Building Your Long-Term Wealth

Annual Report 2006

PAN CARIBBEAN
FINANCIAL SERVICES LTD.

Six Years of Record Profits

Contents

Our Mission

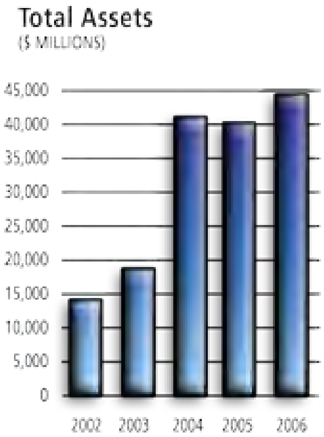
To be a Caribbean market leader through an efficient, satisfied team that delivers quality financial services, thereby maximizing value for the benefit of our clients, shareholders and employees.

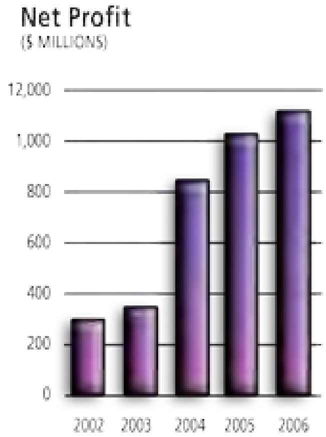
Statement from the Chairman & the President

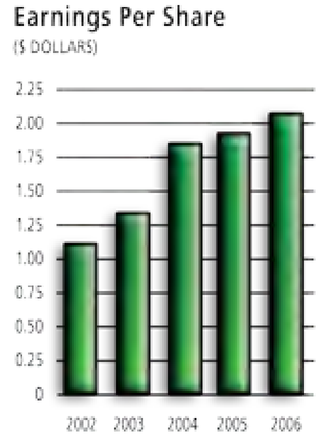
Our Performance

We are pleased to report on the activities of your company for the financial year 2006. For the sixth consecutive year, Pan Caribbean has reported record consolidated profits with Net Income of $1.11 Billion, an increase of 8%. Earnings per share grew from $1.92 to $2.06, representing an improvement of 7% over 2005. A more comprehensive discussion of your company's performance is reported in the Management's Discussion and Analysis on pages 21 to 27.

These results were achieved in a year of declining interest rates, intensified competition and continued expansion of the economy. The performance of financial companies listed on the exchange was mixed in 2006, but our continued growth in profits, customers and assets reflect the strength of the institution and our continuing diversification and depth of revenue sources.







For the sixth consecutive year, Pan Caribbean has reported record consolidated profits with Net Income of $1.11 Billion, an increase of 8%.

The past financial year reflected further growth of your company and our team reported another round of achievements that are worthy of highlighting:

- Shareholders Equity further strengthened, climbing above $7 Billion
- Record dividends paid - $368 Million represents a 33% payout of Net Income
- Sigma Optima and Sigma Solution were top-ranked for the third consecutive year
- Our stock brokerage division, established in 2005, was second-ranked in 2006
- Our Balance Sheet ($44.7 Billion), Unit Trust Assets ($6.7 Billion) and Administered Assets ($20.5 Billion) now collectively exceed US$1.1 Billion

2006 was a year further spent building and investing in the future of your company. Pan Caribbean's management team was strengthened with the addition of three senior executives with an excellent blend of experience, expertise and energy. These attributes are welcomed as these executives join a team of staff, managers and directors that have served your company well.

Strategic Direction

In 2007, our financial menu will expand to include Commercial Banking products and services as our intention is to more deeply bank our clients and raise our "share of pocket" in the financial services arena. This is a major strategic initiative for us and we expect this to have a material impact on the company's ability to compete effectively and improve its performance in the future.

33%
of Net Income was paid out as dividends amounting to a record $368 Million

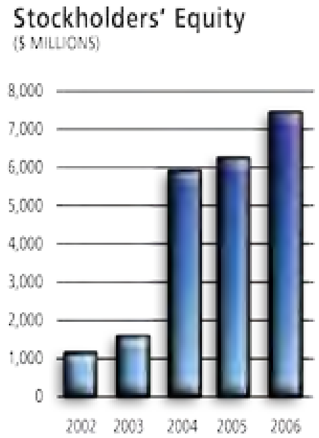
Our Economy and its Future

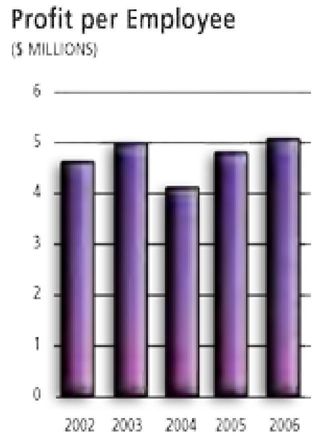
The Jamaican economy's performance improved in 2006. Most key indicators reported positive trends and these were highlighted by the following:

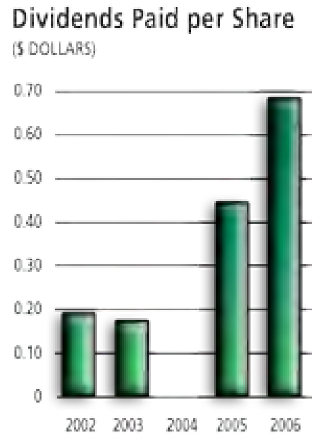
- Interest rates continued its three-year trend with T-Bill yields falling from 13.6% to 12.3% this year.
- Relative currency stability, closing the year at $67.15 (a 4% depreciation).
- Inflation for 2006 was 5.8%, a 26-year low.
- Tourist arrivals, up 15%, crossed the 3 million mark for the first time.
- Net International Reserves rose 11% to US $2.32 Billion.
- Estimated GDP growth inched up from 1.8% to 2.6%.
- The JSE All Jamaica Index eked out 2% growth, maintaining a two-decade trend of growth after a previous year's decline.

Despite improving circumstances, other economic measures suggest trends require close monitoring and evaluation. The fiscal target established by the Ministry of Finance looks set to miss its mark again, with the likelihood that the 2006/07 fiscal deficit will expand instead of shrinking. In addition, Jamaica's Balance of Payments continues to reflect a dependence on remittances to help plug an increasing trade deficit and we remain vulnerable to energy prices which influence inflation.

2006 saw strong tourism growth as a result of foreign direct investment, as well as significant local investments in this sector since the beginning of this decade. Improved GDP growth was achieved in the context of a cement shortage that hurt several sub-sectors of the economy. However, other influences that have had negative consequences for our econ-







omy were absent in 2006. We refer to a tame hurricane season, an absence of droughts and falling oil prices during the latter half of the year, all contributing to the improvements noted earlier.

Our optimism remains untarnished. However, Jamaica's well-documented problems remain in national security, education and social and physical infrastructure. The country's enormous debt levels give little comfort that resources will soon be freely available in the near-term to address these retardants to economic expansion.

As a company operating in this improving but fragile environment, the challenge remains pursuing our objectives of growth and expansion in a highly competitive environment within an economy that is expanding at an insufficient pace. By focusing our team on meeting the needs of our growing customers, managing our costs and continuing the employment of prudent practices, our shareholders will be rewarded.

Our Thanks

Pan Caribbean's success must be measured by the quality of the persons who interface with our customers and the teams behind them that support these efforts. As a service company, our public persona and who we ultimately are, is reflected in the friendly faces of our organization that you see on page 1.

We are thankful of their commitment to our organization, we appreciate the customers who continue to have confidence in our ability to meet their financial needs, and we welcome the wisdom and counsel of our fellow directors who have guided us during the year.

Richard O. Byles
Chairman

Donovan H. Perkins
President & CEO

Projects Financed During 2006

Tourism

US$ 4.5 Million

MARGARITAVILLE CARIBBEAN

Syndicated Loan

Grand Cayman's most exciting entertainment and dining

PAN CARIBBEAN

Trading

JA $63 Million

TROPICAL BATTERY

Acquisition Financing

Tropical Battery Company Limited acquired the assets of Caribrake

PAN CARIBBEAN

Manufacturing

US$ 545,000

BOSS FURNITURE COMPANY LTD.

Expansion Financing

To expand manufacturing capacity and working capital financing

PAN CARIBBEAN

Transportation

US$ 750,000

IAM JET CENTRE LIMITED

Construction Financing

Debt financing to establish private Jet Centre facility at Sangster International Airport

PAN CARIBBEAN

Residential Real Estate

JA$ 75 Million

THE GLADSTONE & MUSGRAVE LTD

Construction Financing

Construction Financing for 30 upscale Luxury Apartments

PAN CARIBBEAN

Energy

TOTAL JAMAICA LTD.

Debt financing to fund acquisition and refurbishing of petrol stations

PAN CARIBBEAN

"When I was just a baby, my father started a savings account at Pan Caribbean for me. From time to time, he would deposit monetary gifts or dividends from stocks that we own into that account. As a 4th former studying Accounts and Principles of Business for CXC, I have come to realize the importance of not just saving, but investing wisely for the long term.

I believe Pan Caribbean is that kind of company that will be around for many years and will continue to grow and provide the advice and security I need for my future. I also think that if you are prepared to save your money with an institution, you should be prepared to take a real interest in that institution. For these reasons, I decided recently to buy shares in Pan Caribbean and I am now a proud shareholder."

- Victoria Tavares-Finson, Shareholder

Notice Of Annual General Meeting

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 Thursday, 31 May, 2007 at 10:00 a.m. for the following purposes:

RESOLUTION 1

1. **To receive the Audited Accounts for the year ended December 31, 2006 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, 2006 together 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 dividends of 68 cents paid during the year, as final dividend for the year ended December 31, 2006.

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

   "THAT the interim dividends of 18 cents per stock unit paid to stockholders on April 19, 2006 together with 50 cents per stock unit paid to stockholders on October 27, 2006 be declared as the final dividend for the year ended December 31, 2006."

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. Jeffrey Cobham and Dodridge Miller and Mrs. Lisa A. Lewis who being eligible, offer themselves for re-election.

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

   (i) "THAT Mr. Jeffrey Cobham be and is hereby re-elected a Director of the company."

   (ii) "THAT Mr. Dodridge Miller be and is hereby re-elected a Director of the company."

   (iii) "THAT Mrs. Lisa A. Lewis be and is hereby re-elected a Director of the company."

RESOLUTION 4

4. **Directors' Remuneration**

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

   (i) "THAT the Directors be and are hereby empowered to fix the remuneration of the Director."

(ii) "THAT the amount shown in the accounts of the company for the year ended December 31, 2006 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."

SPECIAL BUSINESS

RESOLUTION 6

6. To authorize the creation of Preference Shares

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

"THAT there be created 15,000,000 fixed and/or variable, cumulative, redeemable, non-voting preference shares denominated in Jamaican Dollars and/or United States Dollars with rights/restrictions as to Voting, Dividends, Redemption and Winding up and/or otherwise as may be determined by the Directors of the Company or a Committee of the Directors appointed for such purpose, the same to be part of the existing authorized capital of the Company consisting of 615,612,376 Shares."

RESOLUTION 7

7. To authorize the issuing of Preference Shares

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

"THAT the Company be authorized to issue and/or allot the fixed and/or variable, cumulative, redeemable non-voting preference shares created pursuant to Resolution 6 previously passed at this meeting denominated in Jamaican Dollars and/or United States Dollars with rights/restrictions as to Voting, Dividends, Redemption and Winding up and/or otherwise as may be determined by the Directors of the Company or a Committee of the Directors appointed for such purpose and that the Directors of the Company or such Committee be and are hereby authorised to determine all such rights and restrictions and that notwithstanding the provisions contained in Rule 412A of the Rules of the Jamaica Stock Exchange, the Directors be and are hereby authorized to allot such preference shares to existing stockholders of the Company and/or to institutional or individual investors in each case accepting an invitation to subscribe for such preference shares by way of any offer with respect to such preference shares made by the Company in whatever manner and on terms and conditions determined by the Directors of the Company."

RESOLUTION 8

8. Conversion of Shares into Stocks

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

"THAT each of the fixed and/or variable, cumulative, redeemable non-voting preference shares created pursuant to Resolution 6 previously passed at this meeting when issued be converted into stock units and that the Directors be and are hereby authorised to carry said conversion into effect and to secure a supplemental listing of such shares on the Jamaica Stock Exchange."

RESOLUTION 9

9. Amendment to the Articles of Association and the Adoption of New Articles of Incorporation

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

"THAT the Articles of Association of the Company be amended in the manner set out and/or as described in the Table of Amendments entitled "Table of Amendments – Proposed Amendments for the Articles of Association of Pan Caribbean Financial Services Limited" attached to this notice and marked APPENDIX for identification and that the Articles so amended be adopted as the Articles of Incorporation of the Company in lieu of the Memorandum of Association and Articles of Association of the Company."

By Order of the Board

Gene M. Douglas
Company Secretary

Registered Office
The Pan Caribbean Building
60 Knutsford Boulevard
Kingston 5, Jamaica
16 March 2007

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 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

BOARD OF DIRECTORS

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

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

Jeffrey Cobham B.A.

Dr. M. Patricia Downes-Grant B.A., M.A.
(Econ), M.B.A., D.B.A.

Patrick Lynch

Peter Melhado B.Sc., M.B.A.

Dodridge Miller F.C.C.A, M.B.A.

Lisa A. Lewis B.Sc., M.B.A.

Hayden Singh

Colin Steele B.A., C.P.A., M.B.A.

CORPORATE SECRETARY

Gene M. Douglas F.C.I.S., M.B.A.

REGISTERED OFFICE

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

TELECOMMUNICATIONS

Telephone:	(876) 929-5583
	1-888-225-5726 (CALLPAN)
	1-800-947-7886 (CANADA)
	1-800-550-7886 (U.S.A)
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
Myers Fletcher & Gordon
Nunes Scholefield DeLeon

BANKERS

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

Report of the Directors

Shareholders' Equity increased to $7.2 Billion, reflecting one of the strongest capitalization ratios in the industry.

The Directors are pleased to submit their report for the twelve months ended December 31, 2006 together with audited accounts for the year ended on that date.

	$'000
Group Profit before Tax	1,496,122
Tax	(383,452)
Profit after Tax	1,112,670
Adjustment between regulatory loan provisioning and IFRS	35,899
Current year dividends paid	(368,225)
Unappropriated profits b/f	2,463,931
Unappropriated profits c/f	3,244,275

DIVIDENDS

During the year the Directors approved and paid interim dividends totaling $0.68 per stock unit. No further dividends have been recommended and the amounts paid will be declared as final.

DIRECTORS

Pursuant to Articles 92 and 93 of the Company's Articles of Association, the Directors retiring by rotation are Messrs. Jeffrey Cobham and Dodridge Miller and Mrs. Lisa A. Lewis whom, being eligible, offer themselves for re-election.

AUDITORS

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

By Order of the Board

Gene M. Douglas
Company Secretary
Kingston, Jamaica
16 March 2007

Ten-Year Statistical Review

$'000	1997 $'000	1998 $'000	1999 $'000	2000 $'000	Restated 2001 $'000	Restated 2002 $'000	2003 $'000	Restated 2004 $'000	2005 $'000	2006 $'000
SELECTED BALANCE SHEET DATA										
Total Assets	2,458,581	2,597,923	2,660,318	2,951,408	12,120,570	13,959,667	18,338,291	40,873,827	39,946,362	44,739,722
Performing Loans & Leases	1,351,474	1,497,883	1,429,740	1,364,438	1,017,859	1,021,018	1,034,805	3,669,446	4,902,026	5,406,302
Non-performing loans and leases	215,772	219,228	306,265	380,919	301,395	394,108	223,038	224,866	162,286	157,145
Investments Repos & other earning assets	308,753	297,627	346,605	1,101,314	9,788,933	11,534,694	15,500,287	34,590,993	32,343,101	36,580,548
Deposits	389,245	440,613	612,909	460,722	426,155	497,482	724,892	3,422,977	4,203,475	4,476,805
Securities sold under repurchase argreement	22,156	-	-	519,541	8,711,664	10,431,277	13,718,164	29,018,610	27,775,290	31,028,959
Stockholders' equity	490,737	517,837	513,618	534,551	979,167	1,081,981	1,504,537	5,687,489	6,148,806	7,204,134
SELECTED INCOME STATEMENT DATA										
Net Interest Income	206,169	219,293	185,175	157,203	278,198	286,330	278,578	1,315,045	1,303,060	1,470,305
Other Income	72,651	44,833	66,939	92,207	108,626	129,931	233,617	446,593	753,434	805,328
Expenses	217,721	218,065	250,714	265,025	300,378	147,744	174,582	618,048	691,212	779,511
Net profit/(loss) after tax and minority interest	65,209	43,437	1,186	(16,139)	104,752	284,488	342,170	841,692	1,031,936	1,112,670
OTHER FINANCIAL DATA										
Earnings per share ($)	0.57	0.38	0.01	(0.14)	0.46	1.11	1.34	1.84	1.92	2.06
Dividends paid per share ($)	0.17	0.14	0.06	-	-	0.19	0.17	-	0.44	0.68
Return on opening equity (%)	14.7%	8.9%	0.2%	-3.1%	19.6%	29.1%	31.6%	55.9%	18.1%	18.1%
Return on assets at year end (%)	2.7%	1.7%	0.0%	-0.5%	0.9%	2.0%	1.9%	2.1%	2.6%	2.5%
Market Capitalisation ($'000)	230,094	155,314	218,589	201,332	1,163,258	1,457,268	1,687,363	18,277,293	13,066,304	12,486,148
Closing share price at year end ($)	2.00	1.35	1.90	1.75	4.55	5.70	6.60	34.10	24.30	23.00
Number of offices	2	2	2	2	1	1	1	5	5	5
Number of stockholders	1,132	1,147	1,155	1,198	1,217	1,163	1,213	1,570	1,776	1,703
Number of staff	43	55	67	66	51	61	69	205	213	219
Profit per employee ($'000)	1,517	790	18	(245)	2,054	4,664	4,959	4,106	4,845	5,081

Board of Directors

Richard O. Byles, BSc., MSc.
Chairman

Mr. Byles is President & CEO of Life of Jamaica Limited since 2004. He has been a part of Corporate Jamaica for two decades with substantial experience in insurance, banking, real estate and trading. Complementing his strong operational and leadership portfolio are capabilities in structuring mergers, acquisitions and divestments.

Richard is Chairman of Red Stripe and the National Water Commission and serves on the board of Pan Jamaican. He is a former Vice President of the Private Sector Organization of Jamaica.

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, BA (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, First Jamaica Investment Limited, the Jamaica Stock Exchange and the National Insurance Fund. He previously served as President of the Merchant Bankers Association, Vice President of both the Jamaica Bankers Association and 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 School at The University of Virginia with an MBA with concentrations in Finance and Marketing.

Jeffrey Cobham, BA (Hons.), Dip. Mgmt.

