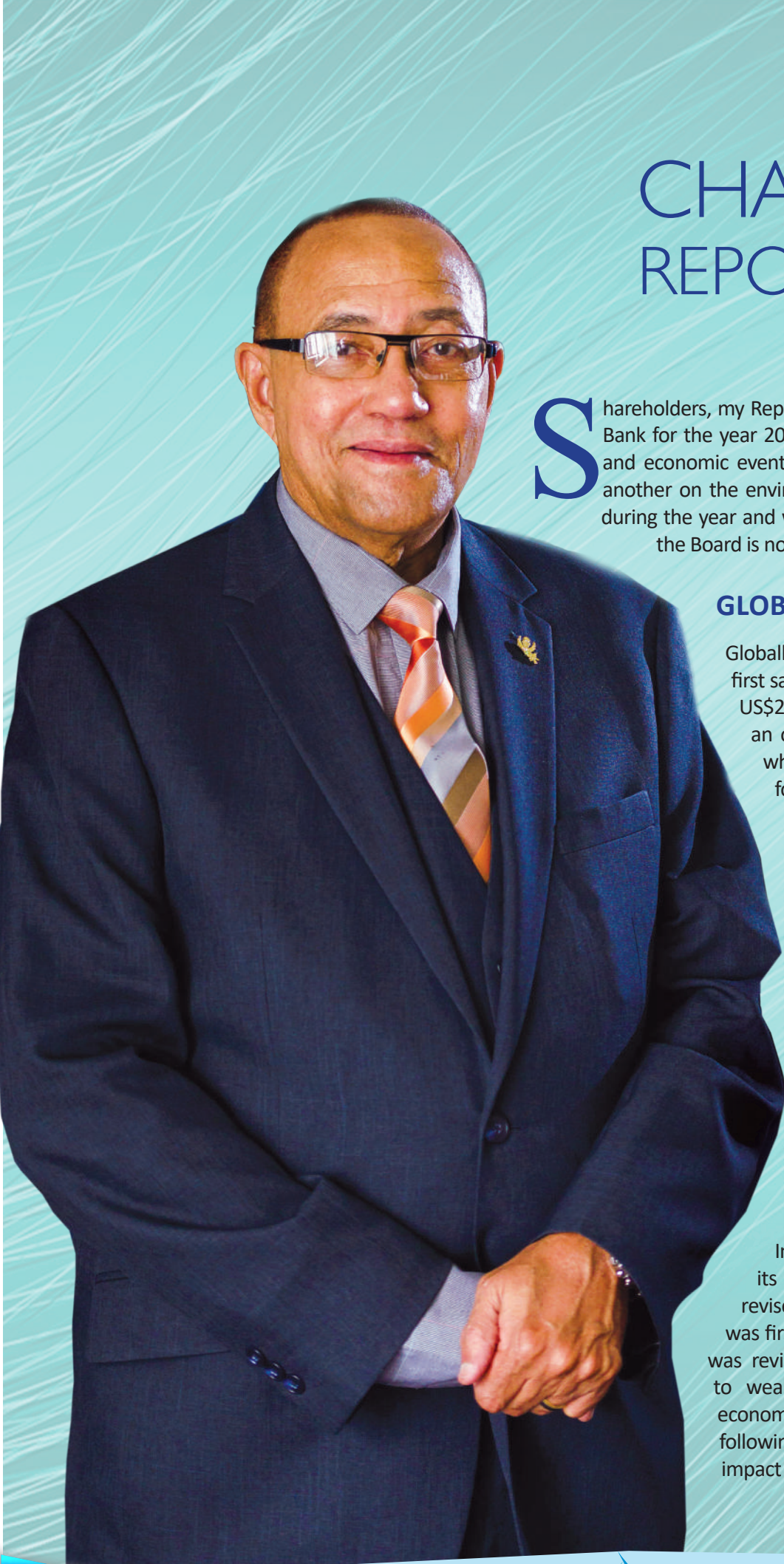


CHAIRMAN'S REPORT



Shareholders, my Report to you on the performance of the Bank for the year 2016 is informed by the many political and economic events that have impacted in one way or another on the environment in which the Bank operated during the year and which drove the year end results that the Board is now declaring.

