

Pan Caribbean Financial Services Limited AND ITS SUBSIDIARIES

Un-audited Financial Statements

Three Months ended March 31, 2010



Q1 2010 HIGHLIGHTS

- **Net income of \$397 Million, up 14% over prior year**
- **Earnings per share increased 12.5% to \$0.72**
- **Ordinary dividends of \$335 Million (\$0.61 per share) declared**
- **Annualized Return on Equity of 20% and Return on Assets of 2.3%**
- **Capital to Assets ratio of 12.7%**

The Directors of PanCaribbean are pleased to report consolidated profits of \$397 Million for Q1 2010, an increase of \$48 Million over the \$349 Million reported in the prior year. Earnings per share for the period rose from \$0.64 to \$0.72.

REVENUES

For the three-month period, Net Interest Income advanced by 23% to \$692 Million from \$562 Million. Improved interest margins and balance sheet growth of \$5.9 Billion (up 9%) contributed to this increase over the comparative prior-year period.

Non-interest income for the period fell 28% from \$259 Million to \$187 Million. Fixed Income Trading, Stock Brokerage, Trust, Credit and Asset Management reflected improved results. Equity trading, FX Trading and Translation gains posted lower income.

NON-INTEREST EXPENSE

Non-interest expense increased 1% to \$356 Million compared to \$354 Million for the prior year. Team Member costs rose 9% as a result of 2010 salary adjustments. Occupancy costs and Other Operating Expenses increased by 6% and 10% respectively.

Our Operating Efficiency ratio (Operating Expense / Operating Income) improved to 40.5% versus 43.1% in 2009, while our Asset Efficiency ratio (Income Assets / Expense Liabilities) declined, moving from 108% at December 2009 to 106% at March 2010.

CREDIT QUALITY

Credit quality has shown some deterioration as Non-performing loans and leases were \$247 Million or 2.8% of the portfolio (industry average = 4.7%) versus \$232 Million or 2.6% of the portfolio at December 2009. Credit provisions were 140% of non-performing loans and leases (industry average = 75%). Non-performing loans and leases as a percentage of total assets were 0.35%, no change since December 2009.

BALANCE SHEET

Total Assets now stand at \$70.5 Billion, up 8% since December 2009. Loans and leases were flat at \$8.7 Billion, while our investment portfolio increased by 8% to \$54.5 Billion. Interest bearing liabilities now stand at \$59.4 Billion, up \$3.9 Billion (or 7%) compared to \$55.5 Billion at December 2009.

CAPITAL

Our Capital to Assets ratio of 12.7% and Risk-Weighted Capital ratio of 33.4% reflect the relative strength of PanCaribbean. Stockholders' Equity closed the quarter at \$8.95 Billion (\$7.91 Billion at December 2009). \$834 Million of this improvement is as a result of the successful Jamaica Debt Exchange completed in February 2010. Both US\$ and JA\$ interest rates fell during this quarter and as a result, the yield curves have shifted downwards, resulting in a rally in GOJ US\$ and JA\$ denominated bond prices.

During the quarter, ordinary dividends amounting to \$335 Million (\$0.61 per stock unit) were proposed.

COMMUNITY CARE HIGHLIGHTS

During the month of February, our Sigma Corporate Run partnered with the National Health Fund and raised over \$11 Million for The Sir John Golding Rehabilitation Centre, Jamaica Society for the Blind and the Jamaica Association for the Deaf. The event was widely supported by Corporate Jamaica and many other organizations with over 11,000 participants. Collectively, we are helping make Jamaica a better place.

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We awarded two educational scholarships to students attending UWI's western campus in Montego Bay, where they will pursue courses in media and journalism, an area that we believe is important to supporting an informed civil society.

RECOGNITION OF EXCELLENCE

Our Team Members of the first quarter were Andrea Pusey and Nardia Swaby, from Business Support and Nursita Gray-Barriffe from Client Services. They were recognized for their excellent team performance and individual contributions in supporting our efforts to deliver excellent service and leadership throughout the organization.

