



THE RAPID EXPANSION OF REGIONAL FINANCIAL CONGLOMERATES: IMPLICATIONS AND CHALLENGES



April 2006

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OUTLINE OF PRESENTATION

- Context of the Study
- Overview of RBTT Financial Holdings Limited
- Modus of entry into foreign jurisdictions
- Considerations which led to the establishment of Cross Border Operations
- Challenges faced by a Financial Organization operating with Cross Border Operations
- Benefits derived from Cross Border Operations
- Critical Success Factors

CONTEXT OF THE STUDY

- What led to the overseas expansion of RBTT when many entities were consolidating at home?
- What problems were encountered and how were they circumnavigated?
- What problems still persist and how are they preventing the efficient allocation of capital?

CHARACTERISTICS OF THE RBTT FINANCIAL GROUP

Some Financial Highlights

	2004	1980
• Profit Before Tax	\$ 974,000,000	\$ 47,000,000
• Total Assets	\$ 33,404,000,000	\$ 1,400,000,000
• Total Equity	\$ 3,100,000,000	\$ 88,156,000
• Number of Employees	4,000	500
• Market Capitalization	\$ 14,000,000,000	\$ 37,166,666
• Operations	13 Countries	Trinidad

CHARACTERISTICS OF THE RBTT FINANCIAL GROUP

Some Financial Highlights

	2004	1980
• ROA	2.59%	3.35%
• ROE	28.31%	
• EPS	\$2.35	\$0.62
• STOCK EXCHANGE	1	3

COUNTRIES IN WHICH THE RBTT GROUP HAS A PHYSICAL PRESENCE

- Trinidad - 1900
- St. Vincent - 1985
- Nevis - 1995
- Grenada - 1997
- Jamaica - 2001
- Barbados - 2003



ATLANTIC OCEAN

CARIBBEAN SEA

RBT JAMAICA

RBT ANTIGUA

RBT ST. MAARTEN & SABA

RBT ST. KITTS/NEVIS

RBT ST. LUCIA

RBT BARBADOS

RBT ARUBA

RBT CURAÇAO

RBT BONAIRE

RBT ST. VINCENT, THE GRENADINES & BEQUIA

RBT GRENADA

RBT TRINIDAD & TOBAGO

SOUTH AMERICA

RBT

SURINAME

MODUS OF ENTRY

- Purchase of shares in a publicly traded company
- Purchase of shares in a private company
- Purchase of assets
- Establishment of new operations

MODUS OF ENTRY

- By and large, all of the acquisitions made by RBTT Financial Holdings throughout the English speaking Caribbean were made via the purchase of the issued share capital of the predecessor companies
- In the case of the Dutch Caribbean, what was purchased was the assets of the predecessor companies

MODUS OF ENTRY

- The reason for the different approaches adopted in the two (2) regions lay primarily with the fact that the entities which we acquired in the Dutch region were branches of European banks whilst in the Eastern Caribbean we were dealing with stand alone entities

MODUS OF ENTRY

- Another consideration and another benefit of purchasing assets rather than shares relates to the fact that one avoids any contingent liability that the predecessor company or vendor may have been exposed to
- RBTT conducts substantially more business in jurisdictions such as Belize where it does not have a physical presence than in some of the jurisdictions of the Eastern Caribbean

CONSIDERATIONS OF CROSS BORDER OPERATIONS

- Liberalization of the foreign exchange regime
- Risk diversification
- Increased intensity of competition at home
- Underdeveloped state of regional capital markets
- Excess liquidity in Trinidad and Tobago
- Ability to partner with clients which operate regionally

LIBERALIZATION OF FOREIGN EXCHANGE REGIME

- Liberalization of Foreign Exchange Regime in Trinidad played a key role in the regional expansion thrust of the RBTT Group allowing, for the first time, access to a market which was hitherto outside the domain of a purely domestic bank as RBTT Bank could now mobilize deposits in US Dollars and extend credit to non-residents.

