

Bermuda Commercial Bank Limited (BSX: BCB)

Research Update

Rating: Hold
 Target: \$8.50

Key Data:

Industry:	Financial Services
Price:	\$7.70
52 Week Range:	\$4.40 - \$9.75
Market Cap:	\$47.4 mil.
Shares O/S:	6.2 mil.
Book Value/Share:	\$12.20
Price/Book:	0.63x
Dividend Yield *:	0.0%
Trailing P/E Ratio:	N/A
2009 operating EPS:	(\$0.06)
2010 operating EPS est.:	\$0.07

* dividend suspended in 09/09

Bank Announces Fiscal 2009 Loss of \$380,000; Sale Process Still Ongoing...So Far, "No Deal"

FYE2009 Results: BCB reported a net loss of \$380,000 for fiscal 2009, as compared to net income of \$5.16 million for fiscal 2008. Gross revenue fell from to \$13.7 to \$7.9 million, due to a declining asset base combined with the prevailing low interest rate environment and the bank's investment policy of matching client deposits with cash and cash-equivalents. Lower foreign exchange revenues and lesser gains on investment securities also contributed to the disappointing results.

Total assets declined year-on-year from \$487 million to \$423 million, a decrease of \$63.5 million, or 13.0%. These results marked an ongoing deterioration in BCB's asset base, down from a recent high of \$622 million

in 2007. In an effort to retain existing clientele and to rebuild their asset base, management adopted new measures to increase the yield on client deposits. Among their investment decisions were the timely investment of \$10.8 million in the Butterfield 8% preferred share issue (at a yield of 8%) and the shift of substantial amounts of client assets from cash to actively-managed money market funds.

On December 31st 2009, 200,000 warrants were exercised at a strike price of \$5.13, resulting in \$1.0 million of new share capital – in addition to the \$12.2 million in new capital added from warrants exercised the two years prior. These funds will likely be invested in short-term investments, pending a sale of the bank. There are 1.2 million outstanding warrants on BCB's books; all warrants mature over the next three years, with an average exercise price of \$5.97.



Financial Summary:

BMD\$ (in millions)	2006	2007	2008	2009	2010E
Revenue, reported	\$29.76	\$24.17	\$19.25	\$6.51	\$10.00
Net Interest Income, reported	11.60	10.51	8.66	4.90	6.10
Net Income, reported	10.13	5.94	5.16	(0.38)	0.75
Reported EPS (diluted)	\$2.34	\$1.36	\$1.06	(\$0.06)	\$0.12
Total Assets	464.27	621.55	486.84	423.35	445.00

Forecast and Recommendation: Given a continuing low interest-rate environment, we forecast fiscal 2010 earnings \$0.75 million, or \$0.12 per share. We expect BCB's future earnings to progressively increase over the next few years, as the Fed begins to raise rates and money market yields inch higher. Although the dividend has been suspended, BCB stock now trades at a 30% discount to book value. Due to the secrecy and circumstances surrounding the sale of Bermuda Commercial Bank, we can only speculate about the timing and price level of a potential transaction.

We apply a 30% discount to the Bank's current book value of \$12.20 for a one-year target of \$8.50 – a price we would estimate as the starting point for potential takeover discussions. BCB shares are rated as a Hold.

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