DIC

Deposit Insurance Corporation Trinidad & Tobago

annual report 2005

Mission Statement

"To promote and maintain stability, safety, integrity and public confidence in the financial system of Trinidad and Tobago by providing protection for depositors in the Nation's deposit taking institutions, by the prudent and profitable management of the Deposit Insurance Fund, by the efficient liquidation of the assets of failed institutions and by ensuring safe banking and financial practices and the continued viability of the member institutions."

About the **Deposit Insurance Corporation**

The Deposit Insurance Corporation (DIC) was established by the Central Bank and Financial Institutions (Non-Banking) (Amendment) Act, 1986 which amended the Central Bank Act Chapter 79:02.

The DIC insures depositors in all institutions licensed to operate under the Financial Institutions Act 1993. Deposit insurance is payable only when an institution has been closed as a result of action taken by the Central Bank of Trinidad and Tobago.

Depositors in all licensed financial institutions are insured up to a maximum of TT $50,000. Only deposits held in Trinidad and Tobago and payable in Trinidad and Tobago dollars are insured.

The DIC is financed mainly by contributions and annual premiums levied on licensed member institutions. The DIC is empowered to borrow and special premiums may be levied on all member institutions should the demand on the Fund exceed its resources.

The Deposit Insurance System has contributed to the building of confidence in Trinidad and Tobago's financial institutions and the financial system as a whole. The Financial Institutions Act, 1993, and other improvements in the system of inspection and supervision of licensed financial institutions have also helped to reduce the risk of failure.

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Chairman's **Remarks**

Mr. Ewart Williams
Chairman, Deposit Insurance Corporation

On the 17th September, 2006 the Deposit Insurance Corporation (DIC) will celebrate its 20th Anniversary.

As we pause to mark this milestone we can take pride in the fact that while our financial system has never been as diversified, as dynamic or as profitable as it is today, it has at the same time never been more stable. Those familiar with the genesis of the DIC would appreciate the sharp contrast between today's stability and the troubled conditions that prevailed at the time of its formation. They would also recognize the pivotal role which the Corporation has played in restoring and maintaining financial stability in the years following its inception.

The Corporation was established in the mid-1980s when a number of non-bank financial institutions faced acute liquidity and solvency problems. While the situation demanded and elicited an urgent short-term response in terms of liquidity support, it also set in motion a wave of structural reforms in the financial sector that saw, in addition to the establishment of the DIC in 1986, a comprehensive updating of financial legislation to strengthen the regulatory framework and enhance supervisory powers.

The fledgling DIC faced the unprecedented challenge of managing the immediate closure of four problem institutions and would oversee the closure of four more, including the local affiliate of an international bank, by May 1993. Against the backdrop of a prolonged economic downturn, the failure of the financial institutions threatened to have contagion effects. The fact that further crisis was averted was due in large measure to the confidence inspired not just by the presence of the DIC, but by the ability of the Corporation to successfully discharge its mandate of liquidating the failed institutions and settling depositors' claims. This initial record of success by the DIC remains a source of public confidence in the institution and by extension in the financial system of Trinidad and Tobago.

New Directions

The DIC is now a mature institution whose activities have evolved to include risk management and portfolio analysis, not least in relation to its own Fund which now stands at $840 million or 9 percent of insured liabilities. The membership spans twenty three financial institutions comprising six commercial banks and 17 non-banking financial institutions licensed under the Financial Institutions Act, 1993.

In May, 2002, the DIC became one of the founding members of the International Association of Deposit Insurers (IADI) which was launched in Basel, Switzerland. Consequently, the Corporation now has a voice in matters pertaining to deposit insurance and in shaping policy and decision making in an international forum.

On the domestic front the Corporation has identified and is working to meet the need for greater public awareness of its role within the financial system, the workings of the Fund and the services offered by the Corporation. With financial innovation has come a proliferation of near-banking products and in this context, educating the public on the extent and limits of insurance coverage has evolved as a key priority for the Corporation in the period ahead.

Outlook

With the domestic financial industry now engaged in an important new round of legislative reforms a key challenge for the DIC will be to ensure that its own enabling legislation evolves in step with changes in the rest of the financial sector.

This will be a major focus in the coming months. The Corporation also plans to accelerate technical work to reassess the optimal value of the Fund, and to inform possible changes in premium computation and in the level of depositor protection.

In July, 2005 the Corporation became a member of the newly established Regulatory Policy Council formed, among other things, to provide financial sector regulators with a forum for synthesizing views on cross-cutting issues and to coordinate financial services supervisory activities. Other members include the Financial Institutions Supervision Department of the Central Bank, the Ministry of Finance, the Trinidad and Tobago Stock Exchange, and the Trinidad and Tobago Securities Exchange Commission. The Council is chaired by the Governor of the Central Bank. Within this framework the DIC will be playing a key role in strengthening the supervision of the financial sector.

It is with great pride that the DIC celebrates 20 Years of Depositor Confidence. We are committed to maintaining this confidence in the years ahead.

The Economy and Financial Sector

Economic Growth, Inflation and Employment

- Real GDP grew by 7% in 2005 as the energy and non-energy sectors expanded by 8.2 percent and 5.6 percent respectively. In 2004, output in the energy and non-energy sectors expanded by 10.5 per cent and 2.9 per cent respectively.
- Headline inflation as measured by the annual average increase in the Retail Price Index rose to 6.9 per cent in September, 2005 compared to 3.8 per cent in 2004. Food prices were the main driver of the retail price index, rising by 23 per cent in 2005 over 2004. Core inflation, which removes the effects of movements in food prices, increased by only 1 percent to 2.6 per cent in September, 2005 from 1.6 per cent (year-on-year).
- Preliminary estimates compiled by the Central Statistical Office indicate that the average unemployment rate decreased to 8 per cent in June, 2005 from 9 per cent in March, 2005. This improvement is expected to be maintained on the strength of the additional job creation in the petroleum and construction sectors. It should be noted however that approximately 500 and 5000 jobs were lost in the manufacturing and agricultural sectors, respectively.

