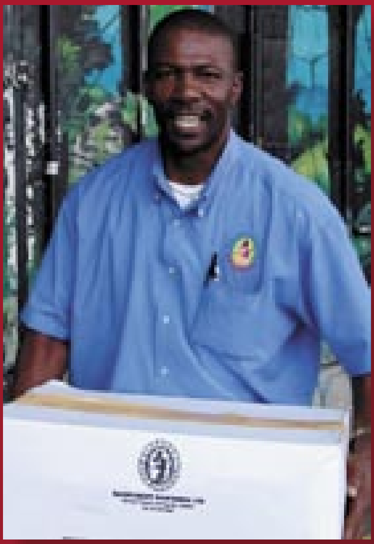
PAN CARIBBEAN
FINANCIAL SERVICES LTD.

Annual Report 2005


Supporting Industries



We are committed to supporting the aspirations of our individual and corporate clients.

These are but a few of our customers that we have assisted at critical stages in their development.

Facilitating Growth

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2005

Statement from the Chairman & the President

2005

Richard O. Byles, M.Sc.
CHAIRMAN

Donovan H. Perkins, M.B.A.
PRESIDENT & CEO

Our Performance

We are pleased to report on the activities of your company for the financial year 2005. For the fifth consecutive year, Pan Caribbean has reported record consolidated profits with Net Income of $1.032 Billion, an increase of 23%. Earnings per share grew from $1.84 to $1.92, representing an improvement of 4% 2004.

2005 was marked by a number of important achievements by our team and we report on the following accomplishments:

- **Profit after Taxation crossed the Billion Dollar threshold for the first time**
- **Shareholders Equity climbed above $6 Billion, another important milestone**
- **Resumption of dividends - $236 Million represents a 23% payout of Net Income**
- **Sigma Optima® and Sigma Solution® were top-ranked again in 2005**
- **We diversified our funding – our liability portfolio was reduced from 60% to 40% institutional**
- **Our brand identity and equity further strengthened with a 31% positive unaided recall**

During the first quarter of 2005, Pan Caribbean formally became a subsidiary of Life of Jamaica, and ultimately Sagicor Financial Corporation. We warmly welcome Dodridge Miller, Patricia Downes-Grant and Jeffrey Cobham to the Board as Sagicor representatives.

On June 1, 2005, we sold a 75% interest in Manufacturers Credit & Information Services Limited to Jamaica National Building Society for $66 Million. We retained an important 25% stake in the company, as we expect the majority stake divestment to extract value through our new partner's ability to expand MCIS's products, services and Caribbean reach with advanced technology.

Balanced Scorecard

Pan Caribbean over time has built a strong financial services franchise.
A review of our recent history and strategy can be characterized in three words:

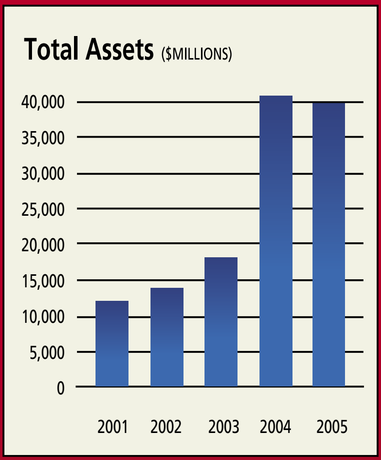
2004: Accelerate – Manufacturers and Lets pushed profits, products, assets, reach, expertise.

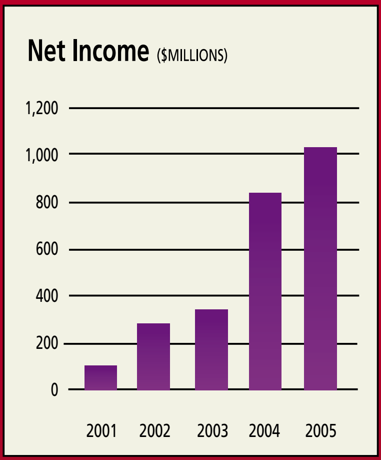
2005: Consolidate – Our focus was on people, systems, training, policies, technology.

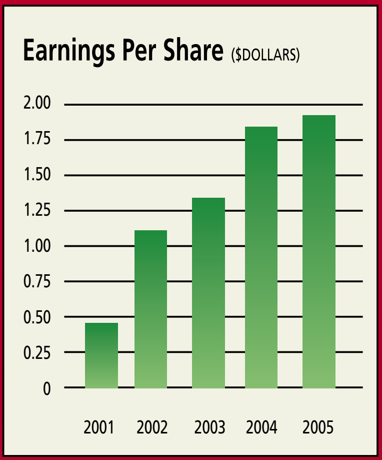
2006: Migrate – Expansion within the region while ensuring that our local marker remains a priority.

In our last Annual Report, we shared with you our adoption of the Balanced Score Card and established key measures to guide our Strategic Plan for Pan Caribbean. Below is a snapshot report on our performance by these key measures.

	2004	2005
Financial Target		
Double our Earnings per Share every four years	37%	4%
Customer Satisfaction		
Raise our Brand Awareness Index	5%	31%
Internal Efficiencies		
Improve our Profit per Employee each year	\$4.1M	\$4.8M
Employee Growth		
Raise our Staff Satisfaction Index each year	0.64	0.73







2005

Our Economy and its Future

The Jamaican economy's performance in 2005 was mixed. Several indicators trended positively or were relatively stable. We noted that:

- **Interest rates declined with the 6-month T-Bill yield falling from 14.9% to 13.6%**
- **The currency remained stable, closing the year at $64.58 (a 4.8% depreciation)**
- **The fiscal deficit continued to shrink despite the target of a balanced budget being missed**
- **The NIR rose 12% to $2.09 Billion**
- **The country easily accessed the international capital markets three times, raising US$750 Million**
- **GDP growth inched up, crawling from 0.9% to 1.8%**

Notwithstanding these positive signals, the stock market declined 9.7%, our balance of payments worsened, inflation remained in double digits for the third consecutive year and crime and security issues remained the overwhelming national concern. Inflation fell from 13.7% to 12.9% but higher taxation and rising prices sapped consumers' energy.

In 2005, Jamaica began to realize an acceleration of the long-anticipated foreign direct investment flows in mining and tourism. These positives are welcome counter-balances to the challenges presented by our debt to GDP ratio and balance of payments performance.

Statement from the Chairman & the President (Cont'd)

Jamaican businesses continue to operate in a fragile environment. Despite double-digit inflation, a missed fiscal deficit target and crime concerns, we remain positive. The measured economy's propensity to under-perform remains stark evidence of our vulnerability to internal factors – crime, weather conditions, inflation, debt levels; and external influences – energy prices, rising U.S. interest rates, a slowing U.S. economy, a heavy dependence on tourism and remittances.

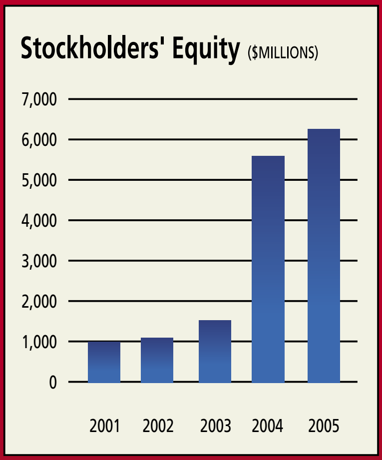
Foreign direct investment, fiscal discipline and accelerating growth are patently obvious and necessary conditions for our economic prospects to improve. But equally necessary and most important is unity of purpose led by committed leadership at key levels within our society.

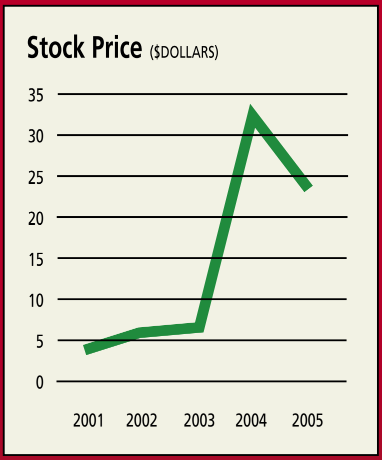
Jamaica does not have the luxury of substantial time to address the well-documented deficiencies in our national affairs. The country's collective leadership must adopt an approach that is anchored on collaboration, decisiveness and pragmatism. To do otherwise at this stage will only result in our continued under-performance relative to other emerging economies. We take an active interest in our national affairs because the future of Jamaica and Pan Caribbean remain inextricably linked.

Our country has historically remained filled with both great promises and significant challenges. The past has shown that the challenges more often than not, have gained the upper hand, resulting in under-performance.

We must recognize that the world and business has changed. There are success stories out there among both big and small economies/businesses, developed and emerging economies/businesses. The difference between success and failure is largely determined by leadership - leadership that recognizes the importance of planning followed by timely execution. In this new world, the Big no longer eat the Small, it is the Fast that consume the Slow. To remain successful as a company and country, we must heed this shifting paradigm.

The Minister of Finance has revised the fiscal target and now intends to balance the national budget in fiscal 2007/2008. Tax policy, fiscal discipline, economic growth, stable domestic interest rates (under the aegis of subdued inflationary impulses), and investments that create jobs – when combined with leadership will begin to swing the balance in favour of Jamaica's goal of becoming a great little nation in every respect.





Corporate Governance

In 2005, Pan Caribbean established a Board Charter to formalize and document key guidelines for the operation of the Board and the roles, responsibilities and obligations of its Directors. The Board Charter covers key areas including:

- **The composition of the Board and its Committees**
- **The roles of the Chairman, CEO and Corporate Secretary**
- **The Board Committees and their mandates**
- **Definition of an independent director**
- **Conflicts of Interest and disclosure requirements**

The Board, its principal Sub-Committees, their actual composition, mandate and other relevant information are disclosed on pages 16 to 19. At year-end, the directors governing the affairs of Pan Caribbean were as follows:

● Non-independent Directors	5
● Independent Directors	4
● Executive Directors	1

The directors recognize the importance of and are committed to ensuring that appropriate governance practices are established and incorporated into the genetic code of Pan Caribbean. This will result in our compliance with the guidelines established by the Financial Services Commission, The Bank of Jamaica and the Jamaica Stock Exchange, along with meeting the expectations of our shareholders.

Corporate Citizenship

In 2005, Pan Caribbean sought to deepen its commitment to worthy causes in communities across Jamaica. We recognize the value of being a caring corporate citizen and have prioritized our support in the areas of:

Education	– **Youth are the future of our country**
Health	– **The wellbeing of our people is important**
Sports	– **These activities build positive community spirit**

We also encourage our employees to be active participants in their community organizations by volunteering to lead, support and guide those in need. This year we were very responsive to many good causes and further details of Pan Caribbean's activities are reported on pages 35-37.

Thanks

We wish to acknowledge the contributions of the Hon. Maurice W. Facey, W.G. Bryan Ewen and Stephen B. Facey for their valued contributions as directors of the company. They resigned in 2005 in conjunction with the transfer of Pan Caribbean shares from under the control of Pan Jamaican to Life of Jamaica.

Maurice Facey in particular has played a key role in Pan Caribbean from its inception and we have sought to recognize this contribution in the tribute paid to him later in this Annual Report.

We must also acknowledge our energetic, friendly and professional team that represents the face of Pan Caribbean to our customers, the public, our shareholders, business partners and regulators. We sincerely appreciate the value that you bring to the organization and the results are recorded in this Report. We intend to remain on a path of strong growth so that opportunities for professional development and more responsibilities materialize for our team, which will rebound to the benefit of all stakeholders.

2005 saw the entrance of four new directors to the Board. We welcome the experience and business acumen that these individuals bring to Pan Caribbean. They join our existing directors who are independent-minded, highly respected and have given us outstanding guidance at the Board level.

In closing, we note that the number of investors holding Pan Caribbean shares has substantially grown from 1,222 to 1,758 shareholders. We welcome you and thank you for your confidence in the institution. If you are not yet customers, we encourage you to call us and see how we can support your business to expand or help your investments grow.

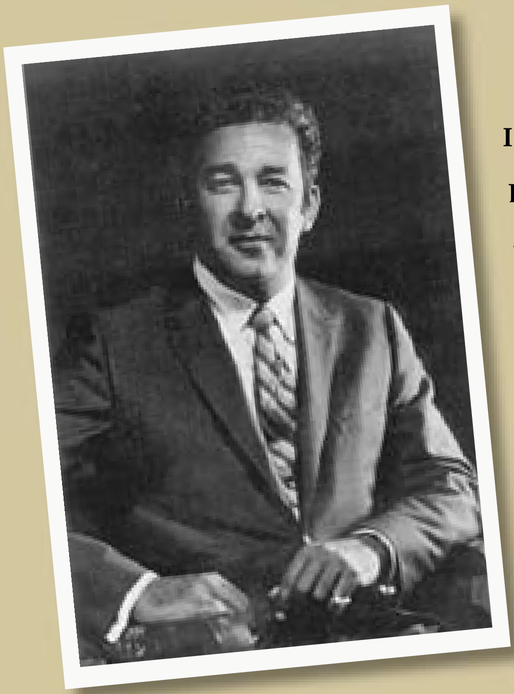
Richard O. Byles
Chairman

Donovan H. Perkins
President & CEO

Tribute to the Hon. Maurice W. Facey, O.J.

"The most successful men in the end are those whose success is the result of steady accretion... It is the man who carefully advances step by step, with his mind becoming wider and wider - and progressively better able to grasp any theme or situation - persevering in what he knows to be practical, and concentrating his thought upon it, who is bound to succeed in the greatest degree."

Alexander Graham Bell



In 2005, the Hon. Maurice W. Facey, O.J. retired from the Board of Pan Caribbean Financial Services Limited. He was the founding Chairman of Pan Caribbean Merchant Bank and a founding director of Trafalgar Development Bank. Both entities now are a part of the Pan Caribbean Group today. In this year's annual report, we wish to recognize and salute his tremendous service, not just to Pan Caribbean, but to the wider Jamaican society.

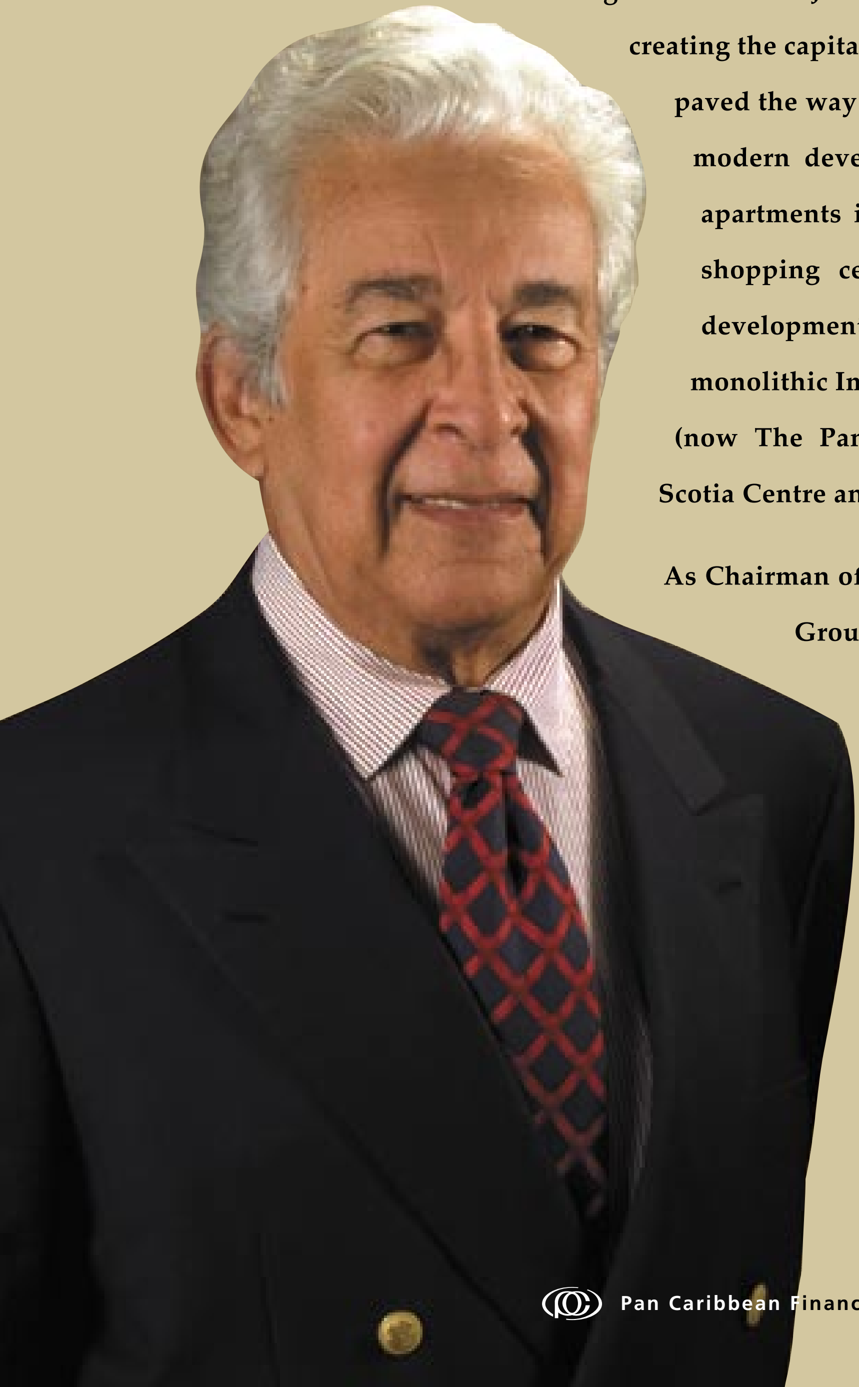
Over the last six decades, Maurice Facey has contributed significantly to nation building and demonstrated his deep commitment to Jamaica's economic success. He began his business career in 1946, joining his father's commission agency company at Cecil B. Facey Limited where he remained for fifteen years before taking the decision in 1959 to sell the company to Seagrams of Canada.

Top Left: Maurice W. Facey - 1964.

Bottom Right: (L-R) Robert Lake, Cecil B. Facey, Maurice W. Facey, Alty Sasso, Vayden McMorris.

Maurice Facey speaks at the launch of the Foundation named after his father, Cecil B. Facey.

Seated left to right: Sir Philip Sherlock, Sir Florizel Glasspole, Lady Sherlock and the Hon. Nevillle Gallimore.



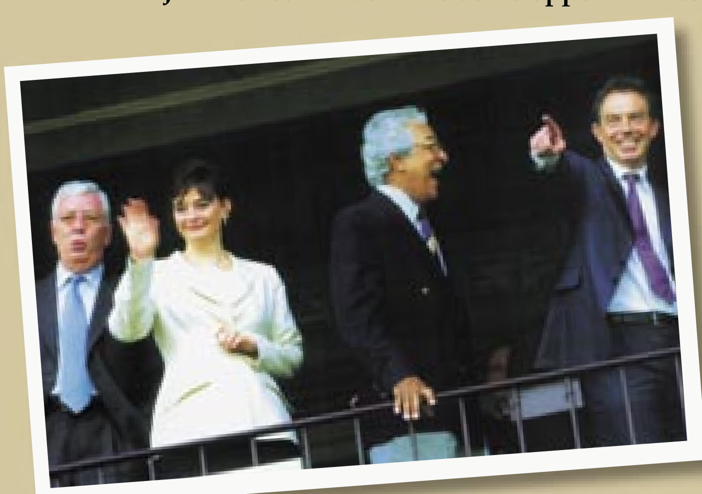
He established Jamaica Property Company shortly after the sale and subsequently merged it with Pan-Jamaican Investment Trust Limited in 1966, creating the capital to expand his real estate activities. This paved the way for the construction of some of the most modern developments at that time – condominium apartments in Manor Park and Abbey Court, retail shopping centers in Constant Spring, residential developments in Acadia and Norbrook as well as the monolithic Imperial Life at the heart of New Kingston (now The Pan Caribbean Building) along with the Scotia Centre and Air Jamaica buildings downtown.

