COMMUNICATION

EXCELLENCE

DEPOSIT INSURANCE CORPORATION
BAHAMAS

RELIABILITY

INTEGRITY

DEPOSIT INSURANCE CORPORATION
BAHAMAS

Deposit Insurance Corporation
P.O. Box N-4868, Nassau, Bahamas
Head Office Location
Email: info@DIC.bs   Website: www.DIC.bs

Central Bank of The Bahamas
Frederick Street, Nassau, Bahamas
Tel: 242-322-2193 or 242-302-2600
Fax: 242-356-3909

ANNUAL REPORT
& STATEMENT OF ACCOUNTS
For the Year Ended December 31, 2013

DEPOSIT INSURANCE CORPORATION
BAHAMAS

MISSION

We exist 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.

VISION

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

VALUES

In our commitment to our public responsibility, we value:

EXCELLENCE:	We aim to achieve the highest standards of quality and service in the execution of our duties.
INTEGRITY:	We honour 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.

DEPOSIT INSURANCE CORPORATION
BAHAMAS

September 3, 2014

The Rt. Hon. Perry G. Christie
Prime Minister and Minister of Finance
Office of the Prime Minister
Cecil Wallace-Whitfield Centre
Cable Beach, West Bay Street
Nassau, N.P. Bahamas

Dear Prime Minister,

In accordance with Section 19(2) of the Protection of Depositors Act, 1999, I have the honour to submit to you the 2013 Annual Report of the Deposit Insurance Corporation for the Financial Year ended 2013, and a copy of the Corporation's Audited Accounts as at December 2013, duly certified by its Auditors.

Yours sincerely,

Wendy M. Craigg (Mrs.)
Chairman

CONTENTS

5	A MESSAGE FROM THE CHAIRMAN
6	BOARD OF MANAGEMENT
7	DIC MEMBER INSTITUTIONS
8	THE DEPOSIT INSURANCE CORPORATION AT A GLANCE
10	OPERATIONS
10	Corporate Governance
10	Strategic Planning
11	Box 1. Strategic Plan, 2013 – 2016
12	Box 2. Key Strategic Outcomes for 2013
13	International Associations
14	MANAGEMENT DISCUSSION AND ANALYSIS
14	Overview of Domestic Macroeconomic Environment
15	Membership Performance
18	2013 DIC Financial Highlights
19	THE DEPOSIT INSURANCE CORPORATION FINANCIAL STATEMENTS
20	Auditors' Report to the Board of Directors
22	Statement of Comprehensive Income
23	Statement of Financial Position
24	Statement of Cash Flows
25	Notes to the Financial Statements

A MESSAGE FROM THE CHAIRMAN

It gives me great pleasure to present to you, the 2013 Annual Report of The Bahamas' Deposit Insurance Corporation (DIC). As the inaugural report, it marks a key milestone in the DIC's efforts to build on earlier initiatives pursued to enhance public awareness and communication.

The year 2013 was a very active one for the DIC. The Board of Management approved the final version of the DIC's first Strategic Plan (2013-2015), which articulates its mission, corporate values, goals and objectives, and the key activities to be implemented during the period. Importantly, our strategic priorities for 2014 will continue to advance initiatives to strengthen our operational readiness; to enhance public confidence in the financial sector, by informing the stakeholder community of the benefits and limitations of deposit insurance, and to maintain compliance with international principles for effective deposit insurance schemes.

The business strategies and performance of our member institutions are directly impacted by domestic economic conditions, which have been characterized by a relatively mild growth momentum in recent years. Although demand for credit remained constrained, member banks continued to report sound financial results, in terms of their net income positions; and the persistence of elevated loan delinquencies was counterbalanced by capital levels which exceeded prudential requirements. This, together with the regulatory and supervisory oversight mechanisms employed by the Central Bank, sustained the soundness and stability of the banking system.

Despite the softness in economic activity, the Deposit Insurance Fund grew by a stable rate of 16.8% to $31.6 million at end-2013, with the premium assessment rate unchanged at 0.10 per cent of insurable deposits. The results of an initial deposit insurance fund adequacy review, which considered several loss scenarios, are under review and will lead to a more explicit determination of the Fund's borrowing requirements, to supplement members' premiums.

Finally, I would like to extend my sincere gratitude and appreciation to all stakeholders, especially the Board of Management's members, for their support, and for the continued dedication of all Central Bank staff involved with DIC administrative matters.

Wendy Craigg

Wendy M. Craigg (Mrs.)
Chairman
Deposit Insurance Corporation

BOARD OF MANAGEMENT

December 31, 2013

Mrs. Wendy M. Craigg
**Chairman of the Board of Management,
Governor, Central Bank of The Bahamas**

Mrs. Cassandra Nottage,
**Manager, Bank Supervision Department,
Central Bank of The Bahamas**

Mr. John Rolle
**Financial Secretary,
Ministry of Finance**

Mr. Barry Turnquest
**Sr. Deputy Manager,
Banking Department,
Central Bank of The Bahamas**

Mr. Lorne Basden
**President,
Basden Elevator Services Limited**

Mr. Aluchifer Rolle
**Agency Manager,
BAF Financial**

DIC MEMBER INSTITUTIONS

At end-2013, the twelve (12) member institutions of the DIC included eight (8) commercial banks and four (4) other deposit taking institutions.

