pwc

Pan Caribbean Financial Services Limited

Financial Statements
31 December 2011

Pan Caribbean Financial Services Limited
Index
31 December 2011

pwc

Independent Auditors' Report

To the Members of
Pan Caribbean Financial Services Limited

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 1 to 107, which comprise the consolidated and company statements of financial position as of 31 December 2011 and the consolidated and company income statements, 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.

PricewaterhouseCoopers, Scotiabank Centre, Duke Street, Box 372, Kingston, Jamaica
T: (876) 922 6230, F: (876) 922 7581, www.pwc.com/jm

pwc

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 2011, 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
28 February 2012
Kingston, Jamaica

Pan Caribbean Financial Services Limited
Consolidated Income Statement
Year ended 31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2011 $'000	2010 $'000
Net Interest Income and Other Revenue			
Interest income from securities		5,136,317	5,591,060
Interest income from loans and leases		992,666	968,852
Other interest income		1,097	7,080
Total interest income		6,130,080	6,566,992
Interest expense	6	(3,189,990)	(3,820,195)
Net interest income		2,940,090	2,746,797
Fees and commission income	7	392,434	406,039
Net trading income	8	656,285	423,640
Other revenue	9	32,475	38,169
		1,081,194	867,848
		4,021,284	3,614,645
Operating Expenses			
Team member costs	10	1,003,253	912,537
Impairment reversal/charges	11	(28,773)	101,819
Occupancy costs		126,522	115,143
Other expenses	12	610,980	509,958
		1,711,982	1,639,457
Profit before Taxation		2,309,302	1,975,188
Taxation	13	(588,646)	(451,147)
Net Profit	14	1,720,656	1,524,041
EARNINGS PER STOCK UNIT			
Basic	16	$3.12	$2.78
Diluted	16	$3.09	$2.77

Pan Caribbean Financial Services Limited

Consolidated Statement of Comprehensive Income

Year ended 31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

	2011 $'000	2010 $'000
Net Profit	1,720,656	1,524,041
Other comprehensive income -		
Available-for-sale investments -		
Unrealised gains on available-for-sale investments	649,908	1,792,617
Gains reclassified and reported in profit	(390,990)	(1,508)
	258,918	1,791,109
Cash flow hedge -		
Gains reclassified and reported in profit	(7,762)	(12,610)
Total other comprehensive income, net of taxes	251,156	1,778,499
Total Comprehensive Income	1,971,812	3,302,540

Pan Caribbean Financial Services Limited
Consolidated Statement of Financial Position
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2011 $'000	2010 $'000
ASSETS			
Cash and balances due from other financial institutions	17	2,227,484	2,178,179
Cash reserve at Bank of Jamaica	18	519,732	456,476
Trading securities	19	610,940	47,889
Securities purchased under agreements to resell	20	991,904	1,363,506
Investment securities	21	55,377,164	48,552,480
Derivative financial instruments	22	839,420	290,777
Loans, net of provision for credit losses	24	9,242,365	9,480,319
Lease receivables	25	15,515	20,566
Pledged assets	26	7,831,016	8,117,235
Due from related companies		8,527	17,638
Income tax recoverable		5,478	6,670
Intangible assets	28	781,300	785,458
Property, plant and equipment	29	168,691	160,927
Post-employment benefit assets	30	28,473	-
Other assets	31	1,555,927	1,144,041
		80,203,936	72,622,161

Pan Caribbean Financial Services Limited
Consolidated Statement of Financial Position (Continued)
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2011 $'000	2010 $'000
LIABILITIES			
Securities sold under agreements to repurchase		54,612,131	49,616,514
Customer deposits and other accounts		10,599,897	9,016,902
Structured products	32	274,913	484,428
Due to banks and other financial institutions	33	764,018	1,173,512
Derivative financial instruments	22	700,600	158,360
Due to related companies		52,351	5,042
Income tax payable		139,590	151,403
Redeemable preference shares	34	-	616,000
Deferred income tax liabilities	35	525,326	389,697
Post-employment benefit obligations	30	52,602	37,868
Other liabilities	36	523,149	348,009
		68,244,577	61,997,735
STOCKHOLDERS' EQUITY			
Share capital	37	3,195,565	3,126,867
Stock options reserve	38	51,793	53,767
Retained earnings reserve	39	1,536,596	1,536,596
Reserve fund	40	301,043	269,016
Loan loss reserve	41	249,479	141,433
Capital redemption reserve	42	1,264,324	651,472
Fair value reserve	43	933,600	682,444
Retained earnings	15	4,426,959	4,162,831
		11,959,359	10,624,426
		80,203,936	72,622,161

Approved for issue by the Board of Directors on 27 February 2012 and signed on its behalf by:

Philip Armstrong Director

Donovan H. Perkins Director

Pan Caribbean Financial Services Limited
Consolidated Statement of Changes in Stockholders' Equity
Year ended 31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

	Note	Share Capital $'000	Share Options Reserve $'000	Retained Earnings Reserve $'000	Reserve Fund $'000	Loan Loss Reserve $'000	Capital Redemption Reserve $'000	Fair Value Reserve $'000	Retained Earnings $'000	Total $'000
Balance at 1 January 2010		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
Issue of ordinary stock units	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	45	-	-	-	-	-	-	-	(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
Net profit		-	-	-	-	-	-	-	1,720,656	1,720,656
Other comprehensive income		-	-	-	-	-	-	251,156	-	251,156
Total comprehensive income for 2011		-	-	-	-	-	-	251,156	1,720,656	1,971,812
Issue of ordinary stock units	37	46,236	-	-	-	-	-	-	-	46,236
Transfer of exercised options	37	22,462	(22,462)	-	-	-	-	-	-	-
Employee stock option scheme	38	-	20,488	-	-	-	-	-	-	20,488
Transfers to/(from) reserves	40,42	-	-	-	32,027	-	612,852	-	(644,879)	-
Currency revaluation and other adjustments		-	-	-	-	1,281	-	-	-	1,281
Adjustment between regulatory loan provisioning and IFRS	41	-	-	-	-	106,765	-	-	(106,765)	-
Dividends	45	-	-	-	-		-	-	(704,884)	(704,884)
Balance at 31 December 2011		3,195,565	51,793	1,536,596	301,043	249,479	1,264,324	933,600	4,426,959	11,959,359

Pan Caribbean Financial Services Limited
Consolidated Statement of Cash Flows
Year ended 31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2011 $'000	2010 $'000
Cash Flows from Operating Activities			
Net profit		1,720,656	1,524,041
Adjustments for:			
Interest income		(6,130,080)	(6,566,992)
Interest expense	6	3,189,990	3,820,195
Income tax charge	13	588,646	451,147
Fair value loss/(gains) on trading securities		603	(922)
Impairment charges		(4,098)	101,819
Amortisation of premiums/discounts		(144,635)	(82,549)
Amortisation of intangible assets	28	40,373	51,622
Depreciation of property, plant and equipment	29	44,586	45,323
Gain on sale of property, plant and equipment		(141)	-
Amortisation of hedging reserve		(11,643)	(18,915)
Changes in post-employment benefits		(13,739)	63,612
Stock options and grants expense		64,242	14,312
Unrealised gains on foreign assets and liabilities		(10,792)	(1,700,600)
		(666,032)	(2,297,907)
Changes in operating assets and liabilities -			
Statutory reserves at Bank of Jamaica		(59,087)	(78,710)
Trading securities		(561,918)	(46,696)
Securities purchased under agreements to resell		72,410	(136,594)
Investment securities		(7,540,449)	(7,663,433)
Derivative financial instruments		(6,403)	(177,749)
Loans		292,028	(1,775,662)
Lease receivables		3,501	9,021
Securities sold under agreements to repurchase		4,593,071	8,357,308
Structured products		(212,692)	11,162
Customer deposits and other accounts		1,532,397	1,223,252
Other assets		(808,286)	(576,825)
Other liabilities		125,426	(61,362)
		(3,236,034)	(3,214,195)
Interest received		6,207,840	6,984,865
Interest paid		(3,175,499)	(4,245,397)
Taxation		(165,538)	(157,844)
Net cash used in operating activities		(369,231)	(632,571)

Pan Caribbean Financial Services Limited

Consolidated Statement of Cash Flows (Continued)

Year ended 31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2011 $'000	2010 $'000
Cash Flows from Operating Activities		(369,231)	(632,571)
Cash Flows from Investing Activities			
Purchase of intangible assets	28	(36,215)	(24,922)
Purchase of property, plant and equipment		(51,000)	(78,317)
Proceeds from disposal of property, plant and equipment		141	-
Net cash used in investing activities		(87,074)	(103,239)
Cash Flows from Financing Activities			
Proceeds from issue of ordinary stock units	37	18,483	9,908
Redemption of redeemable preference shares	34	(612,852)	(651,472)
Borrowings from banks and other financial institutions – long term		183,147	237,497
Repayment of amounts due to banks and other financial institutions – long term		(258,389)	(919,866)
Due from related parties		56,420	(3,477)
Dividends paid	45	(704,884)	(603,921)
Net cash used in financing activities		(1,318,075)	(1,931,331)
Effect of exchange rate changes on cash and cash equivalents		(10,637)	(205,197)
Net decrease in cash and cash equivalents		(1,785,017)	(2,872,338)
Cash and cash equivalents at beginning of year		3,870,512	6,742,850
CASH AND CASH EQUIVALENTS AT END OF YEAR	23	2,085,495	3,870,512

Pan Caribbean Financial Services Limited
Company Income Statement
Year ended 31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2011 $'000	2010 $'000
Net Interest Income and Other Revenue			
Interest income from securities		4,673,480	5,147,035
Interest income from loans		222,887	206,109
Other interest income		624	6,425
Total interest income		4,896,991	5,359,569
Interest expense	6	(2,815,661)	(3,362,819)
Net interest income		2,081,330	1,996,750
Fees and commission income	7	341,102	331,275
Net trading income	8	489,781	294,265
Other revenue	9	8,627	182,796
		839,510	808,336
		2,920,840	2,805,086
Operating Expenses			
Team member costs	10	674,881	619,947
Impairment reversals/charges	11	(54,041)	76,734
Occupancy costs		45,513	43,451
Other expenses	12	346,487	245,589
		1,012,840	985,721
Profit before Taxation		1,908,000	1,819,365
Taxation	13	(499,782)	(370,492)
Net Profit	14	1,408,218	1,448,873

Pan Caribbean Financial Services Limited
Company Statement of Comprehensive Income
Year ended 31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

	2011 $'000	2010 $'000
Net Profit	1,408,218	1,448,873
Other comprehensive income -		
Available-for-sale investments -		
Unrealised gains on available-for-sale investments	537,049	1,536,837
(Gains)/losses reclassified and reported in profit	(319,634)	21,406
	217,415	1,558,243
Cash flow hedge -		
Gains reclassified and reported in profit	(7,762)	(12,610)
Total other comprehensive income, net of taxes	209,653	1,545,633
Total Comprehensive Income	1,617,871	2,994,506

Pan Caribbean Financial Services Limited
Company Statement of Financial Position
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2011 $'000	2010 $'000
ASSETS			
Cash and balances due from other financial institutions	17	1,717,979	1,270,474
Trading securities	19	610,940	47,889
Securities purchased under agreements to resell	20	308,074	987,400
Investment securities	21	48,834,393	43,898,354
Derivative financial instruments	22	839,420	284,727
Investment in subsidiaries		2,512,900	2,512,900
Loans, net of provision for credit losses	24	2,289,038	2,743,543
Pledged assets	26	7,831,016	8,117,235
Due from related companies		8,527	17,638
Intangible assets	28	169,810	157,302
Property, plant and equipment	29	121,831	109,628
Other assets	31	1,324,931	973,022
		66,568,859	61,120,112
LIABILITIES			
Securities sold under agreements to repurchase		54,630,650	49,848,770
Customer accounts		250,241	406,579
Structured products	32	274,913	484,428
Due to banks and other financial institutions	33	464,329	538,576
Derivative financial instruments	22	700,600	158,360
Redeemable preference shares	34	-	616,000
Due to related companies		99,409	70,192
Income tax payable		128,398	151,404
Deferred income tax liabilities	35	442,650	337,482
Other liabilities	36	248,627	160,038
		57,239,817	52,771,829
STOCKHOLDERS' EQUITY			
Share capital	37	3,195,565	3,126,867
Stock options reserve	38	51,793	53,767
Loan loss reserve	41	90,739	20,295
Capital redemption reserve	42	1,264,324	651,472
Fair value reserve	43	737,340	527,687
Retained earnings		3,989,281	3,968,195
		9,329,042	8,348,283
		66,568,859	61,120,112

