

TRAFALGAR DEVELOPMENT BANK LTD

NOTES to the Financial Statements

30 September 1995

1. THE COMPANY:

The company operates as an approved venture capital company for purposes of the Income Tax Act. An extension of this status was granted with effect from 5 December 1994 for a period of three years.

2. SIGNIFICANT ACCOUNTING POLICIES:

(a) Consolidation -

The group financial statements combine the financial position and the results of operations of the company and its 51% owned subsidiary, Trafalgar Commercial Bank Limited.

(b) Depreciation -

Depreciation is calculated on the straight line basis at annual rates that will amortize the cost of each asset over its expected useful life. Rates are as follows:-

Office equipment	10%
Motor Vehicles	20%
Leasehold improvements	20%
Computer equipment	20%

- (c) Foreign currency translation -
Assets and liabilities denominated in foreign currencies are translated into Jamaican dollars at rates of exchange prevailing at balance sheet date.
Differences on translation are reflected in the profit and loss account.
- (d) Interest income -
Interest income is accrued as earned except that interest accruals are normally discontinued whenever the payment of interest is 90 days past due. Under such conditions, no interest income is recognized until past due amounts are paid.
- (e) Project fee income -
Project fee income is recorded as income when loan agreements are signed and funds are committed for disbursement.
- (f) Lease income -
Lease financing is carried net of unearned income.
Income from leases is recognized on a basis which provides a level yield on the remaining net receivable balance.

**3. PROFIT BEFORE TAXATION AND
EXTRAORDINARY ITEM:**

	1995	1994
	\$'000	\$'000

This is arrived at after charging:

Directors' emoluments -		
Fees	431	205
Remuneration	2,567	2,272
Auditors' remuneration -		
Current year	1,219	830
Prior year	100	142
Depreciation	6,879	4,509
Interest on long term debt	51,207	44,225
Provision for loan losses	12,137	4,834

4. TAXATION:

- (a) The company is relieved from taxation provided it complies with the requirements of the Income Tax Act relating to venture capital companies (see note 1). Dividends paid by the company will, nevertheless, be taxable to shareholders.
- (b) Taxation relates to the subsidiary's operations and represents:-

	1995	1994
	\$'000	\$'000
Under provision - prior year	-	70

5. EXTRAORDINARY ITEM:

This represents a levy on financial institutions by the Ministry of Finance. The charge relates to the subsidiary and comprises:

	1995	1994
	\$'000	\$'000
Payments made	456	-
Additional provision	133	-
	589	-

6. NET PROFIT AND RETAINED EARNINGS:

The net profit is dealt with in the financial statements as follows:

	1995	1994
	\$'000	\$'000
The Company	72,580	87,279
The subsidiary	3,611	(439)

	76,191	86,840
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The retained earnings are reflected in the financial statements as follows:

	1995	1994
	\$ '000	\$ '000
The Company	261,934	213,342
The subsidiary	1,027	606
	262,961	213,948

7. EARNINGS PER STOCK UNIT:

Earnings per stock unit is based on the group's net profit before and after extraordinary item of each year and the number of stock units in issue. The earnings per stock unit for the previous year has been restated to reflect the issue of bonus shares during March 1995.

8. INVESTMENTS:

	1995	1994
	\$ '000	\$ '000

At cost -

Redeemable cumulative preference
 shares of \$1 each -
 Villa D'Este Limited
 Jamaican Heart Limited
 Scott's Preserves Limited
 Carib Metal Successor Limited
 Newport West Cold Storage Limited
 Edgechem (Jamaica) Limited
 Hillcar Nurseries and Farm Limited
 Caribbean Casting & Engineering
 Limited
 British Shoe Limited
 Sandosa Limited

2,000	2,000
500	500
500	500
1,000	1,000
843	843
290	290
600	1,200
2,000	2,000
2,000	2,000
500	500

