DEPOSIT INSURANCE CORPORATION
BAHAMAS

# 2018 ANNUAL REPORT

# SAFEGUARDING YOUR FUNDS

The Deposit Insurance Corporation (DIC) provides deposit insurance protection and support for Bahamian Dollar depositors, thus minimizing risk to depositors and contributing to the stability of the Bahamian financial sector.

# 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.

# CORPORATE PROFILE

**Board of Directors**
John Rolle - Chairman of the Board of Management, Governor, Central Bank of The Bahamas
Karen Rolle - Deputy Inspector of Banks and Trust Companies, Central Bank of The Bahamas
Rochelle Deleveaux-McKinney - Legal Counsel and Secretary to the Board, Central Bank of The Bahamas
Marlon Johnson - Acting Financial Secretary, Ministry of Finance
Vacant – External Director
Vacant – External Director

**Management & Operations Team**
Bank Supervision Department, Central Bank of The Bahamas:
Jerome Johnson - Lead Supervisor
Cheryl Forbes - Assistant Lead Supervisor
D'Andrea Ramsey - Analyst II

**Auditor**
Baker Tilly Gomez
Chartered Accountants
The Deanery
28 Cumberland Street
P.O. Box N-1991
Nassau, Bahamas

**Office**
Deposit Insurance Corporation
Corner of Trinity Place & Market Street
P.O. Box N-4868
Nassau, Bahamas
Website: www.DIC.bs
Email: info@DIC.bs
Telephone: (242) 302-2766 / 302-9862

**Banker**
Central Bank of The Bahamas
Frederick Street
P.O. Box N-4868
Nassau, Bahamas
Telephone: (242) 302-2600

DEPOSIT INSURANCE CORPORATION
BAHAMAS

July 22, 2019

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, 2018. 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. Kevin Peter Turnquest
Deputy Prime Minister & Minister of Finance
Ministry of Finance
Cecil Wallace-Whitfield Centre
West Bay Street
Nassau, N.P., Bahamas

# ABBREVIATIONS

| | |
|---|---|
| **ACT** | PROTECTION OF DEPOSITORS ACT, 1999 |
| **AMP** | ADMINISTRATIVE MONETARY PENALTY |
| **BRS** | BAHAMAS REGISTERED STOCK |
| **BOM** | BOARD OF MANAGEMENT |
| **BSD** | BANK SUPERVISION DEPARTMENT |
| **BTCRA** | BANKS AND TRUST COMPANIES REGULATIONS ACT |
| **BYE-LAWS** | PROTECTION OF DEPOSITORS BYE-LAWS, 1999 |
| **CBBA** | CENTRAL BANK OF THE BAHAMAS ACT |
| **CBOB** | CENTRAL BANK OF THE BAHAMAS |
| **CDS** | CERTIFICATES OF DEPOSIT |
| **CRC** | CARIBBEAN REGIONAL COMMITTEE OF DEPOSIT INSURERS |
| **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 |
| **MOU** | MEMORANDUM OF UNDERSTANDING |
| **NPL** | NON PERFORMING LOAN |
| **PPO** | PUBLIC POLICY OBJECTIVE |
| **SFI** | SUPERVISED FINANCIAL INSTITUTION |

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# A MESSAGE FROM THE CHAIRMAN

In 2018, the Bahamian economy grew at a modest pace, supported by tourism gains and continued foreign investment-led activity in the construction sector. Although labor market conditions improved, the unemployment rate slightly increased as the workforce expanded faster than the job gains. Meanwhile, average inflation firmed, due to the July 2018 increase in the value added tax rate and higher international oil prices. However, banks' credit quality indicators improved given strengthened economic conditions, and banks' ongoing efforts at debt restructuring and continued aggressive loan write-offs.

During the year, the number of member institutions of the deposit insurance fund was reduced by 1 to 11, comprising the same 8 commercial banks and 3 other bank and trust companies with Bahamian dollar liabilities.

An expansion in domestic credit in 2018 contrasted with a slight reduction in the deposit base. However, the Deposit Insurance Fund grew by 11.5% to $55.9 million, with the premium assessment rate unchanged at one-twentieth of one percent of the average insurable Bahamian dollar deposits.

The safety and soundness of DIC members, rest on the supervisory oversight exercised by the Central Bank. The regulator, maintained enhanced monitoring of commercial banks to detect and address emerging risk issues. Through the Bank's risk-based supervisory regime, member institutions were subjected to a combination of on-site examinations, offsite-monitoring, stress-testing exercises, and intensified direct interaction concerning their credit risk management practices.

The work of the Corporation continued to be guided by the 2017-2019 Strategic Plan. In 2018, this included heightened focused on public awareness, and the exercise to assess the adequacy of the fund. Preparations were also made for the DIC framework to be evaluated against best international principles during the IMF's financial sector assessment program mission to The Bahamas, which was carried out in January 2019; and further analysis on options to integrate credit unions in the insurance scheme.

The work plan of both the Central Bank and the DIC will prepare for the necessary integration of credit unions into the insurance scheme. In 2019, the regulator, began to transition credit unions to a risk-based oversight framework. This paralleled the DIC's consultative efforts with credit unions and the commercial banks on the process to integrate credit unions into the scheme. At this juncture, analysis continues to be conducted on the deposit characteristics and other components of the credit union group.

In its public education and outreach, the Corporation will increase its collaboration with member institutions, to ensure wider dissemination of information on the insurance scheme. This will supplement our own efforts at public education via social media and traditional distribution channels.

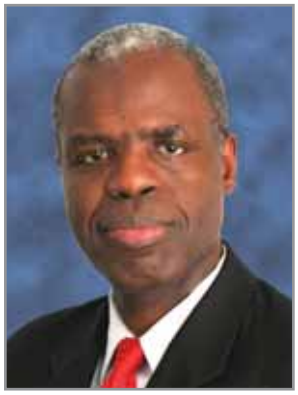
The achievements of the Corporation are due to the support of the Board of Management and the dedicated technical and administrative professionals of the Central Bank. I acknowledge, with thanks, the contributions of Lorne Basden and Aluchifer Rolle for their service as Members of the Board of Management of the Corporation from 2013 to 2018.

As we navigate through 2019, which will mark the 20th year of deposit insurance in The Bahamas, our team will remain committed to advancing the strategic mission of the Corporation.

John Rolle
Chairman
Deposit Insurance Corporation

# BOARD OF MANAGEMENT

December 31, 2018



**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

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

**Ms. Karen Rolle**
Deputy Inspector of Banks and Trust Companies
Central Bank of The Bahamas
Appointed: July 2014

## IMMEDIATE PAST BOARD MEMBERS

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

**Aluchifer Rolle**
Agency Manager
BAF Financial
Appointed: January 2013

# MANAGEMENT AND OPERATIONS TEAM

Pictured standing from left: Mrs. D'Andrea Ramsey, Analyst; Ms. Cheryl Forbes, Assistant Lead Supervisor; Mr. Jerome Johnson, Lead Supervisor

# FREQUENTLY ASKED QUESTIONS

### 1. WHAT IS DEPOSIT INSURANCE?

Deposit Insurance is an arrangement 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 meet its obligations.

### 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 under the Protection of Depositors Act 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 of the DIC 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$) denominated deposit accounts held at member institutions.

### 7. WHAT ARE ELIGIBLE DEPOSITS?

Eligible deposits are certain types of accounts as specified in the Act, and held at member institutions 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 asset 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 $8,000 and accrued interest of $160, the total $8,160 would be insured by the DIC. If however, a time account balance was $49,000 and accrued interest, $1,470 (total $50,470), then $470 would not be covered by deposit insurance.

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

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

## 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 accounts. 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.

# HISTORY OF DEPOSIT INSURANCE IN THE BAHAMAS

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

In an effort to protect the financial system from the effects of the bank failure, the Government enacted the Protection of Depositors Act 1999, establishing the Deposit Insurance Corporation (DIC) to administer and manage the Deposit Insurance Fund. The Act was approved by Parliament on 30th September, 1999 and came into effect on 10th November, 1999. The Act provided retroactive deposit insurance coverage to the Bahamian dollar depositors of Gulf Union Bank. This coverage up to a maximum of $50,000, protected almost 90% of the deposits of Gulf Union, inclusive of all small depositors.

The DIC was funded by a compulsory initial contribution of $1 million; B$0.5 million of which was required to be paid by the Central Bank and B$0.5 million 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.

Upon establishment, the DIC immediately floated a B$6.75 million 5 year bond (with an annual interest rate of 6¼ percent), which was guaranteed by the Government. The offering was fully subscribed by the DIC's member bank institutions. These funds paid out the insured claims against Gulf Union.

Membership in the DIC is compulsory for all licensed institutions carrying on banking business wholly or partly in Bahamian currency. While there is a symbiotic relationship between the DIC and the Central Bank, the Corporation is a separate statutory body with its own Board to execute decisions and 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.

# A LOOK AHEAD TO 2019

## DEPOSIT INSURANCE CORPORATION'S 20TH ANNIVERSARY

### IN 2019 THE DIC LOOKS FORWARD TO…

- CELEBRATING TWENTY YEARS IN OPERATIONS (1999 – 2019).
- EXPANDING DEPOSIT INSURANCE COVERAGE TO FINANCIAL COOPERATIVE CREDIT UNIONS.
- FORMULATING A NEW STRATEGIC PLAN FOR THE FIVE-YEAR PERIOD OF 2020 – 2024.
- PURSUING FINALIZED LEGISLATIVE AMENDMENTS FOR THE CENTRAL BANK OF THE BAHAMAS TO ASSUME FULL RESOLUTION AUTHORITY POWERS.
- USING THE 2019 FINANCIAL SECTOR ASSESSMENT PROGRAM (FSAP) REVIEW OF THE INTERNATIONAL MONETARY FUND, TO FURTHER STRENGTHEN THE PROTECTION OF DEPOSITORS' FRAMEWORK.
- ADVANCING NEW PUBLIC AWARENESS ACTIVITIES VIA SOCIAL MEDIA AND TRADITIONAL COMMUNICATIONS CHANNELS.
- ENGAGING MORE WITH MEMBER INSTITUTIONS IN EXECUTING OUTREACH; AND AWARENESS INITIATIVES.
- FACILITATING NEW SURVEYS TO MEASURE THE EFFECTIVENESS OF PUBLIC AWARENESS CAMPAIGNS.

