



The National
Insurance
Board

Annual Report 2004

service

strength

commitment

passion

growth

the colours of success...



Delivering on our promise to you

Annual Report 2004

MISSION

To effectively
manage the
social security
system in
Trinidad and
Tobago.

VISION

To become the
leading provider
of social insurance,
pension and
financial products.

Delivering on our promise to you

service

strength

commitment

passion

growth

the colours of success...



NIB Locations

HEAD OFFICE

NIB House
Cipriani Place,
2A Cipriani Boulevard,
Port of Spain
Tel: (868) 625-2171-8 Fax: (868) 627-1787
NIB Hotline: 663-4NIS (4647)
Email: nib@nibtt.co.tt
Website: www.nibtt.co.tt

Records Department
Chaguaramas

SERVICE CENTRES

Arima
Cor. Woodford and Sorzano Streets
Tel: 667-2231/3
Fax: 667-6930

Barataria
35-36 Fifth Street
Tel: 638-3622, 5008
Fax: 667-6930

Chaguanas
62 Eleanore Street
Tel: 665-5848/5188
Fax: 665-5188

Couva
2 Captain Watson Street, Exchange Lots
Tel: 636-2347
Fax: 636-0820

Gulf City
Ground Floor, Gulf City Mall
Tel: 653-2318
Fax: 657-3538

Point Fortin
7a Techier Road
Tel: 648-3128

Port of Spain
85 Abercromby Street
Tel: 625-8302/3, 1034, 2143,
623-0445
Fax: 623-0450

Princes Town
Charlotte Street
Tel: 655-2226
Fax: 655-2226



Rio Claro
Lalla Building,
Naparima/Mayaro Road
Tel: 644-2253
Fax: 644-2253

Sangre Grande
Henderson Street
Tel: 668-2719
Fax: 668-2719

Siparia
Grell Street
Tel: 649-2212
Fax: 649-2278

South Regional
27 Harris Promenade
Tel: 652-4247, 2649
Fax: 657-8982

St. James
76 Western Main Road
Tel: 622-1438, 4013
Fax: 628-8340

Tunapuna
Eastern Main Road
Tel: 662-4444, 2514, 2564
Fax: 662-5671

Tobago
Scarborough Mall
Tel: 639-3842/3, 2135
Fax: 639-3843

Roxborough Service Centre
Inland Revenue Office
Roxborough

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Corporate Data

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Trinidad and Tobago, W.I.
Tel: (868) 625-2171-8 Fax: (868) 627-1787
NIB Hotline: 663-4NIS (4647)
Email: nib@nibtt.co.tt
Website: www.nibtt.co.tt

Bankers

First Citizens Bank Limited
9 Queen's Park West
Port of Spain
Trinidad and Tobago, W.I.

Republic Bank Limited
9-17 Park Street
Port of Spain
Trinidad and Tobago, W.I.

Auditors

Ernst and Young
P.O. Box 158
5-7 Sweet Briar Road
St Clair, Port of Spain
Trinidad and Tobago, W.I.

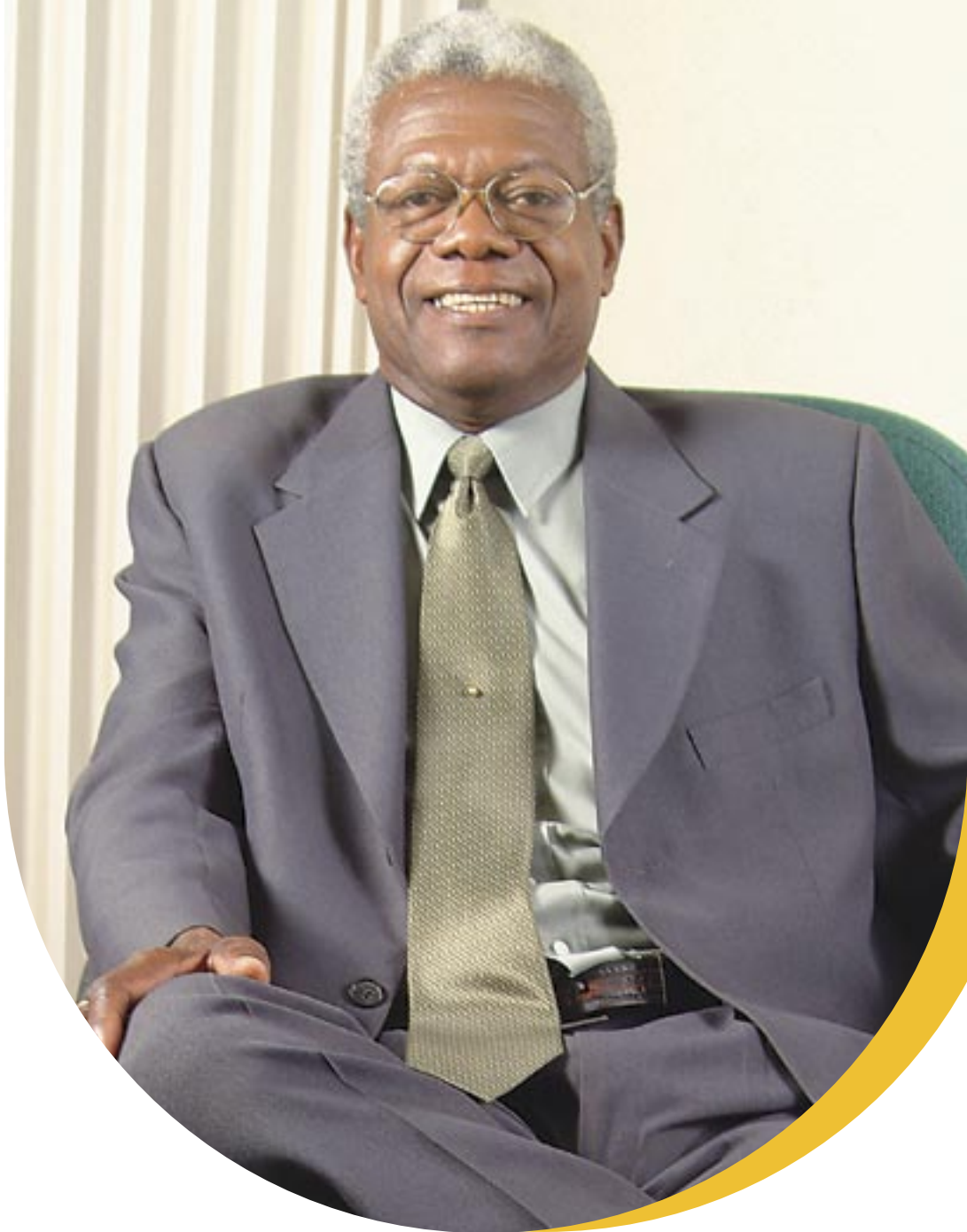
Attorneys

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81 St Vincent Street
Port of Spain
Trinidad and Tobago, W.I.

M.G. Daly and Partners
115a Abercromby Street
Port of Spain
Trinidad and Tobago, W.I.



service



Chairman's Review

For the year ended June 30, 2004

I am pleased to announce that, during the period under review, the Board delivered on its promise to improve the benefits provided to our insured population and their dependants, thereby maintaining the socio-economic relevance of the National Insurance System (NIS). This is in keeping with our underlying philosophy of ensuring that the greatest good is provided to the largest number of stakeholders within the context of affordability, fiscal responsibility and administrative feasibility.

We are thankful to the Government of Trinidad and Tobago for facilitating the implementation of the recommendations of the Sixth Actuarial Review through the approval of the necessary

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Chairman's Review

For the year ended June 30, 2004

amendments to the National Insurance Act. We are pleased to report that we were able to achieve a smooth implementation of these amendments which provided insured persons and their beneficiaries with substantial increases in benefit payments, with a minimal increase of 1.5% in the contribution rate to be spread over the three-year period commencing March 1, 2004.

The changes have substantially enhanced the level of protection being afforded to insured persons and their dependants throughout Trinidad and Tobago, who depend on the NIS in their time of greatest need. Indeed, we have provided enhanced benefits to today's workers and at the same time increased pensions to existing and future retirees. This is, arguably, the best way that The National Insurance Board of Trinidad and Tobago (NIBTT) can thank its stakeholders for their continued support, interest and participation in the NIS.

Benefits and Beneficiaries

Integral to our strategic focus is the need to ensure that the purchasing power of our benefits is maintained and not eroded due to inflationary factors.

As evidence of our commitment to providing greater value to our insured population and their dependants, benefit payments in this financial year amounted to \$752M, representing an increase of 79% over the amount paid in the previous financial year.

Financial Achievements

This year, the NIBTT achieved a net investment yield of 8.09% – an excellent performance given the fact that high liquidity conditions and ensuing soft interest rates continued to characterise the domestic financial landscape.

