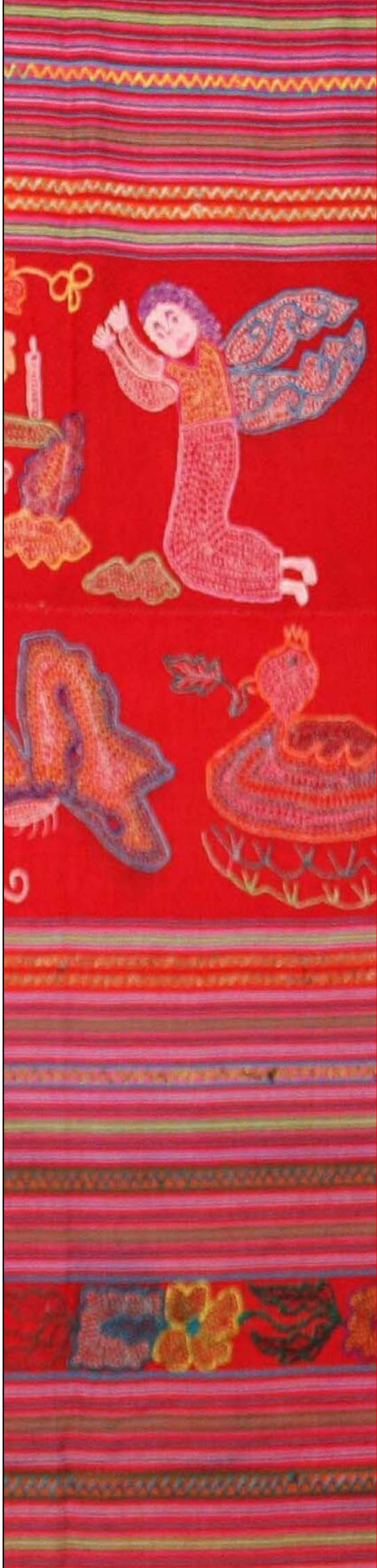

Autoridade Bancária e de Pagamentos de Timor-Leste

Banking and Payments Authority of Timor-Leste

Annual Report

Relatório Anual

Fiscal Year

Jul/2008 – Jun/2009

Ano Fiscal

Dili, Timor-Leste

2009

Autoridade Bancária e de Pagamentos de Timor-Leste

Banking and Payments Authority of Timor-Leste

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Introduction

The international economic situation has been going through a deep crisis which arose from a sequence of problems that firstly affected the financial system of the United States of America and subsequently spread to affect other countries in the world, mainly those of developed countries.

This financial crisis became significantly worse in September 2008, according to many observers, when the United States resolved to let Lehman Brothers collapse into a bankruptcy that ended up affecting the whole productive system not only due to the reduction in financing available from the banking system but also due to a systemic fall in consumer confidence.

The reduction in demand for goods and services ended up in affecting the exports of many countries, leading to an even worse situation for the world economy. The significant fall in GDP of most advanced economies lead to a fall in the production of emerging economies resulting from a decrease in exports. The International Monetary Fund (IMF) has recently estimated a negative growth rate for the world economy of 1.3% in 2009.

Timor-Leste is fortunate to have been isolated from the global financial crisis and the world economic recession. The IMF has estimated the non-oil GDP growth of Timor-Leste to be about 12.8% and 7.4% in 2008 and 2009 respectively. However, there have been indirect effects because Petroleum Fund investment income has fallen as interest rates have been reduced, especially the Federal Reserve benchmark interest rate because it is directly affects the return on the Petroleum Fund's investments in US government securities. The Petroleum Fund benefited from a strategy to preserve capital value which has proved its value in an international financial crisis that saw US stock markets fall and US interest rates decline.

Moreover, the supply shock on energy prices had a significant impact on petroleum revenues and consequently the sustainable income which we are using to finance the bulk of our state budget. The decline in energy prices that followed will negatively impact our state revenue as it will reduce Petroleum Fund revenues, but it will have positive impact on the inflation rate as the price of oil such as gasoline and other fuels declines. The inflation rate in June 2009 slowed down accordingly, reaching -1.7% compared to 11.6% in June 2008.

The financial year of 2008/09 has been a year of opportunity as well as challenges for the BPA as a juvenile institution which is trying to learn from the experiences and addressed the challenges ahead. The current financial crisis has given BPA the opportunity to learn from its peers on how to address the distress. The lessons learnt have been enormous not only in relation to the areas where a central bank has to deal with but the most important things are a proper institutional setting to deal with the distress.

During the financial year 2008/09 the BPA continued to work towards introducing key policies to support the development of the banking system and to ensure a safe and effective payments and settlements system in the country.

- A credit information system called “Credit Registry Information System” was introduced to assist banks to provide timely, accurate and reliable information regarding individual, small and medium enterprises and corporate credits, and which is expected to flow through to improved credit behavior throughout the economy. The legal framework put in place to operate the system defines the characteristics and conditions to operate the system.
- A new Rule on the settlement of large value transactions was issued to reduce the financial risks associated with the processing of large payments through the Clearing House and to reduce the exposure of the national payment system of Timor-Leste to settlement failures. The system enables large and/or high priority interbank payments to be processed within the same business day (near real time).
- The BPA also issued a Rule on the Clearing and Settlement of Interbank Payments to supersede the Instruction nº. UNTAET/CPO/INST/2001/01 regarding Clearing and Settlement Arrangements among Banks Licensed to operate in Timor-Leste dated 5 April 2001. This Rule contains provisions on clearing house procedures, netting arrangements, bank routing numbers, management of liquidity and credit risks, and mmoney market activities.

In relation to the management of the Petroleum Fund, during the year under review the BPA has worked very closely with the Ministry of Finance as well as the Investment Advisory Board to conduct a strategic review over the management of the Petroleum Fund which included the following:

- A review of the investment mandates which have been expanded to include a global bond component and a small exposure to global equities;
- The conclusion of contract negotiations with the Bank for International Settlements (BIS) and the transfer of an initial mandate of one billion dollars;
- Assistance to the Ministry of Finance to prepare a draft policy on transparency issues for consideration by the Minister.
- Preparations for the appointment of the Fund’s first commercial external managers.

During the year significant efforts and resources were mobilized to review and develop an integrated system for human resource management. The project has been successfully implemented with technical assistance provided by Bank of Portugal. Details of this project are described in a special section in this report.

The BPA under the technical assistance program provided by the International Monetary Fund has successfully completed the compilation and publication of the first Balance of Payments reports for Timor-Leste. The technical assistance was funded by the Government of Japan.

The BPA continues to invest heavily in its capacity-building program. Arrangements have been made with a number of institutions to allow BPA staff to attend training programs and secondments.

In conclusion I would like to express my grateful appreciation to all employees, colleagues in the management team, development partners, government institutions with whom the Authority has cooperated in its day-to-day activities and others who have helped the BPA to carry out its functions and achieve its objectives.

October 30th, 2009

Abraão de Vasconselos
General Manager

New York Stock Exchange: the New York stock Exchange, located in Wall Street, where a considerable part of the 2008-2009 economic and financial crisis took place. The sign reads: "Wall Street, you rule [the World]

1 – The economic backdrop

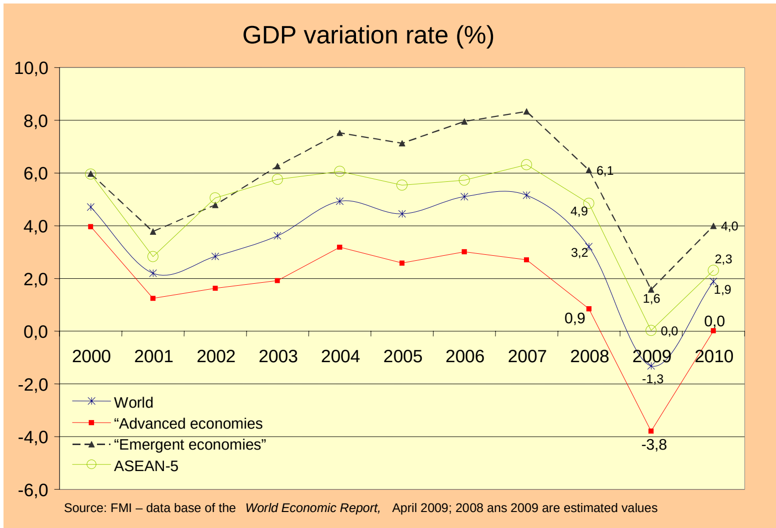
1.1 – International Framework

The most outstanding point of the international economic situation over the financial year under analysis (1st July 2008 to 30th June 2009) is the deep crisis that emerged in the wake of the problems that affected, first, the American financial system and, subsequently, that of several other countries, mainly the so-called "advanced economies".

This financial crisis, which took a significant turn for the worse in September 2008 when the United States decided – wrongly, according to many observers – to "let drop" Lehman Brothers to a bankruptcy (approximately US$ 600 billion) that came to affect the productive system due not only to the fall of the funding it obtained from the banking system but also to the important consumer confidence breakdown.

The economic crisis and the considerable increase in unemployment in several of the most advanced economies ended up affecting the exports of many countries – "developed" and "underdeveloped" – aggravating even further the world economic situation.

The table below gives an idea of the trend of the world economy and of some of the most important groups of countries since when (in 2006 and 2007) the peak of economic activity in recent years was achieved. Special mention should be made of the fact that, since Second World War, 2009 will be the first year to show a negative growth rate for the world economy as a whole (-1.3%, according to the latest International Monetary Fund estimates) thanks to a very significant downfall of the GDP in the most advanced economies and a non less important breakdown of production in emerging economies – the latter resulting from the decrease of exports to the more advanced economies among other reasons.



World production variation rates (%)				
	2007	***2008***	***2009***	***2010***
April 2007	4,9			
July 2007	5,2	5,2		
October 2007	5,2	4,8		
January 2008		4,2	4,4	
April 2008	4,9	3,7	3,8	
October 2008	5,0	3,9	3,0	
April 2009	**5,2**	**3,2**	**-1,3**	
July 2009	**5,1**	**3,1**	**-1,4**	**2,5**
October 2009	**5,2**	**3,0**	**-1,1**	**3,1**

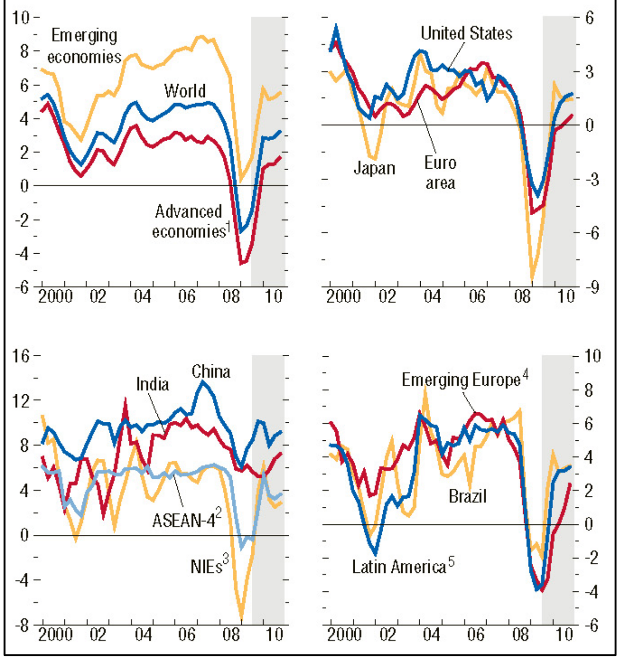
Source: IMF *World Economic Outlook*, 2007 to 2009, several issues

IMF estimate trend on production in advanced economies (%)				
	2007	***2008***	***2009 Jul / Out***	***2010 Jul / Out***
World output	**5,1**	**3,1**	**-1,4 / -1,1**	**2,5 /3,1**
Advanced economies	2,7	0,8	-3,8 / -3,4	0,6 /1,3
United States	2,0	1,1	-2,8 / -2,7	0,8 / 1,5
European Union	3,1	1,1	-4,7 / -4,2	-0,1 /0,5
Japan	2,3	-0,7	-6,0 / -5,4	1,7 / 1,7

Source: IMF *WEO-World Economic Outlook Update*, July/2009 and WEO, October/2009

Figure 1.9. Global Outlook
(Real GDP; percent change from a year earlier)

A recovery is expected to take hold in 2009–10. However, economic growth will be uneven: modest in advanced economies, emerging Europe, the Commonwealth of Independent States (CIS), and Latin America; strong in China and India.



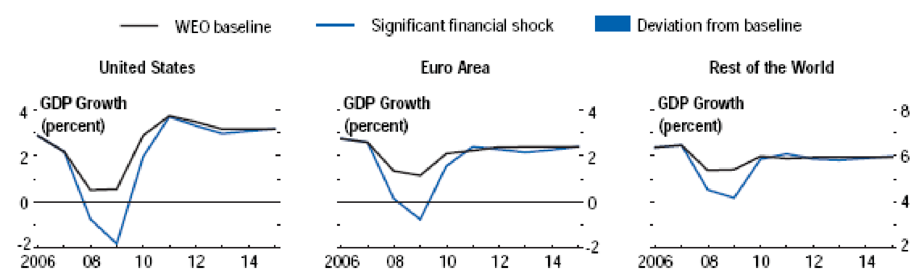
This production downfall of advanced economies struck (in 2008) mostly Japan and in 2009, Japan's production shortage will be, according to IMF estimates, -6%, "unimaginable" until quite recently. The European Union, which registered only 1.1% growth in 2008 – down by 2 points compared to the previous year – should see a 4.2% production downfall in 2009 while the United States, where economic recovery seemed to be taking its first steps since a few months ago, may just stand at a 2.7% negative growth. It should be noted that these rates are slightly less negative that those estimated in April and June, illustrating precisely the beginning of economic recovery (in mid-2009). In 2008, the country's GDP grew at the same rate as that of the European Union (1.1%).

The fact that this development of world economy came to be even worse than the worst scenario anticipated by the IMF in April last year deserves mentioning.

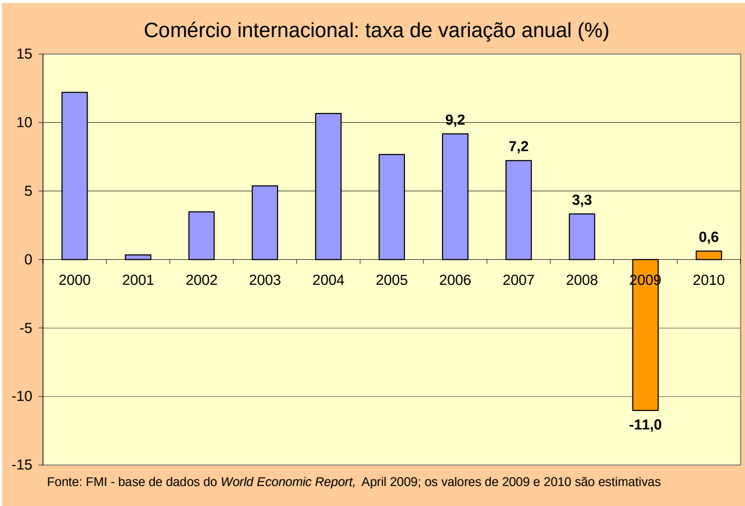
This same fact is illustrated in the chart below, from the April 2008/2009 *World Economic Outlook*. Its "significant financial shock" scenario was even exceeded, since it anticipated a product downfall for 2009, in the USA, of about 2% and present estimates are, as we have seen, that it will reach -2.7% after having stood at 2.8% a few months ago. According to more recent statistics the European Union may suffer a 4.2% reduction.

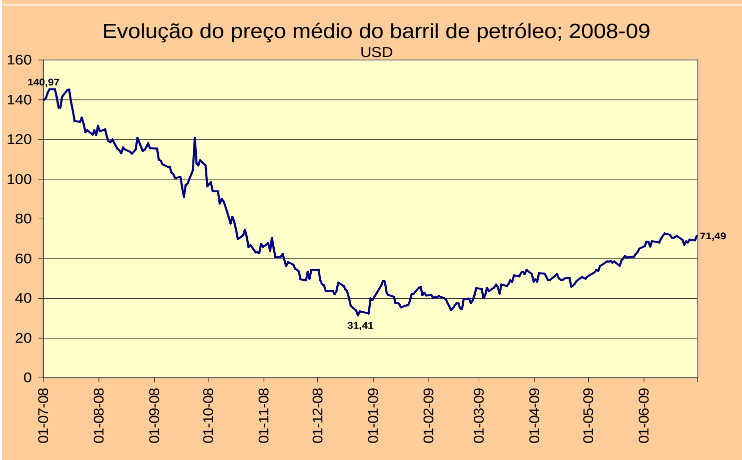
Figure 1.15. Two Scenarios for the Global Economy

Based on a multicountry general equilibrium model, a downside scenario has been developed to illustrate the possible impact of a deeper financial shock than incorporated in the *World Economic Outlook* baseline projections. The shock has the greatest impact on the U.S. economy but also has substantial spillovers on the euro area and the rest of the world.



Meanwhile, the emerging economies and the developing economies as a whole grew by 6% in 2008. The IMF (in October 2009) now expects its growth rate to be just 1.7% in 2009 followed by a relatively marked upswing (+5.1%) in 2010. Product downfall has struck almost uniformly both emerging and developing economies and in many cases this is due to the decrease in oil prices – since many of them are oil producers and exporters – and/or to a substantial reduction of exports to advanced economies due to the crisis suffered by the latter. This is the case with China, for instance.





This decrease in exports (and imports) has resulted in a slowing of world trade in 2008 in comparison to preceding years; this is to be followed by a strongly negative variation in 2009.

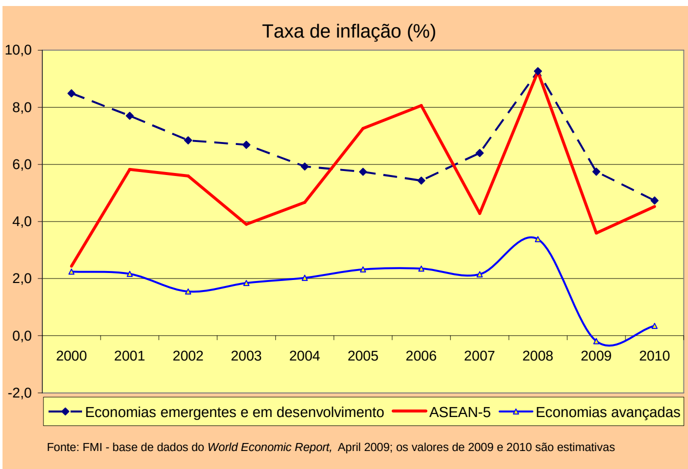
As above mentioned, the fall of product variation rate in many countries (and the reduction in world trade figures) is related, notably, to the decrease of crude oil average price, which has dropped significantly since mid-June 2008, when it reached almost 150 USD/barrel, until end 2008, when it barely exceeded 30 USD/barrel. The average price of the barrel in 2008 may have been around 97 USD and the IMF, who in April expected it to be at 52 USD/barrel in 2009, in July 2009 anticipated annual average price to reach 61.5 USD/barrel. Current estimates (October 2009) are, however, that it will reach about 61.5 USD/barrel and rise to 70.5 USD/barrel, on average, next year. If, as it now seems certain, the economic recovery that is now starting to show comes true, we would not be surprised that this average would prove to be conservative.

Oil barrel average price trend according to IMF				
	2006	**2007**	**2008**	**2009**
WEO October 2007	64.27 (real)	68.52 (estimated)	75.00 (estimated)	
WEO Update June 2008		70.95 (real)	95.50 (estimated)	94.50 (estimated)
WEO April 2009			97.00 (real)	52.00 (estimated)
WEO Update July 2009			97.03 (real)	60.50 (estimated)
Source: several editions of the *World Economic Outlook* issued between October/07 and April/09				

Crude oil price 2008-09 financial year (beginning, mid and end); USD/ WTI Barrel		
2/Jul/2008	**31/Dez/2008**	**30/Jun/2009**
127.35	39.03	71.49

The rise in prices felt on crude oil up to July 2008 was also felt in the price of other raw materials, mainly staple foods (including rice) as well as for example, in metals.

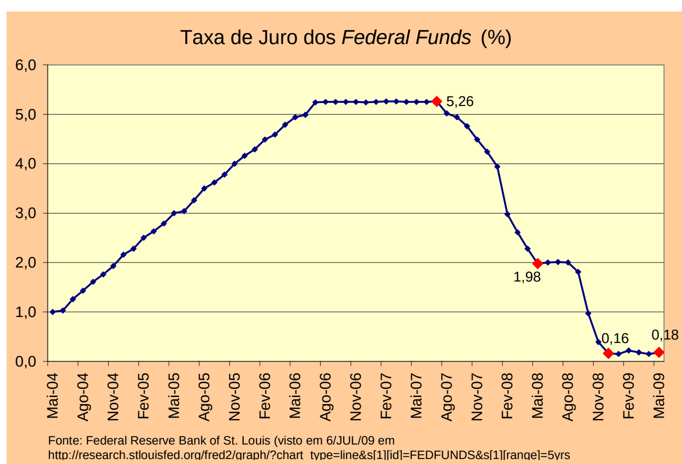
This development in the prices of raw materials (including oil) is one of the causes for the inflation rate development, with a strong growth during the period in which oil product prices went up, followed by a significant reduction, when those prices decreased, also justified by the economic crisis that ensued and by the strategies of economic agents to fight it.



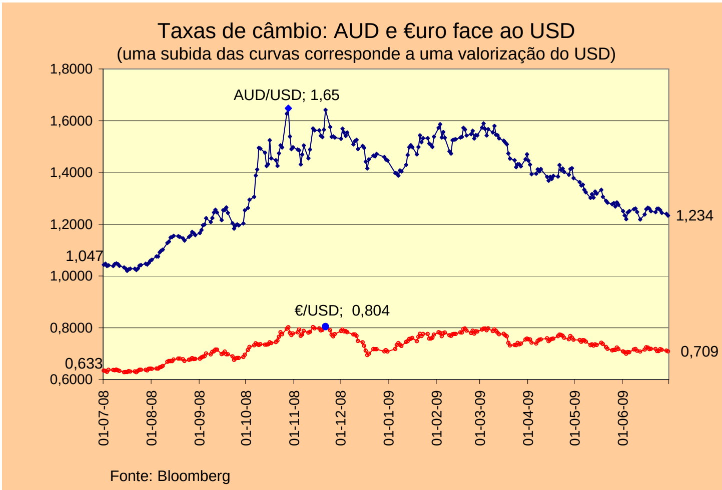
In fact, after having, on average in the most advanced economies, stood at circa 2% through the last few years as a consequence of the economic policies to level prices undertaken by most countries, inflation rose to almost 4% in 2008 but it is expected to be negative in 2009 – i.e. prices should, on average, fall in comparison to 2008 – or very close to 0%.

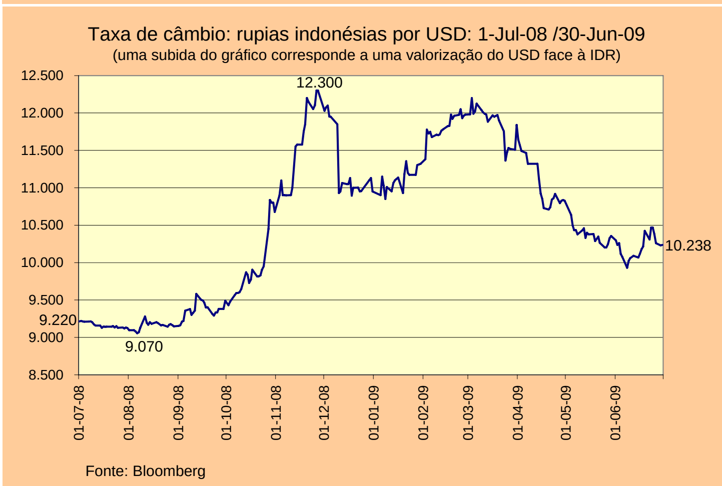
In an attempt to stimulate their economies and considering that their greatest risk was *deflation* (a more or less widespread fall in prices over several months or even years, de-motivating producers to continue producing and aggravating the economic crisis even further) and not that of *inflation*, monetary authorities in advanced economies decided to lower the interest rate.

This process, which carried the United States Federal Reserve Funds to the 0% - 0.25% threshold where it now stands, subsequently affected the evolution of LIBOR – London Interbank Offered Rate (the London interbank rate, which serves as guide to many other interest rates in Europe and in the rest of the world) - of deposits in USD: after a maximum of 5.3% in 2007 (yearly average) due to the efforts to control inflation, the rate fell to 3% in 2008 and should decrease, according to the IMF (WEO October/09), to a 1.2% average in 2009.



This evolution was greatly influenced by that of the European Central Bank interest rate which, after resisting the reduction of the rate it was practicing (3.75%) for some time, was forced to lower it to the present 1%.





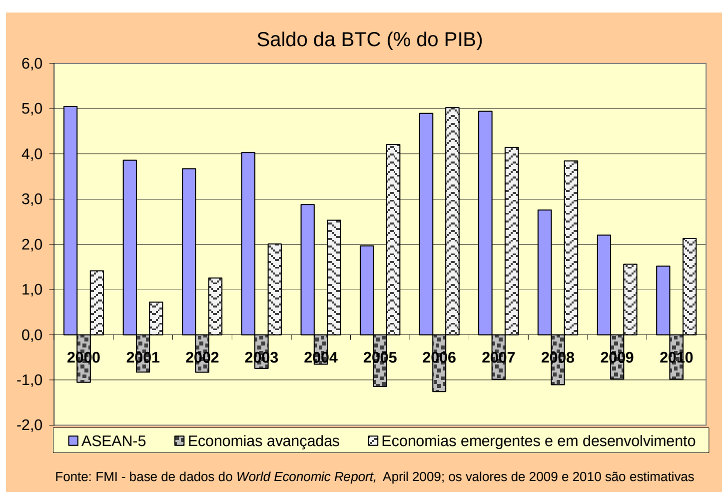
The 2008-09 financial year also saw a significant evolution in USD exchange rates when compared to several currencies.