Mr. Cobham, a former Managing Director of National Commercial Bank and Vice President of the Jamaica Bankers' Association, currently sits on the boards of Life of Jamaica Ltd, Sagicor Life of Cayman Islands Ltd., Cayman General Insurance Co. Ltd., Caribbean Basin Investors Limited, and Salada Foods Jamaica Ltd.

A lifelong supporter of the arts, Jeff serves as Chairman of both the Edna Manley College for the Visual and Performing Arts as well and the National Dance Theatre Company of Jamaica. He is a council member of the Institute of Jamaica.

A graduate of the University of the West Indies, he is currently a member of UWI's Mona Campus Council with duties on its Audit, Finance and General Purposes Committees. An Anglican, Jeff is a member of the Financial Board of the Jamaica Diocese and is Deputy Chairman of the Consie Walters Cancer Care Hospice.

Board of Directors (Continued)

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

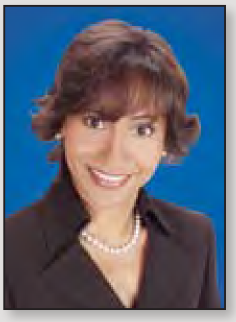
Dr. Downes-Grant is the President of Sagicor Life Incorporated and brings a wealth of financial experience, with senior management responsibilities in Treasury, Finance and Investments for over seventeen years. In 2006, she managed Sagicor's debt-raising activities with a successful US$150 Million investment grade placement in the U.S. bond market.

Pat's directorships include Sagicor Merchant Limited, Sagicor Asset Management Incorporated and Sagicor Funds Incorporated. She previously served as Chairman of the Barbados Stock Exchange.

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

Lisa A. Lewis, BSc., MBA

Mrs. Lewis is Vice President – Human Resources at Cable & Wireless Jamaica Limited where she is responsible for its HR strategic and operational functions in Jamaica, including HR Business Partners, Learning and Development, International Assignees, Industrial Relations, Voice of the Employee, Welfare and Benefits and International Communications. She previously served as Assistant General Manager, HR Services at the Bank of Nova Scotia Jamaica Limited.



Lisa lectures MBA students in International Resource Management at the University of the West Indies part-time. She is Second Vice President of the Jamaica Employers Federation and a Director of Cable & Wireless Jamaica Limited Foundation Board.

She is a double graduate of the UWI with a B.Sc. in Engineering and an MBA (Distinction) in Finance and Marketing.

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 joined 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, BSc., MBA

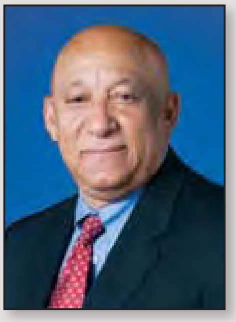
Mr. Melhado is President & COO of ICD Group. He joined the Manufacturers Group in 1993 and became its CEO in 1995 until its merger with Pan Caribbean. In that time, he was responsible for the growth and development of Manufacturers, and led the Sigma merger to create Manufacturers Sigma Merchant Bank, one of the leading financial and asset management companies locally.

He currently serves as Chairman of Pan Caribbean Merchant Bank and West Indies Home Contractors Limited and his current directorships include British Caribbean Insurance Company and Red Stripe. Peter is a former Vice President of the Private Sector Organization of Jamaica.

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

Board of Directors (Continued)

Dodridge Miller, FCCA, MBA



Mr. Miller, a Chartered Accountant, has over 26 years experience in financial services that includes auditing, accounting, investments, banking and insurance.

He is President & CEO of Sagicor Financial Corporation in Barbados and has responsibility for the strategic management of Sagicor Group, including international business development, and recently led its successful listing efforts on the London Stock Exchange. Mr. Miller serves on several boards as Chairman including Sagicor General, Capital International Management Services Inc., Allnation Insurance Company (USA) and Capital deSerguros (Panama).

Dodridge is a Member of Council, University of the West Indies – Cave Hill. He is a graduate of Barbados Community College, holds an MBA from the University of Wales and gained his LLM in Corporate and Commercial Law from UWI.

R. Hayden Singh

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

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

Colin Steele, BA, 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 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. He previously served as Chairman of the University Hospital of the West Indies and as a director of 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.

Corporate Governance

The Board of Directors of Pan Caribbean represents the owners' interest in maintaining and growing a successful business, including optimizing long-term financial returns. The Directors are committed to achieving the highest standards of corporate governance, corporate responsibility and risk management in directing and controlling the business. Ultimately, the Board is responsible for determining that the company is managed in such a way to ensure these results.

During the year, the Board of Directors, comprised of 10 members, met on nine occasions to oversee the affairs of the company. The Directors are guided by a Board Charter, adopted and formalized in 2005, covering key areas of governance including:

- **The responsibilities of the Chairman, Secretary and Directors**
- **The Board Sub-Committees, their mandates and composition**
- **Our Code of Business Conduct and Ethical Standards**
- **The definition of an Independent Director**

KEY SUB-COMMITTEES OF THE BOARD

Audit & Compliance Committee

The Committee members are Patrick Lynch (Chairman), Colin Steele, Hayden Singh and Jeffrey Cobham, all non-executive board members. Three of the four members including the Chairman are independent directors. The Committee, inter alia, has the responsibility for:

- **Monitoring the adequacy and effectiveness of the company's systems of operational risk management and internal controls**
- **Reviewing and approving annual audited and interim un-audited financial statements reported to investors along with the related policies and assumptions and any accompanying reports or related policies and statements.**
- **Monitoring and reviewing the adequacy, effectiveness, objectivity and independence of the Company's internal audit function.**
- **Development and implementation of policies regarding the engagement of the external auditor and any other services that may be supplied by the external auditor.**
- **While the Corporate Secretary is responsible for Corporate Compliance, the Committee has responsibility for monitoring and ensuring compliance with the relevant regulatory requirements of the Group.**

The Audit Committee meets at least quarterly within thirty days of the end of each quarter and at such other times as any member of the Committee or the internal / external auditor may request. During 2006, the Audit Committee held eight meetings.

KEY SUB-COMMITTEES OF THE BOARD (CONTINUED)

Asset, Liability, Credit & Investment Committee

The ALICO Committee members are Richard Byles (Chairman), Peter Melhado, Donovan Perkins, Colin Steele. In addition, Philip Armstrong, Henry Pratt, Peter Knibb, Lissant Mitchell, Steven Gooden and Hope Wint, all senior managers, attend by invitation. Three of the four members are non-executive directors. The Committee, inter alia, has the responsibility for:

- **Monitoring the investment portfolio and activities related to assessing and managing liquidity and price risks**
- **Reviewing interest rate gapping and currency strategies in light of the economy and market trends**
- **Assessing and approving the credit and underwriting activities as well as exposure limits**

During the year, nine meetings were convened.

Compensation & Conduct Review Committee

The Committee members are Hayden Singh (Chairman), Lisa A. Lewis and Richard Byles, all non-executive board members. Two of the three members including the Chairman are independent directors. The Committee, inter alia, has the responsibility for:

- **Establishing the compensation and benefits for the management and staff**
- **Monitoring the performance of the CEO and his management team**
- **Approving the compensation systems of the executive management team.**
- **Monitoring and addressing all issues related to conflicts of interest**

The Committee is scheduled to meet at least twice each year. In 2006, meetings were held on five occasions.

ANNUAL BOARD EVALUATION

The Board has an annual self-evaluation process that is intended to strengthen its overall performance. The process provides an opportunity to both broadly and specifically discuss matters related to its operation and effectiveness of the meetings and ensuing deliberations during the year. The self-evaluation survey is conducted confidentially with the Corporate Secretary receiving and summarizing the results of the survey. The results are reviewed in detail and recommendations arising from the feedback are discussed and implemented as appropriate.

The CEO also has a 360-degree evaluation from the Board and his Executive Management team. The results are discussed by the Board and feedback provided through the Compensation & Conduct Review Committee.

SUCCESSION PLANNING

During 2006, the company initiated the development of a succession plan for its executive team. The intent is to develop and deepen the talent within the organization and as a corollary, minimize leadership vacuums in the future. This process should be finalized during 2007.

Senior Management Team and Profile

Left – Right: Henry Pratt, Donovan Perkins, Karen Vaz, Philip Armstrong.

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

Henry Pratt, BA, MBA
Senior Vice President & General Manager
Pan Caribbean Merchant Bank Limited

Henry started his career in audit and consulting before joining Manufacturers Merchant Bank's 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 CGM Insurance Brokers Ltd, Manufacturers Credit & Information Services Ltd., sits on the Board of St. Elizabeth's Basic School and serves as Chairman of the Police Area 4 Scholarship Committee.

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.

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

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

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

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

An engineer by training, Philip brings over 18 years of securities, derivatives and financial expertise gained from Wall Street and Knutsford Boulevard. He joined Manufacturers in 2002 from Citibank locally where he was Resident Vice President. As head of Capital Markets, he has oversight responsibility for Equities and Fixed Income trading, the Primary Dealer and Stock Brokerage Units and Asset Management.

Philip is a director of Pan Caribbean Merchant Bank, Pan Caribbean Asset Management and British Caribbean Insurance Company Limited. He also sits on the Group's Asset Liability Credit & Investment 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.

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

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

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

Left - Right: Peter Knibb, Lissant Mitchell, Faith McFarquhar-Gordon, Gene Douglas, Tanya Miller.

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

Lissant joined Pan Caribbean in 2000 though our acquisition of Knutsford Capital. With over 14 years of Investments, Treasury and Banking under his belt, he marshals one of the most active trading floors in Jamaica.

He is a Director of Pan Caribbean Asset Management Limited and sits on the Group's Asset Liability Credit & Investment Committee. Lissant is also President of the Primary Dealers Association and serves as a member of the 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.

Faith McFarquhar-Gordon, BSc., MSc.
Assistant Vice President – Human Resources
Pan Caribbean Financial Services Limited

Faith joined Pan Caribbean in 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 Immediate Past President of the Sunset Optimist Club. She is a member of the Jamaica Employers Federation, Human Resource Management association of Jamaica, 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.

Gene M. Douglas, FCIS, MBA
Vice President – Corporate Trust & Group Corporate Secretary
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 22 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 Alumni 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 holds an MBA in Finance from the University of Manchester.

Tanya Miller, BSc. (Hons.), MBA
Vice President – Marketing & New Product Development

Tanya joined Pan Caribbean in September 2006 and assumed responsibilities for our Marketing and New Product Development Division.

She brings over 10 years of experience in brand development and strategic marketing gained from the tourism, agriculture and manufacturing industries. Tanya is a member of the Project Management Institute and serves on the board of the local Jamaica Doctor Bird Chapter.

Tanya earned her undergraduate degree in International Business and Management (Honours) at Rochester Institute of Technology and received her MBA in Marketing from UWI.

Senior Management Team and Profile (Continued)

Left – Right: Lancelot Leslie, Margaret McPherson, Tara Nunes, Steven Gooden, Grace Solas.

Lancelot C. Leslie, BSc., FCCA, CA
AVP – Financial Control
Pan Caribbean Merchant Bank Limited

A chartered accountant, Lance began his career in audit at PricewaterhouseCoopers before joining Sigma Investments Management Systems Limited in 2000.

He is a Pan Caribbean Scholar and a UWI graduate with a first degree in Accounting. Lance is a fellow of the UK based ACCA and a member of the local ICAJ. He is currently completing his MBA with University of Manchester & Wales.

Margaret McPherson
Vice President – Operations
Pan Caribbean Merchant Bank

A career banker and qualified Project Manager with extensive experience in banking locally and internationally, Margaret joined our Merchant Bank in October 2006 to head its Operations Division.

She is currently completing her MBA in Finance with the University of Manchester and is a life member of the Jamaica Orchid Society.

Tara Nunes, BSc.
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 six 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 and is currently a member of the Woman's Leadership Initiative.

Steven Gooden, BSc, MSc., CFA
Vice President & General Manager
Pan Caribbean Asset Management Limited

Steven re-joined Pan Caribbean in July 2006 to head our Asset Management Division after spending time developing further experience in the areas of portfolio management and investment analysis.

One of the bright, young faces in the financial sector, he lectures at the Jamaica Institute of Management, sits on the Board of the Jamaica Family Planning Association and is a member of the Public Accountancy Board.

Steven obtained his undergraduate degree in Economics and Accounting (Honours) at UWI, has a Masters in Finance and Economics from the University of Southampton and is a CFA charterholder.

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

Grace joined Pan Caribbean in 2005 from the Credit Union League and has over 17 years experience in financial services and project management. She worked 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. She is a Certified Public Accountant and a certified Project Management Professional.

Management's Discussion and Analysis

Pan Caribbean generates income from a wide range of diversified financial services. Companies within the Group hold the following licenses and designations:

- **BOJ Primary Dealer**
- **BOJ-licensed Merchant Bank**
- **BOJ-authorized Foreign Exchange Dealer**
- **Jamaica Stock Exchange Member**
- **FSC-licensed Unit Trust Manager**
- **FSC-licensed Securities Dealer**

GROUP PERFORMANCE

Pan Caribbean delivered improved financial results in 2006. Profit after tax was $1.113 Billion, an increase of 7.8% over last year's $1.032 Billion. Earnings per share rose 7.3% to $2.06 and return on opening Shareholders' Equity was 18.1%. Our dividend payout ratio rose to 33% versus 23% in 2005. Total dividends paid during the year were $368.2 Million or $0.68 per share.

ANALYSIS OF INTEREST INCOME AND INTEREST EXPENSE

Net Interest Income is composed of income from fixed income securities and loans, less funding costs from liabilities. Net Interest Income advanced by 12.8% to $1.47 Billion from $1.30 Billion, as our earning assets and margins increased. Loans and leases expanded by $0.5 Billion to $5.5 Billion while our Investment in Securities rose $4.2 Billion to $36.6 Billion at year-end. The Group's Net Interest Margin rose to 3.70% as liabilities re-priced downwards during the year, strongly influenced by Bank of Jamaica's rate cuts as inflation subsided.

The following table sets forth certain information relating to our interest-earning assets and interest-bearing liabilities for the periods indicated. All yield and rate information is estimated on an annualized basis by dividing the income or expense item for the period by the average balances during the period for the appropriate balance sheet item. Net interest margin is calculated by dividing net interest income by average interest-earning assets.

Analysis of Interest Income and Interest Expense

	2006			2005		
	Average Balance $'000	Interest $'000	Yield	Average Balance $'000	Interest $'000	Yield
Interest-earning assets:						
Investment	34,461,824	4,076,998	11.83%	33,467,047	3,904,213	11.67%
Loans and leases	5,273,220	566,467	10.74%	4,421,039	527,696	11.94%
Total interest-earning assets	39,735,044	4,643,465		37,888,086	4,431,909	
Interest-bearing liabilities:						
Customer deposits and repos	33,742,264	3,069,732	9.01%	32,210,176	3,043,866	9.45%
Borrowed funds	1,382,515	103,428	7.48%	1,452,595	84,983	5.85%
Total interest-bearing liabilities	35,124,779	3,173,160		33,662,771	3,128,849	
Excess of average interest-earning assets over average interest bearing liabilities	4,610,265			4,225,315		
Net interest income		1,470,305			1,303,060	
Net interest margin			3.70%			3.44%
Ratio of interest-earning assets over interest bearing liabilities	1.131 : 1			1.126 : 1		

ANALYSIS OF INTEREST INCOME AND INTEREST EXPENSE (Continued)

The average yield (interest income divided by average balances) for investments was 11.83% in 2006 and 11.67% in 2005. The average yield on loans was 10.74% in 2006 and 11.94% in 2005. As the yields indicate, the portfolios include a significant US$-denominated component. The average interest rate paid (interest expense divided by average balances) for deposit and repo liabilities was 9.10% in 2006 and 9.45% in 2005. The average rate on borrowed funds was 7.48% in 2006 versus 5.85% in 2005. The increase is attributed to the impact of rising foreign exchange rates as the borrowings are substantially foreign currency denominated. Notwithstanding these rising rates, our net interest margin of 3.70% improved over the 3.44% reflected in the prior year and was supported by a $385 Million increase in the excess of interest-earning assets over interest bearing liabilities.

NON-INTEREST INCOME

Non-interest income was $802 Million, increasing by 7% over the prior year's $751 Million. This income is comprised primarily of fixed income trading gains and fee-earning activities detailed in the schedule below.

	2006 $'000	2005 $'000	Change
Securities trading gains	380,009	382,923	-1%
Asset management fees	169,263	114,570	48%
FX trading and translation gains	128,291	87,946	46%
Credit fees	44,941	35,651	26%
Trust fees	23,220	21,346	9%
Brokerage, dividend and equities gains	17,589	48,240	-64%
Other income	38,498	60,627	-37%
	801,811	**751,303**	**7%**

Since the beginning of this decade, we have pursued specific strategies to diversify our lines of business and sources of revenues. During 2006, we maintained or improved our performance in a number of important market segments. Our comments will focus (but not exclusively) on some key areas.

ASSET MANAGEMENT

Sigma Unit Trust remains the largest unit trust fund with 41% market share. For the third consecutive year, our Sigma Optima and Sigma Solution were the best performing equities-focused and fixed income unit trust funds respectively, handily out-performing their benchmarks.

STOCKBROKING

In 2006, our second year of operating, we moved our market share position up from 11.5% to 14.4% and our market position from fourth to second.

FOREIGN EXCHANGE TRADING

While trading volume fell from US$863 Million to US$801 Million, our foreign exchange desk - FX Access, retained its position as the country's fourth largest foreign exchange dealer.

NON-INTEREST EXPENSE

Non-interest expense increased 13% to $780 Million compared to $691 Million for the prior year. Personnel costs rose as our permanent staffing complement rose from 201 to 212 along with annual salaries reviewed in January each year. Units experiencing staff growth were Financial Control and areas that focus on regulatory compliance, internal control and risk management. Charges associated with implementation of technology systems, set up of a secure warm site facility and other IT-related projects also impacted operating costs. Our Efficiency Ratio at 34% continues to exceed international benchmarks and stands out in the local financial services sector.

	2006 $'000		2005 $'000	
Staff costs	441,552	56.6%	400,288	57.9%
Provision for credit losses	(1,457)	-0.1%	(3,282)	-0.5%
Occupancy costs	51,721	6.6%	50,251	7.3%
Other expenses	287,695	36.9%	243,955	35.3%
Total	779,511	100.0%	691,212	100%
Efficiency ratio	34.3%		33.6%	

TAXATION

The effective tax rate decreased to 25.6% from the 26.0% reflected in the prior period. The tax on profits differ from the theoretical amount that would normally arise using the statutory rate of 33 1/3% as follows:

	2006 $'000	2005 $'000
Income Tax		
Profit before taxation	1,496,122	1,398,472
Tax calculated at 33 1/3%	498,707	466,157
Adjusted for the effect of:		
Income not subject to tax	(112,583)	(124,650)
Expense not deductible for tax purposes	8,278	38,107
Prior year adjustment	(12,388)	(3,816)
Adjustment to tax loss	–	(12,347)
Net effect of other charges and allowances	1,438	326
Tax Expense	383,452	363,777
Effective tax rate	25.6%	26.0%

Income not subject to tax is primarily income derived from tax-free securities held.

