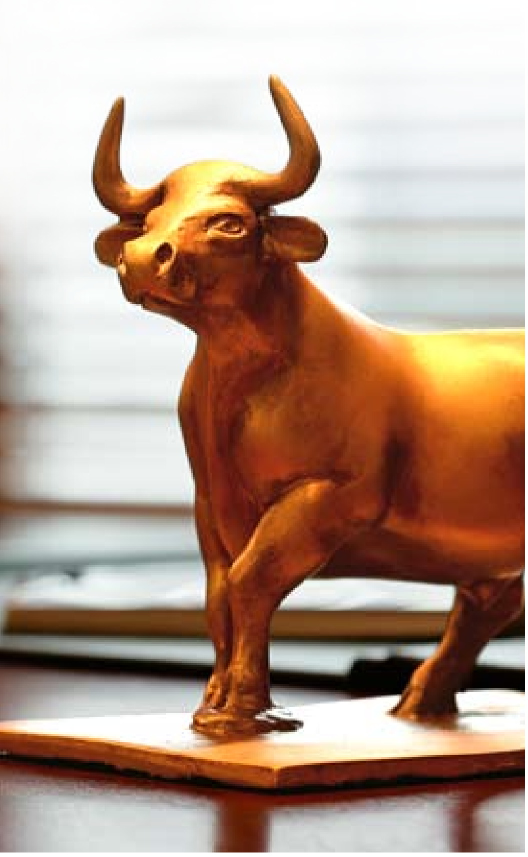


ANNUAL REPORT 2007

INTEGRITY • TEAMWORK • SERVICE

PanCaribbean
FINANCIAL SERVICES LTD.
A member of the Sagicor Group

Contents

Our Brand Vision

"To be loved by our clients…
and admired by our
competitors."

Mission

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

About Us

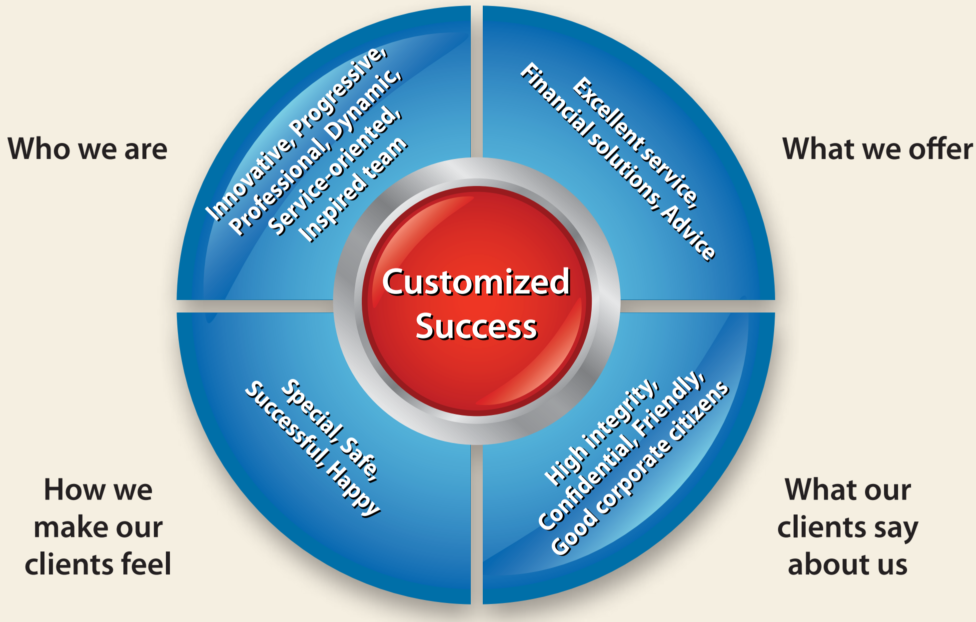
Why do we exist?

To improve the financial well-being of our clients and their families, sooner rather than later in life, through the delivery of quality financial products, services and advice.

Brand Strategy

To create an army of protagonists comprised of every member of our team and every client we serve by:

Cultivating a friendly environment
Committing to excellent service
Encouraging innovative thinking



Brand Values

Integrity
We value and closely guard and protect the trust placed in us by our stakeholders

Teamwork
We pull together to ensure that we achieve the best possible results for all our stakeholders

Service
We do everything in our power to ensure that our internal and external clients are happy to do business with us.

Brand Authority

A member of the Sagicor Group
A member of the Jamaica Deposit Insurance Corporation
A member of the Jamaica Stock Exchange
Licensed by the BOJ
Licensed by the FSC
BOJ-approved Foreign Exchange Dealer
Licensed Primary Dealer
Rated National jmA+ by CariCRIS

Caribbean Information & Rating Services Limited (CariCRIS) has assigned rating a Jamaica National Scale Rating of jmA+ and a Caribbean Region Foreign Currency rating of CariBBB- for Pan Caribbean Financial Services Limited, here are excerpts from its Rating Rationale.

CariCRIS rates Pan Caribbean

jmA+

"The ratings of Pan Caribbean reflect the company's strong capitalization levels indicated by a large net worth base, strong capital adequacy levels and high coverage provided by its net worth to an interest rate shock."

"Both PCFS and its subsidiary Pan Caribbean Merchant Bank enjoy robust capital adequacy ratios (based on Basel 1 Guidelines) of 79% and 23% respectively, well in excess of requirements stipulated by both the Financial Services Commission and the Bank of Jamaica."

"The company's three-year average Return on Assets Ratio of 2.8% is one of the highest for regional securities companies. Pan Caribbean's Efficiency Ratio which remained relatively unchanged year on year at around 34%, is the second best among its peers."

"As the third-largest among its peers in the Jamaican securities industry, Pan Caribbean is well capitalized. The ratio of net worth to total assets has grown over the last three years and is the highest in the CariCRIS sample of securities companies. For an interest rate shock of 1%, it has strong net worth coverage of 6.7X which is far superior compared to some of its peers in the industry which have coverage of just over 1.0X."

Statement from the Chairman & the President

We are pleased to report to our shareholders on the activities and performance of your company for the financial year 2007. For the seventh consecutive year, Pan Caribbean has reported record consolidated profits of $1.21 Billion, an increase of 9%. We are particularly proud, as only three companies listed on the Jamaica Stock Exchange have achieved this performance of consistent growth in profits since 2001.

Pan Caribbean's earnings per share improved from $2.06 to $2.23, up 8% over 2006. Dividends of $490 Million or $0.90 per share were paid, an increase of 33% over 2006. During, the year, your share price trading range was between $17.00 and $24.40, closing 2007 at $20.00.

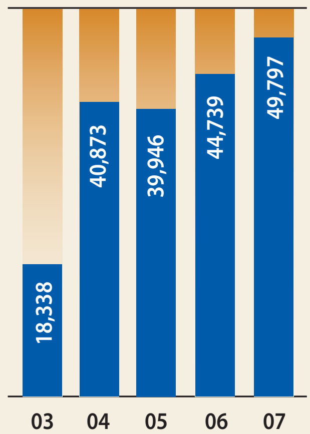
Stockholders' Equity was $7.5 Billion, and reflected a tangible Capital to Assets Ratio of 13.6%, one of the healthiest in our industry.

Pan Caribbean's consolidated balance sheet at year-end was $49.8 Billion, up 11% over 2006. Stockholders' Equity was $7.5 Billion, and reflected a tangible Capital to Assets Ratio of 13.6%, one of the healthiest in our industry.

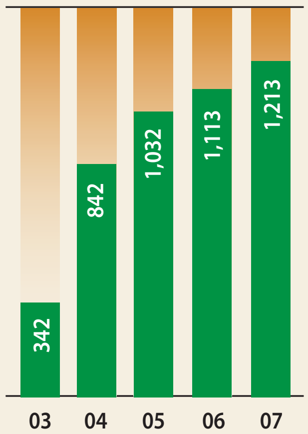
A more detailed analysis and discussion on your company's performance and related financial data are reported in our Management's Discussion and Analysis on pages 29 to 37.

Your company's performance was achieved during a most interesting year for the financial markets, not just locally and regionally, but across the globe. During 2007, Jamaica experienced another devastating hurricane, a close national election and an inflationary environment influenced by local as well as external factors. Macro-global conditions were turbulent in the currency, interest rate and commodity markets, and this volatility had its impact on the region, again demonstrating how the economic fabric of the Caribbean is now more closely weaved into the world economy. This integration and exposure is too far-gone and cannot be undone, and CARICOM's execution of the Economic Partnership Agreement with the European Union at the end of 2007 is but another signal of this reality.

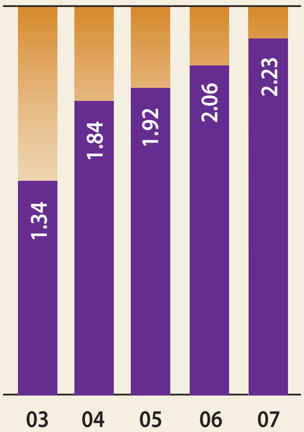
Total Assets
(IN MILLIONS OF DOLLARS)



Net Profit
(IN MILLIONS OF DOLLARS)



Earnings Per Share
(IN DOLLARS)

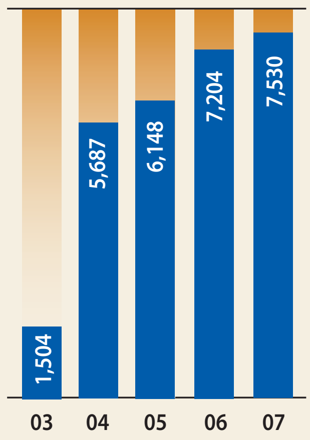


Pan Caribbean must prepare itself to become even more capable so that it can better compete nationally…regionally…globally.

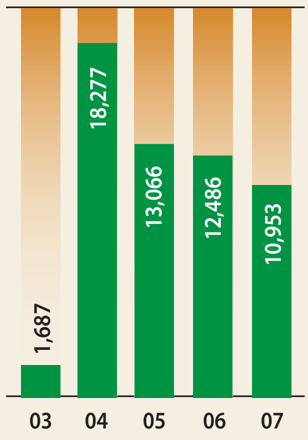
2007 was a year of important developments for your company as we sought to build our capacity for innovation and to further our responsiveness to fulfilling our clients' needs once identified. As a result, we enjoyed a number of successes in 2007.

- We designed and delivered Jamaica's first locally issued Principal Protected Notes via a private placement to investors.
- We launched PanCast®, an innovative podcast with up-to-date information on the stock market and insightful analyses on listed companies. This service is available free of cost through iTunes® or via our website.
- We developed Compass®, a proprietary portfolio planning software to help our individual customers make better investment decisions as they plan for important events - retirement, first home or their children's education.
- For the fourth consecutive year, we retained the top ranking performance among unit trust managers. Sigma Liberty® was the top performing Unit Trust Fund in Jamaica while Sigma Solution® was again the top performing Fixed Income Fund.

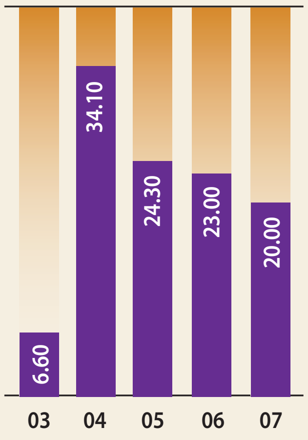
Stockholders' Equity
(IN MILLIONS OF DOLLARS)



Market Capitalisation
(IN MILLIONS OF DOLLARS)



Share Price
(IN DOLLARS)



We were the first amongst our domestic peer group to receive investment grade credit ratings from the regional rating agency, Caribbean Information & Credit Rating Services Limited ("CariCRIS").

- We were the first amongst our domestic peer group to receive investment grade credit ratings from the regional rating agency, Caribbean Information & Credit Rating Services Limited ("CariCRIS"). The ratings assigned were a national rating of jm**A+** and a regional foreign currency rating of Cari**BBB-**. In its commentary, CariCRIS pointed out that Pan Caribbean's rating was constrained by the Government of Jamaica's overall international debt rating.

We must advise that these developments and improved performance have occurred for three principal reasons. First, we have a team at Pan Caribbean - from our transportation specialists and operations support teams to our trading and credit professionals - who are committed to our clients and their financial security. Without this dedicated team and focused management, we could not have sustained our performance over time.

Second, we have a broad and growing suite of financial products and services that are fulfilling our clients' needs. We take pride in helping them to grow their businesses and wealth, providing current and future financial security that protect their families and enhances their lifestyle.

Finally, our Board of experienced business professionals guides Pan Caribbean. They bring diversity, strong opinions, keen insights and practical thinking to direct and oversee our policies and direction.

This combination of teamwork, service delivery, loyal customers and expert guidance are reflected in our growth and performance. Our intention is to work at continuously strengthening all the links in this chain of success.

In closing, we take this opportunity to thank our customers, teammates and directors for the faith they have placed in our leadership and the support and feedback they provide to help us improve.

Richard O. Byles
Chairman

Donovan H. Perkins
President & CEO

Our Seven Strategic Imperatives

OUR PRIMARY OBJECTIVES are to preserve shareholder capital in this local and international economic environment while seeking to maintain reasonable earnings growth. We believe achievement of these imperatives will deliver these twin objectives.

1

Broaden our menu

We intend to add to our products and services menu to meet more of our existing and prospective clients' financial needs through first class Commercial and Investment Banking services, and innovative Wealth and Asset Management products.

2

Increase our wallet share

In addition to new product and service development, we will focus on cross-selling to our individual and corporate clients to encourage multiple products for mutual benefits.

3

Develop our People

We must continue to develop the talents of our team. Realizing our Brand Vision, "to be loved by our clients…and admired by our competitors" can only be achieved through a well-trained and inspired team that is focused on service delivery and that cherishes our core values of integrity, teamwork and service.

4

Innovate, Innovate, Innovate

We are driving to create new products, identify new markets…with an emerging thirst to identify and fill the unmet financial needs of our clients. We will find innovative ways to bringing us closer to our clients, making it easier for them to do business with us, and benefiting from the extent of this relationship.

5

Inform our clients

We want to spend more time communicating with our clients, helping them to make the right financial decisions for themselves, their families and their businesses.

6

Distribute our services efficiently and effectively

We must expand the options available so that our clients find it convenient to do business with us, with a strong emphasis on use of technology - ABMs, Internet, toll-free numbers, call center and branch expansion.

7

Merge and Acquire

Organic growth is good, but mergers and acquisitions have created tremendous value for our shareholders in the past, and will drive our profit growth in the future. Potential transactions that bring wings, talent, portfolios, products and distribution will attract and keep our keep constant attention.

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 5 on Thursday, May 15, 2008 at 10:30 a.m. for the following purposes:

RESOLUTION 1

1. To receive the Audited Accounts for the year ended December 31, 2007 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, 2007, 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 90 cents paid during the year, as the final dividend for the year ended December 31, 2007.

   To consider and (if thought fit) pass the following Resolution:
   "THAT the interim dividends of 44 cents per stock unit paid to stockholders on April 26, 2007 together with 46 cents per stock unit paid to stockholders on October 23, 2007 be declared as the final dividend for the year ended December 31, 2007".

RESOLUTION 3

3. **To Elect Directors**

   In accordance with Articles 92 and 93 of the Company's Articles of Incorporation, the Directors retiring by rotation are Messrs. Peter Melhado and Hayden Singh and Dr. M. Patricia Downes-Grant who being eligible, offer themselves for re-election.

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

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

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

   (iii) "THAT Dr. M. Patricia Downes-Grant 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 Directors".

(ii) "THAT the amount shown in the accounts of the company for the year ended December 31, 2007 for non-executive 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".

6. To consider any other business that may be conducted at an Annual General Meeting.

By Order of the Board

Gene M. Douglas
Company Secretary

Registered Office
The Pan Caribbean Building
60 Knutsford Boulevard
Kingston 5, Jamaica
25 March, 2008

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 Incorporation. 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.), M.B.A.
(President & CEO)

Jeffrey Cobham B.A.(Hons.), Dip. Mgmt.

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., L.L.M.

Lisa A. Soares 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
Citibank N.A.
Bank of America N.A.
Bank of Nova Scotia Jamaica Limited

Subsidiary Companies

Pan Caribbean Merchant Bank Limited

Directors
Peter Melhado - Chairman
Henry Pratt - General Manager
Philip Armstrong
Richard O. Byles
M. Patricia Downes-Grant
Patrick Lynch
Dodridge Miller
Donovan H. Perkins
Hayden Singh

Pan Caribbean Asset Management Limited

Directors
Colin Steele - Chairman
Steven Gooden - General Manager
Philip Armstrong
Richard O. Byles
Peter Melhado
Donovan H. Perkins

Manufacturers Investments Limited

Directors
Richard O. Byles
Donovan H. Perkins

Report of the Directors

The Directors are pleased to submit their report for the twelve months ended December 31, 2007 together with audited accounts for the year ended on that date.

	$'000
Group Profit before Tax	1,674,736
Tax	(461,742)
Profit after Tax	1,212,994
Adjustment between regulatory loan provisioning and IFRS	(19,503)
Current year dividends paid	(490,010)
Unappropriated profits b/f	3,244,275
Unappropriated profits c/f	3,877,548

DIVIDENDS

During the year the Directors approved and paid interim dividends totalling 90 cents per stock unit. No further dividends have been recommended and the amounts paid will be declared as final.

AUDITORS

PricewaterhouseCoopers have expressed their willingness to continue in office in accordance with Sections 154 and 155 of the Companies Act 2004.

DIRECTORS

Pursuant to Articles 92 and 93 of the Company's Articles of Incorporation, the Directors retiring by rotation are Messrs. Peter Melhado and Hayden Singh and Dr. M. Patricia Downes-Grant whom being eligible offer themselves for re-election.

By Order of the Board

Gene M. Douglas
Company Secretary

Kingston, Jamaica
25 March, 2008

Ten-Year Statistical Review

	2007 $'000	2006 $'000	2005 $'000	Restated 2004 $'000
SELECTED BALANCE SHEET DATA				
Total Assets	49,797,164	44,739,722	39,946,362	40,873,827
Performing Loans & Leases	7,028,666	5,406,302	4,902,026	3,669,446
Non-performing loans and leases	157,092	157,145	162,286	224,866
Investments, Repos & other earning assets	39,888,715	36,580,548	32,343,101	34,590,993
Deposits	5,489,757	4,476,805	4,203,475	3,422,977
Securities sold under repurchase argreement	34,656,325	31,028,959	27,775,290	29,018,610
Stockholders' equity	7,530,930	7,204,134	6,148,806	5,687,489
SELECTED INCOME STATEMENT DATA				
Net Interest Income	1,712,179	1,470,305	1,303,060	1,315,045
Other Income	849,167	805,328	753,434	446,593
Expenses	886,610	779,511	691,212	618,048
Net profit/(loss) after tax and minority interest	1,212,994	1,112,670	1,031,936	841,692
OTHER FINANCIAL DATA				
Earnings per share ($)	2.23	2.06	1.92	1.84
Dividends paid per share ($)	0.90	0.68	0.44	-
Return on opening equity (%)	16.8%	18.1%	18.1%	55.9%
Return on assets at year end (%)	2.4%	2.5%	2.6%	2.1%
Market Capitalisation ($'000)	10,953,320	12,486,148	13,066,304	18,277,293
Closing share price at year end ($)	20.00	23.00	24.30	34.10
Number of offices	5	5	5	5
Number of stockholders	1,640	1703	1776	1,570
Number of staff	227	219	213	205
Profit per employee ($'000)	5,344	5,081	4,845	4,106

2003 $'000	Restated 2002 $'000	Restated 2001 $'000	2000 $'000	1999 $'000	1998 $'000
18,338,291	13,959,667	12,120,570	2,951,408	2,660,318	2,597,923
1,034,805	1,021,018	1,017,859	1,364,438	1,429,740	1,497,883
223,038	394,108	301,395	380,919	306,265	219,228
15,500,287	11,534,694	9,788,933	1,101,314	346,605	297,627
724,892	497,482	426,155	460,722	612,909	440,613
13,718,164	10,431,277	8,711,664	519,541	-	-
1,504,537	1,081,981	979,167	534,551	513,618	517,837
278,578	286,330	278,198	157,203	185,175	219,293
233,617	129,931	108,626	92,207	66,939	44,833
174,582	147,744	300,378	265,025	250,714	218,065
342,170	284,488	104,752	(16,139)	1,186	43,437
1.34	1.11	0.46	(0.14)	0.01	0.38
0.17	0.19	-	-	0.06	0.14
31.6%	29.1%	19.6%	-3.1%	0.2%	8.9%
1.9%	2.0%	0.9%	-0.5%	0.0%	1.7%
1,687,363	1,457,268	1,163,258	201,332	218,589	155,313
6.60	5.70	4.55	1.75	1.90	1.35
1	1	1	2	2	2
1,213	1,163	1,217	1,198	1,155	1,147
69	61	51	66	67	55
4,959	4,664	2,054	(245)	18	790

Board of Directors

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

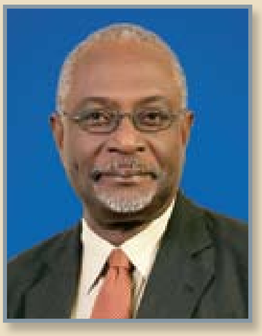
Richard is Chairman of Red Stripe and serves on the board of Pan Jamaican Investment Trust Limited. He is a former Chairman of the National Water Commission and a former Vice President of the Private Sector Organization of Jamaica. He holds a Bachelor's Degree in Economics from the University of the West Indies and a Masters in National Development from the University of Bradford, England.

