

TRINIDAD & TOBAGO

**HERITAGE &  
STABILISATION  
FUND**

ANNUAL REPORT 2007



# PURPOSE





# PURPOSE



**The Heritage and Stabilisation Act, No. 6 of 2007** (hereinafter called “the Act”) established the Heritage and Stabilisation Fund (hereinafter called “the Fund”) with effect from March 15, 2007 for the purpose of saving and investing surplus petroleum revenues derived from production business in order to (a) cushion the impact on or sustain public expenditure capacity during periods of revenue downturn whether caused by a fall in prices of crude oil or natural gas; (b) generate an alternate stream of income so as to support public expenditure capacity as a result of revenue downturn caused by the depletion of non-renewable petroleum resources; and (c) provide a heritage for future generations of citizens of Trinidad and Tobago from savings and investment income derived from the excess petroleum revenues.

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HERITAGE AND STABILISATION FUND ANNUAL REPORT  
FOR THE PERIOD ENDED SEPTEMBER 30, 2007



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# **CHAIRMAN'S FOREWORD**





# CHAIRMAN'S FOREWORD



**Mr. Samuel A. Martin**  
Chairman  
Heritage and Stabilisation Fund

I have the distinct pleasure of presenting this first Annual Report on the Heritage and Stabilisation Fund (HSF) for the period March 15, 2007 to September 30, 2007.

The HSF was approved by Parliament on March 15, 2007, replacing the Interim Revenue Stabilisation Fund which was created in 2000. Since the inception of the Interim Fund, deposits were made annually out of the revenue proceeds from oil and gas accruing to the Government. As at March 15, 2007, the balance in the Interim Fund, including accumulated interest, amounted to TT\$ 8.892 billion.

The Heritage and Stabilisation Fund was started on March 15, 2007 with a balance of US\$ 1,402,148,155. The government made further quarterly contributions amounting to US\$321.6 million during the fiscal year. Over the period under review, the portfolio returned 2.93% (5.41% annualized) versus a benchmark return of 2.91%. The value of the Fund at September 30, 2007 amounted to US\$1,766,093,509.48.

According to the legislation, the HSF was established, firstly to insulate fiscal policy and the economy in general from fluctuations in revenue from the energy sector and secondly to provide savings for future generations. The HSF Act contains a well-defined governance structure, specifies clear rules for transfers to and withdrawals from the Fund and incorporates provisions to ensure the highest standards of transparency and accountability.

The intention is to focus on the savings aspect. Accordingly, the Fund is to be invested in a diversified portfolio of financial assets which will be managed so as to yield high risk-weighted returns. These returns will then be available to support budgetary expenditures when the energy resources have dwindled.

Since the appointment of the HSF Board, much progress has been made in putting in place the administrative and operational infrastructure. On the administrative side, a small staff has been recruited to serve as Secretariat to the Board and office accommodation has been secured and is being prepared.

As required by the legislation, an Instrument of Delegation has been agreed with the Central Bank, which has been delegated to manage the Fund. The Bank, in turn, has completed the necessary quantitative analyses and has recommended a Strategic Asset Allocation for the Fund, which has been approved by the Board.

The next steps involve engagement of external managers and other service providers to help in the operational management of the Fund. As this process is likely to take around six to

nine months, the Central Bank is currently working on a transitional investment strategy to be presented to the Board.

The Board will soon begin work on an education and communication programme to inform the public about the HSF. As Chairman of the Board, I feel strongly that the public should understand the purpose and the operations of the HSF so as to counter mis-information and mis-perceptions, and to manage expectations in line with market realities. I firmly believe that this understanding is crucial to ensuring social ownership which will foster vigilance and ensure accountability, transparency and compliance. In the final analysis, this is a pre-condition for the Fund's success.