Among the more important currencies for Timor-Leste, there has been a relatively coincident development between the Australian dollar (AUD) and the Indonesian rupiah (IDR): in both cases there was an appreciation of the USD followed, particularly as of the moment when the difficulties of the American economy and of its financial system became more evident (last quarter of 2008), by a depreciation of the USD against most currencies.

Despite this intra-annual evolution, an appreciation of the USD occurred between the beginning and the end of the period under analysis (the financial year between 1st July 2008 and 30th June 2009).

The international economic crisis, which worsened from September/October 2008 onwards, had, as mentioned earlier, a “devastating” impact on international trade by significantly decreasing exports, namely those of “emerging economies” (including China).

The result was a substantial decrease in external balances (compared to GDP) in these economies, although in the more advanced economies the percentage of external deficit against GDP was kept at approximately -1.3% according to the IMF *World Economic Outlook* published in October/09. For 2009 and as a consequence of the decrease in imports due to the economic crisis, the deficit in Current Account Balance in these economies is expected to fall to 0.7%. The



greatest decrease will be in the USA: from -5.2% and -4.9% in 2007 and 2008, it will fall (as per IMF estimates) to -2.6% in 2009 and -2.2% next year.

The Euro zone, which has maintained a positive balance thanks to the German "engine", has moved into the "red" in 2008 with a negative balance of -0.7%, a percentage which is expected to be maintained in 2009 before rising to -0.3% in 2010.

Asian Developing Countries: Current Account Balance (in % of the GDP)						
	2005	**2006**	**2007**	**2008**	***2009 Apr / Oct***	***2010 Apr / Oct***
China	7,.2	9.	11.0	9.8	*10.3 / 7.8*	*9.3 / 8.6*
Indonesia	0.1	3.0	2.4	0.1	*-0.4 / +0.9*	*-0.7 / +0.5*
Malasia	15.0	16.7	15.4	17.4	*12.9 / 13.4*	*10.7 / 11.0*

Source: IMF *WEO*, April and October 2009

The important positive balances of China's external accounts have allowed it to keep, together with Japan and South Korea, a fundamental position in financing the world economy, particularly in countries which, like the United States – the large "vacuum cleaner" of world savings to finance its external deficit – have important imbalances in their external accounts. Net American savings have been strongly negative for several years (annual average of -2.7% of GDP between 1995 and 2002 and of around -5% since then, with -4.6% in 2007 and -5.5% in 2008), placing the country on a growth path "beyond its possibilities", which ended up having a strong impact on the unleashing and aggravation of the present economic and financial crisis.

Indonesia's economy

Through 2008 Indonesia's gross domestic product (GDP) rose by 6,1% mainly thanks to growing consumption and exports. These, however, slowed down significantly as of the 4th quarter of the year due to the economic crisis that struck mostly the more advanced economies which are the country's customers.

During the 1st quarter in 2009 the growth rate dropped to 4,4% even though private consumption, partly thanks to incentives to the economy adopted by the government, rose by 5.8%. Private consumption and public consumption (+19.3% in the first quarter of 2009) mainly accounted for a growth which, had these components not increased, would have been considerably smaller since, for instance, exports dropped by 19% and investment underwent very small growth (3.5% in the first quarter of 2009 when compared to homologous quarter of the previous year).

Meanwhile and mostly due to external factors (for instance, the rise in fuel prices), the inflation rate rose significantly in 2008 compared to 2007: from 6% in 2007 it reached 11% in 2008.

In the meantime and during the first semester of 2009, the inflation rate has been decreasing thanks to the falling fuel prices in the international market: at the end of June, accrued inflation in the semester was only 0.2% and the homonymic in the same month in 2008 was only 3.7%, which can be compared to the 11% in June 2008 as against the same month in 2007. Although some observers estimate the inflation rate for 2009 will reach 7-8%, this is, definitely, good news for Timor-Leste, considering it buys a substantial part of its imports (usually about half) from its neighbor.

The speeding of inflation in 2008 has led the authorities to try to maintain the external competitiveness of the economy by depreciating the rupiah (IDR) by 5.4% during 2008, when the exchange rate against the USD attained 12300 rupiah for each dollar. During the first semester of 2009, the rupiah appreciated slightly, reaching a rate of circa 10200 at the end of June.

The abovementioned slowdown of the inflation rate and the attempt to increase credit to the economy to underpin the economic recovery which appears forthcoming, underlie the cut in the Bank of Indonesia reference interest rate, which now stands (July/09) at 6.75% after having stood at 8% from May/08 and, in the attempt of pressuring the inflation rate towards reduction, at 9.5% as from October/2008.

Finally and as summarized in the *Asia Development Outlook Update* published in September 2009 by the Asian Development Bank,

"Robust growth in private consumption [+5,4%], underpinned by easing inflation and a surge in election-related government spending [+18%], lead to a better than expected economic growth in the first half of 2009. Fiscal stimulus measures supported growth. Net exports also contributed to the expansion as imports contracted faster than exports. Investment weakened [variation rate of 0,9%].

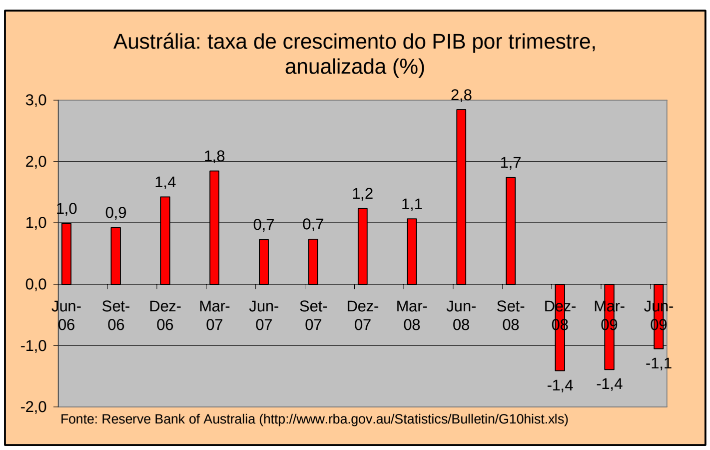
Regarding to forecasts made in March this year, the full-year growth projections are revised up for 2009 and 2010, and inflation will likely be lower.

Risks to the economic outlook include higher than expected oil prices, which would propel inflation and affect consumption; the same will occur if the dry season damages the harvests."

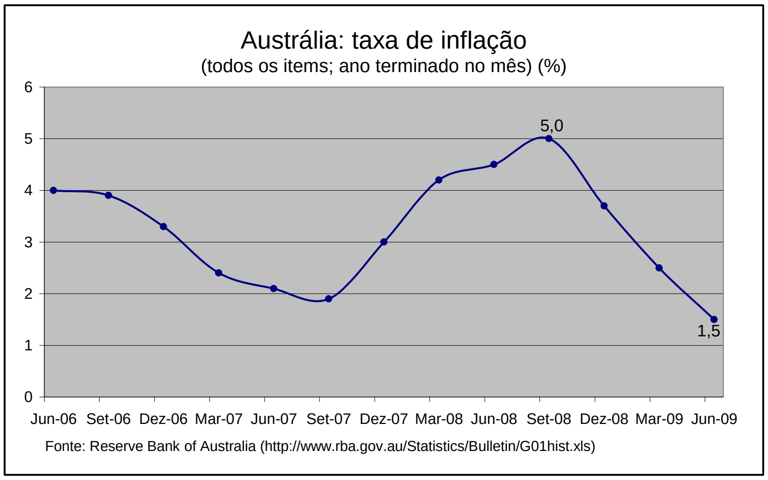
Australia economy

Such as the other advanced economies, Australia has been facing an economic crisis which led its domestic product to grow by only 0.4% during the year between March 2008 and March 2009.

The chart on the right, from a publication of the *Reserve Bank of Australia*, illustrates the country's evolution in the period under analysis in this report (Jul/08-Jun/09), special note being made to negative growth rates in the last quarter of 2008 and the first two quarters of 2009.



Contributions to this trend were, notably, the price drops in several raw materials produced and exported by the country, namely oil. Investment, affected by the bad national and international situation, also decreased.

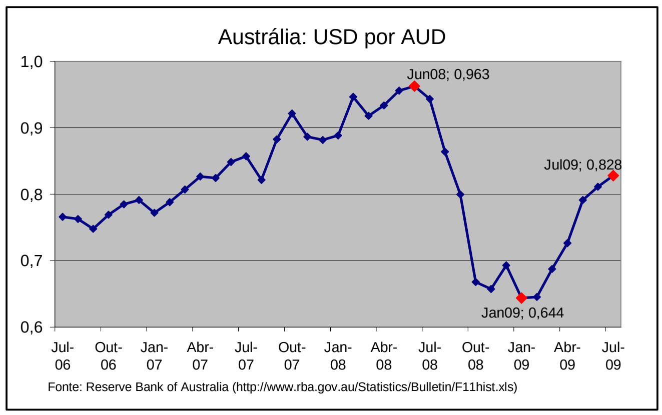


The inflation rate, which in June 2008 stood at 4.5% (annual rate), fell to 1.5% in June 2009 mostly due to the drop in fuel prices.

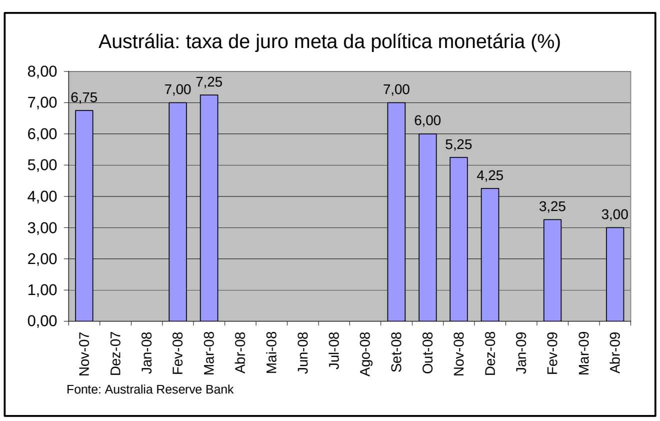
Reflecting the economic crisis the country is going through, unemployment rate rose and in 2008 stood at 4.2%, being expected to reach 6% in 2009.

During the financial year of 2008-09A, the AUD exchange rate experienced an oscillating behavior against the American dollar (USD).

Having started almost in parity with the American currency (in June/09 each Australian dollar was worth about 0.96 USD), the Australian dollar devaluated gradually since then, reaching a quotation of approximately 0.64 USD per AUD in January 2009. Since then, the AUD started appreciating once more, reaching a quotation of almost 0.83 per each AUD in July/09.



One privileged instrument in the fight against economic crises is the interest rate: its reduction allows easier credit to the economy thus promoting economic activity both by rendering investment easier (whether in fixed capital or in circulating capital) and by allowing companies with cash shortage and accumulated debt to solve them and thus rendering life easier for their creditors and economy in general.



Similarly to what was done in other countries, the Australian Central Bank lowered its reference rate. This rate, which until mid-2008 neared 7% (maximum: 7.25% between March and September 2008), in order to counter the inflationist pressures felt in the economy, meanwhile decreased to 3%. As usual, these figures are all visibly higher than those of other more advanced economies. This can be understood as a means for the country, when "operating" with higher interest rates, to try and make up for a certain "periphery" of the country in comparison to the great economic blocks (Europe, Japan, USA) in order to attract the required financial flows.

Conclusion

International economy, particularly the economic and financial situation of the more advanced economies, has seen, during the financial year under analysis and mainly since the end of the third quarter of 2008, an economic crisis which was proven deeper than what was estimated in the early times of its occurrence. Its lowest point (at least in the country where it began, the United States) may have coincided with the end of the period analyzed in this report.

In fact, in the second half of 2009, there have been some signs that the crisis is reversing its course. These signs are still dim and some countries are expected to remain immersed in it for the remainder of 2009 and part of 2010.

The economic crisis of the more advanced economies ended up, as we have seen, by affecting many emerging or developing economies due to the reduction of their exports to those economies and, in some cases, the price reduction in exported raw materials, namely oil.

Although this can only be demonstrated in the next chapter, Timor-Leste may have been affected by this crisis in a way that can be considered “(very) slight” – partly because, essentially, it was only affected indirectly - through the fall in oil prices, on the one side, and interest rates of North-American Treasury Bonds, on the other, and the impact of such events on the availability of transferable funds from the Petroleum Fund to finance the State General Budget.

“Tais feto” (tubular dress for women) woven from Lautém District (ALOLA Foundation Collection)

1.2 – The recent evolution of the national economy

Introduction

The “financial year”, as stated by the Banking and Payment Authority (BPA) of East-Timor, begins on July 1 and concludes on June 30 of the following year. In other words, the BPA had not yet adapted the “financial” year to the new “fiscal year” already in force in the country since 2008. This is basically due both to the fact that BPA decided to wait for the transition to “Central Bank”, in accordance with the approval of the (new) Statutes, and to the fact it was decided to give the country’s bank institutions a transition period between one “year” and the following.

This mismatch between calendar and “fiscal” years on one hand, and “financial” year on the other, brings difficulties in analyzing statistical information since almost all information concerns calendar/fiscal years instead of referring the “financial” year period. Our analysis of national economy trends will be influenced by this mismatch, given that, and due to the available statistical information, they concern not only the period related to the “financial” year of the BPA activity, but a larger period comprising information on the whole year of 2008 and, if relevant, the first semester of 2009, given that this semester is part of the “financial year” reported in this Annual Report.

Production (GDP)

Despite all efforts made so far, it has not yet been possible to the national statistics authority to organize the national accounts of the country – at least from a consistent and long lasting point of view, through a group of specialists dedicated to this task on a more or less permanent basis.

Therefore, we remain dependent on the estimates on the evolution of production published by the IMF, notably in their annual reports produced following their visits to Timor-Leste under article IV of the Fund's Statutes. This article creates an obligation for this institution to closely monitor the foreign exchange regime of each country; consequently this entity takes the opportunity to monitor the evolution of the economies of its member states through the production and publication of an annual report.

The 2009 report, produced following a visit from the Fund's technical team to Timor-Leste in June this year, publishes figures about the growth rate of production (GDP, excluding oil) in the last few years, particularly in 2008 (besides producing a forecast for the growth in 2009).

Table 1.2.1 –Timor-Leste: Gross Domestic Product excluding Oil, 2002-07
At 2000 Prices

	2003	*2004*	*2005*	*2006*	*2007*	*2008e*	*2009p*
GDP excluding Oil (USD Million) (includes UN spending)	323	324	331	320	372	**417***	451*
Idem, growth rate %	*-6.2*	*0.4*	*2.3*	*-3.4*	*16.8*	**12.2**	8.0
GDP excluding Oil&UN Spending	**284**	**296**	**314**	**296**	**319**	**360**	**386**
Idem, growth rate%	***0.1***	***4.2***	***6.2***	***-5.8***	***8.4***	**12.8**	**7.4**
Ad Memoriam							
GDP excluding Oil at current prices		309	332	327	398	499	590

* estimated values calculated on a growth rates basis

Sources: IMF *Democratic Republic of East-Timor: selected issues and statistical appendix*, table 3, pg 12 (2008) and IMF *Democratic Republic of East-Timor: Staff Report for the 2009 Article IV Consultation*, pg 26 (June 2009)

According to this document, the growth rate of this non-oil GDP would have been 12.2% in 2008. If we also deduct from this aggregate the United Nations expenditure, then the rate of growth would have been 12.8%, an impressive rate if we take into account that it followed a period (2007) where this growth rate was even higher (16.8%) partly as a result of a recovery of the production (GDP) following the political and social crisis of 2006.

The figures for 2009 on the table above are a projection and, as such, subject to future adjustment which may (or may not) be significant because the state's expenditure, by far the main economic agent of the country at the moment, will be higher than last year (approximately USD 600 million of cash payments forecasted, versus USD 530 million in the previous year, a growth of 13%; against this trend, the growth of imports – a direct result of a higher private consumption rate, may cause a reduction of the growth rate when compared with the past.

The "Achilles' heel" of the economy continues to be the (very low) rate of private investment, which makes the economy (increasingly) dependent of the public sector; this trend, although inevitable in the short-medium term, will have to be changed in the medium-long run by implementing appropriate strategies; otherwise the present trend will perpetuate itself.

One must have in mind that one of the methods to calculate GDP and its variation rate is through the measurement of the national expenditure components: private consumption, (private) investment, public consumption (where we can include state investments), exports and, deducting from this aggregate, the imports.

Unfortunately, the most relevant technical aspects of the IMF calculations, which would allow to ascertain their reliability, are not known; however the truth is that the figures published by this institution end up being adopted by everyone (including the government) as representing the reality.

If we take into account that the country has currently about 1.1 million inhabitants, this means that the income *per capita* will be approximately USD 380, about 1/5 of the neighbor Indonesia (USD 1925). The IMF estimates that GDP *per capita* calculated in accordance with the purchasing power parity method – which allows for more realistic comparisons between countries as it takes into consideration the price levels in each country, disregarding the exchange rates variations – has been USD 776 in 2007 at current prices, which can be compared with an average of USD 1530 from the lower income group of countries.

If the oil production was taken into account, than the GDP *per capita* in 2007 would stand at USD 1650, instead of the above mentioned USD 380. However, that figure would be misleading of the economic situation of our citizens, since the oil income only reaches the general population indirectly, i.e. through the state expenditure financed with part of the oil income.

From a macro-economic point of view, GDP excluding oil in 2008 at current prices is estimated by the IMF at USD 499 million, against a national income of USD 2915 million if we include the oil revenues. This means that the National Income is more than 5.8 times the GDP in our country. In 2007, as oil prices were still far from their peak, reached in 2008, the ratio was “only” 4.3 times.

Another type of analysis is the breakdown of GDP per sector of activity, i.e., to identify the production reached by each and every sector of our production. The table below gives us this information for 2006 and 2007, where it is clear the growth of the United Nations component in 2007. (calculations in accordance with GDP at year 2000 price levels):

Table 1.2.2 – Structure of GDP (% of total GDP)

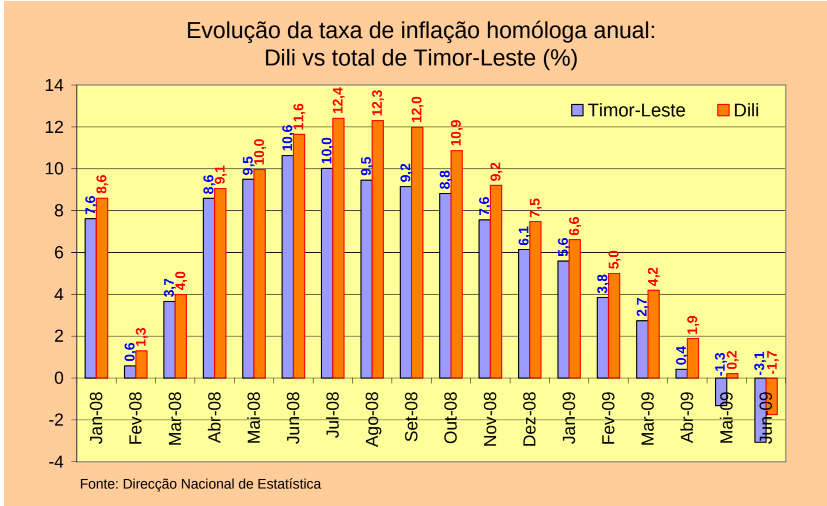
	2006	2007
Agriculture, forestry and fishing	**33**	**27**
Food	24	20
Commercial Agriculture, forestry , fishing	9	7
Industry and Services	**30**	**29**
Mining and related e services	1	1
Manufacturing	2	2
Building industry (private)	4	4
Transports & Communications	7	7
Wholesale and Retail Commerce	7	7
Financial Services and Other Services	8	8
Public Sector	**37**	**44**
Government Services	24	23
Public Utilities	1	1
Public Works	4	6
United Nations	7	14
Total	**100**	**100**

Prices; inflation

The National Directorate of Statistics gathers monthly information about the absolute prices of approximately 200 products sold in the country and, based on this, calculates the consumer price index (CPI).

These prices are collected throughout a network of approximately 200 points of sale in Dili (the markets of Comoro, Taibessi and Becora and several points of sale) and quarterly in the cities of Baucau, Maliana and Maubisse alternatively – i.e. on each month the prices in Dili and in one of the above mentioned cities are collected. Based on the data from Dili the CPI for this city in calculated and with the data from Dili and the other cities, the “national” CPI is calculated.

The use of this methodology to calculate the “national” rate is far from perfect; for this reason, and despite the fact that we can somehow be “inflating the national inflation figures” – see the difference between the Dili and “national”, rates in the table above –, i.e. we rather use the Dili figures for our analysis, since only these are gathered monthly and are therefore more reliable.



Please note that even this data must be analyzed with some caution. The truth is that the “purchase basket” and the relative weight of the goods included therein have been determined in accordance with an enquiry on the social and economic situation of the families in 2001 and have not yet been updated. Since then, the “basket” and particularly the relative weight of each item – i.e. the percentage represented by each item in the average consumption of families – has certainly suffered changes which, mostly in Dili, may be quite significant due to the rise of incomes and the availability of more products.

Thus, it is quite possible that the CPI and the inflation rate which are being calculated do not entirely reflect the reality, as we believe the actual rate of inflation may somehow be underestimated – that is to say, the actual rate of inflation is probably higher than the one shown in the official statistics. Nonetheless, because there is a lack of consistent data regarding the true structure of the basket and the relative weight of each item therein, we will continue to use the official data.

The inflation rate in Dili has experienced a very uncommon trend in the last few years, having a year-on-year rate (for instance between June of one particular year and June of the previous year) which in Dili and in the financial year of 2006-2007 stood at 9.5% - which can be considered a high

Table1.2.3 – Consumer Prices Index and Inflation Rate in Dili

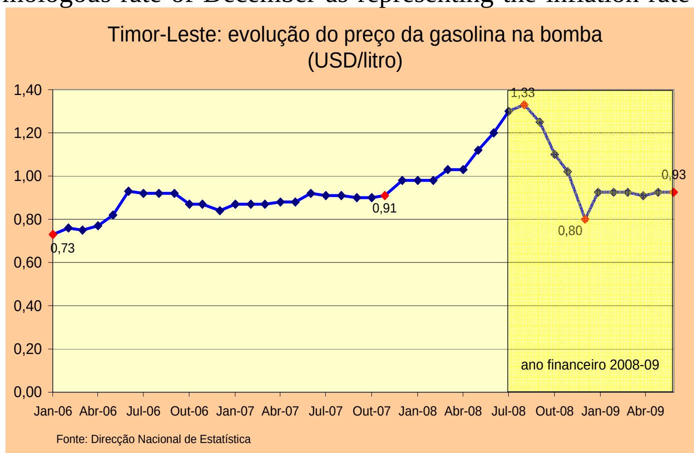
2007	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Index	126.8	138.0	135.1	131.4	132.5	133.1	132.9	133.3	133.5	134.3	134.6	136.4
Monthly Variation	1.0	8.8	-2.1	-2.7	0.8	0.5	-0.2	0.3	0.2	0.6	0.2	1.3
Year-on-Year Rate	8.4	**17.9**	15.0	11.8	12.3	**9.5**	8.4	8.8	7.7	7.9	8.0	**8.6**
2008	Jan	Feb	Mar	Apr	May	Jun	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
Index	137.7	139.8	140.5	143.3	145.7	148.6	149.4	149.7	149.5	148.9	147.0	146.6
Monthly Variation	1.0	1.5	0.5	2.0	1.7	2.0	0.5	0.2	-0.1	-0.4	-1.3	-0.3
Year-on-Year Rate	8.6	1.3	4.0	9.1	10.0	**11.6**	12.4	12.3	12.0	10.9	9.2	7.5
2009	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	Jul	Aug	Sep	Oct	Nov	Dec
Index	146.8	146.8	146.4	146.0	146	**146**						
Monthly Variation	0.1	0.0	-0.3	-0.3	0.0	**0.0**						
Year-on-Year Rate	6.6	5.0	4.2	1.9	0.2	**-1.7**						

Source: National Statistics Directorate

rate – and in the financial year of 2007-08, reached (June 2008) 11.6%. In the following month, July 2008, it peaked at 12.4%, the highest level since independence.

This peak coincided with the top price for oil in the international market. The fall since then seems to have had an immediate and significant impact in the trend of domestic prices, as evidenced in June 2009, the last month of the financial year under analysis, when the rate of inflation year-on-year reached a negative level of -1.7% (for the first time since the independence of the country in 2002).

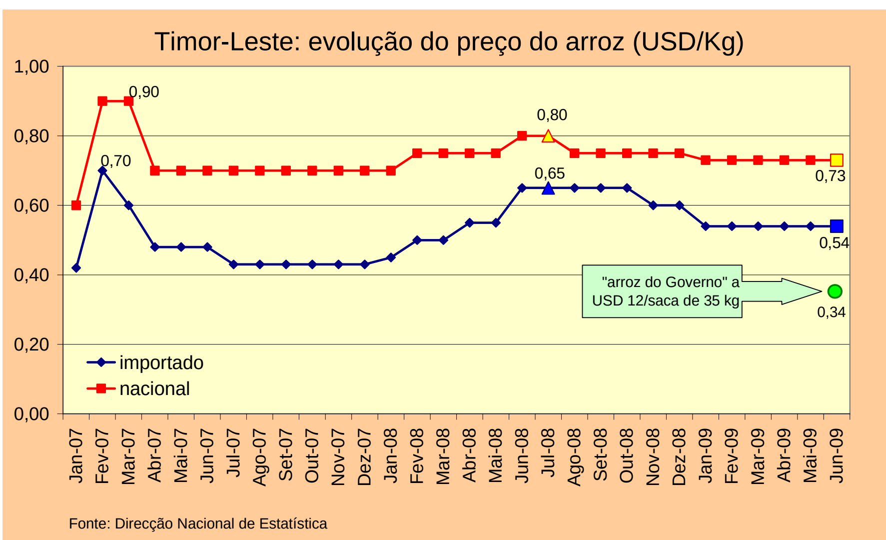
If we use the (year-on-year) homologous rate of December as representing the inflation rate for the calendar year, we will see, according to the National Statistics Directorate, an inflation of 8.6% in 2007 and 7.5% in 2008. Please note that the IMF considers that the inflation rate at the end of these same years was 7.6% and 6.1%, respectively – which places inflation at a lower level than the one estimated by the official statistics of the government of Timor-Leste. For 2009, the IMF projections say the inflation rate will reach 2.3% by the year end.