In addition, the Board was able to contain administrative expenses at a mere 9.2% of contribution income. At the end of the financial year 2004, total funds under management amounted to \$11.7B, reflecting an increase of some 26% over the previous year's balance. Another notable feature of this year's financial performance was the reduction in the ratio of contribution arrears to contribution income to 1.3% from 5.09% recorded during the previous financial year. We have also put in place a new

Investment Policy Framework which will guide the management of the NIBTT's Investment Fund and allow for greater flexibility in responding to the rapidly changing business and investment market conditions. Our aim is to achieve a well-diversified asset mix that would generate optimal returns at an acceptable level of risk.

Looking Ahead

Operational Objectives

Over the next year, we will continue to implement initiatives that will provide our employers with new payment options and provide benefit recipients with easier access to their payments. We also plan to recommence the routine mailing of contribution statements to our customers.

As we look forward to the 7th Actuarial Review it is our intention to ensure that better benefits are provided to our existing beneficiaries and to broaden the ambit of the system to include the self-employed sector. We also look forward to supporting the Government in its initiatives towards the rationalisation of the pension systems in Trinidad and Tobago.

New Investment Initiatives

As part of its new Investment Policy Framework, the NIBTT is expanding its investment in real estate and will, in the new financial year, begin construction of a new housing development on land it owns at Cleaver Woods, Arima. This project involves the development of 275 housing units over the next three-year period. Feasibility studies indicate that the returns on this project will contribute soundly to the attainment of NIBTT's investment targets and will help to contain the cost of future benefit improvements to our contributors.

Human Resources

We are pleased to report that the implementation of the Organisation's new corporate structure should be completed early in the new financial year. The Job Evaluation Exercise for Executive and Senior Management has been completed and it is anticipated that, upon agreement by the Union, a similar exercise will be undertaken for the members of staff within the Bargaining Units. This survey will result in an equitable ranking and valuation

Chairman's Review

For the year ended June 30, 2004

of jobs within the Organisation and provide a basis for adjustments to our compensation system.

Negotiations

It gives me great pleasure to report that the National Insurance Board and the Public Services Association reached agreement on all items of reference for Bargaining Unit A for the period January 1, 1999, to December 31, 2001.

In the year ahead, we look forward to the speedy settlement of the negotiations for the current bargaining period, that is due to expire in December 2004. Early in the year, we will be taking the proactive step of submitting our proposals for the consideration of the Union in an attempt to start the collective bargaining process.

Regional Relations

In keeping with our promise to strengthen the social security and pensions administration system within the region, the NIBTT hosted the 15th Meeting of the Caricom Heads of Social Security in May 2004. A key outcome of that meeting was the clarification and tightening of particular clauses of the Caricom Reciprocal Agreement on Social Security. The consensus arrived at by the region's social security leaders will facilitate a more effective administration of that Agreement. Overall, the meeting served to raise the level of awareness of the challenges that our social security systems must face in preparing for the successful operation of the Caribbean Single Market and Economy.

In the coming year, the NIBTT will host the 6th Annual Caricom Social Security Easter Games. First held in Trinidad and Tobago and the brainchild of the National Insurance Sports and Cultural Club of Trinidad and Tobago (NISCC), these games provide an opportunity for us to further develop positive relationships with our Caribbean counterparts.

New Strategic Direction

Vision 2007 takes cognisance of the evolution of the country's social insurance system, especially in the context of the Government's overall goal of attaining Developed Country Status by 2020.

Our strategic objective is to manage a financially sound, progressive social insurance system that delivers relevant social insurance coverage to the people of Trinidad and Tobago. This focus is in harmony with the Government's pension reform initiatives and its policy to integrate the nation's social services in order to provide increased social protection and accountability in the delivery of such services.

Appreciation and Commitment

I take this opportunity to thank the Minister of Finance, the Honourable Patrick Manning, and the Minister in the Ministry of Finance, Senator the Honourable Conrad Enil, for their continuing support, especially with respect to the recent passage of amendments to the National Insurance Act.

Our appreciation is extended to our stakeholders, whose invaluable contribution and support continue to guide the quality of service we provide.

To my colleagues on the Board of Directors of the NIBTT, I would like to convey my heartfelt appreciation for your individual and collective commitment to the achievement of our corporate goals.

I also wish to publicly thank the Executive Director, members of Executive and Senior Management and staff for their unstinting dedication and service to the NIBTT and the people of Trinidad and Tobago. Without you the NIBTT would not have achieved its operational and financial objectives.

And to you, the insured population of Trinidad and Tobago, on behalf of the National Insurance Board, I record our unwavering commitment to channel our energies towards meeting your expectations and to ensuring greater social protection, efficiency and accountability in the administration of the National Insurance System.

Kenneth Henry
Chairman



strength

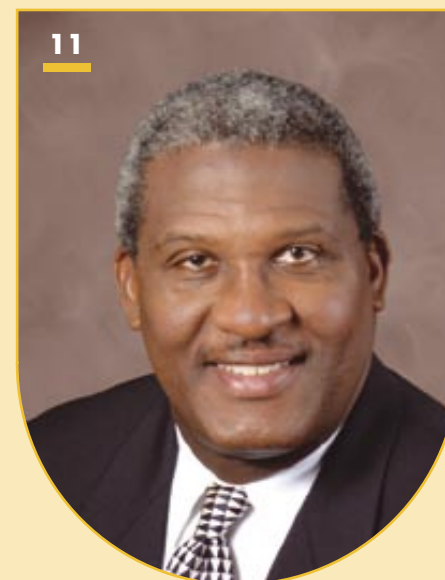
Board of Directors



1. **KENNETH HENRY**
Chairman
No. 2 Pearl Gardens Drive
Pearl Gardens
Petit Valley
2. **JEFFREY MCFARLANE**
Executive Director
The National Insurance Board
(ex-officio)
3. **WALTON HILTON-CLARKE**
Deputy Chairman
4 Simpson Drive
Andalusia
Maraval
4. **JAI RAMKISSOON**
c/o Sugar Industry Staff Association
39 Mission Road
Preysal Village
Couva
5. **SEERAM K. MAHARAJ**
151 Calcutta Road No. 4
Freeport
6. **CALDER HART**
c/o Home Mortgage Bank
Central Bank Building
Eric Williams Plaza
Independence Square
Port of Spain

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Board of Directors



7. **MICHAEL ANNISETTE**
Seamen and Waterfront
Workers Trade Union
1D Wrightson Road
Port of Spain

8. **INEZ SINANAN**
American Life and General Insurance Co. Ltd.
3rd Floor, Algico Plaza
91-93 St Vincent Street
Port of Spain

9. **RONALD LE HUNTE**
c/o Power Generation Company of Trinidad
and Tobago Limited
6A Queen's Park West
Port of Spain

10. **ALVA ALLEN**
c/o NUGFW
145-147 Henry Street
Port of Spain

11. **RUBEN MC SWEEN**
Unit Trust Corporation
UTC Financial Centre
82 Independence Square
Port of Spain

ALTERNATES

Christopher Abraham – (Alva Allen)
Linda Besson – (Walton Hilton-Clarke)
Vishnu Deonarine – (Seeram K. Maharaj)
Robert Guiseppi – (Michael Annisette)
Clarence Rambharat – (Ruben Mc Sween)
Wendy Joy Whyte – (Jai Ramkissoon)

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Executive Director's Report

For the year ended June 30, 2004

Protecting our Customers

2004 was an exciting and rewarding year.

Substantial increases in levels of National Insurance System (NIS) protection were afforded to our insured population and their dependants. Benefit rate increases ranged from a minimum of 24% to well over 100% for older retirees, new retirees with low earnings and surviving children. Legislative changes also led to an increased number of working mothers-to-be and surviving relatives qualifying for enhanced benefits. Overall, this resulted in a benefit payout of \$752.0M, representing an increase of approximately 79% or \$332.5M in benefits paid compared with the financial year ended June 30, 2003.

strength

Executive Director's Report

For the year ended June 30, 2004

These changes are reflective of The National Insurance Board's (NIBTT's) commitment to respond positively to requests made by customers and other stakeholders during outreach programmes held in 2002 and 2003. These improvements were possible because of our continued prudent management of our investment fund and the high rate of employer compliance.

In spite of soft interest rates nationally and internationally, the net investment yield achieved was 8.09%. By year-end our investment portfolio totalled \$10.7B. Levels of compliance also increased, resulting in record high contribution income receipts of \$941.3M. These achievements are in keeping with the targets and recommendations of the Sixth Actuarial Review that was undertaken with a view to ensuring the stability of the NIS fund while at the same time providing beneficiaries with improved protection.

While the primary focus in 2004 was the implementation of legislative amendments arising out of the 6th Actuarial Review, we also continued to improve upon our performance achievements of 2003. We not only strengthened relationships with our stakeholders but we also streamlined some of our key operations, continued the refurbishment of our service centres and opened a 15th centre at Gulf City Mall. These achievements are also

reflected in the growth in the Investment Fund, increased employer compliance and increased claims processed, while containing operating costs.