Commercial Banks

	Year of Establishment	Total B$ Deposits (000)	No. of Branches
Bank of The Bahamas International Ltd.	July 28, 1970	693,099	12
Citibank N.A.	January 17, 1966	70,313	1
Commonwealth Bank Ltd.	October 10, 1966	1,089,490	11
Fidelity Bank (Bahamas) Ltd.	July 11, 1978	340,624	6
Finance Corporation of The Bahamas Ltd	May 23, 1966	736,030	5
FirstCaribbean International Bank (Bahamas) Ltd	December 7, 1995[1]	1,141,960	11
RBC Royal Bank (Bahamas) Ltd.	October 26, 2010[2]	1,178,260	20
Scotiabank (Bahamas) Ltd.	March 26, 1998[3]	777,789	20

Other Deposit-Taking Institutions

Ansbacher (Bahamas) Ltd.	January 17, 1966	2,411	1
Bank of Nova Scotia Trust Company (Bahamas) Ltd.	April 1, 1966	184	1
Royal Bank of Canada Trust Company (Bahamas) Ltd.	April 1, 1966	4,346	1
Royal Fidelity Merchant Bank & Trust Ltd.	September 15, 1998	44,820	1

1 FCIB, formerly named CIBC Bahamas Limited, changed its name on October 11, 2002 as a result of the merger of its retail corporate and offshore banking operations with those of Barclays Bank Plc. Barclays Bank Plc and CIBC Bahamas Ltd. were licensed in The Bahamas on January 17, 1966 and December 7, 1995, respectively.

2 This entity was formed to facilitate the transfer and subsidiarization of the assets of the Bahamian retail and commercial banking operations of Royal Bank of Canada, Bahamas branch (RBC Branch). The RBC Branch was licensed in The Bahamas on January 17, 1966.

3 The Bank of Nova Scotia, Bahamas Branch (BNS Branch) was licensed on March 11, 1966. The entire business operations of BNS branch was transferred to Scotiabank (Bahamas) Ltd. in 1998.

THE DEPOSIT INSURANCE CORPORATION AT A GLANCE

The Deposit Insurance Corporation (DIC) is a special body corporate, established on September 30, 1999, under the statutory provisions of the Protection of Depositors Act, for the purpose of minimizing or eliminating the risk of loss of savings of small Bahamian depositors in the event a bank fails, and to arrange for the expeditious handling of any bank failure. This safety net mechanism promotes confidence and helps to achieve the overall financial stability objective of the Central Bank of The Bahamas.

Pursuant to Section 3(1) of the Protection of Depositors Act, 1999, a Deposit Insurance Fund (the Fund) has been established from premium contributions of DIC member institutions to cover potential claims, in the event that a member fails. Membership in the Fund is compulsory for every licensed bank with Bahamian dollar deposits.

The DIC utilizes an ex-ante funding model, in which premiums are levied on member institutions at a rate of one-twentieth of one percent of the average sum of deposits insured by the DIC and deposited with member institutions as of March 31 and September 30 in the previous year. DIC members pay annual premium contributions to the Fund—one half payable on or before June 15, and the balance on or before December 15.

Because of the limited scope of activities, the DIC currently has no direct employees. The Central Bank of The Bahamas (the Central Bank) is responsible for the daily operations of the DIC, and provides the necessary staff resources and administrative services.

Deposit Insurance Coverage

The DIC insures only Bahamian dollar denominated deposits placed with a member institution in any of its branches in The Bahamas, and the coverage is up to a maximum of $50,000 for any single depositor. Deposit insurance payouts are made to insured depositors only when a member institution has been closed as a result of action taken by the Central Bank.

What is covered?

The accounts and products insured by the DIC include:

- Checking accounts
- Savings accounts
- Demand and time accounts
- Other accounts payable, for which a certificate, receipt, cheque, money order, draft or other payment instrument has been issued by the member institutions and for which the member is primarily liable.

What is not covered?

The types of products that are not covered by deposit insurance include:

- Letters of credit
- Standby letters of credit or instruments of a similar nature
- Subordinated debts
- Preference shares
- Inter-bank deposits
- Foreign currency deposits
- Deposits of Government and statutory corporations
- Deposits of foreign governments
- Deposits in any financial institution wholly owned by the Government
- Deposits from affiliates of member institutions
- Deposits of any depositor who is shown to have been a party to or profited from the circumstances given rise to a member institution's failure

Financial Highlights of the DIC (B$000)

	2009	2010	2011	2012	2013
Investment Securities	14,496	17,896	20,854	24,521	30,021
Total Assets	16,390	19,941	23,645	27,522	32,067
Deposit Insurance Fund	15,890	19,441	23,145	27,022	31,567
Members Premiums	2,541	2,612	2,697	2,759	2,785
Interest & Other Income	779	965	1,041	1,160	1,819
Total Revenue	3,320	3,577	3,738	3,919	4,604
Expenses	25	26	334	42	59
Net Income	3,294	3,551	3,704	3,877	4,545
Return on Assets (%)	20%	18%	16%	14%	14%
Member Institutions (#)	13	13	13	12	12

OPERATIONS

Corporate Governance

The DIC's corporate governance framework is outlined in the Act, which prescribes, *inter alia*, the roles and responsibilities of the Board of Management.

Section 8 of the Act provides for the establishment of a Board of Management of the Corporation, which is responsible for the policy direction of the Corporation.

The Board of Management is comprised of six (6) members—all of whom are appointed by the Minister with responsibility for Finance. The three (3) ex-officio members are persons from the Central Bank of The Bahamas, holding offices of the Governor (the Chairman), the Manager, Bank Supervision Department and the Senior Deputy Manager, Banking Department. The remaining three (3) directors are the Financial Secretary, and two (2) other appointees who have knowledge and experience in banking, commerce, finance, accounting, insurance or law.

During 2013, the Board of Management (the Board) met on three (3) occasions. The Board instituted mechanism and frameworks to ensure that the operations of the DIC were consistent with and fostered best practices in the area of corporate governance. Members approved and executed a Code of Conduct, which included a declaration of understanding, secrecy and confidential statements to be completed by Directors. Board meetings now include quarterly highlights of the operations of the DIC membership and other supervisory surveillance activities being undertaken by the Central Bank. Members also approved the DIC's three year Strategic Plan. Based on the scaled-up activities being undertaken by the DIC, the Board agreed to revisions to the terms of the Memorandum of Understanding, executed with the Central Bank, covering the provision of administrative services to the DIC.

Strategic Planning

During 2013, the DIC institutionalized a process of strategic planning, to ensure that the institution is adequately equipped to fulfill its mission. The planning process considered the environmental factors impacting the DIC's operations and the need to achieve regulatory and operational efficiency. The Board-approved Strategic Plan (2013-2016) established the goals and objectives for the DIC, inclusive of strategic activities, timeliness, performance measures and resource requirements.