As Chairman of Pan-Jamaican, under his leadership the Group expanded into investment banking, life insurance, food manufacturing, trading, agriculture, tourism and other key areas of Jamaica's economy. Among his experiences in expanding Pan-Jamaican, was the acquisition of Hardware & Lumber in 1969, the first and only successful hostile takeover bid in Jamaica for a company listed on the stock exchange.

In 1983, Pan Caribbean was established out of Mr. Facey's determination to be a part of the banking and financial services sector, which he saw as vital to the economy. He recently declared that "the vision that he had for the institution of being truly entrepreneurial in outlook and geared towards facilitating investments has certainly been achieved" and has charged the current management team to ensure that Pan Caribbean spreads its wings throughout the Caribbean.

According to Mr. Facey in looking back on his career, "Over the years, one could say that I have just about tried it all. However never let it be said that I achieved success on my own. All through my business life I have been shored up on all sides, guided and coached by a multitude of wonderful people."

It is this very humility and reliance on the talents of the people around him that has propelled him to such great heights. He is characterized by his foresight, his zeal and his marvelous ability to make something out of nothing. He has aided in the preservation and restoration of our national treasures and has always given generously of his ideas and his time. His vision, enthusiasm, charm and capacity for hard work have led many to share with him a view of what Jamaica could be if we seize opportunities and show sufficient tenacity and faith in our established ability to take on the world.



On behalf of us all who have benefitted from your vision.

Top Right: The Hon. Maurice Facey & Mrs. Facey with Mr. John A. Rhind & Mrs. Rhind of Toronto Canada on the occasion of the 25th Anniversary of Pan-Jam.

Bottom Left: Sunday, 29th July 2001, Kingston Cricket Club at Sabina Park, Kingston - Jamaica - West Indies
Standing Right to left: British Prime Minister Tony Blair, The Honourable Maurice Facey, Mrs. Cherie Blair and British High Commissioner to Jamaica, Mr. Anthony Smith along with other spectators enjoying the football action in the final of the Prince's Cup. Prime Minister Blair presented the winning team, Norman Gardens United, with the trophy at the end of the game.

Notice of Annual General Meeting

2005

NOTICE IS HEREBY GIVEN that the Annual General Meeting of **PAN CARIBBEAN FINANCIAL SERVICES LIMITED** will be held at the Terra Nova All-Suite Hotel, 17 Waterloo Road, Kingston 10 on Friday, 23 June, 2006 at 10:30 a.m. for the following purposes:

Resolution 1

1. To receive the Audited Accounts for the year ended December 31, 2005 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, 2005 with the Reports of Directors and Auditors thereon circulated with the Notice convening the Meeting be and are hereby received and adopted."

Resolution 2

2. Final Dividend

To declare the interim dividend of $0.44 paid during the year, as final dividend for the year ended 31 December 2005.

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

"THAT the interim dividend of $0.44 per stock unit paid to Stockholders on 21 October 2005 be declared as the final dividend for the year ended 31 December 2005."

Resolution 3

3. To Elect Directors

In accordance with Articles 92 and 93 of the Company's Articles of Association, the Directors retiring by rotation are Messrs. Colin Steele, Peter Melhado and Patrick Lynch, who being eligible, offer themselves for re-election.

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

(i) "That Mr. Colin Steele be and is hereby re-elected a Director of the company"

(ii) "That Mr. Peter Melhado be and is hereby re-elected a Director of the company"

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

Resolution 4

4. 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, 2005 for Directors' fees be and is hereby approved"

Resolution 5

5. 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 6

6. To re-allocate un-issued ordinary shares

WHEREAS on 10 February 2004 the company in general meeting approved a Resolution to increase the Authorized Share Capital by 355,000,000 shares and
WHEREAS 275,000,000 shares was to complete the acquisition of Manufacturers Investments Limited under a Reconstruction Agreement and
WHEREAS an additional amount of 50,000,000 shares were reserved for future acquisitions and a further 30,000,000 shares reserved to facilitate establishment of an Employee/Director Incentive Share Scheme, and
WHEREAS IT is desirable that an additional 20,000,000 shares be re-allocated as shares under the Employee/Director Incentive Scheme,
BE IT RESOLVED THAT 20,000,000 of the shares reserved for future acquisitions be re-allocated as shares under the Employee/Director Incentive Share Scheme.

By Order of the Board

Gene M. Douglas
Corporate Secretary

Registered Office
The Pan Caribbean Building
60 Knutsford Boulevard
Kingston 5, Jamaica
April 20, 2006

Note:

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 $100.00 before being signed. The stamp duty may be paid by adhesive stamp(s) and are to be cancelled by the person executing the Proxy.

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.

Corporate Data

2005

Board of Directors

Richard O. Byles B Sc., M Sc. - Chairman
Donovan H. Perkins BA, MBA - President & CEO
Jeffrey Cobham BA, Dip. Mgmt. Studies
M. Patricia Downes-Grant BA, MA (Econ), MBA, DBA
Patrick Lynch
Peter Melhado B Sc., MBA
Dodridge Miller FCCA, MBA
Lisa Officer B Sc., MBA
Hayden Singh
Colin Steele BA, CPA, MBA

Corporate Secretary

Gene M. Douglas FCIS, MBA

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 & Transfer Agent

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

Auditors

PricewaterhouseCoopers

Attorneys-at-Law

Patterson Mair Hamilton
Hart Muirhead Fatta
Dunn Cox
Myers Fletcher & Gordon

Bankers

Pan Caribbean Merchant Bank Limited
Citigroup N.A.
Bank of America N.A.
Bank of Nova Scotia Jamaica Limited

Report of the Directors

2005

The Directors are pleased to submit their report for the twelve months ended December 31, 2005 together with audited accounts for the year ended on that date.

	$'000
Group Profit before tax	1,395,713
Tax	(363,777)
Profit after Tax	1,031,936
Adjustment between regulatory loan provisioning and IFRS	38,145
Current year dividend paid	(236,495)
Unappropriated profits b/f	1,630,345
Unappropriated profits c/f	2,463,931

DIVIDENDS

During the year the Directors approved an interim dividend in the amount of $0.44 per stock unit. No further dividend has been recommended and the amount paid will be declared as final.

DIRECTORS

The Directors as at December 31, 2005 were Messrs. Richard O. Byles, Donovan H. Perkins, Jeffrey Cobham, Patrick Lynch, Dodridge Miller, Peter Melhado, Hayden Singh, Colin Steele, Dr. Marjorie Patricia Downes-Grant and Ms. Lisa Officer.

Mr. Miller and Dr. Downes-Grant were appointed to the Board on 7 February 2005 while Mr. Cobham was appointed on 1 June 2005. Ms. Officer joined the Board on 19 July 2005.

On 19 July 2005, Messrs. M.W. Facey, S.B. Facey and W.G.B. Ewen resigned from the Board.

Pursuant to Articles 92 and 93 of the Company's Articles of Association, the Directors retiring by rotation are Messrs. Colin Steele, Peter Melhado and Patrick Lynch, 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
April 20, 2006

>> Ten-Year Statistical Review

SELECTED BALANCE SHEET DATA

	1996 $'000	1997 $'000	1998 $'000	1999 $'000	2000 $'000	Restated 2001 $'000	Restated 2002 $'000	2003 $'000	Restated 2004 $'000	2005 $'000
Total Assets	2,179,986	2,458,581	2,597,923	2,660,318	2,951,408	12,120,570	13,959,667	18,338,291	40,873,827	39,946,362
Performing Loans & Leases	1,033,163	1,351,474	1,497,883	1,429,740	1,364,438	1,017,859	1,021,018	1,034,805	3,669,446	4,902,026
Non-performing loans and leases	209,223	215,772	219,228	306,265	380,919	301,395	394,108	223,038	224,866	162,286
Investments Repos & other earning assets	103,860	308,753	297,627	346,605	1,101,314	9,788,933	11,534,694	15,500,287	34,590,993	32,343,101
Deposits	368,077	389,245	440,613	612,909	460,722	426,155	497,482	724,892	3,422,977	4,203,475
Securities sold under repurchase argreement	38,000	22,156	-	-	519,541	8,711,664	10,431,277	13,718,164	29,018,610	27,775,290
Stockholders' equity	444,511	490,737	517,837	513,618	534,551	979,167	1,081,981	1,504,537	5,687,489	6,154,126

SELECTED INCOME STATEMENT DATA

	1996 $'000	1997 $'000	1998 $'000	1999 $'000	2000 $'000	Restated 2001 $'000	Restated 2002 $'000	2003 $'000	Restated 2004 $'000	2005 $'000
Net Interest Income	215,023	206,169	219,293	185,175	157,203	278,198	286,330	278,578	1,315,045	1,303,060
Other Income	28,690	72,651	44,833	66,939	92,207	108,626	129,931	233,617	446,593	783,865
Expenses	159,736	217,721	218,065	250,714	265,025	300,378	147,744	174,582	618,048	691,212
Net Income/(Loss) after tax and minority interest	80,260	65,209	43,437	1,186	(16,139)	104,752	284,488	342,170	841,692	1,031,936

OTHER FINANCIAL DATA

	1996 $'000	1997 $'000	1998 $'000	1999 $'000	2000 $'000	Restated 2001 $'000	Restated 2002 $'000	2003 $'000	Restated 2004 $'000	2005 $'000
Earnings per share ($)	0.70	0.57	0.38	0.01	(0.14)	0.46	1.11	1.34	1.84	1.92
Dividends paid per share ($)	0.17	0.17	0.14	0.06	-	-	0.19	0.17	-	0.44
Return on average equity (%)	36.1%	13.9%	8.6%	0.2%	-3.1%	13.8%	27.6%	26.5%	23.4%	17.4%
Return on assets at year end (%)	3.7%	2.7%	1.7%	0.0%	-0.5%	0.9%	2.0%	1.9%	2.1%	2.6%
Market Capitalisation ($'000)	327,884	230,094	155,313	284,741	146,685	1,163,258	1,444,485	1,623,447	18,116,496	12,582,367
Closing share price at year end ($)	2.85	2.00	1.95	2.50	1.29	4.55	5.70	6.60	34.10	24.30
Number of offices	2	2	2	2	2	1	1	1	5	5
Number of stockholders	1,120	1,132	1,147	1,155	1,198	1,217	1,163	1,213	1,570	1,776
Number of staff	32	43	55	67	66	51	61	69	205	213
Profit per employee ($000)	2,508	1,516	790	18	(245)	2,054	4,664	4,959	4,106	4,845

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 Jamaican, serves on the board of Red Stripe and is Chairman of the National Water Commission and Harmonization Limited, the holding company for Harmony Cove. 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.

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 Jamaica Investment Limited, the Jamaica Stock Exchange, 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 a 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.

Jeffrey Cobham, BA (Hons.)

Mr. Cobham, a former Managing Director of National Commercial Bank, currently serves on the board and chairs the Audit Committee of Life of Jamaica Ltd. He is also a director of Sagicor Life of Cayman Islands Ltd., Cayman General Insurance Co. Ltd., Caribbean Basin Investors Limited, and Salada Foods Jamaica Limited.

A lifelong supporter of the arts, Mr. Cobham is the Chairman of the Edna Manley College for the Visual and Performing Arts as well as Chairman of the National Dance Theatre Company of Jamaica.

A graduate of the University of the West Indies, he is now a member of that university's Mona Campus Council and serves on the university's Finance and General Purposes Committee. An Anglican, Mr. Cobham is a member of the Financial Board of the Jamaica Diocese, and is Deputy Chairman of the Consie Walters Cancer Care Hospice.

Dr. Marjorie Patricia Downes-Grant, BA, MA (Econ) MBA, DBA

Dr. Downes-Grant currently is the Chief Operating Officer of Sagicor Financial Corporation. Her experience at Sagicor over the last fourteen years includes senior management positions in Treasury, Finance and Investments. Her directorships include Life of Jamaica Limited, Sagicor General Company Limited and Capital International Management Services Inc. (USA). She previously served as Chairman of the Barbados Stock Exchange.

Pat has a Masters Degree in Economics, an MBA in Finance and received her Doctorate from the University of Bradford, United Kingdom.

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.

Peter K. Melhado, B.Sc., MBA

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 to create Manufacturers Sigma Merchant Bank, one of the leading financial and asset management companies locally. He serves as Chairman of Pan Caribbean Merchant Bank and West Indies Home Contractors Limited and his current directorships include British Caribbean Insurance Company.

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

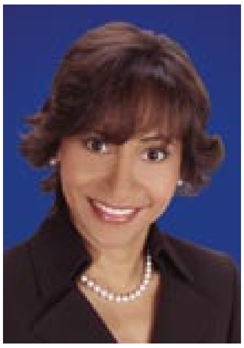
He completed a B.Sc. in Mechanical Engineering at McGill University and is a graduate of Columbia Business School with an MBA with a concentration in Finance.

Dodridge Miller, FCCA, MBA

Mr. Miller is the President & CEO of Sagicor Financial Corporation. He sits on the boards of Sagicor's major subsidiaries including Life of Jamaica. His twenty-five years experience in financial services includes auditing, accounting, investments, banking and insurance.

Dodridge is a Chartered Accountant and holds an MBA in Finance from the University of Wales. He also serves as a Member of Council, University of the West Indies – Cave Hill.

Lisa Officer, BSc, MBA



Mrs. Lisa Officer is the Vice President, Human Resources at Cable & Wireless Jamaica Limited. She is an experienced business executive with over seventeen years in Human Resources, Treasury, Corporate and Commercial Banking.

Lisa is a graduate of the University of the West Indies with a BSc (Hons.) in Industrial Engineering and an MBA (Distinction) in Finance and Marketing. She has also achieved the Professional Human Resources Certification with the Society for Human Resources. Lisa is a Director of Cable & Wireless' Foundation and is the 2nd Vice President of the Jamaica Employers Federation.

2005

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, Dyoll Group Limited and Hi-Lo Food Stores (Ja) Ltd. He is currently a 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.

Sub-Committees of the Board

Audit Sub-Committee

Patrick Lynch (Chairman), Hayden Singh, Colin Steele, Jeffrey Cobham

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.

During the year, the Audit Committee held seven meetings.

Compensation and Conduct Review Committee

Hayden Singh (Chairman), Lisa Officer, Richard Byles

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.

During the year, this Committee met three times.

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 six senior managers – Philip Armstrong, Anya Schnoor, Henry Pratt, Peter Knibb, Rez Burchenson and Lissant Mitchell also attend by invitation.

During the year, eight meetings were convened.

>> Our Management Team

Executive Management

Seated L-R: Donovan Perkins, Anya Schnoor, Philip Armstrong. Standing: Henry Pratt.

Donovan H. Perkins, B.A. (Hons.), MBA
President & CEO
Pan Caribbean Financial Services Limited

Anya Schnoor, BA, MBA
Senior Vice President &
Chief Operating Officer
Pan Caribbean Financial Services Limited

Anya has over 14 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 is a board member of Heart Trust NTA.

Anya received her MBA from Barry University and her BA in Finance and International Business from Florida International University.

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

An engineer by training, Philip brings over 17 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 Fixed Income trading, the Primary Dealer and Stock Brokerage Units and Asset Management.

Philip is a director of Pan Caribbean Merchant Bank, Pan Caribbean Asset Management, British Caribbean Insurance Company 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.

Henry Pratt, BA, 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. and International Insurance Brokers, 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.

Our Management team (Cont'd)

2005

Senior Management

Standing: Peter Knibb, Karen Vaz. Seated L-R: Faith McFarquar-Gordon, Lissant Mitchell.

Peter Knibb, CA, 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.

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

Karen joined Pan Caribbean in 1999 as a consultant and and became head of the technology unit 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 use for all business applications.

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

Faith McFarquar-Gordon, B Sc., M Sc.
Assistant Vice President – Human Resources
Pan Caribbean Financial Services Limited

Faith joined Pan Caribbean in June 2005 with significant Human Resource experience in both the public and private sectors, including financial services.

She is an active Optimist and currently serves as President of the Sunset Optimist Club. She is a member of the Jamaica Employers Federation, Pacesetters Toastmasters Club and the International Society for Human Resource Management.

Faith is a double graduate of UWI with a Bachelor's degree in Management studies and a Master's in Human Resource Development.

Lissant Mitchell, BA, MBA
Vice President - Treasury
Pan Caribbean Financial Services Limited

Lissant joined Pan Caribbean in 2000 though our acquisition of Knutsford Capital. With over 13 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.

Senior Management

Standing: Rezworth Burchenson. Seated L-R: Grace Solas, Tara Nunes, Gene M. Douglas.

Rezworth Burchenson, BA, MBA
Vice President &
General Manager
Pan Caribbean Asset
Management Limited

Rez 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. For the second consecutive year, Sigma Optima and Sigma Solution under his leadership led the unit trust fixed income and equity markets in total returns.

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

Grace Solas, BA, CPA, PMP
Assistant Vice President –
Projects & Strategic Planning
Pan Caribbean Financial
Services Limited

Grace joined Pan Caribbean in October 2005 and has over 16 years experience in financial services and project management. She was previously with Knustford Capital as its COO and Manufacturers Merchant Bank.

She is a member of the Project Management Institute and an elder at the Moravian Church where she sits on its Finance Committee.

Grace is a graduate of UWI with a Bachelor's degree in Accounting, a Certified Public Accountant and a Certified Project Management Professional.

Tara Nunes, B Sc.
Assistant Vice President –
Sales & Investment Services
Pan Caribbean Financial
Services Limited

Tara is responsible for managing our sales and investment services activities. She joined Pan Caribbean through the Manufacturers merger and has been in Private Banking for over five years. Previously, Tara spent eight years as a financial analyst at Jamaica Broilers.

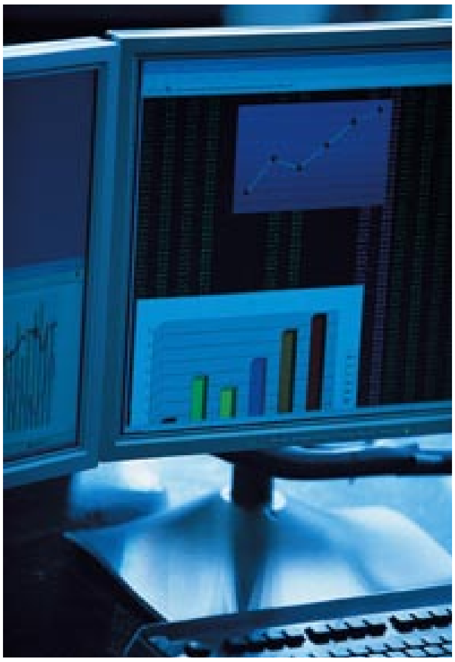
She is a graduate of UWI with a Bachelor's degree in Economics and Management.

Gene M. Douglas FCIS, MBA
Vice President –
Corporate Trust
Pan Caribbean Merchant Bank
Limited

Gene joined Pan Jamaican in 1988 as it Company Secretary and transferred to Pan Caribbean to start its Corporate Trust Department in 1994. Her experience spans over 21 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 recently completed her MBA with the University of Manchester.