ASSETS

The consolidated balance sheet grew 12% to $44.7 Billion in total assets compared to $39.9 Billion at December 2005. Our securities portfolio increased 13% during this period to $37.0 Billion while loan assets increased 10% to $5.5 Billion since December 2005. Credit growth remains a priority while maintaining our underwriting standards.

INVESTMENTS & SECURITIES

The following table sets forth the book values of our investments and securities in Jamaican Dollars. The categories used are as follows:

- Trading instruments - investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price.
- Reverse repurchase agreements – securities purchased with the agreement to sell them at a higher price at a specific future date.
- Available-for-sale – investments 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, are classified as available-for-sale.
- Pledged assets - available-for-sale securities pledged, for which the transferee has a right by contract or custom to sell or re-pledge the collateral.

INVESTMENTS & SECURITIES (Continued)

	2006 $'000	%	2005 $'000	%
Category				
Trading investments	1,513,339	4%	745,412	2%
Reverse repurchase agreements	1,023,141	3%	1,986,854	6%
Available-for-sale investments	21,395,320	58%	16,905,116	52%
Pledged assets	12,648,748	35%	12,705,719	40%
	36,580,548	100%	32,343,101	100%
Currency				
Jamaica Dollar	19,896,261	54%	18,158,895	56%
United States Dollar	16,270,261	45%	12,978,999	40%
Great Britain Pound	3,701	0%	784,890	3%
Other	410,325	1%	420,317	1%
Total portfolio	36,580,548	100%	32,343,101	100%

Accumulated unrealized gains on investments before adjustment for deferred taxation amount to $869 Million in 2006. Of this amount, $803 Million (before a deferred tax adjustment of $268 Million) has been dealt with through Fair Value Reserves and $65 Million through the profit and loss account.

For comparative purposes, the prior year's accumulated unrealized gains were $489 Million before adjustment for deferred taxation. Of this amount, $431 Million (before a deferred tax adjustment of $144 Million) was reflected in Fair Value Reserves and $58 Million through the profit and loss account.

LOAN & LEASES PORTFOLIO

At year-end our total net loan portfolio, including finance leases, amounted to J$5.53 Billion (prior year = $5.02 Billion), or 12% (prior year = 13%) of our total assets. The average interest rate received (interest income divided by average balances) for loans and leases was 10.74% (prior year = 11.94%).

The following table sets forth our loan and lease portfolio classified by major industry and currency.

	2006 $'000	%	2005 $'000	%
Industry				
Distribution	1,091,386	20%	953,218	19%
Professional and other services	1,037,865	19%	1,337,107	26%
Agriculture, Fishing, Mining	1,018,451	18%	503,156	10%
Tourism, Entertainment	837,044	15%	768,529	15%
Manufacturing	424,724	8%	344,429	7%
Personal	462,763	8%	366,477	7%
Construction, Real Estate	236,935	4%	619,887	12%
Transport, Storage, Communication	135,391	2%	170,495	3%
Other	318,888	6%	1,014	1%
Total	5,563,447	100%	5,064,312	100%
Provision	(112,726)		(114,183)	
Net	5,450,721		4,950,129	
Interest receivable	76,559		69,030	
Total portfolio	5,527,280		5,019,159	
Currency				
Jamaica Dollar	1,306,950	24%	1,404,822	28%
United States Dollar	4,220,330	76%	3,614,337	72%
Total portfolio	5,527,280	100%	5,019,159	100%

RISK ELEMENTS OF LOAN PORTFOLIO

Loans that are past due for over 89 days are classified as non-accrual loans for regulatory reporting purposes. Loans may be placed on non-accrual earlier if full collection of principal and interest on the loan is in doubt. Exceptions to this non-accrual policy are considered only if the loan is cash or near cash-secured and is in process of collection.

Regulatory provisioning and IFRS requirements are different, as IFRS requires provisions based on present value estimates of future cash flows. Statutory or other regulatory loan loss reserves that differ from the IFRS provisions are dealt with in a non-distributable Loan Loss Reserve. At the balance sheet date the amount carried in the Loan Loss Reserve in Stockholders' Equity amounted to $84 Million (2006 = $121 Million).

Credit quality continues to improve with non-performing loans amounting to $157 Million (prior year = $162 Million) and represents 2.8% (prior year = 3.2%) of our total credit portfolio, and 0.35% (prior year = 0.41%) of total assets. All non-performing loans are fully provided for.

SUMMARY OF LOAN LOSS EXPERIENCE

The following table sets forth a summary of our loan loss experience.

	2006 $'000	2005 $'000
Total provision at beginning of year	235,311	276,738
Retained earnings transfer	(35,899)	(38,145)
Provision utilized	(1,276)	–
Provided during the year	25,675	6,721
Recoveries	(27,132)	(10,003)
Net charge/(credit) to the profit and loss account	(1,457)	(3282)
Total provision at end of year	196,679	235,311
Non-performing Loans	157,145	162,286

INTEREST-BEARING LIABILITIES

The Group's interest-bearing liabilities consist of repurchase agreements, deposits and loans. At year-end:

- Total securities sold under repurchase agreements of $31.03 Billion (prior year = $27.78 Billion), representing 83% (prior year - 82%) of total liabilities
- Merchant bank deposits were $4.48 Billion (prior year - $4.20 Billion), representing 12% (prior year = 12%) of the Group's total liabilities
- Total loans were $1.38 Billion (prior year = $1.38 Billion), representing 4% (prior year = 4%) of the Group's total liabilities

SHAREHOLDERS' EQUITY

Shareholders' Equity increased to $7.2 Billion, reflecting one of the strongest capitalization ratios in the industry. We elect to hold the majority of our securities portfolio as Available for Sale and unrealized portfolio gains (or losses) are reflected in our Fair Value Reserve in Shareholders' Equity. Fair Value Reserves at year-end were $535 Million ($803 Million before Deferred taxation).

CAPITAL ADEQUACY

Under Bank of Jamaica's (BOJ) and the Financial Services Commission's (FSC) regulatory framework, the securities and banking operations are required to maintain unconsolidated Capital Adequacy Ratios of at least 10% of their risk-weighted assets.

The FSC's early warning benchmark is 14% while the BOJ's trigger is 12%. Pan Caribbean Financial Services Limited's Capital Adequacy Ratio is 79% while Pan Caribbean Merchant Bank Limited's Capital Adequacy Ratio is 23%, reflecting ratios far in excess of regulatory requirements.

Discussion on Risk

RISK MANAGEMENT

Risk Factors and Management

By its nature, Pan Caribbean Group's activities are principally related to the use of financial instruments. Pan Caribbean enters into repurchase agreements, and through its Merchant Bank accepts deposits from customers, at both fixed and floating rates and for various periods. We earn positive interest margins by investing these liabilities in high quality assets. The Group seeks to increase margins by lending and investing funds for longer periods at higher rates while maintaining sufficient liquidity to meet obligations that might be liquidated by counter-parties at maturity.

The Group improves its interest margins (net of appropriate loss provisions) through lending to commercial and retail borrowers with varying but acceptable credit quality. Such exposure involves not just loans, but may also include guarantees and other commitments.

Pan Caribbean also trades in financial instruments, where it takes positions to take advantage of interest spreads as well as positive market movements in bond prices, currencies and interest rates. The Board places trading limits on the level of exposure that can be taken.

Liquidity Risk

Pan Caribbean is exposed to daily calls on its available cash resources from maturing deposits and repurchase agreements, loan disbursements and guarantees. Cash resources are not maintained to meet 100% of these needs as experience shows that reinvestment of maturing funds can be predicted with a high level of certainty. Our Treasury Units adhere to policy guidelines and liquidity ratios of 30% are maintained in the event of unexpected levels of demand.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the profitability of financial institutions. It is highly unusual for companies to be completely matched. Unmatched positions 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 our exposure to changes in interest rates and exchange rates.

Interest Rate Risk

Pan Caribbean takes on exposure that can be impacted by interest rate fluctuations in the market and affect 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 and monitors the level of interest rate and re-pricing mismatches that are taken.

Foreign Currency Risk

Pan Caribbean is exposed to currency risk primarily with respect to the US dollar and, to a lesser extent, the Euro and Sterling. Currency exposure strategies are intended to take advantage of fluctuations in the prevailing foreign currency rates. The Board's ALICO Committee monitors and adjusts limits on currency exposure for overnight, intra-day and longer-term positions from time to time.

Market Risk

Market risk exposure arises from open positions in fixed rate securities, loans, currency and equity instruments, all of which are exposed to general and specific market movements. The market risk of positions held and the maximum potential losses expected based on assumptions for possible changes in market conditions is estimated to determine the institution's value at risk. Market risk is monitored daily by the Treasury Units and the Risk Management Unit, and periodically by ALICO. Monitoring of economic reports, local and international market conditions are a critical part of risk assessment and management.

Cash Flow Risk

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount. This risk is managed by ensuring, as far as possible, that financial assets and liabilities are matched to mitigate any significant adverse cash flows. Standby credit lines as well as highly liquid securities play a part in managing cash flow risk.

Credit Risk

Pan Caribbean takes on exposure to credit risk, which is the risk that counterparties may be unable to pay amounts in full when due. Credit risk is inherent in financial products – loans, commitments to lend, repurchase agreements and contracts to support counterparties' obligations to third parties such as letters of credit. Positions in tradable securities such as bonds also carry credit risk.

The risk is managed primarily by review and monitoring the financial status of counterparties and the underlying securities. The levels of credit risk undertaken is structured 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 periodic basis and subject to an annual or more frequent reviews. The exposure to any one borrower, including banks and securities dealers, is managed by establishing exposure limits after an internal analysis and approval. Actual exposures against limits are monitored frequently.

Credit risk is also managed in part by obtaining collateral and corporate and personal guarantees. It is policy to obtain control or take possession of securities purchased under agreements to resell. PCFS assesses the market value of the underlying securities that collateralize the underlying transaction and takes the appropriate margins required.

Risk Management

The Group utilizes an integrated approach in managing its activities that includes management of interest rate sensitivity, credit risk, liquidity risk and capital. In order to provide a rate of return to shareholders, protect depositors and clients - liquidity, credit, market, operating and other risks are monitored and frequently assessed. This is achieved through a framework of policies, economic and market analyses, as well as other methods that require active and effective oversight.

Liabilities are segmented and analyzed to monitor and reduce concentrations. Pan Caribbean strives to achieve targeted asset / liability matching strategies while maintaining sufficient liquidity to meet unexpected funding gaps, bearing in mind market volatility. PCFS monitors its daily, weekly and monthly liquidity positions and adheres to liquidity policy ratios.

There is credit risk in both our securities and lending activities. In connection with securities activities, the market protocols require "delivery versus payment" where collateral is provided on a "mark to market" basis between counter-parties. For commercial and retail lending activities, loans are adequately collateralized, with applicants undergoing a thorough screening and credit analysis process.

Operational risk is minimized through separation of duties, appropriate training, adherence to implemented polices, internal audits, a continuing review and update of policies and close management oversight.

Division Reports

CAPITAL MARKETS DIVISION

This Division encompasses our trading and asset management activities. Pan Caribbean is an active market-maker in fixed income and foreign exchange. The primary purpose of our trading business is to facilitate customers in the management of their portfolios and currency needs. Our Primary Dealer Unit, which manages all fixed income activities, remains one of the largest underwriters of new Government of Jamaica securities with a 13% market share equaling $15 Billion in 2006. Positions taken are based on our market expectations to benefit from interest and price differentials between financial instruments and markets, subject to risk limits established internally.

In only the second year of operations, our stockbrokerage business ranked second among eleven participants and our new trading platform will allow for business growth. Our FX Unit ranked first among merchant banks capturing 7% of the overall market and 4th in the wider market.

Asset Management is an important business line and being the largest unit trust manager, we take pride in our third consecutive year as managing the best performing equities fund (Sigma Optima) and fixed income fund (Sigma Solution) in the industry. Sigma Liberty, our US$-Index Fund, was launched for those investors seeking diversification into a currency-hedged portfolio. We intend to offer our clients additional products that provide investment in international markets as well as discretionary management accounts in 2007.

"As a Pan Caribbean customer, I appreciate the quality of service I receive from the entire staff. This is the primary reason why this institution continues to command my loyalty. The service is very personal and much appreciated and ranks amongst the best I have seen or experienced anywhere in the world.

I am very comfortable with my investment manager and her team. I have developed such confidence in the organization that I know that the recommendations they make and the decisions they take on my behalf are in my best interest."

- Michael G. Bernard, Client

Underlying these initiatives is our continued commitment to sustained long-term performance through appropriate management of relationships, guarding our reputation, and equally important - ensuring that our professionals always seek to balance the institution and clients' interests.

CORPORATE BANKING DIVISION

The Group's credit portfolio grew by 10% during the financial year, moving from $5.02 Billion to $5.53 Billion. Our focus remains assisting clients with financing their expansion objectives and our partnerships continue to result in relationships that support economic development and employment. During the first quarter 2006, a number of low margin loans were repaid, resulting in a decline in loans. A drive to grow credit assets, with a particular focus on winning new corporate business, gained momentum during the second half of 2006 resulting in the growth reported. Project finance geared towards the manufacturing, services and tourism sectors, and wholesale credit for the micro-business sectors are of strategic importance. During the year we completed the disbursement of a $100 Million financing window established in collaboration with the Ministry of Industry and Tourism, specifically for the manufacturing sector.

Credit quality continues to improve with non-performing loans declining to 2.8% of total loans compared to 3.3% in 2005. Loss Provisions as a percentage of non-performing loans were 126% compared to the industry average of 100% .

As we pursue our diversification drive, the commercial banking initiative will create both new clients and products with the positive impact likely to be reflected in 2008.

CORPORATE TRUST DIVISION

Corporate Trust fees grew by 18% to $23.6 Million with the addition of new business. Our revenues are derived from the following activities:

- Corporate Secretarial Services to the Group and three other listed companies.
- Complete Registrar and Share Transfer services for five listed companies
- Registrar and Custodian services for Unit Trusts and Mutual Funds
- Trustee and Paying Agency services for Corporate Bond Issues
- Trustee and paying agency services for our pension-focused REIT

During the year, we completed a software upgrade of our registrar systems and guided clients through the post-conversion activities for the new Companies Act.

"I joined the Pan Caribbean Group in 1993 and have enjoyed my tenure here. There is an enormous amount of team spirit and camaraderie among the staff and the level of professionalism exhibited is exemplary. This company is a great place to work as it consistently seeks to improve staff welfare.

Being selected the Employee of the Year for 2006, is one of the high points of my career and confirms that Pan Caribbean recognizes and values my contribution."

- Sandra Stupart,
Employee of the Year 2006

HUMAN RESOURCE DEVELOPMENT DIVISION

Pan Caribbean's success is rooted in our people. As the organization grew in 2006, we sought to build a sustainable framework to support the present and future needs of our employees and the company.

Strengthening our Rewards and Recognition programmes in 2006 was a primary focus and led to the establishment and improvement of a number of initiatives. These included:

- Our Star Awards Plan to recognize and reward our top salespersons
- Pan Caribbean 1-2-1 Rewards to recognize and reward internal service excellence
- Our first formal Long Service Awards to reward and recognize loyalty and commitment
- Our Employee of the Quarter and the Year awards, with a nomination process that is inclusive and staff-driven

Training in sales, supervisory and technical skills as well as leadership was continuous during 2006, with over 2,500 hours of training delivered. Cross-training also received attention to allow for greater internal mobility, wider skill-sets and create more valuable staff.

In 2006, four scholarships were established in the names of four leaders who have had a profound effect on the development of what is today, Pan Caribbean. The children of employees entering a tertiary institution became eligible for scholarships bearing the names of the Hon. Maurice W. Facey, O.J., the Hon. Oliver F. Clarke, O.J., Mr. O.K. Melhado and Mr. Richard O. Byles. The first beneficiaries of these scholarships were Danielle Angus, Janelle Knibb and Jesse Reynolds and we are proud to support the dreams of these recipients.

Our Organizational Improvement and Pan Vybze Committees, - two key staff arms, played important roles in strengthening the culture, energy and spirit of the organization. Amongst this group are individuals who provide feedback and give leadership at the non-executive level towards making Pan Caribbean a more enjoyable place to work.

TECHNOLOGY DIVISION

Technology continued to be a driver in the management of secure, fault tolerant, robust, mission critical systems and infrastructure to support corporate growth. We continued to invest in our team's expertise, expanded internal system redundancies and established a remote site facility - a key milestone. The remote site, critical to our Business Continuity Planning project, was successfully completed in tandem with our internal partner, the Projects & Strategic Planning Unit.

Parallel initiatives included efforts to use technology to achieve operational efficiencies and process improvements throughout the organization. For example, we successfully automated and integrated our stockbrokerage business into our technology platform. 2007 will see a further evolution of our technology with a significant upgrade to our existing platform to support the organization's strategic initiatives. These improvements will lay the groundwork for new products and services associated with our commercial banking activities.

With continuing expansion, our Division will strengthen the underlying architecture and information systems to support this growth.

MARKETING DIVISION

Pan Caribbean broke new ground in 2006 with the introduction of several new products. We launched Sigma Liberty (our US$-indexed fund), introduced an attractive motor vehicle leasing facility and expanded our stockbrokerage services to include retail clients and margin trading. Sigma Liberty was the best performing unit trust fund in 2006 and the introduction of retail trading of stocks pushed us from fourth to second place in value of stocks traded among our peers.

We refreshed our TV advertising campaign to better communicate the strength and diversity of our financial brand and the range of products and services we offer to 'build on the success' of our individual and corporate

10%

Growth in group's credit portfolio during the year, moving from $5.02 Billion to $5.53 Billion

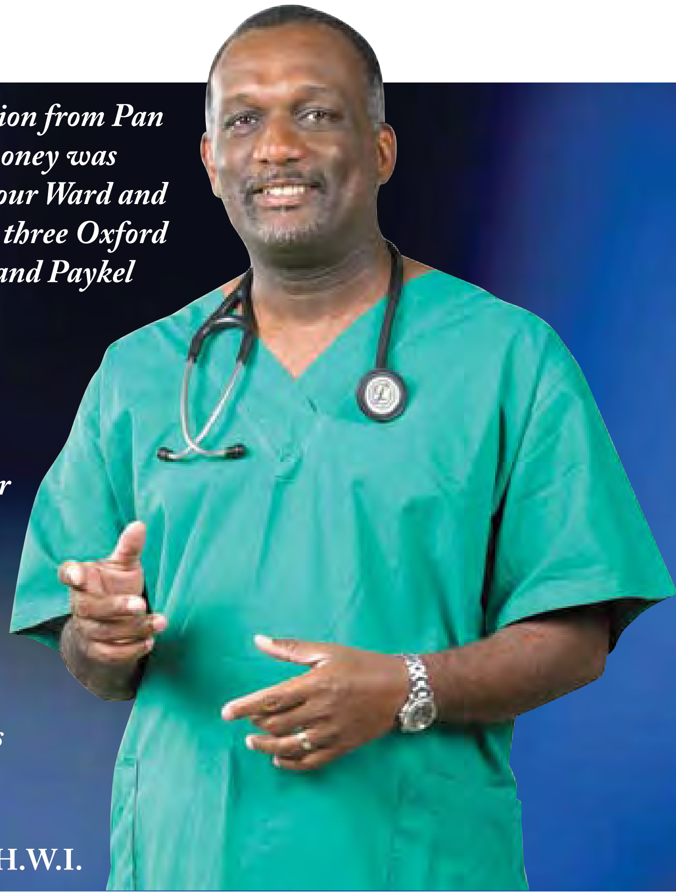
33

"The UHWI was the recipient of over $2.5 Million from Pan Caribbean's Sigma Corporate Run 2006. This money was used to buy much needed equipment for the Labour Ward and Special Care Nursery at the Hospital, including three Oxford Sonicaid team foetal monitors and three Fisher and Paykel infant warmer resuscitaires.