Our performance checklist below details some of our major achievements:

- 1 Insured population expanded by 32,976 employed persons or 10% to a total of 359,187 in 2004
- 2 Active employer population increased by 851 or 6% during financial year 2004 to a total of 14,092
- 3 Contribution income reached a record of \$941.3M, an increase of 8.2% or \$71.4M over last year
- 4 7,734 or 22% more claims were paid in 2004 compared with 2003
- 5 Out of a total of 44,361 new claims for processing, 41,650 or 94% were paid by year-end
- 6 Benefit payments amounted to \$752.0M, an increase of 79% or 332.5M over last year, and represented 80% of contribution income received for 2004
- 7 Total funds grew by \$2.4B or 25% from \$9.6B as at June 30, 2003, to \$12.0B at June 30, 2004
- 8 Total assets grew by 24% from \$9.7B in 2003 to \$12.0B in 2004
- 9 Administrative expense as a percentage of contribution income was 9.2%, budgeted 9.2% of contribution income

Key Performance Indicators

Performance Indicators	2003	2004	% change
Beneficiaries	109,740	109,564*	- 0.16 %
Benefit Payments	\$419.5M	\$752.0M	+ 79%
No. of New Claims for Processing	37,772	44,361**	+ 17%
No. of New Claims Processed and Authorised	34,687	42,421	+ 22%
No. of New Claims Paid	33,867	41,650	+ 23%
Contribution Income	\$869.9M	\$941.3M	+ 8%
Net Investment Income	\$651.9M	\$751.8M	+ 15%
Total Active Insured Persons	326,211	359,187	+10%
New Active Insured Persons	19,995	32,976	+ 65%
Active Employer Population	13,241	14,092	+ 6%
Administrative Cost	\$60.0M	\$86.3M	+ 44%
Administrative Cost as % of Contribution Income	6.9%	9.2%	+ 2.3%
Administrative Cost as % of Total Income	3.9%	5.1%	+ 1.2%
Total Assets	\$9.6B	\$12.0B	+ 25%
Net Yield on Portfolio	8.4%	8.8%	+ 0.43%
Growth in Fund	13.5%	25.0%	+ 11.5%
Contribution Arrears	5.1%	1.3%	- 3.8%

* 2,102 survivor beneficiaries no longer qualified for the benefit

**2,123 invalidity claims eligible for conversion to retirement pensions

strength

Executive Director's Report

For the year ended June 30, 2004

6th Actuarial Review

During the financial year, an extensive package of legislative amendments that was drafted to facilitate implementation of the key recommendations of the 6th Actuarial Review was approved by Government.

These changes were aimed at increasing the value of all benefits, thereby allowing our benefit recipients, existing and future retirees to maintain a reasonable standard of living; removing gender inequality and reducing administrative complexity in operating the NI system.

The Review articulated our main priorities, i.e. the preservation of the self-financing nature of the system; maintenance, in real terms, of the value of contributions already paid and enhancement of the value of benefits received; containment of the cost of social security to future generations of workers and preservation of the long-term viability of the National Insurance System.

With the involvement of our stakeholders, we were able to achieve a smooth implementation of the recommendations of the Review. In this regard, a number of seminars were held with Government as well as with representatives of the business community and labour movement. A noteworthy achievement was the payment of a guaranteed minimum retirement pension of \$1,000 per month to persons whose contribution record would otherwise have entitled them to a monthly pension of less than \$1,000. This measure benefited 49,000 pensioners at a time when the real value of their fixed income was being threatened with erosion by economic factors.

Concomitant with the enhancement of the pension benefit was a 24% increase in short-term benefits and the removal of the loss of earnings criteria for the claiming of the Maternity Benefit with effect from March 1, 2004.

Other improvements included:

- 100% increase in the Funeral Grant from \$2,000 to \$4,000
- 100% increase in the Maternity Grant from \$1,000 to \$2,000
- A minimum Child Allowance of \$320 per child per month per deceased insured parent
- Widows and Widowers Benefit payable under the same conditions and for life
- Simplified claim and contribution processes

The approved amendments also allowed us to insure a greater portion of incomes earned by increasing the existing insured income ceiling of \$3,510 per month to \$4,377 per month from March 1, 2004. A moderate increase of 1.5% in the overall rate of contribution was implemented: from 8.4% of insured earnings to 9.9% spread over a three-year period commencing March 1, 2004. This phased approach to the implementation of the increase in the contribution rate was adopted specifically to ameliorate the impact on contributors, i.e. the employer who pays two thirds of the contribution and the worker who contributes the remaining one third.

The recommendations for changes to the income ceiling, contribution rate and benefit levels were made in the context of two main underlying principles. Firstly, benefits under the National Insurance System should be sufficient to maintain a reasonable standard of living for beneficiaries. Secondly, it is necessary that the Board maintain a strong financial base over the medium to long term, in light of the projected ageing population structure and the attendant increased cost of benefits. Continued adherence to these underlying principles will ensure that the National Insurance System remains viable and continues to provide value to our current and future insured population and their dependants.

Today, we at the NIBTT feel confident that we are managing a National Insurance System that best reflects the competing needs of all of our stakeholders, while ensuring that a proper balance is maintained between the provision of greater value to beneficiaries and the imperatives of long-term sustainability of the National Insurance System.

Executive Director's Report

For the year ended June 30, 2004

Cost Containment

Cost containment continues to be a major focus of the NIBTT. Administrative expenditure in 2004 was \$86.4M or 9.2% of contribution income (budgeted 9.2%), reflecting a performance ratio of 100%. This includes a \$14.4M prior year adjustment in respect of estimated wage costs for negotiation period 2002 and 2003. Excluding the prior year's adjustment, the ratio for the financial year 2003/04 was 7.6%, giving a performance ratio of 121% or 21% better than target.

When expressed as a percentage of total income, administrative expenses was 5.1% and 0.7% of funds under management. These ratios compare favourably with fees charged by local private insurance providers and other social security agencies in the region.

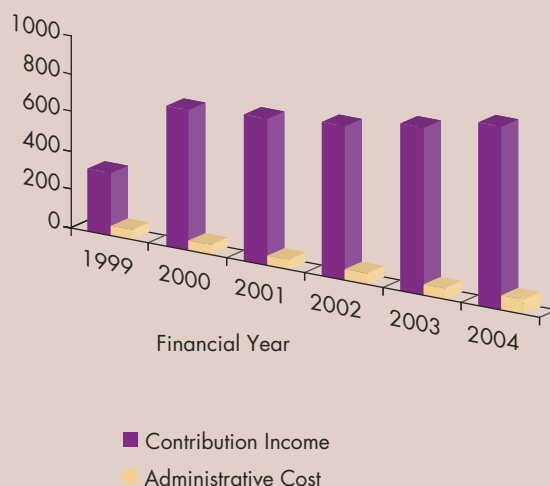
Given its large number of clients, the complexity of the system and the distribution of its services, the relatively low administrative expense ratio achieved by the Board bears testimony to the fact that the NIS is being cost-effectively managed.

Benefits and Beneficiaries

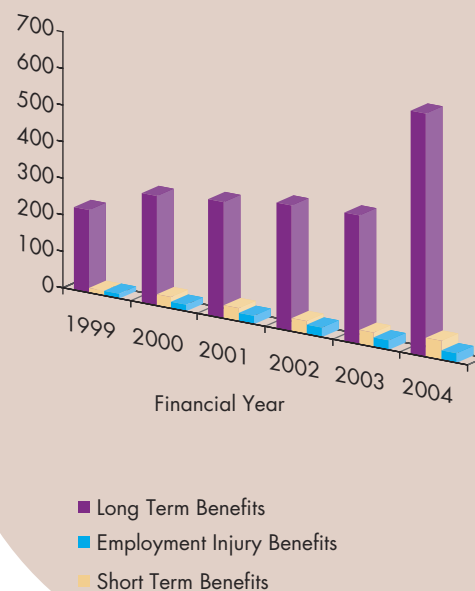
During financial year 2004, some 27% of the total number of beneficiaries received short-term benefits; 27,609 persons received Sickness and Maternity Benefits and Funeral Grants, while 2,303 persons qualified for Employment Injury Benefits.

On the other hand, 73% or 79,652 persons received long-term benefits such as Retirement, Disablement, Invalidity, Widows and Widowers Pensions, and Dependent Parent, Child and Orphan Benefits.

Ratio of Administrative Cost to Contribution Income for Year Ended June 30, 1999–2004



Benefit Payments for Year Ended June 30, 1999–2004



Type of Benefit	No. of Recipients	% of Total Recipients	Benefit Expenditure
Long-term	79,652	73%	\$669,991,317
Short-term	27,609	25%	\$ 53,995,406
Employment Injury	2,303	2%	\$ 28,039,003
Total	109,564	100%	\$752,025,726

strength

Executive Director's Report

For the year ended June 30, 2004

Improving Service Delivery

Benefit Administration

We remain committed to the transformation of the NIBTT into a customer-driven, performance-oriented organisation.

