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I. Development on Financial Literacy Program

A Master Plan for Financial Sector Development in Timor-Leste was launched in 2014, which has provided for the BCTL a new step to establish a strategy, and program, for lifting financial literacy amongst the underserved.

On 29 November 2014 a National Program on Financial Education was commenced, launched by the President H.E. Mr Taur Matan Ruak, which declared the day as National Savings Day. By the end November of 2015, the BCTL celebrated the first anniversary of National Savings Day. This ceremony, which was held at the Dili Convention Centre, was the continuation of the BCTL's intention to conduct a nationwide financial awareness and savings campaign, including giving young savers special clay money boxes, which was promised to double their savings up to a limit of \$100 if they brought the money boxes back a year later.

The ceremony was attended by more than 1,000 people, including students from elementary schools through to high schools in Dili, their teachers, and children of the staff of the Central Bank and the commercial banks.

The breaking of the money-boxes and receipt of the money into the children's

"Ha'u-nia Futuru" savings accounts was the highlight of the ceremony. This activity was supported by all four commercial banks operating in Timor-Leste, namely BNCTL, CGD/BNU Timor, ANZ and Bank Mandiri, which established dedicated counters for children to open the money-boxes and deposit their savings into the bank.

Before the celebration of National Savings Day, on 28 August 2015, BCTL launched the National Strategic Plan (NSP) for Financial Literacy in Timor-Leste, and Children's Savings Accounts "Ha'u-nia Futuru".

The objective of the NSP for Financial Literacy is to provide a framework for raising the level of aware-





ness about financial literacy issues at the national level, achieve collaboration amongst various stakeholders, identify the best modalities for co-ordination, and ensure relevance of the initiatives at all levels. The National Strategic Plan (NSP) for Financial Literacy in Timor-Leste has set design and implements an out-of-school program that targets identified needs and opportunities to lift financial literacy in the wider community through five year plan covering the period 2016-2020. The NSP for Financial Literacy establishes five focus areas: building sectoral capacity and capability, providing leadership, reaching the target audience, maintaining the quality of financial advice and sharing what works.

While, the objective of the “Ha’u-nia Futuru” programme is to encourage children to discover the benefits of saving money by having an account at a bank and watching their deposit grow as further contributions and interest increase the balance. The target for the program is all Timorese children from birth up to 17 years old. All benefits will accrue to the account holder because no fees or charges will be applicable to these accounts and the accounts will earn interest at an above-market rate. No withdrawals or payments from an account can be made until the holder’s 17th birthday.

By the end of 2015, it was about 1283 “Ha’u-nia Futuru” accounts has been opened with amount of \$ 178,341.51, the breakdown was 622 accounts with amount \$106,738.50 for boys and 661 accounts with amount \$71,603.01 for girls.

During the year of 2015, the BCTL developed training module on financial literacy to students, particularly those in their first years at elementary school. The objective of directing the financial literacy program to students in elementary school is that financial literacy should start at an early age. Children will thereby become more financially literate at elementary school, well before they start to live on their own and face real world challenges, and thereby ensure their long-term security and financial well being.

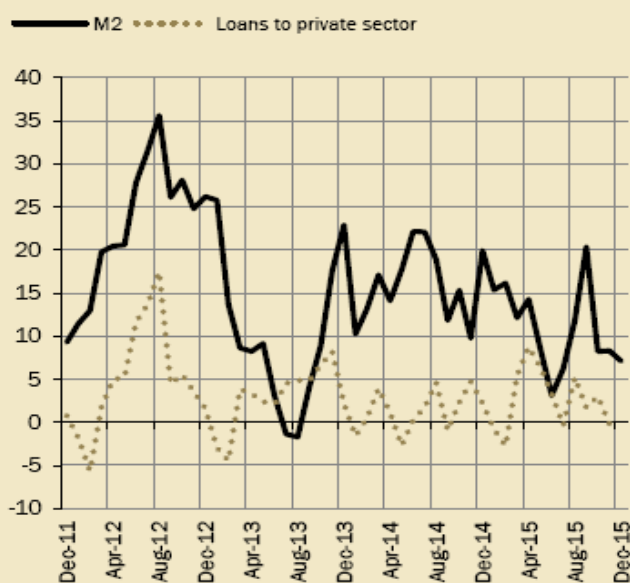
The approach will be implemented by conducting a “Training of Trainers” program for teachers in coordination with the Ministry of Education. These teachers will represent all Municipalities, including Região Autonomy Especial Oecusse Ambeno where each will be represented by 1 teacher. The BCTL plans to have this program reach all elementary schools in the next two years, in preparation to consider including the program in the curriculum.

