

# RBTT Financial Holdings Limited

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 March 2001

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### EXPRESSED IN TRINIDAD AND TOBAGO DOLLARS

#### 1 Incorporation and Business Activities of the Group

RBTT Financial Holdings Limited was incorporated in the Republic of Trinidad and Tobago in July 1998 as a holding company to acquire the Group's investments which were previously held by the main banking unit, The Royal Bank of Trinidad and Tobago Limited, which was incorporated on 26 July 1971 . The subsidiaries and associated companies of RBTT Financial Holdings Limited offer a complete range of banking and financial intermediation services to customers in Trinidad and Tobago and the Caribbean Basin.

The Group through its subsidiary and affiliated companies, Guardian Insurance Limited, RGM Limited and West Indies Stockbrokers Limited, is engaged in the provision of specialised long term insurance services, property development and stockbroking business.

The ordinary shares of the Holding Company are listed on the Trinidad and Tobago Stock Exchange and the Barbados Stock Exchange.

#### 2 Significant Accounting Policies

##### Basis of preparation

The consolidated financial statements are prepared in Trinidad and Tobago dollars under the historical cost convention modified to include the valuation of certain freehold and leasehold land and buildings. Reference is made to International Accounting Standards and the existence of material items covered by these Standards is disclosed.

#### **Comparative information**

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. In particular, the comparatives have been adjusted to comply with the requirements of the Standing Interpretation Committee, Interpretation SIC-12, Consolidation of Special Purpose Entities.

#### **Principles of consolidation**

Subsidiary companies, being those companies in which the Group has an interest of more than 50% of the voting rights and is able to exercise control over the operations, have been fully consolidated. All intercompany transactions and balances between group companies have been eliminated. Separate disclosure is made of minority interests. Where necessary, the accounting policies used by the associate have been changed to ensure consistency with the policies adopted by the Group.

A listing of the subsidiaries is set out in Note 36.

#### **Associated companies**

Investments in associated companies are accounted for by the equity method. These are companies over which the Group has between 20% and 50% of the voting rights and over which the Group exercises significant influence but which it does not control. The Group's interest in the associate is carried in the balance sheet at an amount that reflects its share of the net assets of the associate.

A listing of the Group's principal associated undertakings is shown in Note 6.4.

#### **Joint ventures**

The Group's interests in joint ventures are accounted for under the equity method.

A listing of the joint ventures is set out in Note 6.4.

## **Foreign currencies**

Income statements of foreign entities are translated into Trinidad and Tobago dollars at average exchange rates for the year and their balance sheets are translated at the exchange rates ruling on 31 March. Exchange differences arising from the retranslation of the net investment in foreign subsidiaries and associated companies are taken to share-holders' equity.

Foreign currency transactions in Group companies are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account. Such balances are translated at year end exchange rates.

## **Investments**

### **Trading account**

Securities purchased for dealing are stated at fair value based on quoted market prices where available or discounted cash flow models. All gains and losses realised and unrealised from trading in dealing securities are reported in net investment trading income. Interest earned whilst holding dealing securities is reported as interest income. Dealing securities include securities sold under sale and repurchase agreements.

### **Investment account**

Securities redeemable at fixed dates, purchased with the intention of being held to maturity are carried at cost, adjusted to recognise premiums and discounts on purchase over periods of redemption. Undated investments are carried at the lower of cost and market value. Interest earned on investment securities is reported as interest income. A reduction in market value is not taken into account unless it is considered to be permanent.

## **Sale and repurchase agreements**

Securities sold under sale and repurchase agreements ('repos') are retained in the financial statements and the counterparty liability is included in other funding instruments. The difference between the sale price and the repurchase price is treated as interest and accrued

evenly over the life of the repo agreements.

#### **Loans and advances and allowance for losses**

Loans and advances are stated at principal outstanding net of unearned interest. The accrual of interest ceases when principal or interest is past due 90 days and collateral is inadequate to cover principal and interest or when, in the opinion of management, full collection is unlikely.

The allowance for losses is based on the annual appraisal of advances. Specific provisions are made against advances when, in the opinion of management, credit risk or economic factors make recovery doubtful. The provision which is made during the year, less amounts released and recoveries of bad debts previously written off, is charged against operating profit.

Statutory and other regulatory loan loss reserve requirements that exceed the specific provision amounts are dealt with in the general banking reserve as an appropriation of retained earnings.

#### **Acceptances, guarantees, indemnities and letters of credit**

The Group's potential liability under acceptances, guarantees and letters of credit is reported as a liability in the consolidated balance sheet. The Group has equal and offsetting claims against its customers in the event of a call on these commitments, which are reported as an asset.

#### **Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/associated company at the date of acquisition. Goodwill on acquisitions is reported in the balance sheet and is amortised using the straight-line method over its estimated useful life.

Goodwill arising on major strategic acquisitions of the Group to expand its product or geographical market coverage is amortised over a maximum period of 20 years.

The gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to the entity disposed of.

### **Investment properties**

Investment properties, principally comprising office buildings, are held for long-term rental yields and are not occupied by Group companies. Investment properties are treated as long-term investments and are carried at fair value, representing open market value determined annually by management and adjusted by the results of external valuations performed once every three years. Under IAS 40 -investment Property, which the Group early adopted at 1 April 2000, changes in fair values are recorded in the profit and loss account. Previously, the Group had recorded these assets at cost. in accordance with IAS 40, the comparative amounts have not been restated.

### **Premises and equipment**

Freehold and leasehold land and buildings are stated at cost (or professional valuation in the case of certain land and buildings) less depreciation. All other fixed assets are stated at cost.

