PanCaribbean
FINANCIAL SERVICES LTD.
A member of the Sagicor Group

ANNUAL REPORT 2009

GROWTH
STRENGTH
PERFORMANCE

CONTENTS

visit us at
www.gopancaribbean.com

Ocean view in Negril

OUR BRAND VISION

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

PANCARIBBEAN...

A GREAT INVESTMENT OPPORTUNITY

WE HAVE:

Balance Sheet Strength

- Risk-weighted Capital Ratio of 39.5%
- Capital to Assets Ratio of 12.1%
- CariCRIS debt rating of jmA+

Clear Growth Strategy

- Integrated financial services portfolios – Investment & Commercial Banking, Wealth & Asset Management.
- Diversified Institutional, Commercial and Retail customers.
- Commitment to delivering consistent earnings growth and financial objectives.

Strong Governance and Risk Management Architecture

- A strong Board with business acumen, diverse skills and relevant expertise.
- Adequately resourced and active Board Sub-committees.
- Disciplined approach to measuring, managing and monitoring credit risks.
- ROE targets and risk profile are appropriately aligned.

Strong Commitment to all our Stakeholders

- Committed Team that seeks to deliver our Brand promise consistently to customers.
- Committed to growth and an attractive dividend policy to reward shareholders.
- Committed to help build and support our communities and country.

Some Interesting Facts:

- PanCaribbean has been the second best performing stock this past decade.
- We have consistently reported improved record earnings for the last nine years.
- PanCaribbean is one of the ten most profitable All-Jamaica JSE listed companies.

Stockholder Information

Market for PanCaribbean Stock

The ordinary and preference stocks of PanCaribbean are traded on the Jamaica Stock Exchange only.

Stock Trading in 2009				
	Closing Price	High	Low	Volume
Ordinary Stock	$20.00	$21.50	$12.00	186,932,249
Preference Stock	$199.00	$199.00	$190.00	38,650

Dividends paid in 2009 and for the last five years						
	Units outstanding at December 31, 2009	2009	2008	2007	2006	2005
Ordinary Stock	547,924,039	$1.25	$1.20	$0.90	$0.68	$0.44
Preference Stock	6,321,621	$24.98	$19.88	NA	NA	NA

Team Member Ownership

31% of our Team Members are shareholders in the company – an excellent sign of their interest in PanCaribbean and commitment to its performance.

At the 2009 Jamaica Stock Exchange's Best Practices Awards Ceremony, PanCaribbean was awarded first place for the Best Annual Report for 2008, was first runner-up for Investor Relations Stockbrokerage, and captured the most prestigious Governor General's Award for Excellence.

NET INTEREST INCOME GROWTH

35%

Net Interest Income grew from $1.94B to $2.62B

CAPITAL GROWTH

12%

Capital grew by $830M from $7.08B to $7.91B

EARNINGS PER SHARE GROWTH

7%

Earnings per share improved from $2.52 to $2.70

Donovan H. Perkins
President & CEO

Richard O. Byles
Chairman

STATEMENT FROM OUR CHAIRMAN AND OUR PRESIDENT

We have ended the first decade of this new 21st century on an excellent note. 2009 was indeed another year evidenced by a remarkable number of achievements at PanCaribbean. We are delighted to report on our improved performance and highlight that these results were delivered in the context of a year of great uncertainty and economic decline in the domestic, regional and global markets. No economy went unscathed.

Your Company's Results

- Net Profit rose 7% to $1.478 Billion, and correspondingly, our earnings per share grew 7% to $2.70.
- Shareholders were rewarded with record ordinary dividends of $685 Million or $1.25 per share, an increase of 4% over 2008.
- Our Balance Sheet grew 2% to $65.2 Billion and Shareholders Equity at $7.9 Billion also recorded a new high.

We reported our ninth consecutive year of record profits despite a challenging environment, one of only three listed companies with this sustained performance during this decade. A more detailed analysis and commentary on your company's operating results and financial performance are reported in our Management's Discussion and Analysis on pages 38 to 47.

46% Record ordinary dividends paid of $685 Million, which represents a 46% Dividend Payout Ratio.

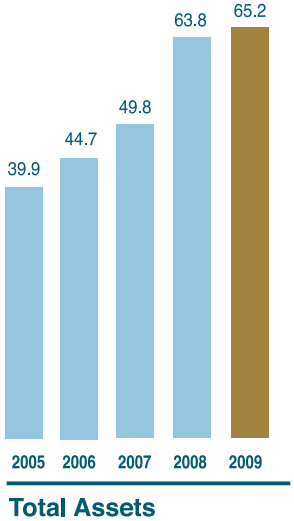
Our Team's Achievements

- Our Sigma Funds - Optima and Liberty, were the top performing Unit Trusts in 2009, recapturing first places for equity and fixed income respectively, a position that Sigma has held remarkably for five of the last six years, the only exception being 2008.
- For the second consecutive year, PanCaribbean was recognized by the Jamaica Stock Exchange with a number of awards of distinction. With great pride, we retained two of the most coveted prizes - the trophies for the Best Annual Report and the Governor General's Award for Overall Excellence.
- Our Sigma Corporate Run attracted over 9,500 participants and raised $14.258 Million for the Bustamante Hospital for Children and other paediatric wards across Jamaica.
- CariCRIS re-affirmed our credit rating of jmA+.

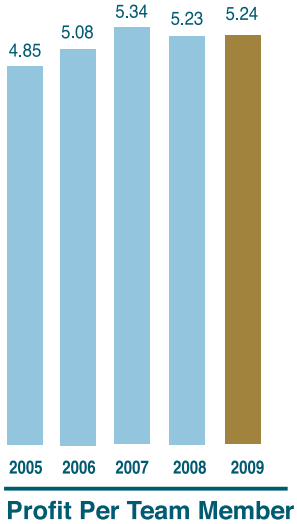
Despite this performance, we have noted a trend that requires immediate focus. While disclosing improved results, we must also report that since 2006, PanCaribbean's overhead growth rate has risen much faster than our profit growth rate and this trend accelerated in 2008. This is as a direct result of our investment in people and equipment to build our commercial bank and risk management infrastructure, and the inflationary environment in which we operate. Having recognized this trend, going forward we must take corrective steps to reverse it.

Our Team enters this new decade with a heightened awareness of the rewards for remaining virtually unscathed. PanCaribbean's ability to safely negotiate the constantly choppy waters of the domestic economy reflects our capacity to manage risks. The concerns which poured over from 2008 to 2009, required us to be highly pro-active in light of the uncertainties:

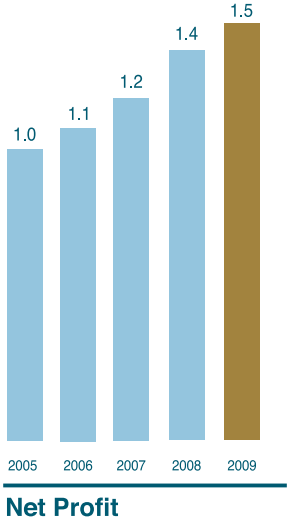
- In anticipation of the economic challenges, we started early preparation to take the necessary evasive actions arising out of the economic spillover into 2009.
- We raised our liquidity in both US$ and JA$ to protect our customers and shareholders, affording us the ability to take advantage of changing market conditions during the year.
- We carefully monitored the environment, reading the signals and quietly working to ensure a safe landing on firm ground.



Total Assets
$ BILLIONS



Profit Per Team Member
$ MILLIONS



Net Profit
$ BILLIONS

Our 2010 Outlook & Insights

This new decade will no doubt bring with it existing as well as new challenges in a highly competitive financial services industry. Accordingly, we are confident that by remaining focused on PanCaribbean's strategic objectives and improving on execution, new opportunities will present themselves.

Our comments are also made in the context of the Government's successful debt exchange programme (JDX) and the International Monetary Fund's programme. This is an important first plank in the bridge to a new and prosperous Jamaica, but it is not sufficient. There remain several other significant actions that must be carefully measured, broadly supported and implemented in a timely manner. Without this support, another opportunity to restore Jamaica's prospects for broad prosperity will become a distant and fleeting reality.

Appropriate tax reform, an efficient government, effective justice and related systems, investment in early education are critical to sustainable growth and must follow the JDX. Poor implementation will lead to anaemic growth, instability and weaken the broad financial sector.

Our Thanks

The experience and wisdom of our Board of Directors has served us well in this environment and we thank them for diligently overseeing the governance of PanCaribbean during a challenging year.

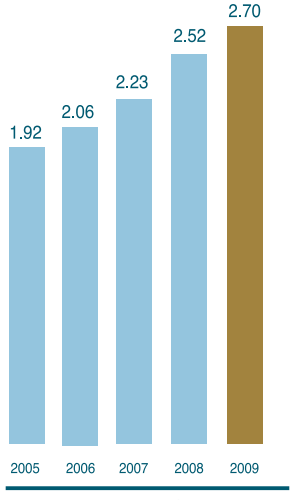
Our most valued assets are not secured in our vaults, but go home to their families every night. We truly appreciate the dedication of our Team who take care of our customers every day and recognize that 2009's performance reflects this commitment.

To our customers, we appreciate your growing business and commit to continuously seek to improve our products and services to our mutual benefit, and to your greater ease and convenience.

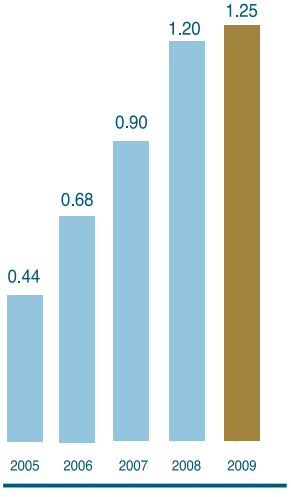
To our shareholders, thanks for the confidence you place in us as we continue to guide your company along the path to improved performance.

Richard O. Byles
Chairman

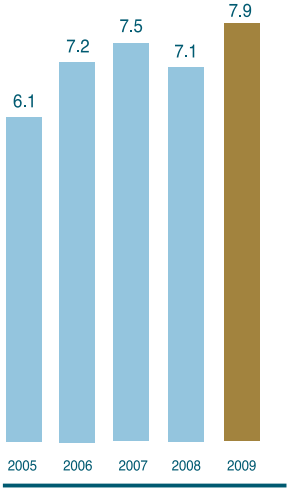
Donovan H. Perkins
President & CEO



Earnings Per Share
$ DOLLARS



Dividends Per Share
$ DOLLARS



Stockholders' Equity
$ BILLIONS

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 C. Cobham B.A. (Hons.), Dip. Mgmt.
Christopher D. de Caires F.C.A., M.B.A.
Dr. M. Patricia Downes-Grant B.A., M.A. (Econ), M.B.A., D.B.A.
Richard L. Downer C.D., F.C.A.
Patrick C. Lynch
Peter K. Melhado B.Sc., M.B.A.
Dodridge D. Miller F.C.C.A, M.B.A.
Lisa A. Soares Lewis B.Sc., M.B.A.
R. Hayden Singh
Colin T. Steele B.A., C.P.A., M.B.A.

Corporate Secretary

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

Registered Office

The PanCaribbean 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

PanCaribbeanBank Limited
Corporate Trust Division
60 Knutsford Boulevard
Kingston 5, Jamaica W.I.

Auditors

PricewaterhouseCoopers

Attorneys-at-Law

Patterson, Mair, Hamilton
Myers, Fletcher & Gordon
Nunes, Scholefield, DeLeon

Bankers

PanCaribbeanBank Limited
Citigroup N.A.
Bank of America N.A.

Subsidiary Companies

PanCaribbeanBank Limited
Directors

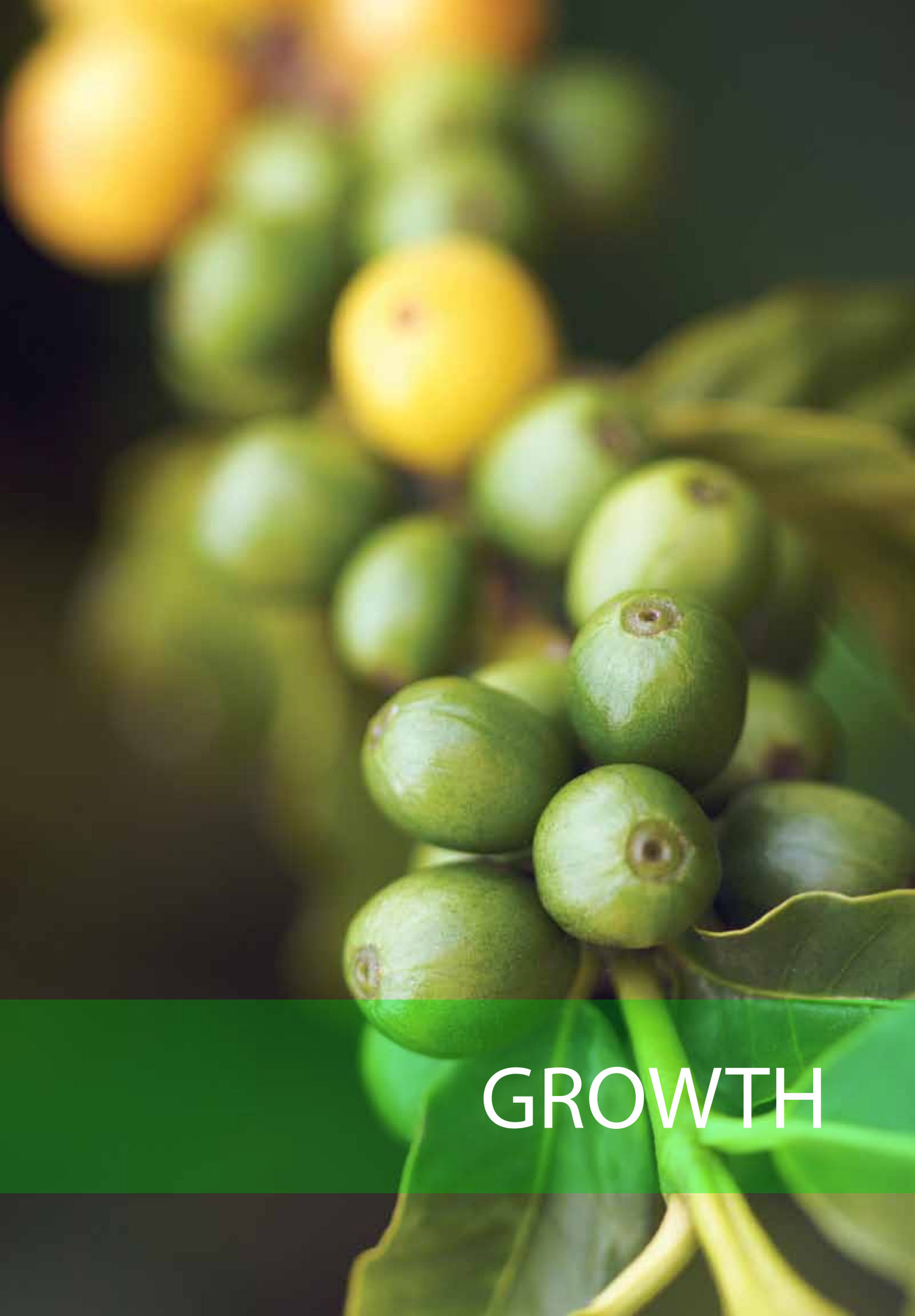
Peter K. Melhado - Chairman
Philip W. Armstrong
Richard O. Byles
Christopher D. de Caires
M. Patricia Downes-Grant
Richard L. Downer
Patrick C. Lynch
Dodridge D. Miller
Donovan H. Perkins
R. Hayden Singh

Pan Caribbean Asset Management Limited
Directors

Colin T. Steele - Chairman
Philip W. Armstrong
Richard O. Byles
Peter K. Melhado
Donovan H. Perkins

Manufacturers Investments Limited
Directors

Richard O. Byles
Donovan H. Perkins



GROWTH

OUR TEAM

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

"Our mission is 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, team members and our community."

"We aim 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; and
- promoting innovative thinking."

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 25th Annual General Meeting of PAN CARIBBEAN FINANCIAL SERVICES LIMITED will be held at the Sagicor Life Jamaica Auditorium, 28-48 Barbados Avenue, Kingston 5, on June 9, 2010 at 10:00 a.m. for the following purposes:

RESOLUTION 1

1. To receive the Audited Accounts for the year ended December 31, 2009 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, 2009 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 $1.25 paid during the year, as final dividend for the year ended December 31, 2009.

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

   "THAT the interim dividends of 65 cents per stock unit paid to stockholders on March 30, 2009 together with 60 cents per stock unit paid to stockholders on September 29, 2009 be declared as the final dividend for the year ended December 31, 2009".

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

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

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

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

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

RESOLUTION 4

4. **Directors' Remuneration**

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

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

   (ii) "That the amount of $10,226,000 shown in the accounts of the company for the year ended December 31, 2009 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 PanCaribbean Building
60 Knutsford Boulevard
Kingston 5, Jamaica
26 March 2010

Note:
In accordance with section 131 of the Companies Act, 2004, a member entitled to attend and vote at the meeting is entitled to appoint a Proxy to attend and vote in his stead. A proxy need not be a member of the Company. A suitable Form of Proxy is enclosed. Forms of Proxy must be lodged at the Company's registered office at least forty-eight hours before the time appointed for holding the meeting. The Proxy Form should bear the stamp duty of $100 before being signed. The stamp duty may be paid by adhesive stamp(s) and are to be cancelled by the person executing the Proxy.

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

28% Sigma Liberty® was the best performing unit trust in Jamaica. Sigma Funds have been the top-ranked unit trust funds for five of the last six years.

10 YEAR STATISTICAL REVIEW

	2009 $'000	2008 $'000	2007 $'000	2006 $'000
SELECTED BALANCE SHEET DATA				
Total Assets	65,245,567	63,772,864	49,797,164	44,739,722
Performing Loans & Leases	8,541,999	8,235,511	7,028,666	5,406,302
Non-performing Loans and Leases	231,482	234,114	157,092	157,145
Investments, Repos & other earning assets	50,364,131	50,195,320	39,888,715	36,580,548
Deposits	8,782,495	7,457,170	5,489,757	4,476,805
Securities sold under repurchase agreements	43,972,613	42,040,112	34,656,325	31,028,959
Stockholders' Equity	7,907,817	7,084,189	7,530,930	7,204,134
SELECTED INCOME STATEMENT DATA				
Net Interest Income	2,620,899	1,938,913	1,712,179	1,470,305
Other Income	874,376	1,128,753	849,167	805,328
Expenses	1,536,009	1,232,837	886,610	779,511
Net Profit after tax and minority interest	1,477,844	1,380,932	1,212,994	1,112,670
OTHER FINANCIAL DATA				
Earnings per share ($)	2.70	2.52	2.23	2.06
Dividends per share ($)	1.25	1.20	0.90	0.68
Return on opening equity (%)	20.9%	18.3%	16.8%	18.1%
Return on assets at year end (%)	2.3%	2.2%	2.4%	2.5%
Efficiency Ratio (%)	43.9%	40.2%	34.6%	34.3%
Market Capitalisation ($'000)	10,958,480	6,575,088	10,953,320	12,486,148
Closing share price at year end ($)	20.00	12.00	20.00	23.00
Number of offices	5	5	5	5
Number of stockholders	1,627	1,621	1,640	1,703
Number of Team Members	282	264	227	219
Profit per Team Member ($'000)	5,241	5,231	5,344	5,081

2005 $'000	Restated 2004 $'000	2003 $'000	Restated 2002 $'000	Restated 2001 $'000	2000 $'000
39,946,362	40,873,827	18,338,291	13,959,667	12,120,570	2,951,408
4,902,026	3,669,446	1,034,805	1,021,018	1,017,859	1,364,438
162,286	224,866	223,038	394,108	301,395	380,919
32,343,101	34,590,993	15,500,287	11,534,694	9,788,933	1,101,314
4,203,475	3,422,977	724,892	497,482	426,155	460,722
27,775,290	29,018,610	13,718,164	10,431,277	8,711,664	519,541
6,148,806	5,687,489	1,504,537	1,081,981	979,167	534,551
1,303,060	1,315,045	278,578	286,330	278,198	157,203
753,434	446,593	233,617	129,931	108,626	92,207
691,212	618,048	174,582	147,744	300,378	265,025
1,031,936	841,692	342,170	284,488	104,752	(16,139)
1.92	1.84	1.34	1.11	0.46	(0.14)
0.44	-	0.17	0.19	-	-
18.1%	55.9%	31.6%	29.1%	19.6%	-3.1%
2.6%	2.1%	1.9%	2.0%	0.9%	-0.5%
33.6%	35.1%	34.1%	35.5%	77.7%	106.3%
13,066,304	18,277,293	1,687,363	1,457,268	1,163,258	201,332
24.30	34.10	6.60	5.70	4.55	1.75
5	5	1	1	1	2
1,776	1,570	1,213	1,163	1,217	1,198
213	205	69	61	51	66
4,845	4,106	4,959	4,664	2,054	(245)

REPORT OF THE DIRECTORS

The Directors are pleased to submit their report for the twelve months ended December 31, 2009 together with audited accounts for the year ended on that date.

	$'000
Group Profit before Tax	1,959,266
Tax	(481,422)
Profit after Tax	1,477,844
Adjustment between regulatory loan provisioning and IFRS	(40,891)
Transfer to banking reserves	(1,006,050)
Current year dividends paid	(684,905)
Unappropriated profits b/f	4,153,226
Unappropriated profits c/f	3,899,224

DIVIDENDS

During the year the Directors approved and paid interim ordinary dividends totalling $1.25 per stock unit. No further dividends have been recommended and the amounts paid will be declared as final.

DIRECTORS

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

AUDITORS

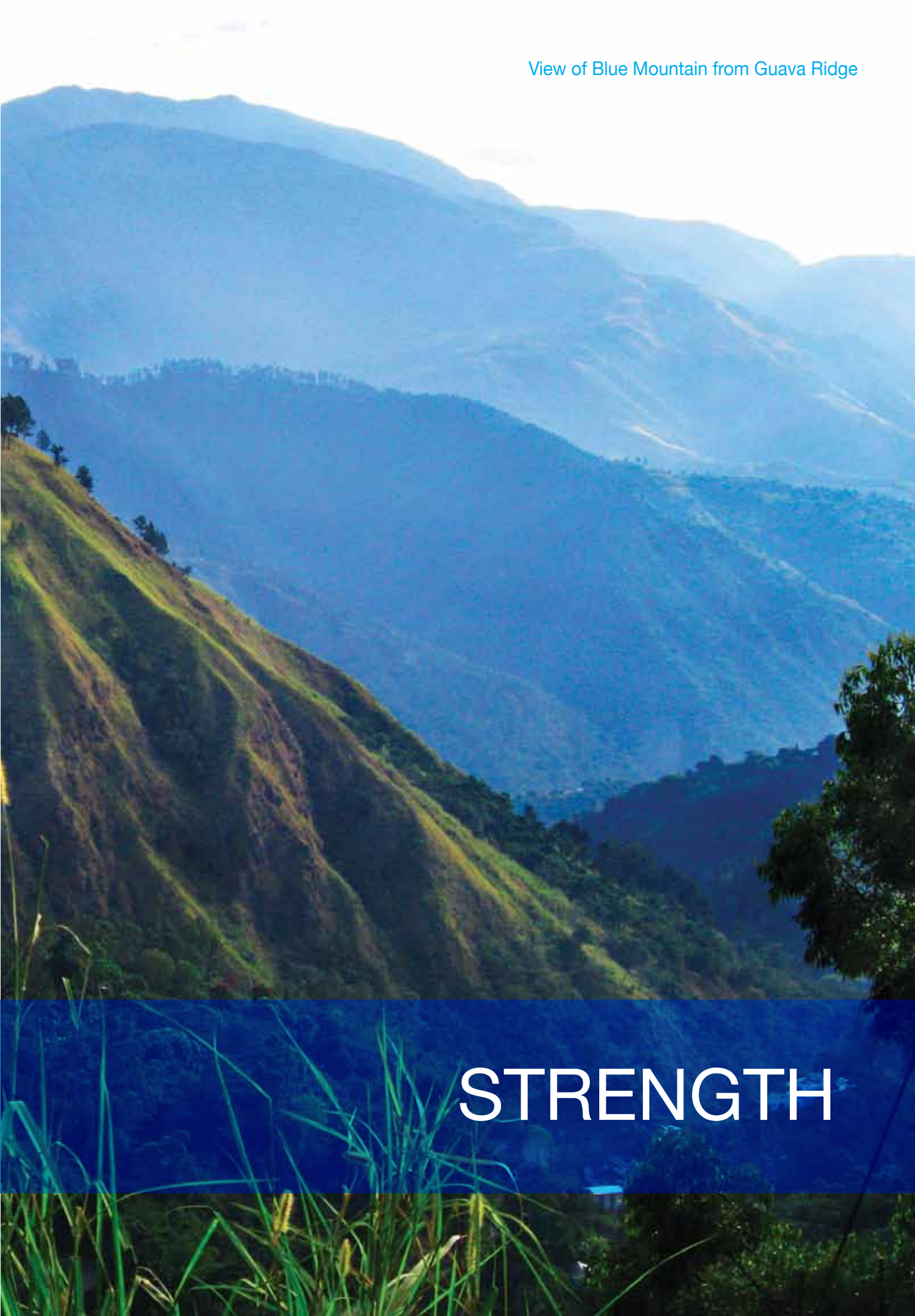
PricewaterhouseCoopers have expressed their willingness to continue in office in accordance with Section 153 of the Companies Act.

By Order of the Board

Gene M. Douglas
Company Secretary
Kingston, Jamaica, W.I.

26 March 2010

View of Blue Mountain from Guava Ridge



STRENGTH

OUR BOARD OF DIRECTORS

Richard O. Byles BSc, MSc
Chairman

Mr. Byles is the President and CEO of Sagicor Life Jamaica Limited (formerly Life of Jamaica Limited). He is the Chairman of the Board of Desnoes and Geddes Limited, Pan Caribbean Financial Services Limited, Sagicor Property Services Limited, Sagicor Reinsurance Limited (Cayman) and Sagicor Insurance Managers Limited (Cayman). He also serves on several boards including Pan Jamaican Investment Trust Limited, PanCaribbeanBank Limited as well as a number of subsidiary and associated companies.

His role as former Chairman of the National Water Commission and Vice President of the Private Sector Organisation of Jamaica, reflects his commitment to national development. Richard's wide interests have earned him valuable experience and expertise within the financial sector spanning areas of Life, Health and General Insurance, Asset and Investment Management, Banking, Pension Administration, Property Development and Reinsurance Management. Richard holds a BSc in Economics from the University of the West Indies and an MSc in National Development from the University of Bradford, England.

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

Mr. Perkins has been CEO of PanCaribbean since 1993. Prior to joining PanCaribbean, 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 today.

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, currently serves on the Board and chairs the Audit Committee of of Sagicor Life Jamaica Limited. He is also a director of Sagicor Life of Cayman Islands Limited, Cayman General Insurance Co. Limited, Pulse Investments Limited, and Salada Foods Jamaica Limited.

A graduate of the University of the West Indies, he is a member of UWI's Mona Campus Council and serves on the Mona Campus Finance and General Purposes Committee and the Audit Committee. Jeff is Chairman of the Consie Walters Cancer Care Hospice.

A lifelong supporter of the arts, Jeff served for over twelve years as Chairman of the Edna Manley College of the Visual and Performing Arts, and is currently Chairman of the National Dance Theatre Company of Jamaica. He also serves on the board of the National Gallery of Jamaica.

