- Return on Average Equity was 28.51% vs. 29.74%.
- Return on Average Assets was 3.12% vs. 3.44%.

→ Segment Performance

BANKING

NCB's banking segment's results for the six months ended March 2009 reflect an increase of \$54 million in net profit when compared to the prior March 2008 period. According to the bank, the consistent results were driven mainly by:

- An increase in interest income from loans by 36% due to the growth in the loan portfolio.
- Interest income from securities increased by 14%.
- Net fee & commission income grew by 6%.

Loans and advances totalled \$88.1 billion (net of provision for credit losses) as at 31 March 2009 growing by J\$25.4 billion over the balances as at 31 March 2008. NCB's net loans to total assets ratio, has improved from 23.29% at March 2008 to 29.12% at March 2009. **A clear concern is the increase in non-performing loans totaling \$2.3 billion as at March 2009 which represented 2.56% of the gross loans compared to 2.48% as at 31 March 2008.** The company's provision coverage as at March 2009 was 148.8% compared to 153.0% at March 2008.

Provision for credit losses more than doubled for the six months ended 31 March 2009; the figure totalled \$477 million compared with \$214 million for the period ended 31 March 2008. The increase was due primarily to portfolio growth as well as the impact of the challenging economic environment on customers. NCB has noted that they have responded to the challenges by implementing measures to mitigate the impact on their loan portfolio by strengthening their loan origination processes and enhanced their delinquency management.

WEALTH MANAGEMENT (NCB CAPITAL MARKETS)

The bank's wealth and asset management segment contributed operating profits of \$827 million for which NCB cap markets contributed 86%. **The result for this segment for the six months ended 31 March 2009 reflected a 37% reduction from the 2008 period due mainly to a decline in the results of NCB cap markets.** According to the bank, the current economic environment, characterized by thinning margins, mark to market losses on trading securities and inactivity in the global bond market, have negatively impacted the operations of NCB cap markets.

Source: JSE, JMMBIR, PIOJ, Company Annual Report

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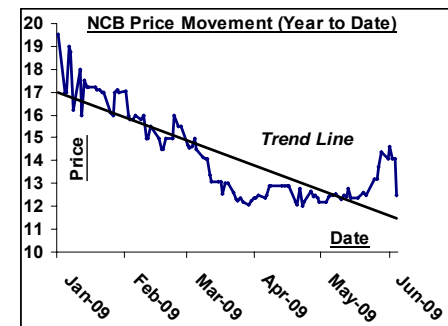
Key Half Year Ratios

First Quarter P/E	6.5
Earnings Per Share (EPS)	J\$1.88
Return on Equity (ROE)	28.51%

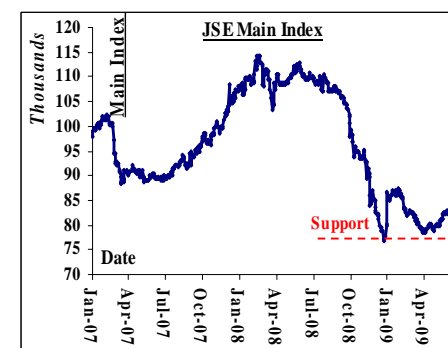
Company Profile

NCB Jamaica remains the largest commercial bank in the island when measured by assets and branch network. The group comprises the commercial bank, the wealth management arm and NCB insurance. The company has 48 branches and 166 ABMs islandwide.

NCB Price Movements



JSE Main Index





INSURANCE—THE “STAR PERFORMER”

NCB’s insurance segment contributed operating profit of \$822 million for the six months ended March 2009, representing an increase of \$574 million over the corresponding period of the prior year. NCB Insurance Company Limited (NCBIC), the major contributor to this segment achieved a net profit of \$724 million, increasing by \$496 million when compared to March 2008. Last year the NCB group began the process of strategically realigning the insurance arm with the wealth management segment. These moves have reaped positive rewards.