Depreciation is computed principally on the reducing balance method. Rates in effect are designed to write off the depreciable amounts of assets over their estimated useful lives. The following rates are used:

Freehold properties	-	2% to 4%
Leasehold properties and improvements	-	2% to 20%
Equipment	-	10% to 33 1/3%

Gains and losses on disposal of premises and equipment are determined by reference to their carrying amounts and are taken into account in determining operating profit. Costs of repairs and renewals are charged to the profit and loss account when the expenditure is incurred.

### **Accounting for leases - where a group company is the lessor**

Assets leased out under operating leases are included in premises and equipment in the balance sheet at cost less accumulated depreciation. Depreciation is calculated by reference to the shorter of the primary lease period and the estimated useful life of the asset, Rental income is recognised on a straight line basis over the primary lease period.

Upon retirement or disposal of leased assets, the cost and related accumulated depreciation are removed from the respective accounts and the gains or losses, if any, are reflected in the profit and loss account for the year.

#### **Accounting for leases - where a group company is the lessee**

Leases entered into by the Group are all operating leases. Payments made under operating leases are charged to the profit and loss account in equal instalments over the period of the lease,

#### **Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations, and a reliable estimate of the amount of the obligation can be made.

#### **Cash resources**

Cash resources comprise cash and balances with central banks and amounts due from other banks and affiliated companies.

#### **Retirement benefits**

The Group operates a number of defined contribution and defined benefit plans, the assets of which are generally held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and by the relevant Group companies, taking account of the recommendations of independent qualified actuaries.

For defined benefit plans maintained by certain overseas group companies, the administrators are unable to provide information on the companies' proportionate share of the defined benefit obligation and plan assets. These plans are accounted for as if they are defined contribution plans in accordance with IAS 19.

The Group's contributions to the defined contribution pension plans are charged to the income statement in the year to which they relate.

## **Taxation**

Deferred tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

The principal temporary differences arise from depreciation on premises and equipment and tax losses carried forward. Deferred tax assets relating to the carryforward of unused tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

## **Administered funds**

The balance sheet does not include assets under administration on behalf of clients at the subsidiary, Royal Bank Trust Company (Trinidad) Limited. Assets under administration as at 31 March, 2001 totalled \$8,985 million (2000 - \$8,209 million).

## **Reserve requirements**

Under the provisions of the Financial Institutions Act, 1993, The Royal Bank of Trinidad and Tobago Limited, Royal Merchant Bank and Finance Company Limited and Royal Bank Trust Company (Trinidad) Limited are required to maintain with the Central Bank of Trinidad and Tobago, cash reserve balances which bear a ratio to the total deposit liabilities held.

In accordance with Article 33 of the Eastern Caribbean Central Bank (ECCB) Agreement 1983, Caribbean Banking Corporation Limited and its subsidiaries, Grenada Bank of Commerce Limited and Caribbean Banking Corporation (SKN) Limited, are required to maintain reserves against deposits and other similar liabilities through cash holdings or by deposits held with the ECCB.

The B-9 arrangement of the Central Bank of Aruba requires the First National Bank of Aruba to maintain a reserve equivalent to seven percent of their short term deposits (maturity less than two years) in an earmarked (interest-bearing) account with the Central Bank of Aruba.

Under the provisions of the Monetary Circular 98/02, Antilles Banking Corporation (St. Maarten) N.V. and Antilles Banking Corporation (Curacao) N.V. are required to maintain with the Central Bank of the Netherlands Antilles, cash reserve balances which bear a ratio to

the total deposit liabilities held.

### Derivative financial instruments

Derivative financial instruments (both written and purchased) are marked to market. All derivatives are carried at their net fair market value, representing the netting of positive and negative market values of the derivative instruments. If there is a net positive market value it is carried within the assets of the Group and in liabilities when unfavourable to the Group.

Fair values are obtained from quoted market prices where available, discounted cash flow models and options pricing models as appropriate.

Gains and losses on derivative instruments used in dealing activities are included in investment trading income as they arise.

<b>3 Cash Resources</b>	<b>2001</b> <b>(\$'000)</b>	<b>2000</b> <b>(\$'000)</b>
Cash on hand	217,814	153,332
Due from banks	1,304,276	938,579
Statutory deposits with Central Banks	<u>1,237,383</u>	<u>909,531</u>
	2,759,473	2,001,442
	=====	=====
 <b>4 Loans And Advances</b>		
Performing loans and advances	6,507,342	5,630,618
Non-performing loans and advances	<u>428,187</u>	<u>354,424</u>
	6,935,529	5,985,042
Unearned interest	<u>(262,632)</u>	<u>(279,498)</u>
	6,672,897	5,705,544
Interest receivable	58,290	38,994
Allowance for losses	<u>(198,359)</u>	<u>(164,860)</u>
	6,532,828	5,579,678
	=====	=====
Loans pledged for the benefit of investors in other funding instruments	1,079,400	70,000
	=====	=====



#### 4.1 Sectoral analysis

Consumer	1,976,690	1,721,252
Manufacturing	461,950	458,138
Distribution	628,485	494,191
Financial services	98,478	95,305
Transport	218,910	222,997
Construction	239,497	196,876
Petroleum	24,356	27,717
Agriculture	45,752	52,120
Residential mortgages	1,027,062	1,083,776
Commercial mortgages	1,233,532	717,079
Hospitality	139,645	178,958
Other	<u>841,172</u>	<u>736,633</u>
	<u>6,935,529</u>	<u>5,985,042</u>
	=====	=====

