DIC DEPOSIT INSURANCE CORPORATION

Annual Report 2007

Forging Ahead

Mission Statement

"To contribute to the stability, safety and integrity of and public confidence in the financial system of Trinidad and Tobago by providing protection and support for eligible depositors and member institutions and by the prudent and profitable management of the Deposit Insurance Fund."

Vision Statement

"To become a pro-active and efficient deposit insurance system, evolving to meet the ever changing needs of a modern society".

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 $75,000. 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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Mr. Ewart Williams
Chairman, Deposit Insurance Corporation

Forging Ahead

Some twenty plus years have passed since the establishment of the DIC. Over this period, the financial landscape has undergone many significant changes and amidst these changes, the DIC continues to be an important player in the safety net of the financial system. Notwithstanding this vital role played by the DIC in promoting confidence in the financial system, the Corporation is seeking to forge ahead and transform itself to fit into the new and evolving financial system.

In embarking on this phase of organisational transformation and change, focus will be given to developing operating systems which will allow the organisation to respond to the dynamics of the changing financial landscape. These systems will include but not be limited to knowledge management, information and communication technology and computerisation of the payout process. Additionally, attention will be given to prudent management of the deposit fund through the investment function.

Organisations must be aware of the changing environments in which they operate and be responsive to these changes. As such, development of the systems mentioned above cannot be sufficiently emphasised. Not only is there a need for the government to amend and update financial legislation to cope with an ever changing financial environment, but organisations too must put their house in order and adjust accordingly.

In 2007, as a result of the rapid growth in personal incomes and financial savings, the government increased the coverage limit on deposits from $50,000 to $75,000. As a result of this increase, we must ensure that there is fund adequacy. In so doing, careful attention must be paid to investment decisions as capital security becomes of even greater importance in the face of the volatile financial markets in which we operate today.

Globally, investors and financial institutions are grappling with the ongoing fallout from the failing sub-prime market for mortgages. While the domestic market has not been adversely affected by this financial turmoil, however, it will be remiss of us not to consider the possible downside risks for the local economy. The present outlook suggests that there may be a recession in the United States and perhaps a slowdown in the global economy. Certainly, investment strategies will have to be constantly reviewed so as to maintain a secure portfolio.

On the domestic front, despite positive performance indicators for the short to medium term, the economy continues to face inflationary pressures fuelled primarily by high food prices. Strong aggregate demand and expansionary fiscal policy have created serious challenges for macro economic management.

It is against this backdrop that the DIC must now position itself to respond to some of the challenges which exist in the external environment. The Board of Management and the staff are committed to attaining the Corporation's goals. I am certain that we can successfully ride these tides of change and avoid the waves of defeat. Indeed, the DIC with its operational strengthening will advance into the future and confidently face the many challenges along its journey.

The Economy
and Financial Sector

Economic Growth, Inflation and Employment

- Real GDP grew by approximately 6 percent in 2007; half the growth of last year. Growth in the energy sector slowed down recording a 4.4 percent increase in 2007 compared to 20.4 percent in 2006. By contrast, domestic demand fuelled an increase in the non-energy sector recording growth by 6.7 percent in 2007.
- The increase in economic activity in the non-energy sector has resulted in a significant increase in job creation. As a result, the unemployment rate fell to 6.0 percent in September 2007; down from 7.2 per cent in September 2006,
- Headline inflation, which peaked to 10 per cent in October 2006 was reduced to 7.3 percent by September 2007. This was the result of tight monetary policy and greater fiscal restraint by the Central Bank. Food prices continued to be the main driver of headline inflation rising by 14 per cent in 2007, compared to 27.4 per cent a year ago. Core inflation, which removes the effects of the volatile movements in food prices, measured 4.6 per cent in September, 2007 up from 3.9 percent one year earlier.

Central Government Fiscal Operations

- In fiscal 2007, Central Government's operations registered an overall surplus of TT$5,152.1 million, compared with a surplus of TT$7,426.7r[1] million for fiscal 2006. As at September 30, 2007, recurrent revenue amounted to $39,579 million up from $38,479.6 million in fiscal 2006. Similarly, central government expenditure also increased totalling $27,252.6 million compared to 26,530.3 million in the previous fiscal period.
- At the end of fiscal 2007, an amount of US$148 million was transferred to the Heritage and Stabilisation Fund (HSF) compared to US$548.9 million[2] at the end of fiscal 2006. This increased the accumulated balance to US$1,524 million as at September 30, 2007. HSF balance as at the end of September 2006 was US$1,376 million.

External Account

- Preliminary data indicated a Balance of Payments surplus of US$1,238.3 million as at September 30, 2007 compared to US$1,766.7 million year-on-year. Gross official reserves at the end of September, 2007 amounted to US$6,673.5 million (net of the HSF) representing a healthy 9.8 months of prospective imports of goods and non-factor services. These reserves were approximately US$6,531.2 million[3] (net of the HSF) at the end of September, 2006, amounting to approximately 9.3 months of import cover at that time.

