



“We are optimistic about the future. With our healthy balance sheet, more than sufficient liquidity, and strong capital adequacy, we are well positioned for the opportunities that 2010 may bring.”



David J. Dulal-Whiteway

## Managing Director's Discussion and Analysis

# Managing Director's Discussion and Analysis

The worldwide economic crisis, which started two years ago, is still here with us and the prognosis for recovery is sometime late in 2010. Governments across the globe have implemented measures aimed at stimulating their economies, but the results have been slow to materialise. Economic regions like ours in the Caribbean, which are heavily dependent on the fortunes of the developed and industrialised countries, are feeling the impact of the slowdown in travel, trade and foreign direct investment.

Republic Bank Limited has always employed a sensible, conservative approach in doing business, focusing on prudent risk management whilst being cognisant of the security of our customers' funds. This is the approach we continue to take as we guide the Bank and our customers through these turbulent times. In recognition of the Bank's exemplary stewardship of its portfolio during these uncertain times, Global Finance, the New York-based international banking and finance publication, has named Republic Bank Limited the Best Emerging Market Bank in Trinidad and Tobago for 2009.

Our primary focus has been on our customers so as to ensure that they survive the crisis with a minimal fall-out. To that end, we have led the market in the reduction of interest rates, ensuring our customers have the lowest cost of financing. We have stayed in close contact with our customers, guaranteeing that we understand their needs. We launched a Small and Medium Enterprise Toolkit to help our customers make prudent choices in these difficult and uncertain times. We also executed several service initiatives. We introduced our new teller platform, implemented 'straight through processing' to enable a faster more efficient transfer of foreign currency worldwide, upgraded several of our automated banking machines and opened two new 'state of the art' branches in Trinidad. These measures bore fruit as we saw continued improvement in our customer service delivery as measured by our semi-annual surveys.

Whilst supporting our customers through this critical time, the Bank never lost sight of the importance of maintaining a healthy balance sheet. Close attention was paid to maintaining liquidity, reinforcing our prudent lending criteria and preserving the quality of our assets. Despite the uncertainty of the times, our balance sheet has exhibited a small overall growth. Our loans and advances portfolio has seen a decline year-on-year of 7.2%. Provisioning for non-performing loans at \$ 446 million, is much higher than in previous years, but necessary as we adjust for the decline in credit quality of some of our customers.

With the uncertainty of these economic times, we reconfirm our commitment to the communities in which we operate. The Bank has not reduced its level of support, through the Power to Make a Difference programme. We are holding to our commitment to fund \$100 million in relevant projects over a five-year period to aid the development of programmes for the youth, elderly and the differently able.

Profit attributable to shareholders for 2009 is \$948.4 million, down 21.2% on 2008. However, core operating profit before provisioning and taxation is \$1.76 billion, 11.3% higher than the previous year. Despite the level of provisioning taken this year, the Bank still turned out a satisfactory performance in what can only be described as challenging times.

Dividends for 2009 of \$3.38 have been held constant at the 2008 levels. The Bank's capital adequacy ratio is strong and improving. The combined Group Tier II ratio is 24.2%, well in excess of the minimum requirement of 8%, and more than sufficient to meet the needs of the organisation in 2010.

Following is the detailed analysis of our results. I recommend that this be read in conjunction with the audited financial statements contained on pages 1 to 89 of this report.

## SUMMARY RESULTS OF OPERATIONS

Republic Bank Limited is a financial services Group encompassing fifteen subsidiaries and three associated companies. Total assets as at September 30, 2009, stood at \$42.4 billion. The Group is engaged in a wide range of banking, financial and related activities in the Caribbean.

### SUMMARY OF REPUBLIC BANK LIMITED OPERATIONS

All figures are in TT\$M	2009	2008	Change	% Change
<b>Profitability</b>				
Core profit before taxation and provisioning	1,760.1	1,580.8	179.3	11.3
Allocation of Visa Inc. shares	-	112.0	(112.0)	-100.0
Provision for loan losses	(446.4)	(34.4)	(412.0)	-1,197.7
<b>Profit before taxation</b>	<b>1,313.7</b>	<b>1,658.4</b>	<b>(344.7)</b>	<b>-20.8</b>
Profit after taxation	1,038.8	1,304.1	(265.3)	-20.3
<b>Profit attributable to shareholders</b>	<b>948.4</b>	<b>1,203.9</b>	<b>(255.5)</b>	<b>-21.2</b>
<b>Balance Sheet</b>				
Total assets	42,446.4	41,566.7	879.7	2.1
Total advances	21,916.6	23,607.1	(1,690.5)	-7.2
Total deposits	28,053.7	27,483.7	570.0	2.1
Shareholders' equity	6,755.7	6,051.3	704.4	11.6

