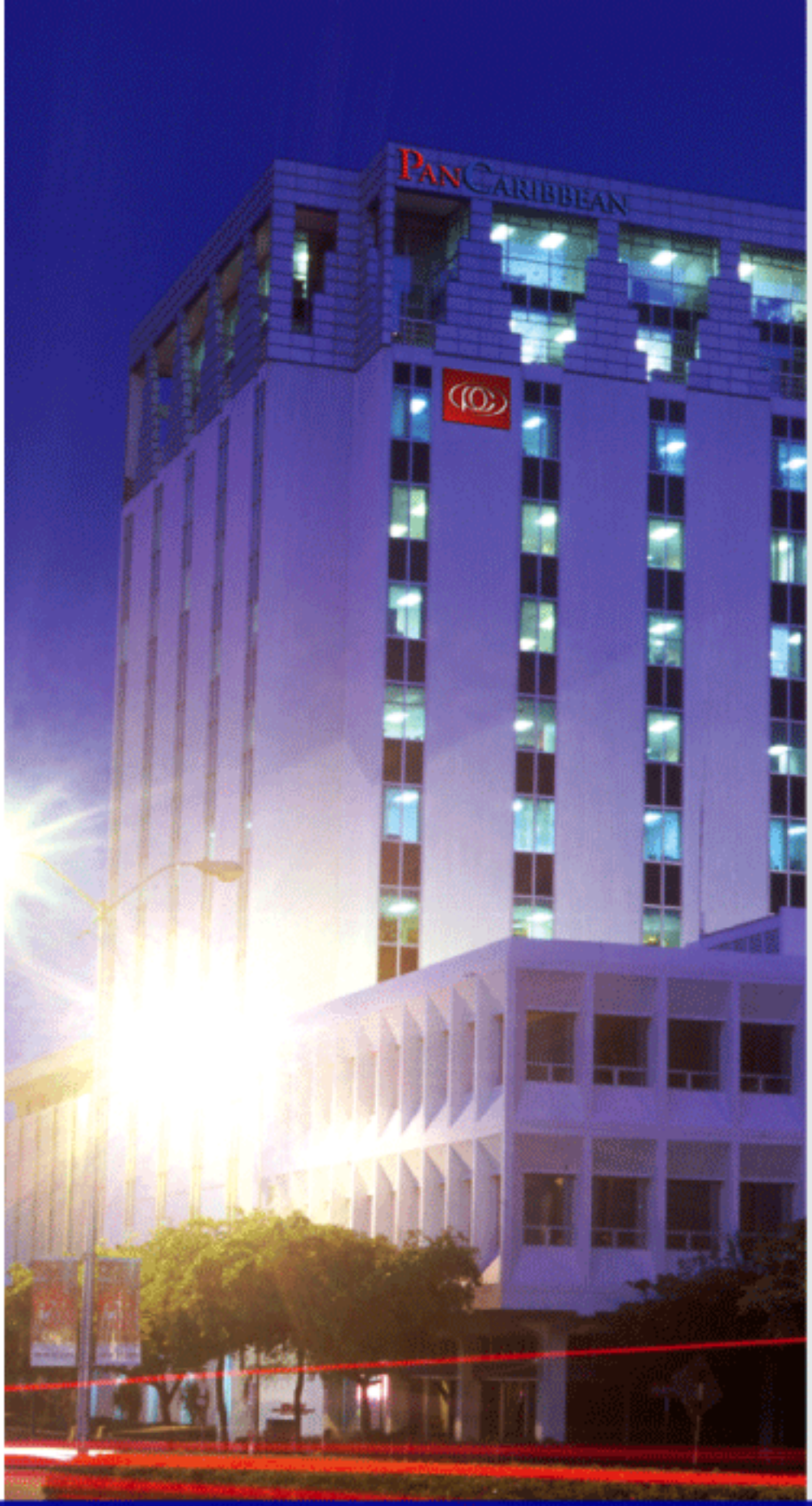

PAN CARIBBEAN
FINANCIAL SERVICES LTD.

Annual Report 2004

One Team. One Commitment.

The new Pan Caribbean...Larger and financially stronger.

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2004...a milestone year for Pan Caribbean

Statement from the Chairman & the President

Richard O. Byles, M.Sc.
CHAIRMAN

Donovan H. Perkins, MBA
PRESIDENT & CEO

We are pleased to report on the activities of your company for the financial year 2004. For the fourth consecutive year, PCFS has reported record consolidated profits with Net Income of $842 Million. Basic earnings per share grew from $1.34 to $1.84, an increase of 37% - a satisfactory improvement for a year that was filled with tremendous changes and new developments.

On December 31, 2003, we signed a binding agreement with Manufacturers Investments Limited (MIL) to merge. This merger was completed on March 1, 2004. MIL was then the parent company of Manufacturers Sigma Merchant Bank Limited, Sigma Unit Trust Managers Limited, Manufacturers Sigma Investment Management Limited and Manufacturers Credit & Information Services Limited.

2004 was a year that was filled with tremendous changes and new developments.

On July 28, 2004, we signed a binding legal agreement to acquire the financial assets and liabilities of Lets Investments Limited (LIL). This acquisition was completed on August 1, 2004. LIL is a boutique investment bank based in Montego Bay with a branch in New Kingston.

Pan Caribbean has been very active in M&A transactions since 2000, and both MIL and LIL have had a profound and positive financial impact on the Group in 2004. We rocketed past previous milestones with the fuel

provided by these deals and on behalf of our team, we are proud to report our achieving the following milestones:

- **Pre-Tax Income at $1.15 Billion crossed the significant billion dollar threshold**
- **Assets soared to over $40 Billion (2003 : $18 Billion)**
- **Shareholders Equity climbed above $5.2 Billion (2003 : $1.5 Billion)**
- **The market value of Pan Caribbean rose to $18.3 Billion at year-end (2003 : $1.6 Billion)**
- **Our Sigma Equity and Sigma Fixed Income Unit Trust Funds topped the rankings in 2004**
- **We fully integrated the software systems and operations of Manufacturers and Lets**
- **We moved from a single Kingston location to serve five major markets across Jamaica**
- **We further strengthened our Brand equity and identity**

This was indeed another year highlighted by good performance and accelerating progress. As a result, our share price moved from $6.35 to $33.80 making Pan Caribbean the second best-performing listed stock in the region. Additionally, our market capitalization at $18 Billion placed us among the top 15 listed companies.

Pan Caribbean over time has been building an exciting franchise with an energetic management team and deeply committed associates. This growth has not gone unnoticed by the market. In 2003, Life of Jamaica Limited (LOJ) executed a binding agreement with First Life Insurance Company Limited to acquire its insurance business and a 37% shareholding in PCFS. In October 2004, LOJ and its parent, Sagicor Financial Corporation (Sagicor), signed binding agreements with three significant shareholders of Pan Caribbean, to acquire a further 42% of the company. 2005 will see Pan Caribbean as a 51% subsidiary of LOJ with Sagicor also holding 36% directly. Sagicor has a significant regional presence throughout the Caribbean region with toe-holds in the U.S. and Central American markets.

The Economy in Review

The economy returned to stability in 2004. Most indicators trended positively and we noted that:

- **Interest rates declined with the 180-day T-Bill yield falling from 21.0% to 14.3%**
- **The currency remained stable, closing the year at $61.63 (a 1.7% depreciation)**
- **The fiscal deficit continued to shrink**
- **The NIR remained healthy at US$1.86 Billion**
- **The country had access to the International Capital Markets**

But all was not positive. While the economy grew 1.2%, it declined from the prior year as Hurricane Ivan hit the island in September. Production and productivity in several areas, particularly agriculture, were negatively impacted by the storm. Inflation at 13.7% remained in double digits for the second consecutive year after enjoying a six-year period from 1997 to 2002 below 10%. Domestic food prices led the way with inflation up 6% in October and November, again reflecting the economic impact of the hurricane.

For the fourth consecutive year, PCFS has reported record consolidated profits with Net Income of $842 Million.

Mergers with MIL and LIL have had a profound and positive financial impact on the Group in 2004.

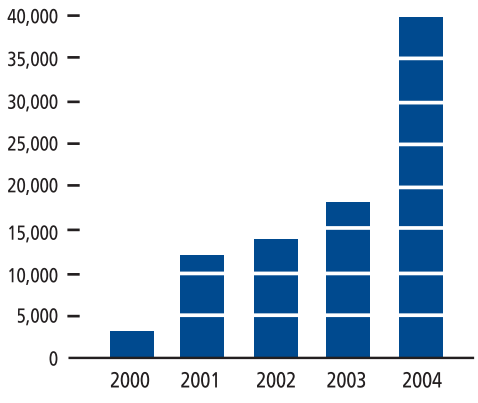
Jamaica's Debt / GDP ratio stabilized, but at 135% remains worrisome. Additionally, the Balance of Payments started the year improving but by the end of the fourth quarter, this trend was reversed by a combination of rising oil prices and the hurricane's negative impact on exports with higher imports of food and construction items. The increase in the murder rate continues to frighten many - it reflects multi-variable problems with roots in a weak economy, poor job growth opportunities, social challenges, lack of resources and the influence of the narcotic trade on the country.

Having weighed the economic trends, investors local and overseas appear to believe that Jamaica's emerging prospects are real. As a result, there were significant foreign direct investments and commitments to invest in tourism and mining. One indicator of confidence, the stock market, reacted with energy climbing 67% in 2004.

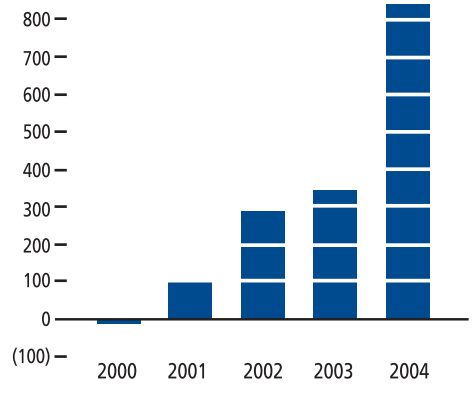
Confidence also got a boost in 2004 with the signing of a historic Memorandum of Understanding between the government and the trade unions representing public sector employees. The agreement saw the unions accepting increases of 3% for the next two years in exchange for job security. Outside of interest costs, wages remain the largest item in the fiscal budget and the agreement will significantly support the drive to a balanced budget.

The Minister of Finance has signaled his intent to eliminate the fiscal deficit in the coming year, as was his commitment three years ago. A mix of increased taxation, lower interest rates and economic growth in 2005 lends support and credibility to the possibility of balanced fiscal accounts.

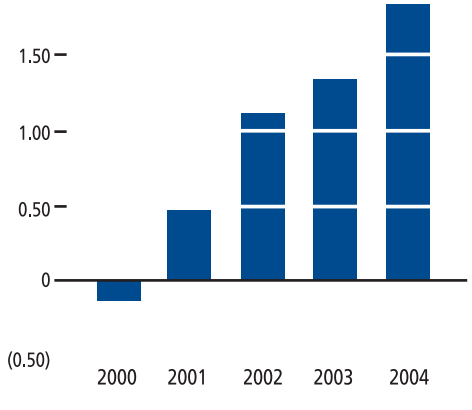
Total Assets ($MILLIONS)



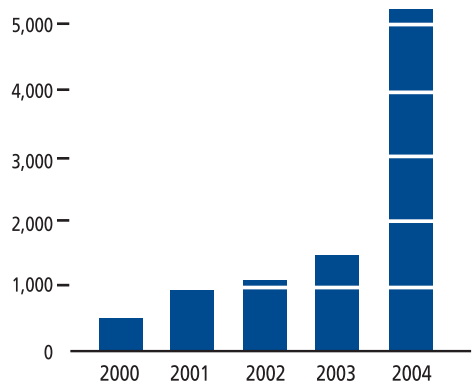
Net Income ($MILLIONS)



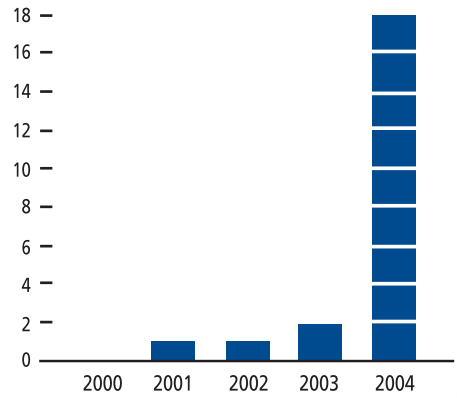
Earnings Per Share ($DOLLARS)



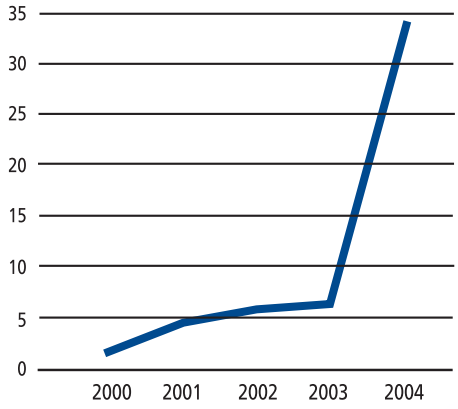
Stockholders' Equity ($MILLIONS)



Market Capitalisation ($BILLIONS)



Stock Price ($DOLLARS)



The Future

Last year we asked a question…is there a case for optimism? Our answer was affirmative and it remains so. We believe that the worst is behind us and anticipate that the current cycle of lower interest rates could lead to economic growth and free up government resources to address crime, education and infrastructure problems. The key is whether the Finance Ministry can maintain its current tough stance and achieve its budget targets. Interestingly, one of the architects of monetary policy and a leading Central Bank technocrat assumes the critical role of Financial Secretary in 2005. We hope this key player in a new position of influence will help deliver the market's expectations.

Pan Caribbean welcomes a more vibrant Jamaica where all companies can succeed if they plan, manage, and execute the delivery of value-added products and services to their customers. That is what we intend to do.

Last year we asked a question…is there a case for optimism?
Our answer was affirmative and it remains so.

The Caribbean region has strong pockets of growth while other areas within Caricom are struggling to make adjustments. Trade liberalization, China's high productivity, Europe becoming more Euro-centric, continuing global concerns regarding terrorism, transportation issues and the inherent inefficiencies of small island states are significant challenges to faster Caribbean growth and development. Our drive to build shareholder value and manage risk through market diversification will lead us to pursue opportunities in regional markets bearing these factors in mind.

During Q4, 2004 we used the Balanced Score Card to establish key measures for our Medium Term Strategic Plan. We wish to share some of the measures and targets set:

Financial Target
Double our Earnings per Share every four years

Customer Satisfaction Target
Raise our Client Satisfaction & Brand Awareness Indices annually

Internal Efficiencies Target
Improve our Profit per Employee annually

Employee Development Target
Raise our Staff Satisfaction Index annually

If we are able to achieve or exceed these targets, we believe that shareholders will be appropriately rewarded.

Corporate Governance

Listed companies, particularly those operating in the financial industry, have a substantial obligation not just to shareholders, but also to their depositors, investors and market counter-parties. With an expanding financial entity, your Board has been increased to 12 directors. The Board composition at year-end was as follows:

Independent Directors	**3**
Directors representing Shareholders	**8**
Executive Director	**1**

We believe that the Board has sufficient skills, expertise, experience and independent thought resident in the directors of the company. It will remain an important objective of Pan Caribbean to attract and retain professionals who meet these requirements now and in the future. During 2005, a Board Charter will be established to further strengthen key areas of corporate governance.

Further details of the Board and its Committees are on pages 12 to 15.

In December 2004, we acquired a brokerage seat at the Jamaica Stock Exchange. It was indeed a very active year for the organization.

Corporate Citizenship

Jamaica's social challenges are acute and even as we see an improving economy as the basis of a lasting solution, successful companies like Pan Caribbean must continue to play an important role. For these reasons, we recognize the responsibility of being a caring corporate citizen.

If we continue to lend support to the less fortunate, work to strengthen our communities, support education initiatives and help some of the numerous charitable organizations that work tirelessly, we can collectively make Jamaica a better place. In 2004, we assisted many worthy causes, and were responsive to the challenges that Hurricane Ivan presented for many of our citizens. A summary of our activities during the year is outlined on page 26.

Thanks

We wish to acknowledge the contributions of Joseph M. Matalon, O.K. Melhado and Christine Matalon for their short but valuable stint as directors of the company. They resigned January 2005 to make room for new directors representing Life of Jamaica, as majority shareholder. Both Mr. Matalon and Mr. O.K. Melhado were important in the merger with Manufacturers and played critical roles in the smooth transition of their associates to Pan Caribbean.

We also take this opportunity to thank our hard-working staff and management team who continuously seek to meet the financial needs of our valued and loyal customers, our business partners and our regulators. All these stakeholders play an important part in what we are seeking to achieve. To our fellow directors – your wise council and support is appreciated and helped steer Pan Caribbean through an important year of growth and development.

To our shareholders, we re-commit to our promise to always be a shareholder-driven organization and to meet, if not exceed your expectations.

Richard O. Byles
Chairman

Donovan H. Perkins
President & CEO

If we continue to lend support...we can collectively make Jamaica a better place.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of PAN CARIBBEAN FINANCIAL SERVICES LIMITED will be held at Terra Nova All-Suite Hotel, 17 Waterloo Road, Kingston 10 on July 22, 2005 at 10.30 a.m. for the following purposes:

Resolution 1

1. To receive the Audited Accounts for the year ended December 31, 2004 and the Reports of the Directors and Auditors thereon.

To consider and (if thought fit) pass the following Resolution:

"THAT the Audited Accounts for the year ended December 31, 2004 with Reports of Directors and Auditors thereon circulated with the Notice convening the meeting be and are hereby received and adopted".

Resolution 2

2. To Elect Directors.

(a) In accordance with Articles 92 and 93 of the Company's Articles of Association, the Directors retiring by rotation are Messrs. Richard Byles, Patrick Lynch and Hayden Singh who being eligible, offers themselves for re-election.

To consider and (if thought fit) pass the following Resolution:-

(i) "That Mr. Richard O. Byles be and is hereby re-elected a Director of the Company".

To consider and (if thought fit) pass the following Resolution:-

(ii) "That Mr. Patrick Lynch be and is hereby re-elected a Director of the Company".

To consider and (if thought fit) pass the following Resolution:-

(iii) "That Mr. Hayden Singh be and is hereby re-elected a Director of the Company".

