# Trafalgar Development Bank 1997

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## NOTES TO FINANCIAL STATEMENTS

30 SEPTEMBER 1997

**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 expressed in Jamaican dollars unless otherwise stated.

**2. Significant Accounting Policies**

**(a) Accounting convention**
The financial statements are prepared under the historical cost convention

**(b) Consolidation**
The group's financial statements include the financial statements of the 51% owned subsidiary, Trafalgar Commercial Bank Limited

**(c) 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% |

**(d) Investments**
Investments are stated at the lower of cost and net realisable value.

**(e) 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.

**(f) Project Fee Income**
Project fee income is recorded as income when loan agreements are signed and funds are committed for disbursement.

**(g) 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.

**(h) Leases**

(i) Lease income is derived from finance leases and is recognised 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.

**(i) 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.

**(j) 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.

(iii) Where foreign currency assets are specifically acquired to match foreign currency liabilities either in whole or in part, the translation gains or losses are netted and the difference taken to the profit and loss account.

**(k) Repurchase and reverse repurchase agreements**

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

## 3. Profit before Taxation

| | 1997<br>$'000 | 1996<br>$'000 |
|---|---|---|
| This is arrived at after charging/(crediting): | | |
| Directors' emoluments | | |
| Fees | 784 | 262 |
| Remuneration | 3,915 | 3,017 |
| Auditors' remuneration | | |
| Current year | 2,124 | 1,860 |
| Prior year | 10 | 61 |
| Depreciation | 10,362 | 9,286 |
| Interest on long term debts | 76,987 | 75,967 |
| Gain on sale of fixed assets | (540) | (526) |

## 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:

| | 1997 | 1996 |
|---|---|---|
| | $'000 | $'000 |
| Income tax at 33 1/3% | - | 169 |

(c) There is no taxation charge for the subsidiary for the current year due to losses incurred. Subject to agreement with the Commissioner of Income Tax, the amount available for carry forward and offset against future profits of the subsidiary is $3,053,000. The tax charge for 1996 of the subsidiary was disproportionate to the reported results as preference dividends paid during that year were allowable for income tax.

**5. Net Profit and Retained Earnings**

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

| | 1997 | 1996 |
|---|---|---|
| | $"000 | $"000 |
| The company | 69,487 | 76,568 |
| The subsidiary | (4,278) | 3,692 |
| | 65,209 | 80,260 |

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

| | 1997 | 1996 |
|---|---|---|
| | $"000 | $"000 |
| The company | 373,508 | 322,604 |
| The subsidiary | (3,745) | 533 |
| | 369,763 | 323,137 |

**6. Earnings Per Stock unit**

The calculation of earnings per stock unit is based on the group's net profit for each year and the 115,047,308 stock units in issue.

7. Investments

At Cost:

| | 1997 | 1996 |
|---|---|---|
| | $'000 | $'000 |
| Redeemable cumulative preference shares of $1 each | | |
| Gabriel Fisheries Limited | 2,465 | - |
| Crimson Dawn Manufacturing Company | 2,000 | 2,000 |
| Villa D'Este Limited | 2,000 | 2,000 |
| Strategic Information Group Limited | 7,033 | 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 |
| Strategic Information Group Limited | 1,837 | - |
| 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 |
| Jumbolon Jamaica Limited | 4,504 | - |
| Jamaica Standard Products Limited | 1,000 | 1,000 |
| Helitours Jamaica Limited | 2,000 | 2,000 |
| Ordinary shares - | | |
| Pragma Development Company | 3,000 | 2,000 |

| | | |
|---|---|---|
| 2,500,000 of $1 each - | | |
| Long Pond Estates Limited | 5,000 | 5,000 |
| 12,762 of $1 each - | | |
| Old English 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 | 3,495 | 3,495 |
| | 54,667 | 44,005 |
| Less provision for losses | ( 1,400) | ( 1,400) |
| The Company | 53,267 | 42,605 |
| Government of Jamaica Securities | 100,272 | 61,255 |
| The Group | **153,539** | **103,860** |