Our strategic focus is directed at, inter alia, enhancing our benefits, thereby providing greater value to contributors and beneficiaries; delivering excellent service to all stakeholders; expanding NIS coverage to the self-employed and improving office accommodation. This focus is expressly supported by extensive training and retraining of staff and utilisation of modern and appropriate technology.

I am pleased to report that in financial year 2004 we improved our performance in key service delivery areas. Out of a total of 44,361 claims for processing in financial year 2004, 94% or 41,650 were paid. Claims for processing were made up of some 3,112 pending claims as at year-end 2003, 39,126 new claims received and 2,123 invalidity claims where beneficiaries had attained the qualifying age for retirement pensions.

In addition, the Board maintained its policy of ensuring same-day processing and payment of the Funeral Grant. Of the 4,938 claims for Funeral Grant in this financial year, 97% were paid within one hour. Overall, 4,892 or 99% were paid on the same day.

Clean Data

The issue of accurate customer data is always of critical importance to service organisations. However, this matter takes on added significance with respect to social insurance systems that require compulsory contributions that go towards what may be, for many clients, their only pension plan.

Over the past year, as part of a renewed data management initiative we have been able to work with employers to clean up and add approximately 5 million contribution records, valued at \$326.9M, to our contribution database.

To date, over 43 million records valued at \$4.3B have been captured – an initiative that has significantly improved our ability to provide our customers with an accurate contribution statement and meet our target of paying

retirement benefit claims within 35 working days.

We have also paid special attention to our pensioner database. Data has been verified with respect to 2,197 persons, who attained age 65 years and have not claimed their retirement benefit. In addition, 4,570 pre-retirement data clean-up packages have been sent out to persons due to be 60 years old during this financial year. For the first time in our history, the NIBTT has processed retirement claims in advance of the retirement date of contributors. Payment of these 196 claims is pending the attainment of retirement age by beneficiaries.

Modernising Data Submission

To further assist in this exercise, the NIBTT has been working with employers to facilitate the transmission of contribution data via electronic media. The receipt of data in this format reduces the processing timeframe for the payment of long-term benefits and allows insured persons to access their contribution records on a timely basis.

During this financial year, an additional 49 employers began submitting contribution data via electronic media, bringing the number of participating employers to 442, accounting for approximately 161,708 employees or 45% of the insured population.

Employer Compliance

Unless supported by the co-operation and compliance of our employers, improvements in operational processes and procedures will achieve little success. Implementation of the compliance-monitoring programme allowed us to more readily monitor payment/non-payment of contributions and submission/non-submission of the required employee records by employers. It is noteworthy that the ratio of contribution arrears to contribution income was reduced from approximately 6% in the previous financial year to 1.3% in 2004.

Employer and Employee Registration

Our continued success is predicated upon increasing employer as well as employee participation. Over the past year, we received 2,007 applications for registration from employers, an increase of 277 or 16% over the number of new applications received in the

strength

Executive Director's Report

For the year ended June 30, 2004

previous financial year. Notwithstanding this overall increase in applications, we exceeded our target for employer registration by issuing 1,967 or 98% of employer registration certificates within one day of receipt of applications.

In addition we received 51,925 applications from persons desiring to be registered. We were able to process 51,489 or 99% within the year, issuing 39,618 or 77% of the new registrants with National Insurance numbers within our target of three working days.

Facilities Maintenance

We continued our emphasis on customer care, focusing on the provision of convenient locations and flexible office opening hours. In this regard, a new service centre linked to the South Regional Centre was established at the Gulf City Mall in April 2004.

In addition, the Point Fortin and Princes Town service centres were relocated to larger locations while the Tobago, Rio Claro, Sangre Grande and St James service centres were redesigned and refurbished. All these initiatives have been well received by the users of these facilities.

Financial Performance

In financial year 2004, the Board continued its policy of maintaining strict financial discipline with respect to expenditure; strengthened the enforcement of compliance measures and adopted a new investment policy framework to guide investment activities.

In order to remain relevant to the people of Trinidad and Tobago we must continue to provide a package of products and services that not only meets the needs of today's employees but also fulfils the demands of our existing and future retirees. This challenge must be met without placing undue financial burdens on our current and future contributors. In this context, prudent recurrent expenditure outlays coupled with sound investment initiatives are critical to the long-term sustainability of the NI System at reasonable cost.

Income and Yield

The continuing buoyancy of the Trinidad and Tobago economy as evidenced by a growth rate of some 6% experienced during the past



Opening of Point Fortin Service Centre.

year impacted on the operations of the Board. This strong expansion of the domestic economy underlay the improvement of labour market conditions as the number of persons with jobs, as recorded by the CSO, increased by some 2.5%.

This increase in the working population together with the upward movement in the contribution rate as well as a strengthened compliance initiative had a direct impact on the amount of contribution income collected during financial year 2004. In this year, contribution income amounted to \$941.3M, representing an increase of \$71.4M or 8% over the previous year.

Against the backdrop of a modest performance in the non-energy sector, slow recovery in the growth of domestic credit and low inflation, the authorities adopted an accommodative monetary policy stance during 2003/04.

The policy interventions through the lowering of the repo rate and the reserve requirement for commercial banks together with the continuation of relatively easy liquidity conditions in the financial markets had a dampening effect on domestic interest rates during the year. The lower than anticipated interest rates affected the performance of the Board's investment portfolio. Net yield was 8.8% at cost. While this rate of return is in keeping with the actuarial recommendation of an 8% long-term average rate of return, it was some 51 basis points (one half of 1%) below our projected rate of return.

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Executive Director's Report

For the year ended June 30, 2004

Investment Portfolio Mix

In this financial year the NIBTT's investment portfolio grew to \$10.7B whereas total funds under management amounted to \$11.7B, representing an increase of some \$2.5B or 26% over the balance of the previous financial year. This performance reflected a doubling of our anticipated outturn and was primarily due to increases in our revaluation reserves mainly as a result of the capital appreciation of the NIBTT's traded equity portfolio.

In response to the changing investment market conditions as well as with a view to meeting the investment objectives of the NIBTT, the asset allocation ratio of the investment portfolio was modified. Generally, when compared to the previous financial year, lower levels of investment were recorded in fixed deposits, government securities and mortgages while increased investment was registered with respect to corporate bonds, debentures, equities and investment in subsidiary companies.

Investment in fixed deposits in financial year 2004 accounted for some 13% of the investment portfolio, down from approximately 30% as recorded in the previous financial year. A reduction of some 5% in investment was also experienced in Government securities in this financial year. Increases in levels of investment in equities, corporate bonds and subsidiary companies approximated some 4%-5% while there was an upward movement of some 2% in the quantum invested in debentures.

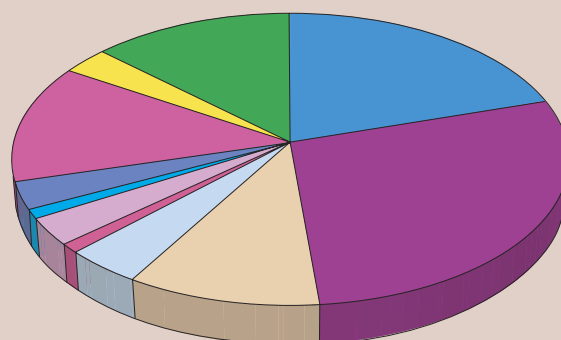
A notable feature of our investment activity during financial 2004 was the Board's involvement in the mutual funds market as well as in regional and extra-regional investment initiatives. In this regard, the contracting of international fund managers to manage the overseas component of our portfolio has served to complement our in-house capability and the financial expertise available through our Investment Committee.

Mortgages

During this financial year, mortgage interest rates were reduced from 9.5% to 8.0% in light of prevailing market conditions. A total of 2,300 mortgagors benefited from this reduction.

Collections for financial year 2004 totalled \$82.5M, an increase of \$3M when compared to

INVESTMENT PORTFOLIO MIX



- Government Securities 20%
- Statutory Companies 28%
- Corporate Bonds 10%
- Debentures 4%
- Mortgage Backed Securities 1%
- Mortgages 3%
- Real Estate 1%
- Foreign Investments 3%
- Regional Investments 0%
- Fixed Deposits 13%
- Mutual Funds 3%
- Equities 13%

the previous financial year. Interest income amounted to \$43M in 2004, equal to that earned in financial year 2003. In this financial year, mortgages generated an overall market value yield of 16.07%, representing a reduction of approximately 1.1% as compared with the yield achieved in 2003. Over this financial year, the total value of the mortgage portfolio reflected a reduction of some 12% from \$353.3M in 2003 to \$312.0M in 2004.

Information Technology Gains

The existence of a quality information technology infrastructure is critical for the proper management and flow of data in an organisation such as ours with a customer base of over 350,000. Advancements in our IT infrastructure allowed us to serve our customers better, faster, and in a more cost-effective manner.

strength

Executive Director's Report

For the year ended June 30, 2004

In 2004, we continued with upgrades to our database server, replaced 121 PCs that did not adequately meet our service performance standards and completed the transition of our communication lines from leased circuits to frame relay. These improvements to our infrastructure resulted in the maintenance of favourable response times in serving our valued customers. In addition, similar to the previous year, we were able to achieve an online systems availability of 99%.