The equipment has enabled us to enhance the standard of care, allowing us to better monitor women in labour, identify babies that are in distress, and improve our care to sick babies after birth.

We are immensely grateful to the visionaries at Pan Caribbean and want to again publicly thank them for their generous gift on behalf of all the parents and babies that have already benefited and will benefit in the future from this donation."

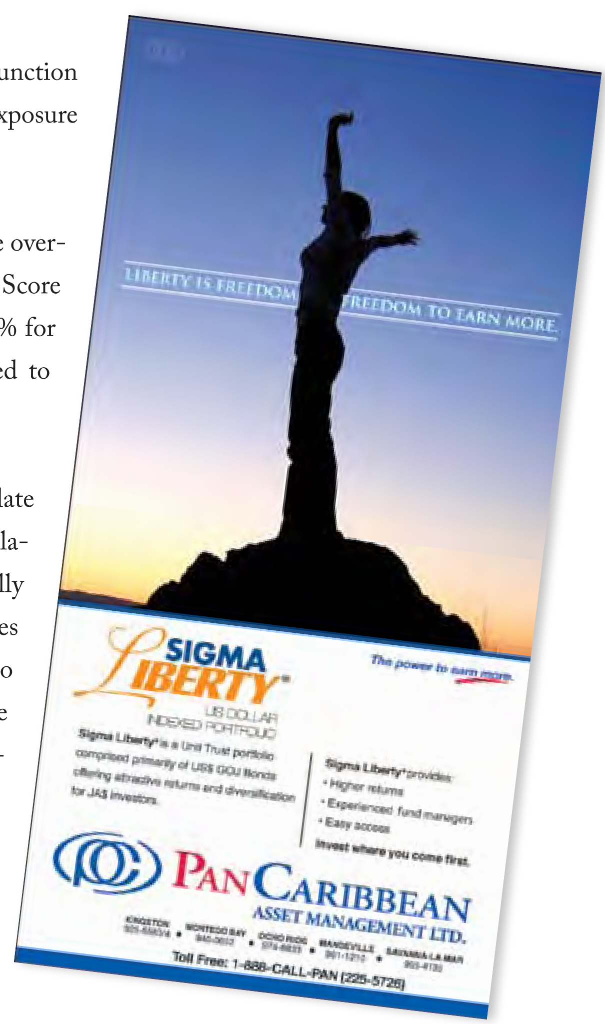
\- Professor Horace Fletcher,
Department of Obstetrics and Gynaecology, U.H.W.I.



clients. Our "Living Well at Any Age" series, in conjunction with Life of Jamaica, continued to build our profile and exposure in key markets across the island.

Customer satisfaction and loyalty remained high, with the overall satisfaction level averaging 91% and our Net Promoter Score reporting 65%, above the international benchmark of 63% for leading financial companies globally. We are committed to maintaining these scores in 2007.

The much-anticipated launch of commercial banking in late 2007 presents a profound opportunity to deepen our relationship with existing clients and forge new exceptionally beneficial ones. The development of products and services with strong value propositions will give us more avenues to meet or exceed our customers' expectations and reinforce our position as the financial institution of choice for investors that are intent on building wealth.



91%
overall customer satisfaction.

Our Commitment

Left: Ms. Winsome Wilkins and Mrs. Virginia Chin of United Way of Jamaica accept a donation from Ann-Marie Smith, Assistant Manager Private Client Services.

Below: Mrs. Marva Lee, Mr. Earl Jarrett and Mrs. Kim Mair chat with Karlene Dennis, Senior Public Relations Officer, Pan Caribbean.

...to Our Communities

Since inception, Pan Caribbean has been a leader and community partner in the development of Jamaica. In 2006, Pan Caribbean contributed by way of donations and sponsorship well over $10 Million to educational, health and sports initiatives as well as civic groups. Partnering with our communities and contributing to their development is a worthy national investment and our support extended beyond donations, to include leadership and guidance through volunteerism.

Upper Right: Ms. Elizabeth “Betty” Lawrence of the Youth Enhancement Services (Y.E.S.) & Kerry-Ann Patterson, Y.E.S. graduate express their gratitude to Stephanie Vassell, Manager Sales & Client Services, Pan Caribbean.

Right: Tracy-Ann Thomas, Assistant Manager Branch Operations, Kerry Parchment Carr, Senior Officer Sales & Client Services & Althea Akeins, Teller share a moment at the Savanna-La-Mar leg of our “Living well at any age” series.

to Education…
Our Future

The cornerstone of our pledge is our continued commitment to education. In addition to sustaining 20 scholarships to the University of West Indies and University of Technology valued at $2,000,000, in 2006 we established four identical scholarships for the children of our employees through our 'Pan Scholar' programme.

Miss Danielle Angus, Mr. Jesse Reynolds & Miss Janelle Knibb, beneficiaries of the Pan Scholar Programme.

Within the communities in which we operate, we assisted schools and programmes that demonstrated real need for support. We partnered with Life of Jamaica to support Boys' Town Primary School and its development programme. Transfiguration Basic School, Great Bay Basic School, Mike Town Basic School, the Salvation Army, Paradise Preparatory, St. Aloysius Primary, Granville All-Age School, Trench Town Development Association Summer School and Trafalgar Christian Preparatory School were also beneficiaries.

Students of the Church of Transfiguration Basic School sit with Melissa Crooks, Manager - Marketing & Communications, Pan Caribbean, Mrs. Marcia McDonald, PTA President, Kasi Manickam of IFLEX, Mrs. Pamela Ballentyne, Principal and Karlene Dennis, Senior PR Officer, Pan Caribbean.

to Sports…National Pride

Sports helps to build communities and our national pride. It develops confidence in children, and as such, we supported high schools, sport clubs and related organizations in 2006. These included the International Paralympic Committee World Athletics Championship, Kinetic Sport Management/CCGI Foundation's Golf Charity event, the Squash Association of Jamaica in the Junior Caribbean Championships and were title sponsors for the All-Jamaica Junior Tennis Championships.

Ainsley Whyte, Assistant Manager Private Client Services presents at the Pan Caribbean All Jamaica Junior Championships.

Left: Sabrina Deleon, Senior Manager Private Client Services presents an award to recipients at the Pan Caribbean All Jamaica Junior Championships.

Below: Lissant Mitchell, Vice President - Treasury, makes a presentation at the Under 17 Squash Championships.

Wayne Blake, Manager Corporate Banking poses with students from the St. Aloysius Primary School on Boys Day.

Philip Armstrong, Senior Vice President – Capital Markets presents cheque to Mrs. Gil Binne of Jamaica Squash Association.

a Healthy Environment... Our Wish

With the support of our corporate partners and well-wishers, the Eighth Annual Sigma Corporate Run raised over $2.9 million for the University Hospital of the West Indies' Labour Ward. Fetal monitors and warmers were purchased to ensure the safe arrival of our newborns and a reserve fund was established for future maintenance. With over 3,500 participants from 72 corporate teams and individuals, the 2006 Corporate Run was the best to date and set a new record for the largest road race in the Caribbean.

Teen Challenge, a drug-rehabilitation center operating in Ocho Rios and the Jamaica Environmental Trust were also significant beneficiaries of our support.

Above: Members of the Pan Caribbean Marketing team listen intently as a nurse from the U.H.W.I. Labour Ward explains how the equipment works.

Right: Professor Horace Fletcher from the U.H.W.I. Labour Ward accepts cheque from Donovan Perkins President & CEO of Pan Caribbean Financial Services, and Henry Pratt Senior Vice President and GM of Pan Caribbean Merchant Bank at the 2006 Sigma Corporate Run Charity.

Participants from the 2006 Sigma Corporate Run get warmed up before the start of the big race.

Runners are off with a bang at the 2006 Sigma Corporate Run.

Disclosure of Shareholding

TOP 10 SHAREHOLDERS

AS AT 31 DECEMBER 2006

	Shareholder(s)	Shares Held
1	Life of Jamaica Limited	285,907,861
2	Sagicor Financial Corporation	182,566,261
3	Scotia Jamaica Investment Management A/C 542	5,735,905
4	ATL Group Pension Fund Trustees Nom. Ltd.	5,297,100
5	National Insurance Fund	5,115,651
6	Perkins, Donovan and Michele et al	3,577,085
7	Pan Caribbean Merchant Bank A/C J1996	3,072,070
8	Lets Investments Limited	2,708,026
9	Wray & Nephew Group Limited	2,436,760
10	Mayberry Investments Ltd. A/C 09022	1,960,525

SHAREHOLDINGS OF DIRECTORS AND CONNECTED PERSONS

AS AT 31 DECEMBER 2006

DIRECTORS	SHAREHOLDING	CONNECTED PERSONS	SHAREHOLDING
Richard O. Byles		& Jacinth Byles	1,168,116
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		& Joyce Singh	8,000
Colin Steele	Nil	Nil	Nil
Donovan H. Perkins		& Michele/Alexander/Jessica Perkins	3,577,085

SHAREHOLDINGS OF SENIOR MANAGEMENT AND CONNECTED PERSONS

AS AT 31 DECEMBER 2006

MANAGERS	SHAREHOLDING	CONNECTED PERSONS	SHAREHOLDING
Philip Armstrong		& Trevor & Nicola Armstrong	1,525,000
Gene M. Douglas	325,000	Nil	Nil
Steven Gooden	Nil	Nil	Nil
Peter Knibb		& Elizabeth Knibb	10,000
Lancelot C. Leslie	Nil	Nil	Nil
Faith McFarquhar-Gordon	Nil	Nil	Nil
Margaret McPherson	Nil	Nil	Nil
Tanya Miller	Nil	Nil	Nil
Lissant Mitchell		& Elmay Mitchell	400,000
Tara Nunes		& Kelly & Brooke Nunes	400,000
Donovan H. Perkins		& Michelle/Alexander/Jessica Perkins	3,577,085
Henry Pratt	300,000	Nil	Nil
Grace Solas	Nil	Nil	Nil
Karen Vaz		& Douglas Vaz	825,000

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31 December 2006

PRICEWATERHOUSECOOPERS

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

To the Members of
Pan Caribbean Financial Services Limited

Independent Auditors' Report

Report on the Financial Statements
We have audited the accompanying financial statements of Pan Caribbean Financial Services Limited and its subsidiaries, and the accompanying financial statements of Pan Caribbean Financial Services Limited standing alone set out on pages 43 to 118, which comprise the consolidated and company balance sheets as of 31 December 2006 and the consolidated and company profit and loss account, statement of changes in stockholders' equity, and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the accompanying financial statements give a true and fair view of the financial position of the group and the company as of 31 December 2006, and of financial performance and cash flows of the group and company for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Jamaican Companies Act.

Report on Additional Requirements of the Jamaican Companies Act
As required by the Jamaican Companies Act, we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

In our opinion, proper accounting records have been kept, so far as appears from our examination of those records, and the accompanying financial statements are in agreement therewith and give the information required by the Jamaican Companies Act, in the manner so required.

PricewaterhouseCoopers

Chartered Accountants

23 February 2007
Kingston, Jamaica

Consolidated Profit and Loss Acccount

Year ended 31 December 2006

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2006 $'000	2005 $'000
Net Interest Income and Other Revenue			
Interest income from loans		561,013	519,956
Interest income from securities		4,038,705	3,904,213
Interest income from leases		5,454	5,607
Other interest income		38,293	2,133
Total interest income		4,643,465	4,431,909
Interest expense	6	(3,173,160)	(3,128,849)
Net interest income		1,470,305	1,303,060
Fees and commission income	7	264,709	238,655
Net trading income	8	508,300	470,869
Other revenue		28,802	41,779
		2,272,116	2,054,363
Operating Expenses			
Staff costs	9	441,552	400,288
Provision for credit losses	23	(1,457)	(3,282)
Occupancy costs		51,721	50,251
Other expenses	10	287,695	243,955
		779,511	691,212
Operating Profit		1,492,605	1,363,151
Share of associated company profit	21	3,517	2,131
Profit before Taxation		1,496,122	1,365,282
Taxation	11	(383,452)	(363,777)
Profit from Continuing Operations		1,112,670	1,001,505
Profit from Discontinued Operation	12	-	30,431
NET PROFIT	13	1,112,670	1,031,936
EARNINGS PER STOCK UNIT			
From Continuing and Discontinued Operations:			
Basic	15	$2.06	$1.92
Diluted	15	$2.06	$1.90
From Continuing Operations:			
Basic	15	$2.06	$1.86
Diluted	15	$2.06	$1.84

Pan Caribbean Financial Services Limited

Consolidated Balance Sheet

31 December 2006

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2006 $'000	2005 $'000
ASSETS			
Cash and balances due from other financial institutions	16	1,176,047	1,080,134
Cash reserve at Bank of Jamaica	17	59,272	56,587
Trading securities	18	1,513,339	745,412
Securities purchased under agreements to resell	19	1,023,141	1,986,854
Investment securities	20	21,395,320	16,905,116
Investment in associated company	21	17,114	13,597
Loans, net of provision for credit losses	23	5,474,798	5,004,388
Lease receivables	24	52,482	14,771
Pledged assets	25	12,648,748	12,705,719
Due from related companies	26	6,429	41,228
Income tax recoverable		28,301	1,072
Intangible assets	27	783,091	784,375
Property, plant and equipment	28	116,129	95,340
Deferred income tax assets	29	11,118	24,638
Post-employment benefit asset	30	13,954	13,416
Other assets	31	420,439	473,715
		44,739,722	39,946,362
LIABILITIES			
Securities sold under agreements to repurchase		31,028,959	27,775,290
Customer deposits		4,476,805	4,203,475
Due to banks and other financial institutions	32	1,380,804	1,384,255
Due to related companies	26	1,628	6,673
Income tax payable		126,210	27,186
Deferred income tax liabilities	29	350,044	239,275
Post-employment obligations	30	7,363	5,314
Other liabilities	33	163,775	156,088
		37,535,588	33,797,556
STOCKHOLDERS' EQUITY			
Share capital	34	3,049,496	2,997,815
Share options reserve	35	32,420	20,420
Retained earnings reserve	36	172,000	172,000
Reserve fund	37	86,443	86,443
Loan loss reserve	38	83,953	121,128
Fair value reserve	39	535,547	287,069
Retained earnings		3,244,275	2,463,931
		7,204,134	6,148,806
		44,739,722	39,946,362

Approved for issue by the Board of Directors on 23 February 2007 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 2006

(expressed in Jamaican dollars unless otherwise indicated)

	Note	Share Capital $'000	Share Premium $'000	Unissued Fully Paid Up Shares $'000	Share Options Reserve $'000	Retained Earnings Reserve $'000	Other Reserves $'000	Retained Earnings $'000	Total $'000
Balance at 1 January 2005		514,308	2,444,657	21,683	-	172,000	904,496	1,630,345	5,687,489
Unrealised losses on available-for-sale investments, net of taxes		-	-	-	-	-	(221,080)	-	(221,080)
Gains reclassified and reported in profit		-	-	-	-	-	(150,631)	-	(150,631)
Net expense recognised directly in stockholders' equity		-	-	-	-	-	(371,711)	-	(371,711)
Net profit		-	-	-	-	-	-	1,031,936	1,031,936
Total recognised (expense) /income for 2005		-	-	-	-	-	(371,711)	1,031,936	660,225
Transfer of share premium to share capital		2,444,657	(2,444,657)	-	-	-	-	-	-
Allotment of fully paid up shares		21,683	-	(21,683)	-	-	-	-	-
Shares issued	34	17,167	-	-	-	-	-	-	17,167
Employee share option scheme – value of services provided	35	-	-	-	20,420	-	-	-	20,420
Dividends paid		-	-	-	-	-	-	(236,495)	(236,495)
Adjustment between regulatory loan provisioning and IFRS	38	-	-	-	-	-	(38,145)	38,145	-
Balance at 31 December 2005		2,997,815	-	-	20,420	172,000	494,640	2,463,931	6,148,806
Unrealised gains on available-for-sale investments, net of taxes		-	-	-	-	-	495,153	-	495,153
Gains reclassified and reported in profit		-	-	-	-	-	(246,675)	-	(246,675)
Net income recognised directly in stockholders' equity		-	-	-	-	-	248,478	-	248,478
Net profit		-	-	-	-	-	-	1,112,670	1,112,670
Total recognised income for 2006		-	-	-	-	-	248,478	1,112,670	1,361,148
Shares issued	34	51,681	-	-	-	-	-	-	51,681
Employee share option scheme – value of services provided	35	-	-	-	12,000	-	-	-	12,000
Dividends paid		-	-	-	-	-	-	(368,225)	(368,225)
Provision utilised		-	-	-	-	-	(1,276)	-	(1,276)
Adjustment between regulatory loan provisioning and IFRS	38	-	-	-	-	-	(35,899)	35,899	-
Balance at 31 December 2006		3,049,496	-	-	32,420	172,000	705,943	3,244,275	7,204,134

Consolidated Statement of Changes in Stockholders' Equity (Continued)

Year ended 31 December 2006

(expressed in Jamaican dollars unless otherwise indicated)

		Other Reserves			
	Note	Reserve Fund $'000	Loan Loss Reserve $'000	Fair Value Reserve $'000	Total $'000
Balance at 1 January 2005		86,443	159,273	658,780	904,496
Unrealised losses on available-for-sale investments, net of taxes		-	-	(221,080)	(221,080)
Gains reclassified and reported in profit		-	-	(150,631)	(150,631)
Adjustment between regulatory loan provisioning and IFRS	38	-	(38,145)	-	(38,145)
Balance at 31 December 2005		86,443	121,128	287,069	494,640
Unrealised gains on available-for-sale investments, net of taxes		-	-	495,153	495,153
Gains reclassified and reported in profit		-	-	(246,675)	(246,675)
Provision utilised		-	(1,276)	-	(1,276)
Adjustment between regulatory loan provisioning and IFRS	38	-	(35,899)	-	(35,899)
Balance at 31 December 2006		86,443	83,953	535,547	705,943

