



Chief Executive Officer's Report

2014 has been a very challenging year globally, locally and at the Bank. Some of the challenges for the Bank were anticipated as their genesis lay in occurrences that took place in the previous year and as such the Bank has had another fairly successful year where a Net After Tax profit of \$2.1 billion was recorded.

The global recovery is still fragile despite improved prospects, and significant downside risks - both old and new - remain. Global activity has broadly strengthened with much of the impetus coming from advanced economies. Inflation in these economies, however, has undershot projections, reflecting still-large output gaps and recent commodity price declines.

Growth in the Caribbean Region was forecasted at 3.3 % in 2014 from an estimated 2.8% in 2013. The improved prospects are related to the improvement in the external economy and its impact upon the tourism-dependent economies in the region. However, the restrained expectations for the Caribbean are linked to the fiscal inflexibility, which many governments face.

Given the challenges of the past few years for the region, in terms of poor tourist arrivals, low capital inflows (foreign direct investments, remittances, tourism receipts) and high commodity prices, governments in the region had little muscle to implement counter-cyclical fiscal policies and those countries that ramped up spending are now feeling the pressure.

Domestic Economic Review 2014

During the first half of the year, the economy recorded overall growth of 3.2% in real gross domestic product, within which non-sugar Gross Domestic Products (GDP) grew by 2%. Given the performance of key sectors within the economy over the first six months of the year, overall growth for 2014 was projected at 4.5%.

With low commodity prices in the key sugar and gold sectors, economic activity has slowed. The full effect of this, however, has been dampened by the record breaking annual production of rice. Coming off a twenty year low in 2013, sugar production improved in 2014 and also achieved its modest target.

The Local Banking Sector

2014 has been a significant year for the local Banking Industry. For the first time in over ten years, the sector recorded a decrease in total assets. Tightening of liquidity conditions was evident.

Asset quality deterioration has also been observed with significant increases in non-performing assets. As at December 2013, total Assets stood at \$414 billion. This figure fell to \$403 billion; a decrease of \$11 billion or 2.7% as at June 2014.

As at June 2014, deposits with commercial Banks, comprising the private and public sectors as well as the non-Bank financial institutions, amounted to G\$325 Billion, 1.6 percent lower than the December 2013 position.

Lending

Loans and advances increased by 5% to \$191 billion. Loan growth within the local Banks continues to slow. The rate of growth in loans has again exceeded that of deposits. The Credit to Deposit ratio stood at 57% as at 2014 compared to 54% as at 2013.

Non-Performing Loans

The non-performing loans (NPLs) at end-June 2014 grew by 21.8% or \$2,158 million to \$12 billion when compared with the level one year ago.

NPLs as a percentage of total loans were 10 basis points higher at 5.2% when compared with the end-December 2013 level. This resulted from a 6.2% increase in NPLs along with the 5% expansion in total loans.

Monetary Policy

Commercial Banks' holdings of Treasury Bills fell from \$66 billion to \$56 billion. As such, yields have continued to inch upwards as liquidity tightened in the system. The 91-day Treasury bill rate, which is the benchmark rate, increased from 1.45% to 1.59%.

The prime lending rate remained stable at 12.83% while the small savings rate declined by 8 basis points to reach 1.25% from 1.33% at end-December 2013.

Liquidity

2014 saw a fall in liquidity amongst the commercial banks. Liquid Assets fell to \$109 billion as at June 2014 compared to \$124 billion in December 2013. This represented a decrease of 12%. However, Banks are still exceeding minimum liquidity requirements by some 55% or \$30 billion.

With the fall in total deposits, Minimum Reserve Requirements stood at \$39.6 billion as at June 2014, with an excess of \$3.8 billion or 9% (2013:13%).

Exchange Rate

According to the Bank of Guyana, The Guyana dollar, measured against the United States dollar, depreciated by 0.12% to reach G\$206.50. The market experienced mild volatility early in the year but was generally stable during the review period

Capital Adequacy Ratio

The average Capital Adequacy Ratio (CAR) of Banks was 23.3% at end-June 2014, and was consistent with the levels of previous years.

