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The BCTL: Mission and key mandates, organization and governance, and activities

The mission of the Central Bank of Timor-Leste (BCTL) is to continue improve the quality of its services to the stakeholders by maintaining a sustainable monetary system with low inflation; ensuring that payments systems are efficient and effective; promoting a safe and credible system of financial institutions; communicating and providing information; and undertaking sound economic research and analysis.

In line with the Central Bank's mission, this chapter provides an overview of the Central Bank's key mandates and functions, governance structure and important activities undertaken during the financial year of 2014. This brief summary of the key activities conducted during the year covers the main functions for which the Central Bank is responsible for as well as activities that support the institutional setting and strengthening.



Mission and key mandates, organization and governance, and activities

The Central Bank of Timor-Leste (BCTL) is a public legal entity, endowed with administrative and financial autonomy of which is accountable for its operations to the Prime Minister. The BCTL includes its employees are independent and cannot receive instruction from any other entity, maintain its statute in the usual independence of the central bank against the government.

As usual of the majority of the central banks, the primary objectives of the BCTL are, in the space of economic policy, to achieve and maintain domestic price stability. Others important objectives subordinated to the primary objective are to promote and maintain a stable and competitive financial system based on free market principles. In general the BCTL should support economic policies of the Government.

In order to achieve these objectives the BCTL, according the BCTL's Law, should carries out the following functions:

- a) Define and implement monetary policy;
- b) Define and adopt the exchange rate system;
- c) Conduct foreign-exchange operations;
- d) Hold and manage the official foreign reserves;
- e) Hold and manage the State reserves of gold;
- f) Issue and manage the currency of Timor-Leste;
- g) Collect and produce statistics pursuant to applicable regulations;
- h) Inform the National Parliament, Government and the public about its policies, functions and operations
- i) Establish, promote and oversee sound and efficient payments and securities settlement systems;
- j) Regulate, license, register and supervise financial institutions
- k) Advise the Government on matters within its field of competence;
- l) Act as the fiscal agent of the State;
- m) Participate in international councils and organizations concerning matters that are within its fields of competence;
- n) Enter into contracts and establish agreements and protocols with national or foreign entities, public or private; and
- o) Conduct any other activities assigned by the BCTL law.

Currently some of these functions do not fully implemented by the BCTL due to the adoption of US dollar as the official currency in Timor-Leste.

Organization and governance

The highest authority in the Central Bank is the Governing Board which formulates the strategic policies for the institution and supervises its implementation include supervise the Bank's administration and operations. The Governor is the chief executive of the Central Bank in charge of the day-to-day business of the institution and assisted by two Deputy Governors and a Management Committee composed of the head of departments in the decision making process. Currently the composition of the Governing Board, is composed by executive member comprised Governor and two deputies Governor, and one non-executive member.

The current detailed composition of the Governing Board and the Management Committee are listed at the end of this chapter.

The BCTL continue organized into four main departments; Financial System Supervision, Banking and Payments System, Petroleum Fund Management, and Administration. The others are independent divisions and offices which report directly to the Governor that compose by the Office of Legal Affairs, Office of Internal Audit, the Division of Economics and Statistics and Financial Information Unit. The Division of Budgeting and Accounting, is under the direction of the Deputy Governor of financial system supervision

The BCTL also provides the secretariat function for the Investment Advisory Board of the Petroleum Fund and is being coordinated by the Executive Director of the Department of Petroleum Fund Management.

The value of the institution abbreviated "TIMOR" being Transparency, Integrity, Mobilization, Ownership, and Responsibility become the principles in driving its conduct and policy initiatives.

It had been also determined the code of ethics applicable to all staff including external parties engaged by the BCTL. This code, to be eventually revised by the Governing Board of BCTL, includes very strict standards on various aspects of the behavior of those to whom it applies. Refer, for example, the obligation of each employee of the Bank to perform its functions taking into account only the interests of the general public and BCTL and not their individual interests, which includes not receive instructions, whatever they may be, other entities other than the legal structures of the Central Bank.

Bank staffs are also, of course, forbidden to receive any pecuniary or other valuables of any persons who may have an interest in influencing their decisions.





BANCO CENTRAL DE TIMOR-LESTE

Institutional Values

Transparency

We are a role model for society and for the institutions, our procedures and rules are clear and applied in a rigorous, universal and consistent way, both internally and externally.

Integrity

We exercise our business with honesty, high ethical and moral standards, respecting the confidentiality and legality in all actions and decisions involving our interests and resources.

Mobilization

We mobilize to provide the best service to the Timorese community, through the ability to consult, listen and learn so committed.

Ownership

We exhibit a sense of belonging and involvement, establishing as priority the objectives of the institution and showing availability to perform activities beyond the scope of our role.

Responsibility

We invest in expanding our technical and professional skills, deliver on the responsibilities that are assigned to us and that we proactively seek, through ongoing monitoring of the consequences of our decisions and actions.

BCTL's activities

As part of the mission of BCTL, based in promoting monetary and financial stability, development of the financial system and promoting a safe and efficient payment system, several activities have been planned and implemented in 2014.

After having performed in 2013, a seminar to seek the advice of various stakeholders in order to prepare and enhance the development of financial services to Timorese citizens in the country, BCTL officially launched on 28 August 2014, its Master Plan for Financial Sector Development in Timor-Leste. The Master Plan sets out a comprehensive roadmap for the development of the financial sector over the decade to 2025.

The BCTL also launched on 29 November 2014, the financial education campaign. The campaign was launched in Dili, under the patronage of His Excellency the President of the Republic Mr Ruak establishing the 29th November as the National Savings Day. After the launching ceremony, the BCTL ensured the holding of the first national campaign to raise awareness and financial education, held between 1 and 5 December. This campaign was carried out in 6 Districts: Manufahi, Baucau, Maliana, Aileu, Ainaro and Liquica.

At the end of 2014, BCTL, together with the Asian Development Bank (ADB), worked in developing the legal framework for the correspondent banking (Agent Banking). Considers that this technology can facilitate the banking without branches, through the use of agreements between agencies, which can help overcome the barriers associated with access to traditional banking services and providing solutions to the widespread use of banking services in East Timor.

During the year, the BCTL started preliminary discussions with the relevant institutions of credit guarantee, as "Credit Guarantee Corporation Malaysia" as part of the creation of a credit guarantees system in Timor-Leste.

The BCTL also conducted a comprehensive strategic study of the National Payments System of Timor-Leste. The main immediate recommendation of the study was for the BCTL to introduce an Automated Transfer System (STA / ATS), whose purpose is to facilitate payments in electronic form between all the banks including BCTL, as well as the Ministry of Finance.

During 2013 BCTL carried out a wide-ranging strategic study of the National Payments System of Timor-Leste. The results of this study were presented in a public seminar and were later published in printed form as the "Strategy for the Development of the Timor-Leste National Payments System". The main immediate recommendation from the study was for BCTL to introduce an Automated Transfer

System (ATS), whose purpose is to facilitate payments in electronic form between all the banks including BCTL, as well as the Ministry of Finance.

During 2014, the BCTL awarded a contract for the supply of an ATS following an international tender process. BCTL and the vendor started joint work on specifying and implementing the ATS in March 2014 and the system is scheduled to start live operation around the end of the first quarter in 2015.

BCTL has named the ATS “Rede Transferência iha Momento Reál”, which is abbreviated as “R-TIMOR”. It is designed to accept and process payments in electronic form between the banks. The payments are sent and received in complete security using a duplicated high speed dedicated network. The movements of funds between the participants in the system are made through settlement accounts which they hold at BCTL.

The introduction of R-TIMOR is requiring a major effort on the part of all involved parties which include not only BCTL but also the banks and the Ministry of Finance. All of these parties have cooperated in an important associated activity, which is the conversion of all bank account numbers in Timor-Leste to the International Bank Account Number (IBAN) standard.