This Division encompasses our trading, underwriting and asset management activities. 2005 was the first full year of the combined trading floors of Pan Caribbean and Manufacturers Sigma and it has lived up to our expectations in creating an even more active securities and foreign exchange trading operation to the benefit of our customers and the markets in general.

Our Primary Dealer Unit ended the year as the largest underwriter of Government of Jamaica securities. As the newest seat on the stock exchange, we began operations in January and our stock-broking unit finished the year ranked 4th among 11 participants despite not being fully activated. We hope to improve this position once our retail platform is operational. Our FX Unit ranked first among merchant banks capturing 9% of the overall market and ranked 4th in the wider market.

We are particularly proud of our repeat performance of Sigma Optima (Equity) and Sigma Solution (Fixed Income) Funds. For the second consecutive year, they were the best performing Unit Trusts in Jamaica despite a challenging year, particularly for the equity market.

Looking ahead, continued growth in our capital and our LOJ relationship positions us to be a key distributor of financial securities affording Pan Caribbean the opportunity to best meet the needs of our clients. At the core of this objective is our continued commitment to sustained long-term performance through appropriately managing our client relationships, guarding our reputation and equally important – ensuring that our traders and managers always seek to balance the institution and clients' interests.

Corporate Banking Division

The Group's credit portfolio grew 31% during 2005 moving from $3.77 Billion to J$4.95 Billion. An expanded capital base facilitated larger corporate transactions for both lending and bond underwriting activities. We continue to play an important role in helping companies achieve their potential and this is highlighted on pages 30-34 of this Annual Report.

Our medium-term Project Financing and short-term working capital Premium Financing products continue to perform reasonably well. The wholesale credit scheme that provides funding for the micro-business sector expanded significantly over the period. In 2005, we successfully partnered with the Ministry of Industry & Tourism to create a $100 Million fund for members of the Jamaica Manufacturers Association, facilitating the re-tooling and expansion of enterprises in the manufacturing sector at attractive rates.

Credit quality continues to improve as non-performing loans fell to 3.3% of total loans versus 5.8% in 2004. Our objective is to move ahead of the industry average of 2.9%. Loss Provisions as a percentage of non-performing loans were 144% versus the industry average of 100%.

Corporate Trust Division

Corporate Trust fees grew 45% to $21 Million for 2005. Our portfolio currently includes the following activities:

- **Corporate Secretarial services to five listed companies**
- **Complete Registrar and Share Transfer services to four listed companies**
- **Registrar and custodian services for Unit Trusts and Mutual Funds**
- **Trustee and paying agency services for Corporate Bond Issues**
- **Trustee paying agency services for real estate held pension funds.**

With the regulatory changes accelerating and an expansion of the number of local mutual funds projected, we anticipate that new opportunities will develop.

Hunam Resource Development Division

Our team is a key success factor and we strive to continuously improve the development and management capabilities of our people. During the year, HRD partnered with the other Divisions to accomplish the strategic imperatives set.

Training initiatives took centre stage during 2005. The activities to strengthen our middle management and ensure that our team is empowered to execute their functions in a professional, efficient manner is a continuous process. Focus was placed on Performance Management, Supervisory Management, Superior Customer Service, Sales, Effective Communication, Team-building and enhancement of technical skills.

An Organizational Improvement Committee made up of middle managers was established to drive changes arising from the findings of our Staff Satisfaction Survey. The Pan Vybze Committee was also formed to foster inter-departmental relations, enhance social interaction among employees and build morale. Both these Committees were successful in contributing to improvements at Pan Caribbean.

Succession planning, team building and productivity improvements will be among key 2006 initiatives along with building on 2005's activities.

Technology Division

Technology continues to be critical to executing our strategic objectives. It constitutes an end-to-end transformation of our business. In 2005, we continued to invest in our team and strengthen the foundation of our systems and infrastructure. We successfully completed the upgrade of our support systems for our unit trust operations and implemented key technology synergies with Life of Jamaica. In addition, we continued to focus on continuously strengthening the integrity, reliability, availability and security of our technology architecture.

The formalization of a Projects & Strategic Planning Unit in 2005 signifies our deepened commitment to align our technology initiatives with the planned growth and development of the organization.

In 2006, our focus will be to support the delivery of additional financial services on a robust platform and implement systems that support profit drivers.

Marketing Division

In 2005 unaided recall of the Pan Caribbean brand increased from 5% to 31% and new customers grew by 108% when compared to 2004 as we focused on building the brand recognition of Pan Caribbean throughout Jamaica and exceeding our customers' needs and expectations. This was done primarily through the launch and development of:

- **Product specific campaigns and MoneyWise columns island wide**
- **"Living Well at Any Age" investment seminars in conjunction with Life of Jamaica**
- **Our new Montego Bay branch as our Western hub**
- **Platinum Financial Solutions, Portfolio Planning and WealthLink products**
- **Our Bridal Registry investment product featuring our Sigma funds**
- **Sales support collateral including marketing kits for all representatives**

2006 will see the launch of new services designed to expand value niches that we believe bring mutual value.

>> Management's Discussion & Analysis

The company's performance in 2005 versus 2004 reflected primarily positive trends, and was significantly influenced by falling interest rates on both local and foreign currency instruments. 2004's comparative results were restated to reflect continuing and discontinued operations separately.

- **Net Interest Income was $1.303 Billion, a 1% decline versus $1.315 Billion**
- **Non-interest Income rose from $434 Million to $751 Million, up 73%**
- **Pre-Tax Profit improved from $1.131 Billion to $1.363 Billion, up 21%**

Net interest income declined as the interest rate environment in 2005 was substantially lower that 2004. At January 2004 the one-year repo rate was 23.0% versus 15.5% in January 2005, reducing the investment returns on "free capital" as securities maturing were re-invested at substantially lower yields. Also impacting net interest income was a $40 Million amortization charge arising out of the upward adjustment to the carrying values of Originated Securities acquired in the Manufacturers merger. For comparative purposes, $22 Million was amortized in 2004.

Falling interest rates however, created a favourable trading climate for fixed income securities and trading gains contributed $383 Million or 51% to Non-interest Income. Equities also benefited from declining rates during the first half of the year and our new stock brokerage while not fully operational, enjoyed these conditions, generating $48 Million in brokerage fees.

Asset Management Income rose to $115 Million, up 51% primarily as a result of our Sigma Funds appreciation in value due to the stock market's jump in value during 2004 as well as strong unit trust sales in early 2005. Translation gains improved in 2005 moving from $14 Million to $24 Million. FX volumes traded in 2005 were $ 1.8 Billion, with commissions of $64 Million improving by 19%.

As a result of our divestment of 75% of MCIS, we have reported the income from its activities as profit from discontinued operations. Included in 2005 profit from discontinued operations is a capital gain of $22 Million from the MCIS sale.

Expenses on continuing operations grew 12% in 2005, increasing from $618 Million to $691 Million. With the divestment of our subsidiary, MCIS, expenses associated with this company have been excluded from 2004 and 2005's non-interest expense for comparative purposes.

Staff costs rose 45% to $400 Million including $20 Million of expense for stock options. Permanent staff increased from 172 to 190 at year-end with new hires biased to the sales side. Marketing-related expenses were $61 Million in 2005, up 35% versus the prior year as we continued to build our market presence. Depreciation and amortization of fixed assets and software rose from $32 Million to $43 Million during the year.

Other operating expenses fell by $56 Million in 2005. Last year, there was a $43 Million charge arising out of the amortization of Goodwill from the Manufacturers and Lets transactions. Under IFRS, entities with goodwill are no longer required to expense this intangible asset, but must determine whether Goodwill has been impaired. Based on our assessment, there has been no impairment.

Taxation charges were $363 Million of which $197 Million were deferred taxes. Our effective tax rate has been reduced from 33% as a result of tax-free income from securities and tax loss carry-forwards utilized during the year.

Earnings per share reported increased by only 4% to $1.92 despite a 23% jump in Net Income. It is important to note that in 2004, despite the execution of a binding merger agreement on December 31, 2003 between Pan Caribbean and Manufacturers Sigma, the transaction was not consummated until March 1, 2004 when regulatory approval was granted. The transaction structure contained a warranty period that resulted in the delay in the issuance of 26 million fully paid up Pan Caribbean shares. These shares were issued in two tranches, with four million shares due to a single Manufacturers Sigma shareholder being issued in December 2004 and 22 million shares due to the rest of the Manufacturers Sigma shareholders being issued in January 2005.

There was no additional value derived by the merged operations from the delayed issuance of the additional 26 million shares. Under accounting standards, basic EPS calculations do not consider the factors mentioned herein. The result however, was that the weighted number of PCFS shares used in calculating the EPS for Pan Caribbean for the financial year ended 2004 was 452 million shares versus 487 million shares.

Consequently, our earnings per share were calculated at $1.84 versus $1.73.

Consolidated Balance Sheet Review

Total assets fell 2% from $40.9 Billion to $39.9 Billion at year-end. Our investment portfolio, comprised primarily of Government of Jamaica securities or securities collateralized by Government of Jamaica securities, declined $2.2 Billion (6%) at year-end. During the year we sought to further reduce our level of institutional funding and this was achieved, falling from 60% to 40%. Other factors affecting our balance sheet was an assessment that market conditions were not deemed favourable to aggressively grow our investment portfolio by assuming increased liquidity and price risk exposure.

Loans and leases increased $1.2 Billion (31%) as we actively pursued our strategy to increase loan assets. Concurrent with this growth, credit quality continued to improve as non-performing loans accounted for 0.4% of assets versus 0.5% in 2004. Non-performing loans were fully provided for.

Goodwill at year-end totaled $734 Million with the reduction of $26 Million resulting from the 75% divestment of MCIS.

Repo liabilities declined by 4% to $27.7 Billion while Deposits increased 23% to $4.2 Billion. Shareholders Equity on 31 December 2005 was a healthy $6.2 Billion compared to $5.7 Billion for the prior year. Included in Equity are unrealized fair value gains of $287 Million net of deferred taxes and surplus loan loss reserves of $121 Million.

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 capital position. In order to provide a rate of return to shareholders, protect its depositors and clients it 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 analysis, as well as other methods that require active and effective management oversight.

Interest Rate Risk

As a means of managing its 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 portfolios. 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 and 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

PCFS 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 daily monitoring of positions. We measure, monitor and control our liquidity and price risks in these major currencies in determining currency strategy.

Operating & Reputation Risk

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 we can guide them appropriately to make decisions that they understand and feel comfortable with.

Building Tomorrow's Local, Regional and Global Brand Leaders Today

Below Left to Right: Stafford Burrowes, Dolphin Cove Managing Director, Wayne Blake, Corporate Banking Manager PCMB, Henry Pratt, Senior Vice President and General Manager PCMB.

Tourism

Dolphin Cove

Dolphin Cove is the Caribbean's newest and Jamaica's first and only dolphin attraction. This beautiful location boasts a natural cove, and surrounded by four acres of lush tropical rain forest, it rivals Dunn's River as one of the premier fun-filled attractions in Ocho Rios. Opened in 2001, Dolphin Cove quickly created a reputation for itself attracting hundreds of visitors during its first week of operation.

Pan Caribbean has been an instrumental partner since inception and is particularly proud of its role in supporting job-creating companies. The overwhelming response from locals and tourists to this well-conceived product bodes well for Jamaica's most important industry.

Dolphin Cove opened at Half Moon Resort in Montego Bay in 2004, started the expansion of Ocho Rios in 2005 in response to increased demand and will be operational in Cayman in 2006. Dolphin Cove is developing an exciting regional brand that will sparkle.

Building Tomorrow's Local, Regional and Global Brand Leaders Today (Cont'd)

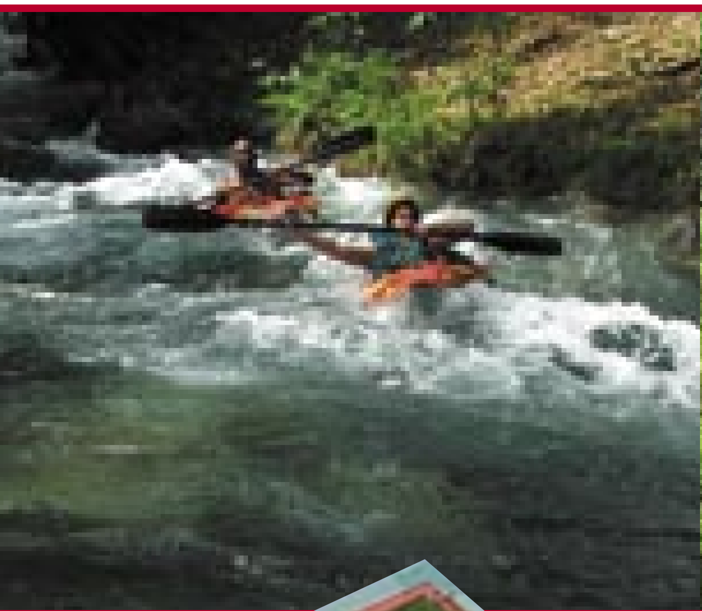
2005

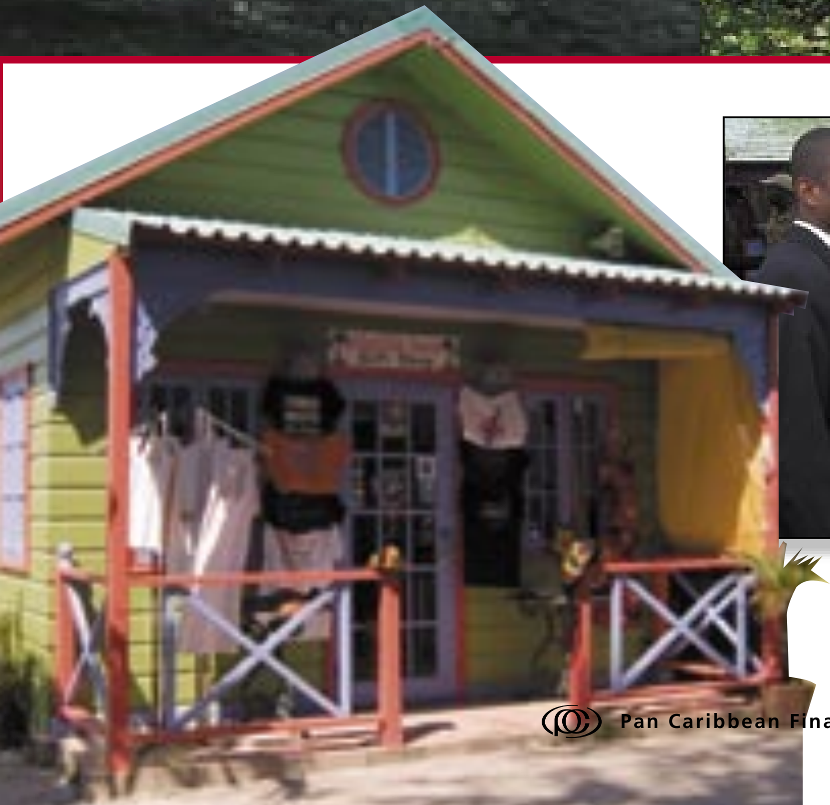
Chukka Blue / Chukka Caribbean Adventures

This Group operates some of the wildest and most fun-filled excursions for people who know how to enjoy life to its fullest. They offer a wide variety of experiences including horseback riding, Jeep Safaris, Jungle River Tubing, Original Canopy Tour, ATV, Bicycling, Hiking, Bob Marley's Birthplace Tour among others.

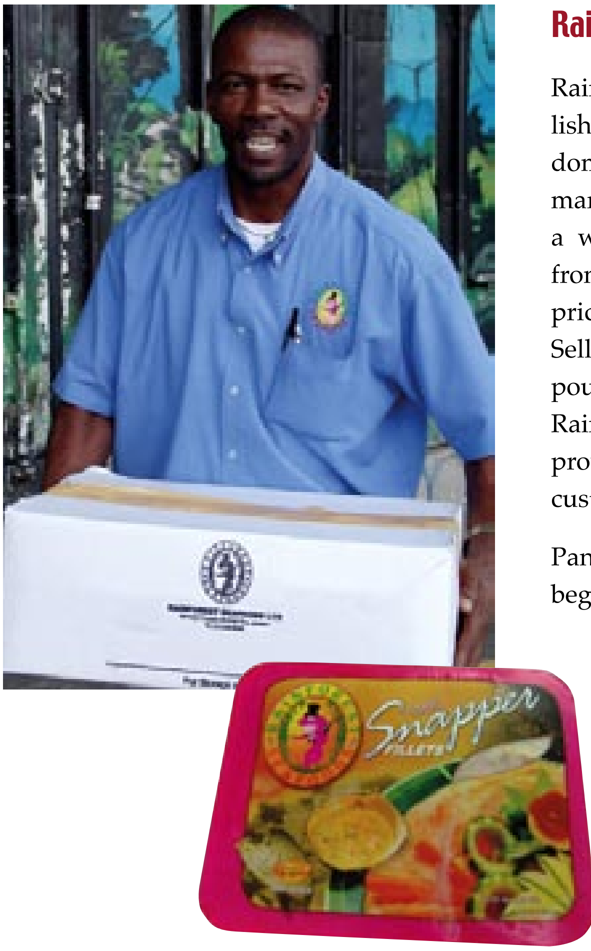
Pan Caribbean's involvement began with its initial financing of Chukka Blue – a successful joint venture operation that has catalyzed into the establishment of Chukka Caribbean Adventures. This platform has fueled expansion by the Group into the Bahamas, Belize and recently Turks & Caicos.

Chukka Caribbean has carved out a niche in the tourism attractions and now dominates the adventure segment. Its exceptional service led by well-trained guides ensures that it is one of Jamaica's most family-friendly attractions. Pan Caribbean is highly confident that Chukka Caribbean is developing into an exciting Caribbean brand with intriguing opportunities wherever tourism is key to development.





Left - Right: Henry Pratt & Wayne Blake (PCMB), Daniel Melville Jnr., Director of Chukka Caribbean Adventures and a Chukka Caribbean driver.



Rainforest Seafoods Ltd.

Rainforest Seafoods, established in 1995, now dominates the local seafood market meeting the needs of a wide range of customers from major hotel chains to price conscious consumers. Selling in excess of a million pounds of assorted seafood each month, Rainforest has evolved into a major national distributor providing exceptional service and quality products to its customers.

Pan Caribbean has been with Rainforest from the very beginning and recently financed the construction of a 25,000 square foot state-of-the art freezer storage facility, corporate offices and distribution centre in Montego Bay. The new facility can store up to five (5) million pounds of products for an extended period to meet their customer demands.

Supported by the visionary management, consistent service, high quality and convenience, the Rainforest brand is now well-established in the local market with plans for regional expansion in the future.

Manufacturing

Margaritaville

In 1995, Margaritaville opened its doors to both locals and tourists, providing Montego Bay with a new and exciting product. With their commitment to excellent service and good times, Margaritaville quickly expended and now boasts locations in Ocho Rios, Negril and Sangsters International Airport.

Pan Caribbean has been associated with Margaritaville since the first customer walked through their doors, funding its local operations and now supporting its regional expansion to the Turks & Caicos Islands and Grand Cayman. With this strong union and solid business model, Margaritaville seems destined to become a global brand one day.

Virginia Dare (Ja)

Originally, a specialty supplier to the beverage, baking and food industries, Virginia Dare has vastly expanded its operations, products and services while building a first-class reputation for quality and reliability over the last decade. Virginia Dare is the dominant producer of sorrel extract and is an important partner in the now year-round demand for sorrel products, one of Jamaica's authentic flavours.