Apart from these structural improvements, we also strengthened the internal communication within the organisation through the implementation of an email system. By the end of this financial year, 167 email users were being served by our email server.

With regard to software development, we continued to build on our Insurance Administration application. All claims processing with the exception of Medical Expenses is now fully automated. This achievement facilitated quick implementation of recommendations of the 6th Actuarial Review upon approval by Government.

The financial year 2004 culminated with the completion of our IT strategic plan. Implementation of Phase I of this plan will commence in the coming financial year. This phase focuses on the implementation of IT initiatives and related organisational changes which will allow us to provide our customers with a wider range of service delivery options utilising e-business technology.

Human Resources

In order to better meet the challenges of the Board's strategic plan and facilitate the efficient delivery of excellent service, during 2004 we continued the process of realignment of the organisation's human resource capability.

In late financial year 2003, a new organisational structure was approved. In this financial year we continued to implement the organisational structure and focused on the filling of vacancies within the approved structure. In this regard, a total of 78 positions were filled.

With respect to staff training, 337 employees benefited from 59 programmes, 23 of which were conducted internally while the remainder

were done externally. Programmes conducted focused on Communication, General Staff Development and a Managerial Development programme hosted by the University of the West Indies Institute of Business (UWI-IOB). These were complemented by specialised external programmes which included overseas seminars in Investments Management and Contract Development. Apart from these, educational assistance was approved for 13 employees to study at the graduate and post-graduate levels with a scholarship being awarded for the pursuit of a Diploma in Social Security Management at the University of the West Indies, Barbados. Also, during 2004, two scholarship recipients successfully completed their LEC Programme at the Hugh Wooding Law School.

During this financial year the staff displayed tremendous enthusiasm and initiative that was reflected in the successful implementation of the Sixth Actuarial Review and, at the same time, resulted in the organisation exceeding its performance targets.

Negotiations

Settlement of the outstanding matters with Bargaining Unit A, for the period January 1, 1999, to December 31, 2001, was completed early in the financial year.

The Board had positioned itself to commence negotiations for the period 2002-2004 early in the 2004 financial year. However, by the close of the financial year the Board had not received any proposal from the recognised trade union. It is, nonetheless, hoped that negotiations for the current period could be concluded before the end of the calendar year 2004.

Regional Relations

We were pleased to host two major regional activities during the financial year.

In early February 2004, the NIBTT together with the Crown Agents Financial Services Limited of the United Kingdom hosted a training seminar – "Advanced Pensions for the 21st Century" – for Caricom pension administrators at the Hilton Trinidad and Conference Centre.

The participants came from 11 Caricom nations representing Government Agencies, Central

strength

Executive Director's Report

For the year ended June 30, 2004

Banks, National Insurance Boards, other regulatory bodies and several large private sector business enterprises. This intensive five-day programme was geared towards equipping participants with some of the tools being used to address the growing concerns related to the ageing crisis and sustainable pension fund administration.

During May 17th – 19th, 2004, the NIBTT hosted the 15th Meeting of the Caricom Heads of Social Security at the Crowne Plaza Hotel. At this meeting, representatives came from 17 National Insurance Agencies within the Caricom region. Also in attendance were representatives from Mexico, Suriname, the International Labour Organisation (ILO), the International Social Security Association (ISSA) and the Inter-American Conference on Social Security.

Discussions centred on the challenges that Caribbean social security systems will have to face with the coming into being of the Caricom Single Market and Economy (CSME). The meeting also focused on clarifying and tightening particular clauses of the Caricom Reciprocal Agreement on Social Security.

On a lighter note, 80 persons representing the staff, Executive and Senior Management and Board of Directors attended the 5th Caricom Social Security Easter Games in St Lucia from April 9th – 12th, 2004. Trinidad and Tobago won the Best Dressed Team and the Tug-o-War trophy for the fifth year running and finished in overall third position in the games.

Appreciation

I would like to take this opportunity to extend our appreciation to all our stakeholders who have partnered with us to ensure that the most appropriate changes were made to the National Insurance System. Your continuing feedback serves to guide us in providing relevant benefits

and the delivery of timely, high-quality service that you demand and deserve.

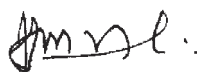
I also wish to place on record my deep appreciation of the dedication and commitment of NIBTT's Chairman, Board of Directors, and Board Committees including the Investment Committee Members. Your invaluable advice and support ensured that all our undertakings redound to the benefit of our insured population and their dependants.

I also extend my heartfelt thanks to our loyal and committed employees. The service and performance improvements we achieved this year could only have been attained through your hard work and dedication. Thank you.

I would like to record, too, my appreciation of the regional and international social security and pension fund management fraternity for its continued support and co-operation.

I take this opportunity to thank the management for another outstanding performance and for your demonstrated commitment to the efficient administration of the NIBTT during the year.

As we start a new financial year, fully aware of our role in building a better and more cohesive society, we renew our commitment to provide quality service and greater value to our insured population and their dependants. We believe that, "at NIB . . . It's All About You."



Jeffrey McFarlane
Executive Director



Executive and Senior Management Team

(from left)
Ian Pemberton
Executive Manager – Investments, Finance & Business

Wendy Ali
Corporate Secretary/Manager Legal

Karen Gopaul
Executive Manager – Planning & Technology

Jeffrey McFarlane
Executive Director

Lorna Charles
Executive Manager – Insurance Operations

Cherrie Ann Crichlow Cockburn
Executive Manager – Human Resources (not shown)

commitment



The T&T contingent at the 5th Annual Social Security Games in St Lucia



Service at South Regional Service Centre



Employer education seminars for the implementation of the recommendation of the Sixth Actuarial Review



... and the winner is!
NISCC Calypso Competition 2004



15th Meeting of
Head of Social S

This is
NIB

passion



Emancipation to
Independence show



Annual Christmas Dinner and Dance



Annual Staff Children's Party



Service in Arima



the Caricom
Security, May 17-19, 2004



Tobago hospitality

Investment Committee



1. **KENNETH HENRY**
Chairman
2. **VICTOR HERDE**
Member, Business
3. **CALDER HART**
Member, Government
4. **JEFFREY MC FARLANE**
Executive Director (NIB), Member
5. **IAN PEMBERTON**
Executive Manager,
Investments, Finance & Business (NIB),
Ex-officio Member

Investment Committee



- 6. ROBERT GUISEPPI
Member, Labour
- 7. JOAN JOHN
Member, Government
- 8. MICHAEL ANNISETTE
Member, Labour
- 9. RUBEN MC SWEEN
Member, Business

Board Committees

Human Resources Committee

Michael Annisette, Chairman
Calder Hart, Member
Walton Hilton-Clarke, Member
Executive Director, Member
Executive Manager Human Resources,
Ex-officio Member

Audit Committee

Inez Sinanan, Chairperson
Walton Hilton-Clarke, Member
Jai Ramkissoon, Member
Executive Director, Member
Internal Auditor, Ex-officio Member

Tenders Committee

Ronald Le Hunte, Chairman
Seeram K. Maharaj, Member
Alva Allen, Member
Executive Director, Member
Executive Manager Investments,
Finance & Business,
Ex-officio Member

Computer Projects Implementation Committee

Ronald Le Hunte, Chairman
Jai Ramkissoon, Member
Seeram K. Maharaj, Member
Executive Director, Member
Executive Manager Planning
and Technology,
Ex-officio Member

Finance Committee

Kenneth Henry, Chairman
Michael Annisette, Member
Seeram K. Maharaj, Member
Inez Sinanan, Member
Executive Director, Member
Executive Manager Investments,
Finance & Business,
Ex-officio Member

Investment Committee

Kenneth Henry, Chairman
Ruben Mc Sween, Member
Victor Herde, Member
Michael Annisette, Member
Robert Guiseppi, Member
Calder Hart, Member
Joan John, Member
Executive Director, Member
Executive Manager Investments,
Finance & Business,
Ex-officio Member



growth



Auditors' Report

Report of the Auditors to the Directors of the National Insurance Board of Trinidad and Tobago

We have audited the accompanying non-consolidated balance sheet of The National Insurance Board of Trinidad and Tobago as at June 30, 2004 and the non-consolidated revenue and expenditure accounts and statement of cash flows for the year then ended as set out on pages 29 to 44. These financial statements are the responsibility of the Board's management. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the non-consolidated financial statements referred to above represent fairly, in all material respects, the financial position of the Board as at June 30, 2004 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Port of Spain
TRINIDAD:
September 23, 2004

growth

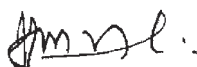
Balance Sheet

as at June 30, 2004

	Notes	2004 \$'000	2003 \$'000
Assets			
Fixed assets	5	91,970	63,791
Investment properties	6	87,432	35,557
Pension asset	7	171,869	130,660
Investment in subsidiary companies	8	213,421	186,454
Investments held-to-maturity	9	2,992,301	2,221,770
Originated loans	10	3,508,951	4,446,780
Investments available-for-sale	11	3,622,587	1,520,968
Land held for sale	12	26,210	26,210
Held for trading		286,481	0
Other assets	13	1,009,059	1,046,698
Total assets		12,010,281	9,678,888
Funds, reserves and liabilities			
Long term benefits fund	14	6,699,913	3,543,313
Short term benefits fund	15	67,494	48,207
Employment injury benefit fund	16	224,312	212,855
Survivors benefit fund	17	41,000	41,000
Total funds		7,032,719	3,845,375
Accumulated reserve	18	2,694,140	4,966,249
Revaluation reserve	19	2,242,133	828,450
Total funds and reserves		11,968,992	9,640,074
Other liabilities	20	41,289	38,814
Total funds, reserves and liabilities		12,010,281	9,678,888



Chairman



Executive Director



Executive Manager,
Investments,
Finance & Business

growth

The accompanying notes on pages 32 to 44 form an integral part of these financial statements.