Approved for issue by the Board of Directors on 27 February 2012 and signed on its behalf by:

Philip Armstrong Director

Donovan H. Perkins Director

Pan Caribbean Financial Services Limited
Company Statement of Cash Flows
Year ended 31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2011 $'000	2010 $'000
Cash Flows from Operating Activities			
Net profit		1,408,218	1,448,873
Adjustments for:			
Interest income		(4,896,991)	(5,359,569)
Interest expense	6	2,815,661	3,362,819
Income tax charge	13	499,782	370,492
Dividend income	9	-	(165,000)
Fair value loss/(gains) on trading securities		603	(922)
Impairment charges	11	(29,366)	76,734
Amortisation of premiums/discounts		(126,224)	(80,145)
Amortisation of intangible assets	28	8,455	5,571
Depreciation of property, plant and equipment	29	30,455	26,078
Gain on sale of property, plant and equipment		(77)	-
Amortisation of hedging reserve		(11,643)	(18,915)
Stock options and grants expense		64,242	14,311
Unrealised losses/(gains) on foreign assets and liabilities		140	(1,648,185)
		(236,745)	(1,967,858)
Changes in operating assets and liabilities -			
Trading securities		(561,918)	(46,696)
Securities purchased under agreements to resell		91,661	(317,704)
Investment securities		(5,063,355)	(7,138,817)
Derivative financial instruments		(12,453)	(171,699)
Loans		477,261	(966,376)
Lease receivables		-	707
Securities sold under agreements to repurchase		4,593,629	8,357,329
Structured products		(212,692)	11,162
Customer accounts		(148,156)	(99,800)
Other assets		(720,103)	(518,501)
Other liabilities		72,604	(19,213)
		(1,720,267)	(2,877,466)
Interest received		5,023,487	5,781,714
Interest paid		(2,803,626)	(3,749,345)
Taxation paid		(124,324)	(40,385)
Net cash provided by/(used in) operating activities		375,270	(885,482)

Pan Caribbean Financial Services Limited

Company Statement of Changes in Stockholders' Equity

Year ended 31 December 2011

(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 2010		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 stock units	37	23,056	-	-	-	-	-	23,056
Employee stock option scheme	38	-	1,163	-	-	-	-	1,163
Transfer to capital redemption reserve	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	45	-	-	-	-	-	(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
Net profit		-	-	-	-	-	1,408,218	1,408,218
Other comprehensive income		-	-	-	-	209,653	-	209,653
Total comprehensive income for 2011		-	-	-	-	209,653	1,408,218	1,617,871
Issue of ordinary stock units	37	46,236	-	-	-	-	-	46,236
Transfer of exercised options		22,462	(22,462)	-	-	-	-	-
Employee stock option scheme	38	-	20,488	-	-	-	-	20,488
Transfer to capital redemption reserve	42	-	-	-	612,852	-	(612,852)	-
Currency revaluation and other adjustments		-	-	1,048	-	-	-	1,048
Adjustment between regulatory loan provisioning and IFRS	41	-	-	69,396	-	-	(69,396)	-
Dividends	45	-	-	-	-	-	(704,884)	(704,884)
Balance at 31 December 2011		3,195,565	51,793	90,739	1,264,324	737,340	3,989,281	9,329,042

Pan Caribbean Financial Services Limited
Company Statement of Cash Flows (Continued)
Year ended 31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2011 $'000	2010 $'000
Cash Flows from Operating Activities		375,270	(885,482)
Cash Flows from Investing Activities			
Purchase of intangible assets	28	(20,963)	(8,586)
Purchase of property, plant and equipment		(41,308)	(70,375)
Proceeds from disposal of property, plant and equipment		77	-
Net cash used in investing activities		(62,194)	(78,961)
Cash Flows from Financing Activities			
Proceeds from issue of ordinary stock units	37	18,483	9,908
Redemption of redeemable preference shares	34	(612,852)	(651,472)
Due to parent company and fellow subsidiaries		38,328	40,984
Borrowings from banks and other financial institutions – long term		50,500	100,625
Repayment of amounts due to banks and other financial institutions – long term		(156,032)	(470,527)
Dividends paid	45	(704,884)	(603,921)
Net cash used in financing activities		(1,366,457)	(1,574,403)
Effect of exchange rate changes on cash and cash equivalents		(6,703)	(116,300)
Net decrease in cash and cash equivalents		(1,060,084)	(2,655,146)
Cash and cash equivalents at beginning of year		1,989,358	4,644,504
CASH AND CASH EQUIVALENTS AT END OF YEAR	23	929,274	1,989,358

(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.

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Interpretation and amendments to published standards effective in current year 2011 that are relevant to the Group's operations

- 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 resulted in the company presenting an analysis of other comprehensive income in the notes to the financial statements.

- 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 resulted in changes in the presentation of credit risk disclosures (Note 3).

- 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. There is no impact from the adoption of this amendment.

- 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. There is no impact from the adoption of this amendment.

- 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. There is no impact from the adoption of this amendment.

Pan Caribbean Financial Services Limited
Notes to the Financial Statements
31 December 2011
(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

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 2012 or later periods, but the Group has not early adopted them.

- 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.

  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.

- Amendments to IFRS 7, 'Financial instruments: Disclosures' on derecognition. These amendments arise from the IASB's review of off-balance sheet activities. The amendments will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets.

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)

- Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in Other comprehensive income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. This amendment is effective for annual periods beginning on or after 1 July 2011.

- IAS 19, 'Employee benefits' was amended in June 2011. The impact on the Group will be as follows: to eliminate the corridor approach and recognise all actuarial gains and losses in OCI as they occur; to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). This amendment is effective for annual periods beginning on or after 1 July 2011. The Group is yet to assess the full impact of the amendments.

- IFRS 10, 'Consolidated Financial Statements', (effective for annual periods beginning on or after 1 January 2013). IFRS 10 replaces all of the guidance on control and consolidation in *IAS 27,* 'Consolidated and Separate Financial Statements', and SIC-12, 'Consolidation – Special Purpose *Entities'*. IAS 27 (Revised) now renamed 'Separate Financial Statements'. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard provides additional guidance to assist in determining control where this is difficult to assess. This new standard might impact the entities that a group consolidates as its subsidiaries. The Group is assessing the impact of future adoption of the standard on its financial statements.

- IFRS 12, 'Disclosure of Interests in Other Entities', (effective for annual periods beginning on or after 1 January 2013). IFRS 12 requires entities to disclose information that helps financial statement users to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. The Group is assessing the impact of future adoption of the standard on its financial statements.

- IFRS 13, 'Fair Value Measurement', (effective for annual periods beginning on or after 1 January 2013). IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The requirements are similar to those in *IFRS 7, 'Financial instruments: Disclosures'*, but apply to all assets and liabilities measured at fair value, not just financial assets and liabilities. The Group is assessing the impact of future adoption of the standard on its financial statements.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

2. Summary of Significant Accounting Policies (Continued)

(b) Consolidation

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govem 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.

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 income statement, except when deferred in equity as gains or losses from qualifying cash flow hedging instruments.

All foreign exchange gains and losses recognised in the income statement are presented net in the income statement 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 the income statement, 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.

2. Summary of Significant Accounting Policies (Continued)

(e) Interest income and expenses

Interest income and expense are recognised in the income statement 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 perfomance 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.

Pan Caribbean Financial Services Limited

Notes to the Financial Statements
31 December 2011
(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 income statement, 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 statement of financial position 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 statement of financial position 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.

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.

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 income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payment is established.

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

Financial assets are derecognised when the right to received cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished, that is, when the obligation is discharged, cancelled or expires.

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

2. Summary of Significant Accounting Policies (Continued)

(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 statement of financial position. 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 income statement.

Amounts accumulated in stockholders' equity are recycled to the income statement 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 income statement. 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 income statement within net trading income.

2. Summary of Significant Accounting Policies (Continued)

(m) Impairment of financial assets

(i) Assets carried at amortised cost

The Group assesses at each statement of financial position 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 income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

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

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

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

2. Summary of Significant Accounting Policies (Continued)

(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 income statement 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 statement of financial position 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 income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. 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 income statement.

(iii) Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans.

2. Summary of Significant Accounting Policies (Continued)

(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 income statement 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.

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 statement of financial position 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 income statement.

Repairs and renewals are charged to the income statement 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.

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 statement of financial position in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the statement of financial position 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.

(iii) Annual leave

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the year end date.

Pan Caribbean Financial Services Limited
Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(r) Employee benefits (continued)

(iv) Productivity bonus plan
The Group recognises a liability and an expense for productivity bonuses as profit-sharing, paid to employees based on a formula that takes into consideration the profit attributable to the company's stockholders. The Group recognises a provision where contractually obliged or where past practice has created a constructive obligation.

(v) Share-based payments
The Group operates an equity-settled, share-based compensation plan.

Share options
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 statement of financial position date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to over the remaining vesting period. The proceeds received net of any directly attributable transaction costs, plus the fair value of the options are credited to share capital when the options are exercised.

Share grants
The market value of the shares issued at grant date is recognised as an expense when granted.

Share purchase plan
Employees of the company are also eligible to purchase shares in the company under a share purchase plan.

(vi) 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 statement of financial position date are discounted to present value.

(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.

Pan Caribbean Financial Services Limited

Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(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 income statement 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 income statement as interest expense.

(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 the income statement (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 statement of financial position date are dealt with in the subsequent events note.

(y) Financial instruments

Financial instruments carried on the statement of financial position 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 46.

2. Summary of Significant Accounting Policies (Continued)

(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.

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.

Pan Caribbean Financial Services Limited

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(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 Committee
The Risk Management Committee is responsible to monitor macroeconomic conditions in directing and overseeing credit and market-related risk management activities of the Group.

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 statement of financial position.

Credit-related commitment risks arise from guarantees and letters of credit 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

Pan Caribbean Financial Services Limited

Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

ii) Financial Risk Management (Continued)

(a) Credit risk (continued)

(i) Loans and leases (continued)
The Group's loan portfolio is managed by focusing efforts on good quality loan that is achieved through a thorough screening and credit analysis process; these loans are appropriately priced to reflect the risk associated with the expected cash flows and the collateral provided. Credit 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; these are monitored on a periodic basis and subject to annual or more frequent reviews. Counterparty limits are established by the use of a credit classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Group to assess the potential loss as a result of the risk to which it is exposed and take corrective action.

(ii) Investments
The Group limits its exposure to credit risk by investing in marketable securities, with counterparties that have acceptable credit quality and Government of Jamaica securities. As a result of the Central Securities Depository (CSD), all domestic Government of Jamaica securities have been dematerialised which has significantly reduced the settlement risk. The credit exposure is managed by establishing exposure limits after an internal analysis and approval. Actual exposures against limits are monitored frequently. It is also the Group's policy to obtain control or take possession of securities purchased under agreements to resell. Management assesses the market value of the underlying securities that collaterise the transactions and takes the appropriate margins required. 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.

Pan Caribbean Financial Services Limited

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Impairment (continued)

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 statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Group.

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 statement of financial position 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;
- 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 statement of financial position 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).

Pan Caribbean Financial Services Limited
Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

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

(a) **Credit risk (continued)**

Group's and company's rating (continued)

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			
	2011		2010	
	Loans and leases $'000	Impairment provision $'000	Loans and leases $'000	Impairment provision $'000
Standard	8,580,987	-	8,670,692	-
Potential problem credit	83,480	-	471,167	-
Sub-standard	303,314	46,162	287,102	83,123
Doubtful	135,110	34,673	69,024	30,819
Loss	313,093	170,144	127,484	99,865
	9,415,984	250,979	9,625,469	213,807

	The Company			
	2011		2010	
	Loans and leases $'000	Impairment provision $'000	Loans and leases $'000	Impairment provision $'000
Standard	1,904,010	-	2,402,789	-
Potential problem credit	64,814	-	191,763	-
Sub-standard	165,451	13,614	177,074	49,796
Doubtful	80,728	13,929	-	-
Loss	165,055	80,576	47,226	43,985
	2,380,058	108,119	2,818,852	93,781

Pan Caribbean Financial Services Limited
Notes to the Financial Statements
31 December 2011
(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	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Credit risk exposures relating to assets on the statement of financial position are as follows:				
Cash and balances due from other financial institutions (excluding cash on hand)	2,064,285	2,076,601	1,717,979	1,270,474
Cash reserve at Bank of Jamaica	519,732	456,476	-	-
Trading securities	610,940	47,889	610,940	47,889
Securities purchased under agreements to resell	991,904	1,363,506	308,074	987,400
Investment securities	55,303,470	48,475,044	48,775,124	43,835,231
Derivative financial instruments	839,420	290,777	839,420	284,727
Loans, net of provision for credit losses	9,242,365	9,480,319	2,289,038	2,743,543
Lease receivables	15,515	20,566	-	-
Pledged assets	7,831,016	8,117,235	7,831,016	8,117,235
Due to related parties	8,527	17,638	8,527	17,638
Other assets	206,019	73,840	164,236	46,180
	77,633,193	70,419,891	62,544,354	57,350,317
Credit risk exposures relating to items not on the statement of financial position are as follows:				
Loan commitments	696,338	320,359	266,998	82,545
Guarantees and letters of credit	1,078,739	1,078,806	613,374	638,495
	1,775,077	1,399,165	880,732	721,040

The above table represents a worst-case scenario of credit risk exposure to the Group and company at 31 December 2011 and 2010, without taking account of any collateral held or other credit enhancements. The exposures set out above are based on net carrying amounts as reported in the statement of financial position.