GLOBAL ENVIRONMENT

Globally, 2016 was a challenging year that first saw oil prices slump in early January to US\$27 per barrel, though in late November an oil production freeze deal was struck when OPEC members met in Vienna, followed by a subsequent agreement between non-OPEC producers in December to also cut supply, which helped deliver a significant boost to crude prices. For many oil consumers, the early price decline provided some measure of relief on public and private consumption expenditure; however the return of the price to pre-2016 levels following the production cuts has returned the burden of the expenditure.

Overall, the global economy grew 2.6% in 2016, down from 2015's 3.0%. Prior to these results, the International Monetary Fund (IMF) in its World Economic Outlook, had twice revised its projection for 2016 when growth was first forecast at 3.4%, then in April 2016 was revised downward to 3.2% in response to weak economic performance in many economies, and further in July, 2016 to 3.1%, following the Brexit vote and its attendant impact on global markets. ►



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Global inflation came in at 3.5% in 2016, the highest result since 2012. While low commodity prices kept inflation contained in advanced economies, economic imbalances fuelled price pressures in emerging markets.

The Japanese Government's move to embrace a negative interest rate policy saw immediate pressures on world market interest rates and signalled the trend across the major global economies that interest rates easing measures would be pursued to stimulate economic activity. Many investors like your Bank experienced volatility in their portfolios and the bond price swings did impact on balance sheet market valuation positions.

Britain's momentous June 2016 referendum on leaving the EU was a shock result to many investors who were confident that the UK would vote to remain in the EU. Britons voted 52 to 48 percent for "Leave" while Scotland and Northern Ireland voted to Remain, as did younger, more educated, and more urban voters. This result, following closely on the heels of the European migrant crisis, has highlighted the critical role social value norms and perceptions are playing in the political decisions of young educated liberal voters as against the opinions expressed by the more traditional and working class voters.

On November 8, 2016, Americans, surprisingly to some, voted to elect Donald Trump as the 45th President of the United States, one of just five US Presidents to win the office while losing the popular vote. He is also the first US President with no prior experience either in U.S. Government or military circles. Countries around the world have paid keen attention to President Trump's foreign policy pronouncements during the elections campaign, and with his election to office, are viewing more closely his trade and foreign policy decisions and their ability to possibly redefine America's relations with the rest of the world. Additionally, uncertainty over the future direction of the US economy is incredibly high. Again, the vote in the American election highlighted

the divide between the young educated liberal voters and the more traditional and working class voters. Both the British vote and the American vote seemed to suggest a worrying dissonance between the establishment and the ordinary citizen of the respective countries.

Closer to the Caribbean region, renowned leader of Cuba, Fidel Castro, died in November 2016 at age 90. Castro was 32 years old when he came to power in 1959 and served for a record 49 years as Cuban President. Castro was supportive of many Caribbean countries in the areas of health and sports and his passing served to rekindle strong interest in the politics and economy of Cuba.

2016 also saw World and Caribbean champion athlete Usain Bolt ending his Olympic career by claiming other sprint Gold medals and cementing his fame as the world's fastest man, bringing much joy to his home country Jamaica and the Caribbean as a whole. We salute him and wish him well in his endeavours beyond the Olympic arena.

FINANCIAL RESULTS

The Bank's net operating income for the year was \$6.2 billion, a 1.1 per cent increase on the 2015 results and reflective of the very difficult year that faced our lending and investment markets. Profit after tax was \$2.04 billion as our increased provisioning expense of \$237 million and lower loan interest income of \$63 million was covered by our gains from sale of investment securities.

The total assets of the Bank have reached \$98 billion while the capital base has grown to \$14.6 billion, within which we have \$13 billion available to sustain future expansion activities.