International Ratings

- The strong performance of the domestic economy has been recognised by the major rating agencies. This has resulted in our country receiving upgraded international ratings in fiscal 2006. The performance of the economy in fiscal 2007 allowed for these ratings to be maintained.
- In July, 2006, Moody's Investors Service upgraded Trinidad and Tobago's foreign currency bond rating to Baa1 from Baa2 and affirmed its local currency bond rating at Baa1. The outlook on these ratings is stable and the upgrade has been attributed to 'continued improvement in the country's external position and declining debt ratios'. Moody's considers the country's external payments position to be quite strong especially with the continued growth in energy exports and sizeable foreign direct investment.
- On another front, Trinidad and Tobago's foreign-currency ceiling for bonds was upgraded from A2 to A1 while the foreign currency country ceiling for bank deposits was upgraded from Baa2/P-3 to Baa1/P-2. Its local-currency deposit ceiling remains at A1 and the local currency guideline remains at Aa3. The outlook on these rating is also stable.
- In October 2006, Standard and Poor's Ratings Services affirmed the country's foreign currency rating at 'A-' with a stable outlook and its long-term local currency sovereign rating at 'A+'. Both short-term foreign currency and local currency credit ratings were affirmed at 'A-2' and 'A-1' respectively. The ratings were supported by continued strength of the fiscal and external accounts and a booming energy sector.

[1, 2, 3] Revised

Monetary and Financial Policy Developments

- In fiscal 2007, there were twenty-four financial institutions registered with the Deposit Insurance Corporation. Total deposit liabilities on which coverage is pro vided for all these member institutions rose from $32,097.7 million at the end of September, 2006 to $35,675.9 million at the end of September, 2007.
- During fiscal 2007, the continued high level of fiscal injections contributed to excess liquidity in the financial system and the intensification of inflationary pressures. The Central Bank continued its efforts to remove excess liquidity from the financial system and as a result, greater emphasis continued to be placed on the use of market-based instruments rather than direct policy tools like the reserve requirement ratio to conduct monetary policy.
- As a result, strong emphasis was placed on liquidity absorption so as to limit domestic demand and credit expansion. As such, the 'Repo' rate and open market operations were the main tools through which monetary policy was executed by the Central Bank.
- The Central Bank significantly increased its open market operations (OMO) activity in an attempt to limit the capacity of banks to extend credit and to mop up excess liquidity. In November, 2006 the Government issued TT$700 million 8-year government bonds the proceeds of which were sterilised. Again by February, 2007 another issue was offered initially in the amount of TT$300 million. The actual size was however increased to TT$674.3 million due to overwhelming demand. These proceeds too were sterilised.
- The above issues were followed by a TT$1,018 million offer in April, 2007 initially offered at TT$600 million. Again, these proceeds were sterilised. Over this period, bond issues totaled TT$2,392.3 billion. Following these issues, in May, 2007 5-year Treasury Notes in the amount of TT$500 million were issued to commercial banks. Overall, OMO activity totaled TT$3,457.8 million in fiscal 2007 compared to TT$1,256.3 million one year prior.
- In addition to the above measures, the commercial banks' deposit of $500 million in a special interest-bearing account held at the Central Bank last June, 2006 has been rolled over for one year.
- In the face of the heightened OMO activity, the 'Repo' rate remained unchanged at 8 percent. Accordingly, the prime lending rate charged by commercial banks remained unchanged at 11.75 percent.
- During fiscal 2007, foreign exchange sales were also increased as a means of tightening the liquidity environment. For fiscal 2007, foreign exchange sales totaled US$1,245 million (TT$7,758 million) compared to US$1,217.4 million (TT$7,664.2 million) in the corresponding period of 2006. The combination of monetary policy measures applied by the Central Bank have resulted in excess liquidity in the banking system being 41 per cent lower in fiscal 2007 compared to the previous year.
- The prevailing economic conditions resulted in increases in the yield on short-term securities. Three-month Treasury Bills rates rose from 6.8 per cent to 7 per cent over fiscal 2007 whilst six-month Treasury Bills fell slightly from 7.3 per cent to 7.1 per cent over the same period. Conversely, the yield on long-term securities maintained a flat yield curve with rates ranging between 6.6 per cent and 8 per cent.
- Overall, at the end of September, 2007, the weighted average loan rate stood at 10.68 per cent up from 9.35 per cent year-on-year and the weighted average deposit rate was 2.76 per cent up from 2.37[1] per cent a year ago. As a result of the afore-mentioned increases, the spread between loan and deposit rates increased slightly from 7.82 per cent to 7.92 per cent over fiscal 2007. Similarly, residential mortgage lending rates increased between 9.1 and 10 per cent over fiscal 2007 compared to 7.5 and 8.5 per cent year-on-year.