OUR BOARD OF DIRECTORS *(Cont'd)*

Dr. Marjorie Patricia Downes-Grant

BA, MA (Econ), MBA, DBA

Dr. Downes-Grant is the President and CEO of Sagicor Life Inc. 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 BBB+ investment grade placement in the U.S. bond market.

Dr. Downes-Grant's directorships include Sagicor Life Inc., Sagicor Merchant Limited, Sagicor Asset Management Inc. and Sagicor Funds Inc. She is also a former Chairman of the Barbados Stock Exchange and Barbados Central Securities Depository.

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

Christopher de Caires FCA, MBA

Mr. de Caires is a Chartered Accountant and holds an MBA from Henley Management College, United Kingdom. He has over 25 years professional and management consulting experience in Barbados and the wider Caribbean, United Kingdom and Brazil. He is currently the principal Managing Director of Fednav International Limited, and his areas of expertise include corporate finance, international taxation, financial management, mergers and acquisitions, information systems, organisational design and business planning. He was Chairman of World Cup Barbados. Christopher is a former partner of Pricewaterhouse, Barbados, where he was responsible for corporate finance, business advisory, corporate secretarial and trust services.

Richard Downer CD, FCA

Mr. Downer, a former Senior Partner of PricewaterhouseCoopers in Jamaica, is a director of Sagicor Life Jamaica Limited and ICD Limited. He is a member of the Rating Committee of CariCRIS Limited.

He has served as Executive Director of the Bureau of Management Support in the Office of the Prime Minister of Jamaica and initiated privatizations through public share offers of several large public enterprises in Jamaica. In addition, he has advised the governments of sixteen other countries on privatization. During Jamaica's financial sector crisis, he was appointed as Temporary Manager for several financial institutions. At PricewaterhouseCoopers he specialized in corporate finance and corporate recovery. Richard also served on the board of the Bank of Jamaica and was Chairman of the Coffee Industry Board for eight years.

OUR BOARD OF DIRECTORS *(Cont'd)*

Patrick Lynch

Mr. Lynch is the Director of Finance and Planning at Sandals Resorts International, the largest operator of luxury ultra all-inclusive resorts in the Caribbean. In his current capacity, Patrick is a central player in the strategic planning and direction of the Sandals Group. A career banker, he has had numerous senior postings throughout the Caribbean, Guyana, the United States and the U.K. and has developed considerable experience in financial management, pension fund management, real estate and hotel finance, including hotel acquisition and development. In addition to his role within the Sandals Group, Patrick also serves as the Chairman of the ATL Pension Scheme, Director of PanCaribbeanBank Limited, ATL Motors Limited, Gorstew Limited and Appliance Traders Limited. He is also the Honorary Consul of Ghana in Jamaica.

Peter K. Melhado BSc, MBA

Mr. Melhado is President & CEO of the ICD Group of Companies. He joined the Manufacturers Group in 1993 and became its CEO in 1995 until its merger with PanCaribbean. 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 PanCaribbeanBank Limited and West Indies Home Contractors Limited and his current directorships include British Caribbean Insurance Company Limited 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 D. Miller FCCA, MBA, LLM, LLD (Hons.)

Dr. Miller is Group President and Chief Executive Officer of the Sagicor Group of Companies.

Dodridge is a Fellow of the Association of Chartered Certified Accountants (FCCA), and obtained his MBA from the University of Wales and Manchester Business School. He holds an LLM in Corporate and Commercial Law from the University of the West Indies, and in October 2008, he was conferred with an Honorary Doctor of Laws degree by the University of the West Indies. He has more than 20 years experience in the insurance and financial services industries.

Prior to his appointment as Group President and Chief Executive Officer, he previously held the positions of Treasurer and Vice-President – Finance and Investments, Deputy Chief Executive Officer and Chief Operating Officer. Mr. Miller is the Chairman of the Group's main operating subsidiaries, Sagicor Life Inc., Sagicor Life Jamaica, Sagicor USA and Sagicor at Lloyd's, and a number of other subsidiaries within the Sagicor Group and the Caribbean Private Sector.

OUR BOARD OF DIRECTORS *(Cont'd)*

Lisa A. Soares Lewis BSc (Hons.), MBA (Dist)

Mrs. Lewis is HR Director, NorthLAC at Red Stripe. She is an experienced business executive with over 18 years in human resource management, banking and general management consulting. Lisa is a graduate of the University of the West Indies with a BSc (Hons.) in Industrial Engineering and an MBA (Distinction) in Finance and Marketing. She has also achieved the Senior Professional Human Resources (SPHR) Certification with the Society for Human Resource Management. Lisa is a former 1st Vice President of the Jamaica Employers Federation and is currently a Director at Fiscal Services Limited, and Desnoes & Geddes Ltd. and is also a Trustee for two pension plans.

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 currently serves as a director of PanCaribbeanBank Limited and Hi-Lo Food Stores (Ja) Limited. He is also a former Vice-President of the Private Sector Organization of Jamaica.

Colin Steele BA, CPA, MBA

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

Colin is the Chairman of Pan Caribbean Asset Management Limited and a director of the Planning Institute of Jamaica, Tropical Battery Limited, Chukka Adventure Tours Limited and Air Jamaica Ltd.

Colin 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 BA in Accounting and an MBA from the University of Miami, and is a Certified Public Accountant.

CORPORATE GOVERNANCE

Commitment to Corporate Governance Best Practices

Pan Caribbean Financial Services Limited's (PCFS) business and affairs are managed by or under the direction of the Board. In its oversight of PCFS, the Board sets the tone for the highest ethical standard and performance of our Management and Team Members. The Board strongly believes that good corporate governance practices are important for successful business performance. Our corporate governance practices are designed to align the interests of the Board and Management with those of our stockholders and to promote honesty and integrity throughout PCFS.

Over the past several years, we have enhanced our corporate governance practices in many important ways, and we continually seek out best practices to promote a high level of performance from the Board and Management. The Board is guided by the Sagicor Corporate Governance Manual adopted in 2009 that embodies long-standing practices at PCFS as well as current corporate governance best practices.

The Board of Directors

The Board of Directors represents the owners' interest in maintaining and growing a successful business, including optimizing long-term financial returns. The Board is committed to achieving the highest standards of corporate responsibility and risk management in directing and controlling the business.

The Board is responsible for determining that PCFS is managed in such a way to ensure this result. This is an active, not a passive responsibility. The Board has the responsibility to ensure that management is capably executing its responsibilities. The Board's responsibility is to regularly monitor the effectiveness of management policies and decisions including the execution of its strategies.

In addition to fulfilling its obligation for increased stockholder value, the Board has a responsibility to deliver holistic performance embracing corporate responsibility towards PCFS' customers, Team Members, suppliers and to communities where it operates – all of whom are essential to a successful business. All of these responsibilities, however, are founded upon the successful perpetuation of the business.

Board Functions

1) Responsibilities of the Board

The Board makes decisions, reviews and approves key policies and decisions of PanCaribbean in relation to:

LEGAL & ETHICS

- Corporate governance
- Compliance with laws, regulations and policies
- Corporate citizenship and ethics

BUSINESS & STRATEGY

- Strategy direction and focus
- Capital and operating budgets
- Financing, treasury and risk management decisions
- Business development including acquisitions and divestments

LEADERSHIP & COMPENSATION

- Appointment or removal of Directors
- Remuneration of Directors and Senior Management
- Succession planning

2) Specific responsibilities for Chairman, Company Secretary and Directors

The Chairman is principally responsible for the effective operation and chairing of the Board, and for ensuring that information that it receives is sufficient to make informed decisions. The Chairman also provides support to the CEO, particularly in relation to external affairs.

The Company Secretary is responsible for ensuring that Board processes and procedures are appropriately followed and support effective decision-making and governance. The Secretary is appointed by, and can only be removed by the Board. The Secretary is also responsible for ensuring that new Directors receive appropriate training. All Directors have access to the Company Secretary's advice and services and there is also a formal procedure for Directors to obtain Independent professional advice in the course of their duties, if necessary, at the Company's expense.

Each Director is expected to commit sufficient time for preparing and attending meetings of the Board, its Committees and, if applicable, of the Independent Directors. Regular attendance at Board meetings is a prerequisite.

Because in-depth knowledge of the particulars of the Company's business is vital for each Director in making informed and objective decisions, Management is to facilitate direct involvement and review of business activities. Directors are encouraged to take advantage of such opportunities including direct access to the Leadership Team of the Company.

Selection and Composition of the Board

The Board is responsible for the overview of the interest of all stakeholders on the matters as outlined above. The composition of the Board should be such that these interests are best served and therefore the Directors must have diversity in skills and characteristics.

1) Size of the Board

The Board will have a minimum of 10 and a maximum of 12 Directors. Considering the size of the organization and the environment in which it operates, the Board believes such numbers are adequate.

2) Executive and Non-Executive Directors

At any time the number of Executive Directors should not exceed 20% of the total number of Directors.

3) Conflicts of Interest/Disclosure

Any dealings in the Company's shares by any Director shall be in compliance with the Board Policy and must be promptly reported to the Company Secretary who is obliged to disclose such information on a regular basis to the Jamaica Stock Exchange.

A Director who has an interest in the Company or in any transactions with the Company that could create or appear to create a conflict of interest must disclose such interests to the Company. These would include:

- Any interest in contracts or proposed contracts with the Company
- General disclosure on interest in a firm, which does business with the Company
- Interest in securities held in the Company
- Emoluments received by the Company
- Loans or Guarantees granted by the Company to/for the Director

Disclosure shall be made at the first opportunity at a Board Meeting in writing and such disclosure shall be recorded in the Minutes of the Board Meeting.

The Director shall then excuse himself from the meeting when the Board is deliberating over any such contract and shall not vote on any such issue. The Disclosure of Director's interest shall include interests of his family and affiliates.

4) Election, terms, re-election and retirement

Election, terms, re-election and retirement of each Board member is conducted in line with the Articles of Incorporation of the Company, with the exception that each Board member is to retire during the financial year when the Director reaches the age of 70 years, unless a special resolution of exemption to this rule is passed by the Board.

5) Board Compensation

The level of compensation of the Directors reflects the time commitment and responsibilities of the role. It consists of a package appropriate to attract, retain and motivate Directors of the quality required. The compensation is competitive and subject to regular review to what is paid in comparable situations elsewhere.

A review by the Board of the remuneration policies for Executive Directors and the members of the central leadership team will be the responsibility of the Compensation & Conduct Review Committee of the Board and effected annually.

6) Director Orientation and Education

A comprehensive orientation process is conducted for new Directors to become familiar with the Company's vision, strategic direction, core values, financial statements, business model, corporate governance practices and other key policies including, meetings with senior management and visits to the Company's facilities.

The Board also recognizes the importance of education for its Directors. It is the responsibility of the Board to advise the Non-Executive Directors about their education, including corporate governance

issues. Directors are encouraged to participate in continuing Director education programs.

7) Access to outside advisors and funds

The Company will make such funds available to the Board and in particular the Non-Executive Directors as is reasonably required for those Directors to objectively make decisions. This may include access to outside advisors and costs associated with travel and gathering relevant information.

8) Independent Directors

To be considered an Independent Director, the Board must determine that the Director has no material relationship with PanCaribbean (direct or indirect) either as a stockholder, partner, director or officer of an organization that has a material interest in PanCaribbean that would preclude the Director from being independent. Materiality test for shareholding is 2.5% of PanCaribbean's outstanding shares.

In addition, an Independent Director is a director who:

- Has not been employed by the Company or any subsidiary within the last two years
- Has not been an employee or affiliate of our Internal / External Auditors within the last three years
- Has not received any compensation other than director and committee fees within the last two years
- Has not been employed by a company of which an Executive Director / Officer has been a director of within the last two years
- Is not a member of the immediate family of an Executive Director / Officer. Immediate family being defined as spouse, parent, child or sibling, in-law (mother, father, son, daughter, brother, sister) or anyone sharing the same home with any of the above.

9) Code of Conduct

The Board expects all Directors, as well as officers and Team Members, to act ethically at all times and to adhere to all codes and policies including 'The Code of Business Conduct'. The Board will not waive any policy for any Director or Executive Officer. If an actual or potential conflict of interest arises for a Director, the Director shall promptly inform the Chairman. If a conflict exists and cannot be resolved, the Director should resign.

Board Committees

The Board has established several Committees, each with clearly defined terms of reference, procedures, responsibilities and powers. A number of these Committees require Non-Executive Independent Directors.

1) Audit & Compliance Committee

The Audit & Compliance Committee shall:

- Monitor the adequacy and effectiveness of the Company's systems of operational risk management, internal controls, the Business Risk Assurance function and external auditors; and
- Review the Company's annual and interim financial statements, related policies, assumptions, and any accompanying reports or related policies and statements.

- Monitor and review the effectiveness of the Company's internal audit function.
- Monitor and review the external auditor's independence, objectivity and effectiveness.
- Develop and implement policy on the engagement of the external auditor to supply non-audit services.
- Monitor and ensure compliance with the relevant regulatory requirements.

The Audit & Compliance Committee shall consist of a majority of Non-executive, independent Directors of the Company duly appointed by the Board. The Board shall also appoint the Chairman and Secretary of the Audit & Compliance Committee. The Board Chairman shall not be a member of the Committee. The Committee shall consist of not less than three members.

The Audit & Compliance Committee shall meet at least four times a year, within thirty days of the end of each quarter and at such other times as any member of the Committee or the external auditors may request.

The Company Secretary will be responsible for Corporate Compliance.

The Committee members are Richard Downer (Chairman), Patrick Lynch, Jeffrey Cobham, R. Hayden Singh and Colin Steele, all non-executive Board members. Three of the four members including the Chairman are independent Directors. In addition, Donovan H. Perkins, Michael Stuart (Internal Auditor), Hope Wint (Risk Manager), and Peter Knibb, attend by invitation. During 2009, the Audit & Compliance committee held eight meetings.

2) The Asset, Liability, Credit & Investment Committee

This Committee is comprised of four Directors and by invitation, six key management executives. The Committee shall meet monthly but as a minimum, eight times per year or as necessary.

The Committee has the responsibility to monitor macroeconomic conditions in determining:

- **CREDIT RISK**

  Approve Investment and Credit transactions

  Monitor the quality of the loan portfolio

  Monitor delinquent accounts and remedial actions

  Monitor risk / exposure strategies

- **TREASURY RISK**

  Monitor liquidity and price risk

  Monitor interest gapping strategy

  Monitor currency exposure strategy

The Committee members are Richard O. Byles (Chairman), Peter Melhado, Donovan H. Perkins and Colin Steele. In addition, Philip Armstrong, Peter Knibb, Donnette Scarlett, Colleen Yearde-Williams, Tanya Allgrove and Hope Wint, all senior managers, attend by invitation. Three of the four members are non-executive Directors. During the year, 10 meetings were convened.

3) The Compensation & Conduct Review Committee

This Committee will comprise a minimum of three Directors, and will be chaired by an Independent Director with the majority being independent Directors. The Committee shall meet at least twice annually or more frequently as required to address matters that may arise.

The Committee shall have responsibility to review matters related to:

- **COMPENSATION**

  Review and establish Senior Management compensation

  Review and establish all Incentive Schemes

  Establish Compensation Policy for the Group

- **CONDUCT REVIEW**

  Review and adjudicate conflicts of interest circumstances

  Review and approve related party transactions

  Review issues related to Corporate Governance

The Committee members are Hayden Singh (Chairman), Richard O. Byles and Lisa A. Soares Lewis, all non-executive Board members. In addition, Donovan H. Perkins and Faith McFarquhar-Gordon attend by invitation. Two of the three members including the Chairman are independent Directors. The Committee is scheduled to meet at least twice each year. In 2009, meetings were held on three occasions.

4) Nomination Committee

This Committee comprises of three Non-Executive Directors and one Executive Director. The Committee is responsible for keeping under review the composition of the Board and succession to it. It makes recommendations to the Board concerning appointments to the Board of Non-Executive Directors, having regard to the balance and structure of the Board and the required blend of skills and experience. The Committee has responsibility to:

- Nominate potential candidates and evaluates the suitability of those candidates for future Board membership;
- Propose suitable candidates to the board for approval prior to approaching the candidate;
- Approach the future candidate and upon positive response, introduces the future board member to the board.

The nominations of four Non-Executive Directors through Sagicor Life Jamaica (SLJ) are exempt from nomination through the Nomination Committee as long as SLJ has over 50% shareholding.

The Nomination Committee shall meet in line with election and re-election procedures determine, and at such other times as any member of the Committee may request.

The Committee members are Richard O. Byles (Chairman), Dr. M. Patricia Downes-Grant and Colin Steele, all non-executive Board members, and Donovan H. Perkins. The Committee did not meet during 2009.

5) Ad Hoc Committees

The Board may call any Ad Hoc Committee, as it deems necessary. The Board will set out the rules under which the Committee governs at each occasion. All Committees including those explicitly mentioned above will be subject to the annual evaluation process, similar as applied to the Board itself.

Meetings

1) Frequency of Meetings

During each financial year, there will be a minimum of six regular Board meetings. Special Board meetings may occur at such other times as any member of the Board may request.

2) Non-Executive Director Meetings

The Company is to provide opportunities for the Non-Executive Directors to meet independently of the Executive Directors. On the decision of the Non-Executive Directors, the CEO may be invited if they so desire.

3) Selection of Agenda Items for Board Meetings

The Chairman, CEO and Company Secretary will establish the agenda for each Board meeting. Each Board member may suggest the inclusion of item(s) on the agenda.

Information important to the Board's understanding of the business will be distributed electronically or in writing to the Directors before the Board meeting.

4) Additional attendees to the Meetings

Furthermore, the Board encourages the Management to, where it assists the ability of the Board members to execute their responsibilities, bring managers into Board meetings who: (a) can provide additional insight into the items being discussed because of personal involvement in these areas, and/or (b) are managers with future potential that the senior management believes should be given exposure to the Board.

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 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 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.

CORPORATE GOVERNANCE (CONT'D)

2009 PCFS - BOARD ATTENDANCE REGISTER

	Board	Audit Committee	ALICO	Compen. & Conduct Review	Annual General Meeting
Richard O. Byles	12	-	4	2	1
Donovan H. Perkins	12	-	10	-	1
Jeffrey Cobham	12	7	-	-	1
Christopher De Caires	9	-	-	-	-
M. Patricia Downes-Grant	4	-	-	-	-
Richard Downer	12	8	-	-	1
Patrick Lynch	9	5	-	-	-
Peter Melhado	12	-	9	-	1
Dodridge Miller	5	-	-	-	-
Lisa A. Soares Lewis	9	-	-	3	1
R. Hayden Singh	9	7	-	3	1
Colin Steele	9	3	10	-	1
Total number of meetings	**12**	**8**	**10**	**3**	**1**

BOARD EXPERTISE

DIRECTOR	Corporate Governance	Human Resources & Compensation	Lending	Audit & Accounting	Capital Markets	Investment Banking
Richard O. Byles			•		•	•
Jeffrey Cobham	•	•	•		•	
Christopher de Caires	•	•		•		
M. Patricia Downes-Grant	•	•	•		•	•
Richard Downer	•	•	•	•	•	•
Patrick Lynch	•	•	•	•		
Peter Melhado			•		•	•
Dodridge Miller	•					
Donovan H. Perkins			•		•	•
R. Hayden Singh	•	•				
Lisa A. Soares Lewis		•				
Colin T. Steele	•		•			•

THE EXECUTIVE MANAGEMENT TEAM

Sabrina DeLeon Cooper, BSc.
Assistant Vice President, Client Services
Pan Caribbean Financial Services Limited

Sabrina has over 10 years of experience in investments and financial services. Prior to joining PanCaribbean in 2004, she was a Financial Services Associate for five years at Prudential Financial in Coral Gables, Florida.

Since joining our Team, Sabrina has been an instrumental part of our Private Client Services Division and has contributed greatly to growing our client base and loyalty.

Sabrina holds a Bachelor's Degree in Finance and International Business from Florida International University, graduating Magna cum laude.

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

Tara is responsible for client relationship management and investment services at PCFS. She has over 10 years experience in Private Banking and Investment Services and prior to this, was Senior Financial Analyst for Jamaica Broilers Group Ltd. for over eight years.

Tara is a graduate of UWI with a Bachelor's Degree in Economics and Management (Hons.) and currently serves as Chair of the Finance Committee of the Women's Leadership Initiative, an affiliate of the United Way of Jamaica.

Grace E. Solas, BSc, PMP
Assistant Vice President, Projects
Pan Caribbean Financial Services Limited

Grace joined PanCaribbean in 2005 and has over 20 years of experience in financial services and project management. She was previously with Knutsford 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 also 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.

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

Peter Knibb Karen Vaz Tanya Miller

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

Peter joined PanCaribbean 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 and serves on the Finance Committee of the Andrews Memorial Hospital.

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

Karen joined PanCaribbean in 1998 as a consultant and was appointed to head the Technology Unit shortly thereafter. She has responsibility for formulating, directing and implementing technology processes that are directly aligned with the organization's strategic goals and objectives. In addition, she has direct oversight for the Project Management Office which is responsible for all projects undertaken by the group.

Karen has over 11 years of experience in Banking and Information Technology. She is a graduate of the University of South Florida where she completed a Bachelor's Degree in Management Information Systems.

Tanya Miller, BSc (Hons.), MBA
Vice President – Group Marketing
Pan Caribbean Financial Services Limited

Tanya joined PanCaribbean in 2006 as head of the Marketing Division. In 2009, her responsibilities were expanded to include the Sagicor Jamaica Group. She brings over 16 years of experience in strategic marketing gained from the tourism, agriculture and manufacturing industries.

Tanya earned her undergraduate degree in International Business and Management (Hons.) at Rochester Institute of Technology and her MBA in Marketing from UWI. She chairs the Management Committee of the Sagicor PanCaribbean Foundation and is President of the Jamdammers Running Club of Kingston.

Tanya Allgrove Donnette Scarlett Margaret McPherson Philip Armstrong

THE EXECUTIVE MANAGEMENT TEAM (CONT'D)

Tanya Allgrove, BSc (Hons.), MBA
Assistant Vice President – Corporate Banking
PanCaribbeanBank Limited

Tanya heads the Corporate Banking Division and is responsible for the growth and oversight of the credit portfolio and corporate finance activities. She joined PanCaribbean in 2004, after working in the financial advisory services and private equity fields with PricewaterhouseCoopers and Caribbean Equity Partners respectively.

Tanya is a graduate of UWI where she earned a Bachelor of Science degree in Management Studies (Hons.) and completed her MBA (Finance) from City University Business School of London. She is a longstanding member of the Jamaica Musical Theater Company and serves on its Administrative Committee.

Donnette Scarlett, BSc, CFA
Assistant Vice President - Treasury
PanCaribbeanBank Limited

Donnette is responsible for the Treasury and Trading functions at PanCaribbean Bank Limited and has been with our Team since 1991.

She has 20 years of experience in the financial industry spanning both Operations and Treasury Management. Donnette joined the company after completing her Bachelor's Degree in Economics and Management with Upper Second Class Honours at UWI. A Chartered Financial Analyst, she has developed tremendous strengths in fixed income markets, trading and analysis.

Margaret McPherson, AICB
Vice President – Operations
PanCaribbeanBank Limited

Margaret heads the Operations Division. She has over 28 years of commercial banking experience, both locally and internationally, which has benefitted the Group. She is Vice-Chairman of Automated Payments Limited (APL) and a life member of the Jamaica Orchid Society. Margaret is a qualified Project Manager and is currently completing her MBA in Finance.

Philip Armstrong, BSc
Deputy CEO
Pan Caribbean Financial Services Limited

Philip brings over 20 years of securities, derivatives and financial expertise gained from Wall Street and Knutsford Boulevard. He joined Manufacturers in 2002 from Citibank Jamaica, where he was Resident Vice President.

Philip is the Acting Managing Director of PanCaribbeanBank Limited, and sits on our Asset, Liability, Credit & Investment Committee. He is a graduate of Embry Riddle Aeronautical University where he earned a Bachelor of Science degree in Avionics Technology.

Colleen Yearde-Williams Gene M. Douglas Faith McFarquhar-Gordon

Colleen Yearde-Williams, BSc, MSc, FCA
Assistant Vice President – Financial Control
PanCaribbeanBank Limited

Colleen joined the PanCaribbean team in July 2007 with over 12 years of experience in the accounting profession. She spent nine years at PricewaterhouseCoopers in their Business Advisory Services department and three years in the private sector as Group Financial Manager for a financial services company.

Colleen is a double graduate of UWI 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.

Gene M. Douglas, FCIS, MBA
Vice President –
Corporate Trust & Group Corporate Secretary
PanCaribbeanBank Limited

Gene joined PanCaribbean in 1994 to start its Corporate Trust Department. She has over 26 years experience in Accounting and Corporate Secretarial practice and is a Fellow of the Institute of Chartered Secretaries and Administrators.

Gene holds a Diploma in Institutional Management from the University of Technology and has an MBA from the University of Manchester. She is a member of the Optimist Club of North St. Andrew and is the Governor of Optimist International Caribbean District for the year 2009-2010.

Faith McFarquhar-Gordon BSc, MSc
Assistant Vice President – Human Resource Management and Development
Pan Caribbean Financial Services Limited

Faith joined PanCaribbean in June 2005, as head of the Human Resources Unit. She has extensive experience in Human Resources and Administration in the public and private sectors, in Jamaica and other parts of the Caribbean

Faith is a member of the Human Resource Management Association of Jamaica, the Jamaica Employers Federation, the Education Sub-Committee of the JOIB and the international Society for Human Resource Management. She served on the Board of Sunset Optimist Club of Kingston as President and is currently Conference Planning Chair. Faith is a double graduate of UWI with a Bachelors Degree in Management Studies and a Masters Degree in Human Resource Development.

STRATEGIC IMPERATIVES

2009 Update

1 Develop our Team

We continued to improve the skills of our Team, the foundation on which the institution is built. At the end of 2009, Donnette Scarlett and Sabrina Cooper were promoted to Vice Presidents effective 2010, having performed well as excellent managers of people and good stewards of our financial resources. Michael Stuart and Hope Wint also joined the Executive Team. Training continued to be a key focus exceeding 6,000 hours for the organization - including development of sales, supervisory, team-building and inter-personal communication skills. Since 2004, we have used annual confidential Team surveys conducted by an international external organization and compared our results to international benchmarks that measure our Team's perceptions in 26 areas. 2009 reflected the best scores since inception with PanCaribbean reporting 19 of 26 measures ahead of international benchmarks.

2 Broaden our Menu

& Increase our share of wallet

With our suite of commercial banking, asset management and credit products, we have sufficient product depth to compete effectively and meet the needs of individual customers, medium-sized companies with growing needs for credit as well as broader financial services, and corporate entities that require excellent execution. Our focus now is to compete on our value proposition and win the business. We are experiencing success and expect our growth to accelerate.

We once again achieved increased cross-selling penetration, as we experienced double digit growth in multiple products and services used. Approximately 39% of our customers represent 93% of our business.

Products	2009 Growth
4+	15%
3	27%
2	11%

3 Inform our Clients

During the year we developed our Money Watch bulletin and officially added it to our e-ideas on making money in the US stock market - complimenting our new U.S. equities trading service along with Business Eye, Stock Track and PanCast. These are sources of PanCaribbean's market insight for investors. Investors who reacted positively to our advice that domestic interest rates would tumble and to buy local equities in the second half of 2009 have profited handsomely. Timing is everything. We also hosted investor briefings in Montego Bay and Mandeville, and used our High Tea event during 2009 to provide advice to female investors.

