

Chairman's Report



Shareholders, it is my privilege to present to you, on behalf of the Board of Directors, the Annual Report of your institution for the year ended December 31, 2013 and to announce that amidst a challenging economic scenario your Bank has shown good resilience in recording asset growth by 9% and net profit after tax of \$2.17 billion, an increase of 20.1% for the year then ended. The Bank remains a well-capitalised, safe institution with a Capital Adequacy Ratio of 17% at the end of the year.

In an increasingly more stringent regulatory environment, we are continuing to invest significantly in strengthening the Bank for the future. Our strategy is centered on becoming the best bank for our individual, commercial and corporate customers and creating value by being more agile, efficient and responsive to their needs in a relationship-focused setting and an environment of trust. We are confident that this strategy will lend to a stronger balance sheet, a simpler more efficient structure and deliver strong, stable and sustainable returns for shareholders over time.

On the basis of the financial results achieved for the year, the Board of Directors is pleased to declare a dividend of \$17.00 per share.

International Economy

The IMF projected the global economy to expand by 2.9% in 2013 compared to the 3.2% in 2012, but for the most part, global growth remained weak and uneven, with the service industry growth slowing sharply in China while in the core economies of the Euro area, business confidence indicators suggest that activity is recovering on their central bank stimulus measures. In a positive development for the US economy, the unemployment rate came down to 7.3% toward the end of the year, creating positive signals that the economy will re-enter a growth path in 2014.

Emerging market and developing economy growth rates at the middle of 2013 were down some three percentage points from 2010 levels, with Brazil, China and India accounting for two thirds of the decline. Consequently, with these BRICS economies (Brazil, Russia, India, China and South Africa) starting to experience declines, the economic performance of the MIST economies (Mexico, Indonesia, South Korea and Turkey) is placing them more into the spotlight.

On the commodity side, the crisis in Cyprus that sparked the sale of its gold reserves contributed significantly to the steep fall in price of gold by some 33 percent over the past year from US\$1,668 to US\$1,249 per ounce, before bouncing back a bit. This has led to gold slowly losing its safe haven status and a hedge status against inflation - and with interest rates rising in the U.S., yield-bearing investments are starting to look more attractive. Global inflation is expected to fall marginally from 3.9 percent in 2012 to 3.8 percent in 2013.

With global attention drifting away from the possibility of more banking crises, increasing focus is being paid to the stark reality that climate change could be the biggest factor in determining global economic performance in the future. By far the most expensive natural disaster for 2013 was the river flooding that hit southern and eastern Germany and neighbouring countries in May and June, causing more than US\$16 billion in damage, most of it in Germany. The second most expensive disaster was a series of severe tornadoes that hit the United States in May, especially a maximum-strength tornado that devastated the Oklahoma City suburb of Moore. The deadliest natural disaster recorded for the year worldwide was a series of flash floods in northern India and Nepal that killed more than 1,000 people in June after early and exceptionally heavy monsoon rains. Sadly however, a new global deal on climate change, which would curb fossil fuels use and speed up the switch to green energy, remains as elusive as ever.

Turning to Latin America, the region is expected to grow in 2013 by 3.4 percent, up from 3.0 percent in 2012, driven mainly by the performance of Argentina, Brazil and Mexico. For the Caribbean region, commodity exporters Trinidad and Tobago, Suriname and Guyana enjoyed more robust economic performance compared to their more tourism based counterparts of Barbados, Antigua and Barbuda and Jamaica. For the period January to June 2013, Suriname and Guyana performed strongly with GDP growth rates of 4.5% and 3.9% respectively, while Trinidad and Tobago grew by 2.1%. Jamaica along with Barbados experienced contraction by 0.7% and 0.6% respectively.

Domestic Economy

The local economy has seen subdued growth in the latter half of 2013 relative to the first half of the year where growth of 3.9% was announced. The overall growth rate for 2013 was 5.2%.

Output in the economy's major sectors of services, manufacturing, mining and agriculture was mixed, with the country recording the highest gold declaration of 458,105 ounces in 2013 from 438,645 in 2012, while on the other hand sugar recorded its lowest level of output in decades. The continuing revision of production targets in the face of declining performance has been the story of the sugar industry for 2013. The first crop closed at 48,038 tonnes against the budgeted 71,000 tonnes, and represented 32.5 percent decline against the first crop of 2012. The annual production was therefore revised to 190,000 tonnes, a decline of 12.9 percent on the 2012 yearend results. Production of the other major commodities of rice and bauxite are expected to be in line with their targets, though the strong dependence on the Venezuelan market for rice exports continues to be a major worry.

