2017

ANNUAL REPORT

ANNUAL REPORT & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2017

DEPOSIT INSURANCE CORPORATION
BAHAMAS

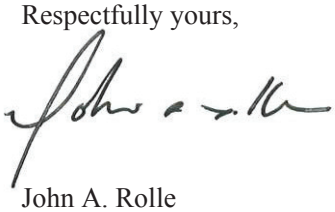
DEPOSIT INSURANCE CORPORATION
BAHAMAS

May 30, 2018

Dear Deputy Prime Minister:

In accordance with Section 19(2) of the Protection of Depositors Act, 1999, I have the honor of forwarding to you, on behalf of the Board of Management, the Annual Report of the Deposit Insurance Corporation for the financial year ended December 31, 2017. Included with this Report is the Annual Statement of Accounts of the Corporation duly certified by its Auditors for the year.

Respectfully yours,



John A. Rolle
Chairman

The Hon. K. Peter Turnquest
Deputy Prime Minister & Minister of Finance
Office of the Prime Minister
Cecil Wallace-Whitfield Centre
West Bay Street
Nassau, N.P., Bahamas

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SAFEGUARDING YOUR FUNDS

OUR MISSION

To provide deposit insurance protection and support for Bahamian Dollar depositors, and thereby contribute to the stability of the domestic financial sector by minimizing the risk of loss to depositors.

OUR VISION

We strive to be an effective and prudent deposit insurer, achieving full compliance with international best practices for effective deposit insurance systems.

OUR CORPORATE VALUES

Excellence - We aim to achieve the highest standards of quality and service in the execution of our duties.

Integrity - We honor our commitments and accept responsibility for our actions.

Reliability - We commit to meeting our obligations in a timely and efficient manner.

Communication - Our communications with stakeholders will be effective and transparent.

ABBREVIATIONS

AMP	Administrative Monetary Penalty
BTCRA	Banks and Trust Companies Regulations Act
BGRS	Bahamas Government Registered Stock
BOM	Board of Management
BSD	Bank Supervision Department
CBB	Central Bank of The Bahamas Act
CBOB	Central Bank of The Bahamas
CDs	Certificate of Deposits
CRC	Caribbean Regional Committee
DIC	Deposit Insurance Corporation
DIF	Deposit Insurance Fund
DFIU	Domestic Financial Institutions Unit
D-SIB	Domestic Systemically Important Bank
FSAP	Financial Sector Assessment Program
FSB	Financial Stability Board
GDP	Gross Domestic Product
IADI	International Association of Deposit Insurers
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
ISA	International Standards on Auditing
MRP	Mortgage Relief Plan
NPL	Non Performing Loan
PPO	Public Policy Objective
The Act	Protection of Depositors Act 1999
The Bye-laws	Protection of Depositors Bye-laws, 1999
MOU	Memorandum of Understanding

IADI CORE PRINCIPLES FOR EFFECTIVE DEPOSIT INSURANCE SYSTEMS

PRINCIPLE 1 – PUBLIC POLICY OBJECTIVES:
The principal public policy objectives for deposit insurance systems are to protect depositors and contribute to financial stability. These objectives should be formally specified and publicly disclosed. The design of the deposit insurance system should reflect the system's public policy objectives.

PRINCIPLE 2 – MANDATE AND POWERS:
The mandate and powers of the deposit insurer should support the public policy objectives and be clearly defined and formally specified in legislation.

PRINCIPLE 3 – GOVERNANCE:
The deposit insurer should be operationally independent, well-governed, transparent, accountable, and insulated from external interference.

PRINCIPLE 4 – RELATIONSHIPS WITH OTHER SAFETY-NET PARTICIPANTS:
In order to protect depositors and contribute to financial stability, there should be a formal and comprehensive framework in place for the close coordination of activities and information sharing, on an ongoing basis, between the deposit insurer and other financial safety-net participants.

PRINCIPLE 5 – CROSS-BORDER ISSUES:
Where there is a material presence of foreign banks in a jurisdiction, formal information sharing and coordination arrangements should be in place among deposit insurers in relevant jurisdictions.

PRINCIPLE 6 – DEPOSIT INSURER'S ROLE IN CONTINGENCY PLANNING AND CRISIS MANAGEMENT:
The deposit insurer should have in place effective contingency planning and crisis management policies and procedures, to ensure that it is able to effectively respond to the risk of, and actual, bank failures and other events. The development of system-wide crisis preparedness strategies and management policies should be the joint responsibility of all safety-net participants. The deposit insurer should be a member of any institutional framework for ongoing communication and coordination involving financial safety-net participants related to system-wide crisis preparedness and management.

PRINCIPLE 7 – MEMBERSHIP:
Membership in a deposit insurance system should be compulsory for all banks.

PRINCIPLE 8 – COVERAGE:
Policymakers should define clearly the level and scope of deposit coverage. Coverage should be limited, credible and cover the large majority of depositors but leave a substantial amount of deposits exposed to market discipline. Deposit insurance coverage should be consistent with the deposit insurance system's public policy objectives and related design features.

PRINCIPLE 9 – SOURCES AND USES OF FUNDS:
The deposit insurer should have readily available funds and all funding mechanisms necessary to ensure prompt reimbursement of depositors' claims, including assured liquidity funding arrangements. Responsibility for paying the cost of deposit insurance should be borne by banks.

PRINCIPLE 10 – PUBLIC AWARENESS:
In order to protect depositors and contribute to financial stability, it is essential that the public be informed on an ongoing basis about the benefits and limitations of the deposit insurance system.

PRINCIPLE 11 – LEGAL PROTECTION:
The deposit insurer and individuals working both currently and formerly for the deposit insurer in the discharge of its mandate must be protected from liability arising from actions, claims, lawsuits or other proceedings for their decisions, actions or omissions taken in good faith in the normal course of their duties. Legal protection should be defined in legislation.

PRINCIPLE 12 – DEALING WITH PARTIES AT FAULT IN A BANK FAILURE:
The deposit insurer, or other relevant authority, should be provided with the power to seek legal redress against those parties at fault in a bank failure.

PRINCIPLE 13 – EARLY DETECTION AND TIMELY INTERVENTION:
The deposit insurer should be part of a framework within the financial safety-net that provides for the early detection of, and timely intervention in, troubled banks. The framework should provide for intervention before the bank becomes non-viable. Such actions should protect depositors and contribute to financial stability.

PRINCIPLE 14 – FAILURE RESOLUTION:
An effective failure resolution regime should enable the deposit insurer to provide for protection of depositors and contribute to financial stability. The legal framework should include a special resolution regime.

PRINCIPLE 15 – REIMBURSING DEPOSITORS:
The deposit insurance system should reimburse depositors' insured funds promptly, in order to contribute to financial stability. There should be a clear and unequivocal trigger for insured depositor reimbursement.

PRINCIPLE 16 – RECOVERIES:
The deposit insurer should have, by law, the right to recover its claims in accordance with the statutory creditor hierarchy.

A MESSAGE FROM THE CHAIRMAN

It gives me great pleasure to present the 2017 Annual Report of the Bahamas' Deposit Insurance Corporation (DIC).

The economy grew mildly in 2017, providing the support for stable to improved financial position of DIC member institutions. Although tourism faced some headwinds from a disruptive hurricane season, the phased opening of the Baha Mar resort underscored the improved employment and growth prospects for the sector. Meanwhile, the construction industry's contribution to output was expansionary, as investments were sustained for hotel sector and rebuilding efforts from Hurricane Matthew in 2016 continued. In this environment, the Unemployment rate, when compared to 2016, fell by 1.5 percentage points. Importantly for DIC members, both bank liquidity and external reserves expanded further, credit quality indicators improved. While narrowed interest margins and higher operating costs constrained overall bank profitability, member's capital levels remained strong and well in excess of regulatory requirements.

Despite the relative flatness of members' deposit base, the Deposit Insurance Fund grew by 10.4% to $50.0 million at end-2017, with the premium assessment rate unchanged at one-twentieth of 1 percent of the average insurable B$ deposits.

Supervisory oversight activities being undertaken by the Central Bank, facilitated ongoing review of the performance of member institutions. Through the Central Bank's risk-based supervisory regime, member institutions were subjected to a combination of onsite examinations, offsite monitoring, enhanced credit meetings and stress-testing exercises.

The operational work of the DIC continued to be guided by the three goals which are articulated in the Strategic Plan for 2017 – 2019, which are aligned with international standards and best practices established for deposit insurance schemes. In 2017, the work programme focused predominantly on the public awareness goal through a DIC public awareness campaign and an assessment of the target size of the DIC Fund. The DIC is continuing with these strategic focuses in 2018, targeting regulatory and legislative reform proposals and the crisis management framework. A framework continues to be pursued regarding insurance coverage to credit unions.

The achievements of the DIC are attributed to the support of the Board of Management and the dedication of professionals of the Central Bank. I would also like to extend my gratitude and appreciation to all staff involved with the DIC's administrative matters.

John A. Rolle
Chairman
Deposit Insurance Corporation

BOARD OF MANAGEMENT

December 31, 2017

John Rolle
Chairman of the Board
of Management,
Governor, Central Bank
of The Bahamas
Appointed: January 2016

Marlon Johnson
Acting Financial Secretary
Ministry of Finance
Appointed: September 2017

Aluchifer Rolle
Agency Manager
BAF Financial
Appointed: January 2013

Lorne Basden
President,
Basden Elevator Services Limited
Appointed: January 2013

Rochelle Deleveaux-McKinney
Legal Counsel & Board Secretary
Central Bank of The Bahamas
Appointed: July 2014

Ms. Karen Rolle
Manager, Bank Supervision Department
Central Bank of The Bahamas
Appointed: July 2014

DEPOSIT INSURANCE CORPORATION: HOW IT ALL BEGUN

In December 1997, The Bahamas closed one of its smaller domestic banks, Gulf Union Bank (Bahamas) Limited ("Gulf Union"), which was placed in liquidation on 12th December, 1997.

In order to protect the financial system from the effect of the bank failure, the Protection of Depositors Act 1999 ("the Act") established the Deposit Insurance Corporation ("DIC") for the purpose of administering and managing the Deposit Insurance Fund (the Fund). The Act, which was approved on 30th September, 1999 in Parliament and came into full effect on the 10th November, 1999, enabled deposit insurance coverage to be made retrospectively to depositors of Gulf Union. The insurance coverage of Bahamian dollar deposits up to a maximum of $50,000 protected almost 90% of total deposits of Gulf Union, inclusive of all of the small depositors. The level of coverage is in line with similar jurisdictions in the region and internationally as it protects approximately 96 percent of depositors by number.

Upon establishment, the DIC immediately floated a B$6.75 million 5 year bond (with an annual interest rate of 6¼ percent), which were 100% guarantee by the Bahamas Government. The offering was fully subscribed by the DIC Fund's member bank institutions. The funding received from the sale of bonds were utilized to bail out the depositors of Gulf Union. The bonds were retired upon maturity on 15th November, 2004.

