

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, 2017.

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 Inc. ("CIB").

Overview

During the financial year ended March 31, 2017, the Group remained focused on providing products and services to its members and customers at competitive rates. Due to these efforts, despite difficult economic conditions the Group experienced significant growth in both loans and deposits.

At March 31, 2017 the total consolidated assets of the Group reached \$1.3 billion reflecting growth of 8.2 percent at an average rate of \$8.3 million per month during the year ended March 31, 2017.

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 has continued to realize steady growth since its acquisition in August 2010, recording asset growth of \$8.5 million or 3.6 percent for the year to reach \$245.3 million at March 31, 2017.

Its income before Asset Tax and Corporation Tax at March 31, 2017 was \$1.3 million. The Asset Tax for the year was \$728.3 thousand increasing by \$350.2 thousand or 92.6 percent over the prior year, March 31, 2016.

CAPITA's pre-tax net income was \$534.7 thousand while net income after tax was \$449.7 thousand for the year. CAPITA also had unrealised gains on available-for-sale investments acquired in the Barbados Stock Exchange (BSE) which resulted in its comprehensive income moving to \$786.6 thousand or 19 percent above that of the previous year.

CAPITA continues to remain competitive in a more demanding environment. To this end, CAPITA is exploring new revenue initiatives and strategic alliances in Barbados with the Barbados Co-operative & Credit Union League Ltd. and in the Eastern Caribbean with the Caribbean Confederation of Credit Unions.

In 2015, CAPITA commenced the declaration of dividends to its sole shareholder, BPW Financial Holdings Inc., and to date, dividends of \$700 thousand have been paid.

Capita Insurance Brokers Inc. will recommence meeting the Credit Union's membership at the branch offices in an effort to increase the enrollment in the health plan which is facilitated through a partnership with the Insurance Corporation of Barbados.

Group Performance Summary

The Group's consolidated net income before levies and taxation for the year under review was \$16.8 million compared with \$15.8 million for the previous year. It is worthy to note however, that the tax levied on the assets of the Group for the year ended March 31, 2017 amounted to \$728.3 thousand and along with Corporation Tax of \$85.0 thousand, resulted in net income for the year of \$16.0 million for the Group.

The Group continues to focus on working with members and customers who have been experiencing challenges in meeting loan commitments. As a consequence, various options including restructuring and consolidation were offered thus enabling the percentage rate of non-performing loans to remain stable.

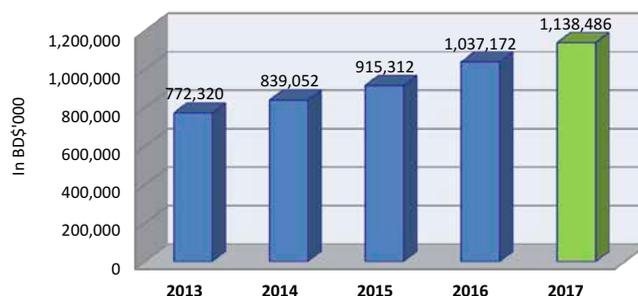
There was an increase in non-performing loans by \$6.9 million across the Group. The rate of delinquency remained at 6.3 percent at March 31, 2017.

The Group's net loan impairment provision increased by \$2.5 million in 2017. Consequently, the ratio of loan provisioning to non-performing loans moved from 39.0 percent in 2016 to 38.8 percent in 2017.

Overall the Group recorded significant growth year on year in its core businesses. Loan growth in 2017 was \$97.8 million or 9.8 percent compared to \$95.4 million or 10.5 percent in 2016. Similarly, deposit growth in 2017 was \$101.3 million or 9.8 percent as compared to \$121.9 million or 13.3 percent in 2016.

During the financial year ended March 2016, 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.

Deposits



This situation persisted during the financial year ended March 31, 2017. The interest rate on deposits at some leading financial institutions reached as low as 0.1 percent at March 31, 2017. The minimum interest rate on deposits within the Group at March 31, 2017 stood at 1.5 percent.

Net interest margin for the income year remained at 4.9 percent for the year 2017. Various pricing strategies were employed to drive loan and deposit volumes.

These results can be credited to the performance of a truly outstanding and dedicated staff. The Group expects and promotes this commitment and drive for positive results from all of its employees.