INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF
GUYANA BANK FOR TRADE AND INDUSTRY LIMITED

(SUBSIDIARY OF SECURE INTERNATIONAL FINANCE COMPANY INCORPORATED)

ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

Report on the Financial Statements

We have audited the accompanying financial statements of Guyana Bank for Trade and Industry Limited which comprise the statement of financial position as at 31 December 2012 and the statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 36 to 87

Directors'/Management's Responsibility for the Financial Statements

The Directors/ Management are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view, in all material respects of the financial position of Guyana Bank for Trade and Industry Limited as at 31 December 2012 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

The financial statements comply with the requirements of the Financial Institutions Act 1995 and the Companies Act 1991.

TSD Lal & Co.

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TSD LAL & CO.
CHARTERED ACCOUNTANTS
(An Independent Correspondent Firm of Deloitte Touche Tohmatsu)

Date: April 17, 2013
77 Brickdam,
Stabroek, Georgetown,
Guyana

STATEMENT OF INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 G$ 000	2011 G$ 000
Interest Income	4	4,501,397	3,688,625
Interest Expense	5	(856,524)	(947,241)
Net Interest Income		3,644,873	2,741,384
Other Income	6	1,022,750	859,576
Net Interest and Other Income		4,667,623	3,600,960
Operating Expenses	7	(2,078,038)	(1,830,002)
Loan Provisioning Net of Recoveries		(37,387)	134,938
Associate Company: Share of Profit /(Loss)	12	(8,521)	3,871
Profit before Taxation		2,543,677	1,909,767
Taxation	10	(729,541)	(526,939)
Net Profit After Taxation		**1,814,136**	**1,382,828**
Basic Earnings Per Share (in dollars)	9	45.35	34.57

"The accompanying notes form an integral part of these financial statements".

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012

	2012	2011
	G$ 000	G$ 000
Profit for the Year	**1,814,136**	**1,382,828**
Other comprehensive income		
Gain/ (Loss) arising on revaluation of:-		
Available for sale financial assets	222,456	(46,211)
Share of comprehensive income/(loss) of associate	6,866	(5,426)
Other comprehensive income/(loss) net of tax	229,322	(51,637)
Total comprehensive income for the year	**2,043,458**	**1,331,191**

"The accompanying notes form an integral part of these financial statements".

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	Share Capital G$ 000	Retained Earnings G$ 000	Other Reserve G$ 000	Statutory Reserve G$ 000	Revaluation Reserve G$ 000	General Banking Risk Reserve G$ 000	Total G$ 000
Balance at 1 January 2011		**800,000**	**4,669,377**	**(158,366)**	**800,000**	**18,963**	**371,547**	**6,501,521**
Profit for the year		-	1,382,828	-	-	-	-	1,382,828
Other comprehensive loss for the year		-	-	(51,637)	-	-	-	(51,637)
Total comprehensive income/ (loss) for the year		-	1,382,828	(51,637)	-	-	-	1,331,191
Payment of Dividends	28	-	(360,000)	-	-	-	-	(360,000)
Transfer to/ (from) Reserve	20(d)	-	35,509	-	-	-	(35,509)	-
Balance at 31 December 2011		**800,000**	**5,727,714**	**(210,003)**	**800,000**	**18,963**	**336,038**	**7,472,712**
Profit for the year		-	1,814,136	-	-	-	-	1,814,136
Other comprehensive loss for the year		-	-	229,322	-	-	-	229,322
Total comprehensive income for the year		-	1,814,136	229,322	-	-	-	2,043,458
Payment of Dividends	28	-	(520,000)	-	-	-	-	(520,000)
Transfer to/ (from) Reserve	20(d)	-	33,840	-	-	-	(33,840)	-
Balance at 31 December 2012		**800,000**	**7,055,690**	**19,319**	**800,000**	**18,963**	**302,198**	**8,996,170**

"The accompanying notes form an integral part of these financial statements".

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2012

	Notes	2012 G$ 000	2011 G$ 000
ASSETS			
Cash Resources	11	23,070,312	18,365,629
Investments	12	20,568,460	24,732,615
Loans and Advances	13	35,307,632	24,051,231
Property and Equipment	14	7,014,357	6,801,630
Other assets	15	1,613,025	1,107,559
TOTAL ASSETS		**87,573,786**	**75,058,664**
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Deposits	17	77,274,283	66,566,657
Other Liabilities	18	1,303,333	1,019,295
TOTAL LIABILITIES		**78,577,616**	**67,585,952**
SHAREHOLDERS' EQUITY			
Share capital	19	800,000	800,000
Retained earnings		7,055,690	5,727,714
Other reserve	20(a)	19,319	(210,003)
Statutory reserve	20(b)	800,000	800,000
Revaluation reserve	20(c)	18,963	18,963
General banking risk reserve	20(d)	302,198	336,038
TOTAL SHAREHOLDERS' EQUITY		**8,996,170**	**7,472,712**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**87,573,786**	**75,058,664**

The Directors approved these financial statements for publication on April 17, 2013

On behalf of the Board:

Mr. Robin Stoby, S.C,
Chairman

Mr. John Tracey,
Chief Executive Officer and Director

"The accompanying notes form an integral part of these financial statements".

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2012

	2012	2011
	G$ 000	G$ 000
Operating activities		
Profit before taxation	2,543,677	1,909,767
Adjustments for:		
Share of (profit)/loss of associate company	8,521	(3,871)
Depreciation	297,374	286,480
Loss on sale of fixed assets	19,981	24,384
Net increase in customers' loans	(11,256,401)	(4,688,026)
Net increase in customers' deposits	10,707,626	12,824,744
Increase in other assets	(505,466)	(374,754)
(Decrease)/increase in other liabilities	284,038	(1,523,512)
Decrease in defined benefit asset	-	601
Increase in defined benefit liability	19,826	4,355
Increase in required reserve with Bank of Guyana	(1,088,425)	(1,675,290)
Cash provided by operating activities	**1,030,751**	**6,784,878**
Taxation		
Taxes paid/adjusted	(748,471)	(498,532)
Net cash provided by operating activities	**282,280**	**6,286,346**
Investing activities		
(Increase)/ Decrease in Investments	4,384,060	(5,813)
Additions to Fixed assets	(530,082)	(524,549)
Proceeds from disposal of fixed assets	-	355
Net cash provided by/(used in) investing activities	**3,853,978**	**(530,007)**
Financing activities		
Dividends paid	(520,000)	(360,000)
Net cash used in financing activities	**(520,000)**	**(360,000)**
Net increase in cash and cash equivalents	3,616,258	5,396,339
Cash and short term funds at beginning of year	10,466,433	5,070,094
Cash and short term funds at end of year (Note 11))	**14,082,691**	**10,466,433**

"The accompanying notes form an integral part of these financial statements".

NOTES TO THE FINANCIAL STATEMENTS

1. Incorporation and activities

The Bank was incorporated on the 27 November 1987 in Guyana as a limited liability company under the Companies Act, Chapter 89:01 and continued under the Companies Act 1991 and is licensed as bankers under the Financial Institutions Act 1995.

On 30 November, 1987 the Government of Guyana acquired the assets and liabilities of the Guyana banking operations of Barclays Bank PLC and vested these assets and liabilities on 1 December 1987 in the Guyana Bank for Trade and Industry Limited.

On 1 January 1990 the Guyana Bank for Trade and Industry Limited merged with Republic Bank (Guyana) Limited taking over their assets and liabilities at the net values at that date.

On 15 December 1995 a rights issue of 1 share for every share held was made at G$30.00 each. All shares were taken up increasing the issued capital to G$800 million. Secure International Finance Company Incorporated owns 61% of the Bank's shares. Secure International Finance Company Incorporated is a wholly owned subsidiary of Edward Beharry & Company Limited. Both companies are incorporated in Guyana.

2 New and revised standards and interpretations

Effective for the current year end

New and Amended Standards	Effective for annual periods beginning on or after
IFRS 1 Removal of Fixed Dates for First-time Adopters	1 July 2011
IFRS 1 Severe Hyperinflation	1 July 2011
IFRS 7 Enhanced Derecognition Disclosure Requirements	1 July 2011
IAS 12 Amendments to IAS 12 – Income Taxes	1 January 2012

Available for early adoption for the current year end

New and Amended Standards	
IFRS 9 Financial Instruments: Classification and Measurement	1 January 2015
IFRS 9 Additions for Financial Liability Accounting	1 January 2015
IFRS 10 Consolidated Financial Statements	1 January 2013
IFRS 11 Joint Arrangements	1 January 2013
IFRS 12 Disclosure of Interests in Other Entities	1 January 2013
IAS 27(2011) Separate Financial Statements	1 January 2013
IAS 28(2011) Investments in Associates and Joint Ventures	1 January 2013

NOTES TO THE FINANCIAL STATEMENTS

2 New and revised standards and interpretations - cont'd

<u>Available for early adoption for the current year end - cont'd</u>

	Effective for annual periods beginning on or after
IFRS 13 Fair Value Measurement	1 January 2013
IAS 1(2011) Amendments to IAS 1 – Presentation of Other Comprehensive Income	1 July 2012
IAS 19 Amendments to IAS 19 – Employee Benefits	1 January 2013
IFRS 7 Financial Instruments - Offsetting Financial Assets and Financial Liabilities	1 January 2013
IAS 32 Financial Instruments - Offsetting Financial Assets and Financial Liabilities	1 January 2014
IFRS 1 First-time Adoption of International Financial Reporting Standards (Government loans)	1 January 2013
IFRS 1 Amendments as part of improvements to IFRSs 2011	1 January 2013
IAS 1 Amendments as part of improvements to IFRSs 2011	1 January 2013
IAS 16 Amendments as part of improvements to IFRSs 2011	1 January 2013
IAS 32 Amendments as part of improvements to IFRSs 2011	1 January 2013
IAS 34 Amendments as part of improvements to IFRSs 2011	1 January 2013
IFRS 10 Consolidated Financial Statements (Transitional arrangements)	1 January 2013
IFRS 11 Joint Arrangements (Transitional arrangements)	1 January 2013
IFRS 12 Disclosure of Interests in Other Entities (Transitional arrangements)	1 January 2013
IFRS 10 Consolidated Financial Statements (Exemptions)	1 January 2014
IFRS 12 Disclosure of Interests in Other Entities (Exemptions)	1 January 2014
IAS 27 Separate Financial Statements (Exemptions)	1 January 2014

New interpretation

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine	1 January 2013

The Bank has not opted for early adoption.

The standards and amendments that are expected to have a material impact on the Bank's accounting policies when adopted are explained below.

NOTES TO THE FINANCIAL STATEMENTS

2 New and revised standards and interpretations - cont'd

Available for early adoption for the current year end - cont'd

IFRS 9

IFRS 9 was issued in November 2009 and was initially required to be applied from 1 January 2013. However, new requirements were added in November 2010 and the revised date for adoption is now 1 January 2015. This standard specifies how an entity should classify and measure its financial assets. The application of IFRS 9 may have significant impact on amounts reported in respect of the Bank's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed. When adopted, the standard will be applied retrospectively in accordance with IAS 8.

IFRS 10,11,12, IAS 27(2011), IAS 28(2011)

In May 2011, a package of five Standards on consolidation, joint arrangements, associates and disclosures was issued. Key requirements of these Standards are described below.

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. Under IFRS 10, there is only one basis for consolidation, and that is control. In addition, IFRS 10 includes a new definition of control.

