

# PAN CARIBBEAN FINANCIAL SERVICES LTD.

AND ITS SUBSIDIARIES

## Audited Financial Statements

Year ended December 31, 2010



### 2010 FINANCIAL HIGHLIGHTS

- Record Net Income of \$1.524 Billion, up 3% over prior year
- Earnings per share increased 3% to \$2.78
- Ordinary dividends of \$604 Million (\$1.10 per share) paid
- Return on Average Equity of 16.5% and Return on Assets of 2.1%
- Capital to Assets ratio of 14.6%

The Directors of PanCaribbean are pleased to report our 10th consecutive year of record consolidated profits of \$1.524 Billion for the year ended 31 December 2010, an increase of \$46 Million over 2009. Earnings per share rose from \$2.70 in 2009 to \$2.78 in 2010.

### REVENUES

Net Interest income advanced 5% to \$2.746 Billion, up \$126 Million over 2009 influenced primarily by balance sheet growth. Our net interest margins fell from 4.48% to 4.09% in 2010. As a result of the success of the Jamaica Debt Exchange in the first quarter, interest rates trended lower for each successive quarter during the financial year.

Non-interest income of \$868 Million was essentially flat compared to \$874 Million in 2009. All non-interest income lines registered growth in 2010, with the exception of foreign exchange translation gains which reflected a \$136 Million loss compared to a gain of \$192 Million in 2009.

### OPERATING EXPENSES

Operating expenses increased by 7%, which included \$102 Million in loss provisions and impairment charges. Excluding these provisions, other operating expenses rose 13%. Team Member costs grew by 20%, influenced by \$64 Million in pension-related charges in 2010.

Our Operating Efficiency Ratio (Operating Expense/Operating Income) was 45.4% versus 43.9% in 2009. This ratio was impacted by translation losses and pension related charges as mentioned previously.

### CREDIT QUALITY

Credit quality remains acceptable but reflects some deterioration. At year-end, Non-performing loans were \$369 Million or 3.8% (BOJ - Industry average = 5.7%, Sep 2010) of the portfolio, versus 2.6% in 2009. Credit provisions were 96% of non-performing credit assets at year-end (BOJ - Industry average = 71%, Sep 2010). Non-performing loans as a percentage of total assets were 0.5% versus 0.4% in 2009 (BOJ - Industry average = 2.5%, Sep 2010).

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### BALANCE SHEET & CAPITAL

Total Assets at year-end were \$72.6 Billion, up 11%. Credit assets grew by 9% while our investment portfolio increased by 16% to \$9.5 Billion and \$58.9 Billion respectively.

Our Asset Efficiency Ratio (Income Assets/Expense Liabilities) improved, moving from 107.4% to 112.4% in 2010.

Stockholders' Equity increased by \$2.7 Billion or 34%, to \$10.6 Billion at the end of 2010. This significant improvement was driven by improved securities prices reflected in a \$1.8 Billion change in fair value reserves. Our Capital to Assets ratio of 14.6% and Risk-weighted Capital ratio of 29.5% reflects the relative strength of PanCaribbean.

### COMMUNITY CARE HIGHLIGHTS

During 2010, PanCaribbean was an active corporate citizen. At the core of our corporate social responsibility is the Sigma Corporate Run, which broke 2009's record attendance with 11,184 participants and raised \$11.2 Million in aid of the Sir John Golding Rehabilitation Centre, The Jamaica Society for the Blind and The Jamaica Association for the Deaf. The National Health Fund partnered with us once again, making a difference for Children with Disabilities.

We continued our support as title sponsor of the All Jamaica Junior Tennis Championships in partnership with Tennis Jamaica which saw excellent tennis from enthusiastic youngsters across the entire island.

Computers were donated to the St. Aloysius Primary, St. Jago High, Holmwood Technical and Bellefield High Schools.