The main activities of BCTL, conducted during 2014, are described in more detail in the following section.

Payments System

Payments and settlement system arrangements

During the period in which is referred to this report -- the financial year of 2014 --, BCTL consistently maintain sufficient cash to meet settlement transactions either for government payment or commercial banks transactions. In this context, the Bank ensured in particular, the full operation of “Dili clearing house”.

The following table shows activities of clearing in the country in the period:

Transacções na Câmara de Compensação de Dili				
(valor; em milhões de USD)				
Mês	Cheques		Ordens de pagamentos	
	Volume	Valor	Volume	Valor
Janeiro 14	1895	20	2982	35.904
Fevereiro 14	1730	13.230	1274	6.199
Março 14	1813	13.434	3287	12.744
Abril 14	1715	11.677	5994	14.836
Maio 14	1736	9.984	4718	24.459
Junho 14	1798	10.638	8259	35.533
Julho 14	1808	9.005	6363	27.344
Agosto 14	1738	11.008	4846	32.249
Setembro 14	2010	11.100	4878	44.385
Outubro 14	2029	18.601	5892	40.699
Novembro 14	1615	9.154	3723	27.544
Dezembro 14	2317	16.574	9490	84.779
Total	22204	154.176	61706	386.676

Mês	Cheques devolvidas		Ordens de pagamentos devolvidas	
	Volume	Valor	Volume	Valor
Janeiro 14	39	1.541	86	0.851
Fevereiro 14	43	1.126	46	0.314
Março 14	48	1.888	50	0.101
Abril 14	25	0.736	62	0.091
Maio 14	25	0.575	58	0.423
Junho 14	20	0.496	64	0.383
Julho 14	36	0.682	69	0.761
Agosto 14	18	0.333	44	0.030
Setembro 14	16	0.042	50	0.582
Outubro 14	23	1.266	62	0.810
Novembro 14	16	0.078	34	0.025
Dezembro 14	15	0.167	67	0.734
Total	324	8.929	692	5.105

Fonte: BCTL

The settlement services which provided by the BCTL is divided into two categories; Domestic and Foreign. The domestic settlement is composed from two categories of the settlement activity which are large value interbank transactions (LVTS) and Retails Funds Transfer of Clearing House, while the foreign settlement is composed from outgoing and incoming transfer where is settled through the BCTL's correspondent banks. Moreover, the settlement of outgoing and incoming international transfer is done through the SWIFT.



The following table shows the statistic of settlement activity during the period:

Pagamentos Nacionais e Internacionais (Valor Em milhões de USD)										
Mês	Pagamentos Nacionais				Pagamentos Internacionais					
	Salidas de LVTS		Entradas de LVTS		Tranferências retalho do Fundo		Tranferências para o exterior		Tranferências provenientes do exterior	
	Volume	Valor	Volume	Valor	Volume	Valor	Volume	Valor	Volume	Valor
Janeiro 14	236	44.75	54	177.78	2801	31.67	358	135.50	33	3.46
Fevereiro 14	95	25.46	30	77.83	1065	2.19	50	39.06	18	6.22
Março 14	109	29.77	43	89.87	3061	8.81	124	52.91	25	5.17
Abril 14	101	71.59	43	103.92	3934	12.08	455	58.55	19	6.16
Maió 14	76	45.02	36	100.25	4740	20.56	189	51.70	15	3.30
Junho 14	57	87.50	41	153.98	8017	32.50	160	114.13	28	2.32
Julho 14	80	55.35	44	134.04	6079	23.19	365	61.80	23	9.17
Agosto 14	72	50.72	49	160.16	4568	2874	215	88.75	26	20.95
Setembro 14	129	93.44	48	203.28	4553	40.08	373	125.60	16	1.39
Outubro 14	129	80.02	43	181.26	6123	42.95	568	107.09	24	0.51
Novembro 14	111	75.74	36	142.54	3450	23.56	227	82.93	22	0.29
Dezembro 14	102	193.53	50	242.14	9105	79.37	309	211.84	26	0.32
Total	1297	852.90	517	1,767.04	57496	345.67	3393	1,129.84	275	59.27

Fonte: BCTL

The activities on incoming and outgoing transfer done through the commercial banks during period can be seen in the following table:

Entradas e Saídas de Transferências (Valor Em milhões de USD)								
Months	Transferências proveniente do exterior				Transferências para o exterior			
	Swift		Non Swift		Swift		Non Swift	
	Volume	Valor	Volume	Valor	Volume	Valor	Volume	Valor
Janeiro 14	1561	33.213	106	0.631	1909	70.540	2897	31.890
Fevereiro 14	1574	27.081	85	1.115	1278	59.601	3006	23.515
Março 14	1677	41.210	84	0.662	1505	62.305	2879	20.378
Abril 14	1582	33.779	90	0.651	1457	28.944	3081	24.674
Maió 14	1583	39.662	85	1.069	1618	61.885	3277	23.609
Junho 14	1762	50.838	0	-	1565	89.885	5338	30.005
Julho 14	1711	39.454	0	-	1731	57.693	4525	36.495
Agosto 14	1660	46.091	0	-	1772	67.312	4106	26.870
Setembro 14	1270	29.035	1241	35.944	1814	94.529	196	24.000
Outubro 14	1911	45.254	0	-	2022	83.701	3669	30.051
Novembro 14	1190	24.537	341	7.043	1710	53.172	5718	26.206
Dezembro 14	1306	36.799	341	17.632	2048	110.756	5718	58.338
Total	18,822	446.951	2,373	64.746	20,429	840.323	44,410	356.031

Fonte: BCTL

The activities on cash transactions and non-cash transaction during period can be seen in the following table:

Transacções em Moeda e não em Moeda (Em milhões de USD)				
Mês	Transacções em Moeda		Transacções não em Moeda	
	Volume	Valor	Volume	Valor
Janeiro 14	0.561	246.06	0.029	125.80
Fevereiro 14	0.580	206.87	0.014	70.49
Março 14	0.608	220.86	0.028	75.83
Abril 14	0.657	192.41	0.026	95.79
Maió 14	0.689	241.89	0.027	81.32
Junho 14	0.710	267.19	0.030	126.41
Julho 14	0.791	302.70	0.016	91.91
Agosto 14	0.767	295.79	0.015	94.31
Setembro 14	0.795	315.47	0.015	151.91
Outubro 14	0.819	327.76	0.015	146.86
Novembro 14	0.820	291.60	0.025	128.67
Dezembro 14	1.045	372.36	0.034	274.10
Total	8.841	3,281	0.273	1,463

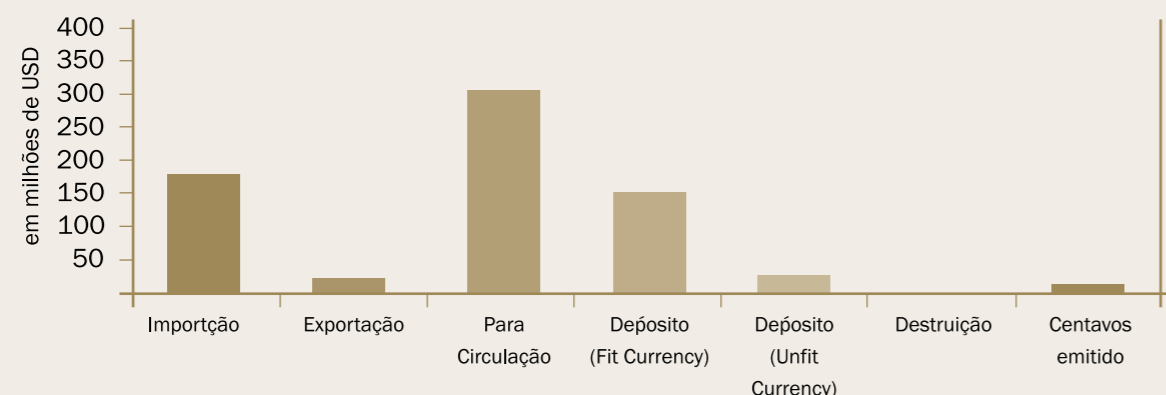
Fonte: BCTL

Importation and Exportation of Cash

As the fiscal agent of the State and the banker to the Government one of the main functions of the BCTL is to promote and oversee sound and efficient payments systems and to support the necessary economic growth of the country. To maintain the sufficient means of payments the needs of importation of USD bank notes is required. Alongside the activities on currency importation, the repatriation of unfit USD bank notes was taking place. Total import of currency (USD bank notes) in the period was about USD 206 million, while placed it into the circulation about USD 355 million (include centavos).