Hamilton's Auto & General Machine Shop Limited	2,000	2,000
Crimson Dawn Manufacturing Company Limited	2,000	2,000
Vilcomm Services International Limited	5,000	-
Redeemable cumulative preference shares of \$2 each - Citrad Limited	500	500
C.M. Associates Limited	1,000	1,000
Solomon Armstrong Company Limited	300	300
Jamaica Standard Products Limited	1,000	1,000
Helitours Jamaica Limited	2,000	2,000
	24,033	19,633
Ordinary shares		
12,762 of \$1 each - Old England Coffee Development Company Limited	300	300
200,000 of \$10 each - Jamaica Venture Fund Limited	2,000	1,650
250,000 of \$4 each - Pulse Investments Limited	1,000	1,000
1,300,000 of \$1 each - McIntosh Furniture Company Limited	3,495	-
	30,828	22,583
Less Provisions for losses	(1,400)	(600)
The Company	29,428	21,983
Government of Jamaica Securities	57,427	26,000
The Group	86,855	47,983

9. LOANS TO CUSTOMERS:

	The Group		The Company
	1995	1994	1995
			1994

	\$'000	\$'000	\$'000	\$'000
Loans to customers	934,697	594,549	718,888	539,694
Less provisions for loan losses	(35,269)	(30,705)	(27,977)	(29,930)
	899,428	563,844	690,911	509,764
Loans administered on behalf of the Government of Jamaica and The Netherlands	-	38,412	-	38,412
	899,428	602,256	690,911	548,176

10. LEASE RECEIVABLES:

	The Group & The Company	
	1995	1994
	\$'000	\$'000
Gross investment in leases	48,185	76,564
Less unearned income	(13,072)	(25,853)
	35,113	50,711

11. FIXED ASSETS:

	THE GROUP					
	Freehold premises \$'000	Furniture and equipment \$'000	Computers \$'000	Motor Vehicles \$'000	Leasehold improvements \$'000	Total \$'000
Cost -						
At 1.10.94	-	11,562	13,279	6,133	6,851	37,825
Additions	26,578	1,147	2,870	6,218	2,158	38,971
Disposals	-	(140)	(220)	(1,110)	-	(1,470)
At 30.9.95	26,578	12,569	15,929	11,241	9,009	75,326

Depreciation -						
At 1.10.94	-	2,546	2,402	2,690	964	8,602
Charge for						
the year	-	1,689	2,921	1,624	645	6,879
On Disposals	-	(112)	(202)	(1,019)	-	(1,333)
At 30.9.95	-	4,123	5,121	3,295	1,609	14,148
Net book value						
At 30.9.95	26,578	8,446	10,808	7,946	7,400	61,178
At 30.9.94	-	9,016	10,877	3,443	5,887	29,223

THE COMPANY

	Freehold premises \$,000	Furniture and equipment \$,000	Computers \$,000	Motor Vehicles \$,000	Leasehold improvements \$,000	Total \$,000
Cost -						
At 1.10.94	-	1,321	4,416	6,060	677	12,474
Additions	26,578	684	2,225	5,568	2,041	37,096
Disposals	-	(140)	(220)	(1,110)	-	(1,470)
At 30.9.95	26,578	1,865	6,421	10,518	2,718	48,100
Depreciation -						
At 1.10.94	-	586	1,260	2,666	552	5,064
Charge for						
the year	-	145	1,072	1,555	21	2,793
On Disposals	-	(112)	(202)	(1,019)	-	(1,333)
At 30.9.95	-	619	2,130	3,202	573	6,524
Net book value:						
At 30.9.95	26,578	1,246	4,291	7,316	2,145	41,576
At 30.9.94	-	735	3,156	3,394	125	7,410

	The Group & The Company			
	Repayment Currency	Rate %	1995 \$ '000	1994 \$ '000
LONG TERM LOANS				
United States Agency for International Development (USAID) -				
Repayable in 21 semi-annual installments commencing January 1991 and ending July 2001.	J\$	5	69,565	72,412
Repayable in 16 semi-annual installments commencing August 1990 and ending February 1998.	J\$	5	10,312	13,750
Repayable in 16 semi-annual installments commencing December 1996 and ending June 2003.	J\$	22&24	2,333	2,333
Carried forward			82,210	88,495
	Repayment Currency	Rate %	1995 \$ '000	1994 \$ '000
Brought forward			82,210	88,495
Financierings Maatschappij voor Ontwikkelingslanden N.V. (FMO) -				
Repayable in 14 semi-annual installments commencing October 1993 and ending				

