

# MANAGEMENT DISCUSSION AND ANALYSIS

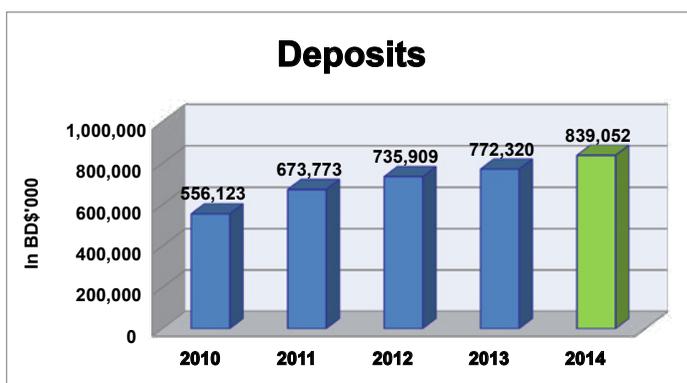
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included a planned reduction of the public sector workforce by 11 percent in order to meet fiscal budgetary targets and restore stability to the economy in the near to medium term.

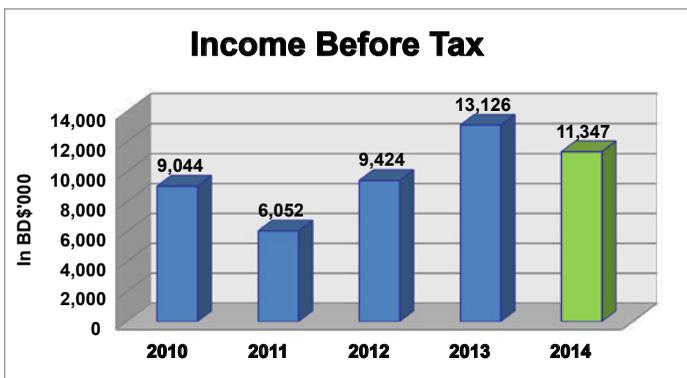
The fiscal measures announced by government also included new tax measures amounting to \$200 million of additional revenue which, together with the expenditure cuts, were projected to reduce the current fiscal deficit from 11.3 percent of GDP to a more desirable target of 6 percent of GDP.

Included in the tax measures is a proposal to extend the tax on assets of banks to non-bank financial institutions, such as credit unions and finance companies.

The financial system was reported to be generally stable. However, the banking system recorded declining financial ratios as loan growth and profitability indices trended downwards. Leading financial indicators for the non-bank financial sector remained largely unchanged with modest growth in some business segments.



Notwithstanding these developments, a recent report on the stability of the financial system of Barbados found that the sector as a whole was well capitalized above regulatory requirements and remained resilient to external shocks at the baseline level. However, vulnerabilities were identified in simulations of adverse moderate to severe macroeconomic conditions.



## Outlook:

The success of the measures outlined in government's fiscal adjustment program will be a key imperative in restoring stability to the economy. In the short term, the economy is not expected to grow significantly, but a gradual, sustainable recovery is expected to commence by 2016. This will depend largely on obtaining increased levels of foreign direct investment, strengthening competitiveness in the tourism and international business sectors and a general improvement in the business climate of the country.

## Consolidated Financial Statement Highlights

### Revenues:

For the financial year ended March 31, 2014 the Group earned total interest revenue of \$77.9 million, up from \$73.9 million for the previous year. This represented an increase of \$4.0 million or 5.4 percent year over year and is attributable to the steady growth in both consumer and mortgage loans across the Group.

Income generated from non-interest sources, however, declined by \$0.6 million or 14.5 percent compared with the previous year, primarily as a result of a drop in rental income.

### Net interest income:

Despite competitive pressures in lowering lending rates, prudent management of the interest spread resulted in consistent growth in net interest income during the year. Net interest income grew by \$3.2 million or 7.1 percent to \$48.7 million for the year, positively impacted by increased loan volumes and a reduction in funding costs.

As a consequence, with the downward pricing adjustments, the net yield on average assets or net interest margin remained essentially unchanged at 4.95 percent for the year ended March 31, 2014.

### Net income:

The Group earned consolidated net income of \$11.1 million for the year ended March 31, 2014 compared with \$12.8 million for the previous year. This represented a decline of approximately \$1.7 million or 13.3 percent over the prior year. The drop in net income is due to an increase in operating expenses and a decrease in non-interest income compared with the previous year.

### Total Expenses:

The increase in total expenses from \$31.5 million in the previous year to \$36.1 million for 2014 was driven principally by increases in staff costs, advertising and promotion expenses, rental expense, security services and training.