

APPENDIX

PKF

Chartered Accountants
& Business Advisors

DEPOSIT INSURANCE CORPORATION

FINANCIAL STATEMENTS

30 SEPTEMBER 2012



Chartered Accountants
& Business Advisors

DEPOSIT INSURANCE CORPORATION

INDEX

	<u>Page</u>
Statement of Management Responsibilities	1
Independent Auditors' Report	2
Statement of Financial Position	3
Statement of Net Comprehensive Income and Deposit Insurance Fund	4
Statement of Changes in Equity	5
Statement of Cash Flows	6
Notes to the Financial Statements	7 – 29



DEPOSIT INSURANCE CORPORATION

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Statement of Management Responsibilities

It is the responsibility of management to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Deposit Insurance Corporation as at the end of the financial year and of the operating results of the Deposit Insurance Corporation for the year. It is also management's responsibility to ensure that the Deposit Insurance Corporation keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Deposit Insurance Corporation. They are also responsible for safeguarding the assets of the Deposit Insurance Corporation.

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

Management accepts responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards. Management is of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Deposit Insurance Corporation and of its operating results. Management further accepts responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of Management to indicate that the Deposit Insurance Corporation will not remain a going concern for at least the next twelve months from the date of this statement.


Arjoon Harripaul
General Manager


Jacqueline Fermin
Head – Corporate Services & Finance

Date: June 28, 2013

Date: June 28, 2013



Chartered Accountants
& Business Advisors

INDEPENDENT AUDITORS' REPORT

We have audited the accompany financial statements of Deposit Insurance Corporation, which comprise the statement of financial position as at 30 September 2012, the statements of net comprehensive income and Deposit Insurance Fund, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Deposit Insurance Corporation as of 30 September 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Port-of-Spain
TRINIDAD AND TOBAGO
28 June 2013

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DEPOSIT INSURANCE CORPORATION
STATEMENT OF FINANCIAL POSITION

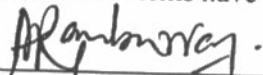
ASSETS

	<u>Notes</u>	30 September	
		<u>2012</u> <u>\$'000</u>	<u>2011</u> <u>\$'000</u>
Current Assets:			
Cash and cash equivalents	6	132,130	127,824
Held-to-maturity investments - Current	7 (a)	343,472	139,922
Accounts receivable	8	30,700	26,722
Liquidation advances recoverable		<u>881</u>	<u>3</u>
Total Current Assets		<u>507,183</u>	<u>294,471</u>
Non-Current Assets:			
Held-to-maturity investments – Non-current	7 (b)	1,462,784	1,484,656
Security deposit – Central Bank	2 (e)	45	40
Intangible assets	9	2,846	1,641
Property, plant and equipment	10	<u>893</u>	<u>3,275</u>
Total Non-Current Assets		<u>1,466,568</u>	<u>1,489,612</u>
Total Assets		<u>1,973,751</u>	<u>1,784,083</u>

LIABILITIES AND EQUITY

Current Liabilities:			
Current balance due to Central Bank	14 (c)	480	109
Accounts payable		<u>1,244</u>	<u>714</u>
Total Liabilities		<u>1,724</u>	<u>823</u>
Equity:			
Capital (authorised and paid up)	14 (a)	1,000	1,000
Deposit Insurance Fund		<u>1,971,027</u>	<u>1,782,260</u>
Total Equity		<u>1,972,027</u>	<u>1,783,260</u>
Total Liabilities and Equity		<u>1,973,751</u>	<u>1,784,083</u>

These audited financial statements have been approved by the Board of Management on 7 June 2013.


 Jwala Rambarran
 Chairman


 Michelle Durham-Kissoon
 Director

(The accompanying notes form part of these financial statements)

DEPOSIT INSURANCE CORPORATION

STATEMENT OF NET COMPREHENSIVE INCOME AND DEPOSIT INSURANCE FUND

	<u>Notes</u>	30 September	
		<u>2012</u> <u>\$'000</u>	<u>2011</u> <u>\$'000</u>
Income:			
Interest earned		89,640	98,249
Initial contributions and annual premia	2 (k)	114,237	103,644
Amortisation of discounts on investments		240	234
Gain on disposal of fixed assets		-	4
Foreign exchange gains		-	1
Liquidation/receivership fees		210	15
Other		13	8
		<u>204,340</u>	<u>202,155</u>
Expenses:			
Personnel	11	5,058	3,961
General and administrative	12	2,566	2,369
Amortisation of premiums on investments		6,570	6,013
Depreciation and amortisation	2(h), 2(i) 9,10	1,379	896
		<u>15,573</u>	<u>13,239</u>
Net income for the year		188,767	188,916
Fund balance at beginning of year		1,782,260	1,593,344
Fund balance at end of year		<u><u>1,971,027</u></u>	<u><u>1,782,260</u></u>