Its division, I.A.R., has a healthy share of the personal road-repair market with its "Pro-Patch" brand available island-wide, Pro-Patch is also exported to a number of Caribbean islands.

Pan Caribbean became an important business partner with Virginia Dare in the mid-1990s, financing its equipment, warehousing and office expansion across several locations. Virginia Dare, in building its domestic brands is helping to cement a number of Jamaica's global brands.

Arnie Francis, Corporate Banking Manager PCMB (left), John Bailey M.D., Virginia Dare Jamaica (centre) and worker.

Trade Winds

Trade Winds have taken their brands, Tru Juice, Wakefield and Freshh to a new level. The company quickly set out to differentiate itself from its competitors and embarked on a mission to dominate the juice market by producing and selling superiorly delicious and healthy products.

A vertically integrated business, it has reaped the benefits of its strategy to become the supplier of choice for juices in Jamaica. With a 200,000 square foot expansion of cold storage space and production capacity planned, this investment will enable Trade Winds to broaden its product packaging capabilities and deepen its lines of juices.

Trade Winds is in the process of developing a world brand as it secures the necessary tools and certifications to meet the demand of distributors from Europe, North America and Caricom. Pan Caribbean is assisting through long-term financing that will ensure the world becomes familiar with the distinctive flavour of Jamaica that Trade Winds and its products offer.

Peter McConnell, Trade Winds Managing Director and Lawrence Bowie, Cultivation Manager at Sorrel farm.

Coffee Traders

Coffee Traders, a major player in Blue Mountain Coffee, started trading and wholesaling coffee products in 2001. Over 80% of its production is now exported to Japan, the United States and Europe.

Since its very beginning, Coffee Traders sought to sustain and enhance the reputation of the world's premier coffee brand in a number of ways. By supporting the small coffee farmers in meaningful initiatives and focussing on maintaining very high standards, Coffee Traders quickly gained an enviable reputation, leading to a substantial share of this key product that is widely synonimous with Brand Jamaica.

Pan Caribbean, through Manufacturers Sigma, developed a financing package at the inception of Coffee Traders that was supportive of its business model, providing the company with the flexibility to take full advantage of its opportunities. By understanding the industry and its cash flows, and partnering with experienced entrepreneurs, Pan Caribbean and Coffee Traders are helping to increase coffee production, employment and earnings to rural communities. And at the same time, building the reputation of Blue Mountain Coffee in world markets.

Cuddy'z Sports Bar and Grill

Courtney "Cuddy" Walsh has been known for many things including a world record 519 test wickets, but up until three years ago, a restaurateur was not one of them. He followed his entrepreneurial dream of opening a sports-oriented bar in New Kingston. Recognizing that success breeds success, Pan Caribbean jumped at the opportunity to finance the venture.

Cuddy'z has become popular with sports enthusiasts who want to catch a sporting event on one of sixteen touch screen entertainment centres. Equipped with high tech gadgets and decorated with treasured sports memorabilia, the bar impresses and entertains sports fans and others that visit to enjoy delicious items on the menu. This will definitely be one of the places where cricket fans congregate at next year's Cricket World Cup tournament. Could this be the event that takes Cuddy'z global?

>> We are Committed

Pan Caribbean, like other good corporate citizens, provided in many instances, support for numerous good causes during 2005. We wish to highlight some of these in our report to shareholders so that you have an idea of the areas that we have invested in on your behalf.

Henry Pratt GM, PCMB (right) presents a cheque to representatives from UWI and Lions Club of Mona.

Yvonne Buchannan & Stephanie Vassell, managers at the Pan Caribbean Montego Bay branch present a generator to the Montego Bay High School .

Enhancing Education

Since 1993 academic and needs-based scholarships have been provided to the University of West Indies and the University of Technology. In 2005, $2.4 Million in scholarships were granted in the field of business. Our investment has yielded good dividends as two scholarship recipients, Mischa Mcleod and Lancelot Leslie now work with us, contributing to the success of the organization. Other beneficiaries are also building careers in corporate Jamaica.

Monique Todd, Senior Manager, Marketing & New Product Development and IFLEX Solutions Ltd. team member, Promod Damodaran speak with the Principal of Transfiguration Basic School, Mrs. Deita Henry at handover of desks provided by IFLEX and Pan Caribbean.

We not only help the students directly, but the schools themselves as a positive physical environment enhances growth and development. Montego Bay High School, Immaculate Conception High School, Transfiguration Basic School, Marcus Garvey Technical School, Calabar High School and School of Hope for Children with Mental Retardation benefited from cash, computer equipment and supplies.

7th Annual Sigma Run

Anya Schnoor (top right), Donovan Perkins (centre), Perter Knibb (bottom) award the winners at the Sigma Run.

Enhancing Education (Cont'd)

Our Henry Pratt continues to chair the Area 4 Police Civic Committee's Scholarship Fund, a Pan Caribbean initiative with the full support of the Jamaica Bankers Association. The $1.8 million Fund grants scholarships to children, and has assisted greatly in strengthening the critical relationship between the police and the most volatile inner-city communities in Kingston.

In 2005, we heeded the call from the National Youth Service and in partnership with Life of Jamaica and the Jamaica Social Investment Fund, $1.5 million was raised to support Summer Success Camp, an initiative to rescue 400 high school students at risk of expulsion. Results were positive with the majority returning to school.

Rezworth Burchenson (left) Vice President and General Manager of PCAM hands over the proceeds from 2005 Pan Caribbean Sigma Run, which totalled over J$2 million to Dr. Lundie Richards, Director of the National Transfusion Service. Looking on is Melissa Crooks, Pan Caribbean's Assistant Manager for Advertising.

(Left to Right) Alfred "Frano" Francis - Race Director, Reggae Marathon, Glendon Nam - Past President of Jamdammers Running Club, Dr. Wykeham McNeill- State Minister, Ministry of Industry & Tourism, Richard Lake - Past Chairman, Reggae Marathon along with Monique Todd - Senior Marketing Manager, support Reggae Marathon.

2005

Helping hands for Health

Our flagship event, the Sigma Corporate Run yielded over $2.2 Million for the National Blood Transfusion Services ("the Blood Bank"). This organization ensures that blood and blood products are readily available when tragedy strikes. With over 3,000 participants, the 2005 Corporate Run was the largest road race in Jamaica and highlighted the tremendous work being done by the Blood Bank.

Supporting Sports

Jamaica being a sports-loving nation, Pan Caribbean has supported high schools, sport clubs and organizations in this area during the year. Football, cricket, golf and track & field were the primary beneficiaries. The Special Olympics and KASAFA's President's Cup received sponsorship support via our events-related marketing activities.

(Top) Natalie Dickens, Assistant Manager - Sales & Client Services and Sharlene McKoy from the Pan Caribbean Ocho Rios Branch along with Pan Caribbean client, Pearline Christe at the St. Ann's Polo Club Hi-Goal Polo Tournament.

(Bottom) Peta Goldsmith, Manager, Sales & Client Services and Natalie Dickens from the Pan Caribbean Ocho Rios Branch enjoy the final day of the tournament along with Anya Schnoor.

Disclosure of Shareholding

Ten Largest Shareholders as at 31 December 2005

Life of Jamaica Limited	285,902,861
LTE Limited	182,566,261
ATL Group Pension Fund Trustees Nom. Limited	5,297,100
National Insurance Fund	5,115,651
Scotia Jamaica Investment Management A/C 542	4,967,876
Pan Caribbean Merchant Bank A/C J1996	3,072,070
Lets Investments Limited	2,708,026
Wray & Nephew Group Limited	2,436,760
Mayberry Investments Ltd. A/C 09022	1,719,126
Mayberry Managed Clients Account	1,690,342

Shareholdings of Directors and Connected Persons

AS AT 31 DECEMBER 2005

DIRECTORS	SHAREHOLDING	CONNECTED PERSONS	SHAREHOLDING
Richard O. Byles	Nil	& Jacinth Byles	1,120,498
Jeffrey Cobham	Nil	Nil	Nil
Patricia Downes-Grant	Nil	Nil	Nil
Patrick Lynch	Nil	Nil	Nil
Peter Melhado	Nil	Nil	Nil
Dodridge Miller	Nil	Nil	Nil
Lisa Officer	10,000	Nil	Nil
Hayden Singh	Nil	& Joyce Singh	8,000
Colin Steele	Nil	Nil	Nil
Donovan H. Perkins	500	& Michele/Alexander/Jessica Perkins	224,085

Shareholdings of Senior Managers and Connected Persons

AS AT 31 DECEMBER 2005

SENIOR MANAGERS	SHAREHOLDING	CONNECTED PERSONS	SHAREHOLDING
Philip Armstrong	Nil	Trevor & Nicola Armstrong	25,000
Rezworth Burchenson	830,000	& Valerie Burchenson	86,331
Gene M. Douglas	10,000	Nil	Nil
Peter Knibb	Nil	& Elizabeth Knibb	10,000
Faith McFarquhar-Gordon	Nil	Nil	Nil
Lissant Mitchell	Nil	& Elmay Mitchell	400,000
Henry Pratt	300,000	Nil	Nil
Anya Schnoor	1,535,500	Nil	Nil
Grace Solas	Nil	Nil	Nil
Karen Vaz	825,000	Nil	Nil
Donovan H. Perkins	500	& Michelle/Alexander/Jessica Perkins	224,085

PRICEWATERHOUSECOOPERS

CELEBRATING 90 YEARS 1916-2006

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

13 March 2006

To the Members of
Pan Caribbean Financial Services Limited
Kingston

Auditors' Report

We have audited the financial statements set out on pages 40 to 111, 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, evidencesupporting 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 2005 and the results of operations, changes in equity and cash flows of the Group and the company for the year then ended in accordance with International Financial Reporting Standards and comply with the provisions of the Jamaican Companies Act.

PricewaterhouseCoopers

Chartered Accountants
Kingston, Jamaica

Consolidated Profit & Loss Account

Year ended 31 December 2005

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2005 $'000	Restated 2004 $'000
Net Interest Income and Other Revenue			
Interest income from loans		519,956	421,805
Interest income from securities		3,904,213	4,827,456
Interest income from leases		5,607	11,444
Other interest income		2,133	13,759
Total interest income		4,431,909	5,274,464
Interest expense	6	(3,128,849)	(3,959,419)
Net interest income		1,303,060	1,315,045
Fees and commission income	7	238,655	128,532
Net trading income	8	485,414	245,161
Other operating income		27,234	60,392
		2,054,363	1,749,130
Operating Expenses			
Staff costs	9	400,288	275,099
Provision for credit losses, net	21	(3,282)	(6,268)
Occupancy costs		95,009	84,710
Other operating expenses		199,197	264,507
	10	691,212	618,048
Operating Profit		1,363,151	1,131,082
Share of Associated Company Profit	25	2,131	-
Profit before Taxation	11	1,365,282	1,131,082
	12	(363,777)	(301,898)
Profit from Continuing Operations		1,001,505	829,184
	13	30,431	12,508
NET PROFIT	14	1,031,936	841,692
EARNINGS PER STOCK UNIT			
From Continuing and Discontinued Operations:			
Basic	16	$1.92	$1.84
Diluted	16	$1.90	$1.82
From Continuing Operations:			
Basic	16	$1.86	$1.81
Diluted	16	$1.84	$1.79

Consolidated Balance Sheet

31 December 2005

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2005 $'000	Restated 2004 $'000
ASSETS			
Cash and balances due from other financial institutions	17	1,080,134	774,874
Cash reserve at Bank of Jamaica	18	56,587	85,742
Trading securities	19	717,697	1,540
Securities purchased under agreements to resell	20	1,986,854	6,727,150
Loans, net of provision for credit losses	21	5,004,388	3,783,955
Lease receivables	22	14,771	38,964
Investment securities	23	16,932,831	15,594,050
Pledged assets	24	12,705,719	12,268,253
Income tax recoverable		1,072	5,050
Investment in associates	25	13,597	-
Due from related company	42	41,228	44,101
Intangible assets	26	50,625	25,961
Goodwill	27	733,750	760,010
Property, plant and equipment	28	95,340	90,877
Deferred tax assets	29	24,638	185,667
Retirement benefit asset	30	13,416	14,073
Other assets	31	473,715	473,560
Total assets		39,946,362	40,873,827
LIABILITIES			
Due to banks and other financial institutions	32	1,384,255	1,520,965
Customer deposits		4,203,475	3,422,977
Securities sold under agreements to repurchase		27,775,290	29,018,610
Income tax payable		27,186	130,909
Other liabilities	33	156,088	207,351
Deferred tax liabilities	29	239,275	426,080
Due to related companies	42	6,673	456,081
Retirement benefit obligations	30	5,314	3,365
Total liabilities		33,797,556	35,186,338
STOCKHOLDERS' EQUITY			
Share capital	34	537,708	514,308
Share premium	35	2,460,107	2,444,657
Unissued fully paid up shares	34	-	21,683
Share options reserve	36	20,420	-
Retained earnings reserve	37	172,000	172,000
Reserve fund	38	86,443	86,443
Loan loss reserve	39	121,128	159,273
Fair value reserve	40	287,069	658,780
Retained earnings		2,463,931	1,630,345
Total stockholders' equity		6,148,806	5,687,489
Total liabilities and equity		39,946,362	40,873,827

Approved for issue by the Board of Directors on 13 March 2006 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 2005

(expressed in Jamaican dollars unless otherwise indicated)

	Note	Share Capital	Share Premium	Unissued Fully Paid Up Shares	Share Options Reserve	Retained Earnings Reserve	Retained Earnings	Other Reserves	Total
		$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2004, restated	48	255,661	-	-	-	172,000	833,735	105,643	1,367,039
Shares issued	34, 35	258,647	2,444,657	21,683	-	-	-	-	2,724,987
Unrealised gains on available-for-sale investments, net of taxes		-	-	-	-	-	-	839,530	839,530
Reclassified and reported in profit		-	-	-	-	-	-	(85,759)	(85,759)
Net income recognised directly in equity		-	-	-	-	-	-	753,771	753,771
Net profit		-	-	-	-	-	841,692	-	841,692
Total recognised income for 2004		-	-	-	-	-	841,692	753,771	1,595,463
Adjustment between regulatory loan provisioning and IFRS	39	-	-	-	-	-	(22,639)	22,639	-
Transfer to reserve fund	38	-	-	-	-	-	(22,443)	22,443	-
Balance at 31 December 2004, restated	48	514,308	2,444,657	21,683	-	172,000	1,630,345	904,496	5,687,489
Unrealised losses on available-for-sale investments, net of taxes		-	-	-	-	-	-	(221,080)	(221,080)
Reclassified and reported in profit		-	-	-	-	-	-	(150,631)	(150,631)
Net expense recognised directly in equity		-	-	-	-	-	-	(371,711)	(371,711)
Net profit		-	-	-	-	-	1,031,936	-	1,031,936
Total recognised income for 2005		-	-	-	-	-	1,031,936	(371,711)	660,225
Shares issued	34, 35	1,717	15,450	-	-	-	-	-	17,167
Allotment of fully paid up shares	34	21,683	-	(21,683)	-	-	-	-	-
Employee share option scheme – value of services provided	36	-	-	-	20,420	-	-	-	20,420
Dividends paid	47	-	-	-	-	-	(236,495)	-	(236,495)
Adjustment between regulatory loan provisioning and IFRS	39	-	-	-	-	-	38,145	(38,145)	-
Balance at 31 December 2005		537,708	2,460,107	-	20,420	172,000	2,463,931	494,640	6,148,806

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

Year ended 31 December 2005

(expressed in Jamaican dollars unless otherwise indicated)

	Note	Other Reserves			
		Loan Loss Reserve	Fair Value Reserve	Reserve Fund	Total
		$'000	$'000	$'000	$'000
Balance at 1 January 2004 , restated		136,634	(94,991)	64,000	105,643
Unrealised gains on available-for-sale investments, net of taxes		-	839,530	-	839,530
Reclassified and reported in profit		-	(85,759)	-	(85,759)
Adjustment between regulatory loan provisioning and IFRS	39	22,639	-	-	22,639
Transfer to reserve fund	38	-	-	22,443	22,443
Balance at 31 December 2004, restated		159,273	658,780	86,443	904,496
Unrealised losses on available-for-sale investments, net of taxes		-	(221,080)	-	(221,080)
Reclassified and reported in profit		-	(150,631)	-	(150,631)
Adjustment between regulatory loan provisioning and IFRS	39	(38,145)	-	-	(38,145)
Balance at 31 December 2005		121,128	287,069	86,443	494,640

Consolidated Statement of Cash Flows

Year ended 31 December 2005

(expressed in Jamaican dollars unless otherwise indicated)

	2005 $'000	2004 $'000
Cash Flows from Operating Activities		
Net profit	1,031,936	841,692
Adjustments to reconcile net profit to cash flows (used in)/provided by operating activities:		
Depreciation of property, plant and equipment	24,862	22,594
Amortisation of intangible assets	18,417	9,778
Amortisation of goodwill	-	42,940
Provision for credit losses	(3,282)	(6,268)
Interest income	(4,431,909)	(5,274,464)
Interest expense	3,128,849	3,959,419
Changes in retirement benefit assets/obligations	2,606	(9,551)
Current tax expense	169,593	129,465
Deferred tax charge	196,943	176,100
(Gain)/loss on sale of property, plant and equipment	(591)	2,279
Share option expense	20,420	-
Gain on disposal of subsidiaries	(22,304)	-
Unrealised gain on securities	(57,921)	(26,918)
	77,619	(132,934)
Changes in operating assets and liabilities:		
Statutory reserves at Bank of Jamaica	29,155	(20,377)
Loans	(1,193,687)	269,305
Leases	23,686	25,766
Customer deposits	760,741	154,226
Securities purchased under agreements to resell	4,256,715	3,599,485
Securities sold under agreements to repurchase	(1,092,902)	(6,122,406)
Trading securities, net	(658,236)	538,384
Other assets, net	(1,378)	563,791
Other liabilities, net	(42,136)	(931,190)
	2,159,577	(2,055,950)
Taxation	(266,301)	-
Interest received	4,582,703	5,328,324
Interest paid	(3,259,457)	(4,343,583)
Net cash provided by/(used in) operating activities (Page 45)	3,216,522	(1,071,209)

Consolidated Statement of Cash Flows (Cont'd)

Year ended 31 December 2005

(expressed in Jamaican dollars unless otherwise indicated)

	2005	2004
	$'000	$'000
Cash Flows from Operating Activities (Page 44)	3,216,522	(1,071,209)
Cash Flows from Investing Activities		
Acquisition of subsidiaries	-	7,327,611
Acquisition of property, plant and equipment	(33,284)	(42,062)
Acquisition of intangible assets	(43,081)	(21,631)
Proceeds from disposal of property, plant and equipment	1,621	2,990
Disposal of subsidiary	62,554	-
Acquisition of Lets Investments Limited portfolio	-	(156,418)
Acquisition of investment securities	(49,731,083)	(70,392,266)
Proceeds from the disposal of investment securities	49,541,571	65,305,414
Net cash (used in)/provided by investing activities	(201,702)	2,023,638
Cash Flows from Financing Activities		
Issue of shares	17,167	66,000
Due to banks and other financial institutions – long term	560,964	129,716
Repayment of amounts due to banks and other financial institutions – long term	(551,031)	(46,573)
Due to related parties, net	(444,943)	440,682
Dividends paid	(236,495)	-
Net cash (used in)/provided by financing activities	(654,338)	589,825
Effect of exchange rate changes on cash and cash equivalents	21,828	22,776
Net increase in cash and cash equivalents	2,382,310	1,565,030
Cash and cash equivalents at beginning of year	1,926,186	361,156
CASH AND CASH EQUIVALENTS AT END OF YEAR	4,308,496	1,926,186
Comprising:		
Cash and balances due from other financial institutions	1,080,134	774,874
Investment securities	3,255,755	1,320,610
Due to banks and other financial institutions – short term	(27,393)	(169,298)
	4,308,496	1,926,186

