

MANAGEMENT DISCUSSION AND ANALYSIS

(continued)

The 0.2 percent tax on assets of Credit Unions is expected to cease at March 31, 2016. The impact of the asset tax for its duration was an overall cost of \$3.9 million to the Group, of which \$2.3 million was expensed in income year 2016.

Economic Review

According to the most recent economic reports, the Barbadian economy is estimated to have grown by 0.5 percent in 2015. Foreign exchange reserves at the end of December 2015 represented 12 weeks of import of goods and services.

Tourist arrivals were up 14.9 percent for the first nine months of 2015 while unemployment averaged 11.3 percent, down from 12.3 percent in the previous year. Additionally, net public sector debt to GDP was estimated at 70.0 percent at the end of March 2016 compared to 73.0 percent a year earlier.

Economic Outlook

Despite modest growth in 2015, it is forecasted that the economy is expected to grow by 1.5 percent in 2016 and 1.7 percent in 2017.

This growth is expected to come from tourism and construction activities. Further, the Central Bank anticipates that the implementation of new revenue measures in 2015/2016, along with the current revenue measures are expected to reduce the GDP's deficit to 5.4 percent.

Consolidated Financial Statement Highlights

Revenues

For the financial year ended March 31, 2016, the Group earned total interest revenue of \$89.5 million, up from \$80.9 million for the previous year. This represented an increase of \$8.6 million or 10.6 percent for the year and is attributable to the steady growth in both consumer and mortgage loans across the Group.

Income generated from non-interest sources increased by \$1.3 million or 34.6 percent when compared with the previous year, primarily as a result of increased efforts in impaired loan recoveries.

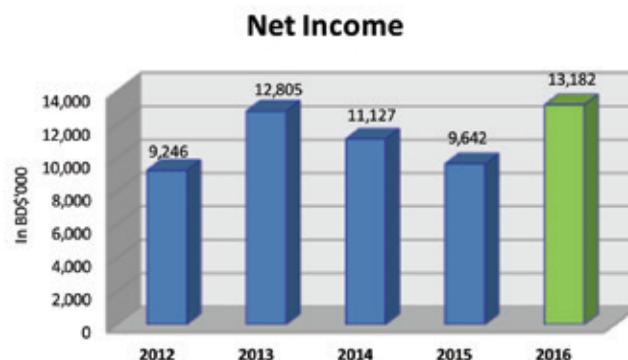
Net Interest Income

The marginal lowering of the savings and deposits interest rates during the year, along with prudent management of the interest spread, resulted in consistent growth in net interest income during the year.

Net interest income moved from \$49.8 million in 2015 to \$56.5 million at March 31, 2016. This represented a \$6.7 million or 13.5 percent increase. This was positively impacted by increased loan volumes and a reduction in funding costs.

Net Income

The Group earned consolidated net income before tax of \$15.8 million for the year ended March 31, 2016 compared with \$11.4 million for the previous year. This represented an increase of approximately \$4.4 million or 38.6 percent above the prior year.



Operating Expenses

Total operating expenses inclusive of taxes increased from \$39.9 million at March 31, 2015 to \$44.1 million for 2016 and was driven principally by the tax on assets, increases in staff costs, publicity and promotion and membership security.

The increase in staff costs amounted to \$2.6 million and is mainly due to two years contractual union negotiated salary increases which were finalized in 2016 and new staff positions in both the Credit Union and CAPITA during the year.

The growth in deposits and loans in the Group resulted in the increase of membership security expense from \$2.4 million in 2015 to \$2.5 million in 2016.

Assets

Total assets of the Group stood at \$1.2 billion at March 31, 2016. This represented an increase of \$125.4 million or 11.5 percent over the previous year.

At March 31, 2016, the Group consolidated net loans and advances stood at \$1.0 billion, as compared to \$906.1 million at the end of March 31, 2015. This represented an overall increase of \$95.4 million or 10.5 percent growth in loans compared to an increase of \$80.9 million one year ago.

The Credit Union led the growth in the mortgage loan portfolio which accounted for approximately \$26.3 million of the growth. Consumer loans also contributed significantly to the loan growth at the Credit Union, accounting for \$42.7 million of the portfolio increase.

This increase resulted from a more targeted marketing approach, innovative loan promotions and from continuous streamlining of the loan approval and disbursement processes.