(The accompanying notes form part of these financial statements)

DEPOSIT INSURANCE CORPORATION
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 2012

	Stated Capital <u>\$'000</u>	Deposit Insurance Fund <u>\$'000</u>	Total <u>\$'000</u>
Balance as at 1 October 2010	1,000	1,593,344	1,594,344
Net income for the year	<u>-</u>	<u>188,916</u>	<u>188,916</u>
Balance as at 1 October 2011	1,000	1,782,260	1,783,260
Net income for the year	<u>-</u>	<u>188,767</u>	<u>188,767</u>
Balance as at 30 September 2012	<u><u>1,000</u></u>	<u><u>1,971,027</u></u>	<u><u>1,972,027</u></u>

(The accompanying notes form part of these financial statements)

DEPOSIT INSURANCE CORPORATION

STATEMENT OF CASH FLOWS

	30 September	
	2012	2011
	<u>S'000</u>	<u>S'000</u>
Cash Flows from Operating Activities:		
Net income	188,767	188,916
Adjustments for:		
Amortisation of premiums on investments	6,570	6,013
Depreciation and amortisation	1,379	896
Foreign exchange (gains) / losses	-	(1)
Gain on disposal of fixed assets	-	(4)
Amortisation of discounts on investments	<u>(240)</u>	<u>(234)</u>
Operating surplus before working capital changes:	196,476	195,586
Net change in liquidation advances recoverable	(878)	-
Net change in accounts receivable	(3,978)	(851)
Net change in security deposit	(5)	(5)
Net change in current balance due to Central Bank	371	(1)
Net change in accounts payable	<u>530</u>	<u>-</u>
Cash provided by operating activities	<u>192,516</u>	<u>194,729</u>
Cash Flows from Investing Activities:		
Purchase of Government Treasury Bills – Local	(216,648)	(144,844)
Proceeds from redemption of Government Treasury Bills - Local	238,701	29,207
Purchase of Government Treasury Notes	(2,694)	(277,219)
Proceeds from redemption of Government Treasury Notes	-	302,668
Purchase of Corporate Bonds	(4,183)	(92,580)
Purchase of Government Bonds – Local	(270,714)	(144,331)
Proceeds from redemption of Government Bonds	67,530	76,756
Additions to property, plant and equipment and intangible assets	(202)	(2,948)
Proceeds from sale of property, plant and equipment	<u>-</u>	<u>10</u>
Cash used in investing activities	<u>(188,210)</u>	<u>(253,281)</u>
Net change in cash and cash equivalents	4,306	(58,552)
Cash and cash equivalents, beginning of year	<u>127,824</u>	<u>186,376</u>
Cash and cash equivalents, end of year	<u><u>132,130</u></u>	<u><u>127,824</u></u>

(The accompanying notes form part of these financial statements)

DEPOSIT INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2012

1. Principal Activity:

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 **\$75,000** 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, 2008. It should be noted that in accordance with Legal Notice No. 10, effective 17 January 2012, the maximum coverage limit was increased to **\$125,000** per depositor in each capacity and right in each institution.

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. Summary of Significant Accounting Policies:

(a) Basis of preparation

These 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 (IFRS).

(b) Use of estimates

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates and requires management to exercise its judgment in the process of applying the Corporation's accounting policies. It also requires the use of assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenditure during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

DEPOSIT INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2012

2. Summary of Significant Accounting Policies (Cont'd):

(c) New Accounting Standards and Interpretations -

- i) The Corporation has not applied the following standards, revised standards and interpretations that have been issued but are not yet effective as they either do not apply to the activities of the Corporation or have no material impact on its financial statements, except for IFRS 9 Financial Instruments:

Effective for annual periods beginning on or after 1 July 2011

- | | |
|--------|---|
| IFRS 1 | First-time Adoption of International Financial Reporting Standards - Replacement of 'fixed dates' for certain exceptions with 'the date of transition to IFRSs' |
| IFRS 1 | First-time Adoption of International Financial Reporting Standards – Additional exemption for entities ceasing to suffer from severe hyperinflation |
| IFRS 7 | Financial Instruments: Disclosures - Amendments enhancing disclosures about transfers of financial assets |

- ii) The Corporation has not early applied the following standards, revised standards and interpretations which are in issue but not yet effective:

Effective for annual periods beginning on or after 1 July 2012

- | | |
|-------|--|
| IAS 1 | Presentation of Financial Statements - Amendments to revise the way other comprehensive income is presented. |
|-------|--|

