

National Commercial Bank Jamaica (NCBJ)

All Figures Quoted in Jamaica Dollars

	NCBJ
RECOMMENDATION	BUY
Current Price	TT\$1.95
Running EPS	\$ 2.23
Projected EPS	\$ 2.50
P/E at Projected EPS	7.80 times
Dividend Yield	2.82 per cent
Return on Assets	2.65 per cent
Return on Equity	23.96 per cent

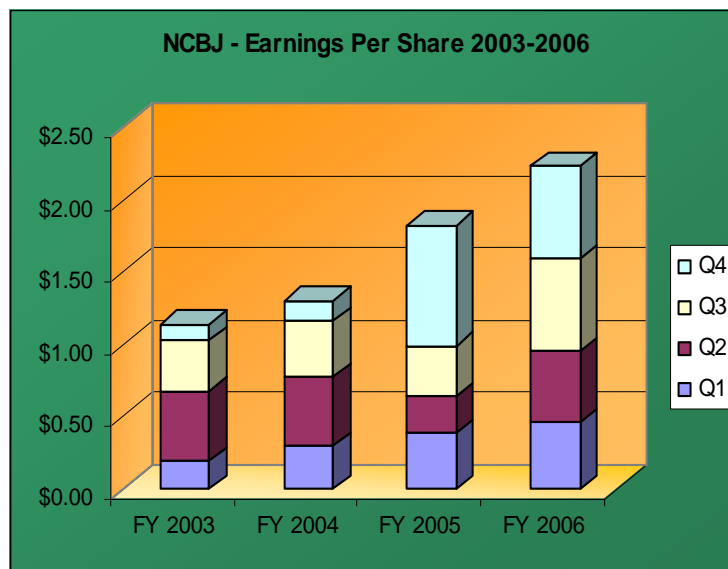
Results for the Financial Year Ended September 30, 2006

Earnings Per Share

National Commercial Bank (Jamaica) (NCBJ) reported Earnings Per Share (EPS) of \$2.23 for the year ended September 30, 2006. This was 22.53 per cent more than last year's EPS of \$1.82. The results were driven by improved Operating Profit as NCBJ continued to focus on its core banking business resulting in higher Net Interest Income and Fee & Commission Income.

The reported EPS for Q4-2006 was however down 22.89 per cent to \$0.64. The drop in the EPS was partly due to the fact that Q4-2005 saw a Loan Provision Recovery of \$609.716 million which would have contributed approximately 25 cents to that Quarter's EPS.

Figure 1





West Indies Stockbrokers Ltd.
1st Floor, Albion Plaza,
22-24 Victoria Avenue,
Port of Spain.
Tel: 625-9473; Fax: 627-5002

Equity Research Team
Sreshtha Tewari (Ext 2225)
sreshthat@wisett.com
Gia Singh (Ext 2264)
gias@wisett.com

Financials

Total Interest Income for FY 2006 stood at \$23.015 billion which was 8.87 per cent more than the corresponding period for 2005. Despite the declining interest rate environment, Interest Income from Securities increased 6.06 per cent contributing 68.08 per cent to Total Interest Income. Interest Income from loans also showed a favourable increase for FY 2006 of 15.40 per cent to \$7.345 billion as the Group's loan portfolio (net of provision for credit losses increased 17.07 per cent). Interest Expense increased 7.78 per cent to \$11.237 billion leading to a 9.94 per cent rise in Net Interest Income of \$11.778 billion. For the quarter, Net Interest Income was down despite increases in Interest Income due to a 17.92 per cent increase in Interest Expense from \$2.564 billion to \$3.023 billion.

FY 2006 saw a commendable 29.45 per cent increase in Net Fee & Commission Income to \$3.175 billion as Fee Commission Income rose 34.02 per cent to \$3.966 billion. Fee Commission Expense increased 56.10 per cent to \$791.094 million. Net Trading Income increased 1.27 per cent to \$2.356 billion for the year. However, Q4-06 experienced a 118.37 per cent increase in Net Trading Income to \$479.223 million compared to Q4-05. Despite this hefty increase, the period that contributed the most to Net Trading Income was Q3. Dividend income fell 26.11 per cent for the year while Other Operating Income grew 92.99 per cent to \$565.215 million. The fourth quarter contributed the most to this item.

