



**DEPOSIT  
INSURANCE  
CORPORATION**

B A H A M A S

# 2016 ANNUAL REPORT

AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

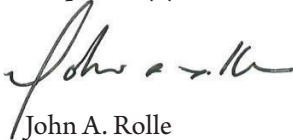


June 30th, 2017

Dear Deputy 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 for the financial year ended December 31, 2016. Included with this Report is the Annual Statement of Accounts of the Corporation duly certified by its Auditors for the year.

Respectfully yours,



John A. Rolle  
Chairman

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



# TABLE OF CONTENTS

<b>1</b>	LETTER TO THE MINISTER OF FINANCE
<b>4</b>	MISSION, VISION, VALUES
<b>5</b>	FOREWORD – CHAIRMAN’S MESSAGE
<b>6</b>	BOARD OF MANAGEMENT
<b>7</b>	DIC HISTORY
<b>8</b>	FREQUENTLY ASKED QUESTIONS
<b>10</b>	DIC FACTS
<b>11</b>	DIC MEMBER INSTITUTIONS
<b>12</b>	FIVE-YEAR FINANCIAL HIGHLIGHTS
<b>12</b>	Membership Performance
<b>14</b>	OPERATIONS
	Corporate Governance
	Strategic Goals & Activities
	Strategic Plan 2013 to 2016/Performance Scorecard
	International Associations
<b>16</b>	MANAGEMENT DISCUSSION AND ANALYSIS
	(a) Overview of Domestic Macroeconomic Environment
	(b) Asset Growth and Quality
	(c) Deposit Base and Liquidity
	(d) Profitability and Capital Adequacy
<b>19</b>	2016 FINANCIAL HIGHLIGHTS AND ANALYSIS
	Premiums
	Investments & Interest Income
	Deposit Insurance Fund
	Operating Expenditures
<b>21</b>	IADI CORE PRINCIPLES FOR EFFECTIVE DEPOSIT INSURANCE SYSTEMS
<b>22</b>	ABBREVIATIONS
<b>23</b>	GLOSSARY OF TERMS
<b>25</b>	THE DEPOSIT INSURANCE CORPORATION’S FINANCIAL STATEMENTS
<b>27</b>	Auditors’ Report to the Board of Management
<b>30</b>	Statement of Financial Position
<b>31</b>	Statement of Comprehensive Income
<b>32</b>	Statement of Changes in Equity
<b>33</b>	Statement of Cash Flows
<b>34</b>	Notes to the Financial Statements

# 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

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.

# A MESSAGE FROM THE CHAIRMAN

It gives me great pleasure to present the 2016 Annual Report of the Bahamas' Deposit Insurance Corporation (DIC).

During 2016 the DIC member banks' operations took place within an environment of virtually unchanged aggregate economic activity. Some expansion in construction was noted, with stimulus from various foreign investment projects and the rebuilding efforts in the aftermath of Hurricane Matthew. Prior to the October Hurricane, the tourism sector also experienced modest gains; however the final quarter's performance was severely disrupted in the storm's aftermath. Meanwhile, the unemployment rate decreased by 3.2% relative to end-2015, driven by hurricane rebuilding activities. Both bank liquidity and external reserves expanded further, reflecting subdued lending conditions, while the overall profitability of banks strengthened following an easing in bad debt costs and rising fee income. Members' collective capital adequacy remained strong, exceeding, on average, the minimum prudential requirement.

Despite the relative flatness of members' deposit base, the Deposit Insurance Fund grew by 11.9% to \$45.2 million at end-2016, with the premium assessment rate unchanged at one-twentieth of 1 per cent of the average insurable B\$ deposits.

Supervisory oversight activities being undertaken by the 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 the Strategic Plan for 2013-2016, which are aligned with international standards and best practices established for deposit insurance schemes. In 2016, the work programme focused predominantly on the public awareness goal, and an assessment of the target size of the DIC Fund. The DIC is continuing with these strategic focuses in 2017, targeting regulatory and legislative reform proposals which address both funding adequacy and the crisis management framework. A framework will also be pursued to broaden insurance coverage to credit unions.

The achievements of the DIC are attributed to the support of the Board of Management and the dedication of professionals of the Central Bank. I would also like to extend my sincere gratitude and appreciation to all staff involved with the DIC's administrative matters.



John A. Rolle  
Chairman  
Deposit Insurance Corporation

# BOARD OF MANAGEMENT

December 31, 2016



**John Rolle**  
Chairman of the Board of  
Management,  
Governor,  
Central Bank of The Bahamas



**Simon Wilson**  
Financial Secretary  
Ministry of Finance



**Aluchifer Rolle**  
Agency Manager  
BAF Financial



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



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



**Karen Rolle**  
Manager, Bank Supervision  
Department  
Central Bank of The Bahamas

# DIC HISTORY

In 1997, the Bahamas was faced with the closure of one of its smaller domestic banks, Gulf Union Bank (Bahamas) Limited (“Gulf Union”). Gulf Union was placed in liquidation on 12th December, 1997. In order to protect the financial system from the effect of the failure, legislation to establish the DIC was tabled in parliament and made retroactive to include depositors of the failed institution. The coverage of B\$50,000 protected almost 90% of the total deposits of the failed institution and all of the small unsophisticated savers.

The Deposit Insurance Corporation (“DIC”) is a statutory Corporation, established under the Protection of Depositors Act 1999 (“the Act”) on 30th September, 1999. The Act came into full effect on the 10th November, 1999. Membership in the Deposit Insurance Fund is compulsory for every licensed banking institution carrying on banking business wholly or partly in Bahamian currency. While there is a close symbiotic relationship with the DIC and the Central Bank of The Bahamas (“Central Bank”), the DIC is a separate legal statutory body with its own Board who executes decisions that govern its affairs.

The management services of the DIC are carried out by staff of the Central Bank as provided under a service level agreement between the Central Bank and the DIC.

The DIC was funded by a compulsory initial contribution of B\$1,000,000 (one million) Bahamian dollars; B\$500,000 of which was required to be paid by the Central Bank and B\$500,000 payable by member institutions. The initial contribution by each member institution was based on their pro-rata percentage share of all deposits insured by the DIC on the last day of the month in which the Act came into force. It should be noted that the member institutions do not hold an equity position in the DIC, their contributions being compulsory under the Act.

Once the DIC was established, it immediately floated with the assistance of a 100% guarantee by the Bahamas Government and the issuance of B\$6.75 million 5 year bonds which were immediately taken up by member institutions. The funds received from the sale of DIC bonds were utilized to bail out the depositors of the failed institution (Gulf Union). The bonds were retired in November 2004.



# FREQUENTLY ASKED QUESTIONS

1

## What is deposit insurance?

Deposit insurance is an arrangement designed to minimize or eliminate the risk of loss of Bahamian dollar savings, in the unlikely event of the closure of a member institution of the Deposit Insurance Corporation (DIC).

2

## Are all banks members of the Deposit Insurance Corporation?

No. Membership in the DIC is compulsory only for Bahamian dollar deposit-taking institutions. A list of banks which are member institutions of the DIC may be obtained by accessing the DIC's website at [www.dic.bs](http://www.dic.bs).

3

## Must I apply or register for deposit insurance protection?

No, you do not need to apply or register for protection. Deposit Insurance is provided automatically and free of charge for eligible Bahamian dollar deposit accounts at DIC member institutions.

4

## What is the maximum deposit amount insured by the DIC?

Eligible deposits in a member institution are insured up to a maximum of \$50,000 per depositor based on the nature of ownership of deposits (i.e., whether they are single, joint, company, trust or client asset accounts). The insured maximum has remained unchanged since 1999. However, provisions exist in the law for the Minister of Finance, by order, on the advice of the Central Bank of The Bahamas, and after consultation with the member institutions, to prescribe a greater amount. Only eligible deposits in The Bahamas and payable in Bahamian dollars are insured. Also, US dollar and other foreign currency deposits held at member institutions are not eligible for insurance coverage.

5

## Is interest owing on a deposit included in the insurable amount?

Yes. The DIC insures both principal and interest for eligible deposits at each member institution, up to a maximum of B\$50,000. For example, if an individual has a savings account with a balance of \$10,000 and accrued interest of \$3,000, the total \$13,000 would be insured by the DIC. If, however, the savings account balance was \$55,000 and accrued interest, \$5,000, then \$10,000 would not be covered by deposit insurance.

6

## What types of deposits and who are insured?

Bahamian dollar deposits in checking, savings, demand and time accounts held in member institutions are insurable under the DIC.

**7****Are there any other bank liability instruments covered by deposit insurance?**

Yes. Certain cash liabilities in respect of which a member institution is primarily liable, and has issued a certificate, receipt, cheque, money order, draft or other instrument, are treated in the same manner as a deposit. These would be insured, in the aggregate with other eligible deposits, as the case may be, up to the maximum of B\$50,000.