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

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

Donovan is a director of Pan Jamaican Investment Trust Limited., First Jamaica Investments Limited, Jamaica Producers Group Limited, the Jamaica Stock Exchange, the National Water Commission and the National Insurance Fund. He previously served as 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.

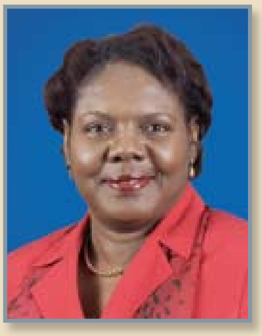


Jeffrey Cobham, BA (Hons.), Dip. Mgmt.

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 Limited, Sagicor Life of Cayman Islands Limited, Cayman General Insurance Co. Limited, Caribbean Basin Investors Limited, and Salada Foods Jamaica Limited.

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.



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.

Patrick Lynch

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

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

Board of Directors (Continuation)

Peter K. Melhado, B.Sc., MBA

Mr. Melhado is President & COO of ICD Group. He joined the Manufacturers Group in 1993 and became its CEO in 1995 until its merger with Pan Caribbean. 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 from McGill University and is a graduate of Columbia Business School, having completed an MBA with a concentration in Finance.

Dodridge Miller, FCCA, MBA

Mr. Miller, a Chartered Accountant, has over 26 years of 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.

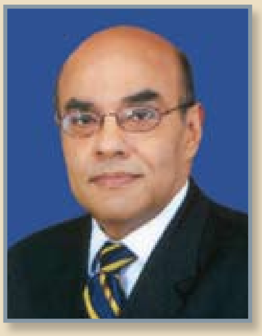
Mr. Miller serves on several boards as Chairman including Sagicor General, Capital International Management Services Inc., Allnation Insurance Company (USA) and Capital deSerguros (Panama).

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.

Lisa A. Soares Lewis, BSc, MBA

Mrs. Soares Lewis is Vice President – Human Resources at Cable & Wireless Jamaica Ltd. 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.

She is First Vice President of the Jamaica Employers Federation (JEF), Director of JEF Young Entreneur Association and a Director of Cable & Wireless Jamaica Limited Foundation Board. She is a double graduate of the University of the West Indies with a B.Sc. in Engineering and an MBA (Distinction) in Finance and Marketing.



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 Limited, and Hi-Lo Food Stores (Ja) Limited. He is currently Vice-President of the Private Sector Organization of Jamaica.

Colin Steele, B.A., CPA, MBA

Mr. Steele's professional experience is both broad and deep, covering business areas including auditing, banking, tourism, investments and real estate. Colin is the Chairman of Pan Caribbean Asset Management Limited and a director of The Planning Institute of Jamaica, Tropical Battery Limited and Chukka Adventure Tours Limited.

He is a former chairman of the Economic Policy Committee of the Private Sector Organization of Jamaica and 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.B.A. in Accounting and an MBA from the University of Miami, and is a Certified Public Accountant.

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 while complying with the statutory and regulatory requirements of the Bank of Jamaica, the Financial Services Commission and the Jamaica Stock Exchange.

During the year, the Board of Directors, comprised of 10 members, met on seven 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**

The Pan Caribbean Board has five directors serving who are independent directors. They are Mrs. Lisa Soares Lewis and Messrs. Patrick Lynch, Hayden Singh, Peter Melhado and Colin Steele. Board independence is an important part of good corporate governance and all Sub-Committees of the Board have strong independent representation, with the Audit & Compliance and Compensation & Conduct Review Committees being chaired by independent directors.

Pan Caribbean prides itself in having a diverse board of directors, not only with the requisite skills, experience and educational background, but who are highly regarded within their respective fields and with unquestioned reputations.

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. In addition Michael Stuart, Hope Wint and Peter Knibb, all senior managers, attend by invitation. 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**
- **Developing and implementing 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 the year, the Audit Committee held eight meetings.

Asset, Liability, Credit & Investment Committee (ALICO)

The ALICO Committee members are Richard O. Byles (Chairman), Peter Melhado, Donovan H. Perkins and Colin Steele. In addition, Philip Armstrong, Henry Pratt, Peter Knibb, Donnette Scarlett, 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. Soares Lewis and Richard O. 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. During the year, meetings were held on four 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 2007, the Board initiated and substantially completed the first phase of establishing 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. The executive development plan will begin in 2008.

Executive Management Team

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

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 23 years in Accounting and corporate secretarial practice.

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

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

Donovan H. Perkins Gene M. Douglas Philip Armstrong

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

An engineer by training, Philip brings over 19 years of securities, derivatives and financial expertise gained from Wall Street and Knutsford Boulevard. He joined Manufacturers in 2002 from Citibank locally where he was Resident Vice President. As head of Capital Markets, he has oversight responsibility for Equities and Fixed Income trading, the Primary Dealer and Stock Brokerage Units and Asset Management.

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

Tara Nunes Henry Pratt

Tara Nunes, BSc.
Vice President – Sales & Investment Services
Pan Caribbean Financial Services Limited

Tara is responsible for client relationship management and investment services throughout the organization.

She has risen quickly within the organization and has over seven years of experience in private banking and investment services. Prior to entering the financial services industry, she was a Senior Financial Analyst at Jamaica Broilers Group for eight years.

Tara is a graduate of the University of the West Indies with a Bachelor's Degree in Economics and Management and is currently a member of the Women's Leadership Initiative, an affiliate of the United Way of Jamaica.

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

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

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

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

Executive Management Team

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

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

She is an active Optimist and served as President of the Sunset Optimist Club. She is also a member of the JEF, Pacesetters Toastmasters Club, SHRM, HRMAJ and the education sub-committee of JIOB.

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

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.

Sabrina DeLeon Cooper, BSc.
Assistant Vice President –
Sales & Investment Services
Pan Caribbean Financial Services Limited

Sabrina is responsible for client relationship management and investment services, and is charged with growing specific client niches.

Sabrina has nine years of experience in investments and financial services. Prior to joining Pan Caribbean in 2004, she spent five years at Prudential Financial in Coral Gables, Florida, before returning home.

A magna cum laude graduate of Florida International University, Sabrina earned her degree in Finance and International Business.

Margaret McPherson, AICB
Vice President – Operations
Pan Caribbean Merchant Bank Limited

Margaret joined the Merchant Bank in October 2006 to head Operations and to support our Commercial Banking initiative.

Her extensive experience in banking, both locally and internationally, and leadership roles in the industry cover operations, administration, corporate finance, risk management, systems implementation and process re-engineering, which are key skills for our growing organization. Margaret is a qualified Project Manager and is currently pursuing her MBA degree.

Faith McFarquhar-Gordon Peter Knibb

Donnette Scarlett, BSc.
Assistant Vice President – Treasury Pan Caribbean Merchant Bank Limited

An experienced Banker, Donnette is responsible for the Treasury and trading-related activities of the Bank and oversight of its investment portfolio.

Donnette has spent 18 years in the financial industry spanning operations and treasury management. She started with Manufacturers Merchant Bank and did stints at Island Victoria and Union Bank before rejoining Manufacturers in 2000.

A graduate of the University of the West Indies, she graduated with Upper Second Class honours in Economics and Management. Donnette is currently a Level III candidate in the CFA programme seeking to attain one of the most respected professional designations in the financial services industry.

Executive Management Team

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 the technology unit in 2000. She was seconded to First Life Insurance Company Limited in a senior management role before returning in 2003. She is responsible for enhancing our strategic direction through the oversight of technology use for all business applications.

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

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 an Executive Member of the Wolmer's Old Boys' Association.

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 October 2005 and has over 18 years of experience in financial services and project management. She was previously with Knustford Capital as its COO and Manufacturers Merchant Bank Limited.

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

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

Tanya Miller Colleen Yearde Williams

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

She is a member of the Project Management Institute and serves on the board of the local Jamaica Doctor Bird Chapter. She is also president of the Jamdammers Running Club.

Colleen Yearde Williams,
BSc., MSc., FCA
Assistant Vice President – Financial Control
Pan Caribbean Merchant Bank Limited

Colleen joined the Pan Caribbean team in July 2007. She comes to us with over 11 years of experience in the accounting profession. Her experience includes nine years at PricewaterhouseCoopers in their Business Advisory Services department and subsequently three years in the private sector as Group Financial Manager for a financial services company.

Colleen is a double graduate of the University of the West Indies having completed both her Bachelor and Master Degrees in Accounting. She is a fellow of both the U.K. based ACCA and our locally based ICAJ.

Our Economy

The Jamaican economy's performance was fairly positive for the first half of 2007. However, economic activity slowed toward the end of the year, following the passage of Hurricane Dean. In addition, rising international oil and food prices along with a downturn in the US economy combined to influence higher inflation and lower foreign currency inflows. A number of key indicators reported negative trends including:

- **Inflation for 2007 was 16.8%, an 11-year high.**
- **Interest rates increased on inflation concerns with T-Bill yields increasing to 13.3% from 12.3%.**
- **The dollar opened 2007 at $67.15 and was relatively stable through June, but slipped in the second half of the year to close at $70.62, a 5% depreciation. 2007's depreciation would have been closer to 7% except for a late rally in December as the US$ came close to $72 before its recovery.**
- **Tourist arrivals, declined 4.5%, the first drop since 2001.**
- **Net International Reserves declined 19% to US$1.88 Billion.**
- **Estimated GDP growth fell to 1.5% from 2.5%.**

- **The JSE All Jamaica Index remained flat as earning results were mixed and prospects of rising interest rates dampened investor confidence in the stock market.**

Jamaica's balance of payments has been negatively impacted by rising imports, increased repatriation of profits, and a decline in tourism flows. Further, foreign currency demand has increased as some investors shifted towards US dollar investments due to prospects of local inflation and negative real interest rates. Towards the end of the year, the BOJ's frequent interventions in the foreign exchange market contributed to falling net international reserves and the prospects of higher domestic interest rates remain elevated.

On the fiscal side, the deficit remains the major economic concern despite capital expenditure cuts. The fiscal deficit looks set to pass 5% again, worrisome for both domestic and foreign holders of Jamaican debt. We believe radical action must be taken by Jamaica's new administration to foster faster growth. In the context of having missed our fiscal targets, crime, rising inflation and its impact on interest rates, and the state of international capital markets, the near-term will have its obvious challenges. Timely, fundamental adjustments are required if we are to overcome this state of affairs.

Given these circumstances, Pan Caribbean must be vigilant to take advantage of opportunities and manage risks, while guiding our clients through the uncertainties that will confront businesses and investors in 2008 and beyond.

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

GROUP PERFORMANCE

Pan Caribbean delivered improved financial results in 2007. Profit after tax was $1.213 Billion, an increase of 9% over last year's $1.113 Billion. Earnings per share rose 8.3% to $2.23 and Return on opening Shareholders' Equity was 16.8% compared to 18.1% in 2006. Our dividend payout ratio rose to 40% versus 33% in 2006. Return on Average Assets was 2.6% versus 2.5% in 2006. Total dividends paid during the year amounted to $490 Million ($0.90 per share), a 33% improvement over $368.2 Million ($0.68 per share) distributed during the previous year.

ANALYSIS OF INTEREST INCOME AND EXPENSES

Net Interest Income is composed of income from fixed income securities, loans and leases, less funding costs from liabilities. Net Interest Income advanced by 16.4% to $1.71 Billion from $1.47 Billion, as our earning assets and margins increased. The loans and leases portfolio expanded by $1.6 Billion to $7.1 Billion while our Investment in Securities rose $3.3 Billion to $39.9 Billion at year end.

The Group's Net Interest Margin rose to 3.84% from 3.70%. Customer deposits and repurchase agreement liabilitiy costs were stable during the first three quarters of 2007, strongly influenced by low inflation and no changes to the Bank of Jamaica's repo rates. During the third quarter, Hurricane Dean's impact on food prices, rising fuel costs, higher housing-related expenditure and a slipping currency, pumped inflation to 16.8% - the highest level seen in over a decade. Liability costs rose during this final quarter, reducing interest margins.

The following table sets out 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

	2007			2006		
	Average Balance $'000	Interest $'000	Yield	Average Balance $'000	Interest $'000	Yield
Interest-earning assets:						
Investment	38,234,631	4,434,933	11.60%	34,461,824	4,076,998	11.83%
Loans and leases	6,342,491	744,913	11.74%	5,273,220	566,467	10.74%
Total interest-earning assets	44,577,122	5,179,846		39,735,044	4,643,465	
Interest-bearing liabilities:						
Customer deposits and repos	37,825,923	3,350,934	8.86%	33,742,264	3,069,732	9.10%
Borrowed funds	1,467,075	116,733	7.96%	1,382,515	103,428	7.48%
Total interest-bearing liabilities	39,292,998	3,467,667		35,124,779	3,173,160	
Excess of average interest-earning assets over average interest bearing liabilities	5,284,124			4,610,265		
Net interest income		1,712,179			1,470,305	
Net interest margin			3.84%			3.70%
Ratio of interest-earning assets over interest bearing liabilities	1.134 : 1			1.131 : 1		

The average yield (interest income divided by average balances) for investments was 11.60% in 2007 and 11.83% in 2006. The average yield on loans was 11.74% in 2007 and 10.74% in 2006. As the average yields suggest, 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 8.86% in 2007 and 9.10% in 2006. The average rate on borrowed funds was 7.96% in 2007 versus 7.48% in 2006. Our net interest margin of 3.84% improved over the 3.70% reflected in the prior year and was also supported by a $674 Million increase in the excess of interest-earning assets over interest bearing liabilities.

NON-INTEREST INCOME

Non-interest income was $848 Million, increasing by 6% over the prior year's $802 Million. This income is comprised primarily of fixed income trading gains and fee-earning activities. The table below details the components of this category.

	2007 $'000	2006 $'000	Change
Securities trading gains	338,425	380,009	-11%
Asset management fees	184,224	169,263	9%
FX trading and translation gains	164,966	128,291	29%
Credit fees	45,847	44,941	2%
Trust fees	39,936	23,220	72%
Brokerage, dividend and equities gains	38,802	21,443	121%
Other income	35,625	34,644	-7%
	847,825	801,811	6%

Since the beginning of this decade, we have pursued specific strategies to diversify our lines of business and sources of revenue. During 2007, we maintained or improved our performance in a number of important market segments. Our comments will focus (but not exclusively) on some key statistics.

ASSET MANAGEMENT

Sigma Unit Trust remains the largest unit trust fund with 42% market share. Sigma continues to maintain its dominance and for the fourth consecutive year we managed the market's best performing unit trust portfolio.

STOCKBROKING

In 2007, our third year of operating, we maintained our second-ranked market position and now have market share of 13%, down from 14% in the prior year.

FOREIGN EXCHANGE TRADING

Trading volume rose 1% to US$809 Million, up from US$801 Million in 2006. Our foreign exchange desk - FX Access®, is consistently among the top five foreign exchange dealers.

TRUST SERVICES

Corporate Trust operating income grew by 72% to $39 Million largely due to increased registrar and paying agency activities.

NON-INTEREST EXPENSE

Non-interest expense increased 14% to $887 Million compared to $780 Million for the prior year. Personnel costs grew as our staffing complement rose from 219 to 227 along with annual salaries reviewed in January each year. These costs reported reflect a reduction of $20.1 Million, as the company benefited from surpluses generated by its pension fund in 2007. Units experiencing staff growth were Investment Services and Customer Service. Charges associated with implementation of technology systems including redundant facilities and other IT-related expenditure, have a recurring impact on operating costs. Our Efficiency Ratio at 35%, up from 34% in 2006, continues to exceed international benchmarks and stands out in the local financial services sector.

	2007 $'000		2006 $'000	
Staff costs	468,841	53%	441,552	56%
Provision for credit losses	11,572	1%	(1,457)	0%
Occupancy costs	75,288	9%	51,721	7%
Other expenses	330,909	37%	287,695	37%
Total	886,610	100%	779,511	100%
Efficiency ratio	34.6%		34.3%	

TAXATION

The effective tax rate increased to 27.6% from the 25.6% reflected in 2006. The tax on profits differs from the theoretical amount that would normally arise using the statutory rate of 33 1/3% as follows:

	2007 $'000	2006 $'000
Income Tax		
Profit before taxation	1,674,736	1,496,122
Tax calculated at 33 1/3%	558,245	498,707
Adjusted for the effect of:		
Income not subject to tax	(96,617)	(112,583)
Prior year adjustment	(4,547)	(12,388)
Net effect of other charges and allowances	4,661	9,716
Tax Expense	461,742	383,452
Effective tax rate	27.6%	25.6%

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

SUMMARY OF QUARTERLY RESULTS

Pan Caribbean realized improvement over 2006 in its total operating income for every quarter during 2007. The positive year-over-year changes are attributed to three key factors - growth in the balance sheet assets, better interest margins and improved fees during the year.

	2007				2006			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross operating income ($M)	1,422	1,460	1,606	1,540	1,288	1,372	1,375	1,411
Total operating income ($M)	600	605	716	639	535	587	566	584
Operating expenses ($M)	217	239	214	217	192	210	193	185
Net income ($M)	279	267	360	307	275	285	271	282
Earnings per share (Cents)	51	50	66	56	51	50	50	55
Return on opening equity (%)	15.5%	14.8%	20.0%	17.0%	17.9%	18.5%	17.6%	18.3%
Dividends paid ($M)	-	239	-	251	-	97	-	271
Total assets ($M)	47,287	49,622	49,663	49,797	42,531	41,797	45,446	44,740
Stockholder's equity ($M)	7,463	7,463	7,546	7,531	6,508	6,570	6,924	7,204
Closing share price (last sale) ($)	18.00	18.99	21.00	20.00	19.00	14.90	17.00	23.00

ASSETS & ASSET QUALITY

The consolidated balance sheet grew by 11% to $49.8 Billion in total assets compared to $44.7 Billion at December 2006. Our securities portfolio increased 9% during this period to $40 Billion while loans and leases increased 29% to $7.1 Billion. Credit growth remains a priority while maintaining our underwriting standards. Credit quality is best reflected by our non-performing loan to total assets ratio which fell from 0.4% to 0.3% in 2007. Non-performing loans in 2007 and 2006 was $157 Million, with total loan loss provisions of $212 Million, reflecting a loan loss ratio of 135%.

INVESTMENT AND SECURITIES

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

- Trading instrument – 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

	2007 $'000	%	2006 $'000	%
Category				
Trading investments	1,503,840	4%	1,513,339	4%
Reverse repurchase agreements	1,662,199	4%	1,023,141	3%
Available -for-sale investments	20,026,884	50%	21,395,320	58%
Pledged assets	16,695,792	42%	12,648,748	35%
	39,888,715	100%	36,580,548	100%
Currency				
Jamaican Dollar	21,321,664	53%	19,896,261	54%
United States Dollar	17,970,929	45%	16,270,261	45%
Euro	596,122	2%	410,325	1%
Great Britian Pound			3,701	0%
Total portfolio	39,888,715	100%	36,580,548	100%

Accumulated unrealized gains on investments before adjustment for deferred taxation amount to $178 Million in 2007. Of this amount, $120 Million (before a deferred tax adjustment of $40 Million) has been dealt with through Fair Value Reserves and $58 Million through the profit and loss account.

