

DEPOSIT INSURANCE CORPORATION

FINANCIAL STATEMENTS

31 DECEMBER 2007

DEPOSIT INSURANCE CORPORATION

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REPORT OF THE AUDITORS TO THE MEMBERS OF DEPOSIT INSURANCE CORPORATION

We have audited the accompanying financial statements of the Deposit Insurance Corporation which comprise the balance sheet as at 31 December 2007, and the statements of income and expenditure, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and 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 these 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 and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from 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 controls. 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.

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

Opinion

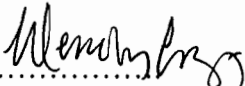
In our opinion the financial statements present fairly, in all material respects, the financial position of the Deposit Insurance Corporation as at 31 December 2007 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

BDO Mann Judd
Chartered Accountants
Nassau Bahamas
28 April 2008

DEPOSIT INSURANCE CORPORATION**BALANCE SHEET AS AT 31 DECEMBER 2007****(Expressed in Bahamian Dollars)**

	<u>Note</u>	<u>2007</u> \$	<u>2006</u> \$
BAHAMAS GOVERNMENT REGISTERED STOCK	4	8,747,000	6,447,000
CURRENT ASSETS			
Cash at bank		1,240,853	1,058,200
Premiums receivable		60,343	17,239
Accrued interest receivable		158,783	124,956
Other assets		<u>5,000</u>	<u>5,000</u>
		<u>1,464,979</u>	<u>1,205,395</u>
CURRENT LIABILITIES			
Unpaid claims		53,000	103,324
Accounts payable and accrued expenses		<u>7,000</u>	<u>13,152</u>
		<u>60,000</u>	<u>116,476</u>
NET CURRENT ASSETS		<u>1,404,979</u>	<u>1,088,919</u>
		<u>\$10,151,979</u>	<u>\$7,535,919</u>
EQUITY			
Capital	5	500,000	500,000
Accumulated profits	6	<u>9,651,979</u>	<u>7,035,919</u>
		<u>\$10,151,979</u>	<u>\$7,535,919</u>

These statements were approved by the board of management and authorised for issue on 28 April 2008, and are signed on its behalf by:


.....
Chairman


.....
Board Member

The Notes on pages 5 to 9 form an integral part of these Financial Statements.

DEPOSIT INSURANCE CORPORATION
STATEMENT OF INCOME AND EXPENDITURE
FOR THE YEAR ENDED 31 DECEMBER 2007

	<u>Note</u>	<u>2007</u> \$	<u>2006</u> \$
INCOME			
Premiums	7	2,190,635	1,983,109
Interest income		450,047	307,954
Other income	8	--	<u>508,738</u>
		<u>2,640,682</u>	<u>2,799,801</u>
EXPENDITURE			
Membership fee		10,000	10,000
Audit fee		8,320	7,020
Administration fee		<u>6,302</u>	<u>6,302</u>
		<u>24,622</u>	<u>23,322</u>
NET PROFIT FOR THE YEAR		<u>\$2,616,060</u>	<u>\$2,776,479</u>

The Notes on pages 5 to 9 form an integral part of these Financial Statements.

DEPOSIT INSURANCE CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2007

	<u>2007</u>	<u>2006</u>
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit for the year	2,616,060	2,776,479
Adjustments for:		
Interest income	<u>(450,047)</u>	<u>(307,954)</u>
Operating profit before working capital changes	2,166,013	2,468,525
Increase in premiums receivable	(43,104)	(17,239)
Increase in accrued interest receivable	(33,827)	--
Decrease in unpaid claims	(50,324)	(100)
Decrease in accounts payable and accrued expenses	(6,152)	(498)
Interest received	<u>450,047</u>	<u>244,861</u>
Net cash provided by operating activities	<u>2,482,653</u>	<u>2,695,549</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	<u>(2,300,000)</u>	<u>(2,700,000)</u>
Net cash used by investing activities	<u>(2,300,000)</u>	<u>(2,700,000)</u>
Net increase/(decrease) in cash and cash equivalents	182,653	(4,451)
Cash and cash equivalents at beginning of the year	<u>1,058,200</u>	<u>1,062,651</u>
Cash and cash equivalents at end of the year	<u>\$1,240,853</u>	<u>\$1,058,200</u>

The Notes on pages 5 to 9 form an integral part of these Financial Statements.

