Annual Report 2010

PanCaribbean
FINANCIAL SERVICES LTD.
A member of the Sagicor Group

Real People
Real Solutions

Our Brand Vision

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

Real Results

Real Commitment

Real Performance

Real Stories

Financials

Our Mission

is to be a Caribbean market leader through an efficient, inspired team that delivers quality financial services, thereby maximising value for the benefit of our clients, shareholders, team members and our community.

Real Results

Integrity • Team • Service

A Catalyst for Growth

The year 2010 presented many challenges for our customers, our company and our society. In the midst of the rapidly changing environment, we increased our efforts to identify and create unique opportunities for growth.

Our Customers needed Capital – we raised over US$4 Million to fund exciting new investments in film, tourism and entertainment. We also financed over J$1.7 Billion in new projects that created employment and will help to stimulate the recovery of our economy.

Our Team needed Opportunities – we promoted 16 Team Members and delivered almost 5,800 hours of professional development training .

Our Communities needed Support – we ramped up our operations to expand Sigma Corporate Run in support of Children with Disabilities and raised over $11 Million with the help of 11,187 highly motivated participants.

Our Shareholders needed Returns – our earnings per share increased by 3% to $2.78, we paid out $1.10 in dividends and our share price improved 8%, closing the year at $19.49.

History at a glance

1983
Pan Caribbean Merchant Bank Limited was incorporated

1989
Richard O. Byles became Managing Director

1991
We received Authorized FX Dealer status

1993
Donovan H. Perkins joined the company

1993
We became a Pan-Jamaican subsidiary

1996
We became a BOJ Primary Dealer

1996
We acquired Portfolio Partners

2000
We acquired Knutsford Capital

2001
We merged with Trafalgar Development Bank and became listed

2002
We changed our name to Pan Caribbean Financial Services

2004
We merged with Manufacturers Sigma Merchant Bank

2004
We acquired Lets Investments

2005
We became a subsidiary of Sagicor

2006
We became the 11th JSE stockbroker

2008
We launched PanCaribbeanBank

2009
Sagicor Life Jamaica increased stake to 86%

2010
PanCaribbean reported 10 consecutive years of improved earnings

JAMROCK FILMS

US$1.2M

Raised equity to fund the production and distribution of "Ghett'a Life", a Jamaican film project based on the award winning script, written, directed and produced by Chris Browne.

DOLPHIN COVE

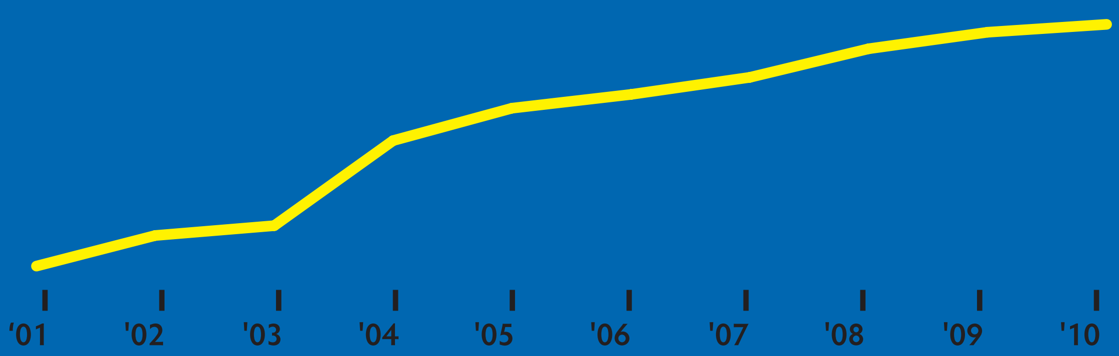
J$240M

Raised equity through the largest and most successful IPO on the Junior Stock Exchange of the JSE for the expansion of Jamaica's #1 Attraction.

BOLT TRACKS & RECORDS

US$400,000

Financed the development of Kingston's newest sports and entertainment hot spot, in association with the fastest man in the world, Usain Bolt.



A Decade of Record Profits

PanCaribbean achieved its 10th year of consecutive growth in profits, making us one of only two companies listed on the Jamaica Stock Exchange with this proud distinction.

Shareholders' Report

Statement from our Chairman & our President

34%
increase in capital at year-end

It is with great pride that we report to our shareholders on PanCaribbean's performance for 2010, realised in a weak economic climate which also experienced bouts of social unrest. Notwithstanding these challenges faced by local businesses and consumers, our Team delivered solid results.

2010 was a year where we continued to demonstrate and build on our brand vision, "To be loved by our customers...and admired by our competitors." Despite a challenging market, we grew while many financial market players saw adverse operating results. For the 10th consecutive year, PanCaribbean has reported record profits, one of only two companies listed on the Jamaica Stock Exchange that have achieved this remarkable and consistent performance over the past decade.

Your Company's Performance

Your company also passed a number of milestones along the way, and we are pleased to highlight the following:

- **We reported Net Income of $1.524 Billion, up 3%**
- **We paid ordinary dividends of $604 Million or $1.10 per share**
- **Our Balance Sheet grew to $72.6 Billion, up 11%**
- **Stockholders' Equity soared 34% to $10.6 Billion, the equivalent of US$123 Million**

A more detailed analysis and commentary on PanCaribbean's operating results and financial performance is outlined in our Management's Discussion and Analysis on pages 14 to 23.

Shareholders' Report (Cont'd)

$240m
raised in the largest IPO in 2010

Our Team Achievements

We also enjoyed other successes in 2010 as we:

- **Closed 2010 as the #1 Stockbroker with 26% market share.**
- **Did exceptionally well at the JSE Annual Awards, capturing three coveted trophies from seven categories.**
- **Through our largest Sigma Corporate Run ever, we supported children with disabilities with $11.18 Million raised through the inspired involvement of 11,187 participants.**
- **Successfully managed the largest IPO in 2010, raising $240 Million for Dolphin Cove Limited, with subscriptions almost three times the amount offered.**
- **Received a jmA+ credit rating from CariCRIS, the fourth consecutive year the Caribbean Regions' independent rating agency has affirmed the strength and quality of our institution.**

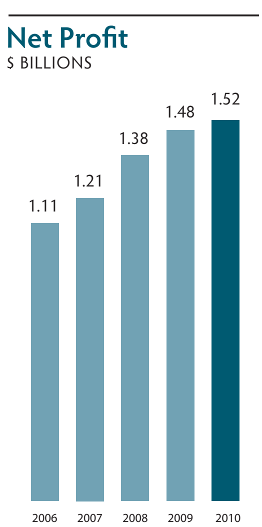
Our 2011 Outlook and Insights

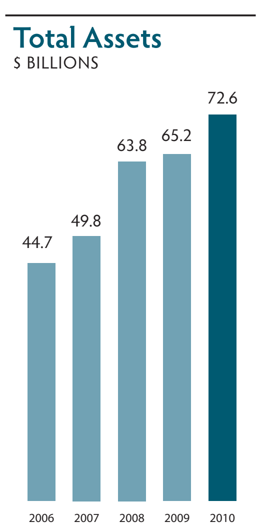
The success of the Jamaica Debt Exchange and the accompanying International Monetary Fund programme completed in the first quarter of 2010, have resulted in a welcome platform of stability. Most leading economic indicators – interest rates, currency stability, crime rate, remittance flows, tourist arrivals, our balance of payments, the fiscal deficit – all improved significantly in 2010. The only exceptions were inflation and employment which remain a challenge and while GDP remained negative, the economy contracted at a slower rate.

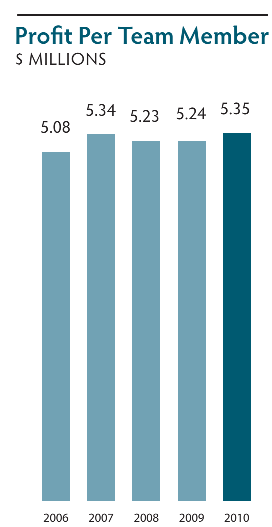
Notwithstanding these positive developments - the challenges faced by our country have deep roots and resolution will require decisive planning, guts and determination in execution. We do not have the luxury of time to get going. Jamaica remains fragile.

$11.18m
raised for children with disabilities at the largest Sigma Corporate Run ever

PanCaribbean Results
Values as at 31 December 2010







11%
growth in
Assets to
$72.6B

Shareholders' Report (Cont'd)

We expect the Government to shift its focus now and **(1)** address the current stifling tax policies that inhibit economic growth **(2)** establish a framework that leads to lower energy costs **(3)** invest more in education and security **(4)** enhance the overall efficiency of government. Some steps have been taken as it relates to the latter, as 2010 saw the welcome divestment of the national ownership of Air Jamaica and a number of sugar factories. As a part of the private sector, we must also play our role in helping to build that bridge to economic prosperity.

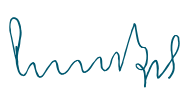
Looking forward, we expect local and international conditions to continue on a recovery path in 2011 and we are well-positioned to take advantage of opportunities as the environment gradually improves.

jmA+
re-affirmed by
CariCRIS rating
agency

Our Thanks

In closing, we wish to recognize our entire PanCaribbean Team who consistently go the extra mile to serve our customers well, and we appreciate the confidence demonstrated by our customers as they deepen their relationship with us. We would also like to thank our fellow Directors for their sage advice and counsel during the year.

Finally, on behalf of our Board, we express our deepest sympathy to the family and friends of our fellow Director R. Hayden Singh, who passed away in early 2011. Hayden served our company well and his contribution, commitment and practicality will be missed at our meetings.

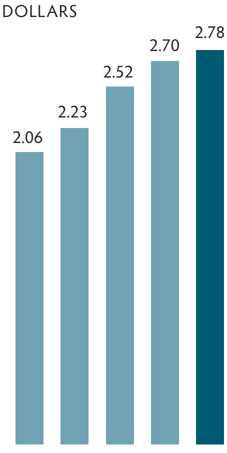


Richard O. Byles
Chairman

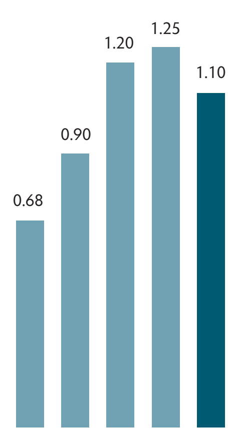
Donovan H. Perkins
President & CEO

PanCaribbean Results
Values as at 31 December 2010

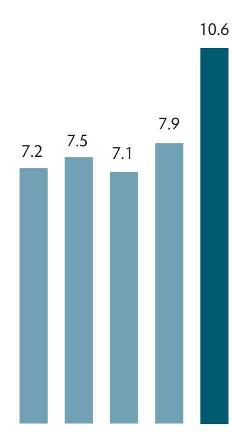
Earnings Per Share
$ DOLLARS



Dividends Per Share
$ DOLLARS



Shareholders' Equity
$ BILLIONS



Dear Shareholder

Your company remains a strong and attractive investment. Here are stock trading highlights and key information that underline our strength.

Market for PanCaribbean Stocks

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

Stock Trading in 2010

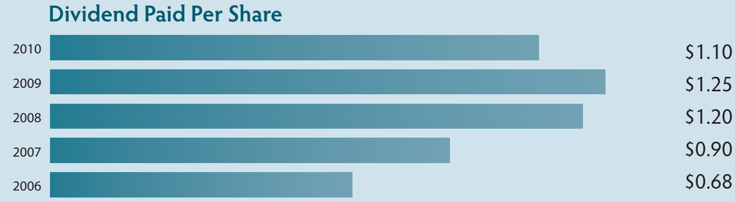
	Closing Stock	High	Low	Volume
Ordinary Stock	$16.77	$20.45	$14.00	5,831,755
Preference Stock	$200.50	$203.63	$195.00	727,268

Dividends paid in 2010 and for the last five years

ORDINARY SHARES

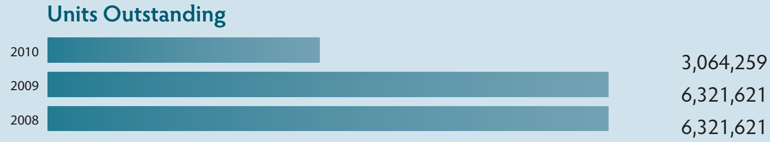
Units Outstanding

Dividend Paid Per Share



PREFERENCE SHARES

Units Outstanding



Dividend Paid Per Share

Ordinary & Preference Dividend paid in 2010

Dates	Ordinary Dividend Rates	Preference Dividend Rates
Mar 17, 2010		$6.16
Apr 8, 2010	$0.61	
Jun 17, 2010		$6.30
Sep 17, 2010		$6.30
Oct 12, 2010		$1.71
Oct 13, 2010	$0.49	
Dec 17, 2010		$4.52

Awards & Market Recognition – 2010

- Winner – JSE Best Practices Award for Investor Relations – Stockbrokerage 2009
- Winner – JSE Best Practices Award for Corporate Disclosure & Investor Relations 2009
- 1st Runner up – JSE Best Practices Award for Best Annual Report 2009
- #1 Stockbroker for 2010
- PMI Project Management Merit Award 2010

10 Year Statistical Review

	2010 $'000	2009 $'000	2008 $'000	Restated 2007 $'000
SELECTED BALANCE SHEET DATA				
BALANCES				
Total Assets	72,647,309	65,245,567	63,772,864	49,797,164
Net Loans & Leases	9,500,885	8,686,218	8,441,873	7,157,701
Performing Loans & Leases	9,256,466	8,541,999	8,235,511	7,028,666
Non-performing loans and leases	369,003	231,482	234,114	157,092
Investments Repos & Other Earning Assets	58,371,887	50,364,131	50,195,320	39,888,715
Deposits	9,016,902	8,782,495	7,457,170	5,489,757
Securities sold under Repurchase Agreement	49,616,514	43,972,613	42,040,112	34,656,325
Stockholders' Equity	10,624,426	7,907,817	7,084,189	7,530,930
RATIOS				
Capital to Assets	14.6%	12.1%	11.1%	15.1%
Investment Securities to Total Assets	80.3%	77.2%	78.7%	80.1%
Interest- Earning Assets to Interest - Bearing Liabilities	1.12	1.06	1.12	1.13
Net Loans & Leases to Total Assets	13.1%	13.3%	13.2%	14.4%
Net Loans to Customer Deposits	105.4%	98.9%	113.2%	130.4%
Property, Plant and Equipment and Intangible Assets to Total Assets	1.3%	1.4%	1.6%	1.9%
CREDIT QUALITY RATIOS				
Non-performing Loans and Leases to Net Loans and Leases	3.9%	2.7%	2.8%	2.2%
Non-performing Loans and leases to Total Assets	0.5%	0.4%	0.4%	0.3%
Non- performing Loans to Net Worth	3.5%	2.9%	3.3%	2.1%
Loan Loss Coverage	96.3%	149.1%	99.3%	134.8%

2006 $'000	2005 $'000	Restated 2004 $'000	2003 $'000	Restated 2002 $'000	Restated 2001 $'000
44,739,722	39,946,362	40,873,827	18,338,291	13,959,667	12,120,570
5,527,280	5,019,159	3,822,919	1,142,496	1,257,785	1,319,254
5,406,302	4,902,026	3,669,446	1,034,805	1,021,018	1,017,859
157,145	162,286	224,866	223,038	394,108	301,395
36,580,548	32,343,101	34,590,993	15,500,287	11,534,694	9,788,933
4,476,805	4,203,475	3,422,977	724,892	497,482	426,155
31,028,959	27,775,290	29,018,610	13,718,164	10,431,277	8,711,664
7,204,134	6,148,806	5,687,489	1,504,537	1,081,981	979,167
16.1%	15.4%	13.9%	8.2%	7.8%	8.1%
81.8%	81.0%	84.6%	84.5%	82.6%	80.8%
1.14	1.12	1.13	1.06	1.05	1.05
12.4%	12.6%	9.4%	6.2%	9.0%	10.9%
123.5%	119.4%	111.7%	157.6%	252.8%	309.6%
2.0%	2.2%	2.1%	0.3%	0.3%	0.2%
2.8%	3.2%	5.9%	19.5%	31.3%	22.8%
0.4%	0.4%	0.6%	1.2%	2.8%	2.5%
2.2%	2.6%	4.0%	14.8%	36.4%	30.8%
125.2%	145.0%	123.1%	113.0%	71.5%	75.6%

10 Year Statistical Review (Cont'd)

	2010 $'000	2009 $'000	2008 $'000	Restated 2007 $'000
SELECTED INCOME STATEMENT DATA				
REVENUES/EXPENSES				
Gross Operating Income	7,434,840	9,231,105	7,267,325	6,029,013
Net Interest Income	2,746,797	2,620,899	1,938,913	1,712,179
Total Other Income	867,848	874,376	1,128,753	849,167
Fee and Commission Income	406,039	335,866	347,490	323,778
Net Trading Income	423,640	514,800	676,254	519,613
Total Operating Income	3,614,645	3,495,275	3,067,666	2,561,346
Total Operating Expenses	1,639,457	1,536,009	1,232,837	886,610
Team Costs	912,537	758,104	720,957	468,841
Impairment Charges	101,819	169,484	1,518	11,572
Depreciation and Amortisation Expenses	96,945	110,164	94,980	69,474
Net Profit after tax and minority interest	1,524,041	1,477,844	1,380,932	1,212,994
RATIOS				
Return on Opening Equity (%)	19.3%	20.9%	18.3%	16.8%
Return on Average Equity (%)	16.4%	19.7%	18.9%	16.5%
Return on Assets at Year End (%)	2.1%	2.3%	2.2%	2.4%
Non - Interest Income to Total Operating Income	24.0%	25.0%	36.8%	33.2%
Effective Tax Rate	22.8%	24.6%	24.7%	27.6%
Efficiency Ratio	45.4%	43.9%	40.2%	34.6%
SHARE STATISTICS				
Earnings per Share ($)	2.78	2.70	2.52	2.23
Book Value per Share ($)	19.35	14.43	12.93	13.75
Closing Share Price at Year End ($) Last Sale	19.50	20.00	12.00	20.00
Price Earnings Ratio	7.01	7.42	4.76	8.96
Market Capitalisation ($'000)	10,705,325	10,958,480	6,575,088	10,953,320
Dividends Paid, Gross ($'000)	603,921	684,905	657,509	490,010
Dividends Paid per Share ($)	1.10	1.25	1.20	0.90
Dividends Yield (%)	5.7%	6.3%	10.0%	4.5%
Dividend Payout Ratio (%)	39.6%	46.3%	47.6%	40.4%
OTHER DATA				
Number of Offices	5	5	5	5
Number of Stockholders	1,654	1,627	1,621	1,640
Number of Team Members	285	282	264	227
Profit per Team Member ($'000)	5,348	5,241	5,231	5,344

	2006 $'000	2005 $'000	Restated 2004 $'000	2003 $'000	Restated 2002 $'000	Restated 2001 $'000
	5,448,793	5,185,343	5,721,057	3,034,553	1,863,443	1,828,673
	1,470,305	1,303,060	1,315,045	278,578	286,330	278,198
	805,328	753,434	446,593	233,617	129,931	108,626
	264,709	238,655	128,532	33,248	23,460	43,011
	508,300	470,869	245,161	196,679	103,933	21,400
	2,275,633	2,056,494	1,761,638	512,195	416,261	386,824
	779,511	691,212	618,048	174,582	147,744	300,378
	441,552	400,288	275,099	92,785	71,375	85,534
	(1,457)	(3,282)	(6,268)	(41,994)	7,439	100,936
	51,647	43,279	75,512	6,421	4,419	6,644
	1,112,670	1,031,936	841,692	342,170	284,488	104,752
	18.1%	18.1%	55.9%	31.6%	29.1%	19.6%
	16.7%	17.4%	23.4%	26.5%	27.6%	13.8%
	2.5%	2.6%	2.1%	1.9%	2.0%	0.9%
	35.4%	36.6%	25.4%	45.6%	31.2%	28.1%
	25.6%	24.4%	26.4%	-1.3%	-5.9%	-21.2%
	34.3%	33.6%	35.1%	34.1%	35.5%	77.7%
	2.06	1.92	1.84	1.34	1.11	0.46
	13.27	11.44	10.61	5.88	4.23	3.83
	23.00	24.30	34.10	6.60	5.70	4.55
	11.14	12.65	18.50	4.93	5.12	9.88
	12,486,148	13,066,304	18,277,293	1,687,363	1,457,268	1,163,258
	368,225	236,495	-	44,230	49,853	-
	0.68	0.44	-	0.17	0.19	-
	3.0%	1.8%	0.0%	2.6%	3.4%	0.0%
	33.1%	22.9%	0.0%	12.9%	17.5%	0.0%
	5	5	5	1	1	1
	1703	1776	1,570	1,213	1,163	1,217
	219	213	205	69	61	51
	5,081	4,845	4,106	4,959	4,664	2,054

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 Unit Trust Manager		Licensed Stock Broker
PanCaribbeanBank Limited		Licensed Commercial Bank	
		Authorised Foreign Exchange Dealer	

10 consecutive years of improved financial results

Group Performance

PanCaribbean delivered its 10th consecutive year of improved financial results in 2010. Profit after tax was $1.524 Billion, an increase of 3% over last year's $1.478 Billion. Earnings per share rose 3% to $2.78 and return on opening Shareholders' Equity was 19.3% compared to 20.9% in 2009. Our dividend payout ratio was 40% compared to 46% in 2009. Total dividends paid during the year amounted to $604 Million ($1.10 per share) compared to $685 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.

3% increase in Earnings per Share

Profit and Loss Account

	2010		2009	
	$'000	%	$'000	%
Operating Income				
Net interest income	2,746,797	76%	2,620,899	75%
Other income	867,848	24%	874,376	25%
	3,614,645	100%	3,495,275	100%
Operating Expenses				
Staff costs	912,537	25%	758,104	22%
Impairment charges	101,819	3%	169,484	5%
Depreciation & Amortisation	96,945	3%	110,164	3%
Other expenses	528,156	15%	498,257	14%
	1,639,457	46%	1,536,009	44%
Profit before Taxation	1,975,188	54%	1,959,266	56%
Taxation	(451,147)	-12%	(481,422)	-14%
Net Profit	1,524,041	42%	1,477,844	42%

Management Discussion & Analysis (Cont'd)

5%
increase in Net Interest Income

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 5% to $2.75 Billion from $2.62 Billion.

Growth was supported by a 13% increase in earning assets to $68 Billion at year-end versus $60.4 Billion in 2009. Loan and Lease assets expanded by $815 Million to $9.5 Billion while our securities portfolio rose by $7.1 Billion to $58.5 Billion at year-end. Net interest margin declined to 4.30% compared to 4.51% in 2009, reflecting lower yields, primarily on our investment securities portfolio, influenced by the Jamaica Debt Exchange in February 2010. Interest rates for both assets and liabilities have trended lower for each successive quarter during the financial year.

The average investment yield (interest income divided by average balances) for investments was 10.21% in 2010 for both assets and liabilities versus 14.60% in 2009. The average yield on loans was 10.65% in 2010 versus 13.02% in 2009. 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 6.4% in 2010 versus 10.65% in 2009. The average rate on borrowed funds and preference shares was 11.11% in 2010 versus 10.34% in 2009.

Analysis of Interest Income and Expense

	2010			2009		
	Average Balance $'000	Interest $'000	Yield %	Average Balance $'000	Interest $'000	Yield %
Interest-earning assets:						
Investment	54,825,522	5,598,140	10.21%	49,594,329	7,241,465	14.60%
Loans and leases	9,093,552	968,852	10.65%	8,564,046	1,115,264	13.02%
Total interest-earning assets	63,919,073	6,566,992		58,158,374	8,356,729	
Interest-bearing liabilities:						
Customer deposits and repos	55,694,261	3,566,740	6.40%	51,126,194	5,447,383	10.65%
Borrowed funds and preference shares	2,281,025	253,455	11.11%	2,790,552	288,447	10.34%
Total interest-bearing liabilities	57,975,286	3,820,195		53,916,746	5,735,830	
Excess of average interest-earning assets over average interest bearing liabilities	5,943,788			4,241,628		
Net interest income		2,746,797			2,620,899	
Net interest margin			4.30%			4.51%
Ratio of interest-earning assets over interest bearing liabilities	1.10 : 1			1.08 : 1		

All yield and rate information in the table are estimated on an annualised 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.

Management Discussion & Analysis (Cont'd)

BOJ initiated six rate cuts in 2010, and periodically intervened in the foreign exchange market

BOJ initiated six rate cuts in 2010, and periodically intervened in the foreign exchange market to maintain stable currency rates and market confidence. These rate cuts influenced the faster re-pricing of liabilities and helped to improve interest margins in the second half of 2010.

We also noted an improvement in an important ratio reflecting better management of our balance sheet assets, as the ratio of interest-earning assets to interest-bearing liabilities improved to 1.10:1 at year-end versus 1.08:1 in 2009.

Non-Interest Income

Non-interest income of $868 Million was essentially flat, compared to $874 Million in 2009. These revenues are comprised primarily of securities trading gains, asset management fees, credit fees, FX trading and translation gains and other fee-earning activities. The following table details our performance in a number of areas important to our profitability and in delivering value-added services to customers.