The below chart shows activities of currency transactions during the period:

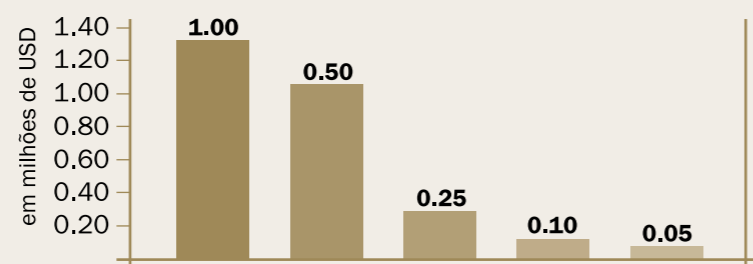
Transacções de Moeda durante 2014 (em milhões de USD)



Fonte: BCTL

The chart below shows centavos issued during the period of 2014. In fact the value of 100 and 50 centavos was the highest value issued, reached about 1.3 and 1.05 million centavos.

Emissao de Centavos



Fonte: BCTL

National Payments System Development Strategy

Rede Transferência iha Momento Reál (R-TiMOR)

During 2013 BCTL carried out a wide-ranging strategic study of the National Payments System of Timor-Leste. The results of this study were presented in a public seminar and were later published in printed form as the “Strategy for the Development of the Timor-Leste National Payments System”. The main immediate recommendation from the study was for BCTL to introduce an Automated Transfer System (ATS), whose purpose is to facilitate payments in electronic form between all the banks including BCTL, as well as the Ministry of Finance. In February 2014 BCTL awarded a contract for the supply of an ATS following an international tender process. BCTL and the vendor started joint work on specifying and implementing the ATS in March 2014 and the system is scheduled to start live operation around the end of the first quarter in 2015.

BCTL has named the ATS “Rede Transferência iha Momento Reál”, which is abbreviated as “R-TiMOR”. It is designed to accept and process payments in electronic form between the banks. The payments are sent and received in complete security using a duplicated high speed dedicated network. Because it is an electronic system, all payments are processed very quickly and safely. The movements of funds between the participants in the system are made through settlement accounts which they hold at BCTL.

Assuming that sufficient funds are available, high value and urgent payments will be processed and settled within a few seconds using the Real Time Gross Settlement module.

Lower-value payments, such as salaries, war veterans’ payments, payments to suppliers and so on, will be processed and passed to the receiving banks through an automated clearing house module that will clear payments twice a day.



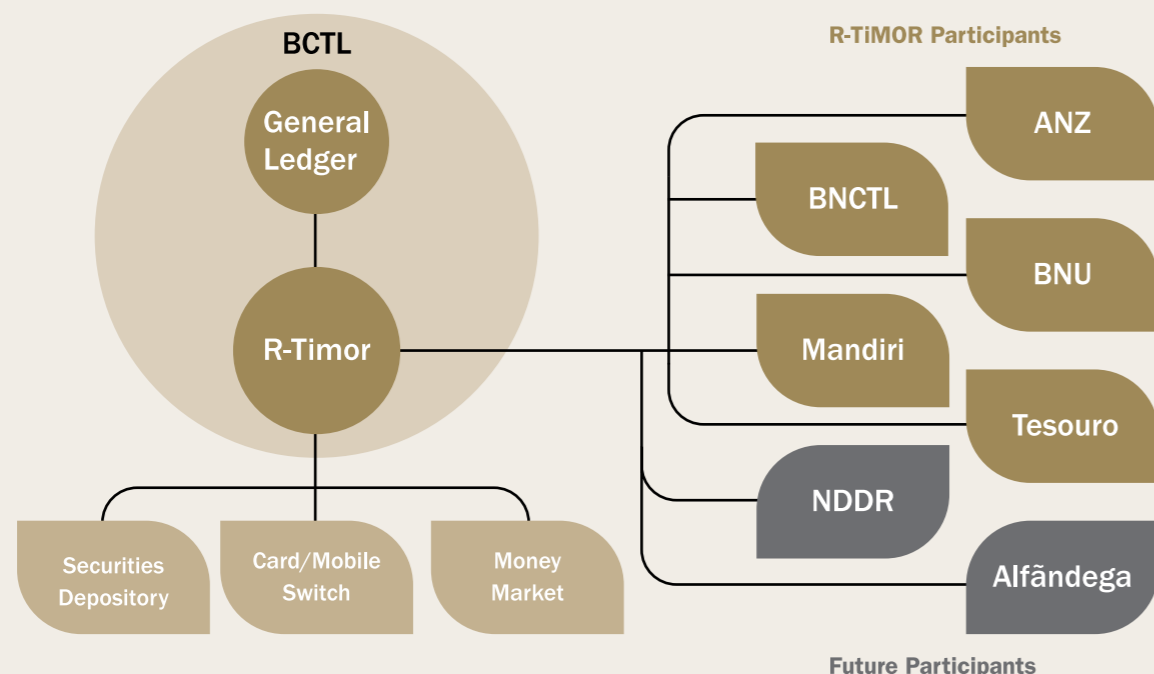
The system will also allow participants to better manage their liquidity. This means that if a participant has insufficient funds in its account to make a payment, the payment is placed in a queue until enough funds are received (e.g. through incoming payments from other participants), so there is no possibility of a bank settlement account being allowed to go into overdraft. In addition to being very fast and efficient, every aspect of R-TiMOR is highly secure as befits a system which will become 'mission-critical' for the whole Timor-Leste economy.

Business enterprises and private citizens will be able to make and receive payments much more quickly and securely than at present. The ability to receive and make payments more quickly will increase what is known as the velocity of money. According to economic theory, increasing the velocity of money allows a constant money supply to support an increasing Gross National Product.