# DIC MEMBER INSTITUTIONS

TOTAL B$ DEPOSITS (MILLIONS)

| Commercial Banks | Year Established | No. of Branches | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|
| Citibank N.A. | 17-Jan-66 | 1 | 96.6 | 90.1 | 86.4 | 81.1 | 79.2 |
| Finance Corporation of Bahamas Ltd. | 23-May-66 | 4 | 672.0 | 631.4 | 639.0 | 568.1 | 492.1 |
| Commonwealth Bank Ltd. | 10-Oct-66 | 12 | 1,055.6 | 1,095.0 | 1,208.6 | 1,238.1 | 1,277.3 |
| Bank of The Bahamas Ltd. | 28-Jul-70 | 11 | 362.9 | 304.2 | 599.4 | 565.9 | 579.4 |
| Fidelity Bank (Bahamas) Ltd. | 11-Jul-78 | 6 | 368.5 | 371.4 | 404.8 | 461.3 | 492.8 |
| FirstCaribbean International Bank (Bahamas) Ltd. | 07-Dec-95 | 12 | 1,123.8 | 1,127.5 | 1,184.0 | 1,310.1 | 1,283.8 |
| Scotiabank (Bahamas) Ltd. | 26-Mar-98 | 13 | 782.3 | 764.1 | 874.2 | 924.6 | 897.2 |
| RBC Royal Bank (Bahamas) Ltd. | 26-Oct-10 | 12 | 1,196.5 | 1,289.0 | 1,530.7 | 1,495.8 | 1,448.9 |
| **Total: Commercial Banks** | | | **5,658.2** | **5,672.7** | **6,527.1** | **6,645.0** | **6,550.7** |
| **Other Members** | | | | | | | |
| Ansbacher (Bahamas) Ltd. | 17-Jan-66 | 1 | 2.9 | 1.5 | 3.0 | 2.8 | 8.7 |
| The Bank of Nova Scotia Trust Company (Bahamas) Ltd. | 01-Apr-66 | 1 | 0.1 | 0.1 | 0.3 | 1.2 | 1.3 |
| Royal Fidelity Merchant Bank & Trust Ltd. | 15-Sep-98 | 1 | 31.9 | 31.1 | 61.6 | 71.8 | 59.4 |
| **Total: Other** | | | **34.9** | **32.7** | **64.9** | **75.8** | **69.4** |
| **Total All Members** | | | **5,693.1** | **5,705.4** | **6,592.0** | **6,720.8** | **6,620.1** |

# FIVE-YEAR FINANCIAL HIGHLIGHTS (B$'000)

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Members' Premiums | 2,773 | 2,858 | 2,874 | 2,905 | 3,149 |
| Interest & Other Income | 1,595 | 1,781 | 1,970 | 2,056 | 2,292 |
| Total Revenue | 4,368 | 4,639 | 4,844 | 4,961 | 5,441 |
| Operating Expenses | 31 | 33 | 33 | 33 | 34 |
| Comprehensive Income | 4,298 | 4,569 | 4,773 | 4,915 | 5,743 |
| Deposit Insurance Fund | 35,865 | 40,434 | 45,207 | 50,122 | 55,865 |
| Investment Securities | 35,071 | 40,381 | 44,353 | 49,347 | 52,965 |
| Total Assets | 36,365 | 40,992 | 45,766 | 50,681 | 56,424 |
| Member Institutions (#) | 12 | 12 | 12 | 12 | 11 |

# MEMBER PERFORMANCE

At year-end 31st December, 2018, the number of DIC registrants reduced to 11, inclusive of 8 commercial banks and 3 other deposit-taking institutions. One of the member institutions finalized its asset purchase agreement with a non-member entity and ceased to hold Bahamian denominated deposits. The majority of Bahamian dollar business remained concentrated in the commercial banking sector.

During 2018, banks' credit quality indicators improved in comparison to the previous year due to growth in the economy, debt restructuring activities and loan write-offs. Private sector non-performing loans decreased by $50.5 million (8.9%) to $517.0 million, and the corresponding ratio to total loans fell to 9.1% from 9.9% in 2017. Banks' total provisions for loan losses were $14.9 million (3.5%) higher, as a result of a 6.3 percentage point rise in the ratio of total provisions to arrears to 54.1%.

Domestic Banks' profitability also strengthened, up by 22.4% ($13.0 million) to $71.1 million at end September 2018, with the corresponding return on assets ratio firmed to 2.3% from 1.7% in the same period a year earlier. This was due largely to a decline in losses from provisions for bad debts and lower depreciation expenses, while banks' fee income also increased. In contrast, the net interest margin on core deposit and lending activities was slightly reduced from 2018.

Banks' capital levels also remained high, averaged at 32.3% of risk weighted assets at end-2018. Although slightly less than in 2017, it comfortably exceed the Central Bank's target and trigger ratios of 17% and 14% respectively.

The DIC relies on the Central Bank's supervisory and regulatory oversight of its members. In this regard, regulatory and supervisory initiatives undertaken during the year were highlighted as follows:

- Continued advancement of the implementation of Basel II/III supervisory framework. In December 2018, The Bank released a discussion paper on Implementing Basel III: Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) in The Bahamas for a 60 day consultation period. The liquidity rules, introduced by the Basel Committee, provide Supervised Financial Institutions (SFIs) with a credible and comprehensive framework for managing liquidity risks in their day-to-day operations.

- Launch of The Bahamas' official Enhanced General Data Dissemination System (eGDDS) portal. With implementation support from the IMF, this online portal was the results of collaboration between various statistical agencies, to provide the public with centralized access to key reports and data on the economy. In addition, various international agencies can now access standardized data directly using the Statistical Data and Metadata Exchange (SDMX) software tool, thereby improving data transparency and governance.

- Released revised Guidelines on the Prevention of Money Laundering & Countering the Financing of Terrorism. The revised AML/CFT Guidelines outline the Central Bank's mandatory minimum customer due diligence requirements for all banks, trust companies, co-operative credit unions, non-bank money transmission businesses and payment service providers.

- Administrative penalty framework for AML/CFT deficiencies. The Central Bank issued a Guidance Note on Administrative Monetary Penalties for Supervised Financial Institutions under The Bahamas' Anti-Money Laundering and Countering the Financing of Terrorism Regime. It sets out the procedures the Bank will generally follow when it has concerns about the operations of a SFI or in the event of non-compliance with the Financial Transactions Reporting Act or any other relevant AML/CFT laws.

The Central Bank continues to pursue a risk-based approach to supervision of SFIs, 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 Central 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 grants statutory responsibility to the 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 body corporate, established under the Protection of Depositors Act, 1999 (the Act) to manage the Deposit Insurance Fund. Its primary objective 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.

The DIC assesses and collects 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 $6.30 billion during 2018, relative to $5.81 billion in the previous year, premiums levied and collected during the year amounted to $3.14 million compared to $2.91 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 to the DIC which is administered within a service level agreement with the DIC. At year-end 2018, four Central Bank staff were assigned to the DIC, two of whom were fully seconded to the operations. As a result of increasing activities 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 2019.

## 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 management 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 which articulates the ethical standards expected of them in the execution of their duties.

Pursuant to Section 9(2) of the Act, the Minister of Finance has agreed to the payment of an honorarium for each member of $300 per board meeting. Two Board meetings were held in 2018, these expenses totaled $3,000 due to term expirations of two external board members. The Board's agenda included discussions on key risk indicators of member institutions, the adequacy and soundness measures to target a higher level of funding resources for the DIC, extension of insurance coverage to financial cooperative credit unions and initiatives to bolster public confidence in the financial safety net mechanism.

By Section 8 of the Act, 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 persons having knowledge and experience in banking, commerce, finance, accounting, insurance or law. Four 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.

At year-end 2018, there were four current members of the Board of Management as follows:

**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

**Ms. Karen Rolle**
Deputy Inspector of Banks and Trust Companies
Central Bank of The Bahamas
Appointed: July 2014

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

The appointment terms of the following two board members expired during 2018:

**Mr. Lorne Basden**
President
Basden Elevator Services Limited
Appointed: January 2013
Term Expired: July 2018

**Mr. Aluchifer Rolle**
Agency Manager
BAF Financial
Appointed: January 2013
Term Expired: July 2018

The DIC is grateful to Mr. Basden and Mr. Rolle for their contribution to the work of the Board.

## International Associations

The DIC is one of the 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 Caribbean Regional Committee (CRC) continues to provide forums for the exchange of knowledge and opportunities to further professional development in the field of deposit insurance; it also provides access to technical assistance. As of December 2018, IADI had 83 members, 9 associates (mainly central banks and banking supervisors) and 14 partners (other interested institutions).

## Caribbean Regional Committee (CRC)

Members of the IADI CRC deposit insurers include the Bahamas, Barbados, Jamaica, and Trinidad & Tobago. A Memorandum of Understanding (MOU) exists between the members, facilitating cooperation on the development of deposit insurance systems, resolution management of financial institutions and the general promotion and management of financial stability in the CARICOM region. There are eight regional committees of IADI. These provide a voice to the common interests and issues affecting members in those regions. They also serve as separate forums for sharing information and ideas.

## Staff Development

In line with its strategic objective of ensuring that DIC staff have the requisite technical competencies and knowledge to facilitate operational readiness of the DIC, during 2018 representatives of the DIC, participated in two conferences/seminars:

- Bank Resolution, Crisis Management and Deposit Insurance held in Basel, Switzerland.
- The Third Americas Deposit Insurance Forum in Mexico City, Mexico, focusing on "Bank Resolution and Crisis Management: Beyond the Core Principles."

## Strategic Goals & Activities

The Board approved Strategic Plan for the period 2017 – 2019 sets out the goals, objectives and strategies to continue to guide the activities of the DIC for 2018.

A study to re-assess the sufficiency of the target size of the DIC Fund (which began in 2016) was completed in 2017, with the prior study on fund sufficiency having been completed in 2013. Member institutions submitted the granular data on deposits that informed new simulations of risks to the deposit base, and net DIC liabilities in the event of crises. These results point to the need to expand the size of the Fund as a shared total relative to insured deposits, and to have access to contingency lines of funding arranged in the event required payouts ever exceeded accumulated resources. Building on this work and the 2019 IMF's financial sector assessment, the DIC will develop recommendations to the Minister of Finance to secure both contingent and premium-sourced resources.