IFRS 11 replaces IAS 31 Interests in Joint Ventures. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. The standard sets out three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting.

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

The application of these standards together with the amendments is not likely to have a significant impact on amounts reported in the financial statements.

IFRS 13

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. When adopted, the application of the new Standard may affect the amounts reported in the financial statements and result in more extensive disclosures in the financial statements.

IAS 1

The amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

NOTES TO THE FINANCIAL STATEMENTS

2 New and revised standards and interpretations - cont'd

IAS 19

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach'. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. The application of the amendments to IAS 19 may have an impact on amounts reported in respect of the Bank's defined benefit plans. However, the Directors have not yet performed a detailed analysis of the impact of the application of the amendments and hence have not yet quantified the extent of the impact.

IAS 32

Amends the disclosure requirements in IFRS 7 Financial Instruments, to require information about all recognised financial instruments that are set off. The amendments also require disclosure of information about recognised financial instruments subject to enforceable master netting arrangements. The Directors anticipate that the application of these amendments to IAS 32 and IFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

Amendments as part of Annual improvements to IFRSs

IFRS 1 — Permit the repeated application of IFRS 1, borrowing costs on certain qualifying assets

IAS 1 — Clarification of the requirements for comparative information

IAS 16 — Classification of servicing equipment

IAS 32 — Clarify that tax effect of a distribution to holders of equity instruments should be accounted for in accordance with IAS 12 Income Taxes

IAS 34 — Clarify interim reporting of segment information for total assets in order to enhance consistency with the requirements in IFRS 8 Operating Segments. The Directors do not anticipate that the amendments will have a significant effect on the Group's consolidated financial statements.

IFRIC 20

The Directors anticipate that IFRIC 20 will have no effect on the Bank's financial statements as the Bank does not engage in such activities.

3.1 Summary of significant accounting policies

(a) Accounting convention

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of "available for sale" investments, property and equipment, and conform with International Financial Reporting Standards**.** The principal accounting policies are set out below.

(b) Interest income

Interest income for all interest bearing financial instruments except for those classified as available for sale or designated at fair value is recognized in the income statement on an accrual basis using the effective interest yield method.

NOTES TO THE FINANCIAL STATEMENTS

3.1 Summary of significant accounting policies - cont'd

The effective interest yield is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

Interest income on 'available for sale' investments is accrued applying the nominal interest rate.

Interest income is not recognized on non-accrual loans.

(c) Non interest income

The Bank earns fee income from a diverse range of services provided to its customers.

Income earned from the provision of services is recognized as revenue as the services are provided

Fees and commissions are recognized as earned. Examples of these types of accounts are:

- ATM – transaction charge for use of ATM service
- Commitment Fees – negotiation, application fees for new loan accounts
- Drafts and Transfers – cost of drafts, telegraphic transfer
- Ledger Fees – charge for new cheque books
- Safe Custody – annual rental of safe deposit boxes,
- Telephone Banking – transaction cost.

Rental income

Income from rental of property to Guyana Americas Merchant Bank Inc is recognized on an accrual basis.

(d) Loans and advances

It is the bank's policy to provide for impaired loans on a consistent basis in accordance with the Financial Institutions Act (FIA) 1995 and established International Accounting Standards and practices.
Loans and advances to customers include loans and advances originated by the Bank and are classified as Financial Assets at amortised cost.

Loans and advances are recognized when cash is advanced to borrowers and are derecognized when borrowers repay their obligations or when written off.

The aggregate provisions, which are made during the year, (less recoveries for amounts previously written off) are charged against operating profit.

NOTES TO THE FINANCIAL STATEMENTS

3.1 Summary of significant accounting policies - cont'd
Loans and advances - cont'd

Upon classification of a loan to a non-accrual status, interest is not taken up in income on an accrual basis. In subsequent periods, interest is only recognised to the extent payments are received.

(e) Loan Impairment

Losses for impaired loans are recognized promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred.

Impairment losses are calculated on individual loans and on loans assessed collectively.

Throughout the year, the Bank assesses on a case-by-case basis whether there is any objective evidence that a loan is impaired. The following factors are considered in so doing,

- the Bank's aggregate exposure to the customer
- the viability of the customer's business model and its capability to trade successfully out of financial difficulties and generate sufficient cash flow to service its debt obligations
- the amount and timing of expected receipts and recoveries
- the slow legal process as it relates to the registration and realization of Security
- the realizable value of security (or other credit mitigants) and likelihood of successful repossessions
- the likely deduction of any cost involved in recovery of amounts outstanding
- national or local economic conditions that correlate with defaults on the assets of the Bank (eg an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, or adverse changes in industry conditions that affect the borrowers in the Bank.)

The Bank's policy requires a review of the level of impairment allowances on individual facilities at least half-yearly. This normally includes a review of collateral held (including reconfirmation of its enforceability) and an assessment of actual and anticipated receipts.

This approach is generally applied to the following types of portfolios:

- Personal Loan Financing :- Quality Lifestyle Loans : low income mortgage loans, residential mortgage loans, automobile, consumer care,personal and Single Parent loans

- Business financing :- Commercial Loan Plan : corporate, manufacturing, agriculture, rice farming and trading & services loans

Collateral

It is the Bank's policy that all facilities are fully and tangibly secured. However, under the current Quality Lifestyle Loan Plan some loans such as the Consumer Care, Personal and Automobile Loans are issued against Bills of Sale over moveable assets, which are not considered as tangible collateral, hence these facilities can be considered as unsecured. In exceptional cases, depending on the customer's credit history, size and type of product and duration of credit, facilities may also be unsecured.

NOTES TO THE FINANCIAL STATEMENTS

3.1 Summary of significant accounting policies - cont'd

(e) Loan impairment - cont'd

Classification

The Bank follows the prescriptions of the Financial Institutions Act 1995 and classifies loans and overdrafts into the following categories:-

Grade 1 represents commercial loans and overdrafts demonstrating financial condition, risk factors and capacity to repay that are good to excellent; Quality Lifestyle loans with low to moderate loan to value ratios; and generally reflect accounts which are not impaired and are up-to-date in repayments or operating within approved limits as per the Bank's policy guidelines.

Grade 2 represents satisfactory risk and includes credit facilities which require closer monitoring or which operate outside product guidelines, or which require various degrees of special attention, where the collateral is not fully in place; where current market conditions are affecting a sector or industry; and that are progressively between 30 and 90 days past due.

Grade 3 represents overdrafts with approved limits which have been exceeded between 90 and 180 days for reasons such as shortfall in the borrower's cash flow and are being monitored, or which are between 90 and 179 days expired.

Grade 3 also represents loans for which principal and interest is due and unpaid between 90 and 179 days or, where interest charges for three to five months have been capitalized for reasons such as primary source of repayment has become insufficient, and where appropriate, mortgages in arrears by greater than 90 days where the value of the collateral is sufficient to repay both principal and interest in the event the account is identified for recovery action.

Grade 4 represents loans and advances accounts which are considered uncollectible or for which the collection of the full debt is improbable; accounts which have shown little or no improvement over the twelve months period prior to its present classification; principal or interest is due and unpaid for twelve months or more; or an account which may have some recovery value but it is not considered practical nor desirable to defer write-off, for example, where litigation becomes protracted.

The Financial Institutions Act 1995 requires that a Financial Institution shall report in its monthly statement of assets and liabilities, the outstanding balance of its loan portfolio considered to be past-due and those considered to be non-performing.

The Act further states that the principal balance (and not the amount of delinquent payments) shall be used in calculating the aggregate amount of past-due or non-performing accounts.

NOTES TO THE FINANCIAL STATEMENTS

3.1 Summary of significant accounting policies - cont'd

(e) Loan Impairment - cont'd

Classification - cont'd

Past Due

A loan is classified as past due when:
(i) Principal or interest is due and unpaid for one month to less than three months or
(ii) Interest charges for one to two months have been capitalized, refinanced or rolled over

An overdraft is classified as past due when

(i) The approved limit has been exceeded for one month to less than three months.
(ii) The interest charges for one month to two months have not been covered by deposits.
(iii) The account had turnovers which did not conform to the business cycle.

Non-Performing Loans

For individually assessed accounts, loans are required to be designated as non-performing as soon as there is objective evidence that an impairment loss has been incurred. Objective evidence of impairment includes observable data such as when contractual payments of principal or interest are 90 days overdue. Portfolios of loans are designated as non-performing if facilities are 90 days or more overdue.

Loan Accounts reported as past due are reclassified and reported as non- performing when:

Loans

(i) Principal or interest is due and unpaid for three months or more, or
(ii) Interest charges for three months or more have been capitalized, refinanced or rolled over.

Overdrafts

(i) The approved limit has been exceeded for three months or more into a term loan after three months or more.
(ii) Interest charges for three months or more have not been covered by deposits.
(iii) The account has developed a hardcore which was not converted.

NOTES TO THE FINANCIAL STATEMENTS

3.1 Summary of significant accounting policies - cont'd

(e) Loan Impairment - cont'd

Classification - cont'd

Loan Losses

The Financial Institutions Act 1995 prescribes that a loan be classified as loss where one or more of the following conditions apply:

(i) An account is considered uncollectible.
(ii) An account classified as doubtful with little or no improvement over the twelve month period.
(iii) The unsecured portion of a loan with fixed repayment dates when:-
(1) Principal or interest is due and unpaid for twelve months or more, or
(2) Interest charges for twelve months or more have been capitalized, refinanced or rolled over
(iv) The unsecured portion of an overdraft when
(1) The approved limit has been exceeded for six months or more, or
(2) Interest charges for six months or more have not been covered by deposits, or
(3) The account has developed a hard core which was not converted into a term loan after 12 months or more.

Loans and advances under this category include accounts which are considered uncollectible or for which the collection of the debt is highly improbable; accounts which have shown little or no improvement over the twelve months period prior to its present classification; principal or interest is due and unpaid for twelve months or more; or an account which may have some recovery value but it is not considered practical nor desirable to defer write-off, for example, where litigation becomes protracted.

The Bank follows the prescriptions of the Financial Institutions Act 1995 and writes off such a loan three months after being so classified unless it shows a definite and significant improvement which indicates recovery within the next six months.

Provisioning

Provisioning for each classification categories is made based on the following minimum level:

Classification	Level of Provision
Grade 1	0%
Grade 2	0%
Grade 3	0 – 20%
Past Due	20%
Non Performing	100%

A general provision of 1% of the portion of the loan portfolio not individually assessed is also made.

NOTES TO THE FINANCIAL STATEMENTS

3.1 Summary of significant accounting policies - cont'd

(e) Loan Impairment - cont'd

Classification - cont'd

Renegotiated loans

The Bank's policy in relation to renegotiated loans is in accordance with the Financial Institutions Act (FIA) of 1995 -Supervision Guideline No. 5, paragraph No. 14.

This Act states that a renegotiated facility may be a facility which has been refinanced, rescheduled, hived-off, rolled-over, or otherwise modified because of weaknesses in the borrower's financial position or the non-servicing of the debt as arranged, where it has been determined by the Bank that the terms of the renegotiated loan are such as to remedy the specific difficulties faced by the borrower.

A credit facility may also be renegotiated upon the request by the client, followed by a subsequent analysis and approval by the Bank's approving committee; which may be due to the occurrence of one or both of the following conditions:

- The merging of total liabilities into one credit facility.
- The refinancing of a loan to facilitate the accessing of additional financing.