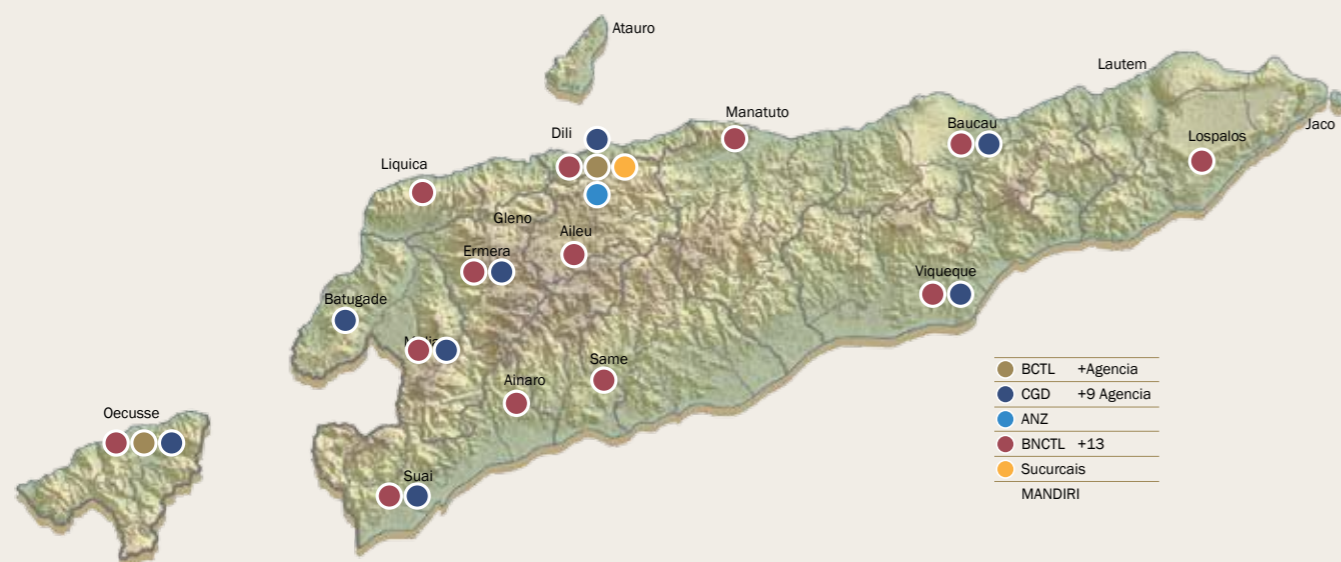
Among other benefits to be gained will be a reduction in the need for the Central Bank to import, and manage banknotes, which is expensive and risky but necessary in an economy highly dependent on cash as the primary means of payment. R-TiMOR will form the solid foundation for the long-term development of future non-cash payment systems in Timor-Leste, including systems that will, for example, enable electronic cashless payments literally anywhere in the country using mobile phones. At a systemic level the new system will support the deepening of financial markets, including the development of an inter-bank money market, which, once operating, will allow banks to make more efficient use of their cash resources. These benefits will contribute to enhancing the attractiveness of Timor-Leste as a country in which to do business.

The introduction of R-TiMOR is requiring a major effort on the part of all involved parties which include not only BCTL but also the banks and the Ministry of Finance. All of these parties have cooperated in an important associated activity, which is the conversion of all bank account numbers in Timor-Leste to the International Bank Account Number (IBAN) standard. IBAN is an internationally agreed system of identifying bank accounts across national borders to facilitate the communication and processing of cross border transactions with a reduced risk of transcription errors. It has been adopted in almost all European countries and is increasingly being used in other countries. Timor-Leste is the first country in Asia-Pacific to adopt this international standard for bank account numbering. Based on the experience of other countries, the use of IBANs in Timor-Leste will improve the accuracy and speed of processing payments in the ATS and future payment systems, and will also make the broadening of international financial links easier over the longer term.

R-TiMOR and its positioning in the Timor-Leste financial system



R-TiMOR is expected to have a positive impact on the financial sector and the economy of Timor-Leste. For the Government, all payments to suppliers, state employees and recipients of social benefits such as war veterans will be made electronically through R-TiMOR, thereby speeding up the payment process, reducing errors and increasing certainty of payment. Payments into government accounts, such as tax and Customs payments, will be able to be made electronically via any branch of any bank anywhere in Timor-Leste, again without using cash or cheques.



Financial system and banking services

Licensing and Regulation of financial system

Financial system in Timor-Leste consisted of commercial bank, insurance company, Other Deposit Taking Institutions, Currency Exchange Business, Money Transfer Operators including several credit union and cooperative. Over the year, Timor-Leste financial systems are operated in sound and safe manner that significantly contributed to price stability in the country.

Article 29 of the Law No.5/2011 on Organic Law of Banco Central de Timor-Leste (BCTL), granted an exclusive power the BCTL to regulate, to license, and to supervise all financial institutions as determined by Law. The licensing and Regulation division is responsible in the area of licensing for financial institution wishing to operate in Timor-Leste. Over financial year of 2014 the division was presented to the Governing Board for decision to deny a bank license, granted license to nine (9) money transfer operators and one currency exchange bureau.

During financial year, the Division is working together with Banking Supervision Division and Insurance Supervision Division performed onsite examination to unlicensed remittance operators and other company/person that suspected conducting remittance services without license from BCTL. It is also conducted a full visit to an unlicensed micro finance activities that stating financial service intermediary activities. The BCTL was took serious action by notifying the administrative sanction and other form sanction as mandated in the applicable Laws and Instructions.

Box 1. Implementation of Master Plan for Financial Sector Development in Timor-Leste

BCTL launched the Master Plan for Financial Sector Development in Timor-Leste on 28 August 2014.

This Plan had been developed, with assistance from a New Zealand consultant, during the preceding 12 months. A consultative process was adopted. A first round of consultation included meetings with each of Timor-Leste's banks, other deposit-taking institutions, insurance companies and the federation of financial co-operatives, as well as with the Chamber of Commerce and Industry and relevant Government ministries. Also, international institutions assisting Timor-Leste, in particular the ADB, UNDP, IMF, and IBRD/IFC, and representatives from donor countries, were also consulted.

Taking account of the input obtained, a draft Master Plan was prepared, for discussion at a Consultative Meeting (of over 50 delegates), held on 27 November 2013. Participation at the Consultative Meeting additionally included representatives from the Government, civil society, professional bodies and tertiary education. We were also fortunate to have the benefit of valuable input from Bank Negara Malaysia, which generously shared its experience in achieving financial development under a series of Master Plans, and from Bank Indonesia.

The Plan is comprehensive in its scope. It includes wide-ranging measures to support the development of Timor-Leste's financial sector. Some of these measures are within the scope of BCTL's functions and responsibilities, but others fall mainly to the government and private sector bodies to implement, with BCTL playing a supporting role.

A summary of the elements of the Master Plan identified for implementation in the short-term (2014-2015), and of their current status, is provided in Table 1. With it being only a little over six months since the Master Plan was launched, it is pleasing to note that six of fifteen measures slated for implementation in the first two years are well underway.

More detail follows on the principal initiatives taken in 2014-15. These include early progress on measures listed in the Master Plan for the medium to longer-term, as well as on those scheduled for early adoption.

Table 1: Scorecard on implementation of Master Plan short-term measures

Policy measure	Status
Enablers of lending	
Collateral to support access to credit: Achieve effective operation of the registry of, and the court and administrative processes for enforcing, security interests in moveable property.	Law to be presented to Council of Ministers July 2015.
Establish training programs in business record keeping and accounting in Timor-Leste.	
Review role of micro-finance/financial cooperative institutions in the primary (e.g., agriculture and fishing) sector.	
Financial inclusion	
BCTL to establish a strategy, and program, for lifting financial literacy amongst the underserved.	Strategy developed; inaugural National Savings Day held.
A study of the financial literacy programs targeted at the under-served that have been implemented in other similar countries.	
Supervision	
BCTL to establish supervisory engagement with the Federation of Financial Cooperatives.	ADB consulting assistance engaged for national risk assessment and strategy document.
Check preparedness of banks liquidity management for commencement of RTGS.	
AML/CFT supervision to be risk-based.	



Capacity development

Establish financial sector capability development program with stakeholders (Bankers' Association, IADE, Accounting Association, Chamber of Commerce and Industry, National University).

BCTL actively to seek opportunities for staff capability development – with other central banks/supervisors (staff attachments/exchanges); multilateral institutions' training programs (e.g., PFTAC, SEACEN, IMF) and with commercial financial institutions (staff attachments).

Reporting

BCTL to include in each year's Annual Report a section about progress on implementing the Master Plan, and on achieving outcomes.