With reference to operational readiness, the DIC conducted a desktop crisis management simulation exercise. The simulation was based upon a hypothetical case involving financial fraud that could cause the failure of a member institution. This yielded outcomes on the least cost options to liquidate failed institutions, and it reinforced the statutory importance of strengthening The Bahamas' bank resolution framework. The framework submitted for public consultation proposes to delegate the Central Bank with the powers of the resolution authority, leaving DIC responsible to manage all financial aspects of operation of the insurance scheme. The DIC has committed to continue to enhance its operational capacity as per the results of the simulation exercise, including targeting shorter administrative timelines to complete payouts during crises.

In March 2018, the DIC issued a closed consultation paper to member institutions as well as the credit unions, on a proposed deposit insurance coverage scheme for the credit unions. Key features of the proposal include, to maintain a single deposit insurance fund for the banking and credit union sectors and maintain a uniformed insurance coverage limit for both banks and credit unions. The next steps would involve the drafting of legislative amendments to the Protection of Depositors Act and By-laws to effect this change.

At end December 2018, credit unions' total deposits stood at $386.2 million (2017: $362.2 million) with membership across 10 institutions, inclusive of the Bahamas Co-operative League Limited of 43,880 persons, compared to 42,186 persons in 2017.

The DIC continued its work on increasing public awareness. Further details on the public awareness campaign is discussed later in this Annual Report.

# STRATEGIC FOCUS FOR 2019

## Increase Public Confidence in the Financial Sector

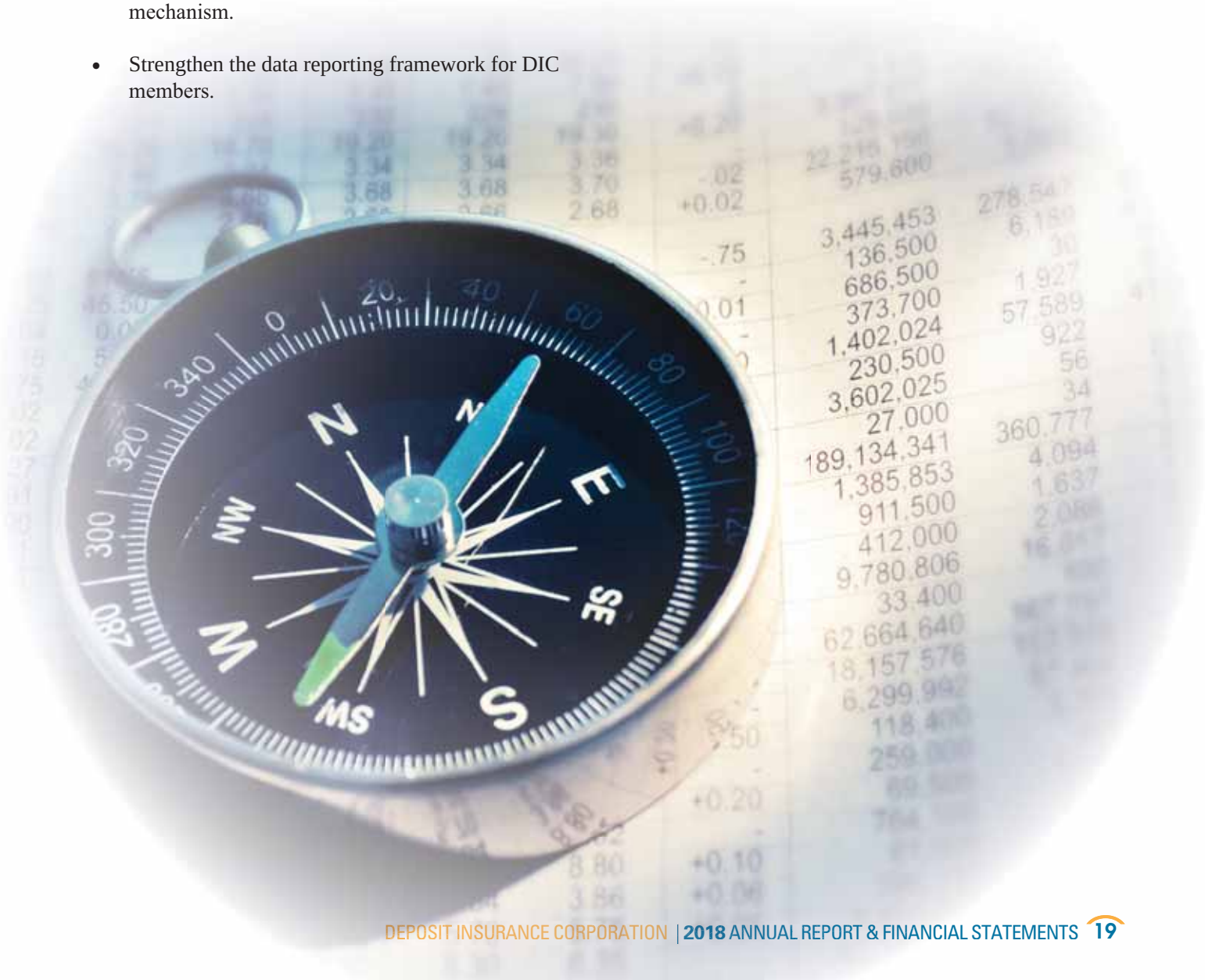
- Advance efforts to expand deposit insurance coverage to supervised credit unions.
- Promote increased understanding of deposit insurance through greater presence on digital marketing platforms.
- Enlist greater participation by member institutions in public awareness initiatives.

## Strengthen Operational Readiness

- Implement a higher minimum target level for the size of the Fund.
- Progress plans to formalize contingency funding mechanism.
- Strengthen the data reporting framework for DIC members.
- Develop a policy to feed into the national crisis management plan on the role of the DIC.
- Enhance the training regimen for DIC staff.

## Strengthen Regulatory Efficiency and Governance

- Advance legislative amendments to transfer resolution authority powers to the Central Bank.
- Promote corporate governance reforms, including through legislative amendments to stagger the appointment terms of the Board of Management.
- Enhance the investment management framework for DIC assets.



# PUBLIC AWARENESS CAMPAIGN

International Association of Deposit Insurers, Core Principle 10 (Public Awareness) states: **"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."**

In 2018, the DIC continued to engage in various public awareness initiatives to raise public awareness of depositor protection regarding benefits, limitations and scope of coverage. Since 2013, the DIC has launched its own independent website, released brochures and decals to member institutions, launched a public awareness campaign, formed social media presence and ran various advertisements and promotions. Surveys have been completed to measure the effectiveness of the DIC's public awareness outreach.

## Results from Awareness Surveys

The DIC sponsored a survey in 2018 to gauge the level of public awareness of the Corporation and its activities. The results revealed the need for increased focus on providing public awareness education around the availability of deposit insurance coverage, with less emphasis on brand recognition of the DIC. In particular, the evidence suggest that when awareness was acknowledged, it likely predated any recent outreach activities by the Corporation.

## Collaboration with Member Institutions

The member institutions play a critical role in promoting understanding of the existence of deposit insurance. In 2018, the DIC continued the trend of encouraging greater involvement in such outreach. This included request for Member Institutions to:

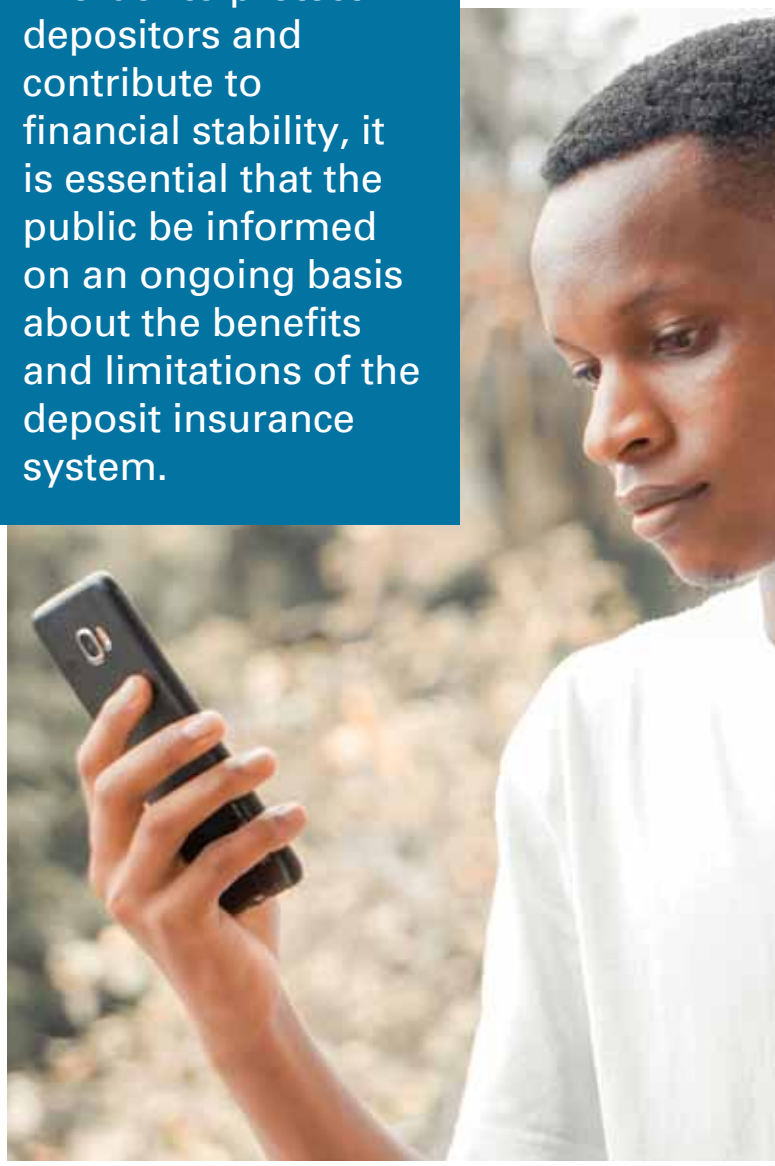
- Include links to the DIC's webpage: www.dic.bs on their websites.
- Follow the DIC's social media pages: Facebook, Instagram & Twitter.
- Distribute DIC brochures and flyers within branches.
- Advise customers of the DIC when opening bank accounts.

