Chairman's Remarks
BOB Annual General Meeting
December 29, 2017

Introduction

It has been four months since I last addressed you; at that time, a new Board had been in place for about two months. Today, I will comment on the Bank's performance since the year ended 30th June 2017, namely the unaudited results through to the end of November, which include fiscal 2018 first quarter's performance that was published. I also touch briefly on the Bank's capital: the effect of the Resolve 2 transaction and the pending repayment of certain preference shares; financial highlights; relations with the Central Bank; and the way forward.

Capitalisation

***Resolve 2* -** At the previous AGM, I reported that the Government had agreed to the purchase of certain impaired commercial loans by Resolve, the special purpose vehicle that was previously used to acquire certain of the Bank's non-performing loans, at a price equivalent to the gross book value of the loans, estimated at approximately $166 million. The consideration for this purchase would have been the issuance of Promissory Notes by Resolve, that the Government would retire to the extent of $107 million in fiscal year ending 30th June 2018, in accordance with the following schedule:

Date	$ millions
August 2017	50
30th November 2017	19
28th February 2018	19
31st May 2018	19
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It was noted then that the other terms and conditions of the Promissory Notes would have to be agreed between the Bank and the Board of Resolve, which had taken steps to consummate the transaction on or about 10th August 2017.

In the final analysis, the Government opted to redeem the entire $100 million of the promissory notes from the first Resolve transaction between August 2017 and May 2018. The first $50 million principal redemption was received on 31st August 2017, a second payment of $19 million was received on 30th November 2017 and the balance is due to be received in two quarterly instalments of $19 million and $12 million at the end of February and May 2018, respectively.

The terms of the second Resolve transaction were finalised by 31st August and consisted of three tranches, with the first tranche effective 31st August 2017, the second tranche effective 18th September 2017 and the third tranche completed on 14th November] 2017, as follows:

- A portfolio of non-performing loans with principal amount of $134.7 million and accrued interest receivable of $33 million, with a total net book value of approximately $50 million were derecognized.
- An unsecured promissory note for $167.7 was received for these loans and was recognized as an asset.
- The net difference of approximately $ 117 million between the Notes received and the net book value of the derecognised assets was recognized directly in equity as Special Retained Earnings and is considered to be a part of the Bank's regulatory capital.
- The Bank has transferred all of its rights and obligations relating to the non- performing loans to Resolve without recourse and will have no rights to future cash flows from the non-performing loans.
- As a part of the transaction, the Bank received an irrevocable Letter of Support from the Government. The Letter of Support pledged the Government's support of Resolve to enable it to satisfy its obligations under the Notes and confirms that, in the event of default by Resolve, the Bank can seek to recover outstanding balances from the Government.
- The Note, which is repayable on 31st August 2022, bears interest at the fixed rate of 3.5% per annum, payable semi-annually on the 28th day of February and the 31st day of August, commencing in 2018.

Preference shares - The Bank has issued and outstanding $6.4 million Series 'D' and 'E' 8.00%[1] Perpetual Cumulative Preferred Shares (the Callable Shares). The terms and conditions governing the issues provide that the Bank would be in default if, inter alia, it were delinquent on the payment of three consecutive dividend payments. Unless the dividends are paid in January 2018, the next scheduled payment date, the Callable Shares would be subject to call.

The Bank had been redeeming annually $3.4 million of the Series D and E Shares and therefore the full redemption of the Callable Shares will result in a $3 million shock in capital. The $6.4 million redemption would result in a reduction in the total capital ratio of approximately 2% (from 42% to 40%) at September 2017 and an approximate reduction of the LAR from 175% to 169%.

The Board determined that it is in the best interest of the Bank to avoid a call by the holders of the Callable Shares and that they should be redeemed. Having received the approval of the Central Bank, waiver of notice by the majority of the holders of the Callable Shares and subject to the approval of the Securities Commission of The Bahamas, the Bank intends to repay the principal sum due on them in January 2018.