It is worth mentioning that this development occurred in the absence of BPA's intervention on the control of inflation, since this entity does not have a monetary policy which may be used to pursue the most fundamental goal of any central bank: keeping the inflation rate at moderate levels (around 2%).

The significant fall of the inflation rate – we reinforce the idea that a slowing of the inflation rate does not mean, if positive, that the prices have decreased or fallen, but that they have risen at a slower pace than previously – seems to be linked to the fall in prices of certain products, particularly fuel prices.

The evolution of the rice price also had an impact because the "Government rice", currently the most consumed one due to its lower price, is taken into account in the calculations since it is for sale in the markets and used as information sources for this price control. Because this "Government rice" has "all but replace" the comercially imported – and previously the most consumed – this affects significantly the calculations of the rate of inflation despite the fact that the price is not "a market price" but one set administratively.



International trade

Perhaps one of the most prominent economic facts of our country is the significant deterioration of the trade deficit when compared with previous years, with the trade balance (see table below) reaching a deficit of USD 88.4 million in the first half of 2008 and a deficit of USD 158.2 million in the second half, for a total annual deficit of USD 246.6 million.

As far as the first semester of 2008 is concerned, data revealed by the National Statistics Directorate based on information gathered from Customs of Timor-Leste show a volume of "commercial" imports of USD164.3 million and exports of only USD 1.9 million.

The latter figure is normal since the most significant period of exports of our main product, coffee, occurs in the second half of the year, mainly in the third quarter, after the harvest. The fall in the production of coffee this year may envisage a (significant?) reduction of income from exports in 2009 when compared with the previous year.

It should be highlighted the large increase in the external deficit in the first half of 2008 versus the same period of 2009, with the last one almost doubling the one of the previous year.

Naturally the main reason for that deficit is the enormous volume of imports (USD 268.4 million within a GDP excluding oil at current prices that the IMF forecasts at USD 499 million) when compared with the (rather small: USD 11.8 million) exports, mainly coffee (see further ahead a text box about coffee).

Table 1.2.4 – EAST-TIMOR: Summary of International Trade Data

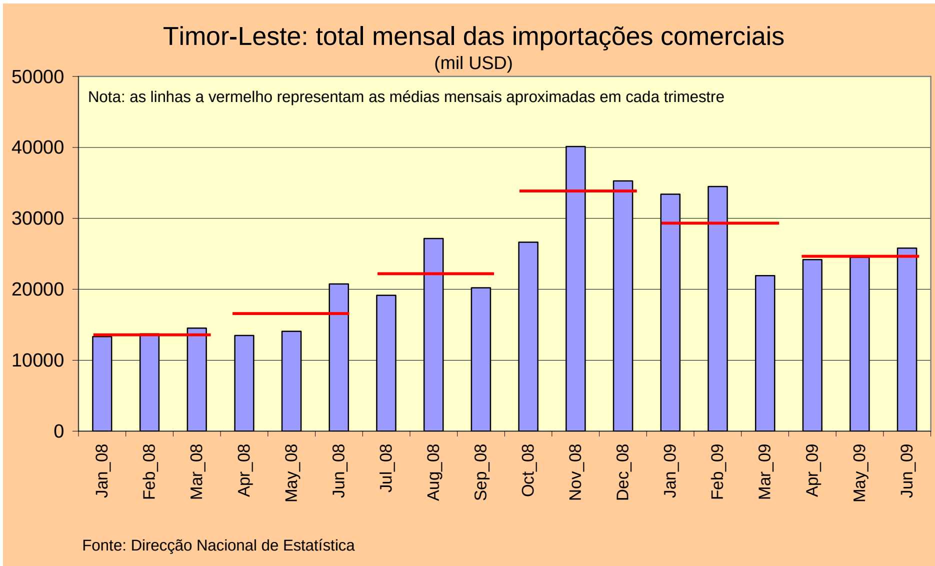
(US$000)

Month / Year	**Imports**			**Exports**			**Balance**	**Balance**
	Commercial	**Non-commercial**	**TOTAL**	**Exports**	**Re-exports**	**TOTAL**	**TOTAL**	**"commercial"** (Export-Import)
January/08	13,331	912	14,243	107	954	1,061	-13,182	-13,224
February/08	13,707	511	14,218	327	490	817	-13,401	-13,380
March/08	14,530	301	14,831	115	8,303	8,419	-6,412	-14,415
April/08	13,474	260	13,734	344	1,425	1,769	-11,965	-13,130
May/08	14,073	487	14,560	188	3,088	3,276	-11,282	-13,885
June/08	20,754	502	21,256	365	1,658	2,023	-19,233	-20,389
First Semester 2008	**89,869**	**2,974**	**92,843**	**1,447**	**15,918**	**17,365**	**-75,477**	**-88,404**
July-08	19,144	525	19,669	2,231	5,032	7,263	-12,406	-16,913
August-08	27,161	498	27,659	2,128	3,509	5,637	-22,022	-25,033
September-08	20,206	630	20,836	1,945	4,306	6,251	-14,585	-18,261
October/08	26,650	838	27,488	2,515	4,677	7,192	-20,296	-24,135
November/08	40,122	3,635	43,757	1,050	1,510	2,560	-41,197	-39,072
December/08	35,277	1,055	36,332	0,533	967	1,500	-34,832	-34,744
Second Semester 2008	**168,560**	**7,181**	**175,741**	**10,402**	**20,001**	**30,403**	**-145,338**	**-158,158**
2008 (TOTAL)	**258,429**	**10,155**	**268,584**	**11,849**	**35,919**	**47,768**	**-220,815**	**-246,580**
January/09	33,398	2,428	35,826	629	2,405	3,034	-32,792	-32,769
February/09	34,497	760	35,257	410	463	873	-34,384	-34,087
March/09	21,935	209	22,144	312	2,795	3,107	-19,037	-21,623
April/09	24,190	956	25,146	321	9,522	9,843	-15,303	-23,869
May/09	24,500	925	25,425	98	734	832	-24,593	-24,402
June/09	25,809	829	26,838	135	1,154	1,289	-25,349	-25,674
First Semester 2009	**164,329**	**6,107**	**170,436**	**1,905**	**17,073**	**18,978**	**-151,458**	**-162,424**

Imports

From the analysis of the data of the previous table, one should highlight, as far as imports in 2008 are concerned, the fact that these have increased every quarter from USD 41.6 million in the first quarter and ending with USD102 million on the last quarter. It is relevant to note that the cover rate of commercial imports by exports was only 5.7% in 2008.

In 2009, and after the "explosion" of 2008, imports began decreasing having reached higher levels in the first quarter (approximately USD 90 million) than in the second quarter (USD 74.5 million), which can be partly explained by the large imports of rice in January and February.



Regarding the table above, the only items which apparently need explaining are the levels reached in the last two months of 2008 and the first two months of 2009. The latter have already been explained by the imports of rice. The trend of imports of the last quarter of 2008 is essentially due to the import of automobiles – notably, but not exclusively, for members of Parliament – but also the import of different types of equipment, both mechanic and electric, most of them associated with the payment cycle of State expenditure, which tends to accelerate its acquisitions at the end of each fiscal year.

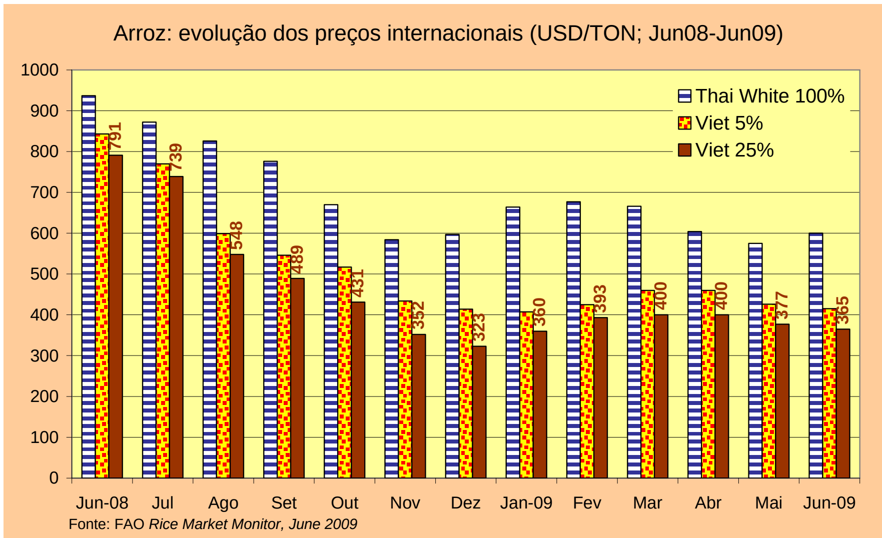
The main products imported by Timor-Leste are shown in the table below (items drawn under the Customs Tariff Code Book).

Main types of goods imported	2006		2007		2008	
	($000)	%	($000)	%	($000)	%
1 Cereals	6,517	11.7	3,175	5.2	25,485	13.4
2 Beverages, Spirits and Vinegars	1,842	3.3	1,247	2.1	6,751	3.5
3 Oil and Derivatives	29,069	52.1	13,169	21.7	71,121	37.4
4 Pharmaceutical Products	1,834	3.3	1,495	2.5	8,097	4.3
5 Mechanical Machinery and spare parts	4,512	8.1	6,085	10.0	17,334	9.1
6 Electrical Machinery and spare parts	6,190	11.1	11,786	19.4	17,571	9.2
7 Vehicles	5,831	10.5	23,757	39.1	43,873	23.1
SUB-TOTAL	55,795	100.0	60,714	100.0	190,232	100.0
Total Imports	*87,693*		*85,213*		*258,429*	

It should be noted that the figures above, particularly the ones in USD, are not comparable in the three years, for many and different reasons: for 2006 (political and social instability) and 2007 (the fire in the Timor-Leste Customs building), the available statistic data corresponds only to a part (about one half) of the respective years.

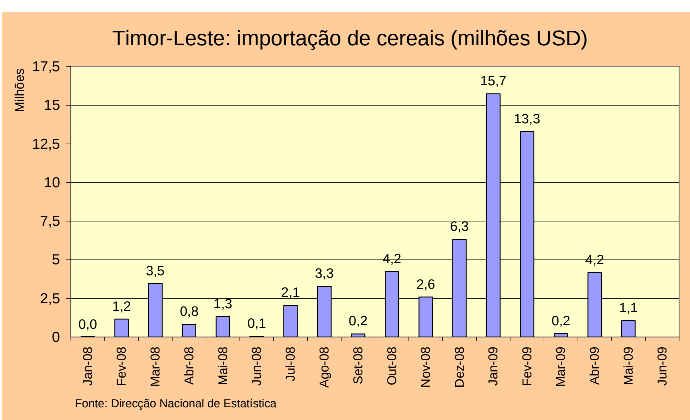
Nonetheless, it is clear that there was a considerable change in the structure of trade, notably due to the significant change in prices of the two "strategic" products of Timor-Leste: rice and fuel.

Regarding the first, the table below shows clearly the referred drop of prices.



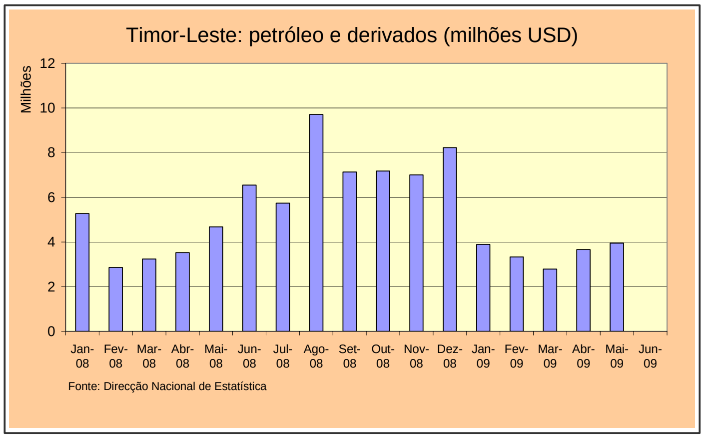
We also refer to the June 2009 edition of the *Rice Market Monitor* (FAO):

> "International rice prices have followed a downward trend since January this year [2009] reflecting sluggish import demand and, since April-June 2009, the arrival of large 2008 secondary crops. (...)
>
> Based on the current outlooks and barring major production setbacks and sudden changes in government policies [namely in what concerns cereal exports in exporting countries - NR], the world rice market situation appears to be in a rather comfortable balance, especially considering the relatively large world rice reserves built up in the past two seasons. As a result, world rice prices may continue to be under downward pressure in the coming months."



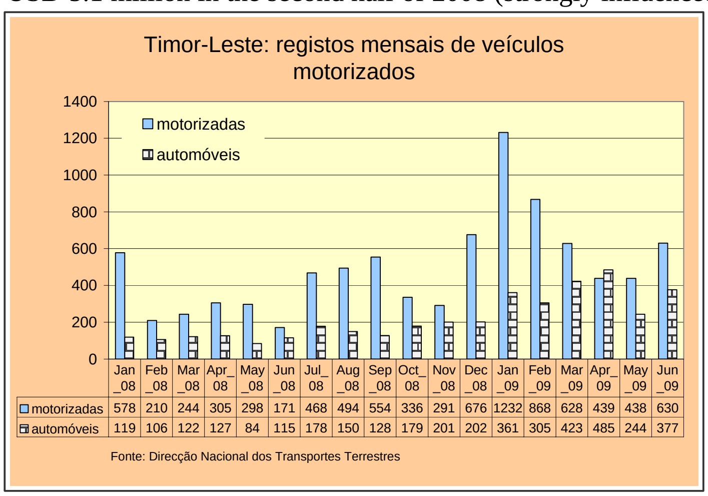
If we compare this trend with the imports of rice by Timor-Leste for the period of the financial year under analysis, we may conclude that the large imports in the beginning of 2009 – in the first two months of this year they have exceeded the total spent for the whole of 2008, despite the fact that the average price in 2008 was higher (USD 553/ton for Viet 25% against USD 382/ton) in the first half of 2009 – may have been due to contracts signed when rice prices were lower than they were in the first half of 2009.

This might have been a right decision if the aim was to create a strategic reserve of rice at a reasonable price taking into account the price levels in the recent past. However, if the trend of dropping price in the international market is confirmed, this may represent a costly solution, with the acquisition of rice at a price higher than what would have been possible in view of the estimate for the consumption of rice throughout the year, having under-estimated the costs associated with storage and possible deterioration of quality due to the inadequacy of the storage facilities.



As far as fuel is concerned, the table on the left shows the trend of the imports throughout the last financial year. The peak has been reached in August 2008, following the maximum price of crude in the international markets (beginning of July 2008).

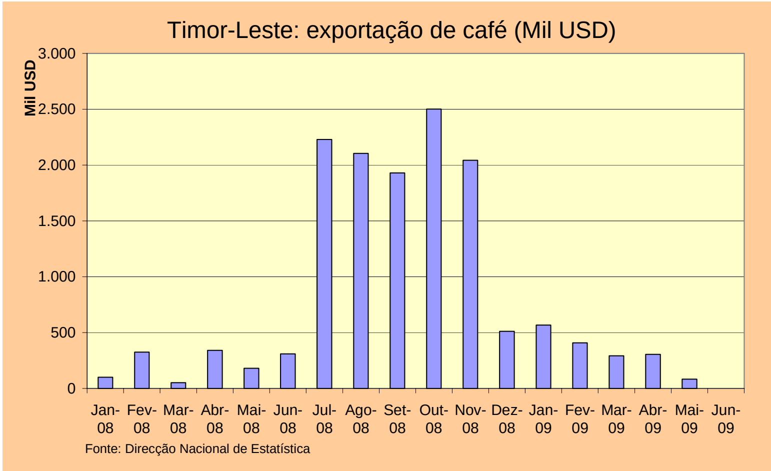
The drop in fuel prices and the growing availability of (more) money in the hands of the families, namely due to rises in salaries and public expenditure, have led to a significant increase of the national car fleet. The average import of vehicles (motorcycles, motorbikes, cars and trucks) reached USD 2.2 million in the first half of 2008, USD 5.1 million in the second half of 2008 (strongly influenced by the import of cars for the National Parliament, which explains the figure of USD 10.6 million in November/08) and USD 5.4 million in the first half of 2009.



Another aspect of our imports that is worth analyzing is their country of origin. In 2008, our main supplier, accounting for 42.5% or the total (USD258.4 million) was our neighbor Indonesia; its share was reduced to 28.5% in the first half of 2009. Last year, the second place was occupied by Singapore with 17.1% and third came Australia, with 13.8%. In the first half of 2009, the second and third places were occupied, respectively, by Vietnam (24.8%, due to large imports of rice in the first two months of the year) and Singapore (16.8%), closely followed by Australia (13.4%).

Exports

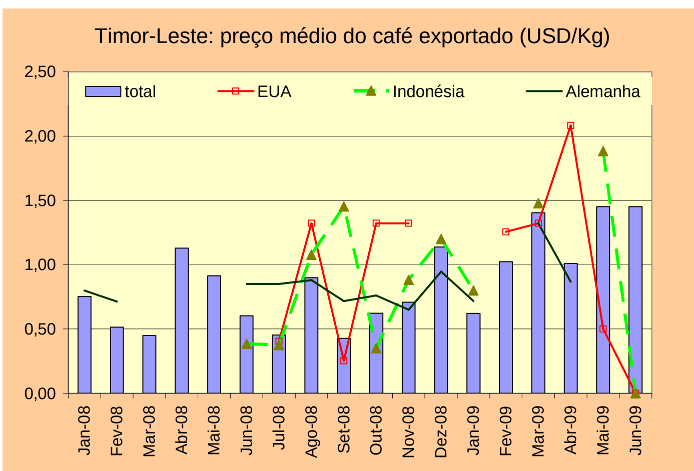
The analysis of Table 1.2.4, which provides a summary of the monthly data on imports and exports of Timor-Leste, shows quite clearly that exports are, in general, extremely reduced when compared with imports (USD 258.4 million). This difference is even higher if we only consider (as we should) the "commercial" exports (USD12.8 million), disregarding the impact of re-exports, almost entirely linked to the repatriation of a variety of equipment used by the different United Nations' structures operating in the country, notably the military forces.



The large commercial deficit which results from a large volume of imports and the minute value of exports – basically comprised of coffee – is in fact one of the biggest problems of the county's economy, deserving more attention in the future, as our cover ratio of the first by the latter is only 4.6% (2008).

It is worth mentioning that our coffee exports were exceptionally high in 2008, due to a very good harvest : in that year, exports reached approximately USD 12.8 million, whereas in the Customs last recorded data (2004 and 2005) they amounted to USD 6.9 million (2004) and USD 7.6 million (2005).

The trend is that a good harvest is usually followed by a bad one, or at least one below he average, and this seems to be the case in 2009. According to the Ministry of Agriculture, Forestry and Fishing the fall in this year's harvest when compared with 2008 should reach 30% - which is the average level – but information gathered from some farmers points to a fall larger than the one estimated by the Government- eventually at 50% or even higher.



Coffee exports normally occur in the months immediately following the harvest. Therefore they concentrate in the period of July to November of each year, and drop to almost insignificant figures in the remaining year.

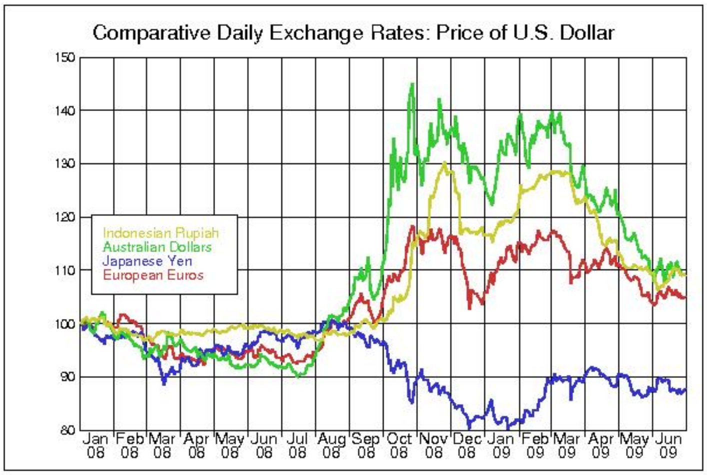
The main destination countries of our coffee exports are traditionally the United States (largely due to the very strong relationship of that country with CTT- the Coffee Co-operative of Timor, the largest operator in the Timorese market), Indonesia and Germany. In 2008 the latter was actually the leading buyer, having accounted for 3392 tons (against 3381 tons from the United States; Germany and the USA together absorbed approximately 26% of the total coffee exports, with Indonesia reaching 16%).

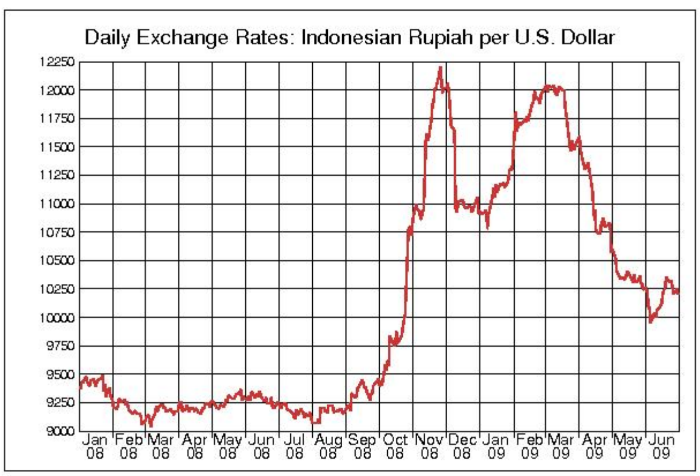
Following the trends in the international market, the average prices per kilo of exported coffee are lower during the harvest period, due to its relative abundance, and increase in the other months. This is evidenced in the table above.

Looking at our coffee buyers, in 2008, the highest average price was paid by Germany at 76 cents per kilo, whilst the United States pays on average 51 cents per kilo and Indonesia 53 cents per kilo. The overall average price in 2008 reached 60 cents per kilo. These differences in pricing are related with the particular conditions of each market and the quality of the beans exported, probably higher for Germany when compared with the other countries.

Exchange rates

The international economic relations of Timor-Leste are achieved through its imports, mainly with Indonesia. Also important in this context are countries like Australia, Singapore and Japan. That is why the graphic below shows the trend of the US dollar, our national currency, vis-à-vis the currencies of the above mentioned countries and the Euro, another major currency of reference in the international financial system.





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As evidenced by the charts on the left, the US Dollar went through a revaluation period from September 2008. However, from March 2009 up to the end of the period in analysis (30th June 2009), the US Dollar has depreciated again.

Its exchange rate against the rupiah was 9.215 rupiah per USD in 1/7/08 and 10.237,5 rupiah /USD in 30/6/09. In the meantime, the USD peaked its value against the rupiah in November of 2008, reaching 12.300 rupiah/USD.

The trend shown against the rupiah was followed regarding the other currencies, although with different extents.

For instance, the exchange rate of the Australian Dollar was 0.958 cents in 1/7/08 – i.e. each AUD was "worth" approximately 96 US cents. However, by the end of October/08, it only "cost" 60 US cents (60.7 cents in 28/10/08, to be precise) to buy one Australian Dollar, a rate which corresponded to the US Dollar reaching its peak in 2008. By the end of June 2009, the AUD had increased its value again, reaching 81.1 US cents, meaning that the US Dollar has devalued against the AUD since October/08.

In any case, this USD revaluation has been beneficial to Timor-Leste, as it allowed our country, at least temporarily, to acquire goods from its main suppliers at lower prices, which may have contributed to the significant reduction of the inflation levels in our country.

Public Finances

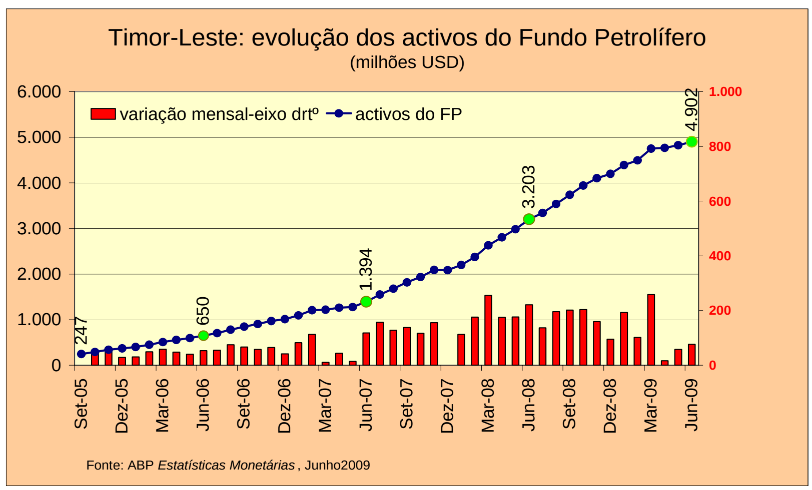
The main feature of our country's Public Finances during the financial year under analysis has been the large increase which occurred in the Expenditure, both the forecasted for 2009 and the actual expenditure in 2007 and 2008. This could only be achieved due to the significant increase (not initially forecasted) of the resources provided through the Petroleum Fund, which resulted, as it is widely known, from a (one-off?) exceptional situation with regard to the price levels of crude in the international markets.

