

MANAGEMENT DISCUSSION AND ANALYSIS

This section of the Group's Annual Report provides a discussion and analysis of the financial condition and performance of the consolidated operations of the Barbados Public Workers' Co-operative Credit Union Limited, and its subsidiaries ("the Group") for the financial year ended March 31, 2014.

The Group includes the parent, Barbados Public Workers' Co-operative Credit Union Limited, its subsidiary, BPW Financial Holdings Inc. and its subsidiary, CAPITA Financial Services Inc. ("Capita").

Overview:

At March 31, 2014, the total consolidated assets of the Group reached \$1.0 billion reflecting a steady growth in operations since the acquisition of Capita Financial Services Inc. (formerly CMFC) in August 2010.

This major milestone achievement, particularly during a prolonged period of economic downturn, is testimony to the loyalty and support of the Credit Union's members, as well as the customers and staff of the other financial institutions in the Group.

Moreover, this achievement is a reflection of a process of continuous improvement, a shared strategic vision of key objectives, diligent risk management and a proactive approach to the needs of its key stakeholders.

The strong performance of the Group was also reflected in the consistent growth of net earnings, albeit at a reduced rate when compared with the last year. Group consolidated net income for the year under review was \$11.1 million compared with \$12.8 million for the previous year. Increased operating costs driven principally by increased staff costs, new office facilities and product promotions and member incentive packages have contributed to this shortfall in net earnings. The earnings momentum generated by these cost initiatives is however, expected to drive positive results to the bottom line well beyond 2014.

The Group continued to maintain tight control over the rate of loan delinquencies, resulting in a decline in the non-performing or impaired loan ratio from 7.5 percent in 2013 to 6.7 percent in 2014. However, as a prudent measure and following a diligent review of the portfolio, the loan impairment provision was increased from \$20.6 million in 2013 to \$22.6 million in 2014. As a result, the ratio of provision to impaired loans moved from 35 percent in 2013 to 40 percent in 2014.

On the whole, the Group recorded improved performances in its core business as results were largely volume-driven at the expense of downward pressure on income yields. Loan growth almost doubled from 3.32 percent in 2013 to 6.52 percent in 2014. Deposit growth climbed from 4.95 percent in 2013 to 8.64 percent in 2014. Net interest margin remained essentially flat year over the year at 4.95 percent as management employed various pricing strategies to drive loan and deposit volumes and offer value-added services to members and customers.

Outlook:

Undoubtedly, the Group is operating in a challenging economic environment that is already impacting the sustainability and future growth of key players in the financial services sector. Faced with continuing deterioration in credit quality, there is a constant need to reassess capital levels, identify stress points and manage risk exposures.

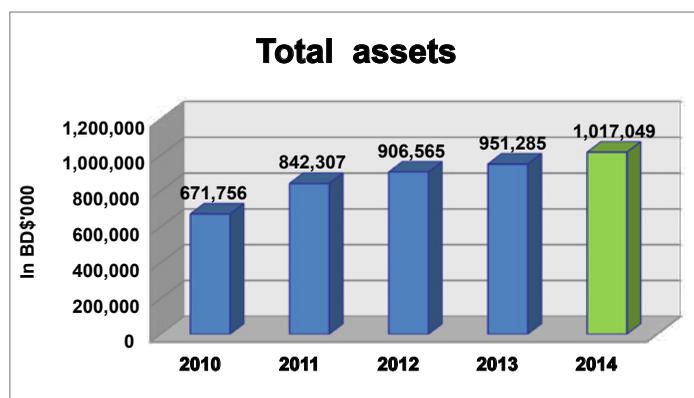
Coupled with these factors, the Group will be under mounting pressure to maintain its positive growth trends as the effects of recent fiscal adjustments are implemented. Chief among these are the large-scale retrenchment of employees in the public service and the proposed introduction of a tax on assets of non-bank financial institutions.

Notwithstanding these circumstances, the Group will meet these challenges with renewed emphasis and vigor as was done in the past.

Economic Review:

Despite improved prospects for growth in the global environment, the local economy continued to experience a steady decline in economic activity over the last twelve months. Weak macroeconomic conditions resulting from a large fiscal deficit and persistent high debt levels are major underlying factors that have stifled any meaningful attempt to raise investor confidence and build momentum in the productive sectors of the Barbados economy.

According to the most recent economic reports, the Barbados economy is estimated to have contracted by 0.4 percent in the quarter ended March 31, 2014, with declines reported in both the traded and non-traded sectors. The overall decline for 2013 was estimated to be 0.1 percent. The inflation rate declined to 1.7 percent, however, the average unemployment rate was 11.7 percent for 2013 compared with 11.6 percent for 2012.



Foreign exchange reserves recovered to reach approximately 16 weeks of import cover as government instituted a series of fiscal consolidation measures aimed at reducing downward pressures on the foreign reserves. In particular, these measures