### RECOGNITION OF EXCELLENCE

PanCaribbean was again recognized at the Jamaica Stock Exchange's Best Practices Awards. We did exceptionally well in three of the seven categories recognized, with first place awards for Investor Relations – Stockbrokerage and Corporate Disclosure & Investor Relations, and first runner-up for the Best Annual Report.

Our Brokerage Division, the leading stockbroker in 2010, captured the top spot with 26.4% market share.

Our external performance is a reflection of the high standards set by our Team and we also wish to recognize those members who excelled during 2010:

**First Quarter** - Andrea Pusey, Nardia Swaby, Nursita Gray-Barriffe.

**Second Quarter** - Tameika Burns, Alisa Mitchell, Amoy Daniels.

**Third Quarter** - Althea Graham-Dolly, Shawn Mills, Karen Brown.

**Fourth Quarter** - Joanna Banks, Taschelle Tulloch, Christopher Harris.

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### OUR CONDOLENCES

Our Board wishes to extend our deepest sympathy to the family of our valued Director, Mr. Hayden Singh. Hayden served as a Director of PanCaribbean since 2004. He chaired the Compensation & Conduct Review Committee and served on the Audit & Compliance Committee. Hayden's contribution went beyond sound advice - his sense of humour and common sense approach to addressing issues will be greatly missed.

### OUR THANKS

We thank our Directors, Team Members and most importantly, our customers who contribute to our success through their business and valuable referrals. Our franchise continues to benefit from an excellent team, delivering great service and this remains the reason for our continuing performance despite the challenging environment we faced in 2010.

Richard O. Byles  
Chairman

Donovan H. Perkins  
President & CEO

# PAN CARIBBEAN FINANCIAL SERVICES LTD.

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Year ended December 31, 2010



### Consolidated Profit and Loss Account

**Year ended 31 December 2010**

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2010 \$'000	2009 \$'000
<b>Net Interest Income and Other Revenue</b>			
Interest income from securities		5,591,060	7,216,841
Interest income from loans and leases		968,852	1,115,264
Other interest income		7,080	24,624
Total interest income		6,566,992	8,356,729
Interest expense	6	(3,820,195)	(5,735,830)
Net interest income		2,746,797	2,620,899
Fees and commission income	7	406,039	335,866
Net trading income	8	423,640	514,800
Other revenue	9	38,169	23,710
		<u>3,614,645</u>	<u>3,495,275</u>
<b>Operating Expenses</b>			
Staff costs	10	912,537	758,104
Impairment charges	11	101,819	169,484
Occupancy costs		115,143	103,637
Other expenses	12	509,958	504,784
		<u>1,639,457</u>	<u>1,536,009</u>
<b>Profit before Taxation</b>		1,975,188	1,959,266
Taxation	13	(451,147)	(481,422)
<b>Net Profit</b>	14	<u>1,524,041</u>	<u>1,477,844</u>
<b>EARNINGS PER STOCK UNIT</b>			
Basic	16	<u>\$2.78</u>	<u>\$2.70</u>
Diluted	16	<u>\$2.77</u>	<u>\$2.70</u>

# PAN CARIBBEAN FINANCIAL SERVICES LTD.

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## Audited Financial Statements

Year ended December 31, 2010



### Consolidated Balance Sheet

**31 December 2010**

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2010 \$'000	2009 \$'000
<b>ASSETS</b>			
Cash and balances due from other financial institutions	17	2,178,179	3,464,251
Cash reserve at Bank of Jamaica	18	456,476	413,744
Trading securities	19	47,889	-
Securities purchased under agreements to resell	20	1,363,506	4,499,614
Investment securities	21	48,552,480	27,487,727
Derivative financial instruments	22	290,777	155,374
Loans, net of provision for credit losses	24	9,480,319	8,653,610
Lease receivables	25	20,566	32,608
Pledged assets	26	8,117,235	18,221,416
Due from related companies		17,638	10,066
Income tax recoverable		6,670	17,940
Intangible assets	28	785,458	812,158
Property, plant and equipment	29	160,927	127,933
Deferred income tax assets	30	25,148	561,503
Post-employment benefit assets	31	-	57,875
Other assets	32	1,144,041	729,748
		<u>72,647,309</u>	<u>65,245,567</u>

