

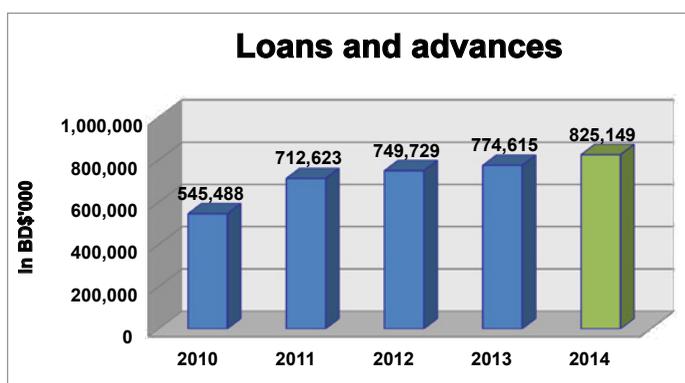
MANAGEMENT DISCUSSION AND ANALYSIS

The increase in staff costs amounted to \$1.6 million and is due to contractual salary increases and new hires in both the Credit Union and Capita during the year.

The expansion of the branch network in late 2013 and the relocation of Capita's offices in 2014 were responsible for the notable increase in rental expense. During the last quarter of 2014 Capita relocated to new offices in the Co-operators' General Insurance building in Upper Collymore Rock, St. Michael. As a consequence, total rental costs moved from \$0.6 million in 2013 to \$1.0 million for 2014.

Assets:

Total assets of the Group stood at \$1.0 billion at March 31, 2014. This represented an increase of \$65.7 million or 6.9 percent over the previous year.



The increased asset growth is as a result of a vigorous marketing campaign, innovative loan promotions, streamlining of loan approval and disbursement processes and competitive reductions in interest rates offered on mortgages. These initiatives were necessary to reverse the declining trends observed last year and have resulted in a modest growth in the loan portfolios across the Group in 2014.

At March 31, 2014, Group consolidated net loans and advances rose to \$825.1 million, as compared to \$774.6 million at the end of the previous year. This represented an overall increase of \$50.5 million or 6.5 percent growth in loans. Capita led the growth in the mortgage loan portfolio which accounted for approximately \$20.5 million of the growth in mortgages. Consumer loans were the major engine of loan growth at the Credit Union accounting for \$24.3 million of the portfolio increase.

The Group remained highly liquid with total cash resources reaching \$122.6 million. Financial investments increased by \$4.0 million or 18.4 percent due largely to additional purchases of government securities during the financial year.

Asset quality:

The delinquency ratio fell from 7.5 percent in 2013 to 6.7 percent

at March 31, 2014. This positive development is attributable to close monitoring of delinquent accounts and strict adherence to credit control and underwriting requirements. The Group also has maintained a consistent approach to the provisioning process based on thorough reviews of individual credits and analyses of collective portfolio risk characteristics.

A key focus of management in recent months has entailed working proactively with members and customers to offer them financial counseling and alternative loan workout and restructuring plans so as to help them maintain a sound credit rating and risk profile.

Liabilities:

The Group's strong liquidity position continued to be driven by the growth in deposit liabilities. At the financial year end the Group's deposits totaled \$839 million, an increase of \$67 million or 8.64 percent higher than at the previous year-end. Deposits at the Credit Union grew by \$49.4 million or 7.3 percent, while Capita continued to reflect a steady increase in customer deposits which increased by \$15.9 million or 13.1 percent.

During the year under review the Credit Union partially repaid a high interest rate loan facility so as to reduce its debt service costs and improve the overall net interest margin yield. This repayment amounted to \$8.6 million and is largely responsible for the reduction in loans payable from \$74.5 million in 2013 to \$64.0 million in 2014.

Equity:

As at March 31, 2014, total equity of the Group was \$96.6 million, an increase of \$9.4 million or 10.8 percent over the previous year. The increase is primarily due to other comprehensive income of \$10.8 million and growth in Credit Union share capital of \$0.5 million, net of dividend distributions and interest rebate of \$1.9 million paid to Credit Union members during the year.

During the forthcoming year it is anticipated that the Group will quickly surpass the \$100 million mark in total capital.

The Group's capital adequacy ratios are above minimum capital requirements and these are being closely monitored under an on-going capital planning process that is forward-looking in assessing capital needs and evaluating changes in strategic focus, risk tolerance levels, business plans and the operating environment that might materially affect capital adequacy.

OUTLOOK – 2014 and Beyond

In summary, the Group will continue to work diligently to enhance the value added component of services to members and customers, foster greater linkages with the wider community, and ensure the stability and sustainable growth of its operations.