Pan Caribbean Financial Services Limited
Notes to the Financial Statements
31 December 2011
(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	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Neither past due nor impaired -				
Standard	6,961,847	6,154,859	1,657,957	1,220,158
Past due but not impaired	1,702,620	2,987,000	310,867	1,374,394
Impaired	751,517	483,610	411,234	224,300
Gross	9,415,984	9,625,469	2,380,058	2,818,852
Less: Provision for credit losses	(250,979)	(213,807)	(108,119)	(93,781)
Net	9,165,005	9,411,662	2,271,939	2,725,071

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	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Less than 30 days	1,225,853	1,253,876	308,094	944,330
31 to 60 days	395,040	20,692	984	-
61 to 90 days	81,727	1,712,432	1,789	430,064
	1,702,620	2,987,000	310,867	1,374,394

The Group and the company hold adequate collateral for past due but not impaired loans and leases.

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

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Loans and leases (continued)

(iii) Financial assets – individually impaired

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

	The Group		The Company	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Loans and leases	751,517	483,610	411,234	224,300

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.

(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 are in the process of repossessing collateral totalling $8,800,000 (2010 – $196,060,000) and $Nil (2010 – $5,000,000), respectively.

Pan Caribbean Financial Services Limited
Notes to the Financial Statements
31 December 2011
(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	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Agriculture, fishing and mining	1,229,995	1,260,559	127,552	148,106
Construction and real estate	1,503,362	1,237,703	398,071	133,261
Distribution	1,691,766	2,023,103	441,532	724,390
Manufacturing	179,515	137,516	37,325	97,596
Personal	653,923	567,757	209,242	179,013
Professional and other services	2,351,894	2,638,187	846,633	1,255,820
Tourism and entertainment	1,764,268	1,619,874	307,641	268,711
Transportation, storage and communication	41,261	140,770	12,062	11,955
	9,415,984	9,625,469	2,380,058	2,818,852
Less: Provision for credit losses	(250,979)	(213,807)	(108,119)	(93,781)
	9,165,005	9,411,662	2,271,939	2,725,071
Interest receivable	92,875	89,223	17,099	18,472
	9,257,880	9,500,885	2,289,038	2,743,543

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

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Credit exposure (continued)

(ii) Investments

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

	The Group		The Company	
	2011	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
Government of Jamaica	51,015,793	45,707,946	45,574,495	42,173,800
Bank of Jamaica	605,388	2,237,005	505,045	1,403,382
Corporate	8,142,887	5,151,948	7,155,890	4,879,902
Financial institutions	4,816,082	4,906,776	4,132,546	4,530,671
Other Sovereign debt	157,178	-	157,178	-
	64,737,328	58,003,675	57,525,154	52,987,755

(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 collateral which could be used to secure funding if required;

(ii) Maintaining assets than can readily be liquidated (T-Bills, BoJ CDs and secured secondary market repos) as protection against any unforeseen interruption to cash flow;

(iii) Maintaining stand-by credit lines;

3. Financial Risk Management (Continued)

(b) Liquidity risk

Liquidity risk management process (continued)

(iv) Optimising cash returns on investment;

(v) Short-term liabilities are segmented and analysed to monitor and reduce concentrations.

(vi) Monitoring statement of financial position 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

(vii) 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.

Pan Caribbean Financial Services Limited
Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(b) Liquidity risk (continued)
Financial 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 financial 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 2011:						
Financial Assets						
Cash and balances due from other financial institutions	2,228,462	-	-	-	-	2,228,462
Cash reserves at Bank of Jamaica	519,732	-	-	-	-	519,732
Trading securities	-	-	17,036	476,334	283,049	776,419
Securities purchased under agreements to resell	753,079	6,860	249,235	-	-	1,009,174
Investment securities and pledged assets	802,656	2,437,016	3,888,365	47,697,192	38,967,964	93,793,193
Derivative financial instruments	20,575	-	399,794	430,400	25,521	876,290
Loans, net provision for credit losses	2,366,726	1,288,092	2,905,190	2,920,741	930,679	10,411,428
Lease receivables	702	1,350	12,186	6,576	-	20,814
Other	214,328	-	-	-	-	214,328
Financial assets (contractual maturity dates)	6,906,260	3,733,318	7,471,806	51,531,243	40,207,213	109,849,840
Financial Liabilities						
Securities sold under agreements to repurchase	33,930,905	14,854,499	6,262,376	11,058	-	55,058,838
Customer deposits and other accounts	4,814,676	1,065,877	3,450,887	717,880	1,285,874	11,335,194
Due to banks and other financial institutions	75,138	20,814	231,910	488,333	42,409	858,604
Structured products	-	-	-	91,105	273,009	364,114
Derivative financial instruments	111,499	-	338,396	225,184	25,521	700,600
Other	575,500	-	-	-	-	575,500
Financial liabilities (contractual maturity dates)	39,507,718	15,941,190	10,283,569	1,533,560	1,626,813	68,892,850
Net Liquidity Gap	(32,601,458)	(12,207,872)	(2,811,763)	49,997,683	38,580,400	40,956,990
Cumulative Liquidity Gap	(32,601,458)	(44,809,330)	(47,621,093)	2,376,590	40,956,990	

Pan Caribbean Financial Services Limited
Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(b) Liquidity risk (continued)

Financial 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 2010:						
Financial 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	91,478	-	-	-	-	91,478
Financial assets (contractual maturity dates)	7,819,113	3,333,241	9,416,048	52,824,820	47,130,813	120,524,035
Financial 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	353,051	-	-	-	-	353,051
Financial liabilities (contractual maturity dates)	35,118,957	15,092,179	9,490,189	2,938,745	1,424,454	64,064,524
Net Liquidity Gap	(27,299,844)	(11,758,938)	(74,141)	49,886,075	45,706,359	56,459,511
Cumulative Liquidity Gap	(27,299,844)	(39,058,782)	(39,132,923)	10,753,152	56,459,511	

Pan Caribbean Financial Services Limited
Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(b) Liquidity risk (continued)

Financial 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 2011:						
Financial Assets						
Cash and balances due from other financial institutions	1,717,979	-	-	-	-	1,717,979
Trading securities	-	-	17,036	476,334	283,049	776,419
Securities purchased under agreements to resell	77,364	-	249,235	-	-	326,599
Investment securities and pledged assets	685,441	1,943,427	3,442,924	43,027,955	34,595,467	83,695,214
Derivative financial instruments	20,575	-	399,794	430,400	25,521	876,290
Loans, net provision for credit losses	496,836	349,811	1,047,834	408,993	267,192	2,570,666
Other	172,763	-	-	-	-	172,763
Financial assets (contractual maturity dates)	3,170,958	2,293,238	5,156,823	44,343,682	35,171,229	90,135,930
Financial Liabilities						
Securities sold under agreements to repurchase	33,946,180	14,854,499	6,265,621	11,058	-	55,077,358
Customer accounts	13,054	15,454	61,060	177,182	-	266,750
Due to banks and other financial institutions	68,525	5,559	166,438	244,177	4,720	489,419
Derivative financial instruments	111,499	-	338,396	225,184	25,521	700,600
Structured products	-	-	-	91,105	273,009	364,114
Other	348,036	-	-	-	-	348,036
Financial liabilities (contractual maturity dates)	34,487,294	14,875,512	6,831,515	748,706	303,250	57,246,277
Net Liquidity Gap	(31,316,336)	(12,582,274)	(1,674,692)	43,594,976	34,867,979	32,889,653
Cumulative Liquidity Gap	(31,316,336)	(43,898,610)	(45,573,302)	(1,978,326)	32,889,653	

Pan Caribbean Financial Services Limited

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(b) Liquidity risk (continued)

Financial 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:						
Financial 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	63,818	-	-	-	-	63,818
Financial assets (contractual maturity dates)	4,461,687	2,559,398	6,495,095	46,601,079	42,924,240	103,041,499
Financial 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	-	-	-	-	230,230
Financial liabilities (contractual maturity dates)	31,577,159	14,083,427	5,684,082	1,953,085	264,392	53,562,145
Net Liquidity Gap	(27,115,472)	(11,524,029)	811,013	44,647,994	42,659,848	49,479,354
Cumulative Liquidity Gap	(27,115,472)	(38,639,501)	(37,828,488)	6,819,506	49,479,354	

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

3. Financial Risk Management (Continued)

(c) Market risk

The Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rate, credit spreads, foreign exchange rates and equity prices. Market risk is monitored and reviewed by the Risk Management and periodically by the Risk Management Committee. The company monitors economic reports, local and international market conditions. Key market risk strategies include active monitoring of the market, portfolio sensitivity analysis, trading and position limits and liability management.

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 Risk Management 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 Unit assessment of the volatility in exchange rates and with the approval of the Risk Management 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.

In addition, the Group has currency risk exposure arising from derivative transactions as specified in Note 22.

Pan Caribbean Financial Services Limited

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(i) Currency risk (continued)

Concentrations of currency risk

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

	The Group					
	Jamaican$ J$'000	US$ J$'000	GBP J$'000	CAN$ J$'000	EURO J$'000	Total J$'000
At 31 December 2011:						
Assets						
Cash and balances due from other financial institutions and	324,452	1,400,578	298,000	83,228	121,226	2,227,484
Cash reserves at Bank of Jamaica	266,768	231,437	9,795	11,732	-	519,732
Trading securities	460,033	150,907	-	-	-	610,940
Securities purchased under agreements to resell	55,578	912,496	6,886	-	16,944	991,904
Investment securities and pledged assets	36,251,383	25,807,844	413,352	-	735,601	63,208,180
Derivative financial instruments	-	839,420	-	-	-	839,420
Loans, net of provision for credit losses	2,501,584	6,740,781	-	-	-	9,242,365
Lease receivables	15,510	5	-	-	-	15,515
Other	2,406,415	141,979	-	2	-	2,548,396
Total assets	42,281,723	36,225,447	728,033	94,962	873,771	80,203,936
Liabilities and Stockholders' Equity						
Securities sold under agreements to repurchase	29,132,140	24,676,595	763,507	-	39,889	54,612,131
Customer deposits and other accounts	2,841,699	7,563,549	61,672	130,396	2,581	10,599,897
Structured products	-	274,913	-	-	-	274,913
Derivative financial instruments	-	27,710	-	-	672,890	700,600
Due to banks and other financial institutions	703,630	60,326	-	-	62	764,018
Other liabilities	1,193,443	95,950	2,742	514	369	1,293,018
Stockholders' equity	11,959,359	-	-	-	-	11,959,359
Total liabilities and stockholders' equity	45,830,271	32,699,043	827,921	130,910	715,791	80,203,936
Net statement of financial position	(3,548,548)	3,526,404	(99,888)	(35,948)	157,980	-
Credit commitments	883,332	891,745	-	-	-	1,775,077

Pan Caribbean Financial Services Limited
Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

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

Concentrations of currency risk (continued)

	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	2,084,486	28,175	933	-	1,140	2,114,734
Total assets	38,582,391	32,728,565	531,688	117,678	661,839	72,622,161
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	846,587	82,370	2,477	209	376	932,019
Stockholders' equity	10,624,426	-	-	-	-	10,624,426
Total liabilities and stockholders' equity	41,551,630	30,322,971	363,558	132,385	251,617	72,622,161
Net statement of financial position	(2,969,239)	2,405,594	168,130	(14,707)	410,222	-
Credit commitments	722,504	676,661	-	-	-	1,399,165

