

# Pan Caribbean Financial Services Limited AND ITS SUBSIDIARIES

## Un-audited Financial Statements

### Nine Months ended September 30, 2010



## 2010 YEAR TO DATE HIGHLIGHTS

- Net income of \$1,082 Million
- Earnings per share of \$1.97
- Q1 ordinary dividends of \$335 Million (\$0.61 per share) paid
- Q3 ordinary dividends of \$269 Million (\$0.49 per share) approved for payment in Q4
- Annualized Return on Equity of 18.2% and Return on Assets of 2.1%
- Capital to Assets ratio of 13.5%

For the nine-month period ended September 2010, PanCaribbean reported consolidated profits of \$1,082 Million, down 3% or \$29 Million below the \$1,111 Million reported in 2009. Earnings per share for the period declined from \$2.03 to \$1.97.

For the three-month period ended September 2010, profits rose 17% or \$65 Million to \$454 Million, versus the prior year's results of \$389 Million. Earnings per share for this quarter were \$0.82 versus \$0.71 last year.

## REVENUES

For the nine-month period, Net Interest Income increased by 4% to \$2,008 Million from \$1,932 Million supported by balance sheet growth of 7%. Our net interest margin was 4.09% versus 4.15% in 2009, reflecting lower yields, primarily on our investment securities portfolio, influenced by the Jamaica Debt Exchange in February 2010.

Fees and Commissions rose 38% to \$296 Million as a result of increases in business activity with Stockbrokerage, Asset Management and Credit-related revenues improving significantly. Net Trading Income grew 16%, primarily as a result of foreign

exchange and equities trading, and dividend income. The 3.8% revaluation of the JA\$ since January 2010 has led to foreign currency translation losses of \$124 Million reflected in Other Operating income, compared to a gain of \$186 Million in the prior year. Indications are that these foreign currency translation losses will not recur.

## OPERATING EXPENSE

Operating expense fell 1% to \$1,104 Million compared to \$1,117 Million for the prior year. Team Member costs rose 8% as a result of annual salary adjustments, while Other Operating Expenses grew by 6% due to higher Technology-related costs. Provision for Credit Losses was \$30 Million, compared to \$120 Million in the prior period.

Our Efficiency Ratio (Operating Expenses/Operating Income) was adversely impacted by the reduction in Operating Income, moving from 42.9% to 44.1% for the nine-month period under review, despite the decline in Operating Expenses. Our Asset Efficiency ratio (Income Assets/Expense Liabilities) improved to 111%, increasing from 108% at December 2009.

## CREDIT QUALITY

Credit quality has shown some deterioration with Non-performing loans and leases increasing to \$411 Million or 4.6% of the portfolio (June 2010 industry average = 5.6%) versus \$232 Million or 2.6% of the portfolio at December 2009. Credit provisions were 92% of non-performing loans and leases. Non-performing loans and leases as a percentage of total assets was 0.6% (June 2010 industry average = 2.6%), compared to 0.4% at December 2009. Close monitoring of the portfolio and proactive measures are being taken to contain and improve the situation to ensure that asset quality ratios are restored to acceptable levels.

# **Pan Caribbean Financial Services Limited** AND ITS SUBSIDIARIES

## **Un-audited Financial Statements**

### **Nine Months ended September 30, 2010**

## **BALANCE SHEET**

Total Assets increased to \$72.2 Billion, up 11% since December 2009. Our investment portfolio rose 19% to \$57.7 Billion while Interest bearing liabilities grew \$4.2 Billion to \$60.4 Billion, up 7%, compared to \$56.2 Billion at December 2009.

## **CAPITAL**

Our Capital to Assets ratio of 13.5% and Risk-Weighted Capital ratio of 31.2% is a key measure of the strength of PanCaribbean. Stockholders' Equity closed the quarter at \$9.8 Billion (\$7.9 Billion at December 2009). This improvement is due to a rally in bond prices, reflected in Fair Value Reserves, and growth in Retained Earnings.

In addition to the ordinary dividends of \$335 Million (\$0.61 per stock unit) paid in April, a further \$269 Million (\$0.49) per stock unit) was paid in October.