Consolidated Statement of Cash Flows

Year ended 31 December 2006

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2006 $'000	2005 $'000
Cash Flows from Operating Activities			
Net profit		1,112,670	1,031,936
Adjustments for:			
Interest income		(4,643,465)	(4,431,909)
Interest expense	6	3,173,160	3,128,849
Income tax charge	11	383,452	363,777
Fair value gains on trading securities		(7,556)	(57,790)
Share of profit of associated company	21	(3,517)	(2,131)
Gain on disposal of subsidiaries		-	(22,304)
Provision for credit losses	23	(1,457)	(3,282)
Amortisation of intangible assets	27	24,721	18,417
Depreciation of property, plant and equipment	28	26,926	24,862
Gain on sale of property, plant and equipment		(66)	(591)
Changes in post-employment benefit assets/obligations		1,511	2,606
Share option expense	35	12,000	20,420
Unrealised gains on foreign assets and liabilities		(70,870)	(57,921)
		7,509	14,939
Changes in operating assets and liabilities -			
Statutory reserves at Bank of Jamaica		(2,685)	29,155
Trading securities		(725,640)	(600,446)
Securities purchased under agreements to resell		556,811	3,654,131
Investment securities		(2,220,459)	(932,227)
Loans		(463,060)	(1,193,687)
Lease receivables		(37,352)	23,686
Securities sold under agreements to repurchase		3,331,277	(1,092,902)
Customer deposits		317,939	760,741
Other assets		53,276	753
Other liabilities		7,687	(42,136)
		825,303	622,007
Interest received		4,788,372	4,582,703
Interest paid		(3,289,126)	(3,259,457)
Taxation		(311,607)	(263,542)
Net cash provided by operating activities (Page 48)		2,012,942	1,681,711

Consolidated Statement of Cash Flows (Continued)

Year ended 31 December 2006

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2006 $'000	2005 $'000
Cash Flows from Operating Activities (Page 47)		2,012,942	1,681,711
Cash Flows from Investing Activities			
Purchase of investment securities		(971,658)	(1,899,512)
Purchase of intangible assets	27	(23,437)	(43,081)
Purchase of property, plant and equipment	28	(47,789)	(33,284)
Proceeds from disposal of property, plant and equipment		140	1,621
Disposal of subsidiary		-	62,554
Net cash used in investing activities		(1,042,744)	(1,911,702)
Cash Flows from Financing Activities			
Issue of shares	34	51,681	17,167
Proceeds from due to banks and other financial institutions – long term		204,387	560,964
Repayment of amounts due to banks and other financial institutions – long term		(195,319)	(551,031)
Due from/(to) related parties		29,754	(444,943)
Dividends paid		(368,225)	(236,495)
Net cash used in financing activities		(277,722)	(654,338)
Effect of exchange rate changes on cash and cash equivalents		30,610	21,828
Net increase/(decrease) in cash and cash equivalents		723,086	(862,501)
Cash and cash equivalents at beginning of year		2,525,778	3,388,279
CASH AND CASH EQUIVALENTS AT END OF YEAR	22	3,248,864	2,525,778

Profit and Loss Account

Year ended 31 December 2006

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2006 $'000	2005 $'000
Net Interest Income and Other Revenue			
Interest income from loans and leases		133,729	90,297
Interest income from securities		3,826,247	3,651,704
Other interest income		14,305	2,133
Total interest income		3,974,281	3,744,134
Interest expense	6	(2,897,664)	(2,781,979)
Net interest income		1,076,617	962,155
Fees and commission income	7	129,411	89,639
Net trading income	8	417,071	342,127
Other revenue		33,578	54,799
		1,656,677	1,448,720
Operating Expenses			
Staff costs	9	302,204	300,472
Provision for credit losses	23	(1,270)	(2,940)
Occupancy costs		27,791	27,135
Other expenses	10	190,280	154,164
		519,005	478,831
Profit before Taxation		1,137,672	969,889
Taxation	11	(266,544)	(213,384)
NET PROFIT	13	871,128	756,505

Balance Sheet

31 December 2006

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2006 $'000	2005 $'000
ASSETS			
Cash and balances due from other financial institutions	16	593,464	406,813
Trading securities	18	1,513,339	745,412
Securities purchased under agreements to resell	19	883,081	1,575,318
Investment securities	20	19,115,183	15,535,971
Investment in associated company	21	11,466	11,466
Investment in subsidiaries		2,518,210	2,518,210
Loans, net of provision for credit losses	23	1,636,750	991,451
Lease receivables	24	23,292	-
Pledged assets	25	12,618,748	12,375,719
Due from related companies	26	5,322	67,873
Intangible assets	27	190,824	188,416
Property, plant and equipment	28	90,079	59,611
Deferred income tax assets	29	861	1,968
Other assets	31	378,891	382,520
		39,579,510	34,860,748
LIABILITIES			
Securities sold under agreements to repurchase		31,373,620	27,765,827
Customer deposits		534,411	488,391
Due to banks and other financial institutions	32	1,154,291	1,075,446
Due to related companies	26	7,173	-
Income tax payable		124,500	25,326
Deferred income tax liabilities	29	322,251	218,643
Other liabilities	33	57,901	47,727
		33,574,147	29,621,360
STOCKHOLDERS' EQUITY			
Share capital	34	3,049,496	2,997,815
Share options reserve	35	32,420	20,420
Loan loss reserve	38	39,095	76,273
Fair value reserve	39	561,638	360,968
Retained earnings		2,322,714	1,783,912
		6,005,363	5,239,388
		39,579,510	34,860,748

Approved for issue by the Board of Directors on 23 February 2007 and signed on its behalf by:

Richard O. Byles — Director

Donovan H. Perkins — Director

Statement of Changes in Stockholders' Equity

Year ended 31 December 2006

(expressed in Jamaican dollars unless otherwise indicated)

	Note	Share Capital $'000	Share Premium $'000	Unissued Fully Paid Up Shares $'000	Share Options Reserve $'000	Loan Loss Reserve $'000	Fair Value Reserve $'000	Retained Earnings $'000	Total $'000
Balance at 1 January 2005		514,308	2,444,657	21,683	-	104,050	788,669	1,236,125	5,109,492
Unrealised losses on available-for-sale investments, net of taxes		-	-	-	-	-	(321,275)	-	(321,275)
Gains reclassified and reported in profit		-	-	-	-	-	(106,426)	-	(106,426)
Net expense recognised directly in stockholders' equity		-	-	-	-	-	(427,701)	-	(427,701)
Net profit		-	-	-	-	-	-	756,505	756,505
Total recognised income for 2005		-	-	-	-	-	(427,701)	756,505	328,804
Transfer of share premium to share capital		2,444,657	(2,444,657)	-	-	-	-	-	-
Issue of shares	34	17,167	-	-	-	-	-	-	17,167
Allotment of fully paid up shares	34	21,683	-	(21,683)	-	-	-	-	-
Employee share option scheme – value of services provided	35	-	-	-	20,420	-	-	-	20,420
Adjustment between regulatory loan provisioning and IFRS	38	-	-	-	-	(27,777)	-	27,777	-
Dividends paid		-	-	-	-	-	-	(236,495)	(236,495)
Balance at 31 December 2005		2,997,815	-	-	20,420	76,273	360,968	1,783,912	5,239,388
Unrealised gains on available-for-sale investments, net of taxes		-	-	-	-	-	445,511	-	445,511
Gains reclassified and reported in profit		-	-	-	-	-	(244,841)	-	(244,841)
Net expense recognised directly in stockholders' equity		-	-	-	-	-	200,670	-	200,670
Net profit		-	-	-	-	-	-	871,128	871,128
Total recognised income for 2006		-	-	-	-	-	200,670	871,128	1,071,798
Issue of shares	34	51,681	-	-	-	-	-	-	51,681
Employee share option scheme – value of services provided	35	-	-	-	12,000	-	-	-	12,000
Provision utilised	38	-	-	-	-	(1,279)	-	-	(1,279)
Adjustment between regulatory loan provisioning and IFRS	38	-	-	-	-	(35,899)	-	35,899	-
Dividends paid		-	-	-	-	-	-	(368,225)	(368,225)
Balance at 31 December 2006		3,049,496	-	-	32,420	39,095	561,638	2,322,714	6,005,363

Statement of Cash Flows

Year ended 31 December 2006

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2006 $'000	2005 $'000
Cash Flows from Operating Activities			
Net profit		871,128	756,505
Adjustments for:			
Interest income		(3,974,281)	(3,744,134)
Interest expense	6	2,897,664	2,781,979
Income tax charge	11	266,544	213,384
Fair value gains on trading securities		(7,556)	(57,790)
Provision for credit losses	23	(1,270)	(2,940)
Amortisation of intangible assets	27	21,029	14,901
Depreciation of property, plant and equipment	28	17,067	9,329
Loss on sale of property, plant and equipment		-	35
Unrealised gains on foreign assets and liabilities		(73,175)	(57,921)
Stock options expense	35	12,000	20,420
Gain on disposal of subsidiary		-	(31,602)
		29,150	(97,834)
Changes in operating assets and liabilities -			
Trading securities		(725,640)	(600,446)
Securities purchased under agreements to resell		712,448	697,861
Investment securities		(1,658,562)	(932,227)
Loans		(641,739)	(291,378)
Lease receivables		(23,057)	-
Securities sold under agreements to repurchase		3,680,022	(570,127)
Customer deposits		101,362	(49,403)
Other assets		3,629	(19,677)
Other liabilities		10,174	12,448
		1,487,787	(1,850,783)
Interest received		4,133,634	3,853,522
Interest paid		(3,019,241)	(2,919,692)
Taxation paid		(180,155)	(250,934)
Net cash provided by/(used in) operating activities (Page 53)		2,422,025	(1,167,887)

Statement of Cash Flows (Continued)

Year ended 31 December 2006

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2006 $'000	2005 $'000
Net Cash Provided by Operating Activities (Page 52)		2,422,025	(1,167,887)
Cash Flows from Investing Activities			
Purchase of investment securities		(971,658)	(116,533)
Proceeds from disposal of subsidiary		-	66,000
Purchase of intangible assets, net of grant received	27	(23,437)	(41,702)
Purchase of property, plant and equipment	28	(47,535)	(27,312)
Proceeds from disposal of property, plant and equipment		-	72
Net cash used in investing activities		(1,042,630)	(119,475)
Cash Flows from Financing Activities			
Issue of shares	34	51,681	17,167
Due to parent company and fellow subsidiaries		69,724	(66,327)
Proceeds from due to banks and other financial institutions – long term		146,387	508,464
Repayment of amounts due to banks and other financial institutions – long term		(53,685)	(374,466)
Dividends paid		(368,225)	(236,495)
Net cash used in by financing activities		(154,118)	(151,657)
Effect of exchange rate changes on cash and cash equivalents		18,102	18,879
Net increase/(decrease) in cash and cash equivalents		1,243,379	(1,420,140)
Cash and cash equivalents at beginning of year		1,226,156	2,646,296
CASH AND CASH EQUIVALENTS AT END OF YEAR	22	2,469,535	1,226,156

(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, investment and fund management services and stockbroking services. The company is a licensed securities dealer and has primary dealer status from the Bank of Jamaica (BOJ) and also has a seat on the Jamaica Stock Exchange (JSE). 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

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

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.

2. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). These consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of available-for-sale financial assets and financial assets at fair value through profit or loss.

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.

Amendments to published standards effective 1 January 2006 that is relevant to the Group's operations.

- IAS 19 Amendments – Actuarial Gains and Losses, Group Plans and Disclosures
  IAS 19 Amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans were insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment only impacts the format and extent of disclosure presented in the financial statements.

- IAS 39 Amendment – The Fair Value Option. Prior to the amendment, the Group applied the unrestricted version of the fair value option in IAS 39. The Group meets the new criteria in the amendment and therefore continues to designate certain financial assets and financial liabilities at fair value through profit or loss.

- IFRIC 4, Determining whether an Arrangement contains a Lease. 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. IFRIC 4 has no material effect on the Group's policies.

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards and Interpretations issued but not yet effective
The Group has chosen not to early adopt the following standard and interpretations that were issued but not yet effective for accounting periods beginning on 1 January 2006:

- **IFRS 7, Financial instruments: Disclosures, and the complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures** (effective 1 January 2007). IFRS 7 introduces new disclosures relating to financial instruments. This standard does not have any impact on the classification and valuation of the Group's financial instruments. IFRS 7 supersedes IAS 30 and the disclosure requirements of IAS 32. The Group will apply IFRS 7 from 1 January 2007.

- **IFRIC 8, Scope of IFRS 2** (effective for annual periods beginning on or after 1 May 2006). IFRIC 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issues – to establish whether or not they fall within the scope of IFRS 2. The Group will apply IFRIC 8 from 1 January 2007, but it is not expected to have any impact on the Group's financial statements.

- **IFRIC 10, Interim Financial Reporting and Impairment** (effective for annual periods beginning on or after 1 November 2006). IFRIC 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply IFRIC 10 from 1 January 2007, but it is not expected to have any impact on the Group's financial statements.

(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 are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit and loss account.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. The accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2. Summary of Significant Accounting Policies (Continued)

(b) Consolidation (continued)

(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 by the equity method of accounting and are initially recognised at cost.

The Group's share of its associates' post-acquisition profits or losses is recognised in the profit and loss account; its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

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 an impairment of the asset transferred. Accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses in associates are recognised in the profit and loss account.

(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 return that are different from those of segments operating in other economic environments.

(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. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account. These rates represent the weighted average rates at which the company trades in foreign currency.

2. Summary of Significant Accounting Policies (Continued)

(d) Foreign currency translation (continued)

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the profit and loss account, and other changes in the carrying amount are recognised in stockholders' equity.

Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in stockholders' equity.

(e) Interest income and expenses

Interest income and expense are recognised in the profit and loss account for all interest-bearing instruments using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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) Fee and commission income

Fees and commission income are recognised on an accrual basis when the service has been provided. 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. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Asset management fees related to investment funds are recognised rateably over the period in which the service is provided. Performance linked fees or fee components are recognised when the performance criteria are fulfilled.

2. Summary of Significant Accounting Policies (Continued)

(g) 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 income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future.

The tax effects of income tax losses available for carry-forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax related to fair value re-measurement of available-for-sale investments, which are charged or credited directly to stockholders' equity, is also credited or charged directly to stockholders' equity and subsequently recognised in the profit and loss account together with the deferred gain or loss.

(h) Cash and cash equivalents

For the purposes 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 non-restricted balances with BOJ, balances due from other banks, investment securities, reverse repurchase agreements and short term amounts due to banks and other financial institutions.

2. Summary of Significant Accounting Policies (Continued)

(i) Sale and repurchase agreements

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 other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

(j) Financial assets

The Group classifies its financial assets into the following 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 financial assets at initial recognition.

(i) Financial asset 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 as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

(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 Group 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 prices.

Purchases and sales of available-for-sale financial assets are recognised at the trade date – the date on which the Group 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. Financial assets are derecognised when the right to received cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished, that is, when the obligation is discharged, cancelled or expires.

2. Summary of Significant Accounting Policies (Continued)

(j) Financial assets (continued)

(iii) Available-for-sale (continued)

Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in stockholders' equity, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in stockholders' equity is recognised in profit or loss. However, interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the profit and loss account. Dividends on available-for-sale equity instruments are recognised in the profit and loss account when the Group's right to receive payment is established.

The fair values of quoted investments in active markets are based on current bid prices. Unquoted securities are recorded initially at cost. They are subsequently measured at fair value. Where fair value cannot be measured reliably they are measured at cost less impairment.

(k) Impairment of financial assets

(i) Assets carried at amortised cost

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit and loss account. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

2. Summary of Significant Accounting Policies (Continued)

(k) Impairment of financial assets (continued)

(i) Assets carried at amortised cost (continued)

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

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.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the profit and loss account in impairment charge for credit losses.

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

2. Summary of Significant Accounting Policies (Continued)

(k) Impairment of financial assets (continued)

(ii) Assets classified as available-for-sale

The Group 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 investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets 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 stockholders' 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. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the profit and loss account.

(iii) Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated.

(l) Leases

(i) As lessee

The leases entered into by the Group are primarily operating leases. The total payments made under operating leases are charged to occupancy costs in the profit and loss account on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(ii) As lessor

When assets are held subject to 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.

(m) Intangible assets

(i) 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 on acquisitions of subsidiaries is included in intangible assets. Goodwill on 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.

2. Summary of Significant Accounting Policies (Continued)

(m) Intangible assets (continued)

(ii) Computer software

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with identifiable and unique software products controlled by the Group and that will generate economic benefits exceeding the cost beyond one year, are recognised as intangible assets.

Expenditure which enhances or extends the performance of computer software programs 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.

(n) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

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. Estimated useful lives are as follows:

Leasehold improvements	10 years
Furniture and equipment	10 years
Motor vehicles	5 years
Computer equipment	3 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.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains or losses on disposal of property, plant and equipment are determined by reference to their carrying amount. These are included in other expenses in the profit and loss account.

Repairs and renewals are charged to the profit and loss account when the expenditure is incurred.

2. Summary of Significant Accounting Policies (Continued)

(o) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(p) Employee benefits

(i) Pension obligations

The Group participates in a defined benefit plan, the assets of which are generally held in separate trustee-administered funds. The pension plan is funded by payments from employees and by the Group, taking into account the recommendations of qualified actuaries.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

The asset or liability recognised in the balance sheet in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives. Past-service costs are recognised immediately in staff costs, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

(ii) Other post-employment obligations

The Group provides post-employment health care benefits to their retirees. The entitlement to these benefits is usually conditional 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 an accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation, are charged or credited to income over the expected average remaining working lives of the related employees. These obligations are valued annually by independent qualified actuaries.

2. Summary of Significant Accounting Policies (Continued)

(p) 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 payments

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 income statement, and a corresponding adjustment to stockholders' equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital when the options are exercised.

(q) 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.

(r) 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.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(s) Borrowings

Borrowings are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently 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 interest method.

2. Summary of Significant Accounting Policies (Continued)

(t) Deposits

Deposits are recognised initially at the nominal amount when funds are received. Deposits are subsequently stated at amortised cost using the effective interest method.

(u) Share capital

(i) Share issuance cost

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

(ii) Dividends on ordinary shares are recognised in stockholders' equity in the period in which they are approved by the company's stockholders.

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

(v) Financial instruments

Financial instruments carried on the balance sheet include cash resources, trading securities, securities purchased under agreements to resell, investment securities, loans, lease receivables, other assets excluding property, plant and equipment, deposits by customers and all other liabilities.

The fair values of the Group and company's financial instruments are discussed in Note 3.

(w) Fiduciary activities

The Group acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

(x) Comparative information

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

3. Financial Risk Management

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management is carried out by the Treasury department under policies approved by the Board of Directors. Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, the Risk and Compliance Unit and the Internal Audit department are responsible for the independent review of risk management and the control environment.