## Media Advertising and Promotion

The DIC's advertising and promotion included a mix of traditional broadcasting and social media:

- Two existing infomercials placed in broadcast rotations at a cinema in New Providence during the period 1st January, 2018 to 1st July, 2018.
- Airing of radio advertisements on popular radio stations during August and September 2018.
- Expansion of social media presence to Twitter (@dicbahamas) and Instagram (dicbahamas) to compliment Facebook page: Deposit Insurance Corporation Bahamas.

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.



## Promotional Literature

The DIC's promotional literature are inclusive of flyers, cards and brochures:

### Flyer: 8.5"x11"

### Flyer: 3x8 card (front and back)

### Trifold Brochure (outside view)

### Trifold Brochure (inside view)

# MANAGEMENT DISCUSSION AND ANALYSIS

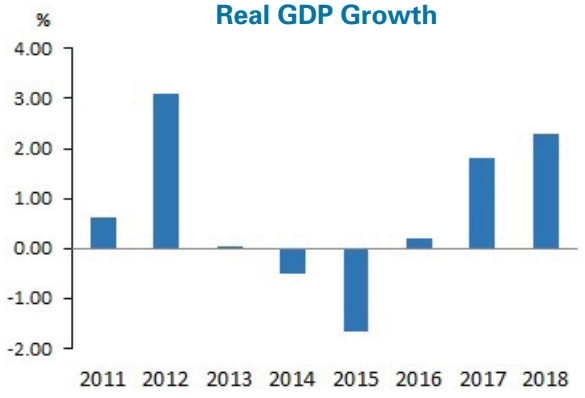
## Overview of the Domestic Macroeconomic Environment

The domestic economy maintained modest growth and continued to impact the strategic policies and practices of member institutions, which affected their financial results.

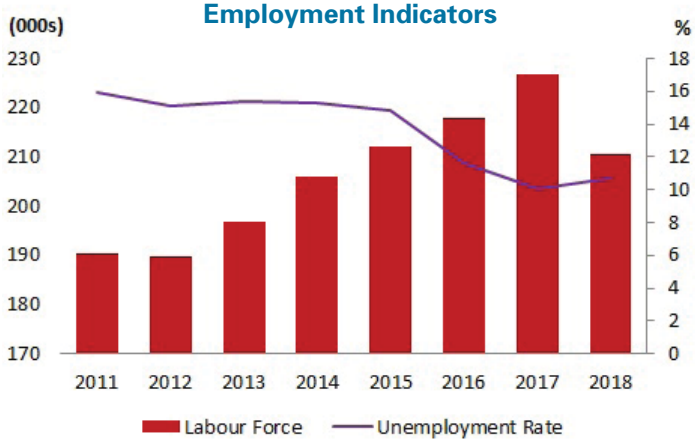
Domestic conditions strengthened modestly in comparison to 2017, due mainly to ongoing gains in tourism and foreign investment inflows that fueled the construction sector. Improvements in tourism were based on airline and hotel accommodation and stopover visitors showing strong boosts. The increase in construction was driven by small to medium-sized foreign investment projects in New Providence and the Family Islands. In line with these trends, the Department of Statistics' Labour Force Survey reported improved labour market conditions with the number of employed persons, increasing by 3.4% to 210,560 persons; however the jobless rate rose to 10.7% from 10.1% as labour force participation strengthened 4.0% to 235,695 persons.

Consumer prices increased in 2018, reflecting pass-through effects from the 4.5 percentage point rise in the VAT rate on 1st July, which resulted in higher costs for restaurant & hotel services (4.1%), recreation and culture (2.9%) and food & non-alcoholic beverages (2.4%).

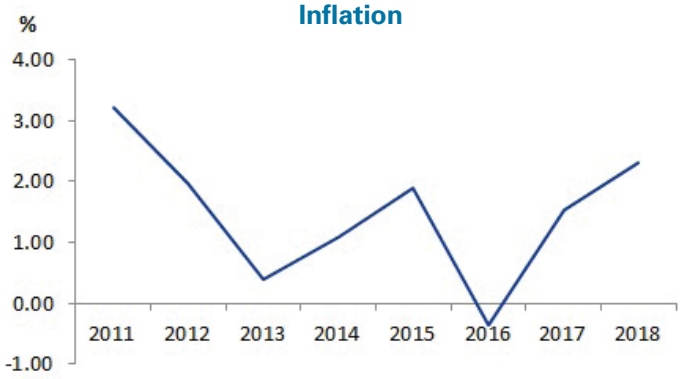
**Real GDP Growth**




**Employment Indicators**




**Inflation**



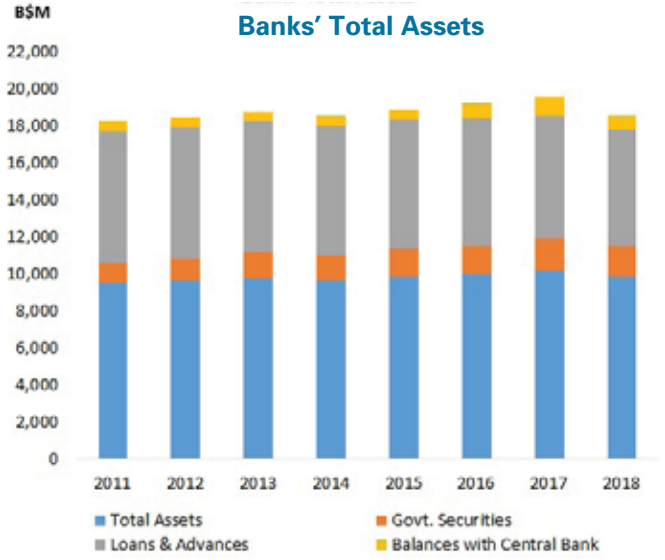

The monetary sector was dominated by contractions in liquidity and external reserves as credit growth contrasted with a decline in the deposit base. Meanwhile, banks' credit quality indicators strengthened, benefiting from a healthier economic environment, debt restructuring activities and loan write-offs. Banks' overall profitability also increased mainly due to reductions in bad debt provisioning and lower operating outlays.

In the fiscal sector, Government's operations indicated a reduction in the overall deficit over the first six months of FY2018/19, as VAT-driven revenue growth outweighed spending increase. This continued the consolidation trends recorded over the FY2017/18, ended June 2018. Nevertheless, revenue growth was below the forecasted level.

## Asset Growth and Quality

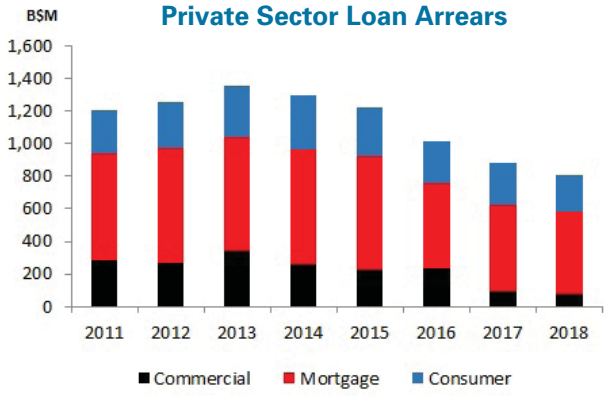
Total Bahamian dollar assets declined by 2.4% ($242.3 million) to $9.95 billion while net free cash reserves of the banking system declined by $216.8 million (26.5%) to $602.5 million. With regard to liquidity management, banks' balances with Central Bank, a component in free cash reserves, fell by $219.6 million (21.7%) to $792.6 million versus a 16.7% ($144.9 million) expansion from the previous year's $867.3 million; while their holdings in Government securities shrunk by 5.1% to $1.7 billion. Overall liquidity contracted by $294.1 million (16.1%) to $1,533.2 million, a reversal from last year's 23.4% expansion. Surplus liquid assets stood at 137.4% above the statutory minimum, down from 161.9% in 2017.

Total banks' domestic credit loans increased by 0.9% to $6.2 billion, which was made up of residential mortgages (42.6%), consumer credit (35.9%), commercial loans (12.5%) and claims on the government (8.9%). Private sector credit contracted by 1.1% to $5.7 billion and comprised 91.1% of the total. Conversely, credit to the Government increased by $115.2 million (26.1%) to $557.4 million while loans to public corporations experienced a slight increase of 0.2% or $0.8 million to $478.1 million.




Within the sectoral distribution of private credit, personal loans dominated the largest share representing 79.2%; decreasing by 2.4% ($124.0 million) to $4.9 billion while major reductions concentrated in agriculture, tourism, mining & quarrying. Significant credit growth was experienced for activities related to fisheries, professional & other services and manufacturing.

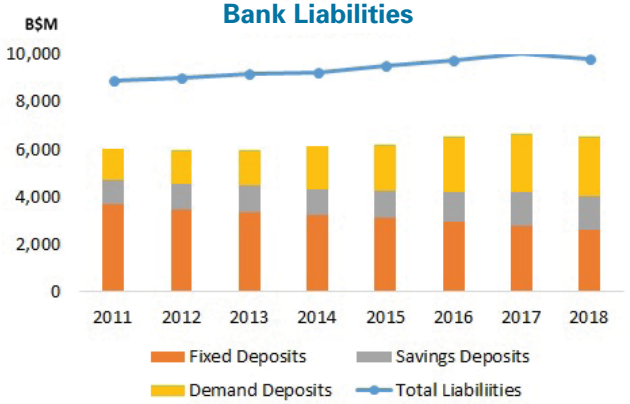
As to asset quality, private sector loan arrears decreased by 8.5% to $809.9 million in 2018 due mainly to the respective reductions in commercial and consumer loan delinquencies of 12.2% or $34.7 million and 11.2% or $29.0 million, respectively. The ratio of arrears to total loans contracted by 7.5 percentage points to 14.3%. In this regard, non-performing loans (NPLs), arrears in excess of 90 days on which banks have stopped accruing interest fell by 8.9% to $517.0 million, representing a 7.9 percentage point decline in the NPL rate to 9.1% of total private sector loans. Short term delinquencies also decreased by 7.7% to $292.9 million, 5.2% of total private sector loans.