**Mr. Samuel A. Martin**  
Chairman





# BOARD OF GOVERNORS



**Mr. Samuel A. Martin**  
Chairman



**Mr. Marlon Holder**  
Member



**Mr. Ewart S. Williams**  
Member



**Ms. Alison Lewis**  
Member



**Mr. William Lucie-Smith**  
Member

**Dr. Michelle Scobie** - Secretary to the Board

# GOVERNANCE





# GOVERNANCE



The Heritage and Stabilisation Fund was established by an Act of Parliament, the Heritage and Stabilisation Fund (HSF) Act, 2007. The Act specifies that the purpose of the Fund is to save and invest surplus petroleum revenues derived from production business in order to:

- (a) cushion the impact on or sustain public expenditure capacity during periods of revenue downturn whether caused by a fall in prices of crude oil or natural gas;
- (b) generate an alternate stream of income so as to support public expenditure capacity as a result of revenue downturn caused by the depletion of non-renewable petroleum resources; and
- (c) provide a heritage for future generations, of citizens of Trinidad and Tobago, from savings and investment income derived from the excess petroleum revenues.

The Heritage and Stabilisation Fund Act provides for the appointment of a Board of Governors consisting of five members “to be selected from among persons of proven competence in matters of finance, investment, economics, business management or law, including an officer of the Central Bank and the Ministry”.

The Board is responsible for the management of the Fund; however, this responsibility has been delegated to the Central Bank.

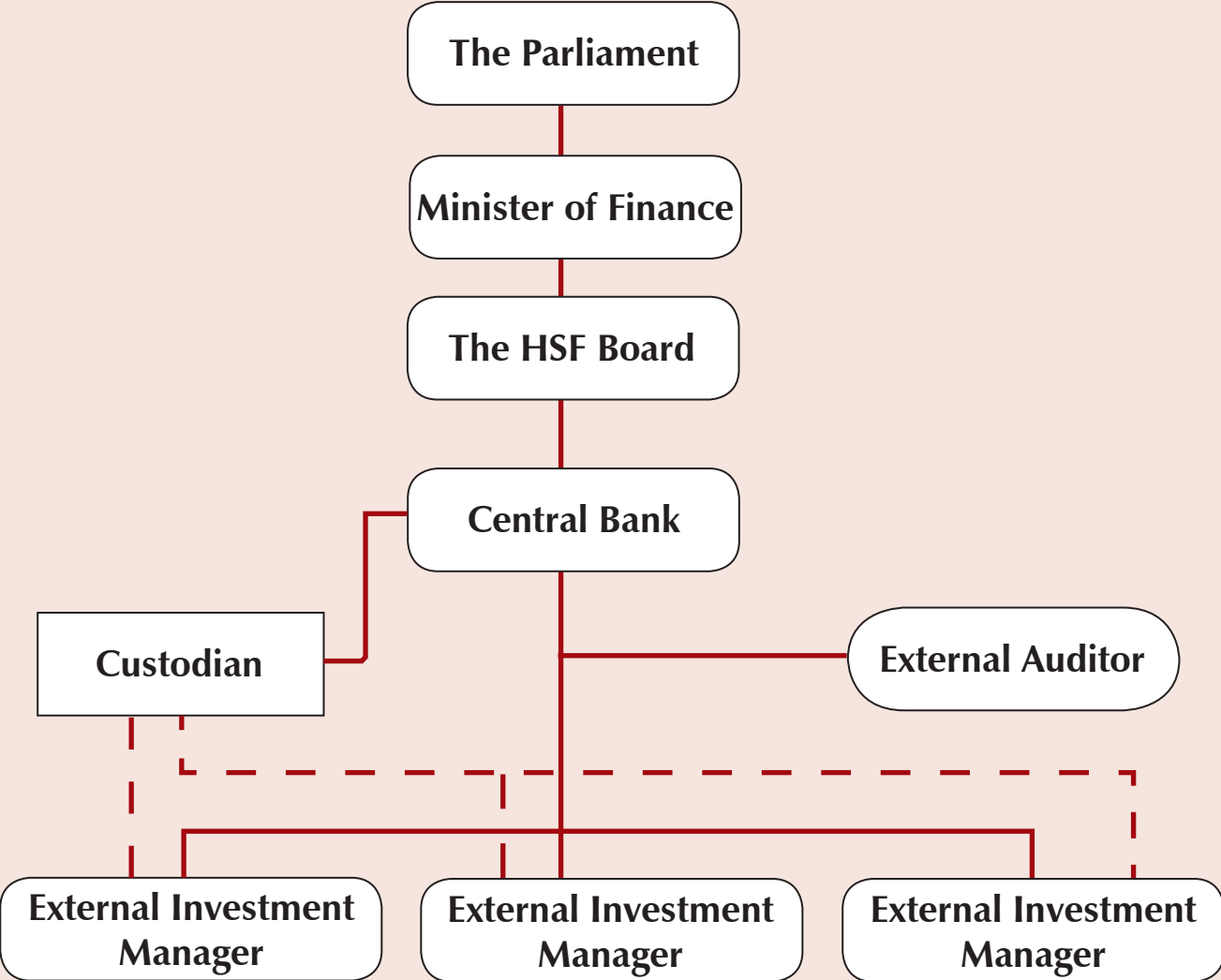
The roles and responsibilities of the various stakeholders are as follows:

- **Parliament**
  - (a) Passed the enabling legislation.
  - (b) Has oversight of the Fund exercised through review of annual reports and audited financial statements.
- **Minister of Finance**
  - (a) Advises the President on the appointment of the Board in accordance with the legislation.
  - (b) Approves deposits to HSF according to formula prescribed in the legislation.
  - (c) Approves withdrawals from the HSF.
- **The HSF Board**
  - (a) Decides Investment Objectives.
  - (b) Approves Strategic Asset Allocation.
  - (c) Reviews Performance of the HSF.
- **Central Bank**
  - (a) Responsible for day-to-day management of the Fund (to meet investment objectives of the Board). The Bank is authorized to recruit external fund managers to assist in this function.

The following reporting requirements are specified in the Act:

- Quarterly Reporting by the Central Bank to the Board.
- Quarterly and Annual Reporting by the Board to the Minister of Finance.
- Annual Reporting by the Minister of Finance to the Parliament.
- Annual auditing by the Auditor General.

# THE GOVERNANCE STRUCTURE





The Act specifies the following deposit and withdrawal rules:

- **Deposit Rule:**

- 60% of difference between actual and budgeted revenue
- For budgeted revenue, prices used for oil and gas estimates are based on defined international sources.

- **Withdrawal Rule:**

- Withdrawal permitted if annual tax revenue from oil and gas is at least 10% below budget projection.

- Withdrawal could be up to 60% of shortfall but not exceeding 25% of the fund.

The Act also stipulates that:

- HSF deposits are to be invested in foreign assets with a medium to long term focus.

# **REVIEW OF ACTIVITIES**







# REVIEW OF ACTIVITIES

## MARCH 15, 2007 TO SEPTEMBER 30, 2007



The Heritage and Stabilisation Fund was started on March 15, 2007 with a balance of US\$ 1,402,148,155. In accordance with the terms of the Heritage and Stabilisation Fund Act, the Government made further quarterly contributions amounting to US\$321.6 million during the fiscal year as follows:

For quarter ended June 30, 2007

- US\$79.7 million

For quarter ended September 30, 2007

- US\$241.9 million

In the initial period, until the Board of Governors decided on the Strategic Asset Allocation (SAA) for the Fund, the resources were held in the form of US dollar term deposits with money market counterparties that met the minimum credit rating standard of A1/P1 (Standard and Poors and Moody's respectively).

All deposits which matured prior to the financial year ended September 30, 2007 were rolled over. The value of the Fund at September 30, 2007 amounted to US\$1,766,093,509.48.

In this initial period of the Fund's establishment, a number of start-up and operational activities were addressed. These included:

- (1) Preparation of the Instrument of Delegation, as required by the Heritage and Stabilisation Fund, Act.
- (2) Determination of the SAA, the appropriate portfolio in which the Fund's assets would be held.
- (3) Establishment of the accounting and other operational framework.
- (4) Staff selection and training.

In making its determination on the appropriate SAA, the Board considered, among other things, the risk and return characteristics of a wide range of assets, their diversification benefits as well as their liquidity status. The Board agreed to a SAA comprising a combination of fixed income securities and equities which is to be achieved within a three-year time frame. The Board is expected to finalize the Investment Guidelines for the Fund shortly.

# LOOKING AHEAD

The Central Bank will soon begin the process of selecting external managers and other service providers who will be involved in the operational management of the Fund. As this process is likely to take some time, transitional arrangements will need to be put into effect.

The Board is committed to ensuring the transparency of the Fund's operations. In addition to the reporting requirements specified in legislation, the Board plans to establish a website where periodic reports on the Fund activities and performance will be made available to the public.



