

Sagicor Investments Jamaica Ltd.

AND ITS SUBSIDIARIES

(Formerly Pan Caribbean Financial Services Ltd.)

Audited Financial Statements

Year ended 31 December 2012



Sagicor

INVESTMENTS

2012 FINANCIAL HIGHLIGHTS

- **Ordinary Dividends paid of \$725M (\$1.313 per share), compared to \$705 Million (\$1.28 per share) in prior year**
- **Net Income of \$1.45 Billion, compared to \$1.72 Billion in prior year**
- **Earnings per Share of \$2.63, compared to \$3.12 in prior year**
- **Return on Opening Equity of 12.1%, compared to 16.2% in prior year**
- **Return on Assets of 1.6%, compared to 2.1% in prior year**
- **Capital to Assets Ratio of 13.6%, compared to 14.9% in prior year**

REVENUES

Net Interest income increased 3% to \$3.02 Billion, up \$77 Million over 2011 influenced primarily by balance sheet growth. Our net interest margin was stable at 4.0%.

Non-interest income grew 2% from \$1,081 Million in 2011 to \$1,099 Million in 2012. Gains from Fixed Income trading, Currency Trading and FX Translation all improved over 2011. Fees driven by our Asset Management activities, Stock Brokerage, Trust and Service-related fee income also increased over the prior year. However, Equity Trading and Credit-related Fees declined in 2012.

The Directors of Sagicor Investments report consolidated Net Income of \$1.45 Billion for the year ended 31 December 2012, compared to \$1.72 Billion reported in the prior year. Earnings per share were \$2.63, compared to \$3.12 in prior year.

In October 2012, the company sought and received approval from its shareholders to change the name of the company from Pan Caribbean Financial Services Limited to Sagicor Investments Jamaica Limited. During December 2012, the company completed its re-branding from “PanCaribbean” to “Sagicor”. The reaction to the re-branding has been very favourable.

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OPERATING EXPENSE

Operating costs increased 22% to \$2,081 Million, compared to \$1,712 Million for the prior year. Team Member costs rose 12% as a result of a job evaluation and reclassification exercise, annual salary adjustments and incentives. Our Impairment charges reflect a charge of \$17M compared to a credit in the prior year of \$29 Million. Occupancy costs increased 20% from \$127 Million to \$151 Million influenced by costs associated with the relocation of our Montego Bay and Ocho Rios branches, and contractual increases as well as higher energy-related costs. Other Expenses jumped \$181 Million to \$792 Million largely due to an increase in the Asset Tax imposed for regulated financial companies amounting to \$110 Million, costs of \$65 Million associated with the re-branding to “Sagicor” (excluding capital expenditure of \$10 Million) and higher technology costs.

Our Operating Efficiency Ratio (Operating Expense / Operating Income) now stand at 50.6% compared to 42.6% in 2011 as Operating Expenses grew faster than Operating Income as earlier disclosed.

Our Asset Efficiency ratio (Income Assets / Expense Liabilities) was relatively stable at 110% compared to 111% in 2011.

LOAN QUALITY

At year-end, non-performing loans were \$548 Million or 5.7% of the portfolio (BOJ Industry average : 7.1%) versus 4.7% in 2011. Loan Provisions were 90% of non-performing loan assets at year-end (BOJ Industry average : 90%). Non-performing loans as a percentage of total assets was 0.6% (BOJ Industry average : 3.3%), stable compared to 0.6% in 2011.

BALANCE SHEET & CAPITAL

Total Assets at year-end were \$88.2 Billion, up 10%. Our investment portfolio increased by 8% while Loans and Leases grew by 1% to \$70.9 Billion and \$9.4 Billion respectively.

Stockholders' Equity increased \$64 Million or 1% to \$12.0 Billion at the end of 2012. This improvement was the result of net of after-tax profits of \$1.45 Billion reported less dividends of \$725 Million and un-realized losses in our available-for-sale securities portfolio of \$363 Million, and gains of \$277 Million realized from investment securities sold.

Our Capital to Assets Ratio remains healthy at 14%. Our Risk-weighted Capital Ratios for the Un-consolidated balance sheets of Sagicor Investments (“Securities Dealer”) and Sagicor Bank (“Commercial Bank”) based on the regulatory guidelines reflect our strength and are as follows: Securities Dealer Risk-weighted Capital Ratio 17.2%. Commercial Bank Risk-weighted Capital Ratio 21.2%. The Minimum Regulatory Capital Ratio is 10.0%.

BUILDING OUR COMMUNITY

In 2012, Jamaica celebrated its 50th year of Independence and we remained an active, committed corporate Citizen seeking to improve the lives of our people through our Health, Education and Sports initiatives.

