

TRAFALGAR DEVELOPMENT BANK LIMITED 1996

Notes to the Financial Statements

30 September 1996

1. IDENTIFICATION AND PRINCIPAL ACTIVITIES

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. Both the company and its subsidiary are incorporated in Jamaica.

The Company's principal activities involve the financing of equipment leases and providing loans.

All amounts in these financial statements are stated in Jamaican dollars unless otherwise stated.

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) Investments

Investments are stated at the lower of cost and net realisable value.

(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) Provision for loan losses

Provision for loan losses is based on loan loss experience and other factors including the character of the loan portfolio, business and economic conditions.

(g) Leases

(i) Lease income is derived from finance leases and is recognized over the period of the lease on the actuarial or reducing balance method. This method provides a constant rate of return on the remaining net investment in the lease.

(ii) Unearned income from finance leases represents the income element of lease payments collectible in future accounting periods.

(h) Deferred taxation

Deferred taxation is recognised in these financial statements only to the extent that the timing differences are considered likely to reverse in the foreseeable future.

(i) Foreign Currency Translation

- (i) Transactions during the year are converted at the rates of exchange prevailing on the transaction dates.
- (ii) 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.

(j) Repurchase and reverse repurchase agreements

Securities purchased under agreement to resell and securities sold under agreement to repurchase are accounted for as short-term collateralised borrowing and lending, respectively.

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

	1996 \$'000	1995 \$'000
This is arrived at after charging:		
Directors' emoluments -		
Fees	262	431
Remuneration	3,017	2,567
Auditors' remuneration -		
Current year	1,860	1,219
Prior year	61	100
Depreciation	9,286	6,879
Interest on long term debt	75,967	51,207
Provision for loan losses	<u>26,367</u>	<u>12,137</u>

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:

	1996	1995
	\$'000	\$'000
Income tax at 33 1/3%	<u>169</u>	<u>-</u>

(c) The tax charge of the subsidiary is disproportionate to the reported results as preference dividends paid during the year are allowable for income tax.

5. EXTRAORDINARY ITEM

This represented a levy on financial institutions by the Ministry of Finance.

The charge relates to the subsidiary and comprises:

	1996	1995
	\$'000	\$'000
Payments made	-	456
Additional provision	<u>-</u>	<u>133</u>
	<u>-</u>	<u>589</u>

6. NET PROFIT AND RETAINED EARNINGS

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

	1996	1995
	\$'000	\$'000
The company	76,568	72,580
The subsidiary	<u>3,692</u>	<u>3,611</u>
	<u>80,260</u>	<u>76,191</u>

The retained earnings are reflected in the financial statements as follows:

	1996	1995
	\$'000	\$'000
The company	322,604	261,934
The subsidiary	<u>533</u>	<u>1,027</u>
	<u>323,137</u>	<u>262,961</u>

7. EARNINGS PER STOCK UNIT

The calculation of earnings per stock unit is based on the group's net profit before and after extraordinary item for each year and the number of stock units in issue.

8. INVESTMENTS

	1996	1995
	\$'000	\$'000
At Cost:		
Redeemable cumulative preference shares of \$1 each -		
Crimson Dawn Manufacturing Company Limited	2,000	2,000
Villa D'Este Limited	2,000	2,000
Strategic Information Group Limited	6,177	-
Jamaican Heart Limited	500	500
Scott's Preserves Limited	500	500
Carib Metal Successor Limited	1,000	1,000
Newport West Cold Storage Limited	843	843
Edgechem (Jamaica) Limited	290	290
Hillcar Nurseries and Farm Limited	600	600
Caribbean Casting & Engineering Limited	2,000	2,000
British Shoe Limited	2,000	2,000
Sandosa Limited	500	500
Hamilton's Auto & General Machine Shop Limited	2,000	2,000
Vilcomm Services International Limited	5,000	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	<u>2,000</u>	<u>2,000</u>
	30,210	24,033
Ordinary shares -		
Pragma Development Company	2,000	-
2,500,000 of \$1 each -		
Long Pond Estates Limited	5,000	-
12,762 of \$ 1 each -		
Old England Coffee Development Company Limited	300	300
200,000 of \$10 each -		
Jamaica Venture Fund Limited	2,000	2,000
250,000 of \$4 each -		
Pulse Investments Limited	1,000	1,000
1,300,000 of \$1 each -		
McIntosh Furniture Company Limited	<u>3,495</u>	<u>3,495</u>
	44,005	30,828
Less Provision for losses	<u>(1,400)</u>	<u>(1,400)</u>
The Company	<u>42,605</u>	<u>29,428</u>
Government of Jamaica Securities	61,255	57,427
The Group	<u>103,860</u>	<u>86,855</u>