Progress reported in this Annual Report.

BCTL also to produce its first Financial System Report.

Note: Measures substantially underway are shaded gold, those underway but less advanced are shaded mid gold.

Financial Literacy

The Master Plan for Financial Sector Development in Timor-Leste provides for BCTL to establish a strategy, and program, for lifting financial literacy amongst the underserved.

This work is well underway. Public roll-out of the National Program on Financial Education commenced on 29 November 2014 with a first National Savings Day, launched by the President H.E. Mr Taur Matan Ruak.

This awareness programme, to be marked with a National Savings Day each year, involves teams of central bank and commercial bank staff visiting all regions to take the program to as many people as possible. The main objective of the program is to raise awareness about personal and small business finances and thereby modify spending habits to inculcate the habit of saving.

The overall objective of the National Program on Financial Education is to increase individual financial security and, through that, Timor-Leste's overall financial development and stability. It is intended to raise public awareness about financial opportunities and risks and the available ways to manage those, through saving, insurance and financial education.

There are three important themes:

- Plan – for financial independence. To achieve this, people need to get into the habit of planning for their future and think beyond the current practice of living day-to-day. Banks can help people throughout the community with financial planning
- Save – there is an urgent need for people to think about saving as well as spending more wisely. Banks can play an important role in helping people to save.
- Protect – the campaign will emphasize how by protecting wealth – farms, crops, houses, motor vehicles, as well as children, jobs and health, wealth can accumulate over time to the benefit of individuals and the community.

In the launching ceremony, about 1,000 people, from different backgrounds, participated. About half the participants were students from primary and secondary schools (aged 5 to 15 years), with almost all schools in Dili represented.

The Governor of BCTL in his launching ceremony remarks identified students from 5th year school to 16 years old, veterans, and small-medium size enterprises, including in the districts, as target groups. The Governor said that Timor-Leste needs to improve financial literacy especially amongst the 'the next generation' and, therefore, that BCTL is going to coordinate with the Ministry of Education on including financial education programs at the school level.

Immediately following the launching ceremony, BCTL held, from 1-5 December 2014, a 1st round of financial education awareness campaigns, in six districts (Manufahi, Baucau, Maliana, Aileu, Ainaro & Liquica). These were preceded, in June 2014, by a "Training in Facilitating Financial Education" course for a number of staff from the Central Bank and from commercial banks to be mentors and facilitators. The training was designed to provide practical facilitation skills to people wanting to deliver/facilitate personal financial management to target audiences. Further training was conducted in November 2014 for representative staff from the commercial banks, who will play an important front-line role in delivering the financial education program.

In November 2014, BCTL also commenced engagement with key stakeholders on a National Strategic Plan (NSP) for Financial Literacy. Stakeholders include the Ministry of Education, Ministry of Social Solidarity, the commercial banks. The objective of having a National Strategic Plan (NSP) on Financial Literacy is to raise the level of awareness of financial literacy issues at a national level, achieve collaboration amongst various stakeholders, identify the best modalities for co-ordination, and ensure relevance at the national level. It will also be instrumental in identifying a leading authority for the NSP and establishing adequate co-ordination mechanisms in readiness for implementation. Such co-ordination will encompass the setting of responsibilities and roles consistent with the main stakeholders' expertise, strengths, interests and resources. It will be sufficiently flexible to adapt to changing circumstances and permit renegotiations amongst stakeholders whenever necessary in order to achieve better co-ordination and avoid unnecessary duplication.

BCTL plans to launch the strategic document in the 1st semester of 2015, following a consultative meeting to discuss the framework for a strategic document that is scheduled for April 2015.

Enabling borrowing and lending

The Master Plan identifies the absence in Timor-Leste of means by which borrowers can offer collateral in support of applications for credit as a major impediment to financial development. Without collateral, lenders are exposed to the risk of borrowers not repaying not because they can't, but because they prefer not to. This results in little lending taking place other than to borrowers with a cash flow that the lender can rely on, such as, for example, a salary that is credited directly to the lending bank. Borrowing for business development is less easy to raise, although, in the micro-lending market, group guarantees, which result in peer pressure on borrowers to repay, have proven to be an effective alternative to collateral.

The Master Plan proposes early attention be given to better establishing effective arrangements for enabling moveable property (e.g., motor vehicles, plant and equipment, inventories and trade debtors) to be offered as collateral; with immovable property (land and buildings) similarly to be capable of being used as collateral once land titles have been clarified.

The State Secretary for Support and Promotion of the Private Sector (SEAPRI), in partnership with the ADB, issued a discussion paper on secured loan transaction reform in October 2014. The drafting of a Decree Law is now underway with a target to have a draft ready for circulation and comment by May 2015 and a law ready for presentation to the Council of Ministers by July 2015. Once the law is passed, further steps will be needed to implement the law. Plans are being made to procure and launch an online collateral registry and also for engagement with banks on the development of new lending products that will make use of the new registry.

This work does not involve BCTL directly; rather credit is due to SEAPRI, and the assistance being provided by the ADB. Progress in this area has the potential to make a significant contribution to Timor-Leste's financial development and, as such, is particularly welcomed.

Early progress on medium-longer term initiatives

The scheduling of the planned program for development of Timor-Leste's financial sector, as set out in the Master Plan, is indicative only. It takes broad account of how measures might be sequenced, recognizing that not everything can be done at once and that some steps are more 'foundational' than others. But the indicative scheduling is intended to be no more than that, not a rigid 'timetable'; and certainly not a barrier to progress on medium-longer term projects that can be got underway earlier.

Initial progress can be reported in three such areas: Development Bank

This year (2015) initial steps are being taken to establish a National Development Bank for Timor-Leste. The bank is discussed as an important facilitator for strategic economic development in the nation's Strategic Development Plan 2011-2030 (SDP) and has been factored into the Master Plan for Financial Sector Development.

The Government Agency responsible for the establishment of the bank is SEAPRI, working in consultation with the Ministry of Finance and the Central Bank, and with support from The Pacific Private Sector Development Initiative, the Asian Development Bank, and Australian Aid and New Zealand Aid.

By June this year an outline on the role and broad structure of the Bank is to be presented to the Council of Ministers for its consideration. Leading up to that presentation, SEAPRI is analyzing all options and assessing the strengths and weakness of different models. This recognizes that not all international experiences of development banks have been positive. Key lessons are being taken on board in the current deliberations including the importance of solid corporate governance, dispersed ownership, co-financing and the need for a clear choice on which sectors to support. It is also a proviso of the Government that the National Development Bank must be run in a way that supports market competition in the financial sector and encourages, rather than inhibits, the growth of private banking.

Banking law and consumer protection

BCTL has commenced a comprehensive review of Timor-Leste's banking law (Regulation No. 2000/8 on Bank Licensing and Supervision). This law dates from the early stage of UN Administration of Timor-Leste. It is time to review and update that law to provide a modern foundation for the development of banking in the decade ahead.

The Master Plan provides for BCTL also to engage with financial institutions regarding principles of client protection to apply in their dealings with 'retail' customers. Existing regulations (Public Instruction 06/2010 and clause 2.5 of Regulation 2000/8) already set some basic requirements. But in recent years there has been increased recognition of the need for financial institutions to go beyond mere compliance with minimum standards. Today's expectation is that financial institutions play a more positive role than that in taking account of the interests of their customers.

A consultant has been engaged by BCTL to assist with these two projects.

Local incorporation of international banks

Three of Timor-Leste's four banks are branches of international banks. The Master Plan raises the question whether, for these banks, the branch structure represents a suitable arrangement, or whether it would be preferable for these banks' operations in Timor-Leste to be conducted through a locally incorporated subsidiary company.