Core profit before provisioning and taxation at \$1.8 billion is up 11.3% over 2008. This improvement in core performance resulted primarily from the management of funding cost and operating expenses. Overall cost of funding was down 16% on prior year. The reduction in interest expense reflects declining interest rates as well as the change in the mix of funding products, with customer deposits and retained earnings replacing higher costing

funding instruments. Tight control of operating expenses yielded a 3% reduction of cost compared to prior year.

The main influencer on final performance however was the level of provisioning. The fall-out from the global financial crisis brought a general deceleration in business as confidence waned. Investments by customers, profitable prior to the fall-out, now proved less attractive,

## Managing Director's Discussion and Analysis

resulting in some customers being unable to service their facilities.

The tightening of our lending criteria as well as customers' prudent response to the economic crisis led to a reduction in the loans and advances portfolio. Despite this reduction of 7.2%, the balance sheet grew by 2.1%, with a resulting improvement in liquid assets of 20%.

Let us now review this performance across the territories in which we operate.

### ANALYSIS OF PERFORMANCE BY TERRITORY

Trinidad and Tobago is home to the head office of Republic Bank Limited. It is our main market and, fueled by oil and gas production, it is also the strongest economy of the region. In these uncertain economic times however, the response from our customers was immediate and we saw a significant contraction in the need for credit. Net interest income grew by 7.9% compared to 23% in 2008. This was driven by falling interest rates and a reduction in funding costs.

Barbados' increase in net interest income of 3.1% was also achieved by a reduction in their cost of funding. While the Barbadian economy is negatively impacted by the falling-off in tourist arrivals, BNB had a good year, delivering a steady performance. The Cayman, Guyana and Eastern Caribbean grouping has seen net interest income stay relatively flat year-on-year.

### NET INTEREST INCOME (\$'000)

Country	2009	2008	Change	% Change
Trinidad & Tobago	1,466,858	1,359,943	106,915	7.9
Barbados	359,994	349,189	10,805	3.1
Cayman/Guyana/Eastern Caribbean	273,592	274,703	(1,111)	-0.4
<b>Total</b>	<b>2,100,444</b>	<b>1,983,835</b>	<b>116,609</b>	<b>5.9</b>

### CORE NET PROFIT BEFORE PROVISION AND TAXATION (\$'000)

Country	2009	2008	Change	% Change
Trinidad & Tobago	1,471,334	1,323,015	148,319	11.2
Barbados	248,537	241,122	7,415	3.1
Cayman/Guyana/Eastern Caribbean	170,130	142,607	27,523	19.3
Dominican Republic	-	(2,552)	2,552	100.0
Inter-company eliminations	(129,932)	(123,364)	(6,568)	-5.3
<b>Total</b>	<b>1,760,069</b>	<b>1,580,828</b>	<b>179,241</b>	<b>11.3</b>

The analysis of the Group's core net profit before taxation and provision for non-performing advances, excludes the gain of \$112.0 million on the allocation of Visa Inc. shares in 2008. This reflects core Group net profit of \$1.8 billion, 11.3% higher than that reported last year. Along with the management of funding cost, the other performance driver this year was the management of operating expenses. Operating expenses fell 3% in 2009, contributing to the overall improvement in core profitability. We are pleased to report an improvement in core operations in all our territories.

### LOAN LOSS PROVISION

As stated earlier, the slowdown in the region's economy has affected some of our customers, resulting in an increase in provisioning, particularly so in Trinidad and Tobago. The Group's non-performing loans to gross loans ratio increased this year to 4.6%.

Our policy is to ensure that sufficient capital is set aside to cover our non-performing loans portfolio, as this is the key to our consistent healthy long term performance. Direct provisioning and the contingency reserve provide for more than 100% of non-performing loan cover.