At year-end 2018, members' provisions for credit losses represented approximately 7.0% of total private sector loans, 54.2% of total arrears and 84.8% of NPLs. The ratio of specific provisions to NPLs stood at 68.3%.

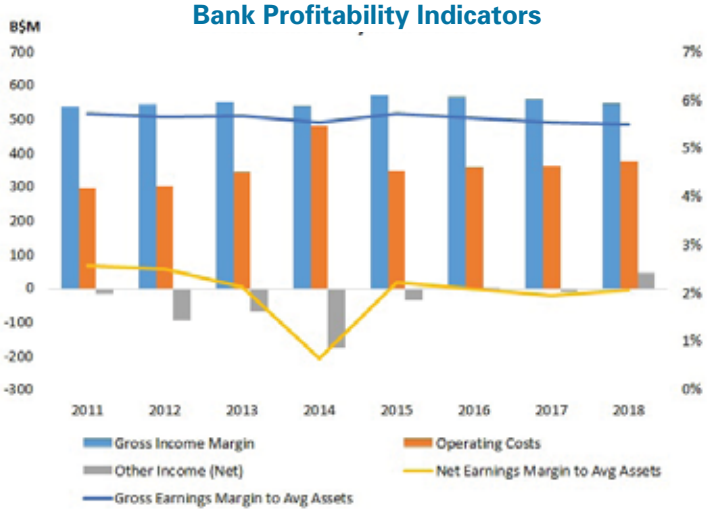
## Deposit Base and Liquidity

During 2018, members' total Bahamian dollar liabilities declined by 2.4% ($242.3 million) to $9.95 billion. Bahamian dollar deposits, at $6.8 billion, comprised 68.2% of total liabilities, with the predominant share held by private individuals (49.39%), followed by business firms (28.57%), private financial institutions (6.73%), public corporations (5.02%) and other depositors (8.38%). Approximately 39.83% of these deposits were held in fixed balances, 38.48% in demand deposits and 21.68% in savings deposits.




The DIC insures deposits up to a maximum of $50,000 for any single deposit. At year-end 2018, approximately 87.7% of Bahamian dollar accounts held balances below $10,000, which constituted 5.91% of the total value. Deposits between $10,000 and $50,000 comprised 7.88% of the total accounts and 10.91% of the overall value, while balances in excess of $50,000 represented 4.36% of accounts and 83.17% of the aggregate value.

Based on the maximum insurance coverage per depositor, an estimated 96 percent of deposit accounts in member institutions were insured by deposit insurance. During 2018, there were approximately 408,099 Bahamian dollar denominated demand, savings and fixed deposit accounts, as compared to 394,225 in 2017.

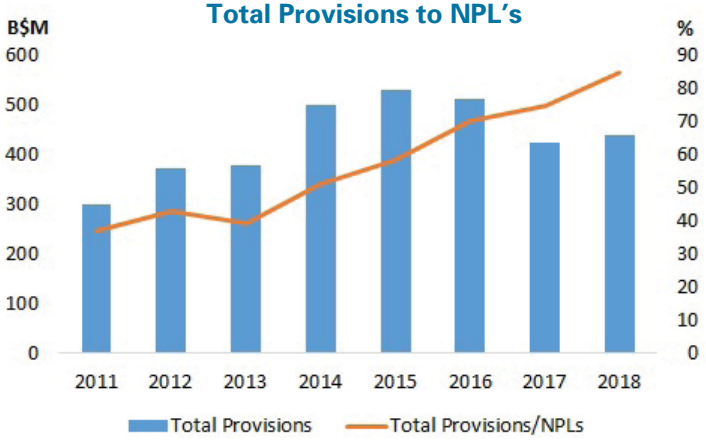


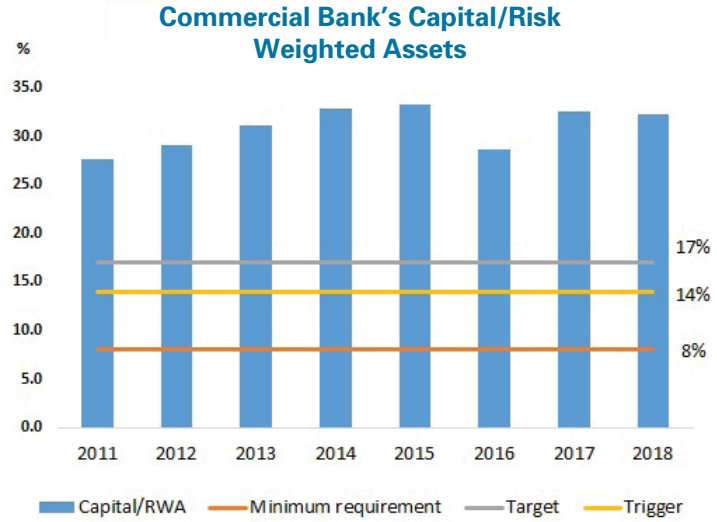
## Profitability and Capital Adequacy

In 2018, overall profitability of banks strengthened during the twelve months to September, which equaled to an average return on assets of 2.77%, while the banking sector's net profits increased by $30.5 million (16.1%) to $220.3 million. In this regard, the net interest margin decreased by $14.7 million (2.8%) to $518.7 million, while banks' operating costs grew by 3.0% ($11.0 million) to $374.1 million. Further, net earnings margin decreased by 12.3% ($24.4 million) to $173.7 million (a reduction of 5.2%) in 2017.

Net profit from domestic banks for the twelve months to September 2018 increased 22.4% ($13.0 million) to $71.1 million, with results from non-core operations increasing to $18.3 million, three times the $4.6 million recorded in the prior year. Provisions for bad debt and depreciation costs decreased by 37.1% ($8.2 million) to $14.0 million and 20.6% ($0.8 million) to $ 3.9 million, respectively.

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 falls below 14% (trigger ratio). The average ratio of capital to risk weighted assets amounted to 32.29%. Institutions remained well capitalized with commercial banks' common equity tier 1 capital-to-risk weighted assets of 29.93%.



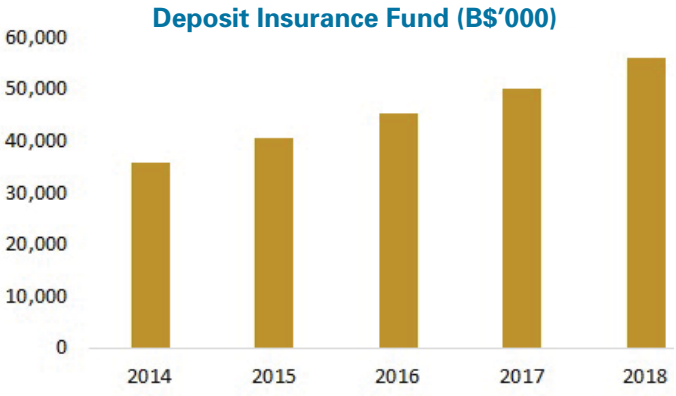

The domestic economy maintained modest growth and continued to impact the strategic policies and practices of member institutions, which affected their financial results.

# 2018 FINANCIAL HIGHLIGHTS AND ANALYSIS

## Size and Allocation of the Fund

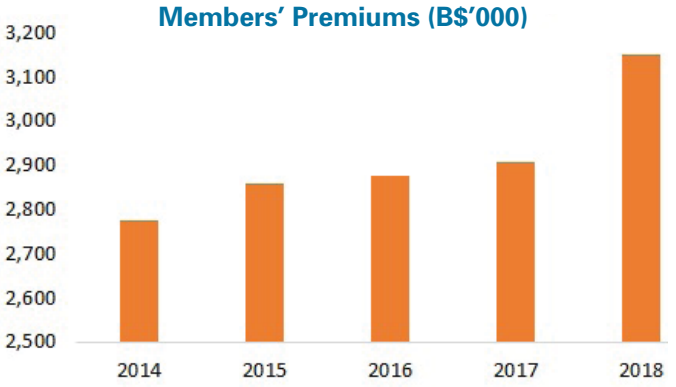
Total assets of the DIC stood at $56.4 million at 31st December, 2018, increasing by 11% since the prior year and by 55% over the last five years. The insurance component increased to $55.9 million in 2018. Increase in assets have been primarily due to rising interest income on expanding base of investment instruments.

The DIC continued to accumulate reserves through investments of annual premiums and reinvestment of interest income in Bahamas Government bonds (BRS). Investments totaled $53.0 million compared to $49.3 million at year end 2017. This represented an increase of 51% over the past five years. Cash deposits increased by roughly three times the amount in 2017, due to BRS interest receipts and proceeds from maturing bonds.



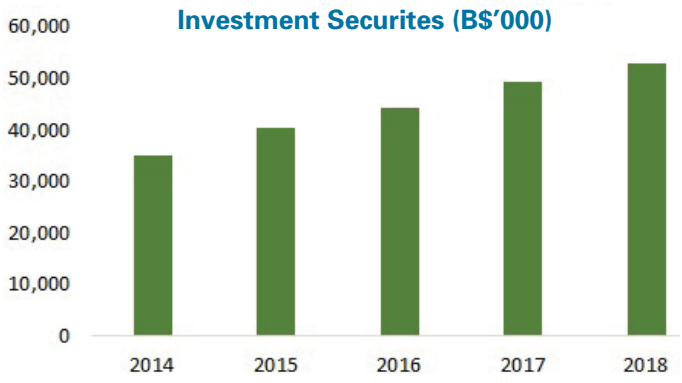

## Premiums

With growth in insurable deposits in the system, premiums collected from member institutions totaled $3.15 million in 2018, an increase of 8% over the previous year.



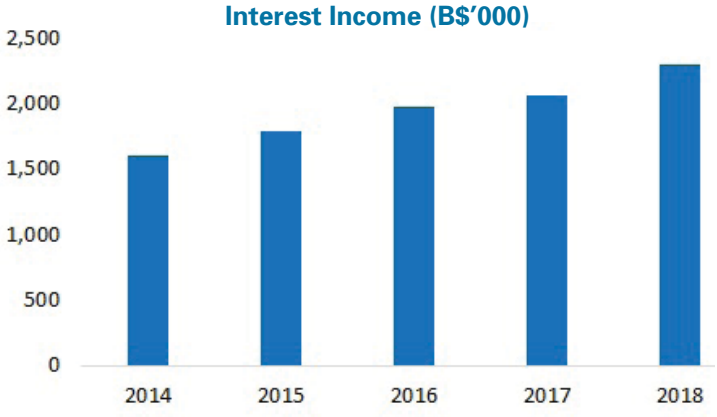

## Investments & Interest Income

Investment activities remained subject to the powers in Section 15(g) (iii) of the Act. The DIC may invest in government and quasi-government instruments and short-term deposits. To attract higher yield, the corporation invested more in longer term maturities. In 2018, the DIC increased its bond portfolio by 7% to $52.97 million, culminating in a 51% growth over the past five years. Investments comprised 94% of total assets.