Renegotiated credit facilities are permitted subject to the following conditions:

- The existing financial position of the borrower can service the debt under the new conditions.

- An account classified as doubtful or loss shall not be renegotiated unless an upfront cash payment is made to cover, at the least, unpaid interest or there is an improvement in the collateral taken which will make the renegotiated account, including unpaid interest, a well-secured account.

- A commercial facility shall not be renegotiated more that twice over the life of the original facility and mortgage or personal loans not more than twice in a five-year period.

A renegotiated facility shall not be reclassified upward for a minimum of one year following the new arrangements.

Renegotiating of selected credit facilities can be facilitated upon approval granted by the Bank of Guyana/Ministry of Finance on the occurrence of natural disasters or exceptional circumstances

NOTES TO THE FINANCIAL STATEMENTS

3.1 Summary of significant accounting policies - cont'd

(e) Loan Impairment - cont'd

Classification - cont'd

Impairment Losses

Impairment losses are calculated by discounting the expected future cash flows of a loan at its original effective interest rate and comparing the resultant present value with the loan's current carrying value.

The General Banking Risk Reserve Account is computed in accordance with the Financial Institutions Act 1995 . It carries the excess in the provisioning arrived at by the application of the requirements of the Financial Institutions Act 1995 over the impairment computed in accordance with the International Financial Reporting Standards.

The carrying amount of impaired loans on the financial statement is reduced through the use of a provisioning account in accordance with the Financial Institutions Act. Any loss is charged to the Statement of Income.

Assets acquired in exchange for loans

Non-financial assets acquired in exchange for loans in order to achieve an orderly realization are recorded as "Assets Held for Sale". No depreciation is provided in respect of such assets.

(f) Foreign currencies

Transactions in currencies other than Guyana dollars are recorded at the official or Cambio rates of exchange prevailing on the dates of the transaction.

At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the official or Cambio rates prevailing on that date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in the profit or loss for the period, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognized directly in equity.

(g) Fixed assets and depreciation

Freehold land and buildings held for use in the supply of services or for administrative purposes are stated in the financial statement at their revalued amounts. Revalued amounts are taken as the fair value at the date of revaluation less any subsequent accumulated impairment losses and any subsequent accumulated depreciation.

Any revaluation increase arising on the revaluation of such land, buildings and equipment is credited to revaluation reserve.

Depreciation on revalued land, buildings and equipment is charged to profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

3.1 Summary of significant accounting policies - cont'd

(g) Fixed assets and depreciation - cont'd

Depreciation of fixed assets is calculated on the straight line method at rates sufficient to write off the cost or valuation of these assets to their residual values over their estimated useful lives as follows:

Buildings	-	50 years
Furniture and equipment	-	4 to 10 years

Assets are reviewed for impairment whenever there is objective evidence to indicate that the carrying amount of an asset is greater than its estimated recoverable amount, and is written down immediately to its recoverable amount.

The gain or loss arising on the disposal or retirement of an item of fixed assets is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

(h) Acceptances, Guarantees and Letters of Credit

The Bank's potential liability under acceptances, guarantees and letters of credit is reported as a contingent liability.

(i) Balances excluded from the accounts

The financial statements do not include certain balances where, in the opinion of management, the Bank bears no financial responsibility as it acts merely as an intermediary. These balances are instead disclosed as a note on the accounts.

(j) Pension plan

At 1 January 2004 the defined benefit plan was changed to a defined contribution plan. However, employees in the scheme as of 31 December 2003 will receive benefits accrued to them under the defined benefit plan up to 31 December 2003. For service after 31 December 2003 pensions and contributions will be in accordance with the defined contribution plan. This also applies to new employees who joined the scheme after 1 January 2004.

Pension accounting costs are assessed using the Projected Unit Credit Method. Under this method, the cost of providing pensions is charged to the statement of income based on actuarial advice.

Actuarial gains and losses are recognized as income or expense if the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting period exceed the greater of (a) 10% of the present value of the defined benefit obligation, and (b) 10% of the fair value of any plan assets at that date.

The gains or losses are recognised by amortising them over the expected average remaining working lives of the employees in the plan.

NOTES TO THE FINANCIAL STATEMENTS

3.1 Summary of significant accounting policies - cont'd

(j) Pension plan - cont'd

The Contribution Plan is administered by an insurance company under the terms of a Trust Deed dated 1 January 1999 which makes it responsible to ensure that contributions are adequate to meet the liabilities of the plan. The Bank's total contribution to the pension plan for the year amounted to G$63,701,000 (2011 - G$40,596,000).

(k) Statutory reserve

The Financial Institutions Act 1995 requires that a minimum of 15% of the net profit after deduction of taxes in each year must be transferred to a statutory reserve account until the balance on this reserve is not less than the paid up capital. This reserve is not distributable.

This Reserve Account is now equal to the 'Paid up' Capital.

(l) Reserve requirement

Bank of Guyana requires each commercial Bank to maintain a current account with a balance of 12% of their time and demand liabilities calculated on a weekly basis.

(m) Revaluation reserve

Surplus on revaluation of fixed assets (land, buildings and equipment) is credited to this account. This reserve is not distributable.

(n) Other reserve

Fair value adjustments of "available for sale" investments as discussed in (q) below are taken to this account as well as the Bank's share of reserve of its associate company. This reserve is not distributable.

(o) Taxation

Income tax expense represents the sum of tax currently payable and deferred tax.

Current Tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of income because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

The Bank's liability for current tax is calculated using tax rates that have been enacted in Guyana at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

3.1 Summary of significant accounting policies - cont'd

(o) Taxation - cont'd

Deferred tax

Deferred tax is recognized on the differences between the carrying amount of the assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit,and is accounted for using the liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

The carrying amount of the deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable sufficient taxable profit will be available to allow all or part of the assets to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized based on tax rates (and tax laws) that have been enacted or substantively been enacted by the end of the reporting period. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, and when they relate to income taxes levied by the same taxation authority, and the company intends to settle its current tax assets and liabilities on a net basis.

(p) Financial instruments

Financial assets and liabilities are recognized on the Bank's statement of financial position when the Bank becomes a party to the contractual provisions of the instruments.

These instruments are intended to be held on a continuing basis and are recognized when the Bank enters into contractual arrangements with counterparties to purchase securities.

Financial instruments carried on the statement of financial position include investment securities, loans and overdrafts, receivables, customer's deposits, payables, accruals borrowing and cash resources. The recognition methods adopted for loans and overdrafts and investment securities are disclosed in the individual policy statements.

Other receivables

'Other receivables' are measured at amortised cost. Appropriate allowances for estimated unrecoverable amounts are recognized in statement of income when there is objective evidence that the asset is impaired. The allowance recognized is based on management's evaluation of the collectibility of the receivables.

NOTES TO THE FINANCIAL STATEMENTS

3.1 Summary of significant accounting policies - cont'd

(p) Financial instruments - cont'd

Cash and short term funds

For the purpose of presentation in the statement of cash flows, cash and short term funds comprised of cash and due by and to banks, deposits with Bank of Guyana in excess of the required reserve and cheques and other items in transit, bills discounted, bankers' acceptances with original maturities of three months or less.

Deposits and Other Payables

These are measured at amortised cost.

Derecognition

'Other receivables' and 'cash and short term funds' are derecognized when the right to receive cash flows from the asset has expired.

Financial liabilities are derecognized when they are extinguished, i.e. when the obligation is discharged, cancelled or expired.

(q) Financial investments

The Bank classifies its investment portfolio into the following categories: "held to maturity investments" and "available for sale financial assets". Management determines the appropriate classification at the time of purchase based on the purpose for which the investment securities were acquired. The classification is reviewed annually.

"Held to maturity investments" are those with fixed or determinable payments and fixed maturity for which the Bank has the positive intent and ability to hold to maturity. "Held to maturity investments" are measured at amortised cost using the effective interest rate method. Any gain or loss on these investments is recognized in the statement of income when the assets are derecognized or impaired.

"Available for sale financial assets" are initially recognized at cost and adjusted to fair value at subsequent periods.

Gains or losses on "available for sale financial assets" are recognized in the statement of comprehensive income until the asset is sold or otherwise disposed, at which time previously recognized gains or losses are transferred to the statement of income for that period.

Available for sale financial assets

In classifying investment securities as available for sale, the Bank has determined that these securities do not meet the criteria for loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

3.1 Summary of significant accounting policies - cont'd

(r) Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(s) Non-current assets held for sale

A noncurrent asset is classified as held for sale when: its carrying amount will be recovered principally through a sale transaction rather than through continuing use; the asset is available for immediate sale in its present condition; and its sale is highly probable.

Assets classified as held for sale are not depreciated or amortised and are carried at the lower of carrying amount and fair value less costs to sell. Fair values of these assets are determined by independent valuators.

(t) Impairment of tangible assets

At the end of the financial period, the Bank reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

(u) Dividends

Dividends that are proposed and declared are recorded as an appropriation of retained earnings in the statement of changes in equity in the period in which they have been approved. Dividends that are proposed and declared after the financial year end are disclosed as a note to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

3.1 Summary of significant accounting policies - cont'd

(v) Investment in Associate company

An associate is an entity over which the company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not in control or in joint control over those policies.

The results and assets and liabilities of the associate are incorporated in these financial statements using the equity method of accounting. Under the equity method, investment in associate is carried in the statement of financial position at cost as adjusted for post-acquisition changes in the Bank's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of the associate in excess of the Bank's interest in the associate (which includes any long-term interests that, in substance, form part of the Bank's net investment in the associate) are not recognized, unless the Bank has incurred legal or constructive obligations or made payments on behalf of the associate.

(w) Segment reporting

A business segment is a group of assets and operations engaged in providing similar products and services that are subject to risks and returns that are different from those of other business segments.

A geographical segment is engaged in providing products, or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

The Bank analyses its operations by both business and geographic segments. The primary format is business reflecting retail and commercial banking and treasury. Its secondary format is that of geographic segments reflecting the primary economic environments in which the bank has exposure.

(x) Earnings per share

Basic earnings per share attributable to ordinary equity holders of the Bank's equity is calculated by dividing profit or loss attributable to ordinary equity holders of the Bank's equity by the weighted number of ordinary shares outstanding during the period.

(y) Intangible asset

Intangible assets are recognized at amortized cost and tested annually for impairment

Software

The software is for a period of 5 years and will be amortized at a rate of 20% over the useful life of the software.

3.2 Critical accounting judgements and key sources of estimation uncertainty

It is the Directors' responsibility to select suitable accounting policies and to make judgements and estimates that are reasonable and prudent.

NOTES TO THE FINANCIAL STATEMENTS

3.2 Critical accounting judgements and key sources of estimation uncertainty - cont'd

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimated

Critical accounting estimates and judgements in applying accounting policies

Impairment losses on loans and advances
The Bank on a regular basis reviews its portfolio of loans and advances with a view of assessing impairment. This is done in addition to what is required under the Financial Institutions Act 1995 with respect to provisioning. Certain judgements are made that reflect the Bank's assessment of several critical factors that can influence future cash flows.

Available for sale financial assets
In classifying investment securities as available for sale, the Bank has determined that these securities do not meet the criteria for loans and receivables, held to maturity investments or financial assets at fair value through profit or loss and are valued at fair value.