Pan Caribbean Financial Services Limited
Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

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

Concentrations of currency risk (continued)

	The Company				
	Jamaican$	**US$**	**GBP**	**EURO**	**Total**
	J$'000	**J$'000**	**J$'000**	**J$'000**	**J$'000**
At 31 December 2011:					
Assets					
Cash and balances due from other financial institutions	507,834	879,487	212,118	118,540	1,717,979
Trading securities	460,032	150,907	-	-	610,939
Securities purchased under agreements to resell	55,283	252,791	-	-	308,074
Investment securities and pledged assets	32,453,792	23,062,664	413,352	735,601	56,665,409
Derivative financial instruments	-	839,420	-	-	839,420
Loans, net of provision for credit losses	1,015,558	1,273,480	-	-	2,289,038
Other	4,029,827	108,173	-	-	4,138,000
Total assets	38,522,326	26,566,922	625,470	854,141	66,568,859
Liabilities and Stockholders' Equity					
Securities sold under agreements to repurchase	29,150,576	24,676,678	763,507	39,889	54,630,650
Customer accounts	250,241	-	-	-	250,241
Structured products	-	274,913	-	-	274,913
Due to banks and other financial institutions	403,941	60,326	-	62	464,329
Derivative financial instruments	-	27,710	-	672,890	700,600
Other liabilities	884,293	34,621	170	-	919,084
Stockholders' equity	9,329,042	-	-	-	9,329,042
Total liabilities and stockholders' equity	40,018,093	25,074,248	763,677	712,841	66,568,859
Net statement of financial position	(1,495,767)	1,492,674	(138,207)	141,300	-
Credit commitments	497,231	383,141	-	-	880,372

Pan Caribbean Financial Services Limited
Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

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

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

Concentrations of currency risk (continued)

	The Company				
	Jamaican$ J$'000	US$ J$'000	GBP J$'000	EURO J$'000	Total J$'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	8,348,283	-	-	-	8,348,283
Total liabilities and stockholders' equity	37,319,217	23,383,698	280,822	146,569	61,130,306
Net statement of financial position	(1,563,643)	947,124	128,555	487,964	-
Credit commitments	463,886	257,154	-	-	721,040

Pan Caribbean Financial Services Limited

Notes to the Financial Statements
31 December 2011
(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 1% 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
	2011 %	2011 $'000	2010 %	2010 $'000
Currency:				
USD	+1	35,156	+5	119,535
EUR	+1	1,580	+5	20,511
GBP	+1	(979)	+5	8,407
USD	-1	(35,156)	-5	(119,535)
EUR	-1	(1,580)	-5	(20,511)
GBP	-1	979	-5	(8,407)

	The Company			
	Change in Currency Rate	Effect on Pre-tax Profit	Change in Currency Rate	Effect on Pre-tax Profit Profit
	2011 %	2011 $'000	2010 %	2010 $'000
Currency:				
USD	+1	14,948	+5	46,611
EUR	+1	1,413	+5	24,398
GBP	+1	(1,382)	+5	6,428
USD	-1	(14,948)	-5	(46,611)
EUR	-1	(1,413)	-5	(24,398)
GBP	-1	1,382	-5	(6,428)

Pan Caribbean Financial Services Limited
Notes to the Financial Statements
31 December 2011
(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 resides primarily in its Jamaican dollar liability portfolio. Accordingly, the Group manages interest rate risk by holding a high proportion of variable rate Jamaican dollar securities linked to Treasury bill yields. There is a growing proportion of the Group's portfolio tied to their prime lending rate which is reviewed periodically based on market conditions. The interest rate risk 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.

In addition, the Group and company has an interest rate swap on which interest rate risk arises as set out in Note 22.

Pan Caribbean Financial Services Limited
Notes to the Financial Statements
31 December 2011
(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 2011:							
Assets							
Cash and balances due from other financial institutions	2,227,484	-	-	-	-	-	2,227,484
Cash reserve at Bank of Jamaica	519,732	-	-	-	-	-	519,732
Trading securities	-	-	-	-	200,876	410,064	610,940
Securities purchased under agreements to resell	752,807	6,859	226,980	-	-	5,258	991,904
Investment securities and pledged assets	748,453	22,713,598	421,239	25,009,555	12,917,059	1,398,276	63,208,180
Derivative financial instruments	244,228	-	-	-	-	595,192	839,420
Loans, net of provision for credit losses	1,710,764	471,978	2,675,624	2,747,059	1,544,319	92,621	9,242,365
Leases receivables	-	-	-	15,261	-	254	15,515
Other	-	-	-	-	-	2,548,396	2,548,396
Total assets	6,203,468	23,192,435	3,323,843	27,771,875	14,662,254	5,050,061	80,203,936
Liabilities							
Securities sold under agreements to repurchase	33,609,653	14,607,593	6,056,655	9,955	-	328,275	54,612,131
Customer deposits and other accounts	4,812,665	1,044,156	3,369,539	611,857	688,353	73,327	10,599,897
Structured products	-	-	-	-	-	274,913	274,913
Derivative financial instruments	-	-	-	-	-	700,600	700,600
Due to banks and other financial institutions	5,270	3,244	48,256	485,295	125,648	96,305	764,018
Other	-	-	-	-	-	1,293,018	1,293,018
Total liabilities	38,427,588	15,654,993	9,474,450	1,107,107	814,001	2,766,438	68,244,577
Total interest repricing gap	(32,224,120)	7,537,442	(6,150,607)	26,664,768	13,848,253	2,283,623	11,959,359
Cumulative repricing gap	(32,224,120)	(24,686,678)	(30,837,285)	(4,172,517)	9,675,736	11,959,359	

Pan Caribbean Financial Services Limited
Notes to the Financial Statements
31 December 2011
(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	-	-	-	-	-	2,114,734	2,114,734
Total assets	7,410,918	19,487,598	5,849,768	18,655,964	17,649,942	3,567,971	72,622,161
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	-	-	-	-	-	484,428	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	-	-	-	-	-	932,019	932,019
Total liabilities	33,737,706	14,741,623	8,698,458	1,888,114	939,753	1,992,081	61,997,735
Total interest repricing gap	(26,326,788)	4,745,975	(2,848,690)	16,767,850	16,710,189	1,575,890	10,624,426
Cumulative repricing gap	(26,326,788)	(21,580,813)	(24,429,503)	(7,661,653)	9,048,536	10,624,426	

Pan Caribbean Financial Services Limited
Notes to the Financial Statements
31 December 2011
(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	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 2011:							
Assets							
Cash and balances due from other financial institutions	1,717,979	-	-	-	-	-	1,717,979
Trading securities	-	-	-	-	200,876	410,064	610,940
Securities purchased under agreements to resell	76,817	-	226,980	-	-	4,276	308,073
Investment securities and pledged assets	522,454	21,511,630	421,239	22,291,338	10,677,513	1,241,235	56,665,409
Derivative financial instruments	244,228	-	-	-	-	595,192	839,420
Loans, net of provision for credit losses	353,958	86,214	974,961	640,445	216,362	17,099	2,289,039
Other	-	-	-	-	-	4,137,999	4,137,999
Total assets	2,915,436	21,597,844	1,623,180	22,931,783	11,094,751	6,405,865	66,568,859
Liabilities							
Securities sold under agreements to repurchase	33,628,173	14,607,593	6,056,655	9,955	-	328,274	54,630,650
Customer accounts	12,219	14,131	54,790	164,310	-	4,791	250,241
Structured products	-	-	-	-	-	274,913	274,913
Due to banks and other financial institutions	5,775	192	48,000	300,986	13,148	96,228	464,329
Derivative financial instruments	-	-	-	-	-	700,600	700,600
Other	-	-	-	-	-	919,085	919,085
Total liabilities	33,646,167	14,621,916	6,159,445	475,251	13,148	2,323,891	57,239,818
Total interest repricing gap	(30,730,731)	6,975,928	(4,536,265)	22,456,532	11,081,603	4,081,974	9,329,041
Cumulative repricing gap	(30,730,731)	(23,754,803)	(28,291,068)	(5,834,536)	5,247,067	9,329,041	

Pan Caribbean Financial Services Limited
Notes to the Financial Statements
31 December 2011
(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	-	-	-	-	-	3,770,490	3,770,490
Total assets	4,270,124	18,199,878	3,568,308	14,873,573	15,264,270	4,943,959	61,120,112
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	-	-	-	-	-	484,428	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	-	-	-	-	-	719,116	719,116
Total liabilities	30,764,351	13,798,183	5,098,977	1,382,092	15,185	1,713,041	52,771,829
Total interest repricing gap	(26,494,227)	4,401,695	(1,530,669)	13,491,481	15,249,085	3,230,918	8,348,283
Cumulative repricing gap	(26,494,227)	(22,092,532)	(23,623,201)	(10,131,720)	5,117,365	8,348,283	

(expressed in Jamaican dollars unless otherwise indicated)

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 €
	%	%	%	%	%	%	%	%	%	%
	2011									
Assets										
Cash and balances due from other financial institutions	0.22	0.13	-	0.01	0.05	0.22	0.13	-	0.01	0.05
Cash reserves at Bank of Jamaica	-	0.01	0.35	0.05	-	-	-	-	-	-
Trading securities	8.75	8.14	-	-	-	8.75	8.14	-	-	-
Securities purchased under agreements to resell	-	4.40	-	3.00	3.28	4.02	4.83	-	-	-
Investment securities – debt securities	9.39	7.79	-	7.50	10.27	9.65	7.57	-	7.50	10.32
Loans, net of provision for credit losses	16.09	10.04	-	-	-	13.87	9.07	-	-	-
Lease receivables	18.31	-	-	-	-	-	-	-	-	-
Liabilities										
Securities sold under agreements to repurchase	5.92	3.66	-	2.85	1.92	5.92	3.66	-	2.85	1.92
Customer deposits and other accounts	3.64	2.96	1.20	1.79	0.05	3.83	-	-	-	-
Due to banks and other financial institutions	9.41	7.32	-	-	-	9.82	7.32	-	-	-
	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	-	-	-	-
Due to banks and other financial institutions	10.03	8.68	-	-	-	10.03	8.68	-	-	-
Redeemable preference shares	12.50	-	-	-	-	12.50	-	-	-	-

Pan Caribbean Financial Services Limited
Notes to the Financial Statements
31 December 2011
(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 income statement and stockholders' equity.

The sensitivity of the income statement 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			
	2011		2010	
	Effect on Pre-tax Profit	Effect on Other components of Equity	Effect on Pre-tax Profit	Effect on Other components of Equity
	$'000	$'000	$'000	$'000
Change in basis points				
J$ -100, US$ - 50 (2010 J$ -100, US$ -50)	208,329	753,395	157,680	866,171
J$ +100, US$ +50 (2010 - J$ +200, US$ +50)	(208,329)	(783,088)	(157,680)	(1,282,649)

	The Company			
	2011		2010	
	Effect on Pre-tax Profit	Effect on Other components of Equity	Effect on Pre-tax Profit	Effect on Other components of Equity
	$'000	$'000	$'000	$'000
Change in basis points				
J$ -100, US$ -50 (2010 - J$ -100, US$ -50)	218,789	653,932	126,144	782,981
J$ +100, US$ +50 (2010 - J$ +200, US$ +50)	(218,789)	(644,399)	(126,144)	(1,157,626)

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 statements of financial position, 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-statement of financial position 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 2011 and 2010. During those two years, the individual entities within the Group complied with all of the externally imposed capital requirements to which they are subject.

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

3. Financial Risk Management (Continued)

(d) Capital management (continued)

	PCFS		PCB	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Tier 1 capital	7,041,585	6,956,085	2,567,871	2,518,548
Tier 2 capital	1,380,884	1,071,808	71,610	69,876
Total regulatory capital	8,422,469	8,027,893	2,639,481	2,588,424
Total required capital	3,520,793	3,478,042	1,034,021	810,476
Risk-weighted assets:				
On-statement of financial position	10,542,524	15,780,894	7,725,499	6,045,913
Off-statement of financial position	-	-	894,705	678,948
Foreign exchange exposure	1,292,447	1,400,013	1,720,001	1,379,898
Total risk-weighted assets	11,834,971	17,180,907	10,340,205	8,104,759
Actual capital base to risk weighted assets	21%	47%	26%	32%
Required capital base to risk weighted assets	10%	10%	10%	10%

The risk-weighted capital ratios declined due to the inclusion of new capital charges for market risks of Government of Jamaica securities.

