CREDIT RATING REPORT

Bourse Securities Limited

June 2013

TYPE OF RATING	RATING ASSIGNED		
	Foreign Currency	**Local Currency**	**National Scale**
Corporate Credit Rating	*Cari***A-**	*Cari***A-**	*tt***A-**

RATING DRIVERS

Strengths

- Good track record of profitability and highly efficient operations
- Good asset quality
- Low liquidity risk
- Well qualified, highly experienced and stable Board of Directors and management team
- Adequate risk management policies and procedures

Weaknesses

- Limited market share characterized by a small branch network and relatively small size
- High client concentration and reliance on institutional funding in the resource profile
- Inherently risky business model with significant exposure to market risk

Rating Sensitivity Factors

- Sharp changes in interest rates
- A significant change in earnings
- Significant changes in funding arrangements
- Significant changes in asset quality
- A material change in the liquidity profile

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COMPANY BACKGROUND

Bourse Securities Limited (BSL) is a registered broker-dealer, underwriter and investment advisor with the Trinidad and Tobago Securities and Exchange Commission (TTSEC), and a member of the Trinidad and Tobago Stock Exchange (TTSE). The company was founded in 1996. Its range of products/services includes stockbroking, mutual fund management, fixed income investments, investment advisory, securities underwriting, and wealth management services. BSL also has a suite of 6 TT$ and US$ denominated mutual funds and 2 retirement funds. Its flagship fund, the Savinvest India Asia Fund (SIAF), is the first mutual fund to be listed on the TTSE. The suite of mutual funds also includes the recently launched Brazil Latin US$ Exchange Traded Fund, targeted at investors seeking to participate in the above average growth expected in Brazil with the hosting by that country of the FIFA World Cup in 2014 and the Summer Olympics in 2016. This fund is the first mutual fund to be listed on the US trading platform on the TTSE.

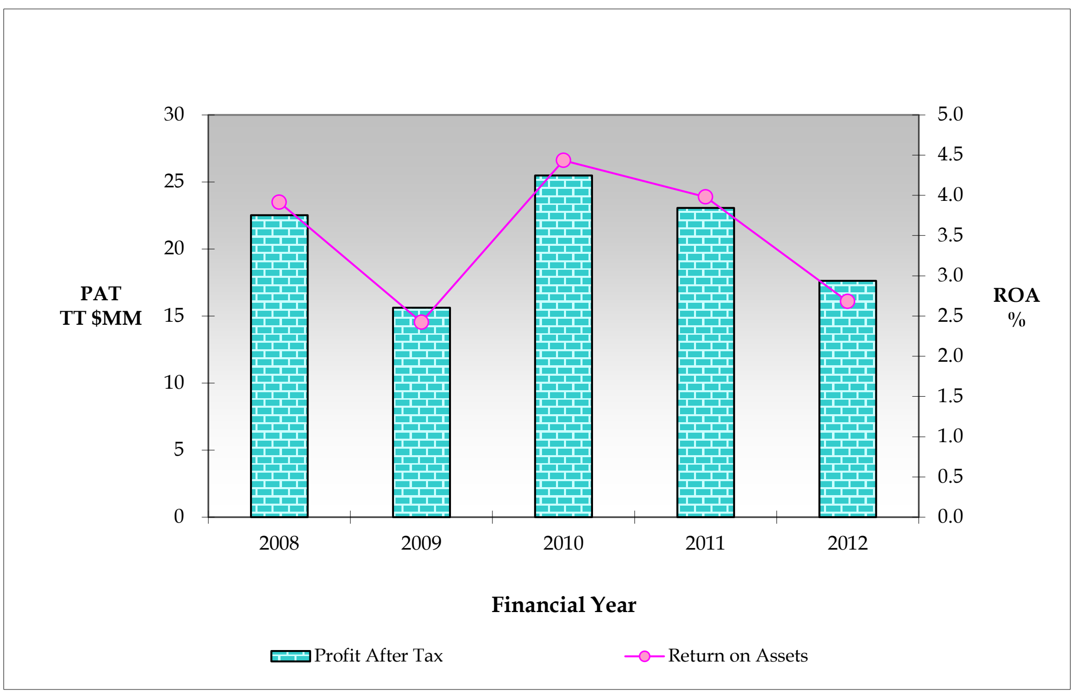
BSL has 3 wholly-owned subsidiaries, namely, Bourse Brokers Limited (BBL), the stockbroking arm of the business; Bourse International Asset Management (BIAM), which has external investment operations in the offshore jurisdiction of Saint Lucia; and Vanalta which is a real estate holding company. BSL is domiciled in Trinidad and Tobago (T&T) and has 3 branches located in Port of Spain, Chaguanas and San Fernando.