## **COMMUNITY CARE HIGHLIGHTS**

During this recent quarter, we continued our support of the development of young promising athletes by sponsoring the All Jamaica Junior Championships in Kingston and the Junior Championships in Montego Bay, in which 250 young tennis players displayed their skills on the courts. Along with our parent Sagicor, we had strong participation at the Grace Kennedy 5K Run. This event focused on improving access to education in the inner city and also helped build our team spirit.

## **RECOGNITION OF EXCELLENCE**

Our Team Members of the third quarter were Althea Graham-Dolly from our Montego Bay Branch, Shawn Mills from our Financial Control Unit and Karen Brown from our Facilities and Records Management Unit. They were recognized for their excellent individual contributions to our team performance by supporting our collective efforts to deliver superior service and leadership throughout the organization.

## **PREFERENCE SHARE BUY-BACK**

Our option to redeem a block of preference shares issued in February 2008 was advised to its holders in July 2010 and subsequently completed in October 2010. This has resulted in the redemption of \$651 Million of outstanding preference shares in issue.

## **OUR THANKS**

Pan Caribbean is thankful to the new customers who joined us in 2010 and appreciate their contribution to our business growth, along with our existing customers who continue to expand their banking, trading and investment relationships with us. We thank you for the confidence you have in our Team that handles your financial affairs 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.



Richard O. Byles  
Chairman



Donovan H. Perkins  
President & CEO

**Pan Caribbean Financial Services Limited** AND ITS SUBSIDIARIES  
**Un-audited Financial Statements**  
**Nine Months ended September 30, 2010**

**Un-audited Consolidated Income Statement**

**Period Ended September 30, 2010**

	3 MONTHS TO SEP 2010 \$'000	3 MONTHS TO SEP 2009 \$'000	9 MONTHS TO SEP 2010 \$'000	9 MONTHS TO SEP 2009 \$'000
<b>Gross Operating Revenues</b>	<u>1,863,332</u>	<u>2,404,836</u>	<u>5,476,176</u>	<u>6,995,770</u>
<b>Net interest income and other revenue</b>				
Interest income from loans	237,273	303,125	712,775	835,077
Interest income from securities	1,397,989	1,888,886	4,265,902	5,481,713
Interest income from leases	<u>3,012</u>	<u>2,363</u>	<u>4,553</u>	<u>7,289</u>
Total interest income	1,638,274	2,194,374	4,983,230	6,324,079
Interest expense	<u>888,900</u>	<u>1,481,640</u>	<u>2,975,426</u>	<u>4,392,117</u>
<b>Net interest income</b>	749,374	712,734	2,007,804	1,931,962
Fee and commission income	92,879	79,482	296,439	215,547
Net trading income	104,872	37,632	303,603	261,187
Other operating income	<u>27,307</u>	<u>93,348</u>	<u>(107,096)</u>	<u>194,957</u>
<b>Operating income</b>	<u>974,432</u>	<u>923,196</u>	<u>2,500,750</u>	<u>2,603,653</u>
<b>Operating expenses</b>				
Team member costs	196,630	185,152	623,909	574,290
Provision for credit losses, net	31,791	76,076	30,193	119,991
Occupancy costs	25,734	22,308	70,221	66,359
Other operating expenses	<u>116,633</u>	<u>131,532</u>	<u>379,845</u>	<u>356,693</u>
	<u>370,788</u>	<u>415,068</u>	<u>1,104,168</u>	<u>1,117,333</u>
<b>Profit before taxation</b>	603,644	508,128	1,396,582	1,486,320
<b>Taxation</b>	<u>(149,966)</u>	<u>(119,232)</u>	<u>(315,044)</u>	<u>(375,182)</u>
<b>NET PROFIT</b>	<u>453,678</u>	<u>388,896</u>	<u>1,081,538</u>	<u>1,111,138</u>
<b>EARNINGS PER STOCK UNIT</b>				
Average stock units in issue	549,483,984	547,924,039	548,806,841	547,924,039
EPS	\$ 0.83	\$ 0.71	\$ 1.97	\$ 2.03
DILUTED EPS	\$ 0.82	\$ 0.71	\$ 1.97	\$ 2.03

Note: These financial statements have been prepared in accordance with International Financial Reporting Standards.  
The accounting policies used are consistent with the most recent annual report.

