

DEPOSIT INSURANCE CORPORATION

FINANCIAL STATEMENTS

31 DECEMBER 2009

## DEPOSIT INSURANCE CORPORATION

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## **REPORT OF THE AUDITORS TO THE MEMBERS OF DEPOSIT INSURANCE CORPORATION**

We have audited the accompanying financial statements of the Deposit Insurance Corporation which comprise the balance sheet as at 31 December 2009, and the statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditors' Responsibility**

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion the financial statements present fairly, in all material respects, the financial position of the Deposit Insurance Corporation as at 31 December 2009 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

BDO

Chartered Accountants  
Nassau Bahamas  
28 April 2010

DEPOSIT INSURANCE CORPORATIONBALANCE SHEET AS AT 31 DECEMBER 2009

(Expressed in Bahamian Dollars)

	<u>Note</u>	<u>2009</u> \$	<u>2008</u> \$
BAHAMAS GOVERNMENT REGISTERED STOCK	5	14,496,000	11,447,000
<b>CURRENT ASSETS</b>			
Cash at bank		1,718,655	1,394,654
Premiums receivable		--	96,245
Accrued interest receivable		232,723	215,422
Other assets		<u>2,582</u>	<u>2,500</u>
		<u>1,953,960</u>	<u>1,708,821</u>
<b>CURRENT LIABILITIES</b>			
Unpaid claims		52,680	52,680
Accounts payable and accrued expenses		<u>7,000</u>	<u>7,000</u>
		<u>59,680</u>	<u>59,680</u>
<b>NET CURRENT ASSETS</b>		<u>1,894,280</u>	<u>1,649,141</u>
		\$16,390,280	\$13,096,141
		=====	=====
<b>EQUITY</b>			
Capital	6	500,000	500,000
Accumulated profits	7	<u>15,890,280</u>	<u>12,596,141</u>
		\$16,390,280	\$13,096,141
		=====	=====

These statements were approved by the board of management and authorised for issue on 28 April 2010, and are signed on its behalf by:

.....  
  
 Chairman

.....  
  
 Board Member

The Notes on pages 6 to 11 form an integral part of these Financial Statements.

DEPOSIT INSURANCE CORPORATION  
STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2009

	<u>Note</u>	<u>2009</u> \$	<u>2008</u> \$
<b>INCOME</b>			
Premiums	8	2,540,923	2,362,941
Interest income		<u>778,598</u>	<u>612,988</u>
		<u>3,319,521</u>	<u>2,975,929</u>
<b>EXPENDITURE</b>			
Membership fee		10,247	10,000
Audit fee		8,493	9,390
Administration fee		6,302	6,302
Staff training		--	5,697
Other expenses		<u>340</u>	<u>378</u>
		<u>25,382</u>	<u>31,767</u>
<b>NET PROFIT FOR THE YEAR</b>		<b>\$3,294,139</b> =====	<b>\$2,944,162</b> =====

The Notes on pages 6 to 11 form an integral part of these Financial Statements.

**DEPOSIT INSURANCE CORPORATION**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

	<u>2009</u>	<u>2008</u>
	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net profit for the year	3,294,139	2,944,162
Adjustments for:		
Interest income	<u>(778,598)</u>	<u>(612,988)</u>
Operating profit before working capital changes	2,515,541	2,331,174
Decrease/(increase) in premiums receivable	96,245	(35,902)
Increase in accrued interest receivable	(17,301)	(56,639)
(Increase)/decrease in other assets	(82)	2,500
Decrease in unpaid claims	--	(320)
Interest received	<u>778,598</u>	<u>612,988</u>
<b>Net cash provided by operating activities</b>	<u>3,373,001</u>	<u>2,853,801</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	<u>(3,049,000)</u>	<u>(2,700,000)</u>
<b>Net cash used by investing activities</b>	<u>(3,049,000)</u>	<u>(2,700,000)</u>
<b>Net increase in cash and cash equivalents</b>	324,001	153,801
<b>Cash and cash equivalents at beginning of the year</b>	<u>1,394,654</u>	<u>1,240,853</u>
<b>Cash and cash equivalents at end of the year</b>	\$1,718,655 =====	\$1,394,654 =====

The Notes on pages 6 to 11 form an integral part of these Financial Statements.

**DEPOSIT INSURANCE CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**1. INCORPORATION AND ACTIVITIES**

The Deposit Insurance Corporation (“the Corporation”) was established by the Protection of Depositors Act, (“the Act”) on 30 September 1999, to manage the Deposit Insurance Fund, which was established to protect funds deposited with member institutions. The Act insures Bahamian dollar deposits held at member institutions up to a maximum of \$50,000 to any single depositor. 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 owed to the member institution by such depositor against the insured amount.

The Corporation’s capital contribution was made by the Central Bank of The Bahamas (“the Bank”) in accordance with the Act. The Bank does not have the power to govern the financial and operating policies of the Corporation so as to attain benefits from its activities. Consequently, the Corporation is not treated as a subsidiary of the Bank.

The Registered Office of the Corporation is located at the Central Bank of The Bahamas, Frederick Street, Nassau, The Bahamas. The Corporation does not have any employees and pays the Bank a fee to provide administration and other services associated with the operation of the Corporation. Certain directors of the Corporation are also directors and officers of the Bank.

