

Financial Statements of

DEPOSIT INSURANCE CORPORATION

December 31, 2004

DEPOSIT INSURANCE CORPORATION

Financial Statements

December 31, 2004

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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, 2004 and the related statements of income, changes in accumulated fund and cash flows for the year then ended. These financial statements are the responsibility of the Board of Management 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, 2004 and the results of its operations, changes in accumulated fund and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



CHARTERED ACCOUNTANTS

July 14, 2005

Nassau, Bahamas

DEPOSIT INSURANCE CORPORATION

Balance Sheet

December 31, 2004

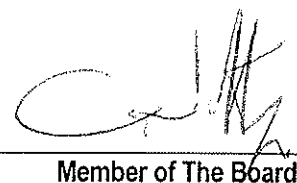
(Expressed in Bahamian dollars)

	2004	2003
Assets		
Cash	\$ 979,223	\$ 1,670,696
Investments (Note 3)	1,897,000	5,552,400
Accrued interest receivable	31,288	129,441
Prepaid expenses	5,000	5,000
Total assets	\$ 2,912,511	\$ 7,357,537
Liabilities		
Bonds payable (Note 4)	\$ -	\$ 6,750,000
Unpaid claims	103,424	103,424
Accrued interest payable	-	42,766
Accounts payable and accrued expenses	13,022	13,982
Total liabilities	116,446	6,910,172
Accumulated fund		
Capital (Note 6)	500,000	500,000
Retained earnings (accumulated deficit)	2,296,065	(52,635)
Total accumulated fund	2,796,065	447,365
Total liabilities and accumulated fund	\$ 2,912,511	\$ 7,357,537

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 Income

For the year ended December 31, 2004

	2004	2003
Income		
Premiums (Note 7)	\$1,673,558	\$1,630,005
Interest income	375,698	289,096
Other income (Note 8)	707,522	-
Total income	2,756,778	1,919,101
Expenses		
Interest expense (Note 4)	379,230	420,574
Other expenses	11,433	10,037
Annual membership fee	10,000	10,000
Audit fees	7,415	8,115
Total expenses	408,078	448,726
Net income for the year	\$2,348,700	\$1,470,375

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

DEPOSIT INSURANCE CORPORATION

Statement of Changes in Accumulated Fund

For the year ended December 31, 2004

	Capital	(Accumulated Deficit) Retained Earnings	Total
Balance at December 31, 2002	\$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
Net income for the year	-	2,348,700	2,348,700
Balance at December 31, 2004	\$500,000	\$ 2,296,065	\$ 2,796,065

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

DEPOSIT INSURANCE CORPORATION

Statement of Cash Flows

For the year ended December 31, 2004

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Operations		
Net income for the year	\$ 2,348,700	\$ 1,470,375
Adjustments to reconcile net income to net cash provided by operating activities:		
Interest income	(375,698)	(289,096)
Interest expense	379,230	420,574
Operating profit before working capital charges	2,352,232	1,601,853
Decrease in operating assets:		
Premiums receivable	-	93,853
(Decrease) increase in operating liabilities:		
Unpaid claims	-	(1,211)
Accounts payable and accrued expenses	(960)	(8,563)
Interest received	473,850	235,885
Interest paid	(421,995)	(420,574)
Net cash provided by operating activities	2,403,127	1,501,243
CASH FLOWS FROM INVESTING ACTIVITY:		
Sale (purchase) of investments	3,655,400	(1,971,300)
Net cash provided by (used in) investing activity	3,655,400	(1,971,300)
CASH FLOWS FROM FINANCING ACTIVITY:		
Bonds paid	(6,750,000)	-
Net cash used in financing activity	(6,750,000)	-
Net decrease in cash	(691,473)	(470,057)
Cash, beginning of year	1,670,696	2,140,753
Cash, end of year	\$ 979,223	\$ 1,670,696

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

DEPOSIT INSURANCE CORPORATION

Notes to Financial Statements

December 31, 2004

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, 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 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 Bahamian dollar is the Company's measurement and reporting currency because its capital and a majority of its transactions are denominated in that currency.

The Corporation adopted IAS 39 – Financial Instruments: Recognition and Measurement on January 1, 2001.

DEPOSIT INSURANCE CORPORATION

Notes to Financial Statements

December 31, 2004

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 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.

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 of accounting.

3. INVESTMENTS

The investments in Bahamas Government Registered Stocks earned interest at rates ranging between 6.34% and 6.50% (2003 - 6.34% to 6.50%) per annum. These interest rates are tied to the Nassau Prime Rate and the investments have maturity dates ranging between 2018 and 2020 (2003 - 2018 - 2023). During the year, investments in the amount of \$3,655,400 were sold in order to repay the bonds previously issued by the Corporation (see Note 4). The investments held at December 31, 2004 are as follows:

Value Date	Interest Rate	Maturity Date	2004	2003
			Face value	Face value
11/19/04	6.4688%	2019	\$ 400,000	\$ -
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
09/19/00	6.4688%	2019	-	1,800,000
09/06/02	6.3750%	2021	-	219,200
12/04/02	6.4063%	2022	-	64,900
06/03/03	6.3750%	2023	-	128,000
07/04/03	6.3750%	2023	-	105,200
07/21/03	6.0937%	2014	-	393,500
07/21/03	6.1875%	2017	-	8,500
07/21/03	6.3438%	2022	-	1,182,000
07/21/03	6.3750%	2023	-	154,100
Total			\$1,897,000	\$5,552,400

DEPOSIT INSURANCE CORPORATION

Notes to Financial Statements

December 31, 2004

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 bore interest at ¼ % per annum, above prime rate and were issued to member institutions. The bonds were repaid in full on November 15, 2004 and incurred interest in the amount of \$379,230 (2003 - \$420,574) for the year.

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 of Finance in accordance with Subsection (1) of Section 13 of the Act. At December 31, 2004, paid-up capital was \$500,000 (2003 - \$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, 2004, the Corporation earned premiums totaling \$1,673,558 (2003 - \$1,630,005) of which \$Nil was outstanding as of December 31, 2004 (2003-\$Nil).

8. OTHER INCOME

During the year 2002, the Corporation received a 10% distribution payment of \$897,785 from the liquidators of GUB, which represented the first distribution payment since GUB's closure on December 12, 1997. In 2004, another distribution was paid to the Corporation of \$707,522, relative to 10% of total liabilities of paid depositors of GUB. 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.

DEPOSIT INSURANCE CORPORATION

Notes to Financial Statements

December 31, 2004

9. RELATED PARTY BALANCES

As at December 31, 2004, the following balances were with the Bank:

	2004	2003
Cash	\$979,223	\$1,670,696
Accounts payable	\$ 6,302	\$ 5,867

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), 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 page 1.