Held to maturity financial assets
The directors have reviewed the Bank's "Held to Maturity" assets in the light of its capital maintenance and liquidity requirements and have confirmed the Bank's positive intention and ability to hold these assets to maturity.

Retirement benefit asset/obligation
The provisions for defined benefit asset/obligation are determined by the actuary based on data provided by management. The computation of the provisions by the actuary assumes that the data provided is not materially misstated

Useful lives of property, plant and equipment
Management reviews the estimated useful lives of property, plant and equipment at the end of each year to determine whether the useful lives of property, plant and equipment should remain the same.

Impairment of financial assets
Management makes judgement at each reporting date to determine whether financial assets are impaired. Financial assets are impaired when the carrying value is greater that the recoverable amount and there is objective evidence of impairment. The recoverable amount is the present value of the future cash flows.

NOTES TO THE FINANCIAL STATEMENTS

		2012	2011
		G$ 000	G$ 000
4	**Interest Income**		
	Loans and Advances	3,515,337	2,521,027
	Investment Securities	861,943	1,070,195
	Other	124,117	97,403
		4,501,397	**3,688,625**
5	**Interest Expense**		
	Savings Deposits	564,793	651,967
	Term Deposits	233,926	253,685
	Other	57,805	41,589
		856,524	**947,241**
6	**Other income**		
	Commissions	446,107	328,519
	Exchange Trading and Revaluation Gains	569,614	524,741
	Rental and other income	7,029	6,316
		1,022,750	859,576
7	**Operating Expenses**		
	Staff Costs (Note 8)	991,322	840,951
	Depreciation	297,374	286,480
	General Administrative Expenses	327,557	295,676
	Marketing and Public Relations	22,876	19,107
	Auditors' Remuneration	6,300	5,700
	Director's Fees	10,534	9,132
	Other Operating Expenses	355,296	317,929
	Property Taxes	66,779	55,027
		2,078,038	1,830,002
8	**Salaries and other staff costs**		
	Salaries and wages	621,329	538,153
	Other staff costs	306,293	267,159
	Pension	63,700	35,639
		991,322	**840,951**
9	**Basic earnings per share**		
	Calculated as follows:		
	Profit after taxation	1,814,136	1,382,828
	Number of ordinary shares issued and fully paid	40,000,000	40,000,000
	Basic earnings per share (in dollars)	45.35	34.57

NOTES TO THE FINANCIAL STATEMENTS

10 Taxation

	2012	2011
	G$ 000	G$ 000
Current	801,004	579,881
Deferred Tax	(71,463)	(52,942)
	729,541	**526,939**

Reconciliation of Tax Expense and Accounting Profit

	2012	2011
Accounting profit	2,543,677	1,909,767
Less: Share of Associate Company's profit/(loss)	(8,521)	3,871
	2,552,198	1,905,896
Corporation tax at 40%	1,014,063	762,358
Add:		
Tax effect of expenses not deductible in determining Taxable Profits		
Depreciation for Accounting Purposes	118,949	114,533
Collectively assessed impairment allowance	37,537	30,326
Property tax	66,779	55,027
	1,237,328	962,244
Deduct:		
Tax effect of depreciation for tax purposes	52,901	53,906
Tax Exempt Income	390,240	306,571
Other	-	21,886
Corporation Tax	801,004	579,881
Deferred Tax	(71,463)	(52,942)
	729,541	526,939

Components of deferred tax assets

	2012	2011
Fixed assets	232,677	168,921
Defined benefit liability	7,938	231
	240,615	169,152

Movement in temporary differences

	Defined benefit liability	Fixed assets	Total
	G$ 000	G$ 000	G$ 000
At 31 December 2010	(1,743)	117,953	116,210
Movement during the year	1,974	50,968	52,942
At 31 December 2011	231	168,921	169,152
Movement during the year	7,707	63,756	71,463
At 31 December 2012	7,938	232,677	240,615

NOTES TO THE FINANCIAL STATEMENTS

11 Cash Resources

	2012	2011
	G$ 000	G$ 000
Cash in hand	2,601,534	1,460,043
Balance with Bank of Guyana in excess of required reserves	4,436,301	287,370
Balances with other banks	4,168,656	8,358,727
Cheques and other items in transit	2,876,200	360,293
Total Cash and Short Term Funds	14,082,691	10,466,433
Reserve requirement with Bank of Guyana	8,987,621	7,899,196
Total Cash Resources	23,070,312	18,365,629

12 Investments

	2012		2011	
	Fair value	Cost	Fair value	Cost
	G$ 000	G$ 000	G$ 000	G$ 000
Available for Sale				
Government of Guyana Treasury Bills	9,548,123	9,548,123	15,854,805	15,854,805
Securities Issued by/ Guaranteed by Foreign Governments	6,141,050	6,325,629	4,321,469	4,451,424
Corporate Bonds	4,294,505	4,060,028	3,969,008	4,011,611
Equity	1,737	1,737	1,737	1,737
	19,985,415	19,935,517	24,147,019	24,319,577
Held to Maturity				
Unlisted Investments	401,448	402,344	402,344	402,344
	20,386,863	20,337,861	24,549,363	24,721,921

Investment in associate company	2012	2011
	G$ 000	G$ 000
Non Current Asset - Associate Company	181,597	183,252

The Bank holds 40% (2011-40%) of the share capital of the Guyana Americas Merchant Bank Inc.

Associate company		
At 1 January	183,252	184,807
Share of profit/(loss) of associate company	(8,521)	3,871
	174,731	188,678
Share of investment reserve of associate company	6,866	(5,426)
At 31 December	181,597	183,252
Total Investments	20,568,460	24,732,615

NOTES TO THE FINANCIAL STATEMENTS

12 **Investments - cont'd**

Associate company - cont'd

The financial statements of Guyana Americas Merchant Bank Inc. in summary form as at 31 December is presented below:

Statement of income	**2012**	**2011**
	G$ 000	**G$ 000**
Income	36,205	45,871
Profit/ (Loss) after taxation	(21,302)	9,678
Statement of Financial Position		
Total assets	480,422	484,370
Tax Liability	3,448	3,615
Equity and liabilities		
Capital and reserves	475,094	479,230
Current liabilities	5,328	5,140
Total equity and liabilities	480,422	484,370

13 **Loans and advances**

Accrual loans and advances	35,096,974	24,046,056
Non accrual loans and advances	2,613,566	2,313,231
	37,710,540	26,359,287
Impairment allowances	(2,402,908)	(2,308,056)
Net loans and advances	**35,307,632**	**24,051,231**
Impairment allowances		
Collectively assessed impairment		
At 1 January	75,816	57,091
Written back in the year	(75,816)	(57,091)
Increase in allowance	93,843	75,816
At 31 December	93,843	75,816
Individually assessed impairment		
At 1 January	2,232,240	2,158,507
Write-offs	(27,345)	(7,542)
Increase in allowance	104,170	81,275
At 31 December	2,309,065	2,232,240
Total at 31 December	**2,402,908**	**2,308,056**

NOTES TO THE FINANCIAL STATEMENTS

14 **Property, Plant and Equipment**

	Land and buildings G$ 000	Equipment G$ 000	Capital work-in-progress G$ 000	Total G$ 000
Cost/valuation				
At 1 January 2012	6,363,004	1,589,598	378,666	8,331,268
Additions	-	49,248	480,834	530,082
Disposals	-	(15,384)	(19,676)	(35,060)
Transfers	343,119	406,276	(749,395)	-
At 31 December 2012	6,706,123	2,029,738	90,429	8,826,290
Comprising:				
Cost	6,684,829	2,029,539	90,429	8,804,797
Valuation	21,294	199	-	21,493
	6,706,123	2,029,738	90,429	8,826,290
Accumulated depreciation				
At 1 January 2012	436,048	1,093,590	-	1,529,638
Charge for the year	122,584	174,790	-	297,374
Write back on disposals	-	(15,079)	-	(15,079)
At 31 December 2012	558,632	1,253,301	-	1,811,933
Net book values:				
At 31 December 2012	6,147,491	776,437	90,429	7,014,357
At 31 December 2011	5,926,956	496,008	378,666	6,801,630

Revaluation reserve

Land and buildings vested in the bank on 1 December 1987 were revalued in 1988 by professional valuers and the surplus arising out of this revaluation is shown as Revaluation Reserve.
Equipment taken over on the merger with Republic Bank (Guyana) Limited was previously valued by their Directors on 1 June 1985 and the surplus is also included in the Revaluation Reserve.
If no revaluation of land, buildings and equipment was done, the net book value of property, plant and equipment would have been approximately G$6,992,864,000 (2011- G$ 6,780,137,000).

Intangible assets	2012 G$ 000	2011 G$ 000
Net book Value of acquired software (included in equipment)	309,728	-

NOTES TO THE FINANCIAL STATEMENTS

15 Other assets

	2012	2011
	G$ 000	G$ 000
Interest and commissions accrued	587,785	175,692
Prepaid expenses	59,366	30,807
Intra-bank balance	-	455,054
Prepaid stationery	33,111	34,418
Sundry debtors	505,158	27,991
Agriculture Diversification Fund	12,258	2,650
Deferred Tax (Note 10)	240,615	169,152
Assets classified as Held for Sale (See note 16)	13,573	17,075
Taxes Recoverable	36,678	25,281
Other	124,481	169,439
	1,613,025	**1,107,559**

16 Assets classified as held for sale

Properties on hand		
At 1 January	17,075	17,093
Additions	598	-
Disposals	(4,100)	(18)
At 31 December	**13,573**	**17,075**

17 Deposits

Demand	19,824,815	17,180,254
Savings	38,759,468	34,186,832
Term	18,690,000	15,199,571
	77,274,283	**66,566,657**

18 Other Liabilities

European Commission Financing (unsecured) (a)	-	249,739
Agriculture Diversification Fund (b)	318,711	230,395
Due to Banks	255	265
Accrued interest on deposits	110,777	125,204
Unpresented drafts	380,125	147,916
Accrued expenses	83,755	78,139
Defined Benefit Liability (Note 24)	24,181	4,355
Taxation	377,120	183,282
Others	8,409	-
	1,303,333	**1,019,295**

NOTES TO THE FINANCIAL STATEMENTS

(a) On 7 November 2006 a contract was entered into with The Caribbean Forum of ACP States CARIFORUM to carry out the Implementation of a Financial Facility to Improve the Competitiveness of the Rice Sector in the Caribbean, in particular, Guyana. This liability was paid off during 2012.

(b) On June 14, 2011, the bank entered into a contract with the Ministry of Agriculture to carry out the implementation of a Financial Facility of USD 1.7M which was funded by the Inter American Development Bank (IDB). The Financial Facility aims to increase Guyana's export growth rate in the agricultural sector by making financial resources through loans and grants available to eligible beneficiaries in three (3) clusters of non traditional agricultural exports, aquaculture, fruits and vegetables, and livestock (beef).

In 2011, two (2) tranches of funds totalling USD 1,130,090 were disbursed to the bank. Interest earned on the loans are exempted from Corporation Tax. The Financial Facility comes to an end on 31.08.2021. The Bank and the Ministry of Agriculture have agreed to an interest rate of 5% to 8% per annum.