Our Sigma Corporate Run in support of Chain of Hope Jamaica's Cardiac programme at the Bustamante Hospital for Children raised \$33.1 Million to support the construction and equipping a new 10-bed

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Intensive Care facility at the Hospital. Through the help of our partners - Digicel, Sagicor Life Jamaica, the National Health Fund, National Bakery and Reggae Marathon, and our distinguished patrons - Her Excellency the Most Hon. Lady Patricia Allen, the Hon. R. Danny Williams and the Hon. Usain St Leo Bolt - along with other donors and well-wishers collectively contributed to the success of the event. We were elated that a record of well over 16,000 persons under the theme "Play your part, save a heart" participated to help our kids in Jamaica and across the region.

For Jamaica 50 we rallied our Sagicor Team spirit and we proudly celebrated the Independence of our nation. We respectfully hosted our own flag raising ceremony, supported the Jamaica 50 Village and JDF's Tattoo, and contributed to the Consie Walters Cancer Care facility.

Our Group seeks to foster a culture of volunteerism and charity and through these efforts we support a number of causes including Best Care Lodge and other charities.

RECOGNITION OF EXCELLENCE

Sagicor Investments was recognized at the Jamaica Stock Exchange's (JSE) Best Practices Awards. We did exceptionally well placing first in three of the five categories - JSE Member Dealer Revenue Generation & Marketing; Member Dealer Investor Relations; Best Practice Annual Report. We placed second for the Best Practice Corporate Disclosure & Investor Relations, and third place for the PSOJ Corporate Governance Award. These awards determined by external judges reflect the high standards we have achieved.

During the year, we also recognized individual Team Members for their outstanding performance.

First Quarter - Alicia Taylor from our Mandeville Branch, Rockoney Thomas from Group Business Support and Jessica Wilson from our Information Technology Division

Second Quarter - Kimberley Forbes-Martin from Private Client Services, Lorice Taylor from Corporate Trust and James McNeil from Facilities & Records Management.

Third Quarter - Davene Rowe from Group HR and Carmeta Demetrius from our Mandeville Branch.

Fourth Quarter - Nicole Silvera from Private Client Services, Tanesha McLean from Business Support, and Andrea Chung from our Project Management Office.

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SUBSEQUENT EVENT

In February 2013 the Government of Jamaica (GOJ) announced a public invitation to participate in its National Debt Exchange (NDX) programme with respect to specific domestic debt instruments outstanding. The NDX involves the exchange of the majority of the GOJ's existing domestic debt instruments for new debt instruments with longer maturities and lower rates. The Group has agreed to participate in the programme.

The par value of J\$29.88 Billion and US\$77.46 Million were exchanged. The average interest rate is expected to decrease by 0.7% on the J\$ securities exchanged and by 1.8% on the US\$ securities exchanged. The duration is expected to increase by 0.8 years on the J\$ portfolio and by 4.3 years on the US\$ portfolio. The duration is determined using the maturity date for fixed rate instruments and the re-pricing date for variable rate instruments.

The financial impact of the exchange on Stockholders' Equity is dependent on how the market prices the new notes. Assuming the fair value of the new notes is at par, the impact on Stockholders' Equity would be a reduction of less than 5%.

With interest rates declining, the market is expected to reduce liability rates costs and we expect that mortgage and lending rates will likely follow this trend.

OUR THANKS

We thank our Directors, Team Members and most importantly, our customers who contribute to our success through their continuing business relationships with us as well as their valued referrals. Our business continues to benefit from an excellent team, focused on maintaining and improving our service standards. This remains a key success factor despite the challenging environment now faced by our industry.

A handwritten signature in black ink, appearing to read 'Richard O. Byles'.

Richard O. Byles
Chairman

A handwritten signature in black ink, appearing to read 'Donovan H. Perkins'.

Donovan H. Perkins
President & CEO

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Consolidated Income Statement

Year ended 31 December 2012

(Expressed in Jamaican dollars unless otherwise indicated)

	Note	2012 \$'000	2011 \$'000
Net Interest Income and Other Revenue			
Interest income from securities		5,401,488	5,136,317
Interest income from loans and leases		895,901	992,666
Other interest income		4,067	1,097
Total interest income		6,301,456	6,130,080
Interest expense	6	(3,284,422)	(3,189,990)
Net interest income		3,017,034	2,940,090
Fees and commission income	7	332,830	392,434
Net trading income	8	715,615	656,285
Other revenue	9	50,905	32,475
		1,099,350	1,081,194
		4,116,384	4,021,284
Operating Expenses			
Team member costs	10	1,121,711	1,003,253
Impairment charges/(reversals)	11	16,658	(28,773)
Occupancy costs		151,234	126,522
Other expenses	12	791,648	610,980
		2,081,251	1,711,982
Profit before Taxation		2,035,133	2,309,302
Taxation	13	(582,457)	(588,646)
Net Profit	14	1,452,676	1,720,656
EARNINGS PER STOCK UNIT			
Basic	16	\$2.63	\$3.12
Diluted	16	\$2.61	\$3.09

