

# CHIEF EXECUTIVE OFFICER'S REPORT



The year 2012 was the first of a new five (5) year Strategic Plan of the Bank. The Plan took into consideration the growth of the economy of Guyana and the direction of its development, the state of the world economy, technological advancement and to a lesser extent the socio-political situation in the country following general elections in 2011.

The linchpin of the Strategic Plan was the implementation of a new Core Banking Application, carefully selected to drive the Bank's operations to achieve the objectives set out in the Plan.

The implementation of the Core Banking Application was started in February of 2012 and the Bank went live with the new application in October 2012. This process was hugely challenging to the Bank and both staff and customers were asked to patiently await the easing of the teething problems normally associated with new projects incurring such fundamental change.

These adjustments have been largely responsible for a tardy presentation of the financial results of the year 2012. This, I would like to think will be compensated by the fact that despite this particular challenge and some others, 2012 has been an outstanding year. Our assets have grown over the year under review by 17% while at the same time our profits have grown by G\$432M or 31.2%.

Globally, economic activity in 2012 has been sluggish, however, the recovery continues. In advanced economies, growth was still too low to make a substantial dent in unemployment.

As the world's economies continue to struggle with low growth rates for the most part, some countries have taken unprecedented measures to adjust their economies. Moreover, middle income families have been adjusting their spending patterns by cutting back on luxury items such as the annual vacation abroad. As a consequence, the Caribbean has seen a steep decline in their tourism product, a major pillar of their economies.

In this scenario, Guyana seems uniquely blessed as real economic growth was fuelled by our agricultural and natural resources, the prices for which were high and stable in 2012.

As the Guyanese economy continues its growth phase amidst an unsettled political and legislative environment, the bank continued to play its part in the local economy through the provision of excellent service and a pioneering role in branch expansion. Our efforts to improve our delivery of products and services by using the latest technology continue, the benefits of which have begun to materialise.

## **Economic Review of 2012**

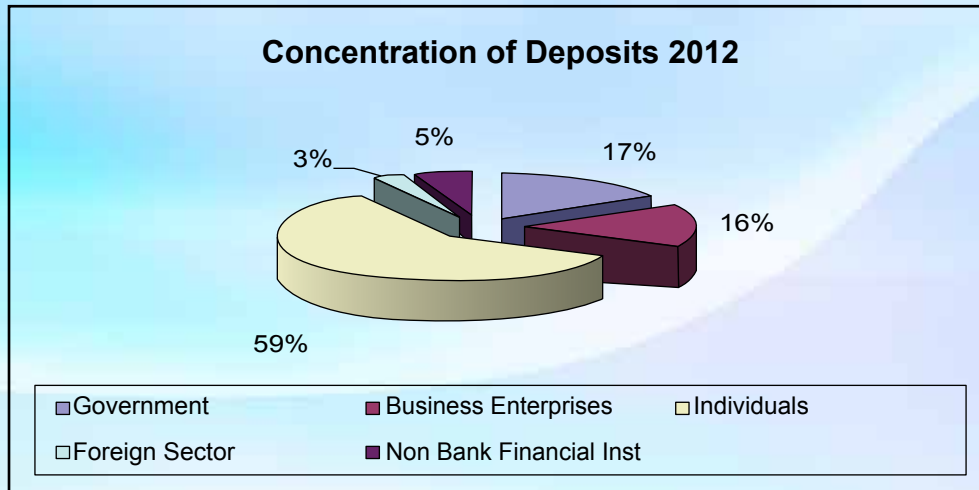
Real economic growth in Guyana for 2012 was recorded as 4.8 %, the seventh consecutive year of economic growth. The economy continues to be driven primarily by the Agriculture, Mining and Quarrying, Manufacturing and Services Sectors though there was decline in the Construction Sub-Sector.