On this project, the BCTL worked together with the Ministry of Education on reviewing the draft module as well as selecting teachers to attend this training and coordinate with BCTL to deploy the teachers from their area to Dili. After attending the training, the teachers will be in a position to deliver or disseminate the training material so the knowledge can reach all elementary schools in their municipal areas. The BCTL will monitor the performance of the teachers in coordination with the Ministry of Education during the program. The training is scheduled to take place in Mach 2016.

The BCTL continued to run campaigns covering all municipal Districts in the country, including received some invitations from Credit unions, Cooperatives and government institutions to provide the training on the financial education program. By the end of 2015, since inception, this program has reached about 17,300 people from various sectors such as businessman, veterans, elder people, students and public servants and it covered 12 municipals and the Special Administrative Region of Oecussi Ambeno.

Chart 1 Broad money growth

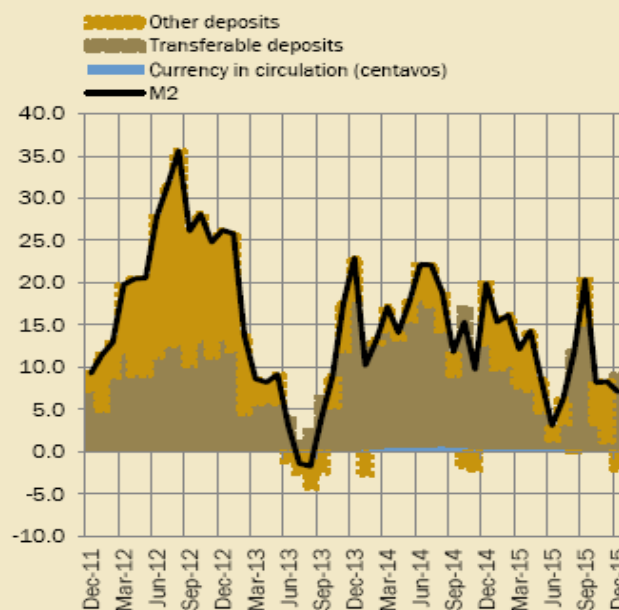
Year on year percentage changes



Source: BCTL

Chart 2 M2 and its components

Annual percentage changes; percentage point contributions



Source: BCTL

II. Recent Monetary and Credit Development

II. a. Money Supply

Monetary statistics data is used to ensure the importance analysis on the information gathered from money and credit to be considered in the monetary policy's decision-making process and it provides a cross-check from a medium to long-term perspective of the assessment of risks to price stability based on the economic analysis. The central bank of Timor-Leste however continues to ensure the analysis on monetary data and its effect in the economy. The monetary data is compiled and published monthly.