Effective for annual periods beginning on or after 1 January 2013

- | | |
|---------|--|
| IFRS 1 | First-time Adoption of International Financial Reporting Standards - Government Loans |
| IFRS 7 | Financial Instruments: Disclosures - Amendments enhancing disclosures about offsetting of financial assets and financial liabilities |
| IFRS 10 | Consolidated Financial Statements |
| IFRS 11 | Joint Arrangements |

DEPOSIT INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
30 SEPTEMBER 2012

2. Summary of Significant Accounting Policies (Cont'd):

(c) New Accounting Standards and Interpretations (cont'd) -

- ii) The Corporation has not early applied the following standards, revised standards and interpretations which are in issue but not yet effective:

Effective for annual periods beginning on or after 1 January 2013 (cont'd)

IFRS 12	Disclosure of Interests in Other entities
IFRS 13	Fair Value Measurements
IAS 19	Employee benefits - Amended Standard resulting from the Post-Employment Benefits and Termination Benefits projects
IAS 27	Separate Financial Statements
IAS 28	Investments in Associates and Joint Ventures
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine

Effective for annual periods beginning on or after 1 January 2014

IAS 32	Financial Instruments: Presentation - Amendments to application guidance on the offsetting of financial assets and financial liabilities
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Effective for annual periods beginning on or after 1 January 2015

IFRS 7	Financial Instruments: Disclosures - Amendments requiring disclosures about the initial application of IFRS 9
IFRS 9	Financial Instruments - Classification and measurement of financial assets
IFRS 9	Financial Instruments - Accounting for financial liabilities and derecognition.

The adoption of IFRS 9 Financial Instruments may result in significant changes in the Corporation's classification and presentation of financial instruments.

DEPOSIT INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2012

2. Summary of Significant Accounting Policies (Cont'd):

(d) Investments -

The Corporation has classified all investments into the following categories:

Available-for-sale

These securities are intended to be held for an indefinite period of time but may be sold in response to the needs for liquidity or changes in interest rates, exchange rates or equity prices. After initial recognition, available-for-sale investments are measured at fair value with unrealised gains or losses recognised in the Investment Re-measurement Reserve.

For actively traded investments, fair value is determined by reference to the Stock Exchange quoted market prices at the Statement of Financial Position date, adjusted for transaction costs necessary to realise the investment. For investments where there is no quoted market price, the carrying value is deemed to approximate fair value.

Held to maturity

These are securities which are held with the positive intention of holding them to maturity and are stated at amortised cost less provisions made for any permanent diminution in value.

(e) Financial instruments -

Financial instruments are contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets and financial liabilities are recognised on the Corporation's Statement of Financial Position when the Corporation becomes a party to the contractual provisions of the instrument.

Financial assets

All regular way purchases and sales of financial assets are recognised or derecognised on the trade date, that is, the date on which the Corporation commits itself to purchase or sell an asset. A regular way purchase and sale of financial assets is a purchase or sale of an asset under a contract whose terms require delivery of the asset within the timeframe established generally by regulation or convention in the marketplace concerned.

When financial assets are recognised initially, they are measured at fair value of the consideration given plus transaction costs directly attributable to the acquisition of the asset.

Financial assets are derecognised when the contractual rights to receive the cash flows expire or where the risks and rewards of ownership of the assets have been transferred.

DEPOSIT INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2012

2. Summary of Significant Accounting Policies (Cont'd):

(e) **Financial instruments (cont'd) -**

Impairment of financial assets

The Corporation assesses at each Statement of Financial Position date whether there is objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or group of financial assets is impaired and impairment losses are incurred if and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial assets or group of financial assets is impaired includes observable data that comes to the attention of the Corporation about the following loss events:

- i) Significant financial difficulty of the issuer or obligor.
- ii) A breach of contract, such as default or delinquency in interest or principal payments.
- iii) It becoming probable that the borrower will enter in bankruptcy or other financial reorganization.
- iv) The disappearance of an active market for that financial asset because of financial difficulties.
- v) Observable data indicating that there is a measurable decrease in the estimated cash-flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with individual financial assets in the group, including adverse changes in the payment status of borrowers in the Corporation or national or economic conditions that correlate with defaults on assets in the Corporation.

The Corporation first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the Corporation determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

DEPOSIT INSURANCE CORPORATION**NOTES TO THE FINANCIAL STATEMENTS****30 SEPTEMBER 2012****2. Summary of Significant Accounting Policies (Cont'd):****(e) Financial instruments (cont'd) -****Impairment of financial assets (cont'd)**

Impairment losses are recorded in an allowance account and are measured and recognised as follows:

i) Financial assets measured at amortised cost

The difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate is recognised in the Statement of Comprehensive Income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improvement in the debtor's credit rating), the previously recognised loss is reversed to the extent that the carrying amount of the financial asset does not exceed what the amortised cost would have been had the impairment not been recognised at the date that the impairment is reversed. The amount of the reversal is recognised in the Statement of Comprehensive Income.

ii) Financial assets measured at cost

The difference between the assets' carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the current market's rate of return for similar financial assets is recognised in the Statement of Comprehensive Income. These losses are not reversed.