Membership in the Fund is compulsory for every licensed banking institution carrying on banking business wholly or partly in Bahamian currency. While there is a close symbiotic relationship with the DIC and the Central Bank of The Bahamas ("Central Bank"), the DIC is a separate legal statutory body with its own Board who executes decisions that govern its affairs. The management services of the DIC are carried out by staff of the Central Bank as provided under a service level agreement between the Central Bank and the DIC.

The DIC was funded by a compulsory initial contribution of $1,000,000 (one million) Bahamian dollars; B$500,000 of which was required to be paid by the Central Bank and B$500,000 payable by member institutions. The initial contribution by each member institution was based on their pro-rata percentage share of all deposits insured by the DIC on the last day of the month in which the Act came into force. It should be noted that the member institutions do not hold an equity position in the DIC, their contributions being compulsory under the Act.

FREQUENTLY ASKED QUESTIONS

1. WHAT IS DEPOSIT INSURANCE?

Deposit Insurance is a system designed to minimize or eliminate the risk of loss of deposits, in the event that an insured institution of the Deposit Insurance Corporation is unable to meets its obligations to depositors.

2. WHAT IS THE DEPOSIT INSURANCE FUND?

The Deposit Insurance Fund is an accumulated pool of funds comprising premium contributions of member institutions and interest income earned on the investment of those funds. This fund is structured to operate as an ex-ante or pre funded mechanism.

3. WHAT IS AN EX-ANTE FUNDING SYSTEM?

An ex-ante fund involves the advance accumulation and maintenance of a fund to cover deposit insurance claims. The fund consists primarily of premiums collected from the members of the deposit insurance system.

4. WHAT IS THE DEPOSIT INSURANCE CORPORATION?

The Deposit Insurance Corporation (DIC) is a body corporate that was established and came into force in November, 1999. It is responsible for providing deposit insurance protection arrangements. The DIC is responsible for the administration and management of the Deposit Insurance Fund.

5. ARE ALL BANKS MEMBERS OF THE DEPOSIT INSURANCE FUND?

No. Membership in the Fund is compulsory only for Bahamian dollar deposit-taking banks that are licensed under the Banks and Trust Companies Regulation Act. A list of member institutions may be obtained by accessing the DIC's website at www.dic.bs.

6. MUST I APPLY OR REGISTER FOR DEPOSIT INSURANCE PROTECTION?

No. You do not need to apply or register for protection. Deposit insurance is provided automatically and free of charge for eligible Bahamian dollar (B$) deposit accounts at member banks.

7. WHAT ARE ELIGIBLE DEPOSITS?

Eligible deposits are certain types of accounts as specified in the Act, and held at member banks in Bahamian dollar denomination. United States dollar and other foreign currency deposit accounts are not eligible deposits for insurance coverage.

8. WHAT TYPES OF DEPOSITS ARE INSURED?

Bahamian dollar deposits in checking, savings, demand and time accounts held in member institutions are insurable by the DIC.

9. WHAT IS THE MAXIMUM DEPOSIT AMOUNT INSURED BY THE DIC?

Eligible deposits in member institutions are insured up to a maximum of $50,000 per depositor based on rights and capacity of depositors.

10. WHAT IS THE MEANING OF THE TERM "SAME RIGHT AND CAPACITY?"

The term refers to the nature of the ownership of deposits with member institutions such as, single (individual), joint, company, trust or client assets accounts.

11. IS INTEREST OWING ON A DEPOSIT INCLUDED IN THE INSURABLE AMOUNT?

Yes. The DIC insures both principal and interest for eligible deposits at each member institution, up to a maximum of B$50,000. For example, if an individual has a savings account with a principal balance of $12,000 and accrued interest of $480, the total $12,480 would be insured by the DIC. If however, the savings account balance was $49,500 and accrued interest, $1,980 (total $51,480), then $1,480 would not be covered by deposit insurance.

12. I AM A NON-RESIDENT OF THE BAHAMAS. ARE MY DEPOSITS PROTECTED?

Your place of residence or nationality does not affect deposit insurance protection. Bahamian dollar deposits placed with a member bank of the DIC is protected up to B$50,000 per depositor per member bank.

13. ARE THERE ANY DEPOSIT TYPES THAT ARE NOT COVERED BY DEPOSIT INSURANCE?

Yes. Not included in deposits are letters of credit, stand-by letters of credit or instruments of a similar nature, subordinated debts, preference shares, interbank deposits, foreign currency deposits, deposits of Government and statutory corporations, deposits of foreign Governments, deposits in any financial institution wholly owned by the Government and deposits from affiliates-i.e. a member of the same group of companies.

14. IF I HAVE DEPOSITS IN SEVERAL BANKS, WILL THEY BE AGGREGATED FOR DEPOSIT INSURANCE PROTECTION PURPOSES?

No. Your deposits in different member institutions are protected separately. The B$50,000 deposit insurance limit is applicable to each depositor in respect of deposits held in each member institution.

15. CAN DEPOSIT INSURANCE PROTECTION BE INCREASED BY DEPOSITING FUNDS INTO SEVERAL BRANCHES OF THE SAME BANK?

No. In the case of a member institution having more than one branch, the main office and all branch offices are considered as one institution. So, if a single depositor opens one or more savings/fixed deposit accounts in one or more branches of a member institution, all of these accounts are added together, and the maximum insurance cover is available up to B$50,000.

16. HOW ARE JOINT ACCOUNTS INSURED?

The DIC will deem the interest of co-owners in joint accounts to be equal, unless there are records of the member institution to show otherwise. Joint accounts are insured separately from individually owned deposit account. For example, if a husband and wife are co-owners of a savings account, and each owns a savings account, the joint account and each of their savings accounts are separately insured, up to the maximum insurable amount. However, if for example, the husband is also a co-owner in other accounts involving different joint account owners his interest in all joint accounts are added together and the aggregate amount is insured up to the maximum value of $50,000.

17. WOULD THE BORROWER'S OBLIGATIONS TO THE INSTITUTION CONTINUE AFTER THE INSTITUTION IS CLOSED?

Yes. Persons who have borrowed money from institutions that have been closed must continue to make payments on the same terms and conditions attached to their loan contracts with the institutions.

18. WHEN WOULD A DEPOSIT INSURANCE PAYOUT BE MADE?

A deposit insurance payout will be made where the Central Bank has determined that a DIC member institution is insolvent, or unable or likely to become unable to meet its obligations or, is about to suspend payments.

19. WHAT IS THE ROLE OF THE CENTRAL BANK IN DEPOSIT INSURANCE?

The Central Bank is responsible for the daily operations of the DIC and provides staff and administrative services to the DIC. This arrangement is governed by a formal Service Level Agreement.

DIC MEMBER INSTITUTIONS

Commercial Banks	Year of Establishment	No of Branches	2013 Total B$ Deposits (000)	2014 Total B$ Deposits (000)	2015 Total B$ Deposits (000)	2016 Total B$ Deposits (000)	2017 Total B$ Deposits (000)
Citibank N.A.	17-Jan-66	1	70,615	96,643	90,054	86,422	818,115
Finance Corporation of Bahamas Ltd.	23-May-66	5	568,510	671,978	631,378	638,975	568,062
Commonwealth Bank Ltd.	10-Oct-66	12	1,044,715	1,055,566	1,094,958	1,208,601	1,238,101
Bank of the Bahamas Limited	28-Jul-70	10	692,112	362,893	304,247	599,411	565,918
Fidelity Bank (Bahamas) Ltd.	11-Jul-78	6	344,831	368,472	371,369	404,823	461,251
FirstCaribbean International Bank (Bahamas) Limited	07-Dec-95	11	1,079,747	1,123,791	1,127,547	1,184,042	1,310,072
Scotiabank (Bahamas) Ltd.	26-Mar-98	13	773,319	782,280	764,119	874,224	924,554
RBC Royal Bank (Bahamas) Ltd.	26-Oct-10	16	1,080,136	1,196,462	1,289,013	1,530,717	1,495,825

Other Deposit Taking Institutions	Year of Establishment	No of Branches	2013 Total B$ Deposits (000)	2014 Total B$ Deposits (000)	2015 Total B$ Deposits (000)	2016 Total B$ Deposits (000)	2017 Total B$ Deposits (000)
Ansbacher (Bahamas) Ltd.	17-Jan-66	1	2,411	2,874	1,453	3,033	2,811
The Bank of Nova Scotia Trust Company (Bahamas) Ltd.	01-Apr-66	1	94	116	92	276	1,227
Royal Bank of Canada Trust Company (Bahamas) Ltd.	01-Apr-66	1	4,346	5,204	5,118	983	5
Royal Fidelity Merchant Bank & Trust Ltd.	15-Sep-98	1	31,446	31,942	31,080	61,559	71,830

FIVE YEAR FINANCIAL HIGHLIGHTS
2013-2017

	2013 B$000	2014 B$000	2015 B$000	2016 B$000	2017 B$000
Members' Premiums	2,785	2,773	2,858	2,874	2,905
Interest & Other Income	1,819	1,595	1,781	1,970	2,056
Total Revenue	4,604	4,368	4,639	4,844	4,962
Total Expenses	59	70	71	71	121
Comprehensive Income	4,545	4,298	4,569	4,773	4,915
Deposit Insurance Fund	31,567	35,865	40,434	45,207	50,122
Investment Securities	30,021	35,071	40,381	44,353	49,347
Total Assets	32,067	36,365	40,992	45,766	50,681
Return on Assets (%)	14%	12%	11%	10%	10%
Member Institutions (#)	12	12	12	12	12

(B$000s)	**2013**	**2014**	**2015**	**2016**	**2017**
Demand Deposits	$1,514,475	$1,825,758	$1,918,595	$2,284,763	$2,474,062
Number of Accounts	51,432	111,248	100,854	103,703	98,156
Savings Deposits	$1,114,031	$1,067,517	$1,148,281	$1,295,565	$1,371,170
Number of Accounts	319,406	246,325	255,106	260,912	269,011
Fixed Deposits	$3,342,224	$3,219,919	$3,119,384	$2,927,745	$2,799,634
Number of Accounts	32,881	31,338	29,461	28,487	27,058
Total Deposits	$5,970,730	$6,113,194	$6,186,260	$6,508,073	$6,644,866
Number of Accounts	403,719	388,911	385,421	393,102	394,225

MEMBER PERFORMANCE

At year-end 31st December, 2017, the number of DIC registrants stood at twelve (12), inclusive of eight (8) commercial banks and four (4) other deposit-taking institutions. The majority of Bahamian dollar business remained concentrated in the commercial banking sector.

During 2017, domestic banks' non-performing loans decreased further by 22.17% ($161.6 million) to $567.5 million as a result of additional assets sales, more intensified restructuring encouraged by the Central Bank and impulse from the improving economic environment. Given the improvement in credit quality, banks lowered provisions for total loan losses by 17.7% to $423.6 million. Profitability was maintained, meanwhile, due partly to increased fees and lower interest paid on deposits driven by robust liquidity levels, among others. Therefore, banks' capital levels remained high.