BCTL has decided to commence examination of this matter at this stage. It involves some complex issues and warrants early consideration including because, if it is concluded that a change in structure is called for, a reasonable transition time for existing branch banks may be appropriate. Furthermore, a policy direction on this matter will need to be determined as an input to the review of the banking law already mentioned.

Agent Branchless Banking Project

In late 2014, BCTL with Asian Development Bank (ADB) worked on the drafting the legal framework for the agent Banking. It considers that Branchless Banking technologies using agency arrangements can assist in overcoming the barriers associated with accessing traditional banking services and provides affordable and accessible methods for using banking services throughout Timor-Leste. Such access provides particular benefits for people living in rural areas of the country. In this manner, Branchless and Agent Banking can assist in improving financial inclusion and developing Timor-Leste's financial system with broad benefits for the country's economic development. The draft Instruction itself was circulated for consultative to relevant stakeholders such as commercial banks, ODTI, MTO, Mobile Network Operator, National Authority of Communication by then of December 2015.

Credit Guarantee Scheme project

During this year, the BCTL initiated preliminary discussion with relevant Credit Guarantee Institutions such as Credit Guarantee Corporation Malaysia on the framework of the establishment the credit guarantee scheme in Timor-Leste.

The objective of having credit guarantee schemes is to provide a monetary motivation for smallholders in the agricultural sector, and Small-Medium Enterprises (SMEs) to develop and thereby strengthen the economy.

The cooperation with Credit Guarantee Corporation Malaysia will be formalized in the form of signing Memorandum of Understanding (MoU) on 2015.

Insurance Sector

Insurance sector continue constitute by two (2) general insurance companies namely National Insurance Timor-Leste (NITL) and Sinar Mas Insurances (SMI), and continue growth with fair competitiveness, because the market has offered all terms of general insurance business, in which on September 2014 BCTL approval additional new insurance policies proposed by SMI.

Consolidate financial statements end of December 2014, records total assets slight decreased by 2% compared to previous December 2013, reached US\$7.3 million, while total liabilities decreased by 10% to US\$6.9 million

Petroleum Fund management

According to the framework defined in the Petroleum Fund Law, the Central Bank continues to be responsible for the operational management of the Fund. In late 2014, its capital amounted to 16.466 million dollars, with annual oil revenues - taxes and “royalties” – accounted for 1.817 million dollars (3.004 million in 2013) and withdrawals to finance the government budget 2014 calculated in 732 million (918 million in 2013). The management fee of the Fund, both external and internal, amounted to 16.1 million dollars in 2014.

With regard to the performance during the year, the Fund has accumulated gross income of 527 million, which corresponds to 3.22% of the average amount invested in the Fund in 2014 (16,357,000). The decomposition of these revenue, allows us to observe that the income from payments of interest and dividends amounted to 1.99% of the average value of the Fund in 2014, while the most recorded gains during the year amounted to 3.84%. Note that these capital gains were due to a favorable evolution of the market prices of the Fund’s investments, particularly in the case of equity securities, in line with what has already been explained in the chapter concerning the international economic context.

Adding these two installments, the Fund achieved a gross return of 5.83% in addition to currency effects. However, the substantial appreciation of the US dollar in 2014, especially in the second half, against the currencies in which it is called part of the investments of the Fund, resulted in a substantial loss of foreign exchange nature of 426 million dollars in 2014, or 2.60 % of the FP.

Therefore, the negative effect of exchange rate changes annulled a significant portion of the gains recorded by the investments in bond markets and shareholders in 2014. Note that the Fund, whose investment horizon is the medium and long term, not currently implement any policy active management of currency risk by accepting the exchange rate risk inherent in the strategic allocation of the fund, in terms of both equity and bond markets, such as the choice of “benchmarks” adequate. This neutral strategy in currency terms, explained by the fact that most of the studies in this area indicate the effect that the impact of changes in exchange rates does not add value in the long term, given the cyclical nature of these variables, only adding volatility the short-term fund performance to.

In terms of relevant activities and developments in this area, it should be noted that the Fund reached in June 2014, the strategic allocation objective by investing, for the first time, 40% of the Fund in the equity markets.

The BCTL continued to work closely with the Ministry of Finance as well as the Investment Advisory Board (IAB), to re-evaluate and continuously monitor the adequacy of the strategic allocation of the Fund, always within the legal framework defined in the Petroleum Fund. It should be noted specifically that the BCTL actively participated in discussions at the level of the Advisory Board on the expansion of the investment universe, increase the degree of diversification and adoption of new management policies to allow achieving the performance objective of the Fund 3 % in real terms on a multiannual basis.

In its role as Operations Manager of the Fund, the BCTL elected two permanent external managers to manage the investments allocated to global sovereign bond markets not denominated in dollars, as was decided in 2013. At the end of the year, these two new managers, the “Alliance & Bernstein” and the “Wellington Management”, were responsible for the management of 9:55% of the Fund and must achieve, as approved, a total of 10% over 2015.

In terms of internal management of the Fund by BCTL, is still to highlight the continuing training policies of human resources and increased technical and financial resources available to support and improve the direct management of the Fund, with a goal of internalizing a growing share this management. In this area stands out, in 2014, the beginning of the selection process and subsequent implementation of a technological platform capable of storing data management, facilitate the “front” operations and “middle office” and provide a set of analytical reports real-time on the positions of the Fund. The implementation of this platform should be completed in 2015. In terms of human resources training, the BCTL continued to bear the costs of schooling continues their managerial staff and their participation in training modules and seminars, organized by the institutional partners of the Bank.

Institutional strengthening

The BCTL pretend to do a comprehensive review of Timor-Leste's Bank legislation (Regulation No. 2000/8 on the Licensing and Banking Supervision). This law has been established and implemented at the beginning of the UN administration in East Timor. It is now time to review and update the law to create a modern basis for the development of the banking system over the next decade.

The Master Plan also provides that the BCTL actively involved financial institutions in order to increase the protection of bank customers and improve relationships with retail customers. The existing regulations - Public Instruction 06/2010 and clause 2.5 of Regulation 2000/8 - already define some basic requirements, for that matter.

Personnel and training program

The BCTL had at the end of the review period, with 79 employees, so the number of employees remained unchanged from 2013. In turn, there was a change of post of seven employees, four for different operational areas and the remaining three promoted to management positions.

The recruitment plan planned for 2014 was not executed due to the implementation during the year, several projects by BCTL, and their importance, as well as those laid down for the year 2015, caused a significant increase in the responsibilities and BCTL tasks. Given this increase in BCTL responsibilities foresee that, for 2015, an increase in the number of employees, especially for the key positions of the key areas of BCTL activity.

The chart below details the distribution of staff by various departments of the Bank.

Posições dos Funcionários do BCTL, 2014



Fonte: BCTL

Regarding the development of skills and knowledge of employees, the BCTL continues to be budgeted an appropriate amount for the fulfillment of its internal training program, which includes training of technical skills and granting the scholarships to its staff, to be performed, both in Timor-Leste and abroad. The result of the BCTL training program implemented up to the end of 2014 shows that 17 employees completed their master's degrees, one held a graduate and one completed his training at the Judicial Training Centre. It is expected that during 2015 over 6 employees complete their master's degrees in UGM.