(e) Derivative products

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

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

(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 by $249,348,000 (2010 – $60,370,000) 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 loans and leases***
Loans and leases are evaluated for impairment on a basis described in Note 2(m)(i).

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Were the net present value of estimated cash flows to differ by +/-5%, the impairment loss is to be estimated $72,794,000 higher or $72,794,000 lower.

(iii) ***Fair value of securities not quoted in an active market***
The fair value of such securities not quoted in an active market may be determined using reputable pricing sources (such as pricing agencies) or indicative prices from bond/debt market makers. Broker quotes as obtained from the pricing sources may be indicative and not executable or binding. The Group exercises judgement and estimates on the quantity and quality of pricing sources used. Where no market data is available, the Group may value positions using its own models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. The inputs into these models are primarily discounted cash flows. The models used to determine fair values are periodically reviewed by experienced personnel. The models used for debt securities are based on net present value of estimated future cash flows, adjusted as appropriate for liquidity, and credit and market risk factors.

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.

Pan Caribbean Financial Services Limited

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

5. Segment Reporting (Continued)

	The Group						
	Year ended 31 December 2011						
	Treasury Management	Corporate & Retail Credit	Asset Management	Trading	Corporate Trust	Eliminations	Group
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Gross external revenues	5,186,932	1,034,869	252,006	686,716	50,751	-	7,211,274
Revenues/expenses from other segments	19,419	-	-	-	-	(19,419)	-
Total gross revenues	5,206,351	1,034,869	252,006	686,716	50,751	(19,419)	7,211,274
Total expenses	(3,848,663)	(791,796)	(56,111)	(135,353)	(89,468)	19,419	(4,901,972)
Profit before tax	1,357,688	243,073	195,895	551,363	(38,717)	-	2,309,302
Tax expense							(588,646)
Net profit							1,720,656
Segment assets	65,039,506	9,257,881	-	610,940	-	-	74,908,327
Unallocated assets							5,295,609
Total Assets							80,203,936
Segment liabilities	66,187,540	764,019	-	-	-	-	66,951,559
Unallocated liabilities							1,293,018
Total Liabilities							68,244,577
Other segment items -							
Net interest income	2,477,085	463,005	-	-	-	-	2,940,090
Impairment charges	-	23,278	-	-	-	-	23,278
Impairment reversal	(52,051)	-	-	-	-	-	(52,051)
Capital expenditure	11,132	76,083	-	-	-	-	87,215
Depreciation	30,455	14,131	-	-	-	-	44,586
Amortisation charges	8,455	31,918	-	-	-	-	40,373

Pan Caribbean Financial Services Limited
Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

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	(4,184,522)	(1,029,857)	(92,712)	(119,082)	(52,250)	18,771	(5,459,652)
Profit before tax	1,350,068	13,720	137,457	471,788	2,155	-	1,975,188
Tax expense							(451,147)
Net profit							1,524,041
Segment assets	58,324,000	9,500,885	-	47,889	-	-	67,872,774
Unallocated assets							4,749,387
Total Assets							72,622,161
Segment liabilities	59,892,204	1,173,513	-	-	-	-	61,065,717
Unallocated liabilities							932,018
Total Liabilities							61,997,735
Other segment items -							
Net Interest income	2,384,687	362,110	-	-	-	-	2,746,797
Impairment charges	40,826	60,993					101,819
Capital expenditure	7,033	96,206	-	-	-	-	103,239
Depreciation	26,078	19,245	-	-	-	-	45,323
Amortisation charges	5,571	46,051	-	-	-	-	51,622

6. Interest Expense

	The Group		The Company	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Customer deposits, repurchase liabilities and other accounts	3,028,114	3,566,740	2,688,421	3,140,827
Due to banks and other financial institutions	84,976	115,594	50,340	84,131
Redeemable preference shares	76,900	137,861	76,900	137,861
	3,189,990	3,820,195	2,815,661	3,362,819

Pan Caribbean Financial Services Limited
Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

7. Fees and Commission Income

	The Group		The Company	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Asset management fees	250,507	218,801	250,507	218,801
Credit related fees	36,155	64,772	16,668	20,209
Stock brokerage fees	30,438	31,417	30,438	31,417
Trust fees	47,751	51,405	24,388	26,679
Wholesale banking fees	6,048	9,954	6,048	9,954
Treasury fees	20,190	16,907	11,708	11,432
Other	1,345	12,783	1,345	12,783
	392,434	406,039	341,102	331,275

8. Net Trading Income

	The Group		The Company	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Foreign exchange trading and translation gains/(losses)	144,140	(23,540)	25,406	(95,658)
Equities trading gains and dividends	18,951	31,606	18,951	31,606
Debt securities trading gains/(losses) -				
Available-for-sale investment securities	495,528	222,340	447,754	193,944
Trading securities	(13,916)	922	(13,916)	922
Derivative financial instruments	11,582	192,312	11,586	163,451
	656,285	423,640	489,781	294,265

9. Other Revenue

	The Group		The Company	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Dividend income from subsidiary	-	-	-	165,000
Structured products	5,499	11,368	5,499	11,368
Service fees	23,599	17,374	-	-
Other	3,377	9,427	3,128	6,428
	32,475	38,169	8,627	182,796

Pan Caribbean Financial Services Limited
Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

10. Team Member Costs

	The Group		The Company	
	2011	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
Wages and salaries	777,405	680,684	497,097	504,242
Statutory contributions	73,811	59,447	48,189	40,008
Pension costs (Note 30)	2,814	87,747	-	-
Other post-employment benefits (Note 30)	14,734	5,737	-	-
Other team member benefits	70,247	64,610	65,353	61,385
Stock options expense (Note 38)	20,488	1,163	20,488	1,163
Share grant expense	43,754	13,149	43,754	13,149
	1,003,253	912,537	674,881	619,947

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

	The Group		The Company	
	2011	**2010**	**2011**	**2010**
	No.	**No.**	**No.**	**No.**
Full-time	268	264	129	134
Part-time	24	21	20	16
	292	285	149	150

11. Impairment (Reversals)/Charges

	The Group		The Company	
	2011	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
Investment securities (Note 21)	(52,051)	40,826	(52,051)	40,826
Loans (Note 24)	34,378	39,145	13,515	21,003
Lease receivables (Note 25)	1,754	1,934	-	-
Other	(12,854)	19,914	(15,505)	14,905
	(28,773)	101,819	(54,041)	76,734

Pan Caribbean Financial Services Limited
Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

12. Other Expenses

	The Group		The Company	
	2011	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
Amortisation (Note 28)	40,373	51,622	8,455	5,571
Audit fees -				
Current	11,212	10,193	5,935	5,396
Prior	1,400	-	1,335	-
Automated banking fees	7,129	4,828	-	-
Bank charges	26,070	23,026	9,512	9,060
Commissions and fees	28,514	39,864	18,356	18,491
Consultancy fees	3,734	500	-	159
Depreciation (Note 29)	44,586	45,323	30,455	26,078
Donations	915	482	775	329
Insurance	31,908	21,040	7,927	9,448
Investment management expense	45,000	-	45,000	-
Irrecoverable General Consumption Tax	52,396	39,253	21,172	16,064
Legal and professional fees	13,044	16,858	9,938	12,746
Licensing fees	29,093	41,800	9,919	9,471
Miscellaneous	5,079	2,853	1,825	2,003
Motor vehicle expense	8,588	7,705	3,947	3,049
Office expenses	9,302	7,058	3,682	1,037
Printing and stationery	7,153	8,430	2,145	2,033
Promotion and advertising	85,195	74,472	43,183	42,635
Repairs and maintenance	9,659	13,450	1,639	7,725
Security	9,989	10,126	244	1,010
Stamp duty	983	199	978	199
Technology project expense	103,714	54,329	103,714	54,329
Telephone and postage	21,520	26,852	9,169	14,263
Travelling and entertainment	14,424	9,695	7,182	4,493
	610,980	509,958	346,487	245,589

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	
	2011	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
Current tax	564,298	432,149	470,639	335,201
Prior year under/(over) provision	(127)	1,031	14,378	(3,048)
Deferred tax (Note 35)	24,475	17,967	14,765	38,339
	588,646	451,147	499,782	370,492

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	
	2011	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
Profit before taxation	2,309,302	1,975,188	1,908,000	1,819,365
Tax calculated at 33⅓%	769,767	658,396	636,000	606,455
Adjusted for the effects of:				
Income not subject to tax	(175,163)	(212,194)	(144,933)	(234,656)
Prior year (over)/under provision	(127)	1,031	14,378	(3,048)
Net effect of other charges and allowances	(5,831)	3,914	(5,663)	1,741
	588,646	451,147	499,782	370,492

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

	The Group		The Company	
	2011	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
Arising on gains recognised in other comprehensive income -				
Available-for-sale investments	(308,633)	(865,830)	(254,101)	(735,968)
Reclassifications from other comprehensive income to income statement -				
Available-for-sale investments	193,598	754	159,817	(10,703)
Cash flow hedge (Note 22)	3,881	6,305	3,881	6,305
	197,479	7,059	163,698	(4,398)
	(111,154)	(858,771)	(90,403)	(740,366)

14. Net Profit

	2011 $'000	2010 $'000
Dealt with in the financial statements of:		
The company	1,408,218	1,448,873
The subsidiaries	312,438	75,168
	1,720,656	1,524,041

15. Retained Earnings

	2011 $'000	2010 $'000
Reflected in the financial statements of:		
The company	3,989,281	3,968,195
The subsidiaries	437,678	194,636
	4,426,959	4,162,831

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.

	2011	2010
Net profit attributable to stockholders ($'000)	1,720,656	1,524,041
Weighted average number of ordinary stock units in issue ('000)	550,737	548,991
Basic earnings per stock unit ($)	3.12	2.78

(i) 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.

	2011	2010
Net profit attributable to stockholders ($'000)	1,720,656	1,524,041
Weighted average number of ordinary stock units in issue ('000)	554,418	550,471
Diluted earnings per stock unit ($)	3.09	2.77

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:

	2011 '000	2010 '000
Weighted average number of ordinary stock units for the purposes of the computation of basic earnings per stock unit	550,737	548,991
Effect of dilutive potential ordinary stock units – stock options	3,681	1,480
Weighted average number of ordinary stock units for the purposes of the computation of diluted earnings per stock unit	554,418	550,471

17. Cash and Balances Due from Other Financial Institutions

	The Group		The Company	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Placements with other financial institutions	145,373	124,290	145,373	124,290
Items in the course of collection	98,292	122,181	-	-
Cash in hand and at bank	1,983,819	1,931,708	1,572,606	1,146,184
	2,227,484	2,178,179	1,717,979	1,270,474

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	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Cash and balances due from other financial institutions (Note 23)	2,082,111	2,053,889	1,572,606	1,146,184

18. Cash Reserve at Bank of Jamaica

A prescribed minimum of 26% (2010 - 26%) of deposit liabilities are required to be maintained by the banking subsidiary in liquid assets, of which 12% (2010 - 12%) must be maintained as cash reserve with the Bank of Jamaica for Jamaican dollar currency and 9% (2010 – 9%) for the relevant foreign currency. The cash reserve is not available for investment, lending or other use by the Group.

19. Trading Securities

	The Group and Company	
	2011	**2010**
	$'000	**$'000**
Debt securities -		
Government of Jamaica	137,103	42,365
Corporate bonds	63,774	4,419
Preference shares –		
Unquoted at fair value	408,188	-
	609,065	46,784
Interest receivable	1,875	1,105
	610,940	47,889

Included in preference shares are Equity Linked (ELP) and Dividend linked (DLP) preference shares. The ELP will provide returns based on the capital gains/loss from movement in the price of a listed stock and the DLP will provide returns based on the dividend income of the same stock. The terms of the preference shares provide for ELPs to receive twice the capital gain or loss from movement in the price of the underlying listed stock while the DLPs receive none of the capital gains or loss.

20. Securities Purchased Under Agreements to Resell

	The Group		The Company	
	2011	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
Principal	986,684	1,355,504	303,798	980,254
Interest receivable	5,220	8,002	4,276	7,146
	991,904	1,363,506	308,074	987,400

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 2011, the Group held $987,272,000 (2010 - $1,575,102,000) of securities, mainly representing Government of Jamaica debt securities, as collateral for reverse repurchase agreements.