(b) In accordance with Article 98 of the Company's Articles of Association, Directors, Mr. Dodridge D. Miller and Mrs. M. Patricia Downes-Grant who were appointed to the Board since the last Annual General Meeting, will retire at this Annual General Meeting and, being eligible, offer themselves for re-election.

To consider and (if thought fit) pass the following Resolutions: -

(i) "That Mr. Dodridge D. Miller be and is hereby re-elected a Director of the Company"

(ii) "That Mrs. M. Patricia Downes-Grant be and is hereby re-elected a Director of the Company"

This was indeed another year highlighted by good performance and accelerating progress. As a result Pan Caribbean was the second best-performing listed stock in the region.

Resolution 3

3. To fix the remuneration of the Directors.

To consider and (if thought fit) pass the following Resolution: -

"THAT the amount shown in the accounts for the year ended December 31, 2004 for Directors' fees be and is hereby approved".

Resolution 4

4. To fix the remuneration of PricewaterhouseCoopers as Auditors, and to determine the manner in which the Auditors' remuneration is to be fixed.

To consider and (if thought fit) pass the following Resolution: -

"THAT the Directors be and are hereby authorised to fix the remuneration of the Auditors at a figure to be agreed with them".

Resolution 5

5. To elect to retain shares with nominal or par value – Section 37 of the Companies Act, 2004.

As special business to consider and (if thought fit) pass the following Resolution:

"That pursuant to the provisions of Section 37 of the Companies Act, 2004, the Company hereby elects to retain its existing shares with a nominal or par value and to continue to issue shares with a nominal or par value, and that the Directors be, and they are hereby authorized to do any acts and execute any documents necessary to facilitate compliance with the Companies Act 2004 in this regard, and to facilitate the conversion of the company's shares without a nominal or par value at the end of eighteen months from the date of this resolution, or such earlier time as the Board of Directors of the Company shall by resolution decide."

By Order of the Board

Gene M. Douglas
Corporate Secretary

Registered Office
The Pan Caribbean Building
60 Knutsford Boulevard
Kingston 5, Jamaica

April 28, 2005

Note:

1. In accordance with section 131 of the Companies Act, 2004, a member entitled to attend and vote at the meeting is entitled to appoint a Proxy to attend and vote in his stead. A proxy need not be a member of the Company. A suitable Form of Proxy is enclosed. Forms of Proxy must be lodged at the Company's registered office at least forty-eight hours before the time appointed for holding the meeting. The Proxy Form should bear the stamp duty of one hundred dollars before being signed. The stamp duty may be paid by adhesive stamp(s) to be cancelled by the person executing the Proxy.

2. A corporate shareholder may (instead of appointing a proxy) appoint a representative in accordance with regulation 77 of the Company's Articles of Association. A copy of regulation 77 is outlined on the enclosed Proxy.

Directors' Report

The Directors are pleased to submit their report for the twelve months ended December 31, 2004 together with audited accounts for the year ended on that date.

	$'000
Group Profit before tax	1,147,257
Tax	(305,565)
Profit after Tax	841,692
Adjustment between regulatory loan provisioning and IFRS	(22,639)
Current year dividends paid	nil
Unappropriated profits b/f	722,338
Transfer to reserve fund	(22,443)
Unappropriated profits c/f	1,518,948

Dividends

The Directors have not recommended a dividend for the year ended December 31, 2004.

Directors

The Directors as at December 31, 2004 were Messrs. Richard O. Byles, Donovan H. Perkins, W. G. Bryan Ewen, Maurice W. Facey, Stephen B. Facey, Patrick Lynch, Joseph M. Matalon, O. K. Melhado, Peter K. Melhado, Hayden Singh, Colin T. Steele & Mrs. Cristina Matalon.

In January 2005, Mrs. Cristina Matalon, Messrs. Joseph M. Matalon and O. K. Melhado resigned from the Board of Directors.

Mr. Dodrige D. Miller and Mrs. M. Patricia Downes-Grant were appointed to the Board of Directors effective February 2005. In accordance with Article 98 of the Company's Articles of Association, these directors who were appointed since the last Annual General Meeting, will retire at this Annual General Meeting and, being eligible, offer themselves for re-election.

Pursuant to Articles 92 and 93 of the Company's Articles of Association, the Directors retiring by rotation are Messrs. Richard O. Byles, Patrick Lynch and Hayden Singh, whom being eligible, offer themselves for re-election.

Auditors

PricewaterhouseCoopers have expressed their willingness to continue in office in accordance with Section 153 of the Companies Act.

By Order of the Board

Gene M. Douglas
Company Secretary
Kingston, Jamaica

April 28, 2005

Five Year Review

	2004 $'000	2003 $'000	Restated 2002 $'000	Restated 2001 $'000	2000 $'000
Selected Balance Sheet Data					
Total Assets	40,178,629	18,338,291	13,959,667	12,120,570	2,951,408
Performing Loans & Leases	3,669,446	1,034,805	1,021,018	1,017,859	1,364,438
Non-performing Loans and Leases	224,866	223,038	394,108	301,395	380,919
Investments, Repos & Other Earning Assets	32,649,219	15,500,287	11,534,694	9,788,933	1,101,314
Deposits	3,422,977	724,892	497,482	426,155	460,722
Securities Sold Under Repurchase Agreements	28,407,024	13,718,164	10,431,277	8,711,664	519,541
Stockholders' Equity	5,217,247	1,504,537	1,081,981	979,167	534,551
Selected Income Statement Data					
Net Interest Income	1,315,045	278,578	286,330	278,198	157,203
Other Income	478,771	233,617	129,931	108,626	92,207
Operating Expenses	646,559	174,582	147,744	300,378	265,025
Net Income (Loss)	841,692	342,170	284,488	104,752	(16,139)
Other Financial Data					
Basic Earnings per Stock Unit	$ 1.84	$ 1.34	$ 1.11	$ 0.46	$ (0.14)
Dividends Paid per Stock Unit	$ -	$ 0.17	$ 0.19	$ -	$ -
Return on Average Equity (%)	25.0%	26.5%	27.6%	13.8%	-3.1%
Return on Assets (Year End)	2.1%	1.9%	2.0%	0.9%	-0.5%
Market Capitalization ($000s)	18,116,496	1,623,447	1,444,485	1,163,258	146,685
Stock Price at Year End	$ 33.80	$ 6.35	$ 5.65	$ 4.55	$ 1.28
Number of Stockholders	1,570	1,213	1,163	1,217	
Number of Staff	205	69	61	51	66
Number of Offices	5	1	1	1	2
Profit per Employee ($000s)	$ 4,106	$ 4,959	$ 4,664	$ 2,054	$ (245)

Our Board of Directors

Richard O. Byles, B.Sc., M.Sc.
Chairman

Mr. Byles is President & CEO of Life of Jamaica Limited since 2004. Previously he was CEO of Pan-Jamaican Investment Trust Ltd. While at Pan Jam, he was Chairman of its trading, banking and insurance subsidiaries - all listed on the stock exchange. Under his leadership, the company actively pursued mergers, acquisitions and divestments that have profoundly transformed the Group during a difficult economic environment, resulting in the creation of one of Jamaica's most profitable companies today.

Richard remains a director of Pan Jam, serves on the board of Red Stripe and is Chairman of the National Water Commission. He is a former Vice President of the Private Sector Organization of Jamaica and currently represents the PSOJ on the country's Development Council.

He holds a Bachelor's Degree in Economics from the University of the West Indies and a Masters in National Development from the University of Bradford, England.

Peter K. Melhado, B.Sc., MBA
Deputy Chairman

Mr. Melhado is President & COO of ICD Group. He joined the Manufacturers Group in 1993 and became its CEO in 1995 until its merger with Pan Caribbean. He was responsible for the growth and development of Manufacturers, and led the merger with Sigma in 2001 to create Manufacturers Sigma Merchant Bank, then one of the leading financial and asset management companies locally. He serves as Chairman of Pan Caribbean Merchant Bank and Manufacturers Credit & Information Services Limited and his current directorships include British Caribbean Insurance Company and West Indies Home Contractors Ltd.

Peter is a former Vice President of the Private Sector Organization of Jamaica.

He completed a B.Sc. in Mechanical Engineering at McGill University and received his MBA from Columbia Business School with a concentration in Finance.

Donovan H. Perkins,
B.A. (Hons.), MBA
President & CEO

Mr. Perkins has been CEO of Pan Caribbean since 1993. Prior to joining Pan Caribbean, he worked with Bank of America in Corporate Banking. Under his leadership, the company has grown though a series of mergers and acquisitions into a diversified financial services group.

Donovan is a director of Pan Jamaican Investment Trust Limited, First Life Insurance Company Limited, National Insurance Fund and the Jamaica Social Investment Fund. He previously served as President of the Merchant Bankers Association, Vice President of the Jamaica Bankers Association and as a director of the Jamaica Exporters Association. He is currently Vice-President of the Private Sector Organization of Jamaica.

He attended the University of South Florida, completing a Bachelor's Degree in Finance (Hons.) and graduated from The Darden Business School at The University of Virginia with an MBA with concentrations in Finance and Marketing.

W. G. Bryan Ewen, F.C.A.

Mr. Ewen was appointed CEO of First Life Insurance Company in 2004. In addition, he is the Finance Director at Pan-Jamaican Investment Trust where he has worked since 1973, and sits on the boards of Hardware & Lumber Ltd., Pan Caribbean Merchant Bank and Jamaica Property Company.

A chartered accountant by training, he gained his qualifications in the United Kingdom during the mid-1960s. With his broad experience, Bryan brings considerable knowledge and experience in financial management, accounting and banking.

Hon. Maurice W. Facey,
O.J., J.P.

In the course of a diverse 60-year career, Mr. Facey brings extensive business knowledge and skills to the Board. His entrepreneurial spirit and business acumen in the areas of sales and real estate led to the establishment of Jamaica Property Company in 1959, a key subsidiary that remains at the core of Pan-Jamaican Investment Trust today.

In 1966, he was appointed Chairman and CEO of Pan-Jamaican Investment Trust until he relinquished operational responsibilities in 1992 while retaining the chairmanship. He remains Chairman of Kingston Restoration Company, First Life Insurance Company and is a director of Kingston City Centre Improvement Company.

During his career, he served on the boards of The Gleaner Company, Bank of Nova Scotia Jamaica Limited, Elegant Resorts International Limited, Hardware & Lumber Limited and Office Services Limited.

Stephen B. Facey,
B.A., M. Arch.

Mr. Facey is the CEO of Pan-Jamaican Investment Trust since 2004. He brings over 25 years of business experience to the Board. He has substantial expertise in real estate and became CEO of Jamaica Property Company in 1990, one of the most successful local property management companies today.

He is a director of Pan-Jamaican, First Life Insurance Company, Hardware & Lumber Limited, Kingston Restoration Company and the New Kingston Civic Association.

He graduated from Rice University with his B.A. and went on to attain a Masters Degree in Architecture at the University of Pennsylvania.

Pan Caribbean over time has been building an exciting franchise with an energetic management team and deeply commiitted associates.

Patrick Lynch

Mr. Lynch brings significant knowledge in the key areas of banking and financial services to the Board. He developed broad management experience overseas at British and American financial institutions before returning to Jamaica in 1991 to join the Sandals Group as Director of Finance & Planning.

Patrick serves on the boards of Appliance Traders Limited, ATL Motors Limited, Jamaica Observer Limited, Sandals Resorts International Limited and is the Chairman of ATL Group Pension Fund.

Cristina R. Matalon, B.A., MBA

Mrs. Matalon is the Financial Controller and Corporate Secretary of Commodity Service Company (Jamaica) Limited and brings financial and accounting experience to the Board. She sits on the Board of Trustees of Hillel Academy, and is a member of the Jamaica Environmental Trust.

Cristina is a graduate of the University of Miami, where she obtained a Bachelor's Degree in Accounting and an MBA in Finance.

Joseph M. Matalon, B.Sc.

Mr. Matalon is the Chairman and CEO the ICD Group. He has over 20 years experience in transactional finance, investments and banking.

Joseph is also Chairman of British Caribbean Insurance Company Limited and the St. Patrick's Foundation, and serves as a director of the Gleaner Company, Commodity Service Company and Industrial Finance Holdings Limited. He previously served on the boards of Cable & Wireless Jamaica Limited and Bank of Nova Scotia Jamaica Limited, and was a Vice President of the Private Sector Organization of Jamaica. He chaired the recent Tax Reform Committee and has served in other capacities to advise the Government on financial, social and economic issues.

He is a graduate of the London School of Economics, where he obtained a Bachelor's Degree in Economics.

Sub-Committees of the Board

Audit Sub-Committee

Patrick Lynch (Chairman), Hayden Singh, Colin Steele

The Audit Committee has principal oversight of the internal and external audit processes of the organization. It also has responsibility for interim un-audited reports released to the Jamaica Stock Exchange. The Committee meets at least quarterly or more frequently as required and two senior managers - Peter Knibb and Michael Stuart also attend by invitation.

Compensation and Conduct Review Committee

O.K. Melhado (Chairman), Hayden Singh, Cristina Matalon, Bryan Ewen

The Compensation and Conduct Review Committee is charged with establishing and reviewing policies as it relates to compensation and benefits for staff and management. It also has responsibility for reviewing and approving matters related to potential conflicts of interest. The Committee meets at least semi-annually or more frequently as required.

Owen K. Melhado

Mr. Melhado is a seasoned business executive with 40 years experience in financial management and brand marketing. He has had a distinguished career in both the private and public sectors as the General Manager of IBM Jamaica, Managing Director of Jamaica Commodity Trading Company and Finance & Marketing Director of Desnoes & Geddes.

O.K. was a founding director of Life of Jamaica, and served as Chairman of the Jamaica Tourist Board in the late 1980s. He is currently Vice Chairman of Desnoes & Geddes, a director of Air Jamaica and Chairman of Real Resorts Ltd (owners of Beaches Negril).

R. Hayden Singh

Mr. Singh is the Managing Director of Courts Jamaica Ltd and a very knowledgeable business executive. He has substantial experience in marketing, finance and international business in the Caribbean and Europe.

Hayden is a past Chairman of the Jamaica British Business Council and he also serves as a director of Pan Caribbean Merchant Bank, and Hi-Lo Food Stores (Ja) Ltd. He is currently Vice-President of the Private Sector Organization of Jamaica.

Colin Steele, B.A., CPA, MBA

Mr. Steele's professional experience is both broad and deep covering business areas including auditing, banking, tourism, investments and real estate.

Colin is the Chairman of Pan Caribbean Asset Management Limited, the University Hospital of the West Indies and the Economic Policy Committee of the Private Sector Organization of Jamaica. He is also a director of West Indies Home Contractors, International Insurance Brokers, the Planning Institute of Jamaica and the Port Authority of Jamaica.

He holds a B.A. in Accounting and an MBA from the University of Miami, and is a Certified Public Accountant in Florida.

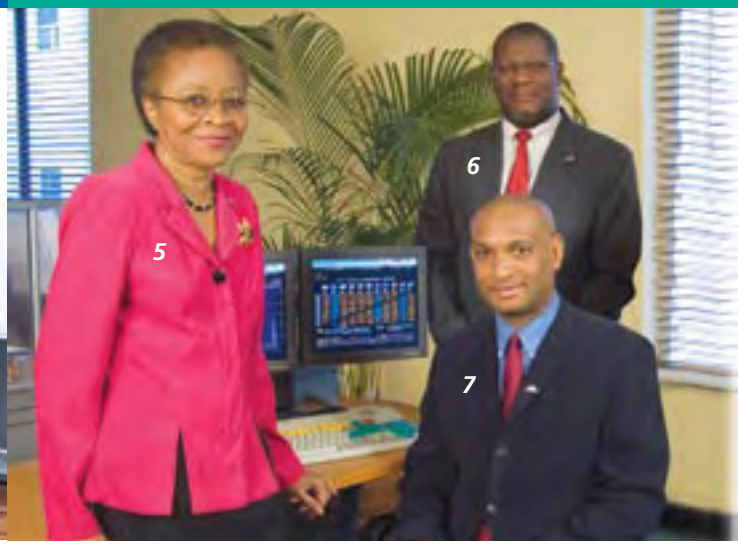
Asset, Liability, Credit & Investment Sub-Committee

Richard O. Byles (Chairman), Peter Melhado, Donovan Perkins, Colin Steele

This Committee is responsible for monitoring the investment portfolio and activities related to assessing and managing liquidity and price risks. Gapping and currency strategies are also reviewed in light of the economy and market trends. The Committee is also responsible for review and approval of credit and underwriting activities as well as exposure limits. The Committee meets at least eight times per year or more frequently as required and five senior managers – Philip Armstrong, Anya Schnoor, Henry Pratt, Rez Burchenson and Lissant Mitchell also attend by invitation.

Executive Management Team

Senior Management Team



A closer look at us

1 **Donovan H. Perkins** B.A., MBA
President & Chief Executive Officer
Pan Caribbean Financial Services Limited

2 **Anya Schnoor** B.A., MBA
Senior Vice President & Chief Operating Officer
Pan Caribbean Financial Services Limited

Anya has over 13 years of experience in investments, banking and financial services. She is responsible for our operational functions, marketing, branch distribution and technology. Prior to joining Pan Caribbean, she was General Manager of Eagle Unit Trust, consistently the top performing money market unit trust during the 1990s.

She is actively involved in the financial services community having served as President of the Primary Dealers Association and sits on the Executive of the Jamaica Security Dealers Association. She is a director of Pan Caribbean's subsidiary companies, sits on the Group's Asset & Liability Management Committee and the Finance Committee of Heart Trust NTA.

Anya holds an MBA from Barry University and a B.A. in Finance and International Business from Florida International University.

3 **Philip Armstrong** B.Sc., MBA
Senior Vice President – Capital Markets
Pan Caribbean Financial Services Limited

An engineer by training, Philip brings over 16 years of securities, derivatives and financial expertise gained from Wall Street and Knutsford Boulevard. He joined Manufacturers in 2002 from Citibank locally where he was Resident Vice President. As head of Capital Markets, he has oversight responsibility for Equities and Fixed Income trading, the Primary Dealer and Stock Brokerage Units and Asset Management.

Philip is a director of Pan Caribbean Merchant Bank and Pan Caribbean Asset Management, and sits on the Group's Asset & Liability Management Committee.

Philip is a graduate of Embry Riddle Aeronautical University where he earned a Bachelor of Science in Avionics Technology, and Pepperdine University from which he received a Masters of International Business.