Fonte: BCTL

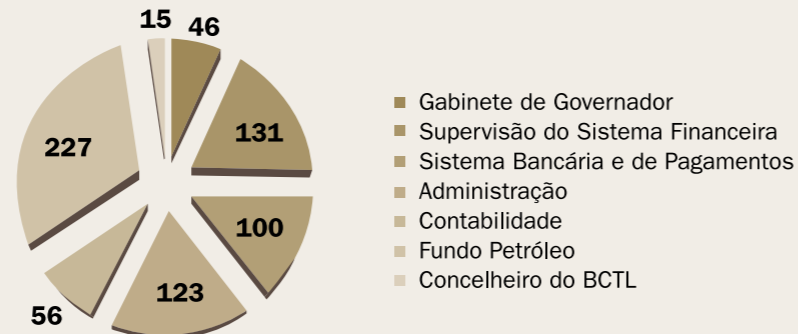
Apart from training and study abroad, in-house training in BCTL continues to contribute to improving the skills of their staff. Employees also participated in various training programs, seminars and workshops organized by other central banks and financial institutions of the CPLP, Bank Negara Malaysia, SEACEN, BIS, IMF Institute in Singapore, among others. The BCTL expect its staff can continue to enjoy these, or similar, training programs and events.

The BCTL still continues to hold discussions with entities with which it has partnerships or relationships, such as JP Morgan, BlackRock, BIS, Clifford Chance, KPMG, Credit Guarantee Scheme Berhard Malasya, Reserve Bank of Australia, Yayasan Pendidikan PPTK and Internal Audit, to strengthen the ties of cooperation with such entities and will be possible to carry out training and internship programs, as well as the provision of technical assistance to officials of BCTL.



The diagrams below show the details information on the number of participating employees and duration in days of training activities in 2014.

Total number of days in Training Courses:



Source: BCTL

Total number of employees who participated in training



Source: BCTL

In addition to the BCTL hiring program, administered Division also ensures the performance evaluation system, which is carried out throughout the year by the respective managers. The Performance Evaluation System is an instrument of development policy of Human Resources and one of the most important management tools in this area, serving to superiors value the work of the respective employees and analyze their contributions throughout the year, is also useful for developers to undertake self-evaluation of its performance and development, taking into account the level assigned in the KPI. Regarding the evaluation results, it should be noted that most of the employees managed to achieve the objectives set at the level of BCTL.



The dimensions that BCTL uses to evaluate the performance of employees are as follows:



Fonte: BCTL

External Relations

In terms of Cooperation with other central banks and other financial entities; the BCTL continue to build a solid cooperation with them to allow its staff to undertake training programs, attachment as well as receive technical assistant.

The BCTL expects that its staff will continue to benefit from the training programs organized by Bank of Portugal, Bank Negara Malaysia, Bank Indonesia, IMF Institute in Singapore and Fiji, SEACEN BIS, etc. In addition, discussions were also held with commercial entities including JP Morgan, Clifford Chance, BIS, KPMG, Deloitte and other organization with which the BCTL has a relationship to allow BCTL staff to participate in their training and attachment programs.

Box 2. BCTL Action Plan for 2015

The BCTL plans to develop a wide range of initiatives in 2015, which highlights the implementation of the Master Plan for Financial Development and Planning for the National Payments System. This chapter lists and describes the various programs and initiatives provided by BCTL for 2015.

Enabling borrowing and lending

The Master Plan identifies the absence in Timor-Leste of means by which borrowers can offer collateral in support of applications for credit as a major impediment to financial development. Without collateral, lenders are exposed to the risk of borrowers not repaying not because they can't, but because they prefer not to. This results in little lending taking place other than to borrowers with a cash flow that the lender can rely on, such as, for example, a salary that is credited directly to the lending bank. Borrowing for business development is less easy to raise, although, in the micro-lending market, group guarantees, which result in peer pressure on borrowers to repay, have proven to be an effective alternative to collateral.

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This work does not involve BCTL directly; rather credit is due to SEAPRI, and the assistance being provided by the ADB. Progress in this area has the potential to make a significant contribution to Timor-Leste's financial development and, as such, is particularly welcomed.

Development Bank

This year (2015) initial steps are being taken to establish a National Development Bank for Timor-Leste. The bank is discussed as an important facilitator for strategic economic development in the nation's Strategic Development Plan 2011-2030 (SDP) and has been factored into the Master Plan for Financial Sector Development.

The Government Agency responsible for the establishment of the bank is SEAPRI, working in consultation with the Ministry of Finance and the Central Bank, and with support from The Pacific Private Sector Development Initiative, the Asian Development Bank, and Australian Aid and New Zealand Aid.

By June this year an outline on the role and broad structure of the Bank is to be presented to the Council of Ministers for its consideration. Leading up to that presentation, SEAPRI is analyzing all options and assessing the strengths and weakness of different models.

This recognizes that not all international experiences of development banks have been positive. Key lessons are being taken on board in the current deliberations including the importance of solid corporate governance, dispersed ownership, co-financing and the need for a clear choice on which sectors to support. It is also a proviso of the Government that the National Development Bank must be run in a way that supports market competition in the financial sector and encourages, rather than inhibits, the growth of private banking.

Banking law and consumer protection:

The BCTL want to do a comprehensive review of Timor-Leste's banking law (Regulation No. 2000/8 on Bank Licensing and Supervision). This law has been established and implemented at the beginning of the UN administration in Timor-Leste. It is now time to review and update the law to create a modern basis for the development of the banking system over the next decade. The new regulation will take account of changes in the global financial environment and the specific features and recent developments in the financial sector of Timor-Leste, with the aim of updating the supervisory framework and macro-prudential regulation.

The Master Plan also provides that the BCTL actively involved financial institutions in order to increase the protection of bank customers and improve relationships with retail customers. Existing regulations - Public Instruction 06/2010 and clause 2.5 of Regulation 2000/8 - already define some basic requirements, for that matter. However, in recent years, there has been growing recognition of the need of financial institutions exceed, positively, the minimum standards of the regulatory framework, taking into account of the interests of their customers.

Project of a Regulatory Framework for Consumers Protection:

The BCTL plans to adopt and implement a regulation or financial protection code of consumers, who will promote fair and equitable financial services practices. In practice, the new regime will establish minimum standards for financial service providers in its customer management and increase the transparency of the sector, in order to inform and empower consumers of financial services. The goal is to boost confidence in the financial services sector; and provide efficient and effective mechanisms to deal with consumer complaints relating to the provision of financial products and services.

Local incorporation of international banks

Three of Timor-Leste's four banks are branches of international banks. The Master Plan raises the question whether, for these banks, the branch structure represents a suitable arrangement, or whether it would be preferable for these banks' operations in Timor-Leste to be conducted through a locally incorporated subsidiary company.

BCTL has decided to commence examination of this matter at this stage. It involves some complex issues and warrants early consideration including because, if it is concluded that a change in structure is called for, a reasonable transition time for existing branch banks may be appropriate. Furthermore, a policy direction on this matter will need to be determined as an input to the review of the banking law already mentioned.

Review regulatory framework for Insurance:

The BCTL will work closely with other central banks in the region, to evaluate different models of supervision and regulation of issues related to financial reporting and the macro-prudential framework. This comparative analysis will be subject to the Governing Board approval, which is expected in the last quarter of 2015.

Introduction of credit guarantee scheme to finance for SMEs:

The BCTL will work with one of the credit guarantees sector institution, to design the framework of the system of credit guarantee, specifically directed only to Small and Medium Enterprises (SMEs). The pilot project will start in the second half of 2015 and will be funded by the Government in the first year. The project and its results will be reviewed annually in order to adapt the program to the specific realities of our market and institutions.

Financial literacy strategic plan:

BCTL plans to have a national financial strategic and development plan in which financial inclusion will be a key part. Under this plan, financial education/literacy would be key determinant factors to achieve nationwide provision of financial services to un-banked peoples in rural areas. BCTL will run the public consultation to discuss the draft document of literacy strategic plan by the end of February 2015 and the strategic plan will be published by the end of June 2015.