		2012	2011
19	**Share capital**		
	Authorised		
	Number of ordinary shares	50,000,000	50,000,000
		2012 G$ 000	2011 G$ 000
	Issued and fully paid 40,000,000 ordinary shares	800,000	800,000
	These shares are all ordinary shares with equal voting rights and no par value		
20	**Reserves**		
	(a) Other reserve		
	(i) Available for sale investment:-		
	At 1 January	(172,558)	(126,347)
	Movement	222,456	(46,211)
	At 31 December	49,898	(172,558)
	(ii) Share of reserve of associate company:-		
	At 1 January	(37,445)	(32,019)
	Share of comprehensive income	6,866	(5,426)
	At 31 December	(30,579)	(37,445)
	Total	**19,319**	**(210,003)**
	(b) Statutory reserve		
	At 1 January and 31 December	**800,000**	**800,000**
	This reserve is computed in accordance with the Financial Institutions Act.		
	(c) Revaluation reserve		
	At 1 January and 31 December	**18,963**	**18,963**
	This represents revaluation increase of land, buildings and equipment		
	(d) General Banking Risk Reserve		
	At 1 January	336,038	371,547
	Movement	(33,840)	(35,509)
	At 31 December	**302,198**	**336,038**

NOTES TO THE FINANCIAL STATEMENTS

21 Capital risk management

The Bank manages its capital structure on an on-going basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital. The Bank's overall strategy remains unchanged from 2011

The capital structure of the Bank consists of equity, comprising issued capital, reserves and retained earnings.

Capital Adequacy

The Bank also monitors its Capital Adequacy with reference to the risk-based capital adequacy guidelines issued by the Bank of Guyana in keeping with the BASEL convention. The guidelines evaluate Capital Adequacy based upon the perceived risk associated with balance sheet assets, as well as certain off balance sheet exposures, and stipulate a minimum ratio of qualifying capital (Tier 1 and Tier 11) to risk-weighted assets of 8%.

GBTI remains well capitalised with the Bank's Tier 1 Capital Adequacy Ratio standing at 15.96% as at 31 December, 2012.

Total Tier 1 and Tier 11 Capital was 16.29% of risk-adjusted assets at 31 December , 2012 compared to 20.66% at the end of the previous year.

The Bank did not have a fixed rate or range to distribute dividends but its dividends policy is based on the performance of the Bank and future development plans.

Gearing ratio

The gearing ratio at the year end was as follows:

	2012 G$ 000	2011 G$ 000
Debt (i)	77,274,283	66,566,657
Cash and cash equivalents	(23,070,312)	(18,365,629)
Net debt	54,203,971	48,201,028
Equity (ii)	8,996,170	7,472,712
Net debt to equity ratio	6.03:1	6.45:1

(i) Debt is defined as long-term and short-term funds.

(ii) Equity includes all capital and reserves of the Bank.

NOTES TO THE FINANCIAL STATEMENTS

22 Financial risk management

Financial risk management objectives

The Bank's Management monitors and manages the financial risks relating to the operations of the Bank through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (currency risk, interest rate risk and price risk), credit risk and liquidity risk.

The Bank seeks to minimise the effects of these risks by the use of techniques that are governed by management's policies on foreign exchange risk,interest rate risk and credit risk which are approved by the board of directors.

The Bank's Management reports monthly to the board of directors on matters relating to risk and management of risk

(a) Market risk

The Bank's activities expose it to the financial risks of changes in foreign currency exchange rates and interest rates. The Bank uses gap analysis, interest rate sensitivity and exposure limits to financial instruments to manage its exposure to interest rate and foreign currency risk. There has been no change in the Bank's exposure to market risks or the manner in which it manages these risks.

Price risk

(i) Other price risk

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security of its issuer or factors affecting all securities traded in the market. Management continually identifies the risk and diversifies the portfolio in order to minimize the risk.

Cross-border risk though relatively minimal, exists in relation to investments in Caricom Sovereign Bonds and such risk is mitigated by the application of prudent selection and stringent monitoring of the Bank's investment portfolio by its intermediary Guyana Americas Merchant Bank Inc. Cross-border risk is also applicable to the National Gas Company bond investment in Trinidad and Tobago.

The Bank does not actively trade in equity investments. The Bank's exposure to equity price risks arising from equity investments is not material to the financial statements. Equity investments total G$1.7M.

(ii) Interest rate sensitivity analysis

The table below analyses the sensitivity of interest rates exposure for both financial assets and liabilities at the end of the reporting period. For floating rate instruments, the analysis is prepared assuming the amount of the instrument outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rate

Apart from the foregoing with respect to the other financial assets and liabilities,it was not possible to determine the expected impact of a reasonable possible change in interest rates on profit or equity as other factors such as credit risks,market risks,political and disaster risks can affect the value of the assets and liabilities.

NOTES TO THE FINANCIAL STATEMENTS

22 Financial risk management - cont'd

(a) Market risk - cont'd

The impact on the profit for the year is the effect of changes in interest rates on the floating interest rates of financial assets and liabilities.This impact is illustrated on the following table

Increase/ decrease in basis point	Impact on profit for the year 2012 Increase/(Decrease)	2011 Increase/(Decrease)
	G$ 000	G$ 000
Local Currency +/-50	48,947	33,844
Foreign Currencies +/-50	34,010	35,326

(iii) Interest rate risk

The Bank is exposed to interest rate risk but the Bank's sensitivity to interest is immaterial as its financial instruments are substantially at fixed rates. The Bank's exposures to interest rate risk on financial assets and financial liabilities are listed below:

		Maturing 2012				
	Average Interest rate	Within 1 year	1 to 5 years	Over 5 years	Non-interest bearing	Total
		G$ 000	G$ 000	G$ 000	G$ 000	G$ 000
Assets						
Cash resources	0.00 to 2.99	4,168,656	-	-	18,901,656	23,070,312
Investments	5.10	10,766,827	3,093,939	6,524,360	183,334	20,568,460
Loans and advances (net)	9.42	18,687,928	5,898,373	10,721,331	-	35,307,632
Other	-	1,164,567	-	448,458	-	1,613,025
		34,787,978	8,992,312	17,694,149	19,084,990	80,559,429
Liabilities						
Deposits	1.35	57,449,470	-	-	19,824,813	77,274,283
Other		1,062,554	-	240,779	-	1,303,333
		58,512,024	-	240,779	19,824,813	78,577,616
Interest sensitivity gap		(23,724,046)	8,992,312	17,453,370		

		Maturing 2011				
	Average Interest rate	Within 1 year	1 to 5 years	Over 5 years	Non-interest bearing	Total
	%	G$ 000	G$ 000	G$ 000	G$ 000	G$ 000
Assets						
Cash resources	0.00 to 3.20	4,941,707	-	-	13,423,922	18,365,629
Investments	10.11	16,159,680	3,519,505	5,051,694	1,736	24,732,615
Loans and advances (net)	10.76	11,137,898	3,433,481	9,479,852	-	24,051,231
Other	-	186,227	-	921,332	-	1,107,559
		32,425,512	6,952,986	15,452,878	13,425,658	68,257,034
Liabilities						
Deposits	-	49,386,403	-	-	17,180,254	66,566,657
Other		831,393	-	-	187,902	1,019,295
		50,217,796	-	-	17,368,156	67,585,952
Interest sensitivity gap		(17,792,284)	6,952,986	15,452,878		

NOTES TO THE FINANCIAL STATEMENTS

22 Financial risk management - cont'd

(a) Market risk- cont'd

(iv) Currency risk

The Bank's exposure to the effects of fluctuations in foreign currency exchange rates arose mainly from investments and foreign bank balances. The currencies which the Bank is mainly exposed to are Euro , United States Dollars, Pounds Sterling and Canadian Dollars.

The aggregate amounts of assets and liabilities denominated in currencies other than Guyana dollars are shown:

	EURO	USD	GBP	CDN	Others	Total
	G$ 000	G$ 000	G$ 000	G$ 000	G$ 000	G$ 000
31 December 2012						
Assets	13,949	14,251,105	3,285	361,629	943	14,630,911
Liabilities	4,650	8,110,493	90,873	1,863	272	8,208,150
31 December 2011						
Assets	185,686	12,544,022	238,638	182,639	5,300	13,156,285
Liabilities	18,662	7,892,846	1,010	64	-	7,912,582

Foreign currency sensitivity analysis

The following table details the Bank's sensitivity to a 2.5% increase and decrease in the Guyana dollar (GYD) against the relevant currencies. 2.5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 2.5% change in foreign currency rates. A positive number below indicates an increase in profit and other equity where the foreign currency strengthens 2.5% against the GYD. For a 2.5% weakening of the relevant foreign currency against the Guyana dollar, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

	Euro Impact		US Dollar Impact		£ Sterling Impact		Canadian Dollar Impact	
	2012	2011	2012	2011	2012	2011	2012	2011
	G$M	G$M	G$M	G$M	G$M	G$M	G$M	G$M
Profit or (loss)	0.14	2.51	92.11	69.77	(1.31)	3.56	5.40	2.74

NOTES TO THE FINANCIAL STATEMENTS

22 Financial risk management - cont'd

(b) Liquidity risk

The Bank maintains a diversified and stable funding base comprising core retail and corporate customer deposits and institutional balances, coupled with wholesale funding and portfolios of liquid assets which are diversified by currency and maturity, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements

The Bank's policy is to maintain a strong liquidity position and to manage the liquidity profile of assets, liabilities and commitments so that cash flows are appropriately balanced and all funding obligations met when due.

It is unusual for banks to have the maturities of its assets and liabilities completely matched since business transacted is often of uncertain term and differing types. As such the matching and controlled mismatching of the maturities and interest rates of assets and liabilities are fundamental to the management of the Bank.

The information given below relates to the major financial assets and liabilities based on the remaining period at 31 December to the contractual maturity dates.

	Maturing 2012					
		Within 1 year				
	On Demand	Due in three months	Due within 3 to 12 months	1 to 5 years	Over 5 years	Total
	G$ 000	G$ 000	G$ 000	G$ 000	G$ 000	G$ 000
Cash resources	20,877,473	1,418,255	774,584	-	-	23,070,312
Investments	183,334	4,560,386	6,206,441	3,093,939	6,524,360	20,568,460
Loans & advances (net)	4,941,046	4,683,131	9,063,752	5,898,373	10,721,330	35,307,632
Other	587,785	576,782	448,458	-	-	1,613,025
	26,589,638	11,238,554	16,493,235	8,992,312	17,245,690	80,559,429
Liabilities						
Deposits	58,584,281	10,541,150	8,148,852	-	-	77,274,283
Other	1,303,333	-	-		-	1,303,333
	59,887,614	10,541,150	8,148,852	-	-	78,577,616
Net assets/(liabilities)	**(33,297,976)**	**697,404**	**8,344,383**	**8,992,312**	**17,245,690**	**1,981,813**

	Maturing 2011					
		Within 1 year				
	On Demand	Due in 3 mths	Due 3 - 12 mths	1 to 5 years	Over 5 years	Total
	G$ 000	G$ 000	G$ 000	G$ 000	G$ 000	G$ 000
Assets						
Cash resources	13,423,922	-	4,941,707	-	-	18,365,629
Investments	1,736	-	16,159,680	3,519,505	5,051,694	24,732,615
Loans & advances (net)	1,333,962	2,037,631	7,766,305	3,433,482	9,479,851	24,051,231
Other	1,107,559	-	-	-	-	1,107,559
	15,867,179	**2,037,631**	**28,867,692**	**6,952,987**	**14,531,545**	**68,257,034**
Liabilities						
Deposits	51,367,086	11,596,131	3,603,440	-	-	66,566,657
Other liabilities	1,019,595	-	-	-	-	1,019,595
	52,386,681	11,596,131	3,603,440	-	-	67,586,252
Net assets/(liabilities)	**(36,519,502)**	**(9,558,500)**	**25,264,252**	**6,952,987**	**14,531,545**	**670,782**

NOTES TO THE FINANCIAL STATEMENTS

22 Financial risk management - cont'd

(c) i. Credit risk

Credit Risk exposures arise principally in lending and investment activities. Credit risk also occurs in off balance sheet financial instruments such as guarantees and letters of credit. This risk relates to the possibility that a counter party will cause a financial loss to the bank by failing to discharge an obligation. The bank's lending and investing activities are conducted with various counterparties and in pursuing these activities the bank is exposed to credit risk. These are the principal areas of activity for the bank and it is expected that such exposures will continue to exist for the foreseeable future. The management of credit risks is of utmost importance and an appropriate organizational structure has been put in place to ensure that this function is effectively discharged. Management carefully manages its exposure to credit risk through appropriate policies,procedures, practices and audit functions together with approved limits.

ii. Credit Risk Management

In its management of credit risk, the organisational structure supports the lending philosophy of the bank. This structure comprises the Board of Directors, the Board Credit Committee (BCC), the Chief Executive Officer,Head of Credit ; Senior Management of Risk and Compliance and the Internal Audit Function.

