

**HERITAGE AND STABILISATION FUND
OF THE REPUBLIC OF TRINIDAD AND TOBAGO**

**FINANCIAL STATEMENTS
for the six months ended 31 March 2009**

Heritage and Stabilisation Fund of the Republic of Trinidad and Tobago

**Statement of Financial Position
as at 31 March 2009
(Expressed in United States Dollars)**

Sep-08		Notes	Mar-09	Mar-08
\$			\$	\$
	ASSETS			
	Current assets			
2,341,921,417	Cash on hand and at banks	4	2,671,998,677	1,802,292,015
123,070,598	Investments	5	238,120,373	-
423,644,326	Accounts Receivable	6	6,544,841	2,241,963
<u>2,888,636,341</u>	TOTAL ASSETS		<u>2,916,663,891</u>	<u>1,804,533,978</u>
	LIABILITIES			
	Current liabilities			
198,554	Accounts Payable	7	5,588,573	134,982
<u>198,554</u>	TOTAL LIABILITIES		<u>5,588,573</u>	<u>134,982</u>
<u>2,888,437,787</u>	NET ASSETS		<u>2,911,075,318</u>	<u>1,804,398,996</u>
	PUBLIC EQUITY			
2,778,058,656	Contributed capital		2,778,058,656	1,723,884,198
1,215,971	Available for sale revaluation reserve		3,549,332	-
109,163,160	Accumulated surplus		129,467,330	80,514,798
<u>2,888,437,787</u>	TOTAL EQUITY		<u>2,911,075,318</u>	<u>1,804,398,996</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 Comprehensive Income
for the six months ended 31 March 2009
(Expressed in United States Dollars)**

Sep-08 \$		Mar-09 \$	Mar-08 \$
	Income		
68,177,088	Interest Income	20,083,489	38,836,638
-	Investment expenses	(12,018)	-
(289,669)	Amortisation of Bond Premium	(569,245)	-
-	Amortisation of Discount on Treasury Bill	34,162	-
<u>67,887,419</u>	Income from Investments	<u>19,536,388</u>	<u>38,836,638</u>
<u>2,020</u>	Realised gain from fair value changes	<u>1,252,543</u>	<u>-</u>
<u>67,889,439</u>		<u>20,788,931</u>	<u>38,836,638</u>
4,695	Other Income	-	-
<u>67,894,134</u>		<u>20,788,931</u>	<u>38,836,638</u>
	Expenditure		
615,466	Management Fees	436,060	270,626
78,195	Bank Charges	48,701	17,078
3,674	Audit Fees	-	497
<u>697,335</u>	Total expenditure	<u>484,761</u>	<u>288,201</u>
<u>67,196,799</u>	Net profit for the period	<u>20,304,170</u>	<u>38,548,437</u>
	Other comprehensive income:		
1,215,971	Available-for-sale financial assets - Unrealised gain from fair value changes	2,333,361	-
<u>1,215,971</u>	Other comprehensive income for the period	<u>2,333,361</u>	<u>-</u>
<u>68,412,770</u>	Total comprehensive income for the period	<u>22,637,531</u>	<u>38,548,437</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 Changes in Equity
for the six months ended 31 March 2009
(Expressed in United States Dollars)**

	Contributed Capital	Available for Sale Revaluation Reserve	Accumulated Surplus	Total
	\$	\$	\$	\$
Balance as at 1 October 2007	1,723,884,198	-	41,966,361	1,765,850,559
Total comprehensive income for the period	-	-	38,548,437	38,548,437
Balance as at 31 March 2008	<u>1,723,884,198</u>	<u>-</u>	<u>80,514,798</u>	<u>1,804,398,996</u>
Balance as at 1 April 2008	1,723,884,198	-	80,514,798	1,804,398,996
Contributions from Government for the period	1,054,174,458	-	-	1,054,174,458
Total comprehensive income for the period	-	1,215,971	28,648,362	29,864,333
Balance as at 30 September 2008	<u>2,778,058,656</u>	<u>1,215,971</u>	<u>109,163,160</u>	<u>2,888,437,787</u>
Balance as at 1 October 2008	2,778,058,656	1,215,971	109,163,160	2,888,437,787
Total comprehensive income for the period	-	2,333,361	20,304,170	22,637,531
Balance as at 31 March 2009	<u>2,778,058,656</u>	<u>3,549,332</u>	<u>129,467,330</u>	<u>2,911,075,318</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 months ended 31 March 2009
(Expressed in United States Dollars)**