The DIC relies on the Central Bank's supervisory and regulatory oversight of its members. Throughout the year, the following initiatives were undertaken by the regulator relative to the banking sector:

- Continued implementation of Basel II/III supervisory framework. The approach was reviewed regarding prudential regulation with a view towards developing a more streamlined prudential framework, with a higher value placed on simplicity. The goal is to develop a simplified rulebook that is super-equivalent to the Basel Committee's rule text and appropriately optimized to the Bahamian Context.

- Shift from the periodic examination of anti-money laundering and countering the financing of terrorism (AML/CFT) risks to a continuous AML/CFT supervision regime. This focus includes enhanced offsite surveillance and AML/CFT risk management. It is expected to combine elements of comprehensive and risk-based approaches and all supervised financial institutions (SFIs) exposed to AML/CFT risk will be subject to a minimum level of supervisory attention, without regard to the risk assessment.

- Amendments to the AML/CFT Guidelines to better align with international standards, such as the Financial Action Task Force's (FATF) Forty Recommendations and the FATF's 2013 Methodology (the Standards).

- Publication of a General Glossary of Terms, which seeks to reduce ambiguities over the actions required by SFIs in all of the correspondence issued by the Central Bank, including Reports of Examinations, letters, notices and guidelines.

- Introduction of the concept of "ever-greening" as an enhancement to the risk assessment process. The ever-greening framework will refresh the regulator's point in time risk view of financial institutions and permit tailored application of supervisory tools based on the magnitude and direction of emerging risks.

- Initiated regular reporting updates for all SFIs for all pre-2000 unverified account facilities in the revised format. Remediation of such facilities were being aggressively pursued in advance of the Caribbean Financial Action Task Force's review slated for May 2018.

- Re-mapped the Central Bank's supervisory interventions into the "Directives, Requirements, Expectations and Requests" framework arising from prior and recently issued Report of Examinations to assess the adequacy of remediation efforts in line with required remediation due dates.

The Central Bank continues to pursue a risk-based approach to supervision of licensees, along with onsite examinations, stress testing of credit and liquidity risk factors and structured prudential meetings to discuss credit and operational risk issues, organizational changes and the strategic direction in the near to medium term. This approach to supervision supports the Bank's 'Ladder of Supervisory Intervention', which is aimed at early detection and minimization of risks related to financial non-viability or insolvency, among others.

OPERATIONS

Corporate Governance

Section 5 of the Central Bank of the Bahamas Act vest statutory responsibility in the Central Bank to ensure stability of the financial system. The Bank has responsibility to oversee the deposit insurance fund for Bahamian dollar deposits in the banking system. The DIC is a separate body corporate, mandated under the Protection of Depositors Act, 1999 (the Act) to manage the Deposit Insurance Fund. Its role is to minimize or eliminate the risk of loss of savings of small Bahamian depositors in the event of bank failures, and to arrange for the expeditious handling of any bank closure. This makes the deposit insurance a critical safety net for the domestic financial system.

The DIC is charged with assessing and collecting premium contributions from member institutions twice annually, on 15th June and 15th December. Pursuant to Section 5(2) of the Act, premiums are levied at a rate of one-twentieth of one percent (0.05%) of the average sum of Bahamian dollar deposits held in the DIC domestic banking member institutions, as at 31st March and 30th September in the previous year. These premiums, together with investment returns, constitute the Fund. Based on average total insurable Bahamian dollar deposits of $5.81 billion during 2017, relative to $5.75 billion in the previous year, premiums levied and collected during the year amounted to $2.91 million compared to $2.87 million in the prior year.

Due to the current limited scope of activities, the DIC has no direct employees. The Central Bank is responsible for the daily operations of the DIC, and provides staff and administrative services within a service level agreement between the Bank and the DIC. At year-end 2017, four (4) Central Bank staff were assigned to the DIC, two (2) of whom were just fully seconded to manage deposit insurance activities. As a result of increasing activities outlined in the DIC's approved Strategic Plan (2017-2019) a third staff of the Central Bank will be recruited to the DIC's operations on a full time basis in 2018.

The Board of Directors

Section 8 of the Act provides for the establishment of a Board of Management (the Board) which is responsible for the policy direction of the DIC, including its strategic activities and ensuring the adequacy of the Fund. Members of the Board are appointed for a term of not less than three (3) years and are eligible for re-appointment. Upon appointment, board members execute a code of conduct statement which articulates the ethical standards expected of them in the execution of their duties. Pursuant to Section 9(2) of the Act, since 2013, the Minister of Finance agreed to the payment of an honorarium for each member of $300 per board meeting. Three Board meetings were held in 2017, these expenses totaled $5,400.

Board of Directors	Number of meetings attended
John Rolle	3/3
Marlon Johnson	2/3
Lorne Basden	3/3
Aluchifer Rolle	2/3
Karen Rolle	2/3
Rochelle Deleveaux-Mckinney	3/3

By statute, the Board comprises the Governor of the Central Bank (Chairman), the Manager of Bank Supervision, another Manager of the Central Bank, the Financial Secretary of the Ministry of Finance, and two (2) persons having knowledge and experience in banking, commerce, finance, accounting, insurance or law. Four (4) Directors form a quorum. In the event of an equality of the voting, the Chairman has a casting vote in addition to his original vote.

Current members of the Board are:

Mr. John Rolle
Chairman of the Board and Governor
Central Bank of The Bahamas
Appointed: January 2016

Mr. Marlon Johnson
Acting Financial Secretary
Ministry of Finance
Appointed: September 2017

Mr. Lorne Basden
President
Basden Elevator Services Limited
Appointed: January 2013

Mr. Aluchifer Rolle
Agency Manager
BAF Financial
Appointed: January 2013

Ms. Karen Rolle
Manager, Bank Supervision Department
Central Bank of The Bahamas
Appointed: July 2014

Mrs. Rochelle Deleveaux-McKinney
Legal Counsel & Board Secretary
Central Bank of the Bahamas
Appointed: July 2014

Caribbean Regional Committee (CRC)

Members of the IADI CRC deposit insurers include the Bahamas, Barbados, Jamaica, and Trinidad & Tobago. On 4th December, 2017, the Bahamas DIC executed a Memorandum of Understanding (MOU) facilitating cooperation between the IADI CRC deposit insurers on development of deposit insurance systems, resolution management of financial institutions and generally for the promotion and management of financial stability in the CARICOM region.

International Associations

The DIC is one of the twenty five (25) founding members of the International Association of the Deposit Insurers (IADI). IADI aims, inter-alia, to contribute to the stability of financial systems, by promoting international co-operation in the field of deposit insurance; and providing guidance for establishing new and enhancing existing deposit insurance systems. The DIC's memberships in IADI and the IADI CRC continues to provide forums for the exchange of knowledge and opportunities to further professional development in the field of deposit insurance, as well as gain access to technical assistance.

Staff Development

In line with its strategic objective of ensuring that staff have the requisite technical competencies and knowledge to facilitate operational readiness of the DIC, during July, 2017, two Central Bank staff participated in the International Association of Deposit Insurers Bank Resolution Workshop and Simulation Exercise which was hosted by the Jamaica Deposit Insurance Corporation, Kingston, Jamaica.

STRATEGIC GOALS & ACTIVITIES

The Board approved a new Strategic Plan for the period 2017 – 2019 which sets out the goals, objectives and strategies to continue to guide the activities of the DIC for 2017.

In 2016, a study was initiated to re-assess the sufficiency of the target size of the DIC Fund, with the prior study on fund sufficiency having been completed in 2013. Member institutions submitted granular data on deposits and credits that informed new simulations of risks to the deposit base, and net DIC liabilities in the event of crises. This has provided new estimates, that will support revised funding target for the DIC. However, an independent review of the findings is planned for 2018, before any policy recommendations are finalized for either the Central Bank or the Ministry of Finance.

Work continues on another important initiative for the inclusion of the Credit Unions under the DIC Fund. In 2017, a decision was made to implement a single deposit insurance fund and coverage limit for both banks and credit unions, the latter of whom were placed under the Central Bank's regulatory and supervisory responsibility effective 1st June 2015. At end December 2017, credit unions' total deposits stood at $362.2 million (2016: $339.9 million) with membership across 10 institutions, inclusive of the Bahamas Co-operative League Limited of 42,186 persons, compared to 42,060 persons in 2016. In March 2018, the first consultation paper for proposed deposit insurance coverage of supervised credit unions was issued to member institutions of the DIC and credit union stakeholders. Work on this initiative will advance during 2018.

The DIC also continues to pursue the recommended amendments to legislative framework to formalize ex-post funding arrangements; ensuring the adequacy of the Deposit Insurance Fund and to confirm ongoing compliance with international best practices. In the area of crisis preparedness and resolution planning, in addition to conducting periodic crisis simulation exercises, the DIC will continue to work with other local regulators to establish a comprehensive and efficient crisis management plan for the financial sector.

Work on the DIC's funding model is in tandem with a review of necessary reforms to strengthen the Bahamas' crisis management and resolution regime for member institutions. The DIC expects to recommend legislative amendments to the Protection of Depositors Act, the Central Bank of the Bahamas Act, and the Banks and Trust Companies Regulation Act to transfer resolution authority powers from the DIC to the Central Bank; with the DIC retaining powers to function as a paybox authority in events of bank closures. More fundamental reforms are being reviewed to address the mix of judicial versus administrative protocol that would govern an active resolution process.

An increased public awareness footprint by the DIC was a major strategic component of activities planned in 2017, with the DIC's launch of a Public Awareness Campaign aimed at strengthening public confidence in the role of the DIC. Further details on the public awareness campaign is discussed at pages 18 to 19 of this annual report.

STRATEGIC FOCUS FOR 2018

Public Confidence In The Financial Sector

- Advance advertisements to digital marketing platforms and encourage expanded participation by member institutions in public awareness strategic initiatives.
- Continue with plans to expand deposit insurance to supervised financial cooperative credit unions.

Operational Readiness

- Complete the implementation process for a new minimum target level for the Fund.
- Progress plans to formalize the contingency funding mechanism.
- Complete policies strengthening the corporate governance framework.
- Test the adequacy of payout arrangements via simulation exercises.
- Develop policy to feed into the national crisis management plan.

Regulatory Efficiency

- Advance legislative amendments to transfer resolution authority powers to the Central Bank.
- Define an effective modern, resolution framework for DIC members, with attention to financial stability concerns.
- Strengthen provisions of the Protection of Depositors Act by, inter alia, expanding the investment powers and staggering the terms of office of the Board of Management.

PUBLIC AWARENESS CAMPAIGN

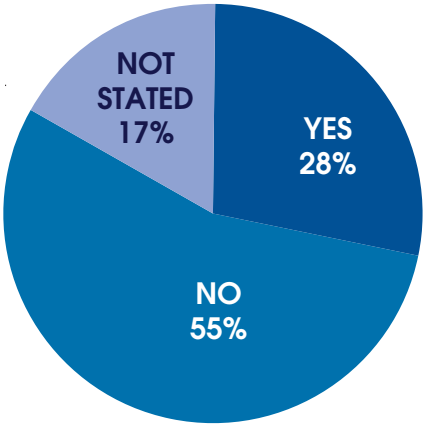
Public Awareness is one of the IADI Core Principles for Effective Deposit Insurance Systems, which recommends that the public should be informed on an ongoing basis about the benefits and limitations of the deposit insurance system.