**8****Are there any deposit types that are not covered by deposit insurance?**

Yes. Not included in deposits are letters of credit, stand-by letters of credit or instruments of a similar nature, subordinated debts, preference shares, interbank deposits, foreign currency deposits, deposits of Government and statutory corporations, deposits of foreign Governments, deposits in any financial institution wholly owned by the Government and deposits from affiliates.

**9****If I have deposits in several banks, will they be aggregated for deposit insurance protection purposes?**

No. Your deposits in different member institutions are protected separately. The B\$50,000 deposit insurance limit is applicable to each depositor in respect of deposits held in each member institution.

**10****Can deposit insurance protection be increased by depositing funds into several branches of the same bank?**

No. In the case of a member having more than one branch, the main office and all branch offices are considered as one institution. So, if a depositor opens one or more savings/fixed deposit accounts in one or more branches of a member institution, all of these are added together, and the maximum insurance cover is available up to B\$50,000.

**11****How are joint accounts insured?**

The DIC will deem the interest of co-owners in joint accounts to be equal, unless there are records to show otherwise. Joint accounts are insured separately from any individually owned deposit account. For example, if a husband and wife are co-owners of a savings account, and each owns a savings account, the joint account and each of their savings accounts are separately insured, up to the maximum insurable amount. However, if for example, the husband is also a co-owner in other accounts involving different joint owners his interest in all joint accounts are added together and the aggregate amount is insured up to the maximum value of \$50,000.

**12****What is the meaning of the term “same right and capacity”**

This term refers to the nature of the ownership of the deposits with member institutions, i.e., whether they are single (individual), joint or trust accounts.

# 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 of The Bahamas 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 checking, savings, demand and time accounts held in member institutions.
- Eligible deposits in a member institution, inclusive of principal and interest, is insured up to a maximum of B\$50,000 per depositor, based on the nature and ownership of deposits.
- 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.
- Deposit accounts in foreign currencies are not insured by the DIC.
- Deposits held at different member institutions are separately insured.
- Opening several accounts at different branches of the same bank or at the same branch will not increase your insurance deposit payout.
- Your place of residence or nationality does not affect deposit insurance protection.
- A deposit insurance payout will be made where the Central Bank has determined that a DIC member institution is insolvent, or unable or likely to become unable to meet its obligations or is about to suspend payments.
- The DIC does not cover deposits of government and statutory corporations or public financial institutions or any arm of the Central Government.
- The DIC does not cover inter-bank or member institutions' affiliate deposits.

## DIC MEMBER INSTITUTIONS

<b>COMMERCIAL BANKS</b>	<b>Year of Establishment</b>	<b>No. of Branches</b>	<b>2014 Total B\$ Deposits (000)</b>	<b>2015 Total B\$ Deposits (000)</b>	<b>2016 Total B\$ Deposits (000)</b>
Citibank N.A.	17-Jan-66	1	96,643	90,054	87,204
Finance Corporation of Bahamas Ltd.	23-May-66	5	671,978	631,378	582,230
Commonwealth Bank Ltd.	10-Oct-66	11	1,055,566	1,094,958	1,178,259
Bank of the Bahamas Limited	28-Jul-70	12	362,893	304,247	357,550
Fidelity Bank (Bahamas) Ltd.	11-Jul-78	6	368,472	371,369	357,534
First Caribbean International Bank (Bahamas) Limited	07-Dec-95	11	1,123,791	1,127,547	1,166,588
Scotiabank (Bahamas) Ltd.	26-Mar-98	13	782,280	764,119	855,331
RBC Royal Bank (Bahamas) Ltd.	26-Oct-10	20	1,196,462	1,289,013	1,402,861
<b>OTHER DEPOSIT-TAKING INSTITUTIONS</b>	<b>Year of Establishment</b>	<b>No. of Branches</b>	<b>2014 Total B\$ Deposits (000)</b>	<b>2015 Total B\$ Deposits (000)</b>	<b>2016 Total B\$ Deposits (000)</b>
Ansbacher (Bahamas) Ltd.	17-Jan-66	1	2,874	1,453	3,194
The Bank of Nova Scotia Trust Company (Bahamas) Ltd.	01-Apr-66	1	116	92	175
Royal Bank of Canada Trust Company (Bahamas) Ltd.	01-Apr-66	1	5,204	5,118	983
Royal Fidelity Merchant Bank & Trust Ltd.	15-Sep-98	1	31,942	31,080	43,605

# FIVE YEAR FINANCIAL HIGHLIGHTS

at December 31, 2012 - 2016

	2012	2013	2014	2015	2016
	B\$000	B\$000	B\$000	B\$000	B\$000
<b>Members' Premiums</b>	2,759	2,785	2,773	2,858	2,874
<b>Interest &amp; Other Income</b>	1,160	1,819	1,595	1,781	1,970
<b>Total Revenue</b>	3,919	4,604	4,368	4,639	4,844
<b>Operating Expenses</b>	14	32	31	33	33
<b>Comprehensive Income</b>	3,877	4,545	4,298	4,569	4,773
<b>Deposit Insurance Fund</b>	27,022	31,567	35,865	40,434	45,207
<b>Investment Securities</b>	24,521	30,021	35,071	40,381	44,353
<b>Total Assets</b>	27,522	32,067	36,365	40,992	45,766
<b>Return on Assets (%)</b>	14%	14%	12%	11%	10%
<b>Member Institutions (#)</b>	12	12	12	12	12

## Membership Performance

At year-end 31st December, 2016, the number of DIC registrants remained at twelve (12), inclusive of eight (8) commercial banks and four (4) other deposit-taking institutions. However, one of the member institutions finalized its asset purchase agreement with a non-member entity due to the group's global de-risking strategy, which included exiting the Caribbean wealth management business. Overall, the bulk of Bahamian dollar business remained concentrated in the commercial banking sector.

During the year, the level of delinquency dropped significantly due to the sale of non-performing mortgages from a commercial bank to a non-bank entity, some progress under the Government's Mortgage Relief Programme, and other restructuring

efforts by banks. Despite the level of non-performing loans around \$730.0 million mark, and provisioning levels at some 70.0% of non-performing loans, banks continued to make profits due partly to increased fees for products and services being offered and lower interest paid on deposits driven by robust liquidity levels, among others. Thus, banks' capital levels remained high.

The DIC relies on the Central Bank's supervisory and regulatory oversight of its members. In this regard, during 2016 the following initiatives were undertaken by the Central Bank relative to the banking sector:

- Licensees transitioned reporting from the Basel I accord to the Basel II/III framework commencing April 2016. The changes to some risk weights

and the inclusion of Operational Risk had some impact but overall, the banks' capital levels remain robust under the Basel II/III framework, thus alleviating any financial stability concerns.

- Enforcement of the Administrative Monetary Penalty Regime commenced on 5th September, 2016. The Regime empowers the Central Bank to penalize licensees for late and erroneous reporting as well as any identified breaches of the Central Bank's regulations.
- Significant progress was made in developing the framework to identify Domestic Systemically Important Bank (D-SIB) which significantly advanced during the year. It is expected to be fully deployed in 2017.

- A follow-up Correspondent Banking Survey was undertaken to determine the impact, of de-risking strategies on domestic and international banks, and the approaches of licensees in managing their correspondent banking relationships.

The Central Bank continued to pursue a risk-based approach to supervision of licensees. The engagement includes among others, onsite examinations, stress testing of credit and liquidity risks, structured prudential meetings to discuss credit and operational risk issues, and monitoring organizational changes. This approach to supervision supports the Central Bank's 'Ladder of Supervisory Intervention', which is aimed at early detection and minimization of risks related to financial non-viability or insolvency, among others.

# OPERATIONS

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 of the closure of a member institution.

## 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 closes, and to arrange for the expeditious handling of any bank closure. The responsibilities of the DIC also include making compensation to insured deposits and educating the public on the DIC. Because of the limited scope of activities, the DIC currently has no direct employees. The Central Bank is responsible for the daily operations of the DIC, and provides staff and administrative services to the DIC which is administered within a service level agreement between the Central Bank and DIC. At year-end 2016 five (5) Central Bank staff were assigned to the DIC.

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. Members are appointed for a term of not less than three (3) years and are eligible for re-appointment. 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 \$300.00 per board meeting. For 2016, these expenses totalled \$5,400.

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.

Current members of the Board are:

**Mr. John Rolle**

Chairman of the Board and Governor  
Central Bank of The Bahamas

**Mr. Simon Wilson**

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

## 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 2016 (Box 1).

An awareness survey was prepared for launch in early 2015, and annually thereafter, alongside media infomercials, which seek to reinforce the messaging of the Fund as a safety net for Bahamian dollar deposits. Continuing with the public awareness in 2016, two infomercials were posted to the DIC's website, aired on television and in movie theatres. A study also

kicked off in 2016 to assess the adequacy of the target size of the DIC Fund.