Restated Sep-08 \$	Note	Mar-09 \$	Mar-08 \$
Cash flows from operating activities			
67,196,799		20,304,170	38,548,437
Adjustments			
(68,177,088)		(20,083,489)	(38,836,638)
289,669		569,245	-
-		(34,162)	-
(2,020)		(1,252,543)	-
Changes in operating assets and liabilities			
(173,844,377)		411,269,206	241,993,984
(145,765)		5,390,019	(209,337)
<u>(174,682,782)</u>		<u>416,162,446</u>	<u>241,496,446</u>
Cash flows from investing activities			
64,255,541		25,913,768	40,479,092
(147,204,078)		(232,468,708)	-
25,061,801		120,469,754	-
<u>(57,886,736)</u>		<u>(86,085,186)</u>	<u>40,479,092</u>
Cash flows from financing activities			
1,054,174,458		-	-
<u>1,054,174,458</u>		<u>-</u>	<u>-</u>
821,604,940		330,077,260	281,975,538
1,520,316,477		2,341,921,417	1,520,316,477
<u>2,341,921,417</u>	4	<u>2,671,998,677</u>	<u>1,802,292,015</u>

The accompanying notes form an integral part of these financial statements

Heritage and Stabilisation Fund of the Republic of Trinidad and Tobago

Notes to the Financial Statements for the six months ended 31 March 2009 (Expressed in United States Dollars)

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 has delegated 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; 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.

Upon the commencement of this Act, the monies 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) monies transferred from the Interim Revenue Stabilisation Fund;
- b) petroleum revenues deposited into the Fund; and
- 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 months ended 31 March 2009 (continued)
(Expressed in United States Dollars)**

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

c) *Investments*

The Fund classifies its investment securities in the category "Available for Sale".

i. *Available for sale*

These investments are intended to be held for an indefinite period of time, and may be sold in response to needs for liquidity or to meet the goals of the strategic asset allocation approved by the Fund's Board.

They are initially recognized at cost, (which includes transaction costs), and are subsequently re-measured at fair market value. Regular purchases and sales are recognized on the trade date. Thus, any agreements made before the Statement of Financial Position date, with expectations of settlement thereafter, will give rise to both a financial asset and financial liability which is recognised in the Statement of Financial Position.

Unrealised gains and losses on these investments are recognized directly in equity through the Statement of Changes in Equity.

When the securities are disposed of, the related accumulated fair value adjustments are included in the Statement of Comprehensive Income as realised gains and losses from investment securities.

Notes to the Financial Statements
for the six months ended 31 March 2009 (continued)
(Expressed in United States Dollars)

2. Accounting Policies (continued)

d) *Premium/Discount*

A premium arises when a bond or treasury bill price is higher than its par value. This occurs because the interest rate is higher than the prevailing rates in the market, thus making the bond or treasury bill worth more than a security paying a lower rate.

A discount arises when a bond or treasury bill price is lower than its par value. This occurs when the interest rate rises; newly issued securities have higher coupons than existing securities issued when market rates were lower. Thus coupon rates of securities trading at a discount are generally lower than similar quality, newly issued securities.

The premium is treated as an asset on the Statement of Financial Position, due to the future economic benefit expected from the bond or treasury bill. Similarly, a discount is treated as a liability on the Statement of Financial Position.

e) *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.

f) *Taxation*

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

g) *Accounts receivable*

Accounts receivable are stated at their expected realisable value.

h) *Accounts payable*

Accounts payable are stated at their expected amounts.

Heritage and Stabilisation Fund of the Republic of Trinidad and Tobago

**Notes to the Financial Statements
for the six months ended 31 March 2009 (continued)**
(Expressed in United States Dollars)

2. Accounting Policies (continued)

i) 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.

j) 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.

Heritage and Stabilisation Fund of the Republic of Trinidad and Tobago

Notes to the Financial Statements for the six months ended 31 March 2009 (continued) (Expressed in United States Dollars)

3. Financial Risk Management

a) Portfolio Performance

The portfolio performance for the six months ended 31 March 2009 was as follows:

6 Months Performance			
Portfolio	Fund	Benchmark Return	Benchmark Composition
Composite ⁽ⁱ⁾	0.84%	1.06%	5% Merrill Lynch US Government Treasury 1-5 Years Index and 95% US 1-month LIBID
US Fixed Deposit	0.63%	0.89%	USD 1-month LIBID
US Short Duration Fixed Income Portfolio	4.14%	4.27%	US Merrill Lynch US Government Treasury 1-5 Years Index

(i) Prior to the purchase of US Government Treasury Instruments in May 2008, the Benchmark was 100% US 1-month LIBID.

b) Portfolio Risk

The assets of the Fund were invested in a conservative manner. The assets, while exposed to market risk like all financial instruments, were made up of US Dollar time deposits, which are invested with financial institutions with low risk of default, and a portfolio of US Government treasury instruments with an overall duration of less than two (2) years.