Since 2013, the DIC has undertaken to promote greater public awareness of the benefits and limitations of deposit insurance, including the scope of coverage, and the process for making claims. This aligns with the goal of fostering public confidence in the financial sector and is consistent with global best practices. In its initial activities in this area, the DIC launched, its independent website, and later released DIC decals, which were installed at commercial banks' premises. Awareness activities made use of various platforms and outlets, including social media, printed brochures, and the traditional print and broadcast media. To measure the effectiveness of this outreach, the DIC commissioned surveys and other focused awareness testing mechanisms.

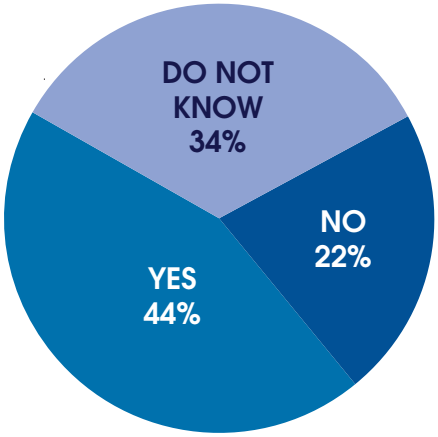
Results from Awareness Surveys

An assessment of the effectiveness of the 2013/2014 public awareness activities was conducted in 2015 via a telephone survey of 500 respondents across three (3) islands of The Bahamas including, New Providence, Abaco and Grand Bahama.

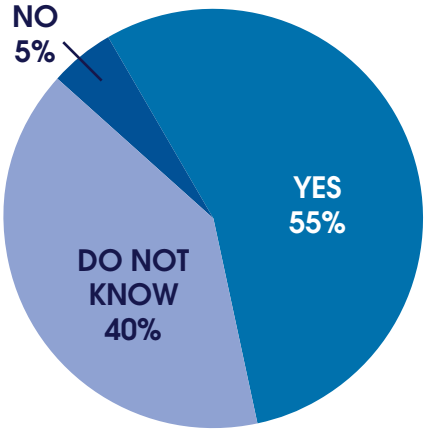
The results revealed the need for increased focus on providing public awareness education of deposit insurance coverage in The Bahamas.



AWARENESS OF THE ROLE OF THE DIC



AWARENESS THAT THE DIC COVERS ONLY BAHAMIAN DOLLAR DEPOSITS



AWARENESS WHETHER ALL ACCOUNTS ARE INSURED BY THE DIC

In response to the survey findings, the DIC produced two new infomercials which were released on its website, Central Bank's YouTube channel; and aired on television and in local movie theaters.

In 2017, the DIC contracted a marketing and public relations firm to manage its public awareness campaign. The Public Awareness Campaign was launched in second quarter of 2017 under the slogan **"Protection for your money. Guaranteed".**

The initiative continued to be aimed at building depositor confidence and promoting a more informed local community stability of the domestic financial system.

Advertising and Promotion

Materials utilized in the campaign:

- Two infomercials were placed in two (2) six month broadcast rotations at a cinema in New Providence with the videos to air during the periods 10th April to 10th October, 2017 and 1st January to 1st July, 2018.
- Placement of Web Banners on BahamasLocal.com.
- Launch of the DIC Facebook page in May 2017 under the handle 'Deposit Insurance Corporation Bahamas'.
- Placements of advertisements via Google Adwords on various Google pages.
- Production and placements of two new radio advertisements.
- Production and distribution of flyers at various establishments including laundromats, grocery stores, restaurants and fuel stations.

Collaboration with Member Institutions

The twelve (12) member institutions were engaged in the campaign and were provided with in-branch, promotional flyers and statement stuffers which were included in clients mailed statements. The provision of DIC literature to the member institutions sought to promote the dissemination of additional deposit insurance information to their customers.

Members were also encouraged to include links to the DIC's webpage: www.dic.bs on their websites.

Public Outreach

Two Board of Management members of the DIC appeared as guests on various radio and morning talk shows. Also, a presentation on deposit insurance was made at a meeting of the Rotaract Club of East Nassau.

Results from 2018 Survey

Early results from January 2018 survey has shed light on the requirement for the DIC to intensify its focus on public awareness activities. Social media mechanisms are being pursued in this regard.

Plans for 2018

The DIC continues to work to strengthen the public awareness of the DIC by improving methods of communication and using various tools to increase its educational objectives. The DIC will broaden its social media presence with the launch of Twitter and Instagram pages, additions to the content of the DIC's webpage (www.dic.bs), increased saturation of radio ads, presentations to public and private organizations and other various advertisements and promotions. In 2019, another post awareness survey will be conducted to measure the effectiveness of the 2018 public awareness campaign.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview of the Domestic Macroeconomic Environment

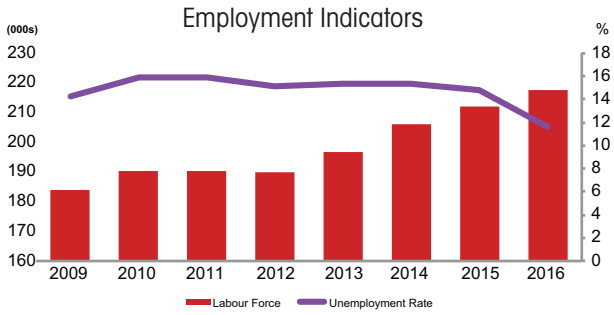
The performance of the domestic economy continued to impact the strategic policies and practices of member institutions in 2017, and their financial outcomes.

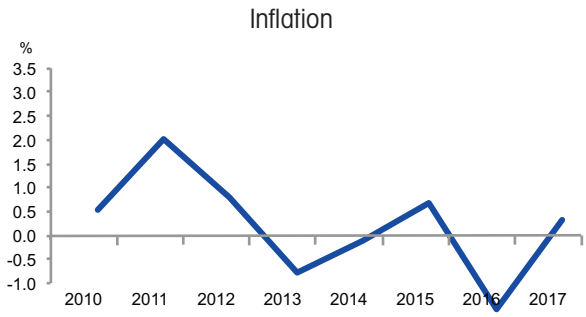
Domestic conditions improved in comparison to 2016, which was subdued due to Hurricane Matthew. While an active 2017 Hurricane Season still hampered tourism, the outlook owing to the increase in room capacity from the phased opening Baha Mar resort. The latter was also representative of wider scale foreign investment inflows that boosted construction sector output, as well as impetus from rebuilding activity from 2016's hurricane damages. Consequently, at November 2017, the unemployment rate was 1.5 percentage points lower versus November 2016.

Average consumer prices firmed by 1.5% in 2017, a reversal from a 0.4% decrease in the prior year. Average costs for housing, water, gas, electricity and other fuels rose by 3.7%, restaurant & hotels by 2.3% and transport by 2.0%.

In the monetary sector, buoyed by the receipt of net proceeds from Government's external borrowings, both bank liquidity and external reserves expanded over the review period, as underlying balance sheet trends reflected a reduction in domestic credit, in contrast to a modest growth in deposits.

Banks' credit quality indicators improved, attributed mainly to entities' on-going credit restructuring measures, as well as loan write-offs.





Meanwhile, there was easing in overall bank profitability, due to narrowing in net interest margins and a rise in operating costs and provisions for bad debts. The weighted average interest rate spread narrowed further, led by a falloff in average lending rates, and a rise in deposit rates

On the fiscal side, the Government's operations for the first half of FY2017/18 showed that the deficit contracted by $91.3 million (41.3%) to $129.9 million in comparison to the period of FY 2016/17. Underpinning this outturn, total expenditure decreased by $66.4 million (10.7%) to $556.3 million, while aggregate revenue firmed by $24.9 million (6.2%) to $426.4 million. The improvement in revenue was due to an increase in tax receipts, amid an increase in Value Added Tax (VAT) collections. The reduction in expenditure was solely attributed to halving in capital outlays and a decrease in hurricane related spending.

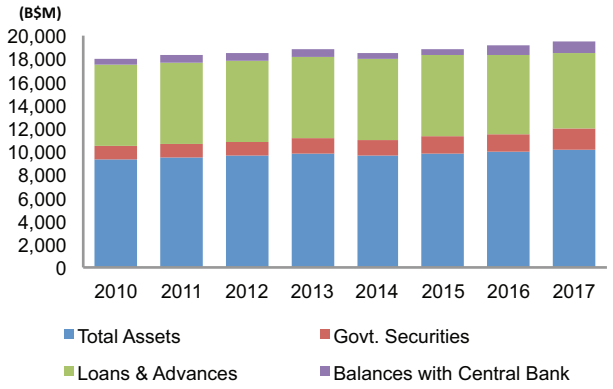
Both the direct financing and refinancing of fiscal operations impacted the financial sector aggregates, with net

foreign currency proceeds boosting the foreign reserves and bank liquidity, in concert with a net repayment of credit owed to banks.

Asset Growth and Quality

Commercial banks' Bahamian dollar assets rose by 2.1% ($210.6 million) to $10.17 billion. In an environment of elevated liquidity, banks non-interest bearing excess deposits with the Central Bank advanced by 16.7% ($144.9 million) to $1.01 billion; while, their holdings of Government securities increased by 15.1% to $1.7 billion. Conversely, total Bahamian dollar loans reduced by 3.7% ($236.9 million) to $6.2 billion, of which 43.0% were denominated in private residential mortgages, followed by consumer and commercial at 37.4% and 3.4%, respectively. This outcome was dominated by public sector repayment sales of non-performing assets. With asset sales, private sector credit contracted further by 2.9%, after a 1.6% decline a year earlier, for an ending balance of $5.74 billion (92.4% of the total credit). In addition, loans to the Government lessened by 12.0% to $442.2 million—constituting 7.1% of the total—while credit to the rest of the public sector decreased by 12.6% to $31.2 million.

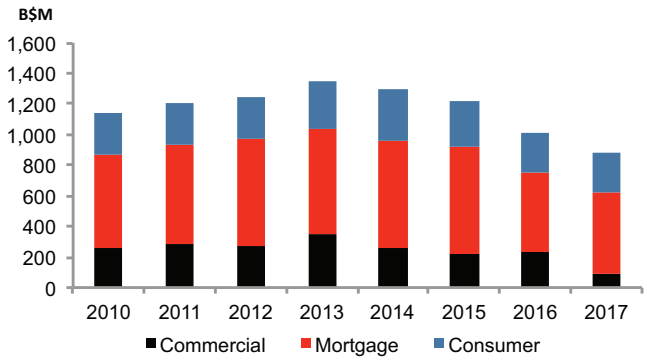
Banks' Total Assets



In the private sector portfolio, personal loans— representing a dominant 81.8% of the private total—decreased by 1.2% to $5.1 billion, with more notable contractions recorded for fisheries (76.6%), professional & other services (39.2%), construction (25.1%), tourism (30.9%), entertainment & catering (61.0%) and transport (16.1%). In contrast, significant credit growth was registered for manufacturing (61.9%) and distribution (24.9%).