RATING RATIONALE

Good track record of profitability and highly efficient operations

BSL has been profitable since its inception in 1996, and has managed to maintain profitability even during the difficult years following the global financial crisis in 2008, though at a reduced level. Profit after tax (PAT) averaged TT $20.9 million over the past 5 years, and the company's return on assets[1] (ROA) and return on equity[2] (ROE) averaged 3.5% and 19% respectively over this period. The company reported another year of profitable operations in 2012, albeit at a lower level when compared to 2011. PAT in 2012 was TT $17.6 million, down 23.6% from TT $23.1 million in the prior year. The decline was mainly due to a TT $11.2 million impairment charge largely attributable to losses incurred in BSL's equity portfolio during the year. Notwithstanding the decline, BSL's ROA was the third best in CariCRIS' regional sample[3] at 2.7%, down from 4% in 2011, and comparable to the regional average of 3.3%. Chart 1 shows the trend in ROA and PAT from 2008-2012.

Chart 1
PAT and ROA
2008-2012



Source: BSL financial statements

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[1] *Profit after tax/average earning assets*

[2] *Profit attributable to shareholders/average tangible net worth*

[3] *The sample consists of 10 companies; 6 in Jamaica and 4 in T&T*

Total income increased by 13.1% to TT $42.6 million in 2012, due mainly to an 11.2% increase in net interest income[4] (NII) to TT $19.6 million, as a result of an increase in its investment portfolio. The yield on average interest earning assets declined slightly to 4.9% from 5% in 2011, with a similar decline in average interest cost to 2.4% from 2.5% in 2011. These changes resulted in a net interest spread of 2.4%, just below the 2.5% achieved in 2011. The net interest margin (NIM)[5] remained steady at 3%, the best in CariCRIS' T&T sample, and comparable to the overall sample average of 3.1%. The company maintained a reasonably diversified revenue base in 2012, earning interest, fee, trading, and dividend income. Net interest income, the largest component, represented 46.1% of total income. Other contributors to total income included management fee income (19.9%), trading and dividend income (7.8%) and other income which included other fee based income (26.2%).

BSL's costs were fairly well managed in 2012. Though operating expenses increased by 46.7% during the year to TT $14.2 million from TT $9.7 million previously, this increase included one-off expenses associated with the establishment of the new investment fund. This resulted in the cost/income ratio deteriorating to 33.3% from 25.7% in 2011. Despite this degradation, the company's efficiency ratio was among the best in CariCRIS' regional sample, while the 3-year average ratio of 31.7% was the third best in the sample.

CariCRIS expects BSL to remain profitable in 2013 with total income projected to rise by 2.4%, and ROA and ROE are expected to increase to 3.8% and 18.6% respectively.

Good asset quality

As at December 2012, BSL's total earning assets increased by 18.4% to TT $712.8 million, up from TT $602 million in December 2011. The company has a fairly diverse and good quality asset profile. The investment portfolio is diversified by asset class, issuer, country and industry. The average portfolio credit rating is BBB- (investment grade on the Standard and Poor's (S&P) scale). Fixed income investments represent 74.8% of the overall portfolio, followed by mutual fund holdings with 21.6% and equity investments of 3.6%. Corporate debt accounted for the majority of fixed income holdings at 65.4%, followed by quasi-sovereign (20.5%) and sovereign (14.1%) as at December 2012. BSL's debt investments spanned 12 countries. The largest exposure was to Russia with 13.1%, followed by T&T with 12.8% and India with 12%. The remaining country exposures ranged between 1.9% and 8.4% of the portfolio. The most

[4] *Total interest income – interest expense*

[5] *Net interest income/average earning assets*

significant industry exposures were to financial and energy companies with 24.9% and 19.1% of the portfolio respectively.

BSL's impaired assets to investments ratio is estimated at 1.9% as at December 2012. Impaired fixed income assets represent 0.7% of that portfolio. At 4 years as at December 2012, the average portfolio duration was moderate and comfortably within the company's policy limit of 5.75 years.

The good overall asset quality is tempered somewhat by the substantial proportion of impaired assets in BSL's equity portfolio, estimated to be 31.9%, though this comprises only 1.4% of the total investment portfolio. This is primarily due to mark to market losses in 7 regional and international stocks. In total, these 7 stocks contributed TT $9 million to BSL's $11.2 million investment impairment charge in 2012. The company has adopted a 'Hold' position on these stocks, as it expects a rebound in prices in the medium to long term.

