

# **Deposit Insurance Corporation**

**Financial Statements  
31 December 2002**

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Deposit Insurance Corporation

We have audited the accompanying balance sheet of Deposit Insurance Corporation as of 31 December 2002 and the related statements of operations, changes in accumulated fund and cash flows for the year then ended. These financial statements are the responsibility of the Board of Directors of the Corporation. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Deposit Insurance Corporation as of 31 December 2002, and the results of its operations, changes in accumulated fund and its cash flows for the year then ended in accordance with International Accounting Standards.

  
Chartered Accountants  
15 April 2003

**Deposit Insurance Corporation**  
(Incorporated under the laws of the Commonwealth of The Bahamas)

**Balance Sheet**  
**As of 31 December 2002**  
(Amounts expressed in Bahamian dollars)

	Notes	2002 \$	2001 \$
<b>Assets</b>			
Cash		2,140,753	894,672
Investments	3	3,581,100	2,800,000
Premiums receivable	7	93,853	-
Accrued interest receivable		76,230	63,929
Prepays and other assets		5,000	1
<b>Total assets</b>		<u>5,896,936</u>	<u>3,758,602</u>
<b>Liabilities</b>			
Bonds payable	4	6,750,000	6,750,000
Unpaid claims		104,635	166,640
Accrued interest payable		42,766	43,921
Accounts payable and accrued expenses		22,545	28,467
<b>Total liabilities</b>		<u>6,919,946</u>	<u>6,989,028</u>
<b>Accumulated fund</b>			
Capital	6	500,000	500,000
Accumulated deficit		(1,523,010)	(3,730,426)
<b>Total accumulated fund</b>		<u>(1,023,010)</u>	<u>(3,230,426)</u>
<b>Total liabilities and accumulated fund</b>		<u>5,896,936</u>	<u>3,758,602</u>

SIGNED ON BEHALF OF THE BOARD OF MANAGEMENT:



Chairman



Member of the Board

15 April 2003

Date

The accompanying notes are an integral part of these financial statements.

## Deposit Insurance Corporation

### Statement of Operations For the Year Ended 31 December 2002 (Amounts expressed in Bahamian dollars)

	Notes	2002 \$	2001 \$
<b>Income</b>			
Premiums	7	1,554,724	1,499,188
Interest income		200,693	139,267
Other income	8	<u>897,785</u>	<u>-</u>
<b>Total income</b>		<u><b>2,653,202</b></u>	<u><b>1,638,455</b></u>
<b>Expenses</b>			
Interest expense		422,021	422,911
Audit fees		9,640	9,780
Other expenses		<u>14,125</u>	<u>366</u>
<b>Total expenses</b>		<u><b>445,786</b></u>	<u><b>433,057</b></u>
<b>Net income for the year</b>		<u><b>2,207,416</b></u>	<u><b>1,205,398</b></u>

The accompanying notes are an integral part of these financial statements.

## Deposit Insurance Corporation

### Statement of Changes in Accumulated Fund For the Year Ended 31 December 2002 (Amounts expressed in Bahamian dollars)

	<u>Capital</u>	<u>Accumulated</u> <u>Deficit</u>	<u>Total</u>
	\$	\$	\$
Balance at 1 January 2001	500,000	(4,935,824)	(4,435,824)
Net income for the year	-	<u>1,205,398</u>	<u>1,205,398</u>
<b>Balance at 31 December 2001</b>	<u>500,000</u>	<u>(3,730,426)</u>	<u>(3,230,426)</u>
Balance at 1 January 2002	500,000	(3,730,426)	(3,230,426)
Net income for the year	-	<u>2,207,416</u>	<u>2,207,416</u>
<b>Balance at 31 December 2002</b>	<u>500,000</u>	<u>(1,523,010)</u>	<u>(1,023,010)</u>

The accompanying notes are an integral part of these financial statements.