Non- Interest Income

	2010 $'000	2009 $'000	Change
Securities trading gains	415,574	231,096	80%
Asset management fees	218,801	186,135	18%
Credit fees	74,726	56,905	31%
Brokerage, dividend and equities income	63,023	6,436	879%
Other income	56,491	41,989	35%
Trust fees	51,405	52,245	-2%
Structured products	11,368	4,997	127%
FX trading and translation gains	(23,540)	294,573	-108%
	867,848	874,376	-1%

We have pursued specific strategies to diversify our lines of business and revenue sources

Since the beginning of this decade, we have pursued specific strategies to diversify our lines of business and revenue sources. All non-interest lines registered growth in 2010, with the exception of foreign exchange trading and translation gains which reflected a $24 Million loss, compared to a gain of $295 Million in 2009. Our comments will focus on key areas.

Securities Trading Gains PanCaribbean is one of 11 BOJ Primary Dealers and continued to be actively involved in both primary and secondary market trading, ensuring that our clients have access to liquidity and securities of their choice. As interest rates fell, asset prices improved which created a favourable trading environment.

Management Discussion & Analysis (Cont'd)

$135B
in Funds Under Management

#1
Stockbroker for 2010

7%
market share in foreign currency trading, up from 3%

Asset Management Fees PanCaribbean derives fees primarily from its Unit Trust operations, administrative services provided to Sagicor Life Jamaica and contracts with a number of institutional investors. Funds under Management increased resulting in revenue growth.

Stockbroking We executed over 26% of the JSE market's trading value in 2010, and have consistently maintained a #1 or #2 position since receiving our licence in 2006. We also have a growing business in U.S. equities, which has resulted in new income opportunities.

Corporate Trust We manage share registers and provide corporate secretarial services for companies listed on the Stock Exchange. We also act as Trustee/ Paying Agency for bond issues and similar type transactions.

Foreign Exchange Trading PanCaribbeanBank ranked 4th in trading with a 7% market share in 2010. Disaggregating the results indicates that while FX trading commissions were $141 Million, Group translation losses were $164 Million as a result of net foreign currency assets held, which resulted in the overall loss reported of $23.5 Million. Translation gains in 2009 were $192 Million.

Operating Expense

Operating expenses increased by 7%, which included $102 Million in loss provisions and impairment charges. Excluding these provisions, other operating expenses rose 13%. Team Member costs grew by 20%, influenced by $64 Million in pension-related charges in 2010.

Our Operating Efficiency Ratio (Operating Expense/Operating Income) was 45.4% versus 43.9% in 2009. This ratio was negatively impacted by the translation losses (which reduced income) and pension-related charges (which increased expenses).

Operating Expense

	2010 $'000		2009 $'000	
Staff costs	912,537	56%	758,104	49%
Impairment charges	101,819	6%	169,484	11%
Occupancy costs	115,143	7%	103,637	7%
Other expenses	509,958	31%	504,784	33%
Total	1,639,457	100%	1,536,009	100%
Efficiency ratio	45.4%		43.9%	

Management Discussion & Analysis (Cont'd)

Taxation

The effective tax rate decreased to 22.8% from the 24.6% reflected in 2009. Tax on profits differs from the theoretical amount that would normally arise using the statutory rate of 33 1/3% as follows:

Taxation

	2010 $'000	2009 $'000
Profit before taxation	1,975,188	1,959,266
Tax calculated at 33 1/3%	658,396	653,089
Adjusted for the effect of:		
Income not subject to tax	(212,194)	(172,123)
Prior year adjustment	1,031	(1,066)
Net effect of other charges and allowances	3,914	1,522
Tax Expense	451,147	481,422
Effective tax rate	22.8%	24.6%

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

Summary of Quarterly Results

PanCaribbean realised improved earnings for three of four quarters in 2010. We highlight below these results by quarter for 2010 and the prior year, along with key market conditions that influenced the interim results during 2010.

Summary of Quarterly Results

	2010				2009			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net interest income ($M)	692	566	749	740	562	657	713	689
Non-interest income ($M)	187	81	225	375	259	202	210	203
Total operating income ($M)	880	647	974	1,114	821	859	923	892
Operating expenses ($M)	356	377	371	535	354	348	415	419
Net income ($M)	397	231	454	442	349	373	388	368
Earnings per share ($)	0.72	0.42	0.83	0.81	0.64	0.68	0.71	0.67
Return on opening equity (%)	20.1%	11.7%	22.9%	22.4%	19.7%	21.1%	22.0%	20.7%
Dividends paid ($M)	335	-	269	-	356	-	329	-
Total assets ($M)	70,493	69,759	72,163	72,647	64,643	65,562	67,182	65,245
Stockholder's equity ($M)	8,949	9,403	9,774	10,624	7,019	7,688	8,249	7,908
Closing share price ($)	19.00	18.00	16.06	19.50	12.20	15.49	13.19	20.00

Management Discussion & Analysis (Cont'd)

Q1 benefited from attractive yields on our securities portfolio prior to the successful completion JDX at the end of February.

Q2 was negatively impacted by a combination of the first full quarter under JDX with interest margins contracting and a 4% revaluation of the J$ which created translation losses.

Q3 saw improvements in net interest margins as the BOJ cut its repurchase rates, pushing down the cost of liabilities for financial institutions.

Q4 Falling liability rates continued to support interest margins and created favourable trading opportunities as bond prices continued to improve.

11% growth in Consolidated Balance Sheet

Balance Sheet & Asset Quality

The consolidated balance sheet grew by 11% to $72.6 Billion in total assets compared to $65.2 Billion at December 2009. Our investment portfolio increased 13% during this period to $58.5 Billion while loans and leases increased 9% to $9.5 Billion. During the year, a provision of $41 Million was made for impairment of equity securities in our investment portfolio.

Credit Quality

Steady credit growth remains a priority while maintaining our underwriting standards. Credit quality remains acceptable but reflected some deterioration. At year-end, Non-performing credit assets were $369 Million or 3.9% of the portfolio, versus $231 Million or 2.6% in 2009. This however, compares favourably with the current industry average of 6.5%. Non-performing credit assets as a percentage of total assets were 0.5% versus 0.4% in 2009 (Industry: 2.8%). Credit provisions were 96% of non-performing credit assets at year-end (Industry: 70%). (Industry source: BOJ Prudential Indicators, December 2010)

Liquidity

We maintained liquid assets to ensure our ability to meet all payment obligations associated with financial liabilities, fulfill commitments to lend, meet operational needs and to respond to unexpected situations. At year-end, our liquidity stood at $5.3 Billion, compared to $7.9 Billion at December 2009 when markets were very uncertain and the economic environment required a conservative stance. With the positive trends that developed during 2010, we re-allocated resources from short-term assets to better-yielding investments at the longer end of the market.

Management Discussion & Analysis (Cont'd)

Investments and Securities Portfolio

The following table details 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.
- 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 also 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

	2010		2009	
	$'000	%	$'000	%
Category				
Placements	124,290	0%	1,236,887	2%
Trading investments	47,889	0%	-	0%
Reverse repurchase agreements	1,363,506	2%	4,499,614	9%
Available -for-sale investments	46,865,768	80%	25,742,036	50%
Held-to-maturity investments	1,686,712	3%	1,745,691	3%
Derivative financial instruments	290,777	1%	155,374	1%
Pledged assets	8,117,235	14%	18,221,416	35%
	58,496,177	100%	51,601,018	100%
Currency				
Jamaican Dollar	34,116,944	58%	27,709,577	54%
United States Dollar	23,424,756	40%	23,286,404	45%
Euro	550,255	1%	605,037	1%
British Pound	404,222	1%	-	
Total Portfolio	58,496,177	100%	51,601,018	100%

J$9.50B
total net loan portfolio, or 13% of total assets at year end

Credit Portfolio

At year-end, our total net loan portfolio, including finance leases, amounted to J$9.50 Billion (2009 - $8.69 Billion), or 13% of our total assets (2009 - 13%). The average interest rate received (interest income divided by average balances) for loans and leases were 10.65% (2009 - 13.02%). At December 31, 2010, 79% of our portfolio was US$-denominated.

Management Discussion & Analysis (Cont'd)

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 $141 Million (2009 - $168 Million).

Credit quality remains acceptable relative to industry statistics mentioned previously. Non-performing loans were $369 million versus $231 million in 2009 with most loans secured by underlying tangible collateral and guarantees. Our policy is to lend principally on an adequately secured basis.

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

Loans & Leases Portfolio

	2010 $'000		2009 $'000	
Industry				
Professional and other services	2,638,187	28%	1,898,496	22%
Distribution	2,023,103	21%	1,809,723	21%
Tourism, Entertainment	1,619,874	17%	1,726,717	20%
Agriculture, Fishing, Mining	1,260,559	13%	1,223,387	14%
Construction, Real Estate	1,237,703	13%	708,176	7%
Personal	567,757	6%	614,504	7%
Transport, Storage, Communication	140,770	1%	133,451	1%
Manufacturing	137,516	1%	659,027	8%
Total	9,625,469	100%	8,773,481	100%
Provision	(213,807)		(177,437)	
Net	9,411,662		8,596,044	
Interest Receivable	89,223		90,174	
Total Portfolio	9,500,885		8,686,218	
Currency				
Jamaican Dollar	2,035,086	21%	1,948,120	22%
United States Dollar	7,465,799	79%	6,738,098	78%
Total Portfolio	9,500,885	100%	8,686,218	100%

Management Discussion & Analysis (Cont'd)

Summary of Loan Loss Experience

The following Table summarizes our loan loss experience for the past two years.

Summary of Loan Loss Experience

	2010 $'000	2009 $'000
Total provision at beginning of year	345,086	232,473
Retained earnings transfer	(19,987)	40,891
Currency revaluations and other adjustments	(10,240)	18,193
Provision utilized	(698)	(36,303)
Provided during the year	121,083	89,832
Recoveries	(80,004)	-
Net charge/(credit) to the profit and loss account	41,079	89,832
Total provision at end of year	355,240	345,086
Non-performing Loans & Leases	369,003	231,482

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 $49.62 Billion (2009 - $43.97 Billion), representing 80% of total liabilities (2009 - 77%)
- Customer deposits and other accounts were $9.02 Billion (2008 - $8.78 Billion), representing 15% of the Group's total liabilities (2009 - 15%)
- Total borrowings were $1.17 Billion (2009 - $1.50 Billion), representing 2% of the Group's total liabilities (2009 - 3%)
- Preference shares of $616 Million represented 1% of the Group's total liabilities. During the year, the company redeemed 52% of its preference shares in issue.

Management Discussion & Analysis (Cont'd)

Stockholders' Equity

J$10.6B
in Stockholders' Equity, reflecting a well-capitalised financial services group

Stockholders' Equity rose 34% to close the year at $10.6 Billion, reflecting a well-capitalised 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, unrealised portfolio gains (or losses) are reflected in this Fair Value Reserve. Our Fair Value Reserve at year-end reflected unrealised mark to market gains of $682 Million, a significant improvement over 2009's unrealised loss of $1.01 Billion. Asset values have recovered with the restoration of market confidence.

Capital Adequacy

47%
in Capital Adequacy Ratio exceeding regulatory minimums of 10% for the FSC and BOJ

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' Capital Adequacy Ratio is 47% and our commercial bank, PanCaribbeanBank's Capital Adequacy Ratio is 32% reflecting ratios well in excess of regulatory minimum requirements of 10% for the FSC and the BOJ.

Regulatory Capital

	2010			2009		
	Actual		Minimum	Actual		Minimum
	Ratio %	Amount $'000	Required $'000	Ratio %	Amount $'000	Required $'000
Pan Caribbean Financial Services Limited	47%	8,027,893	3,478,042	61%	7,142,550	2,831,707
PanCaribbeanBank Limited	32%	2,588,424	810,476	33%	2,602,455	798,805

Report of the Directors

The Directors are pleased to submit their report for the twelve months ended December 31, 2010 together with audited accounts for the year ended on that date.

	$'000
Group Profit before Tax	1,975,188
Tax	(451,147)
Profit after Tax	1,524,041
Adjustment between regulatory loan provisioning and IFRS	19,987
Transfer to banking reserves	(676,500)
Current year dividends paid	(603,921)
Unappropriated profits b/f	3,899,224
Unappropriated profits c/f	4,162,831

DIVIDENDS

$1.10
ordinary dividend paid in 2010

During the year the Directors approved and paid interim ordinary dividends totaling $1.10 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. Richard L. Downer and Peter K. Melhado and Dr. M. Patricia Downes-Grant, whom being eligible, offer themselves for re-election.

On 18 February 2011, Mr. R. Hayden Singh, a Director of the Board since 2004, passed away. He chaired the Human Resource & Compensation Committee and also served as a member of the Audit & Compliance Committee. His presence and contribution to the Board will be greatly missed.

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
March 31, 2011

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 26th Annual General Meeting of **PAN CARIBBEAN FINANCIAL SERVICES LIMITED** will be held in the Auditorium of Sagicor Life Jamaica Limited, 28-48 Barbados Avenue, Kingston 5 on Tuesday May 24, 2011 at 10:00 a.m. for the following purposes:

Resolution 1

1. **To receive the Audited Accounts for the year ended December 31, 2010 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, 2010 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 totaling $1.10 paid during the year, as final dividend for the year ended December 31, 2010.

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

   "THAT the interim dividend of $0.61 per stock unit paid to stockholders on April 8, 2010 together with $0.49 per stock unit paid to stockholders on October 13, 2010 be declared as the final dividend for the year ended December 31, 2010."

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. Richard L. Downer and Peter K. Melhado and Dr. M. Patricia Downes-Grant who, all being eligible, offer themselves for re-election.

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

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

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

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

Notice of Annual General Meeting (Cont'd)

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 $12,031,000 shown in the accounts of the company for the year ended December 31, 2010 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."

Resolution 6

6. To increase the Authorised Share Capital of the Company.

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

"THAT the authorised share capital of the Company be increased from 615,613,376 to 675,613,376 by the creation of 60,000,000 ordinary shares."

By Order of the Board

Gene M. Douglas
Company Secretary

Registered Office
The PanCaribbean Building
60 Knutsford Boulevard
Kingston 5, Jamaica
March 31, 2011

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.

Real Commitment

Integrity • Team • Service

Our Board of Directors

Richard O. Byles BSc, MSc
Chairman

Mr. Byles is the President & CEO of Sagicor Life Jamaica Limited. He holds a Bachelor's degree in Economics from the University of the West Indies and an MSc. in National Development from the University of Bradford, England. His experience and expertise spans across the financial industry to include Life, Health & General Insurance, Asset & Investment Management, Banking, Pension Administration, Property Development and Re-insurance Management.

Richard is the Board Chairman of Sagicor Life of the Cayman Islands Limited and Desnoes & Geddes Limited, brewers of Red Stripe. He is also a director of Pan-Jamaican Investment Trust Limited and PanCaribbeanBank Limited.

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, and the National Insurance Fund. He previously served as Vice President of both the Jamaica Bankers Association and the Private Sector Organisation of Jamaica and as a director of the Jamaica Social Investment Fund and the National Water Commission.

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

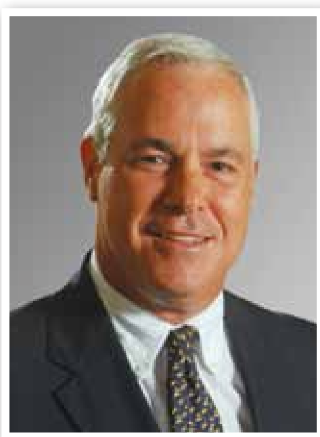
Mr. Cobham sits on the Boards of Sagicor Life Jamaica Limited, Sagicor Property Services Limited, Sagicor Life of the Cayman Islands Limited and several other companies. He chairs the Audit Committee of Sagicor Life Jamaica Limited, Salada Foods Jamaica Limited and Pulse Investments Limited. He is also a member of the Audit & Compliance Committee of Pan Caribbean Financial Services Limited.

A graduate of the University of the West Indies, Jeff is the Chancellor's representative to the UWI's Mona Campus Council and sits on its Finance & General Purposes and Audit Committees. He is the Chairman of the Consie Walters Cancer Care Hospice and the National Dance Theatre Company of Jamaica.

Our Board of Directors (Cont'd)

Dr. M. Patricia Downes-Grant BA, MA, MBA, DBA

Dr. Downes-Grant was appointed President & Chief Executive Officer of Sagicor Life Inc. on January 1, 2006 having served as Group Chief Operating Officer since July 1, 2002. She held several senior positions in Finance and Investments before being appointed Chief Executive Officer. She holds an MBA in Finance, an MA in Economics, and a Doctorate in Business Administration (Finance). Dr. Downes-Grant is a former Chairman of the Barbados Stock Exchange and Barbados Central Securities Depository and a director of several companies within the Sagicor Group and the private sector of Barbados.



Christopher deCaires FCA, MBA

Mr. deCaires 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 L. Downer CD, FCA

Mr. Downer is a director of Sagicor Life Jamaica Limited and chairs Sagicor's Investment and Risk Committee. He is also the Chairman of the Audit & Compliance Committee at Pan Caribbean Financial Services Limited and a director of PanCaribbeanBank. Richard is a member of the Rating Committee of CariCRIS Limited and a director of ICD Limited. In the public sector he serves on the boards and audit committees of the National Education Trust, the Overseas Examination Commission and the Tourism Enhancement Fund.

He has also served as Executive Director of the Bureau of Management Support in the Office of the Prime Minister of Jamaica and has advised the governments of sixteen other countries on privatisation. Richard is a former partner of PricewaterhouseCoopers in Jamaica and has served as a director on the board of the Bank of Jamaica and as Chairman of the Coffee Industry Board.

Our Board of Directors (Cont'd)

Patrick Lynch

Mr. Lynch is the former director of Finance and Planning at Sandals Resorts Group, where he played a central role in their strategic planning and direction. He retired in December 2010.

A career banker, Mr. Lynch has had numerous senior postings throughout the Caribbean, Guyana, the United States and the United Kingdom, and has developed considerable experience in financial management, pension fund management, real estate and hotel finance, including hotel acquisition and development.

He serves as a director of PanCaribbeanBank Limited and is the Honorary Consul of Ghana in Jamaica.

Peter K. Melhado BSc, MBA

Mr. Melhado is President & CEO of ICD Group Limited. He joined the Manufacturers Group in 1993 and became its CEO in 1995 until its merger with PanCaribbean in 2004. In that time, he was responsible for the growth and development of Manufacturers, leading the merger with Sigma to create Manufacturers Sigma Merchant Bank, then one of the leading financial and asset management companies locally.

He currently serves as Chairman of PanCaribbeanBank Limited, West Indies Home Contractors, Mavis Bank Coffee Factory and his current directorships include British Caribbean Insurance Company, CGM Gallagher and Red Stripe. Peter is a former Vice President of the Private Sector Organisation of Jamaica. He holds a BSc. in Mechanical Engineering from McGill University and is a graduate of Columbia Business School, having completed an MBA with a concentration in Finance.

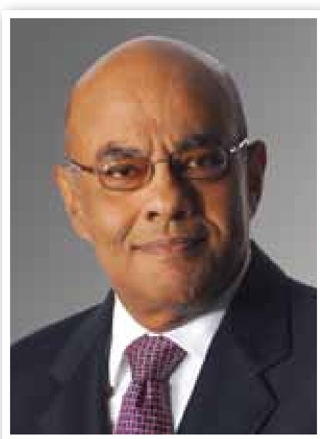
Dodridge D. Miller FCCA, MBA, LLM, LLD (Hons.)

Dr. Miller joined the Sagicor Group in 1989 and was appointed Group President and Chief Executive Officer of Sagicor Financial Corporation in July 2002. He 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 was conferred with an Honorary Doctor of Laws degree by the University of the West Indies in 2008. Dodridge has more than 25 years experience in the financial services industry. He is Chairman of the Board of Sagicor at Lloyd's and is a director of Sagicor Life Inc, Sagicor USA, PanCaribbeanBank Limited as well as a number of other subsidiaries within the Sagicor Group.

Our Board of Directors (Cont'd)

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

Mrs. Lewis is HR Director, NorthLAC at DIAGEO/Red Stripe. She is an experienced business executive 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 Resource (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 and a Vice President of the Private Sector Organisation of Jamaica.



R. Hayden Singh (Deceased)

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

Hayden was a past Chairman of the Jamaica British Business Council and he served as a director of PanCaribbeanBank Limited and Hi-Lo Food Stores (Ja) Limited. He was also a former Vice-President of the Private Sector Organisation of Jamaica. Mr. Singh passed away in February 2010 after decades of exemplary service to the Jamaican business community.

Colin Steele

Mr. Steele is an entrepreneur involved in the Telecommunications retail business operating in five Caribbean and Central American countries and is also a housing developer.

He began his career as a Certified Public Accountant and has served as a director of several Government companies including the Port Authority of Jamaica and the University Hospital of the West Indies. He has also served as Chairman of the Economic Policy Committee of the Private Sector Organisation of Jamaica and is currently a director of the Planning Institute of Jamaica.

Colin is a graduate of the University of Miami with a BBA in Accounting and an MBA. He is a Certified Public Accountant (inactive) in the State of Florida.

Corporate Governance

Setting High Standards for Corporate Governance

"Good corporate governance creates value for shareholders. At PanCaribbean, our governance framework is established to encourage efficient use of the company's resources while ensuring accountability of the persons who manage those resources.
Its mission is to deliver the appropriate alignment of interests for all stakeholders."

Richard O. Byles - Chairman

In this section of our Report, we outline how our corporate governance architecture works in practice to ensure compliance within regulatory framework, establish authority, guide relationships with our stakeholders and monitor our risk appetite. We also summarise major deliberations and decisions made by our Board Committees during 2010.

Commitment to Corporate Governance Best Practices

Our corporate governance practices are designed to align the interests of the Board and Management with those of our stockholders.

PanCaribbean's business and affairs are managed by or under the direction of the Board. In its oversight of the institution's activities, the Board sets the tone for the highest ethical standard of performance for our Management and Team Members. Our corporate governance practices are designed to align the interests of the Board and Management with those of our stockholders and to promote prudent management and integrity throughout our Company.

Over the past several years, we have enhanced our corporate governance framework as we continually seek ways to promote best practices. The Board is guided by the Sagicor Corporate Governance Manual adopted in 2009, which upgraded our previous Board Charter.

Corporate Governance (Cont'd)

Disclosure

The Board is committed to disclosure and transparency. Disclosure of significant matters and developments concerning the organisation will be accurate, timely and balanced, to ensure that all investors and regulators have access to clear, factual information concerning PanCaribbean.

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 PanCaribbean 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 strategy execution.

In addition to fulfilling its obligation for increased stockholder value, the Board has a responsibility to deliver a holistic performance, embracing our corporate responsibility towards PanCaribbean's customers, Team Members, suppliers and to communities where we operate – all of whom are essential to a successful business. 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:

BUSINESS & STRATEGY	LEADERSHIP & COMPENSATION
• Strategy direction and focus • Capital and operating budgets • Financing, treasury and risk management decisions • Business development including acquisitions and divestments	• Appointment or removal of Directors • Remuneration of Directors and Senior Management • Succession planning

LEGAL & ETHICS
• Corporate governance • Compliance with laws, regulations and policies • Corporate citizenship and ethics

Corporate Governance (Cont'd)

2) Specific responsibilities for Chairman, Company Secretary and Directors

The Chairman is principally responsible for the effective operation 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.

2010 - BOARD ATTENDANCE

	Board	Audit & Compliance	Risk Management	Human Resource & Compensation	Corporate Governance, Ethics & Nomination	Annual General Meeting
Richard O. Byles	13	-	-	2	-	1
Donovan H. Perkins	13	-	7	-	-	1
Jeffrey Cobham	11	1	-	-	-	1
Christopher DeCaires	10	-	-	-	-	0
M. Patricia Downes-Grant	10	-	-	-	-	0
Richard Downer	13	8	-	-	-	1
Patrick Lynch	9	5	-	-	-	1
Peter Melhado	13	-	8	-	3	1
Dodridge Miller	8	-	-	-	-	1
Lisa A. Soares Lewis	10	-	-	1	3	1
R. Hayden Singh	12	6	-	2	-	1
Colin Steele	13	8	8	-	3	1
Total number of meetings	**13**	**8**	**8**	**2**	**3**	**1**

Corporate Governance (Cont'd)

1) Size of the Board

The Board will have a minimum of 10 and a maximum of 12 Directors. Considering the size of the organisation 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 timely 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 Human Resource & Compensation Committee of the Board and effected annually.

Corporate Governance (Cont'd)

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 resources 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 organisation that has a material interest in the company 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, 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.

Corporate Governance (Cont'd)

Board Committees

The Corporate Governance Manual has identified the four relevant Committees for the companies in the Group, each with clearly defined terms of reference, procedures, responsibilities, powers and structure. All Committees require a number of Non-Executive Independent Directors.

1) Audit & Compliance Committee

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 Committee. The Board Chairman shall not be a member of the Committee. The Committee shall consist of not less than three members.

The 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 shall:

- **Ensure the integrity of the Group's Financial Statements.**
- **Ensure the Group's compliance with legal and regulatory requirements.**
- **Monitor and review the independent Auditors' qualifications and their independence.**
- **Monitor and review the performance of the Group's Internal Audit function and Independent Auditor.**
- **Monitor Operational Risks.**

The Committee members are Richard Downer (Chairman), Patrick Lynch, Jeffrey Cobham, R. Hayden Singh (dec'd) and Colin Steele, all non-executive Board members. Three of the five members - are independent Directors. In addition, Donovan H. Perkins, Michael Stuart (Internal Auditor), Vince Yearwood (Chief Internal Auditor - Sagicor) and Peter Knibb, attend by invitation. During 2010, the Committee held eight meetings.