With its continued focus on depositor protection and financial system stability and confidence, the DIC was able to maintain its strategic focus and achieve several targets in 2013, while making further strides in improving the functioning of the Corporation in line with recommendations arising from The Bahamas' Financial Sector Assessment Programme (FSAP) review.

Consistent with the global view that an effective public awareness programme instils public confidence in the financial system, the DIC has undertaken to make the public more aware of the benefits and limitations of deposit insurance, what is and is not insured, and the process for making claims and receiving payments. In its initial activities in this area, the DIC launched, in April 2013, its independent website, and later released DIC decals which were installed at members' premises, and prepared and made available public information brochures for access by members' customers. Among the other strategic activities will be the development of public awareness activities using the internet, audio and visual television and radio clips and printed materials, and then

Box 1. **Strategic Plan, 2013-2016**

GOALS	OBJECTIVES
1. Public Confidence in the Financial Sector	▪ Build an informed stakeholder community ▪ Gauge effectiveness of public awareness campaign ▪ Extend deposit insurance to credit unions
2. Operational Readiness	▪ Establish target size for deposit insurance fund ▪ Arrange contingency funding mechanism ▪ Test adequacy of payout arrangements ▪ Competent and knowledgeable resources ▪ Documented administrative and corporate governance arrangements ▪ Prompt identification and response for payouts ▪ Implementation of strategic planning process
3. Regulatory Efficiency	▪ Ensure compliance with IADI Core Principles and other best practices.

measuring the impact of the effectiveness through surveys and other focused awareness testing mechanisms.

As part of the activities to promote public confidence in the financial sector, the DIC intends to extend insurance safety net to credit unions. Early efforts in this regard included an analysis of the deposit characteristics of credit unions, as input into determining an appropriate deposit insurance maximum cover amount; and an assessment of the options of a separate fund or a two-tiered system under the existing arrangement. In the next steps, the DIC will prepare the necessary legislative amendments and launch a consultative process with the sector.

Under its operational readiness and efficiency goal, the DIC, with the assistance of experts from the Canadian Deposit Insurance Corporation carried out an initial exercise to assess the adequacy of the DIC's financial resources to absorb losses in the event of a significant bank failure. This required the development of a minimum target size for the Fund, determined as a percentage of insurable deposits, and employing both a simple liquidity assessment and a Monte Carlo simulation model, based on expected loss scenarios. The intent is to refresh this exercise every three (3) years. As part of the funding assessment exercise, the DIC also considered a more explicit determination of borrowing requirements to supplement the capital resources derived from member institutions' ex-ante premiums. The objective is to have prearranged access to contingency funding, so as to improve the DIC's readiness for dealing with any crisis situation. After the level has been determined and agreed, the DIC will review the adequacy of this level annually, as well as the premium levy rate, to determine the need for any change.

Other operational efficiency initiatives included the development and desk top simulation of a payout exercise, so as to ensure readiness to deal with a range of potential failure scenarios; as assessment of the administrative requirement of the DIC and documentation of administrative and corporate arrangements. Further,

Box 2. **Key Strategic Outcomes for 2013**

GOAL 1: PUBLIC CONFIDENCE IN THE FINANCIAL SECTOR

- Completed the launch of the independent website of the corporation (www.dic.bs)
- Issued the newly designed decals for installation at members' premises
- Prepared information brochures on DIC operations, for placement in members' establishments
- With the assistance of experts from the Canadian Deposit Insurance Corporation (CDIC), the management team undertook an exercise in 2013 to examine the requirements for establishing a separate deposit insurance fund and premium rate for credit unions

GOAL 2: OPERATIONAL READINESS

- Assessed the target size of the Fund using the assistance of the experts from the CDIC; with a decision to establish a target level at one per cent of insurable deposits
- Agreed on the establishment of a borrowing limit, up to $25 million for contingency funding
- Completed the DIC's operations manual
- Conducted a crisis (failure) simulation exercise in October 2013
- Continued work on recommendations outlined in the national financial crisis management plan
- Approved the code of conduct for the Board of Management
- Conducted informal discussions with members to ascertain the adequacy of current IT systems which may impede the payout timeframe
- Finalized the strategic plan

GOAL 3: REGULATORY EFFICIENCY

- Advanced work on drafting amendments to the Protection of Depositors Act (PDA) to define the deposit insurance fund and establish borrowing limits for the Corporation
- Work continued on a review of the legislative framework for the Corporation, within the broader national financial crisis management plan, aimed at ensuring the adequacy of the financial safety net arrangements

the DIC will undertake an analysis of insurable deposit liabilities with the objective of facilitating timely payouts in the event of a bank failure.

In the area of regulatory efficiency, the DIC seeks to achieve and maintain compliance with the eighteen (18) international principles for effective deposit insurance schemes. During 2012, the Central Bank undertook a review of the DIC's compliance with these principles, in preparation for The Bahamas' Financial Sector Assessment Programme (FSAP) exercise. While several gaps were identified, many of them have been closed as part of the DIC's strategic activities, while others, which require legislative changes, are being considered within the context of the broader national crisis management plan.

Strategic priorities for 2014 cover the continuation of several initiatives commenced in 2013, including advancing the integration of credit unions into the deposit insurance scheme, under a two-tier fund model, the broadening of public awareness programmes, through the release of media advertisements and public surveys to gauge the effectiveness of the awareness campaign.

International Associations

The DIC is one of the twenty-five (25) founding members of the International Association of the Deposit Insurers (IADI), which aims to, *inter alia*, contribute to the stability of financial systems, by promoting international cooperation in the field of deposit insurance and providing guidance for establishing new; and to enhance existing, deposit insurance systems.

The DIC's membership in IADI and the IADI Caribbean Regional Committee (CRC) continues to provide forums for the exchange of knowledge and opportunities to further professional development, keeping abreast of the latest developments in the field of deposit insurance, as well as access to technical assistance. During 2013, relationships with other deposit insurers were leveraged in conducting important exercises with respect to the target size of the Fund and the optimal approach to developing a deposit insurance regime for credit unions.