Revenue and Expenditure Accounts

for the year ended June 30, 2004

LONG TERM BENEFITS FUND

	2004 \$'000	2003 \$'000		2004 \$'000	2003 \$'000
Revenue			Expenditure		
Fund at July 1	3,543,313	3,416,792	Benefits incurred	669,991	354,331
Contribution income	800,140	722,047	Pension asset expense	0	9,374
Penalty income	15,028	3,705	Administrative expense	80,429	55,947
Pension asset income	38,381	—	Transfer to		
Investment income	700,178	607,592	accumulated reserve	0	787,171
Tran. from Acc reserve	2,353,293	—	Fund at June 30	6,699,913	3,543,313
	<u>7,450,333</u>	<u>4,750,136</u>		<u>7,450,333</u>	<u>4,750,136</u>

SHORT TERM BENEFITS FUND

Revenue			Expenditure		
Fund at July 1	48,207	45,409	Benefits incurred	53,995	38,566
Contribution income	84,721	95,693	Pension asset expense	0	125
Penalty income	204	49	Administrative expense	1,094	743
Pension asset income	522	—	Transfer to		
Investment income	9,526	8,076	accumulated reserve	20,597	61,586
	<u>143,180</u>	<u>149,227</u>	Fund at June 30	67,494	48,207
				<u>143,180</u>	<u>149,227</u>

EMPLOYMENT INJURY BENEFIT FUND

Revenue			Expenditure		
Fund at July 1	212,855	203,585	Benefits incurred	28,039	26,607
Contribution income	56,480	52,196	Pension asset expense	0	559
Penalty income	903	221	Administrative expense	4,832	3,334
Pension asset income	2,306	—	Transfer to		
Investment income	42,061	36,203	accumulated reserve	57,422	48,850
	<u>314,605</u>	<u>292,205</u>	Fund at June 30	224,312	212,855
				<u>314,605</u>	<u>292,205</u>

Statement of Cash Flows

for the year ended June 30, 2004

	2004 \$'000	2003 \$'000
Cash flows from operating activities		
Contribution income	941,341	869,936
Investment income	751,765	651,871
Penalty income	16,135	3,975
Benefits expenditure	(752,025)	(419,504)
Administrative expenses (net)	(83,190)	(58,591)
Adjustment for depreciation	6,415	4,974
Adjustment to provision for doubtful debts	(10,808)	(53,935)
Increase in amounts owed	(57,716)	(37,451)
Decrease/Increase in amounts due	(2,838)	10,542
Net cash flows from operating activities	809,079	971,817
Cash flows from investing activities		
Purchase of fixed assets	(4,372)	(10,383)
Purchase of investments available-for-sale	(723,242)	(95,610)
Purchase of investments held-for-trading	(281,780)	286
Purchase of other investments	(4,619,513)	(7,053,478)
Sale/maturity of other investments	4,719,160	6,632,006
Net cash used in investing activities	(909,747)	(527,179)
Net (decrease)/increase in cash and cash equivalents	(100,668)	444,638
Cash and cash equivalents at the beginning of the year	767,491	322,853
Cash and cash equivalents at the end of the year	666,823	767,491
Cash and cash equivalents are comprised of:		
Cash and bank balances (including call deposits)	672,136	767,491
Bank overdraft	(5,313)	—
	666,823	767,491

growth

The accompanying notes on pages 32 to 44 form an integral part of these financial statements.



Notes to the Financial Statements

for the year ended June 30, 2004

1. Incorporation and principal activity

The National Insurance Board of Trinidad and Tobago (The Board) was incorporated under Act No. 35 of 1971 (The National Insurance Act), as subsequently amended, and commenced operations in 1972. The principal activity of the Board is to carry out the requirements of the National Insurance Act in providing social security benefits to the insurable population of Trinidad and Tobago. The registered office is located at 2a Cipriani Boulevard, Port-of-Spain, Trinidad and Tobago.

The financial statements of the Board for the year ended June 30, 2004 were authorised for issue by Management on September 23, 2004.

2. Actuarial review

Section 70 (1) of the Act requires an actuarial review of the National Insurance System at five-yearly intervals.

The Sixth Actuarial Review of the National Insurance System was completed by an independent actuary who concluded: "the current position of the NIS is very favourable." It was also indicated that "the NIS is in a good position to put in place strategies to deal with the future demographic bulge."

In general, contribution payments and benefit calculations are based on a system of wage classes. The contribution amount is paid by the employer and the employee in a proportion of two thirds/one third. Benefits are grouped in three funds: long term benefits, short term benefits and employment injury benefits. Each fund is credited contribution income and investment income, from which benefit expenditures and administrative expenses are met.

Allocation of the total funds was modified in 1991 with the creation of a fourth reserve fund, that is the accumulated reserve. Any excess or shortage in one of the three funds – long term benefits fund, short term benefits fund and employment injury benefit fund – is transferred to or from the accumulated reserve. Any administration expense in excess of the ceiling (refer to Note 21) is charged against the accumulated reserve.

Further, the Actuary made the following recommendations in the Sixth Actuarial Review:

1. The ratio of the contributions paid by employee to those paid by employer, 1:2 should be maintained.
2. Contribution income be distributed between the funds in the following ratio — long term 85%; short term 9%; employment injury benefit 6%.
3. Benefit levels ought to be revised upwards.

The Actuaries have disclosed several main findings, which assumed no changes to the existing contribution and benefit rates, including:

- As at 30th June 2000, there was a significant balance in the NIS funds and the contribution income exceeded the expenditure by a considerable amount. The average fund (i.e. the total of all funds and reserves) for the fiscal year 2000 stood at 14.3 times the actual expenditure.
- With the current contribution rate of 8.4%, the ratio of the average fund to annual expenditure is estimated to peak at 24.9 in 2010–11 and then fall to less than 1 (i.e. 0.7) by 2044–45. This means that the NIS can continue to operate at the current contribution rate for the next 40 years. However, by 2043–44 a large increase in the contribution rate will be required to sustain the NIS fund thereafter.



Notes to the Financial Statements (continued)

for the year ended June 30, 2004

2. Actuarial review (continued)

- The current contribution rate of 8.4% is twice the contribution rate required on a strict Pay-As-You-Go (PAYG) basis to meet current expenditure under the NIS.
- The Fund as at July 1, 2000 was 76% of the fund that is required if accrued benefits were fully funded and the deficit in the Fund (on a fully-funded basis) was \$1,996 million.

These findings were reported based upon the premise of a series of “Base Scenario” assumptions including:

- No changes to existing contribution or benefit rates;
- Full indexation of contribution and benefit rates to inflation;
- A 6% average annual investment rate of return;
- A 4% average increase in prices and earnings.

3. Legislative amendments

Benefits

The basic benefit rate was increased by 24% effective March 1, 2004 on the following benefits: Sickness, Maternity, Invalidity, Employment Injury, Survivors and Retirement Pension. In addition, a minimum Retirement Pension of \$1,000 was paid effective October 1, 2003 and the Funeral Grant was increased to \$4,000.

Contributions

Employer/employee contributions increased in March 2004. Further increases are carded for January 2005 and January 2006.

4. Statement of accounting policies

(a) Basis of accounting

These financial statements are prepared on the historical cost convention and no account is taken of the effects of inflation, except for the valuation of available-for-sale investments, held for trading investments, investment properties, artwork and freehold and leasehold properties. The accounting policies, in all material respects, conform with International Financial Reporting Standards (IFRS), except that they are prepared on a non-consolidated basis.

The Board of Directors has access to all pertinent information concerning the resources and results of the operations of the Board’s subsidiaries as disclosed in Notes 4 (f) and 8 of these financial statements. As these non-consolidated financial statements have not been prepared for general purposes, some users may require further information. The investment in subsidiary companies has been accounted for using the equity method.