Corporate Governance (Cont'd)

Principal activities undertaken by the Audit & Compliance Committee during 2010:

Review and approval (as applicable) of:

- External Auditor's terms of reference for the financial year
- Internal Audit Plan & Budget for the financial year
- Internal Audit reports with recommendations for corrective action and their timely implementation
- 2009 audited financial statements for the company and its subsidiaries
- Quarterly releases of financial statements with related commentary and analysis to shareholders via the Jamaica Stock Exchange during 2010
- Entity Level Risk Taxology for the Top 20 Group risks and the internal audit assignments covering those risks
- External Consultant's report on our Information Technology's control environment
- Regulatory compliance reports
- Audit of the Sigma Corporate Run donations
- Emergency/Disaster preparedness

Review and approval (as applicable) of revised policies related to:

- Anti-Money Laundering Policy
- Know Your Customer Policy
- Customer Due Diligence Policy

Meetings with the External Auditors to discuss:

- Internal Control Memorandum covering Information Technology & Accounting Reviews
- Early adoption of IFRS 9
- Changes in the accounting policy for employee benefits

2) Risk Management Committee

This Committee is comprised of three Directors and by invitation, six key management executives. The Committee shall meet at a minimum eight times per year or more frequently as necessary.

The Committee has the responsibility to monitor macroeconomic conditions in:

- **Directing and overseeing credit and market-related risk management activities of the Group.**
- **Reviewing actions taken to maintain a consistently sound risk profile.**

Corporate Governance (Cont'd)

The Committee members are Peter Melhado (Chairman), 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. Two of the three members are non-executive Directors. During the year, eight meetings were convened.

Principal activities undertaken by the Risk Management Committee during 2010:

Discussion and approval (as necessary) of:

- Financial markets, the economic environment and its outlook
- Investment strategy and opportunities
- Credit proposals
- Jamaica Debt Exchange impact and strategy
- FSC'S proposed regulatory changes for the securities industry
- Investment policy changes

Review of:

- Asset and Liability Management Reports
- Risk Management Reports
- Credit Reports
- Sigma Unit Trust Funds

Ratification of:

- Intermeeting credit approvals
- Changes to approval authority limits.

3) Human Resource & Compensation 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 policies, programs and plans for the Group.**
- **Human resource policies and practices to attain the Company's strategic goals.**
- **Management succession plans for the Group's Executive Management.**
- **The Group's Pension Plans.**

Corporate Governance (Cont'd)

The Committee members are Hayden Singh (Chairman - dec'd), Richard O. Byles and Lisa A. Soares Lewis, all non-executive Board members. In addition, Donovan H. Perkins and Michelle Distant (Senior Manager - Human Resource Development) attend by invitation. The Committee is scheduled to meet at least twice each year. In 2010, meetings were held on two occasions.

Principal activities undertaken by the Human Resource & Compensation Committee during the year:

Review and Approval (as applicable) of:

- Changes to compensation and benefits including the non-executive Share Purchase Scheme
- Executive Share Options and Grants for 2008 and 2009
- Executive Management incentives related to 2009 performance

4) Corporate Governance, Ethics & Nomination Committee

This Committee comprises of three Non-Executive Directors. 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:

- **Establish and maintain best practice standards of corporate governance.**
- **Manage the process for director succession.**
- **Oversee the processes relating to communications, public policy and corporate image.**
- **Review and adjudicate conflicts of interest circumstances.**
- **Review and approve related party transactions.**

The Committee is scheduled to meet twice per year and at such other times as any member of the Committee, the Chairman or CEO may request.

The Committee members are Lisa Soares-Lewis (Chairman), Peter Melhado and Colin Steele, all non-executive Board members, and by invitation Richard O. Byles and Donovan H. Perkins. The Committee met three times during 2010.

Corporate Governance (Cont'd)

Principal activities undertaken by the Corporate Governance, Ethics & Nomination Committee during 2010:

Review and approval (as applicable) of:

- Inter-company charges
- Revised Sagicor Governance Charter
- Directors' fees for parent, subsidiary and sub-committee activities
- Compliance with our Code of Business Conduct and Ethics policy
- Mechanism for monitoring processes that ensures good corporate governance

5) Ad Hoc Committees

The Board may establish any Ad Hoc Committee, as it deems necessary. The Board will set out the guidelines 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 provides opportunities for independent Directors to meet independently and may invite the CEO 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. Board members have the right to suggest the inclusion of items 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 CEO to, where it helps the Board in executing their responsibilities, to bring Company Executives to present at Board meetings who: (a) can provide additional insight into the business or items being discussed because of responsibility for, or personal knowledge related to these areas, and/or (b) are Executives with future potential that should be given exposure to Directors.

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

Corporate Governance (Cont'd)

during the year. The self-evaluation survey is conducted confidentially with the Corporate Secretary receiving and summarising 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 Human Resource & Compensation Committee

BOARD EXPERTISE

DIRECTOR	Category: Executive (E) Independent (I) Non-independent (NI)	Corporate Governance	Human Resource & Compensation	Lending	Audit & Accounting	Capital Markets	Investment Banking
Richard O. Byles	NI			•		•	•
Jeffrey Cobham	NI	•	•	•		•	
Christopher deCaires	NI	•	•		•		
M. Patricia Downes-Grant	NI	•	•	•		•	•
Richard Downer	NI	•	•	•	•	•	•
Patrick Lynch	I	•	•	•	•		
Peter Melhado	I			•		•	•
Dodridge Miller	NI	•					
Donovan H. Perkins	E			•		•	•
R. Hayden Singh	I	•	•				
Lisa A. Soares Lewis	I	•	•				
Colin T. Steele	I	•		•		•	•

EXECUTIVE TEAM EXPERTISE

	Strategic Management	Financial & Audit	Lending / Commercial Banking	Sales & Marketing	Capital Markets	Accounting / Tax	Portfolio Management	Technology
D. H. Perkins	•		•	•	•			
P. Armstrong	•		•		•		•	
P. Knibb		•				•		
K. Vaz	•							•
T. Miller	•			•				
M. McPherson	•	•	•			•		
T. Nunes				•			•	
G. M. Douglas		•				•		
D. Scarlett			•		•		•	
S. Cooper			•	•			•	
T. Allgrove		•	•					
H. Wint					•	•	•	
C. Yearde-Williams		•				•		
M. Stuart		•				•		

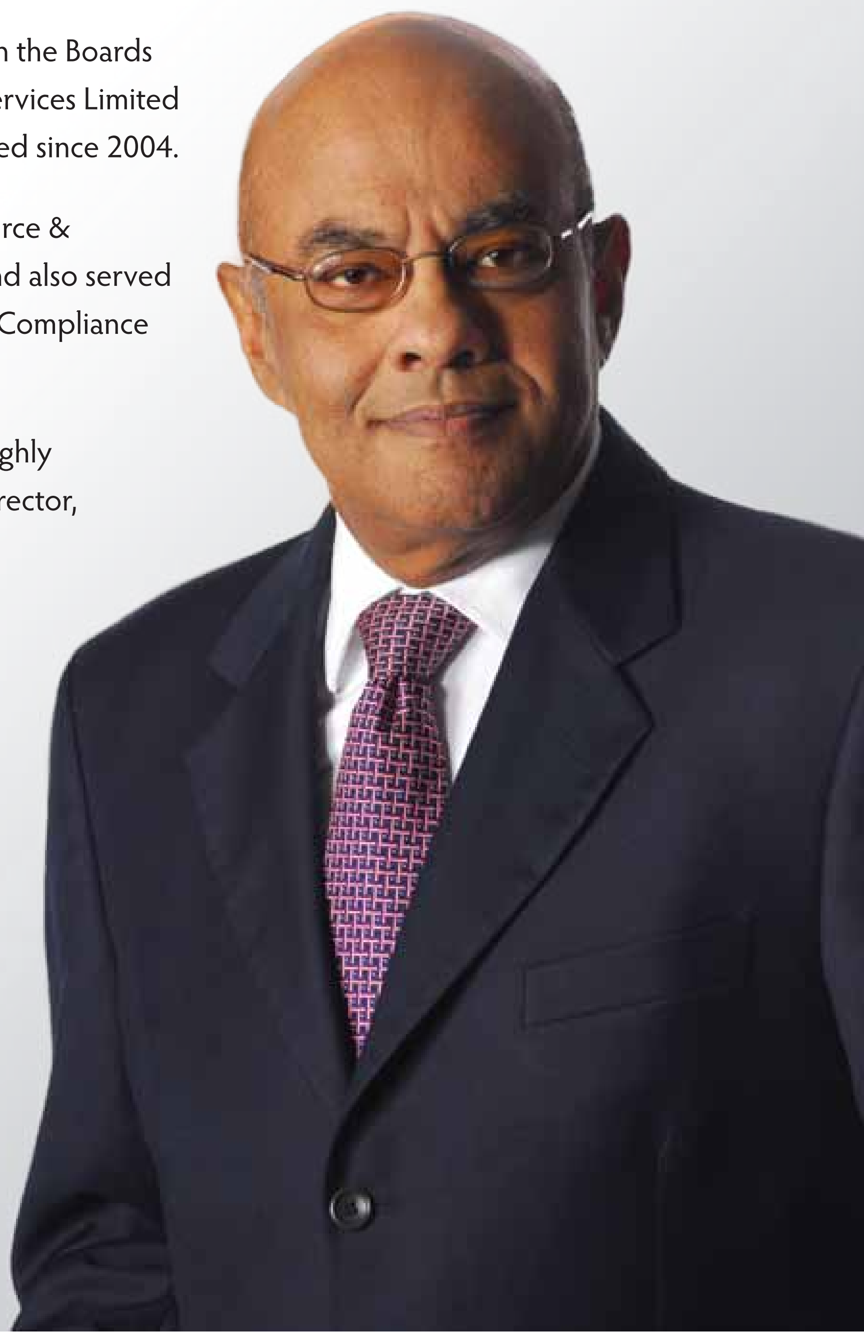
The Board of Directors and Team members of PanCaribbean salute our late Director

R. Hayden Singh

Hayden served as Director on the Boards of Pan Caribbean Financial Services Limited and PanCaribbeanBank Limited since 2004.

He chaired the Human Resource & Compensation Committee and also served as a member on the Audit & Compliance Committee of our Board.

During his tenure, he was a highly committed and dedicated Director, providing invaluable advice, and contributing significantly to the development and success of PanCaribbean. Hayden's sense of humour and common sense approach in addressing complex issues, will be greatly missed.



How We Manage Risk

"Everyone take risks…some are better at managing them. Effective risk management ensures that the delicate balance between minimising risk and maximising return is maintained, with the ultimate objective of increasing stakeholder value."

Hope Wint – AVP Group Risk & Compliance

Our Risk Management Philosophy

The primary objective of our risk management framework is to maintain our fiduciary responsibility to shareholders, depositors and customers through the creation and protection of value. Accordingly, our risk management framework provides for the active management of the risks encountered in the daily operations of our diverse business activities and revolves around policies, systems, internal controls, reporting, training and redundancies – bearing in mind the appropriate risk return trade-off.

Our 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.
- Shared responsibility for risk management as business segments are responsible for active management of their risks, with direction and oversight provided by the Risk Management Committee.
- Business decisions are based on an understanding of risk as we perform rigorous assessment of risk in relationships, products, transactions and other business activities.
- 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.
- Use of judgment and common sense in order to manage risk throughout the organisation.

How We Manage Risk (Cont'd)

Risk Management

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

The Group utilizes an integrated approach in managing its activities that includes management of liquidity, credit risk, market risk, 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 2010 Strategy

Asset Liquidity Risk

We entered 2010 focused on our assessment of the Jamaica Debt Exchange (JDX) and its impact on our balance sheet, capital and the investment portfolio as well as securities held by our clients. The domestic fixed income market became relatively inactive and there was heightened market uncertainty leading up to JDX's execution by the GOJ. We realigned our portfolio to minimise the impact of the exchange given the anticipated extension of maturities, by acquiring assets that complimented our liability base and 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 BOJ CDs for short-term liquid investments. During the second half, we began to acquire marketable and attractively priced assets in both currencies as we assessed that conditions had stabilized resulting in improved interest margins for the third and fourth quarters.

JDX Impact

First half 2010	Second half 2010
• Marginal increase in assets duration • Increased liquid assets • Currency revaluation	• Appreciated asset values • Improved margins • Improved trading environment

How We Manage Risk (Cont'd)

Funding Liquidity Risk

Funding Liquidity Risk is the risk that future payment obligations may not be met by PanCaribbean, which may result in a combination of reputational risk, rising cost of funds and asset sales at depressed prices. 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 funding liquidity risk.

Our short-term liabilities are also segmented and analysed 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.

Key Funding Liquidity Risk Strategies

- Asset / Liability matching
- Stand-by lines of credit
- Liability segmentation and analysis

Credit Risk Management 2010 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.

This risk is managed primarily by reviewing and monitoring the financial status of counterparties and the underlying collateral. 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 our 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.

How We Manage Risk (Cont'd)

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.

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 securities have been dematerialized and settlement risk has been significantly reduced. For commercial and retail lending activities, loans are adequately collateralized, with applicants undergoing a thorough screening and credit analysis process. Page 118 provides further details on our loan exposure by industry.

Key Credit Risk Strategies

- Counterparty credit reviews
- Counterparty limits
- Market segmentation analysis
- Collateral management
- Appropriate pricing
- Settlement exposure in securities activities managed through the BOJ's Central Securities Depository (CSD)

Market Risk Management 2010 Strategy

Market risk is the risk of loss due to movements in the level or volatility of market prices. This 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 and reviewed daily by the Risk Management Unit, and periodically by the Risk Management Committee. Monitoring of economic reports, local and international market conditions are a critical part of risk assessment and management.

Interest Rate Sensitivity

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 high proportion of variable rate J$ securities linked to T-Bill yields. Consequently, post JDX, 45% 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.

How We Manage Risk (Cont'd)

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 Exposure

With the significant build up of foreign currency balances in the domestic market, PanCaribbean is an active participant, 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 pages 125 to 130 for exposure details and sensitivity analysis. 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 various hedging strategies available to help manage our exposures to currencies and interest rates.

Key Market Risk Strategies

- Active monitoring of market and economic date
- Portfolio sensitivity analysis
- Trading and position limits
- Liability management

Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems or external events. We reduce operational risk and minimise 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.

Business Continuity Plan

Our Business Continuity Program (BCP) identifies our exposure to threats and ensures that systems are in place so that our business activities can function in the event of any disruption. In 2010, we continued developing our team to effectively manage risks that impact key business operations and service standards. Our Team Lead is BCP-certified and key policy revisions to improve governance were done, including expanding the engagement of a wider team. We continue to focus on improving key processes that will enhance our responses to this risk.

Reputational Risk Management

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,

How We Manage Risk (Cont'd)

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.

Capital Risk Management

Capital at Risk refers to the amount of capital required to compensate for the combination of Market, Credit and Operational Risks we face as a viable going concern to ensure an acceptable level of solvency. Solvency is the risk of being unable to cover losses generated by the various types of risks faced with our available capital. We qualify all relevant risks and assign capital based on the Basel II guidelines on capital adequacy, ensuring that all capital adequacy standards are exceeded.

Consequent to the IMF Agreement and commencing June 2010, the regulatory capital requirement for credit risk was amended to phase-in a 100% risk weighting on all Government of Jamaica (GOJ) foreign currency debt issues by mid-2011. See Note 3(d) on page 138-139 for capital adequacy details.

Capital Adequacy

	Regulatory Requirement	PCFS 2010	PCFS 2009	PCB 2010	PCB 2009
Capital / RWA	10%	46%	61%	32%	33%
Capital / Assets	6%	14%	11%	30%	26%

jmA+

CariCRIS Rating

CariCRIS Ratings

Caribbean Information and Credit Rating Services Limited (CariCRIS) has reaffirmed the ratings of jmA+ on its Jamaica national scale

"The ratings of PCFS continue to reflect the company's strong capitalisation levels underpinned by a large tangible net worth base. The ratings also reflect the strong financial performance enabling the company to enjoy good efficiency levels. These strengths are supported by leadership positions that the company enjoys in the main markets that it serves. Further supporting the ratings is a good mix of retail and institutional funding that is biased to the retail sector which enables the company to enjoy a relatively stable funding base, although concentration levels remain high."

THE EXECUTIVE MANAGEMENT TEAM

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 12 years experience in Private Banking and Investment Services and prior to this, was Senior Financial Analyst for Jamaica Broilers Group Limited 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.

Hope M. Wint, BSc., CFA, FRM
Assistant Vice President – Risk & Compliance
Pan Caribbean Financial Services Limited

A career Banker, Hope is responsible for the Risk Management and Compliance framework within the PanCaribbean Group.

She joined the Team in 1993 and spent the last 17 years in the financial services industry building expertise in Treasury, Asset Management, Risk Management and Compliance. Hope is a graduate of the UWI, with a Bachelor's Degree in Management and Accounting. She is both a CFA and FRM charterholder and is a member of the CFA Institute, the CFA society of Trinidad & Tobago and the Global Association of Risk Professionals (GARP) – Caribbean Chapter.

Tara Nunes | Hope Wint | Donovan H. Perkins | Colleen Yearde Williams

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

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.

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 organisation'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 12 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.

Karen Vaz Peter Knibb 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.

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, she assumed responsibility for the Sagicor Jamaica Group. She brings over 17 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 the UWI.

THE EXECUTIVE MANAGEMENT TEAM

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

Donnette is responsible for the Treasury and Trading functions at PanCaribbeanBank 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. She has developed tremendous strengths in fixed income markets, trading and analysis. Donnette has been a CFA charterholder since 2008 and is a member of the CFA Institute and the CFA society of Trinidad & Tobago.

Sabrina Cooper, BA (Hons.)
Vice President – Relationship Banking
PanCaribbeanBank Limited

Sabrina is responsible for promoting and growing our commercial bank, as well as expanding our relationship with new and existing customers. She has over 10 years of experience in investments and financial services, including five years international experience gained at Prudential Financial in Florida.

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

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 also the Managing Director of PanCaribbeanBank Limited, and sits on our Risk Management Committee. He is the Vice-President of the Jamaica Bankers Association and a director of British Caribbean Insurance Company. He is also Chairman of the Jamaica Bauxite Mining Limited and Bauxite Alumina Trading Company. Philip is a graduate of Embry Riddle Aeronautical University where he earned a Bachelor of Science degree in Avionics Technology.

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 an experienced Project Manager and is currently completing her MBA in Finance.

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 was the Governor of Optimist International Caribbean District for the year 2009-2010.

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

Tanya heads the Corporate Banking Division, with responsibility 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 has a Bachelor of Science degree in Management Studies (Hons.) from UWI and an MBA in Finance from City University Business School of London.

Michael Stuart, MSc, CFE, FMAAT
Assistant Vice President - Internal Audit
Pan Caribbean Financial Services Limited

Michael has over 20 years experience in Accounting and Finance, Internal Auditing and Fraud Investigations. He joined PanCaribbean in 2007 and served as chairman of the Jamaica Bankers' Association Anti-Fraud Sub-Committee from 2007 to 2009. In 2010, Mike assumed executive responsibility for Internal Audit for the Group.

A graduate of the University of Central England, Birmingham, England, he completed his M.Sc. Degree in Audit Management and Consultancy. He is a Certified Fraud Examiner and a Fellow Member of the Association of Accounting Technicians.

Margaret McPherson | Gene M. Douglas | Tanya Allgrove | Michael Stuart

Corporate Data

Board of Directors

Richard O. Byles B.Sc., M.Sc.
(Chairman)
Donovan H. Perkins B.A.(Hons.), MBA
(President & CEO)
Jeffrey C. Cobham B.A. (Hons.), Dip. Mgmt.
Christopher D. deCaires 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., LLM, LLD
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 (CALL PAN)
	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

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 – Managing Director
  Richard O. Byles
  Christopher D. deCaires
  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
  Philip W. Armstrong
  Richard O. Byles
  Peter K. Melhado
  Donovan H. Perkins
  Colin T. Steele

- **Manufacturers Investments Limited**

  Directors
  Richard O. Byles
  Donovan H. Perkins

Our Team Report

The Performance &Talent Management System was introduced to administer and track performance.

Sagicor Success System

During 2010, the Sagicor Group pursued an initiative to create a paperless Performance and Talent Management System for all operating companies. The objective of this new system is to align strategy with objectives, and manage individual performance to ensure execution and measure results. Performance Management, the first module implemented, enabled team members' goals to be aligned with those of the organisation, streamlined the review process and reduced costs to administer and track performance. Other modules scheduled to be implemented during 2011 are Recruitment & Selection, Career Development, Succession Planning and 360 Degree Feedback.

93% increase in the numbers of team members receiving training in 2010.

Training and Development

We continued to develop our Team through Customer Service, Supervisory Management, Leadership and Professional Development, and Technical Sales Skills training during 2010. Training hours increased by 6% to 5,795 and the number of team members trained in 2010 increased to 234 up from 121 in 2009 representing 87% of the Team complement.

Team Member Welfare

Our Organisational Improvement and PanVybz Committees continued to permeate the organisation with their ideas and energy ensuring that team morale, efficiency initiatives and our environment is fun yet professional and enabling. Highlights were Fun Day 2010, our annual Wellness Week and frequent lymes.

Rewards & Recognition

We continuously seek to recognise and reward team members for outstanding performance. Promoting team members was one method that we employed to recognise, reward and motivate our team and during 2010. In 2010, a total of 16 team members were promoted in recognition of their value to the company, new responsibilities and continuing development.

Our Team Report (Cont'd)

Our recognition activities include Team Members of the Quarter, Team Member of the Year, PCFS Star Awards and PCB Sales Awards. Our 1-2-1 cheques are disbursed by any member of the Team to Team Members who go the extra mile. These cheques are then redeemed for gifts and go a long way to build on our service value. For 2011, greater efforts will be made to improve existing programmes and introduce other activities that highlight individual and team excellence.

Team Members of the Quarter 2010

Quarter 1:

Andrea Pusey - Business Support
Nursita Gray-Barriffe – New Kingston Branch
Nardia Swaby – Business Support

Quarter 2:

Alisa Mitchell – Group Business Support
Amoy Daniels – Call Centre
Tameika Burns – Treasury

Quarter 3:

Althea Graham-Dolly – Montego Bay Branch
Shawn Mills – Financial Control Unit
Karen A. Brown – Facilities and Records Management

Quarter 4:

Christopher Harris – Group Business Support
Taschelle Tulloch – Business Support
Joanna Banks – Treasury

Team Spirit

Congratulations to our Team members who together created a positive impact on our society and had fun in the process!

Sagicor Best Business Initiative 2010

Jake's Triathalon 2nd Place Corporate Relay

CUMI Come Run – Corporate Team Prize

Reggae Marathon 10k Corporate Team Award 3rd Place

Team Member of the Year

"PanCaribbean's values, Integrity, Team, Service, are at the core of how I conduct myself both at work and socially.

I take great satisfaction in helping others less fortunate. I have the innate ability to rally my fellow team members, family and friends to support various charitable events I am involved in, such as, The Nest Orphanage Christmas Treat, The Haiti Relief program, Musgrave Girls' Home Recovery efforts, and Sigma Corporate Run to name a few.

We can make a big difference and contribute to the lives of our fellow Jamaicans by offering our time and making an effort."

Tameika Burns
Assistant Manager - Treasury

Real Performance

Integrity • Team • Service

Economic Review

Breathing Room For Our Economy

In February 2010, the Jamaica Debt Exchange paved the way for a US$1.27 Billion Agreement with International Monetary Fund.

During 2010, two significant inter-dependent events laid an important foundation for a sustainable improvement in our key economic indicators. In February, the Jamaica Debt Exchange (JDX) paved the way for a US$1.27 Billion Agreement with International Monetary Fund (IMF) in the first quarter.

Under the JDX, the GOJ swapped over $700 Billion of its locally issued bonds for new securities with lower interest rates and extended maturity dates. Yields on Government securities were cut from an average of 19% to 12%, shaving an estimated $40 Billion in annual interest costs and easing re-financing needs by lengthening maturities.

The JDX also significantly reduced the number of issues from a few hundred to just 25 securities, eliminating the paper and establishing electronic records of ownership, which has significantly improved administrative efficiency at the Ministry of Finance.

The JDX's overwhelming success had its roots in the latter half of 2009 through three developments that set the stage. First, Citibank was given a mandate by the GOJ to structure a domestic debt swap that would create significant fiscal space, given the unstable financial markets and growing loss of confidence in our economic prospects – magnified by rating agency downgrades of Jamaican debt. Secondly, the BOJ began responding positively and aggressively to market signals at monthly T-Bill auctions and took two critical decisions – it aggressively cut its open-market rates and eventually removed all but its benchmark 30-day signal rate, which became the sole mechanism for pricing financial market liabilities. The third important development with the pending IMF support was market consensus and expressed support from every major financial institution for the JDX - an example of what can happen when individual interests work for a greater good.

Under the IMF Agreement, specific fiscal targets, divestments and a range of policy reforms are expected to engender fiscal discipline and a reversal of our economic contraction for the last three years.

The IMF Agreement required Jamaica to commit to specific fiscal targets, divestments and a range of policy reforms. Achievement of the specified objectives over the 27-month programme is expected to engender fiscal discipline and a reversal of our economic contraction for the last three years. Through December 2010, Jamaica received US$850 Million of IMF support having successfully met all the targets in its quarterly tests. Other multilaterals have provided an additional US$833 million in loan flows. These foreign currency flows combined with an overall improved balance of payments influenced a 4.2% appreciation of the Jamaican dollar in 2010.