## **Performance of the Local Commercial Banking Sector**

The Banking Sector, riding on the back of a growing economy, continued to expand with total commercial banks' assets experiencing growth of 15% in 2012 and ending the year at G\$378B.

### ***Deposits***

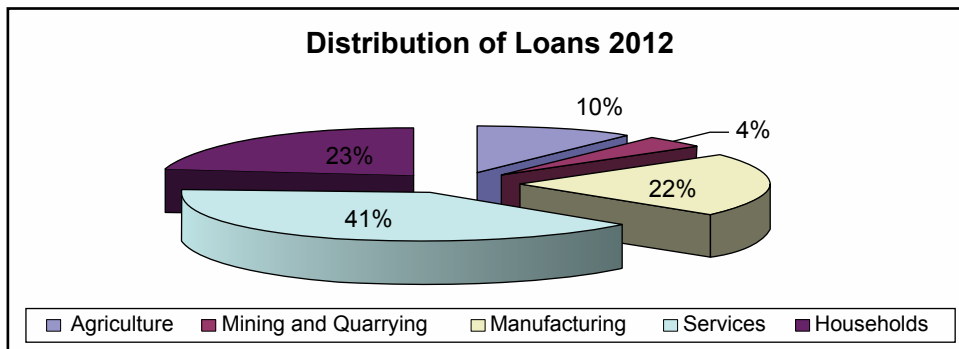
Total deposits of the sector at December 2012 stood at G\$316B, a 15% increase for the year compared to the 11% growth for 2011. Savings deposits grew by 11% to G\$186B, Time deposits increased by 12% to G\$56B and Demand deposits increased 33% to G\$72B. The continued growth in deposits in the Banking System has kept liquidity at a high level as the growth in Lending and Investments is constrained by many factors common to economies such as ours.



**Lending**

Total loans and advances by the Banking Sector stood at G\$161B at the end of 2012 an increase of G\$28B or 21%, marginally down from the growth rate recorded in 2011. Credit to Deposit ratio stood at 51% as at 2012 compared to 49% in 2011. It was a significant occurrence in 2012 that the credit to deposit ratio increased in spite of the sizeable growth in deposits. This signals the commercial banks willingness to support the financing of bankable projects and defies the oft repeated criticism that the banks are too conservative.

Loans increased to all sectors of the economy in 2012. Lending to individual customers increased by G\$3.1B while lending to business enterprises increased by G\$13.6 billion. Loans to the Agriculture Sector increased by G\$2.8B to G\$9.7B, a 42 % increase.



**Liquidity**

Given the aforementioned disparity in Deposits and Loans and Investments, commercial banks in Guyana continued to remain very liquid in 2012 and consistently exceeded the minimum statutory requirements. At December 2012, banks held G\$127B in liquid assets, which represented 34% of their Total Assets. This represented an excess liquidity position of G\$60B or 90% of required reserves (2011:86%). Minimum Reserve Requirements were also exceeded and stood at G\$46B, an excess of G\$8B or 17% (2011:13%).

**Monetary Policy**

Commercial Banks’ holdings of Treasury Bills have fallen from G\$72.5B in 2011 to G\$69.2B in 2012 due to increased competition in bidding and fewer issues.

Monetary policy of the Government as signaled by the issuing of Treasury Bills indicates that the emphasis on the sterilizing of excess liquidity has eased which may have been influenced by the low level of inflation and a stable exchange rate.

## Interest Rates

The 91 days Treasury Bill rate, the benchmark for the interest rate structure, declined from 2.37% throughout most of 2011, to 1.45% at the end of 2012. The commercial banks' weighted average small savings rate declined from the average of 1.83% for 2011 to 1.69 % for 2012.

Interest rates continued to trend downwards reducing the cost of borrowing for businesses. In 2012, the weighted average lending rate declined by 60 basis points to 11.08 %.

### Exchange Rate

The Guyana dollar continues to be fairly stable. The market exchange rate per US dollar averaged G\$204.50 for 2012, from G\$203.70 for 2011.

