

# Chairman's Review

“The volatility of stock markets and the global financial crisis of recent days have had a sobering effect on bankers worldwide. The prudent banking practices that have been the foundation of this Group have served us well. We therefore are even more respectful of these tried and tested practices as we go forward.”

**Ronald F. deC. Harford**

The Bank has had another year of solid growth both in its core earnings and its balance sheet. This was achieved in a year when the Trinidad and Tobago economy continued to perform well, notwithstanding the convulsions in the world financial markets.

Core profits before tax have increased by 17.7% from \$1,314 million last year to \$1,546 million this year. The Group continues to maintain a very strong balance sheet. Assets now stand at \$41.6 billion, reflecting respectable growth of 11.3% over last year. This growth has been achieved whilst simultaneously improving our asset quality.

The Board of Directors has declared a final dividend of \$2.23 (\$2.00, 2007) payable on the 28th November 2008. This brings the total dividend for the year to September 30th 2008 to \$3.38 (\$2.94, 2007).

## GLOBAL

The global economic environment in the year under review can best be described as tumultuous. Volatile commodity prices, slowing US growth, tightening credit markets and institutional collapses delivered multiple shocks.

In the US, the sub-prime debacle continued to run its course with a steady increase in foreclosures and



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declining property prices. We have also seen the solvency of financial institutions threatened as debt securities and other assets diminished in value resulting in significant financial loss. In this interconnected world, the effects of a slowing US economy and increasing unavailability of credit quickly spread to Europe, Asia and Latin America with similar repercussions there. The potential collapse of a number of major financial institutions on both sides of the Atlantic impacted stock markets across the world, triggering fears of financial chaos. The possible meltdown was arrested by the unprecedented intervention by governments into the financial sector. This took the form of the injection of capital and the guaranteeing of deposits held in banks.

With retreating commodity prices reducing inflationary pressures, leading Central Banks cut key benchmark rates in an attempt to avert further economic contraction. Nonetheless, prospects remain grim, with most economists predicting a global recession in 2009.

## REGIONAL

Regional financial institutions were largely insulated from the maladies afflicting their northern counterparts. Economic growth this year has been curbed by declining receipts from remittances, tourism and trade due to the region's strong trade links with the US. This has dampened prospects for an early economic resurgence as the IMF has forecasted for the Caribbean region, a reduced economic growth rate of 2.9 percent in 2009.

Focusing on the markets within which we operate, there was a change in government in Barbados with the Democratic Labour Party assuming leadership in January 2008. This tourism based economy performed reasonably well under trying conditions. High commodity prices caused inflation to reach 8 percent and annual growth is expected at less than 2 percent for 2008. The widening economic slowdown will more than likely result in declines in visitor arrivals from the UK and US. Barbados can therefore expect a challenging 2009.

Despite an anticipated increase in the current account deficit, the authorities have maintained some measure of fiscal flexibility in their efforts to adjust to the dynamically changing environment. Standard & Poor's has reaffirmed the island's sovereign foreign currency rating at BBB+.

In Grenada, the incumbent New National Party was defeated at the polls by the National Democratic Congress. Higher commodity prices spurred domestic inflation and economic activity slowed with the IMF projecting growth of 1.6 percent in 2008. Weakening global demand and planned rollbacks by airlift providers are expected to reduce tourist arrivals in the year ahead. Construction activity also slowed and the agriculture sector, formerly one of the main economic drivers, will take a number of years to achieve past production levels following the damage of Hurricane Ivan in 2003.

Guyana is expected to register solid growth of about 4% this year. Inflation has been trending down for the first half of 2008 and could average 8 to 9 percent for the year. The shortfall in sugar production in the first quarter is likely to be offset by the significant production boost expected from the Skeldon Sugar Factory, scheduled for completion in early 2009. Rice production has broken all recent records and seismic surveys are soon to be conducted as Guyana is set to begin its foray into energy exploration. We are therefore cautiously optimistic about Guyana's economic outlook.

## TRINIDAD AND TOBAGO

With GDP growth of 6.5 percent for 2008, Trinidad and Tobago's energy based economy is beginning to show signs of attaining full employment. There are a large number of capital projects in progress and even more in the pipeline. As a result, unemployment rates for 2008 are projected to remain low, at around 5.3 percent. Looking ahead however, the country may be in for some turbulence, particularly in light of the severe economic crisis facing the world economies and the effect that the rapid decline in the price of both oil and gas will

have on government's ability to sustain its public sector infrastructure programme.

Inflation is also a serious cause for concern. The year on year rate increased to 10.6 percent at August 2008, and further increased to 14.8 percent by October. Consequently, the Central Bank has continued its aggressive liquidity absorption policies, using every monetary measure at its disposal. In an effort to curb consumer spending, the Central Bank has increased the 'Repo' rate by 75 basis points in 2008 to 8.75 percent and has increased the primary reserve requirements for banks from 11% to 17% over the 10 months ending October 2008. Accordingly, prime interest rates have increased to 13 percent with further increases expected.

While the downward trend in global economic growth rates are not expected to have an immediate impact on Trinidad & Tobago development plans in the short to medium term, falling world demand will affect the country's exports of ammonia, methanol and steel with further damaging effects on government's revenues. GDP growth for 2009 at 6 percent therefore looks optimistic in the context of this deteriorating world economic environment. Nevertheless, government expects that the Trinidad and Tobago economy will remain relatively buoyant because of rising fiscal expenditure on social programmes and the infrastructure projects currently in train. This should keep unemployment rates down but inflationary pressures high.

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Two members of our Board of Directors changed during the year. Mr. Razai Azaad Rahaman, Chairman of the Rahamut Group of Companies and one of the longer serving members of our Board, retired in March. His invaluable contribution to the organization over the past 20 years, during which period the Bank experienced phenomenal growth is greatly appreciated. Mr. Thomas

R. Evans passed away in July after a brief illness. He was a distinguished chartered accountant and founding member of the Institute of Chartered Accountants of Trinidad and Tobago. His vast experience enriched our many deliberations at Board level and he will be sadly missed. To fill these vacancies, we are pleased to welcome Dr. Terrence Farrell and Mr. Stephen Pollard to the Board of Directors.

Dr. Terrence Farrell is the Group Chief Executive Officer of One Caribbean Media Limited, the President of Business Insight Limited, and a former Deputy Governor of the Central Bank of Trinidad and Tobago. Mr. Pollard is the president and Chief Executive Officer of Caribbean Nitrogen Company Ltd with over 25 years experience in the energy sector.

In closing, I wish to thank the management and staff for their invaluable contribution to these fine results and to acknowledge our customers, shareholders and fellow Directors for their continued support and contribution to the Group.