Central Government Fiscal Operations

- In fiscal 2005, Central Government's operations registered a surplus of TT$2,892.9 million, compared with a surplus of TT$1,474.7 million recorded for fiscal 2004.
- An amount of TT$2,593.1 million was transferred to the Revenue Stabilization Fund (RSF) at the end of fiscal 2005, increasing the accumulated balance to TT$3,856.3 million at the end of September, 2005. An amount of TT$1,263.2 million was transferred at the end of fiscal 2004.

External Account

- Net international reserves at the end of September, 2005 amounted to US$3.8 billion representing a healthy 9.1 months of prospective imports. Reserves were at approximately the same level at the end of September 2004, amounting to seven months of import cover at that time.

International Credit Ratings

- In July, 2005, Standard and Poor's Ratings Services upgraded its long-term foreign currency sovereign credit rating on the Republic of Trinidad and Tobago from 'BBB+' to 'A-' and its long-term local currency sovereign rating from 'A' to 'A+' and moved the outlook from 'positive' to 'stable'. Both short- term foreign currency and local currency credit ratings were affirmed at 'A-2' and 'A-1' respectively. The upgrade was based on continued favourable external liquidity conditions, reflected in a net external creditor position and prudent macroeconomic management.

Monetary and Financial Policy Developments

- In fiscal 2005, there were twenty three financial institutions registered with the Deposit Insurance Corporation. Total deposit liabilities of all these member institutions rose from $21,039.7 million at the end of September, 2004 to $26,669.4 million at the end of September, 2005.

- During 2005 the Central Bank maintained the reserve requirements of the commercial banks at 11 per cent. A further reduction to 9 per cent is however anticipated to take place.

- Against a backdrop of persistently high liquidity and rising inflation in the domestic economy, the Central Bank raised its policy 'repo' rate on three separate occasions beginning in March, 2005. By the end of fiscal 2005, the 'repo' rate had increased from 5 percent to 5.75 per cent; an increase of seventy five basis points. In addition, the Central Bank significantly increased its open market operations (OMO) activity in an effort to remove excess liquidity from the financial system. However, as at April, 2006, the 'repo' rate had increased by a further one hundred basis points to 6.75 per cent.

- The persistence of high liquidity levels in the financial system brought with it a marked increase in the demand for foreign exchange during fiscal 2005. This was also triggered by an increase in fiscal spending and interest rate developments within the market. In relation to the demand for US currency, Central Bank sales amounted to US$545 million, an increase by 36 per cent over fiscal 2004. The commercial banks experienced an increase of 25.8 per cent in sales compared with the previous fiscal year. On the other hand, foreign exchange purchases from the public showed hardly any increase.

- The increase in the 'repo' rate led the commercial banks to increase their average prime lending rate from 8.75 per cent to 9.25 per cent by September, 2005. Since the end of fiscal 2005, a further increase has brought the rate to 10.5 per cent, as at April, 2006.

- The prevailing economic conditions also resulted in a slight increase in the treasury bill rate while the yield on long-term securities also rose from 6.11 per cent to 7.2 per cent. However, the weighted average loan and deposit rates of commercial banks continued to fall. At the end of September, 2005, the weighted average loan rate stood at 8.76 per cent from 9.09 per cent and the weighted average deposit rate at 1.73 percent from 1.86 per cent. Longer term interest rates also fell during 2005 as the real estate mortgage rates of commercial banks declined to 9.38 per cent from 9.50 per cent.

- In line with lower interest rates in fiscal 2005, credit for the private sector from the consolidated financial system grew by 15.7 per cent. Non-bank financial institutions accounted for most of the increase which occurred mainly in the area of consumer credit as opposed to business and real estate mortgage lending.

Board of Management

Clockwise from top left: **Mr. Ewart S. Williams,** Chairman; **Ms. Shelley M. E. Collymore,** Director; **Mr. Patrick Aiden Ferreira,** Director; **Mr. Henry Jeffers,** Director
Not shown: **Mr. Hollis De Four,** Alternate Director

management team

Mr. Junior Frederick
General Manager

Ms. Jacqueline Fermin
Head, Corporate Services and Finance

committees

Audit Committee
Mr. Henry Jeffers (Chairman)
Mr. Patrick Ferreira

Investment Committee
Mr. Patrick Ferreira (Chairman)
Mrs. Shelley M.E. Collymore

Corporate Profile

Offices

Level 11
Central Bank Building
Eric Williams Plaza
Independence Square
Port of Spain
Tel: 868 625 5020
Hotline: 800 4DIC
Fax: 868 623 5311
E-Mail: info@dictt.org
Website: www.dictt.org

Banker

Central Bank of Trinidad and Tobago

Eric Williams Plaza
Independence Square
Port of Spain

Auditor

Auditor General of Trinidad and Tobago

2nd Podium Floor
Eric Williams Finance Building
Eric Williams Plaza
Independence Square
Port of Spain

Member Institutions

of the Deposit Insurance Fund

AIC Finance Limited
ANSA Merchant Bank Limited
Caribbean Finance Company Limited
Citibank (Trinidad and Tobago) Limited
Citicorp Merchant Bank Limited
Clico Investment Bank Limited
Development Finance Limited
Fidelity Finance and Leasing Company Limited
First Caribbean International Banking & Financial Corporation Limited
First Citizens Bank Limited
First Citizens Trust and Asset Management Limited
General Finance Corporation Limited
Guardian Asset Management Limited
Intercommercial Bank Limited
Intercommercial Trust and Merchant Bank Limited
Island Finance Trinidad and Tobago Limited
RBTT Bank Limited
RBTT Merchant Bank Limited
RBTT Trust Limited
Republic Bank Limited
Republic Finance and Merchant Bank Limited
Scotiabank Trinidad and Tobago Limited
Scotiatrust and Merchant Bank Trinidad and Tobago Limited