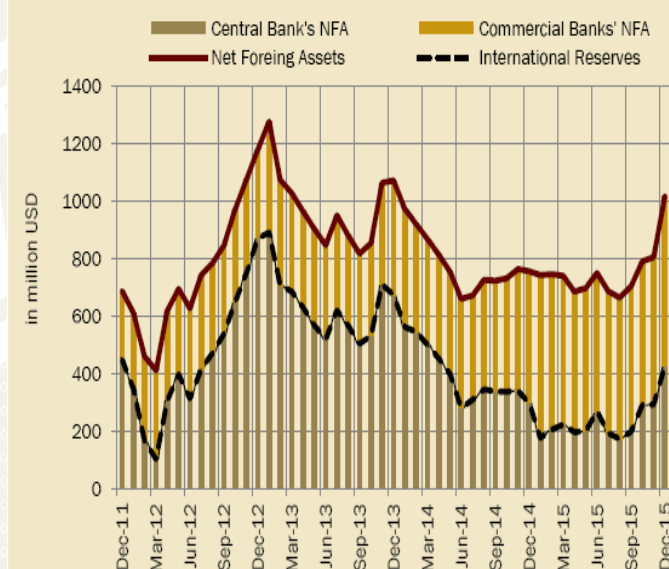
The analysis on M2 growth has weakened in the quarter. The annual growth rate of M2 in December 2015 has decreased, driven mainly by other deposits. Reversing the acceleration in the growth rate recorded in the last quarter, which has grown by 20.4%, this quarter of December the M2 has grown by only 7.1%. The decrease, in some extent, was followed by decline in the credit development from the banking system to private sector, and a slight increase in its net foreign assets (NFA). As the intermediary between those that excess of the fund and those who lack of fund, banks have been performed their role by receiving and channeling the fund from and to the private sector in the economy, while for some reason they have to also diversify their assets by deposit or investing the fund abroad.

In fact, there were slowing down in the rate of increase in the deposits of both corporations and individuals. The annual growth rate of deposits of corporations increased by only 0.4% in the quarter compared to an expansion of 17.2% in the previous quarter. Further, the individuals' deposits grew by 19.3% in relation to a 22.3% increase arose in the last quarter. This could be the result of increase in money in circulation, as cash withdrawal increased, or low deposits as less income.

Transferable deposits, or the demand deposits, the main driver of increase in the broad money, M2, in last September quarter, has dropped, grew by 15.7% reversing an increase of 28% observed in the last September quarter, contributed by 8.7% to the growth rate of the M2 in the December quarter. The time and savings' deposits or called other deposits in monetary statistics, in conjunction, declined by 4.8% reversing an increase of 11.4% in the last third quarter of 2015. Together they contributed negatively by 2% to the slow-down of the M2 in the quarter. The currency in circulation (centavos) continues to grow, rising by 24.3%, followed by a 22.2% increase in the last quarter of 2015, contributed by 0.4% to the M2 growth in the quarter.

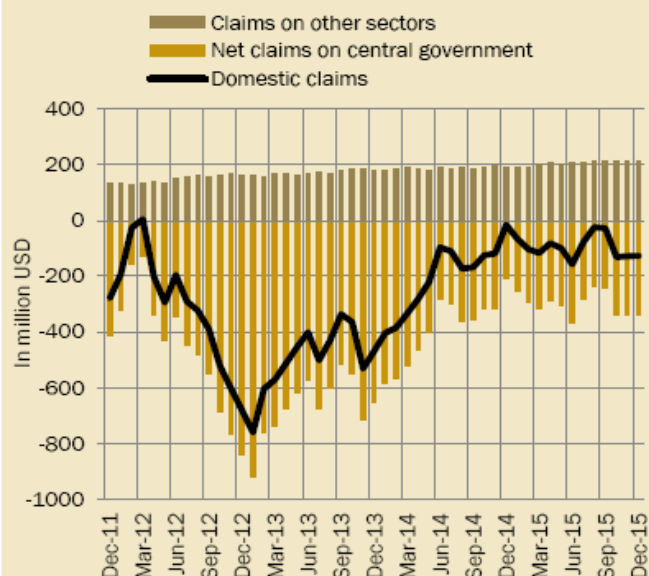
The annual growth rate of credit/claim to other sector grew by 10.5% followed by a 13.2% increase observed in the third quarter of 2015. The total amount of claims up to the December quarter represented 33%

Table 3 Net Foreign Assets



Source: BCTL

Chart 4 Domestic Claims



Source: BCTL

of M2, declined from 40.7% recorded in the last quarter. This development of the reduction was due to the decline in the growth rate of both deposit and the credit. The conditions to push banks to continue tighten their credit's terms and condition for approving loans still high. As the result, elevating the foreign assets.