Profit and Loss Account

Year ended 31 December 2005

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2005 $'000	Restated 2004 $'000
Net Interest Income and Other Revenue			
Interest income from loans		90,297	109,106
Interest income from securities		3,651,704	4,380,641
Other interest income		2,133	2,853
Total interest income		3,744,134	4,492,600
Interest expense	6	(2,781,979)	(3,452,300)
Net interest income		962,155	1,040,300
Fees and commission income	7	89,639	13,567
Net trading income	8	354,417	92,296
Other operating income		42,509	3,903
		1,448,720	1,150,066
Operating Expenses			
Staff costs	9	300,472	206,516
Provision for credit losses, net	21	(2,940)	(2,093)
Occupancy costs		52,410	47,011
Other operating expenses		128,889	126,469
	10	478,831	377,903
Profit before Taxation	11	969,889	772,163
Taxation	12	(213,384)	(156,801)
NET PROFIT	14	756,505	615,362

Balance Sheet

31 December 2005

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2005 $'000	Restated 2004 $'000
ASSETS			
Cash and balances due from other financial institutions	17	406,813	297,528
Trading securities	19	717,697	1,540
Securities purchased under agreements to resell	20	1,575,318	6,348,223
Loans, net of provision for credit losses	21	991,451	692,526
Investment securities	23	15,563,686	13,387,721
Pledged assets	24	12,375,719	11,798,284
Investment in subsidiaries		2,518,210	2,564,074
Investment in associates		11,466	-
Due from related company	42	67,873	1,571
Intangible assets	26	45,153	18,352
Goodwill	27	143,263	143,263
Property, plant and equipment	28	59,611	41,735
Deferred tax assets	29	1,968	1,787
Other assets	31	382,520	362,844
Total assets		34,860,748	35,659,448
LIABILITIES			
Due to banks and other financial institutions	32	1,075,446	1,007,007
Customer deposits		488,391	538,571
Securities sold under agreements to repurchase		27,765,827	28,456,420
Income tax payable		25,326	117,744
Deferred tax liabilities	29	218,643	394,910
Other liabilities	33	47,727	35,279
Due to related companies	42	-	25
Total liabilities		29,621,360	30,549,956
STOCKHOLDERS' EQUITY			
Share capital	34	537,708	514,308
Share premium	35	2,460,107	2,444,657
Unissued fully paid up shares	34	-	21,683
Share options reserve	36	20,420	-
Loan loss reserve	39	76,273	104,050
Fair value reserve	40	360,968	788,669
Retained earnings		1,783,912	1,236,125
Total stockholders' equity		5,239,388	5,109,492
Total liabilities and equity		34,860,748	35,659,448

Statement of Changes in Stockholders' Equity

Year ended 31 December 2005

(expressed in Jamaican dollars unless otherwise indicated)

	Note	Share Capital	Share Premium	Unissued Fully Paid Up Shares	Share Options Reserve	Fair Value Reserve	Loan Loss Reserve	Retained Earnings	Total
		$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2004	48	255,661		-	-	(112,949)	125,503	599,310	867,525
Unrealised gains on available-for-sale investments, net of taxes				-	-	933,559	-		933,559
Reclassified and reported in profit				-	-	(31,941)	-	-	(31,941)
Net income recognised directly in equity				-	-	901,618	-		901,618
Net profit				-	-		-	615,362	615,362
Total recognised income for 2004				-	-	901,618	-	615,362	1,516,980
Issue of shares	34, 35	258,647	2,444,657	21,683	-		-		2,724,987
Adjustment between regulatory loan provisioning and IFRS				-	-		(21,453)	21,453	
Balance at 31 December 2004	48	514,308	2,444,657	21,683	-	788,669	104,050	1,236,125	5,109,492
Unrealised losses on available-for-sale investments, net of taxes				-	-	(321,275)	-		(321,275)
Reclassified and reported in profit				-	-	(106,426)	-		(106,426)
Net expense recognised directly in equity				-	-	(427,701)	-		(427,701)
Net profit				-	-		-	756,505	756,505
Total recognised income for 2005				-	-	(427,701	-	756,505	328,804
Issue of shares	34, 35	1,717	15,450	-	-		-		17,167
Allotment of fully paid up shares	34	21,683		(21,683)	-		-		
Adjustment between regulatory loan provisioning and IFRS	39			-	-		(27,777)	27,777	
Employee share option scheme – value of services provided	36			-	20,420		-		20,420
Dividends paid	47			-	-		-	(236,495)	(236,495)
Balance at 31 December 2005		537,708	2,460,107	-	20,420	360,968	76,273	1,783,912	5,239,388

Statement of Cash Flows

Year ended 31 December 2005

(expressed in Jamaican dollars unless otherwise indicated)

	2005 $'000	2004 $'000
Cash Flows from Operating Activities		
Net profit	756,505	615,362
Adjustments to reconcile net profit to cash flows provided by operating activities:		
Depreciation of property, plant and equipment	9,329	6,807
Amortisation of intangible assets	14,901	7,676
Amortisation of goodwill	-	9,615
Provision for credit losses	(2,940)	(2,093)
Interest income	(3,744,134)	(4,492,600)
Interest expense	2,781,979	3,452,300
Current tax expense	158,516	117,744
Deferred tax charge	54,868	39,057
Loss on sale of property, plant and equipment	35	125
Unrealised gain on trading securities	(57,921)	(18,225)
Stock options expense	20,420	-
Gain on disposal of subsidiary	(31,602)	-
	(40,044)	(264,232)
Changes in operating assets and liabilities:		
Loans	(291,378)	496,008
Customer deposits	(49,403)	321,982
Securities sold under agreements to repurchase	(570,127)	(2,567,170)
Securities purchased under agreements to resell	4,391,693	3,486,526
Trading securities, net	(658,236)	504,083
Other assets, net	(19,677)	37,726
Other liabilities, net	12,448	(441,870)
	2,775,276	1,573,053
Taxation paid	(250,934)	-
Interest received	3,853,522	4,668,145
Interest paid	(2,919,692)	(3,891,294)
Net cash provided by operating activities (Page 50)	3,458,172	2,349,904

Statement of Cash Flows (Cont'd)

Year ended 31 December 2005

(expressed in Jamaican dollars unless otherwise indicated)

	2005 $'000	2004 $'000
Net Cash Provided by Operating Activities (Page 49)	3,458,172	2,349,904
Cash Flows from Investing Activities		
Investment in subsidiaries	-	(87,288)
Proceeds from disposal of subsidiary	66,000	-
Acquisition of Lets Investments Limited portfolio	-	(165,000)
Cash and cash equivalents transferred on acquisition of Lets Investments Limited portfolio	-	8,583
Cash and cash equivalents transferred on amalgamation with Manufacturers Sigma Investment Managers Limited	-	237,098
Acquisition of property, plant and equipment	(27,312)	(25,027)
Acquisition of intangible assets, net of grant received	(41,702)	(11,931)
Proceeds from disposal of property, plant and equipment	72	1,061
Acquisition of investment securities	(48,731,703)	(69,919,634)
Proceeds from disposal of investment securities	47,478,343	68,154,321
Net cash used in investing activities	(1,256,302)	(1,807,817)
Cash Flows from Operating and Investing Activities	2,201,870	542,087
Cash Flows from Financing Activities		
Issue of shares	17,167	66,000
Due to parent company and fellow subsidiaries, net	(66,327)	(229)
Proceeds from due to banks and other financial institutions – long term	508,464	75,121
Repayment of amounts due to banks and other financial institutions – long term	(374,466)	(97,901)
Dividends paid	(236,495)	-
Net cash (used in)/provided by financing activities	(151,657)	42,991
Effect of exchange rate changes on cash and cash equivalents	18,879	7,152
Net increase in cash and cash equivalents	2,069,092	592,230
Cash and cash equivalents at beginning of year	847,009	254,779
CASH AND CASH EQUIVALENTS AT END OF YEAR	2,916,101	847,009
Comprising		
Cash and balances due from other financial institutions	406,813	297,528
Investment securities	2,529,508	618,789
Due to banks and other financial institutions – short term	(20,220)	(69,308)
	2,916,101	847,009

(expressed in Jamaican dollars unless otherwise indicated)

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 stockbroking services to customers. The registered office of the company is located at 60 Knutsford Boulevard, Kingston 5.

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 Investments Limited	Investment and management services	100%	31 December
Pan Caribbean Investments Limited	Inactive	100%	31 December
Pan Caribbean Securities Limited	Inactive	100%	31 December

Associates	Principal Activities	Holding	Financial Year End
Manufacturers Credit and Information Services Limited	Provision of fleet advance cards	25%	31 December

The company is a subsidiary of Life of Jamaica Limited which is incorporated and domiciled in Jamaica.

The ultimate parent company, Sagicor Financial Corporation (Sagicor) is incorporated and domiciled in Barbados.

(expressed in Jamaican dollars unless otherwise indicated)

2. 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 and trading securities.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

Standards, interpretations and amendments to published standards effective in 2005

Certain new standards, interpretations and amendments to existing standards have been published that became effective during the current financial year. The company has assessed the relevance of all such new standards, interpretations and amendments and has adopted the following IFRS, which are relevant to its operations. The 2004 comparative figures have been amended as required, in accordance with the relevant requirements.

IAS 1 (revised 2003)	Presentation of Financial Statements
IAS 8 (revised 2003)	Accounting Policies, Changes and Accounting Estimates and Errors
IAS 10 (revised 2003)	Events after the balance sheet date
IAS 16 (revised 2003)	Property, Plant and Equipment
IAS 17 (revised 2003)	Leases
IAS 21 (revised 2003)	The Effects of Changes in Foreign Exchange Rates
IAS 24 (revised 2003)	Related party Disclosures
IAS 36 (revised 2003)	Financial Instruments: Disclosure and Presentation
IAS 38 (revised 2003)	Impairment of Assets
IAS 39 (revised 2003/2004)	Financial Instruments: Recognition and Measurement

The adoption of IAS 1, 8, 10, 16, 17, 21, 24, 36, 38 (all revised 2003) and 39 (revised 2003/2004) did not result in substantial changes to the company's accounting policies. In summary:

- IAS 1 (revised 2003) has affected the financial statement presentation, as well as a number of disclosures.
- IAS 8, 10, 16, 17, 21, 36, 38 (all revised 2003) and IAS 39 (revised 2003/2004) had no material effect on the company's policies.
- IAS 24 (revised 2003) has affected the identification of related parties and related-party disclosures.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All new standards, amendments and interpretations, in so far as they apply to the company, require retrospective application other than IAS 39 – the derecognition of financial assets is applied prospectively.

The impact of the adoption of the new standards, interpretations and amendments to existing standards is detailed in Note 48.

2. Significant Accounting Policies (Cont'd)

(a) Basis of preparation (Continued)

Interpretations and amendments to published standards that are not yet effective

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been issued which were not yet effective at balance sheet date, and which the company did not early adopt. The company has assessed the relevance of all such new standards, interpretations and amendments, and has determined that the following may be relevant to its operations, and has concluded as follows:

- **IAS 19 (Amendment), Employee Benefits** (effective from 1 January 2006). This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. The company will apply this amendment from annual periods beginning 1 January 2006.

- **IAS 39 (Amendment), The Fair Value Option** (effective from 1 January 2006)**.** This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The company believes that this amendment should not have a significant impact on the classification of financial instruments, as the company should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss. The company will apply this amendment from annual periods beginning 1 January 2006.

- **IFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures** (effective from 1 January 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The company assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of IAS 1. The company will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007.

- **IFRIC 4, Determining whether an Arrangement contains a Lease** (effective from 1 January 2006). IFRIC 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. The company will apply IFRIC 4 from annual periods beginning 1 January 2006.

2. Significant Accounting Policies (Cont'd)

(b) Consolidation

(i) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group' controls another entity.

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.

(ii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for under the equity method of accounting and are initially recognised at cost. The Group's investment in associates include goodwill (net of any accumulated impairment loss) identified on acquisition.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Segment reporting

A business segment is a Group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2. Significant Accounting Policies (Cont'd)

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Jamaican dollars, which is the company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are accounted for at the exchange rates prevailing at the dates of the transactions. At the balance sheet date, 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 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. Exchange differences are recognised in stockholders' equity for non-monetary financial assets classified as available-for-sale.

(e) Interest income and expenses

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.

(f) Fees and commission income

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.

2. Significant Accounting Policies (Cont'd)

(g) Financial Assets

The Group classifies its financial assets in the categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

(i)Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market. They arise when the company provides money, goods or services directly to a debtor with no intention of trading the receivable.

(iii)Available-for-sale

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Purchases and sales of financial assets available-for-sale are recognised at the trade date – the date on which the company commits the purchase or sell the asset. Loans and receivables are recognised when cash is advanced to the borrowers.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the company has transferred substantially all risks and rewards of ownership.

Changes in the fair value of available-for-sale securities denominated in a foreign currency are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences are recognised in profit or loss, and other changes in carrying amount are recognised in equity. Changes in the fair value of available-for-sale securities are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the profit and loss account.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the profit and loss account. Dividends on available-for-sale equity instruments are recognised in the profit and loss account when the company's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

2. Significant Accounting Policies (Cont'd)

(g) Financial Assets (Continued)

The company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account. Impairment provisioning of loans is described in Note 2 (h).

Financial assets are reclassified in the financial statements as pledged assets when the asset is pledged as collateral and the transferee has the right by contract or custom to sell or repledge the collateral. The counterparty liability is included in amounts due to other banks and other financial institutions or customer deposits or securities sold under agreement to repurchase.

(h) Provision for credit losses

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 to its estimated recoverable amount by recording specific provisions for credit losses. The recoverable amount 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.

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.

2. Significant Accounting Policies (Cont'd)

(i) 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 and are recorded at the amount at which the securities were acquired or sold plus accrued interest.

Securities sold subject to repurchase agreements (repos') are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral. The counterparty liability is included in amounts due to banks and other financial institutions, customer deposits, or securities sold under agreements to repurchase.

(j) Investment in subsidiaries

Investments by the company in subsidiaries are stated at cost.

(k) 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.

(l) 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	3 years
Leasehold improvements	10 years

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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.

2. Significant Accounting Policies (Cont'd)

(m) Borrowings

Borrowings are recognised initially at fair value, 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.

(n) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill arising on the acquisitions of associates is included in 'investments in associates'. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units is represented by each primary reporting segment (see Note 2 (c)).

(o) Employee benefits

(i) Pension obligations

The Group participates in a defined benefit plan administered by Life of Jamaica 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 plan 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 post-retirement obligations

The Group provides post-retirement 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. Significant Accounting Policies (Cont'd)

(o) 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 months after the balance sheet date are discounted to present value.

(iv)Share-based compensation

The Group operates an equity-settled, share-based compensation plan.

The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the profit and loss account, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(p) Leases

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.

(q) 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. Significant Accounting Policies (Cont'd)

(r) Financial Instruments

Financial instruments carried on the balance sheet include cash resources, trading securities, securities purchased under agreements 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 company's financial instruments are discussed in Note 41.

(s) Taxation

Taxation on the profit or loss for the year 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.

(i) Current taxation

Current tax is the expected taxation payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustment to tax payable and tax losses in respect of previous years.

(ii) Deferred taxation

Deferred tax liabilities are recognised for temporary differences between the carrying amounts of assets and liabilities and their amounts as measured for tax purposes, which will result in taxable amounts in future periods. Deferred tax assets are recognised for temporary differences which will result in deductible amounts in future periods, but only to the extent it is probable that sufficient taxable profits will be available against which these differences can be utilised.

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

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

(t) 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.

(u) 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.

(v) 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.

(w) 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.

2. Significant Accounting Policies (Cont'd)

(x) Dividends

Dividends on ordinary shares are recognised in equity in the period in which they are approved for payment.

Dividends for the year that are declared after the balance sheet date are dealt with in the subsequent events note.

(y) Share capital

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

(z) Comparative information

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year. In particular, the comparatives have been adjusted or extended to reflect the requirements of new IFRS, interpretations and amendments to existing IFRS (Note 2 (a)).

3. 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 of Directors 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 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.

3. Financial Risk Management (Cont'd)

(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 2005:						
Assets						
Cash and balances due from other financial institutions	1,079,020	-	1,114	-	-	1,080,134
Cash reserves at Bank of Jamaica	56,587	-	-	-	-	56,587
Trading securities	-	-	-	716,700	997	717,697
Securities purchased under agreements to resell	1,756,833	175,092	54,929	-	-	1,986,854
Loans, net of provision for credit losses	724,575	569,677	1,158,207	1,372,071	1,179,858	5,004,388
Lease receivable	14,771	-	-	-	-	14,771
Investment securities	517,935	1,801,549	4,672,747	5,633,521	4,307,079	16,932,831
Pledged assets	7,413,214	2,904,849	1,798,684	230,585	358,387	12,705,719
Other	17,983	25,257	1,393,896	10,245	-	1,447,381
Total assets	11,580,918	5,476,424	9,079,577	7,963,122	5,846,321	39,946,362
Liabilities						
Due to banks and other financial institutions	20,768	242,437	189,517	454,801	476,732	1,384,255
Customer deposits	724,474	454,223	1,660,309	853,997	510,472	4,203,475
Securities sold under agreements to repurchase	16,588,128	6,906,935	4,276,778	3,449	-	27,775,290
Other	62,568	21,936	319,199	10,605	20,228	434,536
Total liabilities	17,395,938	7,625,531	6,445,803	1,322,852	1,007,432	33,797,556
Net Liquidity Gap	(5,815,020)	(2,149,107)	2,633,774	6,640,270	4,838,889	6,148,806
Cumulative Liquidity Gap	(5,815,020)	(7,964,127)	(5,330,353)	1,309,917	6,148,806	
As at 31 December 2004:						
Total assets	3,456,965	3,520,112	8,631,815	15,421,534	9,843,401	40,873,827
Total liabilities	19,318,960	9,698,785	4,621,429	837,455	709,709	35,186,338
Net Liquidity Gap	(15,861,995)	(6,178,673)	4,010,386	14,584,079	9,133,692	5,687,489
Cumulative Liquidity Gap	(15,861,995)	(22,040,669)	(18,030,282)	(3,446,203)	5,687,489	

3. Financial Risk Management (Cont'd)

(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 2005:						
Assets						
Cash and balances due from other financial institutions	405,699	-	1,114	-	-	406,813
Trading securities	-	-	-	716,700	997	717,697
Securities purchased under agreements to resell	1,378,621	141,768	54,929	-	-	1,575,318
Loans, net of provision for credit losses	75,154	273,133	79,979	232,696	330,489	991,451
Investment securities	917,064	1,050,653	4,431,352	5,211,374	3,953,243	15,563,686
Pledged assets	6,972,488	3,603,096	1,798,684	1,451	-	12,375,719
Other	54	18,831	1,379,049	7,489	1,824,641	3,230,064
Total assets	9,749,080	5,087,481	7,745,107	6,169,710	6,109,370	34,860,748
Liabilities						
Due to banks and other financial institutions	20,483	242,437	137,410	262,244	412,872	1,075,446
Customer deposits	25,119	18,514	101,972	342,786	-	488,391
Securities sold under agreements to repurchase	16,578,665	6,906,935	4,276,778	3,449	-	27,765,827
Other	5,548	5,940	280,208	-	-	291,696
Total liabilities	16,629,815	7,173,826	4,796,368	608,479	412,872	29,621,360
Net Liquidity Gap	(6,880,735)	(2,086,345)	2,948,739	5,561,231	5,696,498	5,239,388
Cumulative Liquidity Gap	(6,880,735)	(8,967,080)	(6,018,341)	(457,110)	5,239,388	
As at 31 December 2004:						
Total assets	2,935,049	2,988,663	7,328,366	13,093,266	9,314,104	35,659,448
Total liabilities	16,788,110	8,428,211	4,016,007	727,746	589,882	30,549,956
Net Liquidity Gap	(13,853,061)	(5,439,548)	3,312,359	12,365,520	8,724,222	5,109,492
Cumulative Liquidity Gap	(13,853,061)	19,292,609	(15,980,250)	(3,614,730)	5,109,492	

(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.