[1] Revised

Board of **Directors**

Mr. Ewart S. Williams
Chairman

Ms. Wendy Ho Sing
Director

Mr. Patrick Ferreira
Director

Ms. Shelley M.E. Collymore
Director

Mrs. Nicole Crooks
Alternate Director

Director's **Profiles**

Mr. Ewart S. Williams – Chairman

Mr. Ewart S. Williams was appointed Governor of the Central Bank of Trinidad and Tobago in July 2002 following a long career with the International Monetary Fund (IMF). At the IMF, he provided economic policy advice and hands-on policy support to many Governments and Central Banks in Africa, Latin America and the Caribbean. During his Fund career he was the International Monetary Fund (IMF) Resident Representative to Jamaica; Assistant Director in charge of Central America and Mexico; and Deputy Director in the Western Hemisphere Department. In 1988-89, he returned to this country for eighteen months, as the Advisor to Central Bank Governor, Mr. Williams Demas, under a UNDP sponsored technical assistance Project. He holds a Bachelor of Sciences Degree in Economics and a Masters in Economics from the University of the West Indies, and has a wealth of experience in monetary and fiscal affairs.

Ms. Shelley M. E. Collymore – Director

Ms. Shelley M. E. Collymore is an Attorney-at-Law of over twenty years standing, and holds an LLM Degree in Legislative Drafting. She currently serves as the Treasury Solicitor in the Ministry of Finance, providing advice on all legal matters, particularly with regard to revenue collection, financial instruments and products, financial legislation, and the general management of the financial affairs of the country. Previous to this, Ms. Collymore was employed as a legal officer in the public sector in varying capacities, including State Counsel, Board of Inland Revenue, and Parliamentary Counsel, Ministry of the Attorney General. Ms. Collymore is a member of the Permanent Double Taxation Negotiating Team of Trinidad and Tobago and has participated in negotiations with Brazil, China, India, Grand Duchy of Luxembourg, Spain and the Netherlands. In addition, she is a former Commissioner of the Trinidad and Tobago Securities and Exchange Commission.

Ms. Wendy Ho Sing – Director

Ms. Wendy Ho Sing, Deputy Inspector of Financial Institutions, joined the Central Bank of Trinidad and Tobago in November 2004 as Industry Advisor and was appointed Deputy Inspector on February 1, 2005. During the period June 2006 to December 2006, Ms. Ho Sing held the positions of Acting Inspector and Inspector of Financial Institutions. Ms. Ho Sing is the holder of a Bachelor of Arts Degree in Psychology and a Masters in Business Administration (MBA) from York University, Ontario. Ms. Ho Sing is a Trinidad and Tobago citizen who has spent over 25 years in Canada. Her previous appointments were Director, Supervision, in the Office of the Superintendent for Financial Institutions (OSFI), Canada and Assistant Vice President, Manulife Financial of Ontario.

Mr. Patrick Aiden Ferreira – Director

Mr. Patrick Aiden Ferreira is a Fellow of the Chartered Management Institute of the United Kingdom (FCMI), a Member of the Society of Corporate Secretaries and Governance Professionals, and holds a Bachelor of Science Degree in Risk Management (BSc). He is Group Corporate & Personnel Director with the Furness Trinidad Group of Companies, which comprises 15 subsidiaries involved in the insurance, trading, manufacturing, real estate and service sectors. His responsibilities include Group Banking and Investments, Administration, Group Corporate Secretarial and Human Resource Management, and he is a member of the Group's Finance, Audit and Compensation Committees. He also serves as Chief Executive Officer of Furness Anchorage General Insurance Limited, the general insurance subsidiary of the Group. Mr. Ferreira has attended extensive training sessions in Insurance, Corporate Governance and Marketing and has served on the Trade and Investment Committee of the American Chamber of Commerce of Trinidad and Tobago.

Mrs. Nicole Crooks – Alternate Director

Mrs. Nicole Crooks is an experienced Human Resource practitioner with over 15 years in the field. She has been employed with the Central Bank of Trinidad and Tobago since April 2003 and holds the position of Senior Manager Human Resource & Communication. In this capacity, Mrs. Crooks is responsible for leading the development and execution of creative human resource strategies. Mrs. Crooks also provides leadership of the Bank's internal and external Corporate Communications function. Mrs. Crooks has a number of years of experience at a senior management level where she is directly involved in policy formulation, strategic planning and change management. She holds a BSc. Management Studies (University of the West Indies), a Post Graduate Advanced Diploma in Human Resource Management (UWI Institute of Business), and varied insurance qualifications, including the FLMI (Fellow Life Management Institute) ACS (Associate Customer Service), and AIAA (Associate Insurance Agency Administration).

DIC **Team**

Mr. Junior Frederick,
General Manager

Ms. Jacqueline Fermin,
Head, Corporate Services and Finance

From left to right: **Mr. Noel Nunes,** Risk Assessment, Insurance and Liquidations Officer; **Mrs. Tricia Coker-Dalling,** Business Analyst; **Mr. Eon Crichlow,** Technical Analyst.
Sitting: **Ms. Fern Narcis,** Legal Counsel/ Corporate Secretary.

DIC **Team**

From left to right: **Mrs. Nisha Mohit,** Risk Assessment Clerk; **Ms. Crystal Ann Graham,** Liquidations Clerk; **Ms. Allison Field,** Accounts Clerk; **Mrs. Jacqueline Davis-McKree,** Accounts Clerk.

