

## YEAR-TO-DATE HIGHLIGHTS

- Net Profit of \$781 Million (2011 : \$914 Million)
- EPS = \$1.41(2011 : \$1.66)
- Operating Efficiency = 46.9% (2011 : 42.0%)
- Q1 ordinary dividends paid \$410 Million (\$0.743 per stock unit)
- Annualized Return on Equity of 13.1% (2011 : 17.2%)
- Annualized Return on Assets of 1.8% (2011 : 2.3%)
- Capital to Assets ratio of 13.9% (2011 : 15.5%)

## 2012 Q2 FINANCIAL HIGHLIGHTS

- Net Profit for Q2 of \$329 Million (2011 : \$411 Million)
- Q2's EPS = \$0.59 (2011 : \$0.74)

The Directors of PanCaribbean report Net Profit for the year-to-date of \$781 Million, compared to \$914 Million reported in the prior year. Earnings per share year-to-date was \$1.41 compared to \$1.66.

Net Profit for the second quarter was \$329 Million, compared to the \$411 Million reported for the comparative period.

## REVENUES

Net Interest Income year-to-date rose 5% to \$1,508 Million from \$1,431 Million supported by balance sheet growth of 13% as Income Earning Assets increased by \$3 Billion to \$76.1 Billion, (up 4%). Our Net Interest Margin improved marginally from 3.94% in 2011 to 3.96% for the current year.

For the second quarter, Net Interest Income increased 12% to \$755 Million from \$675 Million.

Non-interest Income year-to-date was \$524 Million compared to \$596 Million in the prior year. Fixed Income Trading, Treasury, Stock Brokerage, Trust, Credit and Service Fees reflected improved results. FX Trading and Translation Gains, Equity Trading and Asset Management Fees, posted lower revenues.

For the second quarter, Non-interest Income was \$186 million compared to \$292 Million in the prior year, due primarily to declines in equity prices and FX Translation losses.

## OPERATING EXPENSE

Operating Expense year-to-date increased 12% to \$953 Million compared to \$851 Million for the prior year. Team Member costs rose 15% as a result of annual salary adjustments, improved uniform and other allowances and share-based incentives. There was no new provision for credit losses. Occupancy Costs were up 16% due to a credit on our net-lease rental adjustment in the prior year and costs related to the relocation of our Montego Bay branch. Other Operating Expenses grew by 13% due largely to increased deposit insurance costs, reflecting growth in our commercial bank; increased electricity costs and asset tax expense.

For the second quarter, Operating Expense rose 4% to \$486 Million compared to \$466 Million for the prior year. Team Member costs and Occupancy cost both rose 12% while Other Operating Expenses declined by 0.2%. There were no new provisions for credit losses.

At the end of Q2, our Operating Efficiency ratio (Operating Expense / Operating Income) was 46.9% versus 42.0% in 2011 as Operating Income grew 0.2% while Operating Expense rose 12.0%. Our Asset Efficiency ratio (Income Assets / Expense Liabilities) was 110% compared to 115% in the prior year.

## CREDIT QUALITY

During the quarter, Non-performing Loans and Leases were \$512 Million or 5.6% of the portfolio (BOJ March 2012 industry average : 8.6%) versus \$445 Million or 4.7% of the portfolio at December 2011. Credit provisions were 99% of non-performing loans and leases (BOJ March 2012 industry average : 80.7%). Non-performing Loans and Leases as a percentage of total assets remained stable over the period at 0.58%, (BOJ March 2011 industry average : 3.8%).

## BALANCE SHEET

Total Assets were \$88.5 Billion, up \$8.3 Billion (or 10.3%) since December 2011. During the year we purchased a GOJ Note denominated in Euros which accounts for the increase reflected in Trading securities. This transaction is fully hedged, which accounts for the increases in asset and liability Derivative financial instruments. Our Securities portfolio increased by 4% to \$67.2 Billion, while our credit portfolio declined 4% to \$8.9 Billion, down from \$9.3 Billion at December 2011. Interest bearing liabilities now stand at \$68.9 Billion, up 4% compared to \$66.0 Billion at December 2011.