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

- (a) levy authorised contributions and premiums on member institutions;
- (b) arrange for restructuring of a failed member whether by merger with a financially sound member or otherwise and;
- (c) accumulate, manage and invest the surplus funds of the Corporation.

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

During 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.



**DEPOSIT INSURANCE CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**2. BASIS OF PREPARATION**

These financial statements are prepared on a going concern basis in accordance with International Financial Reporting Standards (IFRS). The financial statements have also been prepared under the historical cost convention. The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expense during the period. Actual results can differ from those estimates.

**3. ACCOUNTING POLICIES**

**Bahamas Government Registered Stock**

Bahamas Government Registered Stocks are classified as held-to-maturity financial assets and are stated at cost.

**Revenue recognition**

Revenues are recognised under the accruals concept.

**4. NEW AND AMENDED STANDARDS ADOPTED**

The Corporation has adopted the following new and amended standards as of 1 January 2009:

*IAS 1 (Revised 2007) - Presentation of Financial Statements and Amendments to IAS 32, Financial Instruments: Presentation*

Effective 1 January 2009. The standard requires entities to change their presentation of primary statements. The major changes include:

(i) All items of income and expense (including those accounted for directly in equity) are required to be presented either in a single statement (a 'statement of comprehensive income') or in two statements (a separate 'income statement' and 'statement of comprehensive income'); and

**DEPOSIT INSURANCE CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**4. NEW AND AMENDED STANDARDS ADOPTED (cont)**

(ii) The statement of changes in equity will include only details of transactions with owners, while all non-owner changes in equity presented as a single line, total comprehensive income, with details included in a separate statement. When an entity applies an accounting policy retrospectively or makes a retrospective restatement or reclassification of items in its financial statements, it will be required to present a statement of financial position as at the beginning of the earliest comparative period.

**5. BAHAMAS GOVERNMENT REGISTERED STOCK**

The Bahamas Government Registered Stock consists of:

<u>Purchase date</u>	<u>Interest Rate</u>	<u>Maturity date</u>	<u>2009 Fair value</u> \$	<u>2008 Fair value</u> \$
25/03/02	5.97%	12/12/18	147,000	147,000
02/12/04	5.97%	21/07/19	400,000	400,000
28/08/01	6.00%	25/10/20	1,000,000	1,000,000
19/06/02	5.84%	06/09/20	350,000	350,000
06/04/05	5.78%	29/07/23	900,000	900,000
14/11/05	5.78%	22/10/23	950,000	950,000
28/09/06	5.75%	07/09/24	1,650,000	1,650,000
18/01/06	5.81%	18/01/26	1,050,000	1,050,000
25/05/07	5.78%	22/09/25	1,400,000	1,400,000
04/07/07	5.75%	07/09/24	900,000	900,000
22/01/08	5.78%	22/09/25	1,250,000	1,250,000
22/07/08	5.75%	18/01/24	1,450,000	1,450,000
06/02/09	5.59%	28/11/20	1,499,000	--
24/07/09	5.53%	28/11/18	<u>1,550,000</u>	<u>--</u>
			<u>\$14,496,000</u> =====	<u>\$11,447,000</u> =====

**DEPOSIT INSURANCE CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**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, \$500,000 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. Member institutions do not hold any equity position in the Corporation.

In accordance with the Act, the authorised capital of the Corporation is \$1,000,000. As at 31 December 2009, paid-up capital was \$500,000 (2008: \$500,000).

**7. ACCUMULATED PROFITS**

	\$
Accumulated profits at 1 January 2009	12,596,141
Net profit for the year	<u>3,294,139</u>
Accumulated profits at 31 December 2009	\$15,890,280 =====

**8. PREMIUMS**

The premiums 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.

**9. STATEMENT OF CHANGES IN EQUITY**

A statement of changes in equity is not included in these financial statements, as there were no changes in equity during the year, other than as disclosed in note 7.

**10. MATURITIES OF FINANCIAL ASSETS AND LIABILITIES**

All current financial assets and liabilities are due within one year.

**DEPOSIT INSURANCE CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**11. INTEREST RATE RISK**

Other than as stated in note 5, none of the Corporation's assets or liabilities have an exposure to interest rate risk.

**12. FAIR VALUE OF FINANCIAL INSTRUMENTS**

All of the Corporation's financial instruments are considered to have fair values equivalent to their carrying values.

**13. FINANCIAL RISK MANAGEMENT**

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

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Corporation's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these financial statements.

The Board of Management has overall responsibility for the establishment and oversight of the Corporation's risk management framework.

The Corporation's risk management policies are established to identify and analyse the risks faced by the Corporation, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Corporation's activities.

**Credit risk**

Credit risk is the risk of financial loss arising if a customer or counter-party fails to meet its contractual obligations and arises from investments in Bahamas Government Registered Stock. These stocks are secured by the Government of The Bahamas and therefore the risk is minimal.

**DEPOSIT INSURANCE CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**13. FINANCIAL RISK MANAGEMENT (cont)**

**Liquidity risk**

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligation as they fall due. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions. The Corporation maintains adequate highly liquid assets in the form of cash and cash equivalents to assure necessary liquidity.

**Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Corporation's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Management mitigates this risk by investing in Government secured investments.