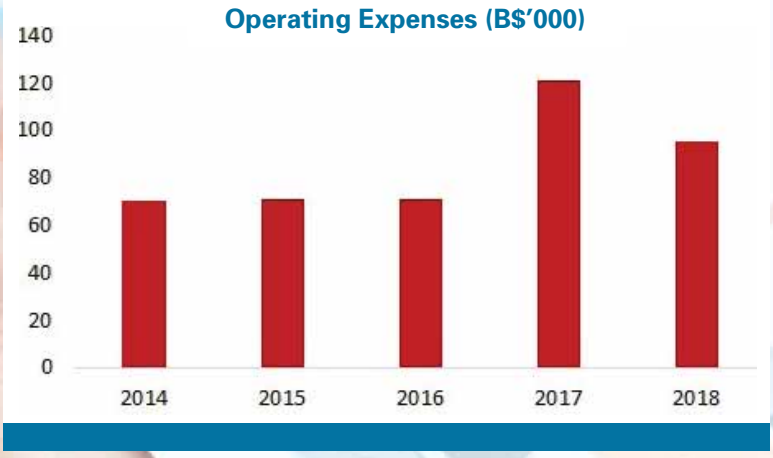

In the meantime, the DIC's interest income increased by 11% to $2.92 million.

As at December 31, 2018, government bonds were the only category of income-generating assets held by the DIC. Cash at bank held with the Central Bank was non-interest bearing.



## Operating Expenditures

In 2018, total operating expenses declined by 21% to $95,000, which was below the budgeted amount. This reflected some normalization after 2017, when the corporation spent more on external public relations and marketing support. The largest outlays in 2018 were administrative fees paid to the Central Bank of $33,000. Public awareness costs were the second largest outlay ($20,000), while annual membership fees in the International Association of Deposit Insurers (IADI) were the third largest outlay ($18,000). Other expenses included $3,000 paid to the Board Members for two Board Meetings held in 2018, and various training and exposure for DIC support staff of $11,000 and printing of the 2017 Annual Report and for audit fees of $7,000.



# THE BAHAMAS' BANK RESOLUTION REGIME PROPOSED LEGISLATIVE AMENDMENTS

In 2015, a technical assistance team from the IMF proposed reforms to strengthen the bank resolution regime and establish an appropriate legal and regulatory framework for early intervention and resolution of failed banks.

The Bahamas is currently under a judicial approach which requires the appointment of a liquidator by the court. This approach slows down the resolution process, as the liquidation process is usually protracted over multiple years.

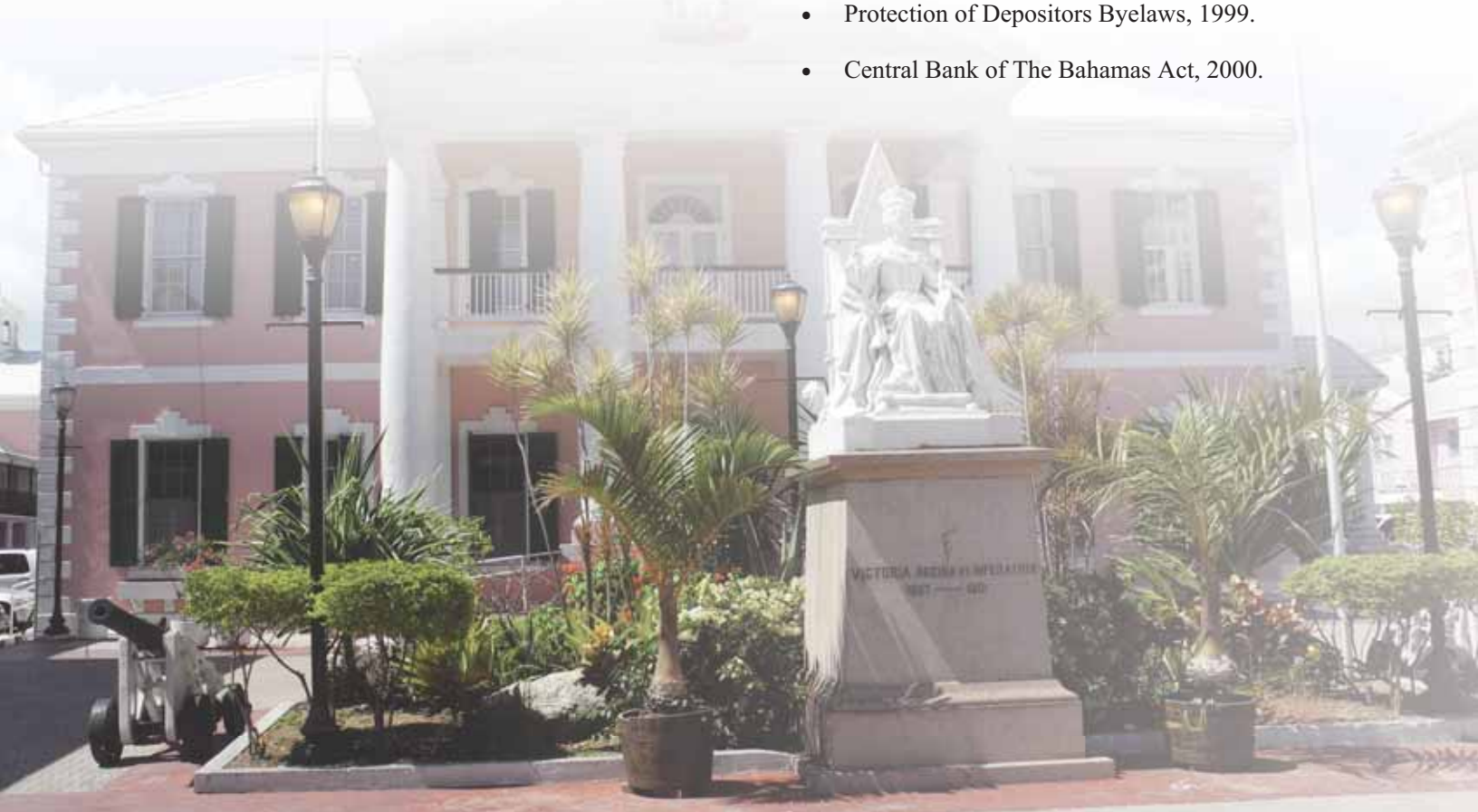
The DIC has consulted publicly and with the Ministry of Finance on legislative reforms that would shift The Bahamas to an administrative approach for early intervention and resolution of banks. All required intervention and resolution powers would be transferred from the DIC to Central Bank of The Bahamas, where active prudential supervision and intervention in supervised entities already resides.

The proposed legislative amendments are inclusive, but not limited to, the following:

- Responsibilities of the liquidation of a failed member institution to be removed from the Court and placed under the Central Bank as the Resolution Authority. This authority would manage the liquidation of banks.
- Transparent, established protocols would govern interactions between the DIC and Central Bank.
- The DIC would retain the administrative responsibility for Fund's operation and direct obligation for payouts during bank resolutions.
- Resolution processes could involve the creation of a bridge bank arrangement to separate good assets from bad assets.

The reform would bring amendments to the following primary and subsidiary legislation:

- Banks and Trust Companies Regulation Act, 2000.
- Protection of Depositors Act, 1999.
- Protection of Depositors Byelaws, 1999.
- Central Bank of The Bahamas Act, 2000.



# IADI CORE PRINCIPLES FOR EFFECTIVE DEPOSIT INSURANCE SYSTEMS

As a member of the International Association of Deposit Insurers (IADI), the DIC models its policies, operations, governance and outreach in accordance with IADI's core principles.

### 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.

# 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 debt 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 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 (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.

**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 is a separate 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 a 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.

**Protection of Depositors Act –** The Act passed by Parliament creating the Deposit Insurance Corporation, detailing its powers and defining its corporate mission.

**Right and Capacity –** The terms "right" and "capacity" refer to the nature of the ownership of deposits, such as jointly owned funds, trust deposits, deposit held in individual names, etc.

**Uninsured Deposit –** The part of an eligible deposit that exceeds the B$50,000 insurance limit. Depositors may be able to recoup part of this amount upon the liquidation of the member's assets.

GLOSSARY
GLOSSARY

# FINANCIAL STATEMENTS OF DEPOSIT INSURANCE CORPORATION

December 31, 2018

bakertilly

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# 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, 2018, 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, 2018, 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's"). 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.

Baker Tilly Gomez trading as Baker Tilly is a member of the global network of Baker Tilly International Ltd., the members of which are separate and independent legal entities.

**INDEPENDENT AUDITORS' REPORT** (continued)

*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, 2018, the Corporation has investments with a carrying value of $52,965,330 (2017: $49,347,282) in Bahamas Government Registered Stocks ("BGRS") representing 93.87% (2017: 97.37%) of the total 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 for BGRS, and comparing the recorded price of BGRS to their respective bid prices available from the Central Bank's website and considering the adequacy of disclosures of the 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.

**INDEPENDENT AUDITORS' REPORT** (continued)

*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's 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.

Baker Tilly

**CHARTERED ACCOUNTANTS**

May 8, 2019
Nassau, Bahamas

# DEPOSIT INSURANCE CORPORATION

Statement of Financial Position

As at December 31, 2018
(Expressed in Bahamian dollars)

| | 2018 | 2017 |
|---|---|---|
| **ASSETS** | | |
| Cash at bank | $ 2,722,908 | $ 643,575 |
| Investments (Note 4) | 52,965,330 | 49,347,282 |
| Accrued interest receivable | 731,347 | 675,215 |
| Other assets | 4,594 | 14,709 |
| Total assets | 56,424,179 | 50,680,781 |
| **LIABILITIES** | | |
| Unpaid claims | 52,644 | 52,644 |
| Accounts payable and accrued expenses | 6,515 | 6,515 |
| Total liabilities | 59,159 | 59,159 |
| **Net assets** | $56,365,020 | $50,621,622 |
| **EQUITY** | | |
| Capital (Note 5) | $ 500,000 | $ 500,000 |
| Deposit insurance fund | 55,865,020 | 50,121,622 |
| **Total equity** | $56,365,020 | $50,621,622 |

See accompanying notes. See Independent Auditors' Report on pages 33 to 35.