From left to right: **Ms. Yolande de Silva,** Secretary/Receptionist; **Ms. Dixie Ann Thom,** Secretary/Stenographer; **Ms. Gemma Henry,** Executive Secretary; **Ms. Onifa Olusegun,** Hospitality Attendant; **Mr. Maurice Duprey ,** Office Assistant/Driver.

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
FirstCaribbean International Bank (Trinidad and Tobago) Limited
First Citizens Bank Limited
First Citizens Asset Management Limited
First Citizens Trustee Services 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 2007

Financial Highlights
2007

Balance Sheet
for the Year Ended September 30th

	2007 TT$M	2006 TT$M	2005 TT$M	2004 TT$M	2003 TT$M
Total Assets at the End of the Year	**1,090.5** (14%)	**956.5** (14%)	**841.9** (13%)	**742.9** (14%)	**652.4** (13%)
Fund Balance at the End of the Year	**1,088.4** (14%)	**954.3** (14%)	**839.8** (13%)	**741.2** (13%)	**650.5** (15%)
Investment Portfolio	1,060.8 (15%)	924.8 (13%)	821.6 (14%)	723.1 (14%)	634.9 (14%)

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

	2007 TT$M	2006 TT$M	2005 TT$M	2004 TT$M	2003 TT$M
Net Income for the Year	**134.2** (17%)	**114.4** (16%)	**98.6** (9%)	**90.7** (6%)	**86.0** (3%)
Interest Earned	76.3 (21%)	62.9 (12%)	56.7 (8%)	52.4 (6%)	49.6 (3%)
Premium Income	59.7 (20%)	49.7 (17%)	42.3 (5%)	40.2 (3%)	38.9 (11%)
Expenses	4.9 (-4%)	5.1 (1%)	5.0 (34%)	3.5 (4%)	3.4 (-8%)

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

Deposit Insurance Fund 2007

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, 2007 stood at TT$1,088.4 million, an increase of 14% over the amount of TT$954.3 million existing at the corresponding date in 2006. Growth in the Fund from one year to another is generated mainly from premiums and interest income (after defraying expenses). This amount remaining after operating expenses are covered 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 in Graph 1.

Net Income for the financial year ended 30th September, 2007 amounted to TT$134.2 million compared to $114.4 million year-on-year. This represented an increase of $19.8 million or 17% higher than the previous financial year.

Total Income amounted to $139.1 million, an increase by TT$19.6 million in 2007 over 2006, while *Total Expenses* amounted to $4.9 million, a reduction of $155,000 compared to 2006.

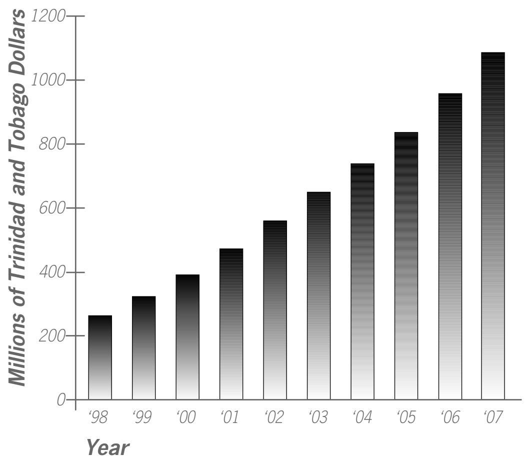
The two largest items for several years on the *Statement of Net Income and Deposit Insurance Fund*, have been income related, viz. *Interest Earned* and *Annual Premia*. The annual increases in these items provide the impetus to the growth of the Fund.

Annual Premiums

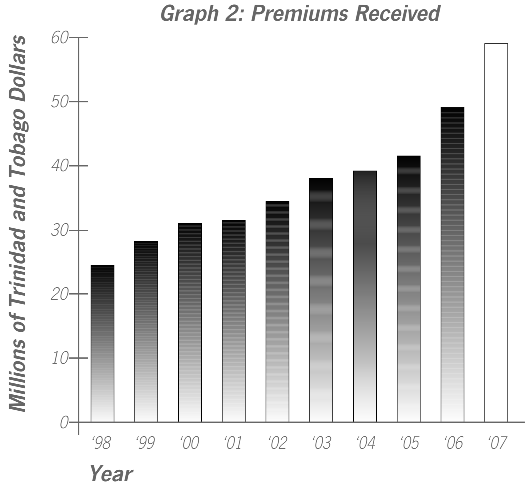
The Corporation is mandated by law to levy contributions to the Deposit Insurance Fund from each member institution, the first occurring six months after the institution attains membership status *(initial contribution)*. Another levy follows twelve months after admittance (*first annual premium*) and 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 per centum of the aggregate of the deposit liabilities whereas for the first and subsequent annual premia, a fixed rate of 0.2 per centum of the aggregate of the deposit liabilities applies. The dates used in the computation are specified in the Bye-Laws.