### Review of the Bank's Performance

With a growing economy and an expanding banking sector, the bank recorded another successful year. Profit after tax for the year was G\$1,814 million compared to G\$1,382 million in 2011, a 32 % increase in profits. Return on equity was 20.17% and return on average assets was 2.23%.

Total assets at the end of 2012 was G\$88B, reflecting a growth of G\$13B or 17% over 2011. This represents 23% of Total Commercial Banks Assets in Guyana (2011: 23%).

Earnings per share rose by 31.2% to G\$45.25 with the book value per share rising to G\$224.90. At the end of the financial year, the Bank's shares were priced at 2.05 times book value.

### Operations in 2012

#### Revenues

Revenues for 2012 amounted to G\$5,524 million, an increase of 21% over that for 2011 due primarily to increased lending. Net interest income increased by 33% while non-interest income increased by 19%, due to increases in commissions and exchange trading gains. Our revenue stream is shown below:-

#### Figures in G\$ 000

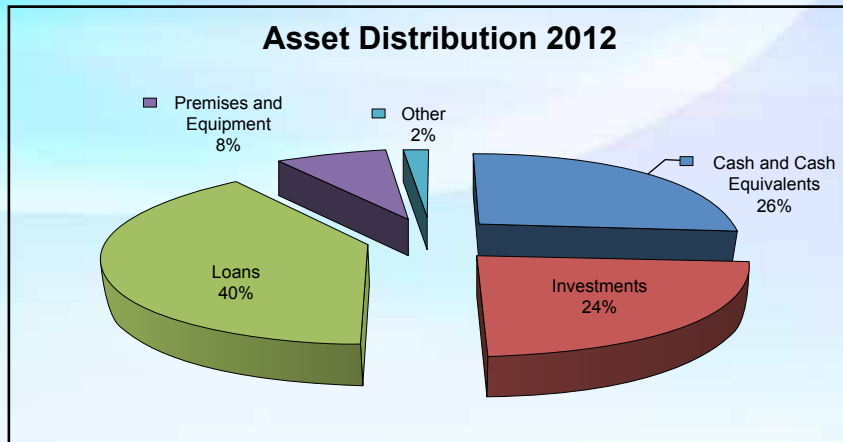
|  | 2012                    | 2011                    |
|--|-------------------------|-------------------------|
| <b><u>Interest Income</u></b>          |                         |                         |
| Loans and Advances                     | 3,515,337               | 2,521,027               |
| Investment Securities                  | 861,943                 | 1,070,195               |
| Other                                  | 124,117                 | 97,403                  |
| <b><u>Other Income</u></b>             |                         |                         |
| Commissions                            | 446,107                 | 328,519                 |
| Exchange Trading and Revaluation Gains | 569,614                 | 524,741                 |
| Rental and other income                | 7,029                   | 6,316                   |
| <b>Total Income</b>                    | <b><u>5,524,147</u></b> | <b><u>4,548,201</u></b> |

#### Expenses

Total expenditure for the year was G\$2,972 million compared to G\$2,587 million in 2011. Interest expense accounted for G\$857 million while operating expenses stood at G\$2,080 million, an increase of 20% over 2011. During the year, we undertook a project to upgrade our core banking operating system. This resulted in increased operating expenditure to facilitate this process.

