INSTRUCTION CPO/B-2001/1
HOLDING EQUITY INTERESTS IN A BANK

I. AUTHORITY

This instruction is issued by the Central Payments Office of East Timor (hereinafter, "CPO") pursuant to Section 13.1, 13.2, and 13.3 of Regulation No. 2000/8 on Bank Licensing and Supervision (hereinafter, the "Regulation").

II. APPLICABILITY

This instruction applies to all transfers of equity interest in banks organized in East Timor.

III. DEFINITIONS

A. **Acting in concert** means two or more persons acting together with a common purpose whether or not they are organized as a formal business entity and whether or not they are operating pursuant to a written agreement. The determination of whether or not two or more persons are acting in concert is at the sole discretion of the CPO. "Affiliates," "Related Persons," "Related Banks and Financial Institutions, "and "Groups of Inter-Related Persons, "as those terms are defined in the CPO's Instruction on Transactions with Related Persons, Related Banks and Financial Institutions, and Affiliates, shall be deemed to be acting in concert.

B. **Administrator** of a bank is defined in Section 49(a) of the Regulation as any person who is an officer of a bank, including any member of the Governing Board or the Audit Committee and further including any person who alone or together with one or more others has the authority to enter into commitments for the account of the bank.

C. **Equity interesting a bank** is defined in Section 49(k) of the Regulation as any ownership right or voting right with respect to a bank

D. **Person** is defined in section 49)q) of the Regulation as an individual and a juridical person (a company, partnership, association, and group of persons acting together with a common purpose, whether or not organized as a formal business entity).

E. **Significant Shareholders is** a person that owns directly or indirectly ten percent (10%) or more of any class of voting shares of a bank. (For purposes of this instruction, a significant shareholders is a principal shareholders as that term is defined in Section 49 (r) of the Regulation).

F. **Voting Share** are defined in Section 49(x) of the Regulation as common shares in the capital of a bank and any other shares of any designation or description that carry the right to vote on any general resolution at a general special meeting of a bank.

IV. REQUIREMENTS

A. Transfer(s) of Equity Interest Requiring the Prior Written Authorization of the CPO

In accordance with section 13.1 and 13.2 of the Regulation, the transfer, by one or more transactions, of any equity interest in a bank shall require the prior written authorization of the CPO if, as a result of such transfer(s), any one person or number of persons acting in concert would, directly or indirectly:

1. Become a significant shareholder in such bank; or

2. Own more than twenty percent (20%) but less than fifty percent (50%) of any class of voting shares of the bank; or

3. Own fifty percent (50%) or more of any class of voting shares of the bank.

B. Request to the CPO

1. Request for the prior written authorization of the CPO shall be made in writing in the form prescribed by this instruction. The CPO may request additional or supplementary information if, in the opinion of the CPO, the basic information submitted is incomplete or insufficient. Failure to provide the CPO with all required information in a timely manner with result in the CPO returning the request without consideration.

2. The CPO, in its sole discretion and for good cause shown, may waived certain of its requirements for information from persons who have previously received the prior written authorization of the CPO for transfer of equity interest pursuant to Sections 13.1 and 13.2 of the Regulation.

C. Decision of the CPO

1. Within 30 days from the date that the CPO receives all documents and information required and sufficient for making decision, including background checks performed by official third-party sources, the CPO shall render a decision on the request and shall notify the applicant(s) of its decision in writing.

2. In accordance with Section13.3 of the Regulation, the decision of the CPO whether to authorize a transfer of equity interest in a bank pursuant to Sections 13.1 and 13.2 of the regulation shall be based upon the following criteria, as if the authorization were for the issuance of a bank license:

    a. The business plan is based on reasonable assumptions;
    b. The bank will comply with all provisions of the Regulation; and
    c. The Qualification, experience, and integrity of the bank's administrators and principal shareholders are appropriate for its business plan. For purposes of this criteria, the CPO will review the financial condition of the applicant(s) to determine financial soundness, ability to fund the stock purchase, and whether the applicant is (or will be as a result of the transfer of equity interest) financially dependent on the bank.