Management Discussion & Analysis 2005

Financial Highlights
2005

Statement of Income and Deposit Insurance Fund
for the Year Ended September 30th

	2005 TT$M	2004 TT$M	2003 TT$M	2002 TT$M
Fund Balance at the End of the Year	**839.8** (13%)	**741.2** (13.3%)	**650.5** (15.2%)	**564.5** (17.3%)
Net Income for the Year	**98.6** (9%)	**90.7** (5.5%)	**86.0** (3.1%)	**83.4** (6.1%)
Interest Earned	56.7 (8%)	52.4 (6%)	49.6 (2.9%)	48.2 (-3.6%)
Premium Income	42.3 (5%)	40.2 (3.3%)	38.9 (10.8%)	35.1 (8.7%)
Expenses	5.0 (1.4%)	3.5 (2.9%)	3.4 (-8.1%)	3.7 (-11.9%)
Total Assets at the End of the Year	**840.8** (13%)	**742.9** (13.9%)	**652.4** (13.4%)	**575.2** (11.7%)
Investment Portfolio	821.6 (14%)	723.1 (13.9%)	634.9 (13.7%)	558.2 (15.4%)

Note: The figures in parenthesis represent percentage changes from the previous year. All are increases except where shown with (-).

Deposit Insurance Fund
2005

Section 44K of the Central Bank Act Chapter 79:02 as amended by the Central Bank and Financial Institutions (Non-Banking) (Amendment) Act, 1986 provides for the establishment of the Deposit Insurance Fund. The Deposit Insurance Corporation is responsible for the management of the Fund which is to be used for the payment of deposit insurance claims if a member institution fails. Membership is compulsory for all institutions licensed by the Central Bank of Trinidad and Tobago under the Financial Institutions Act, 1993.

The balance on the *Deposit Insurance Fund* at 30th September, 2005 stood at TT$839.8 million, an increase of 13% over the amount of TT$741.2 million existing at the corresponding date in 2004. Growth in the Fund from one year to another is generated from the annual earnings of the Corporation (after defraying expenses). This residual figure is referred to as *Net Income* and is a central item on the *Statement of Net Income and Deposit Insurance Fund*. The *Statement* shows the income earned and expenses incurred for the current and previous fiscal years in addition to movements in the *Deposit Insurance Fund* during the same periods. The growth of the Fund over the past ten years is illustrated below.

Net Income for the financial year ended 30th September, 2005 amounted to TT$98.6 million. This was $7.8 million or 9% higher than the balance of TT$90.7 million realised in the previous financial year. Whilst *Total Income* was higher in 2005 than 2004 by TT$9.1 million, *Total Expenses* increased by only TT$1.3 million.

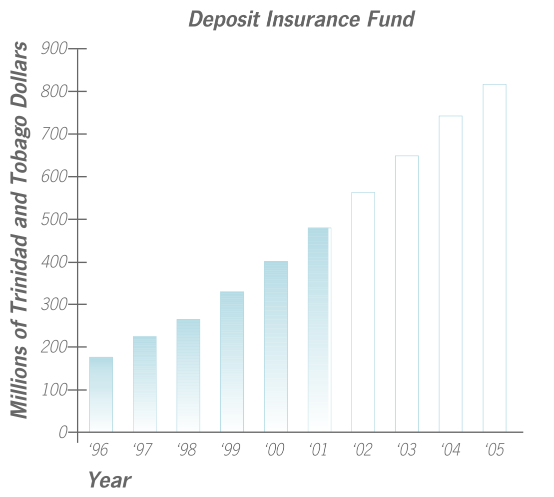
The two largest items for several years on the *Statement of Net Income and Deposit Insurance Fund*, have been income related, viz. *Interest Earned* and *Annual Premia*. The annual increases in these items provide the impetus to the growth of the Fund.

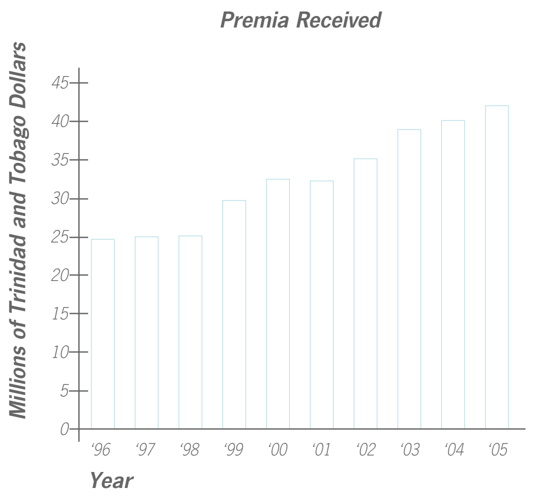
Annual Premia

The Corporation is mandated by law to levy contributions to the Deposit Insurance Fund from each member institution, the first occurring six months after the institution attains membership status (*initial contribution*). Another levy follows twelve months after admittance (*first annual premium*) and thereafter levies are made on institutions once annually at the beginning of every calendar year (*annual premium*). Two bye laws provide the basis for which the levy is to be made. For the initial contribution which must be matched equally by a contribution from the Central Bank, the rate is fixed at 0.4% of average deposit liabilities whereas for the first and subsequent annual premia, a fixed rate of 0.2% of average deposit liabilities applies. The dates used in the computation are specified in the bye laws.

Annual Premia levied and collected from twenty three member institutions in fiscal 2005 amounted to TT$42.3 million compared with TT$40.2 million in fiscal 2004, an increase of 5%. The chart below illustrates annual premia over the past ten years.

