PAN CARIBBEAN FINANCIAL SERVICES LIMITED

and its subsidiaries

Audited Financial Statements for the year ending December 31, 2004

Pan Caribbean reported Net Income of $842 Million (EPS = $1.84) for the 12-month period ended 31 December 2004, a 146% increase over the prior year's results of $342 Million (EPS = $1.34). Our 2004 results include 10 months of the operations of Manufacturers Investments Limited (MIL) that merged with Pan Caribbean effective March 1, 2004, and 5 months of the Lets Investments Limited (LIL) portfolio that was acquired effective August 1, 2004.

The positive impact of MIL and LIL along with improving net interest margins and realized trading gains from a larger portfolio were the primary profit catalysts. Non-interest income rose 105% to $479 Million, driven primarily by securities and foreign exchange trading activities, and asset management fees. FX translation gains declined from $125 Million to $14 Million in 2004.

Operating Expenses climbed 270% during the year primarily as a result of the acquisition of MIL and LIL and have resulted in:

1. Island-wide branch operations and significantly increased staffing.
2. New premises to accommodate staff and growth.
3. Installation of upgraded software and new systems.
4. Higher marketing expenditure to promote and build our "Pan Caribbean" brand.
5. One-time merger-related expenses of $26 Million.
6. Goodwill amortization of $44 Million.

The Taxation charges have changed substantially between the 2003 and 2004's results. With the adoption of IFRS, our financial statements now recognize Deferred Tax Assets. A significant portion of this deferred asset results from the capitalization of expected future benefits to be derived from tax losses carried forward in the MIL group. With the substantial increase in the profitability of our operations, we have utilized some of the Deferred Tax Assets that were capitalized. Of the $306 Million in Taxation reported in our 2004 results, $176 Million was attributed to non-cash deferred taxation charges.

The consolidated balance sheet reflects a $22 Billion growth in assets to $40 Billion, a 119% increase. Credit quality has improved as non-performing loans account for 0.5% of assets versus 1% in 2003 and 6% of the credit portfolio compared to 20% in 2003. Non-performing loans have been fully provided for as required by our regulators. Trust and Custody accounts held on behalf of clients amounting to $17 Billion also generate fee income.

The balance sheet now reflects $760 Million of Goodwill, capturing the excess of the consideration over the net assets acquired from MIL and LIL in exchange for PCFS shares. PCFS is required to reflect the value of the transactions at the date of the issuance of its shares, not when PCFS entered into legally binding agreements. Typically, there has been a lag between when transactions have been publicly disclosed and when final regulatory approvals are received. Consideration for these transactions was settled by the issuance of PCFS shares and the price of our shares appreciated between the date of the agreement and the actual issue date when regulatory approvals were received. The Goodwill account has been impacted as the price of the PCFS shares increased steadily since the announcement of our merger and acquisition transactions involving MIL and LIL. PCFS' Equity has strengthened substantially to $5.2 Billion at year-end.

In December 2004, Pan Caribbean became a seat holder of the Jamaica Stock Exchange. We are presently upgrading our infrastructure to allow us to offer this service to customers.

As a significant subsequent event, in January 2005, Life of Jamaica Limited acquired an additional 43% of PCFS, increasing its holding to 51%.

Our focus remains concentrated on completing operational, technology and training projects intended to improve efficiencies and service standards scheduled for completion during 2005.