April 2000	J\$	7 3/4	12,776	15,615
Deutsche Investitions - Und Entwicklungsgesellschaft mbH (DEG) - Repayable in one amount on 31 December 2009 (Loan # 1)	J\$	6	26,272	26,272
Repayable in one amount on 30 December 2012 (Loan #2)	DM	6	188,557	161,825
European Investment Bank (EIB) - Repayable in 5 annual installments commencing March 2011 and ending March 2015	J\$	2	23,583	23,583
Repayable in 12 semi-annual installments commencing March 1998 and ending September 2003	US\$	3	138,291	124,566
Repayable in 12 semi-annual installments commencing March 1998 and ending September 2003	STG	3	16,096	14,557
Commonwealth Development Corporation (CDC) - Repayable in 16 semi-annual installments commencing May 1994 and ending November 2001	STG	10	181,430	189,322
Repayable in 12 semi-annual installments commencing January 1996 and ending July 2001	US\$	9 1/4	222,657	-
	Repayment Currency	Rate %	1995 \$ '000	1994 \$ '000

Agricultural Credit Bank (ACB)	J\$	12	5,200	6,240
National Development Bank (NDB) - Repayable in 32 quarterly installments commencing September 1993 and ending June 2001	J\$	19	4,067	4,776
Repayable in 72 monthly installments commencing February 1995 and ending January 2001	J\$	23	-	6,993
Caribbean Development Bank (CDB) - Repayable in 32 quarterly installments commencing July 1996 and ending April 2004	US\$	7 1/2	37,110	33,427
TOTAL LONG TERM LOANS			938,249	695,671
SHORT TERM LOANS				
Government of Jamaica and Government of Netherlands - Interest free advance			-	57,286
Barclays Bank (Miami) - Loans at interest rate varying between 3.8125% and 7.625% for one year	US\$		164,158 164,158	103,622 160,908
			1,102,407	856,579

I Under the terms and conditions of the USAID loan agreements, the company may prepay all or part of principal if the interest due is fully paid and up to date. The loans are repayable in Jamaican dollars to the Government of Jamaica at the rate of exchange that was in effect at the

time USAID disbursed the loan funds.

The loan agreements further require that the company:

- (a) provide an annual reserve for loan losses of a minimum of 3% of average loans outstanding; and
- (b) restrict ownership by any individual, association or company to a maximum of 15% of voting capital.

- II The FMO Loan totalling Dfl 7,500,000 was disbursed in 1989. The terms of the loan agreement state that the company will be allowed to prepay all or part of principal provided that five years have elapsed since the first disbursement of the loan to the company.
- III Under the terms of the DEG Loan Agreement, the loans totalling DM 14,500,000 are to be applied for the financing of medium and small scale enterprises.

Loan #1 - Dm 7,000,000 disbursed 1990.

This loan is repayable in Jamaican dollars to the Government of Jamaica at the rate of exchange that was in effect at the time DEG disbursed the loan funds. The interest rate of 6% consists of 3 portions, A-portion, B-portion and C-portion. The A-portion shall be 0.75% per annum and remitted in DM by the Ministry of Finance. The B-portion shall be 1.5% per annum and shall be remitted in J\$ to the Ministry of Finance for exchange risk coverage. The C-portion shall be 3.75% per annum and payable in J\$ out of the operating surplus of the company.

Loan #2 - Dm 7,500,000 disbursed 1993.

This loan is repayable in foreign currency. The interest rate of 6% consists of an A-portion, and a B-portion. The A-portion shall be 0.75% per annum and shall be remitted in DM to the DEG. The B-portion shall be paid to a special fund termed "The Trafalgar German Fund II'. The fund is to be used primarily for the coverage of foreign exchange losses incurred by TDB, should these funds be converted to Jamaican dollars, and for other technical assistance.

- IV The EIB has established in favour of the company, credit in the amount

of 1,000,000 European Currency Units (Ecu) for the financing of projects through equity participation in small and medium-sized enterprises.