CREDIT PORTFOLIO

At year end, total net loans and leases amounted to J$7.16 Billion (prior year = $5.53 Billion), or 14% (prior year = 12%) of total assets. The average interest rate received (interest income divided by average balances) for loans and leases was 11.74% (prior year = 10.74%), reflecting faster growth in JA$-denominated loans where rates are higher.

The following table sets forth our loans and leases classified by major industry and currency.

	2007 $'000	%	2006 $'000	%
Industry				
Distribution	1,378,492	19%	1,091,386	20%
Professional and other services	1,124,219	16%	1,037,865	19%
Agriculture, Fishing, Mining	1,351,728	19%	1,018,451	18%
Tourism, Entertainment	1,005,789	14%	837,044	15%
Manufacturing	305,611	4%	424,724	8%
Personal	822,257	11%	462,763	8%
Construction, Real Estate	689,416	10%	236,935	4%
Transport, Storage, Communication	503,322	7%	135,391	2%
Other	4,924	0%	318,888	6%
Total	7,185,758	100%	5,563,447	100%
Provision	(108,312)		(112,726)	
Net	7,077,446		5,450,721	
Interest Receivable	80,255		76,559	
Total Portfolio	7,157,701		5,527,280	
Currency				
Jamaican Dollar	2,316,509	32%	1,306,950	24%
United States Dollar	4,841,192	68%	4,220,330	76%
Total Portfolio	7,157,701	100%	5,527,280	100%

RISK ELEMENTS OF OUR CREDIT PORTFOLIO

Loans and leases 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 $103 Million (2006 = $84 Million).

Credit quality continues to improve with non-performing loans amounting to $157 Million (prior year = $157 Million) and represents 2.2% (prior year = 2.8%) of our total credit portfolio, and 0.3% (prior year = 0.4%) of total assets. All nonperforming loans are fully provided for.

SUMMARY OF LOAN LOSS EXPERIENCE

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

	2007 $'000	2006 $'000
Total provision at beginning of year	196,679	235,311
Retained earnings transfer	19,503	(35,899)
Provision utilized	(15,986)	(1,276)
Provided during the year	11,612	25,675
Recoveries	(40)	(27,132)
Net charge/(credit) to the profit and loss account	11,572	(1,457)
Total provision at end of year	211,768	196,679
Non-performing Loans	157,092	157,145

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 $34.66 Billion (prior year = $31.03 Billion), representing 82% (prior year 83%) of total liabilities
- Customer deposits and other accounts were $5.49 Billion (prior year $4.48 Billion), representing 13% (prior year = 12%) of the Group's total liabilities
- Total borrowings were $1.55 Billion (prior year = $1.38 Billion), representing 4% (prior year = 4%) of the Group's total liabilities

STOCKHOLDERS' EQUITY

Stockholders' Equity increased to $7.5 Billion, reflecting a well-capitalized regulated financial services group. Included in Stockholders' Equity is our Fair Value Reserve. We elect to hold the majority of our securities portfolio as Available-for-Sale and unrealized portfolio gains (or losses) are reflected in this Fair Value Reserve. Our Fair Value Reserve at year-end was $80 Million ($120 Million before deferred taxation).

CAPITAL ADEQUACY

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

Our securities dealer, Pan Caribbean Financial Services Limited's Capital Adequacy Ratio is 77% while our banking entity, Pan Caribbean Merchant Bank Limited's Capital Adequacy Ratio is 20%, reflecting ratios far in excess of regulatory minimum requirements of at least 10%.

Risk Management

Risk Factors and Management

By its nature, our 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. Positive interest margins are earned by investing 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 counterparties at maturity.

The Group improves its interest margins (net of appropriate loss provisions) through lending to commercial and retail borrowers of 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 through its Sub-Committees monitors trading and exposure limits of counter-parties and ensures compliance with regulatory standards.

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% as well as lines of credit 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 enhance 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, Liability, Credit & Investment Committee (ALICO) sets limits and monitors the level of interest rate and re-pricing mismatches that are taken.

Our overall goal is to manage interest rate risk so that movements in interest rates do not have a significant adverse impact on our core net interest income. Simulations are used to estimate this impact and support our decision-making.

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 establishes, monitors and adjusts limits on currency exposure for overnight, intraday and longer term positions from time to time.

Market Risk

Market risk exposure arises from 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 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 re-sell. Pan Caribbean assesses the market value of the underlying securities that collateralize the underlying transaction and takes the appropriate margins required.

The Group utilizes an integrated approach in managing its activities that includes management of interest rate sensitivity, credit risk, liquidity risk and capital.

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, simulations of market conditions, 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. Pan Caribbean 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 counterparties. 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 & TRADING

In 2007, this Division was expanded and now is comprised of Treasury, Trading, Asset Management, Private Client Services and retail Investment Services. The resulting synergies have created improvements and better coordination of marketing efforts.

Pan Caribbean is an active market-maker in the fixed income, foreign exchange and equity markets and continues to be one of the largest trading floors in the industry. Our volumes in 2007 improved over 2006 as a result of continued focus on facilitating our customers' needs and providing portfolio advice. The Primary Dealer Unit, which manages our fixed income activities, remains one of the largest underwriters of new GOJ securities with a 14% market share in 2007.

Our stockbrokerage and foreign exchange units held 2nd and 5th place rankings with 14% and 7% market share respectively.

Asset Management is expected to be our fastest growing unit over the next two years. In 2007, a major milestone was achieved with the creation of Jamaica's first JA$-denominated equity-linked principal protected note. We will continue to develop new products that provide our clients with investment opportunities in international markets while seeking to manage their risks to these markets.

For the fourth consecutive year, Sigma had the best performing fund in the Unit Trust industry as well as the best performing fixed income fund. Sigma Liberty®, our US$-Indexed Fund returned 14.29% and Sigma Solution®, our J$ Fixed Income Fund returned 11.61%.

The Sigma Bull Class Statues are limited edition art pieces, created by Mark Williams, a very talented Jamaican artist. Sigma Bulls were issued to our clients who participated in the private placement of our first equity-linked Principal Protected Note, the Sigma Bull Class.

Looking ahead, we are well-poised to strengthen our position as one of the largest distributors of financial investments in Jamaica by satisfying the expanding needs of our clients. At the core of our growing market position is Pan Caribbean's commitment to our client relationships, our reputation, and equally important - our belief in "Win Win"…balancing the interests of our institution and our clients.

MARKETING & NEW PRODUCT DEVELOPMENT

2007 was another groundbreaking year for Pan Caribbean. We focused on developing our product and service menu to offer our clients new and exciting options. In the first half of the year, we partnered with CI Investments to offer thirty-seven (37) CI Mutual Funds, specializing in nine (9) well-positioned funds. The response to this offer has met our expectations and we continue to grow this portfolio by offering exceptional research to guide our clients in selecting growth funds.

We launched two new innovative services: Compass® and PanCast®. Compass® is our proprietary personalized portfolio-planning tool, designed to capture key information on our clients' financial goals, life-stage, risk profile, and other investments and to analyze and project the best mix of assets to achieve each stated goal. This service has appealed to existing and prospective clients, confirming a growing interest in financial planning.

COMPASS® PERSONAL PORTFOLIO PLANNER

The right direction for your financial future.

PanCast is Jamaica's first weekly financial podcast, providing weekly stock tips, financial news and general financial advice free to our clients and the general public. This service is available via our website as well as via iTunes®.

During the year, we conducted a number of internal strategic sessions to define our brand vision and its promise to our stakeholders. We upheld the brand values of Integrity, Teamwork and Service and identified initiatives that will strengthen this bold vision of acting consistently in ways that will allow us ***"to be loved by our clients…and admired by our competitors"***. Our client research indicated a slight improvement in customer satisfaction from 91% to 92%.

For 2008, our key initiatives include strengthening our affinity with our parent, Sagicor Financial Corporation, thereby creating further opportunities for synergies and growth, and the introduction of our newest service, commercial banking.

CORPORATE & RETAIL LENDING

The Group's loan portfolio grew 30% during the financial year, moving from $5.5 Billion to $7.2 Billion, while credit fees income increased by 23% to $35.7 Million. The growth achieved reflects the success of our drive to grow credit assets, with a particular focus on generating new corporate business, and through the introduction of new fee-generating products during the year.

We have maintained our strategic focus on project finance geared towards expansion activities in the manufacturing, services and tourism sectors. In addition, our wholesale credit business geared towards the financing micro-business sector remains healthy and expanding, contributing to fee income. In 2007, the introduction of a new lease finance product has been well received by the market. Insurance premium financing remains an active component of our credit portfolio with growth in the volume of premiums financed.

The Group's credit quality continues to improve as non-performing loans declined to 2.2% of total loans compared to 2.8% in 2006. Loss provisions as a percentage of non-performing loans were 135% compared to the industry average of 96%. Achieving growth in our credit portfolio in conjunction with the achievement of sustained improvements in asset quality continues to be an important focus in our lending activities.

The introduction of our commercial bank in 2008 will result in further expansion of our ability to offer clients even more convenient credit products, and is expected to have a positive impact on loan growth going forward.

CORPORATE TRUST

Corporate Trust operating income grew by 72% to $39 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**

HUMAN RESOURCE DEVELOPMENT

As we grow, effective management of our human resources is integral to achieving our objectives.

Leadership continuity and building talent from within, are critical components to ensure the organization's success in the future. To identify and strengthen our future prospects, 2007 saw the initiation of our Board-sponsored succession planning process that was 90% complete at year-end. 2008 will see its implementation.

While succession planning focuses on developing the leadership, other areas are of substantial importance. Management, supervisory, technical and sales training are also critical to our continued achievement of Pan Caribbean's goals. In addition to the 3,707 hours spent on external training programmes, another 988 hours were spent on internal training and cross-training activities.

"As a member of an energetic, creative and hardworking team, it gives me a sense of pride to be publicly acknowledged for the work I have done over the past year. I get a great deal of satisfaction knowing that the work I do positively impacts fellow staff members, shareholders and clients. I have always taken my job seriously and pride myself on doing the best I possibly can at all times and in all circumstances. I also try to impart this philosophy to my peers by demonstrating a positive attitude and creating an environment conducive to good work ethics."

Andrea Chung
2007 Employee of the Year

During 2008, we introduced our eight Management Promises. This has become an important part of the evaluation of Pan Caribbean's senior management and provides an effective tool for feedback on individual leadership and performance during the year.

Leadership continuity and building talent from within, are critical components to ensure the organization's success in the future.

Two internal staff-led teams, Pan Vybz and the Organizational Improvement Committee (OIC) continue to make valuable contributions to staff morale, energy and our organizational culture. In 2007, the OIC organized insurance discounts for staff motor vehicles and house coverage while Pan Vybz coordinated team building activities at our company retreat and other events.

We seek to encourage excellence within the Pan Caribbean family. As a result, The Hon. Maurice W. Facey O.J. and Richard O. Byles Scholarships were awarded for tertiary education to children of our team members, Ann-Marie Plummer, daughter of Carol Johnson (Mandeville) and Jesse Reynolds, son of Helena Cowie (Kingston) in 2007.

TECHNOLOGY

As we continue to expand, the Information Technology Unit remains focused on strengthening our technological architecture and information systems in order to support this growth. The goal of our Division is to ensure continuous improvements in our overall operational framework, marked by innovations and increased expertise, particularly within the core banking platform and our telecommunications network.

Additionally, our emphasis on continuous cost reduction measures, particularly with respect to server and storage virtualization has been a key initiative. In parallel, with the advent of our Commercial Banking operation, steps were taken to implement additional enhancements that directly provide support for our Project Team on the design and customization of robust information technology support systems.

We look ahead to providing support for our new product and service offerings and strengthening our use of innovative technical solutions at our corporate offices and branches island-wide. The leveraging of innovation and technology via an integrated platform will afford us synergies within our Group and increase growth potential utilizing a unified framework.

We support charities that are meaningful to our team members and clients, important to the social development of our country and consistent with our brand values by donating, volunteering and leading.

Left: Ms. Elizabeth "Betty" Lawrence of the Youth Enhancement Services (Y.E.S.) speaking to Stephanie Vassell, Pan Caribbean Montego Bay; while Collette Bramwell, Pan Caribbean receives a service demonstration from Shermaine Barrett a past student of Y.E.S.

In 2007, we supported 66 organizations across the island with donations, sponsorships and scholarships amounting to over $11 Million. Our team also gave of their time to support National Reading Day, the Nest Children's Home, the SOS Children's Village among other small but significant community outreach programmes.

Once again, we partnered with corporate Jamaica, friends and family, to stage the Sigma Corporate Run, the largest road race in the Caribbean. Our

Sigma Run 2007 participants, "Race Together for Life".

Left: Dr. Hopeton Faulkner, Lions Club of Mandeville explaining to Ms. Paulette Elliot, CEO Mandeville Hospital and Annastacia Gayle, Pan Caribbean Mandeville, how the defibrillator works.

goal was to raise $3M for the Jamaica Aids Support for Life (JASL), to purchase a much-needed bus to support their efforts to deliver care for persons living with HIV/AIDS who are unable to visit the clinic. We exceeded our goal by 40% raising $4.2 Million, which allowed us to provide additional equipment and supplies to JASL. Over 7,000 persons lent support to this effort.

In Montego Bay, the Youth Enhancement Services (Y.E.S.) Programme, sponsored by Vision Makers WorldReach, provides training and placement for young persons from ages 16 to 25 years at international standards. These students typically leave secondary schools without the necessary qualifications to gain employment. Y.E.S. focuses on hospitality, including certifications in fine dining, waitering and housekeeping, computer skills, general business skills and practical life skills. Students also gain work experience at reputable companies during their course of study. We have been a part of this visionary programme since 2005 and have directly sponsored two students. Both have graduated and gained employment in well-known hotels. We salute the efforts of the management and staff of the Youth Enhancement Services programme and wish them continued success.

Kerry Parchment Carr, Pan Caribbean Savanna-La-Mar, interacts with students of Paradise Preparatory School.

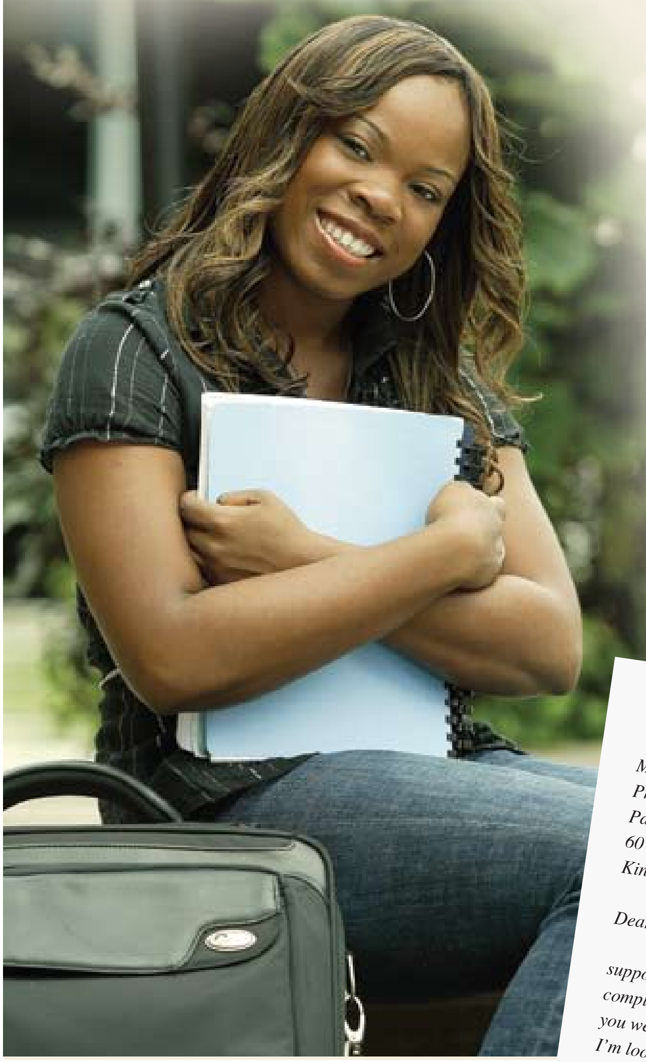
In St. Ann, we sponsored the Jamaica Cancer Society's (JCS) Relay for Life organized by the St. Mary and St. Ann branch of the Jamaica Cancer Society. This branch opened in June 2005 and has managed to raise over $6 Million to support community clinics and outreach programmes. They currently have more than 350 members and a host of volunteers. Relay for Life is an important event for building awareness of the disease, honouring those who have passed on, and celebrating survival. Our Ocho Rios team, led by Peta Goldsmith, treasurer for JCS Relay for Life, actively participated in the vigil. We salute the efforts of the Jamaica Cancer Society and wish them continued success.

Left: Mrs. Madeline Whitter, Chairperson of the Jamaica Cancer Society St. Mary & St. Ann branch, celebrates with Jason Aarons (second from left) and Peta Goldsmith (fourth from left), Pan Caribbean St. Ann and other members of the Jamaica Cancer Society.

Shanique Rainford

Pan Caribbean Scholarship recipient

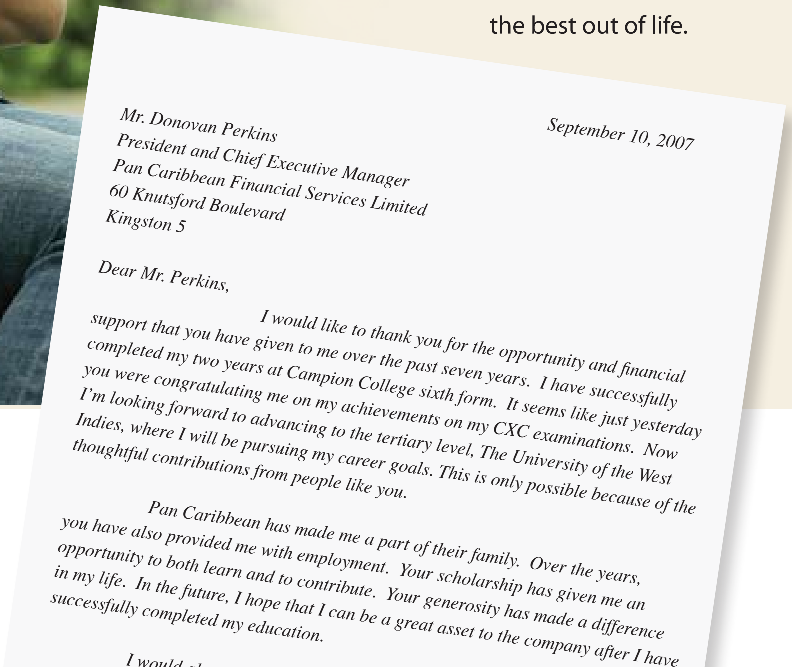
My name is Shanique Rainford. I started pre-school when I was 3 years old and with the help of Pan Caribbean attended Mannings Hill All Age School through to the 6th grade where I took the 2000 GSAT examinations, graduating at the top of my class. I was awarded a spot at Campion College, a school renowned for outstanding achievements. Due to my outstanding performance in my GSAT examinations, I was also awarded a Scholarship by Pan Caribbean Financial Services Limited.



During my years at Campion College I was awarded second-class honors. I was also involved in extracurricular activities, participating in the school's volleyball team as team captain, as Public Relations Officer for Green Generation, as an active member of the Interact Club, Inter-School Christian fellowship (ISCF) and as Beadle (Monitor) of my class. Faced with the difficulty of losing my mother, I managed to complete my seven years at Campion College successfully, passing eight CXC examinations and four CAPE examinations with the support of my family, friends and members of the Pan Caribbean family. They have helped to turn my limitations into beautiful privileges. I acknowledge their affectionate interest and encouragement that have made it possible for me to overcome all obstacles and get to college successfully.

When I was younger, I aspired to be a medical doctor or a successful Journalist. Now, I am a first year student at the University of the West Indies, currently pursuing a degree in Management on a scholarship from Pan Caribbean. I am currently keeping my options open, however, I hope to be a successful entrepreneur one day. "The sky is the limit" is my life motto.

I plan on continuing to do my best to get the best out of life.