There was no levy of initial contributions in fiscal 2005. Although a new institution, AIC Merchant Bank Limited, was licensed by the Central Bank of





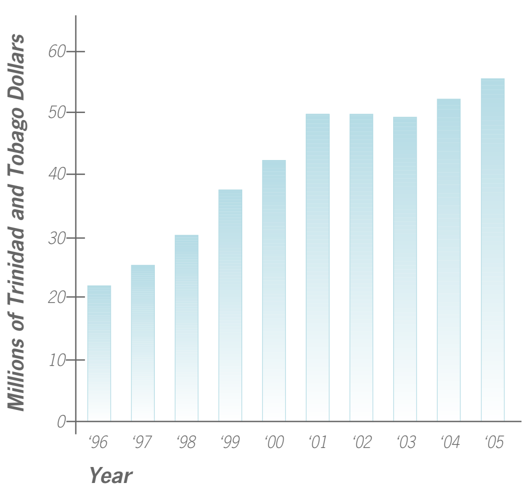
Trinidad and Tobago with effect from 23rd July, 2004 said institution merged their operations with AIC Finance Limited (formerly Total Finance Limited) in April, 2005. As a consequence, all the assets and liabilities of AIC Merchant Bank Limited were transferred to the ownership of AIC Finance Limited. As a result of this merger of the two institutions, no levy of an initial contribution was required.

The increase in annual premia between 2004 and 2005 was as a result of the corresponding growth in deposit liabilities of member institutions between the calendar years 2003 and 2004. (Annual Premia for a calendar year is levied using a quarterly average of the prior calendar year's deposit liability balances to which a fixed rate is applied).

Interest Income

Interest or investment income is earned from the Corporation's investment portfolio. For the fiscal year ended 30th September 2005, the portfolio generated earnings of TT$56.7 million compared with TT$52.4 million for the previous fiscal year, a rise of 8%. The increase resulted primarily from the returns received on new investments funded from annual premiums and insurance payments recovered in addition to the re-investment of income received from previously established investments. In general, rates on both short-term and long-term portfolio instruments trended downwards during the fiscal year when compared with past periods. The average yield on the portfolio for the financial year ended 30th September, 2005 was 7.22% per annum compared with 7.72 % per annum for the previous financial year. Average portfolio yields have been on the decline since the year 2000 with a relatively sharp fall-off occurring in 2002. The chart below illustrates interest earned over the past ten year period.

Interest Received



Investments

(a) Primary Investment Objectives and Approved Investment Categories

Although the Corporation has been given the power in the legislation under which it is governed, to "...accumulate, manage and invest funds collected", there is no provision to guide the Corporation's investment activities in terms of investment objectives and approved investment categories. The Corporation's Board of Management has approved an investment policy which addresses these issues.

The *primary investment* objectives with respect to the management of the portfolio are as follows:-

(i) Maintenance of capital security.
Investments should be of a very high quality in terms of the ability of the investee to meet its obligations to the Corporation and the legal arrangements which are in place to protect the Corporation as investor. Permissible ranges for holdings in the approved investment categories demonstrate a greater preference for Trinidad and Tobago Government Securities.

(ii) Provision of an adequate liquidity profile
Investment choices and the periods for which the investments are placed should be informed by potential, anticipated or contingent insurance payouts and conditions operating in the banking and financial sectors. To this end all investments held by the Corporation are readily realisable and convertible into cash.

(iii) Maximisation of growth of the Fund
Although the best efforts should be made to grow the Fund in as short a time frame as possible, this should be undertaken subject to the other two (2) objectives described at (i) and (ii), above.

The *approved investment categories* are as follows:-

- Trinidad and Tobago Government Securities (20% -100% of the portfolio)
- Foreign Investments (0-30% of the portfolio)
- Deposits in Member Institutions and the Money Market Account of the Trinidad and Tobago Unit Trust Corporation (0-20% of the portfolio)

(b) Status of the Investment Portfolio

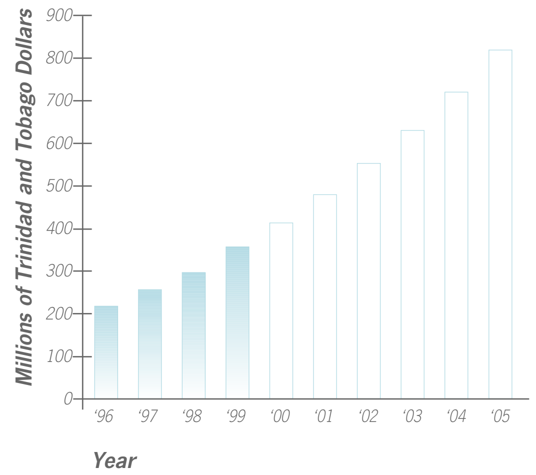
The investment portfolio as at 30th September, 2005 rose to TT$821.6 million from TT$723.1 million at the end of the previous fiscal year, an increase of 14%. This rise mirrored the change in the Deposit Insurance Fund balance during the corresponding period as should be expected given that the Deposit Insurance Fund is largely represented by investment assets. The chart below illustrates the growth of the investment portfolio over the past ten years.

The investment mix changed somewhat during the fiscal year under review compared with the previous fiscal year. At the end of fiscal 2005, 93% of the portfolio was represented by Trinidad and Tobago Government Securities, 5% in Corporate Securities and 2% in deposits in member institutions and money market investments in the Trinidad and Tobago Unit Trust Corporation. The percentage holdings in these two categories at the end of fiscal 2004 were 88% and 12%, respectively for Government Securities and deposits. There were no holdings of foreign securities in any institution outside of Trinidad and Tobago at the end of both periods.

Approved instruments in respect of Trinidad and Tobago Government Securities include Bonds, Treasury Bills and Treasury Notes. Government Bonds, the single largest investment item increased during the year by TT$33.5 million from TT$494.3 million at 30th September, 2004, which represented 68% of the portfolio to TT $527.8 million at 30th September, 2005, which accounted for 64% of the portfolio. Although the quantum holding of Government Bonds in the portfolio continues to grow, more attention has been placed on investments within the medium to short term instruments in the form of Treasury Notes and Treasury Bills. In light of the prevailing economic conditions whereby the yield on short term Treasury Bills slightly increased and coupled with the fact that superior yields on the typically longer term instruments are no longer being offered, Management opted for placing investments in instruments of a shorter duration as opposed to longer term instruments. As a result, the percentage holding of Treasury Notes increased to 17% of the portfolio as at 30th September, 2005 up from 5% as at 30th September, 2004.

