



2014

ANNUAL REPORT

& STATEMENT OF ACCOUNTS

For the Year Ended December 31, 2014



March 31, 2015

The Rt. Hon. Perry G. Christie
Prime Minister and Minister of Finance
Office of The Prime Minister
Cecil Wallace-Whitfield Centre
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 of forwarding to you, on behalf of the Board of Management, the Annual Report of the Deposit Insurance Corporation. Included with this Report is the Annual Statement of Accounts of the Corporation, duly certified by its Auditors, for the financial year ended December 31, 2014.

Respectfully yours,

A handwritten signature in black ink, appearing to read "Wendy Craigg".

Wendy M. Craigg (Mrs.)
Chairman

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A MESSAGE FROM THE CHAIRMAN

It gives me great pleasure to present the 2014 Annual Report of the Bahamas' Deposit Insurance Corporation (DIC).

During 2014, DIC members' operations took place within an environment of mild, although improving, domestic economic growth which provided limited scope for employment gains and a reduction in consumer indebtedness. Among the key banking performance indicators, credit quality remained a drag on private sector credit, which has not resumed growth since the beginning of the recent financial crisis, despite the record levels of bank liquidity. Higher loan loss provisions by several institutions shifted the sectors' earnings position to a substantial net loss, with responses to these ongoing challenges including a combination of cost reducing measures and amendments to fees. Nevertheless, members' collective capital adequacy levels stayed strong, exceeding, on average, the minimum prudential requirements.

Given the relatively flatness of members' deposit base, the Deposit Insurance Fund (the Fund) grew by a stable 13.6%, to \$35.9 million at end-2014, with the premium assessment rate unchanged at 0.10 per cent of insurable deposits.

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

The operational work of the DIC continued to be guided by the three goals articulated in its Strategic Plan 2013 - 2016, and which are aligned with international standards and best practices established for deposit insurance schemes. In 2014, the work programme focused predominantly, on the public awareness goal. The DIC's management readied a survey to gauge, on an annual basis, the public's awareness of the Fund as a safety net mechanism for Bahamian Dollar deposits. Both the survey's results and more broadly targeted media initiatives are slated for release in early 2015.

Strategic priorities for 2015 will progress initiatives to strengthen the DIC's operational readiness and promote compliance with international principles for effective deposit insurance schemes. Key activities will include finalization of proposed regulatory and legislative reforms aimed at strengthening the adequacy of the Fund and the crisis management framework, and broadening insurance coverage to credit unions.

The achievements of the DIC owe much to the support of the Board of Management and the dedicated professionals of the Central Bank. I take this opportunity to recognize the contributions of the former Board Members of the DIC, Mrs. Cassandra Nottage and Mr. Barry Turnquest, and welcome the new Board Members, Mesdames Karen Rolle and Rochelle Deleveaux. I would also like to extend my sincere gratitude and appreciation to all staff involved with the DIC's administrative matters, for their commitment to carrying out the core objectives and activities of the DIC.



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

BOARD OF MANAGEMENT

December 31, 2014



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



Mr. John Rolle
Financial Secretary
Ministry of Finance



Mr. Aluchifer Rolle
Agency Manager,
BAF Financial



Mr. Lorne Basden
President,
Basden Elevator Services
Limited



Ms. Karen Rolle
Manager, Bank Supervision
Department



Ms. Rochelle Deleveaux
Legal Counsel &
Secretary to the Board
Central Bank of The Bahamas



Safeguarding Your Funds

Our Mission

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

Our Vision

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

Our Values

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.

DIC Facts

The Bahamas' Deposit Insurance Corporation (DIC) was established on September 30, 1999, by the Protection of Depositors Act, for the purpose of administering the DIC and managing the Deposit Insurance Fund.

- Only banks licensed by the Central Bank that have Bahamian Dollar deposits are members of the DIC, and this membership is compulsory.
- The Central Bank is responsible for the daily operations of the DIC, and provides staff and administrative services to the DIC.
- Deposit accounts covered by the DIC include: Bahamian dollar deposits in chequing, savings, fixed and demand accounts held in member institutions.
- Each eligible deposit in a member institution, inclusive of principal and interest, is insured up to a maximum of B\$50,000 per depositor.
- Deposit accounts in foreign currencies are not insured by the DIC.
- Deposits held at different member institutions are insured separately.
- Opening several accounts at different branches of the same bank or at the same branch will not increase a depositor's insurance payout.
- A depositor's place of residence or nationality does not affect the insurance protection.
- Deposit accounts held in different ownership categories are covered separately, each up to the B\$50,000 limit. The account ownership categories are: individual (single owner), joint, company and trust or client asset accounts.
- A deposit insurance payout will be made where the Central Bank has determined that a DIC member institution is either insolvent or likely to become unable to meet its obligations.