#### 4.2 Allowance for loan losses

Balance at beginning of year	164,860	147,847
Amounts written off	(11,514)	(22,796)
Charges against profit for the year	31,565	34,301
Transferred upon acquisition of loan portfolio of overseas subsidiary	9,411	5,508
General charge against retained earnings	<u>4,037</u>	<u>-</u>
Balance at end of year	<u>198,359</u>	<u>164,860</u>
	=====	=====

#### 4.3 Loan loss expense

Charge for the year	31,565	34,301
Amounts directly written off	5,063	5,038
Recoveries	<u>(1,994)</u>	<u>(466)</u>
	<u>34,634</u>	<u>38,873</u>
	=====	=====

#### 5 Investments

##### Trading Account

Government securities	73,700	50,753
Corporate securities	<u>139,564</u>	<u>734,454</u>
	<u>213,264</u>	<u>785,207</u>
Investment Account		
Treasury bills and Treasury notes	655,219	536,426
Government and state owned enterprises securities	3,305,997	2,149,946
Corporate securities	2,545,713	1,850,633
Other	<u>151,038</u>	<u>134,538</u>
	<u>6,657,967</u>	<u>4,671,543</u>
	<u>6,871,231</u>	<u>5,456,750</u>
	=====	=====
Investments pledged for the benefit of investors in other funding instruments	3,764,292	2,753,858
	=====	=====

**6 Investment In Associated Companies And Joint Ventures**

Associated companies	256,506	25,749
Joint ventures	<u>53,944</u>	<u>87,387</u>
	<u>310,450</u>	<u>113,136</u>
	=====	=====

**6.1 Movement in equity interest in associated companies**

At beginning of year	25,749	30,345
Acquisitions	225,472	5,939
Disposals	-	(14,689)
Net share of current year's profits and reserves	<u>5,285</u>	<u>4,154</u>
At end of year	<u>256,506</u>	<u>25,749</u>
	=====	=====

On 14 August 2000 the Group acquired a 20% interest in Guardian Insurance Limited, a company incorporated in Trinidad and Tobago and the parent company of Guardian Life of the Caribbean Limited and Bancassurance (Caribbean) Limited, incorporated in Trinidad and Tobago and Guardian Life Limited incorporated in Jamaica.

The goodwill arising on this acquisition was computed as follows:

Cash paid	175,000
Non-cash consideration	<u>45,472</u>
Total purchase consideration	220,472
Fair value of net assets acquired	<u>225,472</u>
Negative goodwill	<u>(5,000)</u>
	=====

### 6.2 Movement in interest in joint ventures

At beginning of year	87,387	91,144
Additional interest acquired	-	4,260
Disposal	(47,359)	-
Capital dividend	(4,000)	(15,000)
Net share of current year's profits and reserves	19,414	6,983
Change in investment	<u>(1,498)</u>	<u>-</u>
At end of year	<u>53,944</u>	<u>87,387</u>
	=====	=====

As part of the acquisition transaction referred to in Note 6.1, the Group sold its 50% interest in Bancassurance (Caribbean) Limited for a consideration of \$45.4 million.

### 6.3 Interest in joint ventures

The following represents the Group's share of the assets and liabilities and income and expenses of the joint ventures:

Assets		
Long-term assets	50,715	168,287
Current assets	<u>15,907</u>	<u>12,522</u>
	66,622	180,809
Liabilities		
Long-term liabilities	-	79,017
Current liabilities	<u>12,678</u>	<u>14,405</u>
	<u>12,678</u>	<u>93,422</u>
<b>Net Assets</b>	<u>53,944</u>	<u>87,387</u>
	=====	=====
Income	9,675	21,104
Expenses	<u>2,453</u>	<u>11,775</u>

Profit before taxation	7,222	9,329
Policyholders' interest	-	1,761
Appreciation in value of investment property	4,702	-
	<u>11,924</u>	<u>7,568</u>
Taxation	25	626
Profit after taxation	<u>11,899</u>	<u>6,942</u>
	=====	=====
Group's share of joint ventures' capital commitments	30,000	2,608
	=====	=====

#### 6.4 Associated companies and joint venture at 31 March 2001

<b>Associated companies</b>	<b>Percentage of equity capital held</b>
Development Finance Limited	29.70%
Infolink Services Limited	25.00%
Park Court Limited	20.00%
Guardian Insurance Limited	20.00%
Joint venture	
RGM Limited	33.30%

The associated companies and joint venture are incorporated in the Republic of Trinidad and Tobago.

#### 7 Customers' Liability Under Acceptances, Guarantees and Letters of Credit

Bankers' acceptances	1,097,495	700,246
Other customers' liability	505,822	510,770
	<u>1,603,317</u>	<u>1,211,016</u>
	=====	=====
Sectoral analysis		
Personal sector	112,080	40,012

Private sector	1,078,763	861,483
State sector	187,057	217,269
Other	225,417	92,252
	<u>1,603,317</u>	<u>1,211,016</u>
	=====	=====

**8 Goodwill**

	<b>2001</b>	<b>2000</b>
	<b>(\$'000)</b>	<b>(\$'000)</b>
Balance at beginning of year	152,794	148,782
Acquisitions	8,050	12,562
Hindsight adjustments	6,153	-
Amortisation charge	(5,163)	(8,545)
Translation adjustment	<u>1</u>	<u>(5)</u>
Balance at end of year	<u>161,835</u>	<u>152,794</u>
	=====	=====
Cost	187,018	172,814
Accumulated amortisation	<u>(25,183)</u>	<u>(20,020)</u>
Balance at end of year	<u>161,835</u>	<u>152,794</u>
	=====	=====