During the year, total private sector loan arrears contracted by 12.4% to $884.8 million, due to a 60.2% ($139.6 million) contraction in commercial arrears. In addition, the corresponding ratio of arrears to total loans narrowed by 1.7 percentage points to 15.4%. The falloff in total delinquencies was mainly concentrated in the commercial loan component—at 10.4% of total—which fell by $139.6 million (60.2%) to $92.4 million. In contrast, mortgage loan arrears increased by $13.1 million (2.5%) to $534.1 million. The reduction in loan arrears was largely concentrated in the non-performing segment—arrears in excess of 90 days and on which banks have stopped accruing interest—which contracted by 22.2% to $567.5 million, and represented a 2.4 percentage points decline to 9.9% of total private sector loans. However, the short term delinquencies increased by $35.8 million

Private Sector Loan Arrears



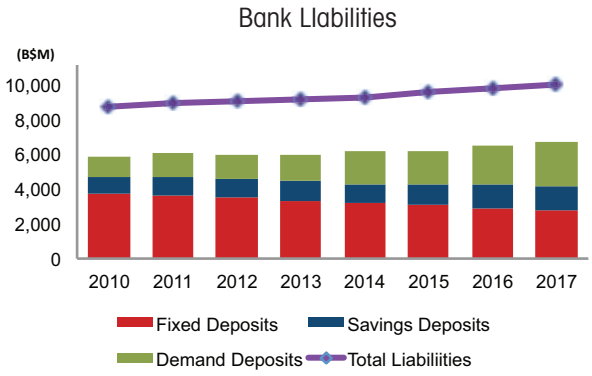
(12.7%) to $317.4 million, representing 5.5% of total private sector loans.

At end-2017, members' provisions credit losses represented approximately 6.9% of total private sector loans and 47.9% of total arrears and 74.7% of non-performing loans. Further, the coverage ratio specific provisions to non-performing loans stood at 51.9%.

Deposit Base and Liquidity

During 2017, members' total Bahamian dollar liabilities grew by 2.8% to $10.0 billion. Bahamian dollar deposits, at $6.6 billion, comprised 66.2% of total liabilities, with the predominant share held by private individuals (50.1%), followed by business firms (30.4%), the public sector (7.9%), private financial institutions (6.7%) and other depositors (4.9%). Approximately 42.1% of these deposits were held in fixed balances, with demand and savings deposits representing smaller portions of 37.2% and 20.7%, respectively.

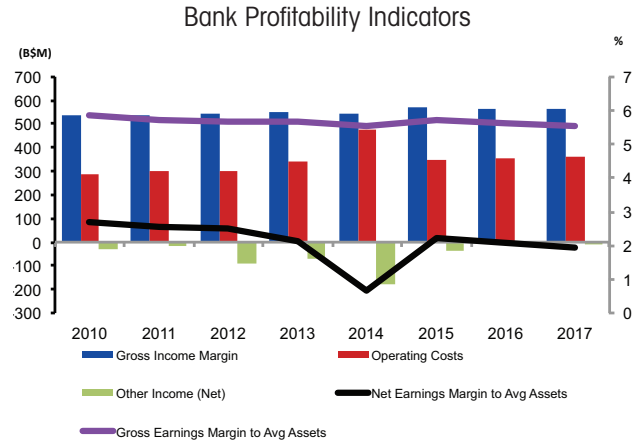
The DIC insures deposits up to a maximum of $50,000 for any single depositor. At end-2017, approximately 87.6% of Bahamian dollar accounts held balances below



$10,000, although these constituted only 5.9% of the total value. Deposits between $10,000 and $50,000 comprised 8.4% of the total number of accounts and 10.8% of the overall value, while those in excess of $50,000 represented 4.0% of the total number, but a dominant 83.3% of the aggregate.

Based on the maximum B$50,000 insurance coverage per depositor, an estimated 96 percent of deposit accounts in member institutions were insured by deposit insurance. During 2017, there were approximately 394,225 Bahamian Dollar denominated demand, savings and fixed deposit accounts, as compared to 393,102 accounts in 2016.

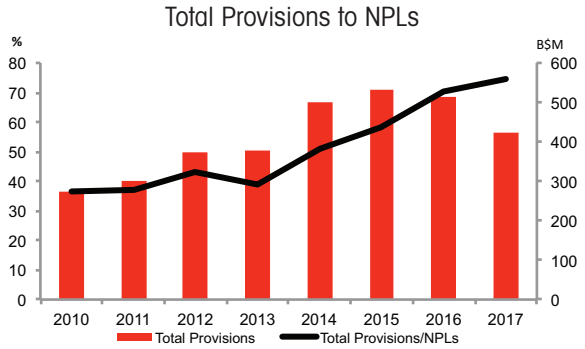
Bank liquidity levels remained buoyant in 2017, reflecting subdued lending conditions. Members' average monthly net free cash balances—a narrow measure of liquidity, expanded by 13.7% to $741.2 million. By end-2017, net free cash reserves increased to $819.2 million from $750.5 million in 2016, for an elevated 12.3% of Bahamian dollar deposits. Similarly, the broader excess liquid assets—inclusive of holdings of public sector securities—increased by 23.3% to $1.83 billion.



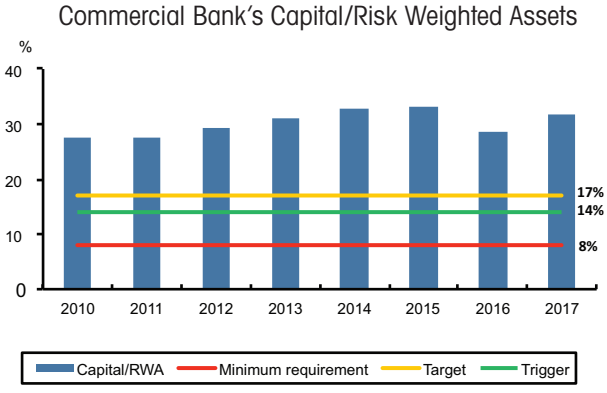
Profitability and Capital Adequacy

In 2017, the overall profitability of banks weakened during the twelve-months to September, as net income reduced by 10.2% to $189.7 million, which equated to 1.9% of average assets. Banks' net interest margin decreased. However, operating expenses firmed by 1.5% ($5.2 million) to $363.1 million, owing in large measure to an increase in other "miscellaneous" operating outlays—inclusive of professional services, Government fees and maintenance—which outstripped slight reductions in staff outlays and occupancy costs. As a consequence, the net earnings margin decreased by 5.2% ($10.8 million) to $198.2 million, corresponding to 2.0% of average assets.

Meanwhile increase provisioning expenses for bad debt and higher depreciation costs outweighed growth in "non-core", mainly fee-based income for a net loss of $8.5 million on other operations, vis-à-vis a $2.4 million net earnings in the comparative 2016 period.



The Central Bank requires that all banks maintain a capital adequacy ratio of at least 8 percent at all times. Entities, however must target a higher buffer of 17% (target ratio) and to trigger steps to rebuild capital whenever the ratio fall below 14% (trigger ratio). In 2017, total eligible capital of $2.46 billion and total risk weighted assets of $7.70 billion, resulted in a capital adequacy ratio of 32.0% for the domestic banks. These institutions remained well capitalized.

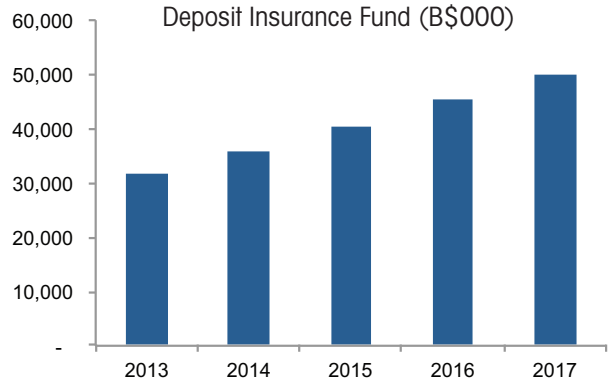


2017 FINANCIAL HIGHLIGHTS AND ANALYSIS

Size and Allocation of the Fund

The DIC's assets grew by 10.7% to $50.6 million in 2017. The insurance component increased by 10.9% to $50.1 million in 2017, while contributed capital remained at $0.5 million. The capital consists of funding paid into the fund upon its formation in 1999—half by the Central Bank and half by the initial fourteen (14) member banks. These members however do not hold equity position in the DIC.

As to asset allocation, the DIC continued to build the reserves of the fund through investments of annual premiums and reinvestment of interest income in Bahamas Government Bonds. Investments amounted to $49.3 million compared to $44.4 million at end 2016. The next significant assets category accrued interest income of $0.675 million, increased by 1.8% for the year; and cash deposits of $0.644 million, reduced by 13.5%, year-over-year. An increased residual amount of $0.015 million was in "other" assets.

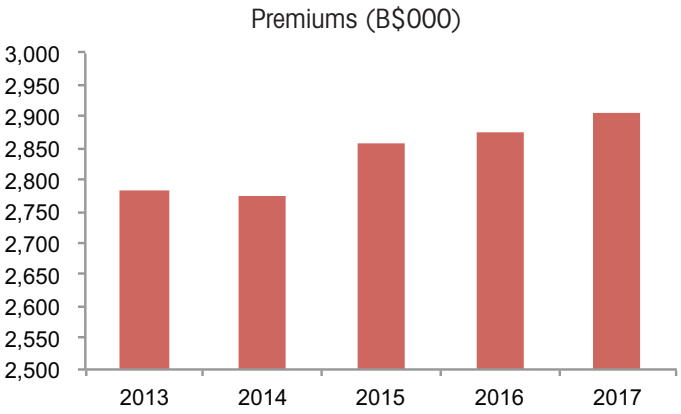


Net Income

In 2017, the DIC recorded comprehensive income of $4.91 million, an increase of $141,895 (3%) from $4.77 million in 2016. With expenses remaining, compressed overall, this was driven by higher interest income, with expanded investment holdings outpacing lower yields on new instruments. Premium collections also rose.

Premiums

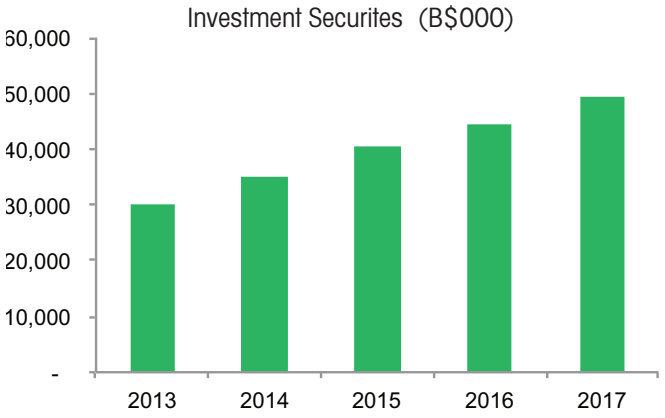
For the year of 2017, premiums collected from member institutions increased by 1.1% to $2.91 million, as insurable deposits also rose.



