

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, 2019.

The Group includes the parent, Barbados Public Worker's 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:

The income year 2019 can be best described as a challenging year, primarily for the financial sector, some of which reported losses for the year under review. The prevailing and extended difficult economic conditions have affected the operations and performance of the Group. The Group experienced mixed results such as significant growth in deposits. However, loan growth was below expectations while delinquency increased.

At March 31, 2019, the total consolidated assets of the Group reached \$1.6 billion reflecting growth of \$146.2 million or 10.1 percent (2018 \$130.5 million or 9.9 percent) and represents an average rate of growth of \$12.2 million (2018 \$10.9 million) per month.

The achievement of this level of growth in difficult circumstances was mainly due to the growth in deposits and signals the confidence, loyalty and support in which members and customers continue to place in the respective Boards, Management and Staff of the Group.

SNAPSHOT OF CAPITA'S PERFORMANCE

CAPITA continued to realize steady growth since its acquisition in August 2010, recording asset growth of \$19.8 million or 7.6 percent for the year to reach \$281.1 million at March 31, 2019.

Income before de-recognition of Government securities, levies and taxation at March 31, 2019 was approximately \$1.9 million versus \$1.5 million for the financial year ended March 31, 2018.

The Asset Tax for the year was \$799.8 thousand increasing by \$47.3 thousand or 6.3 percent over the prior year ended March 31, 2018.

The loss on de-recognition precipitated by the restructuring of the Government securities in the financial year ending March 2019 was \$403.3 thousand.

CAPITA's income before taxation was \$705.6 thousand while net income after tax was \$733.8 thousand for the year.

As part of its planned income diversification strategy, CAPITA continues to work with the Co-operative and Credit Union Leagues in Barbados and St. Lucia to deploy a number of services including ATM, Debit Card and Credit Card services.

GROUP PERFORMANCE SUMMARY:

The Group's consolidated net income before levies and taxation for the year under review was \$11.5 million compared with \$18.8 million for the previous year. This result was impacted by the loss on Government securities of \$4.0 million

and the impairment loss on Goodwill of \$2.9 million, both of which were not factors in prior years. It is also worthy to note, that the tax levied on the assets of the Group for the year ended March 31, 2019 was reported at \$799.8 thousand (2018 \$752.6 thousand) and corporation tax recovery (credit) of \$28 thousand.

It is noted here that the Group adopted IFRS 9 effective this financial year and details to this effect are reflected in the notes of these consolidated financial statements.

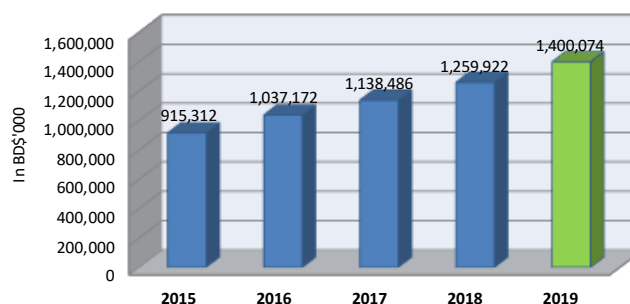
Net income after tax and levies for the year totaled \$10.7 million compared to \$17.4 million for the year ended March 31, 2018.

The Group's expected credit allowance (ECL) (2018: loan impairment provision) increased by \$1.4 million in 2019 mainly due to the adoption of accounting standard, IFRS 9 which replaced IAS 39. Consequently, the ratio of expected credit losses to non-performing loans was 25.3 percent compared to 33.2 percent in 2018.

Overall, the Group recorded growth year-on-year in its key areas of operations. Loan growth in 2019 was \$61.8 million or 5.2 percent compared to \$77.5 million or 6.9 percent in 2018. Similarly, deposit growth in 2019 was \$140.2 million or 11.1 percent as compared to \$121.4 million or 10.7 percent in 2018.

Throughout the financial year ended March 31, 2019, interest rates on savings and deposits trended downwards at some leading financial institutions which reached a low of 0.01 percent at March 31, 2019. However, the minimum interest rate on deposits within the Group at March 31, 2019 stood at 1.25 percent.

Deposits



Net interest margin for the year was 3.9 percent as compared to 4.7 percent in 2018.

ECONOMIC OUTLOOK

In its press release of December 2018, the Central Bank of Barbados stated that the year 2018 was a very challenging one for the Barbadian economy and that economic activity remained sluggish. Other key features in the release includes:

1. The need to sustain the fiscal consolidation efforts could continue to dampen economic activity. Real economic activity contracted by an estimated 0.6% in 2018, as moderate gains in tourism were outweighed by the fall-off in manufacturing and other services.
2. The forecast for global growth, including our major