(b) Fixed assets

Fixed assets are stated at historical cost except for the art works and freehold and leasehold properties are stated at valuations conducted by independent professional valuers. Freehold and leasehold properties were professionally valued in May 2004 using the Investment Method. Depreciation is provided on a straight-line basis at varying rates sufficient to write off the cost/market value respectively of the assets over their estimated useful lives.

Notes to the Financial Statements (continued)

for the year ended June 30, 2004

4. Statement of accounting policies (continued)

(b) Fixed assets (continued)

The rates used are as follows:

Freehold and long lease properties	—	2% on buildings
Improvements to premises:		
Owned	—	Equal annual instalments over a period of ten years.
Leased	—	Equal annual instalments over the period of the lease.
Rented	—	Where a monthly tenancy applies, in equal annual instalments over three years.
Furniture and fixtures/machinery and equipment	—	7.5% – 25%
Motor vehicles/art work	—	25%

(c) Basis of allocation etc:

Contribution income and other income have been allocated to the various Fund Accounts on the basis set out in the Sixth Actuarial Review.

i. Contribution income

Contribution income is allocated as follows:

	2004 %	2003 %
Long term benefits fund	85	83
Short term benefits fund	9	11
Employment injury benefit fund	6	6
	<u>100</u>	<u>100</u>

ii. Other income

Other income comprising investment income less expenses, penalty income and pension asset income is allocated to the benefit funds in the ratio of their Opening Fund Balances. Investment expenses comprise direct staff costs and overhead expenses of the Investments Department and other direct expenses including mortgage management fees and provisions for diminution in value of investments.

iii. Fund ratios

Based on the recommendations of the Sixth Actuarial Review, the Board implemented the following: Short Term Benefits Fund and Employment Injury Benefit Fund balances will be maintained at 1.25 times and 8 times the respective benefits incurred during the current year, while the Long Term Benefits Fund balance represents 10 times the long term benefits incurred during the year.

These fund allocations are based solely on the ratios recommended by the Independent Actuary, and do not represent the Board's liability to beneficiaries at June 30, 2004.



Notes to the Financial Statements (continued)

for the year ended June 30, 2004

4. Statement of accounting policies (continued)

(c) Basis of allocation etc: (continued)

iv. Accumulated reserve

The Board has also decided that surpluses or deficits arising from the operation of the Funds as described above, together with any excess of Administrative Expenses and significant prior year adjustments, may be transferred to or from the Accumulated Reserve which will be held as a reserve for future contingencies.

(d) Investment properties

Investment properties are properties held by the Board to earn rentals or for capital appreciation or both. Investment properties are initially measured at cost. After initial recognition, investment properties are measured at fair value based on valuations conducted by an independent professional valuator. Gains and losses arising from the change in fair value are included in the Revenue and Expenditure Accounts. The gain arising on revaluation amounted to \$29.2 million.

The valuers have adopted the Investment Method of valuation and assumed good title, vacant possession and no unduly restrictive covenants or onerous or unusual outgoings running with the land.

Rental income from investment properties during the year amounted to \$6.1 million (2003: \$3.3 million). Direct operating expenses incurred on investment properties during the year amounted to \$9.8 million (2003: \$1.4 million).

(e) Originated loans, investments available-for-sale, held-to-maturity, held-for-trading

Management at the time of purchase determines investment classification into one of these four categories:

i. Originated loans

Where the Board has created financial assets by providing money directly to a debtor, these assets are classified as originated loans and are measured at amortised cost less provisions for impairment. For delinquent mortgages, specific provisions are established based on the extent of delinquency of the mortgages. The provision is calculated based on a percentage of the outstanding principal balance for delinquent mortgages.

ii. Available-for-sale investments

Available for sale investments comprise securities which are intended to be held for an indefinite period of time, but may be sold in response to needs for liquidity, changes in interest rates or equity prices. Investments classified as available-for-sale are initially recognised at cost. After initial recognition all available-for-sale investments are measured at their fair values with gains and losses on re-measurement recognized directly in the Revaluation Reserve until sold, collected or otherwise disposed of.

Investments in unquoted equities, which do not have a quoted market price in an active market and for which other methods of reasonably estimating fair value are inappropriate, are carried at cost.

All 'regular way' purchases and sales are recognised at settlement date.

growth

Notes to the Financial Statements (continued)

for the year ended June 30, 2004

4. Statement of accounting policies (continued)

(e) Originated loans, investments available-for-sale, held-to-maturity, held-for-trading (continued)

iii. Held-to-maturity investments

Investments classified as held-to-maturity are measured at amortised cost less any impairment losses. The fair value of investments held-to-maturity is \$3.0 billion (2003: \$2.3 billion).

iv. Held-for-Trading

Investments acquired for the purpose of trading and generating a profit in the short term are classified as held-for-trading.

Investments held for trading are initially recognised at cost and subsequently remeasured to fair value. Any gains or losses arising on re-measurement are recognised in the revenue and expenditure accounts.

All 'regular way' purchases and sales are recognised at settlement date.

(f) Investment in subsidiary companies

Subsidiary companies are companies where the Board holds in excess of 50% of the share capital. These are as follows:

Companies	Percentage ownership
National Insurance Property Development Company Limited (NIPDEC)	100%
Trinidad and Tobago Mortgage Finance Company Limited (TTMF)	51%

In these separate parent financial statements of the Board, these investments are accounted for using the equity method.

(g) Land held for sale

Land held for sale is accounted for at the lower of cost or market value.

(h) Contribution and benefits

Contribution income is accounted for on the accrual basis to take account of all collections subsequent to June 30 that relate to the current year, and to recognise all known significant receivables.

A provision for benefits is made based on the estimated cost of all benefits approved though not paid at the balance sheet date.

(i) Investment income

Income from investments is accounted for on an accrual basis except for dividends on quoted equities that are accounted for on a cash basis. Interest from commercial loans and debentures is not accrued in respect of loans where instalments are in arrears for twelve months.



Notes to the Financial Statements (continued)

for the year ended June 30, 2004

4. Statement of accounting policies (continued)

(i) Foreign currencies

These financial statements are expressed in Trinidad and Tobago dollars. Transactions denominated in foreign currencies are translated at the rate of exchange ruling on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the Central Bank's mid-rate of exchange (average of buying and selling rate) determined at the balance sheet date.

Exchange differences on transactions are recognised through the Revenue and Expenditure Accounts.

(k) Employee benefits

The Board contributes to a defined benefit staff pension plan which covers all qualifying employees. Members contribute 5% (2003: 5%) of their pensionable salaries to the Plan whilst the Board currently contributes 5% (2003: 5%). All permanent employees are eligible for membership and temporary employees under certain conditions.

The pension accounting cost for the pension plan is assessed using the projected unit credit method. Under this method the cost of providing pensions is charged to the Revenue and Expenditure Accounts so as to spread the regular cost over the service lives of the employees in accordance with the advice of a qualified actuary who carries out a full valuation of the plan every three years.

(l) Use of estimates

The preparation of the financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of the revenues and expenses during the reporting period. Actual results could differ from those estimates.

(m) Cash and cash equivalents

Cash and cash equivalents represent cash and bank balances and highly liquid investments with a maturity period of less than three months.

Notes to the Financial Statements (continued)

for the year ended June 30, 2004

5. Fixed assets

	Land freehold/ leasehold buildings \$'000	Machinery equipment/ furniture & fittings \$'000	Art & motor vehicles \$'000	Total 2004 \$'000	Total 2003 \$'000
Cost/valuation at beginning of year	50,822	49,467	1,798	102,087	91,723
Additions	350	3,752	270	4,372	10,383
Disposal/adjustments	28,010	19	(70)	27,959	(19)
At the end of year	79,182	53,238	1,998	134,418	102,087
Accumulated depreciation at beginning of year	2,767	34,904	625	38,296	33,322
Current year	743	5,200	472	6,415	4,974
Disposal/adjustments	(1,991)	—	(272)	(2,263)	—
At the end of year	1,519	40,104	825	42,448	38,296
Net book value	77,663	13,134	1,173	91,970	63,791

Note:

Valuation of land, freehold and leasehold buildings has been expressed by way of open market values.

Independent professional valuations of the properties of the Board were undertaken in May 2004, and put the market value at \$77.6 million.

6. Investment properties

	2004 \$'000	2003 \$'000
Scarborough Mall	11,011	9,793
Huggins Building	13,500	12,200
Nipdec House	39,500	12,844
Eastol Land	720	720
Queen's Park East	22,701	—
	87,432	35,557

7. Employee benefits

The amounts recognised in the balance sheet are as follows:

	2004 \$'000	2003 \$'000
Present value of obligations	317,171	218,060
Fair value of plan assets	(595,024)	(452,697)
Benefit surplus	(277,853)	(234,637)
Unrecognised actuarial gains	105,984	51,194
Un-utilisable assets	—	52,783
Pension asset	(171,869)	(130,660)

Based on the report of the Actuary and in accordance with IAS 19, the whole of the above pension asset (\$171.9 million) has been recognised in the balance sheet.