	The Group		The Company	
	2011	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
Securities purchased under agreement to resell with an original maturity of less than 90 days (Note 23)	742,384	1,042,028	77,028	666,052

Pan Caribbean Financial Services Limited
Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

21. Investment Securities

	The Group		The Company	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Available-for-sale securities -				
Debt securities -				
Government of Jamaica	49,913,831	44,702,499	44,591,905	41,236,721
Corporate bonds	7,570,523	5,148,072	6,606,717	4,887,996
Credit linked notes	1,925,171	1,850,281	1,925,171	1,850,281
Bank of Jamaica Certificates of Deposit	602,500	2,228,569	502,500	1,398,569
Other sovereign debt	153,564	-	153,564	-
	60,165,589	53,929,421	53,779,857	49,373,567
Unit Trust -				
Quoted – at fair value	169,740	-	169,740	-
	169,740	-	169,740	-
Equity securities -				
Unquoted – at cost	114,888	118,262	100,461	103,950
	114,888	118,262	100,461	103,950
	60,450,217	54,047,683	54,050,058	49,477,517
Held- to-maturity investments -				
Credit linked notes	1,644,317	1,615,864	1,644,317	1,615,864
	62,094,534	55,663,547	55,694,375	51,093,381
Less: Pledged assets (Note 26)	(7,831,016)	(8,117,235)	(7,831,016)	(8,117,235)
	54,263,518	47,546,312	47,863,359	42,976,146
Less: Impairment charges	(41,192)	(92,424)	(41,192)	(92,424)
	54,222,326	47,453,888	47,822,167	42,883,722
Interest receivable	1,154,838	1,098,592	1,012,226	1,014,632
	55,377,164	48,552,480	48,834,393	43,898,354

The company recognised impairment charges totaling $366,000 (2010 - $40,826,000) on equity securities.

During the year, impairment charge previously recognised on a debt security was reversed due to payments received (Note 11).

Pan Caribbean Financial Services Limited
Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

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	
	2011	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
Debt securities with an original maturity of less than 90 days (Note 23)	605,079	2,237,005	505,045	1,403,382

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 2011, the fair values and carrying values of financial assets reclassified is $1,879,981,000 (2010 - $1,747,083,000) and $1,715,800,000 (2010 - $1,686,712,000).

The fair value gain that would have been recognised in other comprehensive income for the Group and company if these investment securities had not been reclassified is $249,348,000 (2010 – $60,370,000).

There was no reclassification of financial assets during the year.

The following are included in the income statement for investment securities reclassified in 2008:

	The Group and The Company	
	2011	**2010**
	$'000	**$'000**
Interest income	186,065	207,484
Foreign exchange gain/(loss)	14,769	(42,667)
	200,834	164,817

22. Derivative Financial Instruments and Hedging Activity

Derivatives are at fair value and carried in the statement of financial position 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	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Currency forwards	567,482	6,050	561,392	-
Exchange traded funds – short sale	-	-	111,498	113,774
Foreign exchange collar option	-	25,508	-	-
Equity indexed options	27,710	44,586	27,710	44,586
Interest rate swap	244,228	214,633	-	-
	839,420	290,777	700,600	158,360

	The Company			
	Assets		Liabilities	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Currency forwards	567,482	-	561,392	-
Exchange traded funds – short sale	-	-	111,498	113,774
Foreign exchange collar option	-	25,508	-	-
Equity indexed options	27,710	44,586	27,710	44,586
Interest rate swap	244,228	214,633	-	-
	839,420	284,727	700,600	158,360

22. Derivative Financial Instruments and Hedging Activity (Continued)

(i) Currency forwards
Currency forwards represent commitments to buy US dollars and sell Euro dollars totalling €5,035,000 on a gross basis at future dates at specified prices. The credit risk is evaluated for each contract and is collateralised where deemed necessary. The currency forward contracts are settled on a gross basis. The contracts expire on various settlement dates.

(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 2012.

(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 one currency put options in place at the end of the year.

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.

(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 32). 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 2010, the company entered a collar to sell a call option and buy a put option; the notional amount was £963,000 for settlement on a net basis. The contract was settled during the year.

(vi) Interest rate swap and hedging activity – cash flow hedge

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.

In 2010, hedge accounting was discontinued as the hedge relationship was no longer effective.

The hedge accounting gains and losses up to 31 December 2009 will be transferred to the income statement as interest income is recognised on the floating rate available-for-sale bond. Accordingly, $7,762,000, net of deferred taxation (2010 - $12,610,000), was reclassified from the fair value reserve to net trading income.

Pan Caribbean Financial Services Limited
Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

23. Cash and Cash Equivalents

	The Group		The Company	
	2011	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
Cash and balances due from other financial institutions (Note 17)	2,082,111	2,053,889	1,572,606	1,146,184
Securities purchased under agreements to resell (Note 20)	742,384	1,042,028	77,028	666,052
Investment securities (Note 21)	605,079	2,237,005	505,045	1,403,382
Repurchase agreements with financial institutions	(1,221,303)	(1,011,945)	(1,221,303)	(1,226,260)
Items in the course of payment (Note 36)	(119,179)	(85,465)	-	-
Short term loan (Note 33)	(3,597)	(365,000)	(4,102)	-
	2,085,495	3,870,512	929,274	1,989,358

24. Loans, Net of Provision for Credit Losses

	The Group		The Company	
	2011	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
Gross loans and advances	9,380,059	9,586,043	2,380,058	2,818,852
Less: Provision for credit losses	(230,315)	(194,897)	(108,119)	(93,781)
	9,149,744	9,391,146	2,271,939	2,725,071
Loan interest receivable	92,621	89,173	17,099	18,472
	9,242,365	9,480,319	2,289,038	2,743,543

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

	The Group		The Company	
	2011	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
Total non-performing loans	417,188	334,457	247,521	220,384

Pan Caribbean Financial Services Limited
Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

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

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

	The Group		The Company	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Balance at beginning of year	194,897	160,461	93,781	75,314
Provided during the year	38,910	119,149	18,047	53,224
Recoveries	(4,532)	(80,004)	(4,532)	(32,221)
Net charge to the income statement (Note 11)	34,378	39,145	13,515	21,003
Write-offs	-	(698)	-	(698)
Currency revaluation adjustment	1,040	(4,011)	823	(1,838)
Balance at end of year	230,315	194,897	108,119	93,781

25. Lease Receivables

	The Group		The Company	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Gross investment in finance leases -				
Not later than one year	25,907	15,382	-	-
Later than one year and not later than five years	17,404	43,020	-	-
	43,311	58,402	-	-
Unearned finance income	(7,386)	(18,976)	-	-
Net investment in finance leases	35,925	39,426	-	-
Net investment in finance leases -				
Not later than one year	20,434	15,330	-	-
Later than one year and not later than five years	15,491	24,096	-	-
	35,925	39,426	-	-
Less Provision for credit losses	(20,664)	(18,910)	-	-
	15,261	20,516	-	-
Interest receivable	254	50	-	-
	15,515	20,566	-	-

The aggregate amount of non-performing lease receivables on which interest was not being accrued is $27,744,000 (2010 - $34,546,000).

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 and Company			
	Asset		Related liability	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Investment securities and securities purchased under resale agreements	55,928,848	49,974,419	54,630,650	49,848,770

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	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Investment securities	7,831,016	8,117,235	7,831,016	8,117,235

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.

27. Related Party Transactions and Balances (Continued)

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

	The Group		The Company	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
With parent company -				
Management fees earned	141,950	152,559	141,950	152,599
Interest and other income earned	4,856	-	4,856	-
Interest and other expenses paid	(91,697)	(415,546)	(91,697)	(415,546)
Investment management fees paid	(45,000)	-	(45,000)	-
Rent and net lease recoveries paid to related party	(6,805)	(6,774)	(1,729)	(1,646)
With fellow subsidiaries -				
Interest income earned	-	-	3,129	11,281
Interest expense paid	(14,329)	(20,612)	(30,446)	(20,707)
Commission earned	4,856	-	4,856	-
Dividend income earned	-	-	-	165,000
Pension expense recharge	-	-	9,145	(44,202)
With directors and key management -				
Interest expense paid	(5,909)	(5,720)	(5,613)	(5,454)
Interest income earned	2,390	-	176	122
Salaries and other short-term benefits	203,389	148,907	124,726	115,149
With managed funds -				
Management fees earned	86,958	55,812	86,958	55,812
Interest expense paid	(40,671)	(19,733)	(40,671)	(19,733)
Directors' emoluments -				
Fees	16,731	16,511	12,631	12,031
Other	79,564	51,733	53,777	34,007
	96,295	68,244	66,408	46,038

Pan Caribbean Financial Services Limited
Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

27. Related Party Transactions and Balances (Continued)

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

	The Group		The Company	
	2011	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
With ultimate parent company -				
Balances due from ultimate parent company	-	263	-	263
With parent company -				
Customer deposits	(164,607)	(19,925)	-	-
Loans – managed funds	7,741	-	-	-
Customer deposits – managed funds	(185,800)	(216,923)	-	-
Securities sold under agreements to repurchase	(405,626)	(822,826)	(405,626)	(822,826)
Securities sold under agreements to repurchase – managed funds	(2,624,007)	(237,406)	(2,624,007)	(3,237,406)
Balances due to parent company	(45,097)	(3,830)	(45,097)	(3,830)
With fellow subsidiaries -				
Cash and bank balances	-	-	787,763	307,477
Customer deposits	(140,580)	(44,746)	-	-
Securities sold under agreements to repurchase	(665,390)	(431,798)	(683,910)	(645,878)
Securities sold under agreements to repurchase – managed funds	(93,123)	(70,659)	(93,123)	(70,659)
Due to banks and other financial institutions	-	-	(505)	-
Balances due to fellow subsidiaries	(7,254)	(1,212)	(54,312)	(66,362)

Pan Caribbean Financial Services Limited
Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

27. Related Party Transactions and Balances (Continued)

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

	The Group		The Company	
	2011	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
With directors and key management personnel -				
Loans	20,234	12,040	753	935
Customer deposits and other accounts	(37,414)	(15,135)	-	-
Securities sold under agreements to repurchase	(127,814)	(160,492)	(127,814)	(160,492)
With managed funds -				
Customers deposits	(372,731)	(321,569)	-	-
Securities sold under agreements to repurchase	(2,929,155)	(2,892,830)	(2,929,155)	(2,892,830)
Balances due from other related parties	8,527	17,375	8,527	17,375

28. Intangible Assets

	The Group		The Company	
	2011	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
Computer software	47,550	51,708	26,547	14,039
Goodwill	733,750	733,750	143,263	143,263
	781,300	785,458	169,810	157,302

Computer software

	The Group		The Company	
	2011	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
Opening net book value	51,708	78,408	14,039	11,024
Additions	36,215	24,922	20,963	8,586
Amortisation	(40,373)	(51,622)	(8,455)	(5,571)
	47,550	51,708	26,547	14,039
Cost, net of grant	356,450	320,235	145,707	124,744
Accumulated amortisation	(308,900)	(268,527)	(119,160)	(110,705)
	47,550	51,708	26,547	14,039

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 income statement.

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:

	2011 $'000	**2010 $'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.

Pan Caribbean Financial Services Limited
Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

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 2010	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
Additions	12,576	26,420	2,159	11,195	52,350
Disposals	-	(133)	(1,062)	(194)	(1,389)
At 31 December 2011	163,294	162,298	12,154	179,658	517,404
Accumulated Depreciation					
At 1 January 2010	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
Charge for the year	15,348	14,762	2,129	12,347	44,586
Disposals	-	(133)	(1,062)	(194)	(1,389)
At 31 December 2011	72,599	127,290	3,727	145,097	348,713
Net Book Value					
At 31 December 2011	90,695	35,008	8,427	34,561	168,691
At 31 December 2010	93,467	23,350	8,397	35,713	160,927
			The Company		
Cost					
At 1 January 2010	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
Additions	12,345	20,214	1,350	8,749	42,658
Disposals	-	-	(175)	(194)	(369)
At 31 December 2011	112,015	75,365	10,464	104,122	301,966
Accumulated Depreciation					
At 1 January 2010	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
Charge for the year	10,816	8,705	1,935	8,999	30,455
Disposals	-	-	(175)	(194)	(369)
At 31 December 2011	46,140	42,845	3,054	88,096	180,135
Net Book Value					
At 31 December 2011	65,875	32,520	7,410	16,026	121,831
At 31 December 2010	64,346	21,011	7,995	16,276	109,628

30. Post-employment Benefits

(a) Pension scheme

The Group has established a number of pension schemes covering all permanent employees. The assets of funded plans are held independently of the Group's assets in separate trustee administered funds. Defined benefit plans are valued by independent actuaries annually using the projected unit credit method. The latest actuarial valuations were carried out as at 31 December 2011.