4 Merge & Acquire

In the second half of 2009, we took the decision to merge the unit trust management activities of our subsidiary, Pan Caribbean Asset Management Limited (PCAM), into its parent. PCAM will be wound up in 2010, reducing costs and improving our efficiency, without sacrificing service or investment returns of the country's best performing unit trust funds.

5 Innovation vs Efficiency

Innovation took a back seat to Efficiency in 2009 as we shifted gears in recognition that the Jamaican financial markets were likely to go through substantive changes. Over the past five years, our costs have grown faster than our Operating Income, and our Efficiency Ratio, once the best in the industry, is now over 40%. The Jamaica Debt Exchange and a sluggish economy now create a challenging imperative to find innovative ways to become efficient with our product delivery, without impacting customer service standards.

PERFORMANCE

OUR ECONOMY

Entering 2009, most Jamaicans remained deeply concerned about economic conditions in international markets - caught between the pincers of falling production and rising unemployment, and their negative impact on Jamaica. Our fragile economy showed signs of retreat, and our well-documented vulnerability only heightened fears as uncertainty hung heavy over the future.

Throughout history, the key common determinant of success has been the willingness of leaders to rise to the challenges and grasp the opportunities. Towards the end of 2009, signs began to emerge of a collective willingness to confront some of the challenges that have continued to retard Jamaica's development since entering the 21st century.

Our review of the Jamaican economy for 2009 will focus on areas of importance to the banking and securities industry, as well as key indicators that our shareholders and investors should have an interest in.

Fiscal Performance

The economy appears set for a much larger than budgeted deficit during this current fiscal year 2009/2010. A contracting economy saw taxes 11% behind target, despite two significant tax packages projected to raise $43 Billion. Our country's $1.3 Trillion debt burden, combined with higher than programmed interest rates, saw interest charges of $133 Billion, $9 Billion more than budgeted, and 64% or tax revenues at December 2009. For this nine-month period, the fiscal deficit was $99.2 billion, 27% worse than budgeted. As a result, it became challenging for the government to fund the expanding deficit. Unsurprisingly, the rating agencies revised Jamaica credit rating from "B" to a "CCC" grade.

Production

The global decline triggered a 2.8% GDP contraction as major sectors of the Jamaica economy including Mining, Manufacturing and Construction declined by 50.3%, 5.6% and 4.5% respectively. Domestic Agriculture remained one bright spark, expanding by 12.7% in 2009. However, hard currency flows suffered as bauxite and remittance receipts fell, while tourism held its own as more hotel rooms, consistent airlift, marketing efforts and attractive pricing kept visitor traffic steady despite a dismal year for most of the Caribbean.

Balance of Payments & Net International Reserves

Our Balance of Payments for the period January to October 2009 showed remarkable improvement. The Current Account deficit was almost US$2.0 Billion better than the previous year, underlined by stability of the Jamaican Dollar for most of 2009. Falling oil prices and a significant contraction in demand for imported consumer and durable goods more than offset an 11% slowdown in remittance flows and bauxite exports. Growth in tourist stopovers was a bright spot in the weak Caribbean market.

The Net International Reserves (NIR) fell marginally to $1.73 Billion and supported by a US$330 Million drawdown in Jamaica's Special Drawing Rights available as a member of the International Monetary Fund.

	2009	2008	Change
Fiscal deficit (Apr-Dec)	$99.2B	$55.3B	-$43.9B
GDP Growth	-2.8%	-0.6%	-2.2%
Current Account (Jan-Oct)*	-$0.66B	-$2.61B	+$1.95B
Remittance Flows*	$1.79B	$2.02B	-$0.23B
NIR*	$1.73B	$1.77B	-$0.04B
Tourist stopovers	1.83M	1.77M	+4%

*US$

Inflation & Interest Rates

Inflation concerns eased as the CPI fell from 16.8% in 2008 to 10.2% in 2009. This decline was influenced substantially by a recovery of domestic food supplies, and currency stability for most of the year, after a 7% depreciation of the JA$ in January.

OUR ECONOMY (CONT'D)

Higher energy-related costs and increased taxes however, contributed to inflation remaining in double digits.

On the back of lower inflation and currency stability, the Central Bank cut its open market rates on five occasions, in positive response to market signals at monthly T-Bill auctions. Mounting pressure on the fiscal accounts saw auction results yield rates below the BOJ rate, prompting BOJ's decision to act decisively in reducing rates in 2009. During this period, yields on our 10-year US Global Bond fell versus the prior year, as demand picked up, a function of a decline in Jamaican interest rates and emerging confidence.

Year end Change	2009	2008	Change
Inflation	10.80%	16.90%	-6.10%
BOJ 30 day repo	10.50%	17.00%	-6.50%
Six-month T-Bill	16.80%	24.45%	-7.65%
10-year Global Bond Yield	10.93%	12.60%	-1.67%
10-year US Treasury Yield	3.84%	2.25%	+1.59%

Measures of Wealth

Personal balance sheets took a hit for a second consecutive year as the stock market closed down and the currency lost 11% of its value. On the positive side, Global Bond prices showed some recovery as the likely conclusion of an IMF deal began to improve investor confidence, despite the rating downgrades earlier in the year.

Inflation also moderated but was still sufficiently high to negatively impact disposable income for both businesses and consumers alike, and with the 11% currency depreciation, individual net worth measured in hard currency also declined.

We have seen a growing interest in foreign equities across our trading desk and will include this measure of wealth going forward. The S&P rallied in 2009, as the banking crisis abated and low interest rates sparked an interest in stocks.

Anecdotally, real estate having gone through a bull market in the middle of the decade appears to have slowed without retreating and held its value in nominal dollars. However, pressure on both businesses and individuals could likely impact rental rate increases and in some cases, a reduction, as disposable income has weakened.

Year-end	2009	2008	Change
All Jamaica JSE Index	70,996	73,995	-4%
Average GOJ Global Bond Price	83.1	81.7	+2%
US$ FX Rate	$89.60	$80.47	-11%
Inflation	10.8%	16.9%	-36%
S&P 500	1,115	903	+23%

OUR OUTLOOK

At the time of writing, a number of significant events have taken place that are worthy of mention. First, the Jamaica Debt Exchange (JDX) has been a tremendous success for the Government. The debt re-structuring has resulted in over $40 Billion in estimated savings per annum over the next several years. The IMF and multilateral agencies have provided significant support with the success of the JDX - an unprecedented 99% participation transaction according to the authorities.

The Prime Minister has established a committee to restructure the public sector, with the emphasis on reducing its size to match the taxpayers' purse. In addition, the Ministry of Finance is showing resolve in a number of areas to reign in recurrent expenditure, with some political cost attached to its decisions.

The Letter of Intent to the IMF has committed Jamaica to a number of actions that if well-executed and clearly communicated, could change our economic prospects for the better. However, each step requires both courage on the part of our government leaders and appropriate encouragement on the part of the private sector leadership.

Jamaica still has a long way to go. As it relates to our industry, it will not be business as usual for the foreseeable future. The regulatory and accounting framework under which our banking, securities and asset management businesses operate will likely see changes in the near future. These changes are likely to result in drives for the entire financial sector to pursue even more vigorously, initiatives that result in greater efficiency and improved customer service.

We believe our Management team has the talent to face these challenges and identify the opportunities that will emerge.

MANAGEMENT'S DISCUSSION & ANALYSIS

PanCaribbean generates income from a diverse range of financial services. Companies within the Group held the following licences, memberships and designations:

	Financial Services Commission	Bank of Jamaica	Jamaica Stock Exchange
Pan Caribbean Financial Services Limited	Licensed Securities Dealer	Primary Dealer	Listed Member Licensed Stock Broker
PanCaribbeanBank Limited		Licensed Commercial Bank Authorized Foreign Exchange Dealer	
Pan Caribbean Asset Management Limited	Licensed Securities Dealer Licensed Unit Trust Manager		

During the last quarter Pan Caribbean Asset Management Limited surrendered its licenses and Pan Caribbean Financial Services Limited (PCFS) assumed responsibility for managing the Sigma Unit Trust Funds.

GROUP PERFORMANCE

PanCaribbean delivered improved financial results in 2009. Profit after tax was $1.478 Billion, an increase of 7% over last year's $1.381 Billion. Earnings per share rose 7% to $2.70 and return on opening Shareholders' Equity was 20.9% compared to 18.3% in 2008. Our dividend payout ratio was 46% compared to 48% in 2008. Total dividends paid during the year amounted to $685 Million ($1.25 per share) a 4% increase over $658 Million ($1.25 per share) distributed during the previous year.

The following table sets out, as a percentage of total income, our consolidated profit and loss account for the period.

PROFIT AND LOSS ACCOUNT	2009		2008	
	$'000	%	$'000	%
Operating Income				
Net interest income	2,620,899	75%	1,938,913	63%
Other income	874,376	25%	1,128,753	37%
	3,495,275	100%	3,067,666	100%
Operating Expenses				
Team costs	758,104	22%	720,957	24%
Impairment charges	169,484	5%	1,518	0%
Depreciation & Amortisation	110,164	3%	94,980	3%
Other expenses	498,257	14%	415,382	13%
	1,536,009	44%	1,232,837	40%
Profit before Taxation	1,959,266	56%	1,834,829	60%
Taxation	(481,422)	-14%	(453,897)	-15%
Net Profit	1,477,844	42%	1,380,932	45%

ANALYSIS OF INTEREST INCOME AND EXPENSE

Net Interest Income is comprised of income from fixed income securities, loans and leases, less funding costs from liabilities. Net Interest Income increased by 35% to $2.62 Billion from $1.94 Billion. Growth was supported by improved interest margins and an increase in earning assets to $60.1 Billion at year-end. Our Loan and Lease assets expanded by $244 Million to $8.7 Billion while our securities portfolio rose by $3.7 Billion to $51.4 Billion at year end.

The average investment yield (interest income divided by average balances) for investments was 14.60% in 2009 and 11.99% in 2008. The average yield on loans was 13.02% in 2009 versus 10.38% in 2008. Our portfolios include significant US$-denominated components, influencing yields as foreign currency yields were less volatile. The average interest rate paid (interest expense divided by average balances) for deposit and repo liabilities was 10.65% in 2009 versus 8.77% in 2008. The average rate on borrowed funds and preference shares was 10.34% in 2009 versus 12.28% in 2008. Higher yields on local currency bonds during 2009 resulted in improved net interest margins of 4.51% compared to 3.71% in 2008.

BOJ initiated five rate cuts in the second half of 2009, and intervened in the currency market to maintain stability and confidence. These rate cuts influenced the faster repricing of liabilities and helped to improve interest margins in the second half of 2009.

ANALYSIS OF INTEREST INCOME AND EXPENSE

	2009			2008		
	Average Balance	Interest	Yield	Average Balance	Interest	Yield
	$'000	$'000	%	$'000	$'000	%
Interest-earning assets:						
Investment	49,594,329	7,241,465	14.60%	44,428,367	5,329,061	11.99%
Loans and leases	8,564,046	1,115,264	13.02%	7,799,787	809,511	10.38%
Total interest-earning assets	58,158,374	8,356,729		52,228,154	6,138,572	
Interest-bearing liabilities:						
Customer deposits and repos	51,126,194	5,447,383	10.65%	44,821,681	3,931,845	8.77%
Borrowed funds and preference shares	2,790,552	288,447	10.34%	2,180,958	267,814	12.28%
Total interest-bearing liabilities	53,916,746	5,735,830		47,002,639	4,199,659	
Excess of average interest-earning assets over average interest bearing liabilities	4,241,628			5,225,516		
Net interest income		2,620,899			1,938,913	
Net interest margin			**4.51%**			**3.71%**
Ratio of interest-earning assets over interest bearing liabilities	1.08 : 1			1.11 : 1		

All yield and rate information in the table 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.

NON-INTEREST INCOME

Non-interest income was $874 million, decreasing by 22% over the prior year's $1.127 Billion. This income is comprised primarily of FX trading and translation gains, asset management fees, securities trading gains and other fee-earning activities. The table below details the components of this category.

NON- INTEREST INCOME	2009 $'000	2008 $'000	Change
FX trading and translation gains	294,573	431,926	-32%
Securities trading gains	231,096	141,922	63%
Asset management fees	186,135	197,488	-6%
Credit fees	56,905	59,497	-4%
Trust fees	52,245	34,914	50%
Other income	41,989	24,358	72%
Brokerage, dividend and equities income	6,436	136,372	-95%
Structured products	4,997	42,732	-88%
Gain on disposal of associated company	-	57,967	-100%
	874,376	1,127,176	-22%

Since the beginning of this decade, we have aggressively pursued specific strategies to diversify our lines of business and revenue sources. In 2009, with the exception of fixed income trading, most other key fee-related activities reflected lower revenues. The prior year results included a $58 Million gain on disposal of the remaining 25% interest in an associated company. Our comments will focus (but not exclusively) on key areas.

SECURITIES TRADING GAINS

We are one of 12 Primary Dealers with an 11% market share of new GOJ issues, ranking third in underwriting. As a Primary Dealer, we are an active market maker, providing liquidity for bonds and creating trading opportunities for our institution and our customers.

TRUST

Corporate Trust manages five share registers, provides corporate secretarial services for five companies listed on the Stock Exchange, and is Trustee/Custodian for 26 bond issues and similar type transactions.

STOCKBROKING

In 2009, we traded 28.2% of the market, up from 20.5% in the prior year. For the last four years, we have been ranked first or second in volumes traded on the JSE, placing second in 2009.

FOREIGN EXCHANGE TRADING

Trading volume fell significantly to US$272 Million, down from US$856 Million in 2008 reflecting a 3% market share.

NON-INTEREST EXPENSE

Non-interest expense increased 25% to $1.536 Billion compared to $1.232 Billion for the prior year, and included $169 Million in loss provisions and impairment charges. Excluding theses provisions, operating expenses rose 11%. Heavily influencing team member costs were a 4% increase in our permanent staff levels from 249 to 259, along with annual salary increases. Charges associated with implementation of technology systems and other related projects continue to impact our operating costs. Our Efficiency Ratio at 43.9%, (up from 40.2% in 2008), has risen as a result of our commercial banking investment.

NON-INTEREST EXPENSE

	2009		2008	
	$'000	%	$'000	%
Staff costs	758,104	49%	720,957	58%
Impairment charges	169,484	11%	1,518	0%
Occupancy costs	103,637	7%	86,427	7%
Other expenses	504,784	33%	423,935	34%
Total	1,536,009	100%	1,232,837	100%
Efficiency ratio	43.9%		40.2%	

TAXATION

The effective tax rate decreased to 24.6% from the 24.7% reflected in 2008. Tax on profits differs from the theoretical amount that would normally arise using the statutory rate of 33 1/3% as follows:

TAXATION

	2009	2008
	$'000	$'000
Profit before taxation	1,959,266	1,834,829
Tax calculated at 33 1/3%	653,089	611,610
Adjusted for the effect of:		
Income not subject to tax	(172,123)	(156,503)
Prior year adjustment	(1,066)	(6,829)
Net effect of other charges and allowances	1,522	5,619
Tax Expense	481,422	453,897
Effective tax rate	24.6%	24.7%

Income not subject to tax is primarily income derived from tax-free securities held and the gain on disposal of our associated company, Manufacturers Credit and Information Services Limited in 2008.

SUMMARY OF QUARTERLY RESULTS

PanCaribbean realized improved earnings for three of four quarters this year. The quarterly results reflect changing conditions across each quarter. As interest rates fell in 2009, margins improved and trading opportunities developed.

SUMMARY OF QUARTERLY RESULTS								
	2009				2008			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net interest income ($M)	562	657	713	689	478	474	495	492
Non-interest income ($M)	259	202	210	203	166	231	190	540
Total operating income ($M)	821	859	923	892	644	705	685	1,032
Operating expenses ($M)	354	348	415	419	263	298	291	381
Net income ($M)	349	373	388	368	254	352	295	480
Earnings per share ($)	0.64	0.68	0.71	0.67	0.46	0.64	0.54	0.88
Return on opening equity (%)	19.7%	21.1%	22.0%	20.7%	13.5%	18.7%	15.7%	25.5%
Dividends paid ($M)	356	-	329	-	356	-	-	302
Total assets ($M)	64,643	65,562	67,182	65,245	51,811	54,856	57,731	63,773
Stockholder's equity ($M)	7,019	7,688	8,249	7,908	7,122	7,542	7,434	7,084
Closing share price ($)	12.20	15.49	13.19	20.00	21.95	20.00	19.00	12.00

BALANCE SHEET & ASSET QUALITY

The consolidated balance sheet grew by 2% to $65.2 Billion in total assets compared to $63.8 Billion at December 2008. Our securities portfolio increased 2% during this period to $51.6 Billion while loans and leases increased 3% to $8.7 Billion. During the year, a provision of $73 Million was established for impairment of quoted equities and debt securities.

Steady credit growth remains a priority while maintaining our underwriting standards. Credit quality remains acceptable and reflects some improvement. At year-end, Non-performing credit assets were $231 Million at year-end or 2.6% of the portfolio, versus $234 Million or 2.8% in 2008. This compares favourably to the current industry average of 4.7%. Non-performing credit assets as a percentage of total assets were 0.35% versus 0.37% in 2008 (Industry: 2.1%). Non-performing loans have been adequately provided for. (Industry source: BOJ Prudential Indicators, December 2009)

INVESTMENTS AND SECURITIES PORTFOLIO

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

- Placements - funds placed on a short term basis with other financial institutions.
- Trading securities - 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 – 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.
- Held-to-maturity investments – investments intended to be held to maturity.
- Derivative financial instruments - securities or contracts used to manage our credit, market, interest rate or currency risks and to provide risk management solutions for customers.
- Pledged assets - available-for-sale securities pledged, for which the transferee has a right by contract or custom to sell or re-pledge the collateral.

INVESTMENTS & SECURITIES

	2009		2008	
	$'000	%	$'000	%
Category				
Placements	1,236,887	2%	505,000	1%
Trading investments	-	0%	320,364	1%
Reverse repurchase agreements	4,499,614	9%	3,628,964	7%
Available -for-sale investments	25,742,036	50%	23,654,040	47%
Held-to-maturity investments	1,745,691	3%	1,554,655	3%
Derivative financial instruments	155,374	0%	2,957,306	6%
Pledged assets	18,221,416	35%	18,079,991	36%
	51,601,018	100%	50,700,320	100%
Currency				
Jamaican Dollar	27,709,577	54%	24,180,500	48%
United States Dollar	23,286,404	45%	24,577,311	48%
Euro	605,037	1%	1,942,509	4%
Total Portfolio	51,601,018	100%	50,700,320	100%

CREDIT PORTFOLIO

At year-end, our total net loan portfolio, including finance leases, amounted to J$8.69 Billion (2008 - $8.44 Billion), or 13% of our total assets (2008 - 13%). The average interest rate received (interest income divided by average balances) for loans and leases were 13.02% (2008 - 10.38%). At December 31, 2009, 78% of our portfolio was US$-denominated.

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 may be considered only if the loan is cash-secured and is in the 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 $167 Million (2008 - $117 Million).

Credit quality remains acceptable. Non-performing loans were $231 million versus $234 million in 2008. They represented 2.6% of total loans (2008-2.8%) and was better than the industry average of 4.1%. With credit provisions of $345 million, non-performing loans have been 149% provided for, versus the industry average of 79%. (Source: BOJ December 2009 Prudential Indicators)

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

LOANS & LEASE PORTFOLIO				
	2009		2008	
	$'000	%	$'000	%
Industry				
Professional and other services	1,898,496	22%	2,044,494	24%
Distribution	1,809,723	21%	1,857,980	22%
Tourism, Entertainment	1,726,717	20%	1,360,556	16%
Agriculture, Fishing, Mining	1,223,387	14%	1,401,596	17%
Manufacturing	659,027	8%	270,524	3%
Construction, Real Estate	708,176	7%	736,336	9%
Personal	614,504	7%	561,384	7%
Transport, Storage, Communication	133,451	1%	236,746	2%
Other	-	0%	9	0%
Total	8,773,481	100%	8,469,625	100%
Provision	(177,437)		(115,178)	
Net	8,596,044		8,354,447	
Interest Receivable	90,174		87,426	
Total Portfolio	8,686,218		8,441,873	
Currency				
Jamaican Dollar	1,948,120	22%	1,883,865	22%
United States Dollar	6,738,098	78%	6,558,008	78%
Total Portfolio	8,686,218	100%	8,441,873	100%

SUMMARY OF LOAN LOSS EXPERIENCE

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

SUMMARY OF LOAN LOSS EXPERIENCE	2009	2008
	$'000	$'000
Total provision at beginning of year	232,473	211,768
Retained earnings transfer	40,891	1,862
Currency revaluations and other adjustments	18,193	23,018
Provision utilized	(36,303)	(5,693)
Provided during the year	89,832	7,695
Recoveries	-	(6,177)
Net charge/(credit) to the profit and loss account	89,832	1,518
Total provision at end of year	345,086	232,473
Non-performing loans & leases	205,724	234,114

INTEREST BEARING LIABILITIES

The Group's interest-bearing liabilities consist of repurchase agreements, deposits and other accounts, borrowed funds and preference shares. At the year-end:

- Total securities sold under repurchase agreements of $43.97 Billion (2008 - $42.04 Billion), representing 77% of total liabilities (2008 - 74%)
- Customer deposits and other accounts were $8.78 Billion (2008 - $7.46 Billion), representing 15% of the Group's total liabilities (2008 - 13%)
- Total borrowings were $1.50 Billion (2008 - $1.54 Billion), representing 3% of the Group's total liabilities (2008 - 3%)
- Preference shares of $1.27 Billion, represented 2% of the Group's total liabilities

STOCKHOLDERS' EQUITY

Stockholders' Equity stands at $7.9 Billion, reflecting a well-capitalized 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 as a result unrealized portfolio gains (or losses) are reflected in this Fair Value Reserve. Our Fair Value Reserve at year-end reflected mark to market unrealized losses of $1.1 Billion.

CAPITAL ADEQUACY

Under the Financial Services Commission's (FSC) and the Bank of Jamaica's (BOJ) regulatory framework, our securities and banking 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 61% and our banking entity, PanCaribbeanBank Limited's Capital Adequacy Ratio is 33% reflecting ratios in excess of regulatory minimum requirements of 10% for the FSC and BOJ.

REGULATORY CAPITAL

	2009			2008		
	Actual		Minimum	Actual		Minimum
	Ratio %	Amount $'000	Required $'000	Ratio %	Amount $'000	Required $'000
Pan Caribbean Financial Services Limited	61%	7,142,550	2,831,707	51%	6,413,154	2,469,063
PanCaribbeanBank Limited	33%	2,602,455	798,805	16%	1,359,482	863,729

OUR SIGMA FUNDS

SIGMA FUNDS

	Annual Return	10 Year Annual Average
Sigma Solution®	17.68%	15.80%
Sigma Liberty®	28.22%	16.50%*
Sigma Optima®	21.93%	22.01%
JSE Main Index	3.95%	14.30%

* 4-Year Annual Average

In 2009, and for five of the last six years, our Sigma Funds have been the top-ranked unit trust funds in the Jamaican market, an enviable record. As the table indicates, Sigma recorded good returns across its portfolios for 2009. This achievement has resulted in Sigma returning to the top of the tables with Liberty being the best performing in the unit trust market across all asset classes.

Assets under management grew by 13% for the period to total $3.4 billion, driven by gains in Solution and Optima. Liberty had an outstanding year and continues to provide clients with an effective currency depreciation hedge. Sigma remains driven by an investment philosophy grounded in research while keeping abreast of the pulse of the financial markets short-term.

Sigma Optima® recorded an excellent performance, driven by its well-positioned stock portfolio. These diversified holdings are in the best listed companies locally and regionally with a focus in financial and manufacturing entities as well as conglomerates, enabling Optima to close the year and outperforming the JSE Main Index by 18%. Optima continues to represent one of the best long-term investment options with average annual returns over the last 10 years of 22%, and an effective way to achieve professional management of equity investments.

Sigma Solution® our Jamaican dollar fixed income fund recorded excellent growth for 2009, with a total return of 17.7%, ahead of Solution's 10-year average return. The investment strategy for Solution remains the generation of stable returns ahead of benchmarks.

Sigma Liberty® our US$ Indexed fund was the best performing unit trust for 2009, with growth exceeding 28%. This growth was driven by currency translation gains and investment income. We continue to position Liberty as a viable US$ investment option, especially for smaller investors, who can enjoy great returns and capital preservation.

We are pleased to have been a leading voice since 2005, in leveling the playing field as it relates to unit trust licenses. PanCaribbean is excited that, with the Financial Services Commission's repeal of its moratorium on unit trust licenses, this coming new decade will offer new opportunities for products, and result in a growing industry and a rising tide that will benefit investors, providing them with more choices.

RECENT EVENT

On 14 January 2010 the Government of Jamaica (GOJ) issued a public invitation to participate in its Jamaica Debt Exchange (JDX) programme in respect of specific domestic debt instruments. The JDX involves the exchange of the GOJ'S existing domestic debt instruments for new debt instruments having longer maturities and lower interest rates. The Group has accepted the invitation to participate in the programme. The immediate impact of the exchange on capital was assessed to be immaterial.

The face value of the securities exchanged was J$22.5 Billion and US$98.8 Million (including J$ denominated instruments indexed to the US$).

The Group has initiated its action plan to reduce the impact of lower investment rates, by adjusting its liability costs and has expanded marketing of its commercial banking products to attract interest-bearing accounts that enjoy more flexibility and JDIC insurance but carry lower funding rates.

HOW WE MANAGE RISK

Our Risk Management Philosophy

Our income-generating activities rely on the use and delivery of a wide range of financial instruments and services. Accordingly, our risk management framework revolves around policies, systems, internal controls, reporting, training and redundancies – bearing in mind the appropriate risk return trade-off.

We are also engaged in a business where mutual trust is the bond that must be passionately guarded. In managing PanCaribbean's reputational risk - we do everything in our power to ensure that the relationship we enjoy between ourselves and our customers is ethical, engaging, confidential and service-oriented. We focus on securing and maintaining the trust of our customers, who rely on us to protect their wealth, finance their needs and manage their assets, ensuring that they have the means to take care of their families and help the less fortunate in our society. We work equally as hard to keep the trust of our Team Members who represent our Brand in their interface with our customers daily. As a regulated entity with our operating activities overseen by the Bank of Jamaica, the Financial Services Commission and the Jamaica Stock Exchange, we ensure that these relationships are positively nurtured and sustained.

Risk Management Principles

RISK MANAGEMENT PRINCIPLES The following principles guide our enterprise-wide management of risk:	
• Effective balancing of risk and reward by aligning risk appetite with business strategy, diversifying risk, pricing appropriately for risk and mitigating risk through preventive and detective controls.	• Proper focus on clients reduces our risk by knowing our clients and ensuring that the services we provide are suitable for and understood by our clients.
• Shared responsibility for risk management as business segments are responsible for active management of their risks, with direction and oversight provided by ALICO.	• Use of judgment and common sense in order to manage risk throughout the organisation
• Business decisions are based on an understanding of risk as we perform rigorous assessment of risk in relationships, products, transactions and other business activities.	

Risk Management

PanCaribbean has a Risk Management & Compliance Division with responsibility to ensure assessment and measurement of risks related to our financing and investing activities, as well as regulatory and policy compliance. The Head of Risk attends and participates in meetings of the Audit and Asset, Liability, Credit & Investment Board Sub-Committees.