Ultimately Operating Revenue was up 8.74 per cent to \$17.943 billion. Had it not been for the Recovery of the Loan Provision in 2005 that was mentioned above, Operating Revenue would have increased by 12.90 per cent.

Operating Expenses grew 6.06 per cent for FY 2006. This included a provision of \$244 million for impairment of the investment in Supreme Ventures Limited (SVL). The SVL shares were acquired in February 2006 by a subsidiary of the Bank under an underwriting commitment, due to the under-subscription of the public offer in January 2006. The results for the comparative prior year period also included an impairment loss on the investment in Dyoll Group Limited of \$236.359 million.

Operating Expenses such as Staff Costs increased 5.14 per cent to \$5.956 billion while Provision for Credit Losses increased 654.97 per cent to \$155.786 million. Depreciation Expense fell 4.02 per cent to \$1.028 billion while Other Operating Expenses fell 3.79 per cent to \$3.776 billion. The prior period's total Operating Expenses was also lower by \$346.683 million due to the Effect of Change in Valuation Basis of Policy Contracts of its Life Insurance Subsidiary. This change came from revised policy contracts which were previously treated as financial instruments in accordance with International Accounting Standard (IAS) 39 which are now being treated as insurance contracts under International Financial Reporting Standard (IFRS) 4. Hence, Operating Expenses for Q4-2006 was up 33.54 per cent to \$2.930 billion compared to Q4-2005.

Operating Profit was ultimately up 13.43 per cent for FY 2006 to \$6.813 billion. Q4-2006 to Q4-2005 however was down 30.10 per cent in part impacted by the Loan Loss Provision write back in Q4-05.



Share of Profits from Associates showed a turnaround this year, increasing 169.97 per cent from \$168.626 million in 2005 to \$117.985 million in 2006. The loss in 2005 was in part as a result of losses made on its investment in Dyoll Group Limited.

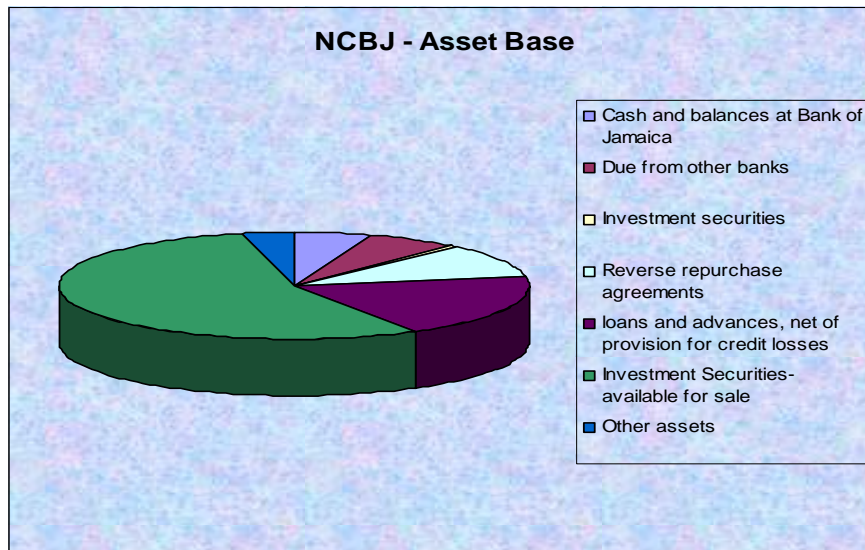
Profit Before Tax rose 18.73 per cent to \$6.931 billion for FY 2006 while the Effective Tax Rate moved from 23.45 per cent in 2005 to 20.83 per cent in 2006. Net Profit for the year stood 22.78 per cent higher than 2005's Net Profit of \$4.469 billion.

Asset Base

The total asset base of the Group increased by 17.23 per cent to \$223.139 billion. The major increase in the Group's asset base was Investment Securities-available for sale which rose 32.17 per cent. Hence, this remained the major component of the asset base (See Figure 2).