DEPOSIT INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

1. INCORPORATION AND ACTIVITIES

The Deposit Insurance Corporation (“the Corporation”) was established by the Protection of Depositors Act, (“the Act”) on 30 September 1999, to manage the Deposit Insurance Fund, which was established to protect funds deposited with member institutions. The Act insures Bahamian dollar deposits held at member institutions up to a maximum of \$50,000 to any single depositor. 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’s capital contribution was made by the Central Bank of The Bahamas (“the Bank”) in accordance with the Act. The Bank does not have the power to govern the financial and operating policies of the Corporation so as to attain benefits from its activities. Consequently, the Corporation is not treated as a subsidiary of the Bank.

The Registered Office of the Corporation is located at the Central Bank of The Bahamas, Frederick Street, Nassau, The Bahamas. The Corporation does not have any employees and pays the Bank a fee to provide administration and other services associated with the operation of the Corporation. Certain directors of the Corporation are also directors and officers of the Bank.

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

- (a) levy authorised 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.

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

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.

DEPOSIT INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

2. BASIS OF PREPARATION

These financial statements are prepared on a going concern basis in accordance with International Financial Reporting Standards (IFRS). The financial statements have also been prepared under the historical cost convention. The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expense during the period. Actual results can differ from those estimates.

3. ACCOUNTING POLICIES

Bahamas Government Registered Stock

Bahamas Government Registered Stocks are classified as available-for-sale financial assets and are stated at fair value.

Revenue recognition

Revenues are recognised under the accruals concept.

4. BAHAMAS GOVERNMENT REGISTERED STOCK

The Bahamas Government Registered Stock consists of:

<u>Purchase date</u>	<u>Interest rate</u>	<u>Maturity date</u>	<u>2007 Fair value</u> \$	<u>2006 Fair value</u> \$
25/03/02	5.97%	12/12/18	147,000	147,000
02/12/04	5.97%	21/07/19	400,000	400,000
28/08/01	6.00%	25/10/20	1,000,000	1,000,000
19/06/02	5.84%	06/09/20	350,000	350,000
06/04/05	5.78%	29/07/23	900,000	900,000
14/11/05	5.78%	22/10/23	950,000	950,000
28/09/06	5.75%	07/09/24	1,650,000	1,650,000
18/01/06	5.81%	18/01/26	1,050,000	1,050,000
25/05/07	5.78%	22/09/25	1,400,000	--
04/07/07	5.75%	07/09/24	900,000	--
			<u>\$8,747,000</u>	<u>\$6,447,000</u>

DEPOSIT INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

5. 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. \$500,000 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. Member institutions do not hold any equity position in the Corporation.

In accordance with the Act, the authorised capital of the Corporation is \$1,000,000. As at 31 December 2007, paid-up capital was \$500,000 (2006: \$500,000).

6. ACCUMULATED PROFITS

	\$
Accumulated profits at 1 January 2007	7,035,919
Net profit for the year	<u>2,616,060</u>
Accumulated profits at 31 December 2007	<u><u>\$9,651,979</u></u>

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 31 March, and 30 September in the immediately preceding premium year.

8. OTHER INCOME

In the prior year, the Corporation received a 10.00% 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 on 12 December 1997. The first and second distribution payments were paid during 2002 and 2004 in the amount of \$897,785 and \$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.

DEPOSIT INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

9. STATEMENT OF CHANGES IN EQUITY

A statement of changes in equity is not included in these financial statements, as there were no changes in equity during the year, other than as disclosed in note 6.

10. MATURITIES OF FINANCIAL ASSETS AND LIABILITIES

All current financial assets and liabilities are due within one year.

11. INTEREST RATE RISK

Other than as stated in note 4, none of the Corporation's assets or liabilities have an exposure to interest rate risk.

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

All of the Corporation's financial instruments are considered to have fair values equivalent to their carrying values.

13. FINANCIAL RISK MANAGEMENT

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

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Corporation's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Corporation's risk management framework.

The Corporation's risk management policies are established to identify and analyse the risks faced by the Corporation, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Corporation's activities.

DEPOSIT INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

13. FINANCIAL RISK MANAGEMENT (cont)

Credit risk

Credit risk is the risk of financial loss arising if a customer or counter-party fails to meet its contractual obligations and arises from investment in Bahamas Government Registered Stock. These stocks are secured by the Government of the Bahamas and therefore the risk is minimal.

Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligation as they fall due. The Corporation's approach to managing liquidity is to ensure as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Corporation's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. Management mitigates this risk by investing in Government secured investments.