II. b. Net Foreign Assets

The annual growth rate of net foreign assets (NFA) for the financial system or the depository corporations were expanded, has increased by 34.2%, reversing the decrease of 2.7% observed in the last quarter of 2015. In fact this progress was driven by increase in both the central bank's NFAs and the commercial banks' NFAs, rising by 42%, and 29% respectively. Central bank's NFAs contributed by 16.8% to the increase in the growth rate in the quarter under review, reversing a negative contribution of 19.2% observed in the last quarter, while the commercial banks contributed by 17.4% in the quarter, followed by 16.4% recorded in the last quarter.

The main driver of the changes in the central banks' NFAs was the increased in its claims on non-residents, mostly from the other deposit, rising by 159.7%, reversing a decline of 18.1% recorded in the last third quarter of 2015. Currency and deposits declined by 23.1%, followed by a 21.7% reduction observed in the last

quarter. In part, its liabilities declined by 4.2% after it was dropped by 5.3% in the last quarter.

While, the slowdown in the commercial banks' NFAs was due to the reduction in its cash holding of foreign currency, was reduced by 17.8%, reversing an increase of 45.5% in the last quarter. The other deposits continue to increase, has rising by 45.3% followed by an upsurge of 39.7% recorded in the last quarter, while transferable deposit has rising by only 1.4%. Their contribution to the growth rate of NFAs in the quarter were of -1.7%, 32.2% and 0.5% respectively. Its liabilities has growing by 12.9% and contributed by 1.8% to the growth rate of the NFA.

II. c. Net Domestic Assets

The domestic assets composed by claims on central government (net) and claims on private sector. Net claims on central government contain credit and liabilities to central government from the financial system. Actually, there is no credit from the financial system to the government of Timor-Leste, therefore the net claims on the central government, in the monetary statistics, is negative, which means that all corresponding amount is government deposits, or the depository corporations liabilities' to the central government. While, claims on the private sector consist of credit to domestic private sectors and others claims.

The annual growth of Domestic Claims has amplified in the fourth quarter of 2015, has surged by 724.8, reversing a reduction of 83.4% observed in the last September quarter. This development of domestic claims mostly has contributed by the enlarge in the liabilities of depository institutions, especially the central bank, to the central government, recorded about 855.3%. While, the claims on private sector, that reduce the effect of increase in liabilities of depository corporations to the central government, has contributed by 130.5% to the growth rate of domestic claims, recorded a growth rate of 10.5% in the quarter. From the total claims to private sector in the December quarter, loans represent about 90%, recorded a growth of 7.9% followed by 10.9% observed in the last quarter.

Part of subdued increase in the credit to private sector is accounted by provision for non-performing loans of banks, which has raised by 1.4% to USD56.6 million in the quarter, representing 22.9% of the total gross credit to private sector that has recorded in the December quarter of 2015 an amount of USD247.4 million.

While individual sector continues the main sector that has the higher share of credit from the commercial banks, representing 42.8% of total credit in the quarter, declining moderately from 45.1% recorded in the last quarter, it just grew by 0.3% which contributed 0.1% to the total credit growth.

In fact, the main sector that received more credit in the

quarter was the sector of trade and finances, has increased by 36.7%, which contributed by 2.6% to the total growth, while just representing 9.1% of share in the total credit.