Other important initiatives include the credit unions, for which the Central Bank of The Bahamas assumed regulatory and supervisory responsibility on June 1st 2015. In 2016, a benchmark study began on the provision of Deposit Insurance Protection to Credit Unions. Work will also continue on pursuing the recommended amendments to legislative framework ensuring the adequacy of the Deposit Insurance Fund, and on sustaining the exercise to confirm ongoing compliance of DIC operations with international best practices. In the area of crisis preparedness, apart from conducting the crisis simulation exercises, the DIC will continue to work with other regulators to establish a comprehensive and efficient crisis management plan for the financial sector.

## International Associations

The DIC is one of the 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.

### BOX 1 STRATEGIC PLAN, 2013-2016

GOALS	OBJECTIVES	STATUS
<b>Public Confidence in the Financial Sector</b>	<ul style="list-style-type: none"> <li>• Build an informed stakeholder community.</li> <li>• Gauge effectiveness of public relations campaign.</li> <li>• Extend deposit insurance to credit unions.</li> </ul>	<ul style="list-style-type: none"> <li>• Benchmark study on the provision of Deposit Insurance Protection to Credit Unions. Work continues in formulating a framework to establish a second-tier deposit insurance fund for credit unions and also to amend the Protection of Depositors Act which currently limits deposit insurance coverage to banking institutions.</li> </ul>
<b>Operational Readiness</b>	<ul style="list-style-type: none"> <li>• Establish target size for Deposit Insurance Fund.</li> <li>• Arrange contingency funding mechanism.</li> <li>• Test adequacy of payout arrangements.</li> <li>• Develop competent and knowledgeable resources.</li> <li>• Document administrative and corporate governance arrangements.</li> <li>• Prompt identification and response for payouts.</li> <li>• Implement a strategic plan.</li> </ul>	<ul style="list-style-type: none"> <li>• New study being conducted to reassess the adequacy of the DIC Fund.</li> </ul>
<b>Regulatory Efficiency</b>	<ul style="list-style-type: none"> <li>• Ensure compliance with International Association of the Deposit Insurers (IADI) Core Principles and other best practices.</li> </ul>	<ul style="list-style-type: none"> <li>• Implemented process for continuous assessment against international standards for deposit insurance schemes.</li> </ul>



# MANAGEMENT DISCUSSION AND ANALYSIS

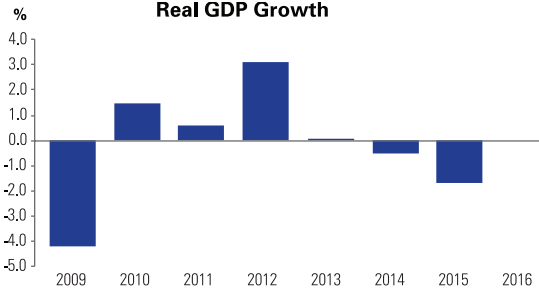
## Overview of the Domestic Macroeconomic Environment

During 2016, the performance of the domestic economy continued to impact the strategic policies and practices of member institutions, which then affected their financial outturn.

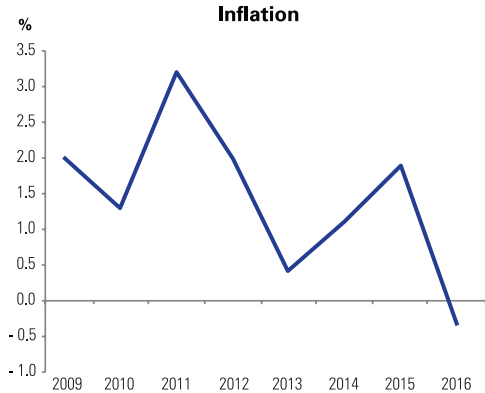
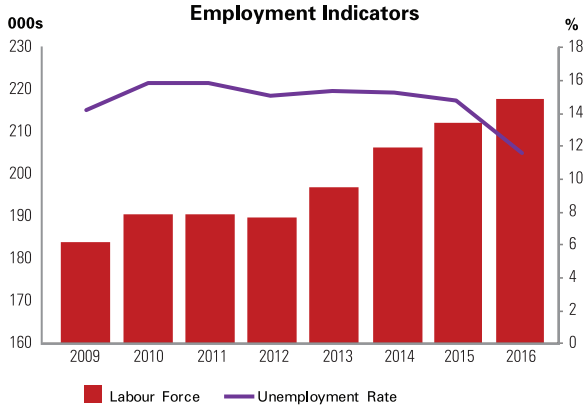
Domestic conditions output was fairly flat in 2016, after an estimated 1.7% contraction in 2015. The outcome was supported by a growth in construction output, which benefitted from several varied-scale foreign investment projects, along with rebuilding efforts in the aftermath of Hurricane Matthew. The tourism sector performance however, was constrained after the storm; albeit gains were noted through most of the year, bolstered by the sustained recovery in key source markets and the hosting of a number of major sporting events. In this environment, the unemployment rate narrowed by 1.0 percentage points over the six-month period to 11.6% at end-November, 2016 and decreased by 3.2 percentage points relative to end-November, 2015, partly driven by hurricane rebuilding jobs in the construction sector.

Consumer prices fell slightly in 2016, reflecting the pass-through effects of lower global oil prices in earlier periods. In particular, the Retail Price Index decreased by 0.35%, a reversal from a 1.88% rise in 2015. Underlying this outturn, sharp reductions in average costs were registered for health, recreation & culture, alcoholic beverages, tobacco & narcotics, furnishing, household equipment & routine household maintenance and clothing & footwear.

In the monetary sector, buoyed by growth in the deposit base which eclipsed the modest rise in credit, both bank liquidity and external reserves expanded. External inflows to the banking system consisted of Government’s external borrowing, net foreign currency receipts from real sector activities and to a lesser extent, reinsurance inflows after the hurricane. In addition, reflecting the sale of several tranches of one institution’s delinquent mortgage portfolio, ongoing debt restructuring and the initial impact of the Government’s Mortgage Relief Programme (MRP),



banks’ credit quality indicators improved significantly in 2016. Further, due to lower provisioning for loan losses and a rise in miscellaneous—mainly fee-based—income, banks recorded a higher net profit over the twelve months to September. In interest



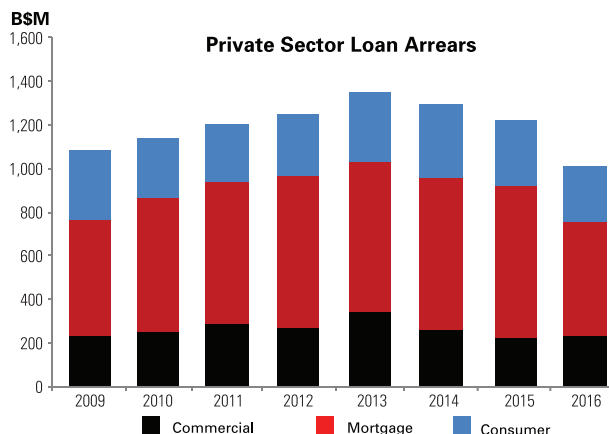
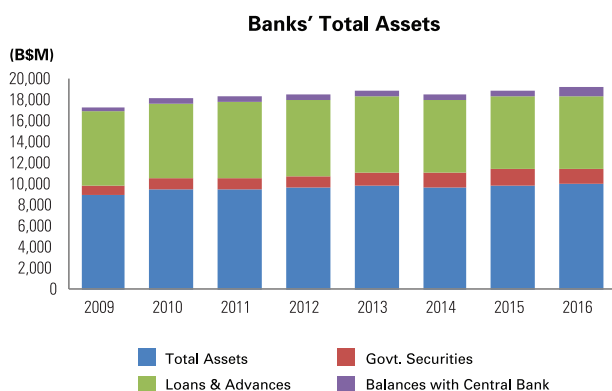
rate developments, the weighted average deposit rate narrowed, while the corresponding loan rate trended upwards.

On the fiscal side, the Government's overall deficit widened during the first half of FY2016/17, due in large measure to the passage of hurricane Matthew, which necessitated unplanned spending for the rebuilding of key infrastructure and led to disruptions in revenue collections.

### Asset Growth and Quality

Banks' total Bahamian dollar assets rose modestly by 2.8% (\$267.0 million) to \$9.76 billion, dominated by financing related to hurricane recovery efforts in the public sector. Further, in an environment of elevated liquidity, banks' non-interest bearing excess deposits with the Central Bank advanced by 47.6% (\$279.7 million) to \$867.3 million. However, their holdings of Government securities contracted by 2.5% to \$1.5 billion. Further, total Bahamian dollar loans edged-up by 0.8% (\$53.4 million) to \$6.5 billion. Of this, 41.6% represented private residential mortgages, followed by consumer loans and commercial mortgages at 36.8% and 11.9%, respectively. Specifically, private sector credit contracted further by 1.6%, after a 0.3% decline a year earlier, for an ending balance of \$5.91 billion and comprised 91.7% of the total. In addition, net loans claims on the Government rose by 32.2% to \$502.7 million—constituting 7.8% of the total—while credit to the rest of the public sector increased by more than three-fold to \$35.7 million, to represent 0.6% of the aggregate.