OUR OUTLOOK

With the successful completion of the Jamaica Debt Exchange in February 2010 and the International Monetary Fund agreement in place, the market has continued to exhibit remarkable stability. Notwithstanding a weakened economy and shrinking tax base, the economy may be leveling off. Tourism remains a bright spot and prospects for recovery in mining are emerging. There are a number of infrastructure projects programmed and these projects are expected to stimulate domestic economic activity. However, crime and drought conditions persist, which continue to constrain growth and prosperity.

OUR THANKS

We express our thanks to our Customers for their business, and to our Team Members who handle the financial affairs of our Customers with a high level of expertise and efficiency. We also appreciate the valuable contribution of our fellow directors, who have guided our activities and direction during these interesting times.

Richard O. Byles
Chairman

Donovan H. Perkins
President & CEO

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UN-AUDITED CONSOLIDATED INCOME STATEMENT
PERIOD ENDED MARCH 31, 2010

	3 MONTHS TO MAR 2010 \$'000	3 MONTHS TO MAR 2009 \$'000
Gross Operating Revenues	<u>1,978,438</u>	<u>2,216,557</u>
Net interest income and other revenue		
Interest income from loans	241,700	251,609
Interest income from securities	1,548,871	1,702,897
Interest income from leases	611	3,269
Total interest income	<u>1,791,182</u>	<u>1,957,775</u>
Interest expense	<u>(1,098,842)</u>	<u>(1,395,373)</u>
Net interest income	692,340	562,402
Fee and commission income	107,084	62,915
Net trading income	73,758	117,021
Other operating income	<u>6,414</u>	<u>78,846</u>
	<u>879,596</u>	<u>821,184</u>
Operating expenses		
Team member costs	219,891	201,869
Provision for credit losses, net	-	27,256
Occupancy costs	21,667	20,522
Other operating expenses	<u>114,542</u>	<u>104,497</u>
	<u>356,100</u>	<u>354,144</u>
Profit before taxation	<u>523,496</u>	<u>467,040</u>
Taxation	<u>(126,590)</u>	<u>(117,903)</u>
NET PROFIT	<u>396,906</u>	<u>349,137</u>
EARNINGS PER STOCK UNIT		
Average stock unit in issue	548,015,939	547,924,039
EPS	\$0.72	\$ 0.64
DILUTED EPS	\$0.72	\$ 0.64

Note: These financial statements have been prepared in accordance with International Financial Reporting Standards

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UN-AUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
PERIOD ENDED MARCH 31, 2010

	3 MONTHS TO MAR 2010 \$'000	3 MONTHS TO MAR 2009 \$'000
Profit for the period	396,906	349,137
Other comprehensive income for the period, net of tax:		
Unrealized gains/(losses) on available-for-sale investments	833,592	(188,352)
Unrealized gains on cash flow hedge	17,045	20,581
Losses reclassified and reported in profit	119,537	95,694
Other comprehensive income for the period	970,174	(72,077)
Total comprehensive income for the period	1,367,080	277,060

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UN-AUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
MARCH 31, 2010

	UNAUDITED MAR 2010 \$000's	UNAUDITED MAR 2009 \$000's	AUDITED DEC 2009 \$000's
<u>ASSETS</u>			
Cash and balances due from other financial institutions	4,286,481	3,560,900	3,464,251
Cash reserve at Bank of Jamaica	337,494	288,384	413,744
Trading securities	146,003	41,311	-
Securities purchased under agreements to resell	3,125,146	4,960,242	4,499,614
Investment securities	49,406,415	42,499,462	43,963,451
Derivative financial instruments	171,062	405,212	155,374
Held to Maturity Securities	1,697,185	1,668,270	1,745,692
Loans, net of provisions for credit losses	8,642,958	9,367,463	8,653,610
Lease receivables	28,206	60,044	32,608
Due from related company	19,407	30,148	10,066
Income tax recoverable	17,911	24,019	17,940
Intangible assets	64,711	119,919	78,408
Goodwill	733,750	733,750	733,750
Property, plant and equipment	122,786	146,547	127,933
Deferred tax assets	72,976	488,329	561,503
Other assets	1,620,957	248,576	787,623
Total assets	70,493,448	64,642,576	65,245,567
<u>LIABILITIES</u>			
Securities sold under agreements to repurchase	48,075,889	43,211,216	43,972,613
Customer deposits	8,785,485	7,834,055	8,782,495
Structured products	479,390	874,022	473,266
Due to banks and other financial institutions	1,280,505	1,813,496	1,501,217
Derivative financial instruments	192,736	724,529	200,706
Cheques and other items in transit	171,228	218,469	139,069
Redeemable Preference shares	1,271,347	1,271,281	1,271,319
Due to related company	4,721	6,427	947
Income tax payable	37,425	953	31,926
Deferred tax liabilities	38,526	539	74,462
Dividends proposed	334,534	-	-
Other liabilities	872,797	1,668,153	889,730
Total liabilities	61,544,583	57,623,140	57,337,750
<u>STOCKHOLDERS' EQUITY</u>			
Share capital	3,111,372	3,103,811	3,103,811
Share options reserve	53,655	51,935	52,604
Retained earnings reserve	1,536,596	562,365	1,536,596
Reserve fund	243,988	212,169	243,988
Loan loss reserve	167,539	126,063	167,649
Fair value reserves	(125,881)	(1,186,189)	(1,096,055)
Retained earnings	3,961,596	4,149,282	3,899,224
Total stockholders' equity	8,948,865	7,019,436	7,907,817
Total liabilities and equity	70,493,448	64,642,576	65,245,567