Active management of inflation expectations and a proactive Bank of Jamaica created an environment for domestic interest rates to decline further - a necessary condition for growth. Efficient and competitive debt and equity markets, along with lower commercial, retail and mortgage lending, will go a long way in helping to improve credit availability and affordability - but are not sufficient. Urgent attention must be given to ensure that we have enabling tax policies, affordable energy costs, improved domestic security, an efficient bureaucracy and a better-functioning educational system. The private sector must also re-emerge as a significant catalyst for growth and confidence.

Our review of the economy will focus on four indicators influencing our investment climate and its implications for shareholders and investors.

Economic Review (Cont'd)

GOJ's Fiscal Performance

14% reduction in GOJ capital expenditure

For the nine-month period ended December 2010, the GOJ's Revenues & Grants were $224 Billion or 2% below budget. Items to note were rising unemployment that resulted in payroll taxes deviating $5.3 Billion below target while import-related GCT was $6.7 Billion more than expected as international trade picked up and controls over the port were enhanced.

The fiscal deficit at $56 Billion was 13% less than budgeted and significantly below the prior year's deficit of $101 Billion, largely as a result of a significant reduction in interest costs, thanks to the JDX. This favourable fiscal performance reflects efforts to adjust spending as the GOJ cut capital expenditure by $6 Billion or 14% to meet IMF targets.

GOJ's Fiscal Performance

Nine months JA$B	Dec 10 Actual	Dec 10 Budget	Deviation	Dec 09 Actual
Revenues & Grants	223.9	228.0	-2%	205.7
Interest Costs	88.3	94.9	-7%	134.3
Primary Surplus	32.3	30.7	+5%	33.7
Overall Deficit	<56.0>	<64.2>	-13%	<100.6>

Implications / Opportunities – Lower interest rates will remain a reality unless sustained inflation rears its head. Real estate, dividend-yielding equities and global bonds with 10-year maturities will provide attractive income returns.

Production & Balance of Payments

Positive economic growth continued to elude Jamaica with GDP contracting by 1.1% in 2010, an improvement over the 3.0% decline recorded in 2009. The Goods Producing Sector shrank 1.6% with mining posting the worst performance of the five sub-sectors, down 3.5%. Agriculture was the lone bright spark, up 0.6% despite periods of adverse weather conditions.

12% improvement in Jamaica's current account deficit

The Services Sector fared no better, declining 1.4% with the Electricity & Water sub-sector contracting 4.3%, closely followed by Financial Services, down 3.9%. Despite the period of social unrest, Hotels & Restaurants sub-sector reflected the best performance, growing 3.3% on the back of good growth in tourist arrivals.

Our Current Account deficit improved 12% or by US$126 Million over 2009. Increases in bauxite (51%), remittance (6%) and tourism (5%) flows contributed to the improvement noted. Exports contracted marginally down 1% Net International Reserve (NIR). NIR, with IMF support rose by US$442 Million to US$2.17 Billion.

Production & Balance of Payments

US$	2010	2009	Change
GDP Growth	-1.1%	-3.0%	improving
Tourism Stopovers	1,916,302	1,831,097	+5%
Current Account	-$992M	-$1.127B	+12%
Remittance Flows	$1.91B	$1.79B	+7%
NIR	$2.17B	$1.73B	+25%

Economic Review (Cont'd)

Implications / Opportunities – Negative economic growth and a lack of employment opportunities do not encourage consumer or business confidence. A healthy NIR ensures currency stability and availability. Businesses can plan better in this environment. Look for business opportunities linked to tourism where the dynamics are positive and improving.

2010 FX Rate (J$/US$)

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
89.70	89.75	89.51	89.07	88.48	86.02	86.09	85.58	86.25	85.62	86.14	85.86

Inflation & Interest Rates

Investors' positive outlook led to a rally in Jamaican securities – stocks as well as local and international bonds.

Higher food and energy prices contributed to double-digit inflation of 11.7% in 2010 compared to the 10.2% recorded in 2009. Falling interest rates are generally not sustainable over an extended period if persistent inflationary pressures exist. Bear in mind that the JA$ appreciated in 2010, and would have helped to have a dampening effect on inflation.

With the successful implementation of JDX, investors largely ignored inflation fears and their positive outlook has led to a rally in Jamaican securities – stocks, as well as local and international bonds.

2010 Interest Rate (%)

BOJ 30-day rate

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
10.50	10.00	10.00	10.00	10.00	9.00	9.00	8.00	8.00	8.00	7.50	7.50

6-month T-Bill

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
12.50	11.01	10.49	9.99	9.91	9.26	8.73	8.24	7.99	7.92	7.61	7.48

Jamaica Global Bond yields (%)

Maturity	2012	2014	2015	2017	2019	2022	2025	2036	2039
Dec-2010	6.48	8.28	6.74	7.51	7.40	6.49	8.10	8.45	8.11
Dec-2009	14.89	13.43	10.54	11.70	11.16	10.71	11.66	12.25	11.14

2010 Stock Index

All Jamaica Composite

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
64,191	71,220	82,387	86,783	82,816	81,451	81,045	80,143	78,169	77,745	79,557	80,794

We expect GDP to be positive this year with IPOs and private equity providing opportunities.

Implications / Opportunities – 2010 was a good year for investors who were first movers. The coming year will not have the significant upsides that were available in 2010. We expect GDP to be positive this year with Initial Public Offerings and private equity providing opportunities. If inflation remains a concern, take a look at income-yielding real estate where value will emerge.

Economic Review (Cont'd)

Year end	2010	2009	Change	Direction
Inflation	11.70%	10.20%	+1.50	Negative
BOJ 30-day CD	7.50%	10.50%	-3.00	Positive
Six-month T-Bill	7.48%	16.80%	-9.32	Positive
10-year Global Bond Yield	7.40%	10.93%	-3.53	Positive
10-year US Treasury Yield	3.32%	3.84%	-0.52	Positive

International Developments

As 2010 progressed, there were encouraging signs that US economic growth would be sustained. The Federal Reserve committed to maintaining its policy rate at record lows with a target range of 0 – 0.25% and additional efforts to stimulate economic activity by boosting liquidity and easing credit conditions. Accordingly, consumer spending increased, company profits recovered and unemployment fell, dipping from a worrisome 10% to 9% by year-end. This improvement in the US economy helped Jamaica as tourism and remittance flows improved, and persistently low US dollar interest rates supported the recovery of GOJ global bond prices. However, swelling federal debt, fiscal challenges at the state and municipal levels combined with a still unwinding real estate bubble leaves more than a hint of uncertainty.

Despite mixed but improving US economic news, on the other side of the Atlantic, 2010 saw concerns regarding Europe and its own emerging debt crisis. A US$1 Trillion rescue package by the European Union still left lingering concerns regarding Greece, Portugal, Spain and Ireland. For Jamaica, Spanish interests have been and remain significant local investors in tourism, and it may yet be early to assess any potential local impact on the weaknesses in Europe.

The slowdown in China, fear of high US liquidity and its future inflationary impulses, a weak European outlook and fiscal problems in England moved commodity prices led by gold, up 30% in 2010.

Measures of Wealth

Investment portfolios showed improvement in 2010 with every measure beating local inflation of 11.7%. When measured in hard currency, investors' net worth was improved by a 4%+ appreciation of the Jamaican Dollar. Progressive declines in domestic rates, reduced borrowing by the GOJ, upgrades by rating agencies saw a rally in GOJ debt and led by a significant appreciation in average global bond prices, up 23% over 2009.

153% increase in the JSE Junior Market Index

Investor interest in equities at home and abroad saw a 13% rise in the S&P 500 and a slightly better 14% for the All Jamaica Composite Index. The JSE Junior Market Index jumped by an impressive 153% with seven new listings and almost $1 Billion in new capital raised in 2010.

Year-end	2010	Change
All Jamaica JSE Index	80,794	+14%
S&P500	1,258	+13%
Average GOJ Global Bond Price	109.3	+23%
US$ FX Rate	$85.86	+4%

Strategic Imperatives

The changing tides of 2010 presented a great opportunity for us to reflect on our business model and re-define our Strategic Imperatives. We looked at ways of becoming even more meaningful in action and innovation for our Clients, our Team, our Shareholders and our Community by focusing on four primary areas.

1

Deepen Customer Loyalty-
We continued to drive this imperative faster in 2010 than ever before by (1) focusing on cross-selling of our products to existing clients (2) creating new ways to make it more convenient to do business at PanCaribbean (3) keeping our customers informed, especially with developments leading up to JDX and addressing their questions and concerns

The result of our cross-selling efforts was a 29% growth in customers with 2 or more products, with the additional spin-off of 80% of new business gained by way of positive referrals. We must further improve our service standards to meet the growing expectation of superior customer experience if we are to continue improving our share of wallet and valuable referral.

We made it easier for customers to do business with us through transact@gopancaribbean.com, a service which facilitates banking by email and Direct Advantage™, a payment solution based on ACH II. In addition, we continued to keep our customers informed on the financial markets and investment opportunities through traditional and non-traditional media.

2

Develop Leaders at Every Level – In 2010, we ramped up supervisory training to prepare Team Members for management responsibilities within the organisation. Through these and other training efforts, we were able to fill 16 positions internally, 5 at the management level. Going forward, we will adjust our approach to transforming our Team by developing all members for formal and informal leadership roles - and this initiative will help build our Company and the communities that we serve. Through leadership development, supported by active mentorship, we expect to have a measurable, positive impact on our environment.

3

Accelerate Profitable Growth

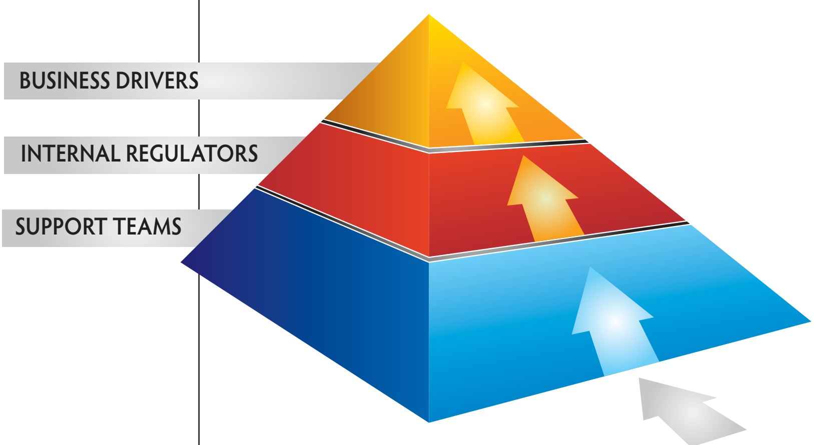
The Financial Services and Insurance sector contracted by 3.9% as a percentage of GDP, making it the second worst performing sector in 2010, with the majority of financial companies reporting lower earnings. In contrast, we have consistently delivered improved profits over the last 10 years, achieving a 3% growth in a difficult environment. While we continue to look at ways to grow efficiently, the competition remains fierce and will intensify for good customers and profitable business. Training, Technology and Teamwork will play vital roles along with Direct Marketing in the battle to acquire new business and new relationships.

4

Serve our Communities Better

This is our country and to improve our social environment, we must serve our communities. Communities with healthy and educated citizens provide an important foundation for sustainable growth. We continue to raise awareness in our society of real needs and to act as a positive catalyst through Sigma Corporate Run, our PanScholar programme, support for sports through our partnership with Tennis Jamaica for Junior Tennis, and our Primary School Reading Initiative. Looking ahead, we are committed to increasing our Scholarship programme and growing our Sigma Corporate Run in particular to enrich our communities.

Business Reports



Our Business Drivers

- Treasury & Capital Markets
- Asset Management
- Corporate & Retail Lending
- Corporate Trust
- Marketing & Sales

Our Internal Regulators

- Risk
- Compliance
- Audit

Our Support Teams

- Financial Control
- Technology
- Operations
- Human Resource

PanCaribbean is organised such that the Divisions driving our business are well-supported by internal Teams that view our Business Drivers as their internal customers. We seek to intensify a philosophy where our Support Teams treat our front-line customer-interfacing business drivers with the same warmth embodied in our brand vision "to be loved by our customers…". In 2010, 2,350 training hours were focused on re-affirming this philosophy of team spirit and high service standards internally.

Our Business Drivers

Treasury & Capital Markets Division

Operating Income of $2.995 Billion

This Division manages our Primary Dealer activities, Stockbroking, Cash Management and Trading in currencies, fixed income and local and foreign equities. These lines of business command prominent market share positions. Clients look to us for advice on the direction of markets and have confidence in our opinions. We primarily service corporates, institutional investors and medium to high net worth clients.

$335m raised by Capital Markets for Dolphin Cove and Ghett'a Life

During the year Capital Markets raised a total of $335 Million for two interesting projects – Dolphin Cove Limited and Jamrock Films Limited. Dolphin Cove was the largest and most successful Junior Market Initial Public Offer to date, raising $240 Million with subscription of nearly three times the offer after being open for only a few minutes. Jamrock Films became the vehicle to successfully fund "Ghett'a Life", a film that will no doubt be a blockbuster, setting new standards for the local industry.

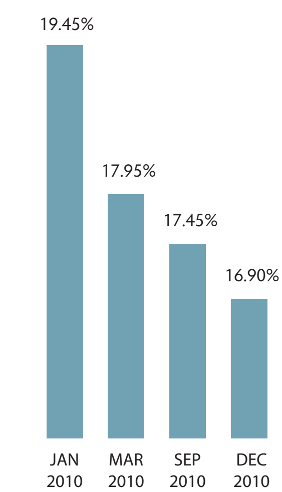
Business Reports (Cont'd)

Corporate & Retail Lending Division
Operating Income of $437 Million

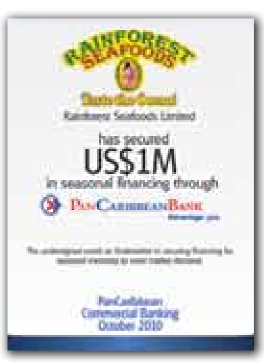
Our lending activities grew 16% in 2010 to $9.5 Billion and are spread across diverse market segments. See note 3(a)(i) of page118 for details. We managed to find good credit business in a weak economy and maintained credit quality ratios ahead of the industry as outlined earlier in our Management Discussion on our financial performance on page 19. With our commercial banking operation, we now have the ability to extend credit more efficiently to clients and also to detect potential problems earlier than before, helping us to better manage these assets.

Growth this year came from identifying good quality loans and some of these are highlighted in the deals we sealed below. These transactions were of significant importance to the further growth and expansion of these companies, the contribution to employment and further development of powerful local brands in domestic and regional markets. We are particularly proud of the role we continue to play in this respect.

PCB Prime Rate
% PERCENTAGE



We reduced our prime lending rate four times during 2010.



Asset Management Division
Operating Income of $230 Million

Our Asset Management Division provides three primary services that are not reflected on the balance sheet of PanCaribbean. (1) We manage three Sigma Funds – Optima® (equity), Solution® (fixed income) and Liberty® (US-indexed) with assets growing 14% to $3.8 Billion. (2) We provide administrative services for Sagicor Life Jamaica's assets which increased 15% to $129 Billion. (3) We hold stocks and bonds in custody for clients amounting to $27.3 Billion (up 69%) and $12.8 Billion (up 1%) respectively. We also sell international mutual funds including CI Funds. Our Asset Management customers are diverse and range in composition from small savvy investors to corporates and institutions.

Business Reports (Cont'd)

18%
of the unit trust market is represented by our Sigma Funds

Our Sigma funds represent 18% of the unit trust market and performed reasonably well in 2010. Returns generated for unit holders are highlighted below with comparisons to key benchmarks:

Sigma Performance vs Benchmarks

	Annual Return	10 Year
Sigma Optima®	9.64%	17.50%
JSE Main Index	2.28%	11.40%
Sigma Solution®	10.97%	14.80%
T-Bill Rate	10.60%	14.40%
Sigma Liberty®*	8.16%	13.70%
US$ depreciation	-4.17%	6.50%
Inflation	11.70%	11.70%

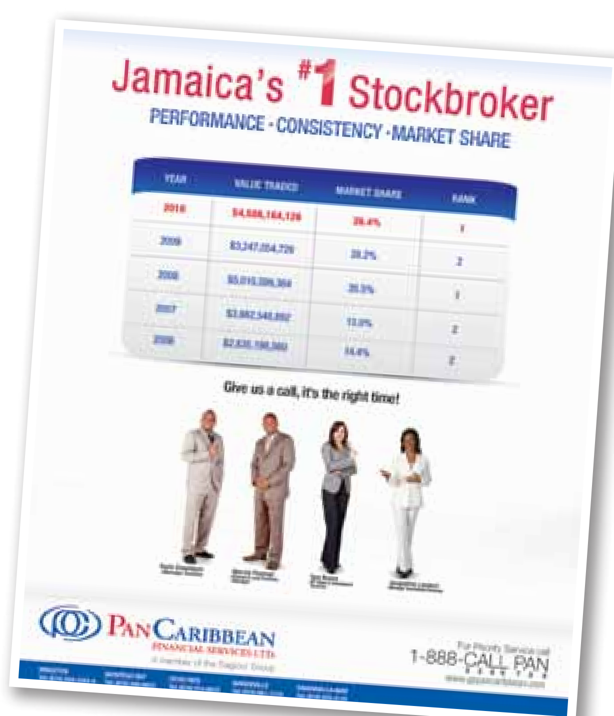
* based on five years

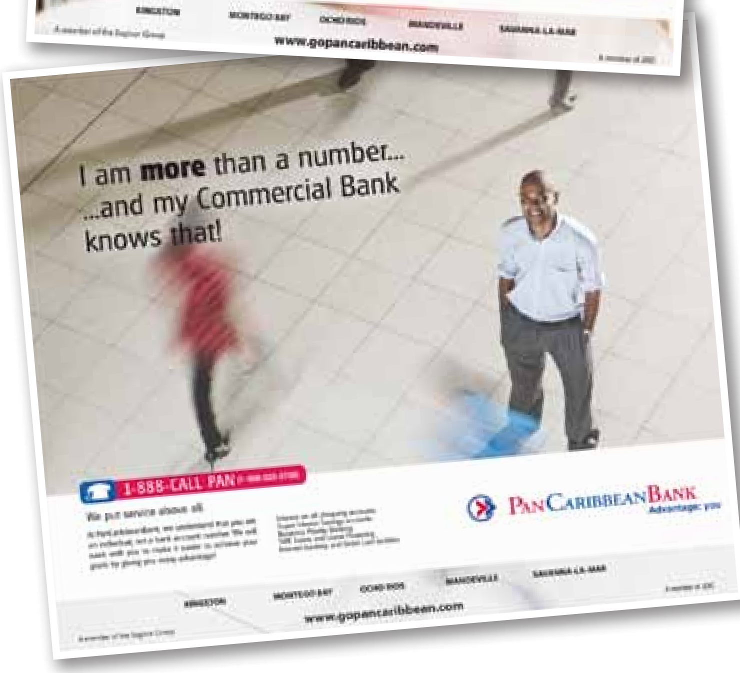
Corporate Trust Division
Operating Income of $54 Million

Corporate Trust was fairly stable and among the larger players in delivery of specialized services to listed companies. We operate one of the largest domestic Trustee & Paying Agency services for corporate bond issues. Generally, this specialized business line is quiet but 2010 saw fair trustee activity, as the economy created challenges for a number of bond market issues that had to be worked through.

Marketing & Sales

Marketing continued its excellent job in helping to build our brands. This Team fosters a highly positive image of the institution through our events, sponsorships, client functions and public relations, and extended tangible support for our sales activities through effective advertising and product promotions. These activities energize our entire Team and help to drive growth and performance.





Business Reports (Cont'd)

Our Business Priority Unit was established during the year to develop skills that focus on providing commercial banking services to the SME segment, targeting new businesses in operation for at least three years. With customers at the core of our activities, we created more ways for them to enjoy ease and convenience as a valued PanCaribbean customer.

Transact@gopancaribbean ▶ immediate access to a dedicated service team to provide personal service and handle transactions.

Direct Advantage™ ▶ an efficient technology option for every businesses to manage its receivables and payables remotely.

Our Internal Regulators

Internal Audit, Risk and Compliance Divisions

Our Board ensures that as PanCaribbean grows, we retain adequate and functioning risk mitigation mechanisms that are independent of management.

Our growth and positive results over the years have been as a result of playing by the rules, adhering to regulatory standards and being mindful of the role that we play as a major institution in the financial services sector and local economy. We take this responsibility seriously and our Board ensures that as PanCaribbean grows, we retain adequate and functioning risk mitigation mechanisms that are independent of management. These areas are headed by experienced professionals overseeing and reporting on these responsibilities.

They have responsibility for internal training to ensure that every team member understands his or her responsibility as it relates to client confidentiality, anti-money laundering standards and reporting, know-your-customer and the risks associated with policy breeches, as well as our own code of conduct.

Business Reports (Cont'd)

Our Support Teams

Information Technology Division

2010 was both exhilarating and challenging for Technology as our Project Management Unit was formally consolidated into this Division. We saw the results of focused Team-building sessions aimed at motivating and enhancing the collaborative efforts across a number of specialized areas.

We completed the installation of our new "state of the art" Data Centre which will provide a more dynamic and robust facility, positioning our institution for future growth. IT Best Practices were strengthened through process improvements, improved security protocols, upgrades and enhancements. We focused on Business Continuity Risk mitigation with live testing via activation of our Redundancy Facilities.

An expansion of e-channel service offerings will provide greater convenience for customers.

We will seek to expand e-channel service offerings to provide greater convenience for customers. Working with Marketing, Technology will collaborate to facilitate a better understanding of customer needs and deliver more innovation that will make it even easier to do business with us.

Financial Control & Reporting Division

Financial Control continued to meet reporting deadlines for our Management Team, Board, Shareholders via the Jamaica Stock Exchange, and our regulators – The Bank of Jamaica and the Financial Services Commission, in a timely manner. Under the 2010 IMF agreement, financial institutions were required to elevate the number and frequency of reports to our regulators.

Our Management Team relies on Financial Control's accurate reports and analysis in helping us track our performance and better understand our business, identifying trends so that we can take appropriate corrective action or leverage opportunities. With the continuing changes in International Financial Reporting Standards, this Division works with our external auditors to ensure that our Management and Board are aware of developments that could affect our business and the implications of current decisions taken today and their potential impact on our business in the future.

Human Resource Division

Our performance over the last 10 years, is rooted in our HR practices and how our Executives manage their teams.

PanCaribbean's enabling culture that has resulted in our performance over the last 10 years, is rooted in our HR practices and how we manage our teams. We are not perfect, but we genuinely seek to foster an environment of warm professionalism, open communication and fun. From our Pan Olympics, floor football competition, "biggest loser" weight loss programme, karaoke and movie nights, domino sessions, dance parties, fashion shows – we truly enjoy working together…and our customers benefit.

Our 2010 focus was about developing our people through training and we are feeling the positive results. This will continue as we improve the technical, supervisory and leadership skills at every level in PanCaribbean. We know that everyone counts...everyone contributes to our success.

Real Stories

Integrity • Team • Service

A single action positively impacts many young lives

Sigma Corporate Run

In the early morning of February 21, 1999, 297 people gathered at Breezy Castle, downtown Kingston to run and walk for 20 children in dire need of heart surgery. Under the theme, "Straight from the heart" this small gathering raised $700,000 for the Jamaica Foundation for Cardiac Disease. There from the very beginning was Alfred "Frano" Francis, a volunteer from the Jamdammer's Running Club of Kingston, who took the role of Race Director for Sigma Corporate Run and, along with Gina Harrison, worked throughout the years to ensure that the event would increasingly achieve a positive impact on young lives.


Frano Francis

"I do it because I love it

At the time, I was the President of Jamdammers and there was a need for a Race Director for this new event. The group saw it as an opportunity to further it's mandate of promoting a healthy lifestyle through running.

The event presents a window of opportunity for people to start a healthy lifestyle. I get the thanks at the finish and for months after

	2000	2005	2010
Participants	503	2,885	11,187
Donations	700,000	2,200,000	11,181,000

from people who feel great about getting out and getting active and, getting active for a good cause. This inspires me!

When we started, we had just a few hundred people. PanCaribbean merged with Manufacturer's Sigma Merchant Bank in 2004 and moved the event to Emancipation Park. The merger and new location brought new energy to the Run, and helped to realise a significant increase in support to nearly 2,000 walkers, runners and wheelchair participants. Since then, we have mobilised over 55,000 people to support our hospitals mainly, and those health facilities like the Sir John Golding Rehabilitation Centre, the Jamaica Association for the Deaf and the Jamaica Society for the Blind, that give critical service to children that need our support.

We have created a family

I love the organising team, it is a pleasure to interact and work with them. I hope we stay together to allow our combined creativity to blossom. Working with PanCaribbean, especially Tanya Miller, is fantastic; we have created a family. PanCaribbean took the baton and ran with it. They have engendered and developed the spirit of volunteerism, not only in their own company, but across many corporate entities, government agencies, associations, clubs and groups. This spirit is vital to the success of the run each year. I am honoured to be a part of this event, which is now the largest road race in the English-speaking Caribbean. ”

Alfred "Frano" Francis, Race Director

A single action turns dreams into reality

Dolphin Cove: Jamaica's #1 Attraction

Our Mission is to provide a memorable and fulfilling experience for all our guests by delivering exceptional service, while focusing on our human resources and maintaining our commitment to our community and environmental preservation.

From a privately owned single park with four dolphins, Dolphin Cove is now a publicly traded company, operating three parks with 24 dolphins and a host of other attractions designed to deliver to their customers "An Experience of a Lifetime".