DIC MEMBER INSTITUTIONS

Commercial Banks	Year of Establishment	No. of Branches	2013	2014
			Total B\$ Deposits (000)	Total B\$ Deposits (000)
Citibank N.A.	17-Jan-1966	1	70,313	93,243
Finance Corporation of Bahamas Ltd.	23-May-1966	5	736,030	736,098
Commonwealth Bank Ltd.	10-Oct-1966	11	1,089,490	1,118,773
Bank of The Bahamas International Ltd.	28-Jul-1970	12	693,099	644,370
Fidelity Bank (Bahamas) Ltd.	11-Jul-1978	6	340,624	360,728
FirstCaribbean International Bank (Bahamas) Ltd.	7-Dec-1995 ¹	11	1,141,960	1,146,630
Scotiabank (Bahamas) Ltd.	26-Mar-1998 ²	20	777,789	798,090
RBC Royal Bank (Bahamas) Ltd.	26-Oct-2010 ³	20	1,178,260	1,283,330
Other Deposit-Taking Institutions				
Ansbacher (Bahamas) Ltd.	17-Jan-1966	1	2,411	2,799
The Bank of Nova Scotia Trust Company (Bahamas) Ltd.	1-Apr-1966	1	184	206
Royal Bank of Canada Trust Company (Bahamas) Ltd.	1-Apr-1966	1	4,346	5,204
Royal Fidelity Merchant Bank & Trust Ltd.	15-Sep-1998	1	44,820	45,713

DIC FINANCIAL HIGHLIGHTS

	2010	2011	2012 (B\$000)	2013	2014
Members' Premiums	2,612	2,697	2,759	2,785	2,773
Interest & Other Income	965	1,041	1,160	1,819	1,595
Total Revenue	3,577	3,738	3,919	4,604	4,368
Operating Expenses	6	6	14	32	31
Comprehensive Income	3,551	3,704	3,877	4,545	4,298
Deposit Insurance Fund	19,441	23,145	27,022	31,567	35,865
Investment Securities	17,896	20,854	24,521	30,021	35,071
Total Assets	19,941	23,645	27,522	32,067	36,365
Return on Assets (%)	18%	16%	14%	14%	12%
Member Institutions (#)	13	13	12	12	12

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

³ 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.

OPERATIONS

The DIC is charged with the responsibility of collecting premium contributions from member institutions twice annually, on 15th June and 15th December. Pursuant to Section 5(2) of the Act, premiums are levied at a rate of one-twentieth of one percent of the average sum of Bahamian Dollar deposits insured by the DIC with member institutions, as at 31st March and 30th September in the previous year. These premiums, together with investment returns, constitute the Fund, which has been established to cover potential claims in the event that a member fails.

Corporate Governance

The DIC is a body corporate, mandated under the Protection of Depositors Act, 1999 (the Act) to manage the Fund. Its role is to minimize or eliminate 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.

Section 8 of the Act provides for the establishment of a Board of Management (the Board) which is responsible for the policy direction of the DIC, including its strategic activities and ensuring the adequacy of the Fund. Upon appointment to the DIC, 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. For 2014, these expenses totalled \$3,300.

By statute, the Board comprises the Governor of the Central Bank (Chairman), the Manager of Bank Supervision, another Manager of the Central Bank, the Financial Secretary, of the Ministry of Finance, and two (2) persons having knowledge and experience in banking, commerce, finance, accounting, insurance or law. Four (4) Directors form a quorum.

The DIC extends its gratitude to former Directors, Mrs. Cassandra Nottage and Mr. Barry Turnquest, whose tenure ended in March 2014 and August 2014, respectively, for their contribution to its work. The DIC also welcomes two (2) new Directors, Ms. Karen Rolle and Ms. Rochelle Deleveaux, who were appointed with effect from 1st July, 2014. As at 31st December 2014, members of the Board were:

Mrs. Wendy Craigg

Chairman of the Board and Governor
Central Bank of The Bahamas

Mr. John Rolle

Financial Secretary
Ministry of Finance

Mr. Lorne Basden

President
Basden Elevator Services Limited

Mr. Aluchifer Rolle

Agency Manager
BAF Financial

Ms. Karen Rolle

Manager, Bank Supervision Department
Central Bank of The Bahamas

Ms. Rochelle Deleveaux

Legal Counsel & Secretary to the Board
Central Bank of The Bahamas

The Act provides for the Board to determine the frequency of its meetings. At the two (2) meetings held during 2014, the Board considered updates on the Central Bank's surveillance activities over member institutions and the status of various strategic initiatives.

In keeping with its statutory obligations, the DIC submitted, to the Minister of Finance, a report of its activities and financial outcomes for 2013, which was tabled before Parliament.