4 **Henry Pratt** B.A., MBA
Senior Vice President & General Manager
Pan Caribbean Merchant Bank Limited

A trained accountant, Henry started his career in audit and consulting before joining Manufacturers' Corporate Banking Division in 1995. He now heads our Merchant Bank and is charged with growing our Credit, Deposit taking products, foreign exchange trading, Corporate Trust and Corporate Finance activities.

Henry is a director of Manufacturers Credit & Information Services Ltd., serves as Chairman of the Police Area 4 Scholarship Committee and sits on the Board of St. Elizabeth's Basic School.

He is a graduate of the University of the West Indies with a Bachelors Degree in Accounting, and completed his MBA at New York University's Stern School of Business.

5 **Gene M. Douglas** F.C.I.S.
Vice President – Corporate Trust
Pan Caribbean Merchant Bank Limited

Gene joined Pan Jamaican in 1988 as its Company Secretary and transferred to Pan Caribbean to start its Corporate Trust Department. Her experience spans over 20 years in Accounting and corporate secretarial practice.

Gene is a member of the Optimist Club of North St. Andrew and serves on the Executive of the Caribbean District Optimist International, Association of Chartered Secretaries & Administrators of Jamaica and the Morant Bay High School Past Students Association

She completed her accountancy training at the London School of Accountancy, is a graduate of the University of Technology with a Diploma in Institutional Management and is a Fellow of the Institute of Chartered Secretaries & Administrators. She is pursuing an MBA with the University of Manchester.

One team... One committment

"This merger will be a significant milestone in the development of our financial industry and of considerable benefit to both our stockholders and customers. Both companies are known for delivering high quality service and we expect to raise the bar in the critical areas of service delivery and financial Strength." - *Richard Byles*

6 **Peter Knibb** FCCA, FCA, MBA
Vice President & Chief Financial Officer
Pan Caribbean Financial Services Limited

Peter joined Pan Caribbean from PricewaterhouseCoopers in 1995, where he was a senior manager and group leader in Audit.

He heads our Financial Control & Reporting Division and is a Fellow of both the U.K. based ACCA and our locally based ICAJ. Peter has an MBA in Finance from the University of Wales.

7 **Lissant Mitchell** B.A., MBA
Assistant Vice President - Trading
Pan Caribbean Financial Services Limited

Lissant joined Pan Caribbean in 2000 though our acquisition of Knutsford Capital. With over 12 years of Investments, Treasury and Banking under his belt, he marshals one of the most active trading floors in Jamaica.

He is currently the President of the Primary Dealers Association and sits on Kingston & St. Andrew Football Association's Competition Committee.

Lissant is a graduate of the University of the West Indies with a Bachelor's degree in Accounting and Economics and attained his MBA in Finance from the University of Manchester.

8 **Enola C. Beharie** B.A., MBA
Vice President & General Manager
Manufacturers Credit & Information Services Limited

Enola has over 11 years of experience in sales and marketing management. She joined Manufacturers in 2000 as a senior manager at MCIS and now runs this subsidiary's day-to-day operations.

She is a member of the Kiwanis Club of New Kingston and the Chartered Institute of Marketing.

Enola holds a Teachers' Certificate from Mico Teachers' College, a Bachelors Degree in Public Administration from the University of the West Indies, a Diploma from the Chartered Institute of Marketing, and an MBA from Nova Southeastern University.

9 **Rezworth Burcheson** B.A., MBA
Vice President & General Manager
Pan Caribbean Asset Management Limited

Rezworth is an equity-focused professional who heads our asset management and stock-broking activities. He joined Sigma Unit Trust back in 1995 prior to its merger with Manufacturers. In 2004, our Sigma funds under his leadership led the unit trust fixed income and equity markets in total returns.

Rez received a Bachelor's Degree in Economics (Hons.) and his MBA in Banking and Finance (Hons.) from the University of the West Indies.

10 **Karen Vaz** B.Sc.
Vice President – Information Technology
Pan Caribbean Financial Services Limited

Karen joined Pan Caribbean in 1999 as a consultant and became head of our technology division in 2000. She was seconded to First Life in a senior management role before returning in 2003. She is responsible for enhancing our strategic direction through the oversight of technology for all business applications.

She is a director of Manufacturers Credit & Information Services Ltd.

Karen is a graduate of the University of South Florida where she completed a Bachelor's Degree in Management Information Systems.

Corporate Data

Board of Directors

Richard O. Byles B.Sc., M.Sc. (Chairman)
Donovan H. Perkins B.A. (Hons.), MBA (President & CEO)
W.G. Bryan Ewen F.C.A.
Hon. Maurice Facey O.J., JP
Stephen B Facey B.A., M.Arch.
Patrick Lynch
Cristina Matalon B.A., MBA
Joseph M. Matalon B.Sc.
O.K. Melhado
Peter Melhado B.Sc., MBA
Hayden Singh
Colin Steele B.A., CPA, MBA

Secretary

Gene M. Douglas FCIS

Registered Office

The Pan Caribbean Building
60 Knutsford Boulevard
Kingston 5, Jamaica W.I.

Telecommunications

Telephone: (876) 929-5583
Fax: (876) 926-4385
Website: www.gopancaribbean.com
Email: options@gopancaribbean.com

Registrar

Pan Caribbean Merchant Bank Limited
Corporate Trust Division
60 Knutsford Boulevard
Kingston 5

Bankers

Pan Caribbean Merchant Bank Limited
Citibank N.A.
Bank of America N.A.
First Global Bank Limited
National Commercial Bank Jamaica Limited

Auditors

PricewaterhouseCoopers

Attorneys-at-Law

Trevor Patterson
Hart Muirhead Fattah
Dunn Cox
Myers Fletcher & Gordon

Subsidiary Companies

Pan Caribbean Merchant Bank Limited
Pan Caribbean Asset Management Limited
Manufacturers Credit & Information Services Limited
Manufacturers Investments Limited
Pan Caribbean Securities Limited
Pan Caribbean Investments Limited

Branches

Shop 7, Montego Bay Shopping Centre
Montego Bay, St. James
(876) 940-0652/4

24 Main Street
Ocho Rios, St. Ann
(876) 974-8833

3A Caledonia Road
Mandeville, Manchester
(876) 961-1210

92 Great George Street
Savanna-La-Mar, Westmoreland
(876) 955-4135

Division Reports

Capital Markets & Trading Division

This Division encompasses our trading, underwriting and asset management activities. 2004 was an outstanding year as the combined trading floors of Pan Caribbean and Manufacturers suggests a remarkable potential to be a dominant securities and foreign exchange player in Jamaica and within the region.

Our Primary Dealer and FX Units consistently ranked among the Big Three in underwriting and trading. Our re-branded funds - Sigma Optima (Equity) and Sigma Solution (Fixed Income) Funds ended the year with the best returns among Unit Trusts. Clearly our objective will be to maintain this market leadership in a very competitive environment, but most importantly we intend to help our clients meet their financial goals.

Despite our expanded size, we remained nimble enough to navigate changing market conditions, manage risk and contributed handsomely to the Group's record profits. While we cannot control the market or the more restrictive regulatory environment in which we operate, our long-term prosperity is deeply rooted in our client relationships, our reputation, our strength of capital and equally as important – our traders and managers who must always seek to balance the institution and clients' interests.

Corporate Banking Division

The credit portfolio grew 213% to J$3.9 Billion as a result of consolidation with Manufacturers. Credit Assets have performed well, particularly our Insurance Premium Financing and project financing products. Our long term financing line from the European Investment Bank has been utilized to provide affordable structured credit to enhance the expansion of companies operating in the tourism, information technology, distribution and food processing industries.

We continue to provide wholesale credit targeted at the small and micro-business sectors under a Government of Jamaica / European Union program. Distribution is effected primarily through credit unions and micro-finance institutions. There is scope for growth as it is recognized that emerging entrepreneurs are critical to economic recovery and job creation, and we have the capacity.

There was a marked improvement during the year in the overall quality of our portfolio. Non-performing loans fell from 17% to 6% of outstanding loans during the year and these assets were fully provided for. Our goal is to improve these ratios further in 2005.

Going forward, we intend to deepen existing relationships as our growth in capital affords us greater lending capability and we have strengthened our skill sets in advisory services. We therefore expect continued expansion of our portfolio, as the downward trend in interest rates should stimulate loan demand, particularly in corporate credit.

Card Division

Our Card Division provides fleet management solutions to over 500 corporate clients and statutory agencies through the Advance Card in Jamaica and through the Scotiabank Fleet Card in Trinidad. The service continues to be well-received and has strong growth prospects with enhanced technology that improves service delivery and convenience.

In 2004, we launched our e-bulletin "Advance Notice" to keep clients up-to-date on fleet-related issues and tips.

We expect to explore avenues in 2005 that will leverage the real strengths of the company - a valuable portfolio of clients, a distribution network that covers the most traveled thoroughfares via 90% of the gas stations in Jamaica and a profitable and growing operation in Trinidad.

Corporate Trust Division

Corporate Trust fees grew by 10% to $14.4 million as we added another significant institutional mutual fund custody relationship during the year. With pending regulatory changes being finalized to allow for the creation of mutual funds and new public listings likely, we anticipate that opportunities will develop.

Marketing Division

2004 was filled with brand building and promotional activities to strengthen our name recognition and raise greater market familiarity with Pan Caribbean given our transactions with Manufacturers and Lets. Some of the key areas of focus involved:

- **Introducing Pan Caribbean to our new clients throughout the island**
- **Updating our stationery, website and marketing collateral**
- **Raising the profile of Pan Caribbean, particularly where our new branches operate**
- **Re-branding of our Unit Trust products to Sigma Optima and Sigma Solution**
- **Launching Pan Caribbean Asset Management (formerly Sigma Unit Trust Managers)**
- **Educating clients through a series of well-received quarterly breakfasts to review the economy**
- **Educating clients with information and investment tips through our focused e-bulletin "Business Eye"**

2005 presents an opportunity to build on the foundation laid over the last two years and with our new stock broking service to be launched this year, we expect to generate much more client enthusiasm for our products and services as we seek to build our market niches.

Human Resource Development Division

Given the 2004 mergers, the initial focus of our HRD Division was to address issues in relation to salaries, benefits, incentives, standardized operating policies and procedures for the development of appropriate human resource standards for the new "Pan Caribbean". With the help of an external consultant and support from the Board's Compensation Committee, a framework was established for the organization.

Pan Caribbean is deeply interested in and committed to having an institution that is staffed by well-trained, highly skilled and motivated associates to meet the competitive challenges and client requirements of the marketplace. To achieve these objectives, development through training in Customer Service, Supervisory Management, Technical and Sales skills will be emphasized.

Strengthening our middle management capabilities is critical to our expansion plans as Pan Caribbean values its human capital as a strategic resource. In the service businesses that we have chosen to compete in, we will succeed or fail based on our ability to attract, retain and motivate associates.

In 2004, we commissioned an Employee Satisfaction Survey to establish a benchmark to measure our progress as we strive to be ranked among one of the most desirable employers in Jamaica. The survey will be conducted on an annual basis and the results will become a key strategic driver for the company. This survey is a key measure in our three-year strategic plan as we expand our training, strengthen our rewards and recognition programs and positively re-enforce a culture of friendly professionalism.

One of the keys to this is our Staff Share Ownership Plans that enjoyed high participation during 2004, enabling staff members to become shareholders of the company. We expect to keep this scheme in place for the next three years to encourage ownership and its rewards.

Technology Division

Our Technology Division is critical to our strategic objectives. We continue to build a core of strong associates to meet the rapid organizational growth that has characterized Pan Caribbean thus far this decade. Technology completed the rationalization, migration and integration of Manufacturers and Lets along with the branches outside Kingston to Flexcube, our banking software platform. All branches now have real-time, island-wide transaction capabilities.

2005 will see the establishment of a Project Management Unit to focus on the organization's needs as we seek to meet the expectations of clients and the efficiency targets established in our Strategic Plan.

Management's Discussion & Analysis

Major Developments in 2004

In March 2004, we merged with Manufacturers Investments Limited (Manufacturers), a financial services group with $23.9 Billion in assets and $1.6 Billion in equity. In August 2004 we acquired certain financial assets and liabilities of Lets Investments Limited (Lets), a boutique investment bank headquartered in Montego Bay. This transaction saw Pan Caribbean assuming $2.7 Billion in assets and $2.5 Billion in liabilities from Lets. In November 2004, Life of Jamaica Limited made a takeover offer to the shareholders of Pan Caribbean based on its effective control of 51% of the company. In December 2004, we acquired a brokerage seat at the Jamaica Stock Exchange. It was indeed a very active year for the organization.

Revenue & Profit Review

Given all of the major developments noted, it is not surprising that the company's performance versus 2003 reflected significant positive trends. The consolidated results discussed below for Pan Caribbean include ten months of revenues and expenses from Manufacturers, and five months from Lets.

- **Net Interest Income increased from $279 Million to $1.315 Billion, up 371%**
- **Non-Interest Income rose from $234 Million to $479 Million, up 105%**
- **Pre-Tax Profit improved from $338 Million to $1.147 Billion, up 239%**

Net interest income increased in 2004 as a result of the Manufacturers and Lets transactions that brought significantly more earning assets to the group. In addition, declining interest rates throughout the year improved margins on our investment portfolio.

Non-interest income rose despite foreign exchange translation gains falling from $125 Million to $14 Million in 2004 as currency stability returned to the markets. Securities and foreign exchange trading gains improved as a result of the merged trading floors. In addition, falling interest rates sent bond and equity prices higher and created favourable trading conditions. Asset Management and related fees from our Unit Trust activities was an important contributor, adding $79 Million to revenues.

Operating Expense & Taxation Review

Expenses grew significantly in 2004, increasing from $175 Million to $647 Million, or 270%, again impacted by our M&A transactions. Our staffing complement increased from 69 to 205 while the number of operating locations increased from one to five branches, with four units located outside of Kingston.

Staff costs were adjusted downwards by $10 Million, being the increase in the surplus in our Pension Fund based on its 2004 actuarial valuation. This item represents non-cash income and was not generated from operations.

Included in Operating Expenses were $44 Million of amortization charges associated with Goodwill arising out of the Manufacturers and Lets transactions, and $26 Million of merger-related charges.

Operating Expense & Taxation Review (cont'd)

In determining the Goodwill to be recorded in our merger with Manufacturers, the unrealized appreciation of $207 Million in the value of Originated and Held-to-Maturity Securities acquired from Manufacturers, was reflected in the consolidated balance sheet. This appreciation must be amortised over the life of the securities. For 2004 $22 Million has been amortised. This represents a non-cash charge to the P&L account.

Taxation charges have changed significantly over the prior year. In 2003 the tax charge was significantly reduced as the Group benefited from its holding of tax-free investments. With the 2004 merger, Manufacturers brought $335 Million of Deferred Tax Assets. These Deferred Tax Assets reflect the value to the company of its historical tax losses. Continued profitable operations have resulted in the utilization of these tax losses and the concomitant increase in Deferred Taxes expensed to the P&L account. Of the $306 Million in taxation in 2004, $176 Million is non-cash deferred taxation.

Balance Sheet Review

Total assets increased from $18.3 Billion to $40.2 Billion at the end of the financial year. This growth is attributed to Manufacturers' balance sheet of $23.9 Billion and the Lets asset portfolio of $2.7 Billion that were acquired. During the year, we closed out a number of thin-margin BOJ reverse repurchase positions and margin accounts within our enlarged portfolio, which had the effect of reducing the underlying assets and liabilities.

Goodwill at year-end totaled $760 Million.

Our Investment Portfolio is made up primarily of Government of Jamaica securities or securities collateralized by Government of Jamaica securities. Investments increased from $15.5 Billion to $32.7 Billion, moving from 84% to 81% of total assets. These securities can be segregated into three categories:

Short-term securities purchased under agreements to re-sell	**$6.3 Billion**
Originated Securities	**$14.4 Billion**
Available for Sale Securities ("AFS")	**$12.0 Billion**

AFS securities are "marked-to-market" and the company must elect whether its unrealized gains or losses will be reflected in its Profit & Loss Accounts where it impacts the earnings of the Group, or reflected in Stockholders' Equity as Fair Value Reserve. Pan Caribbean had chosen to have the adjustment reflected in Stockholders' Equity net of deferred taxes.

Our Credit Assets which represent the next significant utilization of funds, increased from $1.1 Billion to $3.7 Billion, up from 6% to 9% of total assets in 2004. This shift reflects the size of the credit portfolio from Manufacturers as well as growth. We intend to expand our Credit assets to improve our yields.

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.

Stockholders' Equity Review

Stockholders' Equity on 31 December 2004 was $5.2 Billion compared to $1.5 Billion for the prior year. Our Equity position was enhanced substantially by the Manufacturers and Lets transactions, as well as the strong profits generated during 2004. Stockholders' Equity also includes unrealized fair value gains of $189 Million and excess loan loss provisions of $159 Million. As discussed earlier, we have elected to recognize these unrealized gains in Shareholders' Equity as Fair Value Reserve while Loan Loss Reserve represents surplus provisions above IFRS and regulatory requirements.

There is an additional $797 Million (gross) of un-recorded net fair value gains on Originated Securities, which have not been brought to account, as Originated Securities are carried in our financial statements at amortised cost.

Impact on Future Earnings From Recent Revisions to International Financial Reporting Standards

With the recent revision to IAS 22 – Business Combinations, going forward goodwill will no longer be amortised, but will instead be subject to an annual impairment test. If there is any impairment to goodwill in the future, this amount will be expensed.

Effective January 2005 the new IFRS 2 – Share-based Payment, which includes stock options, will have an impact on future operating expenses as the standard requires that an expense be recognized over the life of the option. The amount to be expensed is derived from the theoretical value of the options granted.

The balance of the $207 Million (now $185 Million) adjustment to the carrying values of Originated and Held-to-Maturity Securities, which arose from the valuation of the goodwill in the Manufacturers' transaction, will be amortised over the remaining life of those securities.

As disclosed earlier in our comments – deferred taxes, pension surpluses (or deficits), our election to hold the majority of our securities portfolio as Available for Sale and to reflect the portfolio's unrealized gains (or losses) in our equity accounts, should be considered in assessing the company's performance now and in the future.

It is important to note that while the treatment of these items will impact our earnings, they will not affect the cash generated from our operations. Going forward, investors will need to more closely examine the notes to the financial statements, the cash flow statements along with the income statement to better understand the company's earnings.