"No room in the Park

Marilyn and I are entrepreneurs at heart and back in 1998, we were looking at the possibilities in the tourism industry for our family home, which was ideally located in Ocho Rios near to Dunn's River Falls. It occurred to us that a Dolphin Park may be an interesting business, and I set off to find out more about this type of attraction. My first stop was a dolphin park in South Florida – I had a hard time finding it because there were no signs on the outside. When I got in finally, I asked, with some degree of disdain, why they had no sign to help people find them. The response provided the market insight I needed – "We don't need signs, we are always overbooked and our waiting list is at least two weeks long!"

There from the start

Fast forward to February 2001, when we opened the park in Ocho Rios with four dolphins, from these early days, PanCaribbean was our financial partner. Donovan has been an avid supporter of this project and saw the potential it had to influence the Jamaican tourism product. When we decided to take the company public, we went back to PanCaribbean to lead the charge – they definitely exceeded our expectations!

We are extremely happy with the confidence that the investing public showed in our business and Management Team. The IPO was massively oversubscribed and we were able to meet our target of $240 Million in a matter of minutes. We are the first St. Ann based company and the first attraction to be listed on the Jamaica Stock Exchange. Marilyn and I are thankful to the PanCaribbean team and to the local investors for the amazing show of support."

- Stafford Burrowes, O.D., CEO

A single action will inspire a nation

Ghett'a Life: the Movie

A teenager struggles to realise aspirations to be a boxer, while being faced with political turbulence in a community torn apart by political violence. This explosive action drama tells the captivating story of triumph even in the most challenging circumstances.

"The seed was planted

Right around the time of the 2002 election, a group of Peace Corps workers invited me to watch a boxing match in a parking lot downtown - the fight was arranged to settle a dispute over a woman. This was the genesis of Ghett'a Life for me. I wrote a script and submitted it to the international screenplay committee of the Cannes Film Festival and to my surprise and delight it won the Hartley Merrill International Screenplay Award in 2006. With my background in film, I knew I had to make this story come alive but the challenge was how to get the money to finance this.

Initially, I identified funding from overseas, but things changed for the funding agency and it fell through. I look back at this as fortuitous, for though it would have made things easier to have the financing in place all at once, it would not have been as meaningful for this film in particular as getting the financial backing from Jamaican investors.

100% Jamaican

Two years after the funding fell through, I ran into Donovan Perkins and shared with him my story and my vision. His team at PanCaribbean put a prospectus together for the project and within six months gathered a pool of Jamaican investors for an unprecedented joint venture to make this happen. PanCaribbean held firm in its commitment to help build a new industry in Jamaica by itself investing in the film and offering marketing support to secure sponsorships.

Ghett'a Life is the only film to be produced and funded entirely by Jamaicans with a Jamaican cast and crew, and a Jamaican soundtrack. This is by no means the end of the journey. The film has the potential to influence our society and it's my hope that it will inspire people and be that single action for real change in our nation."

- Chris Browne, Writer & Filmmaker

From Our Branches

Corporate Social Responsibility

"It's not that successful people are givers; it is that givers are successful people"

- Patti Thor

Kingston

This year, in addition to our usual support for close to home charities, we were moved to extend our support to the people of Haiti. Our Team collected and coordinated the delivery of food, bedding, clothing , toys and toiletries to the Jamaica Red Cross to alleviate, in a small way, the suffering and discomfort felt by our Caribbean neighbours.

We were also happy to support Youth with a Mission by facilitating repairs to their Stone's Hope Great House which is used for student, staff and guest housing and the University Hospital of the West Indies' Intensive Care Unit (B) to "Raise the Roof" for Theatres six and seven.

Our Junior Tennis programme is close to our hearts and we noted the increasing number of talented players being unearthed and developed through the efforts of Tennis Jamaica. In the area of education, our Boys of St. Aloysius Primary School invited us back for the fifth year in a row, to be a part of their annual Boys' Day. We have committed to assisting them in improving the computer laboratory to enhance the learning experience of these young men with vast potential. Finally, we continued to provide scholarships for business and media students at UWI and UTECH. This programme will be further enhanced in 2011.

Above: One of the contenders in the PCB All Jamaica Junior Tennis Championship 2010 gets ready to deliver his return.

Right: Young student at St. Aloysius Boys Day is happy to receive his medal from Karlene Dennis, Assistant Manager, Group Public Relations.

Mandeville

What a year! Through Reggae Marathon, we donated three computers to the winning school, Holmwood Technical High. This initiative to reward performance and tenacity has so far resulted in a total of eight computers awarded to Holmwood over the past three years. Bellefield High, which is also in Manchester, received one computer for achieving a third place position in 2010. We extended our assistance to the Scouts Association of Jamaica by sponsoring a child to attend their week long camp for boys and girls aimed at building character, self-reliance and social discipline. Having fun as a Team is a great fringe benefit of our outreach activity, and we certainly had a great time supporting Jake's Triathlon in St. Elizabeth which raised funds for the development of the Treasure Beach community. We had much to celebrate as our Team copped second place in the Corporate Relay!

Savanna-la-mar

In 2010, the Team played a more active role in our community, particularly in the area of literacy. We collected and donated books to the Mount Airy All Age School to improve the selection of titles available and awarded the winner of the Annual Westmoreland Parish Library Reading Competition. We also supported the 4H Club's initiative by sponsoring the trophies for Champion Boy and Girl for 2010 which is based on displaying good leadership skills and service to the community. Our major activity for the year was Reggae Marathon, Negril, which is the only event of its kind in Jamaica and ranked Top 10 Exotic Marathon in the world. We look forward to supporting this event through sponsorship, active volunteerism and of course, by giving the added incentive of computers for schools that finish in the top three!

Suzette Shaw-Reid, Group PR Officer and Donovan Brown of Race to Literacy peruse books donated by PanCaribbean

Shara Anderson-Grant - Senior Officer, Sponsorship and Events, celebrate with Holmwood Technical High School, Winner's of Reggae Marathon 10K

Althea Graham-Dolly joins the enthused winners of the PCB Junior Development Tennis competition in Montego Bay as they show off their trophies.

Montego Bay

Tennis anyone? We were happy to continue our association with Tennis through the Junior Development Tennis Tournament, which attracted over 100 youngest, vying for prizes in the two day competition. Our Branch also supported the CUMI Run, to raise funds for the mentally handicapped – and we won the Corporate Run Award! We did not forget our favourite home, Blossom Gardens Children's Home, and helped them throughout the year with cash donations.

Ocho Rios

We often support charitable organisations, and at times we are fortunate enough to get involved more deeply. This year we had that opportunity through Jamaica Cancer Society, Relay for Life and Camp Yellow Bird, which caters to children and adolescents with diabetes. We sponsored a child to attend the camp which is set up to promote a healthier and happier childhood for children living with diabetes through proper diabetes management. The best part was the visit to the camp, where our team was able to interact with the children - making it a truly rewarding experience.

PanCaribbean and Sagicor Group Marketing team show their support at, Jamaica Cancer Society, "Relay for Life".

Avid supporters of the cause, Donovan Bailey and Lennox Lewis, are flanked by the Montego Bay Branch team at Cumi Come Run 2010.

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Year ended 31 December 2010

PRICEWATERHOUSECOOPERS

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

To the Members of
Pan Caribbean Financial Services Limited

Independent Auditors' Report

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Pan Caribbean Financial Services Limited and its subsidiaries, and the accompanying financial statements of Pan Caribbean Financial Services Limited standing alone set out on pages 79 to 184, which comprise the consolidated and company balance sheets as of 31 December 2010 and the consolidated and company profit and loss accounts, statements of comprehensive income, statements of changes in stockholders' equity and statements of cash flows 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 2010, and of the financial performance and cash flows of the group and the company for the year then ended, so far as concerns the members of the company, in accordance with International Financial Reporting Standards and the requirements of the Jamaican Companies Act.

Report on Other Legal and Regulatory Requirements

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

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

PricewaterhouseCoopers

Chartered Accountants
25 February 2011
Kingston, Jamaica

M.G. Rochester P.W. Pearson E.A. Crawford 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 P.A. Williams

Consolidated Profit and Loss Account

Year ended 31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2010 $'000	2009 $'000
Net Interest Income and Other Revenue			
Interest income from securities		5,591,060	7,216,841
Interest income from loans and leases		968,852	1,115,264
Other interest income		7,080	24,624
Total interest income		6,566,992	8,356,729
Interest expense	6	(3,820,195)	(5,735,830)
Net interest income		2,746,797	2,620,899
Fees and commission income	7	406,039	335,866
Net trading income	8	423,640	514,800
Other revenue	9	38,169	23,710
		3,614,645	3,495,275
Operating Expenses			
Staff costs	10	912,537	758,104
Impairment charges	11	101,819	169,484
Occupancy costs		115,143	103,637
Other expenses	12	509,958	504,784
		1,639,457	1,536,009
Profit before Taxation		1,975,188	1,959,266
Taxation	13	(451,147)	(481,422)
Net Profit	14	1,524,041	1,477,844
EARNINGS PER STOCK UNIT			
Basic	16	$2.78	$2.70
Diluted	16	$2.77	$2.70

Consolidated Statement of Comprehensive Income

Year ended 31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

	2010 $'000	2009 $'000
Net Profit	1,524,041	1,477,844
Other comprehensive income -		
Available-for-sale investments -		
Unrealised gains on available-for-sale investments	1,792,617	177,707
Gains reclassified and reported in profit	(1,508)	(10,354)
	1,791,109	167,353
Cash flow hedge -		
Unrealised losses on cash flow hedge	-	(197,597)
(Gains)/losses reclassified and reported in profit	(12,610)	48,301
	(12,610)	(149,296)
Total other comprehensive income, net of taxes	1,778,499	18,057
Total Comprehensive Income	3,302,540	1,495,901

Consolidated Balance Sheet

31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2010 $'000	2009 $'000
ASSETS			
Cash and balances due from other financial institutions	17	2,178,179	3,464,251
Cash reserve at Bank of Jamaica	18	456,476	413,744
Trading securities	19	47,889	-
Securities purchased under agreements to resell	20	1,363,506	4,499,614
Investment securities	21	48,552,480	27,487,727
Derivative financial instruments	22	290,777	155,374
Loans, net of provision for credit losses	24	9,480,319	8,653,610
Lease receivables	25	20,566	32,608
Pledged assets	26	8,117,235	18,221,416
Due from related companies		17,638	10,066
Income tax recoverable		6,670	17,940
Intangible assets	28	785,458	812,158
Property, plant and equipment	29	160,927	127,933
Deferred income tax assets	30	25,148	561,503
Post-employment benefit assets	31	-	57,875
Other assets	32	1,144,041	729,748
		72,647,309	65,245,567
LIABILITIES			
Securities sold under agreements to repurchase		49,616,514	43,972,613
Customer deposits and other accounts		9,016,902	8,782,495
Structured products	33	484,428	473,266
Due to banks and other financial institutions	34	1,173,512	1,501,217
Derivative financial instruments	22	158,360	200,706
Due to related companies		5,042	947
Income tax payable		151,403	31,926
Redeemable preference shares	35	616,000	1,271,319
Deferred income tax liabilities	30	414,845	74,462
Post-employment benefit obligations	31	37,868	32,131
Other liabilities	36	348,009	996,668
		62,022,883	57,337,750
STOCKHOLDERS' EQUITY			
Share capital	37	3,126,867	3,103,811
Stock options reserve	38	53,767	52,604
Retained earnings reserve	39	1,536,596	1,536,596
Reserve fund	40	269,016	243,988
Loan loss reserve	41	141,433	167,649
Capital redemption reserve	42	651,472	-
Fair value reserve	43	682,444	(1,096,055)
Retained earnings	15	4,162,831	3,899,224
		10,624,426	7,907,817
		72,647,309	65,245,567

Approved for issue by the Board of Directors on 25 February 2011 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 2010

(expressed in Jamaican dollars unless otherwise indicated)

	Note	Share Capital	Share Options Reserve	Retained Earnings Reserve	Reserve Fund	Loan Loss Reserve	Capital Redemption Reserve	Fair Value Reserve	Retained Earnings	Total
		$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2009		3,103,811	49,435	562,365	212,169	117,295	-	(1,114,112)	4,153,226	7,084,189
Net profit		-	-	-	-	-	-	-	1,477,844	1,477,844
Other comprehensive income		-	-	-	-	-	-	18,057	-	18,057
Total comprehensive income for 2009		-	-	-	-	-	-	18,057	1,477,844	1,495,901
Employee stock option scheme	38	-	3,169	-	-	-	-	-	-	3,169
Transfers to/(from) reserves	39,40	-	-	974,231	31,819	-	-	-	(1,006,050)	-
Currency revaluation and other adjustments		-	-	-	-	9,463	-	-	-	9,463
Adjustment between regulatory loan provisioning and IFRS	41	-	-	-	-	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
Net profit		-	-	-	-	-	-	-	1,524,041	1,524,041
Other comprehensive income		-	-	-	-	-	-	1,778,499	-	1,778,499
Total comprehensive income for 2010		-	-	-	-	-	-	1,778,499	1,524,041	3,302,540
Shares issued	37	23,056	-	-	-	-	-	-	-	23,056
Employee stock option scheme	38	-	1,163	-	-	-	-	-	-	1,163
Transfers to/(from) reserves	40,42	-	-	-	25,028	-	651,472	-	(676,500)	-
Currency revaluation and other adjustments		-	-	-	-	(6,229)	-	-	-	(6,229)
Adjustment between regulatory loan provisioning and IFRS	41	-	-	-	-	(19,987)	-	-	19,987	-
Dividends	44	-	-	-	-	-	-	-	(603,921)	(603,921)
Balance at 31 December 2010		3,126,867	53,767	1,536,596	269,016	141,433	651,472	682,444	4,162,831	10,624,426

Consolidated Statement of Cash Flows

Year ended 31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2010 $'000	2009 $'000
Cash Flows from Operating Activities			
Net profit		1,524,041	1,477,844
Adjustments for:			
Interest income		(6,566,992)	(8,356,729)
Interest expense	6	3,820,195	5,735,830
Income tax charge	13	451,147	481,422
Fair value gains on trading securities	8	(922)	(5,080)
Impairment charges	11	101,819	169,484
Amortisation of intangible assets	28	51,622	61,166
Depreciation of property, plant and equipment	29	45,323	48,998
Gain on sale of property, plant and equipment		-	(520)
Amortisation of hedging reserve	22	(18,915)	-
Changes in post-employment benefits		63,612	(25,839)
Stock options and grants expense		14,311	3,169
Unrealised gains on foreign assets and liabilities		(1,700,599)	(62,302)
		(2,215,358)	(472,557)
Changes in operating assets and liabilities -			
Statutory reserves at Bank of Jamaica		(78,710)	(214,029)
Trading securities		(46,696)	357,734
Securities purchased under agreements to resell		(136,594)	176,525
Investment securities		(7,663,433)	(9,208)
Derivative financial instruments		(177,749)	75,379
Loans		(1,775,662)	397,786
Lease receivables		9,021	21,817
Securities sold under agreements to repurchase		8,357,308	(1,187,045)
Structured products		11,162	(614,274)
Customer deposits and other accounts		1,223,252	566,167
Other assets		(576,825)	(468,116)
Other liabilities		(61,362)	(35,726)
		(3,131,646)	(1,405,547)
Interest received		6,902,316	8,125,772
Interest paid		(4,245,397)	(5,600,246)
Taxation		(157,844)	(447,903)
Net cash (used in)/provided by operating activities		(632,571)	672,076

Consolidated Statement of Cash Flows (Continued)

Year ended 31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2010 $'000	2009 $'000
Cash Flows from Operating Activities		(632,571)	672,076
Cash Flows from Investing Activities			
Purchase of intangible assets	29	(24,922)	(5,528)
Purchase of property, plant and equipment	30	(78,317)	(21,551)
Proceeds from disposal of property, plant and equipment		-	862
Net cash used in investing activities		(103,239)	(26,217)
Cash Flows from Financing Activities			
Proceeds from issue of ordinary stock units	37	9,908	-
Redemption of redeemable preference shares	35	(651,472)	-
Borrowings from due to banks and other financial institutions – long term		237,497	1,141,338
Repayment of amounts due to banks and other financial institutions – long term		(919,866)	(1,447,718)
Due from related parties		(3,477)	2,427
Dividends paid	44	(603,921)	(684,905)
Net cash used in financing activities		(1,931,331)	(988,858)
Effect of exchange rate changes on cash and cash equivalents		(205,197)	617,124
Net (decrease)/ increase in cash and cash equivalents		(2,872,338)	274,125
Cash and cash equivalents at beginning of year		6,742,850	6,468,725
CASH AND CASH EQUIVALENTS AT END OF YEAR	23	3,870,512	6,742,850

Profit and Loss Account

Year ended 31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2010 $'000	2009 $'000
Net Interest Income and Other Revenue			
Interest income from securities		5,147,035	6,779,216
Interest income from loans and leases		206,109	294,605
Other interest income		6,425	13,130
Total interest income		5,359,569	7,086,951
Interest expense	6	(3,362,819)	(5,204,596)
Net interest income		1,996,750	1,882,355
Fees and commission income	7	331,275	234,183
Net trading income	8	294,265	272,141
Other revenue	9	182,796	5,064
		2,805,086	2,393,743
Operating Expenses			
Staff costs	10	619,947	526,871
Impairment charges	11	76,734	97,702
Occupancy costs		43,451	45,617
Other expenses	12	245,589	224,486
		985,721	894,676
Profit before Taxation		1,819,365	1,499,067
Taxation	13	(370,492)	(333,924)
Net Profit	14	1,448,873	1,165,143

Statement of Comprehensive Income

Year ended 31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

	2010 $'000	2009 $'000
Net Profit	1,448,873	1,165,143
Other comprehensive income -		
Available-for-sale investments -		
Unrealised gains on available-for-sale investments	1,536,837	198,919
Losses/(gains) reclassified and reported in profit	21,406	(6,150)
	1,558,243	192,769
Cash flow hedge -		
Unrealised losses on cash flow hedge	-	(197,597)
(Gains)/losses reclassified and reported in profit	(12,610)	48,301
	(12,610)	(149,296)
Total other comprehensive income, net of taxes	1,545,633	43,473
Total Comprehensive Income	2,994,506	1,208,616

Balance Sheet

31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2010 $'000	2009 $'000
ASSETS			
Cash and balances due from other financial institutions	17	1,270,474	1,972,916
Trading securities	19	47,889	-
Securities purchased under agreements to resell	20	987,400	3,038,600
Investment securities	21	43,898,354	24,532,268
Derivative financial instruments	22	284,727	155,374
Investment in subsidiaries		2,512,900	2,518,210
Loans, net of provision for credit losses	24	2,743,543	2,012,579
Lease receivables	25	-	713
Pledged assets	26	8,117,235	18,191,416
Due from related companies		17,638	11,652
Income tax recoverable		-	17,833
Intangible assets	28	157,302	154,287
Property, plant and equipment	29	109,628	65,331
Deferred income tax assets	30	10,194	480,486
Other assets	32	973,022	591,957
		61,130,306	53,743,622
LIABILITIES			
Securities sold under agreements to repurchase		49,848,770	43,990,533
Customer accounts		406,579	520,964
Structured products	33	484,428	473,266
Due to banks and other financial institutions	34	538,576	917,895
Derivative financial instruments	22	158,360	200,706
Redeemable preference shares	35	616,000	1,271,319
Due to related companies		70,192	193,532
Income tax payable		151,404	-
Deferred income tax liabilities	30	347,676	39,263
Other liabilities	36	160,038	197,577
		52,782,023	47,805,055
STOCKHOLDERS' EQUITY			
Share capital	37	3,126,867	3,103,811
Stock options reserve	38	53,767	52,604
Loan loss reserve	41	20,295	68,264
Capital redemption reserve	42	651,472	-
Fair value reserve	43	527,687	(1,017,946)
Retained earnings		3,968,195	3,731,834
		8,348,283	5,938,567
		61,130,306	53,743,622

Approved for issue by the Board of Directors on 25 February 2011 and signed on its behalf by:

Richard O. Byles Director

Donovan H. Perkins Director

Statement of Changes in Stockholders' Equity

Year ended 31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

	Note	Share Capital $'000	Share Options Reserve $'000	Loan Loss Reserve $'000	Capital Redemption Reserve $'000	Fair Value Reserve $'000	Retained Earnings $'000	Total $'000
Balance at 1 January 2009		3,103,811	49,435	51,992	-	(1,061,419)	3,261,196	5,405,015
Net profit		-	-	-	-	-	1,165,143	1,165,143
Other comprehensive income		-	-	-	-	43,473	-	43,473
Total comprehensive income for 2009		-	-	-	-	43,473	1,165,143	1,208,616
Employee stock option scheme	38	-	3,169	-	-	-	-	3,169
Currency revaluation and other adjustments		-	-	6,672	-	-	-	6,672
Adjustment between regulatory loan provisioning and IFRS	41	-	-	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
Net profit		-	-	-	-	-	1,448,873	1,448,873
Other comprehensive income		-	-	-	-	1,545,633	-	1,545,633
Total comprehensive income for 2010		-	-	-	-	1,545,633	1,448,873	2,994,506
Issue of ordinary stocks	37	23,056	-	-	-	-	-	23,056
Employee stock option scheme	38	-	1,163	-	-	-	-	1,163
Transfer to/(from) reserves	42	-	-	-	651,472	-	(651,472)	-
Currency revaluation and other adjustments		-	-	(5,088)	-	-	-	(5,088)
Adjustment between regulatory loan provisioning and IFRS	41	-	-	(42,881)	-	-	42,881	-
Dividends	44	-	-	-	-	-	(603,921)	(603,921)
Balance at 31 December 2010		3,126,867	53,767	20,295	651,472	527,687	3,968,195	8,348,283

Statement of Cash Flows

Year ended 31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2010 $'000	2009 $'000
Cash Flows from Operating Activities			
Net profit		1,448,873	1,165,143
Adjustments for:			
Interest income		(5,359,569)	(7,086,951)
Interest expense	6	3,362,819	5,204,596
Income tax charge	13	370,492	333,924
Dividend income	9	(165,000)	-
Fair value gains on trading securities	8	(922)	(5,800)
Impairment charges	11	76,734	97,702
Amortisation of intangible assets	28	5,571	13,368
Depreciation of property, plant and equipment	29	26,078	29,437
Gain on sale of property, plant and equipment		-	(67)
Amortisation of hedging reserve	22	(18,915)	-
Stock options and grants expense		14,311	3,169
Unrealised gains on foreign assets and liabilities		(1,648,185)	(382,827)
		(1,887,713)	(628,306)
Changes in operating assets and liabilities -			
Trading securities		(46,696)	358,454
Securities purchased under agreements to resell		(317,704)	322,047
Investment securities		(7,138,817)	1,171,497
Derivative financial instruments		(171,699)	70,032
Loans		(966,376)	602,017
Lease receivables		707	7,386
Securities sold under agreements to repurchase		8,357,329	(1,283,298)
Structured products		11,162	(614,274)
Customer accounts		(99,800)	(59,857)
Other assets		(518,501)	(441,678)
Other liabilities		(19,213)	95,321
		(2,797,321)	(400,659)
Interest received		5,701,569	6,926,791
Interest paid		(3,749,345)	(5,077,088)
Taxation paid		(40,385)	(352,125)
Net cash (used in)/provided by operating activities		(885,482)	1,096,919

Statement of Cash Flows (Continued)

Year ended 31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2010 $'000	2009 $'000
Cash Flows from Operating Activities		(885,482)	1,096,919
Cash Flows from Investing Activities			
Proceeds from sale of associated company		-	-
Purchase of intangible assets	28	(70,375)	(1,680)
Purchase of property, plant and equipment	29	(8,586)	(10,606)
Proceeds from disposal of property, plant and equipment		-	207
Net cash used in investing activities		(78,961)	(12,079)
Cash Flows from Financing Activities			
Proceeds from issue of ordinary stock units	37	9,908	-
Redemption of redeemable preference shares	35	(651,472)	-
Due to parent company and fellow subsidiaries		40,984	179,722
Borrowings from due to banks and other financial institutions – long term		100,625	490,721
Repayment of amounts due to banks and other financial institutions – long term		(470,527)	(596,408)
Dividends paid	44	(603,921)	(684,905)
Net cash used in financing activities		(1,574,403)	(610,870)
Effect of exchange rate changes on cash and cash equivalents		(116,300)	355,441
Net (decrease)/increase in cash and cash equivalents		(2,655,146)	829,411
Cash and cash equivalents at beginning of year		4,644,504	3,815,093
CASH AND CASH EQUIVALENTS AT END OF YEAR	23	1,989,358	4,644,504

Notes to the Financial Statements

31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

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 investment, fund and unit trust management services and development banking. 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)	Inactive	100%	31 December
Manufacturers Investments Limited (MIL)	Inactive	100%	31 December
Pan Caribbean Investments Limited (PCIL)	Inactive	100%	31 December
Pan Caribbean Securities Limited (PCSL)	Inactive	100%	31 December

The parent company, Sagicor Life Jamaica Limited 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 and liabilities (including derivatives) 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 and are significant to the financial statements are disclosed in Note 4.

Notes to the Financial Statements

31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Interpretation and amendments to published standards effective in current year 2010 that are relevant to the Group's operations

- 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.

  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.

- 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 adoption of this amendment has no effect on the Group's financial statements because it has no current acquisitions.

Notes to the Financial Statements

31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Interpretation and amendments to published standards effective in current year 2010 that are relevant to the Group's operations (continued)

- IFRIC 17, Distribution of Non-Cash assets to owners. 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 adoption of this interpretation has no effect on the Group's financial statements as dividends are paid with cash only.