Enhance and improve the quality of on-site examinations result: The BCTL want to review in 2015 the operating procedures for direct supervision exercises (on-site) and develop internal capabilities in this area. In addition to these improvements, the BCTL also includes evaluating more frequently and amplitude results of these activities, in order to continuously improve the quality of direct supervision. In this context, the BCTL will count in 2015 with the support of Pacific Financial Training Centre (PFTAC) in reviewing and updating procedure manual for on-site examination.

Agent banking arrangements:

The BCTL will work with consultant from ADB to drafting a policy paper and develop training module for setting up agent banking arrangement. After developing the module, BCTL would run a training session to potential agent banker with the expectation that they gain a capacity to conduct the business as agent bank in rural areas.

Implementation of Automatic Transfer System (ATS):

The implementation of the STA system will still require considerable work by the participants in the system. These include commercial banks, the Treasury, Customs and Tax Authorities. The BCTL will continue to support the project and to work with the Working Group (IPWG) Participants, by organizing regular forums in which all parties can discuss issues, resolve technical question that affect all stakeholders and assist both the BCTL, as the software provider, and supplier until the system is successfully operating.

Submission and presentation to Government of the draft National Payments System Decree Law.

Under the BCTL plan to support the use of modern means of payment, including the R-Timor and the use of electronic money and the phone-based mobile payments, a draft Decree of the payment system will be presented in order to be promulgated before the R-Timor come into operation.



Implementation of the IBAN for Timor-Leste:

With the adoption of the new IBAN for Timor-Leste, the BCTL will work with commercial banks and the Treasury to start processing transactions using IBAN. It is anticipated that the trial and the full implementation of the new IBAN will occur soon, even before the start of operation of the R-Timor.

The study on the adoption of a national currency:

The BCTL will develop an in-depth study on the possibility of introducing a national currency in Timor-Leste, with the support of an outside expert in this area. The specialist will work closely with the BCTL, the Economics Division, in the development of the study. The final version of the study will be submitted to the Board of Directors until December 2015.

Economic Studies:

BCTL will continue to undertake economic research projects and studies on issues related to the main functions of BCTL and statistics published by the Bank.

Implement a new trading platform:

BCTL has acquired a trading platform namely Bloomberg Asset Investment Management (Bloomberg AIM). The system is expected to be operational during the year which is to support trading activities both in fixed income and equities.

Implement equity mandate in house:

PF will be managing passive equity in house during the year. The Investment Advisory Board would likely grant approval of more or less 1% of the passive equity mandate is managed internally. The project is expected to be operational subject to satisfactory independent review.

Review of Policies and Procedures:

Continuous review and update the policies and procedures to be up to date and in line with the increasing volume and complexity of the operational management of the Petroleum Fund.

Key Management Bodies of the Central Bank of Timor-Leste

Governing Board

Governor
Abraão de Vasconcelos

Deputy Governor
Nur Aini Djafar Alkatiri

Deputy Governor
Sara Lobo Brites

Non-Executive member
Madalena Boavida

Note: At December 31, 2014 still had to designate three members (non-executive) of the Governing Board of the Central Bank, it is the Government competences.

Senior Management

The BCTL's Management Committee includes all the heads of key organizational areas of the Bank. Are they:

Governor
Abraão de Vasconcelos

Deputy Governor for Financial System Supervision
Nur Aini Djafar Alkatiri

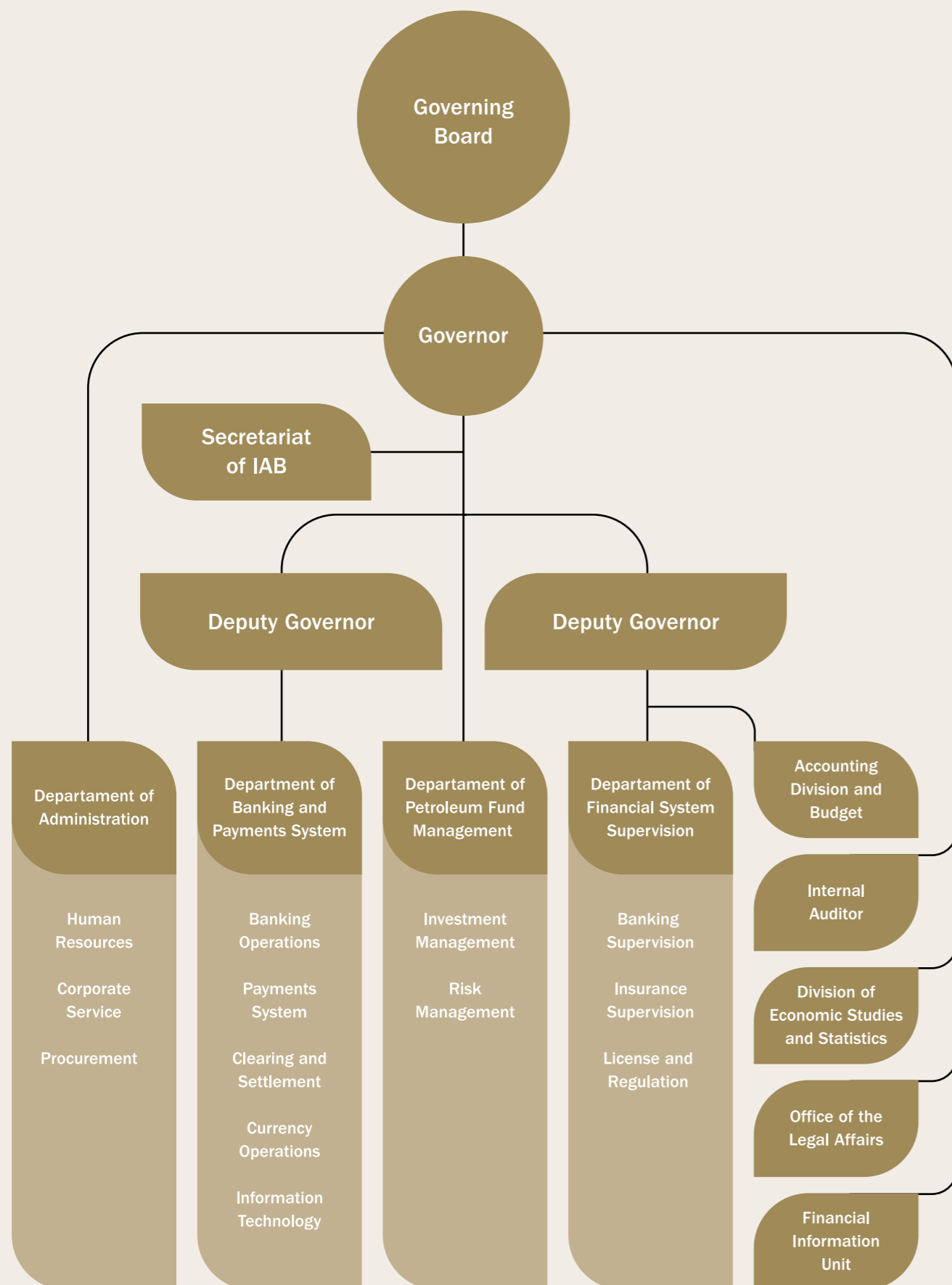
Deputy Governor for Banking and Payments System
Sara Lobo Brites

Chief Accountant
Fernando de Carvalho

Director of Administration
Raquel Gonçalves da Costa

Executive Director of Petroleum Fund
Venâncio Alves Maria

Organization of BCTL as of 31 December 2014



Senior Management



From left to right:

Deputy Governor for
Financial System
Supervision
Nur Aini Djafar Alkatiri

Deputy Governor for
Banking and Payments
System
Sara Lobo Brites

Governor
Abraão de Vasconcelos

Director of Administration
**Raquel Gonçalves
da Costa**

Chief Accountant
Fernando de Carvalho

Executive Director of
Petroleum Fund
Venâncio Alves Maria