

Financial Statements of

**DEPOSIT INSURANCE CORPORATION**

December 31, 2006

# DEPOSIT INSURANCE CORPORATION

Financial Statements

December 31, 2006

## CONTENTS

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	<b>Page</b>
Independent Auditors' Report	1 - 2
Balance Sheet	3
Statement of Income	4
Statement of Changes in Accumulated Fund	5
Statement of Cash Flows	6
Notes to Consolidated Financial Statements	7 - 9



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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Deposit Insurance Corporation ("the Corporation"), which comprise the balance sheet as at December 31, 2006 and the related statement of income, statement of changes in accumulated fund and statement of cash flows for the year then ended, and a summary of significant accounting policies and the other explanatory notes.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements, plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

INDEPENDENT AUDITORS' REPORT (continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Corporation as of December 31, 2006 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

A handwritten signature in black ink, appearing to read "Bollen Tilly Group", written in a cursive style.

CHARTERED ACCOUNTANTS

March 23, 2007

Nassau, The Bahamas

# DEPOSIT INSURANCE CORPORATION

## Balance Sheet

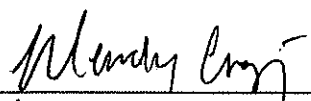
December 31, 2006

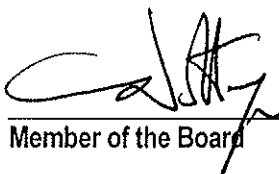
(Expressed in Bahamian dollars)

	2006	2005
<b>Assets</b>		
Cash	\$1,058,200	\$1,062,651
Investments (Note 3)	6,447,000	3,747,000
Premiums receivable (Note 5)	17,239	-
Accrued interest receivable	124,956	61,863
Other assets	5,000	5,000
<b>Total assets</b>	<b>\$7,652,395</b>	<b>\$4,876,514</b>
<b>Liabilities and Accumulated Fund</b>		
<b>Liabilities</b>		
Unpaid claims	\$ 103,324	\$ 103,424
Accounts payable and accrued expenses	13,152	13,650
<b>Total liabilities</b>	<b>116,476</b>	<b>117,074</b>
<b>Accumulated fund</b>		
Contributed capital (Note 4)	500,000	500,000
Retained earnings	7,035,919	4,259,440
<b>Total accumulated fund</b>	<b>7,535,919</b>	<b>4,759,440</b>
<b>Total liabilities and accumulated fund</b>	<b>\$7,652,395</b>	<b>\$4,876,514</b>

See accompanying notes. See Independent Auditors' Report pages 1 & 2.

Signed on behalf of The Board of Management:

  
Chairman

  
Member of the Board

# DEPOSIT INSURANCE CORPORATION

## Statement of Income

For the year ended December 31, 2006

	2006	2005
<b>Income</b>		
Premiums (Note 5)	\$1,983,109	\$1,826,525
Interest income	307,954	161,021
Other income (Note 7)	508,738	-
<b>Total income</b>	<b>2,799,801</b>	<b>1,987,546</b>
<b>Expenses</b>		
Annual membership fee	10,000	10,000
Audit fees	7,020	7,869
Other expenses	6,302	6,302
<b>Total expenses</b>	<b>23,322</b>	<b>24,171</b>
<b>Net income for the year</b>	<b>\$2,776,479</b>	<b>\$1,963,375</b>

See accompanying notes. See Independent Auditors' Report pages 1 & 2.

# DEPOSIT INSURANCE CORPORATION

## Statement of Changes in Accumulated Fund

For the year ended December 31, 2006

	Contributed capital	Retained earnings	Total
<b>Balance at December 31, 2004</b>	\$500,000	\$2,296,065	\$2,796,065
Net income for the year	-	1,963,375	1,963,375
<b>Balance at December 31, 2005</b>	500,000	4,259,440	4,759,440
Net income for the year	-	2,776,479	2,776,479
<b>Balance at December 31, 2006</b>	\$500,000	\$7,035,919	\$7,535,919

See accompanying notes. See Independent Auditors' Report on pages 1 & 2.