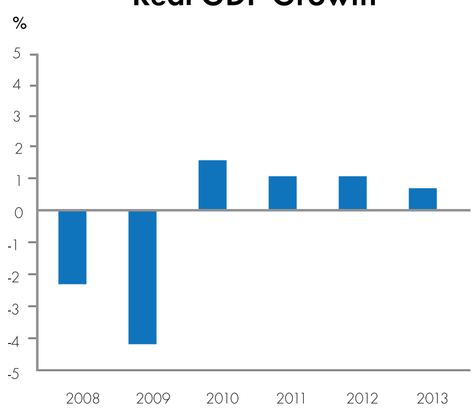
In March 2013, two (2) of the DIC's representatives participated in IADI's *Sixth Regional Training Workshop on the Methodology for Assessment of Compliance with the Core Principles For an Effective Deposit Insurance System*. Arising from the workshop, the DIC participants gained an intimate knowledge of the thought process involved in completing a self-assessment for the jurisdiction.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview of Domestic Macroeconomic Environment

Economic conditions in The Bahamas, which are influenced by the evolution of global economic events and outcomes, directly impact the business strategies of member institutions and, by extension, their overall performance results. Challenges arising from changes in the business cycle and employment levels remained the key factors influencing plans and outcomes during the course of 2013.

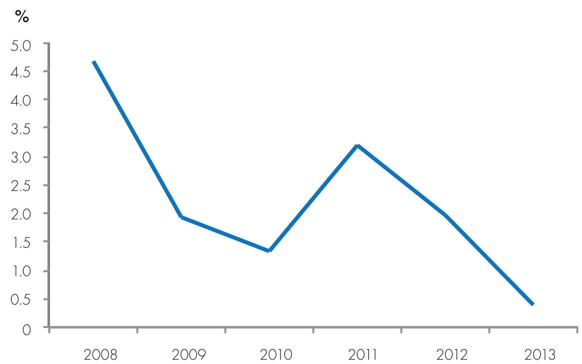
Real GDP Growth



During 2013, the Bahamian economy continued to register a very mild growth momentum. Estimated real GDP expanded at a lower than expected 0.7%, down from 1.0% in 2012 and a 1.5% rebound in 2010, following a two year-long contraction brought on by the 2008 global economic crisis. Tourism output, which accounts for a dominant 40% of the economy, contracted because of a marked decline in the high value-added stopover segment of the visitor market brought on by a combination of weakness in key source markets, increased competition from regional destinations and a decline in room and airlift capacity.

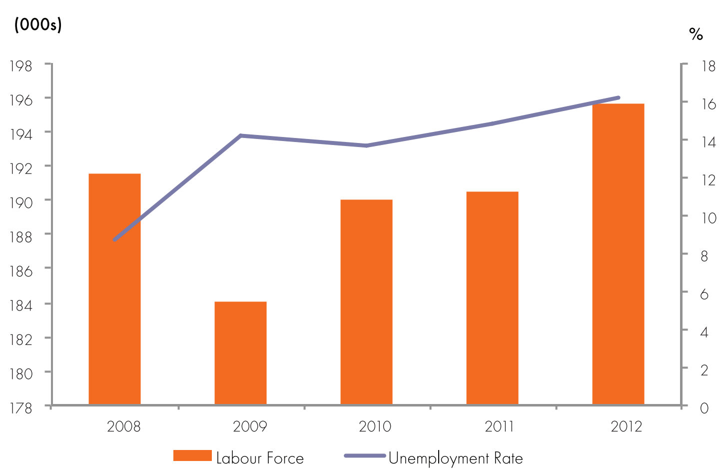
While foreign investment related activity continued to sustain construction investment, the narrow scope of economic growth limited the improvement in the jobless rate, which stood at 15.4% in November, 2013, compared to 14.0% a year earlier and a low of 8.7% in 2008.

Inflation



In the context of lower global oil prices and consumer demand, domestic inflationary conditions were benign. Consumer price inflation, as measured by the variation in the Retail Price Index, narrowed to a mere 0.4% from 2.0% in 2012.

Employment Indicators



In the monetary sector, the confluence of extraordinary foreign currency inflows, weak private sector demand and high unemployment, sustained the build-up of banks' excess liquidity to record levels. These conditions, in turn, depressed rates on the deposit side and caused some tightening in borrowing conditions. In addition, banks continued to be challenged by the elevated levels of loan arrears, which were concentrated in mortgages and commercial loans.

On the fiscal side, the tapering-off in Government's accelerated capital works programmes secured an improvement in the overall deficit over the first half of FY2013/14, despite the decline in revenue, attributed to the ongoing softness in domestic demand.

Membership Performance

As at end-December 2013, the Deposit Insurance Corporation (DIC) had twelve (12) members, unchanged from 2012, with the bulk of the Bahamian Dollar business being transacted among the seven (7) domestic commercial banks.

Overall, the domestic banking sector remained resilient during the review year. Member banks' earnings, although declining below year-earlier levels, remained relatively strong, as a combination of widening interest rate spreads, hikes in non-interest income and lower provisioning expenses, offset higher operating outlays. Bank liquidity was sustained at above-average levels and, amid a deterioration in asset quality, banks maintained capital ratios in excess of their minimum requirements.

As the DIC is not authorized to supervise banks, it relies on the supervisory programmes and resources of the Central Bank to monitor the activities of member banks. The Central Bank has, in place a risk-based supervisory framework, which comprises onsite examinations and continuous offsite reviews, and its ladder of supervisory intervention serves to identify and address financial difficulties in banks, thereby limiting any potential losses and financial instability that could accompany a bank failure.