Strategic Goals and Activities

The Board approved Strategic Plan (2013-2016) sets out the goals, objectives and strategies, that continued to guide the activities of the DIC for 2014 (Box 1). The main areas remain on target for completion within the agreed timelines.

During 2014, activities were concentrated on implementing the mechanisms for enhancing and measuring public awareness of the DIC and its activities, with the objective of building confidence in the banking sector, through an informed stakeholder community. An awareness survey was prepared for launch in early 2015,

and annually thereafter, alongside media informercials, which seek to reinforce the messaging of the Fund as a safety net for Bahamian dollar deposits. In a major deliverable, the DIC produced its inaugural annual report, which was made available to the public via the DIC's website.

For 2015, strategic activities will focus on further advancing initiatives such as establishing an appropriate insurance scheme for credit unions, which are slated to come under the Central Bank's supervisory and regulatory authority, in 2015. Work will also continue on pursuing the recommended amendments to the legislative framework

Box 1. STRATEGIC PLAN, 2013-2016

GOALS	OBJECTIVES	STATUS
Public Confidence in the Financial Sector	<ul style="list-style-type: none"> ▪ Build an informed stakeholder community. ▪ Gauge effectiveness of public relations campaign. ▪ Extend deposit insurance to credit unions. 	<ul style="list-style-type: none"> ▪ Media initiatives being launched to continuously gauge and broaden public awareness of DIC. ▪ Work to be progressed, on to the 2013 assessment on appropriate levels of insurance coverage for credit unions in a two-tier deposit insurance fund framework.
Operational Readiness	<ul style="list-style-type: none"> ▪ Establish target size for Deposit Insurance Fund. ▪ Arrange contingency funding mechanism. ▪ Test adequacy of payout arrangements. ▪ Develop competent and knowledgeable resources. ▪ Document administrative and corporate governance arrangements. ▪ Prompt identification and response for payouts. ▪ Implement a strategic plan. 	<ul style="list-style-type: none"> ▪ Legislative proposals, formulated in 2013 to enhance the adequacy of the Fund, are being reviewed in the context of the overall financial sector crisis management plan. ▪ Central Bank staff involved in DIC activities, are being exposed to global developments in bank resolution and crisis management. ▪ Corporate governance arrangements well documented, and strategic planning implemented, with the first three year strategic plan covering 2013-2016.
Regulatory Efficiency	<ul style="list-style-type: none"> ▪ Ensure compliance with International Association of Deposit Insurers (IADI) Core Principles and other best practices. 	<ul style="list-style-type: none"> ▪ Implemented process for continuous assessment against international standards for deposit insurance schemes.

for ensuring the adequacy of the Fund, and the established exercise to confirm ongoing compliance with international best practices. In the area of crisis preparedness, apart from conducting its annual crisis simulation exercises, the DIC will work closely with other regulatory stakeholders in ongoing work, to establish a comprehensive and efficient crisis management plan for the financial sector.

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 enhancing 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 in the field of deposit insurance, as well as gain access to technical assistance.

In 2014, a member of the Central Bank's management team participated in a joint Financial Stability Institute-IADI training initiative on bank resolution, crisis management and deposit insurance issues.

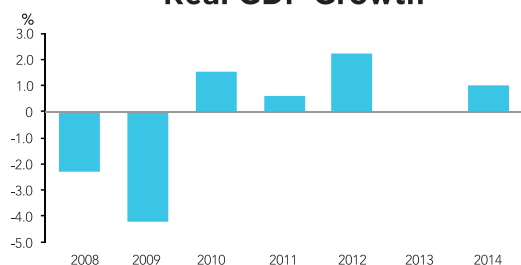
MANAGEMENT DISCUSSION AND ANALYSIS

Overview of Domestic Macroeconomic Environment

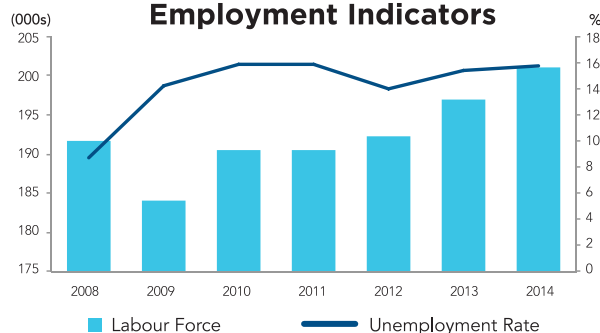
During 2014, the performance of the domestic economy continued to influence the strategic policies and practices of member institutions, with the ultimate impact on their financial outcomes.