Mr. Donovan Perkins
President and Chief Executive Manager
Pan Caribbean Financial Services Limited
60 Knutsford Boulevard
Kingston 5

September 10, 2007

Dear Mr. Perkins,

I would like to thank you for the opportunity and financial support that you have given to me over the past seven years. I have successfully completed my two years at Campion College sixth form. It seems like just yesterday you were congratulating me on my achievements on my CXC examinations. Now I'm looking forward to advancing to the tertiary level, The University of the West Indies, where I will be pursuing my career goals. This is only possible because of the thoughtful contributions from people like you.

Pan Caribbean has made me a part of their family. Over the years, you have also provided me with employment. Your scholarship has given me an opportunity to both learn and to contribute. Your generosity has made a difference in my life. In the future, I hope that I can be a great asset to the company after I have successfully completed my education.

I would...

Jesse Reynolds

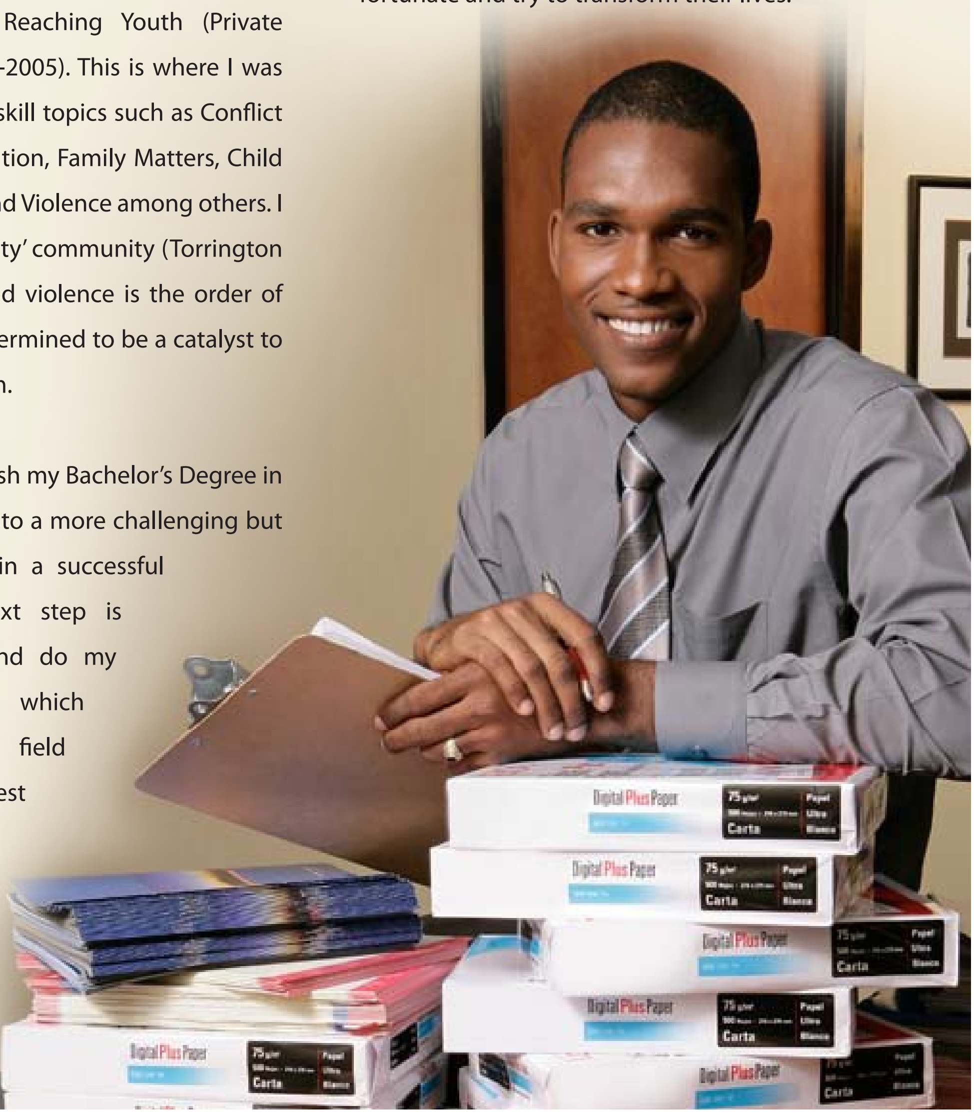
Pan Caribbean Scholarship recipient

I grew up in a single parent family with my mother as the head, one older brother and two older sisters. My father migrated to England when I was seven years old. They were all excited that I was given the chance of gaining an education and were committed to ensure that I excelled and made the best of it.

I attended Charlie Smith High School, then went on to Youth Reaching Youth (Private Christian School 2001-2005). This is where I was trained in various life skill topics such as Conflict Resolution, STI prevention, Family Matters, Child Abuse issues, Crime and Violence among others. I grew up in an 'inner-city' community (Torrington Park), where crime and violence is the order of the day. Now I am determined to be a catalyst to invalidate this problem.

My main goal is to finish my Bachelor's Degree in Finance and move on to a more challenging but satisfactory position in a successful organization. My next step is to move onwards and do my masters degree, in which I would major in a field that I think I am best suited. Additionally, if I am still hungry for more education I will continue school and earn my PHD.

At present, I am an employee of Pan Caribbean Financial Services. I work in the Records Management and Office Services Department as a Records Management Associate. In the future I would like to become an entrepreneur or a CEO for a successful company. I still aspire to work within inner-city communities with the less fortunate and try to transform their lives.



Disclosure of Shareholding

As At December 2007

MAJOR SHAREHOLDERS

		Shares Held
1	Life of Jamaica Limited	285,907,861
2	Sagicor Financial Corporation	182,566,261
3	MF&G Trust & Finance Ltd. A/C #528	6,813,341
4	ATL Group Pension Fund Trustees Nom. Ltd.	5,297,100
5	Perkins, Donovan and Michele et al	5,224,085
6	National Insurance Fund	5,115,651
7	Pan Caribbean Merchant Bank A/C J1996	3,776,891
8	JPS Employees Superannuation Fund	2,642,475
9	Wray & Nephew Group Limited	2,436,760
10	Lets Investments Limited	2,008,026

SHAREHOLDINGS OF DIRECTORS AND CONNECTED PERSONS

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
Donovan H. Perkins		& Michele/Alexander/Jessica Perkins	5,224,085
Hayden Singh		& Joyce Singh	8,000
Lisa A. Soares Lewis	10,000	Nil	Nil
Colin Steele	Nil	Nil	Nil

SHAREHOLDINGS OF SENIOR MANAGEMENT AND CONNECTED PERSONS

MANAGERS	SHAREHOLDING	CONNECTED PERSONS	SHAREHOLDING
Philip Armstrong		& Trevor & Nicola Armstrong	1,525,000
Gene M. Douglas	470,000	Nil	Nil
Steven Gooden	Nil	Nil	Nil
Peter Knibb	114,555	& Elizabeth Knibb	5,000
Faith McFarquhar-Gordon	Nil	Nil	Nil
Margaret McPherson	Nil	Nil	Nil
Tanya Miller	Nil	Nil	Nil
Tara Nunes		& Kelly & Brooke Nunes	100,000
Donovan H. Perkins		& Michele/Alexander/Jessica Perkins	5,224,085
Henry Pratt	1,700,000	Nil	Nil
Grace Solas	Nil	Nil	Nil
Karen Vaz		& Douglas Vaz	575,000
Colleen Yearde-Williams	Nil	Nil	Nil

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31 December 2007

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 consolidated 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 55 to 149, which comprise the consolidated and company balance sheets as of 31 December 2007 and the consolidated and company profit and loss accounts, statements of changes in stockholders' equity and cash flow statements 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 and with the requirements of the Jamaican Companies Act. 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.

Auditors' 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 2007, and of the financial performance and cash flows of the group and the company for the year then ended, so far as concerns the members of the company, in accordance with International Financial Reporting Standards and the requirements of the Jamaican Companies Act.

Report on Other Legal and Regulatory Requirements

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 Act, in the manner so required.

PricewaterhouseCoopers

Chartered Accountants

25 February 2008
Kingston, Jamaica

Consolidated Profit and Loss Account

Year ended 31 December 2007

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2007 $'000	2006 $'000
Net Interest Income and Other Revenue			
Interest income from loans		736,499	561,013
Interest income from securities		4,377,190	4,038,705
Interest income from leases		8,414	5,454
Other interest income		57,743	38,293
Total interest income		5,179,846	4,643,465
Interest expense	6	(3,467,667)	(3,173,160)
Net interest income		1,712,179	1,470,305
Fees and commission income	7	310,124	264,709
Net trading income	8	519,613	508,300
Other revenue		18,088	28,802
		2,560,004	2,272,116
Operating Expenses			
Staff costs	9	468,841	441,552
Provision for credit losses	22	11,572	(1,457)
Occupancy costs		75,288	51,721
Other expenses	10	330,909	287,695
		886,610	779,511
Operating Profit		1,673,394	1,492,605
Share of associated company profit	20	1,342	3,517
Profit before Taxation		1,674,736	1,496,122
Taxation	11	(461,742)	(383,452)
NET PROFIT	12	1,212,994	1,112,670
EARNINGS PER STOCK UNIT			
Basic	14	$2.23	$2.06
Diluted	14	$2.23	$2.06

Consolidated Balance Sheet

31 December 2007

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2007 $'000	2006 $'000
ASSETS			
Cash and balances due from other financial institutions	15	1,315,654	1,176,047
Cash reserve at Bank of Jamaica	16	95,848	59,272
Trading securities	17	1,503,840	1,513,339
Securities purchased under agreements to resell	18	1,662,199	1,023,141
Investment securities	19	20,026,884	21,395,320
Investment in associated company	20	18,456	17,114
Loans, net of provision for credit losses	22	7,118,412	5,474,798
Lease receivables	23	39,289	52,482
Pledged assets	24	16,695,792	12,648,748
Due from related companies	25	17	6,429
Income tax recoverable		-	28,301
Intangible assets	26	802,127	783,091
Property, plant and equipment	27	134,573	116,129
Deferred income tax assets	28	7,385	11,118
Post-employment benefit assets	29	46,539	13,954
Other assets	30	330,149	420,439
		49,797,164	44,739,722

Consolidated Balance Sheet (Continued)

31 December 2007

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2007 $'000	2006 $'000
LIABILITIES			
Securities sold under agreements to repurchase		34,656,325	31,028,959
Customer deposits and other accounts		5,489,757	4,476,805
Due to banks and other financial institutions	31	1,553,347	1,380,804
Due to related companies	25	2,258	1,628
Income tax payable		59,774	126,210
Deferred income tax liabilities	28	111,628	350,044
Post-employment benefit obligations	29	12,423	7,363
Other liabilities	32	380,722	163,775
		42,266,234	37,535,588
STOCKHOLDERS' EQUITY			
Share capital	33	3,098,919	3,049,496
Share options reserve	34	42,178	32,420
Retained earnings reserve	35	172,000	172,000
Reserve fund	36	156,651	86,443
Loan loss reserve	37	103,456	83,953
Fair value reserve	38	80,178	535,547
Retained earnings		3,877,548	3,244,275
		7,530,930	7,204,134
		49,797,164	44,739,722

Approved for issue by the Board of Directors on 25 February 2008 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 2007

(expressed in Jamaican dollars unless otherwise indicated)

	Note	Share Capital $'000	Share Options Reserve $'000	Retained Earnings Reserve $'000	Reserve Fund $'000	Loan Loss Reserve $'000	Fair Value Reserve $'000	Retained Earnings $'000	Total $'000
Balance at 1 January 2006		2,997,815	20,420	172,000	86,443	121,128	287,069	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 income recognised for 2006		-	-	-	-	-	248,478	1,112,670	1,361,148
Shares issued	33	51,681	-	-	-	-	-	-	51,681
Employee share option scheme – value of services provided	34	-	12,000	-	-	-	-	-	12,000
Dividends paid		-	-	-	-	-	-	(368,225)	(368,225)
Provision utilised		-	-	-	-	(1,276)	-	-	(1,276)
Adjustment between regulatory loan provisioning and IFRS	37	-	-	-	-	(35,899)	-	35,899	-
Balance at 31 December 2006		3,049,496	32,420	172,000	86,443	83,953	535,547	3,244,275	7,204,134
Unrealised losses on available-for-sale investments, net of taxes		-	-	-	-	-	(116,893)	-	(116,893)
Gains reclassified and reported in profit		-	-	-	-	-	(338,476)	-	(338,476)
Net expense recognised directly in stockholders' equity		-	-	-	-	-	(455,369)	-	(455,369)
Net profit		-	-	-	-	-	-	1,212,994	1,212,994
Total income recognised for 2007		-	-	-	-	-	(455,369)	1,212,994	757,625
Shares issued	33	49,423	-	-	-	-	-	-	49,423
Employee share option scheme – value of services provided	34	-	9,758	-	-	-	-	-	9,758
Transfers to/(from) reserves		-	-	-	70,208	-	-	(70,208)	-
Dividends paid		-	-	-	-	-	-	(490,010)	(490,010)
Adjustment between regulatory loan provisioning and IFRS	37	-	-	-	-	19,503	-	(19,503)	-
Balance at 31 December 2007		3,098,919	42,178	172,000	156,651	103,456	80,178	3,877,548	7,530,930

Consolidated Statement of Cash Flows

Year ended 31 December 2007

(expressed in Jamaican dollars unless otherwise indicated)

		2007 $'000	2006 $'000
Cash Flows from Operating Activities			
Net profit		1,212,994	1,112,670
Adjustments for:			
Interest income		(5,179,846)	(4,643,465)
Interest expense	6	3,467,667	3,173,160
Income tax charge	11	461,742	383,452
Fair value losses/(gains) on trading securities		8,017	(7,556)
Share of profit of associated company	20	(1,342)	(3,517)
Provision for credit losses	22	11,572	(1,457)
Amortisation of intangible assets	26	32,194	24,721
Depreciation of property, plant and equipment	27	37,280	26,926
Gain on sale of property, plant and equipment		(9)	(66)
Changes in post-employment benefits		(27,525)	1,511
Share option expense	34	9,758	12,000
Unrealised losses/(gains) on foreign assets and liabilities		865,309	(70,870)
		897,811	7,509
Changes in operating assets and liabilities -			
Statutory reserves at Bank of Jamaica		(34,303)	(2,685)
Trading securities		79,937	(725,640)
Securities purchased under agreements to resell		(806,426)	556,811
Investment securities		(1,760,580)	(2,220,459)
Loans		(1,429,679)	(463,060)
Lease receivables		13,987	(37,352)
Securities sold under agreements to repurchase		2,137,243	2,656,610
Customer deposits and other accounts		(182,522)	317,939
Other assets		90,291	53,276
Other liabilities		216,950	7,687
		(777,291)	150,636
Interest received		5,041,585	4,788,372
Interest paid		(3,492,295)	(3,289,126)
Taxation		(487,393)	(311,607)
Net cash provided by operating activities (Page 60)		284,606	1,338,275

Consolidated Statement of Cash Flows (Continued)

Year ended 31 December 2007

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2007 $'000	2006 $'000
Cash Flows from Operating Activities (Page 59)		284,606	1,338,275
Cash Flows from Investing Activities			
Purchase of investment securities		(1,447,072)	(971,658)
Purchase of intangible assets	26	(51,230)	(23,437)
Purchase of property, plant and equipment	27	(55,724)	(47,789)
Proceeds from disposal of property, plant and equipment		9	140
Net cash used in investing activities		(1,554,017)	(1,042,744)
Cash Flows from Financing Activities			
Issue of shares	33	49,423	51,681
Proceeds from due to banks and other financial institutions – long term		532,650	204,387
Repayment of amounts due to banks and other financial institutions – long term		(390,367)	(195,319)
Due from related parties		7,042	29,754
Dividends paid		(490,010)	(368,225)
Net cash used in financing activities		(291,262)	(277,722)
Effect of exchange rate changes on cash and cash equivalents		57,824	30,610
Net (decrease)/increase in cash and cash equivalents		(1,502,849)	48,419
Cash and cash equivalents at beginning of year		2,574,197	2,525,778
CASH AND CASH EQUIVALENTS AT END OF YEAR	21	1,071,348	2,574,197

Profit and Loss Account

Year ended 31 December 2007

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2007 $'000	2006 $'000
Net Interest Income and Other Revenue			
Interest income from loans		232,325	132,375
Interest income from securities		4,131,626	3,826,247
Income from leases		2,993	1,354
Other interest income		24,854	14,305
Total interest income		4,391,798	3,974,281
Interest expense	6	(3,141,967)	(2,897,664)
Net interest income		1,249,831	1,076,617
Fees and commission income	7	169,354	129,411
Net trading income	8	401,984	417,071
Other revenue		13,654	33,578
		1,834,823	1,656,677
Operating Expenses			
Staff costs	9	346,881	302,204
Provision for credit losses	22	6,858	(1,270)
Occupancy costs		37,733	27,791
Other expenses	10	220,809	190,280
		612,281	519,005
Profit before Taxation		1,222,542	1,137,672
Taxation	11	(306,213)	(266,544)
NET PROFIT	12	916,329	871,128

Balance Sheet

31 December 2007

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2007 $'000	2006 $'000
ASSETS			
Cash and balances due from other financial institutions	15	309,789	593,464
Trading securities	17	1,503,840	1,513,339
Securities purchased under agreements to resell	18	1,569,987	883,081
Investment securities	19	17,531,730	19,115,183
Investment in associated company	20	11,466	11,466
Investment in subsidiaries		2,518,210	2,518,210
Loans, net of provision for credit losses	22	2,708,089	1,636,750
Lease receivables	23	16,233	23,292
Pledged assets	24	16,665,792	12,618,748
Due from related companies	25	433	5,322
Intangible assets	26	175,953	190,824
Property, plant and equipment	27	97,331	90,079
Deferred income tax assets	28	1,696	861
Other assets	30	265,255	378,891
		43,375,804	39,579,510
LIABILITIES			
Securities sold under agreements to repurchase		35,241,054	31,373,620
Customer accounts		516,690	534,411
Due to banks and other financial institutions	31	1,304,010	1,154,291
Due to related companies	25	489	7,173
Income tax payable		17,413	124,500
Deferred income tax liabilities	28	68,778	322,251
Other liabilities	32	244,509	57,901
		37,392,943	33,574,147
STOCKHOLDERS' EQUITY			
Share capital	33	3,098,919	3,049,496
Share options reserve	34	42,178	32,420
Loan loss reserve	37	57,421	39,095
Fair value reserve	38	53,636	561,638
Retained earnings		2,730,707	2,322,714
		5,982,861	6,005,363
		43,375,804	39,579,510

Approved for issue by the Board of Directors on 25 February 2008 and signed on its behalf by:

Richard O. Byles — Director

Donovan H. Perkins — Director

Statement of Changes in Stockholders' Equity

Year ended 31 December 2007

(expressed in Jamaican dollars unless otherwise indicated)

	Note	Share Capital	Share Options Reserve	Loan Loss Reserve	Fair Value Reserve	Retained Earnings	Total
		$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2006		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 income 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	33	51,681	-	-	-	-	51,681
Employee share option scheme – value of services provided	34	-	12,000	-	-	-	12,000
Provision utilised		-	-	(1,279)	-	-	(1,279)
Adjustment between regulatory loan provisioning and IFRS	37	-	-	(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
Unrealised losses on available-for-sale investments, net of taxes		-	-	-	(155,579)	-	(155,579)
Gains reclassified and reported in profit		-	-	-	(352,423)	-	(352,423)
Net expense recognised directly in stockholders' equity		-	-	-	(508,002)	-	(508,002)
Net profit		-	-	-	-	916,329	916,329
Total income recognised for 2007		-	-	-	(508,002)	916,329	408,327
Issue of shares	33	49,423	-	-	-	-	49,423
Employee share option scheme – value of services provided	34	-	9,758	-	-	-	9,758
Adjustment between regulatory loan provisioning and IFRS	37	-	-	18,326	-	(18,326)	-
Dividends paid		-	-	-	-	(490,010)	(490,010)
Balance at 31 December 2007		3,098,919	42,178	57,421	53,636	2,730,707	5,982,861