9. LOANS TO CUSTOMERS

	The Group		The Company	
	1996	1995	1996	1995
	\$'000	\$'000	\$'000	\$'000
Loans to customers	1,220,608	934,697	952,742	718,888
Less provision for loan losses	<u>(45,489)</u>	<u>(35,269)</u>	<u>(44,645)</u>	<u>(27,977)</u>
	<u>1,175,119</u>	<u>899,428</u>	<u>908,097</u>	<u>690,911</u>

10. LEASE RECEIVABLES

The Group &

	The Company	
	1996	1995
	\$'000	\$'000
Gross investment in leases	29,439	48,185
Less unearned income	(7,661)	(13,072)
	<u>21,778</u>	<u>35,113</u>

11. FIXED ASSETS

	The Group					
	Freehold Premises \$'000	Furniture and Equipment \$'000	Computer Equipment \$'000	Motor Vehicles \$'000	Leasehold Improvements \$'000	Total \$'000
Cost -						
At 1.10.95						
Additions	26,578	12,570	15,928	11,240	9,009	75,325
Disposals	-	2,228	4,852	5,859	913	13,852
At 30.9.96	-	-	(116)	1,168	-	(1,284)
	<u>26,578</u>	<u>14,798</u>	<u>20,664</u>	<u>15,931</u>	<u>9,922</u>	<u>87,893</u>
Depreciation -						
At 1.10.95	-	4,124	5,121	3,295	1,609	14,149
Charge for the year	-	2,062	3,697	2,326	1,201	9,286
On disposals	-	-	(93)	(985)	-	(1,078)
At 30.9.96	-	6,186	8,725	4,636	2,810	22,357
Net Book Value -						
At 30.9.96	<u>26,578</u>	<u>8,612</u>	<u>11,939</u>	<u>11,295</u>	<u>7,112</u>	<u>65,536</u>
At 30.9.95	<u>26,578</u>	<u>8,446</u>	<u>10,808</u>	<u>7,946</u>	<u>7,400</u>	<u>61,178</u>

The Company

	Freehold Premises \$'000	Furniture and Equipment \$'000	Computer Equipment \$'000	Motor Vehicles \$'000	Leasehold Improvements \$'000	Total \$'000
At 1.10.95	26,578	1,865	6,421	10,518	2,718	48,100
Additions	-	246	1,610	4,357	590	6,803
Disposals	-	-	(116)	(1,168)	-	(1,284)
At 30.9.96	<u>26,578</u>	<u>2,111</u>	<u>7,915</u>	<u>13,707</u>	<u>3,308</u>	<u>53,619</u>
Depreciation -						
At 1.10.95	-	619	2,130	3,202	573	6,524
Charge for the year	-	202	1,254	2,133	552	4,141
On disposals	-	-	(93)	(985)	-	(1,078)
At 30.9.96	<u>-</u>	<u>821</u>	<u>3,291</u>	<u>4,350</u>	<u>1,125</u>	<u>9,587</u>
Net Book Value -						
At 30.9.96	<u>26,578</u>	<u>1,290</u>	<u>4,624</u>	<u>9,357</u>	<u>2,183</u>	<u>44,032</u>
At 30.9.95	<u>26,578</u>	<u>1,246</u>	<u>4,291</u>	<u>7,316</u>	<u>2,145</u>	<u>41,576</u>

12. DUE TO FINANCIAL AND OTHER INSTITUTIONS

Repayment Currency	Rate %	1996 \$'000	1995 \$'000
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The Company:

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	69,565
Repayable in 16 semi-annual installments commencing August 1990 and ending February 1998.	J\$	5	8,594	10,312
Repayable within 10 years in 16 equal semi-annual installments commencing October 1997.	J\$	23	<u>35,714</u>	<u>-</u>
Carried forward			113,873	79,877

Repayment Currency	Rate %	1996 \$'000	1995 \$'000
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The Company (Continued)

Long Term Loans (Continued)

Brought forward			113,873	79,877
United States Agency for International Development (USAID) Repayable in 16 semi-annual installments commencing December 1995 and ending June 2003.	J\$	22&24	2,083	2,333
Financierings Maatschappij voor Ontwikkelingslanden N.V. (FMO) - Repayable in 14 semi-annual installments commencing October 1993 and ending April 2000	J\$	7 3/4	11,356	12,776
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	173,586	188,557
European Investment Bank (EIB)- Repayable in 5 annual installments commencing March 2011 and ending March 2015	J\$	2	28,351	23,583
Repayable in 12 semi - annual installments commencing March 1998 and ending September 2003	US\$	3	148,372	138,291
Repayable in 12 semi - annual installments commencing March 1998 and ending September 2003	£	3	62,675	16,096
Commonwealth Development Corporation (CDC) - Repayable in 16 semi-annual installments commencing May 1994 and ending November 2001	£	10	147,750	181,430
Repayable in 12 semi-annual installments commencing January 1996 and ending July 2001	US\$	9 1/4	175,378	222,657
Agricultural Credit Bank (ACB) Carried forward	J\$	12	<u>4,000</u> 893,696	<u>5,200</u> 897,072
National Development Bank (NDB)- Repayable in 32 quarterly installments commencing September 1993 and ending June, 2001	J\$	19	3,362	4,067
GOJ/World Bank Loan in association with Jamaica Exporters Association (JEA)- Repayable within 5 years of the date of each drawdown commencing April 1998	US\$	Nil	19,467	-
Caribbean Development Bank (CDB) - Repayable in 32 quarterly installments commencing July 1996 and ending April				