## CAPITAL

Our Capital to Asset Ratio is a healthy 13.9%, compared to 14.9% at December 2011. Our Risk-weighted Capital Ratios for the unconsolidated balance sheets of Pan Caribbean Financial Services ("Securities Dealer") and PanCaribbean Bank ("Commercial Bank") based on the regulatory guidelines reflect our strength and are as follows:

	Securities Dealer	Commercial Bank
Actual Risk-weighted Ratio	16.0%	19.8%
Required Minimum Regulatory Ratio	10.0%	10.0%

Stockholders' Equity closed the quarter at \$12.29 Billion (\$11.96 Billion at December 2011) the improvement being Comprehensive Income of \$720 Million less Ordinary Dividends amounting to \$410 Million (\$0.743 per stock unit).

## COMMUNITY CARE HIGHLIGHTS

PanCaribbean's support of local initiatives continued in Q2 through the various activities across the island. Team members lent their support through a number of Labour Day activities supporting local community projects in Montego Bay, Savanna-la-mar, Ocho Rios and Kingston. Read Across Jamaica Day saw members of our PanCaribbean team visiting community schools in Kingston, Montego Bay, Savanna-la-mar and Ocho Rios. Our support continued at St. Aloysius Primary School Boys Day, where the top boys were presented with trophies and medals and recognized in front of their peers, for their outstanding work. PanCaribbeanBank also gave its support through the sponsorship of the Jamaica 50 Poster competition and the Kingston College leg of the 'Lego Yuh Mind' Robotics workshop.

## RECOGNITION OF EXCELLENCE

Our Team Members receiving special recognition for the second quarter were Kimberley Forbes-Martin from Private Client Services, Lorice Taylor from Corporate Trust and James McNeil from Facilities and Records Management. They were recognized for their excellent team performance and individual high standards in supporting our efforts to deliver superior service throughout the organization.

## 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 Directors, who have guided the activities and direction of PanCaribbean.



Richard O. Byles  
Chairman



Donovan H. Perkins  
President & CEO

**UN-AUDITED CONSOLIDATED INCOME STATEMENT**  
 PERIOD ENDED JUNE 30, 2012

	3 MONTHS TO JUNE 2012 \$'000	3 MONTHS TO JUNE 2011 \$'000	6 MONTHS TO JUNE 2012 \$'000	6 MONTHS TO JUNE 2011 \$'000
<b>Gross Operating Revenues</b>	<b>1,788,943</b>	<b>1,752,749</b>	<b>3,658,154</b>	<b>3,602,165</b>
<b>Net interest income and other revenue</b>				
Interest income from loans	212,398	232,509	433,312	479,680
Interest income from securities	1,386,792	1,226,360	2,696,142	2,522,171
Interest income from leases	3,254	1,530	4,716	3,983
Total interest income	1,602,444	1,460,399	3,134,170	3,005,834
Interest expense	(847,187)	(785,280)	(1,626,613)	(1,574,646)
<b>Net Interest Income</b>	<b>755,257</b>	<b>675,119</b>	<b>1,507,557</b>	<b>1,431,188</b>
Fee and commission income	84,646	96,822	147,386	187,304
Net trading income	180,054	173,544	391,849	349,906
Other operating income	(78,201)	21,984	(15,251)	59,121
	186,499	292,350	523,984	596,331
<b>Operating income</b>	<b>941,756</b>	<b>967,469</b>	<b>2,031,541</b>	<b>2,027,519</b>
<b>Operating expenses</b>				
Team member costs	297,659	265,068	585,126	507,467
Provision for credit losses, net	-	15,053	135	20,223
Occupancy costs	30,869	27,643	59,263	51,082
Other operating expenses	157,885	158,171	308,036	272,065
	486,413	465,935	952,560	850,837
<b>Profit before taxation</b>	<b>455,343</b>	<b>501,534</b>	<b>1,078,981</b>	<b>1,176,682</b>
<b>Taxation</b>	<b>(126,741)</b>	<b>(90,874)</b>	<b>(298,039)</b>	<b>(262,915)</b>
<b>NET PROFIT</b>	<b>328,602</b>	<b>410,660</b>	<b>780,942</b>	<b>913,767</b>
<b>EARNINGS PER STOCK UNIT</b>				
Average stock units in issue	552,371,968	550,134,854	552,339,242	549,835,504
EPS	\$ 0.59	\$ 0.74	\$1.41	\$1.66
DILUTED EPS	\$ 0.59	\$ 0.74	\$1.40	\$1.65

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.