Statement of Cash Flows

Year ended 31 December 2007

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2007 $'000	2006 $'000
Cash Flows from Operating Activities			
Net profit		916,329	871,128
Adjustments for:			
Interest income		(4,391,798)	(3,974,281)
Interest expense	6	3,141,967	2,897,664
Income tax charge	11	306,213	266,544
Fair value losses/(gains) on trading securities		8,017	(7,556)
Provision for credit losses	22	6,858	(1,270)
Amortisation of intangible assets	26	27,241	21,029
Depreciation of property, plant and equipment	27	27,722	17,067
Stock options expense	34	9,758	12,000
Unrealised losses/(gains) on foreign assets and liabilities		868,350	(73,175)
		920,657	29,150
Changes in operating assets and liabilities -			
Trading securities		79,937	(725,640)
Securities purchased under agreements to resell		(771,409)	712,448
Investment securities		(905,860)	(1,658,562)
Loans		(996,022)	(641,739)
Lease receivables		7,587	(23,057)
Securities sold under agreements to repurchase		2,378,975	3,014,593
Customer accounts		(997,568)	101,362
Other assets		113,636	3,629
Other liabilities		186,609	10,174
		16,542	822,358
Interest received		4,247,496	4,133,634
Interest paid		(3,169,778)	(3,019,241)
Taxation paid		(415,790)	(180,155)
Net cash provided by operating activities (Page 65)		678,470	1,756,596

Statement of Cash Flows (Continued)

Year ended 31 December 2007

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2007 $'000	2006 $'000
Cash Provided by Operating Activities (Page 64)		678,470	1,756,596
Cash Flows from Investing Activities			
Purchase of investment securities		(2,150,273)	(971,658)
Purchase of intangible assets, net of grant received	26	(12,370)	(23,437)
Purchase of property, plant and equipment	27	(34,974)	(47,535)
Net cash used in investing activities		(2,197,617)	(1,042,630)
Cash Flows from Financing Activities			
Issue of shares	33	49,423	51,681
Due to parent company and fellow subsidiaries		(1,795)	69,724
Proceeds from due to banks and other financial institutions – long term		361,367	146,387
Repayment of amounts due to banks and other financial institutions – long term		(255,452)	(53,685)
Dividends paid		(490,010)	(368,225)
Net cash used in by financing activities		(336,467)	(154,118)
Effect of exchange rate changes on cash and cash equivalents		19,015	18,102
Net (decrease)/increase in cash and cash equivalents		(1,836,599)	577,950
Cash and cash equivalents at beginning of year		1,804,106	1,226,156
CASH AND CASH EQUIVALENTS AT END OF YEAR	21	(32,493)	1,804,106

(expressed in Jamaican dollars unless otherwise indicated)

1. Identification, Regulation and Licence

Pan Caribbean Financial Services Limited (PCFS, the company) is incorporated and domiciled in Jamaica. The company is listed on the Jamaica Stock Exchange. The principal activities of the company are the provision of development banking and investment and fund management services. The company is a licensed securities dealer and has primary dealer status from the Bank of Jamaica (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 (PCMB)	Merchant banking	100%	31 December
Pan Caribbean Asset Management Limited (PCAM)	Unit trust management	100%	31 December
Manufacturers Investments Limited (MIL)	Management services	100%	31 December
Pan Caribbean Investments Limited (PCIL)	Inactive	100%	31 December
Pan Caribbean Securities Limited (PCSL)	Inactive	100%	31 December

Associated company	Principal Activities	Holding	Financial Year End
Manufacturers Credit and Information Services Limited (MCISL)	Provision of fleet management 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 Group'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 and interpretations effective 1 January 2007 that are relevant to the Group's operations

- 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.

- 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.

- 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.

Standard early adopted by the Group

- IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes.

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards and interpretations issued but not yet effective and have not been early adopted by the Group

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 2007:

- IFRIC 11, IFRS 2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). IFRIC 11 provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation will not have an impact on the Group's financial statements.

- IFRIC 12, Services Concession Arrangements (effective for annual periods beginning on or after 1 January 2008). IFRIC 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. IFRIC 12 is not relevant to the Group's operations because none of the Group's companies provide public sector services.

- IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Group's operations because none of the Group's companies operate any loyalty programmes.

- IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction (effective for annual periods beginning on or after 1 January 2008). Earlier application is permitted). IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Group will apply IFRIC 14 from 1 January 2008, but it is not expected to have a material impact on the Group's accounts.

- IAS 23 (Amendment), Borrowing costs (effective from 1 January 2009). It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply IAS 23 (Amended) from 1 January 2009 but is currently not applicable to the Group as there are no qualifying assets.

2. Summary of Significant Accounting Policies (Continued)

(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.

(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 investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

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.

2. Summary of Significant Accounting Policies (Continued)

(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.

(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 Group'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.

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 profit or loss, 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 and points 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.

2. Summary of Significant Accounting Policies (Continued)

(e) Interest income and expenses (continued)

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.

(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.

The principal temporary differences arise from depreciation of property, plant and equipment, provisions for pensions and other post-retirement benefits and tax losses carried forward. The rates enacted or substantively enacted at the balance sheet date are used to determine deferred income tax. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss.

2. Summary of Significant Accounting Policies (Continued)

(g) Taxation (continued)

(ii) Deferred taxation (continued)

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, repurchase agreements with financial institutions and short term amounts due to banks and other financial institutions.

(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.

2. Summary of Significant Accounting Policies (Continued)

(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 equity 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.

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.

2. Summary of Significant Accounting Policies (Continued)

(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.

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.

2. Summary of Significant Accounting Policies (Continued)

(k) Impairment of financial assets (continued)

(i) Assets carried at amortised cost (continued)

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.

(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.

2. Summary of Significant Accounting Policies (Continued)

(l) Leases

(i) 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) 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 using the net investment method (before tax), 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.

(ii) Computer software

Costs associated with developing or maintaining computer software programmes 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 probable generate economic benefits exceeding the cost beyond one year, are recognised as intangible assets.

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

2. Summary of Significant Accounting Policies (Continued)

(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

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.

(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.

2. Summary of Significant Accounting Policies (Continued)

(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-retirement obligations

The Group provides post-retirement 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 profit and loss account, 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 (nominal value) and share premium 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 are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective 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. In particular, comparatives have been adjusted to take into account the early adoption of IFRS 8, Operating Segments (Note 2(a)).

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.

The Board of Directors is ultimately responsible for the establishment and oversight of the Group's risk management framework. The Board has established committees/departments for managing and monitoring risks, as follows:

(i) Asset, Liability, Credit and Investment Committee
The Asset, Liability, Credit and Investment Committee is responsible for the development of credit and investment policies and standards that conform to applicable law, regulations and corporate policies; approving credit proposal requests; reviewing and approving exceptions to core credit and investment policies that represent unusual risk; and ensuring that aggregate credit risk are within the Group's risk taking capacity. All credit facilities require the approval of at least 2 members of this Committee. This Committee is also responsible for formulating and monitoring investment portfolios and investment strategies for the Group. This Committee is also responsible for approval and monitoring of appropriate trading limits, reports and compliance controls to ensure that the mandate is properly followed. The Committee's decisions receive final ratification at Board Meetings.

(ii) Audit and Compliance Committee
The Audit and Compliance Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit and Compliance Committee is assisted in its oversight role by the Internal Audit Department and the Risk Management and Compliance Unit. Internal Audit Department undertakes both regular and ad hoc reviews of risk management controls and procedures, the result of which are reported to the Audit and Compliance Committee. The Risk Management Compliance Unit ensures adherence to internal policies and procedures, and regulatory rules and guidelines.

(iii) The Treasury Division
The Treasury Division is responsible for managing the Group's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Group.

(iv) Risk Management and Compliance Unit
The Risk Management and Compliance Unit is responsible for identifying, measuring and monitoring the relevant risks faced by the Group, and ensuring compliance with internal and regulatory guidelines.

3. Financial Risk Management (Continued)

The most important types of risks faced by the Group are credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk, interest rate and other price risk.

(a) Credit risk

The Group takes on exposure to credit risk, which is the risk that its customers or counterparties will cause a financial loss for the Group by failing to discharge their contractual obligations. Credit risk is the most important risk for the Group's business; management therefore carefully monitors its exposure to credit risk. Credit exposures arise principally in lending and investment activities. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single counterparty or groups of related counterparties and to geographical and industry segments.

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the balance sheet.

Credit-related commitment risks arise from guarantees which may require payment on behalf of customers. Such payments are collected from customers based on the terms of the letters of credit, guarantees or undertakings. They expose the Group to similar risks to loans and these are mitigated by the same control policies and processes.

Credit review process

The Group has established a credit quality review process involving regular analysis of the ability of borrowers and other counterparties to meet interest and capital repayment obligations.

(i) Loans and leases

The Group assesses the probability of default of individual counterparties using internal ratings. Clients of the Group are segmented into five rating classes. The Group's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class.

Group's internal rating scale:

Rating grades	Description of the grade
1	Standard
2	Potential problem credit
3	Sub-standard
4	Doubtful
5	Loss

Exposure to credit risk is managed in part by obtaining collateral and corporate and personal guarantees. Counterparty limits are established by the use of a credit classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Group to assess the potential loss as a result of the risk to which it is exposed and take corrective action.

(ii) Investments

The Group limits its exposure to credit risk by investing mainly in liquid securities, with counterparties that have high credit quality and Government of Jamaica securities. Accordingly, management does not expect any counterparty to fail to meet its obligations.

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of different types of collateral.

The main types of collateral obtained are as follows:

Loans and leases – Cash and other near cash securities, mortgages over commercial and residential properties, charges over general business assets such as premises, equipment, inventory, accounts receivable, stocks and other securities and motor vehicles.

Securities lending and reverse repurchase transactions – cash equivalents or Government of Jamaica securities. The collateral obtained (including accrued interest) is at least 100% of the sum of the principal value of the repurchase agreement plus any accrued interest on the repurchase agreement.

The Group also obtains guarantees from parent companies for loans to their subsidiaries and personal guarantees for loans to private companies.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral held.

Impairment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades or infringement of the original terms of the contract.

The Group addresses impairment assessment by reviewing all loans and leases with risk ratings of 3 and above.

Individually assessed allowances are provided for financial assets based on a review conducted at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at balance-sheet date on a case-by-case basis, and are applied to all accounts. The assessment normally encompasses collateral held and the anticipated receipts for that individual account.

The internal rating systems described above focus more on credit-quality mapping from the inception of lending activities. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the balance sheet date based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements are usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes.

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Impairment (continued)

The internal rating tool assists management to determine whether objective evidence of impairment exists, based on the following criteria set out by the Group:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (e.g. equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

The impairment provision shown in the balance sheet at year-end is derived from the internal rating grades of 3 and above. However, the majority of the impairment provision comes from the last rating class (loss). The tables below show the Group's and company's gross loans and leases (excluding interest receivable) and the associated impairment provision for each internal rating classes:

Group's and company's rating

	The Group			
	2007		2006	
	Loans and leases $'000	Impairment provision $'000	Loans and leases $'000	Impairment provision $'000
Standard	6,953,707	-	5,214,101	-
Potential problem credit	59,359	-	163,392	-
Sub-standard	8,809	1,240	60,047	19,679
Doubtful	-	-	19,038	12,342
Loss	163,883	107,072	106,869	80,705
	7,185,758	108,312	5,563,447	112,726

	The Company			
	2007		2006	
	Loans and leases $'000	Impairment provision $'000	Loans and leases $'000	Impairment provision $'000
Standard	2,604,899	-	1,455,405	-
Potential problem credit	58,916	-	159,155	-
Sub-standard	-	-	44,062	19,149
Doubtful	-	-	8,384	8,096
Loss	124,096	89,504	76,966	68,290
	2,787,911	89,504	1,743,972	95,535

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Maximum exposure to credit risk before collateral held or other credit enhancements

	Maximum exposure			
	The Group		The Company	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Credit risk exposures relating to on balance sheet assets are as follows:				
Cash and balances due from other financial institutions (excluding cash on hand)	1,298,602	1,158,920	309,789	593,030
Cash reserve at Bank of Jamaica	95,848	59,272	-	-
Trading securities	1,503,840	1,513,339	1,503,840	1,513,339
Securities purchased under agreements to resell	1,662,199	1,023,141	1,569,987	883,081
Investment securities	20,026,884	21,395,320	17,531,730	19,115,183
Loans, net of provision for credit losses	7,118,412	5,474,798	2,708,089	1,636,750
Lease receivables	39,289	52,482	16,233	23,292
Pledged assets	16,695,792	12,648,748	16,665,792	12,618,748
Due to related parties	17	6,429	433	5,322
Income tax recoverable	-	28,301	-	-
Other assets	330,149	420,439	265,255	378,891
	48,771,032	43,781,189	40,571,148	36,767,636
Credit risk exposures relating to off balance sheet items are as follows:				
Loan commitments	427,534	405,804	173,192	-
Guarantees and letters of credit	565,647	307,374	322,063	-
	993,181	713,178	495,255	-

The above table represents a worst-case scenario of credit risk exposure to the Group and company at 31 December 2007 and 2006, without taking account of any collateral held or other credit enhancements. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Loans and leases

(i) Credit quality of loans and leases are summarised as follows:

	The Group		The Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Neither past due nor impaired -				
Standard	4,861,141	3,452,141	1,811,366	1,258,427
Past due but not impaired	2,155,132	1,925,347	855,655	356,134
Impaired	169,485	185,959	120,890	129,411
Gross	7,185,758	5,563,447	2,787,911	1,743,972
Less: Provision for credit losses	(108,312)	(112,726)	(89,504)	(95,535)
Net	7,077,446	5,450,721	2,698,407	1,648,437

Loans and leases become past due when payments are not received on contractual repayment dates. The majority of past due loans are not considered impaired.

(ii) Aging analysis of past due but not impaired loans and leases:

	The Group		The Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Less than 30 days	1,645,587	1,721,045	476,799	259,455
31 to 60 days	479,003	181,360	364,158	94,346
61 to 90 days	30,542	22,942	14,698	2,333
	2,155,132	1,925,347	855,655	356,134

There are no financial assets other than loans and leases that are past due.

Of the aggregate amount of gross past due but not impaired loans and leases, the fair value of collateral that the Group and company held were $5,031,931,000 (2006 - $3,331,130,000) and $1,975,387,000 (2006 – $732,834,000) respectively.

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Loans and leases (continued)

(iii) Financial assets – individually impaired

Financial assets that are individually impaired before taking into consideration the cash flows from collateral held are as follows:

	The Group		The Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Loans and leases	169,485	185,959	120,890	129,411

The fair value of collateral that the Group and company held as security for individually impaired loans was $320,796,000 (2006 - $371,576,000) and $177,436,000 (2006 - $173,735,000) respectively.

There are no financial assets other than loans and leases that were individually impaired.

(iv) Renegotiated loans and leases

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans. The Group's and company's renegotiated loans that would otherwise be past due or impaired totalled $26,005,000 (2006 - $37,693,000) and $11,491,000 (2006 - $20,186,000) respectively.

(v) Repossessed collateral

The Group and the company can obtain assets by taking possession of collateral held as security.

Repossessed properties are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. In general, the Group and the company do not occupy repossessed properties for business use.

The Group and the company have no repossessed collateral.

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Credit exposure

(i) Loans and leases

The following table summarises the Group's and company's credit exposure for loans and leases at their carrying amounts, as categorised by the industry sectors:

	The Group		The Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Agriculture, fishing and mining	1,351,728	1,018,451	347,296	23,612
Construction and real estate	689,416	236,935	21,835	7,203
Distribution	1,378,492	1,091,386	555,139	283,850
Manufacturing	305,611	424,724	255,288	286,504
Personal	822,257	462,763	399,198	254
Professional and other services	1,124,219	1,037,865	441,040	433,413
Tourism and entertainment	1,005,789	837,044	455,433	394,640
Transportation, storage and communication	503,322	135,391	312,682	13,016
Other	4,924	318,888	-	301,480
	7,185,758	5,563,447	2,787,911	1,743,972
Less: Provision for credit losses	(108,312)	(112,726)	(89,504)	(95,535)
	7,077,446	5,450,721	2,698,407	1,648,437
Interest receivable	80,255	76,559	25,915	11,605
	7,157,701	5,527,280	2,724,322	1,660,042

The majority of loans and leases are extended to customers in Jamaica.

(ii) Investments

The following table summarises the Group's and company's credit exposure for investments at their carrying amounts, as categorised by issuer:

	The Group		The Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Government of Jamaica	30,724,654	31,550,410	29,568,693	30,174,284
Bank of Jamaica	2,364,183	-	1,955,593	-
Corporate	4,164,528	3,193,188	3,263,682	2,304,281
Financial institutions	1,681,112	1,017,354	1,581,578	879,975
	38,934,477	35,760,952	36,369,546	33,358,540
Interest receivable	954,238	819,596	901,803	771,811
	39,888,715	36,580,548	37,271,349	34,130,351

3. Financial Risk Management (Continued)

(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 is exposed to daily calls on their available cash resources from overnight placement of funds, maturing placement of funds, loan draw-downs and guarantees. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of investment of maturing funds can be predicted with a high level of certainty. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

Liquidity risk management process

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

(i) Monitoring future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure funding if required.

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

(iii) Maintaining committed lines of credit;

(iv) Optimising cash returns on investment;

(v) Monitoring balance sheet liquidity ratios against internal and regulatory requirements. The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities; and

(vi) 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.

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.

3. Financial Risk Management (Continued)

(b) Liquidity risk (continued)

Total assets and liabilities cash flows

The tables below present the contractual maturities of undiscounted cash flows (both interest and principal cash flows) of the Group's and company's total assets and liabilities based on the remaining period.