The second main share in the credit was the construction sector, placed at 28.2% in the quarter, with a growth rate of 28.8%, which gave more contributions to the total growth of the credit in the quarter, recorded about 6.8%. Tourism and service, the sector that received more credit in the last quarter, has slowing down, grew by 17% in the quarter under review, which contributed by only 1.1% to the total credit growth.

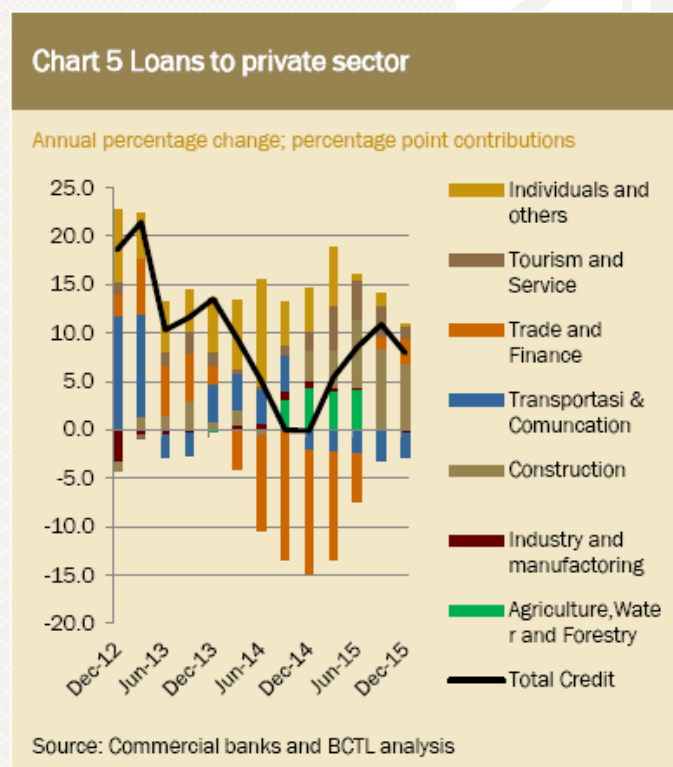
Credit to agriculture sector rose by only 2.7%, followed an increase of 2.8% in the last quarter. By contrast, the industry and manufacturing sector continue to decline, has reduced by 22%, after record a reduction of 12.4% in the last quarter. Both sectors representing the smallest share of the total credit in the economy, placed by only 4.5% and 1.4% respectively in the quarter.

To safe a sound and stable financial system, the central bank has put as a tools of macroprudential policy, the liquidity requirement of 15%, while the banks continue tighten the credit, as the non-performing loans still high and the land title still unclear. Banks then hold liquid asset more than the requirement of the Central Bank, include of which placement overseas.

Table 1 Credit to Private Sector (in thousand USD)

Sector	2014		2015		Change from Dec 2014	% point to contribution	Dec Share (%)
	Dec	Sept	Dec	Dec			
Agriculture, Water and Forestry	8,280	6,516	8,505	2.7	0.1	4.5	
Industry and manufacturing	3,477	2,677	2,711	-22.0	-0.4	1.4	
Construction	41,823	52,181	53,861	28.8	6.8	28.2	
Transport & Comunication	17,606	14,239	13,263	-24.7	-2.5	7.0	
Trade and Finance	12,724	16,000	17,396	36.7	2.6	9.1	
Tourism and Service	11,363	14,262	13,292	17.0	1.1	7.0	
Individuals	81,428	86,817	81,691	0.3	0.1	42.8	
Total	176,701	192,692	190,719	7.9	7.9	100.0	

Source: Commercial banks and BCTL analysis



II. d. Interest Rate

In the basic economy, when money supply increased, means that more money is available in the economy for borrowing, in line with low demand for money, it tends to reduce the interest rates, or the price for borrowing money declined. Similarly when the money supply decreases, it will tend to push up the interest rates. However, this will work if the banks feel there are competitions for lending.