The Group utilizes an integrated approach in managing its activities that includes management of liquidity, credit risk, interest rate sensitivity, operational risk and foreign currency exposure. In order to provide a rate of return to shareholders and protect depositors and clients, the risks associated with our lines of business and activities are monitored and frequently assessed. This is achieved through a framework of simulations of market conditions, economic and market analyses, as well as other methods that require active and effective management oversight.

Liquidity Risk Management 2009 Strategy

With the heightened uncertainty, we entered 2009 with greater liquidity in our two principal trading currencies and focused on reducing the duration of our securities portfolios. For domestic assets, we acquired J$ assets that could readily be liquidated (T-Bills, BOJ CDs, secured secondary market repos). Secondly, we avoided the temptation to grow the balance sheet with long mismatched asset positions. For our foreign asset portfolio, we liquidated some positions and stayed in cash, utilizing the BOJ window for short-term attractive investments. During the second half, we began to acquire attractively priced assets in both currencies as we assessed that conditions would stabilize with the IMF discussions, resulting in improved interest margins for the third and fourth quarters.

Our short-term liabilities are segmented and analyzed to monitor and reduce concentrations. PanCaribbean strives to achieve targeted asset/liability matching strategies, while maintaining sufficient liquidity to meet unexpected funding gaps, bearing in mind market volatility. Our Treasury monitors its daily, weekly and monthly liquidity positions and adheres to its liquidity policy ratios.

GROUP LIQUIDITY RATIO	
(0-90 day maturities to volatile funding)	
September 2008	92%
December 2008	132%
March 2009	93%
June 2009	119%
September 2009	129%
December 2009	157%

Credit Risk Management 2009 Strategy

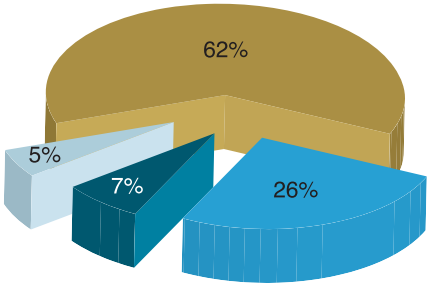
PanCaribbean accepts credit risk exposure where counterparties may be unable to pay amounts in full when due. Credit risk is inherent in financial products – loans, commitments to lend, repurchase agreements and contracts to support counterparties' obligations to third parties such as guarantees and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

The risk is managed primarily by reviewing 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 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 appropriate collateral and corporate and personal guarantees. It is policy to obtain control or take possession of securities purchased under agreements to re-sell. PanCaribbean assesses the market value of the underlying securities that collateralize the transactions and takes the appropriate margins required.

Our loan portfolio is managed by focusing our efforts on good quality loans, appropriately priced to reflect the risk associated with the expected cash flows and the collateral provided. The chart below provides an insightful analysis of our portfolio.

CREDIT RISK MANAGEMENT



- Strong Cash Flows, Good Collateral - High Quality Assets
- Weak Cash Flows, Good Collateral - Asset Based Lending
- Strong Cash Flows, Weak Collateral - Cash Flow Lending
- Weak Cash Flows, Weak Collateral - Deteriorating Credit

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 at settlement. As a result of the BOJ's new securities depository, all domestic GOJ and BOJ securities will be dematerialized in 2010 and settlement risk will diminish significantly. For commercial and retail lending activities, loans are adequately collateralized, with applicants undergoing a thorough screening and credit analysis process. Page 44 provides further details on our loan exposure by industry.

Interest Risk Management 2009 Strategy

PanCaribbean's interest rate risk resides primarily in its J$ liability portfolio as US$ liabilities are significantly less volatile. Accordingly, we tend to hold a higher proportion of variable rate J$ securities linked to T-Bill yields. Consequently, 62% of our J$ portfolio are in floating rate GOJ J$ securities. Our Commercial Bank initiative is also intended to raise the level of stable and less rate-sensitive liabilities to fund our asset growth. A growing proportion of our loan portfolio is also tied to our Prime Lending Rate which is reviewed periodically based on market conditions.

Our fixed rate five-year $1.3 Billion preference share liability is also part of this risk management. Active monitoring of market and economic data gives insights into likely market movements which allow our Treasury to anticipate and act accordingly, particularly as it relates to price movements, and decisions to go long or short.

Foreign Currency Risk Management 2009 Strategy

Foreign Currency Exposure

With the significant build up of foreign currency balances in the domestic market, PanCaribbean is an active participant in this market, both in trading as a market maker and in accepting deposits and investment accounts. Over time, we have built up a net positive position, primarily in US Dollars. See Note 3(c)(i) on page 107 for exposure details. We manage our market making and trading exposures by dealing with a pre-approved list of clients, adhering to established intra-day and over-night limits which are reviewed daily by the Risk Management Unit. We also use forward contracts to hedge exposures to the Euro.

Operational Risk

We reduce operational risk and minimize losses through clear lines of accountability, separation of duties, appropriate training, adherence to implemented polices, effective internal audits and prompt corrective action to weaknesses identified, and a continuing review and update of policies. Close management oversight underpins these activities.

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, reviewed by 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.

DIVISION REPORTS

TREASURY & CAPITAL MARKETS

The Treasury & Capital Markets Division is responsible for funding, analysis, trading, advice, and management of PanCaribbean's financial assets, as well as those of its larger clients. It spans:

- Treasury & Trading
- Asset Management
- Private Client & Investment Services

The Division faced interesting, and at times, tense markets during the year, created by the continued effects of the global financial uncertainty, rating downgrades and concerns created by delays in finalizing an expected IMF agreement. The Central Bank began cutting its rates in the middle of the year, and by year-end, 30-day BOJ rates had tumbled by 6.5% to 10.5%.

Weak markets and lower activity resulted in revenue declines from Asset Management and Foreign Exchange. However, favourable interest rate volatility improved interest margins and aggressive fixed income trading made up for reductions in other fee-generating areas, reflecting the strength of our diverse business lines. Successes include a 20% market share and second place in stockbrokerage rankings.

We achieved top ranked positions amongst unit trusts with Sigma Optima and Liberty. Our Asset Management Unit outperformed local benchmarks and expanded new opportunities in U.S. equities, creating additional value for clients. Private Clients and Investment Services focused on providing our clients advice on how to navigate the markets, capitalize on opportunities, while importantly, preserving capital.

CORPORATE TRUST

Corporate Trust generated fees of $52 million in 2009. Revenues were derived from the following activities:

- Corporate Secretarial Services to the Group and four other listed companies.
- 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 a pension-focused REIT.

GROUP MARKETING

In April 2009, the Marketing Division of PanCaribbean merged with the Corporate Marketing Unit of Sagicor Life Jamaica to form the Group Marketing Division. The immediate results included a more efficient allocation of marketing resources and greater focus on brand development across the Group.

Here are highlights of our performance:

- **Launched new Commercial Banking campaign.**
- **Developed framework for the Sagicor PanCaribbean Foundation.**
- **Improved Communication through investor briefings and upgraded materials.**
- **Connected with new clients through successful promotions.**
- **Achieved measurable growth in product cross-selling activities.**

2010 will present new challenges. We remained focused on maximizing returns of marketing investments and will continue to seek opportunities to build our Brand, grow our revenues, serve our communities and delight our clients.

CORPORATE & RETAIL LENDING

Our loan portfolio grew by 3% to $8.7 Billion in 2009. The growth reflects adoption of more stringent credit assessments, with greater focus placed on asset quality while growing our retail credit portfolio.

Despite low portfolio growth, credit interest income grew by 38% to $1.11 Billion driven primarily by higher interest rates during the year and more J$ loans on our books.

Credit fee income of $57 Million represented a 4% decline compared to the prior year, as loan origination fees were affected by weak portfolio growth and more competitive pricing.

Credit quality remained acceptable with non-performing loans at 2.6% (Industry average 4.7%) of total loans, versus 2.8% in 2008. Loss provisions as a percentage of non-performing loans were 149%, (Industry average 75%).

Despite the difficult economic climate, our commercial bank represented a key driver of efficient credit growth. Our focus remains on appropriate underwriting standards based on market conditions.

Team Members of the Year

"Despite the challenges of my job, the end result is always rewarding. I'm surrounded by hardworking and genuine team members, without whom, I would not have accomplished so much."

Althea Graham-Dolly, Personal Banking Officer, Montego Bay Branch

TECHNOLOGY

2009 proved to be another challenging, yet successful and exciting year for the Information Technology Division. Our mission remains to provide an environment that delivers continued enhancements to our critical information systems, thus improving the delivery of IT services to both internal and external customers.

The Division was enhanced by incorporating the Project Management Unit, which strengthened our business and IT strategic alignment. This has resulted in a more collaborative project planning and implementation process. These synergies improved our delivery of additional service channels including automated standing orders and chequing account sweeps; expansion of our Internet Banking Bill Payment Services, as well as continued improvements in the security and integrity of our information systems.

In 2010, we will continue to drive research, evaluation and implementation of new strategies and technologies to reduce overall operating costs and ensure a competitive business advantage for the organization. Focus areas include infrastructure and business processes, reporting and business intelligence improvements, along with mitigation of business continuity risks and the critical testing of recovery procedures.

HUMAN RESOURCE DEVELOPMENT

Performance Management System

Increased emphasis was placed on performance management in 2009 as we prepared for the introduction of a paperless performance management system for our human resources functions as part of a wider Sagicor Group initiative. This system will align team member goals with those of the organization, identify high performing teammates, streamline the review process and reduce costs to administer and track performance.

Team Member Development

In 2009, 95 training courses were attended by our Team Members. Of this amount, 30 courses were designed and facilitated internally. Total training hours amounted to 6,078, up from 5,652 in 2008. Our commitment to development of our Team Members is clear.

"I have set very high standards for myself, and goals that relate not only to my personal success, but also to my ability to play a part in the success and happiness of others. Whenever I feel that any of my goals are unattainable, I am motivated by friends and family, who remind me that I have been blessed with all the tools necessary for me to succeed."

Dionne Allison, Manager - Corporate Credit, Head Office

Team Member Welfare

We continue to encourage a sense of physical, emotional and spiritual well-being among our Team Members.

Our PanVybz and Organizational Improvement Committees exerted a positive influence on the organization's morale and efficiency initiatives, and continued to be important development areas for emerging leadership talent.

Team Member Satisfaction Survey

Team Members' opinions continue to be highly valued and helpful in identifying focus areas. Our sixth annual survey, conducted anonymously, allows persons to share their views on a wide range of subjects. In 2009, results indicated that we were ahead in 19 of 26 international benchmarks and overall, 87% of Team Members viewed PanCaribbean as an Employer of Choice.

Extra Mile

Annastacia Gayle, our 2009 Extra Mile recipient, describes herself as trustworthy, loyal and independent. This young lady who is driven by the Company's vision; "To be loved by our clients and admired by our competitors", excitedly admits that going the extra mile is innate to her.

She is currently a Senior Officer, Sales & Client Services and hopes to be an Assistant Manager in the near future. "Live, laugh and love" is Annastacia's philosophy of life and she is a firm believer that what ever you do, whether positive or negative, comes back to you.

She is motivated to ensure that her customers are happy to do business with her and enjoys travelling and watching a good movie.

CORPORATE SOCIAL RESPONSIBILITY

Making a Difference

SIGMA CORPORATE RUN 2009

The 11th Annual PanCaribbean Sigma Corporate Run was even bigger and better than anticipated. We had another record year, with participation improving by 20% to 9,550 entrants and donations improving by 14% to $14.258 Million.

We once again partnered with the National Health Fund, which matched the contributions received from participants. For the first time, we also partnered with the Shaggy Make a Difference Foundation, as a part of their own efforts to raise funds for the Bustamante Hospital for Children. The proceeds from the event were used to purchase equipment for the Bustamante Hospital for Children, and the paediatric wards of the Spanish Town Hospital, Victoria Jubilee Hospital, St. Ann's Bay Hospital, May Pen Hospital, Savanna-la-mar Hospital, Cornwall Regional Hospital and Mandeville Regional Hospital.

1 *Mrs. Beverly Needham, CEO of the Bustamante Hospital for Children receives the symbolic cheque for $14,258,000. From (l-r) Orville "Shaggy" Burrell of Shaggy's Make a Difference Foundation, Donovan Perkins - President & CEO of Pan Caribbean Financial Services and Hugh Lawson, CEO of The National Health Fund.*

2 *Walkers on the go.*

PAN SCHOLARS

Our Scholarship Programme started in 1993 with a view to improving the level of education of our nation's children. Beneficiaries are selected at the end of their first year of study at the University of the West Indies and the University of Technology, and receive scholarships for the second and third years. Since the programme was first introduced, over 300 students have received scholarships exceeding $35 Million.

In addition to scholarships, we take pleasure in sharing time with primary schools through our Reading Programme and a special relationship with St. Aloysius Primary School on their annual Boys Day.

3 *Participants take their vow to abide by the rules of the Run at the start of the race.*

4 *Philip Edwards, Overall Male Winner crosses the finish line.*

5 *(l-r) Matron Marcia Lyn-Cook, Director of Nursing Services explains the use of the equipment received to Ann-Marie Smith, Assistant Manager - Private Client Services, PanCaribbean with Sailee Neish, Ward Sister (Actg.), Marshalyn Moore, Registered Nurse, (partially hidden) Karen Anderson, In-Service Education Officer and Lyttleton Shirley, Board Chairman, South East Regional Health Authority looking on.*

6 *Pan Scholar recipients pose with President & CEO of Pan Caribbean Financial Services, Donovan Perkins.*

PAN SPORTS

We continued our commitment to supporting junior tennis by sponsoring the All Jamaica Junior Tennis Championships, held in Kingston and the Junior Tennis Championships held in Montego Bay. Over 150 talented young players showcased their athletic ability at the events.

We also supported the Caribbean Amateur Junior Golf Championships in Montego Bay and Reggae Marathon & Half Marathon in Negril.

OUR COMMUNITY

During the year, our team supported many other charitable events, including CUMI Fun Run in Hanover, the Grace Kennedy 5K Road Race held Downtown Kingston and the Jamaica Cancer Society Relay for Life in both Kingston and Ocho Rios.

We received great support from our clients, who had for the second year encouraged and supported our decision to use funds earmarked for client-related Christmas activities for much needed assistance for Genesis Academy, Mustard Seed Communities, Missionaries of the Poor, Liberty Academy, the Salvation Army, SOS Children's Village, Hanbury Children's Home, West Haven Children's Home and the Stella Maris Foundation.

8

7

9

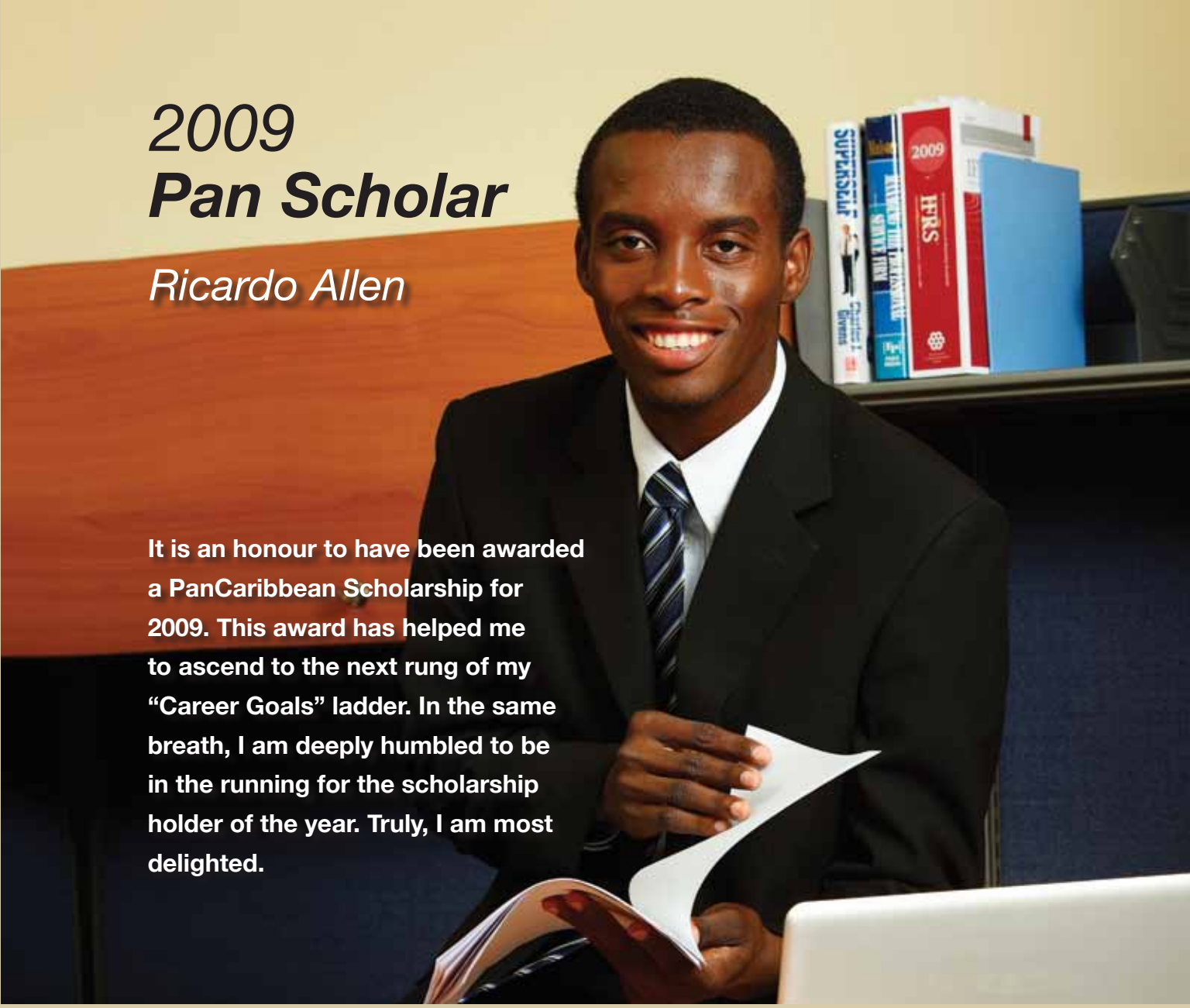
7 *Roger Lyn was a huge hit at the 2009 All Jamaica Junior Tennis Championships.*

8 *The top tennis players of the 2009 All Jamaica Junior Tennis Championships.*

9 *Merrick Plummer, Research & Portfolio Manager says the boys of St. Aloysius Primary School are No. 1.*

2009
Pan Scholar

Ricardo Allen



It is an honour to have been awarded a PanCaribbean Scholarship for 2009. This award has helped me to ascend to the next rung of my "Career Goals" ladder. In the same breath, I am deeply humbled to be in the running for the scholarship holder of the year. Truly, I am most delighted.

Born in Falmouth, Trelawny, Ricardo Allen is a role model for young boys who face the challenge of realizing their dreams despite circumstance. Ricardo grew up in Hermitage, August Town, in what he described as a tenement yard. "I lived in a rather extended family home where everyone was present... this didn't last for long however as the upsurge in criminal activity in the area caused many family members to relocate," he explained. This included his grandmother, who was his primary care-giver at a point in his life and Ricardo was left to live on his own for a few months at the tender age of 12 years.

Soon after, he was reunited with his mother and siblings. He graduated from George Headley Primary School and entered the gates of Jamaica College. "It was the school I dreamt of going as a boy growing up in the inner-city." It was at JC that Ricardo met his mentor, the Hon. R. Danny Williams, OJ and under his guidance, Ricardo decided he would be successful. "I chose success as I saw it as a way of helping my immediate family out of poverty." He is now at the University of the West Indies pursuing a degree in Actuarial Science. "I've learnt that with Perseverance, Hardwork, Drive and Determination, my very own PhD, all things in life are possible."

He actively mentors fifth form students preparing for CAPE Mathematics at his Alma Mater and lists among his immediate goals earning a Doctorate in Mathematics at Cambridge.

DISCLOSURE OF SHAREHOLDING AS AT DECEMBER 31, 2009

MAJOR STOCKHOLDERS

		Shares Held
1	Sagicor Life Jamaica Limited	380,505,414
2	Sagicor Life of the Cayman Islands Ltd.	91,283,131
3	ATL Group Pension Fund Trustees Nom. Ltd.	5,297,100
4	Perkins, Donovan and Michele et al	5,224,085
5	National Insurance Fund	5,115,651
6	JCSD Trustee Services Ltd. A/c 76579-02	3,776,891
7	JPS Employees Superannuation Fund	2,722,475
8	MF&G Trust & Finance Ltd. A/c #528	2,573,063
9	Wray & Nephew Group Limited	2,436,760
10	Mayberry West Indies Limited	2,436,389

Total ordinary stocks in issue - 547,924,039

Total number of stockholders - 1,627

STOCKHOLDINGS OF DIRECTORS AND CONNECTED PERSONS

DIRECTORS	STOCKHOLDING	CONNECTED PERSONS	STOCKHOLDING
Richard O. Byles		& Jacinth Byles	1,168,116
Jeffrey Cobham	Nil	Nil	Nil
Christopher de Caires	Nil	Nil	Nil
M. Patricia Downes-Grant	Nil	Nil	Nil
Richard Downer	Nil	Nil	Nil
Patrick Lynch	Nil	Nil	Nil
Peter Melhado	Nil	Nil	Nil
Dodridge Miller	Nil	Nil	Nil
Lisa Soares Lewis	10,000	Nil	Nil
Donovan H. Perkins		& Michele & Alexander & Jessica Perkins	5,224,085
Hayden Singh		& Joyce Singh	8,000
Colin Steele	Nil	Nil	Nil

STOCKHOLDINGS OF SENIOR MANAGEMENT AND CONNECTED PERSONS

MANAGERS	STOCKHOLDING	CONNECTED PERSONS	STOCKHOLDING
Tanya Allgrove		& Nigel C. Casserly	1,815
Philip Armstrong		& Trevor & Nicola Armstrong	525,000
Sabrina DeLeon		& Trevor & Samantha DeLeon	21,560
Gene M. Douglas	470,000	Nil	Nil
Peter Knibb	2,500	& Elizabeth Knibb	5,000
Faith McFarquhar-Gordon		& Claude D. Reynolds	1,323
Margaret McPherson	Nil	Nil	Nil
Tanya Miller		& Wayne Miller	3,760
Tara Nunes		& Kelly & Brooke Nunes	100,000
Donovan H. Perkins		& Michele & Alexander & Jessica Perkins	5,224,085
Donnette Scarlett		& Merrick Scarlett	99,402
Grace Solas	Nil	Nil	Nil
Karen Vaz	500,000	& Douglas Vaz	75,000
Colleen Yearde-Williams	Nil	Nil	Nil

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Year ended 31 December 2009

PRICEWATERHOUSECOOPERS

To the Members of
Pan Caribbean Financial Services Limited

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

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 63 to 164, which comprise the consolidated and company balance sheets as of 31 December 2009 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 2009, 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

24 February 2010
Kingston, Jamaica

M.G. Rochester P.W. Pearson E.A. Crawford D.V. Brown J.W. Lee C.D.W. Maxwell P.E. Williams
G.L. Lewars L.A. McKnight L.E. Augier A.K. Jain B.L. Scott B.J. Denning G.A. Reece

Consolidated Profit and Loss Account

Year ended 31 December 2009

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2009 $'000	2008 $'000
Net Interest Income and Other Revenue			
Interest income from securities		7,216,841	5,291,075
Interest income from loans and leases		1,115,264	809,511
Other interest income		24,624	37,986
Total interest income		8,356,729	6,138,572
Interest expense	6	(5,735,830)	(4,199,659)
Net interest income		2,620,899	1,938,913
Fees and commission income	7	335,866	347,490
Net trading income	8	514,800	676,254
Other revenue	9	23,710	103,432
		3,495,275	3,066,089
Operating Expenses			
Staff costs	10	758,104	720,957
Impairment charges	11	169,484	1,518
Occupancy costs		103,637	86,427
Other expenses	12	504,784	423,935
		1,536,009	1,232,837
Operating Profit		1,959,266	1,833,252
Share of associated company profit	23	-	1,577
Profit before Taxation		1,959,266	1,834,829
Taxation	13	(481,422)	(453,897)
NET PROFIT	14	1,477,844	1,380,932
EARNINGS PER STOCK UNIT			
Basic	16	$2.70	$2.52
Diluted	16	$2.70	$2.52

Consolidated Statement of Comprehensive Income

Year ended 31 December 2009

(expressed in Jamaican dollars unless otherwise indicated)

	2009 $'000	2008 $'000
Net Profit	1,477,844	1,380,932
Income/(expense) recognised directly in stockholders' equity, net of tax -		
Available-for-sale investments -		
Unrealised gains/(losses) on available-for-sale investments	177,707	(1,146,254)
Gains reclassified and reported in profit	(10,354)	(247,523)
	167,353	(1,393,777)
Cash flow hedge -		
Unrealised (losses)/gains on cash flow hedge	(149,296)	199,487
Total income/(expense) recognised directly in stockholders' equity, net of tax	18,057	(1,194,290)
Total comprehensive income	1,495,901	186,642

Consolidated Balance Sheet

31 December 2009

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2009 $'000	2008 $'000
ASSETS			
Cash and balances due from other financial institutions	17	3,464,251	2,815,692
Cash reserve at Bank of Jamaica	18	413,744	182,062
Trading securities	19	-	320,364
Securities purchased under agreements to resell	20	4,499,614	3,628,964
Investment securities	21	27,487,727	25,208,695
Derivative financial instruments	22	155,374	2,957,306
Loans, net of provision for credit losses	25	8,653,610	8,371,067
Lease receivables	26	32,608	70,806
Pledged assets	27	18,221,416	18,079,991
Due from related companies	28	10,066	14,113
Income tax recoverable		17,940	46,743
Intangible assets	29	812,158	867,796
Property, plant and equipment	30	127,933	155,722
Deferred income tax assets	31	561,503	594,354
Post-employment benefit assets	32	57,875	21,708
Other assets	33	729,748	437,481
		65,245,567	63,772,864
LIABILITIES			
Securities sold under agreements to repurchase		43,972,613	42,040,112
Customer deposits and other accounts		8,782,495	7,457,170
Structured products	34	473,266	1,087,540
Due to banks and other financial institutions	35	1,501,217	1,537,377
Derivative financial instruments	22	200,706	2,703,316
Due to related companies	28	947	2,567
Income tax payable		31,926	56,947
Redeemable preference shares	36	1,271,319	1,271,190
Deferred income tax liabilities	31	74,462	151,021
Post-employment benefit obligations	32	32,131	21,803
Other liabilities	37	996,668	359,632
		57,337,750	56,688,675
STOCKHOLDERS' EQUITY			
Share capital	38	3,103,811	3,103,811
Share options reserve	39	52,604	49,435
Retained earnings reserve	40	1,536,596	562,365
Reserve fund	41	243,988	212,169
Loan loss reserve	42	167,649	117,295
Fair value reserve	43	(1,096,055)	(1,114,112)
Retained earnings		3,899,224	4,153,226
		7,907,817	7,084,189
		65,245,567	63,772,864

Approved for issue by the Board of Directors on 24 February 2010 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 2009

(expressed in Jamaican dollars unless otherwise indicated)