Low liquidity risk

BSL has low liquidity risk due to its fixed term funding, high funding renewal rates, continuous liquidity monitoring, and healthy cash and near cash reserves. Cash and near cash holdings were TT $153.7 million as at December 2012, up 13.3% from TT $135.3 million in the prior year and represented 27.4% of total interest bearing liabilities. Cash and near cash holdings provided 92.1% coverage of BSL's exposure to its single largest investor. BSL issues fixed term funding contracts (typically up to 1 year) to its clients, allowing the company to plan its maturity profile with greater certainty. In 2012 BSL continued to benefit from high funding rollover rates as 95% of contracts were renewed for a further period upon maturity, on par with 2011. Additionally, the company monitors its liquidity requirements on a daily basis. Investors whose funding contracts are set to mature in a given period are contacted at least 1 week prior to maturity to determine whether they would be renewing their funding contracts for a further term. BSL achieved a small positive liquidity gap of TT $0.1 million in its 3-month maturity profile in 2012, though this was substantially reduced from TT $129.4 million in December 2011.

During 2012 the company further reduced its liquidity risk by securing a US $25 million repurchase agreement (repo) line with an international investment bank (rated A+ by Standard and Poor's rating agency), and is currently in discussions with two other international banks with the objective of establishing lines of credit with these institutions.

Well qualified, highly experienced, and stable Board of Directors and management team

BSL's Board of Directors (BOD) is comprised of six members who are well qualified and highly experienced. Many of its members are well known and highly respected in the regional business community. There is a high degree of independence on the BOD, as the Managing Director (MD) is the only executive member. The BOD has been highly stable with four members serving from inception in 1996 and one member serving since 2007. Its newest member joined in February 2013, replacing a director with approximately 6 years' service.

The senior management team is also well qualified and highly experienced. The team is led by Mr. Subhas Ramkhelawan (MD and founder) who has almost thirty years' experience in the local financial services sector. BSL's senior management team has been very stable, as the most recent member joined BSL 9 years ago. The company has a conservative risk appetite despite the risky nature of the business, and has managed to be consistently profitable over the years.

Although the management team is stable, there is a relatively high turnover at the junior staff level. Management has engaged the services of a human resources consultant in an effort to address this issue.

Adequate risk management policies and procedures

BSL has appropriate risk management systems, policies and procedures relative to the size and complexity of its operations. Risk is managed at both the BOD and senior management levels. BSL has 2 Board Committees, namely the Board Investment Committee (BIC) and the Finance Audit and Administration Committee (FAAC). The BIC manages investment and treasury risk, while the FAAC addresses operational risks. BSL also has a Management Risk Committee (MRC), comprised of the senior management team. The BIC and FAAC meet quarterly and review reports relevant to their areas of focus. The MRC meets monthly for overall risk assessment, and on a weekly basis to review specific portfolios on a monthly rotation schedule, or more often as may be required. Quarterly reports are submitted to the BIC which highlight the company's current asset/liability strategy, a review of fund performance, investment strategy, and compliance. Quarterly reports submitted to the FAAC include insurance coverage, regulatory requirements in addition to account and credit facilities. A monthly MD's report is also submitted which shows actual versus budgeted income per line of business and currency gaps.

BSL has a documented Risk Management Policy (RMP) which was compiled in 2010 and is updated annually. It identifies permissible and restricted investment categories and concentration limits. Additionally, it outlines limits in order to ensure the company remains well-capitalized. It mandates an asset to capital base ratio of no more than 12:1 and BSL was well within the limit as at December 2012 with an asset to capital base of 5:1. The policy also limits exposure to any one issuer to 10% of BSL's capital base. Under the policy, exposure can exceed the limit with the prior approval of management or the BOD. In December 2012 BSL was in authorized breach of this limit with respect to 2 countries. The RMP also dictates that BSL cannot invest in debt rated below BBB- (S&P scale) without management or BOD approval and limits asset duration to 5.75 years. There is clear segregation of duties regarding approvals of transactions. The RMP has clearly defined approval limits for all transactions. The Senior Corporate Manager can approve transactions up to US $1.5 million while the MD approves up to US $2 million. Any transaction above this level must be taken to the Board.

BSL's Compliance Officer reports quarterly to the FAAC. The issues addressed by the Compliance Officer include insurance coverage, regulatory matters, custodianship and anti-money laundering (AML). Staff is trained twice a year on AML policies, and the company is compliant with the Trinidad and Tobago Securities and Exchange Commission (TTSEC), the Trinidad and Tobago Stock Exchange (TTSE) and the Trinidad and Tobago Financial Intelligence Unit (FIU) AML requirements, as they relate to securities companies.

Although BSL's risk management systems and processes are adequate for its current scale of operations, CariCRIS is of the view that there is room for improvement as the company grows. There is limited use of risk management software as many of its processes are manual. During 2011 BSL initiated a project to automate its reporting system, however, this project is currently in abeyance. Moreover, although the company conducts regular stress tests on its portfolios to determine potential losses, these tests are duration-based. CariCRIS considers Value at Risk (VaR) to be a more appropriate measure of market risk.