To facilitate day to day decision making and timely implementation of decisions, the Board has delegated authority for specific areas to specific committees and/or officers with an appropriate reporting system to the Board. The Board Credit Committee focuses primarily on credit risk appetite and in so doing sanction amendments to credit policies, delegation of lending authority to senior management and credit requests exceeding the authority of management.

The CEO along with the senior manager of risk monitors the effectiveness of credit procedures and policies and may direct changes to strategies to improve the effectiveness of policies. Policies are established and communicated through the bank's written Credit Policy Manual. This document sets out in detail the current policies governing the lending function and provides a comprehensive framework for prudent risk management of the credit function. Major areas of focus are: General Credit Criteria; Credit Risk Rating; Controls Risk Mitigants over the Credit Portfolio and Credit Concentration among others. The bank's policies and procedures dedicated to controlling and monitoring risk from such activities. Compliance with credit policies and exposure limits is reviewed by the internal auditors on a continuous basis.

Risk Limit Control and Mitigation Policy

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or Bank's of borrowers, industry and country segments. The Bank monitors its concentration of credit exposure so that no single borrower or industry default will have a material impact on the Bank.

(a) Single Borrower and Borrower Bank Exposure Limits

Limits established by regulatory authorities have been incorporated into the credit policies where concentration is restricted by limiting credit amounts to a fraction of the capital base. This is supported by a stringent reporting requirement and is further enhanced by policies requiring periodic review of all commercial credit relationships.

(b) Industry Exposure Limits

These limits have been established based on a ranking of the riskiness of various industries. The ranking is guided by a model developed for the Bank for this purpose. The model utilises a scale incorporating scores of 1 to 8 with 1 being the least risky. These have been consolidated into four (4) bands of exposure limits which have been set in relation to the total credit portfolio with a smaller limit being assigned to the more risky industries.

NOTES TO THE FINANCIAL STATEMENTS

22 Financial risk management - cont'd

(c) These policies include but are not limited to:

i. Conducting interviews to obtain an overall impression of the applicant's ability to manage its finances and service the credit facility.

ii. Collateral offered is subjected to inspection/field visit to enable the Bank to decide whether it concurs with the valuator's opinion. Valuations are assessed conservatively and reviewed regularly with the support of empirical evidence.

iii. Adherence to a loans to equity ratios policy that conforms to the tenets of sound banking.

iv. Loans and overdrafts are generally collateralised with some or all of the following:

- Cash
- Mortgages
- Debentures
- Bills of Sale
- Guarantees
- Assignment of Traded Shares
- Assignment of Salary or Crop proceeds
- Assignment of Insurance Policies
- Promissory Notes

v. Security structures and legal conditions are reviewed from time to time to ensure they continue to fulfil their intended purpose and remain in line with current banking practice.

vi. Generally, funds are not disbursed unless mortgages or debentures are duly executed in the High Court.

vii. Loan officers are required to continually track loans recommended or approved by themselves to ensure projects are implemented as conceptualized, approved and scheduled; repayments are made in accordance with loan agreements; potential problems are identified and appropriate actions are taken to avoid the performance of the loans being adversely affected; and generally to maintain and improve the healthiness of the bank's credit portfolio

viii. Credit exposure is controlled by lending limits that are reviewed and approved by the credit committee and the Board of Directors.

ix. Ongoing training is conducted for credit officers to enhance their skills and techniques in assessing credit.

x. Compliance with the 'single borrower' or 'group borrower's' limit as set out in the Financial Institutions Act (1995), other regulatory guidelines and the Bank's own prudential judgements.

xi. Authorised lending limits utilizing the hierarchical structure of the Bank.

xii. Generation of daily and monthly management exception reports.

xiii. The avoidance of being one of multiple lenders to a borrower. In the event this occurs, the Bank seeks to rank in priority to the other lenders.

NOTES TO THE FINANCIAL STATEMENTS

22 Financial risk management - cont'd

xiv. Monthly credit meetings are conducted to review loans and overdrafts at varying degrees of default so that actions are taken in a timely manner.

xv. Non-performing accounts are provided for or written-off in accordance with accepted banking principles and the Financial Institutions Act (1995).

xvi. Interest on non-accrual/impaired accounts is not taken to income.

xvii. Observation of the market trends, both local and global, which may be affecting a particular industry or sector.

xviii. Diversification of the Bank's lending portfolio so as to spread the risk and stabilise financial results.

(c) iii. Credit risk Measurement

As part of the on-going process of prudent risk management, the Group policy is to risk rate credit facilities at the time of approval and on a regular basis. The Credit Classification System is in place to assign risk indicators to credits in the portfolio and engages the traditional categories utilized by regulatory authorities.

The table below shows the Bank's maximum exposure to credit risk

	2012 Maximum exposure G$ 000	2011 Maximum exposure G$ 000
Cash and Short Term Funds	14,082,691	10,466,433
Deposit with Bank of Guyana	8,987,621	7,899,196
Investments:		
Available for Sale	19,985,415	24,147,019
Held to Maturity	401,448	402,344
Loans and Advances	35,307,632	24,051,231
Total	**78,764,807**	**66,983,297**
Customer liability under acceptances,guarantees and letters of credit	2,571,123	1,268,033
	2,571,123	1,268,033
Total Credit risk exposure	**81,335,930**	**68,251,330**

The above table represents a worst case scenario of credit risk exposure to the bank without taking account of any collateral held or other credit enhancements attached.

Credit Quality **Loans & Advances**	**2012** G$ 000	**2011** G$ 000
Neither past due nor impaired	29,974,727	21,702,354
Past due but not impaired	5,122,247	2,364,282
Impaired	2,613,566	2,292,651
	37,710,540	26,359,287

NOTES TO THE FINANCIAL STATEMENTS

23 Financial risk management - cont'd
(c) Credit risk - cont'd
iii. Credit risk Measurement - cont'd

Loans and Advances which were Past Due but not Impaired

There are a variety of reasons why certain loans and advances designated as 'past due' are not regarded as impaired. Unless other information is available to the contrary, all loans and advances between 90 and 180 days are not considered impaired as they may be well-secured. In addition,renewals may be delayed due to pending submission of required documentation and as such do not reflect any concern on the creditworthiness of the borrower. Further, past due loans and advances secured in full by cash collateral are not considered impaired, and where appropriate, neither are mortgages in arrears by greater than 90 days where the value of the collateral is sufficient to repay both principal and interest in the event the account is identified for recovery action.

Loans and advances which were past due but not impaired as at 31 December can be assessed by reference to the Bank's credit grading system. The following information is based on that system.

	2012	2011
	G$ 000	G$ 000
Grade 1 - Satisfactory risk	29,974,727	21,702,354
Grade 2 - Monitor list		
- Past Due up to 29 days	2,410,365	1,468,637
- Past Due 30 - 59 days	1,943,556	688,088
- Past Due 60 - 89 days	768,326	207,557
	5,122,247	2,364,282

The security held for these loans are the same as those stated in Note 22 (c)(iv).

(d) Impaired Loans and Advances

The Bank's rating process for credit facilities extends across its branches and is designed to detect exposure requiring greater management attention based on a higher probability of default and potential loss. Management particularly focuses on facilities with delinquencies 90 days and above with a view to taking action such as working with the borrowers to restore their performing status, or instituting legal or recovery action if considered necessary.

The Bank's risk response strategy also includes regular evaluation of the adequacy of provision allocated for impaired loans and advances by conducting detailed half-yearly reviews of the total loan portfolio, comparing performance and delinquency statistics with historical trends and prevailing economic conditions.

The bank's policy in its reviews of the level of impairment allowances for loans and advances includes a review of collateral held (e.g. reconfirmation of its enforceability) and an assessment of actual and anticipated receipts. For significant commercial and corporate debts, specialized credit committees with experience in insolvency and specific market factors are used to determine likely losses.

NOTES TO THE FINANCIAL STATEMENTS

22 Financial risk management - cont'd

(d) Impaired Loans and Advances

Reduction or reversals on calculated impairment allowances are recognized when the bank has reasonable evidence that the established estimate of loss has been reduced. Impaired loans and advances by product type (includes corporate facilities)

	2012	2011
	G$ 000	G$ 000
Grade 3 - Sub-standard		
- Past due 90 - 179 days	974,798	120,272
Grade 4 - Doubtful and loss		
- Past due 180 - 359 days	-	525,908
- Past due 360 days and over	1,638,768	1,646,471
	1,638,768	2,172,379
Total impaired loans and advances	2,613,566	2,292,651
Impaired loans and advances by product type (includes corporate facilities)		
Quality lifestyle loans	1,125	13,586
Commercial loans and advances (includes corporate facilities)	2,612,441	2,279,065
	2,613,566	2,292,651

The tables below depict the bank's exposure to credit risk based on the geographic region where financial instruments are held.

As at December 2012	Guyana	Caricom	North America	Europe	Others	Total
	G$ 000	G$ 000	G$ 000	G$ 000	G$ 000	G$ 000
On Statement of Financial Position						
Cash resources	18,901,656	3,679,596	360,908	128,152	-	23,070,312
Investments	9,951,308	9,478,772	-	-	956,783	20,386,863
Loans and advances (net)	35,307,632	-	-	-	-	35,307,632
Other	1,372,410	-	-	-	-	1,372,410
	65,533,006	13,158,368	360,908	128,152	956,783	80,137,217
Off Statement of Financial Position						
Acceptances,Guaranttees and Letters of Credit	-	-	2,571,123	-	-	2,571,123
	-	-	2,571,123	-	-	2,571,123
Total	**65,533,006**	**13,158,368**	**2,932,031**	**128,152**	**956,783**	**82,708,340**

As at December 2011	Guyana	Caricom	North America	Europe	Others	Total
	G$ 000	G$ 000	G$ 000	G$ 000	G$ 000	G$ 000
On Statement of Financial Position						
Cash resources	10,006,902	6,782,372	1,515,088	61,267	-	18,365,629
Investments	16,257,149	7,994,310	-	-	297,904	24,549,363
Loans and advances (net)	24,051,231	-	-	-	-	24,051,231
Other	938,407	-	-	-	-	938,407
	51,253,689	14,776,682	1,515,088	61,267	297,904	67,904,630
Off Statement of Financial Position						
Acceptances,Guaranttees and Letters of Credit	-	-	1,268,033	-	-	1,268,033
	-	-	1,268,033	-	-	1,268,033
Total	**51,253,689**	**14,776,682**	**2,783,121**	**61,267**	**297,904**	**69,172,663**

NOTES TO THE FINANCIAL STATEMENTS

22 Financial risk management - cont'd

(e) Investment Securities

The bank utilizes external ratings such as international credit rating agencies or their equivalent in managing credit risk exposures for investments

The table below represents an analysis of debt securities, treasury bills and other eligible bills by rating agency designation.

