



BDIC

**BERMUDA DEPOSIT
INSURANCE CORPORATION**



2019 ANNUAL REPORT

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**BERMUDA DEPOSIT
INSURANCE CORPORATION**

Enhancing Bermuda's Financial Safety Net

Board of Directors

Stephen Todd, JP

CHAIRMAN

CEO, The Bermuda Hotel Association / Hotel Employers of Bermuda

Jeremy Cox

CEO, Bermuda Monetary Authority

Mark Crockwell, CFA

Treasurer, Said Holdings Ltd.

Nathan Kowalski, CPA, CA, CFA, CIM

CFO, Anchor Investment Management Ltd.

Anthony Manders

Financial Secretary, Government of Bermuda

Marcia Woolridge-Allwood

Senior Advisor, Bermuda Monetary Authority

Chairman's Report

On behalf of the Board, I am pleased to present the third Annual Report on the operations and activities of the Bermuda Deposit Insurance Corporation (BDIC) for the year ended March 31, 2019.

We were delighted to be able to recently formally announce the Deposit Insurance Scheme (DIS) to the general public and we are deeply appreciative of the role played by the Minister of Finance and representatives from the Bermuda Bankers Association at the press conference.

The Board has further strengthened its internal operating policies and practices during the year under review with the development of an Accounting Policies and Procedures Manual along with the development of a consultative research document which will assist with the eventual establishment of a Reserving Policy. These documents respectively provide for the codification of the standard operating practices and policies of the BDIC and the establishment of a framework for the provision of a targeted reserve for potential future claims in the event of a failure within the financial sector covered by the DIS.

The BDIC continues to play a strategic role alongside the Bermuda Monetary Authority in providing an enhanced financial safety net for qualifying Scheme member depositors in Bermuda. We continue to participate in the activities of the Banking Liaison Panel which was established pursuant to the enactment of the Banking (Special Resolution Regime) Act 2016 as a sitting member of that panel whose broad remit is to provide a robust resolution/stabilisation framework for banks in Bermuda with the able participation of constituents from the supervisory, banking and legal sectors.

The Board has also recently committed to align the BDIC with leading deposit insurance entities across the world by approving and initiating the process to establish formal membership in the International Association of Deposit Insurers (IADI), whose participants include deposit insurers, central banks and other international organisations with an interest in financial stability. IADI is an international standard setting body with standards recognised and utilised around the world. Membership in IADI will further provide the BDIC with access to standards, guidance, and assessment methodologies to enhance the effectiveness of the local Scheme, as well as training and development for staff.

The Deposit Insurance Fund (the Fund) stood at \$15.81 million as at March 31, 2019 (2018 – \$9.80 million) and continues to be principally invested in a ladder-style structure of US Government Treasury Notes with the investments evenly spread across maturities ranging from 5 to 1 year time rungs.

Total premiums received from scheme members aggregated approximately \$6.16 million (2018 – \$6.09 million), with premiums earned on individual and joint accounts contributing \$5.61 million or 91% of the total (2018 – \$5.53 million (91%)). Premium income continues to be based on a premium rate of .25% per annum and charged on average quarterly declared insured deposits, which aggregated approximately \$2.47 billion for the year (2018 – \$2.43 billion). Total comprehensive income earned for the year was \$6.01 million (2018 – \$5.73 million) after incurring total operating expenses of \$438,000 (2018 – \$374,000). This resulted in approximately 93 cents (2018 – 94 cents) on every dollar of total revenue earned accruing to the bottom line and into the Fund.

The Board continues to be committed to fulfilling its mandate to manage the DIS with prudent and sound management and operating practices while implementing a conservative investment strategy.