Risk Management

Pan Caribbean utilizes an integrated approach in managing its balance sheet, which includes management of interest rate sensitivity, credit risk, liquidity risk and our capital position. In order to provide a rate of return to shareholders, protect depositors and clients we must constantly seek to monitor and balance liquidity, credit, market, operating and other risks in an economy that exhibits volatility from time to time. This is achieved through a framework of policies, economic and market analyses, as well as other methods that require active and effective management oversight.

Interest Rate Risk

As a means of managing our interest rate risk, we use models to simulate various interest rate scenarios to determine our sensitivity to interest rate movements and how it may impact our local and foreign currency portfolio values. We seek to manage this risk through fixed and variable rate assets, and monitoring and managing the duration of our portfolios.

Liquidity Risk

Pan Caribbean seeks to diversify its liability portfolio by segmenting market participants to reduce concentrations. We strive to achieve targeted levels of matched assets to liabilities maturities, and maintaining a portfolio of short-term highly liquid securities to meet potential funding gaps, bearing in mind market volatility. PCFS constantly monitors its daily, weekly and monthly liquidity risk to manage its maturing asset and liability portfolios. Our target is a minimum liquidity ratio of 30%.

Credit Risk

There is credit risk in both our securities and lending activities. In our securities activities, we trade on a "delivery versus payment" policy where we accept GOJ securities on a "mark to market" basis with our counter-parties. Exposure limits are also established and monitored. In our lending activities, loans are adequately collateralized, with applicants undergoing a thorough screening and credit analysis process.

Currency Risk

Pan Caribbean seeks to manage its exposure to currency risks (primarily U.S. and Euro currencies) through assessing the trade-off between interest rate spreads and currency movements, adherence to stop-loss limits and frequent monitoring of positions. We measure, monitor and control our liquidity and price risks in these major currencies in determining currency strategy.

Operating & Reputaton Risks

We seek to minimize operating risks through separation of duties, appropriate training, adherence to implemented polices, internal audits and a continuing review and update of policies.

We seek to continuously foster and strengthen our culture of integrity and respect for our clients and trading relationships – "our word is our bond". We actively seek to educate our clients and understand their needs and objectives, so that we can guide them appropriately to make decisions that they understand and feel comfortable with.

Corporate Responsibility

Donovan Perkins, President & CEO of Pan Caribbean presents Pan's contribution of $5 million for the Hurricane Ivan relief efforts to the head of the Office Of National Reconstruction, Danville Walker.

We are committed

Pan Caribbean's commitment to good causes continues to grow as the institution expands its reach across the island. In 2004 we concentrated primarily on areas associated with community development and education.

Community Support

2004

Hurricane Ivan was devastating and like a good corporate citizen, we stepped forward. In addition to donating $5,000,0000 to the Office of National Reconstruction, the vehicle established to co-ordinate hurricane relief efforts, we went into the communities outside Kingston where our branches operate, helping St Ann's Bay Primary School, St Elizabeth Technical High School, Savanna La Mar Primary School and Mannings Hill High School to repair buildings hit by the hurricane. Over five hundred and fifty cases of food and water were also contributed to the Jamaica Red Cross and the Salvation Army.

During the year, several NGOs including St. Patrick's Foundation, Mustard Seed Community, Jamaica Cancer Society, Jamaica Foundation for Cardiac Disease and the Family Counseling Centre of Jamaica received our support.

Staff come together as Pan Caribbean donates over 550 cases of food items to the Salvation Army and The Red Cross. These items were distributed across Jamaica to those that severely suffered during Hurricane Ivan.

Karen Vaz, Vice President of Technology at Pan Caribbean hands over computer equipment to members from the Calabar Old Boys Association.

Lyndie Headley (left) President of the Jamaica Masters Athletic Association accepts a donation to send an athlete to the 2004 Regional Master Athletics Championships from Karen Richards, manager of Sales & Client Services, PCAM and Deon McLennon, Research Analyst.

Education

For the twelfth consecutive year, we awarded scholarships to the University of the West Indies and the University of Technology of approximately $2,500,000. Each year, ten students are awarded full scholarships covering the cost of tuition and books for four years. Their performance is monitored to support the discipline that will help make them successful in the workplace.

Partnering with organizations such as the Lions Club of Mona, we supported their project for a Special Student Resonance Centre. We continue to make a positive impact among high schools including Kingston Technical High, Calabar High, Jamaica College, Queen's High School, Greater Portmore High, and Morant Bay High by donating cash, computer equipment and other supplies.

Sports

In the area of sports, we supported a number of clubs with equipment and contributions during the year. Along with the Jamaica Drink Company, we were happy to sponsor the Inter-Prep School Football Competition, ensuring the battle for the "Pan Caribbean / Wata Cup" was held among corporate area schools. The Special Olympics team was also assisted with transportation costs to enable these athletes to participate in the Special Olympics.

These were several of the many causes that we supported in 2004, and Pan Caribbean remains committed to improving our communities as we seek to play our role in not just economic progress, but just as importantly, in Jamaica's social and educational development.

Health

Through our Sigma Corporate Run, for the sixth year a very worthy cause benefited from our support. The Leukemia C.A.R.E., an institution that helps to treat children suffering the effects of leukemia, received $1,500,000. The Sigma Run started in New Kingston for the first time, and over 2,900 participants ended the race at Emancipation Park making the 2004 Corporate Run, the largest road race in Jamaica.

Anya Schnoor (right), Senior Vice President & Chief Operating Officer of Pan Caribbean Financial Services announces the donation of $1.5 million to Leukemia CARE at the 6th Annual Sigma Corporate Run.

Disclosure of Shareholding

AS AT DECEMBER 31, 2004

Major Shareholders

	Shares Held
First Life Insurance Company Limited	197,137,614
Industrial Finance Holdings Limited	116,673,646
Raiders Incorporated Limited	50,366,848
British Caribbean Insurance Company Limited	37,485,076
Life of Jamaica Limited	36,297,168
Life of Jamaica Pooled Equity Fund # 1	7,602,881
Jamaica National Building Society	5,777,760
ATL Group Pension Fund Trustees Nom. Limited	5,297,100
National Insurance Fund	5,115,651
Swift Group Limited	4,272,079

Shareholdings of Directors and Connected Persons

Directors	Shareholding	Connected Persons
Richard O. Byles	590,090	Nil
W. G. Bryan Ewen	500	Nil
Maurice W. Facey	500	Nil
Stephen B. Facey	Nil	Nil
Patrick Lynch	Nil	Nil
Cristina Matalon	Nil	154,158,722
Joseph Matalon	Nil	154,158,722
O. K. Melado	Nil	50,366,848
Peter Melhado	Nil	50,366,848
Donovan H. Perkins	152,395	Nil
Hayden Singh	Nil	8,000
Colin Steele	Nil	Nil

Shareholdings of Senior Managers and Connected Persons

Senior Managers	Shareholding	Connected Persons
Philip Armstrong	Nil	25,000
Enola Beharie	420,000	Nil
Damsel Brown-Thompson	420,000	Nil
Rezworth Burchenson	830,000	86,331
Gene M. Douglas	10,000	Nil
Peter Knibb	Nil	10,000
Lissant Mitchell	Nil	560,000
Donovan H. Perkins	152,395	Nil
Henry Pratt	Nil	Nil
Anya Schnoor	2,035,500	Nil
Karen Vaz	825,000	Nil
Marlene Whyte	Nil	Nil

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
Scotiabank Centre
Duke Street
Box 372
Kingston Jamaica
Telephone (876) 922 6230
Facsimile (876) 922 7581

6 April 2005

To the Members of
Pan Caribbean Financial Services Limited
Kingston

Auditors' Report

We have audited the financial statements set out on pages 30 to 85, and have received all the information and explanations which we considered necessary. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, proper accounting records have been kept and the financial statements, which are in agreement therewith, give a true and fair view of the state of affairs of the Group and the company as at 31 December 2004 and the results of operations, changes in equity and cash flows of the Group and company for the year then ended and have been prepared in accordance with International Financial Reporting Standards and comply with the provisions of the Jamaican Companies Act 1965.

PricewaterhouseCoopers

Chartered Accountants
Kingston, Jamaica

Consolidated Profit & Loss Account

Year ended 31 December 2004

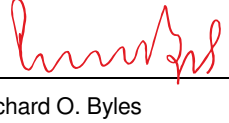
	Note	2004 $'000	2003 $'000
Net Interest Income and Other Revenue			
Interest income from loans		421,805	139,139
Interest income from securities		4,827,456	2,648,551
Interest income from leases		11,444	8,571
Other interest income		13,759	4,675
Total interest income		5,274,464	2,800,936
Interest expense		(3,959,419)	(2,522,358)
Net interest income		1,315,045	278,578
Fees and commission income	4	128,532	33,248
Net trading income	5	245,161	196,679
Other operating income		105,078	3,690
		1,793,816	512,195
Operating Expenses			
Staff costs	6	291,278	92,785
Provision for credit losses, net	16	(6,268)	(41,994)
Occupancy costs		89,601	27,950
Other operating expenses		271,948	95,841
		646,559	174,582
Profit before Taxation	7	1,147,257	337,613
Taxation	8	(305,565)	4,557
NET PROFIT	9	841,692	342,170
BASIC EARNINGS PER STOCK UNIT	11	$1.84	$1.34
DILUTED EARNINGS PER STOCK UNIT	11	$1.82	$1.34

Consolidated Balance Sheet

31 December 2004

	Note	2004 $'000	2003 $'000
ASSETS			
Cash and balances due from other financial institutions	12	774,874	143,497
Cash reserve at Bank of Jamaica	13	85,742	16,941
Trading securities	14	1,540	487,398
Securities purchased under agreements to resell	15	6,272,348	6,513,511
Loans, net of provision for credit losses	16	3,738,719	1,116,346
Lease receivables	17	38,128	26,150
Investment securities	18	26,375,331	8,499,378
Income tax recoverable		5,050	4,873
Due from related company		44,101	17,557
Intangible assets	19	25,961	14,097
Goodwill	20	760,010	-
Property, plant and equipment	21	90,877	39,969
Deferred tax assets	22	86,033	18,595
Retirement benefit asset	23	14,073	4,039
Other assets	24	1,664,713	1,372,507
Customers' liabilities under guarantees		201,129	63,433
Total assets		40,178,629	18,338,291
LIABILITIES			
Due to banks and other financial institutions	25	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	26	849,763	1,104,567
Due to related companies		456,081	-
Retirement benefit obligations	23	3,365	2,882
Liability on guarantees		201,129	63,433
Total liabilities		34,961,382	16,833,754
STOCKHOLDERS' EQUITY			
Share capital	27	514,308	255,661
Share premium	28	2,444,657	-
Unissued fully paid up shares	27	21,683	-
Retained earnings reserve	29	172,000	172,000
Reserve fund	30	86,443	64,000
Loan loss reserve	31	159,273	136,634
Capital reserve on consolidation		111,397	111,397
Fair value reserve	32	188,538	42,507
Retained earnings		1,518,948	722,338
Total stockholders' equity		5,217,247	1,504,537
Total liabilities and equity		40,178,629	18,338,291

Approved for issue by the Board of Directors on 6 April 2005 and signed on its behalf by:



Richard O. Byles Director

Donovan H. Perkins Director

Consolidated Statement of Changes in Stockholders' Equity

Year ended 31 December 2004

	Note	Share Capital	Share Premium	Unissued Fully Paid Up Shares	Dividend Proposed	Retained Earnings	Other Reserves	Total
		$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2003		255,661	-	-	24,288	432,196	369,836	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	31	-	-	-	-	(12,086)	12,086	-
Transfer to reserve fund	30	-	-	-	-	(20,000)	20,000	-
Dividends paid		-	-	-	(24,288)	(19,942)	-	(44,230)
Balance at 31 December 2003		255,661	-	-	-	722,338	526,538	1,504,537
Shares issued	27, 28	258,647	2,444,657	21,683	-	-	-	2,724,987
Unrealised gains on available-for-sale investments, net of taxes		-	-	-	-	-	146,031	146,031
Net profit		-	-	-	-	841,692	-	841,692
Adjustment between regulatory loan provisioning and IFRS	31	-	-	-	-	(22,639)	22,639	-
Transfer to reserve fund	30	-	-	-	-	(22,443)	22,443	-
Balance at 31 December 2004		514,308	2,444,657	21,683	-	1,518,948	717,651	5,217,247

Consolidated Statement of Changes in Stockholders' Equity (cont'd)

Year ended 31 December 2004

	Note	Other Reserves					
		Retained Earnings Reserve	Reserve Fund	Loan Loss Reserve	Capital Reserve	Fair Value Reserve	Total
		$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2003		172,000	44,000	124,548	111,397	(82,109)	369,836
Unrealised gains on available-for-sale investments, net of taxes		-	-	-	-	124,616	124,616
Adjustment between regulatory loan provisioning and IFRS	31	-	-	12,086	-	-	12,086
Transfer to reserve fund	30	-	20,000	-	-	-	20,000
Balance at 31 December 2003		172,000	64,000	136,634	111,397	42,507	526,538
Unrealised gains on available-for-sale investments, net of taxes		-	-	-	-	146,031	146,031
Adjustment between regulatory loan provisioning and IFRS	31	-	-	22,639	-	-	22,639
Transfer to reserve fund	30	-	22,443	-	-	-	22,443
Balance at 31 December 2004		172,000	86,443	159,273	111,397	188,538	717,651

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 flows (used in)/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
Current tax expense	129,465	495
Changes in retirement benefit assets/obligations	(9,551)	1,293
Deferred tax charge/(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
Customer deposits	154,226	213,284
Securities purchased under agreements to resell	3,599,485	(2,226,340)
Securities sold under agreements to repurchase	(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 (Page 35)	(1,071,209)	1,227,943

Consolidated Statement of Cash Flows (cont'd)

Year ended 31 December 2004

	2004	2003
	$'000	$'000
Cash Flows from Operating Activities (Page 34)	(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 assets, net of grants received	(21,631)	(3,481)
Proceeds from disposal of property, plant and equipment	2,990	738
Acquisition of Lets Investments Limited portfolio (Note 20)	(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 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 on acquisition of subsidiaries (Note 20)	7,327,611	-
Cash and cash equivalents transferred on acquisition of Lets Investments Limited portfolio (Note 20)	8,582	-
CASH AND CASH EQUIVALENTS AT END OF YEAR	1,926,186	361,156
Comprising:		
Cash and balances due from other financial institutions	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

Profit & Loss Account

Year ended 31 December 2004

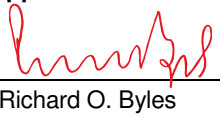
	Note	2004 $'000	2003 $'000
Net Interest Income and Other Revenue			
Interest income from loans		109,106	82,870
Interest income from securities		4,380,641	2,531,878
Interest income from leases		-	200
Other interest income		2,853	1,509
Total interest income		4,492,600	2,616,457
Interest expense		(3,452,300)	(2,448,579)
Net interest income		1,040,300	167,878
Fees and commission income	4	13,567	14,827
Net trading income	5	92,296	120,140
Other operating income		3,903	1,620
		1,150,066	304,465
Operating Expenses			
Staff costs	6	206,516	53,548
Provision for credit losses, net	16	(2,093)	(37,999)
Occupancy costs		42,924	8,121
Other operating expenses		130,556	38,545
		377,903	62,215
Profit before Taxation	7	772,163	242,250
Taxation	8	(156,801)	13,556
NET PROFIT	9	615,362	255,806

Balance Sheet

31 December 2004

	Note	2004 $'000	2003 $'000
ASSETS			
Cash and balances due from other financial institutions	12	297,528	61,375
Trading securities	14	1,540	487,398
Securities purchased under agreements to resell	15	5,962,998	6,305,013
Loans, net of provision for credit losses	16	686,774	727,180
Investment securities	18	23,543,377	7,738,584
Investment in subsidiaries		2,564,075	140,614
Due from related company		1,571	1,317
Intangible assets	19	18,352	14,097
Goodwill	20	143,263	-
Property, plant and equipment	21	41,735	24,700
Deferred tax assets	22	-	10,547
Other assets	24	1,413,701	1,295,021
Total assets		34,674,914	16,805,846
LIABILITIES			
Due to banks and other financial institutions	25	976,613	930,118
Customer deposits		523,436	201,454
Securities sold under agreements to repurchase		27,885,412	13,567,490
Income tax payable		117,744	-
Deferred tax liability	22	65,540	-
Other liabilities	26	651,817	1,087,651
Due to related companies		25	-
Total liabilities		30,220,587	15,786,713
STOCKHOLDERS' EQUITY			
Share capital	27	514,308	255,661
Share premium	28	2,444,657	-
Unissued fully paid up shares	27	21,683	-
Loan loss reserve	31	104,050	125,503
Fair value reserve	32	133,504	38,659
Retained earnings		1,236,125	599,310
Total stockholders' equity		4,454,327	1,019,133
Total liabilities and equity		34,674,914	16,805,846

Approved for issue by the Board of Directors on 6 April 2005 and signed on its behalf by:



Richard O. Byles — Director

Donovan H. Perkins — Director

Statement of Changes in Stockholders' Equity

Year ended 31 December 2004

	Note	Share Capital	Share Premium	Unissued Fully Paid Up Shares	Dividend Proposed	Retained Earnings	Other Reserves	Total
		$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2003		255,661	-	-	24,288	368,317	120,632	768,898
Adjustment between regulatory loan provisioning and IFRS		-	-	-	-	(4,871)	4,871	-
Unrealised gains on available-for-sale investments, net of taxes		-	-	-	-	-	38,659	38,659
Net profit		-	-	-		255,806	-	255,806
Dividends paid		-	-	-	(24,288)	(19,942)	-	(44,230)
Balance at 31 December 2003		255,661	-	-	-	599,310	164,162	1,019,133
Issue of shares	27, 28	258,647	2,444,657	21,683	-	-	-	2,724,987
Adjustment between regulatory loan provisioning and IFRS	31	-	-	-	-	21,453	(21,453)	-
Unrealised gains on available-for-sale investments, net of taxes		-	-	-	-	-	94,845	94,845
Net profit		-	-	-	-	615,362	-	615,362
Balance at 31 December 2004		514,308	2,444,657	21,683	-	1,236,125	237,554	4,454,327

Statement of Changes in Stockholders' Equity (cont'd)