Holdings of Trinidad and Tobago Government Treasury Bills fell during the year both in terms of quantum and percentage to TT$92.3 million and 11% respectively as at 30th September, 2005, from TT$108.4 million and 15% at the end of fiscal 2004. The reduction in Treasury Bills holdings of TT$16.1 million was temporary and only resulted from the investment in corporate securities in the amount of

Investment Portfolio



TT$40 million offered at a yield higher than available on Treasury Bills at the end of fiscal 2005. This investment in corporate securities was in the form of a Repurchase Agreement of RBTT Bank Limited Promissory Notes. Currently, this investment has matured and the maturity proceeds were re-invested in Treasury Bills.

Liquidation

Since its establishment, the Corporation has paid insurance claims in respect of eight institutions which were closed by the Central Bank as failed institutions. For all of these failures, the Corporation has been appointed liquidator. To date, two of the appointments have been completed and six institutions remain under the Corporation's purview.

During fiscal 2005, the Corporation can report the following achievements during the fiscal year:-

1. The closure of the liquidation of Bank of Credit and Commerce International (Trinidad and Tobago Merchant Bankers) Limited – in Liquidation was completed.
2. In relation to two other failed institutions viz.- SWAIT Finance Company Limited and MAT Securities Limited, all pending legal matters have been resolved and barring any unforeseen set backs, these liquidations are likely to be closed in 2006.
3. The other four companies in liquidation are all awaiting resolution of legal matters before official winding up can be completed.

Risk Assessment

Notwithstanding the slow pace of development in this area, the Corporation continues to view this function with importance in an attempt to conform

Deposit Insurance Fund 2005

with international best practice. Therefore, in light of our role within the financial architecture, we are committed to placing emphasis on this function so as to minimize exposure of loss to the Fund.

In the context of the international banking community, the implementation date for the adoption of the Basel II Framework has been revised from year-end 2006 to year-end 2007. The Basel Committee on Banking Supervisions, issued revisions to the supervisory regulations governing the capital adequacy of internationally active banks, Basel II. As a result, the need to conduct and review one further year of impact studies or parallel calculations for the most advanced approaches for the new capital accord became necessary.

The Basel II Framework refers to capital adequacy and sets out the arrangements for adopting more risk-sensitive minimum capital requirements for banking organizations. The new framework reinforces these risk-sensitive requirements by laying out principles for banks to assess the adequacy of their capital and for supervisors to review such assessments to ensure that banks have adequate capital to support their risks. It also seeks to strengthen market discipline by enhancing transparency in banks' financial reporting.

International Outreach

Staff of the Deposit Insurance Corporation participated in a number of international meetings and conferences, including:

- Annual Meeting and Conference of the International Association of Deposit Insurers (IADI), October 2004, Brunnen, Switzerland
- Executive Council Meeting - IADI, April, 2005, Basel, Switzerland
- Executive Council Meeting - IADI, June, 2005, Basel, Switzerland
- Annual Meeting and Conference of the International Association of Deposit Insurers (IADI), September, 2005, Taipei, Taiwan

Changes in the Board of Management

- The terms of office for two directors; the Chairman, Mr. Ewart Williams and director, Mr. Patrick Ferreira both expired on the 16th September, 2005. Both directors have since been re-appointed; each for another term of three years.

Celebrating 20 Years of
Depositor Confidence

A Conversation with
Mr. Osborne Nurse

In 2006, the Deposit Insurance Corporation celebrates its Twentieth Anniversary. What was it like at the very beginning? To find out, we spoke with the Corporation's first General Manager, Mr. Osborne Nurse, who joined the organisation at a very difficult time in the history of this country's financial services industry, the tumultuous and uncertain economic environment of the eighties.

"First of all, Dr. Euric Bobb [then Central Bank Governor] was the architect of the Deposit Insurance system," says Mr. Nurse, laughing, "I was just the builder!"

The amendment of the Central Bank Act Chap. 79:02 took place on February 1, 1986. This amendment provided for a system of deposit insurance thereby establishing the Deposit Insurance Corporation. Mr. Nurse joined the DIC as its first General Manager on October 1, 1986. It was a time of crisis for the nation's financial sector. A number of Non-Bank Financial Institutions (NFIs) had become illiquid and some were in fact insolvent.

The Central Bank of Trinidad and Tobago needed to intervene, but existing law did not permit and this led to the amendment of the Central Bank Act Chap. 79:02 and the passage of the new act; The Central Bank and Financial Institutions (Non-Banking) (Amendment) Act, 1986, which gave the Central Bank the power to intervene to protect depositors and to assume management of a failed institution. That Act created the Deposit Insurance Fund and the Deposit Insurance Corporation which was charged with the responsibility of administering and managing the Fund.

The institutions that faced the greatest difficulties at the time were Trade Confirmers Ltd., Commercial Finance Company, SWAIT Finance Ltd., and Summit Finance Corporation. In December 1986, the High Court issued winding up orders for the closure of these institutions upon the application of the Central Bank and as a result, the Central Bank closed these NFIs. On December 22, 1986, the DIC was advised that it would be required to initiate insurance payments to depositors in these organisations– a deposit insurance liability of $195 million - within 90 days.

The DIC therefore faced the task of implementing all the systems that were required to meet this obligation to the public. Says Mr. Nurse: "$195 million! Our challenges included: Creating mechanisms for receiving and assessing claims, developing systems for processing these claims and for making the payments directly to some 15,000 depositors. Our mandate was to protect the interests of thousands of depositors."

> ***"The introduction of Deposit Insurance was an absolutely progressive move. It brought the financial services sector to a new level of sophistication..."***

Consistent with its deadline, the Corporation made its first insurance payments on March 17, 1987.