	Note	Share Capital	Share Options Reserve	Retained Earnings Reserve	Reserve Fund	Loan Loss Reserve	Fair Value Reserve	Retained Earnings	Total
		$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2008		3,098,919	42,178	172,000	156,651	103,456	80,178	3,877,548	7,530,930
Total comprehensive income for 2008		-	-	-	-	-	(1,194,290)	1,380,932	186,642
Issue of ordinary shares	38	4,892	-	-	-	-	-	-	4,892
Employee share option scheme	39	-	7,257	-	-	-	-	-	7,257
Transfers to/(from) reserves	40,41	-	-	390,365	55,518	-	-	(445,883)	-
Currency revaluation and other adjustments		-	-	-	-	11,977	-	-	11,977
Adjustment between regulatory loan provisioning and IFRS	42	-	-	-	-	1,862	-	(1,862)	-
Dividends	44	-	-	-	-	-	-	(657,509)	(657,509)
Balance at 31 December 2008		3,103,811	49,435	562,365	212,169	117,295	(1,114,112)	4,153,226	7,084,189
Total comprehensive income for 2009		-	-	-	-	-	18,057	1,477,844	1,495,901
Employee share option scheme	39	-	3,169	-	-	-	-	-	3,169
Transfers to/(from) reserves	40,41	-	-	974,231	31,819	-	-	(1,006,050)	-
Currency revaluation and other adjustments		-	-	-	-	9,463	-	-	9,463
Adjustment between regulatory loan provisioning and IFRS	42	-	-	-	-	40,891	-	(40,891)	-
Dividends	44	-	-	-	-	-	-	(684,905)	(684,905)
Balance at 31 December 2009		3,103,811	52,604	1,536,596	243,988	167,649	(1,096,055)	3,899,224	7,907,817

Consolidated Statement of Cash Flows

Year ended 31 December 2009

(expressed in Jamaican dollars unless otherwise indicated)

		2009 $'000	2008 $'000
Cash Flows from Operating Activities			
Net profit		1,477,844	1,380,932
Adjustments for:			
Interest income		(8,356,729)	(6,138,572)
Interest expense	6	5,735,830	4,199,659
Income tax charge	13	481,422	453,897
Fair value (gains)/losses on trading securities		(5,080)	20,900
Fair value loss on derivative financial instruments		2,984	-
Share of profit of associated company	23	-	(1,577)
Impairment charges	11	169,484	1,518
Amortisation of intangible assets	29	61,166	46,831
Depreciation of property, plant and equipment	30	48,998	48,149
Gain on sale of associated company	9	-	(57,967)
Gain on sale of property, plant and equipment		(520)	(161)
Changes in post-employment benefits		(25,839)	34,211
Share option expense	39	3,169	7,257
Unrealised (gains)/losses on foreign assets and liabilities		(62,302)	1,253,099
		(469,573)	1,248,176
Changes in operating assets and liabilities -			
Statutory reserves at Bank of Jamaica		(214,029)	(74,301)
Trading securities		357,734	1,206,819
Securities purchased under agreements to resell		176,525	876,737
Investment securities		(9,208)	(5,540,043)
Derivative financial instruments		72,395	40,686
Loans		397,786	(478,902)
Lease receivables		21,817	(37,480)
Securities sold under agreements to repurchase		(1,187,045)	5,433,300
Structured products		(614,274)	1,087,540
Customer deposits and other accounts		566,167	91,866
Other assets		(468,116)	(484,501)
Other liabilities		637,036	(16,538)
		(732,785)	3,353,359
Interest received		8,125,772	5,869,599
Interest paid		(5,600,246)	(3,963,401)
Taxation		(447,903)	(146,368)
Net cash provided by operating activities		1,344,838	5,113,189
Cash Flows from Investing Activities			
Purchase of intangible assets	29	(5,528)	(112,500)
Purchase of property, plant and equipment	30	(21,551)	(69,367)
Proceeds from disposal of associated company		-	78,000
Proceeds from disposal of property, plant and equipment		862	230
Net cash used in investing activities		(26,217)	(103,637)
Cash Flows from Financing Activities			
Issue of ordinary shares	38	-	4,892
Issue of redeemable preference shares	36	-	1,264,324
Borrowings from due to banks and other financial institutions – long term		1,141,338	404,035
Repayment of amounts due to banks and other financial institutions – long term		(1,447,718)	(826,768)
Due from related parties		2,427	(13,787)
Dividends paid		(684,905)	(657,509)
Net cash (used in)/provided by financing activities		(988,858)	175,187
Effect of exchange rate changes on cash and cash equivalents		617,124	212,638
Net increase in cash and cash equivalents		946,887	5,397,377
Cash and cash equivalents at beginning of year		6,468,725	1,071,348
CASH AND CASH EQUIVALENTS AT END OF YEAR	24	7,415,612	6,468,725

Profit and Loss Account

Year ended 31 December 2009

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2009 $'000	2008 $'000
Net Interest Income and Other Revenue			
Interest income from securities		6,779,216	5,025,732
Interest income from loans and leases		294,605	284,786
Other interest income		13,130	12,303
Total interest income		7,086,951	5,322,821
Interest expense	6	(5,204,596)	(3,832,952)
Net interest income		1,882,355	1,489,869
Fees and commission income	7	234,183	211,612
Net trading income	8	272,141	423,069
Other revenue	9	5,064	109,333
		2,393,743	2,233,883
Operating Expenses			
Staff costs	10	526,871	456,502
Impairment charges	11	97,702	(6,177)
Occupancy costs		45,617	38,121
Other expenses	12	224,486	211,338
		894,676	699,784
Profit before Taxation		1,499,067	1,534,099
Taxation	13	(333,924)	(360,498)
NET PROFIT	14	1,165,143	1,173,601

Statement of Comprehensive Income

Year ended 31 December 2009

(expressed in Jamaican dollars unless otherwise indicated)

	2009 $'000	2008 $'000
NET PROFIT	1,165,143	1,173,601
Income/(expense) recognised directly in stockholders' equity, net of tax		
Available-for-sale investments -		
Unrealised gains/(losses) on available-for-sale investments	198,919	(1,093,840)
Gains reclassified and reported in profit	(6,150)	(220,702)
	192,769	(1,314,542)
Cash flow hedge -		
Unrealised (losses)/gains on cash flow hedge	(149,296)	199,487
Total income/(expense) recognised directly in stockholders' equity, net of tax	43,473	(1,115,055)
Total comprehensive income	1,208,616	58,546

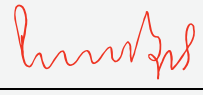
Balance Sheet

31 December 2009

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2009 $'000	2008 $'000
ASSETS			
Cash and balances due from other financial institutions	17	1,972,916	1,319,697
Trading securities	19	-	320,364
Securities purchased under agreements to resell	20	3,038,600	2,446,008
Investment securities	21	24,532,268	23,543,148
Derivative financial instruments	22	155,374	2,166,434
Investment in subsidiaries		2,518,210	2,518,210
Loans, net of provision for credit losses	25	2,012,579	2,440,231
Lease receivables	26	713	8,176
Pledged assets	27	18,191,416	18,049,991
Due from related companies	28	11,652	408
Income tax recoverable		17,833	-
Intangible assets	29	154,287	165,975
Property, plant and equipment	30	65,331	84,302
Deferred income tax assets	31	480,486	542,829
Other assets	33	591,957	358,075
		53,743,622	53,963,848
LIABILITIES			
Securities sold under agreements to repurchase		43,990,533	42,154,222
Customer accounts		520,964	569,269
Structured products	34	473,266	1,087,540
Due to banks and other financial institutions	35	917,895	1,271,936
Derivative financial instruments	22	200,706	1,917,791
Redeemable preference shares	36	1,271,319	1,271,190
Due to related companies	28	193,532	2,566
Income tax payable		-	56,548
Deferred income tax liabilities	31	39,263	125,515
Other liabilities	37	197,577	102,256
		47,805,055	48,558,833
STOCKHOLDERS' EQUITY			
Share capital	38	3,103,811	3,103,811
Share options reserve	39	52,604	49,435
Loan loss reserve	42	68,264	51,992
Fair value reserve	43	(1,017,946)	(1,061,419)
Retained earnings		3,731,834	3,261,196
		5,938,567	5,405,015
		53,743,622	53,963,848

Approved for issue by the Board of Directors on 24 February 2010 and signed on its behalf by:



Richard O. Byles — Director

Donovan H. Perkins — Director

Statement of Changes in Stockholders' Equity

Year ended 31 December 2009

(expressed in Jamaican dollars unless otherwise indicated)

	Note	Share Capital $'000	Share Options Reserve $'000	Loan Loss Reserve $'000	Fair Value Reserve $'000	Retained Earnings $'000	Total $'000
Balance at 1 January 2008		3,098,919	42,178	57,421	53,636	2,730,707	5,982,861
Total comprehensive income for 2008		-	-	-	(1,115,055)	1,173,601	58,546
Issue of ordinary shares	38	4,892	-	-	-	-	4,892
Employee share option scheme	39	-	7,257	-	-	-	7,257
Currency revaluation and other adjustments		-	-	8,968	-	-	8,968
Adjustment between regulatory loan provisioning and IFRS	42	-	-	(14,397)	-	14,397	-
Dividends	44	-	-	-	-	(657,509)	(657,509)
Balance at 31 December 2008		3,103,811	49,435	51,992	(1,061,419)	3,261,196	5,405,015
Total comprehensive income for 2009		-	-	-	43,473	1,165,143	1,208,616
Employee share option scheme	39	-	3,169	-	-	-	3,169
Currency revaluation and other adjustments		-	-	6,672	-	-	6,672
Adjustment between regulatory loan provisioning and IFRS	42	-	-	9,600	-	(9,600)	-
Dividends	44	-	-	-	-	(684,905)	(684,905)
Balance at 31 December 2009		3,103,811	52,604	68,264	(1,017,946)	3,731,834	5,938,567

Statement of Cash Flows

Year ended 31 December 2009

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2009 $'000	2008 $'000
Cash Flows from Operating Activities			
Net profit		1,165,143	1,173,601
Adjustments for:			
Interest income		(7,086,951)	(5,322,821)
Interest expense	6	5,204,596	3,832,952
Income tax charge	13	333,924	360,498
Fair value (gains)/losses on trading securities	8	(5,800)	20,900
Gain on sale of associated company	9	-	(66,534)
Fair value loss on derivative financial instruments	8	2,984	-
Impairment charges	11	97,702	(6,177)
Amortisation of intangible assets	29	13,368	19,740
Depreciation of property, plant and equipment	30	29,437	33,445
Gain on sale of property, plant and equipment		(67)	(49)
Stock options expense	39	3,169	7,257
Unrealised (gains)/losses on foreign assets and liabilities		(382,827)	1,443,751
		(625,322)	1,496,563
Changes in operating assets and liabilities -			
Trading securities		358,454	1,206,819
Securities purchased under agreements to resell		322,047	782,409
Investment securities		1,171,497	(6,577,201)
Derivative financial instruments		67,048	46,033
Loans		602,017	475,322
Lease receivables		7,386	7,977
Securities sold under agreements to repurchase		(1,283,298)	4,951,842
Structured products		(614,274)	1,087,540
Customer accounts		(59,857)	(1,082,862)
Other assets		(441,678)	(407,411)
Other liabilities		95,321	(137,701)
		(400,659)	1,849,330
Interest received		6,926,791	5,048,959
Interest paid		(5,077,088)	(3,618,332)
Taxation paid		(352,125)	(24,778)
Net cash provided by operating activities		1,096,919	3,255,179
Cash Flows from Investing Activities			
Proceeds from sale of associated company		-	78,000
Purchase of intangible assets	29	(1,680)	(9,762)
Purchase of property, plant and equipment	30	(10,606)	(20,478)
Proceeds from disposal of property, plant and equipment		207	111
Net cash (used in)/provided by investing activities		(12,079)	(12,079) 47,871 47,871
Cash Flows from Financing Activities			
Issue of ordinary shares	38	-	4,892
Issue of redeemable preference shares	36	-	1,264,324
Due to parent company and fellow subsidiaries		179,722	2,102
Borrowings from due to banks and other financial institutions – long term		490,721	232,142
Repayment of amounts due to banks and other financial institutions – long term		(596,408)	(406,774)
Dividends paid		(684,905)	(657,509)
Net cash (used in)/provided by financing activities		(610,870)	439,177
Effect of exchange rate changes on cash and cash equivalents		355,441	105,359
Net increase in cash and cash equivalents		829,411	3,847,586
Cash and cash equivalents at beginning of year		3,815,093	(32,493)
CASH AND CASH EQUIVALENTS AT END OF YEAR	24	4,644,504	3,815,093

1. Identification, Regulation and Licence

Pan Caribbean Financial Services Limited (PCFS or the company) is incorporated and domiciled in Jamaica. The company is listed on the Jamaica Stock Exchange. The principal activities of the company are the provision of development banking, investment and fund management services. The company is a licensed securities dealer and has primary dealer status from the Bank of Jamaica (BOJ) and is also a member of 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
PanCaribbeanBank Limited (PCB)	Commercial 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

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

The ultimate parent company, Sagicor Financial Corporation (Sagicor) is incorporated 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.

Standards and amendments to published standards effective 1 January 2009 that are relevant to the Group's operations

- IFRS 7 (Amendment), Financial instruments – disclosures (effective for annual periods beginning on or after 1 January 2009). The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.

- IAS 1 (Revised), Presentation of financial statements. The revised standard prohibits the presentation of income and expenses (that is, non-owner changes in equity) in the statement of changes in equity, requiring non-owner changes in equity to be presented separately from owner changes in equity in a statement of comprehensive income. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that is also in conformity with the revised standard. The adoption of the amendment results in additional disclosures but does not have an impact on the financial position or the comprehensive income of the Group.

- IFRS 2 (Amendment), Share based payment. This amendment deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation there of subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The amendment does not have a material impact on the Group's or company's financial statements.

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards and amendments to published standards effective 1 January 2009 that are relevant to the Group's operations (continued)

- IAS 23 (Amendment), Borrowing costs. 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 definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in IAS 39. This amendment does not have any impact in current year as the Group and the company does not have any qualifying assets.

- IFRS 8, Operating Segments. 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. The standard was early adopted by the Group effective 1 January 2007.

- IAS 38 (Amendment), Intangible assets. An asset may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. Deletion of wording that states that there is 'rarely, if ever' support for use of a method that results in a lower rate of amortisation than the straight line method. This amendment does not have any impact on the current year's financial statements.

- IAS 36 (Amendment), Impairment of assets. Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. This amendment does not have any impact on the current year's financial statements.

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

The following standard, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 July 2009 or later periods, but the Group has not early adopted them:

- IAS 39 (Amendment), Financial instruments: Recognition and measurement (effective for annual periods beginning on or after 1 July 2009). Clarification that it is possible for there to be movements into and out of the fair value through profit or loss category where:
  - A derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.
  - Financial assets are reclassified following a change in policy by an insurance company in accordance with IFRS 4.

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, amendments and interpretations issued but not yet effective and have not been early adopted by the Group (continued)

The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition. There is also the removal of a segment as an example of what may be considered a party external to the reporting entity. When re-measuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are used. This Group will apply this amendment from 1 January 2010.

- IFRS 3 (Amendment), 'Business combinations' and consequential amendments to IAS 27, 'Consolidated and Separate Financial Statements', IAS 28, 'Investments in Associates' and IAS 31, 'Interests in Joint Ventures' (effective for annual periods beginning on or after 1 July 2009). These amendments introduce a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and the future reported results. Also, under the amended standards, a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. The Group is assessing the impact of the new requirements regarding acquisition accounting and consolidation and accounting for losses incurred by the subsidiary. The changes must be applied prospectively and will affect future acquisitions.

- IFRIC 17, Distribution of Non-Cash assets to owners (effective from 1 July 2009 and is required to be applied prospectively; earlier application is permitted). A dividend payable should be recognised when appropriately authorised and no longer at the entity's discretion. Where an owner has a choice of a dividend of a non-cash asset or cash, the dividend payable is estimated considering both the fair value and probability of the owners selecting each option. The dividend payable is measured at the fair value of the net assets to be distributed. The difference between fair value of the dividend paid and the carrying amount of the net assets distributed is recognised in profit or loss. The Group will adopt this interpretation from 1 January 2010.

- IFRS 5 (Amendment), 'Non-current assets held-for-sale and discontinued operations' (and consequential amendment to IFRS 1, 'First-time adoption'). All of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. If the subsidiary described above is a disposal group meeting the definition of a discontinued operation, the relevant disclosures should be made. The Group will apply this amendment from 1 January 2010.

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, amendments and interpretations issued but not yet effective and have not been early adopted by the Group (continued)

- IAS 19 (Amendment), 'Employee benefits' (effective from 1 July 2009). This amendment clarifies that a plan amendment that result in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service give rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation. The definition of return on plan assets amended to state that plan administration costs be deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation. The distinction between short term and long term employee benefits is now based on whether benefits are due to be settled within or after 12 months of employee service being rendered. There is also the deletion of guidance that states IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets' requires contingent liabilities to be recognised. The Group will apply this amendment from 1 January 2010.

- IFRS 2 (amendments), 'Group cash-settled and share-based payment transactions' (effective for annual periods beginning on or after 1 January 2010). In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 – Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation. The Group is assessing the impact of future adoption of these amendments on its financial statements

- IFRS 9, Financial instruments part 1: Classification and measurement (effective for annual periods beginning on or after 1 January 2013) was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

  Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

  An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss.

  All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment. While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

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 Group uses the purchase method of accounting to account for the acquisition of subsidiaries. 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 are consistent 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.

2. Summary of Significant Accounting Policies (Continued)

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the Board of Directors.

(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 presentation currency.

(ii) Transactions and balances

Foreign currency transactions or that require settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in foreign currency are translated with the closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined. These rates represent the weighted average rates at which the company trades in foreign currency.

Foreign exchange gains and losses resulting from the settlement of foreign currency 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, except when deferred in equity as gains or losses from qualifying cash flow hedging instruments.

All foreign exchange gains and losses recognised in the profit and loss account are presented net in the profit and loss account within the corresponding item. Foreign exchange gains and losses on other comprehensive income items are presented in other comprehensive income within the corresponding item.

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 amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in equity.

Translation differences on non-monetary financial instruments, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial instruments, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in stockholders' equity.

2. Summary of Significant Accounting Policies (Continued)

(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 have been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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

(f) Fee and commission income

Fees and commission income are recognised on an accrual basis when the service has been provided. Fees and commissions arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Asset management fees related to investment funds are recognised rateably over the period in which the service is provided. Performance linked fees or fee components are recognised when the performance criteria are fulfilled.

2. Summary of Significant Accounting Policies (Continued)

(g) Taxation

Taxation on the profit or loss for the year comprises current and deferred tax. Current and deferred taxes are recognised as income tax expense or benefit in the profit and loss account except, where they relate to items recorded in stockholders' equity, they are also charged or credited to stockholders' equity.

(i) Current taxation

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

(ii) Deferred taxation

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

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.

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 is charged or credited in the profit and loss account, except where it relates to items charged or credited to equity in which case, deferred tax is also dealt with in equity.

(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.

2. Summary of Significant Accounting Policies (Continued)

(i) Sale and repurchase agreements

Securities purchased under agreements to resell (reverse repurchase agreements) and securities sold under agreements to repurchase (repurchase agreements) are treated as collateralised financing transactions and are recorded at the amount at which the securities were acquired or sold plus accrued interest.

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

(j) Financial assets

The Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets, 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. Loans and receivables are initially recognised at fair value, which is the cash consideration to originate or purchase the loan including any transaction costs.

(iii) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Were the Group to sell other than an insignificant amount of held-to-maturity assets, the entire category would be re-classified as available-for-sale. Held-to-maturity investments are initially recognised at fair value, which is the cash consideration including any transaction costs.

(iv) Available-for-sale

Available-for-sale investments are non-derivative financial assets 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. Available-for-sale investments are initially recognised at fair value, which is the cash consideration including any transaction costs.

2. Summary of Significant Accounting Policies (Continued)

(j) Financial assets (continued)

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.

Subsequent to initial recognition at cost, financial assets at fair value through profit or loss and available-for-sale financial assets are carried at fair value. Loans and receivables and held-to-maturity financial assets 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 consolidated statement of comprehensive income, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in the consolidated statement of comprehensive income 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.

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.

The Group may choose to reclassify a non-derivative financial asset held for trading out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near-term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification. Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

2. Summary of Significant Accounting Policies (Continued)

(k) Derivative financial instruments and hedging accounting

Derivatives are financial instruments that derive their value from the price of underlying items such as equities, bonds, interest rates, foreign exchange, credit spreads, commodities or other indices. Derivatives enable users to increase, reduce or alter exposure to credit or market risk. The Group transacts derivatives for three primary purposes: to create risk management solutions for customers, for proprietary trading purposes, and to manage its own exposure to credit and market risk.

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into, and subsequently are re-measured at their fair value at each balance sheet. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates its interest rate swap as a cash flow hedge. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

For cash flow hedges, the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account.

Amounts accumulated in stockholders' equity are recycled to the profit and loss account in the periods when the hedged item affects profit or loss. They are recorded in the revenue or expense lines in which associated with the related hedged item is reported.

2. Summary of Significant Accounting Policies (Continued)

(l) 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)

(l) 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.

2. Summary of Significant Accounting Policies (Continued)

(m) Leases

(i) As Lessee

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

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

(ii) As Lessor

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return.

(n) 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. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating 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)

(o) 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	3-10 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.

(p) 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)

(q) 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)

(q) 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.

(r) 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.

(s) 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.

(t) 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.

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in the profit and loss account as interest expense.

2. Summary of Significant Accounting Policies (Continued)

(u) 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.

(v) 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) Mandatorily redeemable preference shares are classified as liabilities (Note 2(t)).

(iii) 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.

(w) 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 45.

(x) 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.

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 working groups 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 may represent unusual risk; and ensuring that aggregate credit risk exposure 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. In addition, this Committee is 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 results of which are reported to the Audit and Compliance Committee. The Risk Management and 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 financial assets and liabilities and the overall financial structure. It is also primarily responsible for managing and maintaining appropriate funding and liquidity 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 disclosures provided are based on the Group's and company's investment portfolio at 31 December 2009. As described in Note 48, the Group and the company participated in the Jamaica Debt Exchange (JDX) which resulted in significant changes in the Group's and company's investment portfolio in February 2009.

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 an 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 that 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 the same control policies and processes mitigate these.

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 a credit analysis including repayment capacity and 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.

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

(ii) Investments
The Group limits its exposure to credit risk by investing in marketable securities, with counterparties that have acceptable credit quality and Government of Jamaica securities. Counterparties are subject to periodic credit review to assess and determine exposure limits. Management actively seeks to transact with counterparties that demonstrate an ability to meet its obligations.

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 established regarding the acceptability of specific 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 Group also seeks to obtain guarantees from parent companies for loans to their subsidiaries and personal guarantees for loans to private companies.

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

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.

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Impairment (continued)

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.

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 class:

Group's and company's rating

	The Group			
	2009		2008	
	Loans and leases $'000	Impairment provision $'000	Loans and leases $'000	Impairment provision $'000
Standard	8,197,820	-	8,232,511	-
Potential problem credit	271,364	-	50,558	-
Sub-standard	69,598	27,211	31,695	9,316
Doubtful	134,431	72,878	-	-
Loss	100,268	77,348	154,861	105,862
	8,773,481	177,437	8,469,625	115,178

	The Company			
	2009		2008	
	Loans and leases $'000	Impairment provision $'000	Loans and leases $'000	Impairment provision $'000
Standard	1,954,313	-	2,371,466	-
Potential problem credit	-	-	31,801	-
Sub-standard	71	71	4,097	916
Doubtful	68,987	30,966	-	-
Loss	48,829	44,277	106,666	86,219
	2,072,200	75,314	2,514,030	87,135

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	
	2009 $'000	2008 $'000	2009 $'000	2008 $'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)	3,385,162	2,724,648	1,972,916	1,319,617
Cash reserve at Bank of Jamaica	413,744	182,062	-	-
Trading securities	-	320,364	-	320,364
Securities purchased under agreements to resell	4,499,614	3,628,964	3,038,600	2,446,008
Investment securities	27,366,054	24,918,051	24,425,466	23,266,008
Derivative financial instruments	155,374	2,957,306	155,374	2,166,434
Loans, net of provision for credit losses	8,653,610	8,371,067	2,012,579	2,440,231
Lease receivables	32,608	70,806	713	8,176
Pledged assets	18,221,416	18,079,991	18,191,416	18,049,991
Due to related parties	10,066	14,113	11,652	408
Other assets	691,579	437,481	573,923	358,075
	63,429,227	61,704,853	50,382,639	50,375,312
Credit risk exposures relating to off balance sheet items are as follows:				
Loan commitments	779,832	965,415	74,930	98,687
Guarantees and letters of credit	1,170,560	926,601	621,922	538,404
	1,950,392	1,892,016	696,852	637,091

The above table represents a worst-case scenario of credit risk exposure to the Group and company at 31 December 2009 and 2008, 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.

Included in investment securities are assets whose credit exposure is greater than the carrying amounts reported in the balance sheet. These investment securities are leveraged which implies exposure to an amount greater than the face value. The carrying amount of these investment securities is $Nil (2008 - $574,814,000) and the maximum credit exposure is $Nil (2008 -$1,149,628,000). This risk is managed by entering into similar contractual arrangements with customers (Note 34). These investments were sold during the year.

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	
	2009 $'000	**2008 $'000**	**2009 $'000**	**2008 $'000**
Neither past due nor impaired -				
Standard	7,110,712	6,366,215	1,697,715	1,279,078
Past due but not impaired	1,358,472	1,921,339	256,598	1,124,189
Impaired	304,297	182,071	117,887	110,763
Gross	8,773,481	8,469,625	2,072,200	2,514,030
Less: Provision for credit losses	(177,437)	(115,178)	(75,314)	(87,135)
Net	8,596,044	8,354,447	1,996,886	2,426,895

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	
	2009 $'000	**2008 $'000**	**2009 $'000**	**2008 $'000**
Less than 30 days	879,493	1,129,792	205,179	753,536
31 to 60 days	452,800	713,257	45,357	335,350
61 to 90 days	26,179	78,290	6,062	35,303
	1,358,472	1,921,339	256,598	1,124,189

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 $4,481,806,000 (2008 - $6,967,830,000) and $1,368,808,000 (2008 – $1,382,995,000) respectively.

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

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	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Loans and leases	304,297	182,071	117,887	110,763

The fair value of collateral that the Group and company held as security for individually impaired loans was $516,892,000 (2008 - $402,198,000) and $257,528,000 (2008 - $193,350,000) 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 totalled $16,427,000 (2008 - $16,539,000) and $Nil (2008 - $Nil) 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.

The Group and the company is in the process of repossessing collateral totalling $20,600,000 (2008 – $9,000,000) and $nil (2008 – $nil) respectively.