RISK DIVERSIFICATION

A key component regarding the ultimate solvency and strength of a financial organization is the extent to which its loan portfolio is diversified.

Apart from improving the quality of the Balance Sheet regional diversification also provided the Bank with the opportunity to position itself to the International Credit Rating Agencies with a stronger case to improve its credit rating.

INCREASED INTENSITY OF COMPETITION AT HOME

Since 1988, major petrochemical multinationals have spent in excess of USD5 billion in developing capacity and building plants in Trinidad and Tobago.

The local banking sector has played a very limited role in this sector for the following reasons:

INCREASED INTENSITY OF COMPETITION AT HOME

1. Foreign banks followed their clients into the region
2. Lower interest rates
3. The larger sizes of these loans

INCREASED INTENSITY OF COMPETITION AT HOME

4. Presence of the foreign banks then allowed for poaching of other local clients
5. In addition to the foregoing, a growing pool of large private sector and state enterprises began tapping the international capital market

UNDERDEVELOPED STATE OF REGIONAL CAPITAL MARKETS

Having developed new products in Trinidad and Tobago which were approaching the maturity state of their life cycle, RBTT sought an opportunity and gained access to sell these products into the less sophisticated markets.

- Zero Coupon Bond
- Mortgage Securitization
- Commercial Paper, etc.
- Strips
- Tax Arbitrage Products

EXCESS LIQUIDITY IN T&T AND FISCAL DEFICITS IN ITS TRADING PARTNERS

Due to an extended period of positive economic growth fuelled by the energy sector activity, the financial system has been characterized by high degrees of liquidity in both TT and US dollars.

This provided RBTT Merchant Bank with an opportunity to arrange Bond Issues for several regional governments which were experiencing fiscal deficits.

ABILITY TO PARTNER WITH CLIENTS WHICH OPERATE REGIONALLY

RBTT's entry into Jamaica followed closely on the heels of the establishment in Jamaica of three (3) very strategic and large clients into Jamaica including GHL in which RBTT had an equity interest

CHALLENGES OF CROSS BORDER OPERATIONS

- Operations in at least 13 geographically diverse areas
- Listed on 3 Stock Exchanges
- Regulated by 6 Central Banks
- Conducts business in 4 different language jurisdictions
- Conducts transactions in 7 currencies

CHALLENGES OF CROSS BORDER OPERATIONS

- In highlighting the complexities and challenges faced by Trans-border entity such as RBTT, it is extremely important to make the distinction between the following factors
- Registering on the Regional Stock Exchanges

CHALLENGES OF CROSS BORDER OPERATIONS

- Establishing a physical presence in a particular jurisdiction
- Conducting business in a foreign jurisdiction without actually establishing a presence (wholesale banking, investment banking and merchant banking tend to fall into this category)

CHALLENGES OF CROSS BORDER OPERATIONS

- **Registering on a Regional Stock Market**
 - Different disclosure and listing requirements (SEC)
 - Different reporting requirement particularly as they relate to the periodicity of reporting
 - Different requirements with respect to restrictions on shareholding
 - Differences with respect to take over codes on the various stock exchanges

CHALLENGES OF CROSS BORDER OPERATIONS

- **Restrictions on shareholding**
 - The Barbados Stock Exchange allows publicly traded companies to place in their bye-laws provisions which restrict individuals from holding over and above a certain amount of issue share capital of a public company

CHALLENGES OF CROSS BORDER OPERATIONS

- **Restrictions on shareholding**
 - The Trinidad and Tobago Stock Exchange by contrast requires that any such restriction be removed before a company may be listed although there is a discretion to allow the listing notwithstanding the prohibition

CHALLENGES OF CROSS BORDER OPERATIONS

- **Restrictions on shareholding**
 - State enterprises in Trinidad and Tobago which are listed in the stock exchange are allowed to have restricted shareholding