Note: These financial statements have been prepared in accordance with International Financial Reporting Standards

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UN-AUDITED CONSOLIDATED CASH FLOWS
PERIOD ENDED MARCH 31, 2010

	3 MONTHS TO MAR 2010 \$'000	3 MONTHS TO MAR 2009 \$'000
Cash Flows from Operating Activities		
Net profit	396,906	349,137
Adjustments for:		
Interest income	(1,791,183)	(1,957,776)
Interest expense	1,098,842	1,395,373
Income tax charge	126,591	117,903
Fair value gains on trading securities	12,907	(34,213)
Provision for credit losses	-	27,256
Amortisation of intangible assets	13,697	15,678
Depreciation of property, plant and equipment	11,471	12,868
Gain on sale of property, plant and equipment	-	(5)
Share option expense	1,051	2,500
	(129,718)	(71,279)
Changes in operating assets and liabilities	1,023,963	1,995,569
Interest received	2,430,070	1,827,295
Interest paid	(1,324,575)	(1,371,265)
Taxation	(110,435)	(145,121)
Net cash provided by operating activities	1,889,305	2,235,199
Cash Flows from Investing Activities		
Purchase of intangible assets	-	(1,551)
Purchase of property, plant and equipment	(6,324)	(3,692)
Proceeds from disposal of property, plant and equipment	-	5
Net cash used in investing activities	(6,324)	(5,238)
Cash Flows from Financing Activities		
Issue of ordinary shares	7,561	-
Proceeds from due to banks and other financial institutions – long term	84,284	929,747
Repayment of amounts due to banks and other financial institutions – long term	(320,269)	(596,408)
Due from related parties	(5,567)	(12,175)
Dividends paid	-	(356,151)
Net cash used financing activities	(233,991)	(34,987)
Effect of exchange rate changes on cash and cash equivalents	(5,283)	566,366
Net increase in cash and cash equivalents	1,643,707	2,761,340
Cash and cash equivalents at beginning of year	7,415,612	6,468,725
CASH AND CASH EQUIVALENTS AT END OF PERIOD	9,059,319	9,230,065
REPRESENTED BY		
Cash and balances due from other financial institutions	4,286,481	3,560,900
Investment securities	5,260,261	5,961,212
Short term deposits held by financial institutions	(487,423)	(288,722)
Due to banks and other financial institutions – short term	-	(3,325)
	9,059,319	9,230,065

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UN-AUDITED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
PERIOD ENDED MARCH 31, 2010

	Period ended March 31, 2010							Total \$'000
	Share Capital \$'000	Share Options Reserve \$'000	Retained Earnings Reserve \$'000	Reserve Fund \$'000	Loan Loan Reserve \$'000	Fair Value Reserve \$'000	Retained Earnings \$'000	
Balance at January 1, 2010	3,103,811	52,604	1,536,596	243,988	167,649	(1,096,055)	3,899,224	7,907,817
Comprehensive income for the period	-	-	-	-	-	970,174	396,906	1,367,080
Shares issued	7,561	-	-	-	-	-	-	7,561
Employee share option scheme-value of service provided	-	1,051	-	-	-	-	-	1,051
Dividends proposed	-	-	-	-	-	-	(334,534)	(334,534)
Adjustment between regulatory loan provisioning & IFRS	-	-	-	-	(110)	-	-	(110)
Balance at March 31, 2010	3,111,372	53,655	1,536,596	243,988	167,539	(125,881)	3,961,596	8,948,865