Table 1.2.5 – Summary of the Petroleum Fund trend

USD million	**2007** Value	**2008** Value	**2009 (National Budget)** Estimate
Opening Balance	***1011.8***	***2086.2***	***4197.0***
Oil Revenue	1258.5	2284.2	1163.0
Transfers to the Government	300.1	396	589.0
Revaluation of the Securities Market	+62.3	+107.7	0.0
Closing Balance	***2086.2***	***4197.0***	***4858.9***

Source: Timor-Leste Ministry of Finance, *2008 Annual Report*, pg 34

This situation made it possible for the Petroleum Fund to accumulate, in the financial year 2008-09, USD1.7 million, slightly less than in the previous financial year (USD1.8 million). The accumulated sum in the Fiscal Year of 2008 was about USD2.1 million – to which we could add USD396 million withdrawn to finance the State Budget, all made within the rules of the Sustainable Income provided for in the Petroleum Fund Law.



Fonte: ABP *Estatísticas Monetárias*, Junho2009

Table 1.2.6 – State Revenue 2008, according to the East-Timor Treasury			
	Budget (USD 000's)	Actual Revenue (USD 000's)	% of Budget
Total Domestic Revenue	86700	69658	80.3
	30300	38613	127.4
Non-Fiscal Revenue	56400	31045	55.0
Transfers from the Petroleum Fund	396000	396000	100.0
TOTAL Budget Revenue	***482700***	***465658***	***96.5***

The Treasury Report on the 2008 revenue cash accounting summarizes that year's accounts as shown in the table on the right.

Here we can see that the domestic revenue, collected from the residents in Timor-Leste, reached almost USD 70 million, against USD 396 million originated from the Petroleum Fund. The latter, therefore, accounted for 85% of the total State Revenue. Domestic Revenue reached 80% of the State Budget forecast.

As for the expenditure, this clearly went up in 2008, as shown in the table below. The rise in crude prices in the international markets created additional revenues in the Petroleum Fund. In turn, the "Sustainable Income" went up, which allowed the transfer of higher amounts to finance the state budget. The Government was thus in the position to present an amending budget half way through the year – State Expenditure went from USD347.8 million, as originally forecasted, to USD602 Million (an increase of 70%; the new total of 602 Million includes the total forecast plus funds from the Economic Stability Fund that was effectively spent. i.e. USD53.6 Million of the USD 240 million initially forecasted).

The table also shows the effective spending of the items provided in the State Budget: a total of USD 479.9 Million. This means that, in 2008, the overall rate of the budgetary implementation (percentage of the rates of expenses paid compared to the expenses budgeted) was approximately 80%.

The figures for 2008 can be compared to those of 2007 and the forecast for 2009.

With regard to the 2007 figures, since there was a Budget for the 2006/07 fiscal year (implemented in the first half of the year) and the interim budget of 2007 (second semester),

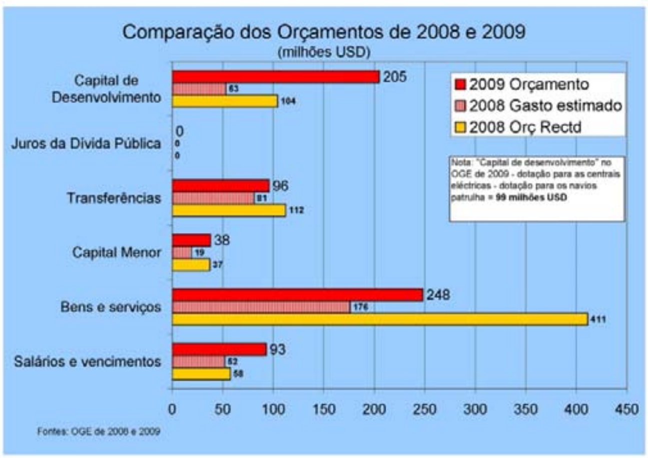
ORÇAMENTOS E CONTA GERAL DO ESTADO DE 2008

Categoria / Item	Orçamento Original	Orçamento Rectificativo	Orçamento Final	Despesa Efectiva (Caixa)	% da Despesa Efectiva em relação ao OGE final	% da rubrica em relação ao OGE final	Idem, execução de caixa
Salários e vencimentos	**48.028.000**	**58.884.000**	**59.053.812**	**50.328.810**	**85,2%**	10,8	11,8
Salários	47.841.000	58.124.000	58.220.205	49.799.703	85,5%	10,6	11,7
Horas Extraordinárias	187.000	479.000	557.607	355.107	63,7%	0,1	0,1
Abonos	-	281.000	276.000	174.000	63,0%	0,1	0,0
Bens e serviços	**143.696.000**	**447.409.000**	**248.309.750**	**213.092.661**	**85,8%**	45,3	50,0
Deslocações Locais	2.544.000	2.824.000	2.706.087	2.277.092	84,1%	0,5	0,5
Deslocações ao Estrangeiro	3.599.000	6.453.000	6.443.865	5.632.584	87,4%	1,2	1,3
Formação Profissional e SdT	7.628.000	9.455.000	8.838.226	8.267.289	93,5%	1,6	1,9
Encargos de Instalação	5.083.000	5.946.000	3.866.224	3.341.575	86,4%	0,7	0,8
Arrendamento de Propriedades	1.826.000	2.108.000	1.679.817	1.629.490	97,0%	0,3	0,4
Combustiveis - operação de veiculos	7.614.000	10.339.000	10.236.591	7.529.533	73,6%	1,9	1,8
Manutenção de veiculos	5.544.000	7.017.000	7.696.579	5.782.337	75,1%	1,4	1,4
Aluguer de veiculos, seguros e Serviços	312.000	660.000	566.428	345.292	61,0%	0,1	0,1
Materiais e Fornecimentos de Escritório	2.745.000	2.763.000	3.564.086	3.135.354	88,0%	0,7	0,7
Materiais e Fornecimentos Operacionais	21.152.000	31.390.000	30.602.349	20.804.913	68,0%	5,6	4,9
Combustivel para Geradores	17.120.000	33.588.000	35.159.740	31.153.848	88,6%	6,4	7,3
Manutenção de equipamentos e edificios	7.517.000	8.601.000	9.287.808	7.029.849	75,7%	1,7	1,6
Outras Despesas	18.581.000	24.038.000	20.548.944	19.194.434	93,4%	3,7	4,5
Serviços Profissionais	22.737.000	27.192.000	23.182.219	20.527.329	88,5%	4,2	4,8
Serviços de Tradução	1.384.000	1.333.000	94.545	327.903	34,7%	0,0	0,1
Outros Serviços Diversos	13.989.000	32.922.000	28.833.912	21.999.021	76,3%	5,3	5,2
Pagamento de Quotas de Membro	741.000	781.000	549.000	427.152	77,8%	0,1	0,1
Transferências Correntes	3.600.000	-	-	-	0,0%		
Fundo de Estabilização Económica		240.000.000	53.602.424	53.602.424	100,0%		12,6
Adiantamento de Caixa						0,0	0,0
Fundo de Maneio para Ministérios	-	-	-	*6.914*			0,0
Adiantamento para Distritos	-	-	-	*78.328*			0,0
Capital Menor	**24.536.000**	**39.249.000**	**47.080.273**	**43.559.687**	**92,5%**	8,6	10,2
Equipamento de Segurança	584.000	695.000	81.433	397.935	48,9%	0,0	0,1
Equipamento de Informática	3.211.000	3.446.000	4.858.314	4.502.655	92,7%	0,9	1,1
Equipamento de Comunicações	1.044.000	929.000	3.691.811	3.470.789	94,0%	0,7	0,8
Geradores	1.516.000	1.545.000	1.328.819	1.202.792	90,5%	0,2	0,3
Equipamento de água	441.000	448.000	465.612	427.568	91,8%	0,1	0,1
Equipamento de Escritório	1.580.000	1.560.000	1.407.148	1.256.081	89,3%	0,3	0,3
Outros Equipamentos Diversos	4.802.000	8.787.000	7.589.450	6.625.316	87,3%	1,4	1,6
Mobiliário e Acessórios	2.738.000	3.775.000	3.706.008	3.437.528	92,8%	0,7	0,8
Compra de Veículos	8.620.000	18.064.000	23.218.781	22.239.023	95,8%	4,2	5,2
Capital de Desenvolvimento	**67.615.000**	**110.553.000**	**115.470.589**	**87.552.057**	**75,8%**	21,1	20,5
Aquisição de Edificios	28.675.000	50.542.000	52.087.442	39.689.301	76,2%	9,5	9,3
Activos de Infra-estruturas	32.051.000	47.003.000	48.508.136	33.138.073	68,3%	8,8	7,8
Injecção de Capital	2.249.000	2.249.000	2.249.000	2.188.315	97,3%	0,4	0,5
Equipamento de Capital Maior	4.640.000	10.759.000	12.626.012	12.536.368	99,3%	2,3	2,9
Adiantamento de Caixa						0,0	0,0
Adiantamento para Embaixadas	-	-	-	-			
Transferências	**63.878.000**	**132.217.000**	**132.000.000**	**85.355.885**	**64,7%**	24,1	20,0
Transferências Correntes	-	-	33.000	-	0,0%	0,0	
Pagamento de Beneficios Pessoais	36.982.000	84.582.000	84.582.000	41.294.941	48,8%	15,4	9,7
Donativos do Estado	26.896.000	47.635.000	47.385.000	44.060.944	93,0%	8,6	10,3
Total	**347.753.000**	**788.312.000**	**601.914.424**	**479.889.100**	**79,7%**		
Total sem FEE		**548.312.000**	**548.312.000**	**426.286.676**		**100,0**	**100,0**

we have to estimate what would have been paid in that year. Based on the implementation reports, we estimate that the expenditure effectively paid out in 2007 will have been approximately USD 145-150 million, to which we can add an additional USD 90 million of budgeted expenditure which was pledged but not actually paid out during that year.

If we take into account the expenditure actually paid out in 2007 and 2008, we can see that they have gone from USD150 million in 2007 to approximately USD 480 million in 2008, a rise of more than three times in a single year. Such increase is unusual and some may question the advantages of such a policy given the goal of stability and sustainability of the public expenditure – besides the possible impact that such a variation may have on the inflation rate (whether this rate is accurately reflected or not by the CPI index), and the future structure of the public expenditure, notably the undesirable and excessive rise of consumption.

As for the 2009 Budget, it forecasts a public expenditure of USD 649 million, against USD 602 million in the previous year, a rise of 7.8% in monetary terms. If these figures are corrected by the average rate of inflation for the year (2008) – also 7.8% - this will mean that the real expenditures forecasted for 2009 remain at the same level of 2008.



This reinforces the opinion that sudden and significant variations in the budget should be avoided, as they prove to be unsustainable.

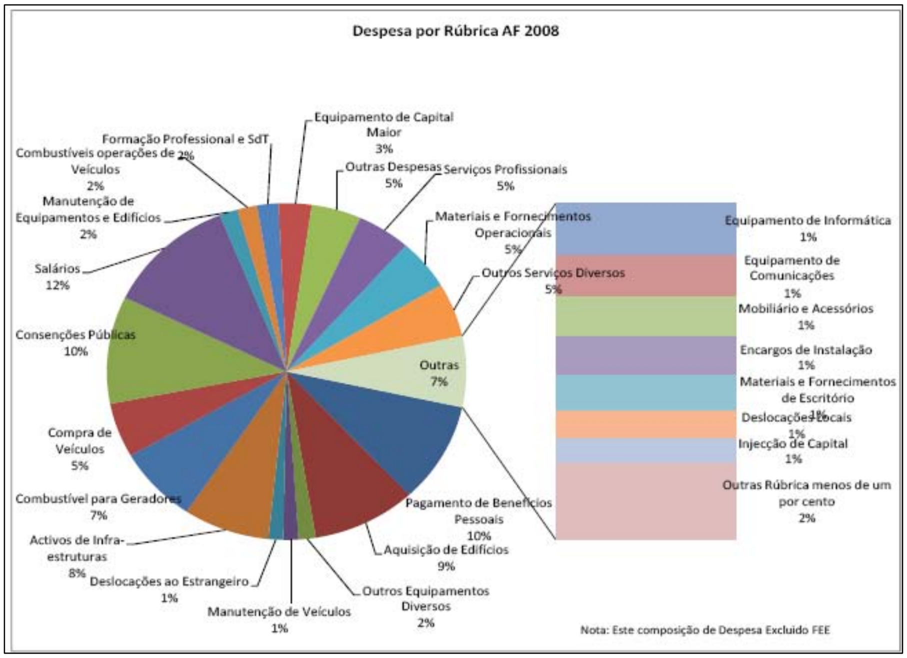
One other (and important) aspect to point out in the table of the budget implementation is its rate of implementation. As previously referred, the global rate will have been approximately 80%, but this varies significantly according to the type of expenditure. For example, in the case of minor capital expenditure, the rate is higher, whereas the total amount of this category is the smallest in the budget. The rate of implementation in items such as "Salaries and Wages" and "Goods and Services" reaches 85% in both cases. Especially relevant is the fact that expenditure in capital development, those which potentially have a larger impact on the future development of the country, has only been implemented at 76% (approximately ¾ of the forecast). This is one of the areas that deserves more attention in the future in order to guarantee that the development effort will be intensified.

The government seems to be receptive to this aspect, having defined as top priority for the 2010 budget the investment in road structures and water supply.

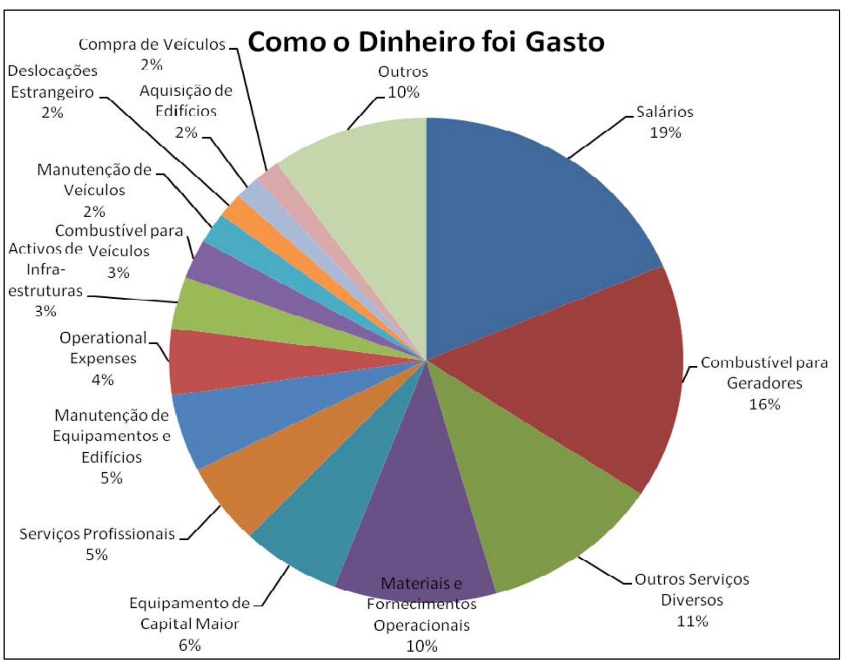
As important as this definition of priorities is its effective implementation. Probably one has to find more efficient and expedite procedures to implement items which have been budgeted.

The matching in the implementation rates for expenditure and income, and especially the systematic difference between budget and implementation, suggests that there are improvements to be introduced in the process of Budget preparation, to make it more feasible taking into account the real possibilities of its implementation without disregarding the goals and ambition in the process.

The chart below, which was taken from the 2008 budget implementation report, allows us to see the public expenditure structure according to cash payments. Note, notably, the significant public transfers that occurred in 2008, which are not even recorded in the State Budget implemented in the second half of 2007, the transition Budget between the old type fiscal years (second semester of one year and the first of the following year) and new ones, coinciding with civil years.

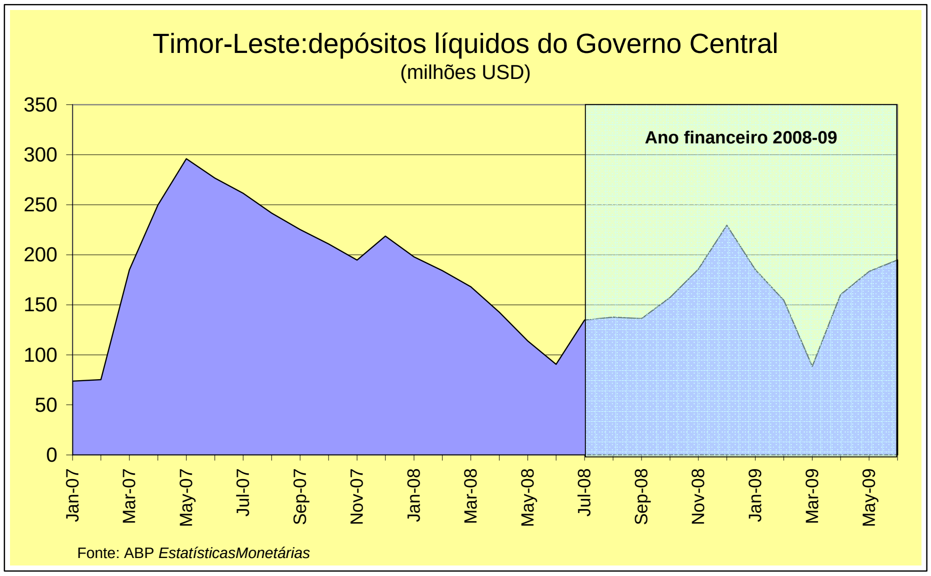


The chart above may be compared to the one (below) showing the expense structure in 2007 (interim State Budget for the second semester):



Cash expenditure structure in the second semester of 2007 (transition SGB for 2007)

Finally, and still concerning public finance, mention should be made to the trend of Central Government cash balances with the central bank, BPA. The “peaks” of the series shown below coincides with the transfer of funds from the Petroleum Fund to the State Budget account.

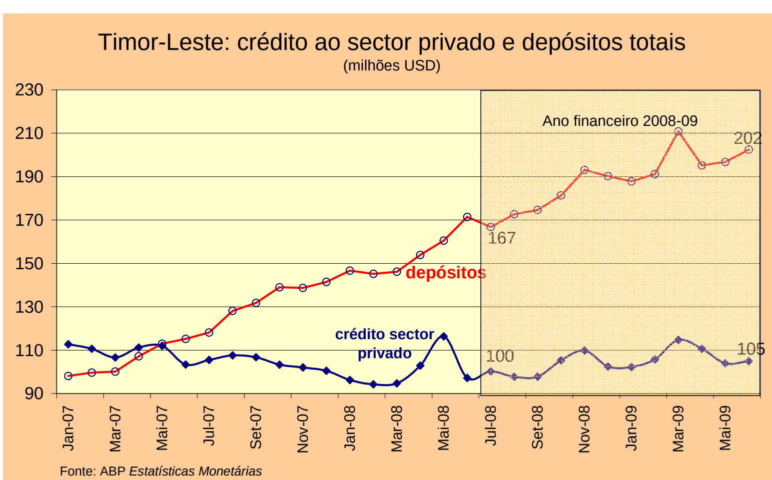


Currency, credit and interest rates

One of the major economic aggregates of a country is circulating currency, managed by the central bank. BPA is thus particularly interested in everything that concerns this aggregate and its trends.

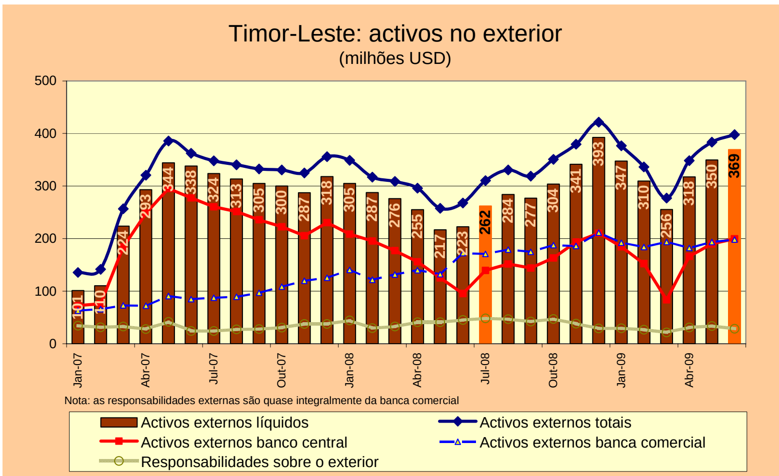
However, since the country does not have its own currency – this is not the appropriate place to discuss the advantages and disadvantages of having it in our country’s present conditions and therefore we simply state it as a fact, without any further comments – and as in all other similar cases, it is not possible to know the exact value of such circulation (monetary offer).

The monetary statistics published by the BPA identify the currency offer as the sum of “currency [metal, in the form of “cents”] outside financial institutions”, of “current deposits” and “other deposits” (namely savings).



If the two latter items are easy to determine from the data provided on a monthly basis by the banks operating in our country, the first is hard to assess accurately for the previously stated reason. In June/2009, the last month of the financial year under analysis, the amount of monetary circulation (cents) was 2,4 million USD, an amount that is only slightly higher than the 2,35 million in the beginning of the financial year (July/2008).

This means that the great majority of the “currency offer” consists of the two types of deposits identified in the monetary statistics: current deposits and “long term” deposits but easily movable in the short term. The sum of the two, totaling 118 million USD in July/07 and to 167 in July/08 stood, at the end of June 2009, at 202 million USD, representing an increase of almost 1/3 in one year.



Worthy of note is the fact that the significant increase in deposits, which are the main source of funding for the banking activity, and therefore of the credit granted by banks, was accompanied by a close to stagnation of the stock level of credit granted to the private sector, making it amount, roughly, to only half of the former.

Lacking enough loans to place deposits and render the banking business profitable, commercial banks are forced to deposit abroad an important part of its resources. This is illustrated in the second chart of the previous page, showing the trend of assets in the country and total responsibilities abroad (“net assets abroad” and other components of the chart). In 2008-09 the commercial banks increased their external assets by approximately 27 million USD (171 in July/08 and 198 in June/09).

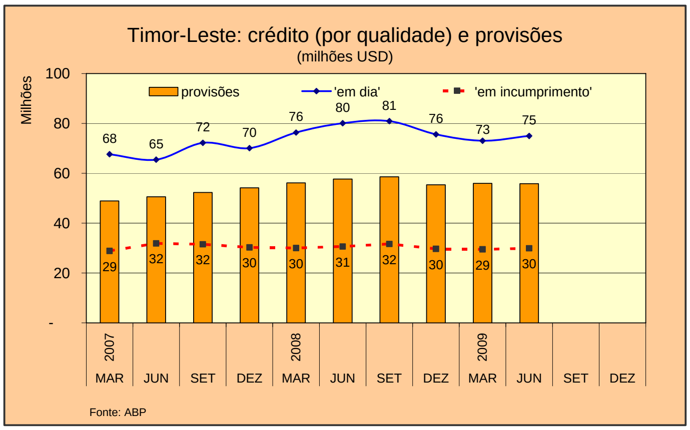
This means that the commercial banks have excess liquidity, which in a way excludes it from an potential monetary policy of the central bank (should there be national currency) as it would not require money from the central bank to manage its business. The latter, in turn, and in order to keep excess liquidity in the country, would have to raise the interest rate, which would end up reflecting on the (potential increase of) the price of money to be paid by Timorese businessmen.

In the months from June 2007 to 2009 the distribution of credit per sector was as shown in the table below, which also shows the structure (in %) of credit granted. The low amount of credit granted to the agricultural sector and the fact that 57% is personal credit deserves highlighting.

Credit granted per sector (thousand USD and %)

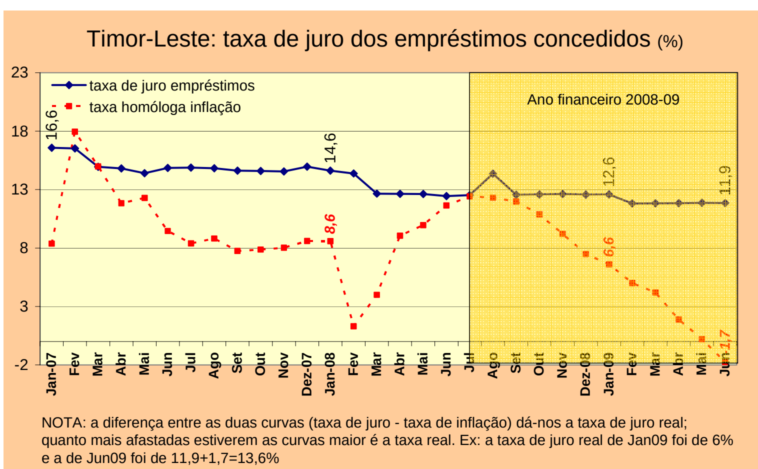
	June 2007	June 2008	**June 2009**	***Structure June/09 (%)***
Agriculture, Fisheries and Forestry	1295	1676	**393**	***0.37***
Industry and manufacturing	1773	2303	**1919**	***1.83***
Construction	30769	29507	**12480**	***11.91***
Transport and Communications	2124	1855	**2076**	***1.98***
Trade and Finance	14981	25473	**13397**	***12.78***
Tourism and services	3073	7934	**14812**	***14.13***
Individual	43298	41290	**59727**	***56.99***
TOTAL	**97313**	**110668**	**104804**	***100.0***

According to information received from the bank holding the largest credit portfolio, what can be considered as the Great majority of credit shown here as individual is, in fact, credit for housing improvement, namely for (re)construction work and, therefore, could be added to credit to construction. Credit to the latter sector shown in the table is destined to companies in that field of activity and has been declining. This could be an indirect indicator that there are difficulties in the sector that may be linked to the difficulty experienced by the State in the implementation of some of its investment projects, notably infrastructures.



Also to be noted is the strong increase of credit to the tourism sector, of which a considerable part has been channeled to building some hotel “compounds” to house the large foreign community living in our country.

The great percentage of individual credit may be one of the explanations for the high level of “non-performing loans” that has occurred in the economy after the period of political and social instability that occurred in 2006. The ratio of this credit against the total has stabilized in the last few quarters at circa 28%.