# INVESTMENT REPORT



## Market Review

### *US Fixed Income Market*

The US broad fixed income market, as represented by the Lehman Brothers US Aggregate Bond Index, generated a total return of 5.14% during the fiscal year October 2006 - September 2007, compared with 3.66% in the fiscal year 2005/2006. A slowing US economy and the collapse of the sub-prime mortgage market were the main drivers of US bond market returns.

In August 2007, the Federal Reserve Bank, in an unscheduled meeting in response to the credit crisis, cut its discount rate by 50 basis points to 5.75% to stabilize financial market liquidity. In September, the Federal Reserve Bank also cut the Fed Funds target rate by 50 basis points to 4.75% in order to mitigate concerns of a financial crisis and recessionary pressures.

Much of the pick-up in performance in US treasuries occurred in the last quarter of the financial year as concerns in the sub-prime mortgage market adversely impacted credit risk and financial market liquidity. This led to an increase in treasury prices as investors sought risk protection in these high-quality instruments. Spread sectors, such as mortgages and corporates,

generally underperformed their U.S. Treasury counterparts primarily due to the widening of credit spreads of such securities in response to increased credit risk.

### *Equity Market*

Global equity markets were extremely volatile during the fiscal year. In the second quarter, heightened concerns about global inflation and the health of the US economy led to a sell off in global equity markets. These markets rebounded during the third quarter on the strength of strong corporation earnings but weakened in the last quarter, following the collapse of the sub-prime mortgage market.

### *Money Market*

The US money market serves as the predominant source of financing for private equity firms and structured investment vehicles. The asset backed commercial paper market was greatly affected by the increased risk aversion of investors following the collapse of the sub-prime mortgage market. As a result, rates on money market instruments increased substantially. For 2006/07, US LIBID returned 5.30%, compared with 4.64% during the fiscal year 2005/06.

## Portfolio Performance

The HSF portfolio was held throughout the period in high credit quality one to three-

month US dollar fixed deposits. Accordingly, one-month US LIBID returns were used as the performance benchmark. Over the period, the portfolio returned 2.93% (5.41% annualized) versus a benchmark return of 2.91%. This represents total interest income over the period of US\$ 42.2 million. Figure 1 below shows the performance of the portfolio relative to the benchmark and the growth of the portfolio over the period.

**Portfolio Risk**

The portfolio is currently conservatively managed in terms of the risk to which the assets are exposed. **Credit risk** to the portfolio is managed by the establishment of minimum credit rating criteria that must be met by money market counterparts. Currently this standard requires a minimum rating of A1/P1 from Standard and Poor’s and Moody’s respectively. As at September 30, 2007, 95% of the portfolio was invested in short term

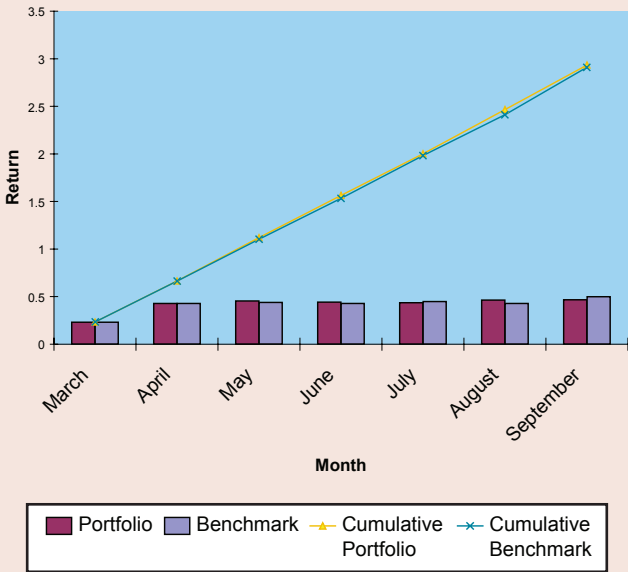
deposits whose counterparties have been assessed as the highest category by Standards and Poors. This indicates that the obligor’s capacity to meet its financial commitments on these obligations is extremely strong.

Additionally, the risk of loss arising from concentration of exposure to a single counterparty was mitigated by use of a maximum exposure limit of approximately 5% for each money market counterpart.