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 statement of financial position are determined as follows:

	The Group	
	2011 $'000	**2010 $'000**
Present value of funded obligations	387,321	366,972
Fair value of plan assets	(415,794)	(337,276)
	(28,473)	29,696
Unrecognised actuarial loss	(56,941)	(125,201)
Limitation of asset due to uncertainty of obtaining economic benefits	56,941	95,505
Asset in the statement of financial position	(28,473)	-

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

	The Group	
	2011 $'000	**2010 $'000**
Balance at beginning of year	366,972	203,413
Current service cost	27,174	10,155
Interest cost	35,567	29,979
Members' contributions	22,169	20,921
Benefits paid	(23,155)	(7,364)
Purchased annuities	7,582	-
Actuarial (gain)/loss on obligation	(48,988)	109,868
Balance at end of year	387,321	366,972

Pan Caribbean Financial Services Limited
Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

30. 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	
	2011 **$'000**	**2010** **$'000**
Balance at beginning of year	337,276	261,288
Members' contributions	22,169	20,921
Employer's contribution	31,287	29,872
Expected return on plan assets	28,171	28,249
Benefits paid	(23,155)	(7,364)
Purchased annuities	7,582	-
Actuarial gain	12,464	4,310
Balance at end of year	415,794	337,276

Plan assets are comprised as follows:

	The Group			
	2011		**2010**	
	$'000	**%**	**$'000**	**%**
Equity	16,834	4	13,944	4
Debt	398,960	96	323,332	96
	415,794	100	337,276	100

The amounts recognised in the income statement are as follows:

	The Group	
	2011 **$'000**	**2010** **$'000**
Current service cost	27,174	10,155
Interest cost	35,567	29,979
Expected return on plan assets	(28,171)	(28,249)
Recognised actuarial loss	6,808	-
Change in unrecognised assets	(38,564)	75,862
Total, included in team member costs (Note 10)	2,814	87,747

The actual return on plan assets was $48,030,000 (2010 – $39,567,000).

Expected contributions to post-employment plan for the year ending 31 December 2012 are $29,877,000.

Pan Caribbean Financial Services Limited
Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

30. **Post-employment Benefits (Continued)**

(a) Pension schemes (continued)

Movements in the amounts recognised in the statement of financial position:

	The Group	
	2011 $'000	**2010 $'000**
Asset at beginning of year	-	(57,875)
Amounts recognised in the income statement (Note 10)	2,814	87,747
Contributions paid	(31,287)	(29,872)
Asset at end of year	(28,473)	-

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				
	2011 $'000	**2010 $'000**	**2009 $'000**	**2008 $'000**	**2007 $'000**
As at 31 December					
Present value of defined benefit obligation	387,321	366,972	203,413	160,949	119,033
Fair value of plan assets	(415,794)	(337,276)	(261,288)	(182,657)	(165,572)
(Surplus)/deficit	(28,473)	29,696	(57,875)	(21,708)	(46,539)
Experience adjustments on plan liabilities	(48,988)	109,868	(9,422)	4,904	(14,505)
Experience adjustments on plan assets	(12,464)	(4,310)	(3,900)	39,965	(1,130)

The principal actuarial assumptions used were as follows:

	The Group	
	2011	**2010**
Discount rate	10%	11%
Expected return of plan assets	6.5%	8%
Future salary increases	7.5%	10%
Expected pension increase	0%	0%
Average expected remaining working lives (years)	13	13

30. 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 8% (2010 – 10.5%) per annum.

The amounts recognised in the statement of financial position are determined as follows:

	The Group	
	2011	**2010**
	$'000	**$'000**
Present value of unfunded obligations	34,147	58,235
Unrecognised actuarial gain/(loss)	18,455	(20,367)
Liability in the statement of financial position	52,602	37,868

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

	The Group	
	2011	**2010**
	$'000	**$'000**
Balance at beginning of year	58,235	20,715
Current service cost	7,331	3,142
Interest cost	6,400	3,314
Benefits paid	(116)	-
Actuarial (gain)/loss on obligation	(37,703)	31,064
Balance at end of year	34,147	58,235

The amounts recognised in the income statement are as follows:

	The Group	
	2011	**2010**
	$'000	**$'000**
Current service cost	7,331	3,142
Interest cost	6,400	3,314
Benefits paid	(116)	-
Recognised loss/(gain)	1,119	(719)
Total, included in team member costs (Note 10)	14,734	5,737

Pan Caribbean Financial Services Limited
Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

30. Post-employment Benefits (Continued)

(b) Other post-retirement benefits (continued)

Movement in the amounts recognised in the statement of financial position:

	The Group	
	2011 $'000	2010 $'000
Liability at beginning of year	37,868	32,131
Amounts recognised in the income statement (Note 10)	14,734	5,737
Liability at end of year	52,602	37,868

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

	The Group	
	2011 $'000	
	Decrease	Increase
Effect on the aggregate of current service cost	5,663	9,590
Effect on the aggregate of interest cost	5,049	8,201
Effect on the defined benefit obligation	27,857	42,364

31. Other Assets

	The Group		The Company	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Withholding tax recoverable	1,341,653	1,051,621	1,153,448	907,459
Customer settlement accounts	149,758	24,416	120,333	21,385
Staff receivables	29,627	10,938	29,627	10,937
Property, plant and equipment deposits	2,426	14,671	1,419	14,102
Other	32,463	42,395	20,104	19,139
	1,555,927	1,144,041	1,324,931	973,022

32. 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.

33. Due to Banks and Other Financial Institutions

			The Group		The Company	
		Rate	2011	2010	2011	2010
	Currency	%	$'000	$'000	$'000	$'000
Long Term Loans -						
The National Export Import Bank of Jamaica						
Repayable in 42 monthly installments commencing May 2009 and ending May 2012	J$	8.00	48,000	6,076	48,000	6,076
Development Bank of Jamaica Limited -						
Repayable over varying periods from 24 to 96 months	J$	various	57,315	73,518	57,315	73,518
Repayable over varying periods from 48 to 96 months	US$	various	1,865	9,770	1,865	9,770
European Investment Bank -						
Repayable in 7 equal annual installments commencing on 5 December 2008 and ending 2014	J$	various	264,860	368,772	264,860	368,772
Repayable in 7 equal annual installments commencing on 5 December 2008 and ending 2014	US$	various	58,174	76,877	58,174	76,877
Development Bank of Jamaica Limited (DBJ)						
Repayable over varying periods from 6 months to 92 months	J$	7 & 10.00	234,867	232,532	-	-
The National Export-Import Bank of Jamaica Limited -						
Repayable over varying periods from 6 months to 108 months	J$	13.00/ 9.00	65,249	37,295	-	-
			730,330	804,840	430,214	535,013
Short Term Loans						
Citibank N.A						
Repayable in one installment on 3 January 2011	J$	3.50	-	365,000	-	-
			730,330	1,169,840	430,214	535,013
Bank overdrafts-						
Bank of Jamaica	J$		3,597	-	3,597	-
PanCaribbeanBank Limited	J$		-	-	505	-
			3,597	-	4,102	-
			733,927	1,169,840	434,316	535,013
Interest payable			30,091	3,672	30,013	3,563
			764,018	1,173,512	464,329	538,576

33. 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 financing to the company for on-lending to customers for development projects which meet the criteria of DBJ and 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 and are extended to the clients at a maximum spread as stipulated by DBJ.

(b) European Investment Bank (EIB)
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)
The company and its subsidiary PanCaribbeanBank (PCB) are approved financial institutions of the National Export-Import Bank of Jamaica (EXIM). Through this partnership financing is provided, which is utilised to finance customers with viable projects within EXIM's guidelines.

Trade credit, short and medium term loans are offered to customers engaged in manufacturing, agriculture, tourism and export trading. The loans to customers are for varying terms and at a maximum spread as stipulated by EXIM.

(d) Bank Overdrafts

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

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

34. Redeemable Preference Shares

	The Group and The Company	
	2011	2010
	$'000	$'000
Redeemable preference shares	-	612,852
Interest payable	-	3,148
	-	616,000

The company issued 6,321,621 12½% cumulative redeemable preference shares at a fixed price of $200 per share. These were partially redeemable during 2010. During the year the company redeemed the remaining 3,064,259 (2010 – 3,257,362) shares at a value of $612,852,000 (2010 – 651,472,000) (Note 42).

Pan Caribbean Financial Services Limited
Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

35. 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 statement of financial position are as follows:

	The Group		The Company	
	2011	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
Deferred income tax assets	19,335	25,148	6,534	10,194
Deferred income tax liabilities	(544,661)	(414,845)	(449,184)	(347,676)
Net deferred income tax liability	(525,326)	(389,697)	(442,650)	(337,482)

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

	The Group		The Company	
	2011	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
Balance at beginning of year	(389,697)	487,041	(337,482)	441,223
Charged to the income statement (Note 13)	(24,475)	(17,967)	(14,765)	(38,339)
Tax charged relating to components in other comprehensive income (Note 13)	(111,154)	(858,771)	(90,403)	(740,366)
Balance at end of year	(525,326)	(389,697)	(442,650)	(337,482)

35. Deferred Income Taxes (Continued)

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

	The Group		The Company	
	2011	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
Deferred income tax assets -				
Property, plant and equipment	3,788	1,200	1,519	1,200
Trading securities	201	-	201	-
Post-employment benefit obligations	8,043	12,623	-	-
Loan loss provision	-	4,012	-	4,012
Other	7,303	7,313	4,814	4,982
	19,335	25,148	6,534	10,194
Deferred income tax liabilities -				
Property, plant and equipment	-	866	-	-
Investment securities	415,363	317,995	346,136	268,779
Trading securities	-	307	-	307
Interest rate swap	81,409	77,849	81,409	77,849
Loan loss provision	47,889	17,087	21,639	-
Post-employment benefit assets	-	-	-	-
Other	-	741	-	741
	544,661	414,845	449,184	347,676
Net deferred tax liability	(525,326)	(389,697)	(442,650)	(337,482)

Pan Caribbean Financial Services Limited

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

35. Deferred Income Taxes (Continued)

The movement in deferred tax assets and liabilities is as follows:

	The Group					
	Accelerated tax depreciated $'000	Fair value gains $'000	Loan loss provision $'000	Post-employment benefits $'000	Other $'000	Total $'000
At 1 January 2010	(3,758)	515,682	(23,759)	(8,582)	7,458	487,041
Credited/(charged) to income statement	4,092	(53,082)	10,684	21,205	(866)	(17,967)
Charged to other comprehensive income	-	(858,771)	-	-	-	(858,771)
At 31 December 2010	334	(396,171)	(13,075)	12,623	6,592	(389,697)
Credited/(charged) to income statement	3,454	9,994	(37,607)	(4,580)	4,264	(24,475)
Charged to other comprehensive income	-	(111,154)	-	-	-	(111,154)
At 31 December 2011	3,788	(497,331)	(50,682)	8,043	10,856	(525,326)

	The Company				
	Accelerated tax depreciated $'000	Fair value gains $'000	Loan loss provision $'000	Other $'000	Total $'000
At 1 January 2010	2,558	446,492	(14,168)	6,341	441,223
Credited/(charged) to income statement	(1,358)	(53,061)	18,180	(2,100)	(38,339)
Charged to other comprehensive income	-	(740,366)	-	-	(740,366)
At 31 December 2010	1,200	(346,935)	4,012	4,241	(337,482)
Credited/(charged) to income statement	319	9,994	(25,651)	573	(14,765)
Charged to other comprehensive income	-	(90,403)	-	-	(90,403)
At 31 December 2011	1,519	(427,344)	(21,639)	4,814	(442,650)

Pan Caribbean Financial Services Limited
Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

36. Other Liabilities

	The Group		The Company	
	2011	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
Accruals	98,480	53,829	71,830	37,073
Customer settlement accounts	91,425	37,574	32,644	24,452
Items in the course of payment	119,179	85,465	-	-
Staff related payables	128,123	103,037	87,280	67,334
Stale dated cheques	50,625	48,282	25,966	24,310
Other	35,317	19,822	30,907	6,869
	523,149	348,009	248,627	160,038

37. Share Capital

The total authorised number of stock units was increased by 60,000,000 stock units in 2011 to 675,613,376 (2010 – 615,613,376), made up of 660,613,376 ordinary shares and 15,000,000 preference shares of which 552,145,844 ordinary shares (2010 – 549,536,153) was issued and fully paid.