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.

The portfolio's credit risk is minimised by strict adherence to credit quality and concentration limit. Credit risk is mitigated by the establishment of ratings standards that each money market counterpart must fulfil. Currently, these standards require money-market counterparts to have a minimum credit rating of A1 from Standard and Poor's, or P1 from Moody's. Credit risk is also managed by limiting the exposure to a single counterparty to 5% of the Fund.

Notes to the Financial Statements
for the six months ended 31 March 2009 (continued)
(Expressed in United States Dollars)

3. Financial Risk Management (continued)

Interest Rate Risk

This is the risk that the value of a financial instrument will fluctuate, due to changes in market rates. The interest rate risk of the portfolio is managed by strict adherence to the overall duration of the portfolio, which is set at two years. The managers do not consider that there is any significant interest exposure on the Fund's investments.

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. The relatively short tenors also serve to maintain a very liquid portfolio and mitigate the Liquidity Risk

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 months ended 31 March 2009 (continued) (Expressed in United States Dollars)

3. Financial Risk Management (continued)

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

Sep-08 \$	Territory	Mar-09 \$	Mar-08 \$
117,763,828	Belgium	-	89,487,164
71,127,014	Canada	100,316,929	148,289,358
119,765,710	France	289,906,350	179,579,876
176,868,858	Netherlands	158,841,978	89,114,747
119,646,749	Switzerland	140,173,246	89,272,474
908,370,664	United Kingdom	990,742,152	634,470,670
644,376,438	United States of America	990,731,834	572,002,481
<u>2,157,919,261</u>		<u>2,670,712,489</u>	<u>1,802,216,770</u>

4. Cash and cash equivalents

Sep-08 \$		Mar-09 \$	Mar-08 \$
2,157,919,261	Fixed deposits	2,670,712,489	1,802,216,770
184,002,156	Cash at Bank	1,286,188	75,245
<u>2,341,921,417</u>		<u>2,671,998,677</u>	<u>1,802,292,015</u>

Heritage and Stabilisation Fund of the Republic of Trinidad and Tobago

**Notes to the Financial Statements
for the six months ended 31 March 2009 (continued)
(Expressed in United States Dollars)**

5. Investments

Sep-08 \$		Mar-09 \$	Mar-08 \$
	Available for sale		
	Bonds		
122,144,297	Cost	155,962,866	-
1,215,971	Appreciation in market value	3,546,518	-
(289,670)	Net Discount/Premium	(858,914)	-
<u>123,070,598</u>	Net Book Value	<u>158,650,470</u>	<u>-</u>
	Treasury Bills		
-	Cost	79,499,000	-
-	Diminution in market value	2,813	-
-	Discount	(31,910)	-
<u>-</u>	Net Book Value	<u>79,469,903</u>	<u>-</u>
<u>123,070,598</u>	Total	<u>238,120,373</u>	<u>-</u>

6. Accounts Receivable

Sep-08 \$		Mar-09 \$	Mar-08 \$
415,838,362	Amount due from Central Bank of Trinidad and Tobago	6,749	-
7,805,964	Accrued Interest	1,975,685	2,241,963
-	Other receivables	4,562,407	-
<u>423,644,326</u>		<u>6,544,841</u>	<u>2,241,963</u>

- Other receivables at 31 March 2009 include Pending Trade – Bond sold in the amount of USD 4,557,712 which was subsequently settled in April 2009.

Heritage and Stabilisation Fund of the Republic of Trinidad and Tobago

**Notes to the Financial Statements
for the six months ended 31 March 2009 (continued)
(Expressed in United States Dollars)**

7. Accounts Payable

Sep-08		Mar-09	Mar-08
\$		\$	\$
198,554	Accruals	238,144	134,982
-	Pending Trade - Purchase of Bond	5,350,429	-
<u>198,554</u>		<u>5,588,573</u>	<u>134,982</u>

- Accruals at 31 March 2009 include Management Fees of USD 218,253 for the period January – March 2009.
- Pending Trade – Bond purchased in the amount of USD 5,350,429 was subsequently settled in April 2009.

8. Asset management agreements

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

9. Remuneration and allowances of the Board of Governors

Under Section 4(6) of the Act, the members of the Board shall be paid such remuneration and allowances as may be determined by the Minister of Finance. These expenses, along with other operating expenses of the Fund's Secretariat are met from the Consolidated Fund, and thus do not form a part of the Financial Statements of the Fund.