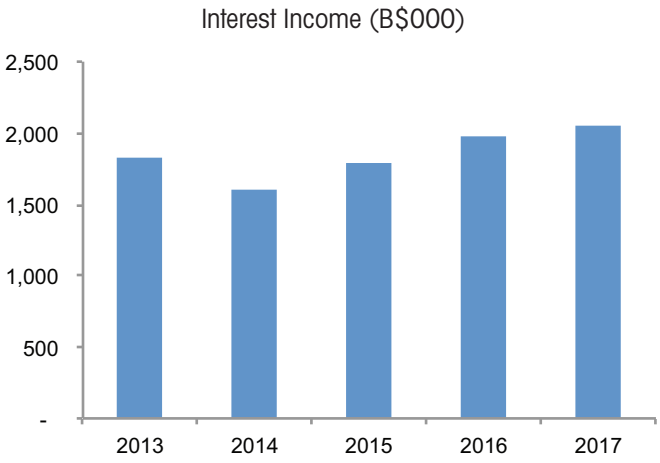
Investments & Interest Income

Increased domestic demand for Bahamas Government Bonds, pushed yields on new instruments lower in 2017 and constrained the DIC's access to longer-term maturities. This necessitated a shift to subscriptions for securities of one year or less, with further exposure to reduced coupon yields. Moreover, following the reduction in the Central Bank's discount rate by 50 basis points in December 2016, commercial banks' reduced the Prime Rate by 50 basis points from 4.75 percent to 4.25 percent with effect from January 2017. This reduced the return on bonds with yields tied to the Prime.

Against this backdrop, the DIC's bond portfolio increased by $5.0 million (11.3%) to $49.3 million which comprised 97.4% of total assets (96.9%: 2016). Likewise, interest income for 2017 rose by 4.4% ($0.086 million) to $2.1 million.



As at December 31, 2017, government bonds were the only category of income-generating assets held by the DIC. Cash at banks held with the Central Bank was non-interest bearing.

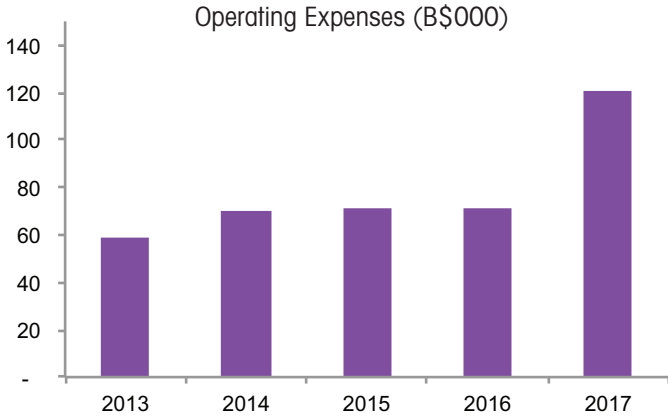


Operating Expenditures

Total operating expenditures increased by $0.05 million (70.1%) to $0.121 million in 2017, but were still $0.128 million (51.3%) below the budgeted amount for the year.

This outcome reflected outlays of $0.044 million for the public awareness activities. Administrative fees paid to the Central Bank was the second largest outlay, at $0.033 million. Next, the board honorarium of $0.005 million reflect remunerations paid to the six-member board of management for three meetings held in April, September and December, 2017.

In other costs, the annual membership fees assessed by the International Association of Deposit Insurers (IADI) for the year 1 April, 2017 to 31 March, 2018 was $0.018 million, compared to $0.017 million in 2016, due to upward movement in the exchange rate conversion of fees, which are assessed in Swiss Francs. Also, audit and printing costs pertaining to the 2017 audited financial statements of the DIC were assessed at $0.007 million and $0.008 million, respectively. Finally, some $0.005 million were expended in 2017 for DIC personnel training, compared to $0 in 2016.



GLOSSARY OF TERMS

Account Balance - The dollar amount including principal and interest for a specific account.

Assessment Base - The base on which the deposit insurer charges the premium or calculates the levy needed to compensate the insured depositors.

Bank Draft - A cashable instrument, similar to a certified cheque or money order, that is drawn by a bank against its own funds and payable to the person named in the draft.

Bank Run - A rapid loss of deposits precipitated by fear on the part of the public that a bank may fail and depositors may suffer losses. Could spread across the banking system.

Beneficiary - A person or entity named or identified in either the bank account records or in a written trust that will have an interest in the trust upon the account owner's death.

Bond - A debut instrument issued by a government, or by a bank or other corporation. Bonds normally pay fixed interest rates and may be redeemable on demand or at the end of a fixed term.

Bye-Law - A rule put in place by a corporation or organization under authority granted to it by a higher law.

Checking Account - A deposit account that allows the depositor to write cheques instructing the member institution to withdraw funds from the account and pay them to the persons named in the cheques.

Claim - An assertion of indebtedness of a failed institution to a depositor, general creditor, subordinated debt holder, or shareholder.

Closed Institution - An institution: (a) which has been ordered by the Central Bank to suspend business as a result of financial difficulties; (b) which has been the subject of a winding-up order issued by the court; and (c) the failure of which the Central Bank has advised the DIC.

Corporate Governance - The system by which an organization is directed, administered or controlled, and includes the relationships among stakeholders and the goals for which the organization is governed.

Deposit - Funds placed with a DIC member institution and eligible for insurance coverage.

Deposit Account Records - Deposit account records include signature cards, certificates of deposits (CDs), passbooks, account ledgers and computer records that relate to the bank's deposit-taking function.

Deposit Insurance - Deposit Insurance is a system established to protect depositors against the loss of their deposits in the event an insured institution of the deposit insurer is unable to meet its obligations to depositors.

Deposit Insurance Fund (DIF) - The fund maintained by the DIC to insure deposits at failed member institutions.

Deposit Type - The type of transaction account or savings instrument into which funds are deposited. This includes checking accounts, savings accounts and CDs.

Depositor - A person or entity (such as a corporation) who deposits funds at a DIC member institution.

Eligible (Insurable) Deposits - Deposits that are eligible for insurance under the DIC Act. To be eligible, a deposit must be in a certain type of account or product

GLOSSARY OF TERMS

(including but not limited to a savings, chequing account or fixed deposit account), held at a DIC member institution and in Bahamian dollars.

Ex-ante (Before) Funding - The prior accumulation of a fund to cover deposit insurance claims, in case of the failure of a DIC member institution.

Ex Officio - Holding a second position or office by virtue of being appointed to a first.

Ex-post (After) Funding - An assessment levied after the failure of a DIC member institution to provide funds to cover eligible claims.

Financial Safety Net - A financial stability mechanism that usually comprises the deposit insurance function, prudential regulation and supervision, and the lender-of-last-resort function.

Flat Rate Premium - A premium assessed at a uniformed rate across all DIC member institutions.

Individual Account - An account held in the name of one person that does not name beneficiaries.

Insolvency or Insolvent - When a bank can no longer pay any financial obligation when due, or the value of assets is less than the total of its debts.

Insured Deposits - Types of deposits that are covered by a deposit insurance system and within the coverage limit as prescribed within the Protection of Depositors Act, 1999.

Inter-bank Deposits - Deposits held in a bank for another bank.

Joint Account - A deposit account owned by two or more people, with equal withdrawal rights, that is not a trust account. Joint account ownership category, and can qualify for separate DIC insurance cover.

Lender-of-last-resort function - The provision of liquidity to the financial system by a central bank.

Letters of Credit - Credit instruments issued by a bank guaranteeing payments on behalf of its customers to a beneficiary normally to a third party, but sometimes to the bank's customer, for a stated period of time and when certain conditions are met.

Liquidation - The winding down of the business affairs and operations of a failed DIC member institution through the orderly disposition of its assets after it has been placed in receivership.

Maximum Coverage - The amount a depositor can claim from the deposit insurer in the event of bank failures.

Money Order - A cashable instrument, similar to a certified cheque or a bank draft, issued by a member institution or a postal authority and payable to the person named in the order.

Partnership - An association of two or more persons or entities formed to carry on as co-owners of an unincorporated business. Partnership accounts, together with corporation and unincorporated association accounts, are separate account ownership category.

Payout - The process undertaken by DIC to make deposit insurance payments to the insured depositors of a failed DIC member institution. DIC may make a payment of deposit insurance in one of two ways: (1) by issuing cheques to insured depositors; or (2) by providing insured depositors with new demand deposits at another DIC member institution.

Subrogation - The process where the DIC is substituted as the claimant for the insured deposits paid by it.

FINANCIAL STATEMENTS OF
DEPOSIT INSURANCE CORPORATION
December 31, 2017

BAKER TILLY
GOMEZ
CHARTERED ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Management of:
Deposit Insurance Corporation

Opinion

We have audited the financial statements of Deposit Insurance Corporation ("the Corporation"), which comprise the statement of financial position as at December 31, 2017, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in The Bahamas, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

an independent member of
BAKER TILLY
INTERNATIONAL

Key Audit Matter (continued)

Investments (See Notes 4 and 8 to the financial statements)	
Key audit matter	**How the matter was addressed in our audit**
As at December 31, 2017, the Corporation has investments of $49,347,282 (2016: $44,353,400) in Bahamas Government Registered Stocks ("BGRS") representing 97.5% (2016: 97%) of the net assets. Investments are considered a key audit area due to their materiality in the context of the financial statements as a whole.	Our audit procedures included obtaining a confirmation from the Central Bank of The Bahamas ("the Central Bank"), registrar of BGRS, comparing the value of BGRS to their respective bid-prices available from the Central Bank's website and considering the adequacy of disclosures of investments in the Corporation's financial statements.

Other Information

Management is responsible for other information. Other information obtained at the date of this auditors' report is information included in the Corporation's Annual Report but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

The Board of Management is responsible for overseeing the Corporation's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

CHARTERED ACCOUNTANTS

April 17, 2018
Nassau, Bahamas

DEPOSIT INSURANCE CORPORATION

Statement of Financial Position

As at December 31, 2017
(Expressed in Bahamian dollars)

	2017	2016
ASSETS		
Cash at bank	$ 643,575	$ 744,356
Investments (Note 4)	49,347,282	44,353,400
Accrued interest receivable	675,215	663,398
Other assets	14,709	4,658
Total assets	50,680,781	45,765,812
LIABILITIES		
Unpaid claims	52,644	52,644
Accounts payable and accrued expenses	6,515	6,450
Total liabilities	59,159	59,094
Net assets	$50,621,622	$45,706,718
EQUITY		
Capital (Note 5)	$ 500,000	$ 500,000
Deposit insurance fund	50,121,622	45,206,718
Total equity	$50,621,622	$45,706,718

See accompanying notes. See Independent Auditors' Report on pages 28 to 30.