Review of the Bank's Performance

Operations in 2014

Enterprise Wide Risk Management System (ERM)

ERM is a robust framework outlining the methods and processes used by an organisation to strengthen the management of financial and non-financial risks such as strengthening the management of credit, fraud and systems failure.

ERM enhances the basis for decision-making through a clear expression of business objectives, more focused management information and a better understanding of the trade-offs between risk and reward. Effective ERM can provide the assurance that will enable the bank to take more controlled risks and capitalise on opportunities.

A diagnostic review in 2013 submitted to management by the International Finance Corporation recommended a strengthening of our Risk Management functions as it relates to credit, market, liquidity and operations. In their recommendation, two of the very best consulting firms with years of experience in risk management were recommended by the IFC to work with us on the implementation of a new "Enterprise Risk Management" framework. In the end, Financial Access, a consulting firm out of the Netherlands was chosen.

In February 2014, the entire team of consultants, along with two representatives of IFC met with the Board of Directors, Senior Management and functional heads of the bank to conduct work to determine GAP analysis. During the period of March to September the credit risk and market risk implementations were identified and staff were trained in these two areas.

Risk training will be a continuing practice with staff since prudent banking practices are founded on solid risk management principles.

In this regard the Bank will:

- Manage its risk within limits approved by the Board
- Assess and monitor risks on a continuous basis throughout the life cycle of product(s) and service(s) offered
- Conform with laws set out by our regulator and abide by regulations in each country where we conduct business
- Apply best practices in terms of excellence in customer service, human resources and correspondent bank relations as well as other stakeholders
- Ensure that proper controls are in place.

Information Technology Systems

In this age of banking, IT systems are a key pillar for success. Your bank has recognised this and continued to invest heavily in this area during 2014 through upgrades of key elements of our network systems as well as our Automated Teller Machines (ATM) and Point of Sale (POS) networks.

Work is also underway in implementing necessary mechanisms to facilitate the launch of the long awaited Local Switch in Guyana. This development will bring tremendous benefits to the banking population.

In keeping with a Central Bank mandate, we embarked on a project to implement electronic clearance of cheques between banks. This will reduce the time taken to clear cheques deposited, resulting in faster availability of funds. The Central Bank has targeted April 2015 for the implementation of this system and we will be ready for that date.

Significant resources continue to be deployed as we tried to stabilize the core banking system. 2014 has brought vast improvements in this area. We are happy to report that the software has entered into the "performing stage" as our staff become more familiar with the software and its capabilities

In recent years, there has been increased concern related to counterfeit cards and lost/stolen card usage. In response to



this, major card issuers around the world introduced chip card technology. These contain embedded microprocessors that provide stronger transaction security features and other application capabilities not possible with traditional magnetic strips cards. In 2014, the Bank embarked on a project to become compliant with this new technology. This project will extend into 2015 when we will be fully compliant.

We are continually upgrading our network to take advantage of evolving security features to mitigate increased security risks and requirements due to technological advancements. In 2015, even as we continue these upgrades, we will also be looking at other risks such as unreliable communications and ATM attacks. We also have plans to computerize our archives.

Human Resources Management Information System

Cognizant that our employees play the most important role in the delivery of our excellent service to our valued customers, the Bank has set its focus on their development both professionally and socially.

Our staff complement as at the close of 2014, reflected a total number of 500 employees. Our focus remains on ensuring an efficient customer service.

A new Payroll & Human Resources Software (People Pay-HRMIS) was acquired during the year which will serve to enhance the operating efficiencies of both the Human Resources and Payroll Departments. This application went live in January 2015 and many of our human resources management process are now automated and the flow of information has enhanced the timeliness of staff appraisals and other human resources decisions.

Continued focus was placed during the year on both internal and external training of our staff.

We continued to create an enabling social and friendly environment by hosting several competitive inter-branch activities and encouraging staff to take advantage of our recreational facilities.

Long service awards were presented to our employees with over 15 years of service to the Bank.

FACTA/AML

GBTI has been registered as a Foreign Financial Institution (FFI) with the Internal Revenue Service (IRS) signaling the Bank's intent to comply with the Foreign Account Tax Compliance Act (FATCA).