We take this opportunity to thank our clients, our business partners, our shareholders and the regulatory authorities who continue to express confidence in our ability to build and manage a first-class Caribbean financial institution. We are especially grateful to our management and staff who worked diligently during 2004 on getting the job done while supporting the many projects necessary to create and even stronger Pan Caribbean

Richard 0. Byles
Chairman

Donovan H. Perkins
President & CEO

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Consolidated Profit and Loss Account

Year ended 31 December 2004

	2004 **$'000**	**2003** **$'000**
Net Interest Income and Other Revenue		
Interest income from loans	421,805	139,139
Interest income from securities	4,827,456	2,648,551
Interest income from leases	11,444	8,571
Other interest income	13,759	4,675

Total interest income	5,274,464	2,800,936
Interest expense	(3,959,419)	(2,522,358)
Net interest income	1,315,045	278,578
Fees and commission income	128,532	33,248
Net trading income	245,161	196,679
Other operating income	105,078	3,690
	1,793,816	512,195
Operating Expenses		
Staff costs	291,278	92,785
Provision for credit losses, net	(6,268)	(41,994)
Occupancy costs	89,601	27,950
Other operating expenses	271,948	95,841
	646,559	174,582
Profit before taxation	1,147,257	337,613
Taxation	(305,565)	4,557
Net Profit	841,692	342,170
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BASIC EARNINGS PER STOCK UNIT	$1.84	$1.34
DILUTED EARNINGS PER STOCK UNIT	$1.82	$1.34

Consolidated Balance Sheet

31 December 2004

	2004	**2003**
	$'000	**$'000**
ASSETS		
Cash and balances due from other financial institutions	774,874	143,497
Cash reserve at Bank of Jamaica	85,742	16,941
Trading securities	1,540	487,398
Securities purchased under agreements to resell	6,272,348	6,513,511
Loans, net of provision for credit losses	3,738,719	1,116,346
Lease receivables	38,128	26,150
Investment securities	26,375,331	8,499,378
Income tax recoverable	5,050	4,873
Due from related company	44,101	17,557
Intangible assets	25,961	14,097
Goodwill	760,010	-
Property, plant and equipment	90,877	39,969
Deferred tax assets	86,033	18,595
Retirement benefit asset	14,073	4,039
Other assets	1,664,713	1,372,507
Customers' liabilities under guarantees	201,129	63,433
	40,178,629	18,338,291

LIABILITIES		
Due to banks and other financial institutions	1,490,134	1,219,816
Customer deposits	3,422,977	724,892
Securities sold under agreements to repurchase	28,407,024	13,718,164
Income tax payable	130,909	-
Other liabilities	849,763	1,104,567
Due to related companies	456,081	-
Retirement benefits obligations	3,365	2,882
Liability on guarantees	201,129	63,433
Total liabilities	34,961,382	16,833,754
STOCKHOLDERS' EQUITY		
Share capital	514,308	255,661
Share premium	2,444,657	-
Unissued fully paid up shares	21,683	-
Retained earnings reserve	172,000	172,000
Reserve fund	86,443	64,000
Loan loss reserve	159,273	136,634
Capital reserve on consolidation	111,397	111,397
Fair value reserve	188,538	42,507
Retained earnings	1,518,948	722,338
	5,217,247	1,504,537
Total equity and liabilities	40,178,629	18,338,291

Consolidated Statement of Cash Flows

Year ended 31 December 2004

	2004 **$'000**	**2003** **$'000**
Cash Flows from Operating Activities		
Net profit	841,692	342,170
Adjustments to reconcile net profit to cash flow provided by operating activities:		
Depreciation of property, plant and equipment	22,594	4,763
Amortisation of intangible assets	9,778	1,658
Amortisation of goodwill	43,773	-
Provision for credit losses	(6,268)	(41,994)
Interest income	(5,274,464)	(2,800,936)
Interest expense	3,959,419	2,522,358
Income tax expense	129,465	495
Changes in retirement benefit asset/liability	(9,551)	1,293
Deferred tax credit	176,100	(5,052)
Loss on sale of property, plant and equipment	2,279	731
Unrealised gain on trading securities	(26,918)	(27,004)