31 December 2012	**Treasury Bills G$ 000**	**Available for Sale Securities G$ 000**	**Held to Maturity Securities G$ 000**	**Total G$ 000**
A- to AAA	-	2,310,016	-	2,310,016
BBB- to BBB+	-	6,457,303	-	6,457,303
Lower than BBB-	-	1,473,428	-	1,473,428
Unrated	9,548,123	196,545	401,448	10,146,116
	9,548,123	10,437,292	401,448	20,386,863

31 December 2011	**Treasury Bills G$ 000**	**Available for Sale Securities G$ 000**	**Held to Maturity Securities G$ 000**	**Total G$ 000**
A- to AAA	-	1,248,068	-	1,248,068
BBB- to BBB+	-	5,294,228	-	5,294,228
Lower than BBB-	-	1,554,477	-	1,554,477
Unrated	15,854,805	195,441	402,344	16,452,590
	15,854,805	8,292,214	402,344	24,549,363

(f) The carrying value of past due or impaired loans and advances whose terms have been re-negotiated

	2012 G$ 000	2011 G$ 000
Renegotiated Loans/Overdrafts	608,444	554,786

Commitment Fees

There has been no deferral of commitment fees on the grounds that the amount calculated for possible deferral has been deemed immaterial.

NOTES TO THE FINANCIAL STATEMENTS

22 Financial risk management - cont'd

(g) Diversification of Exposure

The Bank provides a wide range of financial services to borrowers in over 7 (seven) sectors within Guyana. As a result, its portfolio of financial instruments with credit risk is highly diversified with no exposure to individual borrowers and group borrowers totalling more than 25% and 40% respectively of the Bank's capital base.

The major activity of the Bank is in providing Banking Services to commercial, industrial and domestic consumers. The risk is spread over a cross-section of clients. At the reporting date there were no significant concentrations of credit risk for loans. There is no special collateral requirement relating to concentration of risks

The carrying amount reflected below represents the Bank's maximum exposure to credit risk for such loans.

	2012	2011
	G$ 000	G$ 000
Loans and advances		
Agriculture	5,941,915	3,127,855
Services & Distribution	18,518,724	12,573,191
Manufacturing	3,826,972	3,303,810
Household	7,298,933	6,104,710
Mining and quarrying	2,123,996	1,249,721
	37,710,540	26,359,287
Impairment allowances	(2,402,908)	(2,308,056)
Net Loans and Advances	35,307,632	24,051,231

Concentration of deposits

Deposits	2012	2011
	G$ 000	G$ 000
State entities	18,347,559	15,124,496
Commercial sector	11,354,928	8,244,592
Personal sector	42,518,143	39,339,416
Other enterprises	3,082,883	1,298,287
Non residents	1,970,770	2,559,866
	77,274,283	66,566,657

NOTES TO THE FINANCIAL STATEMENTS

23 Contingencies

(i) Contingent Liabilities

(a) Pending litigations

The Bank is the claimant in several litigation matters involving defaulting customers. The Directors are of the view that no provision for any contingency is necessary.

(b) Customers' liability under Acceptances, Guarantees and Letters of Credit

	2012				2011			
	Under 3 mths	3 to 12 mths	Over 12 mths	Total	Under 3 mths	3 to 12 mths	Over 12 mths	Total
	G$ 000	G$ 000	G$ 000	G$ 000	G$ 000	G$ 000	G$ 000	G$ 000
State entities		33,883	26,250	60,133	3,221	-	26	3,247
Commercial sector	685,679	159,389	534,277	1,379,345	245,128	273,022	502,422	1,020,572
Personal sector	86,714	635,229	409,702	1,131,645	36,780	62,579	144,855	244,214
	772,393	828,501	970,229	2,571,123	285,129	335,601	647,303	1,268,033

	2012	2011
	G$ 000	G$ 000
(ii) Contingent asset		
EU/CARIFORUM Financing	-	249,739

This amount represented funds that the Bank was expected to be retained after repaying the European Union/CARIFORUM funds disbursed to the Bank for lending to the rice industry, based on an agreement which contains certain conditions not wholly within the control of the Bank. However this did not materialise in 2012.

NOTES TO THE FINANCIAL STATEMENTS

24 Defined benefit asset

The most recent actuarial valuation of the plan assets and the present value of the defined benefit obligation were carried out as at 31 December 2010 by Bacon Woodrow & de Souza Limited. The present value of the defined benefit obligation and the related current service cost were measured using the Projected Unit Credit Method.

	2012	2011
	G$ 000	G$ 000
(a) Amounts in the statement of financial position:		
Defined benefit obligation	393,113	322,998
Fair value of plan assets	(398,497)	(350,420)
Unrecognised actuarial gain	29,565	31,777
Defined benefit liability	24,181	4,355
(b) Changes in the present value of the defined benefit obligation		
Defined Benefit Obligation at the start of the year	322,998	287,653
Service Cost	52,327	42,505
Interest Cost	14,559	12,832
Members' contribution	-	-
Benefit Improvements	13,436	-
Actuarial Gain	(4,613)	(14,944)
Benefits Paid	(5,594)	(5,048)
Defined Benefit Obligation at the end of the year	**393,113**	**322,998**
(c) Changes in the fair value of the plan assets		
Plan Assets at start of year	350,420	312,442
Expected return on plan assets	16,621	14,741
Actuarial Loss	(6,825)	(7,355)
Bank Contributions	43,875	35,640
Benefits Paid	(5,594)	(5,048)
Plan Assets at the end of the year	**398,497**	**350,420**
(d) Amounts included in salaries and other staff costs in the statement of income		
Current service cost	52,327	42,505
Interest on defined benefit obligation	14,559	12,832
Expected return on plan assets	(16,621)	(14,741)
Net pension cost	50,265	40,596
(e) Reconciliation of opening and closing defined benefit asset in the statement of financial position		
Opening defined benefit (asset)/liability	4,355	(601)
Plus net premium pension cost	63,701	40,596
Less contributions paid	(43,875)	(35,640)
Closing defined benefit liability	24,181	4,355
(f) Actual return on plan assets		
Expected return on plan assets	16,621	14,741
Actuarial loss on plan assets	(6,825)	(7,355)
	9,796	7,386

NOTES TO THE FINANCIAL STATEMENTS

24 Defined benefit asset - cont'd

Summary of principal assumptions as at 31 December

	2012	2011
	Per annum %	Per annum %
Discount rate	4.5	4.5
Rate of salary increases	4.5	4.5
Rate of pension increases	0.0	0.0
Expected return on assets	4.5	4.5
Asset allocation as at 31 December	%	%
Equity Securities	0.0	0.0
Debt Securities	0.0	0.0
Property	0.0	0.0
Other	100.0	100.0
Total	100.0	100.0

Experience History	2008	2009	2010	2011	2012
	G$ 000	G$ 000	G$ 000	G$ 000	G$ 000
Defined Benefit Obligation	225,941	261,297	287,653	322,998	393,113
Fair Value of Plan Assets	(259,324)	(286,349)	(312,442)	(350,420)	(398,497)
Deficit	(33,383)	(25,052)	(24,789)	(27,422)	(5,384)
Experience adjustment on Plan liabilities	2,296.0	(3,051.0)	(9,017.0)	(14,944)	(4,613)
Experience adjustment on Plan assets	234.0	(4,935.0)	(5,440.0)	(7,355)	(6,825)

	2013	2012
	G$ 000	G$ 000
Expected bank's contribution	55,400	37,200

The major categories of plan assets, and the expected rate of return at the financial year end for each category, are as follows:

	Expected return		Fair value of plan assets	
	2012	2011	2012	2011
	G$ 000	G$ 000	G$ 000	G$ 000
Securities	-	-	-	-
Property	-	-	-	-
Other	16,621	14,741	(398,497)	(350,420)
	16,621	14,741	(398,497)	(350,420)

The plan's assets are invested in a Deposit Administration Contract.
The plan does not directly hold any assets in the sponsoring employer.

NOTES TO THE FINANCIAL STATEMENTS

		2012 G$ 000	2011 G$ 000
25	**Balances excluded from the accounts**	9,942	9,942

Monies received on behalf of customers and deposited in the External Payments Deposits Scheme with the Bank of Guyana, in accordance with the terms of agreement signed with each customer which specifically exclude the Bank from any liability.

26 Related party transactions and balances

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 operating decisions.

A number of banking transactions are entered into with related parties in the normal course of business. Such transactions were executed at rates of interest and charges that are similar to transactions involving third parties in the normal course of business. Transactions were both secured and unsecured.

Employees in the bank are granted loans, advances and other banking services at preferential rates.

		2012 G$ 000	2011 G$ 000
(a)	**Group companies**		
(i)	Loans and advances		
	Balances at end of year	1,258,516	476,434
	Interest income	86,705	37,330
(ii)	Deposits		
	Balance at end of year	1,549,265	1,503,889
	Interest expense	27,463	32,476
(iii)	Commissions	3,235	2,540
(iv)	Insurance Coverage	6,023,133	5,650,156
(v)	Insurance premiums paid	28,103	26,635
	The nature of these contracts relate to policies held for fire insurance, cash on premises, public liability,fidelity guarantee, employers liability, computer all risk, cash-in-transit and various risks		
(vi)	Rental of locations-NALICO	1,624	-
	Rent charged on properties in 2012 arise from commencement of Tenancy		
(b)	**Parent company**		
	Deposits		
	Balance at end of year	17,675	29,932
	Interest expense	499	89
(c)	**Associate company**		
(i)	Deposits		
	Balance at end of year	13,515	4,224
	Interest expense	160	-
(ii)	Investments		
	Investments effected through associate company (fair value)	2,128,869	2,161,067
(iii)	Fees paid to associate company-Guyana Americas Merchant Bank Inc.	2,491	2,491
(iv)	Annual rental income received- Guyana Americas Merchant Bank Inc.	5,582	5,582

NOTES TO THE FINANCIAL STATEMENTS

26 Related party transactions and balances - cont'd

(d) Key management personnel

(i) Compensation

The Bank's 32 (2011 - 31) key management personnel comprise its Directors, its Chief Executive Officer and Managers. The remuneration paid to key management for the year was as follows:

	2012 G$ 000	2011 G$ 000
Short-term employee benefits	162,145	162,163
Post-employment benefits	5,959	5,788
	168,104	167,951

(ii) Directors Emoluments

Amounts represents fees paid to individuals in respect of their services as directors (included in key management compensation)

	2012 G$ 000	2011 G$ 000
Chairman	2,872	2,490
Executive Director	960	832
Non- Executive Director	6,702	5,810
	10,534	9,132

(iii) Loans and advances

	2012 G$ 000	2011 G$ 000
Balance at end of year	166,513	120,591
Interest income	10,504	9,189

(iv) Deposits

	2012 G$ 000	2011 G$ 000
Balance at end of year	182,873	171,105
Interest expense	970	924

Employees of the Bank are granted loans at concessionary rates of interest.