	Period ended March 31, 2009							Total \$'000
	Share Capital \$'000	Share Options Reserve \$'000	Retained Earnings Reserve \$'000	Reserve Fund \$'000	Loan Loan Reserve \$'000	Fair Value Reserve \$'000	Retained Earnings \$'000	
Balance at January 1, 2009	3,103,811	49,435	562,365	212,169	117,295	(1,114,112)	4,153,226	7,084,189
Comprehensive income for the period	-	-	-	-	-	(72,077)	349,137	277,060
Employee share option scheme-value of service provided	-	2,500	-	-	-	-	-	2,500
Dividends paid	-	-	-	-	-	-	(356,151)	(356,151)
Adjustment between regulatory loan provisioning & IFRS	-	-	-	-	8,768	-	3,070	11,838
Balance at March 31, 2009	3,103,811	51,935	562,365	212,169	126,063	(1,186,189)	4,149,282	7,019,436

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UN-AUDITED SEGMENT REPORT
PERIOD ENDED MARCH 31, 2010

	Period ended March 31, 2010						Group \$'000
	Investment Management \$'000	Credit \$'000	Asset Management \$'000	Trading \$'000	Trust Services \$'000	Eliminations \$'000	
Gross external revenues	1,573,628	262,995	52,716	70,286	18,813	-	1,978,438
Revenues/(expenses) from other segments	7,440	-	-	-	-	(7,440)	-
Total gross revenues	1,581,068	262,995	52,716	70,286	18,813	(7,440)	1,978,438
Total expenses	(1,172,080)	(220,078)	(30,571)	(27,936)	(11,717)	7,440	(1,454,942)
Profit before tax	408,988	42,917	22,145	42,350	7,096	-	523,496
Income tax expense							(126,590)
Net profit							396,906
Segment Assets	54,733,687	8,746,581	54,604	152,437	7,300	-	63,694,609
Unallocated assets							6,798,839
Total Assets							70,493,448
Segment liabilities	58,804,848	1,280,505	-	-	-	-	60,085,353
Unallocated liabilities							1,459,230
Total Liabilities							61,544,583
Other Segment items							
Net interest income	602,078	90,262	-	-	-	-	692,340
Capital expenditure	4,905	1,419	-	-	-	-	6,324
Depreciation	6,185	5,286	-	-	-	-	11,471
Amortisation charges	1,577	12,120	-	-	-	-	13,697
	Period ended March 31, 2009						Group \$'000
	Investment Management \$'000	Credit \$'000	Asset Management \$'000	Trading \$'000	Trust Services \$'000	Eliminations \$'000	
Gross external revenues	1,776,927	264,162	42,581	121,632	11,255	-	2,216,557
Revenues/(expenses) from other segments	15,289	-	-	-	-	(15,289)	-
Total gross revenues	1,792,216	264,162	42,581	121,632	11,255	(15,289)	2,216,557
Total expenses	(1,463,290)	(253,911)	(12,695)	(25,389)	(9,521)	15,289	(1,749,517)
Profit before tax	328,926	10,251	29,886	96,243	1,734	-	467,040
Income tax expense							(117,903)
Net profit							349,137
Segment assets	50,018,489	9,502,924	54,604	152,437	7,300	-	59,735,754
Unallocated assets							4,906,822
Total Assets							64,642,576
Segment liabilities	53,915,103	1,813,496	-	-	-	-	55,728,599
Unallocated liabilities							1,894,541
Total Liabilities							57,623,140
Other segment items							
Net interest income	477,053	85,349	-	-	-	-	562,402
Capital expenditure	3,865	1,378	-	-	-	-	5,243
Depreciation	8,257	4,611	-	-	-	-	12,868
Amortisation charges	3,879	11,799	-	-	-	-	15,678

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