**Interest rate and liquidity risks** are minimised since the portfolio is held in short maturity deposits which can be easily converted to cash at minimal cost should the need arise.

The base and reporting currency of the portfolio is the US dollar. Since all instruments were held in this currency, the fluctuations in value of the portfolio due to **exchange rate** changes are minimized.

**Figure 1  
Portfolio Performance**





# APPENDICES

**APPENDIX I**  
**NET ASSET VALUE (USD)**

DATE	VALUE
March 15 <sup>th</sup> , 2007	1,402,178,155
March 31 <sup>st</sup> , 2007	1,405,448,567
April 30 <sup>th</sup> , 2007	1,411,478,932
May 31 <sup>st</sup> , 2007	1,417,875,123
June 30 <sup>th</sup> , 2007	1,424,094,965
July 31 <sup>st</sup> , 2007	1,510,286,135
August 31 <sup>st</sup> , 2007	1,517,179,219
September 30 <sup>th</sup> , 2007	1,766,098,204

**APPENDIX II**  
**PORTFOLIO PERFORMANCE**

Month	Fiscal 2007 YTD			Inception		
	Portfolio Return %	Benchmark Return %	Excess Return bps	Portfolio Return %	Benchmark Return %	Excess Return bps
March	0.2332	0.2323	0.10	0.2332	0.2323	0.10
April	0.4301	0.4300	0.01	0.6633	0.6623	0.11
May	0.4562	0.4400	1.62	1.1195	1.1023	1.72
June	0.4436	0.4300	1.36	1.5631	1.5323	3.08
July	0.4375	0.4500	(1.25)	2.0005	1.9823	1.83
August	0.4655	0.4300	3.55	2.4660	2.4123	5.38
September	0.4678	0.5000	(3.22)	2.9339	2.9123	2.16





# **FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2007**



**AUDITOR GENERAL**

2ND PODIUM FLOOR  
ERIC WILLIAMS FINANCE BUILDING  
ERIC WILLIAMS PLAZA  
INDEPENDENCE SQUARE  
PORT-OF-SPAIN  
TRINIDAD AND TOBAGO  
WEST INDIES

**CB 6/4/2007/42**

2007 November 30

The Chairman  
Board of Governors  
Heritage and Stabilisation Fund  
Eric Williams Finance Building  
Eric Williams Plaza  
Independence Square  
**PORT OF SPAIN**

Dear Sir,

**Report of the Auditor General of the Republic of Trinidad and Tobago  
on the Financial Statements of the Heritage and Stabilisation Fund  
for the six and a half months ended 2007 September 30**

Forwarded herewith is my Report on the Financial Statements of the Heritage and Stabilisation Fund for the six and a half months ended 2007 September 30.

2. In accordance with section 21 (1) of the Heritage and Stabilisation Fund Act, 2007 the Report has been forwarded to the Minister of Finance for laying in Parliament.
3. A copy of the Report has been forwarded to the Central Bank of Trinidad and Tobago in its capacity as Manager of the Fund.

Yours faithfully,

**SHARMAN OTTLEY  
AUDITOR GENERAL**



**REPORT OF THE AUDITOR GENERAL OF THE REPUBLIC OF TRINIDAD AND TOBAGO ON THE FINANCIAL STATEMENTS OF THE HERITAGE AND STABILISATION FUND FOR THE SIX AND A HALF MONTHS ENDED 2007 SEPTEMBER 30**

The accompanying Financial Statements of the Heritage and Stabilisation Fund for the six and a half months ended 2007 September 30 have been audited. The Statements as set out on pages 1 to 10 comprise a Statement of Financial Position as at 2007 September 30, a Statement of Financial Performance, a Statement of Changes in Equity and a Statement of Cash Flows for the six and a half months ended 2007 September 30 and Notes to the Financial Statements numbered 1 to 8.

***Manager's Responsibility for the Financial Statements***

2. The Central Bank of Trinidad and Tobago as Manager of the Fund 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 and section 16 (1) of the Heritage and Stabilisation Fund Act, 2007 (the Act) 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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal 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 Heritage and Stabilisation Fund as at 2007 September 30 and the results of its operations and its cash flows for the six and a half months ended 2007 September 30 in accordance with International Financial Reporting Standards.