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**Pan Caribbean Financial Services Limited** AND ITS SUBSIDIARIES  
**Un-audited Financial Statements**  
**Nine Months ended September 30, 2010**

**Un-audited Consolidated Statement of Comprehensive Income**  
**Period Ended September 30, 2010**

	3 MONTHS TO SEP 2010 \$'000	3 MONTHS TO SEP 2009 \$'000	9 MONTHS TO SEP 2010 \$'000	9 MONTHS TO SEP 2009 \$'000
Profit for the period	453,678	388,896	1,081,538	1,111,138
Other comprehensive income for the period, net of tax:				
Unrealised gains on available-for-sale investments, net of taxes	97,411	454,386	983,660	850,497
Unrealised gains/(loss) on cash flow hedge, net of taxes	81,437	12	115,452	(119,068)
Loss/(Gains) reclassified and reported in profit	6,746	48,221	270,645	(8,903)
Other comprehensive income for the period, net tax	185,594	502,619	1,369,757	722,526
Total comprehensive income for the period	639,272	891,515	2,451,295	1,833,664

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# Pan Caribbean Financial Services Limited AND ITS SUBSIDIARIES

## Un-audited Financial Statements

### Nine Months ended September 30, 2010

#### Un-audited Consolidated Statement of Financial Position September 30, 2010

	UNAUDITED SEP 2010 \$'000	UNAUDITED SEP 2009 \$'000	AUDITED DEC 2009 \$'000
<b>ASSETS</b>			
Cash and balances due from other financial institutions	2,348,255	2,312,771	3,464,251
Cash reserve at Bank of Jamaica	825,493	333,608	413,744
Trading securities	157,435	-	-
Securities purchased under agreements to resell	2,019,447	7,010,290	4,499,614
Investment securities	53,502,694	44,149,045	43,963,451
Derivative financial instruments	342,754	236,251	155,374
Held to Maturity Securities	1,640,514	1,682,960	1,745,692
Loans, net of provisions for credit losses	8,641,597	9,720,399	8,653,610
Lease receivables	81,494	30,750	32,608
Income tax recoverable	31,546	27,290	17,940
Due from related company	20,829	17,206	10,066
Intangible assets	40,584	92,916	78,408
Goodwill	733,750	733,750	733,750
Property, plant and equipment	159,268	132,990	127,933
Deferred tax assets	1,232	114,922	561,503
Other assets	1,617,042	587,205	787,623
<b>Total assets</b>	<b>72,163,934</b>	<b>67,182,353</b>	<b>65,245,567</b>
<b>LIABILITIES</b>			
Securities sold under agreements to repurchase	47,700,606	45,034,060	43,972,613
Customer deposits and other accounts	8,912,383	8,821,013	8,782,495
Structured products	471,684	562,028	473,266
Due to banks and other financial institutions	1,870,119	1,999,514	1,501,217
Derivative financial instruments	187,030	75,447	200,706
Cheques and other items in transit	241,457	309,514	139,069
Redeemable preference shares	1,233,523	1,270,867	1,271,319
Due to related company	839	-	947
Income tax payable	137,617	53,450	31,926
Deferred tax liabilities	163,468	1,060	74,462
Dividends payable	269,273	-	-
Other liabilities	1,202,230	806,220	889,730
<b>Total liabilities</b>	<b>62,390,229</b>	<b>58,933,173</b>	<b>57,337,750</b>
<b>STOCKHOLDERS' EQUITY</b>			
Share Capital	3,126,867	3,103,811	3,103,811
Capital redemption reserve	38,620	-	-
Share option reserve	53,767	56,935	52,604
Retained earnings reserve	1,536,596	562,365	1,536,596
Reserve fund	243,988	212,169	243,988
Loan loss reserve	174,713	148,817	167,649
Fair value reserve	273,702	(391,586)	(1,096,055)
Retained earnings	4,325,452	4,556,669	3,899,224
<b>Total stockholders' equity</b>	<b>9,773,705</b>	<b>8,249,180</b>	<b>7,907,817</b>
<b>Total liabilities and equity</b>	<b>72,163,934</b>	<b>67,182,353</b>	<b>65,245,567</b>