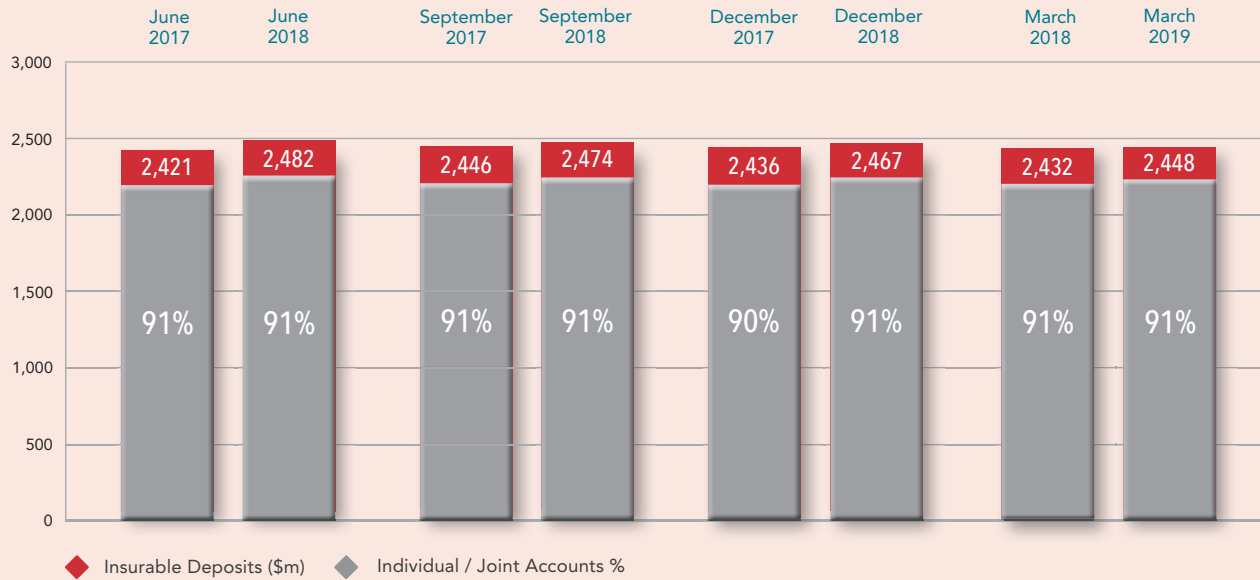
Stephen W. G. Todd JP

CHAIRMAN

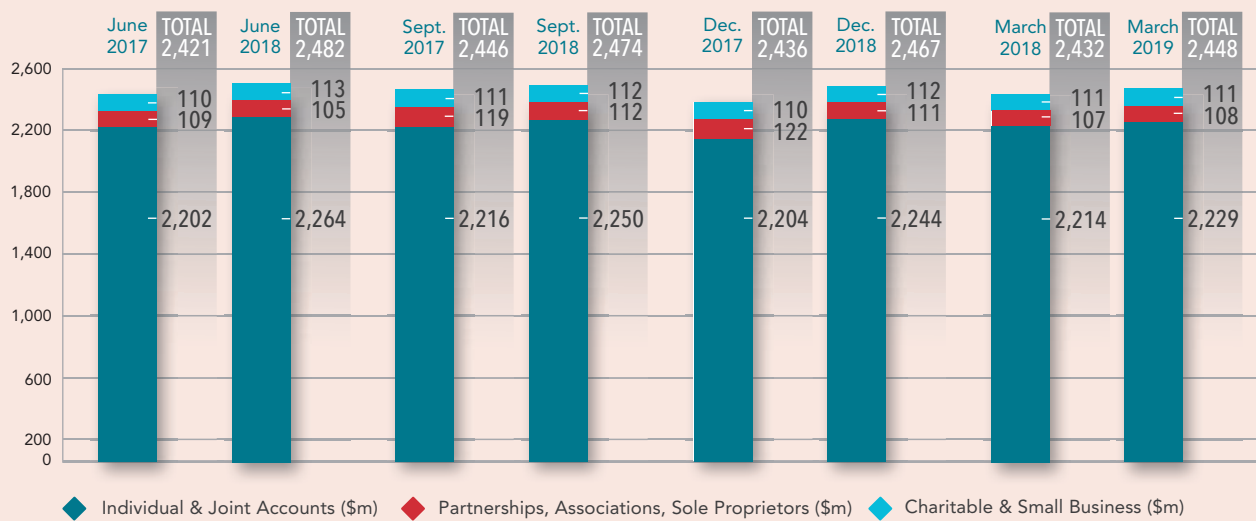


Data & Analysis

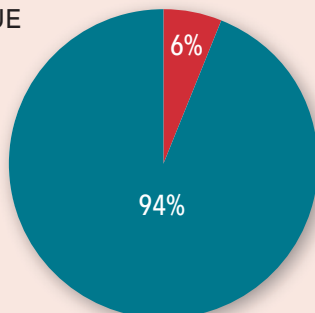
INSURABLE DEPOSITS (\$M) AND INDIVIDUAL / JOINT ACCOUNTS %



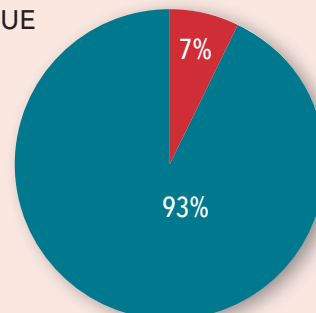
INSURABLE DEPOSITS BY CATEGORY (\$M)



RETAINED REVENUE March 2018



RETAINED REVENUE March 2019



- ◆ Retained Revenue
- ◆ Expenses

December 17, 2019

The Hon Curtis L. Dickinson, JP, MP
Minister of Finance
Ministry of Finance
Hamilton

Dear Minister,

In accordance with section 35(1) of the Deposit Insurance Act 2011, I have the privilege to submit to you a report of the operations of the Bermuda Deposit Insurance Corporation for the year ended March 31, 2019 together with the statement of accounts and the opinion of the Auditor General.

Yours sincerely



Stephen W. G. Todd JP
Chairman

December 11, 2019

Management's Responsibility for the Financial Statements.

These financial statements have been prepared by those charged with governance, who are responsible for the reliability, integrity and objectivity of the information provided. The preparation of financial statements necessarily involves using management's best estimates and judgements, where appropriate.

Those charged with governance are responsible for maintaining a comprehensive system of accounting records, internal controls, policies and management practices, designed to provide reasonable assurance that transactions are properly authorised and in compliance with legislation, assets are safeguarded, and reliable financial information is available on a timely basis.

Those charged with governance are responsible for ensuring that they fulfill their responsibility for financial reporting and internal controls. They meet periodically to discuss matters relating to financial reporting, internal control and audit. They also review the financial statements before their approval. The financial statements have been approved by those charged with governance and have been examined by the Office of the Auditor General.

The accompanying Independent Auditor's Report is presented herein.



Stephen W. G. Todd JP
Chairman



Nathan Kowalski
Director



Office of the Auditor General

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the Bermuda Deposit Insurance Corporation

Report on the Audit of the Financial Statements

Opinion

I have audited the financial statements of the Bermuda Deposit Insurance Corporation, which comprise the statement of financial position as at March 31, 2019, 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 my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bermuda Deposit Insurance Corporation as at March 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards generally accepted in Bermuda and Canada.

