REMARKS DELIVERED BY

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BANK OF THE BAHAMAS LIMITED

AT THE BANK'S ANNUAL GENERAL MEETING
ON NOVEMBER 30, 2018

Introduction

Last year, we convened in August in an atmosphere of solemnity to receive the report for fiscal 2016 and then on 29th December, only eleven months ago, for the 2017 Annual General Meeting the mood was one of cautious optimism. Today, I am happy to report that the results for the year ended 30th June 2018 and for the first quarter of fiscal 2019, confirm that such optimism was warranted. However, the Board remains prudently watchful of the risks that confront the Bank, and is mindful that the results, whilst positive, fall short of the return that the shareholders expect. We believe that we have made the first steps on a path to long-term sustainable profits and ultimately enhanced shareholder return and value.

Financial Highlights

Below is a summary of the results of operations for the first quarter of fiscal 2019:

	Three months ended 30th September	
Description	**2018 (in $000)**	**2017 (in $000)**
Total revenues	**12,052**	**11,973**
Of which:		
Interest and similar income	*8,919*	*9,105*
Fee and commission income	*1,869*	*1,962*
Other income	*1,264*	*906*
Interest and similar expenses	**2,157**	**2,419**
Credit loss expense, net	**1,118**	**1,590**
Operating expenses	**6,717**	**7,191**
Net income	**1,967**	**658**
Net gain on available-for-sale financial assets	**9**	**181**

A summary of the financial position at the end of the first quarter with corresponding figures at the end of the prior year is as follows:

Assets	At 30th September 2018 (in $000)	At 30th June 2018 (in $000)
Cash and cash equivalents	205,711	198,201
Investment securities	67,008	64,521
Loans and advances to customers, net of provision for loan losses of $70,844 at 30/9/18 and $65,650 at 30/6/18	331,315	351,489
Notes receivable, net	167,627	167,700
All other assets, including mandatory reserve deposits of $25,521 in 2018 and $25,742 in 2017	47,880	52,283
Total assets	**819,541**	**834,194**
Liabilities and Shareholders' Equity		
Deposits from customers and banks	610,316	628,406
Other liabilities, including deferred loan fees	34,310	27,939
Total equity	174,915	177,849
Total Liabilities and shareholders' equity	**819,541**	**834,194**
Provisions as a percentage of the net loan portfolio	21.38%	18.68%
Non-accrual loans as a percentage of the net loan portfolio	29.62%	28.92%

Total Eligible Capital of $176.6 million at 30th June 2018 decreased to $174.3 million at 30th September 2018 primarily as result of the Bank's adoption of the new accounting standard IFRS 9 effective 1st July, which reduced the beginning retained earnings by $4.7 million and the redemption of another $250,000 preference shares in September; the increase was partially offset by the $2.0 million (approximately) net income for the first quarter ended 30th September.

Capital and Liquidity

Capital and liquidity breaches addressed - The Bank's capital and its liquidity have been favourably affected by the acquisition by Resolve of certain of the Bank's non-performing loans, at a price equivalent to the gross book value of the loans, amounting to approximately $167.7 million, and the repayment of a note receivable issued by Resolve in the amount of $100.0 million in consideration of non-performing loans that were acquired in an earlier transaction. Resolve is a special purpose vehicle that was established by the Government to provide its support to the Bank. The loan purchase resulted in a credit to equity of $117.5 million, which has eliminated the Bank's capital deficiency. The repayment of the note receivable has enabled the Bank to meet its liquid asset requirements as set by the Central Bank.

The capital and liquidity positions of the Bank at 30th September 2018 (with comparatives at 30th June 2018 and 30th September 2017), based on selected key ratios, were as follows:

	Regulatory Requirement	**30-Sep-18**	**30-Jun-18**	**30-Sep-17**
Capital Adequacy Ratios				
Total Tier 1 Capital to Total Risk Weighted Assets	12.8%	42.5%	39.9%	35.3%
Total Capital to Total Risk Weighted Assets	18.0%	47.0%	45.1%	41.6%
Liquid Assets Ratio	100.0%	237.00%	228.29%	181.7%

The Bank's capital ratio continues to increase. Total Eligible Capital of $176.6 million at 30th June 2018 decreased to $174.3 million at 30th September 2018; however, Total Risk Weighted Assets also decreased from $391.5 million to $371.0 million. Total Eligible Capital decreased primarily due to the implementation of IFRS 9, partially offset by the increase for first quarter net income. Risk Weighted Assets declined as the Bank's total assets decreased, most significantly on higher risk-weighted assets.

Preference shares - The Bank redeemed $6.4 million[1] Series 'D' and 'E' 8.00%[2] Perpetual Cumulative Preferred Shares that had become subject to call on 31st

[1] The Bank redeemed $6,150,000 of the preference shares on 31st December 31 2017 and $250,000 on September 30, 2018.

December 2017, the date on which the third consecutive dividend payment became due, but could not be paid. Payment of the dividends on these shares and also on the remaining issued and outstanding preferred shares remained suspended, but under the terms of their issue such dividends rank ahead of the payment of dividends on common shares.