The money supply in Timor-Leste continue to increase, with high excess liquidity, however as there are other factors, it does not influence the interest rate. The weighted average interest rate of loan stood at 13.9%.

II. e. Price and inflation

Headline inflation continue embarked into low territory in December. According to the General Directorate of Statistics of Timor-Leste, the annual CPI inflation rate (Dili) decreased to -0.7% in December 2015, from 0.4% in September. This was the result of decline in price of most of the component within the CPI basket, except transportation, while increased but still with negative growth. Transportation cost still reflect the main change in the quarter, has declined by 4.1%, after record a reduction of 7% in the last September quarter. Although showed a higher change however has provided a minor contribution to the decline in inflation, as just has 6.4% of weighted in the CPI basket. The trans-

portation cost, therefore, contributed by -0.23% to the decline in the inflation in December quarter.

In fact, the major contributor to the decline in the inflation rate during the December quarter was the component of food, has contributed by -1.10%, with a change of -1.7%, lower than transportation cost, but due to the higher weighted, has provided significant contribution.

This was mainly the result of larger price decreases in vegetables, rice and components of meat and oils and fats. The price of clothing and footwear also declined in the December quarter, presenting a change of 1.4% in the quarter under review, compared to 4.8% in September.

Interesting that, it is already in three years, there is no seasonality effect on the inflation in Timor-Leste, especially during December. It seems that high demand in the country does not affect the price, or by contrast there is less demand for goods in December, or there is demand but with abundance of supply of goods then, and in fact, the price continues slowing down. Normally, in a gala day, such as celebration of Christmas day and New Year, peoples' behaviors for consumption tend to increase, their demand for goods and services therefore will increase. Economic rationality says that if everything held constant then the price should increase. However, there could be other external factors' effect.

Chart 6 Inflation

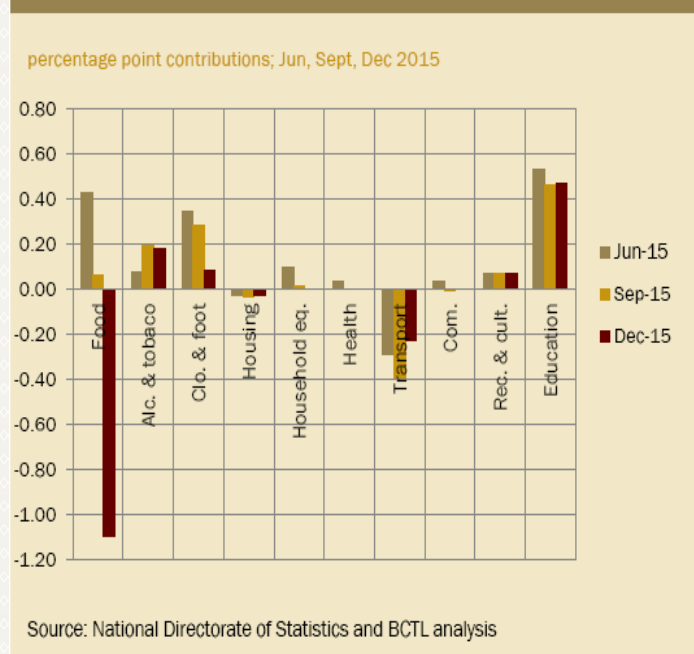


Table 2 Dili Annual Inflation Rate (%)

	Jun	Jul	Aug	Sept	Oct	Nov	Dec
2007	9.5	8.4	8.7	7.8	7.9	7.9	8.5
2008	11.7	12.4	12.3	12.0	10.8	9.2	7.5
2009	-1.7	-2.3	-2.4	-1.9	-1.4	-0.4	1.7
2010	6.6	7.3	7.5	7.4	7.9	9.1	9.2
2011	13.6	13.1	13.1	13.7	14.3	15.5	17.5
2012	11.0	11.1	11.3	11.4	11.6	11.6	11.7
2013	13.2	12.5	12.2	10.9	10.1	8.1	4.0
2014	-0.7	-0.1	-0.2	0.0	-0.4	-0.4	-0.1
2015	1.5	0.9	0.6	0.4	0.4	-0.1	-0.7

Source: General Directorate of Statistics

III. Commercial Banks

The total asset of the banking system and its key elements continue posted strong growth; particularly the deposit base, while lending to private sector consistently stood with slight growth in a long period of time, increased over the fourth quarters of 2015 compare with correspondent quarter of 2014.