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	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Agriculture, fishing and mining	1,223,387	1,401,596	25,934	215,343
Construction and real estate	708,176	736,336	44,087	40,052
Distribution	1,809,723	1,857,980	667,361	896,481
Manufacturing	659,027	270,524	399,588	210,989
Personal	614,504	561,384	234,882	249,364
Professional and other services	1,898,496	2,044,494	256,376	516,311
Tourism and entertainment	1,726,717	1,360,556	430,790	372,269
Transportation, storage and communication	133,451	236,746	13,182	13,221
Other	-	9	-	-
	8,773,481	8,469,625	2,072,200	2,514,030
Less: Provision for credit losses	(177,437)	(115,178)	(75,314)	(87,135)
	8,596,044	8,354,447	1,996,886	2,426,895
Interest receivable	90,174	87,426	16,406	21,512
	8,686,218	8,441,873	2,013,292	2,448,407

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

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Credit exposure (continued)

(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	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Government of Jamaica	34,629,126	30,444,407	32,237,555	28,934,525
Bank of Jamaica	2,386,891	2,747,742	2,236,735	2,689,151
Corporate	7,161,248	9,186,138	6,803,029	9,127,480
Financial institutions	4,486,063	3,643,838	3,029,132	2,437,325
	48,663,328	46,022,125	44,306,451	43,188,481
Interest receivable	1,442,784	1,215,889	1,368,059	1,171,030
	50,106,112	47,238,014	45,674,510	44,359,511

(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 fulfill 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;

3. Financial Risk Management (Continued)

(b) Liquidity risk

Liquidity risk management process (continued)

(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	2 to 3 Months $'000	4 to 12 Months $'000	2 to 5 Years $'000	Over 5 Years $'000	Total $'000
As at 31 December 2009:						
Financial Assets						
Cash and balances due from other financial institutions	3,337,543	-	-	-	129,714	3,467,257
Cash reserves at Bank of Jamaica	413,744	-	-	-	-	413,744
Securities purchased under agreements to resell	4,067,053	474,388	-	-	-	4,541,441
Investment securities	2,245,147	1,626,434	5,111,878	13,996,692	13,840,937	36,821,088
Derivative financial instruments	11,411	4,388	8,737	87,464	43,374	155,374
Loans, net provision for credit losses	1,383,435	1,192,849	2,080,936	3,443,778	3,029,944	11,130,942
Lease receivables	1,323	3,808	11,295	38,084	-	54,510
Pledged assets	116,405	1,151,844	4,821,971	7,404,623	10,979,579	24,474,422
Non-financial assets						
Other	158,675	598,422	7,989	281,852	1,270,285	2,317,223
Total assets (contractual maturity dates)	11,734,736	5,052,133	12,042,806	25,252,493	29,293,833	83,376,001
Financial Liabilities						
Securities sold under agreements to repurchase	24,064,602	13,913,967	6,390,182	14,898	-	44,383,649
Customer deposits and other accounts	2,565,656	1,008,528	3,819,032	657,757	1,163,408	9,214,381
Due to banks and other financial institutions	231,447	47,302	-	1,368,336	126,949	1,774,034
Structured products	-	-	-	363,542	229,797	593,339
Derivative financial instruments	-	-	-	17,723	182,983	200,706
Redeemable preference shares	-	6,995	-	2,061,392	-	2,068,387
Non-financial liabilities						
Other	997,615	31,926	-	57,376	49,217	1,136,134
Total liabilities (contractual maturity dates)	27,859,320	15,008,718	10,209,214	4,541,024	1,752,354	59,370,630
Net Liquidity Gap	(16,124,584)	(9,956,585)	1,833,592	20,711,469	27,541,479	24,005,371
Cumulative Liquidity Gap	(16,124,584)	(26,081,169)	(24,247,577)	(3,536,108)	24,005,371	

3. Financial Risk Management (Continued)

(b) Liquidity risk (continued)

Total assets and liabilities cash flows (continued)

	The Group					
	Within 1 Month $'000	2 to 3 Months $'000	4 to 12 Months $'000	2 to 5 Years $'000	Over 5 Years $'000	Total $'000
As at 31 December 2008:						
Financial Assets						
Cash and balances due from other financial institutions	2,816,638	-	-	-	-	2,816,638
Cash reserves at Bank of Jamaica	182,062	-	-	-	-	182,062
Trading securities	-	-	-	-	462,066	462,066
Securities purchased under agreements to resell	3,357,096	305,499	-	-	-	3,662,595
Investment securities	3,574,243	13,087,597	1,224,840	4,070,382	4,040,771	25,997,833
Derivative financial instruments	1,163,818	1,725,403	-	22,468	45,617	2,957,306
Loans, net provision for credit losses	478,754	1,058,707	2,112,869	4,211,686	2,797,876	10,659,892
Lease receivables	1,099	1,733	36,948	50,014	-	89,794
Pledged assets	263,539	669,371	4,075,863	9,685,897	9,046,589	23,741,259
Non-financial assets						
Other	132,491	364,485	5,381	107,013	1,528,547	2,137,917
Total assets (contractual maturity dates)	11,969,740	17,212,795	7,455,901	18,147,460	17,921,466	72,707,362
Financial Liabilities						
Securities sold under agreements to repurchase	16,210,615	22,479,832	3,857,081	120,179	-	42,667,707
Customer deposits and other accounts	1,554,896	752,626	3,442,465	1,098,128	1,058,201	7,906,316
Due to banks and other financial institutions	220,646	243,941	105,617	403,998	921,095	1,895,297
Structured products	-	-	-	1,122,784	186,710	1,309,494
Derivative financial instruments	1,202,136	1,433,095	-	22,468	45,617	2,703,316
Redeemable preference shares	-	39,510	118,530	2,061,392	-	2,219,432
Non-financial liabilities						
Other	362,662	2,566	69,355	-	157,387	591,970
Total liabilities (contractual maturity dates)	19,550,955	24,951,570	7,593,048	4,828,949	2,369,010	59,293,532
Net Liquidity Gap	(7,581,215)	(7,738,775)	(137,147)	13,318,511	15,552,456	13,413,830
Cumulative Liquidity Gap	(7,581,215)	(15,319,990)	(15,457,137)	(2,138,626)	13,413,830	

3. Financial Risk Management (Continued)

(b) Liquidity risk (continued)

Total assets and liabilities cash flows (continued)

	The Company					
	Within 1 Month $'000	2 to 3 Months $'000	4 to 12 Months $'000	2 to 5 Years $'000	Over 5 Years $'000	Total $'000
As at 31 December 2009:						
Financial Assets						
Cash and balances due from other financial institutions	1,846,208	-	-	-	129,714	1,975,922
Securities purchased under agreements to resell	2,777,696	294,318	-	-	-	3,072,014
Investment securities	2,230,276	1,575,581	4,188,838	13,229,397	11,387,519	32,611,611
Derivative financial instruments	11,411	4,388	8,737	87,464	43,374	155,374
Loans, net provision for credit losses	552,116	258,105	179,103	960,217	469,709	2,419,250
Lease receivables	6	871	-	-	-	877
Pledged assets	116,405	1,151,844	4,821,971	7,404,623	10,928,834	24,423,677
Non-Financial assets						
Other	124,961	496,480	6,341	218,029	2, 993,945	3,839,756
Total assets (contractual maturity dates)	7,659,079	3,781,587	9,204,990	21,899,730	25,953,095	68,498,481
Financial Liabilities						
Securities sold under agreements to repurchase	24,082,522	13,913,967	6,390,182	14,898	-	44,401,569
Customer accounts	33,332	14,741	132,203	456,122	-	636,398
Due to banks and other financial institutions	230,637	45,428	-	740,966	24,054	1,041,085
Derivative financial instruments	-	-	-	17,723	182,983	200,706
Structured products	-	-	-	363,542	229,797	593,339
Redeemable preference shares	-	6,995	-	2,061,392	-	2,068,387
Non-Financial liabilities						
Other	391,108	-	-	39,264	-	430,372
Total liabilities (contractual maturity dates)	24,737,599	13,981,131	6,522,385	3,693,907	436,834	49,371,856
Net Liquidity Gap	(17,078,520)	(10,199,544)	2,682,605	18,205,823	25,516,261	19,126,625
Cumulative Liquidity Gap	(17,078,520)	(27,278,064)	(24,595,459)	(6,389,636)	19,126,625	

3. Financial Risk Management (Continued)

(b) Liquidity risk (continued)

Total assets and liabilities cash flows (continued)

	The Company					
	Within 1 Month $'000	2 to 3 Months $'000	4 to 12 Months $'000	2 to 5 Years $'000	Over 5 Years $'000	Total $'000
As at 31 December 2008:						
Financial Assets						
Cash and balances due from other financial institutions	1,320,758	-	-	-	-	1,320,758
Trading securities	-	-	-	-	462,066	462,066
Securities purchased under agreements to resell	2,220,907	245,583	-	-	-	2,466,490
Investment securities	3,530,223	12,986,548	879,877	3,333,338	3,113,611	23,843,597
Derivative financial instruments	377,621	1,720,728	-	22,468	45,617	2,166,434
Loans, net provision for credit losses	275,770	152,133	733,723	1,012,774	881,711	3,056,111
Lease receivables	1,099	1,733	5,467	1,166	-	9,465
Pledged assets	263,539	669,371	4,075,863	9,685,897	8,999,009	23,693,679
Non-Financial assets						
Other	-	358,486	5,381	107,013	3,198,919	3,669,799
Total assets (contractual maturity dates)	7,989,917	16,134,582	5,700,311	14,162,656	16,700,933	60,688,399
Financial Liabilities						
Securities sold under agreements to repurchase	16,092,772	22,479,832	3,857,081	120,179	-	42,549,864
Customer accounts	31,995	24,752	79,495	534,720	-	670,962
Due to banks and other financial institutions	231,046	243,941	-	262,041	837,555	1,574,583
Derivative financial instruments	416,611	1,433,095	-	22,468	45,617	1,917,791
Structured products	-	-	-	1,122,784	186,710	1,309,494
Redeemable preference shares	-	39,510	118,530	2,061,392	-	2,219,432
Non-Financial liabilities						
Other	102,256	2,566	69,355	-	112,708	286,885
Total liabilities (contractual maturity dates)	16,874,680	24,223,696	4,124,461	4,123,584	1,182,590	50,529,011
Net Liquidity Gap	(8,884,763)	(8,089,114)	1,575,850	10,039,072	15,518,343	10,159,388
Cumulative Liquidity Gap	(8,884,763)	(16,973,877)	(15,398,027)	(5,358,955)	10,159,388	

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.

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 summarise 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 2009:						
Assets						
Cash and balances due from other financial institutions and	351,026	2,712,493	307,098	10,014	83,620	3,464,251
Cash reserves at Bank of Jamaica	124,448	267,105	14,962	7,229	-	413,744
Securities purchased under agreements to resell	774,468	3,725,146	-	-	-	4,499,614
Investment securities	13,563,347	13,319,343	-	-	605,037	27,487,727
Derivative financial instruments	-	155,374	-	-	-	155,374
Loans, net of provision for credit losses	1,915,517	6,738,093	-	-	-	8,653,610
Lease receivables	32,603	5	-	-	-	32,608
Pledged assets	12,706,762	5,514,654	-	-	-	18,221,416
Other	2,057,208	249,665	41	7	10,302	2,317,223
Total assets	31,525,379	32,681,878	322,101	17,250	698,959	65,245,567
Liabilities and Stockholders' Equity						
Securities sold under agreements to repurchase	22,222,374	21,477,381	233,512	-	39,346	43,972,613
Customer deposits and other accounts	667,102	7,977,165	46,810	66,047	25,371	8,782,495
Structured products	-	473,266	-	-	-	473,266
Derivative financial instruments	-	72,985	-	-	127,721	200,706
Due to banks and other financial institutions	915,514	585,703	-	-	-	1,501,217
Redeemable preference shares	1,271,319	-	-	-	-	1,271,319
Other liabilities	910,868	222,430	2,207	207	422	1,136,134
Stockholders' equity	7,471,473	(56,550)	(14,808)	-	507,702	7,907,817
Total liabilities and stockholders' equity	33,458,650	30,752,380	267,721	66,254	700,562	65,245,567
Net on-balance sheet financial position	(1,933,271)	1,929,498	54,380	(49,004)	(1,603)	-
Credit commitments	848,499	1,101,893	-	-	-	1,950,392

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 2008:						
Assets						
Cash and balances due from other financial institutions and	635,752	1,731,051	55,672	28,737	364,480	2,815,692
Cash reserves at Bank of Jamaica	47,836	126,639	6,220	1,367	-	182,062
Trading securities	-	320,364	-	-	-	320,364
Securities purchased under agreements to resell	42,968	3,585,996	-	-	-	3,628,964
Investment securities	12,389,112	11,757,712	-	-	1,061,871	25,208,695
Derivative financial instruments	-	2,076,668	-	-	880,638	2,957,306
Loans, net of provision for credit losses	1,818,909	6,552,158	-	-	-	8,371,067
Lease receivables	64,956	5,850	-	-	-	70,806
Pledged assets	11,243,420	6,836,571	-	-	-	18,079,991
Other	1,664,272	445,617	-	-	28,028	2,137,917
Total assets	27,907,225	33,438,626	61,892	30,104	2,335,017	63,772,864
Liabilities and Stockholders' Equity						
Securities sold under agreements to repurchase	18,723,863	23,158,626	150,051	-	7,572	42,040,112
Customer deposits and other accounts	882,524	6,133,520	23,710	13,066	404,350	7,457,170
Structured products	74,741	1,012,799	-	-	-	1,087,540
Derivative financial instruments	-	897,252	-	-	1,806,064	2,703,316
Due to banks and other financial institutions	1,175,809	361,568	-	-	-	1,537,377
Redeemable preference shares	1,271,190	-	-	-	-	1,271,190
Other liabilities	406,437	181,772	1,764	196	1,801	591,970
Stockholders' equity	6,734,391	249,354	25,613	-	74,831	7,084,189
Total liabilities and stockholders' equity	29,268,955	31,994,891	201,138	13,262	2,294,618	63,772,864
Net on-balance sheet financial position	(1,361,730)	1,443,735	(139,246)	16,842	40,399	-
Credit commitments	593,558	1,298,458	-	-	-	1,892,016

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 2009:					
Assets					
Cash and balances due from other financial institutions	229,620	1,497,177	220,801	25,318	1,972,916
Securities purchased under agreements to resell	774,218	2,264,382	-	-	3,038,600
Investment securities	12,052,586	11,874,645	-	605,037	24,532,268
Derivative financial instruments	-	155,374	-	-	155,374
Loans, net of provision for credit losses	513,828	1,498,751	-	-	2,012,579
Lease receivables	713	-	-	-	713
Pledged assets	12,676,762	5,514,654	-	-	18,191,416
Other	3,641,734	188,975	7	9,040	3,839,756
Total assets	29,889,461	22,993,958	220,808	639,395	53,743,622
Liabilities and Stockholders' Equity					
Securities sold under agreements to repurchase	22,240,294	21,477,381	233,512	39,346	43,990,533
Customer accounts	520,911	53	-	-	520,964
Structured products	-	473,266	-	-	473,266
Due to banks and other financial institutions	623,403	294,492	-	-	917,895
Derivative financial instruments	-	72,985	-	127,721	200,706
Redeemable preference shares	1,271,319	-	-	-	1,271,319
Other liabilities	275,039	155,333	-	-	430,372
Stockholders' equity	5,427,106	18,567	(14,808)	507,702	5,938,567
Total liabilities and stockholders' equity	30,358,072	22,492,077	218,704	674,769	53,743,622
Net on-balance sheet financial position	(468,611)	501,881	2,104	(35,374)	-
Credit commitments	327,835	369,017	-	-	696,852

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 2008:					
Assets					
Cash and balances due from other financial institutions	127,082	1,083,598	7,062	101,955	1,319,697
Trading securities	-	320,364	-	-	320,364
Securities purchased under agreements to resell	272,453	2,173,555	-	-	2,446,008
Investment securities	11,144,777	11,336,500	-	1,061,871	23,543,148
Derivative financial instruments	-	1,679,888		486,546	2,166,434
Loans, net of provision for credit losses	778,671	1,661,560	-	-	2,440,231
Lease receivables	8,176	-	-	-	8,176
Pledged assets	11,213,420	6,836,571	-	-	18,049,991
Other	3,196,154	445,617	-	28,028	3,669,799
Total assets	26,740,733	25,537,653	7,062	1,678,400	53,963,848
Liabilities and Stockholders' Equity					
Securities sold under agreements to repurchase	18,817,086	23,166,777	162,787	7,572	42,154,222
Customer accounts	569,113	156	-	-	569,269
Structured products	74,741	1,012,799	-	-	1,087,540
Due to banks and other financial institutions	910,368	361,568	-	-	1,271,936
Derivative financial instruments	-	505,818	-	1,411,973	1,917,791
Redeemable preference shares	1,271,190	-	-	-	1,271,190
Other liabilities	152,055	133,402	-	1,428	286,885
Stockholders' equity	5,078,512	226,059	25,613	74,831	5,405,015
Total liabilities and stockholders' equity	26,873,065	25,406,579	188,400	1,495,804	53,963,848
Net on-balance sheet financial position	(132,332)	131,074	(181,338)	182,596	-
Credit commitments	307,940	329,151	-	-	637,091

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.

	The Group			
	Change in Currency Rate	Effect on Net Profit	Change in Currency Rate	Effect on Net Profit
	2009 %	2009 $'000	2008 %	2008 $'000
Currency:				
USD	+5	161,735	+15	143,905
EUR	+5	6,641	+15	36,963
GBP	+5	2,184	+15	(19,238)
USD	-5	(161,735)	-5	(47,968)
EUR	-5	(6,641)	-5	(12,321)
GBP	-5	(2,184)	-5	6,413

	The Company			
	Change in Currency Rate	Effect on Net Profit	Change in Currency Rate	Effect on Net Profit
	2009 %	2009 $'000	2008 %	2008 $'000
Currency:				
USD	+5	85,970	+15	40,958
EUR	+5	4,401	+15	58,568
GBP	+5	(911)	+15	(24,047)
USD	-5	(85,970)	-5	13,653
EUR	-5	(4,401)	-5	(19,523)
GBP	-5	911	-5	8,016

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(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.

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 summarise 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.

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

	The Group						
	Within 1 Month	2 to 3 Months	4 to 12 Months	2 to 5 Years	Over 5 Years	Non-Interest Bearing	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 31 December 2009:							
Assets							
Cash and balances due from other financial institutions	3,253,851	-	-	-	-	210,400	3,464,251
Cash reserve at Bank of Jamaica	413,744	-	-	-	-	-	413,744
Securities purchased under agreements to resell	4,017,538	468,525	-	-	-	13,551	4,499,614
Investment securities	3,202,404	4,697,074	4,854,084	8,533,865	4,649,394	1,550,906	27,487,727
Derivative financial instruments	4,368	4,368	8,737	44,176	13,637	80,088	155,374
Loans, net of provision for credit losses	1,284,103	1,214,216	2,173,449	2,403,895	1,488,910	89,037	8,653,610
Leases receivables	317	3,086	1,634	26,434	-	1,137	32,608
Pledged assets	2,703,238	7,320,705	5,344,117	2,650,022	203,334	-	18,221,416
Other	-	-	-	-	-	2,317,223	2,317,223
Total assets	14,879,563	13,707,974	12,382,021	13,658,392	6,355,275	4,262,342	65,245,567
Liabilities							
Securities sold under agreements to repurchase	23,171,364	13,850,595	6,241,436	11,175	-	698,043	43,972,613
Customer deposits and other accounts	2,419,784	1,002,731	3,750,425	528,270	949,721	131,564	8,782,495
Structured products	-	-	-	336,265	137,001	-	473,266
Derivative financial instruments	-	-	-	-	-	200,706	200,706
Due to banks and other financial institutions	385,624	202,812	166,190	667,080	73,636	5,875	1,501,217
Redeemable preference shares	-	-	-	1,264,324	-	6,995	1,271,319
Other	-	-	-	-	-	1,136,134	1,136,134
Total liabilities	25,976,772	15,056,138	10,158,051	2,807,114	1,160,358	2,179,317	57,337,750
Total interest repricing gap	(11,097,209)	(1,348,164)	2,223,970	10,851,278	5,194,917	2,083,025	7,907,817
Cumulative repricing gap	(11,097,209)	(12,445,373)	(10,221,403)	629,875	5,824,792	7,907,817	

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

	The Group						
	Within 1 Month	2 to 3 Months	4 to 12 Months	2 to 5 Years	Over 5 Years	Non-Interest Bearing	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 31 December 2008:							
Assets							
Cash and balances due from other financial institutions	2,254,022	-	-	-	-	561,670	2,815,692
Cash reserve at Bank of Jamaica	182,062	-	-	-	-	-	182,062
Trading securities	302,135	-	-	-	-	18,229	320,364
Securities purchased under agreements to resell	3,372,379	241,993	-	-	-	14,592	3,628,964
Investment securities	6,756,680	8,981,966	3,670,124	2,437,915	1,858,833	1,503,177	25,208,695
Derivative financial instruments	-	-	299,230	-	-	2,658,076	2,957,306
Loans, net of provision for credit losses	507,198	1,109,549	1,964,380	2,934,365	1,797,339	58,236	8,371,067
Leases receivables	876	1,495	12,677	54,611	-	1,147	70,806
Pledged assets	4,748,215	7,697,388	4,891,936	668,312	74,140	-	18,079,991
Other	-	-	-	-	-	2,137,917	2,137,917
Total assets	18,123,567	18,032,391	10,838,347	6,095,203	3,730,312	6,953,044	63,772,864
Liabilities							
Securities sold under agreements to repurchase	35,056,153	4,171,235	1,601,832	487,339	-	723,553	42,040,112
Customer deposits and other accounts	1,435,215	735,368	3,354,104	658,449	1,152,400	121,634	7,457,170
Structured products	-	-	-	1,087,540	-	-	1,087,540
Derivative financial instruments	-	-	-	-	-	2,703,316	2,703,316
Due to banks and other financial institutions	219,619	263,247	306,902	319,477	343,293	84,839	1,537,377
Redeemable preference shares	-	-	-	1,264,324	-	6,866	1,271,190
Other	-	-	-	-	-	591,970	591,970
Total liabilities	36,710,987	5,169,850	5,262,838	3,817,129	1,495,693	4,232,178	56,688,675
Total interest repricing gap	(18,587,420)	12,862,541	5,575,509	2,278,074	2,234,619	2,720,866	7,084,189
Cumulative repricing gap	(18,587,420)	(5,724,879)	(149,370)	2,128,704	4,363,323	7,084,189	-

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

	The Company						
	Within 1 Month	2 to 3 Months	4 to 12 Months	2 to 5 Years	Over 5 Years	Non-Interest Bearing	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 31 December 2009:							
Assets							
Cash and balances due from other financial institutions	1,843,186	-	-	-	-	129,730	1,972,916
Securities purchased under agreements to resell	2,739,263	289,869	-	-	-	9,468	3,038,600
Investment securities	2,497,768	4,498,293	3,145,405	8,473,650	4,451,759	1,465,393	24,532,268
Derivative financial instruments	4,368	4,368	8,737	44,176	13,637	80,088	155,374
Loans, net of provision for credit losses	497,230	298,766	388,645	663,945	147,593	16,400	2,012,579
Leases receivables	130	225	352	-	-	6	713
Pledged assets	2,703,238	7,290,705	5,344,117	2,650,022	203,334	-	18,191,416
Other	-	-	-	-	-	3,839,756	3,839,756
Total assets	10,285,183	12,382,226	8,887,256	11,831,793	4,816,323	5,540,841	53,743,622
Liabilities							
Securities sold under agreements to repurchase	23,189,284	13,850,595	6,241,436	11,175	-	698,043	43,990,533
Customer accounts	5,724	14,503	126,152	347,025	-	27,560	520,964
Structured products	-	-	-	336,265	137,001	-	473,266
Due to banks and other financial institutions	385,625	200,960	166,190	156,919	3,136	5,065	917,895
Derivative financial instruments	-	-	-	-	-	200,706	200,706
Redeemable preference shares	-	-	-	1,264,324	-	6,995	1,271,319
Other	-	-	-	-	-	430,372	430,372
Total liabilities	23,580,633	14,066,058	6,533,778	2,115,708	140,137	1,368,741	47,805,055
Total interest repricing gap	(13,295,450)	(1,683,832)	2,353,478	9,716,085	4,676,186	4,172,100	5,938,567
Cumulative repricing gap	(13,295,450)	(14,979,282)	(12,625,804)	(2,909,719)	1,766,467	5,938,567	

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

	The Company						
	Within 1 Month	2 to 3 Months	4 to 12 Months	2 to 5 Years	Over 5 Years	Non-Interest Bearing	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 31 December 2008:							
Assets							
Cash and balances due from other financial institutions	758,037	-	-	-	-	561,660	1,319,697
Trading securities	302,135	-	-	-		18,229	320,364
Securities purchased under agreements to resell	2,195,332	241,993	-	-	-	8,683	2,446,008
Investment securities	6,498,088	8,667,586	3,026,739	2,303,717	1,625,760	1,421,258	23,543,148
Derivative financial instruments	-	-	299,230	-	-	1,867,204	2,166,434
Loans, net of provision for credit losses	314,923	218,292	655,232	562,165	668,190	21,429	2,440,231
Leases receivables	876	1,495	4,716	1,006	-	83	8,176
Pledged assets	4,748,215	7,667,388	4,891,936	668,312	74,140	-	18,049,991
Other	-	-	-	-	-	3,669,799	3,669,799
Total assets	14,817,606	16,796,754	8,877,853	3,535,200	2,368,090	7,568,345	53,963,848
Liabilities							
Securities sold under agreements to repurchase	35,400,326	4,171,235	1,601,832	487,339	-	493,490	42,154,222
Customer accounts	14,282	11,997	54,168	157,419	305,162	26,241	569,269
Structured products	-	-	-	1,087,540	-	-	1,087,540
Due to banks and other financial institutions	230,020	263,247	204,892	204,109	286,110	83,558	1,271,936
Derivative financial instruments	-	-	-	-	-	1,917,791	1,917,791
Redeemable preference shares	-	-	-	1,264,324	-	6,866	1,271,190
Other	-	-	-	-	-	286,885	286,885
Total liabilities	35,644,628	4,446,479	1,860,892	3,200,731	591,272	2,814,831	48,558,833
Total interest repricing gap	(20,827,022)	12,350,275	7,016,961	334,469	1,776,818	4,753,514	5,405,015
Cumulative repricing gap	(20,827,022)	(8,476,747)	(1,459,786)	(1,125,317)	651,501	5,405,015	

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

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

	The Group					The Company				
	J $	US $	CAN $	GBP £	Other	J $	US $	CAN $	GBP £	Other
	%	%	%	%	%	%	%	%	%	%
					2009					
Assets										
Cash and balances due from other financial institutions	1.50	-	-	2.35	-	1.50	-	-	2.35	-
Cash reserves at Bank of Jamaica	-	0.01	0.01	-	-	-	-	-	-	-
Securities purchased under agreements to resell	18.91	6.21	-	-	-	18.91	5.99	-	-	-
Investment securities – debt securities	18.35	9.58	-	-	9.54	18.89	9.31	-	-	9.54
Loans, net of provision for credit losses	18.94	9.83	-	-	-	14.68	8.67	-	-	-
Lease receivables	20.61	-	-	-	-	19.75	-	-	-	-
Liabilities										
Securities sold under agreements to repurchase	14.25	5.41	-	3.84	3.24	14.25	5.41	-	3.84	3.24
Customer deposits and other accounts	9.21	3.37	2.85	3.52	1.50	12.57	-	-	-	-
Structured products	-	7.50	-	-	-	-	7.50	-	-	-
Due to banks and other financial institutions	9.55	6.80	-	1.50	1.41	9.91	8.44	-	-	-
Redeemable preference shares	12.50	-	-	-	-	12.50	-	-	-	-
					2008					
Assets										
Cash and balances due from other financial institutions	1.50	1.88	1.25	2.18	-	1.50	1.88	1.25	2.18	-
Cash reserves at Bank of Jamaica	-	0.01	0.75	1.20	-	-	-	-	-	-
Trading securities	-	9.25	-	-	-	-	9.38	-	-	-
Securities purchased under agreements to resell	12.37	7.05	-	-	-	14.12	9.94	-	-	-
Investment securities – debt securities	14.04	10.50	-	-	9.98	15.38	10.32	-	-	9.98
Loans, net of provision for credit losses	16.80	8.93	-	-	-	16.42	8.41	-	-	-
Lease receivables	17.66	11.00	-	-	-	15.61	-	-	-	-
Liabilities										
Securities sold under agreements to repurchase	13.38	6.20	-	3.83	3.78	13.38	6.20	-	3.83	3.78
Customer deposits and other accounts	10.68	4.38	2.06	6.11	2.00	12.36	5.75	-	-	-
Structured products	-	7.25	-	-	-	-	-	-	-	-
Due to banks and other financial institutions	16.51	6.03	6.00	4.00	3.35	23.78	6.03	6.00	4.00	3.35
Redeemable preference shares	12.50	-	-	-	-	12.50	-	-	-	-

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 floating rate debt securities 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 2009 $'000	Effect on Equity 2009 $'000	Effect on Net Profit 2008 $'000	Effect on Equity 2008 $'000
Change in basis points				
J$ - 800, US$ - 300 (2008 – 800)	749,648	3,159,694	239,399	4,723,458
J$ + 200, US$ +100 (2008 – 500)	(233,734)	(756,505)	(95,192)	(2,116,334)

	The Company			
	Effect on Net Profit 2009 $'000	Effect on Equity 2009 $'000	Effect on Net Profit 2008 $'000	Effect on Equity 2008 $'000
Change in basis points				
J$ - 800, US$ - 300 (2008 – 800)	599,718	2,786,781	239,399	4,504,885
J$ + 200, US$ + 100 (2008 – 500)	(190,987)	(671,074)	(95,192)	(2,024,417)

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 associate 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 2009 and 2008. 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), PanCaribbeanBank Limited (PCB) and Pan Caribbean Asset Management Limited (PCAM).

