



Head Office
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NOTICE TO SHAREHOLDERS

Material Change

During the fiscal year ended June 30, 2014, and into the first quarter of the new fiscal period, the Bank adopted a position 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.

Within this context, over the last six months ending 31st October, 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 it was best to develop a solution with common stakeholders.

As a result, the Bank and The Government of The Commonwealth of The Bahamas (The Government) created a solution. The solution involved the out-right sale of \$100 million of the Bank's non-performing commercial loans to Bahamas Resolve Limited (Resolve). Resolve is fully owned by The Government and the Bank has no involvement with it. In exchange, Resolve issued bonds of an equivalent amount to the Bank. These bonds have the following features:

Coupon of Nassau Prime less 50 basis points
Denominations of B\$1 million and \$5 million
Maturity of up to 10 years
Redeemable, Non-convertible

There was no cash outlay in the transaction.

The bonds are backed by a Letter of Comfort from The Government. Due to the strength of The Government, the external auditors (Ernst & Young) recognized the bonds as investment grade quality and thus they are classified as a performing asset on the Bank's balance sheet. Further, The Central Bank endorsed the transaction and the classification of the Special Retained Earning as tier one capital. Additionally, the law firm of Higgs & Johnson provided a legal opinion in support of the structure of the transaction.

It is important to highlight that no politically exposed person or "PEP" comprised any of the loans transferred.

The financial benefits to the Bank are as follows:

1. \$100 million Non-performing and non-income earning assets removed from balance sheet
2. \$100 million in performing and income earning assets placed on the balance sheet
3. \$55 million reversal of previously made loan loss provisions into special Retained Earnings
4. Capital adequacy compliance and restored to historical high levels

Moving forward the Bank will curtail commercial lending and focus lending to the retail segment (consumer loans and residential mortgages) with continued emphasis on electronic banking products and services.

Bank of The Bahamas Limited
3 November 2014