Year ended 31 December 2004

	Note	Loan Loss Reserve	Fair Value Reserve	Total
		$'000	$'000	$'000
Balance at 1 January 2003		120,632	-	120,632
Adjustment between regulatory loan provisioning and IFRS		4,871	-	4,871
Unrealised gains on available-for-sale investments, net of taxes		-	38,659	38,659
Balance at 31 December 2003		125,503	38,659	164,162
Adjustment between regulatory loan provisioning and IFRS	31	(21,453)	-	(21,453)
Unrealised gains on available-for-sale investments, net of taxes		-	94,845	94,845
Balance at 31 December 2004		104,050	133,504	237,554

Statement of Cash Flows

Year ended 31 December 2004

	2004 $'000	2003 $'000
Cash Flows from Operating Activities		
Net profit	615,362	255,806
Adjustments to reconcile net profit to cash flows provided by operating activities:		
Depreciation of property, plant and equipment	6,807	2,060
Amortisation of intangible assets	7,676	1,180
Amortisation of goodwill	9,615	-
Provision for credit losses	(2,093)	(37,999)
Interest income	(4,492,600)	(2,616,457)
Interest expense	3,452,300	2,448,579
Current tax expense/(credit)	117,744	(654)
Deferred tax charge/(credit)	39,057	(12,902)
Loss on sale of property, plant and equipment	125	-
Unrealised gain on trading securities	(18,225)	(27,004)
	(264,232)	12,609
Changes in operating assets and liabilities:		
Loans	496,008	318,460
Customer deposits	321,982	44,662
Securities sold under agreements to repurchase	(2,567,170)	2,909,508
Securities purchased under agreements to resell	3,486,526	(2,076,100)
Trading securities, net	504,083	(401,012)
Other assets, net	37,726	437,407
Other liabilities, net	(441,870)	(256,194)
	1,573,053	989,340
Interest received	4,668,145	1,400,062
Interest paid	(3,891,294)	(1,412,905)
Net cash provided by operating activities (Page 41)	2,349,904	976,497

Statement of Cash Flows (cont'd)

Year ended 31 December 2004

	2004 $'000	2003 $'000
Net Cash Provided by Operating Activities (Page 40)	2,349,904	976,497
Cash Flows from Investing Activities		
Issue of shares	66,000	-
Investment in subsidiaries	(87,288)	-
Acquisition of Lets Investments Limited portfolio (Note 20)	(165,000)	-
Acquisition of property, plant and equipment	(25,027)	(7,529)
Acquisition of intangible assets, net of grant received	(11,931)	(3,481)
Proceeds from disposal of property, plant and equipment	1,061	-
Acquisition of investment securities, net	(1,765,313)	(736,477)
Net cash used in investing activities	(1,987,498)	(747,487)
Cash Flows from Operating and Investing Activities	362,406	229,010
Cash Flows from Financing Activities		
Due to parent company and fellow subsidiaries, net	(229)	(1,604)
Due to banks and other financial institutions – long term	(22,780)	68,225
Dividends paid	-	(44,230)
Net cash (used in)/provided by financing activities	(23,009)	22,391
Effect of exchange rate changes on cash and cash equivalents	7,152	(7,780)
Net increase in cash and cash equivalents	346,549	243,621
Cash and cash equivalents at beginning of year	254,779	11,158
Cash and cash equivalents transferred on acquisition of Lets Investments Limited portfolio(Note 20)	8,583	-
Cash and cash equivalents transferred on amalgamation with Manufacturers Sigma Investment Managers Limited (Note 20)	237,098	-
CASH AND CASH EQUIVALENTS AT END OF YEAR	847,009	254,779
Comprising:		
Cash and balances due from other financial institutions	297,528	61,375
Investment securities	618,789	193,437
Due to banks and other financial institutions – short term	(69,308)	(33)
	847,009	254,779

1. Identification, Regulation and Licence

Pan Caribbean Financial Services Limited (PCFS, the company) is incorporated and domiciled in Jamaica. The company is listed on the Jamaica Stock Exchange. The principal activities of the company are the provision of development banking and investment and fund management services. The company is a licensed securities dealer and has primary dealer status from the Bank of Jamaica. On 31 December 2004 the company also obtained a seat on the Jamaica Stock Exchange (JSE) to facilitate the provision of stock broking services to customers. The registered office of the company is located at 60 Knutsford Boulevard, Kingston 5.

Up to 1 March 2004, the company was a 77% subsidiary of First Life Insurance Company Limited with the ultimate parent company being Pan-Jamaican Investment Trust Limited. On 1 March 2004, the company and Manufacturers Investments Limited (MIL) executed a reconstruction agreement to merge their operations. Under the agreement, shares in PCFS were issued to the shareholders of MIL, in exchange for 100% of the shares in MIL. At the time of that agreement MIL had the following wholly owned subsidiaries through direct holdings or holdings through wholly owned subsidiaries:

Company	Principal Activities
Manufacturers Sigma Merchant Bank Limited	Merchant banking
Sigma Unit Trust Managers Limited	Unit trust management
Manufacturers Sigma Investment Managers Limited	Management of funds and trading of securities
Manufacturers Credit and Information Services Limited	Provision of fleet advance cards

Arising from the reconstruction agreement and subsequent reconstruction activities of the resulting group:

(a) MIL and its subsidiaries became wholly owned subsidiaries of the company.

(b) Manufacturers Sigma Merchant Bank Limited changed its name to Pan Caribbean Merchant Bank Limited (PCMB) on 31 May 2004. The former Pan Caribbean Merchant Bank Limited, which is a subsidiary of PCFS, changed its name to Pan Caribbean Securities Limited (PCSL).

(c) Pursuant to a Scheme of Arrangement and Amalgamation, the business of PCSL was transferred to PCMB. The agreement called for PCMB to assume full and irrevocable responsibility of all the assets, liabilities and business in whole of PCSL as at 31 May 2004. On 1 June 2004, all the assets specified in the Amalgamation agreement were deemed vested in PCMB by a Vesting Order of the Minister of Finance. PCMB remained the principal licencee. PCSL subsequently ceased operations.

Shares in the company were issued to PCFS from reserves transferred on the amalgamation with PCSL. As a result of this issuance of shares and subsequent share issues, PCFS obtained a 57% direct holding in PCMB. The balance of the shares in PCMB is held by MIL.

(d) Pursuant to a Scheme of Arrangement and Amalgamation and an Order of the Supreme Court of Judicature of Jamaica, the business of Manufacturers Sigma Investment Managers Limited (MSIM) was transferred to PCFS (Note 20). MSIM was subsequently wound up.

(e) Sigma Unit Trust Managers Limited changed its name to Pan Caribbean Asset Management Limited.

On 1 August 2004, PCFS also acquired the securities business of Lets Investments Limited (Lets) (Note 20).

1. Identification, Regulation and Licence (Continued)

The company's subsidiaries, which are all incorporated and domiciled in Jamaica, are as follows:

Subsidiaries	Principal Activities	Holding	Financial Year End
Pan Caribbean Merchant Bank Limited	Merchant banking	100%	31 December
Pan Caribbean Asset Management Limited	Unit trust management	100%	31 December
Manufacturers Credit and Information Services Limited	Provision of fleet advance cards	100%	31 December
Manufacturers Investments Limited	Inactive	100%	31 December
Pan Caribbean Investments Limited	Inactive	100%	31 December
Pan Caribbean Securities Limited	Inactive	100%	31 December

These financial statements are presented in Jamaican dollars unless otherwise identified.

2. 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 and investment securities held for trading.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(b) Consolidation

The consolidated financial statements comprise those of the company and its subsidiaries (the Group) presented as a single economic entity. Subsidiaries are consolidated on a line-by-line basis from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. Intercompany transactions, balances and unrealised gains and losses on transactions between companies within the Group are eliminated.

2. Summary of Significant Accounting Policies (Continued)

(c) Foreign currency translation

Foreign currency transactions are accounted for at the exchange rates prevailing at the dates of the transactions. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated using the closing exchange rate. These rates represent the weighted average rates at which the company trades in foreign currencies.

Exchange differences resulting from the settlement of transactions at rates different from those at the dates of the transactions, and unrealised foreign exchange differences on unsettled foreign currency monetary assets and liabilities are recognised in the profit and loss account.

Exchange differences on non-monetary financial assets are a component of the change in their fair value. Depending on the classification of a non-monetary financial asset, exchange differences are either recognised in the profit and loss account (applicable for trading securities), or within stockholders' equity if non-monetary financial assets are classified as available-for-sale.

(d) Interest income and fees

Interest income and expense are recognised in the profit and loss account for all interest-bearing instruments on an accrual basis using the effective yield method based on the actual purchase price. Interest income includes coupons earned on fixed income investments and accrued discount or premium on treasury bills and other discounted instruments.

Jamaican banking regulations stipulate that, where collection of interest income is considered doubtful or payment is outstanding for 90 days or more, interest should be taken into account on the cash basis. IFRS require that when loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount. The difference between the regulatory and IFRS bases of interest recognition was assessed to be immaterial.

Fees and commission income are recognised on an accrual basis. Fees and commissions arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction.

(e) Financial instruments

Financial instruments carried on the balance sheet include cash resources, trading securities, securities purchased under agreement to resell, loans, lease receivables, investment securities, other assets excluding property, plant and equipment, deposits by customers and all other liabilities. The fair values of the Group's financial instruments are discussed in Note 34.

(f) 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.

Trading securities are those which are either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit taking exists. They are initially recorded at cost, which includes transaction costs, and subsequently remeasured at fair value based on quoted bid prices. All related realised and unrealised gains and losses are included in net trading income.

2. Summary of Significant Accounting Policies (Continued)

(f) Investments (Continued)

Originated debt securities include those where money is provided to the issuer, either directly or through an intermediary, other than those that are originated with the intent to be sold immediately or in the short-term, which are recorded as trading securities. They are initially recorded at cost, which is the cash given to originate the debt including any transaction costs, and subsequently measured at amortised cost using the effective interest rate method.

Available-for-sale securities are those intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, foreign exchange rates or market prices. They are initially recognised at cost, which includes transaction costs, and subsequently remeasured at fair value based on quoted bid prices or amounts derived from cash flow models. Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment. Unrealised gains and losses arising from changes in fair value of available-for-sale securities are recognised in stockholders' equity. When the securities are disposed of or impaired, the related accumulated unrealised gains or losses included in stockholders' equity are transferred to the profit and loss account.

A financial asset is considered impaired if its carrying amount exceeds its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the assets' carrying amount and the present value of expected future cash flows discounted at the original effective interest rate. The recoverable amount of a financial asset carried at fair value is the present value of expected future cash flows discounted at the current market interest rate for a similar financial asset.

All purchases and sales of investment securities are recognised at trade date.

(g) 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 using the effective interest rate method.

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, which is the present value of expected future cash flows including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the loan.

The provision for credit losses also covers situations where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component, the credit ratings allocated to the borrowers and reflecting the current economic climate in which the borrowers operate.

For non-performing and impaired loans the accrual of interest income based on the original terms of the loan is discontinued. Jamaican banking regulations require that interest on non-performing loans be taken into account on the cash basis. IFRS require the increase in the present value of impaired loans due to the passage of time to be reported as interest income. The difference between the Jamaican regulatory basis and IFRS was assessed to be immaterial.

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.

2. Summary of Significant Accounting Policies (Continued)

(g) Loans and allowance for impairment losses (Continued)

Write-offs are made when all or part of a loan is deemed uncollectible or in the case of debt forgiveness. Write-offs are charged against previously established provisions for credit losses and reduce the principal amount of a loan. Recoveries in part or in full of amounts previously written-off are credited to the profit and loss account.

(h) Investment in subsidiaries

Investments by the company in subsidiaries are stated at cost.

(i) Intangible assets

Generally, costs associated with developing or maintaining computer software are recognised as an expense as incurred. However, costs that are directly associated with identifiable and unique software products controlled by the Group, and which have probable economic benefits exceeding the cost beyond one year, are recognised as intangible assets.

Expenditure which enhances or extends the performance of computer software beyond their original specifications is recognised as capital improvement and added to the original cost of the software. Computer software costs are amortised using the straight-line method over their useful lives.

Intangible assets are reviewed periodically for impairment. Where the carrying amount of an intangible asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

(j) Property, plant and equipment

All property, plant and equipment are stated at historical or deemed cost less accumulated depreciation and impairment losses.

Depreciation is calculated on the straight-line basis at annual rates that will write off the carrying value of each asset over the period of its expected useful life. The estimated useful lives are as follows:

Furniture and equipment	10 years
Motor vehicles	5 years
Computer equipment	10 years
Leasehold improvements	10 years

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.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the profit and loss account when the expenditure is incurred.

(k) Securities purchased/sold under agreements to resell/repurchase

Securities purchased under agreements to resell (reverse repurchase agreements) and securities sold under agreements to repurchase (repurchase agreements) are treated as collateralised financing transactions. The difference between the purchase/sale and resale/repurchase price is treated as interest and accrued over the life of the agreements using the effective yield method.

2. Summary of Significant Accounting Policies (Continued)

(l) Borrowings

Borrowings are recognised 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 recognised in the profit and loss account over the period of the borrowings using the effective yield method.

(m) Goodwill

Goodwill arising on acquisitions 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.

At each balance sheet date, the Group assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of goodwill is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount.

(n) Employee benefits

(i) Pension asset

The Group participates in a defined benefit plan administered by First Life Insurance Company Limited. The plan is funded by payments from employees and the Group, taking into account the recommendations of independent qualified actuaries. Benefits under the plan are based on career earnings.

The asset or liability in respect of the 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 unrecognised actuarial gains/losses and past service cost. Where a pension asset arises, the amount recognised is limited to the net total of any cumulative unrecognised net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reduction in future contributions to the plan. The pension costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the profit and loss account 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 rates based on market yields on government securities which have terms to maturity approximating the terms of the related liability.

A portion of actuarial gains and losses is recognised in the profit and loss account if the net cumulative unrecognised actuarial gains or losses at the end of the previous reporting period exceeded 10 percent of the greater of the present value of the gross defined benefit obligation and the fair value of plan assets at that date. Any excess actuarial gains or losses are recognised in the profit and loss account over the average remaining service lives of the participating employees.

(ii) Other retirement obligations

The Group provides health care 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 expected costs of these benefits are accrued over the period of employment, using a methodology similar to that for defined benefit pension plans. Valuations of these obligations are carried out annually by independent qualified actuaries.

2. Summary of Significant Accounting Policies (Continued)

(n) Employee benefits (Continued)

(iii) Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without the possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than twelve (12) months after the balance sheet date are discounted to present value.

(iv) Equity compensation benefits

Employees of the company are eligible to purchase shares in the company under a share purchase plan. In addition share options are granted to management as part of an incentive scheme.

Under the share purchase plan, stock units are offered to eligible staff members each year at a discount.

Under the share option scheme, options are granted at a discount. When the options are exercised, the proceeds received net of any transaction costs are credited to share capital (nominal value) and share premium. The Group does not make a charge to staff costs in connection with share options.

(o) Leases

(i) As Lessee

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset or the present value of minimum lease payments. Each lease payment is allocated between the liability and interest charges so as to produce a constant rate of charge on the lease obligation. The interest element of the lease payments is charged to the profit and loss account over the lease period.

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

(ii) As Lessor

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease in a manner which reflects a constant periodic rate of return on the net investment in the lease.

Assets leased out under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned assets. Rental income is recognised on a straight-line basis over the lease term.

(p) Provisions

Provisions are recognised 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.

2. Summary of Significant Accounting Policies (Continued)

(q) Income taxes

Taxation expense in the profit and loss account comprises current and deferred tax. Current and deferred taxes are recognised 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.

Current tax charges are based on taxable profit for the year, which differs from the profit before tax reported because it excludes items that are taxable or deductible in other years, and items that are never taxable or deductible. The company's liability for current tax is calculated at tax rates that have been enacted at balance sheet date.

Deferred tax is the tax expected to be paid or recovered on differences between the carrying amounts of assets and liabilities and the corresponding tax bases. Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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.

(r) Cash and cash equivalents

Cash and bank balances are stated at cost. For the purpose of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including cash and balances due from other financial institutions, investment securities and amounts due to banks and other financial institutions.

(s) Grants

Grants are deducted in arriving at the carrying amount of the asset, and are recognised as income over the life of the related asset by way of a reduced amortisation charge.

(t) Guarantees

The potential liability under guarantees is reported as a liability in the balance sheet. There are equal and offsetting claims against customers in the event of a call on these commitments, which are reported as an asset.

(u) 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 company or its subsidiaries act in a fiduciary capacity such as nominee, trustee or agent.

(v) Deposits

Deposits are recognised initially at the nominal amount when funds are received. Deposits are subsequently stated at amortised cost using the effective yield method. Interest payable on deposits and securities are included in other liabilities.

(w) Comparative information

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

3. Segment Reporting

The Group is organised into three main business segments:

(a) Development Banking – this incorporates development banking services.

(b) Investment Management – this incorporates investment management, securities trading and funds management.

(c) Merchant Banking – this incorporates the acceptance of deposits from customers, the financing of loans and leases, trustee services and foreign currency trading.

(d) Other – this incorporates unit trust management services and the provision of fleet advance cards.

The Group's operations are located in Jamaica, with the exception that a subsidiary, Manufacturers Credit and Information Services Limited (MCIS), has a branch in Trinidad.