Basis for Opinion

I conducted my audit in accordance with auditing standards generally accepted in Bermuda and Canada. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Bermuda Deposit Insurance Corporation in accordance with the ethical requirements that are relevant to my audit of the financial statements in Bermuda, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards generally accepted in Bermuda and Canada, 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 Bermuda Deposit Insurance 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 Bermuda Deposit Insurance Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bermuda Deposit Insurance Corporation's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

My 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 auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Bermuda and Canada 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 auditing standards generally accepted in Bermuda and Canada, I exercise professional judgment and maintain professional skepticism throughout the audit. I 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 my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than from 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 Bermuda Deposit Insurance Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- 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 Bermuda Deposit Insurance Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Bermuda Deposit Insurance 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.

I 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 I identify during the audit.

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

A further description of the auditor's responsibilities for the audit of the financial statements is located at the Office of the Auditor General website at: www.oagbermuda.bm. This description forms part of our auditor's report.

Report on Other Legal and Regulatory Requirements

As required by Schedule 2 of the Deposit Insurance Act 2011, I also report that, in my opinion, the financial statements show fairly the financial transactions and the state of affairs of the Bermuda Deposit Insurance Corporation, proper accounting and other records have been kept, including records of all assets of the Bermuda Deposit Insurance Corporation, and the receipts, expenditure and investment of moneys and the acquisition and disposal of assets by the Bermuda Deposit Insurance Corporation during the year ended March 31, 2019, were in accordance with the provisions of the Deposit Insurance Act 2011.



Hamilton, Bermuda
December 11, 2019

Heather Thomas, CPA, CFE, CGMA
Auditor General

Financial Statements

BERMUDA DEPOSIT INSURANCE CORPORATION

Statement of Financial Position

As at March 31, 2019

(Expressed in Bermuda Dollars)

	<u>2019</u>	<u>2018</u>
Assets		
Current assets		
Cash (Note 5)	\$ 366,369	\$ 8,320,476
Accrued interest	63,423	–
Investments, amortised cost (Note 9)	3,075,820	–
Accrued income (Note 9)	1,530,130	1,528,857
Prepayments	<u>2,427</u>	<u>1,960</u>
Total current assets	<u>5,038,169</u>	<u>9,851,293</u>
Non-current asset		
Investments, amortised cost (Note 9)	10,854,480	–
Property and equipment (Note 6)	<u>3,301</u>	<u>5,859</u>
Total non-current assets	<u>10,857,781</u>	<u>5,859</u>
Total assets	<u>\$ 15,895,950</u>	<u>\$ 9,857,152</u>
Liabilities and equity		
Current liabilities		
Accounts payable and accrued liabilities (Note 9)	\$ <u>86,450</u>	\$ <u>56,300</u>
Total current liabilities	<u>86,450</u>	<u>56,300</u>
Equity		
Retained earnings	<u>15,809,500</u>	<u>9,800,852</u>
Total equity	<u>15,809,500</u>	<u>9,800,852</u>
Total liabilities and equity	<u>\$ 15,895,950</u>	<u>\$ 9,857,152</u>

Commitments (Note 7)

Signed on behalf of Bermuda Deposit Insurance Corporation:



Chairman



Director

The accompanying notes are an integral part of the financial statements.

BERMUDA DEPOSIT INSURANCE CORPORATION

Statement of Comprehensive Income

For the year ended March 31, 2019
(Expressed in Bermuda Dollars)

	<u>2019</u>	<u>2018</u>
Revenue		
Premiums (Note 8)	\$ 6,160,800	\$ 6,094,054
Interest income (Notes 2 and 9)	148,937	5,838
Accretion of discounts on investments (Notes 2 and 9)	<u>137,226</u>	<u>—</u>
Total revenue	<u>6,446,963</u>	<u>6,099,892</u>
Expenses		
Professional fees	306,088	219,393
Administrative	67,945	92,832
Occupancy (Note 7)	61,724	58,756
Depreciation (Note 6)	<u>2,558</u>	<u>2,565</u>
Total expenses	<u>438,315</u>	<u>373,546</u>
Total comprehensive income for the year	<u>\$ 6,008,648</u>	<u>\$ 5,726,346</u>

The accompanying notes are an integral part of the financial statements.

BERMUDA DEPOSIT INSURANCE CORPORATION

Statement of Changes in Equity

For the year ended March 31, 2019
(Expressed in Bermuda Dollars)

	<u>2019</u>	<u>2018</u>
Equity		
Balance, beginning of year	\$ 9,800,852	\$ 4,074,506
Total comprehensive income for the year	<u>6,008,648</u>	<u>5,726,346</u>
Balance, end of year	<u>\$ 15,809,500</u>	<u>\$ 9,800,852</u>

The accompanying notes are an integral part of the financial statements.