	(132,101)	(1,518)
Changes in operating assets and liabilities:		
Statutory reserves at Bank of Jamaica	(20,377)	(5,886)
Loans	269,305	138,904
Leases	25,766	22,885
Customers deposits	154,226	213,284
Securities purchased under agreement to resell	3,599,485	(2,226,340)
Repurchase agreements	(6,122,406)	3,286,886
Trading securities, net	538,384	(401,010)
Other assets, net	562,958	7,185
Other liabilities, net	(931,190)	(93,744)
	(2,055,950)	940,646
Interest received	5,328,324	1,962,273
Interest paid	(4,343,583)	(1,674,976)
Net cash (used in)/provided by operating activities	(1,071,209)	1,227,943
Cash Flows from Investing Activities		
Issue of shares'	66,000	-
Acquisition of property, plant and equipment	(42,062)	(11,980)
Acquisition of intangible asset, net of grants received	(21,631)	(3,481)
Proceeds from disposal of property, plant and equipment	2,990	738
Investment in Lets Investments Limited portfolio	(165,000)	-
Acquisition of investment securities, net	(5,086,852)	(1,044,984)
Net cash used in investing activities	(5,246,555)	(1,059,707)
Cash Flows from Operating and Investing Activities	(6,317,764)	168,236
Cash Flows from Financing Activities		
Due to banks and other financial institutions - long term	83,143	38,960
Due to related parties, net	440,682	(22,029)
Dividends paid	-	(44,230)
Net cash provided by/(used in) financing activities	523,825	(27,299)
Effect of exchange rate changes on cash and cash equivalents	22,776	(18,189)
Net increase in cash and cash equivalents	(5,771,163)	122,748
Cash and cash equivalents at beginning of year	361,156	238,408
Cash and cash equivalents transferred from MIL	7,327,611	-
Cash and cash equivalents transferred from Lets Investments	8,582	-
CASH AND CASH EQUIVALENTS AT END OF YEAR	1,926,186	361,156
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Comprising:		
Cash and balances due from other banks	774,874	143,497
Investment securities	1,320,610	223,437
Due to banks and other financial institutions - short term	(169,298)	(5,778)
	1,926,186	361,156
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Consolidated Statement of Changes in Stockholders' Equity

Year ended 31 December 2004

	Share Capital $'000	Share Premium $'000	Unissued Fully Paid Up Shares $'000	Retained Earnings Reserve $'000	Reserve Fund $'000	Dividend Proposed $'000	Retained Earnings $'000	Other Reserves $'000	Total $'000
Balance at 1 January 2003	255,661	-	-	172,000	44,000	24,288	432,196	153,836	1,081,981
Unrealised gains on available for sale investments - net of taxes	-	-	-	-	-	-	-	124,616	124,616
Net Profit	-	-	-	-		-	342,170	-	342,170
Adjustment between regulatory loan provisioning and IFRS	-	-	-	-	-	-	(12,086)	12,086	-
Transfer to reserve fund	-	-	-	-	20,000	-	(20,000)	-	-
Dividends paid	-	-	-	-	-	(24,288)	(19,942)	-	(44,230)
Balance at 31 December 2003	255,661	-	-	172,000	64,000	-	722,338	290,538	1,504,537
Shares issued	258,647	2,444,657	21,683	-	-	-	-	-	2,724,987
Unrealised gains on available-for-sale investments, net of taxes	-	-	-	-	-	-	-	146,031	146,031
Adjustment between regulatory loan provisioning and IFRS	-	-	-	-	-	-	(22,639)	22,639	-
Net profit	-	-	-	-	-	-	841,692	-	841,692
Transfer to reserve fund	-	-	-	-	22,443	-	(22,443)	-	-
Balance at 31 December 2004	514,308	2,444,657	21,683	172,000	86,443	-	1,518,948	459,208	5,217,247

Summary of Significant Accounting Policies

(a) Basis of preparation
These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), and have been prepared under the historical cost convention as modified by the revaluation of available- for-sale investment securities, investment securities held for trading and derivative contracts.

(b) Consolidation
The consolidated financial statements comprise those of the Bank and its subsidiaries presented as a single economic entity. Intra-group transactions, balances and unrealized gains and losses are eliminated in preparing the consolidated financial statements.