The increase in asset base over the financial year was mainly funded by Customer Deposits (\$14.0 billion), Securitisation Arrangements (\$10.6 billion), Policyholders' Liability (\$0.9 billion), Repurchase Agreements (\$0.9 billion and Stockholder's Equity (\$3.4 billion).

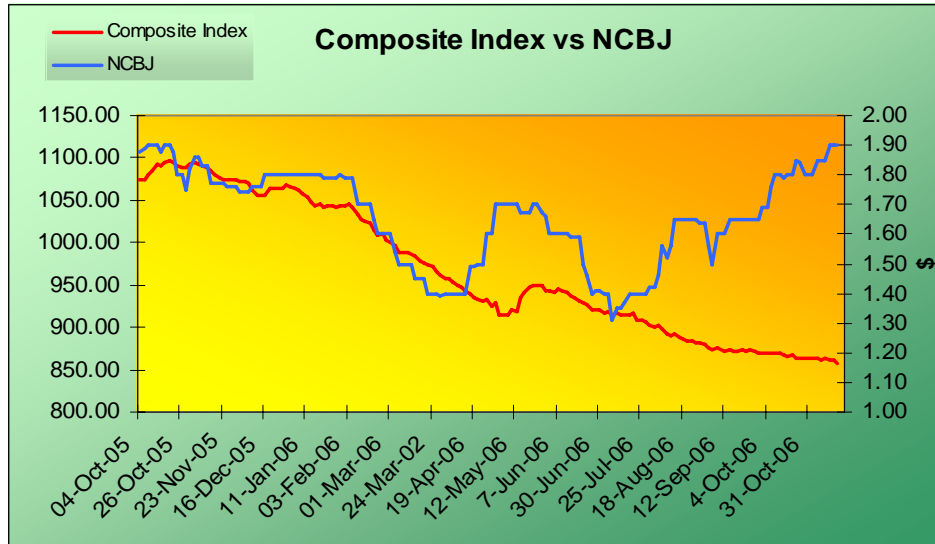
Figure 2



Share Price

While the Composite Index has generally continued on a downward trend, the share price of NCBJ has oscillated (See Figure 3) over the past year trading as high as TT\$1.95 and low as TT\$1.31. Since September, the share has generally moved in an upward direction. In Jamaica over the past 52 week the share has traded as high as JMD 21.00 and as low as JMD 13.82.

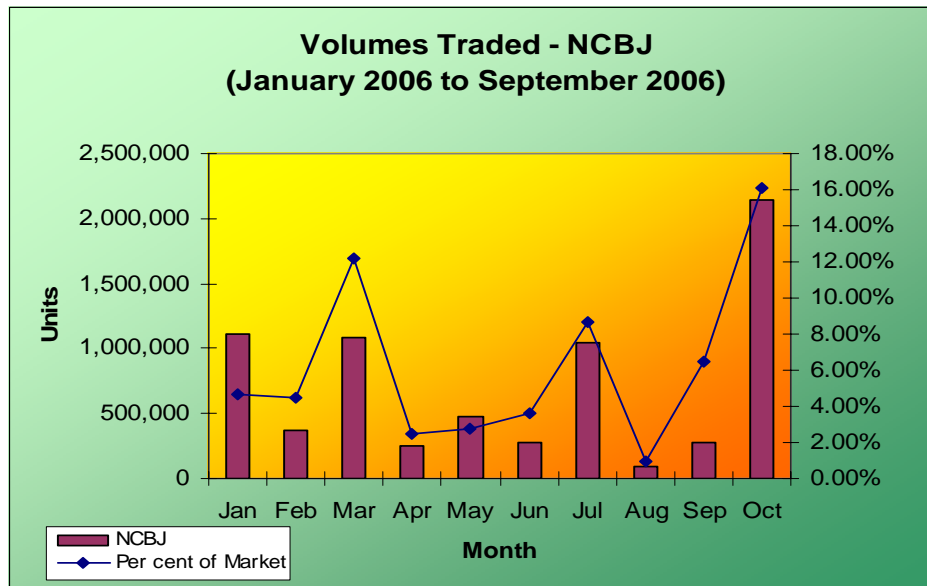
Figure 3



Volumes

With the exception of March and October, this year has seen relatively small volumes traded in NCBJ share in comparison to the rest of the market (See Figure 4). In October in fact, three days each saw over 2 million shares traded.