	The Group					
	Within 1 Month $'000	1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	Total $'000
As at 31 December 2007:						
Financial Assets						
Cash and balances due from other financial institutions	1,320,950	-	-	-	-	1,320,950
Cash reserves at Bank of Jamaica	95,848	-	-	-	-	95,848
Trading securities	98,200	-	991,507	-	669,519	1,759,226
Securities purchased under agreements to resell	760,278	790,973	140,108	-	-	1,691,359
Investment securities	1,377,869	2,119,765	309,007	10,200,262	13,741,990	27,748,893
Loans, net provision for credit losses	472,563	1,372,579	2,232,888	2,086,579	2,577,032	8,741,641
Lease receivables	477	-	2,868	44,024	-	47,369
Pledged assets	334,458	400,471	3,566,337	9,146,636	9,113,400	22,561,302
Non-financial Assets						
Other	335,490	-	1,661	68,377	933,718	1,339,246
Total assets (contractual maturity dates)	4,796,133	4,683,788	7,244,376	21,545,878	27,035,659	65,305,834
Financial Liabilities						
Securities sold under agreements to repurchase	10,597,398	20,307,394	4,174,500	25,203	-	35,104,495
Customer deposits and other accounts	1,175,888	824,927	2,377,361	578,168	829,131	5,785,475
Due to banks and other financial institutions	223,008	35,132	87,073	330,264	2,177,495	2,852,972
Non-financial liabilities						
Other	337,196	-	17,413	20,132	192,064	566,805
Total liabilities (contractual maturity dates)	12,333,490	21,167,453	6,656,347	953,767	3,198,690	44,309,747
Net Liquidity Gap	(7,537,357)	(16,483,665)	588,029	20,592,111	23,836,969	20,996,087
Cumulative Liquidity Gap	(7,537,357)	(24,021,022)	(23,432,993)	(2,840,882)	20,996,087	

3. Financial Risk Management (Continued)

(b) Liquidity risk (continued)

Total assets and liabilities cash flows (continued)

	The Group					
	Within 1 Month $'000	1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	Total $'000
As at 31 December 2006:						
Financial Assets						
Cash and balances due from other financial institutions	1,180,306	-	1,319	-	-	1,181,625
Cash reserves at Bank of Jamaica	58,873	-	-	-	-	58,873
Trading securities	62,367	1,450,577	-	-	481	1,513,425
Securities purchased under agreements to resell	483,778	310,418	37,100	-	-	831,296
Investment securities	1,949,473	924,398	2,111,286	12,329,222	11,231,941	28,546,320
Loans, net provision for credit losses	337,691	675,042	2,048,909	1,632,480	2,138,174	6,832,296
Lease receivables	452	391	742	65,893	-	67,478
Pledged assets	385,400	-	1,712,629	9,616,869	5,236,300	16,951,198
Non-Financial Assets						
Other	385,913	1,278	30,879	48,217	930,288	1,396,575
Total assets (contractual maturity dates)	4,844,253	3,362,104	5,942,864	23,692,681	19,537,184	57,379,086
Financial Liabilities						
Securities sold under agreements to repurchase	18,507,910	7,853,071	4,723,871	27,860	264	31,112,976
Customer deposits and other accounts	894,817	530,115	1,872,011	730,101	805,949	4,832,993
Due to banks and other financial institutions	350,508	83,247	164,908	304,826	810,188	1,713,677
Non-Financial Liabilities						
Other	252,325	4,988	43,435	-	348,272	649,020
Total liabilities (contractual maturity dates)	20,005,560	8,471,421	6,804,225	1,062,787	1,964,673	38,308,666
Net Liquidity Gap	(15,161,307)	(5,109,317)	(861,361)	22,629,894	17,572,511	19,070,420
Cumulative Liquidity Gap	(15,161,307)	(20,270,624)	(21,131,985)	1,497,909	19,070,420	

3. Financial Risk Management (Continued)

(b) Liquidity risk (continued)

Total assets and liabilities cash flows (continued)

	The Company					
	Within 1 Month $'000	1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	Total $'000
As at 31 December 2007:						
Financial Assets						
Cash and balances due from other financial institutions	309,789	-	-	-	-	309,789
Trading securities	98,200	-	991,506	-	669,519	1,759,225
Securities purchased under agreements to resell	681,744	778,810	127,944	-	-	1,588,498
Investment securities	968,594	2,080,860	-	9,487,762	11,860,630	24,397,846
Loans, net provision for credit losses	81,885	467,673	958,430	710,485	1,096,281	3,314,754
Lease receivables	-	-	-	19,454	-	19,454
Pledged assets	334,458	400,471	3,566,337	9,146,636	9,066,622	22,514,524
Non-Financial Assets						
Other	265,723	-	1,661	130,022	2,672,938	3,070,344
Total assets (contractual maturity dates)	2,740,393	3,727,814	5,645,878	19,494,359	25,365,990	56,974,434
Financial Liabilities						
Securities sold under agreements to repurchase	11,182,127	20,307,394	4,174,500	25,203	-	35,689,224
Customer accounts	713	35,083	41,172	532,801	-	609,769
Due to banks and other financial institutions	210,661	35,132	35,661	190,700	2,086,505	2,558,659
Non-Financial Liabilities						
Other	224,538	-	17,413	25,442	63,796	331,189
Total liabilities (contractual maturity dates)	11,618,039	20,377,609	4,268,746	774,146	2,150,301	39,188,841
Net Liquidity Gap	(8,877,646)	(16,649,795)	1,377,132	18,720,213	23,215,689	17,785,593
Cumulative Liquidity Gap	(8,877,646)	(25,527,441)	(24,150,309)	(5,430,096)	17,785,593	

3. Financial Risk Management (Continued)

(b) Liquidity risk (continued)

Total assets and liabilities cash flows (continued)

	The Company					
	Within 1 Month $'000	1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	Total $'000
As at 31 December 2006:						
Financial Assets						
Cash and balances due from other financial institutions	592,145	-	1,319	-	-	593,464
Trading securities	62,367	1,450,577	-	-	481	1,513,425
Securities purchased under agreements to resell	888,953	-	-	-	-	888,953
Loans, net provision for credit losses	12,812	258,484	568,366	523,961	658,416	2,022,039
Investment securities	1,859,601	767,532	1,373,535	10,633,248	11,229,649	25,863,565
Lease receivables	-	-	-	26,513	-	26,513
Pledged assets	385,400	-	1,712,629	9,616,868	5,189,598	16,904,495
Non-Financial Assets						
Other	384,213	-	861	47,561	2,763,018	3,195,653
Total assets (contractual maturity dates)	4,185,491	2,476,593	3,656,710	20,848,151	19,841,162	51,008,107
Financial Liabilities						
Securities sold under agreements to repurchase	19,092,639	7,853,071	4,723,871	27,860	264	31,697,705
Customer accounts	4,581	4,009	71,276	596,537	-	676,403
Due to banks and other financial institutions	341,767	54,185	129,019	130,178	762,507	1,417,656
Non-Financial Liabilities						
Other	65,074	-	125,823	-	320,928	511,825
Total liabilities (contractual maturity dates)	19,504,061	7,911,265	5,049,989	754,575	1,083,699	34,303,589
Net Liquidity Gap	(15,318,570)	(5,434,672)	(1,393,279)	20,093,576	18,757,463	16,704,518
Cumulative Liquidity Gap	(15,318,570)	(20,753,242)	(22,146,521)	(2,052,945)	16,704,518	

3. Financial Risk Management (Continued)

(b) Liquidity risk (continued)

Source of funding available to meet all of the liabilities and to cover outstanding loan commitments include cash, central bank balances, items in the course of collection, investments, loans and advances to banks and loans and advances to customers. In the normal course of business, a proportion of customer loans will be extended beyond their due dates. The Group is also able to meet unexpected net cash outflows by selling securities and accessing additional funding sources from local and overseas financial institutions.

Off-balance sheet items **- Contingent liabilities and commitments**

The tables below show the contractual expiry by maturity of the Group's and company's contingent liabilities and commitments.

	The Group			
At 31 December 2007	**No later than 1 year $'000**	**1 to 5 years $'000**	**Over 5 years $'000**	**Total $'000**
Loan commitments	238,038	189,496	-	427,534
Guarantees, acceptances and other financial facilities	316,742	222,044	26,861	565,647
Operating lease commitments	22,874	38,533	-	61,407
	577,654	450,073	26,861	1,054,588
At 31 December 2006				
Loan commitments	73,933	331,871	-	405,804
Guarantees, acceptances and other financial facilities	253,619	23,682	30,073	307,374
Operating lease commitments	39,102	6,095	-	45,197
Capital commitments	16,800	-	-	16,800
	383,454	361,648	30,073	775,175

	The Company			
At 31 December 2007	**No later than 1 year $'000**	**1 to 5 years $'000**	**Over 5 years $'000**	**Total $'000**
Loan commitments	149,533	23,659	-	173,192
Guarantees, acceptances and other financial facilities	142,653	179,410	-	322,063
	292,186	203,069	-	495,255
At 31 December 2006				
Capital commitments	16,800	-	-	16,800

Legal proceedings

The company and its subsidiaries are subject to various claims, disputes and legal proceedings, as part of the normal course of business at 31 December 2007. No provision has been made, as professional advice indicates that it is unlikely that any significant loss will arise.

3. Financial Risk Management (Continued)

(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 rate, credit spreads, foreign exchange rates and equity prices. Market risk is monitored by the Risk Management and Compliance Unit which carries out extensive research and monitors the price movement of financial assets on the local and international markets. Market risk exposures are measured using duration analysis, sensitivity analysis and historical value-at-risk.

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

(i) Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Foreign exchange risk occurs when the Group takes on open position in a currency. To control this exchange risk the Asset, Liability, Credit and Investment Committee has approved limits for net open position in each currency for both intra-day and overnight position. This limit may vary from time to time as determined by Risk Management and Compliance Unit assessment of the volatility in exchange rates and with the approval of the Asset, Liability, Credit and Investment Committee.

The Group also has transactional currency exposure. This exposure arises from having financial assets in currencies other than those in which financial liabilities are expected to settle. The Group ensures that its net exposure is kept at approved levels.

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(i) Currency risk (continued)

Concentrations of currency risk – on and off balance sheet assets and liabilities

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

	The Group					
	Jamaican$	US$	GBP	CAN$	EURO	Total
	J$'000	J$'000	J$'000	J$'000	J$'000	J$'000
At 31 December 2007:						
Assets						
Cash and balances due from other financial institutions and cash reserves at Bank of Jamaica	219,249	1,034,013	27,894	96,648	33,698	1,411,502
Trading securities	-	1,503,840	-	-	-	1,503,840
Securities purchased under agreements to resell	476,756	1,185,443	-	-	-	1,662,199
Investment securities	11,238,968	8,191,794	-	-	596,122	20,026,884
Loans, net of provision for credit losses	2,289,236	4,829,176	-	-	-	7,118,412
Lease receivables	27,273	12,016	-	-	-	39,289
Pledged assets	9,605,940	7,089,852	-	-	-	16,695,792
Other	1,275,682	51,820	20	1,047	10,677	1,339,246
Total assets	25,133,104	23,897,954	27,914	97,695	640,497	49,797,164
Liabilities and Stockholders' Equity						
Securities sold under agreements to repurchase	17,645,556	16,801,201	-	209,568	-	34,656,325
Customer deposits and other accounts	764,292	4,464,338	6,295	30,351	224,481	5,489,757
Due to banks and other financial institutions	1,115,211	238,348	-	-	199,788	1,553,347
Other liabilities	329,893	234,182	212	2,175	343	566,805
Stockholders' equity	7,363,868	169,476	-	-	(2,414)	7,530,930
Total liabilities and stockholders' equity	27,218,820	21,907,545	6,507	242,094	422,198	49,797,164
Net on-balance sheet financial position	(2,085,716)	1,990,409	21,407	(144,399)	218,299	-
Credit commitments	340,706	652,475	-	-	-	993,181

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(i) Currency risk (continued)

Concentrations of currency risk – on and off balance sheet assets and liabilities (continued)

	The Group					
	Jamaican$	US$	GBP	CAN$	EURO	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 and Stockholders' Equity						
Securities sold under agreements to repurchase	16,282,489	14,650,551	95,919	-	-	31,028,959
Customer deposits and other accounts	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 liabilities	288,054	352,545	2,656	170	5,595	649,020
Stockholders' equity	6,709,788	493,024	-	-	1,322	7,204,134
Total liabilities and stockholders' equity	24,817,889	19,439,459	135,240	4,823	342,311	44,739,722
Net on-balance sheet financial position	(2,497,027)	2,371,702	(37,882)	16,049	147,158	-
Credit commitments	242,102	471,076	-	-	-	713,178

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(i) Currency risk (continued)

Concentrations of currency risk – on and off balance sheet assets and liabilities (continued)

	The Company				
	Jamaican$	US$	GBP	EURO	Total
	J$'000	J$'000	J$'000	J$'000	J$'000
At 31 December 2007:					
Assets					
Cash and balances due from other financial institutions and cash reserves at Bank of Jamaica	49,878	236,020	23,891	-	309,789
Trading securities	-	1,503,840	-	-	1,503,840
Securities purchased under agreements to resell	455,996	1,113,991	-	-	1,569,987
Investment securities	9,904,839	7,030,769	-	596,122	17,531,730
Loans, net of provision for credit losses	1,355,582	1,352,507	-	-	2,708,089
Lease receivables	16,233	-	-	-	16,233
Pledged assets	9,575,940	7,089,852	-	-	16,665,792
Other	3,009,085	50,581	-	10,678	3,070,344
Total assets	24,367,553	18,377,560	23,891	606,800	43,375,804
Liabilities and Stockholders' Equity					
Securities sold under agreements to repurchase	17,812,843	17,221,443	206,768	-	35,241,054
Customer accounts	504,508	12,182	-	-	516,690
Due to banks and other financial institutions	865,874	238,348	-	199,788	1,304,010
Other liabilities	160,149	159,920	11,120		331,189
Stockholders' equity	5,883,988	101,287	-	(2,414)	5,982,861
Total liabilities and stockholders' equity	25,227,362	17,733,180	217,888	197,374	43,375,804
Net on-balance sheet financial position	(859,809)	644,380	(193,997)	409,426	-
Credit commitments	145,045	350,210	-	-	495,255

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(i) Currency risk (continued)

Concentrations of currency risk – on and off balance sheet assets and liabilities (continued)

	The Company				
	Jamaican$	**US$**	**GBP**	**EURO**	**Total**
	J$'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	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 and Stockholders' Equity					
Securities sold under agreements to repurchase	16,618,848	14,658,853	95,919	-	31,373,620
Customer accounts	506,452	27,959	-	-	534,411
Due to banks and other financial institutions	441,725	377,172	-	335,394	1,154,291
Other liabilities	159,346	346,478	697	5,304	511,825
Stockholders' equity	5,538,916	465,125	-	1,322	6,005,363
Total liabilities and stockholders' equity	23,265,287	15,875,587	96,616	342,020	39,579,510
Net on-balance sheet financial position	(2,689,473)	2,647,312	(87,295)	(129,456)	-

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

3. Financial Risk Management (Continued)

(c) Market risk (continued)
(i) Currency risk (continued)

Foreign currency sensitivity

The following tables indicate the currencies to which the Group and company had significant exposure on its monetary assets and liabilities and its forecast cash flows. The change in currency rate below represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis represents outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. The sensitivity analysis includes loans and advances to customers, investment securities and deposits. The correlation of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact due to changes in variable, variables had to be on an individual basis. It should be noted that movements in these variables are non-linear.

	The Group			
	Change in Currency Rate	Effect on Net Profit	Change in Currency Rate	Effect on Net Profit
	2007 %	2007 $'000	2006 %	2006 $'000
Currency:				
USD	5	104,274	5	105,751
GBP	5	(7,513)	5	(1,440)
EUR	5	10,089	5	5,105

	The Company			
	Change in Currency Rate	Effect on Net Profit	Change in Currency Rate	Effect on Net Profit
	2007 %	2007 $'000	2006 %	2006 $'000
Currency:				
USD	5	35,495	5	51,179
GBP	5	(9,337)	5	(3,672)
EUR	5	19,400	5	3,807

(ii) Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Floating rate instruments expose the Group to cash flow interest risk, whereas fixed interest rate instruments expose the Group to fair value interest risk.

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

The Group's interest rate risk policy requires it to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest bearing financial assets and interest bearing financial liabilities. Macaulay and Effective Duration analysis is also conducted on the financial assets of the Group to determine the impact of changes in interest rates. Macaulay duration is the weighted average term to maturity of a bond's cash flows, while Effective duration is the change in the value of the portfolio in response to a change in interest rates. The Duration Gap is also assessed. This is the difference between the Macaulay duration of assets and the duration of liabilities. It measures how well the average timings of cash inflows are matched to cash outflows.

The following tables summarises the Group's 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 $'000	1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	Non-Interest Bearing $'000	Total $'000
At 31 December 2007:							
Assets							
Cash and balances due from other financial institutions	1,315,641	-	-	-	-	13	1,315,654
Cash reserve at Bank of Jamaica	95,848	-	-	-	-	-	95,848
Trading securities	392,914	1,032,498	6,980	-	-	71,448	1,503,840
Securities purchased under agreements to resell	1,046,535	475,037	128,617	-	-	12,010	1,662,199
Investment securities	6,000,010	6,192,031	5,011,707	1,279,107	386,627	1,157,402	20,026,884
Loans, net of provision for credit losses	345,316	1,351,358	2,128,749	1,576,945	1,584,150	131,894	7,118,412
Leases receivables	477	-	2,360	36,452		-	39,289
Pledged assets	3,128,839	10,934,250	2,039,530	30,000	563,173	-	16,695,792
Other	-	-	-	-	46,539	1,292,707	1,339,246
Total assets	12,325,580	19,985,174	9,317,943	2,922,504	2,580,489	2,665,474	49,797,164
Liabilities							
Securities sold under agreements to repurchase	10,151,431	20,075,878	4,041,572	20,753	-	366,691	34,656,325
Customer deposits and other accounts	1,076,301	816,061	2,323,328	152,904	1,026,442	94,721	5,489,757
Due to banks and other financial institutions	209,361	34,042	82,568	235,434	982,723	9,219	1,553,347
Other	-	-	-	-	12,423	554,382	566,805
Total liabilities	11,437,093	20,925,981	6,447,468	409,091	2,021,588	1,025,013	42,266,234
Total interest repricing gap	888,487	(940,807)	2,870,475	2,513,413	558,901	1,640,461	7,530,930
Cumulative repricing gap	888,487	(52,320)	2,818,155	5,331,568	5,890,469	7,530,930	

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

	The Group						
	Within 1 Month $'000	1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	Non-Interest Bearing $'000	Total $'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	-	-	-	13,954	1,378,663	1,396,575
Total assets	8,602,832	9,777,784	7,096,599	13,413,116	3,251,599	2,597,792	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 and other accounts	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	-	-	12,423	616,292	649,020
Total liabilities	19,884,878	8,397,915	6,605,657	814,733	1,216,113	616,292	37,535,588
Total interest repricing gap	(11,282,046)	1,379,869	490,942	12,598,383	2,035,486	1,981,500	7,204,134
Cumulative repricing gap	(11,282,046)	(9,902,177)	(9,411,235)	3,187,148	5,222,634	7,204,134	

3. Financial Risk Management (Continued)

(c) Market risk (continued)
(ii) Interest rate risk (continued)

	The Company						
	Within 1 Month $'000	1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	Non-Interest Bearing $'000	Total $'000
At 31 December 2007:							
Assets							
Cash and balances due from other financial institutions	309,775	-	-	-	-	14	309,789
Trading securities	392,914	1,032,498	6,980	-	-	71,448	1,503,840
Securities purchased under agreements to resell	974,081	463,008	123,537	-	-	9,361	1,569,987
Investment securities	4,711,371	5,617,985	4,441,054	1,291,139	386,627	1,083,554	17,531,730
Loans, net of provision for credit losses	56,112	461,124	917,872	551,618	695,611	25,752	2,708,089
Leases receivables	-	-	-	16,070	-	163	16,233
Pledged assets	3,128,839	10,904,250	2,039,530	30,000	563,173	-	16,665,792
Other	-	-	-	-	-	3,070,344	3,070,344
Total assets	9,573,092	18,478,865	7,528,973	1,888,827	1,645,411	4,260,636	43,375,804
Liabilities							
Securities sold under agreements to repurchase	10,719,791	20,092,246	4,041,572	20,754	-	366,691	35,241,054
Customer accounts	-	10,342	26,224	112,066	347,828	20,230	516,690
Due to banks and other financial institutions	197,688	34,042	32,471	116,263	914,933	8,613	1,304,010
Other	-	-	-	-	-	331,189	331,189
Total liabilities	10,917,479	20,136,630	4,100,267	249,083	1,262,761	726,723	37,392,943
Total interest repricing gap	(1,344,387)	(1,657,765)	3,428,706	1,639,744	382,650	3,533,913	5,982,861
Cumulative repricing gap	(1,344,387)	(3,002,152)	426,554	2,066,298	2,448,948	5,982,861	

3. Financial Risk Management (Continued)

(c) Market risk (continued)
(ii) Interest rate risk (continued)

	The Company						
	Within 1 Month $'000	1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	Non-Interest Bearing $'000	Total $'000
At 31 December 2006:							
Assets							
Cash and balances due from other financial institutions	592,125	-	1,319	-	-	20	593,464
Trading securities	439,823	1,010,754	-	-	316	62,446	1,513,339
Securities purchased under agreements to resell	879,975	-	-	-	-	3,106	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	2,092	254,858	544,275	406,644	417,511	11,370	1,636,750
Leases receivables	-	-	-	23,057	-	235	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	6,885,455	8,684,392	5,534,949	12,022,593	2,194,477	4,257,644	39,579,510
Liabilities							
Securities sold under agreements to repurchase	18,590,624	7,781,354	4,593,948	23,524	193	383,977	31,373,620
Customer accoounts	4,375	6,562	85,700	418,323	-	19,451	534,411
Due to banks and other financial institutions	319,433	53,596	124,813	106,736	529,795	19,918	1,154,291
Other	-	-	-	-	-	511,825	511,825
Total liabilities	18,914,432	7,841,512	4,804,461	548,583	529,988	935,171	33,574,147
Total interest repricing gap	(12,028,977)	842,880	730,488	11,474,010	1,664,489	3,322,473	6,005,363
Cumulative repricing gap	(12,028,977)	(11,186,097)	(10,455,609)	1,018,401	2,682,890	6,005,363	

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

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

	2007									
	The Group					The Company				
	J $	US $	CAN $	GBP £	Other	J $	US $	CAN $	GBP £	Other
	%	%	%	%	%	%	%	%	%	%
Assets										
Cash and balances due from other financial institutions	1.50	4.75	1.00	3.00	2.50	1.50	4.75	1.00	3.00	2.25
Cash reserves at Bank of Jamaica	-	4.33	3.48	4.74	-	-	-	-	-	-
Trading securities	-	9.75	-	-	-	-	9.75	-	-	-
Securities purchased under agreements to resell	10.32	5.98	-	-	9.63	11.78	6.50	-	-	9.63
Investment securities – debt securities	13.87	9.85	-	-	-	14.79	10.28	-	-	-
Loans, net of provision for credit losses	15.75	9.09	-	-	-	14.31	8.73	-	-	-
Lease receivables	17.57	11.00	-	-	-	15.43	-	-	-	-
Liabilities										
Securities sold under agreements to repurchase	11.68	5.47	-	4.5	-	11.68	5.47	-	4.5	-
Customer deposits and other accounts	10.26	4.06	2.06	6.11	2.00	11.51	5.11	-	-	-
Due to banks and other financial institutions	9.54	8.13	-	-	7.63	9.85	8.13	-	-	7.63

	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 and other accounts	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	-	-	-

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

Interest rate sensitivity

The following tables indicate the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, on the Group's and company's profit and loss account and stockholders' equity.