(c) Investments
Investments are classified into the following three categories: trading securities, originated debt securities and available-for-sale securities. Management determines the appropriate classification of investments at the time of purchase.

(d) Loans and allowance for impairment losses

Loans are recognised when cash is advanced to borrowers. They are initially recorded at cost, which is the cash given to originate the loan including any transaction costs, and are subsequently measured at amortised cost.

A provision for credit losses is established if there is objective evidence that a loan is impaired. A loan is considered impaired when management determines that it is probable that all amounts due according to the original contractual terms will not be collected. When a loan has been identified as impaired, the carrying amount of the loan is reduced by recording specific provisions for credit losses to its estimated recoverable amount.

Statutory and other regulatory loan loss reserve requirements that are different from these amounts are dealt with in a non-distributable loan loss reserve as an adjustment to retained earnings.

(e) Goodwill
Goodwill arising on the acquisition of investment portfolios is calculated as the amount by which the consideration paid and other related expenses exceed the fair value of the net identifiable assets acquired. Goodwill is amortised on the straight-line basis over its remaining useful life.

(f) Property, plant and equipment
All property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Property, plant and equipment are reviewed periodically for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

(g) Borrowings
Borrowings are recognized initially at cost, being their issue proceeds, net of transaction costs incurred. Subsequently, borrowings are stated at amortised cost and any difference between net proceeds and the redemption value is recognized in the profit and loss account over the period of the borrowings using the effective yield method.

(h) Employee benefits

(i) Pension asset

The company participates in a defined contribution pension scheme and the subsidiary is one of a number of participating employers in a defined benefit plan, the assets of which are held in separate trustee-administered funds. The plans are funded by payments from employees and the companies, taking into account the recommendations of independent qualified actuaries.

The asset or liability in respect of the defined benefit plan is the difference between the present value of the defined benefit obligation at the balance sheet date and the fair value of plan assets, adjusted for unrecognized actuarial gains/losses and past service cost.

The pension costs are assessed using the projected unit credit method so as to spread the regular cost over the service lives of the employees in accordance with the advice of the actuaries, who carry out a full valuation of the plans every year.

The pension obligation is measured at the present value of the estimated future cash outflows using discount estimated rates based on market yields on government securities which have terms to maturity approximating the terms of the related liability.

Actuarial gains and losses are recognized in the profit and loss account over the average remaining service lives of participating employees.

(ii) Other post-retirement obligations
The subsidiary provides post-retirement health card benefits to their retirees. The entitlement for these benefits is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expect costs of these benefits are accrued over the period of employment, using a methodology similar to that for defined benefit pension plans. Independent qualified actuaries carry out valuations of these obligations annually.

(iii) Share options
Share options are granted to eligible employees. The cost of this benefit is recorded in staff costs in the profit and loss account.

(i) Deferred income taxes
Deferred tax liabilities are recognized for temporary differences between the carrying amounts of assets and liabilities and the amounts as measured for tax purposes, which will result in taxable amounts in future periods. Deferred tax assets are recognize for temporary differences which will result in deductible amounts in future periods, but only to the extent it is probable that sufficient taxable profits will be available against which these differences can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset will be realized or the liability will be settled based on enacted rates.

Current and deferred tax assets and liabilities are offset when they arise from the same taxable entity, relate to the same tax authority and when the legal right of offset exists.

Current and deferred taxes are recognized as income tax expense or benefit in the profit and loss account except, where they relate to items recorded in stockholders' equity, they are also charged or credited to stockholders' equity.

(j) Provisions
Provisions are recognized when there is a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

(k) Fiduciary activities
Assets and income arising thereon together with related undertakings to return such assets

to customers are excluded from these financial statements where the Bank or its subsidiaries act in a fiduciary capacity such as nominee, trustee or agent.

(l) Comparative information

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year.