The movement on share capital is as follows:

	2011	**2010**
	$'000	**$'000**
Issued and Fully Paid -		
Share capital at the beginning of the year – 549,536,153 (2010 - 547,924,039) ordinary stock units	3,126,867	3,103,811
Stocks units issued during the year – 2,609,691 (2010 – 1,612,114) ordinary stock units	46,236	23,056
Transfer from stock options reserve (Note 38)	22,462	-
	3,195,565	3,126,867

The stock units in 2011 and 2010 are stated in these financial statements without a nominal or par value.

Stock units issued during the year comprise 1,255,860 ordinary stock units issued under the company's stock options scheme at prices varying from $12.20 to $20.50 per stock unit and 1,353,831 ordinary stock unit grants at $20.50.

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) 600,000 stock options on 1 March 2007. These options expired on 28 February 2011. The exercise price for the options was $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. 300,000 of the stock units were vested and expired during the year.

(ii) 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. 311,549 stock units have been taken up during the year. Contracts for 927,116 of these stocks units were forfeited/cancelled to date.

(iii) 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 to date. 122,991 stock units have been taken up during the year.

(iv) 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. 782,964 stock units have been taken up during the year (975,341 to date). Contracts for 412,132 of these stock units were forfeited.

(v) 3,137,791 stock option on 1 April 2010. These options expire on 31 March 2017. The exercise price for the option is $18.00. These options vest over four years – 25% each anniversary date of the grant. 57,438 units have been taken up during the year.

Details of the stock options outstanding are as follows:

	Number of stock options 2011	Weighted average exercise price 2011	Number of stock options 2010	Weighted average exercise price 2010
	'000	$	'000	$
Balance at beginning of year	11,393	16.01	4,799	18.53
Granted	3,138	18.00	8,886	15,10
Exercised	(1,275)	14.68	(192)	12.20
Lapsed/forfeited	(300)	21.75	(2,100)	17.91
	12,956	16.54	11,393	16.01
Exercisable at the end of the year	6,935	17.41	4,410	17.77

(expressed in Jamaican dollars unless otherwise indicated)

38. Stock Options Reserve (Continued)

Stock options outstanding at the end of the year for the company have the following expiry date and exercise price:

Expiry date	Exercise price	No. of stock options	
		2011	**2010**
28 February 2011	$21.75	-	300,000
31 March 2014	$18.00	2,835,581	3,147,130
31 March 2015	$20.50	2,641,924	2,764,915
31 March 2016	$12.20	4,397,815	5,180,779
31 March 2017	$18.00	3,080,353	-
		12,955,673	11,392,824

For options outstanding at the end of the year, the exercise price ranges from $12.20 to $20.50 (2010 - $12.20 to $21.75). The weighted average remaining contractual term to expiry is 3 years 10,000,000 (2010– 4 years 4,000,000).

Options for 1,274,942 stock units were exercised during the current year (2010 – 192,377). The weighted average stock unit price at the date of exercise for options exercised during the year was $14.72 (2010 - $12.20).

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 for outstanding options. 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 $74,255,000 (2010 - $53,767,000) as stock options expense of which $20,488,000 (2010 - $1,163,000) was recognised in the income statement during the year.

During the year, the company transferred $22,462,000 of the share option reserve balance to share capital. This transfer relates to the fair value of the options exercised up to 2011.

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.

Pan Caribbean Financial Services Limited

Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

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 $32,027,000 (2010 - $25,028,000) 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	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Provision for credit losses determined under IFRS -				
Loans (Note 24)	230,315	194,897	108,119	93,781
Lease receivables (Note 25)	20,664	18,910	-	-
	250,979	213,807	108,119	93,781
The provision for credit losses determined under regulatory requirements -				
Specific provision	403,025	253,032	173,034	81,745
General provision	97,433	102,208	25,824	32,331
	500,458	355,240	198,858	114,076
Excess of regulatory provision over IFRS provision reflected in a non distributable loan loss reserve	249,479	141,433	90,739	20,295

42. Capital Redemption Reserve

The capital redemption reserve was created on the redemption of preference shares in conformity with the provisions of the Jamaican Companies Act (Note 34). The current year's redemption was $612,852,000 and the prior year was $651,472,000.

Pan Caribbean Financial Services Limited
Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

43. Fair Value Reserve

This represents the unrealised surplus or deficit on the revaluation of available-for-sale investments, the effective portion of the hedging reserve relating to the interest rate swap and the unamortised gain relating to securities reclassified to held-to-maturity.

	The Group		The Company	
	2011	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
Available-for-sale investments	814,978	537,431	618,718	382,674
Unamortised gain - hedging reserve (Note 22)	39,897	43,837	39,897	43,837
Unamortised gain - reclassified investments (Note 21)	78,725	101,176	78,725	101,176
	933,600	682,444	737,340	527,687

44. Analysis of Other Comprehensive Income, net of Taxation

	The Group	
	2011 **$'000**	**2010** **$,000**
31 December 2011		
Available-for-sale investments -		
Unrealised gains on available-for-sale investments	649,908	1,792,617
Gains reclassified and reported in profit	(390,990)	(1,508)
	258,918	1,791,109
Cash flow hedge -		
Gains reclassified and reported in profit	(7,762)	(12,610)
Total other comprehensive income, net of taxes	251,156	1,778,499

	The Company	
	2011 **$'000**	**2010** **$,000**
31 December 2011		
Available-for-sale investments -		
Unrealised gains on available-for-sale investments	537,049	1,536,837
(Gains)/losses reclassified and reported in profit	(319,634)	21,406
	217,415	1,558,243
Cash flow hedge -		
Gains reclassified and reported in profit	(7,762)	(12,610)
Total other comprehensive income, net of taxes	209,653	1,545,633

45. Dividends

	The Group and The Company	
	2011	**2010**
	$'000	**$'000**
First interim dividend – 62 cents (2010 – 61 cents)	340,713	334,649
Second interim dividend – 66 cents (2010 - 49 cents)	364,171	269,272
	704,884	603,921

The dividends declared for 2011 and 2010 represented a dividend per stock units of $1.28 and $1.10, respectively.

46. 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 the statement of financial position 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:

(ii) 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;

(iii) 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.

(iv) 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.. The fair value of the equity indexed options and the exchange traded funds that are shorted are based on quoted prices.

(v) The fair value of demand deposits and customer accounts with no specific maturity is assumed to be the amount payable on demand at the statement of financial position date. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using interest rates for new deposits.

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

Pan Caribbean Financial Services Limited
Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

46. Fair Value of Financial Instruments (Continued)

(vii) 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 atcurrent market rates to determine fair value; and

(viii) 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 statement of financial position at their fair value:

	The Group			
	Carrying Value 2011 $'000	Fair Value 2011 $'000	Carrying Value 2010 $'000	Fair Value 2010 $'000
Financial Assets				
Investment securities – held-to-maturity	1,715,800	1,879,981	1,686,712	1,747,083
Loans, net of provision for credit losses	9,242,365	9,424,309	9,480,319	11,852,224
Financial Liabilities				
Securities sold under agreements to repurchase	54,612,131	55,064,909	49,616,514	55,552,741
Customer deposits and other accounts	10,599,897	10,061,772	9,016,902	11,971,000
Due to banks and other financial institutions	700,600	789,400	1,173,512	1,528,803

	The Company			
	Carrying Value 2011 $'000	Fair Value 2011 $'000	Carrying Value 2010 $'000	Fair Value 2010 $'000
Financial Assets				
Investment securities – held-to-maturity	1,715,800	1,879,981	1,686,712	1,747,083
Loans, net of provision for credit losses	2,289,038	2,382,115	2,743,543	3,721,388
Financial Liabilities				
Securities sold under agreements to repurchase	54,630,650	55,083,471	49,848,770	52,552,741
Customer accounts	250,241	295,740	406,579	611,166
Due to banks and other financial institutions	464,329	450,425	538,576	760,869

Pan Caribbean Financial Services Limited
Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

46. Fair Value of Financial Instruments (Continued)

The following table provides an analysis of financial instruments that are measured in the statement of financial position at fair value at 31 December 2011, 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			
	2011			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial Assets				
Trading securities	-	202,752	408,188	610,940
Investment securities	-	50,559,331	2,423,257	52,982,588
Derivative financial instruments	-	595,192	244,228	839,420
Pledged assets	-	7,831,016	-	7,831,016
	-	59,188,291	3,075,733	62,263,964
Financial Liabilities				
Derivative financial instruments	111,498	589,102	-	700,600

	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

Pan Caribbean Financial Services Limited
Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

46. Fair Value of Financial Instruments (Continued)

	The Company			
	2011			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial Assets				
Trading securities	-	202,752	408,188	610,940
Investment securities	-	44,633,519	2,423,257	47,056,776
Derivative financial instruments	-	595,192	244,228	839,420
Pledged assets	-	7,831,016	-	7,831,016
	-	53,262,479	3,075,673	56,338,152
Financial Liabilities				
Derivative financial instruments	111,498	589,102	-	700,600

	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

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

Pan Caribbean Financial Services Limited
Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

46. Fair Value of Financial Instruments (Continued)

Reconciliation of level 3 items -

	The Group		The Company	
	2011	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
Balance at beginning of year	2,782,072	2,529,995	2,782,072	2,452,140
Total gain - other comprehensive income	57,138	178,174	57,138	178,174
Total gain – income statement	110,971	22,605	110,971	26,426
Purchases	473,801	400,215	473,801	400,215
Settlements	(348,309)	(348,917)	(348,309)	(274,883)
Balance at end of year	3,075,673	2,782,072	3,075,673	2,782,072

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 $16,330,000.

47. 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 2011, the Group and the company had financial assets under administration of approximately $22,303,873,000 (2010 - $20,081,065,000) and $21,925,817,000 (2010 - $19,638,558,000) respectively.

48. 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 and can be successfully defended; the total of these claims is US$9,500,000.

(b) Commitments

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

Pan Caribbean Financial Services Limited
Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

48. Contingent Liabilities and Commitments (Continued)

	The Group			
At 31 December 2011	**No later than 1 year $'000**	**1 to 5 years $'000**	**Over 5 years $'000**	**Total $'000**
Loan commitments	312,961	284,572	98,805	696,338
Guarantees, acceptances and other financial facilities	628,241	417,099	33,399	1,078,739
Operating lease commitments	110,415	348,232	39,967	498,614
	1,051,617	1,049,903	172,171	2,273,691
At 31 December 2010				
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

	The Company			
At 31 December 2011	**No later than 1 year $'000**	**1 to 5 years $'000**	**Over 5 years $'000**	**Total $'000**
Loan commitments	27,821	231,145	8,032	266,998
Guarantees, acceptances and other financial facilities	545,276	43,946	24,152	613,374
Operating lease commitment	47,082	165,858	-	212,940
	620,179	440,949	32,184	1,093,312
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	42,969	179,780	18,703	241,452
	581,861	340,195	40,436	962,492

Pan Caribbean Financial Services Limited
Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

49. 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.

	2011					
	The Group			The Company		
ASSETS	**Current**	**Non-Current**	**Total**	**Current**	**Non-Current**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Trading securities	-	610,940	610,940	-	610,940	610,940
Investment securities and pledged assets	3,143,800	60,064,380	63,208,180	2,634,674	54,030,734	56,665,408
Derivative financial instruments	340,791	498,629	839,420	340,791	498,629	839,420
Loans, net of provision for credit losses	4,950,987	4,291,378	9,242,365	1,432,231	856,807	2,289,038
Lease receivables	254	15,261	15,515	-	-	-
Deferred income tax assets	7,504	11,831	19,335	5,015	1,519	6,534

	The Group			The Company		
LIABILITIES	**Current**	**Non-Current**	**Total**	**Current**	**Non-Current**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Securities sold under agreements to repurchase	54,602,176	9,955	54,612,131	54,620,696	9,955	54,630,651
Customer deposits and other accounts	9,299,024	1,300,873	10,599,897	85,932	164,310	250,242
Structured products	-	274,913	274,913	-	274,913	274,913
Due to banks and other financial institutions	153,581	610,437	764,018	150,195	314,134	464,329
Derivative financial instruments	449,895	250,705	700,600	449,895	250,705	700,600
Deferred income tax liabilities	-	544,661	544,661	-	449,184	449,184

Pan Caribbean Financial Services Limited
Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

49. Maturity Analysis of Assets and Liabilities (Continued)

	2010					
	The Group			The Company		
ASSETS	**Current**	**Non-Current**	**Total**	**Current**	**Non-Current**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'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**	**Non-Current**	**Total**	**Current**	**Non-Current**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'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