Total assets of the banking system showed a net expansion of USD 122.7 million during the year from December 2014 and stood at USD 927.8 million in December 2015. Hence, the asset of the banking system increased by 15.2%, followed an upsurge of 21.8% recorded in the last September quarter. In the same time, the annual trend of total deposits of the banking system continue to increase, has achieved USD 724.5 million at the end of December 2015. Register an annual growth of 24.2%, after revealed a 33% growth in the last September quarter. In average for the last six years, the total deposit denote about 80% of the total assets, recorded an average annual growth of 20% in the medium and long term.

Total lending up to the quarter of December 2015 was of USD 190.7 million, recorded an increase of 7.9% from December 2014, which denoted a medium and long term growth of 12%.

The annual income as percentage of assets (RoA, or Return on Assets) was of 0.7% in December 2015, rose

from 0.5% in September 2015, while declined from 1.1% compared to December 2014. The decrease in ROA for December 2015 compared to the same month last year, was essentially due to the decline in net income, has reduced by 26%, as the expenses has expanded, increased by 29%, although the assets and income were increased in the same proportion.

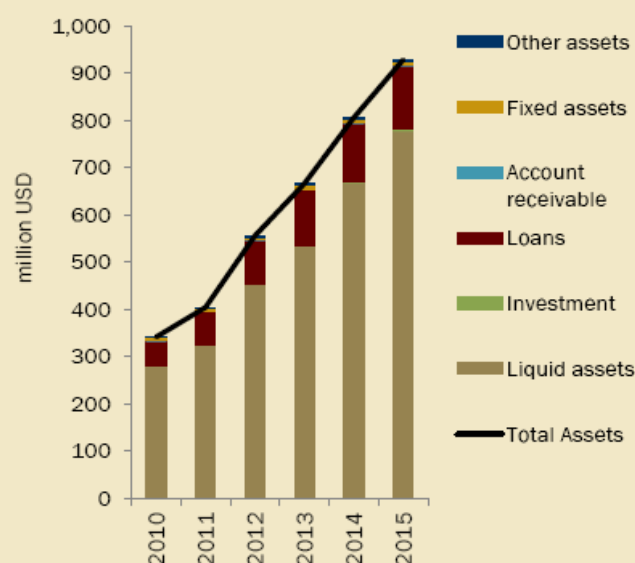
In the other side, the banks continue to have liquidity ratios above the minimum required by the BCTL, with an excess of liquidity ratios of 55.3%, dropped from 66.4% in the quarter of September 2015. The requirement actual held about USD 623.3 million compared to the liquid assets requirement of USD (15%) 132.8 million. All of the banks have high liquidity fund, while it is recognized that the percentages allocated to the credit is still low. Therefore, no interbank transaction occurred between banks, especially for the lending necessity. Note that loans to deposit ratio at December 2015, just situated at 26.3%, which compare to the liquid assets requirement at least should be 85%.

In fact, liquid assets represent the highest share within the total assets, placed at 83.7% in December 2015, of which overseas placement denote 66.9%. Loans, exclude the provision for loan losses, represent only 14.5% of the total assets.