The sensitivity of the profit or loss is the effect of the assumed changes in interest rates on net income based on the floating rate of financial assets and financial liabilities. The sensitivity of stockholders' equity is calculated by revaluing fixed rate available-for-sale financial assets for the effects of the assumed changes in interest rates. The correlation of a number of variables will have an impact on market risk. It should be noted that movements in these variables are non-linear and are assessed individually.

	The Group			
	Effect on Net Profit	Effect on Equity	Effect on Net Profit	Effect on Equity
	2007 $'000	2007 $'000	2006 $'000	2006 $'000
Change in interest rate				
-2%	1,192	39,107	2,095	41,384
+2%	(1,386)	(35,273)	(1,777)	(36,285)

	The Company			
	Effect on Net Profit	Effect on Equity	Effect on Net Profit	Effect on Equity
	2007 $'000	2007 $'000	2006 $'000	2006 $'000
Change in interest rate				
-2%	1,192	30,436	2,095	38,350
+2%	(1,386)	(32,867)	(1,777)	(32,138)

3. Financial Risk Management (Continued)

(d) Capital management

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

(i) To comply with the capital requirements set by the regulators of the financial markets where the entities within the Group operate;

(ii) To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for stockholders and benefits for other stakeholders; and

(iii) To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored monthly by the Group's management employing techniques based on the guidelines developed by the Financial Services Commission (FSC), the Bank of Jamaica (BOJ), Basel II and the Risk Management and Compliance Unit. The required information is filed with the respective Regulatory Authorities at stipulated intervals.

The BOJ and the FSC require each regulated entity to:

(i) Hold the minimum level of the regulatory capital; and

(ii) Maintain a minimum ratio of total regulatory capital to the risk-weighted assets.

The Group's regulatory capital is divided into two tiers:

(i) Tier 1 capital: share capital, retained earnings and reserves created by appropriations of retained earnings. The book value of goodwill is deducted in arriving at Tier 1 capital; and

(ii) Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and revaluation on property, plant and equipment.

Investments in associates are deducted from Tier 1 and Tier 2 capital to arrive at the regulatory capital.

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off- balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarises the composition of regulatory capital and the ratios of the regulated companies within the Group for the years ended 31 December 2007 and 2006. During those two years, the individual entities within the Group complied with all of the externally imposed capital requirements to which they are subject.

The regulated companies within the Group are Pan Caribbean Financial Services Limited (PCFS), Pan Caribbean Merchant Bank Limited (PCMB) and Pan Caribbean Asset Management Limited (PCAM).

3. Financial Risk Management (Continued)

(d) Capital management (continued)

	PCFS	PCFS	PCMB	PCMB	PCAM	PCAM
	2007 $'000	2006 $'000	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Tier 1 capital	5,672,679	5,170,065	1,044,200	1,007,899	151,878	117,251
Tier 2 capital	140,436	122,731	22,898	19,833	5,310	5,310
Total regulatory capital	5,813,115	5,292,796	1,067,098	1,027,732	157,188	122,561
Total required capital	2,836,339	2,680,235	539,802	438,018	75,939	58,625
Risk-weighted assets:						
On-balance sheet	7,550,870	6,665,577	3,347,806	2,381,287	48,708	60,138
Off-balance sheet	-	-	528,199	838,994	-	-
Foreign exchange exposure	-	-	1,522,012	1,159,895	-	-
Total risk-weighted assets	7,550,870	6,665,577	5,398,017	4,380,176	48,708	60,138
Actual capital base to risk weighted assets	77%	79%	20%	23%	323%	204%
Required capital base to risk weighted assets	10%	10%	10%	10%	10%	10%

The increase of the regulatory capital in 2007 is mainly due to the contribution of the current year profit.

(e) Derivative products

A derivative is a security whose price is derived from one or more underlying assets. The Group primarily undertakes spot transactions in its foreign currency dealings, with currency hedges utilised as deemed appropriate. The Group's fixed income portfolio however includes derivatives in the form of structured products which have been designed to provide potential higher returns to the more risk-averse investor. These structured products currently take the form of Principal-Protected Notes (PPN's) which are fixed income securities that guarantee the principal invested, with the potential to participate in gains from favorable market movements.

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 $3,218,000 lower or $3,218,000 higher.

5. Segment Reporting

The Group is organised into the following operating segments and are based on the services offered by the Group:

(a) Investment management – this incorporates the Primary Dealer Unit and the Investment Management Division.

(b) Credit – this incorporates the loans and leasing activities.

(c) Asset management – this incorporates the administration of the unit trust and other fund management activities.

(d) Trading – this incorporates foreign currency trading, bond trading, equity trading and stock brokerage.

(e) Trust services – this incorporates trust service activities.

The Group's operations are located in Jamaica.

Transactions between the operating 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.

5. Segment Reporting (Continued)

	The Group						
	Year ended 31 December 2007						
	Investment Management $'000	Credit $'000	Asset Management $'000	Trading $'000	Trust Services $'000	Eliminations $'000	Group $'000
Gross external revenues	4,539,860	790,759	194,202	465,071	37,779	-	6,027,671
Revenues/expenses from other segments	54,583	-	-	-	-	(54,583)	-
Total gross revenues	4,594,443	790,759	194,202	465,071	37,779	(54,583)	6,027,671
Total expenses	(3,520,235)	(646,115)	(123,957)	(88,808)	(29,745)	54,583	(4,354,277)
Segment results	1,074,208	144,644	70,245	376,263	8,034	-	1,673,394
Share of associated company profit	1,342	-	-	-	-	-	1,342
Profit before tax	1,075,550	144,644	70,245	376,263	8,034	-	1,674,736
Income tax expense							(461,742)
Net profit							1,212,994
Segment assets	41,901,842	7,328,967	54,604	152,437	7,300	-	49,445,150
Unallocated assets							352,014
Total Assets							49,797,164
Segment liabilities	40,276,408	1,380,804	-	-	-	-	41,657,212
Unallocated liabilities							609,022
Total Liabilities							42,266,234
Other segment items -							
Net interest income	1,470,772	241,407	-	-	-	-	1,712,179
Capital expenditure	47,343	59,611	-	-	-	-	106,954
Depreciation	27,721	9,559	-	-	-	-	37,280
Amortisation charges	27,241	4,953	-	-	-	-	32,194

5. Segment Reporting (Continued)

	The Group						
	Year ended 31 December 2006						
	Investment Management	Credit	Asset Management	Trading	Trust Services	Eliminations	Group
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Gross external revenues	4,189,344	611,408	171,103	450,200	23,221	-	5,445,276
Revenues/expenses from other segments	38,859	-	-	-	-	(38,859)	-
Total gross revenues	4,228,203	611,408	171,103	450,200	23,221	(38,859)	5,445,276
Total expenses	(3,300,101)	(481,301)	(104,933)	(79,002)	(26,193)	38,859	(3,952,671)
Segment results	928,102	130,107	66,170	371,198	(2,972)	-	1,492,605
Share of associated company profit	3,517	-	-	-	-	-	3,517
Profit before tax	931,619	130,107	66,170	371,198	(2,972)	-	1,496,122
Income tax expense							(383,452)
Net profit							1,112,670
Segment assets	36,934,733	7,328,967	54,604	152,437	7,300	-	44,478,041
Unallocated assets							261,681
Total Assets							44,739,722
Segment liabilities	35,789,708	1,558,344	-	-	-	(354,968)	36,993,084
Unallocated liabilities							542,504
Total Liabilities							37,535,588
Other segment items -							
Net interest income	1,284,762	185,543	-	-	-	-	1,470,305
Capital expenditure	70,072	254	-	-	-	-	70,326
Depreciation	17,067	9,859	-	-	-	-	26,926
Amortisation charges	21,028	3,693	-	-	-	-	24,721

6. Interest Expense

	The Group		The Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Customer deposits and other accounts and repurchase liabilities	3,350,934	3,069,732	3,051,972	2,816,999
Due to banks and other financial institutions	116,733	103,428	89,995	80,665
	3,467,667	3,173,160	3,141,967	2,897,664

7. Fees and Commission Income

	The Group		The Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Credit related fees	35,653	29,047	21,585	10,633
Management fees	184,224	169,263	107,707	83,556
Stock brokerage fees	22,580	17,589	22,580	17,589
Treasury fees	2,425	5,421	4	1,739
Trust fees	39,936	23,220	2,157	-
Wholesale banking fees	10,194	15,894	10,194	15,894
Other	15,112	4,275	5,127	-
	310,124	264,709	169,354	129,411

8. Net Trading Income

	The Group		The Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Foreign exchange translation and trading	164,966	128,291	47,402	38,896
Equities trading gains and dividends	16,222	3,854	16,222	3,854
Securities trading gain/(loss) -				
Available-for-sale investment securities	346,442	368,599	346,377	366,765
Trading securities	(8,017)	7,556	(8,017)	7,556
	519,613	508,300	401,984	417,071

9. Staff Costs

	The Group		The Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Wages and salaries	385,705	356,086	262,785	241,188
Statutory contributions	34,485	38,129	23,505	27,582
Pension costs (Note 29)	(20,548)	9,436	-	-
Other post-employment benefits (Note 29)	5,060	2,049	-	-
Accommodation and other staff benefits	54,381	23,852	50,833	21,434
Stock option expense (Note 34)	9,758	12,000	9,758	12,000
	468,841	441,552	346,881	302,204

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

	The Group		The Company	
	2007 No.	2006 No.	2007 No.	2006 No.
Full - time	209	212	103	127
Part - time	18	7	8	2
	227	219	111	129

10. Other Expenses

	The Group		The Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Amortisation (Note 26)	32,194	24,721	27,241	21,029
Audit fees -				
Current year	8,468	7,987	4,092	3,859
Prior year	-	600	-	400
Bank charges	19,540	13,884	9,703	4,606
Commissions and fees	25,550	23,361	15,076	15,227
Computer project expense	46,863	29,560	46,863	29,553
Depreciation (Note 27)	37,280	26,926	27,722	17,067
Donations	3,640	647	68	137
Insurance	7,746	15,321	5,532	5,495
Irrecoverable General Consumption Tax	19,805	22,669	9,837	14,709
Legal and professional fees	8,121	12,121	6,478	9,569
Licensing fees	13,556	-	-	-
Miscellaneous	2,737	1,621	1,950	1,212
Motor vehicle expense	6,042	7,957	3,359	4,977
Office expenses	2,158	3,970	859	954
Printing and stationery	4,778	9,314	2,068	4,268
Promotion and advertising	62,183	56,592	47,840	43,944
Security	5,436	5,046	676	1,504
Stamp duty	322	432	322	324
Telephone and postage	18,338	19,103	6,698	7,251
Travelling and entertainment	6,152	5,863	4,425	4,195
	330,909	287,695	220,809	190,280

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	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Current tax	453,805	395,790	309,146	291,717
Prior year adjustment	(4,547)	(12,388)	(443)	(12,388)
Deferred tax (Note 28)	12,484	50	(2,490)	(12,785)
	461,742	383,452	306,213	266,544

(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	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Profit before taxation	1,674,736	1,496,122	1,222,542	1,137,672
Tax calculated at 33⅓%	558,245	498,707	407,514	379,224
Adjusted for the effects of:				
Income not subject to tax	(96,617)	(112,583)	(100,507)	(105,061)
Prior year adjustment	(4,547)	(12,388)	(443)	(12,388)
Net effect of other charges and allowances	4,661	9,716	(351)	4,769
	461,742	383,452	306,213	266,544

12. Net Profit

	2007 $'000	2006 $'000
Dealt with in the financial statements of:		
The company	916,329	871,128
The subsidiaries	295,323	238,025
Associated company (Note 20)	1,342	3,517
	1,212,994	1,112,670

13. Retained Earnings

	2007 $'000	2006 $'000
Reflected in the financial statements of:		
The company	2,730,707	2,322,714
The subsidiaries	1,146,841	921,561
	3,877,548	3,244,275

14. Earnings per Stock Unit

(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.

	2007	2006
Net profit attributable to stockholders ($'000)	1,212,994	1,112,670
Weighted average number of ordinary stock units in issue ('000)	543,712	538,933
Basic earnings per stock unit ($)	2.23	2.06

(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.

	2007	2006
Net profit attributable to stockholders ($'000)	1,212,994	1,112,670
Weighted average number of ordinary stock units in issue ('000)	544,135	540,923
Diluted earnings per stock unit ($)	2.23	2.06

14. Earnings per Stock Unit (Continued)

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

	2007 '000	2006 '000
Weighted average number of ordinary stock units for the purposes of the computation of basic earnings per stock unit	543,712	538,933
Effect of dilutive potential ordinary stock units – share options	423	1,990
Weighted average number of ordinary stock units for the purposes of the computation of diluted earnings per stock unit	544,135	540,923

15. Cash and Balances Due from Other Financial Institutions

	The Group		The Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Placements with other financial institutions	1,298,351	1,158,832	309,705	593,377
Cash in hand	17,290	17,195	70	67
Included in cash and cash equivalents (Note 21)	1,315,641	1,176,027	309,775	593,444
Interest receivable	13	20	14	20
	1,315,654	1,176,047	309,789	593,464

16. 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.

17. Trading Securities

	The Group and The Company	
	2007 $'000	2006 $'000
Government of Jamaica debt securities – at fair value	1,432,392	1,450,893
Interest receivable	71,448	62,446
	1,503,840	1,513,339

18. Securities Purchased Under Agreements to Resell

	The Group		The Company	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Principal	1,650,189	1,017,354	1,560,626	879,975
Interest receivable	12,010	5,787	9,361	3,106
	1,662,199	1,023,141	1,569,987	883,081

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 2007, the Group held $1,681,871,000 (2006 - $1,107,590,000) of securities, mainly representing Government of Jamaica debt securities, as collateral for reverse repurchase agreements.

	The Group		The Company	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Securities purchased under agreement to resell with an original maturity of less than 90 days (Note 21)	788,166	1,016,460	677,942	811,460

19. Investment Securities

	The Group		The Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Available-for-sale securities -				
Debt securities – at fair value				
Government of Jamaica	29,741,562	30,477,925	28,585,641	29,101,799
Corporate bonds	3,275,484	2,525,455	2,386,669	1,647,318
Bank of Jamaica Certificates of Deposit	2,364,183	-	1,955,593	-
Other	10,011	-	-	-
	35,391,240	33,003,380	32,927,903	30,749,117
Equity securities -				
Quoted – at fair value	78,172	108,091	78,172	98,793
Unquoted – at cost	196,419	181,234	184,388	179,762
	274,591	289,325	262,560	278,555
Preference shares -				
Quoted – at fair value	86,060	-	86,060	-
Unquoted – at cost	100,005	-	100,005	-
	186,065	-	186,065	-
	35,851,896	33,292,705	33,376,528	31,027,672
Less: Pledged assets (Note 24)	(16,695,792)	(12,648,748)	(16,665,792)	(12,618,748)
	19,156,104	20,643,957	16,710,736	18,408,924
Interest receivable	870,780	751,363	820,994	706,259
	20,026,884	21,395,320	17,531,730	19,115,183

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	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Debt securities with an original maturity of less than 90 days (Note 21)	355,500	1,065,000	355,500	1,065,000

20. Investment in Associated Company

	The Group	
	2007	2006
	$'000	$'000
Balance at beginning of year	17,114	13,597
Share of profit	2,635	4,450
Share of tax	(1,293)	(933)
	1,342	3,517
Balance at end of year	18,456	17,114

	The Company	
	2007	2006
	$'000	$'000
Cost of investment in associated company	11,466	11,466

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

	Assets	Liabilities	Revenues	Profit	Interest
	$'000	$'000	$'000	$'000	%
2007	68,191	23,786	75,115	10,539	25
2006	62,865	9,687	65,307	14,070	25

21. Cash and Cash Equivalents

	The Group		The Company	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Cash and balances due from other banks (Note 15)	1,315,654	1,176,027	309,789	593,444
Securities purchased under agreements to resell (Note 18)	788,166	1,016,460	677,942	811,460
Investment securities (Note 19)	355,500	1,065,000	355,500	1,065,000
Repurchase agreements with financial institutions	(1,386,626)	(674,667)	(1,375,724)	(665,429)
Bank overdrafts (Note 31)	(1,346)	(8,623)	-	(369)
	1,071,348	2,574,197	(32,493)	1,804,106

22. Loans, Net of Provision for Credit Losses

	The Group		The Company	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Gross loans and advances	7,147,109	5,511,653	2,771,841	1,720,915
Less: Provision for credit losses	(108,312)	(112,726)	(89,504)	(95,535)
	7,038,797	5,398,927	2,682,337	1,625,380
Loan interest receivable	79,615	75,871	25,752	11,370
	7,118,412	5,474,798	2,708,089	1,636,750

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

	The Group		The Company	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Total non-performing loans	157,092	157,145	108,497	104,824

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

	The Group		The Company	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Balance at beginning of year	112,726	114,183	95,535	96,805
Provided during the year	11,612	25,675	6,898	22,877
Recoveries	(40)	(27,132)	(40)	(24,147)
Net charge/(credit) to the profit and loss account	11,572	(1,457)	6,858	(1,270)
Write offs	(15,986)	-	(12,889)	-
Balance at end of year	108,312	112,726	89,504	95,535

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

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

	The Group		The Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Specific provision	165,645	163,065	124,096	119,215
General provision	46,123	33,614	22,829	15,415
	211,768	196,679	146,925	134,630
Excess of regulatory provision over IFRS provision reflected in a non distributable loan loss reserve (Note 37)	103,456	83,953	57,421	39,095

23. Lease Receivables

	The Group		The Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Gross investment in finance leases -				
Not later than one year	2,892	528	-	-
Later than one year and not later than five years	43,837	68,880	19,291	28,734
	46,729	69,408	19,291	28,734
Unearned finance income	(8,080)	(17,614)	(3,221)	(5,677)
Net investment in finance leases	38,649	51,794	16,070	23,057
Net investment in finance leases -				
Not later than one year	2,359	390	-	-
Later than one year and not later than five years	36,290	51,404	16,070	23,057
	38,649	51,794	16,070	23,057
Interest receivable	640	688	163	235
	39,289	52,482	16,233	23,292

24. 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	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Investment securities and securities purchased under resale agreements	34,759,122	31,789,083	35,257,423	31,028,959

	The Company			
	Asset		Related liability	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Investment securities and securities purchased under resale agreements	34,729,122	31,245,636	35,257,423	31,373,620

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	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Investment securities	16,695,792	12,648,748	16,665,792	12,618,748

25. 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.

Related companies include parent company and fellow subsidiaries.

