

Financial Statements of

**DEPOSIT INSURANCE CORPORATION**

December 31, 2003

# DEPOSIT INSURANCE CORPORATION

Financial Statements

December 31, 2003

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**INDEPENDENT AUDITORS' REPORT**

To the Board of Management of  
**DEPOSIT INSURANCE CORPORATION**

We have audited the accompanying balance sheet of Deposit Insurance Corporation ("the Corporation") as of December 31, 2003 and the related statements of operations, changes in shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Board of Directors of the Corporation. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements present fairly, in all material respects, the financial position of Deposit Insurance Corporation as of December 31, 2003 and the results of its operations, changes in shareholders' equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

July 7, 2004

Nassau, Bahamas

A handwritten signature in black ink, appearing to read "Gomez Partners &amp; Co.", written in a cursive style.

**CHARTERED ACCOUNTANTS**

# DEPOSIT INSURANCE CORPORATION

## Balance Sheet

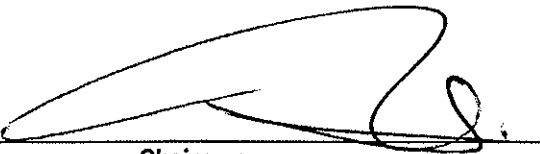
December 31, 2003


(Expressed in Bahamian dollars)

	2003	2002
<b>Assets</b>		
Cash	\$ 1,670,696	\$ 2,140,753
Investments (Note 3)	5,552,400	3,581,100
Premiums receivables (Note 7)	-	93,853
Accrued interest receivable	129,441	76,230
Prepaid and other assets	5,000	5,000
<b>Total assets</b>	<b>\$ 7,357,537</b>	<b>\$ 5,896,936</b>
<b>Liabilities</b>		
Bonds payable (Note 4)	\$ 6,750,000	\$ 6,750,000
Unpaid claims	103,424	104,635
Accrued interest payable	42,766	42,766
Accounts payable and accrued expenses	13,982	22,545
<b>Total liabilities</b>	<b>6,910,172</b>	<b>6,919,946</b>
<b>Accumulated fund</b>		
Capital (Note 6)	500,000	500,000
Accumulated deficit	( 52,635)	(1,523,010)
<b>Total accumulated fund</b>	<b>447,365</b>	<b>(1,023,010)</b>
<b>Total liabilities and accumulated fund</b>	<b>\$ 7,357,537</b>	<b>\$ 5,896,936</b>

See accompanying notes. See Independent Auditors' Report page 1.

Signed on behalf of The Board of Management:

  
Chairman

  
Member of The Board

# DEPOSIT INSURANCE CORPORATION

## Statement of operations

For the year ended December 31, 2003

	2003	2002
<b>Income</b>		
Premiums (Note 7)	\$1,630,005	\$1,554,724
Interest income	289,096	200,693
Other income (Note 8)	-	897,785
<b>Total income</b>	<b>1,919,101</b>	<b>2,653,202</b>
<b>Expenses</b>		
Interest expense	420,574	422,021
Audit fees	8,115	9,640
Other expenses	20,037	14,125
<b>Total expenses</b>	<b>448,726</b>	<b>445,786</b>
<b>Net income for the year</b>	<b>\$1,470,375</b>	<b>\$2,207,416</b>

See accompanying notes. See Independent Auditors' Report page 1.

# DEPOSIT INSURANCE CORPORATION

## Statement of Changes in Shareholders' Equity

For the year ended December 31, 2003

	Capital	Accumulated Deficit	Total
Balance at January 1, 2002	\$500,000	\$(3,730,426)	\$(3,230,426)
Net income for the year	-	2,207,416	2,207,416
Balance at December 31, 2002	\$500,000	\$(1,523,010)	\$(1,023,010)
Balance at January 1, 2003	500,000	(1,523,010)	(1,023,010)
Net income for the year	-	1,470,375	1,470,375
Balance at December 31, 2003	\$500,000	\$( 52,635)	\$ 447,365

See accompanying notes. See Independent Auditors' Report on page 1.

# DEPOSIT INSURANCE CORPORATION

## Statement of Cash Flows

For the year ended December 31, 2003

	2003	2002
<b>Cash flows from operating activities:</b>		
<b>Operations</b>		
Net income for the year	\$ 1,470,375	\$ 2,207,416
Adjustments to reconcile net income to net cash provided by Operating activities:		
Interest income	( 289,096)	( 200,693)
Interest expense	420,574	422,021
<b>Operating profit before working capital charges</b>	<b>1,601,853</b>	<b>2,428,744</b>
<b>(Increase) decrease in operating assets:</b>		
Premiums receivable	93,853	( 93,853)
Prepaid and other assets	-	( 4,999)
<b>Increase (decrease) in operating liabilities:</b>		
Unpaid claims	( 1,211)	( 62,005)
Accounts payable and accrued expenses	( 8,563)	( 5,922)
Interest received	235,885	188,392
Interest paid	( 420,574)	( 423,176)
<b>Net cash provided by operating activities</b>	<b>1,501,243</b>	<b>2,027,181</b>
<b>Cash flows used in investing activity:</b>		
Purchase of investments	(1,971,300)	( 781,100)
<b>Net cash used in investing activities</b>	<b>(1,971,300)</b>	<b>( 781,100)</b>
<b>Net (decrease) increase in cash</b>	<b>( 470,057)</b>	<b>1,246,081</b>
Cash at beginning of year	2,140,753	894,672
<b>Cash, end of year</b>	<b>\$ 1,670,696</b>	<b>\$ 2,140,753</b>

See accompanying notes. See Independent Auditors' Report page 1.