**UN-AUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**PERIOD ENDED JUNE 30, 2012**

	3 MONTHS TO JUNE 2012 \$'000	3 MONTHS TO JUNE 2011 \$'000	6 MONTHS TO JUNE 2012 \$'000	6 MONTHS TO JUNE 2011 \$'000
Profit for the period	328,602	410,660	780,942	913,767
Other comprehensive income for the period, net of tax:				
Unrealized gain/(loss) on available-for-sale investments	130,441	580,356	176,117	1,112,847
Loss/(Gains) reclassified and reported in profit	(165,483)	(123,670)	(237,490)	(249,653)
Other comprehensive income for the period	(35,042)	456,686	(61,373)	863,194
Total comprehensive income for the period	<u>293,560</u>	<u>867,346</u>	<u>719,569</u>	<u>1,776,961</u>

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**UN-AUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2012**

	UNAUDITED JUNE 2012 \$'000	UNAUDITED JUNE 2011 \$'000	AUDITED DECEMBER 2011 \$'000
<b>ASSETS</b>			
Cash and balances due from other financial institutions	3,591,341	1,861,738	2,227,484
Cash reserve at Bank of Jamaica	725,270	649,144	519,732
Trading securities	4,806,706	4,879	610,940
Securities purchased under agreements to resell	679,120	1,644,620	991,904
Investment securities	59,937,027	61,006,674	61,492,380
Derivative financial instruments	5,312,645	378,267	839,420
Held-to-maturity securities	1,763,061	1,697,311	1,715,800
Loans, net of provisions for credit losses	8,856,297	8,713,198	9,242,365
Lease receivables	64,994	11,969	15,515
Income tax recoverable	5,478	29,541	5,478
Due from related company	34,376	25,857	8,527
Intangible assets	43,885	46,206	47,550
Goodwill	733,750	733,750	733,750
Property, plant and equipment	156,287	150,092	168,691
Deferred tax assets	-	1,232	-
Other assets	1,758,744	1,277,141	1,584,400
<b>Total assets</b>	<b>88,468,981</b>	<b>78,231,619</b>	<b>80,203,936</b>
<b>LIABILITIES</b>			
Securities sold under agreements to repurchase	56,381,871	51,244,452	54,612,131
Customer deposits and other accounts	11,655,664	9,783,496	10,599,897
Structured products	826,443	393,823	274,913
Due to banks and other financial institutions	840,681	2,230,418	764,018
Derivative financial instruments	5,305,880	318,860	700,600
Cheques and other items in transit	70,756	85,689	52,351
Redeemable preference shares	-	615,808	-
Due to related company	33,723	3,184	-
Income tax payable	34,559	91,561	139,590
Deferred tax liabilities	531,056	823,816	525,326
Other liabilities	500,876	541,498	575,751
<b>Total liabilities</b>	<b>76,181,509</b>	<b>66,132,605</b>	<b>68,244,577</b>
<b>STOCKHOLDERS' EQUITY</b>			
Share capital	3,202,977	3,157,892	3,195,565
Capital redemption reserve	1,264,324	651,472	1,264,324
Share options reserve	59,793	60,767	51,793
Retained earnings reserve	1,536,596	1,536,596	1,536,596
Reserve fund	299,613	268,386	301,043
Loan loss reserve	252,855	195,281	249,479
Fair value reserve	872,227	1,545,638	933,600
Retained earnings	4,799,087	4,682,982	4,426,959
<b>Total stockholders' equity</b>	<b>12,287,472</b>	<b>12,099,014</b>	<b>11,959,359</b>
<b>Total liabilities and equity</b>	<b>88,468,981</b>	<b>78,231,619</b>	<b>80,203,936</b>

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.