**9 Premises And Equipment**

	<b>Freehold Properties</b>	<b>Leasehold Properties</b>	<b>Leasehold Improvements</b>	<b>Equipment</b>	<b>Capital</b>	
					<b>Work in Progress</b>	<b>Total</b>
	<b>(\$'000)</b>	<b>(\$'000)</b>	<b>(\$'000)</b>	<b>(\$'000)</b>	<b>(\$'000)</b>	<b>(\$'000)</b>
<b>Year ended 31 March 2001</b>						
opening net book value	160,525	13,293	18,442	230,524	30,014	452,798
Additions upon acquisition of subsidiaries	20,160	-	-	2,425	-	22,585
Additions	29,922	1,759	234	29,901	83,780	145,596
Disposals	-	-	-	9,402	-	9,402
Transfers	6,471	3,170	3,457	49,263	(62,361)	
Depreciation charge	<u>(3,154)</u>	<u>(264)</u>	<u>(2,371)</u>	<u>(51,725)</u>	<u>-</u>	<u>(57,514)</u>
Closing net book value	<u>213,924</u>	<u>17,958</u>	<u>19,762</u>	<u>250,986</u>	<u>51,433</u>	<u>554,063</u>

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 Certain properties were professionally valued in 1983, 1995 and 1996 on the basis of open market value for their existing use.

**At 31 March 2001**

Cost or revaluation	239,620	20,113	44,726	506,995	51,433	862,887
Accumulated depreciation	(25,696)	(2,155)	(24,964)	(256,009)	-	(308,824)
Net book value	213,924	17,958	19,762	250,986	51,433	554,063

**At 31 March 2000**

Cost or revaluation	183,067	15,184	41,035	434,808	30,014	704,108
Accumulated depreciation	(22,542)	(1,891)	(22,593)	(204,284)	-	(251,310)
Net book value	160,525	13,293	18,442	230,524	30,014	452,798

Included in fixed assets is a freehold property and equipment leased by Group companies to third parties under operating leases:

	2001 (\$'000)	2000 (\$'000)
Cost	25,429	48,601
Accumulated depreciation	8,883	28,847
Net book value	16,546	19,754
	=====	=====
Depreciation charge for the year	3,987	6,483
	=====	=====
<b>10 Receivables and Prepayments</b>		
Investment income receivable	113,900	68,605
Taxation recoverable	3,413	8,894
Other	146,424	70,694
	263,737	148,193
	=====	=====

## 11 Deferred Taxation

The following amounts are shown in the consolidated balance sheet:

Deferred tax assets	9,046	7,791
Deferred tax liabilities	<u>(31,101)</u>	<u>(11,195)</u>
	<u>(22,055)</u>	<u>(3,404)</u>
	=====	=====

The movement on the deferred tax account is as follows:

At beginning of year	(3,404)	5,131
Acquisition of subsidiary	(38)	-
Profit and loss account charge (Note 24)	<u>(18,613)</u>	<u>(8,535)</u>
At end of year	<u>(22,055)</u>	<u>(3,404)</u>
	=====	=====

Deferred tax assets and liabilities are attributable to the following items:

### Deferred tax assets

Accelerated tax depreciation	10	-
Tax losses carry forward	5,774	7,791
Other	<u>3,262</u>	<u>-</u>
	<u>9,046</u>	<u>7,791</u>

### Deferred tax liabilities

Accelerated tax depreciation	8,667	6,261
Zero coupon instruments	<u>22,434</u>	<u>4,934</u>
	<u>31,101</u>	<u>11,195</u>
Net deferred tax liability	<u>(22,055)</u>	<u>(3,404)</u>
	=====	=====

## 12 Customers' Deposits

Deposit balances	9,511,674	8,668,908
Accrued interest	<u>120,650</u>	<u>124,294</u>
	<u>9,632,324</u>	<u>8,793,202</u>
	=====	=====

Sectoral analysis

Consumers	6,050,290	5,540,181
Private sector	2,522,739	2,373,404
State sector	571,428	400,018
Other	367,217	355,305
	<u>9,511,674</u>	<u>8,668,908</u>
	=====	=====

**13 Other Funding Instruments**

Other funding instruments	4,844,753	2,795,289
Accrued interest	57,469	12,804
	<u>4,902,222</u>	<u>2,808,093</u>
	=====	=====

Sectoral analysis

Consumers	804,010	518,643
Private sector	3,055,091	1,860,710
State sector	978,168	400,085
Other	7,484	15,851
	<u>4,844,753</u>	<u>2,795,289</u>
	=====	=====

**14 Debt Securities in Issue**

Principal balance	250,000	-
	=====	=====

The Group issued a bond to the value of \$250 million at a fixed rate of 12.25% per annum. The bond was issued in two tranches of \$100 million on September 28, 2000 and \$150 million on November 28, 2000 and is due to mature on September 28, 2007.

The bond is repayable in full by a bullet payment at maturity and is not redeemable prior to maturity. Interest is payable quarterly in arrears.

**15 Dividends**

Interim paid - 221 per share (2000: 181 per share)	74,848	61,239
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Final - 291 per share (2000: 251 per share)	98,664	85,055
	<u>173,512</u>	<u>146,294</u>
	=====	=====

## 16 Minority interest

At beginning of year	43,103	34,598
Share of net profit of subsidiaries	7,305	5,902
Dividends	(1,534)	-
Share of net assets acquired	-	2,603
	<u>48,874</u>	<u>43,103</u>
	=====	=====

## 17 Share Capital

### Authorised

An unlimited number of ordinary shares of no par value

### Issued and fully paid

340,219,580 ordinary shares of no par value	808,775	808,775
	=====	=====

At the Annual Meeting in 1999, the shareholders approved the establishment of a Share Option Plan for Non-Executive Directors and Executive Management. For the year ended 31 March 2000, participation was limited to Non-Executive Directors. During the year ended 31 March 2001, participation in the Share Option Plan was extended to Executive Management and a further 768,056 options were granted.

