

MANAGEMENT DISCUSSION AND ANALYSIS

This section of the Annual Report provides a discussion and analysis of the financial position and performance of the Barbados Public Workers' Co-operative Credit Union Limited (BPWCCUL) for the financial year ended March 31, 2019 as compared to the financial year ended March 31, 2018.

ECONOMIC REVIEW

Due to Barbados' prolonged period of increased fiscal and external imbalances and stagnated growth since the global financial crisis between 2008 and 2018; large fiscal deficits and limited fiscal consolidation led to a near doubling of the government's debt burden, which surpassed 100% of GDP in 2017.

Barbados was downgraded to Caa3 from Caa1 in April 2017 by the Global Credit Rating Agency, Moody's Investors Service. The Barbados' government in 2018 completed a formal debt exchange for its local-currency denominated instruments, which represented about 75% of total outstanding debt. A significant principal haircut and comparatively low rates, from 0.5% on Treasury bills and 1% on Series B Bonds, under the exchange, have materially reduced the government's debt and interest burdens.

Upon the conclusion of the domestic debt restructuring programme, Barbados received a Moody's Credit Rating of Caa3 (stable) or (B-) using S&P in November 2018. Albeit, the financial system remains stable, notwithstanding the impairment to commercial banks' capital buffers, resulting from Government's debt restructuring and the adoption of the IFRS 9 accounting standard in 2018. Other deposit-taking institutions, including the Credit Union sector are expected to have an even more significant impact on their capital since capital to asset ratios are lower than that of the commercial banks.

The outlook for the Barbadian economy has become more favorable as macroeconomic indicators continue to improve in line with expectations under the Barbados Economic Recovery and Transformation (BERT) programme. However, there remains significant downside risks that need to be monitored and managed, such as; the delays to the commencement of large commercial projects, negative spill-overs resulting from international economic developments and the on-going global trade tensions, as indicated in the Central Bank of Barbados' Press Release March, 2019.

The report further outlined that new projects including the Kooymans retail store and the Sagicor Retirement Village, are expected to boost growth in the second half of the year. The Central Bank of Barbados now estimates that overall growth will range from 0% to 0.25% for 2019.

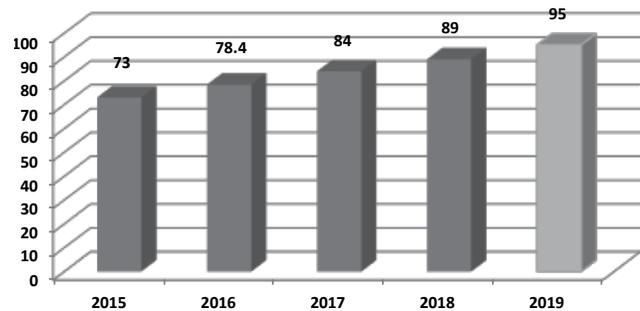
OVERVIEW

The Barbados Public Worker's Co-operative Credit Union Limited continues to be deeply rooted in the cooperative and credit union principles, by maintaining its member-centric approach to doing business. In fact, our first core value is improving the lives of our members and the communities which we serve.

In 2019, the Credit Union membership grew by 5,790 members to reach 95,005, this represented an average increase of 482

members per month or 6.7 percent growth over the prior year. The increase in membership base has positively impacted assets, loans and deposit growth.

Members in 000



The management of key risk areas within the Credit Union's operations through its "Enterprise Risk Management" framework, has been the main focus during the period under review. This framework provides for a comprehensive review of organizational risk, and creates a structure which considers how risks interrelate and encourages enhanced decision making.

The organization recognizes that while other sources of credit risk exist throughout its activities and the market space it operates, loans continue to be the largest and most obvious source of credit risk.

The Credit Union mitigates such risk through the establishment of an appropriate credit risk management environment; operating under a sound credit-lending process by effectively maintaining an appropriate credit administration, measurement and monitoring system.

Notwithstanding our efforts, non-performing loans during the year ended March 31, 2019 increased by \$15.3 million or 21.3 percent. We remain committed to engaging with our members who are experiencing financial challenges by offering solutions geared at returning their accounts to a state of normalcy.

Deposit interest rates in the market continue to trend downward with some financial institutions offering rates as low as 0.1 percent. However, we at the Credit Union are proud to maintain some of the most competitive rates on deposits. This has resulted in the Credit Union achieving its highest deposit growth of \$119.2 million at the end of the financial year 2019, with an average rate of return of 2.35 percent. This extraordinary growth in deposits increased cash resources to \$233.6 million as compared to \$135.6 million.

REVIEW OF FINANCIAL PERFORMANCE

TOTAL INCOME AND NET INCOME

Net income for the year was reported at \$12.0 million, down from \$16.6 million in the prior year. Net income was heavily impacted by the BERT program and resulted in a loss on de-recognition of \$3.6 million related to sovereign debt securities. Therefore, net income before the loss on de-recognition of investments was reported at \$15.6 million. This represents a