As part of its enhanced oversight framework, the Central Bank introduced and continues to maintain a comprehensive monitoring regime for financial conglomerates and banks' credit portfolios. Since 2009, the Central Bank has established a stress testing regime, with the objective of determining the impact of extreme, but plausible, shocks to various risk factors, such as credit quality, domestic interest rates and liquidity, on the capital adequacy ratios of the commercial banks. In 2013, three (3) annual stress testing exercises were conducted, which examined credit, interest rates and liquidity, and utilized both top-down and bottom-up approaches. Stress test results basically reveal that, given the strong level of banks' capital positions, there would have to be significant shocks for a prolonged period of time before capital levels across the system fall below the benchmark.

Asset Growth and Quality

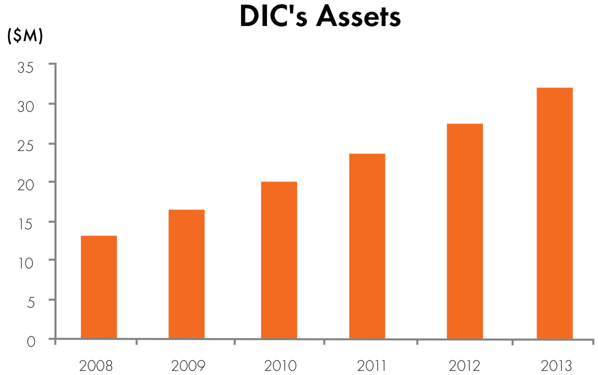
The banking industry reacted to the economic weakness and deteriorating asset quality indicators by tightening lending standards which, combined with the fall-off in private sector demand, led to a contraction in private sector credit.

In 2013, members' total Bahamian Dollar assets grew at a relatively mild 1.6% ($147.9 million) to $9.238 billion. Banks' liquidity management operations included a reduction in their non-interest bearing excess balances with the Central Bank, by 8.8% to $517.9 million and an increase in their holdings of public sector securities, by 14.3% to $1.423.3 billion. Total loans declined by 1.5% to $6.328.5 billion—with private residential mortgages constituting a stable 31.4%, and consumer and commercial loans, at 23.0% and 3.9%, respectively.

By sectoral distribution, personal loans, which accounted for the majority (72.9%) of total loans, was slightly lower by 0.3% to $5,191.3 million, while increased lending was registered for private financial institutions (64.9%), manufacturing (29.8%) and entertainment & catering (24.3%).

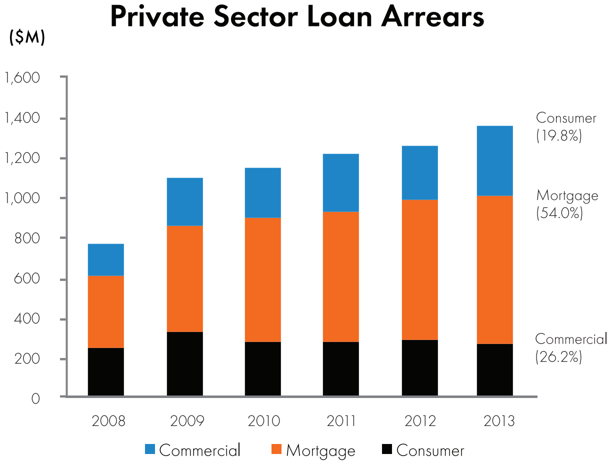
Against the backdrop of persistent weakness in business and employment conditions, which caused hardship for borrowers in meeting their financial obligations, loan arrears trended progressively higher, by $101.7 million (8.1%) to $1,352.2 million, and by 1.9 percentage points to 21.9% of total private sector loans at end-2013.

DIC's Assets



The deterioration was led by commercial credits, which firmed by $83.1 million (30.7%) to a 26.2% of total arrears. Similarly, mortgages, which comprised the bulk of arrears, at 54.0%, advanced by $31.4 million (4.5%). In contrast consumer loans arrears, at 19.8% of the aggregate arrears, declined by $12.9 million (4.6%).

Private Sector Loan Arrears



Delinquencies were concentrated in non-performing loans (NPLs), which firmed by $98.4 million (11.4%) to $966.0 million, nearly doubling the $51.5 million (6.3%) hike registered in 2012, and constituted a 1.8 percentage point rise to 15.7% of total private sector loans. Similarly, short term (31-90 day) arrears grew by $3.2 million (0.8%) to $386.2 million, a turnaround from the $9.1 million (2.3%) reduction in 2012, and accounted for a higher 6.3% of total private sector loans.

Deposit Base and Liquidity

Members' total Bahamian Dollar liabilities amounted to $9.24 billion—a modest rise of $79.7 million (0.9%) from 2012. Bahamian Dollar deposits, at $6.02 billion accounted for 65.1% of the total, with the largest share held by private individuals (52.7%), followed by business firms (30.6%), public sector (7.8%), private financial institutions (4.1%) and other depositors (4.8%). Fixed deposits accounted for 56% of the total, with demand and savings balances at 25.4% and 18.5%, respectively.

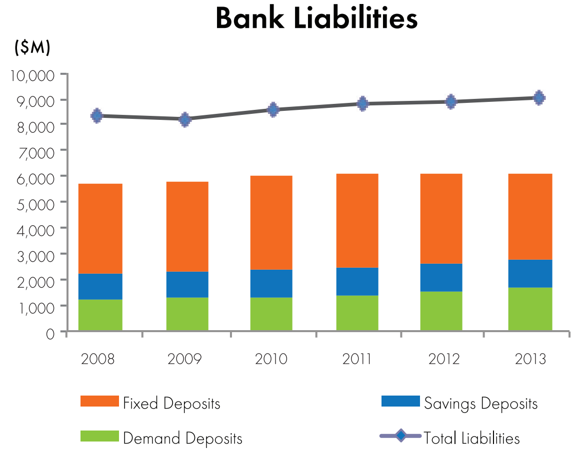
Given that the DIC insures deposits up to $50,000 for any single depositor, it is important to note that, at end-2013, 88.9% of Bahamian dollar deposits held balances of less than $10,000, which represented only 5.9% of the overall value. Deposits between $10,000 and $50,000 comprised 7.3% of the total and 10.7% of the value, respectively, while those in excess of $50,000 accounted for 3.8% of the aggregate number of accounts, but a dominant 83.3% of the total value.