Annual Premiums levied and collected from twenty three member institutions in fiscal 2007 amounted to

Graph 1: Deposit Insurance Fund



Graph 2: Premiums Received



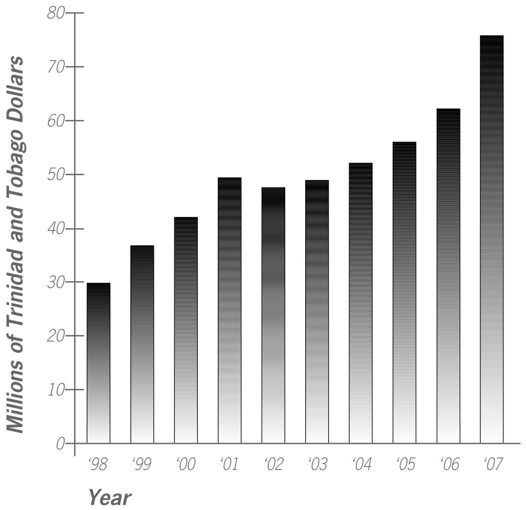
TT$59.7 million compared with TT$49.7 million in fiscal 2006, an increase of 20%. Graph 2 illustrates annual premiums over the past ten years.

In fiscal 2007, FirstCaribbean International Bank (Trinidad and Tobago) Limited, formerly, FirstCaribbean International Banking and Financial Corporation received a licence to conduct commercial banking activities effective May 28, 2007. Whilst this change allows the institution the opportunity to conduct additional banking activity, in essence, it is the same institution and represents a name change and not an additional member. As such in fiscal 2007, there was no levy of initial contributions as there were no new members joining the Fund. The increase in annual premiums between 2006 and 2007 was as a result of the corresponding growth in deposit liabilities of member institutions between the calendar years 2005 and 2006. (Annual Premiums for a calendar year are levied using a quarterly average of the prior calendar year's deposit liabilities 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 2007, the portfolio generated earnings of TT$76.3 million compared with TT$62.9 million for the previous fiscal year, a rise of 21%. 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. Over fiscal 2007, market rates on short-term securities continued to trend upwards increasing from 6.8% at the start of fiscal 2007 to 7.5% at the end of the fiscal period. The average yield on the portfolio for the financial year ended 30th September, 2007 was 7.95% compared with 7.40% for the previous financial year. Graph 3 illustrates interest earned over the past ten year period.

Graph 3: Interest Income



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

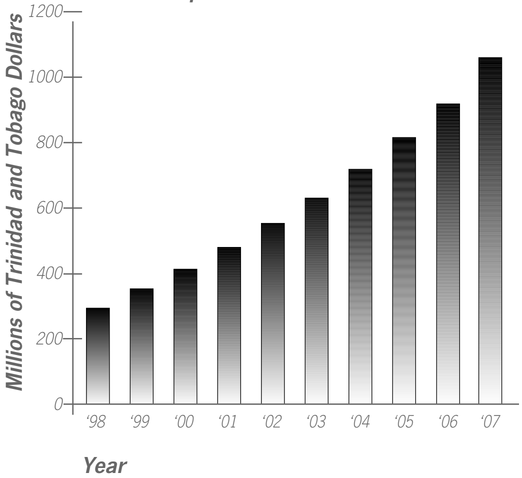
The investment portfolio at 30th September, 2007 rose to TT$1,060.8 million from TT$924.8 million at the end of the previous fiscal year, an increase of 15%. This rise mirrored the change in the Deposit Insurance Fund balance during the corresponding period as should be expected given that the Deposit Insurance Fund is largely represented by investment assets. Graph 4 illustrates the growth of the investment portfolio over the past ten years.

The investment mix remained unchanged year-on-year. At the end of fiscal 2006, 96% of the portfolio was represented by Trinidad and Tobago Government Securities and 4% in deposits in member institutions and money market investments in the Trinidad and Tobago Unit Trust Corporation. The percentage holdings in these categories were the same as at the end of fiscal 2007.

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$91.3 million from TT$478.4 million at 30th September, 2006, which represented 52% of the portfolio to TT $569.8 million at 30th September, 2007, which accounted for 54% of the portfolio.

Investments in Treasury Notes decreased to 9% of the portfolio as at 30th September, 2007 down from 27% as at 30th September, 2006. The yield on Treasury Notes moved from 5.78% to 5.42% year-on-year. Additionally, holdings of Trinidad and Tobago Government Treasury Bills increased significantly during the year to TT$355 million representing 33% of the portfolio as at 30th September, 2007, from TT$160.1 million and 17% respectively at the end of September, 2006. The average yield on Treasury Bills was 7.48% as at 30th September, 2007 compared to 6.14% one year prior.

Graph 4: Investment Portfolio



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, three of the appointments have been completed and five institutions remain under the Corporation's purview.

During fiscal 2007, the Corporation can report the following achievements during the fiscal year:

1. Winding up of MAT Securities Limited resulting from the resolution of legal matters. Despite significant progress made in relation to SWAIT Finance Company Limited, closure has been delayed as a result of pending legal matters.
2. The other four companies in liquidation are all awaiting resolution of legal matters before official winding up can be completed.