Financial liabilities

When financial liabilities are recognised initially, they are measured at fair value of the consideration given plus transaction costs directly attributable to the acquisition of the liability. Financial liabilities are re-measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when they are extinguished, that is, when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability extinguished and the consideration paid is recognised in the Statement of Comprehensive Income.

DEPOSIT INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2012

2. Summary of Significant Accounting Policies (Cont'd):

(e) **Financial instruments (cont'd) -**

Cash and cash equivalents

Cash and cash equivalents consist of highly liquid investments with original maturities of twelve months or less and are carried at cost, which approximates market value.

Accounts receivable

Accounts receivable are initially measured at cost. Appropriate allowances for estimated irrecoverable amounts are recognised in the Statement of Comprehensive Income when there is objective evidence that the asset is impaired.

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 **\$45,000**.

Accounts payable

Accounts payable are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

(f) **Provisions**

Provisions are recognised when the Corporation has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the Statement of Financial Position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

DEPOSIT INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2012

2. Summary of Significant Accounting Policies (Cont'd):

(g) 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 rates. Exchange gains and losses are reflected in the Statement of Net Comprehensive Income and Deposit Insurance Fund.

(h) Property, plant and equipment

Property, plant and equipment are stated at historical 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 and software. The rates used are as follows:

Motor vehicles	-	25%	per annum
Furniture and fixtures	-	10%	per annum
Office equipment	-	15%	per annum
Leasehold improvements	-	33 1/3%	per annum

The method of depreciation on computer equipment and software is the straight-line method, however in fiscal 2011; the estimated useful life on computer equipment was changed from a period of five (5) years to four (4) years.

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

(i) Intangible Assets -

Computer Software

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Corporation are recognised as intangible assets in accordance with IAS 38 Intangible Assets. Costs associated with maintaining computer software programmes are recognised as expenses when incurred. Computer software costs recognised as assets are amortised over their estimated useful lives of five (5) years.

(j) Comparative figures

Certain comparative figures were restated to facilitate changes in presentation. These changes had no effect on the previously reported net income.

DEPOSIT INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2012

2. Summary of Significant Accounting Policies (Cont'd):

(k) 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.

(l) Exemption from the provisions of taxation and insurance legislation

The Corporation is exempt from the provisions of any Act relating to income taxation or corporation taxation and from payment of stamp duty, and is also exempt from the provisions of the Insurance Act 1980, [Section 55 (1) and (2)].

3. Financial Risk Management:

Financial risk factors

The Corporation is exposed to interest rate risk, credit risk, liquidity risk, currency risk, operational risk, compliance risk and reputation risk arising from the financial instruments that it holds. The risk management policies employed by the Corporation to manage these risks are discussed below:

(a) Interest rate risk -

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Corporation is exposed to interest rate risk through the effect of fluctuations in the prevailing levels of interest rates on interest bearing financial assets and liabilities, including investments in bonds, loans, customer deposits and other funding instruments. It should be noted that within fiscal 2012, notwithstanding the increase in the investment portfolio, Interest Earned decreased due to the continued fall in market interest rates.

The exposure is managed through the matching of funding products with financial services and monitoring market conditions and yields.

DEPOSIT INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2012

3. **Financial Risk Management (Cont'd):**

(a) **Interest rate risk (cont'd)**

i) **Bonds**

The Corporation invests mainly in medium to long term bonds consisting of both floating rate and fixed rate instruments.

The market values of the floating rate bonds are not very sensitive to changes in interest rates. The market values of the fixed rate bonds are sensitive to changes in interest rates. The longer the maturity of the bonds, the greater is the sensitivity to changes in interest rates. Because these assets are being held to maturity and are not traded, any changes in market values will not impact profit or loss.

The Corporation actively monitors bonds with maturities greater than ten years, as well as the interest rate policies of the Central Bank of Trinidad and Tobago.

ii) **Interest rate sensitivity gap**

The Corporation's exposure to interest rate risk is summarized in the table below, which analyses assets and liabilities at their carrying amounts categorized according to their maturity dates.