3. Financial Risk Management (Continued)

(d) Capital management (continued)

	PCFS	PCFS	PCB	PCB	PCAM	PCAM
	2009 $'000	2008 $'000	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Tier 1 capital	5,663,413	4,938,126	2,531,820	1,330,066	191,648	170,912
Tier 2 capital	1,479,137	1,475,028	70,635	29,416	5,310	5,310
Total regulatory capital	7,142,550	6,413,154	2,602,455	1,359,482	196,958	176,222
Total required capital	2,831,707	2,469,063	798,805	863,729	95,824	86,459
Risk-weighted assets:						
On-balance sheet	8,966,812	10,873,705	5,005,824	5,830,908	256,622	103,955
Off-balance sheet	-	-	1,253,540	1,367,229	-	-
Foreign exchange exposure	2,757,128	1,823,225	1,728,690	1,439,149	-	-
Total risk-weighted assets	11,723,940	12,696,930	7,988,054	8,637,286	256,622	103,955
Actual capital base to risk weighted assets	61%	51%	33%	16%	77%	169%
Required capital base to risk weighted assets	10%	10%	10%	10%	10%	10%

The increase of the regulatory capital in PanCaribbeanBank Limited (PCB) in 2009 is mainly due to the transfers from retained earnings reserve and reserve fund (Notes 40 and 41).

(e) Derivative products

The Group's derivative activities give rise to open positions in portfolios of derivatives. These positions are managed constantly to ensure that they remain within acceptable risk levels, with matching deals being utilised to achieve this where necessary. When entering into derivative transactions, the Group employs the same credit risk management procedures to assess and approve potential credit exposures that are used for traditional lending.

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 the following significant judgements regarding the amounts recognised in the financial statements:

Held to maturity investments

The Group follows the IAS 39 guidance on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity.

If the Group fails to keep these investments to maturity other than specific circumstances explained in IAS 39, it will be required to reclassify the whole class as available-for-sale. The investments would therefore be measured at fair value not amortised cost. The fair value would decrease by $181,933,000 (2008 - $55,317,000) with a corresponding entry in the fair value reserve in stockholders' equity.

(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 available for sale equity securities

The Group follows the guidance of IAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

If all of the declines in fair value below cost were considered significant or prolonged, the company would suffer additional losses of $50,836,000 (2008 – $90,241,000) in its 2009 financial statements, being the transfer of the accumulated fair value adjustments recognised in equity on the impaired available-for-sale financial assets to the profit and loss account.

5. Segment Reporting

Management has determined the operating segment based on the reports reviewed by the Board of Directors that are used to make strategic decisions. The Group is organised and managed in five main reportable operating segments based on its business activities. The designated segments are as follows:

(a) Treasury Management– this incorporates the Primary Dealer Unit, Cash Management Services and currency exposure.

(b) Corporate and Retail Credit – this incorporates the Group's loan 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) Corporate Trust – this incorporates corporate trust, share register and paying agency services.

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.

	The Group						
	Year ended 31 December 2009						
	Treasury Management	Corporate & Retail Credit	Asset Management	Trading	Corporate Trust	Eliminations	Group
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Gross external revenues	7,478,248	1,172,169	191,479	333,964	55,245	-	9,231,105
Revenues/expenses from other segments	68,383	-	-	-	-	(68,383)	-
Total gross revenues	7,546,631	1,172,169	191,479	333,964	55,245	(68,383)	9,231,105
Total expenses	(5,882,535)	(1,101,784)	(168,594)	(76,478)	(42,448)	-	(7,271,839)
Profit before tax	1,664,096	70,385	22,885	257,486	12,797	(68,383)	1,959,266
Income tax expense							(481,422)
Net profit							1,477,844
Segment assets	51,059,290	8,761,635	54,604	152,437	7,300	-	60,035,266
Unallocated assets							5,210,301
Total Assets							65,245,567
Segment liabilities	54,691,877	1,501,217	-	-	-	-	56,193,094
Unallocated liabilities							1,144,656
Total Liabilities							57,337,750
Other segment items -							
Interest income	7,241,465	1,115,264	-	-	-	-	8,356,729
Capital expenditure	9,107	17,972	-	-	-	-	27,079
Depreciation	29,437	19,561	-	-	-	-	48,998
Amortisation charges	13,368	47,798	-	-	-	-	61,166

5. Segment Reporting (Continued)

	The Group						
	Year ended 31 December 2008						
	Treasury Management	Corporate & Retail Credit	Asset Management	Trading	Corporate Trust	Eliminations	Group
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Gross external revenues	5,717,053	869,007	241,332	400,442	37,914	-	7,265,748
Revenues/expenses from other segments	11,597	334	40,930	-	-	(52,861)	-
Total gross revenues	5,728,650	869,341	282,262	400,442	37,914	(52,861)	7,265,748
Total expenses	(4,538,826)	(758,620)	(56,411)	(95,636)	(35,864)	52,861	(5,432,496)
Segment results	1,189,824	110,721	225,851	304,806	2,050	-	1,833,252
Share of associated company profit	1,577	-	-	-	-	-	1,577
Profit before tax	1,191,401	110,721	225,851	304,806	2,050	-	1,834,829
Income tax expense							(453,897)
Net profit							1,380,932
Segment assets	53,659,905	8,699,352	54,604	472,801	7,300	-	62,893,962
Unallocated assets							878,902
Total Assets							63,772,864
Segment liabilities	54,722,361	1,537,377	-	-	-	-	56,259,738
Unallocated liabilities							428,937
Total Liabilities							56,688,675
Other segment items -							
Iterest income	5,329,062	809,510	-	-	-	-	6,138,572
Capital expenditure	30,240	151,627	-	-	-	-	181,867
Depreciation	33,445	13,386	-	-	-	-	46,831
Amortisation charges	19,740	28,409	-	-	-	-	48,149

6. Interest Expense

	The Group		The Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Customer deposits, repurchase liabilities and other accounts	5,447,383	3,931,845	4,956,801	3,591,014
Due to banks and other financial institutions	130,403	135,318	89,751	109,442
Redeemable preference shares	158,044	132,496	158,044	132,496
	5,735,830	4,199,659	5,204,596	3,832,952

7. Fees and Commission Income

	The Group		The Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Asset management fees	186,135	197,488	142,847	120,672
Credit related fees	44,758	49,724	10,437	20,043
Stock brokerage fees	17,305	33,966	17,304	33,966
Trust fees	52,245	34,914	30,465	8,101
Wholesale banking fees	12,147	9,773	12,147	9,773
Treasury fees	6,525	7,111	4,577	5,654
Other	16,751	14,514	16,406	13,403
	335,866	347,490	234,183	211,612

8. Net Trading Income

	The Group		The Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Foreign exchange trading and translation gains	294,573	431,926	60,321	179,837
Equities trading (losses)/gains and dividends	(10,869)	102,406	(10,869)	102,406
Debt securities trading gain/(loss) -				
Available-for-sale investment securities	228,280	162,822	219,873	161,726
Trading securities	5,800	(20,900)	5,800	(20,900)
Loss on derivatives	(2,984)	-	(2,984)	-
	514,800	676,254	272,141	423,069

9. Other Revenue

	The Group		The Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Structured products	4,997	42,732	4,997	42,732
Gain on sale of associated company (Note 23)	-	57,967	-	66,534
Service fees	9,258	2,555	-	-
Other	9,455	178	67	67
	23,710	103,432	5,064	109,333

10. Staff Costs

	The Group		The Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Wages and salaries	626,413	537,171	418,743	354,028
Statutory contributions	57,491	46,273	38,503	29,927
Pension costs (Note 32)	(6,081)	48,078	-	-
Other post-employment benefits (Note 32)	10,328	9,380	-	-
Accommodation and other staff benefits	66,784	72,798	66,456	65,290
Stock option expense (Note 39)	3,169	7,257	3,169	7,257
	758,104	720,957	526,871	456,502

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

	The Group		The Company	
	2009 No.	2008 No.	2009 No.	2008 No.
Full-time	259	249	136	107
Part-time	23	15	17	8
	282	264	153	115

11. Impairment Charges

	The Group		The Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Investment securities (Note 21)	72,872	-	72,872	-
Loans (Note 25)	72,856	1,518	18,050	(6,177)
Lease receivables (Note 26)	16,976	-	-	-
Other	6,780	-	6,780	-
	169,484	1,518	97,702	(6,177)

12. Other Expenses

	The Group		The Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Amortisation (Note 29)	61,166	46,831	13,368	19,740
Audit fees -				
Current year	11,152	10,139	5,396	4,906
Prior year	-	550	-	-
Automated banking fees	4,357	1,455	-	-
Bank charges	20,805	17,930	8,152	8,170
Commissions and fees	34,188	21,791	13,177	15,208
Consultancy fees	360	6,913	360	4,985
Depreciation (Note 30)	48,998	48,149	29,437	33,445
Donations	1,481	1,190	1,382	760
Insurance	22,236	9,762	10,906	5,176
Irrecoverable General Consumption Tax	35,181	30,588	11,905	12,646
Legal and professional fees	15,730	19,444	10,209	11,048
Licensing fees	45,076	28,126	9,248	-
Miscellaneous	2,352	2,932	226	137
Motor vehicle expense	6,172	7,529	2,537	3,120
Office expenses	8,266	8,811	767	1,228
Printing and stationery	6,783	8,872	2,483	2,265
Promotion and advertising	80,483	79,172	36,423	42,924
Repairs and maintenance	5,092	4,981	731	1,596
Security	8,042	7,986	298	271
Stamp duty	-	5,073	-	5,073
Technology project expense	48,379	23,831	48,379	23,831
Telephone and postage	28,529	21,187	12,826	9,030
Travelling and entertainment	9,956	10,693	6,276	5,779
	504,784	423,935	224,486	211,338

13. 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	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current tax	492,108	479,490	351,657	372,100
Prior year (over)/under provision	(1,066)	(6,829)	(2,611)	6,405
Deferred tax (Note 31)	(9,620)	(18,764)	(15,122)	(18,007)
	481,422	453,897	333,924	360,498

(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	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Profit before taxation	1,959,266	1,834,829	1,499,067	1,534,099
Tax calculated at 33⅓%	653,089	611,610	499,689	511,366
Adjusted for the effects of:				
Income not subject to tax	(172,123)	(156,503)	(165,000)	(161,502)
Prior year (over)/under provision	(1,066)	(6,829)	(2,611)	6,405
Net effect of other charges and allowances	1,522	5,619	1,846	4,229
	481,422	453,897	333,924	360,498

(c) The deferred tax (charge)/credit, relating to component of other comprehensive income, is as follows:

	The Group		The Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Arising on gains/losses recognised in other comprehensive income -				
Available-for-sale investments	(88,854)	573,127	(99,460)	546,920
Cash flow hedge	74,648	(99,743)	74,648	(99,743)
Reclassifications from equity to profit and loss account -				
Available-for-sale investments	5,177	123,762	3,075	110,351

14. Net Profit

	2009 $'000	2008 $'000
Dealt with in the financial statements of:		
The company	1,165,143	1,173,601
The subsidiaries	312,701	205,754
Associated company (Note 23)	-	1,577
	1,477,844	1,380,932

15. Retained Earnings

	2009 $'000	2008 $'000
Reflected in the financial statements of:		
The company	3,731,834	3,261,196
The subsidiaries	167,390	892,030
	3,899,224	4,153,226

16. 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.

	2009	2008
Net profit attributable to stockholders ($'000)	1,477,844	1,380,932
Weighted average number of ordinary stock units in issue ('000)	547,924	547,875
Basic earnings per stock unit ($)	2.70	2.52

(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.

	2009	2008
Net profit attributable to stockholders ($'000)	1,477,844	1,380,932
Weighted average number of ordinary stock units in issue ('000)	547,924	548,134
Diluted earnings per stock unit ($)	2.70	2.52

16. 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:

	2009 '000	2008 '000
Weighted average number of ordinary stock units for the purposes of the computation of basic earnings per stock unit	547,924	547,875
Effect of dilutive potential ordinary stock units – share options	-	259
Weighted average number of ordinary stock units for the purposes of the computation of diluted earnings per stock unit	547,924	548,134

17. Cash and Balances Due from Other Financial Institutions

	The Group		The Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Placements with other financial institutions	1,236,887	505,000	328,042	12,807
Items in the course of collection	84,358	134,848	-	-
Cash in hand and at bank	2,141,409	2,175,695	1,644,858	1,306,855
	3,462,654	2,815,543	1,972,900	1,319,662
Interest receivable	1,597	149	16	35
	3,464,251	2,815,692	1,972,916	1,319,697

Included in cash and balances due from 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	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Cash and balances due from other financial institutions (Note 24)	3,334,537	2,815,692	1,843,202	1,319,697

18. Cash Reserve at Bank of Jamaica

A prescribed minimum of 28% (2008 - 25%) of deposit liabilities are required to be maintained by the banking subsidiary in liquid assets, of which 14% (2008 - 13%) must be maintained as cash reserve with the Bank of Jamaica for Jamaican dollar currency and for the relevant foreign currency at 11% (2008 – 11%). The cash reserve is not available for investment, lending or other use by the Group.

19. Trading Securities

In 2008, trading securities represented corporate bonds totaling $320,364,000 and includes interest receivable of $18,229,000. These securities were sold during the year.

20. Securities Purchased Under Agreements to Resell

	The Group		The Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Principal	4,486,063	3,614,099	3,029,132	2,437,325
Interest receivable	13,551	14,865	9,468	8,683
	4,499,614	3,628,964	3,038,600	2,446,008

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 2009, the Group held $6,267,263,000 (2008 - $4,293,925,000) of securities, mainly representing Government of Jamaica debt securities, as collateral for reverse repurchase agreements.

	The Group		The Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Securities purchased under agreement to resell with an original maturity of less than 90 days (Note 24)	4,318,373	3,271,198	3,038,600	2,123,961

21. Investment Securities

	The Group		The Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Available-for-sale securities -				
Debt securities -				
Government of Jamaica	34,629,126	30,444,407	32,237,555	28,776,356
Corporate bonds	4,039,312	4,655,957	3,681,093	4,768,972
Credit linked notes	1,337,198	2,449,139	1,337,198	2,449,139
Bank of Jamaica Certificates of Deposit	2,386,891	2,747,742	2,236,735	2,689,151
	42,392,527	40,297,245	39,492,581	38,683,618
Unit trust	-	29,739	-	-
Equity securities -				
Quoted – at fair value	47,398	69,052	47,398	69,052
Unquoted – at cost	74,275	71,767	59,404	58,263
	121,673	140,819	106,802	127,315
Preference shares -				
Quoted – at fair value	166,824	149,825	166,824	149,825
	42,681,024	40,617,628	39,766,207	38,960,758
Held- to-maturity investments -				
Credit linked notes	1,671,758	1,488,263	1,671,758	1,488,263
	44,352,782	42,105,891	41,437,965	40,449,021
Less: Pledged assets (Note 27)	(18,221,416)	(18,079,991)	(18,191,416)	(18,049,991)
	26,131,366	24,025,900	23,246,549	22,399,030
Less: Impairment charges (Note 11)	(72,872)	-	(72,872)	-
	26,058,494	24,025,900	23,173,677	22,399,030
Interest receivable	1,429,233	1,182,795	1,358,591	1,144,118
	27,487,727	25,208,695	24,532,268	23,543,148

During the year, the company recognised impairment charges totaling $53,844,000 on debt securities and $19,028,000 on quoted equity securities.

21. Investment Securities (Continued)

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	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Debt securities with an original maturity of less than 90 days (Note 24)	247,961	541,297	247,961	541,297

During 2008, the Group and the company reclassified certain financial assets out available-for-sale category into the held-to-maturity category. The Group and the company have the intention and ability to hold these reclassified investments for the foreseeable future or until maturity. As at 31 December 2009, the fair values and carrying values of financial assets reclassified is $1,563,758,000 (2008 - $1,499,338,000) and $1,745,691,000 ($1,554,655,000).

The fair value loss that would have been recognised in other comprehensive income for the Group and company if these investment securities had not been reclassified is $181,933,000 (2008 – ($55,317,000)).

There was no reclassification of financial assets during the year.

The following are included in the profit and loss account for investment securities reclassified in 2008:

	The Group and The Company	
	2009 $'000	2008 $'000
Interest income	211,162	123,127
Foreign exchange gain	159,177	195,000
	370,339	318,127

22. Derivative Financial Instruments and Hedging Activity

Derivatives are carried at fair value and carried in the balance sheet as separate assets and liabilities. Asset values represent the cost to the Group of replacing all transactions with a fair value in the Group's favour assuming that all relevant counterparties default at the same time, and that transactions can be replaced instantaneously. Liability values represent the cost to the Group counterparties of replacing all their transactions with the Group with a fair value in their favour if the Group were to default. Derivative assets and liabilities on different transactions are only set off if the transactions are with the same counterparty, a legal right of set-off exists and the cash flows are intended to be settled on a net basis.

The fair values are set out below –

	The Group			
	Assets		Liabilities	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
(a) Derivatives held for trading				
Currency forwards	-	2,589,991	-	2,635,231
Exchange traded funds – short sale	-	-	127,721	-
Foreign currency put option	7,103	-	-	-
Equity indexed options	72,985	68,085	72,985	68,085
	80,088	2,658,076	200,706	2,703,316
(b) Derivatives designated as cash flow hedge				
Interest rate swap	75,286	299,230	-	-
	155,374	2,957,306	200,706	2,703,316

	The Company			
	Assets		Liabilities	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
(a) Derivatives held for trading				
Currency forwards	-	1,799,119	-	1,849,706
Exchange traded funds – short sale	-	-	127,721	-
Foreign currency put option	7,103	-	-	-
Equity indexed options	72,985	68,085	72,985	68,085
	80,088	1,867,204	200,706	1,917,791
(b) Derivatives designated as cash flow hedge				
Interest rate swap	75,286	299,230	-	-
	155,374	2,166,434	200,706	1,917,791

22. Derivative Financial Instruments and Hedging Activity (Continued)

(i) Currency forwards
Currency forwards represent commitments to buy and sell foreign currencies on a gross basis at future dates at specified prices. The credit risk is evaluated for each contract and is collateralised where deemed necessary. The currency forward contracts are settled on a gross basis. These contracts expired during the year.

(ii) Exchange traded funds – short sale
During the year, the company entered into transactions to sell euro currencies that were borrowed from a broker. The company benefits if there is a decline in the asset price between the sale and repurchase date.

(iii) OTC currency put options
Foreign currency put options are contractual agreements under which the seller grants the purchaser the right but not the obligation to sell at a set date, a specified amount of a foreign currency at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange risk.

The company had two currency put options in place at the end of the year:

(a) The company has entered into a currency option with its parent company (Sagicor Life Jamaica Limited) to purchase a set amount of United States dollars at an agreed price if the closing Bank of Jamaica weighted average selling rate for the United States Dollar is less than the stated amount. The expiration date of this contract is 2039. The fair value of this option was $Nil at the year end.

(b) The company entered into a currency put option to sell a notional amount of £3,850,000. This contract will expire in January 2010.

(iv) Equity indexed options
These derivative instruments give the holder the ability to participate in the upward movement of an equity index while protecting from downward risk and form part of certain structured product contracts with customers (Note 34). The Group is exposed to credit risk on purchased options only, and only to the extent of the carrying amount, which is their fair value.

(v) Hedging activity – cash flow hedge

Interest rate swap

The cash flow hedge is used to protect against exposures to variability in future interest cash flow on a floating rate available-for-sale financial instrument.

The notional principal amount of the outstanding interest rate swap contract is US$20M. The fixed interest rate is 10.201% and the floating rate is USD-LIBOR-BBA.

The amounts and timing of future cash flows, representing both principal and interest flows are based on their contractual terms. The critical terms of the interest rate swap have been negotiated to match the terms of the available-for-sale financial instrument. Both the interest rate swap and the floating rate available-for-sale financial instrument mature in 2015. The interest rate swap is settled on a net basis.

22. Derivative Financial Instruments and Hedging Activity (Continued)

(v) Hedging activity – cash flow hedge

The fair value (losses)/gains recognised directly in stockholders' equity, in the fair value reserve; net of deferred taxation is ($149,296,000) (2008 - $199,487,000).

There were no transactions for which cash flow hedge accounting had to be ceased as a result of the highly probable cash flows no longer being expected to occur.

There was no ineffectiveness to be recorded from the cash flow hedge.

The maximum exposure to credit risk at the balance sheet date is the fair value of the derivative assets in the balance sheet.

23. Investment in Associated Company

During 2008, the Group sold its 25% interest in its associated company, Manufacturers Credit and Information Services Limited. Details are as follows:

	The Group	
	2009 $'000	2008 $'000
Balance at beginning of year	-	18,456
Share of profit	-	2,365
Share of tax	-	(788)
	-	1,577
	-	20,033
Disposal	-	(20,033)
Balance at end of year	-	-

The gain on disposal of the associated is as follows:

	The Group	The Company
	2008 $'000	2008 $'000
Proceeds	78,000	78,000
Net assets disposed	(20,033)	(11,466)
Gain on disposal	57,967	66,534

24. Cash and Cash Equivalents

	The Group		The Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Cash and balances due from other financial institutions (Note 17)	3,334,537	2,815,692	1,843,202	1,319,697
Securities purchased under agreements to resell (Note 20)	4,318,373	3,271,198	3,038,600	2,123,961
Investment securities (Note 21)	247,961	541,297	247,961	541,297
Repurchase agreements with financial institutions	(485,259)	(159,462)	(485,259)	(159,462)
Bank overdrafts (Note 35)	-	-	-	(10,400)
	7,415,612	6,468,725	4,644,504	3,815,093

25. Loans, Net of Provision for Credit Losses

	The Group		The Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Gross loans and advances	8,725,034	8,399,966	2,071,493	2,505,937
Less: Provision for credit losses	(160,461)	(115,178)	(75,314)	(87,135)
	8,564,573	8,284,788	1,996,179	2,418,802
Loan interest receivable	89,037	86,279	16,400	21,429
	8,653,610	8,371,067	2,012,579	2,440,231

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

	The Group		The Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Total non-performing loans	205,724	234,114	59,393	144,049

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

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

	The Group		The Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Balance at beginning of year	115,178	108,312	87,135	89,504
Provided during the year	72,856	7,695	18,050	-
Recoveries	-	(6,177)	-	(6,177)
Net charge/(credit) to the profit and loss account (Note 11)	72,856	1,518	18,050	(6,177)
Write offs	(36,303)	(5,693)	(36,258)	(4,030)
Currency revaluation adjustment	8,730	11,041	6,387	7,838
Balance at end of year	160,461	115,178	75,314	87,135

26. Lease Receivables

	The Group		The Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Gross investment in finance leases -				
Not later than one year	22,826	31,214	871	7,086
Later than one year and not later than five years	47,447	58,497	-	2,296
	70,273	89,711	871	9,382
Unearned finance income	(21,826)	(20,052)	(164)	(1,289)
Net investment in finance leases	48,447	69,659	707	8,093
Net investment in finance leases -				
Not later than one year	22,067	31,214	707	7,086
Later than one year and not later than five years	26,380	38,445	-	1,007
	48,447	69,659	707	8,093
Less Provision for credit losses (Note 11)	(16,976)	-	-	-
	31,471	69,659	707	8,093
Interest receivable	1,137	1,147	6	83
	32,608	70,806	713	8,176

The aggregate amount of non-performing lease receivables on which interest was not being accrued is $25,758,000.

27. 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	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Investment securities and securities purchased under resale agreements	45,936,252	42,176,355	43,990,533	42,471,208

	The Company			
	Asset		Related liability	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Investment securities and securities purchased under resale agreements	45,050,161	42,206,355	43,990,533	42,154,222

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	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Investment securities	18,221,416	18,079,991	18,191,416	18,049,991

28. 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 ultimate parent company, parent company, fellow subsidiaries and associated company. Related parties include directors, key management and companies for which the Group provides management services.

