TRAFALGAR DEVELOPMENT BANK LTD

Chairman & Managing Director's Report

During 1995, TDB achieved a significant milestone when it celebrated its 10th anniversary. This achievement marked a decade of growth and development for the bank, and success in providing much needed development finance to the productive sector in Jamaica.

As we reflect on the past 10 years, we note a number of significant changes (both positive and negative) within the economy which impacted on the Bank's performance.

When the bank started operations in 1985:

- exchange control regulations were in place with the exchange rate fixed at J$ 4.75 to one US dollar;
- the prime lending rate was 23%;
- there was a ceiling on consumer credit;
- the treasury bill ceiling was J$ 750 million;
- the inflation rate was 23%;
- capitalization of companies was primarily through bank financing.

Specialized equity participation was virtually non-existent and by and large not accepted by the business community;

- TDB played the dominant role in the provision of medium and long term financing.

During the period up to 1989, the Bank's portfolio was predominantly denominated in Jamaican dollar loans at a 19% average interest rate, although the bank had already taken the initiative of lending in US dollars. Howevever, this situation changed significantly in 1990 with the introduction by government of policies of liberalization, deregulation and privatization.

During the ensuing years, the acceleration of these policies, including the liberalization of the foreign exchange market, and the introduction of restrictive monetary policies has had a profound impact on the economy, particularly on finance and business.

Of note:

- the foreign exchange rate is now determined by prevailing market forces and as at September 30, 1995 was J$37.11 to US $1.
- foreign currencey is now more readily available, but at a higher cost;
- the treasury bill ceilings is now J$12 billion;
- loan interest rates have increased considerably and at fiscal year end, averaged 48.3%;
- the rate of inflation averaged 17.2% for the fiscal year;
- the economy is now more market driven and competition has intensified;
- TDB has faced increased competition as a number of other institutions are now engaged in medium to long-term financing.

Further, the demand management focus of government, aimed at foreign exchange stabilization and control of the inflation rate, has significantly stymied the development and growth of the productive sector.

In recognition of this, and indeed of the need for a supply side response, TDB has continued to support this sector through innovative financing, geared towards providing an average cost of funds to companies, below the prime lending rates of commercial banks.

ACHIEVEMENTS

Over the 10 year period, TDB's asset base, including its subsidiary, Trafalgar Commercial Bank (TCB), has grown from a total of J$17.8 million in 1985 to J$1.9 billion in 1995, while the total loan portfolio moved from J$16.5 million in 1986 to J$900 million in 1995, and net profits increased from J$1.5 million to J$76.2 million in 1995.

The provision of development funds to the productive sector over the decade, has resulted in the direct creation of some 7,900 jobs and the earning and saving of significant foreign exchange. An estimated total of US$1.2 billion and US$ 253 million is expected to be earned and saved respectively by projects financed by TDB. Furthermore, the recent extension of our venture capital status for another three years will enable us to continue our critical role of fostering development and growth of productive enterprises.

STRATEGY

In our Annual Report for 1994, we called attention to the increasing demand for US dollar financing by companies in the face of the high interest rate regime and the implications this trend would have on the Bank's operations. This trend, together with the increasing cost of loans funds, and ongoing contraction of the economy have had an adverse impact on the Bank's profit performance for the year.

Operating profit of the Group for the year of J$76.2 million represented a decline of 12.3%, compared with the prior year's performance, while share-holders' net worth increased from J$324.4 million to J$379.3 million.

In the face of these and other circumstances, we have continued to expand our loan portfolio, while refining an aggressive strategy designed to re-establish our growth path with respect to profitability.

This strategy includes:

- rapid expansion of our loan and equity investment portfolio, with specific focus on attractive growth sectors;
- diversification of services and products:
- efforts to lower our cost of loan funds;
- positioning ourselves to operate regionally in a focussed and effective manner;
- intensifying our human resource development programme to take advantage of new and anticipated opportunities;
- developing an organizational culture, where the values and work ethics are oriented towards the provision of superior services.

TCB has overcome the major obstacles encountered in the early stages and from all indications, is now proceeding on a path of sustained profitability. This is largely reflective of the capabilities of its personnel, who have developed a focussed approach to garnering quality business.
We see the provision of superior quality service, committed personnel, supported by a strong technological base, as our major competitive advantage.

Our accomplishments to date could only have been achieved through the dedication of our personnel, our loyal clients and our directors, who have provided good stewardship and advice in shaping the policies and strategies of the Group.

We will continue to provide support to the productive sector of the economy, which by extension, will facilitate the future development of the nation.

Directors' Report

The Directors are pleased to submit their report for the fiscal year ended 30 September, 1995, together with audited accounts for the year ended on that date.

ACCOUNTS

The bank showed a profit of $ 76.2 million for the year ended 30 September 1995. Highlights of the year and comparative data of the Bank's previous four years of operations are as follows:

FINANCIAL HIGHLIGHTS
(DOLLARS IN THOUSANDS)

	*1995	*1994	*1993	1992	1991
Assets	1,904,877	1,329,871	927,332	571,643	349,432
Lease Receivables	35,113	50,711	43,796	33,167	18,161
Loan Portfolio (less provision for loan losses)	899,428	602,256	447,366	282,868	219,068
Share Capital	115,047	57,524	57,524	23,968	23,968
Due to Other Financial Institutions	1,102,407	856,579	572,415	440,292	229,050
Revenue****	189,952	162,045	119,471	77,546	43,260
Expenses****	109,703	75,557	48,845	25,813	19,922
Taxation***	-	70	-	867	-
Minority Interest	3,469	(422)	203	-	-
Net Profit	76,191	86,840	69,556	51,733	23,338
Earnings per share (cents)**	66.2	75.5	60.4	45.0	20.3

*Consolidated figures
** EPS restated for increased share capital in 1995.
***taxation relates to the subsidiary company
****previous years restated.

DIVIDENDS

During the year, interim dividends of $21,283,752 were paid to shareholders as follows:

March 1995 - 7.5 cents per stock unit totalling $8,628,548
September 1995 - 11 cents per stock unit totalling $12,655,204

The directors are not recommending a final dividend for the financial year ended 30 September, 1995.

DIRECTORS

The following appointment was made to the Board during the year:

Mr. Roy A. Somaroo - January 27, 1995

The following director resigned from the Board during the year:

Mr. Karlo R. J. DeWaal - January 27, 1995

Directors retiring by rotation in accordance with the Articles of Association are:

Messrs. A. Rafael Diaz, Roy Collister and Victor H. Rhone, all of whom being eligible, offer themselves for re-election.

AUDITORS

Price Waterhouse have indicated their willingness to continue in office as auditors.