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# Pan Caribbean Financial Services Limited AND ITS SUBSIDIARIES

## Un-audited Financial Statements

### Nine Months ended September 30, 2010

<b>Un-Audited Consolidated Statement of Cash Flows</b>		
<b>Period Ended September 30, 2010</b>		
	<b>9 MONTHS TO SEP 2010 \$'000</b>	<b>9 MONTHS TO SEP 2009 \$'000</b>
<b>Cash Flows from Operating Activities</b>		
Net profit	1,081,538	1,111,138
Adjustments for:		
Depreciation of property, plant and equipment	33,362	37,443
Amortisation of intangible assets	39,593	46,658
Provision for credit losses	30,193	119,991
Interest income	(4,983,230)	(6,324,079)
Interest expense	2,975,425	4,392,117
Current tax expense	315,955	395,447
Deferred tax charge	(911)	(20,265)
(Gain)/loss on sale of property, plant and equipment	1	(452)
Share option expense	1,163	7,500
Unrealised gain on trading securities	(476)	(27,069)
	(507,387)	(261,571)
Changes in operating assets and liabilities	(3,145,567)	232,354
Taxation	(149,732)	(193,784)
Interest received	5,670,624	6,039,669
Interest paid	(3,358,908)	(4,056,592)
Net cash (used in) /provided by operating activities	(1,490,970)	1,760,076
<b>Cash Flows from Investing Activities</b>		
Acquisition of property, plant and equipment	(64,699)	(14,914)
Acquisition of intangible assets	(1,768)	(5,528)
Proceeds from disposal of property, plant and equipment	1	655
Net cash used in investing activities	(66,466)	(19,787)
<b>Cash Flows from Financing Activities</b>		
Issue of ordinary shares	23,057	-
Issue of redeemable preference shares	-	(118,530)
Proceeds from due to banks and other financial institutions – long term	1,043,018	493,320
Repayment of amounts due to banks and other financial institutions – long	(714,398)	-
Due to related parties, net	(10,871)	(5,660)
Dividends paid	(334,648)	(684,906)
Net cash provided by /(used in) financing activities	6,158	(315,776)
Effect of exchange rate changes on cash and cash equivalents	(228,640)	587,684
Net increase in cash and cash equivalents	(1,779,918)	2,012,197
Cash and cash equivalents at beginning of year	7,415,612	6,468,725
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>5,635,694</b>	<b>8,480,922</b>
<b>Comprising:</b>		
Cash and balances due from other financial institutions	2,348,254	2,312,771
Investment securities & securities purchased under agreement to resell	4,023,320	6,655,367
Short term deposits held by financial institutions	(735,880)	(486,373)
Due to banks and other financial institutions – short term	-	(843)
	<b>5,635,694</b>	<b>8,480,922</b>

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**Pan Caribbean Financial Services Limited** AND ITS SUBSIDIARIES  
**Un-audited Financial Statements**  
**Nine Months ended September 30, 2010**

**Un-audited Consolidated Statement of Changes in Stockholders' Equity**  
**Period Ended September 30, 2010**

	Period ended September 30, 2010								
	Share Capital	Share Options Reserve	Capital Redemption Reserve	Retained Earnings Reserve	Reserve Fund	Loan Loss Reserve	Fair Value Reserve	Retained Earnings	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'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	-	-	-	-	-	-	1,369,757	1,081,538	2,451,295
Shares Issued	23,056	-	-	-	-	-	-	-	23,056
Employee share option scheme-value of service provided	-	1,163	-	-	-	-	-	-	1,163
Transfers to/from reserves	-	-	38,620	-	-	-	-	(38,620)	-
Dividends proposed	-	-	-	-	-	-	-	(269,273)	(269,273)
Dividends paid	-	-	-	-	-	-	-	(334,649)	(334,649)
Currency revaluation and other adjustments	-	-	-	-	-	(5,704)	-	-	(5,704)
Adjustment between regulatory loan provisioning & IFRS	-	-	-	-	-	12,768	-	(12,768)	-
Balance at September 30, 2010	3,126,867	53,767	38,620	1,536,596	243,988	174,713	273,702	4,325,452	9,773,705
	Period ended September 30, 2009								
	Share Capital	Share Options Reserve	Capital Redemption Reserve	Retained Earnings Reserve	Reserve Fund	Loan Loss Reserve	Fair Value Reserve	Retained Earnings	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'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	-	-	-	-	-	-	722,526	1,111,138	1,833,664
Employee share option scheme-value of service provided	-	7,500	-	-	-	-	-	-	7,500
Dividends paid	-	-	-	-	-	-	-	(684,905)	(684,905)
Adjustment between regulatory loan provisioning & IFRS	-	-	-	-	-	31,522	-	(22,790)	8,732
Balance at September 30, 2009	3,103,811	56,935	-	562,365	212,169	148,817	(391,586)	4,556,669	8,249,180