	2012					<u>Total</u>
	<u>Effective Rate</u>	<u>Up to 1 year</u>	<u>2 to 5 years</u>	<u>Over 5 years</u>	<u>Non-Interest Bearing</u>	
Financial Assets						
Cash and cash equivalent	0% to 2.5%	\$ 127,923	\$ -	\$ -	\$ 4,207	\$ 132,130
Held-to-maturity investment	0.3% to 12.25%	343,472	802,366	660,418	-	1,806,256
Other financial assets	0% to 12.25%	<u>30,297</u>	<u>106</u>	<u>-</u>	<u>1,223</u>	<u>31,626</u>
		<u>501,692</u>	<u>802,472</u>	<u>660,418</u>	<u>5,430</u>	<u>1,970,012</u>
Financial Liabilities						
Other financial liabilities		<u>162</u>	<u>-</u>	<u>-</u>	<u>1,562</u>	<u>1,724</u>
Net Gap		501,530	802,472	660,418	3,868	1,968,288
Cumulative Gap		501,530	1,304,002	1,964,420	1,968,288	

DEPOSIT INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2012

3. Financial Risk Management (Cont'd):

(a) Interest rate risk (cont'd)

	2011					<u>Total</u>
	<u>Effective Rate</u>	<u>Up to 1 year</u>	<u>2 to 5 years</u>	<u>Over 5 years</u>	<u>Non-Interest Bearing</u>	
Financial Assets						
Cash and cash equivalent	0% to 3%	\$ 122,968	\$ 12,800	\$ -	\$ 2,056	\$ 127,824
Held-to-maturity investment	1.4% to 12.25%	139,923	825,987	658,668	-	1,624,578
Other financial assets	0% to 12.25%	<u>26,072</u>	<u>377</u>	<u>-</u>	<u>316</u>	<u>26,765</u>
		<u>278,963</u>	<u>839,164</u>	<u>658,668</u>	<u>2,372</u>	<u>1,779,167</u>
Financial Liabilities						
Other financial liabilities		<u>65</u>	<u>-</u>	<u>-</u>	<u>758</u>	<u>823</u>
Net Gap		278,898	839,164	658,668	1,614	1,778,344
Cumulative Gap		278,898	1,118,062	1,776,730	1,778,344	

(b) Credit risk -

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the Statement of Financial Position date. The Corporation relies heavily on its written Accounting Procedures document.

Cash balances are held with high credit quality financial institutions and the Corporation has policies to limit the amount of exposure to any single financial institution.

The Corporation also actively monitors global economic developments and government policies that may affect the growth rate of the local economy.

(c) Liquidity risk -

Liquidity risk is the risk that arises when the maturity dates of assets and liabilities do not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Corporation has procedures with the object of minimising such losses such as maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities.

DEPOSIT INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2012

3. Financial Risk Management (Cont'd):

(c) Liquidity risk (cont'd)

The Corporation is able to make daily calls on its available cash resources to settle financial and other liabilities.

i) Risk management

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities are fundamental to the management of the Corporation. The Corporation employs various asset/liability techniques to manage liquidity gaps. Liquidity gaps are mitigated by the marketable nature of a substantial segment of the Corporation's assets.

To manage and reduce liquidity risk the Corporation's management actively seeks to match cash inflows with liability requirements.

ii) Liquidity gap

The Corporation's exposure to liquidity risk is summarised in the table below which analyses financial assets and liabilities by relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

	2012				
	<u>Up to 1 year</u>	<u>2 to 5 years</u>	<u>Over 5 years</u>	<u>Undated</u>	<u>Total</u>
Financial Assets					
Cash and cash equivalent	\$ 12,800	\$ -	\$ -	\$ 119,330	\$ 132,130
Held-to-maturity investment	343,472	802,366	660,418	-	1,806,256
Other financial assets	<u>30,297</u>	<u>151</u>	<u>-</u>	<u>1,178</u>	<u>31,626</u>
	<u>386,569</u>	<u>802,517</u>	<u>660,418</u>	<u>120,508</u>	<u>1,970,012</u>
Financial Liabilities					
Other financial liabilities	<u>162</u>	<u>-</u>	<u>-</u>	<u>1,562</u>	<u>1,724</u>
Net Gap	386,407	802,517	660,418	118,946	1,968,288
Cumulative Gap	386,407	1,188,924	1,849,342	1,968,288	

DEPOSIT INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2012

3. Financial Risk Management (Cont'd):

(c) Liquidity risk (cont'd)

	2011				
	<u>Up to 1 year</u>	<u>2 to 5 years</u>	<u>Over 5 years</u>	<u>Undated</u>	<u>Total</u>
Financial Assets					
Cash and cash equivalent	\$ -	\$ 12,800	\$ -	\$ 115,024	\$ 127,824
Held-to-maturity investment	139,923	825,987	658,668	-	1,624,578
Other financial assets	<u>26,072</u>	<u>377</u>	<u>-</u>	<u>316</u>	<u>26,765</u>
	<u>165,995</u>	<u>839,164</u>	<u>658,668</u>	<u>115,340</u>	<u>1,779,167</u>
Financial Liabilities					
Other financial liabilities	<u>65</u>	<u>-</u>	<u>-</u>	<u>758</u>	<u>823</u>
Net Gap	165,930	839,164	658,668	114,582	1,778,344
Cumulative Gap	165,930	1,005,094	1,663,762	1,778,344	