V. RESTRICTIONS

A. In accordance with Section 13.1 and 13.2 of the regulation, in the absence of a prior written authorization of the CPO transfers of equity interest in banks shall vahe no legal effect.

B. Reasons for the CPO to not grant prior written authorization for transfer(s) of equity interest in banks include, but are not limited to, the following:

1. A transferee is, or has been, a principal shareholder or administrator of a problem bank;

2. A transferee is a juridical person which has as its sole function or activity the holding of equity interest in a bank(s), or which has not been actively engaged and economic, financial or other activities for at least two years prior to its request for authorization to hold equity interest in a bank; or

3. If, upon consummation of the transfer of equity interests, the subject bank will not meet the minimum requirements for regulatory capital in accordance with the CPO's Instruction on Regulatory capital.

C. The CPO may revoke its authorization if any information comes to the attention of the CPO, which would have otherwise resulted in the request for prior authorization of equity transfer not being granted. In such case, the CPO shall provide written notification to the person(s) and the bank.

VI. APPENDIX

Prescribed from for are quest for the prior written authorization of the CPO for the transfer of an equity interest in a bank.

INSTRUCTION ON HODING EQUITY INTEREST I A BANK
Request for the Prior Written Authorization of the CPO
for the Transfer of an Equity Interest in a Bank

Form of Request

The original and two copies of the request shall be submitted to the CPO in the official language of East Timor. If the subject transfer involves more than one person, the a spokesperson should be authorized in writing for communications with the CPO.

Information Required

1. Name of bank.

2. Name, address, and telephone number of spokesperson.

3. Identification of all persons proposing to acquire an equity interest in the bank.
   <u>For individual persons:</u>
   X name and address, country of citizenship, and country of residence.
   X country identification number, or passport number and data.
   X current employment and position held.
   <u>For juridical persons:</u>
   X name and address, country of origin, and location of headquarters
   X legal status.
   <u>For all persons:</u>
   X business and/or professional activity for the past ten years.
   X information as to whether the person is, or has ever been, a principal shareholder or administrator in any bank located anywhere in the world.
   X signed financial statements for the past three years, either audited if available or in the format prescribed by the CPO.

4. The total number of shares involved in the transfer. Indicate if, and how many, shares will be issued by the bank.

5. Identify each transferor, the total number of shares currently held by each, the total number of shares to be transferred by each, and the total number of shares to be held by each following consummation of the proposed stock transfer. In addition, present each number as a percentage of the total voting shares of the bank.

6. For each transferee, provide the total number of shares currently held, the total number of shares to be transferred, and the total number of shares to be held following consummation of the proposed stock transfer. In additional, present each number as a percentage of the total voting shares of the bank.

7. State the purchase price per share, the total amount to be paid by each transferee, and the total purchase price for the entire proposed transfer.

8. State the current book value per share and the current market value per share. Indicate the date and source of information for market value.

9. Describe the proposed transfer in detail and provide copies of all agreements and documents related to the transfer.

10. Provide complete information on the source of funds to be used to accomplish the transfer. For each transferee, indicate the amount of funds required and the specific source(s) of funds.
    - X If assets will be sold, provide complete information on the proposed sale, including copies of pertinent documents.

    - X If funds will be borrowed, provide complete information on the loan including identification of the lender(s), amount to be borrowed, amount of the loan as a percentage of the total purchase price, collateral to be pledged, and all term of the transaction. Specifically identify how the loan will be repaid. If dividends, salary or any other income from the bank are anticipated to be used to service the debt, provide complete details.

11. Provide copies of all agreements relating to the transfer, including all invitations or tender offers to stockholders.

12. The date of the proposed acquisition.

13. Identify the persons which would become "Affiliates," "Related Persons," and/or "Related Banks and Financial Institutions" as those terms are defined in the CPO's Instructions on Transactions with Related Persons, related banks and Financial Institutions, and Affiliates, of the bank as a result of the transfer.