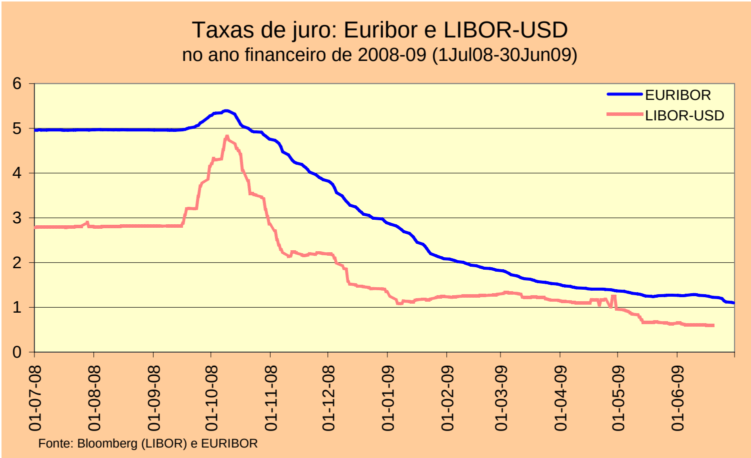


Due to the characteristics of our banking system – the largest banks operating in the country are, in fact, mere banking agencies of big banks in their home countries (Portugal, Australia and Indonesia) – this volume of outstanding credit does not place the banking system at risk. Its existence, however, is always a factor that can be seen as raising the country-risk, and this will be mirrored in the interest rates applied.

The fact that the biggest banks allow for provisions for almost the whole volume of credit granted, out of precaution and following indications of their external auditors, is another sign that continued effort should be made to significantly reduce this problem - which was almost non-existent until 2006 since outstanding credit volumes were very low at the time and this may have contributed to encourage some banks to expand their credit portfolio.

Regarding our country’s ***interest rates***, please refer to the chart below. It shows that, throughout time, a slight decrease in the average interest rate applied in loans granted by the banks has occurred.

The chart also shows the homologous inflation rate curve, which can be compared to that of the interest rate in order to determine the actual interest rate, as the difference between nominal rate and inflation rate figures.



It seems clear that the banks have not used the inflation rate as one of the determinants of the rates they charge. These, in fact, are established by banks according to their own criteria, which that are not necessarily the same; one of them, for example, is adding to the LIBOR (London Interbank Offered Rate) rate for 3 months a spread (i.e. a differential) which may be approximately 10% and is aimed at covering, , notably, associated risks.

This is an indicator of the financial situation of a country and is calculated by world renowned financial companies, showing the [interest] over-rate that an investor will have to pay in a particular country when compared to the one he would have to pay in the USA. In order to calculate it, banks use existing information of economic growth, fiscal deficit, political turmoil, changes to exchange rate, and so on. The country-risk is calculated in base-points, equivalent to 0.01 percentage points. Should it amount to, for example, 320 points, it means that investors who wish to obtain credit in a country should expect to pay another 3.2 percentage points in interest rate: instead of paying, for instance 6.7% they should expect to pay a 9.7% interest rate.

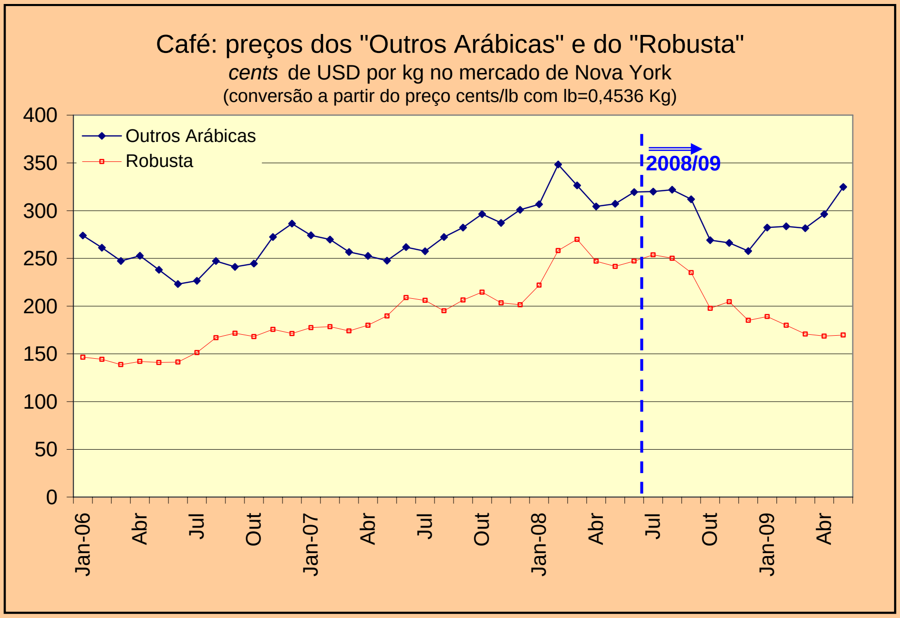
The situation seems to deny the theory that a country using another country's currency as its national currency tends to use the interest rate of the issuing currency – perhaps with some small differential.

On the consumer side – borrowers of loans obtained from commercial banks – the situation seems to confirm a certain insensitivity regarding alterations of inflation rates, on the one hand, and the non-existence of a true negotiating capacity that would lead banks to adjust the nominal interest rate to changes in inflation rate in order to avoid the application of actual interest rates that would pose difficulties to national investors – since foreign investors will always have the alternative of resorting to credit in their home countries or, being economically stronger and more organized, obtain lower prime rate interest rates (approximately 9-10% nominal rates against the nearly 13-14% paid by others).

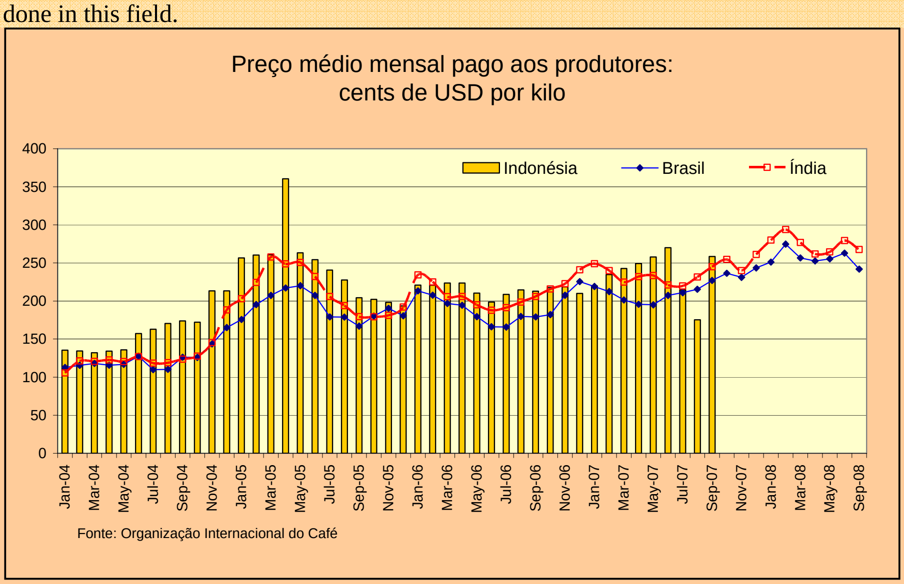
Coffee international price development

Corresponding to seasonal evolution and after the increase occurred up to mid-2008 in raw materials (commodities), including coffee itself, international rates for coffee has been decreasing, particularly in the case of "robusta" in New York Market.

"Arabica", in turn, has seen its price go down up to end 2008 but later, particularly due to production difficulties in some countries (e.g. Columbia), its rate rose again and presently stands at the same level as in mid-2008.



Completing the information on the coffee market, it is worthwhile showing the evolution of prices paid to producers in several countries, namely in Brazil, the largest world producer, and in Indonesia, our next door neighbor and importer of part of our production. Unfortunately, available data are for a period that is not recent. Anyway, and with the existing empirical knowledge, it is evident that prices paid in Timor-Leste are lower than those shown in the table below. This may be an indicator of (at least) two facts: the spraying of production in small and tiny units lacking negotiating power leaves farmers at the mercy of what buyers/traders wish to pay and/or the average quality of harvested coffee is relatively low, slightly contrary to current saying, and there is much to be done in this field.



"Kelu" – metal bracelets with gold
(photos taken at Vatuvou-Maubara-Liquiçá)

Monetary Statistics of Timor-Leste

Financial Year of Jul/2008 - Jun/2009

BANKING AND PAYMENTS AUTHORITY OF TIMOR-LESTE
DEPOSITORY CORPORATIONS SURVEY

Millions of US Dollars	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09
NET FOREIGN ASSETS	262.213	283.971	276.831	303.840	341.496	392.641	347.435	309.625	255.547	317.502	349.708	369.497
CLAIMS ON NONRESIDENTS	310.335	330.588	318.818	350.797	379.574	421.535	376.691	336.333	277.037	348.412	383.433	397.890
LIABILITIES TO NONRESIDENTS	-48.122	-46.517	-41.987	-46.956	-38.078	-28.895	-29.256	-26.707	-21.490	-30.910	-33.725	-28.392
DOMESTIC CLAIMS	-34.499	-39.927	-38.505	-51.999	-75.822	-127.059	-82.775	-48.869	26.371	-49.585	-79.353	-89.925
NET CLAIMS ON CENTRAL GOVERNMENT	-134.736	-137.662	-135.267	-157.352	-185.655	-229.508	-185.026	-154.619	-88.357	-160.238	-183.301	-194.886
CLAIMS ON CENTRAL GOVERNMENT	0.000	0.451	0.453	3.628	9.470	11.625	11.625	8.448	7.757	6.259	4.757	4.483
LIABILITIES TO CENTRAL GOVERNMENT	-134.736	-138.113	-135.719	-160.980	-195.125	-241.133	-196.650	-163.067	-96.114	-166.497	-188.058	-199.369
CLAIMS ON OTHER SECTORS	100.237	97.735	97.762	105.352	109.833	102.449	102.251	105.750	114.728	110.653	103.948	104.961
CLAIMS ON OTHER FINANCIAL CORPORATIONS	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
CLAIMS ON STATE AND LOCAL GOVERNMENT	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
CLAIMS ON PUBLIC NONFINANCIAL CORPORATIONS	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
CLAIMS ON PRIVATE SECTOR	100.237	97.735	97.762	105.352	109.833	102.449	102.251	105.750	114.728	110.653	103.948	104.961
BROAD MONEY LIABILITIES	169.145	175.309	176.991	183.791	195.530	192.658	190.294	193.657	213.460	197.750	199.240	204.924
CURRENCY OUTSIDE DEPOSITORY CORPORATIONS	2.354	2.346	2.368	2.438	2.502	2.454	2.496	2.520	2.565	2.592	2.520	2.405
TRANSFERABLE DEPOSITS	89.592	91.983	95.091	90.411	97.871	101.837	90.695	90.962	102.815	97.451	95.948	98.636
OTHER DEPOSITS	77.198	80.580	79.532	90.942	95.157	88.367	97.103	100.175	108.080	97.707	100.771	103.884
SECURITIES OTHER THAN SHARES	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
DEPOSITS EXCLUDED FROM BROAD MONEY	0.027	0.028	0.029	0.029	0.029	0.031	0.034	0.036	0.039	0.042	0.045	0.048
SECURITIES OTHER THAN SHARES EXCLUDED FROM BROAD MONEY	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
LOANS	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
FINANCIAL DERIVATIVES	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
INSURANCE TECHNICAL RESERVES	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
SHARES AND OTHER EQUITY	4.328	6.040	5.510	9.514	9.876	8.726	8.906	9.884	11.489	12.212	12.674	14.147
OTHER ITEMS (NET)	54.215	62.967	54.796	58.506	60.238	64.167	65.428	57.179	56.930	57.913	58.397	60.453
IFS Vertical Check	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000

TIMOR-LESTE: BALANCE OF PAYMENTS STATISTICS

(In $000)

	2006 [/p]	2007 [/p]	2008 [/p]
I Current Account	**540,948**	**1,177,185**	**2,042,674**
Current Account Exclude Other primary income	**-70,921**	**-81,308**	**-241,531**
A. Goods and Services	**-289,388**	**-431,784**	**-698,593**
1. Goods, fob	-91,352	-169,017	-266,821
Exports, fob	9,253	6,648	14,061
Imports, fob	-100,605	-175,665	-280,882
2. Services	-198,036	-262,767	-431,773
Exports	34,090	62,511	51,940
Transportation	252	243	671
Travel	20,309	26,236	21,616
Other services, including govt. services, n.i.e.	13,529	36,032	29,654
Imports	-232,126	-325,278	-483,713
Transportation	-9,735	-20,393	-47,343
Travel	-1,646	-2,599	-15,036
Other services, including govt services, n.i.e.	-220,746	-302,287	-421,333
B. Income	**645,176**	**1,330,868**	**2,410,110**
1. Compensation of employees	3,301	9,983	10,507
Credit	3,382	10,185	12,420
Debit	-82	-202	-1,913
2. Investment income	30,007	62,392	115,397
Credit	32,264	67,591	122,652
Debit	-2,257	-5,199	-7,255
3 Other primary income (income from JPDA), credit [1/]	611,869	1,258,493	2,284,205
C. Current transfers	**185,160**	**278,101**	**331,157**
Credit	185,603	281,222	365,660
Debit	-442	-3,121	-34,503
II Capital and Financial Account, excl. reserves	**-611,550**	**-1,031,355**	**-2,049,525**
A. Capital account	**41,592**	**32,217**	**17,231**
B. Financial account	**-653,142**	**-1,063,572**	**-2,066,756**
1. Direct investment	8,478	8,695	37,837
1.1 Timor-Leste's direct investment abroad	0	0	0
1.2 Non-residents' direct investment in Timor-Leste	8,478	8,695	37,837
2. Portfolio investment	-636,678	-1,012,079	-2,003,124
2.1 Assets [2/]	-636,678	-1,012,079	-2,003,124
2.2 Liabilities	0	0	0
3. Other investment	-24,942	-60,188	-101,469
3.1 Assets [2/]	-9,630	-66,129	-118,812
3.2 Liabilities	-15,313	5,942	17,343
III Total (I + II)	**-70,602**	**145,830**	**-6,851**
IV Errors and omissions	**1,057**	**686**	**-13,000**
(as % of total trade)	0.96%	0.38%	-4.41%
V Overall Balance (III + IV)	**-69,545**	**146,517**	**-19,851**
VI BOP Position [3/]	**-69,545**	**146,517**	**-19,851**
Memorandum Items:			
a) Reserve assets position[4)]	83,755	230,272	210,422
b) Change in Reserve Assets + Net Portfolio Investment Asset Transactions from Sovereign Wealth Fund (Petroleum Fund) (In Thousand US Dollars)	567,133	1,158,596	1,983,273
c) Sovereign Wealth Fund (Petroleum Fund) Asset Position Value as of end-period	1,011,764	2,086,157	4,196,972

Overview of Timor-Leste Banking System

The overall financial conditions of the banking system in Timor-Leste during the year are assessed as healthy. The total assets of the banking system were US$268.57 million as at 30-6-2009, representing an increase of 15% in relation to the previous year. Such increase has fundamentally resulted from and enhancement of the placements to other banks and cash and balance with BPA. The improvement in the banking system of Timor-Leste was greater than the growth in the economy – the economy was projected to grow around 7.4% while the inflation was -1.7% to June 2009.

The composition of assets and liabilities of the banking system is shown in the following table:

Structure of Balance Sheet

$000

Items	Jun-08	% of Total assets	Jun-09	% of Total assets
Cash & BPA balance	22,376	9.6%	29,447	11.0%
Placements to other banks	153,343	65.7%	176,924	65.9%
Loans	52,982	22.7%	49,078	18.3%
Fixed Assets	2,719	1.2%	3,362	1.3%
Other Assets	1,908	0.8%	9,761	3.6%
Total	**233,329**	**100.0%**	**268,572**	**100.0%**

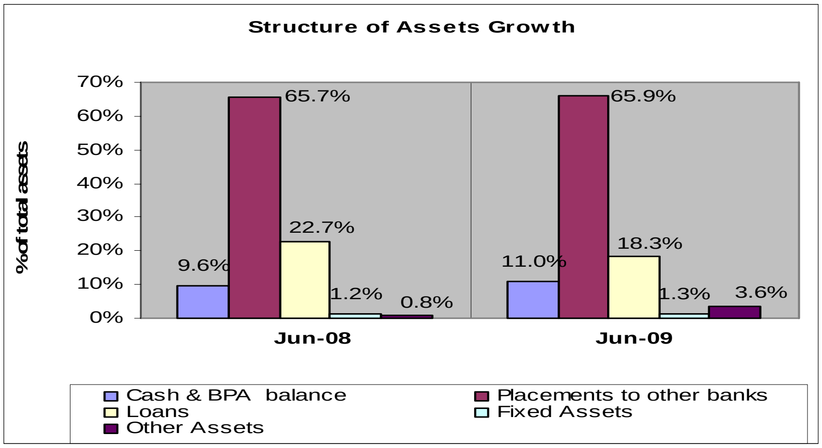
Composition of Assets

The total assets of the banking system on 30 June 2009 amounted to US$ 268.57 million, representing a growth of 15% compared to the previous year.

The main assets are placements to other banks that amounted to US$ 176.9 million on 30 June 2009, representing 65.9% of total assets, an increase of 15.4% compared to June 2008.

Loans and advances to customers represented 18.3% of total assets, while in the previous year it represented 22.7% of total assets showing a reduction of 7.4%. That substantial reduction occurred as a consequence of two factors: a decline in allowances for loan losses and a movement from riskier assets to more liquid assets. However the gross loan portfolio declined 5.2% in relation to June 2008. In general it is observed that banks are growing according the expected growth.

Loans were mainly concentrated in personal loans, services sector, and trade and finance. IN association with the declined in the loan portfolio, non-performing loans (NPL) decreased by 2.3% in relation to June 2008. However the banking system provided sufficient provisions to cover potential losses. These provisions amounted to US$ 57.4 million (including general provisions) for the year ended June 2009, a decline of 3.5% compared to the previous year and represented 54.7% of total gross loan portfolio.



Composition of Liabilities

The total liabilities of the banking system amounted to US$277 million and represented 103% of total assets while capital amounted to US$ 8.5 million. Total liabilities rose by 10.2% in relation to June 2008. The growth in deposits also reflects the BPA decision taken during the year to authorize the institution holding a restricted license to accept more deposits.

Liabilities consisting of two primary sources which are (i) due to depositors and (ii) placements from other banks. Due to depositors amounted to US$240.6 million and represented 89.6% of total assets, an increase of 19.5% in relation to June 2008. With respect to this amount, 57.6% was attributed to demand deposits, 33.9% to savings deposits and 8.4% to term deposits. Placements from other banks amounted to US$ 29.6 million representing 11% of total assets, a decline of 32.6 in relation to the previous year.

Structure of Liabilities & Capital

Items	Jun-08	% of total assets	Jun-09	% of total assets
Due to BPA	2,417	1.0%	3,349	1.2%
Placement to Others Banks	43,984	18.9%	29,625	11.0%
Depositors	201,389	86.3%	240,658	89.6%
Other	3,619	1.6%	3,480	1.3%
Capital	- 18,082	-7.7%	- 8,540	-3.2%
Total Liab.& capital	**233,326**	**100.0%**	**268,572**	**100.0%**

Profitability

The main source of income in the banking system was interest income, which amounted to US$5 million, and represented 48.9% of the gross operating income, a decline of 22.4% in relation to June 2008. The proportion of income earned from loans and advances to customers reduced by 3.5% and corresponded to 35.4% of gross operating income.

Other operating income rose to US$ 5.6 million over the period from US$ 3.9 million in June 2008 and represented 49.8% of net interest income. As a percentage of total assets it represents only 2.1%. Meanwhile interest expenses at the end of June 2009 amounted to US$ 0.8 million, a decline of 7.2% compared to the same period last year. It was a result of the lower interest paid on deposits that also reduced 14.2% compared to the previous year, the decline due to the new Taxes and Duties Act that promulgate on 25 June 2008. However the total profits of the overall banking system for the period ended 30 June 2009 registered an amount of US$ 4.6 million.

Overview of Timor-Leste Payments System

The following table shows the number of items and value cleared through the Dili Clearing House during the period 2008/09. In total were transacted an amount of cheques of 14 thousand in a total value of USD 69.5 millions, while the payments notes of 12.7 thousand with the total value of USD 176.1 millions. The return cheques were a minor amount: 69 cheques only.

Month	Cheques				Notes				Return Cheques				Return Notes			
	Numbe	Average	Value	Average	Number	Average	Value	Average	Num	Avera	Value	Average	Numb	Avera	Value	Average
July 2008	1345	58	5,320,839	231,341	1141	50	10,900,776	473,947	6	6	64,070	64,070	5	5	2,666	116
August	1192	60	5,038,933	251,947	1015	51	11,159,592	557,980	4	0.2	17,173	859	10	1	183,551	9,178
September	1283	58	8,061,353	366,425	1359	62	14,143,095	642,868	3	0.14	15,280	695	17	1	50,047	2,275
October	1304	59	7,934,111	360,641	1362	62	16,012,750	727,852	3	0.14	10,791	490	20	1	79,793	3,627
November	1085	60	4,615,296	256,405	1142	63	18,674,853	1,037,492	2	0.11	8,777	488	23	1	179,856	9,992
December	1545	77	7,487,800	374,390	1399	70	22,848,848	1,142,442	12	0.6	143,796	7,190	17	1	153,768	7,688
Jan-09	1144	57	5,137,330	256,866	1331	67	20,545,248	1,027,262	13	0.7	218,454	10,923	35	2	230,310	11,515
February	1258	63	5,587,684	279,384	877	44	12,932,471	646,624	10	0.5	54,826	2,741	11	1	45,332	2,267
March	1510	69	7,852,585	356,936	1217	55	27,305,120	1,241,142	5	0.23	22,192	1,009	20	1	131,516	5,978
April	1268	60	6,065,235	288,821	976	46	10,850,958	516,712	5	0.24	37,005	1,762	22	1	135,731	6,463
May	1147	60	6,064,118	319,164	900	47	10,039,037	528,370	6	0.32	88,342	4,650	20	1	45,462	2,393
June	65	65	352,685	277,077	37	49	739,269	1,013,062	0	0	-	-	1	2	868	24,905
Total	**14146**	748	**69,517,968**	3,619,397	**12756**	666	**176,152,017**	9,555,753	**69**	9.11	**680,706**	94,876	**201**	17	**1,238,899**	86,397

The BPA had reviewed the format and information on the monthly payment systems statistical report submitted by Commercial Banks. BPA issued a guideline to Commercial Banks in order to ensure the uniform data which contains the information on cash transactions, non-cash transaction, and international funds transfer, which can be seen in the following table:

1. CASH TRANSACTIONS	1st quarter		2nd quarter		3rd quarter		4th quarter	
	Number	Vaule	Number	Vaule	Number	Vaule	Number	Vaule
Counter cash deposits	66799	$340,419,396	63448	$319,454,915	66421	$248,687,305	68651	$256,708,370
Counter cash withdrawals	86936	$270,841,304	89920	$214,263,210	87794	$198,591,258	90900	$196,076,267
Number of Cheque accounts	202	n/a	205	n/a	250	n/a	370	n/a
Number of savings accounts at	3329	n/a	4006	n/a	3547	n/a	5654	n/a
Number of Time Deposit at	45	n/a	54	n/a	36	n/a	66	n/a
Number of other credit accounts	171	n/a	840	n/a	542	n/a	330	n/a
Number of ATMs	12	n/a	11	n/a	13	n/a	13	n/a
Number of ATM/POS card	1462	n/a	1013	n/a	1704	n/a	1208	n/a
ATM cash Withdrawals	119016	$16,026,368	125769	$16,064,516	117693	$14,898,807	125659	$17,927,376
Number of POS terminals	32	n/a	32	n/a	34	n/a	34	n/a
Pos Transactions (EFTPOS Debit Card)	534	$39,211	471	$36,636	360	$18,182	301	$32,575
Pos Transactions (EFTPOS Credit Card)	2306	$874,240	1997	$1,094,130	1590	$953,567	1995	$1,137,134
2. NON-CASH PAYMENT TRANSACTIONS								
Credit cards at 31 July	0	n/a	0	n/a	0	n/a		n/a
Credit cards transactions - local credit cards	0	$0	0	$0	0	$0	0	$0
Credit cards transactions - foreing credit cards	14647	$4,138,850	14494	$3,842,450	13856	$3,550,350	14515	$3,930,440
Cheque transactions (on-us)	20083	$200,912,372	10764	$69,562,653	13241	$88,483,114	9281	$129,016,967
Cheque transactions (received via clearing)	5333	$41,172,198	4870	$22,504,446	4933	$24,879,598	4683	$25,356,146
Cheque transactions (received out of clearing)	0	$0	0	$0	0	$0	0	$0
Cheque transactions (Sent via clearing)	3134	$14,525,673	2958	$18,306,731	2906	$14,558,446	2951	$12,438,530
Cheque transactions (sent out of clearing)	0	$0	2	$782,219	0	$0	0	$0
Credit transfer transactions (on-us)	974	$14,263,421	678	$13,101,434	831	$17,909,150	1065	$22,701,157
Credit transfer transactions (received via clearing)	3450	$36,853,197	3868	$56,699,519	3421	$59,244,346	3108	$34,545,381
Credit transfer transactions (received out clearing)	196	$54,783,469	234	$54,759,354	251	$76,325,406	291	$50,594,743
Credit transfer transaction (Sent via clearing)	771	$8,225,609	708	$11,316,531	666	$16,959,361	619	$16,290,878
Credit transfer transactions (sent out of clearing)	14	$9,575,862	14	$9,281,228	21	$12,990,051	46	$20,771,910
3. INTERNATIONAL FUNDS TRANSFERS								
Incoming transfers - SWIFT	3039	$111,042,509	3042	$162,219,239	2981	$144,648,776	3078	$85,937,457
Incoming transfers - non SWIFT	130	$4,484,162	118	$1,061,330	110	$2,599,973	116	$1,976,288
Outgoing transfers - SWIFT	3769	$113,476,748	4639	$143,305,942	4269	$128,625,702	4217	$128,613,625
Outgoing transfers - non SWIFT	2434	$73,173,652	2739	$64,321,851	2497	$46,467,699	2154	$38,645,214

Currency arrangements

During the financial year of 2008/09 the BPA organized public education program in all territory of Timor-Leste. This program was focused on proving basic information and education to the public in order to know better the genuine of the currency and therefore could be more familiar with the currency. The objective was for the public to be able to detect and know the difference between genuine and counterfeit banknotes and coins. The program informs the public about the basic security features of banknotes and coins. This program also provided information to the public on what must be done if a counterfeit note and coin is found.