(d) Currency risk -

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Corporation's measurement currency. The Corporation is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the United States Dollar. The Corporation's management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

The Corporation's net exposure to currency risk is as follows:

	30 September	
	2012	2011
	<u>\$'000</u>	<u>\$'000</u>
United States Dollars	<u><u>23</u></u>	<u><u>41</u></u>

DEPOSIT INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2012

3. Financial Risk Management (Cont'd):

(e) Operational risk -

Operational risk is the risk derived from deficiencies relating to the Corporation's information technology and control systems, as well as the risk of human error and natural disasters. The Corporation's systems are evaluated, maintained and upgraded continuously. Supervisory controls are also installed to minimise human error.

(f) Compliance risk -

Compliance risk is the risk of financial loss, including fines and other penalties, which arise from non-compliance with laws and regulations of the state. The risk is limited to a significant extent due to the supervision applied by the Central Bank of Trinidad and Tobago, as well as by the monitoring controls applied by the Corporation.

(g) Reputation risk -

The risk of loss of reputation arising from the negative publicity relating to the Corporation's operations (whether true or false) may result in a reduction of its clientele, reduction in revenue and legal cases against the Corporation. The Corporation engages in public social endeavours to engender trust and minimize this risk.

4. Critical Accounting Estimates and Judgments:

The preparation of financial statements in accordance with International Financial Reporting Standards requires management to make judgements, estimates and assumptions in the process of applying the Corporation's accounting policies. See Note 2 (b).

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events, that are believed to be reasonable under the circumstances. The Corporation makes estimates and assumptions concerning the future. However, actual results could differ from those estimates as the resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Changes in accounting estimates are recognised in the Statement of Comprehensive Income in the period in which the estimate is changed, if the change affects that period only, or in the period of the change and future periods if the change affects both current and future periods.

DEPOSIT INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2012

4. Critical Accounting Estimates and Judgments (Cont'd):

The critical judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements, are as follows:

- i) Whether investments are classified as held-to-maturity investments, available-for-sale or loans and receivables.
- ii) Whether leases are classified as operating leases or finance leases.
- iii) Which depreciation method for property, plant and equipment is used.

The key assumptions concerning the future and other key sources of estimation uncertainty at the Statement of Financial Position date (requiring management's most difficult, subjective or complex judgements) that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

i) Impairment of assets

Management assesses at each Statement of Financial Position date whether assets are impaired. An asset is impaired when the carrying value is greater than its recoverable amount and there is objective evidence of impairment. Recoverable amount is the present value of the future cash flows. Provisions are made for the excess of the carrying value over its recoverable amount.

ii) Property, Plant and Equipment

Management exercises judgement in determining whether future economic benefits can be derived from expenditures to be capitalised and in estimating the useful lives and residual values of these assets.

5. Assets Under Administration:

There exist six (6) failed non-banking financial institutions for which the Corporation serves as liquidator. These companies and their year of liquidation are as follows:

• Commercial Finance Company Limited (in liquidation)	1986
• Trade Confirmers Limited (in liquidation)	1986
• Swait Finance Limited (in liquidation)	1986
• Caribbean Mortgage and Funds Limited (in liquidation)	1991
• Principal Finance Company Limited (in liquidation)	1993
• CLICO Investment Bank Limited (in compulsory liquidation)	2011

In its role as liquidator, the Corporation is engaged in liquidating the assets of these failed institutions in an attempt to settle the outstanding liabilities associated with these institutions.

DEPOSIT INSURANCE CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2012

5. Assets Under Administration (Cont'd):

The Corporation submits reports every six (6) months to The Official Receiver (High Court) providing details of receipts and payments for the period being reported. Lastly, these liquidations have not as yet been wound up due to legal matters before the Courts.

The Statement of Financial Position does not include the assets of these closed financial institutions under the administration of the Corporation. However, the table presented hereunder provides in summary, the balances as at 30 September 2012. In relation to the table, the following points should be noted:

- Column (A) – The assets at closure are reported at net realizable value representing a reasonable estimate of the amount for which the assets could have been sold.
- Column (B) – The liabilities at closure represent the total amount owing by the failed institutions, inclusive of deposit liabilities, as at the date of closure.
- Column (C) – Liabilities incurred represent liquidation expenses from the date of closure up to the end of the reporting period.
- Column (D) – Total realisations represent the amount received to date from the sale of liquidated assets.
- Column (E) – Total payments represent liquidation expenses paid and insurance payments recovered as at the reporting date.
- Column (B+C-E) – Remaining liabilities represent the balance due to unsecured creditors as at the reporting date.
- The legislation authorises the DIC to recover insurance paid from the sales proceeds of liquidated assets in priority to unsecured creditors.

