

MANAGEMENT DISCUSSION AND ANALYSIS

(continued)

Our employees continue to receive the requisite training to ensure they maintain a deep and broad knowledge of our products, services and systems. They are trained to be professional, accurate and efficient. In particular, we aim to 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 financial sustainability and future growth of key players in the financial services sector. This is especially so for some of 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 has grounded its values deeply in commitment to serving its members, customers and community. This together with our sound financial position will ensure that we remain a beacon of strength and a trusted financial partner for our members and customers well into the future.

The 0.2 percent tax on assets of Credit Unions ceased at the end of March 31, 2016. However, the tax on the assets of the subsidiary was increased from 0.2 percent to 0.35 percent during the financial year ended March 31, 2017 and resulted in an overall increased cost of \$350.2 thousand.

Economic Review

According to recent Central Bank economic reports, the Barbados economy is estimated to have grown by 1.6 percent in 2016. Reserves decreased during 2016 as foreign reserve outflows continue to exceed inflows, however, at March 31, 2017, the international reserves stood at \$705.4 million, following an increase of \$24.3 million in the first quarter. This improvement compares with an average first quarter increase of \$19 million over the past five years. The import reserve cover stood at 10.7 weeks at the end of March 2017 however, it remained below the 12-week benchmark.

The financial system remained well capitalized and stable during the first quarter of 2017. Weak private sector credit demand continued to contribute to a banking system marked by high levels of excess liquidity and historically low interest rates as both deposit and lending rates declined below those of prior year.

Economic Outlook

The Central Bank's release of March 2017 stated that the Barbados economy has made gains in addressing some of the macroeconomic imbalances faced in recent years. However, challenges remain and stabilization now requires concerted attention to fiscal adjustment and the acceleration of project implementation. Economic growth is projected to range between 1.5% to 2.0% in 2017, mainly on the strength of tourism and new construction activity.

Consolidated Financial Statement Highlights

Revenues

For the financial year ended March 31, 2017 the Group earned total interest revenue of \$95.2 million, up from \$89.5 million for the previous year. This represented an increase of \$5.8 million or 6.4 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 \$582.7 thousand or 11.6 percent when compared with the previous year, primarily as a result of additional fee income, legal income and insurance agency commission.

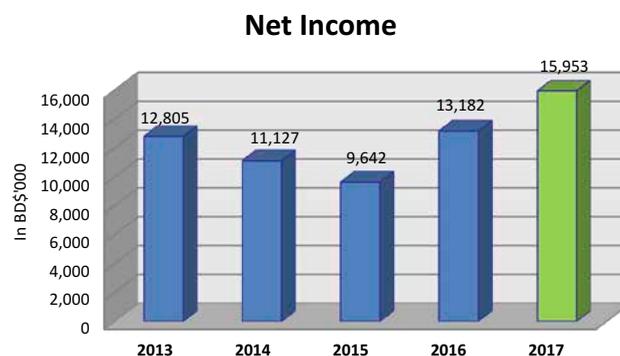
Net Interest Income

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.

Net interest income moved from \$56.5 million in 2016 to \$61.8 million at March 31, 2017. This represents a \$5.3 million or 9.5 percent increase. This was positively impacted by increased loan volumes and a reduction in funding costs.

Net Income

The Group earned a consolidated net income before levies and taxes of \$16.8 million for the year ended March 31, 2017 compared with \$15.8 million for the previous year. This represented an increase of approximately \$1.0 million or 6.3 percent above the prior year.



Operating Expenses

Total operating expenses inclusive of levies and taxes increased from \$44.1 million in 2016 to \$46.5 million in 2017. This was principally driven by repairs and maintenance, staff costs, publicity and promotion, membership security and staff and members' training.

The increase in staff costs amounted to \$1.3 million and was mainly due to 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 \$2.5 million in 2016 to \$2.7 million in 2017.