# PAN CARIBBEAN FINANCIAL SERVICES LTD.

AND ITS SUBSIDIARIES

## Audited Financial Statements

Year ended December 31, 2010



### Consolidated Balance Sheet (Continued)

**31 December 2010**

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2010 \$'000	2009 \$'000
<b>LIABILITIES</b>			
Securities sold under agreements to repurchase		49,616,514	43,972,613
Customer deposits and other accounts		9,016,902	8,782,495
Structured products	33	484,428	473,266
Due to banks and other financial institutions	34	1,173,512	1,501,217
Derivative financial instruments	22	158,360	200,706
Due to related companies		5,042	947
Income tax payable		151,403	31,926
Redeemable preference shares	35	616,000	1,271,319
Deferred income tax liabilities	30	414,845	74,462
Post-employment benefit obligations	31	37,868	32,131
Other liabilities	36	348,009	996,668
		<u>62,022,883</u>	<u>57,337,750</u>
<b>STOCKHOLDERS' EQUITY</b>			
Share capital	37	3,126,867	3,103,811
Stock options reserve	38	53,767	52,604
Retained earnings reserve	39	1,536,596	1,536,596
Reserve fund	40	269,016	243,988
Loan loss reserve	41	141,433	167,649
Capital redemption reserve	42	651,472	-
Fair value reserve	43	682,444	(1,096,055)
Retained earnings	15	4,162,831	3,899,224
		<u>10,624,426</u>	<u>7,907,817</u>
		<u>72,647,309</u>	<u>65,245,567</u>

Approved for issue by the Board of Directors on 25 February 2011 and signed on its behalf by:

Richard O. Byles

Director

Donovan H. Perkins

Director

**PAN CARIBBEAN FINANCIAL SERVICES LTD.**  
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**Consolidated Statement of Changes in Stockholders' Equity**  
**Year ended 31 December 2010**  
(expressed in Jamaican dollars unless otherwise indicated)

	Note	Share Capital \$'000	Share Options Reserve \$'000	Retained Earnings Reserve \$'000	Reserve Fund \$'000	Loan Loss Reserve \$'000	Capital Redemption Reserve \$'000	Fair Value Reserve \$'000	Retained Earnings \$'000	Total \$'000
<b>Balance at 1 January 2009</b>		3,103,811	49,435	562,365	212,169	117,295	-	(1,114,112)	4,153,226	7,084,189
Net profit		-	-	-	-	-	-	-	1,477,844	1,477,844
Other comprehensive income		-	-	-	-	-	-	18,057	-	18,057
Total comprehensive income for 2009		-	-	-	-	-	-	18,057	1,477,844	1,495,901
Employee stock option scheme	38	-	3,169	-	-	-	-	-	-	3,169
Transfers to/(from) reserves	39,40	-	-	974,231	31,819	-	-	-	(1,006,050)	-
Currency revaluation and other adjustments		-	-	-	-	9,463	-	-	-	9,463
Adjustment between regulatory loan provisioning and IFRS	41	-	-	-	-	40,891	-	-	(40,891)	-
Dividends	44	-	-	-	-	-	-	-	(684,905)	(684,905)
<b>Balance at 31 December 2009</b>		3,103,811	52,604	1,536,596	243,988	167,649	-	(1,096,055)	3,899,224	7,907,817
Net profit		-	-	-	-	-	-	-	1,524,041	1,524,041
Other comprehensive income		-	-	-	-	-	-	1,778,499	-	1,778,499
Total comprehensive income for 2010		-	-	-	-	-	-	1,778,499	1,524,041	3,302,540
Shares issued	37	23,056	-	-	-	-	-	-	-	23,056
Employee stock option scheme	38	-	1,163	-	-	-	-	-	-	1,163
Transfers to/(from) reserves	40,42	-	-	-	25,028	-	651,472	-	(676,500)	-
Currency revaluation and other adjustments		-	-	-	-	(6,229)	-	-	-	(6,229)
Adjustment between regulatory loan provisioning and IFRS	41	-	-	-	-	(19,987)	-	-	19,987	-
Dividends	44	-	-	-	-	-	-	-	(603,921)	(603,921)
<b>Balance at 31 December 2010</b>		3,126,867	53,767	1,536,596	269,016	141,433	651,472	682,444	4,162,831	10,624,426