The current status of options is as follows:

Total number of shares allocated to the Plan	10,000,000
Outstanding options	<u>933,956</u>
Remaining shares allocated to plan in respect of which options have not been granted	<u>9,066,044</u>
	=====

The options granted are exercisable at the market value of the shares on the respective dates of grant. All options expire on 31 March 2009.

## 18 Statutory Reserves

The Financial Institutions Act, 1993 requires financial institutions in Trinidad and Tobago to transfer annually a minimum of 10% of its profit after taxation to a reserve fund until the balance on this reserve is not less than the paid up capital of the institution. The Eastern Caribbean Central Bank imposes similar obligations on financial institutions operating within its regulated territory.

## 19 Other Reserves

Revaluation surplus	12,946	12,946
Capital reserve	54,851	58,488
Translation reserve	<u>1,166</u>	<u>8,541</u>
	<u>68,963</u>	<u>79,975</u>
	=====	=====
Capital reserve		
Balance at beginning of year	58,488	16,615
Transfer from statutory reserve	-	9,654
Transfer from retained earnings		461
Amount arising on acquisition and disposal of associated companies	(3,637)	(591)
Bonus issues in subsidiary and associated companies		31,996
Other reserve movements	-	353
Balance at end of year	<u>54,851</u>	<u>58,488</u>
	=====	=====
Translation reserve		
Balance at beginning of year	8,541	8,285
Currency translation differences arising during the year	7,375	478
Transfer to retained earnings on disposal of associated company	-	(222)
Balance at end of year	<u>1,166</u>	<u>8,541</u>
	=====	=====

**20 Net Interest Income**

Interest Income		
Loans and advances	809,533	748,118
Investment securities	710,980	569,030
Due from banks	35,642	40,901
	<u>1,556,155</u>	<u>1,358,049</u>
	=====	=====

**Interest Expense**

Customers' deposits	531,867	498,670
Other funding instruments	347,318	244,317
Due to banks	9,755	4,359
	<u>888,940</u>	<u>747,346</u>
	=====	=====

**21 Other Income**

Fee, commission and net investment trading income	397,088	336,506
Foreign exchange earnings	57,910	53,020
Gain on sale of investments	-	12,945
Sundry income	4,112	612
	<u>459,110</u>	<u>403,083</u>
	=====	=====

**22 Operating Expenses**

General administrative expenses	334,938	284,790
Other operating expenses	294,836	300,571
	<u>629,774</u>	<u>585,361</u>
	=====	=====

**23 Profit Before Taxation**

2001	2000
(\$'000)	(\$'000)

Profit before taxation is arrived at after charging the following:

Depreciation	57,514	58,591
Deposit insurance premium (see below)	7,798	7,254
Employees' retirement benefit expense	18,924	13,672
Operating lease rentals	33,300	27,569
Goodwill amortised	5,163	8,545

Directors' remuneration	1,429	1,327
Auditors' remuneration	2,287	1,932
	=====	=====

Statutory regulations governing the operations of banks and other financial institutions in Trinidad and Tobago stipulate that an annual premium be paid to the Deposit Insurance Fund of 0.2% of average deposit liabilities outstanding at the end of each quarter of the preceding year.

#### 24 Taxation

Current tax charge	56,684	40,170
Green fund levy	962	-
Prior years	(5,103)	6,493
Net deferred tax charge (Note 11)	18,613	8,535
Share of tax charge of associated companies and joint ventures	<u>1,839</u>	<u>1,143</u>
	=====	=====
	72,995	56,341
	=====	=====

The tax on the operating profit differs from the theoretical amount that would arise using the basic tax rate of the home country of the parent company as follows:

Profit before tax	489,786	401,728
	=====	=====
Prima facie tax calculated at a rate of 35% (2000 - 35%)	171,425	140,605
Effect of different tax rates in other countries	1,253	382
Effect of different tax rates on certain sources of inc	(5,802)	(2,119)
Income exempt from tax	(103,377)	(97,479)
Expenses not deductible	8,669	7,523
Utilisation of tax losses	(1,623)	(1,752)
Effect of current year tax losses	3,646	-
Prior years	(5,103)	6,493
Green fund levy	962	-
Business levy	345	617
Other timing differences	<u>2,600</u>	<u>2,071</u>
Tax charge	=====	=====
	72,995	56,341
	=====	=====

The deferred tax charge for the year comprises the following temporary differences:

Accelerated tax depreciation	2,396	1,009
Tax losses	2,017	8,638
Zero coupon instruments	17,137	(2,180)
Other temporary differences	<u>(2,937)</u>	<u>1,068</u>
	<u>18,613</u>	<u>8,535</u>
	=====	=====

## 25 Earnings Per Share

Earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

Net profit attributable to shareholders	409,486	339,485
	=====	=====
Weighted average number of ordinary shares in issue	340,220	340,220
	=====	=====
Basic earnings per share	1.20	0.99
	=====	=====

For the diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The company has one category of dilutive potential ordinary shares which is share options granted to Non-Executive Directors and Executive Management.