The most important types of risk are credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk, interest rate and price risk.

(a) Credit risk

The Group takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the company by failing to discharge an obligation. Significant changes in the economy of a particular industry segment that represents a concentration in the Group's portfolio could result in losses that are different from those provided for at the balance sheet date. Management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in loans and advances and debt securities. There is also credit risk in off-balance sheet financial arrangements such as loan commitments. The credit risk management and control are centralised in the Risk and Compliance Unit of the Treasury department and reported to the Board of Directors and head of each business unit regularly.

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 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.

3. **Financial Risk Management** (Continued)

(a) Credit risk (continued)

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

	The Group		The Company	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Loans and Leases				
Agriculture, fishing and mining	1,018,451	503,156	23,612	23,877
Construction and real estate	236,935	619,887	7,203	10,000
Distribution	1,091,386	953,218	283,850	276,769
Manufacturing	424,724	344,429	286,504	86,234
Personal	462,763	366,477	254	846
Professional and other services	1,037,865	1,337,107	433,413	283,340
Tourism and entertainment	837,044	768,529	394,640	348,050
Transportation storage and communication	135,391	170,495	13,016	48,417
Other	318,888	1,014	301,480	364
	5,563,447	5,064,312	1,743,972	1,077,897
Less: Provision for credit losses	(112,726)	(114,183)	(95,535)	(96,805)
	5,450,721	4,950,129	1,648,437	981,092
Interest receivable	76,559	69,030	11,605	10,359
	5,527,280	5,019,159	1,660,042	991,451

(b) Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

The Group's liquidity management process, as carried out within the Group and monitored by the Treasury Department, includes:

(i) Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. These include replenishment of funds as they mature or are borrowed by customers. The Group maintains an active presence in the money markets to enable this to happen;

(ii) Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;

(iii) Monitoring balance sheet liquidity ratios against internal and regulatory requirements; and

(iv) Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

3. Financial Risk Management (Continued)

(b) 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 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.

	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 2006:						
Assets						
Cash and balances due from other financial institutions	1,174,728	-	1,319	-	-	1,176,047
Cash reserves at Bank of Jamaica	59,272	-	-	-	-	59,272
Trading securities	62,446	1,450,577	-	-	316	1,513,339
Securities purchased under agreements to resell	703,897	319,244	-	-	-	1,023,141
Investment securities	2,409,570	992,897	1,106,096	8,876,245	8,010,512	21,395,320
Loans, net of provision for credit losses	335,328	664,455	1,950,466	1,231,052	1,293,497	5,474,798
Lease receivables	452	391	524	51,115	-	52,482
Pledged assets	381,416	-	1,636,280	7,404,192	3,226,860	12,648,748
Other	385,913	1,278	30,879	48,217	930,288	1,396,575
Total assets	5,513,022	3,428,842	4,725,564	17,610,821	13,461,473	44,739,722
Liabilities						
Securities sold under agreements to repurchase	18,629,941	7,781,353	4,593,948	23,524	193	31,028,959
Customer deposits	891,788	526,823	1,835,326	576,687	646,181	4,476,805
Due to banks and other financial institutions	347,993	82,136	158,793	234,566	557,316	1,380,804
Other	252,325	4,988	43,435	-	348,272	649,020
Total liabilities	20,122,047	8,395,300	6,631,502	834,777	1,551,962	37,535,588
Net Liquidity Gap	(14,609,025)	(4,966,458)	(1,905,938)	16,776,044	11,909,511	7,204,134
Cumulative Liquidity Gap	(14, 609,025)	(19,575,483)	(21,481,421)	(4,705,377)	7,204,134	
As at 31 December 2005:						
Total assets	11,580,918	5,476,424	9,079,577	7,963,122	5,846,321	39,946,362
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	

3. Financial Risk Management (Continued)

(b) 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
At 31 December 2006:						
Assets						
Cash and balances due from other financial institutions	592,145	-	1,319	-	-	593,464
Trading securities	62,446	1,450,577	-	-	316	1,513,339
Securities purchased under agreements to resell	883,081	-	-	-	-	883,081
Investment securities	1,849,381	756,191	1,373,534	8,153,550	6,982,527	19,115,183
Loans, net of provision for credit losses	13,461	254,858	544,275	406,644	417,512	1,636,750
Lease receivables	-	-	-	23,292	-	23,292
Pledged assets	381,416	-	1,636,280	7,374,192	3,226,860	12,618,748
Other	384,213	-	861	47,561	2,763,018	3,195,653
Total assets	4,166,143	2,461,626	3,556,269	16,005,239	13,390,233	39,579,510
Liabilities						
Securities sold under agreements to repurchase	18,974,602	7,781,353	4,593,948	23,524	193	31,373,620
Customer deposits	4,534	3,949	68,110	457,818	-	534,411
Due to banks and other financial institutions	339,351	53,596	124,813	106,736	529,795	1,154,291
Other	65,074	-	125,823	-	320,928	511,825
Total liabilities	19,383,561	7,838,898	4,912,694	588,078	850,916	33,574,147
Net Liquidity Gap	(15,217,418)	(5,377,272)	(1,356,425)	15,417,161	12,539,317	6,005,363
Cumulative Liquidity Gap	(15,217,418)	(20,594,690)	(21,951,115)	(6,533,954)	6,005,363	
As at 31 December 2005:						
Total assets	9,749,080	5,087,481	7,745,107	6,169,710	6,109,370	34,860,748
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	

(c) Market risk

The Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. 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 Risk and Compliance Unit of the Treasury department which carries out extensive research and monitors the price movement of financial assets on the local and international markets.

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3. Financial Risk Management (Continued)

(c) Market risk (continued)

(i) Currency risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Risk and Compliance Unit sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

The tables below summarises the Group and company exposure to foreign currency exchange rate risk at 31 December.

	The Group					
	Jamaican$	US$	GBP	CAN$	Other	Total
	J$'000	J$'000	J$'000	J$'000	J$'000	J$'000
At 31 December 2006:						
Assets						
Cash and balances due from other financial institutions and cash reserves at Bank of Jamaica	153,137	950,182	93,135	20,866	17,999	1,235,319
Trading securities	316	1,513,023	-	-	-	1,513,339
Securities purchased under agreements to resell	366,462	652,978	3,701	-	-	1,023,141
Investment securities	11,563,743	9,421,252	-	-	410,325	21,395,320
Loans, net of provision for credit losses	1,271,909	4,202,889	-	-	-	5,474,798
Lease receivables	35,041	17,441	-	-	-	52,482
Pledged assets	7,965,740	4,683,008	-	-	-	12,648,748
Other	964,514	370,388	522	6	61,145	1,396,575
Total assets	22,320,862	21,811,161	97,358	20,872	489,469	44,739,722
Liabilities						
Securities sold under agreements to repurchase	16,282,489	14,650,551	95,919	-	-	31,028,959
Customer deposits	870,298	3,565,189	36,665	4,653	-	4,476,805
Due to banks and other financial institutions	667,260	378,150	-	-	335,394	1,380,804
Other	288,054	352,545	2,656	170	5,595	649,020
Total liabilities	18,108,101	18,946,435	135,240	4,823	340,989	37,535,588
Net position	4,212,761	2,864,726	(37,882)	16,049	148,480	7,204,134
At 31 December 2005:						
Total assets	20,957,626	17,677,680	868,074	8,592	434,390	39,946,362
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

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(i) Currency risk (continued)

	The Company				
	Jamaican$	US$	GBP	Other	Total
	J$'000	J$'000	J$'000	J$'000	J$'000
At 31 December 2006:					
Assets					
Cash and balances due from other financial institutions	50,644	537,708	5,106	6	593,464
Trading securities	316	1,513,023	-	-	1,513,339
Securities purchased under agreements to resell	226,446	652,934	3,701	-	883,081
Investment securities	10,605,989	8,098,869	-	410,325	19,115,183
Loans, net of provision for credit losses	334,268	1,302,482	-	-	1,636,750
Lease receivables	23,292	-	-	-	23,292
Pledged assets	7,935,740	4,683,008	-	-	12,618,748
Other	1,399,119	1,734,875	514	61,145	3,195,653
Total assets	20,575,814	18,522,899	9,321	471,476	39,579,510
Liabilities					
Securities sold under agreements to repurchase	16,618,848	14,658,853	95,919	-	31,373,620
Customer deposits	506,452	27,959	-	-	534,411
Due to banks and other financial institutions	441,725	377,172	-	335,394	1,154,291
Other	159,346	346,478	697	5,304	511,825
Total liabilities	17,726,371	15,410,462	96,616	340,698	33,574,147
Net position	2,849,443	3,112,437	(87,295)	130,778	6,005,363
At 31 December 2005:					
Total assets	20,140,615	13,626,011	789,765	304,357	34,860,748
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

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

(ii) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its financial position and cash flows. Interest margins may increase as a result of such changes but may create or reduce losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored monthly by the Board Asset and Liability Committee and daily by the Risk and Compliance Unit.

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) *Interest rate risk (continued)*

The following tables summarises the Group and the company's exposure to interest rate risk. It includes the Group and company financial instruments 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
At 31 December 2006:							
Assets							
Cash and balances due from other financial institutions	1,174,708	-	1,319	-	-	20	1,176,047
Cash reserve at Bank of Jamaica	59,272	-	-	-	-	-	59,272
Trading securities	439,823	1,010,754	-	-	316	62,446	1,513,339
Securities purchased under agreements to resell	698,110	319,244	-	-	-	5,787	1,023,141
Investment securities	5,615,390	5,633,960	1,115,632	6,045,809	1,943,842	1,040,687	21,395,320
Loans, net of provision for credit losses	229,703	664,455	1,949,786	1,227,866	1,293,487	109,501	5,474,798
Leases receivables	452	391	524	50,427	-	688	52,482
Pledged assets	381,416	2,148,980	4,029,338	6,089,014	-	-	12,648,748
Other	3,958	-	-	-	-	1,392,617	1,396,575
Total assets	8,602,832	9,777,784	7,096,599	13,413,116	3,237,645	2,611,746	44,739,722
Liabilities							
Securities sold under agreements to repurchase	18,629,940	7,781,354	4,593,948	23,524	193	-	31,028,959
Customer deposits	891,629	529,436	1,852,916	556,643	646,181	-	4,476,805
Due to banks and other financial institutions	347,992	82,137	158,793	234,566	557,316	-	1,380,804
Other	15,317	4,988	-	-	-	628,715	649,020
Total liabilities	19,884,878	8,397,915	6,605,657	814,733	1,203,690	628,715	37,535,588
Total interest rate sensitivity gap	(11,282,046)	1,379,869	490,942	12,598,383	2,033,955	1,983,031	7,204,134
Cumulative gap	(11,282,046)	(9,902,177)	(9,411,235)	3,187,148	5,221,103	7,204,134	
At 31 December 2005:							
Total assets	13,954,093	7,210,232	6,728,744	7,844,741	2,738,493	1,470,059	39,946,362
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)	3,370,572	5,113,283	6,148,806	

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) 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
At 31 December 2006:							
Assets							
Cash and balances due from other financial institutions	592,145	-	1,319	-	-	-	593,464
Trading securities	502,269	1,010,754	-	-	316	-	1,513,339
Securities purchased under agreements to resell	883,081	-	-	-	-	-	883,081
Investment securities	4,590,024	5,269,800	960,017	5,533,878	1,776,650	984,814	19,115,183
Loans, net of provision for credit losses	13,462	254,858	544,275	406,644	417,511	-	1,636,750
Lease receivables	-	-	-	23,292	-	-	23,292
Pledged assets	381,416	2,148,980	4,029,338	6,059,014	-	-	12,618,748
Other	-	-	-	-	-	3,195,653	3,195,653
Total assets	6,962,397	8,684,392	5,534,949	12,022,828	2,194,477	4,180,467	39,579,510
Liabilities							
Securities sold under agreements to repurchase	18,974,601	7,781,354	4,593,948	23,524	193	-	31,373,620
Customer deposits	4,375	6,562	85,700	437,774	-	-	534,411
Due to banks and other financial institutions	339,351	53,596	124,813	106,736	529,795	-	1,154,291
Other	-	-	-	-	-	511,825	511,825
Total liabilities	19,318,327	7,841,512	4,804,461	568,034	529,988	511,825	33,574,147
Total interest rate sensitivity gap	(12,355,930)	842,880	730,488	11,454,794	1,664,489	3,668,642	6,005,363
Cumulative gap	(12,355,930)	(11,513,050)	(10,782,562)	672,232	2,336,721	6,005,363	
At 31 December 2005:							
Total assets	12,161,786	6,593,976	5,056,413	6,220,178	1,598,331	3,230,064	34,860,748
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	

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) 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
	%	%	%	%	%	%	%	%	%	%
Year ended 31 December 2006:										
Assets										
Cash and balances due from other financial institutions	1.50	4.75	2.25	2.75	-	1.50	4.75	2.25	2.75	-
Cash reserves at Bank of Jamaica	-	4.17	3.15	3.85	-	-	-	-	-	-
Trading securities	-	10.45	-	-	-	-	10.45	-	-	-
Securities purchased under agreements to resell	12.01	6.26	-	5.30	-	12.01	6.26	-	5.30	-
Investment securities – debt securities	14.40	10.05	-	-	-	14.21	10.12	-	-	-
Loans, net of provision for credit losses	16.23	8.83	-	-	-	14.94	8.14	-	-	-
Lease receivables	17.51	10.27	-	-	-	15.33	-	-	-	-
Liabilities										
Securities sold under agreements to repurchase	11.05	5.93	-	4.34	-	11.85	5.93	-	4.34	-
Customer deposits	10.54	5.12	2.08	3.61	-	12.12	-	-	-	-
Due to banks and other financial institutions	12.37	7.19	-	-	-	10.10	7.47	-	-	-
Year ended 31 December 2005:										
Assets										
Cash and balances due from other financial institutions	4.00	1.00	0.85	0.50	-	4.00	1.00	0.85	0.50	-
Cash reserve at Bank of Jamaica	1.00	3.66	2.65	3.66	1.00	-	-	-	-	-
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	-
Investment securities – debt securities	15.60	10.37	-	-	9.25	15.79	10.72	-	-	9.25
Loans, net of provision for credit losses	17.34	9.78	-	-	-	17.37	8.94	-	-	-
Lease receivables	23.32	11.86	-	-	-					
Liabilities										
Securities sold under agreements to repurchase	12.83	5.70	-	3.46	-	14.73	6.25	-	3.18	-
Customer deposits	12.60	5.26	-	-	-	12.83	5.70	-	3.46	-
Due to banks and other financial institutions	7.58	8.53	-	-	5.20	7.58	8.53	-	-	5.20

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

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.

(a) Critical judgements in applying the Group's accounting policies.

In the process of applying the Group's accounting policies, management has made no significant judgements regarding the amounts recognised in the financial statements.

(b) Key sources of estimation uncertainty

The Group makes estimates and assumptions that affect the reported assets and liabilities within the next financial year. The resulting accounting estimates will, by definition, seldom equal the related actual results. Areas of key sources of estimation uncertainty include the following:

(i) Income taxes

Estimates are required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for possible tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were originally recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. There were no significant estimates included in the income tax and deferred tax provision.

(ii) 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 $3,152,000 lower or $3,152,000 higher.

5. Segment Reporting

The Group is organised into the following 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.

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	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Interest Income and Other Revenue				
Interest income from loans	561,013	519,956	132,375	90,297
Interest income from securities	4,038,705	3,904,213	3,826,247	3,651,704
Interest income from leases	5,454	5,607	1,354	2,133
Other interest income	38,293	2,133	14,305	-
Total interest income	4,643,465	4,431,909	3,974,281	3,744,134
Fees and commission income	264,709	238,655	129,411	89,639
Net trading income	508,300	485,414	417,071	342,127
Other revenue	28,802	27,234	33,578	54,799
	5,445,276	5,183,212	4,554,341	4,230,699

5. Segment Reporting (Continued)

	The Group					
	Year ended 31 December 2006					
	Development Banking	Investment Management	Merchant Banking	Other	Eliminations	Group
	$'000	$'000	$'000	$'000	$'000	$'000
External operating revenues	505,541	4,050,357	870,428	97,809	(78,859)	5,445,276
Operating revenue from other segments	-	-	-	-	-	-
Operating revenue	505,541	4,050,357	870,428	97,809	(78,859)	5,445,276
Segment result	181,130	916,542	352,276	42,657	-	1,492,605
Share of associated company profit	3,517	-	-	-	-	3,517
Profit before tax						1,496,122
Income tax expense						(383,452)
Net profit						1,112,670
Segment assets	1,884,859	35,020,729	7,274,618	154,916	(346,264)	43,988,858
Intangible assets - goodwill	-	332,479	322,518	78,753	-	733,750
Investment in associated company	17,114	-	-	-	-	17,114
Total assets	1,901,973	35,353,208	7,597,136	233,669	(346,264)	44,739,722
Segment liabilities	1,888,207	31,688,783	4,290,198	25,621	(357,221)	37,535,588
Other segment items -						
Capital expenditure	70,972	-	254	-	-	71,226
Depreciation	17,067	-	9,859	-	-	26,926
Amortisation charges	21,028	-	3,693	-	-	24,721

5. Segment Reporting (Continued)

	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	234,325	3,935,747	992,106	106,418	(85,384)	5,183,212
Segment result	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	-	-	-	30,341	-	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
Intangible asset - goodwill	-	72,500	639,765	21,485	-	733,750
Investment in associated company	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	28,552,652	4,420,016	20,423	(264,243)	33,797,556
Other segment items -						
Capital expenditure	69,015	-	7,350	-	-	76,365
Depreciation	9,329	-	15,533	-	-	24,862
Amortisation charges	-	-	-	-	-	18,417

5. Segment Reporting (Continued)

	The Company		
	Year ended 31 December 2006		
	Development Banking	Investment Management	Total
	$'000	$'000	$'000
External operating revenues	505,541	4,048,800	4,554,341
Operating revenue from other segments	-	-	-
Operating revenue	505,541	4,048,800	4,554,341
Segment result	181,130	956,542	1,137,672
Profit before tax			1,137,672
Income tax expense			(266,544)
Net profit			871,128
Segment assets	4,551,979	34,872,802	39,424,781
Intangible assets - goodwill	-	143,263	143,263
Investment in associated company	11,466	-	11,466
Total assets	4,563,445	35,016,065	39,579,510
Segment liabilities	1,888,207	31,685,940	33, 574,147
Other segment items -			
Capital expenditure	70,972	-	70,972
Depreciation	17,067	-	17,067
Amortisation charges	21,029	-	21,029
	Year ended 31 December 2005		
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
Intangible assets - goodwill	-	143,263	143,263
Investment in associated company	11,466	-	11,466
	1,506,432	33,354,316	34,860,748
Segment liabilities	1,068,708	28,552,652	29,621,360
Other segment items -			
Capital expenditure	69,014	-	69,014
Depreciation	9,329	-	9,329
Amortisation charges	14,901	-	14,901