**Total Assets**

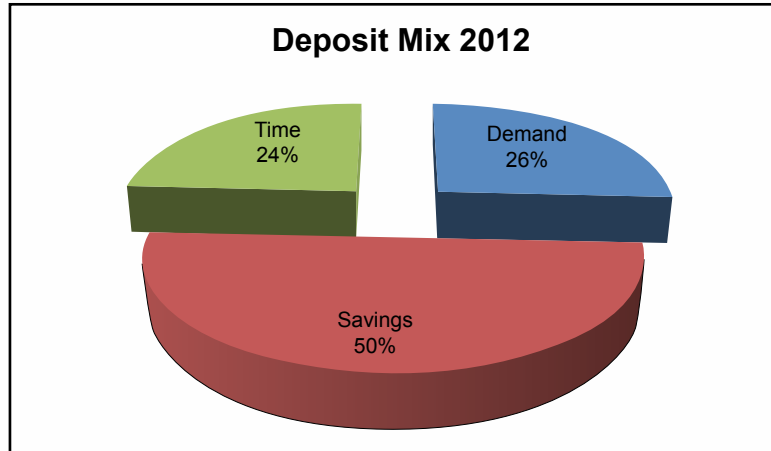
The Bank’s asset base has grown by G\$12.5 billion or 17 % and is consistent with growth achieved in 2011. The bank’s share of commercial bank assets in Guyana remains at 23% for the year.



**Deposits**

As the bank continues to grow we have seen increased confidence in the banking population through significant increases to our deposit base. The Bank’s deposit base has recorded overall growth for the year of G\$10.6B or 16%. This growth rate exceeded that of the local banking industry. GBTI’s share of Total Bank Deposits in the industry stands at 24%.

Our Deposit Mix remains consistent with previous years and is aligned to our strategic plans. We believe that our expanding branch network, range of services and attractive interest rates have played significant roles in our healthy deposit mix.



**Investments**

The local Treasury Bills market has become extremely saturated. Tenders for Treasury Bills have been consistently oversubscribed and have resulted in very low yields. This has resulted in reduced holdings for the Bank and a search for sound investment opportunities elsewhere.

Our investment portfolio remains strong and well diversified, we have made great strides in improving the quality of our investment portfolio as evidenced by significant gains in the fair value movements to the portfolio.

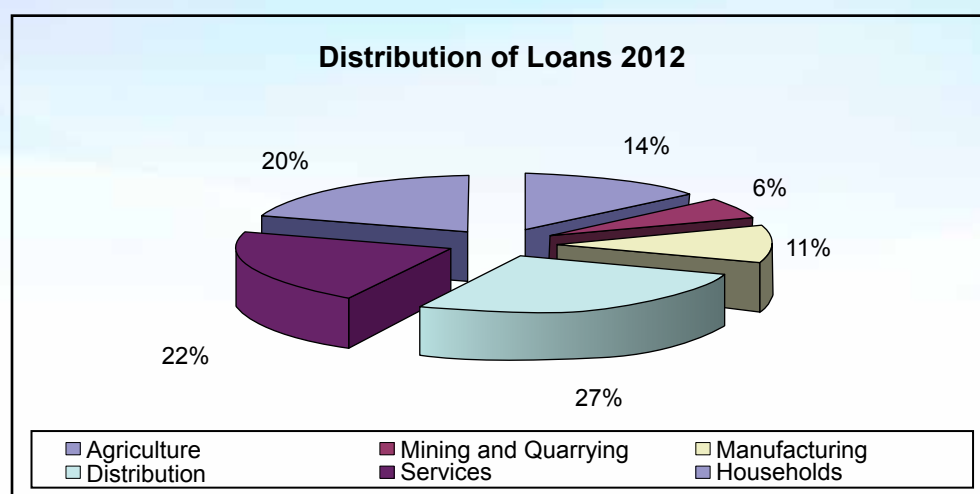
Our Foreign Investment portfolio grew by G\$2B to G\$10.1B. Growth in this area has been guided by our Investment Policy that emphasizes quality over return. Revaluation gains on the portfolio were G\$222M as compared to a loss in 2011.

### **Loans and Advances**

The Bank's performance in 2012 was driven primarily by the growth of our Loan Portfolio. Total loans at the end of the year stood at G\$35B, reflecting a net growth of G\$11.3B or 46.8% over December 2011. Our share of the Loan Portfolio for the Banking Industry is 22% compared to 18% in 2011.