CHALLENGES OF CROSS BORDER OPERATIONS

- **Take Over Code**
 - The Take-Over Code is triggered in Barbados at 25%
 - Take-Over Code is triggered in Jamaica at 50%
 - Take-Over Code is triggered in Trinidad at 30%
 - There are presently several cross-listed companies

CHALLENGES OF CROSS BORDER OPERATIONS

- **With respect to the cross-listed companies, the following issue arises:**
 - Assume 49% of the issued share capital of a cross-listed company acquired in Jamaica
 - Assume further that the country's home base is Barbados (where Take-Over code is triggered at 25%)

CHALLENGES OF CROSS BORDER OPERATIONS

- Assume that a further 10% of the issued capital is bought either by the same company, a subsidiary or an affiliate or the floor of the Trinidad stock exchange
- What are the implications?
- Have the Laws been broken?
- In which country has the law been broken?
- What are the remedies?

CHALLENGES OF CROSS BORDER OPERATIONS

- **Establishing a physical presence**
 - This tends not to be a problem once Central Bank and the Regulatory hurdles are cleared
 - Fit and Proper Test
 - Adequacy of Capital

CHALLENGES OF CROSS BORDER OPERATIONS

- Conducting Trans-Border without a physical presence (Business Related Challenges)
 - Providing Loans Trans-Border
 - Some jurisdictions require that the Lender is formally registered as an external company to conduct business in order to facilitate the taking of security

CHALLENGES OF CROSS BORDER OPERATIONS

- Some jurisdictions require Central Bank notification to facilitate the expatriation of capital (Fixed Exchange Rate Jurisdictions)
- Some jurisdictions only allow registration to conduct business to investment grade banks

CHALLENGES OF CROSS BORDER OPERATIONS

Prudential Lending Criteria Issues

	JAMAICA	BARBADOS	T&T	SURINAME	COSTA RICA
UNSECURED	5	10	5		
SECURED	20	25	25	25	20
GROUP	40		32		

CHALLENGES OF CROSS BORDER OPERATIONS

- Selling Securities Trans-Border (Two Examples)

Example 1

- Trinidadian Bank receives a mandate to underwrite a Bond Issue for the Gouvernement of St. Maarten

CHALLENGES OF CROSS BORDER OPERATIONS

Trinidad

- The NIS, Pension Funds and Insurance Companies cannot buy this security because of restrictions under the NIS Act, the Insurance Act and the Pension Fund Act

Barbados

- Investors in Barbados may invest but first need the Central Bank approval to secure USD funding

CHALLENGES OF CROSS BORDER OPERATIONS

OECS

- Investors in the OECS may invest but this is predicated on the Trinidadian Bank first receiving broker/dealer status and having officers who have sat and passed an examination administered by the Eastern Caribbean Securities Regulatory Commission.
- The question that arises here is that if an entity is a Registered Broker Dealer in Trinidad and Tobago, why can't they the OECS authorities not recognize this?

CHALLENGES OF CROSS BORDER OPERATIONS

Bahamas

- Institutional Investors in the Bahamas (NIS and Insurance Companies cannot invest because they are restricted primarily to investment grade securities).

Jamaica

- Jamaican institutional investors are not prohibited statutorily or otherwise from investing in these securities but may still not invest because the interest rate may be too low.

CHALLENGES OF CROSS BORDER OPERATIONS

- Selling Securities Trans-Border (Two Examples)

Example 2

- Trinidadian Bank receives a mandate to underwrite an Issue on behalf of a Government located in the OECS

CHALLENGES OF CROSS BORDER OPERATIONS

Trinidad

- This security could be sold in Trinidad after registration with the SEC and SOI approval as it qualifies under the Second Schedule of the Insurance Act

Barbados

- Investors in Barbados may invest but must first seek the Central Bank approval to secure ECD

CHALLENGES OF CROSS BORDER OPERATIONS

OECS

- Although institutional investors in the OECS are allowed to buy this security the Trinidadian Bank may be prohibited from selling the security unless it receives Broker/Dealer status and its officers have sat and passed the requisite exam

CHALLENGES OF CROSS BORDER OPERATIONS

Bahamas

- Institutional investors in the Bahamas (NIS and Insurance Companies cannot invest because they are restricted primarily to investment grade securities).