"Part of our goal was to restore confidence, and there is no doubt at all in my mind that it worked... there were no undue pressures on other NFIs, giving some of them much needed breathing space to restructure," says Mr. Nurse, "Depositors themselves were very pleased, many of them thought they would lose it all, and instead, thanks to the DIC, most got all their principal back!"

"The introduction of Deposit Insurance was an absolutely progressive move," says Mr. Nurse, "It brought the financial services sector to a new level of sophistication, and it is a great comfort to know that the DIC is a permanent institution that will be there to protect the depositors of Trinidad and Tobago whenever it might be required in the future."

The DIC's Public
Awareness Campaign

The DIC believes that informed financial consumers contribute to the stability of the country's financial system. The value of a deposit insurance scheme depends on consumers knowing what is insured, and being able to make informed choices using that knowledge.

A survey conducted by the DIC indicated that the majority of Trinidadians know very little about deposit insurance, what financial products are insured and what is not, and few know how or where to get this information.

Over the last year, the DIC made a decision to embark on a programme to enhance consumer awareness about deposit insurance. The goal - to help consumers make more informed choices when buying financial products and to increase awareness and knowledge of the DIC and deposit insurance, including what financial products are and are not eligible for deposit insurance protection.

In fulfilling this mandate the DIC's consumer awareness programme was educational and informative in content. The awareness campaign incorporated press advertising including corporate and Q & A advertisements; radio advertising corporate in content; television talk shows featuring Mr. Junior Frederick; a series of 90 second television infomercials, and; mass distribution of DIC information brochures using the daily newspapers. And in addition to its toll free telephone line, the DIC now hosts its own website which consumers can access for updated and current information. As a result, the DIC has achieved a successful and important milestone in giving consumers access to new sources of information about deposit insurance.

DIC
Deposit Insurance Corporation

Deposit Insurance and you

The Deposit Insurance Corporation was established by the Central Bank and Financial Institutions (Non-Banking) (Amendment) Act, 1986, which provided for the creation of an independent Fund from which depositors of failed member institutions would be paid insurance on their deposits. Depositors in all licensed financial institutions are insured up to a maximum of fifty thousand dollars ($50,000). Deposit Insurance is of importance to all members of the public. Here are some frequently asked questions:

Q. *What does deposit insurance cover?*

A. Deposits received by an institution licensed under the Financial Institutions Act, 1993, in its usual course of business. These include balances held on savings and chequing accounts, demand deposits and time deposits. Not to be excluded are interest and outstanding or uncleared balances receivable on the said accounts for which the licensed institution has issued an instrument in respect of which it is primarily liable.

Q. *Are foreign deposits insured?*

A. No. Only deposits held in Trinidad and Tobago and payable in Trinidad and Tobago dollars are insured.

Q. *Are balances held in Mutual Funds insured?*

A. No.

Call our toll free number, 800 4DIC or visit our website at www.dictt.org. We will be happy to address your concerns.

Twenty years of depositor confidence.

DIC
Deposit Insurance Corporation
Level 11, Central Bank Bldg., Eric Williams Plaza,
Independence Sq., Port of Spain
Tel: (868) 625 5020 • E-Mail: info@dictt.org

One of a series of advertisements to build public awareness of Deposit Insurance

Financial Statements
2005

Auditor's **Report**

Report of the Auditor General of the Republic of Trinidad and Tobago on the Financial Statements of the Deposit Insurance Corporation for the Year ended 2005 September 30

The accompanying Financial Statements of the Deposit Insurance Corporation for the year ended 2005 September 30 have been audited. The Statements as set out on pages 24 to 31 comprise a Balance Sheet as at 2005 September 30, a Statement of Net Income and Deposit Insurance Fund and a Statement of Cash Flows for the year ended 2005 September 30 and Notes to the Financial Statements numbered 1 to 10.

2. These Financial Statements are the responsibility of the management of the Deposit Insurance Corporation. The Auditor General's responsibility is to audit these Financial Statements and to report thereon in accordance with section 116 of the Constitution of the Republic of Trinidad and Tobago.

3. The examination was conducted in accordance with generally accepted Auditing Standards. These Standards require that the audit be planned and performed in order to obtain reasonable assurance about whether the Financial Statements are free of material misstatement.

4. 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 presentation of information in the Financial Statements. It is my view that the audit which was conducted provides a reasonable basis for the comments expressed at paragraph 5 of this Report.

Opinion

5. The Financial Statements and Notes to the Financial Statements outlined at paragraph one above are in agreement with the records of the Deposit Insurance Corporation and present fairly, in all material respects, the state of affairs of the Corporation at 2005 September 30 and the results of its operations and its cash flows for the year ended 2005 September 30 in accordance with International Financial Reporting Standards.

Submission of Report

6. This Report is being submitted to the Speaker of the House of Representatives, the President of the Senate and the Minister of Finance in accordance with the requirements of sections 116 and 119 of the Constitution of the Republic of Trinidad and Tobago.

Republic of Trinidad & Tobago
20060320
AUDITOR GENERAL

Sharman Ottley

Auditor General

2006 March 20th

balance sheet

as at 30th September 2005

ASSETS	**Notes**	30-Sep-2005 $'000	30-Sep-2004 $'000
Current Assets			
Cash and Cash Equivalents	3	59,577	88,181
Investments	4(a)	223,304	208,534
Accounts Receivable	5	19,481	18,897
Liquidation Advances Recoverable		105	167
		302,467	315,779
Non Current Assets			
Property, Plant and Equipment	6	560	725
Security Deposit - Central Bank	2(f)	29	29
Investments	4(b)	538,921	426,405
		539,510	427,159
Total Assets		841,977	742,938
Current Liabilities			
Current Balance due to Central Bank	9(c)	792	444
Accounts Payable		344	222
		1,136	666
Equity			
Capital (Authorised and Paid Up)	9(a)	1,000	1,000
Deposit Insurance Fund		839,841	741,272
		840,841	742,272
Total Liabilities and Equity		841,977	742,938

The attached notes set out on pages 27 to 31 form an integral part of the financial statements.