# PAN CARIBBEAN FINANCIAL SERVICES LTD.

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## Audited Financial Statements

Year ended December 31, 2010



### Consolidated Statement of Cash Flows

Year ended 31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

	2010 \$'000	2009 \$'000
<b>Cash Flows from Operating Activities</b>		
Net profit	1,524,041	1,477,844
Adjustments for:		
Interest income	(6,566,992)	(8,356,729)
Interest expense	6 3,820,195	5,735,830
Income tax charge	13 451,147	481,422
Fair value gains on trading securities	8 (922)	(5,080)
Impairment charges	11 101,819	169,484
Amortisation of intangible assets	28 51,622	61,166
Depreciation of property, plant and equipment	29 45,323	48,998
Gain on sale of property, plant and equipment	-	(520)
Amortisation of hedging reserve	22 (18,915)	-
Changes in post-employment benefits	63,612	(25,839)
Stock options and grants expense	14,311	3,169
Unrealised gains on foreign assets and liabilities	(1,700,599)	(62,302)
	(2,215,358)	(472,557)
Changes in operating assets and liabilities -		
Statutory reserves at Bank of Jamaica	(78,710)	(214,029)
Trading securities	(46,696)	357,734
Securities purchased under agreements to resell	(136,594)	176,525
Investment securities	(7,663,433)	(9,208)
Derivative financial instruments	(177,749)	75,379
Loans	(1,775,662)	397,786
Lease receivables	9,021	21,817
Securities sold under agreements to repurchase	8,357,308	(1,187,045)
Structured products	11,162	(614,274)
Customer deposits and other accounts	1,223,252	566,167
Other assets	(576,825)	(468,116)
Other liabilities	(61,362)	(35,726)
	(3,131,646)	(1,405,547)
Interest received	6,902,316	8,125,772
Interest paid	(4,245,397)	(5,600,246)
Taxation	(157,844)	(447,903)
Net cash (used in)/provided by operating activities	(632,571)	672,076



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Year ended December 31, 2010



### Consolidated Statement of Cash Flows (Continued)

**Year ended 31 December 2010**

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2010 \$'000	2009 \$'000
<b>Cash Flows from Operating Activities</b>		(632,571)	672,076
<b>Cash Flows from Investing Activities</b>			
Purchase of intangible assets	29	(24,922)	(5,528)
Purchase of property, plant and equipment	30	(78,317)	(21,551)
Proceeds from disposal of property, plant and equipment		-	862
Net cash used in investing activities		(103,239)	(26,217)
<b>Cash Flows from Financing Activities</b>			
Proceeds from issue of ordinary stock units	37	9,908	-
Redemption of redeemable preference shares	35	(651,472)	-
Borrowings from due to banks and other financial institutions – long term		237,497	1,141,338
Repayment of amounts due to banks and other financial institutions – long term		(919,866)	(1,447,718)
Due from related parties		(3,477)	2,427
Dividends paid	44	(603,921)	(684,905)
Net cash used in financing activities		(1,931,331)	(988,858)
Effect of exchange rate changes on cash and cash equivalents		(205,197)	617,124
Net (decrease)/ increase in cash and cash equivalents		(2,872,338)	274,125
Cash and cash equivalents at beginning of year		6,742,850	6,468,725
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	23	<b>3,870,512</b>	<b>6,742,850</b>