The program was done trough Visit to Districts and Sub District, through TV Program, Radio Program, Brochures and Posters, and Provide training to the relevant entity such as Policy Investigation Unit. The program has successfully achieved the objective.

Currency transactions

The following table shows the currency transaction during the FY of 2008/09:

Quarter	Importations	Circulation Currency				Exportations / Repatriations Currency
		Circulated	Deposited Fit Currency	Deposit Unfit Currency	Issued Centavos	
Quarter I	35,360,000.00	44,652,589.00	18,886,119.00	2,922,200.00	202,500.00	1,766,000.00
Quarter II	23,120,000.00	69,508,879.00	39,885,681.00	3,070,000.00	111,000.00	-
Quarter III	12,960,000.00	48,861,141.00	51,616,241.00	3,401,200.00	39,000.00	4,560,000.00
Quarter IV	8,720,000.00	57,039,475.50	34,737,370.50	3,195,000.00	94,500.00	3,922,000.00
Total	80,160,000.00	220,062,084.50	145,125,411.50	12,588,400.00	447,000.00	10,248,000.00

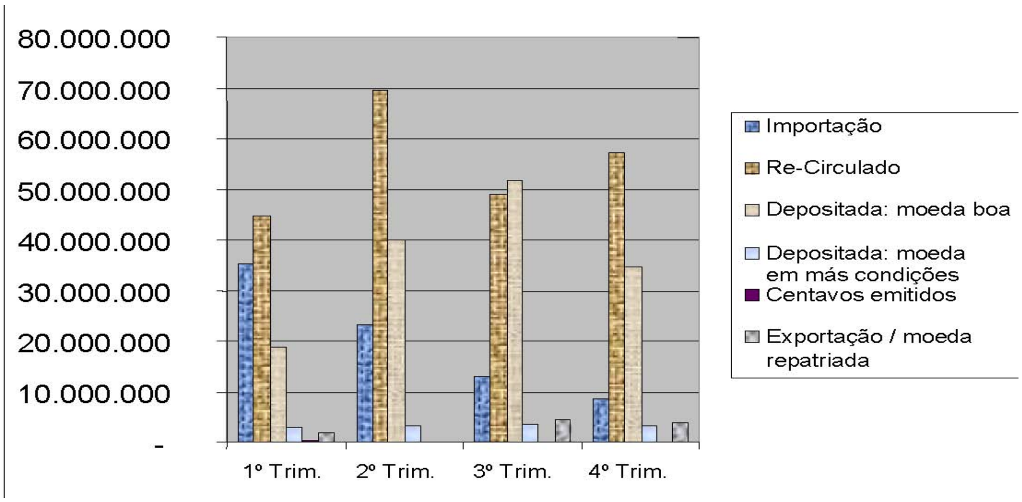
During the financial year the BPA has imported fit/new USD banknotes of US$ 80.00 million from the Federal Reserve Bank of New York (FRBNY). The largest value of banknote imported was US$20, with a total amount of US$ 25.9 million, and the smaller amount imported was of USD1 with the total amount of USD 2.24 millions. The biggest banknote, the USD 100, was imported of USD 12.8 millions.

The repatriation note with the largest value was the USD 5, with the total of USD 3.68 millions, followed by USD 1, with the total amount of USD2.05 millions.

The major importance of banknotes was circulated in to circulation during the period was the USD 10 with the total amount of USD 86.93 millions, followed by de USD 20 with the amount of USD 79.92 millions. The coins of 50 centavos was circulated a total amount of USD 497 thousand.

The coins (centavos), during the period of July 2008 – June 2009 were circulated in to circulation an amount of USD 180 of 50 centavos, the reminder (except the 1 centavos) were USD 267 thousand.

The counterfeit banknotes reported to the BPA during the period were reduced.



Banking services

The settlement of cash transactions during the financial year was increased, such as recuperation payment to Internal Displacement People (IDP's), subsidy for old people (*idosos*), or payment to petitioner.

Those months of which the total value was paid through the BPA was; the smaller in February/09, with the total amount of USD 3.7 millions, and the biggest was in October/08 with the total amount of USD 25.5 millions. From these lattes months the daily payments were, in average, of USD 1.16 million, versus USD 0.18 million in February/09. The following table summarizes the cash payment was made by BPA during the period of 2008/09:

MONTH	Total Items	Value (In US$)	Average Items perdays	Average Value per day (in US$)	Average Value per-items (in US$)
July 2008	1,306	11,816,540.21	59	537,115.46	9,047.89
August 2008	489	12,212,294.21	22	555,104.28	24,974.02
September 2008	702	11,052,389.27	35	552,619.46	15,744.14
October 2008	1,350	25,520,257.90	61	1,160,011.72	18,903.89
November 2008	569	12,944,338.33	32	719,129.91	22,749.28
December 2008	812	12,087,935.46	45	671,551.97	14,886.62
January 2009	556	8,234,928.33	25	374,314.92	14,811.02
February 2009	487	3,742,000.61	23	178,190.51	7,683.78
March 2009	626	8,146,912.61	31	407,345.63	13,014.24
April 2009	689	7,304,630.74	31	332,028.67	10,601.79
May 2009	556	5,976,431.29	29	314,549.02	10,748.98
June 2009	683	16,183,729.22	33	770,653.77	23,695.06

Settlement Services

During this financial year, the BPA was consistent to provide settlement activity of interbank payment either for domestic or international purpose on behalf of its customer such as Government, interbank payments and BPA itself.

These transactions during the FY can be seen in the following table:

Month	Domestic LVTS (Large Value Interbank Payment)		Domestic Retail Funds Transfer through CH		Outgoing Transfer (International Transfer)		Incoming Transfer (international Transfer)	
	Number	Value	Number	Value	Number	Value	Number	Value
July 2008	53	$8,725,934.05	870	$8,174,924.50	120	$20,352,544.81	7	$3,128,697.00
August 2008	75	$19,166,755.92	743	$8,197,418.64	62	$19,879,713.55	4	$3,085,789.53
September 2008	87	$29,260,962.87	888	$8,631,460.87	82	$52,067,189.67	8	$5,204,103.99
October 2008	62	$17,246,356.29	1139	$12,886,268.63	121	$45,380,567.06	12	$845,993.72
November 2008	82	$17,403,992.27	951	$14,104,167.54	89	$45,415,383.71	5	$146,760.40
December 2008	111	$25,810,479.14	1152	$17,671,927.24	91	$37,440,202.35	11	$388,385.57
January 2009	66	$15,623,289.04	1149	$16,728,200.48	99	$55,159,180.57	6	$64,377.08
February 2009	60	$16,590,036.93	668	$9,402,036.53	96	$40,916,215.25	15	$5,007,504.14
March 2009	140	$42,855,062.80	1010	$37,308,101.03	133	$65,836,345.73	12	$2,985,151.36
April 2009	112	$19,551,143.13	778	$6,486,317.88	51	$36,802,006.32	8	$5,236,138.45
May 2009	104	$24,774,032.81	729	$6,600,134.10	52	$27,197,443.45	6	$2,686,612.08
June 2009	99	$9,742,360.66	1039	$10,100,747.58	64	$35,823,291.75	7	$3,688,892.03
Total	1051	$ 246,750,405.91	11116	$156,291,705.02	1060	$482,270,084.22	101	$32,468,405.35

2 - Organization, governance and activities

This chapter provides an overview of the BPA's governance structure and key important activities undertaking during the financial year 2008/09. The brief summary of key activities conducted during the year mainly covers the main functions in which the BPA is responsible for as well as activities that support the institutional settings and strengthening.

2.1. ***Organization and governance of the BPA***

Organization and governance

The Banking and Payments Authority (BPA) is a distinct autonomous public legal entity accountable for its operations to the Prime Minister and it enjoys complete legal, operational, administrative and financial autonomy from any other entity. The core objectives of the BPA are to achieve and maintain domestic price stability to foster the liquidity and solvency of a stable market-based banking and financial system, to execute the foreign exchange policy of Timor-Leste, and to promote a safe, sound, and efficient payment system.

In order to achieve these objectives, the BPA carries out the following activities:

1). advices the Government of banking and monetary matters;

2). Ensure adequate supply of the US dollar notes and centavos coins;

3). Operate and oversees the national's payments and settlement system;

4). Is the banker to the Government;

5). Licenses, regulates and supervises financial institutions (mainly banks, insurance companies, currency exchange bureau);

6). Manage the petroleum fund of Timor-Leste.

7). Compile the Balance of Payments statistics.

8). Manage and operate credit information system for banks and other credit providers.

9). Carries out economic research and analysis.

The highest organ in the BPA is the Governing Board which determines the strategic policies for the Institution. The General Manager is the chief executive officer of the Institution and assisted by a Management Committee in the decision making process.

Detail composition of the Governing Board and the Management Committee are listed at the end of this chapter.

Currently the BPA is organizing into four main departments i.e. Financial System Supervision, Banking and Payments System, Petroleum Fund Management, and Administration. In addition there are independent divisions and offices that report directly to the General Manager i.e. Division of Budgeting and Accounting, Office of Legal Affairs, Office of Internal Audit, and the Division of Economic and Statistics.

The BPA also provides the secretarial functions to the Investment Advisory Board.

2.2. *BPA's Activities*

The financial year of 2008/09 has been a year of opportunity as well as challenges for the BPA as a juvenile institution which is trying to learn from the experiences and addressed the challenges ahead. The current financial crisis has given BPA the opportunity to learn from its peers on how to address the distress. The lessons learnt have been enormous not only in relation to the areas where a central bank has to deal with but the most important things are a proper institutional setting to deal with the distress.

During the financial year 2008/09 the BPA continued to work towards introducing key policies to support the development of the banking system and to ensure a safe and effective payments and settlements system in the country. Various programs have also been introduced to facilitate the community to familiarized them self with the legal tender of Timor-Leste.

In relation to the management of the Petroleum Fund the BPA has worked very closely with the Ministry of Finance as well as the Investment Advisory Board to conduct a strategic review over the management of the Petroleum Fund. The BPA has played an important role for the successful management of the petroleum fund.

Under the technical assistance program provided by the International Monetary Fund (IMF) the BPA has successfully completed the compilation and publication of the first Balance of Payments reports for Timor-Leste. In the International Financial Statistics, Timor-Leste has been one of the countries which have followed the Standard Report Forms issued by the IMF.

Another major project undertaken during the year was the review and the implementation of an integrated system for human resource management. The project has been successfully implemented with technical assistance provided by Bank of Portugal. The project has taken considerably amount of time of the management and eventually endorsed by His Excellency the Prime Minister.

As a young institution the BPA continues to invest heavily in its capacity-building program. Arrangements have been made with a number of institutions to allow BPA staff to attend training programs and secondments. A number of staff have participated in various training programs organized by different entities such as Bank of Portugal, Bank Indonesia, Bank Negara Malaysia, Indonesian Banking Institute, SEACEN, IMF Institute in Singapore, etc.

2.2.1 Key policy initiatives

During the financial year 2008/09 the BPA continued to work towards introducing key policies to support the development of the banking system and to ensure a safe and effective payments and settlements system in the country.

Credit information system

A credit information system called "Credit Registry Information System" was introduced to assist banks to provide timely, accurate and reliable information regarding individual, small and medium enterprises and corporate credits, and which is expected to flow through to improved credit behavior throughout the economy. The legal framework put in place to operate the system defines the characteristics and conditions to operate the system.

Investment in the system has been entirely covered by the BPA. This is a web based system which will provide the participating entities (banks) with information on a timely basis. The system has been design to certain extend to accommodate the possibility to track a collateral pledged.

The Governing Board of BPA has determined that the system will be provided for free in the initial years.

Large value transactions settlement

A new Rule on the settlement of large value transactions was issued to reduce the financial risks associated with the processing of large payments through the Clearing House and to reduce the exposure of the national payment system of Timor-Leste to settlement failures. The system enables large and/or high priority interbank payments to be processed within the same business day (near real time).

Clearing and settlement of interbank payments

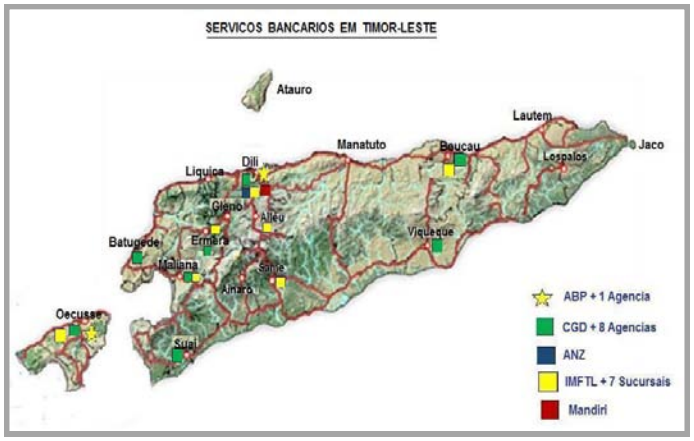
The BPA also issued a Rule on the Clearing and Settlement of Interbank Payments to supersede the Instruction n^{o}. UNTAET/CPO/INST/2001/01 regarding Clearing and Settlement Arrangements among Banks Licensed to operate in Timor-Leste dated 5 April 2001.

This Rule contains provisions on clearing house procedures, netting arrangements, bank routing numbers, management of liquidity and credit risks, and mmoney market activities.

The Rule outline the methods to manage and reduce the financial risks associated with the processing of payments through the clearing house and defining the rules, procedures and responsibilities for clearing payments between banks licensed to operate in Timor-Leste.

2.2.2 *Financial system and banking services*

The banking sector continues performing well during the year despite the persistent problems with the non performing loans experienced. Efforts are being made to loosen the situation.



Until the end of this financial year the presence of banks in the districts has been significant compared with the previous three years. Nine districts have been covered by banks' network with a total of 18 offices and agencies (including 5 offices and agency in the capital Dili). The nearby box shows the distributions of the network.

During the year the BPA has processed a number of applications for insurance businesses and currency exchange bureaus. The Governing Board of BPA has approved to grant a license to a currency exchange bureau, R & R Associate Currency Exchange Bureau, Unipessoal Ltd. The Board also decided to grant a preliminary approval for an insurance company, National Insurance of Timor-Leste and given a period of one year to fulfill the conditions set by the BPA prior to the issuance of a final license. Meanwhile, the Board also decided to deny an application to establish an insurance broker in Timor-Leste.

Microfinance sector

The BPA has engaged in reviewing of the microfinance sector. Microfinance is a sector that is crucial to outreach the basic financial services into the unreachable areas.

The BPA has committed to work very closely with key stakeholders to review and to formulate proper policy to promote the development of the sector.

Banking services

Over the last years the BPA continue to play important roles in educating the community and businesses on the use of the official currency. Various programs have been introduced through public education campaign using different means that cover all territory of Timor-Leste. During the year the BPA focused its program to educate the population to differentiate the counterfeit notes. The program was conducted through staff visit to each district and sub districts, TV and radio programs, distributions of brochures and posters as well as training to relevant entity such as the national police including National Investigation Unit.

One of the mandates of the BPA is to ensure sufficient supply of banknotes and coins. During the year the BPA has circulated considerably amount of banknotes and coins through commercial banks and the BPA counters with an about $ 220.1 million or an increase of 67.6% compared to last year. This increase was largely to meet the demand for government payments.

2.2.3 *Petroleum Fund management*

During the year under review the BPA has worked very closely with the Ministry of Finance as well as the Investment Advisory Board to conduct strategic review over the management of the Petroleum Fund which included the following:

- A review of the investment mandates which have been expanded to include a global bond component and a small exposure to global equities;
- The conclusion of contract negotiations with the Bank for International Settlements (BIS) and the transfer of an initial mandate of one billion dollars;
- Assistance to the Ministry of Finance to prepare a draft policy on transparency issues for consideration by the Minister.
- Preparations for the appointment of the Fund's first commercial external managers.

2.2.4 *Development of Institutional Strengthening*

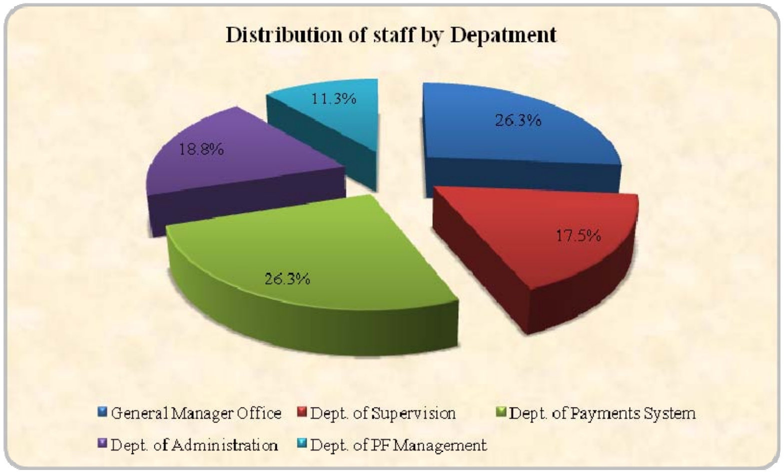
Under the technical assistance program provided by the International Monetary Fund (IMF) the BPA has successfully completed the compilation and publication of the first Balance of Payments reports for Timor-Leste.

On the International Financial Statistics, Timor-Leste has been one of the countries which have followed the Standard Report Forms issued by the IMF. The first publication was made in the International Financial Statistics in country page issued by the IMF in the March 2008 and it has been regularly published since then.

2.2.5 Staffing and capacity-building program

Staffing arrangements

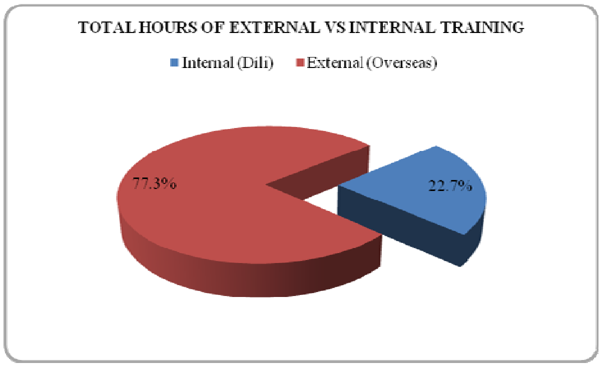
The BPA has completed a workforce assessment to measure the staffing needs over five years time to accommodate the possible expansion of BPA activities and operations.



The total number of staff currently employee by the BPA is 80 people and the current work condition does not permit any increase in the number of staff. The nearby box presents the distribution of staff by departments. The number of staff counted under the general manager's office includes staff in units report directly to the General Manager. About 30% of the total staff are women and 52% of them are occupying line positions at the BPA.

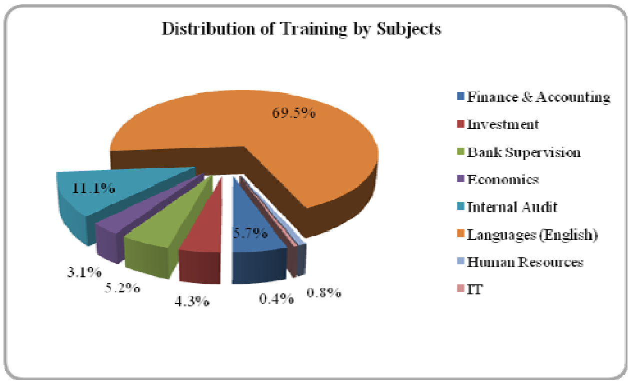
Capacity-building program

The BPA continues to invest heavily in its capacity-building program. Discussions were made with a number of central banks and other entities to allow for the BPA staff to undertake training program as well as attachment. Discussions were also made with a number of universities to



allow BPA staff to pursue postgraduate program. A number of staff have participated in various training programs organized by different entities such as Bank of Portugal, Bank Indonesia, Bank Negara Malaysia, Indonesian Banking Institute, SEACEN, IMF Institute in Singapore, etc. The following table shows the number of hours of training attended by BPA staff and officials overseas.

During the year under review a remarkable number of staff about 87% have attended trainings in technical knowledge and/or skills development, resulting in a total of 11140 training hours organized both locally and overseas. The nearby box shows the comparison between training provided overseas and in house.



Each year the BPA continues to allocate adequate resources to enable its staff to participate in training programs adjusted to its specificities.

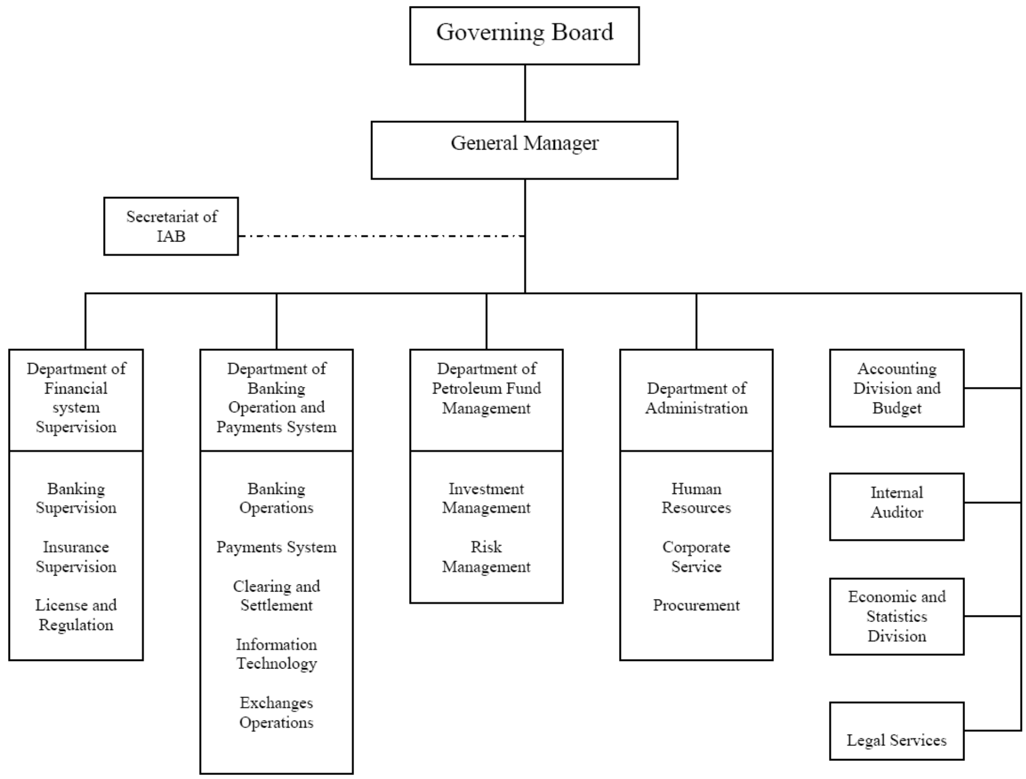
The graphic below shows the distributions of training based on specialties relevant to support the BPA activities and operations.

2.2.6 External Relations

The Management of the BPA continues to put effort in expanding the cooperation programs with other institutions including other central banks. A cooperation agreement has been signed with the Monetary Authority of Macau in the areas of training and technical assistance program.

The BPA expects that its staff will continue benefits from the training program organized by Bank of Portugal, Bank Indonesia, Reserve Bank of Australia, Bank Negara Malaysia, SEACEN, IMF Institute in Singapore, BIS, etc. Discussions were also made with different entities such as JP Morgan, Mercer, BIS, KPMG, Deloitte and others to allow for the BPA staff to participate in the training and attachment programs.

Organization of BPA as of 30 June 2009



Governing Board

Chairman
Abraão F. de Vasconselos

Member
Maria José de Jesus Sarmento

Member
Nur Aini Djafar Alkatiri

Senior Management

General Manager
Abraão F. de Vasconselos

Deputy General Manager for Supervision
Maria José de Jesus Sarmento

Deputy General Manager for Payments
Nur Aini Djafar Alkatiri

Chief Accountant
Fernando da Silva Carvalho

Director of Administration
Raquel Gonçalves da Costa

A NEW MILESTONE
FOR A BETTER HUMAN RESOURCES MANAGEMENT SYSTEM

Background

The Banking and Payments Authority (BPA) is the central bank of Timor-Leste. The BPA is a distinct autonomous public legal entity, accountable for its operations to the Prime Minister. The Institution is responsible for licensing, and supervision of financial institutions mainly banks, insurance companies and currency exchange bureau, overseeing the national payments system, act as banker to the government. The BPA is also responsible for the operational management of the petroleum fund. A task that requires strong institutional setting and supported by qualified human resources.

At the early stage of its establishment the Institution was managed by international expatriates under the technical assistance program of the International Monetary Fund. Since August 2004, all line management positions have been Timorized with a small number of expatriates remained as advisors in key areas.

Diagnosis

Since July 2004 with the endorsement by His Excellency the Prime Minister, the BPA introduced its own terms and conditions of employment including remuneration system.

In 2006 the BPA engaged an international firm specializes in Human Resource Management to review its HR management system including its workforce plan. The review also covered the current remuneration conditions and the strategy towards retention and attraction of qualified human resources. A separate independent review process was also conducted with the assistance from Bank of Portugal with the view of developing a comprehensive HR management system. The result of the review indicated to the fact that the BPA's salary level did not competitive enough to attract and retain qualify staff compare with the local labor market.