Figure 4



Dividends

The Board of Directors has approved a final dividend of 22 cents to be paid on December 7, 2006. This brings to total dividend paid for the year to 50 cents.



West Indies Stockbrokers Ltd.
1st Floor, Albion Plaza,
22-24 Victoria Avenue,
Port of Spain.
Tel: 625-9473; Fax: 627-5002

Equity Research Team
Sreshtha Tewari (Ext 2225)
sreshthat@wisett.com
Gia Singh (Ext 2264)
gias@wisett.com

Outlook & Recommendation

Given the positive growth in its core banking business, we are optimistic that this positive trend will continue in 2007 given the Group's focus. As such, we are forecasting EPS for FY 2007 of \$2.50 (approximately TT\$0.24). At the current price of TT\$1.95 and this forecasted EPS, NCBJ is trading at a price/earnings ratio of 8.13 times. Considering that this share usually trades between 8 to 10 times earnings, we maintain our BUY recommendation.



West Indies Stockbrokers Ltd.
1st Floor, Albion Plaza,
22-24 Victoria Avenue,
Port of Spain.
Tel: 625-9473; Fax: 627-5002

Equity Research Team
Sreshtha Tewari (Ext 2225)
sreshthat@wisett.com
Gia Singh (Ext 2264)
gias@wisett.com

Figure 4

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
Total Interest Income	23,014,791	9.77%	20,967,032	-2.08%	21,412,437
Interest Expense	-11,236,655	7.78%	-10,425,519	-11.72%	-11,809,339
Net Interest Income	11,778,136	11.73%	10,541,513	9.77%	9,603,098
Net Fee and Commission Income	3,174,605	29.44%	2,452,546	38.33%	1,772,921
Net Trading Income	2,356,046	1.27%	2,326,485	74.02%	1,336,873
Dividend Income	98,768	-26.11%	133,672	31.65%	101,539
Loan Provision Recovered	0	-100.00%	609,716		0
Other Operating Income	565,215	1.73%	555,630	195.64%	187,940
Operating Income	17,972,770	8.14%	16,619,562	27.82%	13,002,371
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
Operating Expenses	11,160,201	3.38%	10,795,062	17.22%	9,209,487
Operating Profit	6,812,569	16.96%	5,824,500	53.56%	3,792,884
Profit Before Taxation	6930554	21.32%	5,712,706	47.99%	3,860,114
Net Profit	5,486,625	27.98%	4,286,981	33.27%	3,216,738
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	4.17%	38	-15.79%	39
Dividend Payout Ratio %	22.42%		21.84%		30.00%
Dividend Yield %	3.03%		2.67%		2.43%
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		2.45		2.00
Return on Equity	23.96		23.30		22.05
Shares Outstanding	2,466,762,828		2,466,762,828		2,466,762,828

This document is based on information obtained from sources, which we believe to be reliable, but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, West Indies Stockbrokers Limited. Expressions of opinion herein are subject to change without notice. This document is not, and should not be construed as, an offer or the solicitation of an offer to buy or sell securities. West Indies Stockbrokers Limited and or their officers, directors, and employees may own or have positions in any of the securities mentioned herein, and may from time to time add or dispose of any such securities. This document is for the information of clients only and is not for publication in the Press or elsewhere without the permission of West Indies Stockbrokers Limited. WISE is a subsidiary of RBTT Financial Holdings Limited

West Indies Stockbrokers Limited, 1st Floor Albion Plaza, 22-24 Victoria Avenue, Port of Spain, Trinidad (868) 623-4861 Fax (868)-627-5002 e-mail: info@wisett.com Member of the Trinidad and Tobago Stock Exchange Ltd.