While the growth in our Loan Portfolio exceeded our target we continued to adhere to the sound tenets of lending while responding on a timely basis to the exceptional demand for financing. The Bank's Credit to Deposit ratio increased to 45% in 2012 compared to 40% at the end of 2011.

The Loan Portfolio is well diversified and spread across the major economic sectors in Guyana. We have made great efforts to improve the distribution of our loans. Our lending policies have been tailored based on development in the various economic sectors in Guyana as we have increased our exposures to those developing sectors such as services and mining and quarrying. Loans to households have also increased as a result of our branch expansion programme.



The quality of our Loan Portfolio remains good. Our Non Performing Advances represents 6.9 % of total loans, down from 8.6 % in 2011.

### **Capital Adequacy**

The Bank 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.

GBTI remains well capitalised with the Bank's Tier 1 Capital Adequacy Ratio standing at 15.96% as at December 31, 2012; well above the prescribed minimum of 8%. Total Tier 1 and Tier 11 Capital was 16.31% of risk-adjusted assets at December 31, 2012.

### **Risk Management and Internal Control**

During 2012, the Bank embarked on one of its most significant projects in recent history. The Bank commenced the process to upgrade its operating software. This process included a planning and appraisal phase and an implementation phase. Whilst the process has been a difficult one with many challenges arising, at the end of the year, I am happy to report the process has been successful. The Bank expects that the anticipated benefits of this upgrade will materialise in the coming years. This upgrade is expected to bring significant cost savings as well as provide a platform for superior customer service.

The software upgrade provided a unique opportunity for the bank to relook at its processes to determine its effectiveness in achieving its objectives. The bank continues to look to improve its system of internal control including its menu of policies, procedures and information infrastructure.

Our risk management capacity has been strengthened by the training of three (3) officers during the year in Risk Management and they have been certified as Risk Managers by the Chartered Institute of Bankers in Scotland.



With the help of the International Finance Corporation (IFC) we have carried out a diagnosis of our risk management policies and practice and in the coming months will engage them to strengthen our risk management structure.

The Bank's Inspection Division continued its monitoring role of the internal control system reporting directly to the Audit Committee of the Board of Directors. The Division consistently reviews the effectiveness of the internal control process and makes appropriate recommendations for revisions to the Audit Committee.

### ***Customer Service and Branch Expansion***

The Bank takes great pride in providing an excellent level of customer service. The delivery of our services was however negatively impacted during the implementation stage of the software upgrade. All efforts were made to ensure that these disruptions were kept to a minimum.



The bank continued to expand its network of Automated Teller Machines (ATMs) and Point of Sale terminals in key areas.

The Lethem Branch was moved to a new location during the year. This new location provides a wider array of services to customers with a full suite of banking services in a much more spacious and convenient environment. The opening of this new building reinforces the bank's commitment to the development of Region Nine and the pioneering role the bank has played in branching in Guyana. The opening of this new building also saw the establishment of an ATM facility, a first for the region.

### ***Human Resources***

As the Bank continues to grow, the need for a greater pool of skilled and professional human resources becomes more evident. The bank continues to attract and retain employees of the highest calibre. The quality of the bank's human resources has been a key to its success.

The Bank continued its training programmes with special emphasis on improving customers' relationships as well as personal development. There is also calendar of social events that is specifically designed to ensure that the recreational and social needs of staff are met.

However, the emphasis on training in 2012 had to be on making staff at all levels acquainted with and competent with the new software implemented. Consequently, numerous hours were spent in both classroom and on the job training.

### ***Community Relations***

The year 2012 saw an increased effort to engage in Community related activities as the Bank continued to fulfil its corporate social responsibility.

The Bank extended its sponsorship of the Children's Dramatic Poetry Competitions part of the Country's 42<sup>nd</sup> Mashramani Activities. The Bank also hosted a week long, Art Show by the Guyana Women Artists Association at its Corporate Office, Kingston, in February.