**8. Long Term Loan**

| | The Group and The Company | |
|---|---|---|
| | 1997 | 1996 |
| | $'000 | $'000 |
| Deutsche Investitions-und Entwicklungsgesellschaft mbH (DEG) | 155,214 | - |

In June 1997, the company entered into a foreign currency arrangement with DEG, a major shareholder and a provider of long term finance to the company. Under the agreement, the company borrowed from DEG, US$4,351,610 (the equivalent of DM 7,500,000 ) and immediately made a corresponding loan to DEG in the amount of DM 7,500,000 repayable in year 2012. The intention being that this loan to DEG is to hedge against the exchange risk which the company is exposed to in respect of an earlier DM loan from DEG and which is also repayable in year 2012 (Note 12). Interest on the loan to DEG is at 6% per annum. The above U.S. dollar loan to the company bears interest at 8 1/8% per annum and is included in long term liabilities (Note 12).

The company does not trade in foreign currency swaps and the above arrangement was entered into to reduce the impact of fluctuating currency rates, and related foreign currency exposure.

## 9. Loans to Customers

| | The Group | | The Company | |
|---|---|---|---|---|
| | 1997 | 1996 | 1997 | 1996 |
| | $'000 | $'000 | $'000 | $'000 |
| Loans to customers | 1,547,196 | 1,220,608 | 1,200,169 | 952,742 |
| Less provision for loan losses | (63,396) | (45,489) | (49,799) | (44,645) |
| | **1,483,800** | **1,175,119** | **1,150,370** | **908,097** |

The provision for loan losses comprises:

| | The Group | | The Company | |
|---|---|---|---|---|
| | 1997 | 1996 | 1997 | 1996 |
| | $'000 | $'000 | $'000 | $'000 |
| At beginning of year | 45,489 | 35,269 | 44,645 | 27,977 |
| Net provision during the year | 34,170 | 20,821 | 6,000 | 16,428 |
| Net loan balances written off | (16,263) | (10,601) | ( 846) | 240 |
| | 17,907 | 10,220 | 5,154 | 16,668 |
| At end of year | **63,396** | **45,489** | **49,799** | **44,645** |

## 10. Lease Receivables

| | The Group & The Company | |
|---|---|---|
| | 1997 | 1996 |
| | $'000 | $'000 |

| | | |
|---|---|---|
| Gross investment in leases | 27,234 | 29,439 |
| Less unearned income | ( 7,184) | ( 7,661) |
| | 20,050 | 21,778 |

**11. Fixed Assets**

The Group

| | Freehold Premises $'000 | Furniture and Equipment $'000 | Computer Equipment $'000 | Motor Vehicles $'000 | Leasehold Improvements $'000 | Leased Assets $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| Cost - | | | | | | | |
| 1.10.96 | 26,578 | 14,798 | 20,664 | 15,931 | 9,922 | - | 87,893 |
| Additions | - | 2,327 | 2,865 | 1,050 | 121 | 370 | 6,733 |
| Disposals | - | (208) | - | (2,320) | - | | (2,528) |
| 30.9.97 | 26,578 | 16,917 | 23,529 | 14,661 | 10,043 | 370 | 92,098 |
| Depreciation | | | | | | | |
| 1.10.96 | - | 6,186 | 8,725 | 4,636 | 2,810 | - | 22,357 |
| Charge for the year | - | 2,675 | 4,005 | 2,460 | 1,216 | 6 | 10,362 |
| On disposals | - | (102) | - | (1,594) | - | - | (1,696) |
| 30.9.97 | - | 8,759 | 12,730 | 5,502 | 4,026 | 6 | 31,023 |
| Net Book value | | | | | | | |
| 30.9.97 | **26,578** | **8,158** | **10,799** | **9,159** | **6,017** | **364** | **61,075** |
| 30.9.96 | **26,578** | **8,612** | **11,939** | **11,295** | **7,112** | **-** | **65,536** |