Liquidity levels remained healthy throughout 2013, amid the slowed growth in credit expansion. Members' average monthly net free cash balances—the narrowest measure of liquidity—expanded by 5.3% to $380.3 million, the majority of which was held in non-interest bearing deposits at the Central Bank. At end-December 2013, net free cash reserves were 26.2% above the 2012 level, at $407.4 million, and were an elevated 6.8% of Bahamian dollar deposits. By year-end, the broader excess liquid assets—which include holdings of public sector securities—stood at $1.14 billion, a 17.6% gain over 2012.

Profitability and Capital Adequacy

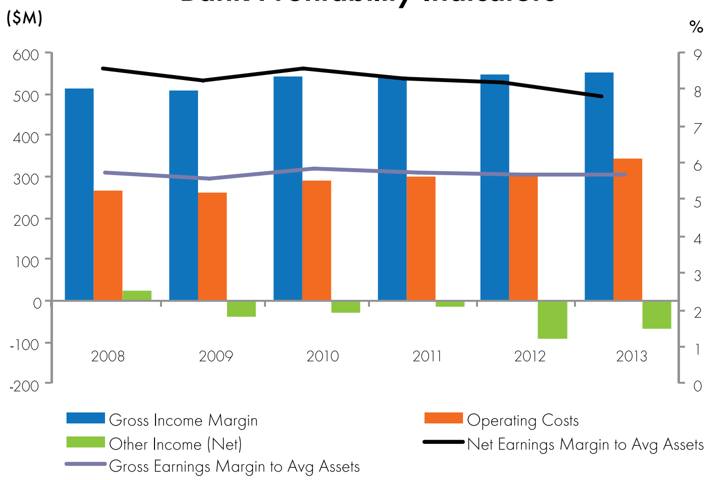
In 2013, members experienced a decline in their combined total net income, of $9.0 million (6.1%)

Bank Liabilities



to $139.0 million, although markedly improved from the year-earlier $77.1 million (34.3%) contraction. The more favourable outturn was linked predominantly to a reduction in provisions for loan losses, of $19.0 million (11.3%), reinforced by a hike in fee-based income of $9.7 million (11.0%), as bank lending contracted by 1.5%.

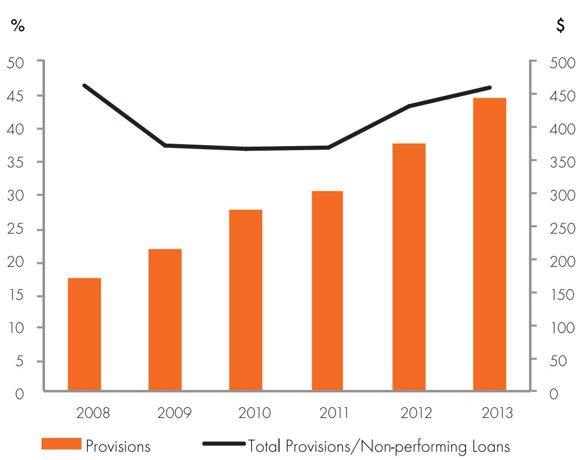
Bank Profitability Indicators



Banks' net interest income grew by $6.1 million (1.2%), as lower rates on deposits contributed to a $27.1 million (18.7%) drop in interest expense—to outpace the $21.0 million (3.1%) fall-off in interest income, linked to the anaemic growth in lending activity. Operating expenses, however, increased by $40.5 million (13.3%), primarily driven by the rise in license fees and staff costs, which included redundancy payments.

The efficiency ratio (operating expenses over net interest income and non-interest income) advanced to 55.0% from 49.8%, while the return on average assets decreased to 1.43% from 1.53% in 2012.

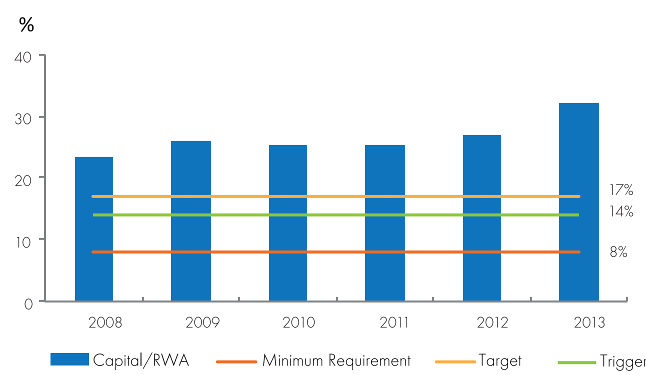
Total Provisions to NPLs



Faced with elevated loan arrears, members augmented their capital and provisioning levels, by 5.4% to $2.2 billion at end-2013, taking the ratio of capital to total risk weighted assets up by 2.9 percentage points to 32.0%. Bad debt provisions also increased by $70.0 million to $442.7 million, in line with the $72.3 million allocation for 2012. Consequently, the ratio of provisions to total loans rose by 1.2 percentage points at 7.0%, and the coverage level for both arrears and non-performing loans to provisions, firmed by 2.9 percentage points, to 32.7% and 45.8%, respectively. Banks also wrote-off $130.1 million in bad debts and had recoveries of $41.5 million.

At end-2013, all domestic banks exceeded their Basel I capital requirement of 8% of risk weighed capital, as well as the Central Bank's target and trigger ratios, of 17% and 14%, respectively. From 1st January, 2013, institutions were required to comply with Basel III minimum capital ratios, which call for, *inter alia*, institutions with cumulative preference shares to convert them into an approved form of regulatory capital. Consequently, during the year, banks redeemed an estimated $54.0 million of these securities and, instead, issued either common equity or another form of eligible collateral.