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

	The Group	
	2007 $'000	2006 $'000
With related parties -		
Interest and other income earned	4,950	697
Interest and other expenses paid	26,504	21,217
Rent and net lease recoveries paid to related party	4,832	3,989

	The Company	
	2007 $'000	2006 $'000
With parent company and fellow subsidiaries -		
Management fees	98,249	75,500
Interest income earned	6,243	-
Interest expense paid	27,622	22,084

	The Company	
	2007 $'000	2006 $'000
With fellow subsidiaries -		
Management fees	4,721	5,150
Interest and other income earned	6,359	2,217
Interest and other expenses paid	29,481	23,048
Preference share interest	1,593	1,593

25. Related Party Transactions and Balances (Continued)

(i) (Continued)

	The Group 2007 $'000	The Group 2006 $'000	The Company 2007 $'000	The Company 2006 $'000
With directors and key management -				
Interest paid	5,910	5,193	5,910	5,193
Salaries and other short-term benefits	88,798	83,838	58,038	57,547
	94,708	89,031	63,948	62,740

	The Group 2007 $'000	The Group 2006 $'000	The Company 2007 $'000	The Company 2006 $'000
Directors' emoluments -				
Fees	9,275	8,905	7,245	7,951
Other	18,658	19,567	18,658	19,567
	27,933	28,472	25,903	27,518

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

	The Group 2007 $'000	The Group 2006 $'000	The Company 2007 $'000	The Company 2006 $'000
Loans	153,515	165,789	-	-
Customer deposits and other accounts	(101,346)	(206,671)	-	-
Securities sold under agreements to repurchase	(575,532)	(344,662)	(575,532)	(344,662)
Securities purchased under agreements to resell	629,631	-	629,631	-
Balances due from related companies	17	6,429	433	5,322
Balances due to related companies	2,258	1,628	489	7,173

25. Related Party Transactions and Balances (Continued)

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

	The Group		The Company	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Loans	19,441	6,318	-	-
Customer deposits and other accounts	3,610	7,353	-	-
Securities sold under agreements to repurchase	61,887	49,999	61,887	49,999

26. Intangible Assets

	The Group		The Company	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Computer software	68,377	49,341	32,690	47,561
Goodwill	733,750	733,750	143,263	143,263
	802,127	783,091	175,953	190,824

Computer software

	The Group		The Company	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Opening net book value	49,341	50,625	47,561	45,153
Additions	51,230	23,437	12,370	23,437
Amortisation	(32,194)	(24,721)	(27,241)	(21,029)
	68,377	49,341	32,690	47,561
Cost, net of grant	177,285	126,055	104,717	92,347
Accumulated amortisation	(108,908)	(76,714)	(72,027)	(44,786)
	68,377	49,341	32,690	47,561

26. Intangible Assets (Continued)

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.

Goodwill

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:

	2007 **$'000**	**2006** **$'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 CGUs.

27. Property, Plant and Equipment

	The Group				
	Leasehold Improvement $'000	Furniture and Equipment $'000	Motor Vehicles $'000	Computer Equipment $'000	Total $'000
At 31 December 2007					
Opening net book value	43,789	35,281	2,383	34,676	116,129
Additions	17,253	9,172	1,458	27,841	55,724
Disposals	-	(19)	-	-	(19)
Depreciation	(6,831)	(9,202)	(791)	(20,456)	(37,280)
Depreciation relieved on disposal	-	19	-	-	19
Closing net book amount	54,211	35,251	3,050	42,061	134,573
At 31 December 2007					
Cost	81,486	99,633	10,837	114,311	306,267
Accumulated depreciation	(27,275)	(64,382)	(7,787)	(72,250)	(171,694)
	54,211	35,251	3,050	42,061	134,573

27. Property, Plant and Equipment (Continued)

	The Group				
	Leasehold Improvement	Furniture and Equipment	Motor Vehicles	Computer Equipment	Total
	$'000	$'000	$'000	$'000	$'000
At 1 January 2006					
Cost	56,487	92,515	11,627	44,432	205,061
Accumulated depreciation	(15,274)	(59,275)	(7,438)	(27,734)	(109,721)
Net book value	41,213	33,240	4,189	16,698	95,340
At 31 December 2006					
Opening net book value	41,213	33,240	4,189	16,698	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	35,281	2,383	34,676	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)
Net book value	43,789	22,844	2,383	47,113	116,129

27. 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 2007					
Opening net book value	36,381	24,547	1,918	27,233	90,079
Additions	8,475	7,410	1,162	17,927	34,974
Depreciation	(5,459)	(7,034)	(640)	(14,589)	(27,722)
Closing net book amount	39,397	24,923	2,440	30,571	97,331
At 31 December 2007					
Cost	55,791	42,148	4,080	59,328	161,347
Accumulated depreciation	(16,394)	(17,225)	(1,640)	(28,757)	(64,016)
Net book amount	39,397	24,923	2,440	30,571	97,331
At 1 January 2006					
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
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 value	36,381	24,547	1,918	27,233	90,079

28. 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	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Deferred income tax assets	7,385	11,118	1,696	861
Deferred income tax liabilities	(111,628)	(350,044)	(68,778)	(322,251)
Net deferred income tax liabilities	(104,243)	(338,926)	(67,082)	(321,390)

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

	The Group		The Company	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Balance at beginning of year	(338,926)	(214,637)	(321,390)	(216,675)
(Charged)/credited to profit and loss account (Note 11)	(12,484)	(50)	2,490	12,785
Credited/(charged) to stockholders' equity	247,167	(124,239)	251,818	(117,500)
Balance at end of year	(104,243)	(338,926)	(67,082)	(321,390)

28. Deferred Income Taxes (Continued)

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

	The Group		The Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Deferred income tax assets -				
Property, plant and equipment	130	4,159	-	-
Post-employment benefit obligations	4,141	2,454	-	-
Tax losses carried forward	587	3,227	-	-
Other	2,527	1,278	1,696	861
	7,385	11,118	1,696	861
Deferred income tax liabilities -				
Property, plant and equipment	9,453	12,073	9,453	12,073
Trading securities	19,110	21,782	19,110	21,782
Investment securities – available-for-sale	47,217	294,384	28,684	280,502
Loan loss provision	19,243	16,780	11,531	7,894
Post-employment benefit assets	15,513	4,651	-	-
Other	1,092	374	-	-
	111,628	350,044	68,778	322,251
Net deferred liability	(104,243)	(338,926)	(67,082)	(321,390)

Deferred income taxes are recognised for tax loss carry forwards only to the extent that realisation of the related tax benefit is probable. The Group has tax losses, subject to agreement with the Commissioner of Taxpayer Audit and Assessment, amounting to $1,761,000 (2006 - $9,681,000) 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 $1,146,841,000 (2006 - $921,561,000).

28. Deferred Income Taxes (Continued)

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

	The Group		The Company	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Property, plant and equipment	(1,409)	(1,302)	2,620	(4,472)
Post-employment benefits	(9,175)	504	-	-
Tax losses utilised	(2,640)	(16,231)	-	-
Loan loss provision	(2,463)	14,473	(3,637)	14,534
Trading securities	2,672	(2,519)	2,672	(2,519)
Other	531	5,025	835	5,242
	(12,484)	(50)	2,490	12,785

These balances include the following:

	The Group		The Company	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Deferred tax assets to be settled after more than twelve months	4,271	6,613	-	-
Deferred tax liabilities to be recovered after more than twelve months	91,426	327,889	49,668	300,470

29. 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 2007.

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

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

	The Group	
	2007	**2006**
	$'000	**$'000**
Present value of funded obligations	119,033	106,153
Fair value of plan assets	(165,572)	(127,051)
	(46,539)	(20,898)
Unrecognised actuarial losses	(10,679)	(4,956)
Limitation of asset due to uncertainty of obtaining economic benefits	10,679	11,900
Asset in the balance sheet	(46,539)	(13,954)

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

	The Group	
	2007	**2006**
	$'000	**$'000**
Balance at beginning of year	106,153	88,258
Current service cost	7,201	6,703
Interest cost	11,901	10,143
Members' contributions	13,771	11,169
Benefits paid	(5,488)	(7,678)
Actuarial gain on obligation	(14,505)	(2,442)
Balance at end of year	119,033	106,153

29. Post-employment Benefits (Continued)

(a) Pension scheme (continued)

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

	The Group 2007 $'000	The Group 2006 $'000
Balance at beginning of year	127,051	101,674
Members' contributions	13,771	11,169
Employer's contribution	12,037	9,974
Expected return on plan assets	17,071	13,881
Benefits paid	(5,488)	(7,678)
Actuarial loss	1,130	(1,969)
Balance at end of year	165,572	127,051

Plan assets are comprised as follows:

	The Group			
	2007		2006	
	$'000	%	$'000	%
Equity	8,279	5	8,894	7
Debt	157,293	95	118,157	93
	165,572	100	127,051	100

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

	The Group 2007 $'000	The Group 2006 $'000
Current service cost	7,201	6,703
Interest cost	11,901	10,143
Expected return on plan assets	(17,071)	(13,881)
Change in unrecognised assets	(22,579)	6,471
Total, included in staff costs (Note 9)	(20,548)	9,436

The actual return on plan assets was $20,912,000 (2006 - $12,980,000).

Expected contributions to post-employment plan for the year ending 31 December 2008 are $22,662,000.

29. Post-employment Benefits (Continued)

(a) Pension schemes (continued)

Movements in the amounts recognised in the balance sheet:

	The Group 2007 $'000	The Group 2006 $'000
Asset at beginning of year	(13,954)	(13,416)
Total (income)/expense, as above	(20,548)	9,436
Contributions paid	(12,037)	(9,974)
Asset at end of year	(46,539)	(13,954)

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 2007 $'000	2006 $'000	2005 $'000	2004 $'000	2003 $'000
As at 31 December					
Present value of defined benefit obligation	119,033	106,153	88,258	63,595	14,669
Fair value of plan assets	(165,572)	(127,051)	(101,674)	(77,668)	(30,796)
Surplus	(46,539)	(20,898)	(13,416)	(14,073)	(16,127)
Experience adjustments on plan liabilities	(14,505)	(2,442)	3,819	42,057	(9,202)
Experience adjustments on plan assets	(1,130)	(1,969)	164	(33,212)	3,969

The principal actuarial assumptions used were as follows:

	The Group 2007	The Group 2006
Discount rate	13.0%	12.0%
Expected return of plan assets	12.0%	12.0%
Future salary increases	10.0%	9.5%
Expected pension increase	3.5%	3.5%
Average expected remaining working lives (years)	13	14

29. Post-employment Benefits (Continued)

(b) Other post-retirement benefits

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

In addition to the assumptions used for pension schemes, the main actuarial assumption is a long-term increase in health cost of 12% (2006 -11%) per annum.

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

	The Group	
	2007	**2006**
	$'000	**$'000**
Present value of unfunded obligations	32,605	14,160
Unrecognised actuarial losses	(20,182)	(6,797)
Liability in the balance sheet	12,423	7,363

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

	The Group	
	2007	**2006**
	$'000	**$'000**
Balance at beginning of year	14,160	7,199
Current service cost	2,977	997
Interest cost	1,699	960
Actuarial loss on obligation	13,769	5,004
Balance at end of year	32,605	14,160

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

	The Group	
	2007	**2006**
	$'000	**$'000**
Current service cost	2,977	997
Interest cost	1,699	960
Recognised loss	384	92
Total, included in staff costs (Note 9)	5,060	2,049

29. Post-employment Benefits (Continued)

(b) Other post-retirement benefits (continued)

Movement in the amounts recognised in the balance sheet:

	The Group	
	2007 $'000	2006 $'000
Liability at beginning of year	7,363	5,314
Total expense, as above	5,060	2,049
Liability at end of year	12,423	7,363

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

	The Group 2007 $'000	
	Decrease	Increase
Effect on the aggregate of current service cost	2,248	3,954
Effect on the aggregate of interest cost	1,310	2,210
Effect on the defined benefit obligation	25,232	42,569

30. Other Assets

	The Group		The Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Withholding tax recoverable	229,721	384,030	173,788	344,827
Customer settlement accounts	64,402	-	64,016	-
Staff receivables	12,360	13,732	12,360	13,732
Fixed asset deposits	8,289	9,602	8,289	9,602
Other	15,377	13,075	6,802	10,730
	330,149	420,439	265,255	378,891

31. Due to Banks and Other Financial Institutions

The Company	Currency	Rate %	2007 $'000	2006 $'000
Long Term Loans -				
Development Bank of Jamaica Limited (DBJ) -				
Repayable over varying periods from 24 to 96 months	J$	various	127,619	26,836
Repayable over varying periods from 48 to 96 months	US$	various	92,323	126,373
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 2008	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$	9.57	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	33,119
Repayable in 7 equal annual instalments commencing on 5 December 2008	J$	11.16	113,268	113,268
Repayable in 7 equal annual instalments commencing on 5 December 2014	J$	10.75	125,211	-
Repayable in 7 equal annual instalments commencing on 5 December 2014	J$	11.37	64,620	-
Repayable in 1 instalment on 31 December 2008	US$	3.5	34,042	32,415
Repayable in 7 equal annual instalments commencing on 5 December 2014	US$	5.5	57,840	55,076
Repayable in 7 equal annual instalments commencing on 5 December 2014	US$	6.83	52,797	-
Balance carried forward			1,098,409	784,657

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

	Currency	Rate %	2007 $'000	2006 $'000
The Company (Continued)				
Balance brought forward			1,098,409	784,657
Short Term Loans and Bank Overdrafts -				
Citibank N.A. -				
Repayable in one instalment on 23 January 2008	US$	7.63	196,988	-
Repayable in one instalment on 25 January 2007	EUR	6.64	-	264,272
Repayable in one instalment on 25 January 2007	EUR	6.73	-	70,472
British Caribbean Insurance Company				
Repayable in one instalment on 19 March 2007	US$	8½	-	14,603
Bank overdraft	J$	various	-	369
			196,988	349,716
Interest payable			8,613	19,918
			1,304,010	1,154,291
The Subsidiaries				
Long Term Loans -				
Development Bank of Jamaica Limited (DBJ) -				
Repayable over varying periods from 6 months to 108 months	J$	6.5 & 10	202,242	156,097
The National Export-Import Bank of Jamaica Limited -				
Repayable over varying periods	J$	9	45,143	61,571
First Jamaica Investments Limited -				
Repayable over varying periods from 24 months to 48 months	J$	Nil	-	203
			247,385	217,871
Interest payable			606	748
			247,991	218,619
Bank Overdrafts -				
Citibank N.A.			-	7,894
The Bank of Nova Scotia Jamaica Limited			1,346	-
			1,346	7,894
The Group			1,553,347	1,380,804

31. Due to Banks and Other Financial 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.

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	
	2007	2006	2007	2006
	$'000	$'000	$000	$'000
Bank overdraft	1,346	8,623	-	369

(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) 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 31March 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.

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

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

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 year ended 31 December 2007 a request was made of EIB to extend the repayment date to 31 December 2008. 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.

(c) The National Export-Import Bank of Jamaica Limited (EXIM)

A subsidiary company, Pan Caribbean Merchant Bank (PCMB) is an approved financial institution of the National Export-Import Bank of Jamaica (EXIM). Through this partnership PCMB is provided with financing, which is utilised to finance customers with viable projects within EXIM's guidelines.

PCMB offers trade credit, short and medium term loans to customers engaged in manufacturing, agriculture, tourism and export trading. The loans to customers are for varying terms and at a 3% spread.

(d) Bank Overdraft

The bank overdraft balance represents a book overdraft. The actual balance at the bank was positive at year end.

32. Other Liabilities

	The Group		The Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Accruals	61,659	52,779	15,616	14,419
Customer settlement accounts	234,277	17,508	185,951	6,498
Staff related payables	31,408	28,984	15,565	13,616
Stale dated cheques	43,690	34,779	25,443	17,623
Other	9,688	29,725	1,934	5,745
	380,722	163,775	244,509	57,901

33. Share Capital

The total authorised number of ordinary shares is 615,613,376 (2006 – 615,613,376), of which 547,665,964 (2006 – 542,875,964) was issued and fully paid.

The movement on share capital is as follows:

	2007 $'000	2006 $'000
Issued and Fully Paid -		
Share capital at the beginning of the year – 542,875,964 (2006 - 537,707,964) ordinary shares	3,049,496	2,997,815
Shares issued during the year – 4,790,000 (2006 – 5,168,100) ordinary shares	49,423	51,681
	3,098,919	3,049,496

(i) Shares issued during the year comprise ordinary shares issued under the company's share option scheme – 4,552,000 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.

34. 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 eligibility period). Options are forfeited if the employee leaves the Group before the options vest. Options were granted as follows:

(i) 17,220,000 share options on 8 March 2004. These options expired on 31 December 2007. The exercise price for the options is $10. The options were vested 31 December 2006. 12,668,000 of these options were vested and exercised. The balance of the 4,552,000 vested options was exercised in 2007.

(ii) 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 525,000 were cancelled. 75,000 of the share options vested on 1 March 2006.

(iii) 1,200,000 share options on 1 March 2006. These options expire on 28 February 2010. The exercise price for the options is $21.75. These options vest over four years – 25% each anniversary date of the grant.

(iv) 600,000 share options on 1 March 2007. These options expire on 28 February 2011. The exercise price for the options is $19.29. These options vest over four years – 25% each anniversary date of the grant.

(v) 4,074,246 share options on 1 April 2007. These options expire on 31 March 2011. The exercise price for the options is $18.00. 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 2007	Weighted average exercise price 2007	Number of share options 2006	Weighted average exercise price 2006
	'000	$	'000	$
Balance at beginning of year	5,902	16.20	11,210	12.70
Granted	4,674	21.27	1,200	19.29
Exercised	(4,552)	20.68	(5,458)	9.71
Lapsed/forfeited	(75)	36.50	(1,050)	36.50
	5,949	16.49	5,902	16.20
Exercisable at the end of the year	375	24.70	4,702	10.85

34. Share Options Reserve (Continued)

For options outstanding at the end of the year, the exercise price ranges from $18 to $36.5 (2006 - $10.00 to $36.50). The weighted average remaining contractual term is five years (2006 – two years).

The weighted average share price at the date of exercise for options exercised during the year was $20.68.

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 is measured at the grant date using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the instruments were granted. The services received and a liability to pay for those services is recognised over the expected vesting period. Until the liability is settled, it is remeasured at each reporting date with changes in fair value recognised in the profit and loss account. The significant inputs into the model were weighted average share prices of $16.84 at the grant date, exercise price shown above; standard deviation of expected share price returns of 10%, option life disclosed above, and annual average risk free interest rate of 13.31% %. The expected volatility is based on statistical analysis of daily share prices over one year.

The company recognised cumulative expenses of $42,178,000 (2006 - $32,420,000) as share options expense of which $9,758,000 (2006 $12,000,000) was recognised in the profit and loss account during the year.

35. 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.

36. 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.

37. 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 22).

38. Fair Value Reserve

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

39. 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 of 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 are based on pricing models or other recognised valuation techniques.

(iii) The fair value of demand deposits and customer 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.

39. Fair Value of Financial Instruments (Continued)

The tables below summaries the carrying amount and fair value of financial asset and financial liabilities not presented on the Group and company's balance sheet at their fair value:

	The Group			
	Carrying Value 2007 $'000	Fair Value 2007 $'000	Carrying Value 2006 $'000	Fair Value 2006 $'000
Financial Assets				
Loans, net of provision for credit losses	7,118,412	6,708,592	5,474,798	5,147,928
Financial Liabilities				
Securities sold under agreements to repurchase	34,656,325	34,507,240	31,028,959	30,556,231
Customer deposits and other accounts	5,489,757	5,397,230	4,476,805	4,503,310
Due to banks and other financial institutions	1,553,347	1,540,555	1,380,804	1,527,630

	The Company			
	Carrying Value 2007 $'000	Fair Value 2007 $'000	Carrying Value 2006 $'000	Fair Value 2006 $'000
Financial Assets				
Loans, net of provision for credit losses	2,708,089	2,357,653	1,636,750	1,609,810
Financial Liabilities				
Securities sold under agreements to repurchase	35,241,054	35,089,549	31,373,620	30,895,641
Customer accounts	516,690	488,524	534,411	537,575
Due to banks and other financial institutions	1,304,010	1,310,146	1,154,291	1,187,405

40. 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 2007, the Group and the company had financial assets under administration of approximately $25,001,305,000 (2006 - $20,329,620,000) and $11,262,489,000 (2006 - $7,331,296,000) respectively.

41. Subsequent Event

Subsequent to the year-end, the company issued a prospectus offering up to 10,000,000 12.5% Cumulative Redeemable Preference Shares at a fixed price of $200 per Preference Share.

Notes

Form of Proxy

PAN CARIBBEAN
FINANCIAL SERVICES LTD.
A member of the Sagicor Group

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 2008 and at any adjournment thereof.

Signed this____________day of___________________________2008.

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. Peter Melhado		
RESOLUTION 3: (ii)	Mr. Hayden Singh		
RESOLUTION 3: (iii)	Dr. M. Patrick Downes-Grant		
RESOLUTION 4: (i)	Directors' remuneration		
RESOLUTION 4: (ii)	Non-executive Directors' remuneration		
RESOLUTION 5:	Auditors' remuneration		

Place
$100
Stamp
Here

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 Incorporation

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.
A member of the Sagicor Group

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