Notes to the Financial Statements (continued)

for the year ended June 30, 2004

7. Employee benefits (continued)

The amounts recognised in the revenue and expenditure accounts are as follows:

	2004 \$'000	2003 \$'000
Current service cost	4,850	3,548
Interest on defined benefit obligation	18,882	14,794
Expected return on plan assets	(35,892)	(35,424)
Amortised net gain	(31,904)	(22,520)
Past service cost	57,645	—
Movement in un-utilisable assets	(52,783)	51,465
Net pension (income)/expense	(39,202)	11,863

Movements in the net asset recognised in the balance sheet are as follows:

Net asset at July 1, 2003	(130,660)	(140,717)
Net (income)/expense recognised in the revenue and expenditure accounts	(39,202)	11,863
Contributions	(2,007)	(1,806)
Net asset at June 30, 2004	(171,869)	(130,660)

Actual return on pension plan assets:

Expected return on pension plan assets	35,892	35,424
Actuarial gain on pension plan assets	114,677	65,254
Actual return on pension plan assets	150,569	100,678

Principal actuarial assumptions at the balance sheet date:

	2004	2003
Discount rate at June 30		
— Pension plan active members and deferred pensioners	6.5%	7.0%
— Current pensioners	6.5%	7.0%
Expected return on pension plan assets (net of investment expenses)	8.3%	8.0%
Rate of salary increases	5.0%	5.5%

8. Investment in subsidiary companies

The investments in NIPDEC and TTMF are carried based on the companies' unaudited financial statements as at June 30, 2004.

	Cost \$'000	Post acquisition appreciation \$'000	Total 2004 \$'000	Total 2003 \$'000
NIPDEC	25,000	27,021	52,021	32,427
TTMF	7,190	154,210	161,400	154,027
	32,190	181,231	213,421	186,454

growth

Notes to the Financial Statements (continued)

for the year ended June 30, 2004

	2004 \$'000	2003 \$'000
9. Investments-held-to-maturity		
Government and Public Sector Investments	2,787,399	2,150,787
Corporate Securities	204,902	70,983
	2,992,301	2,221,770

10. Originated loans		
Financial institutions	570,634	1,903,377
Government and Public Sector Investments	1,537,438	1,721,160
Corporate and Commercial Investments (including mortgages)	1,400,879	822,243
	3,508,951	4,446,780

These loans earn interest at rates ranging from 4.75% to 12.25% and have maturity dates ranging from 2004 to 2023.

Loans to subsidiary companies amounted to \$469.1 million as at June 30, 2004 (2003: \$256.1 million). The loans are secured by debenture, repayable between 2004 to 2023 and earn interest at rates ranging from 5% to 12.25%.

	2004 \$'000	2003 \$'000
11. Investments-available-for-sale		
Equities:		
— Quoted	3,574,750	1,457,345
— Unquoted	47,837	63,623
	3,622,587	1,520,968

12. Land held for sale		
	26,210	26,210

The property has been earmarked for sale or disposal. Negotiations are currently under way regarding the disposal of this land.

13. Other assets		
Cash and bank balances (including call deposits)	672,136	767,491
Investment income receivable	167,291	146,588
Sundry debtors	13,368	8,963
Prepayments	56,213	22,112
Contributions receivable	100,051	101,544
	1,009,059	1,046,698

growth

Notes to the Financial Statements (continued)

for the year ended June 30, 2004

14. Long term benefits fund

This Fund is held to cover retirement pensions, retirement grants, invalidity and survivors' benefits in respect of qualifying persons.

15. Short term benefits fund

This Fund is held to cover sickness and maternity benefits and funeral grants in respect of qualifying persons.

16. Employment injury benefit fund

This Fund is held to cover employment injury benefits to eligible insured persons.

17. Survivors' benefit fund

This Fund is held to cover potential back liability on Survivors' Benefit as a result of an amendment to the National Insurance Act in August, 1980.

18. Accumulated reserve

	2004 \$'000	2003 \$'000
Balance of reserve at July 1	4,966,249	4,067,210
Add: Transfer to long term benefits fund	(2,353,293)	787,171
Transfer from short term benefits fund	20,597	61,586
Transfer from employment injury benefit fund	57,422	48,850
Miscellaneous income	3,165	1,432
Balance of reserve at June 30	<u>2,694,140</u>	<u>4,966,249</u>

19. Revaluation reserve

The Revaluation reserve reflects gains or losses on revaluation of freehold properties, and available-for-sale investments as follows:

	Properties \$'000	Available For Sale \$'000	Total 2004 \$'000	Total 2003 \$'000
Balance as at July 1	26,376	802,074	828,450	654,861
Movement for the year	30,202	1,383,481	1,413,683	173,589
Balance as at June 30	<u>56,578</u>	<u>2,185,555</u>	<u>2,242,133</u>	<u>828,450</u>

Notes to the Financial Statements (continued)

for the year ended June 30, 2004

	2004 \$'000	2003 \$'000
20. Other liabilities		
Bank overdraft	5,313	—
Sundry creditors and accruals	24,256	18,666
Provision for claims	6,255	15,453
Provision for other payables	5,465	4,695
	41,289	38,814

21. Administration and investment expenses

Included therein are the following charges:

Salaries and other related expenses	55,216	32,236
Depreciation	6,415	4,974
Mortgage management fees	3,452	3,853

Note:

In 2004, administrative expenses amounted to 9.2% (2003: 6.9%) of contribution income and this did not exceed the limit established by the Board of 9.5%. Prior years expenses included in administrative expenses totalled \$14.4 million (16.7% of administrative expenses and 1.5% of contribution income). The cumulative expenditure in excess of the limit is \$477.1 million (2003: \$480.2 million).

22. Contingent liabilities

(a) Pending litigation and outstanding appeals

As at June 30, 2004 there were certain legal proceedings outstanding against the Board. No provision has been made as professional advice indicates that it is unlikely that any significant loss will arise.

(b) Industrial relations

Negotiations for the new Industrial Agreement for the period January 1, 2002 to December 31, 2004 are currently in progress.

23. Capital commitments

Capital projects approved and contracted as at June 30, 2004 amounted to \$1.1 million (2003: \$2.0 million).

Notes to the Financial Statements (continued)

for the year ended June 30, 2004

24. Related party transactions

Included in these financial statements are the following transactions with subsidiary companies:

	2004 \$'000	2003 \$'000
Interest received on bonds and debentures	22,949	23,764
Dividends received	6,577	6,395
Management fees	(162)	(167)
Amount due from	8,059	10,942

25. Financial instruments

(a) Price risk

i. Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board is exposed to currency risk with respect to its investments denominated in foreign currencies. These investments are primarily denominated in United States dollars. As at June 30, 2004 the Board had investments denominated in foreign currencies amounting to \$1,006 million (2003: \$807 million).

ii. Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Board is primarily exposed to interest rate risk with respect to its fixed rate debentures, government securities and bonds. As at June 30, 2004 the Board's investments in fixed rate debentures, government securities and bonds amounted to \$5,222 million (2003: \$4,024 million).

iii. Market risk

Market risk is the risk that a financial instrument will fluctuate as a result of changes in market prices. The Board is mainly exposed to market risk with respect to its investments in quoted equities.

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Board is mainly exposed to credit risk with respect to its mortgage and bond portfolios. The Board granted mortgages based on evaluations of the mortgagees' financial situation, and continually monitors the exposure of potential losses from mortgages.

Notes to the Financial Statements (continued)

for the year ended June 30, 2004

25. Financial instruments (continued)

(b) Credit risk (continued)

Mortgage and bond balances are stated net of the provisions for diminution in the value of investments as follows:

	Mortgages \$'000	Other bonds \$'000	Total 2004 \$'000	Total 2003 \$'000
Provisions as at July 1	142,907	2,276	145,183	199,172
Movement for the year	(10,862)	—	(10,862)	(53,989)
Provisions as at June 30	<u>132,045</u>	<u>2,276</u>	<u>134,321</u>	<u>145,183</u>

The outstanding principal balances for delinquent mortgages amounted to \$97 million (2003: \$127 million).

The outstanding balance for impaired bonds amounted to \$2.3 million (2003: \$2.3 million).

(c) Fair value

The estimated fair values of certain financial instruments have been determined using available market information, and accordingly, the estimates presented here are not necessarily indicative of the amounts that the Board could realise in a current market exchange.

The carrying amounts of financial assets and liabilities, included under current assets and current liabilities, approximate their fair values because of the short-term maturities of these instruments.

As stated in Note 4 (e), available-for-sale investments are stated at fair value.

Originated loans are carried at amortised cost. Due to the short term nature of fixed deposits, the carrying values are assumed to approximate fair value.

Mortgages have interest rates that vary between 8% and 10.5% and terms which vary between 15 and 25 years. Government securities and other bonds have interest rates that vary between 4.75% and 13.08%, and maturity dates which vary between years 2004 and 2023.

26. Staff complement

The staff complement as at June 30, 2004 was 540 (2003: 545).