Risk Assessment

The management Team acknowledged the slow pace of advancement in this area and subsequently took the decision in its 2007/2008 Corporate Planning exercise to realign the risk assessment function to the area of research with a view to further developing key elements within the scope of deposit insurance. Accordingly, components such as premium pricing, establishing a fund target/ adequacy and possible expansion of the scope of coverage to include new products are given priority at this time. Until the Corporation's enabling legislation is changed to incorporate the role to minimise exposure of loss to the fund, which by and large is still being pursued, risk assessment will focus on research to upgrade key activities within the scope of the Corporation's existing legislation.

During 2007, the Basel Committee on Banking Supervision issued a consultative paper entitled "Guidelines for Computing Capital for Incremental Default Risk in the Trading Book" inviting comments.

The Basel II Framework refers to capital adequacy and sets out the arrangements for adopting more risk-sensitive minimum capital requirements for banking organisations. 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

The Corporation's staff participated in a number of conferences and meetings as shown below:

- International Banking Conference, October, 2006, Chicago, USA
- Annual General Meeting and Executive Council Meeting of the IADI, November, 2006, Rio de Janeiro, Brazil
- Executive Council and Standing Committee Meetings - IADI, February - March, 2007, Washington, USA
- Executive Council and Standing Committee Meetings - IADI, May, 2007, Basel, Switzerland

Changes in the Board of Management

Effective October 7, 2006 the terms of office for one director, Mr. Henry Jeffers and an alternate director, Mr. Hollis DeFour expired. Accordingly, effective December 7, 2006 Ms. Wendy Ho Sing was appointed director and Mrs. Nicole Crooks, alternate director; both for a term of three (3) years.

New Challenges for

Deposit Insurers

New Challenges for **Deposit Insurers**

Challenging times ahead for deposit insurers? This question is posited against the backdrop of recent developments in the banking community in general and more specifically in the United States of America (US). The fallout from the US sub-prime mortgage loan debacle has led to the failure of financial institutions, not only in the US, but around the globe as well. One notable observation arising out of this experience has been the run on Northern Rock in the United Kingdom even though there is a deposit insurance system. Clearly, the critical question here for any deposit insurer is, how could the presence of a deposit insurance system not prevent a run on the bank – the very same outcome that the deposit insurance system was created to avoid?

Recently, the post-mortem following the Northern Rock experience in the United Kingdom (UK) has led the relevant authorities there to circulate a document for public comment with regard to reviewing and improving not only the regulatory function but also the deposit insurance system. What is absolutely clear from the foregoing, *inter alia*, is that all the elements of deposit insurance within any given deposit insurance system must be continually reviewed and adjusted to ensure that there are no major slippages between depositor/consumer expectation and actual service of a deposit insurer. The existence of a large gap is likely to impact negatively on public confidence – which appears to have been the case with the UK deposit insurance under the Financial Services Compensation Scheme. Certainly, if a deposit insurance coverage limit, for example, is left unchanged for an extended period of time, then this may give rise to creeping instability sometimes unknown to the authorities. This is especially so if the economic agents within an economy are getting wealthier and increasing their holdings of insured deposit products while the coverage limit remains unchanged.

Further, in today's environment of rapid technological innovation, developments in financial engineering and cross border expansion by member institutions, a deposit insurer is likely to face increasing challenges in meeting its mandate particularly if it entails contributing to financial stability – which is the case in many instances.

Member institutions are leveraging technology as a competitive advantage to gain market share and profitability across the globe. For example, advancements in communication technology are providing consumers and commercial businesses with greater flexibility and increased access to engage in transactions almost anywhere in the globe. Whilst these areas of progress generally contribute to healthier and more profitable member institutions they also present concerns for deposit insurers in a significant way. A case in point is that of ATM Machines, Telephone and Internet Banking, which, while allowing immediate access to funds, in a subtle way, both contribute to building a culture of instantaneity. The obvious question here of importance to deposit insurers is therefore, how long are depositors willing to wait before claims are settled so that runs can be avoided? This presents a major challenge for deposit insurers especially those deposit insurers that exist in jurisdictions with either lower-level access to technology than their member institutions, or are faced with having to contain cost with a view to maintaining the Fund.

Another area that will present challenges is the expansion by member institutions into different jurisdictions. The main motivation behind this activity on the part of banks has been to facilitate overseas trade for their major commercial clients. If there is a failure of a member institution in its home country then there is a high probability that this may translate into closure of related member institutions in other jurisdictions in which the member institution has a presence. A deposit insurer unaware of the initial occurrence may be caught off guard.

Additionally, the growth of the global market place is leading to larger and larger member institutions as members in one jurisdiction takeover the operations of other member institutions in their own as well as other jurisdictions. Although this issue presents a greater challenge for regulators under the "too big to fail" principle, the presence of larger members will require a larger deposit insurance fund in order to contribute adequately to financial stability. Such is the case in the Japanese environment wherein the number of big banks far exceeds the number of small banks. The problem of the dominance of "too big to fail" members is compounded by the fact that most deposit insurance funds are required to invest in safe assets (fund protection mandate) making it even more difficult for the fund to grow in order to provide effective coverage in such circumstances.