→ FIRST QUARTER RESULTS

- **Quarter ended March 2009 compared with Quarter ended March 2008**
- Net Profit of \$2,243 million, declined by 15% or \$404 million.
- Earnings per Stock Unit decreased by \$0.16 or 15%.
- Operating Revenue grew by \$293 million or 5%.
- Return on Average Equity was 27.41% vs. 34.02%.
- Return on Average Assets was 3.03% vs. 4.01%.
- The results for the prior period included a one-off gain of \$530 million.
- Excluding this gain, the growth in Net Profit over March 2008 was 6%.

→ ANNUAL RESULTS

- Net Profits increased by 32% (J\$2.1 billion) to close at J\$8.7 billion.
- **Dividends per share increased by J\$0.41 (56%) to J\$1.14. Total dividends paid (as at September-08) was J\$2.8 billion compared to J\$1.8 billion in the prior year.**
- Net Interest Income increased by J\$3 billion (24%) to J\$15.8 billion.
- Non-Interest income (fees, commissions, gains from FX trading, etc.) increased by 15% or J\$1.1 billion to J\$8.9 billion.
- Return on Equity for the group increased to 29.07% as at September 2008 from 24.84% in September 2007.
- **P/E ratio came in at 4.37 at a current price of J\$15.50.**

→ PROFITABILITY REFLECTED GROWTH IN CORE BUSINESS, SALE OF VISA SHARES & PROVISION FOR LEHMAN LOSSES

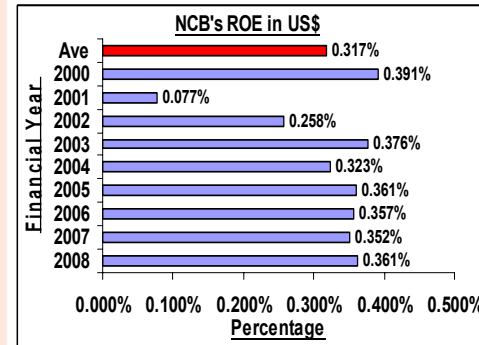
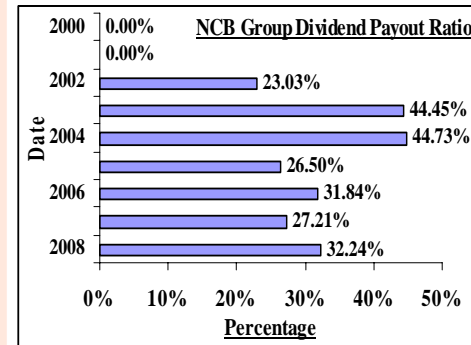
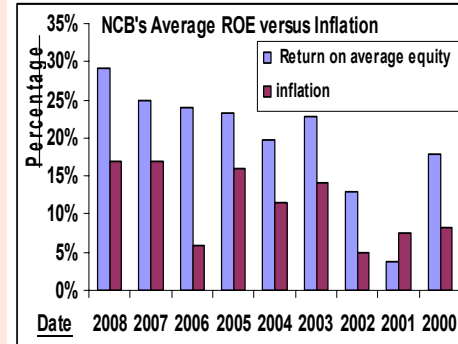
NCB’s profitability reflected growth in its core business plus a gain of J\$1.059 billion on the sale of Visa Incorporated shares (VISA). Approximately half (J\$530 million) of the gains were realized in March 2008 with the remaining shares (worth J\$529 million) being sold in September 2008. A provision of J\$1.23 billion, representing the maximum potential loss, was made by the company due to certain repo transactions with members of the Lehman Brothers Group.