These financial statements were approved by the Board of Management on May 8, 2019 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, 2018

| | 2018 | 2017 |
|---|---|---|
| **Income** | | |
| Premiums | $3,149,425 | $2,905,239 |
| Interest income | 2,291,845 | 2,056,368 |
| | 5,441,270 | 4,961,607 |
| **Expenses** | | |
| Administration fee (Note 6) | 34,396 | 33,013 |
| Public awareness campaign | 20,441 | 43,809 |
| Membership fee (Note 7) | 18,223 | 17,976 |
| Printing | 7,431 | 7,997 |
| Audit fee | 6,514 | 6,579 |
| Training | 3,983 | 5,342 |
| Board honorarium | 3,000 | 5,400 |
| Website development | 1,058 | 974 |
| | 95,046 | 121,090 |
| **Net income** | 5,346,224 | 4,840,517 |
| **Other comprehensive income** | | |
| Net change in unrealized gain on investments (Note 4) | 397,174 | 74,387 |
| **Total comprehensive income** | $5,743,398 | $4,914,904 |

See accompanying notes. See Independent Auditors' Report on pages 33 to 35.

## DEPOSIT INSURANCE CORPORATION

Statement of Changes in Equity

For the year ended December 31, 2018

| | Capital | Deposit Insurance Fund | Total |
|---|---|---|---|
| **As at December 31, 2016** | $500,000 | $45,206,718 | $45,706,718 |
| Net income and total comprehensive income | - | 4,914,904 | 4,914,904 |
| **As at December 31, 2017** | $500,000 | $50,121,622 | $50,621,622 |
| Net income and total comprehensive income | - | 5,743,398 | 5,743,398 |
| **As at December 31, 2018** | $500,000 | $55,865,020 | $56,365,020 |

See accompanying notes. See Independent Auditors' Report on pages 33 to 35.

# DEPOSIT INSURANCE CORPORATION
Statement of Cash Flows

For the year ended December 31, 2018

| | 2018 | 2017 |
|---|---|---|
| **CASH PROVIDED BY/(USED IN)** | | |
| **Cash flows from operating activities:** | | |
| Net income | $5,346,224 | $ 4,840,517 |
| Adjustment to reconcile net income to net cash provided by operating activities: | | |
| Interest income | (2,291,845) | (2,056,368) |
| **Cash provided by operations before changes in operating assets and liabilities** | 3,054,379 | 2,784,149 |
| **Changes in operating assets and liabilities** | | |
| Decrease/(increase) in other assets | 10,115 | (10,051) |
| Increase in accounts payable and accrued expenses | - | 65 |
| **Net cash provided by operating activities** | 3,064,494 | 2,774,163 |
| **Cash flows from investing activities:** | | |
| Purchase of investments | (5,067,874) | (4,919,495) |
| Proceeds from maturity of investments | 1,847,000 | - |
| Interest received | 2,235,713 | 2,044,551 |
| **Net cash used in investing activities** | (985,161) | (2,874,944) |
| Net increase/(decrease) in cash and cash equivalents | 2,079,333 | (100,781) |
| Cash and cash equivalents, beginning of year | 643,575 | 744,356 |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | $2,722,908 | $ 643,575 |
| **Represented by:** | | |
| Cast at bank | $2,722,908 | $ 643,575 |

See accompanying notes. See Independent Auditors' Report on pages 33 to 35.

## 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 May 8, 2019.

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

The accounting policies adopted in the preparation of the Corporation's financial statements are consistent with those of the previous financial year except for the adoption of IFRS 9, *Financial Instruments* effective from January 1, 2018, which replaces IAS 39, *Financial Instruments: Recognition and Measurement*. It contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale.

Presented below is the impact of the adoption of IFRS 9 as at January 1, 2018 on the Corporation's financial statements:

| | Available-for-sale | FVOCI | Loans and receivables | Amortized cost |
|---|---|---|---|---|
| Closing balance December 31, 2017 – IAS 39 | $49,347,282 | $ - | $ 1,318,790 | $ - |
| Reclassify cash at bank from loans and receivables to amortized cost | - | - | (643,575) | 643,575 |
| Reclassify investments from available-for-sale to FVOCI | (49,347,282) | 49,347,282 | -- | - |
| Reclassify accrued interest receivables from loans and receivables to amortized cost | - | - | (675,215) | 675,215 |
| Closing balance January 1, 2018 – IFRS 9 | $ - | $49,347,282 | $ - | $1,318,790 |

Financial assets that would have previously been classified as loans and receivables are now classified at amortized cost. The Company intends to hold these assets to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest. There was no difference between the previous carrying amount and the revised carrying amount of these assets as at January 1, 2018 to be recognized in opening retained earnings.

Investments were reclassified from available-for-sale to FVOCI, as the Corporation's business model is achieved by both collecting contractual cash flows and selling these assets. The contractual cash flows of these investments are solely principal and interest. There was no difference between the previous carrying amount and the revised carrying amount of these assets as at January 1, 2018 to be recognized in opening retained earnings.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. The adoption of IFRS 9 has not had a significant effect on the Corporation's accounting policies related to financial liabilities.

IFRS 9 replaces the 'incurred loss' impairment model in IAS 39 with the 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortized cost. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

As permitted by the transition provisions of IFRS 9, comparative information has not been restated to reflect the requirements of the standard. Information about the classification and measurement of financial instruments of the Corporation under IFRS 9 are included in Note 3.

A number of other new standards are also effective from January 1, 2018 but they do not have a material effect on the Corporation's financial statements.

## 2. ADOPTION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS (continued)

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

| | | |
|---|---|---|
| IFRS 3 (amendments) | - | Clarifying Definition of a Business - effective from January 1, 2020 |
| IFRS 16 | - | Leases - effective from January 1, 2019 |
| IFRS 17 | - | Insurance Contracts - effective from January 1, 2021 |
| IFRS 40 (amendments) | - | Transfers of Investment Property - effective from July 1, 2018 |

The Board of Management anticipates that the adoption of such standards and amendments to the standards in future periods, if applicable, will has no material impact on the Corporation's financial statements.

## 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.

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(g) | - | Fair value measurement |
| Note 8 | - | Fair value of financial instruments |
| Note 9 | - | Financial risk management |

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

d) Financial assets

Financial assets – classification and subsequent measurement from January 1, 2018

On initial recognition, the Corporation classifies its financial assets as at financial assets at fair value through other comprehensive income (FVOCI) and at amortized cost. The classification depends on the Corporation's business model for managing the asset and the instrument's contractual cash flow characteristics.

(i) Financial assets at fair value through other comprehensive income (FVOCI)

Financial assets at fair value through profit or loss is the classification for financial assets where the contractual cash flows are solely for payment of principal and interest and the objective of the Corporation's business model is achieved by both collecting the contractual cash flows and selling the financial assets. Financial assets at fair value through other comprehensive are initially recognized at fair value. Subsequent to initial recognition, financial assets at FVOCI are re-measured at fair value. Unrealized gains and losses arising from changes in the fair value of these financial assets are recognized in the statement of changes in the statement of comprehensive income. Financial assets at FVOCI comprise investments.

(ii) Financial assets at amortized cost

A financial asset is measured at amortized cost if it is held in a business model whose objective is to hold the assets to collect the contractual cash flows, and its contractual terms give rise on specific dates to cash flows that are solely payments of principal and interest and not designated as at FVTPL. Balances included in this classification are cash at banks and accrued interest receivable.

Financial assets – classification and subsequent measurement before January 1, 2018

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

(i) Available-for-sale financial assets

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

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

d) Financial assets (continued)

Financial assets – initial recognition and subsequent measurement before January 1, 2018 (continued)

(ii) Loans and receivables

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

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

i. Policy applicable from January 1, 2018

The Corporation recognizes loss allowances for ECLs on financial assets measured at amortized cost. The Corporation measures loss allowances at an amount equal to lifetime ECLs, except for the following which are measured at 12-month ECLs:

- financial assets that are determined to have low credit risk at the reporting date; and
- other financial assets for which credit risk has not increased significantly since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Corporation considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Corporation's historical experience and informed credit assessment and including forward-looking information.

Lifetime ECLs are the ECLs that result from default events over the expected life of a financial instrument. 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months). The maximum period considered when estimating ECLs is the maximum contractual period over which the Corporation is exposed to credit risk.

At each reporting date, the Corporation assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default; or

it is probable that the borrower will enter bankruptcy or other financial reorganization.

ii. Policy before January 1, 2018

A financial asset was assessed at each reporting date to determine whether there was objective evidence of impairment. A financial asset was impaired if its carrying amount exceeded its estimated recoverable amount. An impairment loss on a financial asset was 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 were recognized in the statement of comprehensive income. An impairment loss was reversed only to the extent that the asset's carrying amount did not exceed the carrying amount that would had been determined if no impairment loss had been recognized.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

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. 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.