During the year, total private sector loan arrears contracted sharply by 17.1% to \$1.0 billion, due mainly to the sale of several tranches of one institution's non-performing mortgage portfolio. In addition, the corresponding ratio of arrears to total private sector loans narrowed by 3.3 percentage



points to 17.1%. The largest falloff in total delinquencies was mainly concentrated in the mortgages component—at 51.6% of total—which fell by \$176.2 million (25.3%) to \$521.1 million and accounted for 19.4% of total loans. Likewise, consumer loan arrears declined by \$39.8 million (13.4%) to \$257.7 million. In contrast, the commercial component arrears grew by \$6.9 million (3.1%) to \$231.8 million.

By further segmentation, the reduction in loan arrears was largely concentrated in the non-performing segment—arrears in excess of 90 days and on which banks have stopped accruing interest—which contracted by 19.6% to \$729.1 million. This represented a 2.8 percentage points decline to 12.3% of total private sector loans. Similarly, the short term delinquencies decreased by \$31.5 million (10.1%) to \$281.5 million, with the attendant ratio narrowing by 46 basis points to 4.8% of total private sector loans.

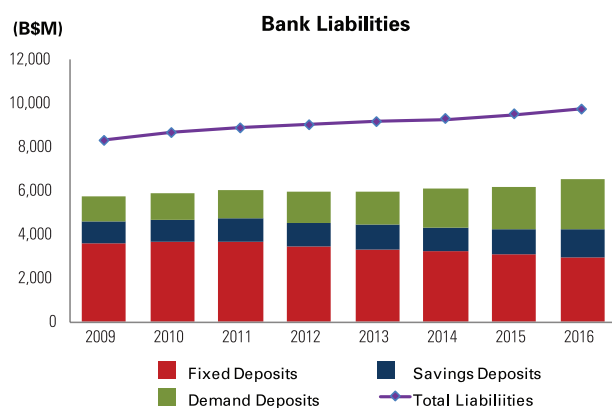
### Deposit Base and Liquidity

During 2016, members' total Bahamian dollar liabilities grew by 2.7% to \$9.76 billion. Bahamian dollar deposits, at \$6.5 billion, comprised 66.7% of total liabilities, with the predominant share held by private individuals (50.9%), followed by business firms (30.1%), the public sector (8.1%), private financial institutions (5.9%) and other depositors (5.0%). Approximately 45.0% of these deposits were held in fixed balances, with demand and savings deposits representing smaller portions of 35.1% and 19.9%, respectively.

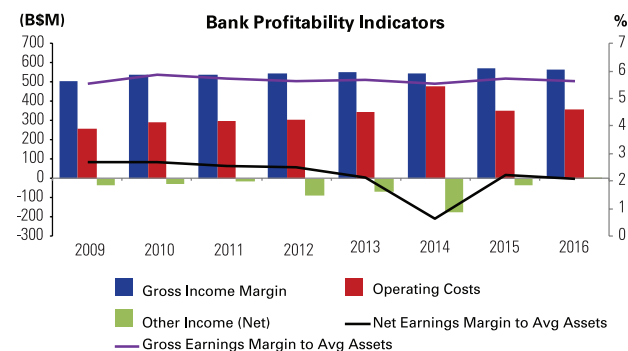
The DIC insures deposits up to a maximum of \$50,000 for any single depositor and at end-2016, approximately 86.6% of Bahamian dollar deposits held balances below \$10,000, although these constituted a modest 6.1% of the total value. Deposits between \$10,000 and \$50,000 comprised 8.5% of the total

number of accounts and 11.2% of the overall value, while those in excess of \$50,000 represented a mere 4.9% of the total number, but a dominant 82.7% of the aggregate.

Bank liquidity levels remained buoyant in 2016, reflecting subdued lending conditions. Members' average monthly net free cash balances—a narrow measure of liquidity—expanded by 43.6% to \$651.9



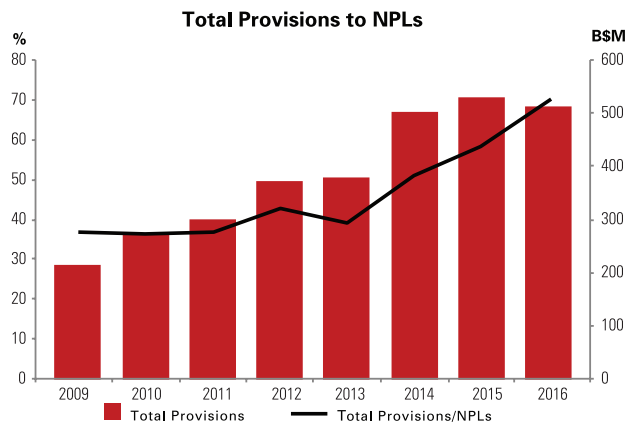
million. By end-2016, net free cash reserves almost doubled to \$750.5 million from \$404.9 million in 2015, for an elevated 11.5% of Bahamian dollar deposits. Similarly, the broader excess liquid assets—inclusive of holdings of public sector securities—increased by 12.5% to \$1.48 billion.



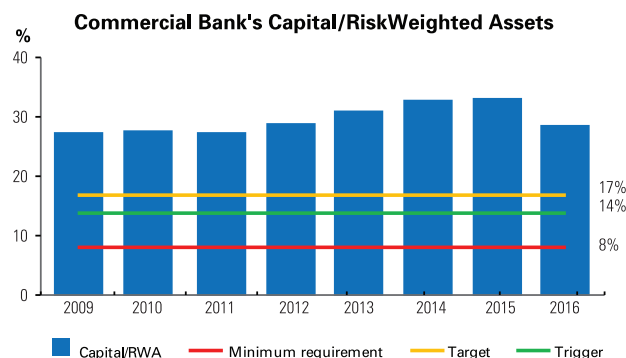
### Profitability and Capital Adequacy

In 2016, the overall profitability of banks strengthened during the twelve-months to September 2016, as bad debt expenses subsided and fee income improved. Net income grew by 56.1% to \$211.4 million, which equated to 2.1% of average assets. Banks' net interest margin rose by 1.7% (\$9.0 million) to \$541.7 million, as interest income edged-up by 0.3% (\$1.7 million) to \$622.5 million, while interest expense declined by 8.3% (\$7.3 million) to \$80.8 million.

However, operating expenses firmed by 0.6% (\$2.2 million) to \$357.9 million, owing in large measure to an increase in other “miscellaneous” operating outlays—inclusive of professional services, Government fees and maintenance—of 8.0% (\$12.4 million), which outstripped reductions in staff outlays of 4.8% (\$8.3 million) and occupancy costs of 6.4% (\$1.9 million). As a consequence, the net earnings margin rose by a mere 1.4% (\$2.8 million) to \$208.9 million, corresponding to 2.1% of average assets.



Meanwhile, led by a \$48.1 million (29.6%) decrease in provisions for bad debt, to \$114.1 million, combined with a \$23.8 million (22.1%) growth in “non-core”, mainly fee-based income and a \$1.2 million (7.6%) decrease in depreciation costs, these entities recorded net income of \$2.4 million, vis-à-vis a \$70.7 million net loss in the comparative 2015 period. At end-2016, members' provisions represented approximately 8.0% of total private sector loans and 50.7% of total arrears.



# 2016 FINANCIAL HIGHLIGHTS AND ANALYSIS

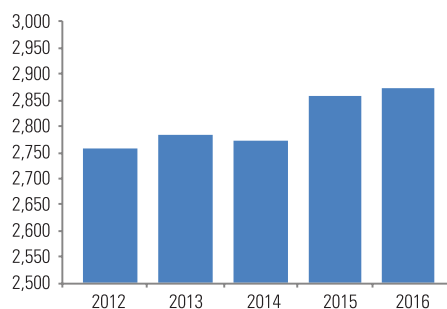
**A**t the end of 2016, the DIC realized comprehensive income of \$4.8 million, an increase of \$204,488 (4%) from 2015. The increase mainly resulted from higher interest income attributed to increased levels of investment instruments, which led to accretions in investment yields during the year.

Expenditures for 2016 stood at \$0.071 million which was \$0.064 million below budget, but consistent with 2015 expenditures of \$0.070 million.

## Premiums

Pursuant to Section 5(2) of the Protection of Depositors Act, annual premiums are charged 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 of the previous year. These premiums are collected twice annually, on 15th June and 15th December. For the year of 2016, premiums collected from member institutions totalled \$2.87 million, which was a slight increase from 2015 of \$2.86 million, indicating an increase in Bahamian dollar deposits.