**2007 NOVEMBER 30**



*Sharmar Ottley*  
**SHARMAN OTTLEY**  
**AUDITOR GENERAL**



**Heritage and Stabilisation Fund of the Republic of Trinidad and Tobago**

**Statement of Financial Position  
as at 30 September 2007  
(Expressed in United States Dollars)**

<b>ASSETS</b>	<u>Notes</u>	<b>2007</b>
<b>Current assets</b>		
Cash and cash equivalents	4	1,520,316,477
Accounts Receivable	5	245,878,401
<b>TOTAL ASSETS</b>		<u><u>1,766,194,878</u></u>
 <b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts Payable	6	344,319
<b>TOTAL LIABILITIES</b>		<u><u>344,319</u></u>
<b>NET ASSETS</b>		<u><u>1,765,850,559</u></u>
 <b>PUBLIC EQUITY</b>		
Contributed capital	7	1,723,884,198
Accumulated surplus		41,966,361
<b>TOTAL EQUITY</b>		<u><u>1,765,850,559</u></u>

*Ewart Wilkes*  
Ewart Wilkes

*ALISON HEWLETT*  
ALISON HEWLETT

*WILLIAM MCIE SMITH*  
WILLIAM MCIE SMITH

*Marlon Holder*  
MARLON HOLDER

*Samuel Mathis*  
Samuel Mathis



*The accompanying notes form an integral part of these financial statements*

**Heritage and Stabilisation Fund of the Republic of Trinidad and Tobago**

**Statement of Financial Performance**  
**for the six and a half months ended 30 September 2007**  
(Expressed in United States Dollars)

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<b>Operating Revenue</b>	<b>2007</b>
Interest Income	42,215,954
Other Income	1,883
<b>Total Operating Revenue</b>	<b><u>42,217,837</u></b>
<b>Operating Expenses</b>	
Management Fees	243,723
Other Expenses	4,695
Bank Charges	1,967
Audit Fees	1,091
<b>Total Operating Expenses</b>	<b><u>251,476</u></b>
<b>Net surplus for the period</b>	<b><u><u>41,966,361</u></u></b>

*The accompanying notes form an integral part of these financial statements*





**Heritage and Stabilisation Fund of the Republic of Trinidad and Tobago**

**Statement of Changes in Equity  
for the six and a half months ended 30 September 2007  
(Expressed in United States Dollars)**

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	<b>Contributed Capital</b>	<b>Accumulated Surplus</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Contributions from Government for the period	1,723,884,198	-	1,723,884,198
Net surplus for the period	-	41,966,361	41,966,361
Balance as at 30 September 2007	<u>1,723,884,198</u>	<u>41,966,361</u>	<u>1,765,850,559</u>

*The accompanying notes form an integral part of these financial statements*

**Heritage and Stabilisation Fund of the Republic of Trinidad and Tobago**

**Statement of Cash Flows**  
**for the six and a half months ended 30 September 2007**  
 (Expressed in United States Dollars)

	<u>Note</u>	2007
<b>Cash flows from operating activities</b>		
Net surplus for the period		41,966,361
Adjustments		
Interest income		(42,215,954)
Changes in operating assets and liabilities		
(Increase) in accounts receivable		(245,878,401)
Increase in accounts payable		344,319
<b>Net cash used in operating activities</b>		<u><u>(245,783,675)</u></u>
<b>Cash flows from investing activities</b>		
Interest received		42,215,954
<b>Net cash flow from investing activities</b>		<u><u>42,215,954</u></u>
<b>Cash flows from financing activities</b>		
Contributed capital		1,723,884,198
<b>Net cash flow from financing activities</b>		<u><u>1,723,884,198</u></u>
<b>Net increase in cash and cash equivalents</b>		1,520,316,477
<b>Cash and cash equivalents, beginning of period</b>		-
<b>Cash and cash equivalents, end of period</b>	4	<u><u>1,520,316,477</u></u>

*The accompanying notes form an integral part of these financial statements*



# NOTES TO THE FINANCIAL STATEMENTS



## Heritage and Stabilisation Fund of the Republic of Trinidad and Tobago

### Notes to the Financial Statements for the six and a half months ended 30 September 2007 (Expressed in United States Dollars)

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#### 1. Incorporation and Principal Activities

The Heritage and Stabilisation Fund Act, 2007 of the Republic of Trinidad and Tobago, (the “Act”), provides for the establishment and management of the Heritage and Stabilisation Fund (the “Fund”). It was established on 15 March 2007 and is denominated in the currency of the United States of America.