BERMUDA DEPOSIT INSURANCE CORPORATION

Statement of Cash Flows

For the year ended March 31, 2019
(Expressed in Bermuda Dollars)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Total comprehensive income for the year	\$ 6,008,648	\$ 5,726,346
Adjustment for:		
Depreciation	2,558	2,565
Accretion of discounts on investments, amortised cost	(137,226)	-
Changes in working capital:		
Increase in accrued income	(1,273)	(40,575)
Increase/(decrease) in accounts payable and accrued liabilities	30,150	(2,754)
(Increase)/decrease in prepayments	(467)	3,342
Increase in accrued interest	<u>(63,423)</u>	<u>-</u>
Net cash provided by operating activities	<u>5,838,967</u>	<u>5,688,924</u>
Cash flows from investing activities		
Purchase of investments, amortised cost	<u>(13,793,074)</u>	<u>-</u>
Net cash used in investing activities	<u>(13,793,074)</u>	<u>-</u>
Net (decrease) increase in cash	(7,954,107)	5,688,924
Cash, beginning of year	<u>8,320,476</u>	<u>2,631,552</u>
Cash, end of year	\$ 366,369	\$ 8,320,476
Interest received	<u>\$ 6,282</u>	<u>\$ 5,838</u>

The accompanying notes are an integral part of the financial statements.

BERMUDA DEPOSIT INSURANCE CORPORATION

Notes to the financial statements

March 31, 2019

(Expressed in Bermuda Dollars)

1. General

The Bermuda Deposit Insurance (the "Corporation") was incorporated in Bermuda in 2011 as an independent body to administer and enforce the Deposit Insurance Scheme ("DIS") in Bermuda, as well as to manage the Deposit Insurance Fund (the "Fund"). These financial statements reflect the financial position, results of operations, changes in equity and cash flows of the Fund. The address of its registered and business office is 26 Victoria Street, Hamilton HM 12, Bermuda.

The functions and powers of the Corporation are set out in Section 5 of the Bermuda Deposit Insurance Act 2011 and its amendments (the "Act"). The primary functions of the Corporation are to collect premiums from all members of the DIS, that is Bermuda's licensed banks and credit unions, and investing them, issuing the prompt payment of compensation to insured depositors from the Fund, up to a current maximum limit of \$25,000, educating the public on the DIS and its purpose and ensuring institutions adhere to the DIS.

2. Basis of preparation and significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied for the period presented, unless otherwise stated.

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) promulgated by the International Accounting Standards Board.

These financial statements were authorised for issue by the Board of Directors on December 11, 2019.

(b) Frequency of reporting

These financial statements were prepared for the year ended March 31, 2019 to comply with the reporting requirements of the Act.

(c) Basis of measurement

These financial statements have been prepared under the historical cost basis. Historical cost is generally based on fair value of the consideration given in exchange for assets or liabilities.

(d) Functional and presentation currency

These financial statements are presented in Bermuda dollars, which is the Corporation's functional and presentation currency.

(e) Use of estimates and judgements

The preparation of these financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statement of financial position and the reported amounts of revenues and expenses during the year. Significant areas requiring the use of management estimates and assumptions include evaluating the useful lives of property and equipment and estimating the expected credit loss for accrued income, cash and investments. Actual results could differ from those estimates.

BERMUDA DEPOSIT INSURANCE CORPORATION

Notes to the financial statements

March 31, 2019
(Expressed in Bermuda Dollars)

2. Basis of preparation and significant accounting policies (continued)

(f) Revenue from premium contributions

The Corporation collects premium contributions from the Scheme members in line with the DIS rules. Revenue from premium contributions is recognised at a point in time when premiums calculated are issued. Premiums are determined at the end of each premium period ending in March, June, September and December, based on the amount of insured deposits held by the Scheme members. Premium rates are fixed annually.

(g) Expenses

Expenses are recorded on the accruals basis in the year in which the goods or services are acquired or a liability is incurred.

(h) Cash

Cash includes cash on hand. Cash is measured at amortised cost, which approximates fair value, on the statement of financial position.

(i) Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and any impairment losses. Cost includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. Depreciation is charged on a straight-line basis over the estimated useful lives of the assets. The following useful lives are used in the calculation of depreciation:

<u>Assets</u>	<u>Useful life</u>
Furniture and equipment	3 years
Computer hardware	3 years

Depreciation expense is included in expenses on the Statement of Comprehensive Income. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset, and is recognised in the Statement of Comprehensive Income.

If an asset’s carrying amount exceeds its recoverable amount, the asset is impaired and the carrying amount is written down to the recoverable amount. The total impairment loss is recognised in the Statement of Comprehensive Income. The reversal of an impairment loss is recognised in the Statement of Comprehensive Income to the extent that an impairment loss was previously recognised.

(j) Financial instruments

The Corporation’s financial instruments consist of cash, accrued interest, investments in US Government Treasury Notes, accrued income, and accounts payable and accrued liabilities.

BERMUDA DEPOSIT INSURANCE CORPORATION

Notes to the financial statements

March 31, 2019

(Expressed in Bermuda Dollars)

2. Significant accounting policies (continued)

(j) Financial instruments (continued)

The classification of financial instruments at initial recognition depends on the purpose and management's intention for which the financial assets were acquired.

(i) Financial assets – Policy applicable from April 1, 2018

Classification of financial assets

The Corporation classifies its financial assets at amortised cost. The Corporation's financial assets classified at amortised cost consist of cash, accrued interest, accrued income and investments. The Corporation determines the classification at initial recognition and re-evaluates this designation at every reporting date. Financial assets are not reclassified subsequent to their initial recognition unless the Corporation changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss, or fair value through other comprehensive income:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Business model assessment: Policy applicable from April 1, 2018

The Corporation makes an assessment of the objective of the business model in which the financial asset is held at a portfolio level because this best reflects how the Corporation is managed and the information is provided to management. The information considered includes the stated policies and objectives of the portfolio and the operation of those policies in practice.