## Deposit Insurance Corporation

### Statement of Cash Flows For the Year Ended 31 December 2002 (Amounts expressed in Bahamian dollars)

	2002	2001
	\$	\$
<b>Cash flows from operating activities:</b>		
Net income for the year	2,207,416	1,205,398
Adjustments to reconcile net income to net cash provided by operating activities:		
Interest income	(200,693)	(139,267)
Interest expense	<u>422,021</u>	<u>422,911</u>
Operating profit before working capital charges	2,428,744	1,489,042
<b>(Increase) decrease in operating assets:</b>		
Premium receivable	(93,853)	174,224
Prepays and other assets	(4,999)	365
<b>Increase (decrease) in operating liabilities:</b>		
Unpaid claims	(62,005)	(2,868)
Accounts payable and accrued expenses	(5,922)	878
Interest received	188,392	127,336
Interest paid	<u>(423,176)</u>	<u>(421,755)</u>
<b>Net cash provided by operating activities</b>	<u>2,027,181</u>	<u>1,367,222</u>
<b>Cash flows used in investing activities:</b>		
Purchase of investments	<u>(781,100)</u>	<u>(1,000,000)</u>
<b>Net cash used in investing activities</b>	<u>(781,100)</u>	<u>(1,000,000)</u>
<b>Net increase in cash</b>	1,246,081	367,222
Cash at beginning of year	<u>894,672</u>	<u>527,450</u>
<b>Cash at end of year</b>	<u>2,140,753</u>	<u>894,672</u>

The accompanying notes are an integral part of these financial statements.

# Deposit Insurance Corporation

Notes to the Financial Statements  
31 December 2002

## 1. Establishment and Operations

Deposit Insurance Corporation (the Corporation) is a statutory corporation established by the Protection of Depositors Act, (the Act) on 30 September 1999. Pursuant to section 4 of the Act, membership is compulsory for every licensed banking institution carrying on banking business wholly or partly in Bahamian currency.

The Corporation insures Bahamian dollar deposits up to a maximum of \$50,000 to any single depositor in each member institution. The depositor must submit a claim to the Corporation within one year from the date of the closure of the member institution. Before payment of any insured sums to depositors, the Corporation offsets any monies owned to the member institution by such depositor against the insured amount.

The Corporation enjoys a close, symbiotic relationship with the Central Bank of The Bahamas (the Bank) and has power to: -

- a. On the advice of the Bank, to levy authorised contributions and premia on member institutions.
- b. To arrange for restructuring of a failed member whether by merger with a financially sound member or otherwise; and
- c. To accumulate, manage and invest the surplus funds of the Corporation.

During May 2002, the Corporation became a founding member of International Association of Deposit Insurers (IADI), an association established in Basel, Switzerland. IADI's primary mission is to contribute to the enhancement of deposit insurance effectiveness by developing guidance and promoting international cooperation.

The registered office of the Corporation is located at the Central Bank of The Bahamas, Frederick Street, P.O. Box N-4868, Nassau, The Bahamas. The Corporation does not have any employees. The Bank provides administration and other services associated with the operation of the Corporation. These services are provided without charge. Certain directors of the Corporation are also directors and officers of the Bank.

## 2. Significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

# Deposit Insurance Corporation

Notes to the Financial Statements  
31 December 2002

## 2. Significant accounting policies (Continued)

### (a) Basis of preparation

The Corporation's financial statements have been prepared under the historical cost convention and in accordance with International Accounting Standards (IAS). The preparation of the financial statements in conformity with International Accounting Standards requires management to make estimates and assumptions that affect 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Corporation adopted IAS 39 - Financial Instruments: Recognition and measurement on 1 January 2001.

### (b) Investments

The Corporation classifies its investments in Bahamas Government Registered Stocks as originated receivables. Management determines the appropriate classification of its investments at the time of purchase and re-evaluates such a designation on a regular basis. Financial assets created by the Corporation by providing funds directly to a debtor, with no intention of liquidating in the short term, are classified as originated loans and receivables. Originated receivables are carried at amortised cost. Because the investments in Bahamas Government Registered Stocks are issued at face value, they are carried at cost which equates to fair value.

Prior to the adoption of IAS 39, the Corporation recorded all of its investments at cost.