6. Interest Expense

	The Group		The Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Customer deposits and repurchase liabilities	3,069,732	3,043,866	2,816,999	2,729,791
Due to banks and other financial institutions	103,428	84,983	80,665	52,188
	3,173,160	3,128,849	2,897,664	2,781,979

7. Fees and Commission Income

	The Group		The Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Credit related fees	29,047	27,455	10,633	2,466
Management fees	169,263	114,570	83,556	17,327
Stock brokerage fees	17,589	48,240	17,589	48,240
Treasury fees	5,421	18,848	1,739	13,410
Trust fees	23,220	21,346	-	-
Wholesale banking fees	15,894	8,196	15,894	8,196
Other	4,275	-	-	-
	264,709	238,655	129,411	89,639

8. Net Trading Income

	The Group		The Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Foreign exchange translation and trading	128,291	87,946	38,896	19,045
Gain on sale of investments	161,922	266,425	377,493	265,292
Securities trading gain	218,087	116,498	682	57,790
	508,300	470,869	417,071	342,127

9. Staff Costs

	The Group		The Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Salaries	356,086	289,199	241,188	212,178
Statutory contributions	38,129	27,441	27,582	20,095
Pension costs (Note 30)	9,436	7,551	-	-
Other post-employment benefits (Note 30)	2,049	1,949	-	-
Termination costs	-	529	-	-
Accommodation and other staff benefits	23,852	53,199	21,434	47,779
Share options (Note 35)	12,000	20,420	12,000	20,420
	441,552	400,288	302,204	300,472

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

	The Group		The Company	
	2006 No.	2005 No.	2006 No.	2005 No.
Full - time	212	201	127	109
Part - time	7	12	2	6
	219	213	129	115

10. Other Expenses

	The Group		The Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Amortisation (Note 27)	24,721	18,417	21,029	14,901
Auditors' remuneration -				
Current year	7,987	7,800	3,859	3,650
Prior year	600	-	400	-
Bank charges	13,884	14,183	4,606	4,745
Commissions and fees	23,361	13,996	15,227	11,024
Computer project expense	29,560	20,503	29,553	20,503
Depreciation (Note 28)	26,926	24,862	17,067	9,329
Donations	647	1,999	137	1,484
Insurance	15,321	11,540	5,495	6,446
Irrecoverable General Consumption Tax	22,669	20,912	14,709	11,614
Legal and professional fees	12,121	10,729	9,569	5,606
Miscellaneous	1,622	1,473	1,212	958
Motor vehicle expense	7,957	5,476	4,977	2,468
Office expenses	3,969	1,481	954	1,045
Printing and stationery	9,314	12,734	4,268	6,495
Promotion and advertising	56,592	43,728	43,944	29,855
Security	5,046	4,576	1,504	2,496
Stamp duty	432	5,286	324	5,286
Telephone and postage	19,103	12,129	7,251	6,441
Travelling and entertainment	5,863	12,131	4,195	9,818
	287,695	243,955	190,280	154,164

11. Taxation

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

	The Group		The Company	
	2006 $'000	**2005 $'000**	**2006 $'000**	**2005 $'000**
Current tax	395,790	170,650	291,717	162,332
Prior year over-provision	(12,388)	(3,816)	(12,388)	(3,816)
Deferred tax (Note 29)	50	196,943	(12,785)	54,868
	383,452	363,777	266,544	213,384

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

	The Group		The Company	
	2006 $'000	**2005 $'000**	**2006 $'000**	**2005 $'000**
Profit before taxation -				
Continuing operations	1,496,122	1,365,282	1,137,672	969,889
Discontinued operation	-	33,190	-	-
	1,496,122	1,398,472	1,137,672	969,889
Tax calculated at 33⅓%	498,707	466,157	379,224	323,296
Adjusted for the effects of:				
Income not subject to tax	(112,583)	(124,650)	(105,061)	(122,708)
Expenses not deductible for tax purposes	8,278	38,107	4,769	11,448
Prior year adjustment	(12,388)	(3,816)	(12,388)	(3,816)
Adjustment to tax losses	-	(12,347)	-	-
Net effect of other charges and allowances	1,438	326	-	5,164
	383,452	363,777	266,544	213,384

12. Discontinud Operation

In prior year, 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 21).

13. Net Profit

	2006 $'000	2005 $'000
Dealt with in the financial statements of:		
The company	871,128	756,505
The subsidiaries	238,025	273,300
Associated company (Note 21)	3,517	2,131
	1,112,670	1,031,936

14. Retained Earnings

	2006 $'000	2005 $'000
Reflected in the financial statements of:		
The company	2,322,714	1,783,912
The subsidiaries	921,561	680,019
	3,244,275	2,463,931

15. 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 of the company by the weighted average number of ordinary stock units in issue during the year.

	2006	2005
Net profit attributable to stockholders ($'000)	1,112,670	1,031,936
Weighted average number of ordinary stock units in issue ('000)	538,933	537,250
Basic earnings per stock unit ($)	2.06	1.92

15. Earnings per Stock Unit (Continued)

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

(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 potential dilutive effect of the stock options.

	2006	2005
Net profit attributable to stockholders ($'000)	1,112,670	1,031,936
Weighted average number of ordinary stock units in issue ('000)	540,923	543,809
Diluted earnings per stock unit ($)	2.06	1.90

(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.

	2006	2005
Net profit attributable to stockholders ($'000)	1,112,670	1,001,505
Weighted average number of ordinary stock units in issue ('000)	538,933	537,250
Basic earnings per stock unit ($)	2.06	1.86

(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.

	2006	2005
Net profit attributable to stockholders ($'000)	1,112,670	1,001,505
Weighted average number of ordinary stock units in issue ('000)	540,923	543,809
Diluted earnings per stock unit ($)	2.06	1.84

(c) Earnings per Stock Unit from Discontinued Operation:

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

	2006	2005
Net profit attributable to stockholders ($'000)	-	30,431
Weighted average number of ordinary stock units in issue ('000)	-	537,250
Basic earnings per stock unit ($)	-	0.06

15. Earnings per Stock Unit (Continued)

(c) Earnings per Stock Unit from Discontinued Operation (continued):

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

	2006	2005
Net profit attributable to stockholders ($'000)	-	30,431
Weighted average number of ordinary stock units in issue ('000)	-	543,809
Diluted earnings per stock unit ($)	-	0.06

(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:

	2006 '000	2005 '000
Weighted average number of ordinary stock units for the purposes of the computation of basic earnings per stock unit	538,933	537,250
Effect of dilutive potential ordinary stock units – share options	1,990	6,559
Weighted average number of ordinary stock units for the purposes of the computation of diluted earnings per stock unit	540,923	543,809

16. Cash and Balances Due from other Financial Institutions

	The Group		The Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Placements with other financial institutions	1,158,832	1,060,774	593,377	406,420
Cash in hand	17,195	19,360	67	393
Included in cash and cash equivalents (Note 22)	1,176,027	1,080,134	593,444	406,813
Interest receivable	20	-	20	-
	1,176,047	1,080,134	593,464	406,813

17. 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 May 1, 2006, the merchant banking subsidiary is no longer required by the Bank of Jamaica under (Special Deposits) (Rate of Interest) Order, 2003 to maintain a special deposit wholly in the form of cash, representing 1% of prescribed liabilities. This special deposit earned interest at 6% per annum.

18. Trading Securities

	The Group and The	
	2006 $'000	2005 $'000
Government of Jamaica debt securities – at fair value	1,450,893	717,697
Interest receivable	62,446	27,715
	1,513,339	745,412

19. Securities Purchased Under Agreements to Resell

	The Group		The Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Principal	1,017,354	1,980,201	879,975	1,569,985
Interest receivable	5,787	6,653	3,106	5,333
	1,023,141	1,986,854	883,081	1,575,318

The Group and the company 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 2006, the Group held $1,107,590,000 (2005 - $2,065,670,000) of securities, mainly representing Government of Jamaica debt securities, as collateral for reverse repurchase agreements.

19. Securities Purchased Under Agreements to Resell (Continued)

Included in securities purchased under agreement to resell are the following amounts, which are regarded as cash equivalents for purposes of the statement of cash flows:

	The Group		The Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Securities purchased under agreement to resell with an original maturity of less than 90 days (Note 22)	1,016,460	1,422,496	811,460	789,022

20. Investment Securities

	The Group		The Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Available-for-sale securities -				
Debt securities – at fair value				
Government of Jamaica	30,477,925	27,610,048	29,101,799	26,147,606
Corporate bonds	2,525,455	787,934	1,647,318	591,004
Other	-	37,034	-	37,034
Equity securities – at fair value				
Quoted	108,091	60,522	98,793	60,522
Equity securities – at cost				
Unquoted	181,234	177,613	179,762	176,141
	33,292,705	28,673,151	31,027,672	27,012,307
Less: Pledged assets (Note 25)	(12,648,748)	(12,705,719)	(12,618,748)	(12,375,718)
	20,643,957	15,967,432	18,408,924	14,636,589
Interest receivable	751,363	937,684	706,259	899,382
	21,395,320	16,905,116	19,115,183	15,535,971

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	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Debt securities with an original maturity of less than 90 days (Note 22)	1,065,000	50,541	1,065,000	50,541

21. Investment in Associated Company

	2006 $'000	2005 $'000
At the beginning of the year	13,597	-
Cost of investment in associated company	-	11,466
Share of profit	4,450	2,862
Share of tax	(933)	(731)
	3,517	2,131
At the end of the year	17,114	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 %
2006	62,865	9,687	65,307	14,070	25
2005	51,849	11,341	31,103	8,523	25

22. Cash and Cash Equivalents

	The Group		The Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Cash and balances due from other banks (Note 16)	1,176,027	1,080,134	593,444	406,813
Securities purchased under agreements to resell (Note 19)	1,016,460	1,422,496	811,460	789,022
Investment securities (Note 20)	1,065,000	50,541	1,065,000	50,541
	3,257,487	2,553,171	2,469,904	1,246,376

Cash and bank overdrafts include the following for the purposes of the cash flow statement -

	The Group		The Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Cash and cash equivalents	3,257,487	2,553,171	2,469,904	1,246,376
Short term loans (Note 32)	(8,623)	(27,393)	(369)	(20,220)
	3,248,864	2,525,778	2,469,535	1,226,156

23. Loans, Net of Provision for Credit Losses

	The Group		The Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Gross loans and advances	5,511,653	5,049,870	1,720,915	1,077,897
Less: Provision for credit losses	(112,726)	(114,183)	(95,535)	(96,805)
	5,398,927	4,935,687	1,625,380	981,092
Loan interest receivable	75,871	68,701	11,370	10,359
	5,474,798	5,004,388	1,636,750	991,451

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

	The Group		The Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Total non-performing loans	157,145	162,286	104,824	118,443

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

	The Group		The Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Balance at beginning of year	114,183	117,465	96,805	99,745
Provided during the year	25,675	6,721	22,877	3,021
Recoveries	(27,132)	(10,003)	(24,147)	(5,961)
Net credit to the profit and loss account	(1,457)	(3,282)	(1,270)	(2,940)
Balance at end of year	112,726	114,183	95,535	96,805

23. Loans, Net of Provision for Credit Losses (Continued)

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

	The Group		The Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Specific provision	163,065	207,946	119,215	164,090
General provision	33,614	27,365	15,415	8,988
	196,679	235,311	134,630	173,078
Excess of regulatory provision over IFRS provision reflected in a non distributable loan loss reserve (Note 38)	83,953	121,128	39,095	76,273

24. Lease Receivables

	The Group		The Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Gross investment in finance leases -				
Not later than one year	528	380	-	-
Later than one year and not later than five years	68,880	21,066	28,734	-
	69,408	21,446	28,734	-
Unearned finance income	(17,614)	(7,004)	(5,677)	-
Net investment in finance leases	51,794	14,442	23,057	-
Net investment in finance leases -				
Not later than one year	390	2,195	-	-
Later than one year and not later than five years	51,404	12,247	23,057	-
	51,794	14,442	23,057	-
Interest receivable	688	329	235	-
	52,482	14,771	23,292	-

25. Pledged Assets

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	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Investment securities and securities purchased under resale agreements	31,789,083	28,794,074	31,028,959	27,775,290

	The Company			
	Asset		Related liability	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Investment securities and securities purchased under resale agreements	31,245,636	28,464,074	31,373,620	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	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Investment securities	12,648,748	12,705,719	12,618,748	12,375,718

26. 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. There were no related party transactions with the ultimate parent company.

(i) The following transactions were carried out with related parties and companies:

	The Group	
	2006	**2005**
	$'000	**$'000**
With related parties -		
Interest and other income earned	697	8,036
Interest and other expenses paid	21,217	37,573
Rent and net lease recoveries paid to related party	3,989	-

	The Company	
	2006	**2005**
	$'000	**$'000**
With parent company -		
Management fees	75,500	15,121
Interest expense paid	22,084	15,598

	The Company	
	2006	**2005**
	$'000	**$'000**
With fellow subsidiaries -		
Management fees	5,150	-
Interest and other income earned	2,217	1,249
Interest and other expenses paid	23,048	33,622
Staff costs recharged	-	232,272
Preference share interest	1,593	1,593

26. Related Party Transactions and Balances (Continued)

(i) (Continued)

	The Group		The Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
With directors and key management -				
Interest	5,193	9,780	5,193	9,780
Salaries and other short-term benefits	83,838	68,197	57,547	66,686
	89,031	77,977	62,740	76,466

	The Group		The Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Directors' emoluments -				
Fees	8,905	4,170	7,951	3,427
Other	19,567	15,457	19,567	15,457
	28,472	19,627	27,518	18,884

(ii) Year-end balances with related companies are as follows:

	The Group		The Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Loans	165,789	174,394	-	-
Customer deposits	206,671	241,544	-	222,080
Reverse repurchase agreements	344,662	374,283	344,662	484,245
Investment securities	-	126,629		-
Balances due from related companies	6,429	41,228	5,322	67,873
Balances due to related companies	1,628	6,673	7,173	-

26. Related Party Transactions and Balances (Continued)

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

	The Group		The Company	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Loans	6,318	18,744	-	-
Customer deposits	7,353	-	-	-
Securities purchased under agreement to resell	-	9,780	-	-
Investment securities	-	63,952	-	31,976
Securities sold under agreement to repurchase	49,999	9,780	49,999	9,780

27. Intangible Assets

	The Group		The Company	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
(i) Computer software	49,341	50,625	47,561	45,153
(ii) Goodwill	733,750	733,750	143,263	143,263
	783,091	784,375	190,824	188,416

(i) Computer software

	The Group		The Company	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Opening net book value	50,625	25,961	45,153	18,352
Additions	23,437	43,081	23,437	41,702
Amortisation	(24,721)	(18,417)	(21,029)	(14,901)
	49,341	50,625	47,561	45,153
Cost, net of grant	126,055	102,618	92,347	68,910
Accumulated amortisation	(76,714)	(51,993)	(44,786)	(23,757)
	49,341	50,625	47,561	45,153

27. Intangible Assets (Continued)

(i) Computer software (continued)
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 computer software is included in other expenses in the profit and loss account.

(ii) Goodwill

	The Group		The Company	
	2006	**2005**	**2006**	**2005**
	$'000	**$'000**	**$'000**	**$'000**
Opening balance	733,050	760,010	143,263	143,263
Goodwill on disposed subsidiary (Note 12)	-	(26,260)	-	-
Balance at year end	733,750	733,750	143,263	143,263

Impairment test for goodwill
Goodwill is allocated to the Group's cash generating units (CGUs) identified according to the lines of business.

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:

	2006	**2005**
	$'000	**$'000**
Asset Management	54,604	54,604
Credit	75,417	75,417
Treasury, PDU & Investment Services	443,992	443,992
Trading & Brokerage	152,437	152,437
Trust Services	7,300	7,300
	733,750	733,750

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.

There was no impairment of any of the Group's CGU.

28. Property, Plant and Equipment

	The Group				
	Leasehold Improvement $'000	Furniture and Equipment $'000	Motor Vehicles $'000	Computer Equipment $'000	Total $'000
At 31 December 2006					
Opening net book value	41,213	20,803	4,189	29,135	95,340
Additions	7,748	10,440	-	29,601	47,789
Disposals	-	(41)	(2,248)	-	(2,289)
Depreciation	(5,172)	(8,399)	(1,732)	(11,623)	(26,926)
Depreciation relieved on disposal	-	41	2,174	-	2,215
Closing net book amount	43,789	22,844	2,383	47,113	116,129
At 31 December 2006					
Cost	64,235	90,518	11,627	86,470	252,850
Accumulated depreciation	(20,446)	(67,674)	(9,244)	(39,357)	(136,721)
	43,789	22,844	2,383	47,113	116,129
At 1 January 2005					
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
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	(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)
Net book value	41,213	20,803	4,189	29,135	95,340

28. Property, Plant and Equipment (Continued)

	The Company				
	Leasehold Improvement $'000	**Furniture and Equipment $'000**	**Motor Vehicles $'000**	**Computer Equipment $'000**	**Total $'000**
At 31 December 2006					
Opening net book value	32,804	19,317	2,502	4,988	59,611
Additions	7,578	10,356	-	29,601	47,535
Depreciation	(4,001)	(5,126)	(584)	(7,356)	(17,067)
Closing net book amount	36,381	24,547	1,918	27,233	90,079
At 31 December 2006					
Cost	47,317	34,737	2,919	41,401	126,374
Accumulated depreciation	(10,936)	(10,190)	(1,001)	(14,168)	(36,295)
Net book amount	36,381	24,547	1,918	27,233	90,079
At 1 January 2005					
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
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	(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 value	32,804	19,317	2,502	4,988	59,611

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. Deferred tax assets and liabilities recognised on the balance sheet are as follows:

	The Group		The Company	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Deferred income tax assets	11,118	24,638	861	1,968
Deferred income tax liabilities	(350,044)	(239,275)	(322,251)	(218,643)
Net deferred income tax liabilities	(338,926)	(214,637)	(321,390)	(216,675)

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

	The Group		The Company	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Balance at 1 January	(214,637)	(240,413)	(216,675)	(393,123)
Transferred on disposal	-	(60)	-	-
(Charged)/credited to profit and loss account (Note 11)	(50)	(196,943)	12,785	(54,868)
(Charged)/credited to stockholders' equity	(124,239)	222,779	(117,500)	231,316
Balance at 31 December	(338,926)	(214,637)	(321,390)	(216,675)

29. Deferred Income Taxes (Continued)

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

	The Group		The Company	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Deferred income tax assets -				
Property, plant and equipment	4,159	989	-	-
Post retirement benefits	2,454	1,771	-	-
Interest payable	-	131	-	-
Tax losses carried forward	3,227	19,458	-	-
Other	1,278	2,289	861	1,968
	11,118	24,638	861	1,968
Deferred income tax liabilities -				
Property, plant and equipment	12,073	7,601	12,073	7,601
Trading securities	21,782	19,263	21,782	19,263
Investment securities – available-for-sale	294,384	170,147	280,502	163,003
Interest receivable	374	-	-	-
Loan loss provision	16,780	31,253	7,894	22,428
Pension benefits	4,651	4,472	-	-
Other	-	6,539	-	6,348
	350,044	239,275	322,251	218,643
Net deferred liability	(338,926)	(214,637)	(321,390)	(216,675)

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 have tax losses, subject to agreement with the Commissioner of Taxpayer Audit and Assessment, amounting to $9,681,000 (2005 - $58,374,000) 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 $921,561,000 (2005 - $680,019,000).