Monetary policy continues to be geared towards maintaining price and exchange rate stability. This policy has seen an inflation level of 3.5% for 2012, and 0.9% for 2013.

Banking Sector

The IMF in their most recent country review has noted that Guyana's banking soundness indicators have remained strong, with capital adequacy ratios well above the regulatory minimum requirement, non performing loans (NPLs) between 5 and 6 percent over the last three years, and provisioning for bad loans at comfortable levels. We are pleased with this commentary and the positive signals it sends about the judicious management of the sector by the various stakeholders.

The banking community remains disappointed that necessary measures required to bolster and strengthen the legislative regime to combat money laundering and the financing of terrorism was the victim of the ongoing political impasse and a debate between the government and the opposition political parties in Parliament. We join with the other members of the local banking fraternity in urging meaningful dialogue aimed at ensuring that our country's anti money laundering laws

are compliant with global standards while at the same time respectful of our Constitutional safeguards.

The amended income tax legislation enacted to afford first time home owners who are holders of mortgage loans of up to \$30 million to be granted a 30% relief on their mortgage interest payments is significant as it will bring to the banking sector additional business in the area of mortgages.

The operationalisation of a local Credit Bureau is welcomed by the sector and our participation and that of our customers in making the relevant information available to the Bureau will allow it to fulfil its meaningful role in strengthening the credit sector of the industry.

At the Bank

Your Bank remains one of the front runners in the implementation of initiatives that have over the years demonstrated our strong commitment to providing banking services to communities, including our branching strategy to reach many of the economically active people in the outlying communities of our country who fall outside the mainstream financial sector. We have established two new branches at Port Kaituma and Port Mourant during the year and, as part of our Five Year Strategic Plan will be researching other communities for the provision of our banking services. We have also participated in schemes to facilitate access to finance for small and medium-sized businesses in collaboration with international agencies.

We have passed the one year mark since the commencement of use of a new core banking system, which was implemented with the overall aim of increasing efficiency and delivering additional financial products to our customers. We have overcome the early challenges in using the system and our customers can now look forward to the superior service we promised to deliver.

Overall progress in our 5 Year Strategic Plan for 2012 – 2016, which is aimed at repositioning the Bank to one that is a diverse, technology driven institution with a customer-centric culture, has been relatively on target. We continue to assess each area to ensure it remains relevant in the ever changing environment as we believe this will take us into the future and solidify our position as the preferred bank of Guyanese.

Corporate Governance

The Board of Directors remains accountable for the performance and affairs of the Bank. It delegates certain functions to Sub-Committees and management to assist in discharging its duties. Appropriate structures for those delegations are in place, accompanied by monitoring and reporting systems. Each Sub-Committee acts within agreed, written terms of reference. The Chair of each Sub-Committee reports at Board Meetings as required. During the period, we established a new Marketing Sub-Committee headed by Mr. Carlton James, and also expanded the Terms of Reference of the Building Committee to include supervision of major refurbishing works on our various properties. Consequently, that Sub-Committee was renamed the Building and Properties Sub-Committee.

The team from the International Finance Corporation and the Consultant Financial Access that was invited to conduct a full risk management diagnostic of our structure and operations commenced their work and has made a number of key observations that are being examined by the Board. Their activities will continue in 2014 as we move to implement the appropriate measures for improving risk mitigation at the Bank.

Acknowledgements

On behalf of the Board, I would like to thank you our shareholders for your support and trust in our capability to deliver on the commitments made at the start of the year and look forward to continuing to work on your behalf in the year ahead. Our customers have been the bedrock of our solid financial performance and we express our sincere thanks to them for their loyalty, invaluable feedback and general support.

I wish to thank every employee for the considerable effort they have put into their work and the strength they continue to display in achieving the goals set by the Board, and trust that this enthusiasm and positive mindset will continue in the new year.

My colleagues on the Board have supported me with their wise counsel and valuable guidance in a year that has required a very high level of involvement, and as such I wish to record my sincere appreciation for their support.