# DEPOSIT INSURANCE CORPORATION

Notes to Financial Statements

December 31, 2003

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## 1. GENERAL

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

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

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

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

During May 2000, the Corporation became a founding member of 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.

The registered office of the Corporation is located at the Central Bank of The Bahamas, Frederick Street, P.O. Box N-4868, Nassau, The Bahamas. The Corporation does not have any employees. The Bank provides administration and other services associated with the operation of the Corporation. Certain directors of the Corporation are also directors and officers of the Bank.

## 2. SIGNIFICANT ACCOUNTING POLICIES

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

### Basis of preparation

The Corporation financial statements have been prepared under the historical cost convention and in accordance with International Financial Reporting Standards (IFRS). The preparation of the financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent asset and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Corporation adopted IAS – Financial Instruments: Recognition and measurement on January 1, 2001.



# DEPOSIT INSURANCE CORPORATION

Notes to Financial Statements

December 31, 2003

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Investments

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

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

### Income and expense recognition

Income and expenses are recorded on an accrual basis.

## 3. INVESTMENTS

During the year, the investments in Bahamas Government Registered Stocks earned interest at rates ranging between 6.34% to 6.50% (2002:6.34% to 6.50%) per annum. These interest rates are tied to the Nassau Prime Rate and the investments have maturing dates ranging between 2018 - 2023 (2002:2018 - 2022). The investments held at December 31, 2003 are as follows:

<u>Value Date</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Cost</u>	<u>Face Value</u>
09/19/00	6.4688%	2019	\$1,800,000	\$1,800,000
08/24/01	6.5000%	2020	1,000,000	1,000,000
03/20/02	6.4688%	2018	147,000	147,000
09/06/02	6.3438%	2020	350,000	350,000
09/06/02	6.3750%	2021	219,200	219,200
12/04/02	6.4063%	2022	64,900	64,900
06/03/03	6.3750%	2023	128,000	128,000
07/04/03	6.3750%	2023	105,200	105,200
07/21/03	6.0937%	2014	393,500	393,500
07/21/03	6.1875%	2017	8,500	8,500
07/21/03	6.3438%	2022	1,182,000	1,182,000
07/21/03	6.3750%	2023	154,100	154,100
<b>Total 2003</b>			<b>5,552,400</b>	<b>5,552,400</b>
<b>Total 2002</b>			<b>\$3,581,100</b>	<b>\$3,581,100</b>

# DEPOSIT INSURANCE CORPORATION

## Notes to Financial Statements

December 31, 2003

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### 4. BONDS PAYABLE

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

### 5. INITIAL CONTRIBUTION

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

### 6. CAPITAL

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

The authorized capital of the Corporation is \$1,000,000, which may be increased by order of the Minister in accordance with Subsection (1) of Section 13 of the Act. At December 31, 2003, paid-up capital was \$500,000 (2002-\$500,000).

### 7. PREMIUMS

The premiums due in the year an institution becomes a member of the Corporation is equal to one twentieth of one percent of the sum of those deposits insured by the Corporation and deposited with the member institution as at the end of the month in which it becomes a member institution. Thereafter, the annual premium is equal to one twentieth of one percent of an amount equal to the average of the sum of those deposits insured by the Corporation as of March 31, and September 30, in the immediately preceding premium year. For the year ended December 31, 2003, the Corporation earned premiums totaling \$1,630,005 (2002 - \$1,554,724) of which \$Nil was outstanding as of December 31, 2003 (2002-\$93,853).

### 8. OTHER INCOME

During the year 2002, the Corporation received a 10% distribution payment totaling \$897,785 from the liquidators of GUB, which represented the first distribution payment since GUB's closure on December 12, 1997. Prior to this distribution payment, the depositors of GUB were paid by the Corporation up to a maximum of \$50,000 per depositor, pursuant to the Act.

# DEPOSIT INSURANCE CORPORATION

Notes to Financial Statements

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## 9. RELATED PARTY BALANCES

As at December 31, 2003, the following balances were with the Bank:

	2003	2002
Cash	\$1,670,696	\$2,140,753
Accounts payable	\$ 5,867	\$ 10,519

## 10. EXEMPTIONS

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

## 11. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

See Independent Auditors' Report page 1.