- 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 adoption of this amendment has no effect on the Group's financial statements as the Group did not make any partial disposal of any of its subsidiaries.

- IAS 19 (Amendment), 'Employee benefits'. 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 adoption of this amendment has no effect on the Group's financial statements as there have been no plan amendments.

- IAS 36 (Amendment), 'Impairment of assets'. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRS 8,'Operating segments' (that is, before the aggregation of segments with similar economic characteristics). The adoption of this amendment has no effect on the Group's financial statements.

- IFRS 8 (Amendment), 'Operating Segments,' effective 1 January 2010. The amendment clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. The amendments to segment assets and liabilities have been disclosed in Note 5.

- IAS 7 (Amendment), 'Statement of Cash Flows': States that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. This amendment has no impact on the Group.

Notes to the Financial Statements

31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(b) Basis of preparation (continued)

Interpretation and amendments to published standards effective in current year 2010 that are relevant to the Group's operations (continued)

- IAS 39 (Amendment), Financial Instruments: Recognition and measurement: Treating loan pre-payment penalties as closely related derivatives. The amendment clarifies that a prepayment option, the exercise price of which compensates the lender for loss of interest by reducing the economic loss from reinvestment risk, should be considered closely related to the host debt contract. The adoption of this amendment has no effect on the Group's financial statements as the loan prepayment penalties does not approximate to the present value of lost interest for the remaining term of the loan.

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

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2011 or later periods, but the Group has not early adopted them.

- IFRS 7, 'Financial Instruments Disclosures', effective 1 January 2011. This amendment clarifies the disclosure requirement by emphasising the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments. Amendments were made to quantitative and credit risk disclosures. The adoption of this amendment will result in changes in the presentation of credit risk disclosures.

- IFRS 9, Financial instruments: 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.

Notes to the Financial Statements

31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

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)

- Financial liabilities. Entities with financial liabilities designated FVTPL recognise changes in the fair value due to changes in the liability's credit risk directly in other comprehensive income (OCI). There is no subsequent recycling of the amounts in OCI to profit or loss, but accumulated gains or losses may be transferred within equity.

  While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted for financial assets without adopting the requirements for financial liabilities. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

- IAS 1 (Amendment), 'Presentation of Financial Statements, issued in May 2010 as part of the annual improvements to IFRS. This amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. This amendment is applied retrospectively. The adoption of this amendment will result in the company presenting an analysis of other comprehensive income in the notes to the financial statements.

- IAS 24 (revised), 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after 1 January 2011. Earlier application, in whole or in part, is permitted. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Group will apply the revised standard from 1 January 2011. When the revised standard is applied, the Group and the parent will need to disclose any transactions between its subsidiaries and its associates. The Group is currently putting systems in place to capture the necessary information and determine its impact.

- IFRIC 14 (Amendments), 'Prepayments of a minimum funding requirement'. The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct this. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted and should be applied retrospectively. The Group will apply these amendments for the financial reporting period commencing on 1 January 2011.

- IFRIC 19, 'Extinguishing financial liabilities with equity instruments', effective 1 July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. It is not expected to have any impact on the Group or the parent entity's financial statements.

Notes to the Financial Statements

31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(b) Consolidation

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.

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.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

(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.

Notes to the Financial Statements

31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(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 other comprehensive income.

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 other comprehensive income.

Notes to the Financial Statements

31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

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.

(g) Net trading income

Net trading income includes all gains and losses from changes in fair value and related income or expense and dividends for financial assets and liabilities for instruments (including derivatives) held for trading. Net trading income also includes foreign exchange on translated assets and liabilities and net gains and loss on investment securities.

Notes to the Financial Statements

31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(h) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(i) 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.

Notes to the Financial Statements

31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(j) 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.

(k) 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.

Notes to the Financial Statements

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2. Summary of Significant Accounting Policies (Continued)

(k) 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.

Notes to the Financial Statements

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2. Summary of Significant Accounting Policies (Continued)

(l) 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.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in stockholders' equity at that time remains in stockholders' equity and is recognised when the forecast transaction is ultimately recognised in the profit and loss account. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in stockholders' equity is immediately transferred to the profit and loss account within net trading income'.

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2. Summary of Significant Accounting Policies (Continued)

(m) 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.

Notes to the Financial Statements

31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(m) 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.

Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(n) 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.

(o) 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.

Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(p) 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.

(q) 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.

Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(r) 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 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.

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.

Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(r) 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 over the remaining vesting period.

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

(s) Grants

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

(t) 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.

(u) 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.

Notes to the Financial Statements

31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(v) 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.

(w) Structured products

Structured products are recognised initially at the nominal amount when funds are received. Derivatives are separately accounted for at fair value through profit and loss account (Note 2(l)). The non-derivative elements are stated at amortised cost using the effective interest method.

(x) 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(u)).

(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.

(y) 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.

(z) 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.

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(expressed in Jamaican dollars unless otherwise indicated)

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.

Notes to the Financial Statements

31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

In February 2010, the Group participated in the Jamaica Debt Exchange (JDX) transaction under which the Group exchanged its holdings of domestic debt instruments issued by the Government of Jamaica for new, longer-dated debt instruments available to the Group under the election options contained in the agreement. The JDX transaction resulted in a reduction in yields and an increase in the tenor of locally issued Government of Jamaica securities and, therefore, had a significant impact on financial risks.

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.

Notes to the Financial Statements

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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 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.

Commitments and guarantees

To meet the financial needs of customers, the Group enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the balance sheet, they do contain credit risk and are therefore part of the overall risk of the Group.

Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

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			
	2010		2009	
	Loans and leases $'000	Impairment provision $'000	Loans and leases $'000	Impairment provision $'000
Standard	8,670,692	-	8,197,820	-
Potential problem credit	471,167	-	271,364	-
Sub-standard	287,102	83,123	69,598	27,211
Doubtful	69,024	30,819	134,431	72,878
Loss	127,484	99,865	100,268	77,348
	9,625,469	213,807	8,773,481	177,437

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31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Group's and company's rating (continued)

	The Company			
	2010		2009	
	Loans and leases $'000	Impairment provision $'000	Loans and leases $'000	Impairment provision $'000
Standard	2,402,789	-	1,954,313	-
Potential problem credit	191,763	-	-	-
Sub-standard	177,074	49,796	71	71
Doubtful	-	-	68,987	30,966
Loss	47,226	43,985	48,829	44,277
	2,818,852	93,781	2,072,200	75,314

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(expressed in Jamaican dollars unless otherwise indicated)

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	
	2010 $'000	2009 $'000	2010 $'000	2009 $'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)	2,076,601	3,385,162	1,270,474	1,972,916
Cash reserve at Bank of Jamaica	456,476	413,744	-	-
Trading securities	47,889	-	47,889	-
Securities purchased under agreements to resell	1,363,506	4,499,614	987,400	3,038,600
Investment securities	48,475,044	27,366,054	43,835,231	24,425,466
Derivative financial instruments	290,777	155,374	284,727	155,374
Loans, net of provision for credit losses	9,480,319	8,653,610	2,743,543	2,012,579
Lease receivables	20,566	32,608	-	713
Pledged assets	8,117,235	18,221,416	8,117,235	18,191,416
Due to related parties	17,638	10,066	17,638	11,652
Other assets	73,840	110,204	46,180	95,275
	70,419,891	62,847,852	57,350,317	49,903,991
Credit risk exposures relating to off balance sheet items are as follows:				
Loan commitments	320,359	779,832	82,545	74,930
Guarantees and letters of credit	1,078,806	1,170,560	638,495	621,922
	1,399,165	1,950,392	721,040	696,852

The above table represents a worst-case scenario of credit risk exposure to the Group and company at 31 December 2010 and 2009, 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.

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31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

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	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Neither past due nor impaired -				
Standard	6,154,859	7,110,712	1,220,158	1,697,715
Past due but not impaired	2,987,000	1,358,472	1,374,394	256,598
Impaired	483,610	304,297	224,300	117,887
Gross	9,625,469	8,773,481	2,818,852	2,072,200
Less: Provision for credit losses	(213,807)	(177,437)	(93,781)	(75,314)
Net	9,411,662	8,596,044	2,725,071	1,996,886

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	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Less than 30 days	1,253,876	879,493	944,330	205,179
31 to 60 days	20,692	452,800	-	45,357
61 to 90 days	1,712,432	26,179	430,064	6,062
	2,987,000	1,358,472	1,374,394	256,598

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 $81,039,965,000 (2009 - $4,481,806,000) and $5,578,528,000 (2009 – $1,368,808,000) respectively.

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

Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

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	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Loans and leases	483,610	304,297	224,300	117,887

The fair value of collateral that the Group and company held as security for individually impaired loans was $2,172,612,000 (2009 - $516,892,000) and $979,651,000 (2009 - $257,528,000) 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 $80,342,000 (2009 - $16,427,000) and $Nil (2009 - $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 $196,060,000 (2009 – $20,600,000) and $5,000,000 (2009 – $Nil) respectively.

Notes to the Financial Statements

31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

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	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Agriculture, fishing and mining	1,260,559	1,223,387	148,106	25,934
Construction and real estate	1,237,703	708,176	133,261	44,087
Distribution	2,023,103	1,809,723	724,390	667,361
Manufacturing	137,516	659,027	97,596	399,588
Personal	567,757	614,504	179,013	234,882
Professional and other services	2,638,187	1,898,496	1,255,820	256,376
Tourism and entertainment	1,619,874	1,726,717	268,711	430,790
Transportation, storage and communication	140,770	133,451	11,955	13,182
	9,625,469	8,773,481	2,818,852	2,072,200
Less: Provision for credit losses	(213,807)	(177,437)	(93,781)	(75,314)
	9,411,662	8,596,044	2,725,071	1,996,886
Interest receivable	89,223	90,174	18,472	16,406
	9,500,885	8,686,218	2,743,543	2,013,292

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

Notes to the Financial Statements

31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

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	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Government of Jamaica	45,707,946	35,662,999	42,173,800	33,216,379
Bank of Jamaica	2,237,005	2,665,034	1,403,382	2,511,255
Corporate	5,151,948	4,195,576	4,879,902	3,825,387
Financial institutions	4,906,776	7,582,503	4,530,671	6,121,489
	58,003,675	50,106,112	52,987,755	45,674,510

(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;

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31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

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.

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(expressed in Jamaican dollars unless otherwise indicated)

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 2010:						
Total Assets						
Cash and balances due from other financial institutions	2,181,235	-	-	-	-	2,181,235
Cash reserves at Bank of Jamaica	456,483	-	-	-	-	456,483
Trading securities	447	1,819	2,266	18,129	121,364	144,025
Securities purchased under agreements to resell	991,449	377,161	-	-	-	1,368,610
Investment securities and pledged assets	2,288,692	2,141,918	6,213,783	48,297,581	45,409,822	104,351,796
Derivative financial instruments	24,637	-	69,635	165,227	35,214	294,713
Loans, net provision for credit losses	1,782,998	810,867	3,124,136	4,314,429	1,564,413	11,596,843
Lease receivables	1,694	1,476	6,228	29,454	-	38,852
Other	1,184,255	-	4,982	157,302	2,627,740	3,974,279
Total assets (contractual maturity dates)	8,911,890	3,333,241	9,421,030	52,982,122	49,758,553	124,406,836
Total Liabilities						
Securities sold under agreements to repurchase	30,763,978	13,983,374	5,151,618	44,821	-	49,943,791
Customer deposits and other accounts	3,302,002	1,022,159	3,867,281	935,097	1,034,119	10,160,658
Due to banks and other financial institutions	377,040	27,427	277,764	752,271	132,630	1,567,132
Structured products	208,800	45,369	148,554	518,813	222,491	1,144,027
Derivative financial instruments	114,086	-	3,421	5,639	35,214	158,360
Redeemable preference shares	-	13,850	41,551	682,104	-	737,505
Other	333,523	151,404	1,048	-	346,628	832,603
Total liabilities (contractual maturity dates)	35,099,429	15,243,583	9,491,237	2,938,745	1,771,082	64,544,076
Net Liquidity Gap	(26,187,539)	(11,910,342)	(70,207)	50,043,377	47,987,471	59,862,760
Cumulative Liquidity Gap	(26,187,539)	(38,097,881)	(38,168,088)	11,875,289	59,862,760	

Notes to the Financial Statements

31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

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 2009:						
Total 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 and pledged assets	2,361,552	2,778,278	9,933,849	21,401,315	24,820,516	61,295,510
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
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
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
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	

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31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

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 2010:						
Total Assets						
Cash and balances due from other financial institutions	1,271,570	-	-	-	-	1,271,570
Trading securities	447	1,819	2,266	18,129	121,364	144,025
Securities purchased under agreements to resell	614,502	377,161	-	-	-	991,663
Investment securities and pledged assets	1,437,352	2,012,856	5,714,167	45,396,742	42,569,180	97,130,297
Derivative financial instruments	18,587	-	69,635	165,227	35,214	288,663
Loans, net provision for credit losses	1,055,411	167,562	709,027	1,020,981	198,482	3,151,463
Other	990,660	-	4,982	157,302	2,627,740	3,780,684
Total assets (contractual maturity dates)	5,388,529	2,559,398	6,500,077	46,758,381	45,551,980	106,758,365
Total Liabilities						
Securities sold under agreements to repurchase	30,996,233	13,983,374	5,151,618	44,821	-	50,176,046
Customer accounts	25,498	32,293	152,389	239,289	-	449,469
Due to banks and other financial institutions	2,312	8,541	186,549	462,419	6,687	666,508
Derivative financial instruments	114,086	-	3,421	5,639	35,214	158,360
Structured products	208,800	45,369	148,554	518,813	222,491	1,144,027
Redeemable preference shares	-	13,850	41,551	682,104	-	737,505
Other	230,230	151,404	1,048	-	346,628	729,310
Total liabilities (contractual maturity dates)	31,577,159	14,234,831	5,685,130	1,953,085	611,020	54,061,225
Net Liquidity Gap	(26,188,630)	(11,675,433)	814,947	44,805,296	44,940,960	52,697,140
Cumulative Liquidity Gap	(26,188,630)	(37,864,063)	(37,049,116)	7,756,180	52,697,140	

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31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

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:						
Total 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 and pledged asset	2,346,681	2,727,425	9,010,809	20,634,020	22,316,353	57,035,288
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
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
Total 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
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	

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.

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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 or 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.

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(expressed in Jamaican dollars unless otherwise indicated)

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 2010:						
Assets						
Cash and balances due from other financial institutions and	134,809	1,709,423	116,268	107,235	110,444	2,178,179
Cash reserves at Bank of Jamaica	211,066	224,702	10,265	10,443	-	456,476
Trading securities	-	47,889	-	-	-	47,889
Securities purchased under agreements to resell	726,289	630,565	6,652	-	-	1,363,506
Investment securities and pledged assets	33,390,655	22,331,235	397,570	-	550,255	56,669,715
Derivative financial instruments	-	290,777	-	-	-	290,777
Loans, net of provision for credit losses	2,014,525	7,465,794	-	-	-	9,480,319
Lease receivables	20,561	5	-	-	-	20,566
Other	2,109,634	28,175	933	-	1,140	2,139,882
Total assets	38,607,539	32,728,565	531,688	117,678	661,839	72,647,309
Liabilities and Stockholders' Equity						
Securities sold under agreements to repurchase	26,822,083	22,480,830	280,822	-	32,779	49,616,514
Customer deposits and other accounts	1,557,051	7,142,744	80,259	132,176	104,672	9,016,902
Structured products	-	484,428	-	-	-	484,428
Derivative financial instruments	-	44,586	-	-	113,774	158,360
Due to banks and other financial institutions	1,085,483	88,013	-	-	16	1,173,512
Redeemable preference shares	616,000	-	-	-	-	616,000
Other liabilities	871,735	82,370	2,477	209	376	957,167
Stockholders' equity	10,530,910	95,430	-	-	(1,914)	10,624,426
Total liabilities and stockholders' equity	41,483,262	30,418,401	363,558	132,385	249,703	72,647,309
Net on-balance sheet financial position	(2,875,723)	2,310,164	168,130	(14,707)	412,136	-
Credit commitments	722,504	676,661	-	-	-	1,399,165

Notes to the Financial Statements

31 December 2010

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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 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 and pledged assets	26,270,109	18,833,997	-	-	605,037	45,709,143
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
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

Notes to the Financial Statements

31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

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 2010:					
Assets					
Cash and balances due from other financial institutions	211,038	964,279	10,881	84,276	1,270,474
Trading securities	-	47,889	-	-	47,889
Securities purchased under agreements to resell	726,288	261,112	-	-	987,400
Investment securities and pledged assets	30,496,693	20,571,070	397,570	550,256	52,015,589
Derivative financial instruments	-	284,727	-	-	284,727
Loans, net of provision for credit losses	562,911	2,180,632	-	-	2,743,543
Other	3,758,644	21,113	926	1	3,780,684
Total assets	35,755,574	24,330,822	409,377	634,533	61,130,306
Liabilities and Stockholders' Equity					
Securities sold under agreements to repurchase	26,822,083	22,713,086	280,822	32,779	49,848,770
Customer accounts	406,527	52	-	-	406,579
Structured products	-	484,428	-	-	484,428
Due to banks and other financial institutions	450,547	88,013	-	16	538,576
Derivative financial instruments	-	44,586	-	113,774	158,360
Redeemable preference shares	616,000	-	-	-	616,000
Other liabilities	675,777	53,533	-	-	729,310
Stockholders' equity	8,323,436	26,788	-	(1,941)	8,348,283
Total liabilities and stockholders' equity	37,294,370	23,410,486	280,822	144,628	61,130,306
Net on-balance sheet financial position	(1,538,796)	920,336	128,555	489,905	-
Credit commitments	463,886	257,154	-	-	721,040

Notes to the Financial Statements

31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

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 and pledged assets	24,729,348	17,389,299	-	605,037	42,723,684
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
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	327,865	369,017	-	-	696,882

In 2009 Government of Jamaica US$ indexed bonds are included in the US$ category for currency risk disclosure.

Notes to the Financial Statements

31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

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 on pre-tax profit is based on foreign currency denominated monetary items at the year end. 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 Pre-tax Profit	Change in Currency Rate	Effect on Pre-tax Profit
	2010 %	2010 $'000	2009 %	2009 $'000
Currency:				
USD	+5	119,535	+5	161,735
EUR	+5	20,511	+5	6,641
GBP	+5	8,407	+5	2,184
USD	-5	(119,535)	-5	(161,735)
EUR	-5	(20,511)	-5	(6,641)
GBP	-5	(8,407)	-5	(2,184)

	The Company			
	Change in Currency Rate	Effect on Pre-tax Profit	Change in Currency Rate	Effect on Pre-tax Profit Profit
	2010 %	2010 $'000	2009 %	2009 $'000
Currency:				
USD	+5	46,611	+5	85,970
EUR	+5	24,398	+5	4,401
GBP	+5	6,428	+5	(911)
USD	-5	(46,611)	-5	(85,970)
EUR	-5	(24,398)	-5	(4,401)
GBP	-5	(6,428)	-5	911

Notes to the Financial Statements

31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

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.

Notes to the Financial Statements

31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

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 2010:							
Assets							
Cash and balances due from other financial institutions	2,075,446	-	-	-	-	102,733	2,178,179
Cash reserve at Bank of Jamaica	456,476	-	-	-	-	-	456,476
Trading securities	-	-	-	-	46,784	1,105	47,889
Securities purchased under agreements to resell	984,301	371,202	-	-	-	8,003	1,363,506
Investment securities and pledged assets	2,180,110	18,428,112	3,102,307	15,436,365	16,346,793	1,176,028	56,669,715
Derivative financial instruments	18,271	-	54,110	142,251	-	76,145	290,777
Loans, net of provision for credit losses	1,695,327	688,144	2,693,351	3,057,959	1,256,365	89,173	9,480,319
Leases receivables	987	140	-	19,389	-	50	20,566
Other	-	-	-	-	-	2,139,882	2,139,882
Total assets	7,410,918	19,487,598	5,849,768	18,655,964	17,649,942	3,593,119	72,647,309
Liabilities							
Securities sold under agreements to repurchase	30,507,972	13,769,976	4,966,266	40,850	-	331,450	49,616,514
Customer deposits and other accounts	2,863,373	971,647	3,714,095	563,583	825,200	79,004	9,016,902
Structured products	42,765	-	155,038	63,337	131,286	92,002	484,428
Derivative financial instruments	-	-	-	-	-	158,360	158,360
Due to banks and other financial institutions	366,361	-	18,097	670,829	114,553	3,672	1,173,512
Redeemable preference shares	-	-	-	612,852	-	3,148	616,000
Other	-	-	-	-	-	957,167	957,167
Total liabilities	33,780,471	14,741,623	8,853,496	1,951,451	1,071,039	1,624,803	62,022,883
Total interest repricing gap	(26,369,553)	4,745,975	(3,003,728)	16,704,513	16,578,903	1,968,316	10,624,426
Cumulative repricing gap	(26,369,553)	(21,623,578)	(24,627,306)	(7,922,793)	8,656,110	10,624,426	

Notes to the Financial Statements

31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (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	Non-Interest Bearing $'000	Total $'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 and pledged assets	5,905,642	12,017,779	10,198,201	11,183,887	4,852,728	1,550,906	45,709,143
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
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	

Notes to the Financial Statements

31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (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	Non-Interest Bearing $'000	Total $'000
At 31 December 2010:							
Assets							
Cash and balances due from other financial institutions	1,270,474	-	-	-	-	-	1,270,474
Trading securities	-	-	-	-	46,784	1,105	47,889
Securities purchased under agreements to resell	609,052	371,202	-	-	-	7,146	987,400
Investment securities and pledged assets	1,350,109	17,687,920	2,905,853	13,964,119	15,030,937	1,076,651	52,015,589
Derivative financial instruments	18,271	-	54,110	142,251	-	70,095	284,727
Loans, net of provision for credit losses	1,022,218	140,756	608,345	767,203	186,549	18,472	2,743,543
Other	-	-	-	-	-	3,780,684	3,780,684
Total assets	4,270,124	18,199,878	3,568,308	14,873,573	15,264,270	4,954,153	61,130,306
Liabilities							
Securities sold under agreements to repurchase	30,740,227	13,769,976	4,966,266	40,850	-	331,451	49,848,770
Customer accounts	23,273	28,207	132,711	209,413	-	12,975	406,579
Structured products	42,765	-	155,038	63,337	131,286	92,002	484,428
Due to banks and other financial institutions	851	-	-	518,977	15,185	3,563	538,576
Derivative financial instruments	-	-	-	-	-	158,360	158,360
Redeemable preference shares	-	-	-	612,852	-	3,148	616,000
Other	-	-	-	-	-	729,310	729,310
Total liabilities	30,807,116	13,798,183	5,254,015	1,445,429	146,471	1,330,809	52,782,023
Total interest repricing gap	(26,536,992)	4,401,695	(1,685,707)	13,428,144	15,117,799	3,623,344	8,348,283
Cumulative repricing gap	(26,536,992)	(22,135,297)	(23,821,004)	(10,392,860)	4,724,939	8,348,283	

Notes to the Financial Statements

31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (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	Non-Interest Bearing $'000	Total $'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 and pledged assets	5,201,006	11,788,998	8,489,522	11,123,672	4,655,093	1,465,393	42,723,684
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
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	

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31 December 2010

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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 £	EURO €	J $	US $	CAN $	GBP £	EURO €
	%	%	%	%	%	%	%	%	%	%
	2010									
Assets										
Cash and balances due from other financial institutions	1.93	1.00	0.05	0.81	1.01	1.36	-	-	1.01	1.01
Cash reserves at Bank of Jamaica	-	0.01	0.01	0.05	-	-	-	-	-	-
Trading securities	-	8.67	-	-	-	-	8.67	-	-	-
Securities purchased under agreements to resell	8.31	5.04	-	-	-	8.31	5.12	-	-	-
Investment securities – debt securities	11.49	9.74	-	7.50	9.55	11.48	8.70	-	7.5	9.55
Loans, net of provision for credit losses	16.61	9.50	-	-	-	16.05	9.29	-	-	-
Lease receivables	21.47	-	-	-	-	-	-	-	-	-
Liabilities										
Securities sold under agreements to repurchase	7.87	4.12	-	2.86	2.89	7.87	4.12	-	2.86	2.89
Customer deposits and other accounts	6.52	3.37	2.85	3.52	1.50	7.19	-	-	-	-
Structured products	-	7.39	-	-	-	-	7.39	-	-	-
Due to banks and other financial institutions	10.03	8.68	-	-	-	10.03	8.68	-	-	-
Redeemable preference shares	12.50	-	-	-	-	12.50	-	-	-	-
	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	-	-	-	-

Notes to the Financial Statements

31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

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 pre-tax profit or loss 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 Pre-tax Profit	Effect on Other components of Equity	Effect on Pre-tax Profit	Effect on Other components of Equity
	2010 $'000	2010 $'000	2009 $'000	2009 $'000
Change in basis points				
J$ - 100, US$ - 50 (2009 J$ - 800, US$ - 300)	157,680	866,171	749,648	3,159,694
J$ + 200, US$ +50 (2009 - J$ +200, US$ +100)	(291,311)	(1,282,649)	(233,734)	(756,505)

	The Company			
	Effect on Pre-tax Profit	Effect on Other components of Equity	Effect on Pre-tax Profit	Effect on Other components of Equity
	2010 $'000	2010 $'000	2009 $'000	2009 $'000
Change in basis points				
J$ - 100, US$ - 50 (2009 J$ - 800, US$ - 300)	126,144	782,981	599,718	2,786,781
J$ + 200, US$ +50 (2009 - J$ +200, US$ +100)	(233,049)	(1,157,626)	(190,987)	(671,074)

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31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

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.