28. Related Party Transactions and Balances (Continued)

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

	The Group		The Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
With parent company -				
Management fees earned	130,633	113,369	130,633	113,369
Interest and other income earned	812	21,039	812	21,039
Interest and other expenses paid	(110,054)	(54,331)	(110,054)	(54,331)
Rent and net lease recoveries paid to related party	(5,736)	(3,976)	(5,736)	(3,976)
With fellow subsidiaries -				
Management fees earned	-	-	-	3,433
Interest income earned	-	-	23,890	2,890
Interest expense paid	(80,736)	(20,665)	(96,605)	(53,873)
Redeemable preference shares interest	-	-	1,460	1,593
With directors and key management -				
Interest expense paid	(6,811)	(5,955)	(7,277)	(5,955)
Interest income earned	2,966	1,693	-	-
Salaries and other short-term benefits	183,306	114,371	143,396	74,161
With managed funds -				
Management fees earned	47,694	79,820	4,406	-
Interest expense paid	(340,742)	(98,654)	(340,742)	(98,654)
Directors' emoluments -				
Fees	10,226	9,283	8,694	7,229
Other	75,002	62,412	50,145	25,360
	85,228	71,695	58,839	32,589

28. Related Party Transactions and Balances (Continued)

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

	The Group		The Company	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
With ultimate parent company -				
Balances due from ultimate parent company	-	22	-	22
With parent company -				
Securities sold under agreements to repurchase	(1,585,629)	(839,975)	(1,585,629)	(839,975)
Securities sold under agreements to repurchase – managed funds	(583,410)	(1,497,639)	(583,410)	(1,497,639)
Balances due from parent company	95	17	95	17
Balances due to parent company	-	(2,567)	-	(2,566)
With fellow subsidiaries -				
Cash and bank balances	-	-	707,965	218,637
Customer deposits and other accounts	336,153	(37)	-	-
Securities sold under agreements to repurchase	(871,001)	(1,907,234)	(871,001)	(1,937,560)
Securities purchased under agreements to resell	-	-	-	230,063
Derivative financial instrument assets	-	-	-	1,312,673
Derivative financial instrument liabilities	-	-	-	(1,411,974)
Due to banks and other financial institutions	(223,320)	(200,542)	(223,320)	(210,942)
Balances due from fellow subsidiaries	-	-	1,586	369
Balances due to fellow subsidiaries	(947)	-	(193,532)	-

28. Related Party Transactions and Balances (Continued)

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

	The Group		The Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
With directors and key management personnel -				
Loans	9,689	5,606	-	-
Customer deposits and other accounts	41,986	6,638	-	-
Structured products	-	33,490	-	33,490
Securities sold under agreements to repurchase	(82,067)	(93,583)	(82,067)	(93,583)
Derivative financial instrument assets	-	21,960	-	21,960
Derivative financial instrument liabilities	-	(19,815)	-	(19,815)
With managed funds -				
Structured products	-	(100,465)	-	(100,465)
Securities sold under agreements to repurchase	(5,279,398)	(1,653,296)	(5,279,398)	(1,653,296)
Balances due from other related parties	9,971	14,074	9,971	-

29. Intangible Assets

	The Group		The Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Computer software	78,408	134,046	11,024	22,712
Goodwill	733,750	733,750	143,263	143,263
	812,158	867,796	154,287	165,975

Computer software

	The Group		The Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Opening net book value	134,046	68,377	22,712	32,690
Additions	5,528	112,500	1,680	9,762
Amortisation	(61,166)	(46,831)	(13,368)	(19,740)
	78,408	134,046	11,024	22,712
Cost, net of grant	295,313	289,785	116,158	114,478
Accumulated amortisation	(216,905)	(155,739)	(105,134)	(91,766)
	78,408	134,046	11,024	22,712

29. Intangible Assets (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:

	2009 $'000	2008 $'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.

30. Property, Plant and Equipment

	Leasehold Improvement	Furniture and Equipment	Motor Vehicles	Computer Equipment	Total
	$'000	$'000	$'000	$'000	$'000
			The Group		
Cost					
At 1 January 2008	81,488	99,630	10,837	114,312	306,267
Additions	18,914	19,364	-	31,089	69,367
Disposals	-	(173)	(2,040)	(124)	(2,337)
At 31 December 2008	100,402	118,821	8,797	145,277	373,297
Additions	1,730	7,508	567	11,746	21,551
Disposals	-	(198)	(3,877)	-	(4,075)
At 31 December 2009	102,132	126,131	5,487	157,023	390,773
Accumulated Depreciation					
At 1 January 2008	27,277	76,816	7,787	59,814	171,694
Charge for the year	8,397	11,125	1,181	27,446	48,149
Disposals	-	(166)	(2,040)	(62)	(2,268)
At 31 December 2008	35,674	87,775	6,928	87,198	217,575
Charge for the year	9,567	12,346	864	26,221	48,998
Disposals	-	(198)	(3,535)	-	(3,733)
At 31 December 2009	45,241	99,923	4,257	113,419	262,840
Net Book Value					
At 31 December 2009	56,891	26,208	1,230	43,604	127,933
At 31 December 2008	64,728	31,046	1,869	58,079	155,722
			The Company		
Cost					
At 1 January 2008	55,792	42,147	4,081	59,327	161,347
Additions	-	3,034	-	17,444	20,478
Disposals	-	-	(100)	(124)	(224)
At 31 December 2008	55,792	45,181	3,981	76,647	181,601
Additions	428	1,604	-	8,574	10,606
Disposals	-	-	(262)	-	(262)
At 31 December 2009	56,220	46,785	3,719	85,221	191,945
Accumulated Depreciation					
At 1 January 2008	16,395	17,224	1,641	28,756	64,016
Charge for the year	5,579	6,690	798	20,378	33,445
Disposals	-	-	(100)	(62)	(162)
At 31 December 2008	21,974	23,914	2,339	49,072	97,299
Charge for the year	5,608	5,289	787	17,753	29,437
Disposals	-	-	(122)	-	(122)
At 31 December 2009	27,582	29,203	3,004	66,825	126,614
Net Book Value					
At 31 December 2009	28,638	17,582	715	18,396	65,331
At 31 December 2008	33,818	21,267	1,642	27,575	84,302

31. 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	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Deferred income tax assets	561,503	594,354	480,486	542,829
Deferred income tax liabilities	(74,462)	(151,021)	(39,263)	(125,515)
Net deferred income tax assets	487,041	443,333	441,223	417,314

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

	The Group		The Company	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Balance at beginning of year	443,333	(104,243)	417,314	(67,082)
Credited to profit and loss account (Note 13)	9,620	18,764	15,122	18,007
Tax credit relating to components in other comprehensive income	34,088	528,812	8,787	466,389
Balance at end of year	487,041	443,333	441,223	417,314

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

	The Group		The Company	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Deferred income tax assets -				
Property, plant and equipment	2,558	-	2,558	-
Investment securities	540,777	581,338	471,587	537,448
Post-employment benefit obligations	10,710	7,268	-	-
Other	7,458	5,748	6,341	5,381
	561,503	594,354	480,486	542,829
Deferred income tax liabilities -				
Property, plant and equipment	6,316	12,733	-	2,703
Trading securities	-	12,807	-	12,807
Interest rate swap	25,095	99,743	25,095	99,743
Loan loss provision	23,759	15,332	14,168	8,278
Post-employment benefit assets	19,292	7,236	-	-
Other	-	3,170	-	1,984
	74,462	151,021	39,263	125,515
Net deferred tax assets	487,041	443,333	441,223	417,314

31. Deferred Income Taxes (Continued)

The deferred tax credited to the profit and loss account comprises the following temporary differences:

	The Group		The Company	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Property, plant and equipment	8,975	(3,410)	5,261	6,750
Post-employment benefits	(8,614)	11,404	-	-
Tax losses utilised	-	(587)	-	-
Loan loss provision	(8,427)	3,911	(5,890)	3,253
Trading securities	12,807	6,303	12,807	6,303
Other	4,879	1,143	2,944	1,701
	9,620	18,764	15,122	18,007

These balances include the following:

	The Group		The Company	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Deferred tax assets to be settled after more than twelve months	554,045	588,372	474,145	537,448
Deferred tax liabilities to be recovered after more than twelve months	74,462	147,851	39,263	123,531

32. 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 2009.

A resolution was passed to fix the rate of contribution of the company to 8.6% of pensionable salary. Any plan surplus or funding deficiency is absorbed by a subsidiary company, PanCaribbeanBank 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	
	2009 $'000	**2008 $'000**
Present value of funded obligations	203,413	160,949
Fair value of plan assets	(261,288)	(182,657)
	(57,875)	(21,708)
Unrecognised actuarial loss	(19,643)	(34,109)
Limitation of asset due to uncertainty of obtaining economic benefits	19,643	34,109
Asset in the balance sheet	(57,875)	(21,708)

The movement in the present value of defined obligations over the year is as follows:

	The Group	
	2009 $'000	**2008 $'000**
Balance at beginning of year	160,949	119,033
Current service cost	12,122	11,122
Interest cost	23,808	14,004
Members' contributions	20,573	16,691
Benefits paid	(4,617)	(4,805)
Actuarial loss (gain)/loss on obligation	(9,422)	4,904
Balance at end of year	203,413	160,949

32. Post-employment Benefits (Continued)

(a) Pension scheme (continued)

The movement in the fair value of plan assets during the year is as follows:

	The Group	
	2009 $'000	2008 $'000
Balance at beginning of year	182,657	165,572
Members' contributions	20,573	16,691
Employer's contribution	30,086	23,247
Expected return on plan assets	28,689	21,917
Benefits paid	(4,617)	(4,805)
Actuarial gain/(loss)	3,900	(39,965)
Balance at end of year	261,288	182,657

Plan assets are comprised as follows:

	The Group			
	2009		2008	
	$'000	%	$'000	%
Equity	18,338	7	65,456	36
Debt	242,950	93	117,201	64
	261,288	100	182,657	100

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

	The Group	
	2009 $'000	2008 $'000
Current service cost	12,122	11,122
Interest cost	23,808	14,004
Expected return on plan assets	(28,689)	(21,917)
Recognised actuarial loss	1,225	-
Change in unrecognised assets	(14,547)	44,869
Total, included in staff costs (Note 10)	(6,081)	48,078

The actual return on plan assets was $37,046,000 (2008 – ($14,645,000)).

Expected contributions to post-employment plan for the year ending 31 December 2010 are $54,906,000.

32. Post-employment Benefits (Continued)

(a) Pension schemes (continued)

Movements in the amounts recognised in the balance sheet:

	The Group	
	2009 $'000	2008 $'000
Asset at beginning of year	(21,708)	(46,539)
Amounts recognised in the profit and loss account (Note 10)	(6,081)	48,078
Contributions paid	(30,086)	(23,247)
Asset at end of year	(57,875)	(21,708)

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				
	2009 $'000	2008 $'000	2007 $'000	2006 $'000	2005 $'000
As at 31 December					
Present value of defined benefit obligation	203,413	160,949	119,033	106,153	88,258
Fair value of plan assets	(261,288)	(182,657)	(165,572)	(127,051)	(101,674)
Surplus	(57,875)	(21,708)	(46,539)	(20,898)	(13,416)
Experience adjustments on plan liabilities	(9,422)	4,904	(14,505)	(2,442)	3,819
Experience adjustments on plan assets	(3,900)	39,965	(1,130)	(1,969)	164

The principal actuarial assumptions used were as follows:

	The Group	
	2009	2008
Discount rate	16%	16%
Expected return of plan assets	10%	14%
Future salary increases	11%	12%
Expected pension increase	5%	5%
Average expected remaining working lives (years)	13	13

32. 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 14% (2008 -15%) per annum.

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

	The Group	
	2009 $'000	2008 $'000
Present value of unfunded obligations	20,715	29,460
Unrecognised actuarial gains/(losses)	11,416	(7,657)
Liability in the balance sheet	32,131	21,803

The movement in the present value of unfunded obligations defined benefit obligation over the year is as follows:

	The Group	
	2009 $'000	2008 $'000
Balance at beginning of year	29,460	32,605
Current service cost	5,252	5,224
Interest cost	4,714	3,188
Actuarial gain on obligation	(18,711)	(11,557)
Balance at end of year	20,715	29,460

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

	The Group	
	2009 $'000	2008 $'000
Current service cost	5,252	5,224
Interest cost	4,714	3,188
Recognised loss	362	968
Total, included in staff costs (Note 10)	10,328	9,380

32. Post-employment Benefits (Continued)

(b) Other post-retirement benefits (continued)

Movement in the amounts recognised in the balance sheet:

	The Group	
	2009 $'000	2008 $'000
Liability at beginning of year	21,803	12,423
Amount recognised in the profit and loss account (Note 10)	10,328	9,380
Liability at end of year	32,131	21,803

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

	The Group 2009 $'000	
	Decrease	Increase
Effect on the aggregate of current service cost	4,106	6,785
Effect on the aggregate of interest cost	3,747	5,987
Effect on the defined benefit obligation	16,710	25,928

33. Other Assets

	The Group		The Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Withholding tax recoverable	581,375	144,895	478,648	77,589
Customer settlement accounts	63,713	227,744	58,433	224,964
Staff receivables	11,406	12,495	11,406	12,121
Property, plant and equipment deposits	38,169	2,427	18,034	352
Other	35,085	49,920	25,436	43,049
	729,748	437,481	591,957	358,075

34. Structured Products

	The Group and The Company	
	2009	2008
	$'000	$'000
Principal protected notes	473,266	356,355
Credit linked notes	-	731,185
	473,266	1,087,540

A structured product is a pre-packaged investment strategy created to meet specific needs that cannot be met from the standardised financial instruments available in the market. Structured products can be used as an alternative to a direct investment, as part of the asset allocation process to reduce risk exposure of a portfolio, or to capitalise on current market trends.

Certain principal protected notes are linked to the equity indexed options disclosed in Note 22.

The credit linked notes are structured securities with embedded credit default swaps allowing the Group to transfer specific credit risks to the note purchaser. Under this structure, the coupon or price of the note is linked to the performance of a reference asset. It offers the Group a hedge against credit risk and gives investors higher yields on the notes for accepting exposure to specified credit events. The credit linked notes matured during the year.

35. Due to Banks and Other Financial Institutions

			The Group		The Company	
		Rate	2009	2008	2009	2008
	Currency	%	$'000	$'000	$'000	$'000
Long Term Loans -						
The National Export Import Bank of Jamaica						
Repayable in 42 monthly installments commencing May 2009 and ending October 2012	J$	9.00	9,390	11,600	9,390	11,600
Development Bank of Jamaica Limited -						
Repayable over varying periods from 24 to 96 months	J$	various	92,593	111,481	92,593	111,481
Repayable over varying periods from 48 to 96 months	US$	various	25,016	59,174	25,016	59,174
European Investment Bank -						
Repayable in 7 equal annual installments commencing on 5 December 2008 and ending 2014	J$	various	460,872	553,046	460,872	553,046
Repayable in 7 equal annual installments commencing on 5 December 2008 and ending 2014	US$	various	56,623	201,339	56,623	201,339
Development Bank of Jamaica Limited (DBJ)						
Repayable over varying periods from 6 months to 108 months	J$	7 & 10.00	285,528	163,039	-	-
Repayable over varying periods from 6 months to 108 months	US$	5.35	290,476	-	-	-
The National Export-Import Bank of Jamaica Limited -						
Repayable over varying periods from 6 months to 108 months	US$	9.00	6,508	79,435	-	-
Repayable over varying periods from 6 months to 54 months	US$	4.50	-	32,086	-	-
			1,227,006	1,211,200	644,494	936,640
Short Term Loans						
Sagicor Life Inc.						
Repayable in one installment on 25 January 2010	US$	8.00	223,320	200,542	223,320	200,542
Oppenheimer & Co. Inc.						
Repayable in one installment on 16 February 2010	US$	2.25	45,016	40,796	45,016	40,796
			268,336	241,338	268,336	241,338
Bank Overdrafts -						
PanCaribbeanBank Limited	J$	various	-	-	-	10,400
			-	-	-	10,400
			1,495,342	1,452,538	912,830	1,188,378
Interest payable			5,875	84,839	5,065	83,558
			1,501,217	1,537,377	917,895	1,271,936

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

(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 31 March 2011. Repayment may either be in Euro or one or more currencies of the member states of the European Economic Community and shall be calculated as the Euro equivalent of the Jamaican dollar liability using exchange rates between the Euro and the selected currencies prevailing on the thirtieth day before the date of payment. In the event of a liquidation of the beneficiary, the outstanding balance of the loan in respect of the equity participation shall be discharged by EIB.

During the year, this facility was settled.

35. 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 2009. 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.

During the year, this facility was settled.

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$ or 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, PanCaribbeanBank (PCB) is an approved financial institution of the National Export-Import Bank of Jamaica (EXIM). Through this partnership PCB is provided with financing, which is utilised to finance customers with viable projects within EXIM's guidelines.

PCB 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 Overdrafts

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

The Group has 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 for the company in 2008 is $10,400,000 which are regarded as cash equivalents for purposes of the statement of cash flows.

36. Redeemable Preference Shares

	The Group and The Company	
	2009 $'000	2008 $'000
Redeemable preference shares	1,264,324	1,264,324
Interest payable	6,995	6,866
	1,271,319	1,271,190

The company has issued 6,321,621, 12 ½% cumulative redeemable preference shares at a fixed price of $200 per share. The shares will be redeemed in 2013.

37. Other Liabilities

	The Group		The Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Accruals	51,318	69,678	34,060	40,144
Customer settlement accounts	112,081	33,317	58,851	2,065
Items in the course of payment	672,762	139,069	-	-
Staff related payables	76,434	46,357	59,332	21,186
Stale dated cheques	52,631	41,982	30,024	21,694
Other	31,442	29,229	15,310	17,167
	996,668	359,632	197,577	102,256

38. Share Capital

The total authorised number of ordinary shares is 615,613,376 (2009 – 615,613,376), of which 547,924,039 (2008 – 547,924,039) was issued and fully paid.

The movement on share capital is as follows:

	2009 $'000	2008 $'000
Issued and Fully Paid -		
Share capital at the beginning of the year – 547,924,039 (2008 - 547,665,964) ordinary shares	3,103,811	3,098,919
Shares issued during the year – Nil (2008 – 258,075) ordinary shares	-	4,892
	3,103,811	3,103,811

The stock units in 2009 and 2008 are stated in these financial statements without a nominal or par value.

38. Share Capital (Continued)

(i) No new shares were issued during the current year. Shares issued in 2008 comprise 150,000 ordinary shares issued under the company's share option scheme at $19.29 per share and 108,075 ordinary shares issued under the company's staff share purchase plan at $18.49 per share.

(ii) The ordinary shares do not carry a right to a fixed income.

39. 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) 1,200,000 share options on 1 March 2005. These options expired on 25 February 2009. 75,000 of these shares were vested and were forfeited during the year.

(ii) 1,200,000 share options on 1 March 2006. These options expire on 28 February 2010. The exercise price for the options is $19.29. These options vest over four years – 25% each anniversary date of the grant. 150,000 shares have been taken up to date.

(iii) 600,000 share options on 1 March 2007. These options expire on 28 February 2011. The exercise price for the options is $21.75. These options vest over four years – 25% each anniversary date of the grant. Contracts for 300,000 of these shares were forfeited during the year.

(iv) 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. Contracts for 283,000 of these shares were forfeited during the year.

Details of the share options outstanding are as follows:

	Number of share options 2009 '000	Weighted average exercise price 2009 $	Number of share options 2008 '000	Weighted average exercise price 2008 $
Balance at beginning of year	5,457	18.91	5,949	18.87
Exercised	-	-	(150)	19.29
Lapsed/forfeited	(658)	21.82	(342)	18.00
	4,799	18.5266	5,457	18.91
Exercisable at the end of the year	2,312	18.66	1,694	19.49

39 Share Options Reserve (Continued)

For options outstanding at the end of the year, the exercise price ranges from $18.00 to $21.75 (2008 - $18 to $36.50). The weighted average remaining contractual term is three years (2008 – four years).

No options were exercised during the current year. The weighted average share price at the date of exercise for options exercised during 2008 was $19.29.

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. 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 $52,604,000 (2008 - $49,435,000) as stock options expense of which $3,169,000 (2008 - $7,257,000) was recognised in the profit and loss account during the year.

40. Retained Earnings Reserve

Section 2 of the Banking Act of 1992 permits the transfer of any portion of the Bank's net profit to a subsidiary's 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 Board; such transfers must be notified to the Bank of Jamaica.

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.

During the year an amount of $974,231,000 (2008 - $390,365,000) was transferred from retained earnings to retained earning reserve.

41. Reserve Fund

This fund is maintained in accordance with the Banking 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.

During the year PCB transferred $31,819,000 (2008 - $55,518,000) from retained earnings to the reserve fund.

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

42. 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.

The loss loan reserve is determined as follows:

	The Group		The Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Provision for credit losses determined under IFRS -				
Loans (Note 25)	160,461	115,178	75,314	87,135
Lease receivables (26)	16,976	-	-	-
	177,437	115,178	75,314	87,135
The provision for credit losses determined under regulatory requirements -				
Specific provision	248,688	161,173	117,816	111,970
General provision	96,398	71,300	25,762	27,157
	345,086	232,473	143,578	139,127
Excess of regulatory provision over IFRS provision reflected in a non distributable loan loss reserve	167,649	117,295	68,264	51,992

43. Fair Value Reserve

This represents the unrealised surplus or deficit on the revaluation of available-for-sale investments and the interest rate swap designated as a cash flow hedge.

44. Dividends

	The Group and The Company	
	2009 $'000	2008 $'000
First interim dividend – 65 cents (2008 – 65 cents)	356,151	356,151
Second interim dividend – 60 cents (2008 - 55 cents)	328,754	301,358
	684,905	657,509

The dividends declared for 2009 and 2008 represented a dividend per stock of $1.25 and $1.20, respectively.

45. 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 or dealer quotes 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 interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of currency forward contracts is determined using quoted forward exchange rates at the balance sheet date. The fair value of the equity indexed options and the exchange traded funds that are shorted are based on quoted prices.

(iv) 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.

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

45. Fair Value of Financial Instruments (Continued)

(vi) 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

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

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

	The Group			
	Carrying Value 2009 $'000	Fair Value 2009 $'000	Carrying Value 2008 $'000	Fair Value 2008 $'000
Financial Assets				
Investment securities – held-to-maturity	1,745,691	1,563,758	1,554,655	1,499,338
Loans and leases, net of provision for credit losses	8,686,218	9,565,031	8,441,873	7,294,081
Financial Liabilities				
Securities sold under agreements to repurchase	43,972,613	39,913,420	42,040,112	34,734,326
Customer deposits and other accounts	8,782,495	7,280,753	7,457,170	5,932,765
Due to banks and other financial institutions	1,501,217	1,597,531	1,537,377	1,374,496

	The Company			
	Carrying Value 2009 $'000	Fair Value 2009 $'000	Carrying Value 2008 $'000	Fair Value 2008 $'000
Financial Assets				
Investment securities – held-to-maturity	1,745,691	1,563,758	1,554,655	1,499,338
Loans and leases, net of provision for credit losses	2,013,292	1,687,261	2,708,089	2,084,634
Financial Liabilities				
Securities sold under agreements to repurchase	43,990,533	38,929,132	42,154,222	34,825,936
Customer accounts	520,964	557,963	569,269	673,982
Due to banks and other financial institutions	917,895	919,481	1,271,936	1,130,036

45. Fair Value of Financial Instruments (Continued)

The following table provides an analysis of financial instruments that are measured in the balance sheet at fair value at 31 December 2009, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

(i) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

(ii) Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

(iii) Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	The Group			
	Level 1	Level 2	Level 3	2009
Financial Assets				
Securities purchased under agreements to resell	-	4,499,614	-	4,499,614
Investment securities	195,194	21,174,962	4,371,881	25,742,037
Derivative financial instruments	-	80,088	75,286	155,374
Pledged assets	-	18,221,416	-	18,221,416
	195,194	43,976,080	4,447,167	48,618,441
Financial Liabilities				
Derivative financial instruments	127,721	72,985	-	200,706

	The Group			
	Level 1	Level 2	Level 3	2008
Financial Assets				
Trading securities	-	320,364	-	320,364
Securities purchased under agreements to resell	-	3,628,964	-	3,628,964
Investment securities	294,146	17,648,069	5,711,825	23,654,040
Derivative financial instruments	-	2,658,076	299,230	2,957,306
Pledged assets	-	18,079,991	-	18,079,991
	294,146	42,335,464	6,011,055	48,640,665
Financial Liabilities				
Derivative financial instruments	-	2,703,316	-	2,703,316

45. Fair Value of Financial Instruments (Continued)

	The Company			
	Level 1	Level 2	Level 3	2009
Financial Assets				
Securities purchased under agreements to resell	-	3,038,600	-	3,038,600
Investment securities	195,194	18,312,228	4,279,155	22,786,577
Derivative financial instruments	-	80,088	75,286	155,374
Pledged assets	-	18,191,416	-	18,191,416
	195,194	39,622,332	4,354,441	44,171,967
Financial Liabilities				
Derivative financial instruments	-	200,706	-	200,706

	The Company			
	Level 1	Level 2	Level 3	2008
Financial Assets				
Trading securities	-	320,364	-	320,364
Securities purchased under agreements to resell	-	2,446,008	-	2,446,008
Investment securities	218,877	16,071,295	5,698,321	21,988,493
Derivative financial instruments	-	1,867,204	299,230	2,166,434
Pledged assets	-	18,049,991	-	18,049,991
	218,877	38,754,862	5,997,551	44,971,290
Financial Liabilities				
Derivative financial instruments	-	1,917,791	-	1,917,791

There were no transfers between Level 1 and 2 in the year.

Reconciliation of level 3 items -

	The Group		The Company	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Balance at beginning of year	6,011,055	2,795,454	5,997,551	2,781,950
Total gain - other comprehensive income	16,068	287,152	16,068	287,152
Total gain – profit and loss and loss account	75,111	282,618	71,818	282,618
Purchases	75,929	3,421,401	-	3,421,401
Settlements	(1,730,996)	(775,570)	(1,730,996)	(775,570)
Balance at end of year	4,447,167	6,011,055	4,354,441	5,997,551

The gains or losses recorded in the profit or loss are included in Note 8.

If the fair value measurements were adjusted by reasonable possible alternative assumptions then the interest rate swap would decrease or increase by $150,163,000 and $58,160,000 respectively.

46. 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 2009, the Group and the company had financial assets under administration of approximately $19,610,241,000 (2008 - $19,417,875,000) and $19,206,679,000 (2008 - $16,009,000,000) respectively.

47. Contingent Liabilities and Commitments

(a) Legal proceedings

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

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

(b) 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 2009	**No later than 1 year $'000**	**1 to 5 years $'000**	**Over 5 years $'000**	**Total $'000**
Loan commitments	481,484	298,348	-	779,832
Guarantees, acceptances and other financial facilities	776,821	368,508	25,231	1,170,560
Operating lease commitments	89,344	26,220	-	115,564
	1,347,649	693,076	25,231	2,065,956
At 31 December 2008				
Loan commitments	664,227	262,943	38,245	965,415
Guarantees, acceptances and other financial facilities	568,452	327,318	30,831	926,601
Operating lease commitments	41,487	27,422	-	68,909
	1,274,166	617,683	69,076	1,960,925

47. Contingent Liabilities and Commitments (Continued)

	The Company			
At 31 December 2009	No later than 1 year $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
Loan commitments	68,832	6,098	-	74,930
Guarantees, acceptances and other financial facilities	324,857	295,637	1,428	621,922
Operating lease commitment	50,402	26,220	-	76,622
	444,091	327,955	1,428	773,474
At 31 December 2008				
Loan commitments	98,131	556	-	98,687
Guarantees, acceptances and other financial facilities	231,416	306,988	-	538,404
Operating lease commitment	25,069	24,412	-	49,481
	354,616	331,956	-	686,572

48. Subsequent Event

On 14 January 2010 the Government of Jamaica (GOJ) issued a public invitation to participate in its Jamaica Debt Exchange (JDX) programme in respect of specific domestic debt instruments. The JDX involves the exchange of the majority of the GOJ's existing domestic debt instruments for new debt instruments having longer maturities and lower interest rates. The Group has accepted the invitation to participate in the programme.

The immediate impact of the exchange on capital was assessed to be immaterial. The face value of Jamaican dollar securities exchanged was J$22,598,189,000. The face value of United States dollar securities exchanged (including J$ denominated instruments indexed to the US$) was US$98,780,800. The average interest rate is expected to decrease from 18.23% to 12.54% on the J$ portfolio and from 8.83% to 8.15% on the US$ portfolio. The duration is expected to increase from 0.59 years to 0.91 years on the J$ portfolio and from 1.8 years to 2.53 years on the US$ portfolio.

The Group has begun its programme to reduce the impact of lower investment rates, by adjusting its liability costs and has also expanded marketing of its commercial product offerings to attract interest-bearing accounts that carry lower funding rates.

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 June 9, 2010 at 10:00 a.m and at any adjournment thereof.

Signed this_____day of_____2010.

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: (a) (i) Mr. Jeffrey Cobham		
RESOLUTION 3: (ii) Dr. Dodridge Miller		
RESOLUTION 3: (iii) Mrs. Lisa Soares-Lewis		
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 Association

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