These financial statements were approved by the Board of Management on April 17, 2018 and signed on its behalf by the following:

Chairman
Board of Management

Member
Board of Management

DEPOSIT INSURANCE CORPORATION

Statement of Comprehensive Income

For the year ended December 31, 2017

	2017	2016
Income		
Premiums	$2,905,239	$2,874,250
Interest income	2,056,368	1,969,965
	4,961,607	4,844,215
Expenses		
Public awareness campaign	43,809	-
Administration fee (Note 6)	33,013	33,013
Membership fee (Note 7)	17,976	17,006
Printing	7,997	7,430
Audit fee	6,579	7,375
Board honorarium	5,400	5,400
Training	5,342	-
Website development	974	766
Miscellaneous	-	216
	121,090	71,206
Net income	4,840,517	4,773,009
Other comprehensive income		
Net change in unrealized gain on investments	74,387	-
Total comprehensive income	$4,914,904	$4,773,009

See accompanying notes. See Independent Auditors' Report on pages 28 to 30.

DEPOSIT INSURANCE CORPORATION

Statement of Changes in Equity

For the year ended December 31, 2017

	Capital	Deposit Insurance Fund	Total
As at December 31, 2015	$500,000	$40,433,709	$40,933,709
Total comprehensive income	-	4,773,009	4,773,009
As at December 31, 2016	$500,000	45,206,718	45,706,718
Total comprehensive income	-	4,914,904	4,914,904
As at December 31, 2017	$500,000	$50,121,622	$50,621,622

See accompanying notes. See Independent Auditors' Report on pages 28 to 30.

DEPOSIT INSURANCE CORPORATION

Statement of Cash Flows

For the year ended December 31, 2017

	2017	2016
CASH PROVIDED BY (USED IN)		
Cash flows from operating activities:		
Net income	$ 4,840,517	$ 4,773,009
Adjustment to reconcile net income to net cash provided by operating activities:		
Interest income	(2,056,368)	(1,969,965)
Cash provided by operations before changes in operating assets and liabilities	2,784,149	2,803,044
Changes in operating assets and liabilities		
(Increase) in other assets	(10,051)	(1,626)
Increase in accounts payable and accrued expenses	65	860
Net cash provided by operating activities	2,774,163	2,802,278
Cash flows from investing activities		
Purchase of investments	(4,919,495)	(3,972,000)
Interest received	2,044,551	1,909,762
Net cash used in investing activities	(2,874,944)	(2,062,238)
Net (decrease) increase in cash and cash equivalents	(100,781)	740,040
Cash and cash equivalents, beginning of year	744,356	4,316
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 643,575	$ 744,356
Represented by:		
Cast at bank	$ 643,575	$ 744,356

See accompanying notes. See Independent Auditors' Report on pages 28 to 30.

1. GENERAL

The Deposit Insurance Corporation ("the Corporation") was established by the Protection of Depositors Act, ("the Act") on September 30, 1999 to manage the Deposit Insurance Fund ("the Fund"). The Fund was established under the Act for the protection of depositors at member institutions. The Corporation insures Bahamian dollar deposits held at a member institution up to a maximum of $50,000, for any single depositor, or such greater amount as the Minister of Finance ("the Minister") may prescribe on the advice of the Central Bank of The Bahamas ("the Central Bank").

The depositor of a member institution must submit a claim to the Corporation within one year from the date of closure of the member institution. Before payment of any insured sums to depositors, the Corporation offsets any monies owed to the member institution by such depositor against the insured amount.

Notwithstanding that the Corporation's capital contribution was paid by the Central Bank in accordance with the Act, it does not have the power to govern the financial and operating policies of the Corporation so as to obtain benefits from its activities. Accordingly, the Corporation is not considered a subsidiary of the Central Bank. Certain Members of the Board of Management of the Corporation are also Directors and Officers of the Central Bank.

The Registered Office of the Corporation is located at the Central Bank, Frederick Street, Nassau, Bahamas.

The Corporation, on the advice of the Central Bank, has the authority to:

(i) levy authorized contributions and premiums on member institutions;

(ii) arrange for restructuring of a failed member whether by merger with a financially sound member or otherwise; and,

(iii) accumulate, manage and invest the surplus funds of the Corporation.

Additionally, the Corporation is exempt from the provisions of the Insurance Act and the Stamp Act.

In May 2000, the Corporation became a founding member of the International Association of Deposit Insurers ("IADI"), an association established in Basel, Switzerland. IADI's primary mission is the enhancement of deposit insurance effectiveness by developing guidance and promoting international cooperation.

These financial statements were authorized for issue by the Board of Management on April 17, 2018.

2. ADOPTION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS

At the date of these financial statements, the following standards, interpretations and amendments to the existing standards have been issued by the International Accounting Standards Board ("the IASB"). Such standards, interpretations and amendments to the standards have not been applied in these financial statements as they are not yet effective:

IFRS 9	-	Financial Instruments – effective from January 1, 2018
IFRS 15	-	Revenue from Contracts with Customers – effective from January 1, 2018
FRS 16	-	Leases – effective from January 1, 2019
IFRS 2 (amendments)	-	Share-based Payment – amendments for clarifications on classification and measurement of share-based payment transactions – effective from January 1, 2018
IAS 40 (amendments)	-	Transfers of Investment Property – effective from July 1, 2018
IFRIC 22	-	Foreign Currency Transactions and Advance Consideration – effective from January 1, 2018

The Board of Management is in the process of determining the effects, if any, of the adoption of such standards, interpretations and amendments to the standards in future periods, if applicable.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

The financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The significant accounting policies set out below have been consistently applied to all years presented, unless otherwise stated.

b) Basis of preparation

These financial statements have been prepared on the historical cost basis except for investments which are measured at fair value. The financial statements are expressed in Bahamian dollars which is the functional and reporting currency of the Corporation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Use of estimates and judgments

The preparation of financial statements in compliance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenditure for the reporting period. Actual results could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following notes:

Note 3(d)	-	Financial assets
Note 8	-	Fair value of financial instruments
Note 9	-	Financial risk management

d) Financial assets

The Corporation classifies its financial assets into the following categories: available-for-sale financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets. Management determines the classification at the time of initial recognition.

(i) Available-for-sale financial assets

Available-for-sale ("AFS") financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. AFS financial assets are those intended to be held for the long-term but which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or prices. AFS financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, AFS financial assets are re-measured at fair value. Unrealized gains and losses arising from changes in the fair value of AFS financial assets are recognized in other comprehensive income. Upon disposal of AFS financial assets, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from other comprehensive income to profit or loss as a reclassification adjustment. AFS financial assets comprise investments.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest method less impairments losses, if any. Balances included in this classification are cash at bank and accrued interest receivable.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank. Cash at bank is held with the Central Bank.

f) Accrued interest receivable

Accrued interest receivable represents interest receivable on investments.

g) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Corporation has access at that date. The Corporation measures investments in Bahamas Government Registered Stocks at fair value based on bid-prices available from the Central Bank.

h) Fair value hierarchy

The Corporation measures fair values using the following fair value hierarchy that reflects the significance of the inputs in making the measurements:

Level 1	-	Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2	-	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3	-	Inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, the measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

The determination of what constitutes "observable" requires significant judgment by the Corporation. The Corporation considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Impairment of financial assets

A financial asset is assessed at each reporting date to determine whether there is objective evidence of impairment. A financial asset is impaired if its carrying amount exceeds its estimated recoverable amount. An impairment loss on a financial asset is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognized in the statement of comprehensive income. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognized.

j) Financial liabilities

The Corporation classifies its financial liabilities as other financial liabilities.

- Other financial liabilities

  Other financial liabilities are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Balances included in this classification are unpaid claims and accounts payable and accrued expenses.

k) Recognition of financial assets and liabilities

The Corporation recognizes financial assets and financial liabilities when it becomes a party to the contractual provisions of the instruments.

l) Derecognition of financial assets and liabilities

The Corporation derecognizes financial assets when the contractual rights to receive the cash flows from the assets expire or have been transferred and the Corporation has transferred substantially all the risks and rewards of ownership of the assets. A financial liability is derecognized when its contractual obligations are discharged, cancelled or expire.

m) Capital

Capital comprises the contribution paid by the Central Bank in accordance with Section 13(2) of the Act (see Note 5). The Act does not provide for member institutions to be shareholders of the Corporation and accordingly, these institutions do not hold any equity in the Corporation.

n) Deposit insurance fund

The Fund is managed by the Board of Management of the Corporation. Membership in the Fund is compulsory for every institution carrying on banking business wholly or partly in Bahamian dollars and licensed under the Banks and Trust Companies Regulation Act. The Fund comprises accumulated earnings of the Corporation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Related parties

Related parties represent entities or individuals that can exercise significant influence or control over the operations and policies of the Corporation. The Central Bank and certain of its directors and officers are considered to be related parties of the Corporation.

p) Income and expenses

(i) Premiums

The premium payable by a member institution in respect of the year in which it becomes a member institution shall be the same proportion of one twentieth of one percent of the sum of those deposits insured by the Corporation and deposited with the member institution as at the end of the month in which it becomes a member institution, as the number of days in which any of the deposits with that member institution are insured by the Corporation in that year.

Thereafter, every member institution pays an annual premium equal to one twentieth of one percent of an amount equal to the average of the sum of those deposits insured by the Corporation and deposited with the member institution as of March 31 and September 30 in the immediately preceding premium year.

Premiums are recognized on an accrual basis when the Corporation's right to receive the premiums is established.

(ii) Interest income

Interest income is recognized on an accrual basis using the effective interest method.

(iii) Expenses

Expenses are recognized on an accrual basis.

q) Value added tax on premiums

Premiums are a statutory requirement and therefore not subject to value added tax.