→ NET INTEREST INCOME GROWTH TEMPERED BY REDUCTION IN INTEREST RATE SPREADS

Net interest income increased by J\$3 billion (24%) due to growth in total interest earning assets. However, this growth was diminished by the compression of interest rate spreads. The Net Loans and Advances portfolio increased by J\$25.6 billion or 45% compared to the similar period in 2007. Income from loans contributed J\$10 billion of total interest income of J\$29 billion and increased by J\$2.3 billion or 29%. The company noted that the disparity between the increase in income from loans and the increase in the loan portfolio reflects the reduction in their loan yields and a change in the US-dollar to J\$-dollar loan mix. The company’s average loan yields fell from 17.4% in 2007 to 15.8% in 2008; a reduction of 160 basis points or 1.6 percentage points.

Source: JSE, JMMBIR, PIOJ, Company Annual Report

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→ OUTLOOK

The NCB group's business is primarily exposed to the Financial and Insurance Services sector and the Jamaican economy in general. Historically the Financial and Insurance Services sector has out-performed the broader Jamaican economy. Using STATIN's revised GDP growth index with a base year of 2003; the Financial Services sector has grown by an average of 2.8% over the period (2003-2008) while overall the Jamaican economy has grown by an average of 2.0%. For 2008, the Finance and Insurance Services sector grew by 1.5% while the Jamaican economy overall, declined by 0.6%.

Going forward, the Planning Institute of Jamaica (PIOJ) has projected that the overall Jamaican economy will decline by between 2.5 and 3.5 per cent. On the other hand, the financial services sector is projected to experience positive growth, albeit at a slower pace than in 2008. Their projection is based on increased fees and commission due to increased utilization of financial services and improvements in the insurance industry and funds under management.

The outlook seems to be on track based on the latest estimates from the PIOJ for the first quarter of 2009. The overall economy declined by 2.8%, while the Finance and Insurance sector grew by 0.2%.

In our opinion the sub-prime driven global financial crisis and the consequent collapse of emerging market debt/bonds (primarily Government of Jamaica—GOJ) and equity instruments will hit NCB's balance sheet and profitability. On the positive side, higher local interest rates and gains from currency volatility should ease the "pain" but generally speaking NCB's results will be less attractive when compared to previous years. Going forward relatively low cost funds from the DBJ for real sector projects and funding from the multilateral agencies (approx. US\$886.5 million—best case scenario) combined with the recent recovery of GOJ global (and emerging market) bonds plus the view that local interest rates are "sticky" downwards—should help to boost the performance of the sector and the company.

The major risk to the NCB group comes from the possible exposure of their loan portfolio. In 2007 and 2008 NCB's "Payroll Plus" and "NCB Reward" loans, which allowed clients to borrow without collateral, did well. However there are concerns that a "significant" percentage of these loans may have found their way into some failed Alternative Investment Schemes (AIS). This fact combined with loss of jobs (approx. 9,331 for 2008) and the general downturn in major local sectors (Bauxite, Construction, Remittances, Tourism Expenditure etc.) and global economy should mean that a significant percentage of those borrowers could be in difficulty. If this is the case NCB may have a significant non-performing loan portfolio to deal with which will negatively affect local investor sentiment.

NCB's price could also be negatively affected by those investors who are technical "players" in the market. That is, investors who use technical factors to judge a stocks future performance. NCB's stock price is historically (using data from the Jan-2007) highly positively correlated with the JSE index (correlation coefficient 0.835). Thus some investors may not look to take exposure to the stock until they are sure that the index has bottomed out. Given the current outlook for the Jamaican economy and the view that Jamaica's rebound should follow that of the US with a minimum six-month lag, the stock may face more downside pressure.

• Conclusion → For the rest of the year NCB's stock price should continue to be depressed. The recent rebound of emerging market and GOJ bond prices plus the view that interest rates are sticky downwards and possible currency volatility in the third quarter due to projected pressures on the NIR should help to ease the pressure on the company's performance. However, the risk to the company's loan portfolio will continue to be a concern given the global and local economic climate.

The stock price should also be negatively affected by the said relatively high interest rates given that their attractiveness should deter stock price purchase. Combined with the impact of technical factors, NCB's stock price rebound like the rebound of the Jamaican economy will be tied to the performance of the US and global economy with a possible six month lag.

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