



“Amidst the challenges of failing financial institutions and the rapid slowdown in tourism, foreign direct investments and remittances, the Group maintains a strong and stable core revenue flow, and continues to have a very strong balance sheet.”



Ronald F. deC. Harford

Chairman's Review

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Last year in reporting to shareholders, we highlighted the tumultuous global economic environment and indicated that the region and its financial institutions had not yet felt the full impact of the global turmoil. As envisaged, the region did not escape unscathed and in 2009 had its share of financial institution failures. The CL Financial Group failed and Stanford Financial Group collapsed. These failures, concomitant with the rapid slowdown in tourism, foreign direct investment and remittances, have negatively impacted the Caribbean region.

Notwithstanding these circumstances, the Group recorded a profit attributable to shareholders of \$948.4 million, a decline of \$255.4 million (21.2%) compared to 2008. Core operating profit before provisioning and taxation turned in a strong performance of \$1.76 billion, 11.3% higher than the prior year. The reduction in profit can be attributed mainly to provisions of \$446.4 million for non-performing loans occasioned by the changed circumstances of some of our customers. Although these provisions are substantially higher than prior years, we consider them to be prudent. The Group maintains a strong and stable core revenue flow and continues to have a very strong balance sheet with a Tier II capital adequacy ratio of 24.2%, well above the required minimum of 8%.

The Board has declared a final dividend of \$2.23 per share payable on November 30, 2009. This brings the total dividend for the year to \$3.38 per share (\$3.38 - 2008).

GLOBAL

There has been a gradual stabilisation of the world's economies as government stimulus packages and the low interest rate environment have begun to take effect. Forecasters however, caution that threats still exist and that the recovery is likely to be characterised by modest economic growth.

In the US, although the deterioration of key economic indicators has moderated, rising unemployment continues

to be a cause of concern. While analysts expect an improvement in global GDP in the last quarter of 2009, there is concern in some quarters that the rising unemployment and stagnating consumption could delay a full recovery. The US economy is projected to contract 2.6% in 2009 and to achieve modest growth of 0.8% in 2010. The Euro area is expected to fare worse, with contractions of 4.8% and 0.3% expected for 2009 and 2010 respectively.

Asia, driven in part by the largest fiscal stimulus package, relative to GDP, of any region in the world, has rebounded from the crisis at a faster rate than its Western counterparts. China is expected to grow by 7.5% in 2009 and 8.5% in 2010 and India by 5.4% and 6.5%, respectively. The other economies of the region are being pulled along by these strong growth rates.

Globally, economic activity is forecast to contract by 1.4% in 2009 but return to growth of 2.5% in 2010. On the other hand, global inflation has fallen to just 1.7%, down from around 6% one year earlier. Despite renewed pressure from rising commodity prices and rebounding stock markets, significant excess capacity is expected to keep global inflation subdued through 2010.

REGIONAL

The Caribbean is now experiencing the full effects of the global financial crisis. There has been a marked decline in tourist arrivals, a decline in remittances and a steep fall in new investment. Additionally, the Caribbean has witnessed its own financial institutions crisis with the failures of the CL Financial Group and the Stanford Financial Group. Reduced revenue streams have also caused the private sector to restructure its operations, resulting in rising unemployment rates. These adverse conditions have prompted several islands to approach the International Monetary Fund (IMF) for assistance.

Economic growth in Barbados has stalled. The tourism sector, the economy's backbone, has experienced a decline

and the construction sector has shed numerous jobs. It is likely that the tourism season will improve for the winter months but not sufficient to stave off a recession in 2009. The Governor of the Central Bank of Barbados has warned that the economy will contract by 4%, while unemployment figures may reach double-digit levels. No growth is expected in 2010.

Grenada is also experiencing challenging economic circumstances. There has been contraction in tourism, construction and remittances. GDP is expected to decline by 6% in 2009 and unemployment is projected to approach 30%. Guyana's economy grew by 3% in 2008. In 2009, Guyana benefited from weak fuel prices thus reducing inflation to below 6%. While the tight credit conditions have caused most of the major development projects planned for Guyana to be delayed, the upsurge of prices for agricultural commodities has benefited the country's economy. A growth in GDP for 2009 of 4% is projected.

TRINIDAD AND TOBAGO

After sixteen consecutive years of solid growth, the Trinidad and Tobago economy is expected to contract by up to 2% in 2009 as the energy sector, the main driver of growth, has been negatively affected by reduced exploration activity locally and the recession internationally. This, together with the decline of prices for all energy-based commodities, has adversely impacted Government's fiscal position. A deficit of TT\$7.7 billion, to be funded by debt, is budgeted for 2009/10 fiscal. However, total government debt is expected to be 42% of GDP in 2009 and rise further to a manageable 45% in 2010. The country continues to have strong reserves with import cover at eleven months and with the Heritage & Stabilisation Fund currently standing at US\$2.9 billion.

Headline inflation decreased from 15.4% in September 2008 to 4.3% in August, 2009. Bearing in mind reduced inflationary pressures, the Central Bank has reduced the "Repo" rate by 225 basis points over the course of 2009 to 6.25% as at the end of September. Commercial banks'

prime lending rate has fallen to 9.90% in October, 2009, down from 13% in September, 2008. The Treasury-bill rate has also fallen substantially from 7.35% to 1.49%. Notwithstanding this low interest rate environment, there has been a decline in the demand for credit.

The country's economic fundamentals remain strong and the Trinidad and Tobago economy is expected to grow, all be it slowly, in 2010.

OUTLOOK

The year ahead will be another challenging one for the economies in which we operate. But, even as times are challenging, there will be opportunities for those who are prepared. The Group is well positioned to seek out and to take advantage of any opportunities that may arise. We have a well-capitalised balance sheet, a strong revenue flow and a staff and management that are focused on our core business of banking. We will continue to concentrate on excellent customer service, risk assessment and asset management.

Mr. William Aguiton retired from the Board in December 2008 and Dr. Bhoendradatt Tewarie resigned as a member of the Board in June this year. Both Mr. Aguiton and Dr. Tewarie made sterling contributions to the Board and will be missed. In their place, I am pleased to welcome Mr. Christian E. Mouttet whose significant business experience is already of value to our deliberations. Mr. William H. Pierpont Scott joined us in October and we are confident that the main Board will benefit from the astute contributions he has been making for years on our Republic Finance and Merchant Bank Limited, Republic Bank (Guyana) Limited and Republic Securities Limited Boards.

I wish to thank the management and staff for their commitment which enabled us to produce satisfactory results in these challenging times and to express appreciation to our customers, shareholders and fellow Directors for their ongoing loyalty and support.