These rating strengths are constrained by:

Limited market share characterized by a small branch network and relatively small size

BSL has the second smallest asset base and tangible net worth (TNW) in the CariCRIS sample of regional securities companies at TT $737.1 million and TT $147.9 million respectively, as at December 2012. Its share of the mutual fund market in T&T is estimated at 0.8%, although its flagship SavInvest India Asia Fund (SIAF) is the leading US$ denominated equity fund with a 30.1% market share as at September 2012. Notably, the T&T mutual fund market is dominated by 1 large player, the Trinidad and Tobago Unit Trust Corporation which is estimated to control 48% of the market as at December 2012. Although the company is a full-service securities firm, it is not a significant player in any of its markets apart from stockbroking in which it ranks second with an estimated 18% share in 2012 trades. BSL has a relatively small branch network comprising 3 branches in Port of Spain, San Fernando and Chaguanas, compared to its peers that have access to a wider branch network and greater marketing support. The company has a comparatively small client base of 7,000 clients; 1/3 of which receive stockbroking services.

BSL continues to focus its efforts on expanding its market share, specifically in the more sophisticated institutional investors, high net worth and mass affluent individual niches. To this end it has introduced a marketing strategy that employs both its analyst and marketing teams in an effort to combine technical knowledge with sales. BSL's recent launch of the Brazil Latin Fund should help in its efforts to expand market share.

High client concentration and reliance on confidence sensitive institutional funding in the resource profile

BSL relies primarily on repo funding which exposes it to greater short-term funding and liquidity risks. These risks, however, are mitigated by the high renewal rate of maturing funds which averaged 95% in the last two years. BSL's funding base is heavily concentrated in confidence sensitive and typically more volatile institutional funding. In December 2012, such funding contributed 98.3% of liability funding, up slightly from 96.3% in 2011. The top 3 lenders accounted for 53.6% of the total liability funding base. The top 3 TT$ investors accounted for 48% of TT$ repos while the top 3 US$ investors represented 66.3% of US$ repos. The largest investor accounted for 29.7% of total interest bearing liabilities, although this represents a significant improvement from 46% in December 2011. This exposure to institutional funding is somewhat tempered by the company's strong capital base, such that total liability funding constituted 79.2% of the capital structure as at December 2012, a marginal increase from 76.6% in December 2011. Furthermore, as part of its liquidity management policy, the company holds significant balances in cash and near cash investments to safeguard against the potential risk that this exposure presents. In December 2012, these investments provided 92.1% coverage of this exposure. Moreover, management is implementing additional measures to reduce the concentration risk by securing repo lines from international banks and agencies. There are also specific risk management measures in place to mitigate against bunching of funding maturities by client and on aggregate.

Inherently risky business model with significant exposure to market risk

BSL operates in the inherently high-risk securities industry, which is characterized by significant market risk, substantial asset/liability mismatches and limited availability of hedging mechanisms for local investments. Unlike some of its peers in the sample group, BSL does not have the flexibility to draw financial support from a strong parent company or associate entity, should it require a large capital injection at short notice. Furthermore, the Central Bank of Trinidad and Tobago (CBTT) does not provide emergency funding facilities to securities companies.

Notwithstanding the foregoing, the company is well capitalized. BSL's paid in capital is valued at TT $26.7 million, 1.8 times the minimum prudential requirement of TT $15 million. Its TNW to total assets ratio of 20.1% was third highest in the sample group. Moreover, the recently enacted Securities Act 2012, which replaced the Securities Industries Act 1995, provides greater powers to the regulator to ensure a safer operating environment for securities companies. Furthermore, new Repo Guidelines introduced in T&T in 2012 require a substantially higher level of capitalization from all securities firms, moving from a minimum level of TT $5 million to a minimum of TT $15 million, with the intention of moving to a full risk-based capital adequacy framework in the near future.

Rating Sensitivity Factors

- Sharp changes in interest rates
- A significant change in earnings
- Significant changes in funding arrangements
- Significant changes in asset quality
- A material change in the liquidity profile

FINANCIAL PERFORMANCE

Table 1
Summary Annual Financial Performance

	2012	2011	2010	2009	2008
	TT $'000				
Equity Capital	26,700	26,700	26,700	26,700	26,700
TNW*	147,940	140,294	125,401	110,429	94,838
Total Assets*	737,146	620,964	587,707	614,402	734,176
Total Income	42,579	37,642	39,354	27,490	36,981
PAT	17,626	23,058	25,463	15,618	22,513
	%				
Interest Rate Spread	2.4	2.5	2.2	0.4	0.3
Total Expenses/Total Income	33.3	25.7	32.0	41.3	32.3
PAT/Average Earnings Assets	2.7	4.0	4.4	2.4	3.9
TNW/Adjusted Assets	20.1	22.6	21.3	18.0	12.9

**Adjusted to exclude intangible assets*

June 2013