Commercial Bank's Capital/Risk Weighted Assets



2013 DIC Financial Highlights

The DIC earned a net income of $4.545 million in 2013, up $0.668 million or 17.2% from 2012. Of the $4.604 million in income, insurance premiums, at $2.785 million, accounted for 60.5%, although growing by a mere $0.026 million (0.96%). The increase in other income receipts, from $0.054 million to $0.479 million, derived from a fourth dividend payment of ten per cent (10%) on funds previously made to creditors of Gulf Union Bank (Bahamas) Ltd (subrogated claims). Interest income amounted to $1.339 million, a gain of $0.234 million (21.1%)—an outcome linked to growth in the investment base, as yields were lower.

Operating expenses totalled $0.058 million, for an increase of $0.042 million (41.6%). Higher costs were associated with an uplift in administration outlays, from $0.014 million to $0.032 million, reflecting the broadened activities carried out to ensure the adequacy of the Fund and improve public awareness of the DIC.

Of the $32.067 million in assets, a commanding $30.020 million (93.6%) is invested in Bahamas Government long-term bonds—in keeping with the statutory requirement that the Fund be invested in Government or quasi-Government instruments and short-term deposits. Current assets, comprising cash at banks, accrued interest receivable and other assets were a combined $2.104 million, down $0.955 million (31.2%) from 2012.

The DIC's ex ante funding pool, the Fund, which is a measure of its ability to cover intervention solutions, stood at $31.567 million at end-2013, up $4.545 million (16.8%) or 28 basis points of insured deposits to 1.79%. The insured deposits comprising accounts with values up to $0.050 million were $1.762 billion, down $30.902 million (1.7%) from $1.793 billion in 2012.

DEPOSIT INSURANCE CORPORATION

Financial Statements

December 31, 2013

MOORE STEPHENS BUTLER & TAYLOR

CHARTERED ACCOUNTANTS AND BUSINESS ADVISORS

Telephone: (242) 393-0224 Facsimile: (242) 393-7570
15 Retirement Road
Mailing Address: P.O. Box N-7777 Nassau, Bahamas

INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS OF

THE DEPOSIT INSURANCE CORPORATION

We have audited the accompanying financial statements of the Deposit Insurance Corporation ("the Corporation"), which include the statement of financial position as at December 31, 2013 and the statements of comprehensive income and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

This report is made solely to the Directors of the Corporation, as a body, in accordance with the terms of our engagement. Our audit work has been undertaken so that we might state to the Corporation's Directors those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Corporation and the Corporation's Directors as a body, for our audit work, for this report, or for the opinions we have formed.

Management's Responsibility for the Financial Statement

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 controls relevant to the preparation and fair presentation of 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 auditor's 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. 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, these financial statements present fairly, in all material respects, the financial position of the **Deposit Insurance Corporation** as at December 31, 2013, its financial performance and its cash flow for the year then ended in accordance with International Financial Reporting Standards.

Moore Stephens Butler & Taylor

NASSAU, BAHAMAS **MOORE STEPHENS BUTLER & TAYLOR**

June 24, 2014 Chartered Accountants

Statement of Comprehensive Income

(stated in B$, unless otherwise indicated)

	Note	2013	2012
INCOME			
Premiums	8	$ 2,785,002	$ 2,758,525
Interest income		1,339,351	1,105,963
Other income	10	479,321	54,220
		4,603,674	3,918,708
EXPENDITURE			
Administration	11	32,075	14,314
Membership fee		12,452	12,795
Board honorarium		5,400	-
Audit fees		5,200	5,200
Training expenses		3,722	9,247
		58,849	41,556
COMPREHENSIVE INCOME FOR THE YEAR		**$ 4,544,825**	**$ 3,877,152**

The notes on pages 25 to 30 form an integral part of these financial statements.

DEPOSIT INSURANCE CORPORATION

Financial statements for the year ended December 31, 2013

Statement of Financial Position

(stated in B$, unless otherwise indicated)

	Note	2013	2012
BAHAMAS GOVERNMENT REGISTERED STOCKS	5	$ 30,020,800	$ 24,520,800
Current assets			
Cash at bank		1,641,755	2,658,031
Accrued interest receivable		459,443	394,002
Other assets		3,090	7,430
		2,104,288	3,059,463
Current liabilities			
Unpaid claims		52,644	52,644
Accounts payable and accrued expenses		5,200	5,200
		57,844	57,844
Net current assets		2,046,444	3,001,619
		$ 32,067,244	$ 27,522,419
Equity			
Capital	6	500,000	500,000
Deposit Insurance Fund	7	31,567,244	27,022,419
		$ 32,067,244	$ 27,522,419

These statements were approved by the Board of Management and authorised for issue on April 28, 2014, and are signed on its behalf by:

Chairman

Board Member

The notes on pages 25 to 30 form an integral part of these financial statements.

Statement of Cash Flows

(stated in B$, unless otherwise indicated)

	2013	2012
Cash flows from (used by) operating activities		
Net comprehensive income for the year	$ 4,544,825	$ 3,877,152
Adjustments for:		
Interest income	(1,339,351)	(1,105,963)
Operating profit before working capital changes	3,205,474	2,771,189
Increase in accrued interest receivable	(65,441)	(79,196)
Decrease (increase) in other assets	4,340	(4,175)
Increase in accounts payable and accrued expenses	-	(6,338)
Interest received	1,339,351	1,105,963
Net cash from operating activities	4,483,724	3,787,443
Cash flows from (used by) investing activities		
Purchase of Bahamas Government Registered Stocks	(5,500,000)	(3,667,300)
Net cash used by investing activities	(5,500,000)	(3,667,300)
Net (Decrease) increase in cash and cash equivalents	(1,016,276)	120,143
Cash and cash equivalents at beginning of the year	2,658,031	2,537,888
Cash and cash equivalents at end of the year	$ 1,641,755	$ 2,658,031

The notes on pages 25 to 30 form an integral part of these financial statements.

Notes to the Financial Statements

(stated in B$, unless otherwise indicated)

1. INCORPORATION AND ACTIVITIES

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, 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 of a member institution 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 Central 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, Frederick Street, Nassau, 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.

2. BASIS OF PREPARATION

These financial statements are prepared on a going concern basis, in accordance with International Financial Reporting Standards (IFRS) and IFRIC Interpretations. The financial statements have 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.