Assessment whether contractual cash flows are solely payments of principal and interest: Policy applicable from April 1, 2018

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Corporation considers the contractual terms of the instrument. These include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Corporation considers:

- Contingent events that would change the amount or timing of cash flows;
- Terms that may adjust the contractual coupon rate, including variable-rate features;
- Prepayment and extension features; and
- Terms that limit the Corporation's claim to cash flows.

A prepayment feature is consistent with solely payment of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest in the principal amount outstanding.

BERMUDA DEPOSIT INSURANCE CORPORATION

Notes to the financial statements

March 31, 2019

(Expressed in Bermuda Dollars)

2. Significant accounting policies (continued)

(j) Financial instruments (continued)

(i) Financial assets – Policy applicable from April 1, 2018 (continued)

Financial assets – Subsequent measurement and gains and losses: Policy applicable from April 1, 2018

The Corporation's financial assets at amortised cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial assets – classification and subsequent measurement policy applicable prior to April 1, 2018

The Corporation classified its financial assets as loans and receivables before April 1, 2018. They were measured at amortised cost using the effective interest method.

(ii) Financial liabilities

The Corporation classifies accounts payable and accrued liabilities as other financial liabilities. These are initially classified and subsequently measured at amortised cost using the effective interest method.

(iii) Derecognition of financial assets and liabilities

Financial assets

A financial asset is derecognised when:

- the rights to receive cash flows from the asset have expired; and
- the Corporation has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows and either:
 - (i) the Corporation has transferred substantially all the risks and rewards of the asset; or
 - (ii) the Corporation has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in the statement of comprehensive income, if any.

(k) Impairment of financial assets

Policy applicable from April 1, 2018

The Corporation recognises loss allowance for Expected Credit Losses (“ECLs”) on financial assets measured at amortised cost. The Corporation measures loss allowances at an amount equal to 12-month ECLs for all investments and cash that are determined to have a low credit risk at the reporting date and for which credit risk has not increased significantly since initial recognition.

BERMUDA DEPOSIT INSURANCE CORPORATION

Notes to the financial statements

March 31, 2019

(Expressed in Bermuda Dollars)

2. Significant accounting policies (continued)

(k) Impairment of financial assets (continued)

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Corporation considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Corporation's historical experience and informed credit assessment and including forward-looking information.

The Corporation assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due and is in default when the financial asset is more than 90 days past due.

The Corporation considers an investment to have a low credit risk when the credit risk rating is equivalent to the globally understood definition of "investment grade". The Corporation considers this to be BBB- or higher per Standard & Poor's.

Lifetime ECLs are the ECLs that result from possible default events over the expected life of a financial asset. 12-month ECLs are the portion of the ECLs that result from default events that are possible within the 12 months after the report date (or shorter period if the expected life of the instrument is less than 12 months).

Measurement of ECLs

ECLs are a probability weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls. ECLs are discounted at the effective interest rate of the financial assets.

Credit-impaired financial assets

At each reporting date, the Corporation assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial assets have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- premium has not been received 90 days after the statutory due date;
- evidence of impairment on accrued income include that the insured entity is experiencing significant financial difficulty, there is a probability that they will liquidate or deregister or there has been a long-term delinquency in payments;
- significant financial difficulty of the issuer or obligor;
- the disappearance of an active market for that financial asset;
- it becomes probable that the issuer or obligor will enter bankruptcy or other financial reorganisation.

BERMUDA DEPOSIT INSURANCE CORPORATION

Notes to the financial statements

March 31, 2019

(Expressed in Bermuda Dollars)

2. Significant accounting policies (continued)

(k) Impairment of financial assets (continued)

Presentation of allowance for ECLs in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amounts of the assets. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating or an improvement in the ECLs), the reversal of the previously recognised impairment loss is recognised in the statement of comprehensive income.

Financial assets, other than accrued interest and accrued income, are only derecognised when contractual rights to cash flow expire. For accrued income, the gross carrying amount is written off when the Corporation has no reasonable expectations of recovering the financial asset in its entirety or a portion thereof.

Policy applicable prior to April 1, 2018

At each reporting date, the Corporation assesses whether there is objective evidence that financial assets not carried at fair value through the Statement of Comprehensive Income are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that one or more events that occurred after the initial recognition of the assets (a "loss event") and that the loss event (or events) has an impact on the estimated future cash flows of the financial asset.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. When a subsequent event causes the amount of the impairment loss to decrease, the decrease in impairment loss is reversed through the Statement of Comprehensive Income.

(l) Provision for losses

A provision is recognised if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Given no claim has been made on the Corporation to date, management has determined that a provision for expected losses is not required. As there is no history of members of the DIS becoming non-viable or insolvent, a provision for unexpected losses cannot be reasonably estimated at this time. The Corporation will continue to assess the requirement to include a provision for both expected and unexpected losses as the Corporation matures and gathers historical loss data and experience, if any.

BERMUDA DEPOSIT INSURANCE CORPORATION

Notes to the financial statements

March 31, 2019

(Expressed in Bermuda Dollars)

3. Changes in significant accounting policies

Except for the changes below, the Corporation has consistently applied its accounting policies to all periods presented in the financial statements.

The Corporation has initially applied IFRS 15 (see 3(a)) and IFRS 9 (see 3(b)) from April 1, 2018. A number of other new standards are also effective for the financial period beginning April 1, 2018 but they do not have a material effect on the Corporation's financial statements.