The Company

| | Freehold Premises $'000 | Furniture and Equipment $'000 | Computer Equipment $'000 | Motor Vehicles $'000 | Leasehold Improvements $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| Cost - | | | | | | |
| 1.10.96 | 26,578 | 2,111 | 7,915 | 13,707 | 3,308 | 53,619 |
| Additions | - | 51 | 1,443 | 1,050 | - | 2,544 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Disposals | - | - | - | (2,320) | - | (2,320) |
| 30.9.97 | 26,578 | 2,162 | 9,358 | 12,437 | 3,308 | 53,843 |
| Depreciation | | | | | | |
| 1.10.96 | - | 821 | 3,291 | 4,350 | 1,125 | 9,587 |
| Charge for the year | - | 233 | 1,374 | 2,460 | 546 | 4,613 |
| On disposals | - | - | - | (1,594) | - | (1,594) |
| 30.9.97 | - | 1,054 | 4,665 | 5,216 | 1,671 | 12,606 |
| Net Book value - | | | | | | |
| 30.9.97 | **26,578** | **1,108** | **4,693** | **7,221** | **1,637** | **41,237** |
| 30.9.97 | **26,578** | **1,290** | **4,624** | **9,357** | **2,183** | **44,032** |

**12. Due to Financial and Other Institutions**

| | Repayment Currency | Rate % | 1997 $'000 | 1996 $'000 |
|---|---|---|---|---|
| The Company: | | | | |
| Long Term Loans | | | | |
| United States Agency for International Development (USAID) - | | | | |
| Repayable in 21 semi-annual installments commencing January 1991 and ending July 2001. | J$ | 5 | 58,477 | 69,565 |
| Repayable in 16 semi-annual installments commencing August 1990 and ending February 1998. | J$ | 5 | 5,156 | 8,594 |
| Repayable within 10 years in 16 equal semi-annual installments commencing October 1997. | J$ | 23&24 | 35,714 | 35,714 |
| United States Agency for International Development (USAID) - | | | | |
| Repayable in 16 semi-annual | | | | |

| | | | | |
|---|---|---|---|---|
| installments commencing December 1996 and ending June 2003 | J$ | 22&24 | 1,750 | 2,083 |
| Financierings Maatschappij voor Ontwikkelingslanden N.V. (FMO) - | | | | |
| Repayable in 14 semi-annual installments commencing October 1993 and ending April 2000 | J$ | 7% | 7,098 | 11,356 |
| 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 | 155,214 | 173,586 |
| Repayable in 10 semi-annual installments commencing March 1999 | US$ | 8 1/8 | 156,789 | - |
| European Investment Bank (EIB) | | | | |
| Repayable in 5 annual installments commencing March 2011 and ending March 2015 | J$ | 2 | 28,351 | 28,351 |
| Repayable in 12 semi-annual installments commencing March 1998 and ending September 2003 | US$ | 3 | 152,409 | 148,372 |
| Repayable in 12 semi-annual installments commencing March 1998 and ending September 2003 | £ | 3 | 66,966 | 62,675 |
| Commonwealth Development Corporation (CDC) - | | | | |
| Repayable in 16 semi-annual installments commencing May 1994 and ending November 2001 | £ | 10 | 129,163 | 147,750 |

| | | | | |
|---|---|---|---|---|
| Repayable in 12 semi-annual installments commencing January 1996 and ending July 2001 | US$ | 9 1/4 | 144,120 | 175,378 |
| Agricultural Credit Bank of Jamaica Limited (ACB) - | J$ | 12 | 2,800 | 4,000 |
| National Development Bank Limited (NDB) - | | | | |
| Repayable in 32 quarterly installments commencing September 1993 and ending June 2001 | J$ | 19 | 2,653 | 3,362 |
| Repayable in 84 monthly installments commencing November 1998 | J$ | 26 | 4,000 | - |
| Repayable in 48 monthly installments commencing January 1999 | J$ | 12 | 1,434 | - |
| GOJ/World Bank Loan in association with Jamaica Exporters Association (JEA) - | | | | |
| Repayable within 5 years of the date of each drawdown commencing August 1998 | US$ | Nil | 48,965 | 19,467 |
| Caribbean Development Bank (CDB) - | | | | |
| Repayable in 32 quarterly installments commencing July 1996 and ending April 2004 | US$ | 6 1/2 | 153,329 | 80,494 |
| | | | 1,180,660 | 997,019 |
| Short Term loan: | | | | |
| Barclays Bank (Miami) - | | | | |
| Loans at varying interest rates | US$ | | 99,083 | 155,160 |
| The Company | | | 1,279,743 | 1,152,179 |
| The Subsidiary | | | | |
| Long Term Loan | | | | |
| National Development Bank (NDB) | | | | |