3. Financial Risk Management (Cont'd)

(b) Interest rate risk (Continued)

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.

	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 2005:							
Assets							
Cash and balances due from other financial institutions	1,079,020	-	1,114	-	-	-	1,080,134
Cash reserve at Bank of Jamaica	33,909	-	-	-	-	22,678	56,587
Trading securities	-	-	-	716,700	997	-	717,697
Securities purchased under agreements to resell	1,761,921	170,004	54,929	-	-	-	1,986,854
Loans, net of provision for credit losses	724,575	569,677	1,158,207	1,372,071	1,179,858	-	5,004,388
Leases receivables	14,771	-	-	-	-	-	14,771
Investment securities	2,926,683	3,330,887	3,363,102	5,754,521	1,557,638	-	16,932,831
Pledged assets	7,413,214	3,139,664	2,151,392	1,449	-	-	12,705,719
Other	-	-	-	-	-	1,447,381	1,447,381
Total assets	13,954,093	7,210,232	6,728,744	7,844,741	2,738,493	1,470,059	39,946,362
Liabilities							
Due to banks and other financial institutions	20,503	239,298	187,738	451,406	485,310	-	1,384,255
Customer deposits	724,473	454,223	1,660,309	853,998	510,472	-	4,203,475
Securities sold under agreements to repurchase	16,325,082	7,012,067	4,434,748	3,393	-	-	27,775,290
Other	-	-	-	-	-	434,536	434,536
Total liabilities	17,070,058	7,705,588	6,282,795	1,308,797	995,782	434,536	33,797,556
Total interest rate sensitivity gap	(3,115,965)	(495,356)	445,949	6,535,944	1,742,711	1,035,523	6,148,806
Cumulative gap	(3,115,965)	(3,611,321)	(3,165,372)	3,370,571	5,113,283	6,148,806	
As at 31 December 2004:							
Total assets	4,769,002	3,684,586	7,190,327	14,937,696	7,196,224	3,095,992	40,873,827
Total liabilities	16,791,376	9,503,358	4,834,030	1,296,343	1,078,013	1,683,218	35,186,338
Total interest rate sensitivity gap	(12,022,374)	(5,818,772)	2,356,297	13,641,353	6,118,211	1,412,774	5,687,489
Cumulative gap	(12,022,374)	(17,841,146)	(15,484,849)	(1,843,496)	4,274,715	5,687,489	

3. Financial Risk Management (Cont'd)

(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 2005:							
Assets							
Cash and balances due from other financial institutions	405,699	-	1,114	-	-	-	406,813
Trading securities	-	-	-	716,700	997	-	717,697
Securities purchased under agreements to resell	1,382,633	137,756	54,929	-	-	-	1,575,318
Loans, net of provision for credit losses	75,154	273,133	79,979	232,696	330,489	-	991,451
Investment securities	2,627,565	3,278,238	3,121,707	5,269,331	1,266,845	-	15,563,686
Pledged assets	7,670,735	2,904,849	1,798,684	1,451	-	-	12,375,719
Other	-	-	-	-	-	3,230,064	3,230,064
Total assets	12,161,786	6,593,976	5,056,413	6,220,178	1,598,331	3,230,064	34,860,748
Liabilities							
Due to banks and other financial institutions	20,218	239,298	135,631	258,849	421,450	-	1,075,446
Customer deposits	25,118	18,514	101,972	342,787	-	-	488,391
Securities sold under agreements to repurchase	16,578,665	6,906,935	4,276,834	3,393	-	-	27,765,827
Other	-	-	-	-	-	291,696	291,696
Total liabilities	16,624,001	7,164,747	4,514,437	605,029	421,450	291,696	29,621,360
Total interest rate sensitivity gap	(4,462,215)	(570,771)	541,976	5,615,149	1,176,881	2,938,368	5,239,388
Cumulative gap	(4,462,215)	(5,032,986)	(4,491,010)	1,124,139	2,301,020	5,239,388	
As at 31 December 2004:							
Total assets	2,933,139	2,935,640	6,000,056	13,073,266	5,550,116	5,167,231	35,659,448
Total liabilities	16,608,084	7,815,490	3,660,157	719,942	581,788	1,164,495	30,549,956
Total interest rate sensitivity gap	(13,674,945)	(4,879,850)	2,339,899	12,353,324	4,968,328	4,002,736	5,109,492
Cumulative gap	(13,674,945)	(18,554,795)	(16,214,896)	(3,861,572)	1,106,756	5,109,492	

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Cont'd)

(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 2005:										
Cash and balances due from other financial institutions	4.0	1.0	0.85	0.50	-	4.00	1.0	0.85	0.5	-
Cash reserves at Bank of Jamaica	1.0	3.66	2.65	3.66	1.0	-	-	-	-	-
Trading securities	16.52	11.75	-	-	-	16.52	11.75	-	-	-
Securities purchased under agreements to resell	14.53	5.75	-	5.14	-	14.49	5.24	-	5.14	-
Loans, net of provision for credit losses	17.34	9.78	-	-	-	17.37	8.94	-	-	-
Lease receivables	23.32	11.86	-	-	-					
Investment securities – debt securities	15.6	10.37	-	-	9.25	15.79	10.72	-	-	9.25
Liabilities										
Due to banks and other financial institutions	7.58	8.53	-	-	5.20	7.58	8.53	-	-	5.20
Customer deposits	12.60	5.26	-	-	-	12.83	5.70	-	3.46	-
Securities sold under agreements to repurchase	12.83	5.7	-	3.46	-	14.73	6.25	-	3.18	-
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 reserve 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	-

3. Financial Risk Management (Cont'd)

(b) 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	130,753	905,066	82,995	8,588	9,319	1,136,721
Trading securities	15,262	-	702,435	-	-	717,697
Securities purchased under agreements to resell	570,969	1,357,840	58,045	-	-	1,986,854
Loans, net of provision for credit losses	1,390,051	3,614,337	-	-	-	5,004,388
Lease receivables	14,771	-	-	-	-	14,771
Investment securities	11,411,941	5,100,073	-	-	420,317	16,932,831
Pledged assets	6,160,223	6,521,086	24,410	-	-	12,705,719
Other	1,263,656	178,778	189	4	4,754	1,447,381
Total assets	20,957,626	17,677,680	868,074	8,592	434,390	39,946,362
Liabilities						
Due to banks and other financial institutions	783,918	368,487	-	-	231,850	1,384,255
Customer deposits	628,804	3,551,187	21,321	2,163	-	4,203,475
Securities sold under agreements to repurchase	14,476,901	13,240,326	58,063	-	-	27,775,290
Other	362,153	70,690	239	52	1,402	434,536
Total liabilities	16,251,776	17,230,690	79,623	2,215	233,252	33,797,556
Net position	4,705,850	446,990	788,451	6,377	201,138	6,148,806
As at 31 December 2004:						
Total assets	21,250,296	19,425,504	176,173	-	21,854	40,873,827
Total liabilities	16,743,381	18,055,352	63,130	1,814	322,661	33,792,236
Net position	4,506,915	1,370,152	113,043	(1,814)	(300,807)	5,687,489

3. Financial Risk Management (Cont'd)

(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 2005:					
Assets					
Cash and balances due from other financial institutions	56,203	346,156	4,449	5	406,813
Trading securities	15,262	-	702,435	-	717,697
Securities purchased under agreements to resell	343,969	1,173,304	58,045	-	1,575,318
Loans, net of provision for credit losses	380,442	611,009	-	-	991,451
Investment securities	10,487,233	4,782,765	-	293,688	15,563,686
Pledged assets	6,072,371	6,278,936	24,412	-	12,375,719
Other	2,785,135	433,841	424	10,664	3,230,064
Total assets	20,140,615	13,626,011	789,765	304,357	34,860,748
Liabilities					
Due to banks and other financial institutions	481,666	361,930	-	231,850	1,075,446
Customer deposits	457,126	31,265	-	-	488,391
Securities sold under agreements to repurchase	14,438,415	13,269,349	58,063	-	27,765,827
Other	241,142	49,372	167	1,015	291,696
Total liabilities	15,618,349	13,711,916	58,230	232,865	29,621,360
Net position	4,522,266	(85,905)	731,535	71,492	5,239,388
As at 31 December 2004:					
Total assets	19,812,818	15,443,616	50,336	352,678	35,659,448
Total liabilities	16,083,741	14,097,816	44,302	324,097	30,549,956
Net position	3,729,077	1,345,800	6,034	28,581	5,109,492

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

(c) 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 carries out extensive research and monitors the price movement of financial assets on the local and international markets.

(d) 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 and bank manage this risk by ensuring, as far as possible, that financial assets and liabilities are matched to mitigate any significant adverse cash flows.

3. Financial Risk Management (Cont'd)

(e) 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 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 requests additional collateral where deemed appropriate. The risk is managed primarily by review of the financial status of each counterparty.

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

	The Group		The Company	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
Loans & Leases				
Agriculture, fishing and mining	503,156	288,534	23,877	23,736
Construction and real estate	619,887	681,350	10,000	-
Distribution	953,218	748,580	276,769	139,629
Manufacturing	344,429	183,890	86,234	110,571
Personal	366,477	157,046	846	2,149
Professional and other services	1,337,107	917,979	283,340	96,733
Tourism and entertainment	768,529	631,689	348,050	405,126
Transportation storage and communication	170,495	47,424	48,417	8,575
Other	1,019	237,820	363	-
Total	5,064,317	3,894,312	1,077,897	786,519
Total provision	(114,187)	(117,465)	(96,805)	(99,745)
Net	4,950,130	3,776,847	981,092	686,774
Interest receivable	69,029	46,072	10,359	5,752
	5,019,159	3,822,919	991,451	692,526

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

The Group makes estimates and assumptions concerning the future that may affect the reported amounts of assets and liabilities in the next financial year. The Group also makes judgements, apart from those involving estimates, in the process of applying the accounting policies, that affect the amounts recognised in the financial statements. These estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The primary area of critical accounting judgement and key source of estimation uncertainty is impairment losses on loans and advances.

The Group reviews its loan portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the profit and loss account, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from loans. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the net present value of estimated cash flows differs by +/-5 percent, the provision would be estimated $4,978,000 higher or $3,372,000 lower.

5. 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, stockbroking 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.

In the prior years the Group was also involved in the provision of fleet advance cards. That operation was discontinued with effect from 31 May 2005 (Note 13).

The Group's operations are located in Jamaica.

Transactions between the business segments are on normal commercial terms and conditions. There has been no change in the basis of the pricing of transactions over the prior year.

External operating revenue as disclosed in the segment information below is comprised as follows:

	The Group		The Company	
		Restated		Restated
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Interest Income and Other Revenue				
Interest income from loans	519,956	421,805	90,297	109,106
Interest income from securities	3,904,213	4,827,456	3,651,704	4,380,641
Interest income from leases	5,607	11,444	2,133	2,853
Other interest income	2,133	13,759	-	-
Total interest income	4,431,909	5,274,464	3,744,134	4,492,600
Fees and commission income	238,655	128,532	89,639	13,567
Net trading income	485,414	245,161	354,417	92,296
Other operating income	27,234	60,392	42,509	3,903
	5,183,212	5,708,549	4,230,699	4,602,366

5. Segment Reporting (Cont'd)

	The Group					
	Year ended 31 December 2005					
	Development Banking	Investment Management	Merchant Banking	Other	Eliminations	Group
	$'000	$'000	$'000	$'000	$'000	$'000
External operating revenues	232,732	3,927,861	916,201	106,418	-	5,183,212
Operating revenue from other segments	1,593	7,886	75,905	-	(85,384)	-
Operating revenue for continuing operations	234,325	3,935,747	992,106	106,418	(85,384)	5,183,212
Segment result from continuing operations	76,551	846,129	372,468	68,003		1,363,151
Share of associated company profit	-	-	-	2,131	-	2,131
Profit before tax						1,365,282
Income tax expense						(363,777)
Profit from continuing operations						1,001,505
Profit from discontinued operations	-	-	-	30,431	-	30,431
Net profit						1,031,936
Segment assets	1,494,966	30,704,310	7,152,932	98,997	(252,190)	39,199,015
Goodwill	-	72,500	639,765	21,485	-	733,750
Investments in associates	13,597	-	-	-	-	13,597
Total assets	1,508,563	30,776,810	7,792,697	120,482	(252,190)	39,946,362
Segment liabilities	1,068,708	28,547,332	4,420,016	20,423	(264,243)	33,792,236
Other segment items:						
Capital expenditure	69,015	-	7,350	-	-	76,365
Depreciation	9,329	-	15,533	-	-	24,862
Other amortisation charges	14,901	-	3,516	-	-	18,417

5. Segment Reporting (Cont'd)

	The Group					
	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	4,494,887	985,905	54,173	-	5,708,549
Operating revenue from other segments	15,000	9,497	139,070	-	(163,567)	-
Operating revenue for continuing operations	188,584	4,504,384	1,124,975	54,173	(163,567)	5,708,549
Segment result from continuing operations	87,145	660,346	364,065	19,526	-	1,131,082
Profit before tax						1,131,082
Income tax expense						(301,898)
Profit from continuing operations						829,184
Profit from discontinued operations	-	-	-	12,508	-	12,508
Net profit						841,692
Segment assets	1,806,820	31,028,187	6,852,100	974,825	(548,115)	40,113,817
Goodwill	-	72,500	639,765	47,745	-	760,010
Total assets	1,806,820	31,100,687	7,491,865	1,022,570	(548,115)	40,873,827
Segment liabilities	691,507	29,923,995	4,436,846	65,358	68,632	35,186,338
Other segment items:						
Capital expenditure	36,958	-	25,209	1,526	-	63,693
Depreciation	6,807	-	13,731	2,056	-	22,594
Amortisation of goodwill	-	4,747	35,541	2,652	-	42,940
Other amortisation charges	7,676	-	2,102	-	-	9,778

5. Segment Reporting (Cont'd)

	The Company		
	Year ended 31 December 2005		
	Development Banking	Investment Management	Total
	$'000	$'000	$'000
External operating revenues	294,952	3,935,747	4,230,699
Operating revenue from other segments	-	-	-
Operating revenue	294,952	3,935,747	4,230,699
Segment result	116,551	853,338	969,889
Profit before tax			969,889
Income tax expense			(213,384)
Net profit			756,505
Segment assets	1,494,966	33,211,053	34,706,019
Goodwill	-	143,263	143,263
Investments in associates	11,466	-	11,466
Total assets	1,506,432	33,354,316	34,860,748
Segment liabilities	1,068,708	28,547,332	29,616,040
Other segment items:			
Capital expenditure	69,014	-	69,014
Depreciation	9,329	-	9,329
Amortisation charges	14,901	-	14,901

5. Segment Reporting (Cont'd)

	The Company		
	Year ended 31 December 2004		
	Development Banking	Investment Management	Total
	$'000	$'000	$'000
External operating revenues	188,584	4,413,782	4,602,366
Operating revenue from other segments	-	-	-
Operating revenue	188,584	4,413,782	4,602,366
Segment result	87,145	685,018	772,163
Profit before tax			772,163
Income tax expense			(156,801)
Net profit			615,362
Segment assets	1,806,820	33,709,365	35,516,185
Goodwill	-	143,263	143,263
	1,806,820	33,852,628	35,659,448
Segment liabilities	691,507	29,858,449	30,549,956
Other segment items:			
Capital expenditure	36,958	-	36,958
Depreciation	6,807	-	6,807
Amortisation of goodwill	-	9,615	9.615
Other amortisation charges	7,676	-	7,676

6. Interest Expense

	The Group		The Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Due to banks and other financial institutions	84,983	81,061	52,188	56,974
Customer deposits and repurchase liabilities	3,043,866	3,878,358	2,729,791	3,395,326
	3,128,849	3,959,419	2,781,979	3,452,300

7. Fees and Commission Income

	The Group		The Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Wholesale banking fees	8,196	4,181	8,196	4,181
Credit fees	27,455	11,583	2,466	3,237
Trust fees	21,346	21,346	-	20
Treasury fees	18,848	30,679	13,410	6,129
Management fees	114,570	56,742	17,327	-
Stock brokerage fees	48,240	-	48,240	-
Other fees	-	4,001	-	-
	238,655	128,532	89,639	13,567

8. Net Trading Income

	The Group		The Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Foreign exchange translation and trading	87,946	68,103	19,045	19,405
Dividend income	14,545	39,736	12,290	15,833
Gain on sale of investments	266,425	20,462	265,292	56,719
Securities trading gain	116,498	116,860	57,790	339
	485,414	245,161	354,417	92,296

9. Staff Costs

	The Group		The Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Wages and salaries	289,199	216,375	212,178	173,217
Statutory contributions	27,441	18,020	20,095	13,094
Pension costs (Note 30)	7,551	(4,777)	-	-
Other retirement benefits (Note 30)	1,949	483	-	-
Termination costs	529	1,348	-	-
Accommodation and other staff benefits	53,199	43,650	47,779	20,205
Share options	20,420	-	20,420	-
	400,288	275,099	300,472	206,516

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

	The Group		The Company	
	2005 No.	2004 No.	2005 No.	2004 No.
Full - time	201	188	109	107
Part - time	12	17	6	3
	213	205	115	110

10. Expenses by Nature

	The Group		The Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Staff costs (Note 9)	400,288	275,099	300,472	206,516
Rent	21,746	19,477	-	-
Depreciation	24,862	22,594	9,329	6,807
Amortisation	18,417	52,718	14,901	17,291
Office expenses	26,305	26,973	25,869	20,674
Repairs and maintenance	3,681	5,888	2,311	2,239
Provision for credit losses	(3,282)	(6,268)	(2,940)	(2,093)
Insurance	11,540	11,222	6,446	3,707
Bank charges	14,183	13,901	4,745	3,987
Commissions and fees	13,996	5,931	11,024	4,365
Legal and professional fees	10,729	11,304	5,606	9,099
Audit fees	7,800	6,930	3,650	3,200
Travelling and entertainment	12,131	15,684	9,818	7,980
Motor vehicle expense	5,476	6,015	2,468	692
Telephone and postage	12,129	13,985	6,441	6,586
Printing and stationery	12,734	10,316	6,495	6,125
Promotion and advertising	43,728	39,019	29,855	29,293
Security	4,576	4,210	2,496	2,350
Donations	1,999	7,430	1,484	6,052
Miscellaneous	1,473	31,450	958	13,837
Irrecoverable General Consumption Tax	20,912	21,190	11,614	11,492
Stamp duty	5,286	4,284	5,286	4,284
Computer project expense	20,503	18,696	20,503	13,420
	691,212	618,048	478,831	377,903

11. Profit before Taxation

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

	The Group		The Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Directors' emoluments -				
Fees	4,170	4,064	3,427	1,075
Management remuneration	15,457	8,518	15,457	-
Auditors' remuneration -				
Current year	7,500	6,160	3,600	2,600
Prior year	300	770	50	600
Depreciation	24,862	22,594	9,329	6,807
Amortisation of intangible assets	18,417	9,778	14,901	7,676
Amortisation of goodwill	-	42,940	-	9,615
(Gain)/loss on disposal of property, plant and equipment	(591)	2,279	35	125

12. 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					
	Continuing Operations		Discontinued Operation		Total	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Current tax at 33⅓%:						
Current year	170,650	125,739	2,759	3,726	173,409	129,465
Prior year over-provision	(3,816)	-	-	-	(3,816)	-
Deferred tax (Note 29)	196,943	176,159	-	(59)	196,943	176,100
	363,777	301,898	2,759	3,667	366,536	305,565

	The Company	
	2005 $'000	2004 $'000
Current tax at 33⅓%:		
Current year	162,332	117,744
Prior year over-provision	(3,816)	-
Deferred tax (Note 29)	54,868	39,057
	213,384	156,801

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

	The Group		The Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Profit before taxation:				
Continuing operations	1,365,282	1,131,082	969,889	772,163
Discontinued operation	33,190	16,175	-	-
	1,398,472	1,147,257	969,889	772,163
Tax calculated at 33⅓%	466,157	382,419	323,296	257,388
Adjusted for the effect of:				
Tax on share of results of associates	(731)	-	-	-
Income not subject to tax	(124,650)	(153,452)	(122,708)	(130,847)
Expenses not deductible for tax purposes	38,107	49,469	12,796	15,796
Adjustment to tax losses	(12,347)	27,129	-	14,464
Income tax	366,536	305,565	213,384	156,801

13. Discontinued Operation

In May 2005, the Group entered into a sale agreement to sell 75% of its holding in Manufacturers Credit and Information Services Limited (MCIS). The sale was completed on 31 May 2005, on which date control of MCIS passed to the purchaser. At that date the Group derecognised the entity as a subsidiary. The remaining 25% investment in MCIS is accounted for as investment in associates (Note 25).