Total Value of Assets at Closure	Total Liabilities at Closure	Total Liabilities incurred as at 30 September 2012	Total Realisations as at 30 September 2012	Total Payments as at 30 September 2012	Remaining Liabilities as at 30 September 2012
(A)	(B)	(C)	(D)	(E)	(B+C-E)
<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
6,148,206	12,072,221	19,966	161,696	80,351	12,011,836

By High Court Order No. CV2010-01442 dated 17 October 2011 under the Honourable Justice Ronnie Boodoosingh, the Court ruled that Clico Investment Bank Limited be wound up under the provisions of the Companies Act, Chapter 18:01 and the Deposit Insurance Corporation was appointed Liquidator of the company. This appointment contributed to the significant increase in Liquidation Fees recorded for the financial year (**\$210: 2012; \$15: 2011**).

DEPOSIT INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
30 SEPTEMBER 2012

6. Cash and Cash Equivalents:

	30 September	
	2012	2011
	<u>\$'000</u>	<u>\$'000</u>
Cash and bank balances	4,230	2,097
Term deposits	12,800	12,800
Money Market deposits	<u>115,100</u>	<u>112,927</u>
	<u><u>132,130</u></u>	<u><u>127,824</u></u>

7. Held-to-Maturity Investments:

	30 September	
	2012	2011
	<u>\$'000</u>	<u>\$'000</u>
a. <u>Current</u>		
Corporate Bonds	22,575	-
Government Treasury Bills	93,584	115,637
Government Treasury Notes	115,519	-
Government Bonds	<u>111,794</u>	<u>24,285</u>
	<u>343,472</u>	<u>139,922</u>
b. <u>Non-Current</u>		
Corporate Bonds	74,188	92,580
Government Treasury Notes	254,783	367,757
Government Bonds	<u>1,133,813</u>	<u>1,024,319</u>
	<u>1,462,784</u>	<u>1,484,656</u>
	<u><u>1,806,256</u></u>	<u><u>1,624,578</u></u>

8. Accounts Receivable:

	30 September	
	2012	2011
	<u>\$'000</u>	<u>\$'000</u>
Interest receivable	30,220	26,172
Other receivable	<u>480</u>	<u>550</u>
	<u><u>30,700</u></u>	<u><u>26,722</u></u>

DEPOSIT INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2012

9. Intangible Assets:

	30 September	
	2012 <u>\$'000</u>	2011 <u>\$'000</u>
 <u>Computer Software</u>		
 Cost		
Balance at start of year	3,179	3,065
Additions	-	114
Transfer from Work-in-Progress	<u>2,301</u>	<u>-</u>
Balance at end of year	<u>5,480</u>	<u>3,179</u>
 Accumulated Amortisation		
Balance at start of year	1,538	902
Charge for the year	<u>1,096</u>	<u>636</u>
Balance at end of year	<u>2,634</u>	<u>1,538</u>
Balance at end of year	<u>2,846</u>	<u>1,641</u>

DEPOSIT INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
30 SEPTEMBER 2012

10. Property, Plant and Equipment:

Cost	Leasehold Improvements \$'000	Motor Vehicles \$'000	Furniture and Fixtures \$'000	Office Equipment \$'000	Computer Equipment \$'000	Work-in- Progress \$'000	Total \$'000
Balance as at 1 October 2011	370	579	627	268	700	2,370	4,914
Additions	-	-	-	65	137	-	202
Transfers	-	-	-	69	-	(2,370)	(2,301)
Balance as at 30 September 2012	<u>370</u>	<u>579</u>	<u>627</u>	<u>402</u>	<u>837</u>	<u>-</u>	<u>2,815</u>
Accumulated Depreciation							
Balance as at 1 October 2011	365	210	389	167	508	-	1,639
Charge for the year	2	106	24	35	116	-	283
Balance as at 30 September 2012	<u>367</u>	<u>316</u>	<u>413</u>	<u>202</u>	<u>624</u>	<u>-</u>	<u>1,922</u>
Net Book Value							
Balance as at 30 September 2012	<u>3</u>	<u>263</u>	<u>214</u>	<u>200</u>	<u>213</u>	<u>-</u>	<u>893</u>
Balance as at 30 September 2011	<u>5</u>	<u>369</u>	<u>238</u>	<u>101</u>	<u>192</u>	<u>2,370</u>	<u>3,275</u>

DEPOSIT INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
30 SEPTEMBER 2012