## Managing Director's Discussion and Analysis

Loans and Advances	2005	2006	2007	2008	2009
Performing loans	15,577	17,646	20,101	23,683	<b>21,719</b>
Non-performing loans	547	431	469	417	<b>1,044</b>
Gross loans	16,125	18,077	20,570	24,100	<b>22,763</b>
Loan provision	372	281	282	227	<b>606</b>
Contingency reserve	72	150	196	218	<b>477</b>
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Non-performing loans to gross loans	3.4%	2.4%	2.3%	1.7%	<b>4.6%</b>
Provision as a % of non-performing loans	80.9%	100.0%	101.7%	106.7%	<b>103.7%</b>

The break out of the loans and advances portfolio by territory for 2009, shows Trinidad and Tobago having a 4.5% non-performing portfolio. This is up from 1.2% in 2008 and as discussed, is influenced by the slow-down in the economy. We do not expect this level of provisioning

going forward. Our prudent banking policies have always served us well, and we anticipate a quick recovery as soon as the economy rebounds. Despite the need for increased provisioning this year, profitability remains strong.

Loans and Advances	T'dad	B'dos	Cay/Guy East Car.	TOTAL
Performing loans	14,896	4,706	2,117	<b>21,719</b>
Non-performing loans	708	292	44	<b>1,044</b>
Gross loans	15,604	4,998	2,161	<b>22,763</b>
Loan provision	507	79	20	<b>606</b>
Contingency reserve	245	221	11	<b>477</b>
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Non-performing loans to gross loans	4.5%	5.8%	2.0%	<b>4.6%</b>
Provision as a % of non-performing loans	106.2%	102.7%	70.5%	<b>103.7%</b>

### TOTAL ASSETS

The Group's total asset base now stands at \$42.4 billion, an increase of 2.1% on that reported for September, 2008.

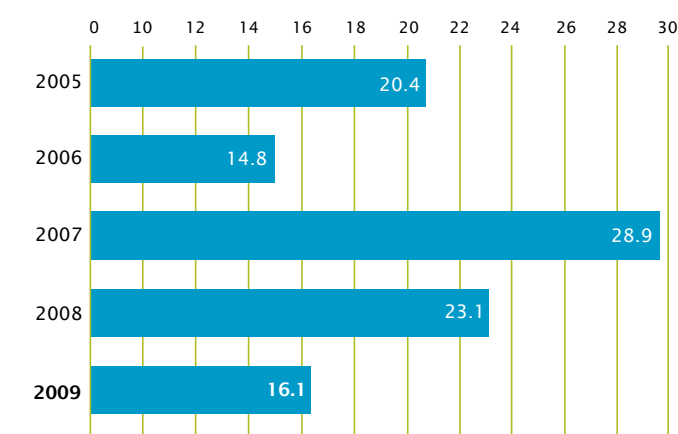
This minimal growth achieved amidst a 7.2% decline in the loans and advances portfolio is creditable. Liquidity is strong throughout the territories and we are comfortably positioned for any challenges that 2010 may bring.

Country	2009	2008	Change	% Change
Trinidad & Tobago	<b>30,289,274</b>	29,983,345	305,929	1.02
Barbados	<b>9,237,060</b>	9,818,254	(581,194)	-5.92
Cayman/Guyana/Eastern Caribbean	<b>7,747,569</b>	7,615,652	131,917	1.73
Inter-company eliminations	<b>(4,827,548)</b>	(5,850,551)	1,023,003	-17.49
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<b>Total</b>	<b>42,446,355</b>	<b>41,566,700</b>	<b>879,655</b>	<b>2.12</b>