Subsequently, a different consulting firm, HUMANPERSI, was engaged to develop a new ***Human Resources Management Integrated System*** called "SIGRH".

The BPA in May 2008 introduced a "tripartite arrangement" which composed of the BPA, Bank of Portugal and the HUMANPERSI to implement and develop the SIGRH.

An intensive diagnosis took place where a transversal data gathering process was conducted to allow for the definition of the current and target status of the BPA's HR system focused on the **Organizational Merit Culture.** This target status was set due to the fact that the existing culture was based upon Antiquity framework. The target set was to concentrate on the most urgent interventions required for the Institution:

- Attraction and retention of qualified staff (mainly through salary repositioning);
- Implementation of a technical competences and its development center;
- Progressive empowerment and decentralization;
- Cultural alignment with BPA's mission, vision and strategy.

His Excellency the Prime Minister in January 2009 endorsed the new Terms and Conditions of BPA's Employment including the new salary structure.

SIGRH design

The objectives of this design is to close the gap between current and target status. It was therefore decided to reconstruct the Human Resources components integrated and aligned with the current and long-term strategy of the BPA, which describe below:

1). Organizational Values

The Organizational Values are the first structuring element of SIGRH, expressing the strategy adopted by the institution and incorporating its guiding principles. It is a communication tool that reinforces BPA common identity between employees and states the promising values that the BPA assumes before its shareholders.

Transparency	• Somos um exemplo para a sociedade e para as instituições, os nossos procedimentos e regulamentações são aplicados interna e externamente de forma universal, consistente e rigorosa
Integrity	• Exercemos a nossa actividade com honestidade e altos padrões ético-morais, respeitando a confidencialidade e legalidade em todas as decisões que envolvem os interesses e recursos da ABP
Mobilization	• Prestamos o melhor serviço à comunidade de Timor-Leste, através da nossa determinação para ouvir, aprender e assessorar
Ownership	• Demonstramos um sentimento de pertença e envolvimento para com a ABP, estabelecendo como prioridade os objectivos da instituição e demonstrando vontade para desempenhar tarefas para lá do que nos é pedido
Responsibility	• Investimos no desenvolvimento das nossas capacidades técnico-profissionais, decidimos de acordo com as responsabilidades que proactivamente assumimos através da monitorização contínua das consequências das nossas acções

Ilustração 1: Tabela de Valores da ABP

2). Job Assessment

The second stage of the review was to conduct a comprehensive job assessment where evaluations were made to each existing job at the BPA including jobs that require over in the medium-term. The evaluation was conducted using the ***HUMANPERSI*** (HPS) model where each JOB is evaluated according to its importance to the BPA cover two main factors i.e.: the demanded profile and the degree of empowerment.
The evaluation of each post results in an absolute number required between 1 and 100 which states the hierarchy of all the micro structure in the BPA which implies that the closest a job is to 100 the more important it is for the BPA.

3). Organizational Competences Model

The third stage was to develop a Competences Model which states the skills, knowledge, and attitudes required by each Job using objective behaviors definition. This model is an integral component of SIGRH since it connects each Job and the respective Employee with the Organizational Values.
The Model ultimately defines behaviors that each employee must present daily (and so it is part of the performance evaluation system) and the target behaviors when engaging new employees (being also part of the recruitment and selection process).
The Competences Model is set up in 3 clusters: Core Competences (Generic for all), Management Competences and Specific Competences, being distributed according to each Job Family. Each competence is described in 4 behaviors representing different degrees of requirement. In sum, the higher a Job is in terms of Career, the more demanding will be the behaviors to present.

Ilustração 2: Competências exigidas a cada Família de Funções na ABP

4). Careers system

The fourth step was to develop a new Careers system expanding from one Career to three and introducing the concept of Category within each of these three careers. Each employee will progress and promoted according to his/her profile. E.g. an Assistant career does not have to become an Officer in order to evolve or an Officer to become a Manager.
The new career system values performance instead of working experiences (# of years). Employees who achieve the target results will progress faster. This occurs since the results will be objectively assessed and have direct impact on movement through professional career. This is a transparent system to ensure that each employee understands the requirements for career progression and the long-term consequences for their performances.
The system will allow early identification of employees with potential to develop in the career system. It is also beneficial for the Institution over the long run in terms of succession planning, employee retention and ultimately enhances the employees' motivation.

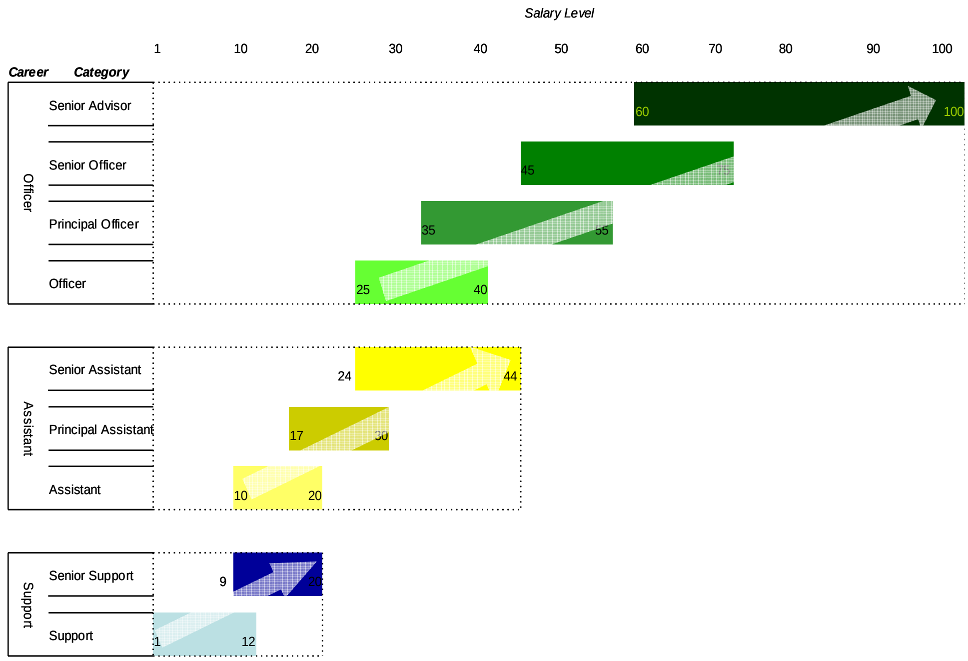


Ilustração 3: Sistema de Carreiras na ABP

5). Remunerations and bonus system

This step was to introduce a reasonable and competitive remuneration structure based on information available from the local labor market. The new remuneration structure connects the new Careers System introduced as well as the importance of each Job in the Institution. The salary level for each employee was based upon the result of individual job assessment conducted which the level presents between 1 and 100.

6). Performance Improvement System (PIS):

The performance evaluation process is designed to be the ***key element*** of all the SIGRH. This is the most important element of the ***Human Resource Management Integrated System*** to administer the performance improvement process in the BPA and it is a mandatory exercise. The system allows for better transparency in the performance evaluation process with apparent objectives and measurable. The system is also a means of working communication to upgrade the BPA's performance.
PIS will provide inputs of the Institution to the employee about the desired results to be achieved in the following financial year with objective measurement of the results. Provide systematic rewards for employees who perform better while giving the space for the Institution to discuss feedbacks from the employees.

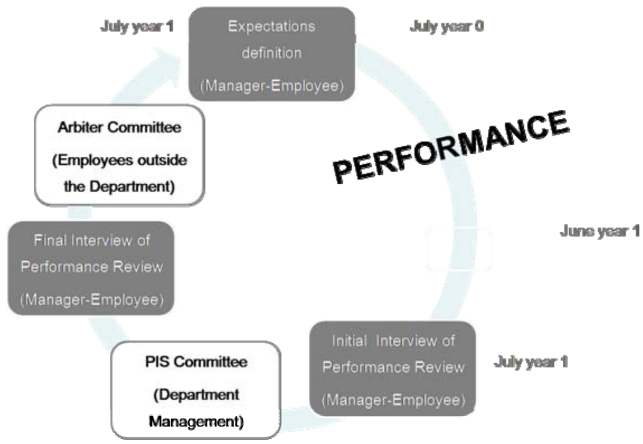


Ilustração 4: Fases do PIS

7). Code of Conduct

In order to maintain its credibility and integrity as well as fulfill the institutional values the BPA has also introduced a new Code of Conduct which apply to all employees and consultants engaged by the BPA. This is a ***behavioral standard*** that every employees and consultants of the BPA are required to comply with.
The following is the extract of the approved Code of Conduct:

SECTION III

General requirements

Article 9

Code of conduct

1. All persons who have contractual obligations with the BPA shall at all times adhere to the policies set out in the following:

(a). Employees of the BPA shall carry out their duties and conduct themselves solely with the interests of the public and the BPA in mind; they shall neither seek nor take instructions from any parties including from government agencies, financial institutions, or person outside the BPA.

(b). Employees of the BPA shall exercise honesty and diligence in the performance of their duties and responsibilities.

(c). Employees of the BPA shall exercise loyalty in all matters pertaining to the affairs of the BPA and shall satisfy theirself that every proposed activity is legal and proper.

(d). Employees of the BPA shall refrain from engaging in acts or activities which may result in damage to the reputation of the BPA.

(e). Employees of the BPA shall ensure that at all times comply with the laws and regulations of Timor-Leste and the policies of the BPA.

(f). Employees of the BPA shall refrain from entering into any activity which may be in conflict with the interest of the BPA or which would prejudice their ability to carry out duties and responsibilities.

(g). Employees of the BPA shall avoid engaging in activities that may result in harm to other persons.

(h). Employees of the BPA shall ensure that the public interest is taken into account when developing any BPA rule, regulation, guideline or procedure.

(i). Employees of the BPA shall refrain from accepting anything of value from an employee, client, customer, supplier, or business associate of the BPA other than items procured in the normal course of business.

(j). Employees of the BPA shall avoid using confidential information for any personal gain or for any manner which would be contrary to law or detrimental to the welfare of the BPA.

(k). Employees of the BPA shall avoid in practices such as betting, gambling and speculative activities to an extend which may be deemed imprudent or which may cause embarrassment to the BPA.

(l). Employees of the BPA are required to report any suspected fraud or contravention of the BPA approved policies to the Internal Audit Manager as required in the BPA Fraud Control Plan.

(m). Employees of the BPA shall refrain from removing computer data from the BPA premises except when specifically authorized to do so.

(n). Employees of the BPA shall follow equitable employment practices by promoting equal employment opportunities, following non-discriminatory behavior when engaging in the recruitment, evaluation, or dismissal of employee and refraining from any form of sexual harassment.

2. Details on the Code of Conduct shall be laid down in a different instrument approved by the Governing Board.

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Ilustração 5: Excerto do código de conduta em "Terms and Conditions of Employment"

The next steps…

In order to implement the new ***Human Resource Management Integrated System*** a dedicated team has been appointed to ensure proper implementation if the system. Intensive training program have been conducted covering various levels in the Institution including special training for the HR team.
The BPA is also currently developing two sets of policies i.e. policy for recruitment and training management policy.

1). Recruitment and Selection (R&S) process

In order to ensure that the recruitment and selection process are in line with the new ***Human Resource Management Integrated System*** implemented an appropriate policy for recruitment and selection process need to be in place.
The policy will focus on the selection of candidates aligned with the BPA Values and Competences as well as the identification of potentials.

2). Training Management process

The BPA has invested and continue to invest heavily on capacity building program therefore, an appropriate training policy will need to be develop.
The new Training Management process will place emphasis on internal development of a training center. Access to trainings and to scholarships program will be reviewed in order to ensure transparency in the process while maintain flexibility in the process. The Human Resources will increase their responsibility in assessing training efficiency and monitoring the programs.

Banking and Payments Authority of Timor-Leste

FINANCIAL STATEMENT FOR THE YEAR

ENDED 30 JUNE 2009

30 of October, 2009

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STATEMENT OF COMPLIANCE

The Financial Statements on pages 2 to 5 and the Notes from pages 6 to 34 which form an integral part of these statements have been prepared by the Management and approved by the Governing Board of the Banking and Payments Authority of Timor-Leste. I declare that these Financial Statements comply with the requirements of Regulation 2001/30 and fairly present the true financial position and performance of the Banking and Payments Authority of Timor-Leste as at 30 June 2009.

Dili, October 26, 2009

Abraão de Vasconselos
General Manager

Balance sheet
As at 30 June
In thousands of United States dollars

	Note	2009 $	2008 $
Assets			
Cash and cash equivalents	5	31,043	46,260
Marketable securities	6	172,854	52,790
Investments	8	12,728	13,395
Property, plant and equipment	9	863	895
Other assets	10	4,652	479
Total Assets		**222,139**	**113,819**
Liabilities			
Government deposits	11	159,221	59,371
Other deposits	12	32,464	29,350
Provision for transfer of surplus to Government	13	69	1,587
Other Liabilities	14	7,803	1,320
Currency issued		2,564	2,202
Total Liabilities		**202,121**	**93,830**
Equity		20,019	19,989
Total Liabilities and Equity		**222,139**	**113,819**

Profit and Loss Statement
For the year ended 30 June
In Thousands of United States dollars

	Note	2009 $	2008 $
Operating Income			
Investment income:			
Interest income	17	1,408	7,369
Realised gain/(loss)		97	-
Expenses on financial liabilities:			
Interest expense	17	(310)	(5,297)
Net investment income		**1,195**	**2,072**
Fees and commissions	18	604	517
Petroleum fund management fee	19	1,454	1,043
Other Income		(118)	93
Total Operating Income		**3,136**	**3,725**
Expenses			
Personnel expenses	20	930	624
Currency distribution expenses		490	365
Administration expenses	21	1,502	1,014
Depreciation	9	145	133
Total Expenses		**3,067**	**2,136**
Operating Profit		**69**	**1,589**

Statement of Changes in Equity
For the year ended 30 June
In Thousands of United States dollars

	Note	2009 $	2008 $
Capital			
Opening balance		20,000	18,227
Transfer from/(to) General Reserve		0	1,773
Closing balance		**20,000**	**20,000**
General Reserve			
Opening balance		0	1,772
Transfer to Capital Account		-	(1,773)
Transfer from retained earnings		-	1
Closing balance		**0**	**0**
Fair Value Reserve			
Opening balance		(11)	1
Net change in fair value		29	(12)
Closing balance		**18**	**(11)**
Appropriation of Net Income			
Net income for the period		69	1,589
Transfer to General Reserve		-	(1)
Provision for transfer of balance to Government		(69)	(1,588)
		0	**0**
TOTAL EQUITY	15	**20,018**	**19,989**

Statement of Cash Flows
For the year ended 30 June
In Thousands of United States dollars

	2009 $	2008 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the period	69	1,589
Depreciation	145	133
Net Interest income	(1,195)	(2,073)
	(980)	(351)
Changes in receivables, prepayments & stock	(4,173)	154
Changes in government deposits	99,850	(188,650)
Changes in other deposits	3,115	7,297
Changes in other liabilities	6,483	636
	104,294	(180,914)
Interest received	1,506	7,369
Interest paid	(310)	(5,297)
Net cash from/ (used) operating activities	**105,490**	**(178,842)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Changes in investments	667	(968)
US government securities	(120,064)	177,280
Purchase of property, plant & equipment	(114)	(197)
Net cash (used)/ from in investing activities	**(119,511)**	**176,115**
CASH FLOWS FROM FINANCING ACTIVITIES		
Currency issued	362	208
Transfer of surplus to Government of Timor-Leste	(1,559)	(511)
Net cash from financing activities	**(1,197)**	**(303)**
DECREASE IN CASH & CASH EQUIVALENTS	**(15,217)**	**(3,029)**
Cash & cash equivalents at the beginning of year	46,260	49,289
CASH & CASH EQUIVALENTS AT THE END OF YEAR	**31,042**	**46,260**

Statement of Accounting Policies

1. Reporting Entity and Statutory Base

These are the financial statements of the Banking and Payments Authority of Timor-Leste, a distinct autonomous public legal entity established by UNTAET Regulation No 2001/30 on the Banking and Payments Authority of Timor-Leste. The address of the head office of the Banking and Payments Authority is at Avenida Bispo Medeiros, Timor-Leste. The financial statements of the Authority are for the financial year ended 30 June 2009 and, in accordance with section 53 of the BPA Regulation, the accounts and records are maintained in accordance with international accounting standards. The primary objective of the Authority is to achieve and maintain domestic price stability. The other objectives of the BPA are to foster the liquidity and solvency of a stable market-based banking and financial system, to execute the foreign exchange policy of Timor-Leste, and to promote a safe, sound, and efficient payment system.

2. Basis of Preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standard Board (IASB)

The financial statements were authorised for issue by the Governing Board on 26 October 2009.

(b) Adoption of International Financial Reporting Standards

These financial statements incorporate all International Financial Reporting Standards in force at 30 June 2009. No standards have been adopted before the effective date.

(c) Basis of Measurement

The financial statements have been prepared on the historical cost basis except for available-for-sale assets which are measured at fair value.

(d) Functional and Presentation Currency

The financial statements are presented in United States dollars, being the official currency of Timor-Leste and the Authority's functional and presentation currency. Financial information is presented in US dollars rounded to the nearest thousand dollars, unless otherwise stated. This may result in minor differences between accounts reported in the Income statement, Balance sheet and detailed supporting notes.
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(e) Use of Estimates and Judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 3.

(f) Comparative amounts

To ensure consistency with the current year, comparative figures have been restated where appropriate. Certain presentational changes have been made in the financial statements.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Foreign currency transactions

Transactions in foreign currencies are translated into United States dollars at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated balance date into United States dollars at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. The following United States dollar exchange rates for major currency assets and liabilities are used to convert foreign currency assets and liabilities to United States dollars for reporting purposes.

	2009	*2008*
Australian dollars (AUD)	1.2416	1.5784
Special Drawing Rights (SDR)	0.6442	0.6121
Euro (EUR)	0.7090	0.9612

(b) Interest

Interest income and expense are recognised in the income statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Authority estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the profit and loss statement include:

- Interest on financial assets and liabilities at amortised cost on an effective interest rate basis
- Interest on available-for-sale investment securities on an effective interest rate basis

(c) Fees

Fee income, including account service fees, cash distribution, and investment management fees, are recognised as the related services are performed. Fee income from government is recognised upon appropriation by parliament, and amortised over the period during which the services are provided.

Fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

(d) Operating Profit

Operating profit comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes (with the exception of fair value changes relating to available-for-sale assets).

(e) Taxation

The Authority is exempt from taxes on its income under the provisions of Section 61, Regulation 2001/30.

(f) Financial Assets and Liabilities

(i) Recognition

The Authority recognises loans, advances and deposits on the date at which they are originated. All other financial assets (including assets that are classified as available-for-sale) are initially recognised on the settlement date at which payment is made and title received according to market contractual arrangements.

A financial asset or financial liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

The Authority enters into transactions whereby it acquires assets but does not acquire all the risks and rewards of the assets or a portion of them. Such assets, including assets acquired in connection with the Authority's management of the Petroleum Fund, are not recognised on the balance sheet.

(ii) Classification

See accounting policies 3 (g), and (h).

(iii) De-recognition

The Authority derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or on the date the legal right to receive the contractual cash flows on a financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

The authority derecognises a financial liability when its contractual obligations expire or are cancelled.

(iv) Offsetting

Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, the Authority has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

(v) Amortised cost measurement

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(vi) Fair value measurement

The determination of fair values of financial assets is based on quoted market prices for financial instruments traded in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

(vii) Identification and measurement of impairment

At each balance date the Authority assesses whether or not there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows from the asset that can be estimated reliably.

The Authority considers evidence of impairment for held-to-maturity investment securities at both a specific asset and collective level. All individually significant held-to-maturity investment securities are assessed for specific impairment. All individually significant held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Held-to-maturity investment securities that are not individually significant are then collectively assessed for impairment by grouping together held-to-maturity investment securities with similar risk characteristics.

Impairment losses on assets carried at amortised cost are measured at the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised directly in equity to profit or loss. The cumulative loss that is removed from equity and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

(g) Cash and Cash Equivalents

Cash and cash equivalents includes notes and coins on hand, unrestricted balances held with other banks, which are subject to an insignificant risk of changes in their fair value, and are used by the Authority in the management of its short-term commitments, including the maintenance of a supply of United States currency to ensure an adequate supply of banknotes and coins for the settlement of cash transactions in Timor-Leste.

Cash and cash equivalents are carried at amortised cost in the balance sheet.

(h) Investment Securities

Investment securities are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for depending on their classification as either held to maturity, fair value through profit or loss, or available-for-sale.

(i) Held-to-Maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Authority has a positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss, or available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method.

(ii) Fair value through profit or loss

Fair value through profit or loss investments are assets designated at fair value through profit or loss when:

- The assets are managed, evaluated and reported internally on a fair value basis; or
- The designation eliminates or significantly reduces an accounting mismatch that would otherwise result; or
- The assets contain an embedded derivative that significantly modifies that cash flows that would otherwise be required under the contract

Fair value changes of this class of investments are recognised in profit and loss.

(iii) Available-for-sale

Available-for-sale investments are non-derivative instruments that are designated as available-for-sale or are not classified as another category of financial asset.
Available-for-sale investments are carried at fair value.

Interest income is recognised in profit and loss using the effective interest method. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit and loss.

Other fair value changes are recognised directly in equity until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in equity are recognised in profit or loss.

(i) Reverse-Repurchase Transactions

The Authority enters into overnight reverse-repurchase agreements in the course of its cash management activities. These transactions are recognised in the balance sheet as cash and cash equivalents, and income is recognised in profit and loss on the transaction date.

(j) Other Assets and Liabilities

Local and foreign currency cash, deposits, accounts receivable and payable, are valued at the transaction date, inclusive of any accrued interest.

Accounts receivable are recorded at expected realisable value after making due allowance for doubtful debts.

Unissued currency stocks are recorded as inventory at the cost of acquisition and expensed when issued. They are recorded at the lower of cost or net realisable value. Cost is determined on a weighted average basis.

(k) Property, plant and equipment

i. Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are reasonably attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The land and head office occupied by the Authority is recognised at the cost of acquisition in 2000 at nil value. The Authority still carries these asses at zero value pending the establishment of a fair value at a future time when the land and property market in Timor-

Leste operates on a sound legal basis and objective valuations can be derived from observable property market transactions.

ii. Subsequent Costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Authority and its cost can be measured reliably. The carrying amount of replaced part is derecognised. The costs of day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

iii. Depreciation

Depreciation is recognised in profit and loss on a straight line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

The Authority categorises its assets into broad groups and depreciates them according to indicative useful lives as follows:

	2009	***2008***
Buildings and improvements	20 years	20 years
Plant	5 years	5 years
Office equipment	8 years	8 years
Computers and electronic equipment	4 years	4 years
Vehicles	5 years	5 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

iv. Impairment

The carrying amounts of the Authority's fixed assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit and loss.

(l) Currency in Circulation

Currency issued by the Authority in the form of centavos coins (which are legally a sub-unit of the United States dollar in Timor-Leste) represents a claim on the Authority in favour of the holder. The liability for the value of currency in circulation is recorded at face value on the balance sheet.

The Authority also issues collectors' currency. Although it is unlikely that significant amounts of collectors' currency will be returned for redemption, the Authority records the face value of the collectors' currency sold with currency in circulation.

(m) Employee benefits

(i) Short term employee benefits

A short term benefits include the full amount of all staff benefits, including salaries and accrued leave. Accruals of personnel costs are recorded in the balance sheet under accounts payable.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

(ii) Long-term employee benefits

Employees of the Authority are entitled to a long service cash benefit payable on completion of a defined numbers of years, starting at the fifteenth year of service. An amount of 5% of base salary is set aside monthly by the Authority for this purpose and recognised in the profit and loss statement as a personnel expense, with the associated liability being recognised on the balance sheet and recorded under other liabilities. In the event that an employee leaves prior to qualifying for the benefit, the cumulative amount previously set aside for that employee is credited to personnel expense on the relevant date at which the Authority's obligation to the employee ceases.
There is no pension scheme for employees of the Authority.

Notes to the Financial Statements

1. Nature and Extend of Activities

The Banking and Payment Authority's role is to function as the central bank of Timor-Leste, which determines that nature and extent of its activities with respect to financial instruments. The role of the Authority is defined is Regulation 2001/30 on the Banking and Payments Authority and other laws, and includes the following functions:

- to recommend broad policy guidelines to the government in areas under the Authority's responsibility;
- to issue coins called centavos, that have legal tender status in addition to the United States dollar;
- to formulate and implement measures for, and supervise and regulate, payments and settlement systems for transactions in domestic and foreign currency in Timor-Leste;
- to own, operate, or participate in one or more payment systems;
- to act as banker to the government and related agencies;
- to act as fiscal agent of the government and related agencies;
- to hold and manage all public financial resources, including the official foreign exchange reserves;
- to undertake the operational management of the Petroleum Fund of Timor-Leste;
- to hold foreign currency deposits of Commercial Banks;
- to ensure an adequate supply of banknotes and coins for the settlement of cash transactions;
- to maintain a depository for safe keeping of currency and securities;
- to license, supervise, and regulate commercial banks;
- to license, supervise and regulate currency exchange activities;
- to license, supervise and regulate insurance companies and intermediaries; and
- to conduct regular economic and monetary analysis of the Timor-Leste economy, make public the results, and submit proposals and measures to the government on the basis of such analysis.

2. Financial Risk Management

(a) Introduction and Overview

The Banking and Payments Authority has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risks
- Operational risks

This note presents information about the Authority's exposure to each of the above risks, the Authority's objectives, policies and procedures for measuring and managing risk, and the Authority's management of capital.

(b) Risk Management Framework

The Governing Board has overall responsibility for the establishment and oversight of the Authority's risk management framework.