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

The outstanding balance of the loan after the payments due on 31 March 2010 shall be discharged in full by the payment of the adjusted loan balance by five equal annual installments beginning on 31st March 2011. Repayment may either be in Ecu or one or more currencies of the member states of the European Economic Community and shall be calculated as the Ecu equivalent of the Jamaican dollar liability using exchange rates between the Ecu and the selected currencies prevailing on the thirtieth day before the date of payment.

During the current year, an additional facility was approved in the amount of 5,000,000 Stg. This loan will be allocated in tranches and shall be paid upon the approval of proposals submitted by the company for each project in respect of which financing is being applied for under the agreement. Interest repayments and other charges payable in respect of each tranche will be remitted in the same currencies as that in which the tranche was disbursed.

- V The agreement with the CDC provides the company with a credit facility of Stg4,000.000. A portion of these funds is held as collateral security for the short-term U.S. dollar loans from Barclays, Miami (see VIII). The remainder of these funds are on-lent to borrowers and are repayable in sterling as is principal and interest due to CDC.

During the current financial year, CDC approved an additional facility in the amount of US \$6,000,000. Interest payments are to be remitted in US \$ at the exchange rate prevailing at the date of payment.

- VI The agreement with the ACB allows ACB, at its absolute discretion, to approve J\$ financing to the company for on-lending to farmers and other

agricultural projects, on such terms and conditions as ACB may stipulate.

Of the total loan, \$3,500,000 is repayable over a seven-year period commencing January 1992. The remainder of the loan has a three-year moratorium in respect of principal repayments which commenced in 1994.

- VII The agreement with the NDB allows NDB, at its absolute discretion to approve J\$ financing for on-lending to development projects, on such terms and conditions as NDB may stipulate.

Funds disbursed to the company bear interest at NDB's lending rate prevailing at the date of approval of each disbursement unless otherwise varied by NDB.

- VIII The loans with Barclays Bank are denominated in U.S. Dollars and are secured by Sterling deposits (see V).

- IX The agreement with the CDB provides the company with a credit facility of U.S. \$5,000,000 for on-lending to development projects on such terms and conditions as CDB may stipulate.

The funds are repayable in foreign currency and have a two-year moratorium period in respect of principal repayments which will commence in 1996.

13. SHARE CAPITAL:	1995	1994
	\$'000	\$'000
Authorized -		
Ordinary shares of \$1 each	120,000	60,000
Issued and fully paid -		
Ordinary stock units of \$1 each	115,047	57,524

In March 1995, the directors approved a resolution to increase the company's authorized capital from \$60,000,000 to \$120,000,000 by the creation of

60,000,000 ordinary shares of \$1 each ranking pari passu with existing ordinary shares. This was followed by the issue of 57,523,000 shares as fully paid bonus shares from capital reserve (note 12). The issued shares were subsequently converted to stock units.

14. CAPITAL RESERVE:

	1995	1994
	\$'000	\$'000
Premium received on rights issue of shares	-	52,730

During the year, this reserve was transferred to the profit and loss account for the issue of bonus shares as described in note 13.

15. GENERAL RESERVE:

The reserve has been created by the capitalization of grants received from USAID for the purchase of equipment. The reserve is being written off to the profit and loss account by the amount of annual depreciation provided on the equipment.
The balance comprises:

	1995	1994
	\$'000	\$'000
Balance brought forward 1 October	51	138
Transfer to retained earnings	50	87
	1	51

16. RESERVE FUND:

The Group

	1995 \$'000	1994 \$'000
At beginning of year	190	190
Transfer for year	1,150	-
At end of year	1,340	190

As required by the Banking Act, the subsidiary makes transfer of a minimum of 15% of net profit to this reserve fund.

17. LOAN COMMITMENTS:

At 30 September 1995, there were undisbursed loan commitments as follows:-

J\$93,700,000	(1994 - J\$65,000,000)
US\$12,500,000	(1994 - US\$4,400,000)

18. PENSION SCHEME:

The company participates in a pension scheme which is administered by First Life Insurance Company Limited. The scheme is open to all full-time employees and is funded by a basic employee contribution of 5% and a voluntary contribution up to a maximum of an additional 5%. Employer contributions are 5%. Retirement and death benefits are based on accumulated employer and employee contributions. Employer contributions charged in these financial statements amount to \$ 609,577 (1994 - \$448,886) .