Domestic conditions exhibited some strengthening in economic growth, although pace continued to be relatively mild and below the pre-crisis period. Tourism output, which constitutes approximately 40% of GDP, registered notable gains, as high value-added stopover arrivals were boosted by the recovery in key source markets, sustained industry marketing efforts and increased airlift and hotel room capacity. Outcomes were also favoured by stable foreign investment-led construction activity; however, given the narrowness of the recovery, job prospects remained constrained. The unemployment rate firmed to 15.7% in November, 2014 from 15.4% a year earlier.

Real GDP Growth

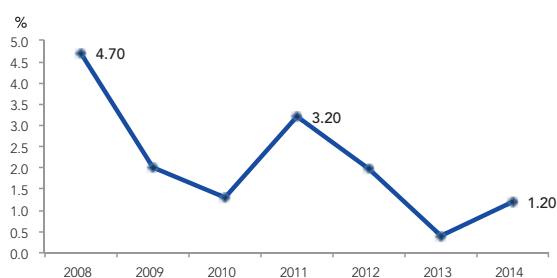


Employment Indicators



Price developments revealed a firming bias, despite the positive impact of the pass-through effects of lower international oil prices on domestic energy costs. Consumer price inflation, as measured by changes in the Retail Price Index, advanced to 1.2% from 0.4% in 2013, attributed to higher costs for transportation, food & non-alcoholic beverages and miscellaneous goods & services. Further price hikes are anticipated in the wake of the implementation of the 7.5% Value Added Tax (VAT) on 1st January, 2015.

Inflation



In the context of subdued private sector demand, the monetary sector was characterized by a sustained build-up in banks' excess liquidity levels. With continuing challenges in labour market conditions, softness in domestic demand, and a one-off transaction, private sector credit registered another year of decline. High levels of loan losses weakened the domestic banking sectors' overall operating outcome, although capital adequacy remained strong. Interest rate trends showed further easing in deposit rates, while the average loan rate trended upwards.

Revenue growth, combined with broad based declines in spending, yielded an improvement in the overall fiscal deficit for FY2013/14, by one-third, to \$361.8 million. On the external account, the overall balance, as measured by changes in foreign reserves, moved higher by \$46.1 million (6.2%) to \$787.7 million—the equivalent of some 11.6 weeks of total import cover.

Membership Performance

At end-2014, the number of member institutions of the DIC was unchanged, at twelve (12)—inclusive of eight (8) commercial banks and four (4) other deposit-taking institutions. The majority of Bahamian dollar business was concentrated in the commercial banks.

Plagued by the persistence of high loan arrears, the consequential loan loss impairment expenses, caused a shift in the performance of the domestic banking sector to an overall net loss. From a safety and soundness perspective, however, capital adequacy ratios were kept well above the supervisory minimum requirements, inclusive of the Government's intervention to strengthen the capital position of a member institution. Specifically, in October 2014, the Ministry of Finance created Bahamas Resolve Ltd. (Resolve), a wholly-owned Government corporation, whose sole purpose was the assumption of the liability of \$100.0 million, or one-third of the non-accrual commercial loan portfolio of Bank of The Bahamas International Limited (BOB). In exchange, Resolve issued a \$100 million promissory note to the BOB, which had the net effect of reversing some \$49.0 million in loan loss provisioning previously booked and facilitated the restoration of capital and liquidity to compliant levels.

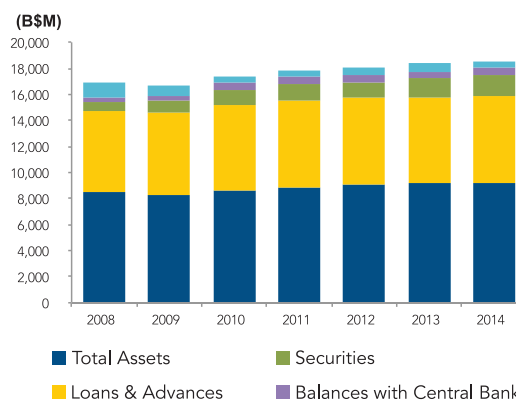
As statutorily arranged, the DIC relies on the Central Bank's framework for supervisory and regulatory oversight of the banking system. The key features of this regime include a combination of a risk-based approach to onsite examinations, continuous off-site surveillance, stress testing of banks' credit and liquidity risk factors and quarterly meetings to discuss credit and other prudential risk issues. The Central Bank's ladder of supervisory intervention also seeks to identify and address difficulties in banks, at an early stage, in a bid to limit potential losses and risks to financial stability.