**Premiums from Member Institutions (000's)**

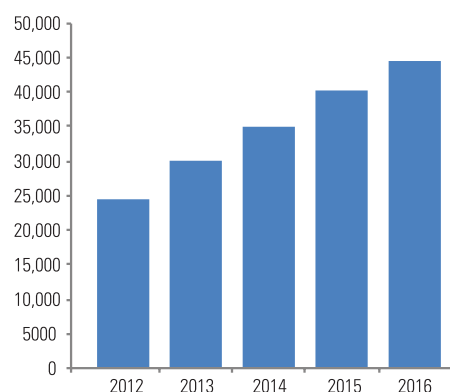


## Investments & Interest Income

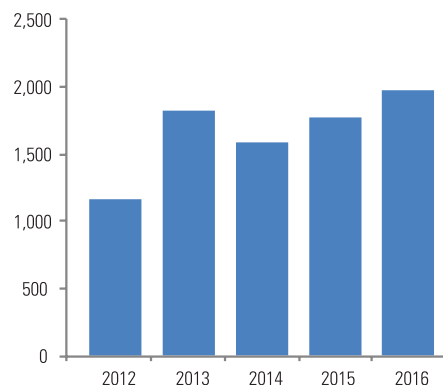
Based on the powers prescribed in Section 15(g)(iii) of the Act, the Corporation may invest the collected premiums in government and quasi-government instruments and short-term deposits. The DIC continued to invest in Bahamas Government long term bonds, which increased by \$4.0 million (10%) to \$44.3 million which is 96.9% of total assets (98.8%:

2015). Investments are held to maturity; however these funds have been categorized as available-for-sale in order to allow for the availability of same to meet any required depositors payout if a member institution fails. Accrued interest receivable from these long term bonds rose by 9.1% to \$0.7 million. The DIC's interest income for 2016 rose by 9.6% to \$2.0 million. As at December 31, 2016, long term government bonds were the only category of income-generating assets as cash at banks was non-interest bearing.

**Investment Securities (000's)**

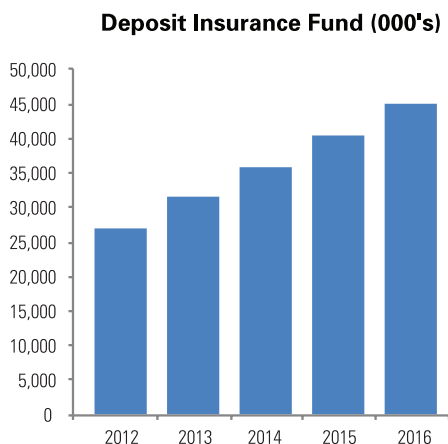


**Interest Income (000's)**



## Deposit Insurance Fund

The Fund rose further by 11.9% to \$45.2 million in 2016 as the DIC continued to build the reserves through the accumulation and investment of annual premiums and interest income. Bahamas Government Registered Stocks (BGRS) comprise 97 percent of the Fund. 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.



## Operating Expenditures

The total operating expenditures slightly rose by 0.4% to \$0.071 million in 2016. Administrative Fees paid to the Central Bank continued to account for the largest single outlay and was stable at \$0.033 million. Expenditures recorded an accretion in annual membership fees paid to the International Association of Deposit Insurers (IADI) which increased 55% (i.e. CHF 6,260 on an annual basis) commencing with fees for year 2016/2017, which was offset by a \$9,631 reduction in expenses for public awareness.

# IADI CORE PRINCIPLES FOR EFFECTIVE DEPOSIT INSURANCE SYSTEMS

<b>PRINCIPLE 1</b> <b>Public Policy Objectives</b>	The principal public policy objectives for deposit insurance systems are to protect depositors and contribute to financial stability. These objectives should be formally specified and publicly disclosed. The design of the deposit insurance system should reflect the system's public policy objectives.
<b>PRINCIPLE 2</b> <b>Mandate and Powers</b>	The mandate and powers of the deposit insurer should support the public policy objectives and be clearly defined and formally specified in legislation.
<b>PRINCIPLE 3</b> <b>Governance</b>	The deposit insurer should be operationally independent, well-governed, transparent, accountable, and insulated from external interference.
<b>PRINCIPLE 4</b> <b>Relationships with Other Safety-Net Participants</b>	In order to protect depositors and contribute to financial stability, there should be a formal and comprehensive framework in place for the close coordination of activities and information sharing, on an ongoing basis, between the deposit insurer and other financial safety-net participants.
<b>PRINCIPLE 5</b> <b>Cross-Border Issues</b>	Where there is a material presence of foreign banks in a jurisdiction, formal information sharing and coordination arrangements should be in place among deposit insurers in relevant jurisdictions.
<b>PRINCIPLE 6</b> <b>Planning and Crisis Management</b> <b>Deposit Insurer's Role in Contingency</b>	The deposit insurer should have in place effective contingency planning and crisis management policies and procedures, to ensure that it is able to effectively respond to the risk of, and actual, bank failures and other events. The development of system-wide crisis preparedness strategies and management policies should be the joint responsibility of all safety-net participants. The deposit insurer should be a member of any institutional framework for ongoing communication and coordination involving financial safety-net participants related to system-wide crisis preparedness and management.
<b>PRINCIPLE 7</b> <b>Membership</b>	Membership in a deposit insurance system should be compulsory for all banks.
<b>PRINCIPLE 8</b> <b>Coverage</b>	Policymakers should define clearly the level and scope of deposit coverage. Coverage should be limited, credible and cover the large majority of depositors but leave a substantial amount of deposits exposed to market discipline. Deposit insurance coverage should be consistent with the deposit insurance system's public policy objectives and related design features.

**PRINCIPLE 9**  
**Sources and Uses of Funds**

The deposit insurer should have readily available funds and all funding mechanisms necessary to ensure prompt reimbursement of depositors' claims, including assured liquidity funding arrangements. Responsibility for paying the cost of deposit insurance should be borne by banks.

**PRINCIPLE 10**  
**Public Awareness**

In order to protect depositors and contribute to financial stability, it is essential that the public be informed on an ongoing basis about the benefits and limitations of the deposit insurance system.

**PRINCIPLE 11**  
**Legal Protection**

The deposit insurer and individuals working both currently and formerly for the deposit insurer in the discharge of its mandate must be protected from liability arising from actions, claims, lawsuits or other proceedings for their decisions, actions or omissions taken in good faith in the normal course of their duties. Legal protection should be defined in legislation.

**PRINCIPLE 12**  
**Dealing with Parties at Fault in a Bank Failure**

The deposit insurer, or other relevant authority, should be provided with the power to seek legal redress against those parties at fault in a bank failure.

**PRINCIPLE 13**  
**Early Detection and Timely Intervention**

The deposit insurer should be part of a framework within the financial safety-net that provides for the early detection of, and timely intervention in, troubled banks. The framework should provide for intervention before the bank becomes non-viable. Such actions should protect depositors and contribute to financial stability.

**PRINCIPLE 14**  
**Failure Resolution**

An effective failure resolution regime should enable the deposit insurer to provide for protection of depositors and contribute to financial stability. The legal framework should include a special resolution regime.

**PRINCIPLE 15**  
**Reimbursing Depositors**

The deposit insurance system should reimburse depositors' insured funds promptly, in order to contribute to financial stability. There should be a clear and unequivocal trigger for insured depositor reimbursement.

**PRINCIPLE 16**  
**Recoveries**

The deposit insurer should have, by law, the right to recover its claims in accordance with the statutory creditor hierarchy.

**ABBREVIATIONS**

DIC – Deposit Insurance Corporation  
CBOB – Central Bank of the Bahamas  
The Act – Protection of Depositors Act, 1999  
BGRS – Bahamas Government Registered Stock  
DIF – Deposit Insurance Fund  
IADI – International Association of Deposit Insurers  
CRC – Caribbean Regional Committee  
GDP – Gross Domestic Product  
NPL – Non Performing Loan  
MRP – Mortgage Relief Plan

# GLOSSARY OF TERMS

**Account Balance** - The dollar amount including principal and interest for a specific account.

**Assessment Base** - The base on which the deposit insurer charges the premium or calculates the levy needed to compensate the insured deposits.

**Bank Run** - A rapid loss of deposits, precipitated by fear on the part of the public, that the bank may fail and depositors may suffer losses which could spread across the banking system.

**Beneficiary** - A person or entity named or identified in either the bank account records or in a written trust that will have an interest in the trust upon the account owner's death.

**Bye Law** - A rule put in place by a corporation or organization under authority granted to it by a higher law. For example, the DIC is allowed by the DIC Act to pass bye-laws that apply to its member institutions or others involved in the placement of deposits.