The profit for the year from the discontinued operation is analysed as follows:

	2005 $'000	2004 $'000
Profit for the year from the operation	8,127	12,508
Gain on disposal of the operation (Note 46)	22,304	-
	30,431	12,508

The results of the discontinued operation for the period to the date of disposal are as follows:

	2005 $'000	2004 $'000
Revenue	23,786	41,416
Administrative expenses	(16,522)	(28,511)
Operating Profit	7,264	12,905
Finance income	3,622	3,270
Profit before Taxation	10,886	16,175
Taxation	(2,759)	(3,667)
Net Profit	8,127	12,508

The cash flows of the discontinued operation for the period to the date of disposal are as follows:

	2005 $'000	2004 $'000
Operating cash flows	2,732	13,687
Investing cash flows	(2,381)	(301)
Financing cash flows	(3)	(14)
Total cash flows	(348)	13,372

14. Net Profit

	2005 $'000	2004 $'000
Dealt with in the financial statements of:		
The company	756,505	615,362
The subsidiaries	273,300	226,330
Associated company	2,131	-
	1,031,936	841,692

15. Retained Earnings

	2005 $'000	2004 $'000
Reflected in the financial statements of:		
The company	1,783,912	1,236,125
The subsidiaries	568,622	282,823
	2,357,854	1,518,948

16. Earnings per Stock Unit

(a) Earnings per Stock Unit from Continuing and Discontinued Operations

(i) 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.

	2005	2004
Net profit attributable to stockholders ($'000)	1,031,936	841,692
Weighted average number of ordinary stock units in issue ('000)	537,250	456,603
Basic earnings per stock unit ($)	1.92	1.84

(ii) Diluted earnings per stock unit is calculated by dividing the net profit attributable to stockholders by the weighted average number of ordinary stock units, as adjusted for the effects of dilutive potential ordinary shares.

	2005	2004
Net profit attributable to stockholders ($'000)	1,031,936	841,692
Weighted average number of ordinary stock units in issue ('000)	543,809	462,365
Diluted earnings per stock unit ($)	1.90	1.82

16. Earnings per Stock Unit (Cont'd)

(b) Earnings per Stock Unit from Continuing Operations:

(i) Basic earnings per stock unit is calculated by dividing the profit from continuing operations by the weighted average number of ordinary stock units in issue during the year.

	2005	2004
Net profit attributable to stockholders ($'000)	1,001,505	829,184
Weighted average number of ordinary stock units in issue ('000)	537,250	456,603
Basic earnings per stock unit ($)	1.86	1.81

(ii) Diluted earnings per stock unit is calculated by dividing the profit from continuing operations by the weighted average number of ordinary stock units, as adjusted for the effects of dilutive potential ordinary shares.

	2005	2004
Net profit attributable to stockholders ($'000)	1,001,505	829,184
Weighted average number of ordinary stock units in issue ('000)	543,809	462,365
Diluted earnings per stock unit ($)	1.84	1.79

(c) Earnings per Stock Unit from Discontinued Operation:

(i) Basic earnings per stock unit is calculated by dividing the profit from continuing operations by the weighted average number of ordinary stock units in issue during the year.

	2005	2004
Net profit attributable to stockholders ($'000)	30,431	12,508
Weighted average number of ordinary stock units in issue ('000)	537,250	456,603
Basic earnings per stock unit ($)	0.06	0.03

(ii) Diluted earnings per stock unit is calculated by dividing the profit from continuing operations by the weighted average number of ordinary stock units, as adjusted for the effects of dilutive potential ordinary shares.

	2005	2004
Net profit attributable to stockholders ($'000)	30,431	12,508
Weighted average number of ordinary stock units in issue ('000)	543,809	462,365
Diluted earnings per stock unit ($)	0.06	0.03

16. Earnings per Stock Unit (Cont'd)

The weighted average number of ordinary stock units used in the basic and diluted earnings per stock unit computations may be reconciled as follows:

	2005 '000	2004 '000
Weighted average number of ordinary stock units for the purposes of the computation of basic earnings per stock unit	537,250	456,603
Effect of dilutive potential ordinary stock units – share options	6,559	5,762
Weighted average number of ordinary stock units for the purposes of the computation of diluted earnings per stock unit	543,809	462,365

17. Cash and Balances Due from Other Financial Institutions

	The Group		The Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Placements with other financial institutions	1,060,774	740,216	406,420	270,972
Cash in hand	19,360	34,658	393	26,556
	1,080,134	774,874	406,813	297,528

18. 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 1% (2004 – 5%) of prescribed liabilities. This special deposit earns interest at 6% per annum.

19. Trading Securities

	The Group		The Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Government of Jamaica debt securities – at fair value	717,697	1,540	717,697	1,540

20. 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 2005, the Group held $12,264,994,000 (2004 - $12,267,980,000) of securities, mainly representing Government of Jamaica debt securities, as collateral for reverse repurchase agreements.

21. Loans

	The Group		The Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Gross loans	5,049,870	3,856,184	1,077,897	786,519
Provision for credit losses	(114,183)	(117,465)	(96,805)	(99,745)
	4,935,687	3,738,719	981,092	686,774
Loan interest receivable	68,701	45,236	10,359	5,752
	5,004,388	3,783,955	991,451	692,526

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

	The Group		The Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Total non-performing loans	162,286	224,866	118,443	205,099

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

	The Group		The Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Balance at beginning of year	117,465	115,347	99,745	111,073
Loan loss provisions of acquired subsidiaries	-	17,621	-	-
Write-off of loans previously provided for	-	(9,235)	-	(9,235)
Provided during the year	6,721	2,830	3,021	-
Recoveries	(10,003)	(9,098)	(5,961)	(2,093)
Net credit to the profit and loss account	(3,282)	(6,268)	(2,940)	(2,093)
Balance at end of year	114,183	117,465	96,805	99,745

21. Loans (Cont'd)

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

	The Group		The Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Specific provision	207,946	239,347	164,090	197,220
General provision	27,365	37,391	8,988	6,575
	235,311	276,738	173,078	203,795
Excess of regulatory provision over IFRS provision reflected in a non distributable loan loss reserve (Note 39)	121,128	159,273	76,273	104,050

22. Lease Receivables

	The Group	
	2005 $'000	2004 $'000
Gross investment in finance leases is classified as follows:		
Not later than one year	380	5,292
Later than one year and not later than five years	21,066	48,880
	21,446	54,172
Unearned finance income	(7,004)	(16,044)
Net investment in finance leases	14,442	38,128
Net investment in finance leases is classified as follows:		
Not later than one year	2,195	13,132
Later than one year and not later than five years	12,247	24,996
	14.442	38.128
Interest receivable	329	836
	14.771	38.964

23. Investment Securities

	The Group		The Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Investment securities –				
At fair value:				
Debt securities –				
Government of Jamaica	27,610,048	26,595,294	26,147,606	24,145,961
Corporate bonds	787,934	318,954	591,004	159,477
Other	37,034	37,099	37,034	37,099
Equity securities –				
Quoted	60,522	35,537	60,522	-
At cost:				
Unquoted	177,613	185,134	176,141	183,587
	28,673,151	27,172,018	27,012,307	24,526,124
Less: pledged assets	(12,705,719)	(12,268,253)	(12,375,718)	(11,798,284)
	15,967,432	14,903,765	14,636,589	12,727,840
Interest receivable	965,399	690,285	927,097	659,881
	16,932,831	15,594,050	15,563,686	13,387,721

With the adoption of the revised IAS 39 effective 1 January 2005, the Group opted to reclassify its investments previously categorised as originated loans, to the available for sale category. The fair value of the investments transferred was $15,207,487,000 and $14,525,773,000 for the Group and the company, respectively, at 31 December 2004.

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	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Debt securities with an original maturity of less than 90 days	3,255,755	1,320,610	2,529,508	618,789

24. Assets Pledged as Security

Assets are pledged as collateral under repurchase agreements with customers and other financial institutions and for security relating to overdraft and other facilities with other financial institutions and with the Bank of Jamaica.

	The Group			
	Asset		Related liability	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
Investment securities and securities purchased under resale agreements	28,794,074	28,988,390	28,997,350	29,260,815

	The Company			
	Asset		Related liability	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
Investment securities and securities purchased under resale agreements	28,464,074	28,488,420	28,734,305	27,765,827

Of the assets pledged as security, the following represents the total for those assets pledged for which the transferee has the right by contract or custom to sell or repledge the collateral.

	The Group		The Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Investment securities	12,705,719	12,268,253	12,375,719	11,798,284

25. Investment in Associates

	2005	2004
	$'000	$'000
At the beginning of the year	-	-
Cost of investment in associates	11,466	-
Share of profits	2,862	-
Share of tax	(731)	-
At the end of the year	13,597	-

The associate is unlisted. The summarised financial information for the associate is as follows:

	Assets $'000	Liabilities $'000	Revenues $'000	Profit $'000	% Interest
2005	51,849	11,341	31,103	8,523	25
2004	-	-	-	-	-

26. Intangible Assets

	The Group		The Company	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
Opening net book value	25,961	14,097	18,352	14,097
Intangible assets of acquired subsidiaries	-	11	-	-
Additions	43,081	21,631	41,702	11,931
Amortisation	(18,417)	(9,778)	(14,901)	(7,676)
	50,625	25,961	45,153	18,352
Cost, net of grant	102,618	59,537	68,910	27,208
Accumulated amortisation	(51,993)	(33,576)	(23,757)	(8,856)
	50,625	25,961	45,153	18,352

This represents the net of computer software purchased and grants received from Deutsche Investitions und Entwicklungsgesellschaft mbH (DEG). The intangible assets have finite useful lives and are amortised over three years. The amortisation of intangible assets is included in occupancy costs in the profit and loss account.

27. Goodwill

	The Group		The Company	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
Opening balance	760,010	-	143,263	-
Movement during the year:				
Goodwill arising on acquisition of Lets investment portfolio (a)	-	75,000	-	75,000
Goodwill arising on acquisition of MSIM (b)	-	-	-	77,878
Goodwill arising on consolidation (c)	-	727,950	-	-
Amortised during the year –				-
MSIM and Lets portfolios	-	(2,500)	-	(9,615)
Goodwill on consolidation	-	(40,440)	-	-
Goodwill on disposed subsidiary (d)	(26,260)	-	-	-
Balance at year end	733,750	760,010	143,263	143,263

The goodwill and the movements during the year relate to the following:

(a) Goodwill of $75,000,000 arose on the acquisition of the securities business of Lets Investments Limited (Lets). The goodwill was being amortised over 10 years.

(b) This represents goodwill on the transfer of the business of Manufacturers Sigma Investment Management Limited (MSIM) to the company. The goodwill was being amortised over 15 years.

(c) This represents goodwill on the acquisition of 100% of the shares in Manufacturers Investments Limited (MIL). The goodwill on consolidation was being amortised over 15 years.

(d) This represents goodwill on Manufacturers' Credit and Information Services Limited which was disposed of during the year.

27. Goodwill (Cont'd)

With the adoption of the revised IFRS, goodwill is no longer amortised. Accordingly, no amortisation for goodwill has been recorded for the current year. Rather, on an annual basis, an assessment for impairment is done. If there are indications of impairment testing is done more frequently.

The impairment test is carried out by comparing the recoverable amount of the Group's cash generating units (CGUs) to which goodwill has been allocated to the carrying amount of those CGUs plus goodwill. For the purposes of the impairment assessment, goodwill has been allocated to the Group's cash generating units as follows:

	2005	2004
	$'000	$'000
Investment management	72,500	72,500
Merchant banking	639,765	639,765
Other	21,485	47,745
	733,750	760,010

The recoverable amount of a CGU is based on its fair value less costs to sell, as estimated on the basis of the price/earnings ratios of similar businesses. Observable market prices are used.

28. Property, Plant and Equipment

	The Group				
	Leasehold Improvement	Furniture and Equipment	Motor Vehicles	Computer Equipment	Total
	$'000	$'000	$'000	$'000	$'000
At 31 December 2005					
Opening net book value	32,650	20,660	5,428	32,139	90,877
Transferred on disposal of subsidiary	-	(1,533)	(470)	(926)	(2,929)
Additions	13,343	11,584	2,643	5,714	33,284
Disposals	(375)	(763)	(1,371)	-	(2,509)
Depreciation charge	(4,484)	(9,754)	(2,832)	(7,792)	(24,862)
Depreciation relieved on disposal	79	609	791	-	1,479
Closing net book amount	41,213	20,803	4,189	29,135	95,340
At 31 December 2005					
Cost	56,487	80,078	11,627	56,869	205,061
Accumulated depreciation	(15,274)	(59,275)	(7,438)	(27,734)	(109,721)
	41,213	20,803	4,189	29,135	95,340

28. Property, Plant and Equipment (Cont'd)

	The Group				
	Leasehold Improvement	Furniture and Equipment	Motor Vehicles	Computer Equipment	Total
	$'000	$'000	$'000	$'000	$'000
At 1 January 2004					
Cost	15,291	19,803	9,048	8,853	52,995
Accumulated depreciation	(1,271)	(6,896)	(2,928)	(1,931)	(13,026)
Net book value	14,020	12,907	6,120	6,922	39,969
At 31 December 2004					
Opening net book value	14,020	12,907	6,120	6,922	39,969
Transferred on acquisition	7,480	5,646	4,140	19,444	36,710
Additions	14,264	12,236	2,098	13,464	42,062
Disposals	-	(1,115)	(9,729)	(209)	(11,053)
Depreciation charge	(3,114)	(9,724)	(2,071)	(7,685)	(22,594)
Depreciation relieved on disposal	-	710	4,870	203	5,783
Closing net book amount	32,650	20,660	5,428	32,139	90,877
At 31 December 2004					
Cost	43,519	84,277	10,859	64,997	203,652
Accumulated Depreciation	(10,869)	(63,617)	(5,431)	(32,858)	(112,775)
Net book value	32,650	20,660	5,428	32,139	90,877

28. Property, Plant and Equipment (Cont'd)

	The Company				
	Leasehold Improvement	Furniture and Equipment	Motor Vehicles	Computer Equipment	Total
	$'000	$'000	$'000	$'000	$'000
At 31 December 2005					
Opening net book value	22,981	14,459	286	4,009	41,735
Additions	13,137	7,996	2,644	3,535	27,312
Disposals	-	(189)	(153)	-	(342)
Depreciation charge	(3,314)	(3,043)	(416)	(2,556)	(9,329)
Depreciation relieved in disposal	-	94	141	-	235
Closing net book amount	32,804	19,317	2,502	4,988	59,611
At 31 December 2005					
Cost	39,739	24,381	2,919	11,800	78,839
Accumulated depreciation	(6,935)	(5,064)	(417)	(6,812)	(19,228)
Net book amount	32,804	19,317	2,502	4,988	59,611
At 1 January 2004					
Cost	15,291	6,340	1,470	5,059	28,160
Accumulated depreciation	(1,271)	(500)	(103)	(1,585)	(3,459)
Net book value	14,020	5,840	1,367	3,474	24,701
At 31 December 2004					
Opening net book value	14,020	5,840	1,367	3,474	24,701
Additions	11,311	10,234	276	3,206	25,027
Disposals	-	-	(1,318)	-	(1,318)
Depreciation charge	(2,350)	(1,615)	(171)	(2,671)	(6,807)
Depreciation relieved in disposal	-	-	132	-	132
Closing net book amount	22,981	14,459	286	4,009	41,735
At 31 December 2004					
Cost	26,602	16,574	428	8,265	51,869
Accumulated Depreciation	(3,621)	(2,115)	(142)	(4,256)	(10,134)
Net book value	22,981	14,459	286	4,009	41,735

29. 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	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
Deferred income tax assets	24,638	185,667	1,968	1,787
Deferred income tax liabilities	(239,275)	(426,080)	(218,643)	(394,910)
Net deferred income tax assets/(liabilities)	(214,637)	(240,413)	(216,675)	(393,123)

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

	The Group		The Company	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
Net assets at beginning of year	(240,413)	87,343	(393,123)	86,351
Transferred on acquisition	-	315,420	-	10,392
Transferred on disposal	(60)	-	-	-
Deferred tax (charge)/credit (Note 12)	(196,943)	(176,100)	(54,868)	(39,057)
Deferred tax (charged)/credited to stockholders' equity	222,779	(467,076)	231,316	(450,809)
Net assets/(liabilities) at end of year	(214,637)	(240,413)	(216,675)	(393,123)

29. Deferred Income Taxes (Cont'd)

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

	The Group		The Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Deferred income tax assets:				
Property, plant and equipment	989	26,410	-	1,688
Investment securities	-	1,236	-	99
Pension and other post retirement benefits	1,771	1,122	-	-
Interest payable	131	223	-	-
Tax losses carried forward	19,458	156,676	-	-
Other payables	2,289	-	1,968	-
	24,638	185,667	1,968	1,787
Deferred income tax liabilities:				
Property, plant and equipment	7,601	-	7,601	-
Investment securities	189,410	397,061	182,266	394,333
Interest receivable	-	372	-	-
Loan loss provision	31,253	10,271	22,428	-
Other temporary differences	6,539	13,685	6,348	577
Pension and other post retirement benefits	4,472	4,691	-	-
	239,275	426,080	218,643	394,910
Net deferred tax (liability)/asset	(214,637)	(240,413)	(216,675)	(393,123)

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 and company have tax losses, subject to agreement with the Commissioner of Taxpayer Audit and Assessment, amounting to $58,374,000 (2004 - $488,170,000) and $Nil (2004 - $Nil), respectively available for indefinite carry forward and offset against future taxable income. Deferred tax assets have been recognised in respect of these amounts.