14. Describe the reason(s) for the acquisition, including general plans for the future operation of the bank. Provide specific and complete information regarding the intention of the person(s) making the acquisition to introduce significant changes into the bank, such as:
    - X sale of assets
    - X merger with another bank or acquisition by other persons
    - X material changes to the operation of the bank
    - X changes in the composition of administrators of the bank
    - X other substantial modifications in the corporate structure of the bank.

15. If, in response to item 14, no material changes in the bank's activity or organizational structure are planned, the a copy of the bank's existing business plan should be submitted accompanied by a statement signed by all persons who are a party to this transfer that they have studied the bank's existing business plan and organizational structure and that no material changes are anticipated following the transfer.

16. If in response to item 14, any material changes in the bank's activity or organizational structure are planned, submit a two-year business plan, which provides a clear understanding of the future financial activity of the bank. The business plan should include both a narrative section (in which the changes disclosed in item 14 and the factors listed below are discussed) and *pro forma* financial statements based on the narrative using the formal provided by the CPO.

<u>Assumptions -</u> Discuss all assumptions used in the preparation of the business plan such as general economic conditions in East Timor, level of competition, growth forecast, interest rates on earning assets (such as loans and investment) and applicable liabilities (deposits, borrowed funds),etc.

<u>Organizational Structure</u> - Describe all anticipated changes to the structure of the organization and administration of the bank; address Board of Governors, permanent committees, management, operational and administrative divisions within the bank and their sub-divisions and functions, supervisory positions, lines of authority and reporting relationships, and staff projections.

<u>Financial Activities</u> - Discuss the type and scale of financial activities envisaged, based on he financial activities authorized by the bank's current license level (Section 24 of the *Regulation on Bank Licensing and Supervision*), and the transferee's plans for the operation of the bank. This presentation should be supported by information, which clearly shows he capability to undertake those activities in terms of management, expertise, systems support, organization and staff. Specifically address changes to (1) the types of loans to be offered, targeted economic sectors, and plans for diversification; (2) planned deposit and borrowing activity; (3) method for pricing loans and deposits; and (4) proposed off-balance sheet activities.

<u>Financial Projections</u> - Incorporate changes in the bank's operations and provide support for the business plan's financial projections for asset and liability growth, profitability, maintenance of adequate regulatory capital as prescribed by the CPO, and dividends.

<u>Risk Management</u> – Describe the bank's risk management process: risk identification, measurement, monitoring and control. Address the bank's plans for controlling the following risks, specifically addressing the changes planned in the bank's operations by the transferees: (1) liquidity, interest rate, and maturity risk (asset and liability management); (2) credit risk; (3) operational risk; (4) market risk; and (5) all other risks to which the bank will be exposed when engaged in the financial activities envisaged by this business plan.

With regard to the credit risk, specifically address changes to: (1) credit policies (including loans to shareholders, administrators, related persons and affiliates); (2) plans to minimize concentration risk through diversification and limitations on credit exposures both to individual borrowers and to groups of related borrowers;

and (3) asset quality considerations such as underwriting, loan classification system, and provisioning for loan losses.

Operational System – Describe any changes to the bank's operation system, including accounting, record-keeping, reporting (including to the management, Board of Governors, shareholders and the CPO), risk measurement and controls, and internal audit and controls. Provide evidence that the bank's systems are capable of producing all required regulatory and prudential reports in an accurate and timely fashion.

Other – Address any plans for future expansion or contraction in the bank's operational or geographical scope, future plans for branch offices, changes in the license level of the bank, acquisitions, etc, Discuss plans for any transactions with related persons and affiliates. Confirm the bank's use of International Accounting Standards, and indicate any plans to change the bank's independent, external auditor.

Pro-Forma Financial Statements – Based upon the proceeding narrative section, submit a *pro forma* balance sheet and income statement (and any necessary supporting schedules) for two years following the stock transfer.

Business Plan Monitoring – Discuss the methods that the Governing Board will use to regularly monitor the bank's performance under the business plan and bank managements adherence to the plan.

11 April 2001

Fernando De Peralto, General Manager