| | | | | |
|---|---|---|---|---|
| Repayable in 60 monthly installments commencing June 1995 | J$ | 12-24 | 7,584 | 5,730 |
| Short Term Loan - Hamilton Bank N.A. - Open line for letter of credit and trade financing | US$ | 9 1/2 - 10 1/2 | 109,676 | 31,687 |
| The Group | | | 1,397,003 | 1,189,596 |

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

The third loan of US$4,351,610 (Note 8) was under a foreign currency exchange risk hedging arrangement with DEG. It is repayable in 10 semi-annual installments commencing March 1999.

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 that in which the tranche was disbursed.

V The company has obtained two loans from the CDC. The first loan £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 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 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 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 instalment 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 commenced in 1996.

**13. Obligations Under Finance Lease**

| | The Group | |
|---|---|---|
| | 1997 | 1996 |
| | $'000 | $'000 |
| 1998 | 205 | - |
| 1999 | 205 | - |
| 2000 | 205 | - |
| Total future minimum lease payments | 51 | - |
| Less future interest charges | 461 | - |
| Present value of minimum lease payments | (91) | - |
| Comprise of: | 370 | - |
| Current portion | 100 | - |
| Non-current portion | 270 | - |
| | 370 | - |

**14. Share Capital**

| | 1997 | 1996 |
|---|---|---|
| | $'000 | $'000 |
| Authorised - | | |
| Ordinary shares of $1 each | **120,000** | **120,000** |
| Issued and fully paid - | | |
| Ordinary stock units of $1 each | **115,047** | **115,047** |

**15. 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 1997 $'000 | 1996 $'000 |
|---|---|---|
| Balance brought forward 1 October | 3,901 | 1 |
| Additional grants capitalised | - | 4,000 |
| Transfer to retained earnings | (400) | (100) |
| | 3,501 | 3,901 |

**16. Reserve Fund**

| | The Group 1997 $'000 | 1996 $'000 |
|---|---|---|
| At the beginning of year | | |
| Transfer for year at | 2,426 | 1,340 |
| end of year | - | 1,086 |
| | 2,426 | 2,426 |

As required by the Banking Act, the subsidiary makes transfer of a minimum of 15% of net profits to this reserve fund. No transfer was made for the current year as losses were incurred.

**17. Commitments**

(a) At 30 September 1997, there were undisbursed loan commitments for the company as follows:

J$16,782,000 (1996 - J$85,900,000)

US$2,504,000 (1996 - US$16,000,000)

(b) There were lease commitments at September 30, 1997 in respect of the subsidiary's premises amounting to $1,933,875 (1996:$4,293,318). The minimum amounts chargeable against future profits are as follows.

| | 1997 | 1996 |
|---|---|---|
| | $'000 | $'000 |
| Within one year | 1,934 | 2,359 |
| Subsequent years | - | 1,934 |
| | **1,934** | **4,293** |

**18. Contingent Liability**

Two customers of the subsidiary have filed a suit against that company, denying their indebtedness and are 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 counter claimed 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.

**19. 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 $1,732,559 (1996 - $1,425,616).

**20. Brokered Funds**

The subsidiary acted as a broker on behalf of its clients during the year. At 30 September 1997, these funds amounted to $121,335,728 (1996 - $65,203,170). The funds are not shown in the subsidiary's financial statements.