Due to the transition methods chosen by the Corporation in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards.

(a) IFRS 15 Revenue from Contracts with Customers

(i) Policy applicable from April 1, 2018

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgments.

The Corporation has adopted IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application (i.e. April 1, 2018). Accordingly, the information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 18 and related interpretations. Additionally, the disclosure requirements in IFRS 15 have generally been applied to comparative information. There was no change in the timing or amounts recognised as a result of adopting IFRS 15.

(ii) Policy applicable prior to April 1, 2018

Under IAS 18 the Corporation recognised revenues from contributions from the Scheme members at the fair value of the consideration received. Under IFRS 15, the same treatment is maintained.

IFRS 15 did not have a significant impact on the Corporation's accounting policies with respect to other revenue streams. For additional information about the Corporation's accounting policies relating to revenue recognition, see Note 2(f).

(b) IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

BERMUDA DEPOSIT INSURANCE CORPORATION

Notes to the financial statements

March 31, 2019

(Expressed in Bermuda Dollars)

3. Changes in significant accounting policies (continued)

(b) IFRS 9 Financial Instruments (continued)

As a result of the adoption of IFRS 9, the Corporation has adopted consequential amendments to IAS 1 Presentation of Financial Statements, which require impairment of financial assets to be presented in a separate line item in the statement of comprehensive income.

Additionally the Corporation has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures.

(i) Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The adoption of IFRS 9 has not had a significant effect on the Corporation's accounting policies related to financial liabilities.

For an explanation of how the Corporation classifies and measures financial instruments and accounts for related gains and losses under IFRS 9, see Note 2(k).

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Corporation's financial assets and financial liabilities as at April 1, 2018.

Financial assets				
	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Cash	Loans and receivables	Amortised cost	8,320,476	8,320,476
Accrued income	Loans and receivables	Amortised cost	1,528,857	1,528,857
Total financial assets			9,849,333	9,849,333
Financial liabilities				
	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Accounts payable and accrued liabilities	Other financial liabilities	Other financial liabilities	56,300	56,300
Total financial liabilities			56,300	56,300

BERMUDA DEPOSIT INSURANCE CORPORATION

Notes to the financial statements

March 31, 2019

(Expressed in Bermuda Dollars)

3. Changes in significant accounting policies (continued)

(b) IFRS 9 Financial Instruments (continued)

(i) Classification and measurement of financial assets and financial liabilities (continued)

The Corporation intends to hold the assets to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

(ii) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an ECL model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses may be recognised earlier than under IAS 39.

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Corporation has determined that the application of IFRS 9's impairment requirements at April 1, 2018 results in no allowance for impairment for its financial assets.

4. New and amended standards and interpretations not yet adopted

A number of new and amended standards are effective for annual periods beginning on or after January 1, 2019 and early adoption is permitted; however, the Corporation has not early adopted the following new or amended standards in preparing these financial statements.

(a) IFRS 16 Leases

IFRS 16 introduces a single, lessee accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The standard is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted for entities that apply *IFRS 15 Revenue from Contracts with Customers* at or before the date of initial application of IFRS 16.

The Corporation expects that adoption of IFRS 16 will not impact its financial reporting materially. The Corporation plans to adopt IFRS 16 in the financial statements for the year ending March 31, 2020.

(b) Other Standards

The following amended standards and interpretations are not expected to have a significant impact on the Corporation's financial statements.

- *The Conceptual Framework for Financial Reporting (Revised in 2018).*
- *Amendments to References to the Conceptual Framework in IFRS Standards.*
- *Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors re: Definition of Material.*

BERMUDA DEPOSIT INSURANCE CORPORATION

Notes to the financial statements

March 31, 2019

(Expressed in Bermuda Dollars)

5. Cash

Cash is comprised as follows:

	<u>2019</u>	<u>2018</u>
Cash at bank	\$ <u>366,369</u>	\$ <u>8,320,476</u>
	\$ 366,369	\$ 8,320,476

The effective interest rate earned on the Corporation's cash is 0.15% at March 31, 2019 (2018 - 0.11%).

6. Property and equipment

	<u>March 31, 2019</u>		
	<u>Computer Hardware</u>	<u>Furniture and Equipment</u>	<u>Total</u>
Opening cost at March 31, 2018	\$ 5,279	\$ 3,385	\$ 8,664
Additions	<u>—</u>	<u>—</u>	<u>—</u>
Closing cost at March 31, 2019	\$ 5,279	\$ 3,385	\$ 8,664
Opening accumulated depreciation at March 31, 2018	\$ 1,889	\$ 916	\$ 2,805
Depreciation expense	<u>1,762</u>	<u>796</u>	<u>2,558</u>
Closing accumulated depreciation at March 31, 2019	\$ 3,651	\$ 1,712	\$ 5,363
Net book value at end of year	<u>\$ 1,628</u>	<u>\$ 1,673</u>	<u>\$ 3,301</u>
	<u>March 31, 2018</u>		
	<u>Computer Hardware</u>	<u>Furniture and Equipment</u>	<u>Total</u>
Opening cost at March 31, 2017	\$ 5,279	\$ 3,385	\$ 8,664
Additions	<u>—</u>	<u>—</u>	<u>—</u>
Closing cost at March 31, 2018	\$ 5,279	\$ 3,385	\$ 8,664
Opening accumulated depreciation at March 31, 2017	\$ 121	\$ 119	\$ 240
Depreciation expense	<u>1,768</u>	<u>797</u>	<u>2,565</u>
Closing accumulated depreciation at March 31, 2018	\$ 1,889	\$ 916	\$ 2,805
Net book value at end of year	<u>\$ 3,390</u>	<u>\$ 2,469</u>	<u>\$ 5,859</u>

BERMUDA DEPOSIT INSURANCE CORPORATION

Notes to the financial statements

March 31, 2019

(Expressed in Bermuda Dollars)

7. Commitments

The Corporation has entered into a five-year lease agreement for rental of office premises with a third party lessor expiring September 2021. The lease includes annual rental charges of \$33,845 and annual maintenance charges of \$8,703 that are recorded as part of the occupancy expenses in the Statement of Comprehensive Income.