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 $1,651,806,000 (2004 - $1,332,208,000).

30. 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 2005.

A resolution has been passed to fix the rate of contribution of the company 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 the company in these financial statements.

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

	The Group	
	2005	**2004**
	$'000	**$'000**
Present value of funded obligations	88,258	63,595
Fair value of plan assets	(101,674)	(77,668)
	(13,416)	(14,073)
Unrecognised actuarial (losses)/gains	(5,429)	(1,774)
Limitation of asset due to uncertainty of obtaining economic benefits	5,429	1,774
Asset in the balance sheet	(13,416)	(14,073)

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

	The Group	
	2005	**2004**
	$'000	**$'000**
Current service cost	6,085	756
Interest cost	7,931	1,992
Expected return on plan assets	(10,120)	(4,282)
Recognised gain	-	(333)
Change in unrecognised assets	3,655	(2,910)
Total, included in staff costs (note 9)	7,551	(4,777)

The actual return on plan assets was $8,956,000 (2004 - $5,819,000) for the Group.

30. Retirement Benefits

(a) Pension schemes (Continued)

Movements in the amounts recognised in the balance sheet

	The Group	
	2005 $'000	2004 $'000
Asset at beginning of year	(14,073)	(4,039)
Total expense/(income), as above	7,551	(4,777)
Contributions paid	(6,894)	(5,257)
Asset at end of year	(13,416)	(14,073)

The principal actuarial assumptions used were as follows:

	The Group	
	2005	2004
Discount rate	12.5%	12.5%
Expected return of plan assets	12.5%	12.5%
Future salary increases	10%	10.0%

30. Retirement Benefits (Cont'd)

(b) Other post-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	
	2005 $'000	2004 $'000
Present value of unfunded obligations	7,199	6,721
Unrecognised actuarial losses	(1,885)	(3,356)
Liability in the balance sheet	5,314	3,365

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

	The Group	
	2005 $'000	2004 $'000
Current service cost	834	259
Interest cost	891	285
Recognised losses/(gains)	224	(61)
Total, included in staff costs (Note 9)	1,949	483

Movements in the amounts recognised in the balance sheet:

	The Group	
	2005 $'000	2004 $'000
Liability at beginning of year	3,365	2,882
Total expense, as above	1,949	483
Liability at end of year	5,314	3,365

31. Other Assets

	The Group		The Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Withholding tax recoverable	428,399	346,795	345,305	306,270
Other	45,316	126,765	37,215	56,574
	473,715	473,560	382,520	362,844

32. Due to Banks and Other Financial Institutions

The Company	Currency	Rate %	2005 $'000	2004 $'000
Long Term Loans -				
Development Bank of Jamaica Limited (DBJ) -				
Repayable over varying periods from 24 to 96 months	J$	various	52,199	91,876
Repayable over varying periods from 48 to 96 months	US$	various	145,539	161,017
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
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	10,450	11,683
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	31,133	29,701
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	24,143	23,032
Repayable in 7 equal annual instalments commencing on 5 December 2008	J$	10	75,121	75,121
			532,839	907,305

32. Due to Banks and Other Financial Institutions (Cont'd)

	Currency	Rate %	2005 $'000	2004 $'000
The Company (Continued)				
Long Term Loans				
Balance brought forward			532,839	907,305
European Investment Bank (EIB) -				
Repayable in 7 equal annual instalments commencing on 5 December 2008	J$	10	50,767	-
Repayable in 7 equal annual instalments commencing on 5 December 2008	J$	10	24,209	-
Repayable in 7 equal annual instalments commencing on 5 December 2008	J$	10	75,879	-
			683,694	907,305
Short Term Loans -				
Citibank N.A.				
Repayable in one installment on 20 December 2006	US$	7.5	128,761	-
Repayable in one installment on 20 January 2006	US$	10.25	228,848	-
Bank overdraft	US$ J$	various	20,220	69,308
			1,061,523	976,613
Interest payable			13,923	30,394
			1,075,446	1,007,007
The Subsidiaries				
Long Term Loans -				
Development Bank of Jamaica Limited (DBJ) -				
Repayable over varying periods from 24 to 48 months	J$, US$	various	246,742	212,592
The National Export-Import Bank of Jamaica Limited -				
Repayable over varying periods ending 31 December 2005	J$	6½ - 9	52,500	1,111
Citibank N.A. -				
Repayable in 1 instalment on 20 December 2005	US$	7½	-	122,839
First Life Insurance Company Limited -				
Repayable over varying periods from 24 to 48 months	J$	18½ - 25	1,904	7,681
			301,146	344,223

32. Due to Banks and Other Financial Institutions (Cont'd)

	Currency	Rate %	2005 $'000	2004 $'000
The Subsidiaries (continued)				
Balance brought forward			301,146	344,223
Short Term Loans -				
Citibank N.A.	US$	various	-	54,595
Overdraft	J$, US$, CDN$	various	7,173	114,703
			308,319	513,521
Interest payable			490	437
			308,809	513,958
The Group			1,384,255	1,520,965

The Group and company have not had any defaults of principal, interest or other breaches with respect to its liabilities during the year (2004: $Nil).

Included in due to banks and other financial institutions are the following amounts,which are regarded as cash equivalents for purposes of the statement of cash flows:

	The Group		The Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Short term loans and other balances with an original maturity of less than 90 days	27,393	169,298	20,220	69,308

32. Due to Banks and Other Financial Institutions (Cont'd)

(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 was settled in advance of the scheduled settlement date. This loan was repayable in foreign currency. The interest rate of 6% per annum consisted of an A-portion and a B-portion. The A-portion was 0.75% per annum, to be remitted in DM to DEG. The B-portion was paid to a special fund termed "The Trafalgar German Fund II". The fund was 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 installments 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.

32. Due to Banks and Other Financial Institutions (Cont'd)

(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.

33. Other Liabilities

	The Group		The Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Staff related costs	20,517	20,862	4,638	7,386
Other	135,571	186,489	43,089	27,893
	156,088	207,351	47,727	35,279

34. Share Capital

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

	2005 $'000	2004 $'000
Authorised -		
615,613,376 ordinary shares of $1 each	615,613	615,613
Issued and Fully Paid -		
537,707,964 ordinary shares of $1 each	537,708	514,308
Fully Paid but Not Yet Issued -		
Nil (2004 - 21,683,361) ordinary shares of $1 each	-	21,683

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

	2005 $'000	2004 $'000
Issued and Fully Paid -		
Ordinary shares at the beginning of the year – 514,307,803 (2004 – 255,660,684) ordinary shares of $1.00 each	514,308	255,661
Shares issued during the period – 1,716,800 (2004 – 258,647,119) ordinary shares of $1.00 each	1,717	258,647
Allotment of fully paid up shares – 21,683,161 (2004 – 258,647,119) ordinary shares of $1.00 each	21,683	258,647
	537,708	514,308
Fully Paid but Not Yet Issued -		
Ordinary shares at the beginning of the year – 21,683,361 (2004 – Nil) ordinary shares of $1.00 each	21,683	-
Shares purchased – Nil (2004 – 21,683,361) ordinary shares of $1 each	-	21,683
Shares allotted during the period – 21,683,361 ordinary shares of $1 each	(21,683)	-
	-	21,683

(i) Shares issued during the year comprise ordinary shares of $1.00 each issued under the company's share option scheme - 1,716,800 units. The shares were issued at an amount of $10 per share. The excess of the value of the shares over par, amounting to $15,451,200, was credited to share premium (Note 35).

(ii) The unissued fully paid up shares at the end of the prior year were allotted during the year.

The ordinary shares do no carry a right to a fixed income.

35. Share Premium

	2005 $'000	2004 $'000
At the beginning of the year	2,444,657	-
Premium on shares issued (Note 34)	15,450	2,444,657
At the end of the year	2,460,107	2,444,657

36. Share Option Reserve

The company offers share options to employees who have completed the minimum eligibility period of employment. Options are conditional on the employee completing a minimum service period of one year (the vesting period). Options are forfeited if the employee leaves the Group before the options vest. 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.

(ii) 17,220,000 share options on 8 March 2004. These options expire on 31 December 2006. The exercise price for the options is $10. The options vest by 31 December 2006. 6,600,000 shares were allotted in the prior year. A further 900,000 vested options were exercised during the year.

(iii) 816,800 share options on 8 March 2004. The exercise price for the options is $10 less a 20% discount. These options vested and were fully exercised in March 2005.

(iv) 1,200,000 share options on 1 March 2005. These options expire on 31 December 2008. The exercise price for the options is $36.50. The options vest over four years - 25% on each anniversary date of the grant.

36. Share Options Reserve (Cont'd)

Details of the share options outstanding are as follows:

	Number of share options 2005	Weighted average exercise price 2005	Number of share options 2004	Weighted average exercise price 2004
	'000	$	'000	$
At beginning of year	11,887	9.80	450	4.55
Granted	1,200	36.5	18,037	10
Exercised	(1,817)	10	(6,600)	10
Lapsed	(60)	4.55	-	-
	11,210	12.70	11,887	9.80
Exercisable at the end of the period	7,510	10.20	6,070	10.40

For options outstanding at the end of the year, exercise prices range from $4.55 to $36.50 (2004 - $4.55 to $10.00). The weighted average remaining contractual term is two years (2004 – two years).

The weighted average share price at the date of exercise for options exercised during the year was $37.20.

The share options reserve balance at the year end represents the accumulated fair value of services provided by employees in consideration for shares, as measured by reference to the fair value of the shares. The fair value of the options at the year end determined using the Black-Scholes valuation model was $20,420,000. The significant inputs into the model were weighted average share prices of $5.60 at the grant date, exercise price shown above, standard deviation of expected share price returns of 35%, option life disclosed above, and annual risk free interest rate of 16%. The expected volatility is based on statistical analysis of daily share prices over one year, as share prices for periods prior to the restructuring of the Group in 2004 would not be reflective of the current Group's operations.

The Group recognised total expenses of $20,420,000 (2004 - $Nil) as share options expense.

37. 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.

38. Reserve Fund

This fund is maintained in accordance with the Financial Institutions Act 1992 which requires that a minimum of 15% of the net profit of the banking 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 profit 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.

There were no transfers to the reserve fund during the period as the reserve balance was equal to the paid up share capital of the banking subsidiary.

39. 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 21).

40. Fair Value Reserve

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

41. 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.

42. 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	
	2005	2004
	$'000	$'000
With related parties:		
Interest and other income earned	8,036	-
Interest and other expenses paid	37,573	7,260
Rent and net lease recoveries paid to related party	-	19,475

	The Company	
	2005	2004
	$'000	$'000
With subsidiaries:		
Management fees	15,121	-
Interest and other income earned	1,249	7,466
Interest and other expenses paid	33,622	47,971
Staff costs recharged	232,272	186,024
Preference share interest	-	15,000
Secretarial and register fees	-	704

	The Group		The Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
With directors and key management:				
Interest	9,780	5,040	9,780	5,040
Salaries and other short-term benefits	103,496	80,255	66,686	60,194
Post-retirement benefits	2,243	2,231	1,547	1,333

Year-end balances with related companies are as follows:

	The Group		The Company	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
Loans	174,394	5,084	-	-
Customer deposits	241,544	-	222,080	-
Repurchase agreements	-	-	-	474,827
Reverse repurchase agreements	374,283	348,303	484,245	65,309
Investment securities	126,629	-	-	-
Balances due from related companies	41,228	44,101	67,873	1,571
Balances due to related companies	6,673	456,081	-	25

42. Related Party Transactions and Balances (Cont'd)

Year-end balances with directors and key management personnel are as follows:

	The Group		The Company	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
Loans	18,744	9,377	-	-
Customer deposits				
Securities purchased under agreement to resell	9,780	5,040	-	-
Investment securities	63,952	32,960	31,976	16,480
Securities sold under agreement to repurchase	9,780	5,040	9,780	5,040

43. Commitments

The following indicates the contractual amounts of the company's off-balance sheet financial instruments that commit it to extend credit to customers.

	The Group	
	2005	2004
	$'000	$'000
Guarantees and letters of credit	217,322	201,130

There is an equal and offsetting claim against customers in the event of a call on these commitments.

As at 31 December 2005 there were undisbursed loan commitments for the Group and the company of $Nil (2004 – $Nil).

44. 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 that are are not included in these financial statements. As at 31 December 2005, these subsidiaries had financial assets under administration of approximately $20,329,620,000 (2004 - $16,908,397,000).

45. 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.

46. Disposal of Subsidiary

The Group disposed of 75% of its holding in Manufacturers Credit and Information Services Limited (MCIS) on 31 May 2005. The net assets of MCIS at the date of disposal were as follows:

	$'000
Cash and cash equivalents	3,446
Investments	39,430
Deferred tax assets	60
Property, plant and equipment	3,336
Other assets	4,386
Loan liabilities	(3,793)
Other liabilities	(14,865)
	32,000
Group share of net assets disposed	24,000
75% of goodwill on disposed subsidiary	19,696
Disposal proceeds	(66,000)
	(22,304)
Net cash inflow arising on disposal:-	
Cash consideration received	66,000
Cash and cash equivalents disposed of	(3,446)
	62,554

47. Dividends

On 3 October 2005, the directors approved the declaration of an interim dividend of 44 cents per stock unit to stockholders on record as at 11 October 2005.

48. Effects of Adoption of Revisions to International Financial Reporting Standards

The financial statements for the year ended 31 December 2005 have been prepared in accordance with revised International Financial Reporting Standards (IFRS) which became effective 1 January 2005. Prior to that date, the financial statements were prepared in accordance with IFRS which were effective on or before 1 January 2003. The financial statements for the ten months ended 31 December 2004 (the immediately preceding comparative period) have been restated to reflect the financial position and results under IFRS. The financial effects of adoption of the revised IFRS were as follows:

(a) Effect on stockholders' equity as at 1 January 2004:

	The Group		
	Previously stated	Effect of Revised IFRS	Total
	$'000	$'000	$'000
ASSETS			
Cash and balances due from other banks	143,497	-	143,497
Cash reserves at Bank of Jamaica	16,941	-	16,941
Securities purchased under agreements to resell	7,395,610	-	7,395,610
Loans and leases	1,142,496	-	1,142,496
Investment securities and pledged assets	8,808,000	(206,246)	8,601,754
Intangible assets	14,097	-	14,097
Property, plant and equipment	39,969	-	39,969
Deferred tax assets	18,595	68,748	87,343
Other assets	695,653	-	695,653
	18,274,858	(137,498)	18,137,360
LIABILITIES AND STOCKHOLDERS' EQUITY			
Due to banks and other financial institutions	1,260,737	-	1,260,737
Customer deposits	731,972	-	731,972
Securities sold under agreements to repurchase	14,725,695	-	14,725,695
Other liabilities	51,917	-	51,917
Stockholders' equity:			
Retained earnings	722,338	111,397	833,735
Capital reserve on consolidation (ii)	111,397	(111,397)	-
Fair value reserve (i)	42,507	(137,498)	(94,991)
Share capital, share premium and other reserves	628,295	-	628,295
	18,274,858	(137,498)	18,137,360

48. Effects of Adoption of Revisions to International Financial Reporting Standards (Cont'd)

(b) Effect on stockholders' equity as at 31 December 2004:

	The Group		
	Previously stated	Effect of Revised IFRS	Total
	$'000	$'000	$'000
ASSETS			
Cash and balances due from other banks	774,874	-	774,874
Cash reserves at Bank of Jamaica	85,742	-	85,742
Securities purchased under agreements to resell	6,727,150	-	6,727,150
Loans and leases	3,822,919	-	3,822,919
Investment securities and pledged assets (i)	27,065,615	796,687	27,862,302
Intangible asset	25,961	-	25,961
Property, plant and equipment	90,877	-	90,877
Deferred tax assets (i)	185,667	-	185,667
Retirement benefit asset	14,073	-	14,073
Taxable recoverable	5,050	-	5,050
Other assets	1,279,212	-	1,279,212
	40,077,140	796,687	40,873,827
LIABILITIES AND STOCKHOLDERS' EQUITY			
Due to banks and other financial institutions	1,520,964	-	1,520,964
Customer deposits	3,422,977	-	3,422,977
Securities sold under agreements to repurchase	29,018,610	-	29,018,610
Retirement benefit obligations	3,365	-	3,365
Taxation payable	130,909	-	130,909
Deferred tax liabilities (i)	99,635	326,445	426,080
Other liabilities	663,433	-	663,433
Stockholders' equity:			
Retained earnings	1,518,948	111,397	1,630,345
Capital reserve on consolidation (ii)	111,397	(111,397)	-
Fair value reserve (i)	188,538	470,242	658,780
Share capital, share premium and other reserves	3,398,364	-	3,398,364
	40,077,140	796,687	40,873,827

48. Effects of Adoption of Revisions to International Financial Reporting Standards (Cont'd)

(c) Effect on stockholders' equity as at 1 January 2004:

	The Company		
	Previously stated	Effect of Revised IFRS	Total
	$'000	$'000	$'000
ASSETS			
Cash and balances due from other banks	61,375	-	61,375
Securities purchased under agreements to resell	7,187,112	-	7,187,112
Loans and leases	727,180	-	727,180
Investment securities and pledged assets (i)	8,047,206	(227,412)	7,819,794
Investment in subsidiaries	140,614	-	140,614
Intangible assets	14,097	-	14,097
Property, plant and equipment	24,700	-	24,700
Deferred tax assets (i)	10,547	75,804	86,351
Other assets	593,015	-	593,015
	16,805,846	(151,608)	16,654,238
LIABILITIES AND STOCKHOLDERS' EQUITY			
Due to banks and other financial institutions	971,039	-	971,039
Customer deposits	208,534	-	208,534
Securities sold under agreements to repurchase	14,575,021	-	14,575,021
Other liabilities	32,119	-	32,119
Stockholders' equity (i)	1,019,133	(151,608)	867,525
	16,805,846	(151,608)	16,654,238

48. Effects of Adoption of Revisions to International Financial Reporting Standards (Cont'd)

(d) Effect on stockholders' equity as at 31 December 2004:

	The Company		
	Previously stated	Effect of Revised IFRS	Total
	$'000	$'000	$'000
ASSETS			
Cash and balances due from other banks	297,528	-	297,528
Securities purchased under agreements to resell	6,348,223	-	6,348,223
Loans and leases	692,526	-	692,526
Investment securities and pledged assets (i)	24,203,257	982,748	25,186,005
Investment in subsidiaries	2,564,074	-	2,564,074
Intangible assets	18,352	-	18,352
Property, plant and equipment	41,735	-	41,735
Other assets	511,005	-	511,005
	34,676,700	982,748	35,659,448
LIABILITIES AND STOCKHOLDERS' EQUITY			
Due to banks and other financial institutions	1,007,007	-	1,007,007
Customer deposits	538,571	-	538,571
Securities purchased under agreements to resell	28,456,420	-	28,456,420
Deferred tax liabilities	67,327	327,583	394,910
Other liabilities	153,048	-	153,048
Stockholders' equity (i)	4,454,327	655,165	5,109,492
	34,676,700	982,748	35,659,448

(i) Financial assets previously classified as originated loans in the two preceding years were reclassified to the available-for-sale category. The fair value measurement as a result of the reclassification was recognised in the fair value reserve, net of deferred taxation.

(ii) The carrying amount of the capital reserve on consolidation (negative goodwill) was derecognised with the corresponding adjustment being made to retained earnings.