# DEPOSIT INSURANCE CORPORATION

## Statement of Cash Flows

For the year ended December 31, 2006

	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income for the year	\$2,776,479	\$1,963,375
Adjustments to reconcile net income to net cash provided by operating activities:		
Interest income	(307,954)	(161,020)
<b>Operating profit before working capital charges</b>	<b>2,468,525</b>	<b>1,802,355</b>
<b>Changes in operating assets and liabilities:</b>		
Increase in premiums receivable	(17,239)	-
Decrease in unpaid claims	(100)	-
(Decrease) increase in accounts payable and accrued expenses	(498)	628
Interest received	244,861	142,629
Interest paid	-	(12,184)
<b>Net cash provided by operating activities</b>	<b>2,695,549</b>	<b>1,933,428</b>
<b>CASH FLOWS FROM INVESTING ACTIVITY:</b>		
Purchase of investments	(2,700,000)	(1,850,000)
<b>Net cash used in investing activity</b>	<b>(2,700,000)</b>	<b>(1,850,000)</b>
<b>Net (decrease) increase in cash during year</b>	<b>(4,451)</b>	<b>83,428</b>
Cash, beginning of year	1,062,651	979,223
<b>Cash, end of year</b>	<b>\$1,058,200</b>	<b>\$1,062,651</b>

See accompanying notes. See Independent Auditors' Report pages 1 & 2.



# DEPOSIT INSURANCE CORPORATION

Notes to Financial Statements

December 31, 2006

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## 1. GENERAL

The 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 and licensed under the Banks and Trust Companies Regulation Act.

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

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

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### Basis of preparation

These financial statements have been prepared 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 assets 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 Bahamian dollar is the Corporation's measurement and reporting currency because its capital and a majority of its transactions are denominated in that currency.

# DEPOSIT INSURANCE CORPORATION

Notes to Financial Statements

December 31, 2006

## 2. SUMMARY OF 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 which are 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 amortized cost. Because the investments in Bahamas Government Registered Stocks are issued at face value, they are carried at cost that equates to fair value.

### Income and expense recognition

Income and expenses are recorded on an accrual basis of accounting.

## 3. INVESTMENTS

The investments in Bahamas Government Registered Stocks earned interest at rates ranging between 5.78% and 6.00% (2005 - 5.78% to 6.00%) per annum. These interest rates are tied to the Nassau Prime Rate and the investments have maturity dates ranging between 2018 and 2026 (2005 - 2018 and 2023). The investments held at December 31, 2006 are as follows:

Value Date	Interest Rate	Maturity Date	2006	2005
			Face value	Face value
03/20/02	5.96875%	2018	\$ 147,000	\$ 147,000
11/19/04	5.96875%	2019	400,000	400,000
08/24/01	6.00000%	2020	1,000,000	1,000,000
09/06/02	5.84375%	2020	350,000	350,000
04/04/05	5.78125%	2023	900,000	900,000
11/09/05	5.78125%	2023	950,000	950,000
09/28/06	5.7500%	2024	1,650,000	-
01/18/06	5.8125%	2026	1,050,000	-
<b>Total</b>			<b>\$6,447,000</b>	<b>\$3,747,000</b>

## 4. CONTRIBUTED 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.

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.

The authorized contributed capital of the Corporation is \$1,000,000, which may be increased by order of the Minister of Finance in accordance with subsection (1) of section 13 of the Act. At December 31, 2006, paid-up capital was \$500,000 (2005 - \$500,000).

# DEPOSIT INSURANCE CORPORATION

Notes to Financial Statements

December 31, 2006

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## 5. 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, 2006, the Corporation earned premiums totaling \$1,983,109 (2005 - \$1,826,525).

## 6. RELATED PARTY BALANCES

As at December 31, 2006, the following balances were held with the Bank:

	2006	2005
Cash	\$1,058,200	\$1,062,651
Accounts payable	\$ 6,302	\$ 6,302

## 7. OTHER INCOME

During the year, the Corporation received another 10% distribution payment of \$508,738 from the Liquidators of Gulf Union Bank (Bahamas) Limited (GUB), which represents the third distribution payment since GUB's closure in December 12, 1997. The first and second distribution payments were made in 2002 (\$897,785) and 2004 (\$707,522), respectively. Prior to these distribution payments, the Depositors of GUB were paid by the Corporation up to a maximum of \$50,000 per depositor, pursuant to the Act.

## 8. EXEMPTIONS

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

## 9. 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), 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 significantly different from the carrying value for each major category of the Corporation's recorded financial assets and liabilities.

See Independent Auditors' Report pages 1 & 2.