**Claim** - An assertion of the indebtedness of a failed institution to a depositor, general creditor, subordinated debt holder or shareholder.

**Closed Institution** - An institution: (a) which has been ordered by the Central Bank to suspend business as a result of financial difficulties; (b) which has been the subject of a winding-up order issued by the court; (c) the failure of which the Central Bank has advised the Deposit Insurance Corporation

**Deposit Insurance** - Deposit Insurance is a system established to protect depositors against the loss of their deposits in the event an insured institution of the deposit insurer is unable to meet its obligations to depositors. Similar terms such as deposit guarantee or deposit protection are used in some countries.

**Deposit Insurance Fund** - The fund maintained by the DIC to insure deposits at failed member institutions.

**DIC Member Institution or Member Institution** - Banks in The Bahamas that take wholly or in part Bahamian dollar deposits.

**Eligible Deposits** - Deposits are eligible for insurance under the DIC Act. To be eligible, a deposit must be in a certain type of account or product (including but not limited to a savings, chequing account or fixed deposit account), held at a DIC member institution and in Bahamian dollars. There are other rules that apply as well for the deposits to be eligible.

**Ex-Ante (Before) Funding** - The prior accumulation of a fund to cover deposit insurance claims in case of the failure of a DIC member institution.

**Ex-Post (After) Funding** - An assessment levied after the failure of a DIC Member institution to provide funds to cover eligible claims.

**Insurance Amount** - The basic DIC insurance amount is B\$50,000 per depositor, per bank, per ownership category. Deposits held in different ownership capacities and rights, such as single, joint and trust are separately insured, when the requirements for each ownership category are met, even if held at the same bank.

**Insured Deposits** - Types of deposits that are covered by a deposit insurance system.

**Interbank Deposits** - Deposits held in a bank for another bank.

**Joint Account** - A deposit account owned by two or more people, with equal withdrawal rights, that is not a trust account. Joint accounts are a separate account ownership category and can qualify for separate DIC insurance cover.

**Maximum Coverage** - The amount a depositor can claim from the deposit insurer in the event of bank failures.

**Payout** - The process undertaken by DIC to make deposit insurance payments to the insured depositors of a failed DIC member institution. DIC may make a payment of deposit insurance in one of two ways: (1) by issuing cheques to insured depositors; or (2) by providing insured depositors with new demand deposits at another DIC member institution.

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

**Subrogation** - The process where DIC is substituted as the claimant for the insured deposits paid by it.

**Trust Account** - A type of ownership in which a person (the trustee) holds property for the benefit of one or more other persons (the beneficiaries). For example, a trustee may have a deposit account in which they hold money for the benefit of one or more beneficiaries.

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







FINANCIAL STATEMENTS OF  
**DEPOSIT INSURANCE CORPORATION**  
December 31, 2016



## INDEPENDENT AUDITORS' REPORT

To the Board of Management of:  
**Deposit Insurance Corporation**

### *Opinion*

We have audited the financial statements of Deposit Insurance Corporation ("the Corporation"), which comprise the statement of financial position as at December 31, 2016, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in The Bahamas, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Other Information*

Management is responsible for other information. Other information obtained at the date of this auditors' report is information included in the Corporation's Annual Report but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover other information and we do not express any form of assurance conclusion thereon.

## INDEPENDENT AUDITORS' REPORT (continued)

### *Other Information (continued)*

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

The Board of Management is responsible for overseeing the Corporation's financial reporting process.

### *Auditors' Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

## INDEPENDENT AUDITORS' REPORT (continued)

### *Auditors' Responsibilities for the Audit of the Financial Statements (continued)*

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditors' report is Craig A. (Tony) Gomez.



**CHARTERED ACCOUNTANTS**

March 13, 2017  
Nassau, Bahamas

# DEPOSIT INSURANCE CORPORATION

## Statement of Financial Position

As at December 31, 2016

(Expressed in Bahamian dollars)

	2016	2015
<b>ASSETS</b>		
Cash at Bank	\$ 744,356	\$ 4,316
Investments (Note 4)	44,353,400	40,381,400
Accrued interest receivable	663,398	603,195
Other assets	4,658	3,032
<b>Total assets</b>	<b>\$45,765,812</b>	<b>40,991,943</b>
<b>LIABILITIES</b>		
Unpaid claims	52,644	52,644
Accounts payable and accrued expenses	6,450	5,590
<b>Total liabilities</b>	<b>59,094</b>	<b>58,234</b>
<b>Net assets</b>	<b>\$45,706,718</b>	<b>\$40,933,709</b>
<b>EQUITY</b>		
Capital (Note 5)	\$ 500,000	\$ 500,000
Deposit insurance fund	45,206,718	40,433,709
<b>Total equity</b>	<b>\$45,706,718</b>	<b>\$40,933,709</b>

See accompanying notes. See Independent Auditors' Report on pages 27 to 29.

Approved on behalf of the Board of Management by:

  
\_\_\_\_\_  
Chairman  
Board of Management

  
\_\_\_\_\_  
Member  
Board of Management

## DEPOSIT INSURANCE CORPORATION

### Statement of Comprehensive Income

For the year ended December 31, 2016

	2016	2015
<b>Income</b>		
Premiums	\$2,874,250	\$2,858,057
Interest income	1,969,965	1,781,394
	<u>4,844,215</u>	<u>4,639,451</u>
<b>Expenses</b>		
Administration fee (Note 6)	33,013	33,013
Membership fee (Note 7)	17,006	12,350
Printing	7,430	5,714
Audit fee	7,375	5,590
Board honorarium	5,400	3,600
Website development	766	1,032
Miscellaneous	216	-
Public awareness campaign	-	9,631
	<u>71,206</u>	<u>70,930</u>
<b>Net income and total comprehensive income</b>	<u>\$4,773,009</u>	<u>\$4,568,521</u>

See accompanying notes. See Independent Auditors' Report on pages 27 to 29.



## DEPOSIT INSURANCE CORPORATION

### Statement of Changes in Equity

For the year ended December 31, 2016

	Capital	Deposit Insurance Fund	Total
<b>As at December 31, 2014</b>	\$500,000	\$35,865,188	\$36,365,188
Total comprehensive income	-	4,568,521	4,568,521
<b>As at December 31, 2015</b>	500,000	40,433,709	40,933,709
Total comprehensive income	-	4,773,009	4,773,009
<b>As at December 31, 2016</b>	\$500,000	\$45,206,718	\$45,706,718

See accompanying notes. See Independent Auditors' Report on pages 27 to 29.

# DEPOSIT INSURANCE CORPORATION

## Statement of Cash Flows

For the year ended December 31, 2016

	2016	2015
<b>CASH PROVIDED BY (USED IN)</b>		
<b>Cash flows from operating activities:</b>		
Net income	\$ 4,773,009	\$ 4,568,521
Adjustment to reconcile net income to net cash provided by operating activities:		
Interest income	(1,969,965)	(1,781,394)
<b>Cash provided by operations before changes in operating assets and liabilities</b>	<b>2,803,044</b>	<b>2,787,127</b>
<b>Changes in operating assets and liabilities</b>		
Decrease in premium receivable	-	574
(Increase) decrease in other assets	(1,626)	220
Increase in accounts payable and accrued expenses	860	390
Interest received	1,909,762	1,697,702
<b>Net cash provided by operating activities</b>	<b>4,712,040</b>	<b>4,486,013</b>
<b>Cash flows from investing activities</b>		
Purchase of investments	(3,972,000)	(5,310,600)
<b>Net cash used in investing activities</b>	<b>(3,972,000)</b>	<b>(5,310,600)</b>
Net increase (decrease) in cash and cash equivalents	740,040	(824,587)
Cash and cash equivalents, beginning of year	4,316	828,903
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 744,356</b>	<b>\$ 4,316</b>
<b>Represented by:</b>		
Cash at bank	\$ 744,356	\$ 4,316

See accompanying notes. See Independent Auditors' Report on pages 27 to 29.

# DEPOSIT INSURANCE CORPORATION

## Notes to Financial Statements

December 31, 2016

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### 1. GENERAL

The Deposit Insurance Corporation (“the Corporation”) was established by the Protection of Depositors Act, (“the Act”) on September 30, 1999 to manage the Deposit Insurance Fund. The Deposit Insurance Fund was established under the Act for the protection of depositors at member institutions. The Corporation insures Bahamian dollar deposits held at a member institution up to a maximum of \$50,000, for any single depositor, or such greater amount as the Minister may prescribe on the advice of the Central Bank of The Bahamas (“the Central Bank”).

The depositor of a member institution must submit a claim to the Corporation within one year from the date of closure of the member institution. Before payment of any insured sums to depositors, the Corporation offsets any monies owed to the member institution by such depositor against the insured amount.