The President, upon the advice of the Minister of Finance, appointed a Board of Governors for the Fund on 6 July 2007. This Board comprises five members, who are appointed for a term of three years and shall be eligible for reappointment. Members are selected from amongst persons of proven competence in matters of finance, investment, economics, business management or law, including an officer of:

- a) The Central Bank; and
- b) The Ministry of Finance

The Board delegates the responsibility for the management of the Fund to the Central Bank of Trinidad and Tobago, (the “Bank”).

The purpose of the Fund is to save and invest surplus petroleum revenues derived from production business in order to -

- a) cushion the impact on or sustain public expenditure capacity during periods of revenue downturn whether caused by a fall in prices of crude oil or natural gas;
- b) generate an alternate stream of income so as to support public expenditure capacity as a result of revenue downturn caused by the depletion of non-renewable petroleum resources;
- c) provide a heritage for future generations, of citizens of Trinidad and Tobago, from savings and investment income derived from the excess petroleum revenues.

Upon the commencement of this Act, the moneys held in the Interim Revenue Stabilisation Fund established under the Exchequer and Audit Act were transferred to the Fund, whereupon the Interim Revenue Stabilisation Fund ceased to exist.

The resources of the Fund consist of:-

- a) moneys transferred from the Interim Revenue Stabilisation Fund;
- b) petroleum revenues deposited into the Fund, (refer to note 7);
- c) assets acquired and earned from investments.

**Heritage and Stabilisation Fund of the Republic of Trinidad and Tobago**

**Notes to the Financial Statements  
for the six and a half months ended 30 September 2007 (continued)  
(Expressed in United States Dollars)**

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**2. Accounting Policies**

**a) *Basis of accounting***

The financial statements of the Fund have been prepared under the historical cost convention and are prepared in accordance with International Financial Reporting Standards and the Act.

**b) *Cash and cash equivalents***

Cash and cash equivalents are defined as cash on hand and at bank and deposits maturing within three months from the financial statements date. Cash on hand, cash in bank and deposits are carried at cost.

**c) *Income and Expenses***

Income and expenditure are accounted for on the accruals basis.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Fund and the revenue can be reliably measured. Interest income is recognised on the accruals basis.

Revenue is measured at the fair value of the consideration received or receivable.

Expenses are recognised on the accrual basis, i.e. in the period when they were incurred.

**d) *Taxation***

The Fund is a public account and by Section 17 of the Act is exempt from income tax.

**e) *Accounts receivable***

Accounts receivable are stated at their expected realisable value.

**f) *Accounts payable***

Accounts payable are stated at their expected amounts.

**g) *Fair value***

The fair value of financial instruments is equivalent to the carrying amount disclosed in the Statement of Financial Position.





## Heritage and Stabilisation Fund of the Republic of Trinidad and Tobago

### Notes to the Financial Statements for the six and a half months ended 30 September 2007 (continued) (Expressed in United States Dollars)

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#### 2. Accounting Policies (continued)

##### *h) Statement of cash flows*

- **Operating activities** include all activities other than investing and financing activities. The cash inflows include all receipts from the sources of revenue that support the Fund's operating activities. Cash outflows include payments made to suppliers.
- **Investing activities** are those activities relating to the acquisition and disposal of current and non-current securities and any other non-current assets. Investments include securities not falling within the definition of cash, e.g. purchase of property and equipment.
- **Financing activities** are those activities relating to changes in equity and debt capital structure of the Fund and those activities relating to the cost of servicing the Fund's equity capital.
- **Cash** means cash balances on hand, held in bank accounts, demand deposits and other highly liquid investments in which the Fund invests as part of its day-to-day cash management.

##### *i) Capital contributions*

In accordance with Section 14 of the Act:

- a) a minimum of sixty per cent of the aggregate of the excess revenues shall be deposited to the Fund during a financial year;
- b) all revenues to be deposited into the Fund shall be a charge on the Consolidated Fund.

The deposits are to be made no later than the end of the month following the quarter in respect of which the deposit was calculated.