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.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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:

| | | 2018 | | 2017 | |
|---|---|---|---|---|---|
| **Date of purchase** | **Maturity date** | **Interest rate** | **Fair value** | **Interest rate** | **Fair value** |
| Aug. 28, 2001 | Oct. 25, 2020 | 4.75% | $1,009,949 | 4.75% | $1,009,209 |
| Mar. 25, 2002 | Dec. 12, 2018 | - | - | 4.72% | 148,852 |
| Jun. 19, 2002 | Sep. 06, 2020 | 4.59% | 351,865 | 4.59% | 351,902 |
| Dec. 02, 2004 | Jul. 21, 2019 | 4.72% | 400,933 | 4.72% | 400,936 |
| Apr. 06, 2005 | Jul. 29, 2023 | 4.53% | 902,425 | 4.53% | 907,609 |
| Nov. 14, 2005 | Oct. 22, 2023 | 4.53% | 958,499 | 4.53% | 957,816 |
| Jan. 18, 2006 | Jan. 18, 2026 | 4.56% | 1,052,059 | 4.56% | 1,052,063 |
| Sep. 28, 2006 | Sep. 07, 2024 | 4.50% | 1,658,559 | 4.50% | 1,658,742 |
| May 25, 2007 | Sep. 22, 2025 | 4.53% | 1,408,813 | 4.53% | 1,409,015 |
| Jul. 04, 2007 | Sep. 07, 2024 | 4.50% | 904,668 | 4.50% | 904,768 |
| **Balance carried forward** | | | $8,647,770 | | $8,800,912 |

**4. INVESTMENTS** (continued)

| | | 2018 | | 2017 | |
|---|---|---|---|---|---|
| **Date of purchase** | **Maturity date** | **Interest rate** | **Fair value** | **Interest rate** | **Fair value** |
| **Balance brought forward** | | | $ 8,647,770 | | $ 8,800,912 |
| Jan. 22, 2008 | Sep. 22, 2025 | 4.53% | 1,257,869 | 4.53% | 1,258,049 |
| Jul. 22, 2008 | Jan. 18, 2024 | 4.50% | 1,452,756 | 4.50% | 1,449,584 |
| Feb. 06, 2009 | Nov. 28, 2020 | 4.34% | 1,515,086 | 4.34% | 1,513,746 |
| Jul. 24, 2009 | Nov. 28, 2018 | - | - | 4.28% | 1,564,816 |
| Feb. 02, 2010 | Aug. 27, 2029 | 4.39% | 1,757,730 | 4.39% | 1,757,899 |
| Jul. 26, 2010 | Jul. 26, 2034 | 4.40% | 1,532,057 | 4.40% | 1,532,098 |
| Jul. 26, 2010 | Jul. 26, 2037 | 4.43% | 121,787 | 4.43% | 121,790 |
| Feb. 15, 2011 | Jul. 26, 2028 | 4.33% | 1,904,283 | 4.33% | 1,904,336 |
| Nov. 10, 2011 | Nov. 10, 2028 | 4.34% | 1,067,557 | 4.34% | 1,066,708 |
| Jul. 16, 2012 | Jul. 16, 2029 | 4.30% | 1,070,865 | 4.30% | 1,041,635 |
| Jul. 16, 2012 | Jul. 16, 2030 | 4.32% | 1,115,633 | 4.32% | 1,083,732 |
| Jul. 16, 2012 | Jul. 16, 2031 | 4.35% | 1,111,616 | 4.35% | 1,078,529 |
| Sep. 25, 2012 | Sep. 25, 2030 | 4.30% | 117,990 | 4.30% | 118,008 |
| Sep. 25, 2012 | Sep. 25, 2032 | 4.31% | 150,885 | 4.31% | 150,909 |
| Apr. 17, 2013 | Apr. 17, 2032 | 4.31% | 1,511,745 | 4.31% | 1,510,716 |
| Apr. 17, 2013 | Apr. 17, 2033 | 4.31% | 1,511,765 | 4.31% | 1,510,734 |
| Jul. 26, 2013 | Jul. 26, 2033 | 4.31% | 701,561 | 4.31% | 701,581 |
| Jul. 26, 2013 | Jul. 26, 2034 | 4.32% | 1,002,239 | 4.32% | 1,002,267 |
| Oct. 23, 2013 | Apr. 17, 2031 | 4.30% | 806,254 | 4.30% | 805,705 |
| Feb. 03, 2014 | Sep. 23, 2032 | 4.31% | 1,880,781 | 4.31% | 1,881,065 |
| Jun. 27, 2014 | Sep. 23, 2032 | 4.31% | 1,860,665 | 4.31% | 1,860,946 |
| Sep. 02, 2014 | Sep. 23, 2031 | 4.30% | 331,899 | 4.30% | 331,949 |
| Dec. 10, 2014 | Oct. 30, 2021 | 3.52% | 1,020,388 | 3.52% | 1,008,892 |
| Jan. 02, 2015 | Oct. 30, 2021 | 3.52% | 816,311 | 3.52% | 807,114 |
| Feb. 10, 2015 | Oct. 30, 2021 | 3.52% | 255,097 | 3.52% | 252,223 |
| Apr. 14, 2015 | Jul. 16, 2031 | 4.35% | 289,987 | 4.35% | 281,355 |
| May 19, 2015 | Sep. 23, 2031 | 4.30% | 201,151 | 4.30% | 201,181 |
| Jul. 28, 2015 | Sep. 25, 2032 | 4.31% | 96,366 | 4.31% | 96,380 |
| Jul. 28, 2015 | Apr. 17, 2032 | 4.31% | 488,905 | 4.31% | 488,572 |
| Jul. 28, 2015 | Jul. 26, 2033 | 4.31% | 911,127 | 4.31% | 911,154 |
| Sep. 02, 2015 | Jul. 26, 2033 | 4.31% | 300,669 | 4.31% | 300,678 |
| Oct. 20, 2015 | Oct. 30, 2021 | 3.52% | 282,137 | 3.52% | 278,958 |
| Oct. 20, 2015 | Jul. 26, 2033 | 4.31% | 44,198 | 4.31% | 44,200 |
| Nov. 18, 2015 | Jul. 26, 2033 | 4.31% | 190,424 | 4.31% | 190,429 |
| Dec. 22, 2015 | Jul. 26, 2033 | 4.31% | 1,463,256 | 4.31% | 1,463,298 |
| Aug. 26, 2016 | Aug. 26, 2036 | 5.40% | 199,470 | 5.40% | 193,641 |
| Sep. 13, 2016 | Jul. 26, 2037 | 4.88% | 33,095 | 4.88% | 33,096 |
| Sep. 15, 2016 | Jul. 26, 2037 | 4.43% | 15,236 | 4.43% | 15,236 |
| Sep. 15, 2016 | Jul. 26, 2037 | 4.43% | 20,047 | 4.43% | 20,048 |
| Oct. 03, 2016 | Oct. 03, 2036 | 5.40% | 2,736,376 | 5.40% | 2,656,643 |
| Nov. 07, 2016 | Jan. 15, 2024 | 4.25% | 386,860 | 4.25% | 378,380 |
| Dec. 05, 2016 | Jan. 15, 2024 | 4.25% | 721,442 | 4.25% | 705,628 |
| **Balance carried forward** | | | $42,903,335 | | $44,374,820 |

## 4. INVESTMENTS (continued)

| | | 2018 | | 2017 | |
|---|---|---|---|---|---|
| Date of purchase | Maturity date | Interest Rate | Fair value | Interest rate | Fair value |
| **Balance brought forward** | | | $42,903,335 | | $44,374,820 |
| Dec. 05, 2016 | Jan. 15, 2024 | 4.25% | 67,962 | 4.25% | 66,472 |
| Apr. 24, 2017 | Oct.13, 2036 | 5.40% | 1,479,122 | 5.40% | 1,436,056 |
| May 26, 2017 | Apr. 27, 2018 | - | - | 2.60% | 150,370 |
| Jul. 14, 2017 | Jul. 14, 2037 | 5.20% | 1,594,615 | 5.20% | 1,545,452 |
| Oct. 13, 2017 | Oct. 13, 2037 | 5.22% | 391,952 | 5.22% | 379,810 |
| Dec. 15, 2017 | Dec. 15, 2037 | 5.22% | 1,439,125 | 5.22% | 1,394,302 |
| Mar. 29,2018 | Mar. 29, 2019 | 2.63% | 1,162,024 | - | - |
| May 11, 2018 | Dec. 10, 2028 | 4.39% | 563,580 | - | - |
| Jul. 13, 2018 | Jul. 13, 2038 | 5.06% | 1,711,791 | - | - |
| Aug. 15, 2018 | Jul. 13, 2038 | 5.06% | 276,605 | - | - |
| Sep. 14, 2018 | Jul. 13, 2038 | 5.06% | 82,166 | - | - |
| Oct. 15, 2018 | Oct. 15, 2038 | 5.00% | 409,795 | - | - |
| Nov. 16, 2018 | Oct. 15, 2048 | 5.50% | 36,382 | - | - |
| Dec. 14, 2018 | Oct. 15, 2048 | 5.50% | 846,876 | - | - |
| | | | $52,965,330 | | $49,347,282 |

The movement in the unrealized gain on investments is as follows:

| | 2018 | 2017 |
|---|---|---|
| Beginning balance | $ 74,387 | $ - |
| Net change in unrealized gains | ,397,174 | 74,387 |
| Balance at year end | $471,561 | $74,387 |

## 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 $18,223 (2017: $17,976).

## 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 approximate 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, 2018:

| | 2018 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Financial assets at FVOCI** | | | | |
| Investments | $ - | $52,965,330 | $ - | $52,965,330 |

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

## 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 cash at bank, investments and accrued interest receivable.

Impairment on cash at bank, investments and accrued interest receivable has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Corporation considers that these exposures have low credit risk based on external credit ratings of counterparties. The Corporation monitors changes in credit risk on these exposures by tracking published external credit ratings of counterparties.

On initial application of IFRS 9 as at January 1, 2018, the Corporation did not recognize any impairment allowance on cash at bank, investments and accrued interest receivable. There were no changes in 2018.

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. The Corporation's financial assets consist primarily of investments in Bahamas government debt, which are considered to be readily realizable. 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, 2018. The table includes only principal cash flows.

| | 2018 | | | |
|---|---|---|---|---|
| | Within 1 year | 2 to 5 years | Over 5 years | Total |
| **Financial assets** | | | | |
| Financial assets at amortized cost | | | | |
| Cash at bank | $2,722,908 | $ - | $ - | $ 2,722,908 |
| Accrued interest receivable | 731,347 | - | - | 731,347 |
| | 3,454,255 | - | - | 3,454,255 |
| Financial assets at FVOCI | | | | |
| Investments | 1,562,957 | 7,111,755 | 44,290,618 | 52,965,330 |
| | $5,017,212 | $7,111,755 | $44,290,618 | $56,419,585 |
| **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)

| | 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 |

(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 $529,653 (2017: $493,473) as a result of the change in interest rates.

(iii) 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.

**9. FINANCIAL RISK MANAGEMENT** (continued)

(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 33 to 35.

DEPOSIT INSURANCE CORPORATION
BAHAMAS

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