Notes to the Financial Statements

(stated in B$, unless otherwise indicated)

3. ACCOUNTING POLICIES

Bahamas Government Registered Stocks

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

Revenue recognition

Revenues are recognised under the accrual concept.

4. NEW AND AMENDED STANDARDS

The Corporation has adopted the following new and amended IFRS and IFRIC (International Financial Reporting Interpretations Committee) interpretations, as of January 1, 2013:

IAS I Presentation of Items of Other Comprehensive Income

The amendment clarifies that the analysis of items of Other Comprehensive Income may be shown in either the (primary) statement of changes in equity, or in the notes to the financial statements.

There have been no items requiring such analysis or presentation; consequently, the adoption of the standard has no impact on the presentation of the Corporation's financial statements.

IFRS 9 Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition. Currently the financial assets of the Corporation are accrued interest receivable and Bahamas Government Registered Stocks, which have been properly measured and classified in accordance with the standard.

IFRS 13 Fair Value Measurement

IFRS 13 sets out the principles to be applied when measuring fair value and related fair value disclosures. The adoption of the standard does not impact the fair value measurements but only the disclosures which can be found in note 13.

(stated in B$, unless otherwise indicated)

5. BAHAMAS GOVERNMENT REGISTERED STOCKS

The Bahamas Government Registered Stocks consist of:

Purchase date	Interest Rate	Maturity date	2013 Fair value $	2012 Fair value $
28/08/01	5.25%	25/10/20	**1,000,000**	1,000,000
25/03/02	5.22%	12/12/18	**147,000**	147,000
19/06/02	5.09%	06/09/20	**350,000**	350,000
02/12/04	5.22%	21/07/19	**400,000**	400,000
06/04/05	5.03%	29/07/23	**900,000**	900,000
14/11/05	5.03%	22/10/23	**950,000**	950,000
18/01/06	5.06%	18/01/26	**1,050,000**	1,050,000
28/09/06	5.00%	07/09/24	**1,650,000**	1,650,000
04/07/07	5.00%	07/09/24	**900,000**	900,000
25/05/07	5.03%	22/09/25	**1,400,000**	1,400,000
22/01/08	5.03%	22/09/25	**1,250,000**	1,250,000
22/07/08	5.00%	18/01/24	**1,450,000**	1,450,000
06/02/09	4.84%	28/11/20	**1,499,000**	1,499,000
24/07/09	4.78%	28/11/18	**1,550,000**	1,550,000
02/02/10	4.89%	27/08/29	**1,750,000**	1,750,000
26/07/10	4.90%	26/07/34	**1,528,500**	1,528,500
26/07/10	4.93%	26/07/37	**121,500**	121,500
15/02/11	4.83%	26/07/28	**1,900,000**	1,900,000
10/11/11	4.84%	10/11/28	**1,057,500**	1,057,500
07/16/12	4.30%	07/16/29	**1,100,000**	1,100,000
07/16/12	4.33%	07/16/30	**1,150,000**	1,150,000
07/16/12	4.35%	07/16/31	**1,150,000**	1,150,000
09/25/12	4.80%	09/25/30	**117,300**	117,300
09/25/12	4.81%	09/25/32	**150,000**	150,000
04/17/13	4.81%	04/17/33	**1,500,000**	-
04/17/13	4.81%	04/17/32	**1,500,000**	-
07/26/13	4.81%	07/26/33	**700,000**	-
07/26/13	4.82%	07/26/34	**1,000,000**	-
10/23/13	4.80%	04/17/31	**800,000**	-
			$ 30,020,800	$ 24,520,800

Notes to the Financial Statements

(stated in B$, unless otherwise indicated)

6. CAPITAL

A compulsory initial contribution of $1,000,000 was to be paid into the Corporation, within ninety days of the enforcement of the Act, of which $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.

The Protection of Depositors Act, 1999 (the Act) does not provide for member institutions to participate as shareholders of the Corporation and these institutions do not hold any equity position in the Corporation. The compulsory initial contribution of $500,000 levied on member institutions in 1999, and paid to the Deposit Insurance Fund, was a special assessment, made under Section 5 (8) of the Act, and therefore is not included as 'contributed surplus' and part of the capital corpus of the Corporation.

In accordance with the Act, the authorised capital of the Corporation is $1,000,000. As at December 31, 2013, paid-up capital was $500,000 (2012: $500,000).

7. DEPOSIT INSURANCE FUND

Balance at January 1, 2013	$	27,022,419
Transfer of Comprehensive income of the Deposit Insurance Corporation for the year		4,544,825
Balance at December 31, 2013	**$**	**31,567,244**

8. PREMIUMS

The premiums due in the year an institution becomes a member of the Corporation is equal to one-twentieth of one percentage 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. Thereafter, the annual premium is equal to one-twentieth of one percentage of an amount equal to the average of the sum of those deposits insured by the Corporation, as of March 31 and September 30, 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.

Notes to the Financial Statements

(stated in B$, unless otherwise indicated)

10. OTHER INCOME

During the year, the Corporation received a further liquidating dividend being the fourth from the liquidators of the Gulf Union Bank, representing a recovery to date of $2,643,775 or $0.40 cents on the dollar of the distributions which were previously paid out by the Central Bank of The Bahamas in respect of the closure of that institution in 1997.

11. ADMINISTRATION

Administration includes the fee $6,302 (2012: $6,302) paid to the Central Bank in respect of administrative services rendered and costs associated with the website development, public awareness initiatives, the production of the financial statements, and consultancies to determine the optimum size of the Fund.

12. MATURITIES OF FINANCIAL ASSETS AND LIABILITIES

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

13. INTEREST RATE RISK

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

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

All of the Corporation's financial instruments consisting of cash, accrued interest receivable and Bahamas Government Registered Stocks are considered to have fair values equivalent to their carrying values.

Notes to the Financial Statements

(stated in B$, unless otherwise indicated)

15. 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 Stocks. These stocks are secured by the Government of The Bahamas and therefore the risk is minimal.

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.