We are pleased with the efforts we have made in stabilising the Bank throughout another challenging year and believe that this allows us to maintain our level of dividend payout, with our proposed final dividend of \$11.00 per share bringing total dividends for the year to \$17.00 per share, consistent with the previous year. ►

Shareholders, we think that you must be justifiably proud of your Bank and its continued success, which provides much reason to celebrate in 2017 in recognition of the 30th year of the formation of the Bank in November 1987. The Bank has continually delivered solid year end returns to you its shareholders, with current Earnings per Share (EPS) at \$51.09 and your shares now valued at \$440 each on the Guyana Stock Exchange.

For such achievements, I believe that at the outset of my Report I must record, on behalf of the Board, our gratitude to the Management and Staff of the Bank for their dedication and hard work, to our loyal customer base for their patience and understanding as we charted the course for operational efficiency, and to you our shareholders for your dedication and resolve in supporting the efforts of the Board and Management of the Bank.

LOCAL ECONOMY

The National Budget presented in Parliament in January 2016 gave rise to hopes of greater financial flows to the economy from early Government spending activity. However, this did not materialise in any significant way as simultaneously, Government increased its scrutiny over public spending through measures that were explained to the public to be aimed at ensuring transparency and accountability. The construction sector that depends heavily on Government contracts found that there were fewer contracts issued than expected while the efficiency in the issuing of interim and final payments by the Government remained an area of concern.

The review of the national statistics as presented in the National Budget showed that real GDP growth, which was projected to be around 4 percent, was actually 2.6 percent in 2016 from 3.2 percent in 2015. Inflation came in at 1.3 percent as against the negative inflation of 1.8 percent in 2015.

Plans that were announced to reorganise the Sugar industry to improve its financial wellbeing were met with strong opposition from the major opposition

political party, rights organisations, trade unions and sections of industry's workers. There remains significant concern regarding the industry, and the need to reduce its burden on the national treasury is a priority acknowledged by all stakeholders while at the same time recognising the socio-economic significance of the industry to Guyana.

"We are developing our 2017 – 2021 Strategic Plans and, within the targets, are aiming to broaden our range of technological solutions to further enhance the banking experience of our customers in terms of service, functionality, experience and customer fulfilment".

The Bank's loan exposure to the rice and sugar industries dictates our active interest in the direction of policy action by Government and other stakeholders. We recognise that the cost of recovery from inclement weather is one that farmers have borne heavily over the years, and now the loss of prime markets is one that they can ill-afford. We therefore look forward to concerted efforts by Government and other stakeholders in cooperating on initiatives in improving efficiency and embracing new standards for quality assurance in these industries as a precursor to finding new markets.

Guyana now has a keen interest in the global crude oil and gas sectors given the discovery of potential oil bearing wells by Exxon Mobil affiliate companies in an area called the Stabroek Block located approximately 120 miles offshore our country.

Early rough estimates by experts of how much recoverable oil Guyana could have average more than four billion barrels, which at current prices could be worth more than US\$200 billion. As such we applaud Government's efforts to obtain the best expert advice and guidance in all areas of the industry, whether in the formation of contractual arrangements, industry standards, environmental regulations, financial arrangements and other forms of oversight, and moreso in the establishment and operation of a Sovereign Wealth Fund for the country's portion of the oil revenues.

Gold continues to be the mainstay of the economy with declared production for 2016 exceeding that for 2015 by 193,324 ounces. Two new large gold mines opened in 2016 and are expected to drive higher declarations in the future, however the ►



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important role that small miners play in the livelihood of communities and poor families necessitates that due attention be given to supporting their operations within reliable regulatory frameworks. We believe that this important industry requires careful monitoring to ensure that all players comply with mining related environmental regulations and observe proper codes of practice to ensure the longterm sustainability of the industry.

BANKING ENVIRONMENT

We welcome pronouncements by Government favouring a form of Agency banking and are ready to offer our views as part of the consultations, since we believe that this service aids in improving participation in the mainstream financial industry by retail businesses and individuals.

We applaud the steps taken by the Bank of Guyana for the modernisation of the National Payment System through the use of electronic payments. Your Bank has joined with the other banks in adopting new cheque standards and implementing cheque scanners in our operations, which has halved the clearing time previously required to confirm cheques between banks.

