

Bermuda Commercial Bank Limited

Ticker: BCB - BH

Sector: Financials - Banks

Fiscal Year-End: Sept. 30, 2007

Web Site: www.bermuda-bcb.com

Share Price (10/31/08):	\$9.00
Stock Rating:	Hold
Risk Profile:	Moderate
1-Year Price Target:	\$9.00
1-Year Implied ROR:	8.9%

Annual Dividend:	\$0.80
Current Yield:	8.4%
Payout Ratio:	74%
Ex-Dividend Date:	12/03/08
Frequency:	Semi-Annual

Shares O/S:	5.8m
Market Cap:	\$51.8m
BSX Weight:	2.6%
Book Value:	\$10.88
Price/Book:	0.83x

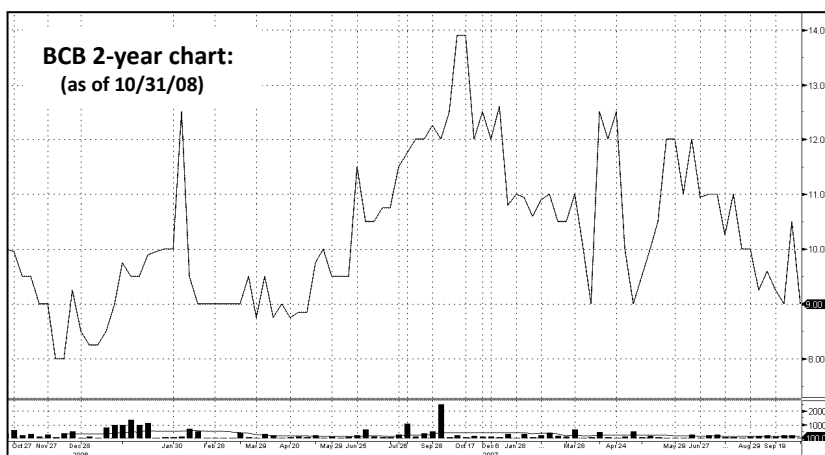
52-Week High:	\$12.60
52-Week Low:	\$9.00
Avg. Monthly Volume:	7.2k

Current P/E Ratio:	8.3x
Shareholder's Equity:	\$62.6m
Total Assets:	\$696.5m
Return on Equity:	9.9%
Return on Assets:	1.0%

Earnings Snapshot	2005	2006	2007	2008E	2009E
EPS:	\$1.04	\$1.67	\$1.08	\$0.91	\$0.96
YoY Growth:	100.0%	60.6%	(35.3%)	(15.7%)	5.5%
P/E Ratio:	8.4x	4.9x	11.3x	9.9x	9.0x
Fiscal YE Price:	\$8.72	\$8.23	\$12.25		

Notes:

- BCB had 1.36 million warrants exercised in May 2008, resulting in \$10.2 million in new share capital. All relevant figures have been adjusted accordingly.



Company Description

Bermuda Commercial Bank (BCB) is a corporate and private wealth bank, offering a range of financial services through its subsidiaries International Corporate Management of Bermuda, BCB Trust Company Limited, Bercom Nominees Limited, and BCB (Mauritius) Limited.

Over the past two years, BCB has been actively searching for a new majority owner or potential merger partner. A mutually-agreeable purchase arrangement had been reached with a third party and was approved by the board in December 2007. Despite the tacit approval of the Dutch Antilles Central Bank (acting on behalf of BCB's main shareholder, FCIB) and after two deadline extensions, the deal was called off in January 2008 due to the Central Bank/FCIB's insistence that "more favourable terms and conditions were available". Since that time, the Bank has continued discussions, but has yet to find a suitable buyer or merger partner. A share tender process has been spoken of, but has yet to reach fruition, likely because of the difficult prevailing market conditions for financial companies.

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2007 Results

BCB's net operating income for fiscal 2007 came in at \$5.94 million, or \$1.08 per share – down 29% from 2006 operating income of \$8.38 million, or \$1.67 per share. The earnings shortfall was due, in part, to their conservative (and longstanding) investment policy of matching client deposits with cash and cash-equivalents. Profits were vulnerable to the changing interest rate environment and fluctuations in average deposit levels.

Total assets rebounded sharply year-on-year from \$464.3 million to \$621.5 million, an increase of \$150 million or 34%. Management appeared to have effectively bolstered client deposit levels following the turmoil of the FCIB money-laundering charges of Sept. 2006 and the ongoing sale process of the Bank. Foreign exchange gains grew by 21.5% to \$790,000 due to increased turbulence in worldwide currency markets.

On May 31st 2008, 1.36 million stock warrants were exercised at a strike price of \$7.50, resulting in \$10.23 million of new share capital. These funds will likely sit dormant in short-term investments pending the Bank sale process and a moratorium on new capital initiatives in the interim. The unfortunate result is a dilution to future earnings and a significantly higher purchase price for the Bank's suitors.

Half-Year 2008 Results

The Bank reported income for the six-month period ended March 31, 2008 of \$4.39 million, or \$0.75 per share. Removing one-time items (including \$740,000 related to the VISA and MasterCard IPO's) net operating earnings were \$3.64 million, or \$0.63 per share – a gain of 11% on the \$0.57 per share reported in 2007.

BCB's balance sheet strengthened during the first half, with Total Assets growing from \$621.6 million as of fiscal YE 2007 to \$696.5 million as of March 31st 2008, a quarterly increase of 12%. Year-on-year asset growth was even more impressive at 19.4%. BCB's operational efforts were to be commended, with their client base growing substantially in the face of an uncertain ownership situation and a difficult operating environment for financials. Due to the Bank's longstanding policy of matching deposits with cash and cash-equivalents – with no direct exposure to sub-prime investments – BCB has emerged largely unscathed from the recent turmoil experienced by the global finance industry.

Forecast and Recommendation

Given the deepening of the financial crisis over the past six months, we foresee a difficult second half of fiscal 2008 and first half of fiscal 2009 for the Bank. BCB's clientele includes a number of large mutual and hedge funds, some of whom have no doubt been forced to withdraw funds in order to deal with redemptions. Further, the prevailing low interest environment will serve to squeeze the Bank's interest rate margins and the exercise of in-the-money options will dilute future earnings. (At last report, BCB had a total of 1.8 million options outstanding - 400,000 of these options come due on Dec. 31, 2008 at a strike price of \$5.00.)

We forecast fiscal 2008 earnings per share of \$0.91 and 2009 EPS of \$0.95. We recommend a Hold on BCB based on a 9.0x multiple applied to our 2009 EPS figure for a price target of \$9.00. At current levels, BCB stock features a dividend yield of 8.4% – however, management may well cut the dividend if current market conditions persist.