### RETURN ON ASSETS (%)



### RETURN ON EQUITY (%)

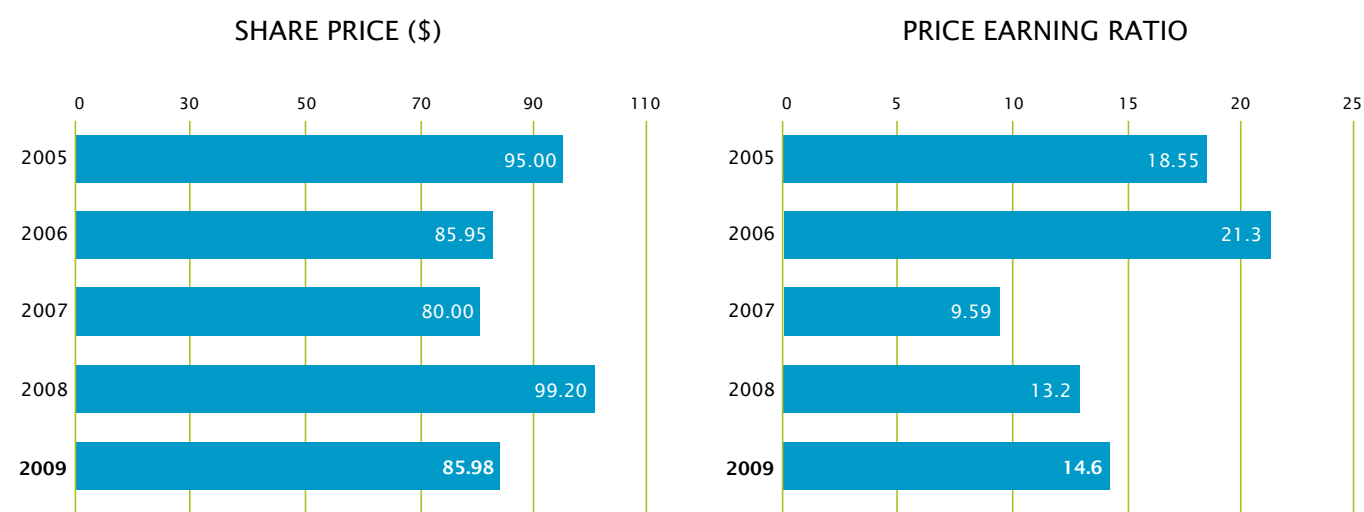


### RETURN ON ASSETS AND RETURN ON EQUITY

The strong balance sheet and performance indicators continue to reflect the sound financial institution that

is Republic Bank. Our adherence to the basic tenets of prudent banking has served us in good stead. We continue to focus on risk assessment, strong liquidity and strong capital and asset management.

# Managing Director's Discussion and Analysis



At September 30, 2009, the Bank and each of its banking subsidiaries exceeded the minimum levels required for adequately capitalised institutions.

Republic Bank's dividend policy is to distribute 40% to 50% of Group's net earnings to shareholders. This year however, we have elected to hold the dividend payout to the level of 2008, paying a total dividend of \$3.38, (\$543 million). This amounts to 57% of net profit. The Group's capital adequacy is well over the required 8% Tier 2 minimum and its solid capital base leaves it well positioned to accomplish future growth and expansion.

## CAPITAL STRUCTURE

The Group's policy is to diversify its sources of capital, to allocate capital within the Group efficiently and to maintain a prudent relationship between capital resources and the risk of its underlying business. In spite of the level of provisioning this year, shareholders' equity increased by \$704 million to \$6.7 billion over the year under review.

Capital adequacy is monitored by each member of the Group, employing techniques based on the guidelines developed by the Basle Committee on Banking Regulations and Supervisory Practice (the Basle Committee), as implemented by the respective territorial Central Banks for supervisory purposes. The risk-based capital guidelines require a minimum ratio of core capital (Tier 1) to risk-weighted assets of 4%, with a minimum total qualifying capital (Tier 2) ratio of 8%. Core (Tier 1) capital comprises mainly of shareholders' equity.

## OUTLOOK

We are optimistic about the future. We have several strategic initiatives in train, which will unfold in the next financial year. We would be rolling out our new computer system in Barbados, which will continue to enhance efficiency. In Trinidad and Tobago, our new data warehouse and customer relationship management system will further improve our customer service levels and drive efficiencies. With our healthy balance sheet, more than sufficient liquidity and strong capital adequacy, we are well positioned to face any uncertainty that 2010 may bring.

All of the above could not have been accomplished without a strong support team. I offer my sincerest thanks to our shareholders, customers and staff and I am ever grateful to the Board for its guidance and appreciative of the continued sterling effort of Team Republic.

Capital adequacy ratio	2009	2008
Republic Bank Limited	28.31%	23.92%
Republic Finance and Merchant Bank Limited	40.49%	32.55%
Republic Bank (Cayman) Limited	28.28%	15.43%
Republic Bank (Grenada) Limited	18.00%	18.10%
Republic Bank (Guyana) Limited	14.30%	15.00%
Barbados National Bank Inc.	17.45%	16.90%