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 2010 and 2009. 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).

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3. Financial Risk Management (Continued)

(d) Capital management (continued)

	PCFS	PCFS	PCB	PCB	PCAM	PCAM
	2010 $'000	2009 $'000	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Tier 1 capital	6,956,085	5,663,413	2,518,548	2,531,820	-	191,648
Tier 2 capital	1,071,808	1,479,137	69,876	70,635	-	5,310
Total regulatory capital	8,027,893	7,142,550	2,588,424	2,602,455	-	196,958
Total required capital	3,478,042	2,831,707	810,476	798,805	-	95,824
Risk-weighted assets:						
On-balance sheet	15,780,894	8,966,812	6,045,913	5,005,824	-	256,622
Off-balance sheet	-	-	678,948	1,253,540	-	-
Foreign exchange exposure	1,400,013	2,757,128	1,379,898	1,728,690	-	-
Total risk-weighted assets	17,180,907	11,723,940	8,104,759	7,988,054	-	256,622
Actual capital base to risk weighted assets	47%	61%	32%	33%	-	77%
Required capital base to risk weighted assets	10%	10%	10%	10%	10%	10%

(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.

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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 increase/(decrease) by $60,370,000 (2009 – ($181,933,000)) 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.

(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 $Nil (2009 – $50,836,000) in its 2010 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.

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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 measures the performance of its operating segments through a measure of segment profit or loss which is profit before taxation.

IFRS 8 has been amended so that a measure of segment assets is only required to be disclosed if the measure is regularly provided to the chief operating decision-maker. Segment assets include interest-bearing assets. No other information is reported to or used by the CODM in order to assess performance and allocate resources.

Segment liabilities that are reviewed by the CODM include interest-bearing liabilities.

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.

Net interest income is reported as the CODM relies primarily on the net interest income in assessing segment performance.

The Group's operations are located in Jamaica.

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5. Segment Reporting (Continued)

	The Group						
	Year ended 31 December 2010						
	Treasury Management	Corporate & Retail Credit	Asset Management	Trading	Corporate Trust	Eliminations	Group
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Gross external revenues	5,515,819	1,043,577	230,169	590,870	54,405	-	7,434,840
Revenues/expenses from other segments	18,771	-	-	-	-	(18,771)	-
Total gross revenues	5,534,590	1,043,577	230,169	590,870	54,405	(18,771)	7,434,840
Total expenses	(4,165,751)	(1,029,857)	(92,712)	(119,082)	(52,250)	-	(5,459,652)
Profit before tax	1,368,839	13,720	137,457	471,788	2,155	(18,771)	1,975,188
Income tax expense							(451,147)
Net profit							1,524,041
Segment assets	58,371,889	9,500,885	-	-	-	-	67,872,774
Unallocated assets							4,774,535
Total Assets							72,647,309
Segment liabilities	59,892,204	1,173,513	-	-	-	-	61,065,717
Unallocated liabilities							957,116
Total Liabilities							62,022,883
Other segment items -							
Net Interest income	2,384,687	362,110	-	-	-	-	2,746,797
Capital expenditure	7,033	96,206	-	-	-	-	103,239
Depreciation	26,078	19,245	-	-	-	-	45,323
Amortisation charges	5,571	46,051	-	-	-	-	51,622

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5. Segment Reporting (Continued)

	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	8,686,218	-	-	-	-	59,745,508
Unallocated assets							5,500,059
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 -							
Net Interest income	2,194,350	426,549	-	-	-	-	2,620,899
Capital expenditure	9,107	17,972	-	-	-	-	27,079
Depreciation	29,437	19,561	-	-	-	-	48,998
Amortisation charges	13,368	47,798	-	-	-	-	61,166

6. Interest Expense

	The Group		The Company	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Customer deposits, repurchase liabilities and other accounts	3,566,740	5,447,383	3,140,827	4,956,801
Due to banks and other financial institutions	115,594	130,403	84,131	89,751
Redeemable preference shares	137,861	158,044	137,861	158,044
	3,820,195	5,735,830	3,362,819	5,204,596

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7. Fees and Commission Income

	The Group		The Company	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Asset management fees	218,801	186,135	218,801	142,847
Credit related fees	64,772	44,758	20,209	10,437
Stock brokerage fees	31,417	17,304	31,417	17,304
Trust fees	51,405	52,245	26,679	30,465
Wholesale banking fees	9,954	12,147	9,954	12,147
Treasury fees	16,907	6,525	11,432	4,577
Other	12,783	16,752	12,783	16,406
	406,039	335,866	331,275	234,183

8. Net Trading Income

	The Group		The Company	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Foreign exchange trading and translation (losses)/gains	(23,540)	294,573	(95,658)	60,321
Equities trading gains/(losses) and dividends	31,606	(10,869)	31,606	(10,869)
Debt securities trading gains/(losses) -				
Available-for-sale investment securities	222,340	228,280	193,944	219,873
Trading securities	922	5,800	922	5,800
Derivative financial instruments	192,312	(2,984)	163,451	(2,984)
	423,640	514,800	294,265	272,141

9. Other Revenue

	The Group		The Company	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Dividend income from subsidiary	-	-	165,000	-
Structured products	11,368	4,997	11,368	4,997
Service fees	17,374	9,258	-	-
Other	9,427	9,455	6,428	67
	38,169	23,710	182,796	5,064

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10. Staff Costs

	The Group		The Company	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Wages and salaries	680,684	626,413	504,242	418,743
Statutory contributions	59,447	57,491	40,008	38,503
Pension costs (Note 31)	87,747	(6,081)	-	-
Other post-employment benefits (Note 31)	5,737	10,328	-	-
Accommodation and other staff benefits	77,759	66,784	74,534	66,456
Stock options expense (Note 38)	1,163	3,169	1,163	3,169
	912,537	758,104	619,947	526,871

11. Impairment Charges

	The Group		The Company	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Investment securities (Note 21)	40,826	72,872	40,826	72,872
Loans (Note 24)	39,145	72,856	21,003	18,050
Lease receivables (Note 25)	1,934	16,976	-	-
Other	19,914	6,780	14,905	6,780
	101,819	169,484	76,734	97,702

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12. Other Expenses

	The Group		The Company	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Amortisation (Note 28)	51,622	61,166	5,571	13,368
Audit fees	10,193	11,152	5,396	5,396
Automated banking fees	4,828	4,357	-	-
Bank charges	23,026	20,805	9,060	8,152
Commissions and fees	39,864	34,188	18,491	13,177
Consultancy fees	500	360	159	360
Depreciation (Note 29)	45,323	48,998	26,078	29,437
Donations	482	1,481	329	1,382
Insurance	21,040	22,236	9,448	10,906
Irrecoverable General Consumption Tax	39,253	35,181	16,064	11,905
Legal and professional fees	16,858	15,730	12,746	10,209
Licensing fees	41,800	45,076	9,471	9,248
Miscellaneous	2,853	2,352	2,003	226
Motor vehicle expense	7,705	6,172	3,049	2,537
Office expenses	7,058	8,266	1,037	767
Printing and stationery	8,430	6,783	2,033	2,483
Promotion and advertising	74,472	80,483	42,635	36,423
Repairs and maintenance	13,450	5,092	7,725	731
Security	10,126	8,042	1,010	298
Stamp duty	199	-	199	-
Technology project expense	54,329	48,379	54,329	48,379
Telephone and postage	26,852	28,529	14,263	12,826
Travelling and entertainment	9,695	9,956	4,493	6,276
	509,958	504,784	245,589	224,486

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	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Current tax	432,149	492,108	335,201	351,657
Prior year under/(over) provision	1,031	(1,066)	(3,048)	(2,611)
Deferred tax (Note 30)	17,967	(9,620)	38,339	(15,122)
	451,147	481,422	370,492	333,924

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13. Taxation (Continued)

(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	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Profit before taxation	1,975,188	1,959,266	1,819,365	1,499,067
Tax calculated at 33⅓%	658,396	653,089	606,455	499,689
Adjusted for the effects of:				
Income not subject to tax	(212,194)	(172,123)	(234,656)	(165,000)
Prior year under/(over) provision	1,031	(1,066)	(3,048)	(2,611)
Net effect of other charges and allowances	3,914	1,522	1,741	1,846
	451,147	481,422	370,492	333,924

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

	The Group		The Company	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Arising on gains/losses recognised in other comprehensive income -				
Available-for-sale investments	(865,830)	(45,737)	(735,968)	(68,936)
Cash flow hedge	-	98,799	-	98,799
	(865,830)	53,062	(735,968)	29,863
Reclassifications from other comprehensive income to profit and loss account -				
Available-for-sale investments	754	5,177	(10,703)	3,075
Cash flow hedge	6,305	(24,151)	6,305	(24,151)
	7,059	(18,974)	(4,398)	(21,076)
	(858,771)	34,088	(740,366)	8,787

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14. Net Profit

	2010 $'000	2009 $'000
Dealt with in the financial statements of:		
The company	1,448,873	1,165,143
The subsidiaries	75,168	312,701
	1,524,041	1,477,844

15. Retained Earnings

	2010 $'000	2009 $'000
Reflected in the financial statements of:		
The company	3,968,195	3,731,834
The subsidiaries	194,636	167,390
	4,162,831	3,899,224

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.

	2010	2009
Net profit attributable to stockholders ($'000)	1,524,041	1,477,844
Weighted average number of ordinary stock units in issue ('000)	548,991	547,924
Basic earnings per stock unit ($)	2.78	2.70

(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.

	2010	2009
Net profit attributable to stockholders ($'000)	1,524,041	1,477,844
Weighted average number of ordinary stock units in issue ('000)	550,471	547,924
Diluted earnings per stock unit ($)	2.77	2.70

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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:

	2010 '000	2009 '000
Weighted average number of ordinary stock units for the purposes of the computation of basic earnings per stock unit	548,991	547,924
Effect of dilutive potential ordinary stock units – stock options	1,480	-
Weighted average number of ordinary stock units for the purposes of the computation of diluted earnings per stock unit	550,471	547,924

17. Cash and Balances Due from Other Financial Institutions

	The Group		The Company	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Placements with other financial institutions	124,290	1,236,887	124,290	328,042
Items in the course of collection	122,181	84,358	-	-
Cash in hand and at bank	1,931,708	2,141,409	1,146,184	1,644,858
	2,178,179	3,462,654	1,270,474	1,972,900
Interest receivable	-	1,597	-	16
	2,178,179	3,464,251	1,270,474	1,972,916

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	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Cash and balances due from other financial institutions (Note 23)	2,053,889	3,334,537	1,146,184	1,843,202

18. Cash Reserve at Bank of Jamaica

A prescribed minimum of 26% (2009 - 28%) of deposit liabilities are required to be maintained by the banking subsidiary in liquid assets, of which 12% (2009 - 14%) must be maintained as cash reserve with the Bank of Jamaica for Jamaican dollar currency and 9% (2009 – 11%) for the relevant foreign currency. The cash reserve is not available for investment, lending or other use by the Group.

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19. Trading Securities

	The Group and Company	
	2010	2009
	$'000	$'000
Debt securities -		
Government of Jamaica	42,365	-
Corporate bonds	4,419	-
	46,784	-
Interest receivable	1,105	-
	47,889	-

20. Securities Purchased Under Agreements to Resell

	The Group		The Company	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Principal	1,355,504	4,486,063	980,254	3,029,132
Interest receivable	8,002	13,551	7,146	9,468
	1,363,506	4,499,614	987,400	3,038,600

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 2010, the Group held $1,575,102,000 (2009 - $6,267,263,000) of securities, mainly representing Government of Jamaica debt securities, as collateral for reverse repurchase agreements.

	The Group		The Company	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Securities purchased under agreement to resell with an original maturity of less than 90 days (Note 23)	1,042,028	4,318,373	666,052	3,038,600

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21. Investment Securities

	The Group		The Company	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Available-for-sale securities -				
Debt securities -				
Government of Jamaica	44,702,499	34,629,126	41,236,721	32,237,555
Corporate bonds	5,148,072	4,039,312	4,887,996	3,681,093
Credit linked notes	1,850,281	1,337,198	1,850,281	1,337,198
Bank of Jamaica Certificates of Deposit	2,228,569	2,386,891	1,398,569	2,236,735
	53,929,421	42,392,527	49,373,567	39,492,581
Equity securities -				
Quoted – at fair value	-	47,398	-	47,398
Unquoted – at cost	118,262	74,275	103,950	59,404
	118,262	121,673	103,950	106,802
Preference shares -				
Quoted – at fair value	-	166,824	-	166,824
	54,047,683	42,681,024	49,477,517	39,766,207
Held- to-maturity investments -				
Credit linked notes	1,615,864	1,671,758	1,615,864	1,671,758
	55,663,547	44,352,782	51,093,381	41,437,965
Less: Pledged assets (Note 26)	(8,117,235)	(18,221,416)	(8,117,235)	(18,191,416)
	47,546,312	26,131,366	42,976,146	23,246,549
Less: Impairment charges	(92,424)	(72,872)	(92,424)	(72,872)
	47,453,888	26,058,494	42,883,722	23,173,677
Interest receivable	1,098,592	1,429,233	1,014,632	1,358,591
	48,552,480	27,487,727	43,898,354	24,532,268

The company recognised impairment charges totaling $Nil (2009 - $53,844,000) on debt securities and $40,826,000 (2009 - $19,028,000) on equity securities.

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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	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Debt securities with an original maturity of less than 90 days (Note 23)	2,237,005	247,961	1,403,382	247,961

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 2010, the fair values and carrying values of financial assets reclassified is $1,747,083,000 (2009 - $1,563,758,000) and $1,686,712,000 (2009 - $1,745,691,000).

The fair value gain/(loss) that would have been recognised in other comprehensive income for the Group and company if these investment securities had not been reclassified is $60,370,000 (2009 – ($181,933,000)).

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	
	2010	2009
	$'000	$'000
Interest income	207,484	211,162
Foreign exchange (loss)/gain	(42,667)	159,177
	164,817	370,339

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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	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Currency forward	6,050	-	-	-
Exchange traded funds – short sale	-	-	113,774	127,721
Foreign currency put option	-	7,103	-	-
Foreign exchange collar option	25,508	-	-	-
Equity indexed options	44,586	72,985	44,586	72,985
Interest rate swap	214,633	75,286	-	-
	290,777	155,374	158,360	200,706

	The Company			
	Assets		Liabilities	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Exchange traded funds – short sale	-	-	113,774	127,721
Foreign currency put option	-	7,103	-	-
Foreign exchange collar option	25,508	-	-	-
Equity indexed options	44,586	72,985	44,586	72,985
Interest rate swap	214,633	75,286	-	-
	284,727	155,374	158,360	200,706

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22. Derivative Financial Instruments and Hedging Activity (Continued)

(i) Currency forward
Currency forwards represent commitments to buy and sell foreign currencies on a net 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 net basis. The contract expires in January 2011.

(ii) Exchange traded funds – short sale
During 2009, 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. The contract expires in January 2011.

(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) During 2009, the company entered into a currency put option to sell a notional amount of EUR3,850,000. The contract expired 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 33). 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) During the year the company entered a collar to sell a call option and buy a put option; the notional amount was £963,000 and will be settled on a net basis. The contract expires on various settlement dates. The final settlement date is December 2012.

(vi) Hedging activity – cash flow hedge

Interest rate swap

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

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 based on 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 had been negotiated to match the terms of the available-for-sale bond. Both the interest rate swap and the floating rate available-for-sale bond mature in 2015. The interest rate swap is settled on a net basis.

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22. Derivative Financial Instruments and Hedging Activity (Continued)

(vi) Hedging activity – cash flow hedge (continued)

During the year, the company discontinued hedge accounting as the hedge relationship was no longer effective arising from the Jamaica Debt Exchange programme. Hedge accounting was therefore ceased from 1 January 2010. Consequently, effective 1 January 2010, changes in fair value of the interest rate swap are now recognised in net trading income in the profit and loss account. The amount recognised in current year is $92,900,000, net of deferred taxation.

The hedge accounting gains and losses up to 31 December 2009 will be transferred to profit and loss account as interest income is recognised on the floating rate available-for-sale bond. Accordingly, $12,600,000, net of deferred taxation, was reclassified from the fair value reserve to net trading income in the current year.

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

23. Cash and Cash Equivalents

	The Group		The Company	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Cash and balances due from other financial institutions (Note 17)	2,053,889	3,334,537	1,146,184	1,843,202
Securities purchased under agreements to resell (Note 20)	1,042,028	4,318,373	666,052	3,038,600
Investment securities (Note 21)	2,237,005	247,961	1,403,382	247,961
Repurchase agreements with financial institutions	(1,011,945)	(485,259)	(1,226,260)	(485,259)
Items in the course of payment (Note 36)	(85,465)	(672,762)	-	-
Short term loan (Note 34)	(365,000)	-	-	-
	3,870,512	6,742,850	1,989,358	4,644,504

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24. Loans, Net of Provision for Credit Losses

	The Group		The Company	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Gross loans and advances	9,586,043	8,725,034	2,818,852	2,071,493
Less: Provision for credit losses	(194,897)	(160,461)	(93,781)	(75,314)
	9,391,146	8,564,573	2,725,071	1,996,179
Loan interest receivable	89,173	89,037	18,472	16,400
	9,480,319	8,653,610	2,743,543	2,012,579

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

	The Group		The Company	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Total non-performing loans	334,457	205,724	220,384	59,393

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

	The Group		The Company	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Balance at beginning of year	160,461	115,178	75,314	87,135
Provided during the year	119,149	72,856	53,224	18,050
Recoveries	(80,004)	-	(32,221)	-
Net charge to the profit and loss account (Note 11)	39,145	72,856	21,003	18,050
Write offs	(698)	(36,303)	(698)	(36,258)
Currency revaluation adjustment	(4,011)	8,730	(1,838)	6,387
Balance at end of year	194,897	160,461	93,781	75,314

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25. Lease Receivables

	The Group		The Company	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Gross investment in finance leases -				
Not later than one year	15,382	22,826	-	871
Later than one year and not later than five years	43,020	47,447	-	-
	58,402	70,273	-	871
Unearned finance income	(18,976)	(21,826)	-	(164)
Net investment in finance leases	39,426	48,447	-	707
Net investment in finance leases -				
Not later than one year	15,330	22,067	-	707
Later than one year and not later than five years	24,096	26,380	-	-
	39,426	48,447	-	707
Less Provision for credit losses	(18,910)	(16,976)	-	-
	20,516	31,471	-	707
Interest receivable	50	1,137	-	6
	20,566	32,608	-	713

The aggregate amount of non-performing lease receivables on which interest was not being accrued is $34,546,000 (2009 - $25,758,000).

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26. 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	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Investment securities and securities purchased under resale agreements	49,974,419	45,936,252	49,848,770	43,990,533

	The Company			
	Asset		Related liability	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Investment securities and securities purchased under resale agreements	49,974,419	45,050,161	49,848,770	43,990,533

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	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Investment securities	8,117,235	18,221,416	8,117,235	18,191,416

27. 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.

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27. Related Party Transactions and Balances (Continued)

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

	The Group		The Company	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
With parent company -				
Management fees earned	152,559	130,633	152,599	130,633
Interest and other income earned	-	812	-	812
Interest and other expenses paid	(53,819)	(110,054)	(53,819)	(110,054)
Rent and net lease recoveries paid to related party	(6,774)	(5,736)	(1,646)	(5,736)
With fellow subsidiaries -				
Interest income earned	-	-	11,281	23,890
Interest expense paid	(94,311)	(80,736)	(94,406)	(96,605)
Dividend income earned	-	-	165,000	-
Pension expense recharge	-	-	(44,202)	-
Redeemable preference shares interest	-	-	-	1,460
With directors and key management -				
Interest expense paid	(5,720)	(6,811)	(5,454)	(7,277)
Interest income earned	-	2,966	-	-
Salaries and other short-term benefits	148,907	183,306	115,149	143,396
With managed funds -				
Management fees earned	55,812	47,694	55,812	4,406
Interest expense paid	(1,506,152)	(340,742)	(1,506,152)	(340,742)
Directors' emoluments -				
Fees	16,511	10,226	12,031	8,694
Other	51,733	75,002	34,007	50,145
	68,244	85,228	46,038	58,839

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27. Related Party Transactions and Balances (Continued)

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

	The Group		The Company	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
With ultimate parent company -				
Balances due from ultimate parent company	263	-	263	-
With parent company -				
Customer deposits	-	(154,703)	-	-
Securities sold under agreements to repurchase	(822,826)	(1,585,629)	(822,826)	(1,585,629)
Securities sold under agreements to repurchase – managed funds	(156,481)	(583,410)	(156,481)	(583,410)
Balances due from parent company	-	95	-	95
Balances due to parent company	(3,830)	-	(3,830)	-
With fellow subsidiaries -				
Cash and bank balances	-	-	307,477	707,965
Securities sold under agreements to repurchase	(788,052)	(871,001)	(1,002,132)	(871,001)
Due to banks and other financial institutions	-	(223,320)	-	(223,320)
Balances due from fellow subsidiaries	-	-	-	1,586
Balances due to fellow subsidiaries	(1,212)	(947)	(66,263)	(193,532)

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27. Related Party Transactions and Balances (Continued)

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

	The Group		The Company	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
With directors and key management personnel -				
Loans	12,040	9,689	935	-
Customer deposits and other accounts	(15,135)	(41,986)	-	-
Securities sold under agreements to repurchase	(160,492)	(82,067)	(160,492)	(82,067)
With managed funds -				
Customers deposits	(321,569)	(181,450)	-	-
Securities sold under agreements to repurchase	(2,892,830)	(5,279,398)	(2,892,830)	(5,279,398)
Balances due from other related parties	17,375	9,971	17,375	9,971

28. Intangible Assets

	The Group		The Company	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Computer software	51,708	78,408	14,039	11,024
Goodwill	733,750	733,750	143,263	143,263
	785,458	812,158	157,302	154,287

Computer software

	The Group		The Company	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Opening net book value	78,408	134,046	11,024	22,712
Additions	24,922	5,528	8,586	1,680
Amortisation	(51,622)	(61,166)	(5,571)	(13,368)
	51,708	78,408	14,039	11,024
Cost, net of grant	320,235	295,313	124,744	116,158
Accumulated amortisation	(268,527)	(216,905)	(110,705)	(105,134)
	51,708	78,408	14,039	11,024

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28. 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:

	2010	**2009**
	$'000	**$'000**
Asset Management	54,604	54,604
Credit	75,417	75,417
Treasury, PDU & Investment Services	443,992	443,992
Trading & Brokerage	152,437	152,437
Trust Services	7,300	7,300
	733,750	733,750

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

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

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29. Property, Plant and Equipment

	Leasehold Improvement $'000	Furniture and Equipment $'000	Motor Vehicles $'000	Computer Equipment $'000	Total $'000
			The Group		
Cost					
At 1 January 2009	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
Additions	48,586	9,884	8,213	11,634	78,317
Disposals	-	(4)	(2,643)	-	(2,647)
At 31 December 2010	150,718	136,011	11,057	168,657	466,443
Accumulated Depreciation					
At 1 January 2009	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
Charge for the year	12,010	12,742	1,046	19,525	45,323
Disposals	-	(4)	(2,643)	-	(2,647)
At 31 December 2010	57,251	112,661	2,660	132,944	305,516
Net Book Value					
At 31 December 2010	93,467	23,350	8,397	35,713	160,927
At 31 December 2009	56,891	26,208	1,230	43,604	127,933
			The Company		
Cost					
At 1 January 2009	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
Additions	43,450	8,366	8,213	10,346	70,375
Disposals	-	-	(2,643)	-	(2,643)
At 31 December 2010	99,670	55,151	9,289	95,567	259,677
Accumulated Depreciation					
At 1 January 2009	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
Charge for the year	7,742	4,937	933	12,466	26,078
Disposals	-	-	(2,643)	-	(2,643)
At 31 December 2010	35,324	34,140	1,294	79,291	150,049
Net Book Value					
At 31 December 2010	64,346	21,011	7,995	16,276	109,628
At 31 December 2009	28,638	17,582	715	18,396	65,331

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30. 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	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Deferred income tax assets	25,148	561,503	10,194	480,486
Deferred income tax liabilities	(414,845)	(74,462)	(347,676)	(39,263)
Net deferred income tax (liability)/asset	(389,697)	487,041	(337,482)	441,223

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

	The Group		The Company	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Balance at beginning of year	487,041	443,333	441,223	417,314
(Charged)/credited to profit and loss account (Note 13)	(17,967)	9,620	(38,339)	15,122
Tax (charged)/credited relating to components in other comprehensive income (Note 13)	(858,771)	34,088	(740,366)	8,787
Balance at end of year	(389,697)	487,041	(337,482)	441,223

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30. Deferred Income Taxes (Continued)

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

	The Group		The Company	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Deferred income tax assets -				
Property, plant and equipment	1,200	2,558	1,200	2,558
Investment securities	-	540,777	-	471,587
Post-employment benefit obligations	12,623	10,710	-	-
Loan loss provision	4,012	-	4,012	-
Other	7,313	7,458	4,982	6,341
	25,148	561,503	10,194	480,486
Deferred income tax liabilities -				
Property, plant and equipment	866	6,316	-	-
Investment securities	317,995	-	268,779	-
Trading securities	307	-	307	-
Interest rate swap	77,849	25,095	77,849	25,095
Loan loss provision	17,087	23,759	-	14,168
Post-employment benefit assets	-	19,292	-	-
Other	741	-	741	-
	414,845	74,462	347,676	39,263
Net deferred tax (liability)/asset	(389,697)	487,041	(337,482)	441,223

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

	The Group		The Company	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Property, plant and equipment	3,351	8,975	(1,358)	5,261
Post-employment benefits	21,205	(8,614)	-	-
Loan loss provision	10,684	(8,427)	18,180	(5,890)
Trading securities	(307)	12,807	(307)	12,807
Interest rate swap	(52,754)	-	(52,754)	-
Other	(146)	4,879	(2,100)	2,944
	(17,967)	9,620	(38,339)	15,122

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31. 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 2010.