These financial statements have been approved by the Board of Directors on 23rd February, 2006 and signed on its behalf by:

Ewart Williams
Chairman

Henry Jeffers,
Director

statement of **net income**

and Deposit Insurance Fund for the year ended 30th September 2005

	Year Ended 30-Sep-2005 $'000	Year Ended 30-Sep-2004 $'000
INCOME		
Interest Earned	56,673	52,591
Annual Premia	42,313	40,184
Insurance Payments Recovered	4,400	1,600
Gain on Redemption of Investments	101	-
Liquidation/Receivership Fees	43	58
Other	43	21
	103,573	94,454
EXPENSES		
Personnel	2,658	2,099
General and Administrative	1,789	1,276
Loss on Redemption of Investments	276	181
Amortisation on Investments	62	-
Depreciation on Property, Plant and Equipment	219	165
	5,004	3,721
Net Income	98,569	90,733
Fund Balance at the beginning of the year	741,272	650,539
Fund Balance at the end of the year	839,841	741,272

The attached notes set out on pages 27 to 31 form an integral part of the financial statements.

statement of **cash flows**

for the year ended 30th September 2005

	Year Ended 30-Sep-2005 $'000	Year Ended 30-Sep-2004 $'000
Cash flows from Operating Activities :		
Surplus for the year	98,569	90,733
Add/(Less) Adjustment for:		
Amortisation on Investments	62	-
Depreciation	219	165
Loss on :- Redemption of investments	276	181
Sale of Property, Plant and Equipment	7	1
Unrealised gain on Foreign Exchange	(12)	-
Gain on redemption of investments	(101)	-
Operating surplus before working capital changes	99,020	91,080
Decrease/(Increase) in Operating Assets :		
Liquidation Advances Recoverable	62	(76)
Accounts Receivable	(584)	(2,202)
Increase/(Decrease) in Operating Liabilities :		
Current balance due to Central Bank	348	(604)
Accounts Payable	122	(169)
Net cash flows from operating activities	98,968	88,029
Cash Flows from Investing Activities :		
Decrease in Government Treasury Bills - Local	16,160	26,498
Investment in Government Treasury Notes	(142,496)	(32,224)
Proceeds from redemption of Government Treasury Notes	32,098	28,155
Purchase of Government Bonds - Local	(120,615)	(86,959)
Proceeds from redemption of Government Bonds	87,330	-
Additions to Property, Plant and Equipment	(62)	(89)
Proceeds from sale of Property, Plant and Equipment	1	-
Net Cash Flows used in investing activities	(127,584)	(64,619)
Cash Flows from Financing Activities :		
Increase in Capital Contribution	-	500
Net Cash provided by financing activities	-	500
Unrealised gain on Foreign Exchange	12	-
Net (decrease)/increase in cash and cash equivalents	(28,604)	23,910
Cash and Cash Equivalents at the beginning of the year	88,181	64,271
Cash and Cash Equivalents at the end of the year	59,577	88,181

The attached notes set out on pages 27 to 31 form an integral part of the financial statements.

notes to the **financial statements**

for the year ended 30th September 2005

1 AUTHORITY AND OBJECTIVE

The Deposit Insurance Corporation was established by the Central Bank and Financial Institutions (Non-Banking) (Amendment) Act, 1986 (Act No. 2 of 1986), which amended the Central Bank Act Chapter 79:02. (All references made to legislation in the ensuing paragraphs unless specifically stated otherwise, relate to the Central Bank Act Chapter 79:02). The Corporation is a statutory body, the authorised capital of which is fixed by the Act in the amount of $1,000,000. However, an increase may be approved by the Minister to whom the responsibility for finance is assigned.

The Corporation's principal objective is to manage a Deposit Insurance Fund established by the Act to provide insurance coverage on deposits held with member institutions to a maximum of $50,000 per depositor in each capacity and right in each institution. Membership of the Fund is compulsory for all institutions licensed under the Financial Institutions Act, 1993.

Section 44W of the Act authorises the Corporation to take such action as it deems necessary to fulfil its mandate including levying premia and contributions from member institutions, hiring of staff, borrowing, lending, arranging for the restructuring of a failed member whether by merger with a financially sound member or otherwise and acquiring the undertaking of any member institution which is in financial difficulty. The Corporation may also act as receiver or liquidator of an insolvent member institution.

2 ACCOUNTING POLICIES

(a) Basis of Preparation

The financial statements are expressed in Trinidad and Tobago dollars, rounded to the nearest thousand and are prepared under the historical cost convention in accordance with International Financial Reporting Standards.

(b) Assets under Administration

The Balance Sheet does not include the assets of closed financial institutions under the administration of the Corporation.

(c) Foreign Currency Translation

Transactions denominated in foreign currencies are recorded at the rates ruling at the dates of the transactions. Assets and liabilities denominated in foreign currencies are expressed in Trinidad and Tobago dollars at year end average exchange rates. Exchange gains and losses are reflected in the Statement of Net Income and Deposit Insurance Fund.

(d) Property, Plant and Equipment and Depreciation

Property, Plant and Equipment are stated at cost less accumulated depreciation. Depreciation is provided on a reducing balance basis at rates calculated to write off the cost of the assets over their estimated useful lives for all asset groups except computer equipment. The rates used are as follows:

Motor Vehicle	25%	per annum
Furniture / Fixtures	10%	per annum
Office Equipment	15%	per annum
Leasehold Improvements	33⅓%	per annum

Effective from the financial year ended 30th September, 2005 the method of depreciation on computer equipment has been changed to the straight line method over a period of five years, which is being regarded as the estimated useful life of the computer equipment. Previous to 2005, computer equipment was depreciated on the reducing balance basis at a rate of 20% per annum.

No depreciation is charged in the year of disposal. However, a full year's charge is made in the year of acquisition.