The Governing Board is guided by the Authority's establishing law (Regulation 2001/30), which sets broad risk management guidelines, including the following:

- Section 48 requires that the primary objectives in selecting foreign exchange assets shall be safety of principal and liquidity. Subject to these objectives, such assets shall be selected to maximize earnings.
- The same section permits the Authority to hold on its balance sheet and manage gold, foreign exchange in the form of banknotes and coins held within Timor-Leste or bank balances held abroad in foreign currencies in banks whose short term liabilities are rated in one of the two highest categories by internationally recognized credit rating agencies, and debt securities issued or guaranteed by the United States maturing within 180 days that are denominated and payable in United States dollars.
- Section 59.1 prohibits the Authority from granting credit, engaging in commerce, purchasing the shares of any corporation or company including the shares of any Financial Institution, or otherwise have an ownership interest in any financial, commercial, agricultural, industrial, or other undertaking or acquire by purchase, lease, or otherwise any real rights in or to immovable property, except as it shall consider necessary or expedient for the provision of premises for the conduct of its administration and operations.
- Section 64 authorises the Authority to open and maintain on its books trust accounts provided that the assets and liabilities shall be segregated from the other assets and liabilities of the Authority.

The Authority has established an Internal Audit Office, whose duties are to undertake both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the General Manager, and, at the discretion of the Chief Internal Auditor, the Governing Board.

(c) Credit Risk

Credit risk is the risk of financial loss to the Authority if a customer or counterparty to a financial instrument fails to meets its contractual obligations, and arises principally in connection with the Authority's investment and banking activities.

As noted above, this risk is governed by a legislated requirement prohibiting the placement of funds other than with banks whose short term liabilities are rated in one of the two highest categories by internationally recognized credit rating agencies, and debt securities issued or guaranteed by the United States.

All investments above $1 million require the authorisation of the General Manager.

Regular audits of the divisions responsible for the investment of funds are undertaken by Internal Audit.

The Authority's exposure to credit risk, based on the ratings issued by Fitch Rating, is as follows:

In thousands of United States dollars	Rating*	2009	2008
Cash and cash equivalents			
Cash	AAA	20,827	13,053
Deposits at central banks	AAA	5,820	29,280
Resident banks	Baa3	4,070	3,568
Non resident banks	Aa2	325	359
		31,042	**46,260**
Marketable securities			
United States Treasury Bills	AAA	172,854	52,790
Investments			
International Monetary Fund	N/A	12,728	13,395
Fixed and other assets	N/A	5,515	1,374
TOTAL ASSETS		**222,139**	**113,819**

Summary by credit rating	2009	2008	2009	2008
AAA	89.81%	69.62%	199,501	79,238
Aa2	0.15%	26.04%	325	29,639
Baa3	1.83%	3.13%	4,070	3,568
Not applicable	8.21%	1.21%	18,244	1,374
TOTAL ASSETS	**100%**	**100%**	**222,139**	**113,819**

*Where a central Bank is not rated, the sovereign rating has been used.

There were no impairment losses at balance date.

The carrying amount of these assets approximates their fair value.

(d) Liquidity Risk

Liquidity risk is the risk that the Authority will encounter difficulty in meeting obligations from its financial liabilities. Liquidity risk is also the risk that the Authority will have to sell a financial asset quickly at much less than its fair value.

The Authority is responsible for managing the daily liquidity of the banking system. This role includes the management of the clearing system. The Authority is prohibited by statute from advancing funds to the banking system.

The Authority's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Authority's reputation.

UNTAET regulation 2001/30, as stated above, provides a framework for liquidity management, namely that market investments shall mature within 180 days.

The investment management function considers the cash flows historically observed in the deposit accounts of both the government and the commercial banks. From this information, decisions are made that determine the size of the physical cash holdings held in Timor-Leste, the amount of cash to be maintained in correspondent bank accounts, and the nature of the investments to be made in short-term United States Treasury Bills, for which a deep and liquid market exists, such that there will always be bills close to maturity that may be sold if necessary without incurring the risk of suffering a material market loss.

The following table sets out the maturity analysis of the Authority's balance sheet.

In thousands of United States dollars	Total 2009	No fixed maturity	6 months or less	over 6 months
Cash and cash equivalents	31,043		31,043	
Marketable securities	172,854		172,854	
Investments	12,728			12,728
Other assets	4,652		4,652	
Total assets	221,277	**-**	**208,549**	**12,728**
Government deposits	159,221		159,221	
Other deposits	32,464		19,736	12,728
Provision for surplus transfer	69		69	
Other liabilities	7,803		7,803	
Currency issued	2,564	2,564		
Total liabilities	202,121	**2,564**	**186,829**	**12,728**
Net maturity gap	**19,156**	**(2,564)**	**21,720**	**0**

In thousands of United States dollars	Total 2008	No fixed maturity	6 months or less	over 6 months
Cash and cash equivalents	46,260		46,260	
Marketable securities	52,790		52,790	
Investments	13,395			13,395
Other assets	479		479	
Total assets	112,924	**-**	**99,529**	**13,395**
Government deposits	59,371		59,371	
Other deposits	29,350		29,350	
Provision for surplus transfer	1,587		1,587	
Other liabilities	1,320		1,320	
Currency issued	2,202	2,202		
Total liabilities	93,830	**2,202**	**91,628**	**-**
Net maturity gap	**19,094**	**(2,202)**	**7,901**	**13,395**

(e) Market Risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Authority's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Authority's approach to the management of market risks is strongly guided by its legislative framework that requires investments to be in high quality financial instruments of short duration.

The Authority measures and manages its exposure to market risk in terms of interest rate risk and foreign currency risk, and information on these two risks is provided in the following sections.

(i) Interest Rate Risk

Interest rate risk is the risk of loss arising from changes in interest rates.

The Authority's management of interest rate risk is partially governed by the legal framework outlined above, and partly by a management policy of closely matching the re-pricing periods of its assets and liabilities.

The assets and liabilities of the Authority will mature or re-price within the following periods:

In thousands of United States dollars	Total 2009	Non-Interest Sensitive	6 months or less	over 6 months
Cash and cash equivalents	31,043		31,043	
Marketable securities	172,854		172,854	
Investments	12,728	12,728		
Other assets	4,652	4,652		
Total assets	221,277	**17,381**	**203,897**	**-**
Government deposits	159,221		159,221	
Other deposits	32,464	12,728	19,736	
Provision for surplus transfer	69	69		
Other liabilities	7,803	7,803		
Currency issued	2,564	2,564		
Total liabilities	202,121	**23,164**	**178,956**	**-**
Interest Rate Sensitivity Gap	**19,156**	**(5,784)**	**24,940**	**-**

In thousands of United States dollars	Total 2008	Non-Interest Sensitive	6 months or less	over 6 months
Cash and cash equivalents	46,260		46,260	
Marketable securities	52,790		52,790	
Investments	13,395	13,395		
Other assets	479	479		
Total assets	112,924	**13,874**	**99,050**	**-**
Government deposits	59,371		59,371	
Other deposits	29,350	12,428	16,922	
Provision for surplus transfer	1,587	1,587		
Other liabilities	1,320	1,320		
Currency issued	2,202	2,202		
Total liabilities	93,830	**17,537**	**76,293**	**-**
Interest Rate Sensitivity Gap	**19,094**	**(3,662)**	**22,756**	**-**

(ii) Sensitivity Analysis

In managing interest rate and currency risk the Authority aims to reduce the impact of short-term fluctuations on its net income. At 30 June 2009 it is estimated that a general increase of one percentage point in interest rates would increase the Authority's profit by approximately $1,052 thousands (2008 – $150 thousands).

(iii) Foreign Currency Risk

Foreign currency risk is the risk of loss arising from changes in exchange rates.

The management of the Authority maintains a low exposure to foreign currencies, which are maintained at levels sufficient to meet operational settlement obligations. The Authority does not engage in foreign currency intervention activities.

As at 30 June 2009, the Authority's net exposure to major currencies was as follows:

In thousands of United States dollars	Total 2009	United States Dollars	Australian Dollars	IMF SDR	Euro
Cash and cash equivalents	31,043	(147,525)	93,492		85,076
Marketable securities	172,854	172,854			
Investments	12,728	-		12,728	
Other assets	4,652	4,464	188		
Total assets	221,277	**29,793**	**93,680**	**12,728**	**85,076**
Government deposits	159,221	159,221			
Other deposits	32,464	19,736		12,728	
Provision for surplus transfer	69	69			
Other liabilities	7,803	7,803			
Currency issued	2,564	2,564			
Total liabilities	202,121	**189,393**	**-**	**12,728**	**-**
Net Foreign Currency Exposure	**19,156**	**(159,600)**	**93,680**	**-**	**85,076**

In thousands of United States dollars	Total 2008	United States Dollars	Australian Dollars	IMF SDR	Euro
Cash and cash equivalents	46,260	(666,387)	603,432		109,215
Marketable securities	52,790	52,790			
Investments	13,395	-		13,395	
Other assets	479	(2,754)	3,233		
Total assets	112,924	**(616,351)**	**606,665**	**13,395**	**109,215**
Government deposits	59,371	59,371			
Other deposits	29,350	15,955		13,395	
Provision for surplus transfer	1,587	1,587			
Other liabilities	1,320	1,320			
Currency issued	2,202	2,202			
Total liabilities	93,830	**80,435**	**-**	**13,395**	**-**
Net Foreign Currency Exposure	**19,094**	**(696,786)**	**606,665**	**-**	**109,215**

(f) Operational Risk

Operational risk is the risk of direct or indirect loss arising form a wide variety of causes associated with the Authority's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal requirements or adverse events in the community at large. Operational risks arise from all the Authority's operations and are faced by all business entities.

The Authority's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Authority's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management in each business area. This responsibility is supported by the development of standards for the management of operational risk in the following areas:

- Requirements for the appropriate segregation of duties, including independent authorisation of transactions;
- Requirements for the timely reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Written documentation of all major operating procedures;
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses and development of proposed remedial actions;
- Development of contingency plans;
- Ongoing capacity building and professional development;
- Establishment of ethical standards of behaviour; and
- Risk mitigation, including insurance for high risk operations.

Compliance with these standards is supported by a programme of risk-based periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business area in which they relate, with all findings submitted monthly to the General Manager, and a summary of work undertaken submitted quarterly to the Governing Board.

(g) Capital Management

The management of the capital of the Authority is subject to Regulation No 2001/30 on the Banking and Payments Authority. In particular, the following requirements are stipulated in the law:

- The minimum capital shall be $20,000,000
- A general reserve account shall be established to hold the difference between five percent of the aggregate amount of the Credit balances of all accounts maintained on the books of the Authority by account holders shown on the balance sheet of the Authority for the end of each financial year and US$20,000,000.
- The capital of the Authority shall not be subject to lien or encumbrance of any kind.

Following the full capitalisation of the Authority to $20,000,000 by the government in July 2005, the Authority has complied with all externally imposed provisions throughout the year.

There have been no material changes in the Authority's management of capital during the period.

The allocation of capital between specific operations and activities is, to a large extent, driven by the need to provide liquidity to the financial and economic systems of Timor-Leste. Accordingly, a significant proportion of capital is allocated to maintaining physical holdings of currency in Timor-Leste, which earn no interest, and in current accounts at correspondent banks.

3. Critical Accounting Judgements in applying the Authority's Accounting Policies

- Critical accounting judgements made in applying the Authority's accounting policies include:Although section 64 of Regulation 2001/30 states that the Authority is authorised to open and maintain trust accounts on its books, the assets and liabilities of which shall be segregated from the other assets and liabilities of the Authority, the management of the Authority, having taken advice concerning the provisions of the Petroleum Fund Law and IFRS, has determined that the liabilities and assets of the Petroleum Fund managed and registered in the name of the Authority should for reporting purposes not be presented on the face of the Authority's balance sheet.

4. Segment Reporting

The Authority's primary function is to act as the central bank of a single geographical area – Timor-Leste. The share of the Authority is not publicly traded and there is no intention that it will be publicly traded. Accordingly the Authority is not required to present segment information.

5. Cash and Cash Equivalents

In thousands of United States dollars	2009	2008
Cash and Cash Equivalents		
Cash	20,827	13,053
Deposits at central banks	5,820	29,280
Resident banks	4,070	3,568
Non-resident banks	325	359
Total	**31,042**	**46,260**

6. Marketable Securities

In thousands of United States dollars	2009	2008
Marketable Securities		
Unites States Government Treasury Bills	172,854	52,790
Total	**172,854**	**52,790**

7. Financial Assets and Liabilities

The table below sets out the Authority's classification of each class of its assets and liabilities, identifying the nature and amounts of financial assets and liabilities, with their fair values (excluding accrued interest).

In thousands of United States dollars	Available-for-Sale	Cash and cash equivalents	Amortised Cost	Other	Total Carrying Amount	Fair Value
						2009
Cash and cash equivalents		31,043			31,043	31,043
Marketable securities	172,854				172,854	172,854
Investments			12,728		12,728	12,728
Other assets				4,652	4,652	4,652
Total assets	**172,854**	**31,043**	**12,728**	**4,652**	**221,277**	**221,277**
Government deposits			159,221		159,221	159,221
Other deposits			32,464		32,464	32,464
Provision for surplus transfer				69	69	69
Other liabilities			7,803		7,803	7,803
Currency issued			2,564		2,564	2,564
Total liabilities	**-**	**-**	**202,052**	**69**	**202,121**	**202,121**

In thousands of United States dollars	Available-for-Sale	Cash and cash equivalents	Amortised Cost	Other	Total Carrying Amount	Fair Value
						2008
Cash and cash equivalents		46,260			46,260	46,260
Marketable securities	52,790				52,790	52,790
Investments			13,395		13,395	13,395
Other assets				479	479	479
Total assets	**52,790**	**46,260**	**13,395**	**479**	**112,924**	**112,924**
Government deposits			59,371		59,371	59,371
Other deposits			29,350		29,350	29,350
Provision for surplus transfer				1,587	1,587	1,587
Other liabilities			1,320		1,320	1,320
Currency issued			2,202		2,202	2,202
Total liabilities	**-**	**-**	**92,243**	**1,587**	**93,830**	**93,830**

8. International Financial Institutions

a. International Monetary Fund

The Democratic Republic of Timor-Leste became a member of the International Monetary Fund (IMF) on 23 July 2002. The Authority was designated as the official depository under Article XIII of the IMF Articles of Association. In accordance with generally accepted accounting practice in central banks, the Authority funded Timor-Leste subscription in the IMF from its balance sheet, and recognizes the IMF cash and security accounts as liabilities. The underlying balances of the IMF are denominated as follows:

Subscription in IMF (Asset)	SDR	8,200,000
IMF Cash Accounts (Liability)	SDR	21,500
IMF Securities Account (Liability)	SDR	8,178,500

The IMF Securities Account reflects the value of a Promissory Note payable by the Ministry of Finance as the fiscal agent of the IMF in Timor-Leste held by the Authority in favour of the IMF. The balance sheet records the US dollar equivalents of the SDR balances using the SDR/USD rate applicable at the reporting date.

b. The World Bank Group

The Democratic Republic of Timor-Leste became a member of three institutions within the World Bank Group on 23 July 2002. Under the relevant Articles of Association, the Authority was designated as the official depository. In accordance with general practice, the Authority records the outstanding balances with the members of the World Bank Group on a net liability basis. The amounts subscribed are in US dollars, as follows:

International Bank for Reconstruction and Development

Timor-Leste has been issued with 267 shares of capital stock with a total capital value of $32,209,545, of which $539,315 (2008 - $539,315) has been paid in the form of a Promissory Note held at the Authority.

International Development Association

Timor-Leste has subscribed for $349,842, of which $314,858 has been paid in the form of a Promissory Note held at the Authority.

Multilateral Investment Guarantee Agency

Timor-Leste has subscribed to 50 shares with a total value of $541,000, of which $54,100 has been paid on the form of a Promissory Note held at the Authority.

c. Asian Development Bank

The Democratic Republic of Timor-Leste became a member of the Asian Development Bank (ADB) on 24 July 2002. In accordance with the ADB Articles of Association, the Authority was designated as the official depository. In accordance with general practice, the Authority records the outstanding balance with ADB on a net liability basis. The subscription in the ADB is 350 shares with a total value of $4,222,225, partially funded by a Promissory Note for $171,904.88 held by the Authority.

9. Property, Plant and Equipment

In thousands of United States dollars

	Land and Buildings	Plant	Office Equipment	Computer Equipment	Vehicles	Total
Cost						
Balance at 1 July 2007	865	146	157	344	154	1,666
Prior period adjustments	(5)	2	3	0	0	0
Acquisitions	29	8	70	51	40	198
Balance at 30 June 2008	**889**	**156**	**230**	**395**	**194**	**1,864**
Balance at 1 July 2008	889	156	230	395	194	1,864
Acquisitions	0	4	21	89	0	114
Balance at 30 June 2009	**889**	**160**	**251**	**484**	**194**	**1,978**
Depreciation						
Balance at 1 July 2007	221	123	85	282	125	836
Prior period adjustments	(82)	0	0	0	0	(82)
Depreciation for the period	44	8	26	36	19	133
Balance at 30 June 2008	**183**	**131**	**111**	**318**	**144**	**887**
Balance at 1 July 2008	183	131	111	318	144	887
Prior period adjustments	0	0	0	0	0	0
Depreciation for the period	44	8	29	44	20	145
Balance at 30 June 2009	**227**	**139**	**140**	**362**	**164**	**1,032**
Carrying Amounts						
Balance at 1 July 2007	644	23	72	62	29	830
Balance at 30 June 2008	706	25	119	77	50	977
Balance at 30 June 2009	662	21	111	122	30	946

Pending the establishment of a land and property registration system in Timor-Leste, and the commencement of a property market in which the valuation of commercial and other property can be established by reference to observable transactions, the Governing Board of the Authority has been unable to establish a fair value for the head office land and buildings occupied by the Authority.

Accordingly the carrying value of the original cost of land and buildings is nil being the cost of acquisition, and no subsequent valuation has been made.

There were no impairment losses at balance date.

10. Other Assets

Other assets comprise the following:

In thousands of United States dollars	2009	2008
Other Assets		
Accounts receivable	4,494	127
Interest receivable	0	14
Prepayments	5	78
Inventories	153	260
Total	4,652	479

Inventories comprise the cost of unissued centavos coins held for circulation. There were no impairment losses at balance date.

11. Government deposits

In thousands of United States dollars	2009	2008
Government deposits		
Consolidated fund	159,221	59,371
Total	**159,221**	**59,371**

12. Other deposits

In thousands of United States dollars	2009	2008
Other deposits		
Domestic financial institutions	19,196	14,754
International financial institutions (Net)	13,268	14,596
Total	**32,464**	**29,350**

13. Provision for Transfer of Surplus to Government of Timor-Leste

Section 13 of Regulation 2001/30 on the Banking and Payments Authority requires that the net profit of the Authority, after statutory deductions to the General Reserve Account and the Supplementary Reserve Account shall be transferred to the Government of Timor-Leste.

As no balances are required to be held in the General Reserve Account (see note 15) and the Supplementary Reserve Account, a transfer to the Government will be made as follows:

In thousands of United States dollars	2009	2008
Transfer to Government		
Balance of General Reserve Account	-	(1)
Net profit for the year ended 30 June 2009	69	1,589
Total	**69**	**1,588**

14. Other Liabilities

In thousands of United States dollars	2009	2008
Other Liablities		
Accounts payable	114	167
Withholding tax payable	2	4
Provision for Long service account	48	27
Letters of Credit	6,768	0
Operating accounts	872	1,123
Total	**7,803**	**1,320**

15. Capital and Reserves

The capital of the Authority is set at $20,000,000.

The following reserves are established by law:

- A General Reserve Account to hold such amounts that the sum of the Capital Account and the General Reserve Account shall be not less than an amount equal to five percent of the aggregate amount of the Credit balances of all accounts maintained on the books of the Authority by account holders shown on the balance sheet of the Authority at the end of each financial year.
- A Supplementary Reserve Account to hold such amounts so as the sum of the Capital, General Reserve and Supplementary Reserve Accounts is equal to seven percent of the aggregate amount of the Credit balances of all accounts maintained on the books of the BPA by account holders shown on the balance sheet of the BPA for the end of each financial year.

In addition, the following reserve is established as a consequence of holding assets recognised as available-for-sale:

- A Fair Value Reserve that holds the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised or impaired.

16. Contingent Liabilities

The BPA has had an outstanding letters of credit of $6,770 thousand as at 30 June 2009 (2008 - nil).

17. Net Interest Income

In thousands of United States dollars	2009	2008
Interest income from Financial Assets		
Interest of deposits at foreign central banks	184	747
Interest from available-for-sale investments	1,262	6,616
Interest on deposits at domestic banks	60	6
Total interest income	**1,506**	**7,369**
Interest paid on Financial Liabilities		
Interest paid on Government accounts	277	5,044
Interest paid to commercial banks	30	253
Total interest expenses	**307**	**5,297**

No interest has been accrued on impaired assets.

18. Fee and Commission Income

In thousands of United States dollars	2009	2008
Fees and commissions		
Currency withdrawal fees	192	243
Licensing and supervision fees	42	34
Government account management fees	370	240
Total fees and commissions	**604**	**517**

19. Petroleum Fund Management Fee

In accordance with the provisions of the Petroleum Fund Law No 9/2005 the Authority is entitled to charge a management fee for the operational management of the Petroleum Fund of Timor-Leste that reasonably represents the cost of managing the Petroleum Fund. The balance of Petroleum Fund at 30 June 2009 was $4,901,524,889 (2008 – $3,203,073,135) and the established management fee was $1,454,466 (2008 - $1,042,780), or 6.0 (2008 – 4.5) basis points when measured against the average balance of the funds under management during the year.

20. Personnel Expenses

In thousands of United States dollars	2009	2008
Personnel Expenses		
Salaries and related payments	533	224
Staff welfare payments	53	35
Capacity building and staff development	260	246
Representation at conferences and meetings	84	119
Total Personnel Expenses	**930**	**624**

21. Administration Expenses

In thousands of United States dollars	2009	2008
Administration Expenses		
Asset maintenance	34	24
Communications	48	46
Information systems	84	61
Insurance	58	76
General expenses	-	0
Office Expenses	68	104
Professional fees	748	477
Custodian fees	336	108
Security	39	28
Travel	6	4
Vehicles	30	42
Water and electricity	51	44
Total Administration Expenses	**1,502**	**1,014**

22. Petroleum Fund of Timor-Leste

The Authority is responsible for the operational management of the Petroleum Fund of Timor-Leste in accordance with Law number 9/2005 on the Petroleum Fund Timor-Leste and an Operational Management Agreement signed between the Authority and the Minister of Finance.

Under those arrangements, the following mechanisms have been established by the Authority:

- An “earmarked receipts account” has been opened by the Authority in its own name at the Federal Reserve Bank of New York into which all payments made as petroleum receipts must be made.
- The investments of the Petroleum Fund and related custodial arrangements are made in the name of the Authority.
- The Authority is not liable for losses arising from the operations of the Petroleum Fund unless such losses arise from the negligence of the Authority or its employees.

Taking into account the recognition tests set out in international accounting standards, the assets and liabilities of the Petroleum Fund are not shown on the face of the Authority’s balance sheet.

The assets and liabilities of the Petroleum at 30 June 2009 were as follows:

In thousands of United States dollars	2009	2008
Petroleum Fund Assets		
Earmarked receipts account	266	285
Overnight reverse repurchase agreements	600	100
Investments at fair value	3,888,747	3,185,709
Assets managed under external management	990,209	-
Interest receivable	21,703	16,978
	4,901,525	**3,203,072**
Capital		
Capital	4,901,525	3,203,072
	4,901,525	**3,203,072**

23. Related Party Transactions

Ultimate Controlling Party

The capital of the Authority is held by the Democratic Republic of Timor-Leste, and carries no voting or other rights of control. The Authority is established as a distinct autonomous public legal entity, accountable to the Government, with control over the financial and operating policies vesting between the Governing Board and the General Manager. Section 4.2 of Regulation 2001/30 gives the Authority complete legal, operational, administrative, and financial autonomy from any other person or entity, including the government and any of its agencies, and subsidiary organs or entities.

Governing Board

There were no members of the Governing Board who were not key management personnel, whose compensation is disclosed below.

Key Management Personnel

The management of the Authority is undertaken by a Management Committee comprising the General Manager and five senior staff.

In thousands of United States dollars	2009	2008
Key Management Personnel Compensation		
Short-term employee benefits	81	28
Long-term employee benefits	4	1
Total	**85**	**29**

24. Significant Post Balance Date Events

These financial statements were authorised for issue by the Governing Board of the Authority on 26 October 2009. As at that date, no material events had occurred after the balance sheet date.

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INDEPENDENT AUDITOR'S REPORT TO THE GOVERNING BOARD OF BANKING AND PAYMENTS AUTHORITY OF TIMOR-LESTE

Report on the Financial Statements

We have audited the accompanying financial statements of Banking and Payments Authority of Timor Leste (BPA), which comprises the balance sheet as at 30 June 2009, profit and loss statement, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 2 to 34.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards and in accordance with the Regulation No. 2001/30 'on the Banking and Payments Authority of Timor-Leste'. This responsibility includes; designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Banking and Payment Authority of Timor-Leste as of 30 June 2009 and of its financial performance and its cash flows for the year then ended in accordance with;

(a) the Regulation No. 2001/30 'on the Banking and Payments Authority of Timor-Leste' and

(b) the International Financial Reporting Standards and other mandatory financial reporting requirements in Timor-Leste

KPMG

Clive Garland
Partner

Darwin

30 October 2009

Conselho de Administração

Abrão de Vasconselos
Maria José Sarmento
Nur Aini Alkatiri

Comité de Administração

Director-Geral

Abrão de Vasconselos

Director-Geral Adjunto
para a Área da Supervisão

Maria José Sarmento

Director-Geral Adjunto
para a Área de Pagamentos

Nur Aini Alkatiri

Director Administrativo

Raquel Gonçalves da Costa

Director da Contabilidade

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