29. Deferred Income Taxes (Continued)

The deferred tax (charged)/credited to the profit and loss account comprises the following temporary differences:

	The Group		The Company	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Property, plant and equipment	(1,302)	(33,022)	(4,472)	(7,601)
Post-employment benefit assets/obligation	504	868	-	-
Loan loss provision	14,473	(20,982)	14,534	(22,428)
Trading securities	(2,519)	(19,263)	(2,519)	(19,263)
Interest payable	(131)	(92)	-	-
Interest receivable	(374)	372	-	-
Tax losses utilised	(16,231)	(137,218)	-	-
Other	5,530	12,394	5,242	(5,576)
	(50)	(196,943)	12,785	(54,868)

These balances include the following:

	The Group		The Company	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Deferred tax assets to be settle after more than twelve months	6,613	2,760	-	-
Deferred tax liabilities to be recovered after more than twelve months	327,889	232,736	300,470	212,295

30. Post-employment Benefits

(a) Pension scheme

The Group has 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 2006.

A resolution was 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 company, Pan Caribbean Merchant Bank Limited. Accordingly, no pension assets or obligations were recorded for the company in these financial statements.

30. Post-employment Benefits (Continued)

(a) Pension scheme (continued)

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

	The Group	
	2006 $'000	2005 $'000
Present value of funded obligations	106,153	88,258
Fair value of plan assets	(127,051)	(101,674)
	(20,898)	(13,416)
Unrecognised actuarial losses	(4,956)	(5,429)
Limitation of asset due to uncertainty of obtaining economic benefits	11,900	5,429
Asset in the balance sheet	(13,954)	(13,416)

The movement in the defined benefit obligation over the year is as follows:

	The Group	
	2006 $'000	2005 $'000
Beginning of year	88,258	63,595
Current service cost	6,703	6,085
Interest cost	10,143	7,931
Members' contribution	11,169	7,779
Benefits paid	(7,678)	(951)
Actuarial (gain)/loss on obligation	(2,442)	3,819
End of year	106,153	88,258

30. Post-employment Benefits (Continued)

(a) Pension scheme (continued)

The movement in the defined benefit asset during the year is as follows:

	The Group	
	2006 $'000	2005 $'000
At beginning of year	101,674	77,668
Members' contribution	11,169	7,779
Employer's contribution	9,974	6,894
Expected return on plan assets	13,881	10,120
Benefits paid	(7,678)	(951)
Actuarial (loss)/gain	(1,969)	164
At end of year	127,051	101,674

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

	The Group	
	2006 $'000	2005 $'000
Current service cost	6,703	6,085
Interest cost	10,143	7,931
Expected return on plan assets	(13,881)	(10,120)
Change in unrecognised assets	6,471	3,655
Total, included in staff costs (Note 9)	9,436	7,551

The actual return on plan assets was $12,980,000 (2005 - $8,956,000).

30. Post-employment Benefits (Continued)

(a) Pension schemes (continued)

Movements in the amounts recognised in the balance sheet:

	The Group	
	2006 $'000	2005 $'000
Asset at beginning of period	(13,416)	(14,073)
Total expense, as above	9,436	7,551
Contributions paid	(9,974)	(6,894)
Asset at end of period	(13,954)	(13,416)

The principal actuarial assumptions used were as follows:

	The Group	
	2006	2005
Discount rate	12.00%	12.50%
Expected return of plan assets	12.00%	12.50%
Future salary increases	9.50%	10%
Expected pension increase	3.50%	3.50%
Average expected remaining working lives (years)	26.00	27.00

(b) Other post-employment 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 cost of 11% (2005 -10.5%) per annum.

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

	The Group	
	2006 $'000	2005 $'000
Present value of unfunded obligations	14,160	7,199
Unrecognised actuarial losses	(6,797)	(1,885)
Liability in the balance sheet	7,363	5,314

30. Post-employment Benefits (Continued)

(b) Other post-employment benefits (continued)

The movement in the defined benefit obligation over the year is as follows:

	The Group	
	2006 $'000	2005 $'000
Beginning of year	7,199	6,721
Current service cost	997	835
Interest cost	960	891
Actuarial loss/(gain) on obligation	5,004	(1,248)
End of year	14,160	7,199

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

	The Group	
	2006 $'000	2005 $'000
Current service cost	997	834
Interest cost	960	891
Recognised loss	92	224
Total, included in staff costs (Note 9)	2,049	1,949

Movement in the amounts recognised in the balance sheet:

	The Group	
	2006 $'000	2005 $'000
Liability at beginning of year	5,314	3,365
Total expense, as above	2,049	1,949
Liability at end of year	7,363	5,314

30. Post-employment Benefits (Continued)

(b) Other post-employment benefits (continued)

The effects of a 1percentage point movement in the assumed medical cost trend rate were as follows:

	The Group	
	2006 $'000	2005 $'000
	Decrease	Increase
Effect on the aggregate of current service cost	759	1,313
Effect on the aggregate of interest cost	743	1,247
Effect on the defined benefit obligation	12,537	15,972

Plan assets are comprised as follows:

	The Group			
	2006		2005	
	$'000	%	$'000	%
Equity	8,894	7	10,167	10
Debt	118,157	93	91,507	90
	127,051	100	101,674	100

Expected contributions to post-employment plan for the year ended 31 December 2007 are $17,118,000.

The expected return on plan assets is based on market expectation of inflation plus a margin for real returns on a balanced portfolio.

	The Group				
	2006 $'000	2005 $'000	2004 $'000	2003 $'000	2002 $'000
As at 31 December					
Present value of defined benefit obligation	106,153	88,258	63,595	14,669	19,066
Fair value of plan assets	(127,051)	(101,674)	(77,668)	(30,796)	(27,801)
Surplus	(20,898)	(13,416)	(14,073)	(16,127)	(8,735)
Experience adjustments to plan liabilities	(2,442)	3,819	42,057	(9,202)	1,198
Experience adjustments to plan assets	(1,969)	164	(33,212)	3,969	(3,368)

31. Other Assets

	The Group		The Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Withholding tax recoverable	384,030	428,399	344,827	345,305
Other	36,409	45,316	34,064	37,215
	420,439	473,715	378,891	382,520

32. Due to Banks and Other Financial Institutions

The Company	Currency	Rate %	2006 $'000	2005 $'000
Long Term Loans -				
Development Bank of Jamaica Limited (DBJ) -				
Repayable over varying periods from 24 to 96 months	J$	various	26,836	52,199
Repayable over varying periods from 48 to 96 months	US$	various	126,373	145,539
Deutsche Investitions und Entwicklungsgesellschaft mbH (DEG) -				
Repayable in one amount on 30 December 2009 (Loan #1)	J$	6	-	22,660
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
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 7 annual instalments commencing 31 December 2007	J$	Nil	24,640	24,640
Repayable in 7 equal annual instalments commencing on 5 December 2008	J$	10.75	75,879	75,879
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	J$	10	150,097	150,097
Repayable in 7 equal annual instalments commencing on 5 December 2008	J$	10.5	33,119	-
Repayable in 7 equal annual instalments commencing on 5 December 2008	J$	11.16	113,268	-
Repayable in 1 instalment on 31 December 2007	US$	3.5	32,415	31,133
Repayable in 7 equal annual instalments commencing on 5 December 2014	US$	5.5	55,076	24,143
Balance carried forward			784,657	683,694

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

	Currency	Rate %	2006 $'000	2005 $'000
The Company (Continued)				
Balance brought forward			784,657	683,694
Short Term Loans -				
Citibank N.A. -				
Repayable in one instalment on 20 December 2006	US$	7.5	-	128,761
Repayable in one instalment on 25 January 2007	EUR	6.64	264,272	228,848
Repayable in one instalment on 25 January 2007	EUR	6.73	70,472	-
Bank overdraft	J$	various	369	20,220
British Caribbean Insurance Company				
Repayable in one instalment on 19 March 2007	US$	8½	14,603	-
			349,716	377,829
Interest payable			19,918	13,923
			1,154,291	1,075,446
The Subsidiaries				
Long Term Loans -				
Development Bank of Jamaica Limited (DBJ) -				
Repayable over varying periods from 24 to 48 months	J$, US$	various	156,097	246,742
The National Export-Import Bank of Jamaica Limited -				
Repayable over varying periods ending 30 June 2009	J$	6½ - 10	61,571	52,500
First Life Insurance Company Limited -				
Repayable over varying periods from 24 to 48 months	J$	20	203	1,904
			217,871	301,146
Short Term Loan -				
Bank overdraft	J$	various	7,894	7,173
			225,765	308,319
Interest payable			748	490
			226,513	308,809
The Group			1,380,804	1,384,255

32. Due to Banks and other Finacial Institutions (Continued)

The Group and company have not had any defaults of principal, interest or other breaches with respect to its liabilities during the year (2005 - $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	
	2006 $'000	2005 $'000	2006 $000	2005 $'000
Short term loans and other balances with an original maturity of less than 90 days (Note 22)	8,623	27,393	369	20,220

(a) 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.

(b) 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". The loan was repaid during the year.

(c) 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. The loan was repaid during the year.

32. Due to Banks and other Finacial Institutions (Continued)

(d) 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 €1,000,000 for the financing of projects through equity participation in small and medium sized enterprises (the beneficiary).

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

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

Facility # 2
(i) A facility was established in the amount of €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 €2,106,000.

(ii) In 1999, an additional facility was established in the amount of €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 €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.

33. Other Liabilities

	The Group		The Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Withholding tax payable	39,998	20,517	26,072	4,638
Other	123,777	135,571	31,829	43,089
	163,775	156,088	57,901	47,727

34. Share Capital

The total authorised number of ordinary shares is 615,613,376 (2005 – 615,613,376) with no par value, of which 542,875,964 (2005 – 537,707,964) was issued and fully paid.

The movement on share capital is as follows:

	2006 $'000	2005 $'000
Issued and Fully Paid -		
Share capital at the beginning of the year – 537,707,964 (2005 - 514,307,803) ordinary shares	2,997,815	2,958,965
Shares issued during the period – 5,168,100 (2005 – 1,716,800) ordinary shares	51,681	17,167
Allotment of fully paid up shares – Nil (2005 – 21,683,161) ordinary shares	-	21,683
	3,049,496	2,997,815
Fully Paid but Not Yet Issued -		
Ordinary shares at the beginning of the year – Nil (2005 – 21,683,361) ordinary shares	-	21,683
Shares allotted during the period – Nil (2005 -21,683,361) ordinary shares	-	(21,683)
	-	-

(i) Shares issued during the year comprise ordinary shares issued under the company's share option scheme – 5,168,000 units. The shares were issued at an amount of $10 per share.

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

(iii) Pursuant to the Jamaican Companies Act 2004, the ordinary stock units of the company are deemed to have been converted from $1.00 par value to no par value units, as the company did not elect to retain its shares with a nominal or par value under Section 37(i).

The stock units in 2006 and 2005 are stated in these financial statements without a nominal or par value.

35. Share Options 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 options expired 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 was $4.55. The remaining 290,000 of these options were taken up during the year.

(ii) 17,220,000 share options on 8 March 2004. These options expire on 31 December 2007. The exercise price for the options is $10. The options were vested 31 December 2006. 7,500,000 of these options were vested and exercised in prior years. A further 5,168,000 vested options were exercised in 2006.

(iii) 816,800 share options on 8 March 2004. The exercise price for the options was $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 28 February 2009. The exercise price for the options is $36.50. The options vest over four years - 25% on each anniversary date of the grant. 600,000 of these shares were forfeited and contracts for 450,000 were cancelled. 150,000 of the share options vested on 1 March 2006.

(v) 1,200,000 share options on 1 March 2006. These options expire on 28 February 2010. The exercise price for the options is $19.29. These options vest over four years – 25% each anniversary date of the grant.

Details of the share options outstanding are as follows:

	Number of share options 2006	Weighted average exercise price 2006	Number of share options 2005	Weighted average exercise price 2005
	'000	$	'000	$
At beginning of year	11,210	12.70	11,887	9.80
Granted	1,200	19.29	1,200	36.5
Exercised	(5,458)	9.71	(1,817)	10
Lapsed/forfeited	(1,050)	36.50	(60)	4.55
	5,902		11,210	12.70
Exercisable at the end of the period	4,702	10.85	7,510	10.20

35. Share Options Reserve (Continued)

For options outstanding at the end of the year, the exercise price ranges from $10 to $36.50 (2005 - $4.55 to $36.50). The weighted average remaining contractual term is two years (2005 – two years).

The weighted average share price at the date of exercise for options exercised during the year was $18.95.

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 $32,420,000. The significant inputs into the model were weighted average share prices of $13.18 at the grant date, exercise price shown above, standard deviation of expected share price returns of 30%, option life disclosed above, and annual risk free interest rate of 13.70%. 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 company recognised cumulative expenses of $32,420,000 (2005 - $20,420,000) as share options expense of which $12,000,000 was recognised in the profit and loss account during the year.

36. 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.

37. 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 year as the reserve balance was equal to the paid up share capital of the banking subsidiary.

38. 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 23).

39. Fair Value Reserve

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

40. Fair Value 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:

(i) Investment securities at fair value through profit or loss are measured at fair value by reference to quoted prices when available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models, or discounted cash flows. Fair value is equal to the carrying amount for these items;

(ii) 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 is based on pricing models or other recognised valuation techniques;

(iii) 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. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using interest rates for new deposits;

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

(v) Loans are net of provision for impairment. The estimated fair value of loans represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value; and

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

40. Fair value of Financial Instruments (Continued)

The tables below summaries the carrying amount and fair value of financial asset and financial liabilities presented on the Group and company's balance sheet at their amortised cost:

	The Group			
	Carrying Value 2006 $'000	Fair Value 2006 $'000	Carrying Value 2005 $'000	Fair Value 2005 $'000
Financial Asset				
Loans, net of provision for credit losses	5,474,798	5,147,928	5,004,388	4,886,632
Financial Liabilities				
Customer deposits	4,476,805	4,503,310	4,203,475	4,179,588

	The Company			
	Carrying Value 2006 $'000	Fair Value 2006 $'000	Carrying Value 2005 $'000	Fair Value 2005 $'000
Financial Asset				
Loans, net of provision for credit losses	1,636,750	1,609,810	991,451	954,859
Financial Liabilities				
Customer deposits	534,411	537,575	488,391	485,599

41. Assets Under Administration

The Group and the company provide custody, trustee, corporate administration, investment management or advisory services to third parties which involve these subsidiaries making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets are not included in these financial statements. As at 31 December 2006, the Group and the company had financial assets under administration of approximately $20,531,211,000 (2005 - $20,329,620,000) and $7,331,296,000 (2005 - $7,904,840,000) respectively.

42. Contingent Liabilities and Commitments

(i) Legal proceedings

The company and its subsidiaries are subject to various claims, disputes and legal proceedings, as part of the normal course of business. No provision has been made, as professional advice indicates that it is unlikely that any significant loss will arise.

(ii) Capital commitments

At 31 December 2006, the Group had capital commitments of $16,800,000 (2005 - $Nil) in respect of leasehold improvements. The Group's management is confident that future net revenues and funding will be sufficient to cover this commitment.

(iii) Loan commitment, guarantee and other financial facilities

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

	The Group		The Company	
	2006 $'000	**2005 $'000**	**2006 $'000**	**2005 $'000**
Loan commitments	405,804	26,088	-	-
Guarantees and letters of credit	307,374	217,322	-	-
	713,178	243,410	-	-

There is an equal and offsetting claim against customers in the event of a call on the commitments for guarantees and letters of credit.

(iv) Operating lease commitments

The future minimum lease payments under non-cancellable operating leases are as follows:

	The Group	
	2006 $'000	**2005 $'000**
Not later than one year	39,102	42,625
Later than one year and not later than five years	6,095	37,080
	45,197	79,705

PAN CARIBBEAN
FINANCIAL SERVICES LTD.

Form of Proxy

I/We...………………................of......................……………..………………….........

being a member/members of PAN CARIBBEAN FINANCIAL SERVICES LIMITED hereby

appoint……………………...…………………of...

or failing him/her...of......................…..........................…............as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on Thursday 31 May, 2007 at 10:00 .a.m. for the following purposes: 2007 and at any adjournment thereof.

Signed this______________day of________________________________2007.

Place $100 Stamp Here

Signature________________________________

Please indicate with an "X" in the spaces below how you wish your Proxy to vote on the resolutions referred to. Unless otherwise instructed, the Proxy will vote as he thinks fit.

RESOLUTIONS		For	Against
RESOLUTION 1:	Approve Audited Accounts		
RESOLUTION 2:	Final Dividend		
RESOLUTION 3: (i)	Mr. Jeffrey Cobham		
RESOLUTION 3: (ii)	Mr. Dodridge Miller		
RESOLUTION 3: (iii)	Mrs. Lisa A. Lewis		
RESOLUTION 4: (i)	Directors' Remuneration		
RESOLUTION 4: (ii)	Non Executive Directors' Remuneration		
RESOLUTION 5	Auditors' Remuneration		
RESOLUTION 6:	Creation of Preference Shares		
RESOLUTION 7:	Issue of Preference Shares		
RESOLUTION 8:	Conversion of Shares to Stocks/Listing on the Stock Exchange		
RESOLUTION 9.	Adoption of New Articles of Incorporation		

Notes

A member is entitled to appoint a Proxy of his choice.

If the appointer is a corporation, this form must be under its common seal and under the hand of an officer of the corporation duly authorised on its behalf.

In the case of joint holders, the signature of any holder is sufficient, but the names of all joint holders should be stated.

To be valid, this form must be completed and deposited with the Secretary, Pan Caribbean Financial Services Limited, Pan Caribbean Building, 60 Knutsford Boulevard, Kingston 5, at least 48 hours before the time appointed for the meeting or adjourned meeting.

An adhesive stamp of One Hundred Dollars must be affixed to the Form and cancelled by the appointer at the time of signing.

CORPORATION ACTING BY REPRESENTATIVES AT MEETING

Regulation 77 of the Articles of Association

Any corporation which is a member of the Company may by resolution of its Directors or other governing body authorise such person as it thinks fit to act as its representative at any meeting of the company or of any class of members of the company, and the person so authorised shall be entitled to exercise the same powers on behalf of the corporation which he represents as that corporation could exercise if it were an individual member of the Company.

PAN CARIBBEAN
FINANCIAL SERVICES LTD.

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