BOB
Bank of The Bahamas
LIMITED

FINANCIAL PERFORMANCE FOR THE YEAR ENDED JUNE 30, 2014

Bank of The Bahamas Limited (Bank) remains fundamentally sound with unwavering major shareholder backing.

During the fiscal year ended June 30, 2014, and into the first quarter of the new fiscal period, the Bank, adopted a position taken recently by other banks locally and abroad, and adjusted its expectations on the extent and timing of recovery to the Bahamian economy taking into consideration, also, stricter accounting and regulatory guidelines on the management of non-performing assets. The effect of the recessionary period which has subsisted since 2008 is expected to continue at least for the medium term, although there are recent positive signals that the economy may be on the verge of a renewed serge in economic activity.

Within this context, over the last six months ending 30th September, 2014, the Bank, as other banks have done, sought traditional ways of selling or securitizing a portion of its non-performing loans as there is sufficient interest in such transactions. However, after considering the pros and cons of the various options of selling/securitizing same, it determined that in the best interest of The Country on the whole, it was best to develop a solution with common stakeholders. As a result, the Bank, whose Majority Shareholder is The Government of The Commonwealth of The Bahamas, created a solution with an entity of common ownership. The transaction involved the out-right sale of $100 million of the Bank's non-performing commercial loans that can be better managed and its value maximized outside of the highly regulated banking sector. This transaction resulted in the Bank recovering the loan loss provisions previously taken against this block of assets along with all accrued interest. Therefore, a total amount of $55 million was gained in Special Retained Earnings by the Bank post financial year end. Therefore, post financial year end, the Bank's Total Equity is back in line with historical standards and has caused its Risk Weighted Capital Ratio to stand at 21%, well ahead of The Central Bank standards.

The foregoing was precipitated by the Bank meticulously examining its existing non-performing loan portfolio, taking a conservative approach towards loans that appeared vulnerable, closely assessing the medium term value of underlying collateral and making the determination to set aside loan loss provisions to cover these risks. This resulted in exceptional provisions for loan loss expenses of approximately $69.7 million being recognized. Obviously, this had an adverse impact on the Bank's overall financial results for the year. With the impact of the increased provisioning, the Bank realized a net loss of $66.3 million compared a net loss of $4.4 million for the prior year. One would note that without this special loan loss provision exercise, the Bank would have made a profit of almost $3.5 million. Profitability for the Bank is largely dependent on the performance of the loan portfolio. The overall results are indicative of ongoing challenges with systematically high loan delinquencies which reduce the level of income recognized coupled with significantly reduced collateral values, characteristic of the current economic environment, which influences increased levels of provisioning.

For the year total operating income decreased by approximately $12.3 million or 24.69%. This change was driven primarily from a net decrease in interest income, directly attributed to the challenges of increased non-performing loans plaguing the industry and an overall decline in the loan portfolio. The overall decrease was countervailed by reduction in interest expense due to reduced yields on our existing deposit obligations and early payout of other borrowed funds of $24 million. Despite increases in license fees, the Bank contained the growth in operating expenses to 5.1% over prior year. Except for the noted increase in loan loss provisions and a reduction in interest income, all other lines within the statement of comprehensive income remain consistent with the prior year. Broadly, the conditions of the economy remain weak and loan delinquencies remained elevated and as a consequence the level of provisions booked was necessary thereby creating the overall loss.

Despite being significantly impacted by the current economic environment, the Bank's balance sheet remains strong with total assets of approximately $771.1 million. Loans and advances net, stood at $660.6 million as of June 30, 2014. The Bank's total equity was of a sufficient size to absorb the results of the special loan loss provision exercise. The risk weighted capital ratio settled at 11% and in excess of the standard established by the Basel Accord. However, before taking into consideration the "subsequent year-end event" fell below the elevated standard of 14%-17% set by The Central Bank. However, as explained above, this matter was quickly remediated and the Bank is now in full compliance with this standard.

Despite the challenges faced during this fiscal period, we remain focused on sustainable growth for the Bank and our outlook is positive for the medium to long term. We have undertaken significant changes at strategic and operational levels designed to position the Bank for future profitability. With the support of its major shareholder, the Bank will aim to be the first choice in retail credit to the civil service. Additionally, the Government has given commitment to allow the Bank to provide more general banking and corporate services to its Ministries, Corporations and Agencies. Consistent with this new effort, the Bank is already piloting a payment card system for Social Services as well as the general civil service for travel purposes. Other exciting initiatives are being collaborated with the Government that will transform the business model of the Bank immediately. Internally, important initiatives have been implemented to positively impact the culture, improve customer service, enhance governance and accountability. Others are ongoing. The Bank is seeing the benefits from a revamped sales and service apparatus; a strategic separation of certain back and front office functions and a more defined organizational structure. We anticipate that with the renewed commitment from its Major Shareholder, the Government, together with the rationalization of our balance sheet will lead to positive outcomes. There is sufficient evidence to demonstrate that having taken the increased levels of provisions, there will be a normalization of the current realities with a near term return to profitability. Achieving further operating efficiencies and increased value for each of our stakeholders are still paramount commitments

We thank our BOB team of dedicated employees, senior management, directors, shareholders and most importantly our individual and institutional customers who have remained loyal in their continued support of the Bank.

Paul J. I. McWeeney
Managing Director