Notwithstanding that the Corporation’s capital contribution was made by the Central Bank in accordance with the Act, it does not have the power to govern the financial and operating policies of the Corporation so as to obtain benefits from its activities. Accordingly, the Corporation is not considered a subsidiary of the Central Bank. Certain Members of the Board of Management of the Corporation are also Directors and Officers of the Central Bank.

The Registered Office of the Corporation is located at the Central Bank, Frederick Street, Nassau, Bahamas.

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

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

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

In May 2000, the Corporation became a founding member of the International Association of Deposit Insurers (“IADI”), an association established in Basel, Switzerland. IADI’s primary mission is the enhancement of deposit insurance effectiveness by developing guidance and promoting international cooperation.

These financial statements were authorized for issue by the Board of Management on March 13, 2017.

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

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

- |         |   |  |
|---------|---|--|
| IFRS 9  | - | Financial Instruments - effective from January 1, 2018                 |
| IFRS 15 | - | Revenue from Contracts with Customers - effective from January 1, 2018 |
| IFRS 16 | - | Leases - effective from January 1, 2019                                |

# DEPOSIT INSURANCE CORPORATION

Notes to Financial Statements

December 31, 2016

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

- IFRS 2 (amendments) - Share-based Payment - amendments for clarifications on classification and measurement of share-based payment transactions - effective from January 1, 2018
- IAS 7 (amendments) - Statement of Cash Flows (Disclosure Initiative) - amendments to require disclosure of changes in liabilities arising from financing activities - effective from January 1, 2017

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### a) Statement of compliance

The financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The significant accounting policies set out below have been consistently applied to all years presented, unless otherwise stated.

### b) Basis of preparation

These financial statements have been prepared on the historical cost basis except for investments which are measured at fair value. The financial statements are expressed in Bahamian dollars which is the functional and reporting currency of the Corporation.

### c) Use of estimates and judgments

The preparation of financial statements in compliance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenditure for the reporting period. Actual results could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following notes:

- Note 3(d) - Financial assets and liabilities
- Note 8 - Fair value of financial instruments
- Note 9 - Financial risk management

# DEPOSIT INSURANCE CORPORATION

Notes to Financial Statements

December 31, 2016

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

### d) Financial assets and liabilities

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

#### (i) Available-for-sale financial assets

Available-for-sale ("AFS") financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. AFS investments are those intended to be held for the long-term but which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or prices. Available-for-sale financial assets comprise investments.

#### (ii) Loans and receivables

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

#### Cash and cash equivalents

Cash and cash equivalents comprise cash at bank. Cash at bank is held with the Central Bank.

#### Accrued interest receivable

Accrued interest receivable represents interest receivable on investments.

#### Investments

Investments are carried at fair value based on the resale value available from the issuer. Unrealized gains and losses arising from changes in the fair value of investments classified as available-for-sale are recognized in other comprehensive income.

#### Impairment of financial assets

A financial asset is assessed at each reporting date to determine whether there is objective evidence of impairment. A financial asset is impaired if its carrying amount exceeds its estimated recoverable amount. An impairment loss on a financial asset is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognized in the statement of comprehensive income. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognized.

# DEPOSIT INSURANCE CORPORATION

Notes to Financial Statements

December 31, 2016

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

### d) Financial assets and liabilities (continued)

#### Fair value hierarchy

The Corporation measures fair values using the following fair value hierarchy that reflects the significance of the inputs in making the measurements:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 - Inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, the measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

The determination of what constitutes “observable” requires significant judgment by the Corporation. The Corporation considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

#### Financial liabilities

The Corporation classifies its financial liabilities as other financial liabilities.

- Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Balances included in this classification are unpaid claims and accounts payable and accrued expenses.

#### Recognition of financial assets and liabilities

The Corporation recognizes financial assets and financial liabilities when it becomes a party to the contractual provisions of the instruments.

#### Derecognition of financial assets and liabilities

The Corporation derecognizes financial assets when the contractual rights to receive the cash flows from the assets expire or have been transferred and the Corporation has transferred substantially all the risks and rewards of ownership of the assets. A financial liability is derecognized when its contractual obligations are discharged, cancelled or expire.

# DEPOSIT INSURANCE CORPORATION

Notes to Financial Statements

December 31, 2016

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

### e) Capital

Capital comprises the contribution paid by the Central Bank in accordance with Section 13(2) of the Act (see Note 5). The Act does not provide for member institutions to be shareholders of the Corporation and accordingly, these institutions do not hold any equity in the Corporation.

### f) Deposit insurance fund

Deposit insurance fund ("the Fund") was established under the Act for the protection of depositors. The Fund is managed by the Board of Management of the Corporation. Membership in the Fund is compulsory for every institution carrying on banking business wholly or partly in Bahamian dollars and licensed under the Banks and Trust Companies Regulation Act. The Fund comprises accumulated earnings of the Corporation.

### g) Related parties

Related parties represent entities or individuals that can exercise significant influence or control over the operations and policies of the Corporation. The Central Bank and certain of its directors and officers are considered to be related parties of the Corporation.

### h) Income and expenses

#### (i) Premiums

The premium payable by a member institution in respect of the year in which it becomes a member institution shall be the same proportion of one twentieth of one percent of the sum of those deposits insured by the Corporation and deposited with the member institution as at the end of the month in which it becomes a member institution, as the number of days in which any of the deposits with that member institution are insured by the Corporation in that year.

Thereafter, every member institution pays an annual premium equal to one twentieth of one percent of an amount equal to the average of the sum of those deposits insured by the Corporation and deposited with the member institution as of March 31 and September 30 in the immediately preceding premium year.

Premiums are recognized on an accrual basis when the Corporation's right to receive the premiums is established.

#### (ii) Interest income

Interest income is recognized on an accrual basis using the effective interest method.

#### (iii) Expenses

Expenses are recognized on an accrual basis.

#### i) Value added tax on premiums

Premiums are a statutory requirement and therefore not subject to value added tax.

# DEPOSIT INSURANCE CORPORATION

## Notes to Financial Statements

December 31, 2016

### 4. INVESTMENTS

As at December 31, investments in Bahamas Government Registered Stocks are as follows:

Date of purchase	Interest rate	Maturity date	2016 Fair value	2015 Fair value
Aug. 28, 2001	5.25%	Oct. 25, 2020	\$ 1,000,000	\$ 1,000,000
Mar. 25, 2002	5.22%	Dec. 12, 2018	147,000	147,000
Jun. 19, 2002	5.09%	Sep. 6, 2020	350,000	350,000
Dec. 2, 2004	5.22%	Jul. 21, 2019	400,000	400,000
Apr. 6, 2005	5.03%	Jul. 29, 2023	900,000	900,000
Nov. 14, 2005	5.03%	Oct. 22, 2023	950,000	950,000
Jan. 18, 2006	5.06%	Jan. 18, 2026	1,050,000	1,050,000
Sep. 28, 2006	5.00%	Sep. 7, 2024	1,650,000	1,650,000
May 25, 2007	5.03%	Sep. 22, 2025	1,400,000	1,400,000
Jul. 4, 2007	5.00%	Sep. 7, 2024	900,000	900,000
Jan. 22, 2008	5.03%	Sep. 22, 2025	1,250,000	1,250,000
Jul. 22, 2008	5.00%	Jan. 18, 2024	1,450,000	1,450,000
Feb. 6, 2009	4.84%	Nov. 28, 2020	1,499,000	1,499,000
Jul. 24, 2009	4.78%	Nov. 28, 2018	1,550,000	1,550,000
Feb. 2, 2010	4.89%	Aug. 27, 2029	1,750,000	1,750,000
Jul. 26, 2010	4.90%	Jul. 26, 2034	1,528,500	1,528,500
Jul. 26, 2010	4.93%	Jul. 26, 2037	121,500	121,500
Feb. 15, 2011	4.83%	Jul. 26, 2028	1,900,000	1,900,000
Nov. 10, 2011	4.84%	Nov. 10, 2028	1,057,500	1,057,500
Jul. 16, 2012	4.30%	Jul. 16, 2029	1,100,000	1,100,000
Jul. 16, 2012	4.32%	Jul. 16, 2030	1,150,000	1,150,000
Jul. 16, 2012	4.35%	Jul. 16, 2031	1,150,000	1,150,000
Sep. 25, 2012	4.80%	Sep. 25, 2030	117,300	117,300
Sep. 25, 2012	4.81%	Sep. 25, 2032	150,000	150,000
Apr. 17, 2013	4.81%	Apr. 17, 2032	1,500,000	1,500,000
Apr. 17, 2013	4.81%	Apr. 17, 2033	1,500,000	1,500,000
Jul. 26, 2013	4.81%	Jul. 26, 2033	700,000	700,000
Jul. 26, 2013	4.82%	Jul. 26, 2034	1,000,000	1,000,000
Oct. 23, 2013	4.80%	Apr. 17, 2031	800,000	800,000
Feb. 3, 2014	4.81%	Sep. 23, 2032	1,870,000	1,870,000
Jun. 27, 2014	4.81%	Sep. 23, 2032	1,850,000	1,850,000
Sep. 2, 2014	4.80%	Sep. 23, 2031	330,000	330,000
Dec. 10, 2014	3.52%	Oct. 30, 2021	1,000,000	1,000,000
Jan. 2, 2015	3.52%	Oct. 30, 2021	800,000	800,000
Feb. 10, 2015	3.52%	Oct. 30, 2021	250,000	250,000
Apr. 14, 2015	4.35%	Jul. 16, 2031	300,000	300,000
May 19, 2015	4.80%	Sep. 23, 2031	200,000	200,000
Jul. 28, 2015	4.81%	Sep. 25, 2032	95,800	95,800
Jul. 28, 2015	4.81%	Apr. 17, 2032	485,100	485,100
<b>Balance carried forward</b>			<b>\$37,201,700</b>	<b>\$37,201,700</b>



