Trafalgar Development Bank 1998

Message to Shareholders

1998 was another year which posed significant challenges for The Group and indeed the financial sector as a whole as more distressed financial institutions were acquired by the government through the Financial Sector Adjustment Company Limited (FINSAC).

During the year, the economy remained soft and businesses in the real sector struggled to remain viable, or achieve viability. The major exports- sugar, bauxite and banana continue to encounter problems while manufacturing remains uncertain. Although tourism continues to maintain its premier position, small hotels are finding it increasingly difficult to remain viable and require strong and sustained support in marketing. It is our view that tourism will remain a major player in the country's development. However, we also recognise that its impact on the economy could be greatly enhanced if more value-added features were added to the product; for example, the development of appropriate attractions, strategically positioned, would not only provide opportunities for small and medium scale operators, but would make Jamaica more attractive for cruise shipping.

Despite the-soft economy and the difficulties being experienced by most financial institutions, The Group maintained profitability. However, profits for the year fell significantly compared with that of the prior year. Total revenue (net of interest expenses) of the group fell by 5.3%, from $278.8 million in 1997 to $264.1 million in 1998, while the net profit attributable to shareholders for the year declined by some 33%, from $65.2 million to $43.4 million. As a result of the decline in net profit, earnings per share fell from 57 cents in 1997 to 38 cents in 1998.

Apart from the slowing down of demand for loans, the year's operations were impacted negatively by a significant decline in income from foreign exchange gains, which fell from $32.1 million in 1997 to $9.8 million in 1998. In addition, this performance was also reflective of increases in provisions for loan losses, declining interest margins and the lack of an appropriate mix of resources to fit the increasingly complex needs of companies. However, although total revenue declined, total interest income increased by 7% from $355 million to $379 million while net interest income increased by 6.4% from $206 million to $219 million. Operating expenses for the group declined by 12.5% as a result of added cost-containment measures implemented during the year.

At the end of the year, total assets were $2.6 billion compared with $2.5 billion for the previous year, while stockholders' equity of $517.8 million represented an increase of 5.5% over the 1997 amount of $490.7 million. The loan portfolio (net of provision) grew by 7.7% to $1.6 billion compared with $1.5 billion for the previous year.

With respect to the performance of our subsidiary, Trafalgar Commercial Bank (TCB), it should be pointed out that TCB reversed its decline of the previous year with a profit of $3.8 million, after provision for loan losses on nonperforming loans. This was the result of hard work on the part of the management and staff giving constant and close attention to the operations of the bank, particularly on the quality of its loan portfolio.

The new financial year will certainly be one of challenges and opportunities. Opportunities exist for TDB to assist companies to modernise and streamline their management, marketing and production processes in order to become internationally competitive. Opportunities also exist for us to package large infrastructure projects which require substantial funding facilities in both the local and international markets. Other areas of opportunities include: mining (nonmetallic minerals); information technology, especially in software development; agro-processing, particularly niche market products with significant important value-added features; and transportation, specifically the development of an integrative system of rail and ferry service.

TDB is already actively engaged in some of these areas and will continue to bring new thinking and energy to answer the challenges facing businesses in the productive sector as we seek to promote growth and development within the economy. Additionally, we intend to implement strategies to improve and strengthen the bank's performance. These strategies will be geared towards diversifying the income base in areas such as syndication, co-financing and fee-income generating activities.

Year 2000 compliance is being given the highest of priorities in the bank's preparation for the new millennium. In this regard we should advise that our Y2K compliance programme is well advanced and we anticipate achieving full compliance by June 1999. We are also taking the necessary steps to ensure that our clients are Y2K compliant.

As we prepare and plan for the future, we would like to thank our customers who demonstrated resilience in the face of difficult times. We look forward to working with them in the future. We also wish to thank our shareholders who continue to show confidence in and support for the bank, our directors who provided guidance and critical support during the year, and our staff for their continued commitment, hard work and loyalty. Please be assured that TDB will maintain its focus on the attainment of excellence.

A.R. Diaz
Chairman

V.H. Rhone
President