The Bank has spent significant resources on the implementation of a FATCA software platform FATCA Compliance Accelerator by Newgen Software Inc. This tool is especially helpful with identifying potential United States persons/entities from among the Bank's pre-existing clients.

We have introduced new account opening procedures which became effective on July 1, 2014 to cater for clients whose documentation contains evidence of United States indicia.

The establishment of a FATCA page on the Bank's website offers clients and potential clients comprehensive information on the FATCA regime as well as the new procedures which have since been instituted at the Bank.

Corporate Social Responsibility

We are pleased with our record of corporate social responsibility and have set a target of improving that record as we grow.

The Bank donated five iPads to the David Rose School for Handicapped Children in January in an aim to enhance the children's IT and communication skills.

The Bank continued its sponsorship for the fourth year of the Children's Dramatic Poetry Competition to cover both Regional and National matches as part of the Country's 44th Mashramani Activities. This has become a signature activity as it embraces the importance of the art of poetry to the development of young people.

Community Business Workshops were held at our Vreed-en-Hoop, Port Mourant and Port Kaituma Branches as part of

continued efforts to strengthen relationships at our Branch locations. These workshops are held with the aim of meeting with key business persons in the area to discuss with them the importance of financial management and other aspects of business operations.

The Bank also offered its support in the area of health, and also gave support by way of donations to charitable organisations. Our Water Street Branch held its second Annual Blood Drive in collaboration with the Guyana Red Cross Staff and the Bank also donated to the Periwinkle Cancer Club in honour of Breast Cancer Awareness. The Bank made its second annual donation in aid of the Mercy Hospital Rehabilitation Programme.

In the area of Youth Development, fifteen (15) Early Savers who performed well at the 2014 National Grade Six Assessment were awarded at GBTI's Annual Early Savers Bursary Award Ceremony.

Support for sporting activities was undertaken with donations to various sporting disciplines. Our long standing association with the sport of Lawn Tennis continued with the sponsorship of the Annual GBTI Tennis Tournament in July. In October, we were pleased to be part of the Inter-Guyana Games Tennis Tournament along with the Guyana Tennis Association.

GBTI's presence at Trade Fairs in 2014 included attendance at University of Guyana's Career Day and the Berbice Expo. The Bank also hosted its second "Tech Camp" at the University of Guyana to allow University Students easy access to financing in order to purchase technological devices.

FINANCIAL PERFORMANCE 2014

Revenues

For the year ended December 31, 2014, Total Revenue of the Bank was \$6,699 million compared to \$6,468 million for 2013. Total Income grew by 3.5% mainly on interest from loans and advances. Slower economic conditions resulted in lower volumes of business executed and has affected the level of the Bank's commission and fee income.

	2014	2013
Interest Income		
Loans and Advances	4,471,844	4,021,354
Investment Securities	892,244	925,264
Other	24,439	98,621
Other Income		
Commissions	516,481	609,913
Exchange Trading and Revaluation Gains	787,772	806,467
Rental and other income	6,792	7,215
Total Income	<u>6,699,572</u>	<u>6,468,834</u>

Expenses

Total expenditure for the year was \$3,701 million compared to \$3,376 million in 2013. Interest expense accounted for \$895 million while operating expenses stood at \$2,630 million. Interest Expenses fell as a result of lower deposits held during the year.

Total Assets



The Bank's asset base has remained fairly consistent with that of 2013. Our loans portfolio continues to be the key driver of growth and income generation and now represents 47% of total assets, up from 45% in 2013.

Deposits

Total deposits fell by \$3 billion or 3.6% from last year. This fall in deposits was consistent with an overall fall within the banking sector in Guyana. Our Savings deposits have grown by some 7% or \$2.7 billion though our Term Deposits fell by \$4.3 billion and the more volatile Demand Deposits fell by close to \$2 billion. While Term Deposits are more reactive to movements in interest rates, we see the growth of Savings Deposits as responsive to our efforts to satisfy our customers' demands for superior service and products.

Investments

The Bank's Investment portfolio fell by some \$4.5 billion or 18% on account of lower holdings of local treasury bills. Liquidity in the banking system overall has fallen as evidenced by an overall decrease of 36% of liquid assets within the sector.