Table 3 Highlights of the Banking System (in million USD)					change	change
	2013	2014	Sep-15	Dec-15	from Dec 14	from Sep 15
Total Assets	665	805	806	928	15	15
Liquid Assets	535	667	652	776	16	19
Investments	0	4	4	4	0	0
Total Loans	177	177	193	191	8	-1
Non-performing loans	50	47	45	44	-8	-3
Provision for Loan Losses	58	56	56	57	1	0
Total Liabilities	645	766	766	885	16	16
Deposits	507	583	627	725	24	16
Capital	20	39	40	43	9	7
Liquid assets requirement (15%)	97	115	115	133	16	16
Income	36	34	35	39	15	10
Expenses	23	25	31	32	29	2
Net income	13	9	4	7	-26	76
ROA (%)	2.0	1.1	0.5	0.7		

Source: Commercial Banks balance sheets and BCTL analysis

Table 4 Banking Systems; Assets Development



Source: BCTL

Table 5 Timor-Leste Monetary Survey

Millions of US Dollars

	Dec-14	Sep-15	Dec-15	% point cont. 1 Y ago	% change 1 Y ago
NET FOREIGN ASSETS	756.78	704.57	1015.61	34.2	34.2
CLAIMS ON NONRESIDENTS	832.40	785.17	1099.07	35.2	32.0
LIABILITIES TO NONRESIDENTS	-75.62	-80.60	-83.46	-1.0	10.4
DOMESTIC CLAIMS	-15.40	-27.99	-127.06	724.8	724.8
NET CLAIMS ON CENTRAL GOVERNMENT	-207.17	-240.35	-338.92	855.3	63.6
CLAIMS ON CENTRAL GOVERNMENT	0.00	0.00	0.00	0.0	-36.0
LIABILITIES TO CENTRAL GOVERNMENT	-207.17	-240.35	-338.92	63.6	63.6
CLAIMS ON OTHER SECTORS	191.76	212.36	211.86	-130.5	10.5
CLAIMS ON PRIVATE SECTOR	191.76	212.36	211.86	10.5	10.5
BROAD MONEY LIABILITIES	599.82	522.29	642.38	7.1	7.1
CURRENCY OUTSIDE DEPOSITORY CORPORATIONS	9.78	11.19	12.15	0.4	24.3
TRANSFERABLE DEPOSITS	333.16	291.81	385.55	8.7	15.7
OTHER DEPOSITS	256.88	219.29	244.67	-2.0	-4.8
SECURITIES OTHER THAN SHARES					
DEPOSITS EXCLUDED FROM BROAD MONEY	0.36	0.66	0.63		74.7
LOANS	0.50	0.06	0.00		
SHARES AND OTHER EQUITY	89.41	97.67	99.58		11.4
OTHER ITEMS (NET)	51.28	55.94	145.97		184.6
Source: BCTL					
Memorandum item: Petroleum Fund Assets	16,539	16,437	16,218		-1.9



PRO FORMA BALANCE SHEET
As at 31 December 2015


DESCRIPTION	\$ 000
ASSETS	
Cash and cash equivalents	501,451
Marketable Securities	-
Investments	24,976
Property, plant and equipment	2,489
Other assets	4,607
TOTAL ASSETS	533,523
LIABILITIES	
Government deposits	238,041
Provision transfer of surplus to Government	-
Other deposits	226,108
Other liabilities	5,986
Currency issued	12,153
Total liabilities	482,288
EQUITY	
Capital	50,000
Reserves	32
Retained earnings	1,203
TOTAL EQUITY	51,235
TOTAL LIABILITIES & EQUITY	533,523

Nota:

1. At 31 December 2015 the balance of Petroleum Fund account managed by the BCTL was \$16,218 million. This is to recognise the reporting requirement under IFRS.

2. The Summary statements above are presented in accordance with article 55-B of BCTL Law 2011/5 and have been prepared on an annual basis from the financial records of BCTL as at 31 December 2015. These Financial Statements are unaudited.

Dili, 14 January 2016


Abraão de Vasconcelos
Governor


Fernando da Silva Carvalho
Chief Accountant