2004	US\$	7 1/2	<u>80,494</u>	<u>37,110</u>
			997,019	938,249
Short Term Loan -				
Barclays Bank (Miami) -				
Loans at interest rates varying between				
5.9375% and 6.5% for one year				
	US\$		<u>155,160</u>	<u>164,158</u>
			1,152,179	1,102,407
The Company				
The Subsidiary				
Long Term Loan -				
National Development Bank (NDB)				
Repayable in 60 monthly installments				
commencing June 1995				
	J\$	24-37	5,730	8,725
Short Term Loan -				
Hamilton Bank N.A.-				
Open line for letter of credit and trade				
financing				
	US\$	9 1/2- 10 1/2	<u>31,687</u>	<u>5,376</u>
The Group			<u>1,189,596</u>	<u>1,116,508</u>

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 loan is repayable in Jamaican dollars to the government of Jamaica at the rate of exchange that was in effect at the time when FMO disbursed the loan. 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 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.

An additional facility was established in the amount of 5,000,000 ECU. The loan was disbursed to the Company in tranches. Interest, repayments and other charges payable in respect of each tranche will be remitted in the same currencies as those in which the tranche was disbursed.

V The Company has obtained two loans from the CDC. The first loan for £4,000,000 Sterling was disbursed to the Company in Pound Sterling. A portion of these funds is held as collateral security for the short term United States Dollar loans from Barclays, Miami (See VIII). The remainder of these funds are on-lent to borrowers and are repayable in Sterling as are the principal and interest due to CDC.

The second loan for US\$6,000,000 was on-lent to borrowers in United States Dollars and is repayable by the borrowers in United States Dollars as are the principal and interest payments due to CDC.

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 repayment 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 government of Jamaica and the World Bank in association with the JEA allows TDB the facility to borrow up to US \$4,400,000, for on-lending to private enterprises seeking funding for export development projects.

The loans are repayable in foreign currency within 5 years of the date of each individual advance, the first being due August 1998.

X The agreement with the CDB provides the company with a credit facility of US \$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

	1996	1995
	\$'000	\$'000
Authorized -		
Ordinary shares of \$1 each	<u>120,000</u>	<u>120,000</u>
Issued and fully paid -		
Ordinary stock units of \$1 each	<u>115,047</u>	<u>115,047</u>

14. GENERAL RESERVE

The reserve has been created by the capitalization of grants received from USAID and DEG 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:

	The Group & The Company	
	1996	1995
	\$'000	\$'000
Balance brought forward 1 October	1	51
Additional grants capitalised	4,000	-
Transfer to retained earnings	(100)	(50)
	<u>3,901</u>	<u>1</u>

15. RESERVE FUND

	The Group	
	1996	1995
	\$'000	\$'000
At beginning of year	1,340	190
Transfer for year	<u>1,086</u>	<u>1,150</u>
At end of year	<u>2,426</u>	<u>1,340</u>

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

16. COMMITMENTS

(a) At 30 September 1996, there were undisbursed loan commitments as follows:

J \$85,900,000 (1995 - J \$93,700,000)
US \$16,000,000 (1995 - US \$12,500,000)

(b) There are lease commitments at 30 September 1996 in respect of company's premises amounting to \$4,293,318 (1995: \$4,876,622). The minimum amount is chargeable against future profits as follows:

	1996	1995
	000	000
Within one year	2,359	1,486
Subsequent years	<u>1,934</u>	<u>3391</u>
	<u>4,293</u>	<u>4,877</u>

17. CONTINGENT LIABILITY

Two customers of the subsidiary have filed a suit against that company, denying their indebtedness and seeking declaration to that effect. The suit claims unquantified damages for fraud and breach of contract.

The subsidiary has filed a defence to the claim, denied the allegations and counterclaimed for the debt owing. A trial date has not yet been set.

The matter is still at the preliminary stage and the company's lawyers are unable to comment on the likely outcome at this stage. No provision has been made in the financial statements.

18. PENSION SCHEME

The Group 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 \$1,425,616 (1995 - \$609,577).

19. MANAGED FUNDS

The subsidiary manages funds on behalf of its clients during the normal course of business. At 30 September 1996, managed funds amounted to \$65,203,170 (1995 - NIL).