The Board also considered, but deferred a determination pending receipt of additional information and advice, whether it would be appropriate to apply to the Central Bank for a rescission or variation of its recommendation to the Government to cease payment of dividends on the Bank's preferred shares. The Bank has not generated profits from which dividends can be paid; however, it is conceivable that the Government and the Bank would come to the view that the restoration of the Bank's reputation and creditworthiness warrants Government paying the dividend as it did in the past. In such event, it would be appropriate to apply to the Central Bank for reconsideration of its recommendation. Meanwhile, the status quo remains, the preference dividends cannot be paid until the Bank returns to profitability, but under the terms of their issue such dividends will rank ahead of the payment of dividends on common shares.

[1] The term sheet provides for interest at Bahamian dollar prime plus 2.5% per annum, currently aggregating 6.75% per annum.

Financial Highlights

DESCRIPTION	Fiscal 2018 (In $000)	Fiscal 2017 (In $000)
Income Statement		
Total gross revenue	20,212	19,521
Interest income	15,343	16,053
Interest expense	3,968	6,035
Net interest income	11,375	10,018
Net non-interest income	4,724	3,342
Non-interest expense	12,414	12,312
Net credit loss expense	2,390	7,230
Net income/(loss)	1,295	(6,182)
Balance Sheet		
Gross loans, including accrued interest	445,306	609,666
Provisions for loan losses	60,946	101,513
Net loan amount	384,360	508,153
Total assets	835,636	796,010
Total deposits	622,113	671,996
Total equity	182,628	97,479

Key Ratios	Fiscal 2018 (Percentage)	Fiscal 2017 (Percentage)
Operating efficiency	77.11%	92.15%
Asset quality ratio	27.12%	41.10%
Lar ratio	179.36%	122.10%
Return on assets	0.38%	-1.84%
Return on equity	2.22%	-15.94%
Risk adjusted capital	43.00%	18.50%

The Bank has incurred approximately $0.63 Million in costs for severance and redundancy payments relating to staff reductions that took effect in November. The reductions will have a favourable effect on staff costs for future periods. The closure of the Bank's branch in Eight Mile Rock and the pending closure of the Exuma Branch will also favorably affect future operating costs.

The ultimate success of the Bank is dependent on healthy growth in revenues; cutting costs alone will not suffice. Targets have been set to achieve moderate growth over the next year, but, so far, competitive pressures and continued regulatory restrictions on credit extension have contributed to the targets not being achieved.

Relations with Central Bank

The Bank continues to be 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 increased regulatory compliance obligations and heightened regulatory enforcement will result in increased operational and compliance costs and, by specific directives, have limited the Bank's ability to extend credit. The Board has deployed resources, including by way of external contract, to accelerate the curing of all deficiencies.

The Way forward

The Board has re-assessed the key elements of the comprehensive transformation exercise that has been underway at the Bank with a view to restoring consumer confidence by ensuring the Bank's return to sustainable profitability. The Bank is focused on critical areas, including stronger corporate governance structure, improved operational efficiencies, revision of credit policies and procedures, regulatory compliance, cost control and moderate growth.

In the area of credit, where the Bank's problems are most acute and the attention of management highly critical, the plan outlines goals to:

- Improve efficiencies in the approval process
- Reduce Delinquency Percentages to be more in line with industry

standards
- Reduce mortgage non-accrual loans.
- Bring Consumer portfolio within industry standards
- Execute sales strategies for sales/recoveries within targeted times frames
- Improve management of remaining commercial credit facilities and move for timely recoveries where management does not yield results

The plan addresses other areas, including
- Loan and deposit growth campaigns aimed at driving branch sales through new processes and performance management
- The maintenance of regulatory compliance in capital and liquidity ratio through effective capital and liquidity management
- Enhancement of IT capabilities through the implementation of new core banking platform and
- Improved executive leadership and governance oversight
- Pursuit of the provision of additional products and services to Government