And to think that the foregoing trials are not enough, the recent losses from the US sub-prime crisis continues to rise and ripple around the globe, perhaps signaling the advent of a recession. The possibility of an impending recession in the United States, which being a major trading partner with other countries, both large and small, could have negative consequences for world economic growth in the foreseeable future. Further, if the US recession takes hold, it is likely to present even further trials for deposit insurers. The negative fallout in the world economy, depending on the magnitude of the recession, can even result in the failure of member institutions not only in the US but other countries as well. In such a situation, deposit insurers are likely to be faced with not only the payout issues referred to above (instantaneous) but also with having to liquidate assets in a depressed market environment – perhaps one of the most difficult challenges for any deposit insurer.

Clearly, deposit insurers will need to take stock of these events and treat with them in the most effective manner. Consumers today are more unforgiving and less willing to accept excuses for lack of service. While a deposit insurer may not be in a position to handle all the challenges noted above due in large part to its circumstance, it must make every effort to substantially minimise the downside effects. The consequences are too great to do otherwise.

Financial Statements
2007

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 2007 September 30

The accompanying Financial Statements of the Deposit Insurance Corporation for the year ended 2007 September 30 have been audited. The Statements as set out on pages 24 to 31 comprise a Balance Sheet as at 2007 September 30, a Statement of Net Income and Deposit Insurance Fund and a Statement of Cash Flows for the year ended 2007 September 30 and Notes to the Financial Statements numbered 1 to 10.

Management's Responsibility for the Financial Statements

2. The Management of the Deposit Insurance Corporation 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.

Auditor's Responsibility

3. The Auditor General's responsibility is to express an opinion on these Financial Statements based on the audit. The audit which was carried out in accordance with section 116 of the Constitution of the Republic of Trinidad and Tobago was conducted in accordance with generally accepted Auditing Standards. Those Standards require that ethical requirements be complied with and that the audit be planned and performed to obtain reasonable assurance about whether the Financial Statements are free from material misstatement.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assesment 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. It is my view that the audit evidence obtained is sufficient and appropriate to provide a basis for the opinion expressed at paragraph 5 of this Report.

Opinion

5. In my opinion, the Financial Statements as outlined at paragraph one above present fairly, in all material respects, the financial position of the Deposit Insurance Corporation as at 2007 September 30 and its financial performance and its cash flows for the year ended 2007 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.

2008 January 30th

Sharman Ottley

Auditor General

balance sheet

as at 30th September 2007

ASSETS	Notes	30-Sep-2007 $'000	30-Sep-2006 $'000
Current Assets			
Cash and Cash Equivalents	3	43,853	37,882
Investments	4(a)	543,026	349,398
Accounts Receivable	5	28,733	30,851
Liquidation Advances Recoverable		238	90
		615,850	418,221
Non Current Assets			
Property, Plant and Equipment	6	530	656
Security Deposit - Central Bank	2(f)	29	29
Investments	4(b)	474,104	537,642
		474,663	538,327
Total Assets		1,090,513	956,548
Current Liabilities			
Current Balance due to Central Bank	9(c)	522	574
Accounts Payable		544	694
		1,066	1,268
Equity			
Capital (Authorised and Paid Up)	9(a)	1,000	1,000
Deposit Insurance Fund		1,088,447	954,280
		1,089,447	955,280
Total Liabilities and Equity		1,090,513	956,548

The accompanying notes 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 13th December, 2007 and signed on its behalf by:

Ewart Williams
Chairman

REPUBLIC OF TRINIDAD AND TOBAGO
AUDITOR GENERAL

Patrick Ferreira,
Director

statement of **net income**

and Deposit Insurance Fund for the year ended 30th September 2007

	Year Ended 30-Sep-2007 $'000	Year Ended 30-Sep-2006 $'000
INCOME		
Interest Earned	76,305	62,877
Annual Premia	59,711	49,680
Insurance Payments Recovered	2,978	6,800
Gain on Sale of Property, Plant and Equipment	-	13
Amortisation on Investments	69	-
Liquidation/Receivership Fees	21	81
Other	6	66
	139,090	119,517
EXPENSES		
Personnel	2,660	2,758
General and Administrative	2,017	1,814
Loss on Redemption of Investments	2	45
Difference on Exchange	-	11
Amortisation on Investments	85	246
Depreciation on Property, Plant and Equipment	159	204
	4,923	5,078
Net Income	134,167	114,439
Fund Balance at the beginning of the year	954,280	839,841
Fund Balance at the end of the year	1,088,447	954,280