#### 3. Financial Risk Management

##### *a) Portfolio Performance*

The performance of the Fund portfolio for the period 15 March 2007 through 30 September 2007 is consistent with the investment type, and credit risk limits utilized by the Central Bank for management of the portion of the country's official reserves held in fixed deposits. The portfolio was comprised of US dollar-denominated time deposits benchmarked against one-month US Libid rate. The annualised return for the benchmark and the portfolio were 5.38% and 5.42% respectively.

## Heritage and Stabilisation Fund of the Republic of Trinidad and Tobago

### Notes to the Financial Statements for the six and a half months ended 30 September 2007 (continued) (Expressed in United States Dollars)

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#### 3. Financial Risk Management (continued)

##### b) *Portfolio Risk*

The Fund was invested in a conservative manner. The assets, while exposed to market risk like all financial instruments, were made up of time deposits with financial institutions with low risk of default.

##### *Credit Risk*

This is the risk that a third party will default on its obligation to the Fund, causing the Fund to incur a loss.

Credit risk is mitigated by the establishment of rating standards that each money market counterpart must fulfill. Currently, these standards require a minimum credit rating of A1 or P1 from Standard and Poor's and Moody's respectively. Credit risk is also managed by limiting the exposure to a single counterparty to 5% of the Fund.

##### *Interest Rate Risk*

This is the risk that the value of a financial instrument will fluctuate, due to changes in market rates. Interest rate risk is minimized by holding deposits to a short maturity (usually one month). The managers do not consider that there is any significant interest exposure on the Fund's investments. The relatively short tenors also serve to maintain a very liquid portfolio and mitigate the *Liquidity Risk*.

##### *Liquidity Risk*

Management believes that the Fund has sufficient resources to meet the present and foreseeable needs of its business operations. Management's guiding policies are to maintain conservative levels of liquidity to ensure that the Fund has the ability to meet its obligations at short notice. This is achieved by laddering the maturity of the time deposits.

##### *Currency Risk*

This is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The portfolio is held only in US dollars, the base currency, therefore there is no *Currency Risk* at this time.

##### *Operational Risk*

This is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. It is managed through organisational policies, procedures and operational frameworks utilised by the Bank for management of the Fund. The internal and external processes for the Fund are similar to those which exist for management of the Official Reserves. These processes are tested and audited annually. The Bank strives to continually comply with international best practice.





**Heritage and Stabilisation Fund of the Republic of Trinidad and Tobago**

**Notes to the Financial Statements  
for the six and a half months ended 30 September 2007 (continued)  
(Expressed in United States Dollars)**

The geographical concentration of the Fund's deposits is set out below.

<b>Territory</b>	<b>2007</b>
Belgium	75,473,002
Canada	144,197,505
France	149,417,817
Netherlands	75,243,297
United Kingdom	425,456,273
Switzerland	73,789,191
United States of America	576,733,985
	<b>1,520,311,070</b>

**4. Cash and cash equivalents**

Fixed deposits	1,520,311,070
Cash at Bank	5,407
	<b>1,520,316,477</b>

Fixed deposits

These are short-term deposits maturing within 90 days from the financial statements' date.

**5. Accounts receivable**

Amount due from Central Bank of Trinidad and Tobago	241,992,101
Accrued Interest	3,884,417
Other receivables	1,883
	<b>245,878,401</b>

**6. Accounts payable**

Accruals	249,509
Amount due to Central Bank of Trinidad and Tobago	94,810
	<b>344,319</b>

**Heritage and Stabilisation Fund of the Republic of Trinidad and Tobago**

**Notes to the Financial Statements  
for the six and a half months ended 30 September 2007 (continued)  
(Expressed in United States Dollars)**

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	<b>2007</b>
<b>7. Contributed capital</b>	
Capital contributions for the period include the following:	
Transfer from Interim Revenue Stabilisation Fund	1,402,178,155
3rd Quarter contribution	79,713,942
4th Quarter contribution	<u>241,992,101</u>
	<b><u>1,723,884,198</u></b>

**8. Asset management agreements**

Under Section 10(2) of the Act, the Central Bank of Trinidad and Tobago as Manager of the Fund is responsible for the management of the assets and other resources of the Fund.