	Year ended 31 December 2004					
	Development Banking	Investment Management	Merchant Banking	Other	Eliminations	Group
	$'000	$'000	$'000	$'000	$'000	$'000
External operating revenues	173,584	4,404,285	1,121,193	54,173	-	5,753,235
Operating revenue from other segments	15,000	9,497	139,070	-	(163,567)	-
Operating revenue	188,584	4,413,782	1,260,263	54,173	(163,567)	5,753,235
Segment result	87,145	662,846	394,786	35,805	-	1,180,582
Amortisation of unallocated goodwill						(33,325)
Profit before tax						1,147,257
Income tax expense						(305,565)
Net profit						841,692
Segment assets	6,166,194	25,944,645	7,024,333	974,825	(691,378)	39,418,619
Unallocated goodwill						760,010
						40,178,629
Segment liabilities	1,187,000	29,033,587	4,606,805	65,358	68,632	34,961,382
Other segment items:						
Capital expenditure	25,027	-	15,509	1,526	-	42,062
Depreciation	6,807	-	13,731	2,056	-	22,594
Amortisation of unallocated goodwill	-	-	-	-	-	33,325
Other amortisation charges	17,291	-	2,935	-	-	20,226

3. Segment Reporting (Continued)

	Year ended 31 December 2003				
	Development Banking $'000	Investment Management $'000	Merchant Banking $'000	Eliminations $'000	Group $'000
External operating revenues	258,133	2,479,911	296,509	-	3,034,553
Operating revenue from other segments	15,000	-	1,748	(16,748)	-
Operating revenue	273,133	2,479,911	298,257	(16,748)	3,034,553
Segment result	138,631	90,367	108,615	-	337,613
Taxation					4,557
Net profit					342,170
Segment assets	1,851,307	14,853,919	1,692,053	(58,988)	18,338,291
Segment liabilities	997,935	14,788,778	1,106,029	(58,988)	16,833,754
Other segment items:					
Capital expenditure	24,725	-	4,451	-	29,176
Depreciation	2,060	-	2,703	-	4,763
Amortisation	1,180	-	478	-	1,658

4. Fees and Commission Income

	The Group		The Company	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Wholesale banking fees	4,181	6,636	4,181	6,636
Credit fees, net	11,583	8,248	3,237	4,865
Trust fees	78,088	13,095	20	-
Treasury fees	30,679	5,269	6,129	3,326
Other fees	4,001	-	-	-
	128,532	33,248	13,567	14,827

5. Net Trading Income

	The Group		The Company	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Foreign exchange translation and trading	68,103	159,170	19,405	69,331
Dividend income	39,736	7,078	15,833	20,192
Gain on sale of investments	20,462	3,613	56,719	3,613
Securities trading gain	116,860	26,818	339	27,004
	245,161	196,679	92,296	120,140

6. Staff Costs

	The Group		The Company	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Wages and salaries	231,375	60,790	173,217	51,767
Statutory contributions	18,505	6,071	13,094	591
Pension costs (Note 23)	(4,777)	1,962	-	-
Other retirement benefits (Note 23)	483	805	-	-
Termination costs	1,348	-	-	-
Accommodation and other staff benefits	44,344	23,157	20,205	1,190
	291,278	92,785	206,516	53,548

The number of persons employed at the end of the year:

	The Group		The Company	
	2004 No.	2003 No.	2004 No.	2003 No.
Full - time	188	62	107	45
Part - time	17	7	3	4
	205	69	110	49

7. Profit before Taxation

The following have been charged/(credited) in arriving at the profit before taxation:

	The Group		The Company	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Directors' emoluments -				
Fees	4,064	264	1,075	119
Management remuneration	21,200	9,819	-	-
Auditors' remuneration -				
Current year	6,160	3,400	2,600	1,800
Prior year	770	(165)	600	(665)
Depreciation	22,594	4,763	6,807	2,060
Amortisation of intangible assets	9,778	750	7,676	-
Amortisation of goodwill	43,773	-	9,615	-
Loss on disposal of property, plant and equipment	2,279	731	125	-

8. Taxation

Income tax is computed on the profit for the years adjusted for tax purposes. The charge for taxation comprises income tax at 33⅓%:

	The Group		The Company	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Current tax at 33⅓%	129,465	1,149	117,744	-
Adjustment to prior year current tax charge	-	(654)	-	(654)
Deferred tax (Note 22)	176,100	(5,052)	39,057	(12,902)
	305,565	(4,557)	156,801	(13,556)

Subject to agreement with the Commissioner of Taxpayer Audit and Assessment, losses available for indefinite carry forward and offset against future taxable profits of the Group and the company amount to approximately $488,170,000 (2003 - $105,429,000) and $Nil (2003 - $105,429,000) respectively.

The tax on profit differs from the theoretical amount that would arise using the statutory rate of 33⅓% as follows:

	The Group		The Company	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Profit before taxation	1,147,257	337,613	772,163	242,250
Tax calculated at 33⅓%	382,419	112,538	257,388	80,750
Adjusted for the effect of:				
Income not subject to tax	(153,452)	(144,935)	(130,847)	(115,689)
Expenses not deductible for tax purposes	49,469	27,840	15,796	21,383
Adjustment to tax losses	27,129	-	14,464	-
Income tax	305,565	(4,557)	156,801	(13,556)

9. Net Profit

	2004 $'000	2003 $'000
Dealt with in the financial statements of:		
The company	615,362	255,806
The subsidiaries	226,330	86,364
	841,692	342,170

10. Retained Earnings

	2004 $'000	2003 $'000
Reflected in the financial statements of:		
The company	1,236,125	599,310
The subsidiaries	282,823	123,028
	1,518,948	722,338

11. Earnings per Stock Unit

(a) Basic earnings per stock unit is calculated by dividing the net profit attributable to stockholders by the weighted average number of ordinary stock units in issue during the year.

	2004	2003
Net profit attributable to stockholders ($'000)	841,692	342,170
Weighted average number of ordinary stock units in issue ('000)	456,603	255,661
Basic earnings per stock unit ($)	1.84	1.34

(b) Diluted earnings per stock unit reflects the effect of outstanding share options (Note 27).

	2004	2003
Net profit attributable to stockholders ($'000)	841,692	342,170
Weighted average number of ordinary stock units in issue ('000)	462,365	255,661
Diluted earnings per stock unit ($)	1.82	1.34

12. Cash and Balances Due from Other Financial Institutions

	The Group		The Company	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Placements with other financial institutions	740,216	141,932	270,972	61,375
Cash in hand	34,658	1,565	26,556	-
	774,874	143,497	297,528	61,375

13. Cash Reserve at Bank of Jamaica

A prescribed minimum of 23% of deposit liabilities is required to be maintained by the merchant banking subsidiary in liquid assets, of which 9% must be maintained as cash reserves with the Bank of Jamaica. They are not available for investment, lending or other use by the Group.

Effective 15 January 2003, the merchant banking subsidiary is required by the Bank of Jamaica under section 28A of the Bank of Jamaica Act, to maintain a special deposit wholly in the form of cash, representing 5% of prescribed liabilities. This special deposit earns interest at 6% per annum.

14. Trading Securities

	The Group		The Company	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Government of Jamaica debt securities – at fair value	1,540	487,398	1,540	487,398

15. Securities Purchased Under Agreements to Resell

The Group entered into reverse repurchase agreements collateralised by Government of Jamaica securities. These agreements may result in credit exposure in the event that the counterparty to the transaction is unable to fulfil its contractual obligation.

As at 31 December 2004, the Group held $6,272,348,000 of securities, mainly representing Government of Jamaica debt securities, as collateral for reverse repurchase agreements.

16. Loans

	The Group		The Company	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Gross loans	3,856,184	1,231,693	786,519	838,253
Provision for credit losses	(117,465)	(115,347)	(99,745)	(111,073)
	3,738,719	1,116,346	686,774	727,180

The aggregate amount of non-performing loans on which interest was not being accrued is as follows:

	The Group		The Company	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Total non-performing loans	224,866	223,038	179,586	205,099

The movement in the provision for credit losses determined under the requirements of IFRS is as follows:

	The Group		The Company	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Balance at beginning of year	115,347	157,341	111,073	149,072
Loan loss provisions of acquired subsidiaries	17,621	-	-	-
Write-off of loans previously provided for	(9,235)	-	(9,235)	-
Provided during the year	2,830	12,394	-	10,510
Recoveries	(9,098)	(54,388)	(2,093)	(48,509)
Net credit to the profit and loss account	(6,268)	(41,994)	(2,093)	(37,999)
Balance at end of year	117,465	115,347	99,745	111,073

The provision for credit losses determined under Bank of Jamaica regulatory requirements is as follows:

	The Group		The Company	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Specific provision	239,347	241,817	197,220	230,728
General provision	37,391	10,164	6,575	5,848
	276,738	251,981	203,795	236,576
Excess of regulatory provision over IFRS provision reflected in a non distributable loan loss reserve (Note 31)	159,273	136,634	104,050	125,503

17. Lease Receivables

	The Group	
	2004 $'000	2003 $'000
Net investment in finance leases is classified as follows:		
Not later than one year	13,132	14,389
Later than one year and not later than five years	24,996	11,761
	38,128	26,150

18. Investment Securities

	The Group		The Company	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Originated debt securities – at amortised cost:				
Government of Jamaica	14,410,789	6,767,490	13,543,026	6,422,391
Available-for-sale securities –				
At fair value:				
Debt securities –				
Government of Jamaica	10,533,820	1,587,971	8,606,713	1,182,441
Other	1,247,150	-	1,247,150	-
Equity securities –				
Quoted	35,537	8,693	-	-
At cost:				
Unquoted	148,035	135,224	146,488	133,752
	11,964,542	1,731,888	10,000,351	1,316,193
	26,375,331	8,499,378	23,543,377	7,738,584

The Bank of Jamaica holds as security, Government of Jamaica Local Registered Stocks valued at $2,096,000 (2003 - $30,000,000) for the Group and the company against possible shortfalls in the operating accounts.

Included in investment securities are the following amounts, which are regarded as cash equivalents for purposes of the statement of cash flows:

	The Group		The Company	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Debt securities with an original maturity of less than 90 days	1,320,610	223,437	618,789	193,437

19. Intangible Assets

	The Group		The Company	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Opening net book value	14,097	12,274	14,097	11,796
Intangible assets of acquired subsidiaries	11	-	-	-
Additions	21,631	17,195	11,931	17,195
Grants received	-	(13,714)	-	(13,714)
Amortisation	(9,778)	(1,658)	(7,676)	(1,180)
	25,961	14,097	18,352	14,097
Cost, net of grant	59,537	15,277	27,208	15,277
Accumulated amortisation	(33,576)	(1,180)	(8,856)	(1,180)
	25,961	14,097	18,352	14,097

This represents the net of computer software purchased and grants received from Deutsche Investitions und Entwicklungsgesellschaft mbH (DEG).

20. Goodwill

	The Group		The Company	
	2004	2003	2004	2003
	$'000	$'000	$'000	$'000
Transferred from acquired subsidiaries:				
Goodwill arising on acquisition of portfolio (a)	833	-	-	-
Movement during the year:				
Goodwill arising on acquisition of Lets investment portfolio (b)	75,000	-	75,000	-
Goodwill arising on acquisition of MSIM (c)	-	-	77,878	-
Goodwill arising on consolidation (d)	727,950	-	-	-
Amortised during the year –		-	-	-
Insurance premium financing (a)	(833)	-	-	-
MSIM and Lets portfolios	(2,500)	-	(9,615)	-
Goodwill on consolidation	(40,440)	-	-	-
Balance at year end	760,010	-	143,263	-

(a) Goodwill of $30,000,000 arose on the purchase from Industrial Finance Limited of its entire insurance premium financing portfolio for $215,800,000 in 2002. This premium represents a multiple of three times current earnings of the portfolio and is being amortised over three years.

(b) On 1 August 2004, Pan Caribbean Financial Services Limited (PCFS) acquired the securities business of Lets Investments Limited (Lets). The total consideration was $275,000,000 of which $165,000,000 was settled in cash and the balance, by the issue of shares in the company (Note 27). Goodwill arising on this transaction amounted to $75,000,000, being the excess of the consideration over the fair value of the net assets acquired. The goodwill is being amortised over 10 years. The current year amortisation charge is included in other operating expenses in the profit and loss account.

(c) As a result of the merger between PCFS and Manufacturers Investments Limited (MIL), Manufacturers Sigma Investment Management Limited (MSIM) became a subsidiary of PCFS. Pursuant to a Scheme of Arrangement and Amalgamation and an Order - Supreme Court of Judicature of Jamaica, the business of MSIM was transferred to PCFS. The goodwill represents an apportionment, based on the MSIM's portion of MIL net assets at 29 February 2004, of the fair value of equity instruments issued by PCFS, less the MSIM net assets acquired. The goodwill is being amortised over 15 years. The current year amortisation charge is included in other operating expenses in the profit and loss account.

20. Goodwill (Continued)

(d) MIL and PCFS executed an agreement to merge their operations on 1 March 2004. The purchase method was applied to the business combination. The merger was effected through an exchange of shares. PCFS issued shares to the MIL shareholders in exchange for 100% of the shares in MIL. The goodwill represents the excess of the cost of the acquisition over the identified assets and liabilities of MIL at the acquisition date. The fair value of issued equity in PCFS prior to the business combination was used to determine the cost of the acquisition. The goodwill on consolidation is being amortised over 15 years.

Details of the assets and liabilities acquired and the related goodwill are as follows:

	$'000
Cash and cash equivalents	7,327,611
Cash reserves at Bank of Jamaica	48,424
Investments	11,130,483
Securities purchased under agreements to resell	1,537,008
Loans and leases	2,469,645
Property, plant and equipment	36,721
Goodwill	833
Other assets	1,261,667
Customer deposits	(2,543,859)
Securities sold under repurchase agreements	(18,441,675)
Loan liabilities	(23,622)
Other liabilities	(982,203)
Fair value of identifiable assets and liabilities	1,821,033
Cost of the acquisition	2,548,983
Goodwill	727,950
Cash and cash equivalents	7,327,611
Purchase consideration in the form of cash and cash equivalents	-
Net cash and cash equivalents acquired	7,327,611

21. Property, Plant and Equipment

	The Group				
	Furniture and Equipment	Motor Vehicles	Computer Equipment	Leasehold Improvements	Total
	$'000	$'000	$'000	$'000	$'000
At Cost -					
1 January 2004	19,803	9,048	8,853	15,291	52,995
Transferred on acquisition	53,353	9,442	42,889	13,964	119,648
Additions	12,236	2,098	13,464	14,264	42,062
Disposals	(1,115)	(9,729)	(209)	-	(11,053)
31 December 2004	84,277	10,859	64,997	43,519	203,652
Depreciation -					
1 January 2004	6,896	2,928	1,931	1,271	13,026
Transferred on acquisition	47,707	5,302	23,445	6,484	82,938
Charge for the year	9,724	2,071	7,685	3,114	22,594
On disposals	(710)	(4,870)	(203)	-	(5,783)
31 December 2004	63,617	5,431	32,858	10,869	112,775
Net Book Value -					
31 December 2004	20,660	5,428	32,139	32,650	90,877
31 December 2003	12,907	6,120	6,922	14,020	39,969

	The Company				
	Furniture and Equipment	Motor Vehicles	Computer Equipment	Leasehold Improvements	Total
	$'000	$'000	$'000	$'000	$'000
At Cost -					
1 January 2004	6,340	1,470	5,059	15,291	28,160
Additions	10,234	276	3,206	11,311	25,027
Disposals	-	(1,318)	-	-	(1,318)
31 December 2004	16,574	428	8,265	26,602	51,869
Depreciation -					
1 January 2004	501	103	1,584	1,271	3,459
Charge for the year	1,614	171	2,672	2,350	6,807
On disposals	-	(132)	-	-	(132)
31 December 2004	2,115	142	4,256	3,621	10,134
Net Book Value -					
31 December 2004	14,459	286	4,009	22,981	41,735
31 December 2003	5,840	1,367	3,474	14,020	24,701

22. Deferred Income Taxes

Deferred income taxes are calculated on all temporary differences under the liability method using a tax rate of 33⅓% for the company and the subsidiaries. Assets recognised on the balance sheet are as follows:

	The Group		The Company	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Deferred income tax assets	212,859	18,595	35,037	10,547
Deferred income tax liabilities	(126,826)	-	(100,577)	-
Net deferred income tax assets/(liabilities)	86,033	18,595	(65,540)	10,547

The movement in the net deferred income tax balance is as follows:

	The Group		The Company	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Net assets at beginning of year	18,595	75,851	10,547	16,974
Transferred on acquisition	315,420	-	10,392	-
Deferred tax (charge)/credit (Note 8)	(176,100)	5,052	(39,057)	12,902
Deferred tax (charged)/credited to stockholders' equity	(71,882)	(62,308)	(47,422)	(19,329)
Net assets/(liabilities) at end of year	86,033	18,595	(65,540)	10,547

22. Deferred Income Taxes (Continued)

Deferred income tax assets and liabilities are due to the following items:

	The Group		The Company	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Deferred income tax assets:				
Property, plant and equipment	26,410	5,357	1,688	-
Investment securities	99	41,055	99	-
Pension and other retirement benefits	1,122	961	-	-
Interest payable	223	-	-	-
Tax losses carried forward	156,676	35,143	-	35,143
	184,530	82,516	1,787	35,143
Deferred income tax liabilities:				
Property, plant and equipment	-	267	-	267
Investment securities	69,479	62,308	66,750	19,329
Interest receivable	372	-	-	-
Loan loss provision	10,271	-	-	-
Other temporary differences	12,711	-	-	-
Pension and other retirement benefits	4,691	1,346	-	-
Other payables	973	-	577	-
Preference share interest receivable	-	-	-	5,000
	98,497	63,921	67,327	24,596

Deferred income taxes are recognised for tax loss carry forwards only to the extent that realisation of the related tax benefit is probable. The Group has tax losses, subject to agreement with the Commissioner of Taxpayer Audit and Assessment, available for indefinite carry forward and offset against future taxable income (Note 8) in respect of which a deferred tax asset has been recognised.

Deferred income tax liabilities have not been provided for the withholding and other taxes that would be payable on the undistributed earnings of certain subsidiaries to the extent that such earnings are permanently reinvested. Such undistributed earnings totalled $1,332,208,000 (2003 - $191,819,000).

23. Retirement Benefits

(a) Pension schemes

The company and its subsidiaries have established a number of pension schemes covering all permanent employees. The assets of funded plans are held independently of the Group's assets in separate trustee administered funds. Defined benefit plans are valued by independent actuaries annually using the projected unit credit method. The latest actuarial valuations were carried out as at 31 December 2004.

A resolution has been passed to fix the rate of contribution of PCFS to 5% of pensionable salary. Any plan surplus or funding deficiency is absorbed by a subsidiary, Pan Caribbean Merchant Bank Limited. Accordingly, no pension assets or obligations were recorded for PCFS in these financial statements for the year ended 31 December 2004.