Non-cancellable lease commitments are as follows:

Less than one year	\$ 42,548
Between one and five years	<u>63,822</u>
	<u>\$ 106,370</u>

8. Premium revenue

	<u>2019</u>	<u>2018</u>
Individuals and joint accounts	\$ 5,607,495	\$ 5,532,460
Partnerships and other organisations	272,930	284,998
Charitable organisations	<u>280,375</u>	<u>276,596</u>
Total premiums	<u>\$ 6,160,800</u>	<u>\$ 6,094,054</u>

9. Financial instruments

(a) Carrying amount and fair value of financial instruments

	<u>2019</u>		<u>2018</u>	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Financial assets				
Cash	\$ 366,369	\$ 366,369	\$ 8,320,476	\$ 8,320,476
Accrued income	1,530,130	1,530,130	1,528,857	1,528,857
Investments, amortised cost	13,930,300	14,087,881	–	–
Accrued interest	<u>63,423</u>	<u>63,423</u>	<u>–</u>	<u>–</u>
	<u>\$ 15,890,222</u>	<u>\$ 16,047,803</u>	<u>\$ 9,849,333</u>	<u>\$ 9,849,333</u>
Financial liabilities				
Accounts payable and accrued liabilities	<u>\$ 86,450</u>	<u>\$ 86,450</u>	<u>\$ 56,300</u>	<u>\$ 56,300</u>
	<u>\$ 86,450</u>	<u>\$ 86,450</u>	<u>\$ 56,300</u>	<u>\$ 56,300</u>

The fair values of cash, accrued income, accrued interest and accounts payable and accrued liabilities approximate their carrying values as they are short-term in nature.

BERMUDA DEPOSIT INSURANCE CORPORATION

Notes to the financial statements

March 31, 2019

(Expressed in Bermuda Dollars)

9. Financial instruments (continued)

(a) Carrying amount and fair value of financial instruments (continued)

The fair value of investments, at amortised cost are classified using a fair-value hierarchy that reflects the significance of the inputs disclosed in making the measurements:

Level 1 – quoted prices in active markets

Level 2 – inputs are observable either directly or derived from quoted prices

Level 3 – no observable inputs

The fair-value hierarchy requires the use of observable market inputs wherever such inputs exist. A financial instrument is classified at the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

	Level 1	Level 2	Level 3	Total
Financial instruments at fair value as at March 31, 2019				
Investments, current, amortised cost	3,079,468	–	–	3,079,468
Investments, non-current, amortised cost	11,008,413	–	–	11,008,413
Total financial instruments	14,087,881	–	–	14,087,881

(b) *The Corporation is exposed to credit risk, liquidity risk, market risk and operational risk as a result of holding financial instruments. The following is a description of those risks and how the Corporation manages its exposure to them.*

(i) Credit risk

Credit risk is the risk of loss of principal or interest due to uncertainty in counterparty's ability to meet its obligations. The maximum exposure to credit risk is represented by the carrying values of these financial assets on the statement of financial position. Cash is held by two reputable financial institutions with credit ratings of BBB+ and AA- as at March 31, 2019 based on reports published by Standard and Poor's. Accrued income is due from Bermuda's banks which are regulated by the Bermuda Monetary Authority. Management actively monitors accrued income and the credit performance of the banks.

BERMUDA DEPOSIT INSURANCE CORPORATION

Notes to the financial statements

March 31, 2019

(Expressed in Bermuda Dollars)

9. Financial instruments (continued)

(i) Credit risk (continued)

The credit quality of financial assets can be assessed by reference to the external credit rating and default rates published by Standard and Poor's:

	2019	2018
Investments, amortised cost		
AA+ **	13,930,300	–
** Moody's equivalent grade is Aa1.		
Cash		
Cash at bank and in-hand		
BBB+	148,771	124,380
AA-	217,598	8,196,096
	366,369	8,320,476

Impairment on cash and investments held at amortised cost were measured on a 12-month ECL basis. This conclusion was based on the fact that:

- the Corporation considers that its cash and investments have a low credit risk based on the external credit ratings of the counterparties;
- there was no significant change in the credit rating of any of the counterparties over the last 12 months.

The Corporation held cash of \$366,369 at March 31, 2019 (2018 - \$8,320,476). The cash is held with two financial institutions, which are rated BBB+ and AA- respectively, based on Standards and Poor's ratings.

Impairment on cash has been measured on a 12-month ECL basis and reflects the short maturities of the exposures. The Corporation considers that its cash has low credit risk based on the external credit ratings of the counterparties.

On initial application of IFRS 9, the Corporation did not recognise an impairment allowance as at April 1, 2018. The amount of the allowance amounted to \$nil at March 31, 2019. The Corporation did not hold any investments as at March 31, 2018.