Government passed amendments to several pieces of legislation during 2016, including the Credit Reporting Act and the AML/CFT Act, which will have serious impact on the operations of commercial banks. Amendments to the AML/CFT Act prescribe new fines of between \$5 million to \$15 million, including imprisonment, for breaches of the Act by Bank employees. It also prescribes ongoing training for employees to better detect suspicious transactions and the adoption by banks of methods for dealing with specific issues regarding originators of wire transfers. Amendments to the Credit Reporting Act prescribes that, as part of credit risk evaluation, a Credit Report must be obtained from the Credit Bureau before granting credit facilities to customers.

Among the amendments to the Income Tax Act is the controversial provision granting authorization for the GRA to demand that financial institutions remit funds from bank accounts held by taxpayers who have outstanding tax arrears to the GRA, as these arrears are designated as debts to the State.

Banks have over the years been faced with amendments to financial and business legislation and new regulations that have been pushing up operational and compliance costs to record levels – costs that in the main have not been previously passed on to our customers. Compliance has not only become more costly, but requires an increasing number of changes to our banking software to facilitate reporting to a larger number of regulatory bodies. Banks are now called upon to undertake such varied tasks as monitoring the activities of customers, systematically collecting and sharing information regarding certain customer transactions with law enforcement authorities, and ensuring that our products and services meet a range of new standards.

We are concerned that the negative impact and perceptions of these new systems on small and large customers alike fall primarily at the feet of bankers and not at the doorsteps of the regulatory agencies from where they emanate, and we believe that this an area that the banks in Guyana needs to engage the Government in meaningful discussions so as to seek to maintain a proper balance in the financial system of Guyana.

De-Risking was the most active discussion subject among bankers during 2016. The Bank participated in a survey on correspondent banking conducted by the Caribbean Association of Banks in October 2016 which indicated that 55% of indigenous Caribbean banks had, like us, lost at least one correspondent banking relationship as part of de-risking actions taken by international banks. Fortunately, our loss was not prolonged as, based upon the soundness of our Bank and our strong compliance program, we were able to quickly gain a new correspondent relationship with a key US bank which has provided us the opportunity to continue our offer of foreign business services. ►

GOVERNANCE

During 2016, there were two resignations from the Board of the Bank. Mr. Paul Cheong resigned after serving more than 21 years on the Board, with significant contributions while serving on our Audit and Investment Committees. Mr. Michael Cummings, one of our independent Directors, resigned after serving for over a decade, contributing significantly as Chairman of our Buildings Committee. Our sincere thanks are extended to both of them for the contributions and services that they have rendered to the Bank over the years.

During the year, Mr. Richard Isava was appointed to the Board to fill the casual vacancy created with the two resignations. Mr Isava is the Managing Director of our subsidiary, Guyana Americas Merchant Bank, and brings to the Board many years of experience as an investment banker in his native country Trinidad and Tobago.

Significant Board decisions taken during the year include:

- **Established guidelines for the foreign investment strategy of the Bank.**
- **Expanded the role of the Human Resources and Remuneration Committee to take responsibility for Senior Management level succession planning**
- **Approved increased benefits under the Group Life and Health Insurance Policy for staff of the Bank.**

GOALS FOR 2017

We are developing our 2017 – 2021 Strategic Plans and, within the targets, are aiming to broaden our range of technological solutions to further enhance the banking experience of our customers in terms of service, functionality, experience and customer fulfilment.

New products/services developments and transforming to ebanking and digital banking are foremost among our strategies.

Even while we pursue this however, we know that banks today are more vulnerable than ever to cyber threats, data leakage, credit card fraud, hacking and other security breaches. We will therefore employ the best security measures to protect the institution and our customers from such threats.

ACKNOWLEDGEMENTS

I wish to express my gratitude to you the Shareholders for your unwavering support of the plans of the Bank. I also wish to acknowledge with satisfaction the work of my fellow members of the Board of Directors who have contributed to yet another successful year for the Bank, and the unstinting efforts of our Management of Staff whose efforts have contributed to the Bank's performance for 2016.

We together wish to thank our customers and other partners for their business and support during 2016 and pledge to remain diligent in our mission of service in 2017. ■



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