The amounts recognised in the balance sheet are determined as follows:

	The Group	
	2004 $'000	**2003 $'000**
Present value of funded obligations	63,595	14,669
Fair value of plan assets	(77,668)	(30,796)
	(14,073)	(16,127)
Unrecognised actuarial (losses)/gains	(1,774)	7,404
Limitation of asset due to uncertainty of obtaining economic benefits	1,774	4,684
Asset in the balance sheet	(14,073)	(4,039)

The amounts recognised in the profit and loss account are as follows:

	The Group	
	2004 $'000	**2003 $'000**
Current service cost	756	1,488
Interest cost	1,992	2,002
Expected return on plan assets	(4,282)	(4,175)
Recognised gain	(333)	-
Change in unrecognised assets	(2,910)	2,647
Total, included in staff costs (note 6)	(4,777)	1,962

The actual return on plan assets was $5,819,000 (2003 - $3,529,000) for the Group.

23. Retirement Benefits (Continued)

(a) Pension schemes (Continued)

Movements in the amounts recognised in the balance sheet

	The Group	
	2004 $'000	2003 $'000
Asset at beginning of year	(4,039)	(4,527)
Total (income)/expense, as above	(4,777)	1,962
Contributions paid	(5,257)	(1,474)
Asset at end of year	(14,073)	(4,039)

The principal actuarial assumptions used were as follows:

	The Group	
	2004	2003
Discount rate	12.5%	15.0%
Expected return of plan assets	12.5%	10.5%
Future salary increases	10.0%	10.0%
Future pension increases	-	3.5%

23. Retirement Benefits (Continued)

(b) Other retirement benefits

In addition to pension benefits, the Group offers retirees medical and life insurance benefits that contribute to the health care and life insurance coverage of employees and beneficiaries after retirement. The method of accounting and frequency of valuations are similar to those used for defined benefit pension schemes.

In addition to the assumptions used for pension schemes, the main actuarial assumption is a long-term increase in health costs of 10.5% per year.

The amounts recognised in the balance sheet are determined as follows:

	The Group	
	2004 $'000	2003 $'000
Present value of unfunded obligations	6,721	1,901
Unrecognised actuarial (losses)/gains	(3,356)	981
Liability in the balance sheet	3,365	2,882

The amounts recognised in the profit and loss account are as follows:

	The Group	
	2004 $'000	2003 $'000
Current service cost	259	402
Interest cost	285	319
Recognised (gains)/losses	(61)	84
Total, included in staff costs (Note 6)	483	805

Movements in the amounts recognised in the balance sheet:

	The Group	
	2004 $'000	2003 $'000
Liability at beginning of year	2,882	2,077
Total expense, as above	483	805
Liability at end of year	3,365	2,882

24. Other Assets

	The Group		The Company	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Interest receivable	1,190,554	1,244,414	1,050,857	1,226,401
Withholding tax recoverable	346,795	48,252	306,271	26,900
Other	127,364	79,841	56,573	41,720
	1,664,713	1,372,507	1,413,701	1,295,021

25. Due to Banks and Other Financial Institutions

The Company	Currency	Rate %	2004 $'000	2003 $'000
Long Term Loans -				
Caribbean Development Bank (CDB) -				
Repayable in 32 quarterly instalments commencing September 1996 and ending June 2004	US$	6½	-	19,908
Development Bank of Jamaica Limited (DBJ) -				
Repayable over varying periods from 24 to 96 months	J$	various	91,876	137,967
Repayable over varying periods from 48 to 96 months	US$	various	161,017	223,947
Deutsche Investitions und Entwicklungsgesellschaft mbH (DEG)				
Repayable in one amount on 30 December 2009 (Loan #1)	J$	6	22,660	22,660
Repayable in one amount on 30 November 2012 (Loan #2)	EUR	6	320,621	289,657
GOJ/World Bank Loan in association with Jamaica Exporters Association (JEA) -				
Draw-down commencing May 1996 to November 2000 Repayable within 5 years of the date of each draw-down	US$	Nil	11,683	12,626
European Investment Bank (EIB) -				
Repayable in 5 annual instalments commencing March 2011 and ending March 2015	J$	2	23,583	23,583
Repayable in 1 instalment on 31 December 2007	J$	2	24,854	24,854
Repayable in 1 instalment on 31 December 2007	J$	Nil	15,361	15,361
Repayable in 1 instalment on 31 December 2007	J$	Nil	24,640	24,640
Repayable in 1 instalment on 31 December 2007	US$	3½	29,701	29,133
Repayable in 7 equal annual instalments commencing on 5 December 2008	J$	10	23,556	23,556
Repayable in 7 equal annual instalments commencing on 5 December 2008	J$	9.57l	59,600	59,600
Repayable in 7 equal annual instalments commencing on 5 December 2008	US$	3½	23,032	22,593
Repayable in 7 equal annual instalments commencing on 5 December 2008	J$	10	75,121	-
			907,305	930,085

25. Due to Banks and Other Financial Institutions (Continued)

	Currency	Rate %	2004 $'000	2003 $'000
The Company (Continued)				
Long Term Loans				
Balance brought forward			907,305	930,085
Short Term Loans -				
First Global Bank Limited	J$	10	-	33
Bank overdraft	J$	various	69,308	-
			976,613	930,118
The Subsidiaries				
Long Term Loans -				
Development Bank of Jamaica Limited (DBJ) -				
Repayable over varying periods from 24 to 48 months	J$, US$	various	212,592	114,398
The National Export-Import Bank of Jamaica Limited -				
Repayable over varying periods ending 31 December 2005	J$	6½ - 9	1,111	37,257
Citibank N.A. -				
Repayable in 1 instalment on 20 December 2005	US$	7½	122,839	120,491
First Life Insurance Company Limited -				
Repayable over varying periods from 24 to 48 months	J$	18½ - 25	7,681	11,038
Repayable over varying periods from 24 to 48 months	US$	10	-	769
			344,223	283,953
Short Term Loans -				
Citibank N.A.	US$	various	54,595	5,745
Overdraft	J$, US$, CDN$	various	114,703	-
			169,298	5,745
			513,521	289,698
The Group			1,490,134	1,219,816

25. Due to Banks and Other Financial Institutions (Continued)

(a) Deutsche Investitions und Entwicklungsgesellschaft mbH (DEG)

Under the terms of the DEG Loan Agreement, the loans totalling DM 14,500,000 are to be applied for the financing of medium and small-scale enterprises.

Loan #1 - DM 7,000,000 disbursed 1990.

This loan is repayable in Jamaican dollars to the Government of Jamaica at the rate of exchange that was in effect at the time DEG disbursed the loan funds. The interest rate of 6% consists of 3 portions, A-portion, B-portion and C-portion. The A-portion shall be 0.75% per annum and remitted in DM by the Ministry of Finance. The B-portion shall be 1.5% per annum and shall be remitted in J$ to the Ministry of Finance for exchange risk coverage. The C-portion shall be 3.75% per annum and payable in J$ out of the operating surplus of the company, paid to a special fund termed "The Trafalgar German Fund I".

Loan #2 - DM 7,500,000 disbursed 1993.

This loan is repayable in foreign currency. The interest rate of 6% per annum consists of an A-portion and a B-portion. The A-portion shall be 0.75% per annum and shall be remitted in DM to DEG. The B-portion shall be paid to a special fund termed "The Trafalgar German Fund II". The fund is to be used primarily for the coverage of foreign exchange losses incurred by the company should these funds be converted to Jamaican dollars, and for other technical assistance.

(b) European Investment Bank (EIB)

The company has three facilities with the EIB.

Facility # 1

The EIB has established in favour of the company, credit in the amount of EUR 1,000,000 for the financing of projects through equity participation in small and medium sized enterprises (the beneficiary).

The company shall repay the loan in respect of amounts disbursed under each allocation. The amount repayable is the Euro equivalent of one half of the net amount of dividends received by the company in respect of the corresponding equity participation during the preceding calendar year.

The outstanding balance of the loan after the payments made to 31 March 2010 shall be discharged in full by the payment of the adjusted loan balance by five equal annual instalments beginning on 31st March 2011. Repayment may either be in Euro or one or more currencies of the member states of the European Economic Community and shall be calculated as the Euro equivalent of the Jamaican dollar liability using exchange rates between the Euro and the selected currencies prevailing on the thirtieth day before the date of payment. In the event of a liquidation of the beneficiary, the outstanding balance of the loan in respect of the equity participation shall be discharged by EIB.

Facility # 2

(a) A facility was established in the amount of EUR 5,000,000. The loan was disbursed to the company in tranches. Interest, repayments and other charges payable in respect of each tranche will be remitted in the same currency as that in which the tranche was disbursed. To date total disbursement stands at approximately EUR 2,106,000.

25. Due to Banks and Other Financial Institutions (Continued)

(b) European Investment Bank (EIB) (Continued)

Facility # 2

(b) In 1999, an additional facility was established in the amount of EUR 3,000,000, for the financing of projects through equity participation in small and medium sized enterprises. The outstanding loan balance is repayable in one instalment on 31 December 2007. In the event of a solvent liquidation of the beneficiary, the company shall pay over to EIB only the net proceeds from the liquidation, or a portion thereof, after deduction of any amounts repaid in respect of the equity participation.

Facility # 3

A facility was established in the amount of EUR 4,000,000 on 20 December 2002 for the provision of financing to small and medium sized projects in the productive and related service sectors in Jamaica. The loan is disbursed to the company in tranches. The draw downs may be done in US$ of J$. The loan is repayable in the Euro equivalent of the outstanding loan balance by 7 equal instalments commencing 5 December 2008.

(c) Development Bank of Jamaica Limited (DBJ)

The agreement with the Development Bank of Jamaica Limited allows DBJ, at its absolute discretion, to approve J$ financing to the company for on-lending to farmers, other agricultural projects and development projects on such terms and conditions as DBJ may stipulate.

Funds disbursed to the company bear interest at DBJ's lending rate prevailing at the date of approval of each disbursement unless otherwise varied by DBJ.

(d) Jamaica Exporters' Association (JEA)

The agreement with Government of Jamaica and the World Bank in association with the Jamaica Exporters' Association allows the company the facility to borrow up to US$4,400,000 for on-lending to private enterprises seeking funding for export development projects. The loans are repayable in foreign currency within 5 years of the date of each individual advance; the first instalment was due August 1998.

(e) Caribbean Development Bank (CDB)

The agreement with the Caribbean Development Bank (CDB) provided the company with a credit facility of US$5,000,000 for on-lending to development projects on such terms and conditions as CDB may stipulate. The funds were repayable in foreign currency and had a two-year moratorium in respect of principal repayments, which commenced in 1996.

26. Other Liabilities

	The Group		The Company	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Interest payable	676,021	1,060,185	616,538	1,055,532
Other	173,742	44,382	35,279	32,119
	849,763	1,104,567	651,817	1,087,651

27. Share Capital

(a) The balances at the year ends are comprised as follows:

	2004 $'000	2003 $'000
Authorised -		
615,613,376 (2003 – 260,613,376) ordinary shares of $1 each	615,613	260,613
Issued and Fully Paid -		
514,307,803 (2003 – 255,660,684) ordinary shares of $1 each	514,308	255,661
Fully Paid but Not Yet Issued -		
21,683,361 ordinary shares of $1 each	21,683	-

(b) The movement on the balance is as follows:

	2004 $'000	2003 $'000
Authorised -		
At the beginning of the year - 260,613,376 ordinary shares of $1.00 each	260,613	260,613
Increase in authorised share capital – 355,000,000 ordinary shares of $1.00 each	355,000	-
	615,613	260,613
Issued and Fully Paid -		
Ordinary shares at the beginning of the year -– 255,660,684 ordinary shares of $1.00 each	255,661	255,661
Shares issued during the period – 258,647,119 ordinary shares of $1.00 each	258,647	-
	514,308	255,661
Fully Paid but Not Yet Issued -		
21,683,361 ordinary shares of $1 each	21,683	-

27. Share Capital (Continued)

(b) (Continued)

(i) The authorised share capital was increased by the creation of 355,000,000 ordinary shares by ordinary resolution at an Extraordinary General Meeting held on 10 February 2004.

(ii) Shares issued during the year comprise:

- Ordinary shares of $1.00 each allotted as a result of the reconstruction agreement with MIL as follows:
  8 March 2004 – 241,482,986
  29 December 2004 – 5,148,082

  The fair value of these shares amounted to $2,342,995,000. The excess of the value of the shares over par, amounting to $2,096,364,000, was credited to share premium (Note 28).

- Ordinary shares of $1.00 each allotted as consideration for the purchase of the securities business of Lets Investments Limited – 5,416,051.

  The fair value of these shares amounted to $110,000,000. The excess of the value of the shares over par, amounting to $104,584,000, was credited to share premium (Note 28).

- Ordinary shares of $1.00 each issued under the company's share option scheme - 6,600,000 units.

  The fair value of these shares amounted to $66,000,000. The excess of the value of the shares over par, amounting to $59,400,000, was credited to share premium (Note 28).

(iii) Unissued fully paid up shares represents the balance of shares to be issued from the reconstruction agreement. The fair value of these shares amounted to $205,993,000. The excess of the value of the shares over par, amounting to $184,309,000, was credited to share premium (Note 28).

These shares were subsequently issued.

(c) The company operates share option and share purchase schemes. Eligible employees may participate in these schemes. Movements in the number of share options outstanding are as follows:

	2004 '000	2003 '000
At beginning of year	450	-
Granted	18,031	-
Exercised	(6,600)	-
	11,881	450

Options were granted as follows:

(i) 450,000 share options on 7 February 2002. These expire on 31 December 2006. The shares in respect of these options have been issued by the company and are held in an Employee Share Option Trust. The exercise price for these options is $4.55.

27. Share Capital (Continued)

(c) (Continued)

(ii) 17,220,000 share options on 8 March 2004. The exercise price for these options is $10. The original terms of the scheme under which these options were granted, allowed for 25% of the shares to vest following the first anniversary date of the grant with a further 25% vesting annually on the three succeeding anniversary dates. All shares would vest immediately in the event of a mandatory take over of the company. A Mandatory Takeover Circular was received from the Life of Jamaica in December 2004. Arising from this, 6,600,000 shares were allotted and the terms of the scheme were modified. The outstanding options vest, under the modified terms, by 31 December 2006.

(iii) 810,550 share options on 8 March 2004. The scheme under which these options have been granted will run for four years, with each scheme year commencing on 1 March. The exercise price for the first year is $10. Subsequently, the exercise price for the scheme year will be the share price prevailing at the beginning of the scheme year (1 March), less an agreed discount.

28. Share Premium

	2004 $'000	2003 $'000
Premium on shares issued (Note 27)	2,444,657	-

29. Retained Earnings Reserve

Section 2 of the Financial Institutions Act permits the transfer of any portion of the financial institution subsidiary's net profit to a retained earnings reserve. This reserve constitutes a part of the capital base for the purpose of determining the maximum level of deposit liabilities and lending to customers.

Transfers to the retained earnings reserve are made at the discretion of the subsidiary's Board of Directors; such transfers must be notified to the Bank of Jamaica.

30. Reserve Fund

This fund is maintained in accordance with the Financial Institutions Act 1992 which requires that a minimum of 15% of the net profits of the financial institution subsidiary, as defined by the Act, be transferred annually to the reserve fund until the amount of the fund is 50% of the paid-up share capital of the subsidiary, and thereafter 10% of the net profits until the amount of the fund is equal to the paid-up capital of the subsidiary.

The deposit liabilities of the banking subsidiary and other indebtedness for borrowed money, together with all interest accrued, should not exceed twenty times its capital base.

31. Loan Loss Reserve

This is a non-distributable reserve representing the excess of the provision for credit losses determined using the Bank of Jamaica's regulatory requirements over the amount determined under IFRS (Note 16).

32. Fair Value Reserve

This represents the unrealised surplus or deficit on the revaluation of available-for-sale investments.

33. Financial Risk Management

By its nature, the Group's activities are principally related to the use of financial instruments. The Group accepts deposits from customers at both fixed and floating rates and for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. The Group seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates while maintaining sufficient liquidity to meet all claims that might fall due.

The Group also seeks to raise its interest margins by obtaining above average margins, net of provisions, through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve not just loans, but also guarantees and other commitments such as letters of credit.

The Group also trades in financial instruments, where it takes positions to take advantage of short-term market movements in equity and bond prices, and in foreign exchange and interest rates. The Board places trading limits on the level of exposure that can be taken.

(a) Liquidity risk

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits and repurchase agreements, loan drawdowns, and guarantees. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Group's Treasury Department seeks to have available a minimum proportion of maturing funds to meet such calls. The Group's policy is to hold a high proportion of liquid assets to cover withdrawals at unexpected levels of demand.

The following tables analyse assets and liabilities of the Group into relevant maturity groupings based on the remaining period, at balance sheet date, to the contractual maturity date.

33. Financial Risk Management (Continued)

(a) Liquidity risk (Continued)

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for companies ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of loss.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates.