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# Pan Caribbean Financial Services Limited AND ITS SUBSIDIARIES

## Un-audited Financial Statements

### Nine Months ended September 30, 2010

#### Un-audited Segment Report

##### Period Ended September 30, 2010

	Period ended September 30, 2010						
	Treasury Management \$'000	Corporate & Retail Credit \$'000	Asset Management \$'000	Trading \$'000	Corporate Trust \$'000	Eliminations \$'000	Group \$'000
Gross external revenues	4,170,377	773,418	165,634	326,284	40,463	-	5,476,176
Revenues/(expenses) from other segments	15,225	-	-	-	-	(15,225)	-
Total gross revenues	4,185,602	773,418	165,634	326,284	40,463	(15,225)	5,476,176
Total expenses	(3,216,596)	(672,719)	(88,579)	(82,674)	(34,251)	15,225	(4,079,594)
Segment results	969,006	100,699	77,055	243,610	6,212	-	1,396,582
Income tax expense							(315,044)
Net profit							1,081,538
Tangible Assets	57,582,154	8,723,092	-	-	-	-	66,305,246
Goodwill	443,992	75,417	54,604	152,437	7,300	-	733,750
Segment Assets	58,026,146	8,798,509	54,604	152,437	7,300	-	67,038,996
Unallocated assets							5,124,938
<b>Total Assets</b>							72,163,934
Segment liabilities	58,505,227	1,870,119	-	-	-	-	60,375,346
Unallocated liabilities							2,014,883
<b>Total Liabilities</b>							62,390,229
Other Segment items							
Net interest income	1,725,923	281,881	-	-	-	-	2,007,804
Capital expenditure	64,130	2,337	-	-	-	-	66,467
Depreciation	18,719	14,643	-	-	-	-	33,362
Amortisation charges	4,238	35,355	-	-	-	-	39,593
	Period ended September 30, 2009						
	Treasury Management \$'000	Corporate & Retail Credit \$'000	Asset Management \$'000	Trading \$'000	Corporate Trust \$'000	Eliminations \$'000	Group \$'000
Gross external revenues	5,685,547	876,517	135,282	268,066	30,358	-	6,995,770
Revenues/(expenses) from other segments	54,302	-	-	-	-	(54,302)	-
Total gross revenues	5,739,849	876,517	135,282	268,066	30,358	(54,302)	6,995,770
Total expenses	(4,518,991)	(835,955)	(122,439)	(55,541)	(30,826)	54,302	(5,509,450)
Segment results	1,220,858	40,562	12,843	212,525	(468)	-	1,486,320
Income tax expense							(375,182)
Net profit							1,111,138
Tangible Assets	53,078,545	9,751,149	-	-	-	-	62,829,694
Goodwill	443,992	75,417	54,604	152,437	7,300	-	733,750
Segment Assets	53,522,537	9,826,566	54,604	152,437	7,300	-	63,563,444
Unallocated assets							3,618,909
<b>Total Assets</b>							67,182,353
Segment liabilities	55,763,414	1,999,514	-	-	-	-	57,762,928
Unallocated liabilities							1,170,245
<b>Total Liabilities</b>							58,933,173
Other segment items							
Net interest income	1,623,736	308,226	-	-	-	-	1,931,962
Capital expenditure	9,106	11,336	-	-	-	-	20,442
Depreciation	22,940	14,503	-	-	-	-	37,443
Amortisation charges	10,979	35,679	-	-	-	-	46,658

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