Impairment on accrued income was measured on an ECL basis. There exists a scope exception from the general ECL model for trade receivables that do not contain a significant financing component. The Corporation's accrued income satisfies this criterion and hence the standard allows for a provision matrix to be used for recognising ECL.

On initial application of IFRS 9, the Corporation did not recognise an impairment allowance as at April 1, 2018 in the amount of \$306. The amount of the allowance did not change significantly at March 31, 2019.

BERMUDA DEPOSIT INSURANCE CORPORATION

Notes to the financial statements

March 31, 2019

(Expressed in Bermuda Dollars)

9. Financial instruments (continued)

(i) Credit risk (continued)

The aging of accrued income and accrued interest at the reporting date was:

	March 31, 2019		March 31, 2018	
	Current to past 30 days	Past 60 days	Current to past 30 days	Past 60 days
Accrued income	\$ 1,530,130	–	\$ 1,528,857	\$ –
Accrued interest	<u>63,423</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<u>\$ 1,593,553</u>	<u>\$ –</u>	<u>\$ 1,528,857</u>	<u>\$ –</u>

(ii) Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulties meeting its financial obligations as they become due. Balances due within twelve months are met within the Corporation's normal 30-day cycle of disbursements.

	Total	March 31, 2019		
		0 - 3 months	4 - 12 months	Greater than 1 year
As at March 31, 2019				
Accounts payable and accrued liabilities	\$ <u>86,450</u>	\$ <u>86,450</u>	\$ <u>–</u>	\$ <u>–</u>
Total financial liabilities	<u>\$ 86,450</u>	<u>\$ 86,450</u>	<u>\$ –</u>	<u>\$ –</u>
	Total	March 31, 2018		
		0 - 3 months	4 - 12 months	Greater than 1 year
As at March 31, 2018				
Accounts payable and accrued liabilities	\$ <u>56,300</u>	\$ <u>56,300</u>	\$ <u>–</u>	\$ <u>–</u>
Total financial liabilities	<u>\$ 56,300</u>	<u>\$ 56,300</u>	<u>\$ –</u>	<u>\$ –</u>

The Corporation receives sufficient revenue from premiums to meet its funding requirements for at least the next 12 months.

BERMUDA DEPOSIT INSURANCE CORPORATION

Notes to the financial statements

March 31, 2019

(Expressed in Bermuda Dollars)

9. **Financial instruments** (continued)

(iii) *Market risk*

Price risk

Price risk is the risk that the future changes in the market prices may render financial instruments less valuable or increase the liability associated with such instruments. The Corporation is not exposed to significant price risk.

Interest rate risk

Interest rate risk arises from changes in prevailing levels of market interest rates. The Corporation is not exposed to significant interest rate risk.

(iv) *Operational risk*

The Corporation's main exposure is to the potential loss from the non-viability or insolvency of the members of the DIS that is considered to be a loss event. The Corporation's objective is to hold a Fund which is sufficient to withstand such a scenario. Proposals are being developed for the Special Resolution Regime (SRR) in Bermuda to enhance the current framework for the resolution of non-viable or insolvent financial institutions that may also be members of the DIS. The Corporation is taking an active position in the formation of these proposals. As these proposals are in progress, the Corporation is unable to reasonably assess the target level of the Fund that is required to achieve the Corporation's objective. As at the year end, the Fund may not be sufficient to cover the Corporation's current exposure to a loss event and it is likely that the Fund will remain underfunded for the foreseeable future. The Fund is to be funded through the accumulation of retained earnings.

10. **Capital management**

The Corporation's capital consists of equity, which comprises retained earnings. The Corporation's objective is to hold sufficient retained earnings to enable it to withstand negative unexpected financial events. The Corporation seeks to achieve this objective through receipt of premiums from all members of the DIS. The Corporation is not subject to any externally imposed capital requirements.

11. **Related party transactions**

The Corporation is related to all Government of Bermuda (the "Government") departments, ministries, agencies, funds and quasi-autonomous non-governmental organisations under the common control of the Government. Also, the Corporation is related to organisations that the Government jointly controls or significantly influences.

The Corporation enters into transactions with these entities in the normal course of business and such transactions are measured at the exchange amount, which is the amount of consideration established and agreed by the related parties. There were no transactions with related parties during the year (2018 - \$nil).

Board Committees

Stephen Todd



Jeremy Cox



Nathan Kowalski



Mark Crockwell




Marcia Woolridge-Allwood





Anthony Manders

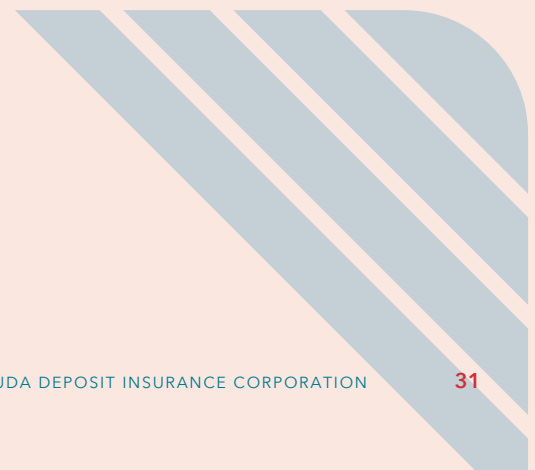


Board Committees

 Audit, Risk and Remuneration

 Investment

 Premiums and Claims





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