

DEHRING BUNTING & GOLDING 1997

STATEMENT TO SHAREHOLDERS

Peter Bunting
Chairman

The economy experienced its second successive year of decline in GDP of 2.4% in 1997. The financial sector, in particular, was severely affected with most indigenous commercial banks and insurance companies receiving assistance from the Financial Sector Adjustment Company (FINSAC). The encouraging reduction in interest rates which occurred in the beginning of the year was reversed in the second half of the year. This was in direct response to the jitters in the Foreign Exchange market as the general election approached.

Although opinions differ on the competitiveness of the exchange rate and the high real interest rate policy being maintained to defend the exchange rate, the government seems committed to the present policy mix. At the centre of its economic policy is low inflation and a stable exchange rate. The Minister of Finance in his Budget Presentation, outlined a three year programme to eliminate the fiscal deficit. In order for this programme to be credible, serious fiscal restraint will have to be demonstrated by the Government, and public sector wage awards must be tempered. Wage bills as a share of government expenditure increased from over 19.3% for the 1994/95 fiscal year to 24.3% in the 1997/98 year. It is currently projected to be at 25.8% for the 1998/99 year. The Private Sector companies who survive this testing period will need to be relentless in their efforts to increase the productivity of their operations.

DB&G's financial performance for the year ended December 31, 1997 was

satisfactory given the continued recession in the economy and the turbulence in the financial sector. Total assets (including assets held on behalf of clients) continued to grow steadily moving from J\$2,191 million in 1996 to J\$3,740 million in 1997. Gross Revenues increased by 59% from J\$256 million in 1996 to J\$407 million in 1997. Net profit attributable to members grew by 206% to J\$22.5 million, up from J\$7.4 million in the previous year. Correspondingly return on equity more than doubled. This improvement in profitability was primarily due to increased levels of business without a corresponding increase in administrative expenses. Administrative expenses as a proportion of operating revenues decreased over the period to 27%, and personnel expenses as a proportion of revenues reduced to 8%. Revenue per employee increased by 35% to J\$10.2 million, with profit per employee increasing by 160% to J\$562,175. This reflects a significant increase in the productivity of staff at DB&G.

A number of the initiatives for business expansion which were pursued in 1997 have been substantially advanced. In particular, we successfully completed the financing of the 225 room hotel in Runaway Bay. At the end of September, a ground breaking ceremony was held with the Rt. Hon. P.J. Patterson, P.C., Q.C., M.P as our Guest Speaker. Construction is progressing satisfactorily and the hotel is scheduled to open in September 1999. The Superclubs Group is the operator of the hotel, which will be marketed as Hedonism 111.

Your directors have been careful to avoid the mistakes of other hotel developments undertaken by entities in the financial sector, by restricting our role mainly to that of promoter and limiting our financing to approximately 7 % of the project cost.

In 1997, the Dehring Bunting & Golding Employee Share Ownership Plan (ESOP) was approved by the Commissioner of Income Tax and implemented by the company. Participation in the plan is expected to further improve employee motivation and productivity as employees, being part owners of the company, are able to share in its growth. Employee interests will therefore be further aligned with those of the company. Both the employees and the company will enjoy tax benefits through participation in the plan.

Your company's Investors nights held in 1997 were a huge success and we look forward to continuing these unique customer appreciation events in 1998. These quarterly entertainment packages will be held at well selected locations

throughout our branch network to ensure that all clients are provided with the opportunity to easily attend.

The process of acquiring Billy Craig Finance and Merchant Bank Ltd. is essentially complete. We have signed an agreement to acquire 51% of BCFMB, simultaneously with FINSAC injecting sufficient capital to cover the previous deficit. This initiative commenced in 1996 in an effort to expand the scope of business of the company. The acquisition places DB&G in a strategically beneficial position.

Our efforts to acquire a seat on the Jamaica Stock Exchange and to establish a Money Market Unit Trust have been unsuccessful so far. In our opinion, this has been due to the reluctance to allow the entry of new players in these markets. We believe this attitude hampers the movement of these markets towards greater efficiency.

The two Kingston branches of Dehring Bunting & Golding have consolidated in an attempt to further improve the efficiency of our operations and provide more comfortable accommodations for customers and staff. The new Kingston office is located at 7 Holborn Road, Kingston 10.

In order to achieve the company's growth targets for 1998 some organizational units were restructured. The existing Investment and Corporate Finance Units were merged to form the Marketing Unit; a Consulting & Re-engineering Unit was formed to serve as an advisory body to clients who may be experiencing difficulty in managing their obligations among other functions; the Risk Management Unit was reviewed and tightened; and the Finance Planning Administration Unit was reorganized with greater emphasis being placed in the areas of marketing, research and development.

I thank my fellow directors, management and staff for their dedication in the handling of the affairs of your company. Most importantly, we appreciate the continuing strong support of our clients and shareholders whose interests are paramount as we continue to operate in a safe and prudent manner.