Youth Development remained a top priority and several activities throughout the year bore testimony to this. Groups of Early Savers were treated to sessions of fun, games and learning at the National Museum in the months of May and July as part of GBTI's first Story Telling & Literary venture. Secondary Schools from Regions Four and Three gathered at the Bank's Recreational Centre, Bel Air to participate in the Bank's Annual Impromptu Speech Competition.

The Bank made a generous donation towards the St. Joseph Mercy Hospital Building Fund.

GBTI also donated two state of the art steel pans to the Buxton Pride Steel Orchestra. The Bank has remained in close relation with the group of young musicians as it believes that youth should get involved with extra-curricular activities to help in their personal development. The bank also made charitable donations to eight Non-Profit Organisations at its Annual Donation Ceremony.

### **Looking Ahead**

As we go to print, the National Budget 2013 has been presented to Parliament and is being discussed. The Budget as presented by the Minister of Finance totalled G\$208.8B. Even as this is happening and national income levels are predicated on performances of several sectors, two (2) of the leading production sectors and significant foreign exchange earners viz. rice and gold mining are facing uncertain futures. The heavy reliance on the Venezuelan Market for our rice at above market prices was a feature of the last two (2) years but this market is not a certainty at this time. A loss of this market would set back the Rice Sector considerably.

The price of gold on the World market peaked in 2012 at USD 1,787 per ounce. In April 2013, this price had fallen to USD 1,375 per ounce and there were fears that if certain countries began selling off some of their gold reserves that a further drop in prices would occur.

The pace of infrastructure development which underpins the Construction Sector could be maintained but of major concern is the quality of work and therefore value for money and the lateness of payments to contractors, disputes notwithstanding.

The Sugar Industry continues to limp along but with favourable weather and improved technical and mechanical competence should do no worse than done in 2012.

The National Budget 2013 projects growth of the GDP at 5.3%. It is at this point too early to pronounce on the chances of achieving this target.

There is already the indication of a slowdown in lending though this is common during the first three (3) months of the New Year as everyone awaits the outcome of the National Budget.

Bankers being optimists, it is expected that the Banking Sector will continue to expand especially since worse times in the past have not deterred the growth of deposits. With the competition for less lending opportunities than in the previous year, we should see the trend of the narrowing of interest rate spreads continue in 2013.

For us attention will be focused on ensuring that there is no degradation of asset quality and the solidity of the Bank. Our close monitoring of our Loan Portfolio will continue as well as our policy of strict credit risk management. These are complemented by our policy of prudential provisioning for loan losses.

Our branch expansion plans should see us operationalize at least one (1) branch in 2013 while further research will be conducted in preparation for further branch expansion later.

With our new software being market oriented, greater emphasis will be placed on product development and market penetration. In 2012 our tagline was changed to “*Your Friend, Your Bank*” and has become a challenge to all our staff and a strengthened marketing department to live out this motto.

Stricter Anti-Money Laundering Legislation has already been drafted and is soon to be tabled in Parliament. We are preparing ourselves for this and for compliance with the Foreign Account Tax Compliance Act of the United States of America (FATCA).

There are therefore many challenges ahead of us in 2013. To meet these challenges requires thorough preparation and a willingness to work hard, a task which should not be beyond us given our achievements of the last decade.

### **Acknowledgements**

For the successful year that the Bank has had in 2012, I wish to express my gratitude to a very hard working, committed, and experienced team for their support during 2012. This teamwork was key to the success of the bank.

To our customers, business partners and colleagues, I express my sincere gratitude for your support during 2012. I also thank you for the patience and the understanding you have shown during our software implementation process.

The Chairman and other Directors of the Board continue to play a vital role in the growth of the Bank in giving direction based upon a thorough understanding of the issues of banking, business and the economy, and I thank them for their support and guidance to Management and the Bank.