The accompanying 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 2007

	Year Ended 30-Sep-2007 $'000	Year Ended 30-Sep-2006 $'000
Cash flows from Operating Activities :		
Surplus for the year	134,167	114,439
Add/(Less) Adjustments for:		
Loss - Amortisation on Investments	85	246
Depreciation	159	204
Loss on Redemption of investments	2	45
Gain on Sale of Property, Plant and Equipment	-	(13)
Loss on Foreign Exchange	-	11
(Gain) - Amortisation on investments	(69)	-
Operating surplus before working capital changes	134,344	114,932
Decrease/(Increase) in Operating Assets :		
Liquidation Advances Recoverable	(148)	15
Accounts Receivable	2,118	(11,370)
Increase/(Decrease) in Operating Liabilities :		
Current balance due to Central Bank	(52)	(218)
Accounts Payable	(150)	350
Net cash flows from operating activities	136,112	103,709
Cash Flows from Investing Activities :		
(Increase) in Government Treasury Bills - Local	(194,840)	(67,885)
Investment in Government Treasury Notes	-	(134,669)
Proceeds from redemption of Government Treasury Notes	156,080	28,150
Purchase of Government Bonds - Local	(142,835)	(44,978)
Proceeds from redemption of Government Bonds	51,487	94,276
Additions to Property, Plant and Equipment	(33)	(357)
Proceeds from sale of Property, Plant and Equipment	-	70
Net Cash Flows used in investing activities	(130,141)	(125,393)
Cash Flows from Financing Activities :		
Increase in Capital Contribution	-	-
Net Cash provided by financing activities	-	-
(Loss) on Foreign Exchange	-	(11)
Net increase/(decrease) in cash and cash equivalents	5,971	(21,695)
Cash and Cash Equivalents at the beginning of the year	37,882	59,577
Cash and Cash Equivalents at the end of the year	43,853	37,882

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

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

The method of depreciation on computer equipment is the straight line method over a period of five years, which is being regarded as the estimated useful life of the computer equipment.

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) Non Current Assets

The security deposit attached to the Rental Agreement with Central Bank of Trinidad and Tobago has been presented as a Non-Current Asset. 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 minimises 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 (12) 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)].

3. CASH AND CASH EQUIVALENTS

	30-Sep-2007 $'000	30-Sep-2006 $'000
Cash and bank balances	151	87
Term deposits	36,697	31,190
Money Market Deposits	7,005	6,605
	43,853	37,882

4. INVESTMENTS

	30-Sep-2007 $'000	30-Sep-2006 $'000
(a) Current		
Government Treasury Bills	354,984	160,144
Government Treasury Notes	92,611	156,254
Government Bonds	95,431	33,000
	543,026	349,398
(b) Non Current		
Government Treasury Notes	-	92,453
Government Bonds	474,359	445,444
Less: Provision for Diminution in Value	(255)	(255)
	474,104	537,642

5. ACCOUNTS RECEIVABLE

	30-Sep-2007 $'000	30-Sep-2006 $'000
Interest Receivable	28,267	25,210
Other Receivable	466	5,641
	28,733	30,851

6. PROPERTY, PLANT AND EQUIPMENT:

Cost	At 30-Sep-2006 $'000	Additions $'000	Disposals $'000	At 30-Sep-2007 $'000
Leasehold Improvements	360	-	-	360
Motor Vehicles	407	-	-	407
Furniture/Fixtures	491	11	-	502
Office Equipment	159	-	-	159
Computer Equipment	563	22	-	585
	1,980	33	-	2,013

Depreciation	At 30-Sep-2006 $'000	Current Charge $'000	Charge on Disposals $'000	At 30-Sep-2007 $'000
Leasehold Improvements	330	10	-	340
Motor Vehicles	178	57	-	235
Furniture/Fixtures	279	23	-	302
Office Equipment	117	7	-	124
Computer Equipment	420	62	-	482
	1,324	159	-	1,483
Net Book Value	**656**			**530**

7. PERSONNEL AND GENERAL AND ADMINISTRATIVE EXPENSES

Included in Personnel Expenses are the following charges:-

	30-Sep-2007 $'000	30-Sep-2006 $'000
Directors' Fees	134	133

The Corporation is engaged in negotiations for a new Collective Agreement for the period 2006 - 2008. No provision was made in the accounts to reflect increases in salaries and benefits as reasonable estimates did not exist as at the Balance Sheet date. Although negitiations commenced in May, 2007, reasonable estimates representing increases have not as yet been determined.

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 2007 were $82,000.00 (2006: $85,000.00).

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
The paid-up capital has been contributed entirely by the Central Bank of Trinidad and Tobago.

(b) Representation on the Board of Management [S. 44Q(1)(a)]
Two (2) members represent the Central Bank of Trinidad and Tobago on the Board of Management of the Corporation.

(c) Current Liabilities

	30-Sep-2007 $'000	30-Sep-2006 $'000
Personnel and Administration expenses reimbursable to the Central Bank	522	574
	522	574

(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, 2007 under these arrangements were $611,000.00 (2006: $599,000.00). Limited commercial banking type facilities are also provided by the Central Bank.

(e) Key Management Personnel Compensation

	30-Sep-2007 $'000	30-Sep-2006 $'000
Short-Term Employee Benefits	909	773
Post-Employment Benefits	84	80
	993	853

10. EMPLOYEES

At 30th September, 2007, the Corporation had in its employ a staff of 14 persons (2006: 13).

Notes