4. INVESTMENTS

As at December 31, investments in Bahamas Government Registered Stocks are as follows:

		2017		2016	
Date of purchase	**Maturity date**	**Interest rate**	**Fair value**	**Interest rate**	**Fair value**
Aug. 28, 2001	Oct. 25, 2020	4.75%	$ 1,009,209	5.25%	$ 1,000,000
Mar. 25, 2002	Dec. 12, 2018	4.72%	148,852	5.22%	147,000
Jun. 19, 2002	Sep. 06, 2020	4.59%	351,902	5.09%	350,000
Dec. 02, 2004	Jul. 21, 2019	4.72%	400,936	5.22%	400,000
Apr. 06, 2005	Jul. 29, 2023	4.53%	907,609	5.03%	900,000
Nov. 14, 2005	Oct. 22, 2023	4.53%	957,816	5.03%	950,000
Jan. 18, 2006	Jan. 18, 2026	4.56%	1,052,063	5.06%	1,050,000
Sep. 28, 2006	Sep. 07, 2024	4.50%	1,658,742	5.00%	1,650,000
May 25, 2007	Sep. 22, 2025	4.53%	1,409,015	5.03%	1,400,000
Jul. 04, 2007	Sep. 07, 2024	4.50%	904,768	5.00%	900,000
Jan. 22, 2008	Sep. 22, 2025	4.53%	1,258,049	5.03%	1,250,000
Jul. 22, 2008	Jan. 18, 2024	4.50%	1,449,584	5.00%	1,450,000
Feb. 06, 2009	Nov. 28, 2020	4.34%	1,513,746	4.84%	1,499,000
Jul. 24, 2009	Nov. 28, 2018	4.28%	1,564,816	4.78%	1,550,000
Feb. 02, 2010	Aug. 27, 2029	4.39%	1,757,899	4.89%	1,750,000
Jul. 26, 2010	Jul. 26, 2034	4.40%	1,532,098	4.90%	1,528,500
Jul. 26, 2010	Jul. 26, 2037	4.43%	121,790	4.93%	121,500
Feb. 15, 2011	Jul. 26, 2028	4.33%	1,904,336	4.83%	1,900,000
Nov. 10, 2011	Nov. 10, 2028	4.34%	1,066,708	4.84%	1,057,500
Jul. 16, 2012	Jul. 16, 2029	4.30%	1,041,635	4.30%	1,100,000
Jul. 16, 2012	Jul. 16, 2030	4.32%	1,083,732	4.32%	1,150,000
Jul. 16, 2012	Jul. 16, 2031	4.35%	1,078,529	4.35%	1,150,000
Sep. 25, 2012	Sep. 25, 2030	4.30%	118,008	4.80%	117,300
Sep. 25, 2012	Sep. 25, 2032	4.31%	150,909	4.81%	150,000
Apr. 17, 2013	Apr. 17, 2032	4.31%	1,510,716	4.81%	1,500,000
Apr. 17, 2013	Apr. 17, 2033	4.31%	1,510,734	4.81%	1,500,000
Jul. 26, 2013	Jul. 26, 2033	4.31%	701,581	4.81%	700,000
Jul. 26, 2013	Jul. 26, 2034	4.32%	1,002,267	4.82%	1,000,000
Oct. 23, 2013	Apr. 17, 2031	4.30%	805,705	4.80%	800,000
Feb. 03, 2014	Sep. 23, 2032	4.31%	1,881,065	4.81%	1,870,000
Jun. 27, 2014	Sep. 23, 2032	4.31%	1,860,946	4.81%	1,850,000
Sep. 02, 2014	Sep. 23, 2031	4.30%	331,949	4.80%	330,000
Dec. 10, 2014	Oct. 30, 2021	3.52%	1,008,892	3.52%	1,000,000
Jan. 02, 2015	Oct. 30, 2021	3.52%	807,114	3.52%	800,000
Feb. 10, 2015	Oct. 30, 2021	3.52%	252,223	3.52%	250,000
Apr. 14, 2015	Jul. 16, 2031	4.35%	281,355	4.35%	300,000
May 19, 2015	Sep. 23, 2031	4.30%	201,181	4.80%	200,000
Jul. 28, 2015	Sep. 25, 2032	4.31%	96,380	4.81%	95,800
Balance carried forward			$36,694,859		$36,716,600

4. INVESTMENTS (continued)

		2017		2016	
Date of purchase	**Maturity date**	**Interest rate**	**Fair value**	**Interest rate**	**Fair value**
Balance brought forward			$36,694,859		$36,716,600
Jul. 28, 2015	Apr. 17, 2032	4.31%	488,572	4.81%	485,100
Jul. 28, 2015	Jul. 26, 2033	4.31%	911,154	4.81%	909,100
Sep. 02, 2015	Jul. 26, 2033	4.31%	300,678	4.81%	300,000
Oct. 20, 2015	Oct. 30, 2021	3.52%	278,958	3.52%	276,500
Oct. 20, 2015	Jul. 26, 2033	4.31%	44,200	4.81%	44,100
Nov. 18, 2015	Jul. 26, 2033	4.31%	190,429	4.81%	190,000
Dec. 22, 2015	Jul. 26, 2033	4.31%	1,463,298	4.81%	1,460,000
Aug. 26, 2016	Aug. 26, 2036	5.40%	193,641	5.40%	188,800
Sep. 13, 2016	Jul. 26, 2037	4.88%	33,096	5.38%	33,000
Sep. 15, 2016	Jul. 26, 2037	4.43%	15,236	4.93%	15,200
Sep. 15, 2016	Jul. 26, 2037	4.43%	20,048	4.93%	20,000
Oct. 03, 2016	Oct. 03, 2036	5.40%	2,656,643	5.40%	2,590,000
Nov. 07, 2016	Jan. 15, 2024	4.25%	378,380	4.25%	370,000
Dec. 05, 2016	Jan. 15, 2024	4.25%	705,628	4.25%	690,000
Dec. 05, 2016	Jan. 15, 2024	4.25%	66,472	4.25%	65,000
Apr. 24, 2017	Oct.13, 2036	5.40%	1,436,056	5.40%	-
May 26, 2017	Apr. 27, 2018	2.60%	150,370	2.60%	-
Jul. 14, 2017	Jul. 14, 2037	5.20%	1,545,452	5.20%	-
Oct. 13, 2017	Oct. 13, 2037	5.22%	379,810	5.22%	-
Dec. 15, 2017	Dec. 15, 2037	5.22%	1,394,302	5.22%	-
			$49,347,282		$44,353,400

5. CAPITAL

The authorized capital of the Corporation is $1,000,000. The initial contribution to the Corporation was $1,000,000 of which $500,000 was paid by the Central Bank in accordance with Section 13(2) of the Act and recognized as capital in the statement of financial position. The remaining contribution of $500,000 was levied on member institutions in accordance with Section 5(1) of the Act and was recognized as premiums in the statement of comprehensive income.

6. ADMINISTRATION FEE

The Corporation pays an administration fee of $30,710 per annum to the Central Bank, plus out-of-pocket expenses paid on behalf of the Corporation.

7. MEMBERSHIP FEE

As a member of IADI, the Corporation pays an annual membership fee of $17,976 (CHF17,650) (2016: $17,006).

8. FAIR VALUE OF FINANCIAL INSTRUMENTS

Management estimates that the carrying values of the financial assets and liabilities disclosed in the statement of financial position approximate their fair values at the reporting date for one or more of the following reasons:

(i) Short-term maturities;
(ii) Interest rates approximate market rates; and
(iii) Carrying values equal fair values.

Fair value hierarchy

The table below shows the fair value hierarchy level for financial assets measured at fair value as of December 31, 2017:

	2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Available-for-sale financial assets				
Investments	$ -	$49,347,282	$ -	$49,347,282

	2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Available-for-sale financial assets				
Investments	$ -	$44,353,400	$ -	$44,353,400

9. FINANCIAL RISK MANAGEMENT

The Corporation has exposure to the following risks from its use of financial instruments:

(a) Credit risk

Credit risk is the possibility that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered with the Corporation and causes the Corporation to incur a financial loss. It arises principally from investments and accrued interest receivable.

The Corporation limits its exposure to credit risk by investing in Bahamas Government Registered Stocks. No financial assets were past due or impaired at the reporting date. The Board of Management does not anticipate non-performance of these amounts.

The maximum exposure to credit risk for the Corporation at the reporting date equals the carrying value of its financial assets in the statement of financial position.

9. FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk

Liquidity risk is the possibility that the Corporation will encounter difficulties in meeting obligations arising from its financial liabilities that are settled by delivering cash or another financial asset, or that such obligations will have to be settled in a manner disadvantageous to the Corporation. The Corporation's objective is to ensure sufficient liquidity to meet its obligations when due. Ultimate responsibility for management of liquidity risk rests with the Board of Management. The Board of Management manages liquidity risk by monitoring expected cash flows from premiums and investments.

The following table summarizes the carrying amounts of financial assets and liabilities of the Corporation into relevant maturity groups based on expected contractual maturities as at December 31, 2017. The table includes only principal cash flows.

	2017			
	Within 1 year	2 to 5 years	Over 5 years	Total
Financial assets				
Loans and receivables				
Cash at bank	$ 643,575	$ -	$ -	$ 643,575
Accrued interest receivable	675,215	-	-	675,215
	1,318,790	-	-	1,318,790
Available-for-sale financial assets				
Investments	1,864,038	5,622,980	41,860,264	49,347,282
	$3,182,828	$5,622,980	$41,860,264	$50,666,072
Financial liabilities				
Other financial liabilities				
Unpaid claims	$ 52,644	$ -	$ -	$ 52,644
Accounts payable and accrued expenses	6,515	-	-	6,515
	$ 59,159	$ -	$ -	$ 59,159

9. FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

	2016			
	Within 1 year	2 to 5 years	Over 5 years	Total
Financial assets				
Loans and receivables				
Cash at bank	$ 744,356	$ -	$ -	$ 744,356
Accrued interest receivable	663,398	-	-	663,398
	1,407,754	-	-	1,407,754
Available-for-sale financial assets				
Investments	-	7,272,500	37,080,900	44,353,400
	$1,407,754	$7,272,500	$37,080,900	$45,761,154
Financial liabilities				
Other financial liabilities				
Unpaid claims	$ 52,644	$ -	$ -	$ 52,644
Accounts payable and accrued expenses	6,450	-	-	6,450
	$ 59,094	$ -	$ -	$ 59,094

(c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk:

(i) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Corporation does not engage in transactions in currencies other than the Bahamian dollar. Accordingly, the Corporation has no exposure to foreign currency risk.

(ii) Interest rate risk

Interest rate risk arises from the possibility that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation is exposed to interest rate risk arising from its investments. If interest rates had been 1% higher/lower, with all other variables remaining constant, net assets would have increased/decreased by $493,473 (2016: $443,534) as a result of the change in interest rates.

9. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(i) Other price risk

Other price risk is the possibility that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market. It embodies not only the potential for loss but also the potential for gain. The Corporation does not hold equity securities.

(d) Capital management

The Corporation manages its net assets to ensure that it will be able to continue as a going concern while meeting its obligations. The capital of the Corporation is represented by its net assets. The Corporation is not subject to externally-imposed capital requirements, and there were no changes in the management of capital during the year. The key mechanism used to manage the level of capital is premium assessments. The Corporation levies premiums at an annual rate of one twentieth of one percent of the insured deposits. The adequacy of net assets will be based primarily on the assessed risk posed by member institutions. In relation to its insurance obligations, the Corporation's main exposure is to any unexpected loss from the insolvency of a member institution which is not readily estimated due to the unavailability of data on specific loss experience. In accordance with the Act, where the Corporation had made or is likely to make claim payments to depositors which have exhausted or are likely to exhaust the Fund, the Corporation shall furnish the Minister with an estimate of the amount necessary to meet the obligations of the Fund in the year next succeeding and the Minister on the advice of the Central Bank after consultation with the member institutions, may by order require that special contributions be levied on them.

See Independent Auditors' Report on pages 28 to 30.

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