On 28th September 2018, the Bank obtained the approval of the Central Bank to redeem the remaining issued and outstanding preferred shares, amounting to $15 million. The Central Bank also granted approval to the Bank to pay preferred share dividends on the condition that the Bank has generated profits from which such dividends can be paid. On 28th September 2018 the Bank gave 90-days' notice to holders of Series 'A' Preferred Shares and Series 'B' Preferred Shares that their shares would be redeemed in full on 27th December 2018. The Board, once it is satisfied that the condition relating to the payment of dividends on preferred shares is met, intends to declare the payment of the dividends. Currently, it is envisaged that such payment likely will be made on 27th December 2018 (namely, concurrent with the payment of the redemption of the remaining issued and outstanding preferred).

The Bank's reputation and creditworthiness, in the view of the Board and Management, will be favourably affected by the repayment of the preferred shares and the payment of related dividends. Another significant benefit to the Bank is the elimination of relatively high cost funds; even though dividends were not being paid, the costs were accumulating ... on the assumption that the Bank continues as a going concern, at some point payment would have to be made.

Future Prospects

Strong market influences such as customer expectations, changes in technology, regulatory requirements, demographics and economics are remodeling the local and global financial services landscape. These influences are forcing the need for change in the way banks do business. In order to succeed in this ever-changing market, BOB will need to move beyond its legacy challenges and retool itself. It will not only have to deliver on the Bank's current imperatives but will also need to restore its foundation to support future endeavors.

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[2] The term sheet provides for interest at Bahamian dollar prime plus 2.0% for Classes A and B and 2.5% for Classes D and E per annum, currently aggregating at 6.25% and 6.75% per annum, respectively.

In 2016, Management embarked on a Transformation Strategy designed to improve the Bank's financial performance, address regulatory requirements and restore shareholder and public confidence. Within the past fiscal cycle, this strategy has yielded a number of successes, including strong liquidity and capital positions and a return to profitability, as mentioned earlier. We must now focus keenly on providing sustainable growth opportunities to ensure the Bank's long-term success. We must also build a brand that restores trust, empowers our customers and promotes responsible banking.

Taking into consideration the objectives set out in the 2016 Transformation Plan, Management has identified the key steps over the next couple of years that will take BOB to the next phase in the its development. Firstly, additional emphasis will be placed on strengthening the foundation and secondly, on accelerating growth.

Crucial to achieving a strong foundation is the presence of a disciplined, motivated and well-equipped work force. For a significant period over the last fifteen months, key positions at the most senior levels of the executive were hampered for various reasons, including regulatory intervention and resignations or other separation; the most senior position was vacant for a number of months following the resignation of the Acting Managing Director in February 2018. The Bank has also been plagued with a relatively high turnover of staff. Fortunately, a new Managing Director, Mr. Kenrick Brathwaite, joined the team in September 2018. With the hiring of Ken, the Board is satisfied that the Bank has appointed a managing director with integrity, technical and managerial competence, and the appropriate experience. In addition, the Board has engaged other persons at senior levels in the areas of HR, Risk Management and Compliance and Credit. Action to enhance the Human Resources pool of the Bank is underway and aimed at:

- Strengthening talent management
- Clearly defining training programs and development plans
- Implementing rewards, recognition and compensation (performance) framework

The Board and management appreciate that growth can only come where the following features exist:

- *a strong risk management culture*, where discipline and professionalism are promoted, in a well-defined organization structure and a strong control environment.

- *sound prudential policies*, practices and limits that are geared toward improving credit recoveries, increasing profitability, rationalizing footprint improving regulatory relations and prudential requirements, and strengthening financial management.

- *an improved sales and service culture*, where sales and service offerings are expanded to meet the needs of customers, the brand and image of the Bank are restored, and the business structure is realigned so as to enable a more effective delivery of services to customers and the community.

- *simpler and more efficient operations* through the re-engineering of key processes and increasing the use and application of automated tools, improving the systems environment and implementing service standards.

The Bank has committed significant resources to achieving the goals, some of which – unfortunately – take many months to implement. For example, the Bank has embarked on a project to implement a new banking system, and it is anticipated that the Bank will not have it fully installed until sometime during fiscal 2021. Meanwhile, measures have been taken to address certain system reliability issues in the interim. It will not be long before customers see improvements in the ATM banking facilities; new machines (replacement and additional) will be installed over the coming months.

As last year, the Bank is subject to close supervisory oversight by its primary regulator, the Central Bank, related to its financial affairs and operations, in particular its credit activities. The Bank's ability to extend credit is still limited by specific directive. Whilst all deficiencies have not yet been remediated, significant improvements have been made. It is anticipated that the implementation of new systems will aid in remediating some of the particularly vexing issues.

Shareholders, be assured that the management and staff of the Bank with the full support of the Board are working diligently to keep BOB on the right track … a track that leads to sustainable long term profits and enhanced shareholder value. We will get there by **Building a Better BOB** as we seek to **Build a Better Bahamas**.