Weighted average number of ordinary shares for diluted earnings per share	340,222	340,254
	=====	=====
Diluted earnings per share	1.20	0.99
	=====	=====

## 26 Net Increase In Cash Resources

At beginning of year	2,001,442	1,899,419
At end of year	<u>2,759,473</u>	<u>2,001,442</u>

758,031	102,023
=====	=====

**27 Contingent Liabilities**

**Legal proceedings**

As at 31 March 2001 there were certain legal proceedings outstanding against the Group. No provision has been made as professional advice indicates that it is unlikely that any significant loss will arise.

**Other contingent liabilities**

Certain companies within the Group have provided guarantees in respect of employee mortgage loans amounting to \$8,283,000 (2000 - \$9,217,000).

2001	2000
(\$'000)	(\$'000)

**28 Credit Commitments**

Sectoral analysis of credit commitments are as follows:

Residential mortgages	46,342	47,352
Commercial mortgages	61,849	14,428
Distribution	16,943	16,750
Construction	6,311	5,572
Consumer	11,632	4,892
Manufacturing	3,335	341
Finance and insurance	2,806	4,142
Transport	5,007	1,231
Hospitality	-	13,554
Other	10,621	40,488
	<u>164,846</u>	<u>148,750</u>
	=====	=====

**29 Capital And Lease Commitments**

The Group has capital commitments, principally in respect of renovations to buildings of \$4.1 million (2000 - \$36.1 million).

Operating lease commitments are as follows:

**Premises**

Within one year	20,483	16,202
One to five years	<u>81,486</u>	<u>74,996</u>
	101,969	91,198
	=====	=====

**30 Related Party Transactions**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The ultimate parent of the Group is RBTT Financial Holdings Limited.

A number of banking transactions are entered into with related parties in the normal course of business. These transactions are carried out on commercial terms and conditions and at market rates.

**31 Currency Risk**

**Concentrations of Assets and Liabilities**

With the exception of US dollars, the currencies below are the operational currencies of companies within the Group. Assets are primarily funded by like currency deposits thus reducing the element of cross-currency risk and in most regional markets US denominated transactions must be officially sanctioned by the relevant authorities thus reducing exposure. Foreign currency transactions do not require the use of interest rate swaps and foreign currency options and other derivative instruments which all carry inherent risks. Currency exposure resides mainly in trading activity.

The Group has the following significant currency positions:

<b>TT</b>	<b>US</b>	<b>EC</b>	<b>Naf</b>	<b>Other</b>	<b>Total</b>
-----------	-----------	-----------	------------	--------------	--------------

	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
<b>As at 31 March 2001</b>						
<b>Assets</b>						
Cash resources	822,670	1,491,227	117,218	119,748	208,610	2,759,473
Loans and advances	2,544,596	1,860,943	1,356,441	714,373	56,475	6,532,828
Investments	4,121,828	2,791,624	231,148	10,214	26,867	7,181,681
Customers' liabilities under acceptances, guarantees and letters of credit (per contra)	1,268,061	275,521	14,804	27,992	16,939	1,603,317
Goodwill	37,787	-	28,267	85,763	10,018	161,835
Premises and equipment	392,955	-	57,415	79,561	24,132	554,063
Other assets	110,430	82,009	55,233	17,578	7,533	272,783
<b>Total Assets</b>	<b>9,298,327</b>	<b>6,501,324</b>	<b>1,860,526</b>	<b>1,055,229</b>	<b>350,574</b>	<b>19,065,980</b>
<b>Liabilities</b>						
Due to banks	15,406	185,425	71,433	5,823	13,942	292,029
Customers' deposits	3,938,973	2,991,976	1,558,127	903,383	239,865	9,632,324
Other funding instruments	2,988,167	1,861,687	52,368	-	-	4,902,222
Acceptances, guarantees and letters of credit (per contra)	1,268,061	275,521	14,804	27,992	16,939	1,603,317
Other liabilities	189,007	430,537	110,221	43,792	25,729	799,286
<b>Total Liabilities</b>	<b>8,399,614</b>	<b>5,745,146</b>	<b>1,806,953</b>	<b>980,990</b>	<b>296,475</b>	<b>17,229,178</b>
<b>Net Balance Sheet Position</b>	<b>898,713</b>	<b>756,178</b>	<b>53,573</b>	<b>74,239</b>	<b>54,099</b>	<b>1,836,802</b>
<b>Credit Commitments</b>						
	47,009	63,979	35,290	18,568	-	164,846
<b>As at 31 March 2000</b>						
Total Assets	8,299,154	4,190,806	1,692,047	926,504	15,087	15,123,598
Total Liabilities	7,433,265	3,562,980	1,663,007	851,540	10,776	13,521,568
<b>Net Balance Sheet Position</b>	<b>865,889</b>	<b>627,826</b>	<b>29,040</b>	<b>74,964</b>	<b>4,311</b>	<b>1,602,030</b>
<b>Credit Commitments</b>						
	47,008	4,300	38,134	59,308	-	148,750