### (c) Income and expense recognition

Income and expenses are recorded on an accrual basis.

## 3. Investments

During the year, the investments in Bahamas Government Registered Stocks earned interest at rates ranging between 6.34% to 6.50% (2001: 6.47% to 6.50%) per annum. These interest rates are tied to the Nassau Prime Rate and the investments have maturing dates ranging between 2018 to 2022 (2001: 2019 to 2020).



## Deposit Insurance Corporation

Notes to the Financial Statements  
31 December 2002

### 3. Investments (Continued)

<u>Value Date</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Cost \$</u>	<u>Face Value \$</u>
18/09/00	6.4688%	2019	1,800,000	1,800,000
24/08/01	6.5000%	2020	1,000,000	1,000,000
20/03/02	6.4688%	2018	147,000	147,000
06/09/02	6.3438%	2020	350,000	350,000
06/09/02	6.3750%	2021	219,200	219,200
04/12/02	6.4063%	2022	64,900	64,900
<b>Total 2002</b>			<b>3,581,100</b>	<b>3,581,100</b>
Total 2001			2,800,000	2,800,000

### 4. Bonds payable

On 15 November 1999, the Corporation issued \$6,750,000 in bonds to finance the payments to depositors of Gulf Union Bank (Bahamas) Ltd. (in Liquidation) (GUB). The bonds bear interest at ¼% per annum above prime rate and mature 15 November 2004. All of the bonds were issued to member institutions. These bonds are guaranteed by the Government of the Commonwealth of The Bahamas.

### 5. Initial Contribution

In accordance with the Act an initial contribution of \$500,000 was paid by member institutions. Each member's share was based on their pro rata percentage share of all deposits insured by the Corporation on the last day of the month in which the Act came into effect. Member institutions do not hold an equity position in the Corporation.

### 6. Capital

A compulsory initial contribution of one million dollars was to be paid into the Corporation within ninety days of the enforcement of the Act. Fifty percent (50%) of this amount was paid by the Bank as capital in accordance with Subsection (2) of Section 13 of the Act. The other \$500,000 was contributed by member institutions (See Note 5 above).

## Deposit Insurance Corporation

### Notes to the Financial Statements 31 December 2002

#### 6. Capital (Continued)

The authorised capital of the Corporation is \$1,000,000, which may be increased by order of the Minister in accordance with Subsection (1) of Section 13 of the Act. At 31 December 2002, paid-up capital was \$500,000 (2001: \$500,000).

#### 7. Premiums

The premium due in the year an institution becomes a member of the Corporation is equal to 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. Thereafter the annual premium is equal to one twentieth of one percent of an amount equal to the average of the sum of those deposits insured by the Corporation as of 31 March and 30 September in the immediately preceding premium year. For the year ended 31 December 2002, the Corporation earned premiums totaling \$1,554,724 of which \$93,853 was outstanding as of 31 December 2002.

#### 8. Other income

During the year, the Corporation received a 10% distribution payment totaling \$897,785 from the liquidators of GUB, which represented the first distribution payment since GUB's closure on 12 December 1997. Prior to this distribution payment, the depositors of GUB were paid by the Corporation up to a maximum of \$50,000 per depositor, pursuant to the Act.

#### 9. Related party balances

At 31 December 2002, the following balances were with the Bank:

	2002	2001
	\$	\$
Cash	2,140,753	894,672
Accounts payable	10,519	2,109

#### 10. Exemptions

The Corporation is exempted from the provisions of the Insurance Act and the Stamp Act.

# Deposit Insurance Corporation

Notes to the Financial Statements  
31 December 2002

## 11. Fair value of financial instruments

Financial instruments utilized by the Corporation include recorded financial assets and liabilities, such as those shown in the balance sheet. Except for investments in Bahamas Government Registered Stocks [see note 2(b)], the Corporation's financial instruments are either short-term in nature or have interest rates that automatically reset to market on a periodic basis. Accordingly, the estimated fair value is not significantly different from the carrying value for each major category of the Corporation's recorded financial assets and liabilities.