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INVESTMENTS

Consolidated Statement of Comprehensive Income

Year ended 31 December 2012

(Expressed in Jamaican dollars unless otherwise indicated)

	2012	2011
	\$'000	\$'000
Net Profit	<u>1,452,676</u>	<u>1,720,656</u>
Other comprehensive income -		
Available-for-sale investments -		
Unrealised (losses)/gains on available-for-sale investments	(362,835)	649,908
Gains reclassified and reported in profit	<u>(277,503)</u>	<u>(390,990)</u>
	<u>(640,338)</u>	<u>258,918</u>
Cash flow hedge -		
Gains reclassified and reported in profit	<u>(39,897)</u>	<u>(7,762)</u>
Total other comprehensive income, net of taxes	<u>(680,235)</u>	<u>251,156</u>
Total Comprehensive Income	<u><u>772,441</u></u>	<u><u>1,971,812</u></u>

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Consolidated Statement of Financial Position

31 December 2012

(Expressed in Jamaican dollars unless otherwise indicated)

	Note	2012 \$'000	2011 \$'000
ASSETS			
Cash and balances due from other financial institutions	17	4,085,785	2,227,484
Cash reserve at Bank of Jamaica	18	735,494	519,732
Trading securities	19	4,495,432	610,940
Securities purchased under agreements to resell	20	1,783,514	991,904
Investment securities	21	56,464,666	55,377,164
Derivative financial instruments	22	4,253,104	839,420
Loans, net of provision for credit losses	24	9,330,364	9,242,365
Lease receivables	25	59,159	15,515
Pledged assets	26	3,943,434	7,831,016
Due from related companies		48,496	8,527
Income tax recoverable		5,478	5,478
Intangible assets	28	807,576	781,300
Property, plant and equipment	29	309,739	168,691
Post-employment benefit assets	30	35,729	28,473
Other assets	31	1,876,214	1,555,927
		<u>88,234,184</u>	<u>80,203,936</u>

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Consolidated Statement of Financial Position (Continued)

31 December 2012

(Expressed in Jamaican dollars unless otherwise indicated)

	Note	2012 \$'000	2011 \$'000
LIABILITIES			
Securities sold under agreements to repurchase		57,595,878	54,612,131
Customer deposits and other accounts		11,215,194	10,599,897
Structured products	32	854,100	274,913
Due to banks and other financial institutions	33	468,746	764,018
Derivative financial instruments	22	4,310,566	700,600
Due to related companies		105,512	52,351
Income tax payable		108,418	139,590
Deferred income tax liabilities	34	176,379	525,326
Post-employment benefit obligations	30	58,035	52,602
Other liabilities	35	1,317,871	523,149
		<u>76,210,699</u>	<u>68,244,577</u>
STOCKHOLDERS' EQUITY			
Share capital	36	3,195,565	3,195,565
Stock options reserve	37	58,089	51,793
Retained earnings reserve	38	2,036,596	1,536,596
Reserve fund	39	299,613	301,043
Loan loss reserve	40	251,733	249,479
Capital redemption reserve	41	1,264,324	1,264,324
Fair value reserve	42	253,365	933,600
Retained earnings	15	4,664,200	4,426,959
		<u>12,023,485</u>	<u>11,959,359</u>
		<u>88,234,184</u>	<u>80,203,936</u>

Approved for issue by the Board of Directors on 27 February 2013 and signed on its behalf by:

Richard O. Byles

Director

Donovan H. Perkins

Director

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Consolidated Statement of Changes in Stockholders' Equity Year ended 31 December 2012 (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
Balance at 1 January 2011		3,126,867	53,767	1,536,596	269,016	141,433	651,472	682,444	4,162,831	10,624,426
Net profit		-	-	-	-	-	-	-	1,720,656	1,720,656
Other comprehensive income		-	-	-	-	-	-	251,156	-	251,156
Total comprehensive income for 2011		-	-	-	-	-	-	251,156	1,720,656	1,971,812
Issue of ordinary stock units	36	46,236	-	-	-	-	-	-	-	46,236
Transfer of exercised options		22,462	(22,462)	-	-	-	-	-	-	-
Employee stock option scheme	37	-	20,488	-	-	-	-	-	-	20,488
Transfers to/(from) reserves	39,41	-	-	-	32,027	-	612,852	-	(644,879)	-
Currency revaluation and other adjustments		-	-	-	-	1,281	-	-	-	1,281
Adjustment between regulatory loan provisioning and IFRS	40	-	-	-	-	106,765	-	-	(106,765)	-
Dividends	43	-	-	-	-	-	-	-	(704,884)	(704,884)
Balance at 31 December 2011		3,195,565	51,793	1,536,596	301,043	249,479	1,264,324	933,600	4,426,959	11,959,359
Net profit		-	-	-	-	-	-	-	1,452,676	1,452,676
Other comprehensive income		-	-	-	-	-	-	(680,235)	-	(680,235)
Total comprehensive income for 2012		-	-	-	-	-	-	(680,235)	1,452,676	772,441
Employee stock option scheme	37	-	6,296	-	-	-	-	-	-	6,296
Transfers to/(from) reserves	38,39	-	-	500,000	(1,430)	-	-	-	(498,570)	-
Currency revaluation and other adjustments		-	-	-	-	10,356	-	-	-	10,356
Adjustment between regulatory loan provisioning and IFRS	40	-	-	-	-	(8,102)	-	-	8,102	-
Dividends	43	-	-	-	-	-	-	-	(724,967)	(724,967)
Balance at 31 December 2012		3,195,565	58,089	2,036,596	299,613	251,733	1,264,324	253,365	4,664,200	12,023,485

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Consolidated Statement of Cash Flows

Year ended 31 December 2012

(Expressed in Jamaican dollars unless otherwise indicated)

	Note	2012 \$'000	2011 \$'000
Cash Flows from Operating Activities			
Net profit		1,452,676	1,720,656
Adjustments for:			
Interest income		(6,301,456)	(6,130,080)
Interest expense	6	3,284,422	3,189,990
Income tax charge	13	582,457	588,646
Fair value (gains)/loss on trading securities		(208,192)	603
Impairment charges	11	16,658	(4,098)
Amortisation of premiums/discounts		(5,953)	(144,635)
Amortisation of intangible assets	28	27,133	40,373
Depreciation of property, plant and equipment	29	50,410	44,586
Gain on sale of property, plant and equipment		(149)	(141)
Amortisation of hedging reserve		(59,846)	(11,643)
Changes in post-employment benefits and pension recharge		(1,823)	(13,739)
Stock options and grants expense		6,295	64,242
Foreign exchange gains on foreign assets and liabilities		(415,431)	(10,792)
		<u>(1,572,799)</u>	<u>(666,032)</u>
Changes in operating assets and liabilities -			
Statutory reserves at Bank of Jamaica		(207,119)	(59,087)
Trading securities		(3,536,483)	(561,918)
Securities purchased under agreements to resell		(301,853)	72,410
Investment securities		3,014,111	(7,540,449)
Derivative financial instruments		173,056	(6,403)
Loans		518,959	292,028
Lease receivables		(46,532)	3,501
Securities sold under agreements to repurchase		(749,354)	4,593,071
Structured products		611,125	(212,692)
Customer deposits and other accounts		95,031	1,532,397
Other assets		(550,014)	(808,286)
Other liabilities		823,939	125,426
		<u>(1,727,933)</u>	<u>(3,236,034)</u>
Interest received		6,310,770	6,207,840
Interest paid		(3,184,400)	(3,175,499)
Taxation		<u>(385,917)</u>	<u>(165,538)</u>
Net cash provided by/(used in) operating activities		<u>1,012,520</u>	<u>(369,231)</u>

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Consolidated Statement of Cash Flows (Continued)

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	Note	2012 \$'000	2011 \$'000
Cash Flows from Operating Activities		1,012,520	(369,231)
Cash Flows from Investing Activities			
Purchase of intangible assets	28	(53,409)	(36,215)
Purchase of property, plant and equipment		(191,521)	(51,000)
Proceeds from disposal of property, plant and equipment		212	141
Net cash used in investing activities		(244,718)	(87,074)
Cash Flows from Financing Activities			
Proceeds from issue of ordinary stock units	37	-	18,483
Redemption of redeemable preference shares		-	(612,852)
Borrowings from banks and other financial institutions – long term		93,108	183,147
Repayment of amounts due to banks and other financial institutions – long term		(360,498)	(258,389)
Due from related parties		13,193	56,420
Dividends paid	43	(724,967)	(704,884)
Net cash used in financing activities		(979,164)	(1,318,075)
Effect of exchange rate changes on cash and cash equivalents		249,366	(10,637)
Net increase/(decrease) in cash and cash equivalents		38,004	(1,785,017)
Cash and cash equivalents at beginning of year		2,085,495	3,870,512
CASH AND CASH EQUIVALENTS AT END OF YEAR	23	<u>2,123,499</u>	<u>2,085,495</u>