The Bank's investment portfolio remains well diversified and has shown mark to market gains of \$386 million as at December 2014 after losses of \$361M in 2013 thus boosting comprehensive income to \$2.5 billion in 2014 as against \$1.8 billion in 2013.

Loans and Advances

The Bank's loan portfolio grew by \$1.8 billion or 4% for 2014. Growth of the portfolio has been tempered by economic slowdown as well as reduction of asset quality. The Bank has also been conservative in its approach to lending based on measures adopted through our new risk management framework that includes specific sectorial limits and exposures, until appropriate mitigating measures are reinforced.

We have noted the growth of our Non-Performing loans and concerted efforts are underway to ensure maximum recoverability. These loans are well collateralized. None- the-less, the Bank continues to be prudent and has made additional loan loss provisioning.

Capital Adequacy

The Bank remains well capitalized at 20%, up from 16 % in 2013 and well above the 8% standard regulatory requirements.

Branching

During the year, we were able to complete our building in Port Kaituma, Region #1 and offer to customers there the accommodation of a full service branch.

We were also very pleased to have our Bartica Branch opened for business on 7th October, 2014 with a ribbon cutting ceremony following on Wednesday, 19th November, 2014, which was well attended by the community.

The early responses to these branches as well as to the Port Mourant Branch which was opened in December 2013 inform us of the need for banking services to support economic activity in these areas and which we are very pleased to provide.

Looking Ahead

The global economy is still struggling to gain momentum as many high-income countries



Port Kaituma Branch, Region #1



Bartica Branch

continue to grapple with legacies of the global financial crisis and emerging economies are less dynamic than in the past. Overall, global growth is expected to rise moderately, to 3.0% in 2015.

Several major forces are driving the global outlook and include soft commodity prices, persistently low interest rates but increasingly divergent monetary policies across major economies and weak world trade. In particular, the sharp decline in oil prices since mid-2014 will support global activity and help offset some of the headwinds to growth in oil-importing developing economies. Economic growth in Latin America and the Caribbean is projected to recover in 2015 and reach 2.2% on average.

On the local scene, the unstable political environment will continue to be a drag on economic activity. With elections in the air, economic activity will be affected in 2015. It is hoped that our recent history of peaceful elections will continue and normal business activity can resume within the shortest possible time.

Given the inability of our last Parliament to pass the necessary amendments to the Anti-Money Laundering Bill, the threat of further sanctions from the Financial Action Task Force (FATF) remains.

As export commodities' prices continue to fall, pressures can be expected on the currency as well. The PetroCaribe regime appears beneficial but with gold, rice and sugar prices continuing to slide; foreign exchange earnings may be affected.

The Banking sector can expect degradation of asset quality in a slowing economy as well as reduced demand for credit. With Banks becoming increasingly competitive for deposits, we could see interest rates on deposits going up and spreads narrowing placing downward pressure on profitability.

With the challenges that lie ahead, it is necessary that the right infrastructure is in place to ensure the Bank's growth and the achievement of its targets. The ongoing implementation of the Risk Management System will be an essential part of the success of the bank in 2015.

Measured and consistent growth will be the bank's main objective for the next few years. In an increasingly legislative environment, the bank may be forced to terminate certain relationships that are non-complaint. While such may have an immediate effect on earnings, it will safeguard the gains of the institution for the years ahead.

We believe that Technology will play a significant part in banking locally. As such we continue to deploy significant resources to upgrade our information systems infrastructure to make it safer and more customer friendly.

With the challenges of 2015 will come opportunities for safe and successful banking. We will continue to provide the necessary effort, expertise and skill that are required to achieve the objectives for 2015 and beyond.

Acknowledgements

Overall 2014 was another successful year for the Bank. Our board continues to work tirelessly in providing the strategic direction for the bank. Members of staff at all levels continue to be the key advantage for the bank. Their hard work and dedication and willingness to adapt to the changing environment in banking have created an environment for continued success of the organisation.

To our customers and business partners, we thank you for your support in 2014 and we look forward to continue working with you to build your lives, your businesses as well as a better Guyana.