# DEPOSIT INSURANCE CORPORATION

## Notes to Financial Statements

December 31, 2016

### 4. INVESTMENTS (continued)

Date of purchase	Interest rate	Maturity date	2016 Fair value	2015 Fair value
<b>Balance brought forward</b>			\$37,201,700	\$37,201,700
Jul. 28, 2015	4.81%	Jul. 26, 2033	909,100	909,100
Sep. 2, 2015	4.81%	Jul. 26, 2033	300,000	300,000
Oct. 20, 2015	3.52%	Oct. 30, 2021	276,500	276,500
Oct. 20, 2015	4.81%	Jul. 26, 2033	44,100	44,100
Nov. 18, 2015	4.81%	Jul. 26, 2033	190,000	190,000
Dec. 22, 2015	4.81%	Jul. 26, 2033	1,460,000	1,460,000
Aug. 26, 2016	5.40%	Aug. 26, 2036	188,800	-
Sep. 13, 2016	5.38%	Jul. 26, 2037	33,000	-
Sep. 15, 2016	4.93%	Jul. 26, 2037	15,200	-
Sep. 15, 2016	4.93%	Jul. 26, 2037	20,000	-
Oct. 3, 2016	5.40%	Oct. 3, 2036	2,590,000	-
Nov. 7, 2016	4.25%	Jan. 15, 2024	370,000	-
Dec. 5, 2016	4.25%	Jan. 15, 2024	690,000	-
Dec. 5, 2016	4.25%	Jan. 15, 2024	65,000	-
			\$44,353,400	\$40,381,400

### 5. CAPITAL

The authorized capital of the Corporation is \$1,000,000. The initial contribution to the Corporation was \$1,000,000 of which \$500,000 was paid by the Central Bank in accordance with Section 13(2) of the Act and recognized as capital in the statement of financial position. The remaining contribution of \$500,000 was levied on member institutions in accordance with Section 5(1) of the Act and was recognized as premiums in the statement of comprehensive income.

### 6. ADMINISTRATION FEE

The Corporation pays a fee of \$30,710 per annum to the Central Bank, plus out-of-pocket expenses paid on behalf of the Corporation, for administrative services rendered. During the year, the Corporation paid \$33,013 (2015: \$33,013) to the Central Bank for such services.

### 7. MEMBERSHIP FEE

As a member of IADI, the Corporation pays an annual membership fee of CHF17,650 (2015: CHF11,390). For the year ended December 31, 2016, the fee amounted to \$17,006 (2015: \$12,350).

# DEPOSIT INSURANCE CORPORATION

## Notes to Financial Statements

December 31, 2016

### 8. FAIR VALUE OF FINANCIAL INSTRUMENTS

Management estimates that the carrying values of the financial assets and liabilities disclosed in the statement of financial position approximate their fair values at the reporting date for one or more of the following reasons:

- (i) Short-term maturities;
- (ii) Interest rates approximate market rates; and
- (iii) Carrying values equal fair values.

#### Fair value hierarchy

The table below shows the fair value hierarchy level for financial assets measured at fair value as of December 31, 2016:

	2016			Total
	Level 1	Level 2	Level 3	
<b>Available-for-sale financial assets</b>				
Investments	\$ -	\$44,353,400	\$ -	\$44,353,400

	2015			Total
	Level 1	Level 2	Level 3	
<b>Available-for-sale financial assets</b>				
Investments	\$ -	\$40,381,400	\$ -	\$40,381,400

### 9. FINANCIAL RISK MANAGEMENT

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

#### (a) Credit risk

Credit risk is the possibility that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered with the Corporation and causes the Corporation to incur a financial loss. It arises principally from available-for-sale investments and accrued interest receivable.

The Corporation limits its exposure to credit risk by investing in Bahamas Government Registered Stocks. No financial assets were past due or impaired at the reporting date. The Board of Management does not anticipate non-performance of these amounts.

The maximum exposure to credit risk for the Corporation at the reporting date equals the carrying value of its financial assets in the statement of financial position.

# DEPOSIT INSURANCE CORPORATION

## Notes to Financial Statements

December 31, 2016

### 9. FINANCIAL RISK MANAGEMENT (continued)

#### (b) Liquidity risk

Liquidity risk is the possibility that the Corporation will encounter difficulties in meeting obligations arising from its financial liabilities that are settled by delivering cash or another financial asset, or that such obligations will have to be settled in a manner disadvantageous to the Corporation. The Corporation's objective is to ensure sufficient liquidity to meet its obligations when due. Ultimate responsibility for management of liquidity risk rests with the Board of Management. The Board of Management manages liquidity risk by monitoring expected cash flows from premiums and investments.

The following table summarizes the carrying amounts of financial assets and liabilities of the Corporation into relevant maturity groups based on expected contractual maturities as at December 31, 2016. The table includes only principal cash flows.

	2016			
	Within 1 year	2 to 5 years	Over 5 years	Total
<b>Financial assets</b>				
<u>Loans and receivables</u>				
Cash at bank	\$744,356	\$ -	\$ -	\$ 744,356
Accrued interest receivable	663,398	-	-	663,398
	1,407,754	-	-	1,407,754
<u>Available-for-sale financial assets</u>				
Investments	-	7,272,500	37,080,900	44,353,400
	1,407,754	7,272,500	37,080,900	45,761,154
<b>Financial liabilities</b>				
<u>Other financial liabilities</u>				
Unpaid claims	52,644	-	-	52,644
Accounts payable and accrued expenses	6,450	-	-	6,450
	59,094	-	-	59,094
<b>Net assets</b>	<b>\$1,348,660</b>	<b>\$7,272,500</b>	<b>\$37,080,900</b>	<b>\$45,702,060</b>

# DEPOSIT INSURANCE CORPORATION

Notes to Financial Statements

December 31, 2016

## 9. FINANCIAL RISK MANAGEMENT (continued)

### (b) Liquidity risk (continued)

	2015			
	Within 1 year	2 to 5 years	Over 5 years	Total
<b>Financial assets</b>				
<u>Loans and receivables</u>				
Cash at bank	\$ 4,316	\$ -	\$ -	\$ 4,316
Accrued interest receivable	603,195	-	-	603,195
	607,511	-	-	607,511
<u>Available-for-sale financial assets</u>				
Investments	-	4,946,000	35,435,400	40,381,400
	607,511	4,946,000	35,435,400	40,988,911
<b>Financial liabilities</b>				
<u>Other financial liabilities</u>				
Unpaid claims	52,644	-	-	52,644
Accounts payable and accrued expenses	5,590	-	-	5,590
	58,234	-	-	58,234
<b>Net assets</b>	<b>\$549,277</b>	<b>\$4,946,000</b>	<b>\$35,435,400</b>	<b>\$40,930,677</b>

### (c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk:

#### (i) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Corporation does not engage in transactions in currencies other than the Bahamian dollar. Accordingly, the Corporation has no exposure to foreign currency risk.

#### (ii) Interest rate risk

Interest rate risk arises from the possibility that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation is exposed to interest rate risk arising from its investments. If interest rates had been 1% higher/lower, with all other variables remaining constant, net assets would have increased/decreased by \$443,534 (2015: \$403,814) as a result of the change in interest rates.

# DEPOSIT INSURANCE CORPORATION

Notes to Financial Statements

December 31, 2016

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## 9. FINANCIAL RISK MANAGEMENT (continued)

### (c) Market risk (continued)

#### (iii) Other price risk

Other price risk is the possibility that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market. It embodies not only the potential for loss but also the potential for gain. The Corporation does not hold equity securities.

### (d) Capital risk management

The Corporation manages its net assets to ensure that it will be able to continue as a going concern while meeting its obligations. The capital of the Corporation is represented by its net assets. The Corporation is not subject to externally-imposed capital requirements.

See Independent Auditors' Report on pages 27 to 29.



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