**UN-AUDITED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**PERIOD ENDED JUNE 30, 2012**

	6 MONTHS TO JUNE 2012 \$'000	6 MONTHS TO JUNE 2011 \$'000
<b>Cash Flows from Operating Activities</b>		
Net profit	780,942	913,767
Adjustments to reconcile net profit to cash flows (used in)/provided by operating activities:		
Depreciation of property, plant and equipment	23,438	22,272
Amortization of intangible assets	11,184	22,590
Provision for credit losses	135	20,222
Interest income	(3,134,170)	(3,005,834)
Interest expense	1,626,611	1,574,645
Current tax expense	259,297	255,097
Deferred tax charge	38,742	7,820
(Gain)/loss on sale of property, plant and equipment	(134)	1
Amortization of hedging reserve	-	(8,725)
Share option expense	25,237	34,754
Unrealized gain on trading securities	(327,561)	(850)
	(696,279)	(164,241)
Changes in operating assets and liabilities	(57,512)	(2,828,029)
Taxation	(178,070)	(70,445)
Interest received	3,107,819	2,994,159
Interest paid	(1,587,234)	(1,568,292)
Net cash used in operating activities	588,724	(1,636,848)
<b>Cash Flows from Investing Activities</b>		
Acquisition of property, plant and equipment	(11,097)	(11,439)
Acquisition of intangible assets	(7,519)	(17,087)
Proceeds from disposal of property, plant and equipment	197	1
Net cash used in investing activities	(18,419)	(28,525)
<b>Cash Flows from Financing Activities</b>		
Issue of ordinary shares	7,412	3,271
Proceeds from due to banks and other financial institutes – long term	(4,810)	1,547,782
Repayment of amounts due to banks and other financial institutions – long term	(103,420)	(816,150)
Due to related parties, net	(44,477)	(10,077)
Dividends paid	(410,244)	(340,712)
Net cash used in financing activities	(555,539)	384,114
Effect of exchange rate changes on cash and cash equivalents	80,329	6,624
Increase/(Decrease) in	95,095	(1,274,635)
Cash and cash equivalents at beginning of year	2,085,495	3,870,512
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>2,180,590</b>	<b>2,595,877</b>
<b>Comprising:</b>		
Cash and balances due from other financial institutions	3,338,747	1,737,448
Investment securities & securities purchased under agreement to resell	1,035,457	3,738,259
Short term deposits held by financial institutions	(1,898,032)	(2,125,398)
Items in the course of payment	(91,582)	(85,689)
Due to banks and other financial institutions – short term	(204,000)	(668,743)
	2,180,590	2,595,877

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.

**UN-AUDITED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**  
**PERIOD ENDED JUNE 30, 2012**

	Period ended June 30, 2012								
	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, 2012	3,195,565	51,793	1,264,324	1,536,596	301,043	249,479	933,600	4,426,959	11,959,359
Comprehensive income for the period	-	-	-	-	-	-	(61,373)	780,942	719,569
Shares Issued	7,412	-	-	-	-	-	-	-	7,412
Employee share option scheme-value of service provided	-	8,000	-	-	-	-	-	-	8,000
Transfers to/from reserves	-	-	-	-	(1,430)	-	-	1,430	-
Dividends paid	-	-	-	-	-	-	-	(410,244)	(410,244)
Currency revaluation and other adjustments	-	-	-	-	-	-	-	-	-
Adjustment between regulatory loan provisioning & IFRS	-	-	-	-	-	3,376	-	-	3,376
Balance at June 30, 2012	3,202,977	59,793	1,264,324	1,536,596	299,613	252,855	872,227	4,799,087	12,287,472
	Period ended June 30, 2011								
	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, 2011	3,126,867	53,767	651,472	1,536,596	269,016	141,433	682,444	4,162,831	10,624,426
Comprehensive income for the period	-	-	-	-	-	-	863,194	913,767	1,776,961
Shares Issued	31,025	-	-	-	-	-	-	-	31,025
Employee share option scheme-value of service provided	-	7,000	-	-	-	-	-	-	7,000
Transfers to/from reserves	-	-	-	-	(630)	-	-	630	(0)
Dividends paid	-	-	-	-	-	-	-	(340,712)	(340,712)
Currency revaluation and other adjustments	-	-	-	-	-	314	-	-	314
Adjustment between regulatory loan provisioning & IFRS	-	-	-	-	-	53,534	-	(53,534)	-
Balance at June 30, 2011	3,157,892	60,767	651,472	1,536,596	268,386	195,281	1,545,638	4,682,982	12,099,014

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.