### 32 Interest Rate Risk



### Interest Sensitivity of Assets and Liabilities

The Group is exposed to various risks associated with the effect of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Management sets limits on the level of mismatch of interest rate repricing that may be undertaken. The table below summarises the Group's exposure to interest rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Up to one year (\$'000)	One to five years (\$'000)	Over five years (\$'000)	Non- interest bearing (\$'000)	Total (\$'000)
<b>As at 31 March 2001</b>					
<b>Assets</b>					
Cash resources	1,277,286	22,423	-	1,459,764	2,759,473
Loans and advances	4,899,805	1,027,506	523,645	81,872	6,532,828
Investments	4,178,527	697,306	1,875,357	430,491	7,181,681
Other assets	238,725	17,195	-	2,336,078	2,591,998
<b>Total Assets</b>	<b>10,594,343</b>	<b>1,764,430</b>	<b>2,399,002</b>	<b>4,308,205</b>	<b>19,065,980</b>
<b>Liabilities</b>					
Due to banks	229,804	-	-	62,225	292,029
Customers' deposits	9,024,119	282,526	18,994	306,685	9,632,324
Other funding instruments	4,357,268	259,116	198,010	87,828	4,902,222
Other liabilities	194,953	4,816	15,761	2,187,073	2,402,603
<b>Total Liabilities</b>	<b>13,806,144</b>	<b>546,458</b>	<b>232,765</b>	<b>2,643,811</b>	<b>17,229,178</b>
<b>Interest Sensitivity Gap</b>	<b>(3,211,801)</b>	<b>1,217,972</b>	<b>2,166,237</b>		
=====					
<b>As at 31 March 2000</b>					
<b>Assets</b>					
Cash resources	772,845	1,928	-	1,226,669	2,001,442
Loans and advances	4,537,896	867,676	146,955	27,151	5,579,678

Investments	3,993,282	459,070	940,097	177,437	5,569,886
Other assets	64,372	-	2,953	1,905,267	1,972,592
<b>Total Assets</b>	<b>9,368,395</b>	<b>1,328,674</b>	<b>1,090,005</b>	<b>3,336,524</b>	<b>15,123,598</b>
<b>Liabilities</b>					
Due to banks	346,678	-	-	10,452	357,130
Customers' deposits	8,298,037	311,349	3,499	180,317	8,793,202
Other funding instruments	2,632,756	27,776	134,757	12,804	2,808,093
Other liabilities	77,411	-	-	1,485,732	1,563,143
<b>Total Liabilities</b>	<b>11,354,882</b>	<b>339,125</b>	<b>138,256</b>	<b>1,689,305</b>	<b>13,521,568</b>
<b>Interest Sensitivity Gap</b>	<b>1,986,487</b>	<b>989,549</b>	<b>951,749</b>		
	=====				

Operating in markets where short term core funding is the norm, the Group employs various asset/liability techniques to manage its exposure to interest rate sensitivity gaps. Management of repricing risk is facilitated mainly through the offering of variable rate lending products. Risk management practices include the matching of funding products with financing services, monitoring directional interest rate risks, yield curves, prepayment risk and interest rate volatility risk all through a robust and centralised treasury operation.

### 33 Liquidity Risk

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and other calls on cash settled items. A broad range of wholesale and retail funds are managed to ensure that liquidity requirements are met. The Group's liquidity strategy relies on sufficient cash and marketable instruments such as treasury bills and government securities to meet short term requirements. Fall back techniques include access to local interbank and institutional markets, call features on selected advances, stand-by lines of credit with external parties, and the ability to close out or liquidate market positions. Daily float, liquid assets, funding concentration and diversification are all prudently managed to ensure that the Group has sufficient funds to meet its obligations. The following table analyses assets and liabilities of the Group into relevant maturity groupings.

	One to	
Up to	five	Over five

	one year (\$'000)	years (\$'000)	years (\$'000)	Total (\$'000)
<b>As at 31 March 2001</b>				
<b>Assets</b>				
Cash resources	2,698,394	22,430	38,649	2,759,473
Loans and advances	2,271,809	1,824,263	2,436,756	6,532,828
Investments	2,474,425	1,006,147	3,701,109	7,181,681
Other assets	2,176,170	18,239	397,589	2,591,998
	<u>9,620,798</u>	<u>2,871,079</u>	<u>6,574,103</u>	<u>19,065,980</u>
<b>Liabilities</b>				
Due to banks	292,029	-	-	292,029
Customers' deposits	9,330,830	282,499	18,995	9,632,324
Other funding instruments	4,745,112	147,553	9,557	4,902,222
Other liabilities	2,397,720	4,816	67	2,402,603
	<u>16,765,691</u>	<u>434,868</u>	<u>28,619</u>	<u>17,229,178</u>
<b>Net Liquidity Gap</b>	<u>(7,144,893)</u>	<u>2,436,211</u>	<u>6,545,484</u>	<u>1,836,802</u>
=====				
<b>As at 31 March 2000</b>				
Total assets	6,416,085	2,960,345	5,747,168	15,123,598
Total liabilities	12,786,534	628,698	106,336	13,521,568
<b>Net Liquidity Gap</b>	<u>6,370,449</u>	<u>2,331,647</u>	<u>5,640,832</u>	<u>1,602,030</u>
=====				

### 34 Credit Risk

#### Geographical Concentrations of Assets and Liabilities

	Total Assets (\$'000)	Total Liabilities (\$'000)	Operating Profit (\$'000)	Capital Expenditure (\$'000)
<b>As at 31 March 2001</b>				
Trinidad and Tobago	13,309,585	11,995,995	344,963	96,881
Eastern Caribbean Territories & Suriname	3,893,185	3,626,944	82,321	4,886
Netherlands Antilles & Aruba	<u>1,863,210</u>	<u>1,606,239</u>	<u>34,633</u>	<u>43,829</u>

19,065,980	17,229,178	461,917	145,596
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**As at 31 March 2000**

Trinidad and Tobago	10,906,697	9,626,426	261,572	63,233
Eastern Caribbean Territories	2,566,432	2,471,665	102,171	3,441
Netherlands Antilles & Aruba	1,650,469	1,423,477	25,809	9,947
	<u>15,123,598</u>	<u>13,521,568</u>	<u>389,552</u>	<u>76,621</u>

The Group operates throughout the Caribbean with the predominant activity being retail and corporate banking services. The Group's exposure to credit risk is mainly concentrated in Trinidad and Tobago.