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	
	2010 $'000	**2009 $'000**
Present value of funded obligations	366,972	203,413
Fair value of plan assets	(337,276)	(261,288)
	29,696	(57,875)
Unrecognised actuarial loss	(125,201)	(19,643)
Limitation of asset due to uncertainty of obtaining economic benefits	95,505	19,643
Asset in the balance sheet	-	(57,875)

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

	The Group	
	2010 $'000	**2009 $'000**
Balance at beginning of year	203,413	160,949
Current service cost	10,155	12,122
Interest cost	29,979	23,808
Members' contributions	20,921	20,573
Benefits paid	(7,364)	(4,617)
Actuarial loss/(gain) on obligation	109,868	(9,422)
Balance at end of year	366,972	203,413

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31. 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 2010 $'000	The Group 2009 $'000
Balance at beginning of year	261,288	182,657
Members' contributions	20,921	20,573
Employer's contribution	29,872	30,086
Expected return on plan assets	28,249	28,689
Benefits paid	(7,364)	(4,617)
Actuarial gain	4,310	3,900
Balance at end of year	337,276	261,288

Plan assets are comprised as follows:

	The Group 2010 $'000	2010 %	The Group 2009 $'000	2009 %
Equity	13,944	4	18,338	7
Debt	323,332	96	242,950	93
	337,276	100	261,288	100

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

	The Group 2010 $'000	The Group 2009 $'000
Current service cost	10,155	12,122
Interest cost	29,979	23,808
Expected return on plan assets	(28,249)	(28,689)
Recognised actuarial loss	-	1,225
Change in unrecognised assets	75,862	(14,547)
Total, included in staff costs (Note 10)	87,747	(6,081)

The actual return on plan assets was $39,567,000 (2009 – $37,046,000).

Expected contributions to post-employment plan for the year ending 31 December 2011 are $31,499,000.

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31. Post-employment Benefits (Continued)

(a) Pension schemes (continued)

Movements in the amounts recognised in the balance sheet:

	The Group	
	2010 $'000	2009 $'000
Asset at beginning of year	(57,875)	(21,708)
Amounts recognised in the profit and loss account (Note 10)	87,747	(6,081)
Contributions paid	(29,872)	(30,086)
Asset at end of year	-	(57,875)

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				
	2010 $'000	2009 $'000	2008 $'000	2007 $'000	2006 $'000
As at 31 December					
Present value of defined benefit obligation	366,972	203,413	160,949	119,033	106,153
Fair value of plan assets	(337,276)	(261,288)	(182,657)	(165,572)	(127,051)
Deficit/(surplus)	29,696	(57,875)	(21,708)	(46,539)	(20,898)
Experience adjustments on plan liabilities	109,868	(9,422)	4,904	(14,505)	(2,442)
Experience adjustments on plan assets	(4,310)	(3,900)	39,965	(1,130)	(1,969)

The principal actuarial assumptions used were as follows:

	The Group	
	2010	2009
Discount rate	11%	16%
Expected return of plan assets	8%	10%
Future salary increases	10%	11%
Expected pension increase	0%	5%
Average expected remaining working lives (years)	13	13

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31. 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 11% (2009 - 14%) per annum.

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

	The Group	
	2010 $'000	2009 $'000
Present value of unfunded obligations	58,235	20,715
Unrecognised actuarial (loss)/gain	(20,367)	11,416
Liability in the balance sheet	37,868	32,131

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

	The Group	
	2010 $'000	2009 $'000
Balance at beginning of year	20,715	29,460
Current service cost	3,142	5,252
Interest cost	3,314	4,714
Actuarial loss/(gain) on obligation	31,064	(18,711)
Balance at end of year	58,235	20,715

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

	The Group	
	2010 $'000	2009 $'000
Current service cost	3,142	5,252
Interest cost	3,314	4,714
Recognised (gain)/loss	(719)	362
Total, included in staff costs (Note 10)	5,737	10,328

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31. Post-employment Benefits (Continued)

(b) Other post-retirement benefits (continued)

Movement in the amounts recognised in the balance sheet:

	The Group	
	2010 $'000	2009 $'000
Liability at beginning of year	32,131	21,803
Amounts recognised in the profit and loss account (Note 10)	5,737	10,328
Liability at end of year	37,868	32,131

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

	The Group 2010 $'000	
	Decrease	Increase
Effect on the aggregate of current service cost	2,496	3,993
Effect on the aggregate of interest cost	2,674	4,148
Effect on the defined benefit obligation	45,955	74,611

32. Other Assets

	The Group		The Company	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Withholding tax recoverable	1,051,621	581,375	907,459	478,648
Customer settlement accounts	24,416	63,713	21,385	58,433
Staff receivables	10,938	11,406	10,937	11,406
Property, plant and equipment deposits	14,671	38,169	14,102	18,034
Other	42,395	35,085	19,139	25,436
	1,144,041	729,748	973,022	591,957

33. Structured Products

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.

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34. Due to Banks and Other Financial Institutions

	Currency	Rate %	The Group 2010 $'000	The Group 2009 $'000	The Company 2010 $'000	The Company 2009 $'000
Long Term Loans -						
The National Export Import Bank of Jamaica						
Repayable in 42 monthly installments commencing May 2009 and ending October 2012	J$	9.00	6,076	9,390	6,076	9,390
Development Bank of Jamaica Limited -						
Repayable over varying periods from 24 to 96 months	J$	various	73,518	92,593	73,518	92,593
Repayable over varying periods from 48 to 96 months	US$	various	9,770	25,016	9,770	25,016
European Investment Bank -						
Repayable in 7 equal annual installments commencing on 5 December 2008 and ending 2014	J$	various	368,772	460,872	368,772	460,872
Repayable in 7 equal annual installments commencing on 5 December 2008 and ending 2014	US$	various	76,877	56,623	76,877	56,623
Development Bank of Jamaica Limited (DBJ)						
Repayable over varying periods from 6 months to 108 months	J$	7 & 10.00	232,533	285,528	-	-
Repayable over varying periods from 6 months to 108 months	US$	5.35	37,294	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	-	-
			804,840	1,227,006	535,013	644,494
Short Term Loans						
Sagicor Life Inc.						
Repayable in one installment on 25 January 2010	US$	8.00	-	223,320	-	223,320
Citibank N.A						
Repayable in one installment on 3 January 2011	J$	3.50	365,000	-	-	-
Oppenheimer & Co. Inc.						
Repayable in one installment on 16 February 2010	US$	2.25	-	45,016	-	45,016
			365,000	268,336	-	268,336
			1,169,840	1,495,342	535,013	912,830
Interest payable			3,672	5,875	3,563	5,065
			1,173,512	1,501,217	538,576	917,895

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34. 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.

This facility was settled during the year.

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34. 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.

This facility was settled during the year.

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.

The Group has not had any defaults of principal, interest or other breaches with respect to its liabilities during the year.

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35. Redeemable Preference Shares

	The Group and The Company	
	2010 $'000	2009 $'000
Redeemable preference shares	612,852	1,264,324
Interest payable	3,148	6,995
	616,000	1,271,319

The company issued 6,321,621 12½% cumulative redeemable preference shares at a fixed price of $200 per share. The shares will be redeemed in 2013.

During the year the company redeemed 3,257,362 shares at a value of $651,472,000 (Note 42).

36. Other Liabilities

	The Group		The Company	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Accruals	53,829	51,318	37,073	34,060
Customer settlement accounts	37,574	112,081	24,452	58,851
Items in the course of payment	85,465	672,762	-	-
Staff related payables	103,037	76,434	67,334	59,332
Stale dated cheques	48,282	52,631	24,310	30,024
Other	19,822	31,442	6,869	15,310
	348,009	996,668	160,038	197,577

37. Share Capital

The total authorised number of ordinary stock units is 615,613,376 (2009 – 615,613,376), of which 549,536,153 (2009 – 547,924,039) was issued and fully paid.

The movement on share capital is as follows:

	2010 $'000	2009 $'000
Issued and Fully Paid -		
Share capital at the beginning of the year – 547,924,039 (2009 - 547,924,039) ordinary stock units	3,103,811	3,103,811
Stocks units issued during the year – 1,612,114 (2009 – Nil) ordinary stock units	23,056	-
	3,126,867	3,103,811

The stock units in 2010 and 2009 are stated in these financial statements without a nominal or par value.

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37. Share Capital (Continued)

Stock units issued during the year comprise 192,377 ordinary stock units issued under the company's stock options scheme at $12.20 per stock unit, 730,479 ordinary stock unit grants at $18 and 689,258 ordinary stock units issued under the company's staff stock purchase plan at $10.97 per stock unit.

38. Stock Options Reserve

The company offers stock 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 stock options on 1 March 2006. These options expired on 28 February 2010. The exercise price for the options was $19.29. These options vest over four years – 25% each anniversary date of the grant. 150,000 stock units have been taken up to date. 1,050,000 of the stock units were vested and were forfeited during the year.

(ii) 600,000 stock 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 stocks units were forfeited during 2009.

(iii) 4,074,246 stock options on 1 April 2007. These options expire on 31 March 2014. The exercise price for the options is $18.00. These options vest over four years – 25% each anniversary date of the grant. Contracts for 302,177 of these stocks units were forfeited during the year.

(iv) 3,100,273 stock options on 1 April 2008. These options expire on 31 March 2015. The exercise price for the options is $20.50. These options vest over four years – 25% each anniversary date of the grant. Contracts for 335,358 of these stock units were forfeited during the year.

(v) 5,785,288 stock options on 1 April 2009. These options expire on 31 March 2016. The exercise price for the options is $12.20. These options vest over four years – 25% each anniversary date of the grant. 192,327 stock units have been taken up to date. Contracts for 412,132 of these stock units were forfeited during the year.

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38. Stock Options Reserve (Continued)

Details of the stock options outstanding are as follows:

	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
	2010	2010	2009	2009
	'000	$	'000	$
Balance at beginning of year	4,799	18.53	5,457	18.91
Granted	8,886	15.10	-	-
Exercised	(192)	12.20	-	-
Lapsed/forfeited	(2,100)	17.91	(658)	21.82
	11,393	16.01	4,799	18.53
Exercisable at the end of the year	4,410	17.77	2,312	18.66

For options outstanding at the end of the year, the exercise price ranges from $12.20 to $21.75 (2009 - $18.00 to $21.75). The weighted average remaining contractual term is three years (2009 – three years).

Options for 192,377 stock units were exercised during the current year (2009 – Nil). The weighted average stock unit price at the date of exercise for options exercised during the year was $12.20. No options were exercised in the prior year.

The stock 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 stock unit prices at the grant date, exercise price shown above; standard deviation of expected share price returns, option life disclosed above, and annual average risk free interest rate. The expected volatility is based on statistical analysis of daily stock unit prices over one year.

The company recognised cumulative expenses of $53,767,000 (2009 - $52,604,000) as stock options expense of which $1,163,000 (2009 - $3,169,000) was recognised in the profit and loss account during the year.

39. 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 $Nil (2009 - $974,231,000) was transferred from retained earnings to retained earning reserve.

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40. 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 $25,028,000 (2009 - $31,819,000) 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.

41. 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	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Provision for credit losses determined under IFRS -				
Loans (Note 24)	194,897	160,461	93,781	75,314
Lease receivables (25)	18,910	16,976	-	-
	213,807	177,437	93,781	75,314
The provision for credit losses determined under regulatory requirements -				
Specific provision	253,032	248,688	81,745	117,816
General provision	102,208	96,398	32,331	25,762
	355,240	345,086	114,076	143,578
Excess of regulatory provision over IFRS provision reflected in a non distributable loan loss reserve	141,433	167,649	20,295	68,264

42. Capital Redemption Reserve

The capital redemption reserve was created during the year on the redemption of preference shares of 3,257,362 at a value of $651,472,000 in conformity with the provisions of the Jamaican Companies Act (Note 35).

43. Fair Value Reserve

This represents the unrealised surplus or deficit on the revaluation of available-for-sale investments and the unamortised hedging reserve relating to the interest rate swap (Note 22). The fair value reserve comprise of $37,851,000 (2009 -$50,191,000) and $644,593,000 (2009 – ($1,146,246,000)).

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44. Dividends

	The Group and The Company	
	2010	2009
	$'000	$'000
First interim dividend – 61 cents (2009 – 65 cents)	334,649	356,151
Second interim dividend – 49 cents (2009 - 60 cents)	269,272	328,754
	603,921	684,905

The dividends declared for 2010 and 2009 represented a dividend per stock units of $1.10 and $1.25, 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 the interest rate swap 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;

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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 2010 $'000	Fair Value 2010 $'000	Carrying Value 2009 $'000	Fair Value 2009 $'000
Financial Assets				
Investment securities – held-to-maturity	1,686,712	1,747,083	1,745,691	1,563,758
Loans, net of provision for credit losses	9,480,319	11,852,224	8,686,218	9,565,031
Financial Liabilities				
Securities sold under agreements to repurchase	49,848,770	55,552,741	43,972,613	39,913,420
Customer deposits and other accounts	9,360,283	11,971,000	8,782,495	7,280,753
Due to banks and other financial institutions	1,173,512	1,528,803	1,501,217	1,597,531

	The Company			
	Carrying Value 2010 $'000	Fair Value 2010 $'000	Carrying Value 2009 $'000	Fair Value 2009 $'000
Financial Assets				
Investment securities – held-to-maturity	1,686,712	1,747,083	1,745,691	1,563,758
Loans and leases, net of provision for credit losses	2,743,543	3,721,388	2,013,292	1,687,261
Financial Liabilities				
Securities sold under agreements to repurchase	49,848,770	52,552,741	43,990,533	38,929,132
Customer accounts	406,579	611,166	520,964	557,963
Due to banks and other financial institutions	538,576	760,869	917,895	919,481

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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 2010, 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			
	2010			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial Assets				
Trading securities	-	47,889	-	47,889
Investment securities	-	42,055,242	2,567,439	44,622,681
Derivative financial instruments	-	76,144	214,633	290,777
Pledged assets	-	8,045,835	-	8,045,835
	-	50,225,110	2,782,072	53,007,182
Financial Liabilities				
Derivative financial instruments	113,774	44,586	-	158,360

	The Group			
	2009			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial Assets				
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	39,476,466	4,447,167	44,118,827
Financial Liabilities				
Derivative financial instruments	127,721	72,985	-	200,706

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45. Fair Value of Financial Instruments (Continued)

	The Company			
	2010			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial Assets				
Trading securities	-	47,889	-	47,889
Investment securities	-	38,249,050	2,567,439	40,816,489
Derivative financial instruments	-	70,094	214,633	284,727
Pledged assets	-	8,045,835	-	8,045,835
	-	46,412,868	2,782,072	49,194,940
Financial Liabilities				
Derivative financial instruments	113,774	44,586	-	158,360

	The Company			
	2009			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial Assets				
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	36,583,732	4,354,441	41,133,367
Financial Liabilities				
Derivative financial instruments	127,721	72,985	-	200,706

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

Reconciliation of level 3 items -

	The Group		The Company	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Balance at beginning of year	2,529,995	4,095,250	2,452,140	4,095,250
Total gain - other comprehensive income	178,174	16,068	178,174	16,068
Total gain – profit and loss and loss account	22,605	73,744	26,426	71,818
Purchases	400,215	75,929	400,215	-
Settlements	(348,917)	(1,730,996)	(274,883)	(1,730,996)
Balance at end of year	2,782,072	2,529,995	2,782,072	2,452,140

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 $30,391,000.

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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 2010, the Group and the company had financial assets under administration of approximately $20,081,065,000 (2009 - $19,610,241,000) and $19,638,558,000 (2009 - $19,206,679,000) 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 2010	**No later than 1 year $'000**	**1 to 5 years $'000**	**Over 5 years $'000**	**Total $'000**
Loan commitments	286,173	17,000	17,186	320,359
Guarantees, acceptances and other financial facilities	507,199	532,323	39,284	1,078,806
Operating lease commitments	97,960	359,196	37,057	494,213
	891,332	908,519	93,527	1,893,378
At 31 December 2009				
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

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47. Contingent Liabilities and Commitments (Continued)

	The Company			
	No later than 1 year $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
At 31 December 2010				
Loan commitments	82,545	-	-	82,545
Guarantees, acceptances and other financial facilities	456,347	160,415	21,733	638,495
Operating lease commitment	43,969	179,780	18,703	241,452
	581,861	340,195	40,436	962,492
At 31 December 2009				
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

48. Maturity Analysis of Assets and Liabilities

The tables below show an analysis of assets and liabilities according to when they are expected to be recovered or settled. The financial statement areas shown below only reflect assets and liabilities that combine current and non-current balances.

	The Group			The Company		
ASSETS	Current 2010 $'000	Non-Current 2010 $'000	Total 2010 $'000	Current 2010 $'000	Non-Current 2010 $'000	Total 2010 $'000
Trading securities	-	47,889	47,889	-	47,889	47,889
Investment securities and pledged assets	5,936,010	50,733,705	56,669,715	4,812,304	47,203,285	52,015,589
Derivative financial instruments	94,160	196,617	290,777	88,110	196,617	284,727
Loans, net of provision for credit losses	5,189,339	4,290,980	9,480,319	1,789,790	953,753	2,743,543
Lease receivables	1,127	19,439	20,566	-	-	-
Deferred income tax assets	7,313	17,835	25,148	4,982	5,212	10,194

	The Group			The Company		
LIABILITIES	Current 2010 $'000	Non-Current 2010 $'000	Total 2010 $'000	Current 2010 $'000	Non-Current 2010 $'000	Total 2010 $'000
Securities sold under agreements to repurchase	49,575,664	40,850	49,616,514	49,807,920	40,850	49,848,770
Customer deposits and other accounts	7,971,500	1,045,402	9,016,902	197,165	209,414	406,579
Structured products	231,261	253,167	484,428	231,261	253,167	484,428
Due to banks and other financial institutions	592,253	581,259	1,173,512	146,147	392,429	538,576
Derivative financial instruments	117,508	40,852	158,360	117,508	40,852	158,360
Deferred income tax liabilities	1,048	413,797	414,845	1,058	346,618	347,676

Notes to the Financial Statements

31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

48. Maturity Analysis of Assets and Liabilities (Continued)

ASSETS	The Group			The Company		
	Current 2009 $'000	Non-Current 2009 $'000	Total 2009 $'000	Current 2009 $'000	Non-Current 2009 $'000	Total 2009 $'000
Investment securities and pledged assets	15,974,285	29,734,858	45,709,143	13,623,847	29,099,837	42,723,684
Derivative financial instruments	7,103	148,271	155,374	7,103	148,271	155,374
Loans, net of provision for credit losses	4,571,410	4,082,200	8,653,610	972,725	1,039,854	2,012,579
Lease receivables	6,784	25,824	32,608	713	-	713
Deferred income tax assets	7,458	554,045	561,503	6,341	474,145	480,486

LIABILITIES	The Group			The Company		
	Current 2009 $'000	Non-Current 2009 $'000	Total 2009 $'000	Current 2009 $'000	Non-Current 2009 $'000	Total 2009 $'000
Securities sold under agreements to repurchase	43,959,848	12,765	43,972,613	43,977,768	12,765	43,990,533
Customer deposits and other accounts	7,304,469	1,478,026	8,782,495	173,905	347,059	520,964
Structured products	-	473,266	473,266	-	473,266	473,266
Due to banks and other financial institutions	276,949	1,224,268	1,501,217	274,288	643,607	917,895
Derivative financial instruments	-	200,706	200,706	-	200,706	200,706
Redeemable preference shares	-	1,271,319	1,271,319	-	1,271,319	1,271,319
Deferred income tax liabilities	-	74,462	74,462	-	39,263	39,263

Disclosure of Shareholdings

As at 31 December 2010

Major Stockholders as at 31 December 2010

		Shares Held
1.	Sagicor Life Jamaica Limited	380,505,414
2.	Sagicor Life of the Cayman Islands Ltd.	91,283,131
3.	Perkins, Donovan and Michele et al	5,571,175
4.	National Insurance Fund	5,442,151
5.	ATL Group Pension Fund Trustees Nom. Ltd.	5,297,100
6.	JCSD Trustee Services Ltd. A/c 76579-02	3,887,444
7.	MF&G Trust & Finance Ltd. A/c #528	2,964,525
8.	JPS Employees Superannuation Fund	2,722,475
9.	Mayberry West Indies Limited	2,544,704
10.	Wray & Nephew Group Limited	2,436,760

- Total ordinary stocks in issue - 549,536,153
  Total number of ordinary of stockholders - 1,654
- Total 12.5% preference stocks in issue – 3,064,259
  Total number of preference stockholders -366
  27-Jan-2011

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 deCaires	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	5,571,175
Hayden Singh		& Joyce Singh	8,000
Colin Steele	Nil	Nil	Nil

Disclosure of Shareholdings (Cont'd)

As at 31 December 2010

Stockholdings of Senior Management and Connected Persons

MANAGERS	STOCKHOLDING	CONNECTED PERSONS	STOCKHOLDING
Tanya Allgrove		Nil	Nil
Philip Armstrong		& Trevor & Nicola Armstrong	663,113
Sabrina Cooper		& Trevor & Samantha DeLeon	21,560
Gene M. Douglas	504,063	Nil	Nil
Peter Knibb	2,500	& Elizabeth Knibb	12,346
Margaret McPherson		& Alfred McPherson	38,914
Tanya Miller		& Wayne & Elizabeth & Rachel Miller	41,081
Tara Nunes		& Kelly & Brooke Nunes	100,000
Donovan H. Perkins		& Michele & Alexander & Jessica Perkins	5,571,175
Donnette Scarlett		& Merrick Scarlett	99,919
Michael Stuart	25,000	Nil	Nil
Karen Vaz		& Douglas Vaz	120,002
Hope Wint		& Roslyn McKenzie	21,800
Colleen Yearde-Williams	Nil	Nil	Nil

12.5% Preference Stockholders

DIRECTORS	STOCKHOLDING	CONNECTED PERSONS	STOCKHOLDING
Lisa Soares Lewis		& Paul Lewis	625

MANAGERS	STOCKHOLDING	CONNECTED PERSONS	STOCKHOLDING
Philip Armstrong		& Trevor & Nicola Armstrong	6,250
Gene M. Douglas	1,005	Nil	Nil

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 Tuesday May 24, 2011 and at any adjournment thereof.

Signed this_____________day of____________________________2011.

Place $100 Stamp Here

Signature____________________________

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

RESOLUTIONS	For	Against
RESOLUTION 1: Approve Audited Accounts		
RESOLUTION 2: Final Dividend		
RESOLUTION 3: (a) (i) Mr. Richard L. Downer		
RESOLUTION 3: (ii) Mr. Peter K. Melhado		
RESOLUTION 3: (iii) Dr. M. Patricia Downes-Grant		
RESOLUTION 4: (i) To fix the Directors' remuneration		
RESOLUTION 4: (ii) To approve Non-executive Directors' remuneration		
RESOLUTION 5: Auditors' remuneration		
RESOLUTION 6: Increase in Authorised Share Capital		

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.

How We Communicate

We are committed to providing timely, accurate information to our stakeholders and soliciting feedback on how we may improve our products, services and business in general. We recognise that in this multi-media world of increasingly sophisticated communication networks and technologies, we need to constantly upgrade our communication strategy. Here are some of the ways we share information:

Channel	Contact Details
Email Ask us about your Company's activities, policies, products and services. We will respond on or before the next working day. If you have an email indemnity agreement in place, you can simply email us your instructions. Transactions will be executed by the next business day.	**Investor Relations** investorrelations@gopancaribbean.com **Client Relations** options@gopancaribbean.com Transact@gopancaribbean.com **Public Relations** kdennis@gopancaribbean.com
PanCaribbean on Facebook Become a PanFan and keep up-to-date on our community activities, get investment tips, and participate in our other activities. We'll respond quickly to you!	**Like us on Facebook** www.facebook.com/PanCaribbean
PanCaribbean on Twitter Follow us on Twitter and get daily updates on market conditions and issues affecting our economy.	**Follow us on Twitter** http://twitter.com/PanCaribbeanLtd
PanCaribbean's Financial Blog Join discussions on the latest topical issues through our Blogs, updated with new topics monthly and monitored daily.	http://gopancaribbean.com/blog
PanCaribbean on YouTube Find clips of our favourite videos, including Sigma Corporate Run and our PanCaribbean commercials.	http://www.youtube.com/gopancaribbean
PanCast Download or subscribe to PanCast, our weekly Podcast on iTunes. Listen for our stock report and get tips on money management.	www.gopancaribbean.com or I-Tunes
Business Eye Subscribe to Business Eye, an electronic newsletter that is published as key financial information becomes available.	To subscribe send your request to options@gopancaribbean.com
On-line Transactions For anytime transactions, use our Virtual Banker™ internet banking service. Sign up and get access to your entire financial relationship with us at PanCaribbean.	https://online.gopancaribbean.com/retail/RetailLoginLang.html
Website For general information on our company, including financial reports, product information and press releases, visit our website.	www.gopancaribbean.com

PanCaribbean
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www.gopancaribbean.com