Jamaica

- Jamaican institutional investors are not prohibited statutorily or otherwise from investing in these securities

BENEFITS OF CROSS BORDER OPERATIONS

- Risk diversification
- Increased profitability
- Ability to partner with clients that operate regionally
- Benefits from double taxation treaty

BENEFITS OF CROSS BORDER OPERATIONS

- Capitalize on best in class with respect to technology
- Financial innovation
- Development of Regional Capital Markets
- Creates a platform for international expansion

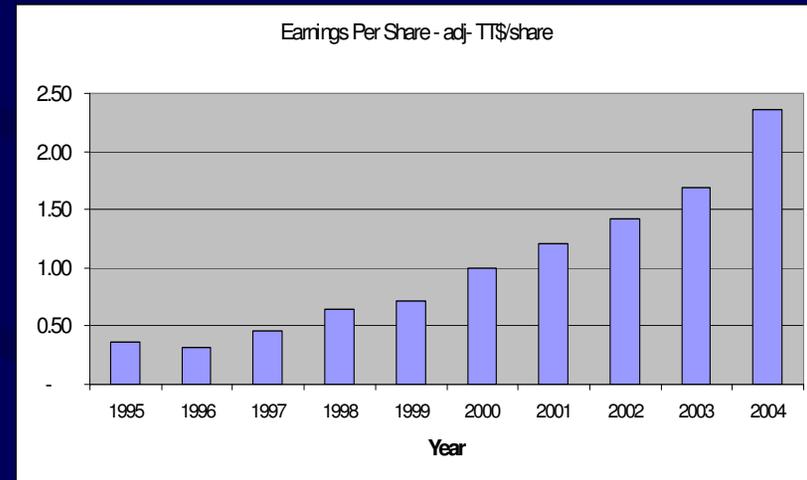
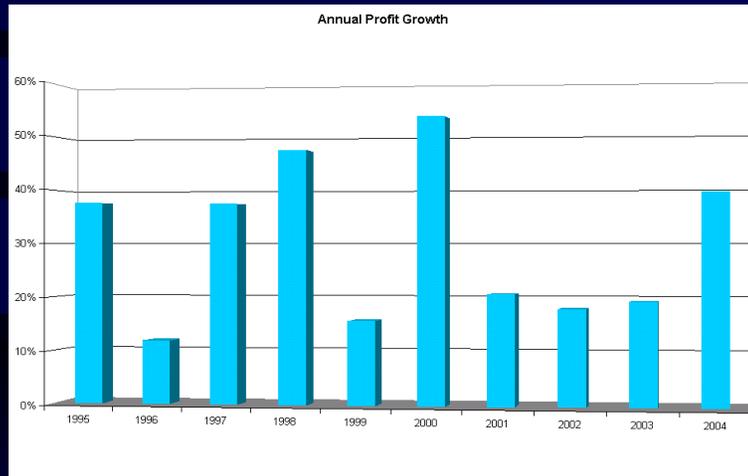
BENEFITS OF CROSS BORDER OPERATIONS

Risk Diversification

	TT	US	EC	NAF	JMD	OTHER
Total Assets as at March 2004 by Currency	32%	33%	7%	14%	10%	4%

BENEFITS OF CROSS BORDER OPERATIONS

Increased Profitability



CRITICAL SUCCESS FACTORS

- Integrated Stock Exchange
- Harmonization of regulatory framework across the region
- Enabling fiscal and monetary environment
- Currency convertibility
- Freedom of movement of capital
- Freedom of movement of labour
- Multi-lingual workforce