The Group accounts for a significant share of credit exposure to many sectors of the Trinidad and Tobago economy. However, credit risk is well spread over a diversity of personal and commercial customers.

**35 Fair Value of Financial Assets and Liabilities**

Financial assets and liabilities are carried at amounts which approximate their fair value at the balance sheet date. The following methods and assumptions have been used to estimate their fair value.

**Assets**

Cash resources

Since these assets are short-term in nature, the values are taken as indicative of realisable value.

Loans and advances

Loans and advances are net of specific provision for losses. These assets result from transactions conducted under typical market conditions and their values are not adversely affected by unusual terms. The inherent rates of interest in the portfolio approximate market conditions and yield discounted cash flow values which are

substantially in accordance with financial statement amounts.

#### Investments

As provided in Note 2, securities purchased for dealing are stated at fair value. Securities purchased with the intention of being held to maturity are carried at cost, adjusted to recognise premiums and discounts and are considered to reflect fair values as they are being held to maturity. Undated investments are carried at the lower of cost and market values.

#### Liabilities

##### Due to banks and customers' deposits

The fair values of items with no stated maturity are assumed to be equal to their carrying value. Deposits with fixed rate characteristics are at rates which are not significantly different from current rates and are assumed to have discounted cash flow values which approximate carrying values.

##### Other borrowed funds

These items are carried at amounts which reflect contractual obligations and bear terms and conditions similar to current rates offered to the Group for debt of the same remaining maturities.

#### Derivatives

The Group does not take a position on derivatives traded. Derivatives purchased were sold and therefore the fair value of the assets offset the liabilities, resulting in a nil position in the balance sheet.

The Group restricts its credit exposure on derivatives by entering into master netting arrangements with counterparties.

### **36 Subsidiaries**

	<b>Percentage</b>
<b>Country of</b>	<b>of equity</b>
<b>incorporation</b>	<b>capital held</b>

The Royal Bank of Trinidad and Tobago Ltd.	Republic of Trinidad and Tobago	100.00%
Royal Merchant Bank and Finance Company Ltd.	Republic of Trinidad and Tobago	100.00%
Royal Bank Trust Company (Trinidad) Limited	Republic of Trinidad and Tobago	100.00%
RBTT Services Limited	Republic of Trinidad and Tobago	100.00%
RBTT Insurance Holdings Limited	Republic of Trinidad and Tobago	100.00%
RBTT Bank (Suriname) N.V.	Republic of Suriname	100.00%
Roytrin Securities Limited	Republic of Trinidad and Tobago	100.00%
R&M Holdings Limited	St Vincent and the Grenadines	100.00%
Caribbean Banking Corporation Limited	St. Vincent and the Grenadines	100.00%
ABC Holdings NY	Curacao	100.00%
Antilles Banking Corporation (St. Maarten)	St. Maarten	100.00%
Antilles Banking Corporation (Curaçao) N.V	Curacao	100.00%
The First National Bank of Aruba NY	Aruba	100.00%
Caribbean Banking Corporation (SKN) Limited	St. Kitts & Nevis	94.00%
West Indies Stockbrokers Limited	Republic of Trinidad and Tobago	71.00%
Grenada Bank of Commerce Limited	Grenada	62.00%

RBTT Insurance Holdings Limited was incorporated on 29 August 2000 in Trinidad and Tobago to hold the Group's investment in Guardian Insurance Limited as described in Note 6.1.

During the year the Group made the following equity investments in subsidiary companies.

On 7 January 2000, the Group acquired all the issued shares of Money Managers Limited through its subsidiary, West Indies Stockbrokers Limited. Money Managers Limited will eventually be merged into West Indies Stockbrokers Limited.

On 18 December 2000, the Group acquired the assets and liabilities of the Suriname branch operations of ABN (AMRO) Bank. A new company, RBTT Bank (Suriname) N.V., was established on 14 November 2000 to acquire these assets and liabilities.

The total goodwill arising on these acquisitions is as follows:

Cash paid	63,474
Fair value of net assets acquired	<u>50,424</u>

Goodwill

13,050

=====

The acquired companies contributed \$4.1 million to the operating profit of the Group.

On 15 March 2001, the Group consummated an agreement with Finsac Limited for the acquisition of all the issued capital of Union Bank of Jamaica Limited (UBJ). The purchase price is calculated on the net asset value of UBJ1 as at 30 June 2000, adjusted by reference to an agreed formula, discounted by TT\$285.6 million (J\$2.0 billion) of which TT\$142.8 million (J\$1.0 billion) has been paid to date.

The quantum of the negative goodwill arising from the purchase and the accounting treatment thereof is currently being determined.

The legal transfer of all the issued share capital of UBJ to the Group will be concluded on completion of the compulsory acquisition procedures relating to approximately 1 % thereof held by minority shareholders.

The investment in UBJ has been reflected in the consolidated financial statements at cost and is included in investments. This is because the consolidated financial statements are prepared using the financial statements of subsidiaries prepared up to their last financial year end, which for UBJ was 31 December 2000.

The following is a summary of the assets and liabilities of UBJ as at 31 March 2001:

	<b>TT\$ Millions</b>
Cash resources	391
Loans and investments	3,973
Other assets	152
Customers' deposits and other funding instruments	(3,069)
Other liabilities	<u>(941)</u>
Net assets	506
	=====

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