(e) Cash and Cash Equivalents
Cash and cash equivalents include highly liquid investments with maturities of six (6) months or less and are carried at cost.

(f) Comparatives
Adjustments have been made to the prior year figures to conform to changes in presentation in the current year for the following items:-

(i) Investments previously referred to as Marketable Securities, have been re-classified under Current and Non-Current Assets representing those instruments maturing in less than one (1) year and over one (1) year respectively.

(ii) In relation to Central Bank, the security deposit attached to the Rental Agreement, has been presented as a Non-Current Asset. In the previous financial year, the amount was set off against the amount due to Central Bank. The security deposit amounts to $ 29,250.00.

(g) Investments
Investments comprise short, medium and long term investments in Government and Government backed paper and are carried at amortised cost using the effective interest method. Quoted investments, in respect of which provisions for diminution in value are made, are not subject to revaluations where subsequent increases in market values have occurred, if such movements are deemed to be temporary. All investments have fixed maturities and are classified as held-to-maturity.

(h) Market Risk
The Corporation is subject to market risk from its investments in deposit instruments, corporate and government securities. The Corporation minimizes its market risk by investing in high quality financial instruments and by limiting the amount invested in any one (1) counterparty.

(i) Levy of Initial Contributions and Annual Premia
All institutions are required to pay an initial contribution on becoming members and annual premia in subsequent years. Initial contributions paid by member institutions are matched by the Central Bank. [Section 44M]

The payment of initial contributions is based on a rate of 0.4 per centum of the average deposit liabilities existing at the end of the first and second quarters of the first twelve months of operation.

Annual premia in respect of a given year are paid on the basis of a rate of 0.2 per centum of the average deposit liabilities existing at the end of each of the quarters in the preceding calendar year, except that for a new institution the first year's levy is based on its average deposit liabilities existing in the first year of operation.

(j) Exemption from the Provisions of Taxation and Insurance Legislation
The Corporation is exempt from the provisions of any Act relating to income taxation or company taxation and from payment of stamp duty, and is also exempt from the provisions of the Insurance Act 1980. [S.55(1) and (2)].

Notes to the Financial Statements for the year ended 30th September 2005

3. CASH AND CASH EQUIVALENTS

	30-Sep-2005	30-Sep-2004
	$'000	$'000
Cash and bank balances	177	142
Term deposits	13,147	82,122
Money Market Deposits	6,253	5,917
Corporate Securities	40,000	-
	59,577	88,181

4. INVESTMENTS

	30-Sep-2005	30-Sep-2004
	$'000	$'000
(a) Current		
Government Treasury Bills	92,259	108,419
Government Treasury Notes	28,163	32,224
Government Bonds	102,882	67,933
Less: Provision for Diminution in Value	-	(42)
	223,304	208,534
(b) Non Current		
Government Treasury Notes	114,271	-
Government Bonds	424,905	426,660
Less: Provision for Diminution in Value	(255)	(255)
	538,921	426,405

5. ACCOUNTS RECEIVABLE

	30-Sep-2005	30-Sep-2004
	$'000	$'000
Interest Receivable	19,219	18,649
Other Receivable	262	248
	19,481	18,897

6. PROPERTY, PLANT AND EQUIPMENT:

Cost	At 30-Sep-2004 $'000	Additions $'000	Disposals $'000	At 30-Sep-2005 $'000
Leasehold Improvements	360	-	-	360
Motor Vehicles	364	-	-	364
Furniture/Fixtures	495	-	(4)	491
Office Equipment	172	-	(13)	159
Computer Equipment	436	62	(9)	489
	1,827	62	(26)	1,863

Depreciation	At 30-Sep-2004 $'000	Current Charge $'000	Charge on Disposals $'000	At 30-Sep-2005 $'000
Leasehold Improvements	289	24	-	313
Motor Vehicles	259	26	-	285
Furniture/Fixtures	226	27	(4)	249
Office Equipment	96	11	(8)	99
Computer Equipment	232	131	(6)	357
	1,102	219	(18)	1,303
Net Book Value	**725**			**560**

7. PERSONNEL AND GENERAL AND ADMINISTRATIVE EXPENSES

Included in Personnel Expenses are the following charges:-

	30-Sep-2005 $'000	30-Sep-2004 $'000
Directors' Fees	131	93

Included in General and Administrative Expenses are the following charges:-

	30-Sep-2005 $'000	30-Sep-2004 $'000
Loss on Disposal of Property, Plant and Equipment	7	1

Notes to the Financial Statements for the year ended 30th September 2005

8. RETIREMENT BENEFITS

The Corporation does not operate a pension plan but a non-compulsory arrangement exists whereby the Corporation contributes 150% of an employee's contribution to an approved individual annuity or the Individual Retirement Unit Account of the Trinidad and Tobago Unit Trust Corporation up to a maximum of 10% of an employee's base salary. Costs incurred for 2005 were $81,000 (2004: $77,000).

9. RELATED PARTY TRANSACTIONS

Significant aspects of the relationship between the Corporation and the Central Bank of Trinidad and Tobago (the Central Bank) are as follows:

(a) Capital Contribution [S.44V(2)]
The paid-up capital has been contributed entirely by the Central Bank.

(b) Representation on the Board of Management [S. 44Q(1)(a)]
The Central Bank is represented on the Board of Management of the Corporation by two (2) members.

(c) Current Liabilities

	30-Sep-2005 $'000	30-Sep-2004 $'000
Personnel and Administration Expenses reimbursable to the Central Bank	792	444
	792	444

(d) Operational arrangements between the Central Bank and the Corporation
During the financial year, the Central Bank provided under contract office accommodation and other administrative services to the Corporation. The costs incurred for the year ended 30th September, 2005 under these arrangements were $581,000 (2004: $582,000). Limited commercial banking type facilities are also provided by the Central Bank.

10. EMPLOYEES

At 30th September, 2005, the Corporation had in its employ a staff of 14 persons (2004: 14).

Notes