No provision was made for loan losses to related parties.

(v) Hughes Fields & Stoby

	2012 G$ 000	2011 G$ 000
Fees	580	580

Messrs. Hughes, Fields & Stoby provides a range of legal services to the Bank which include the preparation, filing and registration of mortgages, debentures and bills of sale; preparation and filing of cancellation of mortgages and debentures; conveyance of transported properties, and transfer of titles; issues demand letters; represents the Bank in actions filed by the Bank against defaulting customers, as well as in actions filed against the bank; follows through on the entering of judgements obtained and levy proceedings commenced; and generally provides legal advice on miscellaneous bank related matters. The fees charged for these services are paid directly to Messrs. Hughes, Fields and Stoby by the customer.

27 Capital commitments

	2012 G$ 000	2011 G$ 000
Capital commitments not provided for in the financial statements	213,300	912,122

28 Dividends

Amounts recognised as distributions to shareholders in the year:

	2012 G$ 000	2011 G$ 000
Final dividend for year ended 31 December 2011 G$8.00 per share (2010 - G$6.00)	320,000	240,000
Interim dividend of G$5.00 per share (2011 - G$3.00)	200,000	120,000
	520,000	360,000
Proposed final dividend of G$11.00 per share (2011 - G$8.00)	440,000	320,000

The proposed final dividend is subject to approval by shareholders at the annual general meeting and has not been included as a liability in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

29 Fair value of financial instruments

The following table details the carrying costs of financial assets and liabilities and their fair values

	2012		2011	
	Carrying Value G$ 000	Fair Value G$ 000	Carrying Value G$ 000	Fair Value G$ 000
Financial assets				
Cash resources	23,070,312	23,070,312	18,365,629	18,365,629
Investments:-				
Available for sale	19,985,415	19,985,415	24,147,019	24,147,019
Held to maturity	583,045	583,045	585,596	585,596
Loans and advances:-	35,307,632	35,307,632	24,051,231	24,051,231
Other assets	1,613,025	1,613,025	1,107,559	1,107,559
	80,559,429	80,559,429	68,257,034	68,257,034
Financial liabilities				
Deposits	77,274,283	77,274,283	66,566,657	66,566,657
Other liabilities	1,303,333	1,303,333	1,019,295	1,019,295
	78,577,616	78,577,616	67,585,952	67,585,952

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows.

(a) Available for sale and held to maturity financial assets

	2012 G$ 000	2011 G$ 000
Level 1	10,435,555	8,290,477
Level 2	10,132,905	16,442,138
	20,568,460	24,732,615

(b) The fair values of assets held for sale were evaluated by reference to the market value of similar properties as held for sale financial assets.

(c) Loans and advances are net of specific and other provisions for impairment. The fair value of loans and advances is based on expected realisation of outstanding balances taking into account the bank's history with respect to delinquencies.

(d) Financial instruments where the carrying amounts are equal to fair value:-Due to their short-term maturity, the carrying amounts of certain financial instruments are assumed to approximate their fair values. These include cash resources, customer's deposits accounts,other assets and liabilities.

Fair value measurements recognised in the statement of financial position

The following provides details of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 2 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

NOTES TO THE FINANCIAL STATEMENTS

30 Segment Information

The accounting policies of the operating segments are the same as those describe in note 3.1(w) of the summary of significant accounting policies except that pension expenses for each operating segments are recognised and measured on the basis of cash payments to the pension plan. The Bank evaluates performance on the basis of profit or loss from operations before tax expense not including non-recurring gains and losses and foreign exchange gains and losses.

The Bank accounts for inter segment revenue and transfers as if the revenue or transfers were with third parties ie at current market prices.

The Bank's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technologies and marketing strategies. Most of the business were acquired as individual units, and the management at the time of the acquisition was retained.

Operating segments are being identified on the basis of internal reports maintained by components of the Bank that are regularly reviewed by management in order to allocate resources to the segments and to assess their performance.

Effective from 1 January 2009 the Bank's business has been classified primarily into two main segments, namely Retail Commercial Banking and Treasury(by class of business).

The table below shows segment information by class of business

	2012		
	Retail and Commercial Banking	Treasury	Total
	G$ 000	G$ 000	G$ 000
Interest Income	3,639,454	861,943	4,501,397
Interest Expense	(856,524)	-	(856,524)
Net Interest Income	2,782,930	861,943	3,644,873
Loan Impairment Expense	(122,197)	-	(122,197)
Loan Impairment Recoveries	84,810	-	84,810
	2,745,543	861,943	3,607,486
Other Income	1,022,750	-	1,022,750
Share of loss of Associate company	-	(8,521)	(8,521)
Operating Expenses	(2,078,038)	-	(2,078,038)
Profit before Taxation	**1,690,255**	**853,422**	**2,543,677**
Segment Assets			
Cash resources	-	23,070,312	23,070,312
Investments:-			
Available for sale	-	19,985,415	19,985,415
Held to Maturity	-	401,448	401,448
Non Current Assets-Associate company	-	181,597	181,597
Loans and advances	35,307,632	-	35,307,632
Property and equipment	-	7,014,357	7,014,357
Deferred tax assets	-	240,615	240,615
Other assets	-	1,372,410	1,372,410
Total segment assets	**35,307,632**	**52,266,154**	**87,573,786**
Segment Liabilities			
Deposits:-			
Demand	19,824,815	-	19,824,815
Savings	38,759,468	-	38,759,468
Term	18,690,000	-	18,690,000
Due to banks	110,777	-	110,777
Taxation	377,120	-	377,120
Other	815,436	-	815,436
Total segment liabilities	**78,577,616**	-	**78,577,616**

NOTES TO THE FINANCIAL STATEMENTS

30 Segment Information - cont'd

	2011		
	Retail and Commercial Banking	Treasury	Total
	G$ 000	G$ 000	G$ 000
Interest Income	2,618,430	1,070,195	3,688,625
Interest Expense	(947,241)	-	(947,241)
Net Interest Income	1,671,189	1,070,195	2,741,384
Loan Impairment Expense	(100,000)	-	(100,000)
Loan Impairment Recoveries	234,938	-	234,938
	1,806,127	1,070,195	2,876,322
Other Income	859,576	-	859,576
Share of profit/ (Loss) of Associate company	-	3,871	3,871
Operating Expenses	(1,830,002)	-	(1,830,002)
Profit before Taxation	**835,701**	**1,074,066**	**1,909,767**
Segment Assets			
Cash resources	-	18,365,629	18,365,629
Investments:-			
Available for sale	-	24,147,019	24,147,019
Held to Maturity	-	402,344	402,344
Non Current Assets-Associate company	-	183,252	183,252
Loans and advances	24,051,231	-	24,051,231
Property and equipment	-	6,801,630	6,801,630
Deferred tax assets	-	169,152	169,152
Other assets	-	938,407	938,407
Total segment assets	**24,051,231**	**51,007,433**	**75,058,664**
Segment Liabilities			
Deposits:-			
Demand	17,180,254	-	17,180,254
Savings	34,186,832	-	34,186,832
Term	15,199,571	-	15,199,571
Due to banks	265	-	265
Taxation	183,281	-	183,281
Other	835,749	-	835,749
Total segment liabilities	**67,585,952**	**-**	**67,585,952**

(a) The classification shown below is followed by a secondary classification into Geographical segments.

	Additions to non current assets	
	2012	2011
	G$ 000	G$ 000
Retail and commercial lending	530,082	524,549

(b) Revenue from major services

The following is an analysis of the Bank's revenue from its major services

	2012	2011
	G$ 000	G$ 000
Retail and commercial lending	3,639,454	2,535,660
Treasury	861,943	1,152,965
	4,501,397	3,688,625

NOTES TO THE FINANCIAL STATEMENTS

30 Segment Information cont'd

(c) Geographical information

(i) The bank operates in two principal geographical areas - Corporate Office and Other Branches

The Bank's revenue derived from operations from external customers and information about its non current assets by geographical location are detailed below

	Revenue		Non Current Assets	
	2012	2011	2012	2011
	G$ 000	G$ 000	G$ 000	G$ 000
Treasury (Corporate Office)	2,529,394	2,316,643	4,016,749	4,649,964
Retail and commercial banking (other Branches)	2,994,753	2,231,558	2,997,608	2,151,666
	5,524,147	4,548,201	7,014,357	6,801,630

Revenue by geographic location

2012	Guyana	Caricom	Others	Total
	G$ 000	G$ 000	G$ 000	G$ 000
Interest Income	3,906,336	558,351	36,710	4,501,397
Other Income	1,022,750	-	-	1,022,750
Total revenue	4,929,086	558,351	36,710	5,524,147
2011				
Interest Income	3,096,697	576,095	15,833	3,688,625
Other Income	859,576	-	-	859,576
Total revenue	3,956,273	576,095	15,833	4,548,201

Major customer

There were no revenues earned from an individual or group of customers that exceeded 10% of total revenues.

31 Analysis of financial assets and liabilities by measurement basis

ASSETS	Held for Sale	Held to Maturity	Loans and Receivables	Available for Sale	Financial Assets and Liabilities at amortised cost	Total	2011 Total
2012	**G$ 000**	**G$ 000**	**G$ 000**	**G$ 000**	**G$ 000**	**G$ 000**	**G$ 000**
Cash resources	-	-	-	-	23,070,312	23,070,312	18,365,629
Investments	-	401,448	-	19,985,415	-	20,386,863	24,549,363
Loans & advances (net)	-	-	35,307,632	-	-	35,307,632	24,051,231
Other	13,573	-	-	-	1,599,452	1,613,025	1,107,559
Total Assets	**13,573**	**401,448**	**35,307,632**	**19,985,415**	**24,669,764**	**80,377,832**	**68,073,782**
2011	**17,075**	**402,344**	**24,051,231**	**8,292,214**	**35,141,766**		**67,904,630**
LIABILITIES							
2012							
Deposits	-	-	-	-	77,274,283	77,274,283	66,566,657
Other	-	-	-	-	1,303,333	1,303,333	1,019,295
	-	**-**	**-**	**-**	**78,577,616**	**78,577,616**	**67,585,952**
2011	**-**	**-**	**-**	**-**	**67,581,596**		**67,585,952**

NOTES TO THE FINANCIAL STATEMENTS

32 Reclassification

During the current period,certain balances in the prior year were reclassified to conform with the 2012 presentation.

Property Tax

The effect of this reclassification is shown below:-

	2011
Statement of income	G$
Expenditure increased by:	55,027
Tax charge decreased by	55,027
Statement of financial position	
Other liabilities increased by	55,027
Taxes payable decreased by	55,027

33 Subsequent event

(a) On Jan 2013, GBTI Property Holdings Incorporated was registered with the Registrar of Companies as a private limited liability company . This company is a wholly owned subsidiary of the bank.

(b) In 2013, the budget announced a change in property tax effective year of assessment 2014. The valuation date has been changed from 1 January 1991 to 1 January 2011. There were also changes to the bands.

The impact of this change cannot be quantified at this stage. In addition, property tax is no longer recognised as a tax charge to the statement of income but is now treated as an expenditure.