	The Group					
	Within 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
	$'000	$'000	$'000	$'000	$'000	$'000
As at 31 December 2004:						
Assets						
Cash and balances due from other financial institutions	762,011	-	12,863	-	-	774,874
Cash reserves at Bank of Jamaica	85,742	-	-	-	-	85,742
Trading securities	-	1,298	-	-	242	1,540
Securities purchased under agreements to resell	2,476,522	2,571,715	1,204,111	-	20,000	6,272,348
Loans, net of provision for credit losses	857,238	169,206	678,453	1,269,711	764,111	3,738,719
Lease receivable	-	158	12,974	24,996	-	38,128
Investment securities	584,152	882,463	5,177,083	13,400,772	6,330,861	26,375,331
Other	1,910	402,310	1,955,915	33,006	498,806	2,891,947
Total assets	4,767,575	4,027,150	9,041,399	14,728,485	7,614,020	40,178,629
Liabilities						
Due to banks and other financial institutions	470,527	62,214	18,976	356,629	581,788	1,490,134
Customer deposits	15,347	1,247,537	1,093,533	646,423	420,137	3,422,977
Securities sold under agreements to repurchase	2,517,608	2,846,983	21,342,225	1,680,208	20,000	28,407,024
Other	835,095	119,707	610,432	13,006	63,007	1,641,247
Total liabilities	3,838,577	4,276,441	23,065,166	2,696,266	1,084,932	34,961,382
Net Liquidity Gap	928,998	(249,291)	(14,023,767)	12,032,219	6,529,088	5,217,247
Cumulative Liquidity Gap	928,998	679,707	(13,344,060)	(1,311,841)	5,217,247	
As at 31 December 2003:						
Total assets	1,554,343	1,983,274	7,239,799	4,920,164	2,640,711	18,338,291
Total liabilities	5,656,289	5,784,906	4,118,817	743,438	530,304	16,833,754
Net Liquidity Gap	(4,101,946)	(3,801,632)	3,120,982	4,176,726	2,110,407	1,504,537
Cumulative Liquidity Gap	(4,101,946)	(7,903,578)	(4,782,596)	(605,870)	1,504,537	

33. Financial Risk Management (Continued)

(a) Liquidity risk (Continued)

	The Company					
	Within 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
	$'000	$'000	$'000	$'000	$'000	$'000
As at 31 December 2004:						
Assets						
Cash and balances due from other financial institutions	296,414	-	1,114	-	-	297,528
Trading securities	-	1,298	-	-	242	1,540
Securities purchased under agreements to resell	2,298,592	2,440,295	1,204,111	-	20,000	5,962,998
Loans, net of provision for credit losses	31,102	-	2,402	416,280	236,990	686,774
Investment securities	307,031	494,047	4,792,429	12,656,986	5,292,884	23,543,377
Other	1,910	53,023	1,328,310	20,000	2,779,454	4,182,697
Total assets	2,935,049	2,988,663	7,328,366	13,093,266	8,329,570	34,674,914
Liabilities						
Due to banks and other financial institutions	30,969	-	7,227	356,629	581,788	976,613
Customer deposits	15,347	18,262	144,165	345,662	-	523,436
Securities sold under agreements to repurchase	16,561,768	7,797,228	3,508,765	17,651	-	27,885,412
Other	-	522,342	312,784	-	-	835,126
Total liabilities	16,608,084	8,337,832	3,972,941	719,942	581,788	30,220,587
Net Liquidity Gap	(13,673,035)	(5,349,169)	3,355,425	12,373,324	7,747,782	4,454,327
Cumulative Liquidity Gap	(13,673,035)	(19,022,204)	(15,666,779)	(3,293,455)	4,454,327	
As at 31 December 2003:						
Total assets	1,454,280	1,630,427	6,775,022	4,316,138	2,629,979	16,805,846
Total liabilities	5,528,674	5,291,810	3,907,478	544,306	514,445	15,786,713
Net Liquidity Gap	(4,074,394)	(3,661,383)	2,867,544	3,771,832	2,115,534	1,019,133
Cumulative Liquidity Gap	(4,074,394)	(7,735,777)	(4,868,233)	(1,096,401)	1,019,133	

(b) Interest rate risk

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Asset and Liability Committee sets limits on the level of mismatch of interest rate repricing that may be undertaken.

The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The following tables summarise the Group's and the company's exposure to interest rate risk. Included in the tables are the Group's and the company's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

33. Financial Risk Management (Continued)

(b) Interest rate risk (Continued)

	The Group						
	Within 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Non-Interest Bearing	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
As at 31 December 2004:							
Assets							
Cash and balances due from other financial institutions	773,760	-	1,114	-	-	-	774,874
Cash reserve at Bank of Jamaica	-	-	-	-	-	85,742	85,742
Trading securities	-	1,298	-	-	242	-	1,540
Securities purchased under agreements to resell	2,476,522	2,571,715	1,204,111	-	20,000	-	6,272,348
Loans, net of provision for credit losses	857,238	169,206	678,453	1,269,711	764,111	-	3,738,719
Leases receivables	-	158	12,974	24,996	-	-	38,128
Investment securities	584,152	882,463	5,177,083	13,400,772	6,295,183	35,678	26,375,331
Other	-	-	-	-	-	2,891,947	2,891,947
Total assets	4,691,672	3,624,840	7,073,735	14,695,479	7,079,536	3,013,367	40,178,629
Liabilities							
Due to banks and other financial institutions	145,741	-	67,216	625,189	651,988	-	1,490,134
Customer deposits	15,347	1,247,537	1,093,533	646,423	420,137	-	3,422,977
Securities sold under agreements to repurchase	16,538,578	8,203,916	3,646,879	17,651	-	-	28,407,024
Other	-	-	-	-	-	1,641,247	1,641,247
Total liabilities	16,699,666	9,451,453	4,807,628	1,289,263	1,072,125	1,641,247	34,961,382
Total interest rate sensitivity gap	(12,007,994)	(5,826,613)	2,266,107	13,406,216	6,007,411	1,372,120	5,217,247
Cumulative gap	(12,007,994)	(17,834,607)	(15,568,500)	(2,162,284)	3,845,127	5,217,247	
As at 31 December 2003:							
Total assets	1,715,234	3,141,313	5,590,855	3,780,655	2,345,034	1,765,200	18,338,291
Total liabilities	5,656,289	4,738,923	4,004,506	739,874	523,280	1,170,882	16,833,754
Total interest rate sensitivity gap	(3,941,055)	(1,597,610)	1,586,349	3,040,781	1,821,754	594,318	1,504,537
Cumulative gap	(3,941,055)	(5,538,665)	(3,952,316)	(911,535)	910,219	1,504,537	

33. Financial Risk Management (Continued)

(b) Interest rate risk (Continued)

	The Company						
	Within 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Non-Interest Bearing	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
As at 31 December 2004:							
Assets							
Cash and balances due from other financial institutions	296,414	-	1,114	-	-	-	297,528
Trading securities	-	1,298	-	-	242	-	1,540
Securities purchased under agreements to resell	2,298,592	2,440,295	1,204,111	-	20,000	-	5,962,998
Loans, net of provision for credit losses	31,102	-	2,402	416,280	236,990	-	686,774
Investment securities	307,031	494,047	4,792,429	12,656,986	5,292,884	-	23,543,377
Other	-	-	-	-	-	4,182,697	4,182,697
Total assets	2,933,139	2,935,640	6,000,056	13,073,266	5,550,116	4,182,697	34,674,914
Liabilities							
Due to banks and other financial institutions	30,969	-	7,227	356,629	581,788	-	976,613
Customer deposits	15,347	18,262	144,165	345,662	-	-	523,436
Securities sold under agreements to repurchase	16,561,768	7,797,228	3,508,765	17,651	-	-	27,885,412
Other	-	-	-	-	-	835,126	835,126
Total liabilities	16,608,084	7,815,490	3,660,157	719,942	581,788	835,126	30,220,587
Total interest rate sensitivity gap	(13,674,945)	(4,879,850)	2,339,899	12,353,324	4,968,328	3,347,571	4,454,327
Cumulative gap	(13,674,945)	(18,554,795)	(16,214,896)	(3,861,572)	1,106,756	4,454,327	
As at 31 December 2003:							
Total assets	1,521,287	2,748,927	5,292,397	3,329,569	2,427,370	1,486,296	16,805,846
Total liabilities	5,528,674	4,269,312	3,842,325	544,306	514,445	1,087,651	15,786,713
Total interest rate sensitivity gap	(4,007,387)	(1,520,385)	1,450,072	2,785,263	1,912,925	398,645	1,019,133
Cumulative gap	(4,007,387)	(5,527,772)	(4,077,700)	(1,292,437)	620,488	1,019,133	

33. Financial Risk Management (Continued)

(b) Interest rate risk (Continued)

The table below summarises the effective interest rate by major currencies for financial instruments of the Group and the company.

	The Group					The Company				
	J$	US$	CAN$	GBP	Other	J$	US$	CAN$	GBP	Other
	%	%	%	%	%	%	%	%	%	%
As at 31 December 2004:										
Cash and balances due from other financial institutions	4.00	2.50	-	1.50	1.46	4.00	2.50	-	1.50	1.46
Cash reserves at Bank of Jamaica	-	1.69	2.00	3.98	-	-	-	-	-	-
Trading securities	18.51	-	-	-	-	18.51	-	-	-	-
Securities purchased under agreements to resell	12.46	5.84	-	5.50	-	16.92	6.79	-	5.50	-
Loans, net of provision for credit losses	15.16	10.61	-	-	-	13.40	10.47	-	-	-
Lease receivables	26.02	11.52	-	-	-	-	-	-	-	-
Investment securities – debt securities	17.10	10.84	-	-	9.25	17.29	10.94	-	-	9.25
Liabilities										
Due to banks and other financial institutions	6.74	6.77	-	-	6.0	6.97	6.25	-	-	6.00
Customer deposits	13.17	6.68	1.85	3.04	-	14.41	5.62	-	-	-
Securities sold under agreements to repurchase	15.24	5.67	-	3.18	-	14.73	6.25	-	3.18	-
As at 31 December 2003:										
Cash and balances due from other financial institutions	25.0	6.0	1.1	2.0	1.9	25.0	6.0	1.1	2.0	2.0
Cash reserve at Bank of Jamaica	-	0.5	-	2.8	-	-	-	-	-	-
Trading securities	33.8	11.7	-	-	9.5	33.8	11.7	-	-	9.5
Securities purchased under agreements to resell	30.3	8.5	-	-	-	30.3	8.5	-	-	-
Loans, net of provision for credit losses	13.9	10.2	-	-	-	13.9	10.0	-	-	-
Lease receivables	26.2	11.3	-	-	-	-	-	-	-	-
Investment securities – debt securities	21.2	11.6	-	-	10.2	21.2	11.6	-	-	10.2
Liabilities										
Due to banks and other financial institutions	7.0	6.6	-	-	6.0	6.5	6.4	-	-	6.0
Customer deposits	14.3	5.4	-	3.3	-	19.0	6.3	-	-	-
Securities sold under agreements to repurchase	25.7	7.1	-	-	-	25.7	7.3	-	-	3.0

33. Financial Risk Management (Continued)

(c) Currency risk

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Credit and Risk Management Committees set limits on the level of exposure by currency and in total for both overnight and intra-day positions.

The following tables summarise the exposure of the Group and the company to foreign currency exchange rate risk. Included in the tables are the Group's and the company's assets and liabilities at carrying amounts categorised by currency.

	The Group					
	Jamaican$	US$	GBP	CAN$	Other	Total
	J$'000	J$'000	J$'000	J$'000	J$'000	J$'000
As at 31 December 2004:						
Assets						
Cash and balances due from other financial institutions and cash reserves at Bank of Jamaica	202,352	492,485	128,970	21,308	15,501	860,616
Trading securities	1,540	-	-	-	-	1,540
Securities purchased under agreements to resell	3,751,274	2,478,591	42,483	-	-	6,272,348
Loans, net of provision for credit losses	1,186,705	2,552,014	-	-	-	3,738,719
Lease receivables	29,075	9,053	-	-	-	38,128
Investment securities	12,859,479	13,193,950	-	-	321,902	26,375,331
Other	2,656,648	213,926	317	-	21,056	2,891,947
Total assets	20,687,073	18,940,019	171,770	21,308	358,459	40,178,629
Liabilities						
Due to banks and other financial institutions	641,040	528,473	-	-	320,621	1,490,134
Customer deposits	672,832	2,731,138	17,267	1,740	-	3,422,977
Securities sold under agreements to repurchase	14,601,316	13,761,881	43,827	-	-	28,407,024
Other	703,968	935,246	1,691	64	278	1,641,247
Total liabilities	16,619,156	17,956,738	62,785	1,804	320,899	34,961,382
Net position	4,067,917	983,281	108,985	19,504	37,560	5,217,247
As at 31 December 2003:						
Total assets	11,483,932	6,417,397	16,171	658	420,133	18,338,291
Total liabilities	10,597,318	5,861,261	10,304	10	364,861	16,833,754
Net position	886,614	556,136	5,867	648	55,272	1,504,537

33. Financial Risk Management (Continued)

(c) Currency risk (Continued)

	The Company				
	Jamaican$	US$	GBP	Other	Total
	J$'000	J$'000	J$'000	J$'000	J$'000
As at 31 December 2004:					
Assets					
Cash and balances due from other financial institutions	109,958	181,421	6,149	-	297,528
Trading securities	1,540	-	-	-	1,540
Securities purchased under agreements to resell	3,610,830	2,309,685	42,483	-	5,962,998
Loans, net of provision for credit losses	340,763	346,011	-	-	686,774
Investment securities	11,174,200	12,047,275	-	321,902	23,543,377
Other	4,027,736	133,588	317	21,056	4,182,697
Total assets	19,265,027	15,017,980	48,949	342,958	34,674,914
Liabilities					
Due to banks and other financial institutions	402,195	253,797	-	320,621	976,613
Customer deposits	493,375	30,061	-	-	523,436
Securities sold under agreements to repurchase	14,329,272	13,512,313	43,827	-	27,885,412
Other	684,658	150,468	-	-	835,126
Total liabilities	15,909,500	13,946,639	43,827	320,621	30,220,587
Net position	3,355,527	1,071,341	5,122	22,337	4,454,327
As at 31 December 2003:					
Total assets	11,059,734	5,322,247	3,732	420,133	16,805,846
Total liabilities	10,301,494	5,120,357	-	364,862	15,786,713
Net position	758,240	201,890	3,732	55,271	1,019,133

Government of Jamaica US$ indexed bonds are included in the US$ category for currency risk disclosure.

(d) Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Group estimates the market risk of positions held and the maximum losses expected based on a number of assumptions for various changes in market conditions. Market risk is monitored by the Credit and Risk Management Committees which carry out extensive research and monitor the price movement of financial assets on the local and international markets.

(e) Cash Flow risk

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount. The Group manages this risk by ensuring, as far as possible, that financial assets and liabilities are matched to mitigate any significant adverse cash flows.

33. Financial Risk Management (Continued)

(f) Credit risk

The Group takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk is inherent in traditional banking products – loans, commitments to lend, and contracts to support counterparties' obligations to third parties such as letters of credit. Positions in tradeable assets such as bonds and equities also carry credit risk.

The risk is managed primarily by review of the financial status of each counterparty. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. The exposure to any one borrower including banks and brokers is restricted by limits covering balance sheet exposures. Actual exposures against limits are monitored daily. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

It is the Group's policy to obtain control or take possession of securities purchased under agreements to resell. The Group monitors the market value of the underlying securities which collateralise the related receivable, including accrued interest and request additional collateral where deemed appropriate.

The following table summarises the credit exposure of the Group and the company to businesses and government by sector:

	The Group		The Company	
	2004	2003	2004	2003
	$'000	$'000	$'000	$'000
Loans & Leases				
Agriculture, fishing and mining	288,534	-	23,736	24,237
Construction and real estate	681,350	517,119	-	-
Distribution	748,580	48,470	139,629	52,210
Manufacturing	183,890	31,564	110,571	142,233
Personal	157,046	125,369	2,149	5,383
Professional and other services	917,979	1,737,394	96,733	95,933
Tourism and entertainment	631,689	24,764	405,126	508,697
Transportation storage and communication	47,424	2,586	8,575	9,560
Other	237,820	-	-	-
Total	3,894,312	2,487,266	786,519	838,253
Total provision	(117,465)	(17,621)	(99,745)	(111,073)
Net	3,776,847	2,469,645	686,774	727,180

34. Fair Values of Financial Instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Market price is used to determine fair value where an active market (such as a recognised stock exchange) exists as it is the best evidence of the fair value of a financial instrument. However, market prices are not available for a significant number of the financial assets and liabilities held and issued by the Group. Therefore, for financial instruments where no market price is available, the fair values presented have been estimated using present value or other estimation and valuation techniques based on market conditions existing at balance sheet dates.

The values derived from applying these techniques are significantly affected by the underlying assumptions used concerning both the amounts and timing of future cash flows and the discount rates. The following methods and assumptions have been used:

(a) Investment securities classified as available-for-sale are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques;

(b) The fair value of demand deposits and savings accounts with no specific maturity is assumed to be the amount payable on demand at the balance sheet date;

(c) The fair value of variable rate financial instruments is assumed to approximate their carrying amounts; and

(d) The fair value of fixed rate loans is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans. For match-funded loans the fair value is assumed to be equal to their carrying value, as gains and losses offset each other. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values as the impact of credit risk is recognised separately by deducting the amount of the provisions for credit losses from both book and fair values; and

(e) Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment.

34. Fair Values of Financial Instruments (Continued)

The following financial assets are not carried at fair value.

	The Group			
	Carrying Value	Fair Value	Carrying Value	Fair Value
	2004 $'000	2004 $'000	2003 $'000	2003 $'000
Financial Assets				
Investment securities – originated debt	14,228,142	15,207,487	6,767,490	6,561,244

	The Company			
	Carrying Value	Fair Value	Carrying Value	Fair Value
	2004 $'000	2004 $'000	2003 $'000	2003 $'000
Financial Assets				
Investment securities – originated debt	13,543,026	14,525,773	6,422,391	6,194,979

35. Related Party Transactions and Balances

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions. The following transactions were carried out with related parties:

	The Group	
	2004 $'000	2003 $'000
With related parties:		
Interest and other income earned	-	2,145
Interest and other expenses paid	7,260	25,107
Staff costs recharged	-	1,944
Lease payment	-	2,175
Rent and net lease recoveries paid to related party	19,475	12,458

35. Related Party Transactions and Balances (Continued)

Transactions with related parties (Continued):

	The Company	
	2004 $'000	2003 $'000
With subsidiaries:		
Interest and other income earned	7,466	-
Interest and other expenses paid	47,971	21,270
Staff costs recharged	186,024	45,360
Preference share interest	15,000	15,000
Secretarial and register fees	704	5,939

Year-end balances with related parties are as follows:

	The Group		The Company	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Loans	5,084	4,940	-	-
Customer deposits	-	13,596	-	-
Lease funding	-	13,405	-	-
Repurchase agreements	348,303	300,437	474,827	300,437
Reverse repurchase agreements	-	-	65,309	-

36. Commitments

As at December 31, 2004, there were undisbursed loan commitments for the Group and the company of $Nil (2003 – $113,599,000 and $76,399,000 respectively).

37. Assets Under Administration

Certain subsidiaries in the Group provide custody, trustee, corporate administration, investment management or advisory services to third parties which involve these subsidiaries making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets are not included in these financial statements. As at 31 December 2004, these subsidiaries had financial assets under administration of approximately $16,908,397,000 (2003 - $2,668,793,000).

38. Litigation and Contingent Liabilities

The company and its subsidiaries are subject to various claims, disputes and legal proceedings, as part of the normal course of business. Provision is made for such matters, when, in the opinion of management and its professional advisor, it is probable that a payment will be made by the Group, and the amount can be reasonably estimated.

In respect of claims asserted against the Group which, according to the principles outlined above, have not been provided for, management is of the opinion that such claims are either without merit, can be successfully defended or will result in exposure to the Group which is immaterial to both financial position and results of operations.

39. Subsequent Events

Subsequent to the year end, Life of Jamaica Limited acquired 51% of the issued stock units of the company, thereby becoming its parent company.