10. Property, Plant and Equipment (Cont'd):

Cost	Leasehold Improvements \$'000	Motor Vehicles \$'000	Furniture and Fixtures \$'000	Office Equipment \$'000	Computer Equipment \$'000	Work-in- Progress \$'000	Total \$'000
Balance as at 1 October 2010	370	474	581	258	521	-	2,204
Additions	-	229	46	12	177	2,370	2,834
Transfers	-	-	-	(2)	2	-	-
Disposals	-	(124)	-	-	-	-	(124)
Balance as at 30 September 2011	<u>370</u>	<u>579</u>	<u>627</u>	<u>268</u>	<u>700</u>	<u>2,370</u>	<u>4,914</u>
Accumulated Depreciation							
Balance as at 1 October 2010	362	206	363	149	418	-	1,498
Charge for the year	3	123	26	18	90	-	260
Disposals	-	(119)	-	-	-	-	(119)
Balance as at 30 September 2011	<u>365</u>	<u>210</u>	<u>389</u>	<u>167</u>	<u>508</u>	<u>-</u>	<u>1,639</u>
Net Book Value							
Balance as at 30 September 2011	<u>5</u>	<u>369</u>	<u>238</u>	<u>101</u>	<u>192</u>	<u>2,370</u>	<u>3,275</u>
Balance as at 30 September 2010	<u>8</u>	<u>268</u>	<u>218</u>	<u>109</u>	<u>103</u>	<u>-</u>	<u>706</u>

DEPOSIT INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
30 SEPTEMBER 2012

11. Personnel Expenses:

	30 September	
	2012 <u>\$'000</u>	2011 <u>\$'000</u>
Allowances	906	560
Salaries and overtime	3,288	2,345
Staff benefits	208	174
Directors' fees	299	581
Gratuity	-	1
Pension contributions	143	128
National Insurance contributions	144	108
Medical and Workmen Compensation Insurance	<u>70</u>	<u>64</u>
	<u>5,058</u>	<u>3,961</u>

In fiscal 2012, a provision for an increase in salaries and allowances was provided for in anticipation of the settlement of the Collective Agreement between the BIGWU and the Corporation for the bargaining period 2009-2011. Additionally, in fiscal 2011, the fee structure applicable to Directors' Fees increased retroactive to June 2008. As a result, directors received payment of arrears for the period 2008 – 2011 based on the revised fees and allowances.

12. General and Administrative Expenses:

	30 September	
	2012 <u>\$'000</u>	2011 <u>\$'000</u>
Office rental and related expenses	881	689
Repairs and maintenance	38	15
Equipment rental	51	51
Property services	11	11
Motor vehicle	94	82
Information technology	286	270
Printing and stationery	48	61
Public relations and advertising	318	243
Telecommunications	159	142
Professional fees	108	226
Library services	12	1
Archiving	25	17
Meetings	21	17
Training and education	120	143
Foreign exchange loss	3	-
International Association of Deposit Insurers (IADI) membership fees	90	59
Management contract (Administrative services provided by the Central Bank of Trinidad and Tobago)	50	50
Conferences and official visits	233	274
Miscellaneous	<u>18</u>	<u>18</u>
	<u>2,566</u>	<u>2,369</u>

DEPOSIT INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2012

13. 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 2012 were **\$143,000.00** (2011: \$128,000.00)

14. 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 (Section 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 September	
	2012	2011
	<u>\$'000</u>	<u>\$'000</u>
Personnel and administration expenses reimbursable to the Central Bank	480	109
	480	109

In fiscal 2012, the significant increase in Personnel and Administrative Expenses reimbursable to the Central Bank represents personnel expenses applicable to four employees in 2012 compared to one employee in 2011 and rental expenses payable for additional office accommodation.

(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 30 September 2012 under these arrangements were **\$931,000.00** (2011: \$741,000.00). Limited commercial banking type facilities are also provided by the Central Bank.

DEPOSIT INSURANCE CORPORATION
 NOTES TO THE FINANCIAL STATEMENTS
 30 SEPTEMBER 2012

14. Related Party Transactions (Cont'd):

(e) Key management personnel compensation

	30 September	
	2012 <u>\$'000</u>	2011 <u>\$'000</u>
Short-term employee benefits	1,689	849
Post-employment benefits	<u>46</u>	<u>34</u>
	<u><u>1,735</u></u>	<u><u>883</u></u>

In fiscal 2012, Key Management Personnel Compensation represents amounts applicable to three employees in 2012 compared with two employees in 2011. The expense recorded in 2012 compared to 2011 also represents increases in salaries and allowances and related arrears payments made in 2012.

15. Employees:

At 30 September 2012 the Corporation had in its employ a staff of 17 persons (2011: 16).