**Pan Caribbean Financial Services Limited** AND ITS SUBSIDIARIES  
**Un-audited Financial Statements**  
 Six Months ended June 30, 2012



**UN-AUDITED SEGMENT REPORT**  
 PERIOD ENDED JUNE 30, 2012

	Period ended June 30, 2012						Group \$'000
	Treasury Management \$'000	Corporate & Retail Credit \$'000	Asset Management \$'000	Trading \$'000	Corporate Trust \$'000	Eliminations \$'000	
Gross external revenues	2,477,977	454,379	48,606	653,197	23,995	-	3,658,154
Revenues/(expenses) from other segments	11,522	-	-	-	-	(11,522)	-
Total gross revenues	2,489,499	454,379	48,606	653,197	23,995	(11,522)	3,658,154
Total expenses	(2,046,151)	(389,557)	(50,391)	(68,643)	(35,953)	11,522	(2,579,173)
Segment results	443,348	64,822	(1,785)	584,554	(11,958)	-	1,078,981
Income tax expense							(298,039)
Net profit							780,942
Assets	67,691,854	8,921,291	-	4,806,706	-	-	81,419,851
Goodwill	443,992	75,417	54,604	152,437	7,300	-	733,750
Segment Assets	68,135,846	8,996,708	54,604	4,959,143	7,300	-	82,153,601
Unallocated assets							6,315,380
<b>Total Assets</b>							<b>88,468,981</b>
Segment liabilities	74,169,857	840,681	-	-	-	-	75,010,538
Unallocated liabilities							1,170,971
<b>Total Liabilities</b>							<b>76,181,509</b>
Other Segment items							
Net interest income	1,268,249	239,308	-	-	-	-	1,507,557
Capital expenditure	5,133	13,483	-	-	-	-	18,616
Depreciation	17,671	5,767	-	-	-	-	23,438
Amortization charges	5,637	5,547	-	-	-	-	11,184

  

	Period ended June 30, 2011						Group \$'000
	Treasury Management \$'000	Corporate & Retail Credit \$'000	Asset Management \$'000	Trading \$'000	Corporate Trust \$'000	Eliminations \$'000	
Gross external revenues	2,588,193	497,435	131,445	363,701	21,391	-	3,602,165
Revenues/ (expenses) from other segments	8,319	-	-	-	-	(8,319)	-
Total gross revenues	2,596,512	497,435	131,445	363,701	21,391	(8,319)	3,602,165
Total expenses	(1,839,904)	(451,264)	(50,082)	(64,327)	(28,225)	8,319	(2,425,483)
Segment results	756,608	46,171	81,363	299,374	(6,834)	-	1,176,682
Income tax expense							(262,915)
Net profit							913,767
Assets	64,731,752	8,725,168	-	-	-	-	73,456,920
Goodwill	443,992	75,417	54,604	152,437	7,300	-	733,750
Segment Assets	65,175,744	8,800,585	54,604	152,437	7,300	-	74,190,670
Unallocated assets							4,040,949
<b>Total Assets</b>							<b>78,231,619</b>
Segment liabilities	62,356,440	2,230,418	-	-	-	-	64,586,858
Unallocated liabilities							1,545,747
<b>Total Liabilities</b>							<b>66,132,605</b>
Other segment items							
Net interest income	1,205,006	226,182	-	-	-	-	1,431,188
Capital expenditure	11,132	17,394	-	-	-	-	28,526
Depreciation	13,863	8,409	-	-	-	-	22,272
Amortization charges	3,041	19,549	-	-	-	-	22,590

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