

# MANAGEMENT DISCUSSION AND ANALYSIS

This section of the Group's Annual Report provides a discussion and analysis of the financial position 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, 2016.

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

## Overview

At March 31, 2016 the total consolidated assets of the Group reached \$1.2 billion, reflecting an average growth of \$10.5 million per month during the year ending March 31, 2016.

This growth signals the confidence, loyalty and support in which members and customers have placed in the respective boards, management and staff of the financial institutions within the Group.

## Snapshot of CAPITA's Performance

CAPITA continued to realize steady growth since its acquisition in August 2010, recording asset growth of \$35.2 million or 17.5 percent for the year to reach \$236.7 million at March 31, 2016. Its pre-tax net income was \$1.0 million while net income after tax was \$658.8 thousand for the year.

Additionally, CAPITA continued to expand by offering a wide diversity of other income opportunities for the Group. One such opportunity is through the establishment of CAPITA Insurance Brokers Limited (CIB) which provided brokerage services to the Group under the CAPITA brand.

As a measure of the confidence in its future growth and profitability, CAPITA commenced the payment of a dividend to its sole shareholder in 2015 and has declared a dividend of \$400 thousand for 2016.

Through CIB, the Credit Union's membership has been provided with one of the best health benefit plans in the market.

## Group Performance Summary

The Group's consolidated net income before tax for the year under review was \$15.8 million compared to \$11.4 million for the previous year. It is worthy to note however, that the tax levied on the assets of the Group for the year ending March 31, 2016 amounted to \$2.3 million together with Corporation Tax of \$268.8 thousand. This resulted in net income after tax of \$13.2 million for the Group.

The Group continued working with members and customers who have been experiencing challenges in meeting loan commitments. As a consequence, the percentage rate of non-performing loans decreased by \$2.4 million across the Group. The delinquency rate decreased from 6.7 percent at the end of the previous year to 6.3 percent at the end of March 31, 2016.

The Group's net loan impairment provision decreased by \$992 thousand in 2016. Consequently, the ratio of loan provisioning to impaired loans moved from 42.6 percent in 2015 to 39.0 percent in 2016.

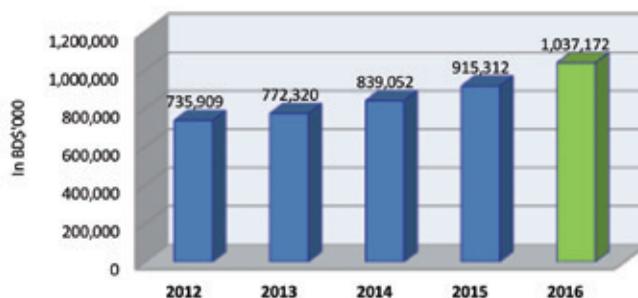
Overall the Group recorded significant growth in its core businesses. Loan growth moved from 9.8 percent in 2015 to 10.5 percent in 2016. Deposit growth climbed from 9.1 percent in 2015 to 13.3 percent in 2016.

During the financial year, the Central Bank of Barbados relaxed its control over interest rates in the market. This allowed financial institutions to lower their interest rates on various savings and deposit products.

The interest rate on deposits at some leading financial institutions average 0.5 percent at March 31, 2016. The minimum interest rate on deposits within the Group at March 31, 2016 stood at 2.0 percent.

Net interest margin increased from 4.7 percent in 2015 to 4.9 percent in 2016 as various pricing strategies were employed to drive loan and deposit volumes.

## Deposits



These results are credited to the performance of outstanding and dedicated employees who were encouraged to have a deep and broad knowledge of our products, services and systems. They are trained to be professional, accurate, efficient and compliant. We foster an environment of outstanding service delivery to our members and customers with every single interaction.

## Outlook

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

The Group will continue to respond to the current and future challenges through iterative processing of its vision goals as it seeks to maintain positive growth trends.