Asset Growth and Quality

Growth in members' balance sheets continued to be dampened by the weakness in private sector demand. In 2014, their total Bahamian dollar assets rose by a modest 0.7% (\$68.0 million) to \$9.2 billion. In terms of liquidity

management, banks' non-interest bearing excess balances with the Central Bank expanded by 18.1% (\$93.1 million) to \$606.7 million, and holdings of public sector securities were higher by 0.5% at \$1.4 billion. Total Bahamian dollar loans grew by 1.2% to \$6.4 billion, the bulk of which were in private residential mortgages (44.9%), followed by consumer (35.5%) and commercial loans (13.7%), respectively. In a continuation of the trend observed since the beginning of the financial crisis, private sector lending contracted by 1.4% in 2014 to \$6.0 billion—some 78.1% of the total. By contrast, loans to the Government more than doubled, to \$352.1 million, to represent 5.5% of the total, while credit to the rest of the public sector declined by 50.5% to \$27.7 million, for a more modest 0.4% share.

Banks' Total Assets

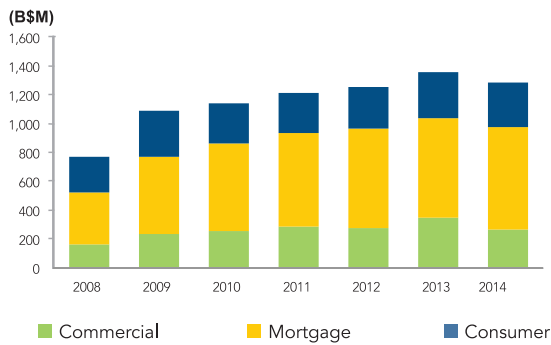


Disaggregated by sector, personal loans, at a dominant 75.7% of the total, edged up by 0.3% to \$5.3 billion, although strong growth was recorded for transport (26.3%) and fisheries (17.3%) loans. However, lending decreased for professional & other services (30.5%), manufacturing (28.9%) and tourism (25.0%).

Outcomes for both credit quality and related indicators were materially influenced by the Resolve transaction—occasioning a \$64.9 million (4.8%) decline in total arrears, to \$1.3 billion, and by 56 basis points to 21.4% of total loans at end-2014.

The reduction in loan arrears was most pronounced in commercial delinquencies, which fell by \$80.0 million (23.3%) to account for 20.5% total arrears. Similarly, consumer arrears, at 24.2% of the total, decreased by

Private Sector Loan Arrears

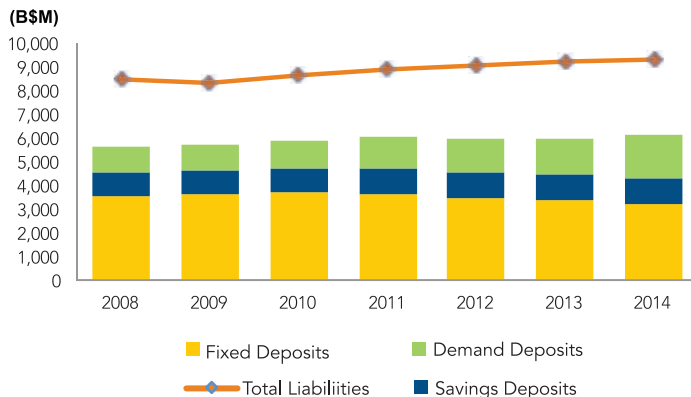


\$5.6 million (1.8%), to contrast with a \$20.7 million (3.0%) expansion in the dominant mortgage component (55% of the total). The contraction in loan delinquencies was solely attributed to the short-term (31-90 day) category, which narrowed by \$71.0 million (18.4%) to \$315.2 million—to account for a reduced 5.2% of total private sector loans. Conversely, non-performing loans (NPLs) grew by \$6.1 million (0.6%) to \$972.1 million, although moderating sharply from 2013's \$98.4 million (11.4%) expansion, and representing a 47 basis points boost to 16.1% of total private sector loans.

Deposit Base and Liquidity

During 2014, members' total Bahamian dollar liabilities amounted to \$9.3 billion, up \$82.8 million (0.9%) from 2013. Bahamian dollar deposits, at \$6.3 billion, comprised 67.5% of the total, with the predominant share held by private individuals (51.7%), followed by business firms (30.0%), the public sector (8.6%), private financial institutions (5.5%) and other depositors (4.2%). Approximately 67.3% of these were held in fixed balances, with the proportions for

Bank Liabilities



demand and savings deposits lower at 24.8% and 7.9%, respectively.

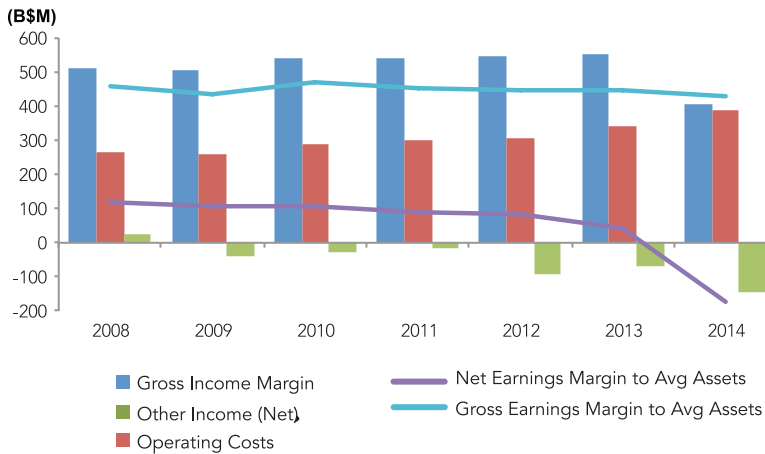
The DIC insures deposits up to a maximum of \$50,000 for any single depositor and, at end-2014, approximately 88.5% of Bahamian dollar deposits held balances below \$10,000, although these constituted a mere 5.9% of the aggregate value. Deposits between \$10,000 and \$50,000 represented 7.6% of the total number of accounts and 10.6% of the value, while those in excess of \$50,000 comprised a mere 3.9% of the total number, but a dominant 83.5% of the value.

Bank liquidity levels remained buoyant throughout 2014, reflecting the mild growth in loans. Members' average monthly net free cash balances—the narrowest measure of liquidity—advanced by 31.6% to \$500.6 million. By end-2014, net free cash reserves stood 19.8% higher at \$488.0 million—for an elevated 7.8% of Bahamian dollar deposits. The broader excess liquid assets—inclusive of holdings of public sector securities, registered a 1.7% annual gain to \$1.2 billion.

Profitability and Capital Adequacy

In 2014, heightened provisioning requirements against the elevated levels of loan arrears exerted downward pressure on the overall performance of banks. Although, not broadly based, members recorded a collective net loss of \$114.1 million, which equated to 1.2% of average assets and contrasted with a \$139.0 million net profit in 2013. Banks' net interest income fell further, by \$8.8 million (1.7%), as the \$28.3 million (4.1%) decline in interest income outpaced the \$19.5 million (16.6%) reduction in interest expense. Despite both staff and occupancy costs contracting, by a combined 6.0% to \$199.4 million, one member's impairment charge on goodwill boosted total operating costs by \$134.1 million (38.9%) to \$478.7 million. As a consequence, the net earnings margin was slashed by more than one-third, to \$63.3 million or 0.65% of average assets. Dominated by the nearly 80% surge in provisions for bad debt, to \$266.6 million, which was concentrated in two (2) institutions, the loss on the other income component increased more than

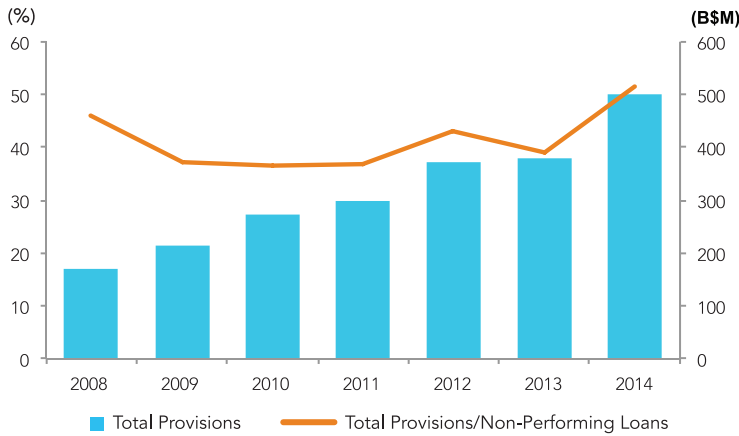
Bank Profitability Indicators



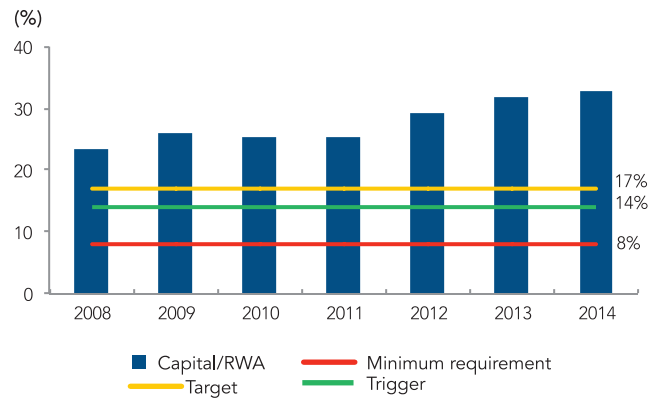
twofold, to \$177.4 million. At end-2014, members' provisions represented some 7.9% of total private sector loans and 38.9% of total arrears.

Members reported a combined total eligible capital base of \$2.2 billion against risk weighted assets of \$7.2 billion. The resultant ratio, of 30.9%, was well above the established trigger (14%) and target (17%) for commercial banks. Credit stress test results continue to show that the banking system, on aggregate, remains well-capitalized.

Total Provisions to NPLs



Commercial Banks' Capital/ Risk Weighted Assets



2014 FINANCIAL HIGHLIGHTS AND ANALYSIS

The DIC realized comprehensive income of \$4.3 million in 2014, down \$0.247 million (5.43%) from 2013. This outcome was primarily influenced by the absence, in the 2014 position, of other income derived from liquidation dividend payments, compared with the \$0.479 million received in 2013.

Total revenue, at \$4.4 million, comprised relatively stable insurance premiums of \$2.8 million, alongside growth in interest income of \$0.3 million to \$1.6 million. Outlays of the DIC increased by 18.9% to \$0.07 million, of which some 44% was absorbed by administrative fees paid to the Central Bank.

At end-2014, the Fund totalled \$35.9 million, for a gain of \$4.3 million (13.6%). Based on the maximum B\$50,000 insurance coverage

per depositor, an estimated 96 percent of deposit accounts in member institutions are covered by deposit insurance. Consistent with the mild recovery momentum, insured deposits were up by a modest \$3.0 million (0.17%) to \$1.8 billion.

Guided by the provision set out in the Act, the Fund's assets are invested in Bahamas Government long-term bonds, which increased by \$5.050 million (16.8%) to \$35.1 million, for a leading 96.4% of total assets (93.6%: 2013). The average interest rate on these investments was 4.7% for 2014 (4.9%: 2013). Of the remaining \$1.3 million in assets, cash at bank and accrued interest receivable from long-term bonds accounted for \$0.829 million and \$0.520 million, respectively.



DEPOSIT INSURANCE CORPORATION

Financial Statements
December 31, 2014

MOORE STEPHENS BUTLER & TAYLOR

CHARTERED ACCOUNTANTS AND BUSINESS ADVISORS

15 Retirement Road

Mailing Address: P.O. Box N-7777 Nassau, Bahamas

Telephone: (242) 393-0224 Facsimile: (242) 393-7570

INDEPENDENT AUDITORS' REPORT TO THE BOARD OF MANAGEMENT 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, 2014 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 Board of Management 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 Board of Management 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 Board of Management 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.

MOORE STEPHENS BUTLER & TAYLOR

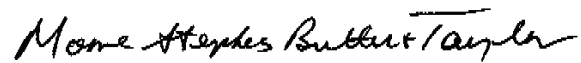
CHARTERED ACCOUNTANTS AND BUSINESS ADVISORS

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, 2014, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

NASSAU, BAHAMAS

February 9, 2015



MOORE STEPHENS BUTLER & TAYLOR

Chartered Accountants

DEPOSIT INSURANCE CORPORATION

Financial statements for the year ended December 31, 2014

Statement of comprehensive income

(Expressed in Bahamian Dollars)

	Note	2014	2013
INCOME			
Premiums	8	\$ 2,773,110	\$ 2,785,002
Interest income		1,594,798	1,339,351
Other income	10	-	479,321
		<u>4,367,908</u>	<u>4,603,674</u>
EXPENDITURE			
Administration	11	30,800	32,075
Membership fee		12,848	12,452
Int'l Association of Deposit Insurers Conference	12	11,852	-
Audit fees		5,200	5,200
Printing		5,182	-
Board honorarium		3,300	5,400
Website development		782	-
Training expenses		-	3,722
		<u>69,964</u>	<u>58,849</u>
COMPREHENSIVE INCOME FOR THE YEAR		<u>\$ 4,297,944</u>	<u>\$ 4,544,825</u>

The notes on pages 22 to 27 form an integral part of these financial statements.

DEPOSIT INSURANCE CORPORATION

Financial statements for the year ended December 31, 2014

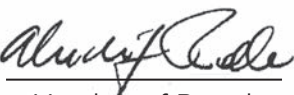
Statement of financial position

(Expressed in Bahamian Dollars)

	Note	2014	2013
BAHAMAS GOVERNMENT REGISTERED STOCKS	5	\$ 35,070,800	\$ 30,020,800
Current assets			
Cash at bank		828,903	1,641,755
Accrued interest receivable		519,503	459,443
Premium receivable		574	-
Other assets		3,252	3,090
		<u>1,352,232</u>	<u>2,104,288</u>
Current liabilities			
Unpaid claims		52,644	52,644
Accounts payable and accrued expenses		5,200	5,200
		<u>57,844</u>	<u>57,844</u>
Net current assets		<u>1,294,388</u>	<u>2,046,444</u>
		<u>\$ 36,365,188</u>	<u>\$ 32,067,244</u>
Equity			
Capital	6	500,000	500,000
Deposit Insurance Fund	7	35,865,188	31,567,244
		<u>\$ 36,365,188</u>	<u>\$ 32,067,244</u>

These statements were approved by the Board of Management and authorised for issue on April 24, 2015, and are signed on its behalf by:


Chairman


Member of Board
of Management

The notes on pages 22 to 27 form an integral part of these financial statements

DEPOSIT INSURANCE CORPORATION

Financial statements for the year ended December 31, 2014

Statement of cash flows (Expressed in Bahamian Dollars)

	2014	2013
Cash flows from (used by) operating activities		
Net comprehensive income for the year	\$ 4,297,944	\$ 4,544,825
Adjustments for:		
Interest income	(1,594,798)	(1,339,351)
Operating profit before working capital changes	2,703,146	3,205,474
Increase in accrued interest receivable	(60,060)	(65,441)
Decrease (increase) in other assets	(162)	4,340
Increase in premium receivable	(574)	-
Interest received	1,594,798	1,339,351
Net cash from operating activities	<u>4,237,148</u>	<u>4,483,724</u>
Cash flows from (used by) investing activities		
Purchase of Bahamas Government Registered Stocks	(5,050,000)	(5,500,000)
Net cash used by investing activities	<u>(5,050,000)</u>	<u>(5,500,000)</u>
Decrease in cash and cash equivalents	(812,852)	(1,016,276)
Cash and cash equivalents at beginning of the year	<u>1,641,755</u>	<u>2,658,031</u>
Cash and cash equivalents at end of the year	<u>\$ 828,903</u>	<u>\$ 1,641,755</u>

The notes on pages 22 to 27 form an integral part of these financial statements.

DEPOSIT INSURANCE CORPORATION

Financial statements for the year ended December 31, 2014

Notes to the financial statements

(Expressed in Bahamian Dollars)

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 Members of the Board of Management of the Corporation are also Directors and Officers of the Central 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.

DEPOSIT INSURANCE CORPORATION

Financial statements for the year ended December 31, 2014

Notes to the financial statements (Continued)

(Expressed in Bahamian Dollars)

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.

DEPOSIT INSURANCE CORPORATION

Financial statements for the year ended December 31, 2014

Notes to the financial statements (Continued)

5. BAHAMAS GOVERNMENT REGISTERED STOCKS

The Bahamas Government Registered Stocks consist of:

Purchase date	Interest Rate	Maturity date	2014 Fair value \$	2013 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	1,500,000
04/17/13	4.81%	04/17/32	1,500,000	1,500,000
07/26/13	4.81%	07/26/33	700,000	700,000
07/26/13	4.82%	07/26/34	1,000,000	1,000,000
10/23/13	4.80%	04/17/31	800,000	800,000
02/03/14	4.80%	09/23/32	1,870,000	-
06/27/14	4.80%	09/23/32	1,850,000	-
09/02/14	4.80%	09/23/31	330,000	-
12/10/14	3.52%	10/30/21	1,000,000	-
			<u>\$ 35,070,800</u>	<u>\$ 30,020,800</u>

DEPOSIT INSURANCE CORPORATION

Financial statements for the year ended December 31, 2014

Notes to the financial statements (Continued)

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, 2014, paid-up capital was \$500,000 (2013: \$500,000).

7. DEPOSIT INSURANCE FUND

Balance at January 1, 2014	\$ 31,567,244
Transfer of Comprehensive income of the Deposit Insurance Corporation for the year	\$ 4,297,944
Balance at December 31, 2014	<u>\$ 35,865,188</u>

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.

10. OTHER INCOME

During the year 2013, 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.

DEPOSIT INSURANCE CORPORATION

Financial statements for the year ended December 31, 2014

Notes to the financial statements (Continued)

11. ADMINISTRATION

Administration includes the fee of \$30,710 paid to the Central Bank, in respect of administrative services rendered.

12. INTERNATIONAL ASSOCIATION OF DEPOSIT INSURERS

As a member of IADI, the Corporation is committed to the implementation and adherence of international best practices and standards. In the course of strengthening the deposit insurance regime and remaining abreast of advancements of recent amendments to deposit insurance standards, the Corporation sent representatives to the FSI-IADI Seminar on Bank Resolution, Crisis Management and Deposit Insurance Issues as well as the Thirteenth IADI Annual General Meeting and Annual Conference. During the financial year the costs which represent expenses applicable to these two events were \$11,852 (2013: \$-).

13. MATURITIES OF FINANCIAL ASSETS AND LIABILITIES

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

14. 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.

15. 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.

16. 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 risks. 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.

DEPOSIT INSURANCE CORPORATION

Financial statements for the year ended December 31, 2014

Notes to the financial statements (Continued)

